



PAPER – 6: INTEGRATED BUSINESS SOLUTIONS



QUESTIONS

Case Study 1

Carry On Airline Limited



Carry On Airline Limited (COAL)¹ is a leading low-cost airline in India, with a market share of nearly 45% in domestic air travel. The company is among the top 500 listed companies on both the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). The industry is highly competitive, with airlines frequently engaging in price wars. Consequently, despite its dominant market position, COAL operates as a price taker, with limited ability to influence ticket prices. The company operates nearly 1,800 flights daily, connecting over 310 destinations across India through a fleet of 400 aircraft.

COAL follows a hub-and-spoke operating model, wherein flights from multiple destinations converge at designated hub airports before passengers transfer to connecting flights for their final destinations. This model enables extensive network connectivity and efficient aircraft utilisation. However, it also creates significant operational interdependence, as delays or cancellations on one route can cascade across multiple connecting flights, disrupting the entire network.

¹ a fictional airline

The company's tagline, "**Punctuality, Prioritized, Price Downsized,**" reflects its strategic focus on providing low-cost yet punctual air travel. To support this strategy, COAL sought to maximise aircraft utilisation by minimising turnaround time between flights and maintaining a lean workforce. Crew members and pilots were rostered to maximise productive flying hours, enabling aircraft to cover greater distances and generate higher revenue while keeping operating costs low.

Decision-making at COAL was highly centralised. In addition to strategic decisions, most operational and tactical decisions were taken at the company's headquarters in Mumbai. Regional managers were primarily responsible for implementing directives issued by headquarters, with limited autonomy to respond to local operational issues. Although operational feedback was collected from regional offices, it had little influence on managerial decision-making.

The airline industry is subject to extensive regulatory oversight by the Directorate General of Civil Aviation (DGCA). For the preceding two years, the DGCA had recommended that airlines provide crew members and pilots with a minimum rest period of eight hours between flights to reduce fatigue and improve operational safety. The regulator also advised airlines to recruit additional crew and pilots to facilitate compliance. Although these recommendations were not initially mandatory, the government repeatedly indicated its intention to make them legally enforceable.

Despite these developments, COAL continued to roster its crew with only five hours of rest between flight duties. Management believed that compliance with the proposed norms would either require reducing flight operations or increasing staffing levels, both of which would adversely affect profitability. Consequently, the company prioritised competitive ticket pricing, punctual operations, and shareholder returns over workforce expansion and operational resilience.

This cost-focused approach extended beyond rostering practices. COAL maintained tight operational budgets by limiting employee incentives, restricting training expenditure, freezing recruitment, and not compensating overtime. Training and employee development received minimal attention, with management believing that employees could adequately learn through on-the-job experience. These practices resulted in high employee turnover, as

skilled crew members and pilots increasingly migrated to competing airlines offering better compensation, career development, and working conditions.

Following several aviation safety incidents across the industry, the government made the DGCA's recommended crew-rest guidelines mandatory with immediate effect in April 2026. While most competing airlines had already taken steps to comply, COAL had failed to build the necessary workforce capacity. As a result, the company faced an acute shortage of crew members and pilots and was forced to cancel a large number of scheduled flights at short notice.

Given the highly interconnected nature of COAL's hub-and-spoke network, these cancellations rapidly triggered a domino effect across the airline's operations, resulting in the cancellation of nearly 85% of its flights. The disruption extended beyond COAL, severely affecting domestic aviation across the country for more than a week. Thousands of passengers were stranded, leading to missed business engagements, personal commitments, and widespread public dissatisfaction. The Government eventually intervened to restore normalcy. Apart from significant reputational damage, COAL was required to refund approximately ₹500 crore in ticket sales and was further penalised ₹100 crore by the DGCA for failing to implement the prescribed crew-rest guidelines and for deficiencies in operational control and delegation.

In response to the crisis, COAL appointed Thomson and Thomson Consultants (TTC), a Singapore-based management consulting firm, to redesign its organisational and operational framework. The engagement was led by Mr. Sung Wong, who proposed evaluating the organisation using the McKinsey 7S Framework to identify misalignment among strategy, structure, systems, skills, staff, style, and shared values that had collectively contributed to the operational failure.

The prolonged disruption also created significant financial stress and liquidity constraints. Acting on TTC's recommendations, COAL entered into a sale-and-leaseback arrangement in May 2026 with Zeelong Aircraft Leasing Limited (ZEAL) to strengthen its cash position. Under the arrangement, COAL sold 10 aircraft to ZEAL for ₹ 100 crore each. Immediately prior to the transaction, each aircraft had a carrying amount of ₹ 60 crore, while its fair value was ₹ 75 crore. Simultaneously, COAL entered into a lease agreement granting it the

right to use each aircraft for 9 years, with annual lease rentals of ₹ 12 crore, payable at the end of each year. The transfer of the aircraft satisfied the requirements for recognising a sale under Ind AS 115, Revenue from Contracts with Customers. Initial direct costs, if any, may be ignored. The implicit rate in the lease is 10% per annum, which is readily determinable by COAL. ZEAL classifies the lease as an operating lease.

Meanwhile, the Securities and Exchange Board of India (SEBI) initiated an investigation into the governance practices of COAL (refer Annexure 1). The investigation revealed that the Board had been aware for nearly two years that the company's aggressive rostering policy and lean staffing model exposed it to significant operational risks. However, these material risks were neither disclosed to the stock exchanges nor reported to SEBI through the company's periodic regulatory filings.

During F.Y. 2025–26, the Risk Management Committee met only twice, with an interval of 180 days between the two meetings. However, it failed to discuss these significant operational risks in either meeting. Nor did it seek any information from employees or obtain any legal or professional advice on the matter. The Committee comprised six members, five of whom were members of the Board of Directors. Notably, none of the Board members serving on the Committee were independent directors.

In a separate development, Dev Patel, Assistant Manager in the Accounts Department, questioned the availability of Input Tax Credit (ITC) on aircraft used in COAL's airline operations. Referring to the provisions contained in Annexure 2, he expressed the view that ITC was not available on such aircraft. In response, his reporting manager, Sunita Jain, took the contrary position that COAL was eligible to claim ITC not only on the aircraft used for providing taxable passenger transportation services but also on related services such as insurance, repair and maintenance, as well as on the lease rentals payable under the sale-and-leaseback arrangement.

Meanwhile, the audit of COAL's financial statements for the year ended 31 March 2026 was substantially completed in June 2026. During the audit, CA. Shirish Patra noted that the DGCA had made the crew-rest requirements mandatory in April 2026, following which COAL cancelled a substantial number of flights and incurred significant passenger refund obligations and a regulatory penalty. Management initially considered these events to be events arising entirely after the reporting date. However, the auditor noted that,

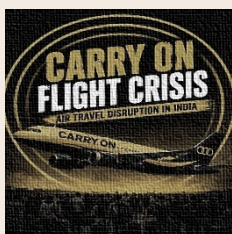
before 31 March 2026, COAL had already been aware of the DGCA's proposed requirements for nearly two years, had continued to roster crew below the recommended rest period, and had not taken steps to strengthen its workforce. The auditor therefore considered whether the events occurring after 31 March 2026 provided evidence of conditions that existed at the reporting date and whether any adjustment to the financial statements was required.

