Mock Test Paper - Series I: March, 2024

Date of Paper: 16 March, 2024

Time of Paper: 2 P.M. to 5 P.M.

INTERMEDIATE: GROUP – II

PAPER – 6A : FINANCIAL MANAGEMENT & STRATEGIC MANAGEMENT

PAPER 6A: FINANCIAL MANAGEMENT

Time Allowed – 3 Hours (Total time for 6A and 6B) Maximum Marks – 50

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*
4. *Working note should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of note. However, in answers to Questions in Division A, working notes are not required.*

PART I – Case Scenario based MCQs (15 Marks)

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

1. NV Industries Ltd. is a manufacturing industry which manages its accounts receivables internally by its sales and credit department. It supplies small articles to different industries. The total sales ledger of the company stands at ₹ 200 lakhs of which 80% is credit sales. The company has a credit policy of 2/40, net 120. Past experience of the company has been that on average out of the total, 50% of customers avail of discount and the balance of the receivables are collected on average in 120 days. The finance controller estimated, bad debt losses are around 1% of credit sales.

   With escalating cost associated with the in-house management of the debtors coupled with the need to unburden the management with the task so as to focus on sales promotion, the CFO is examining the possibility of outsourcing its factoring service for managing its receivables. Currently, the firm spends about ₹ 2,40,000 per annum to administer its credit sales. These are avoidable as a factoring firm is prepared to buy the firm's receivables. The main elements of the proposal are : (i) It will charge 2% commission (ii) It will pay advance against receivables to the firm at an interest rate of 18% after withholding 10% as reserve.

   Also, company has option to take long term loan at 15% interest or may take bank finance for working capital at 14% interest.

   You were also present at the meeting; being a financial consultant, the CFO has asked you to be ready with the following questions:

Consider year as 360 days.

I. What is average level of receivables of the company?

a. ₹ 53,33,333

b. ₹ 35,55,556

c. ₹ 44,44,444

d. ₹ 71,11,111

II. How much advance factor will pay against receivables?

a. ₹ 31,28,889

b. ₹ 39,11,111

c. ₹ 30,03,733

d. ₹ 46,93,333

III. What is the annual cost of factoring to the company?

a. ₹ 8,83,200

b. ₹ 4,26,667

c. ₹ 5,51,823

d. ₹ 4,00,000

IV. What is the net cost to the company on taking factoring service?

a. ₹ 4,00,000

b. ₹ 4,26,667

c. ₹ 3,50,000

d. ₹ 4,83,200

V. What is the effective cost of factoring on advance received?

a. 16.09%

b. 13.31%

c. 12.78%

d. 15.89% **(5 x 2 = 10 Marks)**

2. Ramu Ltd. wants to implement a project for which ₹ 25 lakhs is required. Following financing options are at hand:

Option 1:

Equity Shares	25,000 @ ₹ 100

Option 2:

Equity Shares	10,000 @ ₹ 100
12% Preference Shares	5,000@ ₹ 100
10% Debentures	10,000@ ₹ 100

What is the indifference point & EPS at that level of EBIT assuming corporate tax to be 35%.

(a) ₹ 2,94,872; ₹ 11.80

(b) ₹ 3,20,513; ₹ 8.33

(c) ₹ 2,94,872; ₹ 7.67

(d) ₹ 3,20513; ₹ 12.82 **(2 Marks)**

3. "If EBIT increases by 6%, net profit increases by 6.9%. If sales increase by 6%, net profit will increase by 24%.

Financial leverage must be -…………"

(a) 1.19

(b) 1.13

(c) 1.12

(d) 1.15 **(2 Marks)**

4. What is the maximum period for which company can accept Public Deposits?

(a) 1 year

(b) 6 months

(c) 3 years

(d) 5 years **(1 Marks)**

PART II – Descriptive Questions (35 Marks)

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

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

1. (a) The following figures have been extracted from the annual report of Xee Ltd.:

Net Profit	₹ 54 lakhs
Outstanding 12% preference shares	₹ 200 lakhs
No. of equity shares	2 lakhs
Return on Investment	22%
Cost of capital i.e. (K_e)	15%

COMPUTE the approximate dividend pay-out ratio so as to keep the share price at ₹ 120 by using Walter's model?

(Decimal may be taken up to 2 units) **(5 Marks)**

(b) Capital structure (in market-value terms) of AN Ltd is given below:

Company	Debt	Equity
AN Ltd.	50%	50%

The borrowing rate for the company is 10% in a no-tax world and capital markets are assumed to be perfect.

Required:

(i) If Mr. R, owns 8% of the equity shares of AN Ltd., DETERMINE his return if the Company has net operating income of ₹ 10,00,000 and the overall capitalization rate of the company (K_o) is 20%.

(ii) CALCULATE the implied required rate of return on equity of AN Ltd.

