RISK AND RETURN ASSOCIATED WITH EQUITY SHARES-A COMPARATIVE ANALYSIS OF SELECTED BANKS AND IT COMPANIES

Dr.B.Percy Bose, Associate professor and Head,
Department of MFA, Jyoti Nivas College Autonomous
Bangalore

Abstract

The risk/return relationship is a fundamental concept in not only financial analysis, but in every aspect of life. Return includes the interest, dividend and capital gains; while risk represents the uncertainty associated with a particular task. This paper is undertaken with an objective of finding out the best company to invest in banking and IT sector among the selected eight companies. The risk and return associated with the shares was found out using the market prices of shares. Standard deviation was the measure used to calculate the amount of risk associated with the security and annual return was considered. The best company among the selected companies was determined by comparing the risk and return associated with each of the securities.

Key words: *Investment, Return, Risk, Securities.*

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INTRODUCTION

Risk and return are the two important aspects of any kind of investment. The relationship that exists between these two variables is the important consideration for deciding the investment avenue. The main objective of any investor would be to maximize the returns and minimize the risk. This paper focuses the objective of finding out the best company to invest among the top most companies of Information Technology and Banking sector. The best company would be the one which has a good risk return relationship i.e. the company with returns more than the risk associated with the security. The study is analytical research.

STATEMENT OF THE PROBLEM

The purpose of this study is to ascertain from empirical data the risk-return relationship that exists in the Information Technology and Banking sector of Indian Stock Market. The study is focussed on the TOP most IT companies like Mindtree, Wipro, TATA Consultancy services and Tech Mahindra and top banks like State bank of India, Punjab national bank, HDFC bank and ICICI bank on the basis of equity share prices from which returns for three years are calculated . The standard deviation is the model used to determine the risk.

NEED AND IMPORTANCE OF THE STUDY

- This study helps the investors who are interested to invest under given sectors.
- This study aims to help investors who are not ready to take more risk but who are expecting higher returns.
- It provides data to those investors who want to invest in top most companies.
- To understand the relationship between risk and return associated with equity shares
- It helps to understand the trend of returns among specified period

OBJECTIVES OF THE STUDY

- To analyse the amount of risk associated with each of the security.
- To find out the best combination of risk and return.
- To identify the best company to invest with favourably less amount of risk.
- To help the investors who are not ready to take higher risk.

ANALYSIS OF DATA

Analysis was based on market price of shares of the selected companies. The market prices of shares were collected for a period of four years. The risk associated with the shares was calculated using the standard deviation associated with each and every share. The annual returns associated with the shares were also calculated by using its market prices. The overall standard deviation and the overall returns of both the industries were calculated using the standard deviation and annual returns of all eight companies.

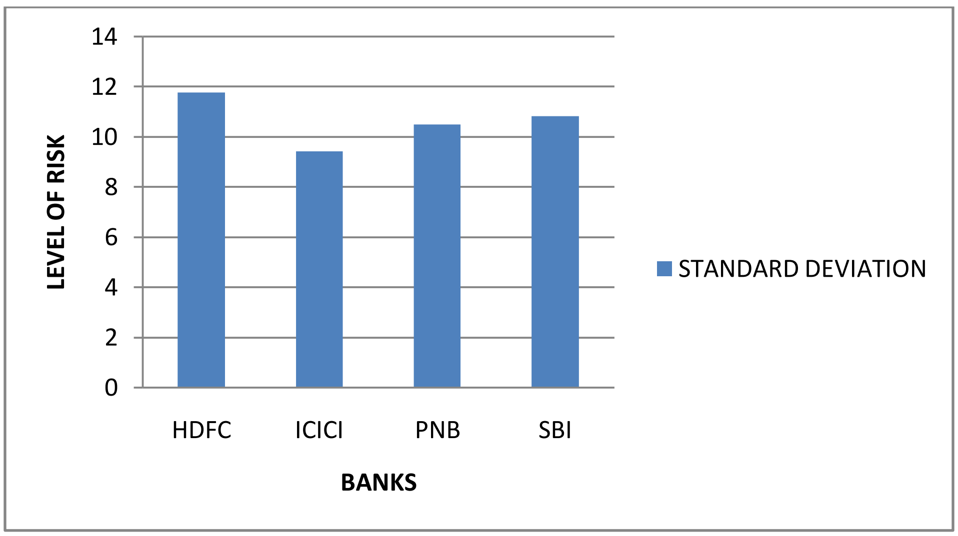
OVERALL STANDARD DEVIATION

Table no. 1: Table showing the level of risk of all four banks for the period 2010-2014

Bank	HDFC	ICICI	PNB	SBI
Standard deviation (%)	11.75	9.42	10.49	10.82

Graph no 1

Graph showing the overall standard deviation of all four banks for the period 2010-2014



The above table and graph shows the overall standard deviation and risk level of all the four banks. It shows that the standard deviation and risk of HDFC Bank was more than other three banks, SBI Bank stands next to HDFC in this regard.

