

BROKER MANAGEMENT RATING REPORT

Next Capital Limited

REPORT DATE:

November 01, 2023

RATING ANALYSTS:

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APPLICABLE METHDOLOGY:

Broker Management Ratings 2020:

<https://docs.vis.com.pk/docs/BMR202007.pdf>
APPLICABLE RATING SCALE(S):
VIS Issue/Issuer Rating Scale: <https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Rating Category	Latest Rating
Broker Management Rating	BMR2++
Rating Rationale	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.
Rating Date	November 01, 2023

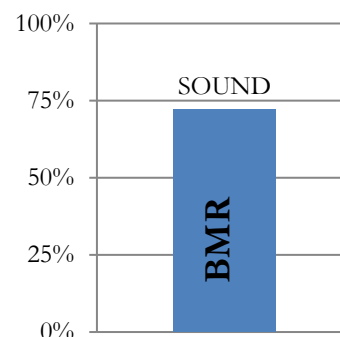
COMPANY INFORMATION

Incorporated in 2009	External auditors: 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, 2021):	Chief Executive Officer: Mr. Muhammad Najam Ali
<i>Mr. Mubammad Najam Ali ~ 27.49%</i> <i>Mr. Mubammad Zulqarnain ~ 15.8%</i> <i>Mr. Adnan Afridi ~ 9.99%</i> <i>Maple Leaf Cement Factory Ltd. ~ 7.5%</i> <i>MCB Bank Limited – Treasury ~ 9.69%</i> <i>Mrs. Hanna Khan ~ 7.74%</i>	

Corporate Profile

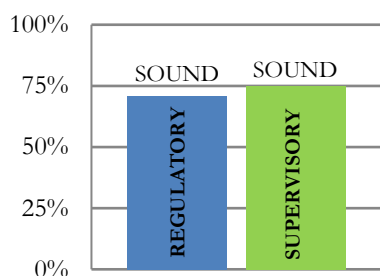
Incorporated in Dec'2009, Next Capital Limited (NCL) has been in the business of brokerage and advisory services for almost 14 years. NCL caters primarily to equity broking services to domestic retail and high net worth (HNWI) clients, local institutions and foreign broker dealers. Alongside, the company has a reputable presence in investment banking & corporate financial advisory business in Pakistan. NCL, besides a head office based in Karachi, runs its 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 M/s. Baker Tilly Mehmood Idrees Qamar Chartered Accountants and belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan (SBP).



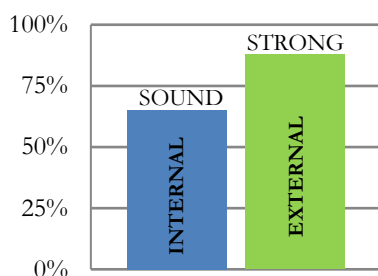
Rating Factors Scores

Regulatory and Supervision Framework



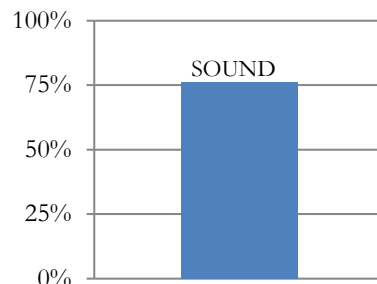
- Amongst a board of 7 directors, three are sponsoring members, collectively holding approximately 51% of the Company's shareholding while 2 other members are independent.
- Additionally, the company has 4 board committees namely audit committee, risk management committee, investment committee and HR committee in its governance framework.
- Both regulatory and supervision framework are considered sound for the assigned rating.

Internal & External Control Framework



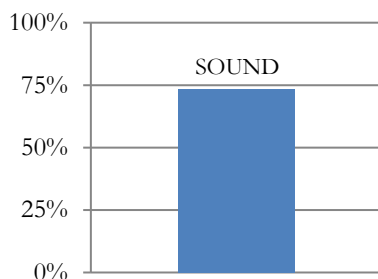
- Overall internal control framework is considered sound, however, scope of internal policies, including employee trading policy and conflict of interest policy, may be further enhanced in order to strengthen the internal control framework.
- Increasing the frequency of order recording system may be considered to further enhance the control framework.
- External control framework is considered strong given sound level of transparency and disclosure.

Client Relationship & Fairplay



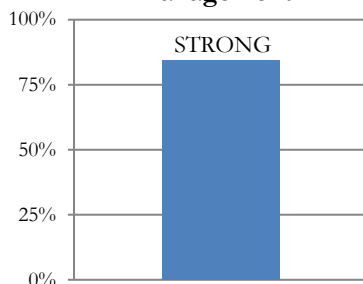
- The Company has employed electronic trading platforms through mobile and web-based trading to assist clients. Additionally, market research function of the Company includes economy reports, equity report, daily briefing and market wrap, which are also readily available on the website.
- Investor grievance procedures may be enhanced through greater visibility of complaint registering and tracking on the Company's website. Going forward, increasing the geographical footprint may be considered for further augmenting the client base.

HR & Infrastructure



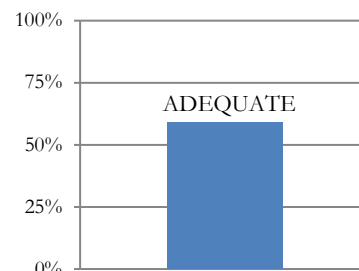
- Organizational structure of the Company is commensurate with the size of its operation.
- Fully integrated ERP platform is in place, however, disaster recovery practices are conducted only once in a year. Nevertheless, increasing the frequency of the same may improve the Company's contingency measures.

Compliance and Risk Management



- Overall compliance and risk management framework is considered strong. The Company's internal audit, compliance and risk department all operate independently which is noted positively.
- The Company has risk management policy in place wherein different procedures are catered to different categories of clients. Moreover, Company extends no credit limits to the retail clients.

Financial Management



- The Company's operating revenue in 9MFY23 has witnessed a significant drop vis-à-vis SPLY primarily on account of decline in brokerage revenue (on the back of subdued market volumes) despite income from advisory and consultancy recording higher compared to the corresponding period last year.
- As a result of lower operating revenues, cost to income deteriorated. Consequently, leading to operating losses in 9MFY23 and impacting equity of the Company.
- Liquidity profile of the Company has depicted an improvement, with liquid assets providing 1.04x coverage to the total liabilities as at Mar'23 (Dec'22: 1.03x, FY22: 0.64x, FY21: 0.77x). However market risk exposure is higher with the buildup in propriety book.
- Equity of the Company witnessed a decline, reaching Rs.465m at Mar'23 (Jun'22: Rs.525m) due to the losses incurred by the Company. Gearing and leverage ratios at 0.19x and 0.61x respectively at Mar'23 (Jun'22: 0.34x and 1.19x, Jun'21: 0.39x and 1.43x) remain manageable.
- Going forward, augmenting revenue base along with managing operational expenses to preserve equity will remain important.

REGULATORY DISCLOSURES		Appendix I		
Name of Rated Entity	Next Capital Limited			
Sector	Brokerage			
Type of Relationship	Solicited			
Purpose of Rating	Broker Management Rating (BMR)			
Rating History	Rating Date	Rating	Rating Outlook	Rating Action
	<u>RATING TYPE: BMR</u>			
	11/01/2023	BMR2++	Stable	Reaffirmed
	06/21/2022	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
Instrument Structure	N/A			
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	N/A			
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