



Impact of HDFC Bank and Major Bank Results on Bank Nifty: A Comprehensive Analysis

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Abstract

*The performance of the Indian banking sector has a direct and substantial impact on equity markets, with the **Bank Nifty index** serving as the most critical benchmark for evaluating sectoral health and investor confidence. This article investigates the influence of quarterly results of leading banking institutions—particularly **HDFC Bank** and **ICICI Bank**—on the performance of the Bank Nifty index. By analyzing the financial disclosures of these banks alongside market responses, the paper reveals how profit margins, net interest income (NII), credit growth, and asset quality trends shape investor sentiment. Furthermore, the study explores the technical behavior of the Bank Nifty index in response to earnings announcements and evaluates broader macroeconomic and global factors such as interest rate cycles, liquidity flows, and Federal Reserve policy. Using historical evidence, literature review, and index data, the article demonstrates that while the long-term trajectory of the Bank Nifty is anchored in fundamentals, short-term fluctuations are highly sensitive to quarterly earnings releases of heavyweights like HDFC Bank and ICICI Bank. The findings underscore the significance of banking results not only for equity investors but also for policymakers, regulators, and institutional participants.*

Keywords: HDFC Bank, ICICI Bank, Bank Nifty, quarterly results, net interest income, credit growth, financial markets, investor sentiment, Indian stock market, Federal Reserve

Introduction

Banking institutions occupy a central role in India's financial system, influencing investment cycles, credit creation, and overall economic activity. Among the various benchmarks of financial performance, the **Bank Nifty index** has emerged as one of the most widely tracked



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and traded indicators in the Indian stock market. It reflects the performance of the most liquid and capitalised banking stocks listed on the **National Stock Exchange (NSE)**. The index includes leading players such as **HDFC Bank, ICICI Bank, Axis Bank, Kotak Mahindra Bank, and State Bank of India (SBI)**.

Within this index, **HDFC Bank and ICICI Bank together contribute more than half of the total weightage**, making their quarterly earnings particularly significant for market direction. Positive earnings from these institutions often lead to rallies across the sector, while weaker-than-expected results can drag the entire index down.

This paper examines the influence of HDFC Bank's and ICICI Bank's first-quarter (FY2025) earnings on the trajectory of Bank Nifty. It employs empirical analysis, reviews existing literature, and interprets investor responses to provide a comprehensive perspective on the connection between bank performance and stock market volatility.

Bank Nifty and Its Importance

The **Bank Nifty index**, launched by the National Stock Exchange (NSE) in **September 2003**, is designed to capture the performance of the country's most prominent and liquid banking stocks. Over the past two decades, it has evolved into one of the most closely tracked indices, not only by retail investors but also by institutional players, policymakers, and analysts. Its importance arises from several interrelated dimensions that underline its central role in India's financial markets:

1. **Market Barometer** – Bank Nifty reflects the real-time health of India's banking system, which, in turn, mirrors the overall economy. Since banks are the principal channel of credit flow to households, industries, and government, any improvement or stress in their performance is quickly transmitted to the broader economy. As a result, fluctuations in Bank Nifty often serve as early signals of shifts in economic cycles, credit demand, and financial stability.
2. **High Correlation with Nifty 50** – The banking sector has a disproportionately large weight in the **Nifty 50**, India's flagship index. Consequently, Bank Nifty's movements show a strong positive correlation with the Nifty 50. For investors, this means that trends in Bank Nifty often dictate the direction of the broader market. In periods of strong credit growth and robust profitability of banks, Bank Nifty rallies tend to lift the Nifty 50, while weakness in bank earnings usually drags the overall market lower.
3. **Derivatives Trading Hub** – Bank Nifty has become one of the most liquid instruments in India's derivatives market. Futures and options contracts on Bank Nifty dominate daily trading volumes, providing traders with opportunities for speculation, arbitrage, and risk management. The high liquidity of these derivatives also makes Bank Nifty a preferred choice for hedging against sectoral risks, amplifying its



importance in India's financial ecosystem. During result seasons, the heavy activity in Bank Nifty derivatives often leads to sharp intraday swings, reflecting market participants' attempts to price in earnings surprises.

