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Trend analysis of return on securities of selected banking and non-banking institutions' in India

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Abstract
This study aims to estimate the trend of share price return of selected financial institutions in India. The objectives of this study is to check whether the return from the security price is stationary or not and to find out the trend of the selected financial institutional securities in India. For the study, thirty three financial institutions were selected from banking and non-banking institutions. The study applied Augmented Dickey Fuller Unit Root Test for checking the stationary of the security price series; least square method is used to find the share prices trend. The unit root test found out that the return on share price is stationary. The trend analysis found out that the private banks are better when compared to public sector banks. In NBFC, housing and lease & hire purchase shows improved performance than any other classifications.

Keywords: Closing price, augmented dickey fuller unit root test, share return, least square
JEL Classification: G19, G20, G21.

1. Introduction

Financial institutions are the back bone of any economy and it contributes massively in organizing and distribution of resources. The elements of the financial sector are banking and non-banking institutions, instruments and markets which mobilize the resources from the surplus sector and direct the same to the different needy sectors in the economy. Through this, they are creating capital for various investment purposes and developmental activities. In India, the financial strength was not in a good position for some decades back. In order to repair this sector and thereby recreation of a new economy, government has established few regulatory institutions and brought with new reforms, which made the Indian financial sector self-sufficient in all manner. These reforms were recognized from the very beginning as an integral part of the economic reforms and the outcome of these reforms was in the form of growth and development of this sector in different manner. This includes nationalization of banks, setting up of regulatory bodies like RBI and SEBI, new economic policy of 1991 etc...
This brought a revolutionary change in the operations of financial institutions especially in banking sector. When compared to those adolescent periods of banking sector, the Indian banks are now well prepared to face all types of competitions and have the potential to adapt with the dynamic financial as well as economic environment.

The strength of a financial sector is not completed with banks alone, but with other supporting non-banking institutions like leasing, hire purchase, investment institutions term lending institutions etc… The Reserve Bank of India has proposed major reforms to boost financial inclusion, issuing draft guidelines allowing the likes of supermarkets and cellular phone companies to set up Payment Banks and permitting NBFCs and others to set up Small Banks whose licenses will be restricted to specified areas. A Payment Bank will be able to take deposits, but cannot lend. It has to invest all the funds in government securities. A Small Bank on the other hand will be allowed to lend, but with restrictions on where they can operate. Further the lending should be directed at farmers and small enterprises. [1] The budget for the year 2016-17 declared various reforms in the Indian financial sector like amendments in the SARFAESI Act 2002 to enable the sponsor of an asset reconstruction companies (ARC) to hold up to 100% stake in the ARC and permit non institutional investors to invest in securitization receipts [2]. All these show that banking and non-banking sectors has a vital role in molding an economy.

These above facts can create a spillover effect on the share price of these institutions. Thus the researcher tries to find out the trend of the financial institutions' securities return.

2. Review of Literature

1. The study of Kaur (2016) [3] to analyse and compare the financial position and performance of two gold loan NBFCs, viz., Manappuram Finance Ltd. And Muthoot Finance Ltd., concluded that both the gold loan giants are more or less same line in CAMEL analysis. But they difference in the capital adequacy and management efficiency.
2. Mondal (2015) [4] has compared the performance of banking and non banking companies in India and identified that the contribution of non-banking financial companies in India is much higher and its total assets position also showed an increasing trend at a higher rate compared to banking sector.
3. Rajvardhan (2014) [5] in his findings he discussed that the time series analysis shows an overall rising trend at the aggregate investment level across all bank groups. The analysis underlines the fact that, there is little or no relevance to the macroeconomic environment in the strategic posture of banks.
4. Nemavathy (2014) [6] found out that the investments in stock market should always be done with a long term horizon which indicates that it takes time for stocks to bring desired return.
5. Deepika Seth (2013) [7] who studied about *Portfolio Management of Asset Management Companies in India*, to understand the concept of portfolio management and the role of the asset management companies in capturing maximum share of investor's markets, to examine the growth trail of mutual funds in India and their impact on the common investor. He suggests that the effective diversification helps to reduce portfolio volatility and enhances risk adjusted returns over long term.

