

# MFs turn to covered call strategy to squeeze out gains in flat mkt

Restricted in 2010, the regulator allowed writing options under covered calls in 2019

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Mutual funds (MFs) are using derivative instruments to improve returns amid lacklustre markets. Many schemes have introduced the option of using covered calls as part of their operations. New schemes with an enabling provision for using covered calls include the SBI Business Cycle Fund, Mirae Asset Infrastructure Fund, Kotak Rural Opportunities Fund, and the ICICI Prudential Conglomerate Fund. An existing scheme, Mirae Asset Aggressive Hybrid Fund, recently notified investors that it would be modifying the fund to include use of covered call options.

A call option is the right to buy a stock or index at a predetermined price. The buyer makes money if the value rises above that which s/he has locked in through the call option. The seller of the call option delivers the underlying at the pre-decided price or can settle in cash, depending on the instrument. For example, an investor could sell calls on shares at ₹110 when the stock price is ₹100, and get a small premium (say ₹2) for the same. The strategy is a covered

ILLUSTRATION: AJAYA MOHANTY



call if the option seller already owns the stock for which s/he has sold call options. The option is worthless to the buyer if the underlying does not rise. The option seller makes a small profit while holding on to their shares.

A former fund manager with a foreign mutual fund suggested that an asset manager typically uses the strategy when the view on the market is that it is likely to be range-bound or have limited upside. "If it was majorly bullish, you will not write a call," the person said.

The BSE Sensex was below its September 2024 all-time high of 85,978.25 a year later.

The Securities and Exchange Board of India (Sebi) had restricted mutual funds from writing options in 2010. It modified this provision to allow covered calls in 2019.

The use of covered calls is not necessarily a reflection of markets showing relatively lacklustre returns in recent times or limited upside, according to a spokesperson for SBI Mutual Fund.

"Covered calls have become a strategic tool to generate

## Gaining ground

Derivative holdings (in ₹ trillion)



Note: Date as available in the last week of October 2025. The data is for all derivative holdings, not necessarily covered calls

Source: [primemfdatabase.com](http://primemfdatabase.com)

income rather than a response to short-term market conditions," said the person.

If stock prices remain relatively stable, covered calls can help generate modest additional returns.

"The last 12 months have seen markets move within a range. Strong retail equity flows have also contributed to lower volatility in Indian markets in recent times," said Chintan Haria, principal-investment strategy, ICICI Prudential Asset Management Company.

Consider a fund that writes

covered calls on 5 per cent of its holdings, earning a 2 per cent yield on that portion. This could add around 10 basis points (bps) to investor returns. The actual impact varies depending on market conditions, exposure levels, and prevailing yields.

Haria added that covered calls can be particularly useful for hybrid schemes that invest in both debt and equity, as these funds often need to sell equities that appreciate in value to maintain their asset allocation. Writing a covered call allows them to do so more efficiently, since the option commits to selling at a higher price in exchange for a premium, thereby enhancing overall returns.

Other fund houses named above did not comment.

The overall derivative exposure in mutual funds has gone up to ₹2.6 trillion as of September 2025 from ₹0.6 trillion in September 2019.

Some of this also reflects the rising assets under management (AUM) of mutual funds. The share of derivative positions as a percentage of these assets was at 3.4 per cent in September 2025 compared to 2.2 per cent in September 2019.