**BIRLA INSTITUTE OF TECHNOLOGY & SCIENCE, PILANI**

**WORK INTEGRATED LEARNING PROGRAMMES**

**Digital**

Part A: Content Design

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| **Course Title** | Financial Management |
| **Course No(s)** | BA ZG521/ MBA ZG521/POM ZG513/PDFT ZG521/PDFI ZG521 |
| **Credit Units** | 4 , Number of sessions: 16.  **If required, one and half an hour (90 minutes) tutorial once in every month** |
| **Credit Model** |  |
| **Content Authors** | KRISHNAMURTHY BINDUMADHAVAN, SARVESWAR INANI |

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

This course aims at applying and examining fundamentals of financial concepts and theories in the process of making financial decisions in selected organizations. The structure of the course will enable student(s)s to appreciate the integration between financial markets, business environment and the role of finance manager in maximizing firm's and shareholders' value.

**3.** **Teaching** **Methodology:**

The course is designed to be an “Active-Based Learning.” That is, the student(s) will have enough opportunities to experiment in applying finance concepts learnt in the course in real business cases both national and international, and through Experiential Learning (Learning by doing) components. The course will utilize the active learning methods such as cooperative / project-based learning, case and problem-based learning in addition to the effective utilization of the electronic resources. The application of various concepts will be drawn from the best source(s) i.e. refereed journals, case study, opinion based papers, etc.

**4. Course Objectives**

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| **No** |  |
| **CO1** | Gain basic understanding of the underlying concepts and **building blocks related to financial management**. Develop understanding of the tools relevant to financial management including **time value of money and financial statements analysis**. |
| **CO2** | Understand business risk, financial risk, break even analysis, and impact of leverage on risk. Understand the relationship between **risk and return and the drivers of risk**. |
| **CO3** | Understand the application of **cost of capital** and do the necessary calculations of the components of cost of capital and WACC; Basic principles of **capital budgeting**, categories of capital budgeting projects, discounted and non-discounted cash flow evaluation methods and their limitations, analysis of risks involved in capital budgeting projects. |
| **CO4** | Definition of **working capital**; Composition and determination of working capital; Financing and management of current assets; Cash management. |
| **CO5** | Understanding the major theories of **capital structure** and their implications; How to set target capital structure; **Dividend policy** and its impact on firm value. |

**Text Book(s)**

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| **T1** | **Fundamentals of Financial Management, 6th Edition (2014), by Prasanna Chandra, published by McGraw Hill Education (India) Private Limited** |

**Reference Book(s) & other resources**

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| R1 | Financial Management Theory and Practice, 8th Edition (2012), by Prasanna Chandra, published by McGraw Hill Education (India) Private Limited |
| R2 | Fundamentals of Financial Management, 12th Edition (2012), by Brigham and Houston, published by Cengage India |
| R3 | Financial Management and Policy, 13th Edition (2009), by Van Horne J.C., published by PHI Learning |
| R4 | In addition (for some sessions) we will be referring to selected articles from top journals relevant to the topics at hand; links and/ or references to the same will be provided later by the instructor |

**Experiential Learning Components:**

This course will feature experiential learning components in the form assignments that are designed to enable the student(s) / learner(s) to learn by doing. This will also form part of the evaluation components for the course. Please note that experiential learning components are integrated into the modules. After each module, there will be an assignment (EL) wherein student(s)/learner(s) will apply concepts /theories discussed in the session(s) in selected organization(s).

The objective of assignment is to apply concepts / theories in real business case and have an overall understanding of how an organization can be viewed by both internal and external stakeholders. Each student will do all assignments on selected organization(s), preferably organization(s) on which FMA course’s Experiential Learning Component was done, - apply concepts discussed in class. At the end of all assignments, each student(s) needs to consolidate findings of all assignments and write a business case. This will enable student(s) to have an integrated understanding and application of theories and concepts in real business case. For details, refer to the instructions/suggestions mentioned below under evaluation components.

**Note: All Experiential Learning (EL) Assignments will be applied in selected organization(s) by the students. Student can continue with own organization or the same organization selected for EL in FMA course or select a new organization. However, in any case, organization(s) must be listed in stock exchange and having active stock trading, and must have five years published financial statements. There will be extensive application of excel in most of the assignments. Refer to other details given under evaluation details.**

**Module-from 1 to 4:**

The concepts and theories discussed from module 1 to 5 will be in the context of broadly six organizations.

1. The first one is a large multinational company in entertainment sector from developed economy (**Disney,** **USA**).
2. The second one is a large multinational company in mining / metal sector from developing economy (**Vale,** **Brazil**). These two companies will allow us to look at what do they share common and what they might do different.
3. The third one is a part of family group of companies – a public limited manufacturing company in a developing economy (**Tata** **Motors,** **India**). The objective is to examine the special features that a manufacturing company faces and what it means for an individual investor to be a part of much larger family group whose interest might be different from interest of the selected company.
4. Fourth company is from most influential economy and is a dominant search engine in an emerging economy (**Baidu,** **China**). We will analyze what it shares with the rest of the world and how corporate governance can be an issue.
5. The fifth one is a regulated financial services company in a developed economy (**One** **leading** **Bank,** **Germany**) and will analyze how constraints put on company can influence corporate finance decision.
6. The sixth one is a small private business in India to illustrate how the owner of the small private business faces exactly the same decisions that large public traded business faces. These six categories of business (small to large, private to public traded, emerging to developed) will be student(s)s’ experiential learning components that will run through 16 sessions.

