

Mock Test Paper - Series I: July 2026

Date of Paper: 5th August 2026

Time of Paper: 10 A.M. to 1 P.M.

INTERMEDIATE: GROUP – II

PAPER – 6: FINANCIAL MANAGEMENT & STRATEGIC MANAGEMENT

PAPER 6A : FINANCIAL MANAGEMENT

Suggested Answers/ Hints

PART I – Case Scenario based MCQs

1. (c) ₹ 50,00,000

Revenue from Sale of Processed Waste = 20,00,000 kg × ₹ 5 = ₹ 1,00,00,000

Add: Disposal Cost Saved = 20,00,000 kg × ₹ 0.50 = ₹ 10,00,000

Total Relevant Benefits = ₹ 1,10,00,000

Less: Variable Processing Cost = 20,00,000 kg × ₹ 2.50 = ₹ 50,00,000

Less: Additional Fixed Costs

Particulars	Amount (₹)
Advertising Expenses	4,00,000
Additional Fixed Cost	6,00,000
Total	10,00,000

Incremental Contribution Before Depreciation & Tax = 1,10,00,000 – 50,00,000 – ₹ 10,00,000 = ₹ 50,00,000

2. (c) ₹ 31,00,000 Incremental Contribution Before Depreciation & Tax = ₹ 50,00,000

Less: Depreciation = ₹ 1,20,00,000 / 10 = ₹ 12,00,000

Profit Before Tax = 50,00,000 – 12,00,000 = ₹ 38,00,000

Less: Tax @ 50% = ₹ 19,00,000

Profit After Tax = ₹ 19,00,000

Add Back Depreciation = 19,00,000 + 12,00,000 = ₹ 31,00,000

3. (b) ₹ 1,55,58,900

Annual After-tax Cash Inflow = ₹ 31,00,000

Present Value of Annual Cash Inflows = ₹ 31,00,000 × 5.019 = ₹ 1,55,58,900

4. (c) ₹ 35,58,900

Particulars	Amount (₹)
PV of Annual Cash Inflows	1,55,58,900
Less: Initial Investment	1,20,00,000
Net Present Value	35,58,900

Since NPV is positive, the company should process the waste further instead of disposing it externally.

5. (c) ₹ 38,00,000

Incremental Contribution Before Depreciation & Tax From earlier computation:

Particulars	Amount (₹)
Sales Revenue from Processed Waste	1,00,00,000
Add: Disposal Cost Saved	10,00,000
Total Benefits	1,10,00,000
Less: Variable Processing Cost	(50,00,000)
Less: Additional Fixed Costs	(10,00,000)
Contribution Before Depreciation & Tax	50,00,000

Less: Depreciation = Cost of Machine/Useful Life = ₹ 1,20,00,000/10 = ₹ 12,00,000

Profit Before Tax (PBT) = 50,00,000 – 12,00,000 = ₹ 38,00,000

6. (b) **ROCE = EBIT / Total Capital Employed**

Total Capital Employed = Total Assets – Current Liabilities = 45 lakhs – 5 lakhs = 40 lakhs

EBIT = 40 lakhs × 20% = 8 lakhs

Operating Leverage (3) = Contribution / EBIT

Therefore, Contribution = 8 lakhs × 3 = 24 lakhs

Sales = Contribution / P/V Ratio = 24 lakhs / 0.80 = 30 lakhs

7. (b) Cost of Debt = Interest Payment / Market Price of Bond = (7,000 / 93,000) × 100 = 7.53%

8. (d) Cost of equity will increase. As Meera Enterprises raises its debt ratio, financial risk to equity shareholders rises (higher fixed interest obligations and greater earnings volatility for equity holders), so equity investors demand a higher return to compensate — increasing the cost of equity.

PART II – Descriptive Questions

1. (a) (i)

Valuation of firms

Particulars	A Ltd	B Ltd
	Levered Firm (₹)	Unlevered Firm (₹)
EBIT	45,000	45,000
Less: Interest on debt (10% × ₹ 1,50,000)	15,000	Nil
Earnings available to Equity shareholders	30,000	45,000
Ke	12.5%	12.5%
Value of Equity (S) (Earnings available to Equity shareholders/ Ke)	2,40,000	3,60,000
Debt (D)	1,50,000	Nil
Value of Firm (V) = S + D	3,90,000	3,60,000

Value of Levered company is more than that of unlevered company. Therefore, investor will sell his shares in levered company and buy shares in unlevered company. To maintain the level of risk he will borrow proportionate amount and invest that amount also in shares of unlevered company.

