

PAPER – 6: FINANCIAL MANAGEMENT AND STRATEGIC MANAGEMENT

Part I – Multiple Choice Questions

Case Scenario - I

NPK Ltd. is a Start-up incorporated 2 years ago with a paid up equity capital of ₹ 20 lakhs and recognised by the Department for Promotion of Industry and Internal Trade (DPIIT). Start-up India initiative of the Government of India envisages for building up a robust start-up ecosystem in the country for nurturing innovation and providing opportunities to budding entrepreneurs. NPK Ltd. has been engaged in creating innovative solutions for the defence sector. NPK Ltd., being an eligible start-up applied for income tax holiday and got 100% tax exemption on profits for the coming three consecutive years.

NPK Ltd. has proposed to invest ₹ 800 lakh as capital cost in a project having life of 8 years. It would generate Earnings before Depreciation, Interest and Taxes (EBDIT) of ₹ 220 lakh per annum throughout the life of the project. Depreciation will be charged under Straight-Line Method and the same is allowable under the income tax rules. Under Seed Financing Scheme, a financial institution has sanctioned a loan of ₹ 800 lakh under a subsidised interest rate of 10 per cent per annum. The entire loan amount is repayable at the end of the life of the project.

After the three consecutive years of tax holiday, the tax rate applicable for NPK Ltd. will be 30 per cent.

Year	1	2	3	4	5	6	7	8
PVIF7%, _t	0.935	0.873	0.816	0.763	0.713	0.666	0.623	0.582
PVIF10%, _t	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467

Based on the facts mentioned above relating to NPK Ltd., you are required to answer the following questions **1 to 5**:

1. What will be the after tax cost of debt for the first 3 years and thereafter for the rest of the life of the project?
(A) 7% for the first 3 years and thereafter 10%.

- (B) 10% for the first 3 years and thereafter 7%.
(C) 10% for the first 3 years and thereafter 13%.
(D) 13% for the first 3 years and thereafter 10%. **(2 Marks)**
2. What will be the net cash inflow after tax per year for the first three years of the life of the project?
(A) ₹ 128 lakh
(B) ₹ 140 lakh
(C) ₹ 196 lakh
(D) ₹ 220 lakh **(2 Marks)**
3. What will be the net cash inflow after tax per year for 4th year to 8th year of the life of the project?
(A) ₹ 128 lakh
(B) ₹ 144 lakh
(C) ₹ 184 lakh
(D) ₹ 193 lakh **(2 Marks)**
4. What will be the Pay-Back Period of the project?
(A) 3.76 years
(B) 4.86 years
(C) 5.06 years
(D) 5.72 years **(2 Marks)**
5. What will be the Net Present Value (NPV) of the project?
(A) ₹ 163.888 lakh
(B) ₹ 164.488 lakh
(C) ₹ 362.768 lakh
(D) ₹ 396.884 lakh **(2 Marks)**
6. XYZ company Ltd had a current ratio of 2:1 in the year 2025 and working capital of ₹ 7,75,000. In the year 2026, it is expected that its current assets

will be increased by 15 per cent. The management of the company desires to change its current ratio from 2:1 in the year 2025 to 2.5:1 in the year 2026.

What would be the percentage change in current liabilities and working capital from year 2025 to year 2026?

- (A) 8% Decrease in current liabilities and 36% Increase in working capital.
- (B) 8% Decrease in current liabilities and 38% Increase in working capital.
- (C) 8% Increase in current liabilities and 38% Increase in working capital.
- (D) 8% Increase in current liabilities and 36% Increase in working capital.

(2 Marks)

7. Alpha Ltd. has equity shares of ₹ 10 each, whose current market price is ₹ 20 per share. Its paid up capital also consists of 300, 8% Preference shares of ₹ 100 each. Recent audited accounts show a profit (after 30% tax) of ₹ 2,94,000. Depreciation and amortization amounted to ₹ 51,000. Cost of equity share (K_e) ascertained to be 15%.

What would be the number of outstanding equity shares of the company?

- (A) 88,000 shares
- (B) 89,000 shares
- (C) 90,000 shares
- (D) 98,000 shares

(2 Marks)

8. The following information is available from the books of RC Ltd.:

Net profit margin:	10%
Total Assets:	₹ 100,00,000
Return on Assets:	15%

What would be the total asset turnover ratio?

- (A) 1.3
- (B) 1.5
- (C) 1.7
- (D) 1.9

(1 Mark)

Case Scenario - II

Jatin opened a shop with a wooden counter and two shelves at the corner of a narrow lane in a quiet neighbourhood. He sold some basic stationery and grocery items. Most of his customers were neighbours who appreciated the convenience, even though the selection of items was limited.

Although Jatin's shop was small, his approach was always customer-centric as he actively led the efforts on customer prioritization. He analyzed his customers well, studied their brand preferences and the groceries usually bought by them. He knew that customers are vital for the shop's existence as they provide revenue and resultant profits. His shop was known for neat displays, fair prices but more importantly trusted for transparent quality.

Once during the monsoons, when heavy rains disrupted the retail supply chains, many larger stores struggled to restock. However, Jatin's shelves remained fuller than many of them because he had built strong relationship with small suppliers and partnered with local farmers to source directly. He also offered discounts on certain items of daily use to his regular customers. As a result, his store gained popularity and customers even from nearby areas apart from the immediate neighbourhood also began visiting his store.

To cater to increasing growth, Jatin reinvested his earnings to expand his shelves by adding fresh vegetables, dairy products & other items of daily requirement and extended the store hours. With growth as the shop started lacking space, he acquired an adjacent shop thereby doubling his shop size.

However, with passage of time, competition intensified with big retail chains opening their supermarkets nearby. The new stores were fully air-conditioned with bright lights, several options and carried out extensive advertisements. Again, modern customers also started purchasing groceries through delivery apps offering discounts and same day delivery. As footfall declined Jatin faced a decrease in revenue and increasing pressure to modernize operations.

Jatin stayed calm and decided not to compete directly with the large retailers and the online platforms. He believed the ability to execute and make a real difference is more important than mere strategizing. Instead he responded by introducing small but meaningful novel ideas. He decided to provide personalized services to

the neighbourhood. He remembered customer preferences and kept a regular track of customers' monthly purchases. He also started taking orders over the phone, popular messaging apps and introduced personalized home delivery for the existing elderly customers of the neighbourhood. Customers began preferring his shop despite higher prices because of its quality and specialized differentiated offerings.

Over the years Jatin's shop grew in size combining the efficiency of modern retail stores with the warmth of a neighbourhood shop. Customers can now find almost everything they need under one roof.

Based on the above case scenario, choose the correct answer to Q. Nos. 9 to 13.

9. **Assertion (A):** Customer analysis is an essential marketing component of strategic business plans.

