A STUDY ON FACTORS INFLUENCING THE SHARE PRICE OF BANKS LISTED ON NSE CNX BANK INDEX

By

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Certificate

DEPARTMENT OF MANAGEMENT STUDIES

KUMARAGURU COLLEGE OF TECHNOLOGY (AUTONOMOUS)

COIMBATORE

BONAFIDE CERTIFICATE

Certified that this project titled **"A STUDY ON FACTORS INFLUENCING THE SHARE PRICE OF BANKS LISTED ON NSE CNX BANK INDEX"** is the bonafide work of Ms.N.JAYANANDINI (Reg No: 0820400011) who carried out this project under my supervision. Certified further, that to the best of my knowledge the work reported herein does not from part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

14/06/2010 fn.

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Examiner I

Examiner II

IndiaInfoline

June2010

This is to certify that Ms **.N.JAYANANDINI (0820400011)** a student of KCT Business School, has undergone three months project and training on **A STUDY ON BANK FACTORS INFLUENCING THE SHARE PRICE OF BANKS LISTED ON NSE CNX BANK INDEX** from 20th March, 2010 to 21th May, 2010. During her project work she exhibited high level of discipline and was sincere at her work.

We wish her success for her future.

For India Infoline Ltd

INDIA INFOLINE LTD,
No: 65 TRISTAR TOWERS

Authorized Signature

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Declaration

DECLARATION

N.Jayanandini (Reg No:0820400011), hereby declare that the project titled "A STUDY ON FACTORS INFLUENCING THE SHARE PRICE OF BANKS LISTED ON CNX BANK INDEX" submitted to the Kumaraguru College of Technology Business school in partial fulfilment of the requirement for the award of the degree of master of business administration is a record of original work done by me during JUNE 2010 under the supervision and guidance of Senior Lecturer.Mr.A.Senthil Kumar, Faculty Guide KCT Business School ,Kumaraguru College, Coimbatore-641659 and that it has not formed the basis of any degree/ diploma/ associate fellowship/ or other similar title to any candidate of the college.

14/06/2010.

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EXECUTIVE SUMMARY

Stock market is now a days gaining great importance among the investment sector. As like other sectors stock market too have its risk associated with it. This study is all about identifying and analysing how various factors affect the share price of banks that are listed on CNX Bank Index. The reason behind selecting the banking sector for the study is that banks are a major part of any economic system and they provide a strong base to the Indian economy too.

This study is limited for a period of five financial years (2005 – 2009). The analytical study is done using multiple regression to find the cause and affect relationship between the 15 variables selected for the study, which includes both external and internal factors.

From the study it is clear that only four factors among the 15 where able to causally explain the variations in their respective share price. From the study it is suggested that the investors should be careful while investing in the stock market. The market is simply unpredictable. One should do a proper and detailed analysis before investing in stocks. Bank's shares are pretty safe, as found from the analysis. But still one should be beware of the Market's unpredictable up's and down's

Introduction

CHAPTER 1

INTRODUCTION

1.1. BACKGROUND OF THE STUDY

Banking Sector in India is one of the growing sectors with great dynamics. Banks are special as they not only accept and deploy large amounts of uncollateralised public funds in a fiduciary capacity, but also leverage such funds through credit creation. Banks are a major part of any economic system. They provide a strong base to Indian economy too. Even in share markets, the performance of bank shares is of great importance. This is justified by the proof that in both BSE and NSE we have separate index for Banking Sector Shares. But for our study we have taken only Bank Nifty which is a part of NSE.

This report is all about how various factors (Internal and External) affect the Banking Sector Share Prices. In this report a detailed analysis of the factors affecting the share prices along with key banking ratios are carried on and a model is developed to study the effect of various factors on the share prices of banks. Key ratios can be used to easily obtain an idea of a company's financial status. Companies that are in good condition financially will have superior ratios to those that are performing poorly.

1.2 REVIEW OF LITERATURE

Joseph J. Schultz, Jr., Sandra G.Gustavson, and Frank K. Reilly[1] studied an experimental approach and analysed the variables that influenced the behaviour on the opening price of the New York Stock Exchange. The participants where NYSE specialists. The data where analysed by variance model. Current demand and supply data have the most significant impact on specialist's decisions.

Yuanxin Liu & Xiangbo Ning[2] examined 25 electric power listed companies in the electric power industry as the samples to study the influences of micro factors on the capital structure of listed companies, and those micro factors mainly included company scale, profitability, growth, non-debt tax shields, fluidity and capital structure. The research results showed that the company scale, non-debt tax shields and assets structure were not significantly correlated with the capital structure, and the profitability was significantly negatively correlated with the capital structure, and the fluidity of the assets was negatively correlated with the capital structure.

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[1] Joseph J. Schultz, Jr., Sandra G.Gustavson, and Frank K. Reilly (1985) "Factors influencing the New York stock exchange: an experiment" journal of financial research. Vol. VIII, No.2.

[2] Yuanxin Liu & Xiangbo Ning (2009) "Empirical Research of the Capital Structure Influencing Factors of Electric Power Listed Companies" International journal of marketing studies. Vol I. No. I

Karen H. WRUCK[3] studies the association between a firm's stock returns and subsequent top management changes. Consistence with internal monitoring of management, there is an inverse relation between the probability of a management change and a firm's share performance. This relation can result from monitoring by the board, other top managers, or stock holders. However, unless share performance is extremely good or bad, logic models have no predictive ability. No average stock price reaction is detected at announcement of a top management change.

Akintoye, Ishola Rufus[4] examined the extent to which some "information factors" or market indices affect the stock price. A model was used to regress the variables (stock prices, earnings per share, gross domestic product, lending interest rate and foreign exchange rate) after testing for multicollinarity among the independent variables. The multicollinarity test revealed very strong correlation between gross domestic product and crude oil price, gross domestic product and foreign exchange rate, lending interest rate and inflation rate. All the variables have positive correlation to stock prices with the exception of lending interest rate and foreign exchange rate.

