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Performance Evaluation of Stocks of Indian Banks-An Analysis

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Introduction

Bank capitals act as the ultimate buffer against losses Evaluation! that a bank may suffer Banks stocks have become hot favorites among the investors community. Scrips of banks such as SBI. of Stocks of Indian ICICI Bank and HDFC Bank form part of Sensex. Banking stocks, after their moderate showing in 2008 are expected to be Banks-An Analysis favorites in 2009, thanks to the sector's ability to cash in on both consumption boom and a better environment for business.

Keywords: Scrips, Bankex, CRAR, Capitalization.

As at end-March 2009, the CRAR of 78 banks was over 105, while that of only one bank was between 9% and 10%. The CRAR of Indian banks was comparable with most emerging markets and developed economies. Out of 53 Indian SCBS, equity shares of 39 banks are listed on stock exchanges. Banks stocks have become hot favorites among the investor community. Scrips of banks such as SBI, ICICI Bank and HDFC Bank form part of the Sensex. In this backdrop, an attempt has bcen made here to analyze the performance of bank stocks during 2005-2009. For the purpose, share prices of 35 banks, out of 39 listed banks, are considered. Banks such as State Bank of Bikaner & Jaipur, State Bank of Mysore, State Bank of Travancore and City Union Bank are outside the purview of the study due to the issue of split share by them and the resultant difficulty in comparison of share prices. Public issues by banking sector In the globalized environment, banks are making continuous efforts to strengthen their capital base, which helps them fulfill the minimum Capital Adequacy Ratio (CAR) of 9% so as to be globally competitive. During 2004-08, Indian banks mobilized an additional capital of Rs. 49,532 cr from the equity market. Out of this, 54.7% was mobilized by 11 public sector banks and 45.3% by 15 private sector banks. Table I gives the details of public issues of banks.

Table 1: Public issues by the Banking Sector(Rs. Cr.)

Year	Public Sector Banks	Private Sector banks	Total
2005-06	3,336 (44.85%)	4,108 (55.2%)	7,444
2006-07	5,413 (48.9%)	5,654 (51.1%)	11,067
2007-08	782 (73.4%)	284 (26.6%)	1,066
2008-09	17,552 (58.6%)	12,403 (41.4)	29,955
Total	27,083 (54.7%)	22,449 (45.3%)	49,532

Relative share of bank stocks turnover and market capitalization

Market capitalization represents the aggregate value of a company or stocks in the market. It is obtained by multiplying the number of shares outstanding by their current price per share. Turnover means number of shares traded in the market. Table 2 and chart 3 reveal the share of bank stocks in term of turnover and market capitalization. Major inferences from Table 2 are as follows: Bank stocks constitute a minor portion of market capitalization of the Indian equity market, with their share decreasing to 7.2% at end-March 2009 from 8.6% at end-March 2006. > The average market capitalization of bank stocks constitutes 7.5% of total market capitalization. > The share of bank stocks in the total turnover increased from 10.8% during 2005- 06 to 6.6% in 2008-09, with an average share of 8.4%.

Table 2: Relative Share of Bank Stocks Turnover and Market Capitalization (%).Year*:

	Share of turnover of bank stocks in total turnover	**Share of Capitalization of bank stocks in total market capitalization**
2005-06	10.8	8.6
2006-07	6.8	7.1
2007-08	5.3	6.8
2008-09	6.6	7.2

Table 3: Return in Bankex visa-vis BSE Sensex

	Indices Return*				Volatility@			
	05-06	06-07	07-08	08-09	05-06	06-07	07-08	08-09
BSE Bankex	28.6	36.8	24.3	18.0	17.1	11.8	17.5	13.8
BSE Sensex	16.1	73.7	15.9	19.7	11.2	16.7	11.1	12.0

