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Financial Performance and Stock Price Behaviour of Indian Overseas Bank at Indian Overseas Bank

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ABSTRACT

This paper examines whether the financial performance of Indian Overseas Bank, a public sector bank headquartered in Chennai, is reflected in the behaviour of its stock price over five years, from FY2020-21 to FY2024-25. Indian Overseas Bank provides a useful case because it spent many years under the Reserve Bank of India's Prompt Corrective Action framework before entering a phase of steady recovery. This situation naturally raises the question of whether an improvement in fundamentals actually shows up in how the market values the stock. The study uses an analytical, quantitative research design and relies entirely on secondary data gathered from Indian Overseas Bank's published annual reports, Reserve Bank of India publications, and established financial data platforms. Six indicators of performance were tested against Indian Overseas Bank's year-end closing stock price: Earnings Per Share, Return on Equity, Return on Assets, the Gross Non-Performing Assets ratio, Net Interest Margin, and Net Profit Margin. The analysis employed Karl Pearson's coefficient of correlation and simple linear regression to evaluate the strength, direction, and explanatory power of each indicator. All profitability and efficiency measures showed a positive association with the stock price, while the Gross Non-Performing Assets ratio, as expected by theory, showed a negative association. The Gross Non-Performing Assets ratio had the strongest relationship, with a correlation coefficient of -0.784 and an R-square of 0.614. Net Interest Margin and Return on Equity followed closely, while Net Profit Margin showed the weakest link. Overall, the findings indicate that the stock price of Indian Overseas Bank is largely, but not entirely, explained by its financial performance. The market appeared to give particular weight to the bank's improving asset quality during this period.

***Keywords**: Financial Performance, Stock Price Behaviour, Non-Performing Assets, Correlation Analysis, Regression Analysis.*

Introduction

A bank's share price, at bottom, rests on the strength of its balance sheet and on how much the market trusts that strength. Indian Overseas Bank (IOB), headquartered in Chennai, spent much of the period from 2015 to 2021 under the Reserve Bank of India's Prompt Corrective Action (PCA) framework — a supervisory mechanism that is triggered when a bank's asset quality and profitability fall below acceptable levels. Since exiting PCA in September 2021, IOB has posted steady gains across its key financial ratios. Whether the market has rewarded this recovery in proportion to the improvement itself is a question of real interest to investors, analysts, and the bank's own management, and it is this question that the present study sets out to answer.

Three strands of theory support the expectation that a bank's financial performance and its stock price should move together. The Efficient Market Hypothesis holds that share prices absorb all publicly available information, including financial results, so that genuine improvement in profitability and asset quality should, in time, be priced in. Signalling Theory treats ratios such as earnings and asset quality as signals that investors read for clues about management quality and future prospects, using them to revise their sense of a company's fair value. The CAMEL framework, widely used to assess bank health, organises a bank's condition around Capital adequacy, Asset quality, Management efficiency, Earnings, and Liquidity, and it is this framework that guided the choice of indicators used in this study. Taken together, these perspectives suggest that a bank's stock price should broadly track the direction of its underlying financial performance, even though the tightness of this relationship can vary depending on which dimension of performance is under consideration and on the market conditions prevailing at the time.

Problem Statement

Between the mid-2010s and 2021, Indian Overseas Bank went through a prolonged period of financial stress, marked by elevated non-performing assets and its placement under the RBI's Prompt Corrective Action framework. Since exiting PCA in September 2021, the bank's key financial performance indicators have moved consistently in the right direction. What is not immediately clear, however, is whether this improvement in fundamentals has carried through proportionately to the stock price, given that bank shares also respond to factors well beyond company-specific fundamentals — broader market sentiment, the sector-wide re-rating of public sector bank stocks, and macroeconomic conditions all play a part. This study asks how far, and to what extent, IOB's financial performance genuinely explains the movement in its stock price, using appropriate statistical tools to test the question.

Need for the Study

Investors and analysts routinely lean on financial ratios when forming a view of where a bank's share price is headed, which makes it worthwhile to check, with actual evidence, whether such ratios track IOB's market valuation in practice. The question carries extra weight for a bank climbing out of a long stretch of regulatory stress, where the pace and credibility of that recovery is itself something the market watches closely. Because dedicated, recent empirical work on this specific relationship for IOB as a standalone public sector bank is scarce, this study aims to close that gap with evidence-based findings that investors, the bank's management, and future researchers can put to practical use.

