



The Pakistan Credit Rating Agency Limited

## Rating Report

### Optimus Capital Management (Pvt.) Limited | BMR

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Dec-2018	BMR3	-	Positive	Maintain	-
04-May-2018	BMR3	-	Stable	Initial	

#### Rating Rationale and Key Rating Drivers

Optimus Capital Management (Pvt.) Ltd is an emerging brokerage house in Pakistan. The assigned rating takes into account its sound risk management framework, organizational structure and IT infrastructure. The rating entails from zero leveraging and improving retail brokerage. Lately, the company has expanded its research department in order to increase the stock coverage. The company has majority of its revenue from local clients and management has devised a suitable strategy to attract foreign customers which would accumulate revenues. The company has limited exposure to market risk due to no proprietary trading policy. The policies pertaining to IT, AML and risk management have been updated and implemented successfully. The company has no independent and non-executive director on its board and the governance framework needs improvement. Furthermore, the company has adequate capitalization levels with the Net Capital Balance of ~PKR 211mln as at 30th June, 2018. The equity base of ~PKR 315mln provides cushion against potential losses.

The rating is dependent on the management's ability to enhance the volumes and diversity of revenue in order to improve its competitive position in the brokerage industry. Retention of key personnel, improvement in customer servicing tools and maintaining strong controls will bode well for the company.

#### Disclosure

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



## 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.

**Stability** The company has no succession plan as of now.

**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

**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.

**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.

**Client Servicing** The company has well developed research department comprising five analysts including the head of research. Currently, the department is covering 70-80% of the KSE100 market capitalization.

**Complaint Management** The company has a well-defined complaint management system in MIS. Complaints can be made via email and calls. It is timely updated and quarterly reviewed by the compliance officer.

**Extent Of Automation / Integration** The company has recently formulated an extensive IT policy, addressing key issues like data back up and restoration, virus protection and control environment. All back office systems are fully integrated and reports are generated on real time basis.

**Continuity Of Operations** To ensure business continuity, a fully tested disaster recovery and business continuity plan is in place with daily, weekly and monthly back-ups. For stable connectivity, the company has installed four connections from different ISPs.

**Risk Management Framework** The company has formulated a comprehensive risk management policy. This includes exposure limits and margins, KYC/CDD, customer orders and 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.

**Regulatory Compliance** The company has a compliance department, headed by Mr. Ayaz Ahmed. He is a CA finalist and has more than 9 years of professional experience. The department ensures that all the regulatory requirements are fulfilled on timely basis.

## Business Sustainability

**Business Risk** 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.

**Business Profile** Main activities of the company include equity brokerage, investment Research, corporate finance and financial advisory. In terms of value of traded shares, the company enjoys ~2% market share in the ready equity market.

**Revenue And Profitability Analysis** 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. The operating expenses surged by ~2% to ~PKR 104mln as compared to SPLY. The company made net profit of ~PKR 29mln in FY18.

## Financial Sustainability

**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 Profile** 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).

**Financial Risk** The company has a zero leverage capital structure. At end June-18, the Net Capital Balance (NCB) of the company stood at ~PKR 211mln, which allows the company to take exposure up to 25x of its NCB.



<b>BALANCE SHEET</b>		<b>30-Sep-18</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>
		<i>Unaudited</i>	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>
<b>EARNING ASSETS</b>					
1	Finances	-	-	-	-
2	Investments (Includes cash at bank)	146	66	67	166
		<b>146</b>	<b>66</b>	<b>67</b>	<b>166</b>
<b>NON-EARNING ASSETS</b>					
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
	<b>TOTAL ASSETS</b>	<b>380</b>	<b>540</b>	<b>420</b>	<b>406</b>
8	Equity	300	315	295	259
9	Borrowings	-	-	-	-
10	Trade Creditors	76	221	122	145
11	Other Liabilities	4	4	3	2
	<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>380</b>	<b>539</b>	<b>420</b>	<b>406</b>
<b>INCOME STATEMENT</b>					
		<b>30-Sep-18</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>
		<i>Unaudited</i>	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>
<b>Fee-Based Income</b>					
12	Fees	-	3	18	10
13	Brokerage	18	143	92	69
14	Other	-	-	0	0
		<b>18</b>	<b>146</b>	<b>110</b>	<b>79</b>
<b>Operating Expenses</b>					
15	Personnel Expenses	(18)	(62)	(68)	(51)
16	Administrative Expenses	(12)	(42)	(34)	(43)
	<b>Fee Based Income / (Loss)</b>	<b>(12)</b>	<b>42</b>	<b>7</b>	<b>(15)</b>
<b>Non Fee Based Income</b>					
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
	<b>Total Operating Income / (Loss)</b>	<b>(9)</b>	<b>45</b>	<b>60</b>	<b>(3)</b>
21	Financial Charges	(0)	(0)	(0)	(0)
	<b>Profit / (Loss) Before Tax</b>	<b>(9)</b>	<b>45</b>	<b>60</b>	<b>(3)</b>
22	Taxes	(0)	(17)	(8)	(2)
	<b>Net Income</b>	<b>(9)</b>	<b>28</b>	<b>52</b>	<b>(5)</b>
<b>RATIO ANALYSIS</b>					
		<b>30-Sep-18</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>
		<i>Unaudited</i>	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>
<b>CREDIT RISK</b>					
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
<b>LIQUIDITY RISK</b>					
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
<b>COVERAGES</b>					
28	EBITDA/Gross Interest	n/m	n/m	n/m	n/m
29	FCFO/Gross Interest	n/m	n/m	n/m	n/m
<b>BUSINESS RISK</b>					
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%
<b>FINANCIAL RISK</b>					
34	Borrowings / Equity	0.0	0.0	0.0	0.0
35	NCB / Equity	0.7	0.7	0.6	0.6

## **BROKER MANAGEMENT RATING SCALE**

<b>SYMBOL</b>	<b>DEFINITION</b>	
<b>BMR 1A</b>	<b>Excellent</b>	Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.
<b>BMR 1++ BMR 1+ BMR 1</b>	<b>Strong</b>	Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.
<b>BMR 2++ BMR 2+ BMR 2</b>	<b>Sound</b>	Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.
<b>BMR 3++ BMR 3+ BMR 3</b>	<b>Adequate</b>	Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.
<b>BMR 4++ BMR 4+ BMR 4</b>	<b>Inadequate</b>	Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.
<b>BMR 5</b>	<b>Weak</b>	Weak regulatory compliance and business practices.

### **SURVEILLANCE AND VALIDITY OF THE RATING**

PACRA shall not keep the Broker Management Rating under constant surveillance. The rating will be reviewed at least once every six months. Any material happening during a period that may warrant a revision of rating will be incorporated in the following review.

### **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'.

### **WITHDRAWN**

A rating is withdrawn on a) termination of rating mandate, or b) cessation of underlying entity.

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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**

- (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)

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- (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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