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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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- 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.

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- 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.

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- 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UNPUBLISHED DISSERTATIONS AND THESES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.

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DERIVATIVES MARKET IN INDIA

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ABSTRACT

Derivatives trading commenced in India in June 2000 after SEBI granted the approval to this effect in May 2000. SEBI permitted the derivative segment of two Stock exchanges, i.e. NSE and BSE, and their clearing house/ corporation to commerce trading and settlement in approved derivative contracts. To begin with, SEBI approved trading in index futures contracts based on Standard & Poor (S&P) CNX Nifty Index and BSE-30 (Sensex) Index. This was followed by approval for trading in options based on these two indices and Options on individual securities. The derivatives trading on the NSE commenced with S&P CNX Nifty Index futures on June 12, 2000, Index Options Commenced on July 4, 2001 and trading in Options on individual securities commenced on July 2, 2001. SEBI-RBI approved the trading on interest rate derivative instruments. The mini derivative future & Option contract on S&P CNX Nifty was introduced for trading on January 1, 2008 while the long term option Contracts on S&P CNX Nifty were introduced for trading on March-3-2008. Finally, a 30-year ban on forward trading was also lifted in 1999. The economic liberalization of the early nineties facilitated the introduction of derivatives based on interest rates and foreign exchange. A system of market-determined exchange rates was adopted by India in March 1993. In August 1994, the rupee was made fully convertible on current account. These reforms allowed increased integration between domestic and international markets, and created a need to manage currency risk. Given the fast change and growth in the scenario of the economic and financial sector have brought a much broader impact on derivatives instrument. As the name signifies, the value of this product is derived on the prices of currencies, interest rates (i.e. bonds), share and share indices, commodities, etc. not going into very back; financial derivatives just came into existence in the year 1980's.

KEYWORDS

Contract, derivatives, nifty, sensex.

INTRODUCTION

The origin of derivatives can be traced back to the need of farmers to protect themselves against fluctuations in the price of their crop. From the time it was sown to the time it was ready for harvest, farmers would face price uncertainty. Through the use of simple derivative products, it was possible for the farmer to partially or fully transfer price risks by locking-in asset prices. These were simple contracts developed to meet the needs of farmers and were basically a means of reducing risk.

A farmer who sowed his crop in June faced uncertainty over the price he would receive for his harvest in September. In years of scarcity, he would probably obtain attractive prices. However, during times of oversupply, he would have to dispose off his harvest at a very low price. Clearly this meant that the farmer and his family were exposed to a high risk of price uncertainty.

In 1848, the Chicago Board Of Trade, or CBOT, was established to bring farmers and merchants together. A group of traders got together and created the 'to-arrive' contract that permitted farmers to lock into price upfront and deliver the grain later. These to-arrive contracts proved useful as a device for hedging and speculation on price charges. These were eventually standardized, and in 1925 the first futures clearing house came into existence.

Today derivatives contracts exist on variety of commodities such as corn, pepper, cotton, wheat, silver etc. Besides commodities, derivatives contracts also exist on a lot of financial underlying like stocks, interest rate, exchange rate, etc.

REVIEW OF LITERATURE

DERIVATIVES DEFINED

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. For example, wheat farmers may wish to sell their harvest at a future date to eliminate the risk of a change in prices by that date. Such a transaction is an example of a derivative. The price of this derivative is driven by the spot price of wheat which is the "underlying"

In the Indian context the Securities Contracts (Regulation) Act, 1956 (SC(R) A) defines

"Derivative" to include

1) A security derived from a debt instrument, share, loan whether secured or unsecured, risk instrument or contract for differences or any other form of security.

2) A contract which derives its value from the prices, or index of prices, of underlying securities.

Derivatives are securities under the SC(R) A and hence the trading of derivatives is governed by the regulatory framework under the SC(R) A.

Derivative products initially emerged as hedging devices against fluctuations in commodity prices, and commodity-linked derivatives remained the sole form of such products for almost three hundred years. Financial derivatives came into spotlight in the post-1970 period due to growing instability in the financial markets. However, since their emergence, these products have become very popular and by 1990s, they accounted for about two-thirds of total transactions in derivative products. In recent years, the market for financial derivatives has grown tremendously in terms of variety of instruments available, their complexity and also turnover. In the class of equity derivatives the world over, futures and options on stock indices have gained more popularity than on individual stocks, especially among institutional investors, who are major users of index-linked derivatives. Even small investors find these useful due to high correlation of the popular indexes with various portfolios and ease of use.