Reason (R): Consumer decision making is affected by psychological factors internal to customer.

- (A) Both (A) and (R) are true, and (R) is a correct explanation of (A).
- (B) Both (A) and (R) are true, and (R) is not the correct explanation of (A).
- (C) (A) is true but (R) is false.
- (D) (A) is false but (R) is true.

(2 Marks)

10. Read the following statements from the above caselet:

- (i) Jatin started taking orders over phone and introducing personalized home delivery for elderly customers.
- (ii) Jatin acquired the adjacent shop as he lacked space and his store doubled in size.
- (iii) Jatin's shelves were always full even during heavy rains as he partnered with local farmers to source directly and build strong relations with small suppliers.
- (iv) Jatin reinvested his earning to expand his store shelves.

Which of the above options may be considered as a Proactive Strategy by Jatin's shop?

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

(2 Marks)

11. *The strategy adopted by Jatin to compete with large retailers and online platforms was*

- (A) *Innovation strategy as novel ideas to reach out and service the customers were introduced.*
- (B) *Stability strategy as Jatin stays with his current business.*
- (C) *Market Development strategy as Jatin introduced personalized home delivery for the elderly customers.*
- (D) *Product Development strategy like Jatin started taking orders on phone and messaging apps.*

(2 Marks)

12. *What was the strategy adopted by Jatin and what benefit did he get when he decided to provide personalized services to the customers of the neighbourhood?*

- (A) *Differentiation strategy as he was able to enhance brand image.*
- (B) *Focused strategy as he was able keep competitors away by providing expert services.*
- (C) *Diversification strategy as he was able to expand his business.*
- (D) *Focused differentiation strategy as he was able to build strong customer loyalty leading to higher profit margins.*

(2 Marks)

13. *Which of the statements below, can be inferred from the reading of the caselet?*

- (A) *Small enterprises cannot compete effectively with big enterprises.*
- (B) *Organizations can plan for all the changes in market dynamics.*
- (C) *Effective leaders thrive in uncertainty with focused execution.*
- (D) *Customers are always cost conscious.*

(2 Marks)

14. "Vanguard Real Estate" is a massive property development firm. The CEO formulates an aggressive, 15-year strategic plan to build ultra-luxury skyscrapers across the country. However, this entire 15-year strategy is highly based on one massive, uncontrollable assumption: that the central bank will keep long-term interest rates below 4%. If interest rates rise above 4%, the borrowing costs for construction will instantly make Vanguard's business unviable. Knowing that a 15-year plan cannot simply be set in stone and ignored, Vanguard's Chief Financial Officer (CFO) establishes a dedicated "Risk Management Committee". The job of this committee is also to verify if the foundational economic assumptions of the 15-year plan remain valid over time. What specific type of strategic control is the CFO executing?

- (A) Strategic Surveillance
- (B) Special Alert Control
- (C) Implementation Control
- (D) Premise Control

(2 Marks)

15. A hospital declares that its purpose is to deliver accessible and compassionate healthcare services to all sections of society.

- (i) The statement reflects the philosophy of the hospital management that is perceived by its senior managers.
- (ii) The statement provides a glimpse of what the organization would like to become in future.
- (iii) The statement is designed to help potential shareholders and investors understand the purpose of the firm.
- (iv) The statement points out a particular direction, charts a strategic path to be followed in future and molding organizational identity.

Which of the above statements relates to the vision statement of the hospital?

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

(2 Marks)

16. According to the growth matrix proposed by Igor Ansoff, a company selected a growth option in which its knowledge of customer segment preferences changed, but product features remain largely unchanged.

Which strategy is most likely being pursued?

- (A) Market Development
- (B) Product Development
- (C) Diversification
- (D) Market Penetration

(1 Mark)

Answer Key

MCQ No.	Correct Option
1.	(B)
2.	(D)
3.	(C)
4.	(A)
5.	(C)
6.	(B)
7.	None
8.	(B)
9.	(A) & (B)
10.	(C)
11.	(A)
12.	(D)
13.	(C)
14.	(D)
15.	(B)
16.	(A)

Part II – Descriptive Questions

SECTION A: FINANCIAL MANAGEMENT

Question No. **1** is compulsory.

Attempt any **two** questions out of the remaining **three** questions.

In case, any candidate answers extra question(s)/ sub-question(s) over and above the required number, then only the requisite number of questions first answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.

Working notes should form part of the answer.

Question 1

- (a) ABC Company Ltd. has witnessed substantial growth during recent past. On a year to year basis comparison, it has been observed that in the year 2025-26, Sales and Earnings before Interest and Taxes (EBIT) of the company would be increased by 10% and 20% respectively coupled with an increase in Earnings Per Share (EPS) from ₹ 15 to ₹ 18.

In the Year 2026-27, the management of the company is planning for an expansion that will require a capital investment of ₹ 50,00,000. The management has decided to raise the amount entirely by issue of 14% Debentures of ₹ 100 each at par. The expected EBIT of the company after expansion will be ₹ 35,00,000.

Required:

- (i) Calculate operating and financial leverage of the company on year to year basis comparison.
- (ii) Determine the amount of debt capital in the capital structure of the company in the year 2025-26.
- (iii) Calculate financial leverage of the company after expansion.
- (iv) When the cost of debt capital is more than the return on investment, will it be beneficial for the company to use debt capital in its capital structure?

(2 + 1 + 1 + 1 = 5 Marks)

- (b) GPL Company Limited has furnished the following ratios and information for the year ended 31st March, 2026.

Inventory Turnover Ratio (Based on cost of goods sold)	8 times
Trade Debtors Velocity	36.5 days
Gross Profit Ratio	25%
Debt Equity Ratio	1:3
Capital Gearing Ratio	40%
Preference Share Capital	₹ 7,50,000

Additional information:

All sales were on credit. Average Trade Debtors exceeded Average Inventory by ₹ 1,81,250. Assume 365 days in a year.

You are required to calculate:

- (i) Credit sales
- (ii) Cost of goods sold
- (iii) Average inventory
- (iv) Average Debtors
- (v) Proprietary Fund

(1 + 1 + 1 + 1 + 1 = 5 Marks)

- (c) PQR Company Ltd. has applied for a short term loan to a commercial bank for financing its working capital requirement.

The following figures for the 12 months ending 31st March, 2026 are given to ascertain the requirement of working capital of the company on a cash cost basis.

Sales at 2 months credit	₹ 30,00,000
Materials consumed (suppliers credit is for 2 months)	₹ 7,50,000
Total wages (Paid at the beginning of next month)	₹ 6,00,000
Manufacturing expenses outstanding at the end of this year. These expenses are paid one month in arrears.	₹ 67,500
Total administration expenses	₹ 1,95,000
Sales promotion expenses paid quarterly and in advance	₹ 1,00,000
Rate of gross profit	20%

Cash is to be held to the extent of 50% of current liabilities	15%
Safety margin to be maintained	
These will be no work-in-progress	
Stock of Raw Materials and finished goods are kept at one month's requirement.	

