



PAPER – 6: FINANCIAL MANAGEMENT AND STRATEGIC MANAGEMENT

6A: FINANCIAL MANAGEMENT



QUESTIONS

Case Scenarios

1. AURO Engineering Pvt. Ltd. is engaged in the manufacturing of industrial machinery and heavy engineering equipment used in infrastructure, automobile, and renewable-energy projects. Over the last few years, the company has achieved stable growth in revenues and profitability due to increasing demand from domestic and export markets. The management is presently evaluating its long-term financing strategy in view of its proposed expansion into high-capacity precision engineering equipment.

The General Manager - Finance of the company CA Jenisha K informed the Board of Directors that the company has been maintaining a balanced capital structure consisting of equity shares, preference shares, and long-term debentures. However, with the proposed expansion plans, the company is considering additional debt financing to take advantage of financial leverage and tax benefits associated with debt capital.

As on 31st March, 2026, the company had the following capital structure at book values:

Particulars	Amount (₹)
Equity Share Capital (1,00,00,000 shares)	30,00,00,000

11.5% Preference Shares	6,00,00,000
10% Debentures	10,00,00,000
Total Capital Employed	46,00,00,000

The equity shares of the company are currently quoted at ₹ 300 per share in the stock market. The company expects to pay a dividend of ₹ 15 per equity share next year, and the dividend is expected to grow at a constant rate of 5% per annum indefinitely. The applicable corporate tax rate for the company is 35%.

The management is now considering raising additional debt of ₹ 5,00,00,000 by issuing 12% debentures. The Finance Director expects that the proposed increase in financial leverage may improve shareholders' returns in the short run. As a result of the revised financing plan, the expected dividend per share is estimated to increase to ₹ 20 per share, while the dividend growth rate is expected to remain unchanged at 5% per annum. However, due to increased financial risk arising from higher leverage, the market price of the company's equity shares is expected to decline to ₹ 250 per share.

The Board of Directors has requested the finance team to evaluate the impact of the proposed financing decision on the company's overall cost of capital and advise whether the revised capital structure would be financially beneficial for the company.

You are required to answer the following the questions:

- (i) What will be the Cost of Equity (K_e) under the existing capital structure?
 - (a) 9%
 - (b) 10%
 - (c) 10.25%
 - (d) 11%
- (ii) What will be the existing Weighted Average Cost of Capital (WACC) of the company?
 - (a) 9.12%

- (b) 9.43%
 - (c) 9.85%
 - (d) 10.20%
- (iii) What will be the revised Cost of Equity (K_e) after raising additional debt?
- (a) 11%
 - (b) 12%
 - (c) 13%
 - (d) 14%
- (iv) What will be the after-tax cost of the newly issued debentures?
- (a) 6.80%
 - (b) 7.20%
 - (c) 7.80%
 - (d) 8.40%
- (v) What will be the revised Weighted Average Cost of Capital (WACC) after the proposed debt financing?
- (a) 10.12%
 - (b) 10.48%
 - (c) 11.04%
 - (d) 11.62%
2. Total Assets & Current liabilities of the Manju Limited are 50 lakhs & 10 lakhs respectively. ROCE is 15%, measure of business operating risk is at 3.5 & P/V ratio is 70%. Calculate Sales.
- (a) 21 lakhs
 - (b) 30 lakhs
 - (c) 37.50 lakhs
 - (d) 40 lakhs

3. MT Ltd.'s opening stock was ₹ 3,20,000 and the closing stock was ₹ 4,80,000. Sales during the year were ₹ 18,00,000 and the gross profit ratio was 30% on sales. Average accounts payable are ₹ 1,20,000.

Creditors Turnover Ratio = ?

- (a) 11.83
- (b) 13.75
- (c) 14.00
- (d) 15.50

Ratio

4. The following information of ASD Ltd. relate to the year ended 31st March, 2026:

Net profit	8% of sales
Raw materials consumed	20% of Cost of Goods Sold
Direct wages	10% of Cost of Goods Sold
Stock of raw materials	3 months' usage
Stock of finished goods	6% of Cost of Goods Sold
Gross Profit	15% of Sales
Debt collection period	2 Months
(All sales are on credit)	
Current ratio	2 : 1
Fixed assets to Current assets	13 : 11
Fixed assets to sales	1 : 3
Long-term loans to Current liabilities	2 : 1
Capital to Reserves and Surplus	1 : 4

You are required to PREPARE-

- (a) Profit & Loss Statement of ASD Limited for the year ended 31st March, 2026 in the following format.

Particulars	(₹)	Particulars	(₹)
To Direct Materials consumed	?	By Sales	?
To Direct Wages	?		
To Works (Overhead)	?		
To Gross Profit c/d	?		
	?		?
To Selling and Distribution Expenses	?	By Gross Profit b/d	?
To Net Profit	?		
	?		?

(b) Balance Sheet as on 31st March, 2026 in the following format.

Liabilities	(₹)	Assets	(₹)
Share Capital	?	Fixed Assets	1,30,00,000
Reserves and Surplus	?	Current Assets:	
Long term loans	?	Stock of Raw Material	?
Current liabilities	?	Stock of Finished Goods	?
		Debtors	?
		Cash	?
	?		?

Leverage

5. Anirban Ltd. is a well-established manufacturing company engaged in producing industrial components for various engineering industries. The management intends to assess the company's financial performance and capital structure efficiency using key financial ratios and leverage measures. The following information has been extracted from the company's latest financial statements.

Capital Structure of Anirban Ltd.

Source of Finance	Amount (₹)
Equity Share Capital (₹10 per share)	8,00,000
10% Preference Share Capital (₹100 per share)	5,00,000
12% Debentures (₹100 each)	7,00,000
Total Capital Employed	20,00,000

Additional Information:

- The company reported a Profit After Tax (PAT) of ₹ 2,80,000 during the year.
- The applicable corporate tax rate is 30%.
- Total operating expenses, including depreciation of ₹ 96,800, are equal to 1.5 times the Earnings Before Interest and Tax (EBIT).
- Equity shareholders were paid a dividend at the rate of 15%.
- The market price per equity share is ₹ 23.

Required:

Based on the information provided above, calculate the following:

- Operating Leverage and Financial Leverage.
- Preference Dividend Cover and Equity Dividend Cover.
- Earnings Yield Ratio.
- Price–Earnings (P/E) Ratio.

Show all necessary workings and assumptions clearly.

Dividend decision

- The stocks of Firms A and B are considered to be equally risky. Investors expect the share of Firm A, which does not intend to pay any dividend, to be worth ₹ 100 one year from now.

