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INDIAN FINANCIAL MANAGEMENT: A STUDY

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Abstract: **F**inancial management is highly concerned with maximizing the wealth of equity shareholders. Though profit isthe main motto of any business financial management concerns more on the distribution of profit to the equity shareholders. Financial Management means planning, controlling, organizing and directing the monetary resources of the firm. The challenge of any finance manager is to have a deep knowledge regarding the procurement, allocation and management of funds of the business. The success behind any organization depends on the efficient management of finance. In this study, the researcher has concentrated on the various management techniques in finance. The data is collected from secondary information and data.The paper enriches the quality of information in financial management and enables the reader to clearly understand the major concepts and techniques in the subject.

Keywords: Finance, procurement, management, efficient, organization, knowledge, wealth.

Introduction

.Objectives of the Study

The study has focused on the following objectives;

•To know the objectives and importance of financial management

•To understand the major functions of a financial manager

Research Methodology

The study is based on secondary data and information. The paper includes the importance of financial management, objectives, various financial management techniques used for business decisions, etc.,.

Need for Study

As said earlier the success of an enterprise depends on the efficient utilisation of fund. At present, banks and various financial institutions have come forward with various schemes to lend money to business entrepreneurs. Apart from banks various other institutions like angel investors, venture capitalist firms, etc., has also emerged to meet the requirements of entrepreneurs. This has led the businessmen to generate funds easily. Hence rather than procuring fund management of this fund is a challenge to all the finance mangers. Thus the study of financial management helps and guides the finance managers to make right decision in generating fund, making right investment, earning good return and sharing the profit to the shareholders. Hence this study is essential to any organisation for its long run survival and success.

Concept of Financial Management

Financial Management means planning, organizing, directing and controlling the financial resources of the firm. It includes activities like procurement and deployment of funds of the venture. It means applying general management principles and methods to financial resources of the project and evaluates the value of the project return. A financial Management technique helps the firm to clearly monitor the future cash flows and helps to achieve business goals. Managerial finance is an interdisciplinary approach that takes the views and ideas from both managerial accounting and corporate finance. Financial Management is a branch of economics that includes- Managerial Finance, Corporate Finance and Financial Management for IT services. Managerial Finance is a branch of finance that connects withmanagerial importance of finance techniques and methods. The Corporate Finance deals with financial decisions that the business enterprises make and analysis usedfor making such decisions. Financial Management for IT Services deals with the financial management of IT assets and resources. The important objectives of the financial management are to create wealth for the business, generate income and create sufficient return on investment.

Objectives of Financial Management

The financial management is generally concerned with procurement, allocation and control of financial resources of a concern. The objectives can be-

1.To ensure that the firm is able to carry on the business activities with adequate supply of funds.

2.The study enables the financial manager to ascertain value of the firm in the future in terms of market value of the share price, etc.

3.To take the responsibility of allocating better return to the shareholders especially the equity shareholders and thus fulfil the concept of ‘wealth maximisation’.

4.Funds borrowed should be carefully re-invested in new ventures ensuring the project is a safe investment.

5.To plan an optimal capital structure – To ensure that the capital mixture of equity and borrowing is a fair composition and a balanced capital structure.6.Financial management is important mainly because it helps to make decisions towards the maximization of value of the firm.

Importance of Financial Management

Financial management is important mainly because it helps to make decisions towards the maximization of value of the firm. The importance of financial management to a firm is as follows:

a. Financial Management is directed to organisational goal

Clarity of the goal is important for any firm. Financial management defines the goal of the firm in clear terms (maximization of the shareholders wealth). Setting goal helps to judge whether the decisions taken are in the best interest of the shareholders or not. Financial management also direct the efforts of all functional areas of business towards achieving the goal and facilitates among the functional areas of the firm

b. Financial Management Helps Efficient Utilization of Resources

Firms use fixed as well as current assets which involve huge investment. Acquiring and holding assets that do not earn minimum return do not add value to the shareholders. Moreover, wrong decision regarding the purchase and disposal of fixed assets can cause threat to the survival of the firm. The application of financial management techniques (such as capital budgeting techniques) helps to answer the questions like which asset to buy, when to buy and whether to replace the existing asset with new one or not.Therefore, maintaining proper balance of these assets and financing them from proper sources is a challenge to a firm. Financial management helps to decide what level of current assets is to be maintained in a firm and how to finance them so that these assets are utilized efficiently.

Financial Management Helps Deciding Sources of Financing

Firms collect long-term funds mainly for purchasing permanent assets. The sources of long term finance may be equity shares, preference shares, bond, term loan etc. The firm needs to decide the appropriate mix of these sources and amount of long-term funds; otherwise the firm will have to bear higher cost and expose to higher risk. Financial management (capital structure theories) guides in selecting these sources of financing.