(ii) Investment & Borrowings

Sell shares in Levered company (₹ 2,40,000 × 20%)	48,000
Borrow money (₹ 1,50,000 × 20%)	<u>30,000</u>
Buy shares in Unlevered company	<u>78,000</u>

(iii) Change in Return

Income from shares in Unlevered company (₹ 78,000 × 12.5%)	9,750
Less: Interest on loan (₹ 30,000 × 10%)	<u>3,000</u>
Net Income from unlevered firm	6,750
Less: Income from Levered firm (₹ 48,000 × 12.5%)	<u>6,000</u>
Incremental Income due to arbitrage	<u>750</u>

- (b) (i) Cost of Equity (K_e) = $\frac{D_1}{P_0 - F} + g = \frac{₹1}{₹24 - ₹4} + 0.05 = 0.1$ or 10%
- (ii) Cost of Debt (K_d) Current market price (P_0) – flotation cost = $I(1-t) \times PVAF(r, 10) + RV \times PVIF(r, 10)$ ₹ 105 – 4% of ₹ 105 = ₹ 10 $(1-0.3) \times PVAF(r, 10) + ₹ 100 \times PVIF(r, 10)$ Calculation of NPV at discount rate of 5% and 7%

Year	Cash flows (₹)	Discount factor @ 5%	Present Value	Discount factor @ 7%	Present Value (₹)
0	100.8	1.000	(100.8)	1.000	(100.8)
1 to 10	7	7.722	54.05	7.024	49.17
10	100	0.614	61.40	0.508	50.80
NPV			+14.65		-0.83

Calculation of IRR

$$IRR = 5\% + \frac{14.65}{14.65 - (-0.83)}(7\% - 5\%) = 5\% + \frac{14.65}{15.48}(7\% - 5\%) = 6.89\%$$

Cost of Debt (K_d) = 6.89%

- (iii) Cost of Preference shares (K_p) Current market price (P_0) – flotation cost = $PD \times PVAF(r, 10) + RV \times PVIF(r, 10)$ ₹ 110 – 2% of ₹ 110 = ₹ 5 $\times PVAF(r, 10) + ₹ 100 \times PVIF(r, 10)$

Calculation of NPV at discount rate of 3% and 5%

Year	Cash flows (₹)	Discount factor @ 3%	Present Value	Discount factor @ 5%	Present Value (₹)
0	107.8	1.000	(107.8)	1.000	(107.8)
1 to 10	5	8.530	42.65	7.722	38.61
10	100	0.744	74.40	0.614	61.40
NPV			+9.25		-7.79

Calculation of IRR

$$IRR = 3\% + \frac{9.25}{9.25 - (-7.79)}(5\% - 3\%) = 3\% + \frac{9.25}{17.04}(5\% - 3\%) = 4.08\%$$

Cost of Preference Shares (K_p) = 4.08%

(a) Calculation of WACC using book value weights

Source of capital	Book Value	Weights	After tax cost of capital	WACC (K_o)
	(₹)	(a)	(b)	(c) = (a)×(b)
10% Debentures	5,00,000	0.25	0.0689	0.01723
5% Preference shares	5,00,000	0.25	0.0408	0.0102
Equity shares	10,00,000	0.50	0.10	0.05000
	20,00,000	1.00		0.07743

$$\text{WACC } (K_o) = 0.07743 \text{ or } 7.74\%$$

(b) Calculation of WACC using market value weights

Source of capital	Market Value	Weights	After tax cost of capital	WACC (K_o)
	(₹)	(a)	(b)	(c) = (a)×(b)
10% Debentures (₹ 105× 5,000)	5,25,000	0.151	0.0689	0.0104
5% Preference shares (₹ 110× 5,000)	5,50,000	0.158	0.0408	0.0064
Equity shares (₹ 24× 1,00,000)	24,00,000	0.691	0.10	0.0691
	34,75,000	1.000		0.0859

$$\text{WACC } (K_o) = 0.0859 \text{ or } 8.59\%$$

(c) Income Statements of Company A and Company B

	Company A (₹)	Company B (₹)
Sales	1,32,000	1,12,000
Less: Variable cost	88,000	56,000
Contribution	44,000	56,000
Less: Fixed Cost	26,500	42,000
Earnings before interest and tax (EBIT)	17,500	14,000
Less: Interest	14,000	11,000

Earnings before tax (EBT)	3,500	3,000
Less: Tax @ 30%	1,050	900
Earnings after tax (EAT)	2,450	2,100

Working Notes:

Company A

$$(i) \quad \text{Financial Leverage} = \frac{\text{EBIT}}{\text{EBT i.e EBIT - Interest}}$$

$$\text{So, } 5 = \frac{\text{EBIT}}{\text{EBIT} - 14,000}$$

$$\text{Or, } 5 (\text{EBIT} - 14,000) = \text{EBIT}$$

$$\text{Or, } 4 \text{ EBIT} = 70,000$$

$$\text{Or, EBIT} = ₹17,500$$

$$(ii) \quad \text{Contribution} = \text{EBIT} + \text{Fixed Cost} = ₹ 17,500 + ₹ 26,500 = ₹ 44,000$$

$$(iii) \quad \text{Sales} = \text{Contribution} + \text{Variable cost} = ₹ 44,000 + ₹ 88,000 = ₹ 1,32,000$$

Company B

$$(i) \quad \text{Operating Leverage} = 1/\text{Margin of Safety} = \frac{\text{Contribution}}{\text{EBIT}} \times 1/0.25$$

$$= \frac{\text{Contribution}}{₹ 14,000} \times 4 = \frac{\text{Contribution}}{₹ 14,000}$$

$$\text{Contribution} = ₹ 14,000 \times 4 = ₹ 56,000$$

$$(ii) \quad \text{Fixed Cost} = \text{Contribution} - \text{EBIT} = 56,000 - 14,000 = ₹ 42,000$$

$$(iii) \quad \text{Contribution} = 50\% \text{ of Sales (as Variable Cost is 50\% of Sales)}$$

$$\text{Sales} = 56,000 \times 2 = ₹ 1,12,000$$

2. (a) (a) In case of customer A, there is no increase in sales even if the credit is given. Hence comparative statement for B & C is given below:

Particulars	Customer B				Customer C			
1. Credit period (days)	0	30	60	90	0	30	60	90
2. Sales Units	1,000	1,500	2,000	2,500	-	-	1,000	1,500

	₹ in lakhs				₹ in lakhs			
3. Sales Value	90	135	180	225	-	-	90	135
4. Contribution at 20% (A)	18	27	36	45	-	-	18	27
5. Receivables: <u>Credit Period × Sales</u> 360	-	11.25	30	56.25	-	-	15	33.75
6. Debtors at cost i.e. 80% of 11.25	-	9	24	45	-	-	12	27
7. Cost of carrying debtors at 20% (B)	-	1.8	4.8	9	-	-	2.4	5.4
8. Excess of contributions over cost of carrying debtors (A – B)	18	25.2	31.2	36	-	-	15.6	21.6

The excess of contribution over cost of carrying Debtors is highest in case of credit period of 90 days in respect of both the customers B and C. Hence, credit period of 90 days should be allowed to B and C.

(b) Problem

- (i) Customer A is taking 1000 TV sets whether credit is given or not. Customer C is taking 1000 TV sets at credit for 60 days. Hence A also may demand credit for 60 days compulsorily.
- (ii) B will take 2500 TV sets at credit for 90 days whereas C would lift 1500 sets only. In such case B will demand further relaxation in credit period i.e. B may ask for 120 days credit.

(b) Level of investment depends on the various factors listed below:

- (a) Nature of Industry:** Construction companies, breweries etc. requires large investment in working capital due long gestation period.
- (b) Types of products:** Consumer durable has large inventory as compared to perishable products.
- (c) Manufacturing Vs Trading Vs Service:** A manufacturing entity has to maintain three levels of inventory i.e. raw material, work-in-process and

finished goods whereas a trading and a service entity has to maintain inventory only in the form of trading stock and consumables respectively.

- (d) **Volume of sales:** Where the sales are high, there is a possibility of high receivables as well.
- (e) **Credit policy:** An entity whose credit policy is liberal has not only high level of receivables but may require more capital to fund raw material purchases as that will depend on credit period allowed by suppliers.

