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PART – I
(MCQ Portion)

30 Marks

- *Answers to MCQs are to be marked on the OMR answer sheet as given on the cover page of the descriptive answer book of Section-A only. Answer to MCQs, if written inside the descriptive answer book shall not be evaluated.*
- *Please write and darken correct MCQ booklet number in the OMR answer sheet. The correct MCQ booklet number must also be written in the attendance register.*

SECTION – A

Financial Mgmt

MCQ's

Case Scenario-I :

XYZ Ltd. is engaged in manufacturing of an electronic component, to be used by industries producing electronic gadgets for domestic use. The company is a leveraged company, currently paying annual interest of ₹ 33 lakhs on its 11% debt. The company is financially prudent. It has a balance of ₹ 50 lakhs as retained earnings. The company maintains Long-term Debt to Equity ratio of 2 : 1. The face value per share of the company is ₹ 10.

Due to operating in a competitive market, the marketing manager of the company has submitted a report exhibiting significant potential for sales growth. The production manager has endorsed the idea and has suggested adopting latest technology at the workplace. In case the company implements new technology, the production efficiency will increase which will bring down the overall cost of production. To procure and install this new technology, the company requires an additional fund of ₹ 3 crores. This additional fund will be arranged in such a manner that it will not impact the present Long-term Debt to Equity ratio. The additional debt will carry interest rate of 12% p.a.

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As a result of implementing the new technology, it is anticipated that ROI will increase by 3% from present ROI of 15%. Applicable tax rate is 30%.

Based on the facts mentioned above pertaining to XYZ Ltd., you are required to answer the following questions 1 to 5 :

1. What will be the expected MPS after the change in funds, if company expects a P/E ratio of 20 ?

(A) ₹ 43.68

(B) ₹ 54.60

(C) ₹ 70.00

(D) ₹ 47.60

EPS - 2.73
PE ratio - 20

(B)

2. What will be the post-tax weighted average cost of debt after additional financing ?

(A) 7.70%

(B) 8.05%

(C) 9.00%

(D) 7.98%

$$\frac{(33 + 24)(1 - 0.30)}{500} = \frac{39.4}{500} = 0.0798 = 7.98\%$$

(D)

3. What is the equity share capital outstanding before the additional fund is introduced ?

(A) ₹ 1.00 crores

(B) ₹ 1.50 crores

(C) ₹ 0.50 crores

(D) ₹ 2.00 crores

(A)

300
↓
D
D : E
2 : 1
150
- 50 → PE
100

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4. What is the total capital employed before and after additional financing ? 2

- (A) ₹ 4.00 crores and ₹ 7.00 crores
(B) ₹ 5.00 crores and ₹ 8.00 crores
(C) ₹ 4.50 crores and ₹ 7.50 crores
(D) ₹ 5.50 crores and ₹ 8.50 crores

$$\begin{array}{r} 300 + 150 \\ = 450 \\ \hline 300 \\ \hline 150 \end{array}$$

5. Compute the EPS after additional financing. What will be the percentage increase in EPS of the company, after introducing the additional fund ? 2

- (A) ₹ 2.73, 13.04%
(B) ₹ 2.18, 35.65%
(C) ₹ 2.73, 11.54%
(D) ₹ 2.18, 26.28%

Before 2.415
After 2.73
Change in EPS = 0.315
13.04%

6. Details of a project are given below :

Initial outlay	₹ 800 lakhs
NPV at 16% discount rate	₹ 50.71 lakhs
NPV at 20% discount rate	₹ (26.84) lakhs

What will be Internal rate of return (IRR) of the project ? If cost of capital is 18.50%, should the project be accepted ?

