



SECOND SEMESTER 2020-21
COURSE HANDOUT

Date: 18.01.2021

In addition to part I (General Handout for all courses appended to the Time table) this portion gives further specific details regarding the course.

Course No	: ECON F 315 / FIN F 315
Course Title	: Financial Management
Instructor-in-Charge	: Rajan Pandey
Instructor	: Byomakesh Debata

1. Course Description: FIN F315 (ECON F315) - Financial Management - is a foundation course on Corporate Finance. The course provides an in-depth coverage of array of decisions undertaken by the Financial Manager of an organization for achieving the objectives of *shareholder's wealth maximization principle*.

In an increasingly competitive and globally integrated world, the roles and responsibilities of financial manager have widened manifold in the past two decades. The fast-paced rise in a number of Indian companies in the new millennium indicates the tremendous investments infused by profit-seeking investors amidst growth of the Indian corporate sector. The wide-range of investment avenues available to investors explains the extent of innovations happening in financial markets worldwide. This explosive growth is much attributable to the integration of world markets, modern computational sophistication, and an ever-increasing role played by communications and information technology. However, with uncontrolled growth comes the risk of an uncontrolled collapse and the financial crisis of 2008 is a classic case of presence of fault lines in the financial markets.

To retain the confidence and faith of investors and forge robust and sustainable growth, the firms must impress suppliers of capital (investors) with adequate rewards to compensate them for the risks they undertake. In this pursuit of shareholder's wealth maximization, it is imperative that decisions taken by firms related to investment in projects (capital budgeting), raising finances for undertaking investment decisions (financing) and rewarding shareholders (dividend policy) demonstrate management's competence and goodwill. However, this pursuit of shareholder's wealth maximization must ensure protecting the rights of stakeholders such as employees, suppliers, customers and the environment etc.

The role of the financial manager - which is central to the decision-making concerning finances (money, capital, investment etc.) – plays a critical role in ensuring seamless day-to-day operations, maintaining profitability and sustaining reliable long-term performance along with its adherence to corporate social responsibility.

2. Scope and Objective of the Course: This course aims at introducing students to the fundamental Corporate Finance concepts, theories, and the process of financial decision-making. The structure of the course enables students to:



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- a. Appreciate the existence of a variety of financial instruments and their valuations,
- b. Learn globally adopted corporate investment and risk management practices, and
- c. Obtain knowledge of the strategic financial management approaches followed globally for gaining deeper insights into the principles and practices of modern corporate finance.

Primarily the course objectives hover around key decisions made by financial managers, which include financing decisions, investing decisions, capital structure decisions, and shareholder rewarding policies. The contents of this course enable the participants to appreciate the interdependencies between these decisions and their impact on the survivability of the firm.

Important: The course assumes that students have done a basic course on accounting (prerequisite), have strong foundation on financial statements, and have elementary familiarity with financial markets, financial securities, statistics, and MS-Excel.

3. Text Book: Any single textbook is not sufficient for the course.

4. Reference Books (R#): In decreasing order of priority:

1. Eugene F. Brigham and Michael C. Ehrhardt, Financial Management: Theory and Practice, 14/e, 2014, (South-Western) Cengage Learning.
2. Richard A. Brealey, Stewart C. Myers, Franklin Allen, and Pitabas Mohanty, Principles of Corporate Finance, 8/e, 2010, Tata McGraw-Hill Publishing Company Ltd.
3. Stephen A. Ross, Randolph W. Westerfield, Jeffrey Jaffe, Bradford D. Jordan, and Ram Kumar Kakani, Corporate Finance, 11/e, 2016, McGraw Hill Education.
4. Lawrence J. Gitman, Principles of Managerial Finance, 11/e edition, 2008, Pearson Education Publication (*erstwhile textbook*).
5. Aswath Damodaran, Corporate Finance: Theory and Practice, 2/e, 2001, John Wiley & Sons, Inc.
6. Thomas E. Copeland, J. Fred Weston, Kuldeep Shastri, and Joseph M. Katz, Financial Theory and Corporate Policy, 4/e, 2011, Pearson Education, Inc.
7. Robert A Haugen, Modern Investment Theory, 5/e, 2018, Pearson India Education Services Pvt. Ltd.

5. Course Plan:

Contents: Imp Note – Refer to the relevant sections of the first reference book as mentioned below (class notes to be clubbed with book chapters). Supplementing the first reference book (Brigham & Ehrhardt) with lecture notes should suffice. Refer to the next section for information on the relevant topics from the first reference book.



