FUTURE CONTRACT WITH REFERENCE TO CEMENT SECTOR STOCKS AT HDFC SECURITIES LTD

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ABSTRACT

This study evaluates the investment prospects of six companies in the cement industry: GRASIM INDUSTRIES LIMITED, SHREE CEMENT, INDIA CEMENT, AMBUJA CEMENTS, ULTRA TECH CEMENT LTD, and ACC. Through analysis of their payoff, intrinsic value, and profit, potential investment opportunities are assessed.

GRASIM INDUSTRIES LIMITED and AMBUJA CEMENTS exhibit positive payoffs, suggesting promising returns for investors. SHREE CEMENT and ULTRA TECH CEMENT LTD, despite initially negative payoffs, demonstrate substantial profitability as of February 1st, 2024 and January 1st, 2024, making them potentially lucrative investment options. However, caution is advised regarding INDIA CEMENT and ACC, as they have previously experienced negative payoffs and lower profits compared to other companies.

In conclusion, investing in GRASIM INDUSTRIES LIMITED and AMBUJA CEMENTS is recommended for potentially high returns. SHREE CEMENT and ULTRA TECH CEMENT LTD also present attractive opportunities despite initial negative payoffs. However, prudent consideration is necessary for INDIA CEMENT and ACC due to their history of negative payoffs.

INTRODUCTION

A futures contract is an agreement between two parties to buy or sell an asset at a certain time in future at a certain price. These are basically exchange traded, standardized contracts. The exchange stands guarantee to all transactions and counterparty risk is largely eliminated. The buyers of futures contracts are considered having a long position whereas the sellers are considered to be having a short position. It should be noted that this is similar to any asset market where anybody who buys is long and the one who sells in short.

The standardized items in a futures contract are :

1. Quantity of the underlying
2. Quality of the underlying
3. The date and the month of delivery
4. The units of price quotation and minimum price change
5. Location of settlement

Futures Trading will be of interest to the following type of traders :

1. The one who develops a view on the market movements and buys/sells accordingly
2. The one who wishes to hedge risks of changing market prices of underlying assets
3. Since the investor is required to pay a small fraction of the value of the total contract as margins, trading in Futures is a leveraged activity since the investor is able to control the total value of the contract with a relatively small amount of margin

Thus the Leverage enables the traders to make a larger profit (or loss) with a comparatively small amount of capital.

advantages and disadvantages of using futures

Futures Contracts - Advantages

1. Pay less commission for trade activities using futures investments compared to other investment choices
2. They are financial instruments that provide high liquidity
3. Futures Contract lets you reverse your reverse your position and allows you to open short or long positions
4. They provide a high leverage in order to gain maximum gains with limited investments

NEED FOR THE STUDY

The rationale for examining future contracts within the cement industry stems from the industry's unique characteristics and the challenges it faces in navigating market uncertainties. Cement, as a commodity, is subject to various external factors that can influence its pricing dynamics. These factors include fluctuations in demand driven by economic cycles, changes in construction activity, geopolitical events impacting raw material supply chains, and regulatory interventions affecting production costs.

Moreover, the cement industry operates within a competitive landscape where players must balance cost optimization with maintaining profitability. Volatility in cement prices can disrupt business operations, impacting revenue streams, profitability margins, and investment decisions. In this context, the study of future contracts offers insights into how cement producers and consumers can effectively manage price risks and enhance their competitive positioning in the market.

SCOPE OF THE STUDY

This study holds significance for various stakeholders within the cement industry, including cement producers, consumers, traders, investors, and policymakers. By shedding light on the role of future contracts in managing price risks, the study aims to equip stakeholders with knowledge and strategies to navigate market uncertainties effectively. Moreover, the insights derived from this study can contribute to informed decision-making processes, leading to enhanced competitiveness, operational resilience, and sustainable growth within the cement sector.

