

## RATING REPORT

### Next Capital Limited

**REPORT DATE:**

August 3, 2022

**RATING ANALYSTS:**

Nisha Ahuja, CFA  
[nisha.ahuja@vis.com.pk](mailto:nisha.ahuja@vis.com.pk)

**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	August 3, 2022		April 10, 2021	

**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. Mubammad Najam Ali ~ 27.49%*

**APPLICABLE METHODOLOGY(IES)**

VIS Entity Rating Criteria Methodology – Securities Firms Rating (July 2020)

<http://vis.com.pk/kc-meth.aspx>

**Next Capital Limited**

**OVERVIEW OF THE INSTITUTION**

**RATING RATIONALE**

*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 Ghazji (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, PLA 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 Ghazji a MS degree in War Studies from the University of Islamabad and is a recipient of the Sword of Honour, two international,*

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 individual (HNWT) clients, local institutions and foreign broker dealers. Alongside, the Company is also provides investment banking and corporate finance advisory services.

**Key Rating Drivers:**

**After recording notable improvement in trading volumes in FY20 & FY21, PSX volumes have shown a dismal trend in FY22. Profitability of the brokerage industry remained constrained in FY22 on account of subdued market activity. Uncertainty on economic and political front is expected to keep trading volumes and profitability of the sector under pressure, going forward.**

Market volumes showcased significant uptick of more than 100% in FY21 largely driven by economic recovery in post COVID period and resultant high index volatility. However, the growth momentum has not continued in FY22. Trading volumes have recorded notable dip with average daily volumes reducing from 483 million shares to 305 million shares in the 9 months of FY22.

<b>PSX Data (Ready + Future)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>
<b>Volume (In Billions)</b>	58	55	68	166	72
<b>Value (In Billions)</b>	2,874	2,224	2,570	6,916	2,405

Given the uncertainty on the political and economic front related to change in Government, outcome of IMF program, rising inflation and high interest rate environment, outlook for the brokerage industry is considered unfavorable with volumes expected to remain subdued in the new fiscal year FY23.

**Brokerage income was significantly impacted in FY22. Advisory income expected to provide support to bottom line profitability.**

In FY21, the Company posted a massive growth of 101.3% in brokerage revenues mostly emanating from retail segment growth. Akin to the industry, higher trading volumes were witnessed across the industry led by economic recovery and strong corporate profits. Proportionate share of retail clients in total brokerage income also increased; the same represented ~72% in FY21. Profitability was also supported by increase in advisory and consultancy income which grew by 50.8% in FY21. Strong focus of senior management has resulted in the corporate advisory segment continuing to support overall revenue stream. Brokerage business, on the other hand, registered a decline in the 9MFY22, due to lower trading volumes which remain subdued in the new fiscal year due to continuing economic and political uncertainty. The Company has posted a loss in the nine months operation largely owing to the market volume shrinkage. However, we have been advised by the management that the full year FY22 results would contain the impact of substantial corporate advisory which would turn the company into profits, the assigned ratings are dependent upon the definitive outcome of the management assertions.

*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 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).*

#### **Cost to income ratio improved in FY21, albeit remains on the higher side.**

NCL’s recurring revenue grew by 64.4% in FY21 attributable to sizeable jump in brokerage income alongside support from advisory income. The same positively impacted the efficiency ratio which improved from 79.8% to 71.4% in FY21.

Nevertheless, operating costs of the Company have remained on the higher side primarily due to higher commission and referral fee. As a result of lower recurring income in 9MFY22 coupled with higher costs, cost to income ratio deteriorated in 9MFY22 to 106.1%. This was also attributable to the expenditure incurred on the IT platform and establishment of IPS account facilitation tool for client retention.

#### **Equity growth to remain constrained**

Equity base rose by about 9.3% during FY21 on the back of improved profitability. However, with losses posted in 9MFY22 we expect equity growth to remain constrained. While there may be some recovery on account of advisory fee income by year end which will offset the losses, we do expect equity growth to remain subdued. During the year, the Company paid off its Commercial Paper liability of Rs 100m. Gearing and leverage levels are considered adequate. Market risk is also on the lower side as the company’s participation in propriety trading has remained minimal on a timeline NCL has also remained compliant with its overall underwriting limits.