3. (a) As per MM Hypothesis, value of firm/ company is calculated as below:

$$V_f \text{ or } nP_0 = \frac{(n + \Delta n)P_1 - I + E}{(1 + K_e)}$$

Where,

- V_f = Value of firm in the beginning of the period
- n = number of shares in the beginning of the period
- Δn = number of shares issued to raise the funds required
- I = Amount required for investment
- E = total earnings during the period

- (i) **Value of the ZX Ltd. when dividends are not paid.**

$$\begin{aligned} nP_0 &= \frac{(n + \Delta n)P_1 - I + E}{1 + K_e} \\ nP_0 &= \frac{\left(1,00,000 + \frac{20,00,000}{115}\right) \times ₹ 115 - ₹ 95,00,000 + ₹ 75,00,000}{(1 + 0.15)} \\ &= \frac{₹ 1,35,00,000 - ₹ 95,00,000 + ₹ 75,00,000}{(1 + 0.15)} = ₹ 1,00,00,000 \end{aligned}$$

Working notes:

1. **Price of share at the end of the period (P_1)**

$$P_0 = \frac{P_1 + D_1}{1 + K_e}$$

$$100 = \frac{P_1 + 0}{1 + 0.15} \quad \text{or,} \quad P_1 = 115$$

2. Calculation of funds required for investment

Earnings	₹ 75,00,000
Dividend distributed	Nil
Fund available for investment	₹ 75,00,000
Total Investment	₹ 95,00,000
Balance Funds required	₹ 20,00,000

3. Calculation of no. of shares required to be issued for balance fund

$$\text{No. of shares } (\Delta n) = \frac{\text{Funds required}}{\text{Price at end } (P_1)} = \frac{20,00,000}{115} \text{ shares}$$

(ii) Value of the ZX Ltd. when dividends are paid.

$$nP_0 = \frac{(n + \Delta n)P_1 - I + E}{1 + K_e}$$

$$nP_0 = \frac{\left(1,00,000 + \frac{70,00,000}{65}\right) \times ₹ 65 - ₹ 95,00,000 + ₹ 75,00,000}{(1 + 0.15)}$$

$$= \frac{₹ 1,35,00,000 - ₹ 95,00,000 + ₹ 75,00,000}{(1 + 0.15)} = ₹ 1,00,00,000$$

Working notes:

4. Price of share at the end of the period (P_1)

$$P_0 = \frac{P_1 + D_1}{1 + K_e}$$

$$100 = \frac{P_1 + 50}{1 + 0.15} \quad \text{or,} \quad P_1 = ₹ 65$$

5. Calculation of funds required for investment

Earnings	₹ 75,00,000
Dividend distributed	₹ 50,00,000
Fund available for investment	₹ 25,00,000
Total Investment	₹ 95,00,000
Balance Funds required	₹ 70,00,000

6. Calculation of no. of shares required to be issued for balance fund

$$\text{No. of shares } (\Delta n) = \frac{\text{Funds required}}{\text{Price at end } (P_1)} = \frac{70,00,000}{65} = 1,07,693 \text{ shares}$$

(approx.)

Note- As per MM-hypothesis of dividend irrelevance, value of firm remains same irrespective of dividend paid. In the solution, there may be variation in value, which is due to rounding off error.

(b) Working notes:

(i) Current Assets and Current Liabilities computation:

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{2.5}{1}$$

Or Current assets = 2.5 Current liabilities

Now, Working capital = Current assets – Current liabilities

Or ₹ 4,80,000 = 2.5 Current liability – Current liability

Or 1.5 Current liability = ₹ 4,80,000

∴ Current Liabilities = ₹ 3,20,000

So, Current Assets = ₹ 3,20,000 × 2.5 = ₹ 8,00,000

(ii) Computation of stock

$$\text{Liquid ratio} = \frac{\text{Liquid assets}}{\text{Current liabilities}}$$

Or 1.5 = $\frac{\text{Current assets} - \text{Inventories}}{₹ 3,20,000}$

$$\begin{aligned}\text{Or } 1.5 \times ₹ 3,20,000 &= ₹ 8,00,000 - \text{Inventories} \\ \text{Or Inventories} &= ₹ 8,00,000 - ₹ 4,80,000 \\ \text{Or Stock} &= ₹ 3,20,000\end{aligned}$$

(iii) **Computation of Proprietary fund; Fixed assets; Capital and Sundry creditors**

$$\text{Fixed Asset to Proprietary ratio} = \frac{\text{Fixed assets}}{\text{Proprietary fund}} = 0.75$$

$$\therefore \text{Fixed Assets} = 0.75 \text{ Proprietary fund (PF)} [\text{FA} + \text{NWC} = \text{PF}]$$

$$\text{or NWC} = \text{PF} - \text{FA} [(i.e. .75 \text{ PF})]$$

$$\text{and Net Working Capital (NWC)} = 0.25 \text{ Proprietary fund}$$

$$\text{Or } ₹ 4,80,000 / 0.25 = \text{Proprietary fund}$$

$$\text{Or Proprietary fund} = ₹ 19,20,000$$

$$\begin{aligned}\text{and Fixed Assets} &= 0.75 \text{ proprietary fund} \\ &= 0.75 \times ₹ 19,20,000 = ₹ 14,40,000\end{aligned}$$

$$\begin{aligned}\text{Capital} &= \text{Proprietary fund} - \text{Reserves \& Surplus} \\ &= ₹ 19,20,000 - ₹ 3,20,000 = ₹ 16,00,000\end{aligned}$$

$$\begin{aligned}\text{Sundry Creditors} &= (\text{Current liabilities} - \text{Bank overdraft}) \\ &= (₹ 3,20,000 - ₹ 80,000) = ₹ 2,40,000\end{aligned}$$