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(A) 16.00%, Yes

~~(B) 18.62%, Yes~~

(C) 18.00%, Yes

(D) 18.62%, No

B

$$16 + 50.71 \times 4$$

$$50.71 + 26.84$$

$$16 + 50.71 \times 4$$

$$77.55$$

$$= 18.62\%$$

IRR > COC

Accepted

7. A company has credit sales of ₹ 20,00,000 with an average collection period of 35 days. It wants to liberalize its existing credit terms which are expected to increase sales to ₹ 25,00,000. However, average collection period is expected to decline to 10 days. Profit Volume ratio is 20% and opportunity cost (post-tax) is 6%. Tax rate is 40%. Assume 360 days in a year.

What is the incremental investment in debtors and its impact on post-tax profitability?

	<u>Incremental</u> investment in debtors	Impact on Post-tax profitability
(A)	₹ (1,25,000)	₹ 7,500
(B)	₹ (1,00,000)	₹ (6,000)
(C)	₹ (1,25,000)	₹ (7,500)
~~(D)~~	₹ (1,00,000)	₹ 6,000

D

V.C ratio = 80%

$$(1,25,000) \times 80\%$$

$$= (1,00,000)$$

$$\times 6\%$$

$$= 6000$$

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8. FG Ltd. is appraising a one-year investment plan, which requires an initial outlay of ₹ 1,00,000. At the end of term, it will be matured at ₹ 1,25,000. The plan has a beta of 1.3, risk free rate of return 10% and market rate of return 18%.

Calculate the required rate of return and decide whether the plan is worthwhile. 2

- (A) 25%, The plan is not worthwhile.
(B) 20.4%, The plan is not worthwhile.
~~(C) 20.4%, The plan is worthwhile.~~
(D) 25%, The plan is worthwhile.

$$K_C = R_F + B(R_M - R_F)$$
$$= 20.4\%$$

NPV

PVCI	1,03,875	}	3875
- PVCO	1,00,000		
			↓
			PK

C

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PART – I
(MCQ Portion)

SECTION – B

Case Scenario-II :

Alex Motor Company was born out of crisis in a small garage on the edge of a dusty town. In the early 90s when the fuel prices soared and imported vehicles flooded the market, many automobile companies were forced to shut down their operations. Many employees lost their jobs.

Ajay Sharma, a production engineer at a failing automobile plant along with ten of his colleagues, rented an abandoned garage and a portion of unused equipment from a shutdown factory and decided to start operations. Their main aim was to transform Indian auto industry by providing comprehensive, affordable and fuel-efficient vehicles. Instead of chasing volumes, the company focused on customization – adjustable cargo layouts, fuel efficient engines and easy maintenance to cater demand of narrow market.

Alex Motor Company developed its first commercial model Alex One which was simple but could survive floods, heat waves, bumpy roads, and most importantly was fuel efficient. The customers loved it and hence sales grew steadily.

Ajay made a simple promise that every decision would begin on the factory floor and not in the board-room. Mechanics were encouraged to suggest improvement in design and were rewarded for the best innovations, but success brought a new challenge.

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The younger generation demanded technology with higher connectivity, better safety systems and cleaner energy. Due to these matters Alex Motor Company lagged behind from the flashy foreign brands that entered the Indian market.

As a result, sales declined and critics called the company outdated. Ajay, now the CEO of the company, faced defining choice, either to sell the company or reinvent it.
 ~~LD~~ → Sold (or) ~~LD~~ Reinvent

Ajay's team of engineers, through participation, shared their next plan of action to the employees for the further technology upgradation, in order to gain growth and success of business. The team took the initiative to develop the good working culture and code of ethics. They focused on training and various motivational plans for employees so they can be tuned up with new working system. In this way the company made its breakthrough with the launch of Alex Electra; a hybrid vehicle designed specifically for congested urban environment. It was not just the technology that made Electra different, but the mindset. Engineers, designers and data-analysts worked side by side, decision making became faster and mistakes were treated as learning cost and not failures.

Alex Motor Company also established company-owned showrooms and service centers to increase their sales and provide free after-sale services which led to improved customer services and brand image.