You are required to prepare an estimate for the requirement of the working capital of the company on cash cost basis for the period ending 31st March, 2026. **(5 Marks)**

Answer**(a) (i) Operating and Financial Leverage on a Year-to-Year Basis**

% change in Sales = 10%, % change in EBIT = 20%, % change in EPS
= $(18 - 15) / 15 = 20\%$

Leverage	Calculation	Ratio
Degree of Operating Leverage (DOL)	$\frac{\% \text{ Change in EBIT}}{\% \text{ Change in Sales}} = \frac{20\%}{10\%}$	2.00
Degree of Financial Leverage (DFL)	$\frac{\% \text{ Change in EPS}}{\% \text{ Change in EBIT}} = \frac{20\%}{20\%}$	1.00

(ii) Amount of Debt Capital in the capital structure of 2025-26

The Company carried **NIL debt / Zero debt / No debt** capital in 2025-26.

Or

Since DFL = 1, EBIT equals EBT, i.e. there is no interest burden on the company, hence no debt capital.

Or

$$DFL = \frac{EBIT}{EBIT - \text{Int}} = 1.00$$

$$EBIT = EBIT - \text{Int}$$

So, **Int = 0**, so no debt capital.

(iii) Financial Leverage after expansion (2026-27)

- New Capital Raised via Debt: ₹ 50,00,000 at 14% debentures
- Interest Expense (I): ₹ 50,00,000 × 14% = ₹ 7,00,000
- Expected EBIT: ₹ 35,00,000
- Therefore EBT = 35,00,000 – 7,00,000 = ₹ **28,00,000.**

$$\text{Financial Leverage (FL)} = \frac{\text{EBIT}}{\text{EBIT-I}} = \frac{35,00,000}{35,00,000-7,00,000} = \frac{35,00,000}{28,00,000} = \mathbf{1.25}$$

(iv) Use of debt capital when cost of debt exceeds ROI

When the cost of debt (K_d) is higher than the Return on Investment (ROI), the company experiences unfavorable (negative) financial leverage. It is **not beneficial** for the company to use debt capital in its capital structure. In this scenario, every additional unit of borrowed capital costs more than the earnings it generates, which dilutes and reduces the Earnings Per Share (EPS) and Return on Equity (ROE).

(b) Working Note:**1. Calculation Of Credit Sales**

Let Credit Sales be S.

$$\text{Average Debtors} = \frac{\text{Credit Sales} \times \text{Debtors Velocity}}{365} = \frac{S \times 36.5}{365} = 0.10 \times S$$

$$\text{Cost of Goods Sold (COGS)} = 0.75S$$

$$\text{Average Inventory} = \frac{\text{COGS}}{\text{Inventory Turnover}} = \frac{0.75S}{8} = 0.09375 S$$

$$\text{Now, Average Debtors-Average Inventory} = 1,81,250$$

$$\text{So, } 0.10 S - 0.09375 S = 1,81,250$$

$$\text{Or } 0.00625 S = 1,81,250$$

$$\text{So Credit Sales} = \frac{1,81,250}{0.00625} = ₹ 2,90,00,000$$

$$(i) \text{ Credit Sales (CS)} = ₹ 2,90,00,000$$

$$(ii) \text{ Cost of Goods Sold (COGS)} = 75\% \times 2,90,00,000 = ₹ 2,17,50,000$$

$$(iii) \text{ Average Inventory (AI)} = \frac{2,17,50,000}{8} = ₹ 27,18,750$$

(iv) **Average Debtors (AD)** = 27,18,750 + 1,81,250 = ₹ 29,00,000

(v) **Proprietary Fund (PF)**

= Preference Share Capital = ₹ 7,50,000, Debt–Equity Ratio
= 1 : 3, Capital Gearing Ratio = 40% (i.e. 0.4)

Let Equity Shareholders' Fund be ₹ E.

Proprietary Fund (Total Shareholders' Fund) = Equity
Shareholders' Fund + Preference Share Capital

= E + ₹ 7,50,000

Debt–Equity Ratio = Debt ÷ Total Shareholders' Fund = 1 : 3

Therefore, Debt = (E + ₹ 7,50,000) ÷ 3

Capital Gearing Ratio = (Debt + Preference Share Capital) ÷
Equity Shareholders' Fund

Given Capital Gearing Ratio = 40% = 0.4

Therefore, [(E + ₹ 7,50,000) ÷ 3 + ₹ 7,50,000] ÷ E = 0.4

Or (E + ₹ 7,50,000) ÷ 3 + ₹ 7,50,000 = 0.4E

E + ₹ 7,50,000 + ₹ 22,50,000 = 1.2E

E + ₹ 30,00,000 = 1.2E

₹ 30,00,000 = 0.2E

E = ₹ 30,00,000 ÷ 0.2

E = ₹ 1,50,00,000

Proprietary Fund = 1,50,00,000 + 7,50,000 = ₹ 1,57,50,000

Alternative Calculation of Proprietary Fund (v):

(v) Proprietary Fund

Capital Gearing Ratio

=
$$\frac{\text{Preference Share Capital} + \text{Debentures/Long-term Debt}}{\text{Equity Shareholder Funds}}$$

= 40% = 0.40

Let Equity Shareholders' Funds be E and Long-Term Debt be D.

$$\frac{7,50,000+D}{E} = 0.40 \Rightarrow 7,50,000 + D = 0.40 E \text{---(Equation 1)}$$

From the Debt-to-Equity Ratio:

$$\frac{\text{Debt}}{\text{Equity Shareholders' Fund}} = \frac{1}{3}$$

$$D = \frac{1}{3}E \Rightarrow E = 3D$$

Substitute E=3D into Equation 1:

$$7,50,000 + D = 0.40(3D)$$

$$7,50,000 + D = 1.20 D$$

$$0.20 D = 7,50,000 \Rightarrow D = ₹ 37,50,000$$

$$\text{Then: } E = 3 \times 37,50,000 = ₹ 1,12,50,000$$

"**Proprietary Fund**" = "Equity Shareholders' Funds" + "Preference Share Capital" = 1,12,50,000 + 7,50,000 = ₹ **1,20,00,000**

(c) Statement of Working Capital requirements (cash cost basis)

	(₹)	(₹)
A. Current Assets		
Inventory:		
- Raw materials- $\frac{7,50,000}{12} \times 1$	62,500	
- Finished Goods- $\frac{21,60,000}{12} \times 1$	1,80,000	
Receivables (Debtors) $\frac{24,55,000}{12} \times 2$	4,09,167	
Sales Promotion expenses paid in advance $\left(\frac{₹ 1,00,000}{12 \text{ months}} \times 3 \text{ months} \right)$	25,000	
Cash Balance – 50% Current Liabilities 50% x 2,42,500	1,21,250	
Gross Working Capital		7,97,917

