

Study Notes for NISM-Series-XV: Research Analyst Certification Examination

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Examination Details

Total marks	100
Duration	2 hours
Pass mark	60
Negative marking	25% of that particular question
Multiple Choice Questions <i>[92 questions of 1 mark each]</i>	92*1 = 92
Case-based Questions <i>[2 cases (each case with 4 questions of 1 mark each)]</i>	2*4*1 = 8

WEIGHTAGE

Chapter No.	Chapter Name	Weightage
Chapter 1	Introduction to Research Analyst Profession	3
Chapter 2	Introduction to Securities Market	4
Chapter 3	Terminology in Equity and Debt Markets	4
Chapter 4	Fundamentals of Research	5
Chapter 5	Economic Analysis	10
Chapter 6	Industry Analysis	10
Chapter 7	Company Analysis – Business and Governance	8
Chapter 8	Company Analysis – Financial Analysis	16
Chapter 9	Corporate Actions	5
Chapter 10	Valuation Principles	16
Chapter 11	Fundamentals of Risk and Return	5
Chapter 12	Qualities of a Good Research Report	4
Chapter 13	Legal and Regulatory Environment	10

NISM-Series-XV: Research Analyst Certification Examination

CHAPTER 1: INTRODUCTION TO RESEARCH ANALYST PROFESSION

Role of Research Analyst: Research analysts collect and analyze data to provide informed investment recommendations to clients.

Primary Responsibility: Evaluate the growth potential of industries, companies, and economies to guide investment decisions.

Data Sources: Gather information from macro/microeconomic factors, industry journals, and company financial statements.

Sell-Side Analysts: Publish research reports with buy, hold, or sell recommendations, including earnings forecasts and price targets.

Buy-Side Analysts: Generate internal investment recommendations for asset managers like mutual or hedge funds.

Independent Analysts: Provide research for subscription-based clients, including customized reports for various purposes.

Economic Understanding: Analyze macroeconomic factors like national income, inflation, interest rates, and FDI/FPIs.

Industry Analysis: Study regulatory environments, business models, competition, and demand sensitivity for industries.

Company Analysis: Assess companies qualitatively (business model, management) and quantitatively (financial statements).

Pre-Meeting Research: Research company products, competitors, and past performance before management meetings.

Independence: Maintain unbiased opinions based on factual data, avoiding personal inclinations.

Networking: Leverage contacts like suppliers or customers for deeper insights into company performance.

Clarity in Questions: Prepare specific questions to maximize the value of management interactions.

Client Communication: Provide realistic, fact-based recommendations in clear, concise research reports.

Conflict of Interest: Disclose any personal holdings in the subject company to clients.

Assumptions: Clearly state assumptions in research reports for transparency.

Avoid Jargons: Use simple language or explain technical terms in reports.

Quantitative Skills: Comfort with numbers to analyze financial trends and relationships.

Qualitative Skills: Understand business models and competitive dynamics for comprehensive analysis.

Excel Proficiency: Use spreadsheets and data tools for financial analysis.

Financial Concepts: Understand key financial principles to interpret statements accurately.

Attention to Detail: Ensure accuracy in data collection and analysis.

Communication Skills: Convey findings effectively through written and verbal communication.

Ethical Conduct: Adhere to SEBI regulations and ethical standards in research.

Technology Use: Record interactions with consent to ensure transparency.

Management Interaction: Verify management claims to avoid misleading recommendations.

Investment Decision Support: Help clients make informed buy, hold, or sell decisions.

Macroeconomic Factors: Consider global factors like IMF or World Bank data for economic analysis.

Industry Drivers: Identify key factors influencing industry performance.

Company Performance: Evaluate past and expected future performance for recommendations.

Regulatory Compliance: Follow SEBI guidelines in research and reporting.

Cross-Verification: Validate information from multiple reliable sources.

Client Trust: Build trust through honest and transparent recommendations.

Time Management: Use management meetings efficiently due to limited opportunities.

Analytical Tools: Use tools to identify trends and relationships in financial data.

Stakeholder Insights: Gather inputs from employees, suppliers, and customers.

Report Accessibility: Ensure reports are clear and accessible to clients.

Data Integrity: Maintain accuracy and reliability in data used for analysis.

Professionalism: Uphold high standards of professionalism in all interactions.

Research Scope: Cover equities, debt, and other securities in analysis.

Decision-Making Process: Combine qualitative and quantitative factors for decisions.

Client Needs: Tailor recommendations to client investment goals.

Regulatory Awareness: Stay updated on SEBI's research analyst regulations.

Continuous Learning: Stay informed about market and industry developments.

Report Structure: Follow a structured approach for clear, actionable reports.

CHAPTER 2: INTRODUCTION TO SECURITIES MARKET

Securities Definition: Financial instruments showing ownership or indebtedness, e.g., shares, bonds, debentures.

Securities Market: Facilitates buying/selling securities, providing liquidity and capital transfer.

Primary Market: Issuers raise capital by issuing new securities to investors.

Secondary Market: Enables trading of already-issued securities for liquidity.

Investors: Include institutional (FPI, DII) and individual (retail, HNI) participants.

Intermediaries: Provide infrastructure for fund and securities transfer.

Regulators: SEBI and others ensure orderly market development.

Equity Shares: Represent fractional ownership in a company, bearing risk and reward.

Debentures/Bonds: Long-term debt instruments, secured or unsecured, with fixed interest.

Convertible Debentures: Can be converted into equity shares at a specified time.

Non-Convertible Debentures: Pure debt instruments, repaid at maturity.

Foreign Currency Bonds: Issued in a foreign currency, posing currency risk to issuers.

Masala Bonds: INR-denominated bonds issued outside India, with currency risk for investors.

Warrants: Options to buy equity shares at a pre-determined price after a period.

Market Indices: Track market movements using a sample of representative stocks.

Nifty 50/Sensex: Major Indian indices tracking 50 and 30 stocks, respectively.

Index Uses: Benchmark for performance, reflect market sentiment, and underlie index funds.

Mutual Funds: Pool investor money to invest in a portfolio, with units reflecting NAV.

Open-Ended Funds: Allow buying/selling units at any time at NAV-linked prices.

Close-Ended Funds: Fixed units, traded on stock exchanges.

ETFs: Track indices or commodities, traded on exchanges with real-time pricing.

Preference Shares: Have priority over equity shares for dividends and capital repayment.

Convertible Bonds: Debt instruments convertible to equity, offering coupon and capital appreciation.

Depository Receipts: Represent foreign company shares, traded in local currency.

ADRs/IDRs/GDRs: Country-specific or global depository receipts for international investment.

FCCBs: Foreign currency convertible bonds issued offshore, regulated by RBI.

ELDs: Debt instruments with interest linked to equity asset returns.

CLDs: Debt instruments with interest linked to commodity returns.

MBS/ABS: Debt backed by receivables like home or auto loans.

REITs/InvITs: Investment trusts pooling money for real estate or infrastructure projects.

Commodities: Homogeneous goods, hard (mined) or soft (agricultural).

Precious Metals: Gold/silver as investments to preserve value.

Commodity ETFs: Track commodity prices, eliminating storage costs for investors.

Managed Futures: Portfolios of futures contracts managed by professionals.

Warehouse Receipts: Negotiable documents proving ownership of stored goods.

Market Makers: Provide liquidity by quoting bid and ask prices.

Liquidity: Securities markets enable easy buying/selling at market prices.

Capital Allocation: Channel savings to productive investments.

SEBI Role: Regulates securities issuance and trading under SCRA 1956.

Index Composition: Reviewed periodically to reflect market changes.

ETF Advantages: Lower expense ratios due to passive management.

Preference Share Types: Cumulative, non-cumulative, convertible, or non-convertible.

DR Fungibility: Allows conversion between DRs and underlying shares, subject to regulations.

Commodity Investment: Protects against inflation but involves storage costs.

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Securities Transferability: Enables investors to transfer rights without affecting issuers.

Market Efficiency: Facilitates capital movement from surplus to productive needs.

CHAPTER 3: TERMINOLOGY IN EQUITY AND DEBT MARKETS

Face Value: Nominal value of a share or bond, used for interest/dividend calculations.

Book Value: Net asset value of a company, calculated as assets minus liabilities.

Market Value: Current trading price of a security in the market.

Intrinsic Value: True worth of a security based on fundamental analysis.

IPO: Initial public offering, issuing shares to the public for the first time.

FPO: Follow-on public offering, additional share issuance by a listed company.

Dividend: Portion of profits distributed to equity shareholders.

EPS: Earnings per share, net profit divided by outstanding shares.

P/E Ratio: Price-to-earnings ratio, market price per share divided by EPS.

P/B Ratio: Price-to-book ratio, market price per share divided by book value per share.

Dividend Yield: Annual dividend per share divided by market price per share.

Market Capitalization: Total market value of a company's outstanding shares.

Blue Chip Stocks: Shares of large, financially stable companies with consistent performance.

Beta: Measures a stock's volatility relative to the market.

Bull Market: Market characterized by rising prices and optimism.

Bear Market: Market characterized by falling prices and pessimism.

Circuit Breakers: Trading halts triggered by significant price movements.

Margin Trading: Borrowing funds to purchase securities, amplifying returns/risks.

Short Selling: Selling borrowed securities expecting a price decline.

Depository Participant: Intermediary facilitating demat account services.

Demat Account: Electronic account for holding securities in dematerialized form.

ISIN: Unique code identifying a security internationally.

Coupon Rate: Interest rate paid by a bond, expressed as a percentage of face value.

Yield to Maturity: Total return anticipated on a bond if held until maturity.

Current Yield: Annual coupon payment divided by bond's current market price.

Bond Duration: Measures bond price sensitivity to interest rate changes.

Credit Rating: Assessment of a bond issuer's ability to meet debt obligations.

Debenture: Unsecured debt instrument backed by issuer's creditworthiness.

Zero Coupon Bond: Bond sold at a discount, paying no interest until maturity.

Convertible Bond: Bond convertible into equity shares at specified terms.

Callable Bond: Bond that issuer can redeem before maturity.

Puttable Bond: Bond allowing holder to demand early repayment.

Treasury Bills: Short-term government securities with maturities up to one year.

Commercial Paper: Short-term unsecured debt issued by companies.

Certificate of Deposit: Time deposit issued by banks with fixed maturity.

Bond Price: Inversely related to interest rates; rises when rates fall.

Accrued Interest: Interest earned on a bond since the last payment.

