

CORPORATE ANALYSIS AND VALUATION

Learning Objective: This Paper will enable the students to analyze the health of a company through their annual reports and will equip them to understand what an asset is worth and what determines that value.

Unit I

Lectures: 10

Analysis of Corporate Financial Statements: Income statements and Balance sheets through ratio analysis and analyzing the Chairman's statement, Directors' report, management discussion & analysis, report on corporate governance, auditor's report to evaluate the financial soundness of the company.

Unit II

Lectures: 10

Cash Flows: Firm cash flows, Earnings, Tax effect, Reinvestment needs; Equity cash flows: Dividend, Forecasted Cash flows, terminal value estimation approaches. Equity discounted cash Flow Models-Dividend discount models, extensions of DDM; free cash flow to equity model

Unit III

Lectures: 12

Introduction to Valuation: Approaches to valuation, Discounted Cash Flow, Relative Valuation, Role of valuation; Discounted Cash flow Valuation: Estimating discount rates-cost of equity, cost of equity to cost of capital; Valuation of an asset with guaranteed cash flows, introducing uncertainty into valuation (valuing an asset with default risk & equity risk), valuing an asset with an infinite life.

Unit IV

Lectures: 12

Firm Valuation Models: Cost of capital approach, adjusted present value approach, EVA, Capital structure and firm value. Relative valuation-popularity and potential pitfalls; reconciling relative and discounted cash flow valuation Equity Multiples; Value Multiples; Valuation of different kinds of companies

Unit V

Lectures: 12

Value of Synergy; operating and financial synergy, Cash and tax benefits, debt capacity, Evidence on synergy, common errors in valuing synergy; Valuing Real options

Text Books:

1. Foster, George *Financial Statement Analysis*, 2nd ed., Pearson Education Pvt Ltd
2. Damodaran, A. (2008). *Damodaran on Valuation, Security Analysis for investment and Corporate Finance* (2nd ed.). Wiley India Pvt. Ltd.

References:

1. Chandra, P. (2011). *Corporate Valuation and Value Creation*, (1st ed). TMH
2. Weston, Chung, Hoag, *Mergers, Restructuring and Corporate Control*, Prentice Hall Of India