Annexure 1



Business News

COAL Faces SEBI Scrutiny After Flight Operations Crisis Triggers Investor Losses



Mumbai, 25th April 2026 – The unimaginable inconvenience caused to passengers, the widespread anxiety, and the inability of thousands to meet their personal and professional commitments remain fresh in public memory following the unprecedented disruption of flight operations by Carry On Airline Limited (COAL).

The crisis stemmed from poor flight scheduling and inadequate crew rostering. Despite being aware for the past few years of the Directorate General of Civil Aviation's (DGCA) recommended crew-rest guidelines, COAL's management failed to take adequate steps to strengthen its workforce and ensure compliance. When the guidelines became mandatory in April 2026, the airline struggled to operate with an understaffed workforce, resulting in the cancellation of more than 85% of its scheduled flights.

The operational disruption severely impacted the company's financial performance. Revenue losses, passenger refunds, and regulatory penalties significantly eroded investor confidence. COAL's share price plunged by nearly 50% at the height of the crisis, closing at ₹ 94 per share, compared with its recent high of ₹185 per share in March 2026.

Meanwhile, the Securities and Exchange Board of India (SEBI) has initiated an inquiry to examine whether COAL complied with the disclosure requirements prescribed under the SEBI (Listing Obligations and Disclosure Requirements) Regulations (LODR). As part of the investigation, SEBI is reviewing the minutes of

the Board and its committees to determine whether the management was aware of the impending operational risks well before the guidelines became mandatory.

The regulator is also examining whether the company had identified the staffing shortage and operational vulnerabilities as material risks and whether such risks were appropriately disclosed to the stock exchanges or reported through the Business Responsibility and Sustainability Report (BRSR). If any lapses are established, SEBI may seek formal explanations from the company and consider appropriate regulatory action.

The coming weeks are expected to be crucial as COAL's Board faces increasing scrutiny over its governance practices, risk management, and disclosure standards. The airline's reputation has already suffered significant damage, with public confidence and investor sentiment remaining severely affected in the aftermath of the crisis.

Annexure 2

Dev Patel/ Assistant Manager/ Accounts

From: "Dev Patel" <Devp@coal.com>
Sent: 15th June 2026 10:00
To: "Sunita Jain" <Sunitaj@coal.com>
Cc:
Subject: ITC eligibility for COAL under the GST Act
Attachments:

Dear Sunita,

I am in the process of preparing the Company's GST returns and require your guidance on the eligibility of Input Tax Credit (ITC).

As per the GST Act, ITC is blocked in respect of motor vehicles and other conveyances, as well as on related services such as repair and maintenance, insurance, and servicing, subject to specified exceptions. Further, we have recently entered into a sale-and-leaseback arrangement with ZEAL, under which COAL will pay an annual lease rental of ₹ 12 crore per aircraft.

In my view, ITC is not available on the aircraft used in COAL's airline business. Consequently, I believe that ITC would also not be available on related services such as repair and maintenance, insurance, and servicing. Further, I am of the opinion that COAL would not be eligible to claim ITC on the lease rentals payable for the 10 aircraft covered under the sale-and-leaseback arrangement.

Could you please confirm whether my understanding of the GST provisions is correct? Based on your guidance, I shall proceed with the preparation and filing of the GST returns.

Regards,

Dev

Dev Patel

Assistant Manager – Accounts

Multiple Choice Questions

- 1.1 Given the provisions of the SEBI Act, 1992 and related rules and regulations, how much penalty would COAL be expected to pay on account of the non-disclosure of material business risks as part of its reporting to the exchanges.
 - (a) A penalty of ₹ 1 crore
 - (b) Not less than ₹ 1 lakh but which may extend to ₹ 1 lakh for each day during which such failure continues subject to a maximum of ₹ 1 crore
 - (c) Not less than ₹ 10 lakh but which may extend to ₹ 1 lakh for each day during which such failure continues subject to a maximum of ₹ 10 crores
 - (d) Not less than ₹ 10 lakh but which may extend to ₹ 1 lakh for each day during which such failure continues subject to a maximum of ₹ 15 crores
- 1.2 As per the SEBI Act, 1992 and SEBI (LODR) Regulations, 2015 which of the following is incorrect?
 - (a) COAL is required to have a Risk Management Committee
 - (b) The Risk Management Committee convened its meetings as per the above provisions
 - (c) The Risk Management Committee is authorized to collect relevant information from employees or seek legal / professional advice relating to any issue at hand

- (d) The Risk Management Committee is correctly constituted as per the above provisions
- 1.3 Which of the following behavioral consequences most likely happened due to the centralized top-down authoritative decision making approach?
- (a) Improved efficiency due to implementation of decisions uniformly across all regions
 - (b) Lack of goal congruence since feedback regarding operational issues was not imbibed to influence the decision making significantly
 - (c) Budgetary control as costs could be managed better through the centralized decision making set-up
 - (d) Improved employee turnover as staff are not responsible for the decisions made by the management leading to lower accountability
- 1.4 Viewed within the framework of customer satisfaction using the Kano Model, assess the statements below:
- Assertion (A):* For the stranded passengers, COAL's strategy to be a low cost airline, offering competitive ticket rates to passengers transitioned from an attribute leading to higher satisfaction to one that became irrelevant due the crisis.
- Reasoning (R):* Reverse attributes like COAL being a price taker worsened the intensity of the crisis.
- (a) Both A and R are true and R is the correct explanation of A
 - (b) Both A and R are true but R is not the correct explanation of A
 - (c) A is true but R is false
 - (d) A is false and R is true

- 1.5 With reference to the events occurring after 31 March 2026, which of the following is the most appropriate conclusion under SA 560, Subsequent Events?
- (a) Since the DGCA made the crew-rest requirements mandatory only in April 2026, the resulting flight cancellations, passenger refunds and regulatory penalty relate entirely to the subsequent period and cannot require any consideration in the financial statements for the year ended 31 March 2026.
 - (b) The fact that COAL was aware of the proposed crew-rest requirements before 31 March 2026 is, by itself, sufficient to conclude that the flight cancellations and regulatory penalty arising in April 2026 are adjusting events for the year ended 31 March 2026.
 - (c) The auditor should determine whether the events occurring after 31 March 2026 provide evidence of conditions that existed at the reporting date. The existence of the staffing shortage, the known regulatory requirements and COAL's continuing non-compliance before 31 March 2026 are relevant to this assessment; however, the accounting treatment cannot be determined merely from the date on which the DGCA requirement became mandatory.
 - (d) Since the events occurred before the date of the auditor's report, the auditor is required to recognise their financial effect in the financial statements regardless of whether the underlying conditions existed at 31 March 2026.

