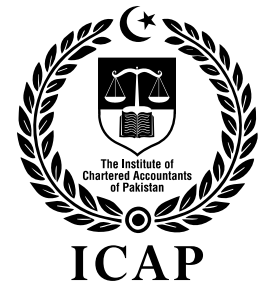


Strategic Case Study

2 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 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. 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 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.
9. You are allowed to carry pre-seen material, any written or printed notes, printed annotated documents, and any **THREE** original books duly bound, subject to space limitations in the exam hall. Please ensure that the books or notes you bring are permissible under the open book policy of this paper. Keeping a book or notes that are not permissible 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 is strictly prohibited. Engaging in such activities will be considered a violation under the policy on the use of unfair means.

Karachi Motor & Cycle Hire (Pvt.) Ltd

The following new information should be read in conjunction with the Pre-Exam Information (including Appendices 1 to 10), previously provided to examinees.

Today is 15 June 2026.

You are a manager working with Memon & Khan, Chartered Accountants. You have been tasked to write a report for the client engagement partner's review prior to submission to Ali Malik, the Chief Executive Officer of Karachi Motor & Cycle Hire (Pvt.) Ltd (KMCH).

KMCH is a privately-owned premium car - and motorcycle-rental business with twelve depots in Karachi and two in Lahore.

Founded in 2005 by Ayesha Khan, the company operates a 580-strong fleet through a telematics-enabled platform, offering self-drive, chauffeur and guided-tour services. KMCH's strategic aim is to consolidate its domestic leadership, expand to other Pakistani hubs and electrify a significant share of its fleet, while exploring external capital to fund growth.

Available information:

Appendix 11: KMCH management accounts for the year ended 31 March 2026

Appendix 12: Email from Fatima Sheikh re: Pakistan expansion plans

Appendix 13: Extract from minutes of the KMCH Board meeting: fleet renewal

Appendix 14: Proposal from the IT director to invest in a new IT system

Appendix 15: Transcript of discussion between CEO and HR Director

REQUIREMENTS:

Question 1: Performance evaluation and potential KMCH fleet upgrade

- (a) Evaluate the financial performance and financial position of KMCH for the year ended 31 March 2026, compared to the year ended 31 March 2025. **(12 marks)**
- (b) Recommend improvements to KMCH working capital management function so it is better able to manage its short-term cash requirements. **(09 marks)**
- (c) Prepare advice for the Board of KMCH supported by financial and non-financial analysis in response to the proposal to implement a major programme to renew and upgrade KMCH's existing car fleet identified by the CEO in Appendix 13. **(13 marks)**

Total: 34 marks

Question 2: Geographical expansion in Pakistan and Venture Capital Funding

- (a) Evaluate the non-financial benefits, risks, and challenges of pursuing the proposed KMCH expansion strategy in Pakistan. **(14 marks)**
- (b) Prepare a valuation analysis for the proposed Pakistan expansion and the Lioncrest Capital Partners offer. Your answer should:
- calculate the NPV of the proposed expansion using the WACC calculated from Appendix 12;
 - evaluate the valuation implied by Lioncrest's offer of Rs. 1,100 million for a 40% post-money shareholding;
 - compare that implied valuation with KMCH's indicative equity value; and
 - advise the Board on whether the 40% shareholding requested by Lioncrest should be accepted or renegotiated.
- (14 marks)**
- (c) Advise the Board of KMCH on how it should respond to the two due diligence matters highlighted by Lioncrest Capital Partners and summarised in Fatima Sheikh's email (Appendix 12). Your answer should recommend the information, explanations and supporting evidence that KMCH should provide to Lioncrest in relation to:
- operational data quality and systems; and
 - the condition and age profile of the existing fleet.
- (09 marks)**
- (d) Explain the key income tax implications arising from the proposed expansion, with specific reference to issuance of shares, acquisition and disposal of vehicles, and related tax depreciation. Also, discuss the sales tax on services implications associated with the expansion. **(05 marks)**

Total: 42 marks

Question 3: Business ethics issue and proposed new IT system

- (a) Evaluate the ethical issues outlined in Appendix 15 and recommend a course of action to the Board of Directors of KMCH. **(10 marks)**

Note for examinees: Use the following framework to structure your response:

- (i) Identify the ethical dilemma
 - (ii) Assess whether safeguards or mitigations are already in place
 - (iii) Evaluate the ethical dilemma
 - (iv) Recommend a course of action
- (b) Discuss the potential operational benefits, risks and challenges that the proposed new IT system could bring to KMCH's operations, along with conditions required for successful implementation. Also, make a recommendation to the Board of KMCH on whether it should proceed with the implementation. **(14 marks)**

Total: 24 marks

APPENDIX 11 – KMCH MANAGEMENT ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2026

From: Fatima Sheikh, Finance Director
To: KMCH Board
Date: 15 April 2026
Subject: Management Accounts and Key Operating Data for the year ended 31 March 2026

Dear Board Members,

Please find below the management accounts and operating data for the year ended 31 March 2026, together with comparatives for the year ended 31 March 2025.

