

Preface

The teaching and the practice of corporate finance are more challenging and exciting than ever before. The last decade has seen fundamental changes in financial markets and financial instruments. In the early years of the 21st century, we still see announcements in the financial press about such matters as takeovers, junk bonds, financial restructuring, initial public offerings, bankruptcy, and derivatives. In addition, there is the new recognition of “real” options, private equity and venture capital, and the disappearing dividend. The world’s financial markets are more integrated than ever before. Both the theory and practice of corporate finance have been moving ahead with uncommon speed, and our teaching must keep pace.

These developments place new burdens on the teaching of corporate finance. On one hand, the changing world of finance makes it more difficult to keep materials up to date. On the other hand, the teacher must distinguish the permanent from the temporary and avoid the temptation to follow fads. Our solution to this problem is to emphasize the modern fundamentals of the theory of finance and make the theory come to life with contemporary examples. Increasingly, many of these examples are outside the United States. All too often the beginning student views corporate finance as a collection of unrelated topics that are unified largely because they are bound together between the covers of one book. As in the previous editions, our aim is to present corporate finance as the working of a few integrated and powerful institutions.

THE INTENDED AUDIENCE OF THIS BOOK

This book has been written for the introductory courses in corporate finance at the MBA level and for the intermediate courses in many undergraduate programs. Some instructors will find our text appropriate for the introductory course at the undergraduate level as well.

We assume that most students either will have taken, or will be concurrently enrolled in, courses in accounting, statistics, and economics. This exposure will help students understand some of the more difficult material. However, the book is self-contained, and a prior knowledge of these areas is not essential. The only mathematics prerequisite is basic algebra.

NEW TO THE EIGHTH EDITION

With the eight edition of *Corporate Finance*, we have done extensive updating and reworking throughout the text. Among the more noticeable changes are opening vignettes for each chapter. Most of these present familiar companies in situations covered by the chapter, thereby motivating the discussion. The end-of-chapter material has been expanded considerably. We now have two separate sets of questions, one that focuses on concepts and critical ideas and another that is more problem oriented. The total number of questions has grown significantly. Finally, almost every chapter now ends with a mini-case that places the student in the position of needing to apply chapter concepts in a common real-world situation. These cases are suitable for a variety of pedagogical purposes, ranging from homework to group assignments to in-class discussions.

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In addition to these changes and overall updating, a number of chapters have significant new material. Following are some of the more notable additions and upgrades:

Chapter 1:	Expanded discussion of goal of the firm and agency problems. New material on Sarbanes-Oxley.
Chapter 3:	Completely rewritten to cover financial statements analysis and long-term financial planning.
Chapter 5:	New discussion of bond price information, including the NASD TRACE system.
Chapter 7:	New discussion of alternative definitions of project cash flows.
Chapter 8:	Reorganized, with improved discussion of decision trees.
Chapter 9:	New discussion of geometric versus arithmetic returns.
Chapter 12:	Expanded discussion on actual cost of capital estimation.
Chapter 18:	New material on several dividend-related subjects.
Chapter 19:	New material on Dutch auction IPOs.
Chapter 20:	New material on bond price quotes and make-whole call provisions.
Chapter 22:	Expanded discussion on applications of options analysis in corporate finance.
Chapter 27:	New material on financial electronic data interchange and the Check Clearing Act for the 21 st Century.
Chapter 29:	Completely rewritten with new material on a variety of merger-related topics.
Chapter 31:	Completely rewritten for clarity.

We have also worked to improve the supplements to the text, with the goal of providing far and away the most comprehensive student and instructor support at this level. For example, we now provide fully detailed step-by-step solutions to end-of-chapter problems (and spreadsheets for each one as well). The testbank has grown significantly in terms of the number of questions, and we have worked to provide a wider variety of questions and question types. The PowerPoint set also has grown.

The book's Online Learning Center (OLC) delivers several new and very rich student study aids. There is self-study software with at least 100 questions per chapter. Narrated PowerPoint slides actually talk students through the material. Our Interactive FinSims contain simulations of key finance concepts in which students are asked to provide values for key variables. These digital assets provide completely new avenues for students to explore and ways for them to comprehend the subject on a deeper level.

For a complete look at the new and updated eighth edition features, please see the next section.

