



Derivatives Research Webinar

Dec 5th 2018

Team Introduction

Head of Derivatives Desk
Sahaj Agrawal

Analysts

- Malay Gandhi
- Prashanth Lalu
- Prasenjit Biswas

Agenda

Basics Concepts of Derivatives (Part –I)

Tools used for Analysis

Market Outlook – Expectations going ahead

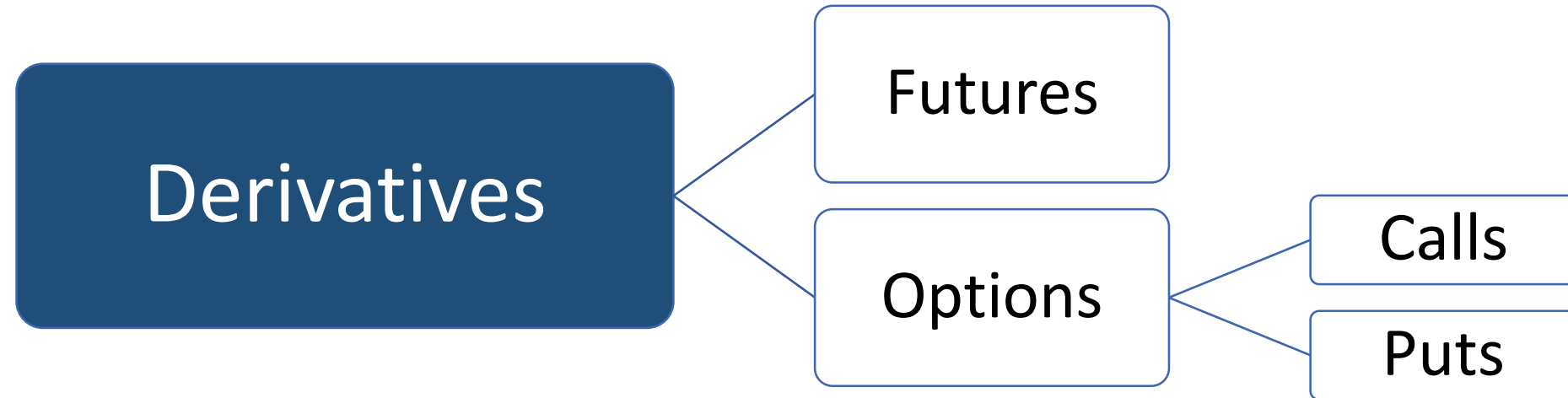
Q&A

Basics of Derivatives (Part- I)

