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# A STUDY ON DERIVATIVE AND FUTURE OPTIONS – KARVY

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## ABSTRACT

This study aims to examine the role and significance of financial derivatives and future options in the context of Karvy, a prominent financial institution. The research investigates the nature and mechanics of these instruments, analysing their impact on risk management, hedging strategies, and overall market dynamics. Through a comprehensive review of relevant literature, market data, and case studies, this study sheds light on the practical implementation and effectiveness of financial derivatives and future options within the Karvy framework. The research findings contribute to the existing body of knowledge in the field and provide insights into the opportunities and challenges associated with these instruments in the contemporary financial landscape.

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**NEW WORDS:** Derivatives, Swaps, Call Option, Call Prices, Put prices, Stock performance.

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## 1. INTRODUCTION

The emergence of the market for derivatives 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 by a very high degree of volatility. Using derivative products, it is possible to transfer price risks partially or fully by locking-in asset prices. As instruments of risk management, these generally do not influence the fluctuations in the underlying asset prices. However, by locking in asset prices, derivative products minimize the impact of fluctuations in asset prices on the profitability and cash flow situation of risk-averse investors.

Derivatives are risk management instruments, which derive their value from an underlying asset. The underlying asset can be bullion, index, share, bonds, currency, interest, etc. Banks, Securities firms, companies, and investors to hedge risks, to gain access to cheaper money and to make profit, use derivatives. Derivatives are likely to grow even at a faster rate in future. The origin of derivatives can be followed back to the need of farmers to protect themselves against fluctuations in the cost of their crop. From the time it was sown to the time it was prepared for gather, farmers would face value vulnerability.

## DERIVATIVES DEFINITION

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, foreign exchange, 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:

- 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.
- 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.

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## PRODUCTS, PARTICIPANTS AND FUNCTIONS

Derivative contracts have several variants. The most common variants are forwards, futures, options, and swaps. The following three broad categories of participants - hedgers, speculators, and arbitrageurs trade in the derivatives market.

The derivatives market performs several economic functions.

First, prices in an organized derivatives market reflects the perception of market participants about the future and lead the prices of underlying to the perceived future level. The prices of derivatives converge with the prices of the underlying at the expiration of the derivative contract. Thus, derivatives help in discovery of future as well as current prices.

Second, the derivatives market helps to transfer risks from those who have them but may not like them to those who have an appetite for them.

Third, 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.

Fourth, 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. Margining, monitoring, and surveillance of the activities of various participants become extremely difficult in these kinds of mixed markets.

Fifth, an important incidental benefit that flows from derivatives trading is that it acts as a catalyst for new entrepreneurial activity.

## 2. REVIEW OF LITERATURE

**K. Soniya, G. Mohanraj, (2013)**, The derivative market is newly started in India and it is not known by every investor, so SEBI has to take steps to create awareness among the investors about the derivative segment. In cash market the profit/loss of the investor depends on the market price of the underlying asset. The investor may incur huge profit or he may incur huge loss. But in derivatives segment the investor enjoys huge profits with limited downside. Derivatives are mostly used for hedging purpose. In order to increase the derivatives market in India, SEBI should revise some of their regulations like contract size, participation of FII in the derivatives market. In a nutshell the study throws a light on the derivatives market.

**P. Kowsalya, Dr. R. Karthikeyan, (2016)**, The study was conducted by collection of information from various investors. Many have not invested in commodity market, so proper steps should be taken to improve the awareness of investment options available in the market. The respondents have mostly invested in share market and not in commodity market due to lack of awareness to trade in commodity market. The performances of some of the commodities in commodity market are highly volatile.

**Dr. G. Syamala Rao, (2012)**, Derivatives trading help improve market liquidity, raises skills and knowledge among market players, and is vital ingredient of market reforms such as the transition to rolling settlement. Derivatives trading include Futures contract, Option Contract, Index Futures, Index Options, Commodity Derivatives, and Swaps. When using financial derivatives, however, organizations should be careful to use only those instruments that they understand and that fit best with their corporate risk management philosophy. The main objective of this paper is to study the importance of derivative in risk management of the business.