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[3]Karen h. wruck (1988)" stock prices and top management changes" journal of financial economics. vol 20 pp: 461-492

[4] Akintoye, Ishola Rufus "Determinants of Equity Prices in the Stock Markets" International Research Journal of Finance and Economics Issue 30 (2009)

Ralph I.Vdegbunam and P.O.Eriki[5] have said Company fundamental factors influencing stock prices might include performance of the company, a change in board of directors, appointment of new management, and the creation of new assets, dividends, earnings, etc. External factors might include government rules and regulations, inflation, and other economic conditions, investor behaviour, market conditions, money supply, competition, uncontrolled natural or environmental circumstances directly affecting the production of the company, strikes, etc. Moreover, the behaviour of market participants could be an important influencing factor of stock price.

Dimitrios Tsonkalas[6] An attempt is made here to investigate the relationship between stock market volatility and trading activity (trading volume and open interest) in Nifty futures market using the GARCH framework. The study uses daily closing price of Nifty and trading volume, and open interest for Nifty index futures for the period July 1, 2000 to February 28, 2008. The study considers only near-month contract data since most trading activities taken place in this contract. Open interest and volume are used as measures of futures trading activity. The study decomposes series of futures trading volume and open interest into expected and unexpected components by an appropriate ARMA procedure. Then, the study introduces futures trading variables such as expected and unexpected futures volume and open interest in GARCH and GJR

[5] Ralph I.Vdegbunam and P.O.Eriki (2001) "factors influencing stock price behaviour" Journal of Financial Management & Analysis, Volume xx PP:1-10

[6]Dimitrios Tsonkalas(2008) " study on S&P CNX Nifty Index" journal of managerial finance,PP:87-92

GARCH models to examine their effects on spot market volatility. The results show that the spot market volatility bears a positive relationship with unexpected trading volume and open interest in Nifty futures market. But, the same bears a negative relationship with expected futures trading volume and open interest.

Niladri Das and J.K. Pattanayak[7]

This paper examines the various research studies undertaken in the Indian and international context highlighting the effect of various fundamental factors on the behaviour of the stock market. This paper tries to identify the critical variables which have a significant effect on stock price movements and influence the entire market's movement. The explanatory variables, which act as major determinants of stock price movements, are condensed into a few critical factors by factor analysis and the relevance of these factors in influencing stock market movements is explained in detail. The analysis shows that higher earning power, Returns on Investment (ROIs), growth possibility and favourable valuation have a positive impact on the share price and stock market movement, while higher risk and volatility have a negative impact. These factors can be used as major analytical tools by investors, corporations and brokers to make rational and intelligent investment decisions.

[7]Niladri Das and J.K. Pattanayak (2009) "Analysis of the fundamental factors affecting the market price of shares constituting the Indian index: a study of SENSEX" , International Journal of Accounting and Finance, PP: 323 – 355

Lee[8] employs two types of aggregate index data: annual Dow Jones industrial average (DJIA) index data for the sample period 1920–1999, and annual Standard and Poor's (S&P) 400 industrial index data for the sample period 1946–99. The study finds that investors overreact to nonfundamental information but under react initially to fundamental information (dividend, book value and earning), with no significant reversal associated with fundamental information in the long run. The study also finds that the residual income model provides a better valuation than the DDM.

[8]Lee (2006) ""Basis Risk: Measurement and Analysis of Basis Fluctuations for Selected LivestockMarkets",*American Journal of Agricultural Economics*, Vol. 66, No. 4.pp. 499-504

1.3 STATEMENT OF THE PROBLEM

Banking sector is one of the growing sectors with great dynamics. The share prices of banks are influenced by various factors including internal and external factors. This study is to identify and analyze the various factors influencing the share price of banks that are listed on CNX bank index

1.4 OBJECTIVE OF THE STUDY

The objective of the study is to identify, understand and analyze the impact of various factors that influences the share price of banks listed on CNX bank index.

1.5 SCOPE OF THE STUDY

- The study is conferred to the banks listed in national stock exchange, Mumbai and form a part of CNX bank index.

1.6 METHODOLOGY

1.6.1 TYPE OF STUDY

The type of study is an analytical study

1.6.2 PERIOD OF STUDY

The study is conducted for a period of 5 financial years from 2005-2009.

1.6.3 METHOD OF DATA COLLECTION

The method of data collection for this study is based on secondary data collected from

- NSE website.
- RBI website.
- Financial reports

1.6.4 TOOLS FOR ANALYSIS

- **MULTIPLE REGRESSION**

To analyze the cause and effect relationship between dependent variable and independent variables

1.6.5 VARIABLES FOR THE STUDY

Table1.1: List of Variables for the Study

S.NO	BANKING RATIOS/KEY TERMS	TYPE OF FACTOR
1.	Inflation	External factor
2.	Money supply	External factor
3.	Repo rate	External factor
4.	Liquidity ratio	Internal factor
5.	Loan / Deposit ratio	Internal factor
6.	Loan / Asset ratio	Internal factor
7.	Net npas / Net advances	Internal factor
8.	Interest income / Working funds	Internal factor
9.	Operating profit / Working funds	Internal factor
10.	Return on assets	Internal factor
11.	Interest spread	Internal factor
12.	Dividend per share	Internal factor
13.	Price/Earning ratio	Internal factor
14.	D/E ratio	Internal factor
15.	Operating profit	Internal factor

1.7 LIMITATIONS

- The Sector is very vast and it was not possible to cover every nook and corner of this sector.
- The variability and availability of data was also a limitation.
- The major demerit to our study is the availability of time for our search and analysis.
- The study does not include all the scrips under Bank Index.

Organization Profile

CHAPTER 2

ORGANISATION PROFILE

INDIA INFOLINE SECURITIES PVT LTD

2.1. HISTORY OF ORGANISATION

"India Info line Securities Pvt. Ltd."

"Knowledge is power and power brings security. Risk is a very relative term and changes with every individual and situation. Financial management is not just about managing risk but also managing knowledge and finally deriving answers that generate wealth, security and trust."

VISION

Vision is to be the most respected company in the financial services space. To be the premier provider of investment advisory and financial planning services in India.

PUNCH LINE

"IT'S ALL ABOUT MONEY, HONEY!"

HISTORY IN BRIEF

In 1995, a group of professionals formed a company called Probity Research & Services Pvt. Ltd. The name was later changed to IndiaInfoline Ltd. The objective was to provide unbiased and independent information to market intermediaries and investors. The quality of research was so good that soon it caught the imagination of all major participants in the financial marketing. In a very short period they started providing research report to consulting firms like Mckinsey, companies like HUL, banks like Citibank etc.

. In 1999, the company made all the research report free on the web and as a result the number of user increases from mere a thousand to lacks in a very short period of time. The company got the financial support from venture capitalists and private equity investors. They raised US $ 1 million in first round and in March 2000 again US $5 Million.

In 2001, the company faced the worst situation. The dot com suffix, which was sexiest to them suddenly, became the worst stigma. The company was planning to set up a TV channel but circumstances forced them to jettison the plan. IIL decided to narrow its focus on businesses where it could leverage its core competencies to the maximum. The key business lines that emerged were mutual funds, life insurance and e-broking. The company became heavily dependent on its e-broking businesses for survival. The odds were against them. There was no money available from the private equity investor at any valuation. All competitors were backed by institution or had abundant capital. The core promoters of the company had little experience of broking.

To add to it, the market was hit by a scam. They also had their share of price to pay and lessons to learn. It was difficult to retain people. Although devastating for morale but not surprising, the most market observers had written them off. There was a core group who never lost hope. They cut all possible costs and worked on a bare bones structure. They survived against all odds started capturing market share. Not broking alone but mutual fund life insurance business also grew strongly. The company rose from strength to become the leading corporate agent in life insurance and among top retail players in mutual fund and broking space. In 2005, IIL came with an IPO and raised Rs. 75 cores from the market. The issue price was Rs. 76.The IPO was 7.22 times oversubscribed.

The company after that never looked back and started entire gamut of investments products from risk free RBI bonds to high-risk, high rewards equities and also mutual funds and life insurance. They also forayed into portfolio management services and commodities broking, again leveraging upon their core competencies in research and technology. In the last ten years, India Info line has faced numerous ups and downs, but has never compromised on integrity. They continue to ensure highest standards of corporate governance.

Milestones

1995

Incorporated as an equity research and consulting firm with a client base that included leading FIIs, banks, consulting firms and corporate.

1999

Restructured the business model to embrace the internet; launched archives.indiainfoline.com mobilised capital from reputed private equity investors.

2000

Commenced the distribution of personal financial products; launched online equity trading; entered life insurance distribution as a corporate agent. Acknowledged by Forbes as 'Best of the Web' and '...must read for investors'.

2004

Acquired commodities broking license; launched Portfolio Management Service.

2005

Listed on the Indian stock markets.

2006

Acquired membership of DGCX; launched investment banking services.

2007

Launched a proprietary trading platform; inducted an institutional equities team; formed a Singapore subsidiary; raised over USD 300 mn in the group; launched consumer finance business under the 'Money line' brand.

Launched wealth management services under the 'IIFL Wealth' brand; set up India Info line Private Equity fund; received the Insurance broking license from IRDA; received the venture capital license; received in principle approval to sponsor a mutual fund; received 'Best broker- India' award from Finance Asia; 'Most Improved Brokerage-

India' award from Asia money.

2009

Received registration for a housing finance company from the National Housing Bank; received 'Fastest growing Equity Broking House - Large firms' in India by Dun & Bradstreet.

2.2 MANAGEMENT

- **Mr.NIRMAL JAIN**

  Chairman & Managing Director

- **Mr.R.VENKATARAMAN**

  Executive Director

2.3 ORGANISATION STRUCTURE

India Info line Limited is listed on both the leading stock exchanges in India, viz. the Stock Exchange, Mumbai (BSE) and the National Stock Exchange (NSE) and is also a member of both the exchanges. It is engaged in the businesses of Equities broking, Wealth Advisory Services and Portfolio Management Services. It offers broking services in the Cash and Derivatives segments of the NSE as well as the Cash segment of the BSE. It is registered with NSDL as well as CDSL as a depository participant, providing a one-stop solution for clients trading in the equities market. It has recently launched its Investment banking and Institutional Broking business.

2.4 PRODUCT PROFILE

Equities

Indiainfoline provided the prospect of researched investing to its clients, which was hitherto restricted only to the institutions. Research for the retail investor did not exist prior to Indiainfoline. Indiainfoline leveraged technology to bring the convenience of trading to the investor's location of preference (residence or office) through computerized access. Indiainfoline made it possible for clients to view transaction costs and ledger updates in real time.

Apply In IPOs

Clients could also invest in Initial Public Offers (IPO's) online without going through the hassles of filling ANY application form/ paperwork

PMS

Portfolio Management Service is a product wherein an equity investment portfolio is created to suit the investment objectives of a client. Indiainfoline invest the client's resources into stocks from different sectors, depending on the risk-return profile. This service is particularly advisable for investors who cannot afford to give time or don't have that expertise for day-to-day management of their equity portfolio.

Research

Sound investment decisions depend upon reliable fundamental data and stock selection techniques. Equity investment professionals routinely use our research and models as integral tools in their work. They choose Ford Equity Research when they can clear the doubts.

Commodities

Indiainfoline's extension into commodities trading reconciles its strategic intent to emerge as a one-stop solutions financial intermediary. Its experience in securities broking has empowered it with requisite skills and technologies. The Company's commodities business provides a contra-cyclical alternative to equities broking. The Company was among the first to offer the facility of commodities trading in India's young commodities market (the MCX commenced operations only in 2003). Average monthly turnover on the commodity exchanges increased from Rs 0.34 bn to Rs 20.02 bn. The commodities market has several products with different and non-correlated cycles. On the whole, the business is fairly insulated against cyclical gyrations in the business.

