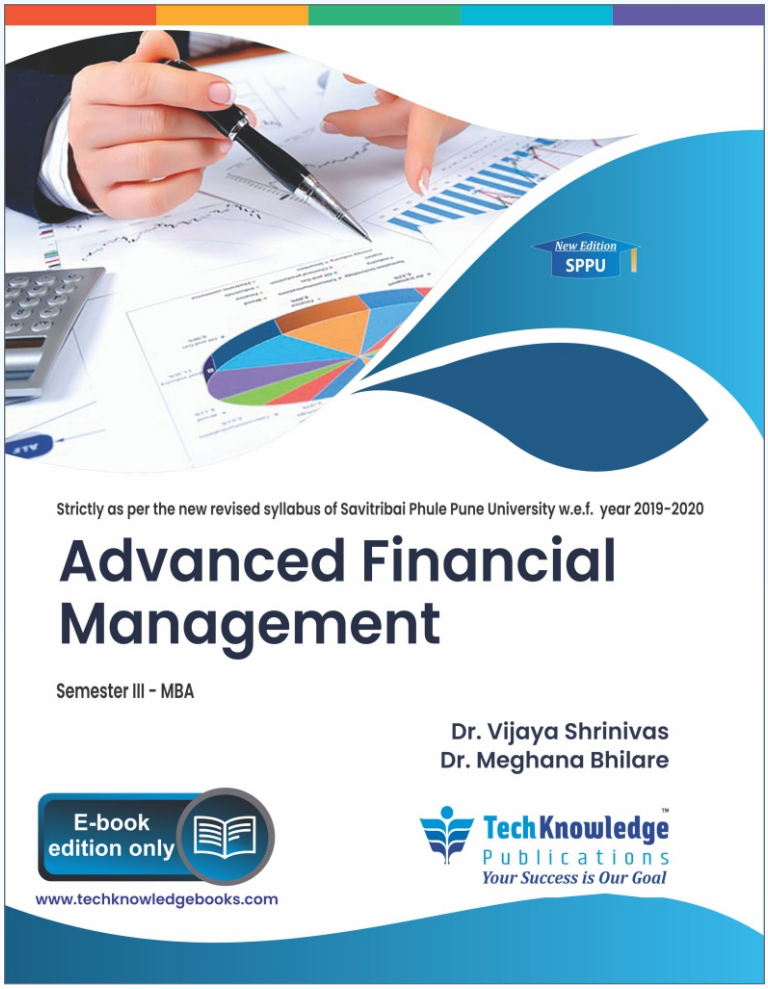
TechKnowledge™ Publications
Your Success is Our Goal

ADVANCED FINANCIAL MANAGEMENT

MBA | Sem 3 | SPPU



10 % DISCOUNT
Students Special
Buy NOW

~~Price : 180/-~~

After Discount Price : 162/-

ISBN : 978-81-947867-0-2

E-book Purchase link https://techknowledgebooks.com/product/advanced-financial-management/

MCQ link https://campusfunda.com/Book/mcq-view/NTM=

About TechKnowledge Publication

Our vision is to create an impact on education

Our mission is to bring quality content closer to the student community

We accomplish this by continuous innovation and research towards understanding how learning happens. Our authors are ambassadors of technical & management education and know how to enable the readers for success beyond exam results and into their careers.



THE WHOLE LIBRARY IS IN YOUR PHONE

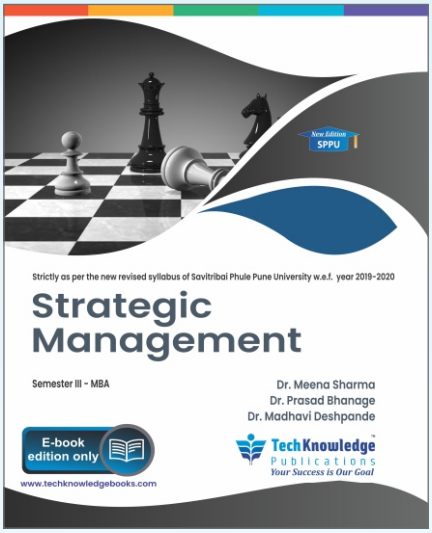
Step to Purchase E-Book

1. Visit the www.techknowledgebooks.com
2. From bookstore select appropriate University Branch and Subject.
3. Select 'Buy eBook' button.
4. You will be redirected to eBook portal -www.campusfunda.com
5. Signup / Login (mandatory) (Please confirm signup email in your inbox)
6. In ebooks section you will find the respective eBook for purchase.
7. You will have ebook in your account.

