



# A STUDY ON - ANALYSIS OF STOCK FUTURE AND OPTION DERIVATIVES TRADING IN INDIA

**Dr.Venkatesha.R**

Guest Lecture  
Government First Grade College  
Shivamogga

## ABSTRACT

*The study is based proceeding Financial Derivatives with orientation to futures and options. Derivative instruments are used to hedge against value changes in underlying commodities, bonds, currencies, stocks and stock indices. 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 cash market the profit/loss of the investor depends on the market price of the underlying asset. The investor may incur huge profit or he may incur huge loss. But in derivatives segment the investor enjoys huge profits with limited downside. Derivatives are mostly used for hedging purpose. In order to increase the derivatives market in India, The investor may incur huge profit or he may incur huge loss. But in derivatives segment the investor enjoys huge profits with limited downside. Derivatives are mostly used for hedging purpose. 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. In a nutshell the study throws a light on the derivatives market.*

**KEY WORDS**—strike price, spot price, premium, maturity period.

## INTRODUCTION

Derivatives stand risk managing tools, can get their incentive as of an underlying asset. Derivatives are risk management instruments, which derive their value from an underlying asset. The underlying asset can be bullion, index, share, bonds, currency, interest, etc.. Banks, Securities firms, companies and investors to hedge risks, to gain access to cheaper money and to make profit, use derivatives. Derivatives are likely to grow even at a faster rate in future. A derivative instrument is a contract between two parties that specifies conditions (especially the dates, resulting values of the underlying variables, and notional amounts) under which payments are to be made between the parties.

## OBJECTIVES OF STUDY

To Analyze the actions of futures and options.  
To give findings and suggestions based on the study.

## NEED OF STUDY

The usage of derivatives in the market place is to circumvent regulation, which means taking the risk-off and make it legal for pension funds to purchase securities. The increasing investments in derivatives (domestic as well as overseas) have attracted my interest in this area.

## SCOPE OF THE STUDY

The study is limited to “Derivatives” with special reference to futures and option in the Indian context and the Inter Connected Stock Exchange has been taken as a representative sample for the study. The study can't be said as totally perfect. Any alteration may come. The study has only made a humble attempt at evaluation derivatives market only in India context. The study is not based on the international perspective of derivatives markets, which exists in NASDAQ, CBOT etc.

## RESEARCH METHODOLOGY

The examination contains the classification of the information surveying the right places of futures buyer & seller similarly option holder & option.

The data collected is of both Primary & Secondary data. Primary data: The data gathered from individual discussions with approved agents & individuals from Exchange. Secondary data: The data gathered from the speeches of the administer of the Branch of Market Actions, EDP etc., and the information gathered from Bulletin, Publications of NSE, BSE and various records topics of the work.



**LIMITATIONS**

Some people believe that financial derivatives make an unnecessary assumption within the market that isn't precisely helpful to small sell investors.

**REVIEW OF LITERATURE**

**Do Futures and Options trading increase stock market volatility? By Dr. Premalata Shenbagaraman, Research Paper (NSE):** Numerous studies on the effects of futures and options listing on the underlying cash market volatility have been done in the developed markets. The empirical evidence is mixed and most suggest that the introduction of derivatives do not destabilize the underlying market.

**Antonios Antoniou and Phil Holmes** Futures trading, information and spot price volatility: evidence for the FTSE-100 stock index futures contract using GARCH This paper examines the impact of trading in the FTSE-100 Stock Index Futures on the volatility of the spot market. It ensures that the relationship between information and volatility of the spot and future with the use of GARCH analysis. The results suggested that futures' trading has a more volatile than spot market.

**Derivatives, risk and regulation: chaos or confidence?** by R Dixon, R.K. Bhandari said that there has been an extraordinary increase in the use of financial derivatives in the capital markets.

Consequently derivative instruments can have a significant impact on financial Institutions, individual investors and even national economics. This relatively recent change in the status of derivatives has led to calls for regulation. Using derivatives to hedge against risk carries in itself a new risk was brought sharply into focus by the collapse of Barings Bank in 1995. The principle concerns of regulators about how legislation may meet those concerns are the subject of current debate between the finance industry and the regulators. Recommendations have been made and reviewed by some of the key players in the capital markets at national and global level.

