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REVISITING FINANCIAL MARKET CULTURE THROUGH THE EIC FRAMEWORK: EVIDENCE FROM NIFTY BANK RETURNS IN INDIA

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ABSTRACT

The study examines the impact of fundamental analysis on Nifty bank performance within the Economy-Industry-Company (EIC) framework in India. The study employed quarterly data of selected macroeconomic variables, industry level indicators and firm level performance from 2015 to 2025. The model is estimated by using PLS SEM with Nifty50 as control variable capturing the systematic risk in markets. The findings demonstrate that macroeconomic, industry, and firm-level factors do not exert a statistically significant direct impact on Nifty Bank returns, suggesting limited explanatory power of fundamental variables in the short run. In contrast, industry conditions significantly influence firm-level performance, while market-wide factors emerge as the dominant driver of returns. These results highlight that while fundamental indicators remain important for understanding underlying economic conditions, short term movements are largely influence by systematic market forces. The study integrate several indicators into structural frameworks and offers practical implications for the investors and policy makers in prioritizing market signals, asset quality management and exchange rate stability.

KEYWORDS: EIC Framework, Nifty Bank Index, Macro Economic indicators, PLS-SEM, Nifty 50

1 INTRODUCTION

The banking sector in specific is influenced by the stock markets due to complex indicators of the macro-economic conditions ,industry vibrant and specific company related factors.(Naseer et al., 2021). The share price prediction of the banking industry is widely accepted due to the traditional framework of fundamental analysis where economic, industry and company analysis based on historical information(Chang et al., 2024).Therefore it is Economy-Industry Company(EIC) approach. Top-down approach is adopted in this research because it starts firstly with economic variables like gross domestic product, inflation, interest, etc, followed by the industry analysis like life cycle of the industry like entry, growth, maturity and decline, and finally company analysis is confined to business and financial analysis. (Sule et al., 2024). .Nifty Bank is crucial in fostering the macro-economic shocks to the extensive economy while simultaneously reflecting variations in credit deposit, Borrowings from RBI , Non Performing Asset etc.(Pal & Garg, 2019).In addition ,the select banks in public and private sector is examined through profitability and the P/E ratio is used to determine the company's financial stability and how it affects price projection.(Dsouza et al., 2022).

In fact, EIC framework is very effective but still its relevance in providing empirical evidence in predicting the stock prices .It is very indecisive though there is strong theoretical relevance of EIC framework .(Shaari & Ram Sing, 2025).Earlier studies have documented that EIC analysis is having direct relation with the movement of stock prices. For instance if the GDP increases ,it has influence on bank nifty shares and individual Public sector banks and private sector banks share price movements.(Keswani et al., 2024).Efficient Market Hypothesis theory explains the movement of share prices as semi strong hypothesis where publicly available information influences the movement of the bank stocks prices where the annual banks audited information is easily accessible information. (Chang et al., 2024).Therefore the bank nifty identifies the observable impact of such information on contemporaneous returns which may be limited for instance its liquidity status and market available information.(A.S., 2018)

In emerging markets like India, the recent developments like increased market integration, growing institutional involvement, transparency and strong regulatory frameworks have made the equity markets more efficient (Banerjee, 2025). Fundamentals and markets forces effect the performances of equity markets. The role of market forces like risk-return factors, investor sentiments

can be observed in sectoral indices that move closely with the Indices. This can be clearly seen in Nifty bank moving closely with Nifty 50. However , the fundamental analysis has limited role in explaining short run stock price movements because the markets are affected by publicly available information more quickly than macro-economic news and company related news exert a measurable, independent effect(Greig, 1992).

In the study, the Economy–Industry–Company (EIC) framework (Siwiwaliondo, 2025) was used to evaluate the Nifty Bank Index (Ukhalkar et al., 2023) using PLS-SEM (Hair et al., 2019). The analysis utilizes quarterly data from June 2015 to December 2025, facilitating the exploration of dynamic interactions over various economic phases, including times of financial strain and recovery. The study uses Nifty50 returns as a proxy for broad market performance to assess basic variable's explanatory power in the EIC paradigm and account for systematic risk. In accordance with semi strong EMH (Fama, 1970), the findings demonstrate that while fundamental variables are crucial in shaping underlying economic and financial conditions, their direct influence on short-term stock returns is limited. In contrast, systematic market forces emerge as the dominant determinant of banking sector performance, highlighting the difficulty of isolating sector-specific effects from broader market dynamics. In doing so, the study advances the application of the EIC framework in an emerging market setting and offers a more integrated perspective that bridges fundamental analysis with asset pricing theory.

