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Research Article

IMPACT OF MARKET VOLATILITY ON STOCK RETURN OF BANKING COMPANIES IN INDIA

Prakash Yalavatti

Dept. of P. G. Studies and Research in Commerce, Vijayanagara Sri Krshinadevaraya University, Jnana Sagara Campus, Ballari (Karnataka) – 583 105

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ABSTRACT

The paper investigates relation between NSE-Nifty Bank Index and HDFC, ICICI, Axis, Kotak Mahindra and SBI Banks' stock return over the eight years calendar period (2009 - 2015) by taking monthly closing returns over the study period. Nifty Bank Index is sector-specific index of NSE and includes leading banking companies from India. The tools used for the purpose of studying this relation include time moving average method and regression model. The result of regression shows that there is very close statistically significant positive linear relationship between Nifty Bank Index and selected Indian banking companies' stock return.

INTRODUCTION

In the competitive scenario, economic development of every country in the globe depends on several factors and one among these factors is financial system of a country. Financial system of any country has four sub-systems which are Financial Market, Financial Institutions, Financial Instruments and Financial Services. These sub-systems play crucial role in the economic development of a country. The role of financial market is to provide funds for economic activities which results in economic development of a country. Financial Market consists of two sub markets which are capital market and money market. Further, capital market is sub-divided into primary capital market and secondary capital market. The secondary capital market is popularly known as Stock Market.

LITERATURE REVIEW

Pradiptarathi Panda and Malabika Deo (2014) tried to investigate the volatility spillover effect between foreign exchange and stock market during pre, post and during - crisis period in India. In this research GARCH and EGARCH models have been applied. The research study concluded that the post-crisis period has higher asymmetric and volatility spillover as compared to that of pre and during-crisis period. Amitabh Gupta (2015) tried to examine the effect of block trades on equity share prices. 125 block deals on BSE considered as sample size during the study period from 2012 to 2016. The event study methodology was used for analysis of data. Finally, study result shows that stock prices increased generally an average around 1.32% on the date of block deals. Samveg A Patel (2013) in his research made an attempt to investigate the casual relationship between stock market indices and gold prices. The stock market indices viz., Sensex, BSE 100 and S&P CNX Nifty were used for the period January 1991 to December 2011. The study concludes that there is a long run equilibrium relation between all the variables. The study also evidenced that gold price contains some significant information to forecast Nifty return. Gagan Deep Sharma and Mansi Gupta (2015) in their research study made an attempt to analyse the impact of opening call auction on the efficiency of price discovery at the National Stock Exchange (NSE). Finally study found that there was no significant difference in the returns during, before and after introduction of call auction; and introduction of the pre-open auction market resulted in an improvement in the efficiency of price discovery of various stocks. Gaurav Dadhich, Varun Chotia and Omvir Chaudhry (2015) their research study tried to examine FII Flows in Indian securities market and assessed the impact of foreign institutional investment on Indian market volatility by using ARCH and GARCH models. Study concludes that FIIs

Corresponding author:* **Prakash Yalavatti
Dept. of P. G. Studies and Research in Commerce, Vijayanagara Sri Krshinadevaraya University, Jnana Sagara Campus, Ballari (Karnataka) – 583 105

contributed significantly to the Indian stock market volatility. Pushpa Nagi, Romit Raja Srivastava and Shiva Bhasin (2014) their research study made an attempt to examine the impact of IFRS adaption on the stock market volatility of 10 European stock markets by using Autoregressive Conditional Heteroskedasticity (ARCH) and Generalized Autoregressive Conditional Heteroskedasticity (GARCH) models. The study results revealed that there was high volatility of returns in the markets during the sample period. The market is positive about adoption of IFRS. The study also stated that stock market volatility react more to good news than to bad news. Rakesh Shahani, Udit Sharma and Moulik Wadhwa (2015) tried to analyse the relation between the movement of Indian rupee and movement of BSE IT Sector index over the five year period (2009-13) by taking monthly closing returns over the study period. The study pointed out that BSE IT Index was causing movement in the rupee. On the other hand, the results could not establish a reverse relation or rupee causing movement in BSE IT index for the period of study. Prakash Yalavatti and Bheemanagouda (2017) Their research paper investigates relation between NSE-CNX IT Index and TCS, Infosys, Wipro, Tech Mahindra and HCL Companies' stock return over the eight years calendar period (2009 - 2015) by taking monthly closing returns over the study period. The result of regression shows that there is very close statistically significant positive linear relationship between CNX IT Index and selected Indian IT companies' stock return.