**Fghjk,,Investment property portfolio management and financial derivatives” by Patrick MCallister, Johan R. Mansfield.** His study on Derivatives has been an expanding and controversial feature of the financial markets since the late 1980s. They are used by a wide range of manufactures and investors to manage risk. This paper analyses the role and potential of financial derivatives investment property portfolio management. The limitations and problems of direct investment in commercial property are briefly discussed and the main principles and types of derivatives are analyzed and explained. The potential of financial derivatives to mitigate many of the problems associated with direct property investment is examined.

**ANALYSIS AND INTERPRETATION**

**Respondent’s response towards the Level of risk associated with the Investment option like Financial Derivative Future Option Market.**

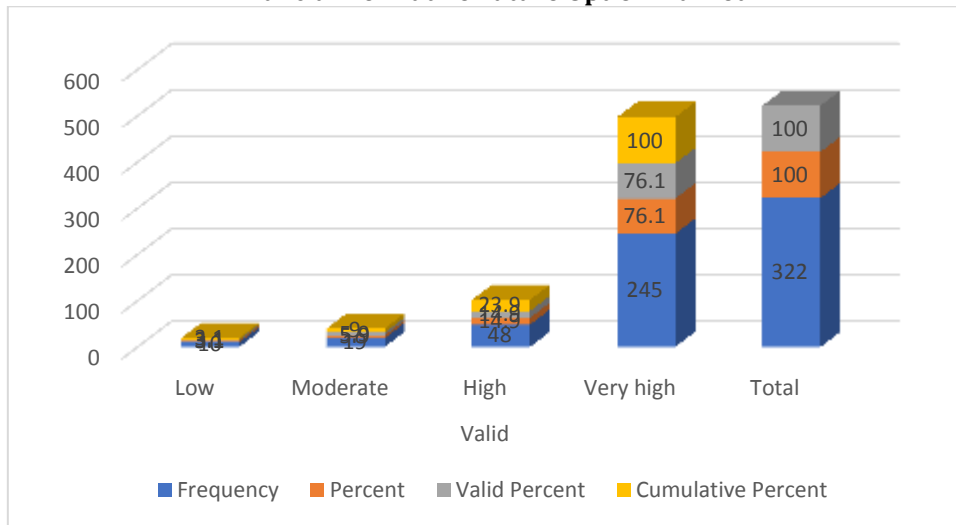
	Response	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Low	10	3.1	3.1	3.1
	Moderate	19	5.9	5.9	9.0
	High	48	14.9	14.9	23.9
	Very high	245	76.1	76.1	100.0
	Total	322	100.0	100.0	

*(Source: Primary data conducted through field survey)*

The above table and the graph generated with the help of the primary data conducted through field survey exhibits respondent’s response towards the level of risk associated with the investment option like financial derivative future option market where

majority of the respondents 76.1% expressed that there is a very high risk with the financial derivative future option market is high followed by 14.9% said there is a high risk involved in it and 5.9% said it is moderate.

**Chart -4. 11**  
**Respondents response towards the Level of risk associated with the Investment option like Financial Derivative Future Option Market.**



(Source: Primary data conducted through field survey)