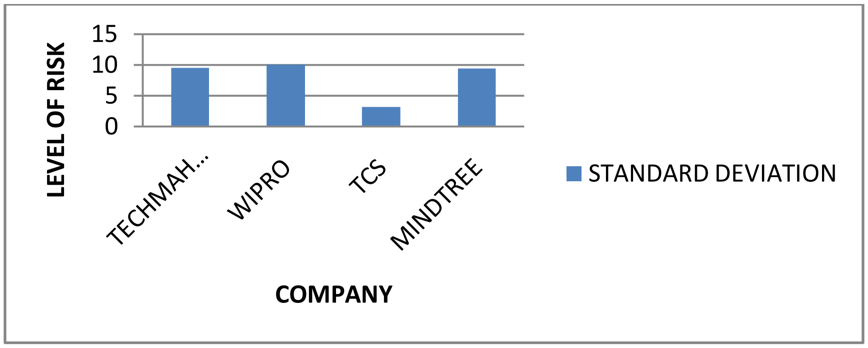
Table no.2

Table showing standard deviation of 4 IT companies for the period 2010-2014

Company	TechMahindra	WIPRO	TCS	Mindtree
Standard deviation (%)	9.43	9.98	3.15	9.35

Graph no.2

Graph showing standard deviation of 4 IT companies for the period 2010-2014



The above standard deviation table and graph depicts the risk level of all four companies, the standard deviation and risk level of WIPRO Ltd was highest and the standard deviation and risk level of TCS Ltd was lowest when compared to other companies.

OVERALL AVERAGE RETURNS

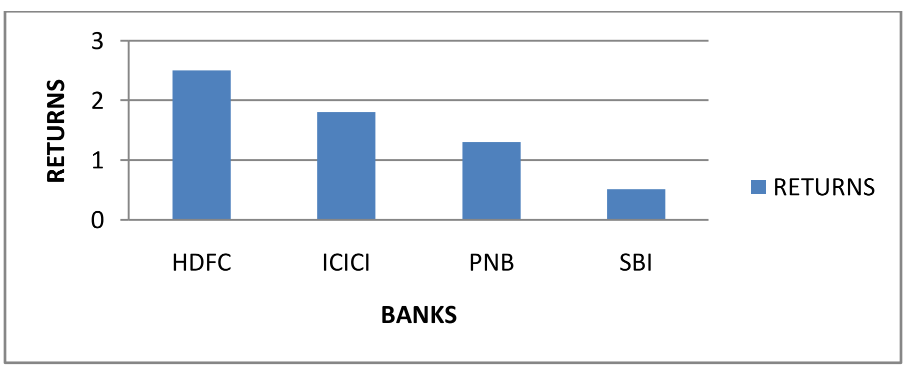
Table no.3

Table showing trend of returns of all four banks for the period 2010-2014

Bank	HDFC	ICICI	PNB	SBI
Average returns(%)	2.5	1.8	1.3	0.5

Graph no.3

Graph showing overall returns of all four banks for the period 2010-2014



The above graph shows the overall average returns of all four banks. It is understood that the average returns of HDFC Bank is more than other three banks.

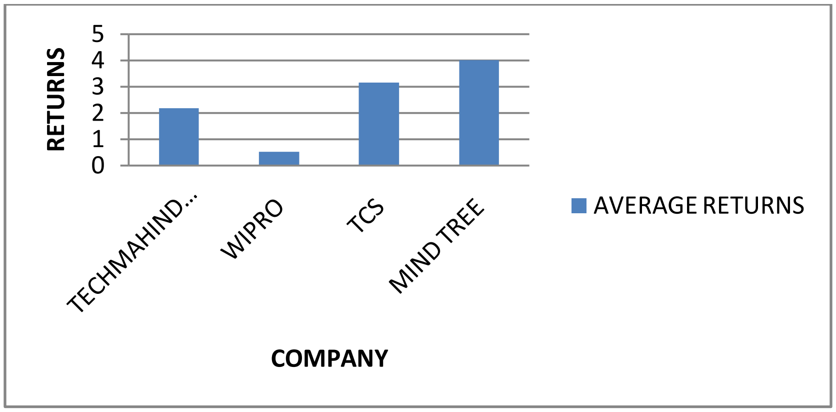
Table no. 4

Table showing overall trend of returns of IT companies for the period 2010-2014

Company	TechMahindra	WIPRO	TCS	Mind tree
Average returns (%)	2.17	0.51	3.15	4.01

Graph no. 4

Graph showing overall average returns for the period 2010-2014



As per the above overall average returns table and graph the average returns of Mindtree ltd was highest and the average returns of WIPRO Ltd was the lowest when compared to the average returns of other companies.