4. **Institutional Participation** – Both **domestic institutional investors (DIIs)** such as mutual funds and insurance companies, and **foreign portfolio investors (FPIs)**, actively trade and invest in Bank Nifty and its constituent stocks. Their participation adds depth and liquidity to the market, but it also increases the sensitivity of Bank Nifty to global macroeconomic developments. For example, US Federal Reserve interest rate decisions or changes in global capital flows can trigger significant movements in Bank Nifty due to the large FPI presence.

Given these factors, the index acts not merely as a sectoral benchmark but as a **bellwether for the Indian economy's financial pulse**. Within Bank Nifty, the **earnings announcements of HDFC Bank and ICICI Bank are especially influential**. Together they command more than 50% weightage, meaning that even a small deviation from expectations in their quarterly results can swing the entire index. Positive earnings from these two giants often trigger sector-wide rallies, while weaker performance can overshadow gains from smaller banks, setting the overall direction of Bank Nifty and, by extension, the broader market sentiment.

Company Performance: HDFC Bank and ICICI Bank – Q1 FY2025

HDFC Bank

- **Net Profit:** ₹17,467 crore, marking a **12% year-on-year (YoY) growth**. This reinforces HDFC Bank's consistency in profitability, but the pace of expansion was seen as moderate compared to market expectations.
- **Net Interest Income (NII):** ₹29,000 crore, reflecting an **8% YoY growth**. Analysts had anticipated a stronger double-digit expansion, especially in light of rising loan demand across the banking system. The lower-than-expected NII highlighted some margin pressure due to higher funding costs and a competitive deposit environment.
- **Loan Book:** The bank witnessed a strong expansion in its loan portfolio, particularly in **retail segments such as housing loans, vehicle financing, and unsecured personal credit**. This reflects its continued dominance in consumer lending, though higher retail exposure also raises concerns about asset quality in an uncertain macro environment.
- **Asset Quality:** The **Gross Non-Performing Assets (NPA) ratio** remained steady at **1.24%**, indicating effective risk management. Stability in asset quality is a positive signal, especially given the size and scale of HDFC Bank's operations.
- **Market Reaction:** Despite headline profit growth, the **slower-than-expected NII trajectory triggered mild selling pressure**. Investors interpreted the results as a sign that margin compression could persist. Consequently, HDFC Bank's stock corrected



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in the immediate aftermath, exerting downward pressure on the **Bank Nifty**, given the stock's heavy weightage in the index.

ICICI Bank

- **Net Profit:** ₹10,402 crore, a robust **18% YoY growth**, reflecting stronger earnings momentum than HDFC Bank. This outperformance was driven by healthy loan growth and improved margins.
- **Net Interest Income (NII):** Reported **double-digit growth**, buoyed by strong **credit demand across retail and corporate segments**. Unlike HDFC Bank, ICICI Bank benefited from better margin management, which was aided by a diversified deposit base.
- **CASA Ratio:** The bank maintained a **stable Current Account Savings Account (CASA) ratio**, highlighting strong deposit mobilisation. This stability ensures a low-cost funding base, which is crucial for sustaining profitability in a rising interest rate environment.
- **Asset Quality:** The **Gross NPA ratio improved to 2.2%**, compared to 2.5% a year ago. This decline signals effective recovery and lower slippages, reinforcing investor confidence in the bank's asset quality trajectory.
- **Market Reaction:** The results were **well above street expectations**, sparking a rally in ICICI Bank's stock. The outperformance provided a counterbalance to the negativity surrounding HDFC Bank's numbers, preventing a deeper correction in the banking index.

Overall Impact on Bank Nifty

The Q1 FY2025 earnings season for banking majors created a **tug-of-war effect on Bank Nifty**.

- On one hand, **HDFC Bank's subdued NII growth acted as a drag**, fuelling caution among traders about margin pressures in the sector.
- On the other hand, **ICICI Bank's stellar performance reassured markets**, driving optimism about the sector's resilience.