**Respondents response towards the Level of risk associated with the Investment option like Gold.**

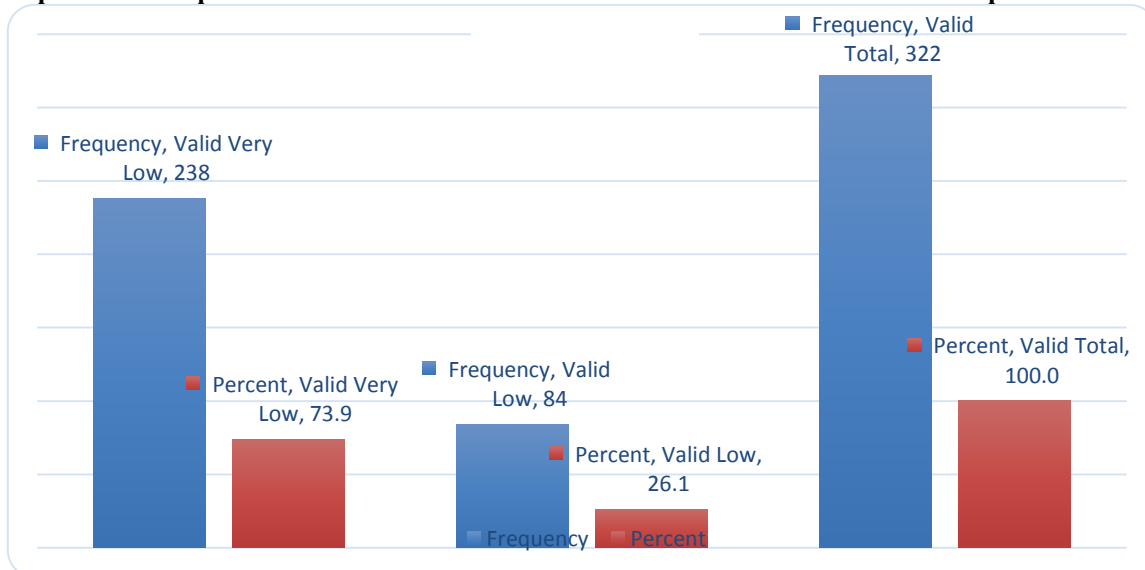
Response	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Very Low	238	73.9	73.9	73.9
Valid Low	84	26.1	26.1	100.0
Total	322	100.0	100.0	

(Source: Primary data conducted through field survey)

The above table and the Chart generated with the help of the primary data conducted through field survey exhibits respondent's response towards the level of risk associated with the investment option

like gold where majority of the respondents 73.9% expressed that the risk with the investment option like gold is very low followed by 26.1% said it is low.

**Respondents response towards the Level of risk associated with the Investment option like Gold.**



(Source: Primary data conducted through field survey)



**Respondents response towards from how long they are Investing in Trading in Equity Derivative Market.**

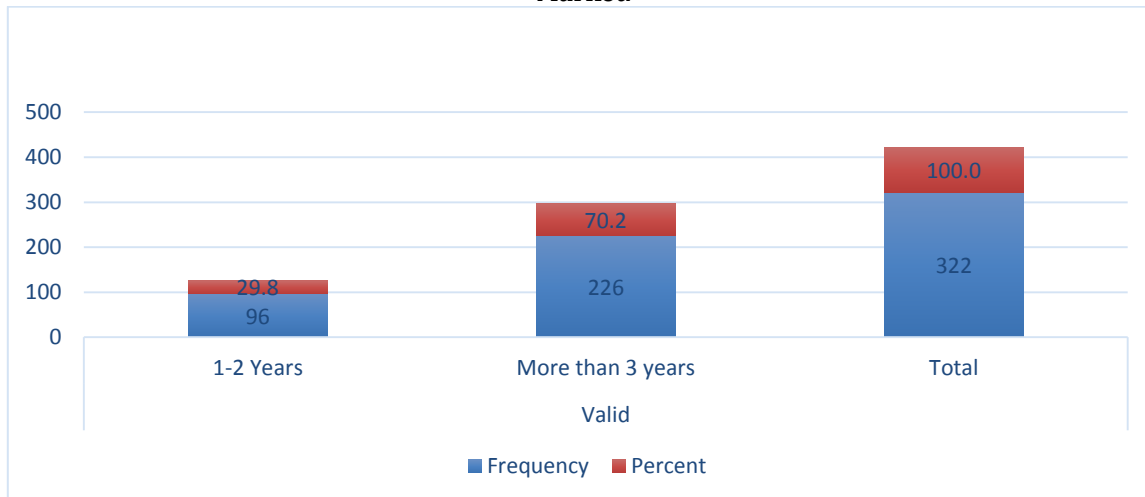
Response		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-2 Years	96	29.8	29.8	29.8
	More than 3 years	226	70.2	70.2	100.0
	Total	322	100.0	100.0	

(Source: Primary data conducted through field survey)

The above table and the Chart generated with the help of the primary data conducted through field survey exhibits respondent’s response towards the from how long they are investing and trading in the derivative market where majority of the respondents

70.2% of them said that they are investing and trading in the Equity derivative market from more than three years followed by 29.8% of them said that they are investing and trading in the Equity derivative market between 1-2 year.

