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   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

JOURNAL AND OTHER ARTICLES

- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

AN IMPACT OF FINANCIAL DERIVATIVES ON INDIAN STOCK MARKET

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ABSTRACT

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, the financial markets are marked very high degree of volatility. It is generally accepted that the introduction of financial derivatives that facilitate hedging is an important step in the development of stock markets. However, financial derivatives can potentially increase volatility in the underlying cash market, which might be detrimental to the development of the stock market itself. Using data from India, we examine one possible route through which derivatives trading can increase cash market volatility.

KEYWORDS
Financial derivatives, Indian stock market.

INTRODUCTION
Derivative is a product whose value is derived from the value of one or more basic variables, called bases (underlying asset, index, or reference rate), in a contractual manner. The underlying asset can be equity, forex, commodity or any other asset. In the Indian context the Securities Contracts (Regulation) Act, 1956 (SC(R) A) defines "derivative" to include- A security derived from a debt instrument, share, and loan whether secured or unsecured, risk instrument or contract for differences or any other form of security. A contract, which derives its value from the prices, or index of prices, of underlying securities

Derivatives are the securities under the SC(R) A and hence the trading of derivatives is governed by the regulatory framework under the SC(R) A. Derivatives are used by banks, securities firms, companies and investors to hedge risks, to gain access to cheaper money and to make profits Derivatives are likely to grow even at a faster rate in future they are first of all cheaper to world have met the increasing volume of products tailored to the needs of particular customers, trading in derivatives has increased even in the over the counter markets.

PARTICIPANTS IN THE DERIVATIVES MARKET
The following three broad categories of participants who trade in the derivatives market:
1. Hedgers
2. Speculators and
3. Arbitrageurs

HEDGERS
Hedgers face risk associated with the price of an asset. They use futures or options markets to reduce or eliminate this risk.

SPECULATORS
Speculators wish to bet on future movements in the price of an asset. Futures and Options contracts can give them an extra leverage; that is, they can increase both the potential gains and potential losses in a speculative venture.

ARBITRAGEURS
Arbitrageurs are in business to take advantage of a discrepancy between prices in two different markets.

FUNCTIONS OF THE DERIVATIVES MARKET
The derivatives market performs a number of economic functions. They are:
- Prices in an organized derivatives market reflect the perception of market participants about the future and lead the prices of underlying to the perceived future level.
- Derivatives, due to their inherent nature, are linked to the underlying cash markets. With the introduction of derivatives, the underlying market witnesses higher trading volumes because of participation by more players who would not otherwise participate for lack of an arrangement to transfer risk.
- Speculative trades shift to a more controlled environment of derivatives market. In the absence of an organized derivatives market, speculators trade in the underlying cash markets.
- An important incidental benefit that flows from derivatives trading is that it acts as a catalyst for new entrepreneurial activity.
- Derivatives markets help increase savings and investment in the long run. Transfer of risk enables market participants to expand their volume of activity.

TYPES OF DERIVATIVES
The most commonly used derivatives contracts are forwards, futures and options. Here various derivatives contracts that have come to be used are given briefly:
1. Forwards
2. Futures
3. Options
4. Warrants
5. LEAPS
6. Baskets
7. Swaps
8. Swaptions

1. FORWARDS
A forward contract is customized contract between two entities, where settlement takes place on a specific date in the future at today's pre-agreed price

2. FUTURES
A futures contract is an agreement between two parties to buy or sell an asset at a certain time in the future at a certain price. Futures contracts are special types of forward contracts in the sense that the former are standardized exchange-traded contracts.

3. OPTIONS
Options are of two types – calls and puts
- Calls give the buyer the right but not the obligation to buy a given quantity of the underlying asset, at a given price on or before a given future date.
- Puts give the buyer the right, but not the obligation to sell a given quantity of the underlying asset at a given price on or before a given date.

4. WARRANTS

Options generally have two lives of up to one year; the majority of options traded on options exchanges having a minimum maturity of nine months. Longer-dated options are called warrants and are generally traded over-the-counter.

5. LEAPS

The acronym LEAPS means Long-term Equity Anticipation Securities. These are options having a maturity of up to three years.

6. BASKETS

Basket options are options on portfolios of underlying assets. The underlying asset is usually a moving average of a basket of assets. Equity index options are a form of basket options.

