

**ANALYSIS OF RISK MANAGEMENT IN DERIVATIVES WITH REFERENCE TO
ANGEL ONE PRIVATE LIMITED**

Bitti Shirisha, II-MBA, Malla Reddy Engineering College(Autonomous), Hyderabad.
E-mail:tugainitha@gmail.com

Dr.N.Ramanjaneyulu, Professor & Head of the Department, Department of MBA, Malla Reddy
Engineering College(Autonomous), Hyderabad. E-mail: ramanjimba09@gmail.com

Abstract

Derivatives markets have existed in India in some form or another for a long time. The Bombay Cotton Trade Association began trading futures in 1875, and by the mid-nineteenth century, India had one of the world's largest prospects endeavours. Money settlement and options trading were prohibited by the regime in 1952, and derivatives trading was pushed to the informal advances markets. Recently, the government's attitude has shifted, with more emphasis on showcase-based estimating and less scepticism towards derivatives trading. Beginning in the mid-2000s, restrictions on the fates trading of a variety of products were loosened, allowing for national electronic ware transactions.

For a long time, in the value displays, an arrangement of exchanging known as "badla," which included a few components of advancements exchanging, had been present. In any event, the framework generated a number of nefarious actions, and it was occasionally prohibited until the Securities and Exchange Commission and a clearinghouse ensured the execution of an agreement by acting as purchaser to each vendor and dealer to each purchaser. In 2001, the Securities Exchange Board of India (SEBI) placed a permanent ban on it. Between 1993 and 1996, a series of modifications to the share trading system paved the way for the development of trade traded value derivatives markets in India. The NSE was established in 1993 by the legislature in collaboration with state-owned money-related institutions. The NSE improved the securities exchanges' productivity and transparency by providing a fully automated screen-based exchanging platform and ongoing value dispersal. The prohibition on exchanging choices was repealed in 1995. The NSE proposed to SEBI in 1996 that trade traded derivatives be posted.

Keywords: Working Capital, Operating Cycle, Profitability, Operating Profit.

I. Introduction

All commodities and capital markets have the defining trait of risk. The combination of supply and demand forces over time causes price changes for both agricultural and non-agricultural commodities. Due to the ever-growing globalisation and liberalisation tsunami sweeping the globe, the volume of international trade and business has multiplied during the past two decades. Due to these quick changes in interest and currency rates as well as stock market prices, the corporate world is now exposed to an increase in financial risk. An otherwise lucrative organisation experiences losses due to increased financial risk. This emphasises how crucial risk management is as a hedge against uncertainty.

The issue of risk brought on by the unpredictability and volatility of the underlying asset is successfully solved by derivatives. A company can successfully transfer risk by using derivatives, which are risk management tools. Instruments with no inherent value are known as derivatives. The underlying asset determines their worth. The underlying asset may be financial or non-financial. Derivatives are legal and essential tools for banks, but they, like all financial instruments, come with risks that must be managed. Managing these hazards is not a one-of-a-kind or solitary task. Rather, it should be a part of the bank's entire risk management strategy. Derivatives-related risks are nothing new or unusual. They are similar to those encountered in traditional activities (e.g., price, interest rate, liquidity, credit risk). Fundamentally, the risk associated with derivatives (like with all financial instruments) is determined by the timing and variability of cash flows.

Futures, forwards, swaps, options, structured debt obligations and deposits, as well as various combinations of these, are all examples of financial derivatives. Others are privately negotiated agreements, while some are exchanged on formal markets. Because derivatives can serve a variety of economic tasks, they have become an important feature of the financial markets. Derivatives can be used to lower business risks, increase customer product offers, trade for profit, manage capital and finance expenses, and change the risk-reward profile of a single item or an entire balance sheet.

The fundamental reason that derivatives are seen as more risky than physical investment instruments is that they allow for more gearing and diversification. Short selling is a term used to describe the act of selling. The ability to gear is the result of this skill. Obtain exposure to high-risk assets with a high value higher than the first payment made to carry out the transaction position. A dramatic downturn in the market can occur.

II. Review of literature:

Mary Jones (2018) Derivatives would be the most crucial tools in the financial markets in the current times. They're working hard for lowering the risk for company corporate. The fundamental reason for these instruments is providing commitments to rates for later dates for offering protection against adverse motions in succeeding costs, in order to minimize the scope of fiscal risks. Derivative markets have been novel until the 1970s. Nevertheless, with the description of Bretton Woods system in 1973, there was an unexpected rise in the volatility of exchange rates as well as interest rates therefore rendering it needed for investors and companies to look for methods to lessen these risks. There's a requirement for proper knowledge as well as orientation programmes have to boost the development of derivatives in India.

