

BROKER FIDUCIARY RATING REPORT

Next Capital Limited

REPORT DATE:

May 18, 2022

RATING ANALYSTS:

Sara Ahmed

sara.ahmed@vis.com.pk

Muzammil Noor Sultan

muzammil.noor@vis.com.pk

RATING DETAILS

Broker Fiduciary Rating	BFR2 <i>Strong Fiduciary Standards</i>
Rating Rationale	The rating signifies strong management and client services as well as internal control and regulatory compliance. Ownership & governance is sound, while business and financial sustainability is considered adequate.
Rating Date	May 18, 2022

COMPANY INFORMATION

Incorporated in 2009	External auditors: M/s KPMG Taseer Hadi & Co. – 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
<p>Mr. Muhammad Najam Ali ~ 27.49%</p> <p>Mr. Muhammad Zulqarnain ~ 15.8%</p> <p>Mr. Adnan Afridi ~ 9.99%</p> <p>Maple Leaf Cement Factory Ltd. ~ 7.5%</p> <p>MCB Bank Limited – Treasure ~ 9.69%</p> <p>Mrs. Hanna Khan ~ 7.74%</p>	

APPLICABLE METHODOLOGY

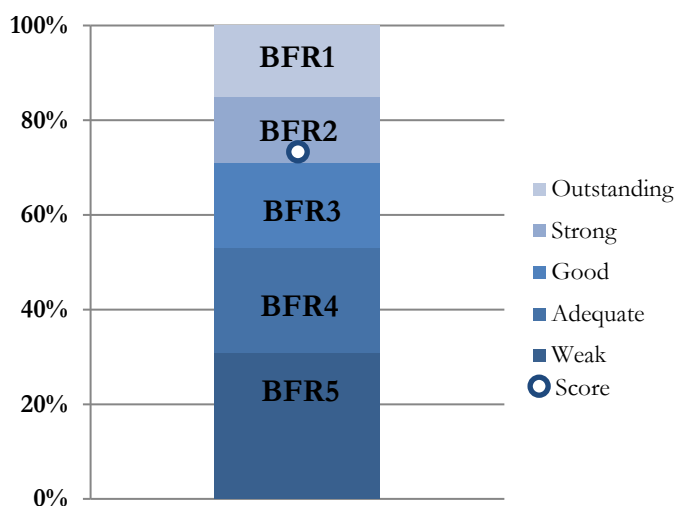
Applicable Rating Criteria: Broker Fiduciary Ratings 2021

<https://docs.vis.com.pk/docs/BrokerFiduciary012021.pdf>

Next Capital Limited

CORPORATE PROFILE **OVERALL GRADING**

Incorporated in Dec'2009, Next Capital Limited (NCL) has completed more than a decade in the business of brokerage and advisory services. 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 holds a Trading Right Entitlement Certificate (TREC) issued by the Pakistan Stock Exchange Limited (PSX) for Trading and Self-Clearing Services. External auditors of the company are KPMG Taseer Hadi & Co. – Chartered Accountants and belong to category ‘A’ on the approved list of auditors published by the State Bank of Pakistan (SBP).

Business and Financial Sustainability Indicators

	FY21	FY20
Size of Net Worth (Rs. In Millions)	494.4	406.9
Gearing x (Total Borrowing/ Total equity)	0.39x	0.47x
Leverage x (Total liabilities/ Total equity)	1.43x	0.93x
Liquid Assets/ Total Liabilities (x)	0.77x	1.29x
Short term Investments/ Total Equity (%)	1%	1%
Net Capital Balance (NCB) (Rs. In Millions)	280.24	221.24

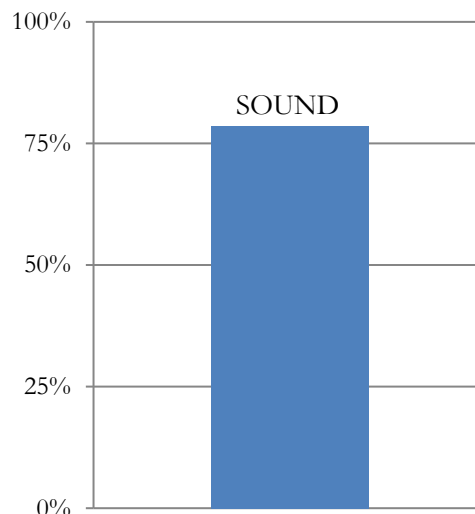
Next Capital Limited

Rating Indicators

Ownership & Governance

- The Company is a listed entity, with almost 50% of shares vested with members of the company’s board.
- Board of directors consists of seven members, including two independent members. Two board level committees, Audit and HR, are present, both of which are headed by an independent member.
- Overall disclosure levels in the financial statements are considered sound; CEO’s statement against fraudulent transactions may also be included to further enhance disclosure levels.

