UpperCrust
THE WEALTH COMPANY

NISM CERTIFICATION · COMPLETE STUDY GUIDE

NISM Series XV

Research Analyst

Economy, industry, company, valuation and technicals, plus the SEBI rules for publishing research. Fifteen chapters, deeply worked.

100 QUESTIONS · 120 MINUTES · PASS 60% · 15 UNITS

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ABOUT THIS GUIDE

Everything you need, in one place.

NISM Series XV is required for SEBI-registered research analysts and research entities. It spans the whole analyst's toolkit, from macroeconomics and financial statement analysis to valuation and technical analysis, and finishes with the legal framework that governs what can be published and how.

100	120 min	60%	25% of marks
QUESTIONS	DURATION	TO PASS	NEGATIVE MARKING

Who should take this exam

Equity and debt analysts, portfolio managers, sell-side and buy-side researchers, finfluencers and educators who publish research, and anyone who wants a rigorous foundation in fundamental and technical analysis.

How this guide works

1. Read the unit overview
2. Study each concept card
3. Say the example aloud
4. Check the watch-outs
5. Take the unit mock

Each unit opens with its exam weight, so you know where marks are. Each concept card gives the idea, a worked example, and the mistake the exam wants you to make. The same ideas power the five mock tests on the UpperCrust Academy app, which get harder one by one.

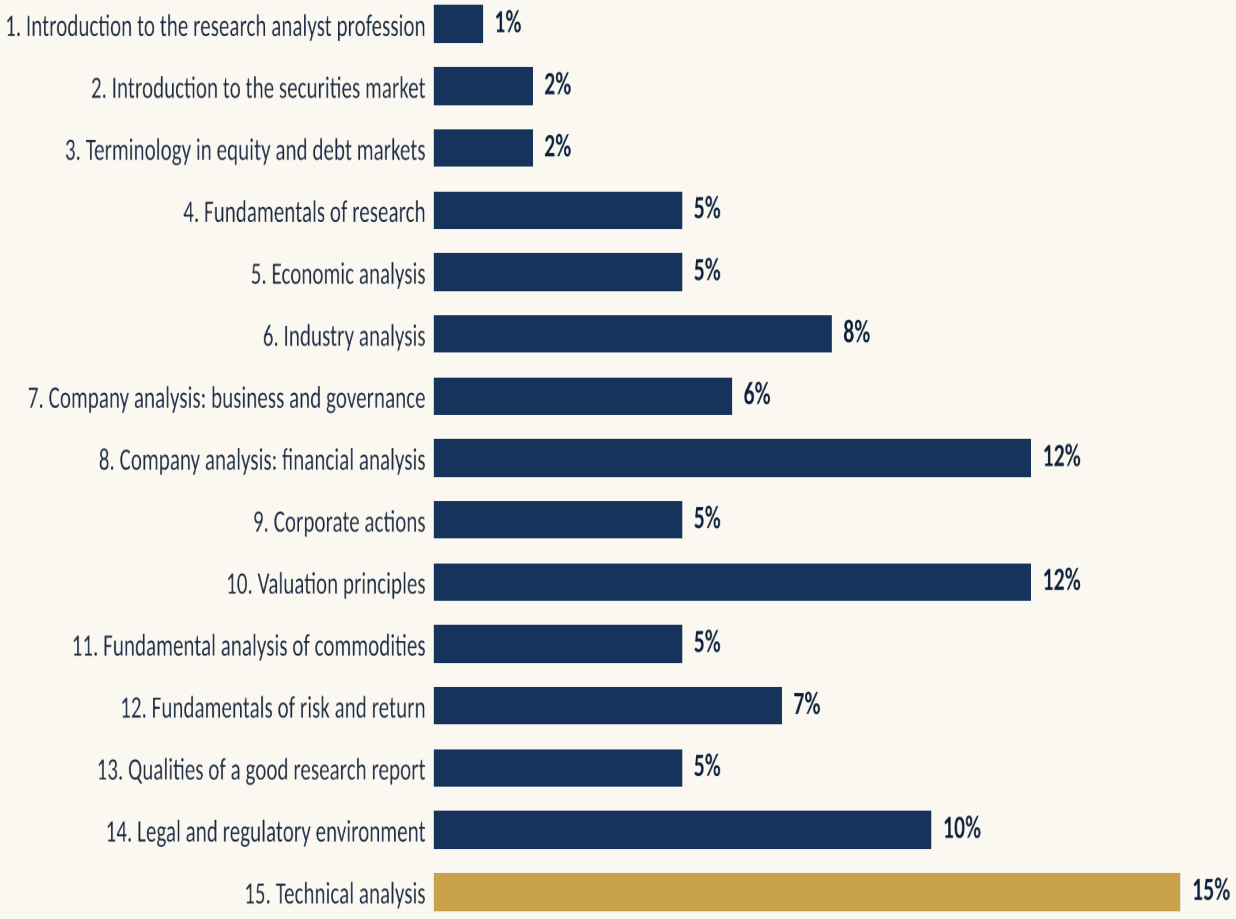
> **Keep this in mind**
>
> NISM revises its syllabus and workbook from time to time, and rules change by SEBI circular. This guide follows the official unit structure and weightage. Check the latest NISM workbook for any changes before your exam date.

EXAM AT A GLANCE

Structure and marks.

Item	Detail
Format	80 multiple-choice questions plus 5 case-based sets (4 questions each); the mocks here use scenario questions in place of cases
Questions and marks	100 questions, 1 mark each, 100 marks
Duration	2 hours
Passing score	60 marks (60%)
Negative marking	25% of a question's marks, so 0.25 per wrong answer
Certificate validity	Three years; renew through NISM
Where it leads	SEBI registration as a research analyst

Where the marks are



Read the chart like an examiner

Units above 10% decide most results. Master them first, then use the small units for easy marks. A unit worth 3% still supplies three marks at no extra effort once you have the concepts.

YOUR STUDY PLAN

Time follows marks.

The bar shows how the exam is split across units. Spend your hours in the same proportion.



Unit	Marks	Share of study time	Suggested days
1. Introduction to the research analyst profession	1	1%	1
2. Introduction to the securities market	2	2%	1
3. Terminology in equity and debt markets	2	2%	1
4. Fundamentals of research	5	5%	2
5. Economic analysis	5	5%	2
6. Industry analysis	8	8%	3
7. Company analysis: business and governance	6	6%	2
8. Company analysis: financial analysis	12	12%	4
9. Corporate actions	5	5%	2
10. Valuation principles	12	12%	4
11. Fundamental analysis of commodities	5	5%	2
12. Fundamentals of risk and return	7	7%	2
13. Qualities of a good research report	5	5%	2
14. Legal and regulatory environment	10	10%	4
15. Technical analysis	15	15%	5
Revision and five mocks			7

The mock ladder

1 Mock 1 Foundation ▶ 2 Mock 2 Core ▶ 3 Mock 3 Applied ▶ 4 Mock 4 Exam level ▶ 5 Mock 5 Beyond exam

Take Mock 1 after your first pass through the guide. Move to the next mock only when you score 15 marks above the pass mark. Review every wrong answer in the app; each one links back to its unit.

UNIT 1 · 1% OF THE EXAM

Introduction to the research analyst profession

Who a research analyst is and what the role demands.

What the exam looks for

- Role, skills and responsibilities.

Concept cards

01

Research analyst

A research analyst studies securities, companies or markets and publishes recommendations, targets or opinions that investors may rely on.

EXAMPLE A person who writes a report recommending a share with a target price.

WATCH OUT Not true: a research analyst executes trades for clients.

02

Buy-side and sell-side

Sell-side analysts work for brokers and publish research for clients; buy-side analysts work for fund managers and research for their own investment decisions.

EXAMPLE An analyst at a mutual fund researches stocks only for the fund's use.

WATCH OUT Not true: buy-side analysts publish reports for the public.

03

Objectivity and independence

Research must be independent, based on facts and free of undue influence from the subject company or trading desks.

EXAMPLE An analyst resists pressure to change a rating after the company objects.

WATCH OUT Not true: an analyst may change a rating at the request of the subject company.

Unit recap · one line each

Research analyst · Buy-side and sell-side · Objectivity and independence

UNIT 2 · 2% OF THE EXAM

Introduction to the securities market

A rapid overview of the market that analysts operate in.

What the exam looks for

- Primary and secondary markets, participants and regulators.

Concept cards

01

Securities market regulators

SEBI regulates the securities market, RBI the money market and banks, and exchanges oversee their members.

EXAMPLE A research report on listed shares is subject to the capital-market regulator.

WATCH OUT Not true: the RBI regulates research analysts.

02

Market segments

The securities market has equity, debt, derivatives and commodity segments, each with its own instruments and participants.

EXAMPLE An analyst may cover shares, bonds and futures contracts.

WATCH OUT Not true: securities markets have only an equity segment.

03

Listing and disclosure

Listed companies must make continuous disclosures under the SEBI listing regulations, which are the primary source of information for analysts.

EXAMPLE A company files its quarterly results and announces material events on the exchange.

WATCH OUT Not true: listed companies need not disclose results to the public.

Unit recap · one line each

Securities market regulators · Market segments · Listing and disclosure

UNIT 3 · 2% OF THE EXAM

Terminology in equity and debt markets

Key terms the analyst must use correctly.

What the exam looks for

- Equity and debt terms.

Concept cards

01

Market capitalisation

Market capitalisation is share price multiplied by shares outstanding, and classifies companies as large, mid or small cap.

EXAMPLE A company with 50 crore shares at ₹200 has a value of ₹10,000 crore.

WATCH OUT Not true: market capitalisation is the company's total assets.

02

Yield to maturity

Yield to maturity is the annualised return on a bond if held to maturity and coupons are reinvested at the same rate.

EXAMPLE A bond priced below face value has a yield above its coupon.

WATCH OUT Not true: yield to maturity equals the coupon rate always.

03

Face value and issue price

Face value is the nominal value of a security, while the issue price is what investors pay at the time of issue, which may differ.

EXAMPLE A share with face value ₹10 is issued at ₹250.

WATCH OUT Not true: issue price is always equal to face value.

04

Credit spread

Credit spread is the extra yield on a risky bond over a risk-free government bond of similar maturity, compensating for credit risk.

EXAMPLE A corporate bond yields 2% more than a similar G-sec.

WATCH OUT Not true: credit spread is the difference between bid and ask.

Unit recap · one line each

Market capitalisation · Yield to maturity · Face value and issue price · Credit spread

UNIT 4 · 5% OF THE EXAM

Fundamentals of research

The framework for doing research: approaches, sources and a disciplined process.

What the exam looks for

- Top-down and bottom-up.
- Qualitative and quantitative analysis.
- Research process and data sources.

Top-down approach



Concept cards

01

Top-down approach

The top-down approach starts with the economy, then selects industries and finally companies.

