DERIVATIVES MARKETS IN INDIA

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ABSTRACT

One can readily visualize the determination of inventory quantities by physical count or by use of perpetual inventory records. When this quantity is determined it must be multiplied by a unity cost in order to determine the in inventory value that is used on financial statement. Trade and quantity are to be excluded from unit cost since these discounts exist for the purpose of defiing the true invoice cost of merchandise. Cash discounts, on the other hand, have been considered as a reward for early payment and a penalty for late payment. The “reward” has often been interpreted as a loss rather than a part of unit cost. In financial parlance, inventory is defined as the sum of the value of the raw materials, and lubricants to maintenance consumable semi processed materials and finished goods stock at any giving point of time. The operational definition of inventory world be amount of raw materials, fuel and lubricants and semi – processed materials to be stock for the smooth running of the plant / industry. viding employees with training and development opportunities not only contributes to the quality and effectiveness of your organization it also serves to motivate and retain employees. Professional development should address both organizational needs (the competencies required to achieve organizational goals and objectives) and individual needs (the competencies employees require to do their job), and reflect the organization's overall philosophy on learning. Furthermore, when establishing an employee development policy you need to consider both the financial and human resource capacity of your organization to support employee training and development.

INTRODUCTION

The rise of the market for subsidiaries items, most eminently advances, fates and choices, can be followed back to the ability of hazard loath financial operators to protect them against vulnerabilities emerging out of changes in resource costs. By their change nature, the monetary markets are set apart by a high level of instability. Using subsidiary items, it is conceivable to mostly or completely exchange value chances by securing resource costs. As instruments of hazard administration, these for the most part don't impact the changes in the basic resource costs. Be that as it may, by securing resource costs, subordinate item limits the effect of vacillations in resource costs on the productivity and income circumstance of hazard opposed financial specialists. Subsidiaries are hazard administration instruments, which get their incentive from a fundamental resource. The basic resource can be bullion, list, share, bonds, money, premium, and so on.. Banks, Securities firms, organizations and financial specialists to support dangers, to access less expensive cash and to influence benefit, to utilize subordinates. Subordinates are probably going to become even at a quicker rate in future.
DEFINITION: Derivative is an item whose esteem is gotten from the estimation of a hidden resource

in a legally binding way. The fundamental resource can be value, forex, ware or some other resource. Securities Contracts (Regulation)Act, 1956 (SCR Act) characterizes "subordinate" to secured or unsecured, chance instrument or contract for contrasts or some other type of security. A contract which gets its incentive from the costs, or record of costs, of basic securities.

RESEARCH METHODOLOGY / LITERATURE SURVEY

The information gathering techniques incorporate both the essential and auxiliary information.
Primary Data: This strategy incorporates the information accumulation from the individual exchange with the approved agents and individuals from the Trade well Securities Ltd ,Karimnagar.
Secondary Data: The information gathered from the news, magazines of the Trade well Securities Ltd and distinctive books issues of this examination.
REVIEW ON DERIVATIVES:
"A Derivative is an engineered development intended to give an indistinguishable profile of profits from some fundamental venture or exchange without requiring the central money out lay there are called subordinates since they get their incentive from the execution of the hidden instruments monetary subsidiaries can be found in the red ,value, cash and ware markets".
Srisha (2001): Derivatives enable money related foundations and different members to distinguish disconnect and oversee independently the market hazards in monetary instruments of items at the motivation behind hedging, speculating, arbitraging cost contrasts and changing portfolio chance

INDUSTRY PROFILE

Diagram of Stock Broking Industry in India:
The Indian broking industry is one of the most seasoned exchanging businesses that have been around even before the foundation of the B S E in 1875 > Deposit passing however various changes in the post Liberalization period .The Industry has discovered its direction advances practical development with the motivation behind picking up a more profound comprehension about the part of the Indian stock broking industry in the nation's economy.

The Broking business began with an underlying database of more than 1800 broking firms that are contracted from which 464 reactions are gotten .The rundown was further short recorded in view of the quantity of terminals on the best 210 were chosen for profiling 394 reactions that gave in excess of 85 % of the data looked for have been incorporated for the examination displayed here as knowledge .All the information for the investigation was gathered through reactions got specifically from the broking firms. The bits of knowledge have been touched base at through an Analysis a different parameters applicable to the value broking industry, for example, locale terminal market representatives sub merchants items and development regions. The Indian broking industry is sensibly expansive and divided with 9000 odd representatives in real money fragment and 24000 sub handles .The piece of the pie of best ten merchants in India has to a great extent remained explanation in recent years The best 5 dealers in India still control around 15-16% of the piece of the pie .Historically retail exchanging contributed around 60% of the market and F I around enter improvement in this industry included prominent development in conveyance container India with more noteworthy assorted variety offered in money related item offering and expanded accentuation on exclusive research yield. There was more noteworthy than before enthusiasm towards causing a worldwide nourishment print. With over portion of the Finance still in bank stores and value resources containing just 6% Of gold budgetary Illiteracy Continue to Ensure the all are of Financial administration section in the Country. Key Characteristics: Based on Geographical Concentration the west locale has the greatest reparse Satiation of 5% around 24 % firms are situated in the north 14% in south and 10 % in the East. On The Basis of terminals 40% are situated at Mumbai 12%in Delhi 8% in Ahmadabad 10% in Kolkata 4 % in Chennai 26 % are from different Cites. 3%Firms began broking tasks before 1950 65 % between 1950-1995 and 32 % past 1995. Nearly firms exchange money Derivatives and 27 % are into money advertises alone around 20% in Commodities. In the money showcase around 34% firms exchange at N S E 14% At BSE 45% At both the trades. Obligation showcase 81% exchange at N S E 26% exchange B S E and 43% at the two trades. Greater part of branches is situated in the north around 90% west has around 51%, 24 % are situated in the south and 5% in the east.

