



FIRST SEMESTER 2023-2024

Course handout (Part-II)

Date: 10/01/2024

In addition to part I (General Handout for all courses appended to the timetable), this portion gives further specific details regarding the course.

Course No. : ECON F355

Course Title : Business Analysis & Valuation

Instructor-in-charge : Aprajita Pandey

1. Scope and Objectives of the Course:

The process of measuring and managing the value of companies is a central aspect of financial analysis. Globally, managers are in pursuit of adding value to their firms via two important means. One, by enhancing the firm's productive capacity through internal (or organic) growth, which has a simultaneous positive impact on its stock price. Second, through mergers and acquisitions (a decision involving factors external to the firm) that interlocks with corporation's key strengths, and yield benefits in the long run. Hence, asking, "What is something worth?" is a vital question to business decision making, and the principal objective behind this course is to provide the learners with the *conceptual basis*, *intuitive reasoning*, and *analytical framework* to answer this question.

The focus of this course is on valuing equity (or ownership) in a firm and estimating the value of the overall enterprise. The coverage relies on discounted cash flow, relative valuation, and contingent valuation approaches for extracting the value of a business. Since financial statements serve as the basis for all types of valuation methods, the course begins by providing a brief framework on the principles governing the financial statements, and adjustments that are often required to capture the underlying business reality.

Students who are either currently pursuing or would like to embark on a career in investment banking, corporate finance, venture capital, entrepreneurship, or business consulting will find the course material to be most useful. The course also carries a broader appeal to individuals





who are interested in enhancing their understanding of financial analysis, and in learning how businesses measure and create value for their investors.

Important: This is not a beginning level course. The course presumes that you have a prior exposure on a variety of introductory concepts in finance, accounting, and statistics. For beginners, it is therefore highly recommended that they go through the introductory material in finance and accounting concepts at the earliest. Feel free to contact the I/C ASAP in case you are facing difficulty in following the classroom discussions.

2. **Text Books:** Though no single textbook is sufficient for the course, the following two texts shall be referred to extensively in the course.

T1. Titman, & Martin, “Valuation,” The Art and Science of Corporate Investment Decisions, Third Edition. Pearson Publisher.

T2. Palepu & Healy, “Business Analysis & Valuation - Using Financial Statements, Text & Cases,” Cengage Learning Publisher, 3rd Edition or Later.

T3. Damodaran, “Valuation: Security Analysis for Investment and Corporate Finance,” John Wiley, 2nd edition.

3. **Reference Books/cases:**

- (a) The Dark Side of Valuation: Valuing Young, Distressed and Complex Businesses, Second Edition, 2010, Pearson Education Inc.
- (b) Kaplan, R. S., & Norton, D. P. (2004). Measuring the strategic readiness of intangible assets. *Harvard business review*, 82(2), 52-63.
- (c) DePamphilis, D. (2009). *Mergers, acquisitions, and other restructuring activities: An integrated approach to process, tools, cases, and solutions*. Academic Press.
- (d) Abrams, J. B. (2010). *Quantitative business valuation: a mathematical approach for today's professionals*. John Wiley & Sons.

4. **Course Plan:**

Lecture Hours	Learning Objectives	Reference to Book	Learning Outcome
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1	<ul style="list-style-type: none"> Discussing the Outline, Overview of valuation 		
4	<ul style="list-style-type: none"> Introduction to Time Value of Money and Risk and Return 	Class Notes	<p>Understanding the importance of Time value of Money.</p> <p>Understanding What is risk and return and how they are measured and other related questions</p>
2	<ul style="list-style-type: none"> Understanding the basics of Financial Statements (Balance Sheet and Income Statement) 	Class Notes	<p>Understanding the basic financial statements (Balance sheet, Income Statement and Statement of Cash Flows)</p>
3	<ul style="list-style-type: none"> Basis and need for valuation Performance of a Firm: Accounting vs Market Performance Asymmetric information and role of financial statements Steps in business valuation Different approaches to valuation – discounted cash flow (DCF), relative valuation 	<p>T1. Chapter 1</p> <p>T3. Chapter 1</p>	<p>Understanding the framework for Business Analysis and Valuation</p>
2	<ul style="list-style-type: none"> Understand economics of a firm at a qualitative level Identify profit drivers and key business risks Perform industry, competitive and strategy analysis 	T2. Chapter 2	<p>Understanding the role of Economic and Industry Environment.</p>
2	<ul style="list-style-type: none"> The Primary Issue/ IPO Market: When is the right time to go for an IPO and Analyzing an IPO 	Class Notes	<p>Understanding about the Primary market and how to</p>





