



Introducing ... “Finance”

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Prepared by Ram Kumar Kakani

**The views expressed
herein are personal**

Some Basic Queries ...

- Why Organizations exist?
- Why Transactions take place?
- Why Firms do business?
- What is “Finance”?
- Why “Finance” should be part of an MBA Program?
- **Ms Susan Colantuono**, CEO and founder of Leading Women says “**Women represent 50% of middle management and professional positions (in USA), but the percentages of women at the top of organizations represent not even a third of that number.**” Why? ...
- The Missing 33%™ ...
- Business+Strategic+Financial Acumen (little prior experience; advice is not given; unexamined mindsets of mentors)
- That Answers: Why “Finance” ought to be !
- How can I learn?

Each Course Means ...

- 30 hours – Classroom
- 100 hours – Non-Classroom
- **Content and Evaluation is largely left to the faculty ...**
- Content is usually a mix of theory and practical inputs
- **Pedagogical tools is a decent mix with sprinklings of androgogical methods**
- Evaluation is usually a mix of exams (of all types), quizzes, assignments, and projects

“Finance” Area Core Courses ...

- Term I – Management Accounting I (MANAC I by RKK)
 - Creating Accounting Records and Financial Statements
 - Understanding and Interpreting Financial Statements
- Term II – Management Accounting II (MANAC II by GV)
 - Cost Allocation, Creating Cost Sheet and Budgetary Controls
 - Understanding and Interpreting Cost (& Price) Information
- Term II – Financial Management I (FM-1 by PR)
 - Understanding ‘Corporate Finance’ Objectives
 - Appreciating Financial Markets
 - Developing Skills for Financing Related Decisions
- Term III – Financial Management II (FM-2 by UD)
 - Developing Skills for Corporate Investment Decisions
 - Appreciating Working Capital Management
 - Introduce Valuation, Restructuring, Failure, Leasing, Derivatives, etc.

“Finance” – Is it Difficult?

- Look from a business perspective
 - Look from the perspective of long-term investing (or owning) ... say, successful communities ... Bohra, Gujarati, Jews, Malabari Muslim, Marwari, Parsi, Syrian Catholic)
 - ➔ Understand ‘practical economics’ and ‘pursuing prospects’
 - **Motivated, Opportunist, Calculative & largely Practical**
- Appreciate jargons
 - Read business newspapers + Web-search
 - Read books and journals + Access databases
 - Exchange views ➔ Simultaneous updating
- Don’t switch-off
 - Unlearn & Avoid Prejudiced Mindset
 - Concentrate
 - Avoid Copy Paste Attitude

Typical Mental Blocks

- “I Can’t” mindset
 - Easily give it up
- Brahminical mindset
 - We should never do transactions on credit
- Islamic mindset
 - We should never charge interest to loans
- Bengali mindset
 - Earning money is bad
- Engineers mindset
 - Look for standard algorithms
- Commerce / Accountant mindset
 - Cannot come out of rules & regulations
- Experienced mindset
 - Why should we read? We know everything?



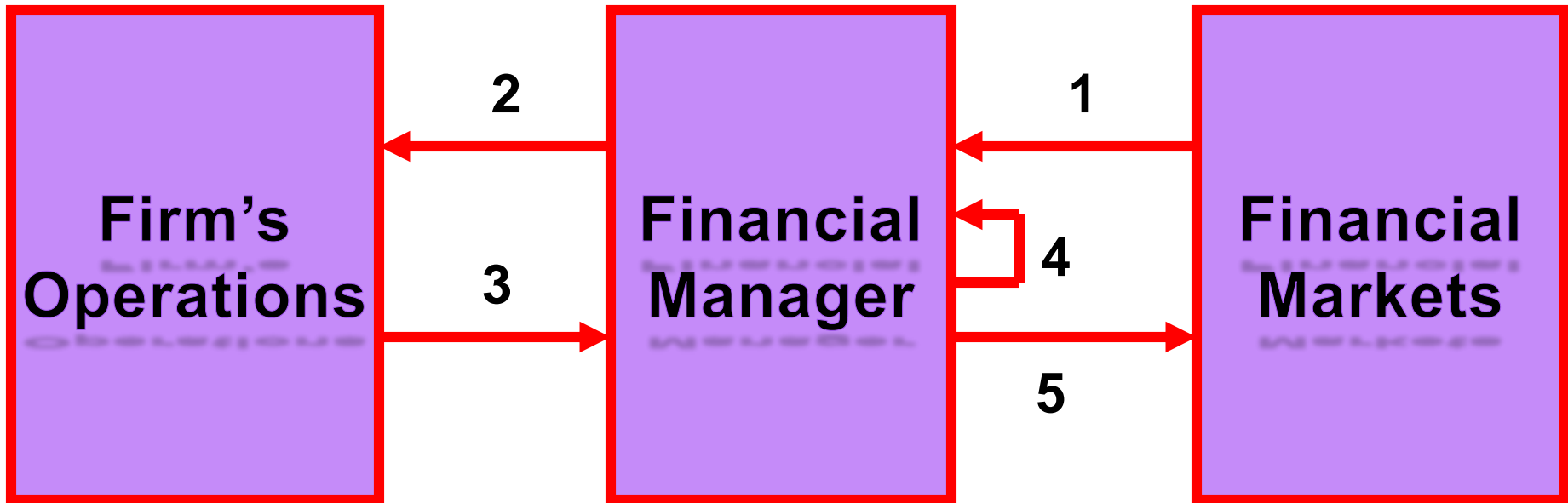
What is 'Capital' ...