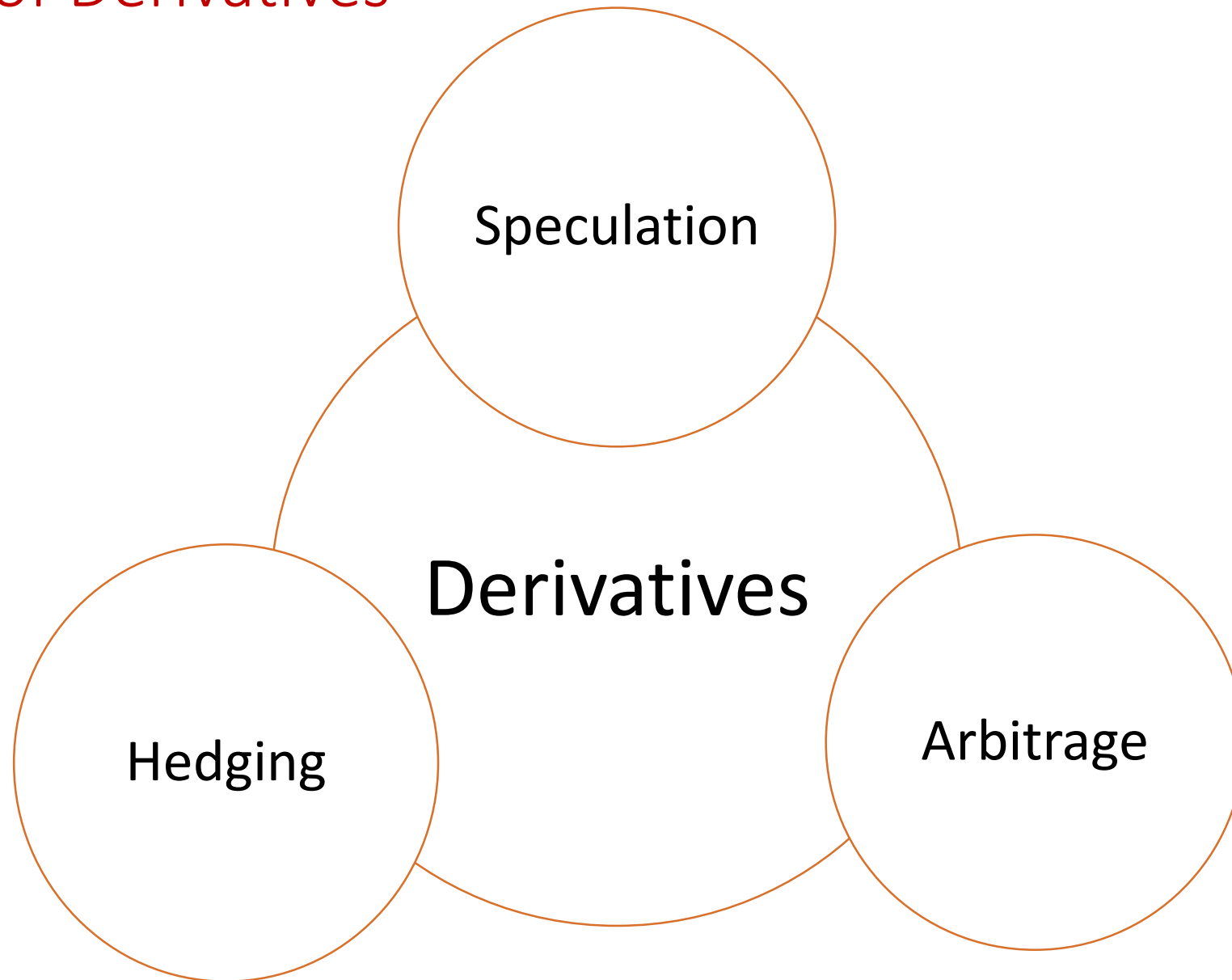
Understanding Derivatives

- Value is derived from an underlying
Stocks, Index, Weather, Currency, Commodities, etc
- Structured & Exchange Traded
Key components: Fixed Price, Date, Quantity
- Leveraged instruments and hence high risk reward

Derivatives Instruments



Usage of Derivatives

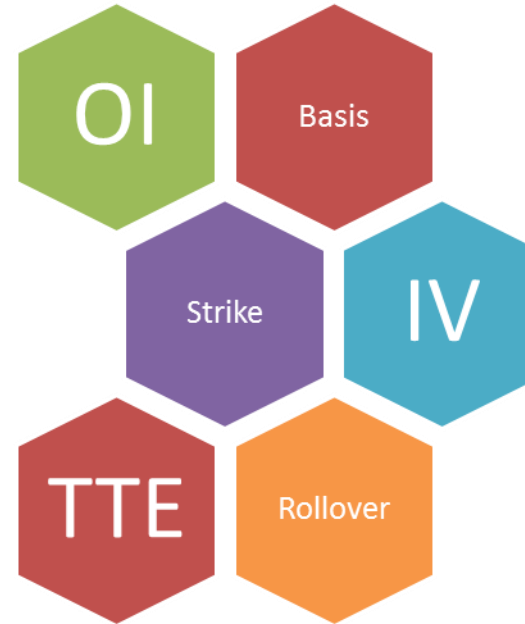


Derivatives Terminologies

- Open Interest
- Rollover
- Basis – Premium or Discount
- Options Pricing

- ITM / ATM / OTM Options
- Implied Volatility
- Put-Call Ratio (PCR)
- Max Pain
- Call Put Parity
- Strategies and more

