

RATING REPORT

OPTIMUS LIMITED

REPORT DATE:

August 3, 2023

RATING ANALYST:Saeb Muhammad Jafri
saeb.jafri@vis.com.pk

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	BBB+	A-2
Rating Outlook	Stable	
Rating Date	August 3, 2023	

COMPANY INFORMATION

Incorporated in 2004

External Auditors: Baker Tilly Mehmood Idrees Qamar
Chartered Accountants

Public Unlisted Company

Group Chairman: Mr. Saad Saeed Faruqui
Group Chief Executive Officer: Mr. Haider Ali Hilaly
Chief Executive Officer: Mr. Irfan Ahmed**Key Shareholders (with stake 5% or more):**Ithaca Capital (Pvt) Ltd – 84.6%
Ithaca Capital B.V. – 15.4%
(Ultimate Beneficial Owners of Optimus Limited is
Saad Saeed Faruqui- 85.6%)

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporate Rating Methodology (May 2023)

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Optimus Limited was incorporated in 2004 and launched in 2005 with the exclusive license of 'Hertz' in Pakistan. Optimus Limited is one of the largest car rental Company in Pakistan.

Profile of Chairman

Mr. Saad Saeed Faruqi is a graduate of Cornell University and has about 24 years' experience in investing in business ventures and scaling it up. He has various business interests in transport, power and technology sectors. Through his holding Company Ithaca Capital, he has investments in Daewoo Pakistan and Bykea

Optimus Limited (OL) was launched in 2005 with the exclusive license of Hertz in Pakistan. Hertz Corporation USA is a globally renowned car rental business operating in 150 countries with 8,000 locations. Beginning its operations with 12 vehicles in 2005, Optimus had grown its fleet at one time to 750 vehicles. Currently, the Company has ~250 vehicles. Subsequently in 2009, it acquired Capital Asset Leasing Corporation (now Calcorp Limited) to further expand its business. Optimus offers long-term vehicle operating leases to multinational corporations in Pakistan, as well as short-term rental services to corporations, hotels, and individuals. Maintenance services through OEM approved dealers are also provided by the Company.

The Company is owned by Ithaca Capital (Private) Limited (the holding company), a holding company for the assets of Saad Faruqi as well as being the investment advisor for third party capital. Ithaca is the beneficial owner of other companies in Pakistan including:

- *Mustang Pakistan Limited - A security company in Pakistan, which is principally engaged in providing static guards to industrial companies, Banks, and embassies. It also has a large Cash in Transit (CIT) fleet serving most major banks and several large industrial institutions to manage their cash requirements.*
- *Ravi Automobiles (Private) Limited- Ithaca owns 51% of this company. It is engaged principally in the manufacturing of tractor and motorcycle parts for OEMs and for the aftermarket.*
- *Bottleco (Private) Limited- Holds 22.2 % of the associated company's share capital. The associated company owns a recognized consumer brand in the baby care segment in Pakistan.*
- *Calcorp Limited- A public limited company that has provided capital to Optimus Limited to support its operations. Optimus directly owns 84% of Calcorp.*

Business Operations

The Company obtained the exclusive licensee of 'Hertz' in Pakistan in 2005. The Hertz Corporation is one of the largest car rental companies in the world, handling more than 30 million rentals worldwide with approximately 6,500 locations in more than 140 countries. They are ranked in the top 5 car rental companies in the world along with Enterprise Holdings Inc, ALD SA, Avis Budget Group Inc and Sixt SE. The franchise agreement is for 5 years and has been renewed consistently every five years. Currently, Optimus is in the 4th round of its 5-year agreement, due for renewal in March 2024. Starting with about 12 vehicles, the Company has expanded its business to a fleet size of ~250. They provide long-term vehicle leasing to large multinational corporations as well as short-term rental services to corporates, hotels and individuals. Since 2014, they have also become the General Sales Agent (GSA) for Hertz, facilitating outbound car rentals from Pakistan.

Optimus operates out of 5 locations within 3 cities, Lahore, Karachi and Islamabad. Client profile consists of largely multinational corporations namely General Electric, Unilever, Buhler Pakistan, MOL Pakistan Oil, P& G and TPL Trakker Ltd. About 75% of revenues are generated from long-term lease rentals and approximately 90% of revenues are from large multinationals.

Key Rating Drivers

Ratings incorporate association with global franchise.

The Company is the exclusive licensee of Hertz, which is one of the largest global vehicle rental companies with operations in North America, Europe, and EMEA. In addition, Optimus has also been appointed as the Global Sales Agent for Hertz in Pakistan. A solid franchise with an established global footprint bodes well for the Company.

Ratings incorporate Optimus market positioning.

While the car rental industry remains competitive, having a sizeable fragmented unorganized segment, Optimus Limited is well positioned within the industry. The Company leverages the Hertz brand in gaining customer access especially with respect to multinational corporations where Hertz is the pre-approved global partner. This collaboration translates into a competitive edge for the Company.

Rating incorporates high to medium business risk profile.

