

BROKER MANAGEMENT RATING REPORT

Next Capital Limited

REPORT DATE:

February 26, 2019

RATING ANALYSTS:

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APPLICABLE

METHODOLOGY:

Broker Management Ratings 2017:

<http://vis.com.pk/docs/BMR2017>

[01.pdf](#)

Rating Category	Latest Rating
Broker Management Rating	BMR2++
Rating Rationale	The rating signifies strong external controls; sound regulatory compliance levels, internal control framework, HR & IT services and risk management along with adequate client relationship and financial management.
Rating Date	26 February 2019

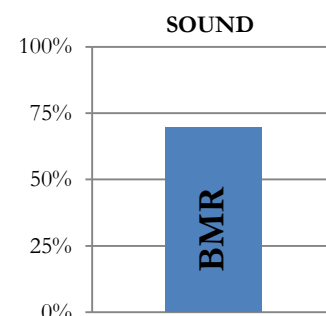
COMPANY INFORMATION

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.)
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Muhammad Najam Ali
Mr. Muhammad Najam Ali – 27.5%;	
Maple Leaf Cement Factory Limited – 7.5%;	
MCB Bank Limited (Treasury) – 9.7%;	
Local Individuals – 48.98%	

Corporate Profile

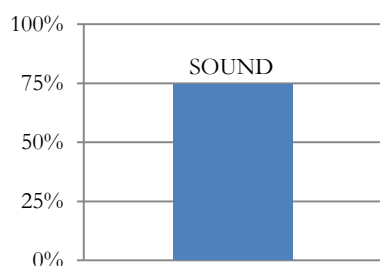
Next Capital Limited (NCL) was incorporated in 2009 under the Companies Ordinance 1984 as a public limited company. NCL is engaged in brokerage of equity, debt securities, commodities, forex and other financial instruments. The company also provides financial advisory services to various institutions. NCL operates through its head office together with two branches in Lahore and one branch in Karachi.

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). 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 MCB Bank Limited - Treasury (9.7%) while the general public holds around 48.98% shareholding. 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).



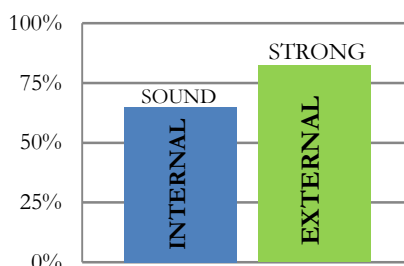
Rating Factors Scores

Regulatory Requirements & Supervision



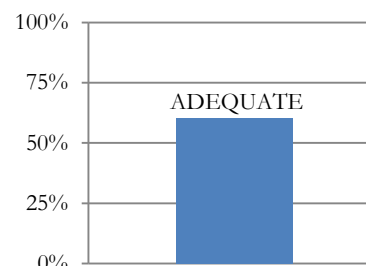
- Sound governance levels with requisite committees.
- 1/3rd board size represented by independent directors and the same chairing Board Audit and HR Committee is consistent with international best practices.
- Inclusion of board members in existing Risk Committee would enhance risk governance framework.

Internal & External Control Framework



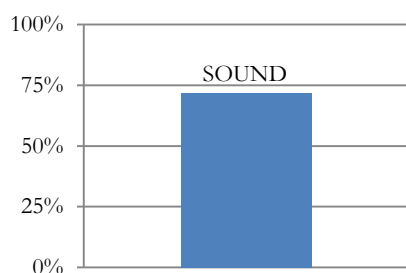
- Internal controls systems are supported by sound policy framework; conflict of interest policy may be shared with customers also.
- Minimum holding period, blackout period and the requisite of prior approval for trading from compliance may be specified in employee trading guidelines.
- External control environment is supported by 'A' category auditors and adequate public disclosures.
- CEO statement in terms of clause 9(A)(III) of CGC for securities broker needs to be added.

Client Relationship & Fairplay



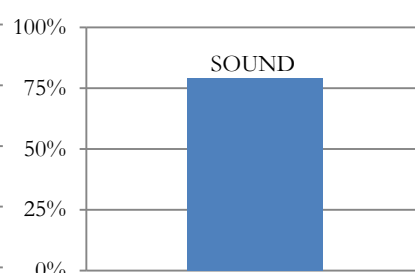
- Execution of trades is considered adequate while reporting of the same is available online to customers.
- Customer grievances process is in place; however, bringing the complaint reporting section on website's homepage and addition of sms text complaint service would add to customer service.

HR & Infrastructure



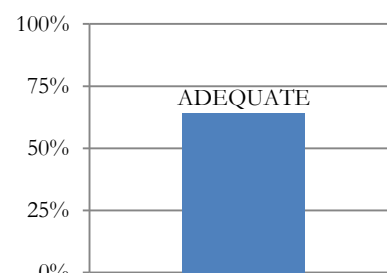
- The organizational structure is well defined with all key positions remaining filled with qualified management.
- Maintenance of third party offsite records and more frequent DR exercises will strengthen DR function.

Compliance & Risk Management



- Compliance levels are considered sound with internal audit and compliance functioning independently.
- Tightening of credit limits to retail clients was observed.
- Compliance framework is supported by absence of proprietary book.

Financial Management



- Given diversified income sources, slowdown in stock market activity resulted in weakening of earning profile.
- Cost-income ratio was also reported higher on account of sizeable decline in brokerage revenue and increased admin expenses.
- Leverage and liquidity indicators have remained manageable.

MANAGEMENT QUALITY SCALE & DEFINITIONS

Appendix I

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: BROKER MANAGEMENT RATING

BMR1A

Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.

BMR1++, BMR1+, BMR1

Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.

BMR2++, BMR2+, BMR2

Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.

BMR3++, BMR3+, BMR3

Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.

BMR4++, BMR4+, BMR4

Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.

BMR5

Weak regulatory compliance and business practices

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

REGULATORY DISCLOSURES		Appendix II		
Name of Rated Entity	Next Capital Limited			
Sector	Brokerage			
Type of Relationship	Solicited			
Purpose of Rating	Broker Management Rating (BMR)			
Rating History	Rating Date	Rating	Rating Outlook	Rating Action
	RATING TYPE: BMR			
	02/26/2019	BMR2++	Stable	Reaffirmed
	02/23/2018	BMR2++	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.			
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