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A EMPIRICAL STUDY ON RISK AND RETURNS OF HDFC AND ICICI BANKS

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Dr. B. G. Prasanthi[1], Dr. B. G. Lakshmi[2], Dr. Mini.K.Abraham[3], Maha Lakshmi A.L.[4] : A Empirical Study on Risk and Returns of HDFC and ICICI Banks--Palarch's Journal Of Archaeology Of Egypt/Egyptology 17(6). ISSN 1567-214x

ABSTRACT

Many times the investors go on acquiring assets in an adhoc and unplanned manner . The result is at high risk, low return profile that they may face. All such assets of financial nature such as gold, silver, realestate, building, insurance policies, post office certificate. NSC or NSS would constitute his portfolio & the wise investor not only plans his portfolio as per risk return profile or preferences but manages his portfolio efficiently so as to secure the highest return for the lowest risk possible at that level of investment. This is in short the portfolio management. The basic principle is that the higher the risk, the higher is the return &investor should have clear perception of elements of risk & return when he makes investments. Risk return analysis is essential for the investment & portfolio management. An investor considering investment is securities is faced with the problem of choosing from among a large no. of securities. His choice depends upon the risk return characteristics of individual securities. He would attempt to choose the most desirable securities & like to allocate his funds over group of securities. As the economic and financial environment keep changing the risk return characteristics of individual securities as well as portfolios also change.

A portfolio is a collection of assets. The assets may be physical or financial like Shares, Bonds, Debentures, Preference Shares, etc. The individual investor or a fund manager would not like to put all his money in the shares of one company, that would amount to great risk. He would therefore, follow the age old maximum that one should not put all the eggs into one basket. By doing so, he can achieve objective to maximize portfolio return and at the same time minimizing the portfolio risk by diversification.

1. NEED FOR THE STUDY

In the finance field, it is a common knowledge that money or finance is scarce and that investors try to maximize their returns. But when the return is higher, the risk is also higher. Return and risk go together and they have a tradeoff. The art of investment is to see that return is maximized with minimum risk. In the above discussion we concentrated on the word “investment” and to invest we need analyze securities. Combination of securities with different risk-return characteristics will constitute the portfolio of the investor.

2. SCOPE OF THE STUDY

The study covers all the information related to the investor risk-return relationship of securities. It is confined to five years data of ICICI and HDFC securities. It also includes the calculation of individual standard deviations which helps in allocating the funds available for investment based on risky portfolios

3. OBJECTIVES OF THE STUDY

1. To make comparative study of risk and return of ICICI& HDFC.

2. To study the systematic risk involved in the selected companies equities. 5. To offer some suggestions to the investors.

4. METHODOLOGY

The data used in this project is of secondary nature. The data is collected from secondary sources such as various websites, journals, newspapers, books, etc., the analysis used in this project has been done using selective technical tools. In Equity market, risk is analyzed and trading decisions are taken on basis of technical analysis. It is collection of share prices of selected companies for a period of five years. This is the study of Risk-Return analysis for a period of five years.

5. LIMITATIONS

The study is restricted to only two selected Banks

Very few and randomly selected scripts/companies are analyzed from BSElistings

Risk and return trade off:

6. INTRODUCTION

Investors make investment with the objective of earning some tangible benefit. This benefit in financial terminology is termed as return and is a reward for taking a specified amount of risk. Risk is defined as the possibility of the actual return being different from the expected return on an investment over the period of investment. Low risk leads to low returns. For instance, incase of government securities, while the rate of return is low, the risk of defaulting is also low. High risks lead to higher potential returns, but may also lead to higher losses. Long-term returns on stocks are much higher than the returns on Government securities, but the risk of losing money is also higher.

