

## BROKER FIDUCIARY RATING REPORT

### Next Capital Limited

**REPORT DATE:**

October 31, 2024

**RATING ANALYSTS:**

Shaheryar Khan Mangan

[shaheryar@vis.com.pk](mailto:shaheryar@vis.com.pk)

Zainab Imran

[zainab.imran@vis.com.pk](mailto:zainab.imran@vis.com.pk)

#### RATING DETAILS

<b>Broker Fiduciary Rating</b>	<b>BFR2</b> <i>Strong Fiduciary Standards</i>
<b>Rating Rationale</b>	The rating signifies strong ownership & governance as well as sound internal control and regulatory compliance and management and client services. Business and financial sustainability is considered adequate.
<b>Rating Date</b>	<i>October 31, 2024</i>

#### COMPANY INFORMATION

<b>Incorporated in 2009</b>	<b>External auditors:</b> 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:</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>	

#### APPLICABLE METHODOLOGY

**Applicable Rating Criteria: Broker Fiduciary Ratings**

<https://docs.vis.com.pk/Methodologies%202024/Broker-Fiduciary-Rating.pdf>

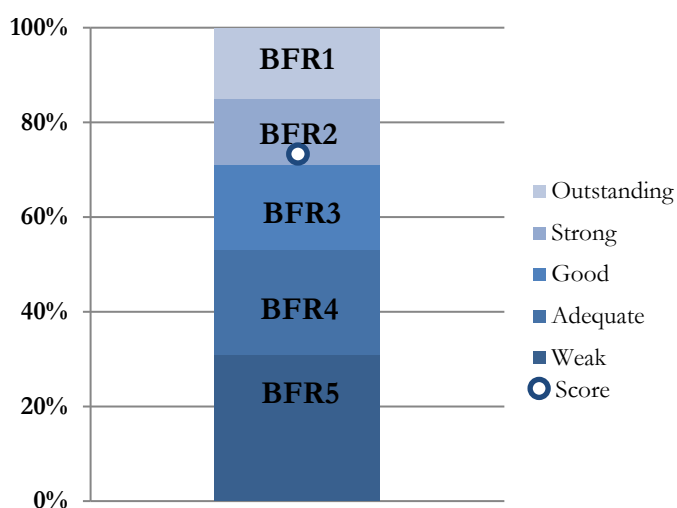
**VIS Issue/Issuer Rating Scale:**

<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**

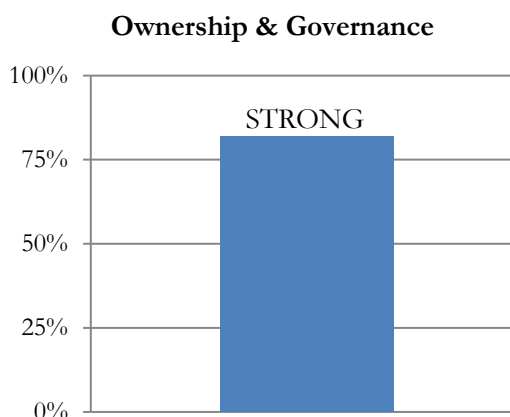
	FY24	FY23	FY22
<b>Size of Net Worth (Rs. In Millions)</b>	406.3	428.0	525.3
<b>Gearing x (Total Borrowing/ Total equity)</b>	0.50x	0.43x	0.34x
<b>Leverage x (Total liabilities/ Total equity)</b>	1.13x	0.91x	1.19x
<b>Liquid Assets/ Total Liabilities (x)</b>	0.90x	0.86x	0.64x
<b>Short term Investments/ Total Equity (%)</b>	24.9%	48.1%	11.5%

**Next Capital Limited**

**Rating Indicators**

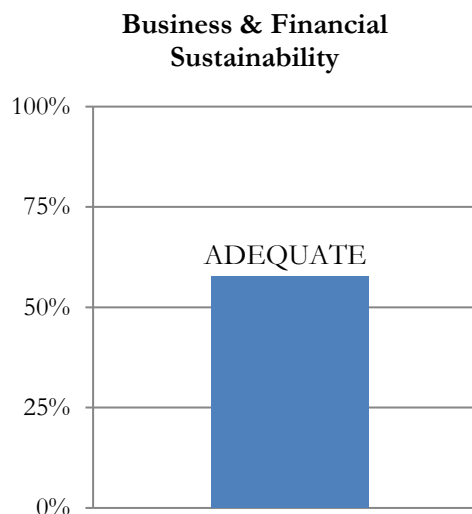
**Ownership & Governance**

- Overall, the ownership and governance framework is considered strong. The board of directors is represented by 7 members, inclusive of 2 independent directors.
- 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.
- Including the CEO’s statement in the Company’s annual financial statements may enhance the disclosure levels of the Company.



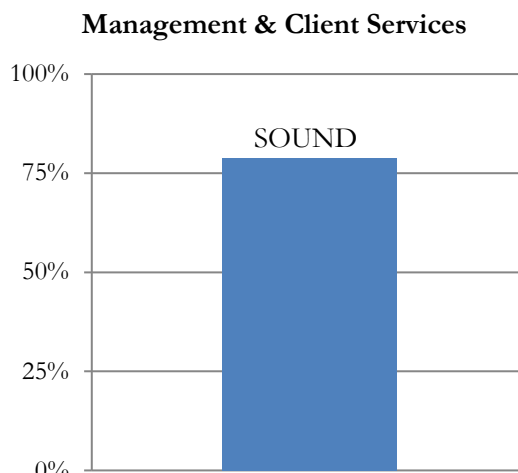
**Business & Financial Sustainability**

- 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, improvement in the financial profile of the Company, marked by enhancement in the revenue base, along with managing operational efficiencies and liquidity profile will remain imperative for the rating.



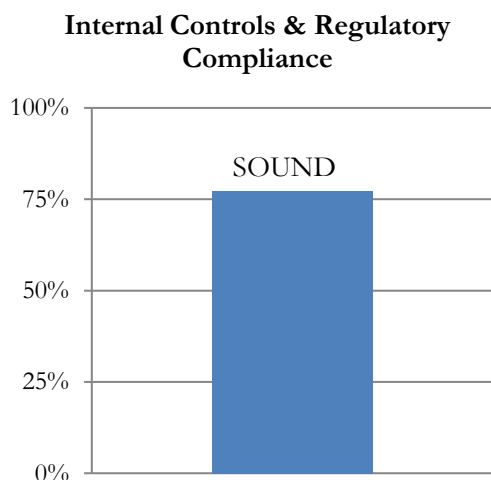
**Management & Client Services**

- 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.
- Disaster recovery mechanisms are in place, with availability of off-site backups at third-party warehouse. However, increasing the frequency of disaster recovery exercises may be considered.



**Internal Controls & Regulatory Compliance**

- Internal control policies are in place. However, enhancing the scope of internal policies, including the conflict of interest policy, may be considered.
- Although the Company has a defined client risk management policy in place, assignment of tighter credit limits to institutional clients and high net worth individuals may improve operational risk management of the Company.
- Additionally, increasing the frequency of trade review procedures along with daily reporting of personal trade details to compliance officer as well as establishing an independent risk department may further improve internal control framework.



**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 I		
<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 Fiduciary Rating (BFR)			
<b>Rating History</b>	<b>Rating Date</b>	<b>Rating</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: BFR</b>			
	10/31/2024	BFR2	Stable	Reaffirmed
	09/14/2023	BFR2	Stable	Reaffirmed
	05/18/2022	BFR2	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>	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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