

## **ELECTIVE COURSE**

### **Course Title:**

FINANCIAL STATEMENT ANALYSIS

### **Course Description:**

The key objective of this course is to help students to understand and interpret financial statements, as well as be able to make informed choices in specialized careers e.g. Corporate Banking/Credit Risk/Equity Research. A key ability in such jobs is to be able to analyze financial statements and be able to make recommendations to decision makers.

### **Instructor Information:**

Name: Prof. Prachi Ganu

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### **Course Objectives:**

- Understanding structure and concepts of financial statements and be able to interpret them in the context of the business environment
- Overview of 'Fundamental Analysis' to evaluate companies & businesses
  - Understand various accounting terms and key accounting concepts, including the new IFRS/IND AS concepts recently introduced
  - Understand various aspects of the company's business and financial strategy and its implication for various stakeholders
  - Create financial spreads in excel, interpret key ratios and make an initial assessment
- Understand applications of FSA – overview of the Credit Analysis process and Valuation approaches.
- Understand how an Equity investor views a company vis-à-vis its lenders or Bondholders – walkthrough actual Equity Research reports and Credit Rating Rationales.
- Bank Analysis - compare and contrast the business models of a typical corporate to that of a Bank. Overview of financial statements & framework for analyzing Banking entities.
- Practice with live examples to deepen the knowledge and tune it to real life cases.

LEARNINGS will be discussion based, case studies, group assignments and presentations. Examples of well know companies will be discussed.

Throughout the course there will be a balance between understanding concepts of financial analysis with “use” of such concepts but avoiding jargon and pedagogy. To be able to get to the heart of the problem in a simple manner will be the key goal.

### **Course Content:**

1. Introduction to Fundamental Analysis – setting the context
  - Objectives of analyzing Corporates
  - Company Lifecycle / Funding Options / Risk/Return

## **ELECTIVE COURSE**

- Corporate finance concepts – Cap Structure / Leverage / Payouts
2. Accounting Principles / Building blocks
    - Accrual v/s Cash basis / The Accounting equation
    - Accounting Convergence – recent developments
    - Indian GAAP/IND AS/IFRS etc.
  3. Reading an Annual Report
    - Reporting requirements / key sections
    - Layout / disclosure requirements
    - Case studies / Examples
  4. Income Statement
    - Understanding the structure / Key terms & concepts
    - Revenue/Exp Recognition / P&L v/s Other Comprehensive Income (OCI) etc..
    - Analytical Adjustments
  5. Balance Sheet
    - Understanding the structure / Key terms & concepts
    - Understanding Fin. Leverage / Corporate Value
    - Financial Instruments /Hedge Accounting etc..
    - Analytical Adjustments
  6. Cash Flow Statement
    - Understanding the structure / key concepts
    - Building a cashflow statement
    - Linking all statements
  7. Interpreting Financial Statements – putting it all together!
    - Ratio Analysis – Performance / Credit Ratios / Valuation ratios
    - Common Size Statements
    - Live Case Study
  8. Industry / Business Risk Analysis
    - Types of Industries /Industry Cycles
    - Parameters - evaluating Industry Risk
    - Business Risk – idiosyncratic risk
  9. Credit Risk Management

## **ELECTIVE COURSE**

- Credit Analysis Process
- Credit concepts – Lending rationale
- PD/LGD concepts
- All about Credit Ratings

### 10. Equity Analysis

- Equity Investor's perspective
- Overview of valuation methods - Asset based / DCF / Relative valuation methods
- Use of Financial Statements Analysis & Ratios in business valuation

### 11. Bank Analysis

- Understand key components of financial Statements for a Bank
- Compare and contrast with that of a Corporate
- Understand analytical framework for analyzing a Bank
- CRAMEL model / Key Ratios

### 12. Case Study I

### 13. Case Study II

## **References:**

- International Financial Statement Analysis, CFA Investment Series, Wiley (e-Book available)
- Brigham Houston – 'Fundamentals of Financial Management'

Key concepts will be supplemented with mini case studies / live cases to help application & learning.