



The Pakistan Credit Rating Agency Limited

## ENTITY RATINGS REPORT

# OPTIMUS CAPITAL MANAGEMENT (PVT.) LIMITED

ENTITY	RATING	OUTLOOK	ACTION	DATE
Optimus Capital Management (Pvt.) Limited	Long Term: A- Short Term: A2	Stable	Initial	08-Dec-2017

### RATING RATIONALE

The ratings of Optimus Capital reflect its well-conceived strategy to keep financial risk low. This mainly emanates from i) prohibition to perform proprietary exposure/trading in stocks ii) debt-free capital structure, and iii) absence of financing to clients along with limited quantum of receivables. The company has long experience in brokerage business from corporate and high net-worth clients, growing market share and adequate risk management systems. Improvement in capitalization and development of advisory services adds support to the ratings. The company has adopted dynamic approach to retain its clientele and build market share. Optimus Capital has a reasonable exposure in the advisory role for large international clients and focuses on enhancing its presence in this segment. The company is focused on technology developments to attract retail clients and further diversify the revenue mix. This initiative is important given relative client concentration in its revenues. Moreover, the company does not offer leveraged products which minimize the credit risk exposure. Accumulation of profits has given sizeable growth to the equity base of the company. Company's ongoing efforts and focus on compliance and policy framework is appreciated.

The ratings are dependent on the company's profitability which is inherently volatile due to cyclical downturns. The ratings require the company to diversify and improve its revenue growth. Moreover, retention of key human resources is important. Notably, continuity compliance with financial risk related parameters is critical.

### Report Contents

1. Rating Analyses
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure



OPTIMUS CAPITAL MANAGEMENT (PVT.) LIMITED PROFILE	
<b>Incorporated</b>	2011
<b>Major business lines</b>	<ul style="list-style-type: none"> <li>Equity Brokerage, Economic and Investment Research and Corporate Finance &amp; Financial Advisory services.</li> </ul>
<b>Legal status</b>	Private Limited
<b>Number of branches</b>	1

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> <li>Pakistan Brokerage Industry comprises 255 broker clearing members and 170 Non-Broker clearing members.</li> <li>There are 233,327 active Unique Identification Numbers registered with Central Depository Company.</li> <li>Average trading volumes declined by 56.5% in 1QFY18 compare to 140mln in FY17.</li> </ul>

<b>OWNERSHIP</b>	<b>ADEQUATE</b>
------------------	-----------------

- Optimus Capital Management (Pvt.) Limited [formerly Millennium Capital Management (Pvt.) Limited] became operational in March 2004 and changed to Optimus Capital Management in June 2011.
- Optimus Holdings is the parent company that owns Optimus Capital Management.
- Mr. Jawad Amjad and Mr. Asif Ali are the sponsors of Optimus Holdings with 80% and 20% shareholding respectively.

<b>GOVERNANCE</b>	<b>NEEDS IMPROVEMENT</b>
-------------------	--------------------------

- The board of directors (BoD) of Optimus Capital comprises two experienced professionals. Both board members are executives and represent Optimus Capital.
- During the year, Mr. Jawad resigned from the board after his association with PNO – Private Equity Management Company. Mr. Mohsin Ahsan, Head of Research, replaced Mr. Jawad on the board.
- There are no committees at board level.
- Independent internal audit department reports to the board members.
- External auditors, Riaz Ahmad, Saqib, Gohar & Company, has expressed an unqualified opinion on the financials for FY17.

<b>MANAGEMENT</b>	<b>GOOD</b>
-------------------	-------------

- Optimus Capital has a lean organizational structure with experienced management team and a balanced mix of professional from finance industry.
- All the department heads directly report to the CEO except Research and Compliance who report directly to the Board of Directors.
- Mr. Asif Ali, CEO, carries more than 15 years of experience in Financial Markets.
- Roles and responsibility of each individual are clearly highlighted however, few departmental heads have additional responsibilities which diverts their focus from primary role in the organization.
- Key management personnel are qualified having extensive experience in the brokerage industry.