**Module-1.1:** **Introduction** **and** **Business** **Objectives.**

**Topics:**

Relationship between financial accounting and financial management; Describe what the subject of financial management is about; Interface between Finance and Other Functions; Financial statement analysis and interpretation; Financial statement analysis and interpretation. **[Self-study as this is covered in FMA course]**

**Learning** **Outcomes:**

***The*** ***Learners*** ***should*** ***be*** ***able*** ***to -*** understand conceptual differences between accounting balance sheet and financial balance sheet and its significance; interpret financial accounting numbers based on GAAP from financial decision making perspectives;

**Experiential** **Learning Assignment-1.1 (Evaluative)**

**Topic:** Financial Statement Analysis and Interpretation of selected organization(s).

Two-page report on critical analysis and interpretation of liquidity position, assets utilization position, leverage position and profitability position. This is will be based on the EL report submitted in FMA course but with enhanced analysis. **Therefore, this assignment is based on self-study because this been discussed in FMA course**

**Learning** **Outcome:** Analyze and interpret financial performance of company from stakeholders’ perspective using various financial and non-financial ratios through time series, comparative and industry analysis.

**Module-1.2/ Estimation** **and** **Analysis** **of** **Business** **Risk** **(Leverage)** **–** **Analysis** **of** **Cost** **Structure (Self-study as this has been discussed in FMA course).**

**Topics:**

Cost components and significance, BEP – How much to produce, Estimation and Analysis of Business Risk –Degree of Operating Leverage and Degree of Financial Leverage.

**Learning** **Outcomes:**

***The*** ***Learners*** ***should*** ***be*** ***able*** ***to:*** understand the difference between business risk and financial risk; appreciate importance of break-even analysis of analytical settings; distinguish among the financial concepts of operating leverage, financial leverage, and combined leverage; calculate the firm's degree of operating leverage, financial leverage, and combined leverage; and explain why a firm with a high business risk exposure might logically choose to employ a low degree of financial leverage in its financial structure.

**Experiential** **Learning Assignment- 1.2 (Evaluative)**

**This assignment based on self-study because this has been discussed in FMA course.**

**Topics:** Measuring and analyzing unsystematic risk of selected organization(s) (Understanding dynamics and impacts of cost structure of an organization

**Learning** **Outcomes:** To understand and analyze how cost structures, both operating and financial, of an organization can impact business risk and need for cost management.

**Reference** **Article:**

1. Richard A Lord, Impact of Operating and Financial Leverage on Equity Risk.

2. Brent A Gloy and Timothy G. Baker , The Impact of Financial Leverage and Risk Aversion in Risk Management Strategy Selection.

3. Hossein Asgharian, Are highly leveraged firms more sensitive to an economic downturn? 4. Richard A Lord, Interpreting and Measuring Operating Leverage.

5. Robert J Long , A Different Perspective on Operating Leverage: Comments .

6. John J. Dran, Jr, A Different Perspective on Operating Leverage: Comments

**Module-2: Level of significance of Financial Management Decisions and Business Objectives**

Interface between goal of the firm, responsibility of finance manager and financial system; Themes / principles of Financial Management; and Business objectives (Share Price Maximization versus Business Value Maximization), understand how goal of an organization is aligned with its financial performance and external environment; define objectives (Reality and Reaction) integrating business with shareholders, lenders, financial market players and society (share price maximization versus organization’s value maximization); and understand principles from organization’s objective perspective.

**Experiential** **Learning Assignment -2 (Evaluative)**

**Topics:**

1. Assess importance of financial management decisions on selected organization(s).
2. Analyze small shareholders’ wealth protection / maximization in selected organization(s).

**Learning** **Objectives:** In the context of organization’s product/market profile and its business environment / life cycle, assess level of importance of financial management decision. Assess to what extent selected organization(s) can take care of small shareholders’ interest / wealth maximization.

**Reference** **Article:**

1. Arvind Mahajan and Scott Lummer, Shareholder Wealth Effect of Management Changes.

2. Donald R. Chambers and Nelson J. Lacey, Corporate Ethics and Shareholder Wealth Maximization.

3. Thomas E. Copeland, Why Value Value? McKinsey Quarterly, November 1994.

4. Timothy M. Koller, Why Value Value- Defending against crisis, McKinsey Quarterly, April 2010.

5. Geoffrey Poitras, Shareholders Wealth Maximization, Business Ethics and Social Responsibility, Journal of Business Ethics, Feb. 1994.

6. Michael C. Jensen, Value Maximization, Stakeholders Theory, and the Corporate Objective Function (Working Paper, HBS 2002).

7. Michael C. Jensen, Value Maximization and the Corporate Objective Function (Working Paper, HBS, 2000)

**Module-3:** **Investment** **Decision:** **Hurdle** **Rate.** **Topics:**

Hurdle Rate: Define & Measure Risk; The Risk Free Rate; Equity Risk Premium (ERP); Country Risk Premium; Regression Beta; Fundamental Beta; Bottom-up Beta; and Debt – Measures and Cost;

**Learning** **Outcomes:**

▪**Define** **&** **Measure** **Risk-**

***The*** ***Learners*** ***should*** ***be*** ***able*** ***to:*** understand rationale behind expected return based on risk (Risks and Rates of Return); and understand concept of risk which is a central measure in any financial decision.; understand conventional definitions of risk and how financial theories (CAPM, APM, Multi-Factors Models and Proxy Models) measure risk; and set up estimation questions that will come up in next sessions.

▪**The** **Risk** **Free** **Rate-**

***The*** ***Student(s)s*** ***should*** ***be*** ***able*** ***to:*** understand concept and significance of Risk Free Rate (Rf) which is central input in everything in finance, characteristics that can make an asset (investment) as risk free; validate measurement issues that could be experienced while estimating Rf; and know as to how to arrive at an appropriate Risk Free Rate (what to measure).

