

ABOUT THE BOOK

Preface to the Sixth Edition

We are pleased to place in the hands of the readers this thoroughly revised edition of our highly successful reference-cum-text book **Financial Management: Text, Problems and Cases**. The focus continues on equipping the readers with the theories, concepts, and techniques that can be applied to corporate decision-making whether they are strategic, analytical or simply routine decisions a financial manager faces everyday.

Changes in the Sixth Edition

Numerous changes distinguish this edition from the earlier edition. They include deletion of an existing chapter and chapter-wise updates of contents.

Deletion of Existing Chapter To reflect the emerging focus, one chapter (**Chapter 29: Credit Risk Management**) has been deleted.

Chapter-Numbers In view of the deletion of Chapter 29, the number of Chapter 37 (Corporate Governance) has changed to Chapter 29.

Updated Chapter—Contents The thrust of the revision of the existing chapters is on incorporating up-to-date knowledge about financial management discipline as well as the regulatory and policy developments. The important chapter-wise updates of the contents of the sixth edition are summarised below:

<i>Chapter</i>	<i>Addition/Inclusion/Rewriting/Pruned</i>
6	(i) Key liquidity ratios of RIL, 2002-09 (ii) Debt-equity ratios of RIL, 2001-09 (iii) Long-term debt to total assets ratio and secured loans as percentage of total debt of RIL, 2001-09 (iv) Interest coverage ratio of RIL, 2001-09 (v) Key profitability ratios of RIL vis-a-vis industry, 2001-09 (vi) P/E, P/BV, P/CEPS and EV/EBIDTA of RIL, 2001-09 (vii) Dividend yield of RIL, 2002-09 (viii) Du-Pont analysis (two-point, three-point/five-point break-up) of RIL, 2002-09
9	(i) Effect of depreciation (ii) Working capital effect
10	(i) Figure 10.1 (NPV and discount rate) re-drawn (ii) Modified IRR method
11	(i) Debt-yield plus risk premium approach (ii) Cost of equity capital (pruned)

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| 12 | (i) Scenario analysis |
| | (ii) Section 3 on risk and real options has been added |
| 13 | (i) Concept of zero working capital |
| | (ii) Policies related to current assets investment |
| 15 | Cost of additional investment in debtors, cash and inventories |
| 16 | Section 3 just-in-time inventory/production has been added |
| 17 | Framework of Indian CP market (rewritten) |
| 18 | DOL, DFL and DCL of RIL, 2001-09 |
| 19 | (i) Bankruptcy costs |
| | (ii) Figure 19.4: Cost of equity and bankruptcy cost |
| | (iii) Figure 19.5: Degree of leverage and WACC |
| | (iv) Trade-off theory |
| | (v) Signalling theory |
| | (vi) Pecking-order theory |
| 22 | Section 2 on issue procedures rewritten |
| 23 | (i) Issue procedure related to debt securities included |
| | (ii) Issue procedure related to securitised debt instruments (SDIs) rewritten |
| | (iii) Additional requirements for issue of convertible debt instruments (CDIs) added |
| 25 | IRR approach to evaluate lease versus borrow/buy decision has been added |
| 28 | Derivative market in India |
| 29 | Section 3 on corporate governance voluntary (government) guidelines, 2009 has been added |
| 30 | Residual theory of dividends has been added in Section 1 |
| 31 | (i) D/P ratio of RIL, 2002-09 |
| | (ii) EPS, DPS, retention per share and equity dividend of RIL, 2002-09 |
| | (iii) Section 2 on bonus shares and stock splits has been expanded |
| | (iv) Share repurchase (share buyback) |
| | (v) Section 4 on share splits in India has been added |
| | (vi) Section 5 on issue of bonus shares in India has been added |
| 33 | (i) Combination and Competition Act |
| | (ii) Motives for corporate mergers in India |
| 35 | Risk management practices in India |
| 36 | Section 7 on foreign currency exchange bonds has been added |
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4 Financial Management

Pedagogical Features The time-tested pedagogical features (listed below) of the fifth edition have been retained.

