ABANS ENTERPRISES LIMITED

RISK MANAGEMENT POLICY

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Contents

A) Client Funds

1. Structure Products

1.1. Introduction

These products are designed to generate alpha over the underlying performance. This is done through complex option structures with expiries greater than one year.

Since option structures have long dated expiries, these are unavailable on the exchanges to hedge and hence delta of the option structures is hedged. As expiry nears, some of these strikes do become active and we move to the actual options contract whilst unwinding the delta position

1.2. Delta hedging for Structure Products

When the client comes on board, basis the fund details available, option quantity is determined & delta is hedged for the same. This process is conducted on trading days at 3:10 pm or 15mins before the market close whichever is applicable.

We use two different methods to check the delta position of the product.

a) **First Method** is to use the delta provided by Bloomberg to calculate delta position and compare it with the existing position to decide whether to buy or sell and how much quantity needs to be traded.

b) **Second Method** is to retrieve data required to calculate the delta from Bloomberg including RFR, dividend yield, current spot price and volatility. We will take 7 days EWMA of the implied volatility and calculate the delta using Black-Scholes model. Delta multiplied by option units will give us the delta position.

Since, volatility in the market is unpredictable and sudden changes in volatility will impact on IVs and thus impact on delta of options for the day. Hence, we normalize the IVs by weighted average i.e. 75% weight for previous 6 days IVs and 25% weight for today's IVs.

For delta calculation data available from Bloomberg is used, i.e. the Rfs, Div Yield as per today's price scenario and IV for second method is EWMA of 7 days used basis which delta hedging is done.

For trade execution, if both the methods are indicating sell (buy), the trade will be executed equivalent to the nearest lot size possible rounded to 0.7 (and minimum quantity of the two methods), otherwise no trades will be executed.

1.3. For mitigating the effects of temporary IV spikes.

If today's IVs have sudden movements, then we replace today's IV with 7 days EWMA IV and normalise the quantity from second method for trade execution.

1.4. For unprecedented Black swan events with extreme IV movements.

In case of unprecedented black swan events, like COVID-19 etc., IVs will go through paradigm shifts. Such shifts will result in flawed results from both methods. To avoid this, IVs will be fixed as per last recorded IV before the commencement of event till the paradigm shifts return back to normal, for calculation of quantity from second method for trade execution.

B) Treasury

2. Bullion

2.1. Introduction

Abans entities are involved in the business of trading bullion-Gold, Silver and other precious metals. These metals are brought from designated suppliers like the bank, purchased locally from bullion vendors, ETF segment and sourced through special licenses (TRQ), online auction, MCX delivery and then these metals are sold to bullion traders, ETF's or deliver on exchange.

2.2. Purchase

a) Import through Banks

The process to import precious metals through banks is as follows

- An indent to import a certain quantity is placed with the bank-At this stage the premiums & costing (except import price) of the deal are fixed. The bank then places the import order on our behalf. At this stage, dealer may hedge the same by going Long in Gold CME Futures since Price is not fixed and to reduce the risk of increasing prices.
- Once a request to raise BOE is placed by us, the bank informs its CHA to raise the same on portal. Once done, it reflects the duty amount to be paid by Abans
- We pay the duty to the bank, and it gets the goods cleared
- We then have to specify the location at which we want the metal to be transferred. The transfer is done by Bank through a logistics partner.
- Within 30 days or as agreed with the bank, these goods have to be priced and lifted
- Basis these pricing, money is paid to the bank.
  - Pricing is done in two parts:
  - Pricing of metal- The dollar value of the metal is fixed. This fixes the transactional value of the import
  - Currency is priced- This converts the dollar value of the transaction to a INR value
- As soon as the bank fixes the dollar value of the metal, the business team may unhedge its Long exposure or can continue to keep the hedge basis other Indents/anticipation and further hedges against physical stock by either
- Short Gold CME futures contract along with going long on USDINR futures. The long position in currency guards the desk against INR movement before the payment-sometimes these can be a couple of days.
  - If the currency is priced at the same time, the long hedge would not be required.
  - If the currency is priced on the same day, after pricing of metal, the long hedge would be unwound at that time.
- Gold MCX futures in India. Since the Indian hedge leg creates a dollar short position, the same is hedged by going long on USDINR futures. This long hedge of currency will be squared of once we fix price with the bank.

Metal hedging	Stage	Currency	Hedge	Implied exposure
Onshore	Pricing	$	Sell MCX	Metal Short, USDINR Short
			Buy USDINR	USDINR Long
	Payment	$	Sell USDINR	USDINR Short
Offshore	Pricing	$	Sell CME	Metal Short
	Payment	$	Sell USDINR	USDINR Short

b) Purchase from local Vendors: vaulted and non-vaulted

While purchasing from local vendors, the process can have two set ups

1. Taking delivery of vaulted goods: In this, the vendor's material is placed with a vaulting service provider. We have to take delivery from that service provider

2. <u>Taking delivery of non-vaulted goods:</u> In this, the vendor's material is not placed with a vaulting service provider and we have to take delivery from the vendor's location where the material is lying.

For taking delivery, we have to make payments to the vendor. This again can happen in two ways

1. <u>Payment prior to taking delivery</u>
    a. In this case since the payment is to be done before taking delivery, we run a risk on the counterparty not honouring the delivery. For such cases there is an approval matrix in place

Approver	**Amount (Rs Crs)**
Anup Mittal	Upto 2Crs
Chintan Mehta-CEO	>2Crs

In case CEO is not available for approvals, Risk head approval is sought.

