Participants in the stock market range from small individual stock investors to large hedge fund traders, who can be based anywhere in the world. Their orders usually end up with a professional at a stock exchange, who executes the order of buying or selling. From experience it is known that investors may ‘temporarily’ move financial prices away from their long term aggregate price ‘trends’ (Positive or up trends are referred to as bull markets; negative or down trends are referred to as bear markets). Over-reactions may occur—so that excessive optimism (euphoria) may drive prices unduly high or excessive pessimism may drive prices unduly low. Economists continue to debate whether financial markets are ‘generally’ efficient. According to one interpretation of the Efficient-Market Hypothesis (EMH), only changes in fundamental factors, such as the outlook for margins, profits or dividends, ought to affect share prices beyond the short term, where random ‘noise’ in the system may prevail (But this largely theoretic academic viewpoint—known as ‘hard’ EMH—also predicts that little or no trading should take place, contrary to fact, since prices are already at or near equilibrium. The ‘hard’ efficient-market hypothesis is sorely tested and does not explain the cause of events such as the stock market crash in 1987, when the Dow Jones index plummeted 22.6%—the largest-ever one-day fall in the United States. This event demonstrated that share prices can fall dramatically even though, to this day, it is impossible to fix a generally agreed upon definite cause: a thorough search failed to detect any ‘reasonable’ development that might have accounted for the crash (But note that such events are predicted to occur strictly by chance, although very rarely).

**Keywords:** Financial Markets, Investments, Hedging Technique

**INTRODUCTION**

Hedging is defined as holding two or more positions at the same time, where the purpose is to offset the losses in the first position by the gains received from the other position.

Usual hedging is to open a position for a currency A, then opening a reverse for this position on the same currency A. This type of hedging protects the trader from getting a margin call, as the second position will gain if the first loses, and vice versa. However, traders developed more hedging techniques in order to try to benefit from hedging and make profits instead of just to offset losses.
100% HEDGING

This technique is the safest ever, and the most profitable of all hedging techniques while keeping minimal risks. This technique uses the arbitrage of interest rates (roll over rates) between brokers. In this type of hedging you will need to use two brokers. One broker which pays or charges interest at end of day, and the other should not charge or pay interest. However, in such cases the trader should try to maximize your profits, or in other words to benefit the utmost of this type of hedging.

The main idea about this type of hedging is to open a position of currency X at a broker which will pay you a high interest for every night the position is carried, and to open a reverse of that position for the same currency X with the broker that does not charge interest for carrying the trade. This way you will gain the interest or rollover that is credited to your account.

However there are many factors that you should take into consideration.

A) The currency to use. The best pair to use is the GBPJPY, because at the time of writing this article, the interest credited to your account will be 24 usd for every 1 regular long lot you have. However you should check with your broker because each broker credits a different amount. The range can be from $10 to $26.

B) The interest free broker. This is the hardest part. Before you open your account with such a broker, you should check the following: (i) Does the broker allow opening the position for an unlimited time? (ii) Does the broker charge commissions? Some brokers charge $5 flat every night for each lot held, this is a good thing, although it seems not. Because, when the broker charges you money for keeping your position, the your broker will likely let you hold your position indefinitely.

C) Equity of your account. Hedging requires lots of money. For example, if you want to use the GBPJPY, you will need 20,000USD in each account. This is very necessary because the max monthly range for GBPJPY in the last few years was 2000 pips. You do not want one of your accounts to get a margin call. Do not forget that when you open your 2 positions at the 2 brokers, you will pay the spread, which is around 16 pips together. If you are using 1 regular lot, then this is around 145 USD.

So you will enter the trades, losing 145 USD. So you will need the first 6 days just to cover the spread cost. Thus, if you get a margin call again, you will need to close your other position, and then transfer money to your other account, and then re-open the positions. Every time this happens, you will lose 145 USD! It is very important not to get a margin call. This can be maintained by a large equity, or a fast efficient way to transfer money between brokers.