Similarly, investors expect a total payoff of ₹ 100 from the share of Firm B after one year, comprising ₹ 10 as dividend income and ₹ 90 as the expected share price.

Dividends are taxed at 25 percent, while capital gains are taxed at 12 percent.

Assuming that each stock is expected to provide a post-tax rate of return of 18 percent and that the radical position holds, determine the current market prices of the shares of Firms A and B.

Capital Budgeting Decision

7. The management of P Limited is evaluating two mutually exclusive investment alternatives, namely Machine I and Machine II, for acquisition. The company has a cost of capital of 12% and is subject to a corporate tax rate of 30%.

The relevant details of the two machines are provided below:

Particulars	Machine I	Machine II
Initial Cost of Machine	₹ 10,00,000	₹ 15,00,000
Useful Life	5 years	6 years
Annual Income Before Depreciation and Tax	₹ 3,45,000	₹ 4,55,000

Additional Information:

- Depreciation is to be charged using the Straight-Line Method (SLM) over the useful life of each machine.

Required:

- Compute the following capital budgeting indicators for each machine:
 - Discounted Payback Period (DPP)
 - Net Present Value (NPV)
 - Internal Rate of Return (IRR)
- Based on the results obtained, recommend which machine should be selected by the management of P Limited, providing appropriate justification.

The present value factors of Re. 1 are as follows:

Year	1	2	3	4	5	6
At 12%	.893	.797	.712	.636	.567	.507
At 13%	.885	.783	.693	.613	.543	.480
At 14%	.877	.769	.675	.592	.519	.456
At 15%	.870	.756	.658	.572	.497	.432
At 16%	.862	.743	.641	.552	.476	.410

Working Capital Management

8. A firm has total annual sales of ₹ 200 lakhs, of which 80% are made on credit. The company offers credit terms of 2/40, net 120. Out of the total credit customers, 50% avail themselves of the cash discount, while the remaining customers settle their accounts after 120 days.

Based on past experience, bad debt losses amount to approximately 1% of credit sales. In addition, the firm incurs ₹ 2,40,000 per annum in administering its credit sales. These costs can be avoided because a factor is willing to purchase the firm's receivables.

The factor will charge a 2% commission and provide advances against receivables at an interest rate of 18%, while retaining 10% of the receivables as a reserve.

Required:

- (i) Determine the effective cost of factoring. Assume a 360-day year.
 - (ii) If bank finance for working capital is available at an interest rate of 14%, advise whether the firm should avail itself of the factoring service.
9. You have been asked to prepare a cash budget for the next quarter, January through March, for Jahanara Fashions. They have provided you with the following information:
- a. Sales are expected to be: ₹ 400,000 in January, ₹ 400,000 in February, and ₹ 600,000 in March. All sales will be in cash.

- b. The estimated purchases are: ₹380,000 in January, ₹ 360,000 in February, and ₹ 450,000 in March. Payments for purchases will be made after a lag of one month. Outstanding on account of purchases in December last are ₹ 350,000.
- c. The rent per month is ₹ 10,000 and the partners' personal withdrawal per month is ₹25,000.
- d. Salaries and other expenses, payable in cash, are expected to be: ₹ 25,000 in January, ₹ 20,000 in February, and ₹ 30,000 in March.
- e. They plan to buy furniture worth ₹ 40,000 on cash payment in January.
- f. The cash balance at present is ₹ 6,000. Their target cash balance, however, is ₹ 15,000. What will be surplus/ deficit of cash in relation to their target cash balance?

Miscellaneous

10. (a) PQR Ltd. expanded its business by purchasing new machinery and increasing production. However, due to poor financial planning, the company is facing cash shortages, rising expenses, and difficulty managing its working capital. The management is now focusing on better budgeting, cost control, and cash flow management. In the light of the above case, explain the importance of financial management and how it helps a business achieve growth, profitability, and financial stability.
- (b) Global Infra Ltd., an Indian infrastructure company, plans to raise funds from international markets for its expansion project. The Finance Director is evaluating various foreign bond options. Explain various foreign bonds for Global Infra Ltd. and their key features.
- (c) Sunrise Healthcare Pvt. Ltd. operates a chain of pharmacies across India. The company has recently experienced rising raw material costs, fluctuations in exchange rates affecting imported medicines, and increasing inventory levels due to uncertain demand.

Management is also reviewing its credit policy to improve cash flows and is considering various short-term financing options to meet working capital needs.

In the context of the above case, discuss the factors that should be considered by Sunrise Healthcare Pvt. Ltd. while planning its working capital requirements.



SUGGESTED ANSWERS/HINTS

Division A: Case Scenario

(i) (b) 10%

Using Dividend Growth Model:

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

Where:

- $D_1 = ₹ 15$
- $P_0 = ₹ 300$
- $g = 5\%$

$$\begin{aligned} K_e &= \frac{15}{300} + 0.05 \\ &= 0.05 + 0.05 \\ &= 10\% \end{aligned}$$

(ii) (b) 9.43%

Cost of Preference Shares

$$K_p = 11.5/100 = 11.5\%$$

After-tax Cost of Debentures

$$K_d = 10\% (1 - 0.35) = 6.5\%$$

WACC Computation

Source	Amount (₹)	Weight (W)	Cost (C)	Weighted Cost (W x C)
Equity Shares	30,00,00,000	0.6522	10%	6.52%
Preference Shares	6,00,00,000	0.1304	11.5%	1.50%
Debentures	10,00,00,000	0.2174	6.5%	1.41%
Total	46,00,00,000	1.0000		9.43%

(iii) (c) 13% Solution:

Using Dividend Growth Model:

$$\begin{aligned}
 K_e &= \frac{20}{250} + 0.05 \\
 &= 0.08 + 0.05 \\
 &= 13\%
 \end{aligned}$$

(iv) (c) 7.80%

$$\begin{aligned}
 K_d &= 12\% (1 - 0.35) \\
 &= 7.8\%
 \end{aligned}$$

(v) (c) 11.04%**Revised Capital Structure**

Particulars	Amount (₹)
Equity Share Capital	30,00,00,000
Preference Shares	6,00,00,000
Existing Debentures	10,00,00,000
New Debentures	5,00,00,000
Total Capital	51,00,00,000

Revised WACC Computation

Source	Weight (W)	Cost (C)	Weighted Cost (W x C)
Equity Shares	0.5882	13%	7.65%

Preference Shares	0.1176	11.5%	1.35%
Existing Debentures	0.1961	6.5%	1.27%
New Debentures	0.0981	7.8%	0.77%
Total	1.0000		11.04%

