

**THE IMPACT LEVEL OF SELECTED FACTORS TO DETERMINE SHARE PRICE OF
COMMERCIAL BANKS IN INDIA**

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Abstract: The aim of this paper is to study determinants of share price of commercial banks for the selected banking companies with reference to selected factors of study over a period 2017-18 to 2021-22. A uniqueness of this paper is to find the level of impact of selected factors on share price of selected commercial banks in India. Mean, Standard deviation, Coefficient of Variation, Correlation and Coefficient of determinants and linear multiple regression analysis is used for statistical analysis whether the selected independent variables how much have influence on share prices. This paper examines the impact of independent variables such as Earning Per Share (EPS), Net Interest Margin (NIM), Price Earnings Ratio (P/E) and Price-to-Book Value ratio (P/B) on Market Price per Share (MPS) as a dependent variable.

Keywords: Earnings Per Share, Net Interest Margin, Price Earnings Ratio, Price-to-Book Value ratio, Market Price per Share.

Introduction

Capital refers to financial assets or the financial value of assets, such as funds held in different deposit accounts. Capital is the heart of every business organizations. Every business enterprise requires short term, mid-term and long-term capital fund for the smooth operations and expansion of organizational activities. Long term funds play highly significant role for future growth and prosperity of the organizations even including banking companies. The business and industrial world are largely depending upon the utilization of its resources and mobilization of capital. The mobilization of the capital is an important tool to utilize the resources and hence the financial institutions such as banking and non-banking financial companies' shares play significant role in overall economy directly and indirectly. Capital markets are the markets in which companies and governments raise capital through securities where shares and bonds are traded.

Capital markets include primary markets and secondary markets. In primary market where new equity stock and bonds issues are sold to investors and in secondary market where existing shares are traded. Stock market is a medium through which banking sector mobilizes funds to finance productive projects and provides the best opportunities to the investors. Liquid stock market makes the investment less risky and more attractive to savers to invest in the long-term projects because they can sell securities quickly and easily. The capital market in India have a golden history of approximately 200 years or more than two centuries. It dates back to the eighteenth century when East India Company securities were traded in the country with the establishment of the first stock exchange in India, the Bombay Stock Exchange (BSE), in 1875. Over time, other prominent exchanges emerged, including the National Stock Exchange (NSE), which was founded in 1992. Normally the stock market index is taken as economic barometer of a country. Growth in stock index is normally considered as a good sign since it implies the investors are confident about the future prospect of the economy. The rise and fall in index occurs due to various micro and macro-economic variables which influence cash flows of banking firms will have impact on share price in the stock market. Generally, the price of share is determined by the law of demand and supply of the market. But there are other qualitative and quantitative forces that determine the price of the stock. The selected determinants for the study of share price of Commercial Banks considered are Earnings Per Share (EPS), Price-to-Book of the shares (P/B Ratio), Net Interest Margin (NIM) and Profit-Earnings Ratio (P/E).

Conceptual framework:

Share Price

A number of saleable equity shares of a company, is the share price of a single share. The stock price is the highest amount someone is willing to pay for the stock, or the lowest amount that it can be bought for, in layman's terms.

Share Price Volatility

Over a particular period, volatility is the rate at which the price of a stock increases or decreases. To estimate the fluctuations that may happen in the future, higher stock price volatility often means higher risk and helps an investor.

Difference between Share Price and Share Price Volatility

A reflection of the degree to which price moves, the simplest definition of volatility is a reflection of the degree to which price moves. A stock with a price that fluctuates wildly hits new highs and lows or moves erratically—is considered highly volatile. A stock that maintains a relatively stable price has low volatility.

Market price per share

Market price per share tells you the latest price for which a single share of a company's stock was sold. Forces of supply and demand push market prices up and down throughout the trading day. Market price per share is used to determine a company's market capitalization.

Share Price tells you what?

Stock's value is indicated by its price, most people believe in that. It is only true to a certain extent because there is a big difference between the two. The price of the stock only tells you a company's market value or its current value. So, the price represents how many the stock trades at the price agreed upon by a buyer and a seller. The stock's price will climb, if there are more buyers than sellers. The price will drop, if there are more sellers than buyers. The intrinsic value is a company's actual worth is in dollars, on the other hand. Including the insights of fundamental analysis, it includes both tangible and intangible factors. To determine its value, an investor can investigate a company. In the company's public financial statements, all of the information needed is online. From many sources, the online brokerages offer analyses and summaries of those results.

