(GI-10, GI-11, VI-2(A) & AI-2(A), DI-1+2 & Drive)

DATE: 27.02.2024 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

FINANCIAL MANAGEMENT & STRATEGIC MANAGEMENT

SECTION – A : FINANCIAL MANAGEMENT

Q. No. 1 & 2 is Compulsory,
Answer any two questions from the remaining three questions

Question 1:

1. Optimal investment decisions need to be made taking into consideration such factors as
   (a) Estimation of capital outlays & future earnings of the proposed project focusing on the task of value engineering and market forecasting;
   (b) Availability of capital and considerations of cost of capital focusing attention on financial analysis
   (c) A set of standards by which to select a project for implementation and maximizing returns therefrom focusing attention on logic and arithmetic.
   (d) All of the above

(1 Mark)

2. Investment decisions encompass
   (a) Cost of capital
   (b) Capital budgeting
   (c) Management of liquidity and current assets
   (d) All of the above

(1 Mark)

3. Which source of funds provides temporary financial assistance to businesses to meet short-term cash flow needs?
   (a) Microloans
   (b) Trade credit
   (c) Bridge loan
   (d) Equity financing

(1 Mark)

4. What type of financing involves a financial institution purchasing a company's account receivables at a discount?
   (a) Factoring
   (b) Trade credit
   (c) Micro loans
   (d) Crowd funding

(1 Mark)

5. If the price-earnings ratio is 0.05 and earnings per share is ₹ 8, the market price of a share will be
   (a) ₹ 120
   (b) ₹ 100
   (c) ₹ 160
   (d) ₹ 0.40

(1 Mark)

6. Interest coverage ratio is obtained by dividing EBIT by
   (a) Interest
   (b) Tax
   (c) Income
   (d) Sales **(1 Mark)**

7. PWA Ltd. has ₹ 1,000, 9.5% debentures amounting to ₹ 1,500 Million. The debentures of PWA Ltd. are redeemable after 3 years and are quoting at ₹ 981.05 per debenture. The beta of the company is 1.1785. The applicable income tax rate for the company is 35% K_d=?
   (a) 1.59%
   (b) 6.87%
   (c) 7.86%
   (d) 8.67% **(1 Mark)**

8. JKL Ltd. has ₹ 10 equity shares amounting to ₹ 15 Crore. The current market price per equity share is ₹ 60. The prevailing default risk-free interest rate on 10 -year GOI Treasury bonds is 5.5%. The average market risk premium is 8%. The beta of the company is 1.1875. K_e=?
   (a) 15%
   (b) 11%
   (c) 12%
   (d) 13%

(1 Mark)

9. Indifference Level of EBIT is one at which:
   (a) EPS is zero
   (b) EPS is Minimum
   (c) EPS is highest
   (d) None of these

(1 Mark)

10. The combined leverage is 3.125. This means a 10% change in Sales will cause
   (a) 31.25% change in PAT
   (b) 31.25% change in EPS
   (c) 31.25% change in capital employed
   (d) Both (A) and (B)

(1 Mark)

11. Financial leverage is 2.5. This means a 10% change in EBIT will cause
   (a) 2.5% change in EBIT
   (b) 2.5% change in EPS
   (c) 25% change in sales
   (d) 25% change in EBT and EPS

(1 Mark)

12. Which of the following cash flows should not be considered relevant in calculating project cash flows?
   (a) Opportunity costs
   (b) Any effects caused by cannibalization
   (c) investments in net working capital as a result of making the investment
   (d) Sunk costs

(1 Mark)

13. What are the two drawbacks associated with the payback period?
 (a) The time value of money is ignored. It ignores cash flows beyond the payback period.
 (b) The time value of money is considered. It ignores cash flows beyond the payback period.
 (c) The time value of money is considered. It includes cash flows beyond the payback period.
 (d) The time value of money is ignored. It includes cash flows beyond the payback period.

(1 Mark)

14. Retention ratio is 0.55 and return on equity is 12.5% then growth rate would be-
 (a) 0.1195
 (b) 0.06875
 (c) 0.1305
 (d) 0.2272

(1 Mark)

15. If current assets are ₹ 1,09,05,750 and current liabilities are ₹ 32,50,000 then maximum permissible bank finance as per second method of Tandon Committee norms is
 (a) ₹ 57,41,813
 (b) ₹ 49,29,313
 (c) ₹ 52,29,813
 (d) ₹ 49,41,813

(1 Mark)

Question 2:

(a) The accountant of Moon Ltd. has reported the following data:

Gross profit	Rs. 60,000
Gross Profit Margin	20 per cent
Total Assets Turnover	0.30:1
Net Worth to Total Assets	0.90:1
Current Ratio	1.5:1
Liquid Assets to Current Liability	1:1
Credit Sales to Total Sales	0.80:1
Average Collection Period	60 days

Assume 360 days in a year

You are required to complete the following

Balance Sheet of Moon Ltd.