Going ahead



Open Interest Concept

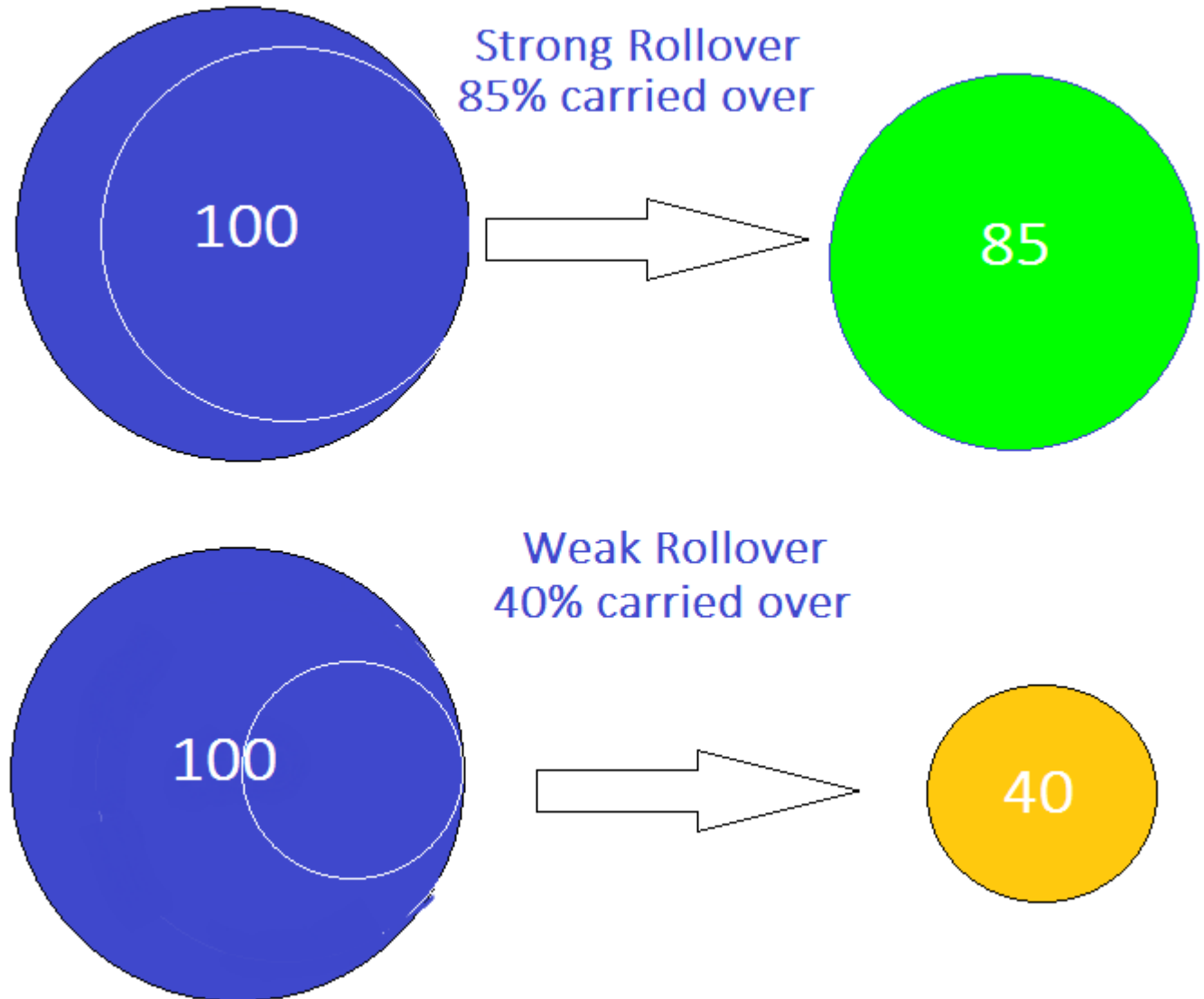
- Open interest is the total number of outstanding contracts in a particular underlying
- A high level of open interest indicates high leverage and hence possibility of high volatility going ahead
- For every buyer in the derivative space there is a seller. Underlying sentiment gauges who is stronger

Open Interest Calculation

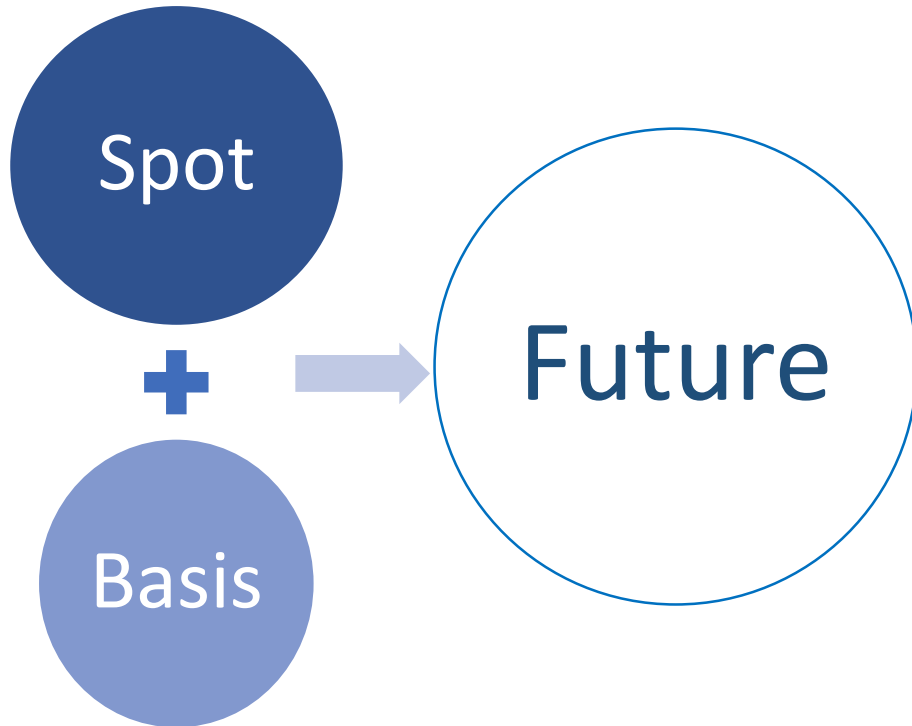
Date	Trade	Open interest
12/1/2018	A buys 1 Nifty future and B sells 1 Nifty future	1
12/2/2018	A buys 1 Nifty future and C sells 1 Nifty future	2
12/3/2018	D buys 1 Nifty future and A sells 1 Nifty future	2
12/4/2018	E buys 3 Nifty future and F sells 3 Nifty future	5
12/5/2018	F buys 1 Nifty future and D sells 1 Nifty future	5

