ICAP

Multi Subject Assessment Stage

1 December 2025
4 hours and 15 minutes – 100 marks

Management Professional Competence

CRN:						

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 4 hours and 15 minutes, which includes the reading time and an extra 30 minutes of time that has been allocated due to the introduction of computer-based examinations.
3. All questions are compulsory.
4. Questions can be attempted in any sequence.
5. There is no specific time allocated for individual questions.
6. 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.
7. Each question provides an answer area with a Rich Text Format (RTF) editor for writing your answers. Additionally, 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.**
8. Work done in the spreadsheet of one question can also be copied into the RTF editor of the same or another question.
9. 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.
10. You may use pen and paper for rough work, but please note that pen and paper work should only be done on the last two pages of the question paper that are specifically allocated for this purpose. Remember that any rough work done on these pages will not be uploaded with your exam for marking.
11. In accordance with the open book policy of this paper, you are allowed to have a maximum of **FIVE** original books duly bound. Please ensure that the books or notes you bring are permissible under the open book policy. Keeping a book or notes that are not permissible will be considered a violation under the policy on the use of unfair means.
12. An external calculator can be used, provided it is included in the list of permissible calculators issued by ICAP.
13. During the exam, access to any website other than exam software website is strictly prohibited. Engaging in such activities will be considered a violation under the policy on the use of unfair means.

QUESTION 1

DHI Residential Properties (DRP) is a family-owned estate agency business in Lahore. The Malik family began the business 25 years ago. It is successful and is looking to expand. It specialises in sourcing and acquiring prime freehold properties for the Lahore elite. It charges high prices but is renowned for an excellent, comprehensive service. In recent years it has expanded into many of Lahore's affluent suburbs. It does not manage any residential lettings but is considering a move into lettings as well for Lahore's affluent residents.

Wapda Town Multan (Pvt.) Limited (WTML) is also a family-owned estate agency business based in Multan, 350 km southwest of Lahore. WTML started 7 years ago, and the owner-managers are known for their outgoing socially active lifestyle, where they often meet new clients. They specialise in managing luxury apartment rentals on behalf of wealthy property owners in and around Multan and the WTML owners' names and reputation attracts most of the new clients. WTML's core business is in managing residential lettings for clients, but approximately 20% of its turnover comes from landlord advisory services. Landlords can approach WTML for help with legal and regulatory matters, as well as the provision of more general commercial business advice.

DRP is looking to expand to Multan as DRP increasingly receives enquiries about the area, and they feel they hold a large market share for their segment of the market in Lahore, so DRP sees this as a good way to expand. An acquisition is being considered, and preliminary discussions have already been held with David Bhatti and John Bhatti, the brothers who manage WTML. Each owns 40% of the ordinary share capital. The remainder of WTML's shares are owned by other members of the Bhatti family. The substance of the discussions between DRP and WTML has been about valuation, and how best to successfully merge the new businesses and run them as a combined entity should the transaction occur.

Iqbal Malik, head of finance at DRP, has compared the two companies (Appendix 1) and gathered some key financial information (Appendix 2) to enable potential terms of an acquisition to be derived.

Potential post-acquisition integration issues have since been discussed by the DRP board at a recent board meeting (Appendix 3). Soon, a decision needs to be made about whether and how to proceed with the acquisition, and if so on what proposed terms.

Requirements

(a) Evaluate DRP and WTML using relevant parts of Porter's Value Chain and conclude with justification if the proposed acquisition would enhance shareholder value for DRP and WTML shareholders. **(10 marks)**

(b) Calculate and justify appropriate terms for a share-for-share exchange to facilitate the acquisition. **(15 marks)**

(c) Using the seven P's marketing framework, develop a new marketing plan to launch the post-acquisition combined business, to include the use of digital marketing tools as appropriate. **(07 marks)**

(d) Explain how the information available to the combined business could be used to enhance competitive advantage post-acquisition. **(07 marks)**

(e) Recommend how the post-acquisition systems integration issues identified could practically be resolved. **(05 marks)**

