CHART CODE ACADEMY

Decode The Market Code

Futures Trading in India

A Beginner's Guide

Margin, mark-to-market and rollover explained with worked examples and diagrams: the **mechanics** every futures trader needs to understand **before the first trade**.

A FREE STUDY RESOURCE BY CHART CODE

Chart Code Academy — Stock Market Training Institute

Deepak Kevadia — Founder & Mentor, BSE NISM Certified

Boisar · Palghar · Maharashtra, India

www.chartcode.in | +91-95121 00588 | chartcode.in@gmail.com

About This Guide

A futures contract is a standardised, exchange-traded agreement to buy or sell an asset at a fixed price on a set future date. You put up only a fraction of the contract value as margin, and gains and losses are settled in cash every day. That combination of leverage and daily settlement is what makes futures powerful and unforgiving at the same time.

By the end of this guide you will be able to:

- Explain what a futures contract is, and how it differs from shares and options
- Work out contract value, margin and leverage from the lot size
- Follow daily mark-to-market settlement and understand a margin call
- Understand basis, cost of carry and why futures converge to spot at expiry
- Read price and open interest together, and plan a rollover
- Plan a first trade with position sizing, a stop-loss and costs in mind

Futures Trading in India: A Beginner's Guide

Index futures are cash-settled at expiry. Stock futures are settled by **physical delivery** of shares if held to expiry. Lot sizes, margins, expiry dates and charges are set or revised by the exchange and your broker from time to time, so check current details before trading. All numbers in this guide are illustrative.

1. What Is a Futures Contract?

A **futures contract** is a standardised agreement, traded on an exchange, to buy or sell an underlying asset at a fixed price on a set future date. In India you can trade index futures such as Nifty and Bank Nifty, and stock futures, on the NSE and BSE.Unlike buying shares, you do not own anything when you buy a future. You hold a contract whose value tracks the underlying. Both the buyer (long) and the seller (short) have an **obligation** to honour the contract, which is the key difference from an option buyer, who has a right but no obligation.

2. Key Futures Terms

Term	Meaning
Underlying	The index or stock the future is based on
Lot size	The fixed number of units in one contract, set by the exchange
Contract value	Futures price × lot size
Expiry	The date the contract ends; contracts run in near, next and far-month series
Margin	The deposit required to open and hold a position
Mark-to-market (MTM)	Daily cash settlement of profit and loss
Open interest (OI)	Number of contracts still open, not yet squared off

3. How Margin and Leverage Work

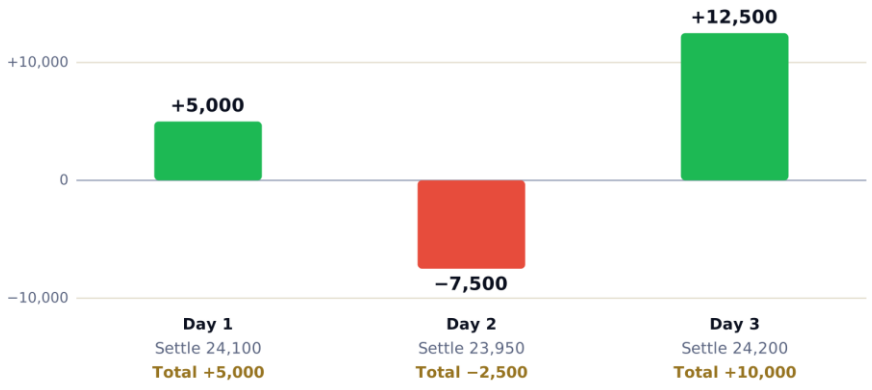
You do not pay the full contract value. You pay margin, which is made up of an exchange risk-based portion (SPAN margin) and an additional exposure margin. Suppose, for easy maths, Nifty futures trade at 24,000 with a lot size of 50 and margin of about 12%:

```
Contract value = 24,000 × 50 = ₹1,200,000
Margin (assumed 12%) ≈ ₹144,000
Profit or loss for a 100-point move = 100 × 50 = ₹5,000
```

A 100-point move is only about 0.4% of the index, yet it changes your account by about 3.5% of the margin you deposited. That is leverage: it magnifies gains and losses equally. Because you hold a contract worth ₹1,200,000 against ₹144,000 of margin, a move of around 12% against you would consume the whole margin. Losses can even **exceed the margin**, so position sizing and stops matter more than in cash trading.

4. Mark-to-Market (MTM): Daily Settlement

Futures are settled in cash daily. At the end of each day the exchange fixes a settlement price, your gain or loss versus the previous settlement is credited or debited, and the position carries on at the new price. Example: you buy one lot at 24,000 and hold for three days.



Visualising it: each bar is the day's cash credit or debit. The running total always equals (latest settle − entry) × 50. Illustrative numbers, not live data.