Kobilarev Mina (2017) In this paper we analyse re-search results on business threat management methods, particularly in light of the derivatives use in the massive Serbian non-financial businesses. The primary goal of this particular paper is examining if Serbian businesses use derivatives to handle danger and also to what level, also to examine the primary rationale behind the companies' not employing these tools and to recommend attainable enhancements of risk management practices. Moreover, we've examined the major reasons economic derivatives are extremely helpful for Serbian businesses for hedging monetary risks. Furthermore, this particular paper offers a relative introduction to the usage of derivatives between The companies and serbian companies in Slovenia and Croatia in an effort to determine if Serbian businesses use derivatives to be able to control risk to the exact same amount as their Croatian along with Slovenian counterparts. This newspaper includes findings and also give proof that Referent interest and fx rate rates (such as 1w- 2w repo fee, Belibor and Beonia) are markedly volatile, that opens huge chances for the utilization of fiscal derivatives, since these monetary parameters figure out the cost of a credit arrangement for businesses and also the quality of import as well as export money flows.

III. Need of the study:

- To know the factors that influence the derivatives market.
- To know which type of derivative market gives comparatively unlimited profit/loss to investor.
- To study the pros and cons of investing in derivative market to investors.
- To understand derivative market regulatory frame work.

IV. Scope of the study

- The study was carried out at Angel one broking limited of the investment industry to assess the risk management in derivatives.
- This study was conducted in 45days.
- As derivative market is unpredictable and it is difficult to analyze recent years data due to pandemic, we took previous years data like in between 2017 to 2020.

- To study the collected data we used techniques like futures and options.

V. Objectives of the study

- To study Indian Derivative market.
- To study the trading mechanism of Derivative market with the special reference to Futures & Options.
- To study the awareness of Derivatives among the investors in Hyderabad city.
- To analyze performance of derivative products
- To know pay off of selected derivative products.

VI. Research methodology

RESEARCH DESIGN

The type of research is chosen based on the challenges that have been identified. The type of research used in this case is descriptive research. Fact-finding and many types of inquiries are all part of descriptive research. The primary goal of descriptive research is to provide a detailed description of the current state of affairs. The purpose of this dissertation is to investigate various topics linked to derivatives in the Indian market and how they assist in risk mitigation.

SOURCES OF DATA

- For the study the data was collected through both primary and secondary sources.
- The secondary data sources are general library research, textbooks, journals, articles from newspaper, brochures, and internet websites.
- The primary data sources are brokers of Bangalore Stock Exchange.

VII. Limitations Of the Study

- The Statement of the problem of the study is, the derivatives market in India is still in a growth stage.
- In modern countries also people are not interested to invest in derivative products in this project we emphasis the investment in derivative system.
- Study is conducted only during 2017-2022 which can be extended further.

VIII. Empirical Results

FUTURES OF ACC CEMENTS

Futures: The buyer of a futures contract is taking on the obligation to buy and receive the underlying asset when the futures contract expires. The seller of the futures contract is taking on the obligation to provide and deliver the underlying asset at the expiration date.

FORMULA:

$$F_o = S_o (1+r-d)^T$$

S_o = the day's closing price of a market.

r = Rate of return

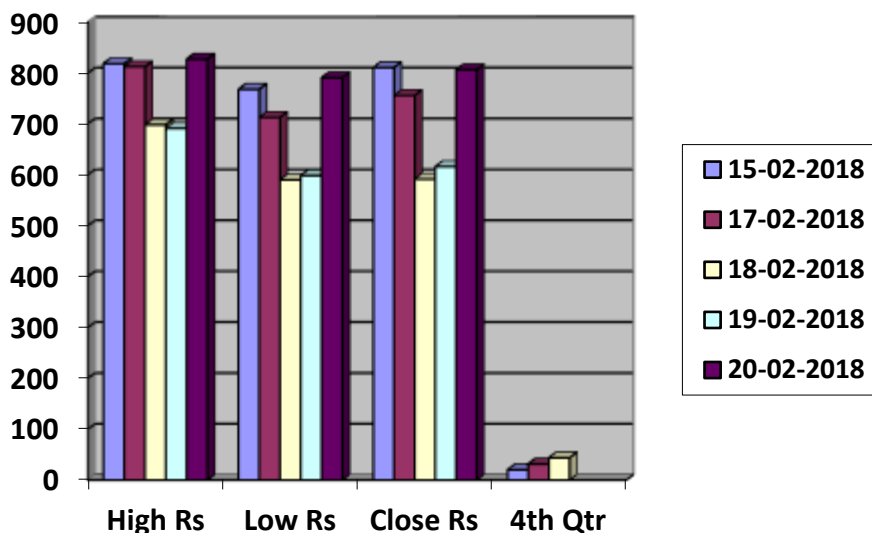
d = Dividend

T = Time period

Date dd/mm/yy	High Rs	Low Rs	Close Rs	Open Int (‘000)	Trd Qty (‘000)	N.O.C.	FO
15 /02/22	818.34	768.00	810.65	7146	986	2781	88582.23
17 /02/22	812.45	712.60	755.95	7322	1012	3482	89881.33
18 /02/22	698.30	589.80	591.40	1800	1943	2591	89858.54
19 /02/22	691.00	598.50	615.85	8158	891	2270	90154.83
20 /02/22	827.00	790.50	806.20	1785	1465	1953	90132.04