(f) Discuss the income and sales tax implications on DRP as a result of the acquisition of WTML. **(06 marks)**

Total: 50 marks

APPENDIX 1 – INFORMATION TO ALLOW A STRATEGIC COMPARISON BETWEEN DRP AND WTML

To: Bashir Malik, CEO
From: Iqbal Malik, Finance
Subject: CONFIDENTIAL: DRP vs. WTML
Date: 11 November 2025

Dear Bashir,

I hope you are well. As requested, I have gathered some comparative information on WTML which is set out below. This is to be used for comparison with DRP which will aid DRP with the decision to acquire WTML.

Products
WTML specialises in managing residential lettings and advising wealthy landlords in Multan. This is both a different location and service offering to us (i.e. residential purchases and sales in Lahore). However, both are successfully positioned at the quality end of the market, aiming for affluent customers.

Marketing
WTML rely almost exclusively on word of mouth – the Bhatti brothers are well known and socially active! I think we have a good reputation but 75% of customers cite our online and newsprint adverts as the reason they come to us, along with online reviews.

Technology
WTML have invested in technology and have a smartphone app with orientations for landlords and residents to search for properties and manage existing lettings. This is highly rated by customers but runs on a different platform to our core systems. We pride ourselves more on the 'personal touch' and deal with customers face to face, on the telephone, or by personal emails.

Operations
WTML operates out of rented premises based in the centre of Multan. Their letting staff (known as 'letting agents') spend 90% of their time earning fees, but their revenue per head is only 60% of ours. Our agents spend more like 75% of their time on revenue generating work.

After sales service
Much of WTML's after sales service is provided by their smartphone app, whereas we maintain personal contact after a residential purchase or sale with a follow up visit and emails.

Financials
I have provided a separate financial analysis in my email dated 10 November 2025.

If I can be of any further assistance, please ask.

Best wishes,

Iqbal Malik

APPENDIX 2 – EMAIL: KEY FINANCIAL INFORMATION ON WTML AND DRP

To: The Board, DRP
From: Iqbal Malik
Subject: Key financial information relating to WTML and DRP
Date: 10 November 2025

Dear DRP Board,

As requested, here is some recent financial information relating to WTML and DRP:

WTML
WTML recent profit after tax history:
2025: Rs. 450 million
2024: Rs. 300 million
2023: Rs. 256 million

Notes: WTML has 5 million 5% preference shares in issue each with a nominal value of Rs. 100. In 2025 the Bhatti brothers did not take a salary. In 2024, their salaries amounted to Rs. 140 million in total. WTML pays 29% tax on its corporate income and has 1 million ordinary shares in issue.

Pakistan Residential, a residential property lettings agency listed on the Pakistan Stock Exchange has a price earnings ratio of 15 times.

DRP
DRP's most recent earnings are Rs. 800 million. It was Rs. 546.35 million 4 years ago and this growth trajectory looks set to go into the future. We have no long-term debt finance. A similar listed estate agent has an ungeared cost of equity estimated to be 15% per annum, suitable for valuing DRP.

DRP has 4 million ordinary shares in issue currently.

Synergies
Synergies would be expected to add a constant Rs. 225 million to earnings per year should the acquisition take place. The cost of equity of the combined entity is expected to be 15% per annum.

Proposed Terms
Any synergies arising from the acquisition should be split 50:50 between the current WTML shareholders and the current DRP shareholders, in a share-for-share exchange.

If I can be of any further assistance, please ask.

Best wishes,

Iqbal Malik

APPENDIX 3 – DRP BOARD MEETING MINUTES EXTRACT

DRP Board meeting

Meeting date: 14 November 2025

All Board members present

Acquisition of WTML
The board discussed various aspects of the potential acquisition of WTML, which Bashir Malik (CEO) summarised for the minutes as follows:

Systems integration issues
WTML's systems are completely different to DRPs and given the combination of service lines and geographic locations, significant work would be required to bring the two systems together. Significant work would also be required to harmonise business processes as WTML is historically very informally controlled by the direct supervision of the Bhatti brothers, whereas DRP is more formal in its approach. Care needs to be taken to preserve and develop the operation of WTML's smartphone app as it is a strategically important asset going forward.