Rate of return on an investment cal be calculated using the following formula-

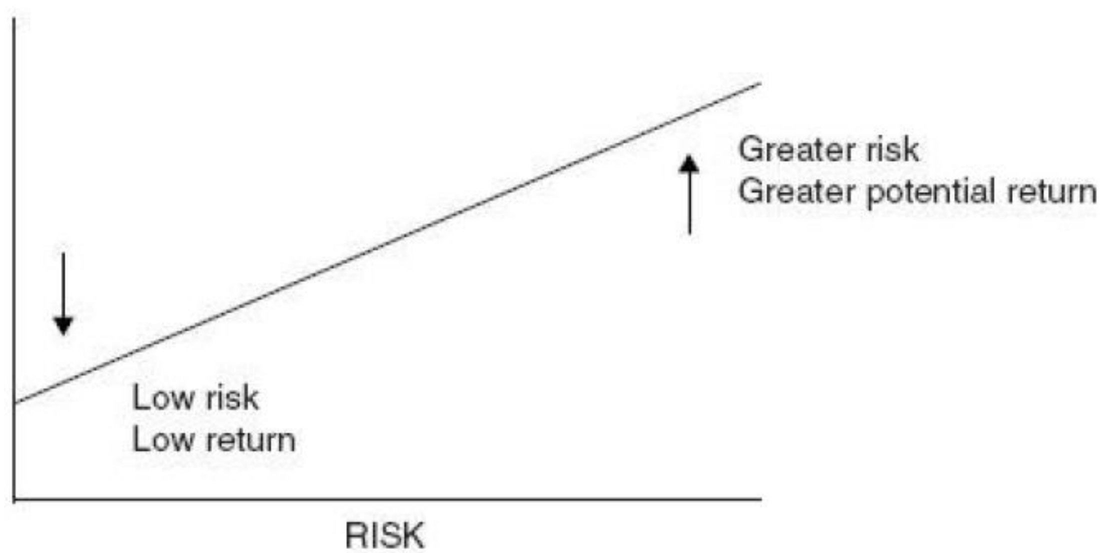
Return = (Amount received - Amount invested) / Amount invested

The risk and return trade off says that the potential rises with an increase in risk. An investor must decide a balance between the desire for the lowest possible risk and highest possible return. The study is limited to banking companies only.

6.1 Risk-Return Relationship

By now you should understand that even with the most conservative investments you face some element of risk. However, not investing your money is also risky. For example, putting your money under the mattress invites the risk of theft and the loss in purchasing power if prices of goods and services rise in the economy. When you recognize the different levels of risk for each type of investment asset, you can better manage the total risk in your investment portfolio. A direct correlation exists between risk and return and is illustrated in Figure. The greater the risk, the greater is the potential return. However, investing in securities with the greatest return and, therefore, the greatest risk can lead to financial ruin if everything does not go according to plan.

6.2 Risk and Returns



Understanding the risks pertaining to the different investments is of little consequence unless you're aware of your attitude toward risk. How much risk you can tolerate depends on many factors, such as the type of person you are, your investment objectives, the dollar amount of your total assets, the size of your portfolio, and the time horizon for your investments

