



INSTRUCTION DIVISION
SECOND SEMESTER 2020-21
Course Handout Part II

Date: 18/01/2021

In addition to Part-I (General Handout for all courses appended to the timetable) this portion gives further specific details regarding the course.

Course No. : MBA G559
Course Title : Corporate Finance
Instructor-in-charge : Dr. SAURABH CHADHA

1. Brief Course Description:

The course introduces students to the concepts of corporate finance, markets, financial securities, time value of money, risk and return, cost of capital, investment decisions, capital management, capital structure, shareholder rewarding policy and impact of corporate taxes on several key decisions. It does not assume students to have any prior knowledge in any sub-domain of Finance like investments, valuations or banking etc. However, a preliminary exposure to basic financial accounting and familiarity with financial statements is expected.

2. Scope and Objectives of the Course:

This course aims at introducing students to the fundamentals of corporate finance, theories, concepts and the process of **financial decision making**. The structure of the course will enable students to appreciate the integration between financial markets, business environment and the role of finance manager in maximizing firm and shareholders' wealth. Refer to detailed content wise discussion appended below in section five.

3. Text book:

Eugene F. Brigham, and Joel F. Houston, *Fundamentals of Financial Management*, 11th edition, Cengage Learning or Later.

4. Reference books:

- A. Richard A. Brealey and Stewart C. Myers, Principles of Corporate Finance, 6/e, 2003, Tata McGraw-Hill Publishing Company Ltd.
- B. Lawrence J. Gitman, Principles of Managerial Finance, 6/e, 1991, Harper Collins Publishers.
- C. I.M. Pandey, Financial Management, 11/e, 2015, Vikas Publishing House, Pvt. Ltd.
- D. Damodaran Aswath, Corporate Finance: Theory and Practice, 2/e, John Wiley & Sons, Inc.2001.
- E. Prasanna Chandra, Financial Management: Theory and Practice, 6/e, 2005, Tata McGraw Hill,
- F. Arthur J. Keown, John D. Martin, J. William Petty, David F. Scott, Jr.. Financial Management, 9/e. (2002) Prentice Hall



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5. Course Plan:

| Lecture No. | Learning Objectives | Topics to be covered | Reference (Chapter number) |
|-------------|---|--|---|
| 1 | Introduction to Finance, Markets, Instruments and Financial Management | Introduction to financial Management, Introduction to financial players and markets and instruments and related conventions | Text Book- Ch.1 and 4, Class notes |
| 2-3 | Time Value of Money, Risk and Return, Bond Valuation and Stock Valuation | Concept of interest rates & term-structure. Bonds basics and dynamics of bond price, Duration & Modified Duration, yield-maturity-price relationship. Valuation of shares, Two stage growth, equity capitalization rate, linkage between share price, earnings and dividends, Introduction to concept of risk, return on a single asset, risk of rates of return: variance and standard deviation, historical capital market returns, expected return and risk | Text Book- Ch. 5, 6, 7, and 8; Class notes |
| 4-5 | Portfolio theory and asset pricing models, Beta estimation | Portfolio return, portfolio risk, risk diversification, Capital asset pricing model, the arbitrage pricing theory, Beta Estimation and the cost of equity | Reference Book: I.M. Pandey – Ch. 5, 6; Class notes |
| 6-9 | Basics of derivatives. Determination of Forwards and Futures prices. Learning about arbitrage and its conditions. | Basics of Futures, forwards, options & swaps and their pay-off. Arbitrage, rationale of arbitrage assumptions and various examples and situations of arbitrage. | Text Book- Ch. 18; Class notes |
| 10-11 | Analysis and Impact of Leverage | Distinguish among the concepts of operating leverage, financial leverage, and combined leverage; Calculate the firm's degree of operating leverage, financial leverage, and combined leverage | Text Book: Ch. 14; Class notes |
| 12-14 | Cost of Capital | Understanding the application of cost of capital in business decisions, Describe the concepts underlying the firm's cost of capital (technically, its weighted average cost of capital) and the purpose for its calculation. Calculate the after-tax cost of debt, preferred stock, and common equity | Text Book: Ch. 10; Class notes |
| 15-18 | Capital Budgeting Decisions | Discuss different types and importance of capital expenditure decisions on business sustainability, Understanding various non-discounted and discounted cash flow methods and their application in capital | Text Book: Ch. 10, 11 and 12; Class notes |





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| | | expenditure decisions, Understanding limitations of discounted and non-discounted cash flow evaluation methods and exploring best possible option, Analyzing various risk involved in capital expenditure – Scenarios Analysis, Sensitivity Analysis | |
| 19-20 | Working Capital Management (WCM) | Background on Working Capital, Current Asset Investment Policies, Current asset financing policies, Cash conversion cycle, Cash budget, Cash and Marketable securities, Inventories, Account Receivable, Trade-Credit, Bank loans, Commercial Paper, Accrued Liabilities, Use of security in Short-term financing | Text Book: Ch. 16 and 17; Class notes |
| 21-22 | Capital Structure and Dividend Policy | Understanding Theories of Capital Structure, Asymmetric Information Theory – Pecking Order Theory; Understanding financial distress and agency cost; Understanding the factors affecting capital structure; An approach to setting the target capital structure; Understanding dividend versus capital gains: What do investors prefer?; Appreciating rationale behind stable dividend policy; Understanding other means of rewarding to the shareholders – Bonus Share, Stock Options, Stock Split, Share Buyback, etc | Text Book: Ch. 14 and 15; Class notes |

6. Evaluation Component

| S. No. | Evaluation Component | Duration | Max. Marks | Date & Time | Remarks |
|--------|---------------------------|----------|------------|--------------|---------|
| 1 | Mid-Semester Examination | | 20 | | OB |
| 2 | Quiz and Project | | 40 | | OB |
| 3 | Comprehensive Examination | | 40 | 10/5/2021 AN | CB |

7. Chamber Consultation Hour: TBA

8. **Notice:** All notices will be displayed through **Google Meet**.

Instructor-In-Charge



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