Stock Market Basics

i) Market Capital = No. of shares × Price of share
if you want to buy a company completely

ii) EPS = Total profit / No. of shares
Profit per share is earning per share

iii) P/E ratio or price earning ratio
Share price / EPS = P/E
Money you are paying to get 1Rs profit

iv) Enterprize value
Company's total value including debt and exclusive cash

v) Standalone vs Consolidated
Standalone is for particular company and
Consolidated means earning from other investment

vi) Book Value = Value of enterprise / Total shares
how much much is left for 1 share. (back-up)

vii) P/B ratio = Price / Book value 200/500
For 2 rupees share 5 rupees back up is there.

viii) Dividend Yield - Part of profit distributed among Sholder
a) When company know that they dont have to make any expenditure on advertisement, sa[illegible] or not looking for any expansion of any [illegible]
b) when they have monopoly over market, they dont need cash and can be distributed among shareholders.
c) More cash means more dividends

there.

viii) Dividend Yield - Part of profit distributed among Sholder

a) When company know that they dont have to make any expenditure on advertisement. So as not looking for any expansion of any

TATA

b) when they have monopoly over market, they dont need cash and can be distributed among shareholders.

c) More cash means more dividends

ix) Face Value = The price of share at the time of issue.

x) Promoter holding = 57% means 57% shares held by company owner.

b) In some banks / company there are instructed not to have more prop. of shares with a single person

c) Check if out of 57% shares, how many are pledged or sold to someone

d) In some companies, promoter holding is 0 because of it is professionally managed

xi) PAT Margin / Net Margin

SP = 15 CP = 10 Mark-up and Margin (Mark up 50% Margin 33.3%

CP = 10 SP = 15

SP - CP = Profit

Profit margin is calculated on Selling price

XII) ROE = Return On Equity

i) I'm invested 100 on share (equity share) and at the end of the year it becomes 120. So 20 is return on equity

ii) Less margin may have good ROE because of sell up Multiple times they are selling it.

iii) ROE can be increased by taking more debt

equity	100	50
debt	0	50
Net profit	20	14
ROE	20%	28%

In case 2, ROE is more because of debt and less profit due to interest on debt

=) Fundamental Analysis

i) Asset Turnover = With 100Rs machine, how much they can produce and sell.
Like OLA and Uber having 4 wheelers, how much they can earn from that. (Utilisation of asset)

ii) Cash Conversion
how many days they are taking to convert their cash into return. It is good to be lesser

iii) Split = Rs10 face value share became Rs1 face value
Number of share will increase

Face value	10	5
Shares	100	200

To increase liquidity / flexibility

Split is done if a company needs small fund

iv) Bonus = Same as split. In split face value gets half or lesser, but in Bonus shares increases by their price decreases. Face value remains same

Face Value	10	10
No of shares	100	200
Share Capital	1000	2000
Total reserves	2000	1000
Shareholders fund	3000	3000

Reserve will decrease because shareholders fund is same, but shares increases. Affect book value
liquidity increases.

★ How to identify bad Stocks

1) Don't believe in P&L statement Net profit

iv) <u>Bonus</u> = Same as split. In split face value gets half as times, but in Bonus shares increases by their price decreases. Face value remains same.

Face value	10	10
No of shares	100	200
Share Capital	1000	2000
Total reserve	2000	1000
Shareholders fund	3000	3000

Reserve will decrease because shareholders fund is same, but shares increases. Affect book value, liquidity increases.

☆ How to identify bad Stocks

i) Dont believe in P&L statement <u>Net profit</u> because once the sale has been made, company put it in their P&L account irrespective of the payment has been received or not.

ii) So check Cash flow statement, operating Cash flow and compare with Net profit of P&L Account

iii) Company shows the distorted image of their profit which is not reliable.

iv) Compare last 5 years data to get reliable info.

=) <u>Rights issue</u> =) Issue share to existing shareholder at discounted price.

Net profit	300	300
EPS	3	1
No. of shares	100	300
Share capital	1000	3000
		After right

So after right issue, net profit will remain same but shares will increase So EPS will reduce but they will get more capital

☆ How to Analyze Banking Stocks

CASA ratio = ratio of deposits (Current + Savings) / Total deposits — 0% (current deposit), 3-4% (savings deposit)

high ratio means less interest to pay to customers because current account does not provide any interest and big banks like SBI and HDFC they give 3-4% interest and same money can be used to give loan at 12% interest.

