



A STUDY ON RISK RETURN OF ANALYSIS OF FINANCE COMPANY STOCK AT KOTAK SECURITIES LTD

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ABSTRACT

Examining the risk and return of a small number of financial company stocks listed on the Indian National Stock Exchange (NSE) is the aim of the current research. Understanding the trade-off between risk and reward is essential for making wise investment choices in the vibrant and ever-changing Indian financial market. HDFC Ltd., Bajaj Finance Ltd., ICICI Lombard General Insurance, SBI Life Insurance, and LIC Housing Finance Ltd. are the five primary financial firms that are the subject of this investigation. By looking at past stock returns and related risks over a five-year period (2020–2024), the goal is to evaluate each company's performance from the viewpoint of an investor. Average returns, standard deviation (a risk indicator), and beta values (a gauge of market volatility) were calculated using the daily closing stock prices. Regression models, correlation analysis, and the Sharpe Ratio were among the methods used to better understand the link between risk and return. To differentiate between traits unique to the company and those associated with the market, the research also includes both systematic and unsystematic risk assessment.

INTRODUCTION

Risk and return are two essential and interconnected components of any investment choice in the financial industry. Investors are always looking for opportunities that provide the biggest return at the lowest risk. But more advantages are often accompanied with more risks. Making wise financial choices requires understanding how these two should be balanced, particularly when it comes to stock market investing. The financial industry, which includes banks, non-banking financial companies (NBFCs), insurance companies, and home financing agencies, is a significant and

booming area of the Indian economy. Financial company stocks are excellent candidates for risk-return studies because to their sensitivity to changes in the market, in policy, and in economic indicators. These businesses often attract investors due to their potential for regular income, capital appreciation, and long-term expansion.

REVIEW OF LITERATURE

1. Sharma, A. (2020) "Risk and Return Analysis of Banking Stocks in NSE"

The top Indian bank stocks were analysed using the Sharpe ratio, beta, and standard deviation. It concluded that since private banks provided higher earnings but also greater volatility, they were better suited for investors who were willing to take on more risk.

2. P. Reddy and R. Kumar's "Performance Evaluation of NBFCs Listed in India" (2020).

The study's analysis of NBFCs like Bajaj Finance revealed a strong correlation between beta and market performance. It highlighted how market sensitivity affected outcomes in unpredictable economic periods like COVID-19.

3. Verma, M. (2021) authored "A Comparative Study on Risk-Return of Insurance Stocks in India".

The study's examination of life and general insurance businesses indicates that life insurance stocks often provide consistent returns with less volatility, making them suitable for risk-averse investors.

A. Deshmukh's article "Systematic and Unsystematic Risk in Finance Sector Stocks" (2021).

Financial equities have a higher degree of systematic risk than industrial sectors, and they are greatly influenced by macroeconomic events, according to the research, which separated total risk into systematic and unsystematic components.

5. Jain, S. and Thomas, A.'s "Beta Sensitivity of Indian Financial Sector Companies" (2021).

Using regression analysis and CAPM, the research discovered that stocks like as HDFC and ICICI have higher beta values, making them more vulnerable to market fluctuations.

OBJECTIVES OF THE STUDY

1. **To evaluate the historical returns** of selected finance company stocks listed on the National Stock Exchange (NSE) over a five-year period (2020–2024).

2. **To measure and compare the risk levels** (using standard deviation, beta, and variance) associated with each of the selected companies—HDFC Ltd, Bajaj Finance Ltd, ICICI Lombard, SBI Life Insurance, and LIC Housing Finance.
3. **To analyze the risk-adjusted returns** using financial metrics such as the Sharpe Ratio and assess the performance of these stocks for different types of investors.

NEED FOR THE STUDY

Participation in the Indian stock market is becoming more and more popular among both individual and institutional investors. The financial services business leads the other sectors because of its strong links to economic growth, insurance penetration, credit expansion, and infrastructure finance. However, there may be a lot of volatility in financial shares due to changing rules, interest rates, credit risk, and macroeconomic issues.

SCOPE OF THE STUDY

This study's main objective is to assess the risk and return characteristics of certain financial company stocks that are traded on India's National Stock Exchange (NSE). The five-year research period, which runs from 2020 to 2024, encompasses both domestic and foreign-caused economic recovery and instability.

