



Preface to the Fifth Edition

We are pleased to place in the hands of the readers the thoroughly revised edition of our highly successful reference-cum-text book **Financial Management: Text, Problems and Cases**. The focus continues on equipping the readers with the theories, concepts, and techniques that can be applied to corporate decision-making whether they are strategic, analytical or simply routine decisions a financial manager faces everyday.

Changes in the Fifth Edition

Numerous changes distinguish this edition from the earlier edition. They include, *inter-alia*, inclusion of a new part, a new chapter, deletion of an existing chapter, recapitulation of chapters, pedagogy and chapter-wise updates of contents.

Addition of a New Part/Chapter To expand the coverage of the book in terms of a significant emerging area, a distinct feature is the inclusion of one new part (**Part 7: Risk Management**) and one new chapter (**Chapter 29: Credit Risk Management**).

Deletion of Existing Chapter To reflect the emerging focus, one chapter (**Chapter 37: Financial Management in Public Sector Undertakings**) has been deleted.

Recaptioning of Chapters To reflect the thrust of their contents, the following two chapters have been recaptioned:

<i>Chapter</i>	<i>Fourth Edition</i>	<i>Fifth Edition</i>
5	Statement of changes in Financial Position	Cashflow Statement
21	Leasing and Hire-Purchase	Lease Financing and Hire-Purchase Finance

Merger of Chapters Chapters 26 (Theory of Working Capital Management) and Chapter 27 (PLanning of Working Capital) of the fourth edition have been merged into one chapter (Chapter 13: Working Capital: An Overview) in the fifth edition.

Reorganization of Part-Wise Structure For a more logical presentation, the part-wise structure of the new edition has been changed. As a result of the change in the structure and the addition of a new part, the number of the parts has also changed as shown below:

<i>Part number</i>	<i>Heading in the Fourth Edition</i>	<i>Heading in the Fifth Edition</i>
I	Foundation of Finance	Same
II	Financial Analysis, Profit Planning and Control	Same

III	Long-term Investment Decision	Same
IV	Financing Decision	Current Assets Management
V	Long-term Financing	Financing Decision
VI	Dividend Decision	Long-term Financing
VII	Current Assets Management	Risk Management
VIII	Valuation and Corporate Restructuring	Dividend Decision
IX	International Finance	Valuation and Corporate Restructuring
X	Special Topics	International Finance
XI	—	Special Topics

Chapter-Numbers In view of the addition/deletion of chapters and the reorganisation of the part-wise structure, the numbers of the existing chapters included in the new edition have changed as listed below.

<i>Chapter</i>	<i>Number in Fourth Edition</i>	<i>Number in Fifth Edition</i>
1 Option Valuation	5	27
2 Statement of Changes in Financial Position	6	5
3 Financial Statements Analysis	7	6
4 Volume-Cost-Profit Analysis	8	7
5 Budgeting and Profit Planning	9	8
6 Capital Budgeting I: Principles and Techniques	10	9
7 Capital Budgeting II: Additional Aspects	11	10
8 Concept and Measurement of Cost of Capital	12	11
9 Analysis of Risk and Uncertainty	13	12
10 Operating, Financial and Combined Leverage	14	18
11 Capital Structure, Cost of Capital and Valuation	15	19
12 Designing Capital Structure	16	20
13 Capital Markets	17	21
14 Equity/Ordinary Shares	18	22
15 Term Loans, Bonds/Debentures and Securitisation	19	23
16 Hybrid Financing/Instruments	20	24
17 Lease Financing and Hire-Purchase Finance	21	25
18 Venture Capital Financing	22	26
19 Derivatives: Managing Financial Risk	23	28
20 Dividend and Valuation	24	30
21 Determinants of Dividend Policy	25	31
22 Theory of Working Capital Management	26–27	13
23 Working Capital Financing	28	17
24 Management of Cash and Marketable Securities	29	14
25 Receivables Management	30	15
26 Inventory Management	31	16
27 Corporate Governance	38	37

Updated Chapter—Contents While the thrust of the revision of the existing chapters is on incorporating up-to-date knowledge about financial management discipline as well as the regulatory and policy developments, some portions have also been deleted/pruned. The important chapter-wise updates (additions/deletions/pruning) of the contents of the fifth edition are summarised below:.