Net NPA = Loan or amount given by bank which is not coming back or can not be recovered. Less is better.

Cost of liabilities = Interest to be paid on total deposits {Fixed + Saving + Current + ___ } interest
sometimes more important than CASA

Advances Growth = % of growth in giving loans
Rs 100 to Rs 120, 20% growth

CAR = It should be higher. higher ratio means more loan can be given. {less than 12 bad}
Capital Adequacy ratio

☆ How to read Annual Report

i) Product portfolio ii) Promoter holdings
iii) Milestones / history iv) Overall performance
v) Their vision and aim, mission
v) Market Share performance. vi) Risk identification

vii) Subsidiaries viii) fee to CEO and Boards
ix) Contingent liabilities (not confirmed liability

~~Lecture 10 how to analyze and value banking stocks~~

Always compare operating cash flows with profit in P&L Account. Profit in P&L can be disguised. It will tell [illegible] profits have been received or not. CFO / P[illegible] is dangerous

v) Market Share performance. vi) Risk identification

vii) Subsidiaries viii) fee to CEO and Boards
ix) Contingent liabilities (not confirmed liability

TATA

~~Lecture 10 how to analyze and value banking stocks~~

Always compare operating cash flows with profit in P&L Account. Profit in P&L can be disguised. It will tell you if profits have been received or not.
CFO / PAT less is dangerous

Lecture - 10 ROCE or ROE {Very Important}
You can raise fund either by equity or debt.
ROCE = 116% 116 earned by investing 100.
= Equity + debt considered

ROE = Considers only on shareholder's fund.
When there is no debt, check ROE. When there is a debt check ROCE.

For ROCE we will take = operating profit (Profit before int) and in dinominator we will take equity + Reserves + debt

=) Dividend also affects ROCE, if divident is taken reserve will be less, ROCE will be high.
Some companies distribute dividends just to increase ROE / ROCE.

TATA CONSULTANCY SERVICES

This notepad is made from recycled paper.

Class - 11 - Valuation ratio

i) PEG Ratio = ? for example EPS = 18.06 P/E = 33.05

P/E = Price given to earn 1 rupee of profit.

So 33.05 rupee is given to earn 1 rupee of profit. Is it worth it? What P/E is good. For that we can use PEG ratio

Profit growth of A = 1 year 75% 3 year 35% 5 year 25%

=> So PEG says the PE ratio should not be more than Profit growth of 3 or 5 years

PEG = (P/E) / Growth = 33/35 = 0.9

we will take 3 years because 1 year growth is high.

So this share is fairly valued or slightly under valued

ii) Price to cash flow - It is similar to P/E but it considers actually how much profit he has received

if EPS is 18, how much exactly he is receiving.

Class 12 identify companies who are going to be bankrupt or can not bear their financial liabilities in future

Shareholding pattern = promoter shareholding should be good should be atleast greater than 40% but in bigger companies it may not be possible. So check if their holding is increasing or decreasing

=> In big companies or banks where large shareholding funds are not possible, check their DIIs, FPIs, FIIs

Domestic institutional investment like insurance or mutual funds companies should be good and FPIs and FIIs are also there

=> We can also check if DII's or FIIs are increasing or decreasing.

ii) Interest Coverage Ratio

So we have discussed debt equity ratio. It should be less than 1 but if company is not making profit, how will it pay its interest. So for that we check this.

iv) Domestic institutional investment like insurance or mutual funds companies should be good and FPIs and FIIs are also these

=) We can also check if DII's or FIIs are increasing or decreasing.

TATA

ii) Interest Coverage Ratio

So we have discussed debt equity ratio. It should be less than 1 But if company is not making profit, how will it pay its interest. So for that we check this.

Interest coverage 12%. Company earning 1200 rupees if they have to pay 100 rupees interest.

Operating profit = 1400, interest = 100 => Interest coverage = 14

iii) Quick Ratio => Short term loan + Working capital loan should be greater than 1. liquid asset to pay its short loan

☆ Basic minimum checks

1) Profitable company (growth can be negative but should be profitable)
ii) (CFO/PAT) > 1 atleast greater than 0.8. whatever they are earning, they are getting or not
iii) ROE / ROCE = greater than 15 or 18%

☆ Lesson-13 => How to buy stock at discounted price

Godrej industries => Godrej consumer product, Godrej properties

Godrej ind. Enterprise value is 1564 cr. but it also has 24% shareholding in Godrej consumer product. We can see that in this Annual reports.