online or offline education learn better with Techknowledge eBooks

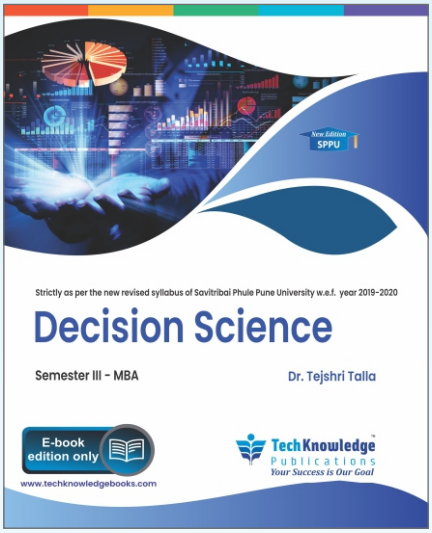
TechKnowledge™ Publications
Your Success is Our Goal

SPPU MBA SEM III e-books Available



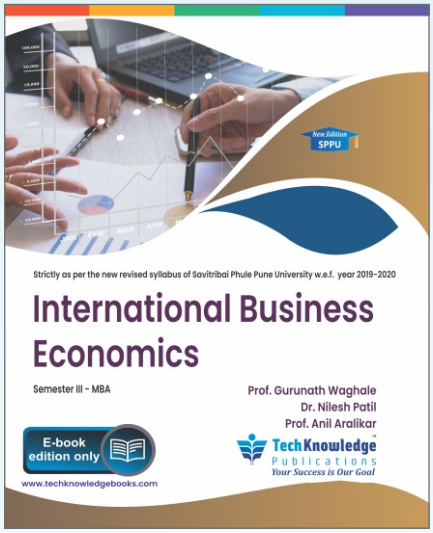
Price : ₹ 190/-

ISBN : 978-93-90428-34-2



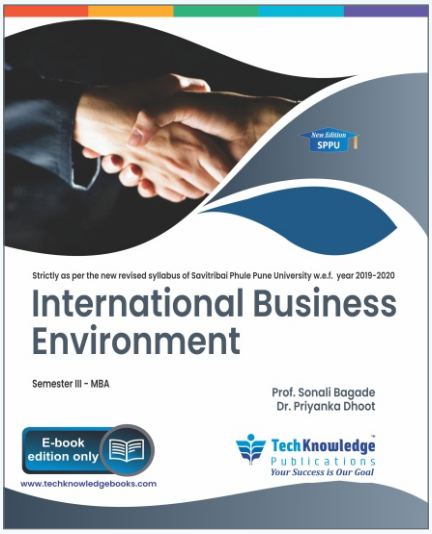
Price : ₹ 190/-

ISBN : 978-81-947867-2-6



Price : ₹ 180/-

ISBN : 978-93-90428-26-7



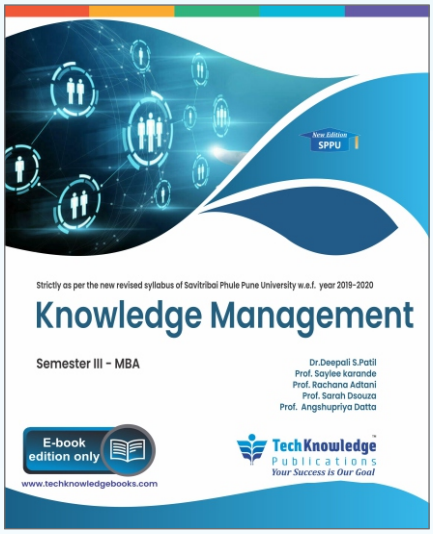
Price : ₹ 190/-