Learning Objectives Each chapter begins with a number of learning objectives to ensure broad understanding of the concepts, theories and techniques of financial management.

Mini Cases Another distinct feature is the inclusion of a large number of **mini cases**. These chapter-end cases can be used by the readers to synthesise and apply related concepts, theories, and techniques.

Multiple Choice Questions The inclusion of multiple choice questions with answers is yet another distinct feature of the new edition.

CD and Website Containing comprehensive cases, additional solved problems, solutions to all numerical review questions, power point presentation and a guide for instructors, among others, is yet another feature of new edition.

Spreadsheet/Excel-Application Spreadsheet solutions have been provided in a large number of chapters.

Special Features

With the aim of developing the readers' ability in the application of various financial principles and techniques, the special features of the sixth edition are the following:

Up-to-date Comprehensive Coverage The book is structured around financial decision-making and comprehensively covers objectives of financial management, organisation of finance function, time value of money, valuation of bonds and shares, risk and return, option valuation, financial analysis, profit planning and cost control, capital budgeting decisions, cost of capital, capital structure decisions, dividend policy decisions, working capital management, business valuation, corporate restructuring, foreign exchange markets, foreign exchange risk management techniques, international financial management, risk management, corporate governance, Indian corporate practices related to corporate objectives and financial decision making.

Pedagogical Features The pedagogical feature of the book are:

Analytical Approach and Decisional Focus Consistent with aim of the book, a careful and thorough presentation of the financial consequences of management decision is the underlying theme. The orientation is managerial with emphasis on identification and solution of financial problems confronting business enterprises.

Chapter Organisation Each chapter is related to the managerial decision-making perspective. We have not merely described a concept but have also related it to the overall goal of wealth maximisation. After describing a concept, its application is illustrated with the help of step-by-step examples to improve clarity. In the preparation of the text, we have kept readability constantly in mind and have accordingly used a clear and concise, and by and large non-mathematical writing style, especially in the treatment of concepts requiring the use of mathematics.

Numerous Illustrations/Solved Problems and Review Questions A comprehensive set of real-life solved problems, at the end of each chapter are intended to serve as a review guide to test the readers' understanding of the subject. Numerous end-of-chapter review questions are included together with answers to help preparing detailed solutions.

Procedural Orientation, Practice Discussion and Cases To enable the readers to understand the real world of finance, contemporary industry practices as also procedural aspects have been included at relevant places in reasonable detail. About 15 integrated (comprehensive) cases and 40 mini cases form the part of this edition, for this purpose.

Financial Tables and Bibliography A complete set of financial tables is included as a ready reckoner. A select bibliography would be of special interest to teachers/advance students of the subject.

Target

The book is primarily targeted at teachers/students of finance, management, commerce, accounting and related professional disciplines/courses. Practitioners/professionals would also find it invaluable text.

The financial management discipline is constantly changing. It is both stimulating and far reaching. We hope that the sixth edition of our book with its comprehensive and up-to-date coverage would contribute to a better understanding of corporate finance. We sincerely look forward to the same overwhelming response to this edition as to the previous edition from readers.

Acknowledgements

Finally, we would express our intellectual debt of gratitude to the numerous authors who have enriched the stream of literature in finance on which we have liberally drawn. Some of the more specific references are indicated in the text itself.

Our colleagues Dr. R. K. Arora (International Management Institute, New Delhi) and Dr. Alok Dixit (IIM Lucknow) have helped in several ways, in particular, in contributing the spreadsheet solutions included in various chapters of the book. We gratefully acknowledge their contribution.

The authors record a word of appreciation for Professor Surendra S. Yadav's contribution. The authors have also a word of appreciation for the excellent support from Ms. Vibha Mahajan, Mr. Tapas K. Maji, Mr. Hemant K. Jha, Mr. Manohar Lal, Ms. Anubha Srivastava and Ms. Shalini Negi of Tata McGraw-Hill for the speedy and excellent publication of the book.