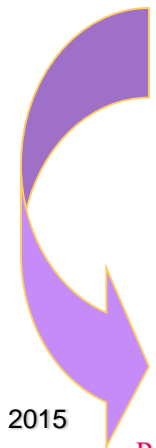
- Finance obtained by a firm
- Three types
- Interest free capital
 - ... current liabilities
- Debt capital
 - ... long-term liabilities
- Risk capital
 - ... owners equity



Role of the Financial Manager



1. Cash raised from investors
2. Cash invested in firm
3. Cash generated from operations
4. Cash reinvested
5. Cash returned to investors

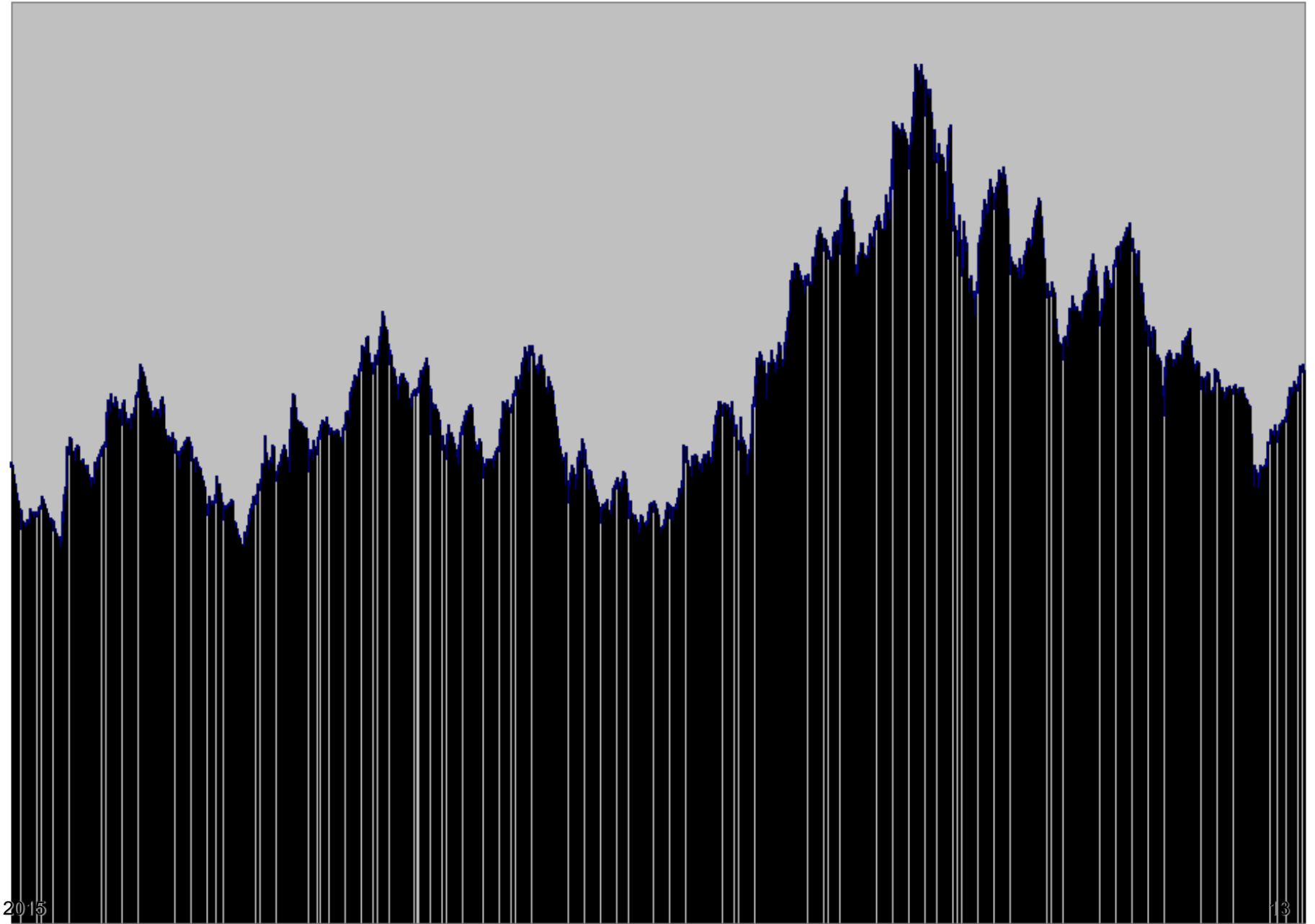


Market Differences ...

- Primary Vs Secondary
- Money-market Vs Capital-market (G-Sec. market ... Equity market and Bond market)
- U.S. Vs Japanese/German markets
- Indian markets: Pre-liberalization Vs Post-liberalization

What is Value?

- Liquidation Value
- Operational (Going Concern) Value
- Historical Value
- Replacement Value
- Others Methods (Interlinked to the above)
 - Relative Value
 - More ...



2015

Ram

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A composite image for the top half of the slide. The left side shows a stack of papers with a blue-to-purple gradient. The right side shows a clock face with a purple-to-pink gradient.

Moving Further ...

A composite image for the bottom half of the slide. The left side shows a stack of papers with a green-to-cyan gradient. The right side shows a clock face with a yellow-to-orange gradient.

Entering Finance World ...

Prepared by Ram Kumar Kakani

Structure of Business Entity ...

- Sole Proprietorship
 - ... M/s Ladduram & Sons
- Partnership
 - General ... Balaji Industries
 - Limited Liability... International Aviation & Airport Services LLP
- Limited Liability Company
 - Private Limited
 - ... Zomato Media Private Limited
 - Public Limited
 - ... Reliance Industries Limited
- Can non-individuals be shareholders?
- Can organizations move from one structure to another?

Agency Concept

Modern Corporation

Shareholders

Management

There exists a **SEPARATION**
between owners and managers.

