4th Edition
2015

Bharat's

INVESTMENT BANKING

The Dream Begins...!!!

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Bharat

Investment Banking: The Dream Begins

Preface To The Fourth Edition

The first edition of 'Investment Banking' appeared in 2010, and I am encouraged to launch its 4th edition in about 51 months from the initial beginning. The success of the previous editions made me more determined to build further on its contents to provide the readers (bankers, analysts, students, professors) with more at-the-desk practical reference material. I believe that the book appeals to readers around the globe as it advocates the logical approach and universal fundamentals. The book has been expanded, updated and improved with growing experiences of training and working in the investment-banking sector.

Investment Banking tries to offer the readers the fundamental understanding of valuation in plain vanilla language. It explains the three most commonly used valuation techniques in deals involving mergers, acquisitions, private-equity and IPOs, etc. The technical chapters of the book aim to explain step-by-step how to do valuation. It tries to fulfill an important need as a valuable training material for trainers; a reliable handbook for students, aspiring analysts/ investment bankers; first source of reference for investment bankers/analysts; and a how-to-do-valuation guide for anyone willing to learn/perform valuations. If this book can act as the first source of reference on valuation, we'll have accomplished our purpose.

So whether you are new to the investment banking industry, hoping to start your career in investment banking profession or just looking to brush up on your knowledge or in the business of providing trainings on financial modeling and valuation, I am sure that this book will help sharpen your skills.

'After all, the job of this book is to make you better at yours'.

About the Author

The author, Tapan Jindal, is a chartered accountant with extensive investment banking, corporate finance, strategic consulting and financial training experience. After completing his CA, the author began his career in investment banking division of Copal Partners (A subsidiary of Moody's). He later joined the capital markets and consulting group of iGate Global, where he worked closely with a UK based hedge fund for assessing the investment opportunities in India. Following iGate, Tapan joined valuation team Fidelity Investments where his responsibilities included building financial models and valuing the target companies for investment purposes.

Tapan now provides training to investment banking career aspirants and professionals in the areas of corporate finance, investment banking, valuations, financial modeling and finance for non-finance. Tapan has also participated in several entrepreneurial ventures including as the co-founder of Arc Financial Services and Arc School of Finance. The author also headed the India operations of Wall St. Training (USA).

Tapan graduated from Panjab University and is a fellow member of The Institute of Chartered Accountants of India.

Why I Wrote This Book

In investment banking, when it comes to the interview,
employers expect you to be not only well prepared,
but capable of doing the job from day one.

Almost in every interaction with the capital market aspirants/ students (*MBAs, CAs, CFAs, Engineers, Graduates etc.*) I came across one question – How do we prepare for the interview when we have just completed our studies and we do not yet have any experience? And another question almost in every seminar and training in universities, business schools, professional bodies, and corporate houses, was – 'Can you recommend us a good book on investment banking, written in a jargon-free and reader friendly language?'

These questions motivated me to write this book and I am confident that this book '*Investment Banking*' is the answer to such questions. The Investment Banking is written in the simplest possible language. Hence, the undesirable jargon and textbook expressions are missing from the book. While writing the book, I made sincere effort to ensure that a reader feels as if I am talking and explaining the concepts to him/her in person.

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Structure of the book 'Investment Banking: The Dream Begins'

The book has been updated and expanded with a try to make it more reader friendly. To make the book easier to navigate, we have broken up long chapters from the previous edition into shorter chapters, so that each chapter is of a more manageable size and the reader can find important topics faster. An important addition to the book is inclusion of income based valuation method i.e. DCF Valuation that has a wide range of applications, including valuation for various M&A situations, IPOs, restructurings, and investment decisions.

The 4th edition is organized in six parts, each with a distinct focus.

Part I Investment Banking

Part one introduces you to the world of investment banking starting from the origin of investment banking to the recent happenings in the IB industry and it walks you through the business of investment banks. Part one also discusses in depth about the IPOs and Private Equity.

Chapter 1 Investment Banking – An Overview

Chapter 2 IPOs and Private Equity

Part II Finance Foundations

Part two lays down the foundation for valuation taking you through the financial statements and time value of money concepts. The idea behind this part is to bring the readers in the comfort zone making them understand the three basic financial statements, how they are connected to each other, and what are the various ratios used to analyse the financial health of the company. Further it helps you to understand the segregation of operating and non-operating items to determine the core operating profits of the entity.

Chapter 3 Financial Statements DNA

Chapter 4 Income Statement

Chapter 5 Balance Sheet

Chapter 6 Cash Flows Statement

Chapter 7 Constructing the Financial Statements

Chapter 8 Accounting for Investments

Chapter 9 Sanitizing the Financials

Chapter 10 Analysing the Financial Statements

Chapter 11 Return on Capital

Chapter 12 The Time Value of Money

Part III Valuation

Part three discusses the reasons valuation happens in a business, and gives you an overview of the different valuation tools used by investment bankers. A reader will learn the meaning and step-by-step process to calculate the value of a company – Enterprise Value. It also explains how to analyze and incorporate in your valuation such advanced issues as pensions, leases, and provisions etc.

