

**Strategic Financial Management**  
**Professional - IV**

**OBJECTIVES:**

To provide the students with an in-depth knowledge of methods and techniques of Strategic Financial Management for developing their skills and ability to enable them to:

- a) Evaluate the alternative sources and uses of finance for maximising profitability and effectiveness
- b) Select and apply the most suitable financial management techniques for taking appropriate strategic financial management decisions.

**ABILITY REQUIRED:**

Professional knowledge and skills.

**WEIGHTAGE**

**CONTENTS**

5	1.	<b>INTRODUCTION:</b> Nature of financial management, scope of finance, finance functions, job of the financial manager, financial goal: profit versus wealth, conflict of goals: management versus owners, organisation of the finance functions.
10	2.	<b>FINANCIAL ANALYSIS AND PROFIT PLANNING:</b> Accounting system: source of financial information, financial statements, definition of profit: economics versus accounting, uses of the statement of changes in financial position, financial analysis, users of financial analysis, ratio analysis, liquidity ratios, leverage ratios, activity ratios, profitability ratios, evaluation of a firm's earning power, comparative statements analysis, trend analysis, inter-firm analysis, cost-volume-profit analysis and operating leverage, break even analysis, operating leverage and risk, profit analysis: impact of changing factors, cost- volume- profit analysis for a multi product firm, utility of CVP analysis, limitations of CVP analysis. Financial and profit planning: Financial planning and budgeting.
10	3.	<b>WORKING CAPITAL MANAGEMENT:</b> Principles, concepts, needs, determinants, dimensions, estimating needs, financing current assets; management of cash, facets of cash management, motives for holding cash, cash planning, managing the cash flows, determining the optimum cash balance, investment in marketable securities; management of accounts receivables and factoring, optimum credit policy, a cost-benefit analysis, credit policy variables, credit procedures, monitoring book debts, factoring receivables; management of inventory, analysis of investment in inventory, selective inventory control, ABC plan and the inventory management process; working capital finance: trade credit, bank finance and commercial paper, trade credit.

- 10      4.      **VALUATION CONCEPTS AND INVESTMENT DECISIONS:**  
Concepts of value and return, compound value, present value, value of annuity, earnings capitalisation, rates of return on equity shares, linkages between share price, earnings and dividends. Portfolio: theory and capital asset pricing model; risk-return relationship, systematic and unsystematic risk, security market line. Analysis of capital budgeting decisions: nature of investment decisions, investment evaluations, NPV versus IRR, NPV versus PI. Determining cash flows for investment analysis: cash flows versus profit, calculation of depreciation for tax purposes, additional aspects of incremental analysis, investment and financing decisions, cost of capital, opportunity cost, firm's vs project's cost of capital, wacc and investment evaluation, cost of equity and CAPM, complex investment decisions; risk analysis in capital budgeting: nature of risk, sensitivity analysis, decision trees for sequential investment decisions, utility theory and capital budgeting; a qualitative factors and judgement, strategic aspects of investment decision.
- 10      5.      **FINANCING AND DIVIDEND DECISIONS:**  
Financial and operating leverage & capital structure; capital structure theories, and relevance controversy, the net income approach, the Modigliani, Miller hypothesis without taxes, the M-M hypothesis under corporate taxes, Miller's hypothesis with corporate and personal taxes; capital structure planning policy and features, the capital structure approaches, manager's attitude towards debt, analysis of capital structure in practice: case of Larsen and Toubro. Capital structure practices, capital structure and the cost of capital, determinants of capital structure, share valuation, dividend theories, Walter's model, dividend relevance, Gordon's model, dividends and uncertainty. Modigliani and Miller's hypothesis, market imperfections, informational content of dividends; practical considerations and stability of dividends, forms of dividends, share splits, case of Larsen and Toubro.
- 10      6.      **TAX MANAGEMENT:**  
Loss strategy: maximisation of group relief; intra-group transfers of assets, ACT management: capital allowances, company take-overs; changes in ownership; conversion of a business to a limited company, integration of tax planning into the budgeting process, planning, planning succession in smaller companies, taxation implications of alternative financial structures; balance between debt and equity, the use and limitations of computer software in tax planning and assessment.
- 10      7.      **OPTIONS AND CORPORATE FINANCE:**  
Capital markets, money market operation and control, primary and secondary market, long term debt warrant and convertibles, development and operations, new issues market; long-term sources of finance, debentures and term loans; new capital market instruments, risk capital market, convertible debentures, warrants, zero-interest debentures and secured premium notes, deep discount bond, secured premium notes; lease financing, government policy implications; venture capital financing, future prospects of venture financing.

- 10      8.      **FINANCIAL POLICY INTERACTIONS:**  
Mergers and acquisitions, types of combination, motives and benefits of mergers, analysis of mergers, merger negotiations: significance of P/E ratio and EPS analysis, leveraged buy outs, tender offer, regulation of mergers and take-overs; financial policy and corporate strategy, interface of financial policy, balancing financial goals: a sustainable growth approach.
- 10      9.      **STRATEGIC FINANCIAL DECISIONS:**  
Strategic financial management, a control framework, pricing, volume inducing outlays, volume anticipative outlays, volume sustaining outlays, regenerative outlays, managing uncertainty, going forward, foreign exchange control and liberalisation.
- 10      10.     **RISK MANAGEMENT:**  
The concept of risk, the meaning of business risk, integrating insurance into the profit planning function, decision making in the area of risk management, business interruption insurance, business risks associated with death, the risk factor in accounts receivable, the amount of coverage, primary loss, collection and settlement.
- 5        11.     **INTERNATIONAL CORPORATE FINANCE:**  
The international financial environment, the multinational firm, capital budgeting for multinational companies.

**CORE READINGS:**

Financial Management

**AUTHORS:**

Van Horne

**PUBLISHER :**

Prentice Hall of India Pvt. Ltd. New Delhi 110001

Strategic Financial Decision

David Allen

The Chartered Institute of Management Accountants, 63 Portland Place London W1N 4AB, U.K.

**ADDITIONAL READINGS:**

Financial Management

I. M. Pandey

Vikas Publishing House Pvt. Ltd. 576 Masjid Road, Janpura, New Delhi 11014

Financial Management Theory and Practice

Eugene F. Brigham & Louis C. Gapenski

The Dryden Press 6277 Sea Harbor Drive, Orlando, FL 32887, Florida.

Financial Management

M. Y. Khan & P. K. Jain

Tata Mc-Graw-Hill Publishing Co.Ltd., 4/12 Asif Ali Road New Delhi 110002

Management Cases & Regional Management Cases

Prof. Dr. Khawaja Amjad Saeed

Institute of Business Management G.P.O. Box No. 1164, Lahore.