RTP May 2024 | MTP Apr 2024 } FM ✓
MTP Mar 2024 & SM

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CASE BASED MCQs

CA MOHNISH VORA (MVSIR)

CA Mohnish Vora (MVSIR)

- CA, CFA LEVEL 1, B.COM
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  - CA Foundation- Business Economics
  - CA Intermediate- Financial Mgt & Strategic Mgt
- 4+ years of teaching experience
- Passionate about teaching, started teaching at a young age
- Known for making difficult concepts easy by innovative examples, charts, summary & tricks
- Taught thousands of students on various online platforms in a short span of time
- Author of Best selling Books on Economics, BCK, FM

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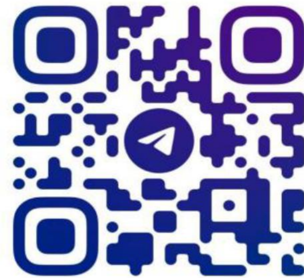

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14.4	Which procedural approach was brought out in the investor meeting by Josh Kitting's for a better market standing of Money Mox? (MTP Oct 23)

a) Business process re-engineering (BPR)
b) Benchmarking
c) Change management
d) Strategy control

14.5	CBZ Bank's offer to buy 100% equity of Money Mox is an example of? (MTP Oct 23)

a) Horizontal merger
b) Concentric diversification
c) Strategic alliance
d) Co-generic merger

Case Study 15 – (MTP May 24)

In the fiercely competitive automotive industry, Zing, a promising newcomer, set out on a strategic journey with ambitions of making a substantial impact. Recognizing the significance of a robust distribution network early on, Zing forged partnerships with established dealerships, offering them attractive margins. This strategic move significantly enhanced Zing's reach, with a presence in 80% of the nation's dealerships by 2022, expanding its coverage significantly.

To differentiate themselves from competitors, Zing adopted two key strategies. Firstly, they prioritized product design, investing heavily in aesthetics and incorporating innovative features and environmentally friendly technologies. This focus on design led to their vehicles receiving excellent reviews and achieving an impressive 15% year-on-year growth in sales.

Secondly, Zing implemented switching costs to discourage customers from switching to other brands. Their vehicles featured branded software, making it both expensive and cumbersome for customers to transition to alternative brands. This strategic move effectively protected Zing's market share.

Zing's overarching goal was to position itself as a premium automotive brand, blending luxury with sustainability. However, their execution fell down as they challenged with maintaining consistent quality and service levels, resulting in mixed customer reviews.

Despite their best efforts, Zing's differentiation strategy fell short due to issues with inconsistent quality and service. Negative word-of-mouth and declining customer satisfaction scores tarnished their brand image, leading to stagnating sales. This failure to deliver on their brand promise proved to be a significant setback.

As Zing's reputation suffered from execution failures, securing additional funds for international expansion became challenging. Consequently, they made the difficult decision to postpone their global ambitions for the next five years, focusing instead on stabilizing their finances and rebuilding their brand image.

In summary, Zing's strategic journey illustrates the importance of not only crafting a compelling differentiation strategy but also executing it flawlessly. In the competitive automotive landscape, maintaining consistent quality and service is paramount to sustaining brand loyalty and achieving long-term success

Based on above Case Scenario, answer MCQs which are as follows:

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MTP Mar 24

15.1 What key strategic approach did Zing use to expand its market presence in automotive industry?

a) Product innovation and design
b) Cost leadership strategy
c) Entering new international markets
d) Vertical integration

MTP Mar 24

15.2 How did Zing protect its market share from potential competitors?

a) Price-cutting strategy
b) Branded software & switching costs
c) Aggressive marketing campaigns
d) International expansion

MTP Mar 24

15.3 Why did Zing's differentiation strategy fall short in the market?

a) Intense price competition
b) Poor marketing strategy
c) Inconsistent quality and service
d) Lack of international expansion

MTP Mar 24

15.4 Forging partnerships with established dealerships to enhance its distribution network falls under which level of strategy?

a) Corporate level strategy
b) Business level strategy
c) Functional level strategy
d) Competitive level strategy

MTP Mar 24

15.5 How did Zing initially expand its market presence across nation?

a) Aggressive marketing campaigns
b) Developing low-cost vehicles
c) Partnering with established dealerships
d) Launching a luxury brand

Case Study 16 – (RTP May 24)

Swasthya, a rising star in India's dynamic healthcare sector, stands out as a prime example of smart strategic management.