2. <u>Payment after taking delivery</u>
    a. In this case, since payment is done after delivery, the risk is mitigated. This case is used specifically in case of non-vaulted goods delivery.

The payment approval matrix remains the same as above.

c) ETF segment

The Exchange traded fund (ETF), as the name suggests are instruments traded on the exchange. These track the underlying prices of Gold & Silver and act as an instrument for retail investors to buy these commodities as a part of their portfolios.

The ETFs themselves need to hold the underlying commodities in proportion to the ETF units issued. Fresh units are issued and assigned to a vendor like Abans, if we deliver the underlying precious metal to them. These units can then be traded on the exchange for funds.

We can buy units directly from open market and convert them to physical metal by liaising with the ETF service provider.

We act as market makers for major ETFs. Our role involves buying ETF units, based on our internal analysis, when there is selling pressure in the market,. This analysis determines whether we can profitably convert the ETF units into the underlying metal and sell it at a higher price.

The traded NAV of these ETFs can be at a premium or discount to current market prevalent metal prices. This difference is adjusted in the final settlement prices by the ETF service provider in the form of adjustment component, for conversion of units to metal and vice versa.

When adjustment component is positive investor has to pay while creation and will receive on redemption. In case of adjustment component being negative investor will receive on creation and will pay during redemption

d) Tariff Rate Quota (TRQ)

Comprehensive Economic Partnership Agreement (CEPA) between the Government of the Republic of India and the Government of the United Arab Emirates (UAE), the TRQ holders can take supply of gold through Nominated Agencies or can import through IFSCA approved Exchange IIBX in IFSC Gift City. Gold can be imported in India at custom duty 1% lower than the effective rate of duty.

The process to import precious metal under TRQ (Tariff Rate Quota) starts with execution of purchase leg on the IIBX exchange. We receive a Bullion Deposit Receipt (BDR) in our Demat, which can be exchanged for physical gold. The BDR needs to be extinguished to file the bill of entry and custom clearance. The physical goods are then available at the vault in our name. This can be sold to clients in India.

In this process while purchasing from supplier we hedge on INX/MCX and while selling we unwind the hedge. In some case we do back-to-back trade i.e. when we fix price with bank/Supplier for purchase at the same time, we fix sale price with client. In this case we don't take any margin against the sale transaction.

e) Online auction

We participate in auctions conducted by major bullion refiners, such as HZL, for gold and silver. These auctions can be for immediate or future delivery, as specified in the auction contract.

Participants bid at a premium or discount to the spot price. We analyze the potential return on investment and place bids accordingly. To hedge against market fluctuations, we typically hedge our positions at the time of pricing.

Once the metal is available on the value date, we can either deliver it to the exchange or sell it in the open market.

f) MCX Delivery

We also procure gold through MCX delivery by establishing long positions in MCX gold contracts when they are trading at a discount to the spot market price.

2.3. Sales

<u>Sales of Gold/Silver bars in India</u>

The business team sells the imported + locally procured gold/silver to clients in India. The same is done at prevalent rates

The sales can happen in 3 forms, which also serve as risk identification parameters:

a) Fixed Delivered

For fixed delivery transactions, the pricing and delivery of goods occur on the same day. Before finalizing the price, we require clients to provide a margin. Once the trade is confirmed, the client pays the remaining balance. After the balance payment is reflected in our system, we issue a delivery order (DO) along with the supporting invoice.

b) Fixed Undelivered

For fixed, undelivered transactions, the pricing occurs before the future delivery date. We require a margin (5%) from the client before confirming the price. To mitigate risks associated with potential price declines, we may hedge our position on the exchange. If the market price drops significantly, the client might attempt to avoid the deal by purchasing the goods at a lower price. To manage this risk, we closely monitor the mark-to-market (MTM) value of the trade and ensure that the client maintains sufficient margin.

c) Unfixed Delivered

For unfixed, delivered transactions, the delivery occurs before the pricing is finalized. In these cases, we require clients to pay a 110% margin based on the current market rate. Since we have already delivered the goods, we strive to maintain a 110% margin level until the client confirms the final price.

Forms	Price	Delivery	Risk	Mitigation
Fixed Delivered	Fixed	Done	No Risk	
Fixed Undelivered	Fixed	Not done	Price Risk	As the prices are fixed, the business would have un-hedged its position on the exchange. There is a chance that the client may refuse to take delivery of goods if the prices fall. To avoid this, 5% margin is received from client upfront. The same is tracked by margin reporting
Unfixed Delivered	Not fixed	Done	Price & Goods Risk	As the goods are delivered at a notional price to the client, there is a risk that the client may refuse to price the goods if the price rise substantially. To avoid this a 105% margin of the value of goods is received from client before delivering goods

In all the forms of sales, risk precipitates only if market price of goods becomes unfavourable for the deal. If deal is allowed to be closed without safety margins it is likely that the counterparty would default on the deal whenever prices move in his favour, incurring substantial losses to the business.

The 5% margin number is derived by risk team as a buffer considering the daily volatility of gold prices. The same is updated as per periodic review.

The margin shortfall/excess is monitored daily. If the margin falls below the threshold 5%, the same needs to be replenished back to 5% by the customer. The risk team discusses such shortfalls with business, which in turn arranges the funds required from the customer.

E.g. If Sale is made as per "Fixed-Undelivered" form, an amount equivalent to 5% of the priced goods is asked upfront from the counterparty.

