PAPER – 6: FINANCIAL MANAGEMENT AND STRATEGIC MANAGEMENT

Part I MCQs

Case Scenario - I

Coral Ltd. is an agri-business company that operates in two segments - animal feed and crop protection. The company's Research and Development Department has been instrumental in its growth and success.

The existing capital structure of Coral Ltd. is as follows:

Particulars	*Amount (₹)*
Equity Shares (10,00,000 shares of ₹ 10 each)	*1,00,00,000*
15% Debentures (30,000 Debentures of ₹ 100 each)	*30,00,000*

Coral Ltd. desires to expand its horizon in breeding high-yielding and disease-resistant seeds for increasing agricultural productivity. The company requires additional funds amounting ₹ 100 lakh to finance its business expansion plan. The expected earnings before interest and taxes after this additional investment will be ₹ 76 lakh. The applicable corporate income tax rate is 30%.

The company has two alternatives for raising this additional fund:

Particulars	*Plan - I*	*Plan – II*
Equity shares of ₹ 10 each to be issued at a premium of ₹ 15 per share	*30%*	*10%*
13% Debentures of ₹ 100 each to be issued at par	*70%*	*50%*
7.15% Preference Shares of ₹10 each to be issued at par	*-*	*40%*

You are required to answer the following questions 1 to 5:

1. *What would be the Earnings Per Share (EPS) of the company in Plan-I and Plan-II?*

   (A) ₹ 4.37 and ₹4.26

   (B) ₹ 3.36 and ₹ 3.88

   (C) ₹ 3.90 and ₹ 4.10

   (D) ₹ 4.25 and ₹ 4.50

2. *What would be the Market Price per Share (MPS) of the company if Price Earnings Ratio (PE ratio) in Plan-1 is 12 times and Plan-II is 15 times?*

   (A) ₹ 46.80 and ₹ 61.50

   (B) ₹ 40.32 and ₹ 58.20

   (C) ₹ 51.00 and ₹ 67.50

   (D) ₹ 52.44 and ₹ 63.90

3. *What would be the financial Break Even Point (BEP) in Plan-I and Plan-II?*

   (A) ₹ 13,75,000 and ₹ 15,10,000

   (B) ₹ 13,70,000 and ₹ 15,00,000

   (C) ₹ 13,65,000 and ₹ 15,15,000

   (D) ₹ 13,60,000 and ₹ 15,08,571

4. *What would be the indifference point between Plan-1 and Plan-11?*

   (A) ₹ 34,33,333

   (B) ₹ 34,40,000

   (C) ₹ 35,15,000

   (D) ₹ 35,22,222

5. *What would be the Earnings Per Share (EPS) in Plan-1 and Plan-II at the indifference point as calculated by you above?*

   (A) ₹ 1.30 and ₹ 1.30

   (B) ₹ 1.65 and ₹ 1.75

(C) ₹ 1.50 and ₹ 1.50

(D) ₹ 1.80 and ₹ 1.90

Case Scenario - II

VP Ltd. provides the following financial information:

Current Ratio	*1.5:1*
Sales (80% Credit Sales)	*₹ 150 Lakh*
Inventory Turnover Ratio	*6 Times*
Average Collection Period	*2 months*
Gross Profit Ratio	*20%*
Quick Ratio	*1:1*

From the information given above, choose the correct answer to the following Q. No. 6 and 7:

6. *Inventory and Receivables would be:*

   (A) ₹ 20 Lakh and ₹ 20 Lakh

   (B) ₹ 10 Lakh and ₹ 10 Lakh

   (C) ₹ 10 Lakh and ₹ 20 Lakh

   (D) ₹ 20 Lakh and ₹ 10 Lakh

7. *Current Assets and Current Liabilities would be:*

   (A) 30 Lakh and 20 Lakh

   (B) 45 Lakh and 30 Lakh

   (C) 60 Lakh and 40 Lakh

   (D) 75 Lakh and 50 Lakh

8. *JKL Company Ltd. has current assets of ₹ 1,00,00,000 and current liabilities of ₹ 50,00,000. The Financial manager of the company desires to make a provision for contingencies @20% of working capital. Accordingly, what would be the amount of working capital requirement for the company?*

   (A) ₹ 55 Lakh

(B) ₹ 60 Lakh

(C) ₹ 65 Lakh

(D) ₹ 70 Lakh

Case Scenario - III

Primo Neo Logistics (PNL) is engaged in transportation of goods in India. It has its operational presence across the country since the year 2010. In addition to transporting goods by road, company is also taking services of private airways as its logistics partner. However, there is a sharp decline in business through airways as sales and profits have declined steeply.

Company also wants to ascertain the market positions of rival companies having similar competitive approaches in the market with the intent to identify the strongest or the weakest players in view of the tough competitive landscape. Once the market position is ascertained, company would like to modify its strategy to adapt according to the changing circumstances.

Technology, means and ways of transporting goods are also changing. Company wants to utilize its resources and capabilities, not only to compete and survive but to grow efficiently. Multidimensional expansion with new and improved means of transportation and marketing seems inevitable. Company has strong presence in transporting goods by road and wants to collaborate with some other operator who can bring expertise in transporting goods using improved technology.

Cargo Movers Plc. (CMP) is a well-known transporter of goods using state of art technology in the Asia Pacific region. Banking upon their respective core competencies, PNL and CMP would like to develop close and collaborative relationship where both will continue to maintain their respective independent existence. Once collaboration is in place, marketing team of both the companies would like to cater to the needs of transporting goods with speed and agility. In line with basic principles, the team will also focus on best long- run performance of the marketing system. In view of the same the team is planning to rope in various social media influencers with intent to create a brand image with customer orientation and spreading a word about its distinctive services to its present and prospective customers.