The Top-Down Path to Bank Valuation: The EIC Framework

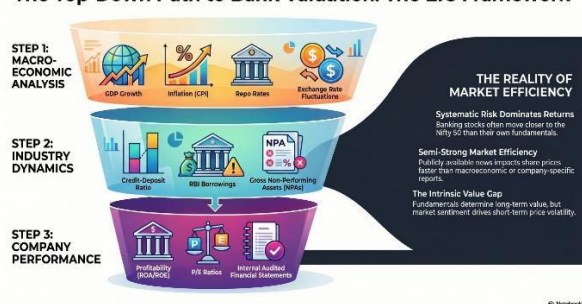


Figure 1 Top down approach

2 REVIEW OF LITERATURE

2.1 Fundamental analysis

Fundamental analysis provides a systematic approach to assess and to evaluate the intrinsic value of shares in view of economy, industry and company attributes.(Jezkova et al., 2020) The EIC framework utilizes this approach with broader economic conditions ,industry characteristics and company financial analysis(Drakopoulou, 2016). This

approach implies that the macro-economic conditions shapes the industry performance which in turn influences the firm level profitability and liquidity.(Cheong & Hoang, 2021)

The EIC framework has been widely used for predicting the share prices and this information will be useful to take an appropriate investment decision(Kumar, 2016). This helps to wealth creation

and utilization of optimum investment decision. But in this EIC analysis , the returns are volatile in short term and is applicable semi strong hypothesis.(Muguto & Muzindutsi, 2022) While this framework provides a theoretically rational structure for analyzing the financial performance, its empirical validity is confined to contemporaneous stock price movements which is still debate in literature.

2.2 Macro Economic Factors and Nifty Bank returns

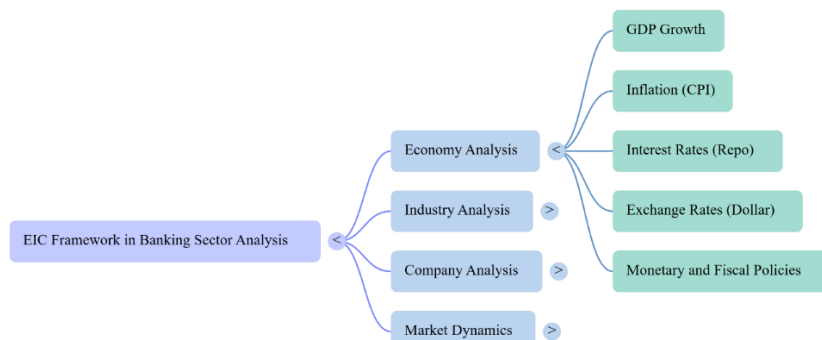


Figure 2 Economic Analysis

The macro-economic variables like GDP, inflation, dollar, and REPO rates are common determinants for forecasting the future prices both national and international markets.(Dr Amit Hedau, 2024) Theoretical model suggest that economic growth enhances earnings per share and credit demand ,followed by positively influencing the stock prices where inflation, dollar and Repo rate reduction may apply downward pressure on equity valuations The changes in the global economy like fluctuations

in dollar rate, economic sanctions, bilateral agreement ,trade barriers and etc. influence the performance of many firms ,causing earnings to fluctuation.(Meng, 2024) Firms operating in any country directly influenced by the macro-economic variables and policies pursued by the government of that country(Issah & Antwi, 2017). The impact of macro-economic variables may be indirect, lagged or already embedded in market expectations, limiting their observable influence on contemporary returns.

