IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN:2278-487X, p-ISSN: 2319-7668. Volume 27, Issue 12. Ser. 2 (December. 2025), PP 49-59
www.iosrjournals.org

Effect Of Financial Performance Indicators on Retail Investor Behaviour: A Study of Bse Banking Sector Companies

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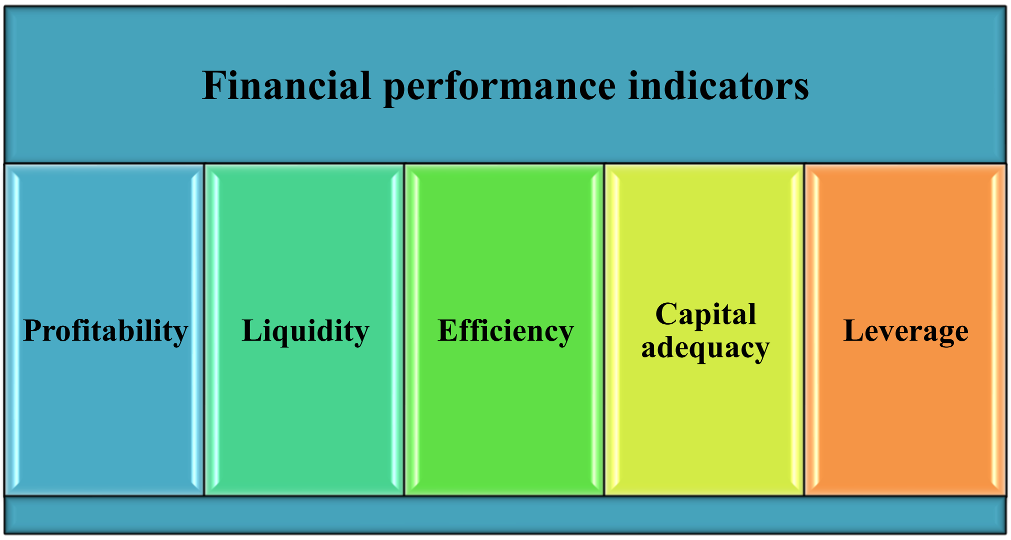
Abstract
This paper discusses the influence of the financial performance indicators on the behaviour of retail investors in the BSE banking stocks. The indicators such as RoA, RoE, NPA, and capital adequacy have an impact on investor confidence and decision-making trends. This study is directed by an interpretivist philosophy and an inductive approach. Thematic analysis was used to examine secondary qualitative data to get an idea of how retail investors depend on financial measure over behavioural indicators. The examination of the behaviour of retail investors in the due to financial performance indicators with a focus on BSE banking companies has been done.
Findings indicate that high liquidity, profitability and capital adequacy ratios promote long-run positions. The behavioural biases affecting short-term decisions include the market sentiment and changes in P/E ratios. Retail investors have dependent on both on fundamental analysis and on non-fundamental aspects, such as P/E ratios and market demand, to make their decisions. Better financial literacy, comprehensible reporting, and investor education have considered beneficial to lead foster well-informed investment decisions that reduce perceived risks.

Date of Submission: 24-11-2025 Date of Acceptance: 08-12-2025

I. Introduction

Financial performance indicators are quantitative metrics that are used to analyse a company's financial performance and attainment of certain objectives.

Figure 1: Financial performance indicators



(Source: Author's Compilation)

The above figure shows the key financial performance indicators, including profitability, liquidity, efficiency, capital adequacy and leverage. The BSE Bankex is a sectoral index that tracks the financial performance of leading banking companies in India. BSE or Bombay Stock Exchange is one of Asia's oldest stock exchanges, which serves an essential function in India's economic growth. Retail activity in the equity markets of India has increased by a wide margin in recent years.

