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RF-4309-10

M. B. A. (Sem. IV) (FT) & M. B. A. (Sem. VI) (Eve.) Examination

April / May – 2010

Business Policy & Strategic Management

(Old Course)

Time : **3** Hours] [Total Marks : **100**

RF-4309

Instructions :

(1)

નીચે દર્શાવેલ ☛ નિશાનીવાળી વિગતો ઉત્તરવહી પર અવશ્ય લખવી.
Fillup strictly the details of ☛ signs on your answer book.

Name of the Examination :

☛ **M.B.A. (Sem. 4) (FT) & M.B.A. (Sem. 6) (Eve.)**

Name of the Subject :

☛ **Business Policy & Strategic Management (Old)**

☛ Subject Code No. : **4 3 0 9** ☛ Section No. (1, 2,.....) : **1**

Seat No. :

Student's Signature

(2) Answer to Section-1 and Section-II must be written in **two separate** answer books.

(3) Figures to the right indicate full marks of the question.

(4) All questions are **compulsory**.

1 What do you mean by environmental analysis? Discuss the role it plays in strategy formulation. **18**

2 Answer any **two**: **32**

(a) Explain Strategic Advantage Profile (SAP) in detail along with example.

(b) Strategy doesn't attain result without effective leadership. Comment.

(c) Explain in detail various generic strategies employed by businesses to combat the challenges.

(d) Explain the strategy evaluation process in detail.

RF-4310

Instructions :

(1)

નીચે દર્શાવેલ ☛ નિશાનીવાળી વિગતો ઉત્તરવહી પર અવશ્ય લખવી.
Fillup strictly the details of ☛ signs on your answer book.

Name of the Examination :
☛ **M.B.A. (Sem. 4) (FT) & M.B.A. (Sem. 6) (Eve.)**

Name of the Subject :
☛ **Business Policy & Strategic Management (Old)**

☛ Subject Code No. : **4 3 1 0** ☛ Section No. (1, 2,.....) : **2**

Seat No. :

Student's Signature

(2) Answer to Section-1 and Section-II must be written in **two separate** answer books.

(3) Figures to the right indicate full marks of the question.

(4) All questions are **compulsory**.

3 Write short notes (any **three**) **24**

(1) Concept and Objectives of Turnaround Strategy

(2) SWOT Analysis

(3) Strategic Intent V/s Mission /Vision statements

(4) Strategic Evaluation.

4 Read the given case and answer the following questions: **26**

ALLWYN NISSAN LIMITED

Hyderabad Allwyn Limited (HAL), a state public sector undertaking of Andhra Pradesh Government, entered into a technical and financial assistance agreement with Nissan Motor Company Limited of Japan in July 1983 for the manufacture of new-generation light commercial vehicles in India. The scope of technical assistance, which was valid for 10 years, covered the transfer of manufacturing know-how and supervision of erection of the plant.

The company was named Allwyn Nissan Limited (ANL) in which Hyderabad Allwyn Limited the company's promoter, had a 36 per cent equity stake while Nissan Motor Company Limited had a 14.97 per cent stake. The rest of the equity shares were held by the financial institutions and the general public.

The ANL was originally estimated to cost Rs.52 crore for a capacity to manufacture 10,00 vehicles per annum. The first phase, with an installed capacity of 5,000 vehicles was commissioned at a cost of Rs.25 crore. The company's vehicles were marketed under the brand-name CABSTAR. Commercial production of ANL was started on April 1, 1985. During 1985-86, it became a subsidiary of HAL.

THE DOWNSLIDE AND ATTEMPTS TO ARREST IT

ANL manufactured 2,289 light commercial vehicles (LCVs) l;during 1985-86, out of which only 1,882 were sold. The company's turnover amounted to Rs.24.86 crore. ANL suffered losses due to a sudden and sharp rise in the valueof the Japanese currency Yen in Rupee terms. The announcement of an increase in excise and customs duties in the union budget led to a hike in vehicle prices, and ANL received a setback in sales in the April-June quarter of 1986 despite an increasing trend in the earlier months of the year. During the same time, there was a demand recession in the LCV market.

