

J D Women's College
Course Name- PG vocational MBA
(3rd semester)

Subject- Security Analysis and Portfolio Management

Topic- Company Analysis

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Company Analysis

(Part-1)

Company analysis is the final stage of fundamental analysis. The economy analysis provides the investor a broad outline of the prospects of growth in the economy. The industry analysis helps the investor to select the industry in which investment would be rewarding. Now the time to decide the company in which investor should invest his money. Company analysis provides the answer to this answer.

This Analysis deals with the estimation of return and risk of individual shares. There are many information influences the investment decisions. Information regarding companies can be broadly classified into two broad groups

1. Internal

2. External.

Internal information consists of data and events made public by companies concerning their operations. The internal information sources include annual reports to shareholders, public and private statements of officers of the company, the company's financial statement etc.,

External sources of information are those generated independently outside the company. These are prepared by investment services and the financial press.

Framework of Company Analysis

The two major components of company analysis are:

1. Financial

2. Non-financial

Appropriate weightage should be given to both these aspects and tries to make an appropriate judgment. In the process of evaluating the investment-worthiness of a company's securities, the analyst will be concerned with two broad categories information: (i) internal and (ii) external. Internal information consists the data and

events relating to the enterprise as publicized by it. External information comprises the reports and analyses made by sources outside the company viz. media and research agencies.

1. ***Non-financial Aspects*** –This aspects is also important in evaluating the worth of a company for investing in securities. This could be obtained by gathering and analyzing information about companies, publicized in the media, the stock exchange directory, annual reports and prospectus.

- (a) History and business of the company
- (b) Top management team
- (c) Collaboration agreements
- (d) Product range
- (e) Future plans of expansion/diversification
- (f) R&D
- (g) Market standing – competition and market share
- (h) Corporate social responsibility
- (i) Industrial relations scenario
- (j) Corporate image etc.

Besides these internal factors, the external environment related to the company survival and image:

- (a) Statutory controls
- (b) Government policy
- (c) Industry life cycle stage
- (d) Business cycle stage
- (e) Environmentalism
- (f) Consumerism, etc.

2. ***Financial Aspects:*** Financial analysts interested in making investments in equality shares of a company will be concerned with the prospects of rise in value of the firm.

Asset value vs. Earnings value: The asset value of a security is determined by estimating the liquidating value of the firm, deducting the claims of firm's creditors and allocating the remaining net asset value of the firm over the outstanding shares of stock. The asset value is usually estimated by consultation with:

1. A specialist who appraises asset values and/or
2. An accountant who gives book value of the firm.

This method is suitable only for companies heading towards bankruptcy. For them, the firm's income and dividends will be declining and discontinuous. Hence, they will have negligible value. On the other hand, for going concerns, the intrinsic value far exceeds the value of the firm's physical assets. There is a definite lack of relationship between book value and real value, in the case of prosperous firms.

Therefore, investment analysis focus their attention on the trends of earnings and the related factors like dividends, bonus issues, rights shares, and appreciation of the market value of the share. It is believed that the appropriate indices for a company's performance are Market price Per Share (MPS) and Earnings Per Share (EPS).