AUTHORS

Preface to the First Edition

This book, in a sense, is an outgrowth of our teaching experience. In our academic interaction with teachers, postgraduate students and practising financial executives, we have found that they face considerable difficulty in using the available foreign books in this growing academic discipline. The present volume, in a way, represents a modest attempt to provide a solution to their problems.

It is intended primarily for postgraduate students in commerce and chartered and cost accountancy. Those doing similar courses in business management or appearing in the restructured civil services and other competitive examinations will hopefully find it equally useful. Its usefulness, however, is not confined to academicians alone. It may also be of special interest to the practitioners in the field.

In keeping with the aims of the book, we have attempted to present the text in a lucid and simple style; the treatment is comprehensive and by and large non-mathematical. Another notable feature of this volume is that the discussions of the concepts and theories are invariably followed by exhaustive illustrative problems. To test the understanding of the readers as also to enable them to have sufficient practice, a large number of exercises have also been given at the end of the chapters. A select bibliography at the end of the book would be of special interest to the teachers of the subject.

The theme of Financial Management is structured round the decision-making in the three inter-related financial areas: investment—long-term as well as current assets; financing; and dividend policy. Also included are the important tools of financial planning and management. The main discussion is divided into six parts comprising twenty chapters.

Part I of the book, which provides the setting to the detailed discussions that follow subsequently, contains two chapters. Chapter 1 outlines the *nature* of financial management in terms of its emerging and contemporary scope and objectives. The concern of Chapter 2 is with the time value of money, i.e. compounding and discounting or present value techniques and their practical applications in financial decision-making, particularly capital budgeting.

Part II, comprising two chapters, is devoted to the tools of analysis in financial management. While Chapter 3 explains and illustrates the statement of changes in financial position (funds flow and cash flow), the financial statement analysis (ratio analysis) is described in Chapter 4.

The subsequent discussions relate to the important decision-making areas in financial management. Thus, Part III focusses on the first and the most important aspect, namely, the long-term investment decision or capital budgeting. It consists of five chapters. The first of these (Chapter 5) presents the general principles of capital budgeting with particular reference to the type of information required (cash flow) and its essential ingredients. This is followed in Chapter 6 by a detailed account of the capital budgeting evaluation techniques, traditional as well as time-adjusted or discounted cash flow. The incorporation of risk and uncertainty into the capital budgeting exercise is elaborated in Chapter 7. Chapter 8 attempts to develop the concept and measurement of cost of capital—the most controversial element in financial management. The last chapter of this part (Chapter 9) dwells on the Indian corporate practices pertaining to capital expenditure decision-making in both the public and private sectors.

The second important decision involved in financial management (financing decision) is covered in the three chapters of Part IV. The discussions in Chapter 10 pertaining to the two inter-related aspects, i.e. operating and financial leverage, set the framework for the capital structure decisions of a firm. The capital structure theories, reflecting the controversy in the financial literature regarding the theoretical relationship between capital structure, cost of capital and value of a firm are examined in Chapter 11. In the light of the conclusions of this chapter, the considerations having a bearing on the designing of an appropriate capital structure are highlighted in the next chapter (Chapter 12).

Part V of the volume is devoted to the relevant dimensions of dividend policy decision. The first aspect, viz, the controversy in the academic literature as regards the relevance of dividend policy to the value of the enterprise, is the subject matter of Chapter 13. It is against the background of this theoretical discussion that Chapter 14 dwells on the determinants of an appropriate dividend policy.

Finally, Part VI of the book focusses on the management of current assets, more popularly designated as working capital management. The first three chapters of this part between them provide an overview of working capital management and deal respectively with the theory of working capital management in terms of the basic strategies for efficient management of current assets and current liabilities (Chapter 15), the planning and determinants of working capital (Chapter 16) and the financing and control of working capital in India with particular reference to the report of the Tandon Committee (Chapter 17). The next three chapters look into the management of the individual components of current assets. While cash management is the theme of Chapter 18, the various dimensions of receivables management are explained in Chapter 19. The last chapter (Chapter 20) discusses the relevant aspects of inventory management.

