

FN 501: Financial Management -I
(Sep-Dec 2013)
PGDM-I

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Objectives

The course aims at covering in details two specific areas of financial management – Capital Budgeting (or Investment Decisions) and Capital Structure (of Financing Decision). The course will cover the following aspects:

- Understanding the scope of financial management and role of Finance Manager and inter-relationship with other functions
- Financial evaluation of capital expenditure projects
- Sources of long term finance
- Capital Structure Theories
- Determinants of Capital Structure

At the end of the course the students should be able:

- Have an overview of finance function
- To conduct financial evaluation of a capital expenditure project
- To incorporate risk in the investment decisions
- To appreciate the features of various sources of long term finance
- To understand the benefits and risks associated with financial leverage
- To appreciate factors involved in financing decisions

Pedagogy

Basic concepts and theoretical framework would be developed through lectures and class exercises. Besides lectures and numerical illustrations, case methodology would be used to apprise the students with real life business situations. It is expected that the students would come prepared with the readings and cases given. The students are also expected to make use of 'excel' for building financial models for problem solving.

Evaluation Criteria(%)

Group Work	10
Mid Term	30
Quizzes	20
Class Participation	10
End Term Exam	30
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	100

Reading Material

Text Book:

1. Financial Management and Policy: James C Van Horne/ Sanjay Dhamija, 12th Edition

Other Reference Books

- 1) Financial Management, Brigham & Ehrardt
- 2) Financial Management – I M Pandey
- 3) Financial Management – M Y Khan & P K Jain
- 4) Principles of Corporate Finance – Brealey/ Myers /Allen / Mohanty
- 5) Financial Management – Prasanna Chandra

Session-Plan

Session No.	Topic	Readings
1	Overview of Financial Management Function <ul style="list-style-type: none">• Nature of Finance and its interaction with other management functions• Shareholders' wealth maximization as the Objective of a Business Organization• Agency Conflict	Chapter 1
2-3	Time Value of Money <ul style="list-style-type: none">• Understanding the concept of time value of money• Methods of calculating present and future values• Sinking Fund• Capital Recovery• Loan Amortization	Chapter 3 Spread Sheet based Exercises

Session No.	Topic	Readings
4-9	Capital Budgeting <ul style="list-style-type: none"> • Understanding the nature and importance of capital budgeting • Estimation of Cash Flow • Inflation • Method of calculating NPV and IRR • MIRR • Profitability Index – Capital Rationing • Other methods – Payback period 	Chapter 8 Spread Sheet based Exercises Case : The Super Project Case: Fazio Pump Corporation (Text Book, pp 159-161)
10-12	Capital Budgeting – Risk Analysis <ul style="list-style-type: none"> • Understanding the concept of risk in investment decisions • Techniques for adjusting risk • RADR/ Certainty Equivalent Coefficient • Sensitivity/ Scenario Analysis • Simulation / Decision Tree 	Chapter 9 Spread Sheet based Exercises
13-14	Estimation of Cost of Capital <ul style="list-style-type: none"> • Concept • Measurement of Specific Cost of debt & Equity • Weighted Average Cost of Capital 	Chapter 10 Spread Sheet based Exercises Case: Pioneer Petroleum
15-16	Long Term Sources of Finance <ul style="list-style-type: none"> • Equity vs, Preference Shares • Debt • Loans • Overseas financing • Lease 	Chapter 20
17	Capital Structure Theories <ul style="list-style-type: none"> • Traditional Theory • Modigillani & Miller • Arbitrage Argument • Signaling • Pecking Order 	Chapter 11
18-20	Capital Structure Planning <ul style="list-style-type: none"> • Financial & Operating Leverage • Arrive at suitable capital structure • EBIT-EPS Analysis • Agency Theory 	Chapter 12 Spread Sheet based Exercises Case: Continental Careers Inc.

Please Note

- Phones and Laptops are not allowed in the classroom and during exams.
- Carry a calculator and course manual with you during the class.
- Quizzes/ Class Tests may be pre announced or surprise and would be close book.
- Additional readings / cases will be given from time to time. It is expected that you would come prepared with the readings and cases.

- **Outside the class meeting hours:**

Prof Sanjay Dhamija : Monday 12:30 PM to 2:00 PM (Otherwise by prior appointment on any other day)

Prof Aman Srivastava : Thursday 2:00 PM to 4:00 PM (Otherwise by prior appointment on any other day)