

Price Risk Management in Cotton Complex



SEA- AICOSCA CONCLAVE
8TH JULY-2023

Introducing NCDEX



- National Commodity & Derivatives Exchange was established in 2003
- H.O – Mumbai and regulated by SEBI

- Commodities exchange platform dealing primarily in agricultural commodities in India
- Significant shareholders - LIC, NSE and NABARD

- Type of instruments for agricultural commodities
 - Futures- 16
 - Options-3

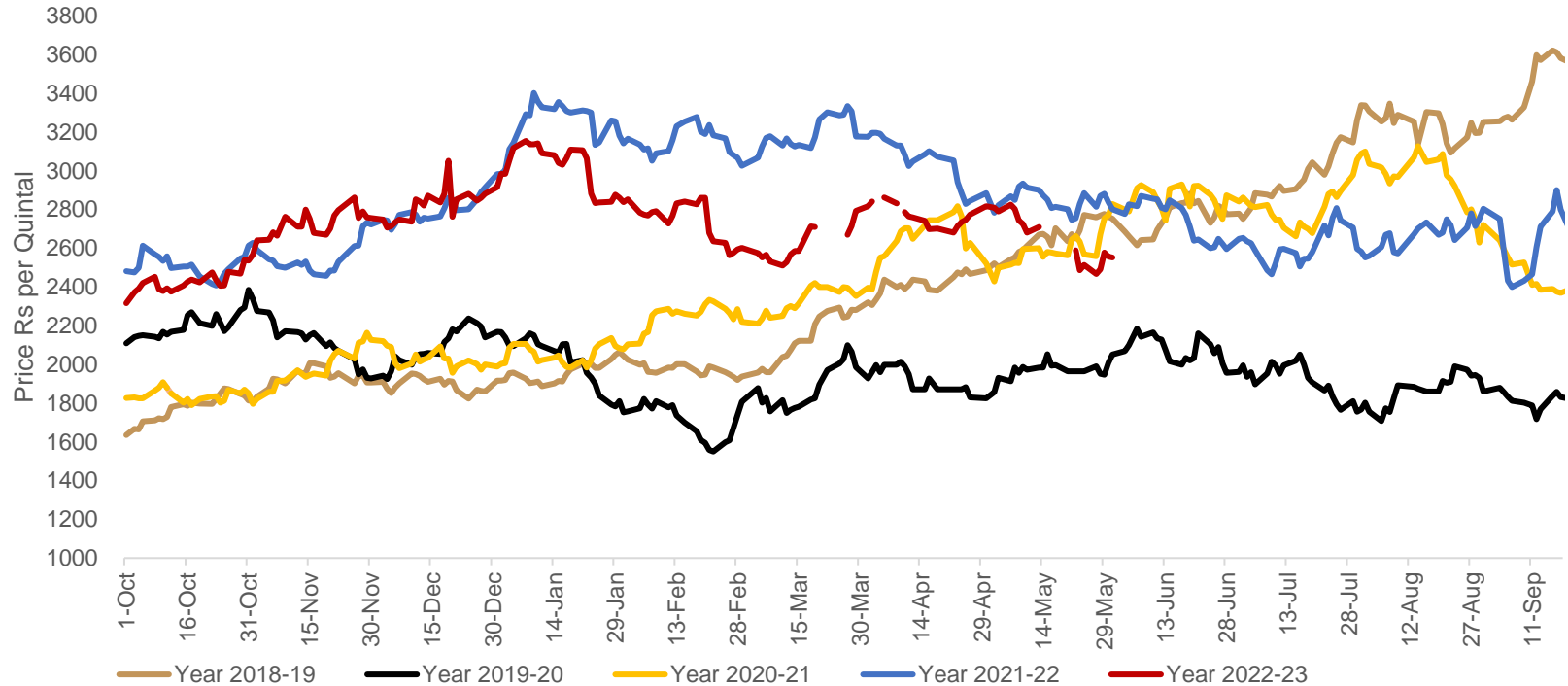
- Client base ~ 4 Million
- Facilitate Trading >49,000 terminals across 1,000 centers
- Accredited warehouse > 594