Ownership Vs Management

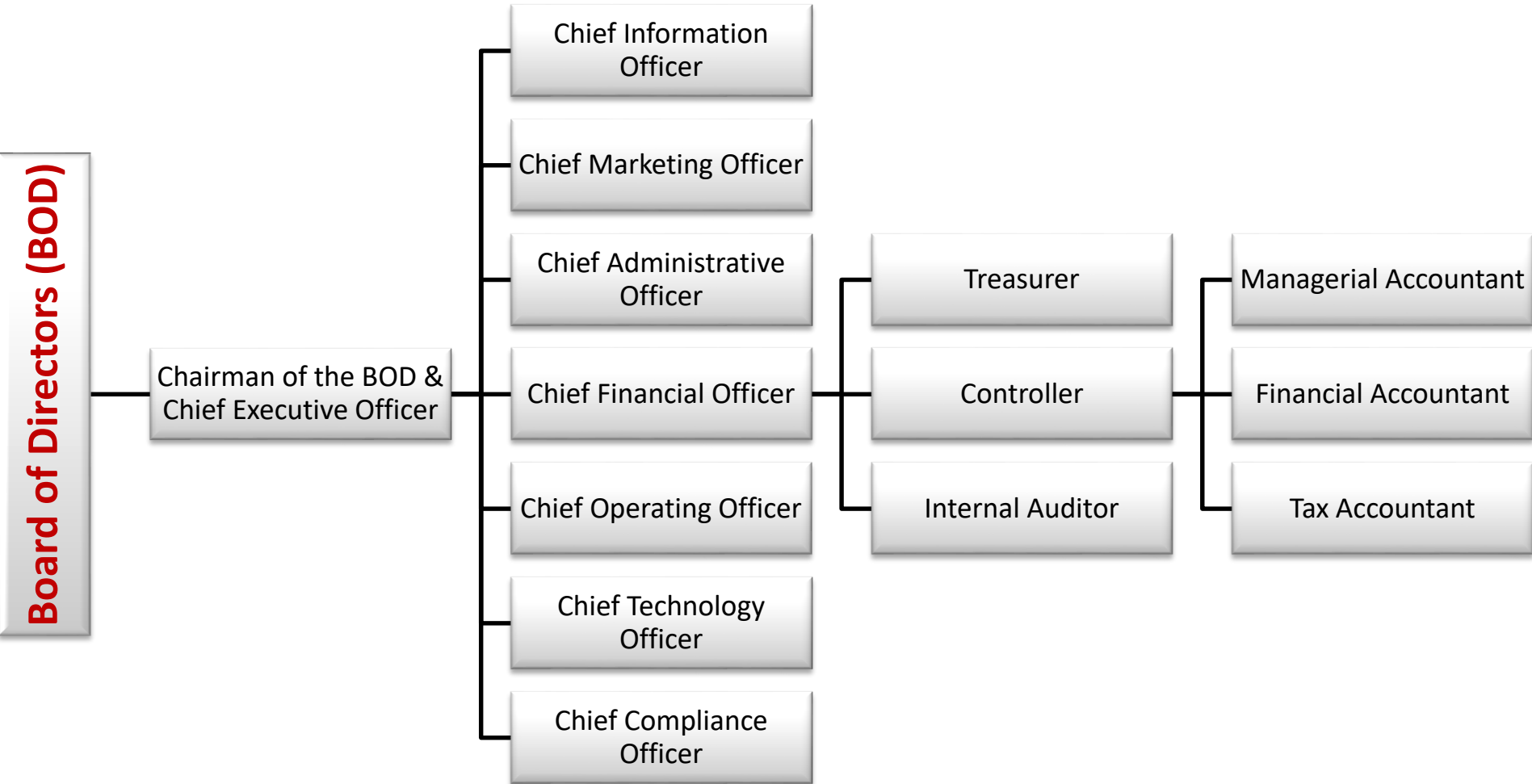
Differences in Information

- Stock prices and returns
- Issues of shares and other securities
- Dividends
- Financing