OBJECTIVES OF THE STUDY

1. To know the derivative market in India.
2. To know the changes in derivative market in last decade w.r.t Indian market.

FACTORS DRIVING THE GROWTH OF DERIVATIVES

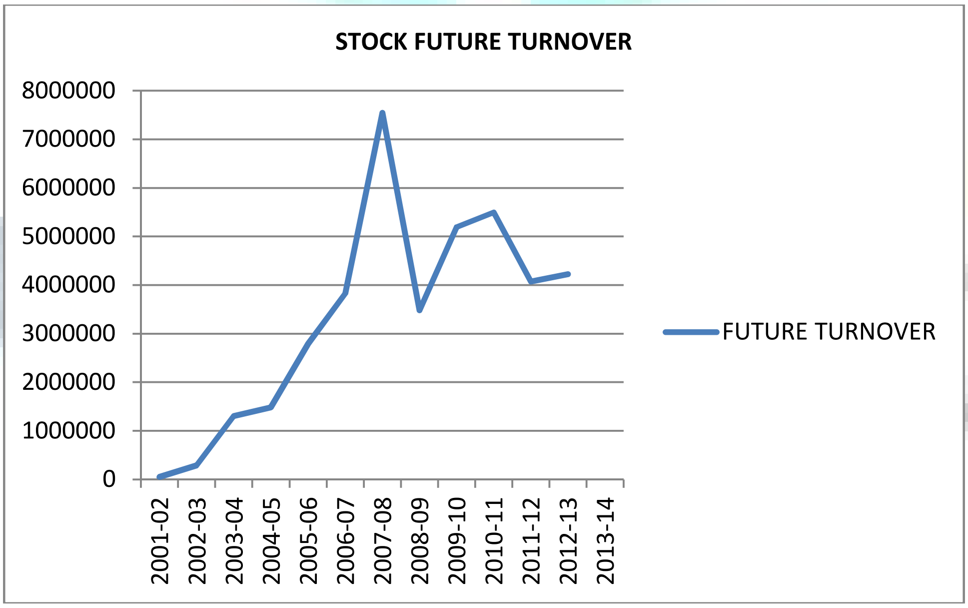
Over the last three decades, the derivatives market has seen a phenomenal growth. A large variety of derivative contracts have been launched at exchanges across the world. Some of the factors driving the growth of financial derivatives are:

1) Increased volatility in asset prices in financial markets.
2) Increased integration of national financial markets with the international markets.
3) Marked improvement in communication facilities and sharp decline in their costs.
4) Development of more sophisticated risk management tools, providing economic agents a wider choice of risk management strategies, and
5) Innovations in the derivatives markets, which optimally combine the risks and returns over a large number of financial assets leading to higher returns, reduced risk as well as transactions costs as compared to individual financial assets.