Based on the above case scenario, choose the correct answer to Q. Nos. 9 to 13.

9. *The business through private airways is at which phase of product life cycle?*

   (A) *Introduction*

   (B) *Growth*

   (C) *Maturity*

   (D) *Decline*

10. *Tool for identifying the strongest and weakest competitors is known as:*

    (A) *Strategic Group Mapping*

    (B) *Portfolio Analysis*

    (C) *Strategic Surveillance*

    (D) *Strategic Audit*

11. *The strategy being followed by PNL is:*

    (A) *Adaptive strategy*

    (B) *Proactive strategy*

    (C) *Reactive strategy*

    (D) *Blend of proactive and reactive strategy*

12. *Relationship being considered between PNL and CMP is indicating:*

    (A) *Horizontal Integration*

    (B) *Merger and Acquisition*

    (C) *Strategic Alliance*

    (D) *Vertical Integration*

13. *The activity of marketing team will be called as:*

    (A) *Enlightened marketing*

    (B) *Augmented marketing*

    (C) *Differential marketing*

(D) Synchro marketing

14. *Farm Fresh Ltd., a family-owned organic farming business has been operating successfully over the past 10 years. Currently the company is facing stiff competition from the large farming houses. Hence to maintain status quo, the management of the company decided to adopt stability strategy. Which of the following initiatives best support Farm Fresh Ltd.'s stability strategy?*

    (A) Develop a new range of organic produce to attract a new segment of customers.

    (B) Improve functional efficiency of its farm equipment to increase productivity and reduce cost of production.

    (C) Purchase a number of farms to increase production.

    (D) Add a few channels of distribution to attract customers in related market areas.

15. *The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by new and improved technological tools. As a result, in a three layer organizational structure, middle level is constricted.*

    Which one of the following is a suitable name to such structure?

    (A) Hourglass structure

    (B) Network Structure

    (C) Matrix structure

    (D) Divisional structure

16. *In the framework of strategic analysis, which one is a constituent of internal analysis?*

    (A) Competitor analysis

    (B) Determinants analysis

    (C) Market analysis

    (D) Scenario analysis

Answer Key

MCQ No.	Correct Option
1.	(C)
2.	(A)
3.	(D)
4.	(B)
5.	(A)
6.	(A)
7.	(C)
8.	(B)
9.	(D)
10.	(A)
11.	(D)
12.	(C)
13.	(A)
14.	(B)
15.	(A)
16.	(B)

SECTION A: FINANCIAL MANAGEMENT

Part II

*Question No. **1** is compulsory.*

*Attempt any **two** questions out of the remaining **three** questions.*

In case, any candidate answers extra question(s)/ sub-question(s) over and above the required number, then only the requisite number of questions first answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.

Working notes should form part of the answer.

Question 1

(a) KP Ltd. has provided the following information:

(i) Estimated monthly sales:

Month	*₹ in Lakh*
April-2024	*10*
May-2024	*12*
June-2024	*15*
July-2024	*10*
August-2024	*13*
September-2024	*14*

(ii) Gross Profit Ratio is 20%.

(iii) Cost of Goods sold is paid in next month.

(iv) Sales are in credit and credit period is allowed for 2 months.

(v) Indirect Expenses are paid in the same month.

Monthly indirect expenses are as follows:

Month	*₹ in Lakh*
June-2024	*1.0*
July-2024	*1.2*
August-2024	*1.0*
September-2024	*1.3*

(vi) Dividend amounting September 2024, 3 Lakh will be paid in the month of September 2024

(vii) Cash Balance on 01/07/2024 was 1.5 Lakh.

(viii) The company has to maintain minimum cash balance of 1 Lakh. If there is cash balance deficit in any month, company would take a temporary short term loan and if cash balance exceed 2 Lakh, then company would invest for short term excess amount of 2 Lakh.

(ix) Ignore the interest on short term loans and short term investment.

You are required to prepare Cash Budget for three months starting from July 2024. ***(5 Marks)***

(b) Following is the Balance Sheet of EXIM Ltd. as on 31st March, 2024:

Liabilities	**₹**	**Assets**	**₹**
Equity Share Capital of ₹ 100 each	*20,00,000*	*Fixed Assets*	*50,00,000*
Retained Earnings	*4,00,000*	*Current Assets*	*30,00,000*
12.5% Debenture	*40,00,000*		
Current Liabilities	*16,00,000*		
	80,00,000		*80,00,000*

The additional information is given as under:

Fixed costs per annum (exclusive interest) : ₹ 16,00,000

Variable operating cost ratio : 70%

Total Assets turnover ratio : 2.5

Income tax rate : 30%

You are required to calculate:

(i) Earnings Per Share

(ii) Operating Leverage

(iii) Financial Leverage

(iv) Combined Leverage ***(2 + 1 + 1 + 1 = 5 Marks)***

(c) Following information have been provided by LP Ltd.:

Profit before Tax	*₹ 40 Lakh*
Tax Rate	*30%*
Equity Share Capital (₹ 10)	*₹ 40 Lakh*
Return on Investment	*18%*
Cost of Equity	*15%*
Dividend Payout Ratio	*50%*

You are required:

(i) to determine the price of Equity Share of the company as per Walter's Model;

(ii) to determine the Dividend Pay-out Ratio by applying Walter's Model assuming the price of equity share of the company is ₹ 48.