Detailed solutions of all the exercises included in each chapter of this book are provided in our book: *Management Accounting and Financial Management—Problems and Solutions*.

In the preparation of this book we have received encouragement and support from various quarters. In particular we would like to thank Mr. H.C. Jain, Librarian of the University South Campus Library for the excellent library support he provided to us at short notice. Mr. Subhash Chander deserves our thanks for speedy and accurate typing of the final draft.

Finally, we would be failing in our duty if we do not acknowledge the deep debt of gratitude that we owe to the various authors whose writings have provided an insight into the intricacies of the subject.

M Y KHAN
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About the Authors

Dr. M. Y. Khan has been Professor of Finance, Department of Financial Studies, University of Delhi. He served as the Head of Department of Financial Studies and Dean Faculty of Business, University of Delhi. He has also been Head, Department of Commerce, University of Delhi.

Prof. Khan has more than 40 years of teaching and research experience. He has authored/co-authored about a dozen books. The major publications are Financial Management, Management Accounting, Cost Accounting, Indian Financial System and Financial Services (published by Tata McGraw Hill). Most of these books have run through several editions/reprint and two books out of these have seen more than 50 re-prints and five editions.

He has also published several research studies and completed many research projects. He has published research papers in journals of national and international repute. His writings are widely cited in the academic literature. He has also held several positions as a member on the boards of banks, mutual funds, academic institutions and so on. He has also guided more than a dozen Ph. D. students in the area of finance and accounting. He enjoys the reputation of being an excellent teacher. He has been invited by several institutions as visiting professor. The select list includes Indian Institute of Foreign Trade, New Delhi and IIT, New Delhi. He has organised several management development Programme (MDPs) both for public and private sector executives in the areas of financial management, financial and cost analysis, profit planning and cost control, investment decisions, etc.

His contributions in the field of finance have been recognized at national and international level and he has been recipient of several awards and recognitions.

Dr. P. K. Jain is Professor of Finance in the Department of Management Studies, IIT, Delhi. He earlier served as the Head of Department of Management Studies and Co-coordinator of Dalmia Research Programme on Management in Asia. . He was Modi Foundation Chair Professor as well as Dalmia Chair Professor.

Prof. Jain has a teaching experience of more than 38 years in subjects such as management accounting, financial management, financial analysis, cost analysis and cost control. Earlier, he has taught at the Foundation for Technical Institute, Basrah and University of Basrah, Iraq. He was visiting faculty at the University of Paris, School of Management, Asian Institute of Technology, Bangkok and Howe School of Technology Management, Stevens Institute of Technology, New Jersey. He has been visiting faculty at International Centre for Promotion of Enterprises, Ljubljana, Slovenia to teach finance in its MBA (International) programme since 1997. He has been conferred the title of Honorary Visiting Professor by the Faculty of Economics, Ljubljana, Slovenia. He has also been invited to deliver lectures at several institutions in India.

He has authored/co-authored more than 10 text books, some of which have seen about 25 reprints and five editions; two books out of these have seen more than 50 reprints. He has also published 12 research books/monographs. The select list includes Financial Management, Management Accounting, Cost Accounting (all from TMH), International Financial Management (McMillan), Financial Management Practices in Select Private Corporate Enterprises—A Comparative Study of

India, Thailand and Singapore, IFCI—A Study in Financial Management, Economic Crisis in South East Asia. He has published more than 130 research papers in journals of national and international repute. He has also guided more than a dozen Ph.D. students in the area of finance and accounting. He has been associated with several research projects & consultancy in the field of finance. He is on the boards of many academic institutions. He has organised several management development Programme (MDPs)/Continuing Education Programmes (CEPs) both for public and private sector executives.

His contributions in the field of finance have been recognized at national and international level and several awards and recognition have been conferred on him.