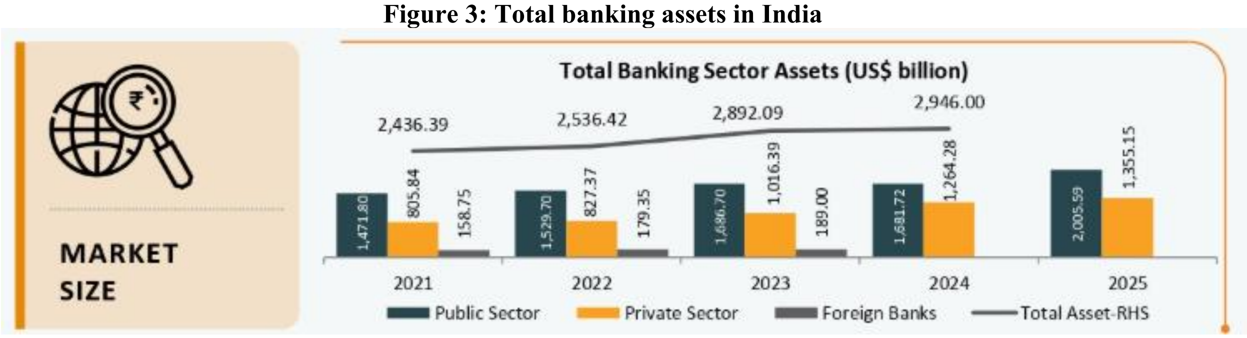
Figure 2: Demat custody value in India

Demat Custody	Instruments	Value (in ₹ Crore)
Shares	1,20,050	4,27,09,038
Debt/Bonds	30,314	55,83,292
CP	2,098	5,18,055
Sovereign Gold Bonds	64	23,432

(Source: Nsdl.co.in, 2025)

The above figure shows the demat custody value and the number of demat accounts in India. The number of demat accounts has gone up to 4.23 crore in 2025 with a value of $5,883 billion (Nsdl.co.in, 2025). This implies that the retail investors are vigorously participating in the stock markets, including the banking stocks.

Figure 3: Total banking assets in India



(Source: Ibef.org, 2025)

The above figure depicts the total banking sector assets in India, which shows a growth in recent years. The banking sector still has a central position in the financial system of India, has large assets, and the public and private banks have to report over 16,128,080 crore assets in 2024 (Ibef.org, 2025). There is therefore a need to study the reaction of retail investors to financial performance indicators in BSE-listed banking companies, as the study will help in understanding market behaviour.

II. Rationale of the study

The main issue is retail investors withdrawing their investments in the private banks recently as their caution and concern are heightened, which negatively impacts the BSE financial sector. It is an issue, as most of them seem to respond to temporary changes in the market instead of examining the financial soundness and performance of the banks. This is a behaviour that is especially important since the stock market is losing money, impacting the financial sectors operating under the BSE. The Indian stock market lost a sum of money amounting to approximately $ 1 trillion in the first half of 2025, crippling financial stocks and raising a great degree of uncertainty (Reuters, 2025). The turbulent past has increased sensitivity and particularly of the risky assets, impacting the financial sectors operating under the BSE. Retail shareholding in the private banks decreased by up to 278 basis points in Q4 FY25 *(Financialexpress, 2025).* These trends point to the necessary call to determine whether the actions of investors are founded on some basic indicators, such as profitability and capital adequacy, or opinion and fear. The lessons of this research can be used to develop policies that will enhance investor awareness and communication.

III. Objectives of the study

i) To analyse the significant financial indicators that can be used by retail investors in assessing the banking stocks
ii) To examine the association between the banking performance metrics and the decision of the retail investors
iii) To investigate whether retail investors were more fundamentals-based or more behaviour-based
iv) To suggest the means of enhancing informed investment choices by retail investors

IV. Research questions

i) What financial performance indicators are the most important to retail investors with respect to banking stocks?
ii) What effect do core banking financial metrics have on the retail investor behaviour?
iii) Which are the fundamental and less fundamental characteristics of retail investors in the choice of banking stocks?
iv) Which steps will help to make better-informed decisions by retail investors?

V. Significance of the research

The significance of this research lies in the fact that it explains how retail investors perceive the financial indicators of the banking sector that may determine the stability of the market. The results can be used to create improved investor-awareness programs by the regulators and financial educators. There is also the ability of banks to enhance their communication strategies in order to communicate the performance information. Communication is important for the survival of the financial sector, as it benefits in gathering, assessing and organising information about the external environment (Nagachevska *et al.* 2023). The research helps to make more rational investment behaviour and preserve household wealth. It is effective to enhance the efficiency of the Indian equity markets by determining which metrics impact the investor decisions the most.

VI. Research Methodology

The approach of this study has been chosen to be interpretivism since the behaviour of retail investors is based on their personal interpretation of financial performance indicators. Interpretivism offers a subjective approach, which benefits in gaining deeper insights related to the complex subjects (Junjie and Yingxin, 2022). The approach of interpretivism is valid because it enables the researcher to learn how the individual investors interpret and react to the performance of BSE-listed banking companies. Positivism is ruled out as it is concerned with objective measurements that cannot reflect upon subtle motives.

Research approach
The research approach explains the relationship between theory and data in research. The research method that has been selected is inductive, as the process of making decisions by investors is exploratory, and the patterns are not predetermined.

Research design
The research design applied in this study is descriptive in that it attempts to explain the response of retail investors to banking financial indicators in a systematic manner.