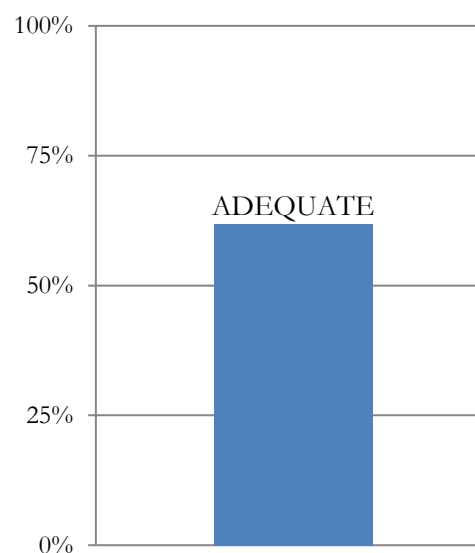
Ownership & Governance



Business & Financial Sustainability

- A significant uptick in the profitability during FY21 was primarily due to a stronger topline, supported by capital gains in investments and interest income from deposits. 1HFY22 ended with a net loss of Rs. 57m as a result of unrealized losses on investments.
- Liquidity profile is adequate, as the liquid assets cover 0.68x of total liabilities at end-Dec’21 (FY21: 0.77x, FY20: 1.29x).
- Capitalization indicators are adequate. Gearing ratio (1HFY21: 0.63x, FY21: 0.39x, FY20: 0.47x) remains in a manageable, while leverage has increased consistently during last year (1HFY22: 2.03x, FY21: 1.43x, FY20: 0.93x). Total equity of the company at end-June’21 was Rs. 494m (FY20: Rs. 406.9m).
- Company’s exposure to market risk remains low, owing to a small proprietary book.
- Cost to income ratio may be improved by increasing revenue base and curtailing administrative expenses.
- Overall, business and financial sustainability is considered adequate. Going forward, increasing revenue base along with market share and improvement in operational efficiency will be important for rating.

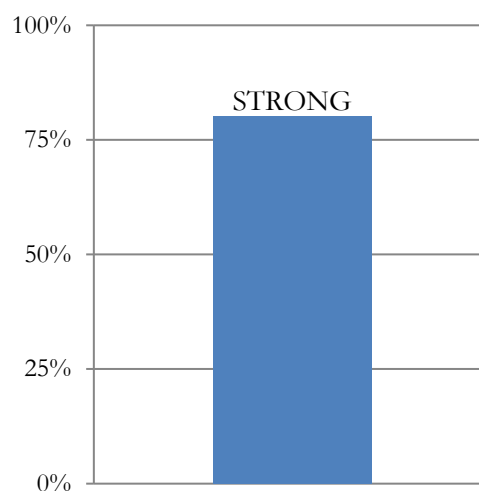
Business & Financial Sustainability



Management & Client Services

- Research material including equity reports, daily market briefing and sector research are available on the company’s website to enhance client facilitation. Increased visibility through advertisements and invitations may also be considered.
- Availability of electronic trading platforms, including mobile and web-based applications, puts the company in line with the industry standards.
- A fully integrated ERP function is operational; appropriate IT infrastructure and a documented IT policy is present, and the organogram depicts clarity in lines of responsibility and authority.
- Overall management and client services are sound; geographical footprint may be enhanced to increase the clientele.

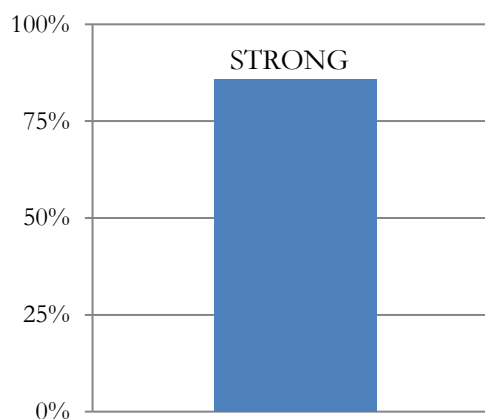
Management & Client Services



Internal Controls & Regulatory Compliance

- Appropriate internal control measures are in place; however, the scope of documented policies may further be enhanced through additional guidelines on employee trading, preservation of confidentiality and avoidance of conflict of interest.
- There is no credit worthiness evaluation policy, as the company only extends credit facility to a selected high net worth clientele.
- Presence of independently functioning internal audit and compliance departments is noted.
- Overall, internal control and regulatory compliance levels are considered strong.

Internal Controls & Regulatory Compliance



Broker Fiduciary Rating Explained

In Securities Broker Fiduciary Rating (SBF), the strength of fiduciary role of the securities brokers is captured through the relative financial strength of the securities broker firm and its sponsors along with depth of internal control and governance framework, which are key rating ingredients. Responsiveness of the risk and internal control structure, quality of HR and soundness of the business infrastructure determine the strength of management and level of service quality of a stock broker. VIS Credit Rating Co. Ltd. (VIS) has developed a rating system that evaluates brokerage firms on the basis of such practices and the systems instituted to safeguard investor interests are at the forefront.

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FIDUCIARY RATING SCALE & DEFINITIONS

Appendix I

RATING SCALE & DEFINITIONS: SECURITIES BROKER FIDUCIARY RATING

BFR1

Outstanding fiduciary standards

BFR4++, BFR4+, BFR4

Adequate fiduciary standards

BFR2++, BFR2+, BFR2

Strong fiduciary standards

BFR5++, BFR5+, BFR5

Weak fiduciary standards

BFR3++, BFR3+, BFR3

Good fiduciary standards

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

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REGULATORY DISCLOSURES		Appendix II		
Name of Rated Entity	Next Capital Limited			
Sector	Brokerage			
Type of Relationship	Solicited			
Purpose of Rating	Broker Fiduciary Rating (BFR)			
Rating History	Rating Date	Rating	Rating Outlook	Rating Action
	RATING TYPE: BFR			
	05/18/2022	BFR2	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	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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