

RATING REPORT

Next Capital Limited

REPORT DATE:

October 02, 2023

RATING ANALYSTS

Shaheryar Khan

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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	October 02, 2023		August 03, 2022	

COMPANY INFORMATION

Incorporated in 2009	External auditors: M/s M/s Baker Tilly Mehmood Idrees Qamar Chartered Accountants
Public listed Company	Chairman of the Board: Lt. Gen. Tariq Waseem Ghazi (Retd.)
Shareholders with stake 5% or more (As of December, 2022):	Chief Executive Officer: 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 Cement Factory Ltd. ~7.5%</i> <i>MCB Bank Limited – Treasure ~ 9.69%</i> <i>Mrs. Hanna Khan ~7.74%</i>	

APPLICABLE METHODOLOGY(IES)

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

<https://docs.vis.com.pk/docs/SecuritiesFirm202007.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

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

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 Baker Tilly Mehmood Idrees Qamar 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

Incorporated in Dec'2009, NCL caters primarily to equity broking services to domestic retail and high net worth individual (HNWI) clients, local institutions and foreign broker dealers. Alongside, the Company is also provides investment banking and corporate finance advisory services.

Sector Update

Table 1: Industry Trading Metrics (Volume & Value) – Ready

	FY18	FY19	FY20	FY21	FY22	FY23
Volume (In Billions)	43	37	49	131	73	47
Value (In PKR' Billions)	2,027	1,549	1,789	4,781	2,405	1,504

- After witnessing a significant surge in trading volumes in FY21, volumes have depicted a downward trajectory wherein the trading volumes declined by around 44% in FY22, followed by a further decline of around 35% in FY23.
- Accordingly, in tandem with trading volumes, brokerage revenues declined across the industry in FY23. This has dented the profitability of brokerage companies, some of which have slipped into losses. Additionally, low volume of IPOs resulted in reduced underwriting activity during FY23 which subsequently contributed to loss of revenue. During FY23, only one initial public offering (IPO) was held, raising Rs.1.4b, however, in contrast with the preceding year, there were three IPOs which collectively raised a total of Rs.1.3b during FY22 while eight IPOs were witnessed, raising a combined total of Rs.20b during FY21.
- PSX has launched a new Trading and Surveillance System (NTS) in order to facilitate the clients for a safe, reliable and faster trading execution. The NTS provides support to multiple products which includes equities, close-end funds, bonds, stock futures and ETFs etc. With swift trading execution, it is also expected to provide an enhanced capacity for handling higher trading volumes.
- In order to further facilitate brokerage houses and traders, PSX has planned to launch 15 new Trading Right Entitlement Certificates (TREC) licenses which is expected to bring ease for brokers fulfilling minimum financial requirements and to offer trade execution services to retail, institutional and foreign clients along with becoming underwriters for right shares issue and act as agents for share buybacks.

Key Rating Drivers:

The Company's profitability has come under stress in FY22 and 9MFY23 mainly on account of a decline in brokerage revenue despite support from the advisory segment

- After posting a sizeable profitability in FY21, the bottom line of the Company has plummeted by 60% in FY22 largely due to a significant drop in brokerage revenue on the back of subdued market volumes.
- Institution clients continues to dominate the brokerage revenue mix, contributing around 66% of the brokerage revenue followed by revenue stemming from retail clients accounting for around 34%.
- The Company draws support from its diversified revenue base wherein advisory and consultancy segment made up around 66% of the revenue mix in FY22. This is a result of the management strategy which has been geared towards augmenting the revenue stream from the advisory segment.

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 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.

- During 9MFY23, the Company’s operating revenue witnessed a significant drop vis-à-vis SPLY on the back of the shrinkage in the topline led by the plunge in the brokerage revenue despite higher income from advisory and consultancy as compared to the same period last year. Albeit the losses reported during the said period were lower than the corresponding period last year.