Objectives of the Study

- **Primary Objective**

  To examine the relationship between the financial performance and the stock price behaviour of Indian Overseas Bank over the period FY2020-21 to FY2024-25.

- **Specific Objectives**
  - To trace the trend in the key financial performance indicators of Indian Overseas Bank over the study period.
  - To examine the trend and the pattern of volatility in Indian Overseas Bank's stock price behaviour over the study period.
  - To assess IOB's profitability, efficiency, and asset quality performance using descriptive statistics.
  - To statistically test the strength and direction of the relationship between each financial performance indicator and IOB's stock price, using correlation and regression analysis.

Hypotheses of the Study

H_0 **(Null Hypothesis):** There is no significant relationship between Indian Overseas Bank's financial performance indicators and its stock price.

H_1 **(Alternate Hypothesis):** There is a significant relationship between at least one of Indian Overseas Bank's financial performance indicators and its stock price.

Scope of the Study

This study covers six financial performance indicators of Indian Overseas Bank — EPS, ROE, ROA, the Gross NPA ratio, NIM, and Net Profit Margin — examined against the bank's year-end closing stock price over five consecutive financial years, FY2020-21 to FY2024-25. It relies entirely on secondary data drawn from IOB's published annual reports, RBI publications, and recognised financial data platforms, and does not extend to primary data collection or to surveying investor perceptions. The analysis is confined to Indian Overseas Bank as a single case and does not attempt a cross-bank or sector-wide comparison. The findings are intended to be of use to investors, analysts, the bank's management, and future researchers.

Literature Review

- Khera and Dhanda (2020) used a Vector Error Correction Model to show that macroeconomic variables exert a long-run influence on Indian bank stock prices, alongside company-specific fundamentals.
- Kumar and Rani (2021) found that on the BSE, public sector bank stocks were more volatile than private sector bank stocks across both the pre- and post-COVID-19 periods.
- Riwayati and Aviliani (2022) reported a significant positive relationship between core profitability indicators and banking stock prices.
- Torane (2023) observed that public sector banks emerging from RBI corrective action frameworks tended to see a sharp re-rating in the years that followed their recovery.
- Sadanand and Fathima (2024) found that the volatility of Indian bank stocks spiked sharply during COVID-19 before gradually settling back down.
- Sar and Panigrahi (2024) showed that the transmission from financial performance to market performance in Indian banking was neither instantaneous nor uniform, with asset quality and return-based ratios carrying the strongest association.
- Astuti (2025) found that financial performance indicators have a significant influence on stock returns in the banking sector.
- Ilango and Annapoorani (2025) reported a significant positive relationship between profitability, asset quality indicators, and share price movements among Indian NBFCs.
- Joseph and L. (2025) found that macroeconomic conditions have a statistically significant influence on Indian bank stock returns, alongside company fundamentals.
- Krishna and Mohaseen (2025) modelled and forecast IOB's financial stability using ARIMA, VAR, and regression, and found that model fit improved after the bank's exit from the PCA framework in 2021.
- Ransariya, Thakor, and Bhayani (2026) found a significant positive relationship between profitability ratios and share price among private banking companies listed on the BSE.

Overall, the literature confirms that a bank's financial performance, particularly its profitability and asset quality, is positively associated with its stock price, while consistently acknowledging that macroeconomic conditions and broader market sentiment also shape how that price moves.

Research Gap

The studies reviewed above establish, fairly consistently, that financial performance indicators such as EPS, ROA, ROE, and asset quality measures influence bank stock prices, and that macroeconomic variables and crisis events add further explanatory power on top of that. Most of this work, however, is carried out either at the aggregate level for the Indian banking sector as a whole, or on private sector banks, or in banking contexts outside India. Apart from the study by Krishna and Mohaseen (2025), there is a clear shortage of recent, dedicated empirical work examining the specific relationship between financial performance and stock price behaviour for Indian Overseas Bank as a standalone public sector bank — one that, moreover, has been through significant stress, restructuring, and recovery in recent years. This gap is what justifies an empirical study focused exclusively on IOB, using financial ratio analysis together with correlation and regression techniques to establish the extent and nature of the relationship between the bank's financial performance and its stock price behaviour.

