



PAPER – 6: FINANCIAL MANAGEMENT AND STRATEGIC MANAGEMENT

6A: FINANCIAL MANAGEMENT



QUESTIONS

PART I - Case Scenario based MCQs

Cost of Capital, Investment Decisions, Operating and Financial Leverage

1. Solaris Components Ltd., a diversified auto-parts manufacturer, is evaluating entry into a new line of business: electric vehicle (EV) charging modules. The new business is riskier than the firm's existing operations. The CFO has asked the analyst to evaluate the project using a project-specific discount rate rather than the firm's own WACC. All amounts are in ₹ crore.

Company and market data

Item	Data
Existing debt (market value) / Equity (market value)	₹ 400 crore/₹ 600 crore
Pre-tax cost of debt (applicable to all debt)	10.0%
Solaris equity beta (existing business)	1.20
Risk-free rate / Equity market risk premium	7.0% / 6.0%
Solaris current EBIT (existing business)	₹150 crore
Corporate tax rate	30%

Based on listed EV charging companies, the analyst estimates the equity beta of the EV charging project at 1.50. This beta already reflects the project's business and financial risk, so no further adjustment is required. The project will be financed at a target capital structure of 40% debt and 60% equity (market values), which is also the firm's existing capital structure.

Project data

Machinery cost ₹ 200 crore, paid at time 0. Additional working capital of ₹ 20 crore is needed at time 0 and is fully recovered at the end of year 4.

Life 4 years. Depreciation is straight-line to a nil book value. The machinery can be sold at the end of year 4 for ₹ 20 crore (taxable gain at 30%).

Year-2 sales are ₹ 250 crore, variable costs are 60% of sales and fixed cash operating costs are ₹ 20 crore, giving the year-2 EBITDA below. EBITDA for the four years:

Year	1	2	3	4
EBITDA (₹ crore)	50	80	90	70

PVIF (three decimals):

Discount rate	Year 1	Year 2	Year 3	Year 4
12.40%	0.890	0.792	0.704	0.627
11.32%	0.898	0.807	0.725	0.651

- i. The existing WACC of Solaris is closest to:
 - (A) 12.52%
 - (B) 11.32%
 - (C) 14.20%
 - (D) 9.88%
- ii. The cost of equity appropriate for the EV charging project is closest to:
 - (A) 9.0%

- (B) 14.2%
 - (C) 19.5%
 - (D) 16.0%
- iii. The project-specific WACC is closest to:
- (A) 12.40%
 - (B) 11.32%
 - (C) 13.60%
 - (D) 14.20%
- iv. The total cash inflow in year 4, including terminal items, is:
- (A) ₹ 64 crore
 - (B) ₹ 84 crore
 - (C) ₹ 98 crore
 - (D) ₹ 104 crore
- v. Using the project-specific WACC, the NPV of the project is closest to:
- (A) +₹ 2.55 crore
 - (B) -₹ 2.91 crore
 - (C) -₹ 24.23 crore
 - (D) +₹ 0.85 crore
- vi. Which of the following conclusions is most appropriate?
- (A) Accept the project, because the NPV at the firm's own WACC is positive and project-specific risk can be diversified away within the firm.
 - (B) Reject at the project-specific rate, but accept at the firm's WACC, because the firm's WACC reflects diversification benefits across its businesses.
 - (C) Reject the project, because both discount rates give a negative NPV.

- (D) Reject the project. Its NPV at the project-specific rate is negative, whereas the firm's WACC would show a positive NPV and wrongly accept a project with higher business risk.
- vii. In year 2, using EBIT after depreciation, the degree of operating leverage and the effect of a 9% fall in year-2 sales on EBIT are closest to:
- (A) DOL 3.33; EBIT falls by 30%
- (B) DOL 1.25; EBIT falls by 11.3%
- (C) DOL 8.33; EBIT falls by 75%
- (D) DOL 0.30; EBIT falls by 2.7%
- viii. For the existing business of Solaris, the degree of financial leverage and the effect of a 10% fall in EBIT on EPS are closest to:
- (A) DFL 1.15; EPS falls by 11.5%
- (B) DFL 1.95; EPS falls by 19.5%
- (C) DFL 1.36; EPS falls by 13.6%
- (D) DFL 3.75; EPS falls by 37.5%

Leverage

2. A company has the following details:

Sales	₹ 50,00,000
Variable Costs	₹ 30,00,000
Fixed Operating Costs	₹ 10,00,000
Interest Expense	₹ 5,00,000

If sales increase by 10%, what will be the percentage increase in Earnings Per Share (EPS)?

- (A) 10%
- (B) 20%
- (C) 30%
- (D) 40%

Dividend

3. XYZ Ltd. has the following data:
- Earnings per share (EPS): ₹ 10
- Return on equity (ROE): 18%
- Capitalisation rate (K_e): 15%
- Dividend payout ratio: 60%
- Based on Gordon's Model, what would be the likely effect on the market price per share if the company increases its dividend payout ratio to 80%, assuming all other factors remain constant?
- (A) Market price per share will increase
- (B) Market price per share will decrease
- (C) Market price per share will remain unchanged
- (D) Cannot be determined due to insufficient information

Division B: Descriptive Questions
Ratio Analysis

4. The following ratios relate to Vihaan Ltd. for the year ended 31 March 2026. Net sales (all on credit) are ₹ 30,00,000 and the company uses a 360-day year.

Ratio	Value
Total asset turnover (Sales / Total assets)	1.2 times
Fixed asset turnover (Sales / Fixed assets)	2.0 times
Current ratio	2.5 : 1
Average collection period (on credit sales)	60 days
Inventory turnover (COGS / Inventory)	6 times
Gross profit margin	30%
Long-term debt / Net worth	0.40 : 1
EBIT margin	10%
Interest rate on long-term debt / Tax rate	12% / 30%

The equity share capital is ₹ 10,00,000 and the balance of net worth consists of reserves. There are no other liabilities besides long-term debt and current liabilities, and the only current assets are cash, debtors and inventory.

Required:

- (a) Prepare the balance sheet of the company.
- (b) Prepare the income statement up to profit after tax.
- (c) Compute ROE and ROCE.

Cost of Capital

5. Quantum Ltd. follows a target capital structure of 40% debt, 10% preference shares and 50% equity. The following information is available:

- (i) Debt: the first ₹ 50 lakh can be raised at 9% pre-tax; any further debt will cost 11% pre-tax.
- (ii) Preference shares: 10% preference shares of ₹ 100 each, which will net the company ₹ 95 per share after flotation costs.
- (iii) Equity: current market price ₹ 60; expected dividend next year $D_1 = ₹ 4.50$; growth 8% p.a. Retained earnings of ₹ 60 lakh are available. New equity shares involve a flotation cost of 10% of the issue price.
- (iv) Tax rate is 30%. The following independent projects are available: A (₹ 60 lakh, IRR 14%), B (₹ 50 lakh, IRR 13%), C (₹ 40 lakh, IRR 12.5%), D (₹ 30 lakh, IRR 11%).

Required:

- (a) Compute the specific cost of each source.
- (b) Compute the break points.
- (c) Prepare the marginal cost of capital (MCC) schedule.
- (d) Determine which projects should be accepted.

