

Financial ManagementFull Marks : 100

Objective: To acquaint students with the techniques of financial management and their applications for business decision making.

Course Contents:**Unit I****[10L]**

Nature of Financial Management: Finance and related disciplines; Scope of Financial Management; Profit Maximization, Wealth Maximization - Traditional and Modern Approach; Functions of finance – Finance Decision, Investment Decision, Dividend Decision; Objectives of Financial Management; Organisation of finance function.

Time Value of Money: present value, future value, and annuity;

Risk & Return: Historical return, expected return, absolute return, holding period return, annualized return, arithmetic & geometric return; Risk - Systematic & unsystematic risk – their sources and measures.

Unit II**[20L]**

Long -term investment decisions: Capital Budgeting - Principles and Techniques; Nature and meaning of capital budgeting; Estimation of relevant cash flows and terminal value; Evaluation techniques - Accounting Rate of Return, Net Present Value, Internal Rate of Return & MIRR, Net Terminal Value, Profitability Index Method. Capital Rationing (Theory & problems). Capital budgeting under risk & Uncertainty – Types & sources of risk, conventional techniques (payback period, risk adjusted discount rate, sensitivity analysis, certainty equivalent). Statistical techniques – Concept of probability, abandonment value, decision trees.

Unit III**[25L]**

Concept and Measurement of Cost of Capital: 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.

Leverage Analysis: Operating and Financial Leverage; EBIT -EPS analysis; Combined leverage.

Theories of Capital Structures: Approaches to Capital Structure Theories - Net Income approach, Net Operating Income approach, Modigliani-Miller (MM) approach, Traditional approach, Capital Structure and Financial Distress, Trade-Off Theory.

Dividend Policy Decision - Dividend and Capital; The irrelevance of dividends: General, MM hypothesis; Relevance of dividends: Walter's model, Gordon's model.

Unit IV**[15L]**

Working Capital Management: Management of Cash - Preparation of Cash Budgets (Receipts and Payment Method only); Cash management technique, Receivables Management – 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, Determination of Working Capital.

Suggested Readings :-

- M.Y. Khan & P.K. Jain: Financial Management Text Problem and Cases, Tata McGraw Hill Publishing Co. Ltd.
- R. P. Rustogi: Financial Management: Theory Concepts and Practices, Taxmann Publication.
- I.M. Pandey: Financial Management: Theory and Practices, Vikas Publishing House
- R.A. Brealey, S.C. Myers, F. Allen & P. Mohanty: Principles of Corporate Finance, McGraw Hill Higher Education
- J.V. Horne & J.M. Wachowicz: Fundamentals of Financial Management Prentice Hall