Rollover

- Rollover is seen relative to broader market sentiment.
- In a bullish market strong rollover is bullish while a weak rollover indicates interim weakness



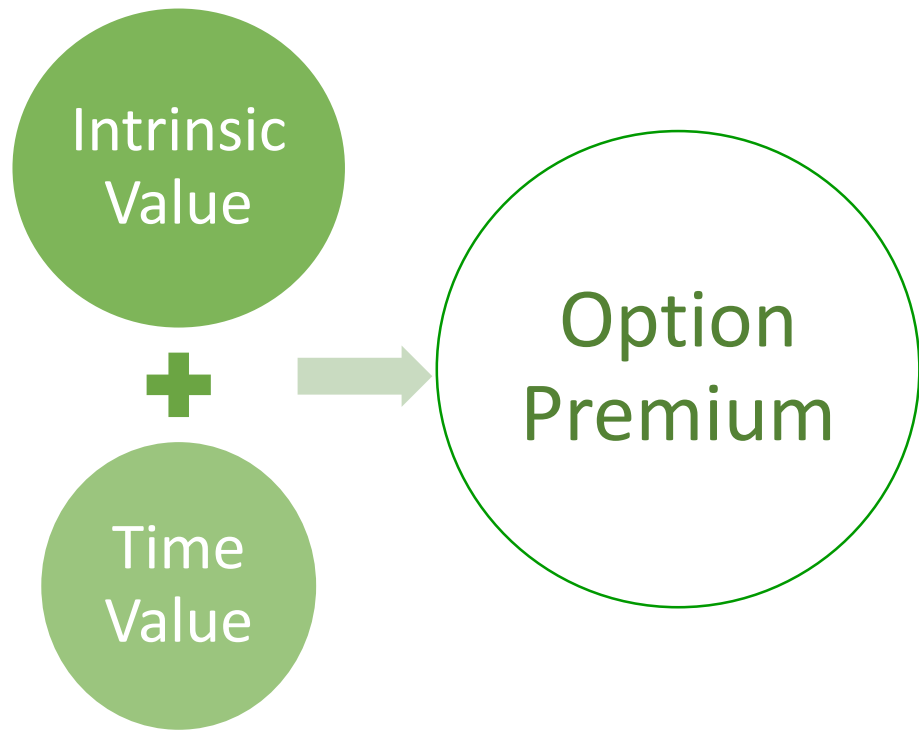
Pricing Futures



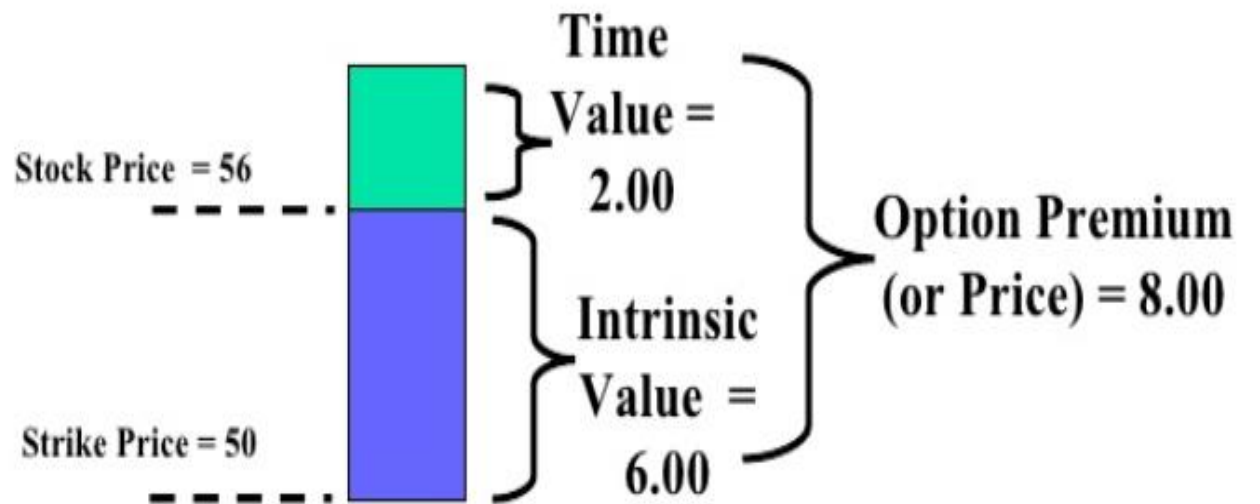
Basis ~ Cost of Carry

- Holding any asset has an associated cost. While holding futures positions, the premium paid is cost of holding the asset
- Why discount
 - Sentiment
 - Dividend
 - Corporate action