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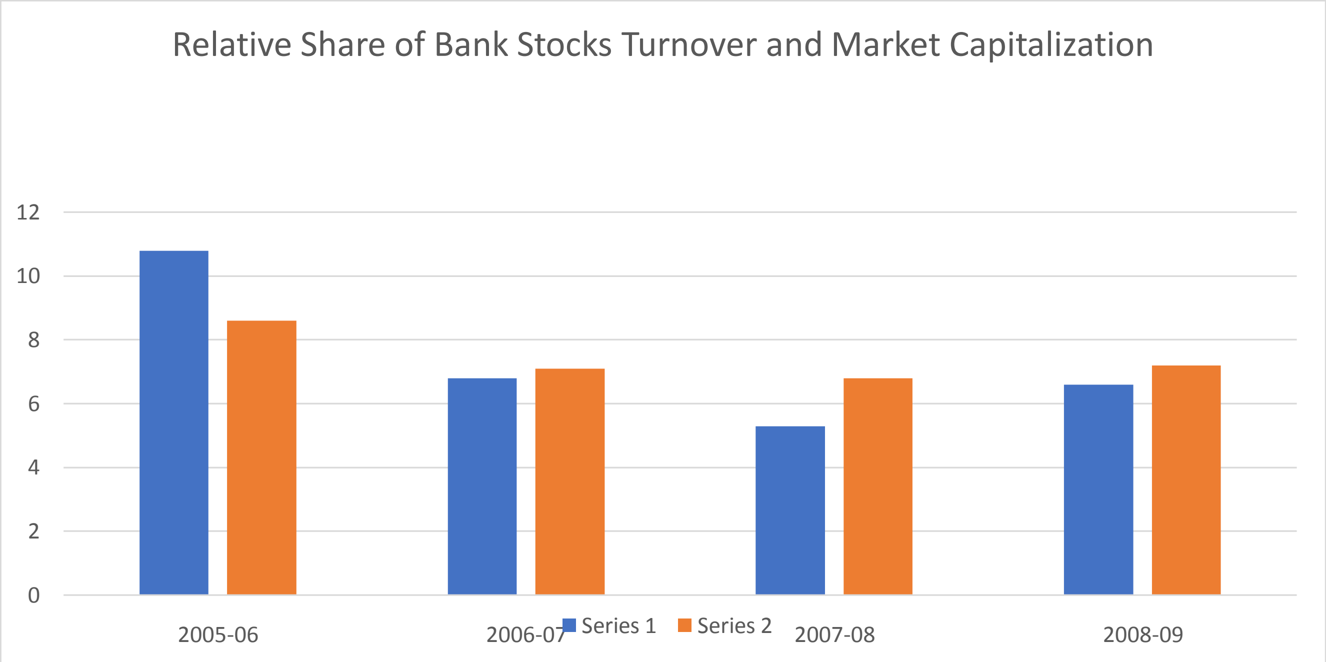


*Percentage variations on a pointto-point basis. @: Defined as coefficient of variation. Avg. Average
Source: www.RBLorg.in

- The average return by the BSE Bankex during the study period is 13.2%, which is lower than that of the BSE Sensex at 17.5%. So Bankex is an underperformer vis- à-vis the Sensex in terms of return.
- The average volatility (defined as the coefficient of variation by the RBI) of the Bankex is 16.8%, as against 15% of the Sensex, indicating that bank stocks are more volatile.
- In terms of risk-return relationship in case of Bankex, there is an inverse relationship (High risk-LOW return). In other words, Bankex is more volatile on an average (highly risky), compared to the Sensex. But the average returns generated by Bankex are lower than that of the Sensex.
- Year-wise analysis of the returns of the Bankex and Sensex reveals that the Bankexout performed the Sensex in 2005-09 and 2006-07 and underperformed the Sensex in the remaining three years.
- Year-wise volatility of the two indices reveals that the extent of risk is more in the case of Bankex in all years of 2005-09, except in 2006-07.
- During the period of the study, the highest return was generated by Bankex in 2006-07 at 36.8%. This was in tune with the highest return generated by Sensex at 73.7% in 2006-07.

