Mrs. D. Bhavani has published case study titled **"Optimizing Business Growth: A Case Study on Funding Strategies and Key Decision Factors for Shalini's Food Manufacturing Company".** This case study is used for first year MBA students for **Financial Management**

CASE STUDY 9

Shalini took over the pickle, jam, and squash making business run by her family after graduating with a degree in hotel management and business administration. Her grandmother had started the company, and while it was doing pretty well, its fixed operating costs were very expensive, and its cash flow situation was poor. She wants to update and broaden it. She went to a financial analyst, who estimated that the modernization and extension plan would cost about Rs 50 Lakh. Additionally, he let her know that the stock market was in a positive period.

DISCUSSION QUESTION

1. After taking into consideration the discussion above, identify the source of funding. Shalini shouldn't decide to finance the development and upgrading of her food manufacturing company. Give one justification for your response.
2. Explain two other factors she should keep in mind while taking this decision

ANSWER:

1. Due to the high fixed operational costs of the company, Shalini shouldn't employ loan money to finance the modernization and development of her food manufacturing business. It is unable to bear the added weight of fixed obligations for capital and interest payments.
2. The other two factors that Shalini must keep in mind which taking this decision are stated below:
    a. Risk: - Financial risk is the inability of a firm to pay its set financial obligations. With increased debt consumption, financial risk rises.
    b. Flexibility: - The firm's ability to raise finance is reduced by an excessive reliance on debt. In order to maintain flexibility, the corporation should not utilise debt to the fullest extent possible.