

OUTNOTES

UNIQUE STRUCTURED CONCEPT NOTES

CA Final **AFM**

Sept 25 onwards

CMA Final **SFM**

Nov 25 onwards



with
**Theory
Topics**

Adish Jain CA CFA

2 Amazing Features

Changing student's experience...

QUESTION BANK WITH VIDEO SOLUTIONS

$$\sigma_p^2 = (\sigma_A \omega_A)^2 + (\sigma_B \omega_B)^2 + 2\sigma_A \omega_A \sigma_B \omega_B \rho_{AB}$$

$$\sigma_p^2 = (\sigma_A \omega_A)^2 + (\sigma_B \omega_B)^2 + 2\omega_A \omega_B \rho_{AB}$$

In case of 3 securities in the portfolio:

$$\sigma_p^2 = (\sigma_A \omega_A)^2 + (\sigma_B \omega_B)^2 + (\sigma_C \omega_C)^2 + 2\omega_A \omega_B \rho_{AB} + 2\omega_B \omega_C \rho_{BC} + 2\omega_A \omega_C \rho_{AC}$$

Special Case of ρ of two securities, when r is equal to +1 and -1

Perfect Negative $r = -1$ No Correlation $r = 0$ Perfect Positive $r = +1$

negative corr. positive corr.

If we put $r = +1$ and -1 in the below formula of SD:

$$\sigma_p = \sqrt{(\sigma_A \omega_A)^2 + (\sigma_B \omega_B)^2 + 2\sigma_A \omega_A \sigma_B \omega_B \rho_{AB}}$$

$\sigma_p = \sigma_A \omega_A - \sigma_B \omega_B$ $\sigma_p = \sigma_A \omega_A + \sigma_B \omega_B$

$E(R_p) = E(R_A) \times \omega_A + E(R_B) \times \omega_B$

QUESTION 6:
RTP N 20
Mr. SG sold five 4-Month Nifty Futures on 1st February 2020 for ₹ 9,00,000. At the time of closing of trading on the last Thursday of May 2020 (expiry), Index turned out to be 2100. The contract multiplier is 75.

Based on the above information calculate:

- The price of one Future Contract on 1st February 2020.
- Approximate Nifty Sensex on 1st February 2020 if the Price of Future Contract on same date was theoretically correct. On the same day Risk Free Rate of Interest and Dividend Yield on Index was 9% and 6% p.a. respectively.
- The maximum Contango/Backwardation.
- The pay-off of the transaction.

Note: Carry out calculation on month basis.

Solution:

- Price of one future contract on 1st Feb, 2020

$$= \frac{900000}{5}$$

$$= ₹ 180000$$
- Calculation of Nifty Index Spot Price:

$$FP = SP \times [1 + (r - y) \times n] \times 75$$

$$180000 = SP \times [1 + (0.09 - 0.06) \times 4/12] \times 75$$

$$178218 = SP \times 75$$

$$2376.23 = SP$$
- Maximum contango/Backwardation
 spot = 2376.23
 future = 2400 (180000/75)
 $S < F$
 $2376.23 < 2400 \therefore$ market is in contango
 Max. contango = Basis
 $= S - F$

Audio Solutions

UNIQUE STRUCTURED
CONCEPT NOTES

ICAI vs. OutNotes Chapters

No.	ICAI Chapter Name	OutNotes Chapter Name
1	Financial Policy and Corporate Strategy	Financial Policy and Corporate Strategy
2	Risk Management	Risk Management & Security Analysis
4	Security Analysis	
3	Advanced Capital Budgeting Decisions	Advanced Capital Budgeting Decisions
5	Security Valuation	Fixed Income Securities
	Preference Share Valuation	
	Bond Valuation	
	Money Market Securities	
	Equity Valuation	Equity & Business Valuation
13	Business Valuation	
6	Portfolio Management	Portfolio Management
7	Securitization	Securitization
8	Mutual Funds	Mutual Funds
9	Derivatives Analysis and Valuation	Derivatives & Interest Rate Risk Management
12	Interest Rate Risk Management	
10	Foreign Exchange Exposure and Risk Management	Foreign Exchange & International Financial Management
11	International Financial Management	
14	Mergers, Acquisitions and Corporate Restructuring	Mergers, Acquisitions and Corporate Restructuring
15	Startup Finance	Startup Finance

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Important Instructions

before we read this book...

- This book has been creatively designed to help you understand and remember the concepts easily. For this purpose, concepts have been presented in diagrams and charts format. However, for theory topics, answers must be written in simple pointers and paragraph format in exams.
- The purpose of text in **Grey Colour** is to give you the background of the main concept, which will be more useful while reading first time. At the time of revision, you should make use of colour coding & ignore grey text.
- Below theory chapters and new topics added in SM 2024 have more importance and should be studied on priority to other chapters. Newly added theory topics have been marked as '**SM 2024**'. Also, theory questions from Past Exam-papers, RTPs & MTPs from these chapters are compiled at the start of 'Theory Topics'.



1. Start-Up Finance
2. Securitization
3. Financial Policy and Corporate Strategy
4. Risk Management
5. Security Analysis

Chapters	N 24	M 24	N 23	M 23	N 22	M 22	N 21	M 21	N 20 (II)	N 20
Start-Up Finance	4	4	8	8	8	4	8	8	8	7
Securitization		4	4	4	4	4	4	4	8	4
Financial Policy & Corp Strategy	4	4	4	4	4	4		4	4	
Risk Management			4			4	4	4		
Security Analysis			4				4			4
Other Chapters		6	4	8	12	8	4	4		4
Total	8	18	28	24	28	24	24	24	20	19

All the best!

