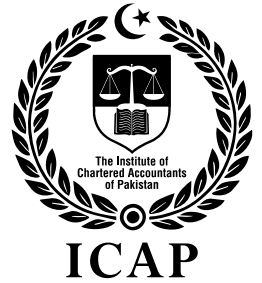


Certified Finance and Accounting Professional Stage Examination  
Strategic Business Finance

8 June 2026  
100 marks



CRN:

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Name: \_\_\_\_\_

### INSTRUCTIONS

Please carefully read the following instructions:

1. You are required to access your answer working area by using your Student ID and Password as mentioned on your Admit Card.
2. The overall duration of the exam is 3 hours and 30 minutes, which includes the 15-minute reading time and an extra 15 minutes of time that has been allocated due to the introduction of computer-based examinations.
3. All **five** questions are compulsory. There is no specific time allocated for individual questions.
4. An auto-save function runs every minute. Further, your answers are saved automatically when you navigate between questions or click on the > (**NEXT**) or < (**BACK**) symbols.
5. Each question provides a designated answer area with a Rich Text Format (RTF) editor for writing your answers. You must answer each question within its respective RTF editor only. **Answers written in another RTF editor instead of the designated RTF editor for the question or more than one questions answered in a single RTF editor shall not be considered for marking.**
6. Below the RTF editor, a spreadsheet is provided to facilitate examinees in doing rough calculations or other workings. **However, please note that any work performed in the spreadsheet will not be considered for marking. To ensure your work is considered, you must copy and paste it from the spreadsheet to the RTF editor.**
7. You may use MS Excel for rough working. However, please remember that any work performed in this application cannot be copied into the examination software, and vice versa. Furthermore, any such work will not be uploaded with your exam for marking.
8. You may use pen and paper for rough work, but please note that pen and paper work should only be done on the last page of the question paper that are specifically allocated for this purpose. Remember that any rough work done on this page will not be uploaded with your exam for marking.
9. In accordance with the open book policy of this paper, you are allowed to use only digital copy of the formula sheet. Keeping a hard copy of any book or notes is not permissible and will be considered a violation under the policy on the use of unfair means.
10. An external calculator can be used, provided it is included in the list of permissible calculators issued by ICAP.
11. During the exam, access to any website other than exam software website and the digital copy of the formula sheet is strictly prohibited. Engaging in such activities will be considered a violation under the policy on the use of unfair means.

**QUESTION 1**

You work in the finance department for Pasha Textiles Limited (PTL), a manufacturing company, based in Faisalabad. The company has two divisions: the first produces cotton yarn, cloth and denim. The second produces ready-made garments, primarily made from the textiles produced in-house. The company exports these garments to the USA.

Although demand for the exported products is strong, profitability has been less than expected as profit margins have been impacted by the additional costs of transportation and by the cost of import tariffs that are currently charged on garments imported into the USA from Pakistan.

The board are considering foreign direct investment (FDI) in the USA as a way of improving margins from this market. A new manufacturing facility would be established in the USA and sales to the USA market would be sourced from this factory. Further information on the FDI is shown below.

**Investment**

The board have researched and identified suitable premises for the manufacturing base in the USA, a prudent estimate suggests that 20% of existing directors' time (allocated cost of Rs. 10 million) has been dedicated to this project. The property would be leased at an annual rent of USD 1 million payable in advance such that the first payment would be made in June 2026. The board will commit to an initial five-year lease, and so the project should be appraised over a five-year period.

There will be substantial fit out, and plant and machinery costs amounting to USD 10 million which will be incurred immediately. These costs will be eligible for capital allowances in the USA on a straight-line basis after deducting the expected scrap value of USD 4 million, which is expected after five years.

An initial investment in working capital of USD 2 million will be needed. This will be sufficient for the duration of the five-year planning period and can be assumed to be released at the end of five years.

The board have agreed a terminal value equal to five times the USD post-tax cash operating profit in the year ending 30 June 2031. This will be net of any tax liabilities that might arise if the business was sold at this time.

