BOOK REVIEW:

Title of the Book : Financial Management-11th edition , ISBN-978-93-259-8229-1

Author : I M Pandey
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Reviewed by : **Jyoti Suvalka***

The author is a Professor of Finance at the Department of Commerce, Delhi School of Economics. The first edition of the book on financial management was published in 1978 with an objective to develop a thorough understanding of concepts and theories underlying financial management in a systematic way. Eleventh edition of the book highlights the 'modern' analytical approach to the corporate financial decision making. Concepts are made clear in simple language before introducing complicated techniques and theories. The contents of the book run through 863 pages complimented by Author & Subject indices.

The content of the book is divided into eight parts and these parts are further sectioned into 35 chapters. At the end of each chapter, review questions and problems based on professional courses and examinations have been added. Problems illustrated in the book help this readers to apply concepts learned in the chapters. Each chapter contains a summary of key points as well as a list of key concepts. The book contains a number of real life problems and cases in Indian context in addition to examples and illustrative problems.

Part 1 comprises of six chapters and explains the concept of risks and returns in detail. Chapter 1 addresses initial concepts for understanding nature of financial management. It clarifies the difference between the functions of modern & traditional financial managers. This chapter has also delt with the agency problems faced by stakeholders. Chapter 2 is all about time value of money and it talks about basic concept like annuity, perpetuity, continuous compounding etc. Chapter 2 & 3 in continuation explain the concepts of valuation of bonds & shares. The analysis gives an insight into relationship between share prices, dividend policy & valuation of company. Chapter 4 is all about theories of capital market. The chapter attempts to answer how do investors make their investment decisions. It explains the concept of risk, return & standard deviation of single asset portfolio. Chapter 5 gives an insight into the concept of portfolio theory & capital asset pricing model and their practical implications. Chapter 6 explains the concept of beta estimation and cost of equity. Chapter 7 gives a brief idea of options and their valuation which are further discussed in detail in chapter 33.

Part 2 analyses basics of investment decisions. This part is comprised of chapters 8 to 13. Chapter 8 talks about various methods of capital budgeting and their acceptance rules. This one also explains how to deal with lending & borrowing projects. It gives a detailed idea of discounted & non discounted cash flow techniques of capital budgeting. Chapter 9 deals with cost of capital. It gives an in-depth idea of cost of equity & debt. It explains the various components of costs of capital & practical considerations of various factors while

**** Ms. Jyoti Suvalka***
Junior Research fellow,
Faculty of Management Studies,
Mohan lal Sukhadia University
Rajasthan

determining cost of capital. Chapter 10 throws light on the various components of cash flows & how to obtain correct cash flows. It explains why should investment decisions treated separately from financing decisions. This chapter has also t a glimpse of tax considerations on various cash flows and also talks a little bit about tax shields. Chapter 11 deals with complex investment decisions such as projects with different life span, replacement of existing assets etc. Chapter 12 puts a step forward towards the risk analysis in capital budgeting. It explains various types of risks and methods of accessing these. The chapter also touches on complex methods of risk analysis such as sensitivity analysis & scenario analysis in very simple forms , easily understandable by the reader. Chapter 13 takes us away from the sequence and talks about various investment strategies and their processes; it analyses in detail the cash flows from various investment avenues in a very simple manner with lots of practical examples.

Part 3 comprises of chapters 14 to 18 and deals with aspects of financing and dividend decisions of a firm. Chapter 14 talks about financial & operating leverages and gives a detailed idea of the same. It explains the relationship between financial leverage and shareholders risk .The chapter helps in determining the appropriate combination of operating & financial leverages of a firm. Chapter 15 deals with the theories & policies of capital structure followed by MM theory and other views. This chapter also throws light on the various practical considerations in determining capital structure. Chapter 16 explains valuation, financing & evaluation of projects. The chapter introduces the concept of beta, opportunity cost of capital, subsidized financing etc. It also talks about the various alternatives available for appropriate valuation of project. Chapter 17 explains the dividend theory in detail. Various aspects of dividend theory are explained comprehensively. It tries to answer the most prominent question regarding dividend i.e. why or why not dividends. Chapter 18 in continuation with chapter 17 explains various dividend policies. It throws light on the conflict between shareholders and management interest. It also explains various forms of dividends i.e. cash, bonus etc.

