



The Pakistan Credit Rating Agency Limited

Rating Report

Optimus Capital Management (Pvt.) Limited | BFR

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Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
29-Oct-2021	BFR 3++	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	Optimus Capital Management (Pvt.) Ltd. is a wholly owned subsidiary of Optimus Holdings (Pvt.) Limited. Mr. Asif Ali Qureshi and Mr. Jawad Amjad own 80% and 20% of Optimus Holdings, respectively.
Governance	The Company has two member Board, Mr. Asif Ali Qureshi and Mr. Mohsin Ahsan.
Management and Client Services	The Company has an sound organizational structure with well experienced management team. The Company has well developed research department covering ~80% of the KSE100.
Internal Controls and Regulatory Compliance	The Company has in-house internal audit department which ensures the implementation of the policies. The Company has formulated employee confidentiality agreement and insider trading guidelines.
Business Sustainability	The revenue is majorly concentrated in the brokerage segment. The Company does not operate any proprietary book hence, less exposed to market risk.
Financial Sustainability	The Company has a leverage free capital structure and sizable liquid assets against trade related liabilities.

Key Rating Drivers

The assigned rating reflects the Optimus Capital Management (Pvt.) Limited's (or the "Company") strong internal control and risk management framework, good quality of management and well managed client service. The rating draws strength from the experienced profile of the CEO, Mr. Asif Ali, who has been associated with the capital markets for over 25 years. The rating also takes into account the Company's acclaimed research, adequate market share and good regulatory compliance. On governance front, room for improvement exists in board size to avoid repetition of common committee members, presence of independent director would add to governance levels. The rating is dependent on the Company's ability to compliment its revenue base by developing its advisory and consultancy revenue streams. The Company is also in process of strengthening its retail penetration. For this, the Company is replacing its technological plate form with advanced one and also hired a head of online trade and sales. During FY21, the Company earned PAT of PKR 37mln(FY20: PKR (5)mln). The rating also takes comfort from leverage free capital structure. The equity base of ~PKR 356mln, as at end-Jun'21, provides cushion against potential losses. The rating would remain dependent on sound internal controls, well managed client relationship, strong market share, and risk management framework. Retention of key management, regulatory compliance and external control environment will remain imperative. Further, rational diversification of business activity may provide support to the company's overall financial risk profile.

Disclosure

Name of Rated Entity	Optimus Capital Management (Pvt.) Limited BFR
Type of Relationship	Solicited
Purpose of the Rating	Broker Fiduciary Rating (BFR)
Applicable Criteria	Methodology Broker Fiduciary Rating(Jan-21)
Related Research	Sector Study Brokerage & Securities(Jan-21)
Rating Analysts	Muhammad Junaid muhammad.junaid@pacra.com +92-42-35869504

Profile

Background: Optimus Capital Management (Private) Limited, “OCM or the Company” is a licensed TREC holder of the Pakistan Stock Exchange and was incorporated in 2004 under the Companies Act, 2017.

Operations: OCM is Pakistan’s leading stock brokerage and financial advisory company. The Company has a team of highly qualified and experienced professionals that provides Investment Research, Equity Brokerage, Online Trading, Corporate Finance & Financial Advisory services, and Fixed Income Brokerage (through its associate Optimus Markets).

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.

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

Business Acumen: The sponsors have the 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 306mln at the end of Jun'21.

Governance

Board Structure: The board comprises two directors, Mr. Asif Ali Qureshi and Mr. Mohsin Ahsan. Mr. Asif is the CEO of the Company and Mr. Mohsin is the director research. Four board meetings were held in FY21 and discussions on risk management policies, infrastructure development, and Financial Performance were undertaken.

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: The experience of the board helps in providing useful insight into the business management and guiding the management in effectively developing optimizing the organizational procedures and policy. The board meeting is held quarterly. Board minutes are very concise and capture details of the discussion. The Company has formed Audit Committee at the board level.

Transparency: The head of internal audit reports directly to the internal audit committee. Riaz Ahmad, Saqib, Gohar & Company has been engaged as Optimus Capital’s external auditors during FY21. The auditor is ranked as Category B auditor on the panel of SBP auditors list. The audit of the financial statements for FY21 is currently underway.

Management and Client Services

Organizational Structure: The Company has an adequate organizational structure with an experienced management team and a balanced mix of professionals from the 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 heads of departments are directly reportable to the CEO of the Company.

Management Team: Mr. Asif Ali Qureshi has recently joined as the CEO of the company. Mr. Qureshi has diverse experience in research and investment advisory and is a well-known name in domestic brokerage industry. Mr. Faizan Sarmad is acting as the CFO of the Company. Mr. Faizan has extensive experience of ~13 years in the capital markets. 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 has done MBA from IBA and has over 20 years of experience in financial sector.

