

A STUDY ON DERIVATIVES MARKET**Dr. C Sudeep**

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Management**ABSTRACT**

Derivatives market a significant role to play in a country's economic development. The study's objective is to investigate the effect on the underlying market volatility of financial derivatives (futures and options). Currently, financial derivatives have become increasingly popular and utmost frequently used in the world of finance. This has grown with an extraordinary speed all over the world that now it is called as the derivatives revolution. In India, the emergence and growth of the derivatives market is relatively more. Derivative. This article aims to study futures and options by considering a company derivative from Indian stock market. This paper aims at suggesting the best possible ways to investors to gain more profits in derivative markets.

Trading in commodity derivatives on exchange platforms is an instrument to achieve price discovery, better price risk management, besides helping macro-economy with better resource allocation. Since the inception (2003) of national online trading on multicommodity exchange platforms, the trade volumes have grown exponentially.

INTRODUCTION

Derivatives are one of the most multifaceted instruments. The word derivative comes from the word to derive. It indicates that it has no independent value. A derivative is a contract whose value is derived from the value of another asset, known as the underlying asset, which could be a share, a stock market index, an interest rate, a commodity, or a currency. The underlying is the identification tag for a derivative contract. When the price of the underlying changes the value of the derivative also changes. Without an underlying asset, derivatives do not have any meaning. For example, the value of a gold futures contract derives from the value of the underlying asset i.e., gold. The prices in the derivatives market are driven by the spot or cash market price of the underlying asset, which is gold in this example. The basic purpose of these instruments is to provide commitments to prices for future dates for giving protection against adverse movements in future prices, in order to reduce the extent of financial risks, as the initial a step towards the introduction of derivatives trading in India, SEBI set up a 24 member committee under the chairmanship of Dr. L. C. Gupta on November 18, 1996 to develop an appropriate regulatory framework for derivatives trading in India. The committee submitted its report on March 17, 1998 recommending that derivatives should be declared as securities so that regulatory framework applicable to the trading of securities could also govern the trading of derivatives. Subsequently, SEBI set up a group in June 1998 under the chairmanship of prof. J.R.Verma, to recommend submitted its report in October 1998. It worked out the operational details of the margining system, a methodology for charging initial margins, membership details and net-worth criterion, deposit requirements and real-time monitoring of positions requirements.

Derivatives market in India has a history dating back in 1875. The Bombay Cotton Trading Association started future trading in this year. History suggests that by 1900 India became one of the world's largest futures trading industry. However after independence, in 1952, the government of India officially put a ban on cash settlement and options trading. This ban on commodities future trading was uplift in the year 2000. The creation of National Electronics Commodity Exchange made it possible. In 1993, the National stocks Exchange, an electronics based trading exchange came into existence. The Bombay stock exchange was already fully functional for over 100 years then. Over the BSE, forward trading was there in the form of Badal trading, but formally derivatives trading kicked started in its present form after 2001 only. The NSE started trading in CNX Nifty index futures on June 12, 2000, based

on CNX Nifty 50 Index derivative security is a security whose value depends on the value of together more basic underlying variable. These are also known as contingent claims. Derivatives securities have been very successful in innovation in capital markets. The emergence of the market for derivative products most notably forwards, futures and options can be traced back to the willingness of risk -averse economic agents to guard themselves against uncertainties arising out of fluctuations in asset prices. By their very nature, financial markets are markets by a very high degree of volatility. As instruments of risk management these generally don't influence the fluctuations in the underlying asset prices. However, by locking-in asset prices, derivative products minimize the impact of fluctuations in asset prices on the profitability and cash-flow situation of risk-averse investor. Derivatives are risk management instruments which derives their value from an underlying asset. Underlying asset can be Bullion, Index, Share, Currency, Bonds, Interest, etc.

OBJECTIVES OF THE STUDY

- To understand the basics of derivatives trading.
- To understand derivative sector like options and future.
- To understand the regulatory framework of forward trading in Indian markets.
- To understand impact of forward prices on the spot price trend of its immediate time lag.
- To understanding the limitations of forward trading.

SCOPE OF THE STUDY:

This study has got the limited scope of single underlying assets silver and a limited time period of one year. Nevertheless the scope is extended to through scrutiny and understanding of regulatory framework of derivatives, technicalities and influence of forward trading on spot prices. This study is purely executed with secondary data sources, although impact of forward trading can be measured through primary sources as well.

The study is limited to "Derivatives" With special reference to Futures and Options in the Indian context and the IIFL has been taken as representative sample for the study. The study cannot be said as totally perfect, any alteration may come. The study has only made humble attempt at evaluating Derivatives markets only in Indian context. The study is not based on the International perspective of the Derivatives markets.

NEED FOR THE STUDY:

Derivative market in Indian scenario is still believed to be at infant stage disturbing the macro level parameters for eg: forward trading in cereals & pulses and metals segments is believed to be the prime culprit of core sector inflation being faced by India now. Therefore this project finds it necessary the assess the impact of forward trading on spot prices of commodities. It is also necessary to establish a mechanical relationship between forward prices of one time lag and spot prices of its immediate time lag. Accordingly this project is constructed to find whether forward trading in fluences the core areas of wholesale price index.