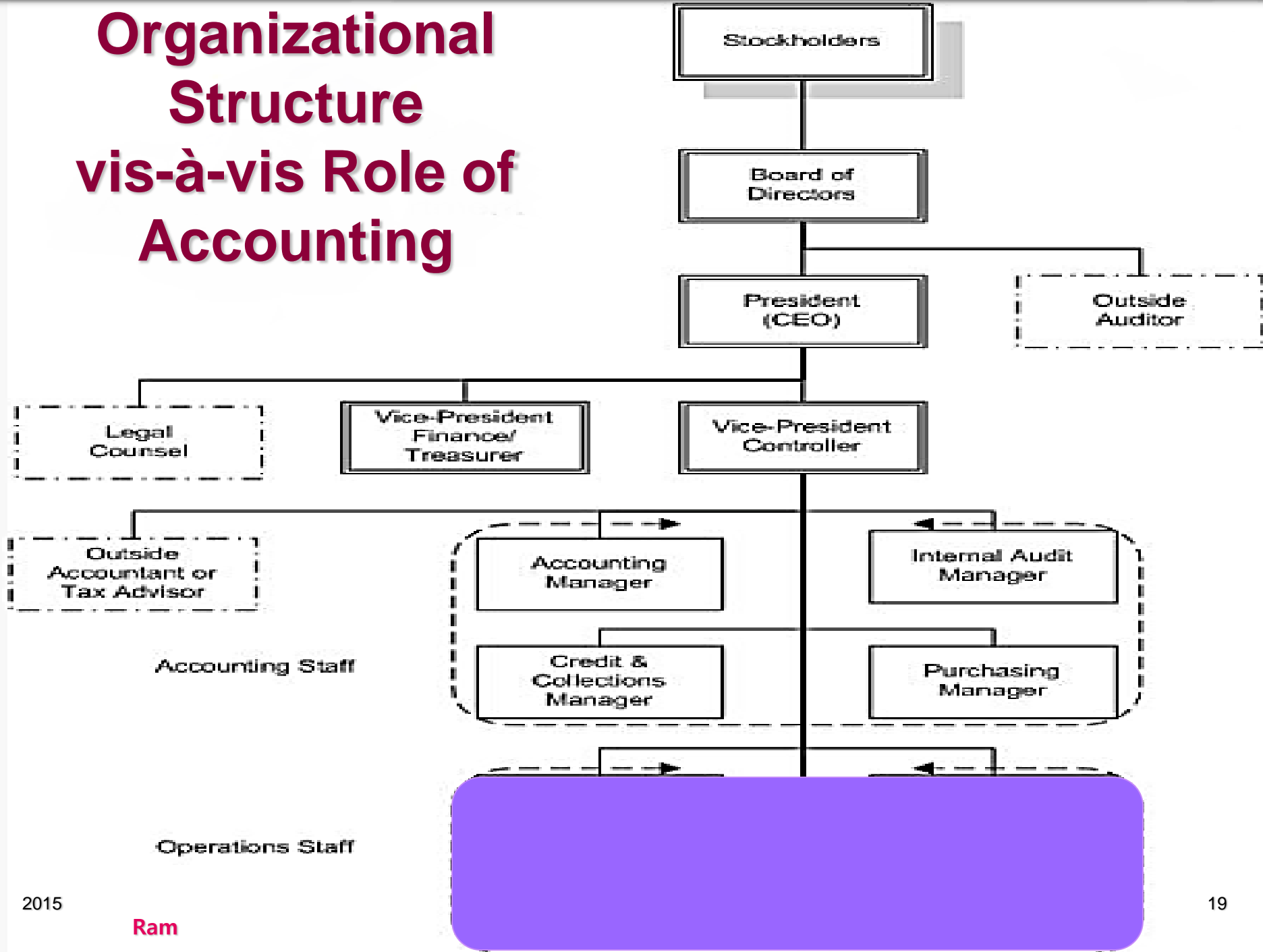
Different Objectives

- Management Vs stockholders
- Top management Vs operating management
- Stockholders Vs banks and lenders

Large Corporate Sector ... Organization of the Finance Functions



Organizational Structure vis-à-vis Role of Accounting



How Did Finance Get Here?

(adapted from <http://ssrn.com/abstract=905867>)

- Till 1800 AD: Industrial revolution and joint stock firms concept
- 1800-1900: ↑ size of business unit, ↑ capex level, ↑ separation of ownership from management
- 1900-1950: ↑ competition, ↑ entry of retail investors
- 1950-2000: ↑ research, ↑ competition in finance world, ↑ technology/communication
- 2000-2015: ↑ external communication (quantity), ↑ IQ, ↓ internal communication, ↓ intelligence variety
↓ risk & uncertainty awareness

How Did Finance Get Here?

(<http://ssrn.com/abstract=905867>)

- Till 1800 AD: Industrial revolution and joint stock firms concept led to
 - *Double Entry Accounting & Bookkeeping*
- 1800-1900: ↑ size of business unit, ↑ capex level, & ↑ separation of ownership from management meant introduction of
 - *Intermediaries, Stock and Commodity Exchanges*
 - *Financial Reporting Procedures, Management Accounting Systems*
 - *Debentures, Convertibles, & Preference Shares*

- 1900-1950: ↑ Competition and Entry of Retail Investors led to
 - Financial Analysis, Budgeting & Standard Costing
