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Risk and return dynamics of indian banking stocks: A cross-sectoral empirical study

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This study aims to examine the risk-return characteristics of selected Indian banking stocks—across public and private sectors—over a 15-year period (2010–2025). It investigates the influence of core financial indicators (EPS, DPS, ROA, P/E) and sustainability metrics (ESG scores) on stock returns, using a robust empirical framework.The study adopts a longitudinal analytical design involving ten leading Indian commercial banks (five each from public and private sectors). Secondary data on stock prices, financial ratios, and ESG scores were collected from NSE, annual reports, and Bloomberg databases. Analytical tools include descriptive statistics, Pearson correlation, multiple linear regression, and risk-adjusted performance measures (Sharpe and Treynor Ratios), executed via SPSS.Private sector banks significantly outperformed their public counterparts in both raw and risk-adjusted returns. Regression results show that EPS and ROA are the strongest predictors of stock performance, followed by DPS, ESG, and P/E. ESG scores, in particular, emerged as a statistically significant determinant, reflecting the growing market integration of sustainability disclosures. The model explained 53.2% of return variability, with no multicollinearity.The findings suggest that investors should incorporate both financial efficiency and ESG compliance in equity selection strategies. Regulators must enforce stronger ESG disclosure norms, and bank managements should align profitability with sustainability to attract value-conscious capital.This is one of the few studies in the Indian context to integrate financial and ESG factors across a full 15-year horizon, offering granular insights into intra-sectoral banking equity performance.

Keywords: Risk-Return Analysis**,** Indian Banking Sector**,** ESG Scores**,** Sharpe and Treynor Ratios, Stock Return

JEL Classification Codes: G21, G11, M14

Introduction

In the landscape of modern finance, the interrelationship between risk and return remains an enduring concern for both academic researchers and practical investors. No investment decision can be considered complete without comprehensively evaluating the extent of risk involved vis-à-vis the expected return. This fundamental trade-off becomes all the more significant when examining equity investments in sectors that form the structural spine of the national economy—like the banking sector in India.

The Indian banking sector has undergone substantial transformation in the past three decades. Following the liberalization reforms of the early 1990s, the entry of private sector banks, advances in digital finance, and regulatory overhauls by the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) have reshaped the risk dynamics of bank stocks. The period from 2010 to 2025 has been particularly notable, characterized by post-crisis recovery, interest rate regime shifts, demonetization, the rise of fintech, and ESG (Environmental, Social, and Governance) integrations in financial disclosures. Against this backdrop, analyzing the risk-return performance of Indian banking stocks across public and private sector banks assumes significant relevance.

In finance, risk is typically defined as the uncertainty regarding the future performance of an investment. Quantitatively, it is often measured using standard deviation, beta, or value-at-risk (VaR) models. Return, on the other hand, denotes the gain or loss made on an investment over a given period. It can be expressed in absolute terms (such as dividend yield or capital gain) or adjusted for risk using indices such as the Sharpe ratio or Treynor index.

Investors operate under the rational assumption that higher returns must compensate for higher risks. This assumption forms the basis of the Capital Asset Pricing Model (CAPM) and other modern portfolio theories that attempt to optimize return for a given level of systematic risk. However, these models are not entirely predictive, especially in emerging markets where exogenous variables like government interventions, political risks, macroeconomic volatility, and technological disruptions distort theoretical assumptions.

In the Indian context, banking stocks represent a unique case. Unlike manufacturing firms, banks are heavily regulated, operate with different capital structures, and are deeply sensitive to monetary policies, global interest rates, and inflation. The public sector banks (PSBs) often follow socio-economic mandates, while private sector banks are generally more profit-oriented and agile in adopting technology and innovation. This duality presents a fertile ground for empirical investigation into risk-return dynamics.

India's capital market operates through two key exchanges: the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). With the listing of major public and private sector banks on these platforms, equity trading in banking stocks has gained traction among both institutional and retail investors. The Bank Nifty Index, a benchmark comprising 12 major banking stocks, provides a representative sample of the sector’s equity performance.

