Determinants of Stock Price Volatility of Select Public Sector Banks: A Panel Analysis

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Abstract

Non-performing Assets (NPAs) are like a storm cloud hovering over the banking sector, casting shadows on profitability and diverting precious resources from potentially lucrative investments. When NPAs rise, they not only crunch the numbers but also send ripples of doubt through the investor community, suggesting flaws in risk management. This uncertainty often leads to wild fluctuations in stock prices, creating a rollercoaster of volatility. In this ever-shifting financial landscape, the ability to manage NPAs effectively is not just important—it's absolutely vital for safeguarding profitability, ensuring market stability, and nurturing investor trust. With this in mind, our current research dives into how NPAs influence the stock price volatility of select public sector banks listed on the NSE, all chosen for their market capitalization. To delve deeper, we've pulled in various bank-related, macroeconomic and industry-specific indicators. These range from size and net npa ratio to return on assets, return on equity, capital adequacy ratio, cost to income ratio, credit quality, inflation, and the Repo rate. We employed a robust multiple regression analysis using a Panel Data Methodology to scrutinize the data. Our study spans from the fiscal year 2011-12 to 2021-22, during which we collected quarterly bank-related metrics from the ProwwssIQ database, while macroeconomic data came from the RBI and the World Bank. The findings reveal a compelling narrative: profitability and size have a notably positive impact on stock price stability, while poor asset quality casts a long, negative shadow. Interestingly, while both sets of macroeconomic indicators significantly affect stock price volatility, they do so in opposing directions. A decline in asset quality heightens the market's perception of risk, leading to an increase in stock price volatility. In essence, as asset quality deteriorates, the storm clouds of uncertainty gather, creating a tempest in the stock market.

Keywords: *Inflation, Macroeconomic Metrics, Non-Performing Assets, Public Sector Banks, Panel Data Methodology, Stock Price Volatility.*