Research strategy
Research strategy is the way through which data is to be acquired to analyse it. The research has adopted an archival strategy since the BSE filings, bank reports, and regulatory publications are credible evidence of the behaviour of retail investors. Archival research involves the use of the available records, reports and databases (Fisher *et al.* 2024). An archival is justified as it offers historical and credible information in an efficient way, and it is possible to analyse how investors interpret financial performance indicators. Surveys or interviews cannot be used because of a lack of time and access.

Data collection method
The information is gathered for this research with secondary qualitative means, via BSE reports, annual reports of banks, and investor reports, as well as regulatory reports and academic journals.

Data analysis technique
Thematic analysis is supported because it enables systematisation of themes, categorisation and interpretation of textual data in order to identify the investor motivation, perception and behavioural tendencies. Quantitative approaches, such as strategic or graphical analysis, have been excluded since they are not able to display subjective logic.

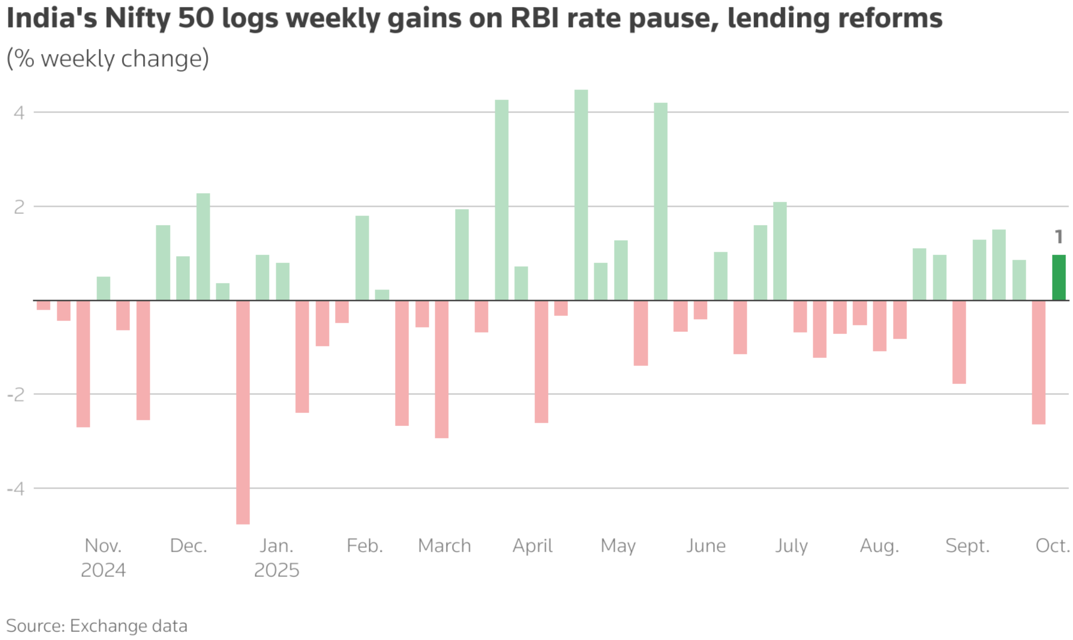
Ethical consideration
This research is guided by the "Digital Personal Data Protection Act 2023", and thus, the citation, data confidentiality and the responsible use of the secondary data are in place. The "Digital Personal Data Protection Act 2023" offers a framework for the protection of digital personal data, outlining the individual rights and organisational obligation to use digital data (Meity.gov.in, 2023). The research is justified by legal compliance, copyright protection, and ethical research.

VII. Results

Theme 1: Role of financial metrics

Financial metrics play a vital role in determining the share performance of banking sectors. Liquidity and efficiency metrics assist retail investors in evaluating the financial position and operational strength of banking companies listed at the BSE.

Figure 5: Equity benchmarks of India



(Source: Reuters, 2025)

