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Financial Management Practices in India

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Finance is the life blood of any business organization. It has always remained an important area of interest for academicians, researchers and business managers. The vast expansion of financial markets and increasing participation of people with financial system of the country, financial management has also gained attention and interest of common man who wish to know about and understand various aspects of financial management. Finance has always attracted interest of academicians, policymakers, business managers and researchers. However, there is a gap between what is taught in the classrooms and how those learnings are implemented in the real life by business managers. The books that try to bring together these aspects are highly appreciable.

The present book under review titled, "*Financial Management Practices in India*", is a hard bound book authored by Dr. Sandeep Goel and published by *Routledge* in the year 2016. Author claims that it is a book based on cases which tries not only to develop understanding about various concepts of financial management but also helps the managers to use it as an effective tool for communication, monitoring, analysis and resource allocation.

Overview of the book

The book is divided into five sections namely; 'Introduction', 'Investment Decisions: Capital Budgeting', 'Financing Decision', 'Investment Decision: Working Capital Management' and 'Dividend Decision'. In the overall structure of the book, the author first discusses the various theories and practices that are relevant for that section and then he makes the data representation and very basic analysis of that data. Each chapter of a particular section contains discussion about a different industry. The book covers a variety of industries taking the total number of chapters to twenty seven. The author has made these discussions by considering the secondary data mainly obtained from annual reports of different companies (as claimed by the author). The analysis covers a period of five years from 2006-2007 to 2010-2011. The entire discussion about the companies has been dealt with the help of ratio analysis represented with the help of pie diagrams, bar diagrams and line charts. The chapters don't cover an industry wise view. In each of the chapters the author briefs about the companies under consideration and provides a brief financial profile of the company. The chapters end with a few discussion with questions. The whole book is organized into very small chapters ranging from four pages to fifteen pages. It is difficult to get the logic of such small chapters of four to six pages.

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Coverage in different parts

The first part of the book covers introduction about financial management. The coverage is very basic that runs through four and half pages. The section “financial management scene in India” in fact doesn’t say anything and in my opinion has been added just to fill one page in the chapter. I am making this opinion because the section fails to explain any specific about any development with respect to financial management in India.

The second part of the book covers ‘capital budgeting’ an important aspect of financial management that determines the risk and return scenario of any business enterprise. The discussion in this part is covered in six chapters. The first chapter introduces capital budgeting and its process in three and half pages. The discussion about the methods of evaluating capital budgeting projects and the evaluation of risk in capital budgeting projects needs more elaborations. Since the focus group for the book comprises of researchers, business managers and academicians the brief discussion is understandable, still, it requires further explanation.

The rest of the five chapters discuss the trend of investment made in reality sector, pharmaceutical sector, FMCG sector, automobile sector and power sector. The discussion is based on reported investment of different companies into fixed assets and current assets as it stands at the end of the year. Across all the sectors the book shows the trend about the amount invested by these companies. The author has used column charts to represent the invested amounts.

While the reader goes through the first chapter, it gives an impression that the techniques of capital budgeting and techniques of risk assessment in capital budgeting projects which is discussed (rather mentioned) in brief will be discussed in detail with the help of the real time data in the later chapters. It is assumed by the readers who are going through a book on such topic that the book will be able to answer at least the following:

- What are the methods commonly adopted by the business managers while considering capital budgeting projects?
- Is there any change in the practices adopted by the Indian business managers over the span of five years that has been covered?
- If so, what were the major reasons behind that?
- How these business managers are assessing the risk involved in the capital budgeting projects?
- And many more similar questions.

However, the book does not reach completely to the expectation of readers in this regard. There is no reference to what has been discussed in the opening chapters while analysis is being done in rest of the chapters. This shows the lack of coherency across the chapters. On page number thirty two (32), there is an endnote that provides the following link: http://www.livemint.com/industry/LyNBizkuOMdmThw6iaoGbN/Five-trends-that-will-drive-FMCG-growth-in-2013.html

The author claims it to be accessed on 25th June, 2012, however, when it was accessed it clearly shows that the post was first published on 31st January, 2013. There seems to be some typographical error in this respect.

The second part of the book completely disappoints to its readers.

