

NISM Series XV: Research Analyst Certification Examination

Annexure II: Revised Test Objectives

Unit 1: Introduction to Research Analyst Profession

- 1.1 Understand the primary role of a Research Analyst
- 1.2 Discuss the primary responsibilities of a Research Analyst
- 1.3 Know the basic principles of interaction with companies and/or clients
- 1.4 List the important qualities that are desired in a Research Analyst

Unit 2: Introduction to Securities Market

- 2.1 Define the term “Securities” and understand the basics of securities markets
- 2.2 Know the securities market terminology such as:
 - 2.2.1 Equity Shares
 - 2.2.2 Debentures/Bonds/Notes/Masala Bonds
 - 2.2.3 Warrants and Convertible Warrants
 - 2.2.4 Indices
 - 2.2.5 Mutual Fund Units
 - 2.2.6 Exchange Traded Funds
 - 2.2.7 Hybrids/Structured Products
 - 2.2.8 Commodities
- 2.3 Understand the structure of securities markets with a discussion on primary and secondary markets
 - 2.3.1 Primary market: Explain various ways to issue Securities - Initial Public Offer (IPO), Follow on Public Offer (FPO), Private Placement, Qualified Institutional Placements (QIPs), Preferential issue, Rights and Bonus issue, Onshore and offshore offerings, Offer for Sale (OFS), ESOPs
 - 2.3.2 Secondary market: Over-the-counter Market and Exchange Traded Markets, Trading, Clearing and Settlement and Risk Management
- 2.4 Know the various market participants and their activities
 - 2.4.1 Market Intermediaries: Stock Exchanges, Depositories, Depository Participant, Trading Member/Stock Brokers, Authorised Person, Custodians, Clearing Corporation, Clearing Banks, Merchant Bankers and Underwriters, Farmer Producer Organization
 - 2.4.2 Institutional participants: Foreign Portfolio Investors (FPIs), P-Note Participants, Mutual Funds, Insurance Companies, Pension Funds, Venture Capital Funds, Private Equity Firms, Hedge Funds, Alternative Investment Funds, Investment Advisers, Warehouse Service Providers, Quality Assayer's
 - 2.4.3 Retail participants

- 2.4.4 Corporates – Processors, Importers, Exporters
- 2.4.5 Proxy Advisory Services Firms
- 2.5 Discuss various securities market transactions, products and processes such as:
 - 2.5.1 Cash, Tom and Spot trades/transactions
 - 2.5.2 Forward transactions
 - 2.5.3 Futures
 - 2.5.4 Options
 - 2.5.5 Swaps
 - 2.5.6 Trading, Hedging, Arbitrage, Pledging of Shares
- 2.6 Know the dematerialization and rematerialization of securities

Unit 3: Terminology in Equity and Debt Markets

- 3.1 Understand the terminology related to Equity Markets such as:
 - 3.1.1 Face Value
 - 3.1.2 Book Value
 - 3.1.3 Market Value
 - 3.1.4 Replacement Value
 - 3.1.5 Intrinsic Value
 - 3.1.6 Market Capitalization
 - 3.1.7 Enterprising Value
 - 3.1.8 Earnings – Historical, Trailing and Forward
 - 3.1.9 Earnings Per Share
 - 3.1.10 Dividend Per Share
 - 3.1.11 Price to Earnings Ratio
 - 3.1.12 Price to Sales Ratio
 - 3.1.13 Price to Book Value Ratio
 - 3.1.14 Differential Voting Rights (DVRs)
- 3.2 Understand the terminology used in the Debt Markets
 - 3.2.1 Face Value
 - 3.2.2 Coupon Rate
 - 3.2.3 Maturity
 - 3.2.4 Principal
 - 3.2.5 Redemption of a Bond
 - 3.2.6 Holding Period Returns
 - 3.2.7 Current Yield
 - 3.2.8 Yield to Maturity (YTM)
 - 3.2.9 Duration

