

## **Annexure II – Test Objectives**

### **NISM-Series-XV: Research Analyst Certification Examination**

#### **Chapter 1: Introduction to Research Analyst Profession**

- 1.1 Primary role of a Research Analyst
- 1.2 Primary responsibilities of a Research Analyst
- 1.3 Basic principles of interaction with Companies / Clients
- 1.4 Important qualities of a Research Analyst

#### **Chapter 2: Introduction to Securities Market**

- 2.1 Introduction to Securities and Securities Market
- 2.2 Product Definitions / Terminology
  - 2.2.1 Equity Shares
  - 2.2.2 Debentures/Bonds/Notes
  - 2.2.3 Warrants and Convertible Warrants
  - 2.2.4 Indices
  - 2.2.5 Mutual Fund Units
  - 2.2.6 Exchange Traded Funds
  - 2.2.7 Hybrids/Structured Products
    - 2.2.7.1 Preference Shares
    - 2.2.7.2 Convertible Debenture & Bonds
    - 2.2.7.3 Indian Depository Receipts (IDRs), Global Depository Receipts (GDRs) and American Depository Receipts (ADRs)
    - 2.2.7.4 Foreign Currency Convertible Bonds (FCCB)
    - 2.2.7.5 Equity Linked Debentures
    - 2.2.7.6 Commodity Linked Debentures
    - 2.2.7.7 Mortgaged Backed Securities (MBS) and Asset Backed Securities (ABS)
- 2.3 Structure of Securities Market
  - 2.3.1 Primary market- Explain various ways to issue Securities - Initial Public Offer (IPO), Follow on Public Offer (FPO), Private Placement, Qualified Institutional Placements (QIPs), Preferential issue, Rights and Bonus issue, Onshore and offshore offerings, Offer for Sale (OFS)
  - 2.3.2 Secondary market - Over-the-counter Market and Exchange Traded Markets, Trading, Clearing and Settlement and Risk Management
- 2.4 Various market participants and their activities

- 2.4.1 Market Intermediaries – Stock Exchanges, Depositories, Depository Participant, Trading Member/Stock Brokers & Sub-Brokers, Authorised Person, Custodians, Clearing Corporation, Clearing Banks, Merchant Bankers and Underwriters
- 2.4.2 Institutional participants – Foreign Institutional Investors (FIIs), P-Note Participants, Mutual Funds, Insurance Companies, Pension Funds, Venture Capital Funds, Private Equity Firms, Hedge Funds, Alternative Investment Funds, Investment Advisers
- 2.4.3 Retail participants
- 2.5 Kinds of transactions
  - 2.5.1 Cash, Tom and Spot trades/transactions
  - 2.5.2 Forward transactions
  - 2.5.3 Futures
  - 2.5.4 Options
  - 2.5.5 Swaps
  - 2.5.6 Trading, Hedging, Arbitrage, Pledging of Shares
- 2.6 Dematerialization and Rematerialization of securities

### **Chapter 3: Terminology in Equity and Debt Markets**

#### **3.1 Terminology in Equity Market**

- 3.1.1 Face Value
- 3.1.2 Book Value
- 3.1.3 Market Value
- 3.1.4 Replacement Value
- 3.1.5 Intrinsic Value
- 3.1.6 Market Capitalization
- 3.1.7 Enterprising Value
- 3.1.8 Earnings – Historical, Trailing and Forward
- 3.1.9 Earnings Per Share
- 3.1.10 Dividend Per Share
- 3.1.11 Price to Earnings Ratio
- 3.1.12 Price to Sales Ratio
- 3.1.13 Price to Book Value Ratio
- 3.1.14 Differential Voting Rights (DVRs)

#### **3.2 Terminology in Debt Market**

- 3.2.1 Face Value
- 3.2.2 Coupon Rate
- 3.2.3 Maturity
- 3.2.4 Principal
- 3.2.5 Redemption of a Bond

- 3.2.6 Holding Period Returns
- 3.2.7 Current Yield, Yield to Maturity (YTM)
- 3.2.8 Duration and Modified Duration
- 3.2.9 Convexity