Need for Study

Indian stock market is characterized with several attributes. Volatility is one of the attributes of stock market. Volatility in index is a result of changes in many factors like economic condition, demand and supply of stocks, interest rate, companies' performance, govt policy etc. Volatility in Index greatly influences the return on investment in stocks. The influence of volatility in index on return from stocks is different from one company to another company. Further it is also different from time to time. Because of this investors are very much interested in knowing the influence of volatility in index on return from stock. Therefore there is a need to do study on volatility in market index. Hence a study on impact of market volatility on stock return of select banking companies in India is undertaken. The result of study provides information for both investors (Individual & Institutions) for taking better decisions.

Objectives of the study

1. To study the volatility of Nifty Bank Index
2. To examine the level of impact of volatility of Nifty Bank Index on stock return of select banking companies.

METHODOLOGY

The methodology is designed keeping in view the nature and objectives of the study.

Sample Size

The sample size of proposed research study is five top banking companies in India which are HDFC Bank, ICICI Bank, Axis Bank, Kotak Bank and SBI Bank. These IT companies have been selected based on their ranking in performance under convenience sampling method.

Data collection

This research study is based on secondary data. The secondary data has been collected from different sources like select banking companies' website, NSE website, books, journals, etc.

Statistical Tools

In this study, Simple Moving Average model and the Regression Statistical Model have been used for processing and analyzing the data collected to arrive at reliable conclusion.

Analysis and Interpretation

The analysis of the study has two sections. The first section explains level of volatility in Nifty Bank Index from 2008 to 2015 and in second section, the impact of the volatility in Nifty Bank Index on select stocks of banking companies have been analysed and interpreted.

Section – I: Volatility of Nifty Bank Index

The Nifty 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 the Indian banks. The Index has 10 stocks from the banking sector, which trade on the National Stock Exchange (NSE). Nifty Bank Index is computed using free float market capitalization method, wherein the level of the index reflects the total free float market value of all the stocks in the index relative to particular base market capitalization value. Nifty Bank Index can be used for a variety of purposes such as benchmarking fund portfolios, launching of index funds, ETFs and structured products.

Index Governance

A professional team at IISL manages Nifty Bank Index. There is a three-tier governance structure comprising the Board of Directors of IISL, the Index Policy Committee and the Index Maintenance Sub-Committee.

Portfolio Characteristics

1.	**Launch Date**	**September 15, 2003**
2.	Base Date	January 01, 2000
3.	Base value	1000
4.	Methodology	Free Float Market Capitalization
5.	No of Constituents	12
6.	Calculation Frequency	Online Daily
7.	Index Rebalancing	Semi-Annually

Top 10 Constituents of CNX IT Index by Weightage

Sl. No.	Company's Name	Weight (%)
1	HDFC Bank Ltd.	31.24
2	ICICI Bank Ltd.	18.11
3	Axis Bank Ltd.	12.04
4	Kotak Mahindra Bank Ltd.	11.26
5	State Bank of India	9.46
6	IndusInd Bank Ltd.	7.09
7	Yes Bank Ltd.	5.42
8	Bank of Baroda	1.86
9	Federal Bank Ltd.	1.43
10	Punjab National Bank	1.15

Criteria for Selection of Constituents Stocks

1. Companies must rank within top 800 based on both average daily turnover and average daily full market capitalisation for the last six months.
2. Companies should form a part of the Banking sector.
3. The company's trading frequency should be at least 90% in the last six months.
4. The company should have a listing history of 6 months. A company which comes out with an IPO will be eligible for inclusion in the index, if it fulfills the normal eligibility criteria for the index for a 3 month period instead of a 6 month period.
5. Companies that are allowed to trade in F&O segment are only eligible to be constituent of the index.
6. Final selection of 12 companies shall be done based on the free-float market capitalization of the companies.

