PREFACE

This summary notes doesn't guarantee passing the exam.

IT IS ONLY MEANT TO CONDENSE THE HUGE CONTENT OF ICMAI.

One needs to have a visualisation of connected questions with every concept studied here.

THE VISUALS COME ONLY WHEN YOU HAVE PRACTICED THE CONNECTED SUMS AT LEAST 3 TIMES AFTER UNDERSTANDING THE LOGIC BEHIND THE CONCEPTS.

For effortless understanding of logic and practice of sums once, Join full classes of SFM with Satish Sir.

Exclusively taught as per CMA Final Course.
ICMAI Material Covered with all practicals and theories.

YOU WILL FALL IN LOVE FOR FINANCE, FOR SURE

"I believe in - showing students how to cook rather than to give the food. Specially, I have also given sessions for preparing summary notes, where I am showing the process of how to summarise the big chapters. This would help you in all other subjects." - Satish Sir

Reviews of our regular classes of SFM

The books were great with regards to the content and coverage that has been provided. I really liked the numerous variation of sums that were provided to us in the entire course. I really loved the flow of the classes and the content was very well covered.

Thanking You.
Dipti Saraf

The content in the book is very good and well organized, there is extra space for page numbers and what is new is very useful and saves time for study, also the quality of the book is very good including the quality of paper and binding of the book.

Anjali Kumari Shaw

Security Analysis

Security Analysis

⇓

Objective: Expected / Intrinsic / Theoretical / Equilibrium Price

AP > EP : Sell

AP < EP = Buy

- Fundamental
  - ↓
  - Public info
- Technical
  - ↓
  - Price & volume
  - ↓
  - charts

Equity Analysis

- Discounted Cash flow ✓
- Price Multiple ✓
- Balance Sheet ✓
- Free Cash Flow
- Economic Value Added

Discounted Cash flow Analysis

fair Price = PV of future cash flows Disc@ minimum return expected by the investor.