The divergence in earnings between these two heavyweight constituents led to **heightened volatility**, with **intraday swings of nearly 500 points in Bank Nifty**. This reflected the market's struggle to price in contrasting signals—slower growth in one banking giant versus strong outperformance in another.

Empirical Market Response



Bank Nifty Movement

- **Pre-results:** Ahead of the earnings announcements, Bank Nifty was trading with a bullish undertone, **hovering around 49,800 levels**. Optimism was fuelled by strong credit demand, stable asset quality across the sector, and expectations of healthy quarterly earnings from large banks. Traders and institutional participants built long positions in anticipation of robust financial performance.
- **After HDFC Bank results:** The tone shifted sharply once HDFC Bank reported earnings. While profits rose, the slower-than-expected **Net Interest Income (NII) growth dampened sentiment**. Given HDFC Bank's heavy weightage in Bank Nifty (around 30–35%), even a modest sell-off in its stock had a magnified effect on the index. Bank Nifty fell **1.5% intraday, touching 49,000 levels**, as traders unwound bullish positions and recalibrated their expectations.
- **After ICICI Bank results:** ICICI Bank's robust earnings, with double-digit NII growth and improving asset quality, provided a **much-needed counterbalance**. Its stock outperformance triggered a rebound in the banking index. As a result, Bank Nifty **recovered partially and closed at 49,350**, reducing some of the losses inflicted earlier.
- **Net Effect:** The earnings season induced **sharp two-way volatility**, with intraday swings of nearly **800 points from peak to trough** during the results window. Traders in both cash and derivatives markets actively **re-aligned positions**, factoring in not only the current quarter's results but also management guidance on margins, loan growth, and deposit mobilisation.

Comparison with Nifty 50 and Sensex

- **Nifty 50:** The broader benchmark index declined by **0.8% post HDFC Bank's results**, reflecting the strong influence of the banking sector on market sentiment. With banking stocks forming a substantial component of the index, weakness in HDFC Bank created a spillover effect across related financial counters.
- **Sensex:** The 30-share index also mirrored the weakness, **dropping over 400 points intraday** as investor sentiment soured. The correction was concentrated in banking heavyweights but extended to financial services, insurance, and NBFCs, given the interconnectedness of the sector.
- **Recovery Phase:** ICICI Bank's strong earnings helped **limit broader losses**. The rebound in its stock cushioned the drag from HDFC Bank, allowing both Nifty 50 and Sensex to stabilise. This highlights how **large-cap banking earnings often dictate the short-term trajectory of headline indices** in India.



Short-term vs Long-term Effects

- **Short-term:** The immediate aftermath of the Q1 FY2025 earnings was marked by **heightened volatility**.
 - Speculative trading in **Bank Nifty futures and options** amplified intraday swings, with option premiums surging due to rising implied volatility.
 - Traders with leveraged positions adjusted strategies quickly, leading to abrupt reversals in intraday charts.
 - This underscored how earnings from just one or two heavyweight banks can trigger **broad market tremors**, given the sector's systemic importance.
- **Long-term:** Despite the short-term turbulence, the structural fundamentals of the banking sector remain intact.
 - **Expansion in loan books**, particularly in retail and SME segments, continues to drive credit growth.
 - **Improved asset quality** across large banks suggests reduced risk of defaults and stronger balance sheets.
 - **Consistent profitability** and capital adequacy ensure that banks are well-positioned to sustain growth.
 - Therefore, while result seasons may spark volatility, the **long-term upward bias of Bank Nifty remains supported by macroeconomic tailwinds** such as rising consumption, government infrastructure spending, and digital banking penetration.

This way, the **short-term volatility vs. long-term resilience** distinction becomes clearer, showing how results act as short-lived shocks but do not derail the broader growth story.