2. (b) ROCE = EBIT / Total Capital Employed

Total Capital Employed = Total Assets – Current Liabilities

= 50 lakhs – 10 lakhs

= 40 lakhs

EBIT = 40 lakhs x 15%

= 6 lakhs

Now, OL of 3.5 = Contribution / EBIT

Therefore Contribution = 6 Lakhs X 3.5 = 21 lakhs

Sales = Contribution/PV Ratio = 21 lakhs/0.7 = 30 lakhs

3. (a) 11.83

Creditors Turnover Ratio = Purchases / Average Accounts Payable

Cost of Goods Sold = Opening Stock + Purchases - Closing Stock

Purchases = ₹ 12,60,000 + ₹ 4,80,000 – ₹ 3,20,000

Purchases = ₹ 14,20,000

Average Accounts Payable = ₹ 1,20,000

Creditors Turnover Ratio = Purchases/Average Accounts Payable

Creditors Turnover Ratio = ₹ 14,20,000 / ₹ 1,20,000

Creditors Turnover Ratio = 11.833

Therefore, the Creditors Turnover Ratio is 11.833.

4. Working Notes:

- (i) Calculation of Sales

$$\frac{\text{Fixed Assets}}{\text{Sales}} = \frac{1}{3}$$

$$\therefore \frac{1,30,00,000}{\text{Sales}} = \frac{1}{3} \Rightarrow \text{Sales} = ₹ 3,90,00,000$$

- (ii) Calculation of Current Assets

$$\frac{\text{Fixed Assets}}{\text{Current Assets}} = \frac{13}{11}$$

$$\therefore \frac{1,30,00,000}{\text{Current Assets}} = \frac{13}{11} \Rightarrow \text{Current Assets} = ₹ 1,10,00,000$$

- (iii) Calculation of Raw Material Consumption and Direct Wages

	₹
Sales	3,90,00,000
Less: Gross Profit (15 % of Sales)	<u>58,50,000</u>
Cost of Goods sold	<u>3,31,50,000</u>

Raw Material Consumption (20% of Cost of Goods Sold) ₹ 66,30,000

Direct Wages (10% of Cost of Goods Sold) ₹ 33,15,000

- (iv) Calculation of Stock of Raw Materials (= 3 months usage)

$$= 66,30,000 \times \frac{3}{12} = ₹ 16,57,500$$

- (v) Calculation of Stock of Finished Goods (= 6% of Cost of Goods Sold)

$$= 3,31,50,000 \times \frac{6}{100} = ₹ 19,89,000$$

- (vi) Calculation of Current Liabilities

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = 2$$

$$\frac{1,10,00,000}{\text{Current Liabilities}} = 2 \Rightarrow \text{Current Liabilities} = ₹ 55,00,000$$

(vii) Calculation of Debtors

$$\text{Average collection period} = \frac{\text{Debtors}}{\text{Credit Sales}} \times 12 \text{ months}$$

$$\frac{\text{Debtors}}{3,90,00,000} \times 12 = 2 \Rightarrow \text{Debtors} = ₹ 65,00,000$$

(viii) Calculation of Long-term Loan

$$\frac{\text{Long term Loan}}{\text{Current Liabilities}} = \frac{2}{1}$$

$$\frac{\text{Long term loan}}{55,00,000} = \frac{2}{1} \Rightarrow \text{Long term loan} = ₹ 1,10,00,000$$

(ix) Calculation of Cash Balance

	₹
Current assets	1,10,00,000
Less: Debtors	65,00,000
Raw materials stock	16,57,500
Finished goods stock	<u>19,89,000</u>
Cash balance	<u>8,53,500</u>

(x) Calculation of Net worth

Fixed Assets	1,30,00,000
Current Assets	<u>1,10,00,000</u>
Total Assets	2,40,00,000
Less: Long term Loan	1,10,00,000
Current Liabilities	<u>55,00,000</u>
Net worth	<u>75,00,000</u>

$$\text{Net worth} = \text{Share capital} + \text{Reserves} = ₹ 75,00,000$$

$$\frac{\text{Capital}}{\text{Reserves and Surplus}} = \frac{1}{4} \Rightarrow \text{Share Capital} = ₹ 75,00,000 \times \frac{1}{5}$$

$$= ₹ 15,00,000$$

$$\text{Reserves and Surplus} = ₹ 75,00,000 \times \frac{4}{5} = ₹ 60,00,000$$

**Profit and Loss Statement of ASD Ltd.
for the year ended 31st March, 2026**

Particulars	(₹)	Particulars	(₹)
To Direct Materials consumed	66,30,000	By Sales	3,90,00,000
To Direct Wages	33,15,000		
To Works (Overhead) (Bal. fig.)	2,32,05,000		
To Gross Profit c/d (15% of Sales)	58,50,000		
	3,90,00,000		3,90,00,000
To Selling and Distribution Expenses (Bal. fig.)	27,30,000	By Gross Profit b/d	58,50,000
To Net Profit (8% of Sales)	31,20,000		
	58,50,000		58,50,000

Balance Sheet of ASD Ltd. as at 31st March, 2026

Liabilities	(₹)	Assets	(₹)
Share Capital	15,00,000	Fixed Assets	1,30,00,000
Reserves and Surplus	60,00,000	Current Assets:	
Long term loans	1,10,00,000	Stock of Raw Material	16,57,500
Current liabilities	55,00,000	Stock of Finished Goods	19,89,000
		Debtors	65,00,000
		Cash	8,53,500
	2,40,00,000		2,40,00,000

5. Working Notes:

	(₹)
Net Profit after Tax	2,80,000
Tax @ 30%	1,20,000
EBT	4,00,000
Interest on Debentures	84,000
EBIT	4,84,000
Total Operating Expenses (1.5 times of EBIT)	7,26,000
Sales	12,10,000

(i) Operating Leverage

Variable operating expenses = ₹ 7,26,000 - 96,800 = ₹ 6,29,200

$$= \frac{\text{Contribution}}{\text{EBIT}} = \frac{\text{₹ } (12,10,000 - 6,29,200)}{\text{₹ } 4,84,000} = \frac{\text{₹ } 5,80,800}{\text{₹ } 4,84,000} = 1.2 \text{ times}$$

$$\text{Financial Leverage} = \frac{\text{EBIT}}{\text{EBT}} = \frac{4,84,000}{4,00,000} = 1.21 \text{ times}$$

