

Review financial statements and sources of financial statement information. The company's strategy and business model. Ratio analysis – short term solvency ratios, long term solvency ratios, turnover ratios and profitability ratios (Historical ratio analysis of real companies using Excel). Du-Pont analysis. How to use all the ratios, to forecast future financial statements? Accounting based valuation.

**Unit II: Earnings Management (12 Hours)**

Overview of earnings management: Means, motive, opportunity, how managers actually make their earnings look better, their incentives for manipulating earnings, and how they get away with it. Revenue recognition red flags: revenue before cash collection. Revenue recognition red flags: revenue after cash collection. Expense recognition red flags: capitalizing vs. expensing. Expense recognition red flags: Reserve Accounts and write-offs.

**Unit III: Big Data and Prediction Models (11 Hours)**

Overview: Big Data and Prediction Models. Discretionary Accruals Models: Model the Non-Cash portion of Earnings or Accruals. Discretionary expenditure Models: Model the Cash Portion of Earnings. Fraud Prediction Models and Benford's Law.

**Unit IV: Non-Financial Metrics and Financial Performance (11 Hours)**

Introduction: Connecting numbers to non-financial performance measures. Linking non-financial metrics to financial performance: Overview and steps. Targets setting, incorporation of analysis results in financial models and how to use analytics to choose action plans.

**Essential/recommended Readings (latest edition of readings will be used)**

1. Diri, M.E. (2017). *Introduction to Earnings Management*. Springer.
2. Richardson, V.J., Teeter, R.A., Terrel, K.L. and Mohapatra, P.S. (2020). *Data Analytics for Accounting*. 2nd Edition, McGraw Hill.
3. Prince, J.T. and Bose, A. (2020). *Predictive Analytics for Business Strategy – Reasoning from Data to Actionable Knowledge*. 1st Ed., McGraw Hill

**Note:** Examination scheme and mode shall be as prescribed by the Examination Branch, University of Delhi, from time to time

**DISCIPLINE SPECIFIC ELECTIVE -FINANCE (DSE-9)**

**DSE 9: BUSINESS ANALYSIS AND 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>Business Analysis and Valuation (DSE 9)</b>	<b>4</b>	<b>3</b>	<b>1</b>	<b>0</b>	<b>Class XII</b>	<b>Basic knowledge of accounting and Finance</b>

## Learning Objectives

- This Paper will enable the learners 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.
- Learners will understand the issues and challenges faced during the valuation of assets especially in conditions of uncertainties.

## Learning Outcomes

On successful completion of the course the learner will be able to:

- Remember the various elements of the Income statement and Balance sheet.
- Understand the importance and relevance of the Annual Report of a Company.
- Apply both qualitative (beyond balance sheet) and quantitative information available in the annual reports for determining the financial health of the company, Banks and NBFC.
- Analyze the various methods of Equity and Firm valuations both in certain and risky conditions.
- Evaluate the practical application of different valuation models in valuing equity and firm through modelling of these methods using excel.

## SYLLABUS DSE 9

### Unit 1: Analysis of Corporate Financial Statements

(11 Hours)

Income statements and Balance sheets analysis through Ratio, Du-Pont analysis. How to read the Annual report of a company to evaluate the financial soundness of the company? Financial statements analysis of manufacturing, service sector (Using Excel). Beyond Balance Sheet Analysis: What does the company do? Who are its promoters? What are their backgrounds? What do they manufacture (in case of service company which services they offer)? Who are the company's clients or end- users? Who are their competitors? Who are the major shareholders of the company? Do they plan to launch any new products/service? Do they plan to expand to different countries? What is the revenue mix? Which product sells the most? Do they operate under a heavy regulatory environment?

### Unit 2: Introduction and Approaches of Valuation

(11 Hours)

Introduction to Valuation: Philosophical Basis for Valuation, Generalities about Valuation, Role of Valuation. Approaches to Valuation: Discounted Cash Flow Valuation – basis for DCF, categorization of DCF models, Applicability and Limitations of DCF models. Relative Valuation – basis for approach, categorization of relative valuation models, applicability and limitations of multiples.

### Unit 3: Dividend Discount Model and Discounted Cash Flow Valuations (12 Hours)

Estimating Discount Rates – Cost of Equity and Cost of Capital. Betas: Historical Market Betas, Fundamental Betas, Bottom-Up Betas, Accounting Betas, Unlevered Beta and Levered Beta. Dividend Discount Models (DDM): Two-Stage and Three Stage Dividend Discount Model.

Issues in using the Dividend Discount Model. Free Cash Flow to Equity (FCFE) Discount Models: Free Cash Flows to Equity, FCFE Valuation Models – Constant Growth, Two Stage FCFE Model. FCFE Valuation Vs. Dividend Discount Model Valuation. Firm Valuation: Free Cash Flow to the Firm (FCFF), Firm Valuation Approaches: The Cost of Capital Approach, The Adjusted Present Value (APV) Approach, Cost of Capital Vs. APV Valuation. Applied Valuation of a Company using Excel.

#### Unit 4: Relative Valuation and Multiples

(11 Hours)

Relative Valuation: Concept, Reasons for popularity and potential pitfalls. Standardized Values and Multiples (brief overview) – Earnings Multiples, Book Value Multiples, Revenue Multiples, and Sector-specific Multiples. Basic Steps to using Multiples. Select Multiples – Price-Earnings (PE) Ratio, PEG Ratio, Price to Book Ratio, Enterprise Value to EBITDA Multiple, Enterprise Value/Sales, Enterprise Value/Book Value, Tobin’s Q. Reconciling Relative and Discounted Cash Flow Valuation.

#### Essential/recommended Readings (Latest editions of readings 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. Damodaran, Investment Valuation, Tools and Techniques for determining the value of any asset, 3rd Edition, Wiley India Pvt. Ltd.

#### Suggestive Readings (latest edition of readings to be used)

1. K. G., CA, & Sehrawat, N. K (2018). Handbook on Valuation- Concept & Cases. New Delhi, Bharat Law House Pvt. Ltd,
2. Damodaran, Corporate Finance (2000) – Theory and Practical, 2nd Edition, Wiley India Pvt. Ltd.

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### DISCIPLINE SPECIFIC ELECTIVE -FINANCE (DSE-10)

#### DSE 10: ADVANCE DERIVATIVES

#### 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		
Advance Derivatives (DSE 10)	4	3	1	0	Class XII	Basics of options, swaps, interest rates and cryptocurrencies

#### Learning Objectives

The course will help the learner to: