ICICI direct Research

July 10, 2020

Derivatives Strategy – Covered Call

Buy Sun Pharma for target of ₹ 525

Recommendation in the report					
Underlying	Action	Initiation Range	Target	Stop-loss	Time Frame
Sun Pharma July Future	Buy	489-494	525	464	till July expiry
Sun Pharma July 510 Call	Sell	13-15			

Other Product offerings

Derivatives Strategy	
Underlying	Action
Federal Bank	Buy
Tech Mahindra	Buy
Duration : 1-2 months	

Quant (Derivatives) Pick	
Underlying	Action
JSW Steel	Buy
Infosys	Buy
Duration : 1-3 months	

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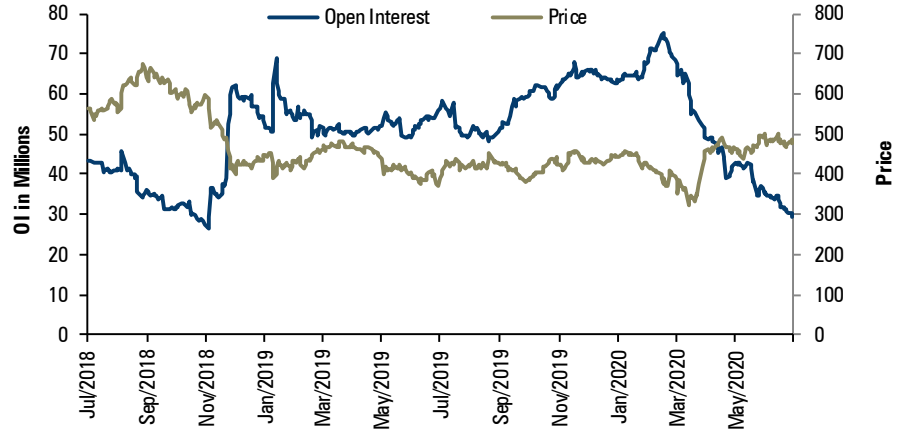
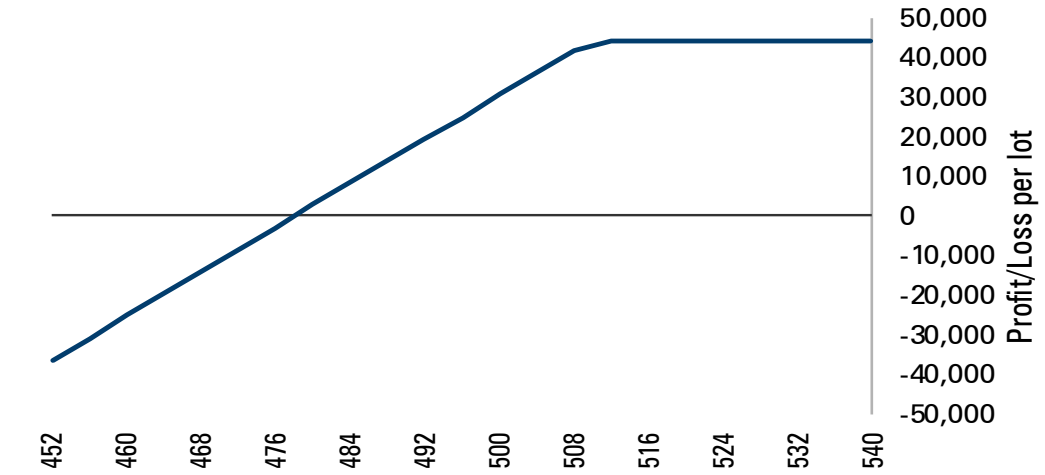
Covered Call: Buy Sun Pharma July future at ₹ 489-494 & Sell 510 Call at ₹ 13-15, Target: ₹ 525, Stop loss: ₹ 464, Time frame: Till July expiry

- After the initial up move and outperformance in pharma stocks, most stocks witnessed profit booking whereas the leader among the pack Sun Pharma remained resilient near ₹ 500 levels
- In the current leg of consolidation with supply near ₹ 500 levels, there was huge closure in OI. At the same time, the stock is finding decent support near ₹ 465 levels, indicating it is making a base for higher targets
- In the past two series, Sun Pharma saw aggressive writing in 500 strike Call. However, for the first time in July, we saw closure taking place in 500 strike Call while positions have shifted higher
- We feel the stock is well placed to take charge in the current leg of consolidation in the Nifty. This time it has the potential to move towards ₹ 540 levels in days to come
- Reversal of IV-spread from Mean – 2 Sigma levels also suggests activity in OTM Calls, which will be positive for the stock. We feel a close above ₹ 500 would take the stock towards the next level of ₹ 530

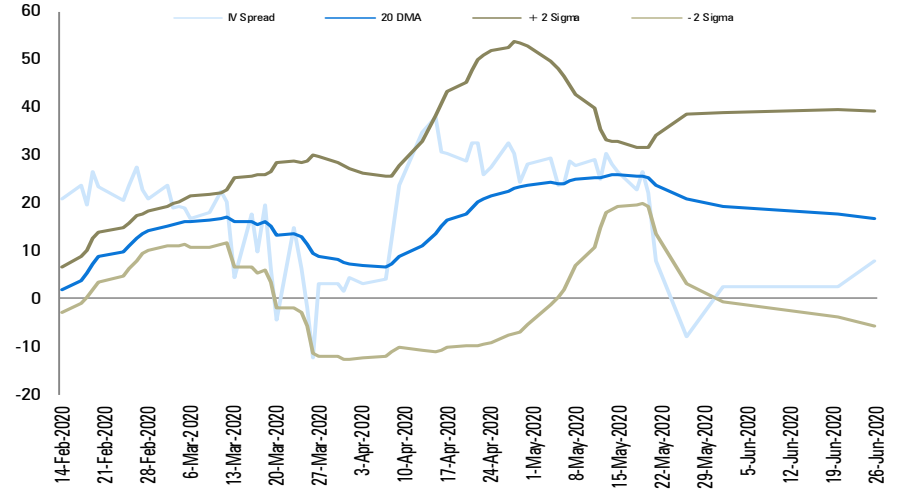
Price Chart



Strategy Pay-off



Stock – Nifty IV Spread



Source: NSE, Seediff, Bloomberg, ICICI Direct Research

Note : Recommendation given on Iclick2gain on July 10, 2020

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Source: Bloomberg, ICICI Direct Research

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