

RATINGS (March 2010)

OPTIMUS LIMITED (OL)

Entity	New	Previous
Long Term	BBB+	BBB+
Short Term	A2	A2
TFC (Secured Privately Placed)		
PKR 500mln	A	A
Sukuk (Secured Privately Placed)		
1st Tranche		
PKR 250mln	A	A
2nd Tranche		
PKR 100mln*	-	A

* The company has withheld plans to issue the Sukuk

FINANCIAL DATA

	PKR (mln)		
	31-Dec-09	31-Dec-08	31-Dec-07
Total Assets	1,178	1,235	1,044
Equity	347	335	448
Turnover	503	495	334
Net Income/Loss	12	(113)	(52)
Gross Margin (%)	42	26	27
EBIDTA	224	124	85
Net Debt / Equity (%)	221	241	113

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PROFILE

Optimus Limited (OL), a public unlisted company, commenced its commercial operations in Jan 2005. Mr. Saad Faruqi, the CEO, established the company and currently holds a 48 % stake in OL. He is a notable entrepreneur with experience in startups and project development. OL is Pakistan's largest car rental and fleet management company with around 1,000 vehicles under operation at end-Dec 2009. OL is the exclusive licensee of Hertz Corporation in Pakistan. Hertz is the world's leading car rental company with operations in around 147 countries.

During 2007 JS PE Fund 1 LLC – mainly sponsored by JS Group, IFC, ADB, CDC and SAMBA financial services – acquired majority ownership stake (52%) in the company by injecting substantial equity (PKR 400mln).

The seven member board has four nominees of the JS PE Fund 1 LLC. The members include investment bankers, financial sector experts and prominent executives.

RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect the company's sound business model translating into a market leadership position in the emerging operating lease segment. With the recent acquisition of a leasing company, OL can expand its operations in the finance lease segment as well. Further, the company derives significant operational synergies from its association with Hertz International. However, the financial risk of the company remains high owing to considerable leveraging and relatively stressed cashflows and coverages.
- Effective and timely implementation of the management's business strategy to expand its operations in a phased manner, while generating commensurate profitability is critical. Meanwhile, the growth prospects of the company remain dependant on macroeconomic factors such as interest rates and economic growth.

ASSESSMENT

- Car rental industry in Pakistan, in contrast to global practices, is highly segmented with a large number of operators managing small fleets. OL identified the potential business opportunities in this sector and has established a strong market position by expanding its operations to a large scale in a short span of time. The company has segregated its business operations in two divisions, Hertz Lease (long-term rentals, usually for a period of three years) and Hertz Rent A Car (short-term rentals).
- OL has recently acquired a small listed leasing company. The acquisition will allow the company to provide finance leases, in addition to operating leases and fleet management. The management intends to merge both companies that would provide immediate listing on the stock market. OL's business model is supplemented by a high ability to leverage. The merged entity would be an NBFC and allow the management to further leverage its capital structure (a leasing company is allowed leveraging up to 10 times of its equity) for further expansion.
- Hertz Lease is the fastest growing division, and major revenue generator. During 2008, the company achieved significant growth in turnover (48%). However, the company was unable to continue aggressive fleet expansion on account of the liquidity crunch prevalent in the banking sector and falling demand during 2008. Therefore, the company initiated a restructuring process during 2008 in line with more conservative growth targets. Under the restructuring process, OL reduced overhead costs by around 40%, renegotiated short term rental rates with existing costumers and converted a majority of the fixed operating leases to a floating rate leases. At the same time the company decided to discontinue the Red Top Cab segment, as performance from the sector remained under pressure due to low fleet utilization and idle mileage.
- The company continued with its strategy of consolidation during 2009. The strategy demands better utilization of the current fleet for improved revenue generation. OL, has successfully implemented its strategy as reflected by increasing gross margins (CY09: 42%: CY08: 26%) and decreasing administrative costs enabling the company achieve profitability.
- Going forward, the management's primary focus is to expand its fleet size in a phased manner, with an addition of 300 cars planned during CY10. The main focus would remain on the operating lease business, the major revenue generator (62%), while the Rent-A-Car business would be maintained as a supplement to provide full scale services to customers. Meanwhile, the company will introduce auto finance leases combined with fleet management solutions. OL also plans to provide operating leases for light commercial vehicles for distribution companies. Introduction of these new products would help increase the revenue base of the company.
- The gearing of the company remained high (end Dec 09: 222%), as the company incurred long-term debt to finance fleet expansion. The overall cashflows of the company are constrained due to the set-up expenditure, higher operating cost and fleet expansion. Furthermore, the coverages remain under pressure due to the constrained cashflows and high interest rate environment. Going forward, cashflows and coverage ratios are expected to improve but remain dependent on the profitability prospects of the company.

TFC/SUKUK ISSUE

- The company issued its first secured privately placed TFCs of PKR 500mln in September 2007, with a 5 year tenor. The instrument carries profit at the rate of 6-month KIBOR plus 210bps, payable semi-annually. The principal redemption would be made through three equal semi-annual instalments, starting from 46th month (October 2011). The instrument is secured by first charge on specified vehicles amounting to PKR 500mln, to be evaluated by a third party on an annual basis. OL would also maintain insurance cover for vehicles of an amount at least equivalent to the specific charge. Additionally, there is 25% margin in the form of first floating charge on the company's present and future current assets.
- The management plans to issue a privately placed secured Sukuk of PKR 460mln in three tranches of PKR 250mln, PKR 100mln and PKR 110mln each. The company issued the first tranche in March 2008 for a tenor of 7 years (including one year grace period), which carries a profit rate of 6-month KIBOR plus 125bps, payable quarterly in arrears. Principal redemption will be made in 24 consecutive quarterly instalments which commenced from June 2009. OL intended to issue a second tranche (PKR 100mln) but has been unable to do so due the tight liquidity in the financial markets. The company has since abandoned the plan to issue the remaining tranches. Given the strong nature of the underlying security, the TFC and Sukuk have been assigned a rating of A, two notches higher than the long-term entity rating.