7. SWAPS

Swaps are private agreements between two parties to exchange cash flows in the future according to a prearranged formula. They can be regarded as portfolios of forward contracts. The two commonly used swaps are:

- **Interestrate swaps**:These entail swapping only the interest related cash flows between the parties in the same currency.
- **Currency swaps**: These entail swapping both principal and interest between the parties, with the cash flows in one direction being in a different currency than those in the opposite direction.

8. SWAPTIONS

Swaptions are options to buy or sell that will become operative at the expiry of the options. Thus a swaption is an option on a forward swap. Rather than have calls and puts, the swaptions markets has receiver swaptions and payer swaptions. A receiver swaption is an option to receive fixed and pay floating. A payer swaption is an option to pay fixed and receive floating.

OBJECTIVES OF STUDY

1. To study the role of derivatives in Indian financial market.
2. To identity investor objective constraints and performance, that helps to formulate the investment policy.
3. To find out transfer of risk enables market participants to expand their cash market volatility.

NEED OF THE STUDY

- Different investment avenues are available investors. Stock market also offers good investment opportunities to the investor alike all investments, they also carry certain risks.
- The investor should compare the risk and expected yields after adjustment off tax on various instruments while talking investment decision the investor may seek advice from expertly and consultancy include stock brokers and analysts while making investment decisions.

The objective here is to make the investor aware of the functioning of the derivatives.

- Derivatives act as a risk hedging tool for the investors. The objective is to help the investor in selecting the appropriate derivates instrument to attain maximum risk and to construct the portfolio in such a manner to meet the investor should decide how best to reach the goals from the securities available.

DERIVATIVES INSTRUMENTS IN INDIA

The first derivative product to be introduced in the Indian securities market is going to be "INDEX FUTURES". In the world, first index futures were traded in U.S. on Kansas City Board of Trade (KCBT) on Value Line Arithmetic Index (VLAI) in 1982.

Organized exchanges began trading options on equities in 1973, whereas exchange traded debt options did not appear until 1982, on the other hand fixed income futures began trading in 1975, but equity related futures did not begin until 1982.

CONTRACT PERIODS

At any point of time there will always be available near three months contract periods. For e.g. in the month of June 2012 one can enter into either June Futures contract or July Futures contract or August Futures Contract. The last Thursday of the month specified in the contract shall be the final settlement date for that contract at both NSE as well BSE. Thus June 29, July 27 and August 31 shall be the last trading day or the final settlement date for June Futures contract, July Futures Contract and August Futures Contract respectively.

When one futures contract gets expired, a new futures contract will get introduced automatically. For instance, on 30th June, June futures contract becomes invalidated and a September Futures Contract gets activated.

CONDITIONS TO BE FOLLOWED WHILE TRADING DERIVATIVES

- Trading should take place through an on-line screen based trading system.
- An independent clearing corporation should do the clearing of the derivative market.
- The exchange must have an online surveillance capability, which monitors positions, price and volumes in real time so as to deter market manipulation price and position limits should be used for improving market quality.
- Information about trades quantities, and quotes should be disseminated by the exchange in the real time over at least two information-vending networks, which are accessible to investors in the country.
- The exchange should have at least 50 members to start derivatives trading.
- The derivatives trading should be done in a separate segment with separate membership; That is, all members of the cash market would not automatically become members of the derivatives market.
- The derivatives market should have a separate governing council which should not have representation of trading by clearing members beyond whatever percentage SEBI may prescribe after reviewing the working of the present governance system of exchanges.
- The chairman of the governing council of the derivative division / exchange should be a member of the governing council. If the chairman is broker / dealer, then he should not carry on any broking or dealing on any exchange during his tenure.
- No trading/clearing member should be allowed simultaneously to be on the governing council both derivatives market and cash market.

LITERATURE REVIEW

Daniel Heller and Nicholas Vause(2012) points out that derivatives must be cleared with central counterparties (CCPs). In this paper, we estimate the amount of collateral that CCPs should demand to clear safely all interest rate swap and credit default swap positions of the major derivatives dealers. Our estimates are based on potential losses on a set of hypothetical dealer portfolios that replicate several aspects of the way that derivatives positions are distributed within and across dealer portfolios in practice. Our results suggest that major dealers already have sufficient unencumbered assets to meet initial margin requirements, but that some of them may need to increase their cash holdings to meet variation margin calls. We also find that default funds worth only a small fraction of dealers' equity appear sufficient to protect CCPs against almost all possible losses that could arise from the default of one or more dealers, especially if initial margin requirements take into account the tail risks and time variation in risk of cleared portfolios. Finally, we find that concentrating clearing of OTC derivatives in a single CCP could economise on collateral requirements without undermining the robustness of central clearing.

