

## BROKER MANAGEMENT RATING REPORT

### Next Capital Limited

**REPORT DATE:**

February 10, 2025

**RATING ANALYSTS:**

Shaheryar Khan Mangan

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**APPLICABLE METHDOLOGY:**

Broker Management Ratings:

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

**APPLICABLE RATING SCALE(S):**

VIS Issue/Issuer Rating Scale: <https://docs.vis.com.pk/docs/VISRatingScales.pdf>

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>	February 10, 2025

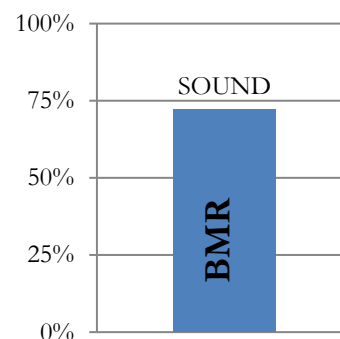
### COMPANY INFORMATION

<b>Incorporated in 2009</b>	<b>External auditors:</b> M/s Baker Tilly Mehmood Idrees Qamar 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
<p><i>Mr. Mubammad Najam Ali ~ 27.48%</i>  <i>Mr. Mubammad Zulqarnain ~ 15.82%</i>  <i>Mr. Adnan Afridi ~ 9.99%</i>  <i>MCB Bank Limited – Treasury ~ 9.69%</i>  <i>Mrs. Hanna Khan ~ 7.74%</i>  <i>Maple Leaf Cement Factory Ltd. ~ 7.50%</i></p>	

### Corporate Profile

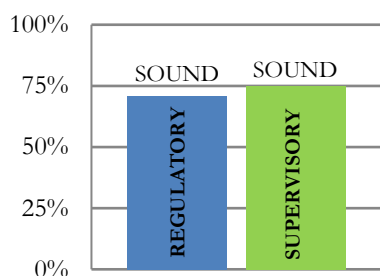
Incorporated in Dec'2009, Next Capital Limited (NCL) has been in the business of brokerage and advisory services for almost 14 years. NCL caters primarily to equity broking services to domestic retail and high net worth (HNWI) clients, local institutions and foreign broker dealers. Alongside, the company 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).



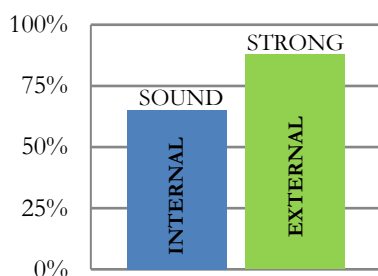
**Rating Factors Scores**

**Regulatory and Supervision Framework**



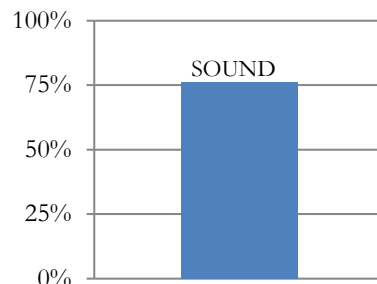
- Overall, the regulatory and supervision framework is considered sound, with board of directors represented by 7 directors, inclusive of 2 independent representations.
- The Company has four committees including Audit, Human Resource & Remuneration, Risk Management, and Investment committee. Three out of four board committees are headed by an independent director. However, repetition of the members is observed across these committees.

**Internal & External Control Framework**



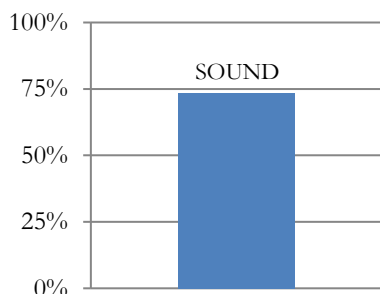
- Internal control policies are in place. However, enhancing the scope of internal policies, including the development of a comprehensive conflict-of-interest policy, may be considered.
- Additionally, increasing the frequency of trade review procedures along with daily reporting of personal trade details to compliance officer may further enhance the internal control framework of the Company.
- External control framework is considered strong.

**Client Relationship & Fairplay**



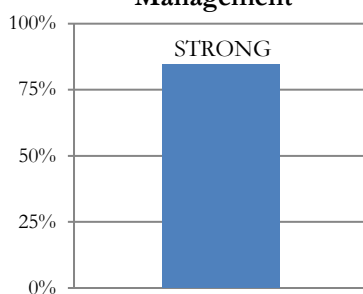
- The client services of the Company are considered sound, with various channels, including a mobile app and web-based trading application in place to facilitate clients in executing transactions. However, customer grievance mechanism may be improved by adding greater visibility on website homepage to complaint header. Additionally, complaints through SMS text may also be added.
- Research material encompassing equity reports, weekly review reports, daily market briefing, and sector research are available on the Company's website to further facilitate clients. However, undertaking invitations and advertisement along with expanding geographical footprint may enhance customer reach.

**HR & Infrastructure**



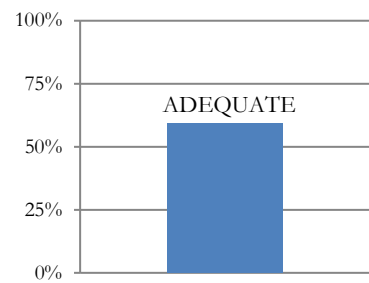
- HR and Infrastructure of the Company is considered sound. However, establishing an independent risk management department may further enhance this function.
- Fully integrated ERP platform is in place; however, disaster recovery practices are conducted only once in a year. Increasing the frequency of the same may improve the Company's contingency measures.

**Compliance and Risk Management**



- The Company has a strong compliance and risk management functions, with a defined client management policy in place. However, assignment of tighter credit limits to institutional clients and high net worth individuals may further strengthen the operational risk management of the Company.

**Financial Management**



- During FY24, the Company recorded higher operating revenues, mainly driven by an uptick in brokerage revenue amid increased industry volumes followed by increased income from advisory and consultancy vis-à-vis previous year. Nevertheless, the Company's revenue mix remained concentrated in brokerage income, accounting for 64.4% of the operating revenue mix.
- The elevated cost to income ratio remains a drag on the Company's operating profitability, with operating losses reported in FY24. Operational efficiency was recorded at 111.1% in FY24 (FY23: 133.7%, FY22: 71.6%).
- Liquidity profile 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).
- During FY24, the Company reduced its proprietary investments, thereby lowering its market risk. Short-term investments relative to equity stood at 24.9% as at June'24 (June'23: 48.4%, June'22: 11.5%).
- Losses reported in FY23 and FY24 have resulted in the erosion of the equity base, standing at Rs. 406.3m as at June'24 (June'23: Rs. 428.0m, June'22: Rs. 525.3m). Moreover, the equity base is considered small relative to its peers. Nevertheless, gearing and leverage indicators remain at manageable levels.
- Going forward, enhancing the revenue base, along with curtailing expenses as well as improving profitability and liquidity profile will remain important for rating.

<b>REGULATORY DISCLOSURES</b>		<b>Appendix I</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><u>RATING TYPE: BMR</u></b>			
	02/10/2025	BMR2++	Stable	Reaffirmed
	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	
<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>	N/A			
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