



The Pakistan Credit Rating Agency Limited

Rating Report

Optimus Capital Management (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Jun-2018	A-	A2	Stable	Maintain	-
08-Dec-2017	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The Entity Rating of Optimus Capital Management (Private) Limited emanates from its emerging position in the brokerage industry. The rating assigned reflects the well-adopted approach to manage risks. The company as a policy prohibits proprietary trade exposure in the market. The investment related risks at clients' end are managed properly through the risk management policy. The organizational structure is defined with most of the departmental heads reporting to the CEO. Experienced top management, adequate risk management systems and compliance procedures are the key traits of the company.

The board of the company comprises two executive directors. The company has adopted a dynamic approach to expand its clientele and increase its market share. The brokerage revenue stream and volumes are building up gradually. Moreover, the company has a debt-free capital structure which reduces the financial risk. The equity base has been growing due to accumulation of profits which provides cushion against losses. The company also provides corporate finance and financial advisory services. The research department provides various market reports to clients. Furthermore, value added services including mobile app is available.

The rating is dependent on the company's ability to strengthen its emerging position in the industry. Retention of the key personnel and sustainability of profits is utmost. It further requires improvement in the governance framework, upholding strong internal controls and diligent monitoring of risks.

Disclosure

Name of Rated Entity	Optimus Capital Management (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Securities Broker (Mar-17)
Related Research	Sector Study Brokerage / Securities(Oct-17)
Rating Analysts	Shahzaib Khalid shahzaib.khalid@pacra.com +92-42-35869504

OPTIMUS CAPITAL MANAGEMENT (PVT.) LTD. PROFILE	
Incorporated	2004
Major business lines	<ul style="list-style-type: none"> Equity brokerage Investment Research Corporate Finance Financial Advisory
Legal status	Private Limited
Number of branches	1

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> Fragmented industry with 305 brokers (SECP list of registered brokers as on Nov 30, 2016). Total number of registered UINs as on June 30, 2017 – 245,758. Total number of listed scrips - 529 as on June 30, 2017. Stringent regulatory framework governed by SECP, PSX, NCCP and CDC.

OWNERSHIP

- Profile** - Optimus Capital Management (Pvt.) Ltd. (formerly known as Millennium Capital Management) was incorporated in 2004.
- Ownership** - Optimus Capital is wholly owned by Optimus Holdings Pvt. Ltd. Mr. Asif Ali Qureshi and Mr. Jawad Amjad own 80% and 20% of Optimus Holdings respectively.

GOVERNANCE

- Board Structure** - Company's board comprises two seasoned professionals, Mr. Asif Ali Qureshi and Mr. Mohsin Ahsan. Both board members are executive directors. Mr. Asif Ali Qureshi is the Executive Chairman of the board. He also chairs the audit committee.
- Financial Transparency** - Audit committee has been recently established with defined TORs. The internal audit function is in-house and independent.
- Riaz Ahmad, Saqib, Gohar and Company, ranked in the 'B' category, are the external auditors of the company.

MANAGEMENT

- Organizational Structure** - The organizational structure clearly defines the roles and responsibilities of each individual. However, some overlap of responsibilities exist in the company.
- Members' Profile** – Optimus Capital has an experienced management team to support the operations. The Company is headed by Mr. Ovais Ahsan (Chief Executive Officer). He recently joined the company in February 2018. He has over fifteen years of experience of capital markets.

RISK MANAGEMENT

- Internal Audit and Compliance** - The Company has adequate risk management system. The internal audit and compliance functions report directly to the Board and fall under the purview of Head of Compliance, Mr. Syed Ayaz Ahmed.
- Market Risk** - Optimus as a policy does not engage in proprietary trading, thus limiting the impact of market risk.
- Credit Risk** – To keep the credit risk low, the Company does not offer credit facilities to its customers.

BUSINESS RISK

- The company reported profit after tax of ~ PKR 12 million in the 9MFY18 as compared to a loss of ~PKR 15 million in the six months ended FY18.
- The operating revenue was PKR 98 million for the nine months ended 31st March 2018 as compared to ~PKR 41 million for the six months ended 31st December 2017. This represents a growth of 138%. The increase in revenue is mainly due to rising brokerage income on account of increasing volumes and market share.
- Meanwhile, the increase of 61% (1QFY18: 74.2 million, 6MFY18: PKR 46.5 million) in administrative and general expenses did not dent the bottom line due to the tremendous increase in revenues.
- Optimus Capital intends to enhance its market share by focusing on foreign and local clients by improving customer services.