Afsal and Mallikarjunappa (2007) attempted to study the volatility implications of the introduction of futures for the stock market in India by using market returns of nine individual stocks for the period October 1995 through June 2006. The study finds persistence and clustering of volatility in general and little or no impact of the futures trading on the market volatility in majority of the cases. But the volatility is found mean reverting in all the stocks examined.

Owing to the aforementioned deliberations, it can be concluded that the impact of introduction of equity derivatives trading has been different in different markets with respect to different span of time. And, it is difficult to arrive at a consensus with respect to the impact of equity derivatives introduction on the volatility. Particularly in Indian context, different studies show different conclusions. Further, the two studies have been done by taking a very small sample and do not test for asymmetric response.

Samanta and Samanta (2007) analyzed the impact of introducing index futures and stock future on the volatility of underlying spot market in India. He considered S&P CNX Nifty, Nifty Junior and S&P 500 and used GARCH model for the study. He found that there is no significant change in the volatility of spot market, but the structural changes in the volatility to some extent. He also found mixed result in spot market volatility in case of 10 individual stocks.

Vipul (2005) points out that data on 14 equity shares to examine expiration day effects in the Indian stock market. The underlying stocks are selected in a manner that reflected a range of different liquidities for the associated derivative products; the ratio of turnover in the derivatives market to turnover in the underlying cash market ranged from 55 percent to 344 percent. Thereafter, the price, volatility and volume of the underlying shares in the cash segment of the exchange 1 day prior to expiration (of derivatives contracts), on the day of expiration and 1 day after expiration are compared with the corresponding values of these variables 1 week and 2 weeks prior to the expiration days, using the Wilcoxon matched-pairs signed-rank test. The study concludes that prices in the cash market are somewhat depressed a day before the expiration of the derivatives contracts, and they strengthen significantly the day after the expiration. However, for most of the shares, this does not tantamount to price reversals. Finally, volumes are higher on expiration days than on the benchmark non-expiration days.

Calado, Garcia and Pereira (2005) used data for eight derivative products to study the volatility effect of the initial exchange listing of options and futures on the Portuguese capital market. They did not find significant differences in the unadjusted and adjusted variance and beta for the underlying stocks after the listing of derivatives. However, some of the underlying stocks taken individually have experienced significant increases or decreases in variance after derivatives listing. Finally, they concluded that the introduction of a derivatives market in the Portuguese case has not had the average stabilisation effect on risk as detected in other markets.

Taylor (2004) the study describe determinants of trading intensity in futures markets. In particular, the time between adjacent transactions on the FTSE 100 index futures market was modelled using various augmentations of the basic autoregressive conditional duration (ACD). As predicted by various market microstructure theories, he found that the bid-ask spread and transaction volume have a significant impact on subsequent trading intensity. However, there was evidence that a large (small) difference between the market price and the theoretical price of the futures contract, which is known as pricing error, leads to high (low) levels of trading intensity in the subsequent period.

Poshakwale, Sunil (2002) examined the random walk hypothesis in the emerging Indian stock market by testing for the nonlinear dependence using a large disaggregated daily data from the Indian stock market. The sample used was 38 actively traded stocks in the BSE National Index. He found that the daily returns from the Indian market do not conform to a random walk. Daily returns from most individual stocks and the equally weighted portfolio exhibit significant non-linear dependence. This is largely consistent with previous research that has shown evidence of non-linear dependence in returns from the stock market indexes and individual stocks in the US and UK.

