

# EQUITY RESEARCH CHEAT SHEET

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## 1. KEY FINANCIAL RATIOS

### Profitability Ratios

Gross Margin =  $(\text{Revenue} - \text{COGS}) / \text{Revenue} \times 100$

Operating Margin =  $\text{Operating Income} / \text{Revenue} \times 100$

Net Profit Margin =  $\text{Net Income} / \text{Revenue} \times 100$

ROE =  $\text{Net Income} / \text{Shareholders' Equity} \times 100$

ROA =  $\text{Net Income} / \text{Total Assets} \times 100$

ROCE =  $\text{EBIT} / \text{Capital Employed} \times 100$

### Valuation Ratios

P/E Ratio =  $\text{Market Price per Share} / \text{Earnings per Share}$

P/B Ratio =  $\text{Market Price per Share} / \text{Book Value per Share}$

EV/EBITDA =  $\text{Enterprise Value} / \text{EBITDA}$

PEG Ratio =  $\text{P/E Ratio} / \text{Earnings Growth Rate}$

Dividend Yield =  $\text{Annual Dividend per Share} / \text{Market Price} \times 100$

### Liquidity & Leverage

Current Ratio =  $\text{Current Assets} / \text{Current Liabilities}$

Quick Ratio =  $(\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$

Debt-to-Equity =  $\text{Total Debt} / \text{Shareholders' Equity}$

Interest Coverage =  $\text{EBIT} / \text{Interest Expense}$

*Tip: Compare ratios against industry peers, not in isolation. A P/E of 40 is cheap for SaaS but expensive for FMCG.*

## 2. DCF VALUATION FRAMEWORK

The DCF method estimates what a company is worth based on the cash it will generate in the future, discounted back to today's value.

**Step 1:** Project Free Cash Flow (FCF) for 5-10 years

**FCF** =  $\text{EBIT} \times (1 - \text{Tax Rate}) + \text{Depreciation} - \text{CapEx} - \text{Change in Working Capital}$

**Step 2:** Calculate Terminal Value

**Terminal Value =  $FCF \times (1 + g) / (WACC - g)$  where  $g$  = long-term growth rate (2-3%)**

**Step 3:** Discount everything back to present value

**WACC =  $(E/V \times \text{Cost of Equity}) + (D/V \times \text{Cost of Debt} \times (1 - \text{Tax Rate}))$**

**Step 4: Intrinsic Value per Share =  $(PV \text{ of FCFs} + PV \text{ of Terminal Value} - \text{Net Debt}) / \text{Shares Outstanding}$**

*Tip: Terminal value often accounts for 60-80% of total DCF value. Be conservative with your growth rate assumption.*

## 3. READING FINANCIAL STATEMENTS

### Income Statement (P&L) - What to look for:

- Revenue growth trend (YoY and QoQ)
- Gross margin stability or expansion
- Operating leverage (revenue growing faster than expenses)
- One-time items or exceptional gains/losses
- EPS growth trajectory

### Balance Sheet - What to look for:

- Cash and cash equivalents vs total debt
- Receivables growing faster than revenue (red flag)
- Inventory buildup without sales growth (red flag)
- Goodwill as % of total assets (acquisition risk)
- Debt maturity schedule

### Cash Flow Statement - What to look for:

- Operating cash flow should be positive and growing
- CFO should be higher than net income (quality of earnings)
- CapEx as % of revenue (capital intensity)
- Free cash flow trend over 3-5 years
- Buybacks and dividends vs FCF (shareholder returns)

*Tip: Always read the footnotes. That's where companies hide the real story — related party transactions, contingent liabilities, and accounting policy changes.*

## 4. INDUSTRY ANALYSIS CHECKLIST

### Porter's Five Forces (quick version):

- Rivalry** — How many competitors? Is it a price war or differentiated market?
- Threat of new entrants** — High barriers (capital, regulation, brand) = good for incumbents
- Buyer power** — Can customers negotiate hard or switch easily?
- Supplier power** — Few suppliers = pricing risk for the company
- Substitutes** — Can customers solve the same problem a different way?

### Key metrics by sector:

Sector	Key Metrics	What Matters Most
Banking	NIM, NPA, CASA Ratio	Asset quality & NPA trends
IT Services	Revenue/employee, Attrition	Deal pipeline & margins
FMCG	Volume growth, Distribution	Rural penetration & pricing
Pharma	ANDA pipeline, R&D spend	US FDA approvals

Auto	ASP, Market share, EV mix	Transition to EV
Real Estate	Pre-sales, Inventory months	Cash flow & debt levels

## 5. EQUITY RESEARCH REPORT STRUCTURE

A professional equity research report follows this structure:

Section	What to Include	Length
1. Investment Thesis	BUY/SELL/HOLD + target price + 3 key reasons	1 para
2. Company Overview	What the company does, revenue mix, market position	0.5 page
3. Industry Analysis	Market size, growth drivers, competitive landscape	1 page
4. Financial Analysis	Revenue, margins, ratios, trends over 3-5 years	1-2 pages
5. Valuation	DCF, comparable analysis, target price derivation	1 page
6. Risk Factors	What could go wrong (regulation, competition, macro)	0.5 page
7. Appendix	Detailed financials, model assumptions, data sources	1-2 pages

*Tip: Your investment thesis goes on top — not at the end. The reader (portfolio manager, fund manager) wants your conclusion first, evidence second.*

## 6. RED FLAGS TO WATCH FOR

These signals often indicate trouble ahead:

- Frequent changes in auditors or accounting policies
- Revenue growing but cash flow declining
- Related party transactions increasing significantly
- Receivables growing much faster than revenue
- Management selling shares while giving bullish guidance
- Debt rising while profits are flat or declining
- Too many one-time exceptional items quarter after quarter
- Pledging of promoter shares
- Subsidiary losses being hidden from consolidated numbers
- Capitalizing expenses that should be on the P&L

*Tip: If something looks too good to be true on paper, check the cash flow statement. Cash doesn't lie — profits can.*

## 7. QUICK REFERENCE - WHAT GOOD LOOKS LIKE

Metric	Good	Caution	Red Flag
ROE	> 15%	10-15%	< 10%
Debt/Equity	< 0.5	0.5-1.5	> 1.5
Interest Coverage	> 5x	2-5x	< 2x
Current Ratio	> 1.5	1.0-1.5	< 1.0
CFO vs Net Income	CFO > NI	CFO = NI	CFO < NI

Revenue Growth	> 15% YoY	5-15%	Declining
Promoter Holding	> 50%	30-50%	< 30% or falling

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