

Course Outline

BUSINESS ANALYSIS AND
VALUATION

for BM II 2008-09

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Course Objective:

This course will have all the elements that would go into reviewing a potential investment opportunity. It is not a detailed course in one category, such as financial accounting, but it ties business strategy analysis, financial analysis, forecasting analysis, and valuation analysis together. This course takes the path to evaluating the opportunity to its fullest after one has gone through basics of business, finance, and accounting.

- ◆ CAREER FOCUS – It is aimed at students who expect at some point in their careers to evaluate the performance, prospects, and value of a business.
- ◆ EDUCATIONAL OBJECTIVES – The objective of the course is to provide hands-on experience in valuation especially using financial analysis.

Prerequisites:

The student must have a good understanding of Financial Management (including introductory Derivatives and Financial Markets) and Strategic Management. Working knowledge of introductory econometric techniques and EXCEL are compulsory.

Prescribed text:

The course material will comprise of both theory and cases (wherever applicable). For theory, we will be adopting '**Damodaran on Valuation**' by **Ashwath Damodaran**. Collation of a few readings would be

given. Cases will be distributed in the class from time to time. However, the above book, other reading material, and the cases distributed should not be considered as exhaustive.

Compulsory References:

- ◆ Book: Financial Statement Analysis by George Foster; Englewood Cliffs; New Jersey: Prentice Hall, Inc.
- ◆ Book: Driving Shareholder Value: Value-Building Techniques for Creating Shareholder Wealth by Roger A. Morin, Sherry L. Jarrell; McGraw-Hill Professional Publishing.
- ◆ Book: Valuation: Measuring and Managing the Value of Companies by Tom Copeland, Jack Murrin, Tim Koller; John Wiley & Sons.
- ◆ Book: Valuation Methods and Shareholder Value Creation by Pablo Fernandez; Academic Press.
- ◆ Chapters of Book: Financial Accounting for Management by Ramachandran and Kakani, McGraw Hill Publications, 2/e, 2007
- ◆ Chapters of Book: Valuation topic related chapters in Principles of Corporate Finance by Brealey & Myers, McGraw Hill Publications
- ◆ Paper: "Determinants of Financial Performance of Indian Corporate Sector in the Post-Liberalization Era: An Exploratory Study" (November 2001). National Stock Exchange of India Limited, NSE Research Initiative Paper No. 5 Available at SSRN: <http://ssrn.com/abstract=904983>
- ◆ Paper: Branch, Ben and Bradley Gale; Linking corporate stock price performance to strategy valuation; Journal of Business Strategy: Boston; Vol. 4[1]; Summer 1983.
- ◆ Paper: Varaiya, Nikhil, Roger A. Kerin, and David Weeks; The relationship between growth, profitability, and firm value; Strategic Management Journal; Vol. 8; 1987; p. 487-497.

Additional References:

- ◆ Book: Business Analysis and Valuation Using Financial Statements by Palepu, Healy, and Bernard, Southwestern Publishing
- ◆ Book: Corporate Valuation by David Frykman & Tolleryd
- ◆ Book: Corporate Valuation: A Guide to Managers and Investors with Thompson One by Daves, Ehrhardt, and Shrieves
- ◆ Book: Equity Analysis: Assessing Value, Forecasting Performance, by Eve Harvey, Euromoney Work Books
- ◆ Book: Essentials of Corporate Performance Measurement by Friedlob, Schleifer, and Plewa Jr.
- ◆ Book: Handbook of Business Valuation by Thomas L. West and Jeffrey D. Jones, John Wiley & Sons.
- ◆ Book: Introduction to Business Analysis and Valuation by Krishan Palepu, Victor Bernard, Paul Healy; South Western Publishing Company
- ◆ Book: Investment Valuation : Tools and Techniques for Determining the Value of Any Asset by Aswath Damodaran / Paperback / Wiley, John & Sons
- ◆ Book: Quantitative Business Valuation: A Mathematical Approach for Today's Professionals by Jay B. Abrams; McGraw-Hill Professional Publishing
- ◆ Book: The Dark Side of Valuation: Valuing Old Tech, New Tech and New Economy Companies by Aswath Damodaran / Prentice Hall PTR
- ◆ Book: The Handbook of Advanced Business Valuation by Robert F. Reilly and Robert P. Schweihs; McGraw-Hill.
- ◆ Book: Valuation of Companies in Emerging Markets: A Practical Approach by Pereiro,, John Wiley & Sons
- ◆ Book: Valuation: Maximizing Corporate Value by George M Norton III
- ◆ Book: Valuation: Measuring and Managing the Value of Companies by Koeller, Goedhart, and Wessels, John Wiley & Sons
- ◆ Chapters of Book: Part II: Valuing Financial Assets and Part III: Valuation Real Assets in Financial Markets and Corporate Strategy by Grinblatt-Titman
- ◆ Chapters of Book: Part Two: The Fundamentals of Valuation in Financial Management & Analysis by Fabozzi and Peterson, Wiley Finance

Pedagogy:

The course is based on classes, cases, and project work. Active participation by students is an important feature of the course. A variety of take home assignments / project, tests, and case studies are the main pedagogical instruments.

