

## RATING REPORT

### Cyan Limited

**REPORT DATE:**

October 6, 2015

**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-1	A+	A-1
<b>Rating Outlook</b>	Stable		Stable	
<b>Rating Date</b>	Oct 6, '15		May 16, '14	

#### COMPANY INFORMATION

<b>Incorporated in 1960</b>	External auditors: <b>M/s A.F. Ferguson &amp; Co., Chartered Accountants</b>
<b>Public Listed Company</b>	Chairperson of the Board: <b>Mrs. Kulsum Dawood</b>
<b>Key Shareholders (with stake 5% or more):</b>	Chief Executive Officer: <b>Mr. Sulaiman S. Mehdi</b>
Dawood Corporation (Pvt.) Limited – 62.0%	
General Public – 31.6%	

#### APPLICABLE METHODOLOGY(IES)

 Non-Bank Financial Companies (March 2005): <http://www.jcrvis.com.pk/Images/NBFC.pdf>

## Cyan Limited

### OVERVIEW OF THE INSTITUTION

CL is public listed company incorporated under the Companies Act, 1913 (now Companies Ordinance, 1984) in 1960. Prior to being restructured as an investment company in 2011, CL operated as an insurance company by the name of Central Insurance Company Limited (CICL). Dawood Corporation (Pvt.) Limited is the majority shareholder with a stake of 62%.

### RATING RATIONALE

With a dividend payout of Rs. 3.9b for FY14, significantly higher than the profit of Rs. 898.8m for the year, the equity base of Cyan Limited (CL) has reduced to Rs. 2.1b by end-1QFY15 (FY14: Rs. 4.6b, FY13: Rs. 5.3b). Earnings level is also expected to decline, going forward, on account of a reduced resource base, even if the stock market remains buoyant and the company is able to maintain its performance track record.

CL features strong ownership profile, with shareholding vested with Dawood Hercules Group, a prominent industrial conglomerate having presence across diversified sectors. On a standalone basis, ratings draw comfort from sound liquidity profile of the institution. Given higher focus on capital market operations, with the maximum limit for equities revised upwards to 100%, ability to assume market risk has increased over time.

In addition to managing an investment portfolio of marketable securities, the company's business plan also envisages investments in private equity deals. Investment horizon for these long-term private equity deals will vary between 3 to 5 years from now onwards. The company also envisages participation in book building/IPO of companies.

For investment purposes, a structured investment process exist with stocks selected on the basis of input from research department except those acquired for short term trading. To strengthen the research function, Mr. Shahab Farooq was inducted as Head of Research. Mr. Shahab carries extensive experience of the capital markets and has worked at prominent investment houses of the country. The company may also consider developing an independent risk management function to strengthen the control infrastructure.

Investment portfolio mix has featured variation over time, with significant exposure in equities at end FY14, a sizeable portion of which was off-loaded during 1QFY15 as a result of final dividend payout for FY14. The equities portfolio carried at end 1QFY15 primarily comprises related party holdings and features significant concentration with as much as 41% deployed in single scrip. Since re-structuring, the company has generated healthy return on its investments.

With the completion of term of the existing Board, a new Board was elected during FY14. Moreover, there was a change at the helm of the institution. Mr. Sulaiman S. Mehdi was appointed as the Chief Executive Officer of CL; prior to this, Mr. Mehdi was serving as Chief Operating Officer (COO) at the company. He possesses more than 15 years of experience at various financial institutions. The company benefits from the presence of seasoned professionals on its Board carrying diversified business acumen. Moreover, senior management comprises resources with extensive capital market experience.

An integrated ERP system is implemented at CL to support the investment process with a well defined disaster recovery and business continuity plan. CL has outsourced its Internal Audit (IA) function to M/s Anjum Asim Shahid Rahman, Chartered Accountants.

## Cyan Limited

## Appendix I

<b>FINANCIAL SUMMARY</b>			
	<i>(amounts in PKR millions)</i>		
	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>	<b>DEC 31, 2012</b>
<b>BALANCE SHEET</b>			
Cash and Bank Balances	21.8	17.8	13.5
Total Investments	4,780.4	5,383.3	4,533.9
Total Assets	4,886.5	5,507.5	4,638.8
Tier-1 Equity	4,251.1	5,113.1	4,407.2
Net Worth	4,590.5	5,311.3	4,463.8
<b>INCOME STATEMENT</b>			
Revenue from Operations	1,227.5	1,457.1	1,735.6
Operating Expenses	200.2	244.1	231.5
Profit Before Tax	1,027.3	1,213.0	1,504.1
Profit After Tax	898.8	1,176.0	1,428.2
<b>RATIO ANALYSIS</b>			
Average Return on Equity Portfolio (%)	30.1	46.2	53.9
Dividend Yield (%)	5.4	6.4	9.9
Capital Gains Yield (%)	24.7	39.8	44.0
Return on Mutual Funds Portfolio (%)	8.2	8.7	11.7
Efficiency (%)	22.9	35.2	14.9
ROAA (%)	17.3	23.2	36.4
ROAE (%)	18.2	24.1	37.5
Liquid Assets to Total Liabilities (%)	11.9	22.6	22.2

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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.

**'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.

REGULATORY DISCLOSURES		Appendix III			
<b>Name of Rated Entity</b>	Cyan Limited				
<b>Sector</b>	Non-Bank Financial Companies				
<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>				
	10/6/2015	A	Stable	A-1	Downgrade
	5/16/2014	A+	Stable	A-1	Initial
<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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