KEY CONCEPTS

CHAPTER I

- Finance is the art and science of managing money.
- Financial services is concerned with the design and delivery of advice and financial products to individuals, businesses and governments.
- Financial managers actively manage the financial affairs of any type of business, namely, financial and non-financial, private and public, large and small, profit-seeking and not-for-profit.
- Marginal analysis suggests that financial decisions should be made on the basis of comparison of marginal revenues and marginal costs/added benefits exceed added costs.
- Accrual method recognises revenue at the point of sale and expenses when they are incurred.
- Cashflow method recognises revenues and expenses only with respect to actual inflows and outflows of cash.
- Investment decision relates to the selection of assets.
- Capital budgeting relates to the selection of an asset whose benefits would be available over the project's life..
- Working capital management is concerned with the management of current assets
- Financing decision relates to the choice of the proportion of debt and equity sources of financing
- Quality refers to the degree of certainty with which benefits can be expected.
- Risk is the chance that actual outcomes may differ from those expected.
- Risk-averters want to avoid risk.
- Economic value added is equal to after-tax operating profits of a firm less the cost of funds used to finance investments.
- Stakeholders include groups such as employees, customers, suppliers, creditors, owners and others who have a direct link to the firm.
- Agency problem is the likelihood that managers may place personal goals ahead of corporate goals.
- Hostile takeover is the acquisition of the firm (target) by another firm (the acquirer) that is not supported by management.
- Agency costs are costs borne by shareholders to prevent/minimise agency problems as to contribute to maximise owners wealth.
- Fidelity bond is a contract in which a bonding company agrees to re-imburse a firm upto a stated amount for financial losses caused by dishonest acts of managers.
- Incentive plans tie management compensation to share price.
- Stock options allow management to purchase shares at a special/ concessional price.
- Performance plans compensate management on the basis of proven performance.
- Performance shares are given to management for meeting the stated performance goals.
- The main concern of the treasurer is with the financing activities of the firm.
- The functions of the controller are related mainly to accounting and control.

CHAPTER 2

- Time value of money means that the value of a unit of money is different in different time periods.
- Compound interest is the interest earned on a given deposit/principal that has become a part of the principal at the end of a specified period.
- Principal refers to the amount of money on which interest is received.
- Semi-annual compounding means two compounding periods within a year.
- Quarterly compounding means four compounding periods in a year.
- Annuity is a stream of equal annual cash flows.
- Compound/future interest factor for an annuity is the multiplier used to calculate the future/compound value of an annuity at a specified rate over a given period of time.
- Present value is the current value of a future amount. The amount to be invested today at a given interest rate over a specified period to equal the future amount.
- Discounting is determining the present value of a future amount.
- Present value interest factor is the multiplier used to calculate at a specified discount rate the present value of an amount to be received in a future period.
- Mixed stream is a stream of cashflows that reflects no particular pattern.
- Present value interest factor for an annuity is the multiplier to calculate the present value of an annuity at a specified discount rate over a given period of time.
- Perpetuity is an annuity with an indefinite life, making continuous annual payments.

CHAPTER 3

- Return is the actual income received plus any change in market price of an asset/investment.
- Risk is the variability of actual return from the expected return associated with a given asset.
- Sensitivity analysis is a behavioural approach to assess risk using a number of possible return estimates to obtain a sense of the variability among outcomes.
- Range is a measure of risk which is found by subtracting the pessimistic (worst) outcome from the optimistic (best) outcome.
- Probability distribution is a model that relates probabilities to the associated outcome.
- Probability is the chance that a given outcome will occur.
- Standard deviation measures the dispersion around the expected value.
- Expected value of a return is the most likely return on a given asset/security.
- Coefficient of variation is a measure of relative dispersion used in comparing the risk of assets with differing expected returns.
- Portfolio is a collection/combination/group of assets/securities.
- Correlation is a statistical measure of the relationship between series of numbers representing data of any kind.
- Correlation coefficient is a measure of the degree of correlation between two series.
- Perfect negative correlation describes two negatively correlated series that have a correlation coefficient of –1.
- Zero correlation describes two series that lack any relationship and have correlation coefficient close to zero.
- Naïve diversification means a portfolio consisting of stock chosen at random.
- Systematic risk implies the overall market risk that affects all securities and cannot be diversified away.
- Non-systematic risk is firm specific and can be avoided by diversification.
- Short sales is the selling of a borrowed asset/security.
- Risk free security has zero variance.
- Capital allocation line shows the reward to variability ratio in terms of additional beta.
- Indifference curve maps an investor's utility with respect to expected return and risk.
- Efficient portfolio maximises returns for a given level of risk or minimises risk for a given level of return.
- CAPM is an equilibrium model of the trade-off between expected portfolio return and unavoidable (systematic) risk; the basic theory that links together risk and return of all assets.
- Capital market line depicts the risk-return relationship for efficient portfolios.
- Security market line is a graphic depiction of CAPM and describes the market price of risk in capital markets.
- Expected return in a CAPM context is the risk-free rate plus a premium for systematic risk based on beta.
- Beta measures the risk (volatility) of an individual asset relative to market portfolio.
- Despite challenges the CAPM is widely used because it is a practical equilibrium model.

- Extended CAPM adds variables additional to beta to the model.
- Covariance with unexpected inflation is desirable from the standpoint of the investor.
- Arbitrage pricing theory has markets equilibrating across securities through arbitrage driving out mispricing.

CHAPTER 4

- Valuation is the process that links risk and return to determine the worth of an asset.
- Par value is value on the face of the bond
- Coupon rate is the specified interest rate available on a security.
- Maturity period is the number of years after which the par/specified value is payable to the bondholders
- Premium is the amount by which a bond sells at a value higher than its par/face value.
- Discount is the amount by which a bond sells below its par/face value.
- Yield to maturity (YTM) is the rate of return an investor earns on a bond held till maturity.
- Expected return is the return that is expected to be earned on a given security over an infinite time horizon.
- Zero growth model is an approach to dividend valuation that assumes a constant, non-growing dividend stream.
- Constant growth model assumes that dividend will grow at a constant rate that is less than the required rate.
- Gordon model is the common name for the constant growth modal widely cited in dividend valuation.
- Required rate/return is a specified return required by investors for a given level of risk.
- Variable growth model is a dividend valuation approach that allows for a change in the dividend growth rate.
- Book value per share is the amount per share on the sale of assets of the company at their exact book (accounting) value minus all liabilities including preference shares.
- Liquidation value per share is the actual amount per share if all assets are sold, liabilities including preference shares paid and any remaining money is divided among the ordinary shareholders.
- Price/earnings multiple approach is a technique to compute value of shares multiplying expected earnings per share by the average price/earnings ratio for the industry.

