

# Fundamentals of Financial Analysis

## Learning Objectives

The objective of this two-day course is to provide participants with the skills to analyze the financial statements of companies in order to carry out an overall effective appraisal. Annual reports from local companies are used to analyze their balance sheet, income statement and cash flow statement. This is a highly interactive course where case studies and exercises are used to illustrate key learning points, allowing participants to apply the concepts acquired during the course to real-life scenarios. Participants will be able to:

- Understand the fundamentals of financial statements, including how the statements link and the key accounting principles that govern them
- Analyze the balance sheet of companies and assess their position
- Analyze the income statement of companies and assess their performance
- Carry out ratio analysis and assess the drivers of performance
- Analyze the cash flow statement of companies and assess the cash flow drivers
- Carry out an overall appraisal of a company based on financial and operating data

## Target Audience

- Suitable for beginner and intermediate levels for both finance and non-finance professionals.
- Laptops will be required and basic knowledge of excel.

## Content Overview

### Fundamentals of Financial Statements

#### The process, purpose and context of accounting

- Background accounting knowledge for analysts to help understand the basis of financial statements

#### The primary financial statements and how they link

- Balance sheet: Showing the position of a company
- Income statement: Showing the performance of a company
- Cash flow statement: Showing the difference between a company's ability to generate and spend cash

#### Key accounting principles and terms

- Accruals concept
  - Going concern
  - The accounting equation
  - Double entry
  - Applying double entry
- **Exercise:** Produce a balance sheet and income statements reflecting transactions provided.

## Analysis of the Balance Sheet

### The primary financial statements

- The purpose of financial statements
- Analyzing the three statements: Identifying possible ways to initially analyze financial statements
- Different formats: UK GAAP, IFRS

### Analysis of the balance sheet

- Non-current assets
  - Intangibles
  - Current assets
  - Creditors and debt
  - Equity capital and reserves
- 
- **Exercise:** Analyze a local company balance sheet to assess their position.
  - **Exercise:** Show how a lease would be accounted for if it was treated as a finance or an operating lease. Analyze the impact on gearing, profits and return on equity.
  - **Exercise:** Balance sheet mix and match: Identify a company using indexed balance sheets. Provide analysis as to how the decision was made.

## Analysis of the Income Statement

### Analysis of the income statement

- Different types of profit metric: Gross profit, operating profit, net profit
- Classification of expenses: Cost of sales, operating expenses
- Capitalization vs. expense
- EBIT, EBITA, EBITDA

### Ratio analysis

- Performance: Margin ratios, return on equity
  - Working capital: Inventory days, receivable days, payable days
  - Debt service: Interest cover
  - Leverage: Debt:EBITDA, Debt:FCF
- 
- **Exercise:** Analyze a local company income statement to assess their performance.
  - **Exercise:** Carry out ratio analysis using pro forma accounts.
  - **Exercise:** Carry out ratio analysis on two listed companies, making comparisons between the two.
  - **Exercise:** Ratio mix and match: Identify a company based on the ratios given. Provide analysis as to how the decision was made.

## Analysis of the Cash Flow Statement

### Analysis of the cash flow statement

- Deriving cash flow using the indirect method
- Definitions of free cash flow
- How to analyze the cash flow statement: Asset management, operational management, financing strategy

### Cash flow drivers

- PESTEL
- Porter's Five Forces
  
- **Exercise:** Produce a cash flow statement reflecting transactions provided
- **Exercise:** Analyze a local company cash flow statement to assess the company's sources and use of cash

## Company Appraisal

This case study allows participants to apply the skills learned during the course. Participants will be given a company and are required to prepare an appraisal, based on the annual report and other sources of information. Their analysis should be financial and non-financial, including a summary of the position, performance of the company as well as other analysis.



### Harsh Bagla

Harsh joined Fitch Learning in 2013, and trains across the Investment Banking & Private Equity Industry. He specializes in financial analysis, valuation and financial modelling training. His experience in portfolio management allows him to deliver practical and engaging courses on financial markets and products including Equities, Derivatives, and Structured Products. He also teaches a number of professional qualifications, including CFA, Claritas, & CISI Capital Markets Program.

Harsh has delivered training on financial analysis and other technical courses across the Middle East and the UK. His rich investment experiences helps him to understand the client's training requirement both from the buy-side as well as the sell-side.

In his three years of training career, Harsh has trained professional across the financial services industry (Investment Banks, Private Equity Firms, Sovereign Wealth Funds, Commercial Banks) He is known with the delegates, for bringing his practical deal experiences, which he relates to the training delivered by him. In the relatively short span of his training career, Harsh has become one of the most trusted trainers in his field.

Prior to joining Fitch Learning, Harsh started his career as a FTE of a Global PE Fund, Apollo Management for their India Investment Arm. Harsh was part of the deal team, and has experience spanning from initial deal screening to detailed valuation and bidding for a target. Later, Harsh was part of the investment team for a family office based out of UAE. He was responsible for a \$200M portfolio, investing in Equities, Convertible Bonds, and Structured Products.

As well as holding a MBA in Finance from S.P.Jain Center of Management, Mumbai, Harsh is also a CFA charter holder and a Chartered Accountant (PE II) from ICAI (India).