(5 Marks)

(c) ANVY Ltd. has furnished the following ratios and information for the year end 31st March, 2023:

Equity share capital	₹ 2,00,000
The relevant ratios of the company are as follows:	
Current debt to total debt	0.50
Total debt to Equity share capital	0.60
Fixed assets to Equity share capital	0.70
Total assets turnover	2.5 Times
Inventory turnover	10 Times

You are required to PREPARE the Balance Sheet of ANVY Ltd. as on 31st March, 2023. **(5 Marks)**

2. (a) NC Ltd. Is considering purchasing a new machine to increase its production facility. At present, it uses an old machine which can process 5,000 units of TVs per week. NC could replace it with new machine, which is product specific and can produce 15,000 units per week. New machine cost ₹ 100 crores and requires the working capital of ₹ 3 crores, which will be released at the end of 5th year. The new machine is expected to have a salvage value of ₹ 20 crores.

The company expects demand for TVs to be 10,000 units per week. Each TV sells for ₹ 30,000 and has Profit Volume Ratio (PV) of 0.10. The company works for the 56 weeks in the year. Additional fixed costs (excluding depreciation) are estimated to increase by ₹ 10 crores. The company is subject to a 40% tax rate and its after-tax cost of capital is 20%. The relevant rate of depreciation is 25 % for both taxation and accounts. The company uses the WDV method of depreciation. The existing machine will have no scrap value.

You are required to:

ADVISE whether the company should replace the old machine.

(Decimal may be taken up to 2 units) **(8 Marks)**

(b) WRITE a short note on "Cut-off Rate". **(2 Marks)**

3. (a) Ram Ltd evaluates all its capital projects using discounting rate of 16%. Its capital structure consists of equity share capital, retained earnings, bank term loan and debentures redeemable at par. Rate of interest on bank term loan is 1.4 times that of debenture. Remaining tenure of debenture and bank loan is 4 years and 6 years respectively. Book value of equity share capital, retained earnings and bank loan is ₹ 20,00,000, ₹ 30,00,000 and ₹ 20,00,000 respectively. Debentures which are having book value of ₹ 30,00,000 are currently trading at ₹ 98 per debenture. The ongoing PE multiple for the shares of the company stands at 4.

You are required to:

(i) CALCULATE the rate of interest on bank loan and

(ii) CALCULATE the rate of interest on debentures

Tax rate applicable is 30%. **(8 Marks)**

(b) DISCUSS the dividend-price approach to estimate cost of equity capital.

(2 Marks)

4. (a) EXPLAIN the limitations of profit maximization objective of Financial Management. **(4 Marks)**

(b) WHAT are the methods of venture capital financing? **(4 Marks)**

(c) WHAT is ‘Optimum Capital Structure’? **(2 Marks)**

OR

EXPLAIN the concept of Financial Leverage as ‘Trading on Equity’.

(2 Marks)

INTERMEDIATE COURSE: GROUP II

PAPER 6B: STRATEGIC MANAGEMENT

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises case scenario based multiple choice questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case scenario based MCQs (15 Marks)

Question 1.(A) (Compulsory)

1. (A) In the fiercely competitive automotive industry, Zing, a promising newcomer, set out on a strategic journey with ambitions of making a substantial impact. Recognizing the significance of a robust distribution network early on, Zing forged partnerships with established dealerships, offering them attractive margins. This strategic move significantly enhanced Zing's reach, with a presence in 80% of the nation's dealerships by 2022, expanding its coverage significantly.

To differentiate themselves from competitors, Zing adopted two key strategies. Firstly, they prioritized product design, investing heavily in aesthetics and incorporating innovative features and environmentally friendly technologies. This focus on design led to their vehicles receiving excellent reviews and achieving an impressive 15% year-on-year growth in sales.

Secondly, Zing implemented switching costs to discourage customers from switching to other brands. Their vehicles featured branded software, making it both expensive and cumbersome for customers to transition to alternative brands. This strategic move effectively protected Zing's market share.

Zing's overarching goal was to position itself as a premium automotive brand, blending luxury with sustainability. However, their execution fell down as they challenged with maintaining consistent quality and service levels, resulting in mixed customer reviews.

Despite their best efforts, Zing's differentiation strategy fell short due to issues with inconsistent quality and service. Negative word-of-mouth and declining customer satisfaction scores tarnished their brand image, leading to stagnating sales. This failure to deliver on their brand promise proved to be a significant setback.

As Zing's reputation suffered from execution failures, securing additional funds for international expansion became challenging. Consequently, they made the difficult decision to postpone their global ambitions for the next five years, focusing instead on stabilizing their finances and rebuilding their brand image.

In summary, Zing's strategic journey illustrates the importance of not only crafting a compelling differentiation strategy but also executing it flawlessly. In the competitive automotive landscape, maintaining consistent quality and service is paramount to sustaining brand loyalty and achieving long-term success.

Based on the above Case Scenario, answer the Multiple Choice Questions.

(i) What key strategic approach did Zing use to expand its market presence in the automotive industry?

(a) Product innovation and design

(b) Cost leadership strategy

(c) Entering new international markets

(d) Vertical integration **(2 Marks)**

(ii) How did Zing protect its market share from potential competitors?

(a) Price-cutting strategy

(b) Branded software and switching costs

(c) Aggressive marketing campaigns

(d) International expansion **(2 Marks)**

(iii) Why did Zing's differentiation strategy fall short in the market?

(a) Intense price competition

(b) Poor marketing strategy

(c) Inconsistent quality and service

(d) Lack of international expansion **(2 Marks)**

(iv) Forging partnerships with established dealerships to enhance its distribution network falls under which level of strategy?

