

STAGE-6

S-601 - STRATEGIC FINANCIAL MANAGEMENT

i. **Introduction:**

This course is designed to focus on the theoretical and practical aspects of financial management. The course contains tools and techniques of financial management, which can be applied in the specific area of business, to manage operating, financing and investing activities.

ii. **Objectives:**

To provide the students with an in-depth knowledge of strategic financial management enabling them to:

- understand and apply strategic approach of financial management,
- use financial instruments for strategic financial management,
- examine the financial goals and policy of the business for proper application, and
- develop financial plan to manage various financial activities of business.

iii. **Outcomes:**

On completion of this course, students should be able to:

- identify the objectives of the business in financial terms and evaluate their attainment,

- identify various financial techniques and describe their applications,
- review the financial statements of the business and evaluate the financial position,
- develop financial plan to control short and long-term finances,
- identify and evaluate working capital position, in the light of policy, and recommend to manage it properly,
- calculate and evaluate the cost of capital,
- develop and evaluate capital budgeting and recommend methods of funding investments,
- explain the criteria that management uses to determine whether profit should be reinvested or paid out as dividends,
- outline the factors to be considered in the development of dividend policy,
- identify and evaluate the financial and strategic implications of proposals for mergers and acquisitions,
- describe the procedures for transfer of money from one country to another,
- describe the procedures for foreign exchange control in business,
- explain various steps involved in mergers & acquisitions & corporate restructuring,
- describe how to manage financial risks.

INDICATIVE GRID:

SYLLABUS CONTENT AREA	WEIGHTAGE
SECTION-A FINANCIAL PLANNING AND ANALYSIS 1. An Overview of Financial Management & Managerial Finance 2. Analysis of Financial Statements 3. Financial Planning and Forecasting	15%
SECTION-B SHORT AND MEDIUM-TERM STRATEGY 4. Working Capital Policy 5. Managing Cash and Marketable Securities 6. Credit Management 7. Inventory Management 8. Short-term Financing	20%
SECTION-C LONG-TERM STRATEGY-I 9. The Cost of Capital 10. Capital Budgeting 11. Capital Structure 12. Portfolio Theory and CAPM	40%
SECTION-D LONG-TERM STRATEGY-II 13. Dividend Policy 14. Multi-national Managerial Finance 15. Mergers & Acquisitions 16. Corporate Restructuring 17. Managing Financial Risks	25%
TOTAL	100%

Note: The weightage shown against each section indicates, study time required for the topics in that section. This weightage does not necessarily specify the number of marks to be allocated to that section in the examination.

CONTENTS

SECTION-A

FINANCIAL PLANNING AND ANALYSIS

1. An Overview of Financial Management & Managerial Finance

Importance of managerial finance; the responsibilities of manager finance; role of finance in organisational structure of the firm; the goals of corporation; managerial finance in the current perspective; objectives of financial management; financial strategy and regulatory requirements; domestic and international long-term finance: share capital, long-term debt and finance leases, creditworthiness of a lender, basis of lease or buy-decision; the operation of stock exchanges; role of professional advisors; role and advantages of a treasury department; valuation bases for assets, and pros and cons of these methods, interests of different stakeholders; efficient market hypothesis, managerial actions to maximise shareholders' wealth; agency relationships and the external environment.

2. Analysis of Financial Statements

Financial statements and reports; the accuracy of financial statements; ratio analysis; uses and limitations of ratio analysis.

3. Financial Planning and Forecasting

Sales forecast; projected (pro-forma) financial statements; other considerations in forecasting; financial control – budgeting and leverage; operating break-even analysis; operating leverage, financial break-even analysis; financial leverage.

SECTION-B

SHORT AND MEDIUM-TERM STRATEGY

4. Working Capital Policy

Working capital terminology; the requirements of external working capital financing; the relationship of working capital items; the cash / operating cycle; working capital investment and financing policies; advantages and disadvantages of short – term financing and long term financing.

