

PART – I
(MCQ Portion)**30 Marks**

- *Answers to MCQs are to be marked on the OMR answer sheet as given on the cover page of the descriptive answer book of Section-A only. Answer to MCQs, if written inside the descriptive answer book shall not be evaluated.*
- *Please write and darken correct MCQ booklet number in the OMR answer sheet. The correct MCQ booklet number must also be written in the attendance register.*

SECTION – A**Case Scenario-I :**

XYZ Ltd. is engaged in manufacturing of an electronic component, to be used by industries producing electronic gadgets for domestic use. The company is a leveraged company, currently paying annual interest of ₹ 33 lakhs on its 11% debt. The company is financially prudent. It has a balance of ₹ 50 lakhs as retained earnings. The company maintains Long-term Debt to Equity ratio of 2 : 1. The face value per share of the company is ₹ 10.

Due to operating in a competitive market, the marketing manager of the company has submitted a report exhibiting significant potential for sales growth. The production manager has endorsed the idea and has suggested adopting latest technology at the workplace. In case the company implements new technology, the production efficiency will increase which will bring down the overall cost of production. To procure and install this new technology, the company requires an additional fund of ₹ 3 crores. This additional fund will be arranged in such a manner that it will not impact the present Long-term Debt to Equity ratio. The additional debt will carry interest rate of 12% p.a.

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As a result of implementing the new technology, it is anticipated that ROI will increase by 3% from present ROI of 15%. Applicable tax rate is 30%.

Based on the facts mentioned above pertaining to XYZ Ltd., you are required to answer the following questions 1 to 5 :

1. What will be the expected MPS after the change in funds, if company expects a P/E ratio of 20 ?

- (A) ₹ 43.68
(B) ₹ 54.60
(C) ₹ 70.00
(D) ₹ 47.60

current = Debt = 300 L @ 11%
Equity = 150 L → 450
New Debt = 200 L
Equity = 100 L { New Sol
R.E. Sol
→ 300
+ 450 → 7.5

2. What will be the post-tax weighted average cost of debt after additional financing ?

- (A) 7.70%
(B) 8.05%
(C) 9.00%
☒ (D) 7.98%

$\frac{MPS}{EPS} = 20$

$\frac{23,10,000 + 16,80,000}{2}$

300	7.7	60
200	8.4	40
		<u>7.98%</u>

3. What is the equity share capital outstanding before the additional fund is introduced ?

- (A) ₹ 1.00 crores
☒ (B) ₹ 1.50 crores
(C) ₹ 0.50 crores
(D) ₹ 2.00 crores

67.5
(33)
34.5
(30.1)
24.15
÷ 15 L
= 1.61

135
(57)
78
(30.1)
54.6
0 ÷ 20
2.73

(4)

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4. What is the total capital employed before and after additional financing ? 2

(A) ₹ 4.00 crores and ₹ 7.00 crores

(B) ₹ 5.00 crores and ₹ 8.00 crores

☒ (C) ₹ 4.50 crores and ₹ 7.50 crores

(D) ₹ 5.50 crores and ₹ 8.50 crores

5. Compute the EPS after additional financing. What will be the percentage increase in EPS of the company, after introducing the additional fund ? 2

(A) ₹ 2.73, 13.04% ☒

(B) ₹ 2.18, 35.65% ☐

(C) ₹ 2.73, 11.54%

(D) ₹ 2.18, 26.28%

6. Details of a project are given below :

Initial outlay	₹ 800 lakhs
NPV at 16% discount rate	₹ 50.71 lakhs
NPV at 20% discount rate	₹ (26.84) lakhs

What will be Internal rate of return (IRR) of the project ? If cost of capital is 18.50%, should the project be accepted ? 1

(5)

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- (A) 16.00%, Yes
- (B) 18.62%, Yes
- (C) 18.00%, Yes
- (D) 18.62%, No ✓

7. A company has credit sales of ₹ 20,00,000 with an average collection period of 35 days. It wants to liberalize its existing credit terms which are expected to increase sales to ₹ 25,00,000. However, average collection period is expected to decline to 10 days. Profit Volume ratio is 20% and opportunity cost (post-tax) is 6%. Tax rate is 40%. Assume 360 days in a year.

What is the incremental investment in debtors and its impact on post-tax profitability ?

