JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

STUDY ON ADVANCED AI MODELS FOR SENTIMENT-ENHANCED FINANCIAL ANALYTICS AND RISK PREDICTION IN INDIA

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Abstract : The Indian stock market is characterized by high volatility, rapid information flows, and diverse investor behavior, making accurate prediction and risk management a complex challenge. Traditional analytics that rely solely on historical price data often fail to capture the nuanced impact of market sentiment, especially as it emerges from news, social media, and financial disclosures. This survey reviews and categorizes existing approaches to sentiment-enhanced financial analytics for Indian markets, focusing on multi-source sentiment extraction, hybrid predictive modelling, and explainable AI (XAI) for risk management. We compare models such as FinBERT, XLNet, ARIMA, LSTM, and reinforcement learning, highlighting their strengths, limitations, and application to Indian financial data. The paper also identifies research gaps and proposes future directions for building more robust, transparent, and context-aware financial analytics platforms.

IndexTerms **- Financial Analytics, Sentiment Analysis, Explainable AI, Risk Management, Indian Stock Market, Hybrid Modelling, Deep Learning, NLP.**

I. INTRODUCTION

The Indian financial market is a vital engine for economic growth, capital formation, and wealth creation. As one of the world's fastest-growing economies, India's financial ecosystem is evolving rapidly, marked by increased participation from retail investors, digital transformation, and growing integration with global markets. However, this dynamic environment also presents persistent challenges that undermine the efficiency, reliability, and inclusivity of financial decision-making and risk assessment mechanisms.

A primary concern is market volatility, triggered by global economic events, domestic policy shifts, geopolitical developments, and fluctuating investor sentiment. Traditional forecasting models, which rely heavily on historical price trends and numerical indicators, often fall short in capturing the nuanced factors that drive rapid market movements.

The explosion of unstructured data across news, earnings calls, regulatory filings, analyst reports, and social media further complicates prediction. These sources contain rich, yet difficult-to-quantify, insights into market behaviour. Real-time sentiment shifts or breaking news can significantly impact asset prices within minutes. Most conventional financial analytics tools are ill-equipped to process and interpret this high-dimensional, text-based information.

Moreover, the rise of AI-powered financial tools has been met with both excitement and skepticism. While promising better predictions and automation, many models operate as "black boxes," producing results without understandable justifications. This lack of transparency hinders trust and adoption, especially among institutional investors and regulatory bodies.

To bridge these gaps, recent research has focused on holistic, AI-driven financial analytics platforms that integrate advanced NLP for sentiment analysis, hybrid predictive modelling for market forecasting, and Explainable AI (XAI) techniques for transparency and interpretability. This survey paper reviews the state-of-the-art in these areas, with a focus on the Indian financial landscape.

II. LITERATURE REVIEW

[1] Darapaneni N. et al., proposed a stock price prediction model using sentiment analysis and deep learning for Indian markets. The approach integrates market sentiment derived from financial news and social media with deep learning techniques like LSTM to forecast stock trends, specifically tailored to Indian stock exchanges.

[2] Kamila A. et al., analyzed sentiment embedded in the RBI's Financial Stability Reports. The study applies natural language processing to understand the tone and sentiment patterns over time, offering insights into how institutional communication affects investor behavior and market perceptions.

[3] Kashif K. and Ślepaczuk R., developed a hybrid model combining LSTM and ARIMA for stock market prediction. This model leverages LSTM's ability to capture non-linear patterns and ARIMA's strength in modeling linear temporal dependencies, thus improving prediction accuracy in volatile markets.

[4] Junaid M. et al., proposed a method integrating sentiment scores from financial news with an MLP-Regressor for stock prediction. The model demonstrated enhanced accuracy by combining textual sentiment features with numerical financial indicators for regression-based forecasting.

[5] Yao J. and Wang T., suggested an adaptive investment strategy combining time-series forecasting with sentiment analysis. The strategy adjusts dynamically based on market sentiment, enhancing investment decision-making under varying economic conditions.

[6] Haritha P. and Rishad A., examined stock market volatility in India in relation to investor sentiment dynamics. Their research identified key sentiment triggers impacting market swings and emphasized the influence of media and public sentiment on trading patterns.

[7] Kumar S. and Metri B. A., explored investor sentiments from Indian financial news articles. Using sentiment mining, the study offers a case-based approach to quantify investor emotions and their correlations with market volatility and investor decisions.

[8] Tianyue T. et al., proposed an explainable deep learning approach for financial time series forecasting. Their method enhances model transparency using attention mechanisms, improving stakeholder trust in AI-generated financial predictions.

[9] Angadi S. B., studied the impact of stock recommendations on Indian market volatility. The research identifies how analyst opinions and public recommendations influence market dynamics, particularly among retail investors.

[10] Kumar P. and Sharma R., developed a multi-modal financial forecasting model using both textual and numerical data. The framework fuses news sentiment with traditional financial metrics, resulting in improved forecasting accuracy across different financial instruments.

[11] Chen L. and Brown M., discussed the importance of trust and transparency in financial AI systems. Their study addresses ethical concerns, proposing guidelines for interpretable and responsible AI applications in the finance domain.