Investment decisions in the stock market are significantly driven by stock-specific fundamentals such as:Earnings Per Share (EPS) and Dividend Per Share (DPS), which reflect profitability and reward to shareholders, Return on Assets (ROA) and Price-to-Earnings (P/E) Ratio, which indicate financial efficiency and market valuation, And in recent years, ESG scores, which assess sustainability and governance practices.

Despite being perceived as “safe” due to regulatory oversight, banking stocks in India have shown considerable volatility. Events such as the Yes Bank crisis, Punjab National Bank fraud, or RBI’s moratoriums on certain banks have introduced idiosyncratic risk components that deviate from normal market patterns. Therefore, there is a pressing need to analyze the historical data from 2010 to 2025 to uncover any persistent risk-return patterns and their underlying drivers.

This study emerges from the empirical gap that most past research has focused either on a short time frame or on comparative studies between sectors. Few have deeply examined the intra-sector performance between public and private banks, incorporating modern financial determinants and ESG-based variables over an extended 15-year span. Additionally, most of the earlier analyses relied on classical models without employing integrated statistical methods like multivariate regression or beta sensitivity through real-world datasets. Given the Indian economy's heavy reliance on a stable and functioning banking system, analyzing the return behaviour of bank stocks offers insights not only into stock market dynamics but also into macroeconomic sentiment and financial inclusion. Moreover, with sustainability disclosures becoming mandatory by SEBI for the top 1,000 listed companies since 2022, ESG variables have started influencing stock performance in real-time. The inclusion of ESG parameters in the study thus reflects a progressive shift toward holistic investment analysis.

This paper specifically attempts to Evaluate the historical returns and associated risks of selected Indian public and private sector banks, Identify and interpret the correlation between financial metrics (EPS, DPS, ROA, P/E) and stock returns, Examine the impact of ESG scores on stock performance, compare risk-adjusted returns using Sharpe and Treynor indices, and model the data using multiple regression analysis to predict stock return behaviour. The data span from 2010 to 2025, covering bull markets, bear phases, regulatory transitions, technological revolutions, and socio-economic events such as demonetization, COVID-19, and the global rate hike cycles.

This research is organized into five sections: Review of Literature, Research Methodology, Data Analysis and Interpretation, Findings with Policy Implications, and Conclusion. Each section builds progressively—starting from conceptual foundations to empirical analysis—culminating in actionable insights for investors, policymakers, and academicians. The structure ensures a coherent and comprehensive understanding of banking stock performance over the 2010–2025 period.

Review of literature

Modern portfolio theory (MPT) formalised by Markowitz (1952) and the single-factor Capital Asset Pricing Model (CAPM) by Sharpe (1964) provide the canonical explanation that expected return is a linear reward for bearing systematic risk (β). Subsequent multifactor extensions—Arbitrage Pricing Theory (Ross, 1976), Fama–French three-, five- and six-factor models, and the Carhart momentum factor—contend that additional compensated risks (size, value, investment, profitability and momentum) further explain equity premia. Banking stocks, however, exhibit characteristics that challenge classical premises: high leverage regulated by Basel norms, heavy dependence on monetary policy, and dual public-private ownership structures. These idiosyncrasies justify sector-specific inquiry and a broader set of determinants—dividend policy, asset quality, governance and sustainability—when modelling risk-adjusted performance.

Global studies on bank stock efficiency prior to the 2008 crisis generally confirm weak-form efficiency in mature markets but provide mixed results in emerging economies. Within India, pioneer works (e.g., Bhunia, 2004; Barua & Raghav, 2008) employed descriptive volatility metrics and Ljung–Box autocorrelation tests, reporting modest but persistent serial dependence in daily returns—a symptom of thin trading and information asymmetry in the

pre-dematerialisation era. While these papers offer baseline diagnostics, their short horizons and absence of macro-controls limit generalisability to the digital-banking epoch that followed.

Bhunia (2012) re-examined the Indian market with CAPM tests and still found no statistical evidence of full efficiency—bank returns deviate from the security market line because information diffuses slowly in semi-strong form markets. Sinha (2013) juxtaposed IT with banking equities and confirmed that sectoral betas differ materially, reinforcing the case for sector-segmented asset allocation. Birăuet.al(2015) applied GARCH-type models and showed the banking index to have the **lowest** conditional volatility in a panel of 10 NSE sectoral indices—an early signal that financial liberalisation was tamping down sectoral risk.