ABOUT COMPANY

India Infoline has been founded with the aim of providing world class investing experience to hitherto underserved investor community. India Infoline is currently providing broking services on the NSE, BSE, derivative market and commodity exchange. India Infoline allows

individual investors too conveniently, comfortably and cost-efficiently place trades online and offline. While offering the service they also give the added assurance of 92 branch offices. The company, created to provide premium service with reasonable commissions, currently maintains more than 25000 individual accounts.

IIFL Holdings Limited (formerly India Infoline Limited) d/b/a IIFL and India Infoline, is an Indian diversified financial services company headquartered in Mumbai. The organization was founded by Nirmal Jain. IIFL and its group companies are backed by Canadian investor Prem Watsa, private equity firm General Atlantic and CDC Group, the UK Government's private equity arm. IIFL is ranked among the top seven financial conglomerates in India and as the top independent financial services firm in India in terms of market capitalization. Nirmal Jain is the chairman of the group, while R Venkataraman is the group managing director and co-promoter.

Research Methodology

It is always important to be critical of the information presented in sources, especially since the material might have been gathered to address a different problem area. Moreover, many secondary sources do not clearly describe issues such as the purpose of a study, how the data has been gathered, analyzed and interpreted making it difficult for the researcher to assess their usefulness. In order to address this problem I have tried to triangulate the secondary data by using numerous independent sources. The information about the problem is collected from the Research Journals, Trade Magazines, Annual Reports of Banks and the Internet. For evaluating Evolution of derivatives and important factors, I have focused on as recent material as possible. In order to get access to the latest developments in this area I have used a number of articles published in academic journals and trade magazines. We have also used secondary information from Internet based discussion forums. The data had been collected through primary and secondary source.

DATA COLLECTION

Primary data:

The data had been collected through IIFL staff.

Secondary data: The data had been collected through website of India Infoline Ltd.

TOOLS

- Graphical Method.

LIMITATIONS

- The study take Nifty Index Futures and Options.
- This is a study conducted within a period of (1st Dec2021-14 Jan2022).
- During this limited period of study, the study may not be a detailed, Full –fledged and utilitarian one in all aspects.
- The study contains some assumptions based on the demands of the analysis.
- The study does not provide any predictions or forecast of the selected scripts.
- The study was conducted in Hyderabad only.
- As the time was limited, study was confined to conceptual understanding of Derivatives market especially Future and Options in India.

DATA ANALYSIS & INTERPRETATION

The objective of this analysis is to evaluate the profit/loss position of option holder and option writer. This analysis is based on the sample data, taken STATE BANK OF INDIA scrip. This analysis considered the March ending contract of the SBI. The lot size of SBI is 500. The time period in which this analysis is done is from 03/11/2016 to 03/12/2016.

TABLE:1

Price of SBI in the Cash Market

DATE	MARKET PRICE
03/11/16	1272.50
04/11/16	1216.70
05/11/16	1248.75
06/11/16	1300.85
07/11/16	1222.40
10/11/16	1178.75
11/11/16	1171.60
12/11/16	1167.90
13/11/16	1108.45
16/11/16	1081.05
17/11/16	1183.55
18/11/16	1187.10
19/11/16	1167.40
20/11/16	1071.85
21/11/16	1105.00
24/11/16	1088.55
25/11/16	1056.05
26/11/16	1037.00
27/11/16	1097.16
28/11/16	1168.90
01/12/16	1134.16
02/12/16	1120.10
03/12/16	1112.25

GRAPH SHOWING MARKET PRICES

MARKET PRICE

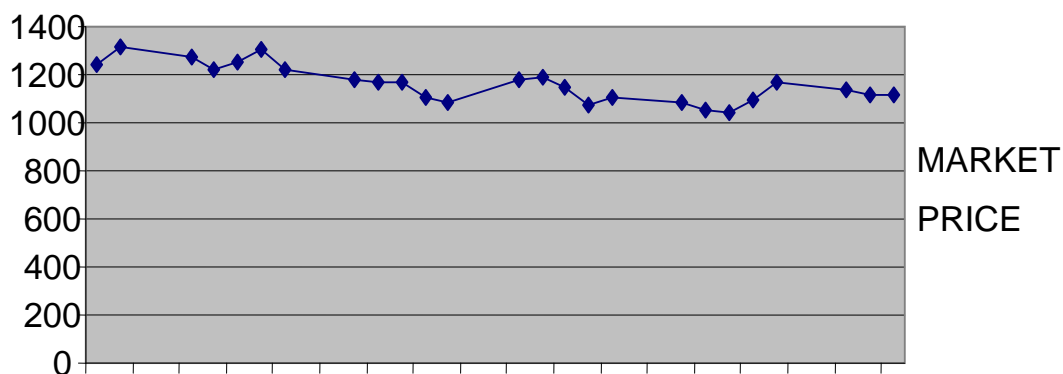


Fig: 1

The closing price of SBI at the end of the contract period is 1112.25 and this is considered as settlement price.

