

Course Outline

FINANCIAL MANAGEMENT II (FM2)

*for**BM –I, Term-III, 2012-13*Course Instructor: *ram kumar kakani*

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Introduction and Course Objectives:

No other field in *business management* has probably made as much progress in the last century, as has Financial Management. It is driven by the contours of economic development viz. industrialization [and now moving towards services sector, digital world, and social networks] and hence is dynamic, and yet most of the basic foundations of financial management remain static. The horizon is expanding due to the increasing research work done by the financial economists and also the money multiplier effect.

A special word for all those students who do not intend to specialize in finance in the second year: You will find the basic concepts of finance useful in all areas of management irrespective of whether you want to specialize in Marketing *or* HR *or* Operations *or* Strategy *or* Information Systems. Therefore, we will strongly advise you not to take the course just as another hurdle that you must clear to get an MBA degree. If you need any extra help in the course, do not hesitate to get in touch with me.

As you are aware, Financial Management at XLRI is divided into two parts – Financial Management I in Term II (henceforth FM1) builds the base and also focuses on the liability side of the balance sheet. It focuses the students towards the ideas of value and value drivers; and drives home the underpinnings of *risk* and *return* concepts and interrelations in the world of finance. Financial Management II (henceforth, FM2) carries the baton forward and focuses the students attention towards the asset side of the balance sheet and its management through modules on *capital*

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budgeting and working capital management. FM2 also introduces students to the relative unknown world of financial markets (such as derivatives), touches on valuation methods and also dwells towards the financial analysis & planning having implications on the overall management of the company.

Thus, FM2 course aims at:

- ❖ Familiarizing the students with the financial analysis, financial forecasting & valuation aspects of firms
- ❖ Imbibing knowledge about the investment decision variables involved in building the asset side of balance sheet of the firm i.e., capital budgeting and working capital management
- ❖ Developing the required awareness to ensure understanding of the modern-day business world by introducing the students with new age financial tools and jargons, such as, Real Options and Derivatives
- ❖ Developing skills for interpretation of information in issues related to bankruptcies, restructuring, corporate control, and governance

Pedagogical Methods:

The course is based on classes, lectures/ discussions, cases, and quizzes. Active participation by students is an important feature of the course. A variety of illustrations and case studies are the main pedagogical instruments.

Primary Teaching Book & Reading Material:

“Corporate Finance” by Ross, Westerfield, Jaffe, & Kakani, 8th Ed., Special Indian Edition, Tata McGraw- Hill Publications (Higher Education), 2009. [RWJK]

Other Suggested Readings:

1. “Principles of Corporate Finance” by Brealey, Myers, Allen, & Mohanty, McGraw Hill, 2012 [BMAM]
2. “Financial Management: Theory & Practice” by Prasanna Chandra, McGraw Hill, 2010 [PC]
3. “Financial Management and Policy” by James C. Van Horne, PHI, 2002 [VH]
4. “Financial Management” by Sheeba Kapil, Pearson, 2011 [SK]
5. “Financial Management: Theory, Concepts & Problem” by R P Rustagi, Taxmann, 2010 [RPR]
6. “Financial Statement Analysis” by George Foster, Pearson, 2011 [GF]
7. “Financial Management: Text, Problems And Cases” by M y Khan & P k Jain, Mcgraw Hill, 2011 [KJ]
8. “Fundamentals Of Financial Management” by Brigham & Houston, South-western/cengage Learning , 2008 [BH]
9. “Financial Management” by Jonathan Berk, Peter Marzo & A Thampy, Pearson, 2010 [BMT]
10. “Financial Accounting for Management” by Ramachandran & Kakani, 3rd Ed., Tata McGraw-Hill Publications (Higher Education), 2011. [RK]
11. “Fundamentals of Corporate Finance” by Ross, Westerfield & Jordan, & Kakani , 8th Ed, McGraw Hill, 2007 [RWJK]
12. “Corporate Finance: A Focused Approach” by Ehrhardt & Brigham, Ceneage, 2009 [EB]
13. “Fundamentals of Financial Management” by Van Horne & Wachowicz, Pearson, 2009 [VW]
14. “Financial Management and Policy” by V. K. Bhalla , Anmol, 2009 [VKB]
15. “Essentials of Managerial Finance ” by Weston Besley & Brigham, W B Saunders, 1996 [WBB]
16. “Principles of Managerial Finance” by Lawrence Gitman, Pearson, 2010 [LG]
17. “Financial Management” by I M Pandey, Vikas, 2010 [IMP]

Any other good book on Financial Management

Note: Books no. 9, 13, 15, 17, etc. are lower level (introductory) and would be useful only for those who wish to have some basics of finance before jumping to advanced stuff.

