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Course Outline

Equity Valuation

About Document

The purpose of this document is to provide an idea about the content covered in this course. You are also entitled to receive updated content for the next one year. All information has been sourced from publicly available data such as annual reports and news items.

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Videos	Content covered
Introduction to Valuation	Broad outline of the program Introduction to the concept of Investment and Trading Fundamental Analysis Important things to focus in Valuation Places to find information on business Objective of the program
Identifying Macro Themes – 1	Important Macroeconomic themes India's position in Global GDP Nominal and Real GDP Growth rate projections of Indian GDP India's position in Global GDP per Capita Purchasing power parity Effects of increase in GDP per Capita on discretionary spending Demographic profile of Indian and Chinese economy Demographic pattern and consumption
Identifying Macro Themes – 2	Study of Indian Fiscal Policy Understanding of Income and expenditure for Indian government Study on India's balance of payment scenario and impact of oil on India's balance of payments Concept of current account deficit Fiscal deficit of India Major Macro Economic parameters of India Impact of improvement in tax collection in India on infrastructure spending Effect of Oil deregulations and Rising oil prices on various sectors
Industry Analysis Frameworks	Brief Explanation on elements on Porter's 5 forces Application of Porter's 5 forces in telecom sector, paint manufacturing industry Sources of competitive advantage for companies explained with examples: Brands, government regulations, distribution network, operational efficiency, gestation period, low supplier bargaining power, no ready substitute available, cost competitiveness, low customer bargaining power, supply side economies of scale, demand side economies of scale
Industry Analysis- Identifying Opportunity Size	Importance of understanding opportunity size of an industry Parameters to evaluate industry's opportunity size: Penetration levels in India vs the world, per capita usage, size of industry relative to global size Size and scale of mobile phone industry Opportunity size of domestic credit industry, healthcare industry, hotel supply industry, Aviation industry, Mutual fund industry in India Opportunity size of Eicher motors, Bajaj finance
Industry Analysis – Other factors	Concept and Interpretation of operating leverage explained with example of Indian Hotels

	Concept and Interpretation of capital intensity explained with examples of Bharti Airtel, Maruti Suzuki Summarizing of learnings
Concept-DCF valuation introduction	Concept of DCF valuation Net present value and DCF Generic form of DCF valuation Premise of DCF valuation: Going concern, Required rate of return, Projected cash flow Concept and computation of Dividend discount model Challenges related to Dividend discount model Conditions essential for the working of Dividend discount model Implication of Dividend pay-out ratio on Dividend discount model Concept and computation of free cash flow to equity and free cash flow to firm Difference between free cash flow to equity and free cash flow to firm Discount rate calculations: Cost of equity and cost of capital
Concept–DCF valuation Discount Rates	Concept of equity and CAPM CAPM explained in detail with computation of beta Cost of capital and WACC Computation of WACC Approximation of discount rate: Difference between less risky and high risk companies/businesses explained with examples Approximate discount rate for less risky and high risk companies/ businesses Average beta of Nifty sectors Approximate cost of equity and cost of debt of Nifty sectors
DCF Concepts–Risk Free Rate	Interpretation of CAPM and components of CAPM Definition of Risk free rate with respect to default risk and reinvestment risk Can some asset really be risk free? Risk free rate for India: Where to find? Evaluating difference in the risk free rate of different countries and its effect on valuation
DCF Concepts–Risk Free Rate–Beta	Concept of Beta and its interpretation Computation of Beta: Formula method, Historical calculation explained with example of Maruti Suzuki Fundamental calculation explained with example of steel sector Advantages of fundamental beta calculation
DCF Concepts- Equity Risk Premium	Concept of Equity risk premium Factors that drive equity risk premium Computation of Equity risk premium: Survey approach method Historical approach method with example of SENSEX Fundamental calculation explained with example of India and USA

	Estimating country risk premium: Using country default spreads, using country economic scores, using market based parameters Computation of Equity risk premium of countries Adjustments to equity risk premium of smaller illiquid companies and companies dependent on global earnings
Relative Valuation – Price to Earnings	Computation of price to earnings ratio and its interpretation with example of Mindtree Computation of forward price to earnings ratio with example of Mindtree Price to earnings ratio of sectors in Indian markets and their interpretation Drivers of valuation: stability, growth, competitive advantage, degree of variability in earnings Explanation on the power of growth with example
Relative Valuation – Price to Book	Concept of price to book Computation of price book ratio and its interpretation Price to book ratio and relative valuation Conditions required for price to book ratio to be greater than one Use of Price to book in banking sector
Relative Valuation – EV by EBITDA	Concept of Enterprise value (EV) Computation and components of EV by EBITDA Importance of EV by EBITDA: Usefulness of EV by EBITDA in some Sectors Concept and importance of Enterprise to sales Calculation of value multiples and their interpretation explained with the example of TATA steel Price to earnings and EV by EBITDA
Relative valuation – Sector Specific Multiples	Process of arriving at sector specific multiples Concept of Transaction comparable analysis Examples of sector specific multiples of cement, hospitals, oil and gas, mutual funds ect. Explained in detail the implication of sector specific multiple in relative valuation with example of asset management company
Valuation Modelling - Infosys	Data points needed to commence valuation model building and the places they can be found Key drivers of revenue for the business Analysing Balance sheet data Understanding and interpretation of various parameters given on financial statement Data available on the website of company Calculating general ratio as well as sector specific ratios Understanding and calculation of person months data, effort, bill rate Components included in General model building exercise
Valuation Modelling– Infosys-Revenue drivers	Categorising the sources of revenue Discussion on Process of arriving at future projected revenue with the help of revenue drivers from each source of revenue

