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Q & A

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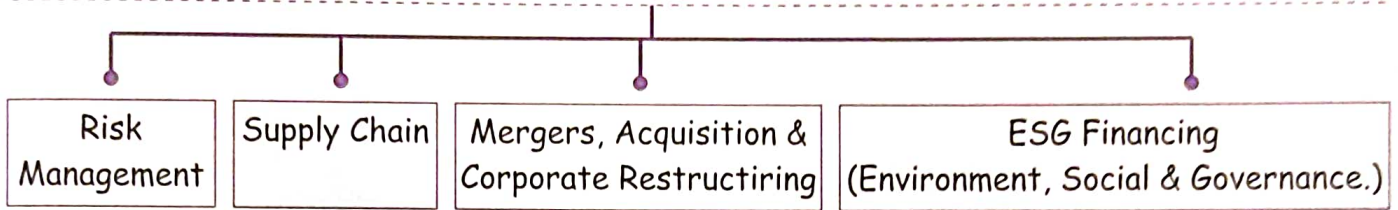
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THEORY

1 Advanced Role of CFO in Value - Creation (New Addition)

(Role expanded post - pandemic & now includes strategic & operational decision - making.)

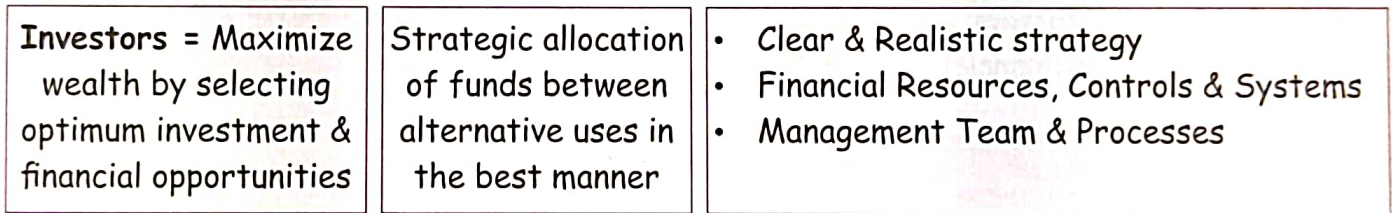


2 Strategic Financial Decision Making Framework

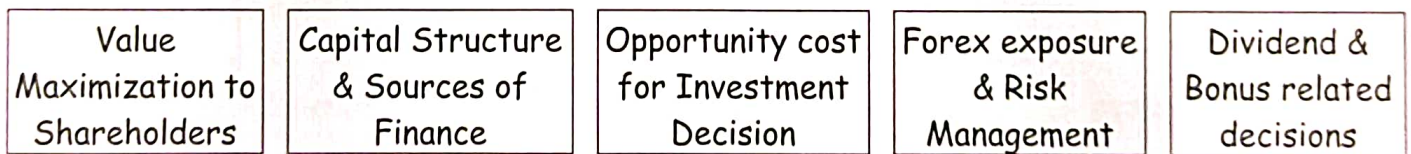
Investors want to maximize their wealth by selecting optimal investment and financial opportunities that will give maximum returns at minimum risk.

$$\text{Strategy} + \text{Finance} + \text{Management} = \text{Fundamentals of Business.}$$

