# PART – I

## SECTION – A

### Case Scenario - I

AB Infra Projects Limited operates in the construction and infrastructure sector, executing large-scale public and private projects. The company has shown consistent profitability and strong project execution capabilities, which is supported by a balanced mix of equity and long-term debt financing. With several new infrastructure projects under consideration, the management now wants to review the cost of capital to ensure that the company's financing decisions are efficient and aligned with the company's strategic growth objectives. The finance department is evaluating the cost of equity, cost of preference shares and cost of debentures to determine the company's overall Weighted Average Cost of Capital (WACC) and maintain financial stability. The capital structure of AB Infra Projects Limited is as follows : CHARTERED STUDIES

| Particulars | Amount (₹ ) |
|---|---|
| Equity Shares (face value ₹ 10 per share) | 60,00,000 |
| 12% Preference Share Capital | 20,00,000 |
| 10% Convertible Debentures | 40,00,000 |
| Total Capital of the Company | 1,20,00,000 |

The following are some of the additional information provided by the company relating to the above-mentioned capital structure :

(i) The risk-free rate of return ($R_f$) is 6%, equity beta ($\beta$) is 1.25 and equity risk premium ($R_p$) is 8%.

(ii) The face value of 12% preference shares is ₹ 100 each. These shares are irredeemable, having a flotation cost of 4%. The current market price of preference share is ₹ 100 per share. CHARTERED STUDIES

(iii) 10% convertible debentures of ₹ 100 each are issued with a maturity period of 5 Years. At maturity, the debenture holders will have an option to convert the debenture into equity shares of the company in the ratio of 1 : 4 (4 shares for each debenture). The current market price of the equity share is ₹ 120 each and company expects share prices to grow at an average rate of 5% per annum in the future. The current market price per debenture is ₹ 150.

(iv) The rate of corporate income tax is 30%.

Based on the above information, you are required to answer the following questions **1 to 5 :**

1. What is the cost of the convertible debentures using approximation method ? **2**

   (A) 29.33% (B) 30.74%

   (C) 32.50% (D) 28.25%

2. What is the weighted average cost of capital using market value weights ? **2**

   (A) 16.05% (B) 18.55%

   (C) 19.20% (D) 17.02%

3. If the capital structure remains unchanged, determine the market price per equity share (MPS) when the net profit available to equity shareholders (after tax) is ₹ 48,00,000 and the company's P/E ratio is 21. **2**

   (A) ₹ 168 (B) ₹ 175

   (C) ₹ 150 (D) ₹ 180

4. What is the cost of equity share capital using Capital Asset Pricing Model (CAPM) Approach and cost of irredeemable preference share capital ? 2

(A) 14.5% and 13%

(B) 15% and 11.5%

(C) 16% and 12.5%

(D) 17.5% and 12%

5. What is the Redemption Value (RV) of debenture ? 2

(A) ₹ 612.62

(B) ₹ 650.60

(C) ₹ 480.00

(D) ₹ 515.50



6. ZED Ltd. is expecting to pay a dividend of ₹ 50 per share in the next financial year 2025-26. The company's speed of adjustment is 25%, the target pay-out ratio is 40%, and the earnings per share (EPS) for the year amount to ₹ 200. What was the dividend paid for the financial year 2024-25 using Lintner's Model ? 1

(A) ₹ 30 per share

(B) ₹ 40 per share

(C) ₹ 60 per share

(D) ₹ 50 per share

7. Mr. X, a senior executive of BPC Electronics Limited has holding of 42,000 shares of the company. The shares are currently trading in the stock exchange at ₹ 480 per share. Mr. X has a policy of reinvesting the amount of any dividends received back into the shares of the company. BPC Electronics Limited has declared and paid a dividend of ₹ 30 per share.

What is the total number of shares that Mr. X would hold after he reinvests the dividend received in shares of BPC Electronics Limited ? 2

(A) 45,500 shares (B) 44,800 shares

(C) 45,000 shares (D) 44,625 shares ·

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8. A firm maintains a separate account for cash disbursement. The administrative and transaction cost of transferring cash to the disbursement account is ₹ 25 per transfer. Marketable securities yield 10% per annum. The firm has determined its optimum cash balance at ₹ 30,000, according to the William J. Baumol Model.

What will be the Total Annual Cash Disbursements of the firm ? 2

(A) ₹ 18,00,000 ·

(B) ₹ 45,00,000

(C) ₹ 36,00,000

(D) ₹ 27,00,000

## SECTION – B

**Case Scenario - II**

Kalpanjali Dairy, a mid-sized cooperative based in Uttar Pradesh, has established a reputation over the past 20 years for producing traditional but high-quality dairy products sourced from small-scale farmers. Its operations are rooted in cooperative ethics, aiming for both profitability and farmer welfare.