B. Current Liabilities:		
Payables:		
- Creditors for materials - $\frac{7,50,000}{12} \times 2$	1,25,000	
Wages outstanding - $\frac{6,00,000}{12} \times 1$	50,000	
Manufacturing expenses outstanding	67,500	
		2,42,500
Net working capital (A - B)		5,55,417
Add: Safety margin @ 15%		83,313
Total Working Capital requirements		6,38,730

Working Notes:

(i) Computation of Annual Cash Cost of Production	(₹)
Material consumed	7,50,000
Wages	6,00,000
Manufacturing expenses (67500 x 12)	8,10,000
Total cash cost of production	21,60,000
(ii) Computation of Annual Cash Cost of Sales:	(₹)
Total Cash cost of production as in (i) above	21,60,000
Administrative Expenses	₹ 1,95,000
Sales promotion expenses	1,00,000
Total cash cost of sales	24,55,000

Since Gross Profit Ratio is 20% on Sales of ₹ 30,00,000, So, "Cost of Goods Sold" = $30,00,000 \times (1-0.20) = ₹ 24,00,000$. Receivables (Debtors) = Cost of Sales (GP-derived) $\times 2/12 = 24,00,000 \times 2/12 = ₹ 4,00,000$. Working Capital Requirement will be = ₹ 6,28,187.50 R/off to ₹ 6,28,188.

Question 2

- (a) A Ltd. and B Ltd. both the companies belong to the same risk-class and are identical in all respect except that A Ltd. has no debt capital, while B Ltd. has 60,000, 12.5% Debentures of ₹ 100 each. The earnings before interest and

taxes of each company is ₹ 19,50,000. The equity capitalisation rate of A Ltd. is 15 per cent. Corporate tax rate is 30 per cent. Considering M-M approach with tax, you are required to:

- (i) Determine the total market value of A Ltd. and B Ltd.
 - (ii) Calculate equity capitalisation rate of B Ltd.
 - (iii) Calculate overall cost of capital of A Ltd. and B Ltd. **(2 + 2 + 3 = 7 Marks)**
- (b) The shares of PK Company Limited and BK Company Limited are traded in the market. Analysts believe that both securities are correctly priced according to the CAPM. The following information have been provided:

Securities	Beta (β)	CAPM expected return (R_e)
PK Company Limited	0.8	12%
BK Company Limited	1.4	15%

You are required to calculate:

- (i) Risk Free Rate (R_f)
- (ii) Market Risk Premium (MRP)
- (iii) Expected Return on Market Portfolio (R_m) **(1 + 1 + 1 = 3 Marks)**

Answer

(a) Workings:

Income Statement

	A Ltd (₹)	B Ltd (₹)
EBIT	19,50,000	19,50,000
Interest on ₹ 60,00,000 @ 12.5%	–	7,50,000
EBT	19,50,000	12,00,000
Tax @ 30%	5,85,000	3,60,000
Income available to equity holders	13,65,000	8,40,000

(i) Total Market Value of A Ltd and B Ltd

Market Value of A Ltd (Unlevered Firm):

$$\text{Market Value of Equity} = \frac{\text{Net income (NI) for equity holders}}{K_e}$$

$$\text{Market Value of Equity } (S_A) = \frac{\text{Net Income}}{K_e} = \frac{13,65,000}{0.15} = ₹ 91,00,000$$

$$\text{Total Market Value of A Ltd. } (V_A) = S_A + \text{Debt} = ₹ 91,00,000 + 0 = ₹ 91,00,000$$

Market value of B Ltd (levered):

$$\text{Value of Debt } (D) = 60,000 \times 100 = ₹ 60,00,000$$

According to the MM Proposition I with Corporate Taxes:

= Value of unlevered firm + Tax Advantage

$$= V_b = V_u + (D \times t)$$

So,

$$V_B = 91,00,000 + (60,00,000 \times 0.30) = 91,00,000 + 18,00,000 = ₹ 1,09,00,000$$

The market value of B Ltd is higher than A Ltd by ₹18,00,000 on account of the tax shield on interest available to the levered firm.

(ii) Equity Capitalisation Rate of B Ltd

Market Value of Equity of B Ltd = Market value of B Ltd – Market value of Debt

$$= ₹ 1,09,00,000 - ₹ 60,00,000$$

$$= ₹ 49,00,000$$

$$\text{Interest Expense } (I) = 60,00,000 \times 12.5\% = ₹ 7,50,000$$

$$\text{EBT} = \text{EBIT} - I = 19,50,000 - 7,50,000 = ₹ 12,00,000$$

$$\begin{aligned} \text{Net Income Available to Equity} &= \text{EBT} \times (1 - t) = 12,00,000 \times (1 - 0.30) \\ &= ₹ 8,40,000 \end{aligned}$$

$$K_e (\text{B Ltd}) = K_{eB} = \frac{\text{Earnings to Equity}}{S_B} = \frac{8,40,000}{49,00,000} = 0.171429 \text{ or } 17.14\%$$

(iii) Overall Cost of Capital of A Ltd and B Ltd

A Ltd (all equity):

$K_o = K_e = 15\%$ (equal to its equity capitalisation rate, since there is no debt)

B Ltd:

$$K_d = I(1 - t) = 12.5\% (1 - 0.30) = 8.75\%$$

Components	Amount (₹)	Cost of Capital %	Weight	WACC (Ko) %
Equity	49,00,000	17.14	0.4495	7.70
Debt	60,00,000	8.75	0.5505	4.82
Total	1,09,00,000		1.00	12.52

(b) CAPM Equation:

$$R_e = R_f + \beta \times (R_m - R_f)$$

Given:

- PK Ltd.: $12\% = R_f + 0.8 \times (R_m - R_f)$ ---(1)
- BK Ltd.: $15\% = R_f + 1.4 \times (R_m - R_f)$ ---(2)

Subtracting (1) from (2):

$$15\% - 12\% = (1.4 - 0.8) \times (R_m - R_f)$$

$$3\% = 0.6 \times (R_m - R_f)$$

$$\text{MRP } (R_m - R_f) = \frac{3\%}{0.6} = 5\%$$

Substitute $(R_m - R_f) = 5\%$ back into (1):

$$12\% = R_f + 0.8 (5\%)$$

$$12\% = R_f + 4\% \Rightarrow R_f = 8\%$$

Expected Return on Market Portfolio:

$$R_m = R_f + 5\% = 8\% + 5\% = 13\%$$

Question 3

- (a) *Auto Industries Limited manufactures auto components on lathe machine which has a book value of ₹ 1 lakh. The machine being depreciated at 20% has another five years of its useful life remaining but can be sold for ₹ 25,000 today. Auto Industries Limited is contemplating to replace this machine with a new one which delivers more output and is cost efficient too. The cost of the machine is ₹ 4 lakh with a life of five years and depreciation of 20%. The company estimates that with the new machine, it will be able to make extra sales of ₹ 0.50 lakh and save cost by ₹ 0.75 lakh for the next five years. With*

the increased sales, the requirement of working capital would also change and the company would need ₹ 30,000 more.

