

RATING REPORT

Next Capital Limited

REPORT DATE:

November 28, 2024

RATING ANALYSTS

Shaheryar Khan Mangan

shaheryar@vis.com.pk

Zainab Imran

zainab.imran@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A2	A-	A2
Rating Action	Reaffirmed		Reaffirmed	
Rating Outlook/ Rating Watch	Stable		Stable	
Rating Date	November 28, 2024		October 02, 2023	

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

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

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. The registered office of the Company is located in Karachi with branch office situated in Lahore.

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 Ghaazi (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 Ghaazi 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

Company Profile

Next Capital Limited ('NCL' or 'the Company') was incorporated in Dec'2009 as public limited Company and later converted into public listed Company in April'2012. The company holds a Trading Right Entitlement Certificate (TREC) of Pakistan Stock Exchange (PSX) and is a member of Pakistan Mercantile Exchange (PMEX). 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 also provides investment banking and corporate finance advisory services.

Sector Update

During FY24, PSX achieved the highest equity market performance globally, with its KSE-100 Index soaring to 78,444.96, a significant increase from 41,452.69 in FY23. The index recorded an impressive annual return of 89% in PKR terms and 94% in USD terms, led by appreciation of the Pakistani Rupee against the US Dollar. The surge was driven by improved economic indicators such as increased exports and remittances, a notable decline in inflation, and favorable political and financial developments, including the successful completion of the IMF Stand-by Agreement and a smooth transition of government.

Going forward, the bullish trend will likely continue into FY25, supported by expected earnings growth coupled with strengthened prospects of a new Extended Fund Facility (EFF) with the IMF amidst a tax-heavy budget. The IMF program is expected to further boost market momentum and attract foreign inflows, improving Pakistan's external financial position. However, potential risks, including unexpected devaluation of the PKR and rising international oil prices, could pose challenges. Consecutive policy rate cuts with expectations of further decline in interest rates is likely to support market volumes.

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

	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Volume (In Billions)	43	37	49	131	73	47	112
Value (In PKR' Billions)	2,027	1,549	1,789	4,781	2,405	1,504	3,796

Key Rating Drivers:

Improvement in revenue base, driven by higher brokerage revenue as well as uptick in advisory income. However, heightened cost-to-income ratio remains a drag on the Company's operating profitability

Table 2: P&L Extract

Figures in PKR' Millions	FY22	FY23	FY24
Operating revenue	417.3	119.2	166.6
Operating expenses	173.1	91.2	108.6
Administrative expenses	159.8	122.5	134.8

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).

Reversal / (charge) of expected credit loss	(4.7)	(14.0)	10
Financial charges	26.1	18.5	36.3
Other income	47.6	40.5	52.6
Capital gain	(5.3)	10.4	47.4
Unrealized gain/loss	(32.5)	(13.6)	(0.1)
Profit before tax	63.3	(89.7)	(3.3)
Profit/(Loss) After Tax	30.8	(97.2)	(21.7)
ROAA	2.62%	(9.88%)	(2.57%)
ROAE	6.04%	(20.40%)	(5.19%)

- During FY24, the Company’s operating revenue reflected an increase due to an uptick in brokerage revenue in tandem with the industry trend, amounting to Rs. 121.1m (FY23: Rs.100.3m, FY22: Rs.194.3m), along with a notable growth in income from advisory operations, coming in at Rs. 67.1m (FY23: 33.6m, FY22: Rs.277.3m) in FY24.
- The operating revenue mix of the Company is considered relatively diversified, with advisory income contributing ~40% on average over the last three years (FY22-FY24). In FY22, income from advisory and consultancy constituted a major portion of the Operating revenue, comprising ~59% of the mix. However, **this proportion has reduced**, albeit a slight improvement was observed in FY24 vis-à-vis FY23, accounting for ~36% of the operating revenue mix.
- The Company has acquired mandates for its advisory operations, which is expected to boost the Company’s revenue base. Materialization of these mandates will be an important rating consideration.
- With an overall increase in recurring revenue, efficiency of the Company depicted slight improvement in FY24, recorded at 111.1% (FY23: 133.7%, FY22: 71.6%). However, it remained elevated, with operating losses reported during the period.
- Similarly, pressure on the bottom line persisted, remaining negative despite support from healthy capital gains. However, losses were lower relative to the previous year.
- Going forward, enhancement in the revenue base along with improvement in the operational efficiency and profitability profile of the Company will remain important for the ratings.

Financial risk indicators are considered adequate

Liquidity risk

- The Company’s liquid assets comprise cash balances, exposure deposits, and short-term investments, standing at Rs. 413.4m as at Jun’24 (Jun’23: Rs.332.6m, Jun’22: Rs. 400.4m).
- Liquidity profile of the Company is considered adequate, with liquid assets providing a coverage of 0.90x against its total liabilities as at June’24 (June’23: 0.86x, FY22: 0.64x).