(a) Corporate level strategy

(b) Business level strategy

(c) Functional level strategy

(d) Competitive level strategy **(2 Marks)**

(v) How did Zing initially expand its market presence across the nation?

(a) Aggressive marketing campaigns

(b) Developing low-cost vehicles

(c) Partnering with established dealerships

(d) Launching a luxury brand **(2 Marks)**

(B) Compulsory Application Based Independent MCQs

(i) TechMex Inc., a leading technology company, offers a diverse portfolio of products ranging from established cash cows to promising question marks. As part of its strategic planning process, the company aims to assess its product portfolio's performance and allocate resources effectively. In which quadrant of the BCG Matrix would TechMex's new innovative product, recently launched in a rapidly growing market, likely fall into?

(a) Cash Cow

(b) Dog

(c) Question Mark

(d) Star **(2 Marks)**

(ii) BlueSky Enterprises, a multinational corporation specializing in renewable energy solutions, is undergoing a strategic transformation to enhance its competitive position in the market. As part of this initiative, the company is reevaluating its organizational structure, processes, and culture. Which aspect of the McKinsey 7S Model is most relevant for BlueSky Enterprises during this strategic transformation?

(a) Strategy

(b) Structure

(c) Systems

(d) Skills **(2 Marks)**

(iii) The threat of substitutes is high when:

(a) There are few substitute products available

(b) Switching costs are low

(c) Suppliers have high bargaining power

(d) There is strong brand loyalty **(1 Mark)**

PART II – Descriptive Questions (35 Marks)

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

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

1. (a) Swati is the marketing manager at a software company. She is responsible for developing and implementing marketing strategies for the company’s products. Swati leads a team of marketing professionals and works closely with the product development and sales teams to ensure that the company's products are effectively promoted in the market. She also analyzes market trends and customer feedback to refine the marketing strategies. Which level is she working at, discuss the roles and responsibilities of this level in organization? **(5 Marks)**

(b) ABC Corp, a multinational consumer electronics company, is planning to expand its operations into a new country. The company's senior management is evaluating the potential risks and opportunities of entering this new market. As part of their analysis, they decide to use the PESTLE framework to assess the external factors that could impact their decision. How can the PESTLE framework help ABC Corp assess the external factors affecting its decision to expand into a new country? **(5 Marks)**

(c) Imagine you are a consultant advising a small manufacturing company embarking on a digital transformation journey. The company's leadership is concerned about managing the change effectively. Using the best practices for managing change in small and medium-sized businesses, outline a strategy to help the company navigate this transformation successfully. **(5 Marks)**

2. (a) Imagine you are a strategic consultant advising a retail company that is facing increasing competition from online retailers. The company is considering several strategic options to improve its market position. Using the concept that strategy is partly proactive and partly reactive, explain how the company can develop a strategic approach to address this challenge. **(5 Marks)**

(b) You are a strategic manager for a tech company launching a new smartphone model. The company wants to target tech-savvy consumers who value innovation and cutting-edge technology. Using the concept of customer behavior, develop a marketing strategy to promote the new smartphone. **(5 Marks)**

3. (a) A beverage company is launching a new line of energy drinks targeted at health-conscious consumers. The strategic manager wants to study the market position of rival companies in the energy drink segment. Which tool can be used for this analysis, and what is the procedure to implement it effectively? **(5 Marks)**

(b) The CEO of a textile mill believes that his company, currently operating at a loss, can be turned around. Develop an action plan outlining steps the CEO can take to achieve this turnaround. **(5 Marks)**

4. (a) Why Strategic Performance Measures are essential for organizations? **(5 Marks)**

(b) How can Mendelow's Matrix be used to analyze and manage the stakeholders effectively?

OR

Distinguish between Concentric Diversification and Conglomerate Diversification. **(5 Marks)**

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PAPER – 6: FINANCIAL MANAGEMENT & STRATEGIC MANAGEMENT

PAPER 6A : FINANCIAL MANAGEMENT

Suggested Answers/ Hints

PART I

1. I. (b) ₹ 35,55,556

II. (c) ₹ 30,03,733

III. (a) ₹ 8,83,200

IV. (d) ₹ 4,83,200

V. (a) 16.09%

Working Note

Particulars	**(₹)**
Total Sales	₹ 200 lakhs
Credit Sales (80%)	₹ 160 lakhs
Receivables for 40 days	₹ 80 lakhs
Receivables for 120 days	₹ 80 lakhs
Average collection period [(40 x 0.5) + (120 ×0.5)]	80 days
Average level of Receivables (₹ 1,60,00,000 × 80/360)	₹ 35,55,556
Factoring Commission (₹ 35,55,556 × 2/100)	₹ 71,111
Factoring Reserve (₹ 35,55,556 × 10/100)	₹ 3,55,556
Amount available for advance {₹ 35,55,556 - (3,55,556 + 71,111)}	₹ 31,28,889
Factor will deduct his interest @ 18%: Interest = $\frac{₹31,28,889 \times 18 \times 80}{100 \times 360}$	₹ 1,25,156
Advance to be paid (₹ 31,28,889 – ₹ 1,25,156)	₹ 30,03,733