3.3 List various types of Bonds and describe their features:

- 3.3.1 Zero Coupon Bonds
- 3.3.2 Floating Rate Bonds
- 3.3.3 Convertible Bonds
- 3.3.4 Principal Protected Note
- 3.3.5 Inflation Protection Securities
- 3.3.6 Foreign Currency Bonds
- 3.3.7 External Bonds
- 3.3.8 Perpetual Bonds

3.4 Understand the terminology used in the Commodity Market Markets

- 3.4.1 Spot price
- 3.4.2 Basis
- 3.4.3 Contango
- 3.4.4 Backwardation
- 3.4.5 Cost of carry
- 3.4.6 Delivery

Unit 4: Fundamentals of Research

4.1 Define investing activity

- 4.1.1 Active investing
- 4.1.2 Passive investing

4.2 Know the role of research in the investment activity

- 4.2.1 Insider Information vs Mosaic Analysis

4.3 Outline the nature of Technical Analysis approach to securities research

4.4 Outline the nature of Fundamental Analysis approach to securities research and know E-I-Canalysis, top-down and bottom-up approaches of fundamental analysis

4.5 Outline the nature of Quantitative Analysis (Econometrics approach) to securities research

4.6 Outline the nature of Behavioral Finance approach to Equity Investing

4.7 Outline the nature of Fundamental Analysis approach to commodity research covering aspects of supply, demand, seasonality, geopolitical developments, macroeconomic conditions, government intervention. Inventory levels etc.

4.8 Case Studies

4.9 Box Items – Historical Events

4.10 Impact on Commodity Market on Equity Market

Unit 5: Economic Analysis

- 5.1 Discuss the basic principles of microeconomics
- 5.2 Discuss the basic principles of macroeconomics
- 5.3 Introduce various macroeconomic variables such as:
 - 5.3.1 National income
 - 5.3.2 Savings and Investments
 - 5.3.3 Inflation (Consumer/Wholesale Price Indices) and interest rate
 - 5.3.4 Unemployment rate
 - 5.3.5 Flows from Foreign Direct Investment (FDI) and Foreign Portfolio Investors (FPIs)
 - 5.3.6 Fiscal policies and their impact on Economy
 - 5.3.7 Monetary policies and their impact on Economy
 - 5.3.8 International trade, Exchange rate and Trade Deficit
 - 5.3.9 Globalization: Positives and Negatives
- 5.4 Understand the Role of economic analysis in fundamental analysis
- 5.5 Understand the nature of secular, cyclical and seasonal economic trends
- 5.6 Know various sources of information for economic analysis

Unit 6: Industry Analysis

- 6.1 Understand the role of industry analysis in fundamental analysis
- 6.2 Know the Industry Definition
- 6.3 Understand industry cyclicity
- 6.4 Discuss market sizing and trend analysis
- 6.5 Discuss secular trends, value migration and business life cycle
- 6.6 Understand the industry landscape
 - 6.6.1 Michael Porter's five force model for industry analysis
 - 6.6.2 Political, Economic, Socio-cultural, Technological, Legal and Environmental (PESTLE) Analysis
 - 6.6.3 Boston Consulting Group (BCG) Analysis
 - 6.6.4 Structure-Conduct-Performance (SCP) Analysis
- 6.7 Know the key industry specific drivers for various industries and Industry KPIs
 - 6.7.1 Unit of Pricing
 - 6.7.2 Key constraining factors
 - 6.7.3 KPIs for select industries
- 6.8 Know why analysts should pay attention to the regulatory aspects of businesses
- 6.9 Understand the elements of taxation pertaining to (taxation related knowledge required for research analyst):
 - 6.9.1 Direct Taxes
 - 6.9.2 Indirect Taxes

6.9.3 Taxes on Securities (Corporate Tax, DDT and LTCG/STCG)

6.10 Know various sources of Information for carrying out industry analysis

Unit 7: Company Analysis – Business and Governance

7.1 Learn the role of company analysis in fundamental research

7.2 Understand the businesses and business models

7.3 Analyze the significance of pricing power of a business and its ability to sustain this power

7.4 Analyze a company's competitive advantages or points of differentiation over the competitors

7.5 Know the SWOT analysis: Strengths, Weaknesses, Opportunities and Threats

7.6 Discuss the importance of quality of management, independent directors and good governance standards

7.6.1 Evaluating management competency

7.6.2 Evaluating corporate governance

7.6.3 Promoters' holding

7.7 Learn why it is important to understand the risks to a business

7.8 Understand the importance of knowing the history of credit rating of a company and how the rating has changed over time