The diagram (figure-1) given below depicts the Nifty Bank Index values and its volatility during the period of 2008 to 2015.

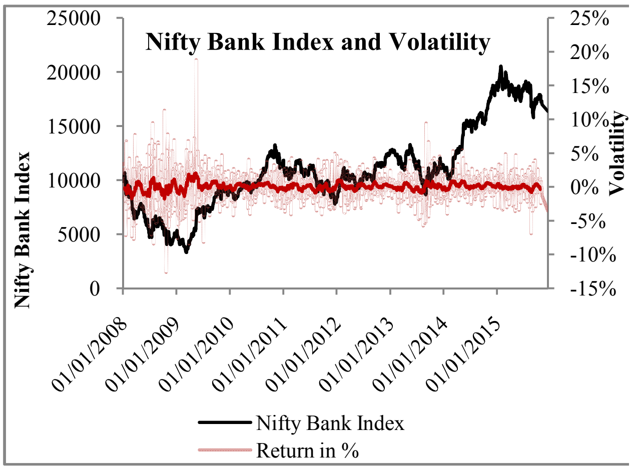


Figure-1

by 822.85 points and index return was 4.74%. In May 9, 2014 and September 19, 2013 Nifty Bank Index raised by 700.80 and 669.60 points with index return of 6.71% and 4% respectively. Subsequently Nifty Bank Index also raised by 637.60, 631.85 and 618.40 with index return of 3.20%, 3.40% and 6.77% on January 27, 2015, January 15, 2015 and January 25, 2008. The positive corporate actions taken by the companies in banking industry, increase in EPS, D/P Ratio etc., were the reasons for big positive move in Nifty Bank Index in 2009. 2013 was a time of general election in India. The political parties started canvas and made promises on implementation of many new schemes and programmes that has certainly been a positive impact on index. After general election, NDA Government came to power and Sri Narendra Modi being prime minister of new government announced many new schemes like Make in India, Smart cities, Digital India, Jan dhan Yojana, Investors Meet, Start up, etc., which also led to increase in Nifty Bank Index timely.

During the study period there were also biggest falls in Nifty Bank Index. The biggest fall was recorded with 1245.40 points with 6.90% loss on August 24, 2015. On January 21, 2008 and May 6, 2015 the Nifty Bank Index decreased by 700.95 and 671.90 points with loss of 7.20% and 3.64% respectively and these were the second and the third biggest falls in Nifty Bank Index during the period of 8 years. The Index decreased on February 2, 2015 by 662.70 points. Similarly, there was decrease in Nifty Bank Index by 648.05 points with a loss of 3.40%. There were periodic deep falls in Nifty Bank Index by 640.90, 639.70, 622.35, 619.60 and 616.25 points with a loss of 7.38%, 3.44%, 12.62%, 8.19% and 3.59% on March 3, 2008, June 2, 2015, October 24, 2008, July 6, 2009 and September 1, 2015 respectively. Among the top 10 biggest falls in Nifty Bank Index, six falls were recorded in 2015. The unfavourable changes in national and international policies might be reasons for big falls in Nifty Bank Index during the study period.