▪**Equity** **Risk** **Premium** **(ERP)** **and** **Country** **Risk** **Premium-**

***The*** ***Student(s)s*** ***should*** ***be*** ***able*** ***to:*** understand concept of ERP (what an investor can demand on an average risk investment relative to the risk free rate ); to measure (survey- reactive way, historical way – looking backward and forward looking / dynamic approaches) to come up to that number; understand relationship between ERP and profile of investor (level of risk aversion) and investment; understand how much of an expected return would an investor demand to shift his/her money from the riskless asset to the risky asset i.e. why there is one wrong figure without having any specific right/correct number?; understand how and why ERP should be dynamic/forward looking (understand how forward looking dynamic way of estimating ERP that reflects what is going on around is more dependable than looking backward); understand Equity Risk Premiums (ERP): Determinants, Estimation and Implications; understand methodology in estimating Implied ERP (IERP) and how country risk premium can be adjusted with ERP using CDS / rating given by various rating agencies / bond yield.

▪**Regression** **Beta-**

***The*** ***Learners*** ***should*** ***be*** ***able*** ***to:*** understand conventional way of estimating beta (regression of stock return against market index return) and why that beta might not be the best beta to use either for financial management or business valuation (understanding limitations i.e. noise and bias of regression beta); appreciate the intercept [Rf (1-b)] and stock’s performance; understand what portion of risk of stock is explained by market and company specific risk – understand where risk is coming from; understand and measure how well or badly stock did perform after adjusting from risk and market performance (Jensen Alpha); understand the significance of dividends on stock’s return; understand how to choose market index and do judgmental analysis of Jensen Alpha; and understand significance of standard error and arriving at range of beta [Recognize limitations of regression beta].

▪**Fundamental** **Beta-**

***The*** ***Learners*** ***should*** ***be*** ***able*** ***to:*** learn the better way of estimating beta i.e Fundamental Beta which depends on choices that business make - what kind of business is to pursue (determinants of beta) and how business is run – cost structure (fixed cost), and how much business borrows.

▪**Bottom-up** **Beta-**

***The*** ***Student(s)*** ***should*** ***be*** ***able*** ***to:*** learn pragmatic steps towards estimating beta by bypassing regression beta (top-down beta); and understand how value of business / revenue and debt to equity can determine beta (weighted averages of beta of investments).

▪**Debt** **–** **Measures** **and** **Cost;**

***The*** ***Learners*** ***should*** ***be*** ***able*** ***to:*** learn three characteristics (contractual payment, tax deductible expense and loss of control) of debt; calculate cost of debt (with and without secondary debt market by converting book value of debt into market value); learn why non-interest bearing debt should not be considered as debt.

**Reference** **Article:**

1. Aswath Damodaran, Estimating Equity Risk Premiums, Working Paper, Stern School of Business.

2. Robert F. Peterkort and James F. Nielsen, Is The Book-To-Market Ratio A Measure of Risk?

3. Taek Ho Kwon, Sung C. Bae and Jay M. Chung, Do Foreign Investors Price Foreign Exchange Risk Differently?

4. Aswath Damodaran, Measuring Company Exposure to Country Risk: Theory and Practice, Working Paper, Stern School of Business.

5. Steven T Goldberg, 7 Sure Ways to Bigger Return.

**Module-4:** **Cost** **of** **Capital** **-** **Estimation** **and** **Analysis.** **Topic:**

Cost of various components of capital – Equity, Debt and Rights, and Weighted Average Cost of Capital.

**Learning** **Outcome:**

***The*** ***Learners*** ***should*** ***be*** ***able*** ***to:*** understand the underlying concepts of cost of capital; understand the rationale behind estimating after-tax cost of debt; calculate a firm's weighted average cost of capital (WACC); understand why WACC based on market value is more relevant than book value; understand ways and means of reducing WACC; and understand the application of cost of capital in business decisions.

**Experiential** **Learning Assignment-3 (Evaluative). This assignment is based on module 3 & 4.**

**Topic:** Estimation and Analysis Systematic Risk (How does stock return respond to market return?

**Learning** **Outcome:** Estimate and analyze the of amount of systematic risk that organization’s return is exposed to which will have impact on return to shareholders and financing mix of an organization.

**Topic:** Estimation and analysis of Weighted Average Cost of Capital (WACC) of selected organization(s)

**Learning** **Outcome:** Estimate and critically analyze overall cost of capital (WACC) of selected organization(s)

**Module-5:** **Time** **Value** **of** **Money** **–** **Effect** **of** **Inflation** **on** **Business.** **Topic:**

Time Value of Money – Discounting and Compounding, Annuity – Annuity Due and Ordinary Annuity, and Loan Amortization

**Learning** **Outcome:**

***The*** ***Learners*** ***should*** ***be*** ***able*** ***to:*** understand the mechanics of compounding: how money grows over time when it is invested; determine the future or present value of a sum when there are non-annual compounding periods; understand the relationship between compounding (future value) and bringing money back to the present (present value); define an ordinary annuity and calculate its compound or future value; differentiate between an ordinary annuity and an annuity due, and determine the future and present value of an annuity due; calculate the annual percentage yield or effective annual rate of interest and then explain how it differs from the nominal or stated interest rate.

**Module-6:** **Capital** **Budgeting** **Decision** **Topics:**

Introduction - Types and importance of capital expenditure (Project) decisions on business sustainability; Capital budgeting processes and principles; Investment criteria; Cash flow projections; Project analysis and evaluation - non-discounted and discounted cash flow methods; and Measuring and analyzing risk of capital expenditure decisions.

