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Executive Summary

Before taking investment decisions, it is important for investors to evaluate performance of different stocks with the help of statistical tools and techniques such as sharpe ratio and treynor ratios. This performance metric helps investors in identifying how profitable an organisation is within the industry and its ability to take risks. In this report, a company called Cab Payments Holdings Plc focuses on foreign exchange and cross-border payments for challenging markets. It looks at the business model of the company, its rationale for IPO, and risks. It involves share price performance, compound average growth rate determination, and risk-adjusted performance measures. Options strategies for Cab Payments and 3i Group plc are examined. It also examines the 10-year U.S. Treasury note yield and its effects on consumer credit. Cab Payments Holdings Plc has the prospect of growth in the competitive and constantly evolving financial services industry.

Table of Contents

1. Introduction:	3
2. Main Body:	3
2.1 Selection of the company:	3
a) Overview of the company, its business, its target market and USP:	3
b) Key reasons behind this company going public:	4
c) 3 Key Risks from S-1 with a Probability of Occurrence and Proposed Valuation	4
2.2 Share price performance:	6
a) Descriptive statistics with visual aids:	6
b) CAGR annually for the company compared to an index:	8
c) Sharpe and Treynor ratios for the company for two different, one-year periods:	8
2.3 Second Listed Company with Exchange Traded Options:	10
a) Graph Showing Derivative Contract's Payoff for a Call Option:	10
b) Graphically Showing Derivative Contract's Payoff for Put Option:	13
c) Strangle for the Company:	16
2.4 January 2023 to December 2023:	16
a) Performance of the 10Y Note:	16
b) Impact of Changes in the Yield of 10Y Note upon Consumer Debt:	18
3. Conclusion	19
References:	20

1. Introduction:

The aim of “Banking and Financial Markets” concentration involves providing additional evaluation in the aspect of financial management of banks and other financial institution including operation, financing, organization, and functions. “Cab Payments Holdings Plc” is the selected company that performed IPO in July 2023. The study includes overview of the company, its business, target market and USP along with key reasons behind Cab Payments Holding Plc going public. In addition, 3 key risks from S-1 with probability of occurrence and proposed valuation are evaluated. Share price performance has been evaluated using descriptive statistics and visual aids. Calculation of CAGR has been done annually for the company compared to an index. Sharpe and Treynor ratios have been calculated for the company for 2 different, one-year periods. A second listed company with exchange traded options have been chosen. Graphs have been included showing derivative contract’s payoff for call option and put option. Construction of Strangle or Straddle has been done for the chosen company. For the period January 2023 to December 2023, performance of the 10Y note is evaluated. Lastly, impact of changes in the yield of 10Y note upon consumer debt is included in this study.

2. Main Body:

2.1 Selection of the company:

a) Overview of the company, its business, its target market and USP:

CAB Payments is a holding company of “Crown Agents Bank”, the main operating firm that is a trusted foreign exchange and payments processing brand. It is a market leader within the B2B foreign exchange and cross-border payments, specialising in “hard-to-reach markets” (Cabpayments.com, 2024). The company has created an extensive, differentiated, as well as global payments network for supporting its well-invested, compliance-led and scalable tech platform. This network and platform have been “purpose-built” for sophisticated customers who are working with “hard-to-reach markets”. The company is operating in a fast-growing and large market that is undergoing any favourable structural shifts. The company possesses an experienced management team that has created a clear strategy for delivering sustainable growth. Shareholder value proposition or USP of CAB Payments is based on the foundations of a “dynamic top-line growth profile” as well as “well invested technology platform” to drive profits and margin growth

(Cabpayments.com, 2024). The company is capex light, cash generative, and derives advantages from some strong unit economics. Target market of the company includes individual and companies looking for foreign exchange and cross-border payments services.

b) Key reasons behind this company going public:

CAB Payments Holdings plc was welcomed to LSE in July 2023 following successful commencement of the conditional dealings on “premium listing segment” of the official list under “stock market ticker” ‘CABP’. In addition, the offer price was 3.35 pounds per share, which resulted in a “market capitalisation” of nearly 851.4 million pounds (londonstockexchange.com, 2023). The most important reason behind the company going public is to raise capital. The company wanted to collect a huge amount of funds to be able to perform business operations, create new products, pay off existing debts and enter into new markets. IPO helps organisations in raising capital from investors and shareholders which is significantly high compared to the unlisted companies. Apart from this, the company performed IPO in order to increase brand recognition as well as market valuation within the financial service sector. Based on the views of Ha (2024), going public increases visibility and brand recognition of an organisation within the industry it is operating in. Also, being listed on any stock exchange increases credibility of the company which can attract more talented, employees, partners, customers, investors and shareholders. CAB Payments knew it very well that the share price of the company after being publicly traded or listed would reflect perception of the market regarding its value. This perception can be used for further acquisition and fundraising opportunities in the future. CAB Payments performed IPO in order to provide liquidity to the existing shareholders. Inspired by the views of Phadke (2020), an IPO has been found to provide liquidity to the existing shareholders, like founders, employees and early investors, by letting them sell their shares in the public market. The company has been able to satisfy its shareholders better because of this IPO.