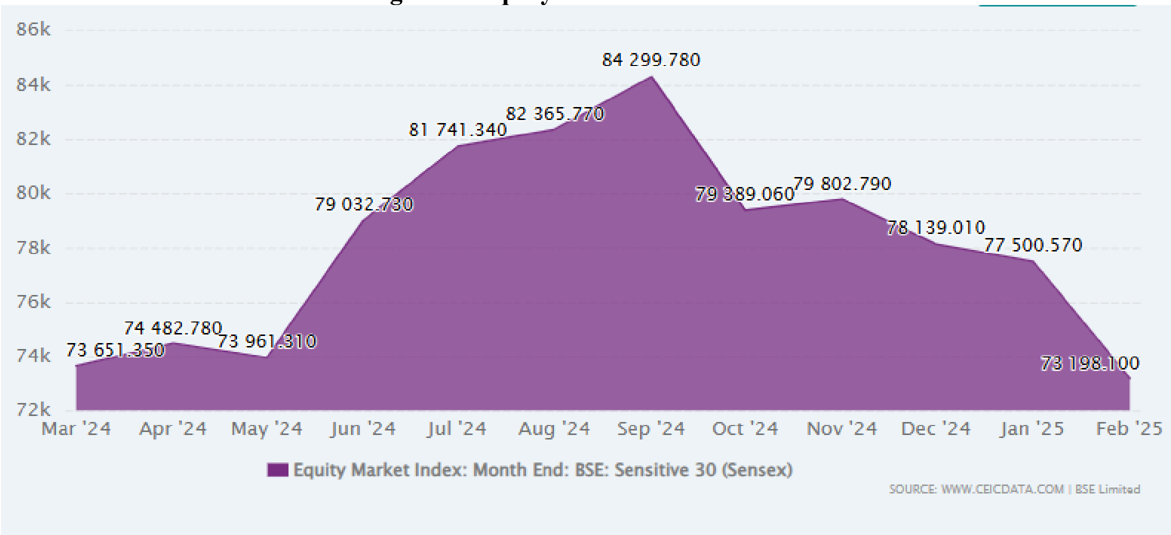
A bank's capacity to meet immediate liabilities as well as random withdrawal demands is shown by various liquidity indicators such as the Liquidity Coverage Ratio (LCR) and deposit-credit mix. The indexes increased roughly 1% over the week, driven by large banks, opens new tab and private banks, opens new tab which climbed 2.5%, respectively (Reuters, 2025). Retail investors perceive strong liquidity as a signal of reduced chances for insolvency risk when there is a tough macroeconomic environment or the markets experience sudden turbulence.

Banks' efficiency in using resources for income generation can be assessed through various metrics, including the cost-to-income ratio, as well as operational efficiency ratios. A low cost-to-income ratio means that costs are well controlled, while operational productivity is high; this should lead to improved long-term profits (Mehzabin *et al.* 2023). Retail investors believe that efficient banks can sustain profit margins while being resistant to, and remain competitive throughout, changes in the interest rate environment.

Theme 2: Banking share evaluation with essential financial metrics

The Gross Non-Performing Assets (GNPA) and Net NPA ratios are essential indicators of asset quality. There has been a significant decline in India's GNPA ratio, indicating improved loan recoveries and write-offs since 2021. For instance, Gross NPAs declined from 9.11% to 2.58% between March 2021 and March 2025 (PIB.GOV, 2025). Official summaries in 2024–25 state that the GNPAs, which were at double-digit problem, have come down to around mid-single or low single digit levels of concern. A reduced GNPA ratio results in enhanced asset quality, greater financial stability for a bank, and more effective lending practices (Arhinful *et al.* 2025). This reduction in credit risk through structural enhancement will be very attractive for retail investors looking at public and private sector banks.

Figure 6: Equity market index of India



(Source: Ceicdata, 2025)

The Reserve Bank of India (RBI) summaries predict an improvement in the Return on Assets (RoA) and Return on Equity (RoE) in the financial sector. Various banks will have an RoA close to 1.4% and a RoE in double digits due to reduced provisions and increased operational profit by 2024 (BFSI, 2024). On the other hand, monetary policies have affected Net Interest Margins (NIMs), with margin widening occurring due to high policy rates set at the beginning of the cycle. The stable equity index of India, with 73,198.1 points at the end of February 2025, indicates a stable market growth (Ceicdata, 2025). An entity that has a good track record of RoA/RoE over time is making profits that can be sustained for retail investors.

Theme 3: Profitability, and capital adequacy ratio are used to judge risk perceptions, informed choices for enhanced investment of retail investors

The metrics, such as capital adequacy and profitability, have been used by retail investors for the evaluation of investments after an analysis of a company's ability to generate profits. These metric evaluations are also helpful to judge a banking business's capability to manage debt or tracking of the upcoming growth potential. For example, HDFC Bank's overall capital adequacy ratio based on the Basel III guidelines was at 20.0% in September 2025 (Hdfcbank, 2025). This financial metric of the bank indicated a positive market positioning and effective financial performance that decreases the risks for the investors and the chance of enhanced lending practices.