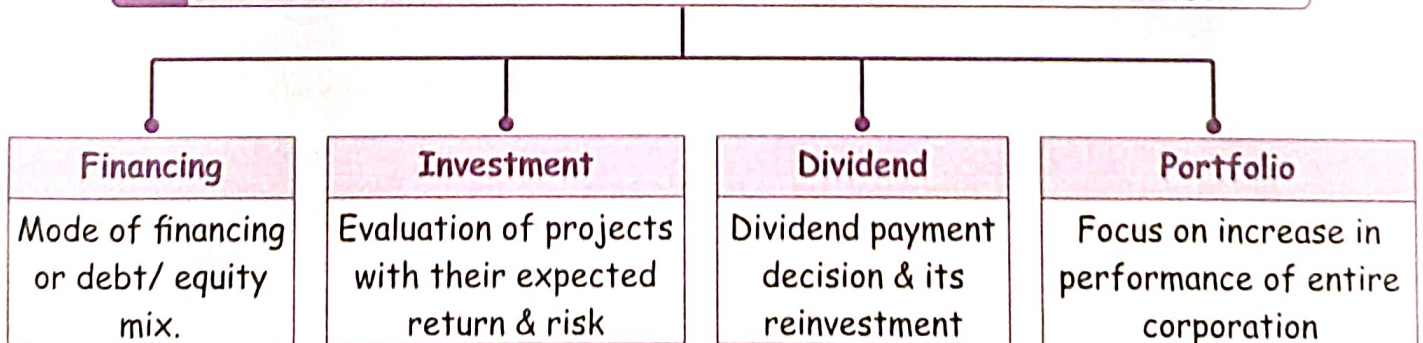
3 Process of Strategic Decision Making



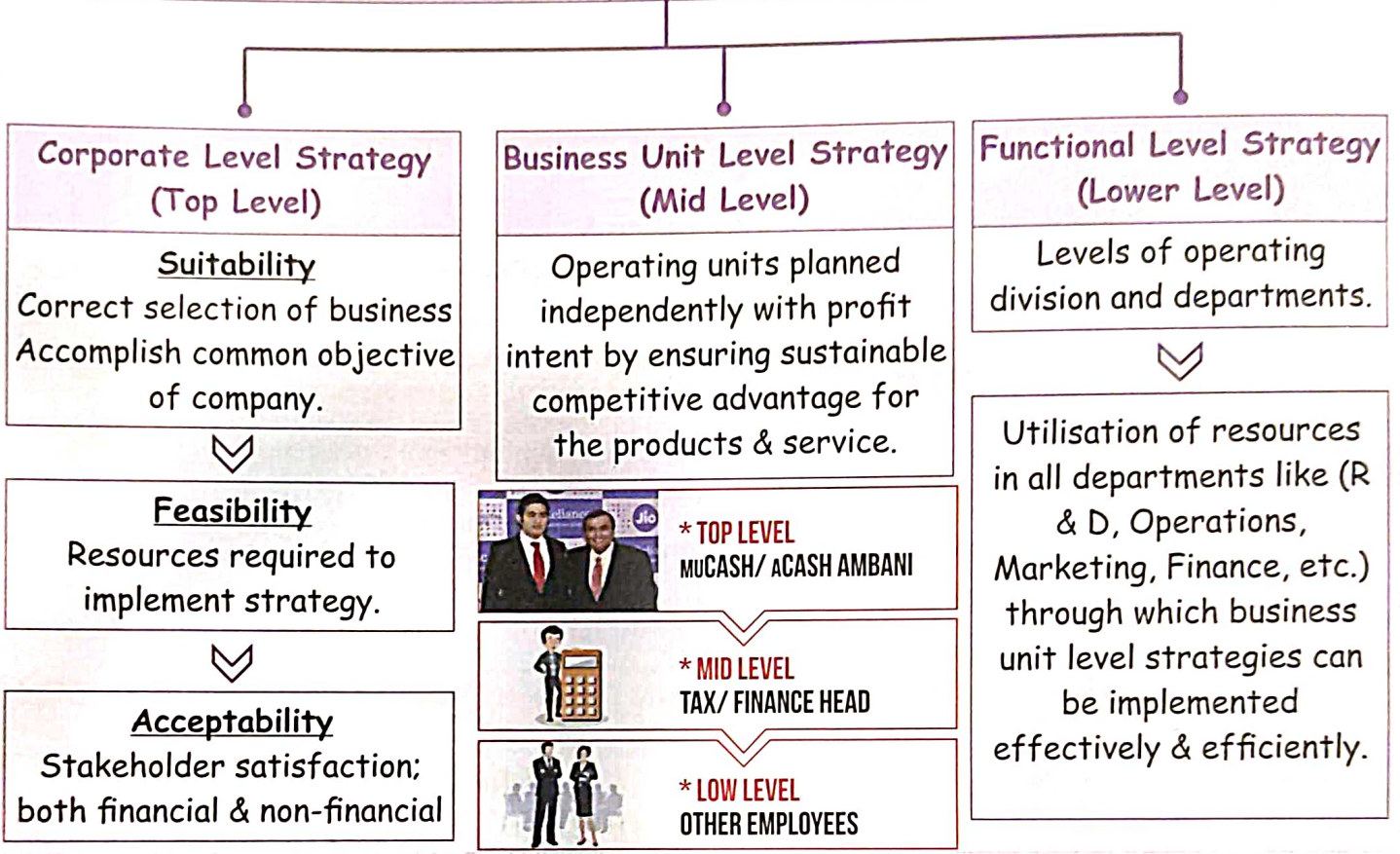
4 Linking Financial Policy & Strategic Management



5 Key decision falling within the scope of financial strategy



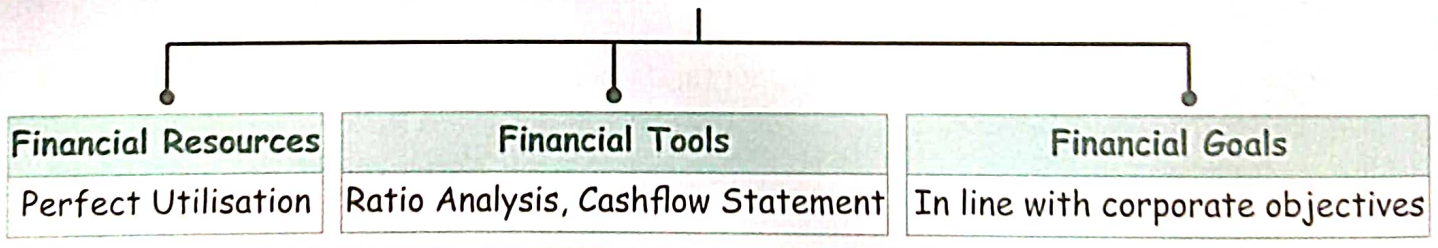
6 Strategies at Different Hierarchy Levels



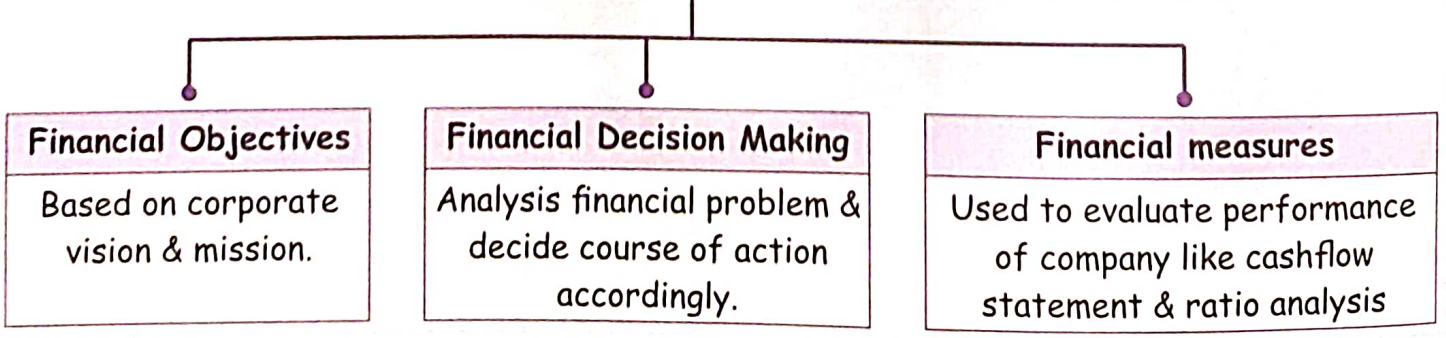
7 Financial Planning

Financial Planning is the backbone of Business Planning & Corporate Planning.
(Process of meeting life's goals through management of finances)

(3 Components)



8 Outcome of Financial Planning



9 Sustainable Growth Rate (SGR)

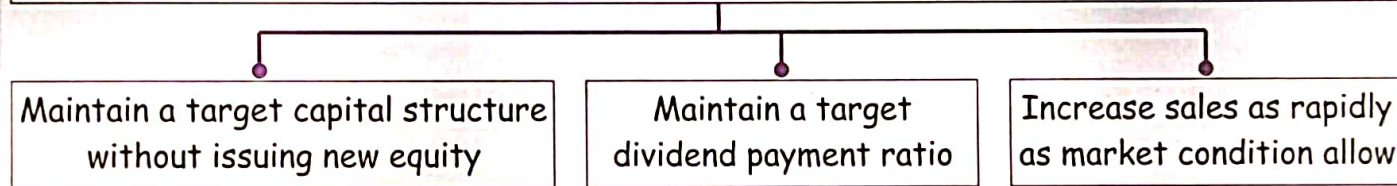
SGR is the maximum rate of growth that a company or social enterprise can sustain without having to finance growth with additional equity or debt. i.e. rate at which the company can grow while using its own internal revenue without borrowing from outside sources.

10 Organization Sustainability

a	Planning of healthy corporate growth (work life balance)
b	SG = Right distribution of resources
c	SG = Used in enterprise long term development
d	Maintain capital structure without new equity
e	Maintain target dividend ratio
f	Increase sales rapidly
g	Sustainable growth helps in long term use of resources

11 Focus of SGR

$$SGR = ROE \times (1 - \text{Dividend payment ratio})$$



12 How to become financially sustainable?

More than one source of income	More than one way of generating income	Retain competent staff	Have a good public image	Be clear about values & strategic direction
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13 What makes an organisation sustainable?

In order to be sustainable, an organisation must	have a clear strategic direction	be able to scan its environment or context to identify opportunities for its work	be able to attract, manage & retain competent staff
have an adequate administrative & financial infrastructure	be able to demonstrate its effectiveness and impact in order to leverage further resources	get community support for, and involvement in its work	

CHAPTER 2

RISK MANAGEMENT

PAGE 1	STRATEGIC RISK	01	02 COMPLIANCE RISK	PAGE 1
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STUDY MENTOR



A. Types of Risk

1

Strategic Risk

Risk in business due to technological changes (Nokia)

New competitor entering the market (Kodak - Digital Camera)

Shifts in customer demand (Xerox - Laser Printing)

Increase in cost of raw material

2

Compliance Risk

Every business needs to comply with rules & regulations. Non compliance leads to penalties, fines & imprisonment because venturing into new business / geography needs to comply with its laws.

Division Of Financial Risk

3

Operational Risk (Internal Risk)

Failure to manage day to day operational problems

Related to People & Process, & its Risk

4

Financial Risk

Unexpected changes in financial condition such as prices, exchange rate, credit rating, interest rate. etc.

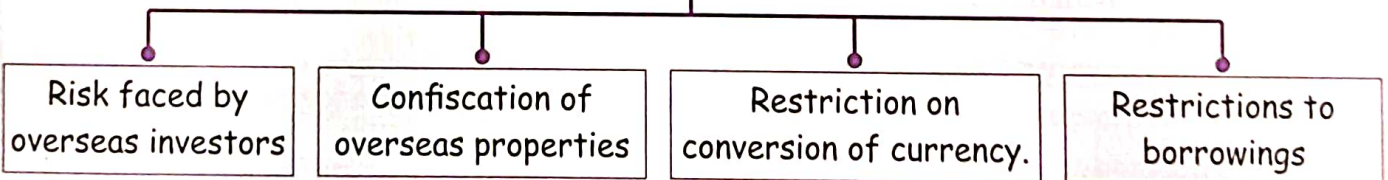
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Counter Party Risk

This risk occurs due to non-honoring of obligations by the counter party which can be failure to deliver the goods for the payment already made or vice-versa or repayment of borrowings and interest etc. Thus, this risk also covers the credit risk i.e. default by the counter party.

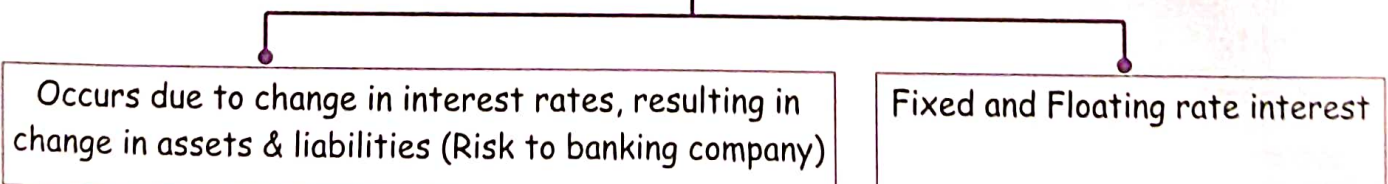
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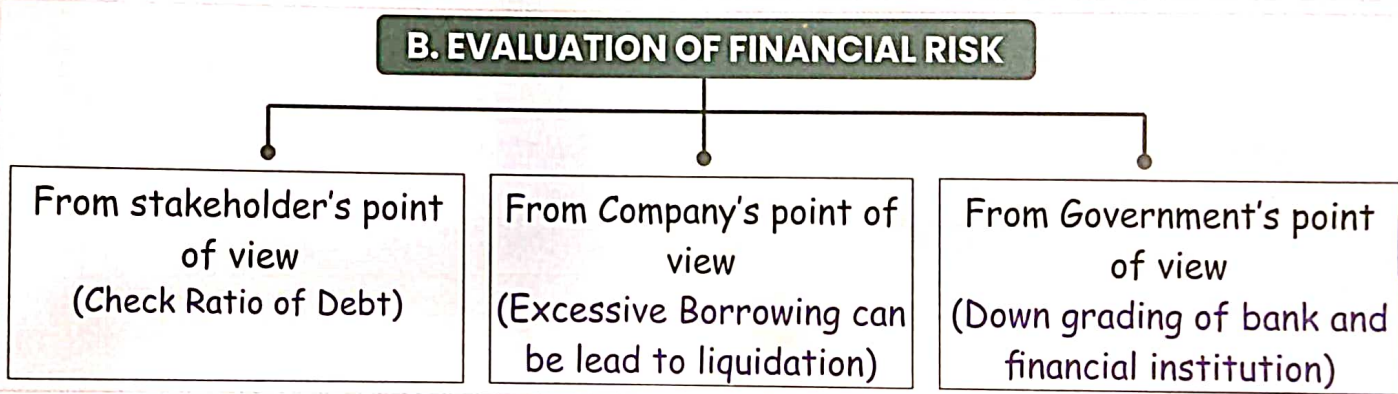
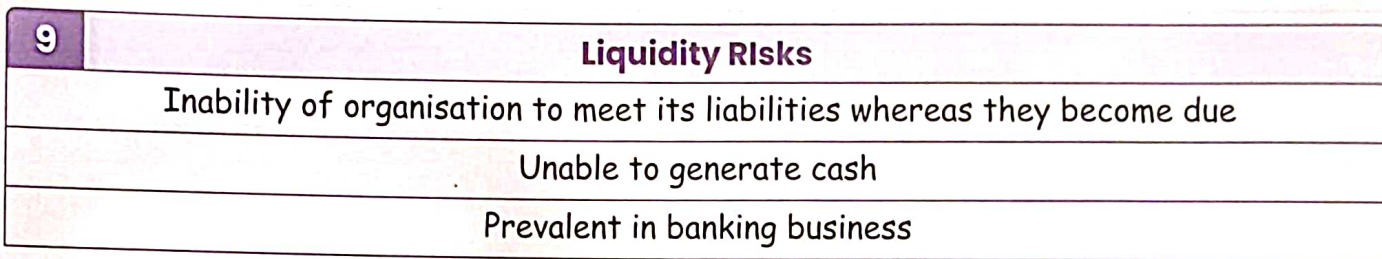
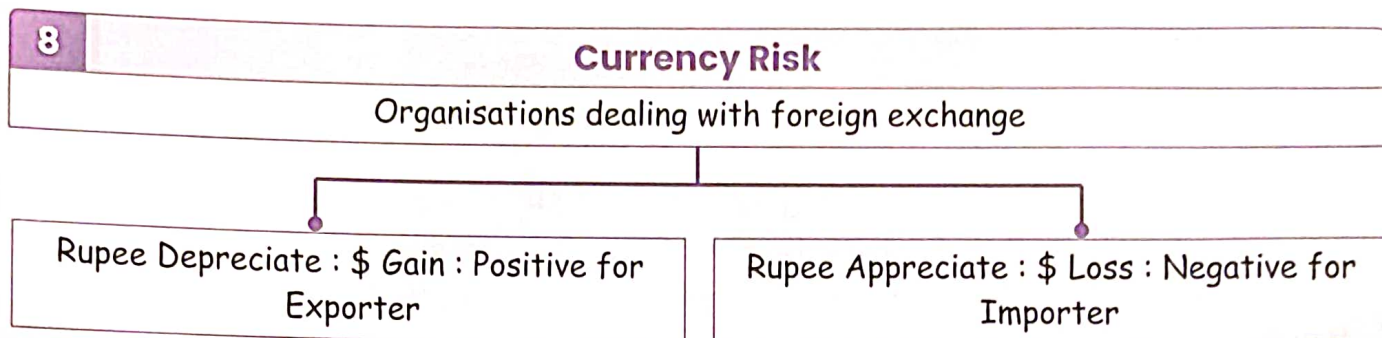
Political Risk



7

Interest Rate Risk





10 **VALUE-AT-RISK (VAR)**

(Measure of Risk of Investment. Estimates how much an investment might loose. VAR focuses on 2 things, Worst Case Scenario & Loss Per Day.) A statistic that quantifies the extent of possible financial losses within firm, portfolio, or position over a specific time frame.

11	Features of VAR
	Components of Calculations
	<ul style="list-style-type: none"> • Time Period • Confidence Level (95-99%) • Loss of Investment
	Statistical Method (Based on Standard Deviation)
	Time Horizon (One day/ One Week/ One Month)
	Probability
	Risk Control
	Z Score

12	Application of VAR
	To measure the maximum possible loss on any portfolio or a trading position.
	As a benchmark for performance measurement of any operation or trading.
	To fix limits for individuals dealing in front office of a treasury department.
	To enable the management to decide the trading strategies
	As a tool for Asset and Liability Management especially in banks.

C. Appropriate Methods For Identification And Management of Financial Risk

13 Counter Party Risk

Hints
Failure to obtain necessary resources to complete the project or transaction undertaken
Any regulatory restrictions from the Government.
Hostile action of foreign government.
Let down by third party.
Have become insolvent.

Techniques
Carrying out Due Diligence before dealing with any third party.
Do not over commit to a single entity or group or connected entities.
Know your exposure limits.
Review the limits and procedure for credit approval regularly.
Rapid action in the event of any likelihood of defaults.
Use of performance guarantee, insurance or other instruments.

14 Political risk

(Eg: Maldives Banned by Indian Tourists on account of wrong comment by Maldives Government)



Actions	Techniques
Insistence on resident investors or labour	Local sourcing of raw materials & labour
Restriction on conversion of currency.	Entering into joint ventures
Expropriation of foreign assets by the local govt.	Local financing
Price fixation of the products.	Prior negotiations

15 Interest Rate Risk

Monetary Policy of the Government	Any action by Government such as demonetization etc.	Economic Growth	Release of Industrial Data	Investment by foreign investors	Stock market changes
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16 Currency Risk

Government Action	Nominal Interest Rate	Inflation Rate	Natural Calamities	War, Coup, Rebellion etc	Change of Government
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17

VAR (Value At Risk)

Calculation of expected maximum loss on investment in Shares / Portfolio for a given period of time

Investment $\times \sigma_s \times \sqrt{t} \times Z$ - Score
(Individual Share)

Var = Investment $\times \sigma_s \times \sqrt{t} \times Z$ Score
= Total Loss Possible = Max itna loss ho sakta hai

Investment $\times \sigma_p \times \sqrt{t} \times Z$ - Score
(Portfolio)

σ = Standard Deviation of Security / Portfolio per day
 t = No. of days for which loss is to be calculated
Z score = Probability/ Confidence Level

Example 1: Suppose you hold worth Rs. 2 crore shares of X Ltd. whose market price standard deviation is 2% per day. Assuming 252 trading days a year, determine maximum loss level over the period of 1 trading day and 10 trading days with 99% confidence level.

Solution: Assuming share prices are normally distributed for level of 99%, the equivalent Z score from Normal table of Cumulative Area shall be 2.33.

Volatility in terms of rupees shall be: 2% of Rs. 2 Crore = Rs. 4 lakh

The maximum loss for 1 day at 99% Confidence Level shall be: Rs. 4 lakh \times 2.33 = Rs. 9.32 lakh, and expected maximum loss for 10 trading days shall be: $\sqrt{10} \times$ Rs. 9.32 lakh = 29.47 lakhs

Example 2: Consider a portfolio consisting of a Rs. 200,00,000 investment in share XYZ and a Rs. 200,00,000 investment in share ABC. The daily standard deviation of both shares is 1% and that the coefficient of correlation between them is 0.3. You are required to determine the 10-day 99% value at risk for the portfolio?

Solution

The standard deviation of the daily change in the investment in each asset is Rs. 2,00,000 i.e. 2 lakhs. The variance of the portfolio's daily change is

$$V = 2^2 + 2^2 + 2 \times 0.3 \times 2 \times 2 = 10.4$$

$$\sigma \text{ (Standard Deviation)} = \sqrt{10.4} = \text{Rs. 3.22 Lakhs}$$

Alternatively, it can also be computed as follows:

$$= (1)^2(0.50)^2 + (1)^2(0.50)^2 + 2(1)(1)(0.3)(0.50)(0.50)$$

$$= 0.25 + 0.25 + 0.15 = 0.65\%$$

$$\sigma = \sqrt{0.65} = 0.80623\%$$

$$\sigma \text{ in Amount} = \text{Rs. 400 lakhs} \times 0.80623\% = \text{Rs. 3.22 lakhs}$$

Accordingly, the standard deviation of 10-day change is Rs. 3.22 lakhs $\times \sqrt{10} =$ Rs. 10.18 lakh. From the Normal Table we see that z score for 1% is 2.33. This means that 1% of a normal distribution lies more than 2.33 standard deviations below the mean. The 10-day 99 percent value at risk is therefore $2.33 \times$ Rs. 10.18 lakh = Rs. 23.72 lakh

CHAPTER 3

SECURITY ANALYSIS

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STUDY MENTOR



THEORY

Fundamentals Analysis

1 Economic Analysis (Macro Economic Factors)

Factors Affecting Economic Analysis

- └ Growth Rates of Industrial Sector
- └ Inflation
- └ Monsoon
- └ Growth Rates of National Income & Related Measures

