



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
	A-	A2	Stable	Maintain	-
07-Jun-2018	A-	A2	Stable	Maintain	-
08-Dec-2017	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings of Optimus Capital Management (Private) Limited demonstrate its strong position in mid-tier brokerage houses emanating from established institutional client relationships and diversified product slate. The ratings reflect the company's continuous improvement in revenues despite the lackluster performance of the market. The company as a policy prohibits proprietary trade exposure in the market. The company has clearly defined its organizational structure with most of the heads reporting to CEO. Seasoned top management, sound risk management and compliance procedures provides support to the rating, whereas, the governance framework can be strengthened further. The management has devised a suitable strategy to expand its clientele and increase its market share. The equity brokerage revenue stream and volumes are building up gradually. Moreover, the company has a debt-free capital structure, which signifies low financial risk. The equity base of the company stood at ~PKR 300mln at end Sep-18.

The ratings are dependent on the company's ability to strengthen its emerging position in the industry. Retention of the key personnel, improvement in governance and sustainability of profits is critical for ratings. Meanwhile, upholding strong internal controls and diligent monitoring of risks is important.

Disclosure

Name of Rated Entity	Optimus Capital Management (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Security Broker(Jun-18)
Related Research	Sector Study Brokerage & Security(Nov-18)
Rating Analysts	Shahzaib Khalid shahzaib.khalid@pacra.com +92-42-35869504



PROFILE

Legal Structure Optimus Capital Management is a Private Limited company.

Background The company was incorporated in 2004 with the name of Millennium Capital Management (Pvt.) Ltd and changed to Optimus Capital Management (Pvt.) Ltd in 2011.

Operations with its head office based in Karachi, main activities of the company includes equity brokerage, research and investment banking advisory.

OWNERSHIP

Ownership Structure Optimus Capital Management (Pvt.) Ltd, is a wholly owned subsidiary of Optimus Holdings (Private) Limited (formerly Peabody Associates Private Limited). Mr. Asif Ali Qureshi and Mr. Jawad Amjad own 80% and 20% of Optimus Holdings, respectively.

Business Acumen The sponsors have relevant educational background and have vast experience in financial services sector.

Financial Strength The Optimus Holdings (Pvt.) Ltd has reported equity of ~PKR 300mln at end June-18.

GOVERNANCE

Board Structure The board composes two directors, Mr. Asif Ali Qureshi and Mr. Ovais Ahsan. Mr. Asif is the Executive Chairman and Mr. Ovais is the CEO of the company. Four board meetings were held in FY18 and discussion was mainly held on risk management policies and infrastructure development.

Members' Profile Mr. Asif Ali Qureshi, CFA has more than 20 years of professional experience in Pakistan's financial services sector with expertise in economic and investment research. He also holds MA in International Financial Analysis from Newcastle University (UK).

Board Effectiveness Audit committee has been recently established with defined TORs. Mr. Asif Ali Qureshi (Executive Chairman) chairs the audit committee.

Financial Transparency The company has an in-house internal audit function that document and reports its observations to the BoD. The external auditors of the company are Riaz Ahmad, Saqib, Gohar and Co, a member firm of AGN International, falls under B category of SBP audit firms ranking.

MANAGEMENT

Organizational Structure There are seven departments in the company, out of which five directly reports to the CEO. The compliance and internal audit department report to the BoD. The company has created and filled all requisite positions to ensure smooth operations.

Management Team Mr. Ovais Ahsan is the CEO of the company. He has nearly 15 years of professional experience in equity sales and trading. Before Joining Optimus Capital, he was serving Renaissance Capital based in Dubai and was overseeing the equity markets of MENA and Frontier Asia region. Lately, Mr. Faizan Ahmed joined Optimus Capital as head of research. He has over 5 years of professional experience in equity research. He is ACCA qualified and CFA level 3 candidate.

Effectiveness The company has one board committee, namely i) Audit committee. TOR's for the committee are well defined. Audit committee meets on annual basis to review the financial statements and internal audit findings. The committee is chaired by Mr. Asif Ali Qureshi.

Control Environment The company successfully developed detailed policies and procedures related to AML, regulatory compliance, internal risk management, disaster recovery, trading and IT. The management makes continuous efforts to update its internal policies as per the regulatory requirements followed by best practices of the market.

BUSINESS RISK

Industry Dynamics CY18 started off with a slightly bull run with KSE-100 posting a positive cumulative return of ~4% in the first half of the year. After the general elections in July 18, the political uncertainty minimized. However, the investors remained cautious due to falling central bank reserves and balance of payment crises that resulted in KSE-100 posting a negative return of ~3% in the 3rd quarter of CY18. The overall trading volumes in FY18 remained quite low, (FY18: 84mln, FY17: 140mln) as compared to previous year. This put pressure on income of all brokerage entities.

Relative Position The company remains one of the emerging player in Pakistan's brokerage industry. The company enjoys ~2% market share in equity ready market.

