

PREFACE

Financial Management has emerged as an interesting and exciting area for academic studies as well as for the practical financial managers. Financial Management covers all decisions, taken by an individual or a business firm, which have financial implications. In case of corporate form of business organization, where there is a separation of ownership and management, as well as in other forms, the financial implications of decisions are evaluated in terms of maximization of value of the firm. So, the decision process is oriented towards the objective of maximization of wealth of shareholders as reflected in the market price of the share. The present book attempts to deal with the financial decision making in a business firm.

An easy way to understand financial management is to apply the theoretical concepts to real life problems being faced by financial managers. Though the present book deals primarily with theory and concepts of financial management, yet an attempt has been made to explain and analyze different concepts in terms of realistic and practical examples. The purpose has been to give a clear understanding, in a lucid way of the financial decision making process, rather than just giving the theoretical concepts only. Maximization of shareholders' wealth within the risk-return set up of the firm is the unifying concept of the textbook. The problems the financial managers may face and the decisions they must make have been explained in terms of this objective and the risk-return trade-off. Wherever relevant and necessary, references have been made to Indian Laws and Indian Capital Market.

This book has emerged out of the experience of teaching financial management to Post-graduate and professional students. The motivation for the work was provided by the interaction in the class-room. The book has been shaped by the reactions and responses of students. It has been observed that students want a systematic, precise and analytical explanation of the concepts and theories underlying the financial management. The subject-matter, throughout this book, has been presented in a well-knit manner, in 32 Chapters, which have been placed in Ten Parts. Each Part deals with a specific area of financial management. In particular, Part X which analyses and discuss the Indian Capital Market will help students to grasp, in a capsuled form, the changing structure of Indian Capital Market, particularly after the emergence of SEBI on the horizon.

The book is meant for the students preparing for the professional examinations conducted by ICAI, ICSI, ICWAI and others and the students of Post-graduate courses in Commerce and Management. However, the financial executives may also find it worthwhile, in their pursuit of updating the knowledge about current thinking and development taking place in the area of the financial management.

The scope of financial management is ever changing and widening. Interaction between theory and practice of financial management is increasing. Emphasis is changing from being a pure descriptive subject to more and more analytical in its approach. Sixth Revised Edition of "Financial Management - Theory, Concepts and Problems" presents the subject matter to fulfil the growing demand of the readers in view of the above perspectives. Still however, an

attempt has been made to maintain the basic philosophy, plan and presentation style as in earlier editions. The underlying objectives of the book have been :

- To present concepts, models and theories of finance in a simple, comprehensive and lucid form.
- To help practising managers to apply these concepts in dealing with operational situations.

Highlights of Sixth Revised Edition

To continue in its endeavour to be a self sufficient treatise by incorporating latest developments in the area of financial management, following changes have been made in the present edition :

1. Highlights and Summary of every chapter have been provided at the end of the chapter in the form of **Points to Remember**.
2. Sufficient Objective Type Questions (True/False type) have been given at the end of every chapter.
3. Multiple Choice Questions (MCQs) have been provided at the end of every chapter.
4. Scope and coverage of different chapters have been broadened. Notable additions to different chapters are :

Chapter 1. Treasury Management.

4. Calculation of β , Portfolio Evaluation. Sharpe Index, Treynor Index, etc.

5. Valuation of Futures and Swaps and Credit Derivatives.

9. Appendix 9A : Real Options and Capital Budgeting.

13. Miller's preposition on Capital Structure.

14. Pecking Order Theory ; Project Financing and Project β .

16. Lintner Model, Clientele Effect.

23. Sources of Foreign Capital, Euro Issues, ADRs, GDRs, etc.

28. External Funds Requirement.

30. Fisher Effect, Covered Interest Arbitrage, Use of Futures and Options to manage Foreign Exchange Risk.

32. Securities Lending Scheme, Green Shoe Option, Indian Depository Receipts, Demutualization of Stock Exchanges, Terms commonly used in Capital Market.

5. Most of the chapters have been updated with latest Examination Questions, Examples and Graded Illustrations.

The present edition of the book also present 10 Case Studies, dealing with various areas of Working Capital Management. These case studies expose the students to the real life problems being faced by finance managers. Selected hints have also been provided to analytically deal with these case studies.

I am indebted to Sh. H.N. Tiwari, Asstt. Professor, Shri Ram College of Commerce, for immensely helping in Presentation of Financial Modelling in Excel of various financial decision situations.

With these additions, the book is expected to be more useful for the readers, both the students as well as the finance executives. There is no denying the fact that improvement is an unending process. Further suggestions and comments for improvement are welcomed and will be gratefully acknowledged.

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