(ii) Cover for Preference Dividend

$$= \frac{\text{PAT}}{\text{Preference Share Dividend}} = \frac{\text{₹ } 2,80,000}{\text{₹ } 50,000} = 5.6 \text{ times}$$

Cover for Equity Dividend

$$= \frac{(\text{PAT} - \text{Preference Dividend})}{\text{Equity Share Dividend}} = \frac{\text{₹ } (2,80,000 - 50,000)}{\text{₹ } 1,20,000}$$

$$= \frac{\text{₹ } 2,30,000}{\text{₹ } 1,20,000} = 1.92 \text{ times}$$

(iii) Earning Yield Ratio

$$= \frac{\text{EPS}}{\text{Market Price}} \times 100$$

$$= \left(\frac{\frac{2,30,000}{80,000}}{\frac{23}{23}} \times 100 \right)$$

$$= \frac{2.875}{23} \times 100 = 12.5\%$$

(iv) **Price – Earnings Ratio (PE Ratio)**

$$= \frac{\text{Market Price}}{\text{EPS}} = \frac{23}{2.875}$$

$$= 8 \text{ times}$$

Note: All operating expenses, other than depreciation, are variable costs.

6.

	A	B
Next year's price	100	90
Dividend	0	10
Let the current price be	A	B
Post-tax capital appreciation	0.88(100-A)	0.88 (90-B)
Post-tax dividend income	0	0.75 x 10
Total return	<u>0.88 (100-A)</u>	<u>0.88 (90-B) + 7.5</u>
	A	B
	= 18%	=18%
Current price (obtained by solving the preceding equation)	A = ₹ 83.02	B = ₹ 81.79

7. (i) **Computation of Discounted Payback Period, Net Present Value (NPV) and Internal Rate of Return (IRR) for Two Machines**

Calculation of Cash Inflows

	Machine - I (₹)	Machine - II (₹)
Annual Income before Tax and Depreciation	3,45,000	4,55,000

Less: Depreciation		
Machine – I: 10,00,000 / 5	2,00,000	-
Machine – II: 15,00,000 / 6	<u>-</u>	<u>2,50,000</u>
Income before Tax	1,45,000	2,05,000
Less: Tax @ 30 %	<u>43,500</u>	<u>61,500</u>
Income after Tax	1,01,500	1,43,500
Add: Depreciation	<u>2,00,000</u>	<u>2,50,000</u>
Annual Cash Inflows	<u>3,01,500</u>	<u>3,93,500</u>

		Machine – I			Machine – II		
Year	P.V. of Re.1 @12%	Cash flow	P.V.	Cumulative P.V	Cash flow	P.V.	Cumulative P.V.
1	0.893	3,01,500	2,69,240	2,69,240	3,93,500	3,51,396	3,51,396
2	0.797	3,01,500	2,40,296	5,09,536	3,93,500	3,13,620	6,65,016
3	0.712	3,01,500	2,14,668	7,24,204	3,93,500	2,80,172	9,45,188
4	0.636	3,01,500	1,91,754	9,15,958	3,93,500	2,50,266	11,95,454
5	0.567	3,01,500	1,70,951	10,86,909	3,93,500	2,23,115	14,18,569
6	0.507	-	-	-	3,93,500	1,99,505	16,18,074

Discounted Payback Period for:
Machine – I

$$\begin{aligned}
 \text{Discounted Payback Period} &= 4 + \frac{(10,00,000 - 9,15,958)}{1,70,951} \\
 &= 4 + \frac{84,042}{1,70,951} = 4 + 0.4916 \\
 &= 4.49 \text{ years or 4 years and 5.9 months}
 \end{aligned}$$

Machine – II

$$\text{Discounted Payback Period} = 5 + \frac{(15,00,000 - 14,18,569)}{1,99,505} = 5 + \frac{81,431}{1,99,505}$$

$$= 5 + 0.4082$$

$$= 5.41 \text{ years or 5 years and 4.9 months}$$

Net Present Value for:

Machine – I

$$\text{NPV} = ₹ 10,86,909 - 10,00,000 = ₹ 86,909$$

Machine – II

$$\text{NPV} = ₹ 16,18,074 - 15,00,000 = ₹ 1,18,074$$

Internal Rate of Return (IRR) for:

Machine – I

$$\text{P.V. Factor} = \frac{\text{Initial Investment}}{\text{Annual Cash Inflow}} = \frac{10,00,000}{3,01,500} = 3.3167$$

PV factor falls between 15% and 16%

Present Value of Cash inflow at 15% and 16% will be:

$$\text{Present Value at 15\%} = 3.353 \times 3,01,500 = 10,10,930$$

$$\text{Present Value at 16\%} = 3.274 \times 3,01,500 = 9,87,111$$

$$\text{IRR} = 15 + \frac{10,10,930 - 10,00,000}{10,10,930 - 9,87,111} \times (16 - 15) = 15 + \frac{10,930}{23,819} \times 1$$

$$= 15.4588\%$$

$$= 15.46\%$$

Machine - II

$$\text{P.V. Factor} = \frac{15,00,000}{3,93,500} = 3.8119$$

Present Value of Cash inflow at 14% and 15% will be:

$$\text{Present Value at 14\%} = 3.888 \times 3,93,500 = 15,29,928$$

$$\text{Present Value at 15\%} = 3.785 \times 3,93,500 = 14,89,398$$

$$\text{IRR} = 14 + \frac{15,29,928 - 15,00,000}{15,29,928 - 14,89,398} \times (15 - 14) = 14 + \frac{29,928}{40,530} \times 1 = 14.7384\%$$

$$= 14.74\%$$

(ii) Advise to the Management

Ranking of Machines in terms of the Three Methods

	Machine - I	Machine - II
Discounted Payback Period	I	II
Net Present Value	II	I
Internal Rate of Return	I	II

Advise: Since Machine - I has better ranking than Machine - II, therefore, Machine - I should be selected

8.

