

## DSE 2: CORPORATE ANALYSIS & VALUATION

### CREDIT DISTRIBUTION, ELIGIBILITY AND PRE-REQUISITES OF THE COURSE

Course title & Code	Credits	Credit distribution of the course			Eligibility criteria	Pre-requisite of the course (if any)
		Lecture	Tutorial	Practical/ Practice		
<b>Corporate Analysis &amp; Valuation DSE-2</b>	<b>4</b>	<b>3</b>	<b>1</b>	<b>0</b>	<b>Class XII</b>	<b>NA</b>

#### Objective:

- To enable the students to analyse the health of a company through their annual reports and will equip them to understand how to determine its value.

#### Learning Outcomes:

After studying this course the student will be able to understand:

- Financial Health of a company through qualitative and quantitative analysis.
- The use of financial ratios for financial health determination.
- The various valuation techniques for company's valuation.

#### Course Contents

##### **Unit 1: Analysis of Corporate Financial Statements (12 hours)**

Analysis of Corporate Financial Statements: Income statements and Balance sheets through ratio analysis and analysing the Chairman's statement, Directors' report, management discussion & analysis, report on corporate governance, auditor's report to evaluate the financial soundness of the company. Understanding financial statements of manufacturing and service organisations. Common size analysis and relevant ratios (Study from the Annual Reports of the companies).

##### **Unit 2: Introduction to Valuation Techniques & Cash Flows Forecasting (12 hours)**

Introduction to Valuation: Value and price, Balance sheet-based methods, Income statement-based methods. Cash flow discounting-based methods. Deciding the appropriate cash flow for discounting, The free cash flow to the firm, free cash flow to equity. Forecasting Cash flows: simple model for forecasting income and cashflows. Earnings, Tax effect, Reinvestment needs, dividend.

**Unit 3. DCF Valuation, Discount Rates & Beta****(12 hours)**

Discounted Cash flow Valuation: Valuation of a company with no growth, constant growth, variable growth and infinite life. Estimating Discount Rates – cost of equity, cost of debt, tax shield, weighted average cost of capital. Calculation of beta, instability of beta, adjusted beta, levered and unlevered beta.

**Unit 4: Relative Valuation & Other Applications****(9 hours)**

Relative Valuation: standard multiples, comparable companies, potential pitfalls; estimating multiples using regression. Valuation of brands and intellectual capital. Interest rates and company valuation. Impact of inflation on valuation. Reconciling relative and discounted cash flow valuation. Case studies in valuation.

**Essential Readings:**

1. Damodaran, A., Damodaran on Valuation, Security Analysis for investment and Corporate Finance (2nd ed.). Wiley India Pvt. Ltd.
2. Chandra, P., Corporate Valuation and Value Creation, (1st ed). Tata Mcgraw Hill.

**Additional Readings:**

1. Foster, George Financial Statement Analysis, Pearson Education Pvt Ltd
2. Pablo Fernandez, Valuation and Common Sense, Free download from SSRN ([https://web.iESE.edu/PabloFernandez/Book\\_VaCS/ContentsValuation.pdf](https://web.iESE.edu/PabloFernandez/Book_VaCS/ContentsValuation.pdf)).

Latest Editions of the Readings may be used.

**Examination scheme and mode:**

Evaluation scheme and mode will be as per the guidelines notified by the University of Delhi.