This study seeks to examine the volatility of the spot market due to the derivatives market. Whether the volatility of the spot market has increased, decreased or remained the same. If increased then, what extent it is due to futures market. We use Autoregressive framework to model returns volatility. To measure volatility in the markets, the VIX (Volatility Index) computed by the National Stock Exchange is used. To eliminate the effect of factors other than stock index futures (i.e., the macroeconomic factors) determining the changes in volatility in the post derivative period, the model is used for estimation after adjusting the stock return equation for market factors. The studies is in the Indian context have evaluated the trends in NSE and noton the Stock Exchange, Mumbai (BSE) for the reason that the turnover in NSE captures an overwhelmingly large part of the derivatives market. We use Nifty Junior as surrogate indices to capture and study the market wide factors contributing to the changes in spot market volatility. This gives a better idea as to whether the introduction of index futures in itself caused a declinein the volatility of spot market or the overall market wide volatility has decreased, and thus, causing a decrease in volatility of indices on which derivative products have been introduced. The volumes on NIFTY also has a large impact on the volatility, thus in the model to measure volatility volumes are also considered as a factor. We seek to compare this volatility with the volatility prevailing in the market before the index futures (i.e. Nifty futures) and check if it is statistically significant.

DATA METHODOLOGY

METHOD OF DATA COLLECTION

PRIMARY SOURCES

Primary data is the first hand information that a researcher gets from various sources like respondents, analogous case situations and research experiments. Primary data is the data that is generated by the researcher for the specific purpose of research situation at hand.

For this project the primary data will be collected from the personnel. This data can also be obtained through a questionnaire, based upon which some statistical techniques are applied

SECONDARY SOURCES

It is the data which has already been collected by some one or an organization for some other purpose or research study. The data for study has been collected from various sources:

- Books
- Journals
- Magazines
- Internet sources.

LIMITATIONS OF STUDY

LIMITED RESOURCES

Limited resources are available to collect the information about the commodity trading.

VOLATALITY

Share market is so much volatile and it is difficult to forecast anything about it whether you trade through online or offline

ASPECTS COVERAGE

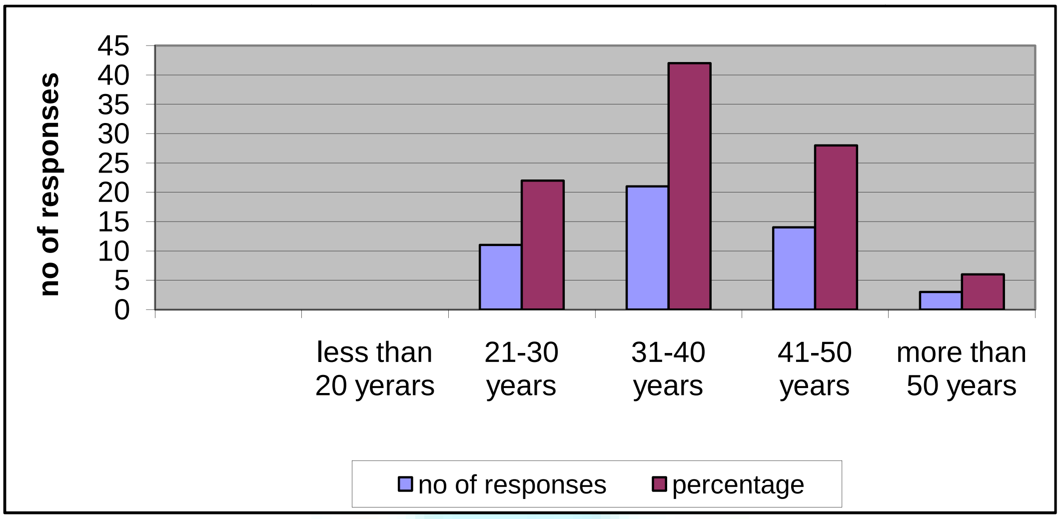
Some of the aspects may not be covered in my study

1. AGE GROUP

AGE Particulars	LESSTHEN20 YEARS	21-30	31-40	41-50	50-Above	TOTAL
No. Of responses	NIL	11	22	14	3	50
Percentage	NIL	22%	44%	28%	6%	100%

