DECISION AREAS OF FINANCIAL MANAGEMENT –
A CASE STUDY OF MIRCHI RAM & SON'S LIMITED- *TASTY TREATS*

Mirchi Ram & Sons Pvt. Ltd. from Bikaner is a famous name in the snacks market of Rajasthan and adjoining states like Delhi, Haryana, Uttar Pradesh, and Gujrat. Late Lala Mirchi Ram Aggarwal started this business of namkeen manufacturing in 1966 in Bikaner. Namkeen of Mirchi Ram was quite popular in Bikaner, as it was known not only because of its taste but also for its quality. In the early 90s Mirchi Ram became a well-known brand. Mirchi Ram's son Jeevan Ram joined him in the late 90s and carried on the legacy of his father. He not only maintained the brand name but also spread the business in some parts of Delhi, Haryana, Uttar Pradesh, and Gujrat, and the firm was registered as Private Limited in 1999.

The elder son of Jeevan Ram, Rohit, came back to Bikaner after completing his MBA (Marketing) from Goa Institute of Management in 2020. This is the time when the business of Mirchi Ram & Sons Pvt. Ltd. was facing a tough time due to high competition in the namkeen market. Their business was facing tough competition from local manufacturers and the brands like Haldiram, Kakaji, Yellow Diamond, Bikaji Bhujia, Pooja Namkeen, etc. Despite having a good market share in the namkeen business, Mirchi Ram & Sons Pvt. Ltd. was facing huge pressure due to squeezed margins, and it was a great challenge for the business to survive.

Rohit advised his father to enter into the highly profitable business of Potato Chips and Sauces, as he knows that Mirchi Ram & Sons Pvt. Ltd. brand name will help them to grab a good market share very quickly with the help of aggressive marketing strategies. Rohit has an idea about marketing but didn't have much idea about managing finance. So, they were looking forward to someone good in finance. With the advice of his ex-faculty Prof. Subramaniam, he approached Mr. Jai Ram Shankar, who was working with RSPL Limited (Ghadi Detergent) as Senior Finance Manager with experience of around 30 years in different FMCG companies. Rohit convinced Mr. Shankar to join Mirchi Ram & Sons Pvt. Ltd. as CFO (Chief Finance Officer), and the authority of finance decisions was vested with him. They targeted to achieve a 40% market share in these 5 states in the next 3 years in the potato chips segment.

Q. Students need to discuss the functions which Mr. Shankar has to perform over the next few years.

Aggarwal family decided to expand its product line and started manufacturing and distribution of potato chips in 5 states namely Rajasthan, Delhi, Haryana, Uttar Pradesh, and Gujrat. After a detailed study, Mr. Shankar prepared a report that the business required around 10 Cr for the expansion.

Mr. Jeevan could contribute up to Rs. 5 crores only and the rest of the money needed to be arranged from other sources. Due to good market image, the Aggarwal family could have arranged finance from both sources i.e., Debt or Equity. Mr. Shakar evaluated both the options of finance-Debt. (Bank Finance/ Debenture) and Equity (Initial Public Offer-IPO) and suggested for Debt only considering the cost of capital involved. So, the capital structure of the new firm was as follows:

Capital Structure of Mirchi Ram & Sons as on 31st March 2020

Source of Funds	Types of Source	Amount (Rs.)
Mr. Jeevan Ram	Promoters' Equity	5,00,00,000
State Bank of India, Citi Branch Bikaner	Debt	5,00,00,000
Total		**10,00,00,000**

After getting finance it was time to set up a manufacturing facility. Rohit did the market study for the manufacturing machinery and suggested the companies for the same namely: Hunan Valin Steel Co., Ltd., China, Hindustan Metal Ltd., India, and American Machine and Foundry Ltd, USA. Mr. Shankar evaluated all 3 options while considering initial investment, the life of the machine, running costs, and quality of the output, and suggested American Machine and Foundry's option as most suitable.

Aggarwal family wanted to start manufacturing and distribution of their new product with the name '***Tasty Treats'*** through their existing distributors from 1st April 2020. As the product range has been increased the distributors asked for additional credit. With the consultation of Mr. Jeeven Ram, Mr. Shankar framed a credit policy for the distributors. For the efficient monitoring of credit and inventory, Mr. Shankar suggested the purchase of an ERP software that his previous organization was using.

In 2022, due to the growing business, the firm needed an additional investment of Rs. 2 crores. Mr. Shankar advised the Aggarwal family to go for the equity market for this time. So, Mirchi Ram & Son's Pvt. Ltd became a Public Limited company with its Initial Public Issue (IPO) in the month of March 2022. The issue was a hit and subscribed 12.54 times. After its stock market debut, the new capital structure of Mirchi Ram & Sons Ltd. is as follows:

Capital Structure of Mirchi Ram & Sons as on 31st March 2022

Source of Funds	Types of Sources	Amount (Rs.)
Mr. Jeevan Ram	Promoters' Equity	5,00,00,000
Other Equity Shareholders	Non-promoter' Equity	2,00,00,000
State Bank of India	Debt	5,00,00,000
Total		**12,00,00,000**

As investors were highly positive about the stronghold of Mirchi Ram Sons on the market, they expected that the stock of the company will perform very well. They also expected a fat dividend from the stock after its very first year in the market. Mr. Shankar was well aware of the market expectations. So, he framed a sound dividend policy with the consultation of Mr. Jeevan Ram and Mr. Rohit, keeping in view the growing needs of the organization. They decided to distribute 60% of the profit as dividend for the very first year and kept aside the remaining 40% amount as retained earnings for future expansion of the business.