Mortgages

During the year under review, Indiainfoline acquired a 75% stake in Money tree Consultancy Services to mark its foray into the business of mortgages and other loan products distribution. The business is still in the investing phase and at the time of the acquisition was present only in the cities of Mumbai and Pune. The Company brings on board expertise in the loans business coupled with existing relationships across a number of principals in the mortgage and personal loans businesses. Indiainfoline now has plans to roll the business out across its pan-Indian network to provide it with a truly national scale in operations.

SMS (Stay connected to the market)

There are three products under SMS Service:

- Market on the move.
- Best of the lot.
- VAS (Value Added Service)

Insurance

An entry into this segment helped complete the client's product basket; concurrently, it graduated the Company into a one-stop retail financial solutions provider. To ensure maximum reach to customers across India, they have employed a multi pronged approach and reach out to customers via our Network, Direct and Affiliate channels. Following the opening of the sector in 1999-2000, a number of private sector insurance service providers commenced operations aggressively and helped grow the market. The Company's entry into the insurance sector derisked the Company from a predominant dependence on broking and equity-linked revenues. The annuity based income generated from insurance intermediation result in solid core revenues across the tenure of the policy.

Wealth Management Service

IIFL offer a dedicated group for giving the most personal attention at every level.

Newsletters

The Indiainfoline Weekly Newsletter is a flashback for the week gone by. A weekly outlook coupled with the best of the web stories from Indiainfoline and links to important investment ideas, Leader Speak and features is delivered in the inbox of clients every Friday evening.

2.5 BUSINESS DESCRIPTION

The India Info line group, comprising the holding company, India Info line Limited and its wholly-owned subsidiaries, straddle the entire financial services space with offerings ranging from Equity research, Equities and derivatives trading, Commodities trading, Portfolio Management Services, Mutual Funds, Life Insurance, Fixed deposits, Gold, bonds and other small savings instruments to loan products and Investment banking. India Info line also owns and manages the websites www.indiainfoline.com and www.5paisa.com. The company has a network of 596 branches spread across 345 cities and towns. It has more than 500,000 customers.

CHAPTER 3

MACRO-MICRO ANALYSIS

3.1STOCK MARKET IN INDIA:

Evolution

Indian Stock Markets are one of the oldest in Asia. Its history dates back to nearly 200 years ago. The earliest records of security dealings in India are meagre and obscure. The East India Company was the dominant institution in those days and business in its loan securities used to be transacted towards the close of the eighteenth century.

By 1830's business on corporate stocks and shares in Bank and Cotton presses took place in Bombay. Though the trading list was broader in 1839, there were only half a dozen brokers recognized by banks and merchants during 1840 and 1850.

The 1850's witnessed a rapid development of commercial enterprise and brokerage business attracted many men into the field and by 1860 the number of brokers increased into 60.

In 1860-61 the American Civil War broke out and cotton supply from United States of Europe was stopped; thus, the 'Share Mania' in India begun. The number of brokers increased to about 200 to 250. However, at the end of the American Civil War, in 1865, a disastrous slump began (for example, Bank of Bombay Share which had touched Rs 2850 could only be sold at Rs. 87).

At the end of the American Civil War, the brokers who thrived out of Civil War in 1874, found a place in a street (now appropriately called as Dalal Street) where they would conveniently assemble and transact business. In 1887, they formally established in Bombay, the "Native Share and Stock Brokers' Association" (which is alternatively known as "The Stock Exchange "). In 1895, the Stock Exchange acquired a premise in the same street and it was inaugurated in 1899. Thus, the Stock Exchange at Bombay was consolidated.

Other leading cities in stock market operations

Ahmedabad gained importance next to Bombay with respect to cotton textile industry. After 1880, many mills originated from Ahmedabad and rapidly forged ahead. As new mills were floated, the need for a Stock Exchange at Ahmedabad was realised and in 1894 the brokers formed "The Ahmedabad Share and Stock Brokers' Association".

What the cotton textile industry was to Bombay and Ahmedabad, the jute industry was to Calcutta. Also tea and coal industries were the other major industrial groups in Calcutta. After the Share Mania in 1861-65, in the 1870's there was a sharp boom in jute shares, which was followed by a boom in tea shares in the 1880's and 1890's; and a coal boom between 1904 and 1908. On June 1908, some leading brokers formed "The Calcutta Stock Exchange Association".

In the beginning of the twentieth century, the industrial revolution was on the way in India with the Swadeshi Movement; and with the inauguration of the Tata Iron and Steel

Company Limited in 1907, an important stage in industrial advancement under Indian enterprise was reached.

Indian cotton and jute textiles, steel, sugar, paper and flour mills and all companies generally enjoyed phenomenal prosperity, due to the First World War.

In 1920, the then demure city of Madras had the maiden thrill of a stock exchange functioning in its midst, under the name and style of "The Madras Stock Exchange" with 100 members. However, when boom faded, the number of members stood reduced from 100 to 3, by 1923, and so it went out of existence.

In 1935, the stock market activity improved, especially in South India where there was a rapid increase in the number of textile mills and many plantation companies were floated. In 1937, a stock exchange was once again organized in Madras - Madras Stock Exchange Association (Pvt) Limited. (In 1957 the name was changed to Madras Stock Exchange Limited).

Lahore Stock Exchange was formed in 1934 and it had a brief life. It was merged with the Punjab Stock Exchange Limited, which was incorporated in 1936.

Indian Stock Exchanges - An Umbrella Growth

The Second World War broke out in 1939. It gave a sharp boom which was followed by a slump. But, in 1943, the situation changed radically, when India was fully mobilized as a supply base.

On account of the restrictive controls on cotton, bullion, seeds and other commodities, those dealing in them found in the stock market as the only outlet for their activities. They were anxious to join the trade and their number was swelled by numerous others. Many new associations were constituted for the purpose and Stock Exchanges in all parts of the country were floated.