Descriptive Questions

- 1.6 As part of Mr. Sung Wong's team from TTC, ANALYZE COAL's operations using McKinsey 7S framework.
- 1.7 DETERMINE the appropriate accounting treatment for the sale-and-leaseback transaction involving the 10 aircraft with ZEAL in May 2026.
- 1.8 EVALUATE the correctness of Sunita Jain's response to the GST issue raised by Dev Patel.

Case Study 2

Synovia & Synovia Life Sciences Ltd.

Synovia & Synovia Life Sciences Ltd. (S&S) is a renowned pharmaceutical company headquartered in Mumbai, Maharashtra. Founded in 1975 by Mr. Triveni Das, the company has grown steadily over the years into one of the leading pharmaceutical manufacturers, catering to a broad spectrum of healthcare needs through its diverse portfolio of branded and generic medicines. Driven by a strong commitment to quality, innovation, and patient care, S&S has established a significant presence in both domestic and international markets.

To support its growing operations, the company operates three state-of-the-art manufacturing facilities located in Mumbai, Pune, and Aurangabad in Maharashtra. In addition, the S&S Group comprises five subsidiaries across India that manufacture Active Pharmaceutical Ingredients (APIs), ensuring a reliable and integrated supply chain for the company's production requirements. This backward integration has enabled the company to maintain consistent product quality, improve operational efficiency, and reduce dependence on external suppliers.

Over the years, S&S has successfully expanded its footprint beyond India and now exports its pharmaceutical products to several countries across America, Asia, and Europe. The company's continued focus on research, product

development, and regulatory compliance has enabled it to meet stringent international quality standards while strengthening its reputation as a trusted pharmaceutical manufacturer. Guided by its vision of becoming one of the world's most admired pharmaceutical companies and securing a position among the top five pharmaceutical companies globally by 2030, S&S continues to pursue sustainable growth through innovation, operational excellence, and strong corporate values.

During F.Y. 2025–26, however, the company's growth trajectory encountered fresh challenges. Owing to evolving geopolitical developments, several countries imposed substantial tariffs on imported pharmaceutical products, adversely affecting S&S's export business and putting pressure on its profit margins. Consequently, the management initiated a comprehensive review of its business strategy with a dual objective of identifying new international markets while simultaneously improving operational efficiency and optimizing manufacturing costs. In this regard, reference may be made to Annexure 1, containing a news article published in Business Trends regarding the company's proposed expansion into newer markets.

As part of its strategic response, S&S is evaluating expansion opportunities across various African countries. At the same time, the management recognizes the need to improve operational efficiency at its manufacturing facilities in India to sustain profitability. To assist in these initiatives, the company has engaged the services of MCG, a Dubai-based global consulting firm. Ms. Charlotte Peters has been appointed as the lead consultant to advise the company on its expansion strategy and operational transformation initiatives.

One of the first areas identified for review is the inventory management system at S&S's Mumbai manufacturing facility. Since inventory carrying costs have increased significantly in recent years, the management believes that optimizing inventory levels could substantially improve operating efficiency. Accordingly, Charlotte Peters approached Mr. Bipin Patnaik, the Chief Operating Officer (COO), to gain an understanding of the company's existing inventory management practices and evaluate the suitability of introducing a pull-based inventory management system. To facilitate this assessment, Bipin shared a detailed email outlining the various categories of drugs manufactured by the company, their production characteristics, and the

specific inventory management requirements associated with each product category. (Refer Annexure 2)

At present, S&S follows a push system of inventory management across all its manufacturing facilities, whereby production is undertaken in anticipation of future demand and customer requirements are fulfilled from finished goods inventory. Consequently, finished pharmaceutical products are stored under stringent hygienic conditions until dispatch to customers. To facilitate this, the company leases large warehouse facilities. However, steadily increasing lease rentals have significantly increased inventory holding costs, prompting the management to explore alternative inventory management approaches.

As an initial step, Charlotte has requested Bipin to classify the company's products based on four parameters: (i) the ease with which production quantities can be varied to accommodate fluctuations in customer demand, including large bulk orders and smaller orders; (ii) products generating high profit margins where stock-outs could result in significant opportunity losses; (iii) inventory turnover levels; and (iv) the remaining shelf life of medicines from the date of manufacture. Since S&S already has a robust procurement system with its suppliers capable of supporting either push or pull inventory systems, Charlotte has decided to confine her analysis to finished goods at the Mumbai manufacturing facility as a pilot project.

While discussing the proposed transition, Mr. Triveni Das expressed the management's expectations regarding the new inventory management system. He expects the proposed system to (i) achieve economies of scale in production and distribution, (ii) guarantee product availability at all times by minimizing stock-outs, (iii) eliminate the need for extensive planning activities such as demand forecasting and resource planning relating to materials, labour, machinery and capital requirements, and (iv) reduce losses arising from drug obsolescence and expiry.

Parallel to these operational initiatives, S&S is also dealing with certain regulatory and compliance matters. One such compliance matter relates to payments made to MCG for consultancy services rendered from Dubai. The consulting firm periodically raises invoices denominated in US Dollars, and S&S remits the consideration accordingly. Before processing future remittances, Mr. Mohit Dave, the company's Compliance Officer, seeks advice regarding the maximum amount of foreign exchange that may be remitted for

consultancy services without obtaining prior approval from the Reserve Bank of India.

Meanwhile, the statutory audit of S&S's consolidated financial statements for F.Y. 2025–26 is also underway. R&K Associates, Chartered Accountants, have been appointed as the statutory auditors. During the year, S&S expanded its international operations by establishing two subsidiaries in various African countries, in addition to its existing five Indian subsidiaries. Consequently, the consolidated financial statements include the financial statements and financial information of seven subsidiaries, all of which have been audited by other auditors. The subsidiaries collectively represent total assets of ₹ 1,010 crores, total revenues of ₹ 1,254 crores, and net cash outflows of ₹ 30 crores. The financial statements of the two overseas subsidiaries have been prepared in accordance with the generally accepted accounting principles applicable in their respective countries and have been audited under the auditing standards prevailing in those jurisdictions. Based on these circumstances, CA. Ravikant Desai, Engagement Partner of R&K Associates, is evaluating the manner in which reference to the work performed by the component auditors should be made, if at all, in the auditor's report on S&S's consolidated financial statements.

In addition to operational improvements, S&S is also evaluating strategic investment opportunities that could strengthen its long-term competitive advantage. Several years ago, the company acquired a 15% voting interest in Rediwrap India Limited, a leading manufacturer of pharmaceutical packaging materials and one of S&S's principal suppliers. Owing to this strategic investment, S&S is able to procure nearly 90% of Rediwrap's production for packaging its pharmaceutical products. Historically, Rediwrap has maintained a lead time of approximately five days from receipt of orders, although occasional delays arise when it simultaneously fulfils large orders placed by external customers.

