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A STUDY ON FINANCIAL DERIVATIVES WITH REFERENCE TO INDIABULLS

A.Pallavi , Dr. N. Ramanjaneyulu

ABSTRACT

The derivatives market is critical to modern financial institutions because it promotes risk management, price discovery, and speculation. This overview presents an overview of the derivatives market, including its purpose, operation, and importance in the larger financial environment. Derivatives are financial instruments that draw their value from an underlying asset or benchmark, such as stocks, bonds, commodities, or interest rates. They enable market participants to hedge against price fluctuations, obtain exposure to a variety of asset classes, and engage in complex trading procedures.

This abstract delves into many types of derivatives, such as futures contracts, options, swaps, and forward contracts, clarifying their unique characteristics, payoffs, and applications.

It covers the principles of derivative pricing by demonstrating how time decay, volatility, and interest rates affect derivative value.

Keywords: Derivatives, Risk management, Speculation, Bond, Stocks etc..

INTRODUCTION

Option and forward derivatives. Risk-averse investors wanted asset price stability, boosting their market. Financial markets are notoriously volatile. Derivatives transfer asset price risks by establishing asset prices. Risk minimization rarely affects asset prices. Derivatives stabilize asset prices, protecting risk- averse investors' earnings and cash flow.Asset-based derivatives manage risk. Gold, indices, equities, bonds, money, and interest may underlie. Derivatives reduce risk, funding costs, and net value for banks, securities firms, corporations, and investors. Derivatives will evolve faster. Derivatives protected crop prices. Planting to harvesting, farmers faced commodity price swings. The farmer's concentration on keysubordinate items locks resource pricing and transfers value potential

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Agreements lowered risk for farmers.Farmers fretted about September earnings when they sowed in June. He negotiated well during shortages. In plenty, he sold his food for cents. The farmer's family faced bankruptcy.Shippers with steady wheat demand may pay high rates when supplies are low but low when plenty. The farmer and dealer had to agree on September's grain transport prices. Futures contracts lower value risk.Derivatives protected crop prices. Planting to harvesting, farmers faced commodity price swings. The farmer's concentration on key subordinate items locks resource pricing and transfers value potential. Agreements lowered risk for farmers.Farmers fretted about September earnings when they sowed in June. He negotiated well during shortages. In plenty, he sold his food for cents. The farmer's family faced bankruptcy.Shippers with steady wheat demand may pay high rates when supplies are low but low whenplenty. The farmer and dealer had to agree on September's grain transport prices. Futures contracts lower value risk.

DEFINITION OF DERIVATIVES

- The contract's underlying asset determines a derivative's value. It could be stock, foreign currency, a commodity, or anything else of worth.
- The Securities Contracts (Regulation) Act of 1956 (SCR Act) defines a security as any debt instrument, share, secured or unsecured loan, risk instrument, contract for differences, or other security whose value depends on the prices or measures of underlying securities.

THE GROWTH OF DERIVATIVES

- The futures markets have grown dramatically since 1980. International exchanges have

  derivative contracts. Financial markets are more interconnected and have more volatile asset values. The infrastructure has improved, lowering communication costs. Financial contracts are growing for several reasons.
- Successful derivatives market developments that integrate the risks and rewards of many financial assets generate higher yields, lower risk, and lower transaction costs. Economic actors now have advanced risk management tools.

TYPES OF DERIVATIVE

There are of 4 types are as follows

- Futures Contract
- Forward Contract
- Swaps Contract
- Options Contract

REVIEW OF LITERATURE

UNDI, A (2019) studied that derivatives markets serve two important economic purposes: risk shifting and price discovery. Derivatives markets can serve to determine not just spot prices but also future prices(and in the options the price of the risk is determined). In the research, interviews with representatives from several major corporations revealed that they sometimes prefer to use options as a means to hedge. They also argued derivatives have a potential to encourage international capital inflows.

