

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

## RATING REPORT

# Next Capital Limited

### REPORT DATE:

March 19, 2018

### RATING ANALYSTS:

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### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	A-	A-2	A-	A-2
<b>Rating Outlook</b>	Stable		Stable	
<b>Rating Date</b>	March 19, 2018		January 19, 2016	

### COMPANY INFORMATION

<b>Incorporated in 2009</b>	<b>External auditors:</b> KPMG Taseer Hadi & Co. – Chartered Accountants
<b>Public Limited Company</b>	<b>Chairperson of the Board:</b> Lt. Gen. Tariq Waseem Ghazi (Retd.)
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Muhammad Najam Ali
Mr. Muhammad Najam Ali – <b>27.5%</b>	
Mr. Adnan Afridi – <b>10.0%</b>	
MCB Bank Limited (Treasury) – <b>9.7%</b>	
Mr. Sarosh Tahir – <b>7.9%</b>	
Maple Leaf Cement Factory Limited – <b>7.5%</b>	
Mr. Arif Habib – <b>6.4%</b>	

### APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria Methodology – Securities Firms Rating (June 2017)  
<http://www.jcrvis.com.pk/Images/Securities%20methodology%201%20-2015.pdf>

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## Next Capital Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>In 2009, Next Capital Limited (NCL) was incorporated as a public limited company and obtained corporate membership from Karachi Stock Exchange Limited (KSE) in 2010; later it was listed on the KSE in April, 2012. NCL holds a Trading Rights Entitlement (TRE) Certificate from PSX and is a registered entity with the Securities and Exchange Commission of Pakistan (SECP).</p>	<p>Next Capital Limited (NCL) was incorporated in 2009 under the Companies Ordinance 1984 as a public limited company. NCL is principally engaged in provision of equity, fixed income brokerage as well as corporate advisory and underwriting services. Majority shareholding of the company is vested with, Mr. Najam Ali, CEO of NCL who owns 27.5%. Other institutional shareholders comprise Maple Leaf Cement Limited (7.5%) and Muslim Commercial Bank (9.7%) while the general public holds around 25.3% shareholding. NCL operates through its head office together with two branches in Lahore and one branch in Karachi.</p> <p><b>Rating Drivers:</b></p> <p><b>Corporate Governance:</b> Board level governance and compliance to regulatory requirements is considered sound. Board of Directors (BoD) comprises seven members of which 2 members are executive and 5 members are non-executive directors. All members possess considerable experience in the financial services sector. Board Audit Committee (BAC) is chaired by an independent director as per best practices.</p> <p><b>Industry:</b> During FY17 market volumes showcased an increase of around 70% largely driven by reclassification of Pakistan Stock Exchange (PSX) from frontier market to emerging market in the MSCI Index. However, during FY18 members of the brokerage industry have exhibited attrition in revenues due to drying out of market volumes. PSX All Share Index volume has declined in HYFY18 by more than 50% compared to corresponding period of last year. Furthermore, market players who maintain a proprietary book have reported higher losses during the year owing to decline in the value of the market index.</p> <p><b>Underwriting:</b> Four underwriting mandates were undertaken during the year by NCL. The company remained compliant with its overall underwriting limits in relation to equity. However, owing to absence of per party limits, a sizeable unsubscribed portion of the underwriting of the Bank of Punjab (BoP) rights issue was taken up on the company's book. The amount of the take up was Rs. 216m which makes approximately 44% of NCL's equity at end FY17.</p> <p><b>Asset Mix:</b> Total assets of the company have increased year on year to Rs.1,143.9m in FY17 (FY16: Rs.658.6m) with majority of growth manifested in deposits and prepayments on account of higher volumes during FY17. However, due to decline in traded volumes, trade debts and deposits were lower which led to a decrease in total assets in HYFY18 to Rs. 700m. Short term investments have increased to Rs. 120m at end HYFY18 (FY17: Rs.15.4m; FY16: Nil) owing to take up of the aforementioned BoP rights issue which increased market risk on the balance sheet. Long term investments and volatile assets make up 41.7% of total equity at end HYFY18 (FY17: 11.5%; FY16: 24.7%)</p> <p><b>Profitability:</b> During FY17, the company witnessed significant growth of 77.8% from last year in equity brokerage income due to an increase in volume of shares traded and increase in the overall commission per share in FY17. Nevertheless, gain(loss) has been incurred in HYFY18 amounting to Rs. (65.8)m (FY17: Rs.103.0m; FY16: Rs. (16.1m)). This was largely due to realized and unrealized loss of the short term investments which amounted to around Rs. (56.5)m. Efficiency indicators have also comparatively deteriorated to 98% during HYFY18 (FY17: 70.3%; FY16: 103%) owing to lower gross revenues during the period, as mentioned above.</p> <p><b>Liquidity and Capitalization:</b> Although equity position has improved compared to FY16 on the back of right shares issue of Rs. 200m, loss during HYFY18 as well as Rs. 45m dividend issue for FY17 has led to a 25% decline in equity to Rs.374.1m at end HYFY18 (FY17: Rs.490.2m; FY16: Rs. 162.1m). Since last review, there has been a withdrawal of Rs.92.2m director's loan. Furthermore, given that the market value of the company's short term investments (Rs.120m) is at a significant discount to the cost (Rs. 174.0m) and selling the same may result in realizing the loss, NCL may face liquidity pressures going forward. Although gearing was high during most part of FY17, the same declined owing to the rights issue in the latter half of FY17. Gearing has remained within manageable levels thereafter.</p>