At Swasthya, the compass guiding their endeavors is a compelling thought: to emerge as the finest healthcare provider renowned for delivering accessible, top-notch healthcare services. This overarching goal is not an isolated vision, but a thread woven into the very fabric of the organization, driving every facet of their operations. The people of the organization play a pivotal role in this journey. They are entrusted with translating this vision into tangible outcomes at the grassroots level, ensuring that local operations are aligned with the grand aspiration of becoming a healthcare leader.

Swasthya works meticulously towards optimizing each link of the patient experience. From streamlining appointment scheduling to expediting test result delivery, every facet of the healthcare journey is scrutinized. Swasthya's strategy is not merely about being a player in the market but about strategically positioning themselves as leaders. They proactively recognize the constant innovations that could disrupt their areas of expertise. To counter this, they introduced value-added offerings such as telemedicine and wellness programs. This addition not only mitigates the risk but also fortifies their long-term viability

Beyond competition, ensuring the quality and safety of patient care is paramount at Swasthya. Stringent hygiene protocols, equipment maintenance regimens, and adherence to healthcare regulations form the cornerstone of their business. In parallel, the organization meticulously undertakes regular assessment as a central element of its decision-making apparatus. This forward-looking exercise encompasses identifying and assessing potential risks such as regulatory changes,

RTP May 24	
16.5	The case talks about scrutiny of every facet of the healthcare journey and also emphasizes the fact that people of the organization play a pivotal role in this journey. Based on your reading, which level of management has the most crucial part to play here to ensure the sense of customer-first is imbibed in the organization?

a) Top Management (C-Suite) which sets the tone and strategy of the organization
b) Middle Management (Divisional Managers) who have the responsibility of translating strategy to real-time objectives
c) Functional Managers who actually do the work on the field
d) Board of Directors who are responsible for wealth creation of the shareholders

CEO
CFO
COO

Case Study 17 – (MTP Apr 24)

Café Delight, a thriving restaurant chain known for its unique blend of Australian and Indian culinary experiences, embarked on a remarkable journey from its humble beginnings as a small café in Australia to becoming a renowned player in the Indian restaurant industry. This case study digs into the strategic decisions and market dynamics that fueled Café Delight's growth, highlighting its transition from a single café in Powai, Mumbai, to a flourishing chain with a presence in five cities and over 25 stores. It explores how Café Delight effectively leveraged social media and adapted its pricing strategy to compete with global brands while maintaining a healthy profit margin.

In 2005, Café Delight was founded in Melbourne, Australia, by a passionate entrepreneur with a vision to bring the flavors of Australia and India together. The first café established in Powai, Mumbai, received accolades for its unique menu, blending Australian coffee culture with Indian culinary traditions. Over the course of five years, Café Delight expanded to three stores in Mumbai, driven by exceptional mouth publicity, customer loyalty, and consistent quality.

As the social media landscape evolved, Café Delight recognized the power of online platforms in reaching a wider audience. By effectively utilizing social media and online marketing, Café Delight expanded its presence to five cities across India and established over 25 stores. Customer engagement through social media platforms enabled the brand to create a strong and vibrant community, driving organic growth.

Café Delight's customer-centric approach involved continuously evolving its menu to cater to the changing tastes and dietary preferences of its patrons. By understanding the evolving needs of its customers, Café Delight could offer personalized menu items, seasonal specials, and dietary alternatives. This approach created a sense of loyalty and engagement among customers, strengthening the brand's appeal.