The Uttar Pradesh Stock Exchange Limited (1940), Nagpur Stock Exchange Limited (1940) and Hyderabad Stock Exchange Limited (1944) were incorporated.

In Delhi two stock exchanges - Delhi Stock and Share Brokers' Association Limited and the Delhi Stocks and Shares Exchange Limited - were floated and later in June 1947, amalgamated into the Delhi Stock Exchnage Association Limited.

Post-independence Scenario

Most of the exchanges suffered almost a total eclipse during depression. Lahore Exchange was closed during partition of the country and later migrated to Delhi and merged with Delhi Stock Exchange.

Bangalore Stock Exchange Limited was registered in 1957 and recognized in 1963.

Most of the other exchanges languished till 1957 when they applied to the Central Government for recognition under the Securities Contracts (Regulation) Act, 1956. Only Bombay, Calcutta, Madras, Ahmedabad, Delhi, Hyderabad and Indore, the well established exchanges, were recognized under the Act. Some of the members of the other Associations were required to be admitted by the recognized stock exchanges on a concessional basis, but acting on the principle of unitary control, all these pseudo stock exchanges were refused recognition by the Government of India and they thereupon ceased to function.

Thus, during early sixties there were eight recognized stock exchanges in India (mentioned above). The number virtually remained unchanged, for nearly two decades. During eighties, however, many stock exchanges were established: Cochin Stock Exchange (1980), Uttar Pradesh Stock Exchange Association Limited (at Kanpur, 1982), and Pune Stock Exchange Limited (1982), Ludhiana Stock Exchange Association Limited (1983), Gauhati Stock Exchange Limited (1984), Kanara Stock Exchange Limited (at Mangalore, 1985), Magadh Stock Exchange Association (at Patna, 1986), Jaipur Stock Exchange Limited (1989), Bhubaneswar Stock Exchange Association Limited (1989), Saurashtra Kutch Stock Exchange Limited (at Rajkot, 1989), Vadodara Stock Exchange Limited (at Baroda, 1990) and recently established exchanges - Coimbatore and Meerut. Thus, at present, there are totally twenty one recognized stock exchanges in India excluding the Over the Counter Exchange of India Limited (OTCEI) and the National Stock Exchange of India Limited (NSEIL).

Table 1.2: Annual Averages of Share Price Indices and Market Capitalisation

Year	BSE Sensex	S&P CNX Nifty	Market Capitalisation BSE	Market Capitalisation NSE	Market Capitalisation All India
2004-05	5740.52	1804.86	1698428	1585585	1702136
2005-06	8278.55	2515.23	3022191	2813201	-
2006-07	12277.33	3572.44	3545041	3367350	-
2007-08	16569.00	4896.60	5138014	4858122	-
2008-09	12366.00	3713.02	3086075	2896194	-

Source: Hand book of Statistics on Indian Capital market, 2009

Trading Pattern of the Indian Stock Market

Trading in Indian stock exchanges is limited to listed securities of public limited companies. They are broadly divided into two categories, namely, specified securities (forward list) and non-specified securities (cash list). Equity shares of dividend paying, growth-oriented companies with a paid-up capital of at least Rs.50 million and a market capitalization of at least Rs.100 million and having more than 20,000 shareholders are, normally, put in the specified group and the balance in non-specified group.

Two types of transactions can be carried out on the Indian stock exchanges: (a) spot delivery transactions "for delivery and payment within the time or on the date stipulated when entering into the contract which shall not be more than 14 days following the date of the contract": and (b) forward transactions "delivery and payment can be extended by further period of 14 days each so that the overall period does not exceed 90 days from the date of the contract". The latter is permitted only in the case of specified shares. The brokers who carry over the outstanding pay carry over charges (cantango or backwardation) which are usually determined by the rates of interest prevailing.

A member broker in an Indian stock exchange can act as an agent, buy and sell securities for his clients on a commission basis and also can act as a trader or dealer as a principal, buy and sell securities on his own account and risk, in contrast with the practice prevailing on New York and London Stock Exchanges, where a member can act as a jobber or a broker only.

The nature of trading on Indian Stock Exchanges are that of age old conventional style of face-to-face trading with bids and offers being made by open outcry. However, there is a great amount of effort to modernize the Indian stock exchanges in the very recent times.

Over The Counter Exchange of India (OTCEI)

The traditional trading mechanism prevailed in the Indian stock markets gave way to many functional inefficiencies, such as, absence of liquidity, lack of transparency, unduly long settlement periods and benami transactions, which affected the small investors to a great extent. To provide improved services to investors, the country's first ringless, scripless, electronic stock exchange - OTCEI - was created in 1992 by country's premier financial institutions - Unit Trust of India, Industrial Credit and Investment Corporation of India, Industrial Development Bank of India, SBI Capital Markets, Industrial Finance Corporation of India, General Insurance Corporation and its subsidiaries and Can Bank Financial Services.

Trading at OTCEI is done over the centres spread across the country. Securities traded on the OTCEI are classified into:

- Listed Securities - The shares and debentures of the companies listed on the OTC can be bought or sold at any OTC counter all over the country and they should not be listed anywhere else

- Permitted Securities - Certain shares and debentures listed on other exchanges and units of mutual funds are allowed to be traded

- Initiated debentures - Any equity holding at least one lakh debentures of particular scrip can offer them for trading on the OTC.

OTC has a unique feature of trading compared to other traditional exchanges. That is, certificates of listed securities and initiated debentures are not traded at OTC. The original certificate will be safely with the custodian. But, a counter receipt is generated out at the counter which substitutes the share certificate and is used for all transactions.

In the case of permitted securities, the system is similar to a traditional stock exchange. The difference is that the delivery and payment procedure will be completed within 14 days.

Compared to the traditional Exchanges, OTC Exchange network has the following advantages:

- OTCEI has widely dispersed trading mechanism across the country which provides greater liquidity and lesser risk of intermediary charges.

- Greater transparency and accuracy of prices is obtained due to the screen-based scripless trading.

- Since the exact price of the transaction is shown on the computer screen, the investor gets to know the exact price at which s/he is trading.