The following table explains

- ❖ The first column explains the trading date.
- ❖ The second column explains the market price in cash segment on that date.
- ❖ The call column explains the call/put options which are considered. Every call/put has three sub columns.
- ❖ The first column consists of the premium value per share of the contracts, second column consists of the volume of the contract, and the third column consists of total premium value paid by the buyer.

**TABLE: 2
CALL PRICES AT A STRIKE PRICE OF 1000**

DATE	MARKET PRICE	CA – 1000		
		PREMIUM	VOLUME('000)	TOTAL VALUE ('000)
03/11/16	1272.50	0	1	0
04/11/16	1216.70	45.16	3.5	168
05/11/16	1248.75	0	0	0
06/11/16	1300.85	12.65	4	0
07/11/16	1222.40	71	0	0
10/11/16	1178.75	35.60	2	162
11/11/16	1171.60	0	0	0
12/11/16	1167.90	100	2	200
13/11/16	1108.45	0	1.5	0
16/11/16	1081.05	65.65	0	0
17/11/16	1183..55	10	0	0
18/11/16	1187.10	56.45	3.5	197.575
19/11/16	1167.40	12	0	0
20/11/16	1071.85	0	2.5	0
21/11/16	1105.00	25	0	0
24/11/16	1088.55	32.56	1	32.56
25/11/16	1056.05	43	3	129
26/11/16	1037.00	25	2	50
27/11/16	1097.16	16.25	1	16.25
28/11/16	1168.90	32	85	2720
01/12/16	1134.16	8	1	8
02/12/16	1120.10	22.65	116	2604.75
03/12/16	1112.25	10.45	90	940.45
TOTAL		669.45		7245.585

**TABLE.3
CALL PRICES AT A STRIKE PRICE OF 1050 AND 1100**

PREMIUM	CA – 1050		PREMIUM	CA – 1100	
	VOLUME ('000)	TOTAL VALUE ('000)		VOLUME ('000)	TOTAL VALUE ('000)

48.35	28	1353.8	37.65	170.5	6419.325
66.35	45.5	3018.925	49.25	394	19404.5
52.1	13.5	703.35	33.8	83	2805.4
57.5	12	690	39.95	77	3076.16
65	7	455	46.45	30.5	1616.725
62.4	9	561.6	44.05	32	1609.6
77	6.5	500.5	53	45	2385
70.2	3	210.6	52.05	20	1041
66.45	6	398.7	46.05	16	644.7
85.2	39.5	3365.4	67.25	52	3497
82.35	22	1811.7	62.75	46	2886.5
0	0	0	60	4	240
75	2.5	187.5	58.3	7	408.1
0	0	0	56	3.5	196
0	0	0	55	0.5	27.5
71	2	162	54	9	486
70	1	70	48	12.5	600
0	0	0	19.75	32	632
10.85	95.5	1036.175	5.1	308.5	1673.35
16.2	232.5	3534	6.6	247	1630.2
11.75	88.5	1039.875	4.4	203.5	895.4
2	287.5	575	0.95	83.5	79.325
6.16	287.5	1768.125	1	68	68
0.65	274	178.1	0.16	65	9.75
TOTAL	1663	21600.35		2016	1831.525

TABLE.4

CALL PRICES AT A STRIKE PRICE OF 1160

DATE	MARKET PRICE	CA – 1160		
		PREMIUM	VOLUME ('000)	TOTAL VALUE ('000)
30/10/16	1240.60			
31/10/16	1320.75	27.16	338.5	9190.275
03/11/16	1272.50	36.2	696.5	25213.3
04/11/16	1216.70	22.95	339.5	7791.525
05/11/16	1248.75	28	167.5	4410
06/11/16	1300.85	32.05	167.5	5047.875
07/11/16	1222.40	29.85	166.5	4373.025
10/11/16	1178.75	37.25	163	5699.25
11/11/16	1171.60	36.1	58	2093.8
12/11/16	1167.90	31.75	48.5	1639.875
13/11/16	1108.45	50.16	167.5	7898.625
16/11/16	1081.05	47.6	53	2522.8
17/11/16	1183..55	43.35	24.5	1062.075
18/11/16	1187.10	40.6	23	933.8
19/11/16	1167.40	36.95	18.5	683.575
20/11/16	1071.85	33.16	23.5	779.025
21/11/16	1105.00	35.5	48.5	1721.75
24/11/16	1088.55	30.16	22	663.3
25/11/16	1056.05	8.6	327.5	2816.5
26/11/16	1037.00	2.5	291	727.5
27/11/16	1097.16	2.75	102	280.5
28/11/16	1168.90	2.2	63	138.6
01/12/16	1134.16	0.5	16	7.5
02/12/16	1120.10	0.35	16.5	5.775
03/12/16	1112.25	0.2	16	3.2
TOTAL			3297	85603.45

