FINANCE FOR NON-FINANCE – MODULE I
OVERVIEW OF FINANCE CONCEPTS

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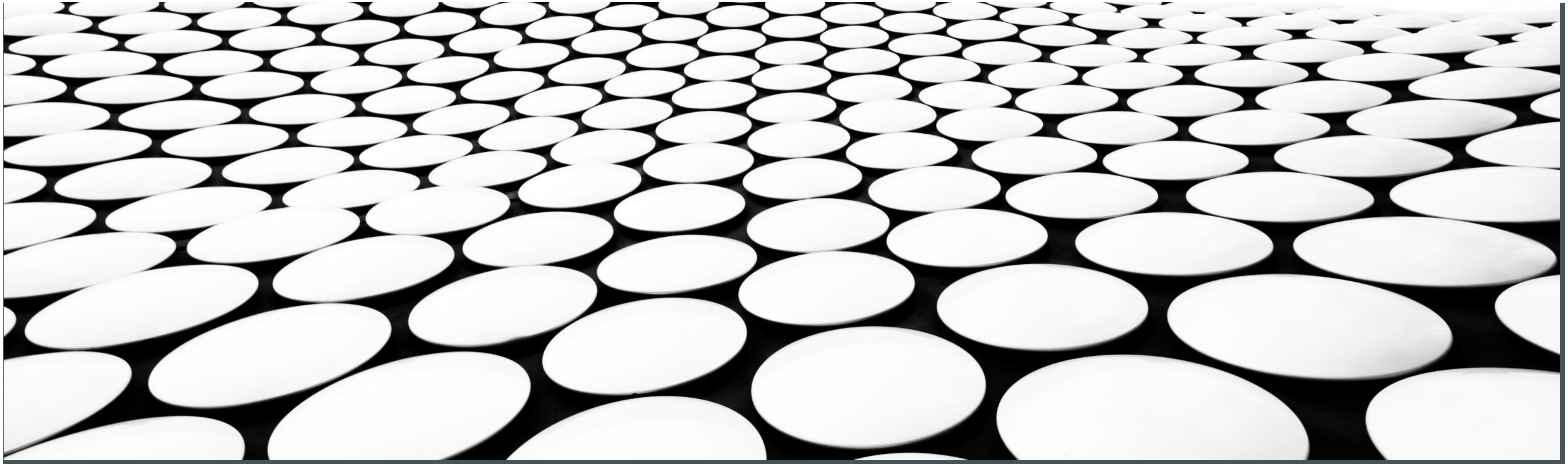
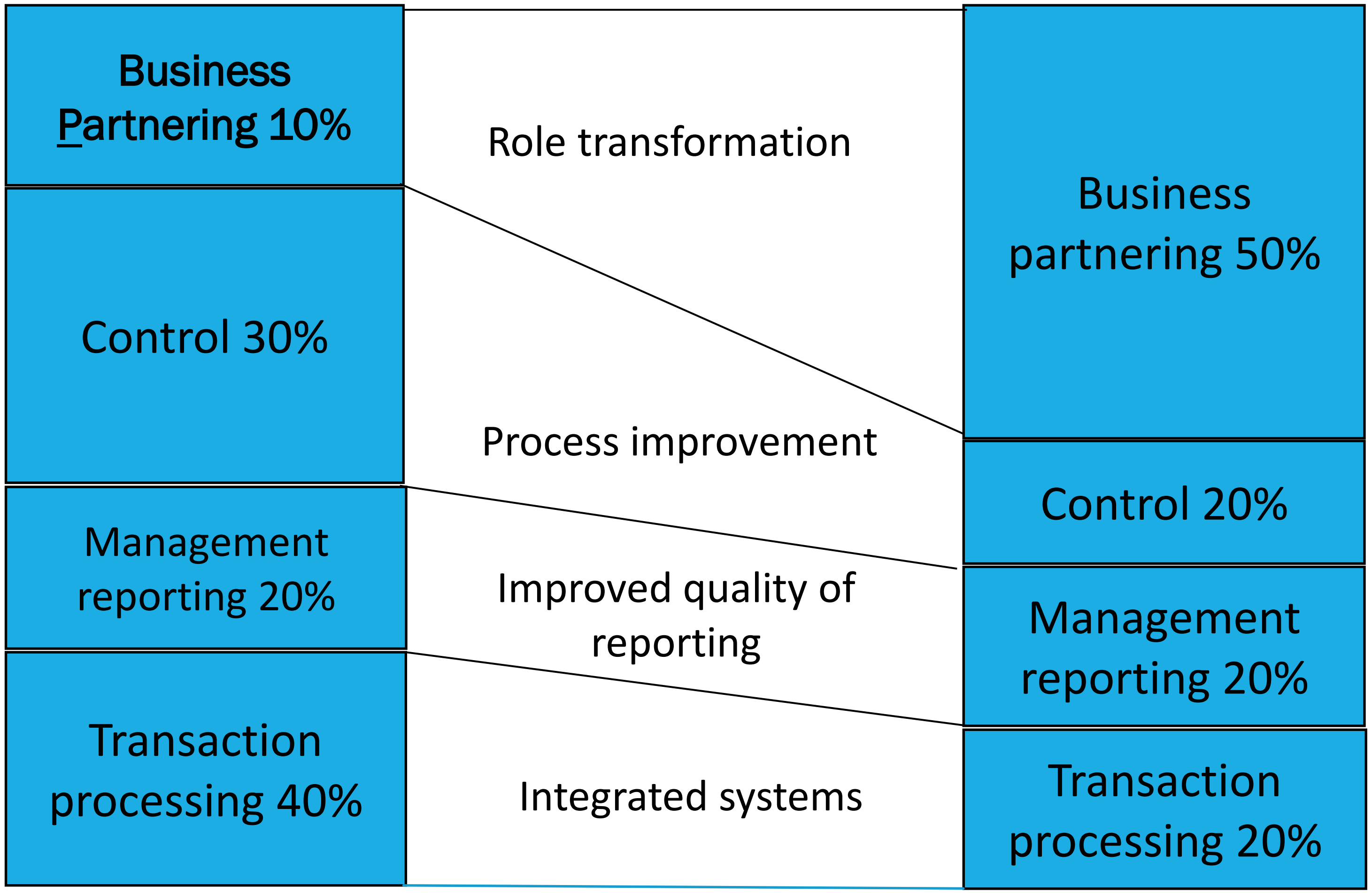