c) 3 Key Risks from S-1 with a Probability of Occurrence and Proposed Valuation

Market Risk:

“Market risk” affects “Cab Payments Holdings Plc”, mainly in terms of FX (foreign exchange) and interest rate risk in the banking book. These risks are likely to occur frequently because the company deals in FX trading and cross-currency payments. This problem is persistent because

exchange rates and interest rates have always been volatile in the international financial markets (Cabpayments.com, 2023). The company could manage these risks with standard pre-approved limits, and capital allocation. The Sharp Market movements could still affect the earnings and capital of the company. The specifics of the implementation of these risk management strategies will decide how much such measures will affect the company's valuation. In the evaluation of the proposed valuation, potential investors must consider the performance of the company in dealing with market risks as well as the solidity of the risk management program.

Financial Crime Risk:

The company does not accept systematic or repeated breaches of financial crime risk as the company is against the law. This position is well-advised and desirable in all financial services, especially in this era. However, the likelihood of occurrence of the identified financial crime risks is moderate to high due to the dynamic nature of financial crimes and the global operations involved. The focus on getting the employee to understand and take responsibility is important but difficult to sustain at all times (Cabpayments.com, 2023). The valuation of the company should incorporate the realisation that it has invested in strong systems and controls to address these risks. The investor should look into areas of compliance, previous cases of financial crime, and how resourceful the company is when it comes to compliance departments. A strong compliance culture and good compliance programs are strengths that can offset other weaknesses, which might warrant premium valuation. On the other hand, any vulnerability in this area presents significant threats to its reputation and financial well-being.

Operational Risk:

“Cab Payments Holdings Plc” agrees with the view that “operational risk” is an integral part of business processes, which is very reasonable. In financial operations, operational risk events are often likely to happen since financial operations are usually complicated and susceptible to human errors or other external activities and failures of the systems. It is reasonable, but maintaining a strong control environment while not losing sight of costs and expenses is a delicate process (Cabpayments.com, 2023). Success in this particular strategy will have a big effect on the percent change in the value of the company. Organisational investors should evaluate past operating accidents, management and reporting of these conditions, and adaptability to new conditions. A

good history of managing operational risks might mean that expected losses are lower, and regulatory costs are also likely to be low, thereby warranting higher valuation. Serious operational flaws or deficiencies could severely affect the value and potential of the organization.

2.2 Share price performance:

a) Descriptive statistics with visual aids:

Performance of the selected company through share price can be done through techniques like descriptive statistics for a time period of 6 July 2023 - 31 December 2023. Descriptive statistics involves a range of methods that can be used in summarising as well as describing the main characteristics of a particular dataset such as variability, distribution and central tendency (Anderson *et al.* 2020). The calculation of descriptive statistics has been included below:

“CAB Payments Holdings Limited	
Mean	146.3194545
Standard Error	4.558339855
Median	124.400002
Mode	287
Standard Deviation	75.59151483
Sample Variance	5714.077115
Kurtosis	-0.810140044
Skewness	0.739435988
Range	263.450001
Minimum	47.549999
Maximum	311
Sum	40237.85
Count	275
Confidence Level (95.0%)	8.973819646”

Table 1: Descriptive Statistics of CAB Payments Holding Plc

(Source: Self-Created)

Descriptive statistics computed above shows that the mean value of the share price of the company is quite high with a standard error of 4.5. This shows that the share price is fluctuating significantly because of the impact of external factors like inflation, geopolitical situations and rising interest rates. The company had a minimum share price value of 47.54 per share mostly during the covid 19 pandemic and the maximum value of share price was 311 pounds per share. Share price performance of the company can be better understood with graphical presentation of the market price.