Best Performing Bank Stocks

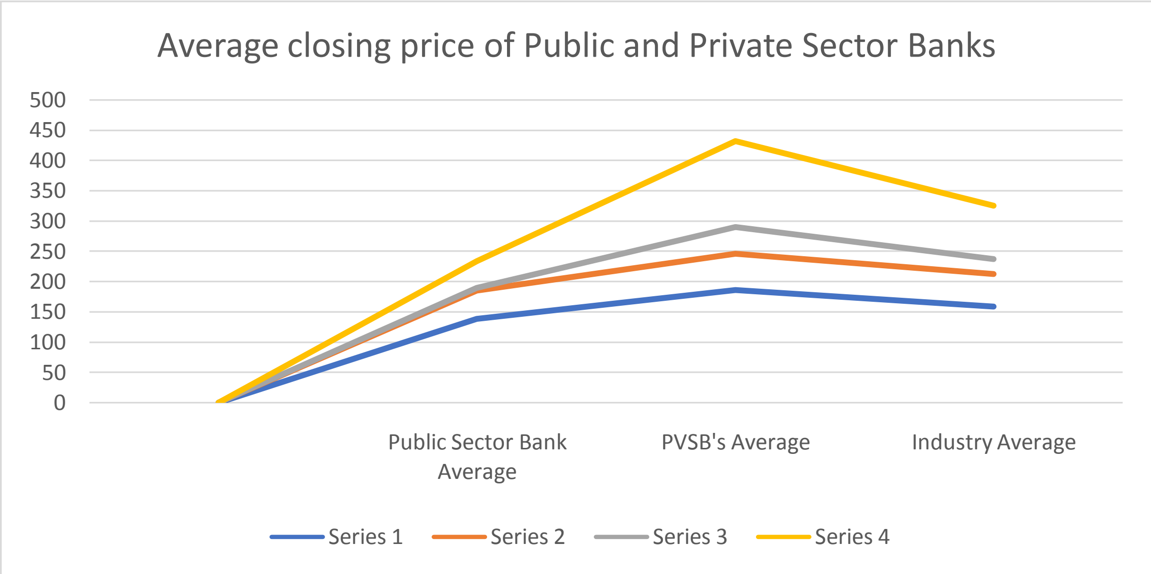
Based on the above analysis, an attempt has been made to identify the best performing bank stocks in terms of various parameters given in Table 4

Table 4: Best Performing Bank Stocks

Parameter	PSBs	PVSBs	SCBs
Turnover (No)	State Bank of India (2,034 Lakhs)	ICICI Bank (2,766 Lakhs)	ICICI Bank (2,766 Lakhs)
Average daily closing price (Rs.)	State Bank of India (1,003)	HDFC (858)	State Bank of India (1,003)
Average Return (%)	Bank of India (224)	Kotak Mahindra Bank (216)	Bank of India (224)
Risk (%)	Bank of Baroda (2.33)	Federal Bank (4.29)	Bank of Baroda (2.33)
PE Ratio (Times)	Bank of Maharashtra (14.2)	Kotak Mahindra Bank (14.9)	Kotak Mahindra Bank (14.9)
EPS (Rs.)	State Bank of India (100)	Jammu & Kashmir Bank (55)	State Bank of India (100)

Table 5: Average Daily Closing Price (Rs.)

	2005-06	2006-07	2007-08	2008-09
Public Sector Bank Average	138.3	185.3	189.7	234
PVSB's Average	186	246.1	290.5	432
Industry Average	159	212.9	237.3	325



- State Bank is the best performer in terms of turnover, average daily closing price Bank of Baroda's share are the least risky. Among the PSBS, the highest PE ratio
- Among PVSBS, different banks lead in terms of different parameters. ICICI is the EPS among PSBS. Bank of India has generated the highest average return, and in the group of PSBS is generated by bank of Maharashtra topper in terms of turnover; HDFC has the highest average return. Shares of Federal Bank are the least risky. Kotak Mahindra Bank has the highest PE ratio. Jammu and Kashmir is the best in terms of the EPS.
- Among all SCBS, shares of State Bank of India can be considered as the best performing bank stock, as it has beaten other banks in terms of two vital parameters-average closing price and EPS.

Conclusion

According to the analysis tracking the banking sector, Indian banks have healthy capitalization levels relative to the regulatory minimum levels. They also compare capitalization and leverage levels across the region. This is largely due to dependence hybrid capital qualifying as TIER-I and significant capital raising just before the credit crisis. Banking stocks, after their moderate showing in 2008, are expected to be favorites in 2009, thanks to the sector's ability to cash in on both consumption boom and a better environment for business. Stock market pundits predict that with an estimated GDP growth of 8-9%, banks will have ample opportunity for lending, thereby leading to better earning prospects. Thus, the sentiments for bank stocks are bullish in the coming years.

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