Yield Curve: Graph showing bond yields across different maturities.

Credit Spread: Difference in yield between bonds of different credit qualities.

Bond Indenture: Legal agreement outlining bond terms and conditions.

Secured Bonds: Backed by specific assets as collateral.

Unsecured Bonds: Not backed by collateral, relying on issuer's credit.

Floating Rate Bonds: Bonds with interest rates that adjust periodically.

Bond Maturity: Date when the bond's principal is repaid.

Par Value: Bond's face value, typically repaid at maturity.

CHAPTER 4: FUNDAMENTALS OF RESEARCH

Investing: Allocating resources to generate returns over time.

Research Role: Guides investment decisions by analyzing securities and markets.

Technical Analysis: Uses price and volume data to predict future price movements.

Fundamental Analysis: Evaluates intrinsic value based on economic, industry, and company factors.

Quantitative Research: Applies statistical and mathematical models to analyze data.

Behavioral Finance: Studies psychological influences on investor decisions.

Technical Indicators: Include moving averages, RSI, and MACD for trend analysis.

Fundamental Approach: Combines top-down (economy to company) and bottom-up (company-focused) analysis.

Quantitative Models: Use econometrics to forecast financial performance.

Behavioral Biases: Impact decisions through emotions like fear or overconfidence.

Chart Patterns: Identify trends like head and shoulders or support/resistance levels.

Valuation Methods: Include DCF, relative valuation, and asset-based valuation.

Risk Assessment: Integral to research, evaluating market and company-specific risks.

Economic Analysis: Considers macroeconomic factors like GDP and inflation.

Industry Trends: Analyze cyclical and secular trends affecting sectors.

Company Fundamentals: Focus on financial health, management, and competitive position.

Data Sources: Include financial statements, industry reports, and economic data.

Technical Tools: Software for charting and statistical analysis.

Qualitative Factors: Assess management quality and business model sustainability.

Quantitative Factors: Analyze financial ratios and performance metrics.

Investment Horizon: Research aligns with short-term or long-term goals.

Market Sentiment: Influences technical analysis through crowd behavior.

Econometric Models: Use regression analysis for forecasting.

Behavioral Insights: Help mitigate irrational investment decisions.

Research Scope: Covers equities, bonds, and derivatives.

Top-Down Analysis: Starts with macroeconomic factors, narrowing to industries and companies.

Bottom-Up Analysis: Focuses on individual company performance.

Price Trends: Technical analysis relies on historical price patterns.

Volume Analysis: Measures trading activity to confirm price trends.

Risk-Return Tradeoff: Fundamental analysis balances potential returns with risks.

Model Assumptions: Quantitative research depends on accurate assumptions.

Market Efficiency: Behavioral finance challenges efficient market hypothesis.

Research Objectivity: Avoid biases in data interpretation.

Time Series Analysis: Used in quantitative research for trend forecasting.

Sector Analysis: Identifies industry-specific growth drivers.

Company Valuation: Determines fair value for investment decisions.

Technical Signals: Buy/sell signals from indicators like Bollinger Bands.

Fundamental Metrics: Include EPS, P/E, and ROE for company analysis.

Behavioral Patterns: Recurring investor behaviors like herding or loss aversion.

Research Reports: Synthesize findings into actionable recommendations.

Data Validation: Ensure data reliability for accurate analysis.

Investment Strategies: Research supports strategies like value or growth investing.

Market Cycles: Analyzed through technical and fundamental approaches.

Portfolio Construction: Research aids in selecting diversified investments.

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Regulatory Compliance: Research adheres to SEBI guidelines.

CHAPTER 5: ECONOMIC ANALYSIS

Microeconomics: Studies individual firms and consumers' behavior.

Macroeconomics: Analyzes economy-wide factors like GDP and inflation.

Economic Variables: Include GDP, inflation, interest rates, and unemployment.

Role in Fundamental Analysis: Economic conditions impact industry and company performance.

Secular Trends: Long-term economic shifts, e.g., technological advancements.

Cyclical Trends: Economic fluctuations tied to business cycles.

Seasonal Trends: Short-term patterns, e.g., holiday-driven consumption.

GDP: Measures total economic output, indicating growth or contraction.

Inflation: Affects purchasing power and investment returns.

Interest Rates: Influence borrowing costs and investment decisions.

Unemployment Rate: Reflects labor market health and consumer spending.

Fiscal Policy: Government spending and taxation impact economic growth.

Monetary Policy: Central bank actions affect money supply and interest rates.

FDI/FPIs: Foreign investments drive economic growth and market liquidity.

Savings Patterns: Influence capital availability for investment.

Global Factors: Trade balances and global events impact domestic markets.

Data Sources: Include RBI, IMF, World Bank, and government statistics.

Economic Indicators: Leading, lagging, and coincident indicators predict trends.

Business Cycles: Expansion, peak, contraction, and trough phases.

Demand-Supply Dynamics: Microeconomic principles guide market analysis.

Economic Growth: Driven by productivity, investment, and consumption.

Inflation Impact: Erodes real returns, affecting investment strategies.

Interest Rate Sensitivity: Impacts bond prices and equity valuations.

Exchange Rates: Affect export/import competitiveness and FPI flows.

Government Policies: Tax reforms or subsidies influence industries.

Economic Forecasting: Uses historical data and models to predict trends.