↓

Minimum desired return = Expected return by the investor

SJC Institute

Constant Dividend Model

$Ke = \frac{D}{Ip}$

Dividend Discount Model or Gordon's Model

$Ke = \frac{D_1}{P_0} + g$

Earning Capitalisation Model

$Ke = \frac{EPS}{MPS}$

$Ke = \frac{1}{PE\ Ratio}$

Realised Yield

↓

IRR Method

↓

ke = Rate where PV of IF = Inflow

CAPM

$Ke = Rf + (Rm - Rf) \times \beta$

↓

Most Common

Single Period Valuation

↓

$P_0 = \text{fair price} = \frac{D_1 + P_1}{1 + ke}$

↓

Ek saal baad

Multi Period Valuation

↓

P_0 = PV of all future cash flows

$= \frac{CF_1}{1+ke} + \frac{CF_2}{(1+ke)^2} + \ldots n\ yrs$

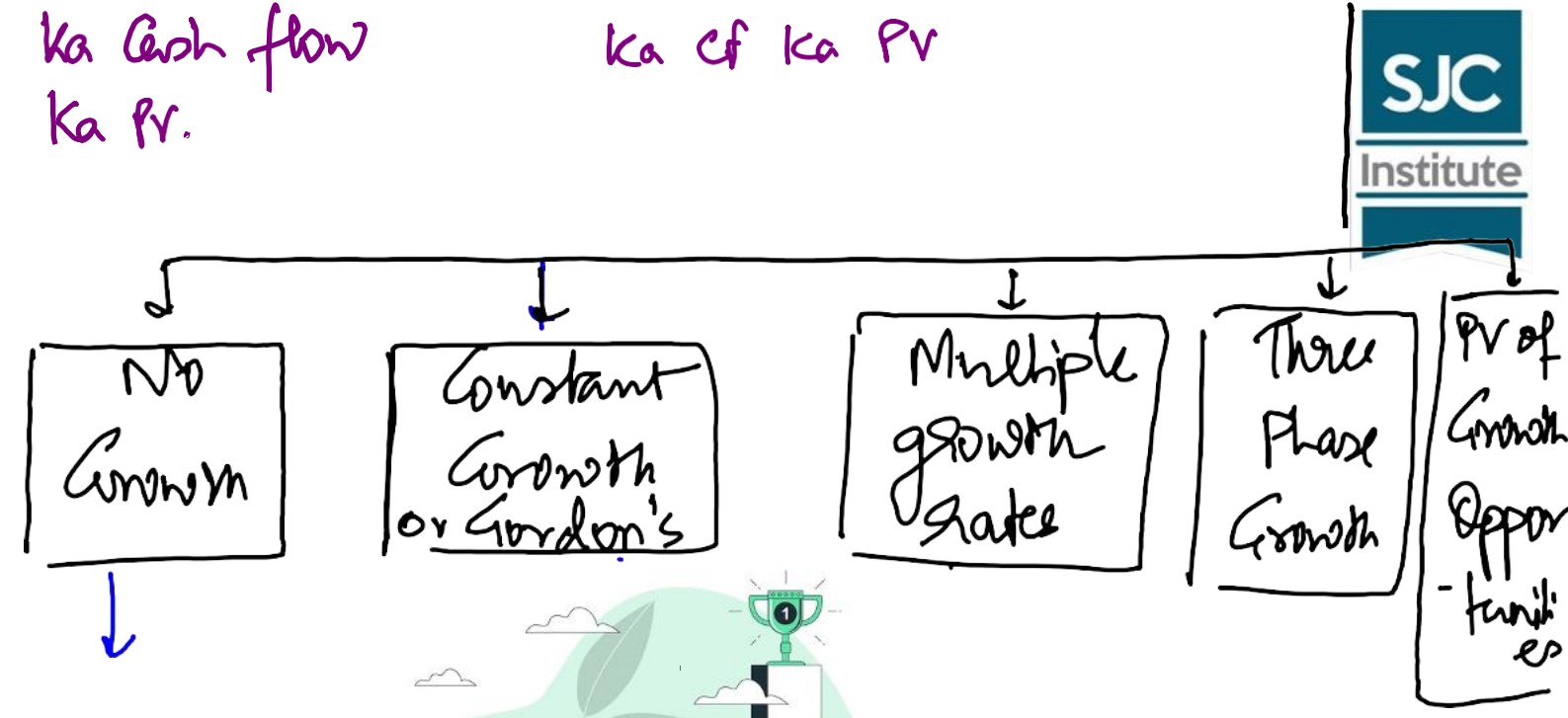
Multiple years

Infinite Period Valuation

↓

ka Cash flow ka PV.

ka CF ka PV



$P_0 = \frac{D}{ke}$

Constant Growth or Gordon's Model

$$P_0 = \frac{D_1}{ke - g} \quad \text{or} \quad ke = \frac{D_1}{P_0} + g$$

N1 Price at diff yrs using Gordon's Model

$$P_3 = \frac{D_4}{ke - g} \quad \text{or} \quad P_n = \frac{D_{n+1}}{ke - g}$$

Q3, Q4, Q5, Q6, 7, 8

N2 Yr of start of Constant growth Rate

If Price is P_2 → Div ⇒ D_3

Constant growth rate = ¼ to ∞

N3 Growth rate

Method 1

$g = b \times r$

Method 2

$D_n = D_0(1+g)^n$

Method 3

Avg of Past Growth rates

↓

Yr on Yr growth

$= \frac{CY\ Div - PY\ Div}{PY\ Div}$

General Notes

Buy / Sell

AP < EP ⇒ Buy now

Sell when Price reaches Eq Price

No div means no value under Div Disc Model

Beta under CAPM

$\beta = \frac{Cov(S,m)}{\sigma_m^2}$

AP > EP => Sell now,
Buy when Price reaches Eq Price

↓

∴ P/E Model

↓

Q15(c)(ii)

Div Policy

ROI > ke = Growth firm (Optm P/O Ratio = Min)

ROI < ke = Declining firm (Op P/O = 100%)

ROI = ke = Normal (Op P/O = any)

Deferred Constant Growth Rate

Phase 1

No Growth or Same growth rate

↓

$$P_0 = \frac{D_1}{1+ke} + \frac{D_2}{(1+ke)^2} + \frac{D_3}{(1+ke)^3} + \ldots + \frac{D_n}{(1+ke)^n}$$

Phase 2

Constant Growth Rate

↓

$g = n+2$

$D = n+1$

$P = n$

a) $$P_n = \frac{D_{n+1}}{ke - g}$$

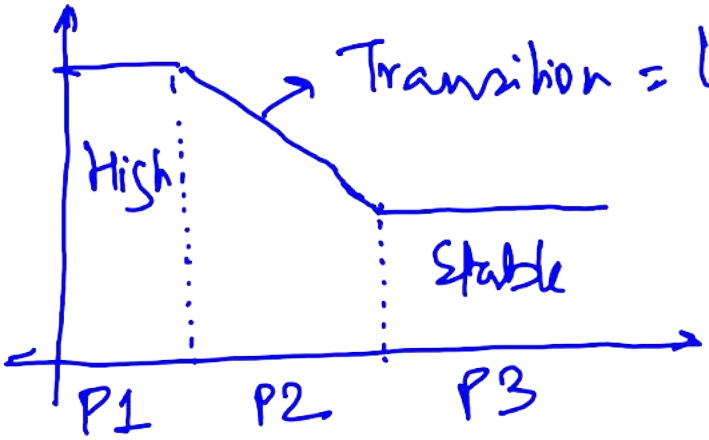
b) $$P_0 = \frac{P_n}{(1+ke)^n}$$

General Notes

HPR p.a

$$\left[\frac{SV - PC}{PC} \times 100\right] \times \frac{1}{n}$$

Three Phase Model (H-Model)