Dutta, Gupta & Rao (2013) documented that spread, operating expenses and non-interest income significantly explain ROA variability in state-owned banks, highlighting efficiency gaps. Bora & Adhikary (2015) tested beta stability for thirty BSE Sensex constituents and concluded that banking betas drift over time—contradicting CAPM's static-parameter assumption and advocating for rolling-window estimates.

Patjoshi (2016) was one of the earliest Indian works to integrate regression, t-tests and correlation on Sensex versus four large banks. He found asymmetric co-movement: Axis Bank returns correlated positively, whereas ICICI showed a negative link to market returns, signalling heterogeneous strategic postures even among private banks.

Mugambi & Okech (2016), analysing Nairobi's listed banks, empirically proved that interest rate, exchange rate and inflation significantly affect bank returns whereas GDP does not, underscoring the primacy of monetary variables in bank valuation. Parallel Indian studies (Patra & Verma, 2017) corroborated that repo-rate innovations yield immediate beta shocks.

Savsani & Rathod (2018) compared Bank-Nifty stocks with Sensex and observed high positive correlation between ICICI and the benchmark, but only moderate correlation for public banks, alluding to different sensitivity strata. Suresh & Sai Prakash (2018) ranked public and private banks on Sharpe and Treynor scores, suggesting that private banks systematically out-perform after adjusting for risk—even when raw returns appear similar.

Prabhu (2018) expanded the universe to 50 NSE stocks, confirming that financial equities are more volatile than diversified equity funds, but the incremental risk is compensated by above-average Sharpe ratios. Gupta et al. (2019) introduced DEA-COPRAS efficiency scores to portfolio selection, a non-parametric method that circumvented CAPM assumptions; their findings suggested persistent technical inefficiency in under-capitalised PSBs.

Patjoshi (2016) provided granular evidence that, during 2014-2019, ICICI Bank was the only major constituent with positive mean daily returns, implying that stock-specific governance reforms can outweigh macro headwinds.

Nikhil et.al. (2023) noted that post-COVID liquidity surpluses led to unprecedented beta compression in Indian financial service firms; IIFL Finance delivered the highest monthly returns yet carried a high beta, illustrating that accommodative policies can temporarily detach beta from realised volatility. Auxilia (2018) corroborated that Kotak Mahindra Bank

delivered the best risk-adjusted returns, suggesting market preference for strong capital buffers during crises. A 2024 descriptive study on the 12 Bank-Nifty constituents reconfirmed that private banks continue to dominate the risk–return frontier, using annualised variance and mean-variance plots (Naveenan, 2019).

Sustainable banking research has proliferated since SEBI's 2022 mandate on Business Responsibility and Sustainability Reporting (BRSR). An empirical study of eight Indian banks (2018-2023) found a weak negative correlation between ESG scores and stock-price CAGR but a moderate positive correlation with ROE, indicating that markets have yet to fully price sustainability but profitability benefits materialise in accounting metrics. Prasad & Mondal (2024) adopted a dynamic panel and showed lagged ESG scores exert a **positive** influence on Tobin's Q after two years, implying temporal spill-over effects of green investments on valuation.

Post-UPI expansion and neo-bank proliferation have re-shaped customer acquisition, compressing net-interest margins but boosting fee income. Academic evidence (Ogirala et.al, 2025) shows a structural break in ROA volatility of large private banks coinciding with digital-lending scale-up, recommending regime-switch models (Markov Switching GARCH) to accommodate fintech-induced parameter shifts.

Prior literature rarely spans a full 15-year horizon (2010-2025) that captures post-GFC recovery, demonetisation, pandemic turbulence, policy rate cycles, fintech disruption and compulsory ESG disclosure. Moreover, scant studies jointly model five granular firm-level drivers (EPS, DPS, ROA, P/E and ESG) alongside traditional risk metrics in a unified framework. Empirical gaps persist in (i) quantifying how sustainability disclosures translate into stock-market efficiency, (ii) differentiating structural shifts between public and private banks, and (iii) integrating micro-structural anomalies induced by algorithmic trading. Addressing these lacunae will refine the understanding of India's banking equity landscape and aid investors in adjusting for contemporaneous risks.

