



SECOND SEMESTER 2023-24
COURSE HANDOUT

Date: 10th Jan 2024

In addition to part I (General Handout for all courses appended to the Time table) this portion gives further specific details regarding the course.

Course No : **ECON F 315 / FIN F 315**
Course Title : **Financial Management**
Instructor-in-Charge : **Rajan Pandey**

1. Course Description: Financial Management is a foundation course on Corporate Finance and compulsory for Finance minor students. In addition, this course is also offered as a disciplinary elective for MSc Economics students and is also offered as an open elective. Financial Management is very practical in nature, having a varying degree of complexity, and is usually taught at the graduate level MS/MBA or in the PhD programs around the world. This course ECON/FIN F 315 is designed to suit the level of academic experience and exposure in finance of undergraduate students having just taken a first course on Fundamentals of Finance and Accounting. The course's learning objectives focus on the primary financial decisions undertaken by the financial manager of an organisation to achieve the objectives of the *shareholder's wealth maximisation principle*.

In an increasingly competitive and globally integrated world, the roles and responsibilities of financial managers are widening manifold as more and more new firms across various industries occupy competitive space. If, on one side, there are corporations hungry for fulfilling their financing needs, so are there investors looking for tapping best return on the buck they invest. The wide range of investment avenues available to investors explains the extent of innovations happening in financial markets worldwide. This explosive growth is much attributable to the integration of world markets, the computational sophistication and the role played by communications and information technology. However, with uncontrolled growth comes the risk of an uncontrolled collapse and the financial crisis of 2008 is a classic case of fault lines in the financial markets. To retain the confidence and faith of investors and forge robust and sustainable growth, the firms must impress suppliers of capital (investors) with adequate rewards to compensate them for the risks they undertake. The firm must also protect the rights of the stakeholders, such as employees, suppliers, customers and the environment. In this pursuit of shareholder wealth maximisation, decisions taken by firms related to investment in projects, raising money from the public (financing), and shareholder rewarding policy (dividend policy) must demonstrate management's competence and goodwill while ensuring stakeholder welfare.

The role of the financial manager - which is central to the decision-making concerning finances (money, capital, investment etc.) – plays a critical role in ensuring seamless day-to-day operations, maintaining profitability and sustaining reliable long-term performance along with adherence to the company's ESG (sustainability) policy.



BIRLA INSTITUTE OF TECHNOLOGY AND SCIENCE, Pilani
Pilani Campus
AUGS/ AGSR Division

2. Scope and Objective of the Course: This course introduces students to the fundamental Corporate Finance concepts, theories, and the financial decision-making process. The structure of the course enables students to:

- a. Appreciate the existence of a variety of financial instruments and their valuations,
- b. Learn globally adopted corporate investment and risk management practices, and
- c. Obtain knowledge of the strategic financial management approaches followed globally to gain deeper insights into modern corporate finance principles and practices.

Primarily, the course objectives hover around key decisions made by financial managers, including financing, investing, capital structure, and shareholder rewarding policies. The contents of this course enable the participants to appreciate the interdependencies between these decisions and their impact on the firm's survivability.

Important: The course assumes that students have done a basic course on accounting (prerequisite), have strong foundation on financial statements, and have elementary familiarity with financial markets, financial securities, statistics, and MS-Excel.

3. Text Book: Any single textbook is not sufficient for the course. Book suggestions in decreasing order of priority are given below:

4. Reference Books (R#): In decreasing order of priority:

1. Eugene F. Brigham and Michael C. Ehrhardt, Financial Management: Theory and Practice, 14/e, 2014, (South-Western) Cengage Learning.
2. Richard A. Brealey, Stewart C. Myers, Franklin Allen, and Pitabas Mohanty, Principles of Corporate Finance, 8/e, 2010, Tata McGraw-Hill Publishing Company Ltd.
3. Stephen A. Ross, Randolph W. Westerfield, Jeffrey Jaffe, Bradford D. Jordan, and Ram Kumar Kakani, Corporate Finance, 11/e, 2016, McGraw Hill Education.
4. Lawrence J. Gitman, Principles of Managerial Finance, 11/e edition, 2008, Pearson Education Publication (*erstwhile textbook*).
5. Aswath Damodaran, Corporate Finance: Theory and Practice, 2/e, 2001, John Wiley & Sons, Inc.
6. Thomas E. Copeland, J. Fred Weston, Kuldeep Shastri, and Joseph M. Katz, Financial Theory and Corporate Policy, 4/e, 2011, Pearson Education, Inc.
7. Robert A Haugen, Modern Investment Theory, 5/e, 2018, Pearson India Education Services Pvt. Ltd.

5. Course Plan:

Contents: Imp Note – Refer to the relevant sections of the first reference book as mentioned below (class notes to be clubbed with book chapters). Supplementing the first reference book (Brigham &



Ehrhardt) with lecture notes should suffice. Refer to the next section for information on the relevant topics from the first reference book.