Credit risk

- Trade debts of the Company was recorded at Rs. 122.9m (Jun’23: Rs. 217m, Jun’22: Rs.296.1m), constituting ~25% of the Company’s total assets. Additionally, provision for expected credit loss was reported lower relative to FY23.

- Aging of trade debts is considered manageable, given ~67% of trade debts are outstanding for up to five days while remaining portion are outstanding for more than five days.
- IDS proportion, though small, provides comfort to the Company's credit risk profile.

Market risk

- The Company has reduced its quantum of proprietary investments, resulting in a decline in the short-term investments to Rs.101.3m (Jun'23: Rs. 206.0m, Jun'22: Rs. 60.4m) as at Jun'24.
- Consequently, short-term investments in relation to equity have decreased to 24.9% as at Jun'24 (Jun'23: 48.1%, Jun'22: 11.5%), thereby reflecting a decrease in the market risk.

Capitalization indicators are considered adequate, equity base continue to decline

- Amidst two consecutive losses in FY23 and FY24, the equity base of the Company has contracted overtime, reducing to Rs. 406.3m (Jun'23: Rs.428.0m, Jun'22: Rs. 525.3m) as at Jun'24. Moreover, equity base of the Company is small relative to its peers.
- On the other hand, gearing and leverage ratios depicted weakening, clocking in at 0.43x and 1.13x (Jun'23: 0.43x and 0.91x, June'22: 0.34x and 1.19x) respectively as at Jun'24. Nevertheless, they remain at manageable levels.

Governance framework of the Company is considered strong

- Overall, the ownership and governance framework is considered strong. The board of directors is represented by 7 members, inclusive of 2 independent directors. The board's composition also features representation by one female member.
- The Company has four committees including Audit, Human Resource & Remuneration, Risk Management, and Investment committee.

Next Capital Limited

Appendix I

FINANCIAL SUMMARY						Amounts in PKR millions				
<u>BALANCE SHEET</u>	FY20	FY21	FY22	FY23	FY24					
Trade Debts	107.8	382.5	296.1	217.3	122.9					
Intangible Asset	3.5	3.5	75.8	132.3	184.9					
Deposits and Prepayments	319.2	208.5	131.1	47.6	94.3					
Long Term Investments in PSX Shares	10.7	0.0	0.0	0.0	0.0					
Proprietary Book	4.5	4.0	60.4	206.0	101.3					
Cash and Bank balances	168.7	332.7	221.7	87.3	225.8					
Taxation (refundable)	52.0	41.9	40.1	41.2	40.8					
Total Assets	784.1	1199.5	1150.5	816.8	865.9					
Trade and Other Payables	183.9	510.0	440.7	201.5	254.8					
Long Term Loans <i>(including lease liability)</i>	32.6	31.3	22.8	25.4	41.5					
Short Term Loans – secured	150.0	150.0	150.0	150.0	150.0					
Short Term Loan- Unsecured			0.0	0.0	0.0					
Total Liabilities	377.1	705.0	625.3	388.8	459.6					
Paid up Capital	450.0	495.0	495.0	569.3	569.3					
Net Worth	407.1	494.5	525.3	428.0	406.3					
<u>INCOME STATEMENT</u>	FY20	FY21	FY22	FY23	FY24					
Operating Revenue	200.9	368.2	417.3	119.2	166.6					
Administrative & Operating Expenses	198.2	291.3	332.9	213.6	243.5					
Finance Cost	13.0	23.0	26.1	18.5	36.3					
Profit/(Loss) Before Tax	41.6	111.1	63.3	(89.7)	(3.1)					
Profit After Tax	22.9	82.0	30.78	(97.21)	(21.66)					
<u>RATIO ANALYSIS</u>	FY20	FY21	FY22	FY23	FY24					
Liquid Assets to Total Liabilities (%)	128.8%	76.5%	64.0%	85.6%	88.0%					
Liquid Assets to Total Assets (%)	61.9%	45.0%	34.8%	40.7%	46.7%					
Current Ratio (x)	1.91	1.55	1.60	1.66	1.42					
Leverage (x)	0.93	1.43	1.19	0.91	1.13					
Gearing (x)	0.47	0.39	0.34	0.43	0.50					
Efficiency (%)	78.2%	71.4%	71.6%	133.7%	111.1%					
Prop book to Equity (%)	1.1%	0.8%	11.5%	48.1%	24.9%					
ROAA (%)	2.8%	8.3%	2.6%	-9.9%	-2.6%					
ROAE (%)	5.7%	18.2%	6.0%	-20.4%	-5.2%					

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/Watch	Rating Action	
	<u>RATING TYPE: ENTITY</u>					
	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	
28-Nov-24	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.					
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Due Diligence Meetings	S.no	Name	Designation	Date		
	1.	Mr. Najam Ali	CEO	October 16, 2024		
	2.	Mr. Rizwan Yousuf	Head of Internal Audit	October 16, 2024		