Research Analysts' primary role is to evaluate industry and company growth to aid client investment decisions.

- Qualities of a good Research Analyst include proficiency with numbers, Excel tools, and financial concepts.
- Research Analysts must comprehend financial statements and ask pertinent questions with attention to detail.
- Strong written and verbal communication skills are essential for Research Analysts.
- Basic principles of interaction with companies or clients include transparency and conflict disclosure.
- Equity shares represent fractional ownership in a business, bearing risk and rewards.
- Debentures, bonds, and notes are long-term debt instruments for raising capital.
- Derivatives include futures, options, and swaps for hedging or speculation.
- Financial statements include balance sheet, profit & loss account, and cash flow statement.
- Balance sheet shows assets, liabilities, and equity at a point in time.
- Profit & loss account reflects revenues, expenses, and net income over a period.
- Cash flow statement categorizes flows into operating, investing, and financing activities.
- Financial ratio analysis covers liquidity, profitability, leverage, and efficiency ratios.
- Liquidity ratios like current ratio measure short-term solvency.
- Profitability ratios such as ROE and ROA assess earnings generation efficiency.
- Economic analysis involves GDP, inflation, interest rates, and fiscal/monetary policies.
- GDP measures economic output; nominal vs. real distinguishes inflation effects.
- Inflation erodes purchasing power; CPI tracks consumer price changes.
- Industry analysis uses PESTLE: Political, Economic, Socio-cultural, Technological, Legal, Environmental factors.
- BCG Matrix classifies business units as stars, cash cows, question marks, dogs.
- SCP Analysis examines Structure, Conduct, and Performance of industries.
- Qualitative company analysis covers management quality, competitive moat, and corporate governance.
- Quantitative company analysis uses financial metrics like revenue growth and margins.
- Contingent liabilities and off-balance sheet items must be reviewed in notes to accounts.
- Corporate actions include dividends, bonus issues, stock splits, and buybacks.
- Dividends are payouts from profits; yield = dividend per share / price.
- Bonus issues increase shares without cash outflow, adjusting EPS.
- Risk and return fundamentals: Higher risk demands higher expected return.
- CAPM formula: $E(R) = Rf + \beta (Rm - Rf)$, where β measures systematic risk.
- Beta >1 indicates higher volatility than market; <1 lower.
- Valuation principles: Intrinsic value vs. market price; absolute and relative methods.
- DCF valuation discounts future cash flows at WACC.
- Relative valuation uses multiples like P/E, EV/EBITDA compared to peers.
- Valuation of equity includes DDM for dividend-paying stocks.
- Gordon Growth Model: $P0 = D1 / (k - g)$, for constant growth.
- Legal environment: SEBI (Research Analysts) Regulations, 2014, mandates

registration.

- SEBI Act, 1992, empowers regulation of securities markets.
- Prohibition of Insider Trading Regulations restrict use of unpublished price-sensitive info.
- Fraudulent and Unfair Trade Practices Regulations prevent market manipulation.
- Research reports must disclose conflicts, assumptions, and risks.
- Indian securities market structure: Primary vs. secondary markets.
- Primary market issues IPOs, FPOs; book building sets price.
- Secondary market trading on NSE, BSE with T+1 settlement.
- Debt market features: Fixed income, lower risk than equity.
- Zero-coupon bonds pay no interest, sold at discount.
- Convertible bonds can convert to equity at maturity.
- Derivatives markets: Forwards OTC, futures exchange-traded.
- Options: Call gives buy right, put sell right at strike price.
- Financial statement analysis: Horizontal (trend), vertical (common size).
- Common size balance sheet: Assets/liabilities as % of total assets.
- Cash flow from operations positive indicates healthy core business.
- Leverage ratios: Debt/Equity shows financial risk.
- Interest coverage = EBIT / interest expense; >1.5 safe.
- Economic indicators: PMI for manufacturing activity.
- Fiscal deficit impacts borrowing, crowding out private investment.
- Monetary policy tools: Repo rate, CRR by RBI.
- Industry drivers: For pharma, R&D spend; for IT, talent pool.
- Qualitative factors: Brand strength, customer loyalty.
- Quantitative: Sales growth, EBITDA margins.
- Financial analysis: DuPont ROE = Margin × Turnover × Leverage.
- Corporate actions impact: Stock split reduces price, increases shares.
- Risk types: Systematic (market), unsystematic (company-specific).
- Portfolio diversification reduces unsystematic risk.
- Valuation: Terminal value in DCF = FCFn(1+g)/(WACC-g).
- WACC = (E/V)Ke + (D/V)Kd(1-t); Ke from CAPM.
- Relative valuation: Forward P/E uses next year's earnings.
- Equity valuation models: Residual income = Book value + PV of excess earnings.
- Regulatory compliance: RA must maintain records for 5 years.
- SEBI RA code: Independence, no guaranteed returns.
- Disclosure in reports: Methodology, risks, target price basis.
- Market microstructure: Order types, bid-ask spread.
- IPO valuation: DCF or comparable startups.
- Bond valuation: PV of coupons + principal at YTM.
- Duration measures bond price sensitivity to interest changes.
- Technical analysis: Trends via moving averages, support/resistance.
- Candlestick patterns: Doji signals indecision.
- Behavioral finance: Overconfidence bias leads to excessive trading.
- Anchoring: Fixation on initial price info.
- Ethics: Avoid front-running client trades.
- Research process: Idea generation, screening, detailed analysis, recommendation.
- Screening criteria: P/E < industry avg, ROE >15%.