VIS classifies business risk profile of Optimus Limited in the high to medium category, given business model sensitivity to macroeconomic conditions, which in turn impacts travel volumes. However, we note that the travel related part of the business (the Short-Term Rentals or “STR” business) represents only 20% of revenues. In addition, vehicle supply-demand dynamics and the volatile interest rate environment also expose the Company to greater residual value risk. This is partially mitigated through buyback agreements on a certain portion of the fleet and through clauses in the Long-Term agreements that vary the rental amount based on changes in the interest rates. Competitive forces in the industry remain high given a large informal/unbranded segment.

Increase in automobile prices and tightening of auto finance conditions provides opportunity for rental business to grow in the future.

Burgeoning car prices and capping on auto finance limits by State Bank of Pakistan, provides a favorable environment for the car rental industry. Corporates are increasingly opting for long-term car lease rentals with buy back option available to employees. Vehicle maintenance coverage and replacement option also provides added leverage. In addition, the demand supply dynamics in the auto industry have resulted in high residual values, which supports long term sustainability of the business.

On a timeline basis, revenues depict a decline, firstly due to COVID in 2020, which led to the liquidation of the Short-Term Rental Fleet and secondly due to the phasing out of the telecom sector, which was a low margin business for the Company. Going forward, strong demand is anticipated with plans to grow in the long-term rental business.

Rating takes into account sound cash flow coverage indicators, which are expected to remain strong through the rating horizon.

The rental car lease business model warrants that cash flows from sale of vehicle to be accounted as operational cash flow and therefore Funds from Operations (FFO) has been adjusted accordingly. Accounting for the same, company's cash flow coverage indicators are considered sound. Debt is primarily long term for vehicle purchase. However, the Company remains reliant on high cost of funding sources mainly from Modaraba Companies whose product offering is most suitably matched with the cash flows of the Company, however now Islamic banks are also offering the same.

Ratings remain sensitive to maintenance of low financial risk profile.

Financial risk profile on historical basis has been maintained at fairly reasonable level, with gearing remaining close to 1.0x, however, as the Company aims to grow the portfolio, projected gearing levels are expected to increase over the rating horizon (1.25x - 2.0x). Maintaining financial risk profile within reasonable range (<1.2x-1.5x) over the rating horizon while keeping gross margins intact, will remain an important rating sensitivity.

Adequate Corporate Governance.

As a public unlisted company, organizational structure commensurate with the size of the Company. VIS notes placement of professional management with delegation. Auditors 'Baker Tilly' are on SBP 'A' category list. Disclosure levels remain adequate.

The Company uses RentPro software for managing the rental business while QuickBooks is being used as the accounting software package. RentPro is designed to make it easy for car rental companies to manage their fleets, track customers, and generate reports.

Financial Statement	(Amount in Million)			
<u>BALANCE SHEET</u>	FY20	FY21	FY22	HY23
Property, Plant & Equipment	436	425	478	596
Intangible assets	5	3	2	0
Stock in Trade	2	1.5	0.2	0.2
Trade Debts	121	54	66	70
Cash & Bank Balances	14	15	44	4
Other Assets	534	666	809	821
Total Assets	1,112	1,164	1,399	1,492
Trade and Other Payables	248	158	253	148
Short Term Borrowings	4	9	14	18
Long-Term Borrowings <i>(Inc. current maturity)</i>	404	497	564	727
Deferred Liabilities	13	13	16	14
Other Liabilities	4	3	6	7
Total Liabilities	673	680	852	914
Issued, Subs, and Paid-Up Capital	309	309	309	309
Equity	439	485	547	577
<u>INCOME STATEMENT</u>				
Net Sales	454	328	324	181
Gross Profit	154	124	115	71
Operating Profit	118	126	128	77
Profit Before Tax	46	76	72	36
Profit After Tax	18	45	63	30
Adjusted FFO	355	266	367	152
<u>RATIO ANALYSIS</u>				
Gross Margin (%)	33.8%	37.8%	35.3%	39.2%
Net Margin (%)	3.9%	13.7%	19.3%	16.6%
FFO to Long-Term Debt	0.88	0.53	0.65	0.42
FFO to Total Debt	0.87	0.52	0.63	0.41
Debt Servicing Coverage Ratio (x)	2.42	3.97	2.36	1.70
ROAA (%)	11.1%	4.0%	4.9%	2.1%
ROAE (%)	19.9%	9.7%	12.2%	5.4%
Gearing (x)	0.93	1.05	1.06	1.29
Debt Leverage (x)	1.53	1.40	1.56	1.58
Current Ratio	1.54	1.79	1.52	1.76
Inventory + Receivables/Short-term Borrowings	32.93	14.88	8.43	5.48

REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	Optimus Limited				
Sector	Car Rental				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	03-Aug-23	BBB+	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	VIS, 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(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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Due Diligence Meetings Conducted	Name	Designation		Date	
	Mr. Irfan Ahmad	CEO		March 13, 2023	
	Mr. Muhammad Danish	Group CFO			
	Syed Wajahat Alam	CFO, Optimus Limited			