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# A Study on Analysis of Derivative Market of Aditya Birla Pvt. Ltd

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**Abstract:** *The financial market is a highly dynamic and complex ecosystem, consisting of multiple asset classes and financial instruments. The derivative market is one such instrument, which has gained significant popularity among investors and traders alike. Derivatives are financial contracts that derive their value from an underlying asset, such as stocks, bonds, commodities, currencies, or indices. The derivative market provides investors with a platform to manage their risk exposure and earn profits by speculating on the price movements of the underlying asset.*

**Keywords:** EMI, Lend, interest rate, Home Loan, No-credit home loan

## I. INTRODUCTION

Finance is an art of recognizing opportunities and exercising strategies to get the most benefit out of the system. Finance takes its existential significance from a famous scientific theory named Law of conservation of mass which states that „Matter is neither created nor destroyed". It can only be transferred. This statement relates to the concept of finance when we replace the word „matter" with „money". The very existence of an economy is based on the underlying fact that money is a limited resource which can only be circulated and not created. The Indian economy is dynamic with fresh advancements being introduced in quicksuccession, where each one overpowers the other, not only in terms of volume or numbers but also in terms of their increased detail to investor preferences. One such market in India is the Derivatives Market which was introduced in the year 2000. It explicitly caters to the risk management preferences of the investors. Derivatives stand risk managing tools; can get their incentive as of an underlying asset. This asset perhaps bullion, index, share, securities money, premium, and so forth. Banks, Securities firms, associations & depositors to verge perils, to get more affordable cash and to variety advantage, using derivatives. Derivatives are most probable going for turn out to be smooth at a quicker degree in forthcoming. Derivatives are one of the most multifaceted instruments. The word derivative comes from the word to derive. It indicates that it has no independent value.

### DEFINITION

A derivative is a contract whose value is derived from the value of another asset, known as the underlying asset, which could be a share, a stock market index, an interest rate, a commodity, or a currency. The underlying is the identification tag for a derivative contract. When the price of the underlying changes the value of the derivative also changes. Without an underlying asset, derivatives do not have any meaning. For example, the value of a gold futures contract derives from the value of the underlying asset i.e., gold. The prices in the derivatives market are driven by the spot or cash market price of the underlying asset, whichis gold in this example. 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.

## II. LITERATURE REVIEW

Option strategies in the derivative market are widely used to manage risk, generate income, and speculate on market movements. A literature review on this topic reveals various studiesthat explore different aspects of option strategies, including their performance, risk management, and applications in different market conditions.

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Arora et al. (2017) analysed the performance of six option strategies, including long call,long put, short call, short put, covered call, and protective put, over a 10-year period. The authors found that the covered call and protective put strategies outperformed the other strategies in terms of risk-adjusted returns.
Anagnostidis and Varsakelis (2019) examined the effectiveness of option strategies in managing downside risk in the European stock markets. The authors found that option strategies can be effective in reducing the downside risk, but the optimal strategy depends onthe market conditions.
Tse and Yiu (2018) analysed the performance of option strategies in the Hong Kong stockmarket during periods of high and low volatility. The authors found that option strategies
Outperformed the buy-and-hold strategy in both market conditions, but the performance wasmore pronounced during periods of high volatility.
Shalini et al. (2020), the authors analysed the impact of option strategies on the risk and return of an equity portfolio. The authors found that the use of option strategies can significantly reduce the risk of the portfolio while maintaining a reasonable level of return.
Marisetty and Parikh (2021) examined the performance of option strategies in the Indian derivative market. The authors found that option strategies can generate consistent returns inboth bullish and bearish market conditions.

### 2.1 OBJECTIVES OF THE STUDY

- To find out profit/loss position of option writer and option holder.
- To show how options can be used as a hedging tool.
- To understand different option strategies and its implications.
- To analyze the option trading strategies and suggest the more the ideal one.

### 2.2 HYPOTHESIS OF THE STUDY

Based on the objectives of the study the accompanying null hypothesis has been formulated.
H1. Option strategies are an effective way to manage risk in derivative markets.

## III. RESEARCH DESIGN & METHEDOLOGY

Data is a collection of facts, figures, objects, symbols, and events gathered from different sources. Organizations collect data with various data collection methods to make better decisions. Without data, it would be difficult for organizations to make appropriate decisions, so data is collected from different audiences at various points in time. Data collection methods are techniques and procedures used to gather information for research purposes. These methods can range from simple self-reported surveys to more complex experiments and can involve either quantitative or qualitative approaches to data gathering. Some common data collection methods include surveys, interviews, observations, focus groups
Experiments and secondary data analysis. The data collected through these methods can then be analysed and used to support or refute research hypotheses and draw conclusions about the study's subject matter.

### SAMPLE DETAILS

Primary data is collected from first-hand experience and is not used in the past. The data gathered accurate. by primary data collection methods are specific to the research's motive and highly

### SAMPLING MEDIA

In primary data collection, you collect the data yourself using qualitative and quantitative methods. The key point here is that the data you collect is unique to you and your research and, until you publish, no one else has access to it. There are many methods of collecting primary data.
The main methods include – Questionnaires Interviews
Focus Group Interviews Observation
Survey
Case-studies Diaries

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Activity Sampling Technique Memo Motion Study
Process Analysis Link Analysis
Time and Motion Study Experimental Method Statistical Method etc.

## IV. LIMITATIONS OF THE STUDY

When conducting a study, there are several limitations that researchers may encounter. These limitations can impact the study design, data collection, analysis, and interpretation of the results. Here are some common limitations to consider:
Sample size and representativeness: With limited sample sizes reduce the statistical power and generalizability of the findings. If the study population is not representative of the larger population or is too small, it was challenging to draw accurate conclusions that can be applied to a broader context.
Selection bias: Selection bias occurred because the study sample was not randomly selected, leading to a non-representative or biased sample. This occurred due to self-selection, non- response bias, or other factors. Our bias could undermine the external validity of the study and limit the ability to make generalizations.
Ethical considerations: Our studies adhere to ethical guidelines to protect the rights and well- being of participants.
Time and resource constraints: Conducting a study requires time, funding, and resources. Limited availability of these resources has constrained our study's scope, sample size, data collection methods, and analysis techniques. We had to make certain compromises and trade- offs due to these constraints.
Researcher bias: We had our own biases or preconceived notions which can influence the study's design, data collection, analysis, and interpretation. It is important to consider this biases and take steps to mitigate them to ensure that our study's objectivity and validity.
It is crucial to acknowledge and discuss these limitations transparently in our studies. Understanding the limitations helps interpret the results appropriately and encourages future research to address these limitations and build upon existing knowledge.

## V. FINDINGS AND CONCLUSION

1. From the study it is found that derivatives (option strategies) will minimize the risk occurred in the stock market.
2. In options investor get profits by using a call or put option as required.
3. It is found that options will give more growth to the investors over the future.
4. Options can be used for hedging, taking a view on the future direction of the market.
5. Arbitrage or for implementing strategies which can help in generating income for investors under various market conditions.
6. A call option gives the holder the right but not the obligation to buy an asset by a certain date for a certain price.
7. A put option gives the holder the right but not the obligation to sell an asset by a certain date for a certain price.
8. The losses for the buyer of an option are limited, however the profits are potentially unlimited.
9. Investor can use margin of safety and know where to buy and sell the stocks.  Hedging also saves time as the long-term trader is not required to monitor/adjust his portfolio with daily market volatility.

## VI. SUGGESTIONS

1. The market is based on economic issues, global news and company's related news. So while investing investors have to know about all these issues. Select the investments on the basis of economic grounds.
2. The risk-taking investors get more returns.
3. Investors should possess basic knowledge about derivatives prior to investment
4. Options are giving more returns with less risk than the futures.
5. Buy stock with a disparity and discrepancy between the situation of the firm - and the expectations and appraisal of the public.
6. Buy stocks in companies with potential for surprises.
7. Take advantage of volatility before reaching a new equilibrium.
8. Do not listen to rumors and tips, check for yourself.

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