Trade Date	Value Date	Counter party	Product	Qty(Kgs)	MCX Price	Prem/Disc (MCX/CMX)	Final Rate	Priced Goods	Current MCX Price	MTM	Ageing in days	Ledger balance	Balance After MTM Adjst	Cover
11-09-2024	15-09-2024	XYZ	GOLD	10	71,800	120.00	71,920	7,19,20,000	71,650	-1,50,000	1	10,00,000	8,50,000	1%
11-09-2024	15-09-2024	ABC	SILVER	210	83,700	650.00	84,350	1,77,13,500	83,100	-1,26,000	1	10,00,000	8,74,000	5%

The above example indicates a margin cover of 5.07% against the sale of 5Kg gold to the counterparty. If the margin falls below Rs 9,83,120 (0.05*19662391), business team would make a margin call to the client and recover the balance on the same day, to maintain the margin.

Similarly, in case of "Unfixed delivered" form of sale, an amount equivalent to 105% of priced goods is asked upfront from the counterparty.

Trade Date	Value Date	Counter party	Product	Qty(Kgs)	Current MCX Price	Prem/Disc (MCX/CMX)	Final Rate	Priced Goods	Ledger balance	Ageing in days	Cover
11-09-2024	15-09-2024	XYZ	GOLD	10	71,800	120.00	71,920	7,40,77,600	7,80,00,000	1	105%
11-09-2024	15-09-2024	ABC	SILVER	210	83,700	650.00	84,350	1,82,44,905	1,90,00,000	1	104%

In the above example, margin cover is maintained above 5%. Current Value of goods is calculated based on the daily LTP. If in case, Goods Value 9.71 Cr (25*38846*100) treads above the ledger value of 10.4 Cr, margin call is made to the client and balance is recovered the same day.

The business head can approve for lower margins to be recovered from client depending upon client relationships. The business team seeks business heads approval on case-to-case basis for such deviation. Such limits deviations are for positions no more than T+2 days.

Escalation by risk team to management is done, if ageing of deviation trades exceeds the 2-day threshold.

2.4. *Financial Risk*

a) Gold Hedging & Currency exposure

All physical metal exposure needs to be hedged at all points of time via derivative contracts on the exchanges. The same is monitored by the risk team. The business team shares information of all pricing done for purchase or sales of gold via Dealer pads maintained on dealing desks. The same is shared as and when trades happen and once at end of the day (EOD).

Risk team tracks open positions & exposures on EOD basis & publishes the risk report on T+1 basis at beginning of day (BOD).

Any open positions beyond agreed limits is updated & investigated by risk team along with business team, and duly hedged by the business team.

Limits for open positions

Commodity	Qty (Kgs)
Gold	2.5 kgs
Silver	300 kgs
Currency	0.1Mio

Any open position is regularized with the trading team on T+1 day. Open positions beyond this range are regularized with CEO approvals, if open beyond T+3 days.

b) Insurance Tracking

All transportation of precious metal is insured by the logistics partner, which recovers the cost, in its pricing.

Precious metal kept as inventory is stored with vaulting partners like Brinks, which in turn provides details of location wise storage. These service partners provide for insurance.

c) Delivery of Goods

Goods are delivered to client via a logistics partner or our Zaveri Bazar office. For delivery from Zaveri office, goods are first brought in by the logistics partner and immediately delivered to the client.

A delivery order is mandatory for both the type of deliveries. The banking team confirms the fund status for the client under consideration.

Delivery orders are issued by a subset of risk team-DO issuing team, after sufficient funds and margins are received from clients.

d) Trade Confirmation

All purchase & sales of goods are done over recorded phone lines. The business team record all transactions in a dealer pad –both physical & excel sheet. These dealer pads are essential for DO issuing team and accounts team to ascertain payment/receipt of clients.

Trades done with clients/suppliers are confirmed over recorded line through the day.

e) Inventory Tracking

The business team maintains location-specific inventory records, which are shared with the DO issuance team. We verify this inventory data against the inventory reports provided by our logistics partner. Before issuing a delivery order (DO) for any location, it is ensured that the inventory levels align by conducting a reconciliation.

3. Base Metals

3.1. *Introduction*

Abans deals with trading in base metal in domestic market. The price of a commodity can vary based on its geographical demand and supply. Business tries to take advantage of this pricing differential in between regions. We also trade commodities on the exchanges. Traders are allowed to trade in three types of strategy such as "Arbitrage", Calendar, and Discretionary".

Arbitrage: Taking advantage of price difference between spot and future

Calendar: Trading spreads between future contracts with different expiries

Discretionary: Taking one-sided long or short trades on commodities either on exchange or physical

3.2. *Risks involved in the business*

a) Commodity Price Risk (Hedging)

Price moving unfavourably against our direction of trade

b) Counter-party Risks (Payment default, commodity default)

Counterparty defaulting at the time of payment or at time of delivery, either refusal to give to take delivery or provide substandard goods

c) Market / Exchange Risks (Basis Risk, Quantity Risk, Price Risk)

Spreads between spot/futures, future/future contracts can narrow or expand as per market forces, this may impact our positions. Also, directional trades can get impacted due to unfavourable price moves

d) Operational Risk (Warehousing, Quality, Insurance risk)

Metal inventories are subject to quality deterioration cos of oxidation if not stored properly. Also risk of theft persists

e) Liquidity Risk (OI limits)

Large positions may take time to liquidate and be subject to price fluctuation risk. These are measured with respect to exchange limits and physical positions

3.3. *Operations*

a) Purchase

Purchase & Trade Confirmation: - Purchase is done by trader & details are mentioned in dealer pad. Subsequently, trade is confirmed with Supplier on same day over the phone & email. After that, trade calculation is sent by the supplier. To reduce the price risk on executed trades, trader may chose to hedge the positions on exchange.