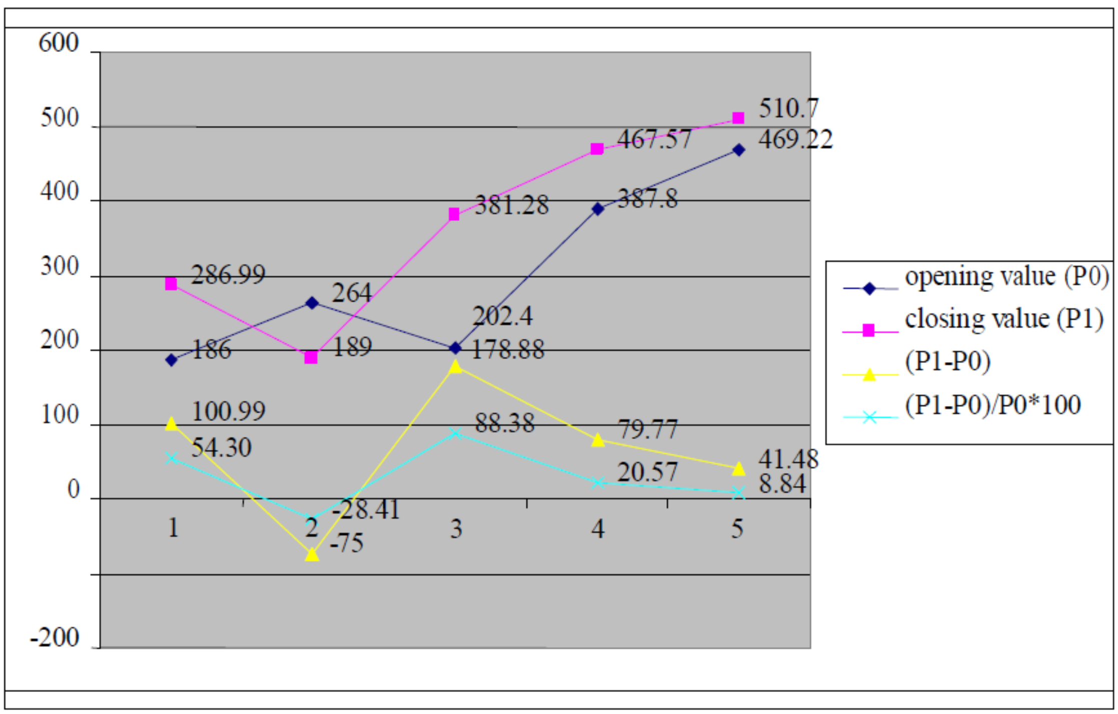
HDFC

Rate of Return = Share price in the closing – Share price at the opening
Share price in the opening

Year	Opening value	Closing value (P1)	(P1-P0)	(P1-P0)/P0*10
2012-13	186	286.99	100.99	54.30
2013-14	264	189	-75	-28.41
2014-15	202.4	381.28	178.88	88.38
2015-16	387.8	467.57	79.77	20.57
2016-17	469.22	510.7	41.48	8.84
Total return				143.68

Table 1 shows the Rate of Return in HDFC

Average return =143.68/5 **=28.74**



Graph 1 :

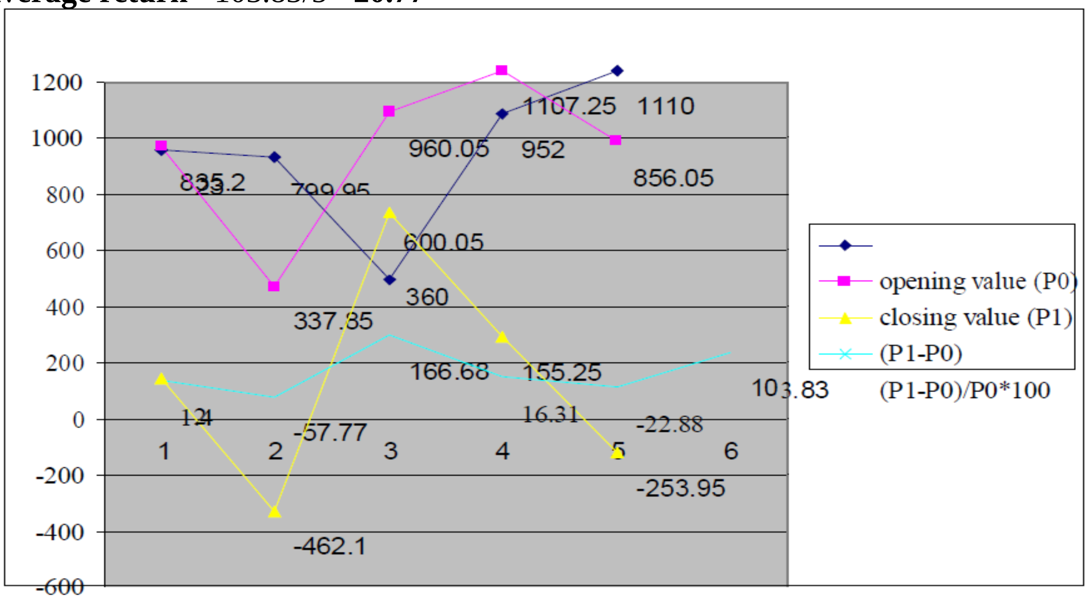
Interpretation: The average returns of HDFC are 28.74 wherein the maximum returns are in the third year i.e. 2013-14.

ICICI:
Analysis of Return

Year	Opening value (P0)	Closing value (P1)	(P1-P0)	(P1-P0)/P0*10
2012-13	823	835.2	12.2	1.48
2013-14	799.95	337.85	-462.1	-57.77
2014-15	360	960.05	600.05	166.68
2015-16	952	1107.25	155.25	16.31
2016-17	1110	856.05	-253.95	-22.88
Total return				103.83

Table 2 shows the Analysis of Return in ICICI

Average return =103.83/5= **20.77**



Graph 2:
Interpretation: The average returns of ICICI are 20.77 wherein the maximum returns are in the third year i.e. 2013-14.Investment in HDFC is more profitable to the investor as the average returns are comparatively more than the average returns of ICICI. Thus, an investor who is only concerned about the returns in long run should invest in HDFC equities.