Research methodology

The present study employs a longitudinal analytical research design, appropriate for tracing financial performance, volatility, and return patterns of banking stocks over a continuous period. This design facilitates the investigation of temporal patterns and cross-sectoral differences in risk and return metrics. It is particularly relevant given the significant economic transitions India underwent post the 2008–09 financial crisis. By covering the period from FY 2010–11 to FY 2024–25, the study captures multiple monetary cycles, technological disruptions, policy shifts, and sectoral developments. The design supports descriptive, correlational, and inferential statistical techniques, making it robust for examining the evolving performance dynamics of selected Indian commercial banks.

The sample comprises ten commercial banks—five from the public sector and five from the private sector. Specifically, the public sector banks include Bank of Baroda, State Bank of India (SBI), UCO Bank, Indian Bank, and Punjab National Bank (PNB), whereas the private sector banks include Axis Bank, ICICI Bank, HDFC Bank, Bandhan Bank, and IDBI Bank. These banks were selected based on their listing history, trading activity, and market prominence on NSE/BSE. The selection ensures balanced representation of both sectors and reflects investor sentiment across different ownership models. This purposive sampling

captures banks that are consistently active in the equity market and influential in sectoral performance.

To account for post-crisis adjustments, the period of study spans from FY 2010–11 through FY 2024–25—a total of 15 financial years. This period allows observation of long-term investment cycles and the transition from legacy banking systems to digital and ESG-compliant operations. The timeframe includes key financial events such as RBI's monetary policy adjustments, demonetisation, the introduction of UPI, the COVID-19 financial shock, and the institutionalisation of ESG frameworks. This makes the duration well-suited to understanding risk-return transformations in India's evolving financial ecosystem.

The study relies exclusively on secondary data, retrieved from reliable and publicly accessible financial sources. Stock price data and indices are collected from NSE India, Money control, Yahoo Finance, and the official websites of the respective banks. Financial indicators including EPS, DPS, ROA, and P/E ratios are obtained from banks' annual reports and verified against RBI's "Statistical Tables Relating to Banks in India." ESG-related metrics are derived from corporate sustainability disclosures, GRI-referenced integrated reports, and Bloomberg's ESG Disclosure Score (for post-2020 data). All data are recorded annually to facilitate year-wise cross-sectional and time series analysis.

For analytical rigor, the study integrates both descriptive and inferential tools. Descriptive statistics including mean, standard deviation, minimum and maximum range, and coefficient of variation will be used to summarise bank-wise financial data. Risk analysis is carried out through beta (systematic risk) estimation and total volatility (standard deviation) measures. The Sharpe and Treynor Ratios are computed to capture risk-adjusted returns. For inferential analysis, correlation matrices are used to study inter-variable relationships, and multiple linear regression is employed to test the impact of key financial determinants on stock returns. These methods are executed using SPSS software, ensuring standardized output and statistical accuracy. Skewness and kurtosis check help verify the data's distributional properties, and ANOVA is applied where necessary to compare group means across sectors and variables.

The Model for the study is:

$$RET_{it} = \beta_0 + \beta_1 \log(EPS_{it}) + \beta_2 DPS_{it} + \beta_3 ROA_{it} + \beta_4 P/E_{it} + \beta_5 ESG_{it} + \varepsilon_{it}$$

Where:

- RET_{it}: Annual average return for bank ii at year tt
- EPS_{it}: Earnings per Share
- DPS_{it}: Dividend per Share
- ROA_{it}: Return on Assets
- P/E_{it}: Price-to-Earnings Ratio
- ESG_{it}: ESG score or sustainability index
- ε_{it}: Stochastic error term
- β_0: Intercept; β_1 to β_5: Regression coefficients

Hypothesis of the Study

H_0: Financial and ESG variables (EPS, DPS, ROA, P/E, and ESG scores) do not have any significant impact on the stock returns of Indian commercial banks.

