ROUND 1: THE SIMULATION CHALLENGE

Phase 1 (Weightage 35%)

Round Duration: 20 minutes | **Submit response by**: 2220 hours or (10:20 PM)

Google response sheet link: https://goo.gl/forms/N0Gbyq0JT5aOnt0q2

Points will be awarded based on accuracy of ROI calculations on the basis of which teams will make initial investment decision.

You are the CEO of a diversified Indian listed entity with multiple product lines across industries. The company was founded as a mid-scale manufacturing business primary engaged in cotton textile. Over the past 25 years, this has continued to grow, to become one of the most successful diversified companies in terms of performance and shareholder returns. As a result of carefully executed strategy to explore into new businesses, the company has managed to capture value within all the industries it has ventured into.

Over the past few months you have been contemplating whether you should foray into fresh sectors to further boost scale and diversification. There are 3 shortlisted options presented to you by the in-house corporate strategy team. You are required to take the final investment decision to invest a total ₹250 Cr. amongst 3 options presented below.

Option 1

This industry option has a production capacity cost of ₹47,500 per ton. The last recorded total estimated aggregate market supply and demand is approximately 1,00,000 tons and 95,000 tons respectively. The minimum supply of the product is 1,000 tons with a supply elasticity of 0.45. Standard industry operating margins are in the range of 14-16%.

Qualitative analysis by the strategy team indicates that this industry has stable growth prospects with limited expected volatility given it produces standardized products for regular consumption. Low business risk assessment given established market and consumer base and low variability in future earnings.

Option 2

Production capacity cost are ₹40,000 per ton within this option which implies larger investment to maintain a sizeable production capacity. The last recorded total estimated aggregate market supply and demand is approximately 75,000 tons and 72,000 tons respectively. The minimum supply of the product is 750 tons with a supply elasticity of 0.65. Standard industry operating margins are in the range of 15.5-16.5%.

The corporate strategy team have assessed this opportunity and have decided to assign a moderate risk-return rating. This industry was established 10 years ago and has been on the rise over the past 4 years given a change in consumer buying behaviour. The consumer base is limited as compared to Industry 1.

Option 3

This is relatively younger industry with production capacity costs at ₹37,500/ton. The latest reported total estimated aggregate market supply and demand is at around 50,000 tons and 45,000 tons respectively. The minimum supply of the product is 600 tons and supply elasticity is 0.70. Operating margins are slightly higher with an industry average of 17.5%.

It was initially an unorganised market supplying raw materials to other manufacturing industries but has taken shape over the past 2 years with mixed reviews regarding growth and profitability prospects. However, due to this risk posed, value addition is expected to be higher in the normal course of business. The strategy team has listed this as an option since all existing divisions of the company have low to medium risk which can compensate for high volatility within this option.

[Assume 30% tax rate and constant ratio of market supply to demand based on historical data]

Kindly note the constraints below which will impact your decision:

Phase– 1
Time limit: 20 mins

1. Options 1,2 and 3 have a minimum investment criteria of ₹35 Cr., ₹30 Cr., and ₹25 Cr. The strategy team wants to invest in all 3 sectors
2. Company is looking to capture as much market share as possible in each segment. *(See rules and regulations below on how market share will be allotted)*
3. The outcome is to maximise the Return on Total Investment from investments in all 3 options

Based on your decisions we will compile total investment in the sectors from all teams. We will then declare the ROI and market share captured by each team in each sector based on cumulative investment.

We will declare results of market share at the end of round 1.

Points distribution:

Round 1 (35% weightage)

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