

## BROKER MANAGEMENT RATING REPORT

### Next Capital Limited

**REPORT DATE:**

June 21, 2022

**RATING ANALYSTS:**

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Rating Category	Latest Rating
<b>Broker Management Rating</b>	<b>BMR2++</b>
<b>Rating Rationale</b>	The rating signifies strong external controls as well as compliance & risk management. Regulatory requirements, supervisory framework, internal controls, client relationship, HR & infrastructure are considered sound while financial management is considered adequate.
<b>Rating Date</b>	June 21, 2022

**APPLICABLE METHDOLOGY:**

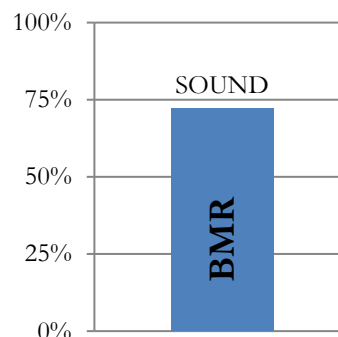
Broker Management Ratings 2020: [https:// docs.vis.com.pk/ docs/ BMR202007.pdf](https://docs.vis.com.pk/docs/BMR202007.pdf)

COMPANY INFORMATION	
<b>Incorporated in 2009</b>	<b>External auditors:</b> M/s KPMG Taseer Hadi & Co. – Chartered Accountants
<b>Public listed Company</b>	<b>Chairman of the Board:</b> Lt. Gen. Tariq Waseem Ghazi (Retd.)
<b>Shareholders with stake 5% or more (As of December, 2021):</b>	<b>Chief Executive Officer:</b> Mr. Muhammad Najam Ali
<i>Mr. Muhammad Najam Ali ~ 27.49%</i> <i>Mr. Muhammad Zulqarnain ~ 15.8%</i> <i>Mr. Adnan Afridi ~ 9.99%</i> <i>Maple Leaf Cemennt Factory Ltd. ~ 7.5%</i> <i>MCB Bank Limited – Treasure ~ 9.69%</i> <i>Mrs. Hanna Khan ~ 7.74%</i>	

### Corporate Profile

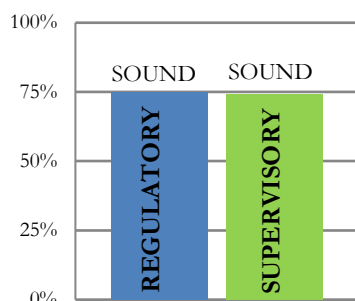
Incorporated in Dec'2009, Next Capital Limited (NCL) has completed a decade in the business of brokerage and advisory services. NCL caters primarily to equity broking services to domestic retail and high net worth (HNWI) clients, local institutions and foreign broker dealers. Alongside, the company has a reputable presence in investment banking & corporate financial advisory business in Pakistan. NCL, besides a head office based in Karachi, runs it retail operations through a branch in Lahore.

The company is a member of Pakistan Mercantile Exchange Limited and holds a Trading Right Entitlement (TRE) certificate issued by the Pakistan Stock Exchange Limited (PSX). External auditors of the company are KPMG Taseer Hadi & Co. – Chartered Accountants and belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan (SBP).



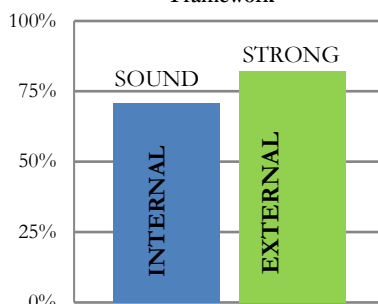
**Rating Factors Scores**

**Regulatory and Supervision Framework**



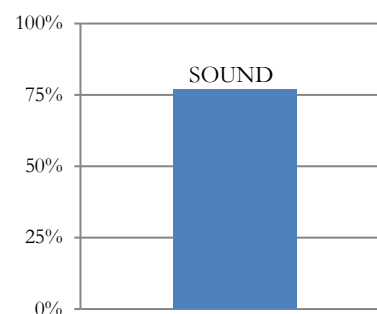
- The Board is adequately represented by seven directors including independent representation of two.
- Overall, regulatory and supervisory framework remain sound, however, increase the number of Board level committees may further enhance the same.