D) Money management. One of the best ways to manage such an account is to monthly withdraw profits and balancing your positions. This can be done by withdrawing the excess from one account, take out the profits, and depositing the excess into the losing account to balance them. However, this can be costly. You should also check with your broker if he allows withdrawals while your position is still open. One efficient way of doing this is using the brokerage service withdrawals which are provided by third party companies.

TYPES OF DERIVATIVES

The following are the various types of derivatives.
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.

FUTURES
A futures contract is an agreement between two parties to buy or sell an asset at a certain time in the future at a certain price. Futures contracts are special types of forward contracts in the sense that the former are standardized exchange traded contracts.

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.

WARRANTS
Options generally have lives of up to one year; the majority of options traded on options exchanges having a maximum maturity of nine months. Longer-dated options are called warrants and are generally traded over-the counter.

LEAPS
The acronym LEAPS means long-term Equity Anticipation securities. These are options having a maturity of up to three years.

BASKETS
Basket options are options on portfolios of underlying assets. The underlying asset is usually a moving average of a basket of assets. Equity index options are a form of basket options.

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

SWAPTION
Swaptions are options to buy or sell a swap that will become operative at the expiry of the options. Thus a swaption is an option on a forward swap. Rather than have calls and puts, the swaptions market has received swaptions and payer swaptions. A receiver swaption is an option to receive fixed and pay floating. A payer swaption is an option to pay fixed and received floating.

PARTICIPANTS IN THE DERIVATIVE MARKETS
The following three broad categories of participants:

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.

ARBITRAGERS
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.

SCOPE OF THE STUDY
The Study is limited to “Hedging techniques of Derivatives” with special reference to Futures and Option is the Indian context and the IIFL (India info line) LIMITED have been Taken as a representative sample for the study. The study can't be said as totally perfect. Any alteration may come. The study has only made a humble Attempt at evaluation derivatives market only in India context. The study is not based on the international perspective of derivatives markets, which exists in NASDAQ, CBOT, etc.

NEED AND IMPORTANCE OF STUDY
One of the single best things you can do to further your education in trading is to keep thorough records of your trades. Maintaining good records requires discipline, just like good trading. Unfortunately, many commodity traders don't take the time to track their trading history, which can offer a wealth of information to improve their odds of success most professional traders, and those who consistently make money from trading. Derivatives, keep diligent records of their trading activity. The same cannot be said for the masses that consistently lose at trading commodities.

Losing traders are either too lazy to keep records or they can't stomach to look at their miserable results. You have to be able to face your problems and start working on some solutions if you want to be a successful trader. If you can't look at your mistakes and put in the work necessary to learn from them, you probably shouldn't be trading Derivatives.

OBJECTIVES OF THE STUDY
• To analyze the Hedging techniques of derivative market in India.
• To analyze the Hedging operations of futures and options.
• To find the profit/loss position of futures buyer and also the option writer and option holder.
• To study about risk management with the help of derivatives.

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

1. Primary Collection Methods: This method includes the data collected from the personal discussions with the authorized clerks and members of the Exchange.

2. Secondary Collection Methods: The Secondary Collection Methods includes the lectures of the superintend 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.
LIMITATIONS OF THE STUDY

The following are the limitations of this study:

- The scrip chosen for analysis is M/S. HDFC LIMITED and the contract taken is December 2013 ending one month contract.
- The data collected is completely restricted to the M/S. HDFC LIMITED of December 2013; hence this analysis cannot be taken universal.

DESCRIPTION OF THE METHOD

The following are the steps involved in the study.

Selection of the Script

The scrip selection is done on a random and the scrip selected is M/s. HDFC Limited. The lot size is 500. Profitability position of the futures buyer and seller and also the option holder and option writer is studied.

Data Collection

The data of the M/s. HDFC Limited has been collected from the “National Stock exchange” and the internet. The data consist of the December 2014 contract and the period of data collection is from 28th November 2014 to 24th December 2014.