Phase 1: Y_1 to Y_4 $\Rightarrow g = 10\%$ p.a

Phase 2: Y_5 to Y_7 $\Rightarrow g$: 9%, 8%, 7%

Phase 3: Y_8 to ∞ $\Rightarrow$

$$P_7 = \frac{D_8}{k_e - g}$$

$$P_0 = \frac{P_7}{(1+k_e)^7}$$

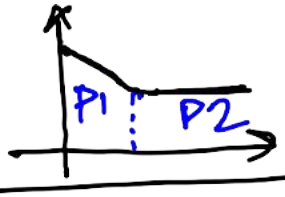
If payout ratio is given

Phase 1:- $CF = \text{Earnings at } Y_0 \times \text{Payout Ratio} \times (1+g_1)^n$

Phase 2 :- $CF = E_0 \times \text{New Payout Ratio} \times (1+g_1)^n \times (1+g_2)$

[Q22]

H Model formula



$$\text{Value at } Y_0 = \frac{D_0(1+g_2)}{k_e - g_2} + D_0 \times H \times \frac{(g_1 - g_2)}{k_e - g_2}$$

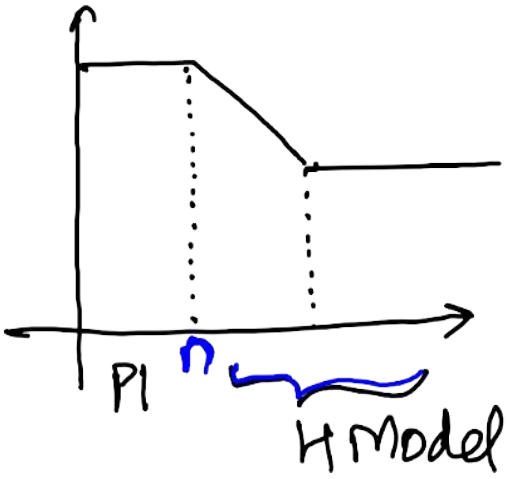
g_1 = Higher rate = short term

g_2 = Stable rate : long term

H : Half life of transition period

[Q23]

Assuming transition starts after n yrs



= PV of CF of Phase 1 + PV of H Model

$$= PV \text{ of CF of Phase 1} + \left[\frac{D_n(1+g_2)}{k_e - g_2} + \frac{D_n \times H \times (g_1 - g_2)}{k_e - g_2}\right] \times \frac{1}{(1+k_e)^n}$$

H ka value Transition period ke hisab se liya jata hai.

Op1: Sirf change wala period

Op2: Total PV of Change period

PV of Growth Opportunities

= Diff in Price due to growth Opportunities

= Price with growth − Price without growth (No Retention) (E = D)

= $\frac{D_1}{k_e - g} - \frac{E}{k_e}$

PRICE MULTIPLES

MPS: Multiple x Something

= P/E Ratio x EPS

= P/BV Ratio x BV

= P/S Ratio x Sales

= P/EBITDA Ratio x EBITDA

Ratio = Multiple = Expected / Comparable Co.

MPS: W.Avg of all values is also accepted.