Financial Health

By the financial health of a company, stock price is affected. A well performed stock typically has strong financial statements and very solid earnings. To see whether a company is financially healthy, investors use this financial data along with the company's stock price. The stock price will move based on whether investors are happy or worried about its financial future. The Company, Industry and Economy News, any good news about a company will affect its stock price. It may be an announcement of a new product, positive earnings report, or a plan to expand into a new area. Similarly, related economic data, such as a monthly jobs report with a positive spin may also help increase company share prices. It tends to have a downward effect on the share price, if the news is negative.

Table 1: Sample size

| | | |
|----------------------------|---|---|
| Name of the Sector | Total number of listed Commercial Banks | Number of Banks taken for study as sample |
| Banking (Commercial Banks) | 37 | 06 |

Table 2: Selected factors of Independent variables

| Variable | Short name | Type | Unit | Calculation |
|--------------------------|------------|-------------|-------|---|
| Price Earnings Ratio | P/E Ratio | Independent | Ratio | MPS / EPS |
| Price to Book value Raio | P/B Ratio | Independent | Ratio | Equity / Per share |
| Net Interest Margin | NIM | Independent | Ratio | Net Interest Income / Net Interest Expenses |
| Market Price per Share | MPS | Dependent | Ratio | Capitalization / Number of Shares |

Table 3: Price-to-Earnings Ratio

| P/E RATIO | BOB | CANARA | UCO BANK | INDIAN BANK | ICICI BANK | AXIS BANK |
|--------------|----------------|----------------|----------------|----------------|----------------|----------------|
| 2017-18 | 0.00 | 0.00 | 0.00 | 10.97 | 23.20 | 286.82 |
| 2018-19 | 30.97 | 36.54 | -1.68 | 35.19 | 60.44 | 39.61 |
| 2019-20 | 26.67 | 0.00 | -2.85 | 3.05 | 21.96 | 57.75 |
| 2020-21 | 24.78 | 8.67 | 74.82 | 4.17 | 21.87 | 29.70 |
| 2021-22 | 7.35 | 6.74 | 15.86 | 4.62 | 20.21 | 16.54 |
| TOTAL | 89.77 | 51.95 | 86.15 | 58.00 | 147.68 | 430.42 |
| MEAN | 17.95 | 10.39 | 17.23 | 11.60 | 29.54 | 86.08 |
| S.D. | 13.4793 | 15.1328 | 33.0762 | 13.5454 | 17.3085 | 13.2187 |
| C.V. | 0.7508 | 1.4565 | 1.9197 | 1.2477 | 0.5859 | 1.3135 |

Analysis

The average P/E Ratio of Canara Bank is 10.39 which is lowest among all the sampled banks, it indicates that the low risk associated with the Banks equity stock investment. Bank of Baroda, UCO Bank and Indian Bank also seems to be under valued with a P/E ratio of less than 20 times. The P/E Ratio of Axis Bank is highest among all, which indicates the high risk involved to the investor. ICICI Bank has 29.54 indicates the market price of the share is still higher than other banks. The Coefficient Variance of UCO Bank is highest 1.9197 which indicates the highest fluctuation of the banks earning to price ratio, where as Coefficient Variance of ICICI Bank is lowest among all, it suggests there is less flucturation of the bank in terms of earning multiplier.

Graph: Price-to-Earnings Ratio

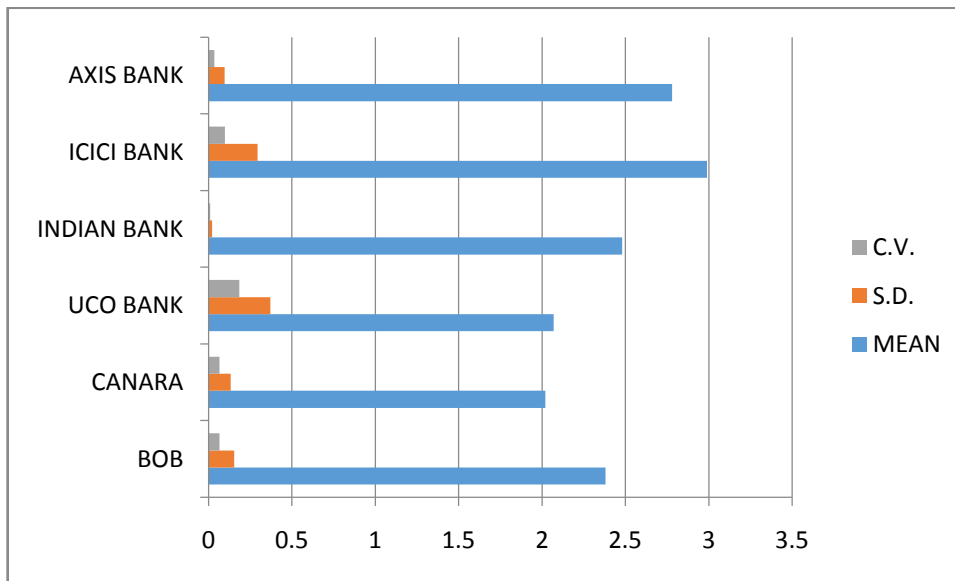


Table 4: Price-to-Book value Ratio:

| P/B Ratio | BOB | CANARA | UCO BANK | INDIAN BANK | ICICI BANK | AXIS BANK |
|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| 2017-18 | 0.87 | 0.67 | 0.67 | 0.91 | 1.75 | 2.06 |
| 2018-19 | 0.74 | 0.74 | 0.89 | 0.82 | 2.44 | 2.99 |
| 2019-20 | 0.34 | 0.28 | 0.53 | 0.14 | 1.85 | 1.26 |
| 2020-21 | 0.50 | 0.50 | 0.63 | 0.52 | 2.78 | 2.10 |
| 2021-22 | 0.67 | 0.72 | 0.68 | 0.51 | 3.03 | 2.03 |
| Total | 3.12 | 2.91 | 3.4 | 2.9 | 11.85 | 10.44 |
| Mean | 0.614 | 0.582 | 0.68 | 0.58 | 2.37 | 2.09 |
| S.D. | 0.2074 | 0.1934 | 0.1315 | 0.3036 | 0.5620 | 0.6131 |
| C.V. | 0.3378 | 0.3324 | 0.1934 | 0.5234 | 0.2371 | 0.2933 |

Analysis

The average book value of ICICI Bank is 2.37 which is highest among the sampled banks. In fiscal year 2019-20 BVPS of all the sample banks were described. The average book value per share of Axis Bank is 2.09 with a standard deviation of 0.6131 and coefficient of variation is 0.2933 which show the consistent performance of the Bank. The mean BVPS of UCO Bank is 0.68 with a standard deviation 0.1315 and coefficient of variation of 0.1934 indicates the less volatility in BVPS during five fiscal years.

The average of BVPS of Canara Bank is 0.582 with a standard deviation 0.1934 and coefficient of variation 0.3324 indicates the stability of Banks BVPS. The average BVPS of ICICI Bank is 2.37 with a standard deviation 0.5620 and coefficient of variation is 0.2371 which indicates high fluctuation of the Bank’s Book Value Per Share (BVPS). The average book value per share of BOB is 2.38 with a Standard Deviation 0.1536 and CV 0.0645 indicates the much consistent performance. The average book value per share of 2.48 with a Standard Deviation 0.0217 and CV 0.0087 indicates stability of the Banks BVPS.

Graph: Price-to-Book-Value Ratio

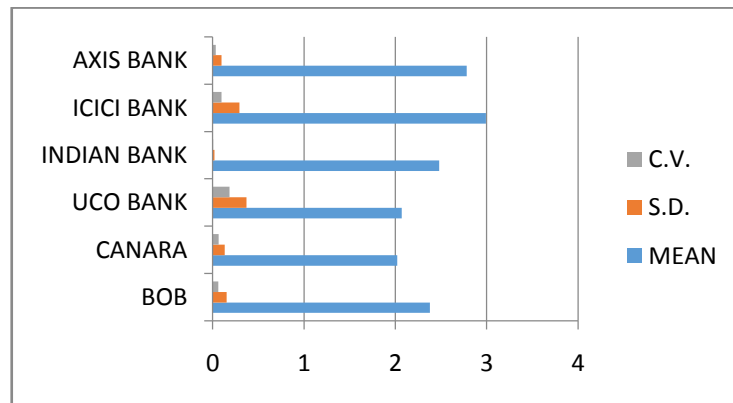


Table 5: Net Interest Margin

| NIM | BOB | CANARA | UCO Bank | INDIAN BANK | ICICI BANK | AXIS BANK |
|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| 2017-18 | 2.15 | 1.97 | 1.44 | 2.47 | 2.61 | 2.69 |
| 2018-19 | 2.36 | 2.08 | 1.87 | 2.50 | 2.80 | 2.71 |
| 2019-20 | 2.37 | 1.81 | 2.15 | 2.45 | 3.02 | 2.75 |
| 2020-21 | 2.49 | 2.08 | 2.16 | 2.50 | 3.16 | 2.93 |
| 2021-22 | 2.55 | 2.15 | 2.41 | 2.49 | 3.36 | 2.81 |
| TOTAL | 11.92 | 10.09 | 10.03 | 12.41 | 14.95 | 13.89 |
| MEAN | 2.38 | 2.02 | 2.07 | 2.48 | 2.99 | 2.78 |
| S.D. | 0.1536 | 0.1329 | 0.3696 | 0.0217 | 0.2946 | 0.0965 |
| C.V. | 0.0645 | 0.0658 | 0.1839 | 0.0087 | 0.0985 | 0.0347 |