Liabilities	**Rs.**	**Assets**	**Rs.**
Net Worth		Fixed Assets	
Current Liabilities		Stock	
		Debtors	
		Cash	
Total Liabilities		Total Assets	

(5 Marks)

(b) A Ltd. and B Ltd. are identical in every respect except capital structure. A Ltd. does not employ debts in its capital structure whereas B Ltd. employs 12% Debentures amounting to Rs. 10 lakhs. Assuming that :

(i) All assumptions of M-M model are met;
(ii) Income-tax rate is 30%;
(iii) EBIT is Rs. 2,50,000 and
(iv) The Equity capitalization rate of 'A' Ltd. is 20%.

Calculate the value of both the companies and also find out the Weighted Average Cost of Capital for both the companies.

(5 Marks)

(c) The Capital structure of RST Ltd. is as follows:

	(Rs.)
Equity Share of Rs. 10 each	8,00,000
10% Preference Share of Rs. 100 each	5,00,000
12% Debentures of Rs. 100 each	7,00,000
	20,00,000

Additional Information:

- Profit after tax (Tax Rate 30%) are Rs. 2,80,000
- Operating Expenses (including Depreciation Rs. 96,800) are 1.5 times of EBIT
- Equity Dividend paid is 15%
- Market price of Equity Share is Rs. 23 Calculate:

(i) Operating and Financial Leverage
(ii) Cover for preference and equity dividend
(iii) The Earning Yield Ratio and Price Earning Ratio
(iv) The Net Fund Flow

(5 Marks)

Question 3:

(a) Company UVW has to make a choice between two identical machines, in terms of Capacity, 'A' and 'B'. They have been designed differently, but do exactly the same job.

Machine 'A' costs Rs. 7,50,000 and will last for three years. It costs Rs. 2,00,000 per year to run.

Machine 'B' is an economy model costing only Rs. 5,00,000, but will last for only two years. It costs Rs. 3,00,000 per year to run.

The cash flows of Machine 'A' and 'B' are real cash flows. The costs are forecasted in rupees of constant purchasing power. Ignore taxes. The opportunity cost of capital is 9%.

Required:

Which machine the company UVW should buy?

The present value (PV) factors at 9% are:

Year	t1	t2	t3
$PVIF_{0.09.t}$	0.9174	0.8417	0.7722

(5 Marks)

(b) The following information is given for QB Ltd.

Earnings per share	Rs. 120
Dividend per share	Rs. 36
Cost of capital	15%
Internal Rate of Return on investment	20%.

CALCULATE the market price per share using
(a) Gordon's formula
(b) Walter's formula

(5 Marks)

Question 4:
The R&G Ltd. has following capital structure at 31st December 2015, which is considered to be optimum:

	(Rs.)
13% Debenture	3,60,000
11% Preference share capital	1,20,000
Equity share capital (2,00,000 shares)	19,20,000

The company's share has a current market price of Rs. 27.75 per share. The expected dividend per share in next year is 50 percent of the 2015 EPS. The EPS of last 10 years is as follows. The past trends are expected to continue:

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EPS (Rs.)	1.00	1.120	1.254	1.405	1.574	1.762	1.974	2.211	2.476	2.773

The company can issue 14 percent new debenture. The company's debenture is currently selling at Rs. 98. The new preference issue can be sold at a net price of Rs. 9.80, paying a dividend of Rs. 1.20 per share. The company's marginal tax rate is 50%.

(i) Calculate the after tax cost (a) of new debts and new preference share capital, (b) of ordinary equity, assuming new equity comes from retained earnings.
(ii) Calculate the marginal cost of capital.
(iii) How much can be spent for capital investment before new ordinary share must be sold? (Assuming that retained earnings available for next year's investment is 50% of 2015 earnings.)
(iv) What will be marginal cost of capital (cost of fund raised in excess of the amount calculated in part (iii) if the company can sell new ordinary shares to net Rs. 20 per share ? The cost of debt and of preference capital is constant.

(10 Marks)

Question 5:
(a) DISCUSS the advantages and disadvantages of Wealth maximization principle.

(4 Marks)

(b) DISCUSS in brief the characteristics of Debentures.

(4 Marks)

(c) DEFINE Security Premium Notes.

(2 Marks)

OR

DEFINE Masala bond.