**Learning** **Outcomes:**

***The*** ***Learners*** ***should*** ***be*** ***able*** ***to:*** calculate the yearly cash flows of expansion and replacement capital projects and evaluate how the choice of depreciation method affects those cash flows; explain how inflation affects capital budgeting analysis; evaluate capital projects and determine the optimal capital project in situation of 1) mutually exclusive projects with unequal lives, using either the least common multiple of lives approach or the equivalent annual annuity approach, and 2) capital rationing; explain how sensitive analysis, scenario analysis and decision tree analysis can be used to assess the stand-alone risk of a capital project; explain and calculate an appropriate discount rate (project versus company discount rate, static versus dynamic discount rate), based on market risk methods to use in evaluating a capital project; describe types of real options and evaluate a capital project using real options; describe common capital budgeting pitfalls; calculate and interpret accounting income and economic income in the context of capital budgeting; distinguish among the economic profit, residual income, and claim valuation models for capital budgeting and evaluate a capital project using each; and measure and manage capex risk (scenario analysis, sensitivity analysis and decision tree analysis. How to trim capex amount?)

**Experiential** **Learning Assignment: (Practice Assignment)**

**Topics:** Analysis of capital expenditure project of selected organization(s)

**Learning** **outcomes:** Project implementation and evaluation processes and how does delay in project execution can lead to cost overrun.

**Reference** **Article:**

1. Thomas E. Copeland and Philip T. Keenan, How much is the Flexibility Worth.

2. Lenny H. Pattikawa, Ernst Verwaal and Harry R. Commandeur, Understanding new product project performance, European Journal of Marketing, Vol. 40 No. 11/12, 2006.

3. John B. White\* and Morgan P. Miles, The Managerial Imperative of Evaluating Non-Capital Expenditures within a Capital Budgeting Context, Journal of Financial and Strategic Decisions, Fall 1998.

4. Henrik Cronqvist, Angie Low and Mattias Nilsson , Does Corporate Culture Matter for Investment and Financial Policies?

5. Jeremy Carter, Menno van Dijk and Ken Gibson, Capital Investment: How not to build the Titanic.

6. Harol H. Koyama and Robert Van Tassel, How to Trim Capital Spending by 25 percent. 7. John O’Leary, Learn to Speak the Language of ROI.

8. Aswath Damodaran, Picking the Right Projects: Investment Analysis, Working Paper, Stern School of Business.

**Module-7:** **Working** **Capital** **Management** **Topics:**

**Introduction** **and** **Objective** **of** **Working** **Capital** **Management:** Static and Dynamic view of Working Capital; Factors Affecting Composition of Working Capital; and Working Capital Estimation; **Financing** **Current** **Assets:** Behavior and pattern of financing, Spontaneous sources of financing (Trade credit), Short-term bank finance, CPs and Factoring; **Management** **of** **Current** **Assets:** Inventories - Role of Inventories in Working Capital, Cost of carrying inventories, Inventories planning and management techniques; Receivables – Purpose and cost of maintaining receivables; and Impact of credit policy and process of credit evaluation, Monitoring Receivables; and **Management** **of** **Cash:** Difference between profits and cash, and factors affecting cash management and Internal Treasury Controls. **Learning** **Outcomes:**

***The*** ***Learners*** ***should*** ***be*** ***able*** ***to:*** estimate working capital requirement using Operating Cycle and Simulation Approach; understand how operating cycle and cost structure can affect working capital requirement; understand sources and cost of working capital financing; estimate cost of carrying inventories and its impact on profits and liquidity position of the company; and evaluate to whom and for how long credit should be given.

**Experiential** **Learning Assignment -4 (Evaluative Assignment)**

**Topics:** Estimation and analysis of working Capital requirement based on operating cycle of selected organization(s).

**Learning** **Outcomes:** Learn how operating cycle can determine working capital requirement and its impact on liquidity and profitability position of the companies.

**Module** **-** **8:** **Capital** **Structure-** **How** **much** **Debt** **as** **Opposed** **to** **Equity?**

**Topics:**

Capital structure decision – Proposition I (Without Taxes: Capital Structure Irrelevance) and

Proposition – II (Without Taxes: Higher Financial Leverage Raises the Cost of equity), With Taxes, the Cost of Capital, and Value of the Company; Cost of Financial Distress; Agency Costs; Costs of Asymmetric Information; The Optimal Capital Structure According to the Static Trade-off Theory; and Practical Issues in Capital Structure Policy.

**Learning** **Outcomes:**

***The*** ***Learners*** ***should*** ***be*** ***able*** ***to:*** explain the Modigliani-Miller propositions regarding capital structure, including the effects of leverage, taxes, financial distress, agency cost, and symmetric information on a company’s cost of equity, cost of capital, and optimal capital structure; describe target capital structure and explain why a company’s actual capital structure may fluctuate around its target; describe the role of debt ratings in capital structure policy; explain factors an analyst should consider in evaluating the effect of capital structure policy on valuation; and describe international differences in the use of financial leverage, factors that explain these differences, and implications of these differences for investment analysis.

**Experiential** **Learning Assignment- (Practice Assignment)**

**Topic:** Empirical study of determinants of capital structure.

**Learning** **Outcomes:** Learn to identify the most important determinants of capital structure of selected companies.

**Reference** **Article:**

1. Saumitra N. Bhaduri, Determinants of Corporate Borrowing: Some Evidence from the Indian Corporate Structure, Journal of Economics and Finance, Volume 26, Number 2, Summer 2002.

2. Thomas W. Killian, Designing an Optimal Capital Structure.

3. Erik Lie , Do Firms Undertake Self-Tender Offers to Optimize Capital Structure? 4. Linda, by Thomas and Stephen, Debt vs. Equity and Asymmetric Information.

5. Patricia Anslinger, Dennis Carey, Kristin Fink, and Chris Gagnon, Equity carve-outs: A new spin on the corporate structure, The Mckinsey Quarterly 1997,

6. Thomas J. O”Brien, Linda Schmid Klein and James I. Hilliard, Capital Structure Swaps and Shareholders Wealth, European Financial Management, 2007.