Trade Balance: Exports minus imports, impacting currency and markets.

Consumer Confidence: Drives spending and economic activity.

Industrial Production: Measures output, reflecting economic health.

Purchasing Power Parity: Compares economic productivity across countries.

Economic Reports: RBI bulletins and IMF reports provide reliable data.

Cyclical Industries: Sensitive to economic cycles, e.g., automobiles.

Secular Growth: Driven by structural changes like digitalization.

Macroeconomic Models: Used to analyze variable relationships.

Policy Impact: Fiscal/monetary policies affect market stability.

Global Integration: Economic events abroad influence domestic markets.

Data Reliability: Verify sources for accurate economic analysis.

Economic Shocks: Sudden events like recessions impact markets.

Trend Analysis: Identifies long-term economic patterns.

Sector Sensitivity: Some sectors are more tied to economic conditions.

Investment Implications: Economic trends guide asset allocation.

Data Aggregation: Combine multiple sources for comprehensive analysis.

Regulatory Environment: Policies shape economic conditions.

Economic Cycles: Influence stock and bond market performance.

Global Trade: Impacts domestic economic stability and growth.

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Forecasting Risks: Economic predictions carry inherent uncertainties.

CHAPTER 6: INDUSTRY ANALYSIS

Role in Fundamental Analysis: Identifies industry trends and drivers for investment decisions.

Industry Definition: Clearly define industry scope for accurate analysis.

Industry Cyclicalities: Some industries follow economic cycles, e.g., construction.

Market Sizing: Estimates industry revenue and growth potential.

Secular Trends: Long-term shifts, e.g., renewable energy adoption.

Value Migration: Shift of value from one industry segment to another.

Business Life Cycle: Stages include startup, growth, maturity, and decline.

Porter's Five Forces: Analyzes competition, suppliers, buyers, substitutes, and new entrants.

PESTLE Analysis: Evaluates political, economic, social, technological, legal, and environmental factors.

BCG Matrix: Classifies business units by growth rate and market share.

SCP Framework: Analyzes structure, conduct, and performance of industries.

Key Industry Drivers: Factors like technology or regulation driving growth.

Industry KPIs: Metrics like capacity utilization or market share.

Regulatory Framework: Impacts industry operations and profitability.

Taxation: Affects industry margins and investment attractiveness.

Data Sources: Industry reports, trade journals, and government data.

Competitive Landscape: Assess market leaders and their strategies.

Barriers to Entry: High barriers protect incumbent firms.

Supplier Power: Strong suppliers can squeeze industry margins.

Buyer Power: Strong buyers can negotiate lower prices.

Threat of Substitutes: Alternative products can reduce demand.

Industry Rivalry: Intense competition impacts profitability.

Market Trends: Identify growth or decline patterns in industries.

Industry Reports: Provide insights into performance and outlook.

Regulatory Changes: New laws can alter industry dynamics.

Technological Disruption: Impacts industries like telecom or retail.

Demand Elasticity: Measures sensitivity of demand to price changes.

Industry Consolidation: Mergers reduce competition but may increase regulation.

Global Competition: Affects domestic industries in open markets.

Market Share Analysis: Tracks dominance of key players.

Capacity Utilization: Indicates efficiency and growth potential.

Innovation Impact: New technologies drive industry evolution.

Economic Sensitivity: Some industries are more tied to economic conditions.

Supply Chain Analysis: Assesses efficiency and risks in supply chains.

Consumer Behavior: Influences demand and industry growth.

Industry Benchmarking: Compares performance against peers.

Regulatory Compliance: Adherence to laws ensures operational stability.

Tax Incentives: Can boost industry investment and growth.

Industry Lifecycle Stage: Impacts investment strategy and returns.

Competitive Advantage: Sustainable advantages drive industry leaders.

Data Validation: Ensure reliability of industry data sources.

Industry Risk: Includes regulatory, competitive, and economic risks.

Trend Forecasting: Predicts future industry growth or decline.

Global Trends: Influence domestic industry performance.

Stakeholder Analysis: Considers impact of suppliers, customers, and regulators.

CHAPTER 7: COMPANY ANALYSIS – BUSINESS AND GOVERNANCE

Role in Fundamental Analysis: Evaluates company-specific factors for investment decisions.

Business Models: Understand how a company generates revenue and profits.

Pricing Power: Ability to maintain prices without losing market share.

Sustainability: Long-term viability of pricing power and business model.

Competitive Advantage: Unique strengths like brand or technology.

SWOT Analysis: Assesses strengths, weaknesses, opportunities, and threats.

Management Quality: Evaluates leadership competence and vision.

Governance Structure: Ensures transparency and accountability.

Business Risks: Include operational, financial, and regulatory risks.

Credit Rating History: Tracks changes in a company's creditworthiness.

ESG Framework: Considers environmental, social, and governance factors.

Data Sources: Financial statements, annual reports, and management meetings.

Business Strategy: Aligns with market opportunities and strengths.

Operational Efficiency: Measures cost control and productivity.

Market Position: Determines company's standing among competitors.

Brand Value: Enhances customer loyalty and pricing power.

Innovation Capability: Drives long-term growth and competitiveness.

Management Integrity: Ethical leadership builds investor trust.

Board Independence: Independent directors ensure unbiased decisions.

Risk Management: Strategies to mitigate operational and market risks.