- Faster settlement and transfer process compared to other exchanges.

- In the case of an OTC issue (new issue), the allotment procedure is completed in a month and trading commences after a month of the issue closure, whereas it takes a longer period for the same with respect to other exchanges.

Thus, with the superior trading mechanism coupled with information transparency investors are gradually becoming aware of the manifold advantages of the OTCEI.

3.2 National Stock Exchange (NSE)

With the liberalization of the Indian economy, it was found inevitable to lift the Indian stock market trading system on par with the international standards. On the basis of the recommendations of high powered Pherwani Committee, the National Stock Exchange was incorporated in 1992 by Industrial Development Bank of India, Industrial Credit and Investment Corporation of India, Industrial Finance Corporation of India, all Insurance Corporations, selected commercial banks and others.

Trading at NSE can be classified under two broad categories:

(a) Wholesale debt market and

(b) Capital market.

Wholesale debt market operations are similar to money market operations - institutions and corporate bodies enter into high value transactions in financial instruments such as government securities, treasury bills, public sector unit bonds, commercial paper, certificate of deposit, etc.

There are two kinds of players in NSE:

(a) Trading members and

(b) Participants.

Recognized members of NSE are called trading members who trade on behalf of themselves and their clients. Participants include trading members and large players like banks who take direct settlement responsibility.

Trading at NSE takes place through a fully automated screen-based trading mechanism which adopts the principle of an order-driven market. Trading members can stay at their offices and execute the trading, since they are linked through a communication network. The prices at which the buyer and seller are willing to transact will appear on the screen. When the prices match the transaction will be completed and a confirmation slip will be printed at the office of the trading member.

NSE has several advantages over the traditional trading exchanges. They are as follows:

- NSE brings an integrated stock market trading network across the nation.

- Investors can trade at the same price from anywhere in the country since inter-market operations are streamlined coupled with the countrywide access to the securities.

- Delays in communication, late payments and the malpractice's prevailing in the traditional trading mechanism can be done away with greater operational efficiency and informational transparency in the stock market operations, with the support of total computerized network.

Unless stock markets provide professionalised service, small investors and foreign investors will not be interested in capital market operations. And capital market being one of the major sources of long-term finance for industrial projects, India cannot afford to damage the capital market path. In this regard NSE gains vital importance in the Indian capital market system.

3.3 CNX BANK INDICES:

The Indian banking Industry has been undergoing major changes, reflecting a number of underlying developments. Advancement in communication and information technology has facilitated growth in internet-banking, ATM Network, Electronic transfer of funds and quick dissemination of information. Structural reforms in the banking sector have improved the health of the banking sector. The reforms recently introduced include the enactment of the Securitization Act to step up loan recoveries, establishment of asset reconstruction companies, initiatives on improving recoveries from Non-performing Assets (NPAs) and change in the basis of income recognition has raised transparency and efficiency in the banking system. Spurt in treasury income and improvement in loan recoveries has helped Indian Banks to record better profitability. In order to have a good benchmark of the Indian banking sector, India Index Service and Product Limited (IISL) has developed the CNX Bank Index.

CNX Bank Index is an index comprised of the most liquid and large capitalized Indian Banking stocks. It provides investors and market intermediaries with a benchmark that captures the capital market performance of Indian Banks. The index will have 12 stocks from the banking sector which trade on the National Stock Exchange.

The total traded value for the last six months of CNX Bank Index stocks is approximately 96.46% of the traded value of the banking sector. CNX Bank Index stocks represent about 87.24% of the total market capitalization of the banking sector as on March 31, 2009.

3.4 SELECTION CRITERIA

Selection of the index set is based on the following criteria:

1. Company's market capitalisation rank in the universe should be less than 500
2. Company's turnover rank in the universe should be less than 500
3. Company's trading frequency should be at least 90% in the last six months.
4. Company should have a positive net worth.
5. A company which comes out with an IPO will be eligible for inclusion in the index, if it fulfils the normal eligibility criteria for the index for a 3 month period instead of a 6 month period.

3.5 BANKS LISTED ON CNX BANK INDEX

- Axis Bank Ltd.
- Bank of Baroda
- Bank of India
- Canara Bank
- HDFC Bank Ltd.
- ICICI Bank Ltd.
- IDBI Bank Ltd.
- Kotak Mahindra Bank Ltd.
- Oriental Bank of Commerce
- Punjab National Bank
- State Bank of India
- Union Bank of India

Global Banking Industry

The world of commercial banking is undergoing a deep transformation as a result of marketable instruments competing with loans and demand deposits. Because of this strong competition, commercial banks are struggling to make acceptable margins from their traditional business entering into investment banking. Increasing competition has forced banks to search for more income at the expense of more risk. Banks that lent heavily to Asia in search of better returns than those available in Western markets are now being blamed for bad credit decisions. The Asian crisis has renewed interest on credit risk management casting doubts on the effectiveness of current credit regulations. Technological changes have also heightened competition by making it easier to imitate bank services. The traditional advantage of physical proximity to clients given by extended networks of branches has vanished. Banks have to compete with money market mutual funds for deposit business, commercial papers, and medium-term notes for bank loans.

As margins are squeezed, commercial banks in the United States and Europe have been forced to cut costs and branches while diversifying into pensions, insurance, asset management, and investment banking. In the United States, many banks call themselves financial service companies even in their reported financial statements. Diversification, however, has not always proved to be an effective strategy, and many banks have had to revert to a concentrated business. These examples illustrate how commercial banks are reinventing themselves, not just once but many times. All these changes are creating an identity crisis for old-fashioned bankers, leading to the key question, "What is a bank today?" .The question is difficult, but evidence suggests that the concept of banking is being modified and the traditional barriers among financial service sub industries (retail banking, private banking, investment banking, asset management, insurance, etc.) are vanishing. Illustrating what an entity does or serves for often is a useful way to define it. The identity crisis of banks—especially commercial banks—stems from the deep and rapid changes in their traditional body of activities (particularly retail and corporate banking).