Chapter 13 Valuation Overview

Chapter 14 Enterprise Value

Part IV Valuation — Markets Approach

Part four offers a step-by-step guide to perform the valuation of company based on valuation multiples of comparable companies (trading comps) and comparable transactions (deal comps).

Chapter 15 Comparable Company Analysis

Chapter 16 Comparable Deal Analysis

Part V Valuation – Income Approach

Part Five is like a self-contained handbook for using DCF to value a company. A reader will learn how to analyze historical performance, forecast free cash flows, estimate the appropriate opportunity cost of capital, identify sources of value, and interpret results

Chapter 17 Discounted Cash Flows Analysis (DCF)

Part VI Mergers and Acquisitions

Part Six briefs you about M&A enigma. It discusses the buyer or seller motivation for an M&A transaction, the synergies and impact of synergies on valuations and if the proposed acquisition is accretive or dilutive for acquired company shareholders.

Chapter 18 Mergers and Acquisitions

Part VII Addendum

Excel Shortcuts

Key Bloomberg Functions

Being in the industry for more than a decade, where the author has trained and worked closely with analysts, entrepreneurs, investors and career aspirants, he has used anecdotes from his experience to simplify and highlight key concepts in his friendly professional style.

Acknowledgments

No book is solely the effort of its author. Though the cover gives the entire credit to one individual, a book is never the result of the author's efforts alone. Like a soccer game, it's teamwork. Many of the people who contribute to the process of writing a book remain unsung, so I'll do the singing here.

I'd like to start by thanking my colleagues and friends in office. Their feedbacks, experiences, and friendship are invaluable.

"Do not judge a book by its cover". I have never followed this mantra. The cover often plays an important role in selection of the books you opt for your library. The credit for designing the cover goes to my younger brother for his designing skills. I am sure there will be many who pick up this book for its looks, even before they appreciate the importance of its contents.

A special thanks to my parents!! I want to express my most profound appreciation to my parents, as their unceasing support above and beyond the parental call of duty brings me to tears. Without their love, support and encouragement, my career and this book would not have been possible. I express my deep gratitude to my wife, who believes in me and gave up countless weekends with me for this book.

I am always grateful to my great teachers from my school and college, Ms. Madhu Soni, Ms. Sangeeta Arora, Ms. Sunil Arora, Mr. Parneet Singh and Late Smt. Sonu Jhanjhi. They modeled power and integrity and helped me draw forth my best.

And a very special thanks to all those people including readers of the previous editions, my friends, professionals who have contributed their time and shared their experiences and insights to help make this book possible. It is always inspirational to find people who are willing to give of themselves, particularly their time – a scarce commodity for most people today – to help make a difference to others.

Tapan Jindal

In their words...

"All I can say is this book on investment banking is an un-amortizable intangible asset."

~ Analyst, Moody's Corporation

"This book is a must read for anyone who wants to gain an understanding of the nuts and bolts of work performed by an investment banking analyst on a daily basis."

~ Associate, Jefferies

"This book is perfect for preparing for an Investment banking or financial research interview. Explains all the complex concepts of valuation in an easy language."

~ Analyst, Deloitte

"I couldn't have cracked the interview (in college campus placements), if I wouldn't have read this book."

~ Analyst, JP Morgan

"An awesome experience going through the book. Written in simple language, which can be understood by even a non-finance guy."

~ Analyst, Nomura

"This book is a complete bible of investment banking knowledge and concepts for beginners as well as professionals. Dream begins and do get fulfilled."

~Analyst, E&Y

"Entry barrier is the most common difficulty faced by students when they want to learn about finance. This book, I believe is a very successful attempt at helping that. Apart from the crystal clear concepts laced with enough practical examples, the lucid language makes it even more of a utility."

~ Participant, IIT Roorkee

"Any intelligent fool can make things bigger, more complex, and more violent. It takes a touch of genius - and a lot of courage - to move in the opposite direction. Tapan is one such genius. Complex IB topics are elucidated in a simple manner. If you are a beginner in the field of finance with zero knowledge, I highly recommend you to start your quest with this book. You can comprehend the concepts in a single read. Rather than dumping lot of theory, the book takes a practical approach and provides knowledge that is required in the world of capital markets."

~ Participant, IIT Guwahati

"One of those books which bridge the gap of fundamentals between accounting and engineering students. Written in lucid style, uncomplicated, this book must be on the shelf to break into investment banking."

~ Participant, Delhi College of Engineering

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