Financial Management Helps Making Dividend Decision

Dividend is the return to the shareholders. The firm is not legally obliged to pay dividend to the shareholders. However, how much to pay out of the earning is a vital issue. Financial management (dividend policies and theories) helps a firm to decide how much to pay as dividend and how much to retain in the firm. It also suggests answering questions such as when and in what form (cash dividend or stock dividend) should the dividend be paid?The importance of financial management is not limited to the managers who make decisions in the firm. Proper financial management will help firms to supply better product to its customers at lower prices, pay higher salary to its employees and still provide greater return to investors.

Functions of Financial Management

A.

Estimation of capital requirements: Thefinance manager has to make estimation with regards to capital requirements of the company.The cash requirements depend on the future investments to be made such as purchase of new asset, technology upgradation, working capital needs, etc. The evaluation should be made to increase the earning of the enterprise.

B.

Debt-equity Analysis: Once the estimation has been made, the financial manager has to proceed with the means of raising the required fund. The capital can be brought either by equity (own fund) or by borrowing (debt) or mixture of both. This is the capital-structure decision that formulates the composition of capital.

C.

Selection on the sources of funds: For additional funds to be *procured, a company has many choices like-*

•*Issue of shares and* debentures

•Loans to be taken from banks and financial institutions

•Public deposits to be drawn like in form of bonds.

Choice of factor will depend on relative merits and demerits of each source and period of financing. Investment of funds: The finance manager has to decide to allocate funds into profitable ventures that give a higher return on investment. Before making any investment deep analysis has to be made on the project. Regular returns and safe investment should be ensured before making the investment.

D.

Distribution of surplus funds: The net profits earned by the firm have to be evaluated and the financial manager has to make decision regarding the distribution of the profit. This can be done in two ways:

•**Dividend declaration** – The dividend rate is decided and a portion or full is disposedto the shareholders. This satisfies the awaited shareholders with good returns. If sometimes the company earns higher profit than expected additional returns like bonus is also distributed to the shareholders.

•**Retained profits** - In case the firm decides to expand its size or diversify its market etc, which involves a huge capital expenditure the firm can retain its profit. This is called retained profit/earnings.

E.

Working Capital Management: It is the sole responsibility of the Finance manager to takeproper decision on cash management. The business cycle functions smoothly with proper management of cash. Cash is required for many purposes to meet the working capital requirements like payment of wages and salaries, payment of electricity and water bills, payment to creditors, meeting current liabilities, stock maintenance, purchase of raw materials, etc.

F.

Control: The finance manager has not only to plan, procure and utilize the funds but he also has to exercise control over finances. Only with the help of the control function the finance manager can estimate whether financial management has executed correctly to achieve the business goals. This can be done through many techniques like ratio analysis, financial forecasting, cost and profit control, etc.

G.

Financial Management Techniques.

Three major decisions which every Finance manager has to take are;

1. Investment decision
2. Financing decision
3. Dividend decision

H.

Investment decision (Capital Budgeting)
Investment decision is also known as Capital Budgeting decision. It is the process of estimating the required fund for the firm. The finance manager has to assess the value of various projects before making any investments. Capital budgeting is the process of making investment decisions in capital expenditure. These are expenditures, the benefits of which are expected to be received over a long period of time exceeding one year. The finance manager has to assess the profitability of various projects before committing the funds.Some of the major traditional techniques used in capital budgeting are as follows:1. Payback period 2. Accounting Rate of Return method 3. Net present value method 4. Internal Rate of Return Method 5. Profitability index.

I.

Financing Decision (Capital Structure)
Financing decision is also called Capital Structure. Once the required fund for investment has been decided (Capital Budgeting) the next step is to raise the amount for making the investment. Now the challenge of the finance manager is to prepare a structure on the proportion of all types of capital viz. equity, debt, preference etc.

J.

Dividend Decision
Once the firm earns profit it is the duty of the financial manager to disperse the surplus among the shareholders. As said earlier the study of financial management concentrates on wealth maximization of shareholders. Therefore various models are developed in this concept. Some of the major different theories of dividend in financial management are as follows: 1. Walter's model 2. Gordon's model 3. Modigliani and Miller's hypothesis. On the relationship between dividend and the value of the firm different theories have been advanced.

Conclusion-The success of any business organization is expected to be in the long run. Every business entrepreneur plans and executes the business activities for earning profit. Profit is the tonic for the growth, sustainability and successful operation of the business organization. The finance managerplays a decisive role in the success of the organization. His important duties are raisingfunds, allocation of resources, dealing in capital market, planning of profit, etc. It has become the challenge for every organization to select a efficient financial manager for taking the business to the path of success. The above said financial management theories and techniques helps the organization managers to take right decision in managing the financial resources of the firm. Thus the study has clearly focused on the areas of financial management concepts and methods and provided various ideas for the financial managers in taking right decision in attaining the organizational goals effectively.

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