

SEMESTER – 5

STRATEGIC FINANCIAL MANAGEMENT [BAF-503]

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.

OBJECTIVE

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

- understand and apply strategic approach of financial management,
- Formulating financial strategy considering economic and financial constraints,
- examine the financial goals and policy of the business for proper application, and
- develop financial plan to manage various financial activities of business.

OUTCOMES

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

- identify the objectives of the business in financial terms and evaluate their attainment ,learn role of financial information in financial control process.
- 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,
- suggest capital structure,
- 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,
- describe how to manage financial risks 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,
- manage short term financing activities.
- identify and evaluate the financial and strategic implications

INDICATIVE GRID

PART	SYLLABUS CONTENT AREA	WEIGHTAGE
A	FORMULATION OF FINANCIAL STRATEGY 1. Objectives of organizations 2. The Financial Function 3. Constraints on Financial Strategy 4. Forecasting and Analysis 5. Financial Strategies	15%
B	FINANCING DECISIONS 6. Equity finance 7. Debt finance 8. Leasing 9. The cost of capital 10. The capital structure 11. Treasury Management 12. Small and Medium Size Enterprise Financing	35%
C	INVESTMENT DECISIONS AND PROJECT CONTROL 13. Investment Appraisal Techniques 14. International investment 15. Specific investment Appraisal Scenarios 16. Control of Investment Projects 17. Business valuations 18. Amalgamations and Restructuring	35%
D	MANAGING SHORT-TERM FINANCE 19. Working Capital Management 20. Cash flow forecasts 21. Cash Management 22. Receivables & Payables Management	15%
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

PART - A

FORMULATION OF FINANCIAL STRATEGY

1. Objectives of Organizations

- Objectives of Financial Management

2. Finance Function

- Role of Stakeholders and financial institutions
- Ethical implications of an entity's financial strategy
- Courses of action to resolve ethical issues
- Role of financial information in financial control processes

- Role of the finance function to support businesses in pursuit of their objectives
- Support of finance function in performance measurement and managing entity's sustainability
- Nature and causes of conflict between finance functions and organizational goals
- Measures Taking to Resolve the conflicts
- role of an accountant in preparing and presenting information for management

3. Constraints on Financial Strategy

- Constraint Factors
- Economic Constraints
- Impact of financial markets and other external factors on financial strategy
- International Constraints
- Regulatory bodies

4. Forecasting and Analysis

- Performance Analysis
- Cash Forecasts
- Financial Statements Forecast
- Sensitivity Analysis and Changes in Variables

5. Financial Strategies

- Sources of short, medium and long term financing available and process of raising finance
- Determination of appropriate financing mix for new project
- Impact of choice of financing on reported corporate performance

PART - B

FINANCING DECISIONS

6. Equity Finance

- Types of equity market
- Rights Issues
- Scrip Dividends, Bonus Issues and Share Splits and their impact on shareholders wealth and company's financial and performance measures
- Development of appropriate dividend policy
- Dividend Policy and its effect on equity value
- Theories of dividend policy
- Dividend in multinational organizations
- Impact of buy back of shares on company's value and shareholders' value
- Share Prices and Investment Returns
- Efficient Market Hypothesis

7. Debt Finance

- Criteria for selecting debt instruments
- Medium Term Finance
- Long Term Debt
- Convertible Securities
- Warrants
- International Debt Finance

8. Leasing

- Leasing as a Source of Finance
- Lease or Buy decision

9. The cost of capital

- Financing and the Cost of Capital
- cost of equity
- Cost of debt
- cost of preference shares
- Weighted average cost of capital
- Marginal cost of capital

10. The capital structure

- Capital Structure Decision
- Impact of changes in Capital Structure on shareholders
- Effect of Capital Structure on ratios
- Theories of Capital Structure
- Capital Structure of Multi-national companies
- Factors affecting the capital structure of MNC
- Project Specific Cost of Capital
- Leverage: Concept and Application

11. Treasury Management

- Treasury Functions
- Risk and Reward
- Characteristics of derivative markets
- Financial institutions operating in derivative markets
- Commodity contract
- Hedging Share Price Risk
- Use of internal hedging techniques for trading abroad
- Use of forward rate contract
- Use of money market hedge
- Use of currency options and Currency Swap
- Use of internal hedging techniques for interest rate
- Use of forward rate agreements
- Use of interest rate swaps, options and futures
- Role & Responsibility of Treasury Management in short-term financing and long-term financing

