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Investors Perception towards Investments in Equity Derivatives in India

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Abstract: The most significant aspect of derivatives is risk management not about the elimination of risk. For Conducting ordinary mode of business operations financial equity derivatives affords a powerful tool for limiting risks to the investors. The derivative investors ought to perceive the market trend, market reforms, government policies, market regulations; factors influencing derivatives investment Motivating Factors, return, investment opportunities obviously and adequately take prudent investment decisions. The present study investigates the investor's perception towards investments in the derivatives market at Karnataka region. The data were collected through questionnaire survey from 322 respondents in Karnataka region. The researcher suggests that the interest level of the investor is excessive in knowing about the equity derivative market segment, the company can enhance the investor's appreciation by imparting seminars and conducting or organizing a workshop related to the market.

Key Words: Investors Perception, Derivative Instruments, Risk. Equity. company fixed deposits, government securities, bonds,

INTRODUCTION

The notable landmark in Indian financial systems is introduction of equity Derivatives products and trading derivative products in Indian derivative markets. Along with this best element, the proponents of derivatives additionally admit that this time period arouses more controversies and most human beings seem to be at them with suspicion and few would accept as genuine with that they do make a contribution to the society's welfare. Perception of investors varies as they have many alternatives risk management tools in financial market. There may be many factors which affects the decision of investors while using derivatives tools to manage their financial risks. L C Gupta committee to envelop appropriate regulatory framework for derivatives trading and to recommend suggestive bylaws for Regulation and Control of Trading and Settlement of Derivative Contract.

STATEMENT OF THE PROBLEM: equity Derivatives are new segment of secondary market operation in India; investors need to understand trade process and to make profit in derivatives market. Importance of investor has become increasing order because of Technological advancements in trading system, rapid growth of derivative market and new economic policy of 1991. Behaviour of investors tends to moves from savings to investment. Because of liberalized regulation in the capital market, a large number of brokers have been entered into the capital market, based on the requirement of the investor, brokers provides huge amount of services under single umbrella. Theoretically, the impact of stock index futures and options on the stock market volatility is still not clear. In generally the relationship between derivatives markets activities and the stock market activities is recognized through arbitraging activities. After the introduction of derivative products, the spot market and future markets are linked through hedging of funds which may cause to increasing in volatility of the component stocks. Growth in financial derivatives market and reports of major losses from derivative products which is creates a great deal of confusion about derivative instruments.

OBJECTIVES OF THE STUDY

1 To study the impact of the investors investment decisions on preferences of the derivative market in India.

2 To study the investors investment preference reasons for the investments in derivative market in India.

HYPOTHESIS OF THE STUDY

1 There is no significant association between the investor's behaviour variables and investment preferences in derivative market in India.

REVIEW OF LITERATURE

MeenakshiBindal (2018) in her research reveals that the derivative market has an important role to play in economic development of a country. Change in exchange rates, interest rates and stock prices of different financial markets have increased the financial risk to the corporate world. Adverse changes in the macroeconomic factors have even threatened the very survival of business world. It is therefore necessary to develop a set of new financial instruments known as derivatives in the Indian financial markets, to manage such risk. The objectives 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.

Disha (2018) in her study shows that India's most of the investment avenues are termed to be risky by the investors. The major feature of investment as perceived by the investors is income stability, principal amount, liquidity, easy transferability and approval. there are a number of investment avenues available in India such as share, silver, real estate, gold, Life Insurance, Bank, postal savings, etc. The desired level of Return and the tolerance for risk help in deciding the choice of the investor. The investment may differ from provident fund, national saving certificate, chit funds, insurance schemes, company fixed deposits, government securities, bonds, equity, mutual fund schemes and derivatives. It can be concluded that every investor want to save extra, be added risk directs to more profit. This is the major reason why the perception of the investor changes when it comes to the investment in equity and derivatives.

Gautami and NallaBalaKalyan (2020) in their reveal that as part of financial market reforms, new instruments and financial reengineering have been introduced in India since 1991. One area where the growth and innovation is slow is in the introduction of derivatives. In India, the appearance and enlargement of derivatives market is moderately a recent phenomenon. Since its beginning in June 2000, derivatives market has exhibited exponential enlargement both in terms of volume and number of traded contracts. The term derivatives, refers to a broad class of financial instruments which mainly include options and futures. These instruments derive their value from the price and other related variables of the underlying asset. They do not have worth of their own and derive their value from the claim they give to their owners to own some other financial assets or security.