CHAPTER 5

- Cashflow statement (CFS) provides a summary of operating, investment and financing cashflows and reconciles them with changes in its cash and cash- equivalents (marketable securities) during the period.
- Operating cashflows are directly related to production and sale of the firm's products/services.
- Investment flows are cashflows associated with purchase/sale of both fixed assets and business interests.
- Financing flows are cash flows that result from debt/equity financing transactions and include incurrence and repayment of debt cashflows from the sale of shares and cash outflows to purchase shares or pay dividend.

CHAPTER 6

- Ratio analysis is a systematic use of ratios to interpret/assess the performance and status of the firm.
- Trend ratios involve evaluation of financial performance over a period of time using financial ratio analysis.
- Inter firm comparison involves comparison of different firms' financial ratios at the same point of time; involves comparison of a firm's ratios to those of others in its industry or to industry average.
- Liquidity ratio is the ability of a firm to satisfy its short-term obligations as they become due.
- Net working capital is a measure of liquidity calculated by subtracting current liabilities from current assets.
- Current ratio is a measure of liquidity calculated dividing the current assets by the current liabilities.
- Acid-test (quick) ratio is a measure of liquidity calculated dividing current assets minus inventory and prepaid expenses by current liabilities.
- Defensive interval ratio is the ratio between quick assets and projected daily cash requirement.
- Debt-equity ratio measures the ratio of long-term or total debt to shareholders equity.
- Trading on equity (leverage) is the use of borrowed funds in expectation of higher return to equity-holders.
- Proprietary ratio indicates the extent to which assets are financed by owners funds.
- Coverage ratios measure the firm's ability to pay certain fixed charges.
- Interest coverage (time-interest-earned) ratio measures the firm's ability to make contractual interest payments.
- Total fixed charge coverage ratios measure the firm's ability to meet all fixed payment obligations.
- Debt service capacity is the ability of a firm to make the contractual payments required on a scheduled basis over the life of the debt.
- Gross profit margin measures the percentage of each sales rupee remaining after the firm has paid for its goods.
- Net profit margin measures the percentage of each sales rupee remaining after all costs and expenses including interest and taxes have been deducted.
- Return on investments (ROI) measures the overall effectiveness of management in generating profits with its available assets.
- Return on shareholders equity measures the return on the owners (both preference and equity shareholders) investment in the firm.
- Return on ordinary shareholders' equity measures the return on the total equity funds of ordinary shareholders.
- Dividend payout (D/P) ratio measures the proportion of dividends paid to earning available to shareholders.
- Price/Earnings (P/E) ratio measures the amount investors are willing to pay for each rupee of earnings; the higher the ratio, the larger the investors confidence in the firm's future.

- Activity ratios measure the speed with which various accounts/assets are converted into sales or cash.
- Inventory (stock) turnover measures the activity/liquidity of inventory of a firm; the speed with which inventory is sold.
- Average collection period is the average amount of time needed to collect accounts receivable.
- Ageing schedule enables analysts to identify slow paying debtors.
- Assets turnover indicates the efficiency with which firm uses all its assets to generate sales.
- Earning power is the overall profitability of a firm; is computed by multiplying net profit margin and assets turnover.
- Growth ratios measure the rate at which the firm should grow.
- Internal growth rate is the maximum growth rate without external financing.
- Sustainable growth rate measures maximum rate of growth using both internal and external sources of financing without increasing its financial leverage (debt-equity ratio).
- Common size statement expresses assets and liabilities as per cent of total assets and expenses and profits as per cent of sales.

CHAPTER 7

- Volume-cost-profit analysis shows the relationship among the various ingredients of profit planning, namely, unit sale price, variable cost, sales volume, sales mix and fixed cost.
- Break-even point is the sales volume at which revenue equals cost (i.e. no profit no loss).
- Contribution margin is the excess of unit sale price over unit variable cost.
- Margin of safety is the excess of actual sales revenue over the break-even sales revenue.
- Break-even chart is graphic relationship between volume, costs and profits.
- Cash break-even point is total cash fixed cost divided by contribution margin per unit.

CHAPTER 8

- Planning involves specifications of basic objectives and fundamental policies.
- Objectives are broad and long-range desired state or position in future.
- Goals are quantitative targets to be achieved in specified period.
- Strategies represent specific course of action to achieve goals.
- Master budget is the overall budget for the entire organisation.
- Operating budgets relate to physical activities/operations such as sales, production, and so on.
- Financial budgets are concerned with expected cash flows, financial position and result of operations.
- Flexible budget estimates costs at several levels of activity.
- Fixed costs are fixed for a relevant range of volume for a given budget period.
- Variable costs fluctuate in direct proportion to activity/volume within relevant range for a given budget period.
- Mixed costs are composed of both fixed and variable elements.

CHAPTER 9

- Capital budgeting is the process of evaluating and selecting long-term investments that are consistent with the goal of shareholders (owners) wealth maximisation.
- Capital expenditure is an outlay of funds that is expected to produce benefits over a period of time exceeding one year.
- Capital budgeting process includes four distinct but interrelated steps used to evaluate and select long-term proposals: proposal generation, evaluation, selection and follow up.
- Accept reject decision is the evaluation of capital expenditure proposal to determine whether they meet the minimum acceptance criterion.
- Mutually exclusive projects (decisions) are projects that compete with one another; the acceptance of one eliminates the others from further consideration.
- Capital rationing is the financial situation in which a firm has only fixed amount to allocate among competing capital expenditures.
- Independent projects are projects whose cash flows are unrelated/independent of one another; the acceptance of one does not eliminate the others from further consideration.
- Unlimited funds is the financial situation in which a firm is able to accept all independent projects that provide an acceptable return.
- Relevant cash flow is the incremental after-tax cash outflow (investment) and resulting subsequent inflows associated with a proposed capital expenditure.
- Incremental cash flows are the additional cash flows (outflows as well as inflows) expected to result from a proposed capital expenditure.
- Sunk costs are cash outflows that have already been made (i.e., past outlays) and therefore have no effect on the cash flows relevant to a current decision.
- Conventional cash flow pattern is an initial outflow followed by only a series of inflows.
- Non-conventional cash flow pattern is a pattern in which an initial outflow is not followed by only a series of inflows.
- Depreciation is a non-cash expense that affects the taxes paid in cash.
- Block of assets are assets which fall in the same class and in respect of which the same depreciation rate is applicable irrespective of their nature.
- Net working capital change is the difference between change in current assets and change in current liabilities.
- Payback (period) method is the exact amount of time required for a firm to recover its initial investment in a project as calculated from cash inflows.
- Original/initial investment (outlay) is the relevant cash outflow for a proposed project at time zero ($t = 0$).
- Annuity is a stream of equal cash inflows.
- Mixed stream is a series of cash inflows exhibiting any pattern other than that of an annuity.
- Net present value (NPV is found by subtracting a projects initial investment from the present value of its cash inflows discounted at the firm's cost of capital.
- Internal rate of return (IRR) is the discount rate that equates the present values of cash inflows with the initial investment associated with a project, thereby causing NPV = 0.
- Profitability index measures the present value of returns per rupee invested.