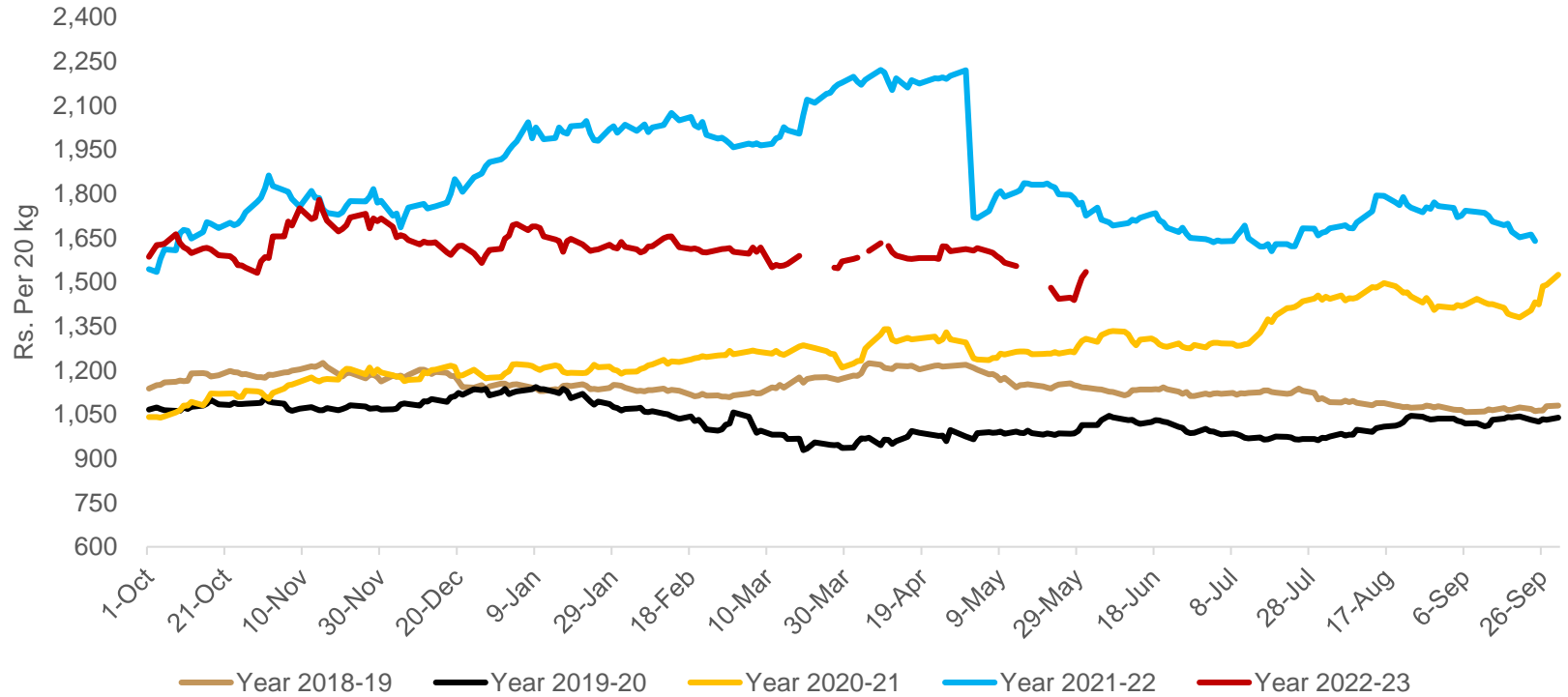
Why Price Risk Management in Agri Commodities

- Every Year is different in Agri commodity and have different challenges.
- Trade participants faces the Risk of Prices goes Up or Down