7. Aswath Damodaran, Financing Innovations and Capital Structure Choices, Working Paper, Stern School of Business.

8. Mark Leary and Michael R. Roberts, Do Firms Rebalance their Capital Structure? Working Paper, Duke University, 2003.

**Module-9:** **Rewarding** **Policy** **–** **Dividend** **Policy** **Topics:**

Dividend Policy and Company Value- Theory - Dividend Policy Does not Matter, Dividend Policy Matters – The Bird in the Hand Argument, The Tax Argument and Other Theoretical Issues; Factors Affecting Dividend Policy – Investment Opportunities, Expected Volatility of Future Earnings, Financial Flexibility, Tax Considerations, Floatation Costs, Contractual and Legal Restrictions; and Payout Policies – Types of Dividend Policies, Dividend versus other ways and means of rewarding shareholders; and Analysis of Dividend Safety.

**Learning** **Outcomes:**

***The Learners******should******be******able******to:*** compare theories of dividend policy and explain implications of each for share value given a description of a corporate dividend action; describe types of information (signals) that dividend initiations, increases, decreases, and omission may convey; explain how clientele effects and agency issues may affect a company’s payout policy; explain factors that affect dividend policy; calculate and interpret the effective tax rate on a given currency unit of corporate earnings under double taxation, dividend imputation, and split-rate tax systems; compare stable dividend, constant dividend payout ratio, and residual dividend payout policies, and calculate the dividend under each policy; explain the choice between paying cash dividends and repurchasing shares; describe broad trends in corporate dividend policies; calculate and interpret dividend coverage ratio based on net income and free cash flow; and identify characteristics of companies that may not be able to sustain their cash dividend.

**Experiential** **Learning Assignment (Practice Assignment)**

**Topic:** Relationship between dividend announcement and stock price response (Event Study).

**Learning** **outcomes:** Examine the impact of dividend announcement on stock price of selected organization(s)

**Reference** **Article:**

1. Aswath Damodaran, Beyond Cash Dividends: Buybacks, Spin Offs and Divestitures, Working Paper, Stern School of Business.

2. Kevin Chiang, Arman Kosedag and Bob G. Wood Jr The perception of dividends by professional investors, Managerial Finance, Vol. 32 No. 1, 2006.

3. Alon Brav, John R. Graham, Campbell R. Harvey, and Roni Michaely, Payout policy in the 21st century, Working Paper, September 7, 2004

4. David J. Denis , Why Do Firms Pay Dividends? International Evidence on the Determinants of Dividend Policy, Working Paper, May, 2000

**Content Structure**

1. Foundations of Financial Management
   1. Introduction
      1. Overview of Financial Management
      2. Interface between Finance and other Functions
      3. Shareholder wealth maximization
      4. Basic principles of financial management
      5. Significance of Financial Management Decisions
      6. Objective of Business – Shareholders wealth maximization vs. share price maximization vs. business value maximization
      7. Overview of Indian Financial System
   2. Key Financial Statements **(Covered in FMA course. Self study)**
      1. Key components of financial statements
      2. Understanding the Balance Sheet
      3. Understanding the Income Statement
      4. Understanding the Cashflow Statement
   3. Financial Statements Analysis (FSA) **(Covered in FMA course. Self study)**
      1. Principles of FSA
      2. Tools and Techniques used in FSA
      3. Limitations of FSA
   4. Ratio Analysis **(Covered in FMA course. Self study)**
      1. Introduction to Ratio Analysis
      2. Calculation of all key ratios including Activity, Liquidity, Solvency, Profitability and Valuation ratios and their interpretation
      3. Application of Dupont Analysis and its interpretation
   5. Leverage and Break Even Analysis **(Covered in FMA course. Self study)**
      1. Operating Leverage, Financial leverage and Total Leverage
      2. Break Even Analysis
      3. Applications of Break Even Analysis

**Note: From 1.2 to 1.5 will be covered briefly (as review) in one session of two hours**

1. Risk Management
   1. Introduction
      1. Understand the relationship between Risk and Return
      2. Impact of inflation on returns
   2. Term Structure of Interest Rates
      1. Theories of the Term Structure of Interest Rates
      2. Implications of the Term Structure of Interest Rates
   3. Classification of Risk
      1. Business Risk Vs. Financial Risk
      2. Market Risk, Credit Risk, Operational Risk
   4. Time Value of Money (TVM)
      1. Basic principles of Time Value of Money.
      2. Calculation of FV, PV of a single sum of money as well as for an annuity. Differentiate between an Ordinary Annuity and an Annuity Due and relevant calculations. Concept of perpetuity.
      3. Calculate the annual percentage yield or effective annual rate of interest and explain how it differs from nominal interest rate.
      4. Relevant applications of TVM.
2. Cost of Capital and Capital Budgeting
   1. Cost of Capital
      1. Understanding the relevance and application of cost of capital to business decisions
      2. Determine the cost of various components of Capital, including debt, and equity
      3. Calculate the Weighted Average Cost of Capital (WACC)
      4. Impact of floatation cost on cost of capital
   2. Capital Budgeting
      1. Different type of Capital expenditure decisions (Capital Budgeting) and its importance to business sustainability
      2. Non Discounted Cash flow methods of evaluation
      3. Discounted Cash flow methods of evaluation
      4. Limitation of the various methods of evaluation
   3. Other Considerations
      1. Risk Analysis in Capital Budgeting
      2. Scenario Analysis, Sensitivity Analysis, etc.
3. Working Capital and Liquidity Management
   1. Basic Concepts
      1. Objective of working capital management
      2. Static and dynamic view of working capital
      3. Factors affecting the composition of working capital
      4. Determination of working capital - operating cycle and simulation approaches
      5. Evaluation of working capital management
   2. Current Assets/ Cash management
      1. Financing of Current Assets
      2. Management of Current Assets
      3. Management of Cash
4. Dividend Policy and Capital Structure
   1. Introduction
      1. Introduction to Theories of Capital Structure - Miller Modigliani
      2. Asymmetric Information Theories
      3. Pecking Order Theory
      4. Understanding financial distress and agency costs
   2. Capital Structure Decisions
      1. Determinants of Capital Structure
      2. Setting a target Capital Structure
   3. Dividend Decisions
      1. Dividend vs. Capital Gains: What do investors prefer?
      2. Why do companies pursue a stable dividend policy?
      3. Alternatives to dividend payments - bonus shares, stock options, share buyback, etc.