ESG Integration: Aligns business practices with sustainable goals.

Financial Health: Assessed through balance sheets and cash flows.

Competitor Analysis: Compares performance with industry peers.

Customer Base: Diverse or loyal customers reduce revenue risk.

Supply Chain Strength: Reliable suppliers enhance operational stability.

Regulatory Compliance: Adherence to laws avoids penalties.

Management Track Record: Past performance indicates future potential.

Stakeholder Engagement: Builds trust with employees and partners.

Business Scalability: Ability to grow without proportional cost increases.

Industry Position: Leadership in industry enhances investment appeal.

Risk Identification: Pinpoint internal and external risks to operations.

Credit Rating Changes: Reflect shifts in financial stability.

ESG Metrics: Track environmental impact and social responsibility.

Data Reliability: Verify information from credible sources.

Corporate Culture: Influences employee performance and retention.

Strategic Alliances: Partnerships enhance market reach and resources.

Product Differentiation: Unique offerings attract customers.

Revenue Streams: Diverse sources reduce dependency risks.

Management Communication: Transparent interaction builds trust.

Governance Policies: Strong policies prevent fraud and mismanagement.

Risk Mitigation: Proactive measures reduce impact of uncertainties.

ESG Reporting: Transparent reporting enhances investor confidence.

Company Vision: Clear goals guide long-term strategy.

Peer Benchmarking: Compares key metrics with competitors.

Stakeholder Feedback: Provides insights into company performance.

CHAPTER 8: COMPANY ANALYSIS – FINANCIAL ANALYSIS

Financial Analysis Role: Evaluates company performance through financial statements.

Stand-Alone Statements: Reflect single entity performance, excluding subsidiaries.

Consolidated Statements: Include parent and subsidiary financials.

Balance Sheet: Shows assets, liabilities, and equity at a point in time.

Profit and Loss Account: Details revenues, expenses, and profits over a period.

Cash Flow Statement: Tracks cash inflows and outflows from operations, investing, and financing.

Notes to Accounts: Provide context and details for financial statements.

Audit Report: Assesses accounting quality and compliance.

Financial Ratios: Measure performance, liquidity, and solvency.

Liquidity Ratios: Assess ability to meet short-term obligations.

Solvency Ratios: Evaluate long-term debt repayment capacity.

Profitability Ratios: Measure efficiency in generating profits.

Activity Ratios: Assess efficiency in asset utilization.

DuPont Analysis: Breaks down ROE into profitability, efficiency, and leverage.

Peer Comparison: Benchmarks financial metrics against competitors.

Equity Expansion: Tracks changes in share capital over time.

Dividend History: Indicates consistency in shareholder returns.

Earnings History: Reflects profitability trends.

Ownership Structure: Analyzes promoter and institutional holdings.

Insider Transactions: Monitors buying/selling by company insiders.

Current Ratio: Current assets divided by current liabilities.

Quick Ratio: Liquid assets divided by current liabilities.

Debt-to-Equity Ratio: Total debt divided by shareholders' equity.

ROE: Net income divided by shareholders' equity.

ROA: Net income divided by total assets.

Gross Margin: Gross profit divided by revenue.

Net Margin: Net profit divided by revenue.

Asset Turnover: Revenue divided by total assets.

Inventory Turnover: Cost of goods sold divided by average inventory.

Receivables Turnover: Revenue divided by average receivables.

Interest Coverage: EBIT divided by interest expense.

EPS Growth: Tracks changes in earnings per share over time.

P/E Analysis: Compares valuation with industry peers.

Cash Flow Analysis: Ensures sufficient cash for operations.

Audit Qualifications: Flags issues in financial reporting.

Ratio Trends: Analyze changes in ratios over time.

Financial Leverage: Measures reliance on debt financing.

Operating Efficiency: Evaluates cost management and productivity.

Dividend Payout Ratio: Dividends divided by net income.

Free Cash Flow: Cash from operations minus capital expenditures.

Financial Stability: Assessed through consistent earnings and low debt.

Peer Benchmarking: Identifies relative strengths and weaknesses.

Ownership Changes: Tracks shifts in promoter or institutional stakes.

Notes Importance: Clarifies accounting policies and assumptions.

Ratio Interpretation: Contextual analysis enhances decision-making.

CHAPTER 9: CORPORATE ACTIONS

Corporate Actions: Decisions impacting shareholders, e.g., dividends, splits.

Dividend: Profit distribution to shareholders, paid in cash or stock.

Rights Issue: Offers existing shareholders new shares at a discount.

Bonus Issue: Free additional shares to existing shareholders.

Stock Split: Increases share count by reducing face value.

Share Consolidation: Reduces share count by increasing face value.

Mergers and Acquisitions: Combine companies or acquire assets.

Demerger/Spin-Off: Separates business units into independent entities.

Scheme of Arrangement: Court-approved restructuring of company operations.

Loan Restructuring: Modifies debt terms to ease repayment.

Share Buyback: Company repurchases its own shares, reducing outstanding shares.

Delisting: Removes shares from stock exchange trading.

Relisting: Reinstates shares on a stock exchange.

Share Swap: Exchanges shares during mergers or acquisitions.

Dividend Impact: Reduces retained earnings but signals financial health.

Rights Issue Dilution: Increases share count, potentially diluting EPS.