2

	Incremental investment in debtors	Impact on Post-tax profitability
(A)	₹ (1,25,000)	₹ 7,500
(B)	₹ (1,00,000)	₹ (6,000)
(C)	₹ (1,25,000)	₹ (7,500)
✓(D)	₹ (1,00,000)	₹ 6,000

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○

(6)

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8. FG Ltd. is appraising a one-year investment plan, which requires an initial outlay of ₹ 1,00,000. At the end of term, it will be matured at ₹ 1,25,000. The plan has a beta of 1.3, risk free rate of return 10% and market rate of return 18%. Calculate the required rate of return and decide whether the plan is worthwhile. 2

- (A) 25%, The plan is not worthwhile.
- (B) 20.4%, The plan is not worthwhile.
- (C) 20.4%, The plan is worthwhile.
- (D) 25%, The plan is worthwhile.

PART – I (MCQ Portion)

SECTION – B**Case Scenario-II :**

Alex Motor Company was born out of crisis in a small garage on the edge of a dusty town. In the early 90s when the fuel prices soared and imported vehicles flooded the market, many automobile companies were forced to shut down their operations. Many employees lost their jobs.

Ajay Sharma, a production engineer at a failing automobile plant along with ten of his colleagues, rented an abandoned garage and a portion of unused equipment from a shutdown factory and decided to start operations. Their main aim was to transform Indian auto industry by providing comprehensive, affordable and fuel-efficient vehicles. Instead of chasing volumes, the company focused on customization – adjustable cargo layouts, fuel efficient engines and easy maintenance to cater demand of narrow market.

Q13 X Q14 ✓

Alex Motor Company developed its first commercial model Alex One which was simple but could survive floods, heat waves, bumpy roads, and most importantly was fuel efficient. The customers loved it and hence sales grew steadily.

Ajay made a simple promise that every decision would begin on the factory floor and not in the board-room. Mechanics were encouraged to suggest improvement in design and were rewarded for the best innovations, but success brought a new challenge.

The younger generation demanded technology with higher connectivity, better safety systems and cleaner energy. Due to these matters Alex Motor Company lagged behind from the flashy foreign brands that entered the Indian market.

As a result, sales declined and critics called the company outdated. Ajay, now the CEO of the company, faced defining choice, either to sell the company or reinvent it.

Ajay's team of engineers, through participation, shared their next plan of action to the employees for the further technology upgradation, in order to gain growth and success of business. The team took the initiative to develop the good working culture and code of ethics. They focused on training and various motivational plans for employees so they can be tuned up with new working system. In this way the company made its breakthrough with the launch of Alex Electra; a hybrid vehicle designed specifically for congested urban environment. It was not just the technology that made Electra different, but the mindset. Engineers, designers and data-analysts worked side by side, decision making became faster and mistakes were treated as learning cost and not failures.

Alex Motor Company also established company-owned showrooms and service centers to increase their sales and provide free after-sale services which led to improved customer services and brand image.

Today Alex Motor Company's success is studied in business schools as it proved that companies that listen, learn and adapt can outlast any crisis.

Based on the

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Based on the above case scenario, choose the correct answer to questions no. 9 to 13 :

9. Ajay Sharma undertook a retrenchment strategy to save his company when the sales of his company declined, and his company was called outdated. The action plan undertaken to implement it was _____ 2

- (i) Assessing the current problem
- (ii) Providing innovative transport service
- (iii) Developing an action plan with specific goals
- (iv) Restructuring organizational hierarchy

Which of the above actions does not pertain to the strategy undertaken by Ajay Sharma ?

- (A) (ii) and (iv)
- (B) (iii) and (iv)
- ☒ (C) (i), (iii) and (iv)
- (D) Only (iii)

10. The mission of Alex Motor Company was : 2

- ☒ (A) To adopt new technology such as connectivity, advanced safety features and cleaner energy solutions.
- (B) Introducing cross-functional teams so that decision making process becomes faster.
- (C) To establish company owned showrooms and service centers to increase their sales and provide after sale services.
- ☒ (D) To transform Indian auto industry by providing comprehensive, affordable and fuel-efficient vehicles through present capability and activities.

11. Identify the initial strategy to gain competitive advantage adopted by Alex Motor Company. 2

- (A) Growth strategy emphasizing strong and fuel-efficient vehicles.
- (B) Focused cost leadership strategy emphasizing fuel efficiency and easy maintenance.
- ✓ (C) Focused differentiation strategy emphasizing customized commercial vehicles, easy maintenance and fuel efficiency rather than mass production.
- (D) Expansion strategy emphasizing customized vehicles and mass production.