CHAPTER 10

- Conventional investment projects are projects which cash outflows are confined to the initial period.
- Independent projects are all profitable projects that can be accepted.
- Conflicting ranking is conflict in the ranking of a given project by NPV or IRR resulting from differences in magnitude or timing of cashflows.
- Size-disparity arises when the initial investment in mutually exclusive projects is different
- Incremental analysis involves computation of IRR of the incremental outlay of the project requiring bigger initial investment
- Time-disparity arises when the cash flow pattern of mutually exclusive projects is different
- Common time horizon approach makes a comparison between projects that extends over multiples of the lives of each.
- Equal annual net present value (EANPV) approach evaluates unequal-lived projects that converts the net present value of unequal-lived mutually exclusive projects into an equivalent (in NPV terms) annual amount.
- Equal annual cost (EAC) converts the present value of costs of unequal-lived mutually exclusive projects into an equivalent annual amount/cost.
- Implicit investment rate is the rate at which interim cash flows can be invested.
- Intermediate cash flows are cash inflows received prior to the termination of the project.
- Capital rationing implies the choice of investment proposals under financial constraints of capital expenditure budget.
- Indivisible project is a project which can be accepted/rejected in its entirety.
- Divisible project is a project which can be accepted in parts.
- Real cash flows are cash flows discounted/deflated to reflect effect of inflation on nominal cash flows.
- Real cost of capital is cost of capital adjusted for inflation effect.

CHAPTER 11

- Cost of capital is the rate of return that a firm must earn on its project/ investments to maintain its market value and attract funds.
- Business risk is the risk to the firm of being unable to cover fixed operating costs.
- Financial risk is the risk of being unable to cover required financial obligations such as interest and preference dividends.
- Explicit cost is the rate that the firm pays to procure financing.
- Implicit cost is the rate of return associated with the best investment opportunity foregone.
- Cost of debt is the after tax cost of long-term funds through borrowing.
- Net cash proceeds are the funds actually received from the sale of security.
- Floatation cost is the total cost of issuing and selling securities.
- Cost of preference share capital is the annual preference share dividend divided by the net proceeds from the sale of preference shares.
- Cost of equity capital is the rate at which investors discount the expected dividends of the firm to determine its share value.
- Dividend valuation model assumes that the value of a share equals the present value of all future dividends that it is expected to provide over an indefinite period.
- Diversifiable/unsystematic risk is the portion of a security's risk that is attributable to firm-specific random causes; can be eliminated through diversification
- Non-diversifiable risk is the relevant portion of a security's risk that is attributable to market factors that affect all firms; cannot be eliminated through diversification
- Capital asset pricing model (CAPM) describes the relationship between the required return or cost of equity capital and the non-diversifiable risk of a firm measured by beta coefficient, b.
- Cost of retained earnings is the same as the cost of an equivalent fully subscribed issue of additional shares, which is measured by the cost of equity capital.
- Weighted average cost of capital is the expected average future cost of funds over the long run found by weighting the cost of each specific type of capital by its proportion in the firm's capital structure.
- Marginal weights use proportion of each type of capital to the total capital to be raised.
- Historic weights are based on actual capital structure proportion to calculate weights.
- Market value weights use market values to measure the proportion of each type of capital to calculate weighted average cost of capital.
- Book value weights use accounting (book) values to measure the proportion of each type of capital to calculate the weighted average cost of capital.

CHAPTER 12

- Risk is the variability in the actual returns in relation to the estimated returns.
- Sensitivity analysis is a behavioural approach that uses a number of possible values for a given variable to assess its impact on a firm's returns.
- Simulation is a statistically based behavioural approach used in capital budgeting to get a feel for risk by applying predetermined probability distributions and random numbers to estimate risky outcomes.
- Standard deviation is the square root of the mean of the squared deviation; the deviation being the difference between an outcome and the expected mean value of all outcomes.
- Risk adjusted discount rate is a method to incorporate risk in the discount rate employed in computing the present values.
- Certainty equivalents are risk adjusted factors that represent the per cent of estimated cash inflow that investors would be satisfied to receive for certain rather than the cash inflows that are possible/uncertain for each year.
- Dependent cash flows are cash flows in a period which depend upon the cash flows in the preceding periods.
- Independent cash flows are cash flows not affected by cash flows in the preceding or following years.
- Decision tree is a pictorial representation in tree form which indicates the magnitude, probability and inter-relationships of all possible outcomes.
- Real options are opportunities to respond to changing market conditions and influence the outcomes of a project.
- Growth option is an option to expand production/markets if sales exceed expectation.
- Abandonment option is an option to abandon/shut-down/terminate a project prior to its expected useful life.
- Timing option is an option to postpone/accelerate/slow down a project in response to new information.
- Flexibility option is an option to redesign the production process by reconfiguring the plant/equipment.