ISBN : 978-93-90428-27-4



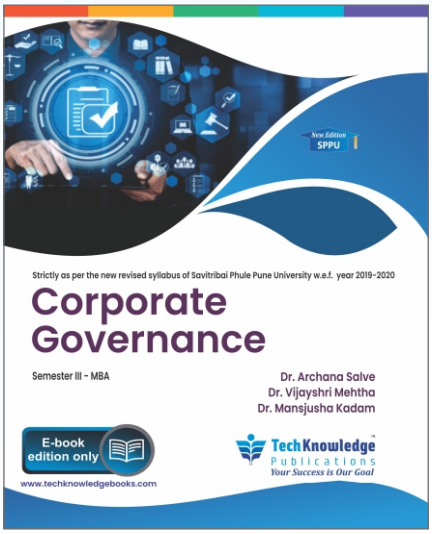
Price : ₹ 170/-

ISBN : 978-81-947867-8-8



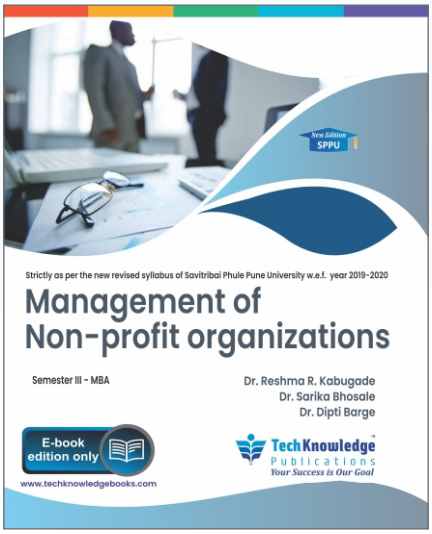
Price : ₹ 190/-

ISBN : 978-81-947867-5-7



Price : ₹ 180/-

ISBN : 978-93-90428-20-5



Price : ₹ 180/-

ISBN : 978-93-90428-28-1

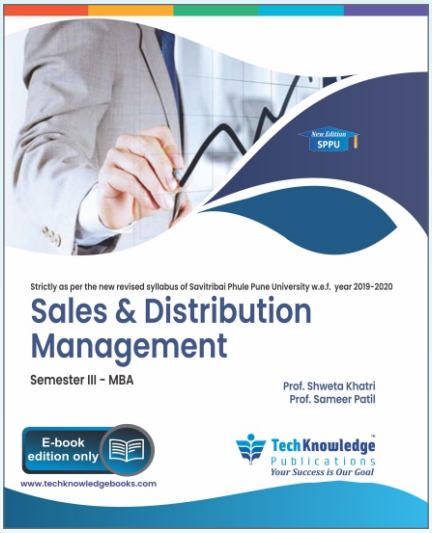


Price : ₹ 190/-

ISBN : 978-93-90428-19-9

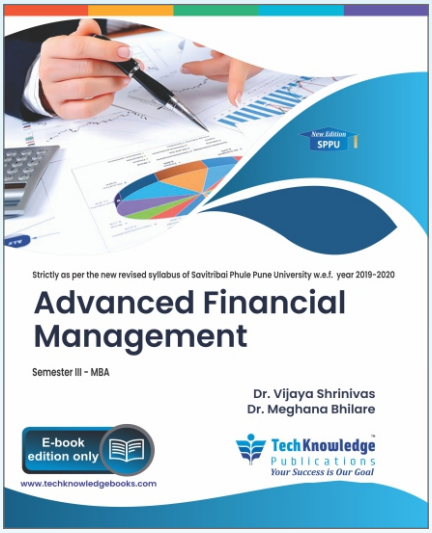
TechKnowledge™ Publications
Your Success is Our Goal