12. Use McKinsey's 7S Model to identify the soft elements that change during reinvention. 2

- (i) Shared value ✓
- (ii) Style ✓
- (iii) Strategy ✓
- (iv) Staff ✓
- (A) Only (i) and (ii) are correct.
- (B) Only (i), (iii) and (iv) are correct.
- (C) (i), (ii), (iii) and (iv) are correct.
- (D) Only (i), (ii) and (iv) are correct. ✓

13. Strategic Management allowed Alex Motor Company to be 2
- (A) More directive towards the cross-functional team to reduce communication barrier.
 - ☒ (B) Partly proactive as the company anticipated future urban mobility needs and partly reactive as the company responded to the declining sales.
 - ☒ (C) More proactive as it readily launched Alex Electra with updated technology to stay competitive.
 - (D) More authoritative in taking faster decisions.
14. In General Electric (GE) Nine-Cell Matrix, which two dimensions form the basis of portfolio analysis to develop the strategic options ? 1
- ☒ (A) Business Strength and Market Attractiveness
 - (B) Company's Strength and Weakness
 - (C) Market Share and Market Growth Rate
 - (D) Competitive Intensity and Pricing Trends
15. Altex Ltd. is a company that produces and sells home appliances. However, at present the company is facing stiff competition from the new entrants who are offering similar products at a lower price. To stay competitive the top management of the company decided to adopt the best cost provider strategy. Which of the following actions should the company take to align with their best cost provider strategy ? 2

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- (A) Reducing the price of their products without making changes in manufacturing process and product features.
- (B) Streamlining manufacturing processes to reduce cost, sourcing materials from cost-effective suppliers and adding innovative features to their products.
- (C) Streamlining manufacturing processes to reduce cost with no innovation in product feature.
- (D) Focusing solely on premium features thereby increasing the cost of the products to reflect the added value.
16. A fashion retail company is designing a new marketing campaign for Generation Z. During its market survey, the company observes that customers' personal preferences, attitudes, lifestyle, motivation, and perception of quality strongly influence their buying behaviour, even before they are exposed to advertisements or peer opinions. Considering these facts, the company should primarily focus on which conceptual domain of the consumer behaviour ? 2
- (A) Cultural influences
- (B) Social influences
- (C) External influences
- (D) Internal influences

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1. (a)

PART – II (Descriptive Portion)
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70 Marks

(Candidates are required to give descriptive answers for this part inside the answer book)

Section – A Comprises questions 1-4. In Section – A, answer question No. 1 which is compulsory and any 2 questions from Question Nos. 2-4.

Section – B Comprises questions 5-8. In Section – B, answer question No. 5 which is compulsory and any 2 questions from Question Nos. 6-8.

Working notes should form part of the answer.

Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.

Answers to Questions of Part I (i.e. MCQ) are to be marked on the OMR answer sheet given on the cover page of descriptive answer book of Section-A only. Answers to questions in Part II are to be written in their respective descriptive answer book. Answer to MCQs, if written inside the descriptive answer book will not be evaluated.

SECTION – A

1. (a) Finance manager of A Ltd. noticed that a 5% increase in sales leads to increase of ₹ 9,000 in operating profit. The company operates with a contribution margin of 40%, fixed annual operating cost of ₹ 1,35,000 and interest obligation of ₹ 30,000.

2+3
=5

You are required to calculate :

- Current level of sales of the company.
- Operating, financial and combined leverage.

- (b) Z Ltd. has issued 8% convertible debentures of ₹ 100 each with a remaining maturity period of five years. The current market price per debenture is ₹ 85. At the time of maturity, debenture holders have an option to either redeem it at a premium of 5% or to convert each debenture into 5 equity shares. Current market price per equity share is ₹ 16. The company has just paid dividend of ₹ 8.03 per equity share. Seven years ago, it paid dividend of ₹ 5.00 per equity share.

Applicable tax rate is 30%.

Compute the post-tax cost of debentures using present value method.

