PART – II

SECTION – A

1. (a) The following information is available for S Ltd. for the year ended 31st March, 2025 : **5**

Raw Material consumed	20% of COGS
Raw Material Inventory turnover ratio	4.00
Finished Goods Inventory holding period	0.75 month
Gross profit (based on COGS)	12.50%
Debtor collection period (all sales are credit sales)	3 months
Proprietary ratio	0.3125
Fixed Assets turnover ratio (based on sales)	3.00
Fixed Assets to Total Assets	40%

You are required to prepare a Balance Sheet as on 31st March, 2025 in the following format :

Liabilities	₹	Assets	₹
Shareholders' Fund (assume no Preference Shares)		Fixed Assets	12,00,000
Long-term Debt	15,00,000	Stock of Raw Material	
Current Liabilities		Stock of Finished Goods	
		Debtors	
		Cash	
Total		**Total**	

(b) Y Ltd. produces energy drinks in different flavours. Due to high demand of its product, the rate of return on its earnings is 25%. Currently, the company retains 60% of its earnings and distributes the rest. The current P/E ratio is 8 and earnings per share is ₹ 10. 2+1+2 =5

According to Gordon's Model :

(i) What will be retention ratio if the company wants to maintain its P/E ratio to 12 in current year, given that the expected rate of return for an investor is 20% ?

(ii) What will be the expected price per share after one year if Y Ltd. achieves above-mentioned targeted P/E ratio ?

(iii) Will there be any change in retention ratio if the company wants to maintain its P/E ratio to 10 in current year, given that the expected rate of return for an investor is 17.50% ?

(c) Following information relates to A Ltd. for the year ended 31st March, 2025 : 2+1+2=5

Profit volume ratio	24%
Operating leverage	2.00
Financial leverage	1.50
Interest Expenses	₹ 12,000
Tax rate	30%
Number of Equity Shares	1,000

You are required to :

(i) Prepare Income Statement for the year ended 31st March, 2025.

(ii) Calculate EPS.

(iii) Calculate percentage change in earnings per share, if sales increase by 5%.

2. (a) Capital structure of B Ltd. for the year ended 31st March, 2025 are as follows : 1+2+3+2=8

Particulars	Amount (₹)
Equity share capital @ ₹ 10 each	14,00,000
10% Preference share capital @ ₹ 1,000 each	10,00,000
Debenture @ ₹ 100 each	9,60,000
Bank Loan	6,40,000

- Risk-free rate of return is 14%, Market rate of return is 19% and beta of company is 1.20.
- 10% Preference shares are redeemable at ₹ 1,065.40 after 3 years.
- Interest on bank loan is 1.30 times of interest on debentures.
- Debentures are redeemable at par after 5 years. Floatation cost is ₹ 4 per debenture.
- Tax rate is 30%.
- Cost of capital is 14%.

You are required to calculate the following :

(i) Cost of Equity.

(ii) Cost of preference share using YTM method.

(iii) Post-tax cost of debenture using approximation method.

(iv) Interest rate of bank loan.

PV factors @ 10% and 14%

Year	1	2	3	4
$PVIF_{0.10,\,t}$	0.909	0.826	0.751	0.683
$PVIF_{0.14,\,t}$	0.877	0.769	0.675	0.592

(b) Following details are related to H Ltd. : 2

EPS	₹ 3.00
Return on investment	20%
Cost of equity	15%

$P = \frac{D + \frac{r}{k_e}(E-D)}{k_e}$

As per Walter's Model, what would be the maximum and minimum price of share ?

3. (a) Following data are given for a capital project : 1+1+1+1+2=6

Annual interim cash inflows for first two years	₹ 1,00,000
Annual interim cash inflows for next two years	₹ 80,000
Useful life	4 Years
Salvage value at end of the project	₹ 50,000
Internal rate of return	12%
Cost of capital	10%

You are required to calculate the following :

(i) Initial investment ~~[illegible]~~ 3,08,640

(ii) Net present value

(iii) Profitability Index

(iv) Discounted payback period

(v) MIRR

Year	1	2	3	4
$PVIF_{0.09, t}$	0.917	0.842	0.772	0.708
$PVIF_{0.10, t}$	0.909	0.826	0.751	0.683
$PVIF_{0.11, t}$	0.901	0.812	0.731	0.659
$PVIF_{0.12, t}$	0.893	0.797	0.712	0.636
$FVIF_{0.10, t}$	1.100	1.210	1.331	1.464
$FVIF_{0.12, t}$	1.120	1.254	1.405	1.574

(b) Z Ltd. is an unlevered company. It wants to repurchase its equity shares of ₹ 300 lakhs by issue of 12% debentures of same amount. Current market value of Z Ltd. is ₹ 1,400 lakhs. Its cost of capital is 18%. The company will maintain same level of EBIT in future years. Dividend pay-out ratio is 100%. Company pays tax at a rate of 30%. 4

As per Modigliani and Miller approach, due to such change in capital structure, what will be impact on the following ?