At the end of the five years the benefits of increased revenue and decreased cost will aggregate to ₹ 50,000 p.a. for indefinite time. The company has WACC of 15% and pays taxes at 25%.

Given present value of annuity of ₹ 1 for 5 years @15% is 3.3521.

Present value of ₹ 1 @15% for 5th year is 0.4971.

Advise the management of the company whether the machine should be replaced or not? **(6 Marks)**

(b) The following information is available from RST Company Ltd:

No. of equity shares outstanding	2,50,000 shares
10% long term debt	₹10,00,000
10% Pref. shares of ₹ 10 each	₹ 2,00,000
Fixed Cost	₹ 50,000
Variable cost ratio	60% of sales
Tax rate	25%

You are required to determine the amount of sale assuming that:

(i) All earnings are wiped out by the payment of interest and preference dividend; and

(ii) $EPS = ₹ 3$ **(2+2=4Marks)**

Answer

(a) Workings:

(A) Depreciation (Straight Line basis, since useful life = 100%/20% = 5 years for both machines)

Particulars	Amount (₹)
Depreciation on Old Machine (20% of ₹1,00,000)	20,000 p.a.
Depreciation on New Machine (20% of ₹4,00,000)	80,000 p.a.
Incremental Depreciation	60,000 p.a.

(B) Initial (Net) Investment

Particulars	₹
Cost of new machine	4,00,000
Add: Additional Working Capital required	30,000
Less: Sale value of old machine	(25,000)
Net Initial Cash Outflow	4,05,000

(C) Incremental Operating Cash Flow (Years 1 to 5)

Particulars	(₹)
Extra Sales	50,000
Add: Cost Savings	75,000
Incremental Earnings before Depreciation & Tax (EBDT)	1,25,000
Less: Incremental Depreciation	(60,000)
Incremental Earnings Before Tax	65,000
Less: Tax @ 25%	(16,250)
Incremental Earnings After Tax	48,750
Add back: Incremental Depreciation	60,000
Incremental Cash Flow After Tax (Years 1–5)	1,08,750

(D) Terminal Perpetuity Benefit (from Year 6 onwards, indefinitely)

Particulars	(₹)
Perpetual benefit (increased revenue + decreased cost)	50,000
Less: Tax @ 25%	(12,500)
After-tax perpetual annual benefit	37,500
Capitalised Value at end of Year 5 ($37,500 \div 0.15$)	2,50,000

Present Value of Incremental Cash Flows

Particulars	Amount (₹)	PV Factor @15%	PV (₹)
Cash flow Years 1–5	1,08,750	3.3521 (PVAF)	3,64,541
Terminal (perpetuity) value at end of Yr. 5	2,50,000	0.4971 (PVF, 5th yr.)	1,24,275
Total Present Value of Inflows			4,88,816
Less: Net Initial Outlay			(4,05,000)
Net Present Value (NPV)			83,816

Advise

Since the NPV is positive, the proposed **replacement of the old machine with the new machine is financially viable**. Auto Industries Limited is advised to replace the existing machine with the new one.

This question can be solved with the assumption that Tax saving on loss on sale of old machines is recognized at Year 0. Then the solution will be as below:

- (A) Depreciation (Straight Line basis, since useful life = $100\%/20\% = 5$ years for both machines)

Particulars	Amount (₹)
Depreciation on Old Machine (20% of ₹ 1,00,000)	20,000 p.a.
Depreciation on New Machine (20% of ₹ 4,00,000)	80,000 p.a.
Incremental Depreciation	60,000 p.a.

- (B) Initial (Net) Investment

Particulars	₹
Cost of new machine	4,00,000

Add: Additional Working Capital required	30,000
Less: Sale value of old machine	(25,000)
Less: Tax saving on Short-term Capital Loss on sale of old machine $[(1,00,000 - 25,000) \times 25\%]$	(18,750)
Net Initial Cash Outflow	3,86,250

(C) Incremental Operating Cash Flow (Years 1 to 5)

Particulars	₹
Extra Sales	50,000
Add: Cost Savings	75,000
Incremental Earnings before Depreciation & Tax (EBDT)	1,25,000
Less: Incremental Depreciation	(60,000)
Incremental Earnings Before Tax	65,000
Less: Tax @ 25%	(16,250)
Incremental Earnings After Tax	48,750
Add back: Incremental Depreciation	60,000
Incremental Cash Flow After Tax (Years 1–5)	1,08,750

(D) Terminal Perpetuity Benefit (from Year 6 onwards, indefinitely)

Particulars	₹
Perpetual benefit (increased revenue + decreased cost)	50,000
Less: Tax @ 25%	(12,500)
After-tax perpetual annual benefit	37,500
Capitalised Value at end of Year 5 $(37,500 \div 0.15)$	2,50,000

Present Value of Incremental Cash Flows

Particulars	Amount (₹)	PV Factor @15%	PV (₹)
Cash flow Years 1–5	1,08,750	3.3521 (PVAF)	3,64,541

Terminal (perpetuity) value at end of Yr. 5	2,50,000	0.4971 (PVF, 5 th yr.)	1,24,275
Total Present Value of Inflows			4,88,816
Less: Net Initial Outlay			(3,86,250)
Net Present Value (NPV)			1,02,566

Advise

NPV is positive, the proposed **replacement of the old machine with the new machine is financially viable**. Auto Industries Limited is advised to replace the existing machine with the new one.

Note: If the working capital of ₹ 30,000 is recovered at the end of Year 5, the Present Value (PV) of the working capital shall be calculated as ₹ 30,000 × 0.4971 = ₹ 14,913 and NPV will be ₹ 98,729 and ₹ 1,17,479 respectively.

(b) Sales for Given EPS Conditions**Working Note:**

Interest = 10% × 10,00,000 = ₹ 1,00,000.

Preference Dividend = 10% × 2,00,000 = ₹ 20,000.

P/V Ratio (Contribution ratio) = 100% – 60% = 40%. Tax rate = 25%.