No Growth

DPS: EPS

$\frac{Ke}{1} = \frac{E}{P_0}$

$P/E = \frac{1}{Ke} = \frac{MPS}{EPS}$

Constant Growth

$Ke = \frac{D_1}{P_0} + g \Rightarrow P_0 = \frac{D_1}{Ke-g}$

Trailing

$P_0 = \frac{D_1}{Ke-g}$

$P_0 = \frac{E_0(1+b)(1+g)}{Ke-g}$

Leading

$$\frac{P_0}{E_0} = \frac{(1-b)(1+g)}{(k_e - g)}$$

$$\frac{P_0}{E_1} = \frac{1-b}{k_e - g}$$

Balance Sheet Method

S1 Closing Cap Ed for Eq Sh holders

↓

At Current MV

Asset Side

FA	✓
(+) CA	✓
(-) CL	(✓)
(-) LTL	(✓)
	✓

at MV

Liab Side

Sh Cap	✓
(+) RIS	✓
(-) NTI	(✓)
	✓

S2 Avg Cap Ed = Op Cap + $\frac{1}{2}$ CY PAT

OR

Cl Cap - $\frac{1}{2}$ CY PAT

S3 PAT

- Given
- Multiple yr given – Avg PAT

↓ SAM

↓ WAM

$\frac{\Sigma PAT}{n}$

$\frac{\Sigma W \times PAT}{\Sigma W}$

↓

Weight – more to Recent Yrs =>

Yr	W
22	3
21	2
20	1

S4 FMP

Any PAT

(+) Extra Ord exp

(–) Extra Ord inc

(–) Future normal exp

Any FMP

Avg	OR	Y1	Y2	Y3
✓	PAT	✓	✓	✓
✓	(±) Adj	✓	✓	✓
(✓)	FMP	✓	✓	✓
(✓)		↓		
✓		Avg		

S5 Normal Pfts

Avg Cap Ed × Normal rate of Return

where NRR = Mkt Yield rate + Risk Return of the Co.

S6 Super Pft

= FMP – Normal Pft

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57 Valn of GW

Super Pfts

With TV of Money

For definite period

Value of GW = PV of Super Pfts

For infinite period

Value of GW = Super Pfts / Cap rate

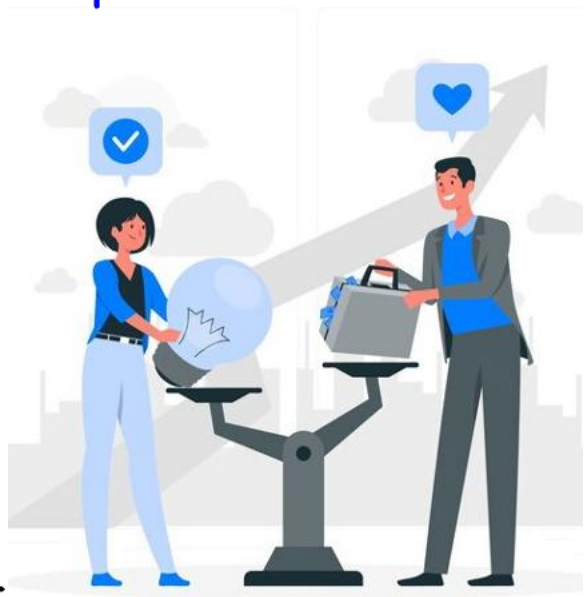
W/o TV of Money

Value of GW = Super Pfts × No. of Yrs Purch

Avg Pfts

Value of GW = Avg Pfts × No. of Yrs of Purch

(Service industry)



58 Value of Business

Op 1: Value of GW ✓
MV of Net assets ✓
Value of Business ✓
No. of Eq Sh ✓
MPS ✓

Op 2: Avg Pfts Given P/E Ratio

Note: Partly Paid up shares are given

Value/Share = Surplus/Share + Paid up Value per share

OR

Partly paid up can be called up notionally to make it fully paid up.

↓

Increase the NV of assets & also the paid up capital

↓

Surplus/share will be same

Fundamental & Technical Analysis

Fundamental	Technical
a. Public info	a. Past Price movements
b. IV	b. Future price
c. Practical	c. Sentimental
d. LTI	d. STI

APPROACHES

Top-Down (More Preferred) **Bottom-up**

Eco Analysis (GDP, Inflation)
↓
Industry analysis (dd/SS, Regulation, PESTEL)
↓
Co. Analysis (P/L, B/S, Mgmt)

Co. Analysis
↓
Eco.
↓
Industry

Purpose

Growth Stocks

Highly priced shares with growth prospects

Value Stocks

Low priced, strong Balance sheet

Fundamental Analysis - Useful Ratios

1. EPS 2. PE Ratio 3. PEG
= PE Ratio / Growth Rate

4. P/S Ratio 5. P/B Ratio 6. Div Yield
= DPS/EPS

7. Pay Out Ratio 8. Bv/share 9. ROE

10. DuPont's ROE
= NP Ratio × Asset T/O × Eq Multiplier

11. Current Ratio

12. D/E Ratio 13. GW Valn 14. MOAT

14 M&A 15. Diversification

Technical Analysis

Basics | Theories | Mkt Indicators | Charts & Patterns | Indicators

Basics

↓

Study of price movement

↓

3 Ideologies

- Price covers everything
- Not totally Random
- Value of Nothing

Theories

- DJ Theory
- RW Theory
- EW Theory

DJ Theory

3 Type of Mkt Movement

- Primary - Yrly (Trend)
- Secondary
  - Weekly/monthly
- Daily

Three Phases of Trading

- Accumuln phase
  - less investors / active buying
  - against the mkt
- Public Particip^{n}
  - trend followers

