

COURSE NAME: FINANCIAL MANAGEMENT

Credits	3.0
Faculty Name	SGD
Program	MBA
Academic Year and Term	2016-18 batch Term -3

COURSE DESCRIPTION:

This course lays the foundation for study of advanced finance courses for the student. The course introduces and revolves around the fundamental theme of finance: *valuation*. The course begins with the basic building blocks in that context like time value of money, concept of cash flows, discounting, compounding, present value and future value. The students then learn to apply these tools to value some of the basic financial securities like stocks and bonds. The course then introduces the concepts pertaining to risk and return in capital markets and some of the fundamental models relating them. It then addresses one of the key issues in corporate finance i.e *capital budgeting* and how it is used for creating value for the firm. In the process the students are exposed to the intricacies of determination of '*relevant*' cash flows for a project, issues in capital structure, determination of appropriate cost of capital and selection of a suitable project for value creation for a firm, using different competing approaches.

Welcome to the course!

2. STUDENT LEARNING OUTCOMES:

At the end of the course the students should

- **Be able to:** apply time value of money concepts to complex cash flow scenarios
- **Be able to:** Apply time value of money concepts to value basic securities like bonds and stocks.
- **Be able to** understand risk return trade off and use the Capital Asset Pricing Model to quantify the risk-return tradeoff

- **Be able to** evaluate alternative techniques for analyzing project opportunities and budgeting capital
- **Be able to** determine a firm's weighted average cost of capital
- **Be able to** apply the net present value criterion to complex capital budgeting problems using different approaches.

3. REQUIRED MATERIALS:

a) Text:

Fundamentals of Corporate Finance by Stephen A Ross, R W Westerfield and B. D Jordan –Latest Edition, (Subcontinent edition) published by Tata Mcgraw Hill

b) Reference Book:

- Financial Management: Theory and Practice –Latest Edition by Brigham and Ehrhardt, Thomson India edition
- Principles of Corporate Finance - Latest Edition, by Brealey, Myers, Allen and Mohanty, Special Indian Edition, Tata Mcgraw Hill

c) Reading Materials as and when made available in the class.

d) Calculator: You will typically need a calculator that can handle exponents (i.e., that has a “y^x”-type key).

4.) TENTATIVE SESSION PLAN:

<u>Session</u>	<u>Topics Covered</u>
1,2,3	Building blocks: <ul style="list-style-type: none"> • Introduction, • Time Value of money
4,5,6	Application of time value of money concepts to value securities like bonds and stocks <ul style="list-style-type: none"> • Bond Pricing • Bond Features • Valuation of Stocks
7-9	Risk, Return and Capital Markets <ul style="list-style-type: none"> • Concepts of risk and return in isolation • Concept of risk and return in a portfolio context • CAPM • Market Efficiency
10	Tutorial 1: Pre mid term <ul style="list-style-type: none"> • Revisiting numerical problems, minicases and concepts covered during sessions 1-9
11 - 14	Building Blocks of capital budgeting: <ul style="list-style-type: none"> • Introduction, • Competing Criteria for making a capital budgeting decision
15-16	Cost of Capital <ul style="list-style-type: none"> • Determination of Component Costs • Determination of WACC • Issues in using WACC.
16-17	Cash Flow determination in Capital Budgeting

	<ul style="list-style-type: none"> Deriving the Cash Flows from accounting numbers
17-18	<p>Various Approaches typically used for making a capital budgeting decision</p> <ul style="list-style-type: none"> FCF approach CCF approach APV approach and CFTE approach.
19	<p>Other issues in capital Budgeting</p> <ul style="list-style-type: none"> Capital budgeting under uncertainty and risk analysis, (Sensitivity analysis, scenario analysis, breakeven analysis, Certainty equivalent approach etc. Taking a capital budgeting decision for projects with unequal lives
20	<p>Tutorial 2: Post mid term</p> <p>Revisiting numerical problems, minicases and concepts covered during sessions 11-19</p>

5. EVALUATION COMPONENTS: The evaluation process is divided into three components.

- i) **Quiz and /or project assignment: 15-30%:** You will be typically told in advance when a regular quiz will be given. The faculty also reserves the right to give any number of unannounced “pop” quizzes during the semester. The number of pop quizzes will be negatively related to the class’s level of preparation and participation.
- ii) **Midterm: 20-30%**
- iii) **Class participation: 10-15%** This could be comprised of attendance, response and overall positive demeanor in class. Your active participation in class is necessary, both for you and for your classmates. Your participation score will reflect the

faculty's assessment of your attendance, your contributions to class discussions, and your overall positive demeanor during class.

- iv) **End term: 30-40%:** This will be typically on the entire course (pre and post midterm coverage)

6. GRADING:

An important note about grading:

You will be generally graded relative to your peers and the grade distribution is expected to be approximating a normal distribution. This is designed to help you. However, the faculty has the right to pre specify a certain cut off score in the course failing which may invite an F grade in the course.

6. ACADEMIC INTEGRITY AND ADDITIONAL ISSUES:

- i) Students involved in academic dishonesty will receive a **ZERO** grade on the particular component in which the violation occurred. Academic dishonesty consists of misrepresentation by deception or by other fraudulent means such as copying or use of unauthorized aids in tests, talking during in-class examinations; aiding another student's dishonesty; and giving false information for the purpose of gaining credits.
- ii) **LAPTOPs and MOBILES IN THE CLASSROOM:** ...are **NOT allowed** inside class unless specifically asked by the faculty to do so. No electronic devices that allow your access to the internet are allowed in the classroom.