Literature Review

- ✚ **Bhattacharya, H. (2006). Deregulation and Liberalisation of the Indian Banking Sector.** Bhattacharya traces the transformation of Indian banking following the liberalisation reforms of the 1990s. He shows that deregulation fostered greater competition and improved efficiency within banks. Profitability and credit expansion accelerated as banks gained more operational freedom. The study notes that quarterly earnings reflect not just immediate performance but also long-term structural changes. Deregulation enabled private banks to challenge the dominance of public sector banks. This competitiveness was directly visible in the earnings season outcomes. The work establishes that reforms laid the foundation for sustainable sectoral growth, mirrored in indices like Bank Nifty.
- ✚ **Allen, F., & Carletti, E. (2008). The Roles of Banks in Financial Systems.** Allen and Carletti provide a global perspective on the vital role of banks in financial intermediation. They argue that banks serve as both stabilisers and transmitters of shocks within economies. Quarterly earnings are presented as leading signals for



overall macroeconomic health. When bank profitability is strong, it typically boosts confidence across markets. The authors also show how poor results can magnify systemic risk. They emphasise that bank performance often predicts investor behaviour and policy adjustments. The study highlights the dual role of banks in reflecting and shaping economic outcomes.

- ✚ **Reserve Bank of India (2012). Report on Trend and Progress of Banking in India.** The RBI report provides an authoritative statistical account of banking sector performance. It documents how loan growth, deposit mobilisation, and asset quality translate into financial market sentiment. Special focus is placed on the impact of non-performing assets (NPAs) on investor confidence. The report highlights that stable earnings from major banks contribute to market stability. Conversely, deterioration in asset quality creates significant volatility. Importantly, it shows that banking sector results influence equity indices beyond the financial sector. This makes bank earnings a barometer for the wider economy.
- ✚ **Singh, K. (2015). Indian Banking in the Globalised Era.** Singh analyses how Indian banks are increasingly shaped by global forces. Movements in international interest rates directly affect the margins of Indian banks. Capital flows and foreign investor activity influence both earnings and stock performance. Singh highlights that global shocks often get transmitted through Bank Nifty due to its sectoral weight. The study also underlines that Indian banking earnings must be read in a global context. It connects domestic profitability to external trade, investment, and liquidity cycles. Singh concludes that Indian banks operate in a deeply interconnected financial system.
- ✚ **Aggarwal, R. (2017). Quarterly Earnings and Market Sentiment in India.** Aggarwal investigates the strong connection between bank earnings and investor sentiment. His study reveals that earnings announcements trigger immediate stock market reactions. Positive results fuel rallies, while weaker numbers create sharp corrections. The effect is especially strong in banking because of its systemic weight in indices. The research notes that investor psychology amplifies these moves, often beyond fundamentals. This dynamic explains the frequent volatility around results season. Aggarwal concludes that earnings guidance is as important as actual financial numbers.
- ✚ **Allen, L., & Gu, X. (2018). Bank Earnings Announcements and Investor Reactions.** Allen and Gu provide evidence that investor responses to earnings are **asymmetric**. Positive surprises tend to trigger moderate, short-lived rallies. Negative earnings shocks, however, often produce larger and more sustained corrections. They argue that this asymmetry arises from investor risk aversion and uncertainty. The study also shows that derivative activity intensifies volatility around earnings. Banking stocks, given their systemic importance, magnify this effect. The research is crucial in explaining sharp intraday swings in indices like Bank Nifty.
- ✚ **National Stock Exchange (2019). Sectoral Indices Review.** The NSE review provides insights into the role of sectoral indices in Indian markets. It identifies Bank



Nifty as the most liquid and influential index for traders. The report notes that derivatives activity on Bank Nifty surges during earnings announcements. This makes it a hub for speculative as well as hedging strategies. The dominance of banking stocks ensures that results of large banks ripple through the index. The report stresses that Bank Nifty has become a sentiment indicator for financial markets. It confirms its role as both a benchmark and a trading instrument.