Techniques Used in Economic Analysis

- └ Anticipatory Surveys
- └ Barometer/Indicator Approach
 - Leading Indicators
 - Roughly Coincidental Indica
 - Lagging Indicators
- └ Economic Model Building Approach

2 Industry Analysis

Factors Affecting Industry Analysis

- | | | |
|----------------------|-----------------------|--|
| └ Product Life-Cycle | └ Barriers to Entry | └ State of Competition in the Industry |
| └ Demand Supply Gap | └ Government Attitude | └ Cost Conditions and Profitability |
| | | └ Technology and Research |

Company Analysis of Qualitative and Quantitative Fundamentals

- | | | |
|-----------------------------|-------------------------|--|
| └ Net Worth and Book Value | └ Financial Analysis | └ Cross-Sectional & Time Series Analysis |
| └ Sources and Uses of Funds | └ Competitive Advantage | └ Pattern of Existing Stock Holding |
| └ Size and Ranking | └ Quality of Management | └ Marketability of the Shares |
| └ Growth Record | └ Corporate Governance | └ Location and Labour- |
| └ Regulation | | └ Management Relations |

3

Technical Analysis

Technical Analysis is a method of share price movements based on a study of price graphs or charts on the assumption that share price trends are repetitive, that since investor psychology follows a certain pattern, what is seen to have happened before is likely to be repeated.

Principles of Technical Analysis:

A Market Discounts everything

B Price moves in trends

C History tends to repeat itself

Theories of Technical Analysis

4

The Dow Theory

Dow theory is one of the oldest & most famous technical theories.

- It was originated by Charles Dow
- It is a helpful tool for determining the relative strength of the stock market
- The Dow Theory is based upon the movements of two indices, constructed by Charles Dow, Dow Jones Industrial Average (DJIA) & Dow Jones Transportation Average (DJTA)

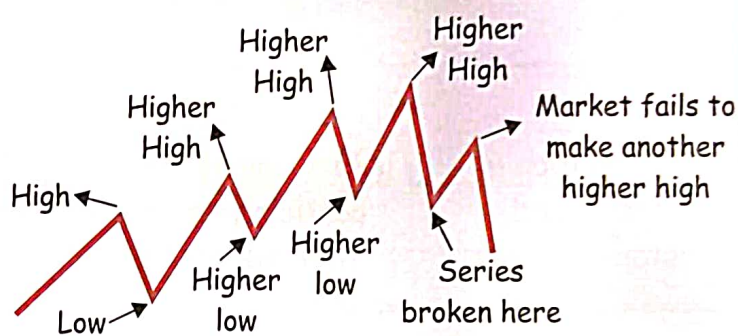
The movement of the market are divided into 3 classification

Primary movement	Secondary movement	Daily fluctuations
Lasts from 1 year to 36 month	It is shorter than primary movement & its opposite in direction	They are the narrow movements from day to day
Called as bear / bull or longer market	It lasts from 2 weeks to a month or more	

These fluctuations are not part of Dow Theory Interpretation of Stock Market. However, must carefully studied as they go to make up the longer movement in the market.

Dow Theory's purpose is to determine where the market is & where is it going, although not how far or high.

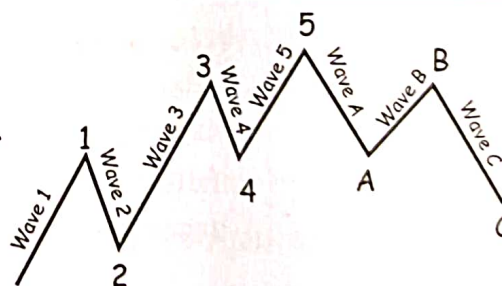
Dow Theory Explained



5

Elliot Wave Theory

- Ralph Elliot formulated Elliot Wave Theory in 1934.
- He defined price movements in terms of Waves.
- Accordingly, this theory was named Elliot Wave Theory.
- He found that market exhibited certain repeated Patterns or Waves.
- As per this Theory Wave is a movement of the market price from one change in direction to the next change in the same direction.
- Depending on demand & supply pressure . Waves are generated in the prices.



Classified into two Parts:

Impulsive Patterns (Basic Waves)

There will be 3 to 5 waves in a given direction. These waves shall move in the direction of the basic movement. This movement can indicate Bull/Bear phase.

Corrective Patterns (Reation Waves)

These 3 waves are against the Basic Direction of the Basic Movement correction involves correcting the earlier rise incase of Bull Market and fall incase of Bear Market.

