# **Session 1 - Basics**

## First steps in finance

It’s all about finance , whether its HR , public relations , marketing etc..

Building blocks

1) Structure of business

Always forward looking ( what we do in future , planning for future , not what we have done in the past)

2) cashflows

What are cashflows and why are they important??

How are earnings related with cashflows.

3) measurement of risk

4) time value of money

-- dollar today is worth more than a dollar in future.

5) Valuation

-- value of an asset is the present value of its cash flow

6) Trading fundamentals

-- markets not specifically required for business, these are just lubricants, but the important thing is how do we perform trading / business transactions

Arbitrage 🡪 why its important in finance

## 1.Concept of Business

Understanding the business structure

Assets and Liabilities

Difference between financial and Accounting BS

Financial balance sheet 🡪 not what you have already put in the assets but what these assets will give you in return in future based on what you have invested in them today. Always about future .

**2 ways to fund a business**

1) Equity 🡪 the money which we own ourselves.

2) Debt 🡪 if equity is not sufficient , we borrow money

## 2.Importance of Cashflows

Important to understand why cashflows is different to earning.

Why few business that looks good in accouting BS may not really be productive

1) contractually set in the beginning

Like a bond or loan when the business takes in the beginning

2) residual cashflows

Profits made in the business

3) contingent cashflows

If some event occurs , you have some savings kept which will be used for business

## 3.Measurement of risk

3 things to note here :

Good risk and bad risk 🡪 we need to e careful here

Risk though whose eyes, perspective of risk from govt point of view , company , shareholders , stakeholders etc..

Quantifying the risk 🡪 convert the risk into something measurable ( like a risk measure which can be adjusted)

Also understand the history of risk , how company has performed in the past helps us to assess its risk for future.

## 4.Time value of moneyd

Dollar today is more than dollar worth tomorrow 🡪 but why??

What decides the value of asset for tomorrow ,,if there is some cashflow right now , what would be its value in future

Or if there is some cashflow in future , can we find the value for that in present to make a financial decision.

## 5.Valuation

It depends upon the type of cashflow

Ex: for contractual cashflow , like bond or loan , you discount them using the fixed amount( promised cash) when the bond was made

For equity ( residual cashflow) 🡪 discount expected cashflow what the investors expect in the cash flow

Contingent cashflow 🡪 value the asset using an option pricing model

## 6.Trading

Financial markets where buying / selling is happening

Investors would like to get 100% profits ( but that’s impossible , you need to take risk most of the times)

At the same time , there are 2 kinds of frictions that every investor need to go through:

1) trading costs

2) taxes ( govt imposed taxes)

# **Session 2 – Structure of a business**

## Financial Balance Sheet

Assets and Liabilities

Assets in place 🡪 value of investments you have already made as a company in the history. 🡪 current wealth / value of a company

Growth Assets 🡪 future value of investments done today

Debt 🡪 borrow money 🡪 whatever profits are earned, these will get distributed to the Lenders first and then only company

Equity 🡪 value get after meeting the debt obligations

1. Assets in place 🡪 ex: for an automobile company these are the plants which are already setup. Company is reaping the benefits for such assets.

Ex : Microsoft 🡪 Assets in place 🡪 Windows and microsoft