Now, Kalpanjali is facing multiple cross-challenges — rising competition, shifting health narratives, concern for climate change, and ethical debates around animal welfare. With a vision to become a national brand by 2035, Kalpanjali must rethink its plan of action. 

The founders of Kalpanjali Dairy intended to create a values-driven brand that not only delivered quality but also empowered dairy farmers. It intends to become one of the top 10 dairy brands in India by 2035, with a strong presence in organic and health-based dairy offerings and proving good services, which is in a heavy demand and has to draw a vision plan accordingly.

A Value Chain Analysis revealed strength in material handling, stock control and better transportation system, but a gap in R&D and digital marketing.

After extensive stakeholder discussion, Kalpanjali considered three strategic options :

1. Defensive Strategy – Double down on traditional dairy and educate consumers on the nutritional value of milk and the ethical treatment of animals.
2. Diversification Strategy – Launch a vegan product line (e.g., almond/oat-based milk, vegan yogurt) under a sub-brand to appeal to changing preferences.
3. Collaborative Strategy – Partner with NGOs and health influencers to improve public image and trust.

On detailed internal analysis of various strategic drivers, leadership opted for a hybrid strategy :

- Continue improving and promoting high-quality dairy products with transparent animal welfare practices.
- Simultaneously launch a vegan line to cater to health-conscious and ethically driven consumers under a new sub-brand Kalpanjali PlantWise.
- Investing in an R&D facility to develop almond milk, oat milk, and vegan ghee.
- Partnering with food tech startups and nutritionists.
- Training farmers to improve animal healthcare and promote "cruelty-free dairy" certification.
- A strong communication campaign: "Empowered by your choice, grounded in respect" — highlighting that Kalpanjali supports both dairy and plant-based lifestyles.
- Rebranding efforts to clearly differentiate the dairy and vegan lines while maintaining core brand identity.

Based on the above case scenario, choose the correct answer to Question No. **9** to **13**.

9. Kalpanjali Dairy has decided to launch a new product line featuring vegan yogurt and organic milk in response to shifting consumer preferences.

   This initiative represents which type of strategic option ? **2**

   (A) Market Penetration

   (B) Concentric Diversification

   (C) Conglomerate Diversification

   (D) Innovation

10. There is external pressure on the company's traditional dairy business. Which type of strategic challenge is the company facing ? 2

(A) Supply chain inefficiency

(B) Industry deregulation

(C) Socio-cultural shift impacting demand

(D) Technological disruption

11. What strategic driver did company adopt for a long term strategy ? 2

(A) Product

(B) Industry

(C) Pricing

(D) Channel

12. Kalpanjali Dairy's action plan to become a top 10 dairy brand by 2035, with a strong presence in organic and health-based dairy offerings, is an example of : 2

(A) Strategic control

(B) Strategic intent

(C) Operational efficiency

(D) Tactical planning

13. Within the context of Kalpanjali Dairy's analysis, which of the following would be best classified as strength ? 2

(A) Operations

(B) Service

(C) Inbound logistics

(D) Sales

14. A café is overcrowded on weekends but nearly empty on weekdays. To even out demand, it launches a "Workday Loyalty Card" with discounts for weekday visits. This strategy illustrates : 1

(A) Demarketing

(B) Augmented Marketing

(C) Social Marketing

(D) Synchro-marketing



15. Herbal Care Pvt. Ltd., a reputed Ayurveda brand, had strong domestic sales but struggled to expand internationally due to unclear long-term direction. After reviewing its declining exports, the company introduced a strategic plan focused on global positioning, R&D investment, and sustainable packaging. The process unified departmental efforts, improved brand consistency, and attracted foreign partners. Within a short span, Herbal Care's exports rose significantly. This case highlights which key importance of strategic management ? 2

(A) It enhances daily operational control.

(B) It provides clear direction and long-term organizational focus to move ahead.

(C) It focuses mainly on employee enhancement and growth.

(D) It ensures faster product manufacturing.

16. Urban Stay Realty decided to expand into Tier-2 cities after strategic planning. The firm allocated budgets, assigned projects to motivated teams, collaborated with local banks for financing, set up monitoring systems for construction and marketing activities, and develop conducive culture. Within two years, the company launched new housing projects successfully and captured market share in new regions. Which stage of strategic management does this case describe ? **2**

(A) Environmental Scanning

(B) Strategy Formulation

(C) Strategy Implementation

(D) Evaluation and Control

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## PART – II

### SECTION – A

1. (a) From the books of AIL Limited following information is taken for the year 2024-25 : 2+1+2 =5

| | |
|---|---|
| Gross profit margin (25% of Sales) | ₹ 30,00,000 |
| Inventory holding period | 28 Days |
| Opening Inventory | ₹ 8,00,000 |
| Current Ratio | 1.20 |
| Quick Ratio | 0.80 |
| Selling & Distribution Expenses | ₹ 12,00,000 |
| Depreciation and other Non-cash Expenses | ₹ 4,80,000 |

CHARTERED STUDIES

Assume 360 days in a year.