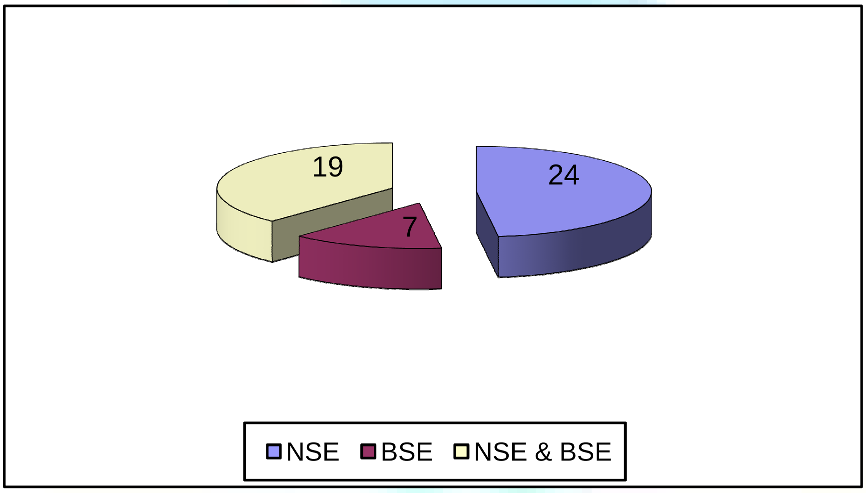
INTERPRETATION

Age of the traders play an important role in their trading decision and outlook. Most of the traders lie in the middle-age between 31-40 and 41-50, which is 44% and 28% respectively. The market improves if the awareness is created well among the age group 21-30, the market may improve due to rapid speculation of that age grouped people.



2. EXCHANGE

Particulars	NO. Of Responses	Percentage
NSE	24	48%
BSE	7	14%
NSE & BSE	19	38%
Total	50	100%

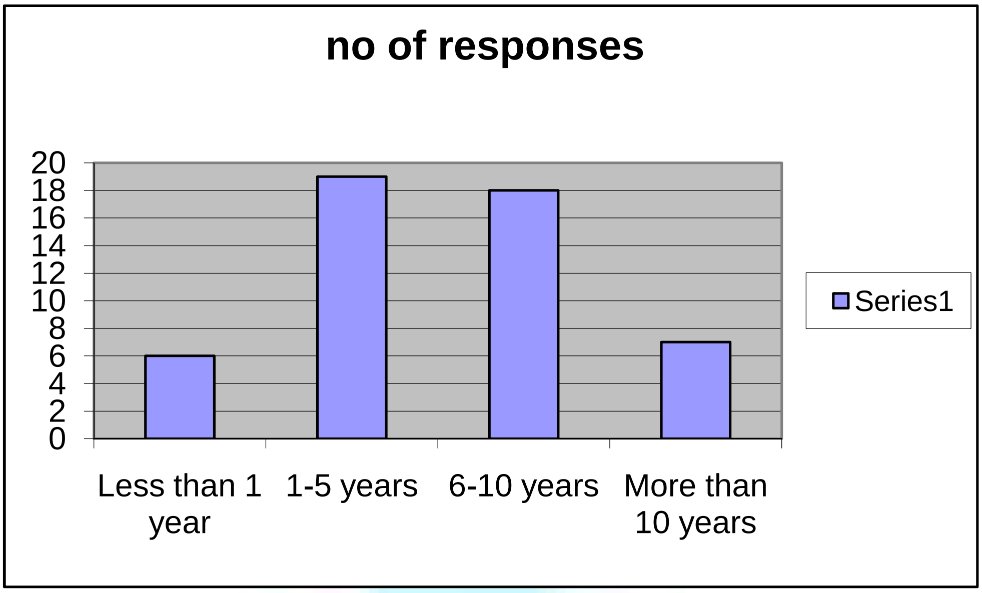


INTERPRETATION

The percentages of investors investing in NSE is 48% while that of BSE is only 14%, which shows the growing popularity of the NSE since its inception and its advantage of being the national stock exchange. The popularity and fame of the stock exchanges play a vital role. Here most of the investors are towards NSE than BSE. The reason may be all the derivative strategies are followed by the organization are NSE's.