 - Common Stock Exchanges
- 1950-2000: ↑ Research, ↑ Competition in Finance, ↑ Technology/Communication meant
 - Theories – Random Walk, Portfolio, Market Efficiency, MM's Capital Structure and Dividend
 - Models – CAPM, Option Pricing, Fama-French
 - Derivatives, Swaps, ESOP, LBO, Securitization, EVA, ABC, SCM, MVA, Hedge Funds, ...
- 2000-2015: ↑ external communication (quantity), ↑ IQ, ↓ internal communication, ↓ intelligence type, ↓ risk & uncertainty fortitude
 - IFRS, Narrower formats, Compliance norms, Behavioral Finance, Wider Variety of Quantified Risk Models, Nicher Fields (MFI, Islamic Fin., etc.)

“Finance” Area Electives

- Business Analysis and Valuation (Term IV by PM)
- Capital Expenditure Planning and Control (Term IV by SS)
- Options and Futures (Term IV by UD)
- Financial Modeling using Excel (Term IV by PM)
- Management of Banking (Term IV by SPS)
- Financial Analysis, Planning and Control (Term V by SS)
- Financial Risk Management (Term V by HKP)
- Fixed Income Securities (Term V by HKP)
- Merger, Acquisition and Corporate Restructuring (Term V by AK)
- Structured Finance (Term VI by PR)
- Social Finance, Impact Investing & Insurance (Term VI by HKP)
- Corporate Taxation (Term VI by Visiting Faculty)
- Financial Markets (Term VI by Visiting Faculty)
- International Financial Management (Term VI by Visiting Faculty)

“Finance” Streams ...