Revenue The company's operating revenue mainly comprises equity brokerage and consultancy income. Despite overall decline in the volumes in equity market, the company's brokerage income increased by 55% to ~PKR 143mln in FY18 (FY17: 92mln).

Profitability The company made a net profit of ~PKR29mln in FY18 (FY17: 53mln), depicting a decrease of 45%.

Sustainability Going forward, the company is focusing on to increase its equity brokerage income by increasing local and foreign institutional clients.

FINANCIAL RISK

Credit Risk The company has detailed KYC/CDD procedures, for the assessment of client's credit worthiness. Exposure limits are properly assigned. An automated risk management system is in place that halts transactions for a particular client if margin falls below the allocated level.

Market Risk The company's long term investment comprises only PSX shares, which were allotted as a result of Corporatization, Demutualization and Integration Act 2012. Other than this, company is not exposed to market risk. At end Sep-18, company's PSX holdings were amounted ~PKR 25mln.

Liquidity Risk The liquidity risk of the company arises from its T+2 settlement framework. At the end of FY18, the liquid assets were 0.47x of the total asset book (FY17: ~0.35x).

Coverages The company availed no long and short term borrowings.

Capitalization The Net Capital Balance (NCB) of the company is ~PKR 211mln. The company can take exposure up to 25x of its NCB.



BALANCE SHEET		30-Sep-18	30-Jun-18	30-Jun-17	30-Jun-16
		Unaudited	Audited	Audited	Audited
EARNING ASSETS					
1	Finances	-	-	-	-
2	Investments (Includes cash at bank)	146	66	67	166
		146	66	67	166
NON-EARNING ASSETS					
3	Cash and Bank Balances - Own Funds	0	220	123	102
4	Cash and Bank Balances - Client Funds	77	-	-	-
5	Trade debts	4	7	7	33
6	Advances, Deposits and Other receivables	135	230	210	94
7	Others (including Fixed Assets)	17	17	14	12
	TOTAL ASSETS	380	540	420	406
8	Equity	300	315	295	259
9	Borrowings	-	-	-	-
10	Trade Creditors	76	221	122	145
11	Other Liabilities	4	4	3	2
	TOTAL EQUITY & LIABILITIES	380	539	420	406
INCOME STATEMENT					
		30-Sep-18	30-Jun-18	30-Jun-17	30-Jun-16
		Unaudited	Audited	Audited	Audited
Fee-Based Income					
12	Fees	-	3	18	10
13	Brokerage	18	143	92	69
14	Other	-	-	0	0
		18	146	110	79
Operating Expenses					
15	Personnel Expenses	(18)	(62)	(68)	(51)
16	Administrative Expenses	(12)	(42)	(34)	(43)
	Fee Based Income / (Loss)	(12)	42	7	(15)
Non Fee Based Income					
17	Finances	3	10	9	10
18	Bank Deposits and others	-	-	-	-
19	Gain on Sale of Investments	(0)	(8)	43	0
20	Others	-	0	1	1
	Total Operating Income / (Loss)	(9)	45	60	(3)
21	Financial Charges	(0)	(0)	(0)	(0)
	Profit / (Loss) Before Tax	(9)	45	60	(3)
22	Taxes	(0)	(17)	(8)	(2)
	Net Income	(9)	28	52	(5)
RATIO ANALYSIS					
		30-Sep-18	30-Jun-18	30-Jun-17	30-Jun-16
		Unaudited	Audited	Audited	Audited
CREDIT RISK					
23	Accounts Receivable / Avg. Daily Value Traded	0.0	0.0	0.0	0.0
24	Accounts Receivable / (Short Term Borrowings + Customer Advances + Accounts Payable)	0.1	0.0	0.0	0.1
LIQUIDITY RISK					
25	Trade Receivables / Trade Payables	0.1	0.0	0.1	0.2
26	Liquid Assets / Trade Related Liabilities	1.6	1.2	1.2	1.6
27	Liquid Assets / (Short term Borrowings + Advances from Customers + Accounts Payable)	1.6	1.2	1.2	1.6
COVERAGES					
28	EBITDA/Gross Interest	n/m	n/m	n/m	n/m
29	FCFO/Gross Interest	n/m	n/m	n/m	n/m
BUSINESS RISK					
30	Operating Cost-to-Total Income	1.7	0.7	0.9	1.2
31	Net Fee based Income to Net Profit before Tax	132.9%	94.0%	12.2%	440.6%
32	Net Profit (before tax) to Total Income	42.9%	29.9%	37.1%	3.7%
33	Net Non-Earning Assets / Equity	76.6%	149.3%	118.5%	91.8%
FINANCIAL RISK					
34	Borrowings / Equity	0.0	0.0	0.0	0.0
35	NCB / Equity	0.7	0.7	0.6	0.6

Credit Rating Scale & Definitions

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.

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	A1+	The highest capacity for timely repayment.
AA+ 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.	A1	A strong capacity for timely repayment.
A+ 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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB 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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ 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.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. Substantial 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.		
D	Obligations are currently in default.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/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

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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.
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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 | 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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