Analysis:

During the study period, the mean Net Interest Margin of ICICI Bank has slightly higher than the other sampled banks which indicate that ICICI Bank stood first in efficient use of its investments. The mean Net Interest Margin of Canara Bank has lowest among the sampled banks. This indicates that less efficiency in use of its investment. The margin of net interest decreases as the bank is expected to pay more interest than it earns. Axis Bank, Indian Bank and Bank of Baroda have the moderate efficiency in its use of investments.

Graph: Net Interest Margin

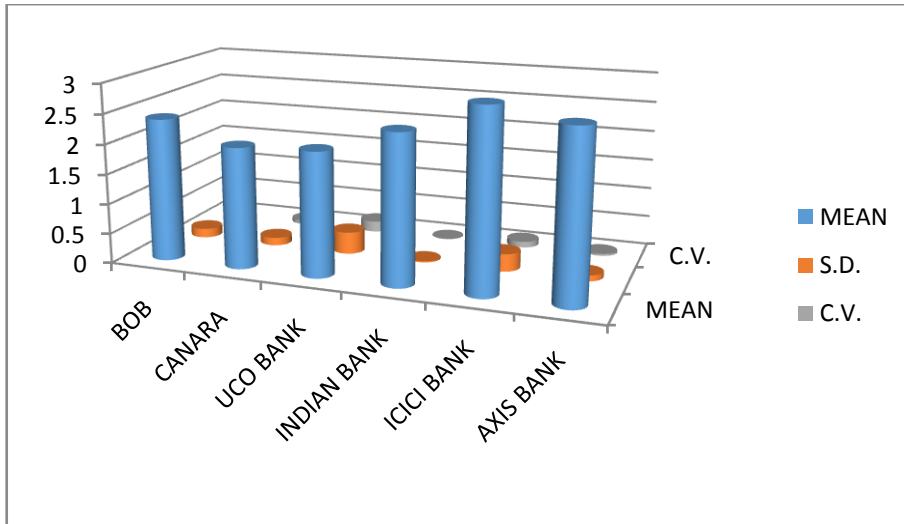


Table 6: Market Price per Share (MPS)

| Year/Bank | BOB | CANARA | UCO BANK | INDIAN BANK | ICICI BANK | AXIS BANK |
|--------------|----------------|----------------|---------------|-----------------|-----------------|-----------------|
| 2017-18 | 286.68 | 129.04 | 18.80 | 299.80 | 278.35 | 510.50 |
| 2018-19 | 83.99 | 51.99 | 9.05 | 280.10 | 400.50 | 777.25 |
| 2019-20 | 142.20 | 71.98 | 11.00 | 43.10 | 323.75 | 379.00 |
| 2020-21 | 220.92 | 108.34 | 11.85 | 116.70 | 582.10 | 697.45 |
| 2021-22 | 287.20 | 164.50 | 24.30 | 153.90 | 730.30 | 761.15 |
| Total | 1020.99 | 525.85 | 75 | 893.6 | 2315 | 3125 |
| Mean | 204.20 | 105.17 | 15 | 178.72 | 463 | 625.07 |
| S.D. | 89.8136 | 44.8039 | 6.3690 | 109.3087 | 189.0942 | 173.6319 |
| C.V. | 0.4398 | 0.4260 | 0.4246 | 0.6116 | 0.4084 | 0.2778 |

Analysis:

Axis Bank has the most fluctuation in Market Price per Share with 625.07 with a Standard Deviation 173.63 and Coefficient Variation 27.78% and UCO Bank 15.00 has less fluctuation. Coefficient of Variation of Axis Bank is less than 30% where as other five banks have more than 35%. It suggests that Axis Bank MPPS are consistent among other banks. Indian Bank has highest variation of dispersion with respect to Market Price per Share 0.6116 as it compared to the sampled banks which indicates that market price of Indian Bank shares are less consistency, less stability and less conformity. Axis Bank has lowest variation of dispersion of 28% as it compared among sampled banks which indicates that Axis Bank shares are more consistent, more stable and more uniformity.