EXAMPLE An analyst first judges growth, then picks sectors, then picks stocks.

WATCH OUT Not true: a top-down approach starts with a single stock.

02

Bottom-up approach

The bottom-up approach starts with individual company analysis and gives less weight to macro and sector views.

EXAMPLE An analyst picks strong businesses irrespective of sector or economy.

WATCH OUT Not true: a bottom-up approach starts with the global economy.

03

Fundamental analysis

Fundamental analysis estimates a security's intrinsic value from economic, industry and company factors and compares it with market price.

EXAMPLE An analyst studies earnings and cash flow to judge fair value.

WATCH OUT Not true: fundamental analysis relies only on price charts.

04

Technical analysis

Technical analysis studies price and volume history to forecast future price moves, assuming patterns repeat.

EXAMPLE An analyst studies charts and indicators rather than financial statements.

WATCH OUT Not true: technical analysis studies a company's balance sheet.

05

Qualitative analysis

Qualitative analysis assesses non-numerical factors such as management quality, brand, competitive position and governance.

EXAMPLE An analyst evaluates the integrity and track record of the management.

WATCH OUT Not true: qualitative analysis uses only financial ratios.

06

Quantitative analysis

Quantitative analysis uses numerical data and models, such as ratios, forecasts and statistics, to evaluate securities.

EXAMPLE An analyst builds a forecast model of revenue and profits.

WATCH OUT Not true: quantitative analysis ignores numbers.

07

Intrinsic value

Intrinsic value is the estimated true worth of a security based on fundamentals, which may differ from market price.

EXAMPLE A stock priced at ₹80 is estimated to be worth ₹110.

WATCH OUT Not true: intrinsic value is today's market price.

08

Primary and secondary data

Primary data is collected directly by the analyst, such as management interviews and channel checks; secondary data is taken from existing sources like filings.

EXAMPLE An analyst visits a plant to gather information first-hand.

WATCH OUT Not true: annual reports are primary data collected by the analyst.

09

Research process

The research process involves defining the objective, collecting data, analysing, valuing, forming a view, writing and monitoring.

EXAMPLE An analyst follows steps from data gathering to publishing and updating.

WATCH OUT Not true: the research process ends with the first report.

10

Margin of safety

Margin of safety is the gap between intrinsic value and the price paid, providing a cushion against errors in estimation.

EXAMPLE An analyst buys only when price is well below estimated value.

WATCH OUT Not true: a margin of safety means paying more than intrinsic value.

Unit recap · one line each

Top-down approach · Bottom-up approach · Fundamental analysis · Technical analysis · Qualitative analysis · Quantitative analysis · Intrinsic value · Primary and secondary data · Research process · Margin of safety

UNIT 5 · 5% OF THE EXAM

Economic analysis

How the economy drives sectors and stocks: growth, inflation, policy and the cycle.

What the exam looks for

- GDP, inflation, fiscal and monetary policy.
- Business cycle and indicators.

Monetary policy tools

Tool	Effect
Repo rate	Rate at which banks borrow from RBI
CRR	Share of deposits banks keep with RBI
SLR	Share of deposits banks hold in liquid assets
OMO	Buying or selling G-secs to adjust liquidity

Concept cards

01

GDP

Gross Domestic Product is the total value of goods and services produced within a country in a period, a measure of economic activity.

EXAMPLE A country's total output for the year rises 6.5%.

WATCH OUT Not true: gDP is the total government spending.

02

Inflation

Inflation is the sustained rise in the general price level, measured in India by the Consumer Price Index and the Wholesale Price Index.

EXAMPLE The general price level rises 5% compared with last year.

WATCH OUT Not true: inflation is a fall in the general price level.

03

CPI and WPI

CPI measures changes in retail prices faced by consumers, while WPI measures wholesale prices of goods. The RBI targets CPI inflation.

EXAMPLE The policy target is based on retail prices.

WATCH OUT Not true: the RBI targets WPI inflation.

04

Fiscal deficit

The fiscal deficit is government expenditure minus revenue (excluding borrowings), showing how much the government must borrow.

EXAMPLE The government spends ₹50 lakh crore against receipts of ₹45 lakh crore.

WATCH OUT Not true: the fiscal deficit equals the trade deficit.

05

Current account deficit

The current account deficit arises when a country's imports of goods, services and transfers exceed its exports.

EXAMPLE India buys more from the world than it sells.

WATCH OUT Not true: a current account deficit means the government has a budget deficit.

06

Monetary policy

Monetary policy is the central bank's use of interest rates and liquidity tools to manage inflation and growth.

EXAMPLE The RBI raises the repo rate to control prices.

WATCH OUT Not true: monetary policy is set by the finance ministry.

07

Fiscal policy

Fiscal policy is the government's use of taxation and spending to influence the economy.

EXAMPLE The government cuts taxes to stimulate demand.

WATCH OUT Not true: fiscal policy is set by the central bank.

08

Business cycle

The business cycle consists of expansion, peak, contraction and trough, with different sectors outperforming in each phase.

EXAMPLE An economy moves from recovery to boom and then slowdown.

WATCH OUT Not true: the economy grows in a straight line without cycles.

09

Leading indicators

Leading indicators such as new orders and PMI change before the economy turns and help forecast direction.

EXAMPLE A rise in new orders signals growth ahead.

WATCH OUT Not true: leading indicators change after the economy turns.

10

PMI

The Purchasing Managers' Index surveys business activity; a reading above 50 indicates expansion and below 50 contraction.

EXAMPLE A manufacturing PMI of 56 shows expansion.

WATCH OUT Not true: a PMI below 50 shows expansion.

11

IIP

The Index of Industrial Production tracks changes in the volume of production in mining, manufacturing and electricity.

EXAMPLE A monthly number shows industrial output rising 4%.

WATCH OUT Not true: iIP measures retail inflation.

12

Exchange rate impact

A weaker rupee helps exporters' revenues but raises import costs, affecting sectors differently.

EXAMPLE IT exporters gain when the rupee depreciates.

WATCH OUT Not true: a weaker rupee hurts all companies equally.

13

Interest rate impact

Higher interest rates raise borrowing costs and discount rates, which usually pressure valuations and rate-sensitive sectors.

EXAMPLE A rate hike hurts real estate and auto stocks.

WATCH OUT Not true: higher interest rates always lift all share prices.

Unit recap · one line each

GDP · Inflation · CPI and WPI · Fiscal deficit · Current account deficit · Monetary policy · Fiscal policy · Business cycle · Leading indicators · PMI · IIP · Exchange rate impact · Interest rate impact

UNIT 6 · 8% OF THE EXAM

Industry analysis

Industries have their own economics. This chapter equips analysts to assess structure, competition and lifecycle.

What the exam looks for

- Porter's five forces.
- Industry life cycle.
- Cyclical versus defensive.

Porter's five forces



Concept cards

01

Porter's five forces

Porter's model assesses industry attractiveness by competitive rivalry, threat of new entrants, threat of substitutes, bargaining power of buyers and suppliers.

EXAMPLE An analyst evaluates how easy it is for rivals to enter and compete.

WATCH OUT Not true: porter's model measures a company's profit margin.

02

Barriers to entry

Barriers to entry, such as capital needs, regulation, brands and scale, protect existing firms from new competitors.

EXAMPLE A telecom sector needs spectrum and heavy capital.

WATCH OUT Not true: high barriers to entry make an industry easy to enter.

03

Industry life cycle

Industries pass through start-up, growth, maturity and decline stages, with different growth rates and risks.

EXAMPLE A new technology sector is in rapid growth with high uncertainty.

WATCH OUT Not true: all industries remain in the growth stage.

04

Cyclical industry

A cyclical industry's earnings rise and fall sharply with the economic cycle, as in steel, autos and capital goods.

EXAMPLE A steel company's profits swing with the economy.

WATCH OUT Not true: cyclical industries have stable earnings in all conditions.

05

Defensive industry

A defensive industry sells essentials with stable demand, such as FMCG, utilities and pharma, and holds up better in downturns.

EXAMPLE A toothpaste maker's sales remain steady in a recession.

WATCH OUT Not true: defensive industries are the most sensitive to the economic cycle.

06

Industry concentration

Concentration measures how much of the market is held by a few firms; the Herfindahl-Hirschman index is one such measure.

EXAMPLE Three firms hold 80% of the market, indicating concentration.

WATCH OUT Not true: a concentrated industry has many equal small players.

07

Cost structure

Operating leverage depends on fixed versus variable costs; high fixed costs magnify profit swings as volume changes.

EXAMPLE A firm with high fixed costs sees profits jump sharply when sales rise.

WATCH OUT Not true: fixed costs change in proportion to sales.

08

Substitute threat

Substitutes limit the prices an industry can charge, as customers can switch to alternatives.

EXAMPLE Rising bus fares push travellers to trains.

WATCH OUT Not true: substitutes have no effect on pricing.

09

Regulation and policy

Government policy, taxes and regulation can change industry profitability, such as price controls in pharma or spectrum charges in telecom.

EXAMPLE A price cap reduces margins in a regulated industry.

WATCH OUT Not true: regulation never affects industry profits.

10

PESTLE analysis

PESTLE reviews political, economic, social, technological, legal and environmental factors that affect an industry.

EXAMPLE An analyst lists the policy, tech and legal drivers for a sector.

WATCH OUT Not true: pESTLE is a ratio of price to earnings.

11

Market share

Market share is a company's sales as a percentage of the industry total and shows competitive strength over time.

EXAMPLE A firm's share rises from 20% to 25% over three years.

WATCH OUT Not true: market share is the same as profit margin.

12

Capacity utilisation

Capacity utilisation shows the share of installed capacity actually used; low utilisation signals weak demand or excess capacity.

EXAMPLE A cement industry running at 60% capacity has spare supply.

WATCH OUT Not true: high capacity utilisation always signals weak demand.

13

SWOT analysis

SWOT lists a company's strengths, weaknesses, opportunities and threats to summarise its position.

EXAMPLE An analyst lists internal strengths and external risks in one table.

WATCH OUT Not true: sWOT is a method of calculating cost of capital.

Unit recap · one line each

Porter's five forces · Barriers to entry · Industry life cycle · Cyclical industry · Defensive industry · Industry concentration · Cost structure · Substitute threat · Regulation and policy · PESTLE analysis · Market share · Capacity utilisation · SWOT analysis

UNIT 7 · 6% OF THE EXAM

Company analysis: business and governance

Before the numbers, understand the business and the people running it.

What the exam looks for

- Business model and moat.
- Management quality.
- Corporate governance red flags.

Concept cards

01

Business model

A business model describes how a company creates, delivers and captures value, and what drives its revenue and costs.

EXAMPLE An analyst maps how a company earns each rupee of revenue.

WATCH OUT Not true: a business model is the company's balance sheet.

