

## **PAPER – 2 : STRATEGIC FINANCIAL MANAGEMENT**

*(One paper – Three hours – 100 marks)*

### **Objective:**

To acquire the ability to apply financial management theories and techniques in strategic decision making.

### **Contents:**

#### **1. Financial Policy and Corporate Strategy**

- (i) Strategic decision making framework
- (ii) Interface of Financial Policy and strategic management
- (iii) Balancing financial goals vis-à-vis sustainable growth.

#### **2. Risk Management**

- (i) Identification of types of Risk faced by an organisation
- (ii) Evaluation of Financial Risks
- (iii) Value at Risk (VAR)
- (iv) Evaluation of appropriate method for the identification and management of financial risk.

#### **3. Security Analysis**

- (i) Fundamental Analysis
- (ii) Technical Analysis
  - a) Meaning
  - b) Assumptions
  - c) Theories and Principles
  - d) Charting Techniques
  - e) Efficient Market Hypothesis (EMH) Analysis

#### **4. Security Valuation**

- (i) Theory of Valuation
- (ii) Return Concepts
- (iii) Equity Risk Premium

- (iv) Required Return on Equity
- (v) Discount Rate Selection in Relation to Cash Flows
- (vi) Approaches to Valuation of Equity Shares
- (vii) Valuation of Preference Shares
- (viii) Valuation of Debentures/ Bonds

#### **5. Portfolio Management**

- (i) Portfolio Analysis
- (ii) Portfolio Selection
- (iii) Capital Market Theory
- (iv) Portfolio Revision
- (v) Portfolio Evaluation
- (vi) Asset Allocation
- (vii) Fixed Income Portfolio
- (viii) Risk Analysis of Investment in Distressed Securities
- (ix) Alternative Investment Strategies in context of Portfolio Management

#### **6. Securitization**

- (i) Introduction
- (ii) Concept and Definition
- (iii) Benefits of Securitization
- (iv) Participants in Securitization
- (v) Mechanism of Securitization
- (vi) Problems in Securitization
- (vii) Securitization Instruments
- (viii) Pricing of Securitization Instruments
- (ix) Securitization in India

#### **7. Mutual Fund**

- (i) Meaning

- (ii) Evolution
- (iii) Types
- (iv) Advantages and Disadvantages of Mutual Funds

#### **8. Derivatives Analysis and Valuation**

- (i) Forward/ Future Contract
- (ii) Options
- (iii) Swaps
- (iv) Commodity Derivatives

#### **9. Foreign Exchange Exposure and Risk Management**

- (i) Exchange rate determination
- (ii) Foreign currency market
- (iii) Management of transaction, translation and economic exposures
- (iv) Hedging currency risk
- (v) Foreign exchange derivatives – Forward, futures, options and swaps

#### **10. International Financial Management**

- (i) International Capital Budgeting
- (ii) International Working Capital Management
  - a) Multinational Cash Management
    - Objectives of Effective Cash Management
    - Optimization of Cash Flows/ Needs
    - Investment of Surplus Cash
  - b) Multinational Receivable Management
  - c) Multinational Inventory Management

#### **11. Interest Rate Risk Management**

- (i) Interest Rate Risk
- (ii) Hedging Interest Rate Risk
  - a) Traditional Methods

- b) Modern Methods including Interest Rate Derivatives

## **12. Corporate Valuation**

- (i) Conceptual Framework of Valuation
- (ii) Approaches/ Methods of Valuation
  - a) Assets Based Valuation Model
  - b) Earning Based Models
  - c) Cash Flow Based Models
  - d) Measuring Cost of Equity
    - Capital Asset Pricing Model (CAPM)
    - Arbitrage Pricing Theory
    - Estimating Beta of an unlisted company
  - e) Relative Valuation
    - Steps involved in Relative Valuation
    - Equity Valuation Multiples
    - Enterprise Valuation Multiple
  - f) Other Approaches to Value Measurement
    - Economic Value Added (EVA)
    - Market Value Added (MVA)
    - Shareholder Value Analysis (SVA)
  - g) Arriving at Fair Value

## **13. Mergers, Acquisitions and Corporate Restructuring**

- (i) Conceptual Framework
- (ii) Rationale
- (iii) Forms
- (iv) Mergers and Acquisitions
  - a) Financial Framework
  - b) Takeover Defensive Tactics

- c) Reverse Merger
- (v) Divestitures
  - a) Partial Sell off
  - b) Demerger
  - c) Equity Carve outs
- (vi) Ownership Restructuring
  - a) Going Private
  - b) Management/ Leveraged Buyouts
- (vii) Cross Border Mergers

**14. Startup Finance**

- (i) Introduction including Pitch Presentation
- (ii) Sources of Funding
- (iii) Start up India Initiative