

# RATING REPORT

## Cyan Limited

### REPORT DATE:

November 11, 2021

### RATING ANALYSTS:

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### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-1	A	A-1
Rating Outlook	Stable		Negative	
Rating Date	November 11, 2021		January 01, 2021	
Rating Action	Maintained		Maintained	

### COMPANY INFORMATION

Incorporated in 1960	External auditors: M/s A.F. Ferguson & Co., Chartered Accountants
Public Listed Company	Chairman of the Board: Mr. Hasan Reza-ur Rahim
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Sulaiman S. Mehdi
<i>Dawood Corporation (Pvt.) Limited – 64.7%</i>	
<i>General Public – 23.4%</i>	
<i>Mr. Hussain Dawood – 8%</i>	

### APPLICABLE METHODOLOGY(IES)

Non-Bank Financial Companies (March 2020): <https://docs.vis.com.pk/docs/NBFCs202003.pdf>

**Cyan Limited**

**OVERVIEW  
OF THE  
INSTITUTION**

*CL is public listed company incorporated under the Companies Act, 1913 (now Companies Act 2017) 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). The company is listed on the Pakistan Stock Exchange.*

**Profile of Chairman:**

*Mr. Rahim possesses over 30 years of domestic and international experience in the Banking and Financial Services industry. He also served as the Executive Director, in-charge of the Chairman’s Office of the Dawood Hercules Group, one of the largest entrepreneurial groups in Pakistan. He currently serves on the Boards of Dawood Hercules Corporation Limited (flagship investment holding company) and Dawood Lawrencepur Limited (renewable energy investment holding company).*

**Profile of CEO:**

*Mr. Sulaiman S. Mehdi is the Chief Executive of Cyan Limited (Cyan). He holds more than one-and-a-half-decade experience of working with leading Financial Services Groups at the senior positions in the areas of investments, operations, marketing, legal and corporate affairs. He has*

**RATING RATIONALE**

Cyan Limited (CL) is an investment management company with 3 principal lines of business; 1) Investment in public equities, 2) Equity investment in private companies and 3) Strategic advisory services.

**Key Rating Drivers:**

**Ratings continues to draw support from sponsor**

- Cyan Limited (CL) is a part of Dawood Hercules Group (DHG), one of the biggest conglomerate in the country having presence in multiple sectors including fertilizer, PVC, food, power generation, coal mining, LNG storage and private investments.
- In 2020, the Group reported an annual turnover of Rs. 249b.

**Investment in equity market remains the mainstay of operations; rating incorporates exposure to market risk**

- The company’s asset based grew by 19% in 2020 and 18% in H1’2021. Growth was mainly driven by strong profitability. Investments continue to comprise major portion of the asset base, standing at 96% as at Jun’21 (Dec’20: 98%, Dec’19: 94%).
- Investment portfolio composition depicts a higher tilt toward listed equities, as illustrated in the table below.

**Table 1: Investment Portfolio**

(Rs. Mn)	Dec’19	%	Dec’20	%	Jun’21	%
PIB’s	42	1.8%	44	1.5%	45	1.3%
Term Deposits	11	0.4%	11	0.4%	11	0.3%
Mutual Fund	2	0.1%	2	0.1%	2	0.1%
Quoted shares – related parties	758	32.0%	793	26.9%	573	16.8%
Listed shares	1,555	65.7%	2,097	71.2%	2,773	81.5%
<b>Total Investments</b>	<b>2,368</b>	<b>100%</b>	<b>2,946</b>	<b>100%</b>	<b>3,403</b>	<b>100%</b>

- Scrip-wise analysis of the portfolio is indicative of scrip concentrations with investment in TRG and UNITY comprising 29% and 23% of the listed equity portfolio respectively, as of Jun’21.
- Subsequent to the pandemic-induced slowdown in Q2’2020, local economy witnessed a rebound as reflected by the trend in LSM Index. Accordingly, CL’s investment strategy seems to be more aligned to target growth sectors, wherein we have noted a shift towards technology and Vanaspati & allied industries.

*been the youngest Chairman of the Pakistan Stock Exchange (PSX). He is also chairman of Unity Foods Limited and Pebbles Limited (the real estate arm of Dawood Hercules Group and is spearheading all real estate initiatives of the Group.*

### Profitability metrics were swayed upward as investment yield exceeded benchmark index returns; lack of revenue stream diversification remains a rating constraint

- The company's return on the equity portfolio outperformed the benchmark returns of PSX-100 index during CY20 and 1H'2021. Inclusive of dividend yield, CL's return on portfolio came at 40.21% and 44.76% in 2020 and 1H'2021 respectively vis-à-vis benchmark return of 7.41% and 8.23%.

**Table 2: P&L (Extract)**

(Rs. Mn)	2019	2020	1H2020	1H2021
Return on Investments	99.8	57.2	19.9	48.8
Gain on sale of Investments	137.6	454.5	(170.4)	386.5
Other Income	15.7	14.2	7.0	7.0
Unrealised gain/(loss)	(2.3)	230.3	(288.6)	613.1
Operating Expenses Inc. finance cost	156.0	286.7	77.6	89.4
<b>Profit before tax</b>	<b>94.8</b>	<b>469.5</b>	<b>(509.7)</b>	<b>966.0</b>
<b>Profit after tax</b>	<b>97.9</b>	<b>357.3</b>	<b>(443.7)</b>	<b>836.6</b>

- The rating continues to be constrained by lack of diversification in revenue streams. Apart from advisory income from a related part of Rs. 12m p.a. the company's revenue streams are almost entirely composed of portfolio returns.
- Given the improvement in profitability, RoAA & RoAE for the period depicted notable improvement, and these are on the higher side.