Graph: Market Price per Share

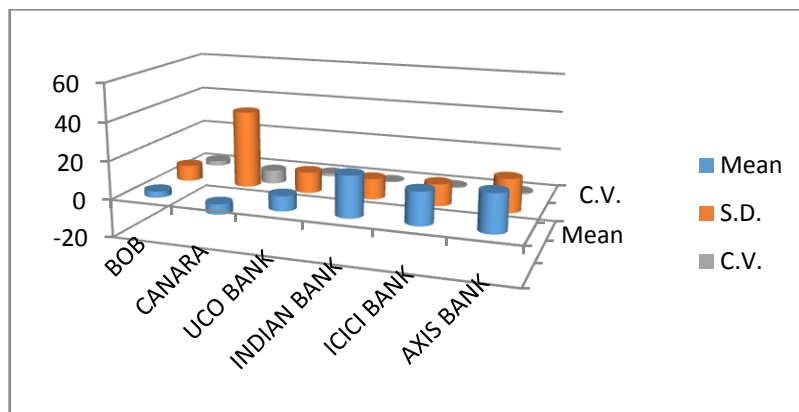


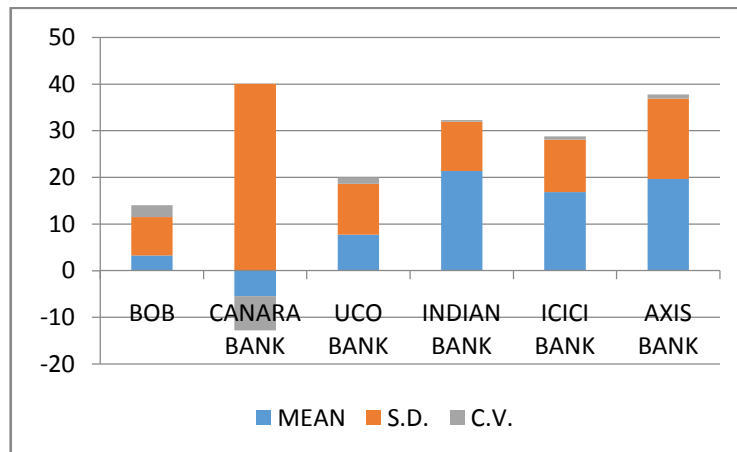
Table 7: Earnings Per Share (EPS)

| Year | BOB | CANARA BANK | UCO BANK | INDIAN BANK | ICICI BANK | AXIS BANK |
|--------------|---------------|--------------------|-----------------|--------------------|-------------------|------------------|
| 2017-18 | -8.17 | -65.95 | -25.23 | 26.21 | 10.46 | 1.86 |
| 2018-19 | 3.58 | 8.18 | -11.16 | 6.70 | 5.17 | 19.49 |
| 2019-20 | 2.32 | -23.55 | -3.17 | 14.33 | 12.08 | 6.80 |
| 2020-21 | 3.32 | 19.11 | 0.17 | 26.61 | 23.67 | 24.13 |
| 2021-22 | 15.18 | 35.04 | 0.80 | 32.38 | 32.98 | 45.91 |
| TOTAL | 16.23 | -27.17 | -38.59 | 106.83 | 84.36 | 98.19 |
| MEAN | 3.25 | -5.43 | 7.72 | 21.37 | 16.87 | 19.64 |
| S.D. | 8.2722 | 40.0508 | 10.8855 | 10.6119 | 11.2549 | 17.2575 |
| C.V. | 2.5453 | -7.3704 | 1.4100 | 0.3218 | 0.6672 | 0.8787 |

Analysis:

BOB Bank has highest variation of dispersion w.r.t. EPS is 255% which indicates that the Earnings Per Share of BOB has less consistent, less stability and less uniformity. Indian Bank has lowest variation of dispersions with respect to EPS is 32% which indicates that the earnings per share of Indian Bank has more consistent, more stable and more uniformity where as in case of CANARA Bank EPS has negative remark which indicates that CANARA Bank does not have EPS.

Graph: Earnings Per Share



Conclusion:

The study of the factors affecting share price has been an important subject matter. Especially, the share price of commercial banks in India became a subject of curiosity to identify the factors affecting share price. The shares of commercial banks dominate the portfolio of majority of investors. The banking sector plays a crucial role in the BSE and NSE. Hence, this study examines the level of effect of selected factors on share price of the bank shares. During the study it is found that the investors are more of rational and much aware than before. The investor who holds the stock for longer period should be charged less capital gain tax. Thus, it is recommended to BSE and NSE to reduce broker commission.

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