(i) Statement Showing Evaluation of Factoring Proposal

		₹
A.	**Annual Cost of Factoring to the Company:**	
	Factoring commission (₹ 71,111 × 360/80)	3,20,000
	Interest charges (₹ 1,25,156 × 360/80)	5,63,200
	Total	8,83,200

B.	**Company's Savings on taking Factoring Service:**	₹
	Cost of credit administration saved	2,40,000
	Bad Debts (₹ 160,00,000 x 1/100) avoided	1,60,000
	Total	4,00,000
C.	Net Cost to the company (A – B) (₹ 8,83,200 – ₹ 4,00,000)	4,83,200

Effective cost of factoring = $\frac{₹\ 4,83,200}{₹ 30,03,733} \times 100$ = 16.09%

2. B. ₹ 3,20,513; ₹ 8.33

$$\frac{(\text{EBIT}-\text{I})(1-\text{t})-\text{D}_\text{p}}{\text{N}_1} = \frac{(\text{EBIT}-\text{I})(1-\text{t})-\text{D}_\text{p}}{\text{N}_2}$$

$$\frac{(\text{x}-0)(1-0.35)}{25,000} = \frac{(\text{x}-1,00,000)(1-0.35)-60,000}{10,000}$$

x = EBIT = ₹ 3,20,513

At EBIT of ₹ 3,20,513, EPS under both options will be the same i.e., ₹ 8.33 per share

3. D. 1.15

FL= % change in NP/%change in EBIT=6.9/6=1.15

4. C. 3 years

These deposits may be accepted for a period of six months to three years.

PART II

1. (a)

Particulars	**(₹' in lakhs)**
Net Profit	54
Less: Preference dividend	24
Earnings for equity shareholders	30
Earnings per share	30/2 = ₹ 15

Let, the dividend per share be D to get share price of ₹ 120.

$$\text{P} = \frac{\text{D}+\frac{\text{r}}{\text{Ke}}(\text{E-D})}{\text{K}_\text{e}}$$

Where,

P = Market price per share.

E = Earnings per share = ₹ 15

D = Dividend per share

R = Return earned on investment = 22%

K_e = Cost of equity capital = 15%

$$120 = \frac{D + \frac{0.22}{0.15}(15\text{-}D)}{0.15}$$

$$18 = \frac{0.15D + 3.3 - 0.22D}{0.15}$$

$$0.07D = 3.3 - 2.7$$

$$D = 8.57$$

$$\text{D/P ratio} = \frac{DPS}{EPS} \times 100 = \frac{8.57}{15} \times 100 = 57.13\%$$

So, the required dividend pay-out ratio will be = 57.13%

(b) Value of AN Ltd. = $\frac{NOI}{K_o} = \frac{₹\ 10,00,000}{20\%}$ = ₹ 50,00,000

(i) Return on Shares of Mr. R on AN Ltd.

Particulars	**Amount (₹)**
Value of the company	50,00,000
Market value of debt (50% x ₹ 50,00,000)	25,00,000
Market value of shares (50% x ₹ 50,00,000)	**25,00,000**
Particulars	**Amount (₹)**
Net operating income	10,00,000
Interest on debt (10% × ₹ 25,00,000)	2,50,000
Earnings available to shareholders	**7,50,000**
Return on 8% shares (8% × ₹ 7,50,000)	**60,000**

(ii) Implied required rate of return on equity of AN Ltd. = $\frac{₹\ 7,50,000}{₹\ 25,00,000}$ = **30%**

(c) **ANVY Ltd**

Balance Sheet as on 31st March, 2023

Liabilities	**₹**	**Assets**	**₹**
Equity share capital	2,00,000	Fixed assets	1,40,000
Current debt	60,000	Cash (balancing figure)	1,00,000
Long term debt	60,000	Inventory	80,000
	3,20,000		3,20,000

Working Notes

1. Total debt = 0.60 x Equity share capital = 0.60 × ₹ 2,00,000 = ₹ 1,20,000

   Further, Current debt to total debt = 0.50. So, current debt = 0.50 x ₹1,20,000 = ₹ 60,000, Long term debt = ₹1,20,000 - ₹60,000= ₹ 60,000

2. Fixed assets = 0.70 × Equity share Capital = 0.70 × ₹ 2,00,000 = ₹ 1,40,000

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

Hence, Inventory /Total assets = 2.5/10=1/4, Total assets = ₹ 3,20,000

Therefore Inventory = ₹ 3,20,000/4 = ₹ 80,000

2. (a) Cash inflows after tax (CFAT)

Particular	**₹**
Current production (units per week)	5,000 units
New capacity (units per week)	15,000 units
Demand (units per week)	10,000 units
Increase in sales (units per week) A.	5,000 units
Contribution per unit (₹ 30,000 x 0.10) B.	3,000
Increase in contribution A x B x 56	84 crores
Less: Additional fixed cost	10 crores
Increase in profit	74 crores
Less: Tax @ 40%	29.6 crores
Profit after tax	44.4 crores

Tax shield due to depreciation

Year	**Depreciation (₹ in Crore)**	**Tax Shield (₹ in Crore)**	**PV Factor @ 20%**	**Total Present Value (₹ in Crore)**
1	25.00	10	0.83	8.33
2	18.75	7.5	0.69	5.18
3	14.06	5.62	0.58	3.26
4	10.55	4.22	0.48	2.03
5	7.91	3.16	0.40	1.27
Total				20.07

Tax shield on capital loss = (23.73-20.00) x 30% = ₹ 1.12 crores

Net Present Value (NPV)

Particulars	**Year**	**Cash Flow (₹ in Crores)**	**PVAF @ 20%**	**Present Value (₹ in Crores)**
Initial Investment	0	(100)	1	(100)
Working capital	0	(3)	1	(3)
Profit after tax	1-5	44.4	2.99	132.76
Salvage value	5	20	0.40	8.00

Tax shield on Depreciation	1-5			20.07
Tax shield on capital loss	5	1.12	0.40	0.45
Release of Working Capital	5	3	0.40	1.20
NPV				59.47

The company is advised to replace the old machine since the NPV of the new machine is positive.

