Security Analysis and Portfolio Management
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Module No. # 01
Lecture No. # 17
Company Analysis - I

Hello, in the previous sessions we talked about economic industry and company analysis; we started those sessions on e I analysis properly known as…in the first two sessions we talked about economic analysis, then we followed off with industry analysis; the third part of this top to bottom approach is known as company analysis.

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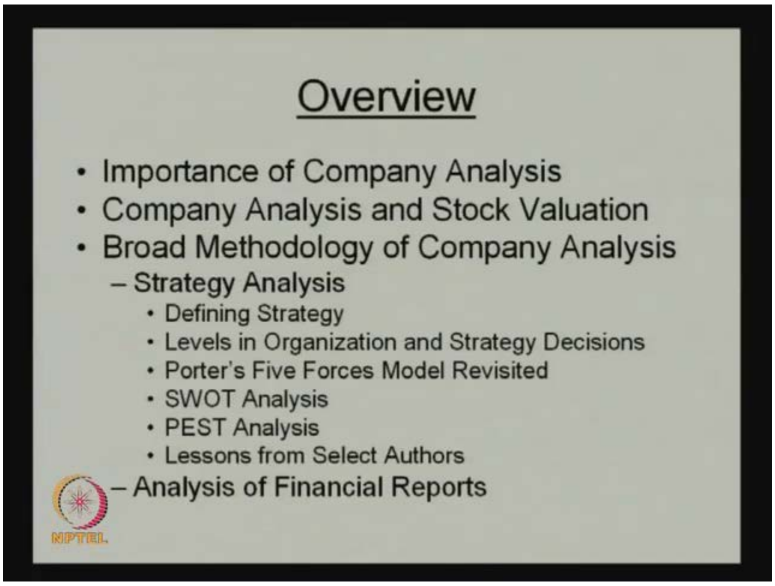

In this company analysis we are going to cover the following things - we will talk about why this company analysis is required, what is the importance of this; we will talk about company analysis and stock valuation - is the company analysis and stock evaluation the same or different? Then, we will talk about the broad methodology company analysis where we talk about strategy analysis and analysis of financial reports.

In strategy analysis, we are going to be discussing what strategy is, what are the different types of strategies and depending on the organization we will talk about Porter's five forces model; we will also discuss SWOT analysis known as strength, weakness, opportunity and threat analysis for a particular company; we will also discuss another tool - popular tool - that is called P E S T or PEST analysis, where we will talk about political, economic, social and technological changes that can affect the company's performance - that we will discuss; subsequently, we will talk about different authors who have talked about what the things should be that the people or the investor (( )) look at while choosing a company and what type of strategy this company should be looking - those things we will discuss and subsequently we will follow it off with financial report analysis and what are the thing that you are going to look in financial reports.

Basically, in the first part of this company analysis we will talk about strategy analysis and second part also we will talk about strategy analysis as well as financial statement analysis or financial reporting analysis - what are the things that you are going to look at the from the financial reports.

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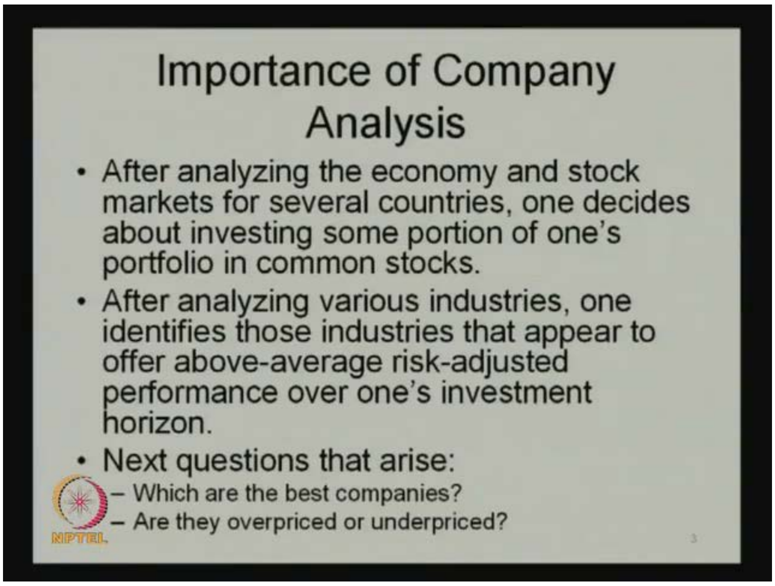

Moving on, we talk about the why we should go for the company analysis; till now, we have looked at the economy and we have also looked at stock market of different countries; in that, after looking at that one decides about the particular industry to - at least to invest in the stock market - allocate a particular amount of its portfolio in the stock market; then having discussed that this particular country or economy is to be invested in we look at which particular industry is providing better opportunities; that we will discuss about the industry - choosing the industry where to invest.

Having decided the industry, we then discuss about - we find out where should we put the money in a particular company, because industry can consist many companies and one has to look at the best company in that the amount of set of industry as such; then, we find out which companies we invest in and which company is a good company; and it is not necessary that it is a good company, that means, the stock also would be good; we have to look at that also; once you look at the industry we will look at which is the best companies to find out; and having found the best companies, whether the prices of those companies in terms of stock are overpriced or under priced. If they are overpriced, definitely you are not going to invest and if you have invested you will exit from that; or if it is under priced there is an opportunity that we are going to invest in that.

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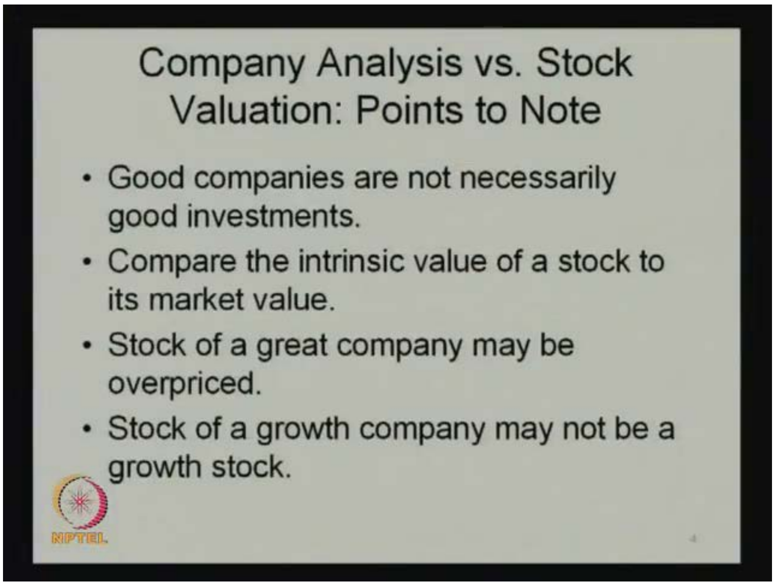

Next we have to move on….we talk about the company analysis versus stock analysis or stock company valuation versus stock valuation; in that, certain things that we must note are that good companies are not necessarily good investments; companies may offer good opportunities, but the stock in that particular company may not be offering good opportunity in a way that the stock might be already overpriced and there may not be opportunity for one to invest and get some return as such; because, the company has been good the stock may be in good demand and that is why the prices of the stock may very high.

Whatever value that we find out is called intrinsic value; whatever you find out by applying particular methodology we may end up finding that the intrinsic value is actually less than the market price as such; in that case, though the company is good the company stock may not be attractive; one has to look at the fact that a good company need not reflect that the stock of the company is also good.

Another point that we talked about - as we discussed - intrinsic value of a stock has to be compared with the market value; only when the intrinsic value of the particular stock is more than the market value of the stock then it is a question of investing; otherwise, it should not be investing; as we discussed, intrinsic value of the stock should be an attractive proposition, not necessary the company itself is an attractive proposition.

Another point in this particular context is that, the stock of a great company may be overpriced - so, it is not an attractive proposition; and the last thing that we will discuss in this is that stock of a growth company may not be a growth stock; when you say growth, it means good stock which has a lot of potential - the earnings and the sales and everything of the particular company is may be increasing at a rate more than the normal industrial growth; but, it not necessary that the stock of the particular company may be actually growing

We will further discuss about this in the following points.