Considering the company's proposed shift towards a pull-based inventory management system, Charlotte Peters recommends that S&S acquire Rediwrap India Limited outright. According to her, complete ownership would enable S&S to exercise greater control over the packaging supply chain, improve responsiveness to production requirements, and eliminate the supplier's profit margin through internal transfer pricing arrangements. Although such inter-company profits would stand eliminated upon

consolidation, she believes the acquisition would improve operational coordination and enhance overall supply chain efficiency.

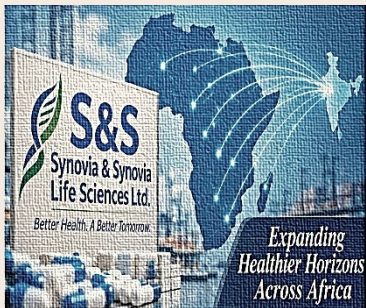
The senior management, however, remains cautious about the proposal. They are concerned that the acquisition would require substantial capital investment at a time when significant financial resources are already committed towards the company's expansion into African markets. Consequently, the management is apprehensive that pursuing the acquisition may lead to excessive leverage and increase the company's overall financial risk.

Annexure 1



Business Trends

Synovia & Synovia Life Sciences Ltd. (S&S) Charts Expansion into African Markets Amid Global Trade Challenges



Mumbai, 20th February 2026 – Synovia & Synovia Life Sciences Ltd. (S&S), one of India's leading pharmaceutical manufacturers, has announced an ambitious expansion strategy aimed at strengthening its global presence by entering several African markets. The move comes at a time when increasing import tariffs imposed by various countries have adversely affected the company's export business and placed pressure on its profit margins.

Recognising the need to diversify its international operations and reduce dependence on traditional export markets, S&S has identified Africa as a key growth destination. With the continent witnessing rising demand for quality healthcare products and several governments implementing investor-friendly economic policies, the company believes that the region offers significant long-term growth opportunities.

As part of its expansion strategy, S&S proposes to establish manufacturing facilities in Nigeria, Ethiopia, Egypt, Morocco, South Africa, and Namibia. The initiative is expected to provide the company with better access to regional markets, lower production costs, improved supply chain efficiencies, and enhanced competitiveness in international markets. Since each of these countries has its own legal, regulatory, taxation, and business environment, the company has initiated detailed feasibility studies and regulatory assessments before commencing operations.

The company has also begun discussions to acquire existing pharmaceutical businesses in select African countries to accelerate market entry and strengthen its local presence. In certain jurisdictions, investments relating to land acquisition and procurement of manufacturing equipment have already commenced, demonstrating the company's commitment to the expansion programme.

According to the management, the African expansion is a key component of S&S's long-term growth strategy and is expected to reduce the adverse impact of global trade barriers while creating new avenues for sustainable growth. The company believes that establishing manufacturing facilities closer to emerging markets will not only improve operational efficiency but also strengthen its ability to respond to changing market dynamics and evolving customer needs.

Annexure 2

Bipin Patnaik/ Chief Operating Officer (COO)

From: "Bipin Patnaik" <bipin@ss.com>

Sent: 3rd August 2026 10:00

To: "Charlotte Peters" <charlottep@mcg.ae>

Cc:

Subject: Details of inventory of different products manufactured at the Mumbai facility

Attachments:

Dear Charlotte,

As requested, my team has compiled the inventory-related information for the various categories of products manufactured at our Mumbai facility. The details are provided below for your review.

Type 1 Drugs: These are specialty medicines that command high profit margins and contribute approximately 33% of the Mumbai facility's overall profitability. Demand for these products is relatively infrequent; however, they can be manufactured in varying quantities without causing any significant disruption to normal production operations. Owing to their short shelf life, these medicines need to be consumed soon after manufacture. Under the current push-based inventory system, they are produced in anticipation of demand. As actual demand is irregular, a considerable quantity remains unsold in inventory and expires before it can be dispatched, resulting in recurring wastage. These products primarily cater to a niche customer segment.

Type 2 Drugs: These consist of common, non-critical medicines with comparatively lower profit margins, contributing around 26% of the Mumbai facility's profitability.

They are in consistently high demand throughout the year from wholesalers, hospitals, and large pharmacy chains. Consequently, these products exhibit high inventory turnover, requiring only limited storage time. Customer orders are received through multiple channels, including emails, telephone calls, and annual supply contracts with pre-agreed delivery schedules. Based on these requirements, production managers receive weekly production plans. These medicines have a long shelf life of up to two years from the date of manufacture.

Type 3 Drugs: These products account for approximately 40% of the Mumbai facility's profitability and are supplied primarily under long-term contracts with regular customers. Demand for these medicines remains consistently high. However, they are manufactured only in fixed production batches, making it impractical to vary production quantities into smaller or larger lots. Similar to Type 2 products, they have high inventory turnover, require minimal storage space, and possess a relatively long shelf life.

Type 4 Drugs: These are low-margin products, contributing approximately 1% of the Mumbai facility's profitability, whose demand is highly volatile and unpredictable. Examples include disaster relief medicines and certain vaccines required during outbreaks of contagious diseases. Manufacturing these products requires significant changes to the production schedule, including substantial setup activities before and after production, thereby interrupting normal manufacturing operations. In addition, these medicines have a very short shelf life, requiring rapid consumption after production. Owing to the uncertainty of demand, the company frequently incurs losses arising from expired inventory in this product category.

I hope the above information will be useful for your assessment of the suitability of introducing a pull-based inventory management system at our Mumbai facility. Please let me know if you require any additional information or clarification.

Regards,

Bipin

Bipin Patnaik

Chief Operating Officer (COO)

Multiple Choice Questions

2.1 After considering the provisions of Foreign Exchange Management Act, 1999 and regulations made thereunder, what would be the permissible amount that you would advise Mohit to answer his query:

- (a) US \$ 50,000,000

- (b) US \$ 10,000,000
 - (c) US \$ 5,000,000
 - (d) US \$ 1,000,000
- 2.2 Giving due consideration to Triveni Das's expectations regarding the proposed pull system of inventory management, which of the following benefits can Charlotte most realistically expect the company to achieve?
- (a) Benefit 1 – Achieve economies of scale in production and distribution.
 - (b) Benefit 2 – Guarantee product availability at all times, thereby reducing the risk of stock-outs.
 - (c) Benefit 3 – Eliminate the need for demand forecasting and resource planning.
 - (d) Benefit 4 – Reduce the risk of drug obsolescence and wastage arising from expired medicines.
- 2.3 Based solely on the information provided in the case study, which of the following categories of drugs should Charlotte identify as the most appropriate candidate for a detailed product portfolio review with a view to considering discontinuation?
- (a) Type 1 drugs
 - (b) Type 2 drugs
 - (c) Type 3 drugs
 - (d) Type 4 drugs
- 2.4 What is the relationship between S&S and Rediwrap India Limited?
- (a) Rediwrap India Limited is a subsidiary of S&S
 - (b) Rediwrap India Limited is an associate of S&S
 - (c) Rediwrap India Limited in joint arrangement with S&S
 - (d) S&S has invested in Rediwrap India Limited with no further relationship as subsidiary, associate or joint arrangement

- 2.5 With reference to the proposal to acquire Rediwrap, which of the following methods of financing would address the senior management's concerns about increased financial risk to CPL due to over-leveraging?
- (a) Issue 12% secured Non-Convertible Debentures (NCDs) to institutional investors redeemable after 5 years.
 - (b) An equity share swap ratio arrangement where CPL issues its own shares to the existing shareholders of Rediwrap India Limited based on fair exchange valuation.
 - (c) Factoring CPL's domestic trade receivables to a financial institution on a non-recourse basis to generate immediate upfront cash.
 - (d) Entering into sale and leaseback arrangements for critical machinery at CPL in order to raise upfront cash.