Cultural factors
WTML's relaxed and informal approach will need to be reconsidered post-acquisition. The WTML staff are currently highly empowered to make their own decisions, but we could lose control if we allow this to continue. That said, the entrepreneurial spirit of the WTML staff is commendable and has worked for them well in the past. We're conscious however that after the acquisition the Bhatti brothers would be minority shareholders in the larger group which may affect their approach and attitude.

Marketing
The board is concerned that customers, particularly legacy WTML customers, will be unsettled by the acquisition and may seek to take their business elsewhere. We need to carefully consider a marketing strategy to try and overcome this.

Shared use of data
DRP and WTML both have significant amounts of legacy data, albeit ours is less formalised and less electronic in nature. The smartphone app at WTML will undoubtedly be a rich source of information for us to exploit post-acquisition to share market information and increase combined sales.

…*extract ends*

QUESTION 2

Larkana Cane Supplies (LCS), a prominent sugar cane refining company, is facing an unprecedented challenge. Known as one of the major players in the industry, the company has consistently reported strong financial performance on the Pakistan Stock Exchange. LCS has a small number of large customers. A recent setback has left stakeholders concerned: LCS has lost one of its largest customers due to concerns over its carbon footprint.

The customer, a multinational food conglomerate committed to sustainability, cited the sugar mill's high carbon footprint as the reason for discontinuing their contract – the sugar refining process takes significant amounts of heat. This decision has put pressure on LCS, as other clients are also beginning to scrutinize the environmental impact of their suppliers. In response, LCS's board of directors is urgently exploring ways to reduce the company's carbon emissions.

After careful consideration, the board has narrowed down two options to align with their sustainability goals:

- Building a Wind Farm in the Kirthar Mountains
- Purchasing an Existing Forest in the Shangla district

Both are considered further in Appendix 1.

In a recent board meeting, concern was expressed that previous strategic initiatives have failed to be translated into action, and the board would first like to examine why this was the case. The Head of Human Resources (HR) was tasked with investigating the issue and recommending a solution. The first step taken by the Head of HR was to form a focus group made up of operational managers to ask them their opinions about past implementation issues. The transcript of this meeting is presented in Appendix 2.

Requirements

(a) Evaluate possible reasons why strategic decisions have not been implemented successfully in the past at LCS and recommend action to the LCS board of directors to remedy these issues for the future. **(08 marks)**

(b) Assess the two strategic initiatives in the context of sustainability and environmental issues. **(08 marks)**

(c) Evaluate the impacts on LCS that the increased operating gearing could have on the business and suggest how each impact could be managed. **(09 marks)**

Total: 25 marks

APPENDIX 1 – BRIEFING PAPER TO THE BOARD ON SUSTAINABILITY PROPOSALS

To: The Board, LCS
From: Asifa Channa, Head of operations
Subject: Sustainability initiatives
Date: 8 November 2025

Dear Board of Directors,

Following our recent board meeting, I enclose further details of two sustainability initiatives we could undertake considering recent events.

1. **Building a wind farm in the Kirthar Mountains:** LCS has identified an opportunity to invest in renewable energy by constructing a wind farm in the Kirthar Mountain range, about 150 kilometres from Larkana. This location benefits from steady winds, making it ideal for harnessing wind power. I see this as a viable long-term investment that would not only reduce the LCS's reliance on fossil fuels but could potentially enable the company to supply renewable energy back to the local grid in times of low refinery energy demand, generating additional revenue. The project would involve a high initial capital investment and a significant increase in the operational fixed costs of the business but could eventually lead to substantial savings and even revenue from selling surplus power. Any local opposition could be countered by investing in the local community.

