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HYPOTHESIS (ES)

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

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A STUDY ON FINANCIAL DERIVATIVE OPTIONS WITH REFERENCE TO SELECTED SECTORS

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ABSTRACT

Financial markets always give importance to maximize returns and minimize risk. Derivatives are among the head of the innovations in the financial markets and aims to increase returns and reduce risk. They offer an opportunity for investors to protect themselves from the vagaries of the financial market. This paper gives a clear representation of development of derivatives such as Option Contracts and an attempt has been made to analyze the profit and loss position of Option contracts of buyers and sellers of different securities. This paper has also given more prominence to understand the concept of derivatives with special reference to Option Contracts and finally it provides a practical knowledge about the operations in the Option market.

KEYWORDS

derivative, options, securities.

INTRODUCTION

The birth of the market for derivatives instruments such as forwards, futures and options, can be found to the readiness of risk bearing economic agents to protect themselves against uncertainties and unexpected things arising out of variations in the prices of assets. Derivative tools or instruments initially came into exist as hedging devices against variations in product prices, and commodity-linked derivatives stayed the single form of such products for considerably three hundred years. Derivatives arose into focus in the 1970s period due to rising volatility in the financial markets. However meanwhile, since their presence, these products have turned into very prevalent and by 1990s, they accounted for about 2/3 of overall transactions in derivative instruments.

There are two types of Derivatives commonly traded in the market – Futures and Options, and in Options it is additionally a Call option and a Put option. The price of these derivatives is based on an underlying asset, and the price of the derivative generally moves in tandem with the price of the underlying. The underlying is generally a stock or an index in the context of investing in a stock market.

The most common derivatives products such as futures and options are becoming increasingly important in world markets as a tool for risk management. Derivatives tools have been used to reduce risk. Derivatives are used to isolate the risks and transfer them to parties willing to bear these risks. In recent years, the market for these derivatives instruments has grown enormously in form of different instruments available and their difficulty and also the turnover. Futures and options both the instruments on stock indices have added much popularity than on single stocks, particularly among institutional investors, who are main users of index-related derivatives.

OBJECTIVES OF THE STUDY

1. To understand the concept of Derivatives with a special reference to Options contracts.
2. To find out the profit or loss position of the Options buyers and sellers

RESEARCH METHODOLOGY

The present study is based on the secondary source of information. The secondary source of information is used in reviewing the literature and collection of company scripts. The Study is based on Descriptive research design. Randomly we have chosen different sector the data has been collected from INFOSYS, TCS, ICICI BANK and SBI scripts for the analysis. To analyze the profit or loss positions of selected sector the time period considered 24 months data. Scrip Tables are used to describe the profit and loss position of the different companies effectively. The table explains the market price and call options price. The 1st column clarifies date of trading. 2nd column elucidates the SPOT market price in cash segment on the date which is mentioned in the table. The 3rd column tells about call premiums amounting at following strike prices. based on the company's perspective the lot size varies form one company to another company hence the effect of loss or profit amount ultimately sands with lots sixe or volume traded.

LITERATURE REVIEW

Dr. Premalata (2003) analyses the effect of presenting the derivatives like index futures and options contracts on the instability of the underlining stock index in our country India. The outcome or results of his analysis suggest that the futures and options trading have not led to an alteration in the instability of the underlying stock index.

Snehal Bandwadekar and Saurabh Ghosh (2003) founded out that the derivative instruments like the futures and the options on the Stock Market of India have become significant instruments of price finding, portfolio variation and risk hedging in recent times.

O. P. Gupta (2004) studied and suggests that the overall instability of the stock market has dropped after the existence of the index futures for both the Nifty and the Sensex indices, anyhow there is no definite evidence.

Sandeep Srivastava (2005) used the open interest and volume based predictors of call and put option which has given by Bhuyan and Yan (2002). The outcome of the study shows that these predictors have noteworthy explanatory power with open interest as more important as compared to the trading volume.

Golaka C Nath and Rajendra P. Chitale (2005) study the behavior of volatility in cash market after the introduction of derivatives and examine issues and impediments in the use of different types of derivatives available for use by these institutional investors in India.

Ashutosh Vashishtha (2010) analyses that the turnover of derivative has grown from 2365 crores to Rs 11010482 crores in 2000-01, within a very small and short span of period of eight years derivative trading in India has exceeded successfully cash segment in terms of volume and turnovers.

OPTIONS

An option is a contract between a purchaser and a vendor, where one person (1st Person) provides to the other party (2nd Person) the right, but not the responsibility, to purchase from (or sell to) the First Person the underlying asset on or beforehand a precise day at a certain predetermined price. In return for allowing the option, the party granting the option gathers a payment from the other person. This payment collected is known the “premium” or the price of the option.
The right to purchase or vend is alleged by the “option purchaser” the party permitting the right is the “option vendor”. Dissimilar futures and forwards contracts, options need a cash payment (called the premium) upfront from the option purchaser to the option vendor. This imbursement is called as the option price or option premium. Options can be bought and sold either on the over the counter (OTC) markets or in the stock exchange. Options bought and sold on the exchanges are sponsored by the Clearing Corp thus reducing the risk ascending due to evasion by the counter parties tangled. Options which are traded in the OTC market are not backed by the Clearing Corporation.

PARTIES or PERSONS IN AN OPTION CONTRACT

- Buyer of the option: The purchaser of an option is a person who by paying option premium purchases the right but not the obligation to work out his option on seller.
- Writer or seller of the option: The writer of the call or put options is the person one who gets the option premium and is there by obligated to vend or purchase the asset if the purchaser aerobics the option on him.

OPTIONS TERMINOLOGY

OPTION PRICE
Option price is the price that the option purchaser has to pay to the option vendor. It is also known to as the option premium.
EXPIRY DATE
The date mentioned in the option contract is understood as the expiry date, the exercise date, the straight date or the maturity date.
STRIKE PRICE
The price stated in the option contract is referred as the strike price or the exercise price.
IN-THE-MONEY OPTION
An ITM is an option that would hint to an optimistic cash movement to the owner if it was exercised instantly. A call option in the index can be said in the money when the existing index stays at higher level that the strike price (i.e. spot price > strike price). If the index is much upper than the strike price the call is known as deep in the money. In the event of a put option, the put is in the money if the index is lesser than the strike price.
AT-THE-MONEY OPTION
An ATM is an option that leads to zero cash movement if it implemented instantly. When the present index equivalents the strike price (spot price = strike price) den an option on the index will be an at the money.
OUT-OF-THE-MONEY OPTION
An OTM option is an option that leads to an adverse cash movement if it were exercised instantly. A call option on the index is become out of the money when the present index positions at less than the strike price (spot price < strike price). If the index is terribly lesser than the strike price the call is called as deep OTM. In the case of a put, the put is OTM if the index is greater the strike price.
INTRINSIC VALUE OF AN OPTION
It is one of the components of option premium. The intrinsic value of a call option is in the money, if it will be an in the money. If the call option is out of the money, its intrinsic value will be Zero. An option should be in the money to get an intrinsic value.
TYPES OF OPTIONS
There are two major types in options. They are:

- **CALL OPTION**

A call option is an option yielding the right to the purchaser of the option to purchase the underlying asset on a precise day at a predetermined and agreed upon price, but not the obligation or responsibility to do so. It is the vendor who gifts this right to the purchaser of the option. It might be noted that the party one who is having the right to purchase the underlying asset is referred as “buyer of the call option”
The price at which the purchaser has the right to purchase the asset is decided upon at the time of arriving to the contract. This is called as the strike price of the contract. Hence the purchaser of the call option has the right (but not the obligation) to purchase the underlying asset; he will use his right to purchase the underlying asset if and only if the price of the underlying asset in the market is extra than the strike price on or earlier the expiry date of the contract. The purchaser of the call does not have an obligation to purchase if he does not want.
STRATEGIES
The below are the strategies that are adopted by the parties of a call option. Imagining that commission, brokerage, premium, margins, transaction costs and taxes are ignored.
A call option buyer’s profit or loss could be demarcated as under:

- At all points where spot price < exercise price, there will be a loss.
- At all points where spot prices> exercise price, there will be a profit.
- Call Option purchaser losses are limited and earnings are unlimited.