- Macro analysis: Leading (stock prices), lagging (unemployment) indicators.
- Industry life cycle: Introduction, growth, maturity, decline.
- Company SWOT: Strengths, Weaknesses, Opportunities, Threats.
- Financial health: Altman Z-score for bankruptcy prediction.
- Valuation pitfalls: Over-reliance on historical multiples.
- Sensitivity analysis: Vary assumptions in DCF for scenarios.
- ESG factors: Environmental risks in valuation discounts.
- Post-valuation: Monitor quarterly results vs. projections.
- Report structure: Executive summary, analysis, recommendation, disclaimers.

Chapter 13: Legal and Regulatory Environment (25 One-Liner Points)

- SEBI is the primary regulator of India's securities markets under the SEBI Act, 1992.
- Research Analysts must register with SEBI under the 2014 Regulations to provide advice.
- SEBI (Prohibition of Insider Trading) Regulations, 2015 ban trading on unpublished price-sensitive information.
- Research reports require full disclosure of conflicts, methodology, risks, and assumptions.
- Code of conduct for RAs emphasizes independence, objectivity, and no guaranteed returns.
- RAs must maintain records of research and interactions for at least 5 years.
- SEBI Act empowers market surveillance, investigations, and investor protection measures.
- SEBI (FUTP) Regulations, 2003 prohibit fraudulent practices like market manipulation.
- Unregistered advice on securities constitutes a violation under SEBI rules.
- Disclosures in reports must include target price basis and validation methods.
- SEBI protects investors via grievance redressal, education, and intermediary oversight.
- Front-running client trades is strictly prohibited in the RA code.
- SEBI (SAST) Regulations, 2011 govern substantial acquisitions and takeovers.
- RAs must segregate advisory from execution or broking activities.
- Penalties for non-compliance include fines up to ₹1 crore and registration suspension.
- SEBI (LODR) Regulations, 2015 outline listing obligations and disclosure requirements.
- Guaranteeing returns in research is a breach of ethical standards.
- NISM, under SEBI, certifies professionals like Research Analysts.
- Conflicts are managed via Chinese walls and mandatory disclosures.
- SEBI Act establishes SAT for appeals against regulatory orders.
- RAs must renew qualifications every 3 years for certification validity.
- Insider info includes any material non-public data affecting prices.
- SEBI's investigative powers are under Section 11C of the Act.
- Fair dealing with all clients without discrimination is mandatory.
- SEBI (Delisting) Regulations, 2009 govern voluntary and compulsory delistings.

Chapter 11: Fundamentals of Risk and Return (25 One-Liner Points)

- Standard deviation quantifies total risk as the dispersion of returns.
- Systematic risk affects the entire market and cannot be diversified.
- Beta measures a security's systematic risk relative to the market.
- CAPM formula calculates expected return as $R_f + \beta (R_m - R_f)$.
- Higher risk investments demand proportionally higher expected returns.
- Unsystematic risk is firm-specific and reducible through diversification.
- Risk-free rate is typically the yield on government treasury bills.
- A beta of 1.5 indicates 50% more volatility than the market.
- Diversification primarily eliminates unsystematic risk in portfolios.
- Coefficient of Variation normalizes risk as SD divided by mean return.
- Overconfidence bias leads to excessive trading and poor diversification.

