

INTERNATIONAL MANAGEMENT INSTITUTE, BHUBANESWAR
Post Graduate Diploma in Management (PGDM)
Financial Management-II (FN502)
CREDIT: Full (three credits)
SESSION DURATION: 90 Minutes

TERM: III
YEAR: 2016-2018
BATCH: I

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Learning Outcome

In continuation of Financial Management-I, this course is designed to enable the students to understand, appreciate, and learn the following topics:

- I. Estimation of cost capital and capital structure planning
- II. Raising funds in the domestic and international markets
- III. Dividend decision
- IV. Working capital management and financing
- V. Leasing and hire purchase
- VI. Mergers and acquisitions, including valuation techniques
- VII. Introduction to option

Pedagogy

The course will be delivered through lectures, exercises, and case studies. Emphasis will be given on learning practical application of the concepts and analytical tools. The students are required to read the relevant chapters of the textbook prior to attending each class.

Book

1. Prasanna Chandra, Financial Management – Theory and Practice (ninth edition), Tata McGraw Hill
2. I M Pandey
3. Richard Brealey, et al, Principles of Corporate Finance, Tata McGraw Hill
4. James C Van Horne, Financial Management and Policy, Prentice Hall

Evaluation

| Evaluation components | Weight |
|-----------------------|--------|
| Class participation | 10% |
| Quizzes | 20% |
| Mid-term Examination | 30% |
| End Term Examination | 40% |

Session Details

| Session | Topic | Readings/Handouts/Case Studies/(Learning Outcomes) |
|---------|--|---|
| 1 | Review of key finance decisions | (LO1) |
| 2 - 5 | <ul style="list-style-type: none"> - Concept and estimation of cost of capital: - Cost of debt, cost of equity (based on CAPM), weighted average cost of capital - Empirical estimation of beta <ul style="list-style-type: none"> ▫ Capital structure planning - ROA-ROE analysis - EBIT-EPS analysis - Operating and financial leverage - DSCR | <ul style="list-style-type: none"> ▫ Basic textbook, Chaps. 20 & 22 (LO 1) ▫ Handouts - Exercises on capital structure planning - Estimation of cost of equity of Hero Motocorp (excel sheet) |
| 6 - 9 | <ul style="list-style-type: none"> ▫ Raising funds in the domestic market - Money and capital markets - IPO; right issue; bonus shares; etc. - Debt instruments: floating rate bond; zero coupon/discount bond; structured obligation; subordinated debt; indexed bond; bond with call/put options; and tax-free bond ▫ Raising funds in the international market (GDR/ADR; syndicated loans; export credit agencies; euro-bonds and foreign bonds) | <ul style="list-style-type: none"> ▫ Basic textbook, Chaps. 18, 29 & 37 (LO 2) ▫ Handouts - GDR issue by VSNL Group - IPCL bond pierced sovereign rating - RIL issues of 100 Year Yankee Bond |
| 10 | <ul style="list-style-type: none"> ▫ Dividend decision – theory and practice ▫ Dividend discount model for stock valuation | <ul style="list-style-type: none"> ▫ Basic textbook, Chap. 22 (LO 3) ▫ Handouts - Excise on stock valuation |
| 11 - 13 | <ul style="list-style-type: none"> - Working capital management – cash operating cycle ▫ Bank financing of working capital ▫ Credit risk assessment by banks | <ul style="list-style-type: none"> ▫ Basic textbook, Chaps. 23 & 27 (LO 4) ▫ Handouts - Cash operating cycle - Assessment of working capital (second method of lending) - Jupiter export house - Credit risk assessment by ABC bank |
| 14 & 15 | <ul style="list-style-type: none"> - Lease financing - Operating and financial lease - Lease vs. buy decision ▫ Hire purchase - Difference between lease financing and higher purchase - Effective cost of higher purchase | <ul style="list-style-type: none"> ▫ Basic textbook, Chap. 30 (LO 5) ▫ Handouts - Exercises on leasing and higher purchase |
| 16 – 19 | <ul style="list-style-type: none"> - Mergers & acquisition - Rationale; LBO/MBO; divestures and de-mergers; etc. ▫ Valuation - Accounting methods - Free cash-flow based valuation - Application of simulation model | <ul style="list-style-type: none"> ▫ Basic textbook, Chap. 34 (LO 6) ▫ Handouts - Exercise on merger and acquisition through exchange of shares - Three Unilever tea companies to merge - Free cash flow model for valuation of CMC shares - Offer price for takeover (mini case) |
| 20 | <ul style="list-style-type: none"> - Introduction to option and application of real option in capital budgeting | <ul style="list-style-type: none"> ▫ Basic textbook, Chap. 10 (LO 7) |