Conversely, the call option writer’s profits/loss will be as follows:

- At all points where spot prices < exercise price, there would be a profit
- At all points where spot prices > exercise price, there would be a loss
- Call Option writer’s earnings are limited and losses are unlimited

PUT OPTION
A put option is a contract surrendering the right to the purchaser of the option to vend the underlying asset on or earlier an exact day at a predetermined price, but not the obligation to do so. It is the vendor who delegates this right to the purchaser of the option.
The party one who has the right to vend the underlying asset is referred as the “buyer of the put option”. The price at which the purchaser has the right to vend the asset is decided upon at the time of arriving the contract. This price is called as the strike price of the contract.
Since the purchaser of the put option has the right (but not the duty) to vend the underlying asset, he will execute his right to vend the underlying asset if and only if the price of the underlying asset in the bazaar is fewer than the strike price on or earlier the expiry date of the contract. The purchaser of the put option is not having the obligation to vend if he does not want to.
STRATEGIES
The below are the strategies which are adopted by the parties of a put option.
A put option purchaser’s profit or loss could be calculated as follows:

- At all points where spot price<exercise price, there will be a gain.
- At all points where spot price>exercise price, there will be a loss.

Conversely, the put option writer’s profit/loss will be as follows:

- At all points where spot price<exercise price, there will be a loss.
- At all points where spot price>exercise price, there will be a profit.

Analysis of profit or loss position of the option writer and option holder:

This analysis is to know the profit or loss position/situation of the Option seller and Option purchaser of different companies.

INFOSYS

The below analysis is mainly based on data taken from Infosys scripts. This analysis considered from February 2013 to January 2015 contracts of Infosys. The lot volume or lot size of Infosys is 250, the time period in which this analysis done is from 28-02-13 to 29-01-15.

CALL OPTIONS

TABLE 1: SHOWING DETAILS OF CALL OPTION CONTRACTS OF INFOSYS

Date	Market price	Strike prices			
		2500	2550	2650	2750
28 Feb 2013	2907	425.35	381.05	292.3	185
28 Mar 2013	2889.35	400	359.05	263.55	195
25 Apr 2013	2227.7	10.7	297.4	215.7	190.35
30 May 2013	2341.45	17.1	99.8	72.85	52.15
27 June 2013	2482.8	138.05	116.3	71.9	78
25 July 2013	2915.3	432.1	422.8	321.25	210
29 Aug 2013	3104.6	630.05	577.05	479.85	393
26 Sept 2013	3012.3	554.15	488.95	394.3	305.1
31 Oct 2013	3309.9	844.75	777.45	678.15	578.95
28 Nov 2013	3327.8	835	795.45	696.15	596.85
26 Dec 2013	3520.65	1017	992.8	893.65	813.55
30 Jan 2014	3704.25	1174.4	1170.75	1071.4	968.5
27 Feb 2014	3807.5	1301.6	1275.45	1176.15	1076.9
26 Mar 2014	3248.9	761	699.6	548.6	507.55
29 May 2014	2924.5	459.45	416.55	346.8	452.9
26 June 2014	3182.5	704.8	656.1	560.15	264.35
31 July 2014	3367.65	884.3	834.6	735.35	467.6
28 Aug 2014	3598.8	1115.4	1065.7	966.4	636.2
25 Sept 2014	3691	1212.35	1162.8	1063.65	867.05
30 Oct 2014	3881.45	1382.05	1332.05	1313.9	964.5
29 Jan 2015	2145.5	3.15	14.2	1651.1	1214.55