Chapter	Addition/Inclusion/Rewriting	Deletion/Pruning
1	—	Traditional Approach to Scope of Financial Management
5	Rewritten	
6		Figures 6.4, 6.5, 6.6 and 6.7
7		Comprehensive case
14	Cash management practices in India	
17	(i) Rating and Scoring model (ii) Certificates of deposits	
22	Qualified institutional placement (added)	(i) Eligibility norms (pruned) (ii) Promoters contribution and lock-in requirements (deleted) (iii) Book building (pruned) (iv) E-IPO (deleted) (v) Preferential issues (pruned)
23		(i) Procedure for issue of debt instruments (pruned) (ii) Rating symbols of debt instruments by CARE and FITCH (deleted)
25		(i) Negotiation/structuring/profile of lease rentals (deleted) (ii) Taxation and accounting aspects hire-purchase finance (iii) Appendices 25-A and 25-B
26		Section 2 (Recommendations) of Chandra Shekhar Committee (deleted)
33	Indian practices relating to merger/demerger/ reverse merger/bail-out merger	
36	Section 5 on ECBs rewritten	Section 6 (Euro issues) operational guidelines (deleted)
37	Inclusion of Corporate governance report of Reliance	Appendix 37-A

Pedagogical Features While retaining the time-tested pedagogical features of the fourth edition, the new edition has incorporated some new features listed below:

Learning Objectives Each chapter begins with a number of learning objectives to ensure broad understanding of the concepts, theories and techniques of financial management.

Mini Cases Another distinct feature of the fifth edition is the inclusion of **25 mini cases**. These chapter-end cases can be used by the readers to synthesise and apply related concepts, theories, and techniques.

Multiple Choice Questions The inclusion of multiple choice questions with answers is yet another distinct feature of the new edition.

Website The portions deleted/pruned in the text are available on the website. The website also contains numerous solved problems and review questions.

In addition to the above important changes, all materials have been updated in terms of regulatory/policy developments and there are important changes in presentation in the form of boxed items, screens and so on.

Special Features

With the aim of developing the readers' ability in the application of various financial principles and techniques, the special features of the fifth edition are the following:

Up-to-date Comprehensive Coverage The book is structured around financial decision-making and comprehensively covers objectives of financial management, organisation of finance function, time value of money, valuation of bonds and shares, risk and return, option valuation, financial analysis, profit planning and cost control, capital budgeting decisions, cost of capital, capital structure decisions, dividend policy decisions, working capital management, business valuation, corporate restructuring, foreign exchange markets, foreign exchange risk management techniques, international financial management, risk management, corporate governance, Indian corporate practices related to corporate objectives and financial decision making.

Pedagogical Features The pedagogical feature of the book are:

Analytical Approach and Decisional Focus Consistent with aim of the book, a careful and thorough presentation of the financial consequences of management decision is the underlying theme. The orientation is managerial with emphasis on identification and solution of financial problems confronting business enterprises.

Chapter Organisation Each chapter is related to the managerial decision-making perspective. We have not merely described a concept but have also related it to the overall goal of wealth maximisation. After describing a concept, its application is illustrated with the help of step-by-step examples to improve clarity. In the preparation of the text, we have kept readability constantly in mind and have accordingly used a clear and concise, and by and large non-mathematical writing style, especially in the treatment of concepts requiring the use of mathematics.

Numerous Illustrations/Solved Problems and Review Questions A comprehensive set of real-life solved problems, at the end of each chapter are intended to serve as a review guide to test the readers' understanding of the subject. Numerous end-of-chapter review questions are included together with answers to help preparing detailed solutions.

Procedural Orientation, Practice Discussion and Cases To enable the readers to understand the real world of finance, contemporary industry practices as also procedural aspects have been included at relevant places in reasonable detail. *Fourteen* integrated cases and 25 mini cases have also been included for the same purpose.

Financial Tables and Bibliography A complete set of financial tables is included as a ready reckoner. A select bibliography would be of special interest to teachers/advance students of the subject.

Target

The book is primarily targeted at teachers/students of finance, management, commerce, accounting

and related professional disciplines/courses. Practitioners/professionals would also find it invaluable text.

The financial management discipline is constantly changing. It is both stimulating and far reaching. We hope that the fifth edition of our book with its comprehensive and up-to-date coverage would contribute to a better understanding of corporate finance. We sincerely look forward to the same overwhelming response to this edition as to the previous edition from readers.

Acknowledgements

Finally, we would express our intellectual debt of gratitude to the numerous authors who have enriched the stream of literature in finance on which we have liberally drawn. Some of the more specific references are indicated in the text itself. The author also record a word of appreciation for Professor Surendra S. Yadav's contribution.

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AUTHORS