

# **FIN 229: Fundamentals of Corporate Finance**

**Credits: 3**

**Lecture Hours: 48**

## **Course Objective**

This course *Fundamentals of Corporate Finance* aims to lay the foundation for understandings fundamental concepts and principles of corporate finance. This course equips the students with fundamental tools and techniques of financial management to prepare them to resolve complex financial issues concerning corporate firms.

## **Course Description**

This course consists of the introduction to corporate finance, financial instruments, markets and institutions, financial statement analysis, time value of money, financial assets valuation, basics of capital budgeting, raising capital, capital structure and leverage, and working capital management.

## **Course Detail**

### **Unit 1: Introduction to Corporate Finance**

**LH 4**

Nature of corporate finance; Functions of financial management; The financial goal; Financial manager's responsibilities; Corporate finance and other functional areas.

### **Unit 2: Financial Instruments, Markets and Institutions**

**LH 4**

Financial instruments: Money market and capital market instruments, derivative securities, mutual fund units; Financial markets: Functions and types of financial markets; Financial institutions: Depository and non-depository financial institutions.

### **Unit 3: Financial Statement Analysis**

**LH 6**

Financial statements: Balance sheet, profit or loss statement, cash flow statement, statement of change in shareholders' equity; Framework for analysis; Nature and need of financial ratio analysis; Types of financial ratios: liquidity ratios, asset management ratios, debt management ratios, profitability ratios, market value ratios; DuPont system of financial ratio analysis; Limitations of financial ratios.

### **Chapter 4: Time Value of Money**

**LH 6**

Concept time value of money; Cash flow time line; Future values and present values of a single cash flow; Computing the interest rate and the number of years; Future value and present value of an ordinary annuity and annuity due; Computing annuity payments, periods and interest rates; Present value of perpetuities; Present value and future value of uneven cash flows; Semiannual

and other compounding periods; Preparation of loan amortization schedule; Application of the concept of time value of money.

#### **Unit 5: Financial Assets Valuation**

**LH 8**

Concept of financial assets; Key characteristics of bonds, common stocks and preferred stocks; Basic financial asset valuation models; Valuation of bonds: perpetual bonds, zero coupon bonds, coupon bonds with a finite maturity, bond valuation with semiannual interest; Bond yields: current yield, capital gain yield, yield to maturity, yield to call; Dividend discount model for common stock valuation: zero-growth model, normal growth model, super-normal growth model, single period valuation, multi-period valuation; Valuation of preferred stock.

#### **Unit 6: Basics of Capital Budgeting**

**LH 6**

Concept of capital budgeting decision; Capital budgeting decision process; Types of capital budgeting projects; Capital budgeting decision techniques: payback period, discounted payback period, net present value, profitability index, internal rate of return, modified internal rate of return; merits and limitations of each capital budgeting decision technique.

#### **Unit 7: Raising Capital**

**LH 5**

Sources of long-term financing, Long-term debt: Instruments, advantages and disadvantages; Preferred stocks: Advantages and disadvantages; Common stocks: Advantages and disadvantages; Methods of selling securities: public offering, rights offering and private placement.

#### **Unit 8: Capital Structure and Leverage**

**LH 5**

Concept of capital structure, optimal capital structure, determinants of capital structure; Business risk and financial risk; Degree of operating leverage, financial leverage and total leverage.

#### **Unit 9: Working Capital Management**

**LH 4**

Concepts of working capital; Types of working capital; Factors affecting the size of working capital; Working capital management and its significance; Computing operating cycle, cash conversion cycle and the amount of working capital requirement.

#### **Text Books**

Ross, S. A., Westerfield, R. W. & Jordan, B. D. *Fundamentals of corporate finance*. New York: McGraw-Hill Irwin.

Brigham, E. F. & Houston, J. F. *Fundamentals of financial management*. Delhi: Cengage Learning.

Van Horne, J. C., Wachowicz, J. R. & Bhaduri, S. N. *Fundamentals of financial management*. New Delhi: Prentice-Hall India Ltd.