RESEARCH METHODOLOGY

The research design applied for this study is analytical and descriptive in nature. Both primary and secondary data were used in this study. The primary data was collected from investors of derivative market in Karnataka region by adopting Convenience sampling method with a sample size of 322 respondents. The secondary data was collected in the form of reports published by derivatives market, stock market website in India, journals, magazines, periodicals and dailies.

LIMITATIONS OF THE STUDY

1. The Study area is limited to Karnataka region only.
2. Some respondents are feel hesitated because of busy work schedules

DATA ANALYSIS AND INTERPRETATIONS

Cross tabulation between the Age and the Investors Investment Patterns Equity Options on Individual Stocks

		Equity Options on Individual stocks				Total
		Rarely	Sometimes	Often	Very Often	
Age	22 to 30	9	0	38	3	50
	31-40	3	3	237	3	246
	41 to 50	0	3	23	0	26
Total		12	6	298	6	322

Source: Primary Data-Field Survey

Table Clearly depicts respondent's response towards the age and the investors investment patterns Equity Options on Individual stocks, where in majority of respondents that is age group of 31-40 has said that out of 246, 237 of them think there often invest in Equity Options on Individual stocks and age group of 22-30 respondents has said that out of 50,48 of them thinks there often invest in Equity Options on Individual stocks and age group of 22-30 respondents has said that out of 50, 38 of them think there often invest in Equity Options on Individual stocks.

Chi-Square test results between the age and the Investors Investment Patterns Equity Options on Individual Stocks

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	54.524[a]	6	0.000
Likelihood Ratio	36.515	6	0.0
Linear-by-Linear Association	7.748	1	0.005
N of Valid Cases	322		
a. 8 cells (66.7%) have expected count less than 5. The minimum expected count is .48.			

Source: Primary Data-Field Survey

Table Reveals the Chi-square test Statistics was executed to see is there any significant relationship between the age of the respondents and their investment patterns with respect to investment in equity options the Pearson chi-square results of 0.000 which is lower than the table value of .05 indicated that there is a significant relationship between the age of the investors and their investment patterns towards investing in equity options.

Cross tabulation between the age and the investors investment patterns Equity options on Stock Index Future

		Stock Index Futures				Total
		Never	Rarely	Sometimes	Often	
Age	22 to 30	0	0	50	0	50
	31-40	3	7	232	4	246
	41 to 50	0	3	23	0	26
Total		3	10	305	4	322

Source: Primary Data-Field Survey

Table Clearly depicts respondent's response towards the age and the investors investment patterns Stock Index Futures, where in majority of respondents that is age group of 31-40 has said that out of 246, 232 of them think there sometime invest in Stock Index Futures and age group of 22-30 respondents has said that out of 50,50 of them thinks there sometime invest in Stock Index Futures and age group of 41-50 respondents has said that out of 26, 23 of them think there sometime invest in Stock Index Futures.

Chi-Square Test Results Between the Age and the Investors Investment Patterns Equity Options on Stock Index Future

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	9.982[a]	6	0.125
Likelihood Ratio	10.678	6	0.099
Linear-by-Linear Association	2.567	1	0.109
N of Valid Cases	322		
a. 8 cells (66.7%) have expected count less than 5. The minimum expected count is .24.			

Source: Primary Data-Field Survey

Table Reveals the Chi-square test Statistics was executed to see is there any significant relationship between the age of the respondents and their investment patterns with respect to investment in stock index future the Pearson chi-square results of 0.125 which is higher than the table value of .05 indicated that there is no significant relationship between the age of the investors and their investment patterns towards investing in stock index futures.

Cross tabulation between the age and the investors investment patterns Equity options on stock index options

		Stock Index Options			Total
		Rarely	Often	Very Often	
Age	22 to 30	3	41	6	50
	31-40	0	243	3	246
	41 to 50	0	26	0	26
Total		3	310	9	322

Source: Primary Data-Field Survey

Table Clearly depicts respondent's response towards the age and the investors investment patterns Stock Index Options, where in majority of respondents that is age group of 31-40 has said that out of 246, 243 of them think there often invest in Stock Index Options and age group of 22-30 respondents has said that out of 50,41 of them thinks there often invest in Stock Index Options and age group of 41-50 respondents has said that out of 26, 26 of them think there often invest in Stock Index Options.