(3+2=5 Marks)

Answer

(a) Cash Budget (₹ in lakh)

Particulars	**July**	**August**	**September**
Opening Balance	1.5	1	2
Add: Receipts			
Collection from debtors	12	15	10
Total cash available (A)	**13.5**	**16**	**12**
Less: Payments			
Payment of COGS	12	8	10.4
Payment of indirect exp	1.2	1	1.3
Payment of Dividend	-	-	3
Total payments (B)	**13.2**	**9**	**14.7**
Closing Balance before adjustment	0.3	7	-2.7
Minimum cash balance desired	1	1	1

Less: Temporary Investment	-	5	-
Add: Temporary Borrowing	0.7	-	3.7
Cash Closing Balance	1	2	1

W.N. 1				
COGS payment	**June**	**July**	**Aug**	**Sept**
Sales	15	10	13	14
COGS (80%)	12	8	10.4	11.2
Paid in		12	8	10.4

(b) Workings:

Total Assets = ₹ 80 lakhs

Total Asset Turnover Ratio = 2.5

Hence, Total Sales = 80 × 2.5 = ₹ 200 lakhs

Computation of Profit after Tax (PAT)

	(₹) in lakhs
Sales	200.00
Less: Variable Operating Cost @ 70%	140.00
Contribution	60.00
Less: Fixed Cost (other than Interest)	16.00
EBIT	44.00
Less: Interest on Debentures (12.5% × ₹ 40 lakhs)	5.00
PBT	39.00
Less: Tax @ 30%	11.70
PAT	27.30

(i) Earnings per Share

$$\text{EPS} = \frac{\text{PAT}}{\text{Number of Equity Shares}} = \frac{₹\,27.30\text{ lakhs}}{20{,}000} = ₹\,136.5$$

(ii) Operating Leverage

$$\text{Operating Leverage} = \frac{\text{Contribution}}{\text{EBIT}} = \frac{₹\ 60\ \text{lakhs}}{₹\ 44\ \text{lakhs}} = 1.363$$

(iii) Financial Leverage

$$\text{Financial Leverage} = \frac{\text{EBIT}}{\text{PBT}} = \frac{₹\ 44\ \text{lakhs}}{₹\ 39\ \text{lakhs}} = 1.128$$

(iv) Combined Leverage

$$\text{Combined Leverage} = \frac{\text{Contribution}}{\text{EBIT}} \times \frac{\text{EBIT}}{\text{PBT}}$$

Or,

= Operating Leverage × Financial Leverage

= 1.363 x 1.128 = 1.538

(c) (i) Price per share as per Walter's Model

	₹ in lakhs
Profit before tax	40
Less: tax @ 30%	12
Earning for equity shareholders	28
Earning per share	28/4 = ₹ 7

$$P = \frac{D + \frac{r}{K_e}(E - D)}{K_e}$$

Where,

P = Market Price of the share.

E = Earnings per share. = ₹ 7

D = Dividend per share. = ₹ 3.5

K_e = Cost of equity/ rate of capitalization/ discount rate. = 15%

r = Internal rate of return/ return on investment = 18%

Applying the above formula, price per share

$$P = \frac{3.5 + \frac{0.18}{0.15}(7 - 3.5)}{0.15}$$

$$\text{Or, } P = \frac{3.5 + 4.2}{0.15} = ₹\ 51.33$$

(ii) Let, the dividend per share be D to get share price of ₹ 48

$$P = \frac{D + \frac{r}{K_e}(E - D)}{K_e}$$

$$₹\ 48 = \frac{D + \frac{0.18}{0.15}(7 - D)}{0.15}$$

$$7.2 = \frac{0.15D + 1.26 - 0.18D}{0.15}$$

$$0.03D = 1.26 - 1.08$$

$$D = ₹\ 6$$

$$\text{D/P ratio} = \frac{DPS}{EPS} \times 100 = \frac{6}{7} \times 100 = 85.714\%$$

Question 2

(a) The following information pertain to CMC Limited:

Number of Equity Shares	*20,00,000*
Book Value of 10% Convertible Debentures	*₹ 1,00,00,000*
Book Value of 12% Bank Term Loan	*₹ 25,00,000*
Market Price of Equity Share	*₹ 55*
Market Value of 10% Convertible Debenture	*₹ 108*
Face Value of Equity Share	*₹ 10*
Face Value of 10% Convertible Debenture	*₹ 100*
Beta coefficient of Equity shares of CMC Ltd.	*1.5*
Risk free rate of return	*4.5%*

Equity risk Premium	*9%*
Rate of taxation	*30%*

The company expects that the share prices will rise in future at an average rate of 6% per annum. The 10% convertible debentures of 100 each will be converted in six years' time into equity shares of the company in the ratio of 1: 4 (4 equity shares for each debenture).

The market value of 12% bank term loan is at par.

You are required to calculate:

(i) Cost of Equity Share Capital by applying Capital Asset Pricing Model (CAPM) Approach

(ii) Cost of Convertible Debenture by using approximation method,

(iii) Cost of Bank Term Loan

(iv) Weighted Average Cost of Capital using Market Value weights

(1+2+1+3=7 Marks)

(b) The following information pertain to MSD Limited for the year ending 31st March, 2024:

Particulars	*Number of days*
Raw material storage period	*61 days*
Work-in -progress conversion period	*20 days*
Finished goods storge period	*30 days*
Debt collection period	*45 days*
Creditors payment period	*60 days*

The annual operating cost (including depreciation of ₹ 4,80,000) was ₹ 60,00,000. Assume 360 days in a year.