AISWARYA, M.S, & JANANI,A.C. (2020) documented that derivatives are considered to be extremelyversatile financial instruments, as they help to manage risks, lower funding costs, enhance yields and diversify portfolios. The contributions made by derivatives have been so great that they have been credited with having „changed the face of finance" in the world. Derivatives markets are an integral part of capital markets in developed as well as in emerging market economies. These instruments assist business growth by disseminating effective price signals concerning exchange rates, indices and reference rates or other assets, thereby, rendering both cash and derivatives markets more efficient.

PATIL,M.(2020) studied the encompasses

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scope an analysis of historical roots of derivative market of India. The emergence of derivatives market is an ingenious feat of financial engineering that provides an effective and less costly solution to the problem of risk that is embedded in the price unpredictability of the underlying asset. In India, since its inception derivatives market has exhibited exponential growth both in terms of volume and number of traded contracts. They argued that NSE and BSE has added more products in their derivatives segment but still it is far less than the depth and variety of products prevailing across many developed capital markets.

SANDRA,S. (2021) found that the options are important investment financial instruments as their flexibility makes financial market complete. Accordingly, options are complicated for those who do noteducate themselves on the subject. Study found a trader who is more professional, sophisticated, and experienced is less susceptible to isolate his decision-making sets and simplify complicated investment strategies to form his portfolios. The study revealed that traders in option markets don‟t trade call/put contracts to such a great degree. In general, most investors prefer to trade front-month or near-the-money. Trading in a futures market for option traders, this suggests that almost half of the investors are trading in both options and futures market.

CIRAPPA,I.B, & TEJASHWINI,K.C (2022)showed the upswing in capital market allows the investors to harvest handsome return in their investments, but day-trader in stock market hard to take advantage in bullish and bearish market conditions by holding long or short positions. Now the derivative instruments offer them to hedge against the adverse conditions in the stock market. They arguedthatsecondary market is the most preferred than primary market and cash market is the most preferred market than derivatives market because of high risk whenderivatives market is preferredthan cash marketfor higher return.

NEED FOR THE STUDY

- Keep detailed trade records to learn commodity trading.
- Like trading, recordkeeping demands discipline. Unfortunately, many commodities dealers neglect to record their transactions.
- Losing sellers don't keep proper records or are too unwell to investigate.
- Commodity traders must acknowledge their obstacles and actively seek solutions to succeed.

SCOPE OF THE STUDY

- India bulls was chosen as the typical sample because the study effort focused on Indian futures and options.
- Research flaws. Change is possible. We examined India's derivatives market only.
- Market risk always outweighs portfolio risk. Buyers favor index-based derivatives over security-basedones.

OBJECTIVES OF THE STUDY

- To understand the derivative markets in India.
- To determine the potential gain or loss from Investing in Futures & Options in Indiabulls.
- To know the profit or loss in Future trading in Indiabulls.
- To analysize the Buyers pay off & Sellers pay off in Call option
- To analysize the Buyers pay off & Sellers pay off in Put option.
- To analysize the Spot price & Futures price changes in Indiabulls.

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RESEARCH METHODOLOGY

Research technique is how a study collects, filters, organizes, and analyzes data. The methodology portion of a research report helps readers assess the study's validity and reliability. Primary and secondary sources are interchangeable for information.

DATA COLLECTION

1. **Primary Collection Methods**:

This approach takes into account data gleaned from personal interviews with registered clerks and members of the Indiabulls.

2. **Secondary Collection Methods**:

Included in the Secondary Collection Methods are the statistics presented in the NSE, BSE, and other book editions of this study, as well as the presentations of the Director of Market Operations, EDP,Indiabulls reports.