**Operating cash flows**

Market research, costing USD 50,000, has already been completed and, due to the proximity to the USA market, sales are expected to be greater than those achieved through export. Sales in the year ending 30 June 2027 are expected to be USD 5 million in current terms, the board anticipate subsequent volume growth at 6% per year. The FDI will however result in a loss of post-tax contribution from export sales, the board have estimated this to be Rs. 300 million per year in current terms and can be assumed to increase in line with inflation in Pakistan.

Operating costs comprise additional fixed overheads of USD 500,000 per year in current terms and variable costs which amount to 30% of sales revenue. Revenue and operating costs will increase in line with inflation in the USA.

<b>Economic information</b>	<b>Pakistan</b>	<b>USA</b>
Corporate tax	29%	21%
Inflation	10%	3% next 3 years 4% thereafter
Current exchange rate	PKR 278	USD 1

Tax in both countries is paid in the same year as the profits arise.

Assume there is no tax treaty between the USA and Pakistan and, operating profits after capital allowances are subject to tax in both the USA and Pakistan. Double tax relief is available such that an additional 8% tax is due in Pakistan in respect of the USA taxable profits. Pakistan capital allowances can be assumed to be the same as those in the USA.

PTL has low gearing, with debt accounting for just 30% of the market value of the company's capital. Consequently, the board intend to finance the international investment with new debt finance as this will reduce the overall cost of capital for the company. Further information on the project finance is shown below.

**Project finance**

PTL has a weighted average cost of capital of 18%, this reflects the current gearing ratio of 30% (Debt / Debt plus Equity).

The FDI will be financed by Rs. 4,000 million 12% redeemable debentures which will be issued and redeemed at par, the debt would be raised locally in Pakistan and would be repaid after five years. Tax deductible issue costs of 1% of the finance raised will be incurred. The issue costs will be financed by short term borrowings, at an interest rate of 18% per annum.

**Required:**

Calculate the **APV** of the overseas investment and recommend whether the board should approve the project. **(20 marks)**

**QUESTION 2**

For the purpose of this question, assume today’s date is **30 June 2026**.

Manza Ltd (Manza) is a family-owned textile company based in the UK. The company will take delivery of new manufacturing equipment in four months’ time. This will result in a significant cash outflow when the equipment is delivered.

The impact of the payment is that there will be a cash deficit of GBP 10 million. The cash flow forecast shows that the deficit will remain for six months.

**Additional information**

Manza has agreed a six-month, short-term loan with the HFL Bank. The loan will commence on 1 November 2026. The interest rate on the loan will be fixed at Sterling Overnight Index Average (SONIA) plus 1%.

**Market information: 30 June 2026**

SONIA borrowing rate		5.0%	
FRA with ABB Bank			
4–6		4.70% – 5.10%	
4–10		4.80% – 5.20%	
November-dated Futures (GBP 500,000 for 3 months)		94.5	
Options (GBP 500,000 for 3 months)			
Strike price	Exercise date	Options premium (basis points)	
		Call	Put
95.0	October	20	50
95.0	November	30	65

**Note:** Assume that SONIA increases to 6% on 1 November 2026.

**Required:**

- (a) Advise the directors of the different types of short-term finance available to Manza, and whether short-term finance is the most suitable in the circumstances. Conclude on a way forward for Manza. **(06 marks)**
- (b) As Manza has agreed a six-month, short-term loan with the HFL Bank, explain, with supporting calculations, how the company can hedge against interest rate risk. Advise the directors of the most suitable hedging technique. **(16 marks)**

**QUESTION 3**

Bakhash Sugar Mill (BSM) manages all stages of sugar production, from extracting sugar cane juice, sourced locally in Pakistan, to refining and packaging the final product. BSM provides its sugar based products for the Pakistan domestic market and various international markets including the Middle East, Africa, and Asia sugar markets. The board, comprising Bakhash family members, aims to secure new financing to enhance the mill's productivity.

BSM has been profitable, as evidenced by historical earnings and draft forecast financial statements for the year ending 30 June 2026, which are shown below.