**Learning Outcomes:**

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| No | Learning Outcomes |
| LO1 | Able to analyze and interpret the three key Financial Statements so as to assess the health of a firm/ business. |
| LO2 | Apply Time Value of Money concepts in business decisions. |
| LO3 | Distinguish between the different types of risk faced by a firm and express the relationship between risk and return. |
| LO4 | Able to calculate all the components of cost of capital as well as the overall WACC for a firm. |
| LO5 | Able to evaluate Capital Budgeting projects and make Accept/ Reject decisions based on NPV/ other business rules. |
| LO6 | Able to formulate corporate Financial Policies in the areas of Working Capital/ Cash Management, Capital Structure, and Dividend Policy so as to maximize firm value. |

**Part B: Learning Plan**

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| **Academic Term** | First Semester 2024-2025 |
| **Course Title** | Financial Management |
| **Course No** | BA ZG521/ MBA ZG521/POM ZG513/PDFT ZG521/PDFI ZG521 |
| **Lead Instructor** | KRISHNAMURTHY BINDUMADHAVAN, SARVESWAR INANI |

Contact Session- 1

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 1.1 | Review Course Handout/ List your expectations from this course | Chapter 1 and 2 of text (T1)  Replay appropriate prerecorded content/ courseware (module wise) |
| During CH | 1.1 | Introductions  Overview of Financial Management  Interface between Finance and other Functions | Chapter 1 and 2 of text (T1) |
| Post CH | 1.1 | Review reference chapters from textbook; replay videos as needed to clarify understanding; do the assigned homework | Chapter 1 and 2 of text (T1) |

Contact Session-2

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 1.1 | Review Course Handout/ List your expectations from this course | Chapter 1 and 2 of text (T1)  Replay appropriate prerecorded content/ courseware (module wise) |
| During CH | 1.1 | Shareholder wealth maximization  Basic Principles of Financial Management, Understanding Indian Financial System | Chapter 1 and 2 of text (T1) |
| Post CH | 1.1 | Review reference chapters from textbook; replay videos as needed to clarify understanding; do the assigned homework | Chapter 1 and 2 of text (T1) |

**This is covered in FMA course. Self-Study**

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 1.2 | Review previous week's topics. | Chapter 3, 4, 5, and 6 of text (T1)  Replay appropriate prerecorded content/ courseware (module wise) |
| During CH | 1.2 | Introduction to FS; Key components of financial statements;  Understanding the Balance Sheet  Understanding the Income Statement  Understanding the Cash Flow Statement | Chapter 3, 4, 5, and 6 of text (T1) |

**This is covered in FMA course. Self-Study**

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 1.3 | Review previous week's topics. | Chapter 3, 4, 5, and 6 of text (T1)  Replay appropriate prerecorded content/ courseware (module wise) |
| During CH | 1.3 | Principles of Financial Statements Analysis;  Tools and Techniques used in financial statements analysis  Limitations of financial statements analysis | Chapter 3, 4, 5, and 6 of text (T1) |

**This is covered in FMA course. Self-Study**

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 1.4 | Review previous week's topics. | Chapter 3, 4, 5, and 6 of text (T1) |
| During CH | 1.4 | Introduction to Ratio Analysis  Calculation of all key ratios including Activity, Liquidity, Solvency, Profitability and Valuation ratios and their interpretation;  Calculation of all key ratios including Activity, Liquidity, Solvency, Profitability and Valuation ratios and their interpretation  Application of Dupont Analysis and its interpretation | Chapter 3, 4, 5, and 6 of text (T1) |

Contact Session-3

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 2.1 | Review previous week's topics. | Chapter 10 of text (T1)  Replay appropriate pre-recorded content/ courseware (module wise) |
| During CH | 2.1 | Understand the relationship between Risk and Return;  Impact of Inflation on Return | Chapter 10 of text (T1) |
| Post CH | 2.1 | Review reference chapters from textbook; replay videos as needed to clarify understanding; do the assigned homework | Chapter 10 of text (T1) |

Contact Session-4

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 2.2 | Review previous week's topics. | Selected Journal Articles (to be provided later)  Replay appropriate pre-recorded content/ courseware (module wise) |
| During CH | 2.2 | Understand the Term structure of interest rates and its implications | Selected Journal Articles (to be provided later) |
| Post CH | 2.2 | Review reference chapters from textbook; replay videos as needed to clarify understanding; do the assigned homework | Selected Journal Articles (to be provided later) |

Contact Session-5

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 2.3 | Review previous week's topics. | Selected Journal Articles (to be provided later)  Replay appropriate pre-recorded content/ courseware (module wise) |
| During CH | 2.3 | Classification of risk, etc.;  Understand Business risk vs. Financial risk | Selected Journal Articles (to be provided later) |
| Post CH | 2.3 | Review reference chapters from textbook; replay videos as needed to clarify understanding; do the assigned homework | Selected Journal Articles (to be provided later) |

Contact Session-6

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 3.1 | Review previous week's topics. | Chapter 14 of text (T1)  Replay appropriate pre-recorded content/ courseware (module wise) |
| During CH | 3.1 | Understanding the relevance and application of cost of capital to business decisions  Determine the cost of various components of Capital, including debt, and equity | Chapter 14 of text (T1) |
| Post CH | 3.1 | Review reference chapters from textbook; replay videos as needed to clarify understanding; do the assigned homework | Chapter 14 of text (T1) |