**TABLE.5
CALL PRICES AT A STRIKE PRICE OF 1200 AND 1250**

	CA – 1200			CA – 1250	
PREMIUM	VOLUME ('000)	TOTAL VALUE ('000)	PREMIUM	VOLUME ('000)	TOTAL VALUE ('000)
17.9	124	2219.6	12.8	12	163.6
25.65	327	8387.55	16.9	51	810.9
16.2	283.5	4025.7	9.65	55	530.75
16.85	107	1802.95	10.7	24.5	262.16
19.8	197	3900.6	10.7	44.5	476.16
18.6	169.5	3162.7	11.3	39.5	446.35
23.6	224.5	5298.2	16.2	108	1633.6
22.55	169.5	3596.725	12.9	62	799.8
19.95	182.5	3640.875	11.05	85	939.25
34.1	382.5	13043.25	20.45	410.5	8394.725
29.95	180	5391	17.95	295.5	5304.225
27.35	67.5	1846.125	16.6	171	2667.6
22.95	181.5	4165.425	13.2	200	2640
21.55	116	2478.25	11.55	106.5	1230.075
19.3	181	3493.3	9.85	181	1782.85
19.2	278	5337.6	9.35	170.5	1694.175
16.55	112	1629.6	6.4	57	364.8
3.95	316.5	1246.225	2	109.5	219
1.3	108	160.4	0.7	46.5	32.55
1.35	48.5	65.475	0.5	16.5	8.25
0.6	22	13.2	0.55	18.5	10.175
0.35	13	4.55	0.2	13.5	2.7
0.16	5.5	0.825	0.16	5.5	0.825
0.16	12	1.8	0.16	26	3.9
TOTAL	3796.5	74881.925		2309.5	30208.4

**TABLE:6
CALL PRICES AT A STRIKE PRICE OF 1300**

	CA – 1300	
PREMIUM	VOLUME ('000)	TOTAL VALUE ('000)
12.8	12	163.6
16.9	51	810.9
9.65	55	530.75
10.7	24.5	262.16
10.7	44.5	476.16
11.3	39.5	446.35
16.2	108	1633.6
12.9	62	799.8
11.05	85	939.25
20.45	410.5	8394.725
17.95	295.5	5304.225
16.6	171	2667.6
13.2	200	2640
11.55	106.5	1230.075
9.85	181	1782.85
9.35	170.5	1694.175
6.4	57	364.8
2	109.5	219
0.7	46.5	32.55
0.5	16.5	8.25

0.55	18.5	10.175
0.2	13.5	2.7
0.16	5.5	0.825
0.16	26	3.9
	2309.5	30208.4

TABLE.7
PUT PRICES AT A STRIKE PRICE OF 1000

DATE	MARKET PRICE	PA – 1000		
		PREMIUM	VOLUME ('000)	TOTAL VALUE ('000)
30/10/16	1240.60	4.65	4.5	20.925
31/10/16	1320.75	1.9	8.5	16.16
03/11/16	1272.50	1.9	0.5	0.95
04/11/16	1216.70	0.75	2	1.5
05/11/16	1248.75	1	2.5	2.5
06/11/16	1300.85	0	0	0
07/11/16	1222.40	0	0	0
10/11/16	1178.75	0	0	0
11/11/16	1171.60	0	0	0
12/11/16	1167.90	0	0	0
13/11/16	1108.45	0	0	0
16/11/16	1081.05	0	0	0
17/11/16	1183..55	0.5	2	1
18/11/16	1187.10	0.5	0.5	0.25
19/11/16	1167.40	0	0	0
20/11/16	1071.85	0	0	0
21/11/16	1105.00	0	0	0
24/11/16	1088.55	0	0	0
25/11/16	1056.05	0.9	1.5	1.35
26/11/16	1037.00	1	2	2
27/11/16	1097.16	0	0	0
28/11/16	1168.90	1	1	1
01/12/16	1134.16	0	0	0
02/12/16	1120.10	0	0	0
03/12/16	1112.25			
TOTAL		16.1	22.5	47.625

TABLE.8
OPTION PRICES AT A STRIKE PRICE OF 1050 AND 1100

	PA - 1050			PA - 1100	
PREMIUM	VOLUME ('000)	TOTAL VALUE ('000)	PREMIUM	VOLUME ('000)	TOTAL VALUE ('000)
16.1	9.5	133.95	19.95	59	1177.05
3.5	25.5	89.25	6.1	109.5	667.95
3.55	8.5	30.175	7.75	31	240.25
3.95	5	19.75	5.6	12.5	70
2.5	5.5	13.75	3.6	5.5	19.8
2.5	0.5	1.25	3.75	7.5	28.125
1.5	0.5	0.75	2.5	16	35
1.4	1.5	2.1	2.9	12	34.8
1.16	2	2.3	2.05	1	2.05
1.1	2	2.2	1.16	9	10.35
1.2	0.5	0.6	1.1	13	16.3
0	0	0	1	7.5	7.5
0	0	0	1.75	2	3.5
0	0	0	1.85	0.5	0.925
0	0	0	0	0	0
0	0	0	1.2	4	4.8
0	0	0	0	0	0
0.5	0.5	0.25	1.85	6	11.1
4.85	35.5	172.175	10.3	124.5	1282.35
0	0	0	4.2	59	247.8
1.85	5	9.25	5.85	77.5	453.375
6.16	61	375.16	19.05	163.5	2924.175
0.9	163.5	138.16	4.65	91.5	425.475
0.35	7	2.45	4.2	439.5	1845.9
	323.5	993.5		1239.5	9506.575

