

Course Outline

FINANCIAL MANAGEMENT II (FM2) ©

for

BM I 2009-10

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Course Objectives:

This course is an extension of your first course in the Financial Management i.e., Financial Management I (FM1) taken by Prof. Uday Damodaran. It is designed on the same premise that – for any business organization, financial success is arguably the principal purpose around which all management activities revolve. So, there is an imperative need to be conscious of financial management fundamentals by all the management students especially *the BM junta (community)*. Hence, FM2 course is to instill a wider-range of financial awareness among the BM junta. The objective of the course is to acquaint the students with the key financial management ingredients and techniques such as Arbitrage Pricing Theory, Capital Asset Pricing Model, Cost of Capital, Financial Planning, Financial Markets Efficiency, Financial Distress & Restructuring, Hedging, Options, and Working Capital Management among others (where emphasis is laid on sound concepts and their managerial implications).

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, & Kakani, 8th Edition, 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, 2001 [PC]
3. *“Financial Management”* by I M Pandey, Vikas, 2005 [IMP]
4. *“Financial Management: Text & Cases”* by Ehrhardt & Brigham, Cengage, 2005 [EB]
5. *“Financial Management and Policy”* by Van Horne, Prentice-Hall, 2006 [VH]
6. *“Principles of Managerial Finance”* by Lawrence Gitman, Pearson, 2000 [LG]
7. *“Financial Management”* by Ravi Kishore, Taxmann, 2008 [RK]

Other Readings:

8. *Principles of Managerial Finance* by Lawrence Gitman, Pearson, 2000
9. *Fundamentals of Corporate Finance* by Ross, Westerfield & Jordan, McGraw Hill
10. *Corporate Finance: A Focused Approach* by Ehrhardt & Brigham, 2003
11. *Cash & Working Capital Management* by Srinivasan
12. *Fundamentals of Corporate Finance* by Ross, Westerfield, & Jordan
13. *Introduction to Financial Management* by Halloran & Lanser
14. *Fundamentals of Financial Management* by Van Horne & Wachowicz, Pearson
15. *Financial Management and Policy* by V. K. Bhalla
16. *Essentials of Managerial Finance* by Weston & Brigham
17. *Financial Statement Analysis* by George Foster

Any other good book on Financial Management

Note: Books no. 9, 14, etc. are lower level (introductory level) 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 time (these will be usually taken from one of the references provided above)¹. Should the students feel that they need more reading material (or detailed notes) for a particular topic – they can get in touch with me.

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

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	25
End-term Examination*	40

Note:

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

* → Please note that some questions will 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:

The following sources apart from **CMIE-PROWESS** have extensive 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.

TOPICS TO BE COVERED (TENTATIVE):