Day	Settlement	Calculation	MTM	Running total
1	24,100	(24,100 − 24,000) × 50	+5,000	+5,000
2	23,950	(23,950 − 24,100) × 50	−7,500	−2,500
3	24,200	(24,200 − 23,950) × 50	+12,500	+10,000

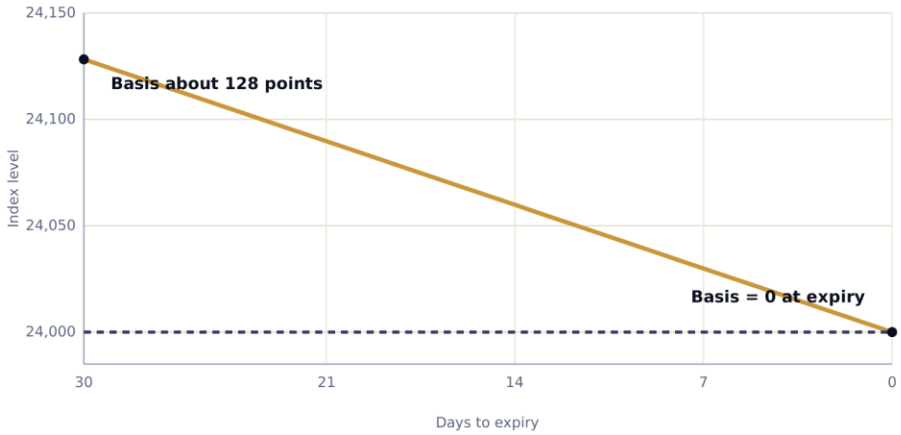
The cash moves every day. If losses eat into your balance so it falls below the margin required, you get a **margin call**: add funds or your broker may square off the position. That is why a position that later recovers can still be closed out at a loss.

5. Why the Futures Price Differs From Spot

The futures price usually sits above spot by the **cost of carry**: interest on the money you would otherwise need to buy the asset, less any dividends expected before expiry. A simple approximation:

```
Fair futures price ≈ Spot × (1 + r × days ÷ 365) − expected dividends
```

With spot at 24,000, an interest rate of 6.5% and 30 days to expiry, that is about 24,000 × 0.065 × 30 ÷ 365 ≈ 128 points above spot. The gap, called the **basis**, shrinks every day and reaches zero at expiry, when futures and spot must match.



Visualising it: with spot held flat for clarity, the futures premium (gold) fades day by day and disappears on expiry. Illustrative numbers, not live data.

In real markets both prices move, and the basis widens or narrows with sentiment and dividends. Arbitrageurs buy spot and sell futures when the premium is too rich, and the reverse when it is too cheap, which keeps the two prices close.

6. What a Futures Payoff Looks Like

Futures payoffs are **linear**: profit or loss changes point for point with the index, in both directions. There is no floor on losses for the long side in practice and no cap on losses for the short side.



Visualising it: buy 1 lot at 24,000 and each 100 points is ₹5,000. The short position (red) is the exact mirror image of the long (green). Lot size 50 assumed.

	Futures	Options (buyer)
Obligation	Both sides must honour the contract	Right, not obligation
Upfront cost	Margin (refundable, adjusted daily)	Premium (non-refundable)
Loss potential	Open-ended, can exceed margin	Limited to premium
Time decay	None (basis converges)	Works against the buyer
Payoff shape	Straight line	Bent at the strike

Compare this with the payoff shapes in our Options Trading for Beginners guide.

7. Reading Price and Open Interest Together

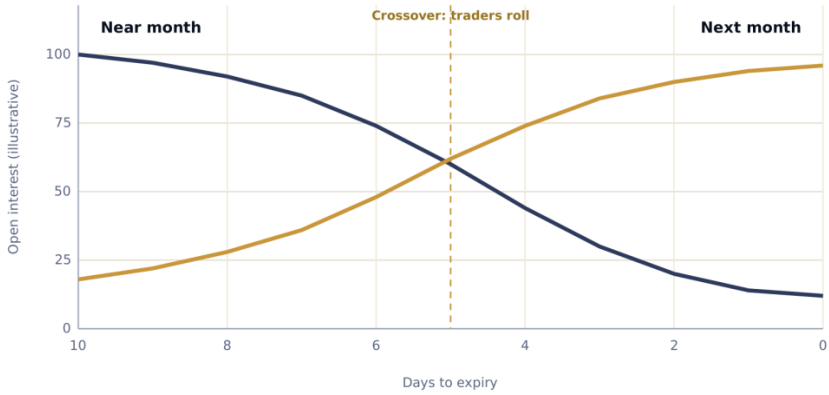
Open interest counts contracts still open. Reading it alongside price shows whether a move is driven by **new positions** or by traders **closing existing ones**:

Price	Open interest	Common reading
Rising	Rising	Long build-up: new buyers entering, trend has fresh support
Falling	Rising	Short build-up: new sellers entering, weakness has fresh support
Rising	Falling	Short covering: sellers closing, rally may lack fresh buying
Falling	Falling	Long unwinding: buyers exiting, fall may lack fresh selling

These are **tendencies, not laws**. Combine them with the signals in our Volume Analysis guide and, for options positioning, our option chain guide.

8. Rollover: Staying in a Trade Past Expiry

To keep a position beyond expiry you **roll it over**: close the near-month contract and open the same position in the next month. Traders usually roll in the last few days before expiry, when liquidity is shifting to the next series.