Pricing Options

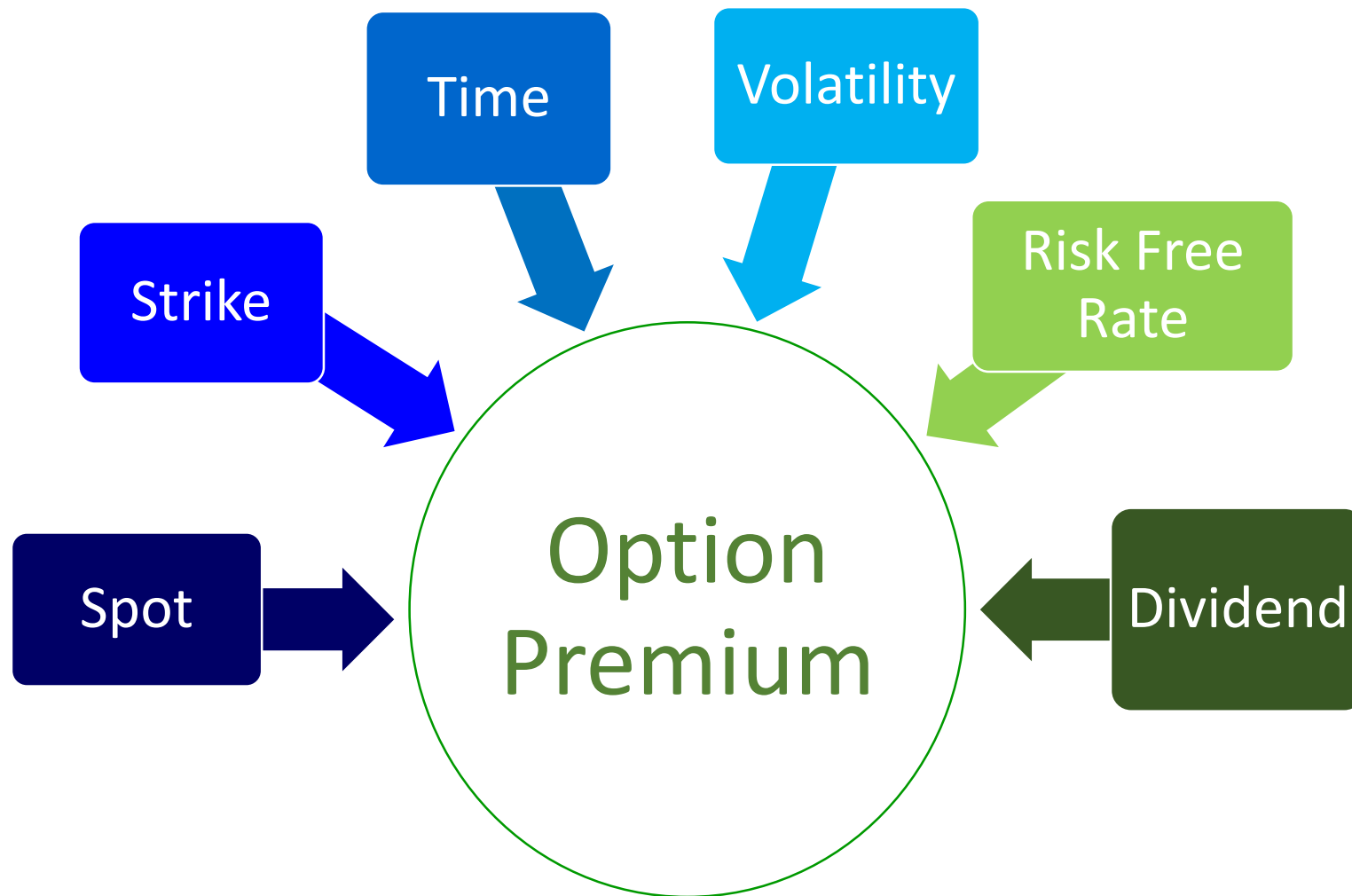


Stock Price = 56.00
Price of 50-strike Call Option = 8.00



Pricing Options

Premium can be explained by Black Scholes Model



Pillars of Successful Trading

Trading in Derivatives requires discipline and having clarity on following three aspects:

- Money management – Leverage management
- Method – Trading plan
- Mind – Greed and Fear

Extraordinary results can be achieved if above mentioned parameters are kept in mind while taking trading decisions

Tools used for Analysis

Tools for Analysis

- Underlying Trend of the broader markets – Technical & Quantitative Analysis
- Options Open Interest concentration – to identify the broader range
- Top – Down approach to identify Sectors/Stocks
 - From the Derivative space – Rollovers and Open interest
 - From the Technical space – Relative Momentum and Volume data

Rollover Insights

- Index rollover is Low
- Rollover data shows which sectors are showing interest
- IT, Metal and Auto pack witnessed buying interest. Interest in Private Banking continues while neutral bias in NBFC and PSU Banking space