Capital Structure

6. Zenith Ltd. has the following capital structure: 10 lakh equity shares of ₹ 10 each (₹ 100 lakh) and 10% debentures of ₹ 40 lakh. The company needs ₹ 50 lakh for expansion and has two alternatives: Plan A: issue 2 lakh equity shares at ₹ 25 each; Plan B: issue 12% debentures of ₹ 50 lakh. The tax rate is 30%. Expected EBIT after expansion is ₹ 30 lakh.

Required:

- (a) Compute EPS under each plan at the expected EBIT.
- (b) Compute the EBIT–EPS indifference point.
- (c) Compute the financial break-even point under each plan.
- (d) Advise the company on the choice of plan.

Leverage

7. The following information relates to Gamma Ltd.: Sales 25,000 units at ₹ 40 per unit; variable cost ₹ 24 per unit; fixed operating cost ₹ 1,60,000; 10% debt of ₹ 4,00,000; tax rate 30%; 1,00,000 equity shares of ₹ 10 each.

Required:

- (a) Prepare the income statement up to EPS.
- (b) Compute the degree of operating leverage (DOL), financial leverage (DFL) and combined leverage (DCL).
- (c) If sales increase by 20%, compute the new EPS and verify the result using DCL. (d) Compute the break-even point in units and the margin of safety.

Dividend Decision

8. The following information relates to Lotus Ltd.: earnings per share (EPS) ₹ 10; cost of equity capital (K_e) 12%; return on investment (r) 15%.

Required:

- (a) Using Walter's model, compute the market price per share at dividend payout ratios of 0%, 40% and 100%.

- (b) Identify the optimum payout ratio and explain.
- (c) Using Gordon's model, compute the price at retention ratios of 0%, 40% and 60%. (d) If r were 10% instead of 15%, what would be the optimum payout under Walter's model?

Capital Budgeting

9. Sterling Ltd. is considering replacing an existing machine. Details are as follows: (₹ lakh)

Particulars	Old machine	New machine
Book value (WDV) / Cost	6	25
Remaining / expected life (years)	5	5
Current market (resale) value	3	—
Scrap value at end of year 5	Nil	5
Annual depreciation for tax (straight-line)	1.2	4.0

The new machine will save ₹ 8 lakh a year in pre-tax operating costs. Tax rate is 30% and the loss on sale of the old machine can be set off against other income. Cost of capital is 12%. PVIF at 12% for years 1–5: 0.893, 0.797, 0.712, 0.636, 0.567 (cumulative PVIF = 3.605).

Required:

- (a) Compute the net initial outlay.
- (b) Compute the incremental annual cash flows and the NPV of replacement.
- (c) Compute the minimum pre-tax annual saving at which the company would be indifferent, and the margin of safety on the saving.
- (d) Advise the management

Working Capital

10. TMT Limited is commencing a new project for manufacture of electric toys. The following cost information has been ascertained for annual production of 60,000 units at full capacity:

		Amount per unit (₹)
Raw materials		20
Direct labour		15
Manufacturing overheads:		
	₹	
Variable	15	
Fixed	<u>10</u>	25
Selling and Distribution overheads:		
	₹	
Variable	3	
Fixed	<u>1</u>	<u>4</u>
Total cost		64
Profit		<u>16</u>
Selling price		<u>80</u>

In the first year of operations expected production and sales are 40,000 units and 35,000 units respectively. To assess the need of working capital, the following additional information is available:

- Stock of Raw materials 3 months consumption.
- Credit allowable for debtors 1½ months.
- Credit allowable by creditors 4 months.
- Lag in payment of wages 1 month.
- Lag in payment of overheads ½ month.
- Cash in hand and Bank is expected to be ₹ 60,000.
- Provision for contingencies is required @ 10% of working capital requirement including that provision.

You are required to PREPARE a projected statement of working capital requirement for the first year of operations. Debtors are taken at cost.

11. (a) Pioneer Ltd. is considering relaxing its credit policy. Present annual credit sales are ₹ 2,400 lakh with an average collection period of 30 days and bad debts of 1% of sales. Under the proposed policy, credit sales would rise to ₹ 3,000 lakh, average collection period would increase to 60 days and bad debts would be 2.5% of sales. Variable costs are 70% of sales. The required pre-tax return on investment in receivables is 15%. Assume a 365-day year. Advise whether the proposal should be adopted.
- (b) A supplier offers terms of 2/10 net 45. Compute the annualised cost of forgoing the cash discount. Should the buyer take the discount if it can borrow from a bank at 14%?
- (c) Uma Ltd. needs ₹ 12,00,000 cash a year, spread evenly. Cost per conversion of securities into cash is ₹ 3,000 and the interest rate on marketable securities is 8% p.a. Using the Baumol model, find the optimum conversion size, number of conversions and total cost.

Miscellaneous

12. (a) DISCUSS the Inter relationship between investment, financing and dividend decisions.
- (b) What is debt securitisation? EXPLAIN the basics of debt securitisation process.
- (c) EXPLAIN the concept of discounted payback period.



SUGGESTED ANSWERS/HINTS

Division A: Case Scenario

1. i. **(B) (11.32%).** Cost of equity (CAPM) = $7\% + 1.20 \times 6\% = 14.2\%$.
After-tax cost of debt = $10\% \times (1 - 0.30) = 7\%$. Weights: debt 400/1,000 = 40%, equity 60%. WACC = $0.40 \times 7\% + 0.60 \times 14.2\% = 2.80\% + 8.52\% = 11.32\%$.

- ii. **(D) (16.0%).** The project's own beta must be used, not the firm's 1.20, because the new business has different risk. $K_e = R_f + \beta \times ERP = 7\% + 1.50 \times 6\% = 7\% + 9\% = 16.0\%$.
- iii. **(A) (12.40%).** After-tax $K_d = 7\%$. $WACC = 0.40 \times 7\% + 0.60 \times 16.0\% = 2.80\% + 9.60\% = 12.40\%$.
- iv. **(C) (₹ 98 crore).** Depreciation = $200 / 4 = ₹ 50$ crore. Year 4: EBITDA 70 – dep 50 = PBT 20; tax 6; PAT 14; CFAT = $14 + 50 = ₹ 64$ crore. The terminal items are working capital recovered ₹ 20 crore and the after-tax salvage value. Salvage value of ₹ 20 crore compared with a nil book value gives a taxable gain, so after-tax salvage = $20 \times (1 - 0.30) = ₹ 14$ crore. Total = $64 + 20 + 14 = ₹ 98$ crore.
- v. **(B) (–₹ 2.91 crore).** Initial outlay = $200 + 20 = ₹ 220$ crore.

Year	EBITDA	Dep.	PBT	Tax 30%	CFAT	Terminal	Total	PV @12.40%
1	50	50	0	0	50	–	50	44.50
2	80	50	30	9	71	–	71	56.23
3	90	50	40	12	78	–	78	54.91
4	70	50	20	6	64	34	98	61.45
Total PV of inflows								217.09
NPV (less ₹ 220 crore)								-2.91

NPV = **-2.91**, so the project destroys value at its risk-adjusted rate.

- vi. **(D)** At the firm's WACC of 11.32%, $NPV = 222.55 - 220 = + 2.55$ crore, which would lead to acceptance. At the project-specific rate of 12.40%, NPV is -2.91 crore, so the project should be rejected. The EV business has an equity beta of 1.50 against 1.20 for Solaris's existing business, so it is riskier and deserves a higher hurdle rate.
- vii. **(A)** Year-2 contribution = $250 \times 40\% = ₹ 100$ crore. EBITDA = $100 - 20 = 80$; EBIT = $80 - 50 = ₹ 30$ crore. $DOL = Contribution /$

EBIT = $100 / 30 = 3.33$. A 9% fall in sales lowers EBIT by $3.33 \times 9\% = 30\%$, to ₹ 21 crore.