02

Economic moat

An economic moat is a durable competitive advantage, such as brand, network effect, cost advantage or switching cost, protecting long-term profits.

EXAMPLE A strong brand allows a company to charge premium prices for years.

WATCH OUT Not true: an economic moat is a short-lived advantage.

03

Management quality

Management quality is judged by track record, capital allocation, transparency, integrity and alignment with shareholders.

EXAMPLE An analyst reviews how past acquisitions performed and whether guidance was met.

WATCH OUT Not true: management quality is irrelevant if the numbers are good.

04

Corporate governance

Corporate governance is the system of rules and practices by which a company is directed and controlled, protecting shareholders' interests.

EXAMPLE Independent directors, audit committee and transparent disclosures.

WATCH OUT Not true: corporate governance is only about paying dividends.

05

Board independence

Independent directors on the board and its committees provide oversight free from management and promoter influence.

EXAMPLE A board has independent directors chairing the audit committee.

WATCH OUT Not true: independent directors are promoter relatives.

06

Related-party transactions

Dealings between a company and its promoters or their entities may favour insiders, so they require disclosure and approval.

EXAMPLE A company buys goods from an entity owned by the promoter's family.

WATCH OUT Not true: related-party transactions need no disclosure.

07

Promoter pledge

Pledging of promoter shares to raise loans is a red flag, because a price fall can lead to forced sale and loss of control.

EXAMPLE Promoters have pledged a large share of their stake.

WATCH OUT Not true: a high promoter pledge is a positive sign.

08

Auditor red flags

Frequent changes of auditors, qualified audit opinions and delays in results can signal accounting or governance problems.

EXAMPLE An auditor resigns mid-year citing lack of information.

WATCH OUT Not true: a qualified opinion is a sign of clean accounts.

09

Capital allocation

Capital allocation is how management uses cash: reinvesting, acquiring, repaying debt or returning cash to shareholders.

EXAMPLE A company uses free cash flow to buy back shares and cut debt.

WATCH OUT Not true: capital allocation means issuing more debt.

10

ESG

Environmental, social and governance factors affect long-term risk and returns and are increasingly part of research.

EXAMPLE An analyst reviews a company's emissions and labour practices.

WATCH OUT Not true: eSG factors have no financial relevance.

11

Disclosure quality

Transparent, timely and consistent disclosure builds trust; poor or selective disclosure is a warning sign.

EXAMPLE A company explains its results and risks in detail.

WATCH OUT Not true: disclosures are only a legal formality.

Unit recap · one line each

Business model · Economic moat · Management quality · Corporate governance · Board independence · Related-party transactions · Promoter pledge · Auditor red flags · Capital allocation · ESG · Disclosure quality

UNIT 8 · 12% OF THE EXAM

Company analysis: financial analysis

The core of the analyst's craft: reading financial statements and ratios. Expect many calculation questions.

What the exam looks for

- Profitability, liquidity, leverage and efficiency ratios.
- DuPont analysis.
- Cash flow statement.
- Quality of earnings.

FORMULA · DuPont

ROE = Net profit margin × Asset turnover × Equity multiplier

Ratio families

Family	Examples
Liquidity	Current ratio, quick ratio
Leverage	Debt-to-equity, interest coverage
Profitability	ROE, ROCE, net margin
Efficiency	Inventory turnover, receivable days

Concept cards

01

Income statement

The income statement reports revenue, expenses and profit over a period, showing how sales become net profit.

EXAMPLE An analyst studies a company's sales and profit for the year.

WATCH OUT Not true: the income statement shows assets and liabilities.

02

Balance sheet

The balance sheet shows a company's assets, liabilities and shareholders' equity at a point in time; assets equal liabilities plus equity.

EXAMPLE A snapshot of what the company owns and owes on 31 March.

WATCH OUT Not true: the balance sheet shows cash flows for a year.

03

Cash flow statement

The cash flow statement reports cash from operating, investing and financing activities, showing how cash moved.

EXAMPLE An analyst checks whether profits convert into cash.

WATCH OUT Not true: the cash flow statement lists only dividends.

04

EBITDA

EBITDA is earnings before interest, tax, depreciation and amortisation, a proxy for operating performance before capital structure and non-cash charges.

EXAMPLE A firm's operating profit before depreciation and financing cost.

WATCH OUT Not true: eBITDA is the net profit after tax.

05

Net profit margin

Net profit margin is net profit divided by revenue, showing how much of each rupee of sales becomes profit.

EXAMPLE Profit of ₹10 crore on revenue of ₹100 crore is a 10% margin.

WATCH OUT Not true: net profit margin is profit divided by equity.

06

Return on equity

ROE is net profit divided by shareholders' equity, showing the return earned on owners' funds.

EXAMPLE A firm earns ₹20 crore on equity of ₹100 crore.

WATCH OUT Not true: rOE is net profit divided by total assets.

07

Return on capital employed

ROCE is EBIT divided by capital employed (equity plus debt), measuring returns on all capital in the business.

EXAMPLE EBIT of ₹30 crore on capital employed of ₹150 crore gives 20%.

WATCH OUT Not true: rOCE uses only shareholders' equity in the denominator.

08

Current ratio

The current ratio is current assets divided by current liabilities, showing short-term liquidity.

EXAMPLE A firm with current assets of ₹200 crore and current liabilities of ₹100 crore has a ratio of 2.

WATCH OUT Not true: the current ratio measures long-term debt.

09

Quick ratio

The quick ratio excludes inventory from current assets and divides by current liabilities, a stricter test of liquidity.

EXAMPLE An analyst removes stock from current assets before testing liquidity.

WATCH OUT Not true: the quick ratio includes inventory.

10

Debt-to-equity ratio

The debt-to-equity ratio is total debt divided by shareholders' equity and shows financial leverage.

EXAMPLE A company with ₹300 crore debt and ₹200 crore equity has a ratio of 1.5.

WATCH OUT Not true: debt-to-equity is profit divided by equity.

11

Interest coverage ratio

Interest coverage is EBIT divided by interest expense, showing how comfortably a company can pay interest.

EXAMPLE EBIT of ₹60 crore against interest of ₹20 crore gives 3 times.

WATCH OUT Not true: interest coverage is debt divided by equity.

12 **Asset turnover**

Asset turnover is revenue divided by total assets and shows how efficiently assets generate sales.

EXAMPLE A firm generates ₹2 of sales for every ₹1 of assets.

WATCH OUT Not true: asset turnover measures profit per share.

13 **Inventory days**

Inventory days is average inventory divided by cost of sales times 365, showing how long stock sits before being sold.

EXAMPLE A firm holds stock for 60 days on average.

WATCH OUT Not true: inventory days measure how long customers take to pay.

14 **Receivable days**

Receivable days measure the average time taken to collect payment from customers.

EXAMPLE A firm waits 75 days to collect its dues.

WATCH OUT Not true: receivable days measure the time taken to pay suppliers.

15 **Cash conversion cycle**

The cash conversion cycle is inventory days plus receivable days minus payable days, showing how long cash is tied up in operations.

EXAMPLE A shorter cycle means cash returns to the business faster.

WATCH OUT Not true: a longer cash conversion cycle is always better.

16 **Free cash flow**

Free cash flow is cash from operations minus capital expenditure, representing cash available to investors after sustaining the business.

EXAMPLE A company generates ₹100 crore from operations and spends ₹40 crore on capex.

WATCH OUT Not true: free cash flow equals net profit.

17 **Operating leverage**

Operating leverage reflects the share of fixed costs in total costs; higher fixed costs magnify the effect of sales changes on profit.

EXAMPLE A small rise in sales produces a large rise in profit for a firm with big fixed costs.

WATCH OUT Not true: operating leverage measures debt in the capital structure.

18 **Quality of earnings**

Earnings are high quality when they are backed by cash flows, repeatable and not inflated by one-offs or aggressive accounting.

EXAMPLE A company's profit is consistently supported by operating cash flow.

WATCH OUT Not true: earnings quality is judged by the size of one-off gains.

19

Common-size statements

Common-size statements express every line as a percentage of a base such as revenue, making comparison across firms and years easier.

EXAMPLE An analyst expresses each cost as a share of sales.

WATCH OUT Not true: common-size statements show absolute amounts.

20

Ind AS

Indian Accounting Standards converge with international standards and govern how listed Indian companies prepare financial statements.

EXAMPLE A listed company follows standards aligned with IFRS.

WATCH OUT Not true: ind AS applies only to banks.

21

Earnings per share

EPS equals profit after tax available to equity shareholders divided by the weighted average number of shares.

EXAMPLE Profit of ₹100 crore on 20 crore shares is ₹5 per share.

WATCH OUT Not true: ePS is the dividend per share.

22

Working capital

Working capital is current assets minus current liabilities and shows the funds tied up in day-to-day operations.

EXAMPLE A firm's short-term assets exceed its short-term obligations by ₹50 crore.

WATCH OUT Not true: working capital is long-term debt.

Unit recap · one line each

Income statement · Balance sheet · Cash flow statement · EBITDA · Net profit margin · Return on equity · Return on capital employed · Current ratio · Quick ratio · Debt-to-equity ratio · Interest coverage ratio · Asset turnover · Inventory days · Receivable days · Cash conversion cycle · Free cash flow · Operating leverage · Quality of earnings · Common-size statements · Ind AS · Earnings per share · Working capital

UNIT 9 · 5% OF THE EXAM

Corporate actions

Dividends, bonuses, splits, rights, buybacks, mergers and open offers, and what each means for shareholders and valuation.

What the exam looks for

- Ex-date and record date.
- Bonus, split and rights.
- Mergers, demergers, buybacks, delisting.

Dividend timeline



Concept cards

01

Ex-dividend date

The ex-dividend date is the date from which a share trades without the right to the declared dividend; buyers on or after it do not receive it.

EXAMPLE An investor buys on the ex-date and does not get the dividend.

WATCH OUT Not true: buyers on the ex-date receive the dividend.

02

Record date

The record date is the date on which a shareholder must be on the company's register to be eligible for a corporate benefit.

EXAMPLE Only holders on a specified date are entitled to the dividend.

WATCH OUT Not true: the record date is the date the dividend is paid.

03

Bonus issue

A bonus issue gives existing shareholders extra shares free of cost in a ratio, capitalising reserves, with the price adjusting.

EXAMPLE A company gives 1 free share for every 2 held.

WATCH OUT Not true: a bonus issue raises fresh funds for the company.

04

Stock split

A stock split reduces the face value and increases the number of shares in the same ratio, leaving market capitalisation unchanged.

EXAMPLE A ₹10 face value share splits into five shares of ₹2 each.

WATCH OUT Not true: a stock split reduces the company's equity capital.

05

Rights issue

A rights issue offers existing shareholders the right to subscribe to new shares in proportion to their holding, usually at a discount.