Balance Sheet as at 31st March, 2020

Liabilities	₹	Assets	₹
Capital	16,00,000	Fixed Assets	14,40,000
Reserves & Surplus	3,20,000	Stock	3,20,000
Bank overdraft	80,000	Other Current Assets	4,80,000
Sundry creditors	<u>2,40,000</u>		<u> </u>
	<u>22,40,000</u>		<u>22,40,000</u>

4. (a) **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 or bank. The credit worthiness of borrower is evaluated and a contract is entered into with repayment schedule structure 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* – The SPV structure and issue securities on the basis of these assets 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 may be a 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.

- (b) (i) **Sales and Lease Back:** Under this type of lease, the owner of an asset sells the asset to a party (the buyer), who in turn leases back the same asset to the owner in consideration of a lease rentals. Under this arrangement, the asset is not physically exchanged but it all happen in records only. The main advantage of this method is that the lessee can satisfy himself completely regarding the quality of an asset and after possession of the asset convert the sale into a lease agreement. Under this transaction, the seller assumes the role of lessee (as the same asset which he has sold came back to him in the form of lease) and the buyer assumes the role of a lessor (as asset purchased by him was leased back to the seller). So, the seller gets the agreed selling price and the buyer gets the lease rentals.

- (ii) **Leveraged Lease:** Under this lease, a third party is involved besides lessor and the lessee. The lessor borrows a part of the purchase cost (say 80%) of the asset from the third party i.e., lender and asset so purchased is held as security against the loan. The lender is paid off from the lease rentals directly by the lessee and the surplus after meeting the claims of the lender goes to the lessor. The lessor is entitled to claim depreciation allowance.
 - (iii) **Sales-aid Lease:** Under this lease contract, the lessor enters into a tie up with a manufacturer for marketing the latter's product through his own leasing operations, it is called a sales-aid lease. In consideration of the aid in sales, the manufacturer may grant either credit or a commission to the lessor. Thus, the lessor earns from both sources i.e. From lessee as well as the manufacturer.
 - (iv) **Close-ended and Open-ended Leases:** In the close-ended lease, the assets get transferred to the lessor at the end of lease, the risk of obsolescence, residual value etc., remain with the lessor being the legal owner of the asset. In the open-ended lease, the lessee has the option of purchasing the asset at the end of the lease period.
- (c) The profit maximisation is not an operationally feasible criterion." This statement is true because profit maximisation can be a short-term objective for any organisation and cannot be its sole objective. Profit maximization fails to serve as an operational criterion for maximizing the owner's economic welfare. It fails to provide an operationally feasible measure for ranking alternative courses of action in terms of their economic efficiency. It suffers from the following limitations:
- (i) **Vague term:** The definition of the term profit is ambiguous. Does it mean short term or long term profit? Does it refer to profit before or after tax? Total profit or profit per share?
 - (ii) **Timing of Return:** The profit maximization objective does not make distinction between returns received in different time periods. It gives no consideration to the time value of money, and values benefits received today and benefits received after a period as the same.
 - (iii) It ignores the risk factor.
 - (iv) The term maximization is also vague.

OR

- (c) When the cost of 'fixed cost fund' is less than the return on investment, financial leverage will help to increase return on equity and EPS. The firm will also benefit from the saving of tax on interest on debts etc. However, when cost of debt will be more than the return it will affect return of equity and EPS unfavourably and as a result firm can be under financial distress. Therefore, financial leverage is also known as "**double edged sword**".

