



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
24-May-2019	BMR3+	-	Stable	Upgrade	-
27-Dec-2018	BMR3	-	Positive	Maintain	-
04-May-2018	BMR3	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects the sound ability of the company to retain its market share in lackluster equity market activity. The rating incorporates the company's sound business strategy and acumen and ability to provide extensive equity research. The company has devised comprehensive IT policy, KYC Risk Management procedures and Disaster Recovery Plan. The management team comprises Seasoned professionals that ensures sound quality of services. 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 zero leveraged capital structure and adequate capitalization levels with the Net Capital Balance of ~PKR 231mln as at 31st March 2019. The equity base of ~PKR 336mln provides cushion against potential losses. The company has no independent and non-executive director on its board; hence there is room for improvement in the governance framework.

The rating is dependent on the management's ability to retain its market share and enhance the volumes and diversity of revenue 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

Name of Rated Entity	Optimus Capital Management (Pvt.) Limited BMR
Type of Relationship	Solicited
Purpose of the Rating	Broker Management Rating
Applicable Criteria	Methodology Broker Management Rating(Jun-18)
Related Research	Sector Study Brokerage & Security(Nov-18)
Rating Analysts	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. Two board meetings were held in 1HFY19 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 backups. 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 During first four months of CY19, KSE-100 posted a negative return of ~1%. Trading activity remained low on the back of negative market sentiments due to uncertainty on market performance in the backdrop of an economic slowdown, rising interest rate environment and consistent drag on IMF front. Concerns on upcoming budgetary measures remained in limelight. The overall trading volumes in first four months of CY19 remained low, (4MCY19: 86mln, CY18: 97mln, CY17: 102mln) as compared to previous years. 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 ~3% market share in the ready equity market.

Revenue And Profitability Analysis The company's operating revenue mainly comprises equity brokerage and consultancy/commission income. Despite overall decline in the volumes in equity market, the company's equity brokerage income increased by 55% to ~PKR 59mln in 1HFY19. The administrative and general expenses increased by ~26% to ~PKR 58mln as compared to the same period of last year (SPLY). The company made net profit of ~PKR 23mln in 1HFY19, as compared to ~PKR 15mln loss in the SPLY.

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 Pakistan Investment Bonds and PSX shares. The shares allotted as a result of Corporatization, Demutualization and Integration Act 2012. Other than this, company is not exposed to market risk. At end Dec-18, company's PSX holdings were amounted ~PKR 21mln.

Liquidity Profile The liquidity risk of the company arises from its T+2 settlement framework. At the end of 1HFY19, the liquid assets were 0.08x of the total asset book (FY18: ~0.47x).

Financial Risk The company has a zero leverage capital structure. At end Dec-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.



