E-ISSN: 2708-4523
P-ISSN: 2708-4515
Impact Factor (RJIF): 5.61
AJMC 2025; 6(3): 190-194

www.allcommercejournal.com
Received: 02-08-2025
Accepted: 05-09-2025

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Financial derivatives perception factors: Investors view in Hyderabad

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DOI: https://www.doi.org/10.22271/27084515.2025.v6.i3Sa.824

Abstract
Indian financial derivatives market are booming like anything nowadays and generating mammoth profit to investors. Especially pharma and service sector shares are nourishing in a faster way to reach exponential outcome level. Experts and academic research show that investor perception of financial derivatives is sharply divided, with opinions ranging from derivatives being invaluable risk management tools to being highly speculative and complex "weapons of mass destruction". The view an investor holds is shaped by their financial knowledge, risk tolerance, and investment objectives. The trading activity in derivatives markets helps determine the fair value of the underlying assets, which improves overall market efficiency and transparency. Research in the Indian derivatives market shows that age, employment, income, and trading experience can influence an investor's perception of risk and their investment objectives. For example, experienced and higher-income investors are more likely to participate and take on greater risk. Economic factors like market volatility and liquidity also influence investor perception. Periods of high volatility can increase interest in derivatives for hedging, but they can also make risk-averse investors more cautious.

Keywords: F & O, risk factor, essentials, SEBI

Introduction
Derivatives offer investors effective tools for management of risk exposures and achieving investment objectives. This article aims to study the view point of investors while considering derivatives as a tool for investing. However, their complex nature and risk require in-depth knowledge to invest in derivatives. This study will reflect the behaviour of investors in balancing risk and return relationships. It will focus on the investor's behaviour while analysing various factors such as risk, return, stability, and liquidity of an investment. The derivatives investors ought to study the market trend, market regulations, market reforms, and several other factors that will affect their prudent decision to invest in the derivatives market.

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. But the reality is that derivatives are a fashionable hazard administration gadget that allows risk- sharing and allows the environment friendly allocation of capital to productive funding activities. In this study, we will strive and learn about the veracity of a few misconceptions that surround derivatives alongside with their economic benefits. The present research is tries to talk about Investors Perception towards Derivative Markets and behaviors of investor in derivative market in India.

Source: Meenakshi (2020) [2]

Retail investor behaviour for equity derivative refers to the actions and decisions of the individual investors when dealing with financial instruments known as equity derivatives. Retail investors' behaviour is important in equity derivative market as it influences the market dynamics. In present scenario, more retail investors are dealing in equity derivatives due to increase in online trading platforms and it is impacting the volatility and liquidity in the market. The collective actions of the retail investors significantly influence price movements of equity derivative and amplifying trends. The behaviour of retail investors acts as a key indicator for market sentiments and offers valuable insights to assess the future market movements. There are so many factors which influence the retail investors' behavior towards equity derivative. In the present paper, an attempt has been made to study the factors affecting retail investors' behaviour towards equity derivatives.

Derivatives are a zero-sum game, unlike some of the other investments like stocks, where the stock price is related to the profit growth of the company and the investors can also earn dividends, or debentures, where the investor is entitled to earning interest. In the case of derivatives, one party makes profits while the other loses. In such a case, one must be extra cautious, as the risk of being on the losing side is high, especially for the less knowledgeable. Since derivatives are contracts, one of the major risks is that the counterparty will not honor its commitment—the counterparty risk. However, in India, in all exchange-traded derivative contracts, the presence of a clearing house or clearing corporation eliminates this risk completely.

Literature

Ranganayaki et.al (2025) [5] suggests that factors such as age and profession do not strongly influence investors' perspectives on derivatives, indicating that a more generalized approach to education and information dissemination might be effective for a broad range of investors. Despite these moderate concerns, the overall perception of derivatives trading is one of cautious interest, with many investors open to learning more about how to manage the associated risks and complexities. Based on these findings, it is recommended that educational initiatives focus on addressing the concerns about risk and transaction costs, while also simplifying the process of market analysis for derivatives.

Dr B R Rampur (2024) [4] explained. Indian investors have a fair level of knowledge of the derivatives market and its concepts. This depicts that they are not entirely unfamiliar with derivatives but may not be experts either. Many investors try to avoid investing in derivatives due to their prediction of high level of risk. Derivatives are different than traditional investments such as stocks or bonds. The decision to invest in derivatives is affected by various factors, and risk is indeed a important concern for many investors. Income, education, and gender don't serve as direct determinants for anyone who chooses to invest in derivatives. While these factors may indirectly influence investment decisions, they are not sole factors in determining one's investment choices. Other factors such as risk tolerance, financial goals, market knowledge.