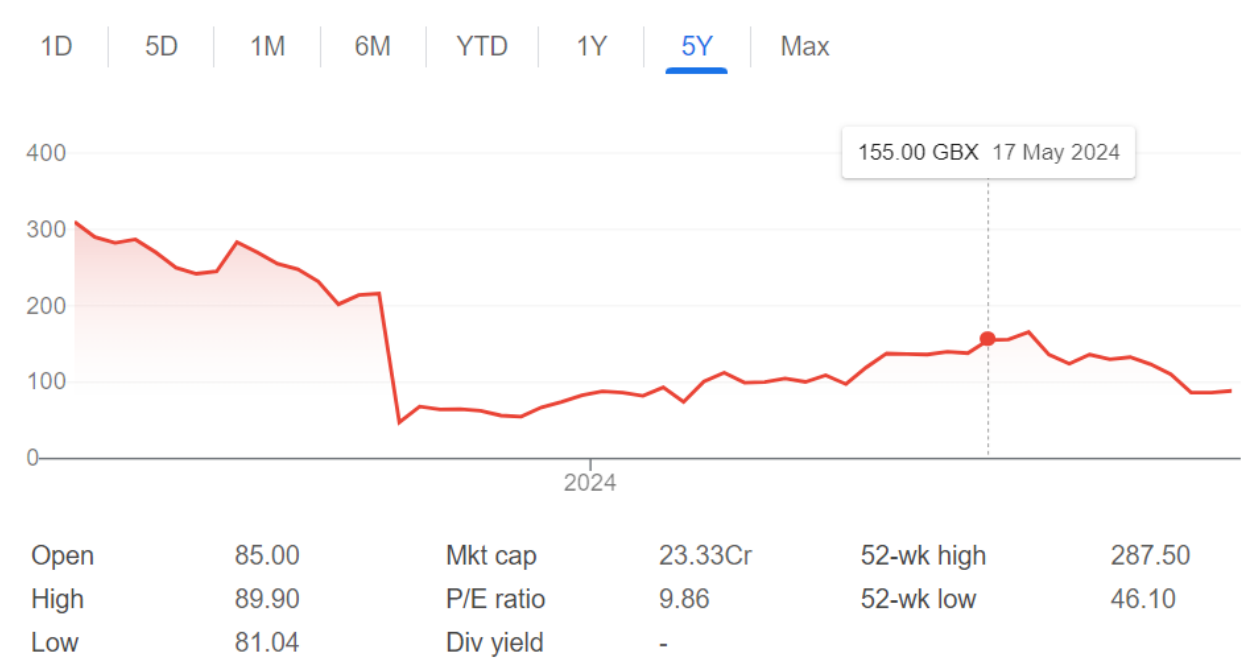


Figure 1: Share Price of CAB Payments Holding Plc

(Source: Finance.yahoo.com, 2024)

The graph presented above shows that the share price of the company was quite high in the beginning of 2024 and end of 2023. The increase in the share price resulted from the IPO conducted by the business in July 2023. However, after the IPO, the company announced that its profit might decrease because of which share price showed a significant decrease. Despite the efforts made by the company to recover its share price performance, a significant change cannot be identified. In other words, the company is yet to achieve its past share price performance and requires to implement strategic initiatives to regain its lost performance.

b) CAGR annually for the company compared to an index:

CAGR or “compound annual growth rate” can be defined as an investing, economics, and business term which represents the mean annualised rate of growth for compounding values over a particular period of time (Dokku *et al.* 2021). It is generally calculated using the formula: “ending value (1-t) / beginning value - 1”. CAGR has been computed below for the company compared to a chosen appropriate index:

	“CAB Payments Holdings Limited	Index
Compound annual growth rate (CAGR)	12.76	-0.26”

Table 2: CAGR of CAB Payments Holding Plc

(Source: Self-Created)

CAGR of CAB Payments is 12.76% compared to -0.26% for the chosen index. This shows that the possibility of growth in share price of the company is significantly high compared to the chosen index. This is an indication of good performance of the company within the industry along with future growth possibilities. The company can achieve higher growth in the future if it works on its profitability aspect strategically. The reason behind the decreasing share price is the low profit that the company has earned. Therefore, by working on this issue the company will be able to increase profitability which would also help in boosting share price performance.

c) Sharpe and Treynor ratios for the company for two different, one-year periods:

Sharpe Ratio:

Sharpe ratio is used in comparing return of any investment with its risk. Inspired by the views of Hong *et al.* (2024), Sharpe ratio represents a mathematical expression of insight that the surplus or excess returns for a particular period of time might signify more risk and volatility, rather than the investing skill. Sharpe ratio of the company has been computed below for two different years compared to the chosen index.