You are required to calculate:

(i) Operating cycle period

(ii) Number of operating cycles in a year

(iii) Amount of working capital required for the company

(1 + 1 + 1 = 3 Marks)

Answer

(a) (i) Cost of equity share

$R_F = 4.5\%$

$R_m - R_f = 9\%$

$B = 1.5$

Using CAPM,

$K_e = R_f + \beta (R_m - R_f)$

$= 4.5\% + 1.5 (9\%)$

$= 18\%$

(ii) Cost of convertible debenture (based on Market Value)

Price of share after 6 years = $55 (1+0.06)^6$

= ₹ 78.018

Redemption Value of Debenture (RV) = 78.018 × 4 = **312.07** (RV)

NP = 108 **(MV)**

n = 6

$$K_d = \frac{INT(1-t) + \left(\frac{RV - NP}{n}\right)}{\frac{(RV - NP)}{2}} \times 100$$

$$= \frac{10\,(1\text{-}0.3) + \frac{(312.07\text{-}108)}{6}}{\frac{(312.07 + 108)}{2}} \times 100$$

$$= \frac{7 + 34.012}{210.035} \times 100$$

$K_d = 19.52\%$

(iii) Cost of bank term loan

$K_d = I\,(1 - t)$

= 12% (1-0.3) = 8.4%

(iv) Calculation of Weighted Average Cost of Capital (WACC) using Market Value Weights

Source	(₹) in lakhs	Weight	Cost of Capital after tax	WACC
Equity Share Capital	11,00,00,000	0.892	0.180	0.1606
10% Convertible Debenture	1,08,00,000	0.088	0.195	0.0171
12% Bank Term Loan	25,00,000	0.020	0.084	0.0017
Total	12,33,00,000	1		0.1794

WACC = 17.94%

Alternative Solution to Part (ii) and (iv)

(ii) Cost of convertible debenture

Price of share after 6 years = 55 $(1+0.06)^6$

= ₹ 78.018

Redemption Value of Debenture (RV) = 78.018 × 4 = **312.07** (RV)

NP = 100

n = 6

$$K_d = \frac{INT(1-t)+\left(\frac{RV-NP}{n}\right)}{\frac{(RV-NP)}{2}}\times 100$$

$$= \frac{10\,(1-0.3)+\frac{(312.07-100)}{6}}{\frac{(312.07+100)}{2}}\times 100$$

$$= \frac{7+35.345}{206.035}\times 100$$

K_d = 20.55%

(iv) Calculation of Weighted Average Cost of Capital (WACC) using Market Value Weights

Source	(₹) in lakhs	Weight	Cost of Capital after tax	WACC
Equity Share Capital	11,00,00,000	0.892	0.180	0.1606
10% Convertible Debenture	1,08,00,000	0.088	0.205	0.0180
12% Bank Term Loan	25,00,000	0.020	0.084	0.0017
Total	12,33,00,000	1		0.1803

WACC = 18.03%

(b) (i) Net Operating Cycle Period

= R + W + F + D – C

Where,

R = Raw material storage period.

W = Work-in-progress holding period.

F = Finished goods storage period.

D = Debtors collection period.

C = Credit period availed.

= 61 + 20 + 30 + 45 – 60

= 96 days

(ii) Number of Operating Cycles in the Year

$$= \frac{360}{\text{Operating Cycle Period}} = \frac{360}{96} = 3.75 \text{ times}$$

(iii) Amount of Working Capital Required

$$= \frac{\text{Annual Operating Cost}}{\text{Number of Operating Cycles}} = \frac{₹\ 60,00,000}{3.75} = ₹\ 16,00,000$$

Alternative Solution on cash cost basis to Part (ii)

(iii) Amount of Working Capital Required

$$= \frac{\text{Annual Operating Cost}}{\text{Number of Operating Cycles}} = \frac{₹\ 60{,}00{,}000 - ₹\ 4{,}80{,}000}{3.75} = ₹\ 14{,}72{,}000$$

Question 3

(a) SRT Limited manufactures steel rods and is now considering to purchase a new aluminium smelting and moulding plant. This plant will have the cost of ₹ 20,00,000 to purchase and install the plant. It has a useful life of 5 years with a residual value of ₹ 1,00,000. Production and sales from the new plant are expected to be 1,00,000 units per year. Other estimates are as follows:

Selling Price	*₹150 per unit*
Direct Cost	*₹100 per unit*

Fixed cost (including depreciation) is ₹ 8,00,000 per annum. Marketing and promotion cost not included in the above will be ₹ 1,00,000 and ₹ 1,60,000 for years 1 and 2, respectively. Additionally, investment in debtors and stocks will increase in year 1 by ₹ 1,50,000 and ₹ 2,00,000, respectively. Creditors will also increase by ₹ 1,00,000 in year 1. Thus, debtors, stocks, and creditors will be recouped at the end of the fifth year.

The cost of capital is 18%. Corporate tax is 30% and is paid in the year in which profits are made. Depreciation is tax deductible. The company follows straight line method of depreciation.

Required:

(i) Calculate the Net Present Value and Profitability Index of the project.

(ii) Advise SRT Limited whether the plant should be purchased.

The PV factors at 18% are:

Year	*1*	*2*	*3*	*4*	*5*
PV factor	*0.847*	*0.718*	*0.609*	*0.516*	*0437*

(5 + 1 = 6 Marks)

(b) *The equity share capital of Sky Pack Ltd. as on 31st March, 2024 was ₹2,00,000. The relevant ratios of the company are as follows:*

Current debt to Total debt	*0.35*
Total debt to Owner's equity	*0.65*
Fixed assets to Owner's equity	*0.55*
Total assets turnover	*2.5 times*
Inventory turnover	*10 times*

You are required to prepare the Balance Sheet of Sky Pack Ltd. as on 31stMarch, 2024. ***(4 Marks)***

Answer

(a) Calculation Net Present Value (NPV)