SUMMARY OF FINDINGS

- In case of HDFC Bank risk was more during 2011-2012 and started decreasing from then on. Returns were highest during 2011-2012 and then started decreasing. In 2011-2012 high risk was compensated by higher returns during that period so risk and return ratio was better during this period.
- But in case of ICICI bank risk factor was more during 2011-2012 but the returns were more during 2012-2013 and the risk- return ratio is better during 2012-2013 as the risk was lowest during that period and the returns was highest during 2012-2013.
- In case of Punjab National Bank, the risk was highest during 2013-2014 and the return was lowest during 2012-2013 but the risk-return ratio is better during 2011-2012 because returns during that period was more the risk during that year whereas returns were lesser than risk during other years.
- Even SBI is not providing returns to compensate the risk involved in investment because when return was low the risk was highest. In this case risk–return ratio was better during 2010-2011where the risk was lowest and returns were highest during that period.

- By considering the overall standard deviation and overall average returns of all the four companies it can be seen that the HDFC Bank has highest risk when compared to other banks but it is providing enough returns to compensate that risk. The risk return ratio is better in case of HDFC Bank. Whereas the risk was more than returns in case of other banks.
- The market prices of shares of various banks depends on the quality of assets, amount of NPA's it holds, ability to raise funds, RBI's decisions regarding CRR, SLR, state of financial markets, consumer decision to purchase financial products, changes in Government policies, changes in repo rate etc.
- In case of IT sector, Tech Mahindra was highly riskier during 2010-2011 then the risk was continuously decreasing whereas its returns was lowest during 2010-2011 was increasing from then on. Risk –Return was better during 2013-2014 as the returns were more than risk involved.
- In case of Wipro Ltd the risk was higher than the returns during 2010-2011 and 2012-2013 but the risk and return ratio was better during 2011-2012 and 2013-2014 as the company had enough returns to compensate the risk involved.
- In case of Tata Consultancy Ltd the risk was highest during 2011-2012 but the returns were less during this period but the returns were more during 2010-2011 and 2013-2014 where the risk was low but comparatively the risk return ratio was best during 2013-2014.
- In case of Mindtree ltd, risk was more during 2013-2014 and the return was also highest during this period. But the risk and return ratio was better during 2012-2013 as the returns were more than risk.
- In case of IT sector, after considering the overall standard deviation and average earnings it can be seen that the Wipro Ltd has highest risk but it is not giving enough returns to compensate such risk. But in case of Tata Consultancy Services and Mindtree ltd the risk is less and the returns is also more compared to risk level. Risk-Return ratio is better in case of TCS Ltd and Mindtree ltd.

RECOMMENDATIONS

After analyzing the risk and return of all the eight companies the following suggestions can be given to an investor who is interested to invest in the top companies of respective sectors

- The investors who are planning to invest should first consider the risk-return ratio associated with each investment and should consider the investment where the returns are enough to compensate the amount of risk.

- In case of banking sector money can be invested in HDFC Bank where the risk is highest when compared to other bank but fortunately even the returns were more than other banks. The banking company is giving sufficient returns to take up that amount of risk so it can be regarded as the best bank to invest in banking sector.
- The next best bank to invest is ICICI Bank because ICICI banks returns are comparatively higher than other two banks. In case of other two banks risk is more than returns associated with it.
- In IT Sector the first best company to invest in IT Sector is Tata Consultancy services because the company's returns are more than the risk associated with it which shows that the investor will earn more returns without bearing more risk.
- The next best company to invest in this sector is Mindtree Ltd because its risk return ratio is better than other two companies where the risk is more than returns associated with them.
- If the investor is considering to invest in more than one company in banking sector then he should invest more funds in HDFC Bank or ICICI Bank in order to earn maximum returns.
- In case if the investor wants to invest in IT sector then he should invest maximum funds in Mindtree ltd and then he can also invest more funds in Tata Consultancy Services Ltd because even its returns have an increasing trend.

CONCLUSION

The key to a successful financial plan is to keep apart a larger amount of savings and invest it intelligently, by using a longer period of time. The turnover rate in investments should exceed the inflation rate and cover taxes as well as allow you to earn an amount that compensates the risks taken. Savings accounts, money at low interest rates and market accounts do not contribute significantly to future rate accumulation. While the highest rate come from stocks, bonds and other types of investments in assets such as real estate. Nevertheless, these investments are not totally safe from risks, so one should try to understand what kind of risks are related to them before taking action. The lack of understanding as how stocks work makes the myopic point of view of investing in the stock market (buying when the tendency to increase or selling when it tends to decrease) perpetuate. To understand the characteristics of each one of the different types of investment you must have enough financial knowledge.

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