CHAPTER 13

- Gross working capital means the current assets which represent the proportion of investment that circulates from one form to another in the ordinary conduct of business.
- Net working capital is the difference between current assets and current liabilities or alternatively the portion of current assets financed with long-term funds.
- Zero working Capital is inventory plus receivables minus payables.
- Relaxed policy involves large amounts of cash/cash-equivalents, receivables and inventory.
- Aggressive policy implies minimum cash/cash equivalents, receivables and inventory.
- Financing mix is the choice of sources of financing of current assets.
- Matching approach to financing is the process of matching maturities of debt with the maturities of the financial needs.
- Permanent needs implies financing needs for fixed assets plus the permanent portion of current assets which remain unchanged over the year.
- Seasonal portion implies the financing requirements for temporary current assets which vary over the year.
- Conservative financing approach is a strategy by which the firm finances all funds requirement, with long-term funds for emergencies or unexpected outflows.
- Acceptable financing strategy is a trade-off between matching and conservative financing strategies.
- Operating cycle implies the continuing flow from cash to suppliers, to inventory to accounts receivable and back into cash.
- Permanent (fixed) working capital is a certain minimum level of working capital on a continuous and uninterrupted basis.
- Temporary (fluctuating/variable) working capital is the working capital needed to meet seasonal as well as unforeseen requirements.
- Current assets policy is the relationship between current assets and sales volume.

CHAPTER 14

- Cash is the ready currency to which all liquid assets can be reduced.
- Near cash implies marketable securities viewed the same way as cash because of their high liquidity.
- Marketable securities are short-term interest earning money market instruments used by firms to obtain a return on temporarily idle funds.
- Transaction motive is a motive for holding cash/near cash to meet routine cash requirements to finance transaction in the normal course of business.
- Precautionary motive is a motive for holding cash/near-cash as a cushion to meet unexpected contingencies/demand for cash.
- Speculative motive is a motive for holding cash/near-cash to quickly take advantage of opportunities typically outside the normal course of business.
- Compensating motive is a motive for holding cash/near-cash to compensate banks for providing certain services or loans.
- Baumol Model is a model that provides for cost-efficient transactional balances and assumes that the demand for cash can be predicted with certainty and determines the optimal conversion size/lot.
- Optimal conversion size/amount is the cost of minimising quantity in which to convert marketable securities to cash or cash to marketable securities.
- Miller-Orr model is a model that provides for cost-efficient transactional balances and assumes uncertain cash flows and determines an upper limit and return point for cash balances
- Orgler's model is a model that provides for integration of cash management with production and other aspects of the firm.
- Cash budget is a statement of the inflows and outflows of cash that is used to estimate its short-tern requirements.
- Operating cashflows are cashflows generated by the operations of the firm.
- Financial cashflows are cashflows generated by the financial activities of the firm.
- Cash receipts implies all cash inflows in a given financial period.
- Cash disbursements implies all cash outflows during a given financial period.
- Cash cycle is the amount of time cash is tied up between payment for production inputs and receipt of payment from the sale of the resulting finished product; calculated as average age of inventory plus average collection period minus average accounts payable period.
- Cash turnover is the number of times cash is used during the year; calculated by dividing number of days in a year by the cash cycle.
- Minimum operating cash is the level of opening cash balance at which a firm would meet all obligations and is computed by dividing total annual outlays by the cash turnover.
- Stock-out implies shortage of enough stock to meet the demand for the product.
- Postal float is delay between the time when a payer mails a payment and the time when the payee receives it.
- Lethargy/processing float is the delay between the receipt of a cheque by the payee and its deposit in the account.

- Bank/clearing float is the delay between the deposit of a cheque by the payee and the actual availability of funds.
- Deposit float is the funds despatched by a payer that are not yet in a form that can be spent/used by the payee.
- Concentration banking is a collection procedure in which payments are made to regionally dispersed collection centres, then deposited in local banks for quick clearing; reduces float by shortening the postal and bank float.
- Lock-box system is a collection procedure in which payers send their payments/cheques to a nearby post box that is emptied by the firm's bank several times and the bank deposits the cheque in the firm's account; reduces float by shortening the lethargy as well as postal and bank floats.
- Cheque-kiting is a method of consciously anticipating the resulting float or delay associated with the payment process using it to keep funds in an interest-earning form for as long as possible.
- Cheque encashment analysis is a way to play the float by depositing a certain proportion of a payroll payment in the firm's account on several successive days following the actual issue of cheques.
- Breadth of market is a characteristic of a ready market determined by the number of participants (buyers) in the market.
- Depth of market is a characteristic of a ready market, determined by its ability to absorb the purchase/sale of a large amount of a particular securities.
- Default risk is the uncertainty of expected return attributable to possible change in financial capacity of issuer of security to make future payments.
- Interest rate risk is the uncertainty associated with expected return attributable to change in interest rate.
- Liquidity is the ability to transform a security into cash.
- Treasury bills are Indian government obligations issued on auction basis having maturities of 91-days and 364-days and virtually no risk.
- Negotiable certificates of deposits are negotiable instruments representing specific cash deposits in banks having varying maturities and yields based on size, maturity and prevailing money market conditions.
- Commercial papers is a short-term, unsecured promissory note issued by a firm that has high credit rating/standing.
- Banker's acceptances are short-term, low-risk marketable securities arising from bank guarantees of business transactions.
- Repurchase agreement is an agreement whereby a bank sells securities and agrees to buy them back at a specific price and time.
- Money market mutual funds are professionally managed portfolios of popular marketable securities having instant liquidity, competitive yield and low transaction costs.

CHAPTER 15

- Collection cost is the administrative cost incurred in collecting receivables.
- Capital cost is the cost on the use of additional capital to support credit sales which alternatively could have been employed elsewhere.
- Delinquency cost is cost arising out of failure of customers to pay on due date.
- Default costs are the over dues that cannot be recovered.
- Credit policy is the determination of credit standards and credit analysis.
- Credit standards are basic criteria/minimum requirement for extending credit to a customer.
- Credit analysis involves obtaining credit information and evaluation of credit applicants.
- Credit terms specify the repayment terms required of credit customers/receivables.
- Credit period is the time for which trade credit is extended to customer in the case of credit sales.
- Cash discount is the incentive to customer to make early payment of sum due.
- Cash discount period is the duration of the period during which discount can be availed of.
- Collection policy involves procedures for collecting accounts receivables when they are due.

CHAPTER 16

- Ordering cost is the fixed cost of placing and receiving an inventory order.
- Carrying costs are the variable costs per unit of holding an item in inventory for a specified time period.
- Total cost is the sum of the ordering costs and carrying costs of inventory.
- A B C system is an inventory management technique that divides inventory into three categories of descending importance based on the rupee investment in each.
- Economic order quantity (EOQ) model is the inventory management technique for determining optimum order quantity which is the one that minimises the total of its order and carrying costs; it balances fixed ordering costs against variable ordering costs.
- Reorder point is the point at which to order inventory expressed equationally as: lead time in days × daily usage.
- Lead time is time normally taken in receiving delivery after placing orders with suppliers.
- Safety stock implies extra inventories that can be drawn down when actual lead time and/or usage rates are greater than expected.
- Just-in-time refers to acquiring materials and manufacturing goods only as needed to fill customer orders.
- Non-value added activities refers to those functions that do not directly increase the worth of a product to a coustomer.
- Value added activities do increase the value of a product to the customers.