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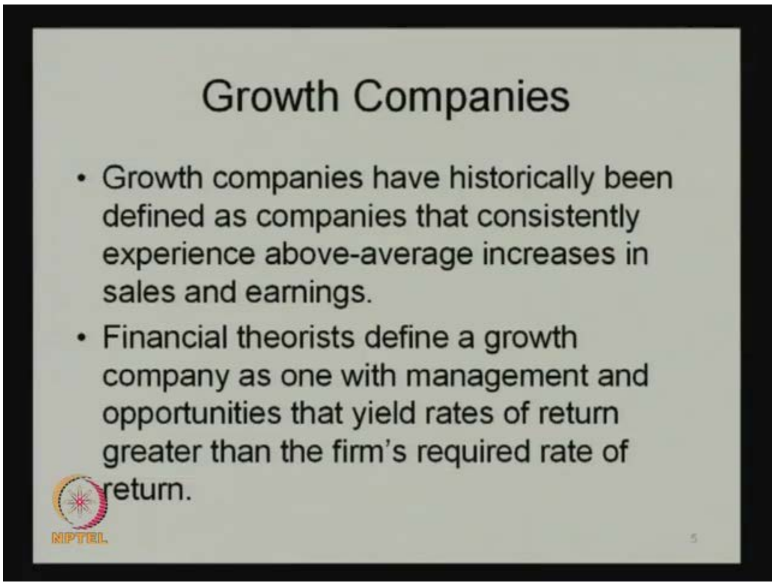

When we say growth companies, there are two approaches of (( )) talking about growth companies; the first one is that, the company as such has been having a sales or earnings growth which is more than the normal industrial sales growth - that is one analysis and one point of view; the second point of view is that we talk about financial theorist, which defines a growth company as one with management opportunities that yield rates of return greater than the firms required rate of return.

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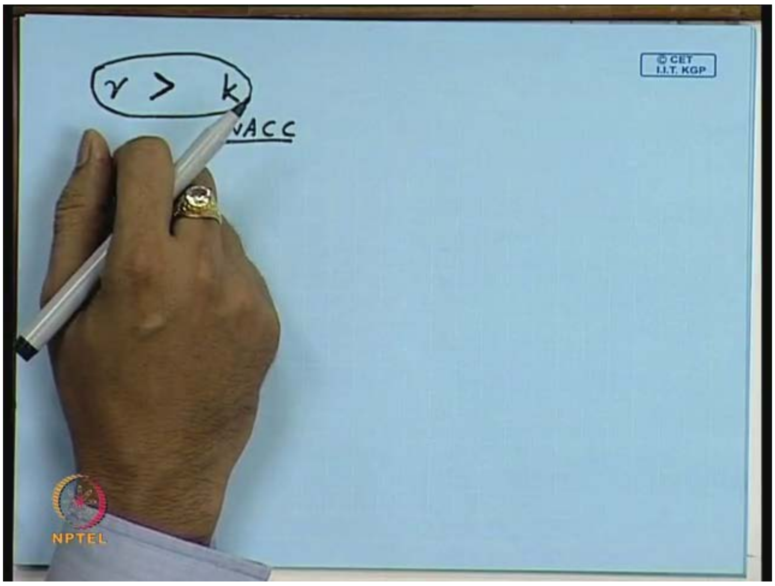

What you discuss here is that, essentially we have got a return from the company - it is called r; and then we have expectation from the investor - it is called k and k is also known as weighted average cost of capital popularly known as a WACC; a growth company is that company where the r - the return on the company - overall return is more than the cost of capital; financial theorists advocate this as the mechanism to find out whether the company is a growth company or not.

Obviously, the company which has got r as more than k….This company is going to actually be an attractive proposition to invest in; but, at the same time the particular company’s stock may not be a growth stock - it may be different, because of other reasons.

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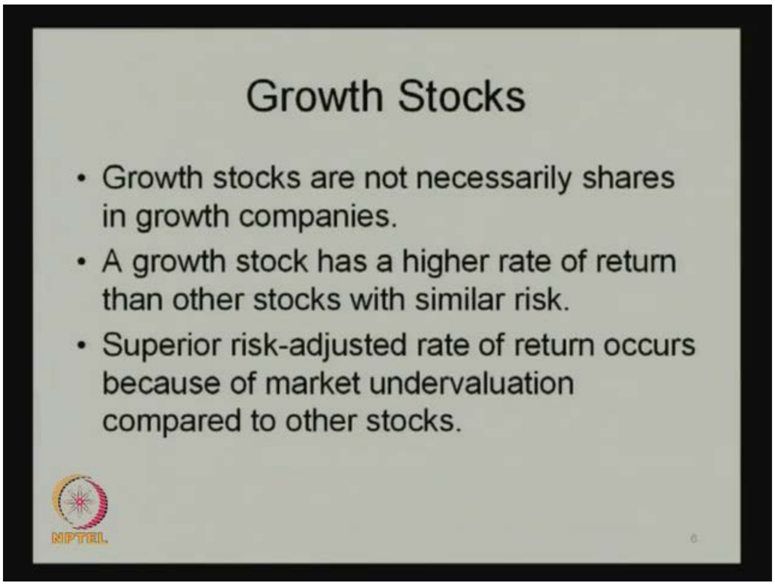

Then, we move on to the growth stocks - how to define growth stocks? As we discussed, growth stocks are not necessarily shares in growth companies it can be something different; what we mean to say is that the company may not be growth company, but the share of the company may actually be a growth share or the stock of the company may be growth share; similarly, company may be a growth company but the stock of the company may not be a growth stock.

When you say growth stock, that means that the company's stock has a higher rate of return than other stocks with similar risk; in the market there are several stocks, which are listed and traded and their prices are there; this particular company is relatively better than the other companies - that is why, it is called a growth stock; not necessary (( )) that the company is… this particular company is…the company itself is a growth company.

We move on to the next point, where you talk about the particular stock having a superior risk adjusted rate of return, because the market undervaluation compared to other stocks; compared to other stocks, the particular company's stock may be undervalued; this means, it is an opportunity to invest, but what happens subsequently is that when all the investors come to know about that, people will again will go to invest in this company - this stock; what will happen is that the price of the particular stock will increase and it may not offer another supernormal or abnormal or a higher rate of return than the other stocks.

That is one thing that one has to keep in mind; for all the time the particular company may not remain as a growth stock; once the investors or potential investor come to know about the good things about this company or the stock, essentially it will attract more investors and then the price of the particular stock may increase and the advantage of being a growth stock may not last for a longer time.

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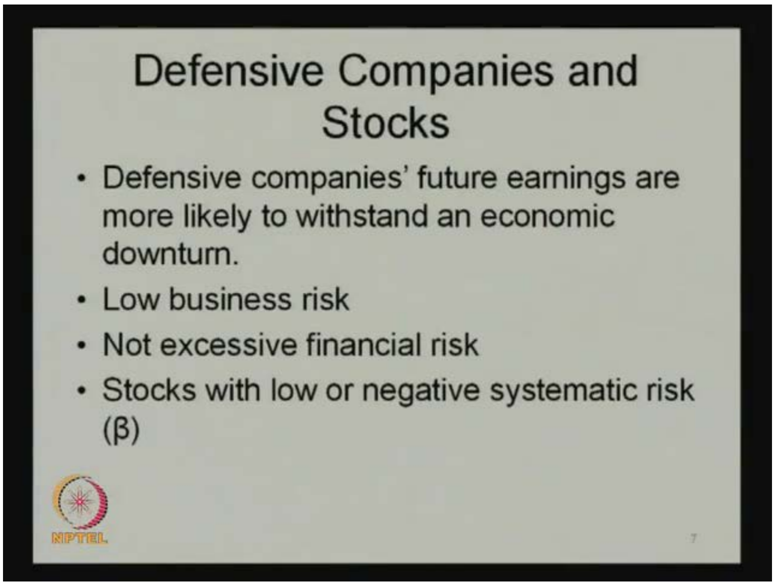

Then, we go to different - other - classification of stocks; in the market, we must look at those stocks like, whether…there is something called defensive companies and the stocks; when we say defensive companies… actually, in this case, the future earnings are more likely to withstand an economic downturn; what we mean here is that if there is something that is going to happen in the future - like economic downturn is going to happen - these stocks are not going to… these companies are not going to suffer like the economy and they will be suffering lesser than the economy.

Typically, this company's stock - if the company's stock is also defensive stock, in that case what will happen is that you will find that the companies will havev- the stocks will have - a lower systematic risk or negative risk - negative systematic risk - which is represented by beta as per CAPN; and this company will also have low business risk as well as - quite likely - low…not excessive financial risk.

Once the company has low business risk, it is a good proposition that they are not going to suffer because of any recession that is going to happen; at the same time, these companies may not be able to get the maximum advantage out of the booming condition or expansionist condition in the market - that is also another point one has to look at; they will be typically behaving contrary to the overall economy or overall industrial conditions.

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The next we have category is of cyclical companies and stocks; when you say cyclical companies it is more like they are the….Where the sales and the earnings are influenced by the aggregate economy; examples of cyclic companies could be auto industries which are supposed to be cyclical industries; cyclical stocks are those that will experience changes in return greater than the changes in the overall market of return; what happens in this case - in the cyclical stocks case - is that if the market is going to up by certain percentage, the cyclical stock return is going to more than that; and typically what will happen is that cyclical stocks may have a beta of more than one; obviously, it is a little more risky, because the moment beta is more than one, if the market return is x percent then the stocks return will be more than x percent;

Unlike our earlier class of companies - defensive stock - where we talk about low beta - that means, beta will be less than one definitely and much lower than one itself; what will happen in that case is that…low beta means if the market rises by a certain percentage this will also rise a very low percentage; at the same time, the market falls of at a particular percentage, let us say x - it falls by x percent; then the stock will fall very negligibly, because the beta itself is very low.

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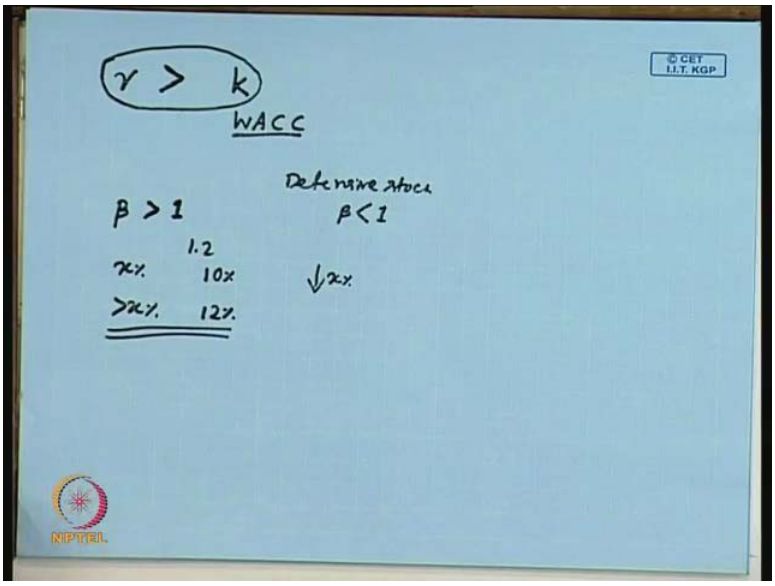

Whereas, in case of cyclical stock it is going to be the other way around; if the market is up by x percent it will be more than x; that means, that if the beta is, let us say one point two, the market goes up by ten percent - the return; then this stock will give - is expected to give - twelve percent return; this is the cyclical companies which are supposed to be riskier than other companies.

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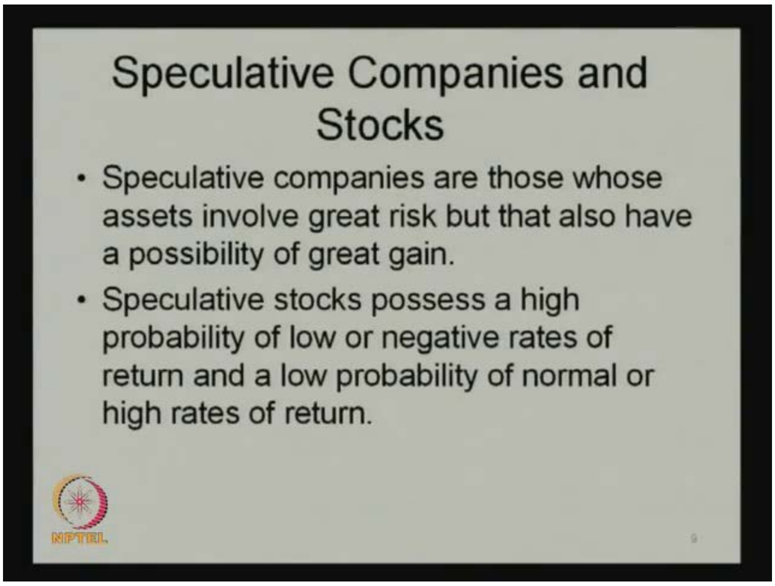

Next, we have the category of speculative companies and stocks; in a speculative company, when you mention… these are the…if the company will have (( )) and have very high risk, but at the same time lot of potential can also be there; when you say very high risk like technology development companies - the companies which are into development of new patents, technologies, copyrights, like that; in that case, it is not necessary….Because, companies will be investing a lot and developing few technologies out of that investment; some of the technologies may not be successful also; one in a thousand may be successful, but that successful product - the technology - can be a blockbuster for; certain R & D companies in pharmaceutical sector also can come under this category.

Oil field is another example where we have oil exploration; we may go for searching for oil for several places, but ultimately one in a thousand may actually hit - we may be successful; those are the examples where you have got the very speculative companies where there may be one in thousand chance that the particular effort of the particular company may be successful.

Next, we have… speculative stocks are those where one can expect a very high probability of low return and very low probability of excess return; what will happen is that this company's share price may be a very high at this point of time; the price earnings ratio of the particular stock may be very high; but, when the downturn happens in the market this stock is going to suffer like anything.

These are certain examples of speculative stocks which are very high price and this a… huge fall is expected when there is market crash or market is also going to decline; these stocks are going to decline like anything.

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Then, we have the categories of investment called value investing versus the growth investing; when you say growth investing in growth stocks, we says growth stocks are those which have got certain expected earnings surprises and it has got above average risk adjusted return; these are the companies - the stocks - which are offering little more return than risk adjusted return.

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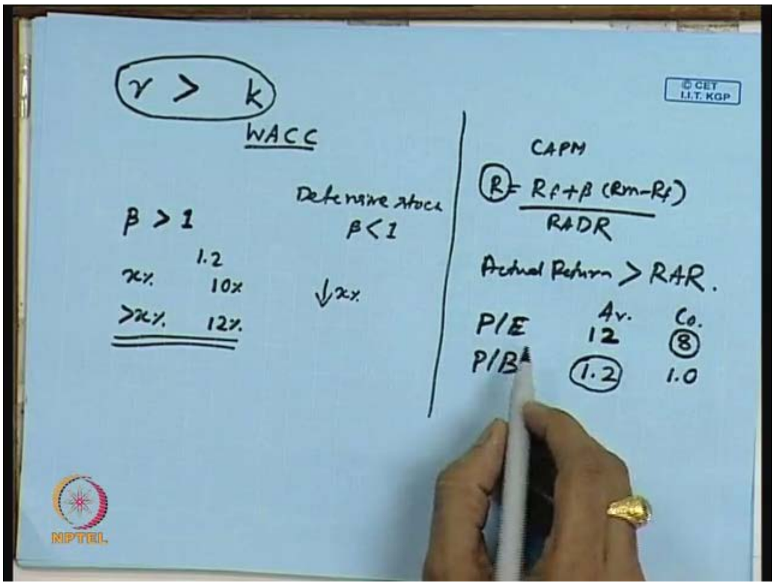

For instance, when you say risk adjusted return we can apply the CAPM framework; in CAPM framework the return could be like this - R f plus beta R m minus R f; this is the return which is expected, but a growth company can actually have a return which is much more than this; this is the RADR - as a return or risk adjusted return, but the RADR…but, actual return is expected to be more than risk adjusted return; similarly…. and this case, this company's stocks are going to be undervalued and then… value stocks are those stocks which appear to undervalued for reasons besides earnings growth potential; they may be undervalued depending on the present company, present condition and compared to other companies they may be undervalued.

That is a lot of potential there; value stocks are likely to have something like a low P E ratio or low price to book value ratio also; these are the value stocks and there is a lot of potential; low P E ratio means there is a chance…low P E ratio - let us say, the average P E ratio of a particular industry is, let us say, twelve, but the company's - this particular example's company's - maybe, the P E ratio could be eight; that means, there is a potential that the price will move up to a twelve times of the earnings - that is a lot of potential there; that is type of value stock.

The price to book value is nothing but market price by the book value of the equity, where you talk about, let us say, price to book value is, let us say, one 1.2; but, the particular company that you are looking at may be having a 1.0; there is a potential that price to book value of this particular company's stock may go up from 1.0 to 1.2 - this is the average which is observed in this particular industry. These are the attributes where price earnings ratio and price to book value ratio of a particular value stock is actually lower the lot of proposition value proposition there.