EXAMPLE A company offers 1 new share for every 5 held at ₹150.

WATCH OUT Not true: a rights issue is offered to new investors first.

06

Share buyback

A buyback is the repurchase of a company's own shares, reducing the share count and returning cash to shareholders, through tender offer or open market.

EXAMPLE A company buys back its shares at a premium to market price.

WATCH OUT Not true: a buyback increases the number of shares.

07

Merger

A merger combines two companies into one, with the shareholders of the merged company receiving shares in the surviving company under a swap ratio.

EXAMPLE One company absorbs another and issues its shares to the other's holders.

WATCH OUT Not true: a merger splits a company into two.

08

Demerger

A demerger splits a business into two or more entities, and shareholders receive shares in the new entity in a given ratio.

EXAMPLE A conglomerate separates its financial arm into a new listed company.

WATCH OUT Not true: a demerger combines two companies.

09

Open offer

An open offer requires an acquirer who crosses the 25% trigger or acquires control to offer to buy shares from public shareholders under SEBI takeover rules.

EXAMPLE An acquirer who takes 26% must make an offer to other shareholders.

WATCH OUT Not true: an open offer is made only to the promoters.

10

Delisting

Delisting is the removal of a company's securities from an exchange, either voluntarily or compulsorily.

EXAMPLE A company buys out public shareholders and its shares stop trading.

WATCH OUT Not true: delisting means a company issues new shares.

11

Dividend yield

Dividend yield is the annual dividend per share divided by the share price and shows income return.

EXAMPLE A share at ₹200 paying ₹6 yields 3%.

WATCH OUT Not true: dividend yield is profit per share.

12

Dividend payout ratio

The dividend payout ratio is the share of profit paid as dividends; the rest is retained for growth.

EXAMPLE A company pays ₹4 of ₹10 EPS, a 40% payout.

WATCH OUT Not true: the payout ratio is dividend divided by price.

Unit recap · one line each

Ex-dividend date · Record date · Bonus issue · Stock split · Rights issue · Share buyback · Merger · Demerger · Open offer · Delisting · Dividend yield · Dividend payout ratio

UNIT 10 · 12% OF THE EXAM

Valuation principles

Turning analysis into a price. Intrinsic and relative valuation methods, their assumptions and limits.

What the exam looks for

- DCF and its inputs.
- P/E, P/B, EV/EBITDA.
- Dividend discount model.
- WACC and CAPM.

FORMULA · Gordon growth

Value today = Next year's dividend ÷ (Required return − Growth rate)

FORMULA · CAPM

Required return = Risk-free rate + Beta × (Market return − Risk-free rate)

Concept cards

01

Discounted cash flow

DCF values a business as the present value of its expected future free cash flows, discounted at the required rate of return.

EXAMPLE An analyst projects cash flows for ten years and discounts them to today.

WATCH OUT Not true: dCF values a business by multiplying earnings by a ratio.

02

Free cash flow to firm

FCFF is the cash available to all capital providers after operating costs and investment, discounted at WACC to value the firm.

EXAMPLE An analyst computes cash available to both lenders and shareholders.

WATCH OUT Not true: fCFF is cash available only to shareholders.

03

Free cash flow to equity

FCFE is the cash available to shareholders after debt payments and reinvestment, discounted at the cost of equity.

EXAMPLE An analyst values the equity using cash left after servicing debt.

WATCH OUT Not true: fCFE is discounted at WACC.

04

WACC

The weighted average cost of capital blends the cost of equity and after-tax cost of debt in proportion to their weights, and is the discount rate for FCFF.

EXAMPLE A firm funded 60% by equity at 12% and 40% by debt at 8% (after tax 6%) has a blended cost.

WATCH OUT Not true: wACC uses only the cost of equity.

05

Cost of equity (CAPM)

CAPM estimates the cost of equity as the risk-free rate plus beta times the equity risk premium.

EXAMPLE With a risk-free rate of 6%, beta of 1.2 and market return of 12%, the required return is 13.2%.

WATCH OUT Not true: cAPM estimates cost of debt.

06

Terminal value

Terminal value represents the value of cash flows beyond the explicit forecast period, often a large share of total DCF value.

EXAMPLE An analyst assumes cash flows grow steadily forever after year ten.

WATCH OUT Not true: terminal value is ignored in DCF.

07

Dividend discount model

The DDM values a share as the present value of expected dividends; in the Gordon model, value = D1 ÷ (r − g).

EXAMPLE A share paying ₹5 next year with growth 5% and required return 15% is valued at ₹50.

WATCH OUT Not true: the DDM values shares using book value.

08

Price-to-earnings multiple

P/E divides price by earnings per share and is a relative valuation tool, compared with peers and history.

EXAMPLE A stock at 25 times earnings is compared with sector peers.

WATCH OUT Not true: p/E is price divided by book value.

09

Price-to-book multiple

P/B compares market price with book value per share, widely used for banks and asset-heavy firms.

EXAMPLE A bank trading at 2.5 times book value.

WATCH OUT Not true: p/B is used mainly for software firms.

10

EV/EBITDA

EV/EBITDA compares enterprise value with operating earnings before depreciation, neutral to capital structure, useful for comparing leveraged firms.

EXAMPLE A firm with EV of ₹5,000 crore and EBITDA of ₹500 crore trades at 10 times.

WATCH OUT Not true: eV/EBITDA ignores debt entirely.

11

Enterprise value

Enterprise value is market capitalisation plus debt minus cash, the price of the whole business.

EXAMPLE A company with market cap ₹1,000 crore, debt ₹300 crore and cash ₹100 crore has EV of ₹1,200 crore.

WATCH OUT Not true: enterprise value equals market capitalisation.

12

PEG ratio

The PEG ratio divides the P/E by the expected earnings growth rate, adjusting the multiple for growth.

EXAMPLE A P/E of 30 with growth of 15% gives a PEG of 2.

WATCH OUT Not true: the PEG ratio is the P/E multiplied by growth.

13

Relative valuation

Relative valuation values a security by comparing multiples with those of similar companies or its own history.

EXAMPLE An analyst compares a bank's P/B with peers.

WATCH OUT Not true: relative valuation requires projecting cash flows.

14

Sum-of-the-parts

Sum-of-the-parts values each business unit separately and adds them, useful for conglomerates.

EXAMPLE An analyst values a group's three divisions separately and sums them.

WATCH OUT Not true: sum-of-the-parts uses only a single multiple.

15

Sensitivity analysis

Sensitivity analysis shows how the valuation changes when key assumptions such as growth or discount rate are altered.

EXAMPLE An analyst shows value at different discount rates.

WATCH OUT Not true: sensitivity analysis fixes all assumptions.

16

Intrinsic versus market value

A recommendation compares intrinsic value with market price: buy if undervalued, sell if overvalued, after allowing a margin of safety.

EXAMPLE An analyst recommends buying when the market price is below fair value.

WATCH OUT Not true: market value always equals intrinsic value.

17

Equity risk premium

The equity risk premium is the extra return investors require from equities over the risk-free rate.

EXAMPLE Investors demand 6% more than government bonds for equity risk.

WATCH OUT Not true: the equity risk premium equals the risk-free rate.

18

Book value

Book value per share is shareholders' equity divided by shares outstanding, from the balance sheet.

EXAMPLE Equity of ₹500 crore on 10 crore shares is ₹50 per share.

WATCH OUT Not true: book value per share is the market price.

19

Cyclically adjusted earnings

For cyclical firms, valuation based on peak or trough earnings misleads, so analysts use average or normalised earnings.

EXAMPLE An analyst uses mid-cycle earnings for a steel company.

WATCH OUT Not true: peak earnings are always the right base for cyclical stocks.

Unit recap · one line each

Discounted cash flow · Free cash flow to firm · Free cash flow to equity · WACC · Cost of equity (CAPM) · Terminal value · Dividend discount model · Price-to-earnings multiple · Price-to-book multiple · EV/EBITDA · Enterprise value · PEG ratio · Relative valuation · Sum-of-the-parts · Sensitivity analysis · Intrinsic versus market value · Equity risk premium · Book value · Cyclically adjusted earnings

UNIT 11 · 5% OF THE EXAM

Fundamental analysis of commodities

Commodities are valued by supply, demand and cost of carry rather than earnings.

What the exam looks for

- Demand and supply drivers.
- Contango and backwardation.
- Bullion and energy factors.

Concept cards

01

Commodity price drivers

Commodity prices are driven by supply, demand, inventories, weather, policy and the currency.

EXAMPLE A poor monsoon cuts crop output and raises prices.

WATCH OUT Not true: commodity prices depend only on company earnings.

02

Stock-to-use ratio

The stock-to-use ratio compares closing stocks with consumption; low levels signal tightness and price pressure.

EXAMPLE Inventories fall to a few weeks of consumption and prices rise.

WATCH OUT Not true: a low stock-to-use ratio signals oversupply.

03

Seasonality

Agricultural commodities show seasonal price patterns tied to harvests and demand cycles.

EXAMPLE Prices of a crop tend to fall after harvest.

WATCH OUT Not true: seasonality is unimportant for agricultural prices.

04

Cost of carry in commodities

The cost of carry includes storage, insurance and financing costs, and links futures prices to spot prices.

EXAMPLE A commodity future trades above spot by the cost of storing it.

WATCH OUT Not true: cost of carry has no effect on futures prices.

05

Gold drivers

Gold prices are influenced by real interest rates, the US dollar, central bank buying, inflation expectations and risk sentiment.

EXAMPLE Gold rises when real interest rates fall.

WATCH OUT Not true: gold falls whenever inflation expectations rise.

06

Crude oil drivers

Crude oil prices are driven by OPEC+ decisions, global demand, inventories and geopolitical events.

EXAMPLE Production cuts by major producers raise prices.

WATCH OUT Not true: crude oil prices are unaffected by supply decisions.

07

Currency link

Many commodities are priced in dollars, so a weaker rupee raises their domestic prices, other things equal.

EXAMPLE Imported edible oil gets costlier when the rupee falls.

WATCH OUT Not true: the rupee has no effect on domestic commodity prices.

08

Futures curve

The futures curve plots prices across expiries; contango signals plentiful supply and backwardation signals tightness.

EXAMPLE Near-month prices exceed far-month prices when supply is short.

WATCH OUT Not true: backwardation means plentiful supply.

Unit recap · one line each

Commodity price drivers · Stock-to-use ratio · Seasonality · Cost of carry in commodities · Gold drivers · Crude oil drivers · Currency link · Futures curve

UNIT 12 · 7% OF THE EXAM

Fundamentals of risk and return

The portfolio theory behind research: expected return, volatility, correlation and CAPM.

What the exam looks for

- Risk measures.
- Correlation and diversification.
- CAPM and risk-adjusted performance.