- VaR estimates the maximum potential loss at a given confidence level.
- Market risk premium is the excess return of the market over risk-free rate.
- Anchoring bias causes fixation on initial reference prices or info.
- Treynor ratio evaluates return per unit of systematic risk (beta).
- Sharpe ratio measures excess return per unit of total risk (SD).
- Herd mentality drives market bubbles and panic selling behaviors.
- Credit risk involves default probability and is often unsystematic.
- Jensen's Alpha shows excess return above CAPM-predicted performance.
- Confirmation bias involves seeking only supporting evidence for views.
- Portfolio beta is the weighted average of individual asset betas.
- Liquidity risk impacts the ease and cost of asset conversion to cash.
- Projection bias assumes future conditions mirror the recent past.
- Standard deviation rises with greater variability in return outcomes.
- CAPM assumes investors are rational and risk-averse.

Chapter 9: Corporate Actions (25 One-Liner Points)

- Stock dividends distribute additional shares instead of cash to shareholders.
- Rights issues offer existing shareholders priority to buy new shares at discount.
- Share consolidation reduces share count by increasing par value per share.
- Delisting permanently removes securities from exchange trading.
- Dividend yield calculates as annual dividend per share divided by market price.
- Bonus issues increase shares using reserves, diluting EPS but not capital.
- Rights issue ratios like 1:4 mean one right for every four shares held.
- Stock splits lower par value and price to boost liquidity and trading.
- Buybacks are regulated by SEBI and Companies Act for share repurchase.
- Spin-offs create independent subsidiaries from parent company divisions.
- Corporate actions adjust prices, volumes, and indices on ex-dates.
- Ex-dividend date falls one business day before the record date.
- Bonus issues capitalize reserves without cash outflow to shareholders.
- Share swaps exchange shares in mergers or demergers.
- Final dividends require shareholder approval at the AGM.
- Reverse stock splits consolidate shares to raise per-share price.
- Rights entitlements are renounceable and transferable to others.
- Buybacks fund from free reserves, premium, or up to 10% debt.
- Stock dividends reward shareholders with equity instead of cash.
- Cum-rights date entitles holders to participate in the issue.
- Mergers need shareholder approval and NCLT sanction.
- ESOPs grant employee options to buy shares at fixed prices.
- Preferential allotments place shares privately to select investors.
- Buybacks typically increase EPS by reducing outstanding shares.

Chapter 8: Company Analysis – Financial Analysis (25 One-Liner Points)

- Income statement captures revenues, expenses, and net profit over a period.
- Financing cash flows detail borrowings, repayments, and dividend payouts.
- Current ratio assesses short-term liquidity as current assets over liabilities.
- ROE derives from net income divided by average shareholders' equity.
- DuPont analysis decomposes ROE into profit margin, asset turnover, and leverage.
- Quick ratio evaluates immediate liquidity excluding inventory.
- Debt/Equity ratio gauges long-term financial leverage.

- Interest coverage ratio tests ability to pay interest from EBIT.
- Horizontal analysis tracks trends in financial data over multiple periods.
- Vertical analysis expresses line items as percentages of a base figure.
- Inventory turnover measures efficiency as COGS over average inventory.
- Asset turnover ratio indicates sales generation from total assets.
- Gross margin percentage is (sales minus COGS) over sales.
- Consolidated statements aggregate parent and subsidiary financials.
- EBITDA adds back depreciation, interest, taxes to operating profit.
- Working capital is the difference between current assets and liabilities.
- ROCE calculates EBIT over total capital employed.
- Common size P&L sets revenues at 100% for relative comparisons.
- Altman Z-Score predicts bankruptcy risk using five financial ratios.
- Positive operating cash flow signals strong core business health.
- EPS computes net income minus preferred dividends over common shares.
- Debt Service Coverage Ratio measures cash flow coverage of debt obligations.
- Trend analysis applies index numbers to historical financials.
- Normalized earnings adjust for non-recurring items to show sustainable performance.

The **Price to Adjusted Book Value (P/ABV)** ratio is a valuation multiple calculated as the market price per share divided by the adjusted book value per share.

Price/Adjusted book value: Adjusted book value (ABV) refers to fair value of asset *minus* fair value of its liabilities. As compared to book value, ABV factors in off balance sheet items as well. This metric can be applied to value NBFCs.