Statement of Profit or Loss – for the year ended 31 March

	2026	2025
	----- Rs. in million -----	
Revenue – Car hire	1,299.0	1,261.0
Revenue – Motorcycle hire	200.0	183.9
Total revenue	1,499.0	1,444.9
Cost of sales – Car hire	(609.0)	(550.0)
Cost of sales – Motorcycle hire	(151.0)	(134.2)
Total cost of sales	(760.0)	(684.2)
Gross profit	739.0	760.7
Amortisation of property leases	(58.0)	(52.0)
Energy and property costs	(48.0)	(39.6)
Depreciation (including vehicles)	(342.0)	(315.0)
Marketing	(22.0)	(18.9)
Other administrative costs	(77.0)	(66.2)
Total operating expenses	(547.0)	(491.7)
Profit before interest and tax	192.0	269.0
Interest	(112.0)	(109.2)
Profit before tax	80.0	159.8
Taxation	(22.0)	(46.4)
Profit after tax	58.0	113.4

Statement of Financial Position – As at 31 March

	2026	2025
	----- Rs. in million -----	
Assets		
Non-current assets		
Property, plant & equipment	1,340.0	1,308.5
Vehicles for hire – owned	1,090.0	1,014.2
ROU assets – vehicle leases	1,320.0	1,252.4
ROU assets – property	2,794.0	2,353.0
Total non-current assets	6,544.0	5,928.1
Current assets		
Inventory	27.2	18.6
Trade receivables	57.8	40.7
Cash	-	324.8
Total current assets	85.0	384.1
Total assets	6,629.0	6,312.2
Equity and liabilities		
Share capital	25.0	25.0
Retained profits	2,110.0	2,077.4
Total equity	2,135.0	2,102.4
Lease liabilities >12 months	3,730.0	3,672.0
Trade payables	72.1	60.8
Lease liabilities <12 months	382.0	367.0
Other payables	119.9	110.0
Bank overdraft	190.0	-
Total current liabilities	764.0	537.8
Total liabilities	4,494.0	4,209.8
Total equity & liabilities	6,629.0	6,312.2

Operating Data

	2026	2025
Average active vehicles available for rent	545	522
Utilisation rate (vehicles days rented/total vehicle days available)	67.5%	70.2%
Customer satisfaction feedback (out of 5)	4.4	4.7
Average annual mileage per vehicle (km)	14,900	15,462
Average vehicle age (years)	3.0	2.5
Average number of employees during the year	336	312
Employee turnover	13.0%	11.2%

A dividend of Rs. 25.4 million was approved and paid during the year to 31 March 2026.

Commentary

Although revenue increased over the year, supported by sustained demand from both corporate clients and private renters, the business failed to meet its forecast. The competitive environment has become more challenging, and depot-level feedback indicates a growing customer preference for newer vehicles, increasing commercial pressure on operators to maintain fleet quality.

The wider business environment continues to evolve, particularly in relation to regulatory compliance for vehicle emissions and safety requirements. Technological developments are also reshaping customer expectations around booking processes, communication and access to real-time information. Customer feedback has highlighted concerns regarding the condition of certain vehicles, response times when issues arise, and inconsistencies in service quality across depots.

KMCH faced rising cost pressures across multiple areas, largely due to inflation. Volatility in fuel and energy prices continued to affect operating costs across the depot network. In addition, the ageing fleet required more frequent maintenance, while inconsistent availability of spare parts extended repair times. Maintenance backlogs and capacity constraints further reduced vehicle availability, particularly during periods of peak demand.

The workforce expanded to support the growing fleet; however, employee turnover increased as the labour market remained competitive, particularly for experienced workshop technicians and skilled drivers.

Despite increased use of short-term borrowings and additional lease commitments during the year, the overall financing cost increased only slightly due to lower interest rates.

