

FIN 688: Corporate Finance

Finance Specialization

Credits: 3
Lecture Hours: 48

Course Objectives

The purpose of this course is to impart knowledge and analytical skills of corporate finance on raising funds most effectively by a corporate firm. At the completion of this course the students will have a clear understanding of the financial environment in which they undertake financial decisions, analyse the impact of leverage/capital structure on value of the firm and cost of capital, raise capital from the capital market by issuing securities, analyse the alternatives of corporate and distress restructuring.

Course Description

This course provides the broad overview of sources of financing and discusses the theories of capital structure. Then it covers different aspects of short-term and long-term financing including the leasing and hybrid financing through equity-linked securities. Finally, it covers issues related to corporate and distress restructuring.

Course Details

Unit 1: Corporate Finance and Financial Environment

LH 3

Corporate financing decisions and efficient capital markets; Financial markets and corporation; Application of agency theory to financing decision; Ethics in financial decisions; Innovations in corporate finance.

Unit 2: Theory of Capital Structure

LH 7

Introduction to capital structure theory – Assumptions and definitions; Net operating income approach; Traditional approach; Modigliani-Miller position, taxes and capital structure, effect of bankruptcy costs, other imperfections, incentive issues and agency costs; Financial signalling.

Unit 3: Short-term Financing

LH 7

Liability structure of a company; Trade credit financing; Accrual accounts as spontaneous financing; Unsecured short-term loans; Secured sources of short-term financing: inventory financing and receivable financing.

Unit 4: Lease Financing

LH 7

Features and types of leases; Accounting and tax treatments of leases; Return to the lessor; Analysis of lease versus buy/ borrow decision; Source of value in leasing.

Unit 5: Issuing Securities**LH 7**

Public offering of securities: IPO and FPO; Selling common stock through a rights issue, value of each right, effect of rights offering on shareholders' wealth; Financing a fledgling – founders and angels, venture capital; Information effects.

Unit 6: Fixed-income Financing**LH 5**

Features of debt, types of debt financing; Preferred stock financing; Call features and refunding, private placement.

Unit 7: Hybrid Financing through Equity-Linked Securities**LH 8**

Use of warrants, valuation of warrants; Convertible securities, valuation of convertible securities, effect of bonds/debentures with warrant and convertible financing on balance sheet and income statement; Exchangeable debt.

Unit 8: Corporate and Distress Restructuring**LH 4**

Divestitures in general; Voluntary liquidation and sell-offs; Spin-offs; Equity carve-outs; Going private and leveraged buyouts; Leveraged recapitalizations; Distress restructuring; Gaming with the rule of absolute priority.

BASIC READINGS

1. Van Horne, J. C. & Dhamija S. (2012). *Financial management and policy*. New Delhi: Dorling Kindersley (India) Pvt. Ltd.
2. Brigham, E. F. & Ehrhardt, M. C. (2014). *Financial management: Theory and practice*. New Delhi: Cengage Learning India.

REFERENCES

1. Rose, S. A., Westerfield, R. W., Jaffe, J. & Kakani, R. K. (2014). *Corporate finance*. New Delhi: McGraw-Hill Education (India) Pvt. Ltd.
2. Brealey, R., Myers, S. C., Allen, F. & Mohanty, P. (2014). *Principles of corporate finance*. New Delhi: McGraw-Hill Book Company.