(i) Sales at which all earnings are wiped out by Interest and Preference Dividend (EPS = 0)

Step	Amount (₹)
EAT (= Preference Dividend)	20,000
$EBT = \frac{20,000}{1-0.25}$	26,667
EBIT = 1,00,000 + 26,667	1,26,667
Contribution = Fixed Cost + EBIT = 50,000 + 1,26,667	1,76,667
$Sales = \frac{Contribution}{PV\ Ratio} = \frac{1,76,667}{0.40} = ₹ 4,41,667.50$	4,41,668

(ii) Sales at which EPS = ₹ 3

Step	Amount (₹)
Earnings for equity = 3 × 2,50,000 shares	7,50,000
EAT = Earnings for equity + Preference Dividend	7,70,000
$EBT = \frac{EAT}{1-t} = \frac{7,70,000}{1-0.25} = \frac{7,70,000}{0.75}$	10,26,667
EBIT = EBT + Interest	11,26,667
Contribution = Fixed Cost + EBIT = 50,000 + 11,26,667	11,76,667
$Sales = \frac{Contribution}{PV\ Ratio} = \frac{11,76,667}{0.40} = ₹\ 29,41,667.50$	29,41,667

Question 4

- (a) Under which circumstances raising funds through the issue of debentures is advantageous for a company? Discuss. **(4 Marks)**
- (b) Explain the main features of Miller-Orr Cash Management Model for a business concern. **(4 Marks)**
- (c) Explain the key responsibilities of a Finance Executive in modern business world. **(2 Marks)**

OR

- (c) Describe any two features of green bond.

Answer**(a) Circumstances favourable for raising funds through debentures:**

- No dilution of control** – Debenture holders are creditors, not owners, so ownership and voting rights of existing shareholders remain unaffected.
- Stable and adequate earnings** – Suitable when the company has steady cash flows to meet the fixed interest and repayment obligations.
- Rising price levels (inflation)** – The fixed interest outgo decreases in real terms as prices rise, benefiting the company.
- Lower cost of capital** – Interest is tax-deductible, and investors accept lower returns due to lower perceived risk, making debentures cheaper than equity/preference capital.

5. **Trading on equity** – Beneficial when the company has sufficient fixed assets to secure the debentures and expects returns higher than the fixed interest rate, boosting shareholder earnings.

(b) Main features of the Miller-Orr Cash Management Model:

1. **Stochastic cash flows** – The model assumes that net cash flows are completely random/unpredictable, unlike simpler models that assume steady, known cash flows.
2. **Three control limits** – It sets an upper limit (h), a lower limit (zero), and a return point (z) between them, within which cash balance is allowed to fluctuate freely.
3. **Transfer on reaching upper limit** – When cash balance touches the upper limit (h), an amount equal to $(h - z)$ is transferred from cash to marketable securities/investment account.
4. **Transfer on reaching lower limit** – When cash balance falls to the lower limit (zero), securities are sold and cash is transferred from the investment account back to the cash account, restoring the balance to point z.
5. **No action within limits** – As long as the cash balance stays between the upper and lower limits, no transfer/transaction takes place, minimising unnecessary transaction costs.
6. **Basis for setting limits** – The limits are determined based on the fixed transaction cost of buying/selling securities, the opportunity cost of holding idle cash, and the degree of variability (fluctuation) in cash flows.
7. **Realistic and flexible** – The model is more practical than simpler cash models as it accommodates random fluctuations and allows the finance manager to set limits according to the firm's liquidity needs.

(c) Finance executive of an organisation plays an important role in the company's goals, policies, and financial success. His responsibilities include:

- (a) Financial analysis and planning:** Determining the proper amount of funds to employ in the firm, i.e. designating the size of the firm and its rate of growth.

- (b) Investment decisions:** The efficient allocation of funds to specific assets.
- (c) Financing and capital structure decisions:** Raising funds on favourable terms as possible i.e. determining the composition of liabilities.
- (d) Management of financial resources** (such as working capital).
- (e) Risk management:** Protecting assets.

OR

(c) Two features of Green Bonds:

1. Proceeds are earmarked exclusively for "green projects" with positive environmental/climate impact including the cultivation of eco-friendly technology.
2. It can be issued by financial, non-financial, or public institutions.
3. These are the most popular ESG bonds.

Part II – Descriptive Questions

SECTION – B: STRATEGIC MANAGEMENT

Question paper comprises of **4** questions, Answer Question No. **5** which is compulsory and any **2** out of the remaining **3** questions.

Question 5

- (a) *Legacy Electronics Ltd. was once a market leader in consumer appliances and enjoyed a loyal customer base. However, increased competition, outdated product offerings, rising costs, and changing consumer expectations have adversely affected the company's performance. Over the past five years, the company has reported declining sales, continuous losses, and reduced market share. Several manufacturing facilities are operating inefficiently, while financial pressures have limited investment in innovation and marketing. Concerned about the organization's future, the management team is seeking a structured approach to revive the company's performance and restore sustainable profitability.*

State the key problems involved and suggest the major components of an action plan that management should implement to improve the company's condition and achieve long-term recovery. **(1 + 4 = 5 Marks)**

- (b) *NewGlow Herbals, a company producing premium herbal cosmetics, sold their products mainly through large supermarket chains and online retail platforms. Recently the company started facing pressure from major retailers who demanded a reduction of prices. They argue that since customers are highly price sensitive they would have to replace NewGlow Herbals products with cheaper alternative brands. In order to stay competitive, NewGlow Herbals though reluctant, was forced to reduce the maximum retail prices.*

Identify the competitive force faced by NewGlow Herbals. When is this force evident? How does this force influence the competitive condition of the industry? **(1 + 3 + 1 = 5 Marks)**

- (c) *NextPro Education Services has gained popularity through its classroom-based professional training programs. The organization is considering entering into international markets through a fully online certification platform. It has experienced faculty members, a strong reputation, and extensive course*

content. However, it has limited experience in international operations and online platform management. The increasing demand for remote learning creates new growth possibilities, while global competition and changing learner preferences present challenges. The management seeks a detailed evaluation before making a strategic decision, through a SWOT analysis approach.

- (i) Briefly describe what SWOT Analysis is.
- (ii) Evaluate the factors that can affect the above proposed plan through the SWOT Analysis framework. **(1 + 4 = 5 Marks)**

Answer 5

- (a) The key problems indicating the need for a **Turnaround Strategy** in Legacy Electronics Ltd. are **continuous losses, declining sales, reduced market share, uncompetitive/outdated products, rising costs, increased competition, changing customer expectations and inefficient manufacturing facilities**. These indicate deterioration in the company's competitive and financial position and the need to improve internal efficiency.

The major components of the action plan for turnaround are:

1. **Assessment of current problems:** Identify the root causes and extent of damage and focus resources on areas requiring immediate corrective action.
2. **Analysis and strategic planning:** Assess the chances of survival, identify the **viable core business**, analyse strengths and weaknesses and develop a strategic plan with specific goals and functional actions.
3. **Emergency action plan:** Take immediate measures to **reduce costs, improve working capital, restructure finances, prune unprofitable product lines and accelerate high-potential products**. Positive operating cash flow should be established as quickly as possible.
4. **Restructuring the business:** Review the **product mix, core products, facilities and markets**. Inefficient facilities may be closed, and the company may withdraw from certain markets or reposition its products. Employee morale should also be strengthened through appropriate reward and compensation systems.