Source: NSE website (www.nseindia.com)

BUYERS PAYOFF

If a person who has purchased call Option at a strike price at Rs. 2500/-and the premium payable is Rs.425.35, at the end of the contract the spot market price is bounded at Rs. 2,145.5, since it will be out the money for purchaser and in the money for seller the purchase will be at loss hence the purchaser gets loss on premium i.e. ₹. 425.35 Per share. So the total loss for the purchaser will be ₹. 1, 06,337.5 (425.35 * 250).

SELLERS PAYOFF

As it is in the money for the seller, hence he will get a profit only premium i.e. Rs.425.35 per share. So the total profit to the seller will be Rs. 1, 06,337.5 (425.35 * 250).

Put options

TABLE 2: SHOWING DETAILS OF PUT OPTION CONTRACTS OF INFOSYS

Date	Market price	Strike prices			
		2500	2550	2650	2750
28 Feb 2013	2907	16.1	22.3	5.1	16
28 Mar 2013	2889.35	7.85	6.7	23	53.5
25 Apr 2013	2227.7	282.8	320	526.8	522.65
30 May 2013	2341.45	158	211.8	322.4	389.2
27 June 2013	2482.8	148.8	135.55	201.4	278.8
25 July 2013	2915.3	3.4	64.05	91.35	21.1
29 Aug 2013	3104.6	5.25	7.6	2.75	12.1
26 Sept 2013	3012.3	32.6	2.2	6.55	78
31 Oct 2013	3309.9	1.05	0.2	0.7	0.15
28 Nov 2013	3327.8	0.05	0.05	0.15	0.55
26 Dec 2013	3520.65	1.4	0	0	0.1
30 Jan 2014	3704.25	0	0	0	0
27 Feb 2014	3807.5	0	0	0	0
26 Mar 2014	3248.9	0	0	0	5.65
29 May 2014	2924.5	56	25.1	1.15	15.65
26 June 2014	3182.5	1.3	2.15	44.05	30.05
31 July 2014	3367.65	0.25	0.05	5.4	12
28 Aug 2014	3598.8	0.05	0.05	1.65	3.25
25 Sept 2014	3691	0	0	0	0.3
30 Oct 2014	3881.45	0	0	0.05	0.15
29 Jan 2015	2145.5	342.85	390.75	0	0.3

Source: NSE website (www.nseindia.com)

BUYERS PAYOFF

If an investor purchases 1 lot of Put Options for Rs 2,550 he has to pay premium of Rs. 22.3 Premium per share. The settlement price is Rs/- 2,145.5. The difference between strike price and spot price is Rs. 405 and investor has to consider premium price also hence the total profit of investor will be Rs 95,675. If it is positive value then it's a money contract for the buyer, hence purchaser will get profit only, in case spot price is high than the strike price, buyer will get loss.

SELLER'S PAYOFF

It is in the money for the purchaser and out the money for the seller, hence buyer will enjoy the profit and seller has to face the loss.

TCS: The below analysis is mainly based on data taken from TCS scripts. This analysis considered from February 2013 to January 2015 contracts of Infosys. The lot volume or lot size of TCS is 150, the time period in which this analysis done is from 28-02-13 to 29-01-15.