SPPU MBA SEM III e-books Available



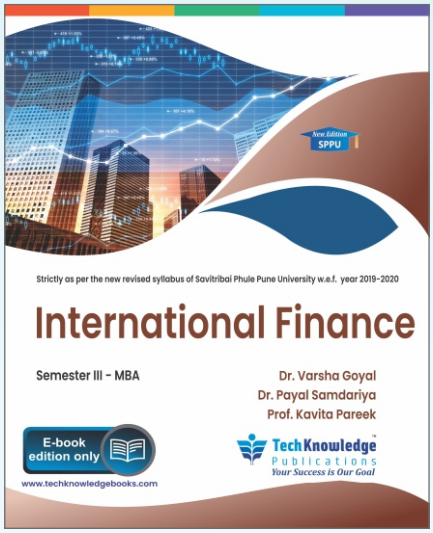
Price : ₹ 180/-

ISBN : 978-81-947867-9-5



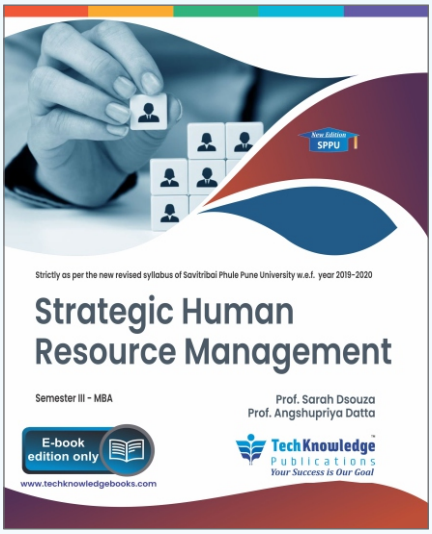
Price : ₹ 180/-

ISBN : 978-81-947867-0-2



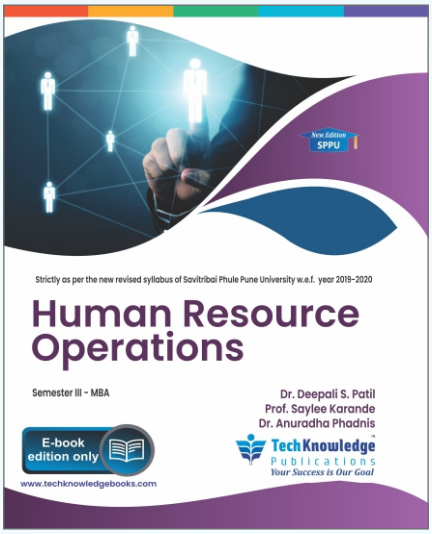
Price : ₹ 250/-

ISBN : 978-81-947867-3-3



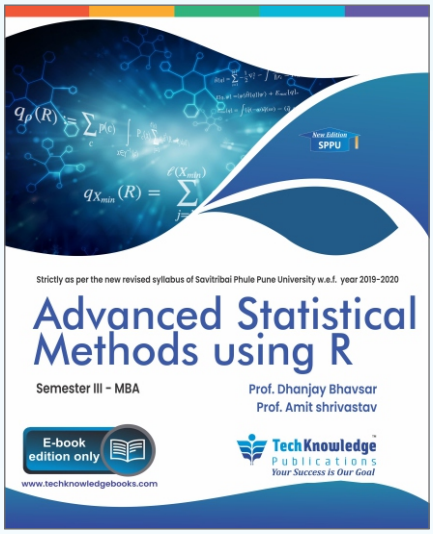
Price : ₹ 180/-

ISBN : 978-93-90428-35-9



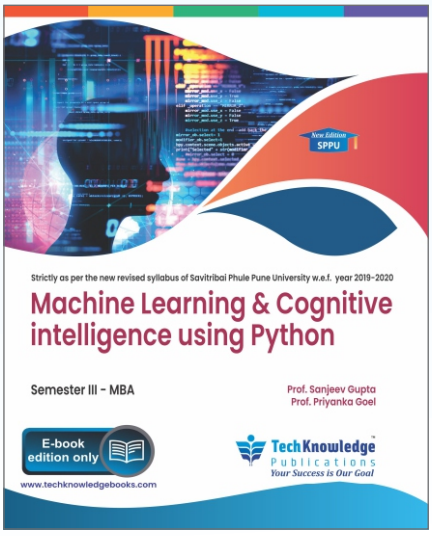
Price : ₹ 170/-

ISBN : 978-93-90428-25-0



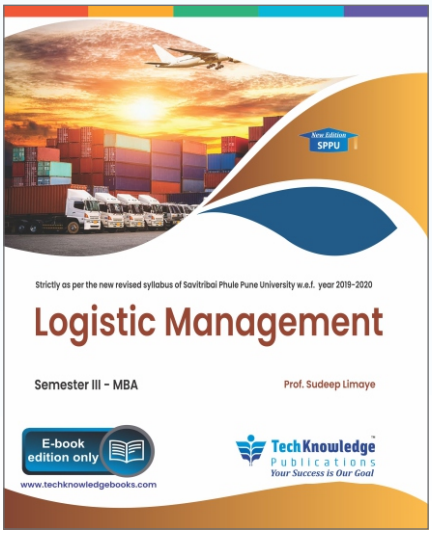
Price : ₹ 200/-

ISBN : 978-81-947867-1-9



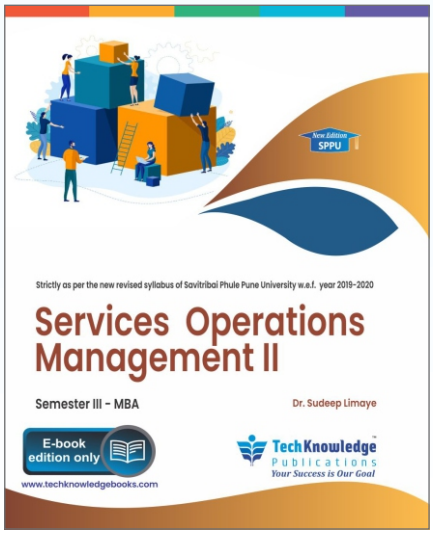
Price : ₹ 220/-

ISBN : 978-81-947867-7-1



Price : ₹ 150/-

ISBN : 978-81-947867-6-4



Price : ₹ 150/-

ISBN : 978-81-947867-6-4

Advanced Financial Management

(Code : SC – FIN - 03)