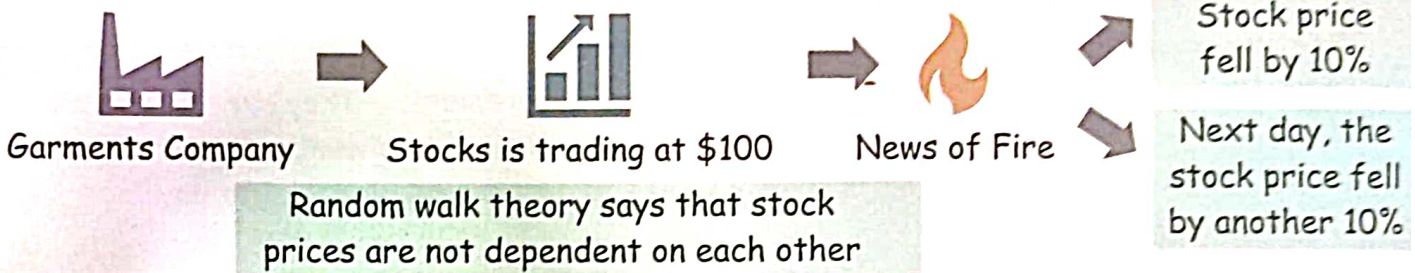
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Random Walk Theory

Prices of shares in stock market can never be predicted.

The reason is that the price trends are not the result of any underlying factors, but that they represent a statistical expression of past data.

There may be periodical ups or downs in share prices, but no connection can be established between two successive peaks (high price of stocks) and troughs (low price of stocks).



7

Efficient Market Theory (Efficient Market Hypothesis)

Information is freely and instantaneously available to all market participants.

Keen competition among the market participants more or less ensures that market will reflect intrinsic values. This means that they will fully impound all available information.

Price change only response to new information that is unrelated to previous information and therefore unpredictable.

8

Misconceptions

Investor cannot earn consistent Long-term return

Price cannot reflect fair value as future is uncertain

Inability of institutional portfolio managers to achieve superior investment performance implies that they lack competence in efficient market

The random movement of stock prices suggest that stock market is irrational

9

Level of Market Efficiency

Weak form efficiency	Price reflect all information found in the record of past prices & volumes.
Semi - Strong efficiency	Price reflect not only all information found in the record of past prices and volumes but also all other publicly available information.
Strong form efficiency	Price reflect all available information public as well as private.

10

Challenges to the Efficient Market Theory

Information inadequacy	Limited information processing capabilities	Irrational Behaviour	Monopolistic Influence
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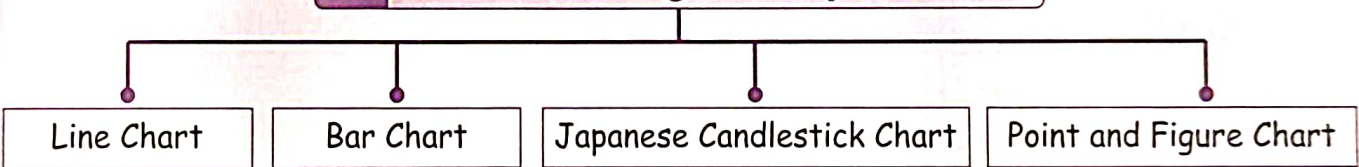
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Difference between Fundamental & Technical Analysis

Basis	Fundamental Analysis	Technical Analysis
Method	Prospects are measured by analyzing economy's macro factors such as Country's GDP. Inflation Rate, Interest Rate, Growth Rate & Co.'s Micro Factors like its Sales, Profitability, Cash Position	Predicts future prices & their direction using purely historical Market data & Information such as their Price Movements, Volume, Open Interest etc.
Rule	Prices of a share discounts everything	Price captures everything
Usefulness	For Long term Investing	For Short term Investing

12

Charting Techniques



13

Interpreting Price Pattern

- | | |
|---|---|
| <ul style="list-style-type: none"> └ Upward Channel (rising prices) └ Wedge └ Head and Shoulders (Bearish) └ Triangle or Coil Formation (uncertainty) └ Inverse Head & Shoulders (Bullish) | <ul style="list-style-type: none"> └ Downward Channel (falling prices) └ Flags and Pennants Form (continue with price trend) └ Double Top Form Bearish Price decline └ Double Bottom Form Bullish Price Price └ Gap (Difference between opening & closing) |
|---|---|

14

Market Indicators

Breadth Index	Volume of Transactions	Confidence Index	Relative Strength Analysis	Odd - Lot Theory
---------------	------------------------	------------------	----------------------------	------------------