	“CAB Payments Holdings Limited		Index
	2022	2023	
Return of stock	5.91%	6.85%	7.85%
Risk free rate	5.21%	5.37%	5.37%
Standard deviation	0.051	0.0639	0.0089
Sharpe Ratio	0.19	0.23	2.80”

Table 3: Sharpe Ratio of CAB Payments Holding Plc

(Source: Self-Created)

Numerator of Sharpe ratio represents the difference between realised returns or expected returns and a benchmark like “risk free rate of return”. In addition, the denominator represents standard deviation of returns for a particular period of time acting as a measure of risk and volatility. With the help of Sharpe ratio, “risk adjusted relative returns” of the chosen company has been identified. Sharpe ratio of the company is increasing which shows that CAB Payments is performing quite well within the financial service sector. In other words, risk adjusted performance of CAB Payments is quite good because of the increasing ratio. Despite the increasing ratio, the value is low compared to the chosen index which shows poor performance of the company within the financial service sector. This means excess return of the company is not attributable to the smart investment decisions rather just the risk. Usually, a good Sharpe ratio is greater than 1 which is widely accepted by investors when it comes to investment decision making (Tajdini *et al.* 2021). If the Sharpe ratio is less than 1 then it indicates poor performance and investors would not invest in the organisation. If the ratio is higher than 2 then it is considered as very good and if the ratio greater is than 3 then it is considered excellent. Sharpe ratio of CAB Payments is less than 1 which shows poor performance and investors would not like to invest in the business. On the other hand, Sharpe ratio of the index is greater than 2 which makes it more attractive among the investors.

Treynor ratio:

Treynor ratio is also termed as “reward to volatility ratio” which is a performance metric that can be used in determining the excess returns that were derived from every unit of risk taken by any portfolio. Here, excess return represents return earned over returns that could have been generated

from any “risk free investment”. As per the views put forward by Stakic and Stefanovic (2023), Treynor Ratio can be calculated by deducting risk free rate from portfolio return and dividing the variance from beta of the portfolio. Here, beta represents systematic risk. Treynor ratio of the company has been computed below for two different years compared to the chosen index.

	“CAB Payments Holdings Limited		Index
	2022	2023	
Return of stock	5.91%	6.85%	7.85%
Risk free rate	5.21%	5.37%	5.37%
Beta Value (B)	0.51	0.4204	1.0000
Treynor Ratio	0.01	0.04	0.02”

Table 4: Treynor Ratio of CAB Payments Holding Plc

(Source: Self-Created)

A higher ratio is always more desirable because it indicates that the stock or portfolio is more suitable for investment purposes. On the other hand, a lower ratio indicates that the portfolio of stock is not profitable and thus investment in the same is not desirable (Pavic Kramaric *et al.* 2023). Treynor ratio of CAB Payments is increasing from 0.01 in 2022 to 0.04 in 2023 which is good but the ratio is very low showing poor performance. The Treynor ratio indicates that CAB Payments is unsuccessful in offering compensation to the investors for taking on the investment risk. As this ratio is highly reliant upon beta of a stock which is sensitivity of returns of the stock to market movements, it can be said that the risk is low and also the return. Just like the Sharpe ratio, Treynor ratio also shows poor performance of the company within the financial service sector especially compared to the selected index which is not good. The company is not making good investment decisions because of which both the ratios are so low. There is a need for the organisation to take strategic decisions and initiatives such as business expansion, new market entry and mergers & acquisitions to improve profitability along with share price performance of CAB Payments.

2.3 Second Listed Company with Exchange Traded Options:

a) Graph Showing Derivative Contract’s Payoff for a Call Option:

“Cab Payments Holdings Plc”

Call Option:

Call option is a financial derivative that allows the owner of the option to buy an asset at an agreed price called the strike price on or before a specified date. It offers greater exposure at a relatively low risk for the bullish party, especially when the price of the said asset increases (Hurry *et al.* 2022). Call option is an agreement between the buyer and the seller to buy a particular stock at a fixed price before a given date of expiration. The buyer of a call has the option but not the obligation to exercise the call and buy the stocks.