Valuation Modelling–Infosys-Cost drivers	Discussion on process of arriving at projected employee salary with the help of average salary. Basic analysis of all other cost by calculating other cost as percentage of sales Details on effective tax rate
Valuation Modelling–Infosys-Balance sheet drivers	Focus on the balance sheet drivers: Long term assets, CAPEX drivers, Working capital drivers-Short term assets and short term liabilities Determining asset heavy business Difference between net and gross value of CAPEX Estimate the future CAPEX with the help of key drivers of business and depreciation Estimate working capital with help of sales
Valuation Modelling – Infosys –Fully Linked Model	Linking all data points in such a fashion that if assumptions are changed it changes the model but doesn't change functionality of model Assumption on broad set of data for creating projected profit and loss account, balance sheet and cash flow
Valuation Modelling – Infosys - Beta and Cost of Equity	Selecting choice of models: FCFE or FCFF Calculating beta for Infosys Calculate cost of equity based on beta, risk free and market premium
Valuation Modelling–Infosys-Adjustments	Projecting other income based on cash balances Projecting dividends based on dividend pay-out and dividend policy of company
Valuation Modelling–Infosys-FCFE	Explanation on Adjustments to free cash flow to equity Computation of projected FCFE
Valuation Modelling–Infosys-Final Valuation	Decoding assumptions with help of management guidance and other information available Computation of projected Terminal value
Valuation Modelling–Infosys-Sensitivity Analysis	Calculation of fair market value of Infosys Comparing it with current share price Analyse the difference between fair market share and current share price of Infosys and determine whether it is overvalued or under valued Conduct sensitivity analysis on certain parameters
Valuation Modelling – SAIL	Valuation exercise of SAIL (all steps mentioned above)
Valuation Modelling – DMart	Valuation exercise of Avenue Supermarts (all steps mentioned above)
India's economic environment and RBI policy review	RBI monetary policy review – Analysis Methodology Important data on RBI website Review of important points in exerts of monetary policy statement Global crude prices and Trade balance Import and export scenario in India

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Financial Statement Analysis – Tata Motors	Ratio calculation along with DuPont analysis
	Interpretation of ratios
	Cash flow and net profit interlinkage
	Relevant information from the annual report

For Certification in Equity Valuation, under the project header, you need to do the following

1. Pick up **ANY ONE** of the following companies **ONLY**, and download its annual reports for the latest 3 years that are available
    - TVS Motors
    - Thyrocare
    - Airtel
    - Ceat
    - Titan Industries
    - Shree Cement
    - Britannia
2. Go through the Management Discussion and Analysis portions for the last 3 years, and write down key points that you think are relevant
3. Go to the Consolidated Financials – and put in the numbers for the last 4 years from only the annual report. **Do not use any other database. The numbers need to be manually put in from the annual report. Other sources such as moneycontrol, screener, CMIE, ACE Equity etc will not be accepted.**
4. Try and Do a detailed **Industry Analysis**. This could include but may not be limited to
    1. Apply the Porter's 5 forces framework and analyse the industry in details.
    2. How big is the industry
    3. What are the major firms and their market shares?
    4. How do these companies make money? What kind of margins exist in the business
    5. What is the overall opportunity size in India?
5. Try and prepare a short note on what you think are major revenue and cost drivers. Why do you think so?
6. Prepare the model framework – **all financial statements should be linked and working correctly**.
7. **Final set of assumptions,** and rationale behind those. This has to include all assumptions and clearly state why did you make those assumptions.
8. Choice of FCFE/FCFF and why?
9. Calculation of Cost of Equity / Cost of Capital as the case may be, with working.
10. **Actual Valuation**
11. Sensitivity Analysis. Which parameters affect the valuation the most
12. Also do a peer evaluation using Relative Valuation ratios such as P/E, P/B and EV / EBITDA.
13. You could also calculate certain ratios specific to the sector - such as EBITDA per bike for Bajaj Auto.
14. Create a short report (max 2 pages) citing your recommendation and submit along with your model.

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Make a summary of your observations. You need to prepare an excel file and a supporting word document. The word document need not reproduce the data on excel, but should speak more about observations. You should also put in those observations in the excel file, wherever possible.

Please name the file as companyname_yourname_collegename.xlsx

For example SAIL_Parth_NMIMS.xlsx