Figure 7: Advances and deposits of banks as an indicator of banks' profitability

Banks	Advances (Rs. in Crore)	Deposits (Rs. in Crore)
Axis Bank	**8,45,303**	9,46,945
HDFC Bank	16,00,586	18,83,395
ICICI Bank	**10,19,638**	11,80,841
Kotak Mahindra Bank	**3,19,861**	**3,63,096**
State Bank of India	**32**,69,242	**44,23,778**

(Source: Icicidirect, 2023)

The above figure mentions the rate of deposits and advances of the banks. The growth of advances and deposits each year refers to the profitability and operations enhancement in banks, for instance, State Bank of India's deposit increased by 44,23,778Rs in Crore (Icicidirect, 2023). These financial measures provide retail investors with the available information related to the stability and health of banking institutions. Other metrics like RoA and RoE pointed towards the estimated returns and dividend opportunities (Meryem and BENNIS, 2025). Capital adequacy ratios act as a buffer against unexpected losses during economic uncertainty and reduce perceived investment risk. On the other hand, low NPA ratios due to high capital adequacy and profitability metrics create an assurance for investors that the bank has a strong lending portfolio and is capable of providing stable returns. Additionally, profitability and asset quality suggest that investors may consider the banking sector stable or performative and resulting in increased retail participation and holding behaviour. The findings align with the second objective of the study regarding the efficiency of banking performance enhanced informed investment choices by retail investors. The indicators can be used as independent variables for financial or investment decisions. Hence, the enhanced banking performance reduces perceived risk and builds confidence to determine that retail investors must invest in or hold their stakes in banking stocks.

Theme 4: Retail investors' decisions are often based on both the financial metrics and banking performance relating to a positive association

Indian scheduled commercial banks have tended to improve their financial performance which influences the retail investor confidence. The gross non-performing asset ratio for the Indian banks reached a multi-year low of 2.8%, and net NPA led to 0.6% (Economictimes, 2024). The situation indicated the enhanced recoveries and lower slippages. Apart from that, the improvement of the quality of assets has led to strong banking operations and a system. The capital adequacy for the Indian banking system holds an effective performance with the overall CRAR at 16.8% (Indiainfoline, 2024). For a retail investor looking to evaluate banking stocks listed on the BSE Bank sector data offer clear performance indicators for financial health. As stated by Mahirun *et al.* (2023), profitability refers that dividends and share price appreciation are possible, and reduced NPAs have a low chance of losses for investors. In this instance, an increase in profitability and capital buffers in banks allows to creation of a higher capital buffer for creating a resilient banking system. It leads to retail investors' sense of investment as less risky and of reliable financial decision-making. The tendency of less risk makes investing in or shareholding more suitable or appropriate. Hence, the positive banking performance indicators, as well as banking operation stability are beneficial to get the result of attract or sustain higher interest in retail investment. This supports the research question, finding the positive correlation of banking performance metrics to retail investor behaviour.

Theme 5: Retail investors are both on fundamental and behaviour-based as their decisions are influenced by cognitive biases and P/E or earnings growth ratio

The majority of the retail investors mentioned the decisions on fundamentals in selecting banking stocks, such as profitability, asset quality assessment, and other performance metrics. However, cognitive biases and simple valuation often affect investors' actual decisions rather than fundamental analysis. Cognitive biases such as overconfidence, loss aversion, and recent news have a negative impact on investment decisions. As mentioned by Ngo (2023), valuation metrics of Price-to-Earnings ratio (P/E) or expected earnings growth are effective for fundamental analysis before investment choices. The financial metrics are an appropriate approach due to their indication of expected growth in the BSE banking companies. It indicates a positive perception of earnings growth by the specific banks. The behavioural traits of perceiving loss have resulted in the purchasing of excessive stocks or overtrading activities.

Figure 8: The primary financial or performance metrics of the HDFC share price

Key Metrics

PE Ratio (x) **21.32**	EPS - TTM (₹) **47.10**
MCap (₹ Cr.) **15,40,979**	Sectoral MCap Rank **1**
PB Ratio (x) **2.85**	Div Yield (%) **2.19**
Face Value (₹) **1.00**	Beta **1.09**
VWAP (₹) **996.49**	52W H/L (₹) **1,020.50 / 812.15**