Years	1	2	3	4	5	Total
Units	1,00,000	1,00,000	1,00,000	1,00,000	1,00,000	
(I) Sales (₹ 150 per unit)	1,50,00,000	1,50,00,000	1,50,00,000	1,50,00,000	1,50,00,000	
(II) Cost						
Direct cost (₹100 per unit)	1,00,00,000	1,00,00,000	1,00,00,000	1,00,00,000	1,00,00,000	
Marketing cost	1,00,000	1,60,000				
Depreciation	3,80,000	3,80,000	3,80,000	3,80,000	3,80,000	
Fixed cost	4,20,000	4,20,000	4,20,000	4,20,000	4,20,000	
Total cost	1,09,00,000	1,09,60,000	1,08,00,000	1,08,00,000	1,08,00,000	
Profit (I - II)	41,00,000	40,40,000	42,00,000	42,00,000	42,00,000	
Tax @30%	12,30,000	12,12,000	12,60,000	12,60,000	12,60,000	
Profit After tax	28,70,000	28,28,000	29,40,000	29,40,000	29,40,000	
Add back depreciation	3,80,000	3,80,000	3,80,000	3,80,000	3,80,000	
Cash inflow after tax	32,50,000	32,08,000	33,20,000	33,20,000	33,20,000	
Add: WC released					2,50,000	

Add: Residual value of machine					1,00,000	
Net cash inflow after tax	32,50,000	32,08,000	33,20,000	33,20,000	36,70,000	
Present value factor	0.847	0.718	0.609	0.516	0.437	
Present value cash inflow	27,52,750	23,03,344	20,21,880	17,13,120	16,03,790	1,03,94,884
Less: initial cash outflow (20,00,000 + 2,50,000)						22,50,000
NPV						81,44,884

Initial Investment =22,50,000 (assumed working capital invested at start of the year)

Profitability Index (PI)

$$= \frac{\text{Sum of discounted cash inflows}}{\text{Initial cash outlay or Total discounted cash outflow (as the case may)}}$$

$$= 1,03,94,884/22,50,000 = 4.62$$

Advise: Since the plant has a positive NPV and the Profitability Index is >1, therefore, it should be purchased.

Note: If we assume that working capital increased at end of the first year then cash outflow will be (20,00,000 + 2,11,750 (2,50,000 x 0.847) = 22,11,750, NPV 81,83,134 and Profitability Index will be = 1,03,94,884 / 22,11,750 = 4.70.

(b) **Sky Pack Ltd**

Balance Sheet

Liabilities	₹	Assets	₹
Equity share capital	2,00,000	Fixed assets	1,10,000
Current debt	45,500	Cash (balancing figure)	1,37,500
Long term debt	84,500	Inventory	82,500
	3,30,000		3,30,000

Working Notes

1. Total debt = 0.65 x Equity share capital

   = 0.65 x ₹ 2,00,000 = ₹ 1,30,000

   Current debt to total debt = 0.35.

   Current debt = 0.35 × ₹ 1,30,000 = ₹45,500

   Long term debt = ₹1,30,000 - ₹45,500= ₹ 84,500

2. Fixed assets = 0.55 × Equity share Capital

   = 0.55 × ₹ 2,00,000 = ₹ 1,10,000

3. Total assets to turnover = 2.5 Times : Inventory turnover = 10 Times

   Hence, Inventory /Total assets = 2.5/10=1/4, Total assets = ₹ 3,30,000

   Therefore Inventory = ₹ 3,30,000/4 = ₹ 82,500

Question 4

Answer the following:

(a) Explain the Environmental, Social and Governance linked Bonds.

(4 Marks)

(b) Discuss the objectives and advantages of wealth maximization goal of Financial Management. ***(4 Marks)***

(c) State any two advantages of virtual banking. ***(2 Marks)***

OR

(c) State the concept of exclusion of Financing Cost Principle. ***(2 Marks)***

Answer

(a) Environmental, Social and Governance-linked bonds (ESG): These bonds carry a responsibility of the issuer company to prioritize optimal environmental, social and governance (ESG) factors. Investing in ESG bonds is considered as **socially responsible investing**. ESG bonds can be project-based - green bonds and social bonds; and target-based - sustainability-linked bonds (SLBs).

- ***Green bonds:*** These are the most popular ESG bonds that are issued by a financial, non-financial or public institution, where the bond proceeds are used to finance "green projects". Green projects are aimed at positive environmental and/or climate impact including the cultivation of eco-friendly technology.

- ***Social bonds:*** These bonds finance the socially impactful projects. The projects here are related to the social concerns such as Human rights, Equality, animal welfare etc.
- ***Sustainability-linked bonds (SLBs):*** These bonds are combination of green bonds and social bonds. Proceeds of SLBs are not meant for a specific project but for general corporate purpose to achieve Key Performance Indicator (KPIs).

(b) Objective of Wealth Maximisation:

Highest market value of shares**.**

Advantages of Wealth Maximisation:

(i) Emphasizes the long term gains

(ii) Recognises risk or uncertainty

(iii) Recognises the timing of returns

(iv) Considers shareholders' return.

(c) Following are the advantages of virtual banking-

(i) Lower cost of handling a transaction.

(ii) The increased speed of response to customer requirement.

(iii) Lower cost of operating branch network along with reduced staff costs leads to cost efficiency.

(iv) It allows the possibility of improved and a range of services being made available to the customer rapidly, accurately and at his convenience.

OR

(c) The **exclusion** of financing costs principle means that:

(i) The interest on long-term debt is ignored while computing profits and taxes.

(ii) The expected dividends are deemed irrelevant in cash flow analysis.

