



The Pakistan Credit Rating Agency Limited

Rating Report

Optimus Capital Management (Pvt.) Limited

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Rating History table with columns: Dissemination Date, Long Term Rating, Short Term Rating, Outlook, Action, Rating Watch. Rows show historical ratings from 2018 to 2024.

Rating Rationale and Key Rating Drivers

Optimus Capital Management (Pvt) Limited ('OCM' or the 'Company') has steadily improved its market presence over the past few years. The Company is primarily engaged in the provision of equity services including ready or future dealings, whereas advisory services are also offered. The clientele is concentrated to Institutions/Corporates and HNWI's, while the Company is working to enhance its footprint in the retail segment as well. The outgoing FY23 was marred with challenges for the brokerage industry, with investors opting for safer fixed income returns instead of the riskier equity market. Moreover, political instability meant that investor interest, both foreign and local, was minimal. However, with the political situation stabilizing and key macro-economic steps taken, investor interest has been renewed since the start of 2QFY24. The KSE-100 Index has reached historic highs and the market is expected to grow further during FY24. The assigned rating takes into account the strong business acumen and market renown of the sponsors. The governance framework is considered adequate; however, it may be enhanced further with the induction of certified independent directors. OCM has a lean organizational structure with a qualified and experienced management to run the operations. During 1HFY24, the Company earned a brokerage revenue of ~PKR 50mln (SPLY: ~PKR 30mln). Despite low market performance, OCM sustained its performance and earned a profit of ~PKR 5mln during 1HFY24 (SPLY: a net loss of ~PKR 12mln). OCM has an adequate equity base of ~PKR 338mln at end Dec'23 as compared to ~PKR 332mln at end Dec'22. The Company's strategy going forward is to target retail clientele, and OCM has added an Online Sales department during the year to effectively realize its plan.
Moving forward, income diversification, enhancement in market share, and growth in revenue and profitability remains vital. Meanwhile, it is imperative to uphold robust internal controls, retention of key management personnel, and diligently monitor risks.

Disclosure

Disclosure table with rows: Name of Rated Entity, Type of Relationship, Purpose of the Rating, Applicable Criteria, Related Research, Rating Analysts.



Profile

Background Optimus Capital Management (Pvt.) Limited ('OCM' or the 'Company') was incorporated in March 2004 and became operational under the name of Optimus Capital Management (Pvt.) Limited in June 2011. The Pakistan Stock Exchange has granted the Company a Trading Right Entitlement Certificate (TREC).

Operations OCM mainly offers equity services including ready and Future dealings, whereas advisory services are also offered. The Company has started dealing in Margin Trading System (MTS) transactions. The brokerage clients are divided into three broad segments; i) Foreign ii) Institutions/Corporate and iii) Retail. Currently, OCM has a minimal presence in the retail segment; however, plans are in place to enhance its retail footprint.

Ownership

Ownership Structure Optimus Holdings is the parent company that owns OCM. Mr. Jawad Amjad and Mr. Asif Ali are the sponsors of Optimus Holdings with 20% and 80% shareholding respectively. Previously, Mr. Jawad and Mr. Asif had equal shareholding in Optimus Holdings however, Mr. Jawad joined PNO, a private equity fund, as the CEO. According to the NBFC rules, CEO of any NBFC cannot hold more than 20% shares of any company therefore, Mr. Jawad transferred 30% of his shareholding in Optimus Holdings to Mr. Asif.

Stability The parent company Optimus Holding (Pvt.) Limited has a strong financial base and has strategic investments in numerous companies. Optimus Holdings (Pvt.) Limited remains on the front foot to support the company.

Business Acumen The sponsors have relevant educational background and also have vast experience in the financial services sector. In addition to Optimus Holdings the sponsors have shareholding in other entities; PNO, Optimus Market (Pvt.) Limited and Zakheera (Pvt.) Limited.

Financial Strength The sponsors have adequate financial strength and may inject further equity with increasing quantum of operations.