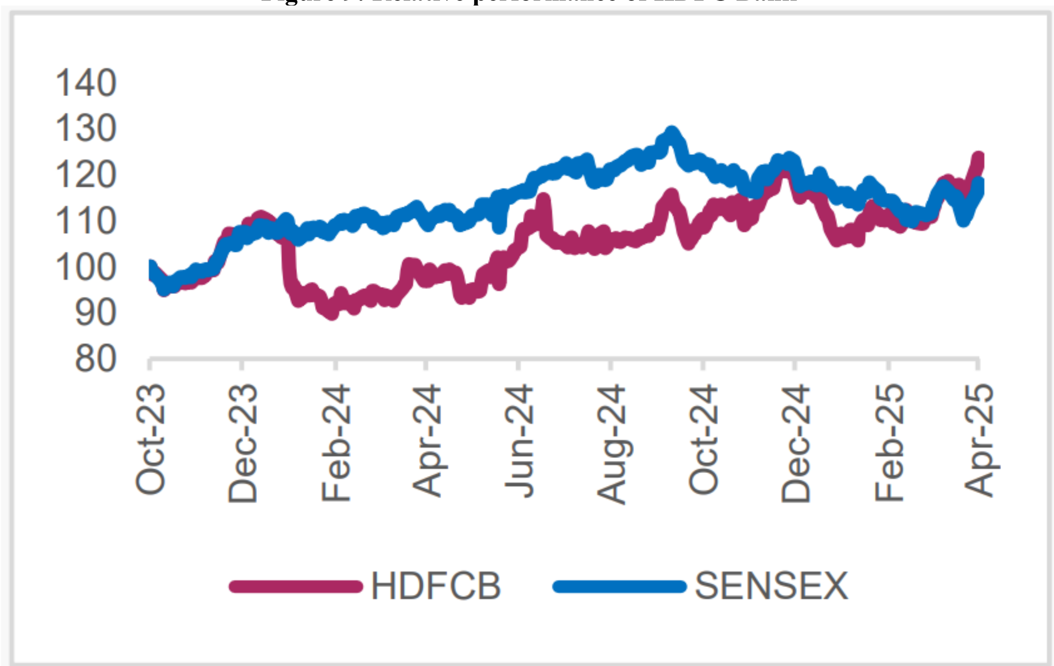
(Source: Economictimes, 2025)

The sectoral 'Mcap Rank' and PE or other ratios have been presented in the above figure. As per the 'HDFC Bank's Share Price', the P/E ratio was 21.32 and the PB ratio of 2.85 in the year 2025 (Economictimes, 2025). These valuation metrics are considered a fundamental reference for retail investors in the context of different banks. Investors tend to invest in a bank with a scope of good returns on investment. Apart from that, checking the banks' capital adequacy, asset quality, or PB performance is needed by the investors to decrease financial risks. The situation mentions the importance of making decisions by investors on indicators, like P/E ratios, growth tendency, perceived affordability, and cognitive influences. The market trends follow, and making decisions instead of independent analysis has both positive and negative consequences. It is related to the requirement of banking performance judgement of retail investors and also the specific cognitive assessment at final investment decisions. The third objective of the research by define fundamental characteristics based on financial metrics and non-fundamental cognitive biases to make investment choices by the retailers.

Theme 6: Fundamentals guide long-term holding, while behavioural cues drive short-term trading

The core financial indicators of the banks influence most of the long-term retail investment choices. The Return on Assets (RoA), Return on Equity (RoE), and Net NPA ratios are the metrics that would give investors a safe estimate of profitability and risk management.

Figure 9: Relative performance of HDFC Bank



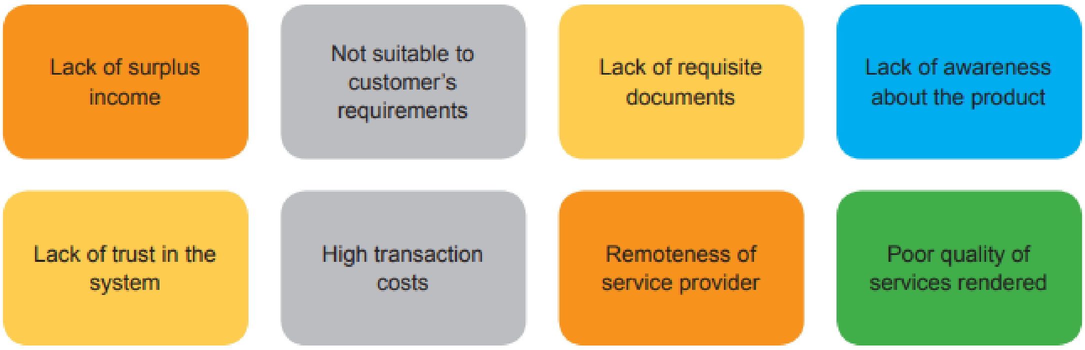
(Source: Axisdirect.in, 2025)

The above figure shows a predictive growth in the HDFC's financial indicators relative to SENSEX. For example, the Axis Bank of India predicted that the ROE of HDFC Bank in the Q4FY25 will be between 1.9-2.1%, offering a positive sign for banking stocks (Axisdirect.in, 2025). The retail investors are more likely to depend on such steady fundamentals, and they hold on to their shares even at the time of market turbulence. Conversely, the behavioural cue is vital in short-term trading wizards, such as market sentiment, trending news, or a perceived stock movement. The U.S. S&P 500 was down by 0.23%, recording a 20% close down from February's high record (Reuters, 2025). The early sell-off of the 2025 market witnessed a strong reaction by the Indian retail investors to the fear sentiment, though with strong fundamentals. Fundamental investors seek to enjoy the long-term performance of the company without regard to the fluctuations of the market in the short run. Short-term traders trade on fear or greed or under the influence of herd behaviour and tend to buy or sell in an attempt to make a quick profit.