CHAPTER 17

- Trade credit is the credit extended by suppliers of goods and services in the normal course of business.
- Cash discount implies a percentage deduction from the purchase price if the buyer pays within a specified time that is shorter than the credit period.
- Trade credit period is the number of days until full payment of an account payable is required.
- Cash discount period implies the number of days after the beginning of the credit period during which the discount is available.
- Cost of trade credit is the implicit cost of not availing cash discount.
- Line of credit is an agreement between a bank and a firm specifying the amount of short-term borrowing the bank would make available to the firm over a given period of time.
- Letter of credit is a letter written by a bank stating that the bank guarantees payment of an invoiced amount if all the underlying agreements are met.
- Hypothecation is the use of inventory as a security/collateral to obtain a short-term loan.
- Pledge is the use of goods as security/collateral to obtain a short-term loan.
- Lien is a publicly disclosed legal claim on collateral.
- Mortgage is the additional security of immovable property to obtain short-term loan.
- Commerical paper is a form of financing consisting of short-term insecured promissory notes issued by a firm with high credit rating.
- Certificate of deposit is a marketable receipt of funds deposited in a bank for a fixed period at a specified rate of interest.
- Factoring involves the outright sale of receivables at a discount to a factor to obtain funds.
- Factor is a financial institution that specialises in purchasing accounts receivables from business firms.
- With recourse is the basis on which receivables are sold to the factor with the understanding that all credit risks would be borne by the firm.
- Without recourse is the basis on which accounts receivables are sold to a factor with the understanding that the factor accepts all credit risks on the purchased accounts.
- Discount charge is the interest charge for short-term financing by the factor for the period between the date of advance payment and date of guaranteed payment/collection.

CHAPTER 18

- Leverage is the employment of an asset/source of finance for which firm pays fixed cost/fixed return.
- Operating leverage is caused due to fixed operating expenses in a firm.
- Operating risk is risk of not being able to cover fixed operating costs.
- Financial leverage is caused due to fixed financial costs (interest).
- Financial risk is the risk of not being able to cover fixed financial costs by a firm.
- EBIT-EPS analysis involves comparison of alternative methods of financing at various levels of EBIT.
- Financial BEP is the level of EBIT which is equal to firm's fixed financial costs.
- Indifference point is the EBIT level beyond which benefits of financial leverage accrue with respect to EPS.
- Combined leverage is the product of operating leverage and financial leverage.
- Total risk is the risk associated with combined leverage.

CHAPTER 19

- Capital structure is the proportion of debt and preference and equity shares on a firm's balance sheet.
- Optimum capital structure is the capital structure at which the weighted average cost of capital is minimum and thereby maximum value of the firm.
- Explicit cost is the rate of interest paid on debt.
- Implicit cost is the increase in cost of equity due to increase in debt.
- Arbitrage implies buying a security in a market where price is low and selling where it is high.
- Homemade leverage can replicate the firm's capital structure, thereby causing investors to be indifferent to it.
- Double leverage includes leverage both in personal portfolio as well as in the firm's portfolio.
- Bankruptcy cost simply high probability of default.
- Direct bankruptcy costs are legal and administrative costs associated with bankruptcy proceedings and dismantling/ removal costs of undersold assets.
- Indirect bankruptcy costs are costs of the threat of bankruptcy in terms of disruption of normal business and adverse effect on sales.
- Asymmetric information is a situation in which managers have more information about operations/prospects of a firm than its investors.
- Pecking-order theory enumerates the preferred order of raising finance normally followed by corporates.

CHAPTER 20

- Financial distress includes a broad spectrum of problems ranging from minor liquidity shortages to bankruptcy.
- EBIT-EPS analysis/approach is an approach for selecting capital structure that maximises earnings per share (EPS) over the expected range of earnings before interest and taxes.
- Coverage ratio measures the size of interest payments relative to the EBIT and the adequacy of EBIT to meet payment obligations.
- Cash flow analysis evaluates the risk of financial distress.
- Debt capacity relates to how much debt can be comfortably serviced.
- Manoeuvrability implies the ability to adjust source of funds in response to change in the need for funds.
- Flexibility as to financing is important when future external financing will be necessary.

CHAPTER 21

- Financial system includes a complex of institutions and mechanism which affects generation of savings and their transfer to those who invest.
- Financial asset/instrument/security is a claim against another economic unit and held as a store of value and for the expected return.
- Financial intermediaries convert direct financial assets into indirect securities.
- Financial markets provide a forum in which suppliers of funds and demanders of loans/investments can transact business directly.
- Money market is created by a financial relationship between suppliers and demanders of short-term funds having maturities of one year or less.
- Capital market/securities market is a financial relationship created by a number of institutions and arrangements that allows suppliers and demanders of long-term funds with maturities exceeding one year to make transactions.
- New securities are offered to the investing public for the first time.
- Old securities are securities which have been issued already and listed on a stock exchange.
- Listing enables dealings in securities on a stock exchange.
- Origination is the work of investigation and analysis and processing of new issue proposals.
- Underwriting is a form of guarantee that the new issues would be sold by eliminating the risk arising from uncertainty of public response.
- Distribution is the sale of securities to the ultimate investors.
- Public issue are securities that are offered to the general public directly at a stated price.
- Book building is a price discovery and investors response mechanism.
- Offer for sale is the sale of existing shares by promoters to the investing public.
- Placement of securities is the sale of unquoted securities.
- Rights issue is the sale of securities to the existing shareholders.

