INTRODUCTION TO FINANCIAL MANAGEMENT

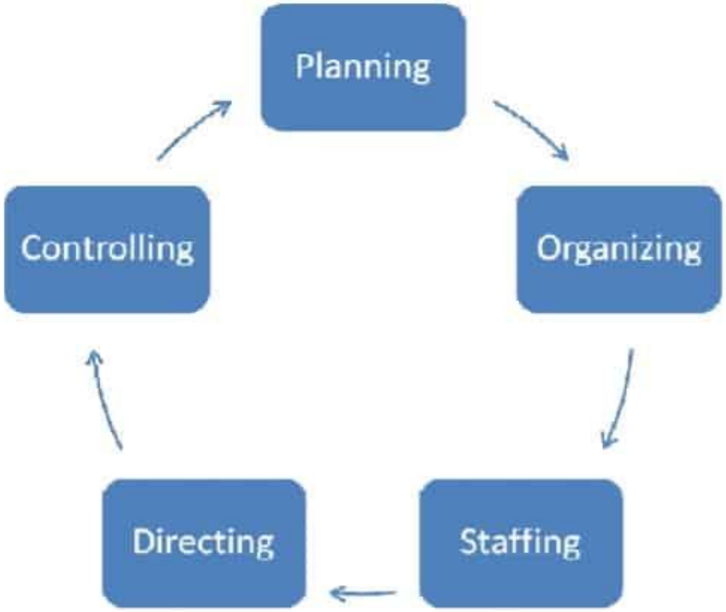
Name: V Ashwitha
Roll No:125124672247

Introduction to Financial Management

Financial management is a vital function in any organization.

It involves planning, organizing, directing, and controlling financial activities.

Effective financial management helps in maximizing the value of the business.



Objectives of Financial Management

The primary objective is to maximize shareholder wealth.

Financial management aims to ensure the availability of funds when needed.

It also focuses on minimizing costs while optimizing financial resources.

Financial Planning

Financial planning is the process of estimating estimating future financial needs.

It includes budgeting and forecasting to support strategic goals.

A solid financial plan helps businesses navigate uncertainties effectively.

Financial Analysis

Financial analysis involves evaluating financial statements and ratios.

It helps determine the organization's profitability, liquidity, and solvency.

By analyzing financial data, management can make informed decisions.

A company reports accounting data in its financial statements. This data is used for financial analyses that provide insights into a company's strengths, weaknesses, performance in specific areas, and trends in performance. These analyses are often used to compare a company's performance to that of its competitors, or to its past or expected future performance. Such insight helps managers and analysts improve their decision making.

Consider the following scenario:

You work for a brokerage firm. Your boss asked you to analyze Blue Parrot Manufacturing's performance for the past three years and to write a report that includes a benchmarking of the company's performance.

Which of the following components would be **best** for you to include in your financial statement analysis?

- (●) A comparison of the firm's performance with other firms in the same industry based on their financial ratios
- ( ) Financial statements based solely on information given to analysts and brokerage firms

There are several groups of ratios most decision makers and analysts use to examine different aspects of a company's performance. Based on the descriptions of ratios listed, identify the relevant category of ratios.

- Ratios that help determine whether a company can access its cash and pay its debts that mature in less than a year are called ___liquidity___ ratios.
- These ratios, which help determine how efficiently a firm is using its assets to generate sales are called ___asset management or activity___ ratios.
- Ratios that help assess a company's ability to service the interest and repayment obligations on its long-term debt and the degree to which it uses borrowed versus invested financial capital are called ________ ratios.
- ________ ratios help measure a company's ability to generate income and profits based on its invested capital.
- ________ ratios examine the market value of a company's share price, its profits and cash dividends, and the book value of the firm's assets and relate them to other data items to determine how the firm is perceived in the stock market.

Capital Structure

Capital structure refers to the mix of debt and equity financing.

An optimal capital structure minimizes the cost of capital.

It balances risk and return to enhance the firm's value.