(b) **Cut-off Rate:** It is the minimum rate which the management wishes to have from any project. Usually this is based upon the cost of capital. The management gains only if a project gives return of more than the cut - off rate. Therefore, the cut - off rate can be used as the discount rate or the opportunity cost rate.

3. (a) Working Note:

Let the rate of Interest on debenture be x

$\therefore$ Rate of Interest on loan = 1.4x

$$\therefore k_d \text{ on debentures} = \frac{\text{Int}\,(1-t) + \frac{RV - NP}{n}}{\frac{RV + NP}{2}}$$

$$= \frac{100x(1-0.30) + \frac{100-98}{4}}{\frac{100+98}{2}}$$

$$= \frac{70x + 0.5}{99}$$

$\therefore K_d$ on bank loan = 1.4 x (1 – 0.30) = 0.98x

$$K_e = \frac{EPS}{MPS} = \frac{1}{MPS/EPS} = \frac{1}{PE} = \frac{1}{4} = 0.25$$

K_e = 0.25

Computation of WACC

Capital	Amount	Weights	Cost	Product
Equity	20,00,000	0.2	0.25	0.05
Reserves	30,00,000	0.3	0.25	0.075
Debentures	30,00,000	0.3	(70x+0.5)/99	(21x+0.15)/99
Bank Loan	20,00,000	0.2	0.98x	0.196x
	1,00,00,000	1		$0.125+0.196x + \frac{21x+0.15}{99}$

WACC = 16%

$\therefore$ 0.125+0.196x+ $\frac{21x+0.15}{99}$ = 0.16

$\therefore$ 12.375+19.404x+21x+0.15 = (0.16)(99)

$\therefore$ 40.404x = 15.84 – 12.525

$\therefore$ 40.404x = 3.315

$\therefore$ x = $\frac{3.315}{40.404}$

$\therefore$ x = 8.20%

(i) Rate of interest on debenture = x = 8.20%

(ii) Rate of interest on Bank loan = 1.4x = (1.4)(8.20%) = 11.48%.

(b) In dividend price approach, cost of equity capital is computed by dividing the expected dividend by market price per share. This ratio expresses the cost of equity capital in relation to what yield the company should pay to attract investors. It is computed as:

$$K_e = \frac{D_1}{P_0}$$

Where,

K_e= Cost of equity

D = Expected dividend (also written as D_1)

P_0 = Market price of equity (ex- dividend)

4. (a) Limitations of Profit Maximisation objective of financial management.

(i) **The term profit is vague. It does not clarify what exactly it means.** It conveys a different meaning to different people. For example, profit may be in short term or long term period; it may be total profit or rate of profit etc.

(ii) **Profit maximisation has to be attempted with a realisation of risks involved.** There is a direct relationship between risk and profit. Many risky propositions yield high profit. Higher the risk, higher is the possibility of profits. If profit maximisation is the only goal, then risk factor is altogether ignored. This implies that finance manager will accept highly risky proposals also, if they give high profits. In practice, however, risk is very important consideration and has to be balanced with the profit objective.

(iii) **Profit maximisation as an objective does not take into account the time pattern of returns.** Proposal A may give a higher amount of profits as compared to proposal B, yet if the returns of proposal A begin to flow say 10 years later, proposal B may be preferred which may have lower overall profit but the returns flow is more early and quick.

(iv) **Profit maximisation as an objective is too narrow.** It fails to take into account the social considerations as also the obligations to various interests of workers, consumers, society, as well as ethical trade practices. If these factors are ignored, a company cannot survive for long. Profit maximization at the cost of social and moral obligations is a short sighted policy.

(b) Some common methods of venture capital financing are as follows:

(i) **Equity financing:** The venture capital undertakings generally require funds for a longer period but may not be able to provide returns to the investors during the initial stages. Therefore, the venture capital finance is generally provided by way of equity share capital. The equity contribution of venture capital firm does not exceed 49% of the total equity capital of venture capital undertakings so that the effective control and ownership remains with the entrepreneur.

(ii) **Conditional loan:** A conditional loan is repayable in the form of a royalty after the venture is able to generate sales. No interest is paid on such loans. In India venture capital financiers charge royalty ranging between 2 and 15 per cent; actual rate depends on other factors of the venture such as gestation period, cash flow patterns, risk and other factors of the enterprise. Some Venture capital financiers give a choice to the enterprise of paying a high rate of interest (which could be well above 20 per cent) instead of royalty on sales once it becomes commercially sound.