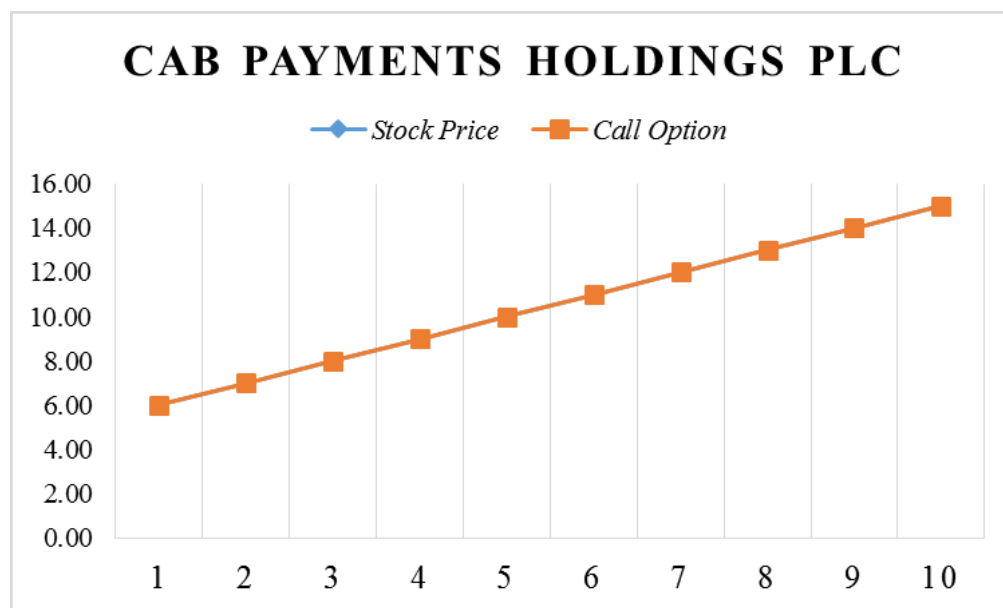


Figure 2: “Call Option of CAB Payment Holdings Plc”

(Source: Excel)

Graph Discussion:

The X-axis shows the stock price from 6.00 to 15.00 and the Y-axis shows the option payoff from 0.00 to 5.00. The payoff line is horizontal at 0 from 6.00 to 15.00, then slopes upward at a 45-degree angle from 11.00 to 15.00.

Graph Analysis:

The call option from Cab Payments Holdings Plc shows a normal pay-off pattern of this derivative instrument in the below graph. The horizontal line at zero payoff from stock prices 6.00 to 15.00

describes the action of the option when the option is losing money or out of money. At these price levels, the option holder would not exercise because the stock price is below the strike price. The change of slope occurred at 11.00 represents the strike price at which the option is at the money (yahoo.com, 2024). Starting from this point, as the stock price increases, the payoff increases in a straight proportion at the 45-degree angle.

This depicts the option's intrinsic value as it heads towards the money. Each increment of the stock price above 11.00, the payoff of the chosen option rises by one unit. Thus, the breakeven point for the option buyer would be a little more than 11.00 to include the amount for the premium paid. The following graph indicates that the maximum loss for call options is the premium paid while the profit has no upper limit. It should be noted that this payoff does not consider the option value of time, which is an important factor in the profitability of the option before it expires.

“3i Group Plc”



Figure 3: “Call Option of 3I Group Plc”

(Source: Excel)

Graph Discussion:

The X-axis shows the stock price from 8.00 to 13.00 and the Y-axis shows option payoff from 0.00 to 3.00. The payoff line is horizontal at 0 from 8.00 to 10.00, then slopes upward at a 45-degree angle from 11.00 to 13.00.

Graph Analysis:

The payoff profile of the call option of “3i Group Plc” is similar to any other call option as depicted in the graph below. The horizontal dashed line at zero payoff from stock prices 8.00 to 10.00 is used to denote the out-of-the-money area of the option. The option holder would not exercise because the price of the stock is below the strike price. The significant turning point is getting to 11.00, this is labeled the strike price at which the option is at the money. The payoff increases at a linear rate proportional to the stock’s price, and, therefore, the slope is 45 degrees. This upward-sloping line shows the option’s value due to its being in the money as it goes higher. For each unit increase in stock price above 11.00 the payoff of the option rises by one unit. A breakeven point for the option buyer will lie slightly above 11.00, taking into account the premium paid. This graph effectively illustrates the asymmetric risk-reward profile of call options: low risk the maximum loss is the amount of the premium paid and high return unlimited rise to the downside. This payoff structure is for the option at expiration and does not show the time value and other factors that may affect the option before expiration. The slope of the payoff line above the strike price clearly shows the leveraged aspect of options, meaning that a relatively small change in the price of the underlying stock can translate into large percentage gains in the option value.

b) Graphically Showing Derivative Contract’s Payoff for Put Option:

“Cab Payments Holdings Plc”

Put Option:

Put option is a financial asset that provides the buyer with an option to sell a particular asset at a fixed price known as the strike price at a given date. It offers downside risk and a small measure of comfort to bearish investors (Bakhshi and Heydari, 2023). This can be used by anyone who wants to manage risks associated with their portfolios with a possibility of significant profit if the price of the asset decreases.