CHAPTER 22

- Authorised share capital is the number of ordinary shares capital that a firm can raise without further shareholder approval.
- Subscribed share capital is the number of shares (capital) outstanding.
- Par (face) value is a value arbitrarily placed on the shares.
- Proportionate voting is the system under which each share is allotted a number of votes equal to the number of directors to be elected and votes can be given to any director.
- Majority voting is the system where by in the election of directors, each shareholder is entitled to one vote for each share held and he can vote all shares for each director separately.
- Pre-emptive right (rights) is a legal right of existing shareholders to be offered by the company in the first opportunity to purchase additional equity shares in proportion to their current holdings.
- Dilution of control/financial interest occurs when a new share issue results in each existing shareholder having a claim in a smaller part of the firm's earnings than before.
- IPO is an offer of shares/convertible securities by an unlisted issuer to the public for subscription including an offer for sale by existing holders in an unlisted issuer.
- FPO is an offer of shares/convertible securities by a listed issuer including an offer for sale in a listed issuer.
- Book building is a process to elicit demand for securities and assess price for them.
- Green shoe option is the option for stabilisation of the post-listing price of securities in a public issue by allotting excess shares.
- Preferential issue is an issue of specified securities by a listed issuer to any select group/group of persons on a private placement basis.
- QIP is the allotment of shares/ CDIs/warrants and other convertible securities by a listed issuer to QIBs on private placement basis.

CHAPTER 23

- Term (long-term) loan is a loan made by a bank/financial institution to a business having an initial maturity of more than 1 year.
- Secured loan is a loan that has specific assets pledged as collateral.
- Collateral (secondary) involves the items used by a borrower to back up a loan; any asset against which a lender has a legal claim if the borrower defaults on some provisions of the loan agreement.
- Restrictive covenants are contractual clauses in loan agreements that place certain operating and financial constraints on the borrower.
- Debenture redemption reserve is a requirement in a debenture indenture providing for the systematic retirement of debentures/bonds prior to their maturity.
- Debenture/bond is a debt instrument indicating that a company has borrowed certain sum of money and promises to repay it in future under clearly defined terms.
- Trust (bond) indenture is a complex and lengthy legal document stating the conditions under which a bond has been issued.
- Trustee is a bank/financial institution/insurance company/firm of attorneys that acts as the third party to a bond/debenture indenture to ensure that the issuer does not default on its contractual responsibilities to the bond/debentureholders.
- Call price is the stated price at which a bond may be repurchased by use of a call feature prior to maturity.
- Call premium is the amount by which a bonds' call price exceeds its par value.
- Call provision is a provision/feature that gives the issuers the opportunity to repurchase bonds at a stated price prior to maturity.
- Credit rating is a symbolic indicator of the relative ability of the issuer of the debt instruments to meet obligations when due.
- Rating symbol is a symbolic expression of opinion of the rating agency regarding the investment/credit quality/grade of the debt instrument/obligation.
- Debt securities mean non-convertible securities, including bonds/debentures and other securities of a body corporate/any statutory body, which create/acknowledge indebtedness.
- Private placement is an offer to less than 50 persons.
- Securitisation is the process of pooling and repackaging of homogeneous illiquid financial assets, such as residential mortgage, into marketable securities that can be sold to investors.
- Credit enhancement are the various means that attempt to buffer investors against losses on the asset collaterising their investment.
- Originator is the entity on whose books the assets to be securitised exist.
- SPV (special purpose vehicle) is the entity which would typically buy the assets to be securitised from the originator.
- Obligors are the borrowers of the original loan.
- Receiving and paying agent is one who collects the payment due from the obligors and passes it on to the SPV.
- Pass through certificate Is a conduit for sale of ownership in receivables (mortgages).

- SDI means any certificate/instrument issued to an investor by SPDE which possesses any debt/ receivables including mortgage debt assigned to it and acknowledging beneficial interest of such investors.
- Mortgage backed securities (MBS) are securities that are backed by mortgage loans, that is, loans secured by real estate property.

CHAPTER 24

- Cumulative (dividend) preference shares are preference shares for which all unpaid dividends in arrears must be paid along with the current dividend prior to the payment of dividends to ordinary shareholders.
- Straight preference shares value/price is the price at which a preference share would sell without the redemption/call feature.
- Conversion feature (convertibility) is a feature that allows preference shareholders to change each share in a stated number of ordinary shares.
- Participation is a feature that provides for dividend payments based on certain formula allowing preference shareholders to participate with ordinary shareholders in the receipt of dividends beyond a specified amount.
- Convertible debentures give the holders the right (option) to change them into a stated number of shares.
- Conversion ratio is the ratio at which a convertible debenture can be exchanged for shares.
- Conversion price is the per share price that is effectively paid for the shares as the result of exchange of a convertible debenture.
- Conversion time is the period from the date of allotment after which the option can be exercised.
- Straight debenture value is the price at which a convertable bond would sell in the market without the conversion feature.
- Conversion value is the value of a convertible debenture measured in terms of the market price of shares into which it can be converted.
- Warrant is an instrument that gives its holder the right to purchase a certain number of shares at a specified price over a certain period of time.
- Exercise price is the price at which holders of warrant can purchase a specified number of shares.
- Implied price of a warrant is the price effectively paid for each warrant attached to a bond.
- Warrant premium is the difference between the actual market value and theoretical value of a warrant.
- Option is an instrument that provides its holders with an opportunity to purchase/sell a specified asset at a stated price on or before a set expiration date.
- Call option is an option to purchase a specified number of shares on or before a specified future date at a stated price.
- Derivative security is a security that derives its value from an underlying asset that is often another security for example, equity shares.
- Striking price is the price at which the holder of a call option can buy (or the holder of a put option can sell) a specified amount of shares at any time prior to the expiration date.
- Put option is an option to sell a given number of shares on or before a specified future date at a stated price.

CHAPTER 25

- Leasing is the process by which a firm can obtain the use of a certain fixed asset for which it must make a series of contractual, periodic, tax-deductible payments (lease rentals).
- Lessor is the owner of the assets that are being leased.
- Lessee is the receiver of the services of the assets under a lease contract.
- Risk is the possibility of loss arising on account of under-utilisation or technological obsolescence of the equipment.
- Finance (capital) leases are for terms that approach the economic life of the asset; the total payments over the term of the lease are greater than the lessor's initial cost of the leased asset.
- Operating leases are for a time shorter than the economic life of the asset; generally the payments over the term of the lease are less than the lessor's initial cost of the leased asset.
- Sale-lease back is a lease under which the lessee sells an asset for cash to a prospective lessor and then leases back the same asset, making fixed periodic payments for its use.
- Direct lease is a lease under which a lessor owns/acquires the assets that are leased to a given lessee.
- Leveraged lease is a lease under which the lessor acts as an equity participant supplying a fraction of the total cost of the asset while the lender supplies the major part (balance).
- Domestic lease is a lease transaction if all parties to the agreement are domiciled in the same country.
- International lease is a lease transaction if all parties to the agreement are domiciled in different countries.
- Hire-purchase agreement is a peculiar type of transaction in which goods are let on hire with an option to the hirer to purchase them.