5. **Returning to normal:** Once profitability starts improving, the company should focus on **introducing new products, improving customer service, increasing market share and developing alliances** to achieve sustainable growth.

In addition, the turnaround should emphasize **quick cost reductions, revenue generation, asset liquidation for generating cash, better internal coordination and, where necessary, changes in top management.**

- (b) The competitive force faced by **NewGlow Herbals** is **Bargaining Power of Buyers.**

The bargaining power of buyers is evident when:

- Buyers have **full knowledge of the sources of products and their substitutes.**
- Buyers **spend a lot of money on the industry's products**, i.e., they are big buyers.
- The industry's product is **not perceived as critical to the buyer's needs**, and buyers are more concentrated than the firms supplying the product. They can **easily switch to the substitutes available.**

In the given case, the major supermarket chains and online retail platforms are **large and significant buyers** of NewGlow Herbals' products. They can exert pressure on the company to reduce prices as they have the option of replacing its products with **cheaper alternative brands**. Since customers are highly price sensitive, the retailers can easily threaten to switch to competing brands, thereby strengthening their bargaining position.

Influence on Competitive Condition of Industry

The bargaining power of buyers influences not only the **prices that producers can charge** but also, in many cases, the **costs and investments of producers**, as powerful buyers may demand better services and terms. Thus, strong bargaining power of buyers puts pressure on producers to offer **lower prices and better services**, which can adversely affect their profitability and the competitive condition of the industry.

- (c) **SWOT Analysis** is the analysis of an organisation's **Strengths, Weaknesses, Opportunities and Threats**. It is a strategic tool used to develop a full awareness of the **internal and external factors** involved in making a business decision. Strengths and Weaknesses relate to the internal environment, while Opportunities and Threats arise from the external environment.

SWOT Analysis of NextPro Education Services

STRENGTH	WEAKNESS
Experienced faculty members with professional expertise.	Limited experience in international operations.
Strong reputation in professional training.	Limited experience in online platform management.
Extensive course content.	Predominantly experienced in classroom-based delivery.
Established presence and credibility in professional education.	Need to develop capabilities for managing a fully online international platform.
OPPORTUNITY	THREAT
Increasing demand for remote learning.	Global competition from established online education and certification providers.
Opportunity to enter international markets.	Changing learner preferences.
Online platform can help reach learners across different countries.	Rapid changes in technology and online education may require continuous adaptation.
Opportunity to expand the organisation's customer base and growth through online certification.	Competition may make it difficult to establish the platform in international markets.

Thus, NextPro should leverage its **strong reputation, experienced faculty and extensive course content** to exploit the growing opportunity for remote learning, while addressing its weaknesses in

international operations and online platform management and preparing for global competition and changing learner preferences.

Question 6

- (a) *A well-crafted corporate mission not only provides an organisation with its special identity but also serves as a justification for its existence. Elaborate on the primary reasons why an organisation must establish a mission. Furthermore, explain how management expert Peter Drucker advises firms to answer the fundamental question 'what business are we in?'* **(4 + 1 = 5 Marks)**
- (b) *A company's most profitable business is not receiving the highest investment allocation, while another less profitable business is receiving substantial resources. Explain how BCG Matrix may justify such a seemingly contrasting decision.* **(4 + 1 = 5 Marks)**

Answer

- (a) **Primary reasons why an organisation should have a mission:** A mission is an answer to the basic question **"What business are we in and what do we do?"** It gives an organisation purpose, its own special identity, is unique to the organisation and sets it apart/differentiates it from its competitors. It is central to strategic planning.

An organisation should have a mission for the following reasons:

- To ensure **unanimity of purpose** within the organisation.
- To develop a **basis or standard for allocating organisational resources**.
- To provide a basis for **motivating the use of organisational resources**.
- To establish a **general tone or organisational climate** and suggest a business-like operation.
- To serve as a **focal point** for those who identify with the organisation's purpose and direction.
- To facilitate the translation of **objectives and goals into a work structure**, involving assignment of tasks to responsible elements within the organisation.

- To specify organisational purposes and translate them into goals so that **cost, time and performance parameters can be assessed and controlled**.

According to **Peter Drucker**, every organisation must ask and correctly answer the fundamental question “**What business are we in?**” The answer should have a **marketing or external perspective** rather than merely describing production or generic business activities. A company's business should be defined in terms of the needs it is trying to satisfy, the customer groups it is targeting and the technologies and competencies it uses. Thus, the focus should be on **the customer need being served rather than merely the product or activity being produced or performed**.

- (b) The **BCG Growth-Share Matrix** is used for resource allocation in a diversified company. It classifies different businesses or SBUs on the basis of **market growth rate** and **relative market share**. Market growth rate indicates market attractiveness, while relative market share indicates the company's strength in the market. It classifies business units into **four categories: stars, cash cows, question marks and dogs**.

The seemingly contrasting decision of allocating more resources to a less profitable business can be justified as follows:

- **Cash Cows:** These are **low-growth, high-market-share** businesses. They are established and successful, generate cash and require **less investment to maintain their market share**. Therefore, a highly profitable business may receive less investment if it is a Cash Cow, as it already generates sufficient cash.
- **Stars:** These are businesses with **high market growth and high relative market share**. They require **heavy investment to maintain their position and finance their rapid growth potential**. Therefore, a less profitable business may receive substantial resources if it is a Star, as it represents a good opportunity for expansion.
- **Question Marks:** These are **low-market-share businesses in high-growth markets**. They require heavy investment and may initially have low potential to generate cash. Investment may be made to increase their market share and turn them into Stars and subsequently Cash Cows.

- **Dogs:** These are **low-growth, low-market-share** businesses. They generally have limited future prospects and should be minimised through **divestment or liquidation**.

Thus, under the BCG Matrix, **resource allocation is not based solely on present profitability**. A highly profitable Cash Cow may require less investment, whereas a less profitable Star or promising Question Mark may receive greater investment because of its **growth potential and future contribution to the organisation**.

Question 7

- (a) *A company's success depends on how effectively it manages value creation through various linked activities before the sale, during the sale, and after the sale. Weakness in any one stage can negatively affect the overall customer experience. Explain this statement using an appropriate strategic framework.* **(1 + 3 + 1 = 5 Marks)**
- (b) *In today's competitive landscape, effective strategic leaders must deal with rapid, complex changes and diverse competitive situations. Define what constitutes a 'managerial frame of reference' and explain its significance. Furthermore, list any six specific responsibilities of a strategic leader.*

(2 + 3 = 5 Marks)

Answer

- (a) The appropriate strategic framework is **Value Chain Analysis**, developed by **Michael Porter**. It is a method of examining each activity in the value chain of a business to identify how each stage **adds or subtracts value** from the end product or service. It helps improve the sequence of operations, enhance efficiency and create competitive advantage.

