FD 601: STRATEGIC CORPORATE FINANCE

Course Objectives:

The objective of this paper is to know the details of corporate finance and the strategies involved in the corporate decisions. It will enable the students to steer the corporate issues and challenges in better manner.

Learning Outcomes:

- To enable the student to identify the key themes in corporate finance
- To understand the principal role of finance in an organization and the implication of overarching strategic application of its efficient use on the bottom line of the organization
- To facilitate the understanding on the impact of risk and cost of capital on investment appraisal besides their cumulative impact on the value of a capital project
- To enable students to employ risk and sensitivity analysis on real time basis on varied projects.
- To developed skills in group work, including communication, collaboration, and presentation.

Course Contents:

Unit I **(2 weeks)**

Introduction to strategic corporate finance: Strategy Vs Planning, significance of strategy in financial decisions, Different types of financial strategy for Shareholders Wealth Maximization, overall corporate value addition and Economic Value Addition. Strategic Cost Management: Traditional costing Vs Strategic Costing, Relevant costs Vs Irrelevant costs, Different types of strategic costing and their relevance- Target Costing, Activity based Costing, Life Cycle Costing, Quality Costing, Zero Based Budgeting, Strategic cost reduction techniques and value chain analysis. Alternative sources of financing ï alternative sources of financing, Different approach to Infrastructure projects financing- Public Private Partnership (PPP) and its relevance.

STRATEGIC CORPORATE FINANCE

References:

Aswath Damodaran: Corporate finance theory and practice, second edition (Chapter 1, 2 and 16, 17)

Jakhotia: Strategic Financial Management second editon (Chapter 1)

Unit II **(2 weeks)**

Management Buy-outs: Establishing feasibility of the buy-out, Negotiating the main terms of the transaction with the vendor including price and structure, Developing the business plan and financial forecasts in conjunction with the buy-out team for submission to potential funders, negotiations with potential funders so that the most appropriate funding offers are selected.

Management Buy-ins: Management Buy-in/Buy-outs (ñBIMBOsò), Vendor-initiated buy-outs/buy-ins. Valuing Real assets in the presence of risk: tracking portfolios and Real Asset valuation, Different Approaches of Valuing Real Assets, Capital Budgeting and Strategic policy.

Real options: Financial and real options compared, various types of real options, the Black-Scholes model, Decision tree analysis, application of Real options, Drawbacks of Real options

References:

Aswath Damodaran: Damodran on Valuation, second edition (Chapter 15)

Aswath Damodaran: Corporate finance theory and practice, second edition (Chapter 27)

Unit III **(3 weeks)**

Financial Distress and restructuring: Meaning of Bankruptcy, Factors leading to bankruptcy, symptoms and predictions of bankruptcy, reorganization of distressed firms, liquidation of firms. Company disposals: retirement sale or the sale of a non-core subsidiary, planned exit, forceful retirement and other disposals. Exit strategy- most appropriate exit route, valuation, timing of sale and tax planning opportunities, identification of potential purchasers, approaching the potential purchaser, negotiate with potential acquirers and selection of a preferred purchaser, calculation of the various tax implications.

Fundraising: identification of different sources of development capital, determination of capital structure and factors affecting the capital structure, cost of capital and cost saving strategy, production of a business plan and financial forecasts to enable potential funders to assess the proposition. Due Diligence: financial due diligence for both purchasers and financial institutions, good quality ñadded valueò due diligence advice.

References:

Aswath Damodaran: Corporate finance theory and practice, second edition (Chapter 17, 18 and 26)

Unit IV **(3 weeks)**

Company Valuation: an overview of valuation, valuation principles and practices more, the impact of ñwhat ifò scenarios, the key financial and commercial factors affecting the business. Value enhancement tools & techniques, the link between valuation and corporate finance.

Other strategic issues: managing credit ratings, and setting dividend and share repurchase policy, problem of too much cash. The issues of stock liquidity and illiquidity, Strategic risk management, the substitutability of capital structure and risk management choices, such as process control efforts, financial, physical, and operational hedging, value-based management.

References:

Aswath Damodaran: Corporate finance theory and practice, second edition (Chapter 24 and 25)

Justin Pettit: Strategic Corporate Finance Applications in Valuation and Capital Structure (Chapter 10)

Text Books:

1. Justin Pettit: Strategic Corporate Finance Applications in Valuation and Capital Structure; John willey & sons, Inc
2. Aswath Damodaran: Corporate finance theory and practice; John willey & sons, Inc

Additional Readings:

1. Jakhotia: Strategic Financial Management, Vikas Publication.
2. Aswath Damodaran: Applied Corporate Finance, John willey & sons, Inc

Teaching Learning Process:

Class room lecture, Case study discussion, Numerical Problem solving, Class presentation on the assigned topic by students individually or in group, Workshop, Tutorials, Role play

Assessment Method

1. Internal evaluation of 25% marks
   a. Attendance 5% marks
   b. Two internal evaluations by the teacher with 10% marks each out of which one must be a class test and other may be another test or home assignment or presentation. Faculty may take more than two assignments and (or) tests but total will be only 20% marks.
2. End term University Exam of 75% marks

Key words:

Financial strategy, Shareholders Wealth Maximization, Bankruptcy, Due Diligence, Value-based management