(i) Market Value of Z Ltd.

(ii) Overall cost of capital

(iii) Cost of equity

4. (a) What is agency cost and what are its types ? How can a company minimize agency cost and align the interest of manager and shareholder ? 4

(b) What are key features of bridge financing ? 4

(c) What is hierarchy of financing under 'Pecking Order' theory, and why does it exist ? 2

OR

(c) "The total risk of any business is the combination of degree of operating and financial risk". In the light of the above statement, you are required to consider the first two columns of the given table and give your comments in the 3rd column. 2

Your comments should depict the total risk profile by using the most appropriate amongst the following three words only :

Lower, Higher and Moderate.

Also select the best combination of DOL and DFL from the given table.

DOL	DFL	Comments
Low	High	
High	Low	
High	High	

SECTION – B

5. (a) SemiCon Pvt. Ltd. (SPL) is engaged in manufacturing of semiconductors from the year 2024. Company wants to start a strategic path to be followed in future so as to build best quality semiconductor and display design with innovative ecosystem to enable India's emergence as a global hub for electronics manufacturing in a more structured manner. Placing core values as its priority, it would like to clearly articulate its aspirations to the stakeholders with a guiding beacon to keep inspiring its workforce. 1+1+ 1+2=5

Identify and explain one of the components of strategic intent which will help indicate towards above stated intentions. Why such component is important for a successful organization ? Also state the essentials of such component.

(b) In addition to new market opportunities and change in customer preferences, as a known fact, technology is also changing very fast. In view of the same, 'Twaran', having a small and mid-sized business wants to use latest digital technologies for improved procedures and products. The primary aim of the firm is to have a competitive edge in the evolving business landscape by digital transformation. The entity would like to deal with regular changes firmly, along with transforming its management techniques. 1+4 =5

Identify the strategy required for digital transformation. Also state the most preferred practices to be followed by the entity.

(c) MaAi is a prominent group of companies. Currently it has businesses named Alpha, Bravo, Charlie and Delta. In year 2020, the company had acquired a business dealing in product 'Nota'. In evaluating the contribution to its portfolio, it was observed that product 'Nota', is not contributing as it was expected rather causing a financial duress. After identifying apparent problem area, in the year 2023, an emphasis was placed on change in management and improvement in internal efficiency. However, on further evaluation in the year 2024, it was observed that even after due emphasis, positive outcome is not there and in-turn the company decided to get rid-of the business related to product 'Nota'. 1+1+3=5

Identify the retrenchment strategies followed by the company for product 'Nota' (i) in the year 2023 (ii) in the year 2024. Also state various reasons to adopt the strategy by any organization, as followed in the year 2024 for product 'Nota'.

6. (a) Explain the importance of values, as one of the components of strategic intent for a company. What are the common examples of values ? How values are different from intent ? 3+1+1=5

(b) In order to get better performance and sustainable competitive advantages, a company has to focus on the characteristics of its resources and capabilities. In view of this, explain the major characteristics of resources and capabilities. **5**

(a) What do you mean by value chain analysis ? Delineate the support activities in value chain analysis, as stated by Michael Porter. **1+4 =5**

(b) Explain differentiation strategy as one of the generic strategies by Michael Porter. What are the major bases of differentiation ? Also outline the strategies which can help achieve the differentiation strategy. **1+2+ 2=5**

(a) What do you mean by Key Success Factors (KSF) ? Structure the questions, answer to which can help identify KSFs of a company. Also state, as to how the understanding can help ascertain sustainable competitive advantages. **1+2+ 2=5**

(b) Explain in brief the expansion strategy as one of the corporate strategy. Also state the characteristics of expansion strategy. **1+4 =5**

OR

(b) "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. 1+4 =5