Conceptual Framework

Building on the literature reviewed above, the conceptual framework for this study links the independent variables — IOB's financial performance indicators — to the dependent variable of stock price behaviour. This framework guided both the choice of variables and the design of the analysis presented in Section 10.

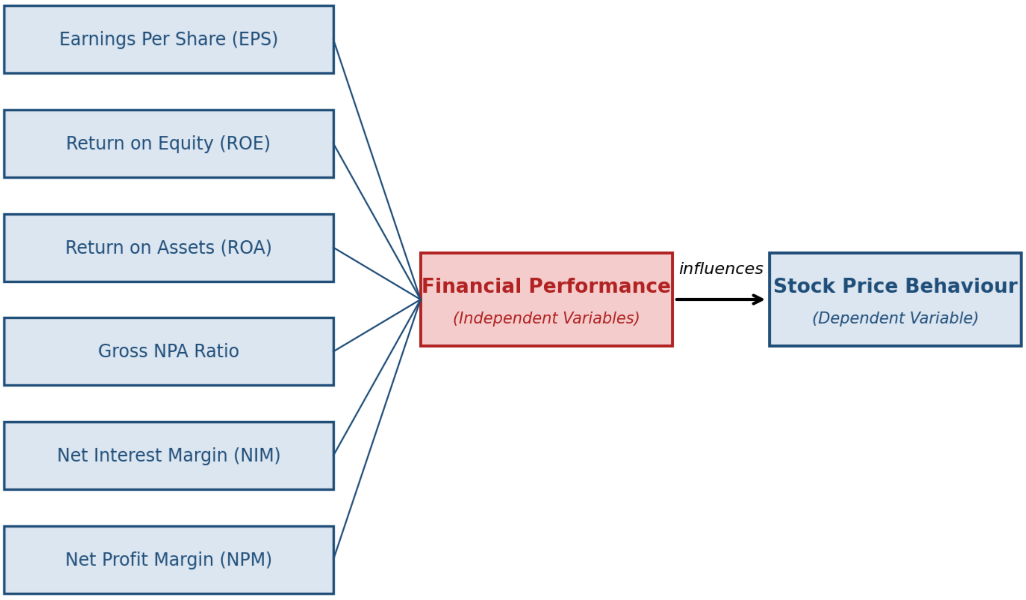

Figure A: Conceptual Framework — Independent Variables (Financial Performance Indicators) and Dependent Variable (Stock Price Behaviour)

Research Methodology

This study adopts an analytical, quantitative research design built entirely on secondary data, aimed at statistically testing the relationship between IOB's financial performance indicators and its stock price rather than merely describing existing conditions. Indian Overseas Bank is tracked as a single case across five consecutive financial years, FY2020-21 to FY2024-25, a window chosen to capture its recovery trajectory following exit from the RBI's Prompt Corrective Action framework in September 2021. Data on the six financial performance indicators and the year-end closing stock price were drawn from IOB's annual reports and published financial statements, Reserve Bank of India publications, and recognised financial data platforms such as Equity master and Screener.

Data Analysis and Discussion

- **Introduction**

Data compiled from IOB's annual reports and published stock price records was organised in Microsoft Excel and analysed in Python (NumPy and SciPy) using descriptive statistics, trend analysis, Karl Pearson's coefficient of correlation, and simple linear regression, in order to examine the relationship between IOB's financial performance indicators and its stock price across the five-year study period.

- **Financial Performance and Stock Price Data of IOB**

Table 1 sets out the financial performance indicators compiled for the study, together with the year-end closing stock price of Indian Overseas Bank for FY2020-21 to FY2024-25.

Table 1: Financial Performance and Stock Price Data of IOB (FY2020-21 to FY2024-25). Source: IOB Annual Reports, FY2020-21 to FY2024-25; RBI publications; Equitymaster.