=) Godrej industries also has 54% of Godrej properties. the enterprise value of properties is 17000 cr. that mean 54% of the is possessed by Godrej industries

If 50% share of any industries is owned by any other industries. So we can call the industry as subsidiary of later industry.

dont get fascinated by 50% or 70% discounts. Always check the position of subsidiary companies.

☆ How to read Profit & loss statement = Lesson 15

P&L displays the picture of current year, Balance sheet shows the picture of overall as as of current year.

Operating profit = Net sales + other income - Total expenditures

Profit before tax = Operating profit - interest - depreciation + exceptional items

Net profit = Profit before tax - tax

☆ Lesson-16 - Can we rely on Quarterly results and invest

So industries like Imagic, Wonderla (Amusement parks) People dont prefer to go there at the winter or during exam times. During that time the sale will be really low. Seasonality matters a lot. ~~because~~ It is not reflected in P&L because it is annual performance. Then we should always check Quarterly reports. Which quarter performance is going down and if it is one off case?

So in wonderla park sale has reduced in 3rd Quarter during rainy season. Sale will increase in 2nd Quarter summer season.

Also check same quarter results over the year.

[Entr... Types of fund... invest...]

Mutu...	Index fun...	ETF...	Stocks
Can b... → Rea... Pas...	Market ... return 15% ... → Ready...	Marke... ...urn ...% ... ...ady...	Can ... diff. → Create your own port...
No	...quired	De...	...med
It may ... high...	...nse	...w	

15 Over...

Also check same quarter results over the year.

[Extra] ⇒ Types of funds to invest

Mutual fund	Index fund	ETFs	Stocks
Can be different → Readymade Portfolio	Market average return like 15% CAGR → Readymade	• Market average return like 15% CAGR → Readymade	Can be diff → Create your own portf.
No Demat required		Demat Required	
It may be high	Expense ratio very less	less expense ratio	
	i) it is done using SIP. Min. investment 100 or 500	bought on current market price ii) Brokerage, Maintenance charges etc.	

☆ 15 Questions which should be asked, before buying a stock

i) Sufficient market potential to make sizable increase in sales in near future (Company with growth scope) like company Apple (not everyone using phones).

ii) Determination to continue to develop new products that further will increase sales.
Apple started with computers and then ipods, mobiles and still manufacturing many things.

iii) How effective are the company's RND efforts in relation to its size (Compare RND expenditure with products launched)

iv) Above average sales organisation?

v) Company have worthwhile profit margin?

vi) Company doing to maintain or improve profit margin

vii) Company have outstanding labour and personnel relations? how company treat their employees.

viii) Outstanding executive relations?
Top management relations (CEO, CFO, COO)

ix) Does the company have depths to its management? good and talented people at every level. Company should not be working only on 1 shoulders. We invest in company for longer term. So if Key player leaves the company. It will go down.

x) How good are company's cost analysis and accounting control? how they control expenses (Read Annual reports)

=) Apple did few things from their expenses.

i) Acquisitions ii) Buyback (bought their own shares) iii) Dividend.

thats how they maximise shareholder's wealth

xi) Others indicators, how outstanding the company may be relative to its competitors

Apple market share is 15%, but revenue share is around 40%. Profit share is 70-80%.

xii) Company have short range or long range outlook in regard to profits?

- Company thinks short term profit as long term profit
Always take companies who thinks about long term profit

XIII) will growth require any financing that will dilute existing shareholder's?
Do they have enough cash reserves or they need to issue shares? or take loan?
Apple outstanding shares are decreasing because they are buying back their shares. Next year they will buy back (3-4%) of their shares.
i) Earning per share will increase
ii) Dividends per share will increase.

XIV) Does the management talk freely to its investors about its affairs. Do they mention about their (success & failures)

XV) Does the company have a management of unquestionable integrity
if they are fraud, dont go about it.
Apple dont have any scams or frauds

* Screener App to screen or filter stocks
1) Value stocks - High OPM, ROCE, Low D/E
Operating profit margin, Return on Capital, Debt by Equity

Lesson-17 - Cash flow Statement / Analysis

=) During demonitisation we had everything wealth money etc but we did not have cash.

=) Banks do not bankrupt because they do not have money or Assets, they bankrupt because they do not have cash.