FINANCE FOR NON-FINANCE – MODULE I

❑ **LEARNING OUTCOMES**

- **ROLE OF FINANCE FUNCTION**
- **Planning Finance**
- **Raising sources of Finance**
- **Investment of Finance**
- **Monitoring and control of Finance**
- **Building the edifice**
- **Stewarding Governance**
- **Partnering in Corporate Restructuring**

ROLE OF FINANCE FUNCTION – A TECTONIC SHIFT



ROLE OF FINANCE FUNCTION – A TECTONIC SHIFT

Managing assets	Managing resources
Built around assets	Built around capabilities
Focus on managing numbers	Focus on creating value
Hierarchy driven	Network driven
Independent parts	Parts interwoven and integrated
Solve problems	Anticipate problems
Reactive	Responsive
Command and control	Empowered and enriched

ROLE OF THE CFO AND FINANCE FUNCTION

Guiding the organization through business support

Optimizing finance operations

Role of finance function

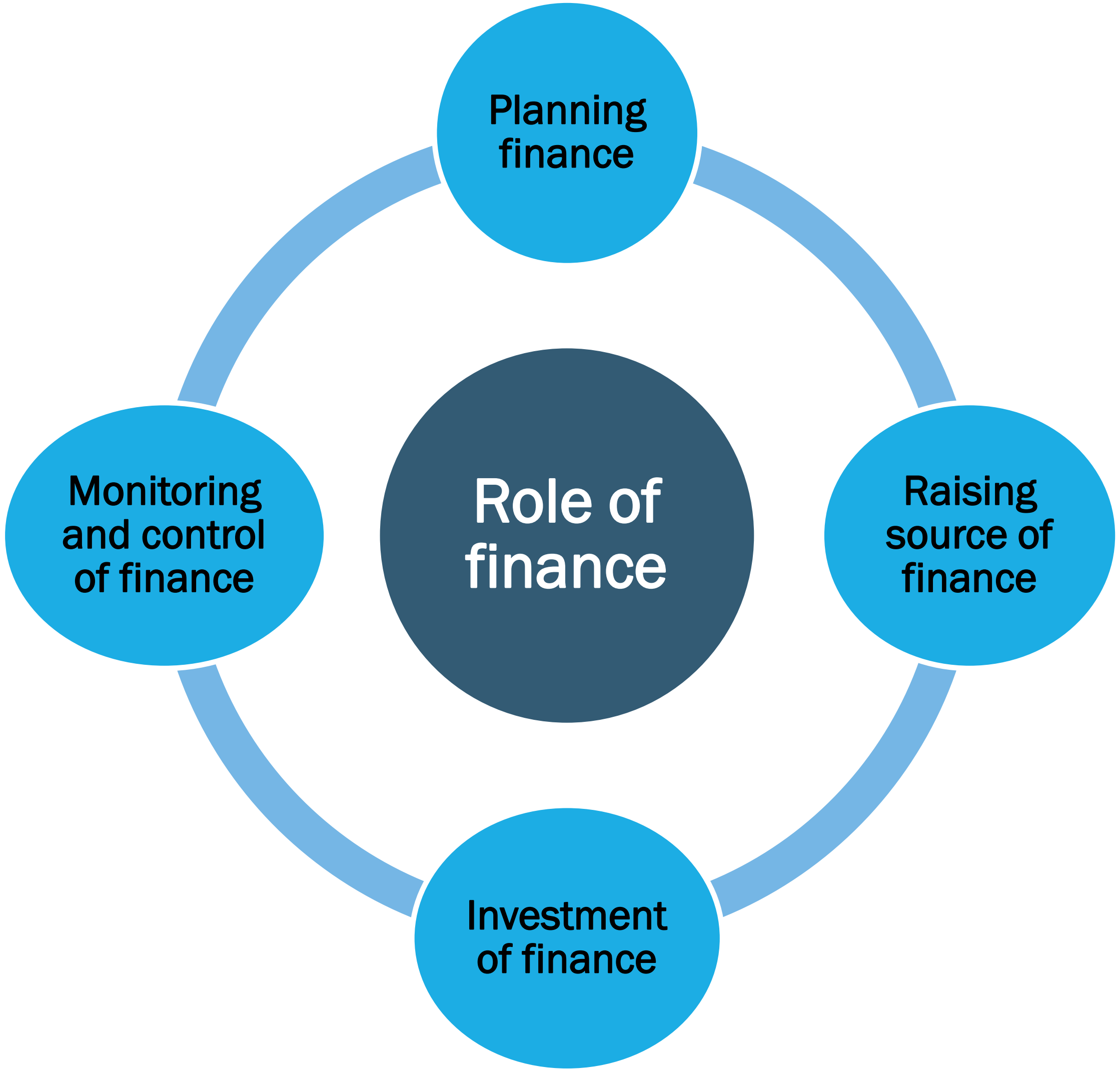
Embedding finance discipline

Managing the finance of Organization

ROLE OF THE CFO AND FINANCE FUNCTION

Guiding the organization through business support	Optimizing finance operations	Embedding financial discipline in the enterprise	Managing Finance Organization
Planning and strategy	Transaction processing	Corporate Governance	Finance Organization structure
Budgeting and forecasting	Financial and Management reporting	Enterprise risk management	Finance Resource Allocation
Line decision support	Ensure optimum utilization of capital employed	Process standardization and simplification	Information system management support
Supporting enterprise initiatives	Investor relationship	Articulate performance management	Finance Organization development
Facilitation of enterprise support systems		Information Management support	
Funding for growth		Board decision support	

ROLE OF FINANCE FUNCTION



ROLE OF FINANCE FUNCTION

Planning finance

- Preparation of Strategy Plan
- Preparation of Financial Plan
- Identification of funding requirement over the foreseeable future based on projected cash flows