NEW TO THE SPECIAL INDIAN EDITION

The text combines judiciously the corporate finance theory with the Indian experience and the Indian legal system, especially the *Indian Companies Act*. It also compares the similarities and differences in the corporate finance scenario in India *vis-à-vis* the U.S. corporate finance scenario. In some cases, Indian research results have been compared with international research results in order to make the students understand the difference between corporate finance in emerging markets and in the developed markets. Following are some of the notable additions in the Special Indian Edition:

- Chapter 1: Highlights the role of business groups and the agency issues therein

- Chapter 2: Provides complete illustration of an Indian firm, Hindustan Unilever Limited
- Chapter 3: A comparison of financial ratios of all firms in the Indian steel sector
- Chapter 4: A mini case on choosing between two mobile offerings of Reliance Comm.
- Chapter 5: A preview on current status of Indian capital markets including Patil report
- Chapter 6: A mini case on a capital budgeting project by SAIL's Rourkela Steel Plant
- Chapter 8: An example on Noida Toll Bridge's breakeven point
- Chapter 9: The Indian capital markets history with data from 1980 to 2007
- Chapter 10: A mini case using beta estimates of large Indian companies
- Chapter 12: Enriched with relevant example from the Indian Banking Sector
- Chapter 13: A recent study on Indian markets (seasonality and Parliament Session effects)
- Chapter 14: Addition of the popular financing routes by Indian firms including Mercator Lines
- Chapter 15: A mini case involving financial leverages of ten Indian firms
- Chapter 16: Recent financing patterns of Indian companies *vis-a-vis* global companies
- Chapter 17: Mini-case on risk and capital structure interaction using Indian alcohol sector
- Chapter 18: A new section titled *Repurchase of Shares in India*
- Chapter 19: A box on book building norms and examples from India—Mukta Arts
- Chapter 20: A box on Junk Bond, Sardar Sarovar Naramada Nigam Limited Bonds
- Chapter 21: Leasing in India with examples of Air India, First Leasing and Tata Steel
- Chapter 23: A box on ESOP examples in India
- Chapter 24: Mini case on long-term financing of an Indian software firm
- Chapter 25: A new section titled *Corporate Hedging in India* with focus on Forex risk
- Chapter 26: Discussed new and unconventional working capital loans available in India
- Chapter 28: Credit management for a few sectors in India
- Chapter 29: A box on merger synergies between the Future Group and Godrej Aadhaar
- Chapter 30: A section titled *Bankruptcy, Liquidation and Reorganization in India*
- Chapter 31: A mini-case on raising International Finance by REI Agro Limited

The most important feature of this book is continuous assignments for all chapters of the book. Students would choose a company out of 12 Indian companies given in the online resources of the book and then would have to answer specific questions given at the end of the chapter for the company chosen. Ideally, the students could work on the same firm for all the other assignments and this exercise would help students know about Corporate Finance practices of that company. To aid the students in this endeavour, the online resources would have a sample assignment (completely solved) while the instructors would have access to the assignments on all the 12 companies. This is something which has not been tried in any other book and would be a USP for the book. Our past teaching experience shows that students cherish this type of experience for life.

Another unique feature of this book is the **mini-case section** wherein cases on Indian companies have been given at the end of each chapter. The class-room environment gets enlivened the moment an instructor takes the students through a real-world situation. The student satisfaction levels are positively correlated to the number of real life examples discussed in the class. The mini-cases (solutions to which have been provided in the Instructors' Manual) would be a great help in this regard.

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An attempt has been made to cover the examples of Indian companies so that the students get a flavour of the Corporate Finance practices in India. Some of the examples of organizations covered in the book are:

ACC	Hindalco	Noida Toll Bridge Company
Air India	Hindustan Unilever	NTPC
Arvind Mills	ICICI Bank	ONGC
Ashok Leyland	IFCI	Patni Computers
Asian Paints	Indian Hotes	Pioneer Distilleries
Bajaj Auto	Infosys	Power Finance Corporation
Bharti Airtel	Ispat Industries	Punjab National Bank
BHEL	ITC	Rassi Cements
Bhusan Steel	Jaiprakash Associates	REI Agro
Cipla	Jet Airways	Reliance Industries Limited
Chambal Fertilizers and Chemicals	Jindal Vijaynagar Steel	Reliance Infocomm
Cogentrix Power Plant	Kilburn Chemicals	Reliance Petroleum
Cognizant Technology	Kohinoor Foods	Sardar Sarovar Naramada Nigam
Crest Communications	Kotak Mahindra Finance Limited	Sandesh
CRISIL	Larsen &Tourbo	Satyam
Cyber Media (India)	Lawreshwar Polymers	Shipping Corporation of India
Dabhol Power Plant	Life Insurance Corporation	South Asia Petrochemicals
Dabur India	Linc Pens & Plastics	State Bank of India
Dhandapani Finance	Lloyd Steel	Steel Authority of India
DLF	Lupin	Tata Consultancy Services
Dredging Corporation of India	Maruti Suzuki	Tata Motors
Excel Industries	Mastek	Tata Steel
First Leasing	Mercator Lines	Television Eighteen's
Gitanjali Gems	MMTC	Trent
Grasim	Moser Baer (India)	Tuticorin Alkali Chemicals
GTL	MRO-TEK	Usher Agro
Gujarat Ambuja Cement	MTNL	Whirlpool India
Hatsun Agro Products	Nagarjuna Fertilizers & Chemicals	Wockhardt
Hexaware Technologies	NALCO	Zee Telefilms