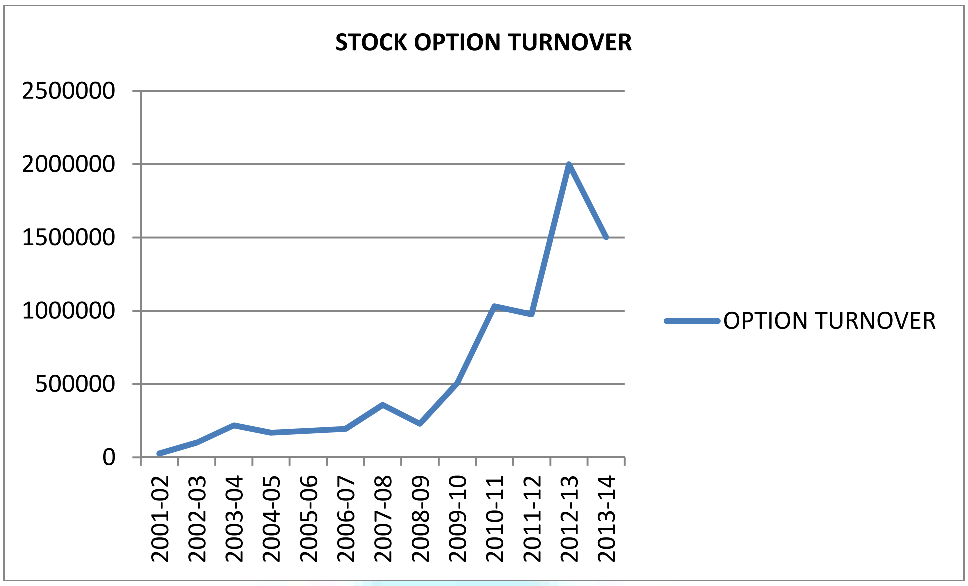
BUSINESS GROWTH IN DERIVATIVES SEGMENT

Year	Index Futures		Stock Futures		Index Options		Stock Options		Total	
	No. of contracts	Turnover (cr.)	No. of contracts	Turnover (cr.)	No. of contracts	Turnover (cr.)	No. of contracts	Turnover (cr.)	No. of contracts	Turnover (cr.)
2013-14	70370065	2021833.51	107046500	2936216.91	616449053	18038319.40	52326030	1501819.02	846191648	24498188.80
2012-13	96100385	2527130.76	147711691	4223872.02	820877149	22781574.14	66778193	2000427.29	1131467418	31533003.96
2011-12	146188740	3577998.41	158344617	4074670.73	864017736	22720031.64	36494371	977031.13	1205045464	31349731.74
2010-11	165023653	4356754.53	186041459	5495756.70	650638557	18365365.76	32508393	1030344.21	1034212062	29248221.09
2009-10	178306889	3934388.67	145591240	5195246.64	341379523	8027964.20	14016270	506065.18	679293922	17663664.57
2008-09	210428103	3570111.40	221577980	3479642.12	212088444	3731501.84	13295970	229226.81	657390497	11010482.20
2007-08	156598579	3820667.27	203587952	7548563.23	55366038	1362110.88	9460631	359136.55	425013200	13090477.75
2006-07	81487424	2539574	104955401	3830967	25157438	791906	5283310	193795	216883573	7356242
2005-06	58537886	1513755	80905493	2791697	12935116	338469	5240776	180253	157619271	4824174
2004-05	21635449	772147	47043066	1484056	3293558	121943	5045112	168836	77017185	2546982
2003-04	17191668	554446	32368842	1305939	1732414	52816	5583071	217207	56886776	2130610
2002-03	2126763	43952	10676843	286533	442241	9246	3523062	100131	16768909	439862
2001-02	1025588	21483	1957856	51515	175900	3765	1037529	25163	4196873	101926

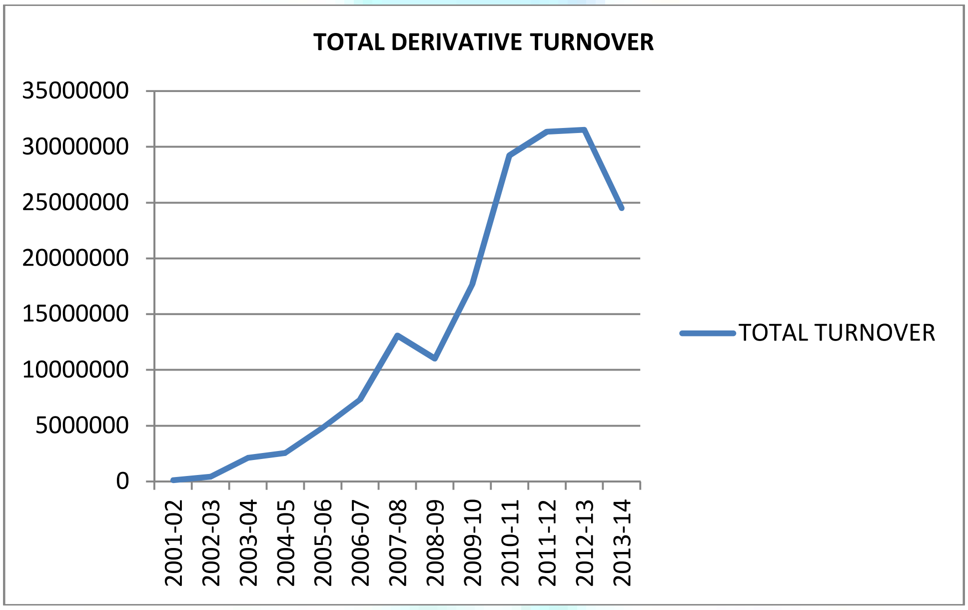
Source: http://www.nseindia.com/content/fo/fo_businessgrowth.htm



The trading volume on NSE's stock future market has seen a steady increase since the launch of the first derivatives contract, i.e. stock futures in June 2000 & 2001. Table gives the value of contracts traded on the NSE.. A total of 203587952 contracts with a total turnover of Rs. 7548563.23 crore were traded during 2007-2008. And from 2007-08 onwards the market is downsizing.