Contact Session-7

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 3.1 | Review previous week's topics. | Chapter 14 of text (T1)  Replay appropriate pre-recorded content/ courseware (module wise) |
| During CH | 3.1 | Calculate the Weighted Average Cost of Capital (WACC)  Impact of floatation cost on cost of capital | Chapter 14 of text (T1) |
| Post CH | 3.1 | Review reference chapters from textbook; replay videos as needed to clarify understanding; do the assigned homework | Chapter 14 of text (T1) |

Contact Session-8

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 2.4 | Review previous week's topics. | Selected Journal Articles (to be provided later)  Replay appropriate pre-recorded content/ courseware (module wise) |
| During CH | 2.4 | Understanding Operating Leverage, Financial Leverage and Total Leverage  Applications of Break-even analysis | Selected Journal Articles (to be provided later) |
| Post CH | 2.4 | Review reference chapters from textbook; replay videos as needed to clarify understanding; do the assigned homework | Selected Journal Articles (to be provided later) |

Contact Session-9

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 1.5 | Review previous week's topics. | Chapter 8, 9 of text (T1)  Replay appropriate pre-recorded content/ courseware (module wise) |
| During CH | 1.5 | Basic principles of Time Value of Money.  Calculation of FV, PV of a single sum of money as well as for an annuity. Differentiate between an Ordinary Annuity and an Annuity Due and relevant calculations. Concept of perpetuity;  Calculate the annual percentage yield or effective annual rate of interest and explain how it differs from nominal interest rate.  Relevant applications of TVM. | Chapter 8, 9 of text (T1) |
| Post CH | 1.5 | Review reference chapters from textbook; replay videos as needed to clarify understanding; do the assigned homework | Chapter 8, 9 of text (T1) |

Tutorial-1 for Mid Semester Exam.

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 1.1 to 2.4 | Review all topics covered to date. | All appropriate chapters of text covered to date (T1)  Replay appropriate pre-recorded content/ courseware (module wise) |
| During CH | 1.1 to 2.4 | Review of key topics/ Preparation Tips for Mid Semester Exam | All appropriate chapters of text covered to date (T1) |
| Post CH | 1.1 to 2.4 | Review reference chapters from textbook; replay videos as needed to clarify understanding; review homework problems | All appropriate chapters of text covered to date (T1)  Replay appropriate pre-recorded content/ courseware (module wise) |

Contact Session-10

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 3.2 | Review previous week's topics. | Chapter 11, and 12 of text (T1)  Replay appropriate pre-recorded content/ courseware (module wise) |
| During CH | 3.2 | Different type of Capital expenditure decisions (Capital Budgeting) and its importance to business sustainability  Non Discounted Cash flow methods of evaluation;  Discounted Cash flow methods of evaluation  Limitation of the various methods of evaluation | Chapter 11, and 12 of text (T1) |
| Post CH | 3.2 | Review reference chapters from textbook; replay videos as needed to clarify understanding; do the assigned homework | Chapter 11, and 12 of text (T1) |

Contact Session-11

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 3.3 | Review previous week's topics. | Chapter 13 of text (T1)  Replay appropriate pre-recorded content/ courseware (module wise) |
| During CH | 3.3 | Risk Analysis in Capital Budgeting;  Scenario Analysis, Sensitivity Analysis, etc. | Chapter 13 of text (T1) |
| Post CH | 3.3 | Review reference chapters from textbook; replay videos as needed to clarify understanding; do the assigned homework | Chapter 13 of text (T1) |

Contact Session-12

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 4.1 | Review previous week's topics. | Chapter 22 - 26 of text (T1)  Replay appropriate pre-recorded content/ courseware (module wise) |
| During CH | 4.1 | Objective of working capital management  Static and dynamic view of working capital  Factors affecting the composition of working capital | Chapter 22 - 26 of text (T1) |
| Post CH | 4.1 | Review reference chapters from textbook; replay videos as needed to clarify understanding; do the assigned homework | Chapter 22 - 26 of text (T1) |

Contact Session-13

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 4.2 | Review previous week's topics. | Chapter 22 - 26 of text (T1)  Replay appropriate pre-recorded content/ courseware (module wise) |
| During CH | 4.2 | Financing of current assets  Management of current assets;  Management of cash | Chapter 22 - 26 of text (T1) |
| Post CH | 4.2 | Review reference chapters from textbook; replay videos as needed to clarify understanding; do the assigned homework | Chapter 22 - 26 of text (T1) |

Contact Session-14

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 5.1 | Review previous week's topics. | Chapter 15, and 16 of text (T1)  Replay appropriate pre-recorded content/ courseware (module wise) |
| During CH | 5.1 | Introduction to theories of Capital Structure - MM  Asymmetric Information theories;  Pecking order theory  Understanding financial distress and agency costs | Chapter 15, and 16 of text (T1) |
| Post CH | 5.1 | Review reference chapters from textbook; replay videos as needed to clarify understanding; do the assigned homework | Chapter 15, and 16 of text (T1) |

Contact Session-15

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 5.2 | Review previous week's topics. | Chapter 15, and 16 of text (T1)  Replay appropriate pre-recorded content/ courseware (module wise) |
| During CH | 5.2 | Determinants of capital structure;  Setting a target capital structure; | Chapter 15, and 16 of text (T1) |
| Post CH | 5.2 | Review reference chapters from textbook; replay videos as needed to clarify understanding; do the assigned homework | Chapter 15, and 16 of text (T1) |