**TABLE.9 PUT
PRICES AT A STRIKE PRICE OF 1160**

DATE	MARKET PRICE	PA - 1160		
		PREMIUM	VOLUME ('000)	TOTAL VALUE ('000)
30/10/16	1240.60	27.85	170	4734.5
31/10/16	1320.75	9.45	269	2542.05
03/11/16	1272.50	13.3	98	1303.4
04/11/16	1216.70	9.4	43	404.2
05/11/16	1248.75	6	23.5	161
06/11/16	1300.85	7.05	25	176.25
07/11/16	1222.40	4.5	30.5	137.25
10/11/16	1178.75	4.16	11	45.65
11/11/16	1171.60	5	16.5	77.5

12/11/16	1167.90	2.55	47.5	121.125
13/11/16	1108.45	2.8	38.5	107.8
16/11/16	1081.05	2.16	4.5	9.675
17/11/16	1183..55	2	9	18
18/11/16	1187.10	2.5	5	12.5
19/11/16	1167.40	1.55	2.5	3.875
20/11/16	1071.85	1.9	16	26.6
21/11/16	1105.00	1.25	10	12.5
24/11/16	1088.55	5	71.5	357.5
25/11/16	1056.05	23.9	240.5	5747.95
26/11/16	1037.00	19.95	58.5	1167.075
27/11/16	1097.16	16.65	135	2112.75
28/11/16	1168.90	38.35	56	2167.6
TOTAL			1399.5	21954

**TABLE .10
PUT PRICES AT A STRIKE PRICE OF 1200 AND 1250**

PREMIUM	PA - 1200		PREMIUM	PA – 1250	
	VOLUME ('000)	TOTAL VALUE ('000)		VOLUME ('000)	TOTAL VALUE ('000)
38	3.5	133	0	0	0
16.3	208	3182.4	24.65	51	1257.16
21.85	164.5	3375.825	34.7	27	936.9
16.7	73	1219.1	25.85	12.5	323.125
11.6	98	1136.8	19.5	35.5	692.25
13.35	68	907.8	21.8	35	763
8.3	126	1045.8	16.75	95	1601.25
8.25	44.5	367.125	16.05	80	1204
9.25	59.5	550.375	16.8	60	1008
5.25	135	708.75	9.25	166	1635.5
4.9	42.5	208.25	9.05	95	859.75
4.85	41	198.85	9.16	59.5	544.425
4.25	34	164.5	8.2	133.5	1094.7
4.75	19.5	92.625	8.85	56	495.6
4.25	32	136	9.45	103	973.35
4.16	83.5	346.525	7.45	169.5	1188.275
4.35	23.5	102.225	9.55	57	544.35
13.6	282.5	3842	27.95	167	4667.65
40.35	208.5	8412.975	54	55	2970
35.45	68.5	2428.325	54.55	11	600.05
31.16	13.5	420.525	45	1.5	67.5
58.25	26	1616.5	76	6	456
37	7	259	60	2	120
23	6	138	50	0.5	25

	1858	30871.275		1668.5	23727.825
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**TABLE.11
PUT PRICES AT A STRIKE PRICES OF 1300**

PA – 1300		
PREMIUM	VOLUME ('000)	TOTAL VALUE ('000)
0	0	0
24.60	21	516.6
32.7	37	1209.9
23.85	10.5	250.425
21.5	45.5	978.25
12.8	25	312.5
12.75	75	956.25
18.05	60	1110
16.8	40	592
19.23	166	2999.88
9.01	75	675.75
7.5	49.5	371.25
23	100.5	2305.75
9.50	46	437
12.5	100	1250
8.25	16.5	1278.75
10	167	1670
29.45	107	3161.16
45	25	1125
25.45	21	534.45
54	2.5	135
26	8	208
50	1	50
70	1.5	105

**TABLE.12
NET PAYOFF FOR CALL OPTION HOLDERS AND WRITERS**

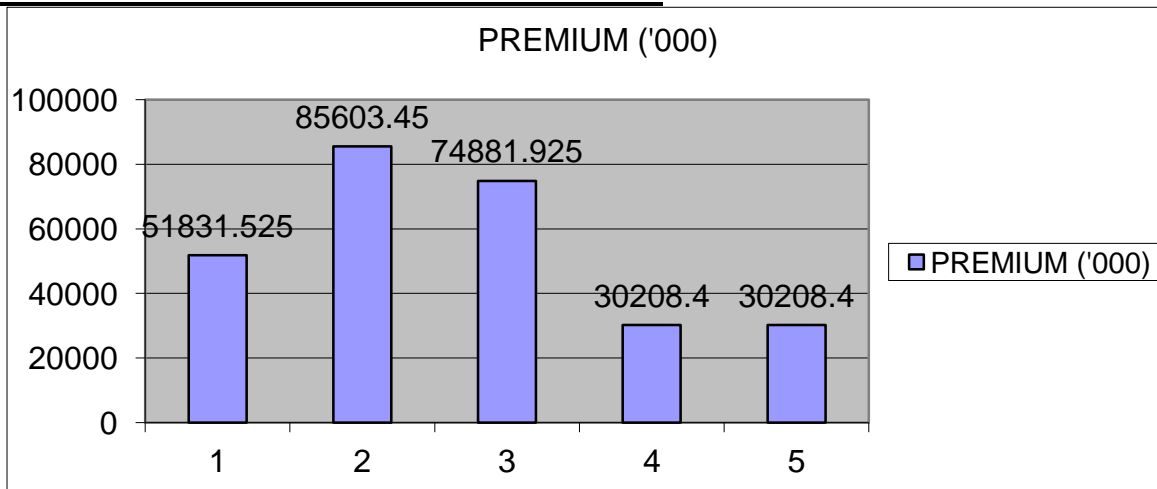
MARKET PRICE	CALLS	VOLUME ('000)	PREMIUM ('000)	PROFIT TO HOLDER ('000)	NET PROFIT TO HOLDER ('000)	NET PROFIT TO WRITER ('000)
1112.25	1100	2016	51831.525	24598	-27233.5	27233.5