CFS shows inflow & outflow of cash
i) P&L shows how much profit they are making but it does not show how much profit they are getting
ii) CFS shows actual profit they received.

=) Companies can increase sell by making fake bills on their friend's name, at the ~~tyt~~ time of payment they will cancel the bill. We will see increased sales in the P&L. We need CFS to see that

Cash Flow Statement

Operating | Investing | Financing

1) Financing = Capital Structure
a) Dividends b) Loan repayment c) Share issuing
d) Bond issuing e) Bought new loan

CFS is +ive from financing activity that means company may have raised additional cash through loans or equity

-ive - financing activity. company may ... or buybacked its shares due to which ... of cash

...ing Activity

... CFS in investing means they have sold something from which they have received cash. ~~Long~~ Big CFS means they have sold their long term projects or big assets

-ive CFS means they have bought new asset like land

d) Bond issuing e) Bought new loan

CFS is +ive from financing activity that means company may have raised additional cash through loans or equity.

-ive CFS from financing activity. company may have repaid their loans or buybacked its shares due to which there is outflow of cash.

ii) Investing Activity

+ive CFS in investing means they have sold something from which they have received cash. ~~+ive~~ CFS mean they have sold their long term projects or big assets

-ive CFS means they have bought new assets like land or machinery

iii) Operating Activity

This is most important. because it tell about income generating from business.

Cash inflow	Cash Outflow
a) Sales from goods & Services	i) Cash paid as Salary
b) Cash realized from debtors	ii) Cash paid to creditors
c) Cash received in any form	iii) Cash paid for expenses

Most importantly it tells you

Sales ↑ profit ↑ Cashflow ↓

They are not able to realise their cash from their client or they are showing Fake sales.

Ex: Satyam Computer Services have also manipulated the books by showing Fake sales.

To verify fake sales and profits, we can check.
CFO and PAT ratio CFO / PAT
What proportion of net profit is being converted into Cash
greater than 1 is good, less than 1 is bad.
CFO may not be important in Banks, NBFC's
Real estate, Infrastructure because they have long
term projects. So cash realisation takes time

Lesson 18 → Free Cash Flow
EPS of HUL is 27.94 and Cash flow per share 26.46.
Profit per share is more means cash is not received for profit
FCFE = Free cash flow per share (money not required for continuation of business)
bought two pencil at ₹10 each and sold at 15 each. profit
10 ruppees. If next day he buys two pencil again for 10
ruppees each. then 10 ruppees remain which is not being
used in the business. It can be distributed as dividend
or kept it as reserves

Airtel cash flow per share 19.95 but FCFF per share is -29.91
becase they have to spend lot of money in network broadband
line expansion. So they have a huge debt.
operating Cash flow - Purchase of property plant equipment
= Free Cash flow
P/(FCF) check this ratio

EXTRA - Candle stick Pattern
Green Candle -

P/S ratio = Price / Sales   12 months sale = $455 mn
Sales per share = (455mn / 100 mn share)
= $ 4.5 sales per share
P/S = $10/4.5 = 2.2
Investors willing to pay per dollar of sales.

Enterprise Multiple = EV/EBITDA
to determine company is undervalued or overvalued.
measure of economic value of a company

[EXTRA] - Candle stick Pattern

Green Candle -

P/S ratio = $\frac{\text{Price}}{\text{Sales}}$ 12 months sale = \$455 mn

Sales per share = (455mn/100 mn share)

= \$ 4.5 sales per share

P/S = \$10/4.5 = 2.2

Investors willing to pay per dollar of sales.

Enterprise Multiple - EV/EBITDA

to determine company is undervalued or overvalued.

measure of economic value of a company. interpret

~~Higher enterprise multiples are expected in high growth industries and lower multiples in industries with slow growth~~

below 10 is commonly interpreted as healthy and above average.

☆ Alpha Beta theory

i) Beta, if index falls by 10% at what % stock is falling, if ~~α~~ falls index goes up by 10%. At what % stock increases

example

Nifty	Stock A $\beta=2$	B $\beta=1$	C $\beta=0.5$		$\beta=2$	$\beta=1$	$\beta=0.5$
10% ↓	20% ↓	10%	5%	10 ↑	20% ↑	10 ↑	5%

β less than 1 is good

ii) Alpha (α) - if Nifty gives 20% return, Stock 30% return. Particular stock gives 10%, 15%, 20% more return than the index.