Governance

Board Structure The board of directors (BoD) of OCM comprises two experienced professionals Mr. Asif Ali Qureshi and Mr. Syed Ayaz Ahmed. Both directors are executive, and the board may be enhanced with the induction of certified independent directors.

Members' Profile Mr. Asif Qureshi is the CEO of the Company and has more than 2 decades of experience in Pakistan's financial sector with expertise in economic and investment research. He is also a co-founder of Zakheera.com, an online financial database service. He is a CFA charter-holder since 2000 and is the current president of the CFA Society of Pakistan. Mr. Syed Ayaz Ahmed is the executive director of the company and has over 10 years of experience in financial sector.

Board Effectiveness The experience of board helps in providing useful insight into the business management and guiding the management in effectively developing optimizing the organizational procedures and policy. Board committees are present; however, oversight is limited due to the small size of the board.

Transparency Head of internal audit reports directly to the internal audit committee. Riaz Ahmad, Saqib, Gohar & Company are the external auditors of the Company. The auditor is ranked as Category B auditor on the panel of SBP auditors list.

Management

Organizational Structure OCM has a lean organizational structure with experienced management team and a balanced mix of professional from finance industry. The functions of the company are mainly divided into: 1) Sales, 2) Accounts, 3) Research, 4) Settlement, 5) IT 6) Compliance 7) Online Trading and 8) Admin. An Online Sales department has recently been added to realize the Company's strategy of enhancing its retail presence.

Management Team The management team comprises of well qualified and experienced individuals. Mr. Syed Ayaz Ahmed has taken charge as Managing Director of the Company. He possesses over 10 years of experience in financial sector.

Management Effectiveness The integration of the front and back office software produces real-time MIS reports that enable the management to take quick decisions and effectively monitor risks.

Control Environment The Company has developed an extensive risk management policy encompassing exposure limits, margins, KYC/CDD, customer orders, as well as execution and settlement process. The settlement department is responsible for conducting through KYC/CDD procedures for each customer, categorizing them into varying risk levels ranging from low to high. High-risk customers undergo enhanced due diligence through continuous monitoring.

Business Risk

Industry Dynamics The Brokerage industry faced extremely low years during FY22 and FY23, due to limited investor interest. High interest rates and crippling inflation resulted in investors opting for safer fixed income returns instead of the riskier equities market. The trend continued during 1QFY24; however, 2QFY24 experienced a surge in investor interest, pushing the KSE-100 index to historic highs. The 2HFY24 is expected to stabilize in terms of market volumes and the index trading between the 60k to 70k point range, with expectations of another surge as market P/E ratio is still low. On the other hand, political sentiments play a key role and the focus remains on the upcoming government to provide answers to economic stability. Moreover, continued support from the IMF remains critical.

Relative Position At the end of 1HFY24, the company held a market share of approximately 2%.

Revenues The Company's operating revenue mainly comprises equity brokerage and consultancy/commission income. During 1HFY24 the main source of revenue stemmed from equity brokerage clients which contributed ~90% to the total revenue. Equity brokerage revenue stood at ~PKR 50mln (SPLY: ~PKR 30mln).

Cost Structure The Company's operating expenses have increased to ~PKR 67mln in 1HFY24 (SPLY: ~PKR 63mln). This increase can be attributed to high salaries of ~PKR43mln (SPLY: ~PKR 41mln) and NCCPL charges of ~PKR 4mln (SPLY: ~PKR 2mln).

Sustainability Going forward, the Company is expected to improve and sustain profitability and diversify revenue stream. . Meanwhile, the focus of the brokerage house would be to engage more Retail and HNWI's that would help the management to enhance its market share.

Financial Risk

Credit Risk For assessment of client credit worthiness, the company has formulated detailed KYC/CDD policies. For corporates and financial institutions, OCM follows the Institutional Delivery System (IDS) & Non-IDS settlement for the customers who are registered with the National Clearing Company of Pakistan Limited (NCCPL) as Clearing members settle trades directly with NCCPL, thus reducing the Credit Risk of the Company.