2.3 Industry level Dynamics in the Banking sector

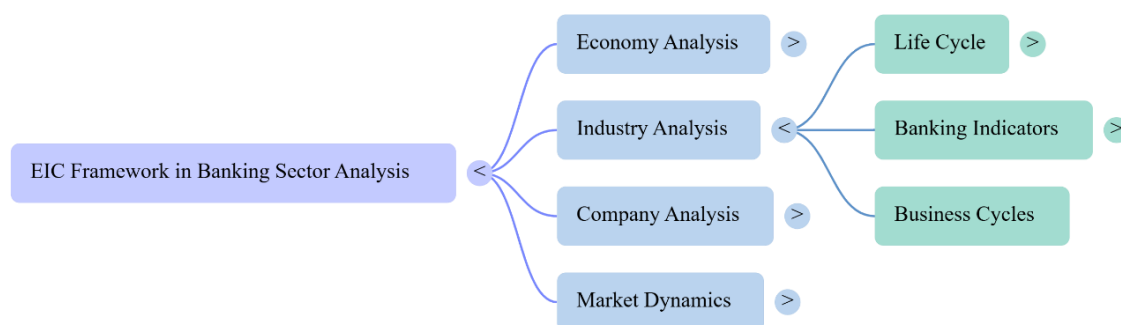


Figure 3 Industry Analysis

Fundamental analysts need to understand the business cycle and have an ability to forecast them.(Pontes et al., 2024) Cyclical industries are more sensitive to business cycle These industries try to outperform the others when recovery sets in and fall

behind the others. Defensive industries have little or no sensitivity to the business cycle. Fundamental analyst needs to develop skills and use tools to make accurate forecast about macro-economic indicators and business cycles. (Latif et al., 2024)

Raise in Gross Non Performing Assets is identified as a major constrain of financial stress which is adversely affecting the performance of the banking sector. (Maheswari & Reddy, 2022). Credit deposits and borrowings from RBI are also influencing the

demand and supply of money in the banking sector. These industry level dynamics are expected to influence the firm level performance by shaping operational constraints and financial stability within the banking system. (Miao, 2025)

2.3 Company- level Dynamics in the Banking sector

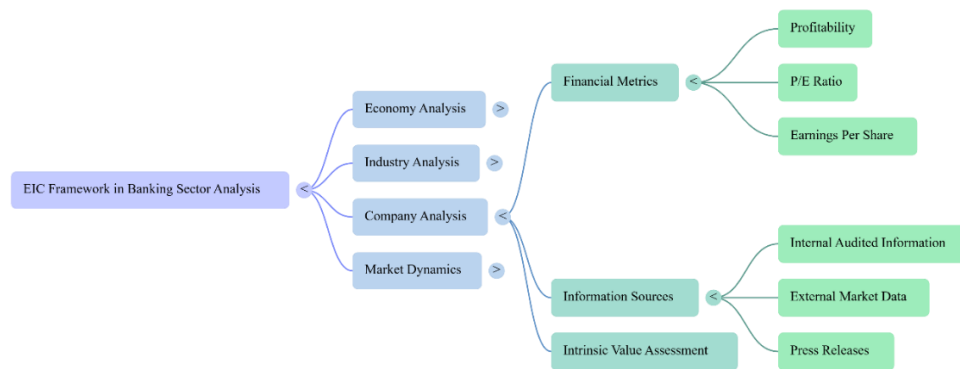


Figure 4 Company Analysis

Company analysis provides information about the internal and external sources that can enable the analyst to form correct expectations about the future prospects of a firm and take a buy, hold and sell on its equity (Miao, 2025). Internal information is the accounting data published by the company, press release and by the company officials. External

information is the information generated outside the company. It plays a supplementary role in providing internal information by overcoming any bias in company generated data. In such a setting, sectoral stock returns are more likely to be driven by systematic market-wide factors rather than isolated fundamental signals. (Tri Wahyudi & Rahmawati, 2025)

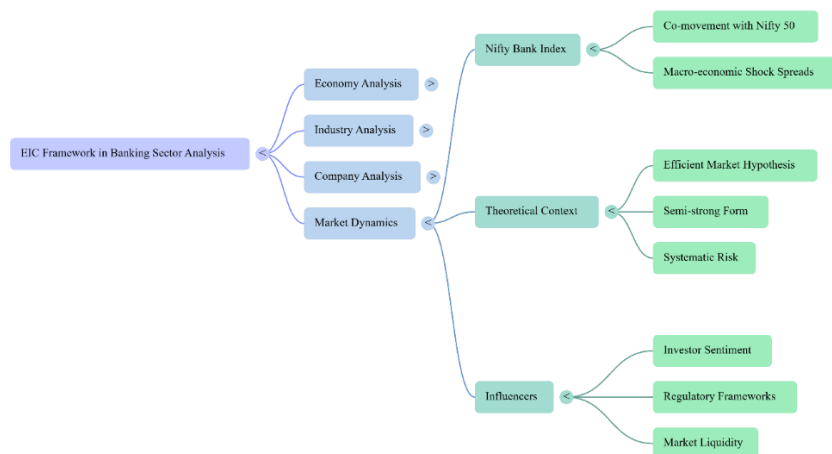


Figure 5 Market Dynamics

3. METHODOLOGY:

3.1 Research Design

The study employed a quantitative empirical research design to evaluate the impact of selected fundamental variables explanatory power in determining the performance of Nifty Bank Index within the Economy-Industry-Company framework (Siwiwaliondo, 2025). The research is grounded in prediction oriented approach to evaluate the

