

April 27, 2023

Reverse Arbitrage Opportunity – L&T Technology Services



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Reverse arbitrage

Arbitrage is the simultaneous purchase and sale of shares in order to profit from the mispricing opportunity available between the futures and cash prices of the same underlying. One can buy or sell stocks in spot and assume opposite position in futures of the same stock to capture the difference between both prices. For this, the difference between spot and futures prices has to be reasonably high so that one can not only cover the transaction costs but also earn profit. Towards expiry, prices of spot and futures converge and unwinding can be done at the same price. Hence, the initial difference will be locked in at the time of initiating the whole transaction. This difference yields risk-free return since it will be independent of the price movement.

Whenever futures are trading at a substantial discount to spot, a reverse arbitrage opportunity arises. Minimum one lot of the underlying future is bought and the delivery of the same number of shares is sold in cash to lock in the price difference.

L&T Technology Services (LTTEC)

Currently, L&T Technology Services May future is trading at a discount of more than ₹ 89/share while no dividend is expected in current month. This discount gives an opportunity for reverse arbitrage. Currently, this opportunity accounts for $(89/3625) = 246$ bps. We can lock in the difference of 246 bps at current prices. This will result in risk-free profit of ₹ 89/share excluding brokerage and transaction cost.

How to execute

Buy 1 lot of L&T Technology Services May futures at ₹ 3535-3537 and sell 200 shares (from demat holding) at ₹ 3624-3626. Execute the arbitrage with a difference of at least ₹ 89/share

Symbol	Buy 1 lot May Futures at	Sell 200 shares from demat holding at	Difference (Spot-Fut) (per share)	Difference (in BPS excluding dividend)	Gross Profit (in Rs)	Holding Period
L&T Technology Services	3536	3625	89	246	17800	Till May Expiry

Note: Call has been initiated on iClick2Gain on April 27, 2023

L&T Technology Services



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Source: Bloomberg, ICICI Direct Research

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