FC 302: CORPORATE FINANCE

Course Objectives: To provide an understanding of the essential elements of the financial environment in which the business firm operates. To acquaint students with the techniques of financial management and their applications for business decision making.

Learning Outcome: At the end of this course, students will be equipped with the basic concepts of financial management. Students would understand how to coordinate various decisions to maximise wealth of an organisation in today`s financial environment. Students will be equipped to arrive at strategic corporate finance decisions with the required accuracy by using various excel functions.

Course Contents:

Unit I **(2 weeks)**

Nature of Financial Management: Finance and related disciplines; Scope of Financial Management; Profit Maximization, Wealth Maximization - Traditional and Modern Approach; Agency Issues; Functions of finance ï Finance Decision, Investment Decision, Dividend Decision; Objectives of Financial Management; Organisation of finance function; Concept of Time Value of Money- present value, future value, annuity, growing annuity, perpetuity, growing perpetuity, excel functions of time value of money.

References:

Prasanna Chandra, ñFinancial Management: Theory and Practiceò, 9th ed, Mc Graw Hill. [Chapters ï 1, 2, 6 & 11]

Horne, James C V. and John M. Wachowicz, Jr. ñFundamentals of Financial Management. 13th ed; FT Prentice Hall, Pearson Education. [Chapters ï 1, 2 & 3]

Unit II **(5 weeks)**

Strategic Investment Decisions: Capital Budgeting -; Nature and meaning of capital budgeting; Principles and Process; Estimation of relevant cash flows and terminal value; Evaluation techniques ï Payback period, Accounting Rate of Return, Net Present Value, Internal Rate of Return & MIRR, Net Terminal Value, Profitably Index Method, Payback Period, NPV vs. IRR, Risk analysis in Capital Budgeting -Sensitivity analysis, Certainty Equivalent Approach, Calculation of RADR, Real options, excel functions of capital budgeting techniques.

Cost of Capital: Meaning and concept, Explicit and Implicit costs; Measurement of cost of capital- Cost of debt; Cost of perpetual debt; Cost of Equity Share; Cost of Preference Share; Cost of

Retained Earning; Computation of over-all cost of capital based on Historical and Market weights (WACC); Adjusting cost of capital for risk.

References:

Prasanna Chandra, ñFinancial Management: Theory and Practiceò, 9th ed, Mc Graw Hill. [Chapters ï 11, 12, 13, 14, 15]

Horne, James C V. and John M. Wachowicz, Jr. ñFundamentals of Financial Management. 13th ed; FT Prentice Hall, Pearson Education. [Chapters ï 12, 13, 14 & 15]

Unit III **(3 weeks)**

Strategic Financing Decisions- Capital Structure, Theories and Value of the firm - Net Income approach, Net Operating Income approach, Traditional approach, Modigliani Miller (MM) model, HAMADA model; Determining the optimal capital structure, Checklist for capital structure decisions, Costs of bankruptcy and Financial distress, Trade off models, Pecking Order Theory.

Leverage analysis and EBIT-EPS Analysis: Concept of leverage, Types of leverage: Operating leverage, Financial leverage, Combined leverage; EBIT-EPS Analysis, Guidelines for capital structure planning, Link between capital structure and capital budgeting

Dividend Decisions: Factors determining dividend policy, Theories of dividend- Gordon model, Walter model, MM Hypothesis, Signalling Theory, Forms of dividend ï Cash dividend, Bonus shares, Stock split, Dividend policies in practice, Patterns observed in payout policies worldwide

References: Prasanna Chandra, ñFinancial Management: Theory and Practiceò, 9th ed, Mc Graw Hill. [Chapters ï 19, 20, 21 &22]

Horne, James C V. and John M. Wachowicz, Jr. ñFundamentals of Financial Management. 13th ed; FT Prentice Hall, Pearson Education. [Chapters ï 16, 17 & 18]

Unit IV **(2 weeks)**

Working Capital Management: Management of Cash - Preparation of Cash Budgets (Receipts and Payment Method only); Cash management technique (Lock box, concentration banking), Receivables Management ï Objectives; Credit Policy, Cash Discount, Debtors Outstanding and Ageing Analysis; Costs - Collection Cost, Capital Cost, Default Cost, Delinquency Cost, Inventory Management (Very Briefly) - ABC Analysis; Minimum Level; Maximum Level; Reorder Level; Safety Stock; EOQ (Basic Model), Determination of Working Capital. Determining financing mix of working capital.

References:

Prasanna Chandra, ñFinancial Management: Theory and Practiceò, 9th ed, Mc Graw Hill. [Chapters ï 23, 24, 25, 26, 27 & 28]

Horne, James C V. and John M. Wachowicz, Jr. ñFundamentals of Financial Management. 13th ed; FT Prentice Hall, Pearson Education. [Chapters ï 8, 9, 10 & 11]

Text Books: (Latest editions of the following to be used)

1. Prasanna Chandra, ñFinancial Management: Theory and Practiceò, 9th ed, Mc Graw Hill.
2. Horne, James C V. and John M. Wachowicz, Jr. ñFundamentals of Financial Management. 13th ed; FT Prentice Hall, Pearson Education.
3. Pandey, I.M. Financial Management: Theory and Practices, Vikas Publishing House.

Additional Readings:

1. Khan, M.Y. & Jain, P.K. Financial Management Text Problem and Cases, Tata McGraw Hill Publishing Co. Ltd.
2. Brealey, R. R., Myers. S., Allen, F., & Mohanty, P.. Principles of Corporate Finance. New Delhi: Tata Mc-Graw Hill.
3. Megginson, Smart., & Gitman.. Corporate Finance . Thomson.