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Capturing the impact of accounting and regulatory variables on stock prices of banks – an empirical study of Indian banks in panel data modeling

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Abstract

Purpose – Analysts expect reduced bank earnings as a result of the impact of the increase in bad loans. Banks have strategically created high provision coverage ratios allocating large funds for possible deterioration in asset quality. Given the expected faster growth and recovery in the bank lending sector, investors have always been interested in banking stocks, despite the waves of non-performing assets (NPAs) and recessionary influences. Historical references reiterate that the banking stocks have been better performers in their returns compared to the capital markets.

Design/methodology/approach – The study aims to examine the impact of key accounting variables on the stock prices of Indian banks in the panel data framework.

Findings – The current study explores the impact of accounting variables on the market prices of shares. After the study, it may be concluded that earning per share (EPS), return on equity (ROE), capital adequacy ratio (CAR) and net interest margin (NIM) have an incremental impact on the prices of banking stocks, and the current ratio (CR) and NPAs have a detrimental impact on them.

Practical implications – Studying their impact on stock prices is the most convenient fundamental analysis that could be conducted on the stock prices of the banks.

Originality/value – To provide insights into the association of the accounting and regulatory variables there is a severe limitation in the quantity of the literature available. This study has attempted to build a relationship between the accounting and regulatory variables and the stock prices of banking stocks, to help investors with some reliable methods to estimate the stock prices in the future.

Keywords Banking stocks, Financial variables, Regulatory variables, Panel data modeling

Paper type Research paper

Erratum: It has come to the attention of the publisher that the article Sharma, S., Bhardwaj, I. and Kishore, K. (2023), "Capturing the impact of accounting and regulatory variables on stock prices of banks – an empirical study of Indian banks in panel data modeling", *Asian Journal of Accounting Research*, Vol. 8 No. 2, pp. 184-193. https://doi.org/10.1108/AJAR-11-2020-0110, was originally published with the tables presented as supplementary material via external links; these have now been amended and the supplementary material is hosted alongside the article to ensure that it remains accessible in perpetuity.

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