3. Statement of the Problem

The financial sector is entrusted with the task of creation of fund, mobilization of fund and pooling of the same as investments in different avenues. This is a complicated task as it involves risk and return. But this investment formation is essential as it makes a good platform for the capital formation. Whatsoever, every investor is fond of return from investment. They are very eager about the future return and its growth rather than current return from investment. Return from the investment is strictly attached with the type of security and the return of the sector performance. It is difficult to select such safer sector for investment as the investment environment is dynamic. But it is relevant that this dynamic nature will definitely bring a sizable return to its investors. One of such dynamic sectors is the financial sector in India.

The budget for the year 2016-17 is great evidence that holds the importance of this sector through various reforms. This includes introduction of comprehensive Code on Resolution of Financial Firms, development of new derivative products by SEBI in the Commodity derivatives market, amendments in the SARFAESI Act 2002 to enable the sponsor of an asset reconstruction companies (ARC) to hold up to 100% stake in the ARC and permit non institutional investors to invest in securitization receipts, allocation of ` 25,000 crore towards recapitalization of public sector banks, General Insurance Companies owned by the Government to be listed in the stock exchanges etc… Moreover the Indian banking sector is going for a remarkable growth with the entry of new players, like postal bank, payments banks, and small finance banks, merger of State Bank of India and its associate banks which is followed by another merger, i.e., Bharathiya Mahila Bank with State Bank of India. These reformations give a cue that the financial sector is going for a remarkable change which definitely increases the value of this sector and creates an investment opportunity for the investors. These changes will reflect in their share value and make fluctuations in their return. Thus the study tries to check whether the return on these share prices is stationary and also to find out the trend of the share price return of these institutions. So the researcher converted the research questions in to following objectives.

1. To know whether the security price of selected banking and non-banking institutions are stationary or not.
2. To analyse the trend of securities return of selected banking and non-banking institutions.

4. Methodology

The study is purely based on secondary data[8]. The financial institutions include banking and non-banking institutions on their market capitalization. Ten banks were selected in which five from public sector and five from private sector. Bank of Baroda, Bank of India, Canara Bank, State Bank of India and Punjab National Bank from the former and HDFC, ICICI, Federal Bank, Kotak Mahindra Bank and Axis Bank from the latter were selected. Remaining twenty three non-banking companies (NBFC) were selected which is classified in to five different service provider viz., General, Housing, Investments, Leasing & Hire Purchase and Term Lending institutions.

NBFC General includes Consolidated Finvest and Holdings, Emkay Global Financial Services, Geojit BNP Paribas Financial Services, IIFL Holdings and Nalwa Sons Investment. NBFC Housing represented by Can-Fin Homes, Dewan Housing Finance Corporation, GRUH Finance, Housing Development Finance Corporation and LIC Housing Finance. NBFC Investment consists of Bajaj Holdings & Investment, PNB Gilts, Reliance Capital, Tata Investment Corporation and TCI Finance. Leasing and hire purchase comprises with Bajaj Finance, Cholamandalam Investment and Finance Company, Shriram City Union Finance, Shriram Transport Finance Corporation and Sundaram Finance. Term lending consists of IDFC, IFCI and Tourism Finance Corp of India.

The study period comprising of ten financial years starting from 01-04-2006 to 31-03-2016. The study used Augmented Dickey Fuller Unit Root Test for checking the stationary of the price series; least square method is used to find the share prices trend.

5. Analysis and Discussions

The table 1 explains the unit root test of select financial institutions in India. The results fail to reject the null hypothesis of unit roots in their level form. It implies that there is no possibility of the series to be stationary around a constant mean or around deterministic linear trend. Therefore the first difference of all series is tested for stationary of the series. The results revealed that the closing price of statistics for financial institutions are significant at the 1% level indicating the rejection of null hypothesis of the existence of a unit root for each of the price series in their first difference. Thus the share price return is stationary for all the selected financial institutions over the study period.

Table 2 shows the trend analysis of selected financial institutions in India. Among the banks, private sector banks' trend shows higher value compared to trend of public sector banks. Kotak Mahindra bank has the highest growth of 1.67 per-cents in private sector and Bank of Baroda has the highest among the public sector with 1.19 per-cents. Bank of India went to negative trend of 0.15 per-cents.

