Final Course
(Revised Scheme of Education and Training)
Study Material

PAPER 2

Strategic Financial Management

BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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E-mail : bosnoida@icai.in

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BEFORE WE BEGIN…

The ICAI has recently revised its course curriculum. The course has been changed keeping in view the modern requirements of Finance. Strategic Financial Management (SFM) is one of the core papers for students appearing in Final Level of Chartered Accountancy Course. The present study material is meant for the students appearing in SFM paper.

As you all are aware that SFM is a blend of Strategic Management and Financial Management. Recently, it has gained significance due to growing globalization and continuous cross border flow of capital.

Moreover, some chapters have been excluded from the study material which was there in the previous edition of August 2017. These are enumerated as follows:

(i) Indian Financial System
(ii) International Financial Centre (IFC)
(iii) Small and Medium Enterprises

Further, there are several significant characteristics of this study material which are outlined as below:

(i) It comprehensively covers the course requirements of students preparing for SFM paper.
(ii) It is written in a very simple and lucid manner to make the subject understandable to the students.
(iii) At the beginning of each chapter, learning outcomes have been given so that the students have some sort of idea about what he will learn after going through the chapter.
(iv) At the end of each chapter, the caption, “Test your Knowledge” is given. Basically, the purpose is to motivate the students to recapitulate the chapter which they have already read.
(v) While preparing the study material, it has been kept in mind that students understand the study material. Therefore, every effort has been made to keep the chapters concise, giving appropriate headings, sub-headings and mentioning examples at suitable places.

We are confident that this study material will prove to be extremely useful to the students.
Although, sincere efforts have been made to keep the study material error free, it is possible that some error might have inadvertently crept in. In this respect, students are encouraged to highlight any mistake they may notice while going through the study material by sending an e-mail at: sfm-final@icaи.in or write to the Director of Studies, The Institute of Chartered Accountants of India, A-29, Sector-62, Noida-201309.

Happy Reading and Best Wishes!
PAPER 2: STRATEGIC FINANCIAL MANAGEMENT

(One paper – Three hours – 100 marks)

Objective:

To acquire the ability to apply financial management theories and techniques in strategic decision making.

Contents:

(1) Financial Policy and Corporate Strategy
   (i) Strategic decision making framework
   (ii) Interface of Financial Policy and strategic management
   (iii) Balancing financial goals vis-à-vis sustainable growth.

(2) Risk Management
   (i) Identification of types of Risk faced by an organisation
   (ii) Evaluation of Financial Risks
   (iii) Value at Risk (VAR)
   (iv) Evaluation of appropriate method for the identification and management of financial risk.

(3) Security Analysis
   (i) Fundamental Analysis
   (ii) Technical Analysis
      a) Meaning
      b) Assumptions
      c) Theories and Principles
d) Charting Techniques

e) Efficient Market Hypothesis (EMH) Analysis

(4) Security Valuation

(i) Theory of Valuation

(ii) Return Concepts

(iii) Equity Risk Premium

(iv) Required Return on Equity

(v) Discount Rate Selection in Relation to Cash Flows

(vi) Approaches to Valuation of Equity Shares

(vii) Valuation of Preference Shares

(viii) Valuation of Debentures/ Bonds

(5) Portfolio Management

(i) Portfolio Analysis

(ii) Portfolio Selection

(iii) Capital Market Theory

(iv) Portfolio Revision

(v) Portfolio Evaluation

(vi) Asset Allocation

(vii) Fixed Income Portfolio

(viii) Risk Analysis of Investment in Distressed Securities

(ix) Alternative Investment Strategies in context of Portfolio Management
(6) Securitization

(i) Introduction
(ii) Concept and Definition
(iii) Benefits of Securitization
(iv) Participants in Securitization
(v) Mechanism of Securitization
(vi) Problems in Securitization
(vii) Securitization Instruments
(viii) Pricing of Securitization Instruments
(ix) Securitization in India

(7) Mutual Fund

(i) Meaning
(ii) Evolution
(iii) Types
(iv) Advantages and Disadvantages of Mutual Funds

(8) Derivatives Analysis and Valuation

(i) Forward/ Future Contract
(ii) Options
(iii) Swaps
(iv) Commodity Derivatives

(9) Foreign Exchange Exposure and Risk Management

(i) Exchange rate determination
(ii) Foreign currency market
(iii) Management of transaction, translation and economic exposures
(iv) Hedging currency risk
(v) Foreign exchange derivatives – Forward, futures, options and swaps

(10) International Financial Management
(i) International Capital Budgeting
(ii) International Working Capital Management
   a) Multinational Cash Management
      - Objectives of Effective Cash Management
      - Optimization of Cash Flows/ Needs
      - Investment of Surplus Cash
   b) Multinational Receivable Management
   c) Multinational Inventory Management

(11) Interest Rate Risk Management
(i) Interest Rate Risk
(ii) Hedging Interest Rate Risk
   a) Traditional Methods
   b) Modern Methods including Interest Rate Derivatives

(12) Corporate Valuation
(i) Conceptual Framework of Valuation
(ii) Approaches/ Methods of Valuation
   a) Assets Based Valuation Model
b) Earning Based Models

c) Cash Flow Based Models

d) Measuring Cost of Equity
   - Capital Asset Pricing Model (CAPM)
   - Arbitrage Pricing Theory
   - Estimating Beta of an unlisted company

e) Relative Valuation
   - Steps involved in Relative Valuation
   - Equity Valuation Multiples
   - Enterprise Valuation Multiple

f) Other Approaches to Value Measurement
   - Economic Value Added (EVA)
   - Market Value Added (MVA)
   - Shareholder Value Analysis (SVA)

g) Arriving at Fair Value

(13) Mergers, Acquisitions and Corporate Restructuring

(i) Conceptual Framework

(ii) Rationale

(iii) Forms

(iv) Mergers and Acquisitions
   a) Financial Framework
   b) Takeover Defensive Tactics
(v) Divestitures
   a) Partial Sell off
   b) Demerger
   c) Equity Carve outs

(vi) Ownership Restructuring
   a) Going Private
   b) Management/ Leveraged Buyouts

(vii) Cross Border Mergers

(14) Startup Finance

(i) Introduction including Pitch Presentation

(ii) Sources of Funding

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