Study Material

Students will be given a text book (**RWJK**) as part of the course material. It may be noted that the text book need not be considered as exhaustive under any circumstances. Cases and additional notes would also be distributed in the class from time to time¹. Should the students feel that they need more reading material (or detailed notes) for a particular topic – they can get in touch with me.

Other Course Policies:

Students are expected to have their own calculators during the class/examinations.

Exams → End-term exam will typically have cases/problems followed by questions. The end-term exam will be comprehensive meaning you will be responsible for all the material covered in the course.

Class Participation → I will sometimes randomly call on people to present their case/assignment solutions and at other times I will allow people to volunteer to present their worked out solutions. Class participation marks will also be based on participation in class discussion, attendance, and being on time.

System of Evaluation

Method of Evaluation	Marks
Mid-term Examination/ Quizzes* (total three of them, each of 20 marks)	60
End-term Examination*	40

Note:

* → Please note that some questions may carry negative marks (for wrong answers)

I am no *God* (i.e., perfect) and therefore there are bound to be 'errors' in estimating the true worth of your answers (and hence, evaluation). But, I promise, evaluation will be unbiased. Also, the 'errors' (if any) should cancel out over the length of the evaluation cycle.

Grading Pattern

Range of Marks	0-30	31-35	35-40	41-45	46-50	51-60	61-70	71-80	81-100
Grades	F	D	D +	C	C +	B	B +	A	A +

Note: Adjustments in the above could be made to meet the norms of the institute.

Sources of Financial Information:

Apart from **CMIE-PROWESS AND REPORTJUNCTION.COM**, the following sources have wide information about corporate world, economy and markets.

- Government-owned Websites: Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI), Ministry of Finance – Government of India (*.nic.in)
- Stock Exchange Websites: National Stock Exchange (NSE), and Bombay Stock Exchange (BSE)
- Financial Magazine/Newspaper Websites: Business Standard, Hindu Business Line, Financial Express, Wall Street Journal, Financial Times, Business Today, Economic Times, Economist, etc.

¹ These are usually from popular financial magazines & newspapers (such as, *Business Standard*, *Financial Times*, and *Hindu Business Line*), journals/research monographs (such as, *Journal of Applied Corporate Finance*, *NSE Working Papers*, and *Prajnan*), and published cases (such as, *Richard Ivey Case Bank*).

- ... More: Capital Market, Indiainfoline, Indiabulls, Equitymaster, Sharekhan, iInvestor, CapitalIdeasOnline, CRISIL, CMIE, ICICIMarkets, Motleyfool, World Bank, ICICIDirect, 5paisa, CARE, MoneyControl, Myiris, etc.
- In addition, our institute subscribes to many popular databases and one can make use of them (such as, Bloomberg Terminal, ISI Emerging Markets Database, etc).

TOPICS TO BE COVERED (TENTATIVE):