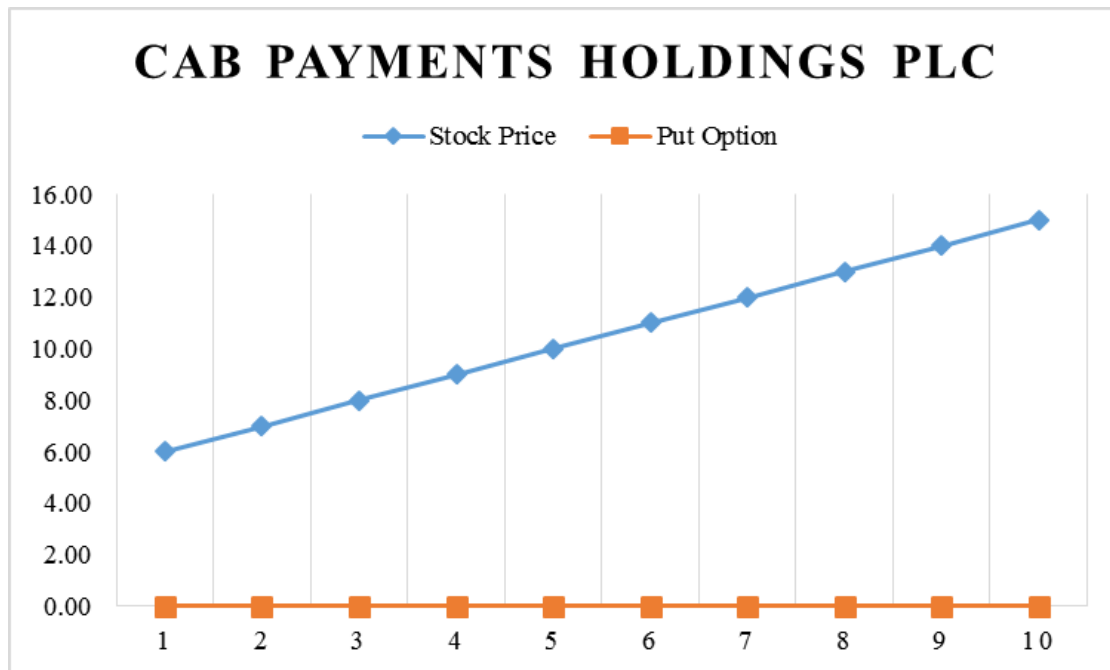


Figure 4: “Put Option of CAB Payment Holdings Plc”

(Source: Excel)

Graph Discussion:

The X-axis shows the stock price from 6.00 to 15.00 and the Y-axis shows the option payoff from 0.00 to 5.00. The payoff line slopes downward at a 45-degree angle from 6.00 to 10.00, then becomes horizontal at 0 from 6.00 to 15.00.

Graph Analysis:

The graph for Cab Payments Holdings Plc’s put option shows the typical profile of the Put option as a derivative tool. The downward-sloping line from stock prices 6.00 to 10.00 is the in-the-money area for the option. The payoff decreases linearly with the rise in the stock price and is represented by the 45-degree line. The put option payoff reduces by one unit for every increase in the stock price. The inflection point is at 11.00 representing the strike price where the option is at the money. From this point onwards, the horizontal line at zero payoff signals that the option is out-of-the-money. In this region, the option holder would not exercise because the stock price is higher than the strike price (yahoo.com, 2024). This graph effectively demonstrates the put option's key features: They have less potential for profits (the maximum profit is the difference between the

strike price and the premium paid) and limited risk. The breakeven point for the option buyer would be slightly below 11.00, taking into consideration the premium paid. This again is the payoff at expiration and does not include time value and other factors that affect its value up to expiration.