Bonus Issue Effect: No change in net worth, increases liquidity.

Stock Split Benefit: Makes shares more affordable, boosting trading.

Consolidation Impact: Increases share price, reducing affordability.

Merger Synergies: Combines resources for cost savings or growth.

Demerger Focus: Enhances focus on core business units.

Buyback Signal: Indicates management's belief in undervaluation.

Delisting Reasons: Often due to low liquidity or strategic shifts.

Relisting Challenges: Requires regulatory approval and market interest.

Share Swap Valuation: Ensures fair exchange ratios in mergers.

Dividend Types: Interim, final, or special dividends.

Rights Issue Pricing: Set below market price to attract subscriptions.

Bonus Issue Source: Funded from reserves, not cash.

Stock Split Ratio: Determines new share count, e.g., 2:1 split.

Consolidation Ratio: Reduces shares, e.g., 1:5 consolidation.

Merger Types: Horizontal, vertical, or conglomerate mergers.

Demerger Benefits: Unlocks value for shareholders.

Loan Restructuring Impact: Improves cash flow but may signal distress.

Buyback Methods: Open market or tender offer.

Delisting Process: Requires shareholder approval and SEBI compliance.

Relisting Benefits: Restores market access and liquidity.

Share Swap Accounting: Impacts balance sheet and equity structure.

Dividend Taxation: Tax implications for shareholders.

Rights Issue Purpose: Raises capital without external borrowing.

Bonus Issue Impact: Increases tradable shares, not company value.

Stock Split Perception: Enhances market perception of affordability.

Merger Risks: Integration challenges or cultural mismatches.

Demerger Challenges: Dividing assets and liabilities equitably.

Buyback Effect: Increases EPS by reducing shares outstanding.

Delisting Impact: Limits public trading and investor access.

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Corporate Action Disclosure: Must comply with SEBI regulations.

CHAPTER 10: VALUATION PRINCIPLES

Price vs. Value: Price is market-driven; value is intrinsic worth.

Valuation Need: Determines fair value for investment decisions.

Earnings Value: Based on company's profit-generating ability.

Asset Value: Based on company's tangible and intangible assets.

DCF Model: Discounts future cash flows to present value.

Relative Valuation: Compares company metrics with peers.

Earnings-Based Valuation: Uses P/E, P/S, or EV/EBITDA multiples.

Asset-Based Valuation: Uses book value or replacement cost.

Trading Multiples: P/E or P/B ratios for listed companies.

Transaction Multiples: Based on past M&A deal valuations.

SOTP Valuation: Values different business segments separately.

CAPM: Estimates expected return based on risk and market return.

Valuation Objectivity: Requires unbiased data and assumptions.

Discount Rate: Reflects risk in DCF valuations.

Free Cash Flow: Used in DCF for business valuation.

P/E Multiple: Indicates market's valuation of earnings.

EV/EBITDA: Measures enterprise value relative to earnings.

Book Value: Net assets for asset-based valuation.

Growth Rate: Impacts DCF and relative valuation projections.

Terminal Value: Value beyond explicit forecast period in DCF.

Market Risk Premium: Excess return over risk-free rate.

Beta in CAPM: Measures stock's market risk.

Valuation Assumptions: Must be realistic and justified.

Peer Selection: Choose comparable companies for relative valuation.

SOTP Application: Useful for conglomerates with diverse units.

Valuation Risks: Inaccurate assumptions lead to misvaluation.

Discounted Cash Flow: Projects future cash flows discounted to present.

Relative Valuation Advantage: Simpler than DCF, relies on market data.

Asset Valuation Limitation: May undervalue intangible assets.

CAPM Formula: Guides cost of equity in valuation models.

Valuation Sensitivity: Analyze impact of changing assumptions.

Market Multiples: Reflect current market sentiment.

Transaction Comparables: Use recent deals for valuation benchmarks.

SOTP Complexity: Requires detailed segment analysis.

Valuation Purpose: Supports M&A, investment, or strategic decisions.

Cash Flow Projections: Critical for accurate DCF models.

Risk-Free Rate: Typically government bond yield in CAPM.

Equity Risk Premium: Reflects additional risk of equity investments.

Valuation Adjustments: Account for non-operating assets or liabilities.

Peer Group Analysis: Ensures comparability in relative valuation.

Terminal Growth Rate: Assumes perpetual growth in DCF.

Valuation Transparency: Disclose assumptions and methods.

Market Conditions: Influence valuation multiples and outcomes.

Valuation Standards: Adhere to industry and regulatory guidelines.

CHAPTER 11: FUNDAMENTALS OF RISK AND RETURN

Return on Investment: Measures profit relative to investment cost.

Simple Return: Absolute gain or loss divided by initial investment.

Annualized Return: Adjusts return for a standard one-year period.

Compounded Return: Accounts for reinvested earnings over time.

Investment Risk: Uncertainty of achieving expected returns.

Market Risk: Systematic risk affecting the entire market.

Beta: Measures a stock's volatility relative to the market.

Sensitivity Analysis: Tests impact of assumption changes on outcomes.

Margin of Safety: Buffer to protect against valuation errors.

Equity vs. Bond Returns: Equities offer higher returns with greater risk.

Risk-Adjusted Returns: Evaluate returns relative to risk taken.

Behavioral Biases: Emotions like fear or greed distort decisions.