During the year, KMCH renewed several long-term property leases, including multi-year extensions for high-performing depots in Karachi and Lahore. These renewals were capitalised in accordance with IFRS 16, resulting in an increase of approximately Rs. 440 million in right-of-use assets relating to property.

Inventory increased as KMCH sought to mitigate supply-chain disruption by securing key components in advance and trade receivables increased reflecting a growing proportion of corporate customers operating on credit terms. Some noted delays in invoicing for corporate customers have extended the time between service delivery and cash inflow. Trade payables also increased in an attempt to manage the overall working capital position

Kind regards,

Fatima Sheikh

Finance Director

KMCH

END OF APPENDIX 11

APPENDIX 12 – EMAIL FROM FATIMA SHEIKH RE: PAKISTAN EXPANSION PLANS

From: Fatima Sheikh, Finance Director
To: Financial analysis team
Date: 30 May 2026
Subject: Pakistan expansion – valuation work, Lioncrest proposal and due diligence

Dear team,

Following the recent Board discussion, I need a focused appraisal of the proposed expansion into Islamabad, Rawalpindi and Faisalabad and the indicative equity offer from Lioncrest Capital Partners.

Business strategy context

The proposed three-depot expansion is intended to deepen KMCH's presence in higher-growth federal and central hubs, build on our existing premium brand and make better use of our telematics-enabled operating model across a wider network.

Strategically, it has the potential to diversify revenue beyond Karachi and Lahore, improve our profile with corporate and inbound-tourism customers, and create a platform for future operational synergies in fleet deployment and maintenance.

Against this, the business is already facing internal pressures around fleet age, workshop capacity, IT systems limitations and a tighter working-capital position.

Externally, we are seeing more price-focused competition, rising customer expectations for reliability and digital service, and a challenging cost environment in Pakistan.

Your analysis should briefly comment on how the expansion fits with these opportunities and constraints and identify key strategic advantages and risks from both an internal (resources, systems, people, funding) and external (market demand, competition, regulation) perspective.

1. Outline of proposed investment (for modelling)

Working assumption: phased opening of three depots, total initial fleet of 160 vehicles.

Indicative Year 0 investment:

- Depot fit-out and equipment (all sites): Rs. 85 million
- Initial vehicles purchased: Rs. 880 million
- IT integration and telematics for new depots: Rs. 75 million
- Initial working capital: Rs. 60 million
- Total initial investment: Rs. 1,100 million

2. Core performance assumptions (to build cash flows)

Please construct free cash flow forecasts (pre-financing, post-tax) based on the following management estimates for the combined three depots:

- Year 1 revenue (first full year): Rs. 1,000 million
- Year 2 revenue: Rs. 1,150 million
- Year 3 revenue: Rs. 1,330 million
- EBITDA margin Year 1: 18% of revenue
- EBITDA margin from Year 2 onwards: 23% of revenue
- Depreciation on new fleet: Rs. 70 million per year
- Replacement capex from Year 4 onwards: Rs. 65 million per year

3. Assumptions for working capital and tax:

- Working capital investment for the new depots (Year 1 onward): 8% of annual revenue.
- The Pakistan corporate tax rate applicable to KMCH's operating profits: 28%.

4. Lioncrest Capital Partners – equity offer

Lioncrest have, in principle, proposed to inject Rs. 1,100 million of new equity into KMCH, in return for a 40% shareholding in KMCH (post-money). They would expect a board seat and typical minority protections (including veto rights over major capital and financing decisions).

Please assess whether this is consistent with a reasonable overall valuation of KMCH and with the NPV of the Pakistan expansion, using a discounted cash flow approach.

5. WACC and valuation parameters

Please base the weighted average cost of capital on market values of debt and equity:

- Indicative market value of KMCH equity (pre new money): Rs. 5,700 million
- Indicative market value of interest-bearing liabilities (including lease obligations and overdraft): Rs. 4,000 million

Cost of equity (CAPM inputs)

- Risk-free rate (Pakistan government securities): 6.0%
- Equity market risk premium: 8.0%
- Suitable equity beta: 1.75

Cost of debt

- Pre-tax cost of debt: 9.0%
- Pakistan corporate tax rate: 28%

Tasks

- Calculate KMCH's WACC using these inputs.
- Use this WACC to discount the expansion cash flows.
- Compare the implied value of KMCH with and without the Lioncrest investment and infer the valuation implied by a 40% stake for Rs. 1,100 million.