Theme 7: Enhancement of financial literacy, clear reporting of key metrics helps in making informed decisions

Financial literacy and reporting transparency are important in enabling sound decision-making by retail investors. Investigations indicate that traders who have a robust knowledge of RoA, RoE, GNPA ratios, and capital adequacy will make decisions based on evidence instead of rumours in the market.

Figure 10: Causes of financial exclusion



(Source: RBI.org.in, 2024)

The above diagram presents the causes of financial exclusion in India, which shows a lack of awareness and trust in the system. RBI prepared the national strategy for financial inclusion for India 2019-2024 to address the exclusion causes and guided Indian banks to promote fair processes through increasing transparency (RBI.org.in, 2024). Banks that disclose simplified quarterly reports had more retail involvement than those with less convenient reporting. Effective reporting of important measures enables investors to read profitability and evaluate the quality of lending and the ability to compare banking options (Mesioye and Bakare, 2024). Better literacy also lowers the use of heuristics, such as P/E ratio, short-term stocks, and promotes more rational and long-term investment behaviour.

VIII. Discussion

Individual investors who trade banking shares at BSE use "profitability", "asset quality", "liquidity", capital strength and efficiency indicators combined as their paramount evaluation criteria. It becomes possible to establish whether a bank is financially strong. In this regard, the results incorporate empirical results and draw from the broader industry knowledge between 2021 and 2025 concerning the significance of these factors in relation to investment behaviour. Asset quality is seen to be vital for retail investor consideration as far as the banking sector is concerned, with Net NPA ratios being the popular measurement indices (Swami *et al.* 2022). From the results, it can be seen that asset quality improved in the banking sectors of India as shown by tighter regulations enforcement and improved risk assessment underwriting techniques.

The results from RBI and other bank reports have shown a consistent NPA breakdown. Investors now have lower credit risks, which increases confidence and participation in the sector. Low NPAs mean that there is less need for provisioning; hence, banks will have a strong capital base and be able to make more profits (Sahoo *et al.* 2023). In the results, it was clear that profitability ratios greatly affected investor attention. "Net Interest Margin" (NIM) increased with the tight monetary policy application in the last few years. Financial media, as well as RBI reports, indicate that the market is in good shape, and there is a steady flow of income for investors who like to put their money into safe bets. The study also confirmed that effective finance and management enhanced productivity as well as positive performance evaluation indices.

The regulatory disclosures indicate that Indian banks had capital levels far higher than what was required by the regulators. Retail investors view strong capital buffers to be protective measures that help minimise economic shocks (Matyunina and Ongena, 2022). Therefore, these signs are important in the context of attracting investment that is planned for a long time. These findings show that liquidity measurements like LCR, deposit growth are very vital. Banking stability heavily relies on liquidity, which is why it becomes vitally important in times of turbulence. It is evident from the reports that Indian banks enhanced their liquidity positions due to the continuous inflow of deposits. Strong liquidity for retail investors reduces the fear of bankruptcy as it ensures the seamless running of the business. A better liquidity rating also indicates that a bank is capable of providing credit without much borrowing.

Investor assessments also consider some efficiency indicators; for instance, operational productivity and the cost-to-income ratio. As per the results, Cost-cutting and efficient banks make better profits in all kinds of economic conditions. The aspect of efficiency is closely linked to the trends of digitalisation that have been accelerated by the pandemic (Amankwah-Amoah *et al.* 2021). Banks channelled large sums of money into buying expensive technologies to reduce their expenses and offer better services to clients. Investor decision-making is guided by these indicators, and they also show a strong and well-managed banking sector in India. These indicators affect the decision-making of retail investors, which meets the study objectives.

The results represented a connection between fundamental banking performance indicators and the investment of retail investors. Investors depend on essential metrics to assess the financial stability and risk characteristics of banks before the investment choices. Fundamental aspects like profitability, asset quality as well as capital adequacy impact the perceived stability of banks (Badunenko *et al.* 2022). It has influenced retailers' readiness to invest or retain shares. The study indicates that adequate financial or banking performance enhances confidence in retail investors, while perceived flaws in these metrics cause rejection of investments. This analysis meets the second research objective, the positive influence of positive banking metrics on retail investor behaviour and market participation.