7.9 Learn about the Environment, Social and Governance (ESG) analysis of a Company / Business

7.10 Know various sources of Information for carrying out company analysis

Unit 8: Company Analysis – Financial Analysis

8.1 Understand the importance of studying the historical performance of a company and discuss whether it will be a good indicator for future performance of the company

8.2 Understand the consolidated and stand-alone results of a company and know how to use them in the analysis

8.3 Understand the basics of "Balance Sheet" of a company

8.3.1 Common Balance Sheet Line Items

8.3.2 Balance Sheet Metrics

8.4 Understand the basic concepts related to "Profit and Loss statement" of a company

8.4.1 Common profit and loss account line items

8.4.2 Key metrics from profit and loss account

8.5 Understand the need to study the historical equity expansion (equity dilution) trends of a company and how it impacts the existing shareholders

8.6 Understand the Cashflows of a company

8.7 Discuss the Notes to Accounts

8.8 List the important points to be kept in mind while looking at a company's financials

8.9 Discuss the importance of Reading audit report to understand the quality of accounting

- 8.10 Understand the financial statement analysis using ratios
- 8.11 Know the commonly used ratios used in financial analysis
 - 8.11.1 Profitability Ratios
 - 8.11.2 Return Ratios
 - 8.11.3 Leverage Ratios
 - 8.11.4 Liquidity Ratios
 - 8.11.5 Efficiency Ratios
- 8.12 Know the computation of Dupont Analysis
- 8.13 Know why the analysts need to study a company's history and ways in which they can use such knowledge to cautiously look into the future prospects of the company
- 8.14 Know the importance of peer comparison in understanding the relative standing of a company among its peers
- 8.15 Know the need to track the history of equity expansion, dividend and earnings history and past corporate actions of a company as part of the analysis and ownership and insiders' sales and purchase of stocks in the past

Unit 9: Corporate Actions

- 9.1 Understand the philosophy of various corporate actions
- 9.2 Dividend
- 9.3 Rights Issue
- 9.4 Bonus Issue
- 9.5 Stock Split
- 9.6 Share Consolidation
- 9.7 Merger and Acquisition
- 9.8 Demerger / Spin off
- 9.9 Scheme of arrangement
- 9.10 Loan restructuring
- 9.11 Buy back of shares
- 9.12 Delisting of shares and relisting
- 9.13 Share swap

Unit 10: Valuation Principles

- 10.1 Understand the difference between Price and Value
- 10.2 List some of the reasons for carrying out valuation of businesses
- 10.3 Discuss the sources of value in a business (earnings and assets)
- 10.4 Know the various approaches to valuation
- 10.5 Explain the Discounted Cash Flows (DCF) model for business valuation

- 10.6 Introduce the relative valuations
- 10.7 Understand various earnings based valuation matrices
 - 10.7.1 Dividend Yield: Price to Dividend Ratio
 - 10.7.2 Earning Yield: Price to Earnings Ratio
 - 10.7.3 Growth Adjusted Price to Earnings Ratio (PEG Ratio)
 - 10.7.4 Enterprise Value to EBIT (DA) Ratio
 - 10.7.5 Enterprise Value (EV) to Sales Ratio
- 10.8 Understand various assets based valuation matrices
 - 10.8.1 Price to Book Value Ratio
 - 10.8.2 Enterprise Value (EV) to Capital Employed Ratio
 - 10.8.3 Net Asset Value Approach
 - 10.8.4 Other metrics
- 10.9 Know the relative valuations (trading and transaction multiples), sum-of-the-parts valuation and other valuation parameters in new age businesses
- 10.10 Know the Sum-Of-The-Parts (SOTP) Valuation
- 10.11 Understand the other valuation parameters in new age economy and businesses
- 10.12 Discuss Capital Asset Pricing Model
- 10.13 Explain the objectivity of valuations
- 10.14 List some of the important considerations in the context of business valuation