Visualising it: as expiry nears, near-month OI falls and next-month OI rises. The crossover shows when most traders have rolled. Illustrative numbers, not live data.

What rolling costs. The next month trades at a premium (the cost of carry), so a long position rolled from 24,050 to 24,180 pays a roll spread of 130 points, about ₹6,500 per lot, plus brokerage and taxes on both legs. The **rollover percentage**, the share of OI moved to the next series, is watched as a sentiment gauge, but read it with price and OI trend. For stock futures, avoid holding into expiry unless you are prepared for physical delivery.

9. Costs and Tax Basics

- **Trading costs.** Brokerage, securities transaction tax (STT), exchange charges, GST, SEBI fees and stamp duty apply. Rates are revised periodically, so check your broker's current charge sheet.
- **Margin funding.** Margin is tied-up capital that could earn elsewhere, and a shortfall can cause a forced square-off.
- **Tax.** Futures profits and losses are generally treated as non-speculative business income in India, with specific reporting and audit rules that depend on turnover. Confirm the current treatment with a chartered accountant.

10. Planning Your First Futures Trade

1. **Choose a liquid contract.** Prefer near-month index or large-cap stock futures with high volume and OI.
2. **Check lot size and margin.** Use your broker's margin calculator and confirm the full contract value.
3. **Size the position.** Decide the maximum loss you accept, then work back to lots from the distance to your stop.
4. **Set the stop and target before entry.** Because losses are open-ended, exit at a price you chose in advance.
5. **Use limit orders.** They control your entry price and cut slippage.
6. **Watch MTM and expiry.** Keep spare margin for daily debits, and square off or roll before expiry.

11. Common Futures Beginner Mistakes

1. Over-leveraging: Taking too many lots for the capital turns a normal swing into a forced exit.

2. Trading without a stop-loss: Losses are open-ended. A stop is your only cap.

3. Ignoring daily MTM: Cash leaves your account each losing day. Keep buffer margin beyond the minimum.

4. Holding stock futures into expiry: Physical delivery brings obligations and higher margin. Square off or roll early.

5. Forgetting the roll cost: Rolling costs the spread plus charges on both legs. Count it in your plan.

6. Trading illiquid contracts: Far-month and thin stock futures have wide spreads. Stay with liquid series.

12. Your Futures Trade Checklist

Run this five-point check before every futures trade:

- **Contract and liquidity** — Is it a liquid contract, and do you know the lot size and full contract value?
- **Margin buffer** — Do you hold extra funds beyond the minimum for daily MTM and volatility?
- **Stop and size** — Is the maximum loss in rupees a small share of your capital, with the stop placed?
- **Price and OI agree** — Does the price and open interest picture support your view?
- **Expiry plan** — Do you know whether you will square off, roll, or face delivery?

EDUCATIONAL CONTENT ONLY

This guide explains how futures work and is not investment advice or a recommendation to trade. **Futures are high risk.** Lot sizes, margins, charges and tax treatment change from time to time, so verify current details with the exchange, your broker and a qualified tax adviser. SEBI studies have found that a large majority of individual derivatives traders incur net losses. Always use a defined stop-loss and never risk money you cannot afford to lose.

13. Frequently Asked Questions

What is a futures contract in simple words?

A futures contract is a standardised agreement, traded on an exchange, to buy or sell an asset at a fixed price on a set future date. In India you can trade futures on indices such as Nifty and Bank Nifty and on individual stocks. You put up margin, not the full contract value, and your profit or loss is settled every day.

How much margin is needed to trade futures in India?

Margin is a fraction of the contract value, set by the exchange using risk models and collected by your broker before you take the position. It changes with volatility and can be revised at short notice, so check the requirement in your broker's margin calculator instead of relying on a fixed percentage.

What is mark-to-market in futures?

Mark-to-market means gains and losses are settled in cash every trading day against that day's settlement price, instead of only when you exit. Profits are credited to your account and losses are debited. If your balance falls below the margin required, you must top it up or the position may be squared off.

What happens if I hold a futures contract until expiry?

Index futures are cash-settled at the final settlement price. Stock futures are settled by physical delivery of shares, which brings an obligation to take or give delivery and usually higher margin near expiry. Most traders square off or roll over before expiry. Check the current rules on the exchange website.

What is rollover in futures trading?

Rollover means closing a position in the near-month contract and opening the same position in the next-month contract, so you can stay in the trade beyond expiry. You pay the difference between the two prices (the roll spread) plus brokerage and taxes on both legs.

Are futures riskier than options for beginners?

They are different risks. A futures buyer or seller has open-ended profit and loss because the payoff is a straight line, and losses can exceed the margin deposited. An option buyer's loss is limited to the premium, but time decay works against them. Both carry high risk, and both need a stop-loss and small position sizing.

Get in Touch

CHART CODE ACADEMY

Website: www.chartcode.in
WhatsApp / Phone: +91-95121 00588
Email: chartcode.in@gmail.com
Address: Boisar, Palghar, Maharashtra 401501

© 2026 Chart Code Academy. This guide is free to read, print and share for personal study.