Nifty	Stock A	B
	$\alpha=5\%$	−2 alpha
10%	15%	8%

} By what points it is surpassing index

0 to 1 β is good, higher alpha is always better

α measures the amount returned from an investment when compared to benchmark	A measure used to determine the volatility of an asset in relation to a market index as benchmark
α = 3, outperformed its benchmark by 3%	β = 0.6 is less volatile than the market

Shares intrinsic value · At what price buy

Intrinsic Value = EPS × (8.5 + 2G) × A

8.5PE is a ratio of no growth company

A = Average rate of FD returns

G = Average growth rate of stock for next 10 years based on past 3 months/years.

Y = Current FD returns (Put 10%)

EPS = 50, G = 20% for next 10 years. Y = 10% No risk FD rate

⇒ [50 × (8.5 + (2 × 0.2)) × 0.06]/.10

~~= 425.7 (50 × 3.4 × 0.06)/0.1 ⇒ 102/0.1 = 102~~

⇒ 50 × (8.9) × 0.06 / 0.10 ⇒ 5 × 89 × 3 / 4 = 1320

50 × (1 + 8.9)

intrinsic value = 1320

You can also deduct 10% or 20% or 30% as margin of safety from intrinsic value.

$1320 - \left(\frac{20}{100}\right) \times 1300 = \boxed{1140}$ intrinsic value

= 50 × (8.5 + 40) × 6 / 10 = 5 × 48.5 × 6 = 1455

Formula Tweak as per Indian market

We will use $\boxed{\text{PE of 7}}$. Instead of using single growth rate, calculate average 5-6 year of growth rate experienced by company.

2 multiplier is very aggressive. Graham never expected company growth rate 15-25%. Now it is common. So use of 1.5 or 1.

Intrinsic Value = [EPS × (7 + g) × 8.5] / 8.3

7 ⇒ PE stable

SBI's = 22.57 × (7 + 9.55) × 8.5 / 8.3 = ₹377.53

Formula tweak as per Indian market

We will use PE of 7. Instead of using single growth rate, calculate average 5-6 years of growth rate enforced by company.

2 multiplier is very aggressive. Graham never enfused 15-25%. Now it is common. So company growth rate use of 1.5 or 1.

Intrinsic Value = $[EPS \times (\overset{\text{PE stable}}{7} + g) \times 8.5] / 8.3$

SBI's = $22.57 \times (7 + 9.55) \times 8.5 / 8.3 = ₹377.53$

You can also use margin of safety (10 or 20%)

Annual growth (A) = 9.55, 8.5 (5 year fixed deposit rate)

$\boxed{PE = 8.5}$ = fair PE value, No growth stock

Y = Current interest rate (divide by Y so that we get annual more than the interest rate)

Most important thing to watch while buying a stock

☆ Most important thing or MOAT

⇒ Competitive strength of a company. because like Jio destroyed all other telecommunication business, they have competitive advantage or by adding their competition.

i) first MOT, Govn protection, credit rating agencies are secured by govt liscenses were not be given. (Restricted competition)

ii) Second, Low Cost (Advantage on marketing cost or input cost)

iii) Distribution reach - Cost of spreading product in mkt

iv) Brand - various products launched (Advertising case)

v) Patent - New Discovery (No new Competition)

vi) Network effect - More network more beneficial (Whatsapp)

vii) Switching Cost = on changing bank account is very hectic. even mobile no switching is easy now

... B is good. higher alpha is always better.

★ {Stock Picking like experts}

Business can increase ROE by 3 ways.

i) sale the product at high margin. (more margin)

ii) Sale at low margin but multiple times. (more volume)

iii) equity - 100, debt - 100 = Total - 200, Sold 220

$ROE = \frac{20}{100} = 20\%$ but it should have been 200. So it gives wrong information.

Roe can reduce due to ~~PAT~~ net profit margin.

Asset turnover may reduce and leads to low ROE.

Asset turnover reduced from 1.01 to 0.67.

earlier for 1 rupee asset he was selling 1.01 and now 0.67

that means problem with generating volume as they have bought assets and sale would improve in future.

★ How to compare and pick stocks}

Always look for common size statement. In P&L out of Total revenue (%) and in balance sheet (out of total ~~...~~ assets as liab.

★ How to ~~identify~~ do fundamental Analysis

1) Payback Period = how much time it takes to get their investment back

ii) Entry barrier for others - Wonderla park, No one else will come if wonderla is there. Revenue will share and competition will be tough.