Descriptive Questions

- 2.6 DISCUSS how CA. Ravikant Desai should make reference, if any, to the audit conducted by the other auditors in the auditor's report on the consolidated financial statements of Synovia & Synovia Life Sciences Ltd. (S&S) for the financial year 2025–26. DRAFT the relevant paragraph of the auditor's report by making suitable assumptions, wherever necessary.
- 2.7 Based on the current manufacturing set-up at the Mumbai facility, critically EVALUATE the suitability of adopting a pull system of inventory management for different categories of drugs and recommend the category for which Charlotte should adopt such a system.
- 2.8 EVALUATE the proposal made by Charlotte Peters for the acquisition of Rediwrap India Limited by Synovia & Synovia Life Sciences Ltd. (S&S). Based on the facts of the case, discuss the advantages and disadvantages of the proposal and conclude whether the acquisition should be undertaken.



SUGGESTED ANSWERS

Answers to Multiple Choice Questions

- 1.1 The correct answer is (b):** Not less than ₹1 lakh but which may extend to ₹ 1 lakh for each day during which such failure continues subject to a maximum of ₹1 crore.

Reason: As per Section 15(A) of the SEBI Act 1992, since COAL did not disclose this specific material business risk in its reporting, it would be subject to a penalty of not less than ₹1 lakh but which may extend to ₹ 1 lakh for each day during which such failure continues subject to a maximum of ₹1 crore.

- 1.2 The correct answer is (d):** The Risk Management Committee is correctly constituted as per the above provisions.

Reason: As per the provisions of the SEBI Act, 1992 and the SEBI (LODR) Regulations 2015, Regulation 21 provides that the Risk Management Committee shall have minimum three members with majority being members of the board of directors, including at least one independent director. COAL has 6 members on the committee, with 5 of them are part of the board of directors. While board of members are in majority, none of them are independent directors. The provisions require at least one independent director on this committee. Therefore, the committee is not constituted as per the above provisions.

- 1.3 The correct answer is (b):** Lack of goal congruence since feedback regarding operational issues was not imbibed to influence the decision making significantly.

Reason: Regional staff and lower- and middle-level management were largely excluded from the decision-making process. Moreover, their feedback on operational and ground-level issues was not adequately considered by the headquarters while making strategic and operational decisions.

This resulted in a lack of goal congruence between the objectives established by the headquarters and the practical realities faced by regional operations. Consequently, employees became less engaged,

operational flexibility was reduced, and the organisation became increasingly fragile in responding to changing circumstances.

These shortcomings ultimately contributed to high employee turnover, operational inefficiencies, and significant revenue losses, thereby outweighing any benefits achieved through tight budgetary control.

1.4 The correct answer is (c): A is true but R is false

Reason: Under normal circumstances, COAL's strategy of offering market competitive ticket prices was an attribute that led to customer satisfaction. More the reduction in ticket price, higher the customer satisfaction. The passengers were getting airline transportation service as consideration for the price of the ticket. However, during the crisis this basic service of transportation of passengers could not be provided by COAL on account of wide spread cancellations. Therefore, the market competitiveness of the ticket price became irrelevant since COAL failed to provide the service in the first place. In the case of such crisis, ticket price becomes less relevant as passengers are more concerned about reaching their destination rather than the market competitiveness of the ticket price.

The Reason is not true. COAL being a price taker is not a reverse attribute (unwanted) for the customer as per the Kano Model. Rather it would be a positive attribute like a performance attribute in a competitive industry like the one in the case study. Also, the crisis unfolded because of over emphasis on efficiency of aircraft utilization, extremely lean workforce to manage operations and mismanagement that ignored government guidelines. COAL's strategy to be a low-cost airline, that is a price taker was not the reason for disruption in flight operations.

1.5 The correct answer is (c): The auditor should determine whether the events occurring after 31 March 2026 provide evidence of conditions that existed at the reporting date. The existence of the staffing shortage, the known regulatory requirements and COAL's continuing non-compliance before 31 March 2026 are relevant to this assessment; however, the accounting treatment cannot be determined merely from the date on which the DGCA requirement became mandatory.

Reason:

- (a) Wrongly assumes post-year-end occurrence = no consideration.
- (b) Wrongly says prior awareness automatically makes the subsequent event adjusting.
- (c) Correctly applies the condition-at-reporting-date test.
- (d) Wrongly assumes all subsequent events before the auditor's report are recognised.

Answers to Descriptive Questions

- 1.6** The company's cost leadership strategy was misaligned with the government's regulatory requirements, ultimately leading to the disruption of operations in April 2026. The McKinsey 7S Framework comprises both hard and soft elements that provide a comprehensive framework for analysing an organisation's effectiveness. These seven elements are interdependent, and any misalignment among them can adversely affect organisational performance. The framework can therefore help the consultants identify the key gaps that contributed to the crisis and recommend appropriate corrective measures.

Elements of the McKinsey 7s Framework

Strategy: COAL follows a cost leadership strategy with a strong emphasis on enabling customers to reach their destinations on time, as reflected in its tagline, "Punctuality, Prioritized, Price Downsized." Since the airline operates in a highly competitive market, ticket prices are largely market-driven, requiring COAL to engage in intense price competition with its rivals. To maximise revenue, the company sought to minimise aircraft turnaround time and maximise aircraft utilisation, thereby increasing flying hours and revenue-generating capacity. This enabled the airline to maintain punctual operations by ensuring that aircraft spent the least possible time on the ground.

Simultaneously, profitability was pursued through aggressive cost reduction measures, particularly by maintaining a lean workforce. Although this strategy improved operational efficiency under normal circumstances, it failed to build resilience into the organisation. The absence of adequate operational buffers and contingency planning ultimately resulted in the operational crisis of April 2026.

Structure: COAL followed a highly centralised organisational structure in which strategic and tactical decisions were made at the headquarters. The objective was to ensure uniformity in policy implementation across the organisation, while lower-level management was primarily responsible for execution. Operational feedback from regional offices had little influence on decision-making.