You are required to calculate :

(i) Inventory as on 31.03.2025

(ii) Working Capital

(iii) Basic Defense Interval

(b) X Ltd. has average debtors of ₹ 90,00,000. The company's average collection period is 60 days. At present, it incurs credit administration expenses of ₹ 4,00,000 per year and bad-debt losses amounting to 1% of credit sales. 4+1 =5

A factoring company has proposed to purchase these receivables by charging a commission of 2% on credit sales. The factor will provide an advance of 85% of receivables, after keeping 15% as reserve, and will charge interest at 15% per annum for the collection period. Assume 360 days in a year.

Required : CHARTERED STUDIES

(i) Calculate the effective cost of factoring.

(ii) As a financial consultant, advise whether X Ltd. should accept the factoring proposal.

(c) PQR Ltd. is a leading company operating in the coal sector, engaged in the extraction, processing, and distribution of coal for industrial and energy purposes. **2+3 =5**

The following information is provided by the management of PQR Ltd.:

| Particulars | |
|---|---|
| Issued Share Capital | ₹ 24,00,000 |
| Dividend Paid | ₹ 10 per Share |
| Growth Rate | 20% p.a. in perpetuity |
| Cost of Equity ($K_e$) | 25% |

You are required to calculate :

(i) Using Gordon Model : CHARTERED STUDIES

(a) The current market price of the share.

(b) Number of issued shares, if market price per share (MPS) is equal to face value per share.

(ii) Using Modigliani and Miller (MM) Hypothesis :

(a) The market price of the share at the end of year if dividend is paid. Use the current market price calculated in Gordon model as $P_0$.

(b) What will be the amount of earnings required for the company so that the MM hypothesis holds true, if the company has made new investments of ₹ 5,00,000 during the period and issued 1,000 new equity shares ?

2. (a) RK Limited provided following data for the year ended on 31-03-2025 : **2+1+2 =5**

| | |
|---|---|
| Sales | ₹ 50,00,000 |
| EPS | ₹ 2.50 |
| Tax Rate | 40% |
| Fixed cost excluding interest | ₹ 10,80,000 |

The Capital structure is as under :

| | |
|---|---|
| Equity Share capital of ₹ 10/- each | ₹ 18,00,000 |
| 10% Preference share of ₹ 100/- each | ₹ 9,00,000 |
| 12% Debentures | ₹ 75,00,000 |

You are required to :

(i) Calculate Earnings before Interest and Tax (EBIT). 39,20,000

(ii) Calculate Combined Leverage. 1.6556

(iii) Advise, the level of sales where Earning before Tax (EBT) will be zero. 19,80,000

(b) Algo Steel Ltd. is a well-established company in the steel manufacturing sector, successfully operating for the past 20 years. The existing capital structure comprises of 80% equity and 20% debt. Company's Cost of Equity ($K_e$) is 13.5%, reflecting the return expected by shareholders. Its debt component comprises of a bank loan carrying an interest rate of 8% per annum. The company is subject to taxation and taxes are to be considered in project evaluation. After preliminary evaluation, the Board of Directors has shortlisted a project with the following details : 2+3 =5

| Particulars | CHARTERED STUDIES |
|---|---|
| Initial Investment | ₹ 24,00,000 |
| Estimated Salvage Value | 10% of Initial Investment |
| Expected Life of the Project | 4 years |
| Tax Savings on Depreciation | ₹ 1,35,000 p.a. |
| Method of Depreciation | Straight Line Method (SLM) |

| Particulars | Year 1 | Year 2 | Year 3 | Year 4 |
|---|---|---|---|---|
| Expected Cash Flows before depreciation & tax (in ₹) | 12,00,000 | 20,00,000 | 18,00,000 | 16,00,000 |
| PV Factor @ 10.00 % | 0.909 | 0.826 | 0.751 | 0.683 |
| PV Factor @ 12.00 % | 0.893 | 0.797 | 0.712 | 0.636 |

Required :

(i) Calculate Average Rate of Return (ARR) based on Average Investment.

(ii) Calculate Net Present Value (NPV) by using Weighted Average Cost of Capital (WACC).

3. (a) The Balance Sheet extract of ST Ltd. as on March 31 (current year) is as follows : 4+4 =8

| Liabilities | Amount (₹ in lakh) | Assets | Amount (₹ in lakh) |
|---|---|---|---|
| Share capital | 260 | Fixed Assets | 600 |
| Reserves | 168 | Inventories | 360 |
| Long-term loans | 420 | Receivables | 270 |
| Short-term loans | 220 | Cash & bank | 78 |
| Payables | 144 | | |
| Provisions | 96 | | |
| | 1,308 | | 1,308 |

Sales for the current year amounted to ₹ 900 lakh. For the next financial year ending March 31 (next year), sales are expected to increase by 20%. 