<b>RISK MANAGEMENT</b>	<b>ADEQUATE</b>
------------------------	-----------------

- Risk, Compliance and Internal Control functions fall under the purview of Head of compliance. Head of Compliance reports directly to the board members.
- Optimus, as a policy, does not engage in proprietary investments, thus limiting the impact of market risk.
- The company's exposure to credit risk is minimal as it does not offer leverage products. The company also limits credit given to its customers.
- Fully integrated IT system with the ability to generate real time reports.

<b>BUSINESS RISK</b>	<b>ADEQUATE</b>
----------------------	-----------------

- Brokerage income in FY17 was PKR 91mln (FY16: PKR 69mln) representing a growth of 33%. This is mainly due to increasing domestic market share and higher volumes handled by the company during the period.
- On the other side operating expenses grew mainly due to increase in Salaries whereas rent and rates declined resulting in a net increase of by 10% (FY17: PKR 102.2 million, FY16 PKR 93.3million).
- The company managed to achieve operational breakeven in FY17.
- The company reported profit after tax of PKR 52.6million in FY17 compared to a loss of PKR 3.2 million in FY16. The significant increase in the revenue is due to one off non-fee based income (PKR 43million) which emerged from off-loading 40% shares of PSX to strategic buyers. If we remove the one-off effect from revenue, the company would have generated a profit of PKR ~10million.
- Going forward, the company plans to focus on retail clients to improve and sustain profitability and diversify revenue stream while enhancing the system share.

<b>FINANCIAL RISK</b>	<b>ADEQUATE</b>
-----------------------	-----------------

- Optimus has an adequate capitalization level with regulatory Net Capital Balance (NCB) standing at PKR 187 million at end Sep-17. As per regulations, the company can take an exposure of twenty five times of its NCB – thus giving Optimus modest capacity to avail orders.
- The company has adequate risk absorption capacity reflected by its adequate and increasing equity base of PKR 295 million, End June-17.
- Company's zero leveraged capital structure provides comfort to the risk absorption capacity.
- The company's liquid assets deteriorated to 1.22x of its trade related liabilities at end June-17 (1.55x at end June-16). The drop is associated to decline in bank deposits.

<b>RESEARCH</b>	<b>ADEQUATE</b>
-----------------	-----------------

- Equity research department is headed by Mr. Mohsin Ahsan who has over 15 years of experience of financial markets. Optimus's equity research provides analysis on public listed companies. The department also provides research on macro-economic and market trends.
- Currently the research department covers 8 local sectors and company is reviewed every quarter or when a major event takes place.



BALANCE SHEET	30-Jun-17	PKR mln 30-Jun-16	PKR mln 30-Jun-15
	Audited	Audited	Audited
<b>EARNING ASSETS</b>			
Finances	-	-	-
Investments	67	166	137
	<b>67</b>	<b>166</b>	<b>137</b>
<b>NON-EARNING ASSETS</b>			
Cash and Bank Balances	123	102	78
Trade debts	7	33	11
Advances, Deposits and Other receivables	210	94	101
Others (including Fixed Assets)	14	12	15
<b>TOTAL ASSETS</b>	<b>420</b>	<b>406</b>	<b>342</b>
Equity	295	259	264
Borrowings	-	-	-
Other Liabilities (Non-Interest Bearing)			
Trade Creditors	122	145	75
Other Liabilities	3	2	2
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>420</b>	<b>406</b>	<b>342</b>
<b>INCOME STATEMENT</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>
	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>
<b>Fee-Based Income</b>			
Fees	18	10	-
Commission	-	-	-
Brokerage	92	69	88
Others	0	0	5
<b>Operating Expenses</b>	<b>(102)</b>	<b>(94)</b>	<b>(105)</b>
<b>Brokerage Income / (Loss)</b>	<b>7</b>	<b>(15)</b>	<b>(12)</b>
<b>Non Fee-Based Income</b>	<b>53</b>	<b>12</b>	<b>31</b>
<b>Total Operating Income / (Loss)</b>	<b>60</b>	<b>(3)</b>	<b>19</b>
Financial Charges	(0)	(0)	(0)
Other Income / (Loss)	0	2	1
<b>Profit / (Loss) Before Tax</b>	<b>61</b>	<b>(2)</b>	<b>19</b>
<b>RATIO ANALYSIS</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>
	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>
<b>Performance</b>			
Net Profit Margin	48.1%	-4.0%	19.6%
Cost-to-Fee Income	62.9%	103.4%	84.7%
<b>Capital</b>			
Overdue Accounts Receivable / Total Accounts Receivable	0.59	0.88	0.82
Overdue Accounts Receivable / (Short Term Borrowings + Accounts Payable)	0.03	0.20	0.12
Accounts Receivable / (Short Term Borrowings + Customer Advances + Accounts Payable)	0.03	0.12	0.08
<b>Exposure</b>			
Investments / Equity	22.8%	64.1%	51.7%
<b>Liquidity</b>			
Trade Related Assets / Trade Related Liabilities	0.1	0.2	0.1
Liquid Assets / (Short term Borrowings + Advances from Customers + Accounts Payable)	1.2	1.6	2.3
Liquid Investments / Equity	0.2	0.6	0.5
<b>Coverages</b>			
EBITDA/Gross Interest	180.6	-0.2	92.7
FCFO/Gross Interest	21.4	-26.9	89.8
FCFO/Gross Interest+CMLTD+Uncovered Short Term Borrowings	21.4	-26.9	89.8
Total Debt (excluding Covered Short Term Borrowings) / FCFO	0.0	0.0	0.0
<b>Capital Adequacy</b>			
Equity / Total Assets	70.2%	63.8%	77.3%
Total Debt / Equity	0.0%	0.0%	0.0%