CALL OPTION

TABLE 3: SHOWING DETAILS OF CALL OPTION CONTRACTS OF TCS

date	market price	strike prices			
		1900	1950	2000	2050
28 Feb 2013	1517	0.05	0.1	9	-
28 Mar 2013	1575.75	0.95	2.8	33	0.05
25 Apr 2013	1402.3	0.25	1.9	57.2	0
30 May 2013	1499.4	0.05	22	94.23	0
27 June 2013	1491.9	0	17.5	46	-
25 July 2013	1795.75	78.75	66.8	116.2	-
29 Aug 2013	1947.1	134	96.2	135.2	-
26 Sept 2013	1942.9	148.6	112	171	44.75
31 Oct 2013	2112.05	273.15	126.75	124.6	172.3
28 Nov 2013	1984.6	157.1	111.11	191.1	30.25
26 Dec 2013	2100.3	243.8	167	225.5	133
30 Jan 2014	2217.6	364.2	193.23	276.6	248.3
27 Feb 2014	2182.15	319.35	257.57	311	196.55
26 Mar 2014	2094.25	258.6	273.75	350.25	158.35
24 Apr 2014	2213.75	324.9	315.2	319.98	235.25
29 May 2014	2159.95	306.6	369	475	192.8
26 June 2014	2307.65	424.3	454	398.75	305.15
31 July 2014	2580.05	705.95	498.9	507.11	543.8
28 Aug 2014	2522.35	634.95	415.6	567.23	486
25 Sept 2014	2708.6	824.85	511	706	676.15
30 Oct 2014	2558.2	671	455.21	845.2	524.1
27 Nov 2014	2653.3	765.15	602.02	659.25	616.1
24 Dec 2014	2479.9	596.15	653	402	448.95
29 Jan 2015	2544.65	656.75	685.2	678.8	507.75

Source: NSE website (www.nseindia.com)

BUYERS PAYOFF

If an investor has purchased call Option at a strike price at Rs. 1900/-and the premium payable is Rs.134, at the end of the contract the spot market price is bounded at Rs. 2,544.65, since it will be out the money for seller and in the money for the purchaser, the investor /purchaser will enjoy the profit of premium I.e. Rs 134 per share hence the total profit for the investor will be Rs. 16,750 (134*125).

SELLERS PAYOFF

Since it is out of the money for the seller, he will encompass a loss on premium i.e. ₹.134 per share.

PUT OPTIONS

TABLE 4: SHOWING DETAILS OF PUT OPTION CONTRACTS OF TCS

Date	market price	strike prices			
		1900	1950	2000	2050
28 Feb 2013	1517	48	85.23	55.62	459.2
28 Mar 2013	1575.75	12.55	54.12	96.15	630.75
25 Apr 2013	1402.3	34	36	65.25	552.2
30 May 2013	1499.4	46.4	112.36	45.26	127.5
27 June 2013	1491.9	11.75	11.25	63.26	81.75
25 July 2013	1795.75	39	68.25	32.25	77.8
29 Aug 2013	1947.1	40.75	77.36	44.26	50.75
26 Sept 2013	1942.9	10.4	45.98	12.65	9.15
31 Oct 2013	2112.05	37.55	123	36.25	8.95
28 Nov 2013	1984.6	36.6	154.69	77.26	43.9
26 Dec 2013	2100.3	13.6	175	45.12	16.35
30 Jan 2014	2217.6	42.2	134.5	49	23.2
27 Feb 2014	2182.15	40.4	99	55	16.6
26 Mar 2014	2094.25	13.2	36.25	63.25	1.55
24 Apr 2014	2213.75	46	118.36	86.52	1
29 May 2014	2159.95	41.65	12.55	11	0.05
26 June 2014	2307.65	10.55	48	27.65	0.75
31 July 2014	2580.05	40.1	225	38	42.2
28 Aug 2014	2522.35	36.3	69.36	111.36	40.4
25 Sept 2014	2708.6	6.65	185	98.25	13.2
30 Oct 2014	2558.2	37	147.26	85.85	46
27 Nov 2014	2653.3	32.2	169.2	125	41.65
24 Dec 2014	2479.9	2.35	109.45	145.32	10.55
29 Jan 2015	2544.65	21.1	152.65	125	40.1

Source: NSE website (www.nseindia.com)

BUYER'S PAYOFF

If an investor purchases 1 lot of Put Options for Rs 1,900he has to pay premium of Rs. 48 per share. The settlement price is Rs/- 2,544.65. The difference between strike price and spot price is Rs. -644.65 and investor has to consider premium price also hence the total loss of investor will be Rs 86,581.25. It is negative value then it's an out the money contract for the buyer, hence purchaser will face only, in case spot price is higher than the strike price, buyer will get loss.