(2 Marks)

SECTION – B : STRATEGIC MANAGEMENT

Q. No. 6 & 7 is Compulsory,
Answer any three questions from the remaining four questions

Question 6:

1. Everyouth Beauty Products Limited, the makers of Feel-Fresh soaps have been suffering from low sales volume from the last six months due to stiff competition. To regain its position, Everyouth Beauty Products Limited launched various schemes such as 'win a phone every hour', scratch cards, buy 1 get 1 free and contest on social media. This resulted into increase in sales. Which type of promotional activity did Everyouth Beauty Products Limited adopted?
   (a) Sales promotion
   (b) Advertising
   (c) Publicity
   (d) Personal selling

(1 Mark)

2. Trekking Poles is a small company based in the Himalayan ranges in India. It is known in the region for its hill walking sticks. Trekking Poles sell specialist walking equipment in their small shop at the foot of the mountains. They do not have a website yet have been able to sell their products at premium prices. Which of the following one of Porter's generic strategies best fits Trekking Poles?
   (a) Cost leadership
   (b) Differentiation
   (c) Focused cost leadership
   (d) Focused differentiation

(1 Mark)

3. An organisation during its strategy planning envisaged entire situation and created a strategy framework. But in mean time after implementation, it realised that its framework is not effective in certain unique unplanned situations. What could be the reason for such ineffectiveness?
   (a) Strategy is "partly proactive and Partly reactive"
   (b) Lack of analysis and proper planning
   (c) Strategy is highly reactive and highly proactive
   (d) Improper creation of strategic framework

(1 Mark)

4. Baba Pvt Ltd has seventeen factories, nine of which they recently gave to other producers on lease. This has increased their cash inflows to a great extent, and they are enjoying this surplus by investing the same in financial assets. Such a strategy can be termed as which of the following?
   (a) Divest
   (b) Harvest
   (c) Hold
   (d) Build

(1 Mark)

5. Mixfix was having a tough time with its operations and wanting to restructure itself from scratch. For this, they consult a veteran in business strategy, Mrs. Sunita K, who post analysis of their business said, "your dead business is worth more than alive". What did Mrs. Sunita hint at?
   (a) Restructuring Business
   (b) Liquidation
   (c) Business Process Re-engineering
   (d) Divestment

(1 Mark)

6. DMart sells fast moving consumer goods at wholesale prices to retail customers, is a strategy of?
   (a) Market Penetration
   (b) Cost Differentiation
   (c) Cost Leadership
   (d) Market Development

(1 Mark)

7. During which stage of the Product Life Cycle will marketing strategies need to concentrate on differentiating a product from competing products, building brand loyalty and offering incentives to attract competitor's customers to switch?
   (a) Decline
   (b) Growth
   (c) Maturity
   (d) Introduction

(1 Mark)

8. Delta is an organisation specializing in Information Technology enabled Services (ITeS) and Communications business. Last year, the organisation had successfully integrated an Artificial Intelligence (AI) tool named 'Zeus' into the existing ERP system. The AI tool, using Deep Learning technique provided a digital leap transformation in various business processes and operations. It has significantly diminished the role played by specialist managers of the middle management. This technological tool in addition to saving organisational costs by replacing many tasks of the middle management has also served as a link between top and bottom levels in the organisation and assists in quick decision making. The skewed middle level managers now perform cross-functional duties. Which type of organisational structure is the company transitioning into?
   (a) Strategic business unit structure
   (b) Matrix structure
   (c) Network structure
   (d) Hourglass structure

(1 Mark)

9. Ever Grand Group is a diversified company active in a wide range of business lines, including Financial Services, Fertilizers, Information Technology enabled Services (ITeS), FMCG and Real Estate. The Board of Directors understand the need of the hour and are determined to further develop the ITeS business, whereby they want better allocation of human resources and provision of industry-best customer services. To achieve the same, they have suggested implementation of specific business strategies but the managers are facing difficulties in allocating the responsibility for implementation of the business strategy amongst them. You being

a management expert, indicate the appropriate persons responsible for translating general statements and business strategies pertaining to the ITeS Strategic Business Unit (SBU) and ensure a smooth implantation.
(a) Corporate level managers
(b) Functional level managers
(c) General level managers
(d) Business level managers

(1 Mark)

10. Dr. Raman has been running a nursing home for about twenty two years now, and has gained enormous name for his benevolence in Balram district of Chhattisgarh. Recently, his daughter, Dr. Radhika completed her medicine degree from the United States of America and returned to her hometown to be a part of her father's practice. She has been given the baton to promote modern medicine and retain the local skilled youth in their practice. However, their nursing home's skilled youth has been more inclined to E-Commerce employment opportunities. Dr. Radhika has taken it as a challenge to imbibe the very essence of service in them, by being employed as nurses and caretakers of the ill. This shall be very crucial in growing the practice as desired. Which of the following phases of Kurt Lewin's Model of Change will be most challenging for Dr. Radhika to strategically positioning her father's nursing home?
(a) Compliance
(b) Identification
(c) Internalization
(d) Transition

(1 Mark)