Chi-Square test results between the age and the Investors Investment Patterns Equity Options on Stock Index Options.

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	35.645[a]	4	0.000
Likelihood Ratio	24.994	4	0.0
Linear-by-Linear Association	0.01	1	0.919
N of Valid Cases	322		
a. 5 cells (55.6%) have expected count less than 5. The minimum expected count is .24.			

Source: Primary Data-Field Survey

Table Reveals the Chi-square test Statistics was executed to see is there any significant relationship between the age of the respondents and their investment patterns with respect to investment in stock index options the Pearson chi-square results of .000 which is lesser than the table value of .05 indicated that there is a significant relationship between the age of the investors and their investment patterns towards investing in equity futures.

Cross tabulation between the education qualification and the investors investment patterns Equity Futures on Individual stocks

		Equity Futures on Individual stocks		Total
		Rarely	Sometimes	
Educational Qualification	Up to Secondary	0	30	30
	Pre University	37	180	217
	Degree	3	72	75
Total		40	282	322

Source: Primary Data-Field Survey

Table Clearly depicts respondent's response towards the education qualification and the investors investment patterns Equity Futures on Individual stocks, where in majority of respondents that is 180 who are having the Pre University qualification sometime invest in Equity Futures on Individual stocks. 72 of them having degreequalification sometime invest in Equity options on equity futures and 37 of them having Pre University qualification rarely invest in the Equity Futures on Individual stocks.

Chi-Squarebetween the Education Qualification and the Investors Investment Patterns Equity Options on Equity Futures

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	13.418[a]	2	0.001
Likelihood Ratio	18.271	2	0
Linear-by-Linear Association	0.623	1	0.43
N of Valid Cases	322		
a. 1 cells (16.7%) have expected count less than 5. The minimum expected count is 3.73.			

Source: Primary Data-Field Survey

Table Reveals the Chi-square test Statistics was executed to see is there any significant relationship between the education qualification of the respondents and their investment patterns with respect to investment in stock index options the Pearson chi-square results of .001 which is lesser than the table value of .05 indicated that there is a significant relationship between the education qualification of the investors and their investment patterns towards investing in equity futures.

Cross tabulation between the education qualification and the investors investment patterns Equity Options on Individual stocks

		Equity Options on Individual stocks				Total
		Rarely	Sometimes	Often	Very Often	
Educational Qualification	Up to Secondary	3	0	27	0	30
	Pre University	9	6	196	6	217
	Degree	0	0	75	0	75
Total		12	6	298	6	322

Source: Primary Data-Field Survey

Table Clearly depicts respondent's response towards the education qualification and the investors investment patterns Equity Options on Individual stocks, where in majority of respondents that is 196 who are having the Pre University qualification often invest in Equity Options on Individual stocks. 75 of them having degreequalification often invest in Equity Options on Individual stocks and 27 of them having Pre University qualification often invest in the Equity Options on Individual stocks.

Chi-Square test between the education qualification and the investors investment patterns Equity Options on Individual stocks

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.460[a]	6	0.052
Likelihood Ratio	17.896	6	0.006
Linear-by-Linear Association	4.888	1	0.027
N of Valid Cases	322		
a. 8 cells (66.7%) have expected count less than 5. The minimum expected count is .56.			

Source: Primary Data-Field Survey

Table Reveals the Chi-square test Statistics was executed to see is there any significant relationship between the education qualification of the respondents and their investment patterns with respect to investment in equity options the Pearson chi-square results of .052 which is higher than the table value of .05 indicated that there is no significant relationship between the education qualification of the investors and their investment patterns towards investing in equity options.

Cross tabulation between the Education Qualification and the Investors Investment Patterns Stock Index Futures

		Stock Index Futures				Total
		Never	Rarely	Sometimes	Often	
Educational Qualification	Up to Secondary	0	0	30	0	30
	Pre University	3	10	204	0	217
	Degree	0	0	71	4	75
Total		3	10	305	4	322

Source: Primary Data-Field Survey

Table Clearly depicts respondent's response towards the education qualification and the investors investment patterns Stock Index Futures, where in majority of respondents that is 204 who are having the Pre University qualification sometimes invest in Stock Index Futures. 71 of them having degreequalification sometimes invest in Stock Index Futures and 30 of them having Pre University qualification sometimes invest in the Stock Index Futures.