Today Alex Motor Company's success is studied in business schools as it proved that companies that listen, learn and adapt can outlast any crisis. ✓

Based on the above case scenario, choose the correct answer to questions no. 9 to

13 :

9. Ajay Sharma undertook a retrenchment strategy to save his company when the sales of his company declined, and his company was called outdated. The action plan undertaken to implement it was

2

- (i) Assessing the current problem
- (ii) Providing innovative transport service ✓
- (iii) Developing an action plan with specific goals
- (iv) Restructuring organizational hierarchy ✓

Which of the above actions does not pertain to the strategy undertaken by Ajay Sharma ?

- (A) (ii) and (iv)
- (B) (iii) and (iv)
- (C) (i), (iii) and (iv)
- ☒ (D) Only (iii)

10. The mission of Alex Motor Company was :

2

(A) To adopt new technology such as connectivity, advanced safety features and cleaner energy solutions.

(B) Introducing cross-functional teams so that decision making process becomes faster.

(C) To establish company owned showrooms and service centers to increase their sales and provide after sale services.

☒ (D) To transform Indian auto industry by providing comprehensive, affordable and fuel-efficient vehicles through present capability and activities.

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11. Identify the initial strategy to gain competitive advantage adopted by Alex Motor Company.

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- (A) Growth strategy emphasizing strong and fuel-efficient vehicles.
- (B) Focused cost leadership strategy emphasizing fuel efficiency and easy maintenance.
- (C) Focused differentiation strategy emphasizing customized commercial vehicles, easy maintenance and fuel efficiency rather than mass production.
- (D) Expansion strategy emphasizing customized vehicles and mass production.

12. Use McKinsey's 7S Model to identify the soft elements that change during reinvention.

2

(i) Shared value

(ii) Style ✓

(iii) Strategy ✓

(iv) Staff

(A) Only (i) and (ii) are correct.

(B) Only (i), (iii) and (iv) are correct.

☒ (C) (i), (ii), (iii) and (iv) are correct.

(D) Only (i), (ii) and (iv) are correct.

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13. Strategic Management allowed Alex Motor Company to be 2
- (A) More directive towards the cross-functional team to reduce communication barrier. ☒
- (B) Partly proactive as the company anticipated future urban mobility needs and partly reactive as the company responded to the declining sales. ☒
- (C) More proactive as it readily launched Alex Electra with updated technology to stay competitive. ☒
- (D) More authoritative in taking faster decisions. ☒ 201m
14. In General Electric (GE) Nine-Cell Matrix, which two dimensions form the basis of portfolio analysis to develop the strategic options ? 1
- (A) Business Strength and Market Attractiveness
- (B) Company's Strength and Weakness
- (C) Market Share and Market Growth Rate ☒
- (D) Competitive Intensity and Pricing Trends
15. Altex Ltd. is a company that produces and sells home appliances. However, at present the company is facing stiff competition from the new entrants who are offering similar products at a lower price. To stay competitive the top management of the company decided to adopt the best cost provider strategy. Which of the following actions should the company take to align with their best cost provider strategy ? 2

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- (A) Reducing the price of their products without making changes in manufacturing process and product features.
- ✓ (B) Streamlining manufacturing processes to reduce cost, sourcing materials from cost-effective suppliers and adding innovative features to their products.
- (C) Streamlining manufacturing processes to reduce cost with no innovation in product feature.
- (D) Focusing solely on premium features thereby increasing the cost of the products to reflect the added value. +

16. A fashion retail company is designing a new marketing campaign for Generation Z. During its market survey, the company observes that customers' personal preferences, attitudes, lifestyle, motivation, and perception of quality strongly influence their buying behaviour, even before they are exposed to advertisements or peer opinions. Considering these facts, the company should primarily focus on which conceptual domain of the consumer behaviour ? 2

- (A) Cultural influences
- ✓ (B) Social influences
- (C) External influences
- (D) Internal influences