

*Course Outline***FINANCIAL
MANAGEMENT I (FM-1)***for****BM –I, Term-II, 2011-12***Course Instructor: *ram kumar kakani***XLRI** Jamshedpur
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Introduction and Course Objectives:

No other field in business management has 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 us.

Financial Management at XLRI is divided into two parts – Financial Management I in Term II (henceforth FM-1)¹ builds the base and also focuses on the liability side of the balance sheet. It introduces students

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¹ Topics that could be covered as part of FM-2 – capital budgeting, working capital management, raising financial securities, options, bankruptcy & financial restructurings, mergers & acquisitions, international finance, etc.

to the world of financial markets, valuation methods and also dwells towards the financial analysis having large scale implications on the overall management of the company.

This course aims at:

- ❖ Familiarizing the students with the financial environment of business including the economic objectives of firms
- ❖ Imbibing knowledge about the decisions and decision variables involved in building the liability side of balance sheet of the firm
- ❖ Developing the analytical skills by associating the financial tools and techniques with the situation
- ❖ Developing skills for interpretation business information and application of financial theory in financing related decisions

Thus, the Course Objectives would include:

- ✓ By the end of the course you should understand
- ✓ What is the primary economic objective of companies?
- ✓ Agency theory and its reflections in Indian corporate sector
- ✓ The basic principles of time value of money
- ✓ The basic principles of risk and return
- ✓ How simple instruments like equity shares and debentures are valued
- ✓ How to find the cost of capital of companies
- ✓ Whether dividend policy and capital structure of a firm related to its value

Pedagogical Methods:

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

Primary Teaching Book & Reading Material:

“Corporate Finance” by Ross, Westerfield, Jaffe, & Kakaní, 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, 2007 [BMAM]*
2. *“Financial Management: Theory & Practice” by Prasanna Chandra, McGraw Hill, 2007 [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 And 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 De Marzo & Ashok 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, McGraw Hill, 2007 [RWJ]
12. "Corporate Finance: A Focused Approach" by Ehrhardt & Brigham, Cengage, 2009 [EB]
13. "Fundamentals of Financial Management" by Van Horne & Wachowicz, Pearson, 2009 [WV]
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 should not be considered as exhaustive under any circumstances. Cases and additional notes would also be distributed in the class from time to time². 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
Class Attendance/ Participation & Case Submissions [%]	10
Mid-term Examination/ Surprise Quizzes ^{%%*@}	25
Take Home Assignment	15
End-term Examination ^{*@}	50

Note:

[%] → components marked with [%] could be merged at a later point;

^{*} → Please note that some questions will carry negative marks (for wrong answers)

[@] → Please note that the end term examination will contain questions from your take home assignments

² 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*).

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.
- Other websites: Capital Market, Indiainfoline, Indiabulls, Equitymaster, Sharekhan, iInvestor, CRISIL, CMIE, CapitalIdeasOnline, 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. Introduction to Financial Management (FM) with focus on the role of FM in the Corporate World	Chapter 1 in RWJK Chapter 1 of BMAM; Chapters 1 & 2 of PC; Chapter 1 of RPR; Chapter 1 of SK; Chapter 1 of KJ
2. Impact of Business, Tax, and Financial Environments on the Cash Flow and other Financial Statements	Chapter 2 in RWJK and Chapter 4 in RK Chapter 18 of BMAM; Chapter 3 of PC; Chapter 4 of RPR; Chapter 5 of KJ
3. Financial Statement Analysis and Long-term Planning	Chapter 3 in RWJK and Chapter 7 in RK Chapter 29 of BMAM; Chapters 4 & 5 of PC; Chapters 3 & 5 of RPR; Chapter 6 of KJ
4. Discounted Cash Flow Valuation (including Time Value of Money)	Chapter 4 in RWJK Chapters 2 & 3 of BMAM; Chapter 6 of PC; Chapter 2 of RPR; Chapter 6 of SK; Chapter 2 of KJ
5. Valuation of Bonds & Debentures	Chapters 4, 5 & 20 in RWJK Chapter 4 of BMAM; Chapter 7 of PC; Chapter 26 of RPR; Chapter 10 of SK; Chapter 4 of KJ
6. 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

Session-wise Plan	Suggested Reading
7. Risk and Return with focus on CAPM	Chapters 9 & 10 in RWJK Chapters 7 & 8 of BMAM; Chapters 8 & 9 of PC; Chapter 26 of RPR; Chapter 8 of SK; Chapter 3 of KJ
8. An Alternative View of Risk and Return	Chapter 11 in RWJK Chapter 12 of KJ
9. Risk & Cost of Capital	Chapter 12 in RWJK Chapter 9 of BMAM; Chapter 14 of PC; Chapters 10 & 13 of RPR; Chapter 13 of SK
10. Corporate Financing Decisions and Efficient Capital Markets	Chapter 13 in RWJK Chapters 13 & 14 of BMAM; Chapters 16 of PC
11. Operating and Financial Leverage	Class Notes Chapter 11 of RPR; Chapter 12 of SK; Chapter 18 of KJ
12. Long- Term Financing	Chapter 14 in RWJK Chapters 17 & 18 of PC; Chapter 23 of RPR
13. Economic Value Added (EVA)	Class Notes Chapter 12 of BMAM; Chapter 33 of PC
14. Capital Structure I	Chapter 15 in RWJK Chapters 17 & 18 of BMAM; Chapters 19 & 20 of PC; Chapter 14 of RPR; Chapter 14 of SK; Chapters 19 & 20 of KJ
15. Capital Structure II	Chapter 16 in RWJK Chapters 17 & 18 of BMAM; Chapters 19 & 20 of PC; Chapter 14 of RPR; Chapter 14 of SK; Chapters 19 & 20 of KJ
16. Case on Valuation for the Levered Firm	Parts of Chapter 17 in RWJK (and Chap 5 RWJK)
17. Bonus, Dividends, and Other Payouts I	Chapter 18 in RWJK Chapter 16 of BMAM; Chapters 21 & 22 of PC; Chapter 16 of RPR; Chapters 15 & 16 of SK; Chapters 30 & 31 of KJ
18. Bonus, Dividends, and Other Payouts II	Chapter 18 in RWJK Chapter 16 of BMAM; Chapters 21 & 22 of PC; Chapter 16 of RPR; Chapters 15 & 16 of SK; Chapters 30 & 31 of KJ
19. Shareholder Value Maximization	Class Notes, Case Titled 'Identifying Value Creators' (HKU185, Center for Asian Business Cases) Goldman Sachs Document on Fundamental Characteristics of Stock, Book: Financial Statement Analysis by George Foster (chapters & discussion related to Market Based Ratios)
20. Revision	All of the above. ☺☺☺

Note:

- ◆ Please note that the above sequence is tentative (and would be altered based on initial class experience).
- ◆ 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.