6. Due diligence areas to address in the analysis

Lioncrest have highlighted two specific areas of concern:

Operational data quality and systems

There are questions about the completeness and accuracy of utilisation, downtime and pricing data produced by our current telematics and booking system.

Please comment briefly on how any known limitations in data quality or systems might affect projected utilisation, revenue forecasts and cost estimates for the new depots, and recommend what information or evidence should be provided to Lioncrest to address these concerns.

Condition and age profile of the existing fleet

Lioncrest have requested more detail on the age profile of the fleet, maintenance backlogs and workshop capacity, and how these might impact future capital expenditure and service levels. Please highlight any implications for ongoing capex assumptions, operational risk and the credibility of the expansion plan while we are also considering fleet renewal, and recommend what information or evidence should be provided to Lioncrest to address these concerns.

Please prepare a short note and supporting schedules for my review ahead of the next Board meeting.

Kind regards,

Fatima Sheikh

Finance Director

KMCH

END OF APPENDIX 12

APPENDIX 13: EXTRACT FROM MINUTES OF THE KMCH BOARD MEETING – FLEET RENEWAL

Board meeting held 20 May 2026

Present:

Ali Malik (AM) – CEO
 Fatima Sheikh (FS) – Finance Director
 Bilal Khan (BK) – Operations Director
 Saad Farooq (SF) – IT Director
 Zara Khan (ZK) – Sales & Marketing Director
 Ayesha Khan (AK) – Non-executive Chair
 Dr Samina Raza (SR) – Non-executive Director
 Rafiq Hussain (RH) – Non-executive Director
 Mariam Siddiqui (MS) – Human Resources Director

Agenda item 4: Fleet renewal and upgrade – Phase one

AM opened by stating that the fleet's average age has now reached around 3 years, with ageing vehicles generating more frequent faults, longer repair times and increasing customer concerns regarding condition and comfort.

AM added that several competitors have recently upgraded parts of their fleets, promoting lower emissions and improved reliability, and noted that KMCH risks falling behind if it does not address the issue promptly.

BK confirmed that older cars are driving higher workshop utilisation and causing availability bottlenecks, especially during peak periods. He noted that utilisation has dipped despite a larger fleet and that operational staff are finding scheduling more difficult when multiple vehicles are off the road simultaneously.

FS presented an initial plan for a one-year phase one renewal, replacing 100 cars identified as most maintenance-intensive.

She said the figures below are indicative but sufficiently robust for early appraisal and highlighted the need to evaluate both financial and non-financial effects before seeking approval.

Phase one renewal – management data Financial information

Description	Rs. in million
Investment & disposals	
Cost of replacement cars (avg. Rs. 6 million each) – 100 cars	600
Expected disposal proceeds	80
Net book value of retired cars	(110)
Loss on disposal (one-off P&L impact)	30
Operating impact	
Maintenance savings (annual)	25
Fuel savings (annual)	10
Additional depreciation on new cars	120
Depreciation removed on retired cars	(50)
Net increase in depreciation (annual)	70

Non-financial information

Description	Current	Expected
Breakdown incidents per 100,000 km	8	5
Average CO ₂ emissions (g/km)	165	155
Customer rating (vehicle condition, /5)	4.4	4.6
Average vehicle downtime (days/year)	18	12
Utilisation rate	67.5%	~69–70%

SR commented that the operational and customer-related benefits appear clear but noted that liquidity remains tight and that the financing mix must be considered carefully.

RH asked FS to model alternative phasing and financing combinations and to assess the longer-term impact on profitability, cash flow, gearing and key operational metrics.

The Board agreed that renewal is strategically important but requested a detailed appraisal before any commitment is made.

END OF APPENDIX 13

APPENDIX 14 – PROPOSAL FROM THE IT DIRECTOR TO INVEST IN A NEW IT SYSTEM

To: KMCH Board
From: Saad Farooq, IT Director
Date: 24 May 2026
Subject: Proposal for integrated IT, telematics and analytics upgrade

Introduction

This proposal outlines a staged investment to replace KMCH's old operational systems with a unified digital platform.