Semester III – Master of Business Administration (MBA)

(Savitribai Phule Pune University)

Strictly as per the New Revised Syllabus (Rev. 2019) of Savitribai Phule Pune University w.e.f. academic year 2020-21 (As per Choice Based Credit System)

Dr Vijayalakshmi Shrinivas

MBA, Ph.D (Financial Management)

Director

P E Society's Modern Institute of Business Management

Dr. Meghana Bhilare

Ph.D (Financial Management)

Assistant Professor

D Y Patil Institute of Management & Research, Pimpri Pune

TechKnowledge™ Publications

ONPOMBA11A Price ₹ 180/-

(Book Code : ONPOMBA11A)

Advanced Financial Management

Dr. Vijayalakshmi Shrinivas, Dr. Meghana Bhilare

Semester III – Master of Business Administration (MBA) (SPPU)

Copyright © by Authors. All rights reserved. No part of this publication may be reproduced, copied, or stored in a retrieval system, distributed or transmitted in any form or by any means, including photocopy, recording, or other electronic or mechanical methods, without the prior written permission of the publisher.

This book is sold subject to the condition that it shall not, by the way of trade or otherwise, be lent, resold, hired out, or otherwise circulated without the publisher's prior written consent in any form of binding or cover other than which it is published and without a similar condition including this condition being imposed on the subsequent purchaser and without limiting the rights under copyright reserved above.

First Edition : January 2021

This edition is designed for Savitribai Phule Pune University but can be globally purchased.

ISBN : 978-81-947867-0-2

Published by
TechKnowledge Publications

Head Office : B/5, First floor, Maniratna Complex,
Taware Colony,Aranyeshwar Corner,
Pune - 411 009. Maharashtra State,
India. Ph : 91-20-24221234, 91-20-24225678.

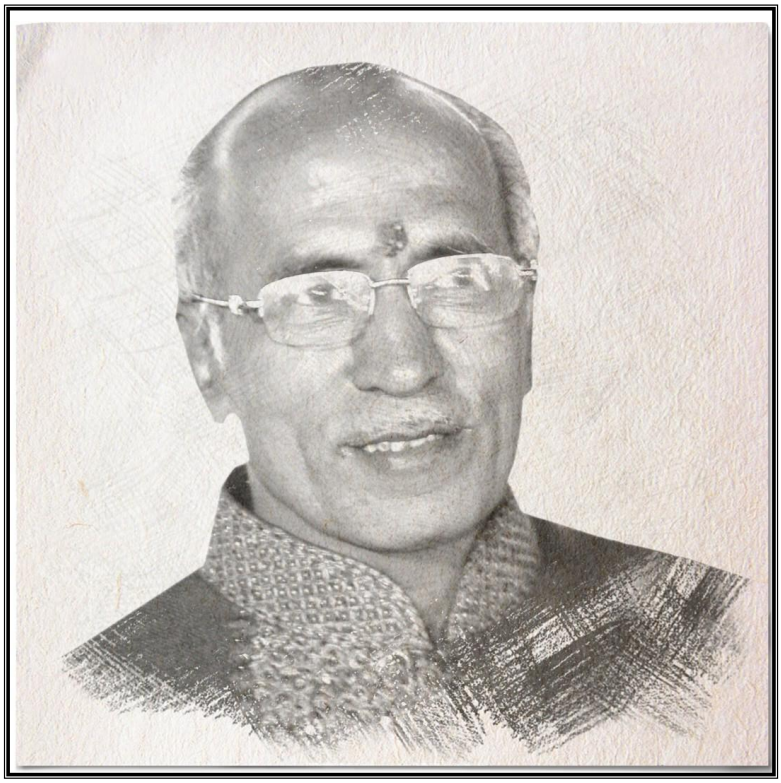
[Code : SC – FIN - 03] (FID : : ONPOMBA11) (Book Code : : ONPOMBA11A)

We dedicate this Publication soulfully and wholeheartedly,

in loving memory of our beloved founder director,

Late Shri. Pradeepji Lalchandji Lunawat,

who will always be an inspiration, a positive force and strong support behind us.