**Aditya Prasad Sahoo, (2020)**, The mercantilism or trading of financial derivatives has received in depth attention. Meanwhile at the same time it has led to a debate over its impact on the underlying stock market from various facets by the academicians. All over the world researchers have done research on derivative trading and found out various facts about derivatives and their trading. In this study on literature review, efforts have been made to bring into the picture the research done about various issues throughout the world by the researchers.

**Shailaja R, Nagaraja Naik. S, (2018)**, The past decade has witnessed the multiple growths in the volume of international trade and business due to the wave of globalization and liberalization all over the world. As a result, the demand for the international money and financial instruments increased significantly at the global level. In this respect, changes in the interest rates, exchange rates and stock market prices at the different financial markets have increased the financial risks to the corporate world. The basic purpose of these instruments is to provide commitments to prices for future dates for giving protection against adverse movements in future prices, in order to reduce the extent of financial risks.

## 3. OBJECTIVES

- To understand the trading with respect to derivatives.
- To know the operational concepts of financial derivatives.
- To analyse the operations of futures and options.

- To find the profit/loss position of futures buyer and seller and also the option writer and option holder.
- To give findings and suggestions based on the study
- To calculate call option with put prices, and call prices.
- To analyse karvy futures and options.

#### 4. NEED OF STUDY

- Every investor goes to confusion as how much to invest and to which stocks to select for his portfolio. To avoid such confusions and difficulties, Sharpe index model is constructed to minimize those attributes by helping investors to build strong portfolio keeping into account of their needs which suits them best.
- This topic was selected to prove by using SIM investors can easily construct optimal portfolio which has high return with less risk.
- To give the brief idea about the performance of karvy to the investors with respect to the call options with put prices and call prices.
- Derivatives are risk management instruments, which derive their value from an underlying asset. This study will help the buyers to manage the risk through derivatives.

#### 5. SCOPE OF THE STUDY

- The study is limited to Derivatives with special reference to futures and option in the Indian listed companies' context and the National Stock Exchange has been taken as a representative sample for the study.
- The study cannot be said as totally perfect, because the stock market is not stable and constant. The study has only made a humble

attempt at evaluation derivatives market only in India specific listed context.

- In Covid – 19, Russia & Ukraine, and economy inflation crises effected many developed and developing nations. During crises unrestricted short selling contributes to sudden price declines in securities that are unrelated to their true price valuation.
- This may further worsen by the dynamic environment. Continuous development and changes are evolving so the further research is required in this direction.

#### 6. RESEARCH METHODOLOGY

The data collection methods include both the Primary and Secondary Collection methods.

Primary Collection Methods:

This method includes the data collected from the personal discussions with the authorized clerks and members of the Exchange.

Secondary Collection Methods:

The Secondary Collection Methods includes the lectures of the superintendent of the Department of Market Operations, EDP etc, and also the data collected from the News, Magazines of the NSE, HSE and different books issues of this study.

Data Collection:

The data of the M/S. KARVY LIMITED has been collected from the National Stock Exchange and the internet. The data consist of the December 2022 contract and the period of data collection is from 28<sup>th</sup> November 2022 to 24<sup>th</sup> December 2022. Analysis: The analysis consists of the tabulation of the data assessing the profitability positions of the futures buyer and seller and also option holder and the option writer, representing the data with graphs and making the interpretation using data.

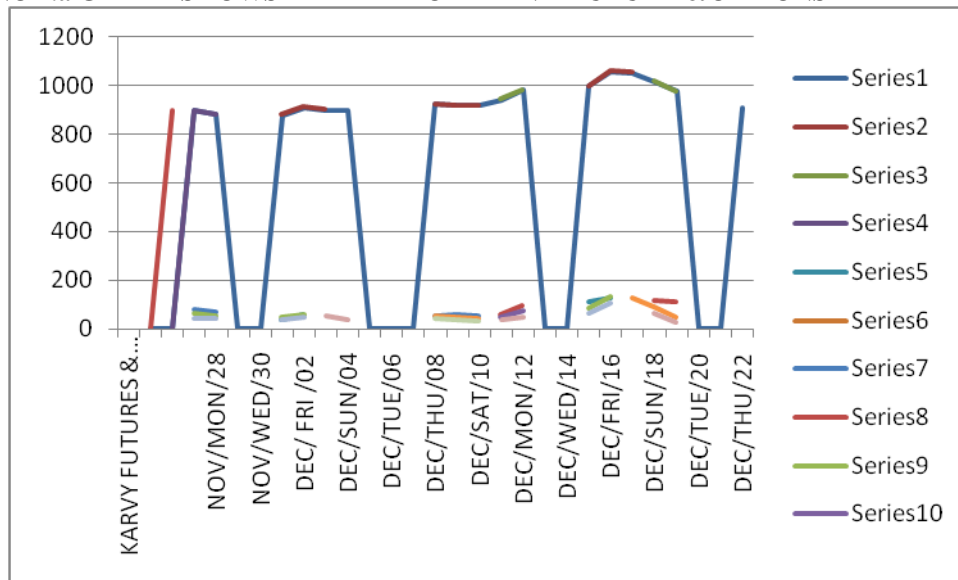
#### 7. DATA ANALYSIS

TABLE NO 4.1 TABLE SHOWS THE DATA OF KARVY FUTURE & OPTIONS

| KARVY FUTURES & OPTIONS |                 |        |             |       |       |
|-------------------------|-----------------|--------|-------------|-------|-------|
| DATE                    | PRICE           |        | CALL OPTION |       |       |
|                         | SPOT            | FUTURE | 900         | 930   | 960   |
| NOV/SUN/27              | 898.85          | 898.90 | 79.20       | 66.25 | 47.00 |
| NOV/MON/28              | 885.90          | 885.15 | 68.40       | 56.25 | 45.85 |
| NOV/TUE/29              | TRADING HOLIDAY |        |             |       |       |
| NOV/WED/30              | TRADING HOLIDAY |        |             |       |       |
| DEC/THU/01              | 880.40          | 882.10 | 35.55       | 49.90 | 40.00 |
| DEC/ FRI /02            | 911.95          | 914.60 | 54.90       | 62.35 | 50.45 |
| DEC/SAT/03              | 901.58          | 902.32 | 51.25       | 55.69 | 49.36 |
| DEC/SUN/04              | 898.00          | 902.55 | 46.00       | 45.10 | 34.50 |
| DEC/MON/05              | TRADING HOLIDAY |        |             |       |       |
| DEC/TUE/06              | TRADING HOLIDAY |        |             |       |       |
| DEC/WED/07              | TRADING HOLIDAY |        |             |       |       |
| DEC/THU/08              | 923.75          | 926.80 | 52.00       | 52.85 | 40.30 |
| DEC/FRI/09              | 918.55          | 918.10 | 60.00       | 46.55 | 34.55 |
| DEC/SAT/10              | 919.95          | 921.55 | 54.00       | 43.70 | 31.70 |
| DEC/SUN/11              | 944.25          | 946.85 | 60.10       | 49.50 | 35.05 |
| DEC/MON/12              | 984.95          | 985.40 | 95.15       | 74.35 | 45.00 |