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 × 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 Firm:	
	Factoring commission (₹ 71,111 × 360/80)	3,20,000
	Interest charges (₹ 1,25,156 × 360/80)	<u>5,63,200</u>
	Total	<u>8,83,200</u>
B.	Firm's Savings on taking Factoring Service:	₹
	Cost of credit administration saved	2,40,000
	Bad Debts (₹ 1,60,00,000 × 1/100) avoided	<u>1,60,000</u>
	Total	<u>4,00,000</u>
C.	Net Cost to the firm (A – B) (₹ 8,83,200 – ₹ 4,00,000)	<u>4,83,200</u>

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

* If cost of factoring is calculated on the basis of total amount available for advance, then, it will be

$$= \frac{₹ 4,83,200}{₹ 31,28,889} \times 100 = 15.44\%$$

(ii) If Bank finance for working capital is available at 14%, firm will not avail factoring service as 14 % is less than 16.08% (or 15.44%)

9. The projected cash inflows and outflows for the quarter, January through March, is shown below:

Month	December	January	February	March
	(₹)	(₹)	(₹)	(₹)
Inflows:				
Sales collection		4,00,000	4,00,000	6,00,000

Outflows:				
Payment to sundry creditors		3,50,000	3,80,000	3,60,000
Rent		10,000	10,000	10,000
Drawings		25,000	25,000	25,000
Salaries & other expenses		25,000	20,000	30,000
Purchase of furniture		40,000		
Total outflows 2 to 6)		4,50,000	4,35,000	4,25,000

Given an opening cash balance of ₹6,000 and a target cash balance of ₹ 15,000, the surplus/deficit in relation to the target cash balance is worked out below:

	January (₹)	February (₹)	March (₹)
1. Opening balance	6,000		
2. Inflows	400,000	400,000	600,000
3. Outflows	450,000	435,000	425,000
4. Net cash flow (2 - 3)	(50,000)	(35,000)	175,000
5. Cumulative net cash flow	(50,000)	(85,000)	90,000
6. Opening balance + Cumulative net cash flow	(44,000)	(79,000)	96,000
7. Minimum cash balance required	15,000	15,000	15,000
8. Surplus/(Deficit)	(59,000)	(94,000)	81,000

- 10. (a)** Importance of Financial Management cannot be over-emphasized. It is, indeed, the key to successful business operations. Without proper administration of finance, no business enterprise can reach at its full potentials for growth and success. Money is to an enterprise, what oil is to an engine.

Financial Management is all about planning investment, funding the investment, monitoring expenses against budget and

managing gains from the investments. Financial management means management of all matters related to an organization's finances.

The best way to demonstrate the importance of good financial management is to describe some of the tasks that it involves:-

- (a) **Taking care** not to over-invest in fixed assets
- (b) **Balancing** cash-outflow with cash-inflows
- (c) **Ensuring** that there is a sufficient level of short-term working capital
- (d) **Setting** sales revenue targets that will deliver growth
- (e) **Increasing** gross profit by setting the correct pricing for products or services
- (f) **Controlling** the level of general and administrative expenses by finding more cost-efficient ways of running the day-to-day business operations, and
- (g) **Tax planning** that will minimize the taxes a business has to pay.

(b) Foreign Bonds

Sl. No.	Name of Bond	Salient Features
1.	Foreign Currency Convertible Bond (FCCB)	• This bond comes at a very low rate of interest. • The advantage to the issuer is that the issuer can get foreign currency at a very low cost. • The risk is that in case the bond has to be redeemed on the date of maturity, the issuer has to make the payment and at that time the issuer may not have the money.

2.	Plain Vanilla Bond	• The issuer would pay the principal amount along with the interest rate. • This type of bond would not have any options. • This bond can be issued in the form of discounted bond or can be issued in the form of coupon bearing bond.
3.	Convertible Floating Rate Notes (FRN)	• A convertible FRN is issued by giving its holder an option to convert it into a longer term debt security with a specified coupon • It protects an investor against falling interest rate • The long- term debt security can be sold in the market and the investor can earn profit • Capital gain is not applicable to FRN
4.	Drop Lock Bond	• It is a Floating Rate Note with a normal floating rate • The floating rate bond would be automatically converted into fixed rate bond if interest rate falls below a predetermined level • The new fixed rate stays till the drop lock bond reaches its maturity • The difference between the convertible floating rate note and drop lock bond is that the

		former is a long option structure and the later one is a short option structure
5.	Variable Rate Demand Obligations	• A normal floating rate note with a nominal maturity • The holder of the floating rate note can sell the obligation back to the trustee at par plus accrued interest • It gives the investor an option to exit, so it is more liquid than the normal FRN
6.	Yield Curve Note (YCN)	• It is a structured debt security • Yield increases when prevailing interest rate declines • Yield decreases when prevailing interest rate increases • This is used to hedge the interest rate • This works like inverse floater
7.	Euro Bond	• Euro bonds are issued or traded in a country using a currency other than the one in which the bond is denominated. This means that the bond uses a certain currency, but operates outside the jurisdiction of the Central Bank that issues that currency. • Eurobonds are issued by multinational corporations, for example, a British company may issue a Eurobond in

		Germany, denominating it in U.S. dollars. It is important to note that the term has nothing to do with the euro, and the prefix "euro-" is used more generally to refer to deposit outside the jurisdiction of the domestic central bank
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(c) **Some of the factors which need to be considered while planning for working capital requirement are:**

- 1. Need for Cash:** Identify the cash balance which allows for the business to **meet day-to-day expenses** but reduces cash holding costs (example - loss of interest on long term investment had the surplus cash invested therein).
- 2. Desired level of Inventory: Identify the level of inventory** which allows for uninterrupted production but reduces the investment in raw materials and hence increases cash flow. The techniques like Just in Time (JIT) and Economic order quantity (EOQ) are used for this.
- 3. Receivables:** Identify the **appropriate credit policy**, i.e., credit terms which will attract customers, such that any impact on cash flows and the cash conversion cycle will be offset by increased revenue and hence Return on Capital (or vice versa). The tools like Early Payment Discounts and allowances are used for this.
- 4. Short-term Financing Options:** Inventory is ideally financed by credit granted by the supplier. However, depending on the cash conversion cycle, it may be necessary to utilize a bank loan (or overdraft), or to "convert debtors to cash" through "factoring" in order to finance working capital requirements.

5. **Nature of Business:** For e.g. in a business of restaurant, most of the sales are in Cash. Therefore, need for working capital is very less. On the other hand, there would be a higher inventory in case of a pharmacy or a bookstore.
6. **Market and Demand Conditions:** For e.g. if an item's demand far exceeds its production, the working capital requirement would be less as investment in finished goods inventory would be very less with continuous sales.
7. **Technology and Manufacturing Policies:** For e.g. in some businesses the **demand for goods is seasonal**, in that case a business may follow a policy for steady production throughout the whole year or rather may choose a policy of production only during the demand season.
8. **Operating Efficiency:** A company can reduce the working capital requirement by **eliminating waste, improving coordination, process improvements** etc.
9. **Price Level Changes & Exchange Rate Fluctuations:** For e.g. **rising prices necessitate the use of more funds** for maintaining an existing level of activity. For the same level of current assets, higher cash outlays are required. Therefore, the effect of rising prices is that a higher amount of working capital is required. Another example would be unfavorable exchange rate movement in case of imported raw materials would warrant additional cost of same.