- viii. (C) Interest on existing debt = $400 \times 10\% = ₹ 40$ crore. DFL = $EBIT / (EBIT - \text{Interest}) = 150 / (150 - 40) = 150 / 110 = 1.36$. A 10% fall in EBIT lowers EPS by $1.36 \times 10\% = 13.6\%$.

2. (D) 40%

Calculation of Degree of Operating Leverage (DOL)

Contribution = Sales - Variable Costs

$$= ₹ 50,00,000 - ₹ 30,00,000 = ₹ 20,00,000$$

EBIT = Contribution - Fixed Costs

$$= ₹ 20,00,000 - ₹ 10,00,000 = ₹ 10,00,000$$

Calculation of Degree of Combined Leverage (DCL)

$$DCL = \frac{\text{Contribution}}{EBT}$$

$$= ₹ 20,00,000 / ₹ 5,00,000 = 2$$

Applying DCL to % change in sales

If sales increase by 10%, EPS will increase by:

$$DCL \times \% \text{ change in sales} = 2 \times 10\% = 20\%$$

3. (B) **Market price per share will decrease**

According to Gordon's Model:

$$P = [E \times (1 - b)] / (k_e - b \times r)$$

Where:

$$E = \text{EPS} = ₹ 10$$

$$b = \text{Retention ratio} = 1 - \text{Dividend payout ratio}$$

$$r = \text{ROE} = 18\%$$

$$k_e = \text{Cost of equity} = 15\%$$

If payout ratio increases from 60% to 80%, then:

Retention ratio b falls from 40% to 20%

Hence, $b \times r$ i.e. growth rate becomes smaller (i.e., $0.2 \times 18\% = 3.6\%$ instead of 7.2%)

Denominator ($k_e - b \times r$) becomes larger so price decreases.

So, increasing payout leads to a decrease in market price, since the firm is reducing investment in high-return (18%) projects while the cost of capital is lower (15%).

Division B: Descriptive Questions

4. Working Notes:

- (1) Total assets = $30,00,000 / 1.2 = ₹ 25,00,000$.
- (2) Fixed assets = $30,00,000 / 2.0 = ₹ 15,00,000$; hence current assets = $25,00,000 - 15,00,000 = ₹ 10,00,000$.
- (3) Current liabilities = $10,00,000 / 2.5 = ₹ 4,00,000$.
- (4) Net worth + Long-term debt = $25,00,000 - 4,00,000 = ₹ 21,00,000$; with debt = $0.40 \times$ net worth, net worth = $21,00,000 / 1.4 = ₹ 15,00,000$ and debt = ₹ 6,00,000.
- (5) Debtors = $30,00,000 \times 60 / 360 = ₹ 5,00,000$.
- (6) COGS = $70\% \times 30,00,000 = ₹ 21,00,000$; Inventory = $21,00,000 / 6 = ₹ 3,50,000$.
- (7) Cash = $10,00,000 - 5,00,000 - 3,50,000 = ₹ 1,50,000$.

(a) Balance sheet as at 31 March 2026

Liabilities	₹	Assets	₹
Equity share capital	10,00,000	Fixed assets	15,00,000
Reserves and surplus	5,00,000	Inventory	3,50,000
Long-term debt	6,00,000	Debtors	5,00,000
Current liabilities	4,00,000	Cash	1,50,000
Total	25,00,000	Total	25,00,000

(b) Income statement

Particulars	₹
Net sales	30,00,000
Less: COGS (70%)	21,00,000
Gross profit (30%)	9,00,000
EBIT (10% of sales)	3,00,000
Less: Interest (12% × 6,00,000)	72,000
PBT	2,28,000
Less: Tax @ 30%	68,400
PAT	1,59,600

(c) Returns

$$\text{ROE} = \text{PAT} / \text{Net worth} = 1,59,600 / 15,00,000 = \mathbf{10.64\%}$$

$$\text{ROCE} = \text{EBIT} / (\text{Net worth} + \text{Long-term debt}) = 3,00,000 / 21,00,000 = \mathbf{14.29\%}$$

Comment: ROCE (14.29%) exceeds the post-tax cost of debt, so leverage is favourable and ROE exceeds the return on assets (PAT/Total assets = 6.38%). Even so, ROE is modest because the net margin is thin at 5.32%, and the company holds relatively large fixed assets.

5. (a) Specific costs

Debt (first ₹ 50 lakh): $9\% \times (1 - 0.30) = \mathbf{6.30\%}$; Debt (above ₹ 50 lakh): $11\% \times 0.70 = \mathbf{7.70\%}$

Preference: $10 / 95 = \mathbf{10.53\%}$

Retained earnings: $D1/P0 + g = 4.50 / 60 + 0.08 = \mathbf{15.50\%}$

New equity: $D1 / [P0 (1 - f)] + g = 4.50 / (60 \times 0.90) + 0.08 = 4.50 / 54 + 0.08 = \mathbf{16.33\%}$

(b) Break points = Amount of the cheaper source available / Weight of that source in the capital structure

Retained earnings: $60 / 0.50 = ₹ 120 \text{ lakh}$ (beyond this, equity must be raised by a new issue).

Low-cost debt: $50 / 0.40 = ₹ 125 \text{ lakh}$ (beyond this, debt costs 11% pre-tax).

(c) **MCC schedule**

Range of total financing (₹ lakh)	Debt (40%)	Preference (10%)	Equity (50%)	MCC	Basis
0 – 120	0.4×6.30	0.1×10.53	$0.5 \times 15.50 \text{ (RE)}$	11.32%	Retained earnings
120 – 125	0.4×6.30	0.1×10.53	$0.5 \times 16.33 \text{ (new)}$	11.74%	New equity
Above 125	0.4×7.70	0.1×10.53	$0.5 \times 16.33 \text{ (new)}$	12.30%	Costlier debt

(d) **Project selection** (rank by IRR; accept while $IRR \geq MCC$ of the last rupee raised)

Project	IRR	Investment (₹ lakh)	Cumulative (₹ lakh)	MCC at that level / Decision
A	14.0%	60	60	11.32% – Accept
B	13.0%	50	110	11.32% – Accept
C	12.5%	40	150	Up to 12.30% – Accept (12.5% > 12.30%)
D	11.0%	30	180	12.30% – Reject (11.0% < 12.30%)

Conclusion: Projects A, B and C (total ₹ 150 lakh) should be accepted. Project C is accepted because its IRR of 12.5% exceeds even the highest MCC (12.30%) applicable to the last tranche of

₹ 150 lakh. Project D is rejected as its IRR is below the MCC. Note that the hurdle rate rises in steps; using a single average WACC would give wrong decisions on projects such as C.