Retail investors have made investment on the basis of both fundamental and behavioural characteristics. The fundamental characteristics include reliance on financial ratios and capital adequacy, examining investment risk and potential return (Yoewono and Ariyanto, 2022). Additionally, the presence of overconfidence, recent market trends and immediate reactions to changes in market sentiment influence trading choices and the exact timing. Investors often use observed P/E or expected earnings growth along with fundamental measures to facilitate a decision. The study also addresses the third question or objective by mentioning non-fundamental and fundamental factors. It has been pointed out that retail investors' decisions are based on data-driven assessments and psychological tendencies.

The practical approaches of improving retail investment decisions are represented by financial literacy, transparent reporting and investor education modules. As commented by Wang (2023), clear communication of investment measure indicators can reduce reliance on cognitive biases. The findings have met the fourth research question/objective by describing specific measures that enable better decision-making and contribute to market stability. Systematic investor education programs and clearer disclosures about profitability, including the asset quality, assisted in the enhancement of the investors' ability to make decisions based on evidence. Along with that, encouragement for the understanding of basic banking performance measures is important to make a stronger decision regarding investment by the retailers. Further, the implications of rational long-term investment strategies rather than impulsive short-term trading have improved the decision-making process of Investors.

IX. Conclusion

The behaviour of retail investors in BSE banking stocks is determined by fundamental financial factors such as profitability, asset quality, liquidity, and capital adequacy. Increase in financial literacy, improving with time retail investments and strengthening financial disclosures will be of much importance for enhancing stability of retail investment decisions in the long run.

Linking with the objectives

"Objective 1: To analyse the significant financial indicators that can be used by retail investors in assessing the banking stocks"

The majority of retail investors depend on certain ratios to evaluate banking stocks, including those for liquidity, efficiency, profitability, capital adequacy, as well as asset quality. Retail investors use indicators like RoA, RoE, and GNPA to gauge whether the bank is operationally efficient, profitable, and financially stable. Therefore, it can be inferred from the study that such economic parameters are seen as the key drivers for decisions.

"Objective 2: To examine the association between the banking performance metrics and the decision of the retail investors"

A strong banking sector has an impact on investors' trust, as seen from the outcomes. Banks that have low NPAs, high profits and adequate capital tend to draw more customers who prefer buying retail products rather than selling them off. Increased efficiency and higher returns on equity serve to enhance the image of stability, thereby compelling investors to maintain or increase their positions (Ali *et al.* 2025). Therefore, it can be said that investors are very rational since they base their decisions on fundamentals.

"Objective 3: To investigate whether retail investors were more fundamentals-based or more behaviour-based"

Retail investors employ a combination of strategies since they mostly rely on fundamental factors for their long-term investments. These strategies include cognitive biases, overreaction to news, as well as herd behaviour, while fundamental indicators are used to justify confidence in continued holding. The analysis above indicates that retail investors fuse rational financial analysis and behavioural responses, as evident from investment decision complexity witnessed in the BSE bank sector.

"Objective 4: To suggest the means of enhancing informed investment choices by retail investors"

Offering educational materials, clear financial reports, as well as interpretation devices for profit, capital and asset figures, helps reduce dependence on market gossip and moods. Better investment knowledge helps investors to evaluate market risks properly, make good choices with respect to portfolio and keep assets for longer periods (Celestin and Vanitha, 2021). Therefore, the results cover strategies aimed at enhancing knowledge on key bank parameters among investors in order to promote better investment.

Implications

It is vitally important for banks to communicate better with retail investors on financial performance indicators. Retail investors would make better decisions on investment if banks enhanced the following metrics: profitability, capital adequacy and NPA. Moreover, investing in education leads to the development of strong confidence among investors in the long run and finally contributes to the stabilisation of the retail market that complements overall market effectiveness. Banks could report more effectively, and policymakers could promote sensible investing with policies that work with investors' decision-making.

Research limitations and future scope

Only secondary qualitative data is used in this study, thereby limiting information on the immediate reactions of investors. There are no first-hand views obtained using questionnaires or face-to-face discussions. The analysis covers solely banking companies that are listed on the BSE, and this may fail to reflect general retail investment behaviour across different sectors in the global context. Upcoming studies may integrate primary quantitative surveys or mixed methodologies to capture real-time investor decision-making processes. Comparative research across various financial sectors or global exchanges will enhance the understanding of investor behaviour and evaluate the applicability of results to improve informed investment choices worldwide.

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