Such an autocratic and rigid organisational structure reduced the agility required to respond effectively to business disruptions. Since regional management was not empowered to take timely decisions, the organisation's ability to contain the crisis was significantly restricted. COAL should decentralise selected tactical and operational decisions, particularly those relating to day-to-day operations. Cross-functional teams, cross-location collaboration, and participative management would enhance organisational agility and improve responsiveness during disruptions.

Systems: COAL's hub-and-spoke operating model created a highly interconnected flight network, whereby disruptions in one sector rapidly affected multiple connecting flights. However, the company's human resource systems, particularly crew and pilot rostering, were not aligned with the regulatory expectations. The existing rostering system provided only five hours of rest compared with the recommended minimum of eight hours.

Despite repeated indications that these guidelines would become mandatory, management chose not to strengthen its workforce due to concerns over increased operating costs. Once the regulations became mandatory in April 2026, the existing systems failed to adapt, leading to widespread flight cancellations, operational disruptions, regulatory penalties, and substantial financial losses. This demonstrates that systems designed solely to maximise efficiency and minimise costs may ultimately undermine long-term profitability.

Shared Values: COAL's shared values strongly emphasised customer satisfaction through punctuality and maximising shareholder returns. However, these objectives were pursued at the expense of employee welfare and operational resilience. The company's values were also

inconsistent with the government's increasing emphasis on aviation safety.

Ironically, the pursuit of punctuality exposed passengers to greater operational risks by placing excessive pressure on crew members. Had customers been aware that safety standards were being compromised, they may have preferred not to travel with the airline. COAL should realign its shared values by fostering a culture that prioritises safety, employee well-being, regulatory compliance, and long-term sustainability alongside customer satisfaction and profitability. Building trust among employees is essential before rebuilding confidence among customers and other external stakeholders.

Style: COAL adopted an autocratic and bureaucratic leadership style that largely ignored employee feedback and regulatory concerns. Such a leadership approach created a rigid organisational culture with limited flexibility and employee involvement.

Following the crisis, the organisation should adopt a more participative, inclusive, and empowering leadership style that encourages employee engagement, innovation, collaboration, and open communication. Such a leadership approach will improve employee morale and strengthen organisational resilience.

Staff: Managing nearly 45% of India's domestic aviation market with a lean workforce, combined with a stressful work environment, limited incentives, and inadequate opportunities for learning and career development, resulted in high employee turnover. This should have served as an early warning indicator of underlying organisational issues.

Following the regulatory changes, COAL must strengthen its workforce to ensure seamless operations. Employees are the driving force in customer-facing, high-velocity industries such as aviation. Accordingly, improving employee morale through competitive compensation, incentives, career development opportunities, and a supportive work environment will contribute significantly to sustainable business growth.

Skills: Management relied primarily on on-the-job learning rather than structured employee training and development. This reflected the company's continued emphasis on short-term cost reduction.

Insufficient investment in employee development can create skill gaps, increase operational inefficiencies, and adversely affect service quality and safety. Moreover, inadequate training opportunities contribute to higher employee turnover, thereby undermining long-term business sustainability and profitability. Continuous investment in employee capabilities is therefore essential for maintaining operational excellence.

Overall

An analysis of COAL using the McKinsey 7S Framework reveals significant misalignment between the company's strategy, structure, systems, and shared values and the external business environment. The organisation's excessive focus on cost leadership compromised regulatory compliance, employee welfare, and operational resilience.

The company should redefine its strategy by placing equal emphasis on passenger safety, regulatory compliance, employee well-being, and sustainable growth. Its operational systems, particularly crew rostering, should proactively comply with evolving regulatory expectations rather than merely meeting minimum legal requirements. Instead of pursuing excessively lean operations, COAL should build appropriate operational buffers to enhance resilience against unforeseen disruptions.

The crisis clearly demonstrated the paradox of attempting to achieve exceptional punctuality through an overworked and understaffed workforce while compromising safety standards. Such an approach was unsustainable and ultimately resulted in severe operational, financial, and reputational damage. The disruption in April 2026 significantly eroded customer confidence, shareholder value, and brand reputation.

The recovery strategy should therefore focus on decentralising decision-making, empowering regional management, strengthening regulatory compliance, building operational resilience, investing in human capital, and fostering an organisational culture that promotes collaboration, innovation, safety, and employee engagement. Transparent communication with regulators, investors, customers, and the public will also be essential to rebuilding trust and restoring COAL's market leadership.

- 1.7** The sale of aircraft between COAL and ZEAL is not at fair value. Since the sale price is higher than the fair value, there is an additional financing being provided by ZEAL to COAL through this sale and lease back transaction. The sale price of each aircraft is ₹ 100 crores, while the fair value of each aircraft is only ₹ 75 crores. Therefore, COAL is receiving an additional financing from ZEAL to the tune of ₹ 25 crores. Therefore, the overall sale value of 10 aircraft is ₹ 1,000 crores, the fair value of 10 aircraft is ₹ 750 crores. This provides COAL with an additional ₹ 250 crores funding from ZEAL as part of this sale and lease back transaction.

The annual lease payment for the aircraft of ₹ 12 crore per aircraft. The lease period is for 9 years, with the implicit rate being 10% p.a. The PVIFA for the lease payments would be 5.7590. We need to find out how much of this payment relates to the lease and how much to the additional financing being provided. The calculations below would help to understand this bifurcation:

Table 1: Bifurcation of lease payments

Particulars	₹ crores	₹ crores
	Per aircraft	10 aircraft
Present value of annual lease payments (lease payment of ₹ 12 crores per year per aircraft × PVIFA of 5.759)	69.1080	691.08
Additional financing provided by ZEAL	25	250
Annual lease payments	12	120
Annual lease payments relating to additional financing (Additional financing/PV of lease payments) × (annual lease payments) = (25 crores / 69.1080 crores) × (12 crores for each aircraft)	4.3410	43.410
Annual lease payments relating to leasing arrangement	7.6590	76.590

In summary, out of the total annual lease payments of ₹ 120 crores for 10 aircraft, ₹ 43.410 crores relates to additional financing received from ZEAL and the balance ₹ 76.590 crores relates to leasing arrangement.

At the commencement date in May 2026, COAL has to measure the Right to Use (ROU) asset arising from leaseback of the aircraft at the proportion of the carrying amount of the aircraft that relates to the right-of-use retained by itself.

Table 2: ROU asset retained by COA

Particulars	₹ crores	₹ crores
	Per aircraft	10 aircraft
Carrying cost of the aircraft	60	600
Fair value of aircraft	75	750
Discounted lease payments Annual lease payments relating to lease payments from Table 1 above × PVIFA = ₹ 7.6590 crores × 5.759 = ₹ 44.108 crores	44.1080	441.08
ROU asset retained by COA (Carrying cost of the aircraft/ fair value of aircraft) × Discounted lease payments (₹ 60 crores/ ₹ 75 crores) × 44.1080 per aircraft	35.2864	352.864

Therefore, the ROU asset retained by COAL is ₹ 35.2864 crores per aircraft, which totally for 10 aircraft amounts to ₹ 352.864 crores. This Right-of-use (ROU) represents the value of rights it has retained through the lease. The original carrying amount of the amount of the aircraft that is ₹ 60 crores per aircraft is derecognized, instead the ROU asset of ₹ 35.2864 crores per aircraft is recognized as an asset in the Balance Sheet.