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Mendelows

Not just customers but High-power, low-interest stakeholders, including regulatory authorities, were addressed with careful compliance and adherence to industry standards. Low-power, high-interest stakeholders, like potential customers and local communities, were engaged through targeted marketing campaigns and community involvement initiatives. This meticulous stakeholder analysis allowed Café Delight to build and maintain strong relationships with each group, effectively managing their influence and impact on the brand.

With its expanding presence and increasing popularity, Café Delight underwent a shift in its pricing strategy. It transitioned from a pocket-friendly pricing model to a skimming strategy, capitalizing on its unique blend of Australian and Indian flavors to position itself as a premium restaurant. Café Delight faced stiff competition from global brands entering the Indian market but maintained a profit margin of approximately 30% through menu engineering and targeted pricing.

In one of its kind, using strategic tools enabled Café Delight to identify and act on opportunities while mitigating threats, contributing to its long-term success in the highly competitive restaurant industry.

MTP Apr 24

17.1 **Café Delight effectively leveraged social media and adapted its pricing strategy as it stepped into which phase of business life cycle of operations?**

a) Introduction Stage

b) Growth Stage

c) Maturity Stage

d) Decline Stage

MTP Apr 24

17.2 **What stakeholder group did Café Delight engage through targeted marketing campaigns and community involvement initiatives?**

a) High-power, high-interest stakeholders

b) Low-power, low-interest stakeholders

c) Low-power, high-interest stakeholders

d) High-power, low-interest stakeholders

MTP Apr 24

17.3 **What best describes Café Delight's initial expansion strategy when it expanded from one café to three in Mumbai?**

a) Aggressive price reduction

b) Leveraging customer loyalty and word-of-mouth publicity

c) Extensive online marketing

d) Embracing global branding strategies

MTP Apr 24

17.4 **At which level of strategic management does Café Delight's transition from a pocket-friendly pricing model to a skimming strategy fit?**

a) Corporate level

b) Business level

c) Functional level

d) Operational level

MTP Apr 24

17.5 **What type of strategy did Café Delight use to differentiate itself from competitors in the Indian restaurant industry?**

a) Cost leadership strategy

b) Focused differentiation strategy

c) Cost focus strategy

d) Hybrid strategy

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Answer Key

Case Study 1 (MTP May 2020)

1.	c	2.	c	3.	c	4.	c	5.	a

Case Study 2 (MTP Oct 20)

1.	b	2.	d	3.	a	4.	d	5.	a

Case Study 3 (MTP Mar 21)

1.	d	2.	b	3.	c	4.	d	5.	c

Case Study 4 (MTP Apr 21)

1.	b	2.	c	3.	d	4.	c	5.	b

Case Study 5 (MTP Sep 21)

1.	c	2.	c	3.	d	4.	a	5.	b

Case Study 6 (MTP Oct 21)

1.	c	2.	c	3.	d	4.	b	5.	a

Case Study 7 (MTP Mar 22)

1.	c	2.	b	3.	d	4.	d	5.	d

Case Study 8 (MTP Apr 22)

1.	d	2.	c	3.	d	4.	c	5.	c

Case Study 9 (MTP Sep 22)

1.	b	2.	a	3.	c	4.	d	5.	d

Case Study 10 (MTP Oct 22)

1.	b	2.	d	3.	a	4.	b	5.	c

Case Study 11 (MTP Mar 23)

1.	d	2.	a	3.	b	4.	c

Case Study 12 (MTP Apr 23)

1.	a	2.	b	3.	d	4.	c	5.	c

Case Study 13 (MTP Apr 23)

1.	b	2.	c	3.	c	4.	d	5.	a

Case Study 14 (MTP Oct 23)

1.	c	2.	b	3.	d	4.	b	5.	d

Case Study 15 (MTP Mar 24)

1.	a	2.	b	3.	c	4.	b	5.	c

Case Study 16 (RTP May 24)

1.	b	2.	b	3.	c	4.	c	5.	b

Case Study 17 (MTP Apr 24)

1.	b	2.	c	3.	b	4.	b	5.	b

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Case Study 1 - MTP Mar 24

NV Industries Ltd. is a manufacturing industry which manages its accounts receivables internally by its sales and credit department. It supplies small articles to different industries. The total sales ledger of the company stands at ₹ 200 lakhs of which 80% is credit sales. The company has a credit policy of 2/40, net 120. Past experience of the company has been that on average out of the total, 50% of customers avail of discount and the balance of the receivables are collected on average in 120 days. The finance controller estimated, bad debt losses are around 1% of credit sales.

