Important terms & ratios

DATE: __/__/____

PAGE: ______

Market cap

if you want to buy a company, you have to buy all its shares and give money equal to MC.

MC : Total shares' value.

Enterprise value

It is the effective amount you have to pay to buy a company.

EV : Total shares value + debt/loan - Cash in company

Hence, EV gives more clear picture.

Eg:

Company 10 share ₹ 10/share with loan ₹40 & cash in company is ₹60

then,

MC : $10 \times 10 = ₹ 100$

EV : $10 \times 10 + 40 - 60 = ₹ 80$

देने ₹100 हैं but actually ₹80 net effective price बन रहा है।

How to use P.E. as a parameter?

Q) Can PE be used as a parameter to buy a stock?

A) Not completely but It can give a hint :)

• Company Profit/Growth.	↗	↘	↗
• current PE compared to past PE	↗		↘
• Interest :)	✓ But check IF Good to buy or not	✗	✓ Best State

Good Write

⊕ Standalone	⊕ Consolidated
- only personal business	- current + other investment
- current business	+ other: bought business
	- overall evaluation.

∴ Always use consolidated view.

Face Value

- Must Not impact decision as it doesn't have significance.
- It just describes that what is prices of share at very begining and in How many pieces company divided its shares.

		FV		No. of Shares
1 Lakh	=	₹10	×	10,000
1 Lakh	=	₹100	×	1000
1 Lakh	=	₹1	×	1,00,000

It just impacts the no. of shares and play 0% role in investment.

Promoter Holding

owner के पास कितने shares है (%)

✓ if >40% It is a good sign.

Q What to check?

A ① Promoter Holding (>40%)

② Pledge (कितने share गिरवी है) (debt)
should be low, if High don't invest

③ Holding Trend
Promoter Holding should not decrease at High rate
It depicts low faith and trust of owner or He may require money.

Good Write

	Promotor Holding	Pledge	Holding trend
Good Company	>40%	↓	— or ↑

DATE: __/__/____
PAGE: ______

Exceptions:

1. Banks
2. Professionally Managed companies like ITC

Q. Consider an example.
you take ₹20 to buy 2 pencils and sell each pencil for ₹15 i.e. ₹30 in total?

① Profit percentage / Mark up / Mark down (loss)
indicates profit earned on each unit.

$$\frac{SP - CP}{CP} \times 100 \quad OR \quad \frac{Revenue - Expense}{Expense} \times 100$$

$$\therefore \frac{15 - 10}{10} \times 100 = 50\%$$

तो 50% का Profit ho गया।

② Profit Margin.

- indicates percentage of revenue or earning over each unit that is converted into profit.
- See it like
  company उसके revenue का कितना % profit मे convert करती है।

$$\frac{SP - CP}{SP} \times 100 \quad OR \quad \frac{Revenue - Expenses}{Revenue} \times 100$$

$$\therefore \frac{15 - 10}{15} \times 100 = 33\%$$

thus, ₹15 का 33% profit है।

③ ROE (Return on Equity)
(पैसे से कितना पैसा बनाया) indirectly

Suppose, two company A and B sell same product with different cost

(A)	(B)
CP : 10	CP : 10
SP : 20	SP : 15
Sales : one time because of high cost	Sales : 3 times b'coz of low price
PM = (20 − 10)/20 = 50%	PM = (15 − 10)/15 = 33%

So, is A is good company than B
NO, as profit % and Margin didn't reflect the sales and money earned on money factor.

- Company A time line :

  10 product × ₹ 10 = ₹ 100 CP

  10 product × ₹ 20 = ₹ 200 SP

At end of day A has ₹100

- Company B timeline :

  10 × ₹ 10 = ₹ 100 CP

  10 × ₹ 15 = ₹ 150 SP

Now using that 150 purchased 10 more product for ₹10

∴ ₹10 × 10 = ₹100 CP 2nd Batch.

₹15 × 10 = ₹150 SP "

∴ suppose this one more time then after 3 rounds at end of day B has ₹250

1st Batch net = ₹50

2nd " " = ₹50 ∴ ₹250

3rd " " = ₹150

Thus, ROE is how effectively a company is utilizing Equity of shareholders.

$$\frac{\text{(Net income)}}{\text{Equity}} \times 100.$$

(A) 200 - 100 = 100 net income.

∴ ROE = 100/100 ×100 = 100%

(B) 250 - 100 = 150 net income

∴ ROE = 150/100 ×100 = 150%

thus, ROE gives more clear picture

Note: ROE only tracks Equity not debt so, also check whether or not the company increased ROE by taking debt

DATE: ___/___/______
PAGE: ______

Example:

C	D
Equity : ₹100	Equity : 50
net income : ₹20	debt : 50 @ 12%
ROE : 20%	net income : 20 − $\underbrace{6}_{\text{interest}}$ = ₹14

ROE (C) < ROE (D) ∴ ROE : 14/50 × 100 = 28

As D increased ROE by taking loan. So, keep these things in mind also.

Assets Turnover

How efficiently a company utilising its assets to generate revenue

Eg: Comp. A generate ₹100 on ₹50 Machine then asset turn over is 2.

- High asset turn over is good for a company.

Cash Cycle

Time taken to convert its investment in inventory & other resources into cash flow from sales.

Cash cycle : Inventory period + Accounts receivable period − Accounts payable period.