Effect on EPS and ROE:

When, $ROI > \text{Interest}$ – Favourable – Advantage

When, $ROI < \text{Interest}$ – Unfavourable – Disadvantage

When, $ROI = \text{Interest}$ – Neutral – Neither advantage nor disadvantage

PAPER 6B: STRATEGIC MANAGEMENT

ANSWERS

PART I

- | | | | | | | | | | | |
|--------|-----|-----|------|-----|-------|-----|------|-----|-----|-----|
| 1. (A) | (i) | (b) | (ii) | (d) | (iii) | (b) | (iv) | (a) | (v) | (c) |
| (B) | (i) | (b) | (ii) | (b) | (iii) | (a) | | | | |

PART II PART II – Descriptive Questions

1. (a) JJ Sir should develop the qualities of a strategic thinker because long-term success depends not only on expertise in classical music but also on the effective application of strategic management. Strategic management enables an organisation to perform better than its competitors by creating a competitive advantage and responding successfully to changes in the environment.

In the given case, the increasing demand for online classes represents a change in the business environment. Instead of rejecting the idea, JJ Sir should evaluate it strategically. Strategic thinking will help the academy:

- **Provide direction** by aligning decisions with the academy's vision of making classical music globally recognised.
- **Be proactive rather than reactive** by analysing environmental changes and responding appropriately.
- **Identify and exploit new opportunities**, such as reaching students across the country through online learning.
- **Enhance the longevity of the academy** by adapting to changing customer needs and ensuring sustainable growth.
- **Develop competitive advantage and core competencies**, enabling the academy to strengthen its position while preserving the quality and authenticity of classical music.

Thus, strategic thinking will help JJ Sir achieve the academy's mission while ensuring its long-term survival, growth, and sustainability.

- (b) Rafi Merchant overlooked the strategic driver of **Customers**. Customers are one of the key strategic drivers, and organisations must understand the needs, preferences and buying behaviour of their target customers before taking strategic decisions. Different customers have different requirements and changes in

customer preferences directly influence the demand for products and services. In the given case, customers shifted their preference from premium wooden planks to polyester-based furnishing materials due to their greater durability, affordability and wider range of colours. As a result, the demand for wooden planks declined, leading to substantial losses for Rafi Merchant despite the strategic alliance.

Apart from **Customers**, organisations should also analyse the following strategic drivers before making strategic business decisions:

1. **Industry and Markets:** Organisations should understand their position in the industry and the markets in which they operate. This involves analysing the competitive environment, market size, customer segments, growth opportunities and competitors' strategies. Such analysis helps in identifying the organisation's competitive position and formulating strategies to achieve and sustain a competitive advantage.
2. **Products/Services:** Organisations should continuously evaluate whether their products or services meet changing customer needs. They should improve existing products, introduce new offerings, or discontinue unprofitable ones. Product differentiation through quality, branding, innovation, packaging and after-sales service helps organisations remain competitive and create customer value.
3. **Channels:** Organisations should analyse the effectiveness of their sales, product, and service channels. Efficient distribution channels improve market reach, ensure better customer accessibility, strengthen customer service and support business expansion while creating barriers for new competitors.

- (c) The growth strategy adopted by Jeff Inc. and Desi Group is a **Strategic Alliance**. A strategic alliance is an arrangement between two or more independent firms to cooperate in achieving specific strategic objectives. The participating firms remain legally independent but share resources, capabilities, knowledge and risks to achieve mutual benefits.

Advantages of Strategic Alliance

1. **Organisational Advantage:** The alliance enables Jeff Inc. to leverage Desi Group's manufacturing capabilities and production facilities, while Desi Group gains access to Jeff Inc.'s technological expertise and global quality standards. This facilitates learning and capability enhancement for both partners.

2. **Economic Advantage:** By sharing production facilities, investment and operational costs, both companies can reduce costs and business risks. Higher production volumes for exports also help achieve economies of scale, resulting in lower per-unit production cost.
3. **Strategic Advantage:** The collaboration allows both companies to pool their resources and competencies, thereby strengthening their competitive position in international markets. It also provides opportunities for joint product development and technology advancement.
4. **Political Advantage:** Collaborating with an established Indian manufacturer enables Jeff Inc. to benefit from local market knowledge, regulatory support and ease of operations, while Desi Group enhances its international presence through association with a reputed global brand.

Thus, the collaboration between Jeff Inc. and Desi Group represents a Strategic Alliance, enabling both organisations to achieve common strategic objectives by combining their complementary strengths while remaining independent entities.

2. (a) **Main Levels of Management in an Organization**

In a typical large organization, there are three main levels of management:

1. **Corporate Level:** This includes the Chief Executive Officer (CEO), senior executives, and the board of directors. Their primary responsibility is to oversee the organization as a whole, make strategic decisions, define the mission and goals, allocate resources, and manage the corporate portfolio of businesses.
2. **Business Level:** This level consists of general managers responsible for specific Strategic Business Units (SBUs). They translate corporate-level strategies into concrete plans for their respective divisions, focusing on creating competitive advantages and achieving profitability.
3. **Functional Level:** This level encompasses managers responsible for specific functions such as finance, marketing, and human resources. They develop functional strategies aligned with the objectives set by the corporate and business-level managers and are crucial for implementing strategies effectively.