3. EXPERIENCE OF INVESTORS

Particulars	No. Of responses	Percentage
Less than 1 year	6	12%
1-5 years	19	38%
6-10 years	18	36%
More than 10 years	7	14%
Total	50	100%

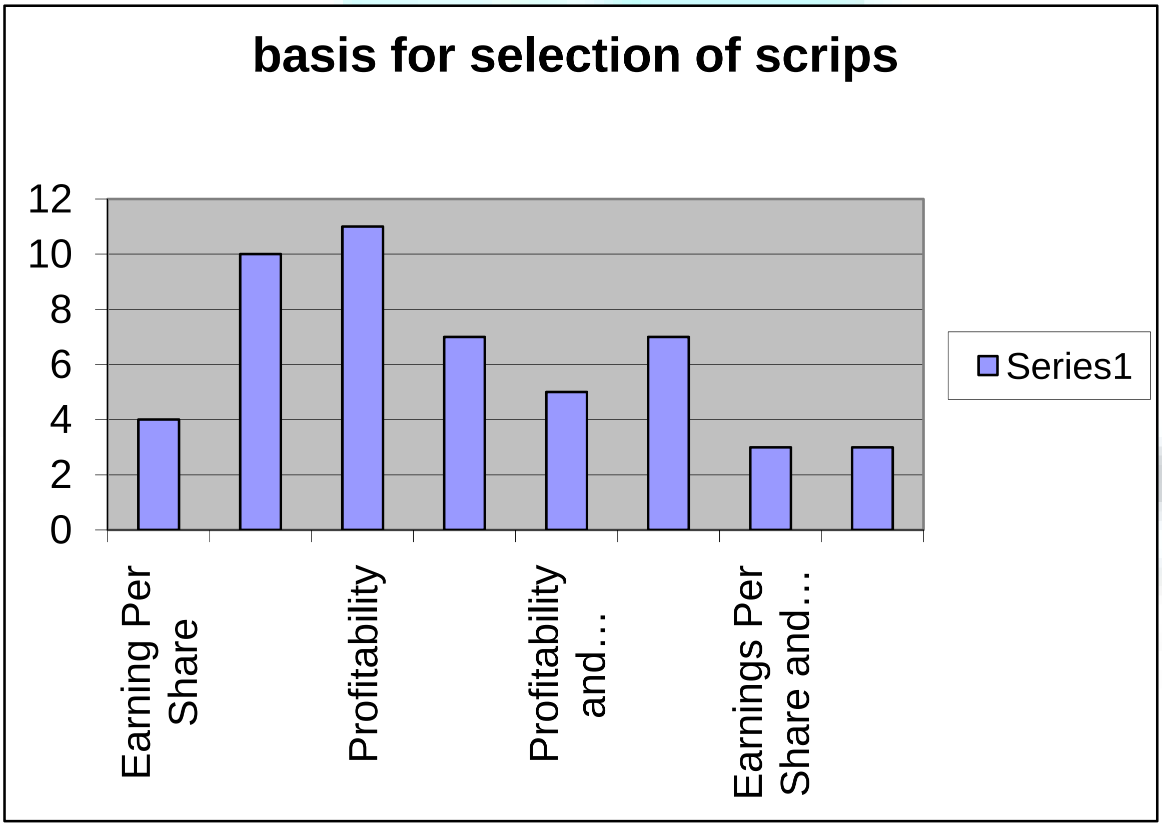


INTERPRETATION

The study reveals the only 12 % of its clients have joined in the past 1 year. Hence the marketing activities of the company have to be more aggressive to widen its clients in the wake of new brokers and sub brokers coming up in the city. Aggressive publicity has to be done in order to stand against the new coming brokers.

4. BASIS FOR SELECTION OF SCRIPS

Particulars	No. Of responses	Percentage
Earning Per Share	4	8%
Company Image	10	20%
Profitability	11	22%
All Three	7	14%
Profitability andCompany Image	5	10%
Earnings Per ShareAnd Image	7	14%
Earnings Per Share andProfitability	3	6%
P/E Ratio	3	6%
Total	50	100%