SELLER'S PAYOFF

Since it is out the money for the seller, he will enjoy profit on premium.

ICICI: This below analysis is based on data taken from ICICI bank scrip. This analysis considered from February 2013 to January 2015 contracts of ICICI bank. The lot size or lot volume of ICICI is 1250, the time period for the below analysis is from 28-02-13 to 29-01-15.

CALL OPTION

TABLE 5: SHOWING DETAILS OF CALL OPTION CONTRACTS OF ICICI

Date	Market Price	Strike Prices			
		750	800	850	900
28 Feb 2013	1040.4	75.05	63.35	55.65	46.35
28 Mar 2013	1045.2	88.4	76.65	68.9	59.45
25 Apr 2013	1177.35	98.55	86.75	78.95	69.35
30 May 2013	1182.8	101.55	89.7	81.85	72.15
27 June 2013	1030.55	95.3	83.5	75.65	66
25 July 2013	934.85	95.35	83.5	75.6	65.9
29 Aug 2013	807.2	93.05	81.2	73.3	63.55
26 Sept 2013	946.1	91.05	79.2	71.3	61.5
31 Oct 2013	1120.95	92.1	80.2	72.3	62.45
28 Nov 2013	1038.1	94.9	83	75.05	65.15
26 Dec 2013	1099.65	94	82.1	74.15	64.25
30 Jan 2014	974.55	103.95	92	84.05	74.15
26 Feb 2014	1036.45	104.5	92.6	84.65	74.7
27 Mar 2014	1259	89.05	77.15	69.2	59.4
23 Apr 2014	1299.55	79.6	67.7	59.85	50.2
29 May 2014	1436.95	88.75	76.8	68.9	59.1
26 June 2014	1402.65	83.1	71.15	63.25	53.5
31 July 2014	1471.25	87.6	75.65	67.7	57.8
28 Aug 2014	1556.8	81.9	69.95	62	52.15
25 Sept 2014	1465.3	77.85	65.9	57.95	48.1
30 Oct 2014	1614.05	93.7	81.75	73.8	63.85
27 Nov 2014	1723.2	110.23	94.45	39.2	103.3
24 Dec 2014	353.1	124.36	100.23	62.36	123.23
29 Jan 2015	380.3	132.7	118.65	104	144.36

Source: NSE website (www.nseindia.com)

BUYERS PAYOFF

If an investor has purchased call Option at a strike price at Rs. 750/-and the premium payable is Rs.75.05 per share, at the end of the contract the spot market price is bounded at Rs. 380.3, since it will be out the money for purchaser and in the money for the seller, the investor purchaser will face loss on premium I.e. Rs, 75.05 per share hence the total loss for the investor will be Rs. 93,812.5 (75.05 * 1250).

SELLERS PAYOFF

Since it is in the money for the seller, he will get a profit on premium i.e. ₹.75.05 per share.