With escalating cost associated with the in-house management of the debtors coupled with the need to unburden the management with the task so as to focus on sales promotion, the CFO is examining the possibility of outsourcing its factoring service for managing its receivables. Currently, the firm spends about ₹ 2,40,000 per annum to administer its credit sales. These are avoidable as a factoring firm is prepared to buy the firm's receivables.

The main elements of the proposal are :

(i) It will charge 2% commission

(ii) It will pay advance against receivables to the firm at an interest rate of 18% after withholding 10% as reserve.

Also, company has option to take long term loan at 15% interest or may take bank finance for working capital at 14% interest.

You were also present at the meeting; being a financial consultant, the CFO has asked you to be ready with the following questions:

Consider year as 360 days.

MTP Mar 24

1. (i) What is average level of receivables of the company?

a) Rs. 53,33,333
b) Rs. 35,55,556
c) Rs. 44,44,444
d) Rs. 71,11,111

MTP Mar 24

1. (ii) How much advance factor will pay against receivables?

a) Rs. 31,28,889
b) Rs. 39,11,111
c) Rs. 30,03,733
d) Rs. 46,93,333

MTP Mar 24

1. (iii) What is the annual cost of factoring to the company?

a) Rs. 8,83,200
b) Rs. 4,26,667
c) Rs. 5,51,823
d) Rs. 4,00,000

MTP Mar 24

1. (iv) What is the net cost to the company on taking factoring service?

a) Rs. 4,00,000
b) Rs. 4,26,667
c) Rs. 3,50,000
d) Rs. 4,83,200

MTP Mar 24

1. (v) What is the effective cost of factoring on advance received?

a) 16.09%
b) 13.31%
c) 12.78%
d) 15.89%

$\frac{483200}{3003733} \times 100$

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Case Study 2 - RTP May 24

ArMore LLP is a newly established startup dealing in manufacture of a revolutionary product HDHMR which is a substitute to conventional wood and plywood. It is an economical substitute for manufacture of furniture and home furnishing. It has been asked by a venture capitalist for an estimated amount of funds required for setting up plant and also the amount of circulating capital required. A consultant hired by the entity has advised that the cost of setting up the plant would be ₹ 5 Crores and it will require 1 year to make the plant operational.

The anticipated revenue and associated cost numbers are as follows:
Units to be sold = 3 lakh sq metres p.a.
Sale Price of each sq mtr = ₹ 1000
Raw Material cost = ₹ 200 per sq mtr
Labour cost = ₹ 50 per hour
Labour hours per sq mtr = 3 hours
Cash Manufacturing Overheads = ₹ 75 per machine hour

Machine hours per sq mtr = 2 hours
Selling and credit administration Overheads = ₹ 250 per sq mtr

Being a new product in the industry, the firm will have to give a longer credit period of 3 months to its customers. It will maintain a stock of raw material equal to 15% of annual consumption. Based on negotiation with the creditors, the payment period has been agreed to be 1 month from the date of purchase. The entity will hold finished goods equal to 2 months of units to be sold. All other expenses are to be paid one month in arrears. Cash and Bank balance to the tune of ₹ 25,00,000 is required to be maintained.

The entity is also considering reducing the working capital requirement by either of the two options: a) reducing the credit period to customers by a month which will lead to reduction in sales by 5%. b) Engaging with a factor for managing the receivables, who will charge a commission of 2% of invoice value and will also advance 65% of receivables @ 12% p.a. This will lead to savings in administration and bad debts cost to the extent of Rs 20 lakhs and 16 lakhs respectively.