CHAPTER 26

- Venture capital institution (fund) is a financial intermediary between investors looking for high potential returns and entrepreneurs who need institutional capital as they are yet not ready to go to the public
- Start up is a stage when product/service is commercialised for the first time in association with venture capital institutions.
- Buyouts implies transfer of management control.
- Management buyouts are provisions of funds to enable existing management/investors to acquire an existing product.
- Management buyins are funds provided to enable an outside group buy an ongoing venture/company.
- Conventional method is a method of valuation of venture capital undertakings which takes into account only the starting time of investment and the exit time.
- The first chicago method is a method of valuation that considers the entire earnings stream of the venture capital undertaking/investor companies.
- Conditional loan is a quasi-equity instrument without any pre-determined repayment schedule or interest rate; the charge is a royalty on sales.
- Income notes are instruments which carry a uniform low rate of interest plus a royalty on sales.
- Hands-on nurturing is a continuous and constant involvement in the operations of the investee company by the venture capital institution which is institutionalised in the form of representation on the board of directors.
- Hand-off nurturing is the passive role played by venture capital funds in formulating strategies/policy matters.
- Fair value is the price to be agreed upon in an open and unrestricted market between parties and equationally expressed as: a representative level of earnings ¥ appropriate capitalisation rate.
- Limited partnership consists of two types of partners: (i) with unlimited liability and (ii) limited liability.
- Earnout is the sale of shares/stake of venture capital institution to entrepreneurs/investee companies themselves.
- Trade sales implies the sale of entire investee company to another company/third party.
- Takeout is the sale of equity stake of a VCI to a new investor including another VCF

CHAPTER 27

- Option is a contract that confers to its holder/owner the right but not the obligation to buy/sell a specified security at a specified price on/before a given date.
- Call option entitles the holder the right but not the obligation to buy securities.
- American call option can be exercised at any time up to expiration.
- European call option can be exercised only on maturity.
- Put option entitles the holder the right but not the obligation to sell securities.
- Put premium is the compensation received by the put option writer from the put option buyer.
- Option premium is the price the option buyer pays to the option seller.
- Efficient markets embrace all information and arbitrage opportunities do not exist.
- Intrinsic value of a call is the excess of share price over exercise price.
- Time value of an option is the difference between the option premium and the intrinsic value.
- Option equivalent involves purchase of equity shares partially through debt.
- Black Scholes option pricing model is a precise model to arrive at the equilibrium value of an option.

CHAPTER 28

- Derivatives are instruments which include (a) security derived from a debt instrument, share, loan, risk instrument or contract for differences or any other form of security and (b) a contract that derives its value from the price/index of prices of underlying securities.
- Forward contract is an agreement to buy (long position) or sell (short position) an asset/security on a specified date for a specified price; settlement happens at the end of the period.
- Counter party risk is the possibility of default by any one party to the transaction.
- Future contract/futures is an agreement between two parties to buy/sell an asset /security at a certain time in future; it follows daily settlement.
- Payoffs is the likely profit/loss that should accrue to the market participant with change in the price of the underlying asset.
- Linear payoff implies losses as well as profits for both the buyer and the seller of futures are unlimited.
- Cost of carry model explains the dynamics of pricing that constitute the estimation of the fair value of futures.
- Index futures is a future contract that gives the owner the right/obligation to buy/sell the portfolio of stocks characterised by the index.
- Stock futures is a future contract that gives its owner the right/obligation to buy/sell the stocks (shares).
- Option/option contract is a contract that gives the holder the right but not the obligation to buy/sell an asset/security.
- Non-linear pay-off implies the losses for the buyer of the option are limited but profits are potentially unlimited; profits to the writer of the option are limited to the option premium but losses are potentially unlimited.
- Option premium is the price that the option buyer pays to the option seller.

CHAPTER 29

- Corporate governance refers to the distribution of rights and responsibilities among different participants in a corporate entity such as shareholders, management, and lenders/creditors.
- Corporate governance rating indicates the relative level to which a corporate entity accepts and follows the codes and guidelines of corporate governance practices.

CHAPTER 30

- Dividend refers to the corporate net profits distributed among shareholders.
- Residual dividend policy pays out only excess cash.
- Dividend irrelevance implies that the value of a firm is unaffected by the distribution of dividends and is determined solely by the earning power and risk of its assets.
- Arbitrage implies the distribution of earnings to shareholders and raising an equal amount externally; the effect of dividend payment would be offset by the effect of raising additional funds.
- Tax differentials are the different rates of taxes applicable to dividend and capital gains.
- Flotation cost is the cost involved in raising capital from the market.
- Transaction costs are costs involved in selling securities by the shareholders.
- Bird-in-hand argument is the belief that current dividend payments reduce uncertainty and result in higher value of shares of a firm.
- Informational content is the information provided by dividends of a firm with respect to future earnings which causes owners to bid up or down the price of shares.
- Underpricing implies sale of shares at prices lower than the current market price.
- Dividend relevance implies that shareholders prefer current dividends and there is no direct relationship between dividend policy and market value of a firm.

CHAPTER 31

- Dividend policy involves decision to pay out earnings or to retain them for re-investment.
- D/P (dividend payout) ratio indicates the percentage earnings distributed to shareholders in cash, calculated dividing the cash dividend per share by its earnings per share.
- Dividend stability refers to the payment of a certain minimum amount of dividend regularly.
- Constant dividend per share policy is a policy of paying a certain fixed amount per share as dividend.
- Constant/target payout ratio is a policy to pay a constant percentage of net earnings as dividend to shareholders in each dividend period.
- Stable rupee plus extra dividend is a policy based on paying a fixed dividend to shareholders supplemented by an additional dividend when earnings warrant it.
- Cliente effect argues that different group of investors desire different levels of dividend payment.
- Bonus shares involve payment to existing owners of dividend in the form of shares.
- Stock splits is a method commonly used to lower the market price of shares by increasing the number of shares belonging to each shareholder.
- Reverse stock split reduces the number of outstanding shares.
- Signalling hypothesis conveys/signals optimistic future prospects about the issuer.
- Trading range hypothesis would bring market price of shares within optimum range.
- Liquidity hypothesis suggests enhanced liquidity.
- Cash substitution hypothesis enables conservation of cash.
- Record date is the specified future date set by the Directors on which all persons whose names are recorded as shareholders receive the declared dividend.