OBJECTIVES OF THE STUDY

- The primary objective of this study is to explore the role of future contracts in the cement industry, focusing on their significance, effectiveness, and implications for market participants
- Analyzing historical trends in cement prices and the performance of future contracts in managing price volatility.
- Investigating the factors influencing the adoption and utilization of future contracts by cement producers and consumers.
- Assessing the benefits and challenges associated with the use of future contracts in mitigating price risks within the cement industry.
- Providing insights and recommendations for stakeholders on optimizing the use of future contracts to enhance competitiveness and profitability.

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 study primarily focuses on future contracts within the context of the cement industry, with an emphasis on global trends and practices.
- Limitations may arise due to data availability, the complexity of market dynamics, and the diversity of

regulatory environments across different jurisdictions.

- By exploring historical trends, influencing factors, case studies, and future outlook, this study seeks to provide actionable insights for stakeholders seeking to optimize their strategies and outcomes in the dynamic landscape of the cement market.
- **REVIEW OF LITERATURE**

―Early forward contracts in the US addressed merchants concerns about ensuring that there were buyers and sellers for commodities. However ―credit risk‖ remained a serious problem. To deal with this problem, a group of Chicago; businessmen formed theChicago Board of Trade (CBOT) in 1848.

The primary intention of the CBOT was to provide a centralized location known In advance for buyers and sellers to negotiate forward contracts. In 1865, the CBOT went one step further and listed the first ―exchange traded‖ Futures s Contract in the US; these contracts were called ―futures contracts‖. In 2020, Chicago Butter and Egg Board, a spin-off CBOT was reorganized to allow futures trading. Its name was changed to Chicago Mercantile Exchange (CME). The CBOT and the CME remain the two largest organized futures exchanges, indeed the two largest ―financial‖ exchanges of any kind in the world today.

The first stock index futures contract was traded at Kansas City Board of Trade. Currently the most popular stock index futures contract in the world is based on S&P 500index**,** traded on Chicago Mercantile Exchange. During the Mid eighties, financial futures became the most active Futures instruments Generating volumes many times more than the commodity futures. Index futures, futures on T-bills and Euro-Dollar futures are the three most popular Futures contracts traded today. Other popular international exchanges that trade Futures s are LIFFE in England**,** DTB in Germany**,** SGX in Singapore**,** TIFFE in Japan, MATIF in France, Eurex etc.,

On their journey of innovation, Futures has not been free from controversies. They have often been held to be too complex to comprehend. The leverage that these products provide to investors raises concern. Recently, the present global financial crisis is being attributed to the housing mortgages being repackaged and sold as collateralized debt obligations and other exotic Futures products to financial institutions, pension funds and individuals. Policy markers around the world are now having a relook as the problems being posed by Futures s viz. lack of homogeneous rules and accounting standards; the excessive freedom allowed to market players to innovate and the lack of complete statistics for exchange-traded and OTC transactions. Leaders are talking about the need for more transparency and accountability in the functioning of Futures Contractss. While this exercise is underway, the aim of this paper is to present the historical perspective in which Futures s have developed in India and present certain issues which have been widely debated in the context of these markets in India, while also presenting the international context of the debates

INDUSTRY PROFILE

The stock exchange operating in the 19th century were those of Bombay set up in 1875 and Ahmadabad set up in 1894. Those were organized as voluntary nonprofit making association of brokers to regulate and protect their interest. Before the control on securities trading becomes a central subject under the constitution in 1950, it was a state subject and the Bombay securities contract (control) act of 1925 used to regulate trading in securities. Under this act, the Bombay stock exchange was reorganized in 1927 and Ahmadabad in 1937.

During the war period, a number of stock exchanges were organized even in Bombay, Ahmadabad and other centers, but they were not reorganized. Soon after it becomes central subject, central legislation was proposed and a committee headed by A.D.Gorwala went in to the bill for securities regulation. On this basis of the committee's recommendations and public discussion, the securities contracts Act become law in 1956.

Definition of stock exchange

―A stock exchange means any body or individuals whether incorporated or not, constituted for the purpose of assisting, regulating, or controlling the business of buying, selling in securities‖

It is an association of member brokers for the purpose of self-regulation and protection the interest of its members.