Market Risk OCM, as a policy, does not engage in proprietary investments, thus limiting the impact of market risk. The Company's short term investment comprises Pakistan Investment Bonds and at end-Dec'23, these investments stood at ~PKR: 32mln as compared to ~PKR 47mln at end Jun'23.

Liquidity Risk At end-Dec'23 the current assets of the Company stood at ~PKR 396mln against the current liabilities of ~PKR 97mln. The Company has a good liquidity profile.

Capital Structure At end 1HFY24, the Liquid Capital Balance (LCB) of the Company stood at ~PKR 229mln. The Company has an equity base of ~PKR 338mln at end-Dec'23.



PKR mln

Optimus Capital Management (Pvt.) Limited
Private Limited

Dec-23	Jun-23	Jun-22	Jun-21	Jun-20
6M	12M	12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-	-	15
2 Investments	38	51	101	75	11
3 Other Earning Assets	192	195	132	170	315
4 Non-Earning Assets	206	152	206	167	172
5 Non-Performing Finances-net	-	-	-	-	-
Total Assets	436	399	439	412	513
6 Funding	-	-	5	6	199
7 Other Liabilities (Non-Interest Bearing)	97	52	87	67	7
Total Liabilities	97	52	92	73	207
Equity	338	346	347	339	306

B INCOME STATEMENT

1 Fee Based Income	51	128	154	144	75
2 Operating Expenses	(68)	(152)	(137)	(117)	(99)
3 Non Fee Based Income	28	42	18	13	30
Total Operating Income/(Loss)	11	18	34	39	5
4 Financial Charges	0	(1)	(2)	(3)	(5)
Pre-Tax Profit	11	17	33	36	1
5 Taxes	(6)	(15)	(16)	(15)	(6)
Profit After Tax	5	2	16	21	(5)

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	-0.1%	5.5%	5.1%	7.6%	89.9%
Return on Equity (ROE)	4.4%	0.7%	5.4%	6.1%	-2.7%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	77.7%	86.9%	79.1%	82.3%	59.7%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long	-61397.4%	1335.1%	2131.6%	1296.5%	-175.7%

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	33.8%	25.5%	48.0%	31.3%	14.0%
Liquid Assets / Trade Related Liabilities	180.6%	247.0%	260.9%	285.6%	40.0%

4 Credit & Market Risk

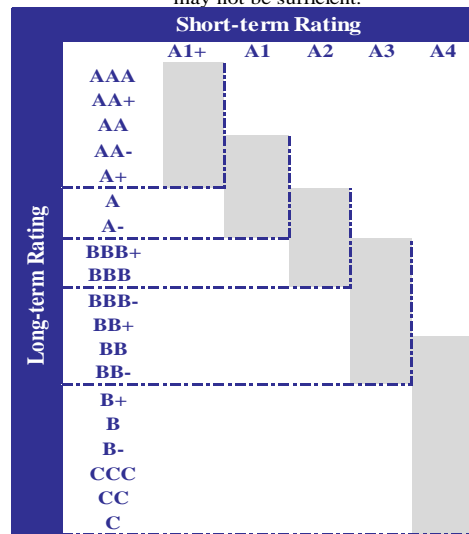
Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to C	33.0%	20.7%	34.8%	19.4%	5.7%
Equity Instruments / Investments	15.4%	8.4%	5.9%	32.3%	100.0%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
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-	
A+	
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-	
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 and in 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+	
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-	
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility.
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/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'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension 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, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):
 a) Broker Entity Rating
 b) Corporate Rating
 c) Debt Instrument Rating
 d) Financial Institution Rating
 e) Holding Company Rating
 f) Independent Power Producer Rating
 g) Microfinance Institution Rating
 h) Non-Banking Finance Companies Rating

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(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

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- 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

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- (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 | Clause 11-(A)(p).
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- (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)
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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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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