Liquidity Risk: Difficulty selling an asset without price impact.

Credit Risk: Risk of issuer defaulting on debt obligations.

Interest Rate Risk: Bond price sensitivity to rate changes.

Inflation Risk: Erosion of purchasing power affecting returns.

Systematic Risk: Market-wide risks, non-diversifiable.

Unsystematic Risk: Company-specific risks, diversifiable.

Sharpe Ratio: Measures risk-adjusted return (return per unit of risk).

Treynor Ratio: Measures return per unit of market risk.

Jensen's Alpha: Excess return over CAPM-expected return.

Herding Bias: Following crowd behavior in investments.

Overconfidence Bias: Overestimating one's knowledge or control.

Loss Aversion: Preferring to avoid losses over equivalent gains.

Liquidity Measures: Trading volume or bid-ask spread indicates liquidity.

Risk Measurement: Uses standard deviation or variance.

Portfolio Diversification: Reduces unsystematic risk.

Market Risk Premium: Expected market return minus risk-free rate.

CAPM Application: Estimates expected return based on risk.

Risk Tolerance: Investor's ability to withstand losses.

Volatility: Measures price fluctuations, indicating risk.

Return Calculation: Considers dividends, interest, and capital gains.

Behavioral Finance: Addresses psychological impacts on investing.

Investment Gurus: Advocate discipline and long-term focus.

Liquidity Importance: Enhances ease of entering/exiting investments.

Risk Management: Strategies to minimize investment losses.

Equity Risk: Higher volatility compared to bonds.

Bond Risk: Primarily interest rate and credit risks.

Risk-Return Tradeoff: Higher potential returns come with higher risks.

Standard Deviation: Measures dispersion of returns around the mean.

Variance: Squared standard deviation, used in risk analysis.

Beta Interpretation: Beta > 1 indicates higher volatility than market.

Sensitivity Testing: Assesses model robustness to variable changes.

Margin of Safety Use: Reduces risk of overpaying for securities.

Risk-Adjusted Metrics: Guide better investment comparisons.

CHAPTER 12: QUALITIES OF A GOOD RESEARCH REPORT

Clarity: Reports should be clear, concise, and easy to understand.

Accuracy: Ensure factual data and correct analysis.

Objectivity: Avoid bias in recommendations and conclusions.

Structure: Organized format with logical flow of information.

Relevance: Focus on information pertinent to investment decisions.

Transparency: Disclose assumptions, methodologies, and conflicts.

Simplicity: Avoid complex jargon, explain terms clearly.

Actionable Recommendations: Provide clear buy, hold, or sell advice.

Data Support: Back recommendations with relevant data.

Consistency: Maintain uniform style and format throughout.

Timeliness: Deliver reports promptly to remain relevant.

Comprehensiveness: Cover all key aspects of analysis.

Disclosure: Include conflicts of interest, e.g., personal holdings.

Checklist Approach: Use structured checklists for completeness.

Executive Summary: Summarize key findings at the report's start.

Visual Aids: Use charts or tables for clarity.

Source Citation: Reference credible data sources.

Risk Highlighting: Clearly outline investment risks.

Valuation Details: Explain valuation methods and assumptions.

Peer Comparison: Include benchmarks against competitors.

Economic Context: Relate findings to macroeconomic conditions.

Industry Insights: Incorporate relevant industry trends.

Company Analysis: Detail qualitative and quantitative factors.

Regulatory Compliance: Adhere to SEBI reporting guidelines.

Client Focus: Tailor reports to client needs and goals.

Logical Flow: Present arguments in a coherent sequence.

Data Validation: Verify accuracy of data used.

Investment Rationale: Clearly explain reasoning for recommendations.

Assumption Clarity: State and justify all assumptions made.

Risk Disclosure: Highlight potential downsides and uncertainties.

Format Consistency: Use standard templates for professionalism.

Accessibility: Ensure reports are easy to navigate.

Conciseness: Avoid unnecessary details to maintain focus.

Evidence-Based: Support claims with empirical data.

Target Audience: Address specific investor types (retail, institutional).

Regulatory Disclosures: Include SEBI-mandated disclaimers.

Report Length: Balance detail with brevity for readability.

Visual Clarity: Ensure graphs/charts are easy to interpret.

Recommendation Clarity: Specify actionable investment steps.

Conflict Management: Disclose any potential biases or interests.

Data Presentation: Use tables for financial metrics comparison.

Report Review: Conduct internal reviews for accuracy.

Client Communication: Ensure reports align with client expectations.

Standard Warning: Include SEBI's market risk disclaimer.

Ethical Standards: Uphold integrity in reporting practices.

CHAPTER 13: LEGAL AND REGULATORY ENVIRONMENT

Regulatory Framework: SEBI oversees Indian securities markets.

SEBI Act 1992: Protects investors and regulates market activities.

SCRA 1956: Defines securities and governs stock exchanges.

Depositories Act 1996: Regulates dematerialization and depositories.

Companies Act 2013: Governs corporate governance and disclosures.

RBI Role: Administers monetary policy and regulates FCCBs.

PFRDA: Regulates pension funds for old-age income security.

IRDAI: Oversees insurance sector, impacting ULIPs.

Research Analyst Regulations: SEBI's 2014 rules set standards for analysts.

Code of Conduct: Ensures ethical behavior by research analysts.