Three Streams

Corporate
Finance

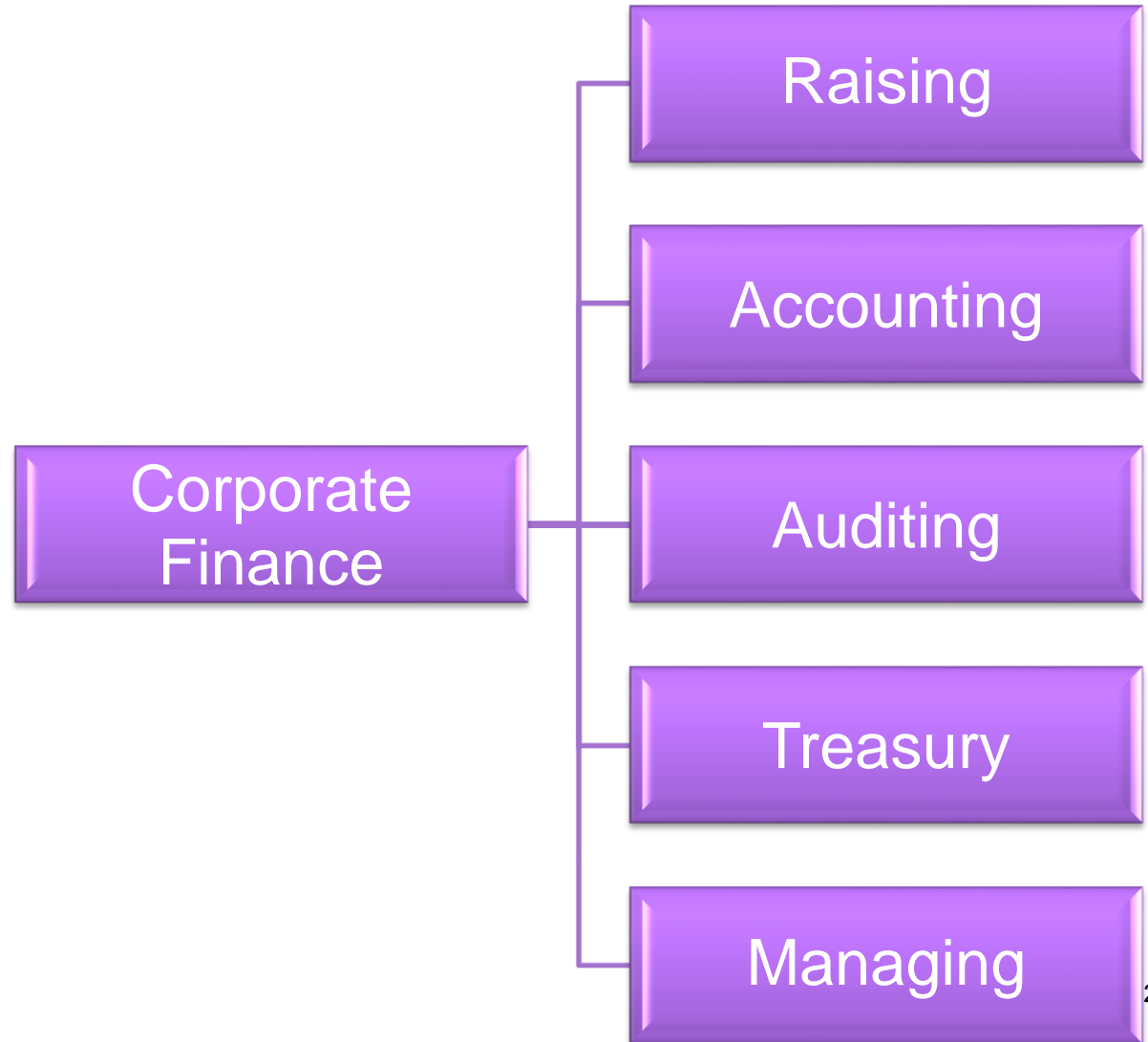
Investment &
Services

Banking &
Insurance

'Corporate Finance' Focus ...