Chi-Square test results between the Education Qualification and the Investors Investment Patterns Stock Index Futures

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	19.564[a]	6	0.003*
Likelihood Ratio	22.016	6	0.001*
Linear-by-Linear Association	4.101	1	0.043*
N of Valid Cases	322		
a. 8 cells (66.7%) have expected count less than 5. The minimum expected count is .28.			

Source: Primary Data-Field Survey

Table Reveals the Chi-square test Statistics was executed to see is there any significant relationship between the education qualification of the respondents and their investment patterns with respect to investment in stock index futures the Pearson chi-square results of .003 which is lesser than the table value of .05 indicated that there is a significant relationship between the education qualification of the investors and their investment patterns towards investing in stock index futures.

Cross tabulation between the Occupation and the investors investment patterns onEquity Futures on Individual stocks

		Equity Futures on Individual stocks		Total
		Rarely	Sometimes	
Occupation	Self Employed	10	43	53
	Professional	23	204	227
	Govt./Private Employee	3	9	12
	Others	4	26	30
Total		40	282	322

Source: Primary Data-Field Survey

Table Clearly depicts respondent's response towards the occupation and the investors investment patterns Equity Futures on Individual stocks, where in majority of respondents that is 204 who are having the Professional sometime invest in Equity Futures on Individual stocks. 43 of them having Self Employed sometime invest in Equity Futures on Individual stocks and 26 of them having Others sometime invest in the Equity Futures on Individual stocks and 9 of them having Govt./Private Employee sometime invest in the Equity Futures on Individual stocks.

Chi-Square test results between the Occupation and theinvestors investment patterns Equity Futures.

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.886[a]	3	0.18
Likelihood Ratio	4.371	3	0.224
Linear-by-Linear Association	0.092	1	0.761
N of Valid Cases	322		
a. 2 cells (25.0%) have expected count less than 5. The minimum expected count is 1.49.			

Source: Primary Data-Field Survey

Table Reveals the Chi-square test Statistics was executed to see is there any significant relationship between the occupation of the respondents and their investment patterns with respect to investment in equity futures the Pearson chi-square results of .018 which is higher than the table value of .05 indicated that there is no significant relationship between the occupation of the investors and their investment patterns towards investing in equity futures.

Cross tabulation between the Occupation and the investors investment patterns towards equity options

		Equity Options on Individual stocks				Total
		Rarely	Sometimes	Often	Very Often	
Occupation	Self Employed	3	0	50	0	53
	Professional	9	6	206	6	227
	Govt./Private Employee	0	0	12	0	12
	Others	0	0	30	0	30
Total		12	6	298	6	322

Source: Primary Data-Field Survey

Table Clearly depicts respondent's response towards the occupation and the investors investment patterns Equity Options on Individual stocks, where in majority of respondents that is 206 who are having the Professional often invest in Equity Options on Individual stocks. 50 of them having Self Employed often invest in Equity Options on Individual stocks and 30 of them having Others often invest in the Equity Options on Individual stocks and 12 of them having Govt./Private Employee often invest in the Equity Options on Individual stocks.

Chi-Square tests results between the Occupation and the investors investment patterns towards Equity Options

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.503[a]	9	0.585
Likelihood Ratio	12.356	9	0.194
Linear-by-Linear Association	1.649	1	0.199
N of Valid Cases	322		
a. 11 cells (68.8%) have expected count less than 5. The minimum expected count is .22.			

Source: Primary Data-Field Survey

Table No – 4.125Reveals the Chi-square test Statistics was executed to see is there any significant relationship between the occupation of the respondents and their investment patterns with respect to investment in equity options the Pearson chi-square results of 0.585 which is higher than the table value of .05 indicated that there is no significant relationship between the occupation of the investors and their investment patterns towards investing in equity options.

Cross tabulation between the Occupation and the investors investment patterns towards stock index futures

		Stock Index Futures				Total
		Never	Rarely	Sometimes	Often	
Occupation	Self Employed	0	0	53	0	53
	Professional	3	10	214	0	227
	Govt./Private Employee	0	0	12	0	12
	Others	0	0	26	4	30
Total		3	10	305	4	322

Source: Primary Data-Field Survey

Table Clearly depicts respondent's response towards the occupation and the investors investment patterns Stock Index Futures, where in majority of respondents that is 214 who are having the Professional sometime invest in Stock Index Futures. 53 of them having Self Employed sometime invest in Stock Index Futures and 53 of them having Self Employed sometime invest in the Stock Index Futures and 26 of them having Others sometime invest in the Others.