The net profit margin (after tax) is expected to be 5% of sales, and the dividend payout ratio is anticipated to be 50%.

Total assets including cash & bank and current liabilities (payables and provisions) vary directly with sales.

You are required to :

(i) Estimate the amount of external funds required (EFR) for the next financial year.

(ii) Determine the sources and composition of funds to meet the requirement, given the following parameters :

(1) The current ratio must be maintained at 1.40.

(2) The ratio of fixed assets to long-term loans should be 1.50.

(3) The remaining fund is raised by issue of Equity shares.

(4) The additional funds are to be raised in the following order of preference :

(i) Short-term bank borrowings

(ii) Long-term loans

(iii) Equity

(b) Explain in what ways financial leverage operates as a "double edged sword". **2**



4. (a) Discuss briefly the key features of seed capital assistance as a source of finance. **4**

(b) Why the Virtual banking service is popular among the customers ? Discuss the advantages of Virtual Banking. **4**

(c) Define financial distress. Briefly explain the consequences of a prolonged financial distress. **2**

**OR**

(c) BEE Ltd. has a current ratio of 2:1, showing enough short-term liquidity in the company. You are required to comment whether the current ratio will improve, decline, or remain unchanged.

| Sr. No. | Transaction | Impact |
|---|---|---|
| (i) | A debtor owing ₹ 60,000 becomes insolvent and only 75% is recovered in cash in full and final settlement. | ↓ |
| (ii) | Issued equity shares for ₹ 2,00,000, proceeds kept in current account with bank. | ↔ |
| (iii) | ₹ 25,000 collected from customers in cash. | ↔ |
| (iv) | Goods costing ₹ 8,000 sold for ₹ 12,500 on credit. | ↑ |

## SECTION – B

5. (a) Full Health Limited is a beverage company engaged in the production and distribution of energy drink. It plans to launch a new line of beverages targeted at health-conscious consumers. The Indian energy drink market, however, is already saturated with strong competitors, including several well-established national and international brands that command a significant market share. Considering the dominant position of these rival firms in the segment, which analytical tool would you recommend the manager to use to assess the market environment ? Additionally, explain the procedure for implementing this tool effectively. **1+4 =5**

(b) Next Tech Solutions, an IT services firm, is suffering from declining client retention, rising operational costs, and outdated service offerings. Employee morale is low, and the firm's reputation for innovation has faded. Due to uncompetitive product and services, continuous losses, negative cash flow from business have alarmed investors. The board chooses not to wind up the operations but to rejuvenate the organization through effective leadership. They appointed Mr. Moksha a young and visionary executive to initiate strategic changes. What corporate strategy should Moksha adopt, and what measures should he take to implement this strategy effectively and ensure long-term sustainability ? **1+4 =5**



(c) Mr. Rohit Khanna runs a chain of organic grocery stores under the brand name "Green Basket" in northern India. Over the past two years, he has faced intense competition from large retail chains and online delivery platforms offering organic products at discounted prices. Despite loyal customers, his profit margins are shrinking. On his consultant's advice, Rohit decided to undertake a comprehensive study to understand the competitors, their vision, mission, and financial status to gain competitive advantage. Identify the business analysis done by Mr. Rohit and discuss steps to carry out the same. **1+4 =5**

6. (a) What is Corporate culture ? Where does it come from ? 5

   (b) In a business strategy, consider a firm pursuing cost leadership to become the lowest-cost producer in its industry. For this approach to be effective, what key conditions must be present ? However, cost leadership is not without its pitfalls – discuss the potential disadvantages that could undermine its effectiveness. 1+4 =5

7. (a) An organization should select the right strategic performance measures that are aligned with its goals and objectives and provide relevant and actionable information. Explain all the factors and importance of these factors that needs to be considered. 4+1 =5

   CHARTERED STUDIES

   (b) Innovation is widely regarded as a catalyst for business growth, enabling firms to upgrade existing products and processes, enhance customer satisfaction, and improve profitability. In light of this statement explain what an innovation offers to the organisation and any risk involved in doing so. 4+1 =5

8. (a) Porter's five forces model hold that the state of competition in an industry is a composite of active competitive pressure in the market. Identify the areas of market in which competitive pressure operates. 5

   (b) Objectives with a strategic focus is aimed at achieving outcomes that enhance an organization's overall business position and competitive strength. In view of the above statement, enumerate the characteristics of ideal objectives that are meaningful and effectively serve their intended purpose. 5

**OR**

   (b) Write short note on concept of strategy.