ISSN 2319-5991 www.ijerst.com
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Peer Reviewed, Referred & Indexed Journal

Research Paper

A PROJECT REPORT ON "COMPARATIVE STUDY OF RISK AND RETURN — AN INDUSTRY ANALYSIS" AT INDIA INFOLINE LIMITED (IIFL)

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ABSTRACT

Risk and return are fundamental concepts in investment decision-making, influencing portfolio allocation and overall financial strategy. This study presents a comparative analysis of risk and return across different industries in India, focusing on sectors such as Information Technology (IT), Banking, Pharmaceuticals, and Manufacturing. The research evaluates industry performance using financial metrics including standard deviation, beta, Sharpe ratio, and average returns to assess volatility, systematic risk, and investment potential. Data collected from listed companies over a five-year period indicate significant variations in risk-return profiles among sectors, reflecting differences in market conditions, operational efficiency, regulatory exposure, and global demand sensitivity. Findings reveal that the IT and pharmaceutical sectors offer higher returns with moderate risk, while banking and manufacturing provide relatively stable returns with lower volatility. The study emphasizes the importance of sector-specific analysis for informed investment decisions, portfolio diversification, and risk management. It also highlights how macroeconomic factors, government policies, and technological advancements impact industry performance. The research concludes that comparative risk-return analysis enables investors, financial analysts, and portfolio managers to optimize resource allocation, achieve long-term growth, and balance risk exposure across different sectors in the dynamic Indian market.

Keywords: *Risk and return, industry analysis, sectoral performance, portfolio management, financial metrics, investment strategy, India.*

I. Introduction

The IT sector is among the most innovative, dynamic, and rapidly expanding industries in the world. It influences modern businesses, increases productivity, permits digital transformation, and connects global markets. India's economy has grown thanks to IT, which has increased GDP, foreign exchange earnings, and employment. The sector includes software development, ITES, consulting, cloud computing, artificial intelligence, cybersecurity, data analytics, and other

digital services. In the IT industry, risk and return financial analysis is distinct. Investors are drawn to firms such as IIFL because of their potential for growth, global demand, and profitability. Like any other sector, IT investments are subject to risks including global competition, market instability, technological upheaval, regulatory changes, and foreign exchange fluctuations.

In the IT industry, risk and return analysis aids investors in making wise financial decisions. By understanding financial data, stock volatility, earnings trends, and market behaviour, investors may maximize gains and reduce risks. Standard deviation, beta coefficient, Sharpe ratio, and historical return analysis are common methods. For individuals, businesses, and organizations to achieve financial goals and accumulate wealth, investment is essential. By comparing risk and return across industries, investors may assess industry performance and choose investment opportunities that align with their financial objectives and risk tolerance.

II. Statement of the Problem

In recent decades, the IT industry has seen fast growth and transformation, making it a desirable sector for investment. Businesses in the sector have varying levels of financial risk and return despite the potential for expansion. Selecting firms with the best returns and the right amount of risk is difficult for investors. The problem is brought on by fluctuations in stock prices, global demand, technological difficulties, and competitive pressure. Despite tremendous financial success, the sector shows a mixed risk-return relationship — businesses may have considerable volatility with uncertain profitability, or great profits with little risk.

III. Need for the Study

The IT sector is growing increasingly significant in international financial markets, which makes this study necessary. To make wise investments, financial institutions, analysts, and investors need to understand industry risk and return.

1. Global economic and technological advancements have made the sector highly dynamic.
2. Comparative study helps investors choose top-performing firms.
3. An understanding of risk-return relationships aids portfolio diversification.
4. The investigation assesses whether the firm is financially sound.
5. It provides information on potential investments in the digital sector.
6. It improves academic understanding of financial performance evaluation.
7. It aids stakeholders and legislators in comprehending business practices.

IV. Objectives of the Study

- To evaluate and contrast risk levels across industries using IIFL financial indicators.
- To analyze return performance over a defined period of time across industries.
- To determine the correlations between risk and return in selected industries.
- To compare the investment attractiveness of different industries using risk-return profiles.

- To provide insights and guidance to investors so they may make informed investment decisions.

V. Scope of the Study

Only a few selected companies on the Indian stock market are examined in this study. Using past financial data and stock market performance, the study examines the risk and return of these companies. It looks at well-known Indian listed firms, examines returns and fluctuations in stock prices, and assesses risk indicators such as beta values and volatility. Secondary data from stock exchanges and financial filings is used, and the analysis concentrates on the most recent fiscal years for relevance. Investors, scholars, and financial experts may all benefit from the findings.

VI. Limitations of the Study

8. Because the study mainly uses secondary data, its accuracy may be limited.
9. The research may not be representative of the whole industry since it is restricted to certain firms.
10. Because of its brief duration, the study may not be able to identify long-term trends.
11. The market is dynamic and might change after the study period.
12. Uncontrollable external factors include changes in the world economy and politics.