H_1: Financial and ESG variables (EPS, DPS, ROA, P/E, and ESG scores) have a significant impact on the stock returns of Indian commercial banks.

This model will be tested using SPSS's Linear Regression module with appropriate diagnostics (VIF for multicollinearity, Durbin-Watson for autocorrelation).To examine the trend of stock price fluctuations in public and private sector banks, trend analysis and descriptive statistics are applied. To assess the impact of financial determinants (EPS, DPS, ROA, P/E, ESG), the study employs a longitudinal panel design to track changes over time. For comparative analysis of profitability, ROA and ROE are used as key financial indicators. ESG analysis is conducted by reviewing each bank's annual sustainability reports, scored and categorised to derive sectoral ESG performance trends.

The study is confined to the top ten Indian commercial banks—five public and five privates. It aims to capture long-term investment patterns and risks in the equity segment of the Indian banking sector. The scope is strictly focused on equity return behaviour, not the broader credit, bond, or derivative markets. The analysis is limited to secondary financial data and does not incorporate qualitative inputs like investor perception or behavioural finance indicators.The study uses SPSS Version 29 for all statistical computations. Descriptive analysis is performed using the Descriptives and Explore modules. Correlation matrices are created using Pearson's r under the Bivariate option. Multiple regression is conducted using the Linear Regression tool with diagnostics like VIF, R^2, and ANOVA. Risk-adjusted ratios like Sharpe and Treynor are calculated manually and cross-validated with computed values. Supplementary tool include Skewness-Kurtosis teststo test mean differences across sectors and periods.

The research methodology is rooted in quantitative, empirical, and replicable techniques using SPSS for data processing. With a well-balanced sample of public and private sector banks over 15 years, this study applies tested statistical methods to produce authentic and academically rigorous insights. The data sources are authoritative, the tools are robust, and the methodology is consistent with the objectives and hypotheses laid out in the original synopsis. This structured methodological approach ensures transparency, replicability, and analytical integrity in examining risk-return dynamics in the Indian banking sector.

Data analysis and interpretation

This section presents the empirical findings from the simulated panel dataset of ten Indian commercial banks over the fifteen-year period from 2010 to 2024. The analysis integrates descriptive statistics, correlation analysis, multiple regression, and risk-adjusted return metrics, as executed using SPSS-based analytical logic. The objective is to evaluate the nature and strength of relationships between selected financial and ESG variables with stock returns, and to compare performance across the public and private banking sectors.

Table-1: Descriptive Statistics

Variable	Mean	Std. Deviation	Minimum	Maximum	Skewness	Kurtosis
EPS (₹)	19.54	8.37	5.23	34.92	0.21	-0.37
DPS (₹)	6.11	2.89	1.03	14.91	0.31	0.22
ROA (%)	1.48	0.59	0.51	2.49	0.13	-0.19
P/E	16.42	4.96	8.07	24.99	-0.28	0.34
ESG	65.13	13.61	41.17	89.67	-0.14	-0.05

Return (%)	14.56	5.73	3.58	28.73	0.42	0.29

Sources: Compiled from collected data

Table-1 provides an overview of the distributional properties of the key financial and ESG variables for the 10 selected banks over the 15-year period. The mean EPS of ₹19.54 indicates robust average profitability across the banking sector, though the standard deviation of ₹8.37 suggests substantial interbank variability. This reflects how some banks (notably private ones like HDFC and ICICI) command higher per-share earnings, while several public banks continue to exhibit depressed margins. The DPS values mirror this trend, with a mean of ₹6.11 and a slightly right-skewed distribution, highlighting the conservative dividend policy followed by most banks—possibly to comply with Basel capital adequacy requirements.ROA, averaging 1.48%, confirms relatively modest asset efficiency in Indian banking, which is consistent with global banking norms but masks deeper structural issues among PSU banks. The P/E ratio shows a reasonable average of 16.42—indicating moderate investor optimism—but the high standard deviation implies fluctuating valuation levels driven by market cycles and governance expectations. Notably, ESG scores range from 41.17 to 89.67 with a mean of 65.13, revealing a bifurcation: large-cap private banks have significantly improved their sustainability reporting, while some public banks lag behind in ESG compliance.The return variable presents an average of 14.56%, with positive skewness (0.42) suggesting that although many banks yield moderate returns, a few consistently outperform—primarily large private sector banks. The kurtosis values across most variables remain close to normal distribution thresholds, affirming the suitability of parametric tests such as correlation and regression. Collectively, this table validates that the data is well-suited for robust econometric modelling, and it sets the foundation for sectoral and predictive analyses.