Basics of AFM





2) Earnings Per Share

Earnings Per Share (EPS)

IS extract:

Particulars	Amount

n = Number of equity shares

In the absence of preference dividend, EAES = PAT.

3) Book Value Per Share

Book-value per Share (BVPS) is the per share value of equity shareholders in the net assets of the company as per books or balance sheet.

Equity Shareholders Funds (ESHF) or Net Worth is the total value of equity shareholders in the net assets of the company as per books or Balance Sheet.



4) Return on Equity

Return on Equity (ROE)

is the return (profit) earned by the company on the capital of equity shareholders as per books or balance sheet.

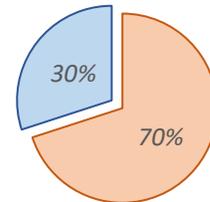
Totality	Per Share

5) Market Price per Share & Market Capitalization

Market Price per Share (MPS) is the price at which share trades in the market. It tells you the value per share in the market.

Market Capitalisation (M-Cap) means total market value of equity shares of the company.

Example: Justdial Ltd has 1000 equity shares outstanding. Current market price is ₹ 15 per share.



Shareholding Pattern	No. Of shares	Holding %
Promoters	700	70%
General Public	300	30%

Total or Full Market Cap	Free-float Market Cap
It is the total market value of all equity shares of the company.	It is that part of total market cap that is not held by promoters i.e., held by general public

Calculation of M-Cap

ESHF vs M-cap or BVPS vs MPS:

	Totality Value	Per Share Value
As per market		
As per books		

6) MPS & Price Earnings Ratio

Price Earnings Ratio (PE Ratio): It tells you 'How many times are the investors ready to pay for every rupee of income earned from the share of a company'. And a lot more...

Accordingly, **Market Price Per Share (MPS):**

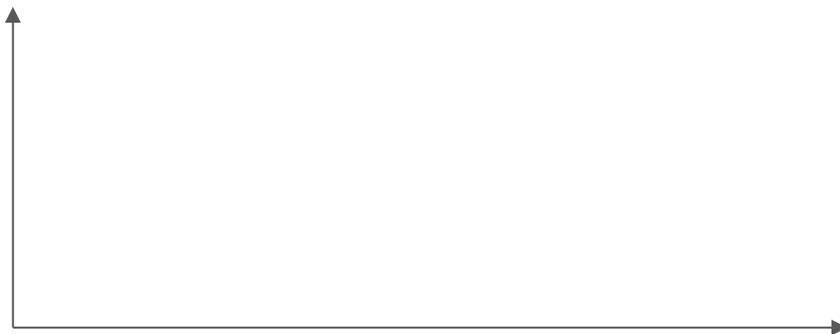
7) Dividend: Absolute & Percentage

Dividend Per Share (DPS):

Dividend Rate	Dividend Yield	Payout Ratio	Retention Ratio
(as a % of FV)	(as a % of MPS)	(as a % of EPS)	



Impact of dividend on MPS:



B. Different Types of Rates of Return

1) Required Rate of Return

It is the minimum rate of return required to be earned from an investment based on the risk involved in it. Also called as Opportunity Cost, it is used as discounting rate to calculate PV of CFs.

Real Risk-free Rate

Compensation for allowing use of money to other

Inflation Premium

Compensation for loss of purchasing power of money invested

Risk Premium

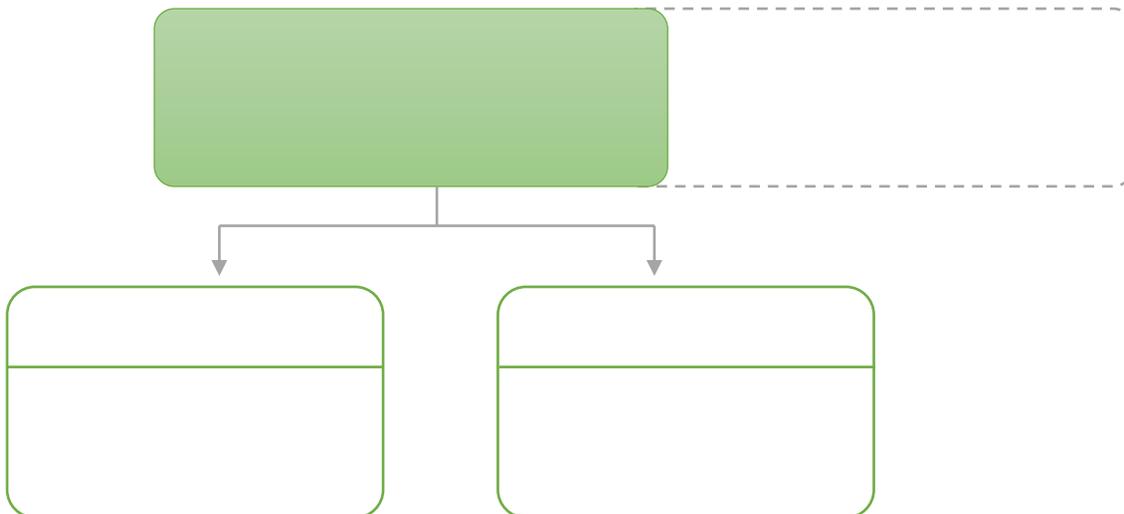
Compensation for taking risk while making a risky investment

2) Expected Rate of Return

It is the rate of return that an investor estimates (expects) that he will earn on an investment in a period of 1 year.



Example: A share is bought today @ ₹ 100 and investor estimates that it can be sold @ ₹ 115 after a year. Then, expected rate of return on the investment is 15%.



Meet Adish

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Ex-Morgan Staley & ICICI Securities with
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