Contact Session-16

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| Type | Content Ref. | Topic Title | Study/HW Resource Reference |
| Pre CH | 5.3 | Review previous week's topics. | Chapter 17, and 18 of text (T1)  Replay appropriate pre-recorded content/ courseware (module wise) |
| During CH | 5.3 | Dividend vs. Capital Gains: What do investors prefer?  Why do companies pursue a stable dividend policy?  Alternatives to dividend payments - bonus shares, stock options, share buyback, etc.  Review of key topics/ Preparation Tips for Comprehensive Semester Exam | Chapter 17, and 18 of text (T1)  All appropriate chapters of text covered to date (T1) |
| Post CH | 5.3 | Review reference chapters from textbook; replay videos as needed to clarify understanding; do the assigned homework | Chapter 17, and 18 of text (T1) |

**Evaluation Scheme**:

Legend: EC = Evaluation Component; AN = After Noon Session; FN = Fore Noon Session

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| No | Name | Type | Duration | Weight | Day, Date, Session, Time |
| EC-1 | Quizzes  (Two Quizzes) | Online | - | 10% | Quiz 1: Week 5 – 8 (before mid sem)  Quiz 2: 12 – 16 (after mid sem) |
|  | Experiential Learning Assignment | Online | - | 20% | FSA (before Mid Sem): 15%  Working Capital Simulation (after mid sem): 5% |
| EC-2 | Mid-Semester Test | Closed Book | 2 hours | 30% | Sunday, 22/09/2024 (FN) |
| EC-3 | Comprehensive Exam | Open Book | 2½ hours | 40% | Sunday, 01/12/2024 (FN) |

**Experiential Learning\***

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| Sr No | **Topics** |
| **1 (Evaluative Assignment)** | 1. Financial Statement Analysis and Interpretation (Liquidity, Assets Utilization, Leverage and Profitability position).   **Note:** This is a self-study based assignment because this has been covered in FMA course. However, in this course, submission must be two-page report of significant enhancement of critical analysis and interpretation of Liquidity, Assets Utilization, Leverage and Profitability position. Reproducing same analysis in FMA course will not carry rewards. **This assignment will involve extensive modelling on excel.**   1. Measuring and analyzing unsystematic risk. (Leverage analysis and interpretation – Analyzing impact of cost structure) –   **Note:** This is also **a self-study based assignment** because this has been covered in FMA course. However, in this course, submission must be two-page report of significant enhancement of critical analysis and interpretation of cost structure and its impact on business (BEP). Reproducing same analysis in FMA course will not carry rewards. |
| **2 (Evaluative Assignment)** | 1. Assess importance of financial management decisions on selected organization(s) 2. Analyze small shareholders’ wealth protection / maximization in selected organization(s) |
| **3 (Evaluative Assignment)** | 1. Estimation and Analysis Systematic Risk (Stock return response to change in market index return). **This assignment will involve extensive modelling on excel.** 2. Estimation and analysis of Weighted Average Cost of Capital (WACC). Measuring riskiness of the business. **This assignment will involve extensive modelling on excel.** |
| **Practice Assignment** | Analysis of Capital expenditure project - **Subject to the availability of information** |
| **4. (Evaluative Assignment)** | Estimation and analysis of working capital requirement based on operating cycle. **This assignment will involve extensive modelling on excel and basic simulation.** |
| **Practice Assignment** | Empirical study of Determinants of Capital Structure. **This assignment will involve extensive modelling on excel.** |
| **Practice Assignment** | Relationship between dividend announcement and stock price response (Event Study). **This assignment will involve extensive modelling on excel.** |
| **Practice Assignment** | CESIM Simulation |

**Note regarding Experiential Learning components:**

* How to select organization for the experiential learning components (Assignments)?

Ans: Select your own organization or continue with the same organization selected for FMA course or select a new organization. **However, in any case, organization must be listed in stock exchange and having active stock trading, and must have five years published financial statements.**

* Is it an individual assignment or group assignment?

Ans: All assignments are individual assignment.

* What is the focus or learning from assignment?

Ans: Application of concepts / theories discussed in the sessions. For learning objectives, refer to the respective module mentioned in course handout.

* What submission can include?

Ans: **One consolidated word file containing all four evaluative assignments** with appropriate heading for each assignment topic and one data zipped file supporting each assignment.

* When to submit and where?

Ans: **Before 10 days of EC3 exam** (within submission deadline mentioned in course announcement page and no extension of submission date). Submission has to be on portal.

**Notes:**

Syllabus for Mid-Semester Test (Closed Book)

Syllabus for Comprehensive Exam (Open Book): All topics (Session Nos. 1 to 32) (contact hours).

**Important links and information:**

Elearn portal: https://elearn.bits-pilani.ac.in

Student(s)s are expected to visit the Elearn portal on a regular basis and stay up to date with the latest announcements and deadlines.

Contact sessions: Student(s)s should attend the online lectures as per the schedule provided on the Elearn portal.

Evaluation Guidelines:

1. EC-1 consists of Assignments (Experiential Learning Components) and Quizzes. Student(s)s will attempt them through the course pages on the Elearn portal. Announcements will be made on the portal, in a timely manner.
2. For Closed Book tests: No books or reference material of any kind will be permitted.
3. For Open Book exams: Use of books and any printed / written reference material (filed or bound) is permitted. However, loose sheets of paper will not be allowed. Use of calculators is permitted in all exams. Laptops/Mobiles of any kind are not allowed. Exchange of any material is not allowed.
4. If a student(s) is unable to appear for the Regular Test/Exam due to genuine exigencies, the student(s) should follow the procedure to apply for the Make-Up Test/Exam which will be made available on the Elearn portal. The Make-Up Test/Exam will be conducted only at selected exam centres on the dates to be announced later.

It shall be the responsibility of the individual student(s) to be regular in maintaining the self study schedule as given in the course handout, attend the online lectures, and take all the prescribed evaluation components such as Assignment/Quiz, Mid-Semester Test (EC-2) and Comprehensive Exam (EC-3) according to the evaluation scheme provided in the handout.