MB 762 ADVANCED CORPORATE FINANCE

Introduction:

It is widely accepted that most financial decisions are rarely made in scenarios where full information relevant to the decision is available to all decision makers, an assumption of standard models dealing with economic decision making in general and financial decision making in particular. The study of financial decision making in the presence of information asymmetries and incomplete information attempts to bridge the gap between existing financial decision making models and real-life decision scenarios.

Course Objective:

Course aim is to provide an understanding (from both a theoretical and an empirical standpoint) of some of the central decision problems in corporate finance: capital raising, capital structure decisions, the effects of conflicts between different types of stakeholders within the firm and corporate ownership and governance issues. This course will help students to apply theoretical concepts to real case scenarios and develop their analytical skills in analysing and discussing case studies of real companies.

Pedagogy:

This course is delivered through a combination of lectures, seminars and group work on case studies, exercises and problems.

Evaluation:

Assessment is through Tutorials(30%), Assignments (10%), Presentations (10%) and Written Examination (50%).

No. of Credits:

3 (3 Lectures/ week)

Attendance: Minimum 75% required to take up the end semester examination

Unit I Stochastic Models

Introduction

There are numerous kinds of risks to be taken into account when considering capital budgeting including: corporate risk, international risk (including currency risk), industry-specific risk, market risk, stand-alone risk and project-specific risk. Each of these risks addresses an area in which some sort of volatility could forcibly alter the plan of firm managers. A related practice is uncertainty analysis which focuses rather on quantifying uncertainty in model output. Ideally, uncertainty and sensitivity analysis should be run in tandem. Another method is scenario analysis, which involves the process of analyzing possible future events by considering alternative possible outcomes. For example, a financial institution might attempt to forecast several possible scenarios for the economy (e.g., rapid growth, moderate growth, slow growth), and it might also attempt to forecast financial market returns (for bonds, stocks, and cash) in each of those scenarios. It might consider sub-sets of each of the possibilities. It might further seek to determine correlations and assign probabilities to the scenarios. Then it will be in a position to consider how to distribute assets between asset types (i.e., asset allocation). The institution can also calculate the scenario-weighted expected return(which figure will indicate the overall attractiveness of the financial environment). It may also perform stress testing, using adverse scenarios.

Topic	**No. of hours**
Sensitivity Analysis	2
Scenario Analysis and decision tree method	2
Monte Carlo simulation method	2
Total	**06**

Learning Outcomes:

1. Understand the measurement of risk.
2. Discuss the absolute measures of standalone investments and projects.
3. Understand the methods used to quantify risk in capital budgeting.
4. Look at the various risk-evaluation approaches in capital budgeting.

Unit II Capital Structure

Introduction

Chief financial officers (CFOs) constantly encounter these questions when managing their balance sheets: firstly, is it advisable to return the excess cash to shareholders or invest it, and secondly, should they finance their new projects by adding debt or raising capital from equity? Achieving the right capital structure by defining the composition of debt and equity for an organization to finance its operations and investments has challenged academics and practitioners alike. Some companies focus on the traditional tax benefit of debt, since interest is often a tax deductible expense, while many other companies hold substantial amounts of cash and explore options of what to do with it. The choice of capital structure for firms is by and large the most fundamental issue of the financial framework of a business entity. Methods

by which public corporations finance their assets set up their ownership structure and reflect standards of their corporate governance.

Topic	No. of hours
Capital Structure determination	2
EBIT and EPS analysis, Indifference point analysis	2
Efficient market hypothesis	2
Total	**06**

Learning Outcomes:

1. Outline guiding principles of capital structure decisions.
2. Factors influencing the pattern of capital structure
3. Design the optimum capital structure to minimize the cost of capital and maximizing the EPS.
4. Appraise the concepts associated with the efficient market hypothesis and apply them to investor decisions.