6.3 Risk Analysis

Year	Return (R)	Avg Return (R)	Deviations(R-R)	Square deviations(R-R) d^2
2012-13	1.48	20.77	-19.286	371.95
2013-14	-57.77	20.77	-78.536	6167.90
2014-15	166.68	20.77	145.914	21290.90
2015-16	16.31	20.77	-4.456	19.86
2016-17	-22.88	20.77	-43.646	1904.97
Total	103.83			29755.58

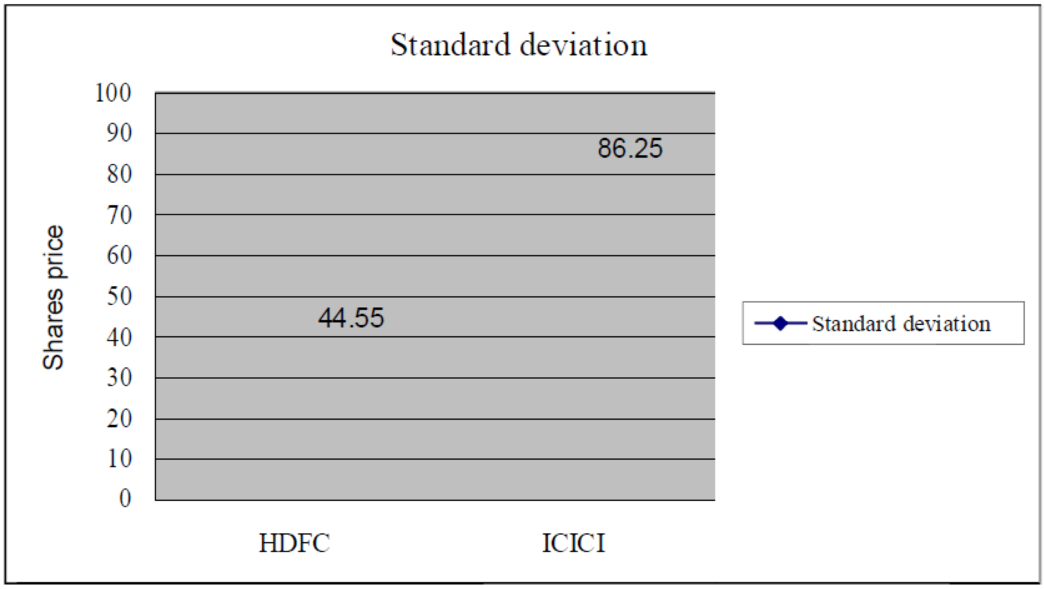
Table 3 shows the Risk analysis in both the banks.

Variance = 1/n-1 (Σd2) = 1/5-1 (29755.58)= 7438.89
Risk=Standard deviation=√variance=√7438.89**=86.25**

Interpretation: Risk associated with the investment in long run is less for the HDFC securities when compared to ICICI. Thus, when an investor is only considering risk factor,
it is advisable to invest in HDFC securities.

6.4 Average return On both companies:

S.No	COMPANY	AVERAGE RETURN	STANDARD DEVIATION
1	HDFC	28.74	44.55
2	ICICI	20.77	86.25



Interpretation: From the above table and graph it can be understood by considering both
risk and return factors that the returns are more and risk is less for HDFC equities.

Covariance = Cov. AB = (Σ[RA-RA] [RB-RB])
Where RA = Return on A
RB = Return on BRA = Expected return on A
RB = Expected return on B N = Number of equities