Also, each aircraft is being sold for a gain of ₹ 15 crores, comparing the fair value and carrying value of each aircraft. This also needs to be bifurcated into that which relates to ROU retained by COAL and that which relates to rights transferred to ZEAL.

Table 3: Bifurcation of gain on sale of aircraft

Particulars	₹ crores	₹ crores
	Per aircraft	10 aircraft
Fair value of aircraft	75	750
Carrying cost of the aircraft	60	600
Discounted lease payments from Table 2	44.1080	441.08
Gain on sale of aircraft	15	150
Relating to ROU of COA (Discounted lease payments/ Fair value) × Gain on sale of aircraft (44.108/75) × 15 crores per aircraft	8.8216	88.216
Relating to rights transferred to ZEAL	6.1784	61.784

The gain relating to the rights transferred to ZEAL that is ₹ 6.1784 crores per aircraft, amounting to ₹ 61.784 crores for 10 aircraft will be recognized in the income statement for the year.

Therefore, at the commencement of the lease in May 2026, COAL will account for the transaction as follows:

Particulars	Debit (₹)	Credit (₹)
Cash Dr.	1,000 crores	
Right-of-use asset Dr.	352.864 crores	
To Cost of aircraft		600 crores
To Lease Liability		691.080 crores
To Gain on rights transferred		61.784 crores

- 1.8** As per Section 17(5)(i) broadly ITC is blocked on motor vehicles, vessels and aircrafts used for passenger transportation with certain exceptions. Further ITC is also blocked on certain services relating to motor vehicles, vessels and aircrafts namely, general insurance, servicing and repair and maintenance. The basic principle here is that motor vehicles, aircrafts and vessels on which ITC is blocked, the ITC on services of insurance,

servicing and repair and maintenance pertaining to such motor vehicles, vessels and aircrafts is also blocked.

ITC on vessels and aircrafts used for any purpose other than the eligible purpose is not allowed.

Below are the eligible purposes for vessels and aircrafts:

- Making further taxable supply of such vessels or aircraft
- Making taxable supply of transportation of passengers
- Making taxable supply of imparting training on navigating such vessels
- Making taxable supply of imparting training on flying such aircrafts
- Transportation of goods

In such cases, when used for eligible purposes, ITC on vessels and aircrafts can be availed. Similarly, when ITC on such vessels and aircrafts is allowed, the ITC on leasing, renting or hiring of motor vehicles, vessels or aircrafts is also allowed.

COAL is using its aircrafts to make taxable supply of transportation of passengers. This is the core business of the company that is a taxable supply as per the GST law. As per the discussion in foregoing paras, it is therefore an eligible purpose for which ITC is allowed to be taken. It also follows that the ITC on the lease rental of such aircrafts is also allowed.

Therefore, Sunita Jain can advise Dev Patel that ITC is allowed both on aircrafts used in COAL's business, services of general insurance, servicing, repair and maintenance, of said aircrafts as well as on the lease rental of these aircrafts, covered under the sale and lease back arrangement.

2.1 The correct answer is (d): US \$ 1,000,000

Reason: The permissible amount of US Dollars that can be remitted to MCG for the consulting services received from Dubai without prior approval of Reserve Bank of India would be US \$ 1,000,000.

2.2 The correct answer is (d): Benefit 4 – Reduce the risk of drug obsolescence and wastage arising from expired medicines

Reason: A **pull system** of inventory management is driven by actual customer demand rather than demand forecasts. Production is initiated only after receiving customer orders, thereby minimizing the holding of finished goods inventory. This significantly reduces the likelihood of products becoming obsolete or expiring while in storage.

In the present case, S&S manufactures certain categories of drugs, particularly **Type 1** and **Type 4**, which have a **very short shelf life**. Under the existing push system, these drugs are produced in anticipation of demand, resulting in recurring losses due to expired inventory. By adopting a pull system for suitable products, production can be aligned with actual customer orders, thereby substantially reducing wastage arising from drug expiry.

The other stated benefits cannot be realistically achieved through the adoption of a pull system:

- **Benefit 1 (Achieve economies of scale in production and distribution)** is generally associated with a **push system**, where large production batches reduce per-unit production and distribution costs. A pull system typically involves smaller, demand-driven production batches.
- **Benefit 2 (Guarantee product availability at all times, reducing the risk of stock-outs)** is also more characteristic of a push system, where inventory is maintained in anticipation of demand. Under a pull system, there is a greater possibility of stock-outs if demand suddenly exceeds production capacity.
- **Benefit 3 (Do away with planning and demand forecasting)** is incorrect because a pull system does **not eliminate planning**. Although reliance on demand forecasting may reduce, planning relating to capacity, procurement, labour, production scheduling, and other resources continues to remain essential.

Accordingly, **Benefit 4, reducing the risk of drug obsolescence and wastage due to expired medicines, is the benefit that Charlotte can most realistically recommend to the management.**

2.3 The correct answer is (d): Type 4 drugs

Reason: Based solely on the information provided in the case study, Type 4 drugs should be identified as the most appropriate candidate for a detailed product portfolio review. These drugs contribute only 1% of the Mumbai manufacturing facility's bottom line, have low profit margins, highly volatile and unpredictable demand, require significant production set-up costs, disrupt normal production schedules, and have a short shelf life, resulting in frequent wastage due to expired inventory.

Although these factors make Type 4 drugs the most suitable candidate for a portfolio review, they do not, by themselves, justify discontinuation. Before arriving at a final decision, the management should also evaluate strategic considerations such as customer requirements, regulatory obligations, contractual commitments, and the products' long-term contribution to the company's overall business objectives.

2.4 The correct answer is (b): Rediwrap India Limited is an associate of S&S

Reason: Almost 90% of Rediwrap's output is procured by S&S. Therefore, it is dependent on S&S for continuation of its business. Hence, even though S&S holds only 15% of the total voting power, it has significant influence over Rediwrap Limited. Therefore, it is an associate of S&S.

2.5 The correct answer is (b): An equity share swap ratio arrangement where CPL issues its own shares to the existing shareholders of Rediwrap India Limited based on fair exchange valuation.

Reason: This allows the management to acquire Rediwrap India Limited without any cash outflow or additional debt burden. This satisfies the management's objective of neither increasing the financial or operational risk of CPL. It should be noted that this move will dilute CPL's existing shareholder's percentage ownership, which should be assessed further to align with the company's overall strategic objectives.

2.6 In cases where the parent auditor is not the auditor of all the components included in the consolidated financial statements, SA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the

Independent Auditor's Report, provides that if the auditor considers it necessary to refer to the audit conducted by the other auditors, the auditor's report on the consolidated financial statements should clearly disclose the magnitude of the portion of the consolidated financial statements audited by those auditors. Such disclosure may be made by stating the aggregate rupee amounts or percentages of the total assets, total revenues and cash flows of the components that were not audited by the parent auditor. This disclosure should be included in an Other Matter paragraph in the Independent Auditor's Report.

