



**INSTRUCTION DIVISION**  
**SECOND SEMESTER 2015-16**  
**Course Handout Part II**

Date: 07/01/2016

In addition to Part-I (General Handout for all courses appended to the timetable) this portion gives further specific details regarding the course.

**Course No.** : MBA C416  
**Course Title** : Corporate Finance and Taxation  
**Instructor-in-charge** : UDAYAN CHANDA

**1. Brief Course Description:**

The course introduces students to the concepts of corporate finance, markets, financial securities, time value of money, risk and return, cost of capital, investment decisions, capital management, capital structure, shareholder rewarding policy and impact of corporate taxes on several key decisions. It does not assume students to have any prior knowledge in any sub-domain of Finance like investments, valuations or banking etc. However, a preliminary exposure to basic financial accounting and familiarity with financial statements is expected.

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

This course aims at introducing students to the fundamentals of corporate finance, theories, concepts and the process of **financial decision making**. The structure of the course will enable students to appreciate the integration between financial markets, business environment and the role of finance manager in maximizing firm and shareholders' wealth. Refer to detailed content wise discussion appended below in section five.

**3. Text book:**

Eugene F. Brigham, and Joel F. Houston, *Fundamentals of Financial Management*, 10<sup>th</sup> edition, Cengage Learning.

**4. Reference books:**

- A. Richard A. Brealey and Stewart C. Myers, *Principles of Corporate Finance*, 6/e, 2003, Tata McGraw-Hill Publishing Company Ltd.
- B. Lawrence J. Gitman, *Principles of Managerial Finance*, 6/e, 1991, Harper Collins Publishers.
- C. I.M. Pandey, *Financial Management*, 11/e, 2015, Vikas Publishing House, Pvt. Ltd.
- D. Damodaran Aswath, *Corporate Finance: Theory and Practice*, 2/e, John Wiley & Sons, Inc.2001.
- E. Prasanna Chandra, *Financial Management: Theory and Practice*, 6/e, 2005, Tata McGraw Hill,
- F. Arthur J. Keown, John D. Martin, J. William Petty, David F. Scott, Jr., *Financial Management*, 9/e. (2002) Prentice Hall



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**5. Course Plan:**

Lecture No.	Learning Objectives	Topics to be covered	Reference (Chapter number)
1	Introduction to Finance, Markets, Instruments and Financial Management	Introduction to financial Management, Introduction to financial players and markets and instruments and related conventions	Text Book- Ch.1 and 4, Class notes
2-3	Time Value of Money, Risk and Return, Bond Valuation and Stock Valuation	Concept of interest rates & term-structure. Bonds basics and dynamics of bond price, Duration & Modified Duration, yield-maturity-price relationship. Valuation of shares, Two stage growth, equity capitalization rate, linkage between share price, earnings and dividends, Introduction to concept of risk, return on a single asset, risk of rates of return: variance and standard deviation, historical capital market returns, expected return and risk	Text Book- Ch. 5, 6, 7 , and 8; Class notes
4-5	Portfolio theory and asset pricing models, Beta estimation	Portfolio return, portfolio risk, risk diversification, Capital asset pricing model, the arbitrage pricing theory, Beta Estimation and the cost of equity	Reference Book: I.M. Pandey – Ch. 5, 6; Class notes
6-9	Basics of derivatives. Determination of Forwards and Futures prices. Learning about arbitrage and its conditions.	Basics of Futures, forwards, options & swaps and their pay-off. Arbitrage, rationale of arbitrage assumptions and various examples and situations of arbitrage.	Text Book- Ch. 18; Class notes
10-11	Analysis and Impact of Leverage	Distinguish among the concepts of operating leverage, financial leverage, and combined leverage; Calculate the firm's degree of operating leverage, financial leverage, and combined leverage	Text Book: Ch. 14; Class notes
12-14	Cost of Capital	Understanding the application of cost of capital in business decisions, Describe the concepts underlying the firm's cost of capital (technically, its weighted average cost of capital) and the purpose for its calculation. Calculate the after-tax cost of debt, preferred stock, and common equity	Text Book: Ch. 10; Class notes
15-18	Capital Budgeting Decisions	Discuss different types and importance of capital expenditure decisions on business sustainability, Understanding various non-discounted and discounted cash flow methods and their application in capital	Text Book: Ch. 10, 11 and 12; Class notes





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		expenditure decisions, Understanding limitations of discounted and non-discounted cash flow evaluation methods and exploring best possible option, Analyzing various risk involved in capital expenditure – Scenarios Analysis, Sensitivity Analysis	
19-20	Working Capital Management (WCM)	Background on Working Capital, Current Asset Investment Policies, Current asset financing policies, Cash conversion cycle, Cash budget, Cash and Marketable securities, Inventories, Account Receivable, Trade-Credit, Bank loans, Commercial Paper, Accrued Liabilities, Use of security in Short-term financing	Text Book: Ch. 16 and 17; Class notes
21-22	Capital Structure and Dividend Policy	Understanding Theories of Capital Structure, Asymmetric Information Theory – Pecking Order Theory; Understanding financial distress and agency cost; Understanding the factors affecting capital structure; An approach to setting the target capital structure; Understanding dividend versus capital gains: What do investors prefer?; Appreciating rationale behind stable dividend policy; Understanding other means of rewarding to the shareholders – Bonus Share, Stock Options, Stock Split, Share Buyback, etc	Text Book: Ch. 14 and 15; Class notes
23-24	Taxations	History of taxation in India, Types of tax rate structures, Different type of taxes, Origin and evolution of income tax in India, Scheme of taxation of income in India, Organizational set up of income tax System, Tax law sources, Administration of the tax law and tax practice issues, Components of a tax practice	Class Note

**6. Evaluation Component**

S. No.	Evaluation Component	Duration	Max. Marks	Date & Time	Remarks
1	Mid-Semester Examination		30	18/3 4:00- 5:30 PM	OB
2	Quiz		20		CB
4	Comprehensive Examination	3 Hours	50	13/5 AN	OB/CB

7. Chamber Consultation Hour: 12 AM -Thursday

8. Notice: All notices will be displayed on **Department of Management Notice Board**.

**Instructor-In-Charge**



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