### 3.3 Types of Bonds

- 3.3.1 Zero Coupon Bonds
- 3.3.2 Floating Rate Bonds
- 3.3.3 Convertible Bonds
- 3.3.4 Amortization Bonds
- 3.3.5 Callable Bonds
- 3.3.6 Puttable Bonds
- 3.3.7 Payment in Kind Bonds
- 3.3.8 Principal Protected Note
- 3.3.9 Inflation Protection Securities

## **Chapter 4: Fundamentals of Research**

- 4.1 What is investing
- 4.2 Research on businesses or stocks
- 4.3 Fundamental Analysis - Top down approach and Bottom up approach
- 4.4 Technical Analysis
- 4.5 Behavioral Finance

## **Chapter 5: Economic Analysis**

- 5.1 Basic principles of microeconomics
- 5.2 Basic principles of macroeconomics
- 5.3 Introduction to various macroeconomic variables
  - 5.3.1 National income
  - 5.3.2 Savings and Investments
  - 5.3.3 Inflation (Consumer/Wholesale Price Indices) and interest rate
  - 5.3.4 Unemployment rate
  - 5.3.5 Flows from Foreign Direct Investment (FDI) and Foreign Institutional Investors (FIIs)
  - 5.3.6 Fiscal policies and their impact on Economy
  - 5.3.7 General Anti-Avoidance Rules (GAAR)
  - 5.3.8 Monetary policies and their impact on Economy
  - 5.3.9 International trade, Exchange rate and Trade Deficit
  - 5.3.10 Globalization– Positives and Negatives
- 5.4 Sources of information for economic analysis

## **Chapter 6: Industry Analysis**

### 6.1 Dr. Michael Porter's five force model for industry analysis

- 6.1.1 Industry rivalry
- 6.1.2 Threat of substitutes
- 6.1.3 Bargaining power of buyers
- 6.1.4 Bargaining power of suppliers
- 6.1.5 Barriers to entry

### 6.2 Political, Economic, Socio-cultural, Technological, Legal and Environmental (PESTLE) Analysis

### 6.3 Boston Consulting Group (BCG) Analysis

### 6.4 Structure Conduct Performance (SCP) Analysis

### 6.5 Key Industry Drivers

### 6.6 Regulatory environment/framework

### 6.7 Sources of information for industry analysis

## **Chapter 7: Company Analysis – Qualitative Dimensions**

### 7.1 Understand Business and Business Models

### 7.2 Competitive Advantages/Points of differentiation over the competitors

### 7.3 Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis

### 7.4 Quality of management (including independent directors) and governance

### 7.5 Pricing power and sustainability of this power

### 7.6 Organization structure

### 7.7 Critical business drivers/success factors

### 7.8 Risks in the business

### 7.9 Compliance orientation of the company

### 7.10 Documentation on Guidance v/s Actuals

### 7.11 Sources of information for analysis

## **Chapter 8: Company Analysis – Quantitative Dimensions**

### 8.1 History of Business Vs. Future of Business

### 8.2 Basics of Profit and Loss Account (P/L)

### 8.3 Basics of Balance Sheet (B/S)

### 8.4 Basics of Cash Flows

### 8.5 Contingent Liabilities, Off-balance sheet items, Accounting Policies, Notes to Accounts

### 8.6 Basics of Taxation affecting to Companies

### 8.7 Important points to keep in mind while looking at financials

### 8.8 Quality of business in the past through quantitative lenses

- 8.8.1 Profitability ratios

- 8.8.2 Return ratios
- 8.8.3 Leverage ratios
- 8.8.4 Liquidity ratios
- 8.8.5 Efficiency ratios
- 8.9 Peeping in to future with caution
- 8.10 Peer Comparison
- 8.11 History of Equity expansion
- 8.12 Dividend and earnings history
- 8.13 History of corporate actions
- 8.14 Ownership and Insiders' Sales and Purchase of stocks in the past