Table 2: Diversification in Total Revenue

	FY21	FY22	9MFY22	9MFY’23	FY21	FY22	9MFY22	9MFY’23
	PKR Mn.				%			
Brokerage income	356.0	194.3	158.7	77.3	78.1%	37.4%	74.6%	56.5%
Advisory and Consultancy Fees	60.0	277.3	18.4	24.4	13.2%	53.4%	8.6%	17.8%
Commodity Income	-	-	0.8	1.1	0.0%	0.0%	0.4%	0.8%
Debt Capital Market Services	-	-	-	0.6	0.0%	0.0%	0.0%	0.4%
Total Operating Income	416.0	471.6	177.9	103.4	91.2%	90.8%	83.6%	75.6%
Bank Profit	19.4	22.6	16.7	17.4	4.3%	4.4%	7.8%	12.7%
Income under Margin Financing System	6.9	8.3	7.4	1.7	1.5%	1.6%	3.5%	1.2%
Income under Margin Trading System	-	-	-	0.9	0.0%	0.0%	0.0%	0.7%
Term Finance Certificate	0.4	0.5	-	-	0.1%	0.1%	0.0%	0.0%
Profit on Cash Margin	11.4	13.5	9.0	5.9	2.5%	2.6%	4.2%	4.3%
Dividend Income	-	0.5	0.5	3.5	0.0%	0.1%	0.2%	2.6%
Gain on Lease Termination	1.7	0.3	0.3	-	0.4%	0.1%	0.1%	0.0%
Gain on sale of assets	-	-	-	2.9	0.0%	0.0%	0.0%	2.1%
Others	0.2	1.8	1.0	1.1	0.0%	0.3%	0.5%	0.8%
Total	456.0	519.1	212.8	136.8	100%	100%	100%	100%

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

- With the increase in operating revenue, efficiency of the Company depicted improvement in FY22. Albeit the same worsened during 9MFY23 on the back of a dip in operating revenue.
 - Going forward, The Company has secured several mandates as well as in process of negotiation with other mandates. As per management, the expected fees for FY24 is projected at Rs.417m.
 - Going forward, management envisages market conditions to improve with the decision by the monetary policy committee to keep the interest rates unchanged. Hence, management expects industry trading volumes to show some respite.

Table 3: P&L Extract

P&L Extract	FY21	FY22	9MFY22	9MFY23
Operating Revenue (Net of Sales Tax)	368.2	417.3	157.5	91.6
Administrative Expenses	103.2	159.8	99.8	91.9
Operating Expenses	188.0	173.1	104.3	73.6
Finance Cost	23.0	26.0	21.0	9.2
Other Income	40.0	47.6	34.8	33.3
Realized	13.4	(5.3)	0.7	(0.1)
Unrealized	-	(32.5)	(43.1)	(1.4)
Net Income	82.0	30.8	(83.8)	(59.8)
ROAA	8%	3%	(11)%	(8)%
ROAE	18%	7%	(25)%	(16)%

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).

Financial risk indicators are considered to be adequate

Liquidity risk

- Liquidity profile of the Company is considered adequate, with liquid assets standing at Rs.286m as at Mar’23, providing 1.01x coverage to total liabilities.
- Liquidity profile also draws support from its current ratio which is recorded at 2.06x as at Mar’23 (Jun’22: 1.60x).

Credit risk

- The Company’s credit risk profile emanates from its trade debts, which comprises of receivables from clients for shares purchased on their behalf, brokerage commission and consultancy fees.
- Trade debts of the Company has witnessed a decline of 34% to reach at Rs.196.7m in Mar’23 (Jun’22: Rs.296.1m). Nevertheless, provision for impairment of trade debts has shown an increase to Rs.12.4m in 9MFY23 (FY22: Rs.7.7m).

Market risk

- The Company has increased its quantum of proprietary operations whereby short term investments have shown an increase to Rs.187.9m as at Mar’23 (Jun’22: Rs.60.4m, Jun’21: Rs.4.0m).
- Short term investments in relation to equity have increased to 40.4%, thereby reflecting an increase in its market risk given the short term investment portfolio invested in listed equity securities.
- Going forward, the management has increased its focus on building up its proprietary book to diversify its revenue stream, thereby increasing exposure to market risk. Hence, managing the market risk will remain important.

Equity base of the Company has depicted a decline. Gearing and leverage indicators are considered to be within manageable levels

- Losses incurred by the Company have resulted in a drag on the equity, which is reported at Rs.465.4 as at Mar’23 (Jun’22: Rs.525.3).
- The Company issued bonus shares to the tune of Rs.74.3m during 9MFY23, which was the second bonus issuance in the last three years. The Company also injected equity of Rs.45m through bonus shares in FY21. The decision for bonus issuance was taken by the board in light of the profits booked in the said periods in order to increase its equity in lieu of distributing as dividends.
- Gearing and leverage ratio of the Company has reflected improvement to come in at 0.23x and 0.61x respectively as at Mar’23 (Jun’22: 0.34x and 1.19x). The improvement is attributable to decrease in short term borrowings.