**Respondents response towards from how long they are Investing in Trading in Equity Derivative Market.**



(Source: Primary data conducted through field survey)

**Respondents awareness level towards the Equity Stock Futures.**

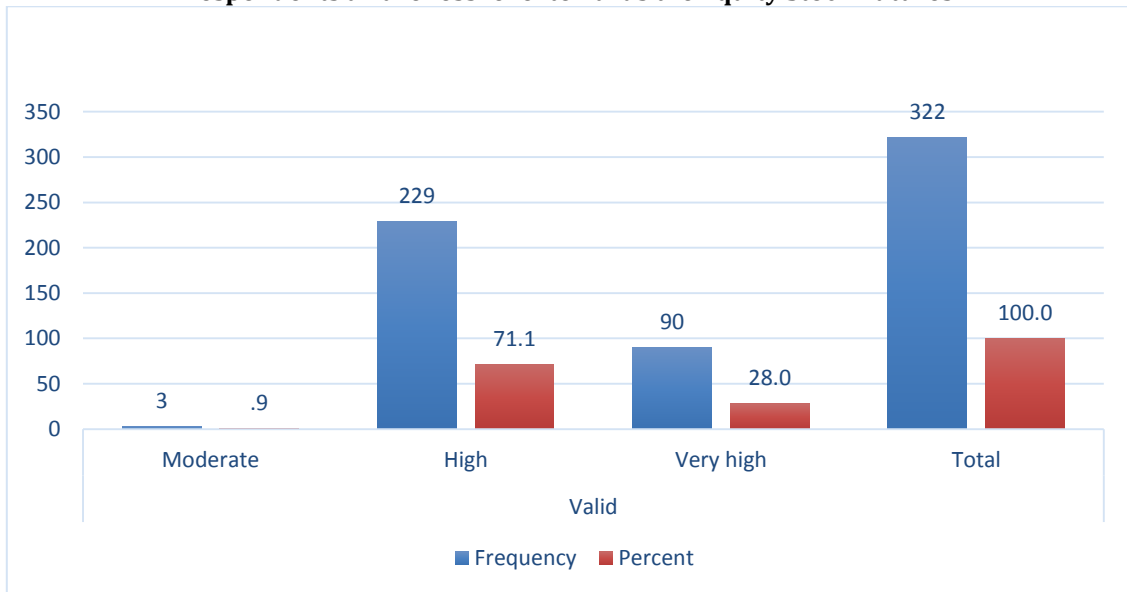
Response		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Moderate	3	.9	.9	.9
	High	229	71.1	71.1	72.0
	Very high	90	28.0	28.0	100.0
	Total	322	100.0	100.0	

(Source: Primary data conducted through field survey)

The above table and the Chart generated with the help of the primary data conducted through field survey exhibits respondent’s awareness level towards the equity stock futures where majority of the respondents 71.1% of them said that they have got

high awareness followed by 28% of them said that they very high awareness towards the equity stock futures.

### Respondents awareness level towards the Equity Stock Futures.



(Source: Primary data conducted through field survey)

### Respondents awareness level towards the Equity Stock Options.

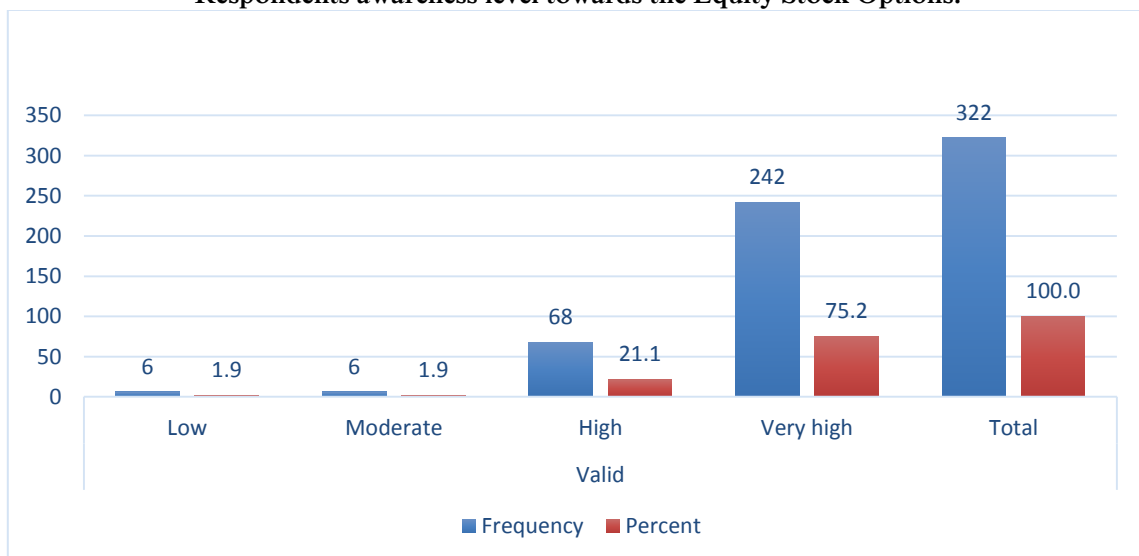
Response		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Low	6	1.9	1.9	1.9
	Moderate	6	1.9	1.9	3.7
	High	68	21.1	21.1	24.8
	Very high	242	75.2	75.2	100.0
	Total	322	100.0	100.0	