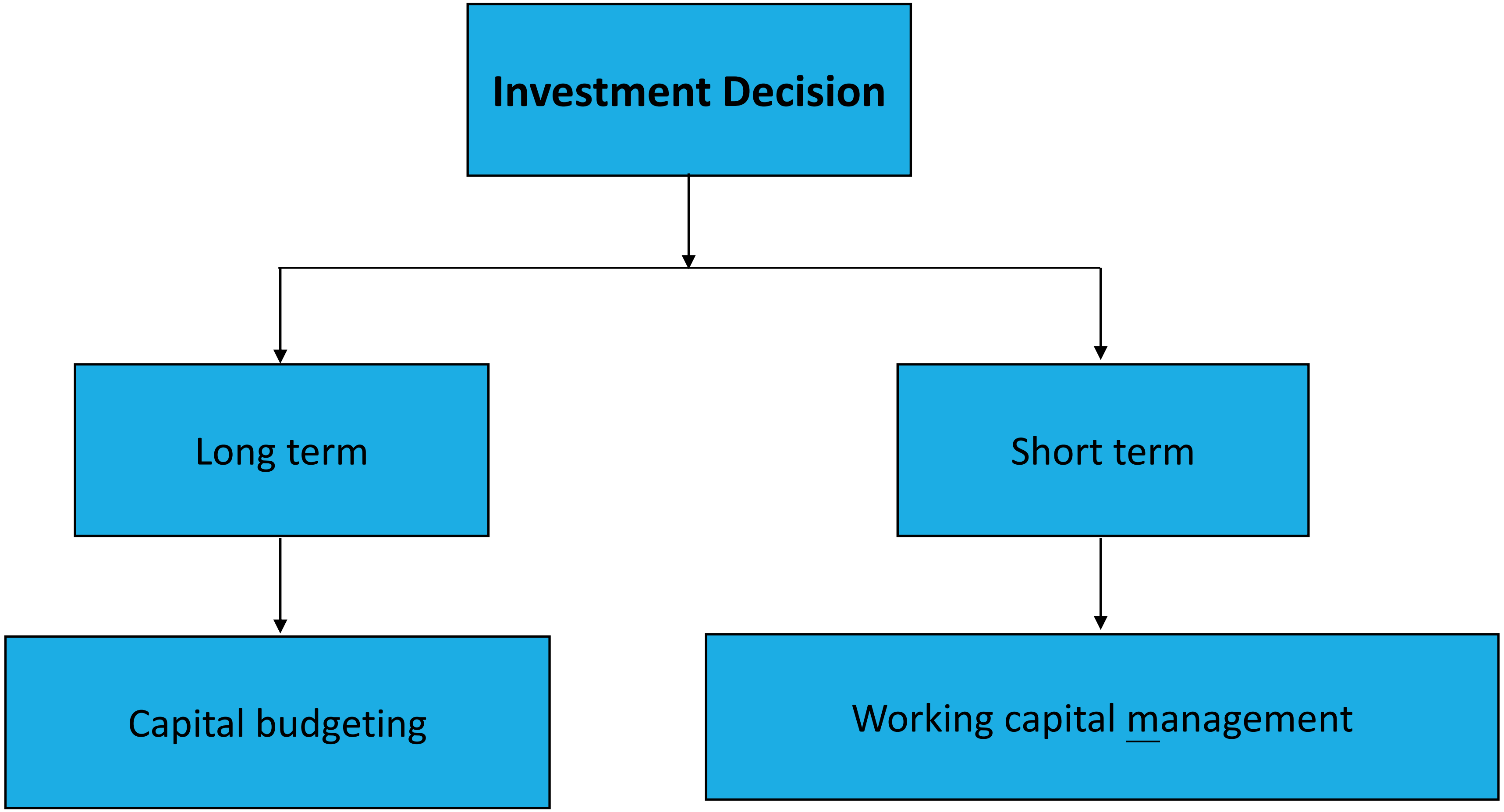
ROLE OF FINANCE FUNCTION

Raising source of finance

Managing the Capital Structure	A firm's capital structure or financing decision is concerned with obtaining funds to meet the firm's long-term investment and short-term funding requirements. Concerning long-term investment decisions, the firm looks at a specific blend of long-term debt and equity, which the firm uses to finance its assets. The optimal capital structure minimizes the overall cost of capital and maximizes the firm's value.
Cost	The cost of raising funds from different sources may be different. The cost of equity is more than the cost of debts. The cheapest source of funds needs to be assessed and selected based on prudence and conservatism.
Risk	The risk associated with different sources will be different. More risk is associated with borrowed funds as compared to the owner's fund, as interest is paid on it and it is also repaid after a fixed period or on expiry of its tenure and this is called default risk.
Transaction cost	The cost involved in issuing securities such as broker's commission, underwriter's fees, expenses on the prospectus, etc. is called transaction cost. Higher the transaction cost, less attractive is the source of finance.
Cash Flow Position	The cash flow position of the business is very crucial in this decision. If the cash generation is good enough, then, the firm can go for borrowed funds.
Control	In case, if the complete control is to be retained by the existing shareholders, then finance can be raised through borrowed funds but if the existing shareholders are willing to dilute control over the business, equity shares can be used for raising finance.
Mode of Raising of Finance	When there is a boom period, finance can easily be raised by issuing shares but during the period of depression, raising finance by utilizing debt may be comparatively easier and more competitive.

ROLE OF FINANCE FUNCTION

Investment of finance



ROLE OF FINANCE FUNCTION

Long term investment decision

Capital Budgeting Techniques	The first step involved in Capital Budgeting is to select the asset, whether existing or new, based on the benefits that are expected to be derived from it in the future.
Ascertain Cash Flows	The next step is ascertaining the cash flows of the project. This entails the evaluation of the series of cash receipts and payments over the life of an investment proposal.
Evaluate Uncertainty and Risk	The third step is to analyse the proposal's uncertainty and risk involved in it. Since, the benefits are to be accrued in the future, the uncertainty is high concerning its returns.