1112.25	1160	3297	85603.45	0	-210065.2	210065.2
1112.25	1200	3796.5	74881.925	0	-408024.8	408024.8
1112.25	1250	2309.5	30208.4	0	-348342.02	348342.02
1112.25	1300	2309	30208.4	0	-463723.16	463723.16

OBSERVATIONS AND FINDINGS:

- ❖ Five call options are considered with five different strike prices.
- ❖ The current market price on the expiry date is Rs.1112.25 and this is considered as final settlement price.
- ❖ The premium paid by the option holders whose strike price is far and greater than the current market price have paid high amounts of premium than those who are near to the current market price.
- ❖ The call option holders whose strike price is less than the current market price are said to be In-The-Money. The calls with strike price 1100 are said to be In-The-Money, since, if they exercise they will get profits.
- ❖ The call option holders whose strike price is less than the current market price are said to be Out-Of-The-Money. The calls with strike price of 1160,1200,1250,1300 are said to be Out-Of-The-Money, since, if they exercise, they will get losses.

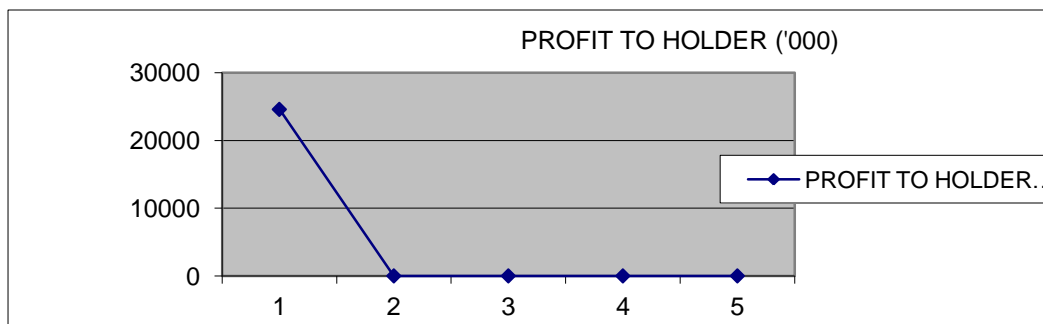
GRAPH SHOWING THE PREMIUM AMOUNT



FINDINGS

The premium of the options with strike price of 1160 and 1200 is high, since most of the period of the contract the cash market is moving around 1100marks

GRAPH SHOWING PROFIT TO CALL HOLDER



FINDINGS

- ❖ The contracts with strike price 1160,1200,1250,1300 get no profit, since their strike price is more than the settlement price.
- ❖ The contract with strike price 1100 gets the profit.

TABLE .13

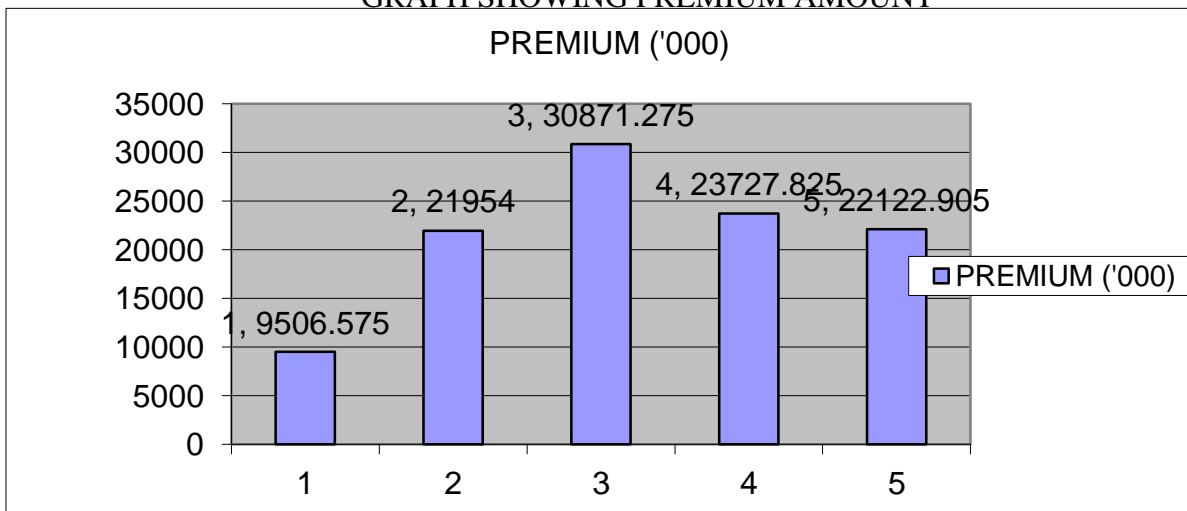
NET PAY OFF OF PUT OPTION HOLDERS AND WRITERS.

