

# RATING REPORT

## Cyan Limited

**REPORT DATE:**

November 14, 2022

**RATING ANALYSTS:**

Asfia Aziz

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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	Negative		Stable	
Rating Date	November 14, 2022		November 11, 2021	
Rating Action	Maintained		Maintained	

### COMPANY INFORMATION

<b>Incorporated in 1960</b>	<b>External auditors:</b> M/s A.F. Ferguson & Co., Chartered Accountants
<b>Public Listed Company</b>	<b>Chairman of the Board:</b> Mr. Abdul Samad Dawood
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Mohammad Shamoan Chaudry
<i>Dawood Corporation (Pvt.) Limited – 64.7%</i>	
<i>General Public – 23.7%</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 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. Abdul Samad Dawood has had a history of involvement in the company, both as a Board member and in an executive capacity when he served as the Chief Executive Officer of Cyan from 2010-2014. Mr. Dawood is also the Vice Chair of the Board of Dawood Hercules Corporation which is the largest shareholder of Engro Corporation. Mr. Dawood's experience of management and governance spans 20 years, with a special interest in mergers and acquisitions.*

**Profile of CEO:**

*Mr. Mohammad Shamoon Chaudry is the Director and Chief Executive Officer of Cyan limited since March 15, 2022. He currently serves on the Boards of Dawood Hercules Corporation Limited, Dawood Lawrencepur Limited, Empiric AI (Private) Limited, Inbox Business Technologies*

## 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.

During the outgoing year, a key change took place encompassing consolidation of resources of Cyan Limited and Dawood Hercules Corporation Limited as operational nature of both these companies was primarily the same- to manage investment portfolio for the group. Although these two companies will continue to remain separate legal entities, overall investment portfolio will be managed holistically at the Group level. Hence, reduced operational risk is expected to improve overall efficiency of the company.

**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 2021, the group reported a consolidated turnover of Rs. 312b (2020: Rs. 249b) and net profit of Rs. 50.7b (2020: Rs. 42.3b).

**High concentration at sector and scrip levels has kept the mark risk emanating from the investment portfolio on the higher side. However, ratings factor in projected change in investment strategy where a major portion of equity portfolio will encompass dividend yielding, value scrips while the proportion of trading stocks will decline.**

- The company's asset has reduced by 9% in 2021 and 28% in HY2022 as a deliberate strategy of the company to deleverage the balance sheet amidst uncertain equity market sentiments.
- Investments continue to comprise a major chunk of the asset base at 96% and 98% at end-2021 and June'22 (2020: 98%, 2019: 94%) respectively.
- Although reducing in quantum, investment portfolio composition depicts a higher tilt toward listed equities, as illustrated in the table below.

(Private) Limited, and Pebbles (Private) Limited.

Mr. Chaudry holds more than 27 years of progressive and diverse experience in the financial sector, including financial control and governance. Mr. Chaudry started his career in investment banking within Corporate Finance and Advisory in Pakistan. He then moved to New York selling listed equities to funds investing in emerging markets. Subsequently, shifting to development finance, helping Small and Medium Enterprises (SMEs). He has also worked in the GCC region for twelve years with primary expertise in Islamic investments, asset management, and financial control.

**Table 1: Investment Portfolio**

(Rs. Mn)	Dec'20	%	Dec'21	%	Jun'22	%
PIB's	44	1.5%	46	1.8%	47	2.6%
Term Deposits	11	0.4%	11	0.4%	3	0.2%
Mutual Fund	2	0.1%	2	0.1%	2	0.1%
Quoted shares – related parties	793	26.9%	589	22.4%	527	28.7%
Listed shares	2,097	71.2%	1,984	75.4%	1,257	68.4%
<b>Total Investments</b>	<b>2,946</b>	<b>100.0%</b>	<b>2,632</b>	<b>100.0%</b>	<b>1,837</b>	<b>100.0%</b>

- Scrip-wise analysis of the portfolio is indicative of scrip concentrations with investment in UBL, UNITY and HBL comprising 27%, 20% and 10% of the listed equity portfolio (including strategic related party exposure) respectively, as of Jun'22.
- Sector wise concentration was skewed towards commercial banks and Food & Personal care products at 48% and 20% of the total listed portfolio exposure at end-June'22.
- With overall slowdown in the domestic and international economy due to inflationary pressures, equity index KSE-100 has witnessed a declining trend. In line with the same, CL's investment strategy going forward is aligned towards value scrips that offer high dividend yield (targeted to comprise 60-70% of the portfolio). The remaining portfolio is projected to remain concentrated in trading scrips yielding capital gains. Key sectors targeted as a part of the investment strategy for the next year include Commercial Banks, Technology, Power, Cement, Foods and Heavy goods industries.

**Profitability metrics declined due to unrealized losses on investment portfolio amidst plunging KSE-100 index; lack of revenue stream diversification remains a rating constraint. Going forward, in view of current macroeconomic environment, VIS expects quantum of dividend income to remain subdued.**

- The company's return on the equity portfolio outperformed the benchmark returns of PSX-100 index during 2021, however underperformed in HY2022 due to high concentration in scrips whose values reduced. Inclusive of dividend yield, CL's return on portfolio was recorded at 17.7% and -27.2% in 2021 and HY2022 respectively vis-à-vis benchmark returns of 1.92% and -6.85%.

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

(Rs. Mn)	2019	2020	2021	HY2022
Return on Investments	99.8	57.2	94.2	77.8
Gain on sale of Investments	137.6	454.5	566.2	-15.7
Other Income	15.7	14.2	15.0	-0.1
Unrealized gain/(loss)	-2.3	230.3	-240.2	-324.3
Operating Expenses Inc. finance cost	156	286.7	218.4	73.7
<b>Profit before tax</b>	<b>94.8</b>	<b>469.5</b>	<b>216.8</b>	<b>-336.0</b>
<b>Profit after tax</b>	<b>97.9</b>	<b>357.3</b>	<b>203.4</b>	<b>-301.4</b>