6B: STRATEGIC MANAGEMENT

Multiple Choice Questions

1. Green Harvest Organics (GHO), a mid-sized agricultural company based in California, specializes in producing organic fruit and vegetables for local markets. The company's mission is to promote sustainable farming while delivering fresh, organic produce to its customers. While GHO has been profitable, they aim to expand their market presence and strengthen their competitive position in the organic food industry.

To align its internal structure with its growth goals, GHO's leadership applied the McKinsey 7S Model. They identified gaps in their shared values and organizational vision, which previously focused solely on local markets & competition. Their structure and systems are also being upgraded to support larger-scale operations, while staff are undergoing training to embrace a customer-centric approach. All seven elements of the McKinsey 7S Model were aligned to support organizational growth.

To expand its market share, GHO introduced loyalty programmes to encourage repeat purchases among existing customers and launched promotional campaigns to attract consumers who previously purchased conventional produce. These initiatives aim to strengthen customer retention, attract more buyers within existing markets, and enhance GHO's competitive position without expanding into new markets or spending money on introducing new products.

The company's growth strategy also involves establishing a chain of branded farm-to-table cafes. GHO plans to connect directly with consumers and increase its control over the distribution process. This move will allow GHO to capture additional value while strengthening its brand image.

As part of their marketing efforts, GHO created subscription boxes and guided its efforts towards educating customers about off-season produce. GHO ensured consistent demand throughout the year. This

strategy also aligns with their sustainability goals by reducing food waste.

To remain cost-competitive while maintaining high quality, GHO balanced premium-quality organic produce with efficient production methods, ensuring their products remain affordable for middle-income households. Advanced agricultural technology, like precision irrigation and eco-friendly pest control, has been critical in managing the costs and creating value-based offerings.

Now, GHO faces crucial decisions about how to scale operations while staying true to its core values of sustainability and quality.

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

- (i) Green Harvest Organics adopted a market penetration strategy by introducing loyalty programmes and promotional campaigns within its existing markets. What is the primary objective of this strategy?
 - (a) Introducing new products into existing markets
 - (b) Increasing market share by selling existing products in existing markets
 - (c) Entering new geographical markets
 - (d) Diversifying into unrelated businesses
- (ii) Green Harvest Organics plans to establish branded farm-to-table cafés to directly serve consumers. Which growth strategy is being adopted?
 - (a) Backward Integration
 - (b) Horizontal Integration
 - (c) Vertical Forward Integration
 - (d) Market Development

- (iii) Green Harvest Organics combines premium-quality organic produce with efficient production methods to offer affordable prices. Which competitive strategy does this represent?
 - (a) Cost Leadership Strategy
 - (b) Differentiation Strategy
 - (c) Best-Cost Provider Strategy
 - (d) Focus Strategy
 - (iv) Which of the following strategic initiatives best demonstrates alignment between GHO's mission of promoting sustainable farming and its long-term vision of expanding its market presence?
 - (a) Launching branded farm-to-table cafés while continuing sustainable farming practices.
 - (b) Increasing promotional discounts without improving operational capabilities.
 - (c) Diversifying into unrelated businesses to maximise short-term profits.
 - (d) Outsourcing production to suppliers with lower environmental standards.
 - (v) How does the application of the McKinsey 7S Model help Green Harvest Organics achieve its expansion objectives?
 - (a) By developing new product lines
 - (b) By aligning strategy, structure, systems, staff, skills, style and shared values to support organizational growth
 - (c) By focusing only on marketing and branding initiatives
 - (d) By expanding into international markets
2. The Board of Directors of *Alpha Group Ltd.*, which operates in the textiles, hospitality and renewable energy businesses, has decided to acquire a pharmaceutical company to diversify its business portfolio and

- reduce dependence on existing industries. This decision is an example of which level of strategic management?
- (a) Corporate Level
 - (b) Business Level
 - (c) Functional Level
 - (d) Operational Level
3. *FreshKart Retail Ltd.* observed that an increasing number of customers preferred shopping through mobile applications and expected doorstep delivery. In response, the company launched an AI-enabled e-commerce platform, creating an entirely new online business segment and attracting a large customer base. The emergence of such new markets and business segments is primarily influenced by which component of the external environment?
- (a) Political environment
 - (b) Economic environment
 - (c) Sociocultural environment
 - (d) Technological environment
4. *StrideX Footwear Ltd.* is planning to strengthen its position in the sports shoe market. Before acquiring a smaller rival, the management wants to identify competitor groups based on their pricing strategies and product range to locate firms with weak competitive positions. Which strategic tool would be most useful for this purpose?
- (a) Merger and Acquisition Planning
 - (b) BCG Growth Matrix
 - (c) Strategic Group Mapping
 - (d) GE Nine-Cell Matrix
5. *PrimeVision Entertainment Ltd.* had been incurring continuous losses for several years. After evaluating all revival options, the promoters concluded that selling the company's assets would generate higher value than continuing its operations. Accordingly, they decided to

permanently close the business and pursue asset sales. Which retrenchment strategy has the company adopted?

- (a) Restructuring Business
 - (b) Liquidation Strategy
 - (c) Business Process Re-engineering
 - (d) Divestment
6. At *Nova Healthcare Pvt. Ltd.*, the Hospital Administrator supervises the overall functioning of the diagnostics department. His responsibility includes allocating resources, coordinating departmental activities and ensuring that departmental goals are achieved efficiently and effectively. The Hospital Administrator is exercising:
- (a) Strategic control
 - (b) Management control
 - (c) Administrative control
 - (d) Operational control

Descriptive Questions

Chapter 1-Introduction to Strategic Management

7. *Novatek Electronics Ltd.* is a leading manufacturer of smart home appliances and planned to expand into Tier-2 cities, invest in AI-enabled products, strengthen its dealer network and increase exports. During implementation, a foreign competitor launched low-priced products, raw material prices increased and stricter energy efficiency regulations were introduced. Consequently, the company revised its plans by launching budget friendly products, changing suppliers and accelerating energy efficient product development. Explain how this case demonstrates that strategy is partly proactive and partly reactive.
8. *PharmaLife Global Ltd.*, a multinational pharmaceutical company, is formulating its long-term strategic direction. The top management prepares a document that defines the company's desired future position, outlines its long-term aspirations, and provides a clear direction for the organisation over the next decade. The document answers the question,

"Where do we want to go?", inspires employees and stakeholders and shapes future strategic decisions without specifying detailed operational plans. Identify the conceptual element of strategic intent and explain its meaning and key characteristics.

