FinShiksha

Course Outline

Credit Analysis

About Document

The purpose of this document is to provide an idea about the content covered in this course. You are also entitled to receive updated content for the next one year. All information has been sourced from publicly available data such as annual reports and news items.

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Videos	Content Covered
Introduction to the Program	Broad outline of the program
What and Why of credit analysis	Understanding credit research Difference between credit research and equity research Importance of credit research for issuer, investor and intermediaries Challenges in credit research
Rating methodologies and players	Type of ratings Important terminologies in rating: Outlook, watch, action Illustration on credit note/memo of Subex limited, Oriental carbon and chemicals limited Basis of credit rating Popular credit rating scales Different players in credit rating: Consumer credit, commercial credit, rating agencies
Different players and rating methodologies	Important terminologies in rating: Outlook, watch, action Popular credit rating scales Different players in credit rating: Consumer credit, commercial credit, rating agencies
Risks in fixed income	Explanation and impact of interest rate risk on fixed income Understanding the concept of prepayment risk Impact of Liquidity and exchange rate risk on companies such as Suzulon Understanding on the concept of parameters of risks in fixed income: Probability of default, loss given default and exposure at default with help of illustration
Understanding Auditor's report	Types of auditor's report: Unqualified report, Qualified report, Adverse report, Disclaimer Illustration of auditor's report from annual report of Titan limited, Supreme infrastructure limited, BSNL, Prime focus limited, Victory papers and boards limited, Camson Bio technologies
Management Risk with examples	Parameters for analysing management risk: Chairman Ceo, independent directors, track records succession planning, execution, salary, related party Case study of orient beverages limited to understand management risk
Debt schedule and importance	Analysing debt schedule of supreme infrastructure Interpretation of debt specific ratios of supreme infrastructure Analysing over all detrimental due to interest not being paid Concept of debt funded dividend
SSGR understanding	Concept of self-sustainable growth rate Interpretation of self-sustainable growth rate from credit perspective Calculation, interpretation and impact of SSGR of supreme infrastructure, KNR construction, Ambika cotton, Trident
Bank Basel Reports	Understanding Basel III norms with example of ICICI Bank and PNB bank: The pillars of Basel III, Scope of application, amount of risk taken from particular entities, Capital adequacy, Monitoring and reporting capital adequacy measure, capital requirement for various risk areas, NPA, Credit risk exposure, Industry segment portfolio, Asset liability management, Top 5 industry exposure NPA , Collateral management, Securitization, capital requirement for various risks, Ratios maintained

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Advanced ratios	Interpretation of parameters: Profit loss cash flow, quarterly and balance sheet Case study of Maruti Suzuki on analysing ratios for credit purpose Net profit margin, return ratios, stability ratios, liquidity ratio, turnover ratio, DuPont analysis, working capital cycle, cost analysis, PAT as % CFO, dividend policy, credit specific ratio: gearing, DSCR, CDSCR, NCATD, total debt to CFO, total debt to EBITDA, years to pay debt, interest cost
Adjustment in ratios	Broad outline for analysing company: Country risk, business, finance, cash flow, management Utility of ratios: Profitability, efficiency, liquidity, turnover, debt specific Adjustments to the ratios explained with examples: other income, Intangible assets, CAPEX and ROA, convertible debt and warrants
Credit rating companies comparison-financials	Financial statement analysis of credit rating companies: Crisil, CARE and ICRA with respect of: Operating and net profit margin Return ratios Solvency ratios Turnover ratio Employee cost Competitiveness Cash conversion cycle Cash flow from operations Number of rating Markets Volumes of rating Valuation parameters
Crisil Annual Report Analysis	Analysing Crisil's annual report with help of following parameters Board of directors Financial highlights Businesses Review of operations Management's remuneration Management's discussion and analysis Consolidated financial statements
ICRA Annual report Analysis	Analysing ICRA's annual report with help of following parameters Board of directors Financial highlights Businesses Review of operations Management's remuneration Management's discussion and analysis Consolidated financial statements
CARE Annual report Analysis	Analysing CARE's annual report with help of following parameters Board of directors Message from chairman Financial highlights Businesses Review of operations Management's remuneration Management's discussion and analysis