Unit 11: Fundamental analysis of commodities

- 11.1 Learn about the supply demand dynamics of commodities
- 11.2 Know about the major producer and consumers of commodities
- 11.3 Learn about currency and dollar index impact on commodities
- 11.4 Understand the correlation between international markets and domestic markets
- 11.5 Learn about crop reports, weather reports (for Agri Commodities)
- 11.6 Learn about inventory data, production & consumption trends
- 11.7 Understand the macroeconomic indicators affecting commodity prices
- 11.8 Know about the impact of government policies and geopolitical factors on the commodity markets
- 11.9 Understand Hedging in Commodities
 - 11.9.1 Importance of hedging
 - 11.9.2 Hedge ratio
 - 11.9.3 Advantages and disadvantages of hedging

Unit 12: Fundamentals of Risk and Return

- 12.1 Understand the concept of return on investment

- 12.2 Calculate simple, annualized and compounded returns
- 12.3 Describe various risks that are seen in investments such as inflation risk, interest rate risk, business risk, market risk, credit risk, liquidity risk, call risk, reinvestment risk, political risk and country risk
- 12.4 Calculation of measuring risk
- 12.5 Understand the concept of Market Risk (Beta)
- 12.6 Understand the importance of sensitivity analysis
- 12.7 Understand the concept of Margin of Safety
- 12.8 Compare equity returns with bond returns
- 12.9 Calculation of Risk adjusted returns: Jensen's Alpha, Sharpe ratio and Treynor's ratio
- 12.10 Discuss various behavioural biases that influence investments and investment returns (loss-aversion bias, confirmation bias, ownership bias, gambler's fallacy, winner's curse, herd mentality, anchoring and projection bias)
- 12.11 Briefly discuss some quotes (market wisdom) from Investment Gurus
- 12.12 Discuss Measuring liquidity of equity shares

Unit 13: Qualities of a good Research Report

- 13.1 Discuss the qualities of a good Research Report and know the rating conventions
- 13.2 Know the advantages of checklist based approach to the Research Reports
- 13.3 Understand the constituents of the checklist with the help of a sample checklist

Unit 14: Legal and Regulatory Environment

- 14.1 Describe the regulatory framework of Indian financial markets:
 - 14.1.1 Ministry of Finance (MoF)
 - 14.1.2 Ministry of Corporate Affairs (MCA)
 - 14.1.3 Reserve Bank of India (RBI)
 - 14.1.4 Securities and Exchange Board of India (SEBI)
 - 14.1.5 Insurance Regulatory and Development Authority (IRDA)
 - 14.1.6 Pension Fund Regulatory and Development Authority (PFRDA)
 - 14.1.7 Insolvency and Bankruptcy Board of India (IBBI)
 - 14.1.8 Warehouse development regulatory Authority (WDRA)
- 14.2 Understand the important regulations in Indian securities markets:
 - 14.2.1 Securities Contract (Regulation) Act, 1956
 - 14.2.2 Securities and Exchange Board of India (SEBI) Act, 1992
 - 14.2.3 Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015

- 14.2.4 SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulation, 2003 (and its amendments)
- 14.2.5 Securities and Exchange Board of India (Research Analyst) Regulations, 2014 (and its amendments)
- 14.2.6 IBC related provisions relevant to Research Analyst
- 14.3 Know the Code of Conduct prescribed for Research Analysts
- 14.4 Discuss the management of conflicts of interest and the disclosure requirements for Research Analysts
- 14.5 Know the surveillance mechanism of Exchanges: ASM and GSM

Unit 15: Technical Analysis

- 15.1 Know the concept of Technical Analysis
- 15.2 Know about Charts in Technical Analysis
- 15.3 Learn about the Dow Theory
- 15.4 Understand the Market Trends
- 15.5 Understand Chart Reversal Patterns
- 15.6 Understand Consolidation Patterns
- 15.7 Understand Support & Resistance
- 15.8 Understand Trendlines & Channels
- 15.9 Understand Technical Indicators