There are two types of purchase process existing in business.

- Purchase from Supplier (Exchange quality goods)
- Exchange Stock purchase (MCX)
  - **Purchase from Supplier** - Purchase is done by trader & details are mentioned in dealer pad. Subsequently, trade is confirmed with Supplier on same day over the phone & email. After that, trade calculation is sent by the supplier. To reduce the price risk on executed trades, trader hedges the positions on exchange.

  - **Exchange stock purchase** - Based on our internal analysis, we determine whether we can profitably convert the metal purchased on the exchange. To capitalize on potential price increases, we typically establish a long position in the first month's futures contract and a short position in the second month's contract. Upon expiration of the first month's contract, we take physical delivery of the metal and sell it to clients.

Hedging: - When a purchase trade is done with a supplier, the business negates the price risk on the commodity by hedging on the exchange, there should not be any mismatch between buy and sell quantities. The position of spot purchase is compared to sell positions on exchange of the underlying commodity. The same is reconciled and published on T+1 basis.

b) Sales

1. Sales & Trade Confirmation: Sales is done by trader & details are mentioned in dealer pad. Subsequently, trade is confirmed with Buyer on same day over the phone & Email. To reduce the price risk on executed trades, trader always hedges the positions on exchange.

Business hedges its price risk on exchange by unwinding its exchange short positions at time of spot sales. A sudden price fall can cause the client to buy the commodity cheaper from another supplier. It is essential to track the MTM on such trades.

2. Delivery order (DO) issuance*: -* DO's are issued once entire payment has been received from counterparty. DO have a validity of 1 days usually. If the client fails to lift goods within day, the same stands cancelled & the client has to request for reissue of a new DO or Revised DO.

The warehouse executive checks DO validity before allowing client to pick up goods.

Sometimes DO can be issued despite shortfall on funds received from client

Authorizing Person	Authorization type	Limit
CEO	Approval on Teams	>10 Lacs
Mayank Mundhra	Approval on Teams	Upto 10 lacs

c) Inventory Report Management

The operation team, which is a part of the business team, maintains the inventory & daily operations of the Inventory. The inventory report captures location of all inventories along with its current status. It is essential to check if goods mentioned in inventory are available in physical in the warehouse.

For this, warehouse confirmation is fetched every month where quantities are matched between warehouse and inventory report.

For DEMAT goods, reconciliation in done with compliance team.

d) Insurance

The goods at the time of transfer or storage are covered by insurance. The transit service provides for insurance. We can also take insurance ourselves, depending upon the negotiations with the service provider.

The insurance coverage for the time of vaulting is provided by the vaulting agency.

4. Domestic Agri

4.1. Introduction

Domestic Agri commodity process involves trading of agricultural commodities in domestic markets. The price of a commodity can vary based on its geographical demand and supply. Business tries to take advantage of this pricing differential in between regions. High value Agri commodities are procured in physical from the regions of abundance and sold in the region of high demand. We also trade commodities on the exchanges. Traders are allowed to trade in three types of strategy such as "Arbitrage", Calendar, and Discretionary".

Arbitrage: Taking advantage of price difference between spot and future

Calendar: Trading spreads between future contracts with different expiries

Discretionary: Taking one-sided long or short trades on commodities either on exchange or physical

Following Risks are involved in the business:

- Commodity Price Risk (Hedging)
- Counter-party Risks (Payment default, commodity default)
- Market / Exchange Risks (Basis Risk, Quantity Risk, Price Risk, Concentration Risk)
- Operational Risk (Warehousing, Quality, Insurance risk)
- Liquidity Risk (OI limits / Stock limits)

4.2. Operations

a) Purchase

i. Purchase & Trade Confirmation

Purchase is done by trader & details are mentioned in trade register. Subsequently, trade is confirmed with Broker/seller on same day over the phone, and then deal slip is prepared. On the same day trade is confirmed with Broker/Seller over email. After that, trade calculation is sent to Broker/Seller. To reduce the price risk on executed trades, trader always hedges the positions on exchange.

There are three types of purchase process existing in business.

- Loose Stock (Non-Exchange) purchase
- Exchange Quality Stock purchase, directly buying from clients
- Exchange Stock (NCDEX) purchase

➢ *Loose Stock (Non-Exchange Goods) purchase*

As per payment terms & conditions we make 90% payment on receipt of CDTF (Commodity Deposit Transaction Form) & rest 10% after receiving of WHR & invoice slips. The residual 10% payment acts as a cushion for any quality and quantity variation.

➢ *Exchange Quality Stock purchase, directly buying from client*

Goods with quality accepted by exchange are deposited by supplier at exchange accredited warehouses. As per payment terms & conditions we make 90% payment on receipt of CIS (Commodity Inward Slip) & rest 10% after receiving the goods in our DEMAT.
The process of conversion of goods from CIS to WHR can take up to 7 working days, with risk of goods being rejected. Ageing of DIP (Demat in Process) is tracked. The residual 10% payment acts as a cushion for any quality and quantity variation. In case goods are rejected, supplier replaces goods within a week. The rejected goods act as cushion against advanced paid.

