**2.3: Financial Management**

**Unit – I: The Finance function:**

Nature and Scope; Evolution of finance function – Its new role in the contemporary scenario – Goals of finance function – maximizing vs. satisfying; Profit vs. Wealth vs. Welfare; the Agency relationship and costs; Risk-Return trade off; Concept of Time Value of Money – Future Value andPresent value.

**Unit – II: The Investment Decision:**

Investment decision process- Project generation, project evaluation, project selection and projectimplementation. Developing Cash Flow; Data for New Projects; Using Evaluation Techniques –Traditional and DCF methods. The NPV vs. IRR Debate; Approaches for reconciliation. Capital budgeting decision under conditions of risk and uncertainty; Measurement of Risk – Risk adjustedDiscount Rate, Certainty Equivalents and Beta Coefficient, Probability tree approach, Sensitivity

analysis.

**Unit – III: The Financing Decision**:

Sources of finance – a brief survey of financial instruments; Capital Structure Theories, Conceptand financial effects of leverage; The capital structure decision in practice: EBIT – EPS analysis.

Cost of Capital: The concept – Average vs. Marginal Cost of Capital; Measurement of Cost ofCapital – Component Costs and Weighted Average Cost of Capital.

**Unit – IV: Current Assets Management and Dividend Decision:**

Concept of current assets, characteristics of working capital. Factors determining working capital.

Estimating working capital requirements. Working capital policy. Management of current assets:

Cash Management, Receivables Management and Inventory Management. Bank norms for workingcapital financing.

The Dividend Decision: Major forms of dividends – Cash and Bonus shares. The theoretical backdrop – Dividends and valuation; Major theories centered on the works of Gordon,Walter, and Lintner. A brief discussion on dividend policies of Indian companies.

**Unit – V: Corporate Restructuring and Corporate Governance:**

Corporate Mergers, acquisitions and takeovers: Types of mergers, Economic rationale of Mergers, motives for mergers; Financial evaluation of mergers; Approaches for valuation: DCF approach and Comparable Company approach (No practical exercises). Corporate Value based management systems. Approaches: Marakon approach and McKinsey approach; Principles of good corporate Governance.

**Suggested Books:**

1. Jonathan Berk, Peter DeMarzo, Ashok Thampy, “Financial Management”, 2010, Pearson.
2. Brigham, E. F. and Ehrhardt. M. C., “Financial Management Theory and Practice”, 2006, 10thEd. Thomson South-Western.
3. Ross Westerfield Jaffe, “Corporate Finance”, 7th Ed, TMH Publishers.
4. Vishwanath S. R., “Corporate Finance: Theory and Practice”, 2007, 2nd Ed. Response books,Sage Publications.
5. Prasanna Chandra, “Financial Management Theory and Practice”, 7th Ed. Tata McGraw Hill.
6. I. M. Pandey, “Financial Management”, 2010, 10th Ed. Vikas Publishing House.
7. Sudershana Reddy, “Financial Management”, 2010, HPH.
8. Rajiv Srivastava and Anil Misra, “Financial Management”, 2009, 4th Ed. Oxford Higher Education