(iii) **Income note:** It is a hybrid security which combines the features of both conventional loan and conditional loan. The entrepreneur has to pay both interest and royalty on sales but at substantially low rates. IDBI's VCF provides funding equal to 80 – 87.50% of the projects cost for commercial application of indigenous technology.

(iv) **Participating debenture:** Such security carries charges in three phases — in the start-up phase no interest is charged, next stage a low rate of interest is charged up to a particular level of operation, after that, a high rate of interest is required to be paid.

(c) **Optimum Capital Structure:** The capital structure is said to be optimum when the firm has selected such a combination of equity and debt so that the wealth of firm is maximum. At this capital structure, the cost of capital is minimum and the market price per share i.e. value of the firm is maximum.

OR

Financial leverage indicates the use of funds with fixed cost like long term debts and preference share capital along with equity share capital which is known as trading on equity. The basic aim of financial leverage is to increase the earnings available to equity shareholders using fixed cost fund.

A firm is known to have a positive/favourable leverage when its earnings are more than the cost of debt. If earnings are equal to or less than cost of debt, it will be an negative/unfavourable leverage. When the quantity of fixed cost fund is relatively high in comparison to equity capital it is said that the firm is **''trading on equity".**

INTERMEDIATE COURSE: GROUP II

PAPER 6B: STRATEGIC MANAGEMENT

ANSWERS

PART I

1. (A)	**(i)**	**(a)**	**(ii)**	**(b)**	**(iii)**	**(c)**	**(iv)**	**(b)**	**(v)**	**(c)**
1. (B)	**(i)**	**(c)**	**(ii)**	**(b)**	**(iii)**	**(b)**				

PART II

1. (a) Swati operates at the functional level of management, specifically as the marketing manager at a software company. Functional managers like Swati oversee specific departments or functions within an organization, such as marketing, finance, or operations. Their primary responsibilities include implementing corporate strategies and policies within their area of expertise and ensuring that daily operations are conducted efficiently and effectively.

In Swati's case, as a marketing manager, her role involves developing and executing marketing strategies for the company's products. This includes leading a team of marketing professionals, collaborating with product development and sales teams, and analyzing market trends and customer feedback to refine strategies. By working closely with these teams, Swati ensures that the company's products are effectively promoted in the market and that marketing efforts align with overall business goals.

Functional managers like Swati play a critical role in the organization by bridging the gap between corporate strategy and daily operations. They are responsible for translating high-level strategic goals into actionable plans for their departments and ensuring that these plans are executed effectively. Additionally, they are often key decision-makers within their areas of responsibility, making strategic choices that impact on the company's success. Overall, Swati's role as a marketing manager exemplifies the importance of functional managers in driving the success of their organizations.

(b) The PESTLE framework can help ABC Corp assess the external factors affecting its decision to expand into a new country by considering the following aspects:

- **Political Factors**: These include the stability of the government, government policies on foreign investment, trade agreements, and regulatory frameworks. By analyzing these factors, ABC Corp can assess the political risks associated with entering the new market.
- **Economic Factors**: Economic factors such as GDP growth rate, inflation rate, exchange rates, and economic stability can impact ABC Corp's decision. By analyzing these factors, the company can

understand the economic environment of the new market and its potential impact on business operations.

- **Social Factors**: Social factors such as cultural norms, demographics, and lifestyle trends can influence consumer behavior and demand for ABC Corp's products. Understanding these factors can help the company tailor its marketing strategies to the new market.
- **Technological Factors**: Technological factors such as infrastructure, technological advancements, and the level of technology adoption in the new market can impact ABC Corp's operations. By assessing these factors, the company can determine the technological requirements for entering the new market.
- **Legal Factors**: Legal factors such as laws and regulations related to foreign investment, intellectual property rights, and labor laws can impact ABC Corp's decision. By analyzing these factors, the company can ensure compliance with legal requirements in the new market.
- **Environmental Factors**: Environmental factors such as climate change, environmental regulations, and sustainability practices can impact ABC Corp's operations and reputation. By considering these factors, the company can assess the environmental risks and opportunities in the new market.

Overall, the PESTLE framework can provide ABC Corp with a comprehensive analysis of the external factors that could impact its decision to expand into a new country, helping the company make informed and strategic decisions.

(c) To help the small manufacturing company navigate its digital transformation successfully, we would recommend the following strategy:

1. **Begin at the top:** The leadership team should be united and committed to the digital transformation. They should communicate a clear vision for the future of the company and lead by example.
2. **Ensure that the change is necessary and desired:** Before implementing any changes, the company should assess its current state and identify areas where digital transformation can add value. It's important to involve employees in this process to ensure their buy-in.
3. **Reduce disruption:** Employee perceptions of change can vary, so it's important to minimize disruption. This can be done by communicating early and often about the changes, providing training and support for employees, and empowering change agents within the organization.

4. **Encourage communication:** Create channels for employees to ask questions and provide feedback. Encourage collaboration between departments to share ideas and innovations. Effective communication can help alleviate fears and keep everyone aligned.

5. **Recognize that change is the norm:** Digital transformation is not a one-time project but an ongoing process. The company should be prepared to adapt to new technologies and market conditions continuously.

By following these best practices, the small manufacturing company can successfully navigate its digital transformation and position itself for future growth and success.

