



FINANCIAL MANAGEMENT AND POLICY: TEXT AND CASES

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Anmol Publications Pvt. Ltd.,
New Delhi

5th Revised Edition
Pages 1177, Price Rs.395/-

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In today's business world, finance plays the most important role for general and functional managers of all areas of business operations and interactions. Return-on-investment and capital market quotations focus on the efficiency of all levels of management functionaries and stakeholders. In all business and commerce courses, financial management occupies prominent place. In addition, the statutory and non-statutory bodies like the Institute of Chartered Accountants of India, Institute of Company Secretaries of India, All India Management Association, National Productivity Council etc. have been updating their pre-experience and post-experience courses, programmes and training modules by heavy dose of finance, investment, capital and money market structures and operations. As such any updated publication in this area gets wide response and appreciation. The publication under review is one such volume in which almost all aspects of financial structure, financial markets, financial policy and operations and money and capital market terminology and appropriateness have been provided in one volume and at one place.

This publication is based on more than two decades of University teaching experience of higher classes and the author's association and involvement with the work of professional bodies and organizations of industry, trade and commerce. The current edition (5th one) adequately reflects the changes that have taken place in the last fifty years and consequently adjustments in the theoretical foundations of business finance. A detailed exposition of wealth creation, corporate financial strategy and financial decision making has been provided in one full chapter with updating of the conceptual framework and database. All the 32 chapters have been classified into five parts and are followed by five appendices and a functional index running into eight pages for ready reference. Future values, present values and discounted-cash-flow in case of Indian Rupees have been detailed in the appendices. This has provided added attraction to professional corporate financial managers

and has been designed to save their time in working out the return-on-investment for various projects, ventures, collaborations and divisions, units and sections. At the end of most of the chapters highly relevant and updated case studies and practical illustrations have been given; this has enhanced the utility of the book for classroom use and also use in pre-experience and post-experience exposure and training of business managers. They can very well compare their own set-up and performance with the case studies for further deliberations and giving thrust to their policy perspective and operations.

Basic foundations and conceptual framework of modern business finance have been given in Part I which contains six chapters each dealing with an overview, types, uses and structure of financial statements, financial statement analysis and financial planning, financial modeling, profit planning and control (including issues relating to break-even of individual projects, sectors and processes, return-on-capital and optimum combination) and time value of money in terms of interest, inflation and consequent present value discounting of currency used for investment, profit, dividend, tax and relevant growth considerations. Illustrations provided are of current relevance and deal with the emerging scenario.

Specific areas of management of working capital have been dealt in Part II of the book which comprise of seven chapters each elaborating the conceptual and professional framework of working capital management, management of cash and marketable securities, cash flows forecasting, receivables management, inventory management short-term financing, and working capital control and banking policy. Profitability versus risk trade-off for alternative financing plans have been explained briefly in non-technical language. Determining the optimum levels of cash and marketable securities, the Baumol Model, the Beranek Model, the Stone Model, Heuristic approach, discriminant analysis, sequential decision analysis, inventory control models, factoring, off-balance sheet financing, differential cost and inflation

considerations, inter-firm comparisons, customer classifications, recommendations of Tandon and Kannan Committees reports, are other areas/ issues explained in this part. The treatment of topics covered here is simple, reasonably detailed and non-technical in nature. This enables both students and trainees to get clear ideas of various sophistications relating to working capital management. For professionals also this provides ample opportunity to grasp and present the material to various levels of non-financial functionaries.

