PART – II

Section-A

1. (a) Theme Ltd provides you the following information : 5

12.5 % Debt	₹ 45,00,000
Debt to Equity ratio	1.5 : 1
Return on Shareholder's fund	54%
Operating Ratio	85%
Ratio of operating expenses to Cost of Goods sold	2 : 6
Tax rate	25%
Fixed Assets	₹ 39,00,000
Current Ratio	1.8 : 1

You are required to calculate :

(i) Interest Coverage Ratio

(ii) Gross Profit Ratio

(iii) Current Assets

(b) Alpha Limited has provided following information : 5

Equity Share Capital	25,000 Shares @ ₹ 100 per Share
15% Debentures	10,000 Debentures @ ₹ 750/- per Debenture
Sales	50 Lakhs units @ ₹ 20 per unit
Variable Cost	₹ 12.50 per unit
Fixed Costs	₹ 175.00 Lakhs

Due to recent policy changes and entry of foreign competitors in the sector, Alpha Limited expects the sales may decline by 15-20%, However, selling price and other costs will remain the same. Corporate Taxes will continue @ 20%.

You are required to calculate the decrease in Earnings per share, Degree of Operating Leverage and Financial Leverage separately if sales are declined by (i) 15%; and (ii) 20%.

(c) Following is the sales information in respect of Bright Ltd : **5**

Annual Sales (90 % on credit)	₹ 7,50,00,000
Credit period	45 days
Average Collection period	70 days
Bad debts	0.75%
Credit administration cost (out of which 2/5th is avoidable)	₹ 18,60,000

A factor firm has offered to manage the company's debtors on a non-recourse basis at a service charge of 2%. Factor agrees to grant advance against debtors at an interest rate of 14% after withholding 20% as reserve. Payment period guaranteed by factor is 45 days. The cost of capital of the company is 12.5%. One time redundancy payment of ₹ 50,000 is required to be made to factor.

Calculate the effective cost of factoring to the company.

(Assume 360 days in a year)

2. (a) The capital structure of Shine Ltd. as on 31.03.2024 is as under : **6**

Particulars	Amount (₹)
Equity share capital of ₹ 10 each	45,00,000
15% Preference share capital of ₹ 100 each	36,00,000
Retained earnings	32,00,000
13% Convertible Debenture of ₹ 100 each	67,00,000
11% Term Loan	20,00,000
Total	**2,00,00,000**

Additional information :

(A) Company issued 13% Convertible Debentures of ₹ 100 each on 01.04.2023 with a maturity period of 6 years. At maturity, the debenture holders will have an option to convert the debentures into equity shares of the company in the ratio of 1 : 4 (4 shares for each debenture). The market price of the equity share is ₹ 25 each as on 31.03.2024 and the growth rate of the share is 6% per annum.

(B) Preference stock, redeemable after eight years, is currently selling at ₹ 150 per share.

(C) The prevailing default- risk free interest rate on 10-year GOI treasury bonds is 6%. The average market risk premium is 8% and the Beta (β) of the company is 1.54.

Corporate tax rate is 25% and rate of personal income tax is 20%.

You are required to calculate the cost of :

(i) Equity Share Capital

(ii) Preference Share Capital

(iii) Convertible Debenture

(iv) Retained Earnings

(v) Term Loan

(b) Following data is available in respect of Levered and Unlevered companies having same business risk :

Capital employed = ₹ 2,00,000, EBIT = ₹ 25,000 and K_e = 12.5%

Sources	Levered Company (₹)	Unlevered Company (₹)
Debt (@ 8 %)	75,000	Nil
Equity	1,25,000	2,00,000

An investor is holding 12% shares in levered company. Calculate the increase in annual earnings of investor if he switches over his holding from Levered to Unlevered company.

3. (a) HCP Ltd. is a leading manufacturer of railway parts for passenger coaches and freight wagons. Due to high wastage of material and quality issues in production, the General Manager of the company is considering the replacement of machine A with a new CNC machine B. Machine A has a book value of ₹ 4,80,000 and remaining economic life is 6 years. It could be sold now at ₹ 1,80,000 and zero salvage value at the end of sixth year. The purchase price of Machine B is ₹ 24,00,000 with economic life of 6 years. It will require ₹ 1,40,000 for installation and ₹ 60,000 for testing. Subsidy of 15% on the purchase price of the machine B will be received from Government at the end of 1st year. Salvage value at the end of sixth year will be ₹ 3,20,000. 7

The General manager estimates that the annual savings due to installation of machine B include a reduction of three skilled workers with annual salaries of ₹ 1,68,000 each, ₹ 4,80,000 from reduced wastage of materials and defectives and ₹ 3,50,000 from loss in sales due to delay in execution of purchase orders. Operation of Machine B will require the services of a trained technician with annual salary of ₹ 3,90,000 and annual operation and maintenance cost will increase by ₹ 1,54,000. The company's tax rate is 30% and it's required rate of return is 14%. The company follows straight line method of depreciation. Ignore tax savings on loss due to sale of existing machine.

