



The Pakistan Credit Rating Agency Limited

Rating Report

Optimus Capital Management (Pvt.) Limited | BMR

Report Contents

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

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
09-Apr-2021	BMR3+	-	Stable	Maintain	-
07-May-2020	BMR3+	-	Stable	Maintain	-
21-Nov-2019	BMR3+	-	Stable	Maintain	-
24-May-2019	BMR3+	-	Stable	Upgrade	-
27-Dec-2018	BMR3	-	Positive	Maintain	-
04-May-2018	BMR3	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Assigned rating reflects the Optimus Capital Management (Pvt.) Limited's ("Optimus Capital" or "the Company") competitive position and adequate business profile. On governance front, inclusion of independent director would enable the Company to procure independent insight. The rating also takes note of satisfactory client servicing, appropriate IT infrastructure, effective internal audit function, prudent financial management and adequate risk assessment & compliance procedures. The rating incorporates the company's lack of diversification in revenue stream since the company's services mainly comprise equity brokerage wherein the Company has competitive institutional clientele. The Company has maintained its market share at 2.5%. The rating takes comfort from leverage free capital structure. The Company has devised comprehensive Disaster Recovery plan well-developed transactions execution and monitoring system, acclaimed research and strong control environment. The management team comprises seasoned professionals that ensures sound quality of services. The company has limited exposure to market risk due to no proprietary trading policy. Furthermore, the Company has adequate capitalization levels with the Net Capital Balance (NCB) of ~PKR 191mln as at 1HFY21. The equity base of ~PKR 323mln provides cushion against potential losses.

Strengthen market share, sustainable profits, sound internal controls, client relationship, HR & IT services and risk management framework, regulatory compliance, 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 BMR
Type of Relationship	Solicited
Purpose of the Rating	Broker Management Rating
Applicable Criteria	Methodology BMR(Jun-20)
Related Research	Sector Study Brokerage & Securities(Jan-21)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504



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 strong financial base and have strategic Investments in numerous companies. The Optimus Holdings (Pvt.) Limited remains on front foot to support the Company.

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 the end of 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. Two board meetings were held in 1HFY21 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 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 are held quarterly. Board minutes are very concise and capture details of the discussion. The Company has formed Audit Committee at board level.

Financial Transparency 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 FY20. The auditor is ranked as Category B auditor on the panel of SBP auditors list. The auditor has expressed an unqualified opinion on the financial statements of Optimus Capital.

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 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.

Organizational Structure The Company has an 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.

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 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 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.

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

Revenue And Profitability Analysis The Company's current scale of operation, has shown a significant improvement in 6MFY21. During 6MFY20 the only source of revenue stemmed from equity brokerage clients. However, in 6MFY21 fee based income has contributes ~6% to the total revenue. Equity brokerage revenue increased by ~84% (Dec- 20 PKR 68million, Dec-19 ~PKR 37million) which makes ~70% of the total operating revenue compared to 100% in corresponding period last year. Operating expenses also followed the uptrend and increased by 26% (1HFY21: PKR 63 million, 1HFY20 PKR 50million) mainly due to increase in salaries and increase in other expenses. The Company reported profit after tax of PKR 12mln in 1HFY21 compared to a loss of PKR 0.1 million in 1HFY20.

Financial Sustainability

Credit Risk The Company has detailed KYC/CDD procedures in place 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 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 Profile 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).

Financial Risk Optimus has an adequate capitalization level with regulatory Net Capital Balance (NCB) standing at PKR 191mln as at 1HFY21. As per regulations, 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 its adequate and increasing equity base of PKR 324mln as at 1HFY21.



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%

Broker Management Rating

An independent opinion on the quality of management and services provided by the broker

Scale	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.

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) cessation of underlying entity, c) the rating remains suspended for six months, or/and d) 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.

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from 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. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

Rating Team Statements

(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)

Independence & Conflict of interest

- (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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can 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 prior written consent