"My work is my prayer to God"

– Lt. Shri. Pradeepji L. Lunawat

Soulful Tribute and Gratitude for all Your Sacrifices, Hardwork and 40 years of Strong Vision…

Preface

Dear Students,

We are extremely happy to present the book of **"Advanced Financial Management"** for you. We have divided the subject into small chapters so that the topics can be arranged and understood properly. The topics within the chapters have been arranged in a proper sequence to ensure smooth flow of the subject.

We present this book in the loving memory of **Late. Shri. Pradeepji Lunawat**, our source of inspiration and a strong foundation of **"TechKnowledge Publications".** He will always be remembered in our hearts and motivate us to achieve our new milestone.

We are thankful to Seema P. Lunawat, Vaishali Nisargand and Dr. Deepali Patil for the encouragement and support that they have extended. We are also thankful to the staff members of TechKnowledge Publications and others for their efforts to make this book as good as it is. We have made every possible efforts to eliminate all the errors in this book. However if you find any, please let us know, because that will help us to improve the book quality further.

We are thankful to my family members and friends for their patience and encouragement.

- Authors

❑❑❑

(Book Code : ONPOMBA11A**)**

About the Authors

Dr Vijayalakshmi Shrinivas

MBA, Ph.D (Financial Management)

Director

P E Society's Modern Institute of Business Management

Is a Commerce Post Graduate. She holds Masters in Business Administration in Financial Management and Ph. D in Financial Management . She did MBA in Financial Management in first class with distinction. Dr Vijayalakshmi possesses more than 15 years of Academic and 10 years of Industry Experience. She is currently working as a Director of Progressive Education Society's Modern Institute of Business Management , Shivajinagar, Pune

She has written one book on Financial Management for Management courses and published / contributed more than 20 research papers in recognised National and International Journals. She has attended and organised various Conferences at Management Institutes. She has been invited as Key note speaker , Subject expert at National and International Conferences. She has also served in various editorial roles. She has been a member of Academic Council of Pondicherry University. She is also a Board of Studies Member for an Autonomous College of Mumbai University.

She is a recognised Ph D Guide of Savitribai Phule Pune University. She has guided 08 for their Doctoral Degreee out of which 06 have been awarded. She is also a member of Syllabus review committee at Savitribai Phule Pune University and actively involved in various Academic activities.



Dr Vijayalakshmi Shrinivas

Dr. Meghana Bhilare
PhD (Financial Management)
Assistant Professor
D Y Patil Institute of Management
& Research, Pimpri, Pune

Dr. Meghana Bhilare is Professor with Dr D Y Patil Institute of Management & Research, Pimpri Pune, she has teaching experience of 16 years. She holds Doctorate Degree of University of Pune in the field of Financial Management.

She is also member of Board of Studies (Commerce and Management) at Savitribai Phule Pune University. She has presented and published number of research papers in State, National and International conferences and journal. She is a Ph.D. guide in Finance of Savitribai Phule Pune University.

❑❑❑

(Book Code : ONPOMBA11A**)**

Syllabus

Semester III		304FIN – Advanced Financial Management
3 Credits	LTP: 2:1:1	Subject Core- SC – FIN - 03

Course Outcomes: On successful completion of the course the learner will be able to

CO#	COGNITIVE ABILITIES	COURSE OUTCOMES
CO 304.1	Remembering	DESCRIBE the basic concepts in financing, investing and profit distribution in a firm.
CO 304.2	Understanding	EXPLAIN theoretical concepts related to raising and use of funds and value of firm
CO 304.3	Applying	CALCULATE values for making capital structure, investment, liquidity and dividend decisions in the financial management of a firm
CO 304.4	Analysing	ANALYZE the options for making the right financial decisions of a firm
CO 304.5	Evaluating	ASSESS the role of financial planning, risk analysis in investments, liquidity and credit management policy of the firm on shareholder value
CO 304.6	Creating	DESIGN an appropriate financial strategy using any one or multiple concepts/ techniques learned in this course.