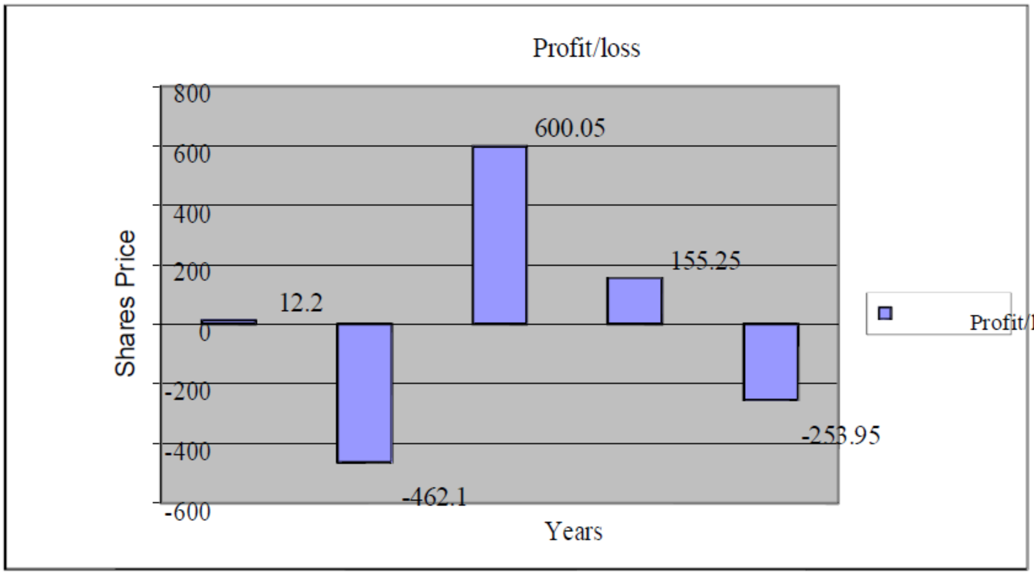
Covariance of Bank Equities
Portfolio: Cov A,B = Σ(riA-rA) (riB-rB) / n-1

HDFC & ICICI

Years	DEVIATIONS OF HDFC (RA-	DEVIATIONS OF ICICI (RB-	COMBINED DEVIATION
2012-13	25.564	-19.286	-493.027
2013-14	-57.146	-78.536	4488.018
2014-15	59.644	145.914	8702.895
2015-16	-8.166	-4.456	36.3877
2016-17	-19.896	-43.646	868.3808
		TOTAL	13602.65

