

Course Outline

CORPORATE VALUATION

for

SPJIMR Mumbai

2013-14, Term IV (June-Jul. 2013)

Course Instructor: *ram kumar kakani*

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Contact:

Email: ram@kakani.net; in person – On class/session days

Course Objective:

This course will have all the elements that would go into reviewing a potential valuation of firms/ corporates. It is not a detailed course in one category, such as financial accounting, but it ties business strategy analysis, financial analysis, financial management, forecasting analysis, and valuation analysis together. This course takes the path to evaluating the opportunity to its fullest after one has gone through basics of business, finance, and accounting.

- ◆ CAREER FOCUS – It is aimed at students who expect at some point in their careers to evaluate the performance, prospects, and value of a business.
- ◆ EDUCATIONAL OBJECTIVES – The objective of the course is to provide hands-on experience in valuation especially using financial analysis.

Prerequisites:

The student must have a reasonable understanding of Financial Management (including introductory terms on Derivatives & Financial Markets) and Strategic Management. Working knowledge of introductory econometric techniques and EXCEL would immensely help.

I shall share with you a few links ... giving you information at the pre-session preps.

Prescribed text:

The course material will comprise of both theory and cases (wherever applicable). For theory, we will be adopting '**Damodaran on Valuation**' by **Ashwath Damodaran**. Collation of a few readings would be given. Cases will be distributed in the class from time to time. However, the above book, other reading material, and the cases distributed should not be considered as exhaustive.

Additional References:

- ◆ Book: Valuation: Measuring and Managing the Value of Companies by Tom Copeland, Jack Murrin, Tim Koller; John Wiley & Sons.

- ◆ Book: Valuation Methods and Shareholder Value Creation by Pablo Fernandez; Academic Press.
- ◆ Chapters 4 and 7 of Book: Financial Accounting for Management by Ramachandran and Kakani, McGraw Hill Publications, 3/e, 2011
- ◆ Paper: "Determinants of Financial Performance of Indian Corporate Sector in the Post-Liberalization Era: An Exploratory Study" (November 2001). National Stock Exchange of India Limited, NSE Research Initiative Paper No. 5 Available at SSRN: <http://ssrn.com/abstract=904983>
- ◆ Paper: Branch, Ben and Bradley Gale; Linking corporate stock price performance to strategy valuation; Journal of Business Strategy: Boston; Vol. 4[1]; Summer 1983.
- ◆ Paper: Varaiya, Nikhil, Roger A. Kerin, and David Weeks; The relationship between growth, profitability, and firm value; Strategic Management Journal; Vol. 8; 1987; p. 487-497.
- ◆ Book: Introduction to Business Analysis and Valuation by Krishan Palepu, Victor Bernard, Paul Healy; South Western Publishing Company
- ◆ Book: Investment Valuation : Tools and Techniques for Determining the Value of Any Asset by Aswath Damodaran / Paperback / Wiley, John & Sons
- ◆ Book: The Dark Side of Valuation: Valuing Old Tech, New Tech and New Economy Companies by Aswath Damodaran / Prentice Hall PTR
- ◆ Book: Valuation of Companies in Emerging Markets: A Practical Approach by Pereiro,, John Wiley & Sons

Pedagogy:

The course is based on classes, cases, and project work. Active participation by students is an important feature of the course. A variety of project assignments/project and case studies are the main pedagogical instruments.

Tentative Session Plan

Note regarding relevant books reading: (a) AD below refers to author of "Damodaran on Valuation" book, 1994 ed. i.e., Aswath Damodaran;¹ (b) PF below refers to author of "Valuation Methods and Shareholder Value Creation" book, 2002 edition i.e., Pablo Fernandez, (c) RK below refers to author of 'Financial Accounting for Management' book, 2011 edition i.e., Ramachandran & Kakani, (d) GF below refers to author of 'Financial Statement Analysis by George Foster.

Session	Theme	Prior Reading	Cases/Articles	Project Activity ²
1	Three Financial Statements – Analysis (with valuation perspective)	RK: Chap 4, 7 GF: Chap 8	<i>Analyzing the Financial Statements of three companies</i>	Part 1 of project
2	Approaches to Valuation & Identifying Value Drivers	AD: Chap 1-2 PF: Chap 1-2	<i>Valuation Framework & Goldman Sachs Document</i>	Part 2 of project
3, 4 and 5	Estimating the Discount Rates, Growth Rates, and Cash Flows	AD: Chap 3-5 PF: Chap 2-3, 7, 10-11	<i>HUL Case, Wockhardt Case, Maxwell Apparels Case</i>	Part 3, 4, & 5 of project
6	Dividend Discount Models	AD: Chap 6 PF: Chap 6	<i>Graphite India Case</i>	Part 6 of project
7	FCFE Models	AD: Chap 7-9 PF: Chap 12, 17-18	<i>Moser Baer Case</i>	Part 7 of project
8	FCFF Models	AD: Chap 7-9 PF: Chap 17-18, 21	<i>Kohinoor Foods Case</i>	Part 7 of project
9	Application on a Real Life Project	RWJK: Chap 17	<i>Noida Toll Bridge Case</i>	NA
10 & 11	Valuation Using Multiples	AD: Chap 10-12 PF: Chap 4-5	<i>Sugar Unit</i>	Part 8 & 9 of project

¹ The 1994 edition of Damodaran on Valuation is being picked – as it easy to read (compared to more recent edition) and it provides a quicker review of the basic valuation (compared to AD's "Investment Valuation" Book)

² Please refer to the evaluation section for specific details.

Session	Theme	Prior Reading	Cases/Articles	Project Activity ²
12	Strategy-Finance-Valuation Trilogy	AD: Chap 13-14 PF: Chap 19-21	<i>SMJ and / or JBS Article</i>	NA
13, 14 & 15	Real Options Applications in Valuation & Brand Valuation	AD: Chap 15 PF: Chap 22-23	<i>Brand Value of a Commodity Player And Valuation of a Land & Natural Resources And Valuation of a fully sick company</i>	Part 11 of project
16	Special Cases in Valuation (such as, privately owned / cross border)	AD: Chap 12-15 (relevant portions)	<i>Valuation of Financial Services Co.</i>	NA
17	Which is the appropriate method to use?	Project Presentations, Experience Sharing & Peer Feedback		
18	Identifying frequently made errors in Valuation	Project Feedback from Analyst / Review Recent Article		

Please note that the above sequence plan is tentative (and would be altered based on initial class experience).

Evaluation

	Weightage
A) Quiz	20%
B) End-term Examination The end-term examination could be based on the application of valuation framework in a variety of business contexts such as equity-investment analysis, corporate finance policies analysis, and corporate strategy analysis.	40%
C) Group Project Work ~ Project Activity To deepen students' ability to apply the course skills in a practical context, they will have to work in a Group project. The project details would be distributed in one of the classes. The report/presentation would involve a complete financial valuation of a firm using the course framework. The 'Project Activity' portion of the 'Tentative Session Plan' gives an idea of what is expected from each Group. <ul style="list-style-type: none"> ◆ Students should work on groups of 4 (min.) – 7 (max.) ◆ Pick your own groups. If you have trouble in getting picked – I will help. 	40%

Grading Pattern

Will be decided ... after looking at the norms of the institute

Note: * indicates → we can make adjustments to meet the norms of the institute.