CHAPTER 32

- Book value is the value at which assets are shown in balance sheet.
- Intrinsic (economic) value is the present value of incremental future cash inflows using an appropriate discount rate.
- Liquidation value is the price at which an asset can be sold if the firm is liquidated.
- Replacement value in the cost of acquisition of a new asset of equal utility.
- Fair value is the average of book value, market value and intrinsic value.
- Economic value added (EVA) implies the difference between operating profits after taxes and total cost of funds.

CHAPTER 33

- Corporate restructuring implies activities related to expansion/contraction of a firm's operations or changes in its assets or financial or ownership structure.
- Horizontal merger is a merger when two or more firms dealing in similar lines of activity combine together.
- Vertical merger is a merger that involves two or more stages of production/distribution that are usually separate.
- Conglomerate merger is a merger in which firms engaged in different unrelated activities combine together.
- Synergy results from complementary activities.
- Book value is the value of owner's equity determined dividing net worth by the equity shares outstanding.
- Appraisal value is the value acquired from an independent appraisal agency.
- Earn-out plan is a plan for payment to shareholders of target firm in merger that is linked to the earnings of the firm.
- Base-period earnout is the payment to shareholders of target firm in shares related to increase in firm's earnings in future years over the base period earnings.
- Tender offer is a method to acquire control in another firm through bidding.
- Free cash flows are after-tax operating earnings from acquisition plus non-cash expenses applicable to the target firm less expected additional investments in long-term assets and working capital.
- Adjusted present value a variant of DCF, is value of the target company if it were entirely financed by equity plus the value of the impact of debt financing in terms of the tax benefits as well as bankruptcy cost.
- Demerger is the transfer by a company one or more of its undertakings to another company.
- Takeover implies acquisition of controlling interest in a company by another company/group.
- Bail out takeover is the takeover of a financially weak company by a profitable company.
- Persons acting in concert is a person who cooperates for substantial acquisition of shares/ voting rights to gain control over the target company.
- Specified date is the date with reference to which the shareholders to whom letter of offer would be sent are determined.
- Competitive bid is a public announcement by a person other than the acquirer for the acquisition of shares of the same target company.
- Financially weak company is a company whose accumulated losses result in erosion between 50 –100 per cent of its net worth.
- Demerger (divestiture) is a form of corporate restructuring which involves sale of only some assets of the firm.
- Reverse synergy implies that the assets/units which are demerged are of more worth to other firms than the firm itself.
- Reverse capital budgeting is the capital budgeting in which cash inflows on account of demerger occur at time zero and the cash outflows are in terms of sacrifice associated with the transfer of the division/asset.

- Spin-off is a method for demerger through creation of a separate firm.
- Split-up is a method for demerger through breaking-up of the firm in a series of spin-offs.
- Management buyout is sale of the existing firm to the management.
- Leveraged buyout implies acquisition of a firm that is financed principally by borrowing on a secured basis.

CHAPTER 34

- Exchange rate is the price of one currency expressed in terms of the currency of another country.
- Direct quotation/European quotation is expressed in a manner that reflects the exchange of a specified number of domestic currencies vis-à-vis one unit of foreign currency.
- Indirect quotation/American quotation is expressed in a manner that reflects the exchange of a specified number of foreign currencies vis-à-vis one unit of local currency.
- Spread is the difference between the ask price (sale price) and the bid price (purchase price).
- Spot rate is the rate of exchange of the day on which the transaction has taken place and of the days the transaction is executed.
- Forward exchange rates is the rate of exchange applicable for delivery of foreign exchange at a future date.
- Forward rate premium foreign currency is at premium when its forward rate is higher than spot rate.
- Forward rate discount foreign currency is at discount when its spot rate is higher than the forward rate.
- Cross rate is the rate of exchange of two currencies on the basis of exchange quotes of other pairs of currencies.
- Arbitrage is an act of buying currency in one market at a lower price and selling it in another at higher price resulting in equilibrium in exchange rates of different currencies.
- Geographical arbitrage is the buying of foreign currency from a foreign exchange market where it is cheaper and selling in another foreign exchange market where it is costly.
- Triangular arbitrage involves three foreign currencies involving three different foreign exchange markets.
- Purchasing power parity theory is a theory according to which goods of equal value in different countries are equated through an exchange rate.
- Interest rate parity theory is a theory according to which the discount/premium of one currency in relation to another reflects the interest differentials between them.

CHAPTER 35

- Transaction exposure involves gain/loss arising out of the various types of transactions that require settlement in a foreign currency.
- Translation exposure results from the need to translate foreign currency assets/liabilities into local currency at the time of finalising accounts.
- Economic exposure implies change in the value of a company that accompanies an unanticipated change in exchange rates.
- Operating exposure has impact on firm's future operating revenue, costs and cash flows.
- Foreign exchange risk is the possibility of loss on account of unfavourable movement in foreign exchange rates.
- Futures contract is a standardised agreement to buy/sell a specified amount of foreign currency in future at some future date.
- Currency option provides its holder the right but not the obligation to buy/sell a specified amount of foreign currency at a specified rate upto a specified period.
- Interest swaps involve exchange of interest obligations between two parties.
- Currency swaps involve exchange of debt obligation denominated in different currencies.
- Leading implies collection from designated debtors expeditiously foreign currency before due date.
- Lagging implies delaying receipts from foreign currency designated receivables.

CHAPTER 36

- Cannibalisation implies lost sales of existing products of a multinational company on account of proposed foreign investment.
- Sales creation implies increased sales on account of proposed foreign investment.
- Political risk ranges from mild interference to complete confiscation of all assets of the MNC by the government in a foreign country.
- Adjusted present value is the total of present value of (1) cash flows after taxes,(2) interest tax shield and(3) any concessions /subsidies on interest costs.
- External commercial borrowings refer to commercial loans in the form of bank loans, buyer's credit, securities instruments, such as floating rate notes and fixed interest bonds availed from non-resident lenders with minimum average maturity of 3 years.
- American/Global depository receipts implies an instrument in the form of a depository receipt/ certificate issued to non-resident investors against the issue of ordinary shares of the issuing Indian company.
- Foreign currency convertible bonds are subscribed by a non-resident in a foreign currency and convertible into ordinary shares of the issuing company in India.
- FCEB means a bond expressed in foreign currency, the principal and interest in respect of which is payable in foreign currency, issued by an Indian (issuing) company and subscribed to by a person who is a resident outside India in foreign currency and exchangeable into equity shares of another company.