2. (a) The retail company can develop a strategic approach that is both proactive and reactive to address the challenge of increasing competition from online retailers. To achieve this, the company can:

- **Proactive Strategy:** The company can proactively analyze market trends and customer preferences to identify opportunities for growth. For example, it can invest in market research to understand what customers value in a retail experience and tailor its offerings to meet those needs. This proactive approach can help the company stay ahead of competitors and attract new customers.

- **Reactive Strategy:** In addition to proactive measures, the company should also be prepared to react to changes in the market environment. For example, if a competitor launches a new online shopping platform, the company should quickly assess the impact on its business and develop a response. This reactive strategy can help the company adapt to changing market conditions and maintain its competitiveness.

By combining proactive and reactive strategies, the retail company can develop a comprehensive approach to addressing the challenge of increasing competition from online retailers. This approach will allow the company to capitalize on opportunities for growth while also mitigating risks and responding to threats in the market.

(b) To target tech-savvy consumers for the new smartphone model, the tech company can develop a marketing strategy based on customer behavior. Consumer behaviour may be influenced by a number of things. These elements can be categorised into the following conceptual domains:

- **External Influences:** Utilize online platforms and tech forums to generate buzz around the new smartphone. Partner with tech influencers and bloggers to review the product and create awareness among tech-savvy consumers.

- **Internal Influences:** Appeal to the desire for innovation and advanced features among tech-savvy consumers. Highlight the unique selling points of the new smartphone, such as its cutting-edge technology, performance, and design.

- **Decision Making:** Recognize that tech-savvy consumers are early adopters who value functionality and performance. Provide detailed specifications and comparisons with other smartphones to help them make an informed decision.
- **Post-decision Processes:** Offer excellent customer service and support to address any technical issues or concerns. Encourage customers to provide feedback and reviews to build credibility and trust among tech-savvy consumers.

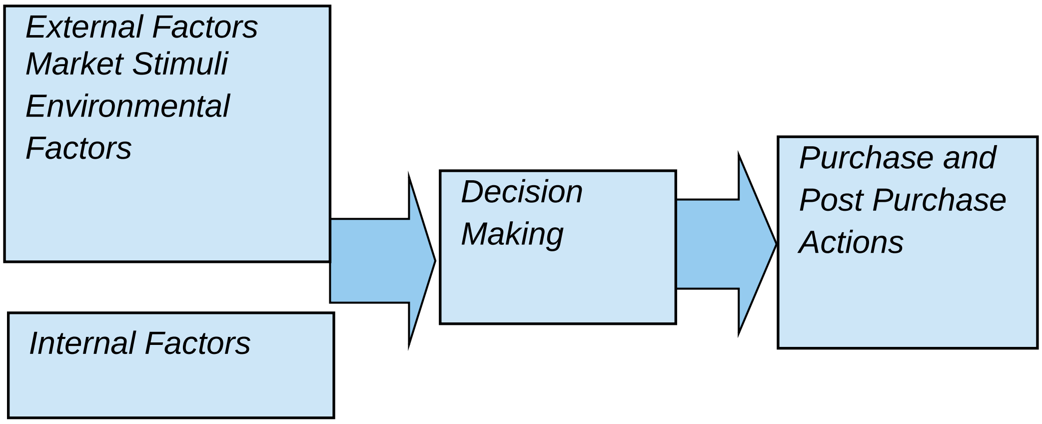


Figure: Process of consumer behaviour

By understanding the behavior of tech-savvy consumers and aligning the marketing strategy with their preferences, the tech company can effectively promote the new smartphone and attract this demographic.

3. **(a)** To study the market position of rival companies in the energy drink segment, the strategic manager can use **strategic group mapping.** This tool helps identify strategic groups, which consist of rival firms with similar competitive approaches and positions in the market. The procedure for implementing strategic group mapping effectively is as follows:

1. **Identify the competitive characteristics** that differentiate firms in the industry typical variables that are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full).
2. **Plot the firms on a two-variable map** using pairs of these differentiating characteristics.

3. **Assign firms that fall in about the same strategy space** to the same strategic group.

4. **Draw circles around each strategic group** making the circles proportional to the size of the group's respective share of total industry sales revenues.

By following these steps, the strategic manager can gain valuable insights into the competitive landscape of the energy drink segment and identify potential positioning strategies for the new line of energy drinks targeted at health-conscious consumers.

(b) A workable action plan for turnaround of the textile mill would involve:

- **Stage One – Assessment of current problems**: In the first step, assess the current problems and get to the root causes and the extent of damage.
- **Stage Two – Analyze the situation and develop a strategic plan:** Identify major problems and opportunities, develop a strategic plan with specific goals and detailed functional actions after analyzing strengths and weaknesses in the areas of competitive position.
- **Stage Three – Implementing an emergency action plan**: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive.
- **Stage Four – Restructuring the business**: If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Efforts to be made to position the organization for rapid improvement.
- **Stage Five – Returning to normal**: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added.