Investors can maximize the gain over a particular period of time; at the same time, all these growth stocks and value stocks are may be a matter of time, because of certain reasons all this attractiveness of particular stocks may vanish; or, since the particular companies are actually attractive in nature more investors may come and in that case what will happen is that the price of the particular stock may go up; and all these fine points of the company (( )) attractiveness may actually vanish over a period of time.This is not going to be there permanently; it will be there only for a particular - valid at a particular point of time - for a particular duration of time for that matter.

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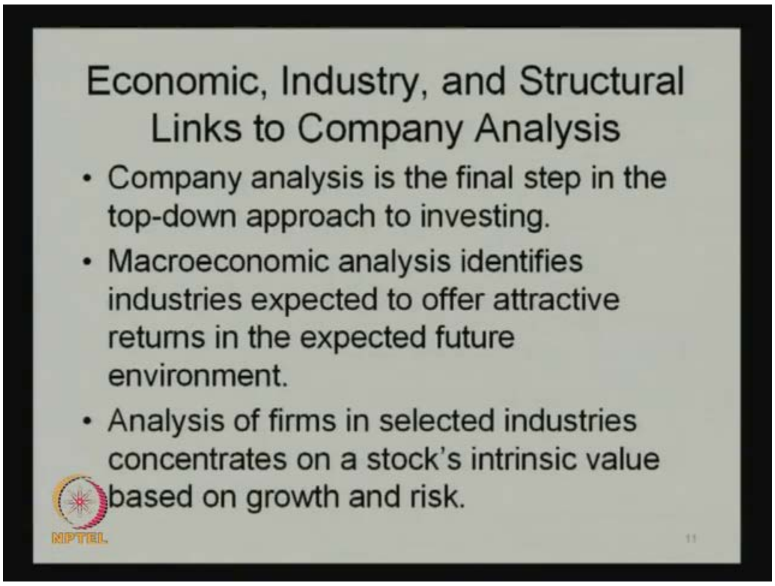

Next, we move on… as you discuss here you can see that value stocks usually have a low P E ratio or P B ratio; next thing that we move on to is linking; what you discussed earlier - economic analysis, industry analysis and also certain structural links as a part of company analysis; we did discuss about economy analysis independently; we talked about industry analysis independently, but now once you look at a company we should also go back and find out what is the economic condition and what is the industry that this belongs to… and in the industry, where this company actually stands; as well as, the competitiveness of a particular company in that particular industry - that also has to be looked at.

In this economic industry analysis, what we talked about is - as we discussed, the company analysis is the final step in the top-down approach; there are certain macroeconomic analysis which say that particular industries may be attractive as we discussed in the industry analysis earlier; that depending on the circumstances, they say the analyst may go for industry rotation, which you are switching from (( )) industry because of the macroeconomic condition; one particular industry may be now attractive than the earlier time.

They may - one may switch from one industry to another industry that has to be looked at; then we also look at the different firms in the selected industries; we talk about the stocks which have got intrinsic value and their intrinsic value will focus on…the intrinsic value is actually a function of like the growth - growth in the earning, growth in the revenue, growth in the profit for that matter - all attributes - growth in assets; all those things and also the particular risk involved in investing that particular stock - that also has to be looked at.

These are the two things which have to be looked at and these two things can depend upon different factors of the economy; the factors in industry and the company itself - company's management, company's strategy, company's choice when the company enters different segments - all those things are going to affect the growth of a particular company as well as the risk involved in the particular company; obviously, the stock of the particular company also.

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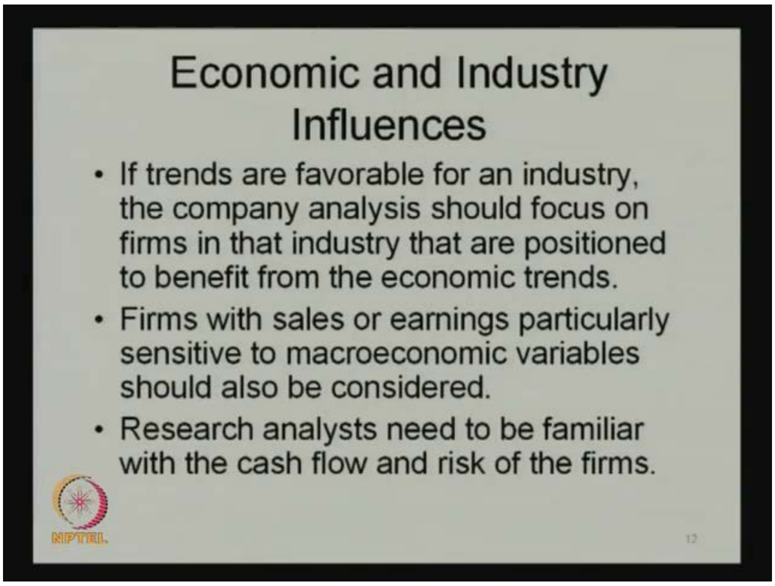

We move on to the different economic and industry influences - in this we talk about the fact that if particular trends are favorable for an industry then the company analysis should focus on firms that industry that are positioned to benefit from the economic trends; the economic trend is actually going to be beneficial and the industry is going to look up for whatever reason; then, one has to look at which are the companies are going to take advantage of that particular…

It is not necessary that, if the particular industry is going to do good all the companies are going to take advantage of that; for instance, if for some reason there is a rapid stride in technology in that particular industrial sector - and industry for that matter, it is not necessary that all the companies in that particular industry may take advantage of that; because, to go to that particular technology the company should have the financial potential and the cash flow (( )) cash reserve has to be there or at least the potential to get the money should be there and capability to raise finance should be there; mere advancement in technology in a particular industry - which may be a good thing for the industry - does not mean that the particular company or that particular industry is going to benefit out of that; the company should have the adequate capability to access that particular technology.

One has to look at the companies, which are in a position to benefit from the very good economic trend; economic trend may look at expansion, but the company may not have the ability to expand because company may not have adequate fixed assets to expand for they adequate fixed; or they may have to again raise finances and go for acquisition of fixed assets and set up that plant and all those things; that may actually take lot of time; there may be lead and lag involved in that; by the time the company is ready to put up with the expanded capacity, the opportunity may actually be lost by the time.

That is another thing one has to look at; then, obviously one has to look at the firms with sales or earnings particularly sensitive to macroeconomic variables; it should also be considered that is not necessary that it is only the industries that you have to look at; there are certain companies where sales or earnings may be actually affected by the overall macroeconomic variable; if there could be…one can find out which is the company - in the particular, whatever sector - where it is going to be affected by the economy and how far it is going to be affected; what is the relationship between the economic changes and the company's expected performance - that also needs to be looked at.

For instance, in a cyclical company or cyclical industry or in the company, it is likely that when the industry is actually going up - overall economy condition is better - these companies are going to benefit out of that; if the company is already having a good operating leverage - we talk about the presence of fixed cost in the cost structure; that means, they have got high amount of fixed cost in the total cost structure; these companies are going to benefit a lot, because with more and more output their fixed cost is going to be spread and the cost per unit is going to actually be lower and the contribution margin is going to be higher for those companies.

They are going to benefit in case of expansion scenario and the cyclical companies; or at least those companies which have got high operating leverage; obviously, in a contraction phase these companies also can suffer, but as an analyst one has to look at which is the company which is able to take the advantage of this particular good condition in the industry or very good condition in the economy.

Then, we also have other things…what happens in this research analysis - as we discussed, one has to be familiar with the cash flow and the risk of the firms; as you discuss, how the cash flow is going to change - is it going to better or not, because the economy condition is good or not.

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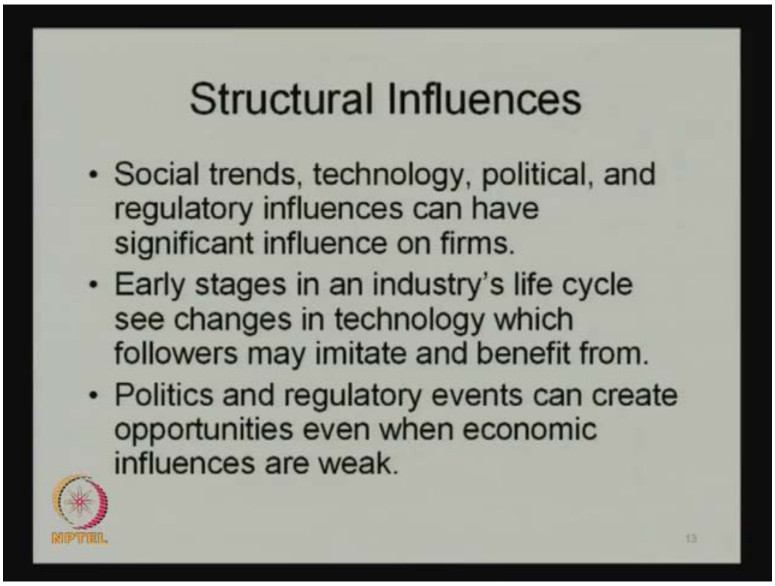

We have other factors called structural influences, where we talk about structural influences; we are talking about social trends - may be there is a change in the fashion, there may be a change in design or there may be change in consumer (( )), the consumer demands may be different; the change in technology will also be there, change in political condition can be there, change in economic conditions can be there; all those things are also going to affect the structure of the industry and because of that, particular products may not be acceptable now and new products may be required to meet the customer's requirements; that also has to be looked at.