Confirm^{n} of Trend

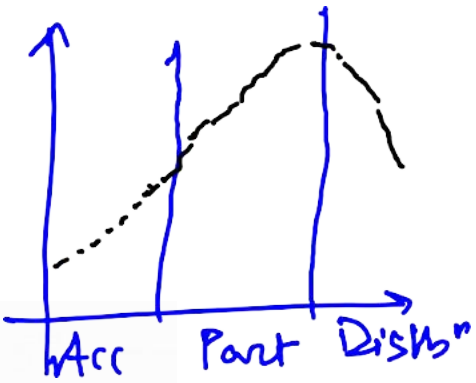
- DJIA
  - Top 30 Cos of USA
- DJTA
  - Transpt Cos

Two Avgs

- Daily

• Distb° Phase

Active players now sells



MV band

Price ↑	↓	↑	
vol ↑(B)	↑(S)	No change	
Trend up	down	-	

RW Theory

- Price changes are random
- Past movements cannot predict the future

EW Theory

- Price movement is in the form of wave
- upward trend ↘ downward correction
- Cycle : 5-3 move

Market Indicators

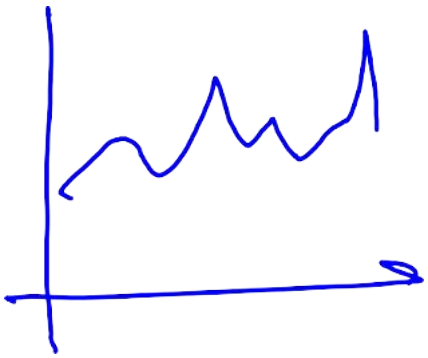
- Mkt Index
- Breadth Index
- Confidence Index
- Relative Strength Analysis
- Odd lot Theory
- Stochastic Indicator

- Mkt Index - Nifty
- Breadth Index = Adv / Dec Ratio
- Confidence Index = Spending / Employment
- RSA = Two indices of diff economies
  or
  Two cos. or Cos. & Mkt Index
- Odd lot = Any trade against the mkt
- Stochastic = location of closing price relative to high low range

Charts & Patterns

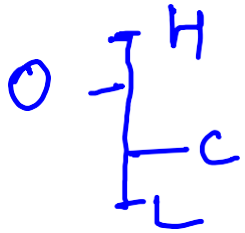
Charts

1. Line Chart

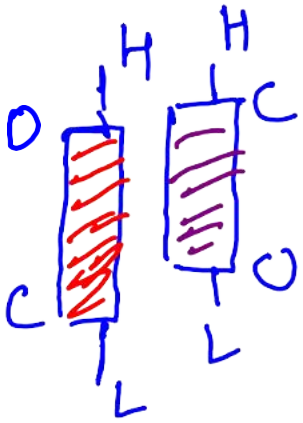


2. Bar Chart

- OHLC



- Candle Stick



- Point & figure

X = Inc
O = dec

Patterns

- Bullish & Bearish
- Support & Resistance
- Channel
- Wedge
- Triangle or Coil

1

Flags & Pennants

Double Top (M)

Double Bottom (W)

Head & Shoulder

Inverted H&S

Rounding Bottom

Cup & Handle Pattern

Indicators

Moving Avgs

- SMA → long term
- EMA → short term

Time period is imp

CL Price > SMA : Bullish

ST & LT Avg intersect

ST > LT = Buy

$$EMA = \left(\text{Current days CL Price} - \text{Prev day's CL Price}\right) \times \text{Exponent} + \text{Prev day's CL Price}$$

Momentum

= speed of change

= CL price of a day − CL price of a specific day

(Positive = bullish)

↓

Oscillators

↓

bounded by upper & lower Limit

↓

Reaches UL then = Overbought

- Stochastic
- RSI

MACD

↓

Diff b/w 2 EMA

↓

MACD (12,26)

= 12 day EMA − 26 day EMA

↓

9 day EMA of

Exponent = 2/n

n = no. of days avg is req

Stock Price > EMA - Buy

MACD = Signal Line = Zero Line !!

MACD > Signal = Buy

Liked our efforts?

The fees that you may pay to us is your REFERENCE.

Please refer your friends or family to take all classes of CA/CMA only from SJC Institute.

Thank You.