“3i Group Plc”

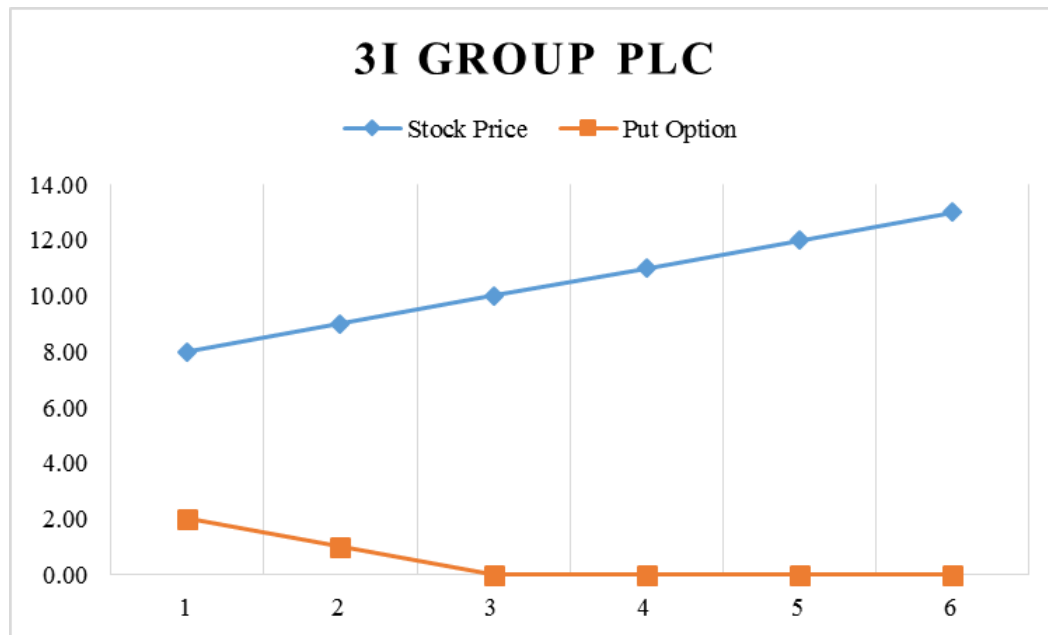


Figure 5: “Put Option of 3I Group Plc”

(Source: Excel)

Graph Discussion:

X-axis shows stock price from 8.00 to 13.00 and Y-axis shows option payoff from 0.00 to 2.00. The payoff line slopes downward at a 45-degree angle from 8.00 to 10.00, then becomes horizontal at 0 from 10.00 to 13.00.

Graph Analysis:

The graph of the put option of “3i Group Plc” shows the standard profit profile of this financial derivative. The downward sloping line from stock prices 8.00 to 10.00 is the in-the-money area of the option. The payoff reduces as the stock price rises and the line is in the form of a 45-degree angle. The payoff from the put option decreases by one unit for each increase in the stock price.

The turning point is at 10.00 which signifies the strike price through which the option becomes at the money. Hence, the horizontal line with zero payoff suggests that the option is out of the money. The option holder would not exercise because the stock price is higher than the strike price. This graph effectively illustrates the put option's key characteristics are Limited return benefits and downside risk. The breakeven point of the option buyer would be slightly below 10.00 less the amount of the premium paid. It is important to realize that this payoff structure refers only to the payoff at expiration and does not include the time value and other factors that affect the price of the option before the expiration date. The vertical position of the graph indicates that the put option is a form of insurance because it protects against downside risk in the underlying asset.

c) Strangle for the Company:

An investor looking to invest in “Cab Payments Holdings Plc” might formulate strangle to benefit from huge fluctuations up or down in the price of the share. This strategy involves the use of both an out-of-the-money call option and an out-of-the-money put option but with the same expiry date. The investor could buy a call option at a strike price of 12.00 and a put option with a strike price of 10.00. This forms strangle, with a 2.00 wide differential between the strike prices. The benefits of this strategy are that it enables the investor to earn from large fluctuations in prices in the market. There is a probability that Cab Payments’ stock price will go higher than 12.00, and the call option will be in the black. Stock price is way below 10.00, the put option will be profitable. The risk of this strategy is that if the stock price stays between the two strike prices at expiration both options will be worthless and the investor will lose the premium paid for them. However, the potential loss is not so much more than this premium. This strategy might be especially enticing if the investor expects Cab Payments’ stock to oscillate and expects price swings that may not be easily predictable.