2. **Purchasing an existing forest in the Shangla district:** The second option under consideration is to acquire an existing forest in the Shangla district region. By owning a forest, LCS would have the ability to offset the forest's carbon reduction capacity against reported carbon-based pollution produced in the sugar cane refining process. This would create a faster impact on their carbon balance compared to building a wind farm and would align with the mill's immediate goal of demonstrating a commitment to sustainability. However, the board is aware that while purchasing a forest would enhance the company's environmental image, it would not directly reduce the mill's operational emissions or energy dependency. In addition, maintaining the forest would entail a substantial amount of fixed operating costs.

Although a detailed investment appraisal has yet to be conducted for either idea, given it appears our future viability seems to depend on us improving our sustainability credentials, its hard to imagine either would not be economically viable.

I look forward to discussing this further at the next board meeting.

Best wishes,

Asifa

APPENDIX 2 – TRANSCRIPT OF MEETING BETWEEN HEAD OF HR AND OPERATIONAL MANAGERS

Manager 1	'We operate on such tight budgets, always based on the previous year, that we just have no scope to do anything new or different. At the end of the day, I'll be judged on how well I did compared to my budget.'
Manager 2	'We had initiative after initiative forced upon us with an initial flurry of excitement, then we never hear of them again. It's best to wait and see if anyone asks us about how the implementation is going.'
Manager 3	'The ideas come down that add to our already heavy workload, with absolutely no incentive for us to do anything with them. Our bonus is based on performance to the fixed budget, so I feel I will be punished for deviating away from the norm.'
Manager 4	'What we do is not complex. It is a simple process which has been in place for many years. We take pride in what we do and how we do it. If it isn't broke don't fix it, we say. Managers come and go - we're on our third Chief Executive Officer in as many years – but we are always here. We know what to do and we do it well.'

QUESTION 3

Latif Shah International Logistics (LSIL), a small but publicly listed warehousing company based in Rawalpindi, is exploring a significant new expansion. Positioned strategically near Islamabad International Airport, LSIL has established itself as a trusted local warehousing provider for businesses in the Rawalpindi and Islamabad areas. However, recognizing its advantageous location and logistical expertise, LSIL's board now aims to expand its services into the international logistics market.

The board envisions positioning LSIL as a regional distribution hub for e-commerce businesses from Thailand, Malaysia, and Indonesia, facilitating the onward distribution of goods to Europe and the MENA (Middle East and North Africa) regions. By tapping into these fast-growing e-commerce markets, LSIL hopes to attract clients who seek efficient and centrally located distribution centres with direct access to major global trade routes.

To achieve this goal, LSIL is considering two main strategies for expansion:

- Organic expansion on the sizable amount of land it already owns.
- Acquiring an existing nearby warehousing and distribution business.

With a feasibility study underway to consider these options, LSIL is positioning itself to capture value in international logistics and broaden its presence on the Pakistan Stock Exchange, marking a new chapter for the company.

The CEO, Qadeer Kashmiri, has written to the chair of the board with more background on each expansion option (Appendix 1).

Both options will require significant finance, and a reduction in the current level of dividend appears to promise a significant proportion of what is required. However, the board is nervous about reducing the current level of dividends given the growing profitability of the company and high historic pay-out ratio. Extracts from a recent board meeting discussing this matter is presented in Appendix 2.

Should the expansion proceed, the Head of Finance, Hakmeen Syed will need to ensure an appropriate budgeting process is put in place, but he only has experience with a traditional periodic incremental budgeting process. He has heard of alternative bases such as rolling, and zero-based budgets for example, but he is unsure what would be best for the new logistics business.