The entity is also considering funding a part of working capital by bank loan. For this purpose, bank has stipulated that it will grant 75% of net current assets as advance against working capital. The bank has quoted 16.5% rate of interest with a condition of opening a current account with it, which will require 10% of loan amount to be minimum average balance.

You being an finance manager, has been asked the following questions:

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RTP May 24	
2. (i)	The anticipated profit before tax per annum after the plant is operational is ________

a) 750 Lakhs
b) 570 Lakhs
c) 370 Lakhs
d) 525 Lakhs

3 Lakh sqm × ₹250 psm = ₹750 Lakh

RTP May 24	
2. (ii)	The estimated current assets requirement in the first year of operation (debtors calculated at cost) is ________

a) 9,42,50,000
b) 2,17,08,333
c) 7,25,41,667
d) 67,08,333

RTP May 24	
2. (iii)	The net working capital requirement for the first year of operation is ________

a) 9,42,50,000
b) 2,17,08,333
c) 7,25,41,667
d) 67,08,333

RTP May 24	
2. (iv)	The annualized % cost of two options for reducing the working capital is ________

a) 18.18% and 16.92%
b) 18.33% and 16.92%
c) 18.59% and 18.33%
d) 16.92% and 19.05%

RTP May 24	
2. (v)	What will be the Maximum Permissible Bank Finance by the bank and annualized % cost of the same?

a) 4,55,03,630 and 18.33%
b) 5,44,06,250 and 18.33%
c) 4,45,86,025 and 18.59%
d) 3,45,89,020 and 19.85%

₹100 90 → ₹16.50

Cost incur / kitna amt use karne mila = ₹16.50 / ₹90 × 100 = 18.33%

Case Study 3 - MTP Apr 24

Tiago Ltd is an all-equity company engaged in manufacturing of batteries for electric vehicles. There has been a surge in demand for their products due to rising oil prices. The company was established 5 years ago with an initial capital of ₹ 10,00,000 and since then it has raised funds by IPO taking the total paid up capital to ₹ 1 crore comprising of fully paid-up equity shares of face value ₹ 10 each.

Existing capital = 1.60 cr

The company currently has undistributed reserves of ₹ 60,00,000. The company has been following constant dividend payout policy of 40% of earnings. The retained earnings by company are going to provide a return on equity of 20%. → b = 60%

The current EPS is estimated as Rs 20 and prevailing PE ratio on the share of company is 15x. The company wants to expand its capital base by raising additional funds by way of debt, preference and equity mix. The company requires an additional fund of ₹ 1,20,00,000. The target ratio of owned to borrowed funds is 4:1 post the fund-raising activity. Capital gearing is to be kept at 0.4x.

The existing debt markets are under pressure due to ongoing RBI action on NPAs of the commercial bank. Due to challenges in raising the debt funds, the company will have to offer ₹ 100 face value debentures at an attractive yield of 9.5% and a coupon rate of 8% to the investors. Issue expenses will amount to 4% of the proceeds.

The preference shares will have a face value of ₹ 1000 each offering a dividend rate of 10%. The preference shares will be issued at a premium of 5% and redeemed at a premium of 10% after 10 years at the same time at which debentures will be redeemed.

The CFO of the company is evaluating a new battery technology to invest the above raised money. The technology is expected to have a life of 7 years. It will generate a after tax marginal operating cash flow of ₹ 25,00,000 p.a.
Assume marginal tax rate to be 27%.

MTP Apr 24

3. (i)	Which of the following is best estimate of cost of equity for Tiago Ltd?

a) 12.99%
b) 11.99%
c) 13.99%
d) 14.99%

MTP Apr 24

3. (ii)	Which of the following is the most accurate measure of issue price of debentures?

a) 100
b) 96
c) 90.58
d) 95.88

MTP Apr 24

3. (iii)	Which of the following is the best estimate of cost of debentures to be issued by the company? (Using approximation method)

a) 7.64%
b) 6.74%
c) 4.64%
d) 5.78%

MTP Apr 24

3. (iv)	Calculate the cost of preference shares using approximation method

a) 10.23%
b) 11.22%
c) 12.12%
d) 12.22%

MTP Apr 24

3. (v)	Which of the following best represents the overall cost of marginal capital to be raised?