(Source: Primary data conducted through field survey)

The above table and the chart generated with the help of the primary data conducted through field survey exhibits respondent's awareness level towards the equity stock options where majority of the

respondents 75.2% of them said that they have got very high awareness followed by 21.1% of them said that they high awareness towards the equity stock options.

### Respondents awareness level towards the Equity Stock Options.



(Source: Primary data conducted through field survey)



**Techniques used by the Investors to manage the risk in Equity Derivatives Market.**

Reponses		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Avoidance	14	4.3	4.3	4.3
	Exit with minimum loss	31	9.6	9.6	14.0
	Diversification	132	41.0	41.0	55.0
	Average Down	37	11.5	11.5	66.5
	Ignore the risk	44	13.7	13.7	80.1
	Hedging	32	9.9	9.9	90.1
	Invest with the trend in the market	32	9.9	9.9	100.0
	Total	322	100.0	100.0	

(Source: Primary data conducted through field survey)

The above table and the chart generated with the help of the primary data conducted through field survey exhibits the techniques used by the investors to manage the risk Derivatives Market, where majority

of the respondents 41% said that go for diversification followed by 13.7% said that ignore the risk involved in it.

Descriptive Statistics						
Factors considered as Advantages in Investing in Futures and Options	N	Minimum	Maximum	Mean	Std. Deviation	Rank
Certainty of Profits	317	1	4	2.38	1.024	3
high liquidity	317	1	4	2.34	.813	2
Low merging deposits	317	1	4	3.19	.986	1
FO Transparency in pricing	317	1	4	2.10	1.275	4
Valid N (list wise)	317					

**Ranking of the of the factors considered as advantage in futures and options.**

Source: Primary data conducted through field survey'

The above descriptive table shows the factors which are considered as advantage in futures and options where low merging deposits stands at number one position with the mean value of 3.19 followed by high liquidity stands as the second factors which is an advantage in the futures and option market with the mean value of 2.34 followed by certainty of profits as the third factor which is an advantage in the futures and options market with the mean value of 2.38 and transparency in pricing at the fourth rank with the mean value of 2.10.

**FINDINGS**

The above table and the graph generated with the help of the primary data conducted through field survey exhibits respondent's response towards the level of risk associated with the investment option like financial derivative future option market where majority of the respondents 76.1% expressed that there is a very high risk with the financial derivative future option market is high followed by 14.9% said there is a high risk involved in it and 5.9% said it is moderate.

The above table and the Chart generated with the help of the primary data conducted through field survey exhibits respondent's response towards the level of risk associated with the investment option like gold where majority of the respondents 73.9% expressed that the risk with the investment option like gold is very low followed by 26.1% said it is low.

The above table and the Chart generated with the help of the primary data conducted through field survey exhibits respondent's response towards the from how long they are investing and trading in the derivative market where majority of the respondents 70.2% of them said that they are investing and trading in the Equity derivative market from more than three years followed by 29.8% of them said that they are investing and trading in the Equity derivative market between 1-2 year.

The above table and the Chart generated with the help of the primary data conducted through field survey exhibits respondent's awareness level towards the equity stock futures where majority of the respondents 71.1% of them said that they have got high awareness followed by 28% of them said that





they very high awareness towards the equity stock futures.