Chapter 2-Strategic Analysis: External Environment

9. SwiftDeliver Logistics Ltd. is a same-day delivery company operating in six metropolitan cities in India. The company is considering expanding to Tier-2 cities. As part of due diligence, the Strategic Planning team is conducting an industry environment analysis. The team has gathered the following information:

- Many e-commerce firms are building in-house delivery capabilities.
- Fuel prices have risen 18% in the past year.
- Drone-based last-mile delivery start-ups are attracting significant venture capital funding.
- Large e-commerce clients negotiate aggressively on delivery rates.

Conduct a Porter's Five Forces analysis for SwiftDeliver using the information provided, identifying the relevant force for each bullet point.

10. Value Chain Analysis consists of two activities: Primary activities and Support activities. As per Michael Porter both the activities are intertwined. Do you agree with the statement? Also delineate the main areas in which primary activities of any organization are grouped.

Chapter 3-Strategic Analysis: Internal Environment

11. OrthoCare *Super Speciality Hospital* has developed an advanced robotic knee replacement surgery programme supported by years of surgeon expertise, specialised training protocols, coordinated teamwork and a unique organisational culture. Although several competing hospitals have invested in similar robotic technology, they have been unable to achieve comparable surgical outcomes because the hospital's expertise is based on complex, tacit knowledge that cannot be easily copied. Identify the characteristics of a core competency illustrated in the above case and briefly explain it.

12. Write a short note on the key strategic drivers of an organization.

Chapter 4-Strategic Choices

13. *Elite Motors Ltd.*, a luxury automobile manufacturer, exclusively targets ultra-high-net-worth individuals by offering premium cars with bespoke features such as hand-stitched leather interiors, personalised design options, and superior craftsmanship that are not available in mass-market vehicles. The company deliberately serves a narrow customer segment and differentiates its products through exceptional quality and exclusivity rather than competing on price. Identify the Porter's Generic Strategy and explain the strategy with suitable justification.
14. *EcoBuild Materials Ltd.* manufactures specialised construction materials. One of its business divisions has been evaluated using the GE Stop-Light Matrix. The analysis indicates that the division possesses medium business strength but operates in an industry with low market attractiveness. The management is reviewing the future course of action for this division. Identify the colour zone in which this business falls under the GE Stop-Light Matrix. What strategic action should the company adopt for this division? Give reasons for your answer.

Chapter 5-Strategy Implementation and Evaluation

15. *Cura-Stents India Ltd.*, a manufacturer of high-precision cardiac stents, follows stringent international quality and sterilisation standards. The Plant Director sets fixed production targets, strict quality benchmarks and standard operating procedures. Employees achieving targets receive monetary rewards, while those failing to meet standards face salary deductions and mandatory retraining. The Director mainly monitors performance and takes corrective action for deviations. Identify the style of Strategic Leadership illustrated and distinguish it from Transformational Leadership based on organisational change and employee motivation.
16. Distinguish between Strategic Planning and Operational Planning.



SUGGESTED ANSWERS/HINTS

Answer to Case Scenario and MCQ

Q. No.		Answer
1.	(i)	(b)
	(ii)	(c)
	(iii)	(c)
	(iv)	(a)
	(v)	(b)
2.	(a)	
3.	(d)	
4.	(c)	
5.	(b)	
6.	(b)	

7. The case demonstrates that **strategy is partly proactive and partly reactive** because it combines deliberate plans with responses to unforeseen developments.
- **Proactive Strategy:** *Novatek's* decision to expand into Tier-2 cities, invest in AI-enabled products, strengthen its dealer network and increase exports represents its **proactive strategy**. These are planned initiatives designed to achieve long-term objectives and build competitive advantage.
 - **Reactive Strategy:** The company also faced unexpected environmental changes, such as the entry of a foreign competitor with low-priced products, rising raw material prices and stricter energy efficiency regulations. In response, *Novatek* introduced budget friendly product variants, changed its sourcing strategy and accelerated the development of energy efficient products. These actions represent its **reactive strategy**, undertaken to address emerging challenges.

So, the case highlights that an organisation's realised strategy is a blend of **proactive (deliberate)** actions and **reactive (adaptive)** responses. While proactive strategies help achieve planned objectives, reactive strategies enable the organisation to adapt to changes in the business environment and sustain its competitive position.

8. The conceptual element of strategic intent referred to in the case is **Strategic Vision**. A **strategic vision** reflects the top management's views about the company's future direction and its product-customer-market-technology focus. It delineates management's aspirations for the business by providing a panoramic view of "**where we are to go**" and a convincing rationale for why the chosen direction makes good business sense. It points out a particular direction, charts the strategic path to be followed in the future, and helps mould the organisation's identity. A clearly articulated strategic vision communicates management's aspirations to stakeholders and steers the energies of employees towards a common direction.

Essentials of a Strategic Vision:

1. Developing a strategic vision requires management to **think creatively** about preparing the company for the future.
2. Forming a strategic vision is an exercise in **intelligent entrepreneurship**.
3. A well-articulated strategic vision **creates enthusiasm** among the members of the organisation.
4. The best-worded vision statement **clearly illuminates the direction** in which the organisation is headed.

In the given case, the document outlining the company's long-term aspirations, answering "**Where do we want to go?**" and providing direction for the next decade represents the company's **Strategic Vision**.

9. Porter's Five Forces Model, developed by Michael Porter, is a framework used to analyse the competitive forces operating in an industry and to assess its attractiveness. The analysis for *SwiftDeliver Logistics Ltd.* is as follows:

Observation	Relevant Force	Explanation
Many e-commerce firms are building in-house delivery capabilities.	Threat of New Entrants	Large e-commerce companies developing their own logistics networks increase competition in the industry. This reduces the dependence on third-party logistics providers like SwiftDeliver and may adversely affect its market share.
Fuel prices have risen 18% in the past year.	Bargaining Power of Suppliers	Fuel is a key input for logistics companies. An increase in fuel prices raises operating costs, indicating higher bargaining power of suppliers and affecting the profitability of the company.
Drone-based last-mile delivery start-ups are attracting significant venture capital funding.	Threat of Substitute Products or Services	Drone-based delivery is an alternative mode of providing last-mile delivery services. As this technology develops, it may offer faster and more cost-effective delivery solutions, posing a substitute threat to traditional logistics services.
Large e-commerce clients negotiate aggressively on delivery rates.	Bargaining Power of Buyers	Large customers place bulk orders and contribute significantly to the company's revenue. Their strong bargaining position enables them to demand lower prices, customised services, and better delivery terms, thereby reducing the company's profit margins.