Financial year: Sample Size Taken from November 25 – December 28,2022

Statistical tools: Ms-Excel,Tables,Graphical tools

LIMITATIONS OF THE STUDY

- More research on important aspects would produce more dependable results.
- The duration is 45-days period of the study.
- Supplementary data isn't always accurate.
- This study is all about only futures & options in derivatives markets in Indiabulls.
- This study used data from one ship (the M/s. INDIA BULLS in January 2022) it should not be extrapolated.
-

DATA ANALYSIS AND INTERPRETATION

The data about the futures & options changes through in spot price,future price,strike price,call & putoptions in the Indiabulls

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TABLE: 1

INDIABULLS FUTURES & OPTIONS					
DATE	PRICE		CALL OPTION		
	SPOT	FUTURE	900	930	960
NOV/ FRI /25	922.75	921.85	100.05	85.75	73.10
NOV/SAT/26	898.85	898.90	79.20	66.25	47.00
NOV/SUN/27	885.90	885.15	68.40	56.25	45.85
NOV/MON/28	TRADING HOLIDAY				
NOV/TUE/29	TRADING HOLIDAY				
NOV/ WED /30	880.40	882.10	35.55	49.90	40.00
DEC/ THU /01	911.95	914.60	54.90	62.35	50.45
DEC/FRI/02	901.58	902.32	51.25	55.69	49.36
DEC/SAT/03	898.00	902.55	46.00	45.10	34.50
DEC/SUN/04	TRADING HOLIDAY				
DEC/MON/05	TRADING HOLIDAY				
DEC/TUE/06	TRADING HOLIDAY				
DEC/ WED /07	923.75	926.80	52.00	52.85	40.30
DEC/THU/08	918.55	918.10	60.00	46.55	34.55
DEC/FRI/09	919.95	921.55	54.00	43.70	31.70
DEC/SAT/10	944.25	946.85	60.10	49.50	35.05
DEC/SUN/11	984.95	985.40	95.15	74.35	45.00
DEC/MON/12	TRADING HOLIDAY				
DEC/TUE/13	TRADING HOLIDAY				
DEC/WED/14	1002.20	997.60	109.35	84.75	63.15
DEC/THU/15	1058.65	1062.05	125.00	133.10	106.55
DEC/FRI/16	1052.10	1056.15	153.95	125.35	98.35
DEC/SAT/17	1018.50	1022.05	119.05	89.70	62.00
DEC/SUN/18	979.80	981.55	112.60	51.20	26.25
DEC/MON/19	TRADING HOLIDAY				
DEC/TUE/20	TRADING HOLIDAY				
DEC/WED/21	912.32	902.54	89.32	75.64	55.21
DEC/FRI/23	101.50	103.00	153.95	125.35	98.35
DEC/SAT/24	104.80	104.50	119.05	89.70	62.00

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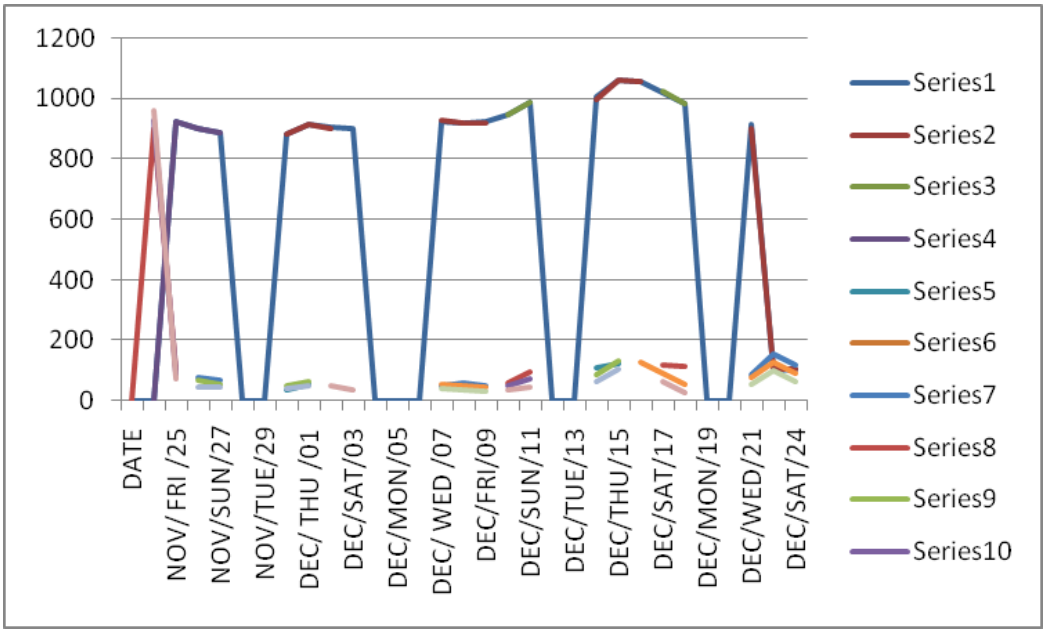
GRAPH.1A