Part 4 is spread through next five chapters that manage to explore various long term financing instruments. Chapter 19 deals with the capital market efficiency in general and capital markets in India. The chapter critically examines the efficiency and importance of capital market in India. Chapter 20 explains long term financing instruments such as shares, debenture and term loans in detail. Chapter 21 is an extension of previous chapter and goes one step ahead towards convertible debentures and warranties. Chapter 22 introduces the advance financing alternatives related to asset side of the balance and it discusses the three most popular asset based financing alternatives i) lease ii) hire purchase iii) project financing. It also highlights the advantages and disadvantages of using the above alternatives. Chapter 23 comments how venture capital financing plays a strategic role in financing small enterprises, high technology using enterprises & risky ventures .This chapter explains what venture capital is, how it differs from traditional financing and its potential benefits. The chapter also examines the current status of venture capital in India.

Part 5 comprises of three chapters covering the financial statement analysis and in turn lays the foundation for financial planning and strategies. Chapter 24 explains that three basic financial statements i.e. balance sheet, profit and loss account and cash flow statements are of great significance to owners, management and investors .This chapter highlights the importance of the statement of changes(cash flow & fund flow) in financial positions. Chapter 25 emphasizes that financial analysis is the starting point for making plans. This chapter takes up various types of ratio and comparative statement analyses. It also explains the utility and limitations of ratio analysis. Chapter 26 discusses how financial and profit planning help a firm's financial manager to regulate the flows of funds. This chapter also attempts to clarify the difference between financial forecasting and planning. It also gives a brief introduction to sensitivity analysis.

Part 6 have next five chapters dealing with the concept of working capital. Chapter 27 gives a detailed overview of principles of working capital management. Here, issues relating to the management of current assets are discussed. Also, various policies of financing current assets are also explained here. The discussion clearly brings forth that a balanced approach to finance current assets is to finance fixed current assets by the long term source of finance and temporary current assets by the short term sources of finance because short term debt is considered to be risky and costly to finance permanent current assets. Chapter 28 discusses receivables management and factoring .It explains how a substantial amount of receivables is tied up with trade debtors, so it needs a careful analysis and proper management. The chapter has also discussed the nature and types of factoring of receivable services and its cost & benefits. Chapter 29 highlights the need, nature and techniques of inventory management. This chapter focuses on the need for analyzing inventory problems as an investment decision. It also gives a practical insight into inventory management techniques. It explains the various inventory control systems like ABC inventory control system, just in time system etc. It also discusses cash collection instruments in India and various ways by which one can accelerate cash collections. Chapter 31 explains the concept of working capital finance .It narrates norms used by banks in financing a firm's working capital need. It emphasizes the importance of commercial paper as a method of working capital finance in India .The chapter also discusses the implication of the recommendations suggested by the Tandon Committee.

Part 7 takes us towards advance level of finance, recent trends in finance and international finance. It consists of four chapters from 32 to 35. Chapter 32 discusses mergers and acquisitions and motives behind them. It explains how mergers and acquisitions help in creating value for the firm. The chapter explains various considerations and issues, legal frame work involved in mergers and acquisitions. Chapter 33 introduces the concept and terminology of derivatives .It explains why a firm needs hedging and how derivatives can be used to hedge risks. It discusses forward, future and option contracts. It also explains the use of swap to hedge interest rate and currency risks involved in international trade. Chapter 34 talks about international financial management. This helps us to understand the mechanism of international capital market, relationship between interest rate, exchange rate and inflation. It focuses on the techniques that can be used to hedge foreign exchange risks. It explains how capital budgeting decision are made and what are the methods of financing international operations. Chapter 35 talks about the concept of shareholders value and the corporate governance. It emphasizes on the value creation for shareholders and the need for a linkage between financial goals and strategy. It develops the framework for the shareholder's value analysis and introduces the concept of economic value and market value addition. It explains the significance of a balanced score card as a comprehensive performance evaluation system. The chapter also highlights the features of good corporate governance. Part 8 is comprised of various table and appendices of the subject.

The book contains a comprehensive treatment of topics on valuation, risks and returns, options, capital budgeting, capital structure, dividend decisions ,working capital management, mergers & acquisition ,shareholder value, corporate governance and international financial management with a view that readers understand these financial decisions thoroughly well and are able to evaluate their implications for shareholders and the company. The financial analysis, planning and modeling techniques are also discussed in detail.