

## Paper 14

## STRATEGIC FINANCIAL MANAGEMENT (SFM)

100 Marks

Module No.	Module Description	Weight
<b>Section A: Investment Decisions</b>		<b>25%</b>
1	Investment Decisions, Project Planning and Control	10%
2	Evaluation of Risky Proposal for Investment Decisions	10%
3	Leasing Decisions	5%
4	Securitization	
<b>Section B: Security Analysis and Portfolio Management</b>		<b>35%</b>
5	Introduction	5%
6	Equity and Bond Valuation and Evaluation of Performance	15%
7	Mutual Funds	
8	Portfolio Theory and Practice	
9	Asset Pricing Theories	15%
10	Portfolio Performance Evaluation and Portfolio Revision	
11	Efficient Market Hypothesis	
<b>Section C: Financial Risk Management</b>		<b>20%</b>
12	Risks in Financial Market	20%
13	Financial Derivatives - Instruments for Risk Management	
<b>Section D: International Financial Management</b>		<b>15%</b>
14	The International Financial Environment	5%
15	Foreign Exchange Market	10%
16	Foreign Exchange Risk Management	
<b>Section E: Digital Finance</b>		<b>5%</b>
17	Digital Finance	5%

## SECTION A: INVESTMENT DECISIONS

### 1. Investment Decisions, Project Planning and Control

- 1.1 Measuring Cash Flows, Discounted Cash Flow Technique for Project Evaluation
- 1.2 NPV and IRR - Conflict and Resolution, The Modified Internal Rate of Return (MIRR), Comparing Projects with Unequal Lives, The Concept of Abandonment Value, Modified Accelerated Cost Recovery System (MACRS)
- 1.3 Inflation Adjusted Cash Flow Forecasting in Capital Budgeting
- 1.4 Capital Rationing for Divisible and Non – divisible Projects (with Application of Integer Programming)
- 1.5 Social Cost Benefit Analysis

### 2. Evaluation of Risky Proposals for Investment Decisions

- 2.1 Risk Analysis in Capital Budgeting - Certainty Equivalent Approach, Risk Adjusted Discount Rate, Expected NPV, Standard Deviation of NPV and Use of Normal Distribution, Decision Tree Analysis, Options in Capital Budgeting
- 2.2 Sensitivity Analysis
- 2.3 Scenario Analysis
- 2.4 Monte Carlo Simulation

### 3. Leasing Decisions

- 3.1 Lease Financing – Evaluation of Lease vs. Buy Options
- 3.2 Break-Even Lease Rental Determination and Implicit Rate
- 3.3 Cross Border Leasing, Sale and Lease Back

### 4. Securitization

- 4.1 Definition and Concept and Benefits of Securitization
- 4.2 Participants in Securitization
- 4.3 Mechanism and Problems of Securitization
- 4.4 Securitization Instruments

## SECTION B: SECURITY ANALYSIS & PORTFOLIO MANAGEMENT

### 5. Introduction

- 5.1 Fundamental Analysis
- 5.2 Technical Analysis

### 6. Equity and Bond Valuation and Evaluation of Performance

- 6.1 Equity Valuation - Discounted Cash Flow Based Valuation, Relative Valuation using Multiples and Weights
- 6.2 Bond Valuation - Prices & Yields

### 7. Mutual Funds

- 7.1 Meaning, Advantages and Disadvantages, Structure and Types

- 7.2 Regulations
- 7.3 Computation of NAV
- 7.4 Evaluation of Performance and Movements in Security Values and NAVs of Mutual Funds for Investment Decisions: Perspective of AUM Managers and Individual Investors
- 7.5 ETF, REIT, InvIT
- 8. Portfolio Theory and Practice**
  - 8.1 Portfolio Return and Risk, Systematic and Unsystematic Risk, Diversification strategies (Naïve vs the Markowitz Model)
  - 8.2 Optimal Portfolio, Efficient Frontier, Capital Market Line
  - 8.3 Principles of Asset Allocation, Active and Passive Asset Allocation
- 9. Asset Pricing Theories**
  - 9.1 Single Factor and Multifactor Asset Pricing Theories: CAPM and APT
  - 9.2 Concepts and Applications (including Levered Beta and Unlevered Beta)
- 10. Portfolio Performance Evaluation and Portfolio Revision**
  - 10.1 Conventional Performance Evaluation
  - 10.2 Market Timing and Style Analysis
- 11. Efficient Market Hypothesis**
  - 11.1 Definition
  - 11.2 Forms of Market Efficiency
  - 11.3 Implications

## SECTION C: FINANCIAL RISK MANAGEMENT

- 12. Risks in Financial Market**
- 13. Financial Derivatives – Instruments for Risk Management**
  - 13.1 Introduction to Financial Derivatives
  - 13.2 Forward and Futures – Meaning and Difference, Pricing, Stock Futures, Index based Futures, Hedging through Futures
  - 13.3 Options
    - 13.3.1 Meaning, Features and Types of Options, Option vs. Forward and Futures, Profitability of Option, Profit Profile of Buyer and Seller, Value of Option, Determination of Option Premium
    - 13.3.2 Option Strategies
    - 13.3.3 Put-Call Parity Relationship, Valuation of Options using Binomial Tree Approach and Black-Scholes Model, The Greeks
  - 13.4 Swaps
    - 13.4.1 Meaning, Features, Types, Benefits of Swaps
    - 13.4.2 Interest Rate Swaps, Credit Default Swaps

- 13.5 Interest Rate Derivatives – Forward Rate Agreement, Interest Rate Futures and Options, Caps, Floors and Collars

## SECTION D: INTERNATIONAL FINANCIAL MANAGEMENT

### 14. The International Financial Environment

- 14.1 International Financial Institutions and Markets
- 14.2 Sources of Foreign Currency

### 15. Foreign Exchange Market

- 15.1 Introduction – Structure of Foreign Exchange Market
- 15.2 Foreign Exchange Rate – Meaning, Determinants, Equilibrium Exchange Rate, Exchange Rate Quotations – Meaning, Direct vs. Indirect Quote, American vs. European Quote, Bid-Ask Rate and Spread, Cross Rates
- 15.3 Segments of Foreign Exchange Market – Spot Market (including two and three-point Arbitrage), Forward Market
- 15.4 Foreign Currency Derivatives
  - 15.4.1 Currency Forwards
  - 15.4.2 Currency Futures
  - 15.4.3 Currency Options
  - 15.4.4 Currency Swaps
- 15.5 Parity Relationships

### 16. Foreign Exchange Risk Management

- 16.1 Transaction Exposure
- 16.2 Translation Exposure
- 16.3 Operating Exposure

## SECTION E: DIGITAL FINANCE

### 17. Digital Finance

- 17.1 Meaning, Traditional Finance vs. Digital Finance
- 17.2 Digital Finance Ecosystem –
  - 17.2.1 Digital Infrastructure
  - 17.2.2 Digital Money – Cards, Central Bank Digital Currency
  - 17.2.3 Digital Assets – Non-Fungible Tokens, Private Cryptocurrency, Stablecoins
  - 17.2.4 Digital Financial Services – Wallets, UPI, Neo-Banks, FinTech
- 17.3 Regulation and Governance in a Digital Finance Environment