INTERPRETATION:

The goal of this research is to determine the potential gain or loss from investing in futures and options. Thisresearch made use of a subset of data from the INDIABULLS script. This analysis utilized the December INDIABULLS contract. Each batch contained 200 INDIABULLS, and the trial ran from November 25 through December 28, 2022.

The result from the above is that there is a loss in the futures & options in Indiabulls.

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TABLE: 2

PRICE FUTURE

DATE	PRICE FUTURE
NOV/ FRI /25	921.85
NOV/SAT/26	898.90
NOV/SUN/27	885.15
NOV/ WED /30	882.10
DEC/ THU /01	914.60
DEC/FRI/02	902.32
DEC/SAT/03	902.55
DEC/ WED /07	926.80
DEC/THU/08	918.10
DEC/FRI/09	921.55
DEC/SAT/10	946.85
DEC/SUN/11	985.40
DEC/WED/14	997.60
DEC/THU/15	1062.05
DEC/FRI/16	1056.15
DEC/SAT/17	1022.05
DEC/SUN/18	981.55
DEC/WED/21	984.20
DEC/FRI/23	103.00
DEC/SAT/24	104.50

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GRAPH.2B

INTERPRETATION:

FUTURE MARKET

BUYER		**SELLER**	
25/11/2022 (Buying)	921.85		921.85
24/12/2022 (Cl., period)	984.20		984.20
Profit	62.35	Loss	62.35
Profit 200 x 62.35=12470, Loss 200 x 62.35=12470			

The buyer will come out ahead because the price will rise in the long run. The merchant stands to gain financially from a drop in prices. If it expands, it will inevitably contract.

- INDIABULLS finished the contract period at a closing price of $984.20.
- In the first column, It finds the TRADING DATE.
- The CASH MARKET SPOT PRICE for the day is listed in the second column.
- In the third column,the study predicted market price for the currency sector on the specified day.
- The call price split is represented as 900, 930, and 960 in the fourth column.

  The resultant from the above is that the profit for the buyer & loss for the seller in price futures inIndiabulls.