6. Working Note – Interest and shares

	Existing	Plan A	Plan B
Interest on 10% debentures (₹ 40 lakh)	4.0	4.0	4.0
Interest on 12% debentures (₹ 50 lakh)	–	–	6.0
Total interest	4.0	4.0	10.0
No. of equity shares (lakh)	10	10 + 2 = 12	10

(a) EPS at EBIT of ₹ 30 lakh

Particulars (₹ lakh)	Plan A	Plan B
EBIT	30.00	30.00
Less: Interest	4.00	10.00
PBT	26.00	20.00
Less: Tax @ 30%	7.80	6.00
PAT	18.20	14.00
No. of shares (lakh)	12	10
EPS (₹)	1.52	1.40

(b) **Indifference point:** At the indifference EBIT (X), EPS under both plans is equal.

$$(X - 4)(1 - 0.30) / 12 = (X - 10)(1 - 0.30) / 10$$

$$10(X - 4) = 12(X - 10) \Rightarrow 10X - 40 = 12X - 120 \Rightarrow 2X = 80 \Rightarrow X = ₹ 40 \text{ lakh}$$

Check: EPS under Plan A = $(36 \times 0.7) / 12 = ₹ 2.10$; EPS under Plan B = $(30 \times 0.7) / 10 = ₹ 2.10$.

- (c) **Financial break-even point** (EBIT at which EPS = 0, i.e. EBIT equals total interest, since there is no preference dividend): Plan A = ₹ 4 lakh; Plan B = ₹ 10 lakh.
- (d) **Advice:** At the expected EBIT of ₹ 30 lakh (below the indifference point of ₹ 40 lakh), Plan A gives a higher EPS (₹ 1.52 against ₹ 1.40). Plan A also has a lower break-even EBIT, so its financial risk is lower. Plan B (debt) becomes better only if EBIT is expected to stay above ₹ 40 lakh, because the cheaper after-tax cost of debt ($12\% \times 0.7 = 8.4\%$) then outweighs the dilution from issuing new shares. On the given forecast, **Plan A** is recommended.

7. (a)

Particulars	Present (₹)	Sales +20% (₹)	Working
Sales (25,000 / 30,000 units × ₹ 40)	10,00,000	12,00,000	₹ 16 per unit
Less: Variable cost (× ₹ 24)	6,00,000	7,20,000	
Contribution	4,00,000	4,80,000	
Less: Fixed operating cost	1,60,000	1,60,000	
EBIT	2,40,000	3,20,000	
Less: Interest (10% × 4,00,000)	40,000	40,000	
PBT	2,00,000	2,80,000	
Less: Tax @ 30%	60,000	84,000	
PAT	1,40,000	1,96,000	
EPS (÷ 1,00,000 shares)	₹ 1.40	₹ 1.96	

(b) **Leverages**

$$\text{DOL} = \text{Contribution} / \text{EBIT} = 4,00,000 / 2,40,000 = \mathbf{1.67}$$

$$\text{DFL} = \text{EBIT} / \text{PBT} = 2,40,000 / 2,00,000 = \mathbf{1.20}$$

$$\text{DCL} = \text{DOL} \times \text{DFL} = 1.67 \times 1.20 = \mathbf{2.00} \text{ (also = Contribution / PBT} \\ = 4,00,000 / 2,00,000)$$

- (c) **Effect of a 20% rise in sales:** From the table, new EPS = ₹ 1.96, a rise of 40% over ₹ 1.40. Verification using DCL: % change in EPS = DCL × % change in sales = 2.00 × 20% = 40%. New EPS = 1.40 × 1.40 = ₹ 1.96. Also, EBIT rises by DOL × 20% = 33.3% (from ₹ 2,40,000 to ₹ 3,20,000).
- (d) **Break-even point** = Fixed cost / Contribution per unit = 1,60,000 / 16 = **10,000 units** (₹ 4,00,000 in sales). Margin of safety = (25,000 – 10,000) / 25,000 × 100 = **60%**.

8. (a) **Walter's model:** $P = [D + (r/K_e)(E - D)] / K_e$

Payout	DPS (₹)	Working	Price (₹)
0%	0	$[0 + (0.15/0.12)(10 - 0)] / 0.12 = 12.5 / 0.12$	104.17
40%	4	$[4 + (0.15/0.12)(10 - 4)] / 0.12 = 11.5 / 0.12$	95.83
100%	10	$[10 + (0.15/0.12)(0)] / 0.12 = 10 / 0.12$	83.33

- (b) Since r (15%) > K_e (12%), the firm is a **growth firm**. Retained earnings can be reinvested at a return higher than shareholders' required return, so every rupee retained adds more than a rupee of value. The price is highest at **0% payout** (₹ 104.17) and falls as the payout rises. The optimum payout ratio is nil.

- (c) **Gordon's model:** $P_0 = E_1 (1 - b) / (K_e - b \times r)$, where $g = b \times r$

Retention (b)	$g = b \cdot r$	Working	Price (₹)
0%	0%	$10 \times 1.0 / (0.12 - 0)$	83.33
40%	6%	$10 \times 0.6 / (0.12 - 0.06)$	100.00
60%	9%	$10 \times 0.4 / (0.12 - 0.09)$	133.33

The price rises as retention rises, which is consistent with Walter's conclusion that a firm with $r > K_e$ should retain its earnings. Note that Gordon's price rises sharply as g approaches K_e , so the model is valid only when $K_e > br$.

- (d) If $r = 10\%$ ($< K_e$ of 12%), the firm is a **declining firm**. Prices under Walter's model would be: 0% payout = ₹ 69.44; 40% payout = ₹ 75.00; 100% payout = ₹ 83.33. The price is now highest at 100% payout, so the **optimum payout ratio is 100%**. Retained funds earn less than shareholders could earn elsewhere, so the firm should distribute all earnings

9. (a) **Net initial outlay**

Particulars	₹ lakh
Cost of new machine	25.00
Less: Sale proceeds of old machine	(3.00)
Less: Tax saving on loss on sale $[(6 - 3) \times 30\%]$	(0.90)
Net initial outlay	21.10

(b) **Incremental annual cash flow (years 1–5)**

Particulars	₹ lakh
Savings in operating cost	8.00
Less: Tax @ 30%	(2.40)
After-tax saving	5.60
Add: Tax shield on incremental depreciation $[(4.0 - 1.2) \times 30\%]$	0.84
Incremental annual cash flow	6.44

Particulars	Cash flow	PVIF @12%	PV (₹ lakh)
Annual cash flow, years 1–5	6.44	3.605	23.22
Scrap value of new machine, year 5 (book value = scrap, so no tax)	5.00	0.567	2.83
Total PV of inflows			26.05
Less: Net initial outlay			21.10
NPV of replacement			4.95

- (c) **Break-even saving:** Required annual cash flow = $(21.10 - 2.835) / 3.605 = ₹ 5.07$ lakh. Less tax shield on depreciation 0.84 gives required after-tax saving of ₹ 4.23 lakh. Pre-tax saving = $4.23 / 0.70 = ₹ 6.04$ lakh. Margin of safety = $(8.00 - 6.04) / 8.00 = 24.5\%$.
- (d) **Advice:** NPV is positive (₹ 4.95 lakh), so replacement is financially justified. Annual savings may fall by about 25% before the NPV turns zero, which gives a reasonable cushion against forecasting error. Management should accept the replacement, subject to the reliability of the savings estimate

10. Statement Showing Cost and Sales for the First Year

Annual Production Capacity	60,000 units
Production	40,000 units
Sales	35,000 units