5. Managing Cash and Marketable Securities

Cash management; the cash budget; cash management techniques; the cost versus benefits of cash management; marketable securities; cash break-even, Baumol Model, Miller-Orr Model.

6. Credit Management

The credit function; credit policy; setting the credit standards; terms of credit; credit collection policy; monitoring accounts

receivables; and other factors influencing credit policy; offering discounts, opportunities for additional sales, using receivable as a source of finance through factoring, lengthening credit period of customers.

7. Inventory Management

Types of inventory; managing inventory; EOQ model extension; inventory control system; monitoring inventory levels including calculation of safety stock using probabilistic Approach.

8. Short-Term Financing

Sources of short-term financing; accruals; accounts payables; short- term bank loans; commercial papers.

SECTION-C

LONG-TERM STRATEGY-I

9. The Cost of Capital

Cost of debt; cost of preferred stock; cost of retained equity; cost of equity; weighted average cost of capital, (WACC); marginal cost of capital; leverage and risk.

10. Capital Budgeting

Importance of capital budgeting; links between investment decisions & customer requirements; generating ideas for capital budgeting; project classification; similarities between capital budgeting and security valuation; capital budgeting evaluation techniques; comparison of the NPV and IRR methods; pay-back period, cash flow estimation; relevant cash flow; capital budgeting; introduction to project risk analysis; beta (or market) risk, and sensitivity analysis, APV (Adjusted present value), lease versus buying decision.

11. Capital Structure

The target capital structure; determining the optimal capital structure; MM hypothesis and traditional theory of capital structure.

12. Portfolio Theory and CAPM

SECTION-D

LONG-TERM STRATEGY-II

13. Dividend Policy

Dividend policy and shares' value; growth of capital invested and retained earnings and dividend policy; factors influencing dividend policy; bonus shares and share splits; effects on market value, and residual dividend policy.

14. Multi-national Managerial Finance

Multi-national corporations; multi-national versus domestic managerial finance; the international monetary system and exchange

rates; trading in foreign exchange; inflation; interest rates; multi-national capital budgeting; international capital structure; multi-national working capital management; intellectual property; merger or acquisition; integration process after acquisition or merger (difference in culture & MIS), and venture capitalists and exit strategy.

15. Mergers and Acquisitions

Definition & meaning; types of amalgamation; take-over, methods of take-over, motives & strategies influencing Mergers and Acquisitions; strategies, operational and financial motives; categories of Mergers and Acquisitions, horizontal, vertical, conglomerate & preference for group structure; methods of payment in Mergers and Acquisitions; steps in merger transactions; tax benefits of Mergers

and Acquisitions; reverse merger: steps in reverse merger; defensive strategies in hostile take-over bids; preventive measures & active measures.

16. Corporate Restructuring

Meaning and areas of restructuring; techniques of restructuring: expansion techniques, divestment techniques & other techniques; strategies for restructuring; hardware restructuring and software restructuring; implications of restructuring; reconstruction, and financial reorganisation.

17. Managing Financial Risk

Derivatives securities, hedging risks, futures markets, forward contracts, option contracts, interest rate swaps; credit derivatives; commodity contracts.

CORE READINGS		
TITLE	AUTHOR	PUBLISHER
Financial Management and Policy	James C. Van Horne	Prentice Hall of India Pvt. Ltd., New Delhi 110001.
Financial Management	I.M. Pandey	Vikas Publishing House, (Pvt) Ltd., 576, Masjid Road, Jangpura, New Delhi.
Management Accounting Financial Strategy	PBP	Professional Business Publications, Lahore.
Financial Management Theory and Practice	Eugene F. Brigham and Michael C. Ehrhardt	South Western, United Kingdom.
ADDITIONAL READING		
Financial Management	M.Y Khan and P.K Jain	Tata Mc-Graw-Hill Publishing Co.Ltd.4/12 Asif Ali Road New Delhi.