Adjusted book value refines the standard book value by revaluing assets and liabilities to their current fair market values, accounting for inflation, depreciation, or market changes.
It helps assess if a stock is undervalued (P/ABV <1) or overvalued (>1) relative to net assets, especially useful for asset-heavy industries like banking or real estate.
Unlike P/BV, P/ABV provides a more accurate intrinsic value by excluding outdated historical costs.
Investors use it alongside ROE to gauge value creation; low ratios may signal bargains but warrant checks for hidden liabilities.

Price/Embedded value: This metric is specifically used in the case of life insurance business. Embedded value refers to the present value of the expected net future cash flow (adjusted for probability) of a life insurer from the policies that are currently in force. Embedded value is a critical metric for life insurers. Hence analysts prefer to use this ratio.

Net asset value (NAV) of equity is the market value of an entity's assets minus the value of its liabilities. This is different from the book value or net-worth of equity as one is using the market value of asset (not book value of assets) to arrive at the NAV. Net asset value may represent the current value of the total equity, or it may be divided by the number of outstanding shares to compute net asset value per share. This valuation methodology is used in some businesses which are extremely assets oriented such as Real Estate, Shipping, Aviation etc.

EV to Capital Employed ratio along with Return on Capital Employed ratio can be used in combination to have a sense on return on our invested capital to facilitate investment decision making.

Profit based valuation ratio such as PE or EV/EBIT(DA) focuses on how much an investor

has to invest to earn a unit of profit.

Price to book value ratio, on the other hand, focuses on how much an investor needs to invest to gain ownership interest. It is calculated as follows:

Price/Book ratio = Market capitalisation / Balance sheet value of equity (or)

Price/Book ratio = Price per share / Book value per share

Thus, this ratio measure how much an investor needs to invest to get ownership right per unit of net assets of the company.

The ratio is preferred more for valuing companies in financial sector than in other sectors. This is on account of the reliability of the book value numbers. Since most of the assets of financial companies are monetary assets, the book value of assets more closely reflects their fair values. On the other hand, in the case of capital-intensive units, on account of the historical cost accounting, the balance sheet values often do not reflect the fair value. Further, in case of service sectors and technology firms, their important asset including human capital and self-generated intellectual properties do not find any place in the balance sheet.

Like most of the other ratios, all else held constant, companies with lower P/B is considered attractively valued compared to companies with a higher ratio. However, companies with higher ROE should command a premium as the equity is more efficiently employed.

Profit multiples like P/E, EV/EBITDA, or EV/EBIT are invalid for loss-making firms (negative profits) or near-breakeven ones with inflated, meaningless ratios.

EV/Sales is more suitable, as sales can't be negative, but only for companies poised for sustained profitability.

EV/EBIT(DA) ratios value firms neutrally to capital structure, unlike PE/PEG which are distorted by leverage affecting EPS and equity returns.

Use EV/EBITDA for capital-intensive sectors to avoid depreciation distortions from asset costs/methods; EV/EBIT for others.

Lower ratios signal attractive valuations (all else equal), but premiums apply to high-growth or low-risk firms, akin to PE.

PEG Ratio was the term coined by Peter Lynch, a savvy investor and fund manager. He believed that sometimes a high price to earnings ratios could be justified on the foundation of high growth potential in the business.

The reciprocal of Earning Yield is the popularly known Price to Earnings Ratio which can be defined as: Price to Earnings Ratio = Current price of stock/ Earnings Per Share (EPS)

High equity yields exceeding bond yields signal cheap stocks, typical in bear markets; bull markets reverse this.

High dividend yields vs. peers/market suggest value, but often indicate limited growth/reinvestment, curbing capital gains.

If the bond is replaced with equity, the coupons will be replaced with dividends and redemption value by expected sales proceeds from sale of equity. However, in case of bonds, both quantum of cash flows and their timings were known with certainty, in case of equity quantum of cash flows (dividends or sales price) and their timings are unknown and uncertain.

Conceptually, discounted cash flow (DCF) approach to valuation is the most

appropriate approach for valuations when three things are known with certainty:

- Stream of future cash flows
- Timings of these cash flows, and
- Expected rate of return by the investors (called discount rate).

Unlike bonds, equities have perpetual life, theoretically. Further, dividend payments are not contractual in nature. Therefore, DDM involves making certain estimates and assumptions. Gordon growth model (also referred as perpetual growth model) provides a way to value a dividend paying company where the dividend is expected to grow perpetually at a constant rate.