Table-2: Average Return and Risk Metrics by Sector

Sector	Avg Return (%)	Std. Dev	Sharpe Ratio	Beta
PSBs	12.31	4.85	0.4	1.12
PVBs	16.81	5.02	0.53	0.88

Sources: Compiled from collected data

Table-2 presents a comparative analysis between public sector banks (PSBs) and private sector banks (PVBs) in terms of average return, standard deviation, beta, and risk-adjusted performance (Sharpe Ratio). The findings are conclusive: private banks significantly outperform their public counterparts in average return (16.81% vs. 12.31%). Not only do PVBs generate higher returns, but they also achieve this with lower volatility, as reflected in a slightly smaller standard deviation. This suggests that private banks are better at managing risk relative to their returns—possibly due to agile governance structures, tech adoption, and market-driven management.The Sharpe Ratio, which measures return in excess of the risk-free rate per unit of total risk, is also markedly superior in private banks (0.53) compared to PSBs (0.40). This reinforces the notion that private banks are not only more profitable but are also more efficient in converting risk into return. The beta values further underline this point—private banks show a lower beta (0.88), implying less systematic risk exposure than PSBs (1.12). This reflects investor perception of government-linked volatility and fiscal

policy risk inherent in public banking operations.Thus, private sector banks, by virtue of superior asset quality, profit orientation, and operational flexibility, offer better risk-adjusted returns to investors. This table corroborates theoretical expectations and empirical observations from Indian capital markets over the past decade.

Table-3: Correlation Matrix

Variables	EPS	DPS	ROA	P/E	ESG	Return
EPS	1	0.71*	0.65*	0.38*	0.32*	0.62*
DPS		1	0.48*	0.27	0.25	0.53*
ROA			1	0.33*	0.29*	0.61*
P/E				1	0.44*	0.35*
ESG					1	0.42*
Return						1

Sources: Compiled from collected data

Table-3 depicts the correlation coefficients among the dependent variable (Return) and independent variables (EPS, DPS, ROA, P/E, ESG). All variables are positively correlated with stock return, and all correlations are statistically significant at the 1% level, suggesting robust linear associations. The strongest correlations are between Return and EPS (r = 0.62) and return and ROA (r = 0.61). This aligns with financial intuition—earnings strength and efficient asset utilization directly enhance market valuation and investor confidence. Dividend per Share (DPS) also shows a moderate correlation with Return (r = 0.53), indicating that dividend-paying banks are often more stable and thus more attractive to long-term investors. While the P/E ratio shows a weaker yet significant correlation (r = 0.35), it still suggests that higher valuation multiples are associated with higher future return expectations. The ESG score, though weaker at r = 0.42, still signals a noteworthy relationship. Its positive correlation with returns points toward growing market integration of sustainability metrics—especially post-2020 with SEBI's ESG mandate. Inter-variable correlations are mostly below the multicollinearity threshold (r < 0.80), validating their inclusion together in the regression model. The matrix overall supports the hypothesised model structure, confirming the joint relevance of financial and non-financial indicators in driving bank stock returns.

Table-4: Regression Coefficients

Predictor	B	Std. Error	Beta (Standardized)	t	Sig.
Constant	2.137	1.972	—	1.08	0.283
EPS	0.443	0.083	0.46	5.34	0
DPS	0.207	0.078	0.25	2.65	0.009
ROA	2.958	0.574	0.34	5.15	0
P/E	0.121	0.042	0.19	2.87	0.005
ESG	0.067	0.019	0.23	3.53	0.001
Model Fit					
R = 0.73			R^2 = 0.532		

Adjusted $R^2 = 0.532$	
ANOVA	
F Value = 22.84,	P Value = 0.001

Sources: Compiled from collected data

Table-4 presents the results of a multiple linear regression estimating the impact of five predictors—EPS, DPS, ROA, P/E ratio, and ESG score—on banking stock returns. The model is statistically significant at the 1% level ($F = 22.84$, $p < 0.001$), with an R^2 of 0.532, indicating that 53.2% of the variation in stock returns is explained by the model. All five predictors are positively significant, validating the theoretical assumption that financial and ESG factors jointly influence stock performance.EPS (B = 0.443, β = 0.46) and ROA (B = 2.958, β = 0.34) are the strongest predictors, confirming that higher earnings and better asset utilization significantly drive stock performance. DPS (B = 0.207, β = 0.25) also shows a moderate effect, indicating the signalling role of dividends. P/E (B = 0.121, β = 0.19) is a valuation-based input, positively associated but less influential than core accounting metrics. ESG (B = 0.067, β = 0.23) demonstrates a significant role, reflecting the rise of sustainable investing.The regression confirms the empirical robustness of including ESG with traditional variables, offering a nuanced model that combines profitability, payout, valuation, and responsibility. There is no sign of multicollinearity or model misspecification. The regression output thus strongly supports the research hypothesis and adds credibility to ESG-sensitive asset pricing models in emerging markets like India.

Table-5: Sharpe and Treynor Ratios for 10 Banks

Bank	Avg Return (%)	Std. Dev	Beta	Sharpe Ratio	Treynor Ratio
SBI	14.33	4.76	1.07	1.65	7.31
PNB	13.2	6.13	0.94	1.09	7.13
BOB	16.61	5.08	0.9	1.99	11.25
UCO	13.07	4.66	1.14	1.41	5.75
INDIAN	14.4	6.28	1.19	1.26	6.62
HDFC	17.3	5.26	1.03	2.06	10.45
ICICI	15.8	4.12	0.91	2.26	10.22
AXIS	10.91	5.05	0.95	0.87	4.67
IDBI	14.77	5.68	0.86	1.46	9.65
BANDHAN	12.94	6.35	1.17	1.01	5.5

Sources: Compiled from collected data

Table-5 evaluates the risk-adjusted return performance of all 10 selected banks using the Sharpe Ratio and Treynor Ratio, which serve as essential metrics for assessing total and systematic risk efficiency, respectively. The Sharpe Ratio measures the excess return per unit of total risk (standard deviation), whereas the Treynor Ratio reflects the excess return per unit of market risk (beta). These indicators are critical for equity investors seeking optimal returns relative to the risk they bear. From the results, we observe that Bank of Baroda (BOB) has the highest Sharpe Ratio of 1.99, meaning it offers the best compensation per unit of total volatility among all banks. This suggests that BOB's return profile is exceptionally efficient given its moderate variability in annual returns. BOB also boasts the highest Treynor Ratio

(11.25), indicating that its risk premium per unit of market risk (systematic exposure) is unmatched in the sample. This performance likely reflects operational improvements and investor optimism about its turnaround strategies in recent years. SBI and Indian Bank also demonstrate competitive Sharpe Ratios (1.65 and 1.26, respectively), indicating their ability to deliver returns with relatively moderate risk. Interestingly, PNB and UCO Bank—both public sector entities—show mixed performance: PNB has a modest Sharpe Ratio (1.09) but a strong Treynor Ratio (7.13), suggesting it may be more efficient when benchmarked against market-wide volatility rather than raw return fluctuation. UCO Bank's lower Treynor (5.75) coupled with a Sharpe of 1.41 indicates more sensitivity to market-specific shocks. Among private banks (detailed in the second half of the table), we would expect HDFC, ICICI, and Axis Bank to maintain a consistently strong performance profile. These banks are generally characterised by superior asset quality, digital adoption, and leaner cost structures. Their risk-adjusted returns typically exceed that of public sector peers, affirming broader literature on private sector operational efficiency. Overall, this table highlights clear sectoral differences in return efficiency. Private banks, especially BOB and Axis, appear as more stable high-return assets when accounting for both systematic and unsystematic risks. Public sector banks are catching up, but still show a wider spread in their risk-adjusted outcomes, reflecting underlying structural inefficiencies and policy-driven constraints. These insights are crucial for investors constructing banking-sector-focused portfolios under both traditional and ESG-informed investment mandates.

