

BROKER FIDUCIARY RATING REPORT

Next Capital Limited

REPORT DATE:

September 14, 2023

RATING ANALYSTS:

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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	<i>September 14, 2023</i>

COMPANY INFORMATION

Incorporated in 2009	External auditors: 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. 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

Applicable Rating Criteria: Broker Fiduciary Ratings 2021
<https://docs.vis.com.pk/docs/BrokerFiduciary012021.pdf>

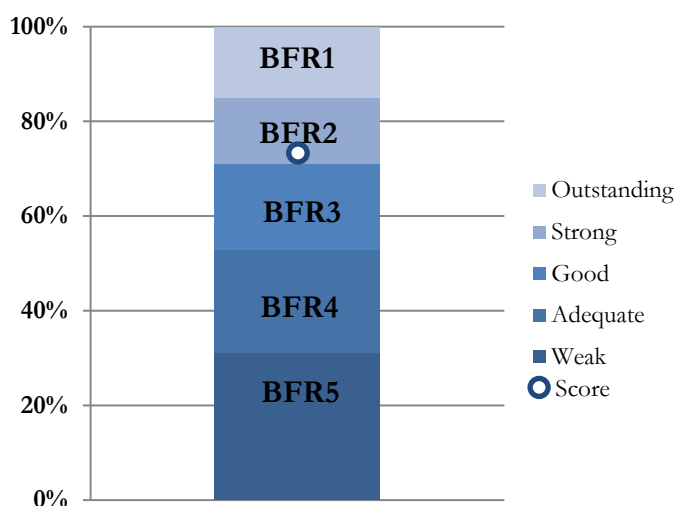
APPLICABLE RATING SCALE(S)

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

Business and Financial Sustainability Indicators			
	9M'FY23*	FY22	FY21
Size of Net Worth (Rs. In Millions)	465.4	525.3	494.5
Gearing x (Total Borrowing/ Total equity)	0.19x	0.34x	0.39x
Leverage x (Total liabilities/ Total equity)	0.61x	1.19x	1.43x
Liquid Assets/ Total Liabilities (x)	1.04x	0.64x	0.77x
Short term Investments/ Total Equity (%)	40%	11%	1%

*Unaudited Accounts

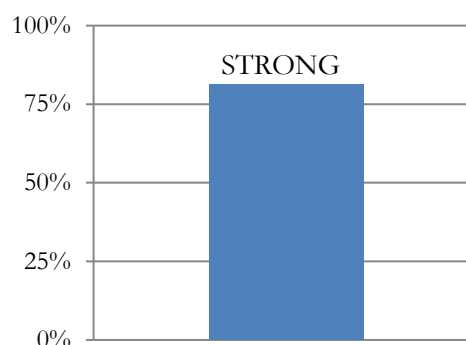
Next Capital Limited

Rating Indicators

Ownership & Governance

- Board of directors constitutes 7 members, inclusive of 2 independent directors, reflective of a sound governance framework.
- Moreover, 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.
- Disclosure levels may be enhanced through inclusion of CEO statement in the Company’s annual financial statements.

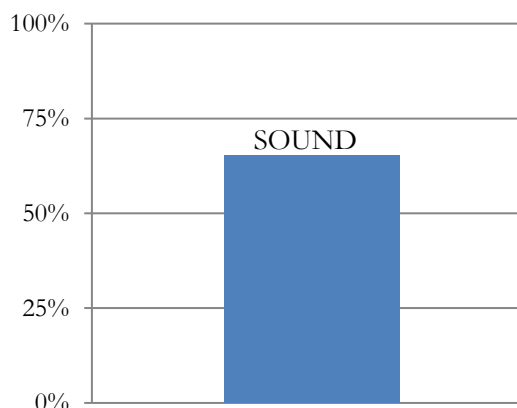
Ownership & Governance



Business & Financial Sustainability

- The Company’s operating revenue in 9MFY23 has witnessed a significant drop vis-à-vis SPLY wherein the brokerage revenue has continued to trend downwards while income from advisory and consultancy stood higher compared to the corresponding period in FY22. Boost from advisory income has translated into increase in the operating profit vis-à-vis FY21.
- Operational efficiency levels have also deteriorated, with cost to income ratio reaching 55% in 9MFY23 (FY22: 33%).
- Liquidity profile of the Company has depicted considerable improvement, with liquid assets providing 1.04x coverage to the total liabilities as at Mar’23 (Dec’22: 1.03x, Jun’22: 0.64x, Jun’21: 0.77x).
- Equity base of the Company shows consistent decline on timeline basis. Equity amounted to Rs.465m at end-Mar’23 (Jun’22: Rs.525m) owing to the losses incurred by the Company. On the other hand, gearing and leverage have observed an improvement, with the gearing and leverage ratio of the Company standing at 0.19x and 0.61x respectively at Mar’23 (Jun’22: 0.34x and 1.19x, Jun’21: 0.39x and 1.43x).
- The company’s market risk has also increased on timeline basis due, with short term investments to equity increasing to 40% in 9MFY23 (FY22 11%, FY21 1%).
- Going forward, augmenting revenue base along with increase in market share will remain important for the rating.

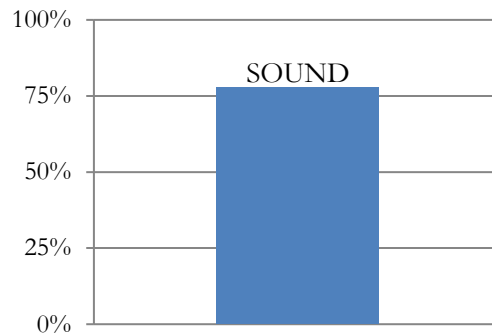
Business & Financial Sustainability



Management & Client Services

- Overall management and client servicing procedures of the Company are considered sound.
- Company has employed mobile and web-based applications, boding well for the Company’s client servicing practices. Additionally, the website has ample research material including economy, equity report, daily briefing and market wrap, to further facilitate the customers.
- Organizational structure of the Company is commensurate with the size of the operation.

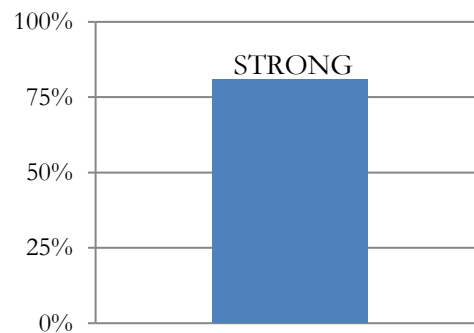
Management & Client Services



Internal Controls & Regulatory Compliance

- Internal control system are in place, however, the enhancing the scope of internal policies, including conflict of interest policy, may be considered.
- Order recording system is reviewed internally by trading supervisor or the manager on need basis, posing a constraint on the rating. The same may be done on periodic basis to further strengthen the control framework.

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.

Next Capital Limited

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			
	09/14/2023	BFR2	Stable	Reaffirmed
	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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