SECTION – B: STRATEGIC MANAGEMENT

Part II

*Question paper comprises of **4** questions, Answer Question No. **5** which is compulsory and any **2** out of the remaining **3** questions.*

Question 5

(a) *ABC group of companies has five projects at different geographical locations. Each project is managed by a dedicated project manager. A Chief Executive Officer (CEO) is supported by a team of subject matter experts (SMEs) in each function at corporate level of the company. As an accepted practice, the authority and communication flow vertically and horizontally in the company. There are five common functions i.e. finance, human resource, operations, marketing and information technology facilitating each project. Each functional manager is having administrative relationship with respective project manager and functional relationship with related SME with a clear mutual understanding of his or her roles and responsibilities. Identify and explain the organizational structure best suited in the above scenario. State the advantages and disadvantages of the above structure.* ***(1+2+1+1=5 Marks)***

(b) *Ecro Ltd. is an e-commerce company that specializes in selling eco-friendly products. Although the company has been doing well, it still continues actively to strengthen its brand identity, launch creative and impactful marketing campaigns, and introduce new and innovative eco-friendly products.*

However, the company has started facing increasing competition from large retailers who are entering the eco-friendly space. To face competition the company quickly started to adapt to the changing market conditions, analyse the competitors' strategies, adopt different styles of marketing in response to competitors action and counteract competitors' pricing strategies.

Discuss the strategic approaches taken by Ecro Ltd. in the two different situations to stay competitive. Explain the strategy that Ecro Ltd. should adopt in future to remain competitive and gain competitive advantage.

(1 + 1 + 3 = 5 Marks)

(c) *Organic Beverages has been manufacturing various soft drinks for over a decade. It has developed a sugar free beverage to cater to the needs of specific customers by spending heavily on research and development for this product. In addition, a lot of money was spent on marketing (branded as 'Say no to Sugar') and in obtaining licence for it. In a span of five months, company has gained a major share in the market for this new product and it is growing rapidly. Profitability of this product is also better. In order to take the advantage of best opportunity for expansion, it has to make heavy investment to maintain their position in current and new market.*

Classify 'Say no to Sugar' product in the most related category in the two dimensional growth share matrix as per Boston Consulting Group. Explain the strategies which can be pursued post identification and classification of products in such matrix. Also state the limitations of this technique as one of the strategic options. ***(1 + 2 + 2 = 5 Marks)***

Answer

(a) The organizational structure best suited for the ABC group of companies is the Matrix Structure.

The Matrix Structure integrates functional and project-based frameworks, enabling vertical communication between functional managers and teams, and horizontal communication with project managers.

Functional managers oversee domains and report to SMEs, while project managers handle project execution. This structure ensures resource sharing, role clarity, collaboration, and alignment with organizational objectives.

Advantages of the Matrix Structure:

1. **Resource Optimization:** Efficient utilization of resources across multiple projects.
2. **Flexibility:** Shutting down a project is accomplished relatively easily because it quickly adapts to changes in project needs or external environments.
3. **Enhanced Communication:** Encourages collaboration and knowledge sharing across projects and functions through many channels of communication.

4. **Clear Goals:** Project objectives are clear. Project managers focus on achieving specific project objectives.

Disadvantages of the Matrix Structure:

1. **Complexity:** Dual reporting relationships can lead to confusion and conflict between project and functional managers.
2. **High Coordination Costs:** It results in higher overhead cost and requires significant planning and communication efforts.
3. **Power Struggles:** Potential for conflicts over resource allocation and priorities.

(b) Ecro Ltd. employs both **proactive** and **reactive** strategic approaches to stay competitive in a dynamic market.

Initially, the company was proactive in its approach by adopting the features of proactive strategies:

- **Strengthening Brand Identity:** Proactively building a strong eco-friendly image to appeal to environmentally conscious consumers.
- **Innovative Marketing Campaigns:** Crafting impactful and creative campaigns to enhance market visibility and differentiate its products.
- **Product Innovation:** Consistently introducing new and innovative eco-friendly products to meet evolving customer demands and maintain a competitive edge.

These proactive strategies are deliberate, reflecting planned actions to improve market position and financial performance.

However, when the company started facing competition from large retailers, it forced the company to quickly adapt to the changing market conditions by following the features of reactive strategies:

- **Adapting to Market Changes:** Responding to the entry of large retailers in the eco-friendly segment by quickly adjusting strategies.
- **Competitor Analysis:** Studying competitors' strategies to counteract their actions effectively.
- **Dynamic Marketing:** Implementing varied marketing techniques to respond to competitors' campaigns.

- **Pricing Adjustments:** Adopting counter-pricing strategies to remain competitive without compromising profitability.

These reactive strategies demonstrate Ecro Ltd.'s ability to adapt to unforeseen developments and changing market conditions.

Future Strategy for Competitive Advantage

To remain competitive and gain a sustainable edge, Ecro Ltd. should adopt a **blended approach** of proactive and reactive strategies:

1. **Sustainable Differentiation:** Focus on continuous innovation and exclusive eco-friendly product lines to strengthen its unique position.
2. **Customer-Centric Approach:** Use data analytics to understand consumer preferences and tailor offerings.
3. **Operational Efficiency:** Optimize supply chain and reduce costs to balance affordability and quality.
4. **Strategic Alliances:** Partner with eco-certification organizations to build credibility and trust.

By crafting a strategy that integrates **planned proactive initiatives** with **adaptive responses**, Ecro Ltd. can navigate uncertainty, tackle competition, and ensure long-term success.

(c) The 'Say No to Sugar' product by Organic Beverages can be classified as a **Star** in the BCG Growth-Share Matrix. This classification is due to the **product's rapid market growth and the company's strong market share achieved** within a short span of five months. Additionally, the product requires heavy investment to maintain its market position and expand further, which aligns with the characteristics of a Star.