It can operate only by the government under the securities contract (regulation) Act 1956. The recognition is granted under section 3 of the act by the central government, ministry of finance.

By Laws

Besides the above Act, the securities contract (regulation) rules were also made in 1957 to regulated certain matters of trading on the stock exchange. There are also by laws of the exchange which are concerned with the following subjects.
Opening / closing of stock exchange, timing of trading of trading, regulation of bank transfers, regulation of badla /carry forwards, control of settlement and other actives of stock exchange, fixation of margins of markets prices or making up prices, regulation of jobbers
etc., regulation of brokers trading, brokerage charges, trading rules on the exchange arbitration and settlement of disputes, settlement and clearing of trading etc.
Regulation of stock exchange

COMPANY PROFILE

About HDFC securities

An Institution's institution - HDFC securities Limited subsidiary of HDFC Bank, is one of India's premier broking houses offering Retail and Institutional broking businesses. Rated AAA by Crisil and A1+ by ICRA (Highest Rating), HDFC securities has been voted the Largest E-brokerage house (2011) by BSE (IPF)-Dun & Bradstreet. It has also received the Best e-brokerage house award (runner-up) 2010 from Outlook Money. A top online Broking portal (www.hdfcsec.com) blending Web 2.0 and customer centric technologies, with ability for clients to Personalise, Manage, Customize and Share.

Benefits ::
> Seamless Transactions: A integrated 4:1 investment account enabling seamless movement of funds and shares, thereby giving clients dual ability to "Save" and " Invest" with ease, convenience, security, speed and promptness.

>Multiple trading platforms: Transact with utmost convenience using the choicest of platforms - Internet, Mobile, LITS (Low bandwidth site), Branches and Call N trade centre.

>Powerful Tools: Based on Web 2.0 and Ajax based technology, the portal offers the ability to Personalise, Manage, Customize and Share. Ingenious tools like Advanced Portfolio Tracker, Watchlists, Stock Alerts, Calculators, Stock Screeners, Interactive charting, Technical Analysis etc and much more, are a popular draw with our discerning clients.

>Trusted Research: Insightful research assistance & technical views facilitates one's ability to take an informed trading decision. Independent Retail Research team provides a host of reports that a client could avail of in his/her course of transactions.

>Safety and Security: HDFC securities offer the highest level of security with 128-bit encryption technology in transactions.

We are one of the leading stock broking companies in India and a subsidiary of HDFC Bank- a renowned private sector bank.
As a stock broking company, we have completed 15 years of operation serving a diverse customer base of retail and institutional investors.