Financial Year	EPS (Rs.)	ROE (%)	ROA (%)	Gross NPA (%)	NIM (%)	NPM (%)	Stock Price (Rs.)
FY2020-21	0.5	4.4	0.28	11.7	2.6	4.5	17.8
FY2021-22	0.9	7.4	0.57	9.8	2.6	10.2	25.8
FY2022-23	1.1	8.5	0.67	7.4	3.0	10.8	24.3
FY2023-24	1.4	9.7	0.76	3.1	3.1	11.1	66.9
FY2024-25	1.8	10.5	0.86	2.1	3.1	12.1	38.9

Interpretation: Table 1 shows a steady, near year-on-year improvement across every profitability, efficiency, and asset quality indicator — EPS climbed from Rs. 0.5 to Rs. 1.8, ROE from 4.4% to 10.5%, and ROA from 0.28% to 0.86%, while the Gross NPA ratio fell sharply, from 11.7% to 2.1%, pointing to sustained clean-up of the balance sheet. The stock price did not follow the same even path: it rose from Rs. 17.8 to a peak of Rs. 66.9 in FY2023-24, before correcting to Rs. 38.9 in FY2024-25, which suggests that price movement was considerably sharper and less linear than the underlying financial improvement.

- **Descriptive Statistics**

Working from the year-wise data in Table 1, descriptive statistics — mean, standard deviation, and range — were computed for all seven variables over the five-year period, to summarise their central tendency and spread before their relationship was tested statistically.

Interpretation: EPS averaged Rs. 1.14 (SD 0.49, range Rs. 0.50–Rs. 1.80), ROE averaged 8.10% (SD 2.38, range 4.4%–10.5%), ROA averaged 0.63% (SD 0.22, range 0.28%–0.86%), the Gross NPA ratio averaged 6.82% (SD 4.16, range 2.1%–11.7%), NIM averaged 2.88% (SD 0.26, range 2.6%–3.1%), and Net Profit Margin averaged 9.74% (SD 3.01, range 4.5%–12.1%). The stock price averaged Rs. 34.74 (SD 19.54, range Rs. 17.80–Rs. 66.90). The comparatively low standard deviations for EPS, ROE, ROA, and Net Profit Margin point to a consistent improving trend, and the declining Gross NPA figures point to a steady gain in asset quality, across the study period. The stock price, in contrast, shows a good deal more relative variability — a coefficient of variation of roughly 56 per cent, well above that of any financial performance variable — which suggests that broader market and sectoral factors, on top of the bank's own fundamentals, had a hand in shaping its share price.

- **Trend in Stock Price**

Figure 1: traces the movement in IOB's year-end closing stock price over the five-year study period.

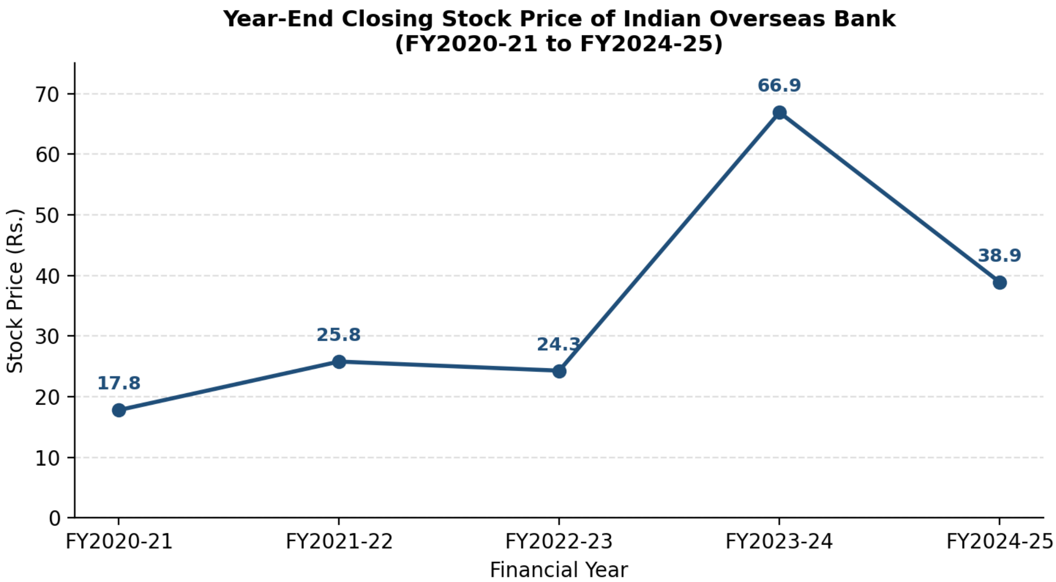

Figure 1: Year-End Closing Stock Price of Indian Overseas Bank (FY2020-21 to FY2024-25)

