SL No of QP : 9856

Unique Paper Code	: 2923060050
Name of the Paper	: Strategic Corporate Finance
Name of the Course	: BMS (NEP)
Semester	: VII
Duration	: 3 Hours
Maximum Marks	: 90

Instructions to Candidates:

- All questions carry equal marks.
- Attempt any five questions.
- Write your Roll No. on the top immediately on receipt of this question paper.
- Use of non-programmable scientific calculator is allowed.
- **If required, you can make assumptions.**

Question No. 1

The following financial information is available for three companies for the year ended 31st March 2025:

Particulars	Company A (₹ Lakhs)	Company B (₹ Lakhs)	Company C (₹ Lakhs)
EBIT	250	400	300
Tax Rate	20%	25%	22%
Debt	400	500	400
Equity	600	1,000	800
Cost of Debt (after tax)	8%	10%	9%
Cost of Equity	12%	14%	13%

a) Calculate Economic Value Added (EVA) for each company.
b) Identify which company created the highest value for its shareholders.

(14+4 Marks)

Question No. 2

Case Study: Strategic Cost Management at AutoTech Ltd.

AutoTech Ltd. is a global automobile parts manufacturer specializing in high-performance car batteries and electronic vehicle components. The company has a reputation for reliability and advanced technology. However, in recent years, it has faced:

- Rising production costs (raw material and labor costs increased by 18% in the past two years).
- Intense competition from low-cost manufacturers in emerging markets.
- Declining profit margins (profit margins fell from 28% to 14% in the last three years).

AutoTech Ltd. currently follows a traditional costing system, allocating overhead based on machine hours. However, management believes this does not accurately reflect costs, especially for advanced battery systems requiring extensive R&D and premium raw materials.

The company has been using a cost-plus pricing approach, making its products significantly more expensive than competitors. To stay competitive, a strategic shift in cost management is required.

Current Costing & Pricing Data (Last Year):

Product Line	Units Sold	Selling Price (per unit)	Total Revenue	Total Cost	Profit Margin
Standard Battery	600,000	$120	$72M	$60M	16%
Premium Battery	250,000	$250	$62.5M	$57.5M	8%
EV Battery System	150,000	$500	$75M	$67.5M	10%

Strategic Cost Management Plan:

To optimize costs and improve profitability, the CFO, Mr. Rohan Patel, has identified following points for cost optimization:

- Competing battery manufacturers offer similar products at 15% lower prices.
- The target cost for the Standard Battery should be $110 instead of $115 to remain competitive.
- Advanced battery systems (EV Battery) consume 50% of R&D resources but account for only 30% of total sales.
- Implementing Activity-Based Costing (ABC) could help allocate overhead costs more accurately.
- Warranty claims for EV batteries cost an average of $15 per unit.
- Software updates and diagnostics cost $8 per unit annually, adding to post-sale expenses.
- Marketing expenses have increased by 35% in the past two years without a clear return on investment.
- The R&D budget increased by 30%, but only one major product innovation has been launched.

Attempt the following questions:

a) Suggest a cost reduction strategy that considers both production and post-sale costs.
b) What are the challenges of shifting from a cost-plus pricing strategy to a market-driven pricing strategy?
c) Suggest one innovative strategic cost management technique that AutoTech Ltd. can use to enhance profitability.

(6*3 Marks)

Question No. 3

The following financial data is provided for four companies: Company P, Company Q, Company R, and Company S. Calculate the Altman Z-Score for each company and analyse their financial health.

(in ₹ lakhs)

Financial Variables	**Company P**	**Company Q**	**Company R**	**Company S**
Working Capital	180	30	100	60
Total Assets	600	700	800	750
Retained Earnings	140	90	160	120
EBIT	110	80	130	95
Market Value of Equity	350	280	420	310
Total Liabilities	250	350	300	290
Sales	800	600	900	780

a) Calculate the original Altman Z-Score for each company
b) Interpret the results and suggest whether any of these companies is at financial risk.

(12+6 Marks)

Question No. 4

Gamma Ltd. is evaluating its capital structure to determine the optimal debt ratio. The company currently operates without debt and has a beta of 1.6. The risk-free interest rate is 9%. Based on research, the company's debt rating and corresponding interest rates at different debt levels are as follows:

D/(D + E)	Rating	Interest Rate
0%	AAA	10.2%
10%	AA	10.8%
20%	A	11.3%
30%	BBB	12.5%
40%	BB	13.8%
50%	B	14.5%
60%	CCC	16.5%
70%	CC	18.8%
80%	C	21%

90%	D	26%

Shares Outstanding: 2.5 million, Stock Price: ₹25 per share, Tax Rate: 35%, Market Risk Premium: 6%
You are required to calculate:

a. What is the firm's optimal debt ratio?

b. How does increasing debt in a firm's capital structure affect its weighted average cost of capital (WACC) and financial risk?

(12+6 Marks)

Question No. 5

Mangal Ltd., a manufacturing company, has been facing severe financial difficulties. The company has defaulted on its loans worth ₹50 crores from multiple banks and is unable to pay its suppliers. The creditors are worried about recovering their dues, and the management is considering initiating insolvency proceedings under the Insolvency and Bankruptcy Code (IBC), 2016.

As a finance professional, you are required to: *(You can make the necessary assumptions)*

a) Explain the step-by-step process of corporate insolvency resolution that Mangal Ltd. would follow.
b) Discuss the roles of creditors and the resolution professional in this process.
c) Suggest practical measures that Mangal Ltd.'s management can take to maximize asset value and facilitate a smooth resolution.

Question No. 6 (6*3 Marks)

Explain any three of the following.

A. Drawbacks of Real options
B. Value enhancement tools & techniques.
C. Financial, physical, and operational hedging
D. Exit strategy

(6*3 Marks)