|            |                        |         |        |        |        |
|------------|------------------------|---------|--------|--------|--------|
| DEC/TUE/13 | <b>TRADING HOLIDAY</b> |         |        |        |        |
| DEC/WED/14 | <b>TRADING HOLIDAY</b> |         |        |        |        |
| DEC/THU/15 | 1002.20                | 997.60  | 109.35 | 84.75  | 63.15  |
| DEC/FRI/16 | 1058.65                | 1062.05 | 125.00 | 133.10 | 106.55 |
| DEC/SAT/17 | 1052.10                | 1056.15 | 153.95 | 125.35 | 98.35  |
| DEC/SUN/18 | 1018.50                | 1022.05 | 119.05 | 89.70  | 62.00  |
| DEC/MON/19 | 979.80                 | 981.55  | 112.60 | 51.20  | 26.25  |
| DEC/TUE/20 | <b>TRADING HOLIDAY</b> |         |        |        |        |
| DEC/WED/21 | <b>TRADING HOLIDAY</b> |         |        |        |        |
| DEC/THU/22 | 912.32                 | 902.54  | 89.32  | 75.64  | 55.21  |

**GRAPH NO 4.a GRAPH SHOWS THE DATA OF KARVY FUTURE & OPTIONS**



**INTERPRETATION**

The Objective of this analysis is to evaluate the profit/loss position futures and options. This analysis is based on sample data taken of KARVY scrip. This analysis considered the December contract of Karvy. The lot size of KARVY is 200, the time period in which this analysis done is from 27-11-2022 to 22-12-2022.

**TABLE NO 4.2 TABLE SHOWS THE DATE AND PRICE FUTURE**

| DATE         | PRICE   |
|--------------|---------|
|              | FUTURE  |
| NOV/SUN/27   | 898.90  |
| NOV/MON/28   | 885.15  |
| DEC/THU/01   | 882.10  |
| DEC/ FRI /02 | 914.60  |
| DEC/SAT/03   | 902.32  |
| DEC/SUN/04   | 902.55  |
| DEC/MON/05   | 926.80  |
| DEC/THU/08   | 918.10  |
| DEC/FRI/09   | 921.55  |
| DEC/SAT/10   | 946.85  |
| DEC/SUN/11   | 985.40  |
| DEC/MON/12   | 997.60  |
| DEC/THU/15   | 1062.05 |
| DEC/FRI/16   | 1056.15 |
| DEC/SAT/17   | 1022.05 |
| DEC/SUN/18   | 981.55  |
| DEC/MON/19   | 984.20  |



**GRAPH NO 4.b GRAPH SHOWS THE DATE AND PRICE FUTURE**



**FUTURE MARKET**

|  | BUYER  | SELLER     |
|--|--------|------------|
| 28/11/2022 (Buying)                              | 921.85 | 921.85     |
| 20/12/2022(Cl., period)                          | 984.20 | 984.20     |
| Profit   | 62.35  | Loss 62.35 |
| Profit 200 x 62.35=12470, Loss 200 x 62.35=12470 |        |            |

Because buyer future price will increase so, he can get Profit. Seller future price also increase so, loss also increase, Incase seller future will decrease, and he can get profit.

The closing price of Karvy at the end of the contract period is 984.20 and this is considered as settlement price.

- The first column explains TRADING DATE. Second Column explains the SPOT MARKET PRICE in cash segment on that date.
- The third column explains the FUTURE MARKET PRICE in cash segment on that date. The Fourth column explains call premiums amounting 900, 930, 960.