Types of Networks of Relationship Between Management Levels

1. **Functional and Divisional Relationship:** This independent relationship operates where each function or division is managed independently, with

business-level managers reporting to corporate-level managers. For example, finance and marketing functions operate under their respective heads, who report to the division head.

2. **Horizontal Relationship:** This flat structure promotes equality among all employees, facilitating openness and transparency. All positions, from top management to staff-level employees, share the same hierarchical status, enhancing idea-sharing and innovation, particularly in startups.
3. **Matrix Relationship:** This complex structure combines various departments into project-based teams. It features multiple business-level managers for each functional team, making it suitable for large organizations with diverse operations, enabling efficient management of projects across different functions.

These levels and their relationships help streamline decision-making and strategy implementation within an organization, fostering a cohesive approach to achieving business goals.

- (b) Rising competition, business cycles and economic volatility have created a climate where no business can take viability for granted. Turnaround strategy is a highly targeted effort to return an organization to profitability and increase positive cash flow to a sufficient level. Organizations that have faced a significant crisis that has negatively affected operations require turnaround strategy. Turnaround strategy is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is a question. When organization is facing both internal and external pressures making things difficult, then it has to find something which is entirely new, innovative and different. Being organization's first objective is to survive and then grow in the market; turnaround strategy is used when organization's survival is under threat. Once turnaround is successful the organization may focus on growth.

Conditions for turnaround strategies: When firms are losing their grips over market, profits are due to several internal and external factors, and if they have to survive in the competitive environment, they have to identify danger signals as early as possible and undertake rectification steps immediately. These are certain conditions or indicators which point out that a turnaround is needed if the company has to survive. These danger signals are:

- Persistent negative cash flow from business.
- Uncompetitive products or services.
- Declining market share.

- Deterioration in physical facilities.
- Over-staffing, high turnover of employees, and low morale.
- Mismanagement.

3. (a) **Mendelow's Matrix** is a stakeholder analysis tool that categorises stakeholders based on their **Power** (ability to influence the organisation) and **Interest** (level of concern in the organisation's success). It helps organisations determine the appropriate level of engagement with different stakeholders.

GreenBasket Pvt. Ltd. should manage its stakeholders as follows:

- **Key Players (High Power, High Interest):** Investors and top management should be closely involved in strategic decisions and regularly consulted, as they significantly influence the organisation's success.
- **Keep Satisfied (High Power, Low Interest):** Regulatory authorities and lenders should be kept satisfied through compliance, timely communication, and periodic updates.
- **Keep Informed (Low Power, High Interest):** Employees, suppliers, and customers should receive regular information and feedback opportunities, as they are highly interested in the organisation's activities.
- **Low Priority (Low Power, Low Interest):** Business magazines and similar external groups require only occasional monitoring, with minimum time and resources devoted to them.

Using Mendelow's Matrix enables GreenBasket Pvt. Ltd. to allocate its resources efficiently, strengthen stakeholder relationships, and improve the effectiveness of its strategic decisions.

- (b) Any organisation may find the work of digital transformation challenging and overwhelming. To ensure that a digital transition is effective, change management is essential. Here are some pointers for navigating change during the digital transformation:

1. **Specify the digital transformation's aims and objectives:** What is the intended outcome? What are the precise objectives that must be accomplished? It will be easier to make sure that everyone is on the same page and pursuing the same aims if everyone has a clear grasp of the goals.
2. **Always, always, always communicate:** It might be challenging for people to accept change and adjust to it. Ensure that you routinely and honestly

discuss the objectives of digital transformation and how they will affect stakeholders, including employees, clients, and other parties.

3. **Be ready for resistance:** Even when a change is for the better, it can be challenging for people to embrace it. Have a strategy in place for dealing with any resistance that may arise.
4. **Implement changes gradually:** Changes should ideally be implemented gradually rather than all at once. In order to avoid overwhelming individuals with too much change at once, this will give people time to become used to the new way of doing things.
5. **Offer assistance and training:** Workers will need guidance in the new procedures, software applications, etc.

In conclusion, effective completion of the massive project known as digital transformation depends on meticulous planning and change management. Digital transformation efforts are more likely to fail without change management. Organizations can successfully integrate a new digital system by planning for and managing the changes that must take place. Any project involving digital transformation must include it.