On the other hand, investment banking, private banking, and banc assurance are the most profitable and fastest growing segments of the financial service industry. As banks undertake new activities, they also incur new risks. Since boundaries among sub industries are weakening, if not vanishing, banks—like all other financial service companies—must redefine themselves in terms of the products they offer and the customers they serve. The way banks pursue this redefinition is through a strategic repositioning in the financial service industry. All these factors represent a new challenge for commercial banks, provided this definition still has a unique meaning. Increased competition, diversification, new products, and new geographic markets mean that both the spectrum of risks and the risk profile for banks are dramatically changing. Not only have the risk parameters broadened, they have also changed: banks now face unfamiliar types of risk. In addition to the traditional credit risk, financial risk1 has risen and is now playing a crucial role. Banks thus need integrated risk management techniques that can measure and manage market risk in a timely and effective manner.

RECENT TRENDS IN THE GLOBAL BANKING INDUSTRY

The global banking industry has been undergoing deep transformation.

The following trends can be outlined:

- The technological breakthrough caused by the eruption of e-banking and e-finance.
- Worldwide consolidation and consequent restructuring.
- Increasing competition in terms of both markets (geographic diversification) and products.
- "Contamination" among different industries, thanks to a progressive relaxation of regulations and huge interindustry acquisitions.
- A slowing population growth and increasing average life expectancy and per capita income. Since Western governments need to cut expenditures for old-age benefits to keep deficits under control, there will be an increase in the importance of private pensions, mutual funds, and private banking operations.

- The growing importance of a clear strategic intent in the banking industry. Banks, especially commercial banks, will be obliged to rethink their strategic positioning. While some banks are opting to offer a vast variety of products/services on a global scale, others are focusing on some specific market segment (retail banking, private banking, and corporate banking) or specific geographic area.

- New competitors are entering the financial service business. In the retail banking industry, large department stores in the United Kingdom have entered the market for personal and mortgage loans, primarily to retain their customers.

These trends are having and will have a major impact on banks' and financial institutions' risk management process. Contamination also means that firms in the different sub industries will face risks that were once specific to another sub industry. The relaxation of the *Glass-Steagall Act* in the United States, and similar processes of deregulation in many other leading countries, is forcing even commercial banks to dedicate growing attention to market risk management and liquidity risk management, in addition to the more traditional credit risk and interest rate risk.

3.6 BANKING SECTOR IN INDIA

The growth of financial sector in India at present is nearly 8.5% per year. The rise in the growth rate suggests the growth of the economy. The financial policies and the monetary policies are able to sustain a stable growth rate. The reforms pertaining to the monetary policies and the macro economic policies over the last few years have influenced the Indian economy to the core. The major step towards opening up of the financial market further was the nullification of the regulations restricting the growth of the financial sector in India. To maintain such a growth for a long term the inflation has to come down further.

The financial sector in India had an overall growth of 15%, which has exhibited stability over the last few years although several other markets across the Asian region were going through turmoil. The development of the system pertaining to the financial sector was the key to the growth of the same. With the opening of the financial market variety of products and services were introduced to suit the need of the customer. The Reserve Bank of India (RBI) played a dynamic role in the growth of the financial sector of India

Growth of the banking sector in India

The banking system in India is the most extensive. The total asset value of the entire banking sector in India is nearly US$ 270 billion. The total deposits are nearly US$ 220 billion. Banking sector in India has been transformed completely. Presently the latest

Inclusions such as Internet banking and Core banking have made banking operations more users friendly and easy

Major Developments in Banking Sector

The State Bank of India (SBI) has posted a net profit of US$ 1.56 billion for the nine months ended December 2009, up 14.43 per cent from US$ 175.4 million posted in the nine months ended December 2008. The SBI is adding 23 new branches abroad bringing its foreign-branch network number to 160 by March 2010. This will cement its leading position as the bank with the largest global presence among local peers.

Amongst the private banks, Axis Bank's net profit surged by 32 per cent to US$ 115.4 million on 21.2 per cent rise in total income to US$ 852.16 million in the second quarter of 2009-10, over the corresponding period last year. HDFC Bank has posted a 32 per cent rise in its net profit at US$ 175.4 million for the quarter ended December 31, 2009 over the figure of US$ 128.05 million for the same quarter in the previous year.

Analysis and Interpretations

CHAPTER 4

DATA ANALYSIS & INTERPRETATION

4.1. STATE BANK OF INDIA

To begin with the analysis part of SBI, AVERAGE SHARE PRICE is taken as DEPENDENT VARIABLE and 15 other variables as INDEPENDENT VARIABLES and have applied MULTIPLE REGRESSION to it. The output summary tables are shown below:

MODEL SUMMARY:

Table No: 1.3 Regression Statistics of State Bank of India

Regression Statistics	
Multiple R	1
R Square	100%
Adjusted R Square	65.54%
Standard Error	0
Observations	5

INTERPRETATION:

From the above table: 1.3 it is interpreted that the multiple linear regression component (dependent variable) is found statistically a good fit as R Square is 100%. It shows that the predictors account for 100% variation in the Average Price of the shares of SBI.

The adjusted R Square value indicates that if there is a change in the selection of independent variable, then R Square will change to the extent of 65.53%.

COEFFICIENCE:

Table No: 1.4 Coefficient of State Bank of India

	Coefficients
Intercept	-726.2734499
DPS	0
P/E RATIO	-67.97217861
LIGUIDITY RATIO	0
LOAN/DEPOSIT RATIO	46.81359999
NET NAPs/ NET ADVANCES	0
INTEREST INCOME/WORKING FUND	0
OPERATING PROFIT/WORKING FUNDS	0
RETURN ON ASSET	0
OPERATING PROFIT	0.48703373
INTEREST SPREAD	0
LOAN/ASSET RATIO	0
INFLATION	0
D/E RATIO	0
REPO RATE	0
MONEYSUPPLY	-0.451029445

The Coefficients table shows the parameters. The equation is defined as follows:

Average Share Price = -726.27 - 67.97 (P/E Ratio) + 46.81 (Loan /Deposit Ratio) + 0.49 (Operating profit) – 0.45 (Money supply) + e

Looking at the Beta value for SBI, it is clear that LOAN/DEPOSIT RATIO and OPERATING PROFIT show positive relationship while MONEY SUPPLY and P/E RATIO show negative relationship. While other factors have no relationship as their B value is zero. So, when Loan/Deposit Ratio and Operating Profit increase the Average Price of Share increases and as the value of Money Supply and P/E Ratio increases, the Average Price decreases.