influence of macroeconomic, industry level and company specific determinants in real world financial conditions. PLS SEM was chosen as the analytical method. This method is appropriate for analysing intricate relationships involving several constructs. (Mandal et al., 2026) and PLS-SEM is particularly appropriate when the research draws secondary financial data when the model is oriented towards a predictive theoretical perspective (Hair et

al., 2019). Smart PLS 4 software (Ringle et al., 2024) package was employed to estimate the model.

The SEM (Structural Equation modelling) has two major approaches- Covariance based Sem (CB-SEM), which is based on common factor model and Partial least squares Structural equation modelling (PLS-SEM) which adopts a composite based approach reflecting distinct measurement philosophies. The empirical studies suggest that PLS-SEM is less sensitive to model misspecifications and therefore more robust than the CB-SEM in many applied research contexts(Sarstedt et al., 2016).

The empirical analysis is based on secondary data on macroeconomic variables, including Gross Domestic Product (GDP), Consumer Price Index (CPI), Repo rate, Bank credit, Borrowing from RBI, Gross Non-Performing Assets of scheduled commercial bank and Dollar are sourced from Reserve Bank of India website. The market related information regarding Nifty bank index closing price and Nifty 50 closing prices is obtained from NSE India and firm level financial indicators for selected public and private sector banks are sourced from Capitaline database. The study focused on banks constituting the Nifty Bank index and to ensure comparability across variables reported at different frequencies, all data are harmonised and structured at a quarterly level. This temporal alignment facilitates the integration of macroeconomic, industry and company level indicators while preserving the dynamic nature of financial and economic conditions. To ensure the study has adequate statistical strength, G*Power (Faul et al., 2009) was used to estimate required sample size and resulted required sample size estimated to be 36 observations. With an F test framework applied with three indicators and a significant significance level of 0.05, statistical power of 0.80, and a large effect size ($F^2=0.35$). Based on these criteria, the final data sets exceed this requirement and thus the analysis is supported by adequate statistical power, ensuring that the results are reliable and meaningful.

3.2 Variable selection and Operationalization

The objective of the study is prediction and explanation of variance in Nifty Bank returns and the

path model incorporates formative constructs and the selection of variables is based on theoretical principles of fundamental analysis and the EIC framework, which suggests that the financial performance is simultaneously affected by macroeconomic factors. Industry trends and firm specific attributes(Singh & Yadav, 2021). Research additionally assesses if these indicators maintain explanatory significance amid broad market fluctuations.

The three exogenous latent constructs are specified as formative, namely Economy-oriented, Industry-oriented, and Company-oriented. Formative specification is adopted because the indicators of each construct are theoretically formed as causes of the latent variable that is, changes in any individual indicator are expected to produce changes in the construct, and the indicators need not co-vary with one another(Diamantopoulos & Winklhofer, 2001; Hair et al., 2022)

The macroeconomic aspect of the economy-oriented construct is based on GDP growth rate, the consumer price index (CPI) rate, exchange rate, and the repo rate. Broadly, the construct explains the macroeconomic aspects such as growth rate of the economy, the pressure on prices, the country's ability to compete with other countries, and the direction of monetary policy(Chen, 1991). As macroeconomic shocks take time to affect equity markets(Bernanke & Gertler, 1995) so GDP growth rate and CPI growth rate are computed with a one-period lag and time - weighted average for repo rate.(Bernanke & Gertler, 1995; Cook & Hahn, 1989)

The credit deposit ratio, borrowings from RBI and Gross Non-Performing assets are chosen for the Industry oriented construct because this closely show the liquidity conditions and Stress level and asset quality that are typical of a banking sector(Mishra et al., 2021). The company-oriented construct is a higher-order construct with lower-order components from both the public and private sectors. The Profit After Tax Margin (PATM), which explains the profitability (Janice & Toni, 2020) and the Price-Earnings (P/E) ratio which explains the worth of a company(Molodovsky, 1995) are used for latent scores for company construct.

