



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
09-Apr-2021	A-	A2	Stable	Maintain	-
07-May-2020	A-	A2	Stable	Maintain	-
21-Nov-2019	A-	A2	Stable	Maintain	-
26-Jun-2019	A-	A2	Stable	Maintain	-
27-Dec-2018	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 demonstrate the Optimus Capital Management (Pvt.) Limited's ("Optimus Capital" or "the Company") established and sustained position in brokerage industry emanating from healthy client base of institutional client. The ratings take into account the strong ownership structure, whereas, the governance framework can be strengthened further. The Company has a lean organization structure with most of the heads reporting to CEO. Seasoned key management, sound risk assessment and dedicated personnel for compliance function provides further support to the ratings. The ratings of the Company demonstrate the turnaround in financial performance owing to uptick in industry trading volumes however, the ratings are constrained by the company's significant dependence on equity brokerage operations and limited diversification of revenue stream however, the Company has maintained its market share at 2.5%. The Company doesn't hold proprietary trading book and in usual practice of holding short term investment in Pakistan Investment Bonds (PIBs) which limits the market risk. At the end of 1HFY21, these investments stood at ~PKR 26mln, ~8% of net equity. Zero-leveraged capital structure provides further comfort to ratings. The liquidity profile of the Company is adequate. At the end of 1HFY21 liquid assets to trade related liabilities stood at 1.22x as at 1HFY21 (FY20: 1.34x). At end 1HFY21, the Net Capital Balance (NCB) of the Company stood at ~PKR 191mln, which allows the Company to take exposure up to 25x of its NCB. The Company has an equity base of ~PKR 324mln.

The ratings would remain dependent upon maintenance of performance indicators at sound levels commensurate with the assigned ratings. Retaining market share and sustaining profitability from core operations remain critical. Meanwhile, retention of key management personnel and strengthening process and procedures 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 Broker Entity Rating(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Brokerage & Securities(Jan-21)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504



PROFILE

Legal Structure Optimus Capital Management (Pvt.) Limited ("Optimus Capital" or "The Company") is a Private Limited Company, and holds Trading Rights Entitlement Certificate from the Pakistan Stock Exchange (PSX).

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 The Company services include economic and investment research, equity brokerage and corporate finance.

OWNERSHIP

Ownership Structure Optimus Capital Management (Pvt.) Ltd. is a wholly owned subsidiary of Optimus Holdings (Pvt.) Limited (Formerly Peabody Associates Pvt. 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 also have vast experience in the financial services sector.

Financial Strength The Optimus Holdings (Pvt.) Ltd has reported equity of ~PKR 308mln at end Dec'20.

GOVERNANCE

Board Structure The board comprises 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.

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 Two board meetings were held in 1HFY21 and discussions on risk management policies, infrastructure development and Financial Performance were undertaken. Audit Committee has been established with defined TOR's. Mr. Asif Ali Qureshi also chairs the audit committee.

Financial Transparency The Company has an in-house internal audit function that documents 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, and it falls under the 'B' category of SBP audit firms ranking.

MANAGEMENT

Organizational Structure The Company has a adequate 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 and 6) Compliance. All the Head of Departments are directly reportable to CEO of the Company.

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 in Renaissance Capital based in Dubai and oversaw the equity markets of MENA and Frontier Asia region. Mr. Mohsin Ahsan has recently rejoined as Managing Director of the Company and currently holding the charge of research department after the resignation of Mr. Faizan Ahmed from the post of Head of research. He is MBA from IBA and has over 20 years of experience in financial sector.

Effectiveness The management of the Company continues its focus on streamlining the risk management architecture and internal control.

Control Environment The Company has formulated a comprehensive risk management policy. This includes exposure limits and margins, KYC/CDD, customer orders, execution and settlement. Proper KYC/CDD is conducted by the settlement department. Each customer is assigned a risk level from low to high. For high risk level customers, enhanced due diligence is conducted by monitoring transactions, fund transfers and frequency of investments.