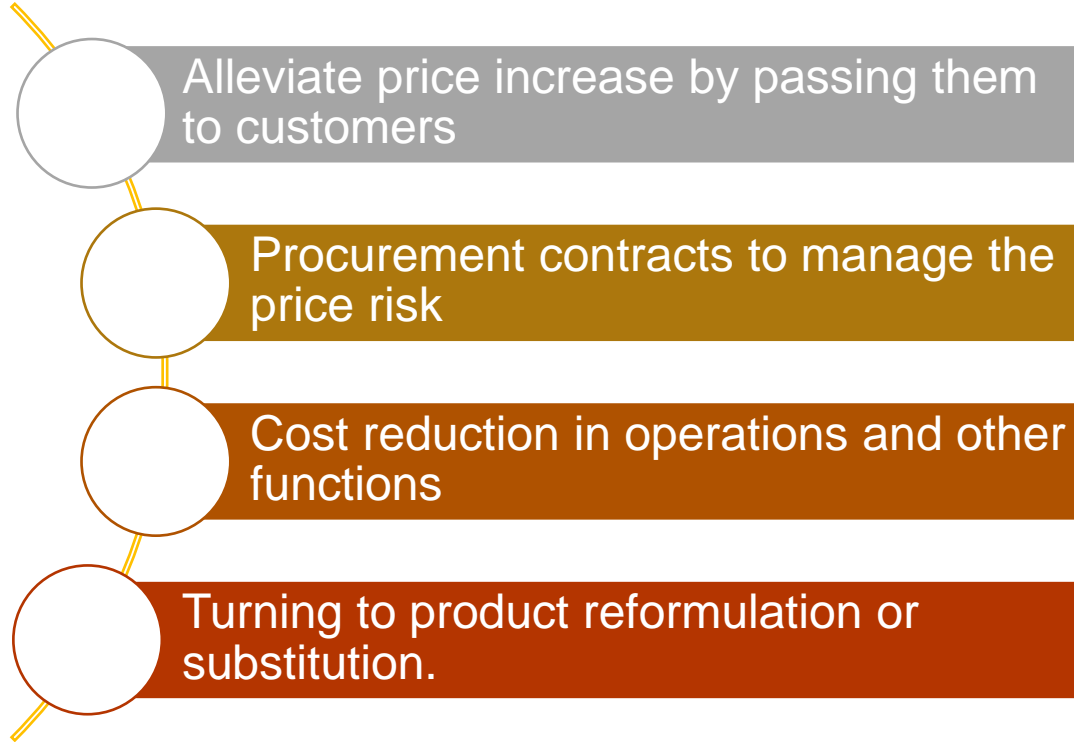
Seasonal Chart COCUD



Seasonal Chart KAPAS



How Can One Manage Price Risk ..?