FINANCIAL RISK

- Optimus Capital has adequate capitalization level with regulatory Net Capital Balance (NCB) standing at PKR 209 million at end March, 2018, allowing the company to take exposure up to 25 times (PKR 4.5 billion).
- The company's liquid assets were 3.4x of its trade related liabilities at 9MFY18 (2.7x times at 1HFY18). The increase is related to decline in trade liabilities.
- The equity base is PKR 307 million, as at 9MFY18 (PKR 295 million at 31st Dec 2017). The increasing equity base provides support to the risk absorption capacity.
- Optimus Capital is not relying on any short-term or long-term financing facility. Thus zero leveraged structure provides further cushion to its risk absorption capacity.

RESEARCH

- The research department provides research on public listed companies, macro-economic and market trends.
- The research teams works under the guidance of Mr. Mohsin Ahsan (Director Research) and Mr. Asif Ali Qureshi (Executive Chairman).
- Currently, the research department covers more than 70% of the KSE-100 index.



	<i>PKR mln</i>			
BALANCE SHEET	31-Mar-18	30-Jun-17	30-Jun-16	30-Jun-15
	<i>Unaudited</i>	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>
EARNING ASSETS				
Finances	-	-	-	-
Investments/Placements	151	67	166	141
	151	67	166	141
NON-EARNING ASSETS				
Cash and Bank Balances	101	123	102	78
Trade debts	5	7	33	11
Advances, Deposits and Other receivables	135	210	93	97
Others (including Fixed Assets)	17	14	12	15
TOTAL ASSETS	411	420	406	342
Equity	307	295	259	264
Borrowings	-	-	-	-
Other Liabilities (Non-Interest Bearing)				
Trade Creditors	99	122	145	75
Other Liabilities	4	3	2	2
TOTAL EQUITY & LIABILITIES	411	420	406	342
INCOME STATEMENT	31-Mar-18	30-Jun-17	30-Jun-16	30-Jun-15
	<i>Unaudited</i>	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>
Fee-Based Income				
Fees	3	18	10	-
Commission	-	-	-	-
Brokerage	95	92	69	88
Others	0	0	0	5
Operating Expenses	(74)	(102)	(94)	(105)
Brokerage Income / (Loss)	24	7	(15)	(12)
Non Fee-Based Income	(1)	53	12	31
Total Operating Income / (Loss)	23	60	(3)	19
Financial Charges	(0)	(0)	(0)	(0)
Other Income / (Loss)	1	0	2	1
Profit / (Loss) Before Tax	23	61	(2)	19
RATIO ANALYSIS	31-Mar-18	30-Jun-17	30-Jun-16	30-Jun-15
	<i>Unaudited</i>	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>
Performance				
Net Profit Margin	12.7%	48.1%	-4.0%	19.6%
Cost-to-Fee Income	76.5%	62.9%	103.4%	84.7%
Working Capital				
Overdue Accounts Receivable / Total Accounts Receivable	0.55	0.59	0.88	0.82
Overdue Accounts Receivable / (Short Term Borrowings + Accounts Payable)	0.03	0.03	0.20	0.12
Accounts Receivable / (Short Term Borrowings + Customer Advances + Accounts Payable)	0.05	0.03	0.12	0.08
Exposure				
Investments / Equity	48.1%	22.8%	64.1%	51.7%
Liquidity				
Trade Related Assets / Trade Related Liabilities	0.1	0.1	0.2	0.1
Liquid Assets / (Short term Borrowings + Advances from Customers + Accounts Payable)	2.1	1.2	1.6	2.3
Liquid Investments / Equity	0.5	0.2	0.6	0.5
Coverages				
EBITDA/Gross Interest	644.8	180.6	(0.2)	92.7
FCFO/Gross Interest	644.8	21.4	(26.9)	89.8
FCFO/Gross Interest+CMLTD+Uncovered Short Term Borrowings	644.8	21.4	(26.9)	89.8
Total Debt (excluding Covered Short Term Borrowings) / FCFO	0.0	0.0	0.0	0.0
Capital Adequacy				
Equity / Total Assets	74.8%	70.2%	63.8%	77.3%
Total Debt / Equity	0.0%	0.0%	0.0%	0.0%



ENTITY CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.			
LONG TERM RATINGS		SHORT TERM RATINGS	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>	
AA+	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.		
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.		
AA-			
A+	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.		
A			
A-			
BBB+	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.		
BBB			
BBB-			
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.		
BB			
BB-			
B+	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business, and economic environment.		
B			
B-			
CCC	Very high credit risk. "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.		
CC			
C			
D	Obligations are currently in default.		
Rating Watch	Outlook (Stable, Positive, Negative, Developing)	Suspension	Withdrawn
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.	Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business or financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.	It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, a suspended rating should be considered withdrawn.	A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.
Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.			

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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