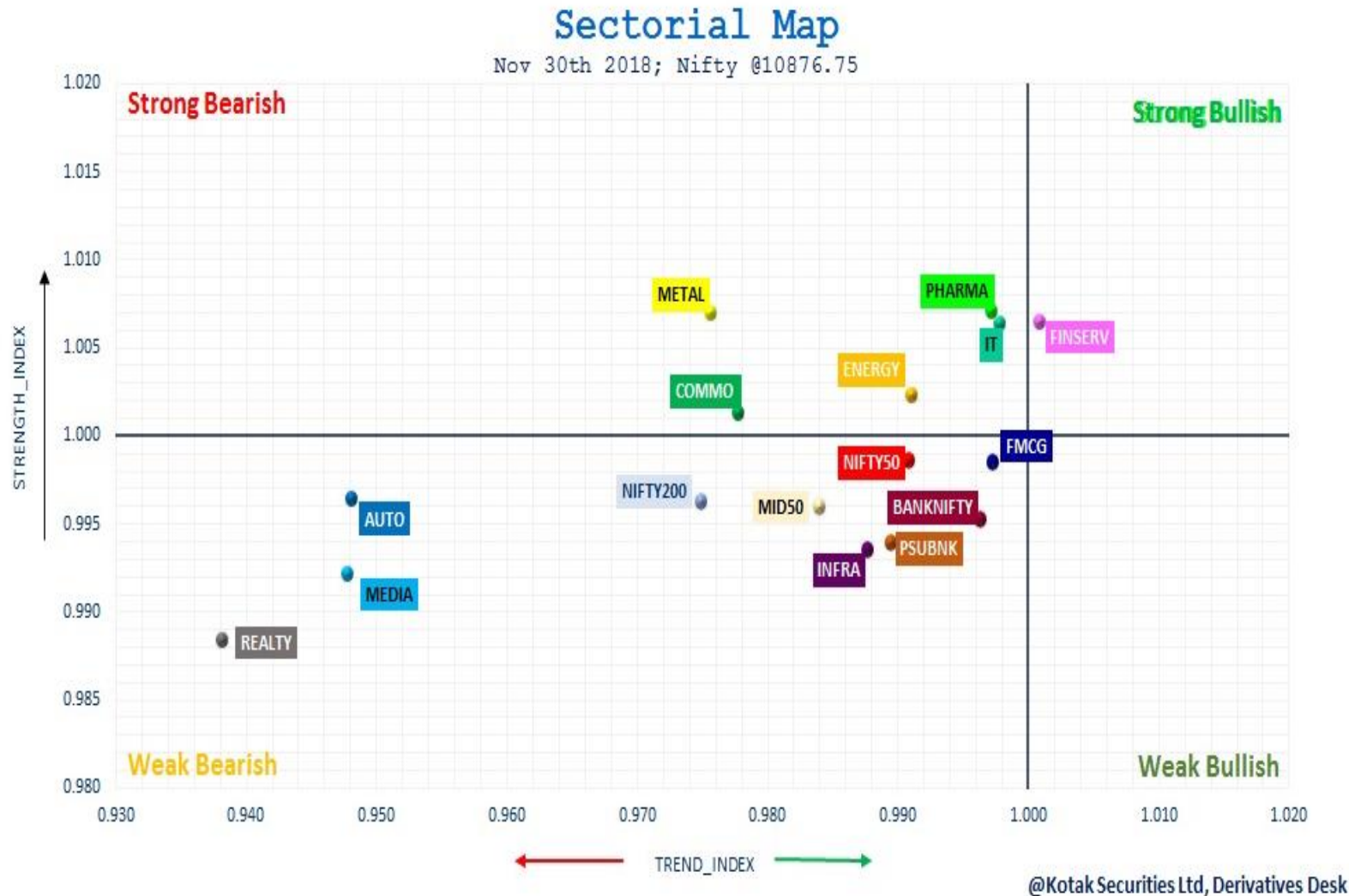
Sector	Strong	Weak	Grand Total
INFRA	76%	24%	100%
FINSERV	50%	50%	100%
ENERGY	63%	38%	100%
BANK	77%	23%	100%
AUTO	56%	44%	100%
PHARMA	64%	36%	100%
METALS	73%	27%	100%
IT	67%	33%	100%
COMMO	50%	50%	100%
PSUBNK	55%	45%	100%
FMCG	43%	57%	100%
CEMENT	83%	17%	100%
REALTY	50%	50%	100%
MEDIA	20%	80%	100%
CHEMICAL	50%	50%	100%
INDEX	0%	100%	100%
CONSUMF	0%	100%	100%

Open Interest Insights

- Options concentration is seen at 11000CE and 10000PE
- Short listing of stocks based on open interest patterns
- Technical internals of stocks have to be looked into to define risk-reward

Index	SYMBOL	OI Outliers	Sector
NIFTY50	INFY	1.53	IT
NIFTY50	LT	0.74	INFRA
NIFTY50	MARUTI	0.75	AUTO
NIFTY50	TATAMOTORS	0.77	AUTO
NIFTY50	TCS	1.28	IT