**Internal & External Control Framework**



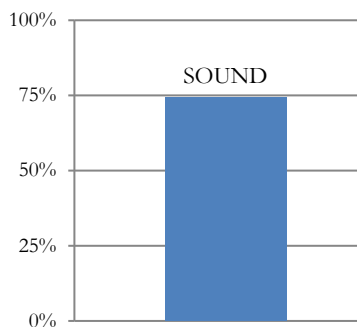
- Well-documented policies are in place including conflict of interest and preservation of confidentiality of information.
- Scope of policies may be further enhanced to include additional guidelines including defining blackout periods to the Employee Trading Policy (ETP).
- Including CEO's statement for fraudulent and illegal transactions to the annual financial statements may add to the disclosure and compliance requirements.

**Client Relationship & Fairplay**



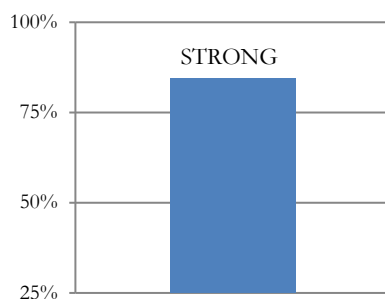
- Company has provided for all the mobile and web based client facilitation tools and platforms. The revamped website provides a better and more enhanced user experience..
- Market research function is sound; equity reports, daily briefings, weekly reviews as well as economy reports are available on the website.
- Increasing the geographical presence may assist in increasing overall clientele.

**HR & Infrastructure**



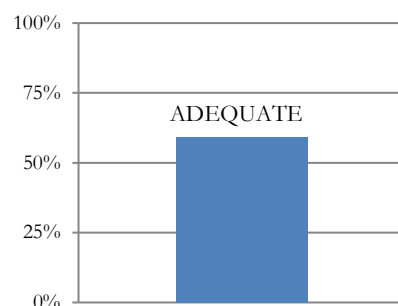
- Fully integrated ERP platform is present and the organizational structure is well defined.
- Increasing the frequency of review of disaster recovery procedures may enhance business continuity framework.

**Compliance and Risk Management**



- The credit limits are only extended to selected high net worth clientele, limiting the credit risk; however, having a documented policy for credit worthiness evaluation will further enhance risk management.
- Segregation of internal audit and compliance departments is noted.

**Financial Management**



- Profitability during FY21 was driven primarily by higher brokerage revenue. However, during 1HFY22, market activity has remain suppressed leading to a negative bottom line.
- Liquidity profile is adequate, with 0.77x (FY20: 1.43x) coverage of total liabilities. The trend of the same going forward will be important.
- Cost to income ratio (FY21: 71%, FY20: 78%) may be enhanced through expanding revenue base and curtailing administrative costs
- Gearing ratio (1HFY21: 0.63x, FY21: 0.39x, FY20: 0.47x) is adequate and manageable, while leverage is on the higher side (1HFY22: 2.03x, FY21: 1.43x, FY20: 0.93x). Total equity of the Company at end-June'21 was Rs. 494m

## MANAGEMENT QUALITY SCALE &amp; DEFINITIONS

## Appendix I

## VIS Credit Rating Company Limited

### RATING SCALE & DEFINITIONS: BROKER MANAGEMENT RATING

#### **BMR1A**

Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.

#### **BMR1++, BMR1+, BMR1**

Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.

#### **BMR2++, BMR2+, BMR2**

Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.

#### **BMR3++, BMR3+, BMR3**

Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.

#### **BMR4++, BMR4+, BMR4**

Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.

#### **BMR5**

Weak regulatory compliance and business practices

#### **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](http://www.vis.com.pk/images/criteria_outlook.pdf)

<b>REGULATORY DISCLOSURES</b>		<b>Appendix II</b>		
<b>Name of Rated Entity</b>	Next Capital Limited			
<b>Sector</b>	Brokerage			
<b>Type of Relationship</b>	Solicited			
<b>Purpose of Rating</b>	Broker Management Rating (BMR)			
<b>Rating History</b>	<b>Rating Date</b>	<b>Rating</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: BMR</b>			
	06/21s/2022	BMR2++	Stable	Reaffirmed
	03/24/2021	BMR2++	Stable	Reaffirmed
	04/08/2020	BMR2++	Stable	Reaffirmed
	02/26/2019	BMR2++	Stable	Reaffirmed
	02/23/2018	BMR2++	Stable	Initial
<b>Instrument Structure</b>	N/A			
<b>Statement by the Rating Team</b>	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.			
<b>Probability of Default</b>	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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