Wal-Mart Stores, Inc. Peer Group Comparisons, 2/12/2015	Market Cap ($ millions)	EV ($ millions)	Total Debt ($ millions)	Net Debt-EBITDA	Total Debt-EV	T. Debt-T. Assets	WACC	WACC: Debt	WACC: Equity	Capex % Sales
S&P 500 Index	n.a.	n.a.	n.a.	1.7x	0.3%	24.4%	n.a.	n.a.	n.a.	n.a.
Dow Jones Industrial Average	n.a.	n.a.	n.a.	3.4x	0.4%	34.5%	n.a.	n.a.	n.a.	n.a.
S&P 500 Food & Staples Retail Index	n.a.	n.a.	n.a.	1.0x	0.1%	25.2%	n.a.	n.a.	n.a.	n.a.
Target Corporation	$ 48,963	$ 62,487	$ 13,782	2.4x	0.2%	30.9%	6.7%	1.6%	8.5%	4.8%
Dollar Tree Inc.	$ 15,599	$ 15,948	$ 770	0.3x	0.0%	27.8%	8.0%	1.9%	8.4%	4.2%
Dollar General Corporation	$ 20,509	$ 23,059	$ 2,819	1.2x	0.1%	25.9%	7.3%	1.8%	8.1%	3.1%
Family Dollar Stores Inc.	$ 8,875	$ 9,417	$ 500	0.8x	0.1%	13.0%	5.5%	1.1%	5.8%	4.2%
Wal-Mart Stores Inc.	$ 276,840	$ 330,748	$ 56,641	1.4x	0.2%	27.7%	6.7%	1.3%	8.0%	2.8%
Costco Wholesale Corporation	$ 65,089	$ 62,715	$ 5,100	-0.6x	0.1%	15.4%	8.0%	1.6%	8.5%	1.8%
Carrefour	$ 21,114	$ 29,221	$ 14,143	1.9x	0.5%	32.5%	6.7%	0.9%	11.1%	2.9%
Metro AG	$ 9,951	$ 11,498	$ 7,068	0.6x	0.6%	25.2%	6.5%	0.7%	10.9%	1.4%
Kroger	$ 35,596	$ 46,893	$ 11,310	2.3x	0.2%	38.6%	6.5%	1.7%	8.5%	2.4%
Whole Foods Market	$ 20,254	$ 19,580	$ 62	-0.5x	0.0%	1.1%	8.5%	1.7%	8.5%	5.0%
Safeway	$ 8,091	$ 9,559	$ 4,193	1.0x	0.3%	24.4%	5.8%	2.4%	6.9%	2.1%

Market Realist

EV: Enterprise Value, EBITDA: Earnings Before Interest, Taxes, Depreciation & Amortization, WACC: Weighted Average Cost of Capital

Sources: Respective Company Financials, S&P Dow Jones Indices, Wall Street Analyst Estimates, NYSE

Working Capital Management

Working capital management ensures that a company has sufficient liquidity.

It involves managing current assets and liabilities effectively.

Proper management of working capital enhances operational efficiency.

Investment Decisions

Investment decisions focus on the allocation of resources to long-term assets.

It involves evaluating potential projects through techniques like NPV and IRR.

Making sound investment decisions is crucial for long-term growth.

Capital budgeting involves evaluating the value of long-term assets or projects.

Which of the following should be included in the capital budgeting process? Check all that apply.

- ☐ Include all relevant cash flows.
- ☐ Estimate the future cash flows associated with the project.
- ☐ Estimate sunk costs and add them to the valuation.
- ☐ Compute the present value of the expected cash flows.
- ☐ Consider expansion projects over replacement projects.

Risk Management

Financial management includes identifying and mitigating financial risks.

It assesses risks related to market fluctuations, credit, and liquidity.

Effective risk management strategies protect the organization’s assets.

Financial Reporting

Financial reporting provides stakeholders with crucial information about performance.

It includes the preparation of financial statements in compliance with regulations.

Accurate reporting builds trust and transparency with investors and creditors.

Conclusion

Financial management is essential for achieving an organization’s goals.

It integrates various financial activities for optimum performance.

Understanding its principles is key for anyone involved in business management.

THANK

YOU