**Historic earnings**

<b>Year ended 30 June</b>	<b>Rs. in million</b>
2022	607
2023	637
2024	655
2025	690

**Draft forecast statement of profit or loss**  
**Year ending 30 June 2026**

	<b>Rs. in million</b>
Sales	9,483
Cost of sales	(7,690)
<b>Gross profit</b>	<b>1,793</b>
Operating expenses	(578)
<b>Operating profit</b>	<b>1,215</b>
Finance cost	(175)
<b>Profit before tax</b>	<b>1,040</b>
Tax	(302)
<b>Net profit</b>	<b>738</b>

**Draft forecast statement of financial position**  
**As at 30 June 2026**

	<b>Rs. in million</b>
Non-current assets	4,708
Current assets	1,612
<b>Total Assets</b>	<b>6,320</b>
Ordinary shares (Rs. 100)	300
Retained profits	2,990
	3,290
12% Bank loans	1,460
Current liabilities	1,570
	3,030
<b>Total Equity and Liabilities</b>	<b>6,320</b>

**Current operations**

The mill is expected to generate pre-tax operating profits of Rs. 1,215 million in the year ending 30 June 2026, this is after deducting non-cash expenses of Rs. 300 million.

If there is no additional investment the board anticipate that cash flows will increase in line with the average historic growth in earnings for the next five years. For the purposes of company valuation, cash flows from 2032 onwards can be assumed to be constant and remain at the level of 2031 cash flows in perpetuity.

**New investment**

If there is investment in the mill the board expect an additional increase in annual pre-tax earnings and cash flows of Rs. 400 million in the year ending 30 June 2027. In subsequent years, this will increase in line with existing operational cash flows.

The board require funds of Rs. 1,800 million to upgrade the facilities at the mill, The investment, which is not eligible for tax depreciation relief, can be assumed to take place immediately such that the benefit of the investment commences from the year ending 30 June 2027.

The funds are to be sourced solely through a new equity issue and so it is important that sufficient funds are raised for the investment.

To achieve this, the board has decided to raise equity capital, given the current high level of gearing. Instead of seeking additional equity from existing shareholders, the board has obtained approval to list the company on the Pakistan Stock Exchange. This strategic move serves two purposes: to secure new equity financing for the investment and to provide a straightforward exit route for current shareholders in the future. Further details on the new equity issuance are outlined below.

### New equity issue

The Bakhsh family currently own 75% of the shares in the company. The family are aware that a stock market listing that raises new equity finance will dilute the control of the existing shareholders, consequently the board only wish to introduce a further 1 million shares. This will ensure that the majority of the shares continue to be held by the family and new investors will have a 25% interest in the company.

The position is illustrated in the table below:

	Number of shares	% ownership
Bakhsh family	2,250,000	56%
Institutional shareholders	600,000	15%
Employees	150,000	4%
<b>Current shares</b>	<b>3,000,000</b>	<b>75%</b>
New shareholders	1,000,000	25%
<b>Total shares after the new issue</b>	<b>4,000,000</b>	<b>100%</b>

The board are not sure if a fixed price issue or an offer for tender would be more appropriate and would like your advice on this matter. The funds raised do however, need to be a minimum of Rs. 1,800 million to finance the upgrade at the mill.

### Market information

Milir Ltd is a company listed on the Pakistan Stock Exchange. Milir Ltd also manufactures refined sugar and can be assumed to be similar to BSM.

Corporate tax	29%
Risk free rate	12%
Market rate	17%
<b>Milir Ltd</b>	
P/E	7.8
Equity beta	1.8
Gearing (D:E)	1:4

**Note:**

- The debt beta of Milir and BSM is zero.
- Ignore inflation.

### Required:

- (a) Apply valuation techniques providing a range of values for BSM before and after the mill investment and recommend a suitable issue price for the shares of BSM. **(18 marks)**
- (b) Explain **four** financial risks which may negatively impact the valuation of BSM. **(04 marks)**
- (c) Advise, with supporting explanations, whether an offer for sale by fixed price or by tender would be more appropriate. **(03 marks)**

**QUESTION 4**

You work for Ameen Limited (AL) a listed company on the Pakistan Stock Exchange. AL is an importer and distributor of food products; the company is based in Karachi. The board intend to raise Rs. 10,000 million of new finance to fund a project that will increase the operating capacity of the company, it is expected that pre-tax operating profits will increase by Rs. 2,000 million per year as a result of the expansion.