The present value factors at 14% are :

Years	0	1	2	3	4	5	6
PV Factor	1	0.877	0.769	0.675	0.592	0.519	0.456

Required :

(i) Calculate the Net Present Value and Profitability Index and advise the company for replacement decision.

(ii) Also calculate the discounted pay-back period.

(b) Vista Limited's retained earnings per share for the year ending 31.03.2023 being 40% is ₹ 3.60 per share. Company is foreseeing a growth rate of 10% per annum in the next two years. After that the growth rate is expected to stabilize at 8% per annum. Company will maintain its existing pay-out ratio. If the investor's required rate of return is 15%, Calculate the intrinsic value per share as of date using Dividend Discount model.

4. (a) State with brief reasons whether the following statements are true or false :

(i) Maximising Market Price Per Share (MPS) as the financial objective which maximises the wealth of shareholders.

(ii) A combination of lower risk and higher return is known as risk-return trade off and at this level of risk-return, profit is maximum.

(iii) Financial distress is a position when accounting profits of a firm are sufficient to meet its long-term obligations.

(iv) Angel investor is one who provides funds for start-up in exchange for an ownership/equity.

(b) ABC Ltd. is approaching the banks for financing its business activity. You are required to describe any four forms of bank credit for the consideration of the company.

(c) Discuss the relevance of Payback reciprocal in capital budgeting decisions.

OR

(c) Explain the features of crowd funding.

Section-B

3 (a) BOYA Ltd. is a venture in the market present for a decade. Till, 2023, it was working on the values and vision of its founder while operating in limited area of operations. 2+3 =5

Growth opportunities exist for BOYA Ltd. Considering the changing environment, company is interested to leverage new skills in marketing, technology, product development and financial
4 management. As a known fact, modifying one aspect might have a ripple effect on other elements. The company wants to understand various hard and soft elements interrelated with each other in the company and having a bearing on effective operational results.

As a strategist, you intend to prepare a questionnaire based on both types of elements by analyzing the organizational design. The response to the same will help in finding an answer to ensure effectiveness through the interaction of such elements.

Briefly discuss the strategic model you will use in the given situation. State the limitations of the model as well.

(b) Elvis Global is a famous OTT platform facing fierce competition from its competitors amid changing consumer preferences. This has made it difficult to retain customers as the existing television channels are also launching their own platforms. The company has appointed Raghav to lead the company forward as the sales & marketing manager. Raghav needs to design creative and innovative advertising campaigns to gain a competitive edge, engage the public and capture the market. 1+4 =5

Identify the strategic level that represents Raghav's role at Elvis Global. As a strategic advisor, highlight the various benefits of strategic management in overcoming different challenges to Raghav.

(c) Yash is planning to launch his new tech start-up. He is exploring different locations across the country to establish his company in the right business environment. One option is the city of Bengaluru, the silicon valley of India, with an engaging network of entrepreneurs, investors, advisors and mentors. Coupled with various subsidies for new ventures and tax benefits, Bengaluru might be an ideal choice for Yash to establish his company and increase the chances of success. Define the term Business Environment with respect to the above scenario. Explain the different ways in which the interaction of a business with its environment can be helpful in developing a successful strategy. 1+4 =5

6. (a) 'Innovation leads to unnecessary expenses that do not give as many returns.' Do you agree with the statement ? Give reasons in support of your answer. 1+4 =5

(b) Explain how organizations can effectively manage strategic uncertainties in a rapidly changing business environment. 5

7. (a) What are the key characteristics of business products that contribute to the overall competitiveness and dynamics of the market ? 5

(b) 'A company's mission statement is typically focused on its present business scope.' Explain the significance of a mission statement. 5

8. (a) What are channels ? Why is channel analysis important ? Explain the different types of channels ? 1+1+ 3=5

(b) Explain the concept of vertically integrated diversification. How is forward integration different from backward integration ? 5

OR

(b) Recommend a tool to analyze the competitive position of various rival companies in the market and outline the step by step procedure for using the identified tool. 5