The Pakistan Credit Rating Agency Limited

**Optimus Capital Management
BALANCE SHEET As at**

	PKR mln 31-Dec-18 1HFY19 Unaudited	PKR mln 30-Jun-18 FY18 Audited	PKR mln 30-Jun-17 FY17 Audited	PKR mln 30-Jun-16 FY16 Audited
A. EARNING ASSETS				
a. Finances				
1. Margin Trading System	0	0	0	0
2. Ready Futures	0	0	0	0
3. Receivable from NCCPL - net	0	0	0	0
	0	0	0	0
b. Investments				
1. Deposits with Banks-Own funds	21	34	26	126
2. Govt. Securities	10	0	0	0
3. Debt Securities & Mutual Funds	0	0	0	0
4. Other Investments				
i) Related Party	0	0	0	
ii) Long Term Deposits	13	7		
iii) Listed Equity Investments	21	32	41	39
iv) Others	0	0	0	2
v) Unlisted	0	0	0	0
	65	73	67	166
<i>Total Earning Assets</i>	65	73	67	166
B. NON-EARNING ASSETS				
1. Cash and Bank Balances - Own Funds	1	220	123	102
2. Cash and Bank Balances - Client Funds	78	0	0	0
3. Accounts Receivable	7	7	7	33
4. Due from related party	8	9		
5. Other receivables	24	4		
6. Advances, Deposits and Other receivables	210	208	209	94
7. Fixed Assets	17	17	14	12
	344	465	353	240
<i>Non-Earning Assets</i>	344	465	353	240
C. TOTAL ASSETS	409	538	420	406
D. Funding				
1. Commercial				
i) Advances from Customers	0	0	0	0
ii) Payables to Customers	78	221	122	145
	78	221	122	145
2. FIs				
i) Short-term Borrowings	0	0	0	0
ii) Current Maturity of Long Term Debt	0	0	0	0
iii) Long-term Borrowings	0	0	0	0
	0	0	0	0
	78	221	122	145
E. Other Liabilities				
1. Due to Associates	0	0	0	0
2. Other Liabilities (staff gratuity, Accrued mark-up)	3	2	3	2
3. Provision for Taxation	1	0	0	0
	3	2	3	2
<i>Other Liabilities</i>	3	2	3	2
F. EQUITY				
1. Share Capital	100	100	100	84
2. Reserves:				
i. Statutory Reserve	0	0	0	0
ii. Capital Reserve	0	0	0	0
iii. Reserve for Bonus Shares	0	0	0	0
iv. Revenue Reserve	227	215	195	175
v. Unappropriated Profit	0	0	0	0
	227	215	195	175
<i>Pure Equity</i>	327	315	295	259
3. Surplus/(Deficit) on Revaluation of Investments	0	0	0	0
<i>Total Equity</i>	327	315	295	259
G. TOTAL LIABILITIES & EQUITY	409	538	420	406
H. CONTINGENT LIABILITIES				



Optimus Capital Management
INCOME STATEMENT

For the period ended

	31-Dec-18 1HFY19	30-Jun-18 FY18	30-Jun-17 FY17	30-Jun-16 FY16
	Unaudited	Audited	Audited	Audited
1. Fee-Based Income				
a. Advisory Fees	0	3	18	10
b. Commission / Underwriting	13	0	0	0
c. Brokerage	59	143	92	69
d. Others	0	0	0	0
	72	146	110	79
2. Operating Expenses				
a. Personnel Expenses	(40)	(62)	(68)	(51)
b. Other Non-interest/Mark Up Expenses	(19)	(42)	(34)	(43)
	(58)	(104)	(102)	(94)
3. Brokerage Income / (Loss)	14	42	7	(16)
4. Non Fee-Based Income				
a. Finances	9	10	8	8
b. Placements (including Reverse REPO/COI/CFS)	0	0	0	0
c. Bank Deposits and others	0	0	0	0
	9	10	8	8
3 Other Income				
a. Dividend Income	0	0	1	1
b. Gain on Sale of Investments	(0)	(8)	43	0
c. Surplus/(Deficit) on Revaluation of Investments	0	0	0	0
d. Share of profit of subsidiaries/associates	0	0	0	0
e. Others	(0)	(7)	44	2
	9	3	51	10
5. Total Operating Income / (Loss)	22	44	58	(6)
6. Financial Charges	(0)	(0)	(1)	(1)
7. Other Income / (Loss)	1	1	0	2
8. Profit / (Loss) Before Tax	23	46	58	(5)
9. Taxes	(0)	(19)	(8)	(2)
10. Net Income	23	27	50	(7)
12. Unappropriated Profit / (Loss) Brought Forward	0	0	0	0
12. Adjustments	0	0	0	0
Available for Appropriations	23	27	50	(7)
13. Appropriations				
a. Statutory Reserve	0	0	0	0
b. Capital Reserve	0	0	0	0
c. Cash Dividend	0	0	0	0
d. Bonus Dividend	0	0	0	0
14. Unappropriated Profit/(Loss) Carried Forward	23	27	50	(7)