The five **primary activities** in the value chain are:

1. **Inbound Logistics:** Activities concerned with receiving, storing and distributing inputs to the product or service, such as **material handling, stock control, transportation and warehousing**.
2. **Operations:** Activities that **transform inputs into the final product or service**, such as machining, packaging, assembly and testing.

3. **Outbound Logistics:** Activities concerned with **collecting, storing and distributing the finished product to customers**, including warehousing, material handling and transportation.
4. **Marketing and Sales:** Activities through which consumers are made **aware of the product or service and are able to purchase it**, including advertising, selling and sales administration.
5. **Service:** Activities that **enhance or maintain the value** of the product or service, such as installation, repair, training and provision of spares.

These primary activities are supported by **procurement, technology development, human resource management and infrastructure**.

Since the activities are linked and their interactions are a source of competitive advantage, weakness in any one activity can **reduce the value delivered to customers and adversely affect the overall customer experience and competitive position**.

- (b) A **managerial frame of reference** is the **set of assumptions, premises and accepted wisdom that bounds a manager's understanding of the company, the industry in which it competes, and the core competencies that it exploits in pursuit of strategic competitiveness and above-average returns**. In other words, it is the **foundation on which a manager's mindset is built**.

In today's competitive landscape, strategic leaders must adapt their frames of reference to deal with rapid, complex and diverse competitive situations. Competitive battles are not merely between companies or products, but also between **mindsets or managerial frames**. Hence, an effective strategic leader must be capable of dealing with **cognitively complex situations, change and uncertainty**.

Responsibilities of a Strategic Leader:

1. **Making strategic decisions.**
2. **Formulating policies and action plans** to implement strategic decisions.
3. **Ensuring effective communication** in the organisation.
4. **Managing human capital**, which is perhaps the most critical strategic leadership skill.

5. **Managing change** in the organisation.
6. **Creating and sustaining a strong corporate culture.**
7. **Sustaining high performance over time.**

Thus, strategic leadership skills represent important resources that affect company performance and need to be developed for the company's future benefit.

Question 8

- (a) "A core competency for a firm is whatever it does best." Explain the concept of core competency. What are the conditions required to be met for a company to regard its competence as core competency? **(2 + 3 = 5 Marks)**
- (b) For any organization undergoing a digital transition, change management is crucial. Define what digital transformation enables an organization to do, and define the process of change management itself. Furthermore, enumerate the five specific ways a properly implemented change management strategy can help an organization, and explain why change management gains more importance in current times. **(1 + 3 + 1 = 5 Marks)**

OR

- (b) Explain what SPM is and how it helps eliminate silos within an organization. Describe the specific insights provided by various strategic performance measures. **(2 + 3 = 5 Marks)**

Answer

- (a) A **core competency** is the collective learning in an organisation, particularly the **coordination of diverse production skills and integration of multiple streams of technologies**. It is a combination of skills, techniques, resources and capabilities that enables a firm to perform an activity better than its competitors and gain **competitive advantage**. Thus, a core competency for a firm is "**whatever it does best.**"

According to **C.K. Prahalad and Gary Hamel**, a competence can be regarded as a **core competency** when the following three conditions are satisfied:

1. **Competitor Differentiation:** The competence should be **unique and difficult for competitors to imitate**. It should enable the company to perform significantly better than its competitors and sustain its competitive position.
2. **Customer Value:** The competence should provide a **fundamental benefit to customers** and have a real impact on their choice to purchase the company's product or service. The differentiation offered must be valued by the customer.
3. **Application to Other Markets:** The competence should be **applicable across the organisation and capable of opening up potential markets**. It should not be restricted to one particular skill, product or area of expertise.

If these **three conditions** are met, the company can regard its competence as a **core competency**.

- (b) **Digital transformation** is a process of organisational change that enables an organisation to **use technology to create new value for customers, employees and other stakeholders**.

Change management is the **process of planning, implementing and monitoring changes in an organisation**. It helps organisations achieve their objectives while reducing risks and disruptions.

Ways in which Properly Implemented Change Management Helps an Organisation

A properly implemented change management strategy can help an organisation to:

1. **Specify the parameters and goals** of the digital transformation.
2. **Determine which procedures and tools need to be modified.**
3. **Make a plan for implementing the improvements.**
4. **Involve staff members and parties involved** in the transformation process.
5. **Track progress and make required course corrections.**

Importance of Change Management in Current Times

Change management gains more importance in current times because organisations are required to manage **new technology, emerging**

market opportunities and changing customer preferences. Modern firms must continuously modify their management techniques and approach change in a **proactive and organised manner** to improve their chances of success.

Thus, change management is a crucial component of digital transformation and helps organisations successfully integrate new digital systems and achieve the intended benefits.

Or

Strategic Performance Measurement (SPM) is a method that **increases line executives' understanding of an organisation's strategic goals and provides a continuous system for tracking progress towards these objectives using clear-cut performance measurements.**

Strategic Performance Measures and the Insights They Provide

Strategic performance measures are key indicators used to track the effectiveness of strategies and support informed decisions regarding resource allocation. They provide the following insights:

1. **Financial Measures:** Measures such as **revenue growth, Return on Investment (ROI) and profit margins** provide an understanding of the organisation's financial performance and its ability to generate profit.
2. **Customer Satisfaction Measures:** Measures such as **customer satisfaction, customer retention and customer loyalty** provide insight into the organisation's ability to meet customer needs and provide high-quality products and services.
3. **Market Measures:** Measures such as **market share, customer acquisition and customer referrals** provide information about the organisation's competitiveness in the marketplace and its ability to attract and retain customers.
4. **Employee Measures:** Measures such as **employee satisfaction, turnover rate and employee engagement** provide insight into the organisation's ability to attract and retain talented employees and create a positive work environment.

5. **Innovation Measures:** Measures such as **R&D spending, patent applications and new product launches** provide insight into the organisation's ability to innovate and create new products and services that meet customer needs.
6. **Environmental Measures:** Measures such as **energy consumption, waste reduction and carbon emissions** provide insight into the organisation's environmental impact and efforts to operate in a sustainable manner.

Thus, strategic performance measures provide a **snapshot of organisational performance**, enabling leaders to assess whether strategies are aligned with goals and objectives and to make necessary adjustments for improved performance.

SPM helps to **eliminate silos** by establishing a **common language among all divisions of the organisation**, enabling them to communicate openly and productively. Thus, it promotes better coordination and alignment towards common strategic objectives.