**TABLW NO 4.3 TABLE CONTAINS ALL DATA OF CALL OPTION with CALL PRICES**

| <b>KARVY FUTURES &amp; OPTIONS</b> |                        |        |             |       |       |
|------------------------------------|------------------------|--------|-------------|-------|-------|
| DATE                               | PRICE                  |        | CALL OPTION |       |       |
|                                    | SPOT                   | FUTURE | 900         | 930   | 960   |
| NOV/SUN/27                         | 898.85                 | 898.90 | 79.20       | 66.25 | 47.00 |
| NOV/MON/28                         | 885.90                 | 885.15 | 68.40       | 56.25 | 45.85 |
| NOV/TUE/29                         | <b>TRADING HOLIDAY</b> |        |             |       |       |
| NOV/WED/30                         | <b>TRADING HOLIDAY</b> |        |             |       |       |
| DEC/THU/01                         | 880.40                 | 882.10 | 35.55       | 49.90 | 40.00 |
| DEC/ FRI /02                       | 911.95                 | 914.60 | 54.90       | 62.35 | 50.45 |
| DEC/SAT/03                         | 901.58                 | 902.32 | 51.25       | 55.69 | 49.36 |
| DEC/SUN/04                         | 898.00                 | 902.55 | 46.00       | 45.10 | 34.50 |
| DEC/MON/05                         | <b>TRADING HOLIDAY</b> |        |             |       |       |
| DEC/TUE/06                         | <b>TRADING HOLIDAY</b> |        |             |       |       |
| DEC/WED/07                         | <b>TRADING HOLIDAY</b> |        |             |       |       |
| DEC/THU/08                         | 923.75                 | 926.80 | 52.00       | 52.85 | 40.30 |
| DEC/FRI/09                         | 918.55                 | 918.10 | 60.00       | 46.55 | 34.55 |
| DEC/SAT/10                         | 919.95                 | 921.55 | 54.00       | 43.70 | 31.70 |
| DEC/SUN/11                         | 944.25                 | 946.85 | 60.10       | 49.50 | 35.05 |
| DEC/MON/12                         | 984.95                 | 985.40 | 95.15       | 74.35 | 45.00 |
| DEC/TUE/13                         | <b>TRADING HOLIDAY</b> |        |             |       |       |

|            |                        |         |        |        |        |
|------------|------------------------|---------|--------|--------|--------|
| DEC/WED/14 | <b>TRADING HOLIDAY</b> |         |        |        |        |
| DEC/THU/15 | 1002.20                | 997.60  | 109.35 | 84.75  | 63.15  |
| DEC/FRI/16 | 1058.65                | 1062.05 | 125.00 | 133.10 | 106.55 |
| DEC/SAT/17 | 1052.10                | 1056.15 | 153.95 | 125.35 | 98.35  |
| DEC/SUN/18 | 1018.50                | 1022.05 | 119.05 | 89.70  | 62.00  |
| DEC/MON/19 | 979.80                 | 981.55  | 112.60 | 51.20  | 26.25  |
| DEC/TUE/20 | <b>TRADING HOLIDAY</b> |         |        |        |        |
| DEC/WED/21 | <b>TRADING HOLIDAY</b> |         |        |        |        |
| DEC/THU/22 | 912.32                 | 902.54  | 89.32  | 75.64  | 55.21  |

**OBSERVATIONS (CALL OPTION)****BUYERS PAY OFF:**

- As brought 1 lot of Karvy that is 200, those who buy for 900, paid 100.05 Premium per share.
- Settlement price is 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) |                     |

Because it is negative it is in the money contract, hence buyer will get more loss, incase spot price decrease buyer loss also increase.

**SELLERS PAY OFF:**

- It is in the money for the buyer, so it is in out of the money for seller; hence his profit is also increase.

|                                      |                     |
|--------------------------------------|---------------------|
| 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) |                     |

Because it is positive it is out of the money, hence seller will get more profit, incase spot price increase in below strike price, seller get loss in premium level.

**TABLW NO 4.4 TABLE CONTAINS ALL DATA OF CALL OPTION with PUT PRICES**

| <b>KARVY FUTURES &amp; OPTIONS</b> |                        |               |                    |       |       |
|------------------------------------|------------------------|---------------|--------------------|-------|-------|
| <b>DATE</b>                        | <b>PRICE</b>           |               | <b>CALL OPTION</b> |       |       |
|                                    | <b>SPOT</b>            | <b>FUTURE</b> | 900                | 930   | 960   |
| NOV/SUN/27                         | 898.85                 | 898.90        | 79.20              | 66.25 | 47.00 |
| NOV/MON/28                         | 885.90                 | 885.15        | 68.40              | 56.25 | 45.85 |
| NOV/TUE/29                         | <b>TRADING HOLIDAY</b> |               |                    |       |       |
| NOV/WED/30                         | <b>TRADING HOLIDAY</b> |               |                    |       |       |
| DEC/THU/01                         | 880.40                 | 882.10        | 35.55              | 49.90 | 40.00 |
| DEC/ FRI /02                       | 911.95                 | 914.60        | 54.90              | 62.35 | 50.45 |
| DEC/SAT/03                         | 901.58                 | 902.32        | 51.25              | 55.69 | 49.36 |
| DEC/SUN/04                         | 898.00                 | 902.55        | 46.00              | 45.10 | 34.50 |
| DEC/MON/05                         | <b>TRADING HOLIDAY</b> |               |                    |       |       |
| DEC/TUE/06                         | <b>TRADING HOLIDAY</b> |               |                    |       |       |