BUSINESS RISK

Industry Dynamics FY21 started with marginal gains, boosted Investors' confidence and improved external front on the back of well-managed fiscal and monetary actions by regulatory authorities including ease of doing business and relief policies. The benchmark, KSE-100 index witnessed an upwards trajectory. The index started from 34,422 points and touched the highest point of 46,934 on February 3, 2021 and currently clocked in at 44,901 points posting a positive return of 30%. The traded volumes during 9MFY21 remained elevated over the period at an average of ~269mln shares (SPLY: ~134mln. Shares), depicting increased participation in the equity market led by country's economic rebound and the global COVID-19 vaccine rollout. Foreigners continued to be net sellers and offloaded ~USD 269mln worth of stocks during FY21 period. Going forward, after the global sell off in equities due to the pandemic, it is expected that the foreigners will rebuild their long positions in the months ahead.

Relative Position Optimus Capital is an emerging brokerage company. The Company's current market share stood at ~2.5% in 1HFY21.

Revenue The Company's operating revenue mainly comprises equity brokerage and consultancy/commission income. During 1HFY21 the only source of revenue stemmed from equity brokerage clients. However, 1HFY21 consultancy and advisory income has contributed ~6% to the total revenue. Equity brokerage revenue increased by ~84% to ~PKR 68mln (1HFY20: ~PKR 37mln) which makes ~94% of the total operating revenue compared to 100% in corresponding period last year.

Profitability The Company reported profit after tax of PKR ~12mln in 1HFY21 compared to a loss of PKR 0.1mln in 1HFY20. Operating expenses also followed the uptrend and increased by 26% to PKR ~63mln in 1HFY21 (1HFY20: PKR ~50mln), mainly due to increase in salaries and increase in other expenses.

Sustainability The traded volumes during FY21 remained elevated over the period at an average of ~269mln shares (SPLY: ~134mln Shares), depicting increased participation in the equity market led by country's economic rebound and the global COVID-19 vaccine rollout. The management's ability to strengthen its supplementary income and maintain its niche will be important.

FINANCIAL RISK

Credit Risk For the assessment of client's credit worthiness, the Company has formulated detailed KYC/CDD policies. These policies entail customer identification, risk assessment, due diligence and compliance function. 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 doesn't hold proprietary trading book. The Company's short term investment comprises Pakistan Investment Bonds, limiting market risk. At the end of 1HFY21, these investments stood at ~PKR: 26mln (FY20: nil).

Liquidity Risk The Company's liquid assets to trade related liabilities stood at 126x as at 1HFY21 (FY20: 40x). The increase is associated to increase in bank deposits. Optimus's liquid assets to total assets stood at 49x (FY20: 14x).

Coverages The Company has a zero leverage capital structure.

Capitalization At end 1HFY21, the Net Capital Balance (NCB) of the Company stood at ~PKR 191mln, which allows the Company to take exposure up to 25x of its NCB. The Company has an equity base of ~PKR 324mln.



PKR mln

Optimus Capital Management Private Limited
Private Limited

Dec-20	Jun-20	Jun-19	Jun-18
6M	12M	12M	12M

A BALANCE SHEET

1 Finances	16	15	13	-
2 Investments	42	11	32	33
3 Other Earning Assets	31	180	96	40
4 Non-Earning Assets	491	308	297	466
5 Non-Performing Finances-net	-	-	-	-
Total Assets	580	513	438	539
6 Funding	251	199	119	221
7 Other Liabilities (Non-Interest Bearing)	5	7	4	4
Total Liabilities	256	207	123	224
Equity	324	306	316	315

B INCOME STATEMENT

1 Fee Based Income	72	75	106	146
2 Operating Expenses	(63)	(99)	(110)	(104)
3 Non Fee Based Income	4	30	23	4
Total Operating Income/(Loss)	14	5	18	46
4 Financial Charges	(2)	(5)	(1)	(0)
Pre-Tax Profit	12	1	17	46
5 Taxes	(0)	(6)	(7)	(18)
Profit After Tax	12	(5)	10	28

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	12.1%	89.9%	5.4%	0.2%
Return on Equity (ROE)	8.4%	-2.7%	3.4%	9.1%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	55.9%	59.7%	72.0%	58.4%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current M	-1127.4%	-165.6%	-772.7%	-41727.1%

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	48.8%	14.0%	39.2%	50.9%
Liquid Assets / Trade Related Liabilities	126.4%	40.0%	144.5%	124.3%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers	7.2%	5.7%	17.1%	9.5%
Equity Instruments / Investments	38.4%	100.0%	42.6%	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+	
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-	
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	
CC	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.
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):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk 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

- 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

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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.
- (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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