- lower CC is better for a company.

Split

don't be happy

Just a way to increase no. of shares by reducing face value.

company do it to increase liquidity and flexiblity in trading.

Bonus

don't be happy

Just a way to increase no. of shares by reducing share price. i.e. lowering share value

How to Identify Bad company which shows fake profit loss statement?

Profit Loss statement

Item sell होते ही profit money add कर लेता है। real मे receive होने का wait नहीं करता॥

To be on safe side
Compare Profit loss statement with Cash flow statement especially operating cash flow. Take average of 5 years for both

net profit / Loss >>> operating cash flow

Bad company
donot invest.

Rights Issue

only good if company is growing or you believe that it will increase its profit.
otherwise
very Bad as if returns remain same then it will decrease EPS.
Hence, reduce benefits

Analyze Banks

1. CASA %

(current account + saving accounts) / total

More is good as it shows
- High customer value.
- gain High money with low interest

2. Net NPA % (Non performing asset)

- Bank ने कुछ amount कहीं डाला (invest, loan etc) उसमे से कितना वापिस नहीं आ रहा।
- lower the ratio good is the bank

3. Cost of Liablities

Rough estimate of % of interest a bank is paying to its customers via saving interest, FD etc.
- Lower is good for banks

4. CAR (capital adequacy ratio)

→ denotes risk lene की capablity.
→ tells कितना capital है bank के पास जिससे वो Loan दे सके losses से recover हो सके। etc.

5. AG%

directly influence Advances Growth %

How easily bank give loans to others compare to last year.

High CAR → High AG%

→ good bank

5. Net INterest Margin (NIM)

(Loan Interest − Interest expense − RBI safeguard) / Total net income by all sources.

- customer को दिया गया loan − saving account interest का % by total income (RBI saftey not included)

- More is good for banks

6. Return on Assets (ROA)

(Net income / Total assets)

- How well org. using its assets (→ Cash, Inventory, investments, patents etc.) to generate profit.

- 1 तो होना ही चाहिए।
- near 2 is good, infact very good.

7. Cost of Liablities

(interest expense / total liablities)

- on an average kitna interest दे रहा है। savings or liablities accounts पर।

- Lower is good but for new banks it is generally higher to attract customers so, analyse by taking this in account.

See ROE for 0 debt companies

ROCE for higher debt companies.

Also, कहीं ज्यादा dividend देके ROE तो ↑ नहीं किया।

8. ROCE (Return on Capital Employed)

- It indicates how well a company is generating profit from its capital employed
- It also includes debt in account.
- Higher is good.

$$ROCE = \frac{\text{(Earning Before interest \& Tax)}}{\text{Total Capital Employed}}$$

always check sector news and condition to check or do fair analysis

DATE: __/__/____
PAGE: ____

PEG Ratio

- most beneficial for stable companies.
- generates more comprehensive picture of stock value by incorporating PE ratio to expected growth rate/ Profit grow:

$$PEG = \frac{(P/E)}{\text{Profit Growth (average)}}$$

PEG = 1 fair value.
PEG < 1 under valued (Interesting may invest)
PEG > 1 over valued

Interest Coverage Ratio

How easily a company is able to pay interest on its debt

$$ICR = \frac{\text{(Earning before deduction also called operating profit)}}{\text{Interest Expense}}$$

- As high as good
but atleast > 5 or > 3 (good)
very good

Good Write

always check consolidated view for better picture.

PAGE:

Quick Ratio = $\frac{\text{(current Asset - Inventory)}}{\text{current liabilities}}$

short term liquid position. or company ability to meet short term obligations

must be = 1

Higher is good.

CFO/PAT

It gives the actual liquid picture of company.

Indicates How well the net profit is backed by actual cash.

or

what part of profit converted back into cash during cash flow cycle

- greater than 1 is good.
- Higher is good.

- It doesn't work for banks, NBFC, real estate etc.

Good Write

DATE: ___/___/___
PAGE: ______

Cash Flow Statement

a detailed analysis of How cash generated or used by a company.

3 types:

- CFO (operating)
- कितना cash actually revenue हो रहा है।
- CFO/PAT major ratio to check.
- related to core business of company.

- CFF (Finance)

-ve : repaying of loan or outflow of cash by any factor

+ve : inflow of cash by taking loan

- CFI (investing)

-ve : company bought new asset/capital or invested.

+ve : sold an asset

(Huge +ve is Bad CFI)

Free Cash Flow

How much cash is available after accounting for capital expenditure.

Cash तो आया हमें अब जितना cash net बचा after repair, new capital etc is Free cash.

- to check good company.

(EPS == CFPS) cash Flow per share

Check common size evaluation of companies of different size of same sector.

→ use common size statements.

AFTER ALL RATIO EVALUATION CHECK BELOW :

Now, In case you checked all calculations and ratio it might be possible that company may have special privilidge which may impact its market.

Like

1. Govt. Protection.
   Eg: IRCTC

2. Low Cost
   Eg: Dmart, Xiaomi

3. Distribution Reach/ Network
   Eg: Pepsi, coco cola, Unilever, LPG gas

4. Already strong Brand so under same name
   Eg: Handwash under Dettol name used soap, cleaner ↑ as antiseptic

5. Patents
   Eg: Apple, Samsung

6. Switch cost.
   Eg: AWS, Banks etc.

Etc.