

RATING REPORT

Optimus Limited

REPORT DATE:

November 04, 2024

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A2	BBB+	A2
Rating Outlook / Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		<i>Initial</i>	
Rating Date	November 04, 2024		August 03, 2023	

COMPANY INFORMATION

Incorporated in 2004	External Auditors: Baker Tilly Mehmood Idrees Qamar Chartered Accountants
Public Unlisted Company	Group Chairman: Mr. Saad Saeed Faruqui
Key Shareholders (with stake 5% or more):	Group Chief Executive Officer: Mr. Haider Ali Hilaly
Ithaca Capital (Pvt) Ltd – 84.6%	Chief Executive Officer: Mr. Irfan Ahmed
Ithaca Capital B.V. – 15.4%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates

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

RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

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

Optimus Limited

OVERVIEW OF
THE
INSTITUTION

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 the
Chairman**

Mr. Saad Saeed Faruqi is a graduate of Cornell University and has approximately 25 years' experience in investing and scaling up business ventures. 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.

RATING RATIONALE

Corporate Profile

Optimus Limited ('OL' or 'the Company') was incorporated in Pakistan in 2004 as a public limited unlisted company under the Companies Ordinance, 1984 (Companies Act, 2017). The Company is a subsidiary of Ithaca Capital (Private) Limited (the holding Company), which holds a major chunk of OL's share capital. The company is engaged in providing services of renting out of vehicles and equipment.

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 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 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- *22.2% holding in the 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 listed on Pakistan Stock Exchange. Optimus currently holds an 84% stake in Calcorp but is in the process of selling its shares to a consortium of three individuals, with the transaction expected to be finalized by the end of 2024.*

Business Operations

OL continued to leverage its exclusive license for Hertz in Pakistan, maintaining a strong presence in the corporate leasing and car rental market. Hertz Corporation USA, one of the largest global car rental brands, oversees more than 30 million rentals across its 8500 locations in over 146 countries and ranks among the top five car rental companies in the world. Optimus is in the process of renewing its 5th round of 5-year agreements with Hertz, expected to be finalized before end of year 2024.

Starting with a modest fleet of 12 vehicles, OL has steadily expanded to 230 vehicles, catering to both long-term lease clients and short-term rental services. Optimus operates from 5 strategic locations across Lahore, Karachi, and Islamabad, OL has served a client base that includes multinationals such as General Electric, Unilever, Buhler Pakistan, International Bank For Reconstruction and Development, MOL Pakistan Oil, Acasus Consultancy (SMC- Private) Limited, P&G, Transportation systems Pakistan (private) Limited, Grome Marketing (Cyprus) Ltd and TPL Trakker Ltd. Approximately 75% of OL's revenue continues to come from long-term lease rentals, with about 90% of overall revenue attributed to its corporate clients. Since 2014, OL has also acted as the General Sales Agent (GSA) for Hertz in Pakistan, facilitating outbound car rentals.

As per the management, the company is planning to add 150 new vehicles in its fleet by the end of next year, up from 230 cars as of June 2024. This expansion is driven by the addition of new corporate contracts. Key clients include Oxford Policy Management, British International Investment, AstraZeneca Pakistan, Signify, and increased demand from the World Bank. According to management, the project will be financed through a combination of internal capital and external funding.

Key Rating Drivers

Ratings are underpinned by association with global franchise along with market positioning of Optimus in car rental industry

Optimus leverages its exclusive partnership with Hertz to strengthen its presence in the corporate leasing market, securing a share of multinational corporations as clients. Pakistan market offers a strong platform for second-hand vehicles where the market is highly liquid. Further, OL also ensures that its rental charge rates and insurances mitigate any residual value risk, particularly where the rentals are designed with buyback options. In addition to leasing solutions, Optimus provides vehicle maintenance and replacement services, aligning with corporate client needs.

Although the car rental industry is highly competitive, with a sizeable fragmented and unorganized segment, Optimus benefits from the global recognition of the Hertz brand, which facilitates access to multinational customers where Hertz is a pre-approved partner, giving the company a distinct competitive advantage.

Ratings incorporate high to medium business risk

VIS takes into consideration the competitive nature of the car rental industry in Pakistan and puts it in the high to medium risk category. It is characterized by a fragmented and largely unorganized sector. This segment faces several challenges, including rising automobile prices, volatile interest rates, and restricted access to auto financing. The continued inflationary pressures, coupled with the economic slowdown, have tempered demand for short-term rentals, particularly in the corporate travel space. However, despite these headwinds, the long-term vehicle leasing market has seen a shift, with corporates increasingly preferring lease rentals over direct vehicle ownership on the back of increasing automobile prices.

As vehicle prices surged, the car rental industry is well-positioned to capture growing demand for leasing services. Long-term vehicle leasing, supported by buyback arrangement, provides corporates with stability in an otherwise unpredictable market, giving rise to growth potential in the long-run.

Revenue has continued its upward trend with improving gross and net margins.

Net revenue has maintained its upward trend since the post-pandemic period, driven by the gradual recovery of operations and fleet expansion. In FY24, corporate clients continued to dominate, contributing approximately 90% to total revenues. Both gross and net margins have improved, supported by higher revenues and reduced effective tax expenses.

The revenue distribution across three regions—Central, North, and South—shows noticeable shift between FY23 and FY24. The Central region increased its share, driving

most of the growth. While the North and South regions saw slight decline in their shares, both regions achieved absolute revenue growth, contributing to the overall increase.

Client concentration depicts an increase year over year with top 10 client contribution increasing to 89% in FY24, constraining ratings.

FFO declined due to increased financial expenses, though cashflow coverages remained at adequate levels

The ratings take into account the decline in funds from operations (FFO) due to increased financial expense which has in turn impacted cashflow coverages as well. However, the ratios remained at manageable levels from the ratings perspective. The rental car lease business model warrants that cash flows from sale of vehicle to be accounted as operational cash flow and therefore FFO has been adjusted accordingly.

Ratings underpinned by elevated capitalization metrics; however, the same has registered slight improvement during the review period

Equity has increased due to improved profits which has in turn led to an improvement in the capitalization metrics. Consequently, improvements in gearing and leverage metrics have been registered during the review period, however, the same remain elevated. Going forward, the Company has plans to continuously expand its fleet size mainly through internal cashflows by using cash from selling off vehicles at residual value in order to pay down payments of new vehicles.

REGULATORY DISCLOSURES					Appendix I
Name of Rated Entity	Optimus Limited				
Sector	Car Rental				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	04/11/2024	BBB+	A2	Stable	Reaffirmed
	03/08/2023	BBB+	A2	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 Meeting Conducted	Name	Designation		Date	
	Mr. Irfan Ahmed	CEO		Oct 07, 2024	
	Mr. Wajahat Alam	CFO			