The trading volume on NSE's stock option market has seen a steady increase since the launch of the first derivatives contract, i.e. stock options in June 2000 & 2001. Table gives the value of contracts traded on the NSE.. A total of 66778193 contracts with a total turnover of Rs. 2000427.29 crore were traded during 2012-2013. And in 2013 the market is downsizing.



The trading volume on NSE's stock derivative market has seen a steady increase since the launch of the first derivatives contract, i.e. Index futures in June 2000 & 2001. Table gives the value of contracts traded on the NSE.. A total of 1205045464 contracts with a total turnover of Rs. 31349731.74 crore were traded during 2011-2012. And from 2012-13 onwards the market is downsizing.

DERIVATIVE PRODUCTS

Derivative contracts have several variants. The most common variants are forwards, futures, options and swaps. We take a brief look at various derivatives contracts that have come to be used.

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

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.

OPTIONS: Options are of two types

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.

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 :

INTEREST RATE 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.

PARTICIPANTS IN THE DERIVATIVES MARKETS

The following three broad categories of participants

HEDGERS: Hedgers face risk associated with the price of an asset. They use futures or option 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. If, for example, they see the futures price of an asset getting out of line with the cash price, they will take offsetting positions in the two markets to lock in a profit.

NSE'S DERIVATIVES MARKET

The derivatives trading on the NSE commenced with S&P CNX Nifty Index futures on June 12, 2000. The trading in index options commenced on June 4, 2001 and trading in options on individual securities commenced on July 2, 2001. Single stock futures were launched on November 9, 2001. Today, both in terms of volume and turnover, NSE is the largest derivatives exchange in India. Currently, the derivatives contracts have a maximum of 3-month expiration cycles. Three contracts are available for trading, with 1 month, 2 months and 3 months expiry. A new contract is introduced on the next trading day following the expiry of the near month contract.

PARTICIPANTS AND FUNCTIONS

NSE admits members on its derivatives segment in accordance with the rules and regulations of the exchange and the norms specified by SEBI. NSE follows 2–tier membership structure stipulated by SEBI to enable wider participation. Those interested in taking membership on F&O segment are required to take membership of CM and F&O segment or CM, WDM and F&O segment. Trading and clearing members are admitted separately. Essentially, a clearing member (CM) does clearing for all his trading members (TMs), undertakes risk management and performs actual settlement. There are three types of CMs:

SELF CLEARING MEMBER*:* A SCM clears and settles trades executed by him only either on his own account or on account of his clients.

TRADING MEMBER CLEARING MEMBER*:* TM–CM is a CM who is also a TM. TM–CM may clear and settle his own proprietary trades and client's trades as well as clear and settle for other TMs.

PROFESSIONAL CLEARING MEMBER*:* PCM is a CM who is not a TM. Typically, banks or custodians could become a PCM and clear and settle for TMs.

TRADING MECHANISM

The futures and options trading system of NSE, called NEAT-F&O trading system, provides a fully automated screen–based trading for Nifty futures & options and stock futures & options on a nationwide basis and an online monitoring and surveillance mechanism. It supports an anonymous order driven market which provides complete transparency of trading operations and operates on strict price–time priority. It is similar to that of trading of equities in the Cash Market (CM) segment. The NEAT-F&O trading system is accessed by two types of users. The Trading Members(TM) have access to functions such as order entry, order matching, and order and trade management.. Various conditions like Immediate or Cancel, Limit/Market price, Stop loss, etc. can be built into an order. The Clearing Members (CM) uses the trader workstation for the purpose of monitoring the trading member(s) for whom they clear the trades. Additionally, they can enter and set limits to positions, which a trading member can take.

TURNOVER

The trading volume on NSE's derivatives market has seen a steady increase since the launch of the first derivatives contract, i.e. index futures in June 2000. Table gives the value of contracts traded on the NSE. A total of 77,017,185 contracts with a total turnover of Rs.2,547,053 core were traded during 2008-2009

CONCLUSION

In India derivative market has increased drastically from 2001-02 to 2012-13 i.e 101926 crores in 2001-02 to 31533003.96 crores in 2013-14. It means 300 times increased within 11 years. And we can see the tremendous change in derivative market year by year. This change affected by some factors like government policies, budgets, bullion market, inflation, economical and political condition, etc

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