3.3 Model Specification

Table 1: Latent Variable Descriptions and Measurement Specifications

Construct	Context	Items/Indicators	Impact on Returns	Theoretical Framework	Role in Investment Decision
Economy	Macroeconomic Variables	GDP	Limited direct influence on short-term returns; impact is often indirect, lagged, or	Efficient Market Hypothesis (Semi-strong form); Asset	Used to evaluate overall financial performance and identify intrinsic value;
		CPI			
		Repo rate			

		Dollar	embedded in market expectations.	Pricing Theory	shapes broad industry performance.
Industry	Industry-level Dynamics	Credit-Deposit Ratio	Influences performance via operational constraints and financial stability; shows strong co-movement with Nifty 50.	Business Cycle Sensitivity (Cyclical vs. Defensive industries)	Used to understand business cycles and forecast financial stress; essential for sector-specific assessments.
		Borrowings from RBI			
		Gross Non-Performing Assets (GNPA)			
Company	Firm-level Metrics (Financial Analysis)	Profitability	Limited direct influence on short-term returns; returns are driven more by systematic market-wide factors.	Fundamental Analysis (Intrinsic Value calculation)	Used to form expectations about future prospects to inform buy, hold, or sell decisions.
		P/E Ratio, Earnings Per Share (EPS)			

The Nifty bank Index is considered as endogenous construct with Quarterly logarithm returns (QR (Hair et al., 2022). The Nifty Bank index shows how well the banking industry is doing, and performance is assessed by logarithmic returns using the formula $\ln(P_t / P_{t-1})$ following the established econometric convention.(Campbell et al., 1997). Quarterly returns adopted as the principal indication on the basis of their comparatively robust statistical significance for Nifty bank index. The Nifty 50 is incorporated as a single-indicator control construct to account for systematic market-wide risk and isolate sector- specific effects on banking returns. Consistent with asset pricing theory, market returns capture common risk factors that must be controlled to identify the independent contribution of explanatory variables(Fama & MacBeth, 1973)(Fama & French, 1993) . Following PLS-SEM conventions, the construct is specified with an outer loading of 1.000, assuming perfect measurement representation(Hair et al., 2022).

The constructs related to the economy, industry, and company are classified as formative (Mode B), as their indicators signify unique and non-interchangeable features that together delineate each construct. So, formative measurement assessment looks at collinearity diagnostics utilizing variance inflation factors (VIF) and the importance and meaning of outer weights and loadings, following established rules (Hair et al., 2022). Redundancy analysis is not conducted due to the lack of theoretically suitable global reflective metrics. According to previous research, convergent validity cannot be evaluated in secondary data contexts when appropriate alternative indicators are lacking (Houston, 2004). Consequently, construct validity is confirmed by collinearity evaluation and indicator significance, in alignment with methodological guidelines (Cheah et al., 2018).

The company construct is a high order construct, and the Latent variable scores of lower order constructs are used as indicators, thereby improving the

estimating efficiency and reducing model complexity(Sarstedt et al., 2019). Model evaluates the direct effects of economy oriented, industry oriented and company oriented variables on a Nifty Bank performance while controlled by broad market(Nifty 50).To capture the systematic risk, the market performance Nifty 50 is incorporated as control variable consistent with asset Pricing theory(Fama, 1970)

To examine the transmission mechanism underlying economy industry company EIC framework mediation analysis is also conducted including both specific indicate direct effects and sequential mediation pathways. Model estimation is performed using PLS algorithm and statistical significance assessed through bootstrapping with 5000 resamples(Nitzl et al., 2016).

