NPTEL

Course Name: Security Analysis and Portfolio Management

Department: VGSOM, IIT Kharagpur

Instructors: Dr. Chandra Sekhar Mishra & Dr. Jitendra Mahakud

---

Session # 17 Company Analysis - I

Q.1: Define growth company and growth stock.

Ans.: **Growth companies** have historically been defined as companies that consistently experience above-average increases in sales and earnings. Financial theorists define a growth company as one with management and opportunities that yield rates of return greater than the firm's required rate of return.

Growth stocks are not necessarily shares in growth companies. A growth stock has a higher rate of return than other stocks with similar risk. Superior risk-adjusted rate of return occurs because of market undervaluation compared to other stocks.

Q.2: Explain value vs. growth investing.

Ans.: **Growth stocks** usually have positive earnings surprises and above-average risk adjusted rates of return because the stocks are undervalued. **Value stocks** appear to be undervalued for reasons besides earnings growth potential. Value stocks usually have low P/E ratio or low P/B ratio.

Q.3: Define strategy. State different levels of strategy in an organization and associated management decisions at such levels.

Ans.: Strategy refers to a plan of action designed to achieve a particular goal. The word is of military origin, deriving from the Greek word stratēgos, which roughly translates as "general".*[*]

The different levels/ layers of strategy and associated management decisions in an organization are as below:

Levels of Strategy	Management Decision
Corporate Strategy	Activities to enhance substantial competitive advantage • Selecting the Business to do? • Entering New Market

[*] http://en.wikipedia.org/wiki/Strategy, accessed on 20 June, 2010

	• Exiting/ withdrawal from market
Business Strategy	• Decisions to maximize competitive position within the chosen market
Operational Strategy	• Planning for execution of the goal of the strategic business unit (SBU)

Q.4: In the backdrop of Michael Porter's Five Forces Model, explain defensive and offensive strategies.

Ans.:

Defensive strategy involves positioning firm so that it its capabilities provide the best means to deflect the effect of competitive forces in the industry.

Offensive strategy involves using the company's strength to affect the competitive industry forces, thus improving the firm's relative industry position.

Q.5: What is PEST analysis? State examples for different components of PEST analysis.

Ans.: PEST analysis as part of strategy analysis comprises of the following (with examples given in parentheses):

- Political & Legal Changes (A Change in Government, Policy or Law)
- Economic Changes (Rising level of living standards or interest rate change)
- Social Changes (More Working Women going out to work)
- Technological Changes (New Inventions and Ideas)