- Business Analysis and Valuation
- Capital Expenditure Planning and Control
- Corporate Taxation
- Financial Analysis, Planning and Control
- Financial Markets
- Financial Modeling Using Excel
- International Financial Management
- Mergers, Acquisition and Corporate Restructuring
- Structured Finance

“Corporate Finance” Streams ...

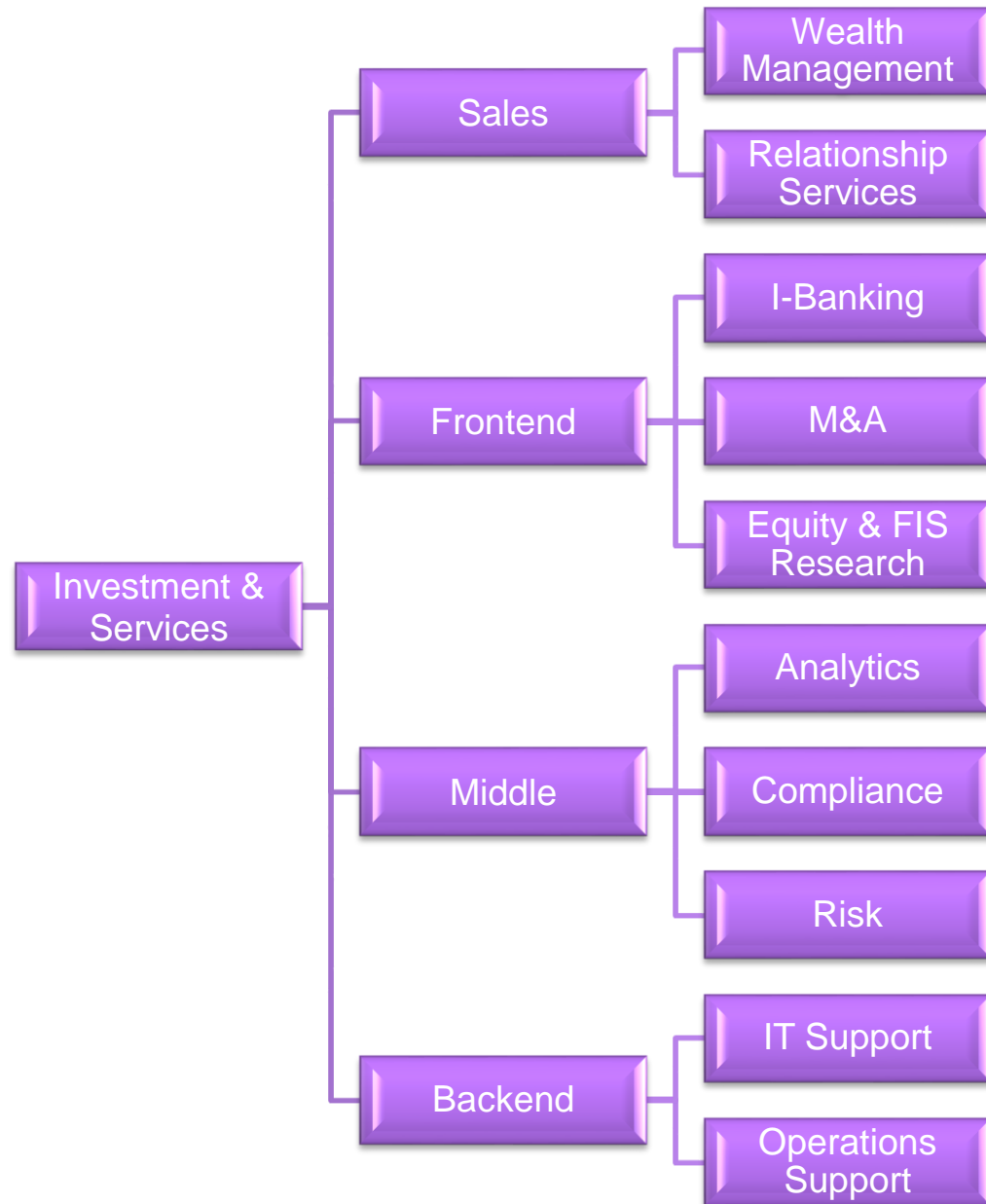


'Investment & Services'

Focus ...