Chi-Square tests results between the Occupation and the investors investment patterns towards stock Index Futures

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	44.775[a]	9	0.000
Likelihood Ratio	28.481	9	0.001
Linear-by-Linear Association	5.181	1	0.023
N of Valid Cases	322		
a. 11 cells (68.8%) have expected count less than 5. The minimum expected count is .11.			

Source: Primary Data-Field Survey

Table – 4.127Reveals the Chi-square test Statistics was executed to see is there any significant relationship between the occupation of the respondents and their investment patterns with respect to investment in stock index futures the Pearson chi-square results of .000 which is lesser than the table value of .05 indicated that there is a significant relationship between the occupation of the investors and their investment patterns towards investing in stock index futures.

FINDINGS AND SUGGESTIONS

SUGGESTIONS

There is a need to introduce more equity derivatives products in India and has long strides to take in terms of providing larger liquidity and depth to the bigger market players. In this study Derivatives market is risk and return game that's why the investor get risk. Due to absence of delivery based settlement, many investors may not be participating in the derivatives market. Also, this could bring one more type of product in the basket to be offered to the market at large. Hence, NSE may look at starting the physical delivery derivatives

contracts to give further fillip to volume on its exchange in particular and the Indian equity derivatives market at large. Most of the respondents agreed that if they are provided with practice and guide they would make investments in this market. Companies can make use of this and make many seminars to wide awake the people regarding their investment.Many of them sense that the derivative market is appropriate for FII, mutual fund and corporate, the company should make the retail investors clear that investing in the derivative market is very easy.Investors are more often invest in index options because of derivatives are highly risky. The study suggests that Government should look forward to setting up a super regulator who can take care of these various regulatory arbitrage/risk issues or there should be joint committee of all the regulatory bodies to look into such concerns of the market from overall perspective.

FINDINGS

1 Chi-square test Statistics was executed to see is there any significant relationship between the age of the respondents and their investment patterns with respect to investment in equity options the Pearson chi-square results of 0.000 which is lower than the table value of .05 indicated that there is a significant relationship between the age of the investors and their investment patterns towards investing in equity options.

2 Chi-square test Statistics was executed to see is there any significant relationship between the age of the respondents and their investment patterns with respect to investment in stock index future the Pearson chi-square results of 0.125 which is higher than the table value of .05 indicated that there is no significant relationship between the age of the investors and their investment patterns towards investing in stock index futures.

3 Chi-square test Statistics was executed to see is there any significant relationship between the education qualification of the respondents and their investment patterns with respect to investment in stock index options the Pearson chi-square results of .001 which is lesser than the table value of .05 indicated that there is a significant relationship between the education qualification of the investors and their investment patterns towards investing in equity futures.

4 Chi-square test Statistics was executed to see is there any significant relationship between the education qualification of the respondents and their investment patterns with respect to investment in stock index futures the Pearson chi-square results of .003 which is lesser than the table value of .05 indicated that there is a significant relationship between the education qualification of the investors and their investment patterns towards investing in stock index futures.

5 Chi-square test Statistics was executed to see is there any significant relationship between the occupation of the respondents and their investment patterns with respect to investment in equity options the Pearson chi-square results of 0.585 which is higher than the table value of .05 indicated that there is no significant relationship between the occupation of the investors and their investment patterns towards investing in equity options.

CONCLUSION

The study determines that the investor's preference reasons in the derivative investment are different in different investment avenues. Contribution of financial Equity derivatives to the Indian financial system had been important. It indicated that four factors affected the perception of investors towards the equity derivatives. But there is no effect of demographic variables on perception towards the derivatives. Investors' first preference in derivatives product is index options followed by stock futures, stock options and index futures. Most of the investors are trading in derivatives market, monthly followed by occasionally. Majority of the investors are participating as speculators in equity derivatives. Most of the investors enter into the Forward Contract investments is Return, Future Contract investments is Risk and Safety, Option Contract Investment is Future Needs and Investments in Swaps is Future Needs. The future scope of the study is that it can be conducted on large sample and various other regions of the country.

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