Gautami and Nalla Bala Kalyan (2022) [1] 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.

Meenakshi Bindal (2020) [2] 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.

Sachin kshirsagar, pranav kayande, milind jagtap (2021) conducted a study on financial derivatives gmr infrastructure ltd want to study about risk management with the help of derivatives by using Secondary data. They found In bullish market the call option writer incurs more losses so the investor is suggested to go for a call option to hold, whereas 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, whereas the put option writer will get more losses, so he is suggested to hold a put option. In derivative segment the profit/loss of the option writer depends on the fluctuations of the underlying asset.

Methodology

Objectives

1. To find out the level of awareness of the investors towards financial derivatives.
2. To analyze the investors' perceptions regarding Equity derivatives.
3. To examine the investors' perceptions regarding Index derivatives.

Nature of the Study

As far as objectives of the study are concerned, the study aims to analyse and describe the socio-economic profile of the respondents, investors' perception, and factors influencing investors, investment behaviour, and investment decision with respect to derivatives market. Hence, the research design applied for this study is analytical and descriptive in nature.

Data Collection

By using a structured questionnaire and collecting 100 investors opinion for the praposed study.

Primary data

The primary data is obtained by administering a structured questionnaire/ schedule to investors & stock broking companies in Hyderabad & Secunderabad.

Secondary data

To understand and explore the research problem, to build the theoretical frame work, various secondary data sources are used. This includes journals related to the finance, magazines, Books, websites (SEBI, NSE, BSE and other brokerages), research report, news papers and experts articles etc.

Factor Analysis

Awareness of Derivatives

Table 1: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		**.087**
Bartlett's Test of Sphericity	Approx. Chi-Square	8600.938
	df	120
	Sig.	.000

The KMO value is 0.92 > 0.6. Bartlett's Test of Sphericity indicates a measure of the multivariate normality of set of variables (Sig. value is less than 0.00 indicates multivariate normal and acceptable for factor analysis).

Table 2: Communalities

	Initial	**Extraction**
Trading in F&O is convenient	1.000	.066
Derivatives are new, complex and high-tech financial product	1.000	.777
Trading in derivatives leads to anxiety, fear, panic etc.,	1.000	.770
Derivative instruments are fully useful to hedge risk	1.000	.832
Investing in derivatives contract are less risky compared to equity market	1.000	.864
Trading in cash/spot market is easy compare to (F&O) market	1.000	.837
Trading in derivatives need more investment as lot size is fixed	1.000	.754
Futures and options help to minimize risk considerably by locking in prices	1.000	.797
Innovation in derivative products would lead to an efficient market	1.000	.855
Volatility has increased in equity market after the introduction of futures and options	1.000	.863
Volatility in derivative market is associated with equity market	1.000	.789
Information provided by experts(through media, stock Brokers) was useful	1.000	.821
Hedging via Derivative reaps more profits in bullish / bearish market	1.000	.887
Derivative market helps in price discovery in the spot market	1.000	.927
Derivatives assist in appropriate and superior allocation of resources to manage portfolio	1.000	.814
One can take large positions in derivative markets by depositing fewer margins	1.000	.894
Extraction Method: Principal Component Analysis.		

The above table shows commonalities which indicate how much of the variance in the variables has been accounted for by the extracted factors. The item named "Trading in F&O is convenient" is removed further steps of factor analysis as its extraction value is less than 0.5 and rest of items has been accounted for further analysis.

Table 3: Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.408	21.302	21.302	3.408	21.302	21.302	2.518	15.739	15.739
2	2.677	16.733	38.034	2.677	16.733	38.034	2.372	14.822	30.561
3	2.282	14.260	52.294	2.282	14.260	52.294	2.249	14.057	44.618
4	1.552	9.700	61.994	1.552	9.700	61.994	1.874	11.711	56.330
5	1.510	9.437	71.431	1.510	9.437	71.431	1.770	11.062	67.392
6	1.117	6.984	78.415	1.117	6.984	78.415	1.764	11.023	78.415
7	.983	6.146	84.561						
8	.789	4.932	89.493						
9	.513	3.207	92.699						
10	.336	2.099	94.798						
11	.318	1.989	96.787						
12	.298	1.861	98.648						
13	.138	.859	99.507						
14	.065	.404	99.911						
15	.014	.087	99.998						
16	.000	.002	100.000						
Extraction Method: Principal Component Analysis.									