Summary of proposed system and how it improves current capability

- The new cloud-based booking and operations platform would automatically allocate vehicles using live availability, condition and maintenance status, replacing today's manual processes that often rely on outdated information and lead to allocation errors and late adjustments.
- Upgraded telematics units would provide reliable real-time diagnostics, driving data and accurate mileage feeds, addressing the current system's inconsistent data capture and frequent synchronisation failures that limit our ability to manage utilisation and maintenance planning.
- Predictive maintenance tools would identify emerging mechanical issues before they become breakdowns, enabling planned workshop activity rather than the reactive, fault-driven approach that is currently contributing to downtime, congestion and rising maintenance costs.
- AI-enabled demand forecasting and pricing would analyse booking patterns, seasonality and external data to support more responsive pricing decisions, overcoming the limitations of the current static tariff structure and manual discretionary adjustments.
- A modern customer portal would provide live updates, clearer incident handling and improved service transparency, offering a substantial upgrade on the existing system which cannot reliably provide accurate pick-up times or status notifications and often requires manual follow-up.
- Integrated reporting would automate depot-level dashboards and align operational and financial data, replacing the present reliance on spreadsheets, manual reconciliations and inconsistent data sources.

Financial summary

Preliminary estimates indicate a moderate upfront investment for software, implementation, data migration and telematics hardware, with a modest ongoing increase in support costs. Potential benefits include lower administrative effort, improved workshop efficiency, fewer breakdowns, better utilisation and more informed pricing decisions. These will be assessed in a full business case.

Risks and dependencies

Key risks include implementation disruption, data-migration challenges, staff training needs and increased reliance on connectivity and cybersecurity. Close coordination with fleet-renewal activity is required to avoid duplicated telematics installation or mixed capability across the fleet.

Next steps

Subject to approval in principle, the IT team will prepare a detailed business case including quantified benefits, costings, risk assessment and implementation options, in collaboration with Finance and Operations.

Kind regards,

Saad Farooq,

IT Director, KMCH

APPENDIX 15 – TRANSCRIPT OF DISCUSSION BETWEEN CEO AND HR DIRECTOR

Present: Ali Malik (AM) – Chief Executive Officer, Mariam Siddiqui (MS) – Human Resource Director
Date: 5 June 2026
Location: CEO's office, KMCH Head Office, Karachi

AM: Mariam, thanks for coming. I've seen your email about the grievance from the senior dispatcher in the Gulberg, Lahore depot. How serious is this?

MS: It's serious, Ali. He alleges that his line manager has been bullying him, pushing him to work very long shifts without proper rest, and telling him not to log certain vehicle defects so the depot can hit utilisation targets. He also claims he was warned that "people who make trouble don't get promoted".

AM: The timing is terrible. We're under pressure on performance and we have Lioncrest's due diligence coming up. A formal grievance, especially mentioning safety issues, is exactly what I don't want on the record. Is there a way to stop this escalating?

MS: He has submitted a written grievance under our policy. Under Pakistani labour law and our own procedures, we are expected to run an investigation and keep proper documentation. Ignoring it or pushing it aside would be difficult to justify if it ever reached a labour court or the media.

AM: I'm not suggesting we ignore it, just that we manage it quietly. What if we offer him a settlement to leave on "mutual terms", with a confidentiality clause and an agreement to withdraw the grievance? That keeps him happy and avoids a formal outcome on file.

MS: That would look like we are paying someone to drop a complaint about bullying and safety. It also means we don't properly address the manager's behaviour. If there really is pressure to ignore defects, that is a risk to customers and staff, and ethically we should not be seen to buy silence.

AM: We could still speak to the manager informally, coach him and tighten up the processes, without a formal case. I just don't want another documented grievance when investors are asking about our culture and people practices in Pakistan.

MS: There is another concern. You asked yesterday whether we could "reclassify" this as an informal concern so it doesn't appear in the grievance statistics we report to the Board. If we change how we record it simply because we are worried about the numbers, that is also problematic. It undermines trust in HR, and it is misleading for the Board and external stakeholders.

AM: I'm trying to protect the company's reputation. If Lioncrest see a formal bullying and safety grievance in Lahore just as they are deciding on an investment, it could spook them.

MS: But if they later discover we used a pay-off and changed how we reported it, the damage will be worse. It raises questions about transparency, integrity and how we treat staff who speak up. It also sends a message to other employees that the way to deal with complaints is to cover them up, not fix the underlying issues.

AM: So, your view is that we must run a formal investigation, fully documented?

MS: At minimum, we should carry out a proper fact-finding process, record the outcome accurately and take clear action if the allegations are upheld. We can manage communications carefully, but I cannot recommend a course that relies on a pay-off and creative reporting.

AM: All right. Prepare options, including your recommended approach, and set out the legal and ethical risks of any settlement route. I want to see them before this goes any further.

END OF APPENDIX 15

(THE END)