FORMULA · Sharpe ratio

Sharpe = (Portfolio return − Risk-free return) ÷ Standard deviation

Concept cards

01

Expected return

Expected return is the probability-weighted average of possible returns of an investment.

EXAMPLE An asset has a 50% chance of 20% and a 50% chance of 0%, giving 10%.

WATCH OUT Not true: expected return is the highest possible return.

02

Variance and standard deviation

Variance measures the dispersion of returns around the mean; standard deviation is its square root and the common measure of volatility.

EXAMPLE A stock's returns swing widely around its average.

WATCH OUT Not true: standard deviation is the average return.

03

Correlation

Correlation measures how two assets move together, from −1 to +1; lower correlation gives greater diversification benefit.

EXAMPLE Two assets with correlation near zero reduce portfolio volatility when combined.

WATCH OUT Not true: a correlation of +1 gives the best diversification.

04

Systematic risk and beta

Systematic risk is market-wide and measured by beta; it cannot be diversified away.

EXAMPLE A stock with beta 1.3 amplifies market moves.

WATCH OUT Not true: beta measures company-specific risk.

05

CAPM

The Capital Asset Pricing Model states that expected return equals the risk-free rate plus beta times the market risk premium.

EXAMPLE A stock's required return is built from risk-free rate and market risk premium.

WATCH OUT Not true: cAPM says return depends on total risk.

06

Security market line

The security market line plots expected return against beta; securities above it are undervalued.

EXAMPLE A stock offering more return than CAPM predicts lies above the line.

WATCH OUT Not true: the security market line plots return against standard deviation.

07

Sharpe ratio

The Sharpe ratio is excess return over the risk-free rate divided by standard deviation, measuring return per unit of total risk.

EXAMPLE A fund earns 14% with risk-free 6% and standard deviation 16%, giving 0.5.

WATCH OUT Not true: the Sharpe ratio uses beta as the risk measure.

08

Treynor ratio

The Treynor ratio is excess return divided by beta, measuring return per unit of systematic risk.

EXAMPLE A portfolio's excess return is divided by its beta.

WATCH OUT Not true: the Treynor ratio uses standard deviation.

09

Jensen's alpha

Jensen's alpha is the return in excess of the CAPM-predicted return, showing a manager's value addition.

EXAMPLE A fund earns 2% more than CAPM predicts.

WATCH OUT Not true: a negative alpha indicates outperformance.

10

Efficient frontier

The efficient frontier is the set of portfolios offering the highest expected return for each level of risk.

EXAMPLE A set of optimal portfolios that cannot be improved on both return and risk.

WATCH OUT Not true: every portfolio lies on the efficient frontier.

11

Risk-free rate

The risk-free rate is the return on an investment with no default risk, such as the government security yield.

EXAMPLE A ten-year G-sec yield is used as the base rate.

WATCH OUT Not true: the risk-free rate is the rate on corporate bonds.

12

Diversification benefit

Combining imperfectly correlated assets reduces portfolio risk without a proportional fall in return.

EXAMPLE Adding gold to an equity portfolio smooths overall volatility.

WATCH OUT Not true: diversification increases portfolio risk.

13

Downside risk

Downside risk measures the chance and size of losses below a target, as in semi-deviation or maximum drawdown.

EXAMPLE An investor tracks how far a fund fell from its peak.

WATCH OUT Not true: downside risk counts only positive returns.

14

Maximum drawdown

Maximum drawdown is the largest peak-to-trough fall in value over a period, showing the worst loss an investor would have faced.

EXAMPLE A fund fell 35% from its high before recovering.

WATCH OUT Not true: maximum drawdown is the highest gain.

Unit recap · one line each

Expected return · Variance and standard deviation · Correlation · Systematic risk and beta · CAPM · Security market line · Sharpe ratio · Treynor ratio · Jensen's alpha · Efficient frontier · Risk-free rate · Diversification benefit · Downside risk · Maximum drawdown

UNIT 13 · 5% OF THE EXAM

Qualities of a good research report

What separates a useful report from a promotional one: structure, clarity, evidence and honesty.

What the exam looks for

- Structure and content of a report.
- Rating and target price.
- Risks and disclosures.

Concept cards

01

Report structure

A good report has a clear recommendation, summary, business overview, financial analysis, valuation, risks and disclosures.

EXAMPLE A report opens with the rating and the key reasons.

WATCH OUT Not true: a report need not state a recommendation.

02

Recommendation and rating

A rating such as buy, hold or sell must be defined, with the basis stated, and applied consistently.

EXAMPLE A report defines buy as an expected return above 15% over twelve months.

WATCH OUT Not true: ratings can be undefined labels.

03

Target price

A target price is the analyst's estimate of a security's price over a stated horizon, backed by a valuation method and assumptions.

EXAMPLE An analyst sets ₹500 with a twelve-month horizon using a P/E method.

WATCH OUT Not true: a target price needs no supporting valuation.

04

Risk disclosure in reports

A report should state the key risks to its thesis, so readers understand what could go wrong.

EXAMPLE A report lists regulatory changes and input costs as risks.

WATCH OUT Not true: reports should hide risks to appear persuasive.

05

Clarity and objectivity

Clear language, supported claims and balanced treatment of positives and negatives make a report credible.

EXAMPLE A report cites sources for each figure.

WATCH OUT Not true: a good report uses exaggerated claims.

06

Reasonable basis

Every recommendation must have a reasonable basis supported by research and data, not mere speculation or rumour.

EXAMPLE An analyst bases her call on filings and a valuation model.

WATCH OUT Not true: a recommendation can rest on market rumours.

07

Timeliness and updates

Reports should be updated when material events occur and should state the date and data cut-off.

EXAMPLE An analyst revises the target after the quarterly results.

WATCH OUT Not true: a report never needs revision after publishing.

08

Data sources and accuracy

Sources should be reliable and cited, and numbers cross-checked for accuracy.

EXAMPLE An analyst verifies figures with filings.

WATCH OUT Not true: data need not be checked before publishing.

Unit recap · one line each

Report structure · Recommendation and rating · Target price · Risk disclosure in reports · Clarity and objectivity · Reasonable basis · Timeliness and updates · Data sources and accuracy

UNIT 14 · 10% OF THE EXAM

Legal and regulatory environment

SEBI's Research Analyst Regulations: registration, conduct, disclosures, trading restrictions, records and penalties. Many exact-rule questions.

What the exam looks for

- Registration and qualification.
- Conflicts and disclosures.
- Trading restrictions.
- Records and client agreement.

30 days	5 days	5 years
BEFORE REPORT	AFTER REPORT	RECORD KEEPING

Concept cards

01

SEBI (Research Analysts) Regulations, 2014

These regulations require research analysts and research entities to register with SEBI and follow rules on qualification, conduct, disclosure and records.

EXAMPLE A person who publishes recommendations for the public must hold SEBI registration.

WATCH OUT Not true: research analysts need no registration.

02

Registration and qualification

An individual research analyst must hold the prescribed qualification and the NISM research analyst certification and meet other norms.

EXAMPLE A candidate cleared the NISM examination and holds the specified degree.

WATCH OUT Not true: the NISM certificate is optional for registration.

03

Research entity

A research entity is a person such as a broker or company that issues research reports and must be registered; it can employ analysts.

EXAMPLE A brokerage house publishing reports must be a registered entity.

WATCH OUT Not true: a research entity is an individual client.

04

Disclosure of conflicts

A research analyst must disclose any financial interest, ownership or relationship with the subject company in the report.

EXAMPLE A report states that the analyst holds shares of the company.

WATCH OUT Not true: analysts need not disclose holdings.

05

Trading restriction around reports

A research analyst must not deal in securities for 30 days before and 5 days after publishing a report on them.

EXAMPLE An analyst cannot trade a stock for a period around her report.

WATCH OUT Not true: an analyst may trade the stock in the hour before publication.

06

Assured returns prohibited

A research analyst must not provide, or claim to provide, assured or guaranteed returns.

EXAMPLE A report says 'This stock will double in a year for sure.'

WATCH OUT Not true: an analyst may guarantee returns for large clients.

07

Record keeping

Research analysts must maintain records of research reports, recommendations and the basis for them for at least five years.

EXAMPLE An analyst retains her models and reports on file for five years.

WATCH OUT Not true: records must be kept for only six months.

08

Compliance officer

Registered research entities must appoint a compliance officer who monitors compliance and reports to SEBI as required.

EXAMPLE A firm assigns a person to monitor adherence to regulations.

WATCH OUT Not true: a compliance officer is optional.

09

Chinese wall

A Chinese wall is a set of information barriers that separates research from other business such as investment banking and trading to prevent misuse of sensitive information.

EXAMPLE The research desk is kept apart from the banking desk.

WATCH OUT Not true: a Chinese wall allows free flow of information.

10

Front running

Front running is trading ahead of a client's order or an upcoming report to profit from its expected impact, and is prohibited.

EXAMPLE An analyst buys shares before releasing a strong buy report.

WATCH OUT Not true: front running is allowed if disclosed at a later date.

11

Insider information

An analyst must not use or share unpublished price-sensitive information, which is an offence under insider trading rules.

EXAMPLE An analyst learns of a merger from a source and trades on it.

WATCH OUT Not true: using inside information is permitted for research analysts.

12

Client agreement

An analyst providing services to clients must sign an agreement stating the services, fees and terms, and give disclosures.

EXAMPLE A client signs a document setting out the services and fees.

WATCH OUT Not true: a written agreement is unnecessary.

13

Public appearance disclosures

When an analyst makes a public appearance, she must disclose any conflicts or holdings in the stocks she discusses.

EXAMPLE A television analyst states that she owns the stock she is recommending.

WATCH OUT Not true: disclosures are required only in written reports.

14

Prohibited compensation

A research analyst must not accept compensation from a subject company that could influence the opinion, and any compensation must be disclosed.

EXAMPLE An analyst refuses payment from the company she is covering.

WATCH OUT Not true: an analyst may accept gifts from the company with no disclosure.

15

Grievance and penalties

Violations of the regulations can lead to penalties, suspension or cancellation of registration by SEBI.

EXAMPLE A registered analyst whose rules violations are proven faces a regulatory penalty.

WATCH OUT Not true: sEBI has no power to penalise research analysts.

16

Recommendation requirements

Each recommendation must be supported by research data and a rating system, and reports must carry the required disclaimers and disclosures.

EXAMPLE A report includes disclosures and the basis of the rating.

WATCH OUT Not true: reports need not carry any disclaimers.

17

Associate's trading

The trading restrictions and disclosure duties also apply to an analyst's associates and relatives where specified in the regulations.

EXAMPLE The analyst's spouse trading ahead of a report breaches the rule.

WATCH OUT Not true: restrictions apply to analysts only, never to relatives.

18

Rating and price target history

A research entity should keep and show past ratings and price targets, so readers can see the track record.