The board are considering raising the new finance through either a rights issue or through the issue of debentures. In both cases the cost of raising the finance is expected to be Rs. 100 million and the new finance must be sufficient to cover these additional finance costs. Further information on the new finance is shown below.

**New finance**

**Rights issue**

If new equity finance is raised, the board would like the terms to be such that the earnings per share does not reduce as a result of the new share issue. You will need to advise on suitable terms for the rights issue, including the issue price for the new shares.

**Debenture issue**

New debentures would be issued under the same terms as existing secured debentures. As such they would be issued and redeemed at par and carry a coupon rate of 14%. The debentures would be redeemed after 15 years. AL's debt beta is zero.

Information for your calculations is shown below:

**Extracts from forecast statement of financial position (without new project)**

	<b>30 September 2027</b>
	<b>Rs. in million</b>
Share capital (Rs. 100 each)	1,000
Retained profits	103,800
Debt	50,000
	<b>154,800</b>

**Extracts from forecast statement of profit or loss (without new project)**

	<b>30 September 2027</b>
	<b>Rs. in million</b>
Operating profit	16,620
Interest	(7,000)
	9,620
Tax @ 29%	(2,790)
Profit after interest and tax	<b>6,830</b>

**Other relevant financial information**

AL's equity beta	1.5
Market return	17%
Risk free return	12%
Applicable tax rate	29%

**Note:** Use book values of equity and debt for your calculations.

**Required:**

- (a) Calculate AL's current weighted average cost of capital. **(03 marks)**
- (b) Determine the terms of the rights issue. **(04 marks)**
- (c) Determine the forecast weighted average cost of capital under each financing alternative, and calculate how the gearing ratio and earnings per share will change under each financing alternative. **(10 marks)**

**QUESTION 5**

NexTech Innovations Limited (NTIL) is a technology infrastructure company based in Lahore, specialising in enterprise software solutions for large organisations across Pakistan and the Middle East. Over the past decade, NTIL has focused on developing scalable digital systems that help organisations manage data processing, automation workflows, and large-volume transactions. The company expanded gradually using internally generated funds and private investor support.

Five years ago, NTIL obtained a listing on the Pakistan Stock Exchange to strengthen its capital base and finance the development of advanced digital platforms. Since listing, the company has consistently reinvested its earnings into expanding computing capacity, enhancing cybersecurity, and upgrading its software architecture. As a result, no dividends have been paid to shareholders to date.

**Operational developments**

In 2024, NTIL completed the development of a cloud-based artificial intelligence platform designed to automate repetitive operational processes used by large corporate clients. Unlike earlier software products, the new platform allows customers to integrate multiple systems into a single environment, reducing processing time and operational costs.

Following several successful pilot projects, adoption increased steadily among large organisations, including logistics companies, banks, and utility providers. As system usage expanded, transaction volumes increased significantly, resulting in strong operating performance and sustained profit growth during 2025 and 2026.

With profitability stabilising and future earnings appearing predictable, the management team is reviewing whether shareholders should begin receiving regular returns from the business. One of the directors has suggested introducing a dividend payout policy equal to 30% of profit after tax.

**Forecast earnings**

Year ending 30 June	2027	2028	2029	2030
Profit after tax ( <i>Rs. in '000</i> )	200,000	240,000	270,000	300,000

After 2030, earnings are expected to grow at a constant rate of 6% per annum.

**Other information:**

Current share price	Rs. 220
Number of shares in issue	5 million shares
NTIL's equity beta	1.15
Market return	18%
Risk-free rate	12%

**Required:**

- Using the Dividend Valuation Model, calculate the expected share price assuming the proposed 30% payout policy is introduced. Briefly explain why your calculated value is different from the current market price. **(07 marks)**
- Assess whether NTIL should introduce a dividend policy. Your answer should discuss practical considerations, identify alternative methods of returning cash to shareholders, and recommend an appropriate dividend strategy. **(09 marks)**

**(THE END)**