Particulars	₹
Sales Revenue (₹ 80 × 35,000)	28,00,000
Cost of Production:	
Materials @ ₹ 20 per unit	8,00,000
Direct Labour @ ₹ 15 per unit	6,00,000
Manufacturing Overheads	
Variable @ ₹ 15 per unit	6,00,000
Fixed (based on production capacity 60,000 units × ₹ 10)	<u>6,00,000</u>
Cost of Production	26,00,000
Less: Closing Stock (40,000 – 35,000 = 5,000 units)	
$\left(₹ \frac{26,00,000}{40,000} \times 5,000 \text{ units} \right)$	<u>3,25,000</u>
Cost of Goods Sold	22,75,000

Add: Selling & Distribution Overheads	
Variable @ ₹ 3 × 35,000 units = 1,05,000	
Fixed (Re. 1 × 60,000 units) = 60,000	<u>1,65,000</u>
Cost of Sales	<u>24,40,000</u>
Profit	<u>3,60,000</u>

Statement Showing Working Capital Requirement

A. Current Assets		₹
Stock of Raw Materials (₹ 8,00,000 × 3/12)		2,00,000
Stock of Finished Goods		3,25,000
Debtors at Cost (₹ 24,40,000 × 3/24)		3,05,000
Cash and Bank		<u>60,000</u>
Total (A)		<u>8,90,000</u>
B. Current Liabilities		
Creditors for Materials (₹ 10,00,000 × 4/12)		3,33,333
Creditors for Expenses (₹ 13,65,000 × 1/24)		56,875
Outstanding Wages (₹ 6,00,000 × 1/12)		<u>50,000</u>
Total (B)		<u>4,40,208</u>
Working Capital Requirement before Contingencies (A – B)		4,49,792
Add: Provision for Contingencies (₹ 4,49,792 × 1/9)		<u>49,977</u>
Estimated Working Capital Requirement		<u>4,99,769</u>

Workings Notes:

Purchase of Raw Material during the first year	₹
Raw Material consumed during the year	8,00,000
Add: Closing Stock of Raw Materials (3 months consumption)	<u>2,00,000</u>
	10,00,000

Less: Opening Stock of Raw Material	Nil
Purchases during the year	10,00,000

11. (a) Incremental analysis (₹ lakh)

Particulars	Present policy	Proposed policy	Incremental
Credit sales	2,400.00	3,000.00	600.00
Contribution (30% of sales)	720.00	900.00	180.00
Average receivables (Sales × days / 365)	197.26	493.15	295.89
Investment in receivables (70% of above)	138.08	345.21	207.12
Less: Carrying cost @ 15%	20.71	51.78	31.07
Less: Bad debts	24.00	75.00	51.00
Net benefit	675.29	773.22	97.93

Incremental contribution of ₹ 180.00 lakh exceeds the incremental carrying cost (₹ 31.07 lakh) and incremental bad debts (₹ 51.00 lakh) by ₹ 97.93 lakh. The proposal is financially beneficial and should be **adopted**, subject to the sales forecast being realistic and the collection period not stretching beyond 60 days.

(b) Cost of forgoing the cash discount

Cost = $\left[\frac{\text{Discount \%}}{100 - \text{Discount \%}} \right] \times \left[\frac{365}{\text{Credit period} - \text{Discount period}} \right] = \left[\frac{2}{98} \right] \times \left[\frac{365}{45 - 10} \right] = 0.0204 \times 10.43 = \mathbf{21.28\%}$

Since the cost of forgoing the discount (21.28%) is higher than the bank borrowing rate (14%), the buyer should **take the discount** and, if necessary, borrow from the bank to pay on the tenth day.

(c) Baumol model

Optimum conversion size $C = \sqrt{2 \times U \times P / S} = \sqrt{2 \times 12,00,000 \times 3,000 / 0.08} = \sqrt{90,00,00,00,000} = \mathbf{₹ 3,00,000}$

Number of conversions = $12,00,000 / 3,00,000 = 4$ per year

Total cost = Conversion cost + Holding cost = $(4 \times ₹ 3,000) + (3,00,000 / 2 \times 8\%) = 12,000 + 12,000 = ₹ 24,000$

12. (a) **Inter-relationship between Investment, Financing and Dividend Decisions:** The finance functions are divided into three major decisions, viz., investment, financing and dividend decisions. It is correct to say that these decisions are inter-related because the underlying objective of these three decisions is the same, i.e. maximisation of shareholders' wealth. Since investment, financing and dividend decisions are all interrelated, one has to consider the joint impact of these decisions on the market price of the company's shares and these decisions should also be solved jointly. The decision to invest in a new project needs the finance for the investment. The financing decision, in turn, is influenced by and influences dividend decision because retained earnings used in internal financing deprive shareholders of their dividends. An efficient financial management can ensure optimal joint decisions. This is possible by evaluating each decision in relation to its effect on the shareholders' wealth.

The above three decisions are briefly examined below in the light of their inter-relationship and to see how they can help in maximising the shareholders' wealth i.e. market price of the company's shares.

Investment decision: The investment of long term funds is made after a careful assessment of the various projects through capital budgeting and uncertainty analysis. However, only that investment proposal is to be accepted which is expected to yield at least so much return as is adequate to meet its cost of financing. This has an influence on the profitability of the company and ultimately on its wealth.

Financing decision: Funds can be raised from various sources. Each source of funds involves different issues. The finance manager has to maintain a proper balance between long-term and short-term funds. With the total volume of long-term funds, he has to ensure a proper mix of loan funds and owner's funds. The

optimum financing mix will increase return to equity shareholders and thus maximise their wealth.

Dividend decision: The finance manager is also concerned with the decision to pay or declare dividend. He assists the top management in deciding as to what portion of the profit should be paid to the shareholders by way of dividends and what portion should be retained in the business. An optimal dividend pay-out ratio maximises shareholders' wealth.

The above discussion makes it clear that investment, financing and dividend decisions are interrelated and are to be taken jointly keeping in view their joint effect on the shareholders' wealth

- (b) **Debt Securitisation:** It is a method of recycling of funds. It is especially beneficial to financial intermediaries to support the lending volumes. Assets generating steady cash flows are packaged together and against this asset pool, market securities can be issued, e.g. housing finance, auto loans, and credit card receivables.

Process of Debt Securitisation

- (i) *The origination function* – A borrower seeks a loan from a finance company, bank, HDFC. The credit worthiness of borrower is evaluated and contract is entered into with repayment schedule structured over the life of the loan.
- (ii) *The pooling function* – Similar loans on receivables are clubbed together to create an underlying pool of assets. The pool is transferred in favour of Special purpose Vehicle (SPV), which acts as a trustee for investors.
- (iii) *The securitisation function* – SPV will structure and issue securities on the basis of asset pool. The securities carry a coupon and expected maturity which can be asset-based/mortgage based. These are generally sold to investors through merchant bankers. Investors are – pension funds, mutual funds, insurance funds.

The process of securitization is generally without recourse i.e. investors bear the credit risk and issuer is under an obligation to pay to investors only if the cash flows are received by him from the collateral. The benefits to the originator are that assets are shifted off the balance sheet, thus giving the originator recourse to off-balance sheet funding.

- (c) **Concept of Discounted Payback Period:** Payback period is time taken to recover the original investment from project cash flows. It is also termed as break even period. The focus of the analysis is on liquidity aspect and it suffers from the limitation of ignoring time value of money and profitability. Discounted payback period considers present value of cash flows, discounted at company's cost of capital to estimate breakeven period i.e. it is that period in which future discounted cash flows equal the initial outflow. The shorter the period, better it is. It also ignores post discounted payback period cash flows.