Table 1 Ten Biggest rises and falls in Nifty Bank Index during 2008-2015

10 Biggest Rises in Nifty Bank Index during 2008 - 2015				10 Biggest Falls in Nifty Bank Index during 2008 – 2015			
Date	Index points	Changes in Index points	Index Return in %	Date	Index points	Changes in Index points	Index Return in %
18-05-2009	6766.55	1071.50	18.81%	24-08-2015	16811.80	-1245.40	-6.90%
02-03-2015	20008.10	933.55	4.89%	21-01-2008	9038.95	-700.95	-7.20%
05-09-2013	9682.40	836.65	9.46%	06-05-2015	17799.55	-671.90	-3.64%
11-05-2015	18199.75	822.85	4.74%	02-02-2015	19865.90	-662.70	-3.23%
09-05-2014	13750.50	713.10	5.47%	09-02-2015	18403.85	-648.05	-3.40%
19-09-2013	11148.65	700.80	6.71%	03-03-2008	8047.45	-640.90	-7.38%
18-09-2015	17409.15	669.60	4.00%	02-06-2015	17977.30	-639.70	-3.44%
27-01-2015	20555.25	637.60	3.20%	24-10-2008	4310.05	-622.35	-12.62%
15-01-2015	19235.65	631.85	3.40%	06-07-2009	6946.45	-619.60	-8.19%
25-01-2008	9752.25	618.40	6.77%	01-09-2015	16530.30	-616.25	-3.59%

Source: Compiled from the data obtained from NSE Website

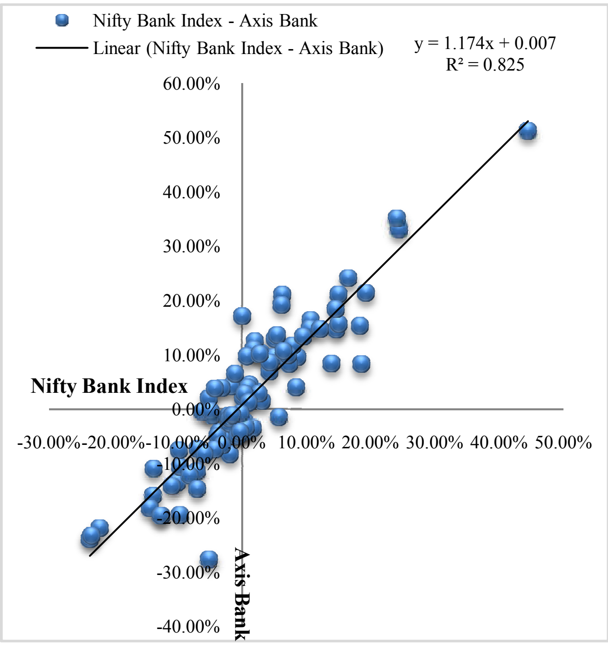
From the above figure-1 and table-1, it has been observed that there were movements in Nifty Bank Index from 2008 to 2015. The highest rise has been recorded in 2009. On May, 18 2009 Nifty Bank Index raised by 1071.50 points with index return of 18.81%, which was the biggest rise during the period of 8 years from 2008 to 2015. The second biggest rise in Nifty Bank Index was recorded on March 2, 2015 with 933.55 points. On September 5, 2013, index increased by 836.65 points which was the third biggest rise in Nifty Bank Index with 9.46% index return. Similarly on November 5, 2015 index was raised

Section-II: The Volatility in Nifty Bank Index and Its Impact on Select Banking Companies in India

Nifty Bank Index and Axis Bank' Stock Return

Axis Bank is one of the first new generation private sector banks to have begun operations in 1994. The bank has 3,304 domestic branches (including extension counters) and 14,163 ATMs across the country as on 31st March 2017. With a balance sheet size of Rs. 6,01,468 crores as on 31st March 2017, Axis Bank has achieved consistent growth and with a 5 year CAGR (2011-12 to 2016-17) of 16% in Total Assets, 13% in Total Deposits, 17% in Total Advances. The impact of volatility in Nifty Bank Index on stock return of Axis bank has been analysed below:

Regression Statistics						
Multiple R	0.908302992					
R Square	0.825014324					
Adjusted R Square	0.823112306					
Standard Error	0.056468232					
Observations	94					
ANOVA						
	df	*SS*	*MS*	*F*	*Significance F*	
Regression	1	1.383105155	1.383105155	433.7573212	1.37333E-36	
Residual	92	0.293356834	0.003188661			
Total	93	1.676461989				
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	0.00761183	0.005861229	1.298674705	0.197301319	-0.004029077	0.019252738
-0.035095365	1.173970427	0.056368146	20.82684136	1.37333E-36	1.062018427	1.285922428



The above table shows that multiple correlation coefficient is 0.9083 which is close to 1. It means that there is a high degree of positive relationship between Nifty Bank Index return (X variable) and Axis bank stock return (Y variable).