	Consolidated financial statements
Additional Comparison- Credit Rating Companies	Analyse difference between the credit rating companies with regards to: Diversification of revenue KPO Share in rating revenue Count and volume of instruments rated Comparison of financial ratios
Term sheet for SME and Education Rating	Analysing components of term sheet: Rating, Rating rationale, History of the firms, business understanding, terms of credit, industry outlook, group companies/subsidiaries, detailed financials Parameters for educational rating: operating cost business, courses offered, demand for the courses, fee pricing power, expansion viability
SME Rating process	Definition of SME Importance of SME finance Issues with SMEs Parameters for rating SMEs
Content and structure of Credit Report	Components of credit research report: Rating summary, brief rationale, company's strength and weaknesses, financials, outlook Study of credit research report of KRBL, Air India, Canera Rebeco Mutual fund, Balmer Lawrie & company limited,
Retail Credit Assessment and Understanding	Categories of retail credit: Personal loan Home loan Education loan Vehicle loan Consumer durables loan LAS LAP Gold loan Criteria for Retail loan
Home Loan and Vehicle Loan Assessment	Assessment of home loans: Deed assessment, LTV ratio, Gross Annual income, Bonus not to be included, deductions Illustration on assessment of home loan and amortization schedule Assessment of vehicle loans: Income criteria, old vehicle vs new vehicle, bonus not to be included, net take home
Working Capital Assessment	Assessment of components of working capital Basis of working capital components Assessment of working capital for basmati rice industry Types of financing: Fund based, Non fund based, structured Methods to assess the working capital requirement: Turnover method, operating cycle method, projection based method (maximum permissible bank finance), cash budget method, Illustration on the methods to assess the working capital

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	Details on non-fund based credit: Bank guarantee, letter of credit Types of bank guarantee Criteria to assess borrowers for bank guarantee Process of letter of credit Types of letter of credit Criteria to assess borrowers for letter of credit Illustration on calculation on LC requirement
India's economic environment and RBI policy review	RBI monetary policy review – Analysis Method Important data on RBI website Review of important points in exerts of monetary policy statement Global crude prices and Trade balance Import and export scenario in India
Cash Flow or Fund Flow Analysis	Understanding fund flow analysis Detail understanding of fund flow analysis with the example of KRBL, Ambika cotton mills limited, Him technologies
Credit Related Analysis- IT Industry and Mindtree	Explained in detail credit rating process with the help of example on IT industry with respect to Mindtree: Ratios, comments, compare with other IT firms, DuPont analysis, ranking and rating parameters, understanding size and scale, understanding business drivers,
Financial Statement Analysis–Tata Motors	Ratio calculation along with DuPont analysis Interpretation of ratios Cash flow and net profit interlinkage Relevant information from the annual report
Credit analysis of infrastructure segment	Understanding road infrastructure sector Specific parameters for rating infrastructure segment: revenue recognition, receivables, CAPEX, Cash crunch, Check current liabilities, shares pledge, intangible assets under development, un secured loans, investments, unrelated business

For Credit Research, under the project header, you need to do the following

1. Pick up **ANY ONE** of the following companies **ONLY**, and download its annual reports for the latest 3 years that are available
   - TVS Motors
   - Thyrocare
   - Airtel
   - Ceat
   - Titan Industries
   - Shree Cement
   - Britannia
2. Go through the Management Discussion and Analysis portions for the last 3 years, and write down key points that you think are relevant
3. **Use FinShiksha's Credit Research Template to understand the broad trend**

4. Go to the Consolidated Financials – and put in the numbers for the last 4 years from **only the annual report**. Do not use any other database. The numbers need to be **manually put in from the annual report**. Other sources such as moneycontrol, screener, CMIE, ACE Equity etc will not be accepted.
5. Calculate ratios - which we have done in the template.
6. **Also ensure all adjusted ratios are calculated, if any are needed.**
7. Identify any increasing, decreasing trends. Identify any numbers which you think are too high or too low, when compared to the sector
8. Try and find the reasons for the trends in point 6 above, by linking data from point 2.
9. You may not have answers to all questions, but basically try and ask the question Why?
10. Debt Analysis
    - Long term vs Short Term Debt
    - Analysis of Secured vs Unsecured Debt
    - Cost of Debt
    - Domestic vs Foreign Debt (if breakup available in Non Current Liabilities Notes, else try and find from cost of debt)
    - Interest paid from P&L vs Cash Flow vs Notes to Accounts
11. Operating Leverage Analysis
12. Key Costs Analysis – which are the largest costs, and how are they moving? Why are they going up or down?
13. Any other numbers that catch your eye from the notes to accounts.
14. Any specific Corporate Governance Issues
15. Understand SSGR, Management Risk, Liquidity Risk and Cashflow generation ability.
16. Calculate Dividend Yield, and note the dividend, stock split or bonus history if any.
17. Calculate Working Capital Requirement (using different methods)
18. Assess company on Various Parameters and reach to a conclusion (template is already shared, you could add any other important parameter as well)

Make a summary of your observations. You need to prepare an excel file and a supporting word document. The word document need not reproduce the data on excel, but should speak more about observations. You should also put in those observations in the excel file, wherever possible.

Please name the file as companyname_yourname_collegename.xlsx

For example SAIL_Parth_NMIMS.xlsx