#### **Sound corporate governance**

Ratings take comfort from the company operating as a public limited listed entity with sound corporate governance framework in place. 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++’ and a Broker Fuduciary Rating of ‘BFR 2+’ by VIS Credit Rating Company.

## Next Capital Limited

## Appendix I

<b>FINANCIAL SUMMARY</b>					
	<i>(amounts in PKR millions)</i>				
<b><u>BALANCE SHEET</u></b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>9MFY22</b>
Trade Debts	134.0	130.7	107.8	382.5	169.8
Intangible Asset	4.3	3.9	3.5	3.5	48.0
Deposits and Prepayments	238.4	240.4	319.2	208.5	114.7
Long Term Investments in PSX Shares	31.7	14.1	10.7	0.0	0.0
Proprietary Book	12.1	34.8	4.5	4.0	57.1
Cash and Bank balances	127.0	245.0	168.7	332.7	274.6
Taxation (refundable)	54.5	59.6	52.0	41.9	45.0
<b>Total Assets</b>	<b>697.3</b>	<b>825.9</b>	<b>784.1</b>	<b>1199.5</b>	<b>834.9</b>
Trade and Other Payables	223.7	225.1	183.9	510.0	301.6
Long Term Loans <i>(including lease liability)</i>	0.0	0.0	32.6	31.3	25.7
Short Term Loans – secured	60.2	200.0	150.0	0.0	0.0
Short Term Loan- Unsecured					90.9
<b>Total Liabilities</b>	<b>287.0</b>	<b>430.9</b>	<b>377.1</b>	<b>705.0</b>	<b>428.2</b>
Paid up Capital	450.0	450.0	450.0	495.0	495.0
Net Worth	394.7	391.8	407.1	445.0	410.7
<b><u>INCOME STATEMENT</u></b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>9MFY22</b>
Operating Revenue	241.1	174.3	200.9	354.7	157.4
Administrative & Operating Expenses	240.1	197.6	198.2	291.3	204.0
Finance Cost	16.5	6.3	13.0	23.0	21.0
Profit/(Loss) Before Tax	4.8	15.7	41.6	97.6	(76.9)
Profit After Tax	-25.3	5.3	22.9	68.5	(83.82)
<b><u>RATIO ANALYSIS</u></b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>9MFY22</b>
Liquid Assets to Total Liabilities (%)	124.5%	116.7%	126.0%	73.4%	97.2%
Liquid Assets to Total Assets (%)	51.2%	60.9%	60.6%	43.1%	49.9%
Current Ratio (x)	2.21	1.71	1.91	1.55	1.68
Leverage (x)	0.73	1.10	0.93	1.58	1.04
Gearing (x)	0.15	0.51	0.47	0.43	0.30
Efficiency (%)	98.1%	95.1%	78.2%	73.8%	106.1%
Prop book to Equity (%)	3.1%	8.9%	1.1%	0.9%	13.9%
ROAA (%)	-2.8%	0.7%	2.8%	6.9%	-
ROAE (%)	-5.6%	1.3%	5.7%	15.2%	-

## 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](http://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](http://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](http://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
<b>Name of Rated Entity</b>	Next Capital Limited					
<b>Sector</b>	Brokerage					
<b>Type of Relationship</b>	Solicited					
<b>Purpose of Rating</b>	Entity Rating					
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>	
	<b>RATING TYPE: ENTITY</b>					
	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	
	<b>03-Aug-22</b>	<b>A-</b>	<b>A-2</b>	<b>Stable</b>	<b>Reaffirmed</b>	
<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.					
<b>Disclaimer</b>	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.					
<b>Due Diligence Meeting Conducted</b>	<b>Name</b>	<b>Designation</b>		<b>Date</b>		
	<b>Mr. Najam Ali</b>	CEO		June 15, 2022		