[12] Attaluri K. et al., introduced a news-driven stock forecasting model specifically for Indian markets. The model leverages current events and real-time news sentiment to predict short-term stock movements with higher precision.

[13] Abd H. and Al-Mutairi M., proposed a hybrid approach using ANFIS and sentiment analysis for stock market prediction. Their model combines fuzzy logic with machine learning to incorporate uncertainty in sentiment-derived features.

[14] Ouzaouit A., conducted a comprehensive survey on sentiment analysis techniques used in stock market prediction. The paper outlines various models, data sources, and challenges, providing a consolidated view of the field's current state and future directions.

[15] Verma R. and Singh A., presented a framework for real-time stock trading decisions using sentiment analysis. Their system uses real-time financial data and natural language sentiment cues to make adaptive, automated trading recommendations.

III. BACKGROUND

3.1 The Indian Financial Market Landscape

India's financial markets, notably the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE), are among the most dynamic and rapidly growing globally. The growth of digital trading platforms and mobile investment apps has democratized access to trading, leading to a surge in retail investor participation and accelerated market activity [1], [6].

Despite this expansion, the Indian market remains highly susceptible to a mix of domestic and international triggers, such as monetary policy changes, fiscal reforms, geopolitical events, and global economic signals. These sensitivities contribute to heightened volatility, further intensified by the behavior of retail investors who often react emotionally to news and social media trends [6], [7].

3.2 The Role of Sentiment in Financial Markets

Investor sentiment—reflecting the collective mood, perception, and expectations of market participants—is a well-documented driver of stock prices and market dynamics. In the Indian context, sentiment formation goes beyond traditional financial news, extending into social media, online forums, and instant messaging platforms [1], [6], [12]. Viral content, trending discussions, and influencer commentary can lead to sharp movements, as evidenced by various retail-driven trading episodes [6].

Traditional quantitative models based on technical and fundamental analysis often fail to incorporate these rapid, sentiment-driven dynamics. This has fueled a growing interest in sentiment analysis to supplement conventional approaches, providing more context-aware market forecasts [4], [10], [12].

3.3 Challenges in Sentiment Extraction

Extracting actionable sentiment from vast, unstructured data—such as news articles, earnings reports, tweets, and Reddit posts—is highly complex. These data sources are context-rich, multidimensional, and often multilingual, especially in India's diverse linguistic environment [7], [12]. This complexity presents challenges in accurately interpreting investor mood and its market impact.

Recent advancements in Natural Language Processing (NLP), including transformer-based models like FinBERT, have significantly improved the accuracy of financial sentiment analysis. These models handle sarcasm, jargon, and contextual semantics more effectively than earlier methods. When fine-tuned on region-specific datasets, they can capture nuances in local market sentiment [2], [14].

3.4 Risk Management and the Need for Explainable AI

Traditional risk assessment tools—like Value at Risk (VaR) and stress testing—are often inadequate during sentiment-driven volatility spikes. By integrating real-time sentiment data into predictive models, financial systems can better adapt to abrupt market changes [5], [13].

However, the adoption of AI in finance also introduces the challenge of interpretability. Many machine learning models operate as black boxes, lacking transparency in decision-making processes. This can hinder trust and regulatory acceptance. To mitigate this, Explainable AI (XAI) techniques such as SHAP and LIME have been employed to make model outputs more interpretable and trustworthy for stakeholders [8], [11].

3.5 The Shift Toward Integrated Analytics Platforms

In response to these needs, modern financial platforms are evolving toward holistic analytics systems that integrate structured (prices, indicators) and unstructured (news, sentiment) data streams. These systems provide real-time, explainable insights to support investment and risk management decisions [10], [15]. Key features of such platforms include:

- Real-time aggregation of multi-source financial and sentiment data.
- Advanced hybrid predictive modelling (e.g., LSTM, ARIMA, MLP) [3], [4], [13].
- Adaptive risk assessments based on evolving sentiment [5], [6].
- Intuitive, transparent dashboards for diverse users, from retail investors to institutional analysts [10], [15].

By combining cutting-edge AI, NLP, and financial modelling techniques, these integrated systems aim to foster a more inclusive, informed, and resilient financial ecosystem—especially in complex markets like India's.

IV. CONCLUSION

The Intelvestor platform presents a comprehensive solution to the challenges of financial forecasting and risk management in the Indian stock market by integrating AI-driven sentiment analysis, hybrid predictive modelling, and explainable AI (XAI) techniques. Drawing on insights from existing literature, the platform enhances traditional financial models by incorporating real-time, multilingual sentiment data from diverse sources such as news articles, social media, and financial reports.

This fusion of structured and unstructured data improves stock prediction accuracy, helps detect market volatility early, and supports better investment decisions. Additionally, the use of XAI tools like SHAP and LIME provides transparent model explanations, increasing user trust and regulatory compliance. With an intuitive, cross-platform dashboard, Intelvestor ensures accessibility and empowers both retail and institutional investors.

Overall, it delivers a transformative, data-driven ecosystem that modernizes financial analytics and enhances decision-making capabilities in a fast-paced, sentiment-sensitive market like India.

V. REFERENCES

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