Accordingly, in the present case, CA. Ravikant Desai should disclose, in the audit report on the consolidated financial statements of Synovia & Synovia Life Sciences Ltd. (S&S) for the financial year 2025–26, the aggregate amounts of total assets, total revenues and net cash outflows relating to the seven subsidiaries whose financial statements were audited by other auditors. A suitable Other Matter paragraph is as follows:

Other Matter

We did not audit the financial statements and other financial information of seven subsidiaries included in the consolidated financial statements, whose financial statements reflect total assets of ₹ 1,010 crores as at 31 March 2026, total revenues of ₹ 1,254 crores, and net cash outflows of ₹30 crores for the year then ended. These financial statements and other financial information have been audited by other auditors, whose reports have been furnished to us by the management of Synovia & Synovia Life Sciences Ltd., the Holding Company.

Our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, and our report in terms of Section 143(3) of the Companies Act, 2013, in so far as it relates to the aforesaid subsidiaries, is based solely on the reports of such other auditors.

Two of these subsidiaries are located outside India, and their financial statements and other financial information have been prepared in accordance with the accounting principles generally accepted in their respective countries and audited by other auditors in accordance with the

generally accepted auditing standards applicable in those countries. The Holding Company's management has converted the financial statements of these subsidiaries from the accounting principles generally accepted in their respective countries to the accounting principles generally accepted in India.

We have audited the conversion adjustments made by the Holding Company's management. Our opinion, in so far as it relates to the balances and affairs of these subsidiaries, is based on the reports of the other auditors and the conversion adjustments prepared by the management of the Holding Company and audited by us.

Our opinion on the consolidated financial statements and our report on Other Legal and Regulatory Requirements is not modified with respect to our reliance on the work done and reports of the other auditors and the financial statements and other financial information certified by the Management.

- 2.7** Based on the facts of the case, Charlotte should recommend the adoption of a pull system of inventory management only for Type 1 drugs.

Type 1 drugs are specialty medicines with high profit margins that contribute significantly to the profitability of the Mumbai manufacturing facility. Although the demand for these medicines is infrequent, they can be manufactured in varying quantities without causing any significant disruption to normal production. Further, these medicines have a very short shelf life and are currently produced in anticipation of demand under the push system, resulting in frequent wastage due to expiry while lying in storage. Since a pull system triggers production only in response to actual customer orders, it would substantially reduce inventory holding, minimize wastage arising from expired drugs, and improve overall profitability.

On the other hand, **Type 2 drugs** are in continuous demand throughout the year, have a high inventory turnover, and possess a long shelf life of up to two years. They are therefore more suitable for production under the existing push system, which ensures uninterrupted product availability to wholesalers, hospitals, and pharmacy chains.

Similarly, **Type 3 drugs** are manufactured only in fixed production batches, making it impractical to vary production quantities according to customer orders. Despite their high demand and inventory turnover, the lack of production flexibility makes them unsuitable for a pull system.

Although **Type 4 drugs** also have a short shelf life, their demand is highly volatile and unpredictable, and their production requires significant setup costs and disruption to normal manufacturing operations. Consequently, adopting a pure pull system for these products may not be feasible, particularly where immediate availability is essential during emergencies such as disease outbreaks or disaster relief situations.

Accordingly, Type 1 drugs are the most suitable candidates for implementing a pull system of inventory management at the Mumbai manufacturing facility.

- 2.8** Charlotte Peters has proposed that Synovia & Synovia Life Sciences Ltd. (S&S) acquire Rediwrap India Limited as a wholly owned subsidiary to strengthen its supply chain and support the proposed implementation of a pull-based inventory management system. The proposal should be evaluated by considering both its strategic benefits and the associated risks.

Advantages of the Acquisition

Greater supply chain control and responsiveness - Rediwrap currently supplies nearly **90%** of its production to S&S, with an average lead time of **five days** from receipt of an order. However, occasional delays arise when Rediwrap prioritizes large orders from external customers. If Rediwrap becomes a wholly owned subsidiary, S&S can align production schedules with its own manufacturing requirements, thereby ensuring uninterrupted availability of packaging materials. This would improve supply chain responsiveness, particularly if the company adopts a pull-based inventory management system.

Cost optimization - At present, the purchase price paid by S&S includes Rediwrap's profit margin, increasing the procurement cost of packaging materials. Following the acquisition, such external profit margins would effectively be eliminated at the group level. Although Rediwrap may

continue to charge internal transfer prices for operational purposes, inter-company profits would be eliminated on consolidation, thereby reducing the overall cost to the group and improving operational efficiency.

Improved quality control and operational integration - Packaging plays a critical role in preserving the quality, safety, and effectiveness of pharmaceutical products. Complete ownership would enable S&S to exercise greater control over Rediwrap's manufacturing processes, quality standards, production planning, and delivery schedules. Better coordination between the two entities can strengthen quality assurance and improve overall operational integration.

Disadvantages / Risks of the Acquisition

Risk of operational inefficiencies- At present, Rediwrap competes in the open market and must continuously control costs and improve efficiency to remain competitive. Once it becomes a captive subsidiary serving only S&S, competitive pressures may reduce, increasing the risk of managerial complacency and operational inefficiencies. Any increase in Rediwrap's cost structure would ultimately be borne by S&S, potentially increasing the cost of its finished pharmaceutical products. Accordingly, appropriate performance measurement systems and benchmarking mechanisms should be implemented to ensure that Rediwrap continues to operate efficiently despite becoming an internal supplier.

Financial and capital allocation risks- The case indicates that S&S is already investing substantial financial resources towards its strategic expansion into African markets through acquisitions and investments in manufacturing facilities. Acquiring Rediwrap would require additional capital and may divert funds from these high-priority strategic initiatives. If financed through borrowings, the acquisition could increase the company's leverage and financial risk at a time when export profitability is already under pressure due to higher international trade tariffs. Therefore, the acquisition should be undertaken only after carefully evaluating its funding structure, expected returns, and impact on the company's capital structure and liquidity.

Conclusion

The proposed acquisition offers significant strategic advantages in terms of supply chain integration, improved responsiveness, cost optimization, and enhanced quality control, particularly if S&S proceeds with the implementation of a pull-based inventory management system. However, these benefits must be weighed against the potential risks of reduced operating efficiency at Rediwrap and the additional financial commitment required when the company is simultaneously pursuing its expansion into African markets.

Accordingly, the acquisition should be undertaken **only if** a detailed financial and strategic appraisal demonstrates that the expected long-term benefits outweigh the associated costs and risks. Further, S&S should ensure that Rediwrap continues to operate with market-driven efficiency through appropriate performance management systems while maintaining a prudent capital structure to avoid excessive financial leverage.