a) 10.76%
b) 17.16%
c) 16.17%
d) 16.71%

FM Case Study - Answer Key

1.(i)	B	2. (i)	A	3. (i)	D
1.(ii)	C	2. (ii)	A	3. (ii)	C
1.(iii)	A	2. (iii)	C	3. (iii)	A
1.(iv)	D	2. (iv)	A	3. (iv)	B
1.(v)	A	2. (v)	B	3. (v)	A

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* Case Study 1 - MTP March 2024 [N.V. Industries]

i) Calculation of Avg level of Receivables

- Credit Sales = 200L × 80% = ₹160L
- Avg Collection Period = [40d × 50%] + [120d × 50%]
  (weighted average)
  = 80 days.
- Avg Level of Receivables

$160L \times \frac{80}{360}$ = ₹35,55,556

OR

$\left[80L \times \frac{40}{360}\right] + \left[80L \times \frac{120}{360}\right]$ ₹35,55,556

ii) Calculation of Net Amount of Advance

Particulars	Amt (₹)
Factoring commission [3555556 × 2%]	71,111
Reserve [35,55,556 × 10%]	3,55,556
Total (a)	4,26,667
Thus, amt available for advance	
Avg Level of Rec.	35,55,556
(−) Total (a) from above	(4,26,667)
	31,28,889
(−) Interest on Advance $31,28,889 \times 18\% \times \frac{80}{360}$	(1,25,156)
Net Amt of Advance (Adv. to be received)	30,03,733

iii) Evaluation of Factoring Proposal

	Particulars	Amt (₹)
A)	Savings due to Factoring	
	Admin cost	2,40,000
	Bad Debts [1% x 160L]	1,60,000
	Total Savings	4,00,000
B)	Costs due to Factoring	
	Commission $[71,111 \times \frac{360}{80}]$	3,20,000
	Interest on Adv. $[1,25,156 \times \frac{360}{80}]$	5,63,202
	Total Costs	8,83,202
C)	Net costs due to factoring [B − A]	4,83,202

D) Effective cost of Factoring on Advance Received

$\frac{483202}{30,03,733} \times 100$ = 16.09%

* Case Study 2 - RTP May 2024 [Ar More LLP]

i) Profit

$$3 \text{ lakh units} \times (1{,}000 - 750) = ₹750 \text{ Lakhs.}$$

- Total units produced = units sold (+) Cl. Stock (-) Op. St.
  = 3L (+) [3L × 2/12] - 0
  = 3.50L sq. m.

ii) WC Statement

A) Current Assets	
• RM Stock [3.50L × ₹200] × 15%	1,05,00,000
• FG Stock [3L × 2/12] × ₹500 ↓ [Selling on nahi aayega]	2,50,00,000
• Debtors [@ cost] → [3L × 750 × 3/12]	5,62,50,000
• Cash & Bank	25,00,000
Total CA	942.50L
B) CL	
Creditors → 805L (Purchases) × 1/12	67,08,333
O/S Exp → [(3.50L units × 300 × 1/12) + (3L × 250 × 1/12)]	1,50,00,000
Total CL	2,17,08,333
WC Reqd. (A − B)	7,25,41,667

iii) **Reducing credit period by 1 mt**

Reduction in level of Debtors = Old Debtors − New Dbt

$= 562.50L - \left[2.85L \times 750 \times \frac{2}{12}\right]$

$= 562.50L - 356.25L$

$= ₹\ 206.25L$

Reduction in Profit = $[3L \times 5\%] \times ₹250$ p.u.