4.2. HDFC BANK

Starting off with the analysis part of HDFC Bank, AVERAGE SHARE PRICE is taken as DEPENDENT VARIABLE and 15 other variables as INDEPENDENT VARIABLES and has applied MULTIPLE REGRESSION to it. The output summary tables are shown below:

MODEL SUMMARY:

Table No: 1.5 Regression Statistics of HDFC Bank

Regression Statistics	
Multiple R	1
R Square	100%
Adjusted R Square	65.54%
Standard Error	0
Observations	5

INTERPRETATION:

From the above table: 1.5 it is interpreted that the multiple linear regression component (dependent variable) is found statistically a good fit as R Square is 1. It shows that 15 independent variable contribute to 100% of the share price of HDFC Bank.

The adjusted R Square value indicates that if there is a change in the selection of independent variable, then R Square will change to the extent of 65.53%.

COEFFICIENCE:

Table No: 1.6 Coefficient of HDFC Bank

	Coefficients
Intercept	184.3835
DPS	0
P/E RATIO	-28.4004
LIGUIDITY RATIO	0
LOAN/DEPOSIT RATIO	0
NET NAPs/ NET ADVANCES	0
INTEREST INCOME/WORKING FUND	-23.0419
OPERATING PROFIT/WORKING FUNDS	0
RETURN ON ASSET	0
OPERATING PROFIT	14.8262
INTEREST SPREAD	0
LOAN/ASSET RATIO	0
INFLATION	0
D/E RATIO	0
OPERATING PROFIT MARGIN	22.96252
REPO RATE	0

The Coefficients table shows the parameters. The equation is defined as follows:

Average Share Price = 184.3835 – 28.4004 (P/E Ratio) – 23.0419 (Loan /Deposit Ratio) + 14.8262 (Operating profit) + 22.96252 (Money supply) + e

Looking at the beta value for HDFC, it is clear that OPERATING PROFIT and MONEY SUPPLY show positive relationship while LOAN/DEPOSIT RATIO and P/E RATIO show negative relationship. While other factors have no relationship as their B value are zero. So, when Operating Profit and Money Supply increase the Average Price of Share increases and as the value of Loan/Deposit Ratio and P/E Ratio increases, the Average Price decreases.

4.3. ICICI BANK

Coming to the analysis part of ICICI Bank, AVERAGE SHARE PRICE is taken as DEPENDENT VARIABLE and 15 other variables as INDEPENDENT VARIABLES and has applied MULTIPLE REGRESSION to it. The output summary tables are shown below:

MODEL SUMMARY:

Table No: 1.7 Regression Statistics of ICICI Bank

Regression Statistics	
Multiple R	1
R Square	100%
Adjusted R Square	65.54%
Standard Error	0
Observations	5

INTERPRETATION:

From the above table: 1.7 it is interpreted that the multiple linear regression component (dependent variable) is found statistically a good fit as R Square is 1. It shows that 15 independent variable contribute to 100% of the share price of ICICI Bank.

The adjusted R Square value indicates that if there is a change in the selection of independent variable, then R Square will change to the extent of 65.53%.

COEFFICIENCE:

Table No: 1.8 Coefficient of ICICI Bank

	Coefficients
Intercept	-4000.04
DPS	0
P/E RATIO	32.19849
LIGUIDITY RATIO	0
LOAN/DEPOSIT RATIO	0
NET NAPs/ NET ADVANCES	0
INTEREST INCOME/WORKING FUND	0
OPERATING PROFIT/WORKING FUNDS	0
RETURN ON ASSET	0
OPERATING PROFIT	5.552064
INTEREST SPREAD	0
LOAN/ASSET RATIO	0
INFLATION	0
D/E RATIO	71.79047
REPO RATE	0
MONEYSUPPLY	2.291921

The Coefficients table shows the parameters. The equation is defined as follows:

Average Share Price = -4000.04 +32.19849 (P/E Ratio) + 5.552064 (Loan /Deposit Ratio) + 71.79047 (Operating profit) + 2.291921 (Money supply) + e

Looking at the beta value for ICICI Bank, it is clear that OPERATING PROFIT, MONEY SUPPLY, P/E RATIO AND LOAN/ DEPOSIT RATIO show positive relationship while other factors have no relationship as their B value are zero. So when Operating Profit, Money Supply, Loan/Deposit Ratio and P/E Ratio increase the Average Price of Share increases.

Findings

CHAPTER 5

FINDINGS, SUGGESION & CONCLUSION

Often in investment analysis, share price is influenced by myriad of factors. These factors are categorized as external and internal. However all those factors do not have significant exploratory capabilities over the movement of share price. Hence an analytical study was conducted to study the effect of selected factors influencing the top three bank scripts listed under NSE CNX Bank Index. Among the 15 variables explored for the study only four variables (1 external & 3 internal) were able to causally explain the variations in their respective share price.

The analysis shows that only Money supply, P/E Ratio, Credit/Deposit ratio, and Operating profit among 15 variables considered have a maximum casual relationship with Share Prices.

From the study it is suggested that the investors should be careful while investing in the stock market. The market is simply unpredictable. One should do a proper and detailed analysis before investing in stocks. Bank's shares are pretty safe, as found from the analysis. But still one should be beware of the Market's unpredictable up's and down's. This report is of help to the company and investors. Investors can use these analyses and draw conclusions. Also investors can do their own analysis if they want keeping this analysis as a base.

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