MARKET PRICE	PUTS	VOLUME ('000)	PREMIUM ('000)	PROFIT TO HOLDER ('000)	NET PROFIT TO HOLDER ('000)	NET PROFIT TO WRITER ('000)
1112.25	1100	1239.5	9506.575	16183.87	5677.295	-5677.295
1112.25	1160	1399.5	21954	0	-74785.125	74785.125
1112.25	1200	1858	30871.275	0	-193910.775	193910.775
1112.25	1250	1668.5	23727.825	0	-226013.7	22601.37
1112.25	1300	1179.5	22122.905	0	-243574.165	243574.03

OBSERVATIONS AND FINDINGS:

- ❖ Five put options are considered with five different strike prices.
- ❖ The current market price on the expiry date is Rs.1112.25 and this is considered as the final settlement price.
- ❖ The premium paid by the option holders whose strike price is far and greater than the current market price have paid high amount of premium than those who are near to the current market price.
- ❖ The put option holders whose strike price is more than the current market price are said to be In-The-Money. The puts with strike price 1100 are said to be In-The-Money, since, if they exercise they will get profits.
- ❖ The put option holders whose strike price is less than the current market price are said to be Out-Of-The-Money. The puts with strike price of 1160,1200,1250,1300 are said to be Out-Of-The-Money, since, if they exercise their puts, they will get losses.

GRAPH SHOWING PREMIUM AMOUNT



- ❖ The movement of the cash market price of the SBI between 1160 and 1250
- ❖ The premium of the option with strike price 1200 is higher when compared to other strike prices/

GRAPH SHOWING PROFIT TO OPTION HOLDER

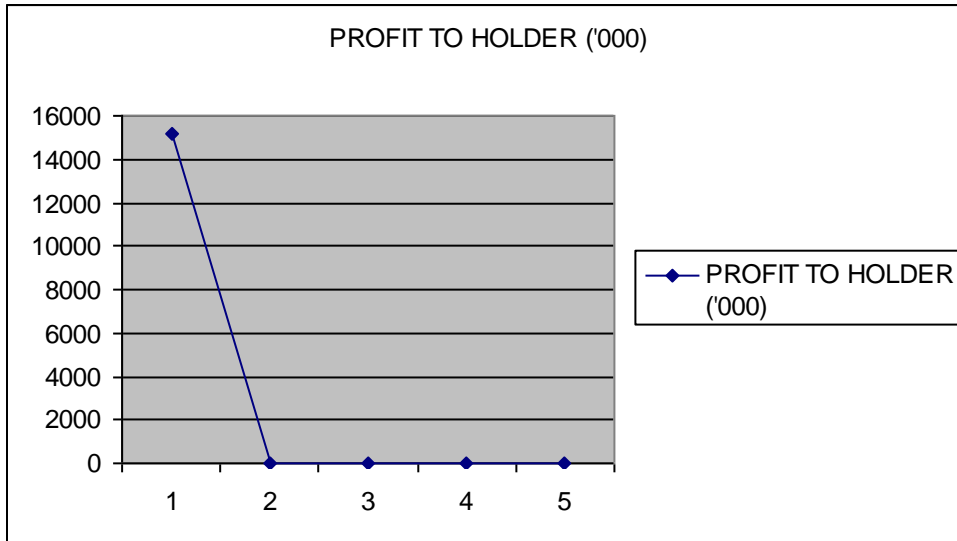


Figure 6

FINDINGS

- ❖ The put option holders whose strike price is more than the settlement price are In-The-Money.
- ❖ The put options whose strike price is less than the settlement price are Out-Of-The-Money.

TABLE .16

DATA OF SBI THE FUTURES OF THE NOVEMBER MONTH

DATE	FUTURES CLOSING PRICE (Rs.)	CASH CLOSING PRICE (Rs.)
30-oct-16	1243.7	1240.6
31-oct-16	1318.6	1320.75
3-nov-16	1275.5	1272.5
4-nov-16	1216.5	1216.7
5-nov-16	1250.2	1248.75
6-nov-16	1303.65	1300.85
7-nov-16	1225.7	1222.4
10-nov-16	1180.75	1178.75
11-nov-16	1174.5	1171.6
12-nov-16	1170	1167.9
13-nov-16	1105.50	1108.45
16-nov-16	1080.50	1081.05
17-nov-16	1185.66	1183.55
18-nov-16	1184.20	1187.1
19-nov-16	1161.70	1167.4
20-nov-16	1070.65	1071.85
21-nov-16	1110	1105
24-nov-16	1090	1088.55
25-nov-16	1060.10	1056.05
26-nov-16	1035	1037
27-nov-16	1200.60	1097.16
28-nov-16	1170.25	1168.9
1-dec-16	1135.25	1134.16
2-dec-16	1125.5	1120.1
3-dec-16	1108.7	1112.25