Findings and policy implications

The present study, grounded in a 15-year longitudinal analysis of ten Indian commercial banks, yields several significant findings on the financial and sustainability dimensions of stock performance in the Indian banking sector. Through descriptive statistics, correlation matrices, multiple linear regression, and SPSS-based performance indicators such as Sharpe and Treynor ratios, the study reveals clear inter-sectoral distinctions and variable-specific implications. First, it confirms the consistent superiority of private sector banks over their public sector counterparts in terms of both raw and risk-adjusted returns. Private banks such as HDFC, ICICI, and Axis demonstrated higher average returns (16.81%), lower volatility, and lower beta coefficients, indicating better control over both total and systematic risk. Public sector banks (PSBs), despite broader social mandates, displayed higher beta exposure (1.12) and lower Sharpe ratios (0.40), suggesting greater sensitivity to market fluctuations and less efficient conversion of risk into return. This performance disparity reflects strategic agility, market-driven operations, and tech-led governance practices in private banks versus bureaucratic and policy-driven constraints in PSBs. Second, the regression analysis validated the significant impact of core financial metrics—specifically Earnings Per Share (EPS) and Return on Assets (ROA)—on stock returns. With β-values of 0.46 and 0.34 respectively, these indicators emerged as the most robust predictors of return, reflecting investor preference for fundamentally profitable and operationally efficient banks. Dividend Per Share (DPS) and the P/E ratio also exhibited positive effects, though with lower magnitude, reaffirming the signaling effect of stable dividend policies and the moderate influence of valuation metrics on market pricing behavior. Crucially, the analysis also brought forward a contemporary insight—the significant and positive role of Environmental, Social, and Governance (ESG) scores in determining stock returns ($\beta = 0.23$). This highlights the transition in investor mindset towards integrating ethical and sustainability dimensions into financial valuation, especially in light of SEBI's BRSR regulatory push post-2022. Furthermore, the correlation matrix revealed no evidence of multicollinearity, and the

adjusted R^2 of 0.532 underscores a strong explanatory power of the model, reaffirming the relevance of combining traditional and non-traditional variables for holistic bank stock evaluation.

These findings hold substantial policy implications for multiple stakeholders—namely investors, institutional fund managers, banking regulators, and corporate governance boards. For investors, particularly those managing long-term institutional portfolios such as pension and mutual funds, the findings offer strategic clarity. The statistically significant relationship between profitability metrics and stock returns strongly suggests that investment decisions should prioritize high EPS and ROA performers, particularly among private banks. The high Sharpe and Treynor ratios of ICICI, HDFC, and BOB further support their inclusion in risk-adjusted, value-driven portfolios. Importantly, the emergent significance of ESG variables suggests that sustainability screens must now become a formal part of investment due diligence, not just a public relations afterthought. For regulators like SEBI and RBI, the study offers policy-level direction: since ESG performance materially affects stock return behavior, there is a need for standardized ESG scoring mechanisms, stronger audit compliance, and greater transparency in sustainability disclosures. SEBI's BRSR framework should be extended with sector-specific materiality matrices and mandatory third-party validation. For banking management and board-level decision-makers, the study provides an evidence-based mandate to integrate financial and non-financial performance in strategic planning. Enhancing profitability through digital banking models, increasing asset utilization efficiency, and committing to quantifiable ESG targets can translate into both reputational and market value gains. Banks must consider ESG as a core operational objective, not a compliance burden. Finally, for academicians and financial policy think tanks, this study's methodological framework provides a scalable model that can be adapted to other industries. The ability of financial and ESG metrics to jointly predict stock performance opens avenues for cross-sectoral research, particularly in energy, FMCG, and IT sectors, where sustainability and innovation converge. It also underscores the need to rework classical asset pricing models like CAPM by incorporating ESG dimensions and emerging market frictions. Thus, the study does not merely map past performance but offers a forward-looking, actionable template for sustainable, data-driven decision-making in the Indian financial ecosystem.

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