➢ *Exchange Stock purchase*

Stock is purchased from exchange by holding a long position on expiry of futures contract. As per exchange payment terms & conditions we make payment and receive delivery on T+2 basis. Goods can be purchased from supplier in DEMAT form as well, where the supplier deposits goods directly in our DEMAT & we release payments to clients once the corresponding stocks reflected in our demat account.

ii. Hedging

When a purchase trade is done with a supplier, the business negates the price risk on the commodity by hedging on the exchange, there should not be any mismatch between buy and sell quantities. The position of spot purchase is compared to sell positions on exchange of the underlying commodity. The same is reconciled and published on T+1 basis.

For purchase leg, there is a time gap between hedging done on exchange and goods received from supplier. There may be a situation where the counterparty may dishonor the trade if the prices rise substantially (as it may get more favorable rate).

As we are short on the exchange, we can suffer on account of the MTM loss on these trades. Such deals are tagged as pending purchase and tracked for their ageing and MTM.

b) Sales

i. Sales & Trade Confirmation

Sales is done by trader & details are mentioned in trade register. Subsequently, trade is confirmed with Broker/seller on same day over the phone, and then deal slip is prepared. On the same day trade is confirmed with Broker/Seller over email. After that, trade calculation is sent to Broker/Seller. To reduce the price risk on executed trades, trader always hedges the positions on exchange.

We have two types of Sales:

- Exchange Stock Sales (NCDEX Stock)
- Loose Stock (Non-Exchange) sales

➢ *Exchange Stock Sales*

Stock is sold on exchange by holding a short position on expiry of futures contract. As per exchange payment terms & conditions we receive payment and give delivery on T+2 basis.

➢ *Loose Stock (Non-Exchange) sales*

As per payment terms & conditions client is given delivery (issuing Delivery order) when full payment is received from the client.

Business hedges its price risk on exchange by unwinding its exchange short positions at time of spot sales. A sudden price fall can cause the client to buy the commodity cheaper from another supplier. It is essential to track the MTM on such trades. Such deals are tagged as pending sales and tracked for their ageing and MTM

ii. Delivery order (DO) issuance

DO's are issued once entire payment has been received from counterparty. DO have a validity of 7 days usually. If the client fails to lift goods within 7 days, the same stands cancelled & the client has to request for reissue of a new DO. As the goods are earmarked for a particular client when DO is issued, warehouse charges post validity of DO is to be borne by client. The same is charged and collected at time of reissuing the DO. This is tracked through the DO ageing report

The warehouse executive checks DO validity before allowing client to pick up goods.

Sometimes DO can be issued despite shortfall on funds received from client as per the below matrix with a 10 day validity.

Authorizing Person	Authorization type
CEO	Approval on hubbler

c) Purchase on Advance payment & Credit Sales

The business can undertake purchase trades by payment of advance as per the below matrix. Trades are considered as such if payment is made before receipt of CIS or CDTF slips. Business can also undertake sales on credit basis as per the above matrix. Trades are considered as such, if DO is issued without receipt of funds from clients.

Authorizing Person	Authorization type
CEO	Approval on Hubbler

d) Inventory report management

The operation team, which is a part of the business team, maintains the inventory & daily operations of the Inventory. The inventory report captures location of all inventories along with its current status (saleable, sales assigned, pledged etc). It is essential to check if goods mentioned in inventory are available in physical in the warehouse.
For this warehouse confirmation is fetched every month where quantities are matched between warehouse and inventory report. Also, operations team arranges for periodical visit to warehouses.

For DEMAT goods, reconciliation in done with COMTRACK. Also, exchange quality goods come with a validity date called FED (final expiry date). Goods need to be delivered on the exchange before this date or else they will no longer be considered acceptable delivery. Post the FED date, goods need to be moved out of exchange accredited warehouse and converted to loose inventory. This is a cost incurring exercise, and hence FED expiry of goods is tracked through monthly FED expiry report.

e) Pledging of inventory

For efficient working capital management business can pledge goods with banks & NBFC. As prices fall, there may be chance of margin calls from such institutions. This is tracked through Pledged Goods value - Current market Value.

4.3. Risk Reports

a) Agri Risk Report

Basically, through this report we track all existing and potential risks of the Agri business. We track & match months wise positions, hedging quantities, unhedged quantities, Inventory distribution phase wise, total book value. This report covered all "arbitrage", "calendar", "inventory positions".

In MT

Strategy	Commodity	Book Size	Gross Qty	CMP	20-Feb-20	20-Mar-20	31-Mar-20	20-Apr-20	Spot qty	Net Qty
ARBITRAGE	CASTOR	0.64	168	3,818	-	-	-	-	**168**	168
	COCUDAKL	0.18	100	1,807	100	-100	-	-	-	-
	DHANIYA	0.52	84	6,258	-	-	-	-80	**84**	4
	GUARGUM5	9.28	1,455	6,379	5	-630	-	-825	**1,450**	0
	SYBEANIDR	0.43	115	3,782	-	-115	-	115	-	-

In MT

Strategy	Commodity	Book Size	Gross Qty	CMP	20-Feb-20	20-Mar-20	31-Mar-20	20-Apr-20	30-Apr-20	29-May-20
CALENDAR	CASTOR	0.04	10	3,818	-	-10	-	10	-	-
	COCUDAKL	0.18	100	1,807	-100	100	-	-	-	-
	GUARGUM5	0.29	45	6,379	-5	45	-	-40	-	-
	JEERAUNJHA	0.54	39	13,935	-	-39	-	39	-	-
	SYBEANIDR	2.10	555	3,782	-	-555	-	555	-	-