As far as various zone of development 84 % firms have communicated enthusiasm for growing their institutioues units 66 Firms expected to expand FIIS and 43% are intrigued is setting up joint ventures in India and abroad. As far as data innovation entrance 62% firms have given their and around 94% firms have E-Mail Facilities.

SITUATION OF STOCK BROKING INDUSTRY

The history of stock intermediaries can be followed back to the causes of the principal stock trades in 1602 at Amsterdam even before that merchants are said to have existed in fund managing government securities. The right off the bat Amsterdam stock trade was engaged with purchasing and offering of offers for the Dutch value organization. However, the primary genuine stock trade in Philadelphia in the US amid the late eighteenth hundreds of years. Later it was the Network stock trade which saw an ascent in its fame as it was called turned into the center point of business exercises. Prior stock specialists were Longley disorderly however later a large portion of them joined hand to shape establishments and associations. Till the 1980's stock broking administrations were utilized just by the rich class who could offer them. Later (appearance) (creation) presenting of web, stock broking turn out to be simple. Thus, the sticker price on stock merchants brought down extensively and their administrations wind up accessible even to the basic man, now-a-days stock broking obligations taken up by significant associations with littlest organizations being consumed by them.

In India with the expanded globalization. The real companies are packing further into the general public.

Administrations They Provides:

Stock exchanging

Mutual Funds

Debentures

Equity shares

INDIAN STOCK MARKET GROWTH AND STRUCTURE

Indian Securities showcase is genuinely huge when contrasted with secured other developing markets. There are 22 stock trades in the nation, through the whole liquidity is shared between the nation's two national level trades of India and BSE Ltd. The territorial stock trades are in quest for plan of action that make them suitable and lively, in the mean time, these trades through development of auxiliaries whose business is demonstrating ceaseless development and advance. The No. of dealers in different stock trades ascended from 6711 of every 1994-95 to 9335 in the 2006.

COMPANY PROFILE

TradeWell Securities is a spearheading money related consultancy and stock warning association. We have rich space mastery in hierarchical and retail stock broking and monetary counseling administrations. We solidly trust that every association has exceptional money related targets. We comprehend that the best approach of understanding these goals is particular to every association. We give such modified warning administrations.We serve different customers including people, representatives, merchants and corporate associations et cetera. We have broad customer base. We have our quality real parts of India that incorporates states like Andhra Pradesh, Karnataka and Maharastra to take into account the necessities of different classes of customers.Tradewell initially fused with the primary target of offering money related administrations and support for Securities Business as a financier association. The organization has effectively dealt with the Securities Market business. Subsequent to considering the gigantic potential in ware showcase business, we have expanded into new region of Commodities Business field. The organization works the business from different places crosswise over India as claim branches, sub-representatives and franchisees. Vission : To offer money related arranging and enhance execution of clients all inclusive by with exhaustive practical monetary arranging support for every single budgetary speculation and resource administration exercises; and surpassing the desires of customers. Mission TradeWell offers savvy, amazing money related arranging, financier and resource administration administrations to every one of its customers. So as to accomplish its vision, TradeWell has received the accompanying targets:

Synergizing qualities, for example, vision, qualities and administration conveyance to offer world-class money related help administrations Enabling customers to achieve persisting money related development

Supporting customers with far reaching bundle of money related ventures Fostering everlasting relations with customers for better money related execution

The trading of derivatives is governed by the provisions contained in the SC R A, the SEBI Act, and the regulations framed there under the rules and byelaws of stock exchanges. **Regulation for Derivative Trading:**

SEBI set up a 24 member committed under Chairmanship of Dr. L. C. Gupta develop the appropriate regulatory framework for derivative trading in India. The committee submitted its report in March 1998. On May 11, 1998 SEBI accepted the recommendations of the committee and approved the phased introduction of derivatives trading in India beginning with stock index Futures. SEBI also approved he “suggestive bye-laws” recommended by the committee for regulation and control of trading and settlement of Derivative contract. The provision in the SCR Act governs the trading in the securities. The amendment of the SCR Act to include “DERIVATIVES” within the ambit of securities in the SCR Act made trading in Derivatives possible with in the framework of the Act.

Eligibility criteria as prescribed in the L. C. Gupta committee report may apply to SEBI for grant of recognition under section 4 of the SCR Act, 1956 to start Derivatives Trading. The derivative exchange/segment should have a separate governing council and representation of trading/clearing member shall be limited to maximum 40% of the total members of the governing council. The exchange shall regulate the sales practices of its members and will obtain approval of SEBI before start of Trading in any derivative contract.