The company persuaded its collaborator to provide a discount on the price of its completely knocked down imported kit. On effective follow-up with the government, it got the excise duty on LCV reduced by 50 per cent. At the same time, the financial institutions were actively considering the company's request for rephasing of loans and exemption on commitment charges. Later in order to make the company economically viable, the A.P. Government granted a sales tax subsidy in 1987. And to help ANL to boost sales, it asked all state public sector undertakings to purchase LCVs from ANL only.

However, all such help proved insufficient, as a result of which the company was forced to curtail its production to 697 vehicles in 1986-87 in order to liquidate the backlog of 441 vehicles and also to match the prevailing stagnated market demand for LCVs. coupled with this, a further appreciation of Yen value and loss of production led to acute cash flow problems and losses. However, the full impact of Yen was not felt as the company had sufficient stocks of imported kits procured at favourable rates. During the year, 962 vehicles were sold.

ANL, which lacked a full-time Managing Director, as the then chairman of the company was also a director of HAL, launched an improved version of its vehicles and marketed it under the brand name CABSTAR-576. To establish a footholdin the LCV market, it also launched other variants Uke water tender, refuse capacitor, A.C. mini bus, police soft top vans, etc.

Although the company achieved a 67 per cent indigenisation in its products, yet the rising value of Yen continued to adversely affect its financial performance. A reduction in excise duty from 20 per cent to 10 per cent on fuel-efficient LCVs and the conversion of `interest due' into fresh loans on soft terms by the financial institutions could not offset the rise in input costs.

ANL, which manufactured LCVs of a 3-tonne payload capacity, continued to face severe competition in its payload capacity range not only from indigenous LCV manufacturers like Telco, Bajaj Tempo, and to some extent Mahindra & Mahindra, but also from other new-generation LCV manufacturers like DOM-Toyota. Swaraj Mazda, and Eicher-Mitsubishi. Moreover, ANL's price was higher by at least 20 per cent than its competitors. It could not reduce price as it would have meant severe pressure on profitability. Thus, the company had an expensive product in the lower end of the market.

In its three years of operation since commissioning, ANL's capacity utilisation had barely touched 30 per cent and sales averaged 1,650 vehicles each year against the projected sale of 3,000. This had a disastrous impact on the company's finances. As a result, it had accumulated losses amounting to Rs.10 crore and its interest burden alone was as high as Rs.4 crore every year. In all ANL, fared the worst among the four new-generation LCV manufacturers.

THE STATE GOVERNMENT REACTS

At the same time, incidentally, the state government was facing a severe financial crisis, and both the state financial corporation and industrial development corporation were facing massive cuts in government funding. Several other state-owned enterprises were also running in losses. Therefore, in order to conserve the valuable resources and at the same time avoid the closing down of units, the state government-in deference to the state's industrial policy, which encouraged business houses within the state decided to sell off the loss-making units to capable business houses, in this case, preferably to an established automobile company.

In a follow-up action, the state government constituted a committee headed by the Chairman of State Industrial Development Corporation. A list of seven loss-making units was drawn up and the committee was delegated the power to negotiate sales with the private sector. For the sale of ANL, the committee negotiated with many bidders, including Ashok Leyland, Escorts, LML, Modi Rubber, and Sundaram Clayton.