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FINANCIAL SUMMARY (amounts in PKR millions)			Appendix I
<b><u>BALANCE SHEET</u></b>	<b><u>31-Dec-17</u></b>	<b><u>30-Jun-17</u></b>	<b><u>30-Jun-16</u></b>
Trade Debts	96.5	428.8	67.8
ST Investments	120.0	15.4	-
LT Investments	35.9	41.2	40.1
Cash and Bank balances	163.4	269.7	339.4
<b>Total Assets</b>	<b>700.0</b>	<b>1,143.9</b>	<b>658.6</b>
Trade and Other Payables	267.1	546.4	368.9
Long Term Loans	-	-	92.2
Short Term Loans - Unsecured	58.7	107.3	35.4
<b>Net Worth</b>	<b>374.1</b>	<b>490.2</b>	<b>162.1</b>
<b><u>INCOME STATEMENT</u></b>	<b><u>31-Dec-17</u></b>	<b><u>30-Jun-17</u></b>	<b><u>30-Jun-16</u></b>
Operating Revenue	132.8	353.7	163.6
Brokerage Income	87.2	249.4	140.3
Advisory Income	45.5	104.3	23.3
Administrative Expenses	48.2	83.4	73
Operating Expenses	82.5	156.1	91.3
Finance Cost	9.3	30.1	26.6
<b>Profit Before Tax</b>	<b>-55.4</b>	<b>140.0</b>	<b>-5.7</b>
<b>Profit After Tax</b>	<b>-65.8</b>	<b>103.0</b>	<b>-16.1</b>
<b><u>RATIO ANALYSIS</u></b>	<b><u>31-Dec-17</u></b>	<b><u>30-Jun-17</u></b>	<b><u>30-Jun-16</u></b>
Commission Income / Turnover (Paisa/Share)	N/A	8.1	7.6
Liquid Assets to Total Liabilities (%)	N/A	80.7%	91.4%
Liquid Assets to Total Assets (%)	N/A	46.1%	68.9%
Debt Leverage (x)	0.87	1.33	3.06
Gearing (x)	0.16	0.22	0.79
Efficiency (%)	98.0%	70.3%	103.0%
ROAA (%)	-7.1%	11.4%	-2.9%
ROAE (%)	-15.2%	31.6%	-9.5%

### Medium to Long-Term

#### AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

#### AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

#### A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

#### BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

#### BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

#### B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

#### CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

#### CC

A high default risk

#### C

A very high default risk

#### D

Defaulted obligations

### Short-Term

#### A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

#### A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

#### A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

#### A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

#### B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

#### C

Capacity for timely payment of obligations is doubtful.

**Rating Watch:** JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.com.pk/images/criteria_watch.pdf)

**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.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

**(blr) Rating:** A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

## JCR-VIS Credit Rating Company Limited

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REGULATORY DISCLOSURES		Appendix III			
<b>Name of Rated Entity</b>	Next Capital Limited				
<b>Sector</b>	Brokerage				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	19-Jan-16	A-	A-2	Stable	Initial
19-Mar-18	A-	A-2	Stable	Reaffirmed	
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	JCR-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.				
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