

DISCIPLINE SPECIFIC ELECTIVE COURSE – 4 CORPORATE FINANCE

CREDIT DISTRIBUTION, ELIGIBILITY AND PRE-REQUISITES OF THE COURSE

Course title & Code	Credits	Credit distribution of the course			Eligibility criteria	Pre-requisite of the course(if any)
		Lecture	Tutorial	Practical/ Practice		
Corporate Finance	4	3	1	0	NIL	NIL

Learning Objectives:

To provide an understanding of the essential elements of the financial environment where the businesses operate. To acquaint students with the techniques of financial management and its applications for business decision making. It aims to provide and develop an understanding among students about various perspectives that the CFO (Chief Executive Officer) of a firm may hold. Additionally, it will help to develop relevant skills required for diverse strategic finance roles in modern business entities. A CFO's job is to maximize firm value through majorly four types of decisions: which projects to invest in, how to finance the selected projects by using a mix of various financing sources, how to use the surplus generated and how to manage the cash flows of the firm.

Learning Outcomes:

1. Equipped with the basic concepts of financial management.
2. Understand how to coordinate various decisions to maximize the wealth of an organization in today's financial environment.
3. Arrive at strategic corporate finance decisions with the required accuracy aided by various excel functions.

Unit 1

(9 Hours)

Introduction: Nature of Financial Management: Finance and related disciplines; Scope of Financial Management; Profit Maximization, Wealth Maximization. Functions of Finance –

Finance Decision, Investment Decision, Dividend Decision; Risk-Return Trade-off in Finance Functions, Organization of Finance Function.

Time value of money: Concept of Time Value of Money – present value, future value, annuity, growing annuity, perpetuity, growing perpetuity, excel functions of time value of money.

Unit 2: Strategic Investment Decisions: (12 Hours)

Capital Budgeting: Nature and Meaning of Capital Budgeting; Principles and Process; Estimation of relevant Cash Flows and Terminal Value; Evaluation techniques– Payback Period, Accounting Rate of Return, Net Present Value, Internal Rate of Return & MIRR, NPV vs. IRR, Net Terminal Value, Profitability Index Method, Risk analysis in Capital Budgeting - Sensitivity and Scenario analysis, Certainty Equivalent Approach, RADR, Real Options, Excel functions of Capital Budgeting techniques.

Cost of Capital: Meaning and Concept, Measurement of Cost of Capital-Cost of 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.

Unit 3: (12 Hours)

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, Signaling Theory, Forms of Dividend – Cash Dividend, Bonus Shares, Stock Split, Dividend Policies in Practice, Patterns Observed in Payout Policies worldwide.

Unit 4: Working Capital Management (12 Hours)

Working Capital Management: Determination of Working Capital, Determining Financing mix of Working Capital, Receivables Management – Objectives; Credit Policy, Cash Discount, Debtors Outstanding and Ageing Analysis; Costs – Collection Cost, Capital Cost, Default Cost, Delinquency Cost, Management of Cash (Theory only) – Need for Cash, Cash Management

Techniques (Lock box, Concentration Banking), Inventory Management (Theory only) – ABC Analysis; Minimum Level; Maximum Level; Reorder Level; Safety Stock; EOQ (Basic Model).

Essential Readings:

1. Berk, J. B., & DeMarzo, P. M. (2007). *Corporate finance*. Pearson Education.
2. Van Horne, J. C., & Wachowicz, J. M. (2005). *Fundamentals of financial management*. Pearson Education.
3. Pandey, I. M. (2021). *Financial Management*. Pearson.

Additional Readings:

1. Gupta, K. (2011). Khan, MY and Jain, PK, Financial Management: Text, Problems and Case. *Journal of Services Research*, 11(2).
2. Brealey, R., Myers, S., Allen, F., & Mohanty, P. (2017). *Principles of Corporate Finance* (11ed.). McGraw Hill Education.

Note: Latest edition of the readings may be used.