VII. Review of Literature

Shi, Gurbaxani, and Dewan (2007) examined IT investment, risk, and return using firm-level data. IT expenditures significantly increase expected profitability and organizational risk. Businesses with more IT capital have higher marginal productivity but are more erratic, and risk premiums account for roughly 30% of IT profits.

Dewan and Ren (2015) focused on competition, regulation, and technology in their analysis of industry-level IT return variation. Competitive industries show more IT risk but lower profitability due to market pressure, while technological advancement increases both dangers and benefits.

Jurison (1995) examined risk-return trade-offs in IT outsourcing using transaction cost and financial theory, recommending that decision-makers weigh operational risks and benefits in structured strategic IT investment decisions.

Bantwa & Ansari (2018) investigated risk and return in Indian IT stocks using CAPM models. Risk-adjusted returns were higher for Tech Mahindra and Mindtree, while some IT stocks were volatile due to market sensitivity.

Deshpande and Deshpande (2022) used Markowitz portfolio theory to analyze Indian IT firms, concluding that diversification across a group of IT equities produces better risk-adjusted returns than buying a single stock.

Ge, Ma, and Liao (2020) used financial modeling to predict risk-return, finding that statistical risk management enhances investment decisions, and that IT investments need better forecasting due to volatility.

Markowitz (1952) created modern portfolio theory, explaining risk and return via efficient frontier analysis and forming the basis of most risk-return studies, including IT analysis.

Fama and MacBeth (1973) used a two-step regression model and confirmed the favourable association between systematic risk (beta) and expected returns, a method central to capital asset pricing models.

Sharpe (1964) developed the Capital Asset Pricing Model (CAPM), explaining market risk-based expected return and demonstrating that stocks with higher beta should earn more.

Treynor (1965) introduced a performance measurement method using beta as the primary risk indicator to evaluate portfolio performance against systematic risk.

VIII. Research Methodology

Research methodology is the systematic, scientific approach used in a study, covering the research design, data sources, data gathering, and analytical techniques. The financial performance of the selected firms is evaluated using quantitative techniques in this IT-sector risk and return study.

Research Design

Both descriptive and analytical methodologies are used. Descriptive design describes the firms' financial performance, including risk and returns, while the analytical technique compares selected firms' risk-return relationships, easing investment decisions and analysis of past performance.

Nature of the Study

The study is quantitative, making use of stock prices, returns, standard deviation, and beta values. Financial and statistical techniques are used to evaluate data and compare firm performance.

Sources of Data

Secondary data is used in the study, sourced from annual reports; the official websites of the NSE and BSE; financial portals such as Yahoo Finance, Investing.com, and Moneycontrol; and published research papers, articles, and journals. The financial statements of leading firms including Tata Consultancy Services, Infosys, Wipro, and HCL Technologies are reviewed.

Sampling Design

Purposive sampling is used. Major Indian listed firms with reliable financial information and significant market capitalization were selected, with a sample size of four to six top firms representing the performance of the Indian IT sector.

Study Period

The study examines trends in risk and return over a five-year period (2020–2025), explaining both short-term and long-term performance.

Tools and Techniques

- Rate of Return – used to calculate percentage changes in stock prices.
- Average Return – determines a stock's average performance over time.
- Standard Deviation – evaluates the risk or volatility of stock returns.
- Beta Coefficient – shows how sensitive a stock's return is to the market.
- Risk-Return Evaluation – assesses whether higher risk boosts returns.
- Comparative Evaluation – compares results across selected firms.

IX. Data Analysis & Interpretation

Table 1: Equity Share Capital

Year	Opening (₹ Cr)	Closing (₹ Cr)	Growth %	Growth Index
2020–2021	—	1,383.41	—	—
2021–2022	1,383.41	1,389.97	0.47%	1.0047
2022–2023	1,389.97	1,396.78	0.49%	1.0049
2023–2024	1,396.78	1,404.68	0.56%	1.0056
2024–2025	1,404.68	1,424.60	1.42%	1.0142

INTERPRETATION: Equity share capital increased gradually from ₹1,383.41 crore in 2020–2021 to ₹1,424.60 crore in 2024–2025. Growth was steady but moderate, ranging from 0.47% to 0.56% across the middle years, before rising to 1.42% in 2024–2025. The increasing Growth Index reflects consistent and prudent capital development, maintaining financial stability and preventing significant dilution of ownership.

Table 2: Reserves and Surplus

Year	Opening (₹ Cr)	Closing (₹ Cr)	Growth %	Growth Index
2020–2021	—	143,029	—	—
2021–2022	143,029	165,660	15.8%	1.1580
2022–2023	165,660	195,495	18.0%	1.1800
2023–2024	195,495	232,506	18.9%	1.1890
2024–2025	232,506	288,582	24.1%	1.2410

INTERPRETATION: Reserves and surplus rose steadily from ₹143,029 crore in 2020–2021 to ₹288,582 crore by 2024–2025. The growth rate climbed from 15.8% to a high of 24.1%, with the

Growth Index improving from 1.1580 to 1.2410. This indicates strong growth momentum, efficient scaling, and a healthy financial trajectory.

