

## RATINGS (May 2011)

### OPTIMUS LIMITED (OL)

Entity	New	Previous
Long Term	BBB+	BBB+
Short Term	A2	A2
<b>TFC (Secured Privately Placed)</b>		
PKR 500mln	A	A
<b>Sukuk (Secured Privately Placed)</b>		
<b>1<sup>st</sup> Tranche</b>		
PKR 250mln	A	A

## FINANCIAL DATA

	PKR (mln)		
	2010	2009	2008
Total Assets	1,176	1,178	1,235
Equity	356	347	335
Turnover	548	503	495
Net Income/Loss	9	12	(113)
Gross Margin (%)	39	42	26
EBITDA	180	200	138
Net Debt / EBITDA (%)	5.3	4.1	6.8

## ANALYSTS

**Omaira Amjad**  
+92 42 3586 9504  
omaira.amjad@pacra.com

**Ahmed Ehsan**  
+92 42 3586 9504  
ahmed.ehsan@pacra.com

## 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 48 % stake in OL. He is a notable entrepreneur with experience in startups and project development. OL is one of the largest car rental and fleet management company in Pakistan with around 1,000 vehicles under operation at end-Dec 2010. 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.
- The seven member board has four nominees of the JS PE Fund 1 LLC while the rest are nominees of Mr. Saad Faruqi. The members include investment bankers, financial sector experts and prominent executives.

## RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect the company's strong market position in operating lease segment, mainly characterized by its association with Hertz Corporation – a global brand in car rental industry. The company, facing a squeeze in its high-margin long-term business – Hertz Lease – in the wake of prevalent socio-economic environment, intends to cautiously expand its operations. Meanwhile, it is keeping a close check on cost structure to sustain margins. Financial risk of the company is high owing to leveraged capital structure and relatively weak debt servicing capacity. The company has sizeable upcoming debt obligations to repay, for which necessary financing arrangements are in process.
- The company's ability to rationalize its overall financial profile, while improving operational profitability would be critical. The growth prospects of the company would remain dependant on macroeconomic factors such as interest rates and economic growth.

## ASSESSMENT

- OL's operations are segregated in two divisions, Hertz Lease and Hertz Rent A Car. Hertz Lease is a high margin business segment, providing long-term fleet management solution to its clients, mainly multinational corporates. Hertz Rent-A-Car serves short-term mobility needs of both corporates and individual customers. During 2010, OL witnessed modest growth in revenues mainly fueled by inflationary pressures as overall fleet size remained largely the same. Contribution of Hertz Rent-A-Car towards total revenues increased due to shift of fleet to this segment. However, this impacted gross margins and net profitability on YoY basis.
- OL has acquired (84%) Capital Asset Leasing Corporation (Calcorp) – a small listed leasing company – during Dec-09. OL has taken over the management control and necessary changes have been made in the management team and the board of directors. Calcorp has started operating lease business with help of its parent – OL. The management is contemplating to design a viable business strategy while bringing in a new equity partner to improve Calcorp's capitalization level.
- Going forward, the management intends to gradually increase its fleet size over the medium-term. The main focus would remain on the operating lease business, while Rent-A-Car would be maintained as a supplement to provide full scale services to customers. Recently, OL has started a pilot project to introduce operating leases for light commercial vehicles (LCV) to capture logistics business. However, establishing its foothold in this segment may take some time. While deteriorated economic conditions constrained the company's ability to expand its operations, limited availability of required funding may remain an impediment, particularly over the short-term. Nonetheless, the company would continue to obtain benefit of operational synergies from its association with Hertz Corporation.
- OL's business model is based on a leveraged capital structure (Total Debt/ Total Debt +Equity: CY10: 68.11%; CY09: 68.97%). However, the company's debt, being aligned with the value of cars, is secured against any adverse changes in business conditions owing to liquid nature of the collateral. The company may require additional funding to, i) expand its operations, and/or ii) replace existing fleet, wherein any increase in car prices add to the financing needs. The first principal payment (PKR 167mln) on PKR 500mln TFC is due in last quarter of 2011. To fund its expansion plan while meeting upcoming debt repayments, the company is in the process of arranging required finances. Nonetheless, given the company's conservative growth strategy over the short-term, the company's leveraging is expected to remain within tolerable limit. However, cash flows and coverages may remain under pressure in the absence of improvement in business operations and profitability as projected.

## 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 46<sup>th</sup> 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 also maintains 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 planned 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 is being made in 24 consecutive quarterly instalments which commenced from June 2009. The instrument is secured by first charge on specified vehicles amounting to PKR 250mln. The remaining security structure is the same as of TFC. OL has abandoned its 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.