PUT OPTION

TABLE 6: SHOWING DETAILS OF PUT OPTION CONTRACTS OF ICICI

Date	Market Price	Strike prices			
		750	800	850	900
28 Feb 2013	1040.4	2.5	1.1	4.9	3.2
28 Mar 2013	1045.2	10	3.62	10.7	9.2
25 Apr 2013	1177.35	11.25	2.58	11.26	12.9
30 May 2013	1182.8	22.56	9.6	16	16.54
27 June 2013	1030.55	17.69	11	19.56	17.84
25 July 2013	934.85	26.36	23	13.56	21.45
29 Aug 2013	807.2	29.58	17.11	15.25	11.45
26 Sept 2013	946.1	34.98	22.36	21.25	19.36
31 Oct 2013	1120.95	37.25	10.36	26.63	25.85
28 Nov 2013	1038.1	24	8.96	23.45	29.05
26 Dec 2013	1099.65	29.31	25.47	30.12	30
30 Jan 2014	974.55	37.98	29.02	39.45	34.54
26 Feb 2014	1036.45	44.69	32.32	45.52	39.56
27 Mar 2014	1259	31.65	36.23	65	51.51
23 Apr 2014	1299.55	41.45	38.09	53.21	62.35
29 May 2014	1436.95	39.25	44.4	50.6	42.65
26 June 2014	1402.65	28.45	47.21	48.78	49.32
31 July 2014	1471.25	17.45	25.25	44.65	56.023
28 Aug 2014	1556.8	42	11.25	39	77
25 Sept 2014	1465.3	28.4	21	47.21	22.65
30 Oct 2014	1614.05	32.96	35.01	44.77	39.25
27 Nov 2014	1723.2	51	36.25	61.3	45.36
24 Dec 2014	353.1	48.89	30.3	59.85	51.02
29 Jan 2015	380.3	53.26	41.85	47.36	53.45

Source: NSE website (www.nseindia.com)

BUYER'S PAYOFF

If an investor purchases 1 lot of Put Options for Rs 750/-he has to pay premium of Rs. 44.69 per share. The settlement price is Rs/- 380. The difference between strike price and spot price is Rs. 369.70 and investor has to consider premium price also hence the total loss of investor will be Rs 4, 06,262.5. It is positive value then it's an in the money contract for the buyer, hence purchaser will get profit only, in case spot price is higher than the strike price, buyer will get loss.

SELLER'S PAYOFF

It is in the money for the purchaser and out of the money for the vendor. Hence the seller is in loss.

SBI: This below analysis is based on data taken from SBI bank scrip. This analysis considered the February 2013 to January 2015 contracts of SBI bank. The lot size or lot volume of SBI is 1250, the time period in which this analysis achieved is from 28-02-13 to 29-01-15.

CALL OPTION

TABLE 7: SHOWING DETAILS OF CALL OPTION CONTRACTS OF SBI

Date	Market Price	Strike prices			
		1600	1700	1800	1900
28 Feb 2013	2080.9	761	292.3	44.75	319.98
28 Mar 2013	2072.75	459.45	263.55	172.3	475
25 Apr 2013	2334.55	704.8	215.7	30.25	66.8
30 May 2013	2088.55	884.3	185	133	96.2
27 June 2013	1912.5	381.05	195	248.3	112
25 July 2013	1798.15	359.05	190.35	196.55	126.75
29 Aug 2013	1487.8	297.4	52.15	158.35	111.11
26 Sept 2013	1676.1	99.8	78	235.25	167
31 Oct 2013	1796.75	116.3	210	192.8	193.23
28 Nov 2013	1763.6	422.8	393	305.15	257.57
26 Dec 2013	1753.45	577.05	305.1	543.8	273.75
30 Jan 2014	1516.6	488.95	369	486	315.2
26 Feb 2014	1520.4	215.7	454	676.15	369
27 Mar 2014	1837	72.85	498.9	524.1	454
23 Apr 2014	2065.2	71.9	415.6	616.1	498.9
29 May 2014	2601.45	321.25	511	448.95	415.6
26 June 2014	2652.55	479.85	455.21	507.75	511
31 July 2014	2439.25	394.3	602.02	171	455.21
28 Aug 2014	2460.7	507.55	653	124.6	602.02
25 Sept 2014	2377.7	452.9	685.2	191.1	475
30 Oct 2014	2638	264.35	124.6	225.5	398.75
27 Nov 2014	305.85	467.6	191.1	276.6	507.11
24 Dec 2014	305.75	636.2	225.5	311	567.23
29 Jan 2015	327	311	276.6	350.25	706

Source: NSE website (www.nseindia.com)

If an investor has purchased call Option at a strike price at Rs. 1900/-and the premium payable is Rs. 319.98 per share, at the end of the contract the spot market price is bounded at Rs. 327, since it will be out the money for purchaser and in the money for the seller, the investor purchaser will face loss on premium I.e. Rs. 319.98 per share hence the total loss for the investor will be Rs. 3,99,975 (319.98* 1250).

SELLERS PAYOFF

As it is in the money for the seller, he will earn a profit on premium.

PUT OPTION

TABLE 8: SHOWING DETAILS OF PUT OPTION CONTRACTS OF SBI

Date	Market Price	Strike prices			
		1600	1700	1800	1900
28 Feb 2013	2080.9	34	175	81.75	68.25
28 Mar 2013	2072.75	46.4	134.5	77.8	98.25
25 Apr 2013	2334.55	11.75	99	50.75	85.85
30 May 2013	2088.55	39	36.25	9.15	125
27 June 2013	1912.5	40.75	118.36	8.95	145.32
25 July 2013	1798.15	10.4	12.55	43.9	125
29 Aug 2013	1487.8	37.55	48	16.35	13.2
26 Sept 2013	1676.1	36.6	225	23.2	46
31 Oct 2013	1796.75	13.6	69.36	16.6	41.65
28 Nov 2013	1763.6	42.2	65.25	48	10.55
26 Dec 2013	1753.45	40.4	45.26	12.55	40.1
30 Jan 2014	1516.6	13.2	63.26	34	225
26 Feb 2014	1520.4	46	32.25	46.4	69.36
27 Mar 2014	1837	41.65	44.26	11.75	185
23 Apr 2014	2065.2	10.55	12.65	39	147.26
29 May 2014	2601.45	40.1	36.25	40.75	169.2
26 June 2014	2652.55	36	77.26	32.2	109.45
31 July 2014	2439.25	112.36	45.12	2.35	152.65
28 Aug 2014	2460.7	11.25	49	21.1	154.69
25 Sept 2014	2377.7	68.25	55	85.23	175
30 Oct 2014	2638	77.36	63.25	54.12	134.5
27 Nov 2014	305.85	45.98	86.52	36	127.5
24 Dec 2014	305.75	123	11	112.36	81.75
29 Jan 2015	327	154.69	27.65	11.25	77.8

Source: NSE website (www.nseindia.com)

BUYERS PAYOFF

If an investor purchases 1 lot of Put Options for Rs1700/-he has to pay premium of Rs. 175 per share. The settlement price is Rs/- 327. The difference between strike price and spot price is Rs. 1198 and investor has to consider premium price also hence the total loss of investor will be Rs 14,97,500. It is positive value then it's an in the money contract for the buyer, hence purchaser will get profit only, in case spot price is higher than the strike price, buyer will get loss.

SELLERS PAYOFF

It is in the money for the purchaser and out of the money for the vendor. Hence the seller is in loss.

CONCLUSION

In India, Derivatives market is growing swiftly unlike equity markets. Trading in derivatives need high knowledge and understanding about finance. Being fresh to markets extreme number of investors has not yet understood the full allegations of the derivatives trading. These markets can give greater depth, stability and liquidity to Indian capital markets. Effective risk management with derivatives entails a detailed understanding of ideologies that administer the pricing of derivatives. Option market will act as an efficient price discovery vehicle which will certainly help the traders to take hedging and arbitrage positions to secure maximum returns at minimum risk exposure. In bullish market the call option seller incurs extra losses so the investor is recommended to go for a call option to buy, whereas the put option buyer hurts in a bullish market, so he is advised to sell a put option. In bearish market the call option purchaser gets more losses so the investor is advised to move for a call option to sell, whereas the put option seller gets more losses, so he is advised to buy a put option. Finally, it can be concluded that the derivatives are the instruments that are mostly used for hedging purpose. As we all know one cannot eliminate the risk completely but can minimize the risk to some extent.

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