|            |                        |         |        |        |        |
|------------|------------------------|---------|--------|--------|--------|
| DEC/WED/07 | <b>TRADING HOLIDAY</b> |         |        |        |        |
| DEC/THU/08 | 923.75                 | 926.80  | 52.00  | 52.85  | 40.30  |
| DEC/FRI/09 | 918.55                 | 918.10  | 60.00  | 46.55  | 34.55  |
| DEC/SAT/10 | 919.95                 | 921.55  | 54.00  | 43.70  | 31.70  |
| DEC/SUN/11 | 944.25                 | 946.85  | 60.10  | 49.50  | 35.05  |
| DEC/MON/12 | 984.95                 | 985.40  | 95.15  | 74.35  | 45.00  |
| DEC/TUE/13 | <b>TRADING HOLIDAY</b> |         |        |        |        |
| DEC/WED/14 | <b>TRADING HOLIDAY</b> |         |        |        |        |
| DEC/THU/15 | 1002.20                | 997.60  | 109.35 | 84.75  | 63.15  |
| DEC/FRI/16 | 1058.65                | 1062.05 | 125.00 | 133.10 | 106.55 |
| DEC/SAT/17 | 1052.10                | 1056.15 | 153.95 | 125.35 | 98.35  |
| DEC/SUN/18 | 1018.50                | 1022.05 | 119.05 | 89.70  | 62.00  |
| DEC/MON/19 | 979.80                 | 981.55  | 112.60 | 51.20  | 26.25  |
| DEC/TUE/20 | <b>TRADING HOLIDAY</b> |         |        |        |        |
| DEC/WED/21 | <b>TRADING HOLIDAY</b> |         |        |        |        |
| DEC/THU/22 | 912.32                 | 902.54  | 89.32  | 75.64  | 55.21  |

**OBSERVATIONS (PUT OPTION) BUYERS PAY OFF:**

- Those who have purchase put option at a strike price of 900, the premium payable is 71.10
- On the expiry date the spot market price enclosed at 984.20

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

Already, premium paid 71.10, so it can get profit is 2620

Because it is Positive, out of the money contract, hence buyer will get more profit, incase spot price increase buyer get loss in premium level.

**SELLERS PAY OFF:**

- As seller is entitled only for premium so, if he is in profit and also seller has to borne total profit.

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

Already premium received 71.10 so, it can get loss is 2620

Because it is negative, in the money contract, hence seller gets more loss, incase spot price increase in above strike price seller can get profit in premium level.