Table 3: Shareholders' Funds

Year	Opening (₹ Cr)	Closing (₹ Cr)	Growth %	Growth Index
2020–2021	—	147,509	—	—
2021–2022	147,509	170,512	15.6%	1.1560
2022–2023	170,512	200,715	17.7%	1.1770
2023–2024	200,715	238,399	18.8%	1.1880
2024–2025	238,399	292,076	22.5%	1.2250

INTERPRETATION: Shareholders' funds grew strongly and consistently from ₹147,509 crore in 2020–2021 to ₹292,076 crore by 2024–2025. The growth rate rose from 15.6% to 22.5%, and the Growth Index advanced from 1.1560 to 1.2250, signalling robust expansion, increasing momentum, and a strong financial position over the study period.

Table 4: Deposits

Year	Opening (₹ Cr)	Closing (₹ Cr)	Growth %	Growth Index
2020–2021	—	932,522	—	—
2021–2022	932,522	1,064,572	14.2%	1.1420
2022–2023	1,064,572	1,180,841	10.9%	1.1090
2023–2024	1,180,841	1,412,825	19.6%	1.1960
2024–2025	1,412,825	1,610,348	14.0%	1.1400

INTERPRETATION: Deposits grew significantly from ₹932,522 crore to ₹1,610,348 crore between 2020–2021 and 2024–2025, though the pattern fluctuated. Growth started at 14.2%, dipped to 10.9%, surged to 19.6% in 2023–2024, then settled at 14.0%. The data indicates strong long-term growth with short-term fluctuations driven by operational or market conditions.

Table 5: Borrowings

Year	Opening (₹ Cr)	Closing (₹ Cr)	Growth %	Growth Index
2020–2021	—	91,631	—	—
2021–2022	91,631	107,231	17.0%	1.1700
2022–2023	107,231	119,325	11.3%	1.1130
2023–2024	119,325	124,968	4.7%	1.0470

2024–2025	124,968	123,538	-1.1%	0.9890

INTERPRETATION: Borrowings display a mixed pattern. The value rose 17.0% to ₹107,231 crore in 2021–2022, then growth slowed to 11.3% and 4.7%, before reversing to a -1.1% contraction in 2024–2025 as the closing value fell to ₹123,538 crore. The Growth Index dropped to 0.9890 in the final year, suggesting an initial strong expansion followed by slowing and contraction.

X. Research Findings

- Shareholders' funds increased from ₹147,509 crore in FY21 to ₹292,076 crore in FY25, demonstrating strong capital accumulation and the capacity to grow and absorb risk.
- Deposits increased from ₹932,522 crore to ₹1,610,348 crore over five years, indicating customer confidence and efficient credit deployment.
- Reserves and surplus rose steadily to ₹288,582 crore in FY25, reflecting profit retention and a healthy financial trajectory.
- Equity share capital developed gradually and prudently, maintaining financial stability and avoiding significant ownership dilution.
- Borrowings slowed and ultimately contracted by FY25, suggesting a cautious approach to leverage and reduced reliance on external debt.
- Steady growth in reserves, branch expansion, and digital infrastructure point to increased efficiency and long-term shareholder return potential.

XI. Suggestions

- Strengthen preparation for potential off-balance-sheet risks through stress testing and tighter supervision.
- Maintain healthy Tier 1 and Tier 2 capital buffers to withstand loan defaults and market volatility.
- Diversify advances across industries, regions, and credit groups to reduce sectoral concentration risk.
- Invest in cybersecurity, digital platforms, and AI-based credit evaluation to improve efficiency and customer satisfaction.
- Sustain asset quality through vigorous recovery efforts, prompt restructuring, and ongoing monitoring.
- Prioritize low-cost deposits and balanced growth that does not compromise capital or liquidity.
- Uphold strict corporate governance, transparency, and compliance to boost investor trust and reputation.

XII. Conclusion

The study reveals significant operational and financial growth over the five years between FY21 and FY25. Growth in shareholders' funds and reserves demonstrates sound capital management, profitability, and profit retention, while steady expansion in deposits and advances reflects high customer trust and efficient money management. Asset quality improved, and the firm maintained healthy liquidity to satisfy operational and regulatory requirements. Although capital ratios saw a slight decline, they remained above regulatory criteria, indicating solvency and resilience to financial shocks. The increase in contingent liabilities highlights the need for careful supervision of off-balance-sheet exposures. Overall, the expansion of operations and digital infrastructure has improved customer reach, efficiency, and cost management, supporting a favourable risk-return profile built on profitability, capital strength, and strategic growth.

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