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TABLE: 3

CALL PRICES

INDIABULLS FUTURES & OPTIONS					
DATE	PRICE		CALL OPTION		
	SPOT	FUTURE	900	930	960
NOV/ FRI /25	922.75	921.85	100.05	85.75	73.10
NOV/SAT/26	898.85	898.90	79.20	66.25	47.00
NOV/SUN/27	885.90	885.15	68.40	56.25	45.85
NOV/MON/28	TRADING HOLIDAY				
NOV/TUE/29	TRADING HOLIDAY				
NOV/ WED /30	880.40	882.10	35.55	49.90	40.00
DEC/ THU /01	911.95	914.60	54.90	62.35	50.45
DEC/FRI/02	901.58	902.32	51.25	55.69	49.36
DEC/SAT/03	898.00	902.55	46.00	45.10	34.50
DEC/SUN/04	TRADING HOLIDAY				
DEC/MON/05	TRADING HOLIDAY				
DEC/TUE/06	TRADING HOLIDAY				
DEC/ WED /07	923.75	926.80	52.00	52.85	40.30
DEC/THU/08	918.55	918.10	60.00	46.55	34.55
DEC/FRI/09	919.95	921.55	54.00	43.70	31.70
DEC/SAT/10	944.25	946.85	60.10	49.50	35.05
DEC/SUN/11	984.95	985.40	95.15	74.35	45.00
DEC/MON/12	TRADING HOLIDAY				
DEC/TUE/13	TRADING HOLIDAY				
DEC/WED/14	1002.20	997.60	109.35	84.75	63.15
DEC/THU/15	1058.65	1062.05	125.00	133.10	106.55
DEC/FRI/16	1052.10	1056.15	153.95	125.35	98.35
DEC/SAT/17	1018.50	1022.05	119.05	89.70	62.00
DEC/SUN/18	979.80	981.55	112.60	51.20	26.25
DEC/MON/19	TRADING HOLIDAY				
DEC/TUE/20	TRADING HOLIDAY				
DEC/WED/21	912.32	902.54	89.32	75.64	55.21
DEC/FRI/23	101.50	103.00	153.95	125.35	98.35
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INTERPRETATION:

CALL OPTION:

BUYERS PAY OFF:

Investors who purchased 200 shares in INDIABULLS for $900 had to pay an additional $100.05 per share due to the scarcity of this company.
The payout totals $984.20.

Spot price	984.20
Strike price	900.00
Amount	84.20
Premium paid (-)	100.05
Net Loss	15.85 x 200 = -3170
Buyer Loss = Rs.3170 (Loss)	

The seller would incur more losses from a decline in the spot price, as the contract is negative and in-the-money.

SELLERS PAY OFF:

The proprietor of a company benefits financially when his clients succeed.

Strike price	900.00
Spot price	984.20
Amount	+84.20
Premium Received	100.05
Net profit	15.85 x 200 = +3170
Seller Profit = Rs.3170 (Net Amount)	

Since the seller is already profitable and out of cash, it will make even more of a profit. However, the premium paid by the seller will result in a loss if the spot price falls below the strike price.
The result from above is that the profit for seller & loss for buyer,it's based on spot,strike prices & premium amount is paid or received in futures & options in Indiabulls.

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TABLE: 4
PUT PRICES

INDIABULLS FUTURES & OPTIONS					
DATE	PRICE		CALL OPTION		
	SPOT	FUTURE	900	930	960
NOV/ FRI /25	922.75	921.85	100.05	85.75	73.10
NOV/SAT/26	898.85	898.90	79.20	66.25	47.00
NOV/SUN/27	885.90	885.15	68.40	56.25	45.85
NOV/MON/28	TRADING HOLIDAY				
NOV/TUE/29	TRADING HOLIDAY				
NOV/ WED /30	880.40	882.10	35.55	49.90	40.00
DEC/ THU /01	911.95	914.60	54.90	62.35	50.45
DEC/FRI/02	901.58	902.32	51.25	55.69	49.36
DEC/SAT/03	898.00	902.55	46.00	45.10	34.50
DEC/SUN/04	TRADING HOLIDAY				
DEC/MON/05	TRADING HOLIDAY				
DEC/TUE/06	TRADING HOLIDAY				
DEC/ WED /07	923.75	926.80	52.00	52.85	40.30
DEC/THU/08	918.55	918.10	60.00	46.55	34.55
DEC/FRI/09	919.95	921.55	54.00	43.70	31.70
DEC/SAT/10	944.25	946.85	60.10	49.50	35.05
DEC/SUN/11	984.95	985.40	95.15	74.35	45.00
DEC/MON/12	TRADING HOLIDAY				
DEC/TUE/13	TRADING HOLIDAY				
DEC/WED/14	1002.20	997.60	109.35	84.75	63.15
DEC/THU/15	1058.65	1062.05	125.00	133.10	106.55
DEC/FRI/16	1052.10	1056.15	153.95	125.35	98.35
DEC/SAT/17	1018.50	1022.05	119.05	89.70	62.00
DEC/SUN/18	979.80	981.55	112.60	51.20	26.25
DEC/MON/19	TRADING HOLIDAY				
DEC/TUE/20	TRADING HOLIDAY				
DEC/WED/21	912.32	902.54	89.32	75.64	55.21
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INTERPRETATION:

PUT OPTION:

BUYERS PAY OFF:

The premium for a $900 put option to buy is 71.10 percent.
The market price was 984.20 on the last day of the contract.

Strike price	900.00
Spot price	984.20
Net pay off	84.20
Premium Paid	71.10
Net profit	13.10 x 200 = 2620

Since the deposit has been made, $2,620 can be earned.

The transaction is profitable and in the black, resulting in increased profits for the buyer. However, the buyer will incur a loss at the new, higher price.

SELLERS PAY OFF:

The premium is paid only if the seller makes a profit, thus any profit made goes to him.

Spot price	984.20
Strike price	900.00
Amount	-84.20
Premium Received	71.10
Net profit	13.10 x 200 = -2620

The potential loss is $2620 after the payment of the charge of $71.10.

For the seller, this means even more financial loss because it is negative and in the money. The seller standsto gain up to the amount of the bonus if the market price rises over the strike price.

The result from the above is that the profit for buyer & loss for seller, it's based on spot,strike prices & net pay off amount in futures & options in Indiabulls

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TABLE: 5

Data of Indiabulls – The Futures & Options of the December Month

DATE	SPOT PRICE	FUTURE PRICE
NOV/ FRI /25	922.75	921.85
NOV/SAT/26	898.85	898.90
NOV/SUN/27	885.90	885.15
NOV/ WED /30	880.40	882.10
DEC/ THU /01	911.95	914.60
DEC/FRI/02	890.30	889.80
DEC/SAT/03	898.00	902.55
DEC/ WED /07	923.75	926.80
DEC/THU/08	918.55	918.10
DEC/FRI/09	919.95	921.55
DEC/SAT/10	944.25	946.85
DEC/SUN/11	984.95	985.40
DEC/WED/14	1002.20	997.60
DEC/THU/15	1058.65	1062.05
DEC/FRI/16	1052.10	1056.15
DEC/SAT/17	1018.50	1022.05
DEC/SUN/18	979.80	981.55
DEC/WED/21	984.20	984.20
DEC/FRI/23	153.95	125.35
DEC/SAT/24	119.05	89.70

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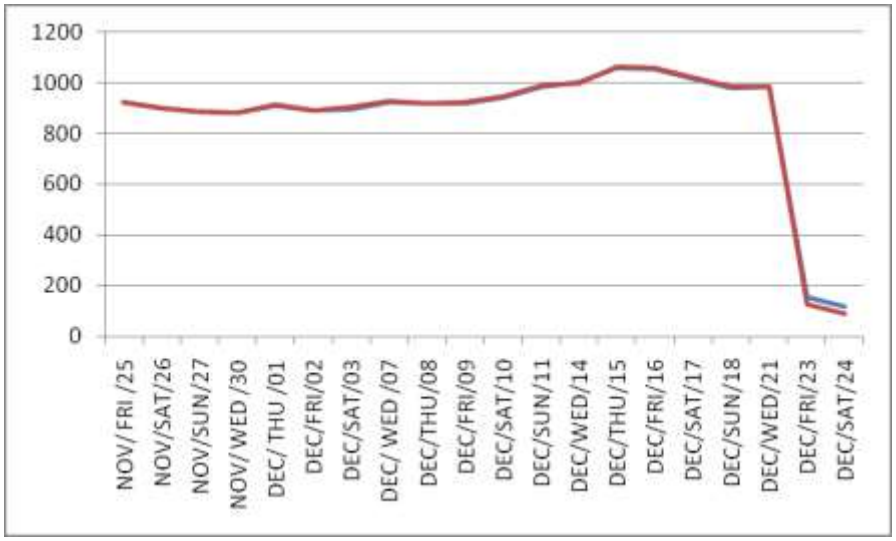
GRAPH.5E