THE CONSUMMATION OF TAKEOVER

After two months of intensive negotiations, Mahindra & Mahindra Limited (M & M) Bombay - the country's leading manufacturer of jeeps and tractors - entered into a memorandum of understanding (MoU) with HAL on June 10, 1988 and agreed to acquire 26 per cent of the share capital in ANL and thereafter, take control of the company's management. As per the MoU, HAL would continue to hold a 10 per cent equity stake in the company, besides possessing the right to nominate one director on its board. After both the parties obtained necessary approvals from Nissan Motor Company Limited and financial institutions, bedsides clearance from the Company Law Board and the MRTP Commission, M & M formally took over ANL on February 27, 1989 with the right to nominate three directors on the board, including the chief executive. With this transfer of shares and management, the joint venture agreement between HAL and Nissan Motor Company Limited was terminated and a fresh joint venture agreement was entered into on November 7, 1988 by M & M Limited with Nissan Motor Company Limited, Japan. The name of the company was changed from Allwyn Nissan Limited to Mahindra Nissan Allwyn Limited.

The Andhra Pradesh Government also sought a number of assurances from M & M before the takeover. First, it was assured by M & M that it would work for the steady growth of the unit and a Rs.100 crore turnover target would be met within the next four years. Secondly, the workforce would not be retrenched and the interest of the workers would be protected. Finally, adequate emphasis would be given on ancillarisation to help other units in the state. Besides, M & M also assured the government that the plant would not be moved out of the state.

LIKELY BENEFITS FOR MAHINDRAS

The takeover of ANL by Mahindra & Mahindra has several benefits, for the new owner. M & M has presence in the LCV market though in the lower range of a payload capacity of 1 tonne. In this category, its competitors are Bajaj Tempo and Standard Motors. Moreover, the obsolete M & M vehicle was edged out by the new-generation vehicles. M & M's LCV had contributed only Rs.55 crore in the company's total sales of Rs.97 crore, and production had come down to just 400 vehicles from 10,000 three years back. Thus, ANL's acquisition gives M & M timely access to a new market segment, more so because ANL's products do not compete with M & M's existing range of LCVs. There would be synergy in M & M's current activities. Of late, it has been acquiring small auto-business units. The takeover is, therefore, in tune with its plans to strengthen its presence in the market. As it is, ANL's capacity to manufacture 50,000 vehicles is the highest in the LCV segment.

With access to Nissan technology, M & M can now upgrade its vehicles. ANL has good manufacturing facilities and a good product. Thus, M & M can utilise ANL's paintshop and assembly facilities for its existing products. Besides, Peugeot of France - M & M's existing collaborator - the presence of Japan's No.1 and the world's third largest automobile manufacturer could help M & M upgrade the overall technological base of the company in the long run.

HOW CAN ALLWYN NISSAN BENEFIT ?

For ANL too, the takeover offers several distinctive advantages. Being a public sector undertaking, ANL was always headed by a bureaucrat with little or no experience in the automobile industry. It will not be headed by a professional. The managerial and technological strengths of the older established auto-makers are well-known (for example Telco's remarkable success in the LCV market) and it will be a boon to ANL. Besides strengthening of management, the company's distribution network will be geared up. ANL faced problems in distribution and availability of spares. Here, M & M's expertise will benefit ANL as M & M has an existing reliable distribution and service network backing. Exports are also a possibility as M & M has a large export market for jeeps and tractors, and has a wholly owned subsidiary in Greece.

ANL's paintshop and assembly facilities are not in much use as ANL's capacity utilisation has been poor and the company still assembles vehicles rather than manufactures them. It can now be fully exploited by M & M and the indigenisation programme could be speeded up. Also, ANL does not have an engine assembly plant. However M & M has developed an indigenous engine at its Nasik plant. ANL can utilise M & M's existing engine assembly facilities. M & M's expertise can also be of use to ANL in the sheet metal fabrication and axles division. Moreover, since M & M will inject funds for development costs, ANL can now hope for new product launches in the future.

Despite the probable advantages that both the companies are going to take, it still remains to be seen as to how both M & M and ANL are going to make use of their respective strengths and avail the possible opportunities in the near future. Moreover, will both the companies be able to overcome their respective weaknesses and ward off the threats in the market place? And how?

Questions :

(1) Discuss the factors that led to the takeover of Allwyn Nissan Limited.

(2) Express your opinion regarding the future prospects of Mahindra Nissan Limted.