TEACHING CASE LETS AND CASE-STUDY

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Case Title	**:**	**Saunak Shah**
Case Subject	**:**	**Financial Derivatives**
Accession Number	**:**	**11**

Saunak Shah

Mr. Saunak Shah has initiated trade in the derivatives market. He opened a Demat Account with the broker Goldmine Stocks. He understood from this friend that to enter into the derivatives market he has to offer some security to the trader. His friend advised him to take the opposite position in the derivatives market to safeguard his risk. His friend advised him that the derivatives market is based on the view that you perceive for the market. He also informed him that the price of a Futures contract was dependent on the movement of the underlying asset in the spot market.

The broker will always match his position with the prices prevailing in the market, and instruct the trader to refill the account when it falls short of the money. The broker will permit him to withdraw the money from the account if it is more than required. Mr. Shah had 1,000 shares of Hindalco. He was worried that the prices of Hindalco would increase in the future time. He was passionate to safeguard himself against the price fluctuations. He wanted to minimize his risk of holding the shares, so he decided to enter into the derivatives market. Mr. Shah bought 10 contracts of Hindalco Futures from National Stock Exchanges. The market lot of Hindalco is 1,400 shares. As per the margin norms, he had to pay 12.50% margin on the value of the contract. The contract was entered on 1st February 2023. The underlying value of the share was Rs.501.23. The cost of carrying on the share was Rs.4.63. If the funds used for the initial margin were invested in a Public Provident Fund Account for a month, then it would earn an interest of 7.20% per annum. Mr. Shah squared off his open position after 12 days. The settlement prices from 1st February to 12th February were as follows:

Date	Settlement Price (Rs.)
1st Feb	501.23
2nd Feb	503.65
3rd Feb	504.68
4th Feb	499.85
5th Feb	489.63
8th Feb	502.29
9th Feb	502.65
10th Feb	503.28
11th Feb	504.23
12th Feb	505.16

Required:

1. Compute the value of the Futures Contract as per the Cost-Of-Carry Model.
2. Compute the Mark-To-Market for the period of 10 days.
3. Identify if there is any arbitrage opportunity.