Which company is particularly able to take the advantage of these particular changes and introduce new products; or the products have become old fashioned then one should exit from that particular products - all those things also have to be looked at as structural influences.

Next is… we will have certain companies in industry life cycle that…we have changes in technology which followers may imitate and benefit from; what happens when the new products are introduced is that in the initial stages, whatever companies have invested, they may have the ability to go for new products; but, there could be lot mistakes by them; when they come to the maturity stage or the next stage of growth, other companies may follow because they look at this particular product and find that is a more attractive proposition; so, it attracts more companies to invest in that particular sector.

These players who have entered the market later, they will take the lessons already learned by the leaders; in fact, what happens is that if subsequently the second the companies which have entered later may actually outsmart the companies which had enter the segment earlier; because, they do not have the learning curve problem, but earlier the other companies have learning curve problem; that is one…. in the early stages (( )) this particular phenomenon may be there.

Similarly, we can have certain political conditions which changes; the regulated condition may change; deregulation can happen; new companies and new sectors may open up; and we can see that the banking sector...what was there earlier and the banking sector now, in India - it is quite different.

We have new products in the banking sector that have come; earlier, whatever products or savings or loan products were given by the banks we used to be happy with that; we did not have much choice; but now, with the deregulation the banking of financial sector we have seen that new products have come up in the banking and financial sector.

That is one such thing; depending upon which particular company is able to take advantage of these changes - social changes or technological changes or the cultural changes that are happening or the regulatory change that is happening - which particular company is taking advantage…there maybe certain negative changes also in this - like, political or regulatory environment.

Which company is going to take the same thing in its stride and lose the list (( )) that also has to be looked at; because, if there is an unfavorable change, obviously all the companies in the particular industry are going to be affected; we have to see which particular company is actually going to be least affected by this unfavorable condition.

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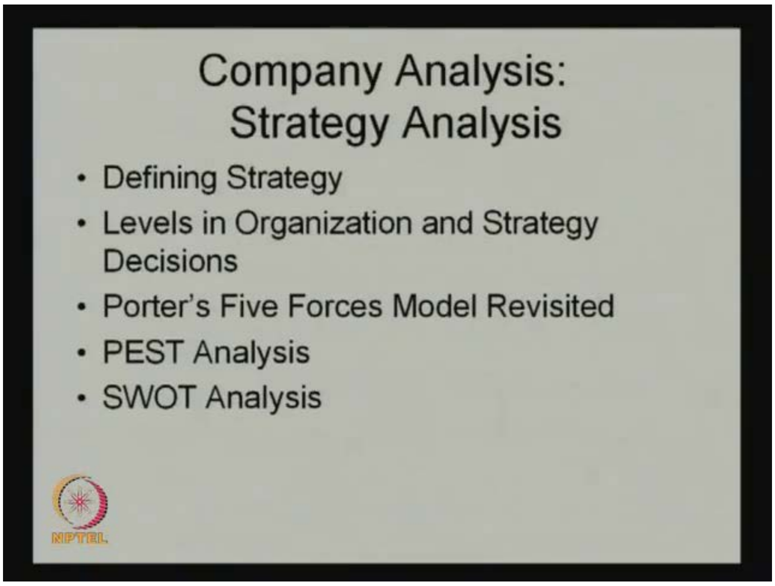

Next, coming to the different types of analysis that we have - as we said in the beginning company analysis we will discuss in this case (( )) strategy analysis; we will also discuss something called financial report analysis; financial analysis will be covered in the subsequent session.

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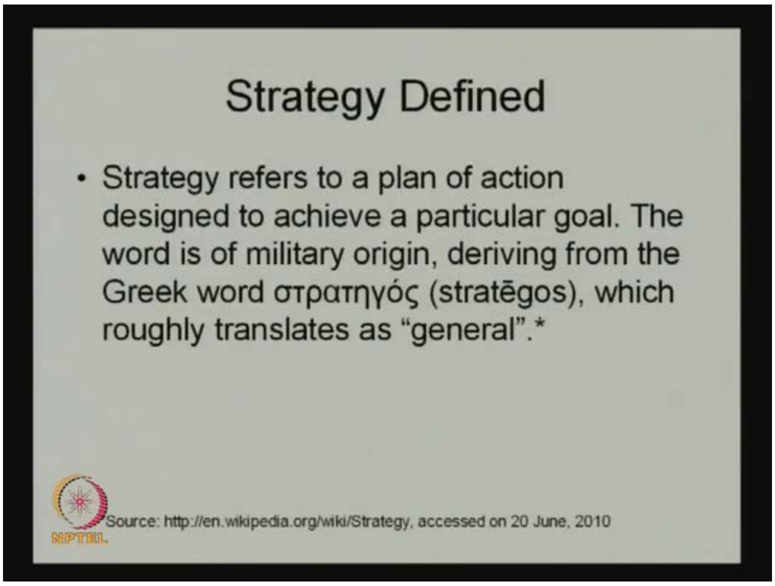

Coming to the first part of (( )) strategy analysis what all we will talk about here are - what do you mean by a strategy and what are different organization levels and what are the different strategy decision - that is, different level organizations have; we have already discussed the Porter's five forces model in the industry analysis; now, we are going to talk about that again see what is the effect of that particular model in the context of company analysis.

Then, will talk about - in this case - PEST; that is political, economic, social and technological change analysis; then we are going to discuss about SWOT analysis; these are the method - the things that are discussed as a part of strategy analysis which is a part of the company analysis.

Coming to the definition of strategy - what do you mean by strategy? Strategy is something like a plan of action designed to achieve a particular goal; this word has its origin in the military, which is derived from the Greek word called 'strategos', which is actually something like…is translated to 'general'; what you say is that that there are certain things to be achieved by certain somebody or some company or some group of people for that matter and what are the set of actions the company, group or individual is going to take - that is called the strategy.

It is not necessary that the strategy is for the company's point of view; any individual can also have a strategy; any investor can have a strategy; a student can also have a strategy to achieve the best result in the examination; so, a particular set of action one has to take and then see what is being done.

There is a definite strategy as to why one should go for strategy; there are certain studies which say several that companies actually fail - they go for premature death; that means, that we expect the company to last for longer time, but subsequently what we find is that the company does not last for long time and they may die an early death.

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Why this could be happening is that the companies may not have any strategic intent; they may not have a plan - what is that should be done; the company has a very passive management; passive management means it is not taking cognizance of what is happening in the market and they are not entering new market, they are not exiting from the old products which have got old fashion; they are have no consumer attraction; they are not actually cognizant of what is happening in the particular environment - external or internal; that could be another reason

Then, we have certain new opportunities that the companies are not exploring; similarly, there are certain changes which are happening in the immediate surrounding, but the companies are not able to take advantage of that or take the cognizance of that; this could be the things why the companies actually fail; in fact, there are certain things like…any company for that matter form will obviously die in a limited number of years or a of period of time; because, the companies exist primarily to produce and sell and they should be producing and selling things which are relevant for the market.

A relevance (( )) market particular product will not last for a long time - it will last only for a limited period of time; that is the lesson, that before the particular product that is introduced a particular company is becomes irrelevant; it does not attract the customers or consumers the company has to go for new products; in the present format of the organization and product market the company will last a limited numbers of years.

It is a challenge that the company has to come up with new products; they have to be different and they have to produce the same thing at a lower cost; whatever the matter (( )) something attractive for this particular company's product to be sold to the potential customers; unless that is there, the company is going to close.

We can see…if you look at the corporate history of the world we have the first corporate firm or organization - the East India Company, which was used by the British; this is about two hundred three hundred years old and we do not have any company that is older than that; we see, because of the different things happening in market - may be because of mergers and acquisitions, we find out that the several companies cease to exist.