1. **Financial Planning and Shareholder Value :** Overview of Financial Planning; Long term and short term sources of finance; Financial Statements including Funds Flow and Cash Flow Statements; Importance of Cash Flows; Concept of Financial Distress; Shareholder wealth and managerial behavior; Growth and Value; Concept and features of value-based management; Economic Value Added (EVA): Meaning, Components, Advantages & Drawbacks, Calculating EVA **(6+2)**
2. **Capital Structure and Firm Value :** Assumptions and Definitions; Net Income Approach; Net Operating Income Approach; Traditional Position; Modigliani and Miller Position Taxation and Capital Structure; Tradeoff; Signaling Theory; PBIT - EPS Analysis; ROI - ROE Analysis ; Leverage Ratios; Guidelines for Capital Structure Planning **(7+2)**
3. **Investment Decisions :** Meaning and Process, Risk and Uncertainty in Capital Budgeting: Capital rationing and Project Selection. Inflation and Capital budgeting; Capital budgeting practices in Indian companies **(5+2)**
4. **Working Capital Management :** Determination of level of current assets, Working capital financing by banks; Cash and liquidity Management- aspects of cash management, motives for holding cash and marketable securities, Cash Management Models, Strategies for managing surplus funds; Credit Management: Objectives of trade credit, credit policies. Control and collection of accounts receivables, role of factoring in receivables management (No problems on estimation of working capital). **(9+2)**
5. **Dividend Policy and Firm Value :** Why Firms Pay Dividends ; Factors Influencing Dividend Policy ; Legal and Procedural Aspects ; Bonus Shares and Stock Splits; Share Buybacks and Valuation ; Dividend Policies in Practice; Dividend Models: Walter's model, Gordon's model, Modigliani and Miller's Hypothesis; Models in Which Investment and Dividend Decisions are Related **(8+2)**

❑❑❑

Index

Unit 1

Chapter 1 : Financial Planning and Shareholder Value 1-1 to 1-28

1.1 Concept of Finance 1-2
1.1.1 Introduction 1-2
1.1.2 Need for Financial Management 1-2
1.1.3 Phases of Finance Function 1-2
1.2 Introduction to Financial Management 1-5
1.2.1 Types of Finance 1-6
1.3 Objective of Financial Management 1-7
1.3.1 Maximizing Shareholders Wealth 1-7
1.4 Shares 1-8
1.4.1 Preference Shares 1-8
1.4.2 Equity Shares 1-9
1.4.3 Debentures : 1-11
1.5 Public Deposits 1-13
1.6 Retained Earnings 1-14
1.7 Term Loans from Banks 1-15
1.7.1 Loan from Financial Institutions 1-16
1.8 Financial Planning and Forecasting 1-16
1.9 Principle and Essentials of a Good Plan 1-17
1.10 Cash Flow Statements 1-18
1.11 Financial Distress 1-23
1.12 Economic Value Added 1-24

Unit 2

Chapter 2 : Capital Structure and Firm Value 2-1 to 2-23

2.1 Capital Structure 2-2
2.2 Factors Affecting Capital Structure 2-2
2.3 An Optimal Capital Structure should have the following Features 2-3
2.4 Before Understanding the Capital Structure Theories let us Understand the Basic Definitions of Raising the Funds- Cost of Capital. 2-3
2.4.1 Cost of Debt 2-3
2.4.2 Cost of Preference Shares; 2-6
2.4.3 Cost of Equity Capital 2-8
2.4.4 Cost of Retained Earnings : 2-9

2.4.5 Weighted Average Cost of Capital 2-9
2.5 Capital Structure Approaches 2-10
2.5.1 Net Income Approach 2-10
2.5.2 Net Operating income Approach (NOI) 2-11
2.5.3 Traditional or Intermediate Approach 2-12
2.5.4 Modigliani –Miller Approach 2-13
2.6 Signalling theory 2-13
2.7 Ebit – Eps Analysis 2-14
2.8 ROI / ROE Analysis 2-15
2.9 Leverages Ratios 2-16
2.9.1 Operating leverage : 2-16
2.9.2 Financial Leverage : 2-16
2.9.3 Combined leverage 2-17
2.10 Trading on Equity 2-17