INTERPRETATION:

- The price of Market Spot prices must be high. INDIABULLS follow the ups and downs of commodity prices.
- The customer will make a profit if the cost of acquisition is less than the selling price.
- The seller incurs a loss if the futures' selling price is lower than the settlement price The result from the above is that loss in spot & future prices in Indiabulls.

FINDINGS

- The futures market developed from the foreign exchange market. Its daily fluctuations are usually comparable to those of the stock market. The daily volume of trades in NSE derivatives contracts.
- Gain or loss for the investor in the cash market is determined by the value of the underlying asset. The proprietor could either make or lose a lot of money.However, purchasers stand to gain significantly without incurring much risk while participating in the derivatives market.
- The primary goal of most swaps is risk management.
- It is finded potential gain or loss from investing in futures & options in Indiabulls.
- The profit or loss is known in future trading in Indiabulls.
- The price of Market Spot prices must be high. INDIABULLS follow the ups and downs of commodity prices.
- It is finded the profit or loss for the buyers pay off & sellers pay off in calloption in Indiabulls.
- The customer will make a profit if the cost of acquisition is less than the selling price.
- It is finded the loss or profit for the buyers pay off & sellers pay off in putoption in Indiabulls.
- The seller incurs a loss if the futures' selling price is lower than the settlement price.
- The price of Market Spot prices must be high. INDIABULLS follow the ups and downs of commodity prices.
- The customer will make a profit if the cost of acquisition is less than the selling price.
- The seller incurs a loss if the futures' selling price is lower than the settlement price.
- It is finded the loss or profit in the spot &

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future price changes in Indiabulls.

- The only factor influencing the option writer's profit or loss in the derivatives section is the movement of the underlying asset.

SUGGESTIONS

- A put option holder should consider writing a put option since he stands to lose money in a rising market. An investor should retain a call option in a bear market because the writer of a call option suffers a greater loss.
- An investor should write a call option in a weak market because the holder of a call option will suffer greater financial loss, but should purchase and keep a put option because the writer of a put option will suffer greater financial loss.
- We have already researched how much Market Spot prices sells for commercially. Call option writers can offer bigger payments to investors due to INDIABULLS' low volatility.
- Since India's swaps market is so young, most investors know very little about it and need to be educatedby SEBI.
- Modifying SEBI's regulations on contract size and FII participation might help the Indian derivatives market expand.
- The contract value should be maintained low because small buyers cannot afford such exorbitant costs.
- More effective risk management measures must be implemented by SEBI.
- To make the futures market a viable hedging tool, SEBI must take action

CONCLUSION

- The futures market developed from the foreign exchange market. Its daily fluctuations are usually comparable to those of the stock market.
- The loss in the futures & options & loss in spot and future prices in Indiabulls.
- Approximately how many derivatives change hands on the NSE on a daily basis. Gain or loss for theinvestor in the cash market is determined by the value of the underlying asset.
- The profit for the buyer & loss for the seller in price futures in Indiabulls.
- The proprietor could either make or lose a lot of money. However, purchasers stand to gain significantly without incurring much risk while participating in the derivatives market.
- The profit for seller & loss for buyer,it's based on spot,strike prices & premium amount is paid or received in futures & options in Indiabulls.
- The profit for buyer & loss for seller, it's based on spot,strike prices & net pay off amount in futures & options in Indiabulls.
- The cash market demands complete payment from the investment. However, investors must paypremiums
-
- or margins as a portion of the entire cost when employing swaps.
- The primary goal of most swaps is risk management. With derivatives, the only thing that may make or break an option writer's bottom line is the performance of the underlying asset.

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