Several companies get acquired and they lose their relevance; they are no more the same name or same brand - all those things are not there; to be there in the market the company has to continuously come with new products - innovation has to be there, R&D efforts have to be there; growth has to be there; the entire economy is free now so anybody can come from any world - any part of the world - can come and pose a competition or threat for the existing (( )) particular sector or that particular country; one has to be on their toes to be performing and perform to the satisfaction of the customers and the overall stake holders.

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Next, we talk about the different strategic levels of a particular organization; as you talk about… here is… we have at the first level the corporate overall business company - corporate strategy, where you talk about - discuss…the management decision will be - where the company should actually put its resources, which particular sectors you should be into and when should you enter the new market and should you exit from the existing market the products that we already have, because the products are not attractive any more; they are no more the growth products - they are maybe in a declining state.

Those decisions have to be taken at a very corporate level - with the board of directors; they will be deciding about that; having decided that there will different types of products and that the company should enter, we then we go for the strategic business units; where one particular company may have multiple SBU (s) and the each SBU will talk about what is the style of growth (( )) company; how to achieve the best growth in that particular business segment.

How are you going to face the competition from the competitor for that particular segment - those are the decision (( )) taken in SBU (s) so that the SBU has got the best possible revenue and the best possible profit derived out of that and also they get the best return to the company as a whole.

Then, the next level is our operating strategy where you talk about different actions; could be financial management action, could be marketing management action, operational management action; so that the SBU (s) are actually successful; and all those decisions we were talking about - whether it is corporate level or a business level or at operational level - all those decisions are going to affect the cash flow of a particular company; that is why it is very important from the analyst point of view so that one should analyze and find a valuation of the company, keeping all those things in mind.

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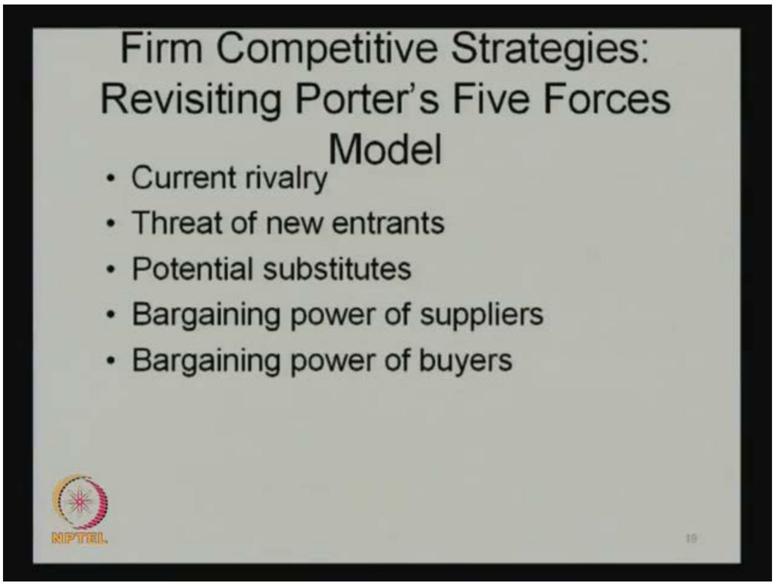

Next, we go to a the famous model that we discussed earlier - that is the Porter's five forces model we discussed in our industry analysis; when you talk about Porter's five forces there are five different things that are there - five different forces - that affect the industry performance; it also affects the company's performance indirectly.

The first thing that we talk about in this is current rivalry - that is, rivalry among the company in that particular sector; how much - how fierce - is the competition or they are in hand in glove with each other; and they are actually having collusion in the market; how fierce means may be different companies are coming, different products they are competing and at the cost front they are able to produce at the least cost and passing on the benefit to the customers; the price is the factor there - they have to decide whether the customer would go for this company or the other company; or for the product fierce advertisement is there so that the mind space of the customers are acquired; so that the

the particular customer goes for this particular product because of the advertisement effect; lot of advertisements can be seen in a particular sectors.

The next category is the next point of Michael Porter's five forces model is - what is the threat of new entrants? Is this particular industry open to new players? What is the threat from their side; that is also another thing to look at; if the threat is very high, the company has to look at possible potential of joint venture alliances with new players; or, company should have the capacity to expand so that you can throw out the competition from the new players.

We have another thing called - what is the potential substitutes for the products being sold? We can see in….as we discussed in industry analysis, that in the furniture space we have got the wooden furniture being replaced with the fiber based furniture these days; this is a substitute which has come; fiber based furniture itself has become a new industry.

Then, what is the threat from the suppliers or the bargaining for a suppliers? Is is very high? Because, if supplier bargaining power is high then it is going to…they may actually come to our company's product space; and they may actually do the same thing as what we do; and if there are a limited number of suppliers that is another serious problem for the existing company - that also has to be looked at.

Then, what is the bargaining power of the buyers? If the buyer has got more bargaining power as a seller we have to sell at the price dictated by them rather than by us; these are the thing that one has to look at for finding out the position of the particular company in the particular context.

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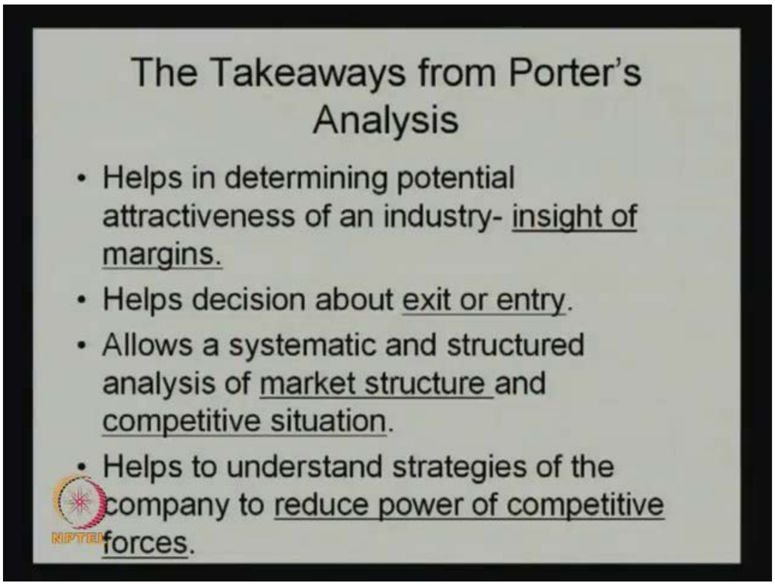

So, what is the lesson that we learn from this module? What is the takeaway that you have from the Porter's analysis is that Porter's analysis will help us in finding out the attractiveness of the industry - which particular industry is more attractive in terms of margin; the company which is going to have more margin should have these five forces I talked about - it should have the least threat from the suppliers, least threat from the buyers - the bargaining for the buyer (( )) supply should be less; and threat for the new entrants should be high and rivalry should not be as much; these are things which will be affecting favorably a particular company or a particular industry and that is going to drive the profit margin to be higher.

Second thing is that this also helps us - a particular company - to exit from a particular product or enter a new product depending upon what type of supplier you are or what type of buyer you are; you can go into supplier's space or your buyer's space; that is one thing one company can look at; what happens in this case? One does an industry analysis of the its own and also does an industry analysis of the supplier and industry analysis of the customers or the buyer.

Depending on the threat for the new entrants in those respective sectors - supplier's industry or the buyer's industry, the present industry can also enter that particular market; similarly, the threat for the particular products in that particular industry is very high from other people then may be it is the right time for the company to exit from the particular segment; these are things one has to look at.

It also talks about a very systematic approach of the market structure - who are the players, what is the company situation, the particular company is more competitive or not, whether the industry itself is competitive to operate or not - these are the things which will be disclosed by the Porter's (( )) Porter's five forces analysis; one has to also look at the…. another take away from this particular model is that it helps us to understand the strategy of the company to reduce the power of competitive forces.

If there are new - there are few more players in market - what should be the company be doing to reduce their power; these are the brief things - the takeaways - from the Porter's five forces model; one has to - as an analyst- one has to look at these particular things and find out whether its particular company in its portfolio or analysis has got all those advantages or not.

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Then, we move on to the same firm's competitive strategy as a part; they could be looking at the scenario in the industry - looking at this Porter's five force model; the company may - companies may - choose two different strategies - one is a defensive strategy another is an offensive strategy.