The coefficient of determination, R^2, is 0.8250. It indicates that 82.50% variation in Axis bank stock return (Y variable) is due to variation in Nifty Bank Index return (X variable). The rest of the variation in Axis Bank's stock return is on account of variation in other variables other than Nifty Bank Index return volatility. The p value indicates that there is a statistically significant positive linear relationship between Nifty Bank Index return and Axis bank stock return as $p < 0.01$.

Nifty Bank Index and HDFC Bank stock return

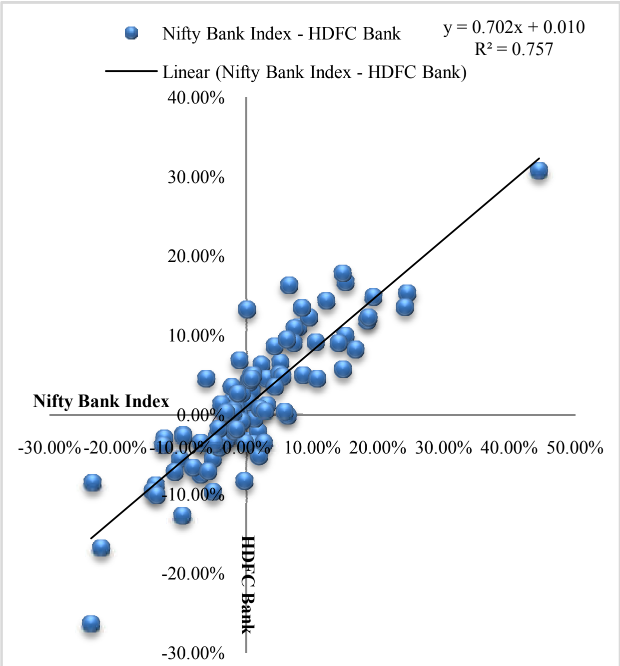
The Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of RBI's liberalisation of the Indian Banking Industry in 1994. The bank was incorporated in August 1994. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995.

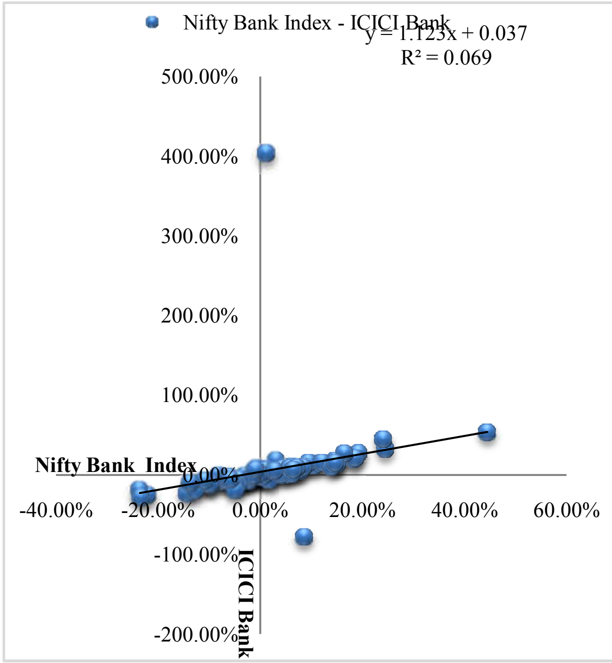
The impact of volatility in Nifty Bank Index on stock return of HDFC Bank has been analysed below:

Regression Statistics						
Multiple R	0.870417516					
R Square	0.757626653					
Adjusted R Square	0.75499216					
Standard Error	0.041549068					
Observations	94					
ANOVA						
	df	*SS*	*MS*	*F*	*Significance F*	
Regression	1	0.496456025	0.496456025	287.5796903	4.61292E-30	
Residual	92	0.158821905	0.001726325			
Total	93	0.65527793				
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	0.010184461	0.004312666	2.361523204	0.02030942	0.001619134	0.018749787
-0.035095365	0.703347503	0.041475425	16.95817473	4.61292E-30	0.620973731	0.785721275

The above table shows that multiple correlation coefficient is 0.8704. This indicates that there is a high positive relation between Nifty Bank Index return (X variable) and HDFC Bank stock return (Y variable).