Analysis

The analysis consist of the tabulation of the data assessing the profitability positions of the futures buyer and seller and also option holder and option writer, representing the data with graphs and making the interpretation using data.

INDUSTRY PROFILE

Stocks that respond to interest rate moves, coupled with select debt schemes, are likely to be the winners in 2015, with the Reserve Bank of India expected to start easing its monetary policy. Fund managers said economic prospects have improved, but the New Year may be tougher for equity investors to make money as valuations of many stocks are rich after the broad-based rally in 2014. Concern over interest rate hike in the US and weak global crude oil prices may also keep investors on.

India is among the top-performing emerging markets in 2014. So far in 2014, the Sensex has gained 34%. Smaller companies have fared even better, with the BSE Mid Cap index surging 56% and the BSE Small Cap Index jumping 75%. Though the falling crude prices have improved the prospects of the Indian economy, India may not be spared if there is an emerging market sell-off. “On the global front, oil exporting nations could face problems, and there could be a global risk aversion.

Market participants consider probable interest rate cuts by the Reserve Bank of India (RBI) as the biggest trigger for the economy and the markets. The extent of monetary policy easing would determine the strength of rally in shares of the so-called interest rate-sensitive sectors such as banks, auto, real estate and bonds. Fund managers said debt funds could offer good returns in the coming year as a fall in interest rates could lead to an appreciation in bond prices. With wholesale price inflation coming at nil for November, expectations of interest rate cuts as early as in the March quarter are high.

“Short-term rates can fall more than long-term rates. We expect consumer inflation to be in the range of 5-5.5%, and expect RBI to cut interest rates by 50 basis points in 2015,” said Dhawal Dalal, executive V-P and head (fixed income), DSP Blackrock Mutual Fund. If interest
rates fall by 50 basis points, investors could see a 5% capital appreciation on their long-term gilt fund portfolio.

Measured by BSE Sensex, stock market has generated a positive return of about 9% for investors in 2013, while gold prices fell by about three per cent and its poorer cousin silver plummeted close to 24%. After outperforming stock market for more than a decade, gold has been on back foot for two consecutive years now vis-a-vis equities, shows an analysis of their price movements. Gold’s under-performance was mainly due to prices falling in dollar terms amid anticipated tapering over last several months combined with FII investment in Indian stocks.

“This movement has been equally true for global markets as 2013 saw gold losing its shine and markets coming back with a bang,” said Jayant Manglik, President Retail Distribution, and Religare Securities.

“As always, gold and stock prices follow opposite trends and this year was no different except that both changed direction,” he said.

Improvement in the world economy has brought the risk appetite back amongst retail investors and this has drenched the liquidity from safe havens such as gold leading to its under-performance, an expert said. In 2012, the Sensex had gained over 25%, which was nearly double the gain of about 12.95% in gold. The appreciation in silver was at about 12.84% per last year.

According to Hiren Dhakan, Associate Fund Manager, Bonanza Portfolio, “Markets have particularly shown great strength post July-August 2013 when RBI took some strong measures to control the steeply depreciating rupee.”

“When the US Fed gave indications that it might taper its stimulus program given the economy shows improvement, a knee-jerk correction was seen in most risky assets, including stocks in Indian markets. However, assurance by the Fed about planned and staggered tapering in stimulus once again proved to be a catalyst for the markets.”

“External factors affecting Indian stocks seem to be negative for the first half of 2014 due to continued strength of the US dollar and benign in the second half. By that time, elections too would have taken place. A combination of domestic and international factors point to a bumper closing of Indian markets in 2014 with double-digit percentage growth,” he said.

Stock market segment mid-cap and small-cap indices have fallen by about 10% and 16%, respectively, in 2013.

Foreign Institutional Investors have bought shares worth over Rs. 1.1 lakh crore (nearly USD20 bn) till December 19. In 2012, they had pumped in Rs 1.28 lakh crore (USD 24.37 bn).