Governance framework of the Company is considered sound

- The Company derives strength from its nature as a public listed company, with sound governance framework in place. At present, the board of directors comprise of seven members, inclusive of two independent directors. The board's composition also features representation by one female member.
- During the period under review, the Company has also established two additional committees namely risk management committee and investment committee, which has provided impetus to the Company’s governance practices. Other two board committees of the Company include audit and HR committee.
- The Company’s annual account of FY22 were audited by M/s KPMG Taseer Hadi & Co. – Chartered Accountants, which is classified in ‘Category A’ of SBP’s panel of auditors. However, for FY23, the Company has changed its auditors to Baker Tilly Mehmood Idrees Qamar – Chartered Accountants, who are also listed under ‘Category A’ of the SBP’s panel of auditors.

Next Capital Limited

Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>						
BALANCE SHEET	FY18	FY19	FY20	FY21	FY22	9MFY'23
Trade Debts	134.0	130.7	107.8	382.5	296.1	196.7
Intangible Asset	4.3	3.9	3.5	3.5	75.8	120.4
Deposits and Prepayments	238.4	240.4	319.2	208.5	131.1	20.4
Long Term Investments in PSX Shares	31.7	14.1	10.7	0.0	0.0	0.0
Proprietary Book	12.1	34.8	4.5	4.0	60.4	187.9
Cash and Bank balances	127.0	245.0	168.7	332.7	221.7	95.9
Taxation (refundable)	54.5	59.6	52.0	41.9	40.1	42.4
Total Assets	697.3	825.9	784.1	1199.5	1150.5	747.7
Trade and Other Payables	223.7	225.1	183.9	510.0	440.7	174.2
Long Term Loans <i>(including lease liability)</i>	0.0	0.0	32.6	31.3	22.8	14.5
Short Term Loans – secured	60.2	200.0	150.0	150.0	150.0	83.0
Short Term Loan- Unsecured					0.0	0.0
Total Liabilities	287.0	430.9	377.1	705.0	625.3	282.2
Paid up Capital	450.0	450.0	450.0	495.0	495.0	569.3
Net Worth	394.7	391.8	407.1	494.5	525.3	465.4
INCOME STATEMENT	FY18	FY19	FY20	FY21	FY22	9MFY'23
Operating Revenue	241.1	174.3	200.9	368.2	417.3	91.6
Administrative & Operating Expenses	240.1	197.6	198.2	291.3	332.9	165.4
Finance Cost	16.5	6.3	13.0	23.0	26.1	9.2
Profit/(Loss) Before Tax	4.8	15.7	41.6	111.1	63.3	(56.5)
Profit After Tax	-25.3	5.3	22.9	82.0	30.78	(59.84)
RATIO ANALYSIS	FY18	FY19	FY20	FY21	FY22	9MFY'23
Liquid Assets to Total Liabilities (%)	124.5%	116.7%	126.0%	73.4%	62.4%	101.2%
Liquid Assets to Total Assets (%)	51.2%	60.9%	60.6%	43.1%	33.9%	38.2%
Current Ratio (x)	2.21	1.71	1.91	1.55	1.60	2.06
Leverage (x)	0.73	1.10	0.93	1.43	1.19	0.61
Gearing (x)	0.15	0.51	0.47	0.39	0.34	0.23
Efficiency (%)	98.1%	95.1%	44.8%	46.1%	37.2%	58.9%
Prop book to Equity (%)	3.1%	8.9%	1.1%	0.8%	11.5%	40.4%
ROAA (%)	-2.8%	0.7%	2.8%	8.3%	3.1%	-8.4%
ROAE (%)	-5.6%	1.3%	5.7%	18.2%	6.6%	-16.1%

REGULATORY DISCLOSURES						Appendix II
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	
	03-Aug-22	A-	A-2	Stable	Reaffirmed	
	02-Oct-23	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 Meetings	S.no	Name	Designation	Date		
	1.	Mr. Najam Ali	CEO	4 th September, 2023		
	2.	Mr. Mohammad Omair Rasheed	CFO	4 th September, 2023		
	3.	Mr. Rizwan Yousuf	Head of Internal Audit	4 th September, 2023		