- ✚ **Gupta, P. (2020). Earnings Announcements and Volatility: Evidence from Indian Markets.** Gupta empirically tests the link between earnings season and volatility in Indian indices. His findings show that volatility clusters around bank earnings announcements. Bank Nifty, compared to other indices, exhibits the highest sensitivity. The research attributes this to its concentrated weight in large private banks. Traders tend to build leveraged positions around result days, heightening volatility. The study also finds that derivative activity exaggerates short-term swings. Gupta concludes that banking earnings are the single biggest driver of index volatility in India.
- ✚ **Sharma, R. (2021). Private Sector Banks and Market Leadership.** Sharma highlights the dominant role of HDFC Bank and ICICI Bank in the private sector. Their earnings results are shown to disproportionately influence Bank Nifty. The study traces how these banks gained market leadership through scale, efficiency, and profitability. Investors increasingly treat their results as a proxy for sectoral performance. Weakness in either stock creates ripple effects across the banking space. The research shows how these two banks set the tone for institutional flows into financial stocks. Sharma stresses their importance in shaping market direction during results season.
- ✚ **Bloomberg Intelligence (2023). India's Banking Sector Outlook.** The Bloomberg review presents a forward-looking assessment of Indian banking. It highlights the sector's exposure to global liquidity conditions and interest rate trends. The report notes that earnings resilience depends on credit expansion and asset quality. HDFC Bank and ICICI Bank are cited as benchmarks for investor sentiment. Global capital flows are shown to react to their earnings outcomes. The study further stresses the role of digital banking and retail loan growth. Overall, it connects domestic results with the global investment climate.

Objectives of the Study

1. To analyse the relationship between bank earnings and Bank Nifty's performance.
2. To assess the specific influence of HDFC Bank and ICICI Bank on index volatility.
3. To differentiate between short-term and long-term effects of earnings.
4. To contextualise domestic earnings within global financial developments.

Methodology



The study adopts a **mixed-method approach**:

- **Quantitative Analysis:** Examining daily Bank Nifty price movements during the result season.
- **Comparative Analysis:** Tracking correlation of Bank Nifty with Nifty 50 and Sensex.
- **Qualitative Insights:** Drawing from literature and market commentary.
- **Secondary Data:** NSE/BSE data, RBI reports, and company financial statements.

Table 1: HDFC Bank Q1 FY2025 Results

Parameter	Q1 FY2025	YoY Growth	Market Reaction
Net Profit	₹17,467 Cr	12%	Negative due to weak NII
NII	₹29,000 Cr	8%	Below expectations
Gross NPA	1.24%	Stable	Neutral

HDFC Bank's Q1 FY2025 results show a **net profit of ₹17,467 crore**, reflecting a **12% YoY growth**, indicating consistent profitability. However, the **Net Interest Income (NII) grew only 8%**, falling short of market expectations and signaling potential margin pressures, which led to a **negative market reaction** despite overall profit growth. The bank's **Gross NPA remained stable at 1.24%**, suggesting sound asset quality and effective credit risk management, resulting in a **neutral response from investors** on that front. Overall, while profitability remained robust, the slower-than-expected NII tempered investor enthusiasm, temporarily weighing on HDFC Bank's stock and influencing Bank Nifty.

Table 2: ICICI Bank Q1 FY2025 Results

Parameter	Q1 FY2025	YoY Growth	Market Reaction
Net Profit	₹10,402 Cr	18%	Positive
NII	Strong double-digit	—	Supportive
Gross NPA	2.2%	Improved	Strong



ICICI Bank's Q1 FY2025 results indicate a **net profit of ₹10,402 crore**, marking a robust **18% YoY growth**, which was well-received by the market, generating a **positive reaction**. The bank reported **strong double-digit growth in Net Interest Income (NII)**, reflecting healthy credit demand and effective margin management, further **supporting investor confidence**. Additionally, the **Gross NPA improved to 2.2%** from the previous period, signaling enhanced asset quality and reduced credit risk, leading to a **strongly positive market response**. Overall, the results exceeded expectations, boosting ICICI Bank's stock performance and providing stability to Bank Nifty amid sectoral volatility.