The coefficient of determination, R^2, is 0.7576. It states that there is 75.76% variation in HDFC Bank stock return (Y variable) due to variation in Nifty Bank Index return (X variable). The influence of Nifty Bank Index return on stock return of HDFC Bank is more and other factors influence is less. As p value is concerned there is a significant positive linear relationship between Nifty Bank Index return and HDFC Bank stock return as calculated P value is less than 0.01.





Nifty Bank Index and ICICI Bank Company's Stock Return

ICICI Bank was originally promoted in 1994 by ICICI Limited, an Indian financial institution, and was its wholly-owned subsidiary. ICICI's shareholding in ICICI Bank was reduced to 46% through a public offering of shares in India in fiscal 1998, an equity offering in the form of ADRs listed on the NYSE in fiscal 2000, ICICI Bank's acquisition of Bank of Madura Limited in an all-stock amalgamation in fiscal 2001, and secondary market sales by ICICI to institutional investors in fiscal 2001 and fiscal 2002. ICICI was formed in 1955 at the initiative of the World Bank, the Government of India and representatives of Indian industry. The principal objective was to create a development financial institution for providing medium-term and long-term project financing to Indian businesses.

The impact of volatility in Nifty Bank Index on stock return of ICICI Bank has been analysed below:

Regression Statistics						
Multiple R	0.262950663					
R Square	0.069143051					
Adjusted R Square	0.059025041					
Standard Error	0.429673228					
Observations	94					
ANOVA						
	df	*SS*	*MS*	*F*	*Significance F*	
Regression	1	1.261624207	1.261624207	6.833660892	0.010451602	
Residual	92	16.98495564	0.184619083			
Total	93	18.24657984				
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	0.037852428	0.044598764	0.848732666	0.398233048	-0.050724565	0.126429421
-0.035095365	1.121229624	0.428911659	2.614127176	0.010451602	0.269374066	1.973085182

From the above table it is clear that multiple correlation coefficient is 0.2629. It indicates that there is a positive relationship between Nifty Bank Index return (X variable) and ICICI Bank stock return (Y variable) and this relation is less.

The R^2 is 0.0691. It means that there is a variation in ICICI Bank stock return (Y variable) by 6.91% because of the variation in Nifty Bank Index return (X variable). From this, it is also clear that impact of Variation in Nifty Bank Index return is much less on ICICI Bank's stock return. The influence of the other factors other than variation in Nifty Bank Index return is more that is nearly more than 93% on stock return of ICICI Bank.

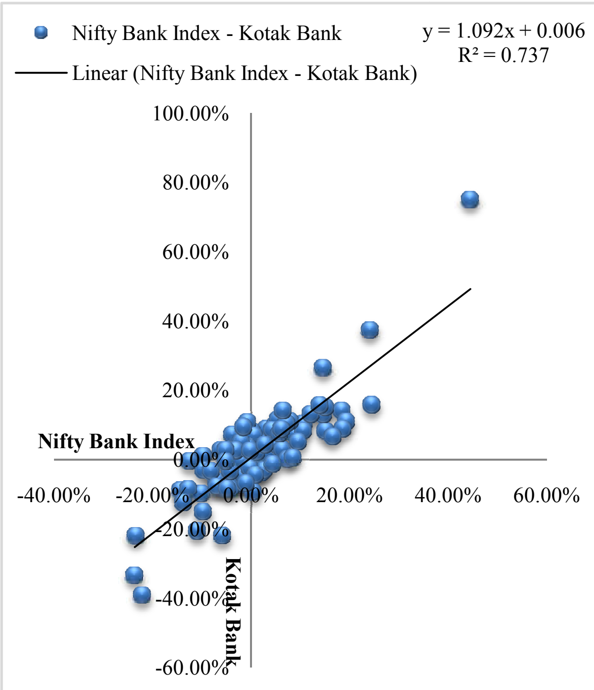
The p value (0.010451602) is less than 0.05 i.e., $p < 0.05$. Hence there is a significant positive linear relationship between Nifty Bank Index return (X variable) and ICICI Bank's stock return.