Session-wise Plan	Suggested Reading
1. Financial Statement Analysis and Long-term Planning	Chapter 3 in RWJK and Chapter 7 in RK Chapter 28 & 29 of BMAM; Chapters 4 & 5 of PC; Chapters 3, 4 & 5 of RPR; Chapter 6 of KJ
2. Valuation of Bonds & Debentures	Chapters 4, 5 & 20 in RWJK Chapter 3 & 4 of BMAM; Chapter 7 of PC; Chapter 26 of RPR; Chapter 10 of SK; Chapter 4 of KJ
3. Valuation of Shares	Chapter 5 in RWJK Chapter 4 of BMAM; Chapter 7 of PC; Chapter 26 of RPR; Chapter 10 of SK; Chapter 4 of KJ
4. Capital Budgeting: Estimating Cash Flows	Chapter 6 & 7 in RWJK Chapter 11 & 12 of PC; Chapter 9 of KJ; Chapter 17 of SK
5. Capital Budgeting: Using the Evaluation Tools	Chapter 6 & 7 in RWJK Chapter 11 of PC; Chapter 9 & 10 of KJ; Chapter 18 of SK
6. Capital Budgeting: Comprehensive Case / Using Sensitivity Analysis	Chapter 8 in RWJK Chapter 19 of SK; Chapter 13 of PC
7. Financial Forecasting & Planning ~ Long-Term	Chapter 3 in RWJK Chapter 29 in BMAM; Chapters 5 in PC; Chapter 25 in IMP; Chapter 13 in VH; Chapter 4 in LG; Chapters 13 & 14 in EB
8. Dividend Policy – The Basics	Chapter 18 in RWJK Relevant Chapters in other books
9. Dividend Policy – Case Study + Buyback and Similar Perspective	Chapter 18 in RWJK Relevant Chapters in other books
10. Working Capital Management ~ Short-Term Finance Tools	Chapter 26 in RWJK Chapter 30 of BMAM; Chapter 30 & 31 of PC; Chapters 17, 18 & 21 of RPR; Chapter 20 & 21 of SK
11. Working Capital Management ~ Cash Management & Credit Management	Chapter 27 & 28 in RWJK Chapter 30 of BMAM; Chapter 30 & 31 of PC; Chapters 18 & 21 of RPR; Chapter 22 of SK
12. Working Capital Management ~ Comprehensive Case	Richard Ivey Case
13. Options & Real Options: An Introduction	Chapter 22 & 23 in RWJK Chapter 20 & 22 of BMAM; Chapter 10 of PC; Chapters 28 of RPR
14. Warrants & Convertibles	Chapter 24 in RWJK, Case Titled 'Tata Steel Limited: Convertible Alternative Reference Securities' (9B08NB001, Richard Ivey Center Case) Chapter 24 in BMAM; Chapter 23 in PC; Chapter 21 in IMP; Chapter 21 in VH; Chapter 18 in LG; Chapter 21 in EB

Session-wise Plan	Suggested Reading
15. Derivatives & Hedging Risk: An Introduction	Chapter 25 in RWJK Chapter 26 in BMAM; Chapter 40 in PC; Chapter 33 in IMP; Chapter 23 in EB
16. Mergers & Acquisitions: An Introduction	Chapter 29 in RWJK Chapter 31 of BMAM; Chapter 34 of PC; Chapter 32 in IMP; Chapter 23 in VM; Chapter 19 in LG; Chapter 25 in EB
17. Economic Value Added & Valuation Case	Chapter 17 in RWJK Chapter 19 of BMAM; Chapters 9 & 15 in EB; Chapters 32 in PC; Chapter 17 in IMP; Chapter 8 in VH
18. Financial Distress	Chapter 30 in RWJK Chapter 32 of BMAM; Chapter 34 in PC; Chapter 24 in EB
19. International Corporate Finance	Chapter 31 in RWJK Chapter 27 in BMAM; Chapter 37 in PC; Chapter 31 of SK; Chapter 34 in IMP; Chapter 25 in VH; Chapter 20 in LG; Chapter 26 in EB
20. Governance & Corporate Control	Class Notes, SSRN Paper, and Chapter 33 of BMAM Chapter 35 of PC; Chapter 36 in IMP

Note:

- ◆ Please note that the above sequence is tentative (and would be altered based on initial class experience). For example, if the pace of discussion is slow, then, Session 12 on 'Leasing' will be deleted (as it is relatively less important).
- ◆ Additional lecture sessions, guest lectures by practitioners, & tutorial sessions would be arranged on request.
- ◆ Class discipline rules include – (a) No usage of laptops or other electronic items (except calculators) – essentially any item that could disturb others in the classroom; (b) Mobile: If a student gets caught having a mobile (or similar instrument) in the classroom then that student gets minus five marks and rest of the students in the same row get minus two marks each (some peer monitoring there ☺!); and (c) PowerPoint presentations: Session-wise Pdf files would be e-mailed after the session.