The third part of the book that runs through eight chapters covers the discussion on financing decisions by the business managers in India. The basic structure of the third part is same as the previous part. The first chapter covers different capital structure theories and the factors that affect the capital structure of an organization. The remaining seven chapters cover how different companies of different sectors are financing their investment requirements. The entire analysis is based on the ratio analysis. Primarily Debt-equity ratio, Interest coverage ratio and debt servicing ratio have been used in this regard. The data presentation has been done using pie charts, line charts and bar diagrams. Chapter nine covers a good financial statement analysis. There has been a discussion on beta factor in chapter eleven. The nature of the industry has great influence on the proportion of debt being employed by an organization. The same has also been reflected through the different chapters.

However, the story is not different here than the second part. This segment also lacks coherency. What has been discussed in first chapter has no mention in the remaining chapters. Even the opening chapter is very poor. On page 67 there is a mention of ‘traditional theory/tradeoff theory’. The discussion in this section is very poor. While it discusses the different stages of deploying debt in the capital structure but it is silent about the reasons behind those stages. Also, a discussion about trade-off theory without mention of interest–tax- shield and cost of bankruptcy fails to give any relevance to the mention. This segment fails to give any mention of trade-off between what and makes it incomplete. The different theories mentioned here are in extreme brief. One would not like to take precision over explanation required for understanding.

Within the same chapter factors affecting capital structure are listed. However, it fails to explain how these factors affect the capital structure and which theory will lead to what kind of capital structure in the presence of such factors. For example, as per pecking order theory the firms with higher profitability will have lower debt-equity ratio.

The chapter is also silent about the cost of raising capital these firms were subjected to in the span period while they were raising the finances required. There is no discussion about weighted average cost of capital or marginal cost of capital that these firms were subject to.

The third part is much better than the second part but it would have been better if the author had taken a bit more care. For instance the author suddenly starts discussion on beta analysis in chapter eleven but he fails to reasonably justify the discussion. On page number 112 the author states “it’s better to choose equity option if EPS is better at any value of EBIT; however, it is advisable to choose debt option, if EPS is higher at any value of EBIT”, the statement ends and there is no clarification so as to why the author says so. Such numerous confusing statements should have been avoided.

The fourth part deals with working capital management. The entire discussion is covered in seven chapters in the similar manner as done in the previous parts. The first chapter of the segment introduces different approaches of working capital management and financing of working capital. In rest of the chapters a ratio analysis has been done using Debtor turnover ratio, average collection period and stock turnover ratio on industry-wise data of different companies for the span period. A few statistical parameters have also been used at relevant places.

This segment is the best segment in the entire book. The discussion on various aspects of working capital management has been discussed in a much better manner than the previous sections. The coherency between the first chapter of the segment and rest of the chapter is reflected in this section. The nature of the industry has a great influence on the level of the working capital and the manner in which it is financed. The chapters in this segment explain it to a great extent. The coverage in this section gives a good insight of Indian industries.

The fifth and the last part in the book covers the dividend decisions. This is comparatively a smaller unit with five chapters arranged in the similar theme, the first chapter covering the introduction about various dividend decisions and their impact on value of the firm and remaining four chapters covering data analysis through ratios based on the annual data of companies from four different industries. The segment is able to explain the different practices the covered companies are following, for instance, the policy of dividend payment such constant dividend payout or constant dividend payout ratio. This segment is able to provide an important insight about the dividend policies of various companies and the impact of dividend decision on firms share value.

However, this segment of the book is also not free from the problems of incomplete discussion. If you refer to chapter number twenty seven, the whole chapter is reported in the form of tables. However, neither the tables are self-explanatory nor there is any discussion about it. For instance table 27.4 represents dividend paid and market return of Nippo. It lists information about year, stock price, dividend paid and Sensex but it doesn’t provide any solution to the questions like how the share value of Nippo changed due to the declaration of dividend, the purpose of listing Sensex here, and the date of recording Sensex. There is also a confusion for the reader that why the author has calculated various correlation coefficients. Even the author didn’t use them in discussion even once.

Conclusion

In short, the book titled “Financial Management practices in India” disappoints the readers. It requires an overhauling and redesigning of the entire book. For me, this book is a good commentary on Indian industries. Unnecessary chapters of miniscule number of pages only add to number of chapters than any clarification. The book primarily focuses on realized results of the industries but it fails to explain what the policy a particular firm is adopting. However, it is a good efforts by authors to bring a book of financial management based on cases from India. It triggers a thought to others as well to work on such theme more seriously. The publisher seems to have done a great job.