Year	1	2	3	4	5	6	7
PVIF _{0.10, t}	0.909	0.826	0.751	0.683	0.621	0.564	0.513
PVIF _{0.12, t}	0.893	0.797	0.712	0.636	0.567	0.507	0.452

Interest Rate	1%	2%	3%	4%	5%	6%	7%	8%	9%
FVIF _{i, 5}	1.051	1.104	1.159	1.217	1.276	1.338	1.403	1.469	1.539
FVIF _{i, 6}	1.062	1.126	1.194	1.265	1.340	1.419	1.501	1.587	1.677
FVIF _{i, 7}	1.072	1.149	1.230	1.316	1.407	1.504	1.606	1.714	1.828

- (c) Following information is related to Exe Ltd. for the year ended 31st March, 2026 :

1+1+2
+1=5

Total dividend coverage ratio	2.863 times
Dividend yield on the equity shares	4%
Market price per equity share	₹ 40.00
Equity share capital of ₹ 10 each	₹ 12,00,000
Preference share capital of ₹ 10 each	₹ 3,00,000
Price-earnings ratio	8 times

You are required to calculate :

- (i) Total dividend paid to equity shareholders
- (ii) Earnings per share
- (iii) Rate of preference dividend
- (iv) Total profit after tax

2. (a) R Ltd. wants to reduce the dependency of manual workforce in the operation of its factory by adopting automatic machine. It has two options under consideration - Machine M and Machine N. Both the machines serve the same job and are also able to satisfy the purpose of the company.

4+3
=7

Details of both the machines are given below :

	Machine M	Machine N
Purchase cost (₹)	4,50,000	3,50,000
Estimated useful life	5 years	7 years
Estimated salvage value (% of cost)	10%	10%
Annual saving to wages (₹)	11,00,000	12,00,000
Running cost per year (excl. depreciation) (₹)	9,00,000	11,00,000
Annual saving in scrap due to use of machine in place of manual work force (₹)	1,00,000	1,20,000

(16)

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The Company's cost of capital is 9%. Corporate tax rate is 25%. Depreciation will be charged on SLM basis.

- (i) Calculate NPV and Profitability index for each machine.
 (ii) Which machine should be selected on the basis of Equivalent Annualized Criterion ?

Year	1	2	3	4	5	6	7
PVIF _{0.09, t}	0.917	0.842	0.772	0.708	0.650	0.596	0.547
PVIFA _{0.09, t}	0.917	1.759	2.531	3.239	3.889	4.485	5.032

- (b) B Ltd. has received an offer to get a discount of 2% on an invoice value of ₹ 75,000, if payment is made within one month instead of normal credit terms of 3 months. If the company makes early payment, it will need to finance the payment through a bank overdraft of 10% p.a. Tax rate is 30%.

Whether B Ltd. should accept the offer ? Support your decision with calculations.

3. (a) K Ltd. provides the following information :

Net profit	₹ 50,00,000
10% Preference share capital @ ₹ 100 each	₹ 2,00,00,000
Number of equity share outstanding	5,00,000
Rate of return on investment	25%
Cost of equity	15%

2+1+1=4

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You are required to :

- (i) Calculate EPS and also calculate market price per equity share as per Walter's Model with the retention ratio of 20%.
- (ii) If the company aims to keep the market price of its equity share at ₹ 60 each, what retention ratio should be adopted ? 20%
- (iii) What would be optimum dividend payout ratio as per Gordon's Model ?

(b) AR Ltd. has given following data for the year ended 31st March, 2026 : 2+4
=6

- Receivables are collected on an average after 60 days,
- Inventories are held for average period of 90 days before being sold. f.g.
- The company usually settles its payables with suppliers after 30 days.
- The total sales of the company amounts to ₹ 200 lakhs, which is earned evenly throughout the year. All sales are credit sales. Net profit margin is 10%. The company has not incurred any non-operating expenses during the year.
- Tax rate is 30%.
- Assume 360 days in a year.
- Opportunity cost of investment is 12%.

On the basis of the above data :

- (i) Calculate the cash cycle and the minimum cash balance to be maintained to meet its obligations.

- (ii) The company is planning to propose a scheme, whereby it will offer a cash discount of 2% to debtors to reduce the debtors' collection period by 30 days. It is expected that 60% of the debtors will avail the scheme.

(A) What will be reduction in the minimum cash to be maintained to meet obligation after the proposed scheme is adopted ?

(B) What will be net saving due to such scheme ?

(C) Should the company adopt the scheme ?

4. (a) MM Hypothesis of dividend policy is based on certain assumptions. What are those assumptions without which the hypothesis cannot hold ? Explain briefly. 4

- (b) An Indian exporter has shipped goods to a foreign buyer, but the export proceeds are yet to be realised. He approaches the bank for immediate finance assistance. 1+3=4

(i) Identify the type of finance involved.

(ii) Explain any three forms of such type of finance.

