RATING REPORT

Next Capital Limited

REPORT DATE:
March 10, 2021

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A-	A-2
Rating Action	Reaffirmed		Reaffirmed	
Rating Outlook	Stable		Stable	
Rating Date	*March 10, 2021*		*June 15, 2020*	

COMPANY INFORMATION	
Incorporated in 2009	**External auditors:** KPMG Taseer Hadi & Co. Chartered Accountants
Public Listed Company	**Chairman of the Board:** Lt. Gen. Tariq Waseem Ghazi (Retd.)
Key Shareholders with stake 10% or more (As of December 2020):	**Chief Executive Officer:** Mr. Muhammad Najam Ali
Mr. Muhammad Najam Ali ~ 27.49%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Securities Firms Rating (July 2020)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/SecuritiesFirm202007.pdf

Next Capital Limited

OVERVIEW OF THE INSTITUTION

Next Capital Limited (NCL) was incorporated in 2009 as a public limited company. The company holds a Trading Right Entitlement Certificate (TREC) of Pakistan Stock Exchange (PSX) and is a member of Pakistan Mercantile Exchange (PMEX).

External auditors are 'KPMG Taseer Hadi & Co. Chartered Accountants'. Auditors belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan (SBP).

Profile of Chairman

General Tariq Waseem Ghazi (Ret.) is serving as a chairman of the Board. He was appointed as a secretary of Defense in May 2005 and has also served as chairman of the Civil Aviation Authority, the Fauji Foundation, Defence Housing Authorities, PIA Investments, and as chancellor of Foundation University, Islamabad. Presently, he serves on the boards of Sadiq Public School, Habib University and The Kidney Centre. Mr. Waseem Ghazi a MS degree in War Studies from the University of Islamabad and is a recipient of the Sword of Honour, two international, and fifteen service awards and Hilal-i-Imtiaz for his services to the country.

Profile of CEO

Prior to forming NCL, Mr. Najam Ali served as CEO of JS Investments Limited and served twice as the Chairman of MUFAP. He was also the founding CEO of the Central Depository Company (CDC) and has served on the Board of Directors of Pakistan Oilfields Limited, Askari Bank Limited, KSE, and NCCPL. He is a member of the Institute of Chartered Accountants in England & Wales and Institute of Chartered Accountants of

RATING RATIONALE

With a decade-long experience, Next Capital Limited (NCL) is primarily engaged in provision of equity brokerage services with presence in fixed income segment. The company caters to domestic retail and high net worth (HNWI) clients, local institutions and foreign broker dealers. Alongside, it has a reputable market share in investment banking & corporate advisory business in Pakistan. NCL operations are run through its head office in Karachi and a branch in Lahore.

Key Rating Drivers:

Post two consecutive years of dismal trading activity, PSX volumes have depicted considerable improvement and thus, positively impacted profitability profile of brokerage industry.

Market volumes showcased an increase of around ~25% in FY20 largely driven by high index volatility experienced during the period (given the impact of covid-19 and subsequent economic recovery). The growth momentum continued in the ongoing fiscal year with overall PSX volumes clocking in at ~74b in 1HFY21. Going forward, positive investor sentiment resulting from improving macroeconomic indicators would further improve the overall market participation over the medium term.

PSX Data (Ready + Future)	FY18	FY19	FY20	1HFY20	1HFY21
Volume (In Billions)	58	55	68	34	74
Value (In Billions)	2,874	2,224	2,570	1,234	2,931

Outlook for the brokerage industry is considered favorable with volumes expected to be noticeably higher in the ongoing fiscal year vis-à-vis FY20.

Future business strategy has been aligned to focus on HWNIs and retail segment through branch expansion and leveraging digital platforms. Healthy revenues are expected to translate from corporate advisory pipeline over the rating horizon.

Overall brokerage business registered a healthy growth of ~15% in FY20 given the improvement in trading volumes across industry. Proportionate share of retail clients in total brokerage income has doubled over past three years; the same represents at ~66% in FY20. The management has planned to further increase retail penetration through expansion of branch network and leveraging digital platforms. In this regard, 3 branches are to be added in the ongoing fiscal year (two in Karachi & one in Lahore); further addition of new branches will remain a key focus area of the company for the next 24 months. Furthermore, NCL has also revamped its IT platforms and systems including the up-gradation of Management Information System (MIS), mobile application and a web-based portal to enhance customer relationship management.

The foreign brokerage business of the Company has witnessed a decline over time due to a couple of reasons. NCL had strong brokerage arrangements with a couple of renowned international brokers. Since Pakistan's induction in MSCI Emerging Index, one of the

Ontario – Canada. He is a qualified Certified Public Accountant – USA and holds a Bachelor degree in Economics from the University of Michigan, Ann Arbor, USA. Mr. Ali has also attended and successfully completed the 'Advanced Management Program' at the world renowned Harvard Business School, USA. He is currently serving as a member of the Corporate Leaders Advisory Board of Institute of Business Administration (IBA).

foreign brokers has reduced its participation in Pakistan's capital market. Secondly, the other foreign broker has opened its local office in Pakistan and is routing business over there. Apart from this, the domestic institutional business has also remained stagnant over the years due to which its contribution to overall turnover has declined.