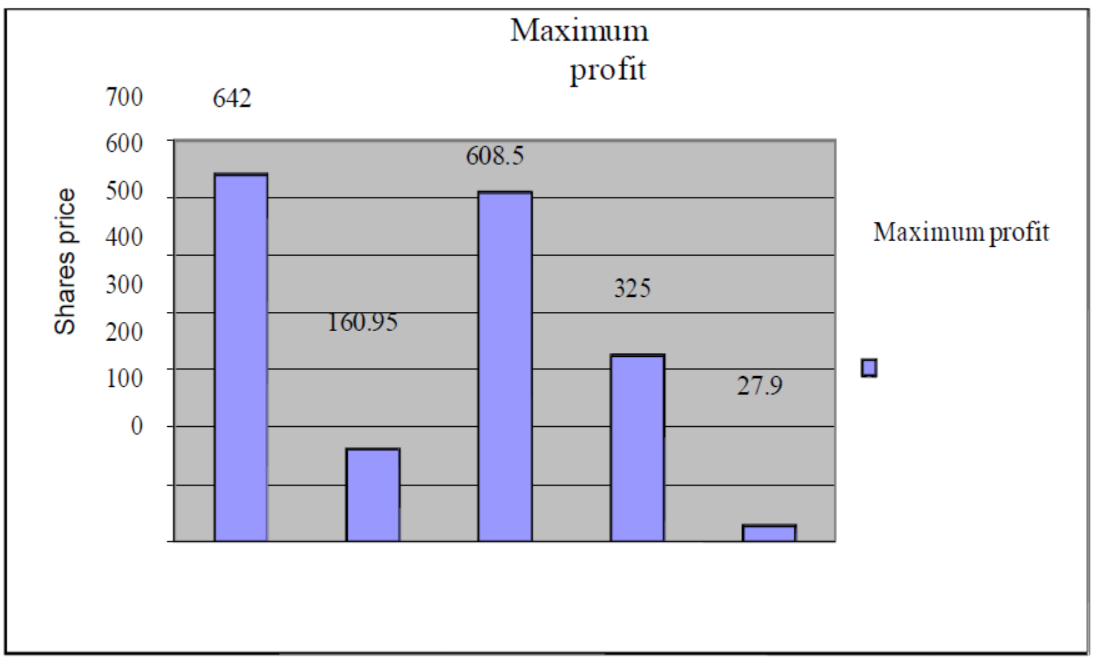
Table 4 shows the Deviations of HDFC

Covariance (COVAB) = 13602.65/5= **2720.531**



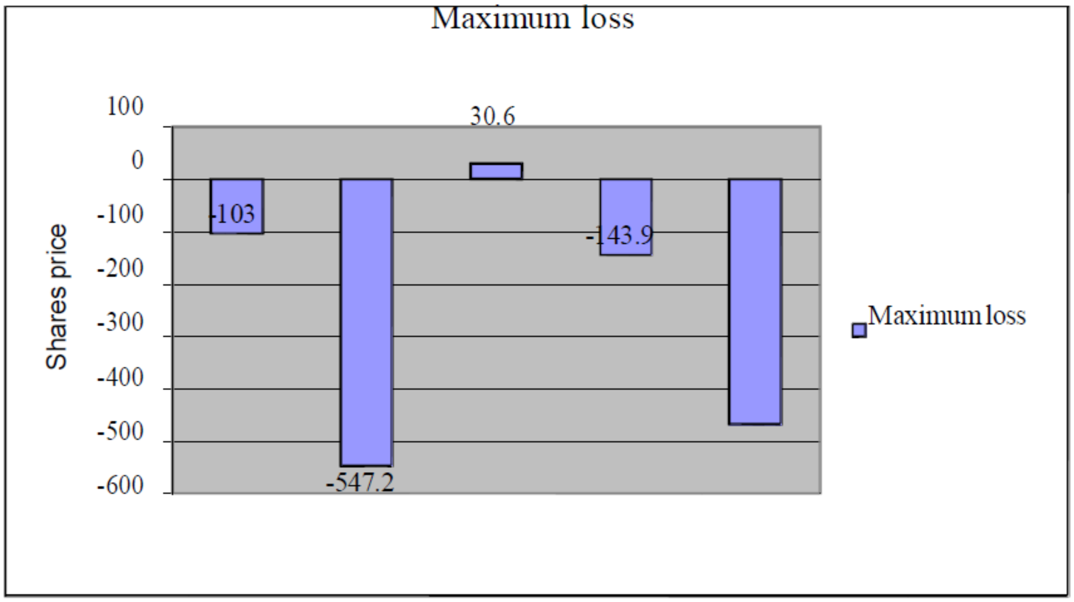
Graph 3:Interpretation: From the above table it can be clearly stated that investor can enjoy more profits in 2013-14 and bear high loss in 2012-13 as the opening and closing share values fluctuate.

Maximum Profit



Graph 4:Interpretation: From the above table it can be stated that with the fluctuations in the opening value and highest share price, 2007-08 is the most profitable year for the investor

Maximum Loss



Graph 5:Interpretation: From the above table by considering the difference between opening value and lowest share price, it can be stated that 2012-13 is most unfavorable year for the investor with huge loss.

7 FINDINGS

As far as the returns of the selected companies is concerned, HDFC is comparatively performing well in isolation where as ICICI is performing very poor. As far as the Standard deviation of the selected companies is concerned, ICICI is very high where as HDFC is giving less risk. This means that higher the risk, the higher the returns. As far as the Correlation co-efficient of ICICI and HDFC is concerned, it is 0.007 The covariance of the ICICI and HDFC is 2720.531. The systematic risk (Beta) of HDFC is 0.907. The systematic risk (Beta) of ICICI is 1.838.

8 SUGGESTIONS

The investor should consider the equities with maximum returns and minimum risk. Thus, it is advisable to invest in HDFC equities. Investors should hold equities which give high returns with less risk. As an investor, see that there is a negative correlation among the equitie. Do not relay completely on technical analysis. Investors should give importance to fundamental analysis of equities. Industrial policy also has a major role in facilitating the growth of the economy. Holding two or more securities reduce the unsystematic risk.

CONCLUSION

In the recent past the market has reached great heights as a result of expansion of business and much more of globalization, the increased percentage of Foreign Direct Investment which has a direct affect on the demand and supply of the shares of a particular company.

In this way the index of the stock market has reached to the maximum. With the boom in the market there are many investors who are willing to take more risk and so to cover the risk.

Financial sector is booming and the need for Risk-Return Analysis is growing. Also because of the very tricky stock market behaviors it has become mandatory to manage portfolio so as to reduce the risk while maximizing the returns. Taking into consideration the investor's risk- return requirements portfolio should be constructed and reviewed regularly.

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