- (c) How do the concepts of profit maximization and wealth maximization differ in terms of objective, risk, time horizon and sustainability ? 2

OR

- (c) What are Junk Bonds and why are they called 'High Yield Bonds' ? 2

PART – II (Descriptive Portion)
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SECTION – B

5. (a) Eagle Manufacturing Ltd. has been facing declining productivity due to outdated working methods, rigid routines and workforce inefficiency leading to quality degradation and increasing customer complaints. To enhance operations, productivity, quality and work routines, the Board introduces new technologies and operating procedures to ensure continuous improvement and efficient workflow with operator feedback and performance evaluation. 1+3+1
=5

The management faces initial backlash from the employees to adopt these new techniques as they are a bit hesitant and scared of change. To cater to their concerns, the management introduces various awareness sessions, capacity building programs and exercises to handhold the operators during this transition while effectively communicating the need for change for future resilience and long-term benefits. Post these training sessions, the new techniques and procedures are gradually implemented in a phase-wise integration with constant support for seamless adoption by the employees in a moderated manner to accept. Finally, the management takes steps to stabilize these new work methods through revised policies, performance measures, and reward systems to ensure that employees do not revert to old practices.

Identify the model being applied by Eagle Manufacturing Ltd. in the above case. Explain the different phases of the process for moving the organization from the present to the future. Is this a one-time Process/application ?

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- (b) Pearl India Ltd. is a major packaged food company which dominates in some sectors like snacks, dairy, biscuits and instant meals. It offers high quality and unique products that match the taste and preference of the customers. It always takes steps to enhance brand image and charge a premium price for which buyers do not negotiate. Often the unique features of their products that are not available with their competitors help them to gain competitive advantage. Hence, using this strategy, today Pearl India Ltd. is consistently gaining its position in the industry over its competitors.

*product .
focused differentiation*

Identify and explain Michael Porter's generic strategy being followed by Pearl India Ltd. to gain competitive advantage. What are the disadvantages of following such strategy ?

- (c) A well-established MM Company is manufacturing tubeless tyre as one of its major products for quite some time. The product has reached at the maturity stage of the product life cycle. Company is aware about the competitive scenario and fast change in technology. Cost benefit analysis indicates that it would be better to modernise its plant and machinery so as to improve its efficiency and productivity. The basic idea is to remain competitive in the dynamic and volatile business world and at the same time having an objective to preserve their market share.

Suggest the specific corporate strategy to be adopted by the MM Company in the given situation. Also state the reasons why a company should adopt such strategy in general. Justify your opinion about identified strategy in a case of start-up venture.

6. (a) "In a modern competitive landscape, the interaction of supply and demand determines the price at which quantity provided equals to quantity desired." Analyse the inherent characteristics of business products that must be managed to maintain profitability under these market dynamics.

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- (b) What is meant by corporate level strategies ?

1+4
=5

Identify and explain the basic features of corporate level strategies being represented by each of the following decisions :

- (i) The company decided to expand its profit-making units of packaged food division into the international market and closing down the loss-making units.
- (ii) The company decided to sell-out its commercial real estate division entirely as it is incurring heavy losses due to intense competition.
- (iii) The company has decided to maintain the current operations of the home appliances division which is maintaining steady sales and strong brand loyalty with no major investments.
- (iv) The company decided to make high investments in a rapidly growing online learning platform division to take greater control over the market.

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7. (a) "Beyond the basic need to grow modern organizations are driven by a mix of market inadequacy resource needs and the collapse of international barriers." Analyse the various reasons why companies choose to globalise their operations. 5
- ✓ (b) "The wider and stronger the channel the better position a business has to fight and win over competition." In the context of this statement, define the concept of channels. Why is channel analysis more important for a business strategy ? Explain different type of channels. 1+1+3=5
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8. (a) "Strategic uncertainty refers to the unpredictability of future events and circumstances that can impact an organization's strategy and goals." In the light of this statement, discuss how an organization can deal with or manage such uncertainty. 5
- (b) "Relying blindly on business strategy can go absolutely wrong when daily operation are impeded or when environmental estimates prove inaccurate." Discuss the overall objective of strategic management and evaluate the limitations attached to it that may prevent from overcoming a turbulent environment. 1+4=5

OR

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(23)

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- (b) Differentiate between Proactive and Reactive strategies. Explain in detail, why it is important for every organisation to use both these strategies in a dynamic and an uncertain business environment. 1+4
=5
-