Requirements

(a) Evaluate the option to expand organically compared with the option to acquiring the existing warehousing and logistics business and recommend, with justification, which option should be adopted by the board of LSIL. **(10 marks)**

(b) Assess the impact on LSIL of reducing dividends to help finance the expansion and recommend with justification whether to proceed with this method of funding. Include supporting calculations comparing the value of the project if financed by debt or equity. **(07 marks)**

(c) Briefly discuss various methods of setting targets (budgets) and recommend, with justification, the most appropriate basis for the new international e-commerce logistics business. **(08 marks)**

Total: 25 marks

APPENDIX 1 – INFORMATION ABOUT ORGANIC GROWTH POTENTIAL, AND THE EXISTING TARGET BUSINESS

To: Javed Pathan, Chair of the Board, LSIL
From: Qadeer Kashmiri, CEO, LSIL
Subject: Expansion into international logistics
Date: 5 November 2025

Dear Javed,

I hope you are well. As discussed, a move into international logistics is a huge opportunity for us. I enclose below further consideration of the two options you mentioned:

Organic expansion using LSIL's existing land
LSIL's existing land holdings provide a valuable advantage, as they enable the company to expand organically by constructing new facilities tailored specifically to the needs of international e-commerce distribution. By building new warehouses, LSIL could integrate cross-docking capabilities and automation systems, both of which are essential for efficient high-volume, international logistics. This approach would allow LSIL to scale up gradually, reducing the initial financial burden and ensuring that all facilities align with the company's standards and operational requirements. However, organic expansion would require a longer timeline, as construction, permits, and infrastructure setup would take time, potentially delaying LSIL's entry into the international logistics market.

Acquisition of an existing nearby business
Alternatively, we are considering acquiring a nearby warehousing and distribution business to fast-track our capacity expansion. An acquisition could provide immediate access to additional facilities, a trained workforce, and potentially an established customer base. This route would allow LSIL to ramp up its operations quickly, giving it a competitive edge as it enters the international market. However, integrating the acquired company's operations and aligning it with LSIL's standards may pose challenges, especially in terms of corporate culture, operational processes, and system compatibility.

Market challenges and opportunities
Expanding into international logistics brings unique challenges. The cross-border movement of goods can be complicated by customs regulations, varying trade policies, and regional shipping nuances, particularly when working with multiple countries in Asia. Additionally, LSIL will face competition from other logistics providers located near Islamabad Airport, some of whom are also vying to capture a share of the booming e-commerce logistics market. Despite these hurdles, LSIL's proximity to the airport, access to reliable road networks, and potential infrastructure support from the China-Pakistan Economic Corridor provide a strong foundation for competing on an international scale.

I hope the above is of some use. I look forward to working with the board to decide which approach to take.

Best wishes,

Qadeer

APPENDIX 2 – EXTRACT OF BOARD MEETING MINUTES FROM 10 NOVEMBER 2025

Financing the expansion of Latif Shah International Logistics

Board meeting extract starts…

Qadeer Kashmiri, CEO, noted that the company currently pays out 90% of its earnings as dividends, and has done so for many years.

Withholding the dividend for 2-4 years would provide adequate finance to fund the expansion.

Salman Bukhari, a director, expressed concern about changing this pattern of dividends, saying the stock market expects continuous growth in dividends, and that dividends should continue, with alternative finance, such as debt, being used to finance the expansion.

Hakmeen Syed informed that debt finance would actually create value as interest is tax deductible, whereas using withheld dividends is equity finance, and so very expensive (current cost 15%). With LSIL paying tax at a rate of 29%, he felt this opportunity to save tax should not be ignored.

Hakmeen added that borrowing to finance the expansion would be particularly appealing as LSIL are currently all-equity financed. He said the initial cost for the expansion would be around Rs. 1,000 million, and that the new business could be assumed to generate Rs. 200 million after tax operating profits each year indefinitely. He said, financing by debt would increase gearing to 30:70 Debt:Equity, but felt confident that irredeemable debentures could be issued with a cost of 10% before tax.

Qadeer responded by saying that all that was needed was a press release explaining why the dividends were being reduced, and this would surely increase not decrease share price.

Hakmeen agreed to consider the matter further and report back to the board and offered to prepare calculations comparing the value of the expansion if financed by debt (he referred to Adjusted Present Value as a basis) as opposed to all equity financed.

… Board meeting extract ends

(THE END)

Rough Sheet

Rough Sheet