When you say defensive strategy, it is that something is going to happen in the market; the company will take a position an accordingly - for that particular threat or something like that - the company may go for expansion, because there is a good demand; or there is a new player which has come - there is a threat, so the company goes for an expansion.

Whereas, offensive strategy is something that the company itself triggers - a thing in the market so hat the other players in the market are caught off guard; now there it is for them to react - what we should do to counter the competition; suddenly the company may go for reducing the price, because the company may realize that this has got lot of scope of producing the items - the products - and the cost of production may be higher, but the small margin from selling the product and huge volume can actually take care of the overall profit required.

The company may go for reducing the price and that may be something which other competitors may just not be expecting in the market - that is one thing which is an offensive strategy; the company may go for huge advertisement (( )) the company may go for a new technology tie up with another company, the company may go for a joint venture, the company may announce the sudden entry into another market - all those things that the company does on its own poses a threat to the competitors in the market.

There could be defensive strategy which you would take care - take the help when there is a reaction often certain something when you do that so that other competitors react to that; they will be in a defensive position.

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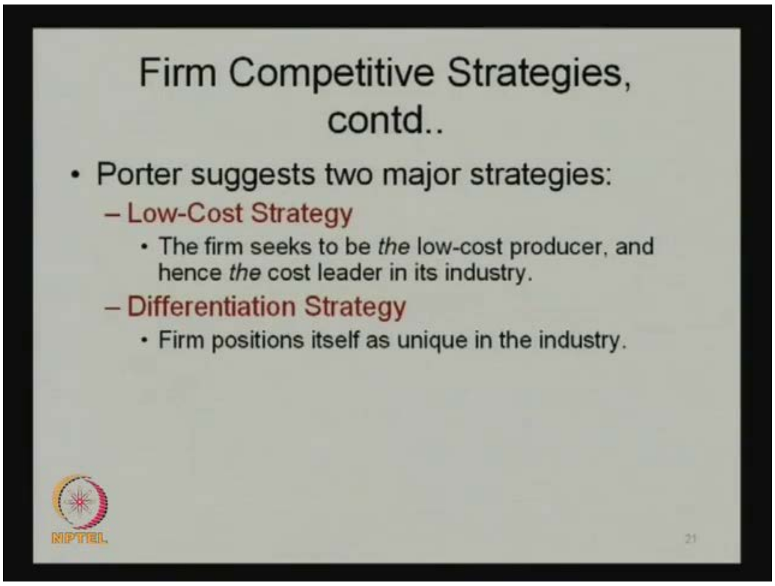

Another type of strategy that Porter has suggested is called the low cost strategy and differentiation strategy; when you say low cost strategy the companies in that particular sector or that industry - whatever the company is - the company may have multiple products in the one of the products some of the products the company would like to have the least cost producer; we have seen in India, in the airlines industry earlier that Air Deccan was the first company to come, which is offering the lowest fair; what they did is that hey do not have any (( )) and all those things for the passengers; they have limited facility for the passengers, but they were to provide the air travel from one place to another place in the country at a very low price compared to what the existing players used to offer. This is another strategy the company followed; you will now see all the airlines have got both high cost or high price tickets as well as the low cost routes or low cost tickets.

Different airlines are there and different services are there; like, in India you have Jet Airways which has got Jet Lite which is nothing but Air Sahara which was acquired by them, which has been named as Jet Lite; Jet Lite (( )) economical service compared to other part of the airways; similarly, Air Deccan, which was subsequently taken over by Kingfisher Airlines; Kingfisher had the luxury part of that, which has got all the benefits given to the passenger - amenities are more there; whereas the Kingfisher (( )) which was earlier known as Air Deccan has limited facilities for the passengers; that is another strategy.

Then, another strategy that we talked about is the differential strategy; differential strategy means that the company is producing certain things and there are certain products, which are something different than the existing competitors products; the differentiation can come from different things - the company has got superior technology that is why it is able to produce a lower price or lower cost; the company has got certain products which have got different features which is not there in any other products of the competitors; the company has gone with a very big advertisement - it has acquired the mind space of the customers; it has got lot of attraction - that could be another thing.

These are the different things where the company has got different things; the customers come to this particular product for certain different attributes - there is something extra, something different than the existing products; there could be low cost strategy or could be a differentiation strategy, but at the end of the day no company follows a single strategy; whether it is offensive or defensive; in certain cases, we may go for offensive strategy andcertain cases we may go for defensive strategy.

Because, companies do not sell a single product to follow one strategy; companies have a product portfolio in a particular segment in a particular SBU; look at an FMCG - we have got different products being sold by one fast moving consumer goods company; or a consumer durables company which has different things to be sold; for different items to be sold the company may adopt - in one segment they may adopt a defensive strategy and in another segment they may adopt a competitive offensive strategy; similarly, in some products they may have a low cost strategy and in some products they may have a product differentiation.

Another strategy that the company is also follow is called the niche strategy; niche strategy means the company focuses only on a particular segment of the clients; they do not look at the entire customer base - entire client base; only few people they look at - few customers they look at; they price a very high…at a very high rate to these customers in the niche segment; and they know there will be very limited pairs, limited customers for the product in that segment, but they are go certainly going to be there; but, they are going to charge a very high price to these customers. This is another strategy that companies may adopt; as we discussed, the companies may follow different strategies depending on the product portfolio of the company.

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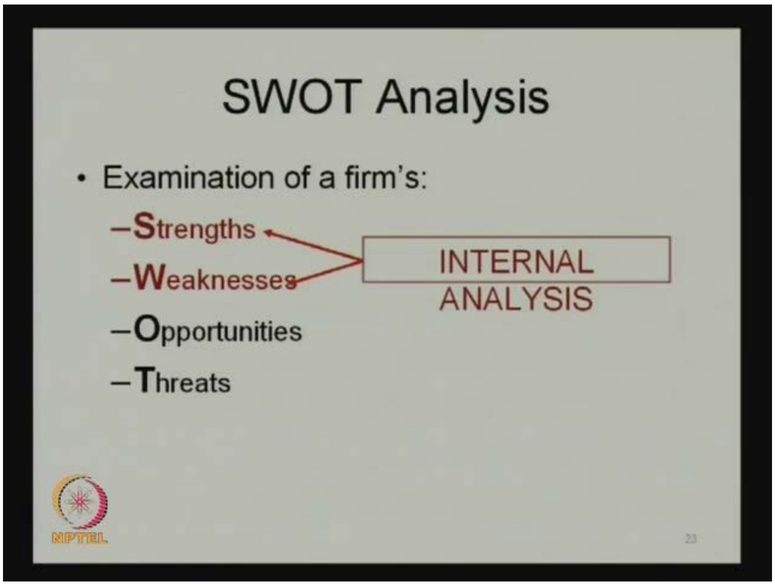

Next, we move on to the second and… another tool of analysis is called SWOT analysis; when you say SWOT analysis it is nothing but strength weakness opportunity and threat; one has to look at the company's or a firm's strength, weaknesses, opportunities and threat; in fact, the strengths and weakness come out of the internal analysis of the company; look at what the existing system of the company is; where are they having good opportunities or the weaknesses; internal analysis will talk about what the strengths are of the particular company.

Similarly, we look at the next one that we have - opportunities or threat; that depends upon the external analysis; when you say external analysis means the outside condition is going to create more opportunities or actually going to pose a threat for the organization; coming to the strengths of the company - the strengths could be like we can have good capabilities; the company may have good capacities of producing good products; the company may have good products; the company may have good technologies; the company may have good R&D efforts; the company may have good human resources, for instance R&D companies they can they can expect very good demand from the client- from the investors - in terms of the fact that they have got good number of scientists, good amount of knowledge power they have; because, particular knowledge based industries will always go for good human resources - good technical skills they should go for.

Whereas, companies in manufacturing sector and steel or iron or automobile - they will always look at the capacity as a strength of the particular company; how much - what is the production base they have - that could be the thing; whereas, in knowledge based companies it is something else; like a banking company - the strength is in how much capital they have; how much adequate capital they have - that could be the strength of the company; different things are there; similarly, technology is something that is there - new technologies to be there for the company, which is always going to be there for any company in any sector.

It is not necessary that technology is only applicable for a particular industry; technology is something that is applicable to anyone, because certain companies take the advantage of technologies to produce the things at a lower cost in the least time possible, the least transaction cost - like banking companies should take the advantage of technology available so that they can provide the service to the customers or the clients or the accounts at the least time possible and the least cost is also involved.