On corporate advisory front (services including Mergers & Acquisitions, IPOs and Debt & Equity Capital Raising), strong focus of senior management has resulted in the segment continuing to support overall revenue stream. NCL has adequate signed mandates in hand as well as deals in pipeline which would translate into healthy income for the segment over the rating horizon.

Uptick in industry trading volumes has improved profitability in FY20 and in the ongoing fiscal year. The same has positively impacted the efficiency ratio.

After registering a declining trend over the past two years, NCL's recurring revenue grew by ~16% in FY20 and continues to witness improvement in the ongoing fiscal year. The growth is attributable to sizeable jump in brokerage income alongside support from other income earned. Higher brokerage income largely emanates from retail side with increase in share turnover for clients and commission earned per share. On the other side, advisory and consultancy business has remained around prior year's level in FY20. Advisory revenue generated during 1HFY21 almost matched FY20's entire revenue which demonstrates that NCL has adequate deal flow at its disposal that would lead to better revenue generation over the rating horizon.

On the cost front, operating overheads in line with growth in topline increased by ~13% in FY20 which was primarily due to higher commission and referral fee. The company's cost-income ratio improved to 75.3% in 1HFY21 from 98.1% in FY18 as increase in operating revenues was higher than operating costs. During 1HFY21, the company reported a profit after tax of Rs. 36.4m (FY20: Rs. 17.8m).

Equity base has witnessed considerable recovery in FY20.

Equity base had eroded ~16% over the two-year period (FY17-19); however, the same witnessed considerable recovery at end-FY20 and in the ongoing fiscal year on the back of improvement in profitability. During FY20, the company reduced its secured credit line to Rs. 150m (FY19: Rs. 250m) while utilization of the same remained high.

Credit risk is considered manageable given that one-half of institutional trades conducted are through Institutional Delivery System (IDS) while more than two-third of total trade debts are outstanding for less than 14 days. Market risk is on the lower side as the company's participation in propriety trading has remained minimal on a timeline basis which is in line with best international practices. NCL has also remained compliant with its overall underwriting limits.

Sound corporate governance

Board of Directors (BoD) comprises of seven members including Chairman, CEO and five other non-executive directors while one-third of the board is represented by independent directors. Compliance and Internal Audit are functioning independently. NCL has been assigned a Broker Management Rating of 'BMR2++' by VIS Credit Rating Company.

Next Capital Limited Appendix I

FINANCIAL SUMMARY					*(amounts in PKR millions)*
BALANCE SHEET	**FY17**	**FY18**	**FY19**	**FY20**	**1HFY21**
Trade Debts	428.8	134.0	130.7	107.8	238.7
Deposits and Prepayments	281.9	238.4	240.4	319.2	221.4
Long Term Investments in PSX Shares	41.2	31.7	14.1	10.7	0.0
Proprietary Book	15.4	12.1	34.8	4.5	4.0
Cash and Bank balances	269.7	127.0	245.0	168.7	394.4
Taxation *(Refundable)*	50.8	54.5	59.6	52.0	51.9
Total Assets	1,143.9	697.3	825.9	784.1	1,067.9
Trade and Other Payables	546.4	223.7	225.1	183.9	428.3
Long Term Loans *(excluding lease liability)*	-	-	-	-	-
Short Term Loans – Unsecured	107.3	60.2	200.0	150.0	150.0
Total Liabilities	653.7	287.0	430.9	377.1	619.1
Paid up Capital	450.0	450.0	450.0	450.0	450.0
Net Worth	465.1	394.7	391.8	407.1	448.8
INCOME STATEMENT					
Operating Revenue	353.7	241.1	174.3	195.8	174.8
Administrative & Operating Expenses	239.4	240.1	197.6	198.2	130.6
Finance Cost	30.1	16.5	6.3	13.0	11.5
Profit Before Tax	140.0	4.8	15.7	36.5	45.8
Profit After Tax	103.0	(25.3)	5.3	17.8	36.4
RATIO ANALYSIS					
Liquid Assets to Total Liabilities (%)	80.7%	124.5%	116.7%	126.0%	96.0%
Liquid Assets to Total Assets (%)	46.1%	51.2%	60.9%	60.6%	55.6%
Current Ratio (x)	1.61	2.21	1.71	1.91	1.59
Debt Leverage (x)	1.41	0.73	1.10	0.93	1.38
Gearing (x)	0.23	0.15	0.51	0.37	0.33
Efficiency (%)	70.3%	98.1%	95.1%	85.1%	75.3%
ROAA (%)	11.4%	-2.8%	0.7%	2.2%	7.8%*
ROAE (%)	31.6%	-5.6%	1.3%	4.4%	17.0%*

**Ratios Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	Next Capital Limited
Sector	Brokerage
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				
19-Jan-16	A-	A-2	Stable	Initial
19-Mar-18	A-	A-2	Stable	Reaffirmed
10-Apr-19	A-	A-2	Stable	Reaffirmed
15-June-20	A-	A-2	Stable	Reaffirmed
10-Mar-21	A-	A-2	Stable	Reaffirmed

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. Najam Ali	CEO	March 2, 2021
Ms. Sana Quadri	CFO	