Table: 1.1 Futures trade of ACC Cements.

Source: Author’s Compilation



Graph No: 1.1.a Futures trade of ACC Cements.
Source: Author's Compilation

The future price has risen significantly due to an increase in closing price, a fall in open interest, and a decrease in the value and volume of futures in case of ACC Cements. The future price (Fo) of Arvind Mills has decreased as a result of lower closing prices and lower open interest, while volume and value have increased. The future price (Fo) of BHEL has shown fluctuation due to fluctuation in closing price and volume, value is increase and it is observed that open interest is decrease. The call option and put option tables that the writer makes money when the striking price is higher than the spot price and loses money when the strike price is lower than the spot price, and vice versa for the buyer In case of profit or loss position of call option buyer of ACC Cements, where as in case of put option buyer of ACC Cements makes a profit when the strike price is less than the spot price, and the writer makes a loss when the strike price is greater than the spot price. In case of call option buyer of Arvind Mill if the strike price is less than the spot price, the buyer will profit and if the strike price is more than the spot price, the buyer will lose. Obviously, the opposite is true for the writer, where as in case of put option buyer of Arvind Mill the strike price is less than the spot price, the buyer will profit and if the strike price is more than the spot price, the buyer will lose. Obviously, the opposite is true for the writer. In case of profit or loss of call option buyer of BHEL the writer makes money when the striking price is higher than the spot price and loses money when the strike price is lower than the spot price, and vice versa for the buyer in case of profit or loss position of call option buyer, where as in case of put option the writer makes money when the striking price is higher than the spot price and loses money when the strike price is lower than the spot price, and vice versa for the buyer.

IX. Findings, Suggestions and Conclusion:

Findings:

- The aforementioned study of ACC, ARVINDMILLS, and BHEL futures and options showed a bullish market in the week.
- The cash market, foreign institutional investor engagement, news linked to the underlying asset, national and international markets, and researchers' perspectives are all key influences on the futures and options market.
- The profit/loss in the cash market is restricted, however in the future and option markets, an investor can make an endless profit/loss.

- SEBI should take initiatives to increase public understanding of the futures and options market, which was only recently launched. The derivatives market has risen to a significant position in the current context. Its daily turnover is comparable to that of the cash market. The NSE's average daily derivative turnover is four lacks volume.
- Hedging is the primary function of derivatives. In the cash market, the investor must pay the entire amount, whereas in derivatives, the investor must pay premiums or margins that are a percentage of the overall amount.

Suggestions

- In a bearish market, it is recommended that an investor choose the put option to reduce profits.
- In a bullish market, an investor is advised to select for a call option to maximise profits.
- Before investing, an investor should keep in mind the time or expiry period of futures and options contracts. The longer the time, the lower the risk and the higher the profit. The less time you have, the higher the risk of losing money
- Futures and options are currently traded on the NSE. It is suggested that SEBI take action in futures and options trading on other regional exchanges.
- SEBI must take more initiatives to improve the risk management framework.
- Contract size should be kept to a minimum, as small investors cannot afford such high premiums.

Conclusion

Derivatives have been around for a long time, having their origins in the commodities market. Advances in financial markets and technology have made derivatives more accessible to investors in recent years. Unlike equities markets, India's derivatives industry is quickly expanding. Trading derivatives necessitates a deeper understanding of finance than the typical person. As markets have matured, the majority of investors are still unaware of the full ramifications of derivatives trading. SEBI should take steps to raise investor awareness of the derivatives sector. The use of derivatives allows for improved risk management. These markets can provide India's capital markets with more depth, stability, and liquidity. Successful derivatives risk management necessitates a thorough understanding of the 0 principles that govern financial derivatives pricing. In order to expand India's derivatives market, SEBI should alter several of its regulations, such as contract size and Fill involvement in the derivative market. Because small investors cannot afford such high premiums, contract size should be kept to a minimum. The majority of derivatives are utilized for hedging purposes. In a derivative market, the option writer's/profit/loss holder's is solely determined by the underlying's changes.

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