Optimus Capital Management

RATIO ANALYSIS	31-Dec-18	30-Jun-18	30-Jun-17	30-Jun-16
	1HFY19	FY18	FY17	FY16
	Unaudited	Audited	Audited	Audited
A. PERFORMANCE				
1 ROE	7.9%	8.8%	25.0%	(3.0%)
a Net Profit Margin	31.8%	18.7%	45.9%	(8.7%)
b Asset Turnover	19.8%	27.7%	38.3%	21.8%
c Financial Leverage	125.1%	170.8%	142.2%	156.8%
2 ROA	5.6%	8.8%	19.9%	(1.8%)
3 Personnel Expenses-to-Total Operating Income	176.1%	139.3%	116.1%	(883.8%)
4 Personnel Expenses-to-Fee Income	54.8%	42.4%	62.0%	65.2%
5 Cost-to-Fee Income	72.2%	70.1%	63.6%	106.6%
6 Cost-to-Total Operating Income	260.2%	234.6%	175.1%	(1,623.2%)
7 Taxes / Pre-Tax Profit	0.6%	40.5%	13.7%	(38.4%)
8 Net Non-Earning Assets / Assets net of Non-Interest Liabilities	83.9%	86.4%	83.9%	58.9%
9 Net Non-Earning Assets / Equity	104.1%	147.0%	118.4%	91.9%
B. WORKING CAPITAL				
1 (Accounts Receivable / Value Traded) * 365	-	1.7%	2.9%	24.6%
2 Overdue (> 14 days) Accounts Receivable / Total Accounts Receivable	-	-	59.1%	88.1%
3 Overdue (> 14 days) Accounts Receivable / Short Term Borrowings	-	-	3.3%	20.2%
4 Overdue (> 14 days) Accounts Receivable / Capital or Equity	-	-	1.4%	11.3%
5 Overdue (> 14 days) Accounts Receivable / (Short Term Borrowings + Account	-	-	3.3%	20.2%
6 (Overdue (> 14 days) Accounts Receivable - MF or MTS related receivables) / 1	-	-	-	-
7 Accounts Receivable / (Short Term Borrowings + Customer Advances + Accou	8.5%	3.0%	2.9%	12.0%
B. FINANCIAL EXPOSURE				
1 Investments / Equity	20.0%	23.1%	22.7%	64.1%
2 Equities / Total Capital	-	-	-	0.1%
3 Fixed Income / Total Capital	3.1%	-	-	-
4 NCB / Equity	0.0%	0.0%	60.3%	59.1%
C. LIQUIDITY				
1 Trade Related Assets / Trade Related Liabilities	0.1	0.0	0.1	0.2
2 Liquid Assets/ Short Term Borrowings + Creditors	0.4	1.1	1.2	1.6
3 Liquid Assets / Total Assets	0.1	0.5	0.4	0.6
4 Liquid Assets / Trade Related Liabilities	0.4	1.1	1.2	1.6
5 Liquid Assets / (Short term Borrowings + Advances from Customers + Account	0.4	1.1	1.2	1.6
6 Adjusted Liquid Assets / (Short term Borrowings + Advances from Customers	0.4	1.1	1.2	1.6
7 Liquid Investments / Equity	0.2	0.2	0.2	0.6
D. COVERAGE RATIOS				
1 EBITDA/Gross Interest	(349.6)	497.3	32.5	(3.5)
2 FCFO/Gross Interest	(321.8)	505.5	0.3	(10.6)
3 TCF/Gross Interest	(321.8)	505.5	0.3	(10.6)
4 FCFO/Gross Interest+CMLTD	(321.8)	505.5	0.3	(10.6)
5 FCFO/Gross Interest+CMLTD+Uncovered Short Term Borrowings	(321.8)	505.5	0.3	(10.6)
6 TCF/Gross Interest+CMLTD+Uncovered Short Term Borrowings	(321.8)	505.5	0.3	(10.6)
Debt Payback Analysis				
7 Long-term Debt/FCFO	0.0	0.0	0.0	0.0
1 Total Debt / FCFO	0.0	0.0	0.0	0.0
D. CAPITAL ADEQUACY				
1 Equity / Total Assets	0.8	0.6	0.7	0.6
2 Total Equity (including surplus on revaluation) / Total Assets	0.8	0.6	0.7	0.6
3 Total Debt / Equity	0.0	0.0	0.0	0.0

BROKER MANAGEMENT RATING SCALE

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

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Conduct of Business

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- (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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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (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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