Interpretation: The chart shows IOB's stock price climbing from Rs. 17.8 in FY2020-21 to a peak of Rs. 66.9 in FY2023-24, before correcting to Rs. 38.9 in FY2024-25. The sharp rise through FY2023-24 lines up with the bank's exit from the PCA framework and with the broader re-rating of public sector bank stocks during this window, while the correction that followed in FY2024-25 suggests that factors beyond fundamentals — profit-booking and wider market movements among them — also had a bearing on the stock price, even as the bank's underlying financial performance kept improving. This pattern of sharper, non-linear price movement set against the steadier, near-linear improvement seen in Table 1 is examined statistically in the sections that follow.

- **Correlation and Regression Results**

Table 2 ranks the six financial performance indicators by the absolute strength of their correlation with IOB's stock price.

Table 2: Summary of Correlation and Regression Results

Financial Performance Indicator	Correlation (r)	p-value	R^2	Regression Equation
Gross NPA Ratio	-0.784	0.117	0.614	Price = 59.85 − 3.68 × GNPA
Net Interest Margin (NIM)	0.691	0.196	0.478	Price = -115.54 + 52.18 × NIM
Return on Equity (ROE)	0.678	0.208	0.460	Price = -10.37 + 5.57 × ROE
Return on Assets (ROA)	0.644	0.241	0.415	Price = -0.83 + 56.64 × ROA
Earnings Per Share (EPS)	0.636	0.249	0.405	Price = 5.99 + 25.22 × EPS
Net Profit Margin (NPM)	0.541	0.347	0.292	Price = 0.54 + 3.51 × NPM

Interpretation: Table 2 places the Gross NPA ratio at the top as the strongest predictor of IOB's stock price ($r = -0.784$, $R^2 = 0.614$), followed by Net Interest Margin, Return on Equity, and Return on Assets, with Net Profit Margin trailing the group ($r = 0.541$, $R^2 = 0.292$). All six indicators carry the sign theory would predict — positive for the profitability and efficiency measures, negative for the Gross NPA ratio — which supports the broad conclusion that IOB's financial performance is positively associated with its stock price behaviour. That said, no single indicator explains more than about 61 per cent of the variation, which underscores the role that non-fundamental factors, such as sectoral sentiment, play in driving the rest of the movement.

- **Hypothesis Testing**

The correlation and regression results point to a meaningful association between at least one financial performance indicator — the Gross NPA ratio — and IOB's stock price, with $R^2 = 0.614$ showing that asset quality alone accounts for a majority of the explained variation in price movement over the study period. On this basis, the null hypothesis (H0), that there is no significant relationship between IOB's financial performance indicators and its stock price, is not supported, and the alternate hypothesis (H1) — that a relationship exists between at least one of the indicators and stock price — is accepted. This is subject to the caveat that, with only five annual observations available, the results are best read as indicative of direction and relative strength rather than as statistically conclusive at conventional significance levels.

- **Overall Interpretation**

Taken together, the analysis shows that IOB's financial performance improved steadily and consistently over the five-year study period, that its stock price moved in a sharper and more volatile fashion than its underlying fundamentals, and that this movement is positively and meaningfully — though not fully — explained by the bank's financial performance indicators, with the improvement in asset quality carrying the greatest weight among them.

Discussion

The findings here line up broadly with earlier research on the relationship between bank financial performance and stock price. IOB's profitability and efficiency indicators — EPS, ROE, ROA, NIM, and Net Profit Margin — improved steadily and near-linearly across the five-year study period, while the Gross NPA ratio fell sharply, from 11.7 per cent in FY2020-21 to 2.1 per cent in FY2024-25, reflecting a substantial clean-up of the loan book following the bank's exit from the PCA framework. The stock price, by contrast, moved in a far more pronounced, non-linear way, climbing from Rs. 17.8 to a peak of Rs. 66.9 in FY2023-24 before correcting to Rs. 38.9 in FY2024-25.

This gap between the steady improvement in fundamentals and the more volatile price path shows up in correlation and R^2 values that are moderate-to-strong rather than near-perfect. The Gross NPA ratio emerged as the strongest single explanatory factor, which fits with the view that improving asset quality was central to rebuilding investor confidence in IOB after its PCA period, while Net Profit Margin showed the weakest relationship, suggesting that overall margin improvement was a comparatively secondary consideration for the market relative to asset quality and return-based measures. On the whole, the results support the view that financial performance is a meaningful, but not the sole, driver of IOB's stock price behaviour.

Major Findings

- IOB's financial performance indicators improved consistently over the study period — EPS rose from Rs. 0.5 to Rs. 1.8, ROE from 4.4% to 10.5%, and ROA from 0.28% to 0.86% — while the Gross NPA ratio fell sharply from 11.7% to 2.1%, reflecting a marked improvement in profitability, efficiency, and asset quality.
- IOB's stock price rose overall, from Rs. 17.8 in FY2020-21 to a peak of Rs. 66.9 in FY2023-24, before correcting to Rs. 38.9 in FY2024-25, displaying considerably more relative volatility than any of the underlying financial ratios.
- Descriptive statistics confirmed that IOB's profitability, efficiency, and asset quality indicators improved steadily with low variability across the study period, while the stock price's markedly higher variability (coefficient of variation of about 56%) pointed to the influence of factors beyond the bank's own fundamentals.
- All six indicators carried the theoretically expected sign — positive for the profitability and efficiency measures, negative for Gross NPA — with the Gross NPA ratio emerging as the strongest predictor of stock price ($r = -0.784$, $R^2 = 0.614$), followed by Net Interest Margin and Return on Equity, while Net Profit Margin showed the weakest relationship ($r = 0.541$, $R^2 = 0.292$).

Together, these findings confirm that all four objectives of the study were met: the trend in IOB's key financial performance indicators and in its stock price behaviour was traced, its profitability, efficiency, and asset quality performance was assessed through descriptive statistics, and the strength and direction of the relationship between each financial performance indicator and stock price was statistically tested using correlation and regression analysis.

Recommendations

- The bank should continue its efforts to bring down NPAs and improve profitability, so as to maintain investor confidence and support future growth.
- Given the stock price's comparatively higher volatility, investors should distinguish short-term price swings from the steadier trend in underlying fundamentals before making decisions.
- Investors should give particular weight to the Gross NPA ratio, alongside Net Interest Margin and Return on Equity, rather than relying on any single indicator, when assessing IOB's stock.
- Analysts should interpret the financial performance–stock price relationship alongside broader market and macroeconomic conditions, rather than in isolation.
- Future studies should extend the time period, apply more advanced statistical techniques such as multiple regression or time-series models, and compare Indian Overseas Bank with other public sector banks, to arrive at more robust and comprehensive results.

Acting on these recommendations can help investors, analysts, and the bank's management make better sense of IOB's financial performance and stock price behaviour, while pointing future research toward a more complete understanding of the relationship.

Conclusion

This study set out to examine, empirically, the relationship between the financial performance and stock price behaviour of Indian Overseas Bank over the period FY2020-21 to FY2024-25, using secondary data compiled from the bank's published financial statements and historical stock price records. The findings show that IOB's financial performance improved consistently over the study period, coinciding with its exit from the Reserve Bank of India's Prompt Corrective Action framework in September 2021, and that this improvement was, on the whole, positively associated with the bank's stock price behaviour, as borne out by the correlation and regression results. Asset quality improvement, captured through the Gross NPA ratio, emerged as the strongest single driver of stock price movement among the indicators studied, followed by Net Interest Margin and Return on Equity.

At the same time, the study found that, taken individually, financial performance indicators explained only a moderate share of the variation in IOB's stock price, with the bank's share price moving in a sharper and more volatile fashion than the steadier trend seen in its underlying financial ratios. This suggests that while financial performance is a meaningful and statistically supported driver of IOB's stock price behaviour, it works alongside other market-related and sector-wide factors that this study, confined as it is to company-specific financial ratios, was not designed to capture. Overall, the study concludes that there is a positive and economically meaningful relationship between Indian Overseas Bank's financial performance and its stock price behaviour, with asset quality improvement standing out as the most influential factor, and recommends that this relationship be read alongside broader market conditions rather than in isolation.

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