2.4 January 2023 to December 2023:

a) Performance of the 10Y Note



Figure 6: “10 Year Treasury Bond Note Yield”

(Source: tradingeconomics.com, 2024)

The benchmark of the global interest rates, the 10-year U.S Treasury note has demonstrated significant volatility in the performance in the one year under consideration owing to changes in the economic environment and market sentiments. According to the most recent data, the 10-year yield is at 3.8400%, which very slightly rose from 0.04% on the day. This daily movement points to fairly steady conditions in the market in the short term. The analysis of the note performance with a focus on the timeframes other than the most recent one gives a clearer picture. In the past month, the yield has fallen by 0.450%, meaning that there has been a moderate rally in bond prices (tradingeconomics.com, 2024). Such a monthly decrease in yields could be explained by changes in inflation expectations, shifts in the outlook for monetary policy, or heightened demand for safe-haven assets due to geopolitical tensions.

The year to date performance is slightly lower by 0.236 percent in yields meaning that there was a marginal decrease in bond prices during this period. These weekly and annual orientations replace short-term noises and offer a good insight into the market trend. The comparison of the yield at the beginning of 2023 which stands at 3.5775 percent and the yield at the end of the year 2023 which is 3.8579 percent, we see that yield increases in that year with a difference of approximately 28 basis points (tradingeconomics.com, 2024). This increase over 2023 might be

attributed to the monetary policy contraction by the Federal Reserve due to inflation. The current yield of 3.8400% is just lower than the end December 2023 close and may suggest a slight change in market sentiment or the economic outlook for the year 2024 since the start of the year. Investors and analysts will also keep their eye on the 10 Y note since it is used to gauge economic expectations and has an impact on numerous other financial markets such as mortgages and corporate borrowings.

b) Impact of Changes in the Yield of 10Y Note upon Consumer Debt:

Fluctuations in the yield of the 10-year U.S. Treasury note can have substantial impacts on consumer debt. Since it serves as a reference point, particularly about consumer credit, any shifts in the yield on 10-year notes can influence the rest of the lending rates. The 10-year yield goes up, which means that different types of consumer credit become more expensive, especially long-term credits including home loans (He *et al.* 2022). This increase can lead to higher monthly payments for new borrowers and those with adjustable rates, lowering affordability and dampening home demand. The yield drops resulting in a lower interest on consumer loans being offered. This can increase the attractiveness and affordability of borrowing and lead to demand for mortgage credit, auto loans and other forms of credit.

Consumer loan rates are a strand of consumer credit linked with the 10-year yield. This means that as yields go up, auto loan rates also go up, which could lead to higher vehicle costs for consumers and a decreased likelihood of buying cars in the car industry. Interest rates for student loans, especially the federal ones, are usually pinned on the 10-year Treasury rate. Higher yields can lead to higher interest rates on loans for students and therefore may influence education choices and future family finance. It is essential to emphasize that the correlation between the 10-year yield and consumer debt is not always direct and proportional. Credit risk, competition regulatory policies, and other issues may also affect the retail interest rates that consumers pay. The general impacts on the yield changes are where it influences the overall economies, which in turn affects the consumption debts. For instance, there are effects whereby a rise in yields could slow down growth in the economy this could in turn affect employment and income levels and could therefore distort consumers' ability to repay debt and access new credit.

This impact is not limited to new entering products such as new loans. The current variable interest rate debt including the adjustable rate mortgage or credit card balances may feel the change as they

follow general market rates based on the 10-year note (tradingeconomics.com, 2024). The movement in the 10-year yield can influence consumer confidence and therefore their expenditure. Lower yields could make consumers borrow more to finance purchases while higher yields would make consumers adopt a tighter lending and spending regime. The yield of the 10-year note is necessary for consumer credit management since it determines the cost and availability of credit financing for millions of consumers.

3. Conclusion

The Cab Payments Holdings Plc depicts a firm that is established in a volatile financial services environment with multiple opportunities and risks such as market, financial crimes, and operations risks. Its prospects since going public in July 2023 have involved developing interest in underperformance due to profit issues. The company's compound average growth rate and the index indicated future growth possibilities. The call and put options for both Cab Payments Holdings Plc and 3i Group Plc show how these financial instruments are leveraged and useful in risk management and speculation. The proposed strangle strategy for Cab Payments Holdings Plc signifies the potential to effectively target major price fluctuations in both directions.

The fluctuations of the "10-year U.S. treasury note yield from January to December 2023" can be observed, which indicates shifts in the economic environment and investors' expectations. The yield changes have large implications for consumer debt through changes in interest rates of different kinds of loans and consumers' borrowing and spending patterns. There are pros and cons to Cab Payments Holdings Plc's operations and outlook, yet it represents an interesting value proposition for financial infrastructure development in underserved markets.

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