Conflict Management: Disclose financial interests to avoid biases.

Disclosure Requirements: Include registration status in public appearances.

GSM: Monitors low-cap securities with high valuations.

ASM: Tracks securities with high price/volume variations.

Advertisement Code: Regulates RA communications to prevent misleading claims.

Investor Charter: Outlines investor rights and grievance mechanisms.

Grievance Redressal: Resolve complaints within 21 days, escalate to SEBI SCORES.

Record Maintenance: Keep research reports and client records for 5 years.

Compliance Officer: Monitors adherence to SEBI regulations.

Dispute Resolution: Includes mediation, conciliation, or arbitration.

Client Segregation: Separate research and distribution services at group level.

AI Usage: RAs responsible for data security and compliance in AI tools.

SEBI Registration: Mandatory for research analysts to operate.

Certification: NISM certification required for analysts.

Capital Adequacy: Proxy advisors comply within three years.

Proxy Advisors: Disclose research extent and recommendation accuracy.

Public Appearance: Disclose registration and interests in media.

Third-Party Reports: Review for accuracy and disclose conflicts.

Audit Requirement: Annual compliance audit by professional bodies.

Investor Protection: SEBI ensures fair treatment and transparency.

Market Surveillance: Exchanges monitor trading to prevent manipulation.

GSM Criteria: Targets securities with low net worth or high P/E ratios.

ASM Criteria: Focuses on price/volume volatility and client concentration.

Advertisement Disclosures: Include SEBI registration, warnings, and disclaimers.

Prohibited Claims: No guarantees of returns or misleading statements.

Brand Usage: Display registered name, logo, and SEBI details prominently.

Complaint Disclosure: Monthly reporting of investor complaints.

SCORES Portal: Centralized platform for grievance redressal.

Investor Responsibilities: Verify RA registration and avoid sharing account details.

Trading Restrictions: GSM/ASM impose limits like trade-for-trade or higher margins.

Regulatory Updates: Stay informed of SEBI circulars and guidelines.

Ethical Reporting: Avoid superlative claims like “best” or “top.”

Record Signing: Digitally sign electronic records for authenticity.

Client Consent: Obtain consent for terms and conditions of service.

Market Integrity: Surveillance mechanisms protect against unscrupulous practices.

Important Formulae

Earnings Per Share (EPS) = Net Income / Number of Outstanding Shares

Price-to-Earnings Ratio (P/E) = Market Price per Share / EPS

Price-to-Book Ratio (P/B) = Market Price per Share / Book Value per Share

Dividend Yield = Annual Dividend per Share / Market Price per Share

Current Ratio = Current Assets / Current Liabilities

Quick Ratio = (Liquid Assets) / Current Liabilities

Debt-to-Equity Ratio = Total Debt / Shareholders' Equity

Return on Equity (ROE) = Net Income / Shareholders' Equity

Return on Assets (ROA) = Net Income / Total Assets

Gross Margin = Gross Profit / Revenue

Net Margin = Net Profit / Revenue

Asset Turnover = Revenue / Total Assets

Inventory Turnover = Cost of Goods Sold / Average Inventory

Receivables Turnover = Revenue / Average Receivables

Interest Coverage = EBIT / Interest Expense

Dividend Payout Ratio = Dividends / Net Income

Free Cash Flow = Cash from Operations – Capital Expenditures

Yield to Maturity (YTM) = [Annual Coupon Payment + (Face Value – Market Price) / Years to Maturity] / [(Face Value + Market Price) / 2]

Current Yield = Annual Coupon Payment / Bond's Current Market Price

Bond Duration $= \frac{\sum [(Cash\ Flow\ at\ Time\ t * t) / (1 + YTM)^t]}{Bond\ Price}$

Sharpe Ratio $= (Portfolio\ Return - Risk-Free\ Rate) / Standard\ Deviation\ of\ Portfolio$

Treynor Ratio $= (Portfolio\ Return - Risk-Free\ Rate) / Beta$

Jensen's Alpha $= Portfolio\ Return - [Risk-Free\ Rate + Beta * (Market\ Return - Risk-Free\ Rate)]$

Capital Asset Pricing Model (CAPM) $= Expected\ Return = Risk-Free\ Rate + Beta * (Market\ Return - Risk-Free\ Rate)$

Discounted Cash Flow (DCF) $= \sum [Cash\ Flow / (1 + Discount\ Rate)^t] + Terminal\ Value / (1 + Discount\ Rate)^n$

Terminal Value (Perpetuity Growth Model) $= Final\ Year\ Cash\ Flow * (1 + Growth\ Rate) / (Discount\ Rate - Growth\ Rate)$

Enterprise Value (EV) $= Market\ Capitalization + Total\ Debt - Cash$

EV/EBITDA $= Enterprise\ Value / EBITDA$

Standard Deviation $= \sqrt{[\sum (Return - Mean\ Return)^2 / Number\ of\ Observations]}$

Variance $= Standard\ Deviation^2$

IMPORTANT NOTE :

1. Attend **ALL** Questions.
2. For the questions you don't know the right answer – Try to eliminate the wrong answers and take a guess on the remaining answers.
3. DO NOT MEMORISE the questions & answers. It's not the right way to prepare for any NISM exam. Good understanding of Concepts is essential.

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All the Best ☺

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