EXAMPLE A report includes a table of previous ratings.

WATCH OUT Not true: past ratings are removed from reports.

Unit recap · one line each

SEBI (Research Analysts) Regulations, 2014 · Registration and qualification · Research entity · Disclosure of conflicts · Trading restriction around reports · Assured returns prohibited · Record keeping · Compliance officer · Chinese wall · Front running · Insider information · Client agreement · Public appearance disclosures · Prohibited compensation · Grievance and penalties · Recommendation requirements · Associate's trading · Rating and price target history

UNIT 15 · 15% OF THE EXAM

Technical analysis

Reading price and volume: trends, patterns, indicators and their limits. The largest single chapter.

What the exam looks for

- Dow theory and trends.
- Support and resistance.
- Moving averages, RSI, MACD, Bollinger.
- Candlesticks and chart patterns.
- Volume and breadth.

Common candlestick signals

Pattern	Meaning
Hammer	Possible bullish reversal after a fall
Shooting star	Possible bearish reversal after a rise
Bullish engulfing	Strong buying after a decline
Doji	Indecision

Concept cards

01

Dow theory

Dow theory holds that markets move in primary, secondary and minor trends, and that averages must confirm each other.

EXAMPLE An analyst views a multi-year uptrend with corrections inside it.

WATCH OUT Not true: dow theory says market trends are unpredictable noise.

02

Trend

A trend is the general direction of price movement: an uptrend has higher highs and higher lows, a downtrend lower highs and lower lows.

EXAMPLE A chart shows each peak and trough above the last.

WATCH OUT Not true: an uptrend has lower highs.

03

Support

Support is a price level where buying interest is strong enough to stop a decline temporarily.

EXAMPLE A stock repeatedly bounces from ₹100.

WATCH OUT Not true: support is a level where selling prevents any rise.

04

Resistance

Resistance is a price level where selling pressure tends to halt a rise temporarily.

EXAMPLE A stock fails to cross ₹150 several times.

WATCH OUT Not true: resistance is a level where buyers appear.

05

Breakout

A breakout is a price move beyond support or resistance, ideally on higher volume, signalling a possible new trend.

EXAMPLE A stock closes above its long-held resistance on heavy volume.

WATCH OUT Not true: a breakout on very low volume is the most reliable.

06

Simple moving average

A simple moving average is the average closing price over a set number of periods, smoothing price data to show the trend.

EXAMPLE A 50-day average of closing prices.

WATCH OUT Not true: a moving average shows a single day's high.

07

Exponential moving average

An exponential moving average gives greater weight to recent prices and reacts faster than a simple average.

EXAMPLE An analyst prefers an average that responds more quickly to new prices.

WATCH OUT Not true: an EMA gives equal weight to all days.

08

Golden cross

A golden cross occurs when a shorter-term average, such as the 50-day, crosses above a longer-term average, such as the 200-day, a bullish signal.

EXAMPLE The 50-day average rises above the 200-day average.

WATCH OUT Not true: a golden cross is a bearish signal.

09

Death cross

A death cross occurs when the 50-day average crosses below the 200-day average, a bearish signal.

EXAMPLE The shorter average falls beneath the longer one.

WATCH OUT Not true: a death cross is a bullish signal.

10

RSI

The Relative Strength Index is a momentum oscillator from 0 to 100; above 70 is considered overbought and below 30 oversold.

EXAMPLE A reading of 78 suggests the stock may be overbought.

WATCH OUT Not true: an RSI above 70 means oversold.

11

MACD

MACD is the difference between a 12-period and 26-period EMA, with a 9-period signal line; crossovers indicate momentum changes.

EXAMPLE A line crossing above its signal line suggests rising momentum.

WATCH OUT Not true: mACD measures trading volume.

12

Bollinger Bands

Bollinger Bands plot a moving average with bands two standard deviations above and below, showing volatility and extremes.

EXAMPLE Bands widen when volatility rises.

WATCH OUT Not true: bollinger Bands show company earnings.

13

Stochastic oscillator

The stochastic oscillator compares a closing price with the range over a period; above 80 is overbought and below 20 oversold.

EXAMPLE A reading of 15 suggests an oversold stock.

WATCH OUT Not true: a stochastic reading above 80 is oversold.

14

On-balance volume

On-balance volume adds volume on up days and subtracts it on down days, to see whether volume confirms the price trend.

EXAMPLE A rising price with falling OBV is a warning sign.

WATCH OUT Not true: oBV is a measure of earnings.

15

Volume confirmation

A price move accompanied by rising volume is considered more reliable than one on thin volume.

EXAMPLE A rally on heavy volume is trusted more.

WATCH OUT Not true: volume is irrelevant to price moves.

16

Head and shoulders

A head and shoulders pattern has three peaks, with the middle highest, and signals a potential trend reversal from up to down when the neckline breaks.

EXAMPLE A chart shows a left shoulder, higher head and right shoulder.

WATCH OUT Not true: a head and shoulders pattern signals a continuing uptrend.

17

Double top

A double top is a bearish reversal pattern in which price makes two peaks at a similar level and then breaks below the trough between them.

EXAMPLE Price hits ₹200 twice and falls.

WATCH OUT Not true: a double top is a bullish pattern.

18

Double bottom

A double bottom is a bullish reversal pattern with two troughs at a similar level followed by a break above the middle peak.

EXAMPLE Price falls to ₹80 twice and then rises.

WATCH OUT Not true: a double bottom is a bearish pattern.

19

Triangle pattern

Triangles are consolidation patterns where price ranges narrow; ascending triangles often break upward and descending ones downward.

EXAMPLE Price makes lower highs and a flat support line.

WATCH OUT Not true: triangles show the maximum volatility.

20

Cup and handle

The cup and handle is a bullish continuation pattern with a rounded bottom followed by a small pullback before a breakout.

EXAMPLE A rounded base is followed by a small consolidation and a rise.

WATCH OUT Not true: a cup and handle is a bearish reversal.

21

Candlestick

A candlestick shows open, high, low and close for a period, with the body showing the open-to-close range and wicks showing extremes.

EXAMPLE A candle has a long lower wick and small body.

WATCH OUT Not true: a candlestick shows only closing price.

22

Doji

A doji forms when the open and close are almost equal, signalling indecision between buyers and sellers.

EXAMPLE A candle with almost no body and long wicks.

WATCH OUT Not true: a doji shows a strong trend.

23

Bullish engulfing

A bullish engulfing pattern is a large up candle that completely covers the previous down candle, suggesting a reversal upwards.

EXAMPLE A big green candle swallows the previous red one after a decline.

WATCH OUT Not true: a bullish engulfing pattern appears at the top of an uptrend.

24

Fibonacci retracement

Fibonacci retracement levels such as 38.2%, 50% and 61.8% mark likely pullback areas within a trend.

EXAMPLE A stock falls back to 61.8% of the previous rally and bounces.

WATCH OUT Not true: fibonacci levels predict company earnings.

25

Gap

A gap is an empty space between one day's range and the next, showing sudden change in sentiment, often after news.

EXAMPLE A stock opens well above the previous day's high.

WATCH OUT Not true: a gap means the stock did not trade.

26

Advance-decline line

The advance-decline line tracks the number of advancing minus declining stocks and shows the breadth of a market move.

EXAMPLE The index rises while fewer stocks advance, a sign of narrow breadth.

WATCH OUT Not true: the advance-decline line measures interest rates.

27

Open interest in analysis

Rising open interest with rising prices indicates fresh buying and strengthens the trend; falling open interest suggests short covering or unwinding.

EXAMPLE Prices and open interest rise together.

WATCH OUT Not true: open interest measures a stock's daily volume.

28

Limitations of technical analysis

Technical signals can fail and give false breakouts; they are best used with risk limits and alongside other analysis.

EXAMPLE A breakout reverses within days and stops out traders.

WATCH OUT Not true: technical signals are always accurate.

29

Elliott wave

Elliott wave theory proposes that markets move in repeating waves of five impulse and three corrective moves, although interpretation is subjective.

EXAMPLE An analyst labels price moves as waves.

WATCH OUT Not true: elliott wave is a precise mathematical law.

30

Relative strength comparison

Relative strength compares a security's performance with a benchmark or peers to identify leaders and laggards.

EXAMPLE An analyst picks stocks outperforming the index.

WATCH OUT Not true: relative strength is the same as RSI.

Unit recap · one line each

Dow theory · Trend · Support · Resistance · Breakout · Simple moving average · Exponential moving average · Golden cross · Death cross · RSI · MACD · Bollinger Bands · Stochastic oscillator · On-balance volume · Volume confirmation · Head and shoulders · Double top · Double bottom · Triangle pattern · Cup and handle · Candlestick · Doji · Bullish engulfing · Fibonacci retracement · Gap · Advance-decline line · Open interest in analysis · Limitations of technical analysis · Elliott wave · Relative strength comparison

QUICK REFERENCE

Numbers and formulas.

Formulas

Measure	Formula
P/E	Price ÷ EPS
EV	Market cap + debt − cash
ROE	Net profit ÷ shareholders' equity
DuPont ROE	Net margin × Asset turnover × Equity multiplier
Current ratio	Current assets ÷ current liabilities
Interest coverage	EBIT ÷ Interest
CAPM	Rf + β × (Rm − Rf)
Gordon growth	P = D1 ÷ (r − g)
Free cash flow	CFO − Capex
Sharpe	(Rp − Rf) ÷ σp

Indicator cheat sheet

Indicator	Reading
RSI (14)	Above 70 overbought, below 30 oversold
MACD	Signal-line crossover shows momentum change
Bollinger Bands	20-period average ± 2 standard deviations
Golden cross	50-day moving average crosses above the 200-day
Death cross	50-day moving average crosses below the 200-day
Fibonacci retracement	38.2%, 50%, 61.8%

GLOSSARY

Every term, A to Z.