The above descriptive table shows the factors which are considered as advantage in futures and options where low merging deposits stands at number one position with the mean value of 3.19 followed by high liquidity stands as the second factors which is an advantage in the futures and option market with the mean value of 2.34 followed by certainty of profits as the third factor which is an advantage in the futures and options market with the mean value of 2.38 and transparency in pricing at the fourth rank with the mean value of 2.10.

### SUGGESTIONS

1. SEBI must take measures utilize adequately derivatives fragment as instrument of hedging.
2. The derivatives 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.
3. Contract size can be minimized because small investors cannot afford this much of huge premiums.
4. Investors should have the adequate knowledge about technical and fundamental analysis
5. The investors should invest in the public sector securities the risk will be reduced.
6. Updating of market information help the investors to get maximum return.

### CONCLUSION

Derivatives market is advancement to money market. In money market P/L of depositor relies upon the market price of underlying asset. Where it is at some level of total cash. Derivatives are generally utilized for hedging purpose. As derivative market offers more return, with the hedging of interest rate risk and exchange rate risk with maximum profits and minimum loss. It has been observed that people have got awareness with respect to derivatives trading amongst the retail investors in India. This is enabled due to relatively increase in number of trading agents in the market. These commission agents make their income from trading done by the investors. But many studies have revealed even though some of the developing economies have realized the importance of derivative market but still there is a requirement for the in-depth studies in this field of derivatives market, otherwise because of the lack of knowledge the retail investors might have to face lot of complexities and problems.

### REFERENCES

1. **MANDA SEBASTIAN, Ms. JOSEPH MARY, Dr. VARA LAKSHMI** Student, Assistant Professor, Associate Professor & HOD, of Master of Business Administration, IARE, Hyderabad, Telangana, India. Study on Financial Derivatives (Futures & Options) At Sharekhan. *International Journal for Research in Engineering Application & Management (IJREAM)* ISSN : 2454-9150 Vol-05, Issue-04, July 2019.
2. **Dr.T.Sreelatha,HOD,Professor,DEP of MBA Narayana Engineering College, Nellore, Dist-SPSR Nellore, AndhraPradesh,India.** A STUDY ON FINANCIAL DERIVATIVES (FUTURES & OPTIONS) With reference to ICICI BANK. 2018 *JETIR* July 2018, Volume 5, Issue 7. [www.jetir.org](http://www.jetir.org) (ISSN-2349-5162).
3. **K. Soniya, G. Mohanraj, Dr.P. Karthikeyan.** Department of Management Studies, SVS Institute of Management Studies, Coimbatore Department of Management Studies, Shree Venkateshwara Hi-tech Engineering College, Gobichettipalayam, India Department of Management Studies, Kongu School of Business, Perundurai, India. A Study on Financial Derivatives (Future & Options) with Special Reference to ICICI & SBI. *International Journal of Commerce & Business Studies* Volume 1, Issue 2, October-December, 2013, pp. 11-21, © IASTER 2013 [www.iaster.com](http://www.iaster.com), ISSN Online: 2347-2847, Print 2347-8276.
4. **L.Backiya.** A Study on Risk and Return Analysis of Stock Future and Option Derivatives Trading in India, Volume : 5 | Issue : 1 | Jan 2015 | ISSN - 2249-555X.
5. **Chawla, D., 2014.** An Empirical Analysis of Factors Influencing Investment in Mutual Funds in India. *Global Business Review*, 15(3), pp.493-503.
6. **Deleep Kumar P M and Deyanandan M N** (2009), "Analysis of Investors' Perceptions towards Mutual Fund Schemes (With Reference To Awareness and Adoption of Personal and Family Considerations)". *ZENITH International Journal of Multidisciplinary Research* Vol.1 Issue 8, pp 175-192.
7. **Gaurav Kabra, Prashant Mishra and Manoj Dash,** Financial Management and Policy, Prentice Hall of India, New Delhi, 2010.
8. **Gupta and Naveen Jain (2008),** "Investors' Perception for Stock Market: Evidences from National Capital Region of India". *Interdisciplinary Journal of Contemporary Research In Business*, Vol 4, No 8, pp 712-726.