Nifty Bank Index and Kotak Bank Stock Return

The Kotak bank was incorporated on 21st November 1985. The bank deals in Bill discounting, leasing and hire purchase, corporate finance, management of fixed deposit mobilization, financing against securities, money market operations, consumer finance, investment banking and clients' money management.

The impact of volatility in Nifty Bank Index on stock return of Kotak Bank has been analysed below:

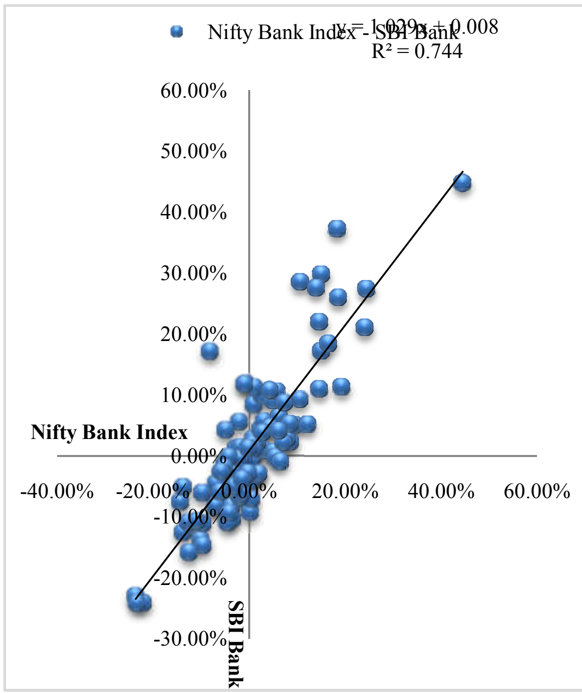
Regression Statistics						
Multiple R	0.858717123					
R Square	0.737395098					
Adjusted R Square	0.734540697					
Standard Error	0.068079932					
Observations	94					
ANOVA						
	df	*SS*	*MS*	*F*	*Significance F*	
Regression	1	1.197356479	1.197356479	258.3361865	1.86774E-28	
Residual	92	0.426408695	0.004634877			
Total	93	1.623765173				
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	0.006254361	0.007066488	0.885073486	0.378424404	-0.007780294	0.020289017
-0.035095365	1.092298384	0.067959264	16.07284002	1.86774E-28	0.957325422	1.227271346



The P value (1.86774E-28) is less than 0.01 i.e., P < 0.01. Hence there is also very significant positive linear relationship between Nifty Bank Index return (X variable) and stock return of Kotak Bank.

Nifty Bank Index and SBI Bank Stock Return

State Bank of India (SBI), with a 200 year history, is the largest commercial bank in India in terms of assets, deposits, branches and employees.



From the above table it is clear that multiple correlation coefficient is 0.8587. It indicates that there is a positive relationship between Nifty Bank Index return (X variable) and Kotak Bank stock return (Y variable).

The R^2 is 0.7374. It means that there is a variation in Kotak Bank stock return (Y variable) by 73.74% because of the variation in Nifty Bank Index return (X variable). From this, it is also clear that impact of Variation in Nifty Bank Index return is high on Kotak Bank's stock return.

