
Derivatives Strategy – Covered Call

Buy Canara Bank for target of ₹ 175

Few open Calls...

Derivatives Strategy	
Underlying	Action
Bharti Airtel	Buy
TCS	Buy
L&T	Buy

Duration : 1-2 months



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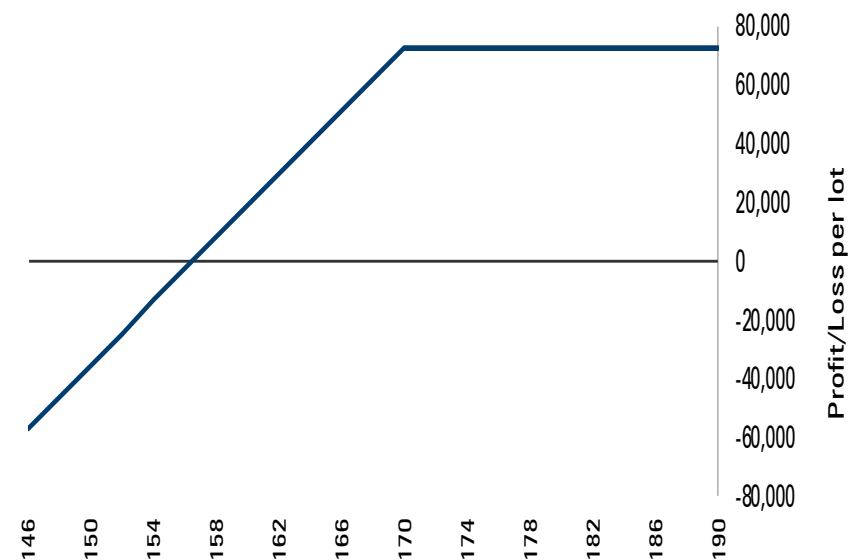
Recommendation

Underlying	Action	Initiation Range	Target	Stop-loss	Time Frame
Canara Bank February Future	Buy	160.5-162.5	175	149.5	till February expiry
Canara Bank February 170 Call	Sell	4.5-5.5			

Rationale

- For a couple of sessions, the Bank Nifty has been relatively outperforming the Nifty where buying is clearly visible in most private banks. However, after sell-off from recent high, fresh buying interest has emerged in most PSU banks
- Canara Bank, in particular, consolidated in the recent sell-off and largely found support near ₹ 155 levels along with delivery based volumes
- Closure is visible in OTM Calls, which is the positive sign as we feel Call closure activity has started that will pull stock higher
- The IV-spread of Canara Bank-Nifty is hovering below its mean level. We feel that on the back of closure in Call writing positions, this spread would move higher towards its Mean + 2 Sigma levels
- As the Bank Nifty made a new life-time high we feel stocks from the PSU banking pack are likely to do well and Beta could be expected in Canara Bank

Strategy Pay-off

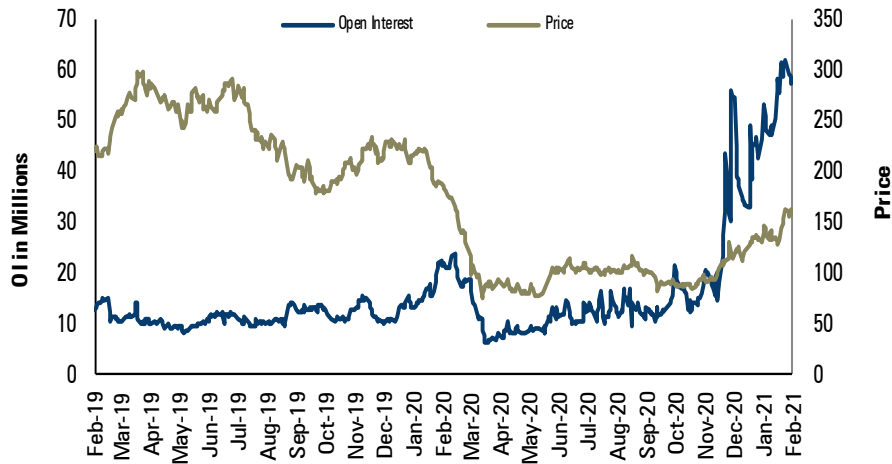


Note : Recommendation given on Iclick2gain on February 15, 2020

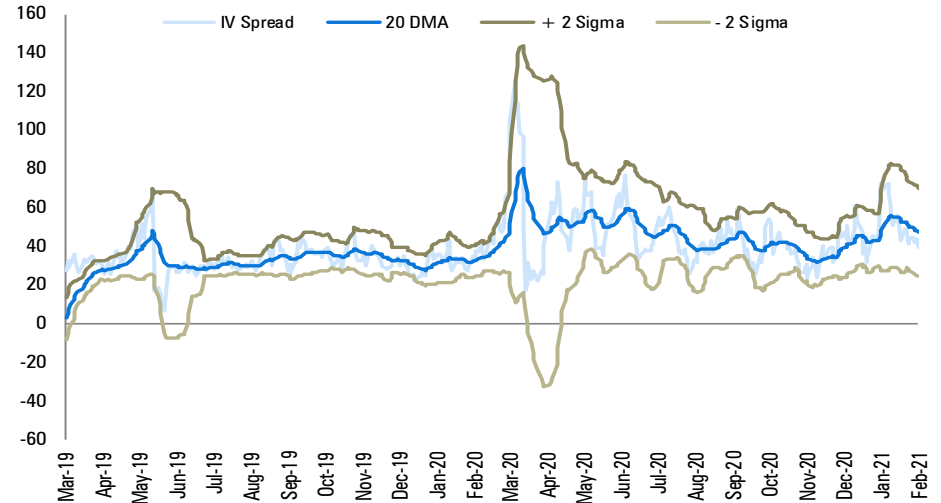
Covered Call strategy

Covered Call strategy is formed by creating a long position in future along with selling an ATM/OTM Call of the same expiry. Option traders can also sell Call options of the underlying shares if they hold it in Demat (same quantity) to bring down the costing. It's a limited reward strategy generally formed when moderate upsides are expected. Stop-loss has to be placed to limit the losses in case of sharp reversal on downsides.

Price Chart



Stock – Nifty IV Spread



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Source: Bloomberg, ICICI Direct Research

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