- Business Analysis and Valuation
- Financial Markets
- Financial Modeling Using Excel
- Fixed Income Securities
- Financial Risk Management
- Management of Banking
- Mergers, Acquisitions and Corporate Restructuring
- Options and Futures
- Social Finance, Impact Investing & Insurance
- Structured Finance

“Investment & Services” Streams ...



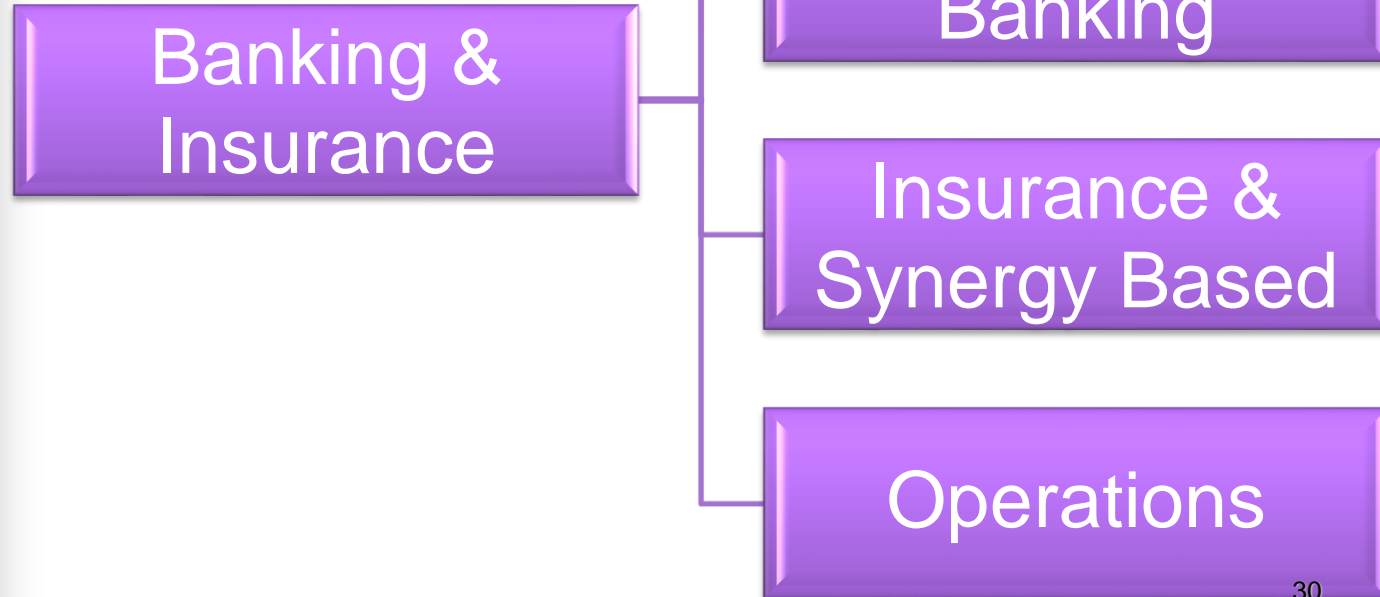


'Banking & Insurance'

Focus ...

- Capital Expenditure Planning and Control
- Corporate Taxation
- Financial Analysis, Planning and Control
- Financial Markets
- Financial Risk Management
- Fixed Income Securities
- International Financial Management
- Management of Banking
- Options & Futures
- Social Finance, Impact Investing & Insurance

“Banking & Insurance” Streams ...



ManAcc1 Case # 1: Warren Buffet Investment Club

- is composed of six students. These members take care of the management of the student's pool of funds. These members do a full qualitative and quantitative analysis of a chosen industry, and finally, recommend a company each, from ten different industries. The project is concluded with an investment recommendation and final presentation.
- This year, the students selected YOU for the committee. So, the goal of the team was clear – that they want to invest in companies that would be successful in future. During the discussion, various ideas were suggested for identifying the industries, such as – industries with successful products / cheap raw material costs / less competition / high-technology inputs / etc.
- **Required:** Set of five decisive factors (not measures) that you would use while selecting the ten industries in which to invest. Give supporting reasons for each of the factors.

Thank You



Acknowledgements:

- ❖ External: Shri Avinash Ghalke (XL BM 06), Shri Anoop Bhatia (XL BM 07),
- ❖ Internal: Shri Rohit Barchha, Ms Shaniya Khanam and ... XL Faculty Members Profs Sabyasachi Sengupta, Pitabas Mohanty,, Uday Damodaran, and Santosh Sangem