$= ₹\ 37.50L$

% Cost = $\frac{37.50L}{206.25L} \times 100 =$ 18.18%

iv) **Net cost of Factoring**

A) Cost due to Factoring	
• Commission [2% × 3L × 1000]	60,00,000
• Int on Advance [3L × 1000 × $\frac{3}{12}$ × 65% × 12%]	58,50,000
Total cost	1,18,50,000
B) Savings due to Factoring	
• Admin cost	20,00,000
• Bad Debt	16,00,000
Total savings	36,00,000
C) Net cost [A−B]	82,50,000
D) Effective cost → $\frac{82.50L}{487.50L} \times 100$	16.92%

v)

MTP Apr 2024

i) $Ke = \frac{D_0(1+g)}{P_0} + g$

Here,

$D_0 = EPS \times DPR = 20 \times 40\% = £8$

$g = b \times r = 60\% \times 20\% = 12\%$

$P_0 = EPS \times PER = £20 \times 15 = £300$

$Ke = \frac{8(1+0.12)}{300} + 0.12$

$= 14.99\%$

ii) Issue Price $= \frac{£8}{9.50\%} = £84.21$ [Refer PP 5 of FM Chp 4]

Alternatively,

[Do NOT do it after-tax]

Most Accurate Method

Market value of Deb [P_0] $=$ [Interest $\times$ PVAF(9.50%, 10y)] + [R.V. $\times$ PVIF (9.50%, 10y)]

$= [8 \times 6.279] + [100 \times 0.404]$

$= £90.63$

iii) $K_d = \dfrac{Int(1-t) + \left(\frac{RV-NP}{n}\right)}{\left(\frac{RV+NP}{2}\right)}$

Here, NP = 90.63 - 4% = ₹ 87

$\therefore K_d = \dfrac{8(1-0.27) + \left(\frac{100-87}{10}\right)}{\left(\frac{100+87}{2}\right)}$

$= \dfrac{5.84 + 1.30}{93.50} = 7.64\%$

iv) $K_p = \dfrac{P_D + \left(\frac{RV-NP}{n}\right)}{\left(\frac{RV+NP}{2}\right)}$

$= \dfrac{100 + \left(\frac{1100-950}{10}\right)}{\left(\frac{1100+950}{2}\right)} = \dfrac{115}{1025} = 11.22\%$

v) Marginal cost of capital

- Capital Gearing Ratio = $\dfrac{\text{Fixed cost funds}}{\text{Non-fixed cost funds}}$

$\Rightarrow 0.4 = \dfrac{PSC + Debt}{Equity}$

$\Rightarrow$ 0.4 Equity = Total capital − Equity

$\Rightarrow$ 1.40 Equity = 1.60 cr + 1.20 cr

$\Rightarrow$ Equity = $\dfrac{2.80 \text{ cr}}{1.40}$ = ₹ 2 cr.

Additional Equity to be raised = 2 cr − 1.60 cr (Equity) = ₹ 40 L

$\therefore$ PSC + Debt = 2.80 cr − 2 cr = 80 lakhs → (1)

- $\frac{\text{Owned}}{\text{Borrowed}} = \frac{4}{1}$

$\Rightarrow \frac{\text{Equity + PSC}}{\text{Debt}} = 4$

$\Rightarrow$ Equity + PSC = 4 Debt

$\Rightarrow$ PSC = 4 Debt − 2 cr

Now, equation ①

$\Rightarrow$ [4 Debt − 2 cr] + Debt = 80 lakh

$\Rightarrow$ 5 Debt = 2.80 cr

$\Rightarrow$ Debt = ₹56 Lakhs.

∴ PSC = 80L − 56L = ₹24 Lakhs.

(1.20 cr)

Calculation of Marginal Cost of Capital

Sources	Amt	wi	ki	wi x ki
Equity	40 L	0.33	14.99%	4.95%
Debt	56 L	0.47	7.64%	3.59%
PSC	24L	0.20	11.22%	2.24%
	120L	1	−	10.78%

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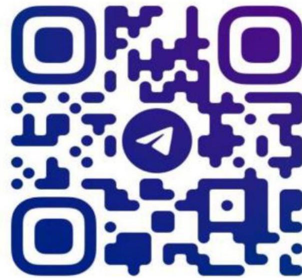

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