4. RESULTS

4.1 Measurement Model Assessment

An indicator relevance is presented in Table 2 and Table 3. Since all the construct items in the study are formative internal consistency measures such as Cronbach's alpha and AVE are not applicable(Hair et al., 2022). And the Variance Inflation factor(VIF) values of all indicators are below the recommended threshold of 3.3 indicating the absence of critical multicollinearity and confirming that each indicator contributes uniquely to its respective construct(Texas A&M International University et al., 2012). While the company- oriented construct exhibits relatively higher VIF values of 4.547, this remains within acceptable limit and reflects the natural growth movement between PSU and private sector bank performance rather than problematic redundancy

Item relevance in the construct was assessed using both outer weights and outer loadings. Within the economy-oriented construct, the dollar emerges as the only statistically significant indicator indicating that external sector dynamics plays a dominant role in shaping the macroeconomic environment of

banking sector. The other item like CPI, GDP and repo rate are statistically insignificant but are retained due to their conceptual importance in capturing the distinct dimensions of macroeconomic environment, consistent with the formative measurement theory which prioritises the content validity over statistical significance. For the industry-oriented construct, GNPA is identified as the most influential and statistically significant indicator, highlighting that asset quality deterioration is the main driver of industry level stress. The credit deposit ratio demonstrates partial relevance through its loading, indicating its role in capturing liquidity

conditions while borrowings from RBI, although statistically weak is retained as a theoretically meaningful dimension, reflecting the reliance on Central bank support. In the company-oriented construct, private sector bank performance shows a strong and statistically significant contribution whereas PSU bank performance exhibits high loading but insignificant weight indicating shared variants within the construct, but limited with the unique contribution. Both indicators are retained to ensure comprehensive representation of firm level banking sector performance.

Table 2 Model Fit Statistics

Construct	R ²	R ² adj.
Company Oriented	0.924	0.922
Industry Oriented	0.03	0.004
Nifty Bank Returns	0.7	0.665
Model fit		
SRMR	0.107	

Table 3: Indicator Significance and Relevance

Construct	Indicator	VIF	outer weight	P value	outer loading	P value
Economy Oriented	CPI	1.033	0.186	0.587	0.27	0.476
	Dollar (USD/INR)	1.071	0.992	0	0.943	0
	GDP	1.18	-0.258	0.463	-0.006	0.985
	Repo Rate	1.167	0.251	0.351	0.052	0.841
Industry Oriented	Borrowings from RBI	1.008	0.158	0.398	0.072	0.784
	Credit-Deposit Ratio	1.075	0.44	0.099	0.643	0.047
	GNPA	1.082	0.791	0	0.893	0
Company Oriented	PSU_LV	4.547	0.224	0.394	0.928	0
	PVT_LV	4.547	0.797	0.002	0.994	0

4.2 Structural Model Assessment

The structural model was assessed using path coefficients, bootstrapping with 5,000 resamples, and coefficients of determination (R^2), as reported in Table 1 and Figure 1. The model fit, evaluated using SRMR, slightly exceeds the conventional threshold but remains within acceptable limits for PLS-SEM, particularly in models involving formative constructs (Hair et al., 2022). The R^2 value indicate that the company-oriented construct has very high explanatory power ($R^2=0.924$), suggesting that firm level banking performance is strongly explained by its items. The combined influence of Economy oriented, industry oriented, company-oriented constructs and Nifty 50 as control variable explains a significant portion of variation in Nifty Bank returns ($R^2=0.70$). However, the industry-oriented context shows very low explanatory power ($R^2 = 0.30$) interpreting that macroeconomic variables do not significantly explain industry level conditions with a within the absorbed study period.

The structural relationship revealed that the path

from industry-oriented to Company-oriented construct is strong, negative and statistically significant, indicating that Industry conditions primarily driven by rising GNPA has a substantial adverse impact on firm level performance. However, the direct effect of Economy oriented, Industry oriented and Company oriented constructs on Nifty Bank returns are statistically insignificant. The economy-oriented construct exhibits a weak negative effect, while the industry oriented and company-oriented constructs have a positive but insignificant effects on Nifty Bank returns. In contrast, the Nifty50 as control variable demonstrate a strong and statistically significant positive effect, confirming that Nifty Bank returns are predominantly driven by broader market forces. From the hypothesis perspective, the results support the relation between Industry oriented and Company oriented constructs, while the direct effects of Economy, Industry oriented and Company oriented constructs on Nifty Bank returns are not supported. The relationship between Nifty

50 and Nifty Bank returns is strongly supported reinforcing the importance of systematic market

risk in explaining Nifty Bank returns.