Detailed syllabus and lecture plan follows.

The course syllabus is divided into 5 Modules:

1. Introduction to corporate finance and corporate governance
2. Risk, return, security valuation, and cost of capital
3. Capital budgeting
4. Financing, capital structure, and dividend policy
5. Special topics in corporate finance

Module No.	Lecture Session	Reference	Learning outcomes
1. Introduction to Corporate Finance, Corporate Governance, and Financial Environment	L1 Introduction to Corporate Finance L2 Modern corporate structure L2 Roles of a financial manager L3 Goals of a corporation L3 First principles of corporate finance L4 Information asymmetry L4 Principle agent conflict L4 Agency costs L5 Financial markets and Financial instruments	R1: Ch 1, Ch 13 + Class notes	Understanding of: A. Key decisions taken by the financial manager. B. Do's and Don'ts of managerial finance practices. C. Relevance of shareholder's wealth maximization principle. D. Important types of financial markets and popular financial securities.
2. Modern Portfolio Theory and Cost of Capital	L6 Types of financial securities L7 How are securities issued L8 Security valuation principle	R1: Ch 18, Ch 5 & 7 + Class notes	Understanding of: A. Different types of financial instruments and how they are issued by the companies. B. Dividend discount models and free cash flow models for stock valuation. C. Quantification of investment return and risk.
	L9 Measuring risk and return L10-11 Capital Asset Pricing Model	R1: Ch 6, Ch 25 + Class notes	
	L12 Weighted-average Cost of Capital	R1: Ch 9 + Class notes	



BIRLA INSTITUTE OF TECHNOLOGY AND SCIENCE, Pilani
Pilani Campus
AUGS/ AGSR Division

			D. Markowitz's efficient frontier and capital market theory. E. Elements of capital structure and estimation of financing cost.
3. Capital Budgeting	L13 Cash flow evaluation tools and techniques such as NPV, IRR, Profitability Index etc. L14 Issues with NPV-IRR approach	R1: Ch 10 + Class notes	Understanding of: A. Practical approaches followed by the firms for analyzing and ranking long-term investments. B. Strengths and weakness of the tools and techniques of cash flow evaluation. C. Common risk analysis approaches followed by practitioners for forecasting cash flows.
	L15 Identifying relevant cash flows L16 Case study on cash flow estimation	R1: Ch 11 + Class notes	
	L17 Sensitivity and scenario analysis L18 Monte-Carlo simulation L19-20 Real Options	R1: Ch 11, Ch 26 + Class notes	
4. Financing, Capital Structure and Dividend Policy	L21-22 Financing and overview of capital structure L23-24 Capital structure theories L25-26 Dynamic capital structure	R1: Ch 18 & 20, Ch 15, Ch 21 + Class notes	Understanding of: A. The relevance and irrelevance of capital structure. B. The process of dividend payment. C. Different corporate actions that may potentially impact the capital structure of a firm. D. Advantages and disadvantages of project financing through use of debt.
	L27-28 Dividend payment to shareholders: Theories and implications	R1: Ch 14 + Class notes	
5. Special topics in corporate finance	L29-30 Lease financing L31-32 Mergers and Acquisitions L33-34 International financial management L35-36 Working capital management L37-38 Behavioral finance and its implications for the corporate manager	R1: Ch 19 Ch 22 Ch 17 Ch 16 R3: Ch 14 R2: Ch 13 + Class notes	Understanding and appreciation of special and emerging themes in corporate finance and their implications in financial decision making process.



BIRLA INSTITUTE OF TECHNOLOGY AND SCIENCE, Pilani
Pilani Campus
AUGS/ AGSR Division

6. Evaluation Scheme: The course is of 300 marks.

Components	Duration	Weightage (%)	Date & Time	Nature of component (Close Book/ Open Book)
Mid-Semester Test	90 Min.	30%	As per time-table	Closed Book
Comprehensive Examination	180 Min.	40%	As per time-table	Partly Open Book
Quizzes (3)	40 Min.	15% (best 2 of 3)	Announced	Closed Book
Group Assignment	Take-home	15%	TBD	-

7. Contact:

Chamber (6165 - G) Economics and Finance Dept., New Academic Block.

Chamber consultation hour: Tuesday – 3:30 PM – 5:00 PM.

e-mail – rajanpandey@pilani.bits-pilani.ac.in

8. Notices: Refer to **Economics & Finance Dept. Notice Board** for notices regarding the display of marks, solutions of tests etc. Students **must check their BITS e-mail accounts regularly** for course-related announcements.

9. Make-up Policy: Make-up exam for Mid-semester Test and the Comprehensive Exam will be granted in only genuine cases with prior written permission from AUGS Dept. Prior written permission is mandatory under all circumstances. **No make-up shall be granted for the quizzes.**

Instructor-in-charge

Course No. ECON F315 / FIN F 315