Momentum Insights



Sector Ranking

(Based on Sector Map Analysis)

Rank #	Index Name	Report Price	%Change
1	FINSER	11438.80	▲ 4.04%
2	BANKNIFTY	26862.95	▲ 3.32%
3	FMCG	30126.25	▲ 3.02%
4	PSUBNK	2915.20	▼ -0.16%
5	INFRA	3087.00	▼ -0.26%
6	NIFTY	10876.75	▲ 3.32%
7	IT	14638.05	▲ 5.80%
8	PHARMA	9275.70	▼ -0.29%
9	ENERGY	14323.95	▲ 2.47%
10	MIDCAP 50	4780.00	▼ 0.00%
11	NIFTY200	17503.60	▲ 0.90%
12	COMMO	3397.30	▼ -0.67%
13	METAL	3163.75	▼ -1.59%
14	MEDIA	2549.85	▲ 3.32%
15	AUTO	9270.20	▲ 2.29%
16	REALTY	232.00	▲ 2.41%

Our Flow

- Broader market outlook
- Index positioning based on rollover and options data
- Sector rollover activity
- Stock specific rollovers with internals like Technical and momentum patterns

Our Flow

HDFCBANK – What happened



Our Flow

TCS – What next



Market Outlook

Outlook – Short-Term

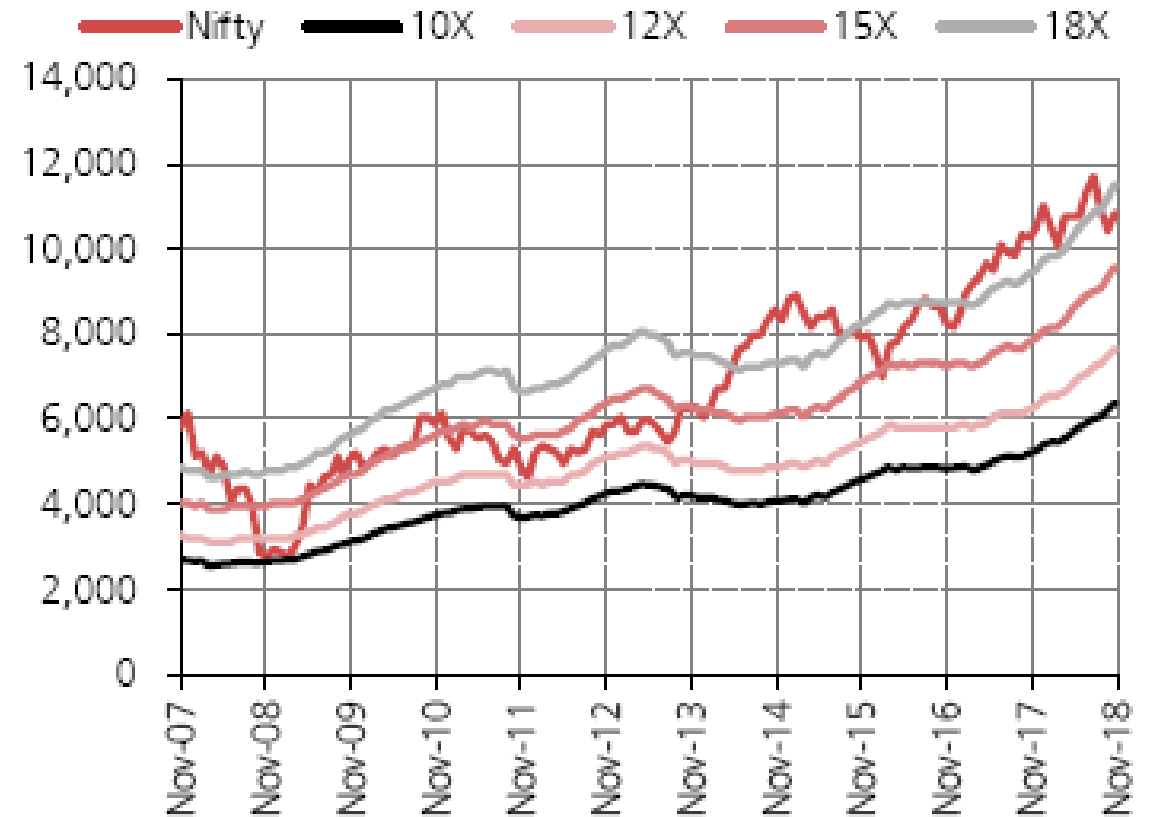
- Low rollover in the index – bulls on break
- 11000-11050 is a strong resistance zone. On the downside support is seen at 10500-10600 levels
- Cross of 11050 will confirm the larger Up Trend else we expect some consolidation
- IT, Infra and Auto stocks have positive build up while FMCG and Media remain weak. Private banks remain strong from the BFSI space.