The industry analysis indicates that *SwiftDeliver Logistics Ltd.* operates in a highly competitive environment characterised by increasing competition, strong bargaining power of buyers and suppliers, and emerging substitute technologies. Before expanding into Tier-2 cities,

the company should focus on improving operational efficiency, adopting innovative technologies, and differentiating its services to sustain its competitive advantage.

10. Yes, I agree with the statement that Value Chain Analysis consists of two activities: Primary activities and Support activities. As per Michael Porter both the activities are intertwined. It is a tool used to examine the activities that create value in an organization, helping to enhance efficiency and build competitive advantage. It breaks down a business's operations to identify areas for improvement in value creation.

The **primary activities** of an organization are categorized into five areas:

1. **Inbound logistics:** Activities related to receiving, storing, and distributing inputs (e.g., materials handling, stock control, and transport).
 2. **Operations:** Transforming input into final products or services (e.g., machining, packaging, assembly).
 3. **Outbound logistics:** Collecting, storing, and delivering products to customers (e.g., warehousing, transport).
 4. **Marketing and sales:** Promoting and selling the product or service, including advertising and sales administration.
 5. **Service:** Enhancing or maintaining product value (e.g., installation, repair, training).
11. The characteristic of a core competency illustrated in the given case is **Costly to Imitate**. It means that competing firms are **unable to develop or duplicate such capabilities easily**. A capability becomes difficult to imitate because it is created through the superior integration of technological, physical and human resources along with organisational culture, teamwork, experience and accumulated knowledge. Such competencies are developed over time and cannot be replicated merely by acquiring similar technology or resources.

In the given case, although competing hospitals have invested in robotic knee replacement technology, they have failed to achieve comparable surgical outcomes because *OrthoCare*'s expertise is based on specialised surgeon skills, coordinated teamwork, unique organisational culture and

tacit knowledge. These capabilities are deeply embedded in the organisation and are not easily transferable or replicable.

Therefore, *OrthoCare*'s robotic knee replacement programme represents a **core competency that is costly to imitate**, providing the hospital with a **sustainable competitive advantage**. Only capabilities that are **valuable, rare, costly to imitate and non-substitutable** qualify as core competencies and become a source of sustainable competitive advantage.

12. Key Strategic Drivers of an Organization

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

The key strategic drivers include:

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

4. **Channels:** The channels through which products and services are delivered impact on accessibility and customer satisfaction. Strategies related to direct, digital, or relationship-based marketing ensure the efficient distribution of offerings to target customers.

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

13. The **Porter's Generic Strategy** illustrated in the case is **Focused Differentiation Strategy**. A **Focused Differentiation Strategy** involves concentrating on a **narrow and well-defined market segment** and offering products or services with **unique attributes** that are valued by customers. The objective is to satisfy the specific needs of a niche market by providing superior quality, exclusivity, innovation or customised features. Customers in this segment are willing to pay a premium price for the differentiated offerings.

In the given case, **Elite Motors Ltd.** exclusively targets **ultra-high-net-worth individuals**, indicating a narrow customer segment. It differentiates its luxury automobiles through bespoke features such as hand-stitched leather interiors, personalised design options and superior craftsmanship, which are unavailable in mass-market vehicles. The company competes on the basis of uniqueness and exclusivity rather than price.

Hence, the company is adopting **Porter's Focused Differentiation Strategy**, as it combines a **focus on a niche market** with **product differentiation** to achieve a sustainable competitive advantage.

14. The business division falls in the **Yellow Zone (Selective Growth/Earnings Zone)** of the **GE Stop-Light Matrix**.

In the GE Stop-Light Matrix, a business with **medium business strength** operating in a **low market attractiveness** industry is placed in the **Yellow Zone**. Businesses in this zone require **selective investment** and careful evaluation rather than aggressive expansion.

The appropriate strategic action is to **selectively invest** only if the division has the potential to improve its competitive position or generate satisfactory returns. If the prospects for improvement are

limited and the business is unlikely to create long-term value, the company should **harvest** the business by maximising short-term cash flows or **divest** it to redeploy resources to more attractive business units.

Thus, the division belongs to the **Yellow Zone**, where the strategy is **selective investment**, with **harvesting or divestment** considered if future growth prospects remain weak.

15. The style of Strategic Leadership illustrated in the case is **Transactional Leadership**. **Transactional Leadership** focuses on **designing systems, controlling organisational activities and improving the current situation**. It uses the authority of the leader's office to exchange **rewards** such as pay and status, for desired performance. It follows a formal approach to motivation by setting **clear goals** with **explicit rewards for achievement** and **penalties for non-achievement**. This style is appropriate in **static environments**, mature industries and organisations where efficient operations and smooth functioning are essential.

In the given case, the Plant Director sets clear production targets, quality benchmarks and standard operating procedures. Employees achieving the targets receive monetary rewards, whereas those failing to meet standards are penalised through salary deductions and mandatory retraining. The Director mainly monitors performance and takes corrective action, which are the key characteristics of **Transactional Leadership**.

Difference between Transactional and Transformational Leadership

Basis	Transactional Leadership	Transformational Leadership
Organisational Change	Focuses on improving the current situation, building on the existing culture and enhancing current practices. It is suitable for stable environments and efficient operations.	Focuses on creating strategic change by inspiring employees with a vision. It is suitable in turbulent environments and when major organisational change is required.

Employee Motivation	Motivates employees through explicit rewards and penalties linked to performance.	Motivates employees through charisma, vision and intellectual stimulation, encouraging them to exceed expectations and embrace innovation.
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Thus, the Plant Director demonstrates **Transactional Leadership**, as the emphasis is on achieving operational efficiency, ensuring compliance with standards and motivating employees through a structured system of rewards and penalties.

16.

Strategic planning	Operational planning
Strategic planning shapes the organisation and its resources.	Operational planning deals with current deployment of resources.
Strategic planning assesses the impact of environmental variables.	Operational planning develops tactics rather than strategy.
Strategic planning takes a holistic view of the organisation.	Operational planning projects current operations into the future.
Strategic planning develops overall objectives and strategies.	Operational planning makes modifications to the business functions but not fundamental changes.
Strategic planning is concerned with the long-term success of the organisation.	Operational planning is concerned with the short-term success of the organisation.
Strategic planning is a senior management responsibility.	Operational planning is the responsibility of functional managers.