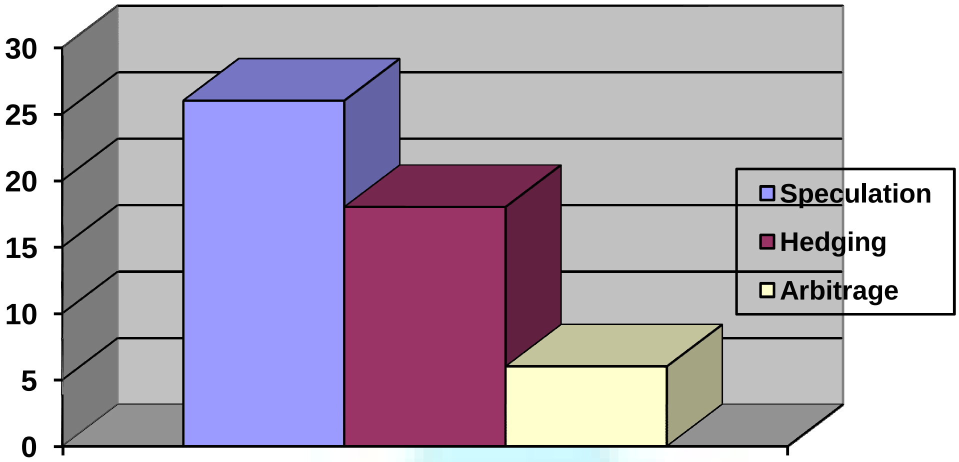


INTERPRETATION

The study reveals that investors use varied parameters to make their investment decisions, profitability and image of the company are the two prominent parameters used by most investors. The investors also use a combination of more than one parameter. Mostly one can rely on company image along with profitability but in order to be updated with the latest information once has to follow the media, which gives the exact information time to time.

5. PURPOSE OF USE

Particulars	No. Of responses	Percentages
Speculation	26	52%
Hedging	18	36%
Arbitrage	6	12%
Total	50	100%

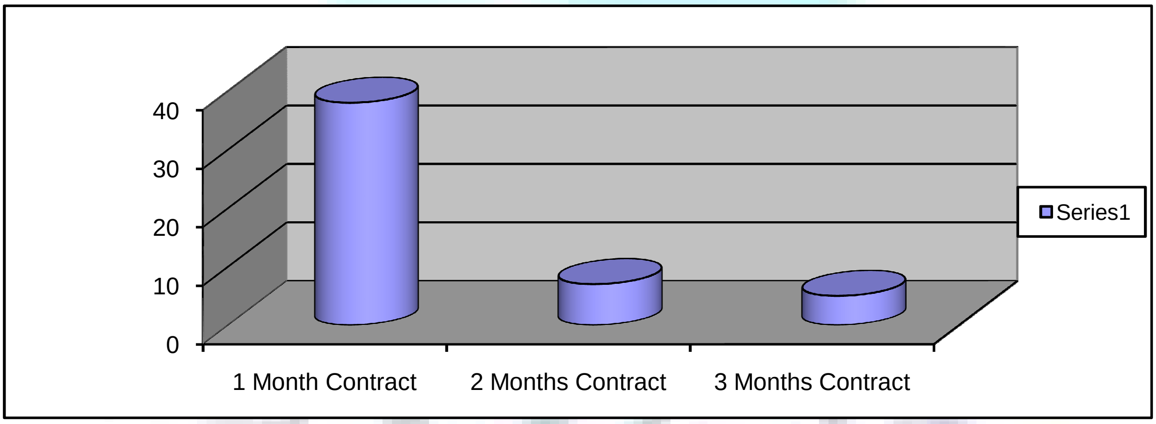


INTERPRETATION

Derivatives are primarily used for speculation, hedging and arbitraged. The most popular use of derivatives is speculation with more than 52% of the traders speculating in the markets using futures and options. While only 36% of the traders used derivatives for hedging their risk of cash market and 12% traders using it for arbitrage to profit from the different market segments. Due to lack of knowledge in arbitrage people are not able to participate actively. Though the hedging is bit better, that also as very little people who does hedging

6. CATEGORY OF CONTRACT

Particulars	No. Of responses	Percentages
1 Month Contract	38	76%
2 Months Contract	7	14%
3 Months Contract	5	10%
Total	50	100%