Bumpy Rides in a Bullish setups

Year	High	Low	Corrections
2018	11760	10004	-14.93%
2016	8968	7893	-11.99%
2012	5629	4770	-15.26%
2009	4693	3918	-16.51%
2007	4647	4002	-13.88%

Fundamental Check

- We are trading at 16.5 times FY20 expected earnings
- Previous tops have happened at 22-23 times forward earnings
- Earnings have broadly been in line with expectations



Outlook – Medium Term

- We strongly believe the market is in a structural uptrend
- Not every low is important – 9950 is extremely important
- On the higher side we are looking at 11760 as the initial targets followed by 12500
- Volatility is expected to remain high on account of domestic elections and global developments

Key Risk Factors

- Political risk on the domestic front
- A steep rise in crude oil price ... Again
- Failure on Trade war front
- Steep rise in interest rates – global and domestic

Q & A

Thank You

Disclaimer

Kotak Securities Limited established in 1994, is a subsidiary of Kotak Mahindra Bank Limited. Kotak Securities is one of India's largest brokerage and distribution house. Kotak Securities Limited is a corporate trading and clearing member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), and Metropolitan Stock Exchange of India Limited (MSEI). Our businesses include stock broking, services rendered in connection with distribution of primary market issues and financial products like mutual funds and fixed deposits, depository services and Portfolio Management.

Kotak Securities Limited is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Kotak Securities Limited is also registered with Insurance Regulatory and Development Authority as Corporate Agent for Kotak Mahindra Old Mutual Life Insurance Limited and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI). We are registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advise/warning/deficiency letters or levied minor penalty on KSL for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time. We offer our research services to clients as well as our prospects.

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Disclaimer

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Equities Research Group of Kotak Securities Limited. We and our affiliates/associates, officers, directors, and employees, Research Analyst(including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company (ies) discussed if any or act as advisor or lender / borrower to such company (ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of Research Report or at the time of public appearance. Kotak Securities Limited (KSL) may have proprietary long/short position in the above mentioned scrip(s) and therefore may should be considered as interested. The views provided herein are general in nature and does not consider risk appetite or investment objective of particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with KSL. Kotak Securities Limited is also a Portfolio Manager. Portfolio Management Team (PMS) takes its investment decisions independent of the PCG research and accordingly PMS may have positions contrary to the PCG research recommendation. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies if any and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent. Details of Associates are available on our website ie www.kotak.com Research Analyst has served as an officer, director or employee of Subject Company: NA

We or our associates may have received compensation from the subject company, if any in the past 12 months.

We or our associates may have managed or co-managed public offering of securities for the subject company(ies) in the past 12 months: NA

We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company, if any in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company, if any in the past 12 months. We or our associates have not received any compensation or other benefits from the subject company if any or third party in connection with the research report. Our associates may have financial interest in the subject company if any.

Research Analyst or his/her relative's financial interest in the subject company(ies) : NA

Kotak Securities Limited has financial interest in the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report : NA

Our associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. Research Analyst or his/her relatives has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: NA

Disclaimer

Kotak Securities Limited has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: NA Subject Company, if any may have been client during twelve months preceding the date of distribution of the research report.

Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: www.kotak.com / www.kotaksecurities.com. Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: INZ000200137(Member of NSE, BSE, MSE, MCX & NCDEX), AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-NSDL-23-97. Compliance Officer Details: Mr.

Manoj Agarwal. Call: 022 - 4285 8484, or Email: ks.compliance@kotak.com. In case you require any clarification or have any concern, kindly write to us at below email ids:

o Level 1: For Trading related queries, contact our customer service at 'service.securities@kotak.com' and for demat account related queries contact us at ks.demat@kotak.com or call us on: 30305757 (by using your city STD code as a prefix) or Toll free numbers 18002099191 / 1800222299 and 18002099292.

o Level 2: If you do not receive a satisfactory response at Level 1 within 3 working days, you may write to us at ks.escalation@kotak.com or call us on 022-42858445 and if you feel you are still unheard, write to our customer service HOD at ks.servicehead@kotak.com or call us on 022-42858208.

o Level 3: If you still have not received a satisfactory response at Level 2 within 3 working days, you may contact our Compliance Officer (Name: Manoj Agarwal) at ks.compliance@kotak.com or call on 91-(022) 4285 6825.

o Level 4: If you have not received a satisfactory response at Level 3 within 7 working days, you may also approach CEO (Mr. Kamlesh Rao) at ceo.ks@kotak.com or call on 91-(022) 4285 8301.

Level 3: If you still have not received a satisfactory response at Level 2 within 3 working days, you may contact our Compliance Officer (Name: Manoj Agarwal) at ks.compliance@kotak.com or call on 91-(022) 4285 8484.

Level 4: If you have not received a satisfactory response at Level 3 within 7 working days, you may also approach CEO (Mr. Kamlesh Rao) at ceo.ks@kotak.com or call on 91- (022) 4285 8301.