## 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.

<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p><b>A1+:</b> The highest capacity for timely repayment.</p> <p><b>A1:</b> A strong capacity for timely repayment.</p> <p><b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>C:</b> An inadequate capacity to ensure timely repayment.</p>
<b>AA+</b>	<b>Very high credit quality.</b> Very low expectation of credit risk.	
<b>AA</b>	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
<b>AA-</b>		
<b>A+</b>	<b>High credit quality.</b> Low expectation of credit risk.	
<b>A</b>	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.	
<b>A-</b>		
<b>BBB+</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk.	
<b>BBB</b>	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.	
<b>BBB-</b>		
<b>BB+</b>	<b>Moderate risk.</b> Possibility of credit risk developing.	
<b>BB</b>	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>BB-</b>		
<b>B+</b>	<b>High credit risk.</b>	
<b>B</b>	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>B-</b>		
<b>CCC</b>	<b>Very high credit risk.</b> Substantial credit risk	
<b>CC</b>	“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.	
<b>C</b>		
<b>D</b>	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

**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.



## Regulatory and Supplementary Disclosure

### [Rated Entity](#)

**Name of Rated Entity**  
**Sector**  
**Type of Relationship**

Optimus Capital Management (Pvt.) Limited  
Brokerage  
Solicited

### [Purpose of the Rating](#)

Independent Risk Assessment

### [Rating History](#)

Dissemination Date	Long Term	Short Term	Outlook	Action
8-Dec-17	A-	A2	Stable	Initial

### [Related Criteria and Research](#)

**Master Methodology:**  
**Sector Study**

Security Brokers Entity Methodology  
Brokerage Industry - Viewpoint | Oct-17

### [Rating Analysts](#)

Ahmed Sheikh <a href="mailto:ahmed.sheikh@pacra.com">ahmed.sheikh@pacra.com</a> (92-42-35869504)	Rai Umar Zafar <a href="mailto:rai.umar@pacra.com">rai.umar@pacra.com</a> (92-42-35869504)
--	--

### [Rating Team Statement](#)

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

### [Disclaimer](#)

PACRA maintains principle of integrity in seeking rating business. PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

#### **Conflict of Interest**

PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them.

The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest.

The analysts and members of the rating committees including the external members(s) have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Office PACRA.

The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees

PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities.

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 ii) fee mandate - signed with the payer, which can be different from the entity.

PACRA ensures that the credit rating assigned to an entity or instrument should 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

#### **Surveillance**

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer.

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

#### **Reporting of Misconduct**

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the

#### **Confidentiality**

PACRA has framed a confidentiality policy to prevent; abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter;

#### **Prohibition**

None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's written consent.

### [Probability of Default \(PD\)](#)

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 each rating notch. These studies are available at our website ([www.pacra.com](http://www.pacra.com)). However, actual transition of a particular rating may not follow the pattern observed in the past.