

DSE I: MDF 506: BUSINESS ANALYSIS AND VALUATION

Course Objectives:

This Paper will enable the students to analyze the health of a company through their annual reports, through management quality analysis, and will equip them to understand what an asset is worth and what determines that value. It will also discuss the issues and challenges faced during the valuation of assets especially in the conditions of uncertainties.

Learning Outcomes:

- Understand the importance and relevance of Annual Report of a Company
- Able to analyse both qualitative (beyond balance sheet) and quantitative information available in the annual reports for determining the financial health of the company, Bank and NBFC's.
- Understand the various methods of Equity and Firm valuations both in certain and risky conditions.
- Students are able to understand the practical application of different valuation model in valuing equity and firm through modelling of these methods using excel.

Course Contents:

Unit I

(4 Weeks)

Analysis of Corporate Financial Statements: Income statements and Balance sheets through ratio analysis and analyzing the Chairman's statement, Directors' report, management discussion & analysis, report on corporate governance, auditor's report to evaluate the financial soundness of the company. Financial statements analysis of manufacturing, service organisations and Bank & NBFC's (Using Excel).

Beyond Balance Sheet: How to analyze management quality that is most often regarded by investment greats like Warren Buffet as the single biggest determinant of investment success means what are the desirable traits in managers running different kind of companies that are absolutely essential to the company and shareholder investment success. How certain type of management transformation can create massive wealth for shareholders

References:

Foster, George Financial Statement Analysis, Pearson Education Pvt Ltd [Chapter 3,4,6 and 7]

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Unit II

(2 Weeks)

Introduction to Valuation: Component of valuation process- the Bias that analysts bring into the process, the uncertainty that they have grapple with, and complexity that modern technology and easy access to information have introduced into valuation. Approaches to valuation: Discounted cash flow valuation- basis for DCF, classification of DCF models, inputs to DCF models, and pluses and minuses of DCF models. Relative valuation – basis for approach, variations on relative valuation, and applicability of multiples and limitations. Role of valuation.

References:

Damodaran, A. Damodaran on Valuation, Security Analysis for investment and Corporate Finance (2nd ed.). Wiley India Pvt. Ltd. [Chapter 1]

K. G., CA, & Sehrawat, N. K. Handbook on Valuation- Concept & Cases. New Delhi, Bharat Law House Pvt. Ltd, ISBN: 978-93-5139-497-6. [Chapter 1 and 2]

Unit III

(3 Weeks)

Discounted Cash flow Valuation: Estimating discount rates- cost of equity and cost of capital, measuring cash flows, and forecasting cash flows. Equity discounted cash flows models. Firm valuation models.

Applied Valuation – valuation of a real company through DCF (matured company) using excel.

References:

Damodaran, A. Damodaran on Valuation, Security Analysis for investment and Corporate Finance (2nd ed.). Wiley India Pvt. Ltd. [Chapter 2,3,4,5 and 6]

K. G., CA, & Sehrawat, N. K. Handbook on Valuation- Concept & Cases. New Delhi, Bharat Law House Pvt. Ltd, ISBN: 978-93-5139-497-6. [Chapter 3,4 ,5 and 10, Appendix II]

Unit IV

(3 Weeks)

Relative Valuation: What is relative valuation. Reasons for popularity and potential pitfalls. Standardized values and multiples- Earnings multiples, book value multiples, revenue multiples, and sector-specific multiples. Equity and Value multiples. Basic steps to using multiples. Reconciling relative and discounted cash flow valuation.

Applied Relative Valuation - valuation of a real company through relative valuation method (matured company) using excel.

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Loose ends in valuation: Cash, cross holdings, and other assets. Valuation of Intangibles. Value of Synergy. Valuing real Options. Cost of Distress. Valuation of start-ups.

References:

Damodaran, A. Damodaran on Valuation, Security Analysis for investment and Corporate Finance (2nd ed.). Wiley India Pvt. Ltd. [Chapter 7,8,9,10,12,15 and 17]

K. G., CA, & Sehrawat, N. K. Handbook on Valuation- Concept & Cases. New Delhi, Bharat Law House Pvt. Ltd, ISBN: 978-93-5139-497-6 [Chapter 5]

Text Books:

Latest editions of the following to be used:

1. Foster, George Financial Statement Analysis, Pearson Education Pvt Ltd
2. Damodaran, A. Damodaran on Valuation, Security Analysis for investment and Corporate Finance (2nd ed.). Wiley India Pvt. Ltd.
3. K. G., CA, & Sehrawat, N. K. Handbook on Valuation- Concept & Cases. New Delhi, Bharat Law House Pvt. Ltd, ISBN: 978-93-5139-497-6.

Additional readings:

1. Damodaran, Investment Valuation, Tools and Techniques for determining the value of any asset, 3rd Edition, Wiley India Pvt. Ltd.
2. Damodaran, Corporate Finance (2000), Theory and Practical, 2nd Edition, Wiley India Pvt. Ltd.

Teaching and Learning Process:

This course will be taught using a mix of the following tools:

1. Relevant Case studies
2. Valuation of real using real data using excel modelling.
3. Relevant and important articles from academic linked journals in the domain of Management such as Harvard Business Review,

Assessment Method:

The total assessment of the course is for 100 marks and would be split as follows:

- A. Semester end exam = 75 marks
- B. Attendance = 5 marks

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C. Internal = 20 marks (5 - class participation; 5 - term paper; 10 - class presentation)

Keywords:

Equity Valuation, Analysis, Annual Report, Beyond Balance Sheet, valuing equity and firm through excel modelling.