**EVOLUTION**

Indian Stock Markets are one of the oldest in Asia. Its history dates back to nearly 200 years ago. The earliest records of security dealings in India are meager and obscure. The East India Company was the dominant institution in those days and business in its loan securities used to be transacted towards the close of the eighteenth century.

By 1830’s business on corporate stocks and shares in Bank and Cotton presses took place in Bombay. Though the trading list was broader in 1839, there were only half a dozen brokers recognized by banks and merchants during 1840 and 1850.
The 1850’s witnessed a rapid development of commercial enterprise and brokerage business attracted many men into the field and by 1860 the number of brokers increased into 60.

In 1860-61 the American Civil War broke out and cotton supply from United States of Europe was stopped; thus, the ‘Share Mania’ in India begun. The number of brokers increased to about 200 to 250. However, at the end of the American Civil War, in 1865, a disastrous slump began (for example, Bank of Bombay Share which had touched Rs. 2850 could only be sold at Rs. 87).

At the end of the American Civil War, the brokers who thrived out of Civil War in 1874, found a place in a street (now appropriately called as Dalal Street) where they would conveniently assemble and transact business. In 1887, they formally established in Bombay, the “Native Share and Stock Brokers’ Association” (which is alternatively known as “The Stock Exchange”). In 1895, the Stock Exchange acquired a premise in the same street and it was inaugurated in 1899. Thus, the Stock Exchange at Bombay was consolidated.

Other Leading Cities in Stock Market Operations
Ahmedabad gained importance next to Bombay with respect to cotton textile industry. After 1880, many mills originated from Ahmedabad and rapidly forged ahead. As new mills were floated, the need for a Stock Exchange at Ahmedabad was realized and in 1894 the brokers formed “The Ahmedabad Share and Stock Brokers’ Association”.

What the cotton textile industry was to Bombay and Ahmedabad, the jute industry was to Calcutta. Also tea and coal industries were the other major industrial groups in Calcutta. After the Share Mania in 1861-65, in the 1870’s there was a sharp boom in jute shares, which was followed by a boom in tea shares in the 1880’s and 1890’s; and a coal boom between 1904 and 1908. On June 1908, some leading brokers formed “The Calcutta Stock Exchange Association”.

In the beginning of the twentieth century, the industrial revolution was on the way in India with the Swadeshi Movement; and with the inauguration of the Tata Iron and Steel Company Limited in 1907, an important stage in industrial advancement under Indian enterprise was reached. Indian cotton and jute textiles, steel, sugar, paper and flour mills and all companies generally enjoyed phenomenal prosperity, due to the First World War.

In 1920, then demure city of Madras had the maiden thrill of a stock exchange functioning in its midst, under the name and style of “The Madras Stock Exchange” with 100 members. However, when boom faded, the number of members stood reduced from 100 to 3, by 1923, and so it went out of existence.

In 1935, the stock market activity improved, especially in South India where there was a rapid increase in the number of textile mills and many plantation companies were floated. In 1937, a stock exchange was once again organized in Madras - Madras Stock Exchange Association (Pvt) Limited. (In 1957 the name was changed to Madras Stock Exchange Limited).

Lahore Stock Exchange was formed in 1934 and it had a brief life. It was merged with the Punjab Stock Exchange Limited, which was incorporated in 1936.

Indian Stock Exchanges – An Umbrella Growth
The Second World War broke out in 1939. It gave a sharp boom which was followed by a slump.
But, in 1943, the situation changed radically, when India was fully mobilized as a supply base. On account of the restrictive controls on cotton, bullion, seeds and other commodities, those dealing in them found in the stock market as the only outlet for their activities. They were anxious to join the trade and their number was swelled by numerous others. Many new associations were constituted for the purpose and Stock Exchanges in all parts of the country were floated.