Tentative Session Plan

Note regarding relevant books reading: (a) AD below refers to author of "Damodaran on Valuation" book, 1994 ed. i.e., Aswath Damodaran; (b) PF below refers to author of "Valuation Methods and Shareholder Value Creation" book, 2002 edition i.e., Pablo Fernandez, (c) RK below refers to author of 'Financial Accounting for Management' book, 2007 edition i.e., Ramachandran & Kakani, (d) GF below refers to author of 'Financial Statement Analysis by George Foster.

Session	Theme	Prior Reading	Cases/Articles	Activity
1	Financial Statement of Analysis	RK: Chap 7 GF: Chaps 2-5	<i>Financial Analysis of two players in fertilizer sector</i>	Few Terms
2	Statement of Cash Flows	RK: 4 GF: Chap 8	<i>Analyzing the Cash Flow Statement of three companies</i>	Submission 1 of take home assignment
3	Approaches to Valuation & Identifying Value Drivers	AD: Chap 1-2 PF: Chap 1-2	<i>Valuation Framework</i>	Submission 2 of take home assignment
4	Approaches to Valuation & Identifying Value Drivers	AD: Chap 1-2 PF: Chap 1-2	<i>Goldman Sachs Document</i>	Submission 3 of take home assignment
5, 6, and 7	Estimating the Discount Rates, Growth Rates, and Cash Flows	AD: Chap 3-5 PF: Chap 2-3, 7, 10-11	<i>HUL Case, Wockhardt Case, Maxwell Apparels Case</i>	Submission 4, 5, & 6 of take home assignment
8	Dividend Discount Models	AD: Chap 6 PF: Chap 6	<i>Graphite India Case</i>	Submission 7 of take home assignment
9	FCFE Models	AD: Chap 7-9 PF: Chap 12, 17-18	<i>Moser Baer Case</i>	Submission 8 of take home assignment
10	FCFF Models	AD: Chap 7-9 PF: Chap 17-18, 21	<i>Kohinoor Foods Case</i>	Submission 9 of take home assignment
11 & 12	Valuation Using Multiples	AD: Chap 10-12 PF: Chap 4-5	<i>Sugar Unit</i>	Submission 10 & 11 of take home assignment
13	Strategy-Finance-Valuation Trilogy	AD: Chap 13-14 PF: Chap 19-21	<i>SMJ and / or JBS Article</i>	Submission 12 of take home assignment
14, 15, & 16	Real Options & Brand Valuation	AD: Chap 15 PF: Chap 22-23	<i>Brand Value of Gujarat Ambuja Cement</i>	Submission 13 & 14 of take home assignment
17 & 18	Which is the appropriate method to use?	Take Home Assignment Experience Sharing & Peer Feedback		
19 & 20	Identifying frequently made errors in Valuation	Take Home Assignment Feedback from Analyst + Reading Recent Articles		

Please note that the above sequence plan is tentative (and would be altered based on initial class experience).

Evaluation

	Weightage
A) Mid-term Examination / Surprise Quizzes*	20%
B) End-term Examination* The end-term examination could be based on the application of valuation framework in a variety of business contexts such as equity-investment analysis, corporate finance policies analysis, and corporate communication strategies analysis.	40%
C) Individual Project Work To deepen students' ability to apply the course skills in a practical context, they will have to work in a individual project. The project details would be distributed in one of the classes. The report/presentation would involve a complete financial valuation of a firm using the course framework.	40%

* indicates some questions will carry negative marks also

Grading Pattern

Range of Marks*	0-30	31-35	36-40	41-45	46-50	51-60	61-70	71-80	81-100
Grades	F	D	D +	C	C +	B	B +	A	A +

Note: * indicates we can make adjustments to meet the norms of the institute.

Past grade distribution of my courses are given below:

Grade Distribution	Sample Course 1	Sample Course 2
A +	3.2%	6.5%
A	4.8%	12.9%
B +	12.7%	20.2%
B	36.5%	29.8%
C +	12.7%	12.1%
C	17.5%	8.1%
D +	4.8%	3.2%
D	3.2%	2.4%
F	3.2%	1.6%
I	1.6%	3.2%