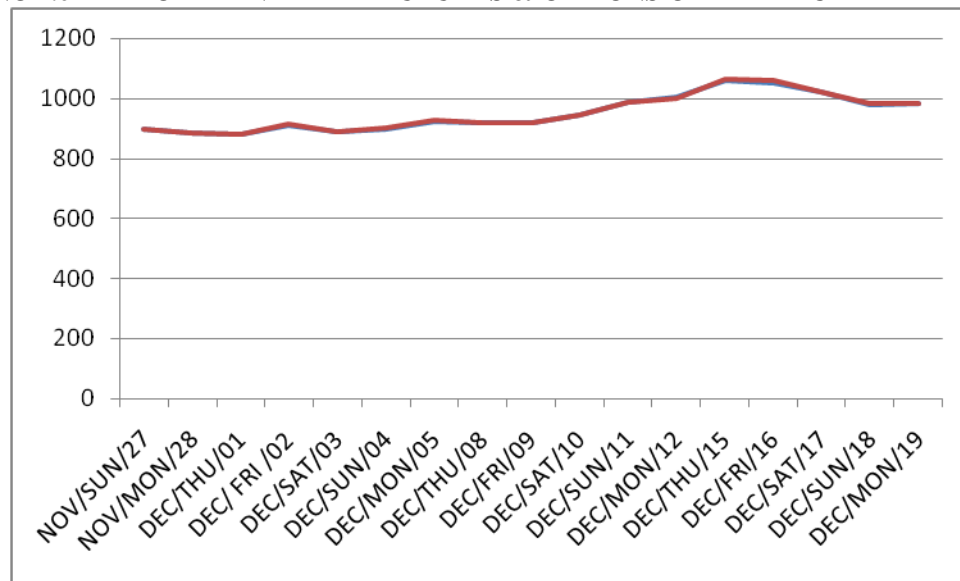
**TABLE NO 4.5 DATA OF KARVY – THE FUTURES & OPTIONS OF THE DECEMBER MONTH**

| DATE         | SPOT PRICE | FUTURE PRICE |
|--------------|------------|--------------|
| NOV/SUN/27   | 898.85     | 898.90       |
| NOV/MON/28   | 885.90     | 885.15       |
| DEC/THU/01   | 880.40     | 882.10       |
| DEC/ FRI /02 | 911.95     | 914.60       |
| DEC/SAT/03   | 890.30     | 889.80       |
| DEC/SUN/04   | 898.00     | 902.55       |



|            |         |         |
|------------|---------|---------|
| DEC/MON/05 | 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/MON/12 | 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/MON/19 | 984.20  | 984.20  |

GRAPH NO 4.c DATA OF KARVY – THE FUTURES & OPTIONS OF THE DECEMBER MONTH



**OBSERVATIONS**

- The future price of M/S. Karvy is moving along with the market price.
- If the buy price of the future is less than the settlement price, than the buyer of a future gets profit.
- If the selling price of the future is less than the settlement price, than the seller incurs losses.

**8. FINDINGS**

- A **positive** derivative means that the function is increasing
- A M/S. KARVY LTD derivative means that the function is decreasing
- An M/S. KARVY LTD derivative means that the function has some special behavior at the given point. It may have a local maximum, a local minimum, (or in some cases, as we will see later, a turning point)
- As a last remark we should remember that the derivative of a function is, itself, a function

since it varies from point to point. If we want to, we could plot it on its own set of axes. You can compare the signs and slopes of the individual tangent lines of the original curve with the graph of the derivative.

**9. SUGGESTIONS**

- In the above analysis the market price of M/S. KARVY is having low volatility, so the call option writers enjoy more profits to holders.
- The derivative market is newly started in India and it is not known by every investor, so SEBI has to take steps to create awareness among the investors about the derivative segment.
- In order to increase the derivatives market in India, SEBI should revise some of their regulations like contract size, participation of FII in the derivatives market.

- Contract size should be minimized because small investors cannot afford this much of huge premiums.
- SEBI must take further steps in the risk management mechanism.

## 10. CONCLUSION

- Derivatives market is an innovation to cash market. Approximately its daily turnover reaches to the equal stage of cash market.
- The average daily turnover of the NSE derivative segments. In cash market the profit/loss of the investor depend the market price of the underlying asset.
- The investor may incur huge profits or he may incur huge loss. But in derivatives segment the investor the investor enjoys huge profits with limited downside.
- In cash market the investor must pay the total money, but in derivatives the investor has to pay premiums or margins, which are some percentages of total money.
- Derivatives are mostly used for hedging purpose. In derivative segment the profit/loss of the option writer is purely depend on the fluctuations of the underlying asset.

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