Internal Controls and Regulatory Compliance

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 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.

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 through active monitoring.

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 a timely basis.

Business Sustainability

Operating Environment: PSX staged a phenomenal recovery in FY21 as the KSE-100 Index rose by 37% during the period. The growth came at the back of swift monetary and fiscal policy response, the success of the micro-lockdown strategy, robust remittances growth, and leverage reforms. Average traded volume attained the highest ever level at 528mln shares in FY21 (up by 169% from 196mln shares in FY20). Going forward, the delta variant poses a threat to the rising trend; however, the index is expected to recover as the COVID-19 vaccination reach record levels. Furthermore, improving vaccination rates are expected to provide stimulus to private consumption. Supportive economic and monetary policies such as TERF by SBP will serve as tailwinds for private sector investment. Public sector investment will also improve as the government has significantly increase PSDP in the FY22 budget.

Performance: The Company posted net profits of ~PKR: 21mln (FY20: net loss ~PKR: 6mln). The profit can be attributable to the significant increase in core income by 62% (SPLY: ~PKR 74mln) on the back of hefty trade volumes on PSX. While consultancy income grew by 23 times ~from PKR 1mln in Jun'20 to ~PKR 23mln in Jun'21

Strategy: The Company aims to build on promote retail investment with the help of digital initiatives such as online trading platforms and revamped websites.

Financial Sustainability

Credit Risk: The Company has detailed KYC/CDD procedures in place for the assessment of the client's creditworthiness. Exposure limits are properly assigned. An automated system halts transactions if the margin falls below the allocated level.

Market Risk: Optimus, as a policy, does not engage in proprietary investments, thus limiting the impact of market risk. The Company as a policy keeps its customers' cash in a segregated account and reconciles the account at the day end.

Liquidity Risk: The Company's liquid assets to trade-related liabilities stood at 1.49x as of FY21 (FY20: 1.27x). The increase is associated with an increase in bank deposits. Optimus's liquid assets to total assets stood at 68% (FY20: 45%).

Capitalization: Optimus has an adequate capitalization level with regulatory Net Capital Balance (NCB) standing at PKR 210mln as of FY21. The Company can take an exposure of 25x of its NCB – thus giving Optimus modest capacity to avail orders. The Company has adequate risk absorption capacity reflected by an increasing equity base of PKR 339mln as of FY21.

Optimus Capital Management

Jun-21

Jun-20

Jun-19

12M

12M

12M

A BALANCE SHEET

1 Finances	11	15	13
2 Investments	75	11	32
3 Other Earning Assets	28	180	96
4 Non-Earning Assets	299	308	297
5 Non-Performing Finances-net	-	-	-
Total Assets	412	513	438
6 Funding	57	199	119
7 Other Liabilities (Non-Interest Bearing)	16	7	4
Total Liabilities	73	207	123
Equity	339	306	316

B INCOME STATEMENT

1 Fee Based Income	145	75	106
2 Operating Expenses	(118)	(99)	(110)
3 Non Fee Based Income	13	30	23
Total Operating Income/(Loss)	39	5	18
4 Financial Charges	(3)	(5)	(1)
Pre-Tax Profit	36	1	17
5 Taxes	(15)	(6)	(7)
Profit After Tax	21	(5)	10

C RATIO ANALYSIS**1 Business Sustainability**

Pre Tax Margin	25.0%	0.7%	15.9%
EBITDA/ Revenue	33.8%	20.9%	20.7%
Profit / (Loss) Before Interest & Taxes / Total Assets	9.5%	1.0%	4.0%

2 Financial Sustainability

Total Investments / Equity	22.0%	3.5%	10.2%
NCB / Equity	0.0%	0.0%	0.0%
LCB/ Total Equity	0.0%	0.0%	0.0%
(Cash & Cash Equivalents + Government Securities) / Total Assets	79.2%	85.2%	83.9%
Total Debt / Equity	3.4%	6.6%	0.0%

Broker Fiduciary Rating Scale & Definitions

An independent opinion on the quality of management, client services and sustainability of operations

Scale	Definition
BFR 1	Very Strong. Very strong quality of management, client services and very high likelihood of sustaining operations
BFR 2++ BFR 2+ BFR 2	Strong. Strong quality of management, client services and high likelihood of sustaining operations
BFR 3++ BFR 3+ BFR 3	Good. Good quality of management, client services and above average likelihood of sustaining operations
BFR 4++ BFR 4+ BFR 4	Adequate. Adequate quality of management, client services and average likelihood of sustaining operations
BFR 5	Weak. Weak quality of management, client services weak likelihood of sustaining operations

<p>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’.</p>	<p>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.</p>	<p>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.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the rating remains suspended for six months, or/and d) PACRA finds it impractical to surveill the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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)
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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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- (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)

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(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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