**Table 3: RoAA & RoAE**

(Rs. Mn)	2019	2020	1H2021
<b>RoAA</b>	4.1%	12.9%	25.6%
<b>RoAE</b>	6.9%	22.0%	40.2%

- Cognizant of the significant exposure to market risk and lack of diversification in revenue stream, the management plans to diversify its topline by providing advisory services to SME's to get listed on newly launched GEM board of PSX. The revenue from these operations is expected to start from latter half of 2021.
- Efficiency of the company has improved to 55% in CY20 while displaying further improvement in 1H'2021 standing at 21%, driven by significant increase in topline. The efficiency is considered comfortable low for the period.

### Strong financial profile with robust liquidity and sound capitalization structure

- Equity base of the company grew by notable 56% since Dec'18 on the back of consistent increase in net income of the company since 2019 till date.
- The company has increased its dividend per share to Rs. 5/share in CY20 and Rs. 6/share in 1HCY21. Payout ratio is calculated at 86% in CY20 and 44% in 1H'2021. (2019: 60%).
- Gearing and leverage indicators stayed intact and reported at 0.15x and 0.28x as at Jun'21 (Dec'20: 0.13x & 0.31x, Dec'19: 0.14x & 0.27x).

- Liquidity profile of the company remains strong, given that investment in listed equities is the mainstay of operations. Liquid assets to total liabilities stands at 4.99x as at Jun'21 (Dec'20: 5.27x, Dec'19: 5.74x).

Table 3: Balance Sheet (Extract)

(Rs. Mn)	CY19	CY20	1H2021
PPE	39.2	28.1	23.2
Investments	2,367.5	2,946.3	3,403.3
Cash	1.9	7.8	0.7
<b>Total Assets</b>	<b>2,521.7</b>	<b>3,004.4</b>	<b>3,541.9</b>
<b>Equity</b>	<b>2,116.3</b>	<b>24,52.4</b>	<b>2,868.2</b>
Short term borrowings	195.4	225.9	365.2
<b>Total Liabilities</b>	<b>405.4</b>	<b>552.0</b>	<b>673.7</b>
<i>Gearing (x)</i>	<i>0.14</i>	<i>0.13</i>	<i>0.15</i>
<i>Leverage (x)</i>	<i>0.27</i>	<i>0.31</i>	<i>0.28</i>

**Cyan Limited**
**Appendix I**

<b>FINANCIAL SUMMARY</b>		<b>(Amounts in PKR millions)</b>			
<b><u>BALANCE SHEET</u></b>		<b>31-Dec-18</b>	<b>31-Dec-19</b>	<b>31-Dec-20</b>	<b>30-Jun-21</b>
Cash and Bank Balances		10	2	8	1
Total Investments <i>(including short-term and long-term)</i>		2,109	2,368	2,946	3,403
Total Assets		2,264	2,522	3,004	3,542
Lease Liabilities		-	17	9	5
Short-Term Borrowings		218	195	226	365
Total Liabilities		430	405	552	674
Paid-up Capital		586	586	616	616
Equity <i>(excluding remeasurement &amp; surplus)</i>		1,379	1,477	1,776	2,386
<b><u>INCOME STATEMENT</u></b>		<b>31-Dec-18</b>	<b>31-Dec-19</b>	<b>31-Dec-20</b>	<b>30-Jun-20</b>
Revenue from Operations		326	237	512	(151)
Operating Expenses (Inc. Finance cost)		129	156	287	78
Profit/(Loss) Before Tax		(211)	95	470	(510)
Profit/(Loss) After Tax		(218)	98	357	(444)
<b><u>RATIO ANALYSIS</u></b>		<b>31-Dec-18</b>	<b>31-Dec-19</b>	<b>31-Dec-20</b>	<b>30-Jun-21</b>
Efficiency (%)		38.0%	61.9%	54.6%	20.5%
Gearing		0.16	0.14	0.13	0.15
Leverage		0.31	0.27	0.31	0.28
Current Ratio		5.23	6.20	5.67	6.02
ROAA (%)		-9.1%	4.1%	12.9%	25.6%
ROAE (%)		-14.0%	6.9%	22.0%	40.2%
Liquid Assets to Total Liabilities (x)		492.7%	574.1%	527.2%	498.6%

## ISSUE/ISSUER RATING SCALE &amp; DEFINITIONS

## Appendix II

## VIS Credit Rating Company Limited

### RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

#### 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:** 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.vis.com.pk/images/criteria\\_watch.pdf](http://www.vis.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.vis.com.pk/images/criteria\\_outlook.pdf](http://www.vis.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.vis.com.pk/images/policy\\_ratings.pdf](http://www.vis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when 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>	Inv. Banks / Inv. Cos. / Securities Cos.				
<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>				
	11/11/2021	A	A-1	Stable	Maintained
	1/1/2021	A	A-1	Negative	Maintained
	12/31/2019	A	A-1	Stable	Reaffirmed
	1/2/2019	A	A-1	Stable	Reaffirmed
	12/27/2017	A	A-1	Stable	Reaffirmed
	12/13/2016	A	A-1	Stable	Reaffirmed
	10/6/2015	A	A-1	Stable	Downgrade
	5/16/2014	A+	A-1	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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<b>Due Diligence Meeting Conducted</b>	<b>Name</b>	<b>Designation</b>		<b>Date</b>	
	Mr. Faisal Nadeem	CFO		October 06, 2021	