That is one; similarly, there could be also certain weaknesses of the company; the weakness could be that product mass become obsolete; technology has become obsolete; key management power may not be there; key man power may not be there; the point is not that the company is having weaknesses and that the company should closedown; the best part is that whether this company is able to trace this weakness and take the corrective measures or not.

If the company feels that the technology itself is not good, what technology they have is not competitive in nature it is high time that the company can go for a (( )) tie up with another player and they may offer an ownership in the new company and they may go for technological tie up or they may go for a joint venture so that they can have the best technology available from the new player and they can still continue to exist.

The company has to look at that (( )) the agility has to be there that yes there are certain threats, there are certain weaknesses of this company and the weaknesses have to be overcome - that is one; joint venture, alliances and all those things can take care of these weaknesses.

Then we move on to the opportunities that the companies have; what types of opportunities and threats? The opportunities and threats come out of the external analysis; looking at the external analysis the company can find out what are the opportunities that are there; opportunities could be there in case of - well, a company can identify new products, the company can go for new sectors, the company can go for new geography, new economy - the company can go and extend their market; company can take the advantage of the changing lifestyle; we can see the economic framework of the particular companies and the industry is changing and the company can go for the opportunities available (( )) technology changing; so, new things would come up take the (( )) technology, the session is changing, the life condition of the lifestyle - things are changing; so look go for new… like, particular fashion industry one should obviously look at the lifestyle changes of the customers otherwise… age profile, demography profile may be changing - take advantage of that and introduce new products in the market and get rid of the old products that the company has.

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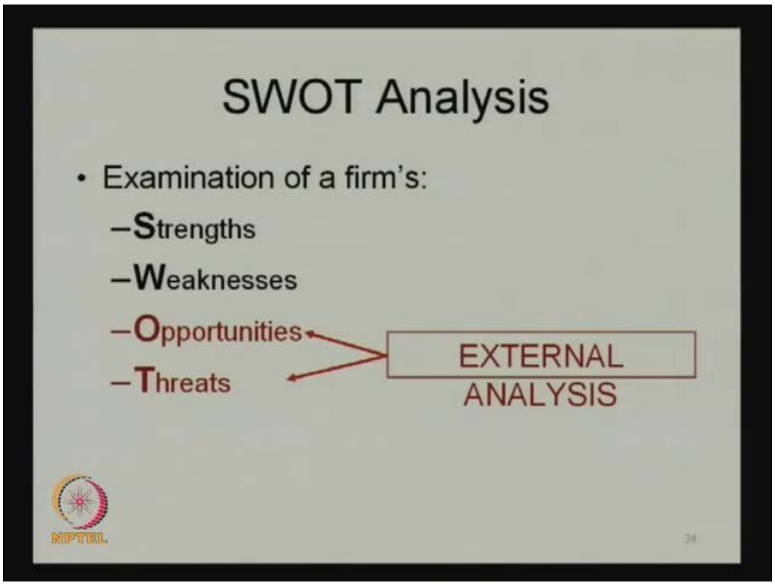

Then, one can have the threats also; when you say threats - we talk about the threats that could be political threats; threat could be legislative threat; there could be environmental threat; there could be technology threat; there could be threats from the partners, the joint venture alliances; there could be threat from the buyers; the threat could also be there from the suppliers; and there could be threat also from the key staff of the company - they may leave the organization; all those things are there - the threats could be there; but, the best thing will be how the company is take the advantage - take care of these threats and go for a counter actions so that the threats are minimized.

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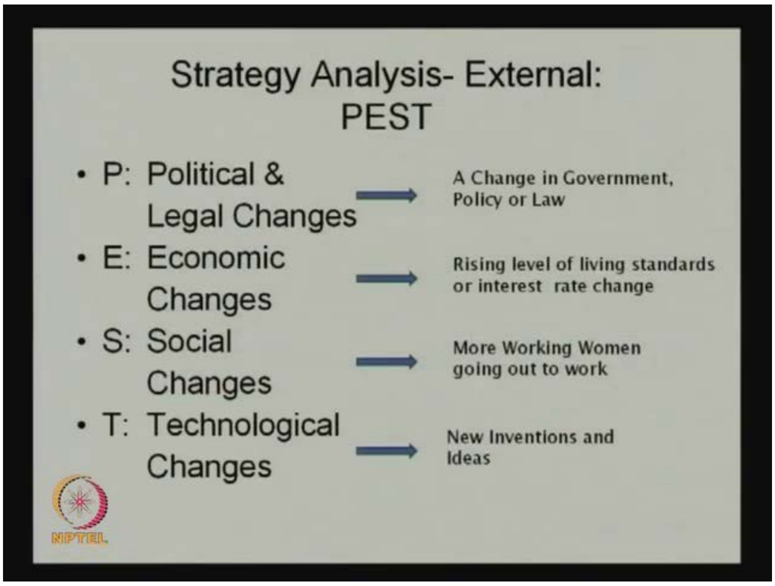

These are the things one has to look at in SWOT analysis; the next thing that we have is the PEST analysis'; and that is called the political and legal changes, then you have the economic changes, social changes and technological changes; in this what you say here is that when the political or legal changes we look at the change in government policy or law; the law could be like the environmental law, the industrial law, the employment law or safety law - all those things are there which are going to affect the companies conditions - these are the things we want to look at; and how the companies take the corrective position so that they are not on the wrong side of the law.

Next thing that you have is the economic changes, where you talk about the rising level of living standards; the change in interest rate - the inflation; change the government's policy change; the fiscal policy changes; how the company is going to take advantage of that - the changes - and withstand the problems from the changes that happened (( )) inflationary condition is there, that can affect the cost of the particular raw material input of the company - how the company is going to hedge that.

What is the system the company has to hedge against the price raise - all those things have to be looked at in case of economy changes; social changes is something for the demographic profile - the people…both the spouses are working - one of the change that we see there; that definitely creates a lot of consumer surplus; consumer has more disposable income to spend so new things can be developed and sold to this particular client base.

Then, the ultimate thing that you have got is the technological changes - there could be new inventions, there could be new ideas, new processes; all those things the company has to take advantage of and accordingly come up with new products and be in the market.

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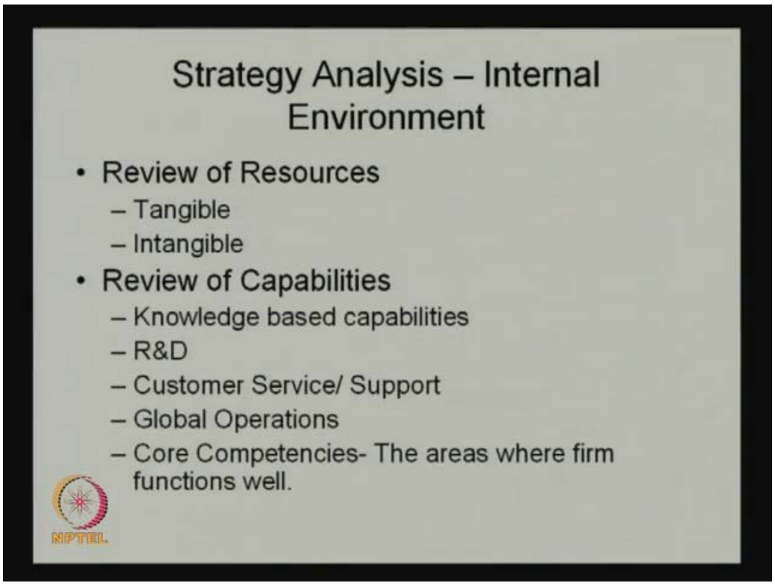

These are the things that we discussed; overall, we talked about strategy analysis - we have got internal environment where you look at the review of resources; resources could be tangible - like, fixed assets, machine capabilities; intangible assets would be nothing but (( )) report in the balance sheet, but they are always there; intangible can technology also- part of the balance sheet or in like patents and copyrights or intangibles could be the brain power of the human resource of the company.

Then, one has to look at the capabilities also - what are the knowledge based capacities - capabilities; R&D capabilities for the type of customers services (( )) certain companies which are good for the after sales service; so, the customers go to that particular company's product because the company has got good customer service; the company may have the good global operations or the company can have other core competencies, where the firm is functioning very well; this is what we discussed in this part of the company analysis.

Essentially, we talked about the strategy analysis there by taking help of Porter's five forces model, SWOT analysis and PEST analysis; in subsequent sessions on company analysis we shall discuss about what are the different authors or researchers - select authors - say how to choose a company based on their strategy; and also talk about how do we read a financial report and what are different finance analysis tools we are going to use in addition to the financial analysis that we have discussed in the earlier sessions also; thank you.