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RISK AND RETURN MANAGEMENT IN INDIAN STOCK MARKET

[1]Mrs.M. Vijaya Lakshmi, Assistant Professor, Dept. of MBA

[2]Mr.G. Ranga Srujan, Student, Dept. of MBA,

Santhiram Engineering College (Autonomous),Nandyal, A.P., India.

Abstract

Risk management is the identification, assessment, and prioritization of risks (defined in ISO 31000 as the effect of uncertainty on objectives, whether positive or negative) followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities. Risks can come from uncertainty in financial markets, project failures (at any phase in design, development, production, or sustainment life-cycles), legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate attack from an adversary, or events of uncertain or unpredictable root-cause. Several risk management standards have been developed including the Project Management Institute, the National Institute of Science and Technology, actuarial societies, and ISO standards. Methods, definitions and goals vary widely according to whether the risk management method is in the context of project management, security, engineering, industrial processes, financial portfolios, actuarial assessments, or public health and safety.

Keywords: Correlation, Investment, Risk, Return, , standard deviation.

Introduction

All investment has some risk. Investment in shares of companies has its own risk or uncertainty; these risks arise out of variability of yields and uncertainty of appreciation or depreciation of share prices, losses of liquidity etc. The risk over time can be represented by the variance of the returns. While the return over time is capital appreciation plus payout, divided by the purchase price of the share.

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Normally, the higher the risk that the investor takes, the higher is the return. There is, however, a risk less return on capital of about 12% which is the bank, rate charged by the R.B.I or long term, yielded on government securities at around 13% to 14%. This risk less return refers to lack of variability of return and no uncertainty in the repayment or capital. But other risks such as loss of liquidity due to parting with money etc., may however remain, but are rewarded by the total return on the capital. Risk-return is subject to variation and the objectives of the portfolio manager are to reduce that variability and thus reduce the risky by choosing an appropriate portfolio.

In ideal risk management, a prioritization process is followed whereby the risks with the greatest loss (or impact) and the greatest probability of occurring are handled first, and risks with lower probability of occurrence and lower loss are handled in descending order. In practice the process of assessing overall risk can be difficult, and balancing resources used to mitigate between risks with a high probability of occurrence but lower loss versus a risk with high loss but lower probability of occurrence can often be mishandled.

Research Methodology

Sources of data:

The present study is based on both primary and secondary sources.

Primary Research

The primary data has been collected from discussions with the officials of the company.

Secondary Sources

Information has also been obtained through desk research such as

(a) Annual reports of the banks

(b) Indian Bank Association Bulletin

(c) RBI Bulletin

(d) Report on trends and progress of banking in India

the research design is the conceptual structure within which research is conducted. It constitutes the framework for the collection, measurement and analysis of data. It provides the empirical and logical basis for getting knowledge and drawing conclusions.

The research design in the study is of exploratory research. Various methods are utilized in order to gain the information and to interpret it in most rational and objective manner.

the Returns and Standard Deviation for each of the securities based on the total observations and matched observations with BSE Bank Ex. We are calculating returns based on opening and closing price of the securities by collecting the prices weekly for 6 weeks. Thus the calculations wholly depend on the data collected from internet.

- Beta
- Alpha
- Variance
- Standard Deviation
- Correlation

Objectives of the Study

The following objective has been fixing for making thus study:

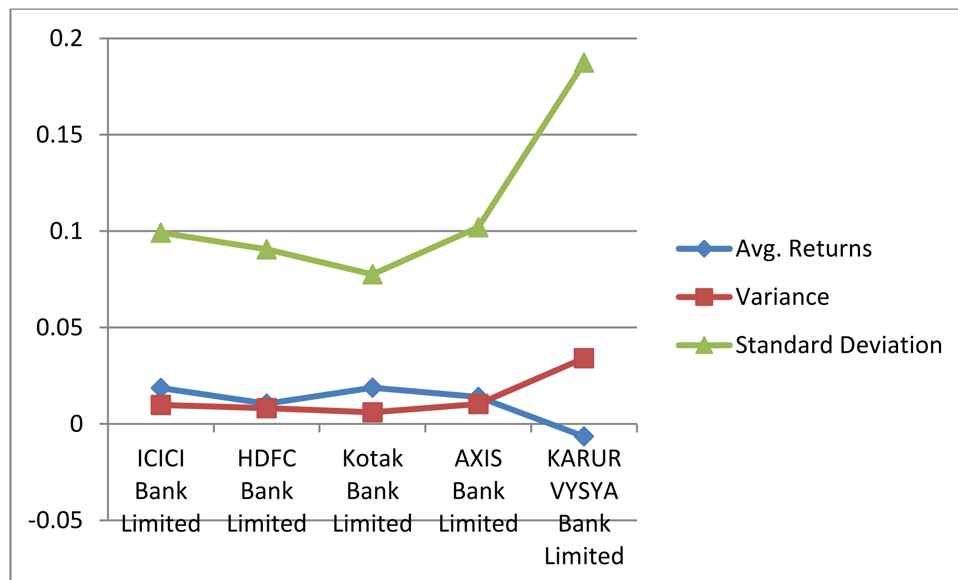
- The study will deal with Financial Risk analysis of BSE Bank Ex securities.
- To identify and analyze the correlation between Banks returns with BSE Bank Ex returns.

Analysis

Table 1 Risk & Return of Select banks

Company Name	Avg. Returns	Variance	Standard Deviation
ICICI Bank Limited	0.018658	0.00984	0.0992
HDFC Bank Limited	0.010546	0.00819	0.09052
Kotak Bank Limited	0.01879	0.00605	0.0776
AXIS Bank Limited	0.01399	0.0104	0.10203
KARUR VYSYA Bank Limited	-0.0065	0.03414	0.187478

Graph 1 Risk & Return of Select banks



Interpretation

- The risk and return analysis of **ICICI Bank Limited,** i.e. average returns is 0.018658, variance is 0.00984, and standard deviation is 0.0992 for the period of 2017 to 2022.

- The risk and return analysis of **HDFC Bank Limited,** i.e. average returns is 0.010546, variance is 0.00819, and standard deviation is 0.09052 for the period of 2014 to 2022.
- The risk and return analysis of **KOTAK Bank Limited,** i.e. average returns is 0.01879, variance is 0.00605, and standard deviation is 0.0776 for the period of 2014 to 2022.
- The risk and return analysis of **AXIS Bank Limited,** i.e. average returns is 0.01399, variance is 0.0104, and standard deviation is 0.10203 for the period of 2014 to 2022.
- The risk and return analysis of **KARUR VYSYA Bank Limited,** i.e. average returns is -0.0065, variance is 0.03414, and standard deviation is 0.08478 for the period of 2014 to 2022.

Findings

1. Risk and return analysis of ICICI Bank Limited, i.e. average returns is 0.018658, variance is 0.00984, and standard deviation is 0.0992 for the period of 2016 to 2021.
2. Risk and return analysis of HDFC Bank Limited, i.e. average returns is 0.010546, variance is 0.00819, and standard deviation is 0.09052 for the period of 2016 to 2021.
3. Risk and return analysis of KOTAK Bank Limited, i.e. average returns is 0.01879, variance is 0.00605, and standard deviation is 0.0776 for the period of 2016 to 2021.
4. Risk and return analysis of AXIS Bank Limited, i.e. average returns is 0.01399, variance is 0.0104, and standard deviation is 0.10203 for the period of 2016 to 2021.
5. Risk and return analysis of KARUR VYSYA Bank Limited, i.e. average returns is -0.0065, variance is 0.03414, and standard deviation is 0.08478 for the period of 2016 to 2021.

Suggestions & Conclusion

The study risk return analysis helps the investor to pick up the securities based on his choice. The study of this kind provides information about the performance of various stocks in the market in terms of risk and return. A stock with more systematic risk is not favourable for investment due to the reason that it has highest market risk, which cannot be diversified like unsystematic risk. Thus to construct an efficient portfolio, it is better to avoid such stocks. The study does not suggest the universal best or worst stocks for investment, because ratings of

the stocks must be based on the type of investment and the type of investor. An investor who is ready to bear high risk but expect high return will go such stocks where risk and returns are high. Whereas an investor with less risk bearing capacity will go for those stocks where the risk and return are low. Among the stocks under study Karur Vysya Bank has the lowest actual returns and abnormal returns and therefore better for those investors whose objective of investment is to maximize the returns.

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