Term	Meaning	Unit
Advance-decline line	The advance-decline line tracks the number of advancing minus declining stocks and shows the breadth of a market move.	15
Asset turnover	Asset turnover is revenue divided by total assets and shows how efficiently assets generate sales.	8
Associate's trading	The trading restrictions and disclosure duties also apply to an analyst's associates and relatives where specified in the regulations.	14
Assured returns prohibited	A research analyst must not provide, or claim to provide, assured or guaranteed returns.	14
Auditor red flags	Frequent changes of auditors, qualified audit opinions and delays in results can signal accounting or governance problems.	7
Balance sheet	The balance sheet shows a company's assets, liabilities and shareholders' equity at a point in time; assets equal liabilities plus equity.	8
Barriers to entry	Barriers to entry, such as capital needs, regulation, brands and scale, protect existing firms from new competitors.	6
Board independence	Independent directors on the board and its committees provide oversight free from management and promoter influence.	7
Bollinger Bands	Bollinger Bands plot a moving average with bands two standard deviations above and below, showing volatility and extremes.	15
Bonus issue	A bonus issue gives existing shareholders extra shares free of cost in a ratio, capitalising reserves, with the price adjusting.	9
Book value	Book value per share is shareholders' equity divided by shares outstanding, from the balance sheet.	10
Bottom-up approach	The bottom-up approach starts with individual company analysis and gives less weight to macro and sector views.	4
Breakout	A breakout is a price move beyond support or resistance, ideally on higher volume, signalling a possible new trend.	15
Bullish engulfing	A bullish engulfing pattern is a large up candle that completely covers the previous down candle, suggesting a reversal upwards.	15
Business cycle	The business cycle consists of expansion, peak, contraction and trough, with different sectors outperforming in each phase.	5
Business model	A business model describes how a company creates, delivers and captures value, and what drives its revenue and costs.	7
Buy-side and sell-side	Sell-side analysts work for brokers and publish research for clients; buy-side analysts work for fund managers and research for their own investment decisions.	1
Candlestick	A candlestick shows open, high, low and close for a period, with the body showing the open-to-close range and wicks showing extremes.	15
Capacity utilisation	Capacity utilisation shows the share of installed capacity actually used; low utilisation signals weak demand or excess capacity.	6
Capital allocation	Capital allocation is how management uses cash: reinvesting, acquiring, repaying debt or returning cash to shareholders.	7

Term	Meaning	Unit
CAPM	The Capital Asset Pricing Model states that expected return equals the risk-free rate plus beta times the market risk premium.	12
Cash conversion cycle	The cash conversion cycle is inventory days plus receivable days minus payable days, showing how long cash is tied up in operations.	8
Cash flow statement	The cash flow statement reports cash from operating, investing and financing activities, showing how cash moved.	8
Chinese wall	A Chinese wall is a set of information barriers that separates research from other business such as investment banking and trading to prevent misuse of sensitive information.	14
Clarity and objectivity	Clear language, supported claims and balanced treatment of positives and negatives make a report credible.	13
Client agreement	An analyst providing services to clients must sign an agreement stating the services, fees and terms, and give disclosures.	14
Commodity price drivers	Commodity prices are driven by supply, demand, inventories, weather, policy and the currency.	11
Common-size statements	Common-size statements express every line as a percentage of a base such as revenue, making comparison across firms and years easier.	8
Compliance officer	Registered research entities must appoint a compliance officer who monitors compliance and reports to SEBI as required.	14
Corporate governance	Corporate governance is the system of rules and practices by which a company is directed and controlled, protecting shareholders' interests.	7
Correlation	Correlation measures how two assets move together, from −1 to +1; lower correlation gives greater diversification benefit.	12
Cost of carry in commodities	The cost of carry includes storage, insurance and financing costs, and links futures prices to spot prices.	11
Cost of equity (CAPM)	CAPM estimates the cost of equity as the risk-free rate plus beta times the equity risk premium.	10
Cost structure	Operating leverage depends on fixed versus variable costs; high fixed costs magnify profit swings as volume changes.	6
CPI and WPI	CPI measures changes in retail prices faced by consumers, while WPI measures wholesale prices of goods. The RBI targets CPI inflation.	5
Credit spread	Credit spread is the extra yield on a risky bond over a risk-free government bond of similar maturity, compensating for credit risk.	3
Crude oil drivers	Crude oil prices are driven by OPEC+ decisions, global demand, inventories and geopolitical events.	11
Cup and handle	The cup and handle is a bullish continuation pattern with a rounded bottom followed by a small pullback before a breakout.	15
Currency link	Many commodities are priced in dollars, so a weaker rupee raises their domestic prices, other things equal.	11
Current account deficit	The current account deficit arises when a country's imports of goods, services and transfers exceed its exports.	5
Current ratio	The current ratio is current assets divided by current liabilities, showing short-term liquidity.	8

Term	Meaning	Unit
Cyclical industry	A cyclical industry's earnings rise and fall sharply with the economic cycle, as in steel, autos and capital goods.	6
Cyclically adjusted earnings	For cyclical firms, valuation based on peak or trough earnings misleads, so analysts use average or normalised earnings.	10
Data sources and accuracy	Sources should be reliable and cited, and numbers cross-checked for accuracy.	13
Death cross	A death cross occurs when the 50-day average crosses below the 200-day average, a bearish signal.	15
Debt-to-equity ratio	The debt-to-equity ratio is total debt divided by shareholders' equity and shows financial leverage.	8
Defensive industry	A defensive industry sells essentials with stable demand, such as FMCG, utilities and pharma, and holds up better in downturns.	6
Delisting	Delisting is the removal of a company's securities from an exchange, either voluntarily or compulsorily.	9
Demerger	A demerger splits a business into two or more entities, and shareholders receive shares in the new entity in a given ratio.	9
Disclosure of conflicts	A research analyst must disclose any financial interest, ownership or relationship with the subject company in the report.	14
Disclosure quality	Transparent, timely and consistent disclosure builds trust; poor or selective disclosure is a warning sign.	7
Discounted cash flow	DCF values a business as the present value of its expected future free cash flows, discounted at the required rate of return.	10
Diversification benefit	Combining imperfectly correlated assets reduces portfolio risk without a proportional fall in return.	12
Dividend discount model	The DDM values a share as the present value of expected dividends; in the Gordon model, value = D1 ÷ (r − g).	10
Dividend payout ratio	The dividend payout ratio is the share of profit paid as dividends; the rest is retained for growth.	9
Dividend yield	Dividend yield is the annual dividend per share divided by the share price and shows income return.	9
Doji	A doji forms when the open and close are almost equal, signalling indecision between buyers and sellers.	15
Double bottom	A double bottom is a bullish reversal pattern with two troughs at a similar level followed by a break above the middle peak.	15
Double top	A double top is a bearish reversal pattern in which price makes two peaks at a similar level and then breaks below the trough between them.	15
Dow theory	Dow theory holds that markets move in primary, secondary and minor trends, and that averages must confirm each other.	15
Downside risk	Downside risk measures the chance and size of losses below a target, as in semi-deviation or maximum drawdown.	12
Earnings per share	EPS equals profit after tax available to equity shareholders divided by the weighted average number of shares.	8
EBITDA	EBITDA is earnings before interest, tax, depreciation and amortisation, a proxy for operating performance before capital structure and non-cash charges.	8

Term	Meaning	Unit
Economic moat	An economic moat is a durable competitive advantage, such as brand, network effect, cost advantage or switching cost, protecting long-term profits.	7
Efficient frontier	The efficient frontier is the set of portfolios offering the highest expected return for each level of risk.	12
Elliott wave	Elliott wave theory proposes that markets move in repeating waves of five impulse and three corrective moves, although interpretation is subjective.	15
Enterprise value	Enterprise value is market capitalisation plus debt minus cash, the price of the whole business.	10
Equity risk premium	The equity risk premium is the extra return investors require from equities over the risk-free rate.	10
ESG	Environmental, social and governance factors affect long-term risk and returns and are increasingly part of research.	7
EV/EBITDA	EV/EBITDA compares enterprise value with operating earnings before depreciation, neutral to capital structure, useful for comparing leveraged firms.	10
Ex-dividend date	The ex-dividend date is the date from which a share trades without the right to the declared dividend; buyers on or after it do not receive it.	9
Exchange rate impact	A weaker rupee helps exporters' revenues but raises import costs, affecting sectors differently.	5
Expected return	Expected return is the probability-weighted average of possible returns of an investment.	12
Exponential moving average	An exponential moving average gives greater weight to recent prices and reacts faster than a simple average.	15
Face value and issue price	Face value is the nominal value of a security, while the issue price is what investors pay at the time of issue, which may differ.	3
Fibonacci retracement	Fibonacci retracement levels such as 38.2%, 50% and 61.8% mark likely pullback areas within a trend.	15
Fiscal deficit	The fiscal deficit is government expenditure minus revenue (excluding borrowings), showing how much the government must borrow.	5
Fiscal policy	Fiscal policy is the government's use of taxation and spending to influence the economy.	5
Free cash flow	Free cash flow is cash from operations minus capital expenditure, representing cash available to investors after sustaining the business.	8
Free cash flow to equity	FCFE is the cash available to shareholders after debt payments and reinvestment, discounted at the cost of equity.	10
Free cash flow to firm	FCFF is the cash available to all capital providers after operating costs and investment, discounted at WACC to value the firm.	10
Front running	Front running is trading ahead of a client's order or an upcoming report to profit from its expected impact, and is prohibited.	14
Fundamental analysis	Fundamental analysis estimates a security's intrinsic value from economic, industry and company factors and compares it with market price.	4
Futures curve	The futures curve plots prices across expiries; contango signals plentiful supply and backwardation signals tightness.	11
Gap	A gap is an empty space between one day's range and the next, showing sudden change in sentiment, often after news.	15

Term	Meaning	Unit
GDP	Gross Domestic Product is the total value of goods and services produced within a country in a period, a measure of economic activity.	5
Gold drivers	Gold prices are influenced by real interest rates, the US dollar, central bank buying, inflation expectations and risk sentiment.	11
Golden cross	A golden cross occurs when a shorter-term average, such as the 50-day, crosses above a longer-term average, such as the 200-day, a bullish signal.	15
Grievance and penalties	Violations of the regulations can lead to penalties, suspension or cancellation of registration by SEBI.	14
Head and shoulders	A head and shoulders pattern has three peaks, with the middle highest, and signals a potential trend reversal from up to down when the neckline breaks.	15
IIP	The Index of Industrial Production tracks changes in the volume of production in mining, manufacturing and electricity.	5
Income statement	The income statement reports revenue, expenses and profit over a period, showing how sales become net profit.	8
Ind AS	Indian Accounting Standards converge with international standards and govern how listed Indian companies prepare financial statements.	8
Industry concentration	Concentration measures how much of the market is held by a few firms; the Herfindahl-Hirschman index is one such measure.	6
Industry life cycle	Industries pass through start-up, growth, maturity and decline stages, with different growth rates and risks.	6
Inflation	Inflation is the sustained rise in the general price level, measured in India by the Consumer Price Index and the Wholesale Price Index.	5
Insider information	An analyst must not use or share unpublished price-sensitive information, which is an offence under insider trading rules.	14
Interest coverage ratio	Interest coverage is EBIT divided by interest expense, showing how comfortably a company can pay interest.	8
Interest rate impact	Higher interest rates raise borrowing costs and discount rates, which usually pressure valuations and rate-sensitive sectors.	5
Intrinsic value	Intrinsic value is the estimated true worth of a security based on fundamentals, which may differ from market price.	4
Intrinsic versus market value	A recommendation compares intrinsic value with market price: buy if undervalued, sell if overvalued, after allowing a margin of safety.	10
Inventory days	Inventory days is average inventory divided by cost of sales times 365, showing how long stock sits before being sold.	8
Jensen's alpha	Jensen's alpha is the return in excess of the CAPM-predicted return, showing a manager's value addition.	12
Leading indicators	Leading indicators such as new orders and PMI change before the economy turns and help forecast direction.	5
Limitations of technical analysis	Technical signals can fail and give false breakouts; they are best used with risk limits and alongside other analysis.	15
Listing and disclosure	Listed companies must make continuous disclosures under the SEBI listing regulations, which are the primary source of information for analysts.	2