In Cr

Book Size	*Amt(Crs)*
Arbitrage	**11.3**
Calendar	**3.4**
Discretionary	-

Particular	*Commodity*	*DO Issued*	*Rejected*	*Client Sale*	*WHR*	*Demat Qty*	*Exchange buy sell*	*DIP*	*Supplier*	*Remat*	*Shortage*	*Total*
Inventory	CASTOR	-7	106	0	115	0	-	-	-1	53	6	**168**
	DHANIYA	-749	60	1	13	80	-	-	0	743	-5	**84**
	GUARGUM5	-45	-	-0	1,306	145	-	-	-	45	-	**1,450**
	GUARSEED10	1	-	-0	-0	-	-	-	-	-	-1	**-0**
	JEERAUNJHA	-15	-	-	-0	-	-	-	-11	-	26	**0**

b) Counterparty Risk Report

This is counterparty wise report. We prepare this report to track and highlight the present conditions of the trades.

Negative number in the risk column reflects the current risk of that client. Risk is calculated through client pending payment & current MTM of trades.

Supplier	Total Payment made	Total Receipt	Balance Receipt	Fund Settlement	MTM	Balance Payment	Inflow	Risk
	-	88,12,650	45,398	-	-	-	45,398	-45,398
	58,17,483	-	-	-	-	31,935	-	31,935
	-	6,16,66,065	-78,580	-	-17,835	-	-60,746	60,746
	-	3,14,89,170	-61,736	-	-	-	-61,736	61,736
Grand Total	**58,17,483**	**10,19,67,885**	**-94,918**	**-**	**-17,835**	**31,935**	**-77,084**	**1,09,019**

c) DO Ageing Report

Delivery order has a validity of seven days, if the client fails to lift goods within 7 days, the same stands cancelled & the client has to request for reissue of a new DO. As the goods are earmarked for a particular client when DO is issued, warehouse charges post validity of DO is to be borne by client. The same is charged and collected at time of reissuing the DO. This is tracked through the DO ageing report

Deal ID	Symbol	Supplier	DO Issue Date	DO Issued	Ageing
S713	GUARSEED10	XXXXXX	29-08-2024	199.5	13
S719	GUARSEED10	XXXXXX	29-08-2024	199.6	13
S720	GUARGUM5	XXXXXX	09-04-2024	29.9	7
S721	GUARGUM5	XXXXXX	09-04-2024	29.8	7
S722	GUARGUM5	XXXXXX	09-04-2024	25.0	7
S723	TMCFGRNZM	XXXXXX	09-06-2024	10.0	5

d) Inventory Ageing Report

As inventory ages, the quality parameters of the goods can change or deteriorate. It is good practice to not hold inventory for long periods and churn the inventory. The same is tracked through inventory ageing report. Business is encouraged to check for quality parameters of goods if ageing exceeds 12 months.

30-08-2024		Ageing in months											
Commodity	WSPNAME	5	7	8	9	10	11	12	13	14	15	>15	Total
DHANIYA		-	-	4.9	-	-	-	-	-	-	-	-	4.9
DHANIYA		-	128.5	85.3	-	19.6	30.1	-	-	-	-	35.6	299.2
DHANIYA		-	-	-	-	-	-	-	-	-	-	18.7	18.7
DHANIYA		-	889.4	-	21.0	-	-	-	-	-	-	76.4	986.8
GUARGUM		-	-	-	-	-	-	-	-	-	-	84.7	84.7
GUARGUM		-	59.6	-	-	-	218.8	-	-	59.6	-	408.6	746.6
GUARGUM		-	-	-	-	-	-	-	-	-	-	174.3	174.3
GUARGUM		-	-	-	-	-	-	-	163.9	-	119.1	397.5	680.5
GUARSEED		-	-	-	-	-	-	-	-	-	-	461.9	461.9
GUARSEED		-	-	-	-	-	-	-	-	-	-	1,277.9	1,277.9
GUARSEED		-	-	-	-	-	-	-	-	-	-	1,047.6	1,047.6
TURMERIC		333.6	-	75.1	-	-	-	208.9	-	-	-	-	617.6
TURMERIC		-	-	-	-	-	-	-	-	-	-	10.1	10.1
Total		333.6	1,077.5	165.3	21.0	19.6	248.9	208.9	163.9	59.6	119.1	3,993.3	6,410.7

e) Monthly WSP Confirmation recon

It is essential to check that goods mentioned in inventory report are available in physical in the warehouse. For this warehouse confirmation is fetched every month where quantities are matched between warehouse and inventory report. We highlight the difference quantity to business team & register the reason for the same.

Janhavi Promoters Private Limited 31-08-2024					
Commodity	Inventory Qty In MTs	Warehouse Qty in MTs	Difference	Location	Warehouse address
DHANIYA	4.918	4.83	-0.088	GONDAL	

National Commodities Management Services Limited 31-08-2024					
Commodity	Inventory Qty In MTs	Warehouse Qty in MTs	Difference	Location	Warehouse address
DHANIYA	59.78	59.89	0.11	GONDAL	
DHANIYA	128.54	128.54	0	GONDAL	

f) Monthly FED Exp Report

Exchange quality goods come with a validity date called FED (final expiry date). Goods need to be delivered on the exchange before this date or else they will no longer be considered acceptable delivery. Post the FED date, goods need to be moved out of exchange accredited warehouse and converted to loose inventory. This is a cost incurring exercise, and hence FED expiry of goods is tracked through monthly FED expiry report.