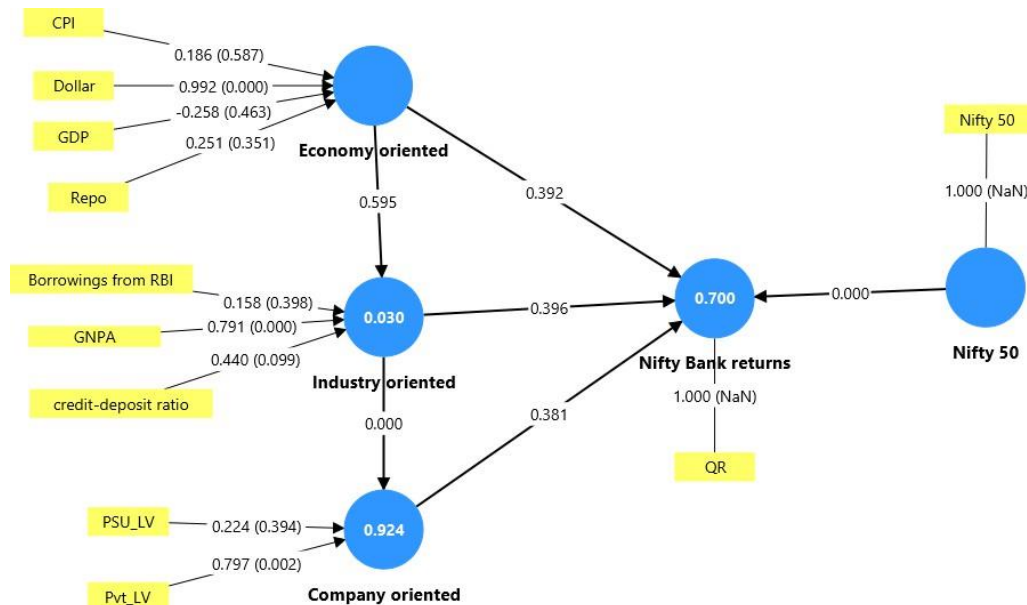


Figure 6 Bootstrapping Results

Table 4: Path Coefficients

Path	Path coefficient	p- value	Confidence Interval Bias Corrected		Hypothesis inference
			2.50%	97.50%	
Economy - Nifty Bank	-0.139	0.392	-0.311	0.456	Not Supported
Industry- Nifty bank	0.292	0.396	-0.236	1.167	Not Supported
Economy - Industry	0.174	0.595	-0.609	0.614	Not Supported
Industry - Company	-0.961	0	-0.986	-0.91	Supported
Company - Nifty Bank	0.28	0.381	-0.228	1.066	Not Supported
Market performance - Nifty Bank	0.747	0	0.504	0.983	Not Supported

The effect of economy construct industry construct and company on Nifty Bank returns are insignificant, suggesting that these factors do not directly influence Nifty Bank returns within the study period. Similarly, the relationship between economy construct and industry construct is also not supported, indicating weak macroeconomic transition. Negative relationship is observed between industry and company construct

highlighting that adverse condition because of risky assets significantly affect firm level performance. The market performance Nifty 50 shows strong and significant positive influence of Nifty Bank returns. The findings suggest a limited direct influence of EIC framework with selected variables on Nifty Bank returns with broad market factors playing a dominant role.

4.3 Mediation Analysis

Table 5: Mediation -Path coefficients

Path	Mean	p-value	Mediation
Economy - Industry- Nifty Bank	0.051	0.732	No mediation
Industry- Company -Nifty Bank	-0.269	0.38	No mediation
Economy- Industry- Company- Nifty Bank	-0.047	0.692	No mediation
Economy- Industry- Company	-0.168	0.578	No mediation

In Table 5, the mediation analysis results are presented where, the findings indicate that none of the indirect paths are statistically significant. The

indirect effect of Economy through Industry on Nifty Bank returns, the indirect effect of industry through company on Nifty bank returns and the sequential

mediation pathway from economy to industry to company to Nifty Bank returns are all statistically insignificant. Similarly, the indirect effect of economic construct on company constructed through industry construct is insignificant.

There is no mediation in any of the tested pathways, although the EIC framework theoretically proposes a hierarchical transmission mechanism from economic conditions to industry and firm level performance, the study results are not supporting the mediation structure within the observed sample period. This suggests that macroeconomic practice does not systematically transmit through industry and company channel to influence Nifty Bank returns. Instead, the findings indicate that Nifty Bank returns are highly impacted by Nifty 50. While the linkages within the E-I-C framework operate more strongly at industry to company level rather than extending to stock markets performance.