Term	Meaning	Unit
MACD	MACD is the difference between a 12-period and 26-period EMA, with a 9-period signal line; crossovers indicate momentum changes.	15
Management quality	Management quality is judged by track record, capital allocation, transparency, integrity and alignment with shareholders.	7
Margin of safety	Margin of safety is the gap between intrinsic value and the price paid, providing a cushion against errors in estimation.	4
Market capitalisation	Market capitalisation is share price multiplied by shares outstanding, and classifies companies as large, mid or small cap.	3
Market segments	The securities market has equity, debt, derivatives and commodity segments, each with its own instruments and participants.	2
Market share	Market share is a company's sales as a percentage of the industry total and shows competitive strength over time.	6
Maximum drawdown	Maximum drawdown is the largest peak-to-trough fall in value over a period, showing the worst loss an investor would have faced.	12
Merger	A merger combines two companies into one, with the shareholders of the merged company receiving shares in the surviving company under a swap ratio.	9
Monetary policy	Monetary policy is the central bank's use of interest rates and liquidity tools to manage inflation and growth.	5
Net profit margin	Net profit margin is net profit divided by revenue, showing how much of each rupee of sales becomes profit.	8
Objectivity and independence	Research must be independent, based on facts and free of undue influence from the subject company or trading desks.	1
On-balance volume	On-balance volume adds volume on up days and subtracts it on down days, to see whether volume confirms the price trend.	15
Open interest in analysis	Rising open interest with rising prices indicates fresh buying and strengthens the trend; falling open interest suggests short covering or unwinding.	15
Open offer	An open offer requires an acquirer who crosses the 25% trigger or acquires control to offer to buy shares from public shareholders under SEBI takeover rules.	9
Operating leverage	Operating leverage reflects the share of fixed costs in total costs; higher fixed costs magnify the effect of sales changes on profit.	8
PEG ratio	The PEG ratio divides the P/E by the expected earnings growth rate, adjusting the multiple for growth.	10
PESTLE analysis	PESTLE reviews political, economic, social, technological, legal and environmental factors that affect an industry.	6
PMI	The Purchasing Managers' Index surveys business activity; a reading above 50 indicates expansion and below 50 contraction.	5
Porter's five forces	Porter's model assesses industry attractiveness by competitive rivalry, threat of new entrants, threat of substitutes, bargaining power of buyers and suppliers.	6
Price-to-book multiple	P/B compares market price with book value per share, widely used for banks and asset-heavy firms.	10
Price-to-earnings multiple	P/E divides price by earnings per share and is a relative valuation tool, compared with peers and history.	10

Term	Meaning	Unit
Primary and secondary data	Primary data is collected directly by the analyst, such as management interviews and channel checks; secondary data is taken from existing sources like filings.	4
Prohibited compensation	A research analyst must not accept compensation from a subject company that could influence the opinion, and any compensation must be disclosed.	14
Promoter pledge	Pledging of promoter shares to raise loans is a red flag, because a price fall can lead to forced sale and loss of control.	7
Public appearance disclosures	When an analyst makes a public appearance, she must disclose any conflicts or holdings in the stocks she discusses.	14
Qualitative analysis	Qualitative analysis assesses non-numerical factors such as management quality, brand, competitive position and governance.	4
Quality of earnings	Earnings are high quality when they are backed by cash flows, repeatable and not inflated by one-offs or aggressive accounting.	8
Quantitative analysis	Quantitative analysis uses numerical data and models, such as ratios, forecasts and statistics, to evaluate securities.	4
Quick ratio	The quick ratio excludes inventory from current assets and divides by current liabilities, a stricter test of liquidity.	8
Rating and price target history	A research entity should keep and show past ratings and price targets, so readers can see the track record.	14
Reasonable basis	Every recommendation must have a reasonable basis supported by research and data, not mere speculation or rumour.	13
Receivable days	Receivable days measure the average time taken to collect payment from customers.	8
Recommendation and rating	A rating such as buy, hold or sell must be defined, with the basis stated, and applied consistently.	13
Recommendation requirements	Each recommendation must be supported by research data and a rating system, and reports must carry the required disclaimers and disclosures.	14
Record date	The record date is the date on which a shareholder must be on the company's register to be eligible for a corporate benefit.	9
Record keeping	Research analysts must maintain records of research reports, recommendations and the basis for them for at least five years.	14
Registration and qualification	An individual research analyst must hold the prescribed qualification and the NISM research analyst certification and meet other norms.	14
Regulation and policy	Government policy, taxes and regulation can change industry profitability, such as price controls in pharma or spectrum charges in telecom.	6
Related-party transactions	Dealings between a company and its promoters or their entities may favour insiders, so they require disclosure and approval.	7
Relative strength comparison	Relative strength compares a security's performance with a benchmark or peers to identify leaders and laggards.	15
Relative valuation	Relative valuation values a security by comparing multiples with those of similar companies or its own history.	10
Report structure	A good report has a clear recommendation, summary, business overview, financial analysis, valuation, risks and disclosures.	13
Research analyst	A research analyst studies securities, companies or markets and publishes recommendations, targets or opinions that investors may rely on.	1

Term	Meaning	Unit
Research entity	A research entity is a person such as a broker or company that issues research reports and must be registered; it can employ analysts.	14
Research process	The research process involves defining the objective, collecting data, analysing, valuing, forming a view, writing and monitoring.	4
Resistance	Resistance is a price level where selling pressure tends to halt a rise temporarily.	15
Return on capital employed	ROCE is EBIT divided by capital employed (equity plus debt), measuring returns on all capital in the business.	8
Return on equity	ROE is net profit divided by shareholders' equity, showing the return earned on owners' funds.	8
Rights issue	A rights issue offers existing shareholders the right to subscribe to new shares in proportion to their holding, usually at a discount.	9
Risk disclosure in reports	A report should state the key risks to its thesis, so readers understand what could go wrong.	13
Risk-free rate	The risk-free rate is the return on an investment with no default risk, such as the government security yield.	12
RSI	The Relative Strength Index is a momentum oscillator from 0 to 100; above 70 is considered overbought and below 30 oversold.	15
Seasonality	Agricultural commodities show seasonal price patterns tied to harvests and demand cycles.	11
SEBI (Research Analysts) Regulations, 2014	These regulations require research analysts and research entities to register with SEBI and follow rules on qualification, conduct, disclosure and records.	14
Securities market regulators	SEBI regulates the securities market, RBI the money market and banks, and exchanges oversee their members.	2
Security market line	The security market line plots expected return against beta; securities above it are undervalued.	12
Sensitivity analysis	Sensitivity analysis shows how the valuation changes when key assumptions such as growth or discount rate are altered.	10
Share buyback	A buyback is the repurchase of a company's own shares, reducing the share count and returning cash to shareholders, through tender offer or open market.	9
Sharpe ratio	The Sharpe ratio is excess return over the risk-free rate divided by standard deviation, measuring return per unit of total risk.	12
Simple moving average	A simple moving average is the average closing price over a set number of periods, smoothing price data to show the trend.	15
Stochastic oscillator	The stochastic oscillator compares a closing price with the range over a period; above 80 is overbought and below 20 oversold.	15
Stock split	A stock split reduces the face value and increases the number of shares in the same ratio, leaving market capitalisation unchanged.	9
Stock-to-use ratio	The stock-to-use ratio compares closing stocks with consumption; low levels signal tightness and price pressure.	11
Substitute threat	Substitutes limit the prices an industry can charge, as customers can switch to alternatives.	6
Sum-of-the-parts	Sum-of-the-parts values each business unit separately and adds them, useful for conglomerates.	10

Term	Meaning	Unit
Support	Support is a price level where buying interest is strong enough to stop a decline temporarily.	15
SWOT analysis	SWOT lists a company's strengths, weaknesses, opportunities and threats to summarise its position.	6
Systematic risk and beta	Systematic risk is market-wide and measured by beta; it cannot be diversified away.	12
Target price	A target price is the analyst's estimate of a security's price over a stated horizon, backed by a valuation method and assumptions.	13
Technical analysis	Technical analysis studies price and volume history to forecast future price moves, assuming patterns repeat.	4
Terminal value	Terminal value represents the value of cash flows beyond the explicit forecast period, often a large share of total DCF value.	10
Timeliness and updates	Reports should be updated when material events occur and should state the date and data cut-off.	13
Top-down approach	The top-down approach starts with the economy, then selects industries and finally companies.	4
Trading restriction around reports	A research analyst must not deal in securities for 30 days before and 5 days after publishing a report on them.	14
Trend	A trend is the general direction of price movement: an uptrend has higher highs and higher lows, a downtrend lower highs and lower lows.	15
Treynor ratio	The Treynor ratio is excess return divided by beta, measuring return per unit of systematic risk.	12
Triangle pattern	Triangles are consolidation patterns where price ranges narrow; ascending triangles often break upward and descending ones downward.	15
Variance and standard deviation	Variance measures the dispersion of returns around the mean; standard deviation is its square root and the common measure of volatility.	12
Volume confirmation	A price move accompanied by rising volume is considered more reliable than one on thin volume.	15
WACC	The weighted average cost of capital blends the cost of equity and after-tax cost of debt in proportion to their weights, and is the discount rate for FCFF.	10
Working capital	Working capital is current assets minus current liabilities and shows the funds tied up in day-to-day operations.	8
Yield to maturity	Yield to maturity is the annualised return on a bond if held to maturity and coupons are reinvested at the same rate.	3

FINAL STRETCH

The last seven days.

Revision checklist

- [ ] Redo every ratio and valuation formula on paper.
- [ ] Learn the SEBI RA disclosure and trading-restriction rules exactly.
- [ ] Revise indicator definitions: RSI, MACD, Bollinger, moving averages.
- [ ] Revise chapters 8, 10, 14 and 15; together they carry about half of the marks.
- [ ] Take Mock 5 in one timed sitting with negative marking.

Exam-day tips

- Negative marking applies. Guess only after eliminating two options.
- Write the formula before computing; examiners often include the inverse as a distractor.
- Case-style questions repeat one scenario; read the scenario once carefully, then answer all four.
- For regulation questions, look for the word 'shall' in your memory of the rule.
- Chart-pattern questions describe the shape in words; draw it.

Disclaimer

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