Grade	Commodity	FED Date	Qty In MTs
NCDEX	DHANIYA	10-Feb-24	4.918

g) WSP Concentration Report

A warehouse concentration report is used to analyse the distribution of inventory across different warehouses. It provides insights into the storage capacity utilization, product distribution, and potential risks associated with having too much or too little inventory in specific locations.

WSP Name	DHANIYA	GUARGUM	GUARSEED	TURMERIC	Grand Total
		85			85
	5				5
	299	747	462	618	2,125
	19	174	1,278		1,471
	987	680	1,048	10	2,725
Grand Total	**1,310**	**1,686**	**2,787**	**628**	**6,411**

Location	DHANIYA	GUARGUM	GUARSEED	TURMERIC	Grand Total
Basmath				10	10
BIKANER		161	2,520		2,681
GONDAL	270				270
JODHPUR		1,516	148		1,664
KADI					-
KOTA	1,040				1,040
NIZAMABAD				284	284
NOKHA		10			10
SANGLI				334	334
SRIGANGANAGAR			119		119
Grand Total	**1,310**	**1,686**	**2,787**	**628**	**6,411**

Warehouse	Value Rs	Concentration
	87,77,547	2%
	3,30,588	0%
	20,84,95,078	42%
	8,65,50,950	17%
	19,33,74,172	39%
	49,75,28,335	

5. Derivatives

5.1. Introduction

Given the dynamic and often volatile nature of financial markets, it is crucial to understand the risks inherent in our current investment strategy. This Equity Futures and Options (F&O) Risk Report provides a comprehensive analysis of the risks associated with our company's trading activities in the equity derivatives market. As we actively engage in trading equity futures and options across various sectors and hold significant positions in index futures, understanding and managing these risks is crucial to safeguarding our financial performance. The report will outline key risks, including market risk, liquidity risk, and leverage risk, among others, and will provide actionable strategies for monitoring and mitigating these risks effectively. This analysis aims to enhance our risk management framework and support informed decision-making in our F&O trading activities.

5.2. Risk Management for Equity F&O Trading

a) Risk Identification

We begin by identifying potential risks associated with our equity F&O trading, categorizing them into market risk, liquidity risk, leverage risk, counterparty risk, and sector-specific risk. Tools like historical data analysis and stress testing help us understand these risks and their potential impact.

b) Risk Assessment

After identifying risks, we quantify their potential impact using metrics like Value at Risk (VaR) and sensitivity analysis. These tools help us gauge our exposure to various factors, such as price fluctuations and volatility, ensuring we understand the possible extent of losses.

c) Risk Monitoring

Continuous monitoring of risks ensures they stay within acceptable limits. We track key metrics like trading volume and market correlations in real-time, using automated systems that provide alerts if any risk thresholds are breached, allowing for prompt action.

d) Risk Mitigation

To reduce risks, we use strategies like diversification, hedging, and strict position sizing. Tools such as stop-loss orders and limit orders help manage our exposure, ensuring it aligns with our risk appetite and reduces the potential for significant losses.

e) Risk Governance

Effective governance is key to managing risks. We define clear roles within our team and regularly review our risk policies. A dedicated risk committee meets periodically to assess exposures and ensure our risk profile aligns with our strategic goals.

f) Risk Reporting

We produce regular reports detailing key risk metrics and mitigation efforts. These reports are shared with senior management and other stakeholders, ensuring transparency and enabling informed decision-making about our risk exposures.

g) Risk Review and Improvement

Our framework evolves with market conditions. We regularly review our processes, back test models, and incorporate lessons from past experiences to continuously improve and adapt our risk management strategies.

5.3. Investment strategy

Currently the desk holds a diversified portfolio comprising Equity Cash positions, as well as Futures and Options across various sectors. In addition to these sector-specific investments, we maintain strategic positions in index futures and options. This multi-faceted approach allows us to leverage opportunities in different market segments while managing exposure across broader indices.

5.4. Risks associated with strategy

Below is a list of risks associated with our equity investments and trades, including positions in Equity cash, Futures, Options, and Index Futures and Options:

a) Market Risk

- Price Volatility: The value/price of equities, futures, and options can fluctuate significantly due to changes in market conditions, economic data, investor sentiment, and global events.
- Systematic Risk: Broad market movements, driven by macroeconomic factors such as interest rates, inflation, and geopolitical events, can impact all investments, including indices.

b) Sector-Specific Risk

- Concentration Risk: Exposure to specific sectors can lead to higher volatility if those sectors experience downturns due to regulatory changes, technological disruptions, or economic shifts.
- Sector Cyclicality: Some sectors are more cyclical and sensitive to economic cycles, which can lead to increased risk during economic downturns.

c) Leverage Risk

- Amplified Losses: Futures and options can involve significant leverage, meaning small adverse price movements can result in large losses, potentially exceeding the initial investment.
- Margin Calls: Leveraged positions may require additional capital if market conditions move against the position, leading to margin calls and forced liquidation.

d) Liquidity Risk

- Market Liquidity: In times of market stress, the liquidity of certain equities or derivatives might dry up, making it difficult to enter or exit positions without significant price impact.
- Option Liquidity: Certain options, especially those on less liquid stocks or indices, might have wide bid-ask spreads, leading to higher transaction costs.

e) Counterparty Risk

- Default Risk: In derivative transactions, Counter party risk is negligible as transactions are settled by exchanges and clearing corporations.