5. DISCUSSION

The study provide an overview of role of fundamental variables in explaining Nifty Bank returns within an emerging market context. While the EIC framework offers a theoretically coherent structure for analysing financial performance, the empirical results indicate that its direct influence on Nifty bank returns was limited.. At macroeconomic level, the exchange rates have significant effect within the economy-oriented construct highlighting the sensitivity of Indian banking sector to external dynamics. In contrast, GDP, inflation and policy interest rates do not exhibit significant direct effects on Nifty Bank returns. Rather than indicating theoretical irrelevance, this suggests that macroeconomic information is either already embedded in market expectations or transmitted through indirect or lagged channels. These findings align with prior evidence that macroeconomic variables may have limited explanatory power for short term period in semi efficient markets.

Industry level results imply the structural importance of asset quality by GNPA emerging as dominant indicator of industry construct. The industry and company constructs are negatively related indicateing that deterioration in asset quality imposes substantial pressure on firm level performance. This finding reinforces the role of industry dynamics as a key transmission channel in linking a broader economic condition to firm outcomes within the banking sector.

The study suggests that the firm fundamentals while economically meaningful, may not independently drive the stock price movements in the short run. The

strong and statistically significant effect of Nifty 50 index and Nifty bank sector returns confirms that aggregate market forces play a central role in shaping the sectoral performance.

The mediation analysis further reveals that the transmission of EIC framework is insignificant. Neither industry conditions nor firm level performance mediate the relationship between macroeconomic factors and Nifty Bank returns. The theoretical validity of EIC framework suggests that the transmission of fundamental information may operate through longer term horizon or be influenced by structural disruptions, such as a regulatory intervention or macroeconomic shocks which are not fully captured in the quarterly type data methodology in the study. While macroeconomic, industry and firm level factors remain essential for understanding underlying financial and economic conditions, their ability to explain short term shock returns is constrained in increasingly efficient and information driven markets. This reinforces the view that sectoral equity performance is largely driven by systematic market forces, with fundamental indicators paying more supportive rather than dominant role in short term return of dynamics.

6. LIMITATIONS OF THE STUDY

The study findings are theoretically grounded and empirically meaningful but with few limitations that bound the scope of interpretation and to guide future scholarly inquiry. The contemporaneous quarterly framework, though methodologically tractable, is perhaps the most consequential constraint, as macroeconomic variables such as GDP and monetary policy adjustments are well known to transmit to equity markets with variable and extended lags that the current specification cannot explicitly accommodate. Compounding this, the high inner VIF values for the industry-Oriented and Company-Oriented constructs reflect severe structural collinearity arising from their near-perfect path relationship, which inflates standard errors, suppresses individual direct effect estimates, and materially increases the risk of Type II errors, a limitation that is difficult to resolve without altering the fundamental theoretical architecture of the model.

Further, the formative measurement approach, while theoretically appropriate, precludes conventional redundancy analysis for convergent validity assessment, the macroeconomic and industry constructs are necessarily limited in their variable coverage omitting potentially important drivers such as foreign institutional investment flows, fiscal

deficit, or sectoral credit growth and the exclusive focus on the Nifty Bank Index only limits generalisation to broader banking outcomes. Finally, the absence of statistically significant mediation effects, while theoretically informative, constrains the study's capacity to empirically confirm the full EIC transmission chain and likely reflects model-level temporal and structural constraints rather than a genuine absence of mediated relationships.

7. CONCLUSION

This study empirically investigate the impact of fundamental analysis on Nifty Bank Index performance through the Economy-Industry-Company framework, employing PLS-SEM as the analytical methodology, and is the first one for executing the E-I-C framework as a formal structural equation model applied to Indian banking sector and evaluating Nifty bank returns by specifying multiple formative indicators in PLS-Sem model and the

findings collectively affirm that the EIC framework provides a theoretically coherent and empirically meaningful structure for understanding the multi-level determinants of Nifty bank performance while simultaneously revealing the complexity and collinearity challenges inherent in modelling these relationships within a short-run quarterly return context. This provides a more integrated perspective on Nifty Bank returns comparative to traditional linear approaches. Secondly, the study offers empirical evidence that the fundamental variables expect limited direct influence on short term stock returns in emergent market constant, consistent with the semi strong form of Efficient market hypothesis. Third, the study identifies the dominant role of systematic market forces in shaping Nifty Bank returns highlighting the central importance of systematic risk in explaining the sectoral stock performance.

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