Session-wise Plan	Suggested Reading
1. Shareholder Value Maximization	Class Notes, Case Titled 'Identifying Value Creators' (HKU185, Center for Asian Business Cases) Goldman Sach Document on Fundamental Characteristics of Stock, Book: Financial Statement Analysis by George Foster (chapters & discussion related to Market Based Ratios)
2. Valuation of Bonds & Stocks	Chapter 5 in RWJK (also look at Chapters 3 & 4 of RWJK) Chapter 4 in BMAM; Chapters 5 & 33 in PC; Chapter 3 in IMP; Chapter 2 in VH; Chapter 7 in LG; Chapters 6 & 7 in EB
3. Long-term Debt; focus on Government Bond Market & Credit Ratings	Chapter 20 in RWJK Chapters 23 and 24 in BMAM; Chapter 21 in PC; Chapter 20 in IMP; Chapters 17 & 20 in VH; Chapter 27 in RK
4. Risk & Return Part I	Chapters 9, 10, and 11 in RWJK Chapter 7 of BMAM; Chapter 6 in PC; Chapter 4 in IMP; Chapter 3 in VH; Chapter 4 in EB, Chapter 32 in RK
5. Risk & Return Part II	Chapters 9, 10, and 11 in RWJK Chapter 8 of BMAM; Chapter 7 in PC; Chapters 5 & 6 in IMP; Chapter 4 in VH; Chapter 5 in EB, Chapters 33 & 34 in RK
6. Cost of Capital	Chapter 17 in RWJK Chapter 19 of BMAM; Chapters 8, 9 & 15 in EB; Chapters 11, 13 & 34 in PC; Chapter 17 in IMP; Chapter 10 in LG; Chapter 8 in VH; Chapters 7 & 36 in RK
7. Corporate Financing Decision & Efficient Capital Markets	Chapter 13 in RWJK Chapter 13 of BMAM; Chapter 19 in IMP; Chapters 3 & 17 in VH
8. Leasing & if time permits ... Introduction to Securitization	Chapter 21 in RWJK Chapter 26 of BMAM; Chapter 23 in PC; Chapter 22 in IMP; Chapter 18 in VH; Chapter 20 in EB, Chapter 23 in RK
9. Understanding and Valuing Options	Chapters 22 and 23 in RWJK Chapters 21 & 22 of BMAM; Chapter 8 in PC; Chapter 7 in IMP; Chapter 35 in RK; Chapters 8 & 12 in EB; Chapter 5 in VH
10. Convertibles, Warrants, ... More Hybrid Securities Overview	Chapter 24 in RWJK, Case Titled 'Tata Steel Limited: Convertible Alternative Reference Securities' (9B08NB001, Richard Ivey Center Case) Chapter 25 in BMAM; Chapter 22 in PC; Chapter 21 in IMP; Chapter 21 in VH; Chapter 18 in LG; Chapter 21 in EB, Chapter 10 in RK
11. Introduction to Derivatives & Hedging Instruments	Chapter 25 in RWJK Chapter 27 in BMAM; Chapter 40 in PC; Chapter 33 in IMP; Chapter 23 in EB, Chapter 35 in RK; Chapter 22 in EB
12. Financial Forecasting & Planning	Chapter 3 in RWJK Chapter 29 in BMAM; Chapters 30 & 32 in PC; Chapter 25 in IMP; Chapter 13 in VH; Chapter 4 in LG; Chapters 13 & 14 in EB, Chapters 3 & 8 in RK
13. Short Term Finance	Chapter 26 in RWJK Chapter 31 of BMAM; Chapters 24, 28 & 32 in PC; Chapters 27, 29 & 31 in IMP; Chapter 16 in VH; Chapters 14 & 15 in LG; Chapter 22 in EB, Chapter 11 in RK

14. Cash Management	Chapter 27 in RWJK Chapters 30 and 31 of BMAM; Chapter 25 in PC; Chapter 30 in IMP; Chapter 14 in VH; Chapter 16 in LG; Chapter 22 in EB, Chapters 12, 13 & 31 in RK
15. Credit Management	Chapter 28 in RWJK Chapter 30 of BMAM; Chapters 26, 27, 28 & 29 in PC; Chapter 28 in IMP; Chapter 15 in VH; Chapter 17 in LG; Chapter 22 in EB, Chapters 14, 15 & 31 in RK
16. Mergers & Acquisitions	Chapter 29 in RWJK Chapters 32 and 33 of BMAM; Chapter 35 in PC; Chapter 32 in IMP; Chapter 23 in VM; Chapter 19 in LG; Chapter 25 in EB, Chapters 37, 38 & 39 in RK
17. Financial Distress	Chapter 30 in RWJK Chapter 33 of BMAM; Chapter 30 in PC; Chapter 24 in EB, Chapter 40 in RK
18. International Corporate Finance	Chapter 31 in RWJK Chapter 28 in BMAM; Chapter 37 in PC; Chapter 34 in IMP; Chapter 25 in VH; Chapter 20 in LG; Chapter 26 in EB, Chapters 41, 42, 43, 44 & 45 in RK
19. Case: Valuation and its link to Cost of Capital (<i>Case: Noida Toll Bridge</i>)	Chapter 17 in RWJK Chapter 19 of BMAM; Chapters 9 & 15 in EB; Chapters 13 & 34 in PC; Chapter 17 in IMP; Chapter 8 in VH; Chapters 7 & 36 in RK
20. Governance and Corporate Control	Class Notes, SSRN Paper, and Chapter 34 in BMAM Chapter 36 in PC; Chapter 36 in IMP; Chapters in 46, 47 & 48 RK

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.*