BIRLA INSTITUTE OF TECHNOLOGY AND SCIENCE, PILANI

INSTRUCTION DIVISION

FIRST SEMESTER 2015-2016

Course Handout - Part II

Date: 30/07/2015

Note: In addition to Part - I (General Handout for all courses appended to the timetable) Part - II of the handout provides specific details regarding the course objectives, syllabus and evaluation components.

Course No. : **FIN F315**
Course Title : **Financial Management**
Instructor-in-charge : **ARUN KUMAR VAISH**

1. **Brief Course Description:**

   FIN F315 is a foundation course on Corporate Finance (Financial Management). The course provides an in-depth coverage on array of decisions undertaken by Financial Manager and their implications on the health of the business organization.

   In an increasingly competitive and globally integrated world, the roles and responsibilities of financial manager has widened manifold in the past two decades. The rate of growth of number of Indian companies over last fifteen years is a stark testimony to the tremendous amount of investments infused by profit seeking investors and the wide-range of products at our disposal explains the dynamicity of innovations happening worldwide. To retain the confidence and ensure robust growth, the firms must impress moneylenders with adequate rewards to compensate for the risks they undertake, and also protect rights of stakeholders such as employees, environment etc. Role of the financial manager - which is central to the decision-making concerning finances (money, capital, investment etc.) – plays a critical role in ensuring seamless day-to-day operations, maintaining profitability and reliable long-term performance, and adherence to corporate social responsibility.

2. **Scope and Objectives of the Course:**

   This course aims at introducing students to the fundamental Corporate Finance concepts, theories, and the process of financial decision-making. The structure of the course enables students to appreciate the integration between financial markets, learn various theories of investment and risk, knowledge of business environment and the role of finance manager in maximizing wealth of the firm. The primary objective of the course is to discuss the key decisions made by financial managers. These include - financing, investment, shareholder rewarding policies, and managing daily operations; and to enable students to appreciate the interdependencies between these decisions and their impact on the survivability of the firm. Refer to section 5 below for details on broad objectives, number of lectures planned, and suggested further readings. The course assumes students have done basic course on accounting, are familiar with financial statements, statistics, and have basic skills to work with MS-Excel.

3. **Text Book:**

Richard A. Brealey, Stewart C. Myers, Franklin Allen, and Pitabas Mohanty, Principles of Corporate Finance, 8/e, 2010, Tata McGraw-Hill Publishing Company Ltd.

4. **Reference Books:**

1. Lawrence J. Gitman, Principles of Managerial Finance, 6/e, 1991, Harper Collins Publishers.
2. Eugene F. Brigham and Joel F Houston, Fundamentals of Financial Management, 10/e, 2004, (Southwestern) Cengage Learning.
3. Eugene F. Brigham and Louis C. Gapenski, Financial Management: Theory and Practice, 6/e,1991, The Dryden Press.
4. Damodaran Aswath, Corporate Finance : Theory and Practice, 2/e, John Wiley & Sons, Inc.2001.
5. J.F. Weston and T.E. Copeland, Managerial Finance, 2/e,1990, Cassell Publisher.
6. Elton Gruber, John Wiley & Sons, Modern Portfolio: Theory and Investment Analysis, Inc.4/e, 1991, Wiley.

5. Contents: **(Eight sub-topics spanned across forty lectures)**

Lecture No.	Objectives	Topics to be Covered	Reference to Text Book (TB) or Ref. Book (R #)
1-4	**Introduction to Financial Management**	▪ Discussion on Hand-out ▪ Discuss key decisions undertaken by financial manager ▪ Corporate structure and separation of ownership ▪ Value maximization principle ▪ Introduction to different types of markets and securities **Suggested Reading:** ▪ The Objective in Corporate Finance by Aswath Damodaran	Ch. 1 (TB) + Class Notes
5-9	**Time Value of Money, Bond Valuation and Discounted Cash Flow Models of Equity Valuation**	▪ Explain the mechanics of compounding: how money grows over time when invested ▪ Concept of future and present value ▪ Discuss the relationship between compounding (future value) and bringing future cash flows back to the present (present value). Calculation of Net Present Value ▪ Define an ordinary annuity and calculate its future value ▪ Differentiate between an ordinary annuity and an annuity due, and determine the future and present value of an annuity due ▪ Discuss term structure of interest rates, concept of yield and yield to maturity. Yield price relationship and risks in fixed income instruments ▪ Calculate the annual percentage yield or effective annual	Ch. 2, 3, 4 and 23 (TB)

