

Proposal for New Course		
Course Number	:	MB527
Course Name	:	Financial Management
Credits	:	2-0-0-2 (L-T-P-C) ¹
Prerequisites	:	None
Intended for	:	MBA
Distribution	:	Compulsory
Semester	:	Even

Preamble

This course introduces concepts and techniques essential to understanding, analyzing, and implementing optimal financial decisions in a business entity. The course focuses on the importance of time and uncertainty in investment analysis and financing decisions. The topics covered in this course include the time value of money and discounting techniques, valuation of equity stock and bonds, capital budgeting, risk-return analysis, portfolio theory, and asset pricing. The course uses focused case studies to explain the context and application of the relevant finance theories and problem-solving.

The course focuses on understanding quantitative analysis in financial management and investment decision-making.

Objective

The students should be able to;

- Understand the concepts and effect of the time value of money in decision making
- Analyze the capital investments under risk and uncertainty
- Demonstrate the estimation of risk and return
- Calculate the cost of capital
- Understand the modern portfolio theory and construct the efficient portfolios
- Illustrate optimal financing decisions
- learn how to use relevant spreadsheet modeling, RiskTools and Montecarlo Simulation, etc.

¹ L= Lectures per week, T=Tutorials per week – P = Practical/Lab session per week – C = Credits for course

Course Modules with Quantitative lecture hours		
Module 0	<p>Introduction to Corporate Finance and Financial Goal of the Firm</p> <p>This module is intended to introduce two important questions; 1. What investments should the company make? 2. How should it pay for those investments?</p> <p>After understanding the goal of a firm, then students would be introduced to the challenges that managers may face and explain the agency problem and need for corporate governance.</p> <p>Readings: Chapter – 1 of the Textbook</p>	(1 hour)
Module 1	<p>Time Value of Money</p> <p>In this module, we take the first steps to understand the relationship between the value of money (dollars/rupees) today and money in the future. The next step is understanding how much would be needed to invest today to produce a specified future sum of money. After the students learn how to value cash flows that occur at different points in time, then connect them to the next topic on how bonds and stocks are valued</p> <p>Readings: Chapter -2 of the Textbook Chapter end exercises</p>	(2 hours)
Module 2	<p>Valuing Bonds and Common Stocks</p> <p>Bonds: First would explain the sources of finances to the firm, then start with an analysis of the bond market by looking at government bonds' valuation and how to analyze the bond. The students should understand the bond prices and yields published in financial newspapers. Also, learn to differentiate between nominal and real (inflation-adjusted) interest rates.</p> <p>Common Stocks: Begin with a look at how stocks are traded. Then explain the basic principles of share valuation and the use of Discounted Cash Flow (DCF) models to estimate the expected rates of return. Later, show how the DCF models can value the entire business rather than individual shares.</p> <p>Chapters: 3 and 4 of the Textbook Chapter end exercises and Case on 'Reeby Sports' from the textbook</p>	(3 hours)
Lab -I	Applications of Time Value of Money	(2 hours)

Module 4	Capital Investment Analysis Begin with introducing the importance of capital investment decisions. Then explain the Net Present Value and other investment criteria. Conclude by showing how to cope with situations when the firm has only limited capital. Explain how to develop a set of cash flows from the business. Then demonstrate a realistic and comprehensive example of a capital investment analysis. Also, explain the role of corporate taxes in investment analysis Chapters – 5 and 6 of the Textbook Chapter end exercises Case: 1. Hola Kola Capital Budgeting Decisions (HBSP# TB0343) Case 2. Sneaker 2013 (HBSP# BAB166) (one of the above)	(3 hours)
Module 5	Risk and Return First, explain how to read the stock prices and compute returns. Then take the first look at investment risks and show how they can be reduced by portfolio diversification. Introduce the risk measures, the standard deviation of returns, and the Beta coefficient for individual securities. Reading: Chapter 7 of the Textbook Case from the textbook, John and Marsha on Portfolio Selection Chapter end exercises	(2 hours)
Module 6	Portfolio Theory and the Capital Asset Pricing Model This module would focus on presenting modern portfolio theories linking risk and return. Then demonstrate how these theories can be used to estimate the returns required by the investments. First, start with the Capital Asset Pricing Model (CAPM) and look at another class of models, arbitrage pricing or factor models. Reading: Chapter 8 of the textbook Case: 'Partners Healthcare' (HBSP#9-206-005)	(3 hours)
Module 7	Risk and Cost of Capital First, understand why investment in a project is risky. Then evaluate the sensitivity of project cash flows to business cycles. Relate the CAPM and explain how to calculate the cost of capital (WACC). Conclude the topic after introducing the certainty-equivalent factors and illustrate how the risk can change over time. Reading: Chapter 9 of the Textbook Chapter end exercises	(3 hours)

	Case: "Nike Inc; Cost of Capital" (HBSP#UV0010)	
Module 8	<p>Project Analysis Focus on how firms develop budgets for capital investments. Illustrate sensitivity, break-even, and Monte Carlo simulation to identify investment proposals' crucial assumptions and explore what can go wrong. In the end, describe important real options, and show how to use decision trees to set out the possible future choices.</p> <p>Readings: Chapter 10 of the Textbook</p> <p>Investment, Strategy, and Economic Rents: First, explain how the firm's competitive advantage links corporate strategy with finance. Then explain the common pitfalls in capital investment analysis and conclude how economic rents underlie all positive NPV investments.</p> <p>Reading: Chapter 11 of the Textbook</p>	(4 hours)
Lab	Simulation Exercise on Investment Analysis	(2 hours)
Module 9	<p>Corporate Financing Illustrate the sources of financing and patterns with the help of financial data from CMIE or Bloomberg. Explain internal financing vs. external financing. Review some of the essential features of equity and debt financing.</p> <p>Dividend Policy Explain how much cash should the firm's payout to its shareholders. Then how should the cash be distributed by paying cash dividends, stock dividends, or stock repurchases</p> <p>Case: 'Blaine Kitchenware Inc' (HBSP#4040)</p>	(3 hours)

Lab Exercises (If applicable):

1. The first lab session focuses on the time value of money to demonstrate the effect on the value of money with changes in assumptions such as time horizon, discounting factor, frequency of compounding, etc.
2. The second lab session explains the sensitivity of project value to different business scenarios, how to forecast operating cash flows, and applications of Monte Carlo Simulation to know the expected value of cash flows.

Textbooks:

1.	Brealey A Richard, Myers C Stewart, and Allen Franklin, Principles of Corporate Finance. McGraw Hill Education, 13 th Edition (US) (Main Textbook)
2.	Ross A Stephen, Randolph W Westerfield, Jaffe Jeffrey and Bradford, Corporate Finance, 12 th Edition, McGraw Hill Education (Additional Textbook)
3.	Jonathan Berk and Peter DeMarzo, Corporate Finance (plus MyFinanceLab), 3rd ed., Pearson - Prentice Hall, 2014.
Reference Book:	
1.	Eugene F Fama, Theory of Finance, Thomson Learning, 1972.
2.	Elton J Edwin, Gruber J. Martin, Brown J. Stephen, and Goetzmann N. William, Modern Portfolio Theory and Investment Analysis, Wiley, 2014
3.	.