Unit 3

Chapter 3 : Investment Decisions **3-1 to 3-18**

3.1 Meaning of Capital Budgeting 3-2
3.2 Process of Capital Budgeting 3-3
3.3 Nature of capital budgeting 3-4
3.4 Time value of money 3-4
3.5 Techniques of Capital Budgeting 3-5
3.6 Traditional Techniques 3-6
3.6.1 Pay back period 3-6
3.6.2 Accounting rate of Return (A.R.R) 3-8
3.7 Modern Techniques 3-9
3.7.1 Discounted Payback Period 3-9
3.7.2 Net Present Value (NPV) 3-9
3.7.3 Profitability Index 3-10
3.7.4 Internal Rate of Return - (IRR) 3-11
3.8 Risk And Uncertainity In Capital Budgeting 3-11
3.8.1 Sensitivity analysis 3-13
3.8.2 Scenario Analysis 3-15
3.9 Capital Rationing 3-16

Unit 4

Chapter 4 : Working Capital Management **4-1 to 4-17**

4.1 The Elements of Working Capital 4-2
4.2 The Objectives of Working Capital Management 4-3
4.3 Role of Working Capital Management 4-3
4.4 Advantages to take steps to improve working capital management 4-4
4.5 The Cash Operating Cycle 4-5
4.6 Calculation of the cash operating cycle 4-6
4.7 Importance of the cash operating cycle 4-6
4.8 Factors that affect the optimum cash level of a business 4-7
4.9 Motives for Holding Cash 4-8
4.10 Cash Management Models 4-8
4.10.1 The Baumol cash management model 4-8
4.10.2 The Miller-Orr cash management model 4-9
4.11 Receivables Management 4-11
4.11.1 Meaning of the Receivables Management 4-11
4.11.2 Objectives of Accounts Receivables 4-11
4.11.3 Factors Affecting the Accounts Receivables 4-12
4.11.4 Role of factoring in Receivables Management 4-12

Unit 5

Chapter 5 : Dividend Policy and Firm Value **5-1 to 5-16**

5.1 Introduction 5-2
5.2 Dividend Policy: Why firm pay dividend 5-2
5.3 Factors affecting Dividend Decision 5-2
5.4 Legal and Procedural Aspects of Dividend 5-3
5.4.1 Legal Aspects of Payment of Dividend 5-3
5.4.2 Procedural Aspects 5-5
5.5 Bonus Shares and Stock Splits 5-5
5.5.1 Bonus Issue 5-5
5.5.2 Stock Split 5-6
5.6 Share Buybacks and Valuation 5-6
5.7 Dividend Policies in Practice 5-6
5.8 Models in Which Investment and Dividend Decisions are Related 5-7
5.8.1 Walter's Model 5-7
5.8.2 Gordon's Model 5-9
5.8.3 Modigliani- Miller Model 5-12

❑❑❑

Unit 1
Financial Planning and Shareholder Value



Syllabus

Overview of Financial Planning; Long term and short term sources of finance; Financial Statements including Funds Flow and Cash Flow Statements; Importance of Cash Flows; Concept of Financial Distress; Shareholder wealth and managerial behavior; Growth and Value; Concept and features of value-based management; Economic Value Added (EVA): Meaning, Components, Advantages & Drawbacks, Calculating EVA

TechKnowledge™ Publications

Unit 2
Capital Structure and Firm Value



Syllabus

Assumptions and Definitions; Net Income Approach; Net Operating Income Approach; Traditional Position; Modigliani and Miller Position Taxation and Capital Structure; Tradeoff; Signaling Theory; PBIT – EPS Analysis; ROI – ROE Analysis ; Leverage Ratios; Guidelines for Capital Structure Planning

TechKnowledge™ Publications

Unit 3
Investment Decisions



Syllabus

Meaning and Process, Risk and Uncertainty in Capital Budgeting: Capital rationing and Project Selection. Inflation and Capital budgeting; Capital budgeting practices in Indian companies

TechKnowledge™ Publications

Unit 4
Working Capital Management



Syllabus

Determination of level of current assets, Working capital financing by banks; Cash and liquidity Management- aspects of cash management, motives for holding cash and marketable securities, Cash Management Models, Strategies for managing surplus funds; Credit Management: Objectives of trade credit, credit policies. Control and collection of accounts receivables, role of factoring in receivables management

TechKnowledge™ Publications

Unit 5
Dividend Policy and Firm Value



Syllabus

Why Firms Pay Dividends ; Factors Influencing Dividend Policy ; Legal and Procedural Aspects ; Bonus Shares and Stock Splits; Share Buybacks and Valuation ; Dividend Policies in Practice; Dividend Models: Walter's model, Gordon's model, Modigliani and Miller's Hypothesis; Models in Which Investment and Dividend Decisions are Related

TechKnowledge™ Publications