Capital budgeting is the most important segment of financial management today, especially in view of quick ranging price level changes and pressures of time value of money and inflation accounting. This has been provided in Part III of the book in six chapters. Here major thrust is on capital budgeting decisions and cash flow principles, capital budgeting decisions under conditions of certainty and uncertainty, and issues relating to leasing and franchising. Broad guidelines for capital budgeting are also explained here. Analytical view of relationship between the IRR and NPV, ranking of investment proposal, dependent projects, multiple rate of return, multi-period capital constraints, artificially high discount rates, profit planning models, integer programming as applied to capital budgeting, risks and uncertainty, risk-adjusted discount rate approach, certainty-equivalent approach, Hillier's Model, Hertz's Model, Laplace Principle, Hurwicz Principle, Minimax Regret rule, proposals analysis, lease vs. purchase issues and considerations, have also been explained in this Part. The treatment of various topics and issues is extremely good and has been illustrated with appropriate examples from the practical world. This way the utility of this publication has surpassed most of the known text books in this area. Some of these chapters can very well be circulated to various sessions. However, not much attention has been paid on outsourcing as part of the capital budgeting process, discussion, analysis and evaluation. It is suggested that the author should take care of this in the next edition.

Part IV of the book discusses the valuation, cost of capital, capital structure and dividend pay out policy and issues. It contains eight chapters each dealing with valuation and rate of return, equity prices and valuation, components of cost of capital, theoretical foundations and issues relating to capital structure, basic tool of capital structure management, dividend theories and dividend policy. Issues relating to bonds and preference share financing and their servicing, dividend pay-out ratio, cost of equity capital and its servicing, risk-return and market price trade-off, zero dividend growth model, floating costs, tax planning and tax management considerations, retained earning and various types of reserves and provisions, capital-asset pricing model in capital budgeting, business risk vs. financial risk, financial leverage, financial break-even point and cost-volume relationship, capital structure valuation approaches (net income approach, net operating income approach, traditional Modigliani-Miller position), EBIT-EPS analysis, graphical analysis earnings covering standards, cost adequacy standards, computing the indifference points, issues relating to cash adequacy and cash inadequacy, Walter's formula of dividend policy, all these have been properly explained in this Part. The treatment is reasonably good and the approach is a mix of theory and

functional prepositions. However, some of the illustrations require updating in the light of changing tax policy and structure and market developments in the light of shareholders expectations, returns, alternate investment avenues available and risk and reward considerations which are undergoing changes at a fast rate these days.

Part V deals with selected topics in contemporary finance. Here discussion and explanation of mergers and acquisitions, business failure and reorganization, the world of financial derivatives, international financial management, corporate strategy of wealth creation and financial decision making have been appropriately explained and very well presented. Merger negotiations, target company approach and issues, consolidation, holding company structure, pooling of interest vs. outright purchase, business failures and reorganization, distribution of liquidation and merger acquisition proceeds, raising of funds for this type of consolidation, and legal and regulatory issues in mergers and acquisitions have been explained with current terminology and the approach is more functional than theoretical. International financial management has been explained with theoretical developments, global financial and investment markets, intra-company transfers, inter-governmental arrangements and agreements, globalization of capital market and round the clock trading in various types of financial instruments and value-additions, differential cost analysis in fund raising through means like depository receipts, external commercial borrowing, etc. international markets, performance management studies, EVA planning and management, and market value added approach (MVA) have also been discussed with admirable precision and analysis.

Five appendices and a carefully thought off index have increased the value of the book for all stake holders, teachers, training personnel, policy makers, students, managers, pre-experience and post-experience participants. Functionaries of regulatory agencies like SEBI, stock exchanges, economic ministries and national, regional and international inter-governmental organizations can very well take advantage of this publication as one-place guide.

A publication of this type is expected to devote reasonably good space to international and regional organizations like the International Monetary Fund, the World Bank and its associates (International Finance Corporation, International Development Agency, Multilateral Investment Guarantee Agency etc.), Asian Development Bank, OCED, International Chamber of Commerce, UN Conference on Trade and Development and even the World Trade Organization. Periodic publications of this are highly useful and should have been eminently suggested for further reading and grasp. Issues like family split, re-mergers and de-mergers, distribution of property, assets and capital on mutual arrangements, changing scenario of mutual funds and FII operations in the Indian capital market, double and multiple tax avoidance treaties and their operational experience etc. also need inclusion and reasonable discussion in a publication of this type. It is suggested that the author will take note of this and work out these at the time of releasing the next edition of this otherwise useful publication which is more than a traditional class room text.