Minimum Rate of Return	Finally, the minimum rate of return is to be set against which the performance of the long-term project can be evaluated. Here the minimum rate of return is worked out based on the time value of money and it is ensured that the rate of return of the project is higher than the cost of funds, which is worked out based on the average cost of equity and debt funds. This is called the weighted average cost of capital of the entity.
Allocation of Long- Term Funds	Long-term funds are allocated towards the following areas depending on the setting of priority by the top management: ● Expansion of business segments or divisions ● Acquisition of assets (tangible and intangible), and ● Diversification of business ● Productivity improvement ● Product improvement ● Investment in Research and Development ● Mergers and acquisitions.

ROLE OF FINANCE FUNCTION
Short term investment decision

The investment decision related to current assets or short-term assets is termed as **Working Capital Management**.

Working capital management deals with the management of current assets that are highly liquid. The key areas related to working capital investment decisions centre revolves broadly around the following:

- Review of the operating cycle of the business,
- accordingly, decide how much inventory to keep
- the deciding ratio of cash and credit sales
- Effective administration of bills receivables and payables
- Proper management of cash and investment of surplus cash, if any, to marketable securities for generating adequate return

The investment decision in short-term assets is critical for an organization as short-term survival is necessary for long-term sustenance. Through effective working capital management, a firm tries to maintain a balance between profitability and liquidity at the lowest cost of funds.

ROLE OF FINANCE FUNCTION

Monitoring and control of finance

Create control environment across following processes:

- ❑Vision, Mission and Goals
- ❑Revenue – Billing to Cash
- ❑Purchase to Payables
- ❑Recording to Reporting of transactions
- ❑Information systems and control
- ❑Budget and budgetary control

ROLE OF FINANCE FUNCTION

Building the edifice

Partner with business to develop robust strategy	Develop best-in-class finance structure	Build state-of-the- art financial systems and processes in digital space

ROLE OF FINANCE FUNCTION

Stewarding Governance

Balance Sheet management

Financial Reporting

Financial health and hygiene

Modelling for business decisions

Enterprise risk management and financial control

Corporate Governance and compliance

ROLE OF FINANCE FUNCTION

Partnering in Corporate Restructuring

Facilitate corporate restructuring

Manage mergers & acquisitions

Financial due diligence

Enterprise valuation

Manage start-ups

Strategy

Business plan

Fund raising initiatives

THANK YOU!