GRAPH SHOWING DIFFERENCE BETWEEN FUTURE & CASH CLOSING PRICE

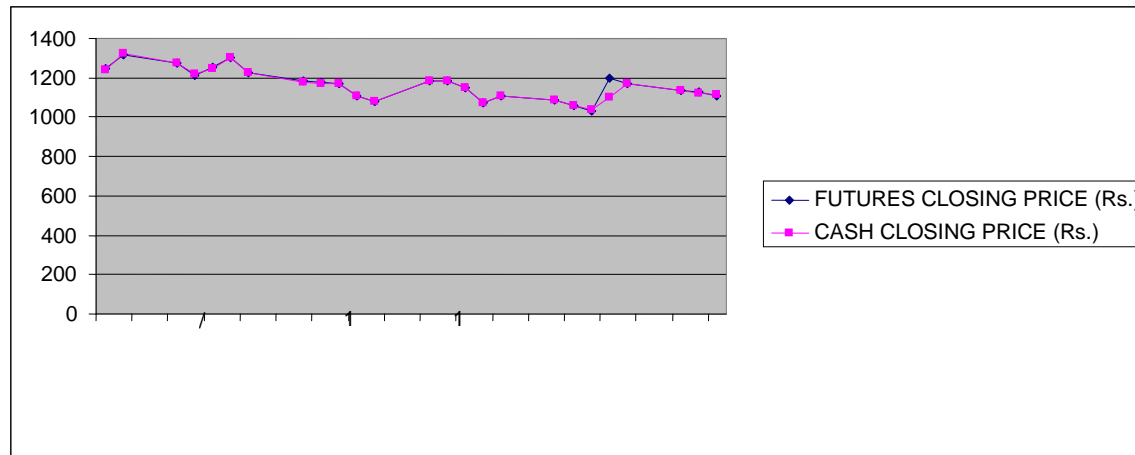


Figure:7

OBSERVATIONS AND FINDINGS:

- ❖ The cash market price of the SBI is moving along with the futures price.
- ❖ If the buy price of the futures is less than the settlement price, then the buyer of the futures get profit.
- ❖ If the selling price of the futures is less than the settlement price, then the seller incur losses.

FINDINGS, SUGGESTIONS AND CONCLUSION

FINDINGS

- ❖ Derivatives market is an innovation to cash market. Approximately its daily turnover reaches to the equal stage of cash market. The average daily turnover of the NSE derivative segment is
- ❖ Presently the available scrips in futures and options segment are
- ❖ In cash market the profit/loss of the investor depends on the market price of the underlying asset. The investor may incur huge profits or he may incur huge losses. But in derivatives segment the investor enjoys huge profits with limited downside.
- ❖ In cash market the investor has to pay the total money, but in derivatives the investor has to pay premiums or margins, which are some percentage of total money.
- ❖ Derivatives are mostly used for hedging purpose.
- ❖ In derivative segment the profit/loss of the option holder/option writer is purely depended on the fluctuations of the underlying asset.

SUGGESTIONS

- ❖ The derivative market is newly started in India and it is not known by every investor, so SEBI has to take steps to create awareness among the investors about the derivative segment.
- ❖ In order to increase the derivatives market in India, SEBI should revise some of their regulations like contract size, participation of FII in the derivatives market.
- ❖ Contract size should be minimized because small investors cannot afford this much of huge premiums.
- ❖ SEBI has to take further steps in the risk management mechanism.
- ❖ SEBI has to take measures to use effectively the derivatives segment as a tool of hedging.

CONCLUSION

- ❖ Derivatives have existed and evolved over a long time, with roots in commodities market. In the recent years advances in financial markets and the technology have made derivatives easy for the investors.
- ❖ Derivatives market in India is growing rapidly unlike equity markets. Trading in derivatives require more than average understanding of finance. Being new to markets maximum number of investors have not yet understood the full implications of the trading in

derivatives. SEBI should take actions to create awareness in investors about the derivative market.

❖ Introduction of derivatives implies better risk management. These markets can give greater depth, stability and liquidity to Indian capital markets. Successful risk management with derivatives requires a thorough understanding of principles that govern the pricing of financial derivatives.

❖ In order to increase the derivatives market in India SEBI should revise some of their regulation like contract size, participation of FII in the derivative market. Contract size should be minimized because small investor cannot afford this much of huge premiums.

❖ In cash market the profit/loss is limited but where in F& O an investor can enjoy unlimited profits/loss.

❖ At present scenario the Derivatives market is increased to a great position. Its daily turnover teaches to the equal stage of cash market.

❖ The derivatives are mainly used for hedging purpose.

❖ In cash market the investor has to pay the total money, but in derivatives the investor has to pay premiums or margins, which are some percentage of total money.

❖ In derivative segment the profit/loss of the option holder/option writer is purely depended on the fluctuations of the underlying asset.

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