DATA ANALYSIS AND INTERPRETATAION

Statement showing that profit and loss of GRASIM INDUSTRIES LIMITED

DATE	OPEN PRICE	CLOSE PRICE	SETTLE PRICE	Pay off	Intrinsic value	profit / loss
28-Mar-24	2,208.05	2,288.05	2,287.30	79.25	2,330.53	43.2300
27-Mar-24	2,232.90	2,213.90	2,213.90	-19.00	2,255.74	41.8427
26-Mar-24	2,220.00	2,237.15	2,237.15	17.15	2,279.43	42.2821
22-Mar-24	2,190.15	2,227.15	2,227.15	37.00	2,269.24	42.0931
21-Mar-24	2,184.55	2,202.05	2,202.05	17.50	2,243.67	41.6187
20-Mar-24	2,165.05	2,161.70	2,161.70	-3.35	2,202.56	40.8561
19-Mar-24	2,201.65	2,179.85	2,179.85	-21.80	2,221.05	41.1992
18-Mar-24	2,185.95	2,204.35	2,204.35	18.40	2,246.01	41.6622
15-Mar-24	2,180.40	2,198.25	2,198.25	17.85	2,239.80	41.5469
14-Mar-24	2,164.80	2,202.80	2,202.80	38.00	2,244.43	41.6329
13-Mar-24	2,196.90	2,154.05	2,154.05	-42.85	2,194.76	40.7115
12-Mar-24	2,245.40	2,194.55	2,194.55	-50.85	2,236.03	41.4770
11-Mar-24	2,211.10	2,245.40	2,245.40	34.30	2,287.84	42.4381
07-Mar-24	2,256.00	2,233.65	2,233.65	-22.35	2,275.87	42.2160
06-Mar-24	2,244.05	2,248.35	2,248.35	4.30	2,290.84	42.4938
05-Mar-24	2,235.60	2,243.95	2,243.95	8.35	2,286.36	42.4107
04-Mar-24	2,250.80	2,248.80	2,248.80	-2.00	2,291.30	42.5023
02-Mar-24	2,272.60	2,260.10	2,260.10	-12.50	2,302.82	42.7159
01-Mar-24	2,221.05	2,265.20	2,265.20	44.15	2,308.01	42.8123
29-Feb-24	2,182.25	2,206.45	2,206.45	24.20	2,248.15	41.7019
28-Feb-24	2,222.60	2,193.50	2,193.50	-29.10	2,234.96	41.4571
27-Feb-24	2,195.35	2,213.80	2,213.80	18.45	2,255.64	41.8408
26-Feb-24	2,214.95	2,205.05	2,205.05	-9.90	2,246.73	41.6754
23-Feb-24	2,232.00	2,206.30	2,206.30	-25.70	2,248.00	41.6991
22-Feb-24	2,250.45	2,212.70	2,212.70	-37.75	2,254.52	41.8200
21-Feb-24	2,225.00	2,213.85	2,213.85	-11.15	2,255.69	41.8418
20-Feb-24	2,181.25	2,212.90	2,212.90	31.65	2,254.72	41.8238

19-Feb-24	2,125.00	2,187.85	2,187.85	62.85	2,229.20	41.3504
16-Feb-24	2,110.25	2,125.00	2,125.00	14.75	2,165.16	40.1625
15-Feb-24	2,104.60	2,103.50	2,103.50	-1.10	2,143.26	39.7561
14-Feb-24	2,067.10	2,094.95	2,094.95	27.85	2,134.54	39.5946
13-Feb-24	2,170.50	2,087.00	2,087.00	-83.50	2,126.44	39.4443
12-Feb-24	2,189.00	2,167.60	2,167.60	-21.40	2,208.57	40.9676
09-Feb-24	2,073.35	2,192.90	2,192.90	119.55	2,234.35	41.4458
08-Feb-24	2,131.30	2,080.35	2,080.35	-50.95	2,119.67	39.3186
07-Feb-24	2,105.55	2,132.00	2,132.00	26.45	2,172.29	40.2948
06-Feb-24	2,112.50	2,092.95	2,092.95	-19.55	2,132.51	39.5568
05-Feb-24	2,161.90	2,111.70	2,111.70	-50.20	2,151.61	39.9111
02-Feb-24	2,165.00	2,165.15	2,165.15	0.15	2,206.07	40.9213
01-Feb-24	2,171.00	2,148.55	2,148.55	-22.45	2,189.16	40.6076
31-Jan-24	2,154.90	2,195.60	2,195.60	40.70	2,237.10	41.4968
30-Jan-24	2,152.85	2,151.05	2,151.05	-1.80	2,191.70	40.6548
29-Jan-24	2,129.20	2,130.25	2,130.25	1.05	2,170.51	40.2617
25-Jan-24	2,107.15	2,096.85	2,100.85	-6.30	2,140.56	39.7061
24-Jan-24	2,045.70	2,084.45	2,095.95	50.25	2,135.56	39.6135
23-Jan-24	2,096.65	2,072.75	2,074.40	-22.25	2,113.61	39.2062
20-Jan-24	2,112.00	2,110.25	2,110.25	-1.75	2,150.13	39.8837
19-Jan-24	2,092.00	2,090.50	2,107.95	15.95	2,147.79	39.8403
18-Jan-24	2,085.00	2,088.90	2,080.40	-4.60	2,119.72	39.3196
17-Jan-24	2,110.00	2,092.00	2,095.20	-14.80	2,134.80	39.5993
16-Jan-24	2,130.00	2,140.00	2,143.55	13.55	2,184.06	40.5131
15-Jan-24	2,140.00	2,118.25	2,129.50	-10.50	2,169.75	40.2476
12-Jan-24	2,118.25	2,118.25	2,141.45	23.20	2,181.92	40.4734
11-Jan-24	2,095.00	2,118.25	2,113.60	18.60	2,153.55	39.9470
10-Jan-24	2,105.00	2,105.00	2,098.60	-6.40	2,138.26	39.6635
09-Jan-24	2,105.00	2,105.00	2,094.45	-10.55	2,134.04	39.5851
08-Jan-24	2,105.00	2,105.00	2,098.50	-6.50	2,138.16	39.6617
05-Jan-24	2,124.00	2,105.00	2,111.65	-12.35	2,151.56	39.9102