Detailed syllabus and lecture plan follows.

The course syllabus is divided into 5 Modules:

1. Introduction to corporate finance and corporate governance
2. Risk, return, security valuation, and cost of capital
3. Capital budgeting
4. Financing, capital structure, and dividend policy
5. Special topics in corporate finance

Module No.	Lecture Session	Reference	Learning outcomes
1. Introduction to Corporate Finance, Corporate Governance, and Financial Environment	L1 Introduction to Corporate Finance L2 Modern corporate structure L2 Roles of a financial manager L3 Goals of a corporation L3 First principles of corporate finance L4 Information asymmetry L4 Principle agent conflict L4 Agency costs L5 Financial markets and Financial instruments	R1: Ch 1, Ch 13 + Class notes	Understanding of: A. Key decisions taken by the financial manager. B. Do's and Don'ts of managerial finance practices. C. Relevance of shareholder's wealth maximization principle. D. Important types of financial markets and popular financial securities.
2. Modern Portfolio Theory and Cost of Capital	L6 Types of financial securities L7 How are securities issued L8 Security valuation principle	R1: Ch 18, Ch 5 & 7 + Class notes	Understanding of: A. Different types of financial instruments and how they are issued by the companies. B. Dividend discount models and free cash flow models for stock valuation. C. Quantification of investment return and risk. D. Markowitz's efficient frontier and capital market theory. E. Elements of capital structure and
	L9 Measuring risk and return L10-11 Capital Asset Pricing Model	R1: Ch 6, Ch 25 + Class notes	
	L12 Weighted-average Cost of Capital	R1: Ch 9 + Class notes	



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			estimation of financing cost.
3. Capital Budgeting	L13 Cash flow evaluation tools and techniques such as NPV, IRR, Profitability Index etc. L14 Issues with NPV-IRR approach	R1: Ch 10 + Class notes	Understanding of: A. Practical approaches followed by the firms for analyzing and ranking long-term investments. B. Strengths and weakness of the tools and techniques of cash flow evaluation. C. Common risk analysis approaches followed by practitioners for forecasting cash flows.
	L15 Identifying relevant cash flows L16 Case study on cash flow estimation	R1: Ch 11 + Class notes	
	L17 Sensitivity and scenario analysis L18 Monte-Carlo simulation L19-20 Real Options	R1: Ch 11, Ch 26 + Class notes	
4. Financing, Capital Structure and Dividend Policy	L21-22 Financing and overview of capital structure L23-24 Capital structure theories L25-26 Dynamic capital structure	R1: Ch 18 & 20, Ch 15, Ch 21 + Class notes	Understanding of: A. The relevance and irrelevance of capital structure. B. The process of dividend payment. C. Different corporate actions that may potentially impact the capital structure of a firm. D. Advantages and disadvantages of project financing through use of debt.
	L27-28 Dividend payment to shareholders: Theories and implications	R1: Ch 14 + Class notes	
5. Special topics in corporate finance	L29-30 Lease financing L31-32 Mergers and Acquisitions L33-34 International financial management L35-36 Working capital management L37-38 Behavioral finance and its implications for the corporate manager	R1: Ch 19 Ch 22 Ch 17 Ch 16 R3: Ch 14 R2: Ch 13 + Class notes	Understanding and appreciation of special and emerging themes in corporate finance and their implications in financial decision making process.

6. Evaluation Scheme: The course is of 300 marks.

Components	Duration	Weightage (%)	Date & Time	Nature of component (Close Book/ Open Book)
Mid-Semester Test	90 Min.	30%	As per time-table	Online



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Comprehensive Examination	180 Min.	40%	As per time-table	Online
Quizzes (3)	40 Min.	15% (best 2)	Announced	Online
Group Assignment	Take-home	15%	TBD	Take home

7. Contact:

Chamber (6165 - G) Economics and Finance Dept., New Academic Block.

Chamber consultation hour: TBA by respective instructors.

e-mail – rajanpandey@pilani.bits-pilani.ac.in

8. Students must check their BITS e-mail accounts on a regular basis for course related announcements.

9. Make-up Policy: Make-up exam for Mid-semester Test and the Comprehensive Exam will be granted in only genuine cases with prior written permission from AUGS Dept. Prior written permission is mandatory under all circumstances. **No make-up shall be granted for the quizzes.**

Instructor-in-charge
Course No. ECON F315 / FIN F 315