Strategies Post-Identification: After identifying the 'Say No to Sugar' product as a Star, the following strategies can be pursued:

1. **Build Strategy:** Increase market share through sustained investments in marketing, distribution, and product development. This ensures the product remains competitive and capitalizes on its growth potential.
2. **Hold Strategy:** Focus on maintaining the current market share and profitability by optimizing resources and sustaining brand reputation.

3. **Harvest Strategy:** This strategy is not suitable for Stars as it prioritizes short-term cash flow over long-term growth, which contradicts the objectives for a Star.
4. **Divest Strategy:** Selling or liquidating the product is unsuitable here, as Stars represent the best opportunities for expansion.

Limitations of BCG Matrix:

1. **Complexity and Cost:** The matrix can be difficult, time-consuming, and costly to implement.
2. **Subjectivity:** Defining SBUs and measuring market share or growth can be challenging and subjective.
3. **Focus on Present:** It emphasizes current business scenarios but provides limited guidance for future strategic planning.
4. **Overemphasis on Growth:** This may lead to unwise investments in high-growth markets or premature divestment of established products.

Thus, while the BCG matrix provides a simplified framework for portfolio analysis, it should be used alongside other strategic tools for balanced decision-making.

Question 6

(a) "International development is expensive and challenging". In the context of the statement, explain the internationalization of business and the steps involved in such strategic planning. ***(5 Marks)***

(b) "Managing stakeholders is critical to the success of a project". Explain how Mendelow's Matrix helps in managing stakeholders and categorizing the stakeholders into groups. ***(5 Marks)***

Answer

(a) Internationalization has become a pivotal trend for businesses aiming to enhance profitability and access cheaper resources. **It allows companies to explore new markets, achieve economies of scale, and prolong product lifecycles.** However, the process of internationalization is complex due to additional variables and linkages that differ from domestic operations.

To navigate this complexity, businesses should adopt a structured approach to international strategic planning. The steps involved include:

1. **Evaluate Global Opportunities and Threats:** Businesses must assess potential global markets, identifying opportunities and threats while aligning them with their internal capabilities.
2. **Describe the Scope of Operations:** Clearly defining the extent of the firm's international commercial activities is crucial for focused strategy development.
3. **Create Global Business Objectives:** Establishing clear objectives helps guide the organization's international efforts and aligns with its overall mission.
4. **Develop Distinct Corporate Strategies:** Formulating specific strategies tailored for global operations ensures that the organization can effectively compete in diverse markets.

These steps facilitate the identification of market opportunities and the formulation of effective global strategies, enabling businesses to thrive in the international arena despite the inherent challenges and costs associated with such expansion.

(b) The Mendelow's matrix is a simple framework to help manage key stakeholders.

Managing Stakeholders: Mendelow's Matrix is an essential tool for managing stakeholders effectively in project management, as it involves managing the competing interests of various stakeholders. It categorizes stakeholders based on their power and interest levels. This framework helps project managers to identify which stakeholders are incredibly important and prioritize their engagement strategies to ensure project success.

Categorization of Stakeholders: The matrix divides stakeholders into four groups:

- **Key Players (High Power, High Interest)**: These stakeholders require close management and regular communication. Engaging them fully ensures their support and input, which is crucial for project success. For instance, CEOs and shareholders fall into this category.

- **Keep Satisfied (High Power, Low Interest)**: While these stakeholders have significant influence, they may not be as invested in the project's success. It is essential to keep them satisfied with sufficient information to prevent potential conflicts.
- **Keep Informed (Low Power, High Interest)**: Stakeholders in this group are interested in the project but lack the power to influence its outcome. Regular updates and communication can foster goodwill and may provide valuable feedback.
- **Low Priority (Low Power, Low Interest)**: These stakeholders require minimal attention. Monitoring their interest and power levels periodically is sufficient, as they do not significantly impact the project.

In summary, Mendelow's Matrix provides a clear framework for categorizing stakeholders based on their power and interest, facilitating effective stakeholder management and enhancing the likelihood of project success.

Question 7

(a) Outline the main levels of management generally found in an organization. Also explain the types of networks of relationship between these levels and amongst the same levels of a business. ***(3 + 2 = 5 Marks)***

(b) What do you mean by strategic performance measures? State the reasons for the importance of strategic performance measures for an organization.

(1 + 4 = 5 Marks)

Answer

(a) Main Levels of Management in an Organization

In a typical large organization, there are three main levels of management:

1. **Corporate Level**: This includes the Chief Executive Officer (CEO), senior executives, and the board of directors. Their primary responsibility is to oversee the organization as a whole, make strategic decisions, define the mission and goals, allocate resources, and manage the corporate portfolio of businesses.

2. **Business Level**: This level consists of general managers responsible for specific Strategic Business Units (SBUs). They translate corporate-level strategies into concrete plans for their respective divisions, focusing on creating competitive advantages and achieving profitability.

3. **Functional Level**: This level encompasses managers responsible for specific functions such as finance, marketing, and human resources. They develop functional strategies aligned with the objectives set by the corporate and business-level managers and are crucial for implementing strategies effectively.

Types of Networks of Relationship Between Management Levels

1. **Functional and Divisional Relationship**: This independent relationship operates where each function or division is managed independently, with business-level managers reporting to corporate-level managers. For example, finance and marketing functions operate under their respective heads, who report to the division head.

2. **Horizontal Relationship**: This flat structure promotes equality among all employees, facilitating openness and transparency. All positions, from top management to staff-level employees, share the same hierarchical status, enhancing idea-sharing and innovation, particularly in startups.

3. **Matrix Relationship**: This complex structure combines various departments into project-based teams. It features multiple business-level managers for each functional team, making it suitable for large organizations with diverse operations, enabling efficient management of projects across different functions.

   These levels and their relationships help streamline decision-making and strategy implementation within an organization, fostering a cohesive approach to achieving business goals.