Unit III Corporate Financing

Introduction

With the efficiency of financial markets and its implications for long-term corporate financing decisions. The amount of financial resources that a company gets for every bond or equity issued in the primary market depends on the price at which these securities are sold when first issued, and that price is determined by the market. It is for this reason, as you will learn through studying this unit, that the efficiency of capital markets has implications for corporate financing decisions.

Topic	No. of hours
Corporate Financing- Equity, Debt and Hybrid forms	2
Capital Asset Pricing Model and Arbitrage Pricing theory	2
Market Efficiency and arbitrage, Random Walk Theory	2
Total	**06**

Learning Outcomes:

1. Understand and critically evaluate alternative capital structure and capital management strategies.
2. Learn about asset pricing models.
3. Market efficiency and arbitrage Are markets efficient, or are they dominated by irrational investors? Are prices predictable?
4. Explain the factors affecting a market's efficiency.
5. Compare and contrast the weak-form, semi strong-form, and strong-form market efficiency.

Unit IV Leasing

Introduction:

The acquisition of assets - particularly expensive capital equipment - is a major commitment for many businesses. How that acquisition is funded requires careful planning. Rather than pay for the asset outright using cash, it can often make sense for businesses to look for ways of spreading the cost of acquiring an asset, to coincide with the timing of the revenue generated by the business. The most common sources of medium term finance for investment in capital assets are Hire Purchase and Leasing. Leasing and hire purchase are financial facilities which allow a business to use an asset over a fixed period, in return for regular payments. The business customer chooses the equipment it requires and the finance company buys it on behalf of the business.

Topic	No. of hours
Concepts and Types	2
Lease Evaluation and Accounting	2
Lease rentals and legal aspects	2
Total	**06**

Learning Outcomes:

1. To identify and describe the operational, financial, and tax objectives that motivate leasing.
2. To explain why some leases constitute lease agreements and some represent purchases/sales accompanied by debt financing.
3. Steps in conducting lease transactions.
4. To know what are the tax benefits for lessor and lessee.
5. To explain the basis for each of the criteria and conditions used to classify leases.
6. To describe and demonstrate how both the lessee and lessor account for a capital lease.

Unit V Mergers And Amalgamation

Introduction:

Following the economic reforms in India in the post – 1991 period, there is a discernible trends among promoters and established corporate groups towards consolidation of market share and diversification into new areas through acquisition /takeover of companies but in a more pronounced manner through mergers / amalgamations. Although the economic considerations in terms of motive and effect of these are similar, the legal procedures involved are different. The merger and amalgamation of corporate constitutes a subject matter of the Companies Act, the courts and law and there are well-laid down procedures for valuation of shares and rights of investors. The acquisition/ takeover bids fall under the purview of SEBI. The terms mergers and amalgamations on the one hand and acquisitions and takeovers on the other are treated here synonymously/ interchangeably.

Topic	No. of hours
Merger as a Strategy and SEBI Guidelines in M&A	2
Corporate Tax Planning and Amalgamation	2
Corporate Sickness and Revival and BIFR Provisions	2
Total	**06**

Learning Outcomes:

1. To understand the process of terms mergers and amalgamation.
2. Distinguish between the concept of Amalgamation in Nature of Merger and Amalgamation in the Nature of Purchase.
3. Government and SEBI regulations related to M&A activity.
4. Steps in Merger and acquisition activity.
5. Tax benefits in M&A.
6. To learn about the types of challenges in M&A activity.
7. What is corporate sickness under SICA? What are the ways company can recover from financial distress? What are BIFR provisions?

TEXT BOOKS:

1. Copeland, E. Thomas, Weston, J.Fred. and Shastri, Kuldeep , "Financial Theory and Corporate Policy", Addison Wesley, 4th Edition, 2003
2. Pandey .I.M. "Financial Management "Vikas Publishing House Pvt. Ltd. 9th Edition, 2005

REFERENCE BOOK:

1. Richard A. Brealey and Stewart C. Myers," Principles of Corporate Finance", 7th Edition, 2003/e