12. Small and Medium Size Enterprise Financing

- Definition and scope of Small and Medium Size Enterprise
- Financing problems to small and medium size enterprise
- Methods of short and long term financing available to small and medium size enterprise
- Sources of finance available to small and medium size Enterprise
- Impact on financial reporting

PART - C

INVESTMENT DECISIONS AND PROJECT CONTROL

13. Investment Appraisal Techniques

- Selection of investment appraisal technique compatible to organization objectives
- Risk and Uncertainty
- Courses of action based upon the result of investment appraisal
- Impact of non-financial factors
- Limitations of appraisal techniques
- Draft an investment plan for a given business scenario

14. International Investment

- Evaluation techniques for international investment projects
- International Investment: Basis and Risk
- International Investment: Appraisal
- Impact of tax and inflation on financing options and effect on corporate reporting
- Evaluation of qualitative and quantitative aspects of international investment appraisals
- Evaluate different methods of set ups available to a multinational organization
- Affect of investment decision on social responsibility, sustainability and environment
- Impact of exchange control on financing decisions

15. Specific Investment Appraisal Scenarios

- Capital Rationing
- Equivalent Annual Cost
- Real Options
- Adjusted Present Value
- Allowing for inflation
- Sensitivity Analysis of investment decision to changes in input factors
- Risk adjusted WACC
- Risk Adjusted discount Rate by using project gearing

16. Control of Investment Projects

- Investments and Projects
- Feasibility Study
- Project Control
- Investment Performance
- Post-Completion Audits

17. Business Valuations

- Reasons for Valuations
- Advantages, Disadvantages and limitations of each method of valuation
- Asset Valuation bases
- Earning Valuation bases
- Dividend Valuation bases
- Cash Flow Valuation Method
- Valuation issues

18. Amalgamations and Restructuring

- Process of amalgamation and restructuring
- Mergers and Acquisitions, Demerger, Spin off, MBO, Divestment and buy back of own shares
- Conduct of a Takeover
- Nature and consequences of leverage buy out
- Payment Methods
- Valuation of Mergers and Amalgamations
- Regulation of Acquisitions
- Post-Acquisition Integration
- Impact of Mergers and Acquisition, Demergers, Spin off, MBO, Divestment and buy back of own shares on Stakeholders and corporate reporting
- Venture Capital
- Exit Strategies

PART - D

MANAGING SHORT-TERM FINANCE

19. Working Capital Management

- Working capital cycle and ratios
- Role of Working Capital Management in Financial Management
- Evaluation of Working Capital Management Techniques
- Contribution of Working Capital Management in short-term and long-term financing
- Risk arises from Working Capital Management & how to mitigate them

20. Cash flow forecasts

- Cash flows and profit
- Purpose of cash forecasts
- Cash budgets in receipts and payments format
- Cleared funds cash forecasts
- Cash forecasts based on financial statements
- Need for cash management

21. Cash Management

- Budgeting for borrowings
- Overdrafts
- Loans
- Trade payables as a source of finance
- methods of Export financing
- Cash surpluses
- Cash investments: bank and building society Accounts
- Marketable securities: prices and interest rates
- Other types of investment

22. Receivables & Payables Management

- What is credit control?
- Total credit
- The credit cycle
- Payments terms and settlement discounts
- Maintaining information on receivables
- Collecting debts
- Credit insurance, factoring and invoice discounting
- Managing payables

TEACHING METHODOLOGY: The faculty is advised to teach the topics in the mode of case studies based on problem solving and decision-making with practical approach.

RECOMMENDED BOOKS

CORE READINGS		
TITLE	AUTHOR	PUBLISHER
CIMA, UK Study Text	---	BPP
Relevant Study Text	---	Kaplan Publishing.
Financial Management and Policy	James C. Van Horne	Prentice Hall / Pearson / Financial Times
Financial Management	I.M. Pandey	Vikas Publishing House
Financial Management: Theory and Practice	Eugene F. Brigham / Michael C. Ehrhardt	South Western / Thomson
Management Accounting Financial Strategy	PBP	Professional Business Publications, Lahore.
ADDITIONAL READING		
Financial Management	M.Y Khan / P.K Jain	Tata Mc-Graw-Hill