### **Chapter 9: Corporate Actions**

- 9.1 Philosophy of corporate actions
  - 9.1.1 Dividend
  - 9.1.2 Rights Issue
  - 9.1.3 Bonus Issue
  - 9.1.4 Stock Split
  - 9.1.5 Share Consolidation
  - 9.1.6 Merger and Acquisition
  - 9.1.7 Loan Restructuring
  - 9.1.8 Buy back of shares
  - 9.1.9 Delisting of shares
  - 9.1.10 Share Swap

### **Chapter 10: Valuation Principles**

- 10.1 Difference between Price and Value
- 10.2 Why Valuations are required
- 10.3 Sources of Value in a Business – Earnings and Assets
- 10.4 Discounted Cash Flows model for Business Valuation
- 10.5 Absolute Valuations vs. Price-Value sense
- 10.6 Earnings based Valuation Matrices
  - 10.6.1 Dividend Yield – Price to Dividend Ratio
  - 10.6.2 Earning Yield - Price to Earnings Ratio
  - 10.6.3 Growth adjusted Price to Earnings Ratio (PEG Ratio)
  - 10.6.4 Enterprise Value to EBDITA Ratio
  - 10.6.5 Enterprise Value (EV) to Sales Ratio
- 10.7 Assets based Valuation Matrices
  - 10.7.1 Return on Equity (ROE) based valuation –Price to Equity Book Value Ratio

- 10.7.2 Return on Capital Employed (ROCE) based valuation – Enterprise Value (EV) to Capital Employed Ratio
- 10.7.3 Net Asset Value approach
- 10.8 Relative Valuations - Trading Multiples and Transaction Multiples
- 10.9 Sum-Of-The-Parts (SOTP) Valuation
- 10.10 Other Valuation Parameters in new age economy and businesses
- 10.11 Capital Asset Pricing Model
- 10.12 Objectivity of Valuations
- 10.13 Some important considerations in the context of Business Valuation

### **Chapter 11: Fundamentals of Risk and Return**

- 11.1 Concept of return of investment and return on investment
- 11.2 Calculation of simple, annualized and compounded returns
- 11.3 Risks in investments
- 11.4 Concepts of market risk (Beta)
- 11.5 Sensitivity analysis to assumptions
- 11.6 Concept of Margin of Safety
- 11.7 Comparison of equity returns with bond returns
- 11.8 Basic Behavioral Biases influencing investments
- 11.9 Some pearls of wisdom from Investment Gurus across the world

### **Chapter 12: Qualities of a good Research Report**

- 12.1 Qualities of a good Research Report
  - 12.1.1 Rating Conventions – Over-weight, Under-weight, Buy, Sell and Hold recommendations
- 12.2 Checklist based approach to the Research Reports
- 12.3 A sample checklist for Investment Research Reports

### **Chapter 13: Legal and Regulatory Environment**

- 13.1 Regulatory infrastructure in Financial Markets
  - 13.1.1 Ministry of Finance (MoF)
  - 13.1.2 Ministry of Corporate Affairs (MCA)
  - 13.1.3 Reserve Bank of India (RBI)
  - 13.1.4 Securities and Exchange Board of India (SEBI)
  - 13.1.5 Insurance Regulatory and Development Authority (IRDA)
  - 13.1.6 Pension Fund Regulatory and Development Authority (PFRDA)
  - 13.1.7 Forward Markets Commission (FMC) etc.
- 13.2 Important regulations in Indian Securities Market

- 13.2.1 Securities Contract (Regulation) Act, 1956
- 13.2.2 Securities and Exchange Board of India (SEBI) Act, 1992
- 13.2.3 Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015
- 13.2.4 SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulation, 2003
- 13.2.5 Securities and Exchange Board of India (Research Analyst) Regulations, 2014
- 13.3 Code of Conduct/Ethics for Research Analysts
- 13.4 Disclosure Requirements for Research Analysts

**Annexure:**

1. Case Studies (Some cases from history on market events)
2. Suggested Readings
3. Reference websites