Regression Statistics						
Multiple R	0.863670159					
R Square	0.745926143					
Adjusted R Square	0.743164471					
Standard Error	0.062509689					
Observations	94					
ANOVA						
	Df	*SS*	*MS*	*F*	*Significance F*	
Regression	1	1.05540306	1.05540306	270.0994346	4.06553E-29	
Residual	92	0.35948643	0.003907461			
Total	93	1.41488949				
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	0.009386561	0.006488314	1.446687228	0.151383143	-0.00349979	0.022272913
-0.035095365	1.025507242	0.062398894	16.43470215	4.06553E-29	0.901577654	1.149436829

Findings – summary

Axis Bank	Multiple R	0.908302992	Highly positively correlated with Nifty Bank Index volatility.
	R Square	0.825014324	Stock return volatility more depends on Nifty Bank Index volatility and less depends on other factors
	P value	1.37333E-36	P value < 0.01, it shows highly positive linear relationship between stock return and Nifty Bank Index return.
HDFC Bank	Multiple R	0.870417516	Highly positively correlated with Nifty Bank Index
	R Square	0.757626653	Stock return volatility more depends on Nifty Bank Index volatility and less depends on other factors
	P value	4.61292E-30	P value < 0.01, it shows highly positive linear relationship between stock return and Nifty Bank Index return.
ICICI Bank	Multiple R	0.262950663	Less positively correlated with Nifty Bank Index volatility
	R Square	0.069143051	Stock return volatility less depends on Nifty Bank Index volatility and more depends on other factors
	P value	0.010451602	P value < 0.05, it shows positive linear relationship between stock return and Nifty Bank Index return.
Kotak Bank	Multiple R	0.858717123	Highly positively correlated with Nifty Bank Index volatility
	R Square	0.737395098	Stock return volatility more depends on Nifty Bank Index volatility and less depends on other factors
	P value	1.86774E-28	P value < 0.01, it shows highly positive linear relationship between stock return and Nifty Bank Index return.
SBI Bank	Multiple R	0.863670159	Highly positively correlated with Nifty Bank Index volatility
	R Square	0.745926143	The volatility in stock return more depends on Nifty Bank Index volatility and less on other factors
	P value	4.06553-29	P value < 0.01, it shows highly positive linear relationship between stock return and Bank Nifty Index return.

The Government of India is the single largest shareholder of Fortune 500 entity with more than 50% ownership. SBI is ranked 59th in the list of 'Top 1000 World Banks 2015' by The Banker magazine. SBI group consists of SBI and five associate banks.

The group has an extensive network, with over 22000 plus branches in India and over 190 offices in 38 other countries across the world. As of 31st March 2016, the group had assets worth over USD 500 billion and capital and reserves in excess of USD 25 billion. The SBI has over1/5th market share of the Indian banking sector.

The impact of volatility in Nifty Bank Index on stock return of SBI Bank has been analysed below:

The above table and diagram shows that multiple correlation coefficient between Nifty Bank Index return and SBI Bank stock return is 0.8636. It means that there is a positive relationship between Nifty Bank Index return (X variable) and SBI Bank stock return (Y variable) and level of positive relation is comparatively very high.

The coefficient determination (R^2) is 0.7459. It shows that there is a variation in SBI Bank stock return (Y variable) by nearly 75%, because of the variation in Nifty Bank Index return (X variable). The influence of the variation in Nifty Bank Index return is much on stock return of SBI Bank. The rest of the 25 of variation in SBI Bank stock return is happening because of the variation in other factors other than Nifty Bank Index return.s

The P value (4.06553E-29) is less than 0.01 i.e., $P < 0.01$. This means there is also very high significant positive linear relationship between Bank Nifty Index return (X variable) and SBI Bank stock return.

Findings and Suggestions

Findings

The major findings of the research study are given below;

Suggestions

1. The investors who have made investment in stocks of Axis Bank, HDFC Bank, Kotak and SBI have to be more careful and observe the volatility in Nifty Bank index as their return on stocks is more depending on Nifty Bank Index volatility.

These investors need not worry much about changes in Nifty Bank Index because of less influence of it on stock return of these two companies.

CONCLUSION

The study concludes that there is a strong relationship between volatility and stock return of IT companies. The ups and downs in Nifty Bank Index market puts banking companies' investors either in profits or loss. When volatility increases, risk increases and returns decrease. To avoid this risk of volatility, banking companies stocks investors, especially investors of Axis bank, HDFC Bank, Kotak Bank and SBI banking companies have to be able to forecast the future trend in the sector index and its impact on stock return to achieve their investment objectives.

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