6B: STRATEGIC MANAGEMENT



QUESTIONS

Multiple Choice Questions

1. Founded in 2017 in Bengaluru, Garud AI began as a modest startup with an innovative idea: creating AI-driven solutions to help small businesses automate routine processes like customer support, supply chain optimization, and marketing analytics. Within just six years, Garud AI skyrocketed to prominence, achieving unicorn status in 2023 with a valuation of \$1.5 billion. The company's rise was fueled by a combination of strategic initiatives.

Early on, Garud AI realised that its success was playing in the right market and so it invested heavily in digital campaigns, influencer partnerships and content marketing tailored to its target audience of small and medium enterprises (SMEs). By offering free trials and emphasizing measurable ROI in their ads, Garud AI acquired over 50,000 clients globally by the end of 2022. Its referral program alone contributed 30% of its new customer base annually.

In later half of 2023, Garud AI expanded its capabilities by acquiring two smaller AI startups specializing in voice recognition and predictive analytics. The acquisition of VoiceVerse, a voice AI brand, brought proprietary speech recognition technology into Garud's portfolio, while DataPredict's analytics algorithms enhanced its marketing automation tools. These strategic acquisitions not only consolidated Garud's market position but also added \$120 million in annual revenue.

As part of its globalization strategy, Garud entered developed markets like Dubai and Singapore in 2024. The choice was strategic: both cities offer strong digital infrastructure, favorable business environments and access to high value enterprise clients. Garud's entry into these markets

resulted in a 25% revenue increase within a year, driven by contracts with leading real estate and retail firms.

In a game changing unexpected move, Garud merged with Technova Systems, an established Indian IT services company, in mid-2025. This merger provided Garud with access to Technova's expansive client network across South Asia and Europe, while Technova benefited from Garud's cutting-edge AI expertise. The combined entity is projected to achieve \$2.5 billion in revenue by end of 2026.

Garud's leadership has been instrumental in its journey. Initially, CEO Arjun Mehta's style focused on clear targets and performance incentives to drive rapid growth. However, as the company scaled, Mehta shifted its emphasis to innovation, employee empowerment and spreading a shared vision. This shift built a culture of creativity and collaboration, which today has become critical during the post-merger expansion.

Despite its success, Garud maintains its niche focus on high value customers, such as Fortune 500 companies and fast-growing SMEs willing to pay a premium for personalized AI solutions and has thereby ensured consistent profitability while maintaining a strong brand reputation.

As Garud AI now prepares for an IPO in 2027, the company faces key challenges such as retaining its innovative edge, managing cultural integration post-merger and sustaining its rapid growth trajectory. With its bold strategies and visionary leadership, Garud is well positioned to shape the future of AI-driven business solutions, but the world is catching up fast too.

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

- (i) One of the most critical tasks during a merger is syncing the culture of two entities. Garud could uphold the culture of creativity and collaboration even during such times. What underlying factor supported such a smooth transition?
 - (a) Expenditure on Innovation
 - (b) Transformational Leadership style of the Leadership

- (c) Shared vision of the company
- (d) Unbuilt value system of the company
- (ii) The scenario talks about the fact that both cities offered strong digital infrastructure, favorable business environments and access to high value enterprise clients. In light of this statement, read carefully and answer, which growth strategy did Garud pursue with such an expansion?
 - (a) Market Development
 - (b) Market Penetration
 - (c) Product Development
 - (d) Diversification
- (iii) Garud AI started by serving small and medium enterprises (SMEs) but later moved towards high value niche customers like Fortune 500 firms willing to pay a premium. According to Porter's Generic Strategies, how has Garud AI's strategic positioning evolved?
 - (a) From Cost leader to differentiation
 - (b) From differentiation to focused differentiation
 - (c) From focused cost leader to focused differentiation
 - (d) From differentiation to focused differentiation
- (iv) Garud AI acquired VoiceVerse and DataPredict to integrate their technological capabilities into its existing AI solutions and extend their application to new markets. According to C.K. Prahalad and Gary Hamel, which area of core competencies does this illustrate?
 - (a) Competitor differentiation
 - (b) Application to other markets
 - (c) Building customer value
 - (d) Non-imitability from competitors

- (v) Following its acquisitions of VoiceVerse and DataPredict and its merger with Technova Systems, Garud AI has expanded its business across different products and services. To ensure clear accountability and independent management of its AI solutions and legacy IT services, the company wants to organize its activities into separate business units, each with its own functional specialists and responsibility for performance. Which organizational structure would be most appropriate?
- (a) Matrix Structure
 - (b) Network Structure
 - (c) Divisional Structure
 - (d) Functional Structure
2. A multinational pharmaceutical company aspires to become the world's most trusted innovator in affordable healthcare by 2045. It identifies broad future outcomes, such as strengthening its global presence and enhancing research capabilities, before translating them into specific, measurable targets. The broad future outcomes are best described as:
- (a) Vision
 - (b) Goals
 - (c) Objectives
 - (d) Functional Strategies
3. A premium electric car manufacturer continuously reduces manufacturing cost because engineers improve battery assembly techniques after every production cycle. The reduction in cost is primarily due to accumulated knowledge rather than increased production volume. This phenomenon is known as:
- (a) Economies of Scale
 - (b) Experience Curve
 - (c) Learning Organisation
 - (d) Cost Leadership

4. An Indian electric vehicle manufacturer notices that international automobile companies are rapidly entering the domestic market, while government incentives for EV manufacturing continue to increase. The management decides to accelerate capacity expansion before competition intensifies. Which strategic driver is primarily influencing this decision?
- (a) Customers
 - (b) Products
 - (c) Industry and Markets
 - (d) Channels
5. A consumer electronics company has decided to permanently discontinue its MP3 player business because of continuously declining demand and increasing operating losses. Resources released from this business are invested in wearable technology. This decision primarily represents:
- (a) Stability Strategy
 - (b) Strategic Exit
 - (c) Expansion Strategy
 - (d) Product Development
6. A logistics company regularly monitors technological developments, competitor actions, customer expectations and government policies even when no specific threat has been identified. Which type of strategic control is illustrated?
- (a) Premise Control
 - (b) Strategic Surveillance
 - (c) Special Alert Control
 - (d) Implementation Control

Descriptive Questions**Chapter 1-Introduction to Strategic Management**

7. Apex Dynamics, a mid-sized paper manufacturing firm, hired a prestigious global strategy consultancy to engineer a turnaround and growth roadmap. The resulting 150-page strategic blueprint prescribed an aggressive international market expansion, three horizontal acquisitions, and a pivot toward high-margin packaging material production. Armed with this world-class strategy, the CEO secured board approval and significant venture funding. However, over the next 18 months, despite the "flawless strategy on paper," Apex missed all revenue targets, suffered a 40% key-talent attrition rate post-acquisition, and faced severe cashflow crunches due to unmonitored operational cost overruns. Middle management blamed the strategy for being "unrealistic," while executive leadership blamed operational teams for "poor execution." Diagnose the root cause of Apex Dynamics' failure while sharing what other shortcomings strategic management possess?
8. A ketchup manufacturing company decides to introduce a healthier version of its ketchup with reduced sugar and fewer preservatives. The objective is to attract health-conscious consumers and reassure parents about the suitability of the product for their children. The company also observes that competitors have started introducing similar products and that consumer preferences are changing towards healthier food options.
- Identify the proactive and reactive elements of the company's strategy. Explain how the company's strategy reflects a combination of proactive planning and reactive adaptation.