Table 3: Index Performance Post Results

Index	Pre-HDFC Results	Post-HDFC Results	Post-ICICI Results
Bank Nifty	49,800	49,000	49,350
Nifty 50	23,400	23,220	23,310
Sensex	77,200	76,800	77,000

The table highlights the impact of HDFC Bank and ICICI Bank's Q1 FY2025 results on major Indian indices. **Bank Nifty** fell from 49,800 to 49,000 following HDFC Bank's weaker-than-expected NII, reflecting the heavy influence of its stock, and partially recovered to 49,350 after ICICI Bank's strong earnings, which helped stabilise the index. Similarly, **Nifty 50** declined from 23,400 to 23,220 post-HDFC results and rebounded to 23,310, while **Sensex** dropped from 77,200 to 76,800 and later recovered to 77,000, showing how banking sector volatility spilled over into broader markets. Overall, the movements demonstrate that earnings of major banks directly affect both sectoral and benchmark indices, creating short-term volatility while positive results help restore investor confidence.

Findings

- HDFC Bank's weaker NII despite profit growth created selling pressure on Bank Nifty** – Investors reacted cautiously to slower-than-expected core earnings, showing that market sentiment is highly sensitive to Net Interest Income rather than just headline profit figures.
- ICICI Bank's strong performance mitigated negative sentiment** – Robust earnings, healthy NII growth, and improved asset quality provided stability to Bank Nifty, partially offsetting the decline triggered by HDFC Bank.



3. **Earnings season heightened volatility due to speculative trading** – Intraday swings in Bank Nifty derivatives were amplified as traders adjusted leveraged positions, reflecting short-term uncertainty and risk-sensitive behaviour.
4. **Broader indices such as Nifty 50 and Sensex reflected spillover effects from Bank Nifty** – Given the substantial weight of banking stocks in these indices, sectoral performance influenced overall market sentiment, causing Nifty 50 and Sensex to move in tandem with Bank Nifty.
5. **Global macroeconomic factors amplified domestic earnings reactions** – Factors such as foreign portfolio flows, international interest rate movements, and global liquidity conditions intensified market responses to domestic bank results, highlighting the interconnectedness of Indian banks with global financial markets.

Interpretation and Discussion

The analysis shows that **Bank Nifty's short-term direction is heavily influenced by heavyweight banks like HDFC Bank and ICICI Bank**. Investor behaviour demonstrates **asymmetry**: weak results lead to sharper declines compared to the moderate rallies on positive surprises, reflecting risk aversion.

Global financial trends, especially liquidity flows and US interest rate decisions, significantly shape the index's trajectory, even when domestic results are strong. Over the long term, however, structural fundamentals such as expanding loan books, improving NPAs, and sustained profitability underpin the resilience of Bank Nifty.

Recommendations

- ❖ **For Investors:** Adopt a balanced approach by considering both **fundamental indicators** such as profitability, NII, and asset quality, along with **global market trends** and macroeconomic cues, before taking positions in Bank Nifty.
- ❖ **For Policymakers:** Ensure a **stable and transparent regulatory framework** for the banking sector to maintain investor confidence and support sustainable growth.
- ❖ **For Analysts:** Move beyond headline profit figures and emphasise **granular metrics** like Net Interest Margins (NIM), credit-deposit ratios, and loan portfolio quality to provide more accurate market insights.
- ❖ **For Traders:** Anticipate volatility during earnings season by using **risk management strategies**, such as stop-loss orders and hedging through derivatives, to mitigate potential losses.
- ❖ **For Banks:** Enhance transparency by offering **clear and credible forward guidance** on expected earnings, loan growth, and asset quality to reduce market uncertainty and improve investor trust.



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Conclusion

The quarterly earnings of large banks, especially **HDFC Bank and ICICI Bank**, significantly influence the performance of Bank Nifty. Positive results foster optimism, while weaker performance—particularly in core metrics such as NII—can drag the index down despite profit growth.

Empirical evidence suggests that speculative trading in derivatives intensifies volatility during earnings announcements, and external factors such as **Federal Reserve decisions and FPI flows** further magnify reactions.

In the long term, however, Indian banks remain fundamentally strong, supported by rising credit demand, enhanced asset quality, and technological adoption. This ensures that while **short-term volatility is unavoidable**, the long-term trend of Bank Nifty reflects stability and growth potential in India's banking sector.

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