		rate of interest and then explain how it differs from the nominal or stated interest rate ▪ Importance of dividends in pricing a stock, dividend discount models of stock valuation	
10-12	**Risks and Rates of Return**	▪ Define and measure the return of an individual investment ▪ Define and measure the riskiness of an individual investment ▪ Measuring portfolio risk ▪ How individual securities affect portfolio risk ▪ Explain how diversifying investments affects the riskiness and expected rate of return of a portfolio or combination of assets ▪ Markowitz and Portfolio theory ▪ Concept of Beta ▪ Validity and role of Capital Asset Pricing Model and some alternative theories **Suggested Reading:** ▪ Estimating Equity Risk Premiums by Aswath Damodaran Is The Book-To-Market Ratio A Measure Of Risk? by Robert F. Peterkort and James F. Nielsen	Ch. 7 & 8 (TB)
13-16	**Financial Statements and Cash Flows**	▪ Financial Statements and Ratio Analysis ▪ Ratio Analysis	Ch. 29 (TB)
17-19	**Cost of Capital**	▪ Understanding the application of cost of capital in business decisions ▪ Describe the concepts underlying the firm's cost of capital i.e. its weighted average cost of capital and its calculation ▪ Calculate the after-tax cost of debt, preferred stock, common equity, and retained earnings and the firm's after-tax weighted average cost of capital	Ch. 19 (TB) Ch. 9 (R 2)
20-26	**Capital Budgeting**	▪ Discuss different types and importance of capital expenditure decisions ▪ Highlight the difference between investment and expenditure and the way they are treated from accounting perspective ▪ Discuss the concept of incremental cash flows for evaluating projects ▪ Estimation of incremental cash flow ▪ Introduction to various project evaluation techniques such as Payback method, NPV, IRR ▪ Project selection criteria using NPV or IRR rule and decision making under conflicting scenarios ▪ Analyse and measure various risk involved in capital expenditure – Scenarios Analysis, Sensitivity Analysis and Decision Trees Analysis **Suggested Reading:** ▪ How much is the Flexibility Worth by Thomas E. Copeland and Philip T. Keenan	Ch. 5, 6, 9 & 10 (TB) and Ch. 10 &11 (R 2)

		▪ Picking the Right Projects: Investment Analysis, by Aswath Damodaran ▪ Learn to Speak the Language of ROI by John O'Leary (available online)	
27-33	**Leverage, Corporate Financing, Capital Structure and Dividend Policy**	▪ Understand the difference between business risk and financial risk ▪ Discuss Operating Leverage, Financial Leverage and Total (combined) Leverage ▪ Calculate the firm's degree of operating leverage, financial leverage, and combined leverage ▪ Establish relation between leverage and risk ▪ Explain why a firm with a high business risk exposure might logically choose to employ a low degree of financial leverage in its financial structure ▪ Modes of financing – Debt financing vs. Equity financing ▪ Debt financing and tax shield ▪ Discussion on Theories of Capital Structure ▪ Understand the factors affecting capital structure ▪ An approach to setting the target (optimal) capital structure ▪ Shareholder rewarding policy – Cash vs. Non-cash rewards ▪ Dividend irrelevance theory – Dividend as compromise on firm's growth ▪ Dividend signalling theory ▪ Taxes and dividends **Suggested Reading:** ▪ What factors motive the corporate dividend decision by Sharon L. Kania and Frank W. Bacon ▪ Determinants of Corporate Borrowing: Some Evidence from the Indian Corporate Structure by Saumitra N. Bhaduri ▪ Designing an Optimal Capital Structure by Thomas W. Killian – (available online) ▪ Do Firms Undertake Self-Tender Offers to Optimize Capital Structure? by Erik Lie ▪ Interpreting and Measuring Operating Leverage by Richard A Lord ▪ Beyond Cash Dividends: Buybacks, Spin Offs and Divestitures by Aswath Damodaran ▪ Are highly leveraged firms more sensitive to an economic downturn? by Hossein Asgharian ▪ Returning Cash to the Owners by Aswath Damodaran ▪ Buybacks Aren't Always A Good Sign for Investors by Suzanne and Greg IP (available online)	Ch. 13 – 18 (TB) Ch 13 & 14 (R 2)
34-40	**Working Capital Management (WCM)**	▪ Objective of Working Capital Management, Static and Dynamic view of Working Capital ▪ Factors Affecting Composition of Working Capital ▪ Current Asset Management ▪ Short-term financing and current liability management	Ch. 30 & 31 (TB) and Ch. 15 & 16 (R 2)

6. **Evaluation Scheme:**

Component	**Duration**	**Weight-age (%)**	**Date**	**Remarks**
Mid-sem Test	90 min	**30**	**-**	Open Book
Surprise Quiz (3 or 4)	15-20 min	**15**		Close Book (*No make-up*)
Group Assignment		**15**		Take-Home
Comprehensive Exam	180 min	**40**	**12/12 AN**	Close Book

7. **Contact:**
   Chamber (6165 - E) consultation hour : T Th – 10-11AM
   e-mail – akvaish@pilani.bits-pilani.ac.in

8. **Notices:**
   Please refer to **Economics & Finance Dept. Notice Board** for notices**.** Students must check their BITS e-mail accounts on regular basis for course related announcements.

9. **Make-Up Policy:** Make-up is granted only on genuine grounds. Prior written permission is mandatory.

Instructor In-Charge
FIN F315