Chapter 2-Strategic Analysis: External Environment

9. BTC (Bus Trading Co.) expanded its inventory from 500 to 2,000 buses within one year to achieve a 40% increase in orders. However, its back-office capacity failed to keep pace with this expansion. Registration processing time increased from 5 days to 30 days, inspection delays rose by 50%, and daily holding costs per bus increased from ₹1,500 to ₹2,200. Consequently, the company's net operating margin declined significantly from 18% to 7%. This case highlights how unforeseen

events and inadequate risk assessment can adversely affect even a well-formulated strategy.

Identify the type of strategic risk faced by BTC. Also, explain the different types of strategic risks that a business may encounter.

10. "International development is expensive and challenging". In the context of the statement, explain the internationalization of business and the steps involved in such strategic planning.

Chapter 3-Strategic Analysis: Internal Environment

11. VoltMotors India is planning to launch a new mid-segment commercial electric van for urban logistics. The target market comprises price-sensitive fleet buyers who value affordability and a low total cost of ownership. The company aims to capture a 20% market share within 18 months. However, owing to high battery manufacturing costs, the company faces considerable cost pressures. The Board of Directors has mandated that the pricing strategy must ensure a minimum net profit margin of 15% over unit costs while remaining attractive to customers.

In the context of the given case, explain the three objectives that should be kept in mind while designing a pricing strategy for a new product. Also, identify the objective that is of particular concern to the Board of VoltMotors India.

12. Managing stakeholders is critical to the success of a project". Explain how Mendelow's Matrix helps in managing stakeholders and categorizing the stakeholders into groups.

Chapter 4-Strategic Choices

13. Café Namma Spot, a popular 200-seat multi-cuisine restaurant located in Indiranagar, Bengaluru, has experienced a 40% decline in customer footfall over the past year. The restaurant is facing several operational challenges, including broken air conditioning units, faded seating, frequent plumbing breakdowns and poor kitchen ventilation. These issues have resulted in negative online reviews, loss of corporate bookings and hygiene concerns raised by food delivery aggregators. Despite the availability of a large customer base in the surrounding commercial area, management has failed to prioritise the maintenance

of its physical facilities, further aggravating the decline in business performance.

In the context of Strategic Exits, identify the appropriate strategy indicated by the above situation. Also, explain the relevant indicators that suggest the need for adopting this strategy.

14. Explain the 'product market growth matrix' as propagated by Igor Ansoff as a device for identifying growth opportunities for the future.

Chapter 5-Strategy Implementation and Evaluation

15. Dhadhani, a leading supermarket chain in Bhopal operating 25 outlets, introduced an AI-driven inventory management system to improve operational efficiency. However, store managers and warehouse supervisors resisted the change due to fears of job losses and continued using manual registers instead of the new software. As a result, inventory miscounts increased, order fulfilment was delayed, and conflicts arose between corporate executives and store employees. The owners viewed this resistance as deliberate disobedience rather than a natural reaction to organisational change.

In the given situation, explain the measures that Dhadhani should adopt to manage change effectively during digital transformation.

16. "A manager as a strategic leader has to play many leadership roles", while explaining the statement in brief, delineate the leadership roles which a manager has to play in pushing for a good strategy execution.



SUGGESTED ANSWERS/HINTS

Answer to Case Scenario and MCQ

Q. No.	Answer	
1.	(i)	(b)
	(ii)	(a)
	(iii)	(c)
	(iv)	(b)

	(v)	(c)
2.	(b)	
3.	(b)	
4.	(c)	
5.	(b)	
6.	(b)	

7. Apex Dynamics failed primarily because it relied on an ambitious strategic plan without adequately addressing the practical challenges of implementation. The company underestimated the complexity and uncertainty of the business environment, invested considerable resources in strategic planning and acquisitions, and failed to anticipate competitive responses and operational challenges. The resulting talent attrition, cost overruns and cash-flow crisis demonstrate that strategic management cannot guarantee success in every situation.

Other Limitations of Strategic Management:

- 1. Highly Complex and Turbulent Environment:** Business environments are dynamic and difficult to predict. Changes in market conditions, customer preferences, technology or government policies may render strategies ineffective. Apex Dynamics may have underestimated the uncertainties associated with international expansion and the packaging materials market.
- 2. Time-Consuming Process:** Strategic management requires considerable time for environmental analysis, strategy formulation, communication and implementation. Excessive focus on planning may divert management's attention from routine operations and timely execution.
- 3. Costly Process:** Strategic management involves expenditure on consultants, research, analysis, acquisitions and implementation. For Apex Dynamics, the cost of acquisitions and expansion, coupled with unmonitored operational expenses, contributed to financial difficulties.

4. **Difficulty in Predicting Competitive Responses:** Competitors may respond to strategic initiatives in unexpected ways, making it difficult to estimate the likely outcomes of a strategy. Apex Dynamics may have failed to anticipate the competitive challenges and market reactions associated with its international expansion and shift towards high-margin packaging materials.
8. The company's strategy is a combination of both proactive and reactive elements.

Proactive strategy: The company takes the initiative to develop and introduce healthier ketchup to attract new customers, differentiate its product and strengthen its market position. This is a planned action undertaken to improve its competitive position and financial performance.

Reactive strategy: The company adapts its product offerings in response to changing consumer preferences towards healthier food and the introduction of similar products by competitors. These developments in the external business environment require the company to adjust its approach to remain competitive.

The given case demonstrates that a company's actual strategy is partly proactive and partly reactive. While proactive actions reflect deliberate planning and managerial initiatives, reactive actions involve adapting to changing market conditions and competitive developments. By combining both approaches, the company can respond effectively to environmental changes while pursuing its long-term objectives.

9. BTC is primarily experiencing internal strategic risk in the short term, as its organisational capacity is unable to cope with the demands of its expansion strategy.

The company increased its inventory from 500 to 2,000 buses to meet a 40% increase in orders. However, its back-office capacity failed to keep pace with the expansion, resulting in increased registration time, inspection delays and holding costs. Consequently, its net operating margin declined from 18% to 7%.

This illustrates that inadequate assessment of organisational capabilities and constraints can lead to strategic failure, even when the strategy is well formulated.

Strategic risks can be broadly classified as follows:

		Time	
		Short Time	Long Time
Strategic Risks	External	Errors in interpreting the environment cause strategic failure	Changes in the environment lead to obsolescence of strategy.
	Internal	Organizational capacity is unable to cope up with strategic demands.	Inconsistencies with the strategy are developed on account of changes in internal capacities and preferences

Strategic analysis helps identify potential risks, opportunities, threats, strengths and weaknesses, enabling an organisation to select, implement and review its strategies effectively.

10. Internationalization has become a pivotal trend for businesses aiming to enhance profitability and access cheaper resources. **It allows companies to explore new markets, achieve economies of scale, and prolong product lifecycles.** However, the process of internationalization is complex due to additional variables and linkages that differ from domestic operations.

To navigate this complexity, businesses should adopt a structured approach to international strategic planning. The steps involved include:

1. **Evaluate Global Opportunities and Threats:** Businesses must assess potential global markets, identify opportunities and threats while align them with their internal capabilities.