			decide when is the right time to go for an IPO?
4	<ul style="list-style-type: none"> ▪ Financial Statements and Valuation ▪ Evaluate the firm's accounting reports ▪ ESG Report, MDA, Auditors Report ▪ Steps in accounting analysis ▪ Recast financial statements into a common format ▪ Undo accounting distortions that overstate/understate assets and liabilities 	T1. Chapter 3, 4	Understanding and Interpreting different sections of the annual report
3	<ul style="list-style-type: none"> ▪ Examine firm's performance and financial condition given its strategy and goals ▪ Conduct ratio analysis ▪ Perform cash flow analysis ▪ Assess sustainable growth rate 	T1. Chapter 5 & Class Notes	Understanding How to interpret economic performance using historical financial accounts? What do all those ratios mean?
3	<ul style="list-style-type: none"> ▪ Estimate component costs of capital – equity, debt, preferred etc. ▪ Risk and return models ▪ Obtaining parameters for models ▪ Define beta and determinants ▪ Calculate WACC 	T3. Chapter 4	Understanding the WACC analysis.
3	<ul style="list-style-type: none"> ▪ Estimate expected future cash flows ▪ Determine length of extraordinary growth period ▪ Estimate earnings and cash flow growth rates including fundamental growth ▪ Estimate stable growth rate and terminal value 		Understanding the forecasted cash flows.
4	<ul style="list-style-type: none"> ▪ Value equity using DCF models – dividends and FCFE ▪ Single-stage, two-stage, and multi-stage models ▪ Compare FCFE and DCF models 	T2. Chapter 2	Understanding discounted cash flow model to value firm and





			equity
4	<ul style="list-style-type: none"> ▪ Define free cash flows to equity (FCFE) and free cash flows to firm (FCFF) ▪ Value entire firm using DCF approach ▪ Cost of capital model 	T2. Chapter 2, Chapter 7	
3	<ul style="list-style-type: none"> ▪ Overview and applicability of relative valuation models ▪ Standardized values and multiples ▪ Steps to using multiples ▪ Analysis of equity multiples ▪ Analysis of value multiples ▪ Valuing Startups / Early-stage businesses 	T2, Chapter 6	Relative Valuations using market comparables
2	<ul style="list-style-type: none"> ▪ Weakness of Financial Statements: Earnings Management ▪ Adjust earnings for miscategorized items such as operating leases and R&D 	T1. Chapter 3	Understanding about Earnings Management

5. Evaluation Scheme (total marks 300):

EC No.	Evaluation Component (EC)	Duration	Weightage (%)	Date & Time	Nature of the Component
1	Mid-semester Test	90 min	30%	As per timetable	Closed Book
2	Announced Quiz (2 of 3)	45 min	30%	TBA	Closed Book
4	Comprehensive Examination	3 Hours	40%	As per timetable	Partly Open Book

6. Chamber Consultation Hour: Tuesday and Thursday 3:30 PM to 5:00 PM (6165-E, NAB).

Make-up policy:

The application for make-up of the mid-semester and the comprehensive exam will not be entertained without genuine reasons. Application must be submitted to instructor-in-charge along with documents supporting the reason for seeking make-up beforehand. All such documents must be verified by the respective authorities such as hostel warden and medical superintendent.





BIRLA INSTITUTE OF TECHNOLOGY AND SCIENCE, Pilani
Pilani Campus
Instruction Division

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7. **Course Notices:** All the notices concerning the course will be shared via Nalanda and/or will be displayed on the notice board of the Economics and Finance Dept.

Instructor In- Charge
ECON F355



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