

# Financial Management Practices

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P.K. Jain • Shveta Singh • Surendra Singh Yadav

# Financial Management Practices

An Empirical Study of Indian Corporates

 Springer

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*To  
The Almighty  
and  
Our Family Members*



# Preface

*Practice without theory is blind.  
Theory without practice is sterile.*

(Marx, *Contribution to the Critique of Hegel's  
Philosophy of Law*, Jan. 1844, MECW, Vol. 3, p. 182)

Sound financial management practices followed by a corporate are likely to have a marked bearing on its profitability, competitiveness and survival. In other words, the financial performance of an industrial enterprise, inter alia, is influenced by its financial management policies and practices. The subject assumes greater significance now than ever before for the business enterprises in view of the present dynamic and turbulent business environment.

This book is an outcome of a research study. The study has examined financial management practices of the Indian corporate sector enterprises. The analysis examines virtually all the major financial decisions. The findings of the study would have policy implications for financial system regulators, financial institutions and finance managers of corporate sector. Above all, the study perhaps is the first attempt to present a comprehensive picture of management practices in recent times in India, especially in the period after global financial crisis of 2008.

Even though there is enough information available on corporates, most of it is essentially aggregative in nature. It does not reflect the decision-making that is behind the resulting figures. For instance, it does not indicate which method of investment decision (say, net present value, internal rate of return or payback method) is followed by different companies. What approaches are adopted to incorporate project risk by them? Which are the preferred sources of raising funds? What type of dividend policy is pursued by them? In the case of their international operations, what are their hedging strategies/techniques to manage various types of risks, namely, political risk, exchange rate risk and interest rate risk?

In brief, this study is a more comprehensive update on the studies carried out in the past.



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P.K. Jain  
Shveta Singh  
Surendra S. Yadav

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# Abbreviations

ANOVA	Analysis of variance
ARR	Average rate of return
ATR	Acid-test ratio
BB	Bank borrowings
BRIC	Brazil, the Russian Federation, India and China
BSE	Bombay Stock Exchange
C2C	Cash-to-cash
CA	Current assets
CAPM	Capital asset pricing model
CATR	Current assets turnover ratio
CEO	Chief executive officer
CFO	Chief financial officer
CG	Corporate governance
CGR	Corporate governance ratings
CL	Current liabilities
CPP	Creditors' payment period
CR	Current ratio
CRISIL	Credit Rating and Information Services of India Limited
CSO	Central Statistics Organization
CSR	Corporate social responsibility
D/A	Total debt to total assets ratio
DCF	Discounted cash flows
DCL	Degree of combined leverage
DCP	Debtors' collection period
D/E	Debt-to-equity ratio
DFL	Degree of financial leverage
DOL	Degree of operating leverage
D/P	Dividend payout ratio
DPS	Dividend per share
DSCR	Debt service coverage ratio
EBIT	Earnings before interest and taxes

EPS	Earnings per share
EU	European Union
FAPC	Fixed assets to permanent capital
FATR	Fixed assets turnover ratio
FDI	Foreign direct investment
FG	Finished goods
FMCG	Fast-moving consumer goods
FRA	Forward rate agreements
GDP	Gross domestic product
GP	General practitioners
GPM	Gross profit margin
GVC	Governance and value creation
GWCC	Gross working capital cycle
ICR	Interest coverage ratio
ICRA	Investment Information and Credit Rating Agency of India
ICT	Information and communications technologies
IMF–FSF	International Monetary Fund–Financial Stability Forum
INR	Indian rupee
IRR	Internal rate of return
LC	Letter of credit
LTD/E	Long-term debt-to-equity ratio
LTD/TA	Long-term debt to total assets ratio
MD	Managing director
MNC	Multinational company
MPS	Market price per share
NPM	Net profit margin
NPV	Net present value
NSE	National Stock Exchange
NWC	Net working capital
NWCC	Net working capital cycle
P/B	Price to book value ratio
PI	Profitability index
PSE	Public sector enterprise
PSU	Public sector undertaking
RBI	Reserve Bank of India
RMSP	Raw material and spare parts
RoR	Rate of return
ROTA	Return on total assets
ROCE	Return on capital employed
ROSE	Return on ordinary shareholders' equity
SEBI	Securities and Exchange Board of India
SL	Secured loans
SOX	Sarbanes–Oxley Act
SPSS	Statistical Package for Social Sciences
STO/E	Short-term obligations to equity

TATR	Total assets turnover ratio
TB	Total borrowings
TEOCR	Total external obligations coverage ratio
UNCTAD	United Nations Council for Trade and Development
USA	United States of America
WACC	Weighted average cost of capital
WCM	Working capital management
WIP	Work-in-process
WTO	World Trade Organisation
ZWC	Zero working capital



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