(b) Strategic Performance Measures (SPM) are metrics used by organizations to evaluate and track the effectiveness of their strategies in achieving strategic goals and objectives. **SPM provides a framework for measuring the performance of key areas critical to the success of the organization's strategy. These measures help in assessing whether**

the organization is progressing towards its desired outcomes and allow for adjustments to be made to improve performance.

Strategic performance measures are essential for organizations for several reasons:

- **Goal Alignment:** Strategic performance measures help organizations align their strategies with their goals and objectives, ensuring that they are on track to achieve their desired outcomes.
- **Resource Allocation:** Strategic performance measures provide organizations with the information they need to make informed decisions about resource allocation, enabling them to prioritize their efforts and allocate resources to the areas that will have the greatest impact on their performance.
- **Continuous Improvement:** Strategic performance measures provide organizations with a framework for continuous improvement, enabling them to track their progress and make adjustments to improve their performance over time.
- **External Accountability:** Strategic performance measures help organizations demonstrate accountability to stakeholders, including shareholders, customers, and regulatory bodies, by providing a clear and transparent picture of their performance.

  In summary, strategic performance measures play a vital role in guiding organizations toward success by ensuring alignment with strategic goals, optimizing resource use, fostering continuous improvement, and maintaining accountability to stakeholders.

Question 8

(a) *As per one of the five forces of competition, Michael Porter stated that the more intensive is the rivalry, the less attractive is the industry. In view of this, explain the conditions in which rivalry among competitors tends to be cut throat and industry profitability is low.* ***(5 Marks)***

(b) *Explain the 'product market growth matrix' as propagated by Igor Ansoff as a device for identifying growth opportunities for the future.* ***(5 Marks)***

OR

(b) *Write a short note on the key strategic drivers of an organization.*

(5 Marks)

Answer

(a) According to Michael Porter's Five Forces framework, rivalry among competitors significantly influences the attractiveness and profitability of an industry. When rivalry becomes cutthroat, several conditions contribute to low industry profitability:

1. **Industry Leader Presence**: While a strong industry leader can help maintain pricing discipline, the effectiveness diminishes as the number of competitors increases. Many rivals can engage in aggressive pricing strategies, leading to decreased profitability.
2. **Number of Competitors**: A higher number of competitors increases rivalry, making it difficult for any single firm to control pricing. This leads to intensified price competition, which adversely affects industry profitability.
3. **High Fixed Costs**: Industries with high fixed costs create pressure on firms to fully utilize their capacity. When firms face excess capacity, they often resort to price cuts to maintain sales volume, which diminishes profitability across the industry.
4. **Exit Barriers**: High exit barriers prevent firms from leaving the industry, keeping competition high. Specialized assets or other constraints can lead firms to remain in the market, maintaining competitive pressure and negatively impacting profitability for all players.
5. **Product Differentiation**: In industries lacking product differentiation, firms primarily compete on price. This leads to price wars and lower profitability. In contrast, firms that can differentiate their products tend to achieve higher profit margins and reduce competitive pressure.
6. **Slow Industry Growth**: When industry growth slows, firms may adopt aggressive tactics to protect or gain market share, resulting in

intensified rivalry and diminished profitability as they compete for a limited customer base.

In summary, conditions such as the presence of a strong industry leader, the number of competitors, high fixed costs, exit barriers, lack of product differentiation, and slow industry growth contribute to cutthroat rivalry and low industry profitability.

(b) The Ansoff's Product Market Growth Matrix, developed by Igor Ansoff, is a strategic tool that helps businesses identify growth opportunities by analyzing the interplay between products and markets.

It offers four distinct strategies based on whether the products and markets are existing or new. These strategies are:

1. **Market Penetration**: Focuses on selling existing products in existing markets. This involves increasing market share by enhancing sales through advertising, promotions, competitive pricing, or encouraging higher usage among current customers.
2. **Market Development**: Entails selling existing products in new markets. This could involve exploring new geographical regions, utilizing alternative distribution channels, or creating new market segments.
3. **Product Development**: Involves introducing new or modified products into existing markets. This strategy often requires innovation and developing products that meet current market needs.
4. **Diversification**: Refers to marketing new products in new markets. It is a high-risk strategy as the business ventures into unfamiliar products and markets.

As market dynamics evolve, companies may transition between these strategies to adapt and sustain growth. The matrix provides a structured framework for businesses to align their growth strategies with their capabilities and market conditions.

Or

Key Strategic Drivers of an Organization

Strategic drivers are essential elements that influence an organization's ability to differentiate itself from its competitors and achieve competitive advantage. These drivers assess the current performance of the business and provide insights into areas that need focus.

The key strategic drivers include:

1. **Industry and Markets:** Understanding the industry and markets is crucial for identifying the organization's relative position. Industries group similar companies based on their primary products, while markets are defined by the buyers and sellers of these products. Analyzing industry and market dynamics, often through tools like strategic group mapping, helps organizations evaluate competition and refine strategies.
2. **Customers:** Identifying and understanding customers is a critical driver. Customers are segmented based on their needs and spending capacity, which guides product development and marketing strategies. Differentiating between customers (buyers) and consumers (users) is vital to tailoring pricing, design, and usability strategies effectively.
3. **Products and Services:** Products and services are central to defining the business. Organizations must assess their offerings, classify products, and devise strategies for differentiation, branding, and pricing. Product innovation and marketing are key to maintaining competitiveness.
4. **Channels:** The channels through which products and services are delivered impact accessibility and customer satisfaction. Strategies related to direct, digital, or relationship-based marketing ensure the efficient distribution of offerings to target customers.

   By aligning these drivers with organizational goals, businesses can achieve sustained growth and maintain a competitive edge.