11. Aditya Swaroop is the head of operations of Bindal & Sons private limited. He is focussing on total or aggregate management functions in the sense of embracing the integrated activities of a complete department. He assures the resources are obtained and used effectively and efficiently in the accomplishment of the organisation's objectives. He is practicing as: -
(a) Strategic control
(b) Management control
(c) Administrative control
(d) Operations control

(1 Mark)

12. We have heard countless, heart breaking stories from companies that are facing immense pressure on their cash flow due to the economic crisis brought on by the COVID-19 pandemic. To adapt to the changing environment, companies should undertake SWOT analysis. Which of the following is a "Threat" affecting the companies?
(a) Customer are likely to cut back on discretion any expenditure and may move to lower cost rivals
(b) Loss of key staff
(c) Tender for new client
(d) Both a & b

(1 Mark)

13. A newspaper is planning for the next five years. Which of the following demographic influence(s) should it consider as part of its external environment analysis?
(i) Tax on newspapers

(ii) Import of raw materials will suffer if domestic currency weakens
(iii) Increased mobility around the world requires different language version
(iv) Carbon emissions from the use and products of paper – newspaper
(a) (iii) & (iv)
(b) Only (iii)
(c) Only (iv)
(d) (ii), (iii), (iv)

(1 Mark)

14. Members of Infinite Care, an NGO, have met and determined that they need to formulate a philosophical basis for their activities. Thereby they have come up with a statement:-
"Provide children till age 12, living in homeless or low-income situations, with the essential items they need to thrive – at home, at school and at play"
Identify the area of strategic intent, which the members have stated?
(a) Vision
(b) Business definition
(c) Goal and Objective
(d) Mission

(1 Mark)

15. General public is discerning from buying air conditioning units based on the Health Ministry guidelines regarding emergence of a contagious viral pandemic. Consequently, Nebula Pvt Ltd, a manufacturer of evaporation coils used in air conditioning units has faced significant loss in working capital due to sharp fall in demand. The company conducted financial assessment and developed a workable action plan based on short and long term financial needs. But for immediate needs, an emergency plan has been implemented. It includes selling scrap, asset liquidation and overheads cost reduction. Further, to avoid any such untoward event in future, they plan to diversify into newer business areas along with its core business. Identify the strategy opted by M/s. Nebula Pvt Ltd?
(a) Retrenchment strategy
(b) Liquidation strategy
(c) Turnaround strategy
(d) Divestment strategy

(1 Mark)

Question 7:
A mission is an Answer to basic questions "What Business are we in and what we do". In the light of above statement explain why mission is important.

(5 Marks)

Question 8:
(a) As market conditions change overtime, a company may shift product-market Growth Strategies. Discuss.

(5 Marks)

(b) Glassware Ltd. is about to go through a significant restructuring. The strategic change involves moving from a decentralized to a centralized structure. This will help Glassware avoid duplication of support activities and lower its costs.
The management have held the first staff briefing in which they went to great lengths to explain that the change was necessary to equip the company to face

future competitive challenges. Identify and explain the current stage of Glassware Ltd. from the Lewin's three-stage model of change?

(5 Marks)

Question 9:

(a) Name different types of Business level Strategies and also explain purpose of it. How best Cost provider Strategy can be achieved.

(5 Marks)

(b) A strategic leader is a change agent to initiate strategic changes in the organization and ensure changes are successfully implemented for this they have various leadership roles. Highlight them.

(5 Marks)

Question 10:

(a) Racers Ltd. manufactures bicycles. Until recently it has adopted a differentiation strategy, offering high quality bicycles which Racers Ltd. sells at a high profit margin. In recent years, Racers Ltd. has entered a period of decline due to the market becoming flooded with cheaper, high quality bicycles from abroad, where labour costs are lower.

Racers Ltd. has therefore decided to adjust its strategy and adopt a focus approach, targeting its bicycles towards professional athletes. This will allow Racers Ltd. to continue earning high margins, though the size of its potential market will likely fall.

Identify and explain the need of adopting this strategy by Racers Ltd. to manage decline?

(5 Marks)

(b) XYZ Ltd., is engaged in manufacturing business. One of corporate is of view that entity's resources are of no value unless deployed into activities & organized into system & routines which ensure that products or services are produced which are valued by final consumer/user. Mr. N, CFO of Entity, argued that understanding of strategic capability must start with an identification of these separate value activities. As a strategist, guide them with various primary activities for providing high valued products/services to users.

(5 Marks)

Question 11:

(a) Companies achieving superior performance relative to rivals is ultimate challenge. If a company's strategies result in superior performance, then its called Competitive Advantage. But it is more difficult to retain this advantage than achieving.

Explain the role of resources & capabilities in same scenario.

(5 Marks)

(b) Write a short note on product life cycle.

(5 Marks)

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