4. (a) Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating and internal work environment. Every organisation has a unique culture shaped by its philosophy, history, values, rituals, work climate and ingrained ways of doing things. Corporate culture exerts a powerful influence on the behaviour of managers and employees and guides how decisions are made and work is carried out.

Where Does Corporate Culture Come From?

Corporate culture is shaped and manifested through the following sources:

1. **Values and Business Principles of Management:** The values, ethical standards and business principles that management **preaches and practices** strongly influence organisational culture.
2. **Organisational History and Traditions:** Past experiences, successes, failures, traditions, stories and legends repeated within the organisation help embed cultural values.
3. **Leadership Behaviour and Supervisory Practices:** The leadership style, attitudes and behaviour of managers shape employee conduct and work practices.

4. **Stakeholder Relationships:** Dealings with employees, unions, shareholders, vendors and the community influence beliefs and behavioural norms.
5. **Formal and Informal Systems:** Policies, procedures, reward systems, communication patterns, peer pressure and organisational politics together define and reinforce culture.

Thus, **corporate culture emerges over time** from multiple sociological forces operating at different levels of the organisation and acts as a **guiding force for employee behaviour, strategy execution and organisational performance**.

- (b) To effectively market the AI-enabled smartphone, **Aarav Mehta** should develop a marketing strategy by understanding the factors influencing **consumer behaviour**, which are:

- **External Influences:** Use social media, technology forums and collaborations with tech influencers to create awareness and build a positive brand image among target customers.
- **Internal Influences:** Appeal to customers' desire for innovation and superior performance by highlighting the smartphone's AI capabilities, premium design and advanced features.
- **Decision-Making:** Provide detailed product specifications, feature comparisons, demonstrations and customer testimonials to help consumers make informed purchase decisions.
- **Post-decision Processes:** Offer prompt after-sales service, regular software updates, warranties and encourage customer feedback and reviews to enhance satisfaction and build customer loyalty.

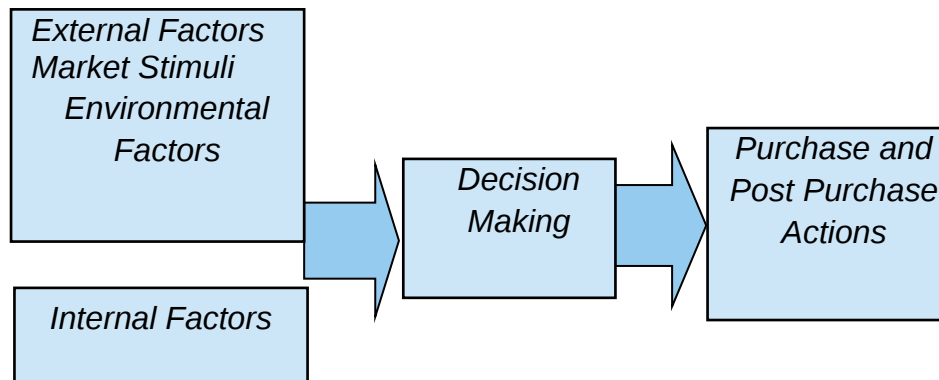


Figure: Process of consumer behaviour

By aligning its marketing strategy with consumer behaviour, **TechNova Mobiles** can effectively attract technology enthusiasts, strengthen customer relationships and ensure the successful launch of its new smartphone.

OR

Porter's Five Forces Model, developed by **Michael Porter**, analyses the competitive forces that determine the attractiveness and profitability of an industry.

1. **Threat of New Entrants:** The entry of new domestic and international EV manufacturers increases competition and reduces the market share of existing firms like Bharat EV Motors.
2. **Bargaining Power of Buyers:** Customers have several alternatives and can easily compare prices, quality and features, giving them higher bargaining power and forcing companies to offer better value.
3. **Bargaining Power of Suppliers:** Limited availability of battery raw materials enables suppliers to increase prices, raising production costs and strengthening their bargaining power.
4. **Threat of Substitute Products:** Petrol, diesel and hybrid vehicles serve as substitutes. If customers find these alternatives more economical or convenient, demand for electric vehicles may decline.
5. **Rivalry among Existing Competitors:** Intense competition among existing EV manufacturers through pricing, product innovation, technology and marketing increases competitive rivalry and affects profitability.

Thus, Porter's Five Forces help organisations understand the competitive intensity of an industry and formulate strategies to build and sustain a competitive advantage.