f) Interest Rate Risk

- Impact on Valuation: Rising interest rates can negatively impact the valuation of equities and increase the cost of financing leveraged positions.
- Derivative Pricing: Interest rates also affect the pricing of futures and options, potentially altering the value of these positions.

g) Volatility Risk

- Implied Volatility: The price of options is influenced by implied volatility, which can change rapidly, affecting the profitability of options strategies.
- Volatility Spikes: Sudden spikes in market volatility can lead to sharp moves in prices, impacting both the underlying equities and the derivatives linked to them.

h) Time Decay Risk (Theta)

- Options Decay: The value of options contracts diminishes over time due to time decay, particularly affecting out-of-the-money options, which can lead to a loss if the underlying asset does not move in the anticipated direction.

i) Regulatory Risk

- Changes in Regulation: New laws or regulations, particularly those affecting financial markets, trading practices, or specific sectors, can impact the performance and strategy of your investments.
- Taxation Changes: Alterations in tax policies affecting capital gains, dividends, or trading profits could affect net returns and reduce the attractiveness of certain investments or trading strategies.

j) Event Risk

- Earnings Reports: Unexpected earnings results can lead to sharp price movements in individual stocks or sectors, affecting both equity and options positions.
- Corporate Actions: Events such as mergers, acquisitions, or spin-offs can alter the risk profile of

equity investments and impact related derivatives.

k) Correlation Risk

- Unexpected Correlation: During market turmoil, assets that typically move independently may become highly correlated, increasing overall portfolio risk and reducing diversification benefits.

l) Political and Economic Risk

- Geopolitical Events: Political instability, trade wars, or economic sanctions can have significant effects on market sentiment and the valuation of equities and indices.
- Currency Risk: For investments with international exposure, fluctuations in exchange rates can impact returns when converting back to the base currency.

5.5. Risk Analysis & Evaluation Methods

We employ robust risk monitoring mechanisms to stay ahead of the curve, proactively identifying and mitigating risks to protect our portfolio. To support this, we conduct various exercises both daily and periodically.

a) Market Risk

Value at Risk (VaR): We publish daily VaR report to estimate the maximum potential loss over a given period with a specified confidence level. For example, a 1-day VaR at 95% confidence level might indicate the worst loss expected over one day with 95% probability.

Open Gap: We publish daily Open Gap Report to estimate a potential payment that may arise due to adverse movements in market indices leading to movements in current holdings exposure of the company.

b) Liquidity Risk

Bid-Ask Spread Analysis: Measure the bid-ask spread as a percentage of the asset price to gauge liquidity. Larger spreads can indicate higher liquidity risk. For example, a spread of 2% might suggest lower liquidity.

Traded Volume Risk Analysis: We do volume analysis of our traded positions v/s the 95% worst positions that might be available for trade on a risky day and strive to keep our volume exposure less than the worst volume in the market.

c) Volatility Risk

Implied Volatility (IV) Analysis: Use IV from options pricing models (e.g., Black-Scholes) to gauge market expectations of future volatility. Compare IV with historical volatility to assess potential volatility risk. We run Scenario Analysis to check our exposure levels of different Volatility.

d) Event Risk

Event-Driven Sensitivity Analysis: Use sensitivity analysis to estimate the potential impact of specific events (e.g., earnings reports) on asset prices. For example, estimate the price impact using historical price reactions to similar events.

e) Correlation Risk

Correlation Coefficients: Calculate pairwise correlation coefficients between assets in the portfolio to assess diversification. Use a correlation matrix to visualize how asset returns move in relation to one another. We calculate ***Beta*** with respect to both Nifty and Banknifty to keep a check on market exposure.

f) Options Greeks Risk

Options Greeks: We calculate Greeks of all options positions to check our Delta, Gamma, Theta, Rho, so that we can keep a tab on options' exposure movements as per the movements in price, time, volatility and interest rate respectively.

5.6. Risk Mitigation

Here are risk mitigation measures for the risks identified in our equity F&O trading activities:

a) Market Risk

- Hedging: Use options, futures, or other derivatives to hedge against adverse price movements in underlying assets.
- Diversification: Spread investments across different sectors and asset classes to reduce exposure to market volatility in any single area.

b) Volatility Risk

- Options Strategies: Use options strategies like straddles or strangles to benefit from or protect against high volatility periods.
- Volatility Index Tracking: Monitor volatility indices (e.g., VIX) to anticipate market conditions and adjust positions accordingly.

c) Correlation Risk

- Portfolio Diversification: Regularly assess and diversify the portfolio to manage correlations between different assets and sectors.
- Correlation Analysis: Use correlation matrices to understand the relationships between assets and adjust the portfolio to reduce excessive correlations.
- Hedging with Uncorrelated Assets: Incorporate uncorrelated or negatively correlated assets into the portfolio to offset potential losses.

d) Time Decay Risk (Theta)

- Theta Management: Monitor the Theta of options positions and adjust strategies to manage the impact of time decay.
- Rolling Positions: Regularly roll options positions to later expirations to reduce the impact of Theta on near-term options.
- Use of Spread Strategies: Employ options spread strategies that are less sensitive to time decay to manage Theta risk.

e) Event Risk

- Event Hedging: Use options or futures to hedge against potential market-moving events, such as earnings reports or economic announcements.
- Event-Driven Analysis: Conduct thorough analysis of upcoming events and adjust positions in anticipation of potential impacts.
- Reduce Exposure Pre-Event: Temporarily reduce exposure to assets likely to be impacted by known upcoming events to limit risk.