4. (a) Strategic performance measures are essential for organizations for several reasons:

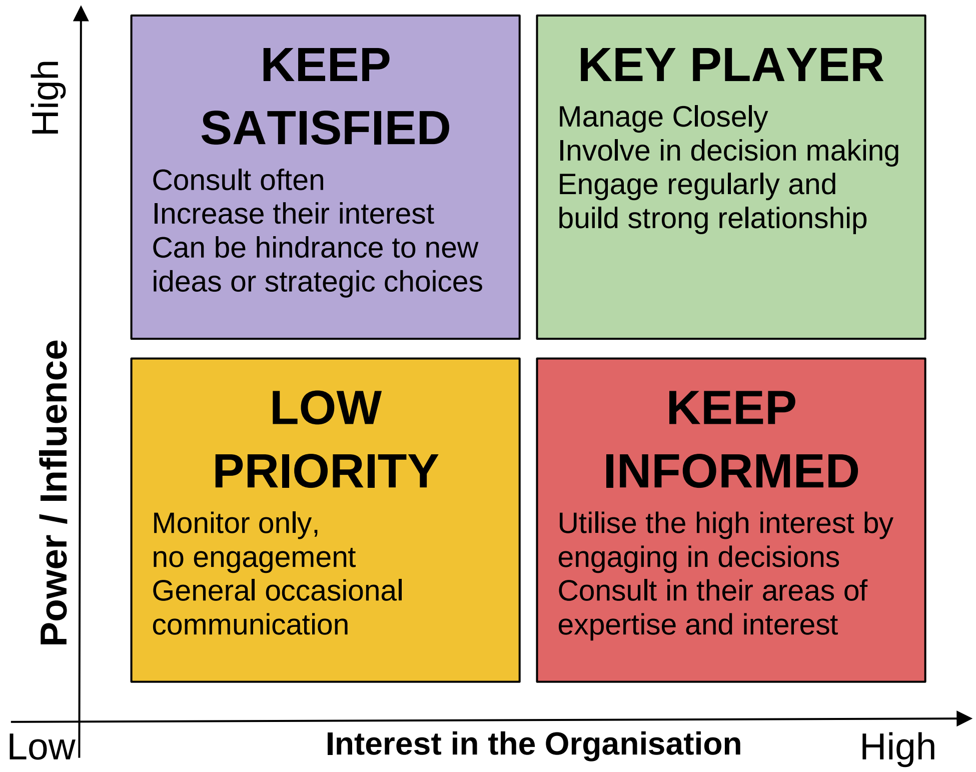
- ♦ **Goal Alignment:** Strategic performance measures help organizations align their strategies with their goals and objectives, ensuring that they are on track to achieve their desired outcomes.
- ♦ **Resource Allocation:** Strategic performance measures provide organizations with the information they 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.

(b) Mendelow's Matrix can be used effectively to analyze and manage stakeholders through a grid-based approach by the following steps:

1. **Identify Stakeholders:** Begin by identifying all relevant stakeholders for your project or organization. This includes individuals, groups, or organizations that may be impacted by or have an impact on your activities.
2. **Assess Power and Interest:** For each stakeholder, assess their power to influence your project or organization and their level of interest in its success. Power can be assessed based on factors such as authority, resources, and expertise, while interest can be gauged by their level of involvement, expectations, and potential benefits or risks.
3. **Plot Stakeholders on the Grid:** Create a grid with Power on one axis and Interest on the other. Plot each stakeholder on the grid based on your assessment. Stakeholders with high power and high interest are placed in the "Key Players" quadrant, those with high power but low interest are in the "Keep Satisfied" quadrant, those with low power but high interest are in the "Keep Informed" quadrant, and those with low power and low interest are in the "Low Priority" quadrant.



4. **Develop Strategies for each Quadrant:** Based on the placement of stakeholders in the grid, develop specific strategies for managing each quadrant:
   - **Key Players:** Fully engage with these stakeholders, seek their input, and keep them informed. They are crucial for the success of your project, so their needs and expectations should be a top priority.
   - **Keep Satisfied:** These stakeholders have significant power but may not be as interested in your project. Keep them satisfied by providing regular updates and addressing any concerns they may have to prevent them from becoming detractors.
   - **Keep Informed:** While these stakeholders may not have much power, they are highly interested in your project. Keep them informed to ensure they remain supportive and to leverage their insights and feedback.
   - **Low Priority:** These stakeholders have low power and interest. Monitor them for any changes but allocate minimal resources to managing their expectations.
5. **Monitor and Adapt:** Continuously monitor the power and interest of stakeholders and adjust your strategies accordingly. Stakeholders may move between quadrants based on changing circumstances, so it's important to remain flexible and responsive.

By using Mendelow's Matrix as a grid-based tool, you can effectively analyze and manage stakeholders by tailoring your engagement strategies to their specific needs and expectations, ultimately increasing the likelihood of project success.

OR

The following are the principal points of distinction between concentric diversification and conglomerate diversification:

(i) Concentric diversification occurs when a firm adds related products or markets. On the other hand, conglomerate diversification occurs when a firm diversifies into areas that are unrelated to its current line of business.

(ii) In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. In conglomerate diversification, no such linkages exist; the new business/product is disjointed from the existing businesses/ products.

(iii) The most common reasons for pursuing concentric diversification are that opportunities in a firm’s existing line of business are available. However, common reasons for pursuing a conglomerate growth strategy are that opportunities in a firm's current line of business are limited or opportunities outside are highly lucrative.