From the above table it is observed that 6 components or factors are having Eigen value more than 1, so only these 6 factors (value of component 1 = 3.408, component 2 = 2.677, component 3 = 2.282, component 4 = 1.552, component 5 = 1.510, and component 6 = 1.117) are considered for further analysis. Further, the extracted sum of squared holding % of variance depicts that the first factor accounts for 21.302% of the variance features from the stated observations, the second 16.733%, the third 14.26%, the fourth 9.7%, the fifth 9.43% and the sixth 6.98%. Thus, 6 components are effective enough in representing all the characteristics or components highlighted by the stated 16 variables.

The below mentioned table 4 value loadings (extracted values of each item under 6 variables) indicating that, out of 16 variables 06 factors are extracted. Researcher have extracted 6 variables wherein the 16 items are divided into 6 variables according to the most important items which are similar responses in component 1 and simultaneously in components 2, 3, 4, 5 and 6. The gap (empty spaces) on the table represents loadings that are less than 0.5, this makes reading the table easier. We suppressed all loadings less than 0.5.

Table 4: Rotated Component Matrix

	Component					
	1	2	3	4	5	6
Innovation in derivative products would lead to an efficient market	.667					
Volatility has increased in equity market after the introduction of futures and options	.763					
One can take large positions in derivative markets by depositing fewer margins	.912					
Hedging via Derivative reaps more profits in bullish / bearish market	.589					
Derivatives assist in appropriate and superior allocation of resources to manage portfolio		.891				
Trading in derivatives leads to anxiety, fear, panic etc.,			.713			
Trading in cash/spot market is easy compare to (F&O) market			.867			
Trading in derivatives need more investment as lot size is fixed			.502			
Volatility in derivative market is associated with equity market			.504	.526		
Derivative market helps in price discovery in the spot market				.559		
Investing in derivatives contract are less risky compared to equity market					.900	
Futures and options help to minimize risk considerably by locking in prices					.693	
Information provided by experts(through media, stock Brokers) was useful						.893
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.						
a. Rotation converged in 15 iterations.						

The idea of rotation is to reduce the number of factors on which the variables under investigation have high loadings. The component having value minimum of 0.5 is considered for further analysis. But in the above table factor Volatility in derivative market is associated with equity market is having value of more than 0.5 in two components, so these factor can't be considered for further analysis. After interpreting all components in a similar fashion, we arrived at the following descriptions:

- Component 1 - "Risk of trading in Derivative"
- Component 2 - "Managing Portfolio"
- Component 3 - "Unease of Derivative"
- Component 4 - "Price discovery"
- Component 5 - "Risk Management"
- Component 6 - "Sources of Information"

Discussion of Results

The survey participants exhibited a moderate level of familiarity with futures and options trading, with most respondents indicating concerns about the complexity, risks, and transaction costs associated with these financial instruments. The results also suggest that while some

investors are attracted to the higher return potential of derivatives, many are hesitant to engage in them due to perceived risks, including the possibility of unlimited losses and the complexities of market analysis. Additionally, transaction costs were identified as a significant factor influencing investment decisions, with many respondents considering them a deterrent to trading in the derivatives market. Furthermore, demographic variables such as age and profession did not show significant differences in familiarity with or preferences for derivatives trading. This suggests that factors such as age and profession do not strongly influence investors'

According to the results of this study, investor view of financial derivatives in India has changed in recent years, with investment in financial derivatives growing year after year. Investors' socioeconomic profiles (such as age, gender, income, and education, among other things) and investing patterns vary. Most investors believe that investing in derivatives is riskier than other avenues of investment. The majority of investors have discovered that liquidity and transparency are quite high in financial derivatives. The main disadvantages in derivatives market include volatility, large contract sizes, and a lack of flexibility; small investors are suffering a lot for investment in financial derivatives. Investing in financial derivatives entails both high risk and good return. As the derivative market provides a higher return by hedging interest rate and currency rate risk with maximum revenue. For their investments in financial derivatives, the majority of investors depend on third parties like brokers and social media. This is made possible by the market's significantly increased number of trading agents. These trading agents profit from transactions made by investors. Although SEBI and stock exchanges like NSE and BSE are very helpful when investing in financial derivatives, they could take certain steps to raise knowledge of the derivatives market.

Several studies have demonstrated that even while some emerging economies have acknowledged the usefulness of the derivatives market, further investigation is still required. Otherwise, retail investors may face many kinds of challenges and issues as a result of their ignorance.

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