The exchange shall have minimum 50 members.

The members of an existing segment of the exchange will not automatically become the members of the derivatives segment. The members of the derivatives segment need to fulfill the eligibility conditions as lay down by the L. C. Gupta committee.

The clearing and settlement of derivatives trades shall be through a SEBI approved clearing corporation/clearing house. Clearing Corporation/Clearing House complying with the eligibility conditions as lay down By the committee have to apply to SEBI for grant of approval.

Derivatives broker/dealers and Clearing members are required to seek registration from SEBI.

The minimum contract value shall not be less than Rs 2 lakh. Exchange should also submit details of the future contract they purpose to introduce.

The trading members are required to have qualified approved user and sales persons who have passed a certification programme approved by SEBI.

DERIVATIVES:-

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.

DEFINITION

Derivative is a product whose value is derived from the value of an underlying asset in a contractual manner. The underlying asset can be equity, forex, commodity or any other asset.

Securities Contracts (Regulation) Act, 1956 (SCR Act) defines "derivative" to 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.

TYPES OF DERIVATIVES:

The following are the various types of derivatives.

1. 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.

These contracts are not traded in exchanges but seen in "Over The Counters" (OTC).

Types of Forward contract:

These can be classified in to different categories under forward contract regulation Act 1952.

Hedge contract

Transferable specific delivery contract

Non Transferable specific delivery contract

FUTURES:

A futures contract is an agreement between two parties to buy or sell an asset at a certain time in the at a certain price.

3. OPTIONS:

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

4. SWAPS:

Swaps are private agreements between two parties to exchange cash floes 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 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 on direction being in a different currency than those in the opposite direction.

PARTICIPANTS:

The following three broad categories of participants in the derivatives market.

HEDGERS:

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

SPECULATORS:

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

A**RBITRAGEURS**:

Arbitrageurs are in business to take 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 position in the two markets to lock in a profit.

FUNCTION OF DERIVATIVES MARKETS:

The following are the various functions that are performed by the derivatives markets. They are:

Price discovery

Risk Transfer

Meet the needs

Savings

New Entrepreneurial activity

1). Price Discovery:

Derivative market is to help to know the price discoveries. Prices is an organized
derivative market participants about the future and lead the price of underlying to the perceived future level.

2). Risk Transfer:

Derivative market helps to transfer risks from those who have them but may not like them to those who have an appetite for them.

3). Meet the needs:

Derivative market developed to meet the needs of farmers and merchants.

4). Savings: Derivative market help increase savings and investments in long run.

5). New Entrepreneurial activity:

Derivative trading acts as a catalyst for new entrepreneurial activity.

FUTURE TERMINOLOGY:

DEFINITION:

A Futures contract is an agreement two parties to buy or sell an asset a certain time in the future at a certain price. To facilitate liquidity in the futures contract, the exchange specifies certain standard features of the contract. The standardized items on a futures contract are:

Quantity of the underlying

Quality of the underlying

The date and the month of delivery

The units of price quotations and minimum price change

Location of settlement

FEATURES OF FUTURES:

utures are highly standardized.

The contracting parties need not pay any down payments.

Hedging of price risks.

They have secondary markets to.

TYPES OF FUTURES:

On the basis of the underlying asset they derive, the futures are divided into two types:

Stock futures

Financial futures

FINDINGS

In Trade well securities limited trading in NSE and BSE is done on different terminals. Trading in NSE is done through NEAT system (National Exchange for Automated Trading'.)

Derivatives trading the orders placed are matched and conformed through S & P CNX NIFTY. Today in India there is trading floor as all exchanges operate through derivative trading.

The derivative market based on S & P CNX NIFTY index. Currently the futures contracts are available trading with one month and three month expiry.

Bills are prepared and the brokerage commission, service tax and stamp duties are changed to the clients in the process.

Apart from derivates trading demat of securities is also done in the Trade well

Through dematerializations and dematerializations process.

Daily market information is collected and updated to enable the investors to invest profitable share, all the activities related to derivatives trading on Futures and options segment is furnished in the study.

To hedge the risk of securities these derivatives contracts are helpful.

SUGGESTIONS

In Bullish market the call option writer incurs more losses so the investor is suggested to go for a call option to hold, where as the put option holder suffers in a bulish market, so he is suggested to write a put option.

In bearish market the call option to write, where as the put option writer will get more losses, so he is suggested to hold a put option.

The derivative market is newly started in India and it is now known by every investor, so SEBI has to take steps to create awareness among the investors about the derivatives 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 has to take further steps in the risk management mechanism.

SEBI has to take measures to use effectively the derivatives segment as a tool of hedging.

CONCLUSIONS

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 Hugh profit its or he may incur huge loss. But in derivatives segment the investor enjoys Huge profits with limited downside.

In cash market investor has to pay the total money, but in derivatives the investor has to pay premiums or margins, which are some percentage of total money.

In derivative segment the profit/loss of the option writer is purely depend on the fluctuations of the underlying asset.

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