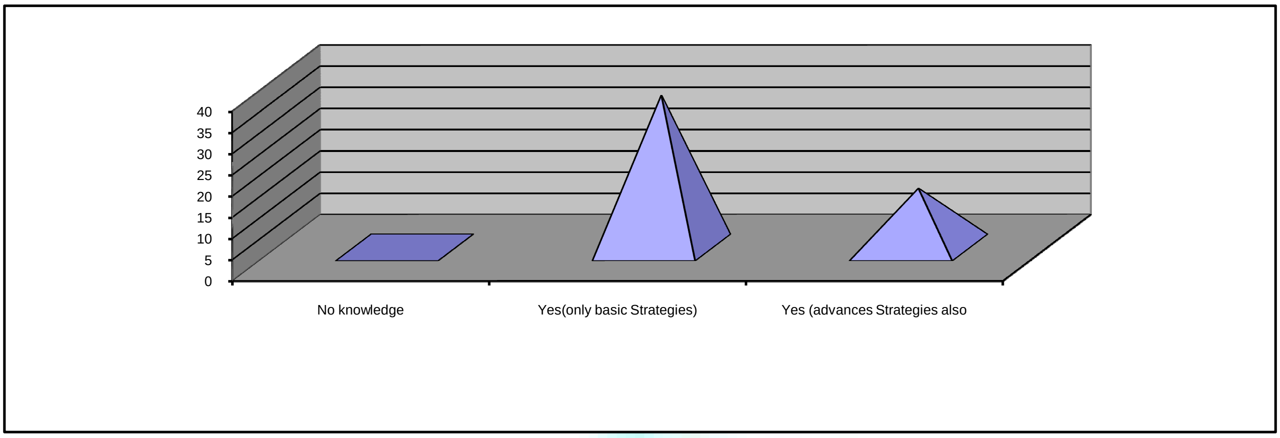


INTERPRETATION

Trading in futures and options is done in contracts with three different expiry dates. Out of which trading in one-month contracts are more popular because of the relatively predictable fluctuations of the near future. It is very difficult to speculate on prices two months and three months later, which accounts for the low percentages of trades of 14% and 10% in these contracts. One-month contracts works out well here as everything closes in one will know their status in that particular area. So, one-month contracts are in well used. Two month and Three month are also good but risk is involved which most of the clients do not want to face.

7. KNOWLEDGE OF STRATEGIES

Particulars	No. Of responses	Percentage
No knowledge	0	0%
Yes (only basic Strategies)	36	72%
Yes (advances StrategiesAlso)	14	28%
Total	50	100%

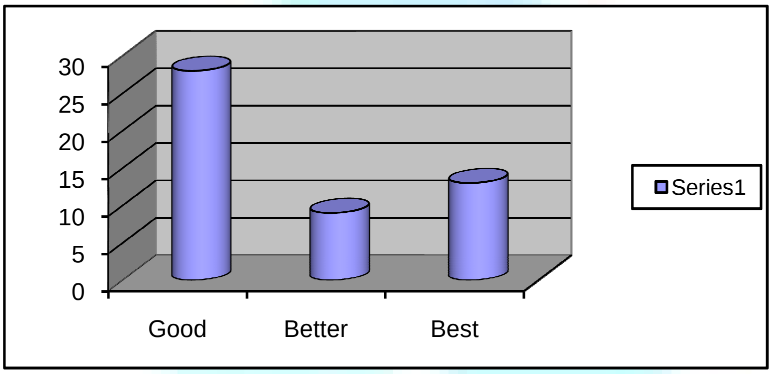


INTERPRETATION

Knowledge of trading strategies of futures and options is very important for profitable trading in this segment. 72% people have knowledge on only the basic strategies, which are easy to understand, and implement of which 28% have the knowledge of the more complex and advanced trading strategies. With the basic knowledge people are speculating well, if they are given a better training classes by Share khan for the advanced strategies they will go in deep further strategies.

8. INVESTOR RATING

Particulars	No. Of responses	Percentage
Good	28	56%
Better	9	18%
Best	13	26%
Total	50	100%



INTERPRETATION

People are Very happy with the performance of Share khan. They say it is good at most of the times and best at times. If follows some new strategies like maintenance of the people which means the operator should have not more 4-5 people so that everyone can involve easily in speculation. And some new counters where the clients can take the help in the areas they are uneducated. New counters to explain and understand the strategies etc.

CONCLUSION

Derivatives markets provide a mechanism for those who buy and sell the actual asset to hedge themselves against unfavorable price movement and spreads risk across a large number of investors, the risk is transferred away from those hedging spot position to professional speculators who are willing and able to bear it. The availability of risk transference afforded by the derivatives market reduces the spot price volatility because it eliminates the need to incorporate risk premium in the spot market transaction to compensate the risk of price fluctuations. Finally, derivatives trading might attract more traders to spot market and thereby making it more liquid and less volatile. However, the effect of equity derivatives trading can be further refined with the use of participant-wise high frequency data on stock market.

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