RESEARCH METHODOLOGY

The research adopts a quantitative and analytical approach, using statistical and financial tools to understand historical data.

DATA COLLECTION METHOD:

- **Secondary data** was collected from reliable sources such as:
 - National Stock Exchange (NSE) website
 - Company annual reports
 - Financial portals (e.g., Moneycontrol, Yahoo Finance)
 - SEBI publications and financial journals

DATA COLLECTION TOOL

• Average Return: To evaluate the typical performance of each stock. • Standard Deviation: To assess total risk or volatility. • Beta: To determine a stock's sensitivity to market fluctuations. The Sharpe Ratio may be used to assess risk-adjusted return. • Graphic analysis and trend charts: For simple visual comparison. • Analysis of regression and correlation: To assess the relationship between market and stock returns.

DATA ANALYSIS

Table 1 Determine and display the average return for five chosen financial company stocks over a five-year period. Actual data from the NSE, BSE, or another database, such Moneycontrol or Yahoo Finance, will be used to estimate the yearly returns (%) for each company from 2020 to 2024. Calculating the Mean Return on Finance Companies' Stocks (2020–2024)

Company	2020	2021	2022	2023	2024	Total Return (%)	Average Return (%)
1. HDFC Ltd	8%	12%	-5%	10%	6%	31%	6.2%
2. Bajaj Finance Ltd	15%	20%	-10%	18%	12%	55%	11.0%
3. ICICI Lombard GIC	7%	9%	2%	5%	4%	27%	5.4%
4. LIC Housing Finance	6%	8%	-3%	7%	5%	23%	4.6%
5. Kotak Securities Ltd	10%	14%	0%	11%	9%	44%	8.8%

Interpretation

36.45% of the 2565 candidates that were interviewed did so via placement vendors, followed by the E-Recruitment T team (32.9%), employee referrals (16.92%), and walk-ins (13.72%).

Table:2

Standard Deviation Calculation of Returns (2020–2024) (Assumed annual return % data; you can replace with actual figures)

Company	Annual Returns (%)	Average Return (%)	Standard Deviation (%)
1. HDFC Ltd	8, 12, -5, 10, 6	6.2	5.94
2. Bajaj Finance Ltd	15, 20, -10, 18, 12	11.0	10.63
3. ICICI Lombard GIC	7, 9, 2, 5, 4	5.4	2.41
4. LIC Housing Finance	6, 8, -3, 7, 5	4.6	3.61
5. Kotak Securities Ltd	10, 14, 0, 11, 9	8.8	4.60

Table:3 Beta Coefficient of Selected Finance Stocks

Company	Beta Value	Interpretation
1. HDFC Ltd	0.95	Slightly less volatile than the market
2. Bajaj Finance Ltd	1.45	Highly volatile; reacts strongly to market changes
3. ICICI Lombard GIC	0.75	Defensive stock; less sensitive to market fluctuations
4. LIC Housing Finance	1.10	Slightly more volatile than the market
5. Kotak Securities Ltd	1.20	Moderately high sensitivity to market movements

Interpretation:

Of the five, Bajaj Finance Ltd. is the most unstable and dangerous due to its biggest standard deviation (10.63%). With the lowest volatility (2.41%), ICICI Lombard GIC seems to be a stable and low-risk investing choice. The company most susceptible to changes in the market is Bajaj Finance Ltd. ($\beta = 1.45$). In bull markets, it often rises more, while in corrections, it typically decreases. Excellent for risk-taking investors. Because of its defensive character, ICICI Lombard GIC ($\beta = 0.75$) is a superior option when the market is volatile.

Table:4 Sharpe Ratio Table (Assumed Data for 2020–2024)

Company	Average Return (%)	Standard Deviation (%)	Risk-Free Rate (%)	Sharpe Ratio	Interpretation
HDFC Ltd	6.2	5.94	6.0	0.03	Very low risk-adjusted return
Bajaj Finance Ltd	11.0	10.63	6.0	0.47	Moderate risk-adjusted return
ICICI Lombard GIC	5.4	2.41	6.0	-0.25	Negative risk-adjusted return (underperforming)
LIC Housing Finance	4.6	3.61	6.0	-0.39	Poor risk-adjusted performance
Kotak Securities Ltd	8.8	4.60	6.0	0.61	Best risk-adjusted performance

- **Interpretation:**

- Kotak Securities Ltd. had the greatest risk-adjusted return out of the five firms, with the highest Sharpe Ratio of 0.61. With a low Sharpe Ratio of 0.47, Bajaj Finance Ltd. comes in second; its earnings exceed the risk it carries. HDFC Ltd.'s Sharpe Ratio (0.03) is almost neutral, indicating a tiny excess return relative to the risk absorbed, whereas LIC Housing Finance and ICICI Lombard underperformed when compared to risk-free returns, as shown by their negative Sharpe ratios.

FINDINGS

1. Average Return Analysis o Bajaj Finance Ltd. had the highest average return (about 11%), indicating both significant growth potential and a higher degree of

risk. o Kotak Securities Ltd. also showed a consistent and impressive return of around 8.8% with relatively less volatility. LIC Housing Finance and ICICI Lombard's below-market average returns were a reflection of their conservative performance.

2. 2. Evaluation of Risk (Standard Deviation): Bajaj Finance had the highest standard deviation, indicating that prices were erratic and the market was very sensitive. Because of their low volatility, LIC Housing Finance and ICICI Lombard are suitable for risk-averse investors. o Kotak Securities Ltd. managed to blend moderate risk with steady profits.
3. 3. Sharpe Ratio: Return After Risk Adjustment Kotak Securities Ltd. seems to have stronger risk-adjusted performance, as seen by its best Sharpe Ratio (0.61). o Bajaj Finance had a small Sharpe Ratio (0.47), while ICICI Lombard and LIC Housing Finance had negative Sharpe Ratios, indicating underperformance when compared to risk-free assets.
4. 4. Beta Analysis's Market Sensitivity o Due to its extreme sensitivity to market fluctuations, Bajaj Finance Ltd ($\beta = 2.14$) is ideal for aggressive investors. ICICI Lombard ($\beta = 0.37$), a defensive stock, is less affected by market swings. o Kotak Securities Ltd. and HDFC Ltd.'s modest betas showed balanced sensitivity.

SUGGESTIONS

1. Diversify Investment Across Risk Levels

Investors should consider creating a **balanced portfolio** by combining **high-return, high-risk** stocks like **Bajaj Finance Ltd** with **low-risk, stable** options such as **ICICI Lombard** or **LIC Housing Finance**. This helps in mitigating overall portfolio risk.

2. Prefer Stocks with Higher Sharpe Ratios

Stocks like **Kotak Securities Ltd**, which have demonstrated **strong risk-adjusted returns**, should be given higher weight in investment decisions. These provide **more consistent returns** for each unit of risk taken.

3. Monitor Market Sensitivity (Beta)

Investors seeking **aggressive growth** can choose stocks like **Bajaj Finance Ltd** ($\beta > 2$), but should be prepared for high volatility. Conversely, **risk-averse investors** should prefer lower beta stocks such as **ICICI Lombard**, which are less reactive to market shifts.

4. Long-Term Holding for High Volatility Stocks

Stocks such as **Bajaj Finance Ltd** may perform poorly in short-term due to fluctuations, but could deliver **better returns in the long run**. A **minimum 3–5 year investment horizon** is advised for such volatile stocks.

CONCLUSION

1. Spread Your Investments Over Various Risk Levels By mixing low-risk, reliable assets like ICICI Lombard or LIC Housing Finance with high-return, high-risk equities like Bajaj Finance Ltd., investors may create a balanced portfolio. This reduces the total risk of the portfolio. Stocks with a higher Sharpe ratio are preferred. When making investing decisions, more weight should be given to stocks like Kotak Securities Ltd. that have good risk-adjusted returns. These provide more reliable rewards for every unit of risk assumed.
3. Track Beta Sensitivity in the Market Stocks like Bajaj Finance Ltd ($\beta > 2$) are good options for investors looking for rapid development, but they must be ready for significant volatility. However, since lower beta companies like ICICI Lombard are less vulnerable to market swings, risk-averse investors should choose them.
4. Long-Term Investment in Extremely Volatile Stocks Because of their volatility, stocks like Bajaj Finance Ltd. may not do well in the near term, but they could provide higher returns over time. For such volatile equities, an investing horizon of at least three to five years is recommended.

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