2. **Describe the Scope of Operations:** Clearly defining the extent of the firm's international commercial activities is crucial for focused strategy development.
3. **Create Global Business Objectives:** Establishing clear objectives helps guide the organization's international efforts and aligns with its overall mission.
4. **Develop Distinct Corporate Strategies:** Formulating specific strategies tailored for global operations ensures that the organization can effectively compete in diverse markets.

These steps facilitate the identification of market opportunities and the formulation of effective global strategies, enabling businesses to thrive in the international arena despite the inherent challenges and costs associated with such expansion.

11. For a new product, at least three objectives must be kept in mind while designing pricing strategies for entering a market:
 1. **Customer-Centric Approach:** The product and its pricing should be designed by considering the needs, preferences and affordability of the target customers. The price should be attractive to customers and offer value for money.
 2. **Sufficient Returns through a Reasonable Margin over Cost:** The pricing strategy should ensure that the organisation earns sufficient returns by maintaining a reasonable profit margin over the cost of the product. This is essential for the financial sustainability of the organisation.
 3. **Increasing Market Share:** The pricing strategy should help the organisation attract more customers, increase sales and capture a larger share of the target market.

The Board of VoltMotors India is particularly concerned with the second objective, i.e., producing sufficient returns through a reasonable margin over cost, as it has mandated a minimum net profit margin of 15% over unit costs. At the same time, the company should adopt a customer-centric approach to attract price-sensitive fleet buyers and pursue its target of capturing a 20% market share within 18 months.

12. Mendelow's matrix is a simple framework to help manage key stakeholders.

Managing Stakeholders: Mendelow's Matrix is an essential tool for managing stakeholders effectively in project management, as it involves managing the competing interests of various stakeholders. It categorizes stakeholders based on their power and interest levels. This framework helps project managers to identify which stakeholders are incredibly important and prioritize their engagement strategies to ensure project success.

Categorization of Stakeholders: The matrix divides stakeholders into four groups:

- **Key Players (High Power, High Interest):** These stakeholders require close management and regular communication. Engaging them fully ensures their support and input, which is crucial for project success. For instance, CEOs and shareholders fall into this category.
- **Keep Satisfied (High Power, Low Interest):** While these stakeholders have significant influence, they may not be as invested in the project's success. It is essential to keep them satisfied with sufficient information to prevent potential conflicts.
- **Keep Informed (Low Power, High Interest):** Stakeholders in this group are interested in the project but lack the power to influence its outcome. Regular updates and communication can foster goodwill and may provide valuable feedback.
- **Low Priority (Low Power, Low Interest):** These stakeholders require minimal attention. Monitoring their interest and power levels periodically is sufficient, as they do not significantly impact the project.

In summary, Mendelow's Matrix provides a clear framework for categorizing stakeholders based on their power and interest, facilitating effective stakeholder management and enhancing the likelihood of project success.

13. The situation of Café Namma Spot indicates the need for a Turnaround Strategy, which is a form of internal retrenchment that focuses on improving internal efficiency and reversing the process of decline.

The following indicators suggest the need for adopting a turnaround strategy:

1. **Deterioration in Physical Facilities:** Broken air conditioning units, faded seating, frequent plumbing breakdowns and poor kitchen ventilation indicate deterioration in the restaurant's physical facilities.
2. **Declining Market Share:** The 40% decline in customer footfall indicates deteriorating business performance and a possible loss of customers to competitors.
3. **Uncompetitive Products or Services:** Poor maintenance, hygiene concerns and negative online reviews have adversely affected service quality and the restaurant's ability to attract customers.
4. **Mismanagement:** Management's failure to prioritise property maintenance has aggravated operational problems and contributed to the decline in business.
5. **Poor Business Performance:** The loss of corporate bookings and concerns raised by food delivery aggregators indicate declining customer confidence and the need for corrective measures.

Café Namma Spot should adopt a turnaround strategy by identifying the root causes of its problems, repairing and upgrading its physical facilities, improving hygiene and service quality, reducing operational inefficiencies and rebuilding customer confidence to restore business performance and profitability.

14. Ansoff's Product Market Growth Matrix, developed by Igor Ansoff, is a strategic tool that helps businesses identify growth opportunities by analyzing the interplay between products and markets.

It offers four distinct strategies based on whether the products and markets are existing or new. These strategies are:

1. **Market Penetration:** Focuses on selling existing products in existing markets. This involves increasing market share by enhancing sales through advertising, promotions, competitive pricing, or encouraging higher usage among current customers.
2. **Market Development:** Entails selling existing products in new markets. This could involve exploring new geographical regions, utilizing alternative distribution channels, or creating new market segments.
3. **Product Development:** Involves introducing new or modified products into existing markets. This strategy often requires innovation and developing products that meet current market needs.
4. **Diversification:** Refers to marketing new products in new markets. It is a high-risk strategy as the business ventures into unfamiliar products and markets.

As market dynamics evolve, companies may transition between these strategies to adapt and sustain growth. The matrix provides a structured framework for businesses to align their growth strategies with their capabilities and market conditions.

15. Digital transformation can be challenging and overwhelming for an organisation. To ensure an effective digital transition, change management is essential. The following measures should be adopted by Dhadhani to manage change during digital transformation:
 1. **Specify the Digital Transformation's Aims and Objectives:** The organisation should clearly define the intended outcomes and objectives of implementing the AI-driven inventory management system so that all employees understand the goals and work towards achieving them.
 2. **Always, always, always Communicate:** Management should routinely and honestly communicate the objectives of digital transformation and explain how the changes will affect employees and other stakeholders.
 3. **Be Ready for Resistance:** Management should anticipate resistance from store managers and warehouse supervisors and

have an appropriate strategy in place to address their concerns regarding potential job losses.

4. **Implement Changes Gradually:** Changes should be implemented gradually rather than all at once, giving employees sufficient time to adjust to the new system and avoid being overwhelmed by the changes.
5. **Offer Assistance and Training:** Employees should be provided with guidance and training in the new procedures and software applications to help them adapt to the AI-driven inventory management system.

Effective planning and change management are essential for the successful implementation of digital transformation. By planning for and managing the changes, Dhadhani can facilitate employee acceptance and improve the effectiveness of its new digital system.

16. Strategic leadership refers to the manager's ability to anticipate, envision, maintain flexibility and empower others to create strategic change as necessitated by external conditions. A manager as a strategic leader is responsible for setting the firm's direction, formulating and implementing strategies and ensuring that the organization moves towards achieving its strategic goals. To achieve this, the manager must play multiple leadership roles such as visionary, strategist, administrator, culture builder and motivator.

Managers have five leadership roles to play in pushing for good strategy execution:

1. **Staying on top of the execution process:** Monitoring progress, resolving emerging issues and understanding obstacles in the way of effective execution.
2. **Promoting a culture of esprit de corps:** Nurturing unity, teamwork and high morale to mobilize and energize employees for effective strategy implementation.
3. **Keeping the organization responsive and innovative:** Ensuring the firm remains adaptive to changes, alert to new opportunities and ahead of rivals in developing competencies.

4. **Exercising ethical leadership:** Insisting that the company behaves ethically and acts as a model corporate citizen.
5. **Pushing corrective actions:** Taking necessary corrective measures to overcome execution problems and improve overall strategic performance.

These roles help managers drive strategy execution effectively while maintaining integrity, adaptability and performance.