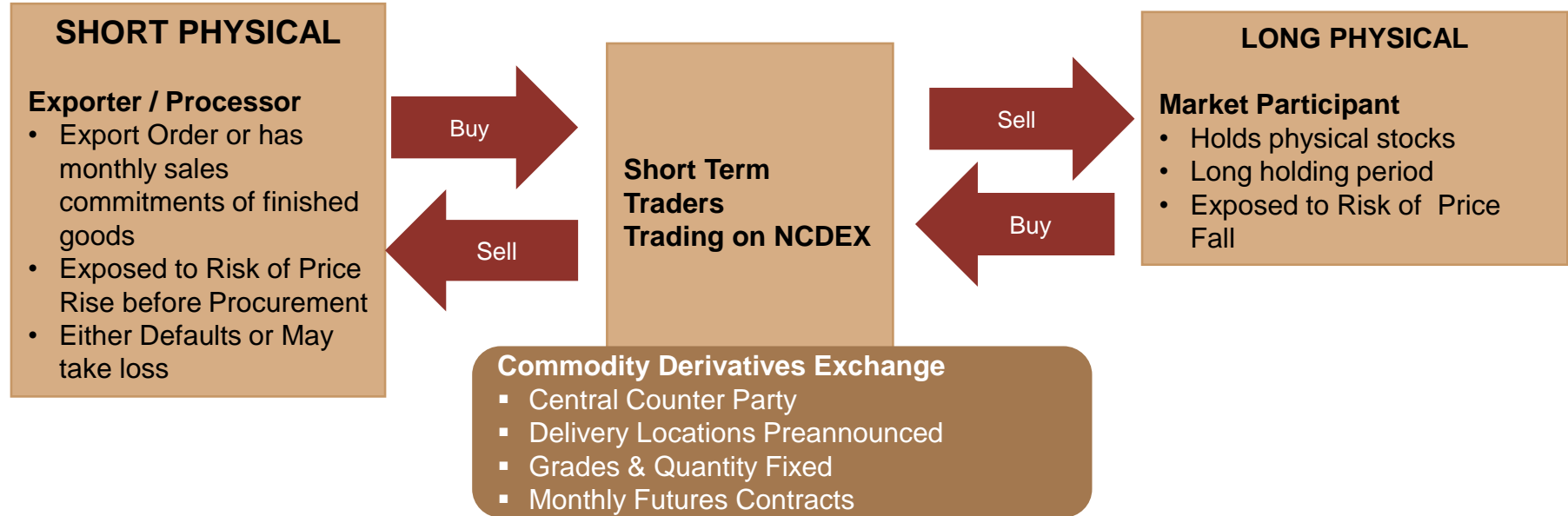


Hedging

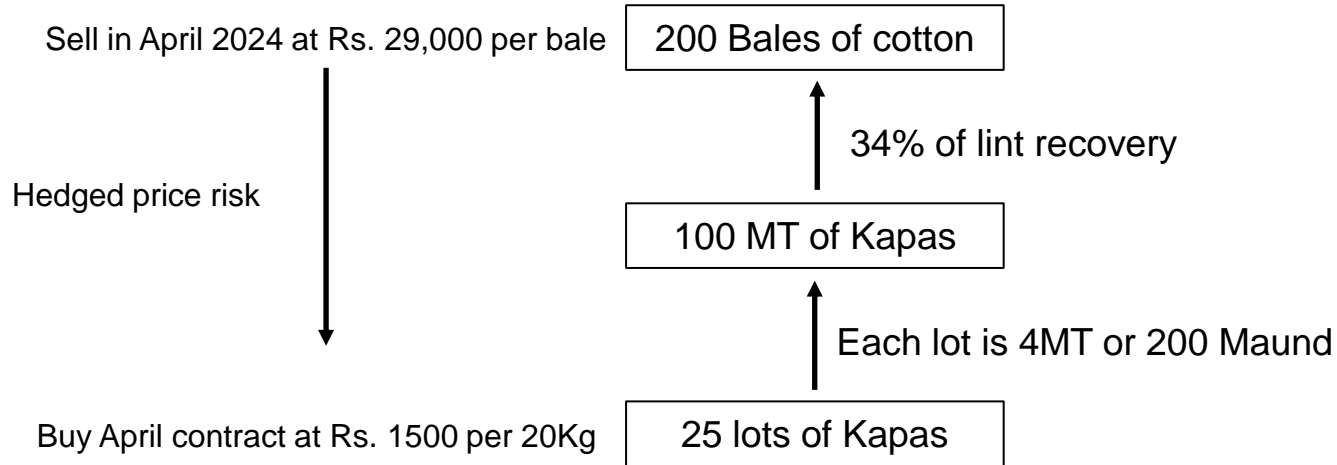
A risk Management tool that is designed to limit exposure to risk as part of everyday business

Hedging is the most flexible and cost-effective mechanism to manage price risk through financial instruments.

Hedging through Commodity Futures



Risk Management by Ginners



Product Information (Kapas)

PARAMETER	Kapas
Staple Length category	Long
Staple length	29 mm
Quality status	Superior
Monetary value	Premium/ costlier
Geographical spread	Gujarat, Maharashtra, Telangana, A. P., Punjab, Haryana, Rajasthan, M. P., Karnataka, etc.
Trading Months	October till September
Harvested product	Directly Kapas
Post harvest recovery of Kapas	Not required

Product Specification

PARAMETER	Kapas SPECIFICATIONS
Ticker Symbol	KAPAS
Unit of Trading	1 lot (200 maunds of 20 kg each i.e. 4 MT)
Basis	Rajkot (Exclusive of GST)
Delivery Logic	Intention Matching
Quotation/Base value	Rs. per 20 kg
Tick Size	50 paisa
Trading Months	November, February, and April
Position Limits	Member-wise: 18,00,000 MT or 15% of market wide open interest in the commodity, whichever is higher, Client-wise: 1,80,000 MT For near month contracts Member-wise: 4,50,000 MT or one-fourth of the member's overall position limit in that commodity, whichever is higher, Client-wise: 45,000 MT

USPs of Kapas Futures

- ✓ Wide geographical coverage
- ✓ Direct hedging possible now
- ✓ Limited and long duration contracts facilitate long term hedging with lower expense in terms of roll over expense, etc.
- ✓ Useful product for complete value chain participants of Cotton, larger set of participants can participate

Kapas Spot Price Calculation mechanism

Prices for lint and seed are polled separately from polling participants.

Prices of lint are converted from per bales to per 20 kg. Ginning cost is also deducted from the prices of lint.

The prices of lint and seed are combined together in the ratio of their weight to arrive at the price of Kapas.

Lint/ Bale & Seed	Kapas→	
Particulars		Amount
Price of Bale/Lint per bale of 170 Kg		32155
Price of Bale/Lint per candy		67203.95
price of Bale/Lint per 20 kg		3779.75
Ginning Cost		102.94
Price of Bale/Lint after ginning cost		3676.81
Recovery % of Lint		34.00
Revenue from Cotton Lint		1250.12
Price of Cotton Seed per 20 kg		790
Recovery % of Cotton Seed		63.50
Revenue from Cotton Seed		501.65
Price of Kapas (Raw Cotton) (20 Kg)		1751.77

Contract Specifications

PARAMETER	SPECIFICATIONS
Ticker Symbol	COCUDAKL
Unit of Trading	10 MT
Delivery Unit	10 MT
Quotation/Base value	Rs. per quintal
Tick Size	RS. 1
Per Tick Gain/Loss	100
Delivery Center	Akola, within a radius of 60 Kms from the municipal limits
Additional Delivery Centers	Kadi (At Par)
Contract Period	Monthly Contract (Dec to Sept)
Margin	13%
Contract Value	2.5 Lakh (7 th July 2023)

ADCs & its Premium/ Discount structure

Commodity Basis Center	Additional Delivery Center	Location Premium/ Discount (P/D)
Akola (COCUDAKL)	Kadi	At Par

Thank You