04-Jan-24	2,117.00	2,114.35	2,114.35	-2.65	2,154.31	39.9612
03-Jan-24	2,137.00	2,125.00	2,105.00	-32.00	2,144.78	39.7845
02-Jan-24	2,163.00	2,146.70	2,146.70	-16.30	2,187.27	40.5726
01-Jan-24	2,210.90	2,165.00	2,165.00	-45.90	2,205.92	40.9185

FUTURES FORMULA:

1. Pay-off= settle price – opening price

2. Intrinsic value= settlement price* e^{rt}

3. Profit or loss = intrinsic value – settle price Calculations:

Where

T =
3/12 =
0.25 R
=
7.5%
Rt = 7.5%*0.25

= 0.01875

E^{rt} = 1.018927

FINDINGS

1. GRASIM INDUSTRIES LIMITED has payoff of 73.35, intrinsic value 1.018927, and profit of 2535.7535. Investor can enter the contract at 39.2062 and exist the contract at 43.2300 so that investor will get maximum returns.
2. SHREE CEMENT has Pay off of -2,787.80, intrinsic value 1.018927, and profit 31466.3690. Investor can enter the contract at 462.9612 and exist the contract at 564.6328 so that investor will get maximum returns.
3. INDIA CEMENT has Pay off of -82.60, intrinsic value 1.018927, and profit of 280.8190. Investor can enter the contract at 3.7195 and exist the contract at 5.2712 so that investor will get maximum returns.
4. AMBUJA CEMENTS has Pay off of 23.3, intrinsic value 1.018927, and profit of 675.0192. Investor can enter the contract at 10.0293and exist the contract at 11.7700 so that investor will get maximum returns.
5. ULTRA TECH CEMENT LTD has pay off of -759, intrinsic value 1.018927, and profit of 11679.8872. Investor can enter the contract at 179.3893 and exist the contract at 200.9732 so that investor will get maximum returns.
6. ACC has pay off of -117.25, intrinsic value 1.018927, and profit of 2945.8069.

   Investor can enter the contract at 42.4966 and exist the contract at 51.8191 so that investor will get maximum returns.

SUGGESTIONS

1. Investor can invest in GRASIM INDUSTRIES LIMITED and AMBUJA CEMENTS because it has positive payoff of 73.35 and 23.3 and investor can gain profits if he invests in these companies.
2. SHREE CEMENT and ULTRA TECH CEMENT LTD companies had a negative payoff but are currently generating good profits at Feb 1st 2024 and Jan 1st 2024, so investors can invest in these companies because it could be worth considering investing in these companies.
3. INDIA CEMENT and ACC has experienced a negative payoff but is currently profitable but investor should be cautious due to the previous negative payoff.

CONCLUSION

In this study I have taken 6 companies GRASIM INDUSTRIES LIMITED, SHREE CEMENT, INDIA CEMENT, AMBUJA CEMENTS, ACC. GRASIM INDUSTRIES LIMITED and AMBUJA CEMENTS, has a positive payoff and investor will gets good profits if investor invest in these companies. SHREE CEMENT and ULTRA TECH CEMENT LTD companies had a negative payoff but are currently generating good profits. INDIA CEMENT and ACC had negative payoffs and less profits compared to other companies.

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