When goes to NBFCs, housing finance and lease & hire purchase shows better trend than any other categories. General category shows comparatively low performance with two negative trends for Geojith and Emkay. Investment and term lending shows average performance with one negative trend each.

Table 1: Augmented Dickey-Fuller test

Banks	Closing Price of Banking Securities			
	Level		1st Difference	
	t-Statistic	Probability	t-Statistic	Probability
Bob	-1.745	0.405	-10.184	0.000
Pnb	-1.762	0.397	-9.779	0.000
Sbi	-2.374	0.151	-9.590	0.000
Boi	-2.016	0.279	-11.728	0.000
Can	-2.202	0.206	-8.857	0.000
Axis	-0.993	0.754	-9.646	0.000
Hdfcbn	0.152	0.968	-11.336	0.000
Icici	-1.960	0.303	-10.146	0.000
Kotak	0.214	0.972	-9.630	0.000
Federal	-1.581	0.489	-10.167	0.000
Con	-2.731	0.071	-11.194	0.000
Emk	-2.781	0.064	-8.223	0.000
Geo	-2.212	0.203	-10.262	0.000
Iifl	-2.305	0.171	-12.710	0.000
Nalw	-3.277	0.018	-12.444	0.000
Canfin	3.828	1.000	-5.961	0.000
Dew	-1.121	0.705	-9.697	0.000
Gruh	0.496	0.986	-10.097	0.000
Hdfcnbf	-0.970	0.762	-9.801	0.000
Lic Hf	-0.169	0.938	-10.403	0.000
Bj Hld	-0.473	0.891	-9.443	0.000
Pnb Glt	-2.984	0.039	-12.032	0.000
Rel Cap	-1.968	0.300	-9.596	0.000
Tata Inv	-2.497	0.118	-10.431	0.000
Tci Fi	-4.020	0.001	-10.823	0.000
Bj Fin	6.039	1.000	-10.351	0.000
Chol	1.148	0.997	-11.703	0.000
Shr Cu	-0.440	0.897	-9.383	0.000
Shr Tr	-1.239	0.655	-10.083	0.000
Sun	-2.345	0.159	-5.692	0.000
Idfc	-2.333	0.163	-9.790	0.000
Ifci	-2.594	0.0969	-12.060	0.000
Tour	-2.115	0.238	-8.832	0.000

Source: Compiled and Computed from Secondary Data

Table 2: Trend Analysis of Monthly Share Price Return of Selected Financial Institutions in India (%)

Banks			
Private Banks	**Trend**	**Public Banks**	**Trend**
KOTAK	1.67	BOB	1.19
HDFC	1.60	SBI	0.66
AXIS	1.43	PNB	0.38
FEDERAL	1.22	CAN	0.30
ICICI	0.66	BOI	-0.15
NBFCs			
GENERAL	Trend	HOUSING	Trend
Iifl	0.44	Gruh	3.11
Nalwa	0.14	Lichf	2.36
Consol	0.05	Canfin	2.27
Geojith	-0.12	Dewan	1.45
Emkay	-1.00	Hdfc	1.23
Nbfcs			
Investments	Trend	L & Hp	Trend
Bajaj Hld	0.63	Bajaj Fin	2.83
Pnb Gilt	0.40	Sundaram	2.55
Tci Fi	0.37	Shriram Cu	2.14
Tata In	0.22	Shriram Tr	1.73
Rel Cap	-0.90	Cholam	1.57
Nbfcs			
Term Lend	Trend		
Tourism Fin	0.96		
Idfc	0.28		
Ifci	-0.07		

Source: Compiled and Computed from Secondary Data

6. Conclusion

This study estimates the trend of share price return and also checks whether the return are stationary or not. Thirty three financial institutions were selected from banking and non-banking institutions. The study was conducted by using Augmented Dickey Fuller Unit Root Test for checking the stationary of the price series; least square method is used to find the share prices trend. The unit root test found out that the return on share price is stationary. The trend analysis found out that the private banks are better when compared to public sector banks. In NBFC, housing and lease & hire purchase shows improved performance than any other service providers.

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