The Uttar Pradesh Stock Exchange Limited (1940), Nagpur Stock Exchange Limited (1940) and Hyderabad Stock Exchange Limited (1944) were incorporated. In Delhi two stock exchanges - Delhi Stock and Share Brokers’ Association Limited and the Delhi Stocks and Shares Exchange Limited - were floated and later in June 1947, amalgamated into the Delhi Stock Exchange Association Limited.

Post-Independence Scenario
Most of the exchanges suffered almost a total eclipse during depression. Lahore Exchange was closed during partition of the country and later migrated to Delhi and merged with Delhi Stock Exchange. Bangalore Stock Exchange Limited was registered in 1957 and recognized in 1963.

Most of the other exchanges languished till 1957 when they applied to the Central Government for recognition under the Securities Contracts (Regulation) Act, 1956. Only Bombay, Calcutta, Madras, Ahmedabad, Delhi, Hyderabad and Indore, the well established exchanges, were recognized under the Act. Some of the members of the other Associations were required to be admitted by the recognized stock exchanges on a concessional basis, but acting on the principle of unitary control, all these pseudo stock exchanges were refused recognition by the Government of India and they thereupon ceased to function.

Thus, during early sixties there were eight recognized stock exchanges in India (mentioned above). The number virtually remained unchanged, for nearly two decades. During eighties, however, many stock exchanges were established: Cochin Stock Exchange (1980), Uttar Pradesh Stock Exchange Association Limited (at Kanpur, 1982), and Pune Stock Exchange Limited (1982), Ludhiana Stock Exchange Association Limited (1983), Gauhati Stock Exchange Limited (1984), Kanara Stock Exchange Limited (at Mangalore, 1985), Magadh Stock Exchange Association (at Patna, 1986), Jaipur Stock Exchange Limited (1989), Bhubaneswar Stock Exchange Association Limited (1989), Saurashtra Kutch Stock Exchange Limited (at Rajkot, 1989), Vadodara Stock Exchange Limited (at Baroda, 1990) and recently established exchanges - Coimbatore and Meerut. Thus, at present, there are totally twenty one recognized stock exchanges in India excluding the Over The Counter Exchange of India Limited (OTCEI) and the National Stock Exchange of India Limited (NSEIL).

The remarkable growth after 1985 can be clearly seen from the table, and this was due to the favoring government policies towards security market industry.

Trading Pattern of the Indian Stock Market
Trading in Indian stock exchanges are limited to listed securities of public limited companies. They are broadly divided into two categories, namely, specified securities (forward list) and non-specified securities (cash list). Equity shares of dividend paying, growth-oriented companies with a paid-up capital of at least Rs. 50 mn and a market
capitalization of at least Rs.100 mn and having more than 20,000 shareholders are, normally, put in the specified group and the balance in non-specified group.

Two types of transactions can be carried out on the Indian stock exchanges: (a) spot delivery transactions “for delivery and payment within the time or on the date stipulated when entering into the contract which shall not be more than 14 days following the date of the contract”; and (b) forward transactions “delivery and payment can be extended by further period of 14 days each so that the overall period does not exceed 90 days from the date of the contract”. The latter is permitted only in the case of specified shares. The brokers who carry over the outstandings pay carry over charges (cantango or backwardation) which are usually determined by the rates of interest prevailing.

A member broker in an Indian stock exchange can act as an agent, buy and sell securities for his clients on a commission basis and also can act as a trader or dealer as a principal, buy and sell securities on his own account and risk, in contrast with the practice prevailing on New York and London Stock Exchanges, where a member can act as a jobber or a broker only.

The nature of trading on Indian Stock Exchanges are that of age old conventional style of face-to-face trading with bids and offers being made by open outcry. However, there is a great amount of effort to modernize the Indian stock exchanges in the very recent times.

Over the Counter Exchange of India (OTCEI)
The traditional trading mechanism prevailed in the Indian stock markets gave way to many functional inefficiencies, such as, absence of liquidity, lack of transparency, unduly long settlement periods and benami transactions, which affected the small investors to a great extent. To provide improved services to investors, the country’s first ringless, scripless, electronic stock exchange – OTCEI – was created in 1992 by country’s premier financial institutions – Unit Trust of India, Industrial Credit and Investment Corporation of India, Industrial Development Bank of India, SBI Capital Markets, Industrial Finance Corporation of India, General Insurance Corporation and its subsidiaries and Can Bank Financial Services.

Trading at OTCEI is done over the centers spread across the country. Securities traded on the OTCEI are classified into:

- **Listed Securities** - The shares and debentures of the companies listed on the OTC can be bought or sold at any OTC counter all over the country and they should not be listed anywhere else.
- **Permitted Securities** - Certain shares and debentures listed on other exchanges and units of mutual funds are allowed to be traded.
- **Initiated debentures** - Any equity holding at least one lakh debentures of a particular scrip can offer them for trading on the OTC.

OTC has a unique feature of trading compared to other traditional exchanges. That is, certificates of listed securities and initiated debentures are not traded at OTC. The original certificate will be safely with the custodian. But, a counter receipt is generated at the counter which substitutes the share certificate and is used for all transactions.

In the case of permitted securities, the system is similar to a traditional stock exchange. The difference is that the delivery and payment
procedure will be completed within 14 days.

Compared to the Traditional Exchanges, OTC Exchange Network has the Following Advantages

- OTCEI has widely dispersed trading mechanism across the country which provides greater liquidity and lesser risk of intermediary charges.
- Greater transparency and accuracy of prices is obtained due to the screen-based scrip less trading.
- Since the exact price of the transaction is shown on the computer screen, the investor gets to know the exact price at which s/he is trading.
- Faster settlement and transfer process compared to other exchanges.
- In the case of an OTC issue (new issue), the allotment procedure is completed in a month and trading commences after a month of the issue closure, whereas it takes a longer period for the same with respect to other exchanges.

Thus, with the superior trading mechanism coupled with information transparency investors are gradually becoming aware of the manifold advantages of the OTCEI.

National Stock Exchange (NSE)

With the liberalization of the Indian economy, it was found inevitable to lift the Indian stock market trading system on par with the international standards. On the basis of the recommendations of high powered Pherwani Committee, the National Stock Exchange was incorporated in 1992 by Industrial Development Bank of India, Industrial Credit and Investment Corporation of India, Industrial Finance Corporation of India, all Insurance Corporations, selected commercial banks and others.

Trading at NSE can be classified under two broad categories:

(a) Wholesale debt market; and

(b) Capital market.

Wholesale debt market operations are similar to money market operations—institutions and corporate bodies enter into high value transactions in financial instruments such as government securities, treasury bills, public sector unit bonds, commercial paper, certificate of deposit, etc.

There are two kinds of players in NSE:

(a) Trading members; and

(b) Participants.

Recognized members of NSE are called trading members who trade on behalf of themselves and their clients. Participants include trading members and large players like banks who take direct settlement responsibility.

Trading at NSE takes place through a fully automated screen-based trading mechanism which adopts the principle of an order-driven market. Trading members can stay at their offices and execute the trading, since they are linked through a communication network. The prices at which the buyer and seller are willing to transact will appear on the screen. When the prices match the transaction will be completed and a confirmation slip will be printed at the office of the trading member.

NSE has several advantages over the traditional trading exchanges. They are as follows:

- NSE brings an integrated stock market trading network across the nation.
• Investors can trade at the same price from anywhere in the country since inter-market operations are streamlined coupled with the countrywide access to the securities.

• Delays in communication, late payments and the malpractice’s prevailing in the traditional trading mechanism can be done away with greater operational efficiency and informational transparency in the stock market operations, with the support of total computerized network.

Unless stock markets provide professionalized service, small investors and foreign investors will not be interested in capital market operations. And capital market being one of the major source of long-term finance for industrial projects, India cannot afford to damage the capital market path. In this regard NSE gains vital importance in the Indian capital market system.

**PREAMBLE**

Often, in the economic literature we find the terms ‘development’ and ‘growth’ are used interchangeably. However, there is a difference. Economic growth refers to the sustained increase in per capita or total income, while the term economic development implies sustained structural change, including all the complex effects of economic growth. In other words, growth is associated with free enterprise, where as development requires some sort of control and regulation of the forces affecting development. Thus, economic development is a process and growth is a phenomenon.

Economic planning is very critical for a nation, especially a developing country like India to take the country in the path of economic development to attain economic growth.

**Why Economic Planning for India?**

One of the major objective of planning in India is to increase the rate of economic development, implying that increasing the rate of capital formation by raising the levels of income, saving and investment. However, increasing the rate of capital formation in India is beset with a number of difficulties. People are poverty ridden. Their capacity to save is extremely low due to low levels of income and high propensity to consume. Therefore, the rate of investment is low which leads to capital deficiency and low productivity. Low productivity means low income and the vicious circle continues. Thus, to break this vicious economic circle, planning is inevitable for India.

The market mechanism works imperfectly in developing nations due to the ignorance and unfamiliarity with it. Therefore, to improve and strengthen market mechanism planning is very vital. In India, a large portion of the economy is non-monetized; the product, factors of production, money and capital markets is not organized properly. Thus the prevailing price mechanism fails to bring about adjustments between aggregate demand and supply of goods and services. Thus, to improve the economy, market imperfections has to be removed; available resources has to be mobilized and utilized efficiently; and structural rigidities has to be overcome. These can be attained only through planning.

In India, capital is scarce; and unemployment and disguised unemployment is prevalent. Thus, where capital was being scarce and labor being abundant, providing useful employment opportunities to an increasing labour force is a difficult exercise. Only a centralized planning model can solve this macro problem of India.
Further, in a country like India where agricultural dependence is very high, one cannot ignore this segment in the process of economic development. Therefore, an economic development model has to consider a balanced approach to link both agriculture and industry and lead for a paralleled growth. Not to mention, both agriculture and industry cannot develop without adequate infrastructural facilities which only the state can provide and this is possible only through a well carved out planning strategy. The government’s role in providing infrastructure is unavoidable due to the fact that the role of private sector in infrastructural development of India is very minimal since these infrastructure projects are considered as unprofitable by the private sector.

Further, India is a clear case of income disparity. Thus, it is the duty of the state to reduce the prevailing income inequalities. This is possible only through planning.

Planning History of India
The development of planning in India began prior to the first Five Year Plan of independent India, long before independence even. The idea of central directions of resources to overcome persistent poverty gradually, because one of the main policies advocated by nationalists early in the century. The Congress Party worked out a program for economic advancement during the 1920’s, and 1930’s and by the 1938 they formed a National Planning Committee under the chairmanship of future Prime Minister Nehru. The Committee had little time to do anything but prepare programs and reports before the Second World War which put an end to it.

But it was already more than an academic exercise remote from administration. Provisional government had been elected in 1938, and the Congress Party leaders held positions of responsibility. After the war, the Interim government of the pre-independence years appointed an Advisory Planning Board. The Board produced a number of somewhat disconnected Plans itself. But, more important in the long run, it recommended the appointment of a Planning Commission.

The Planning Commission did not start work properly until 1950. During the first three years of independent India, the state and economy scarcely had a stable structure at all, while millions of refugees crossed the newly established borders of India and Pakistan, and while ex-princely states (over 500 of them) were being merged into India or Pakistan. The Planning Commission as it now exists was not set up until the new India had adopted its Constitution in January 1950.

FINDINGS
- A positive derivative means that the function is increasing.
- A M/S. HDFC LTD derivative means that the function is decreasing.
- A M/S. HDFC 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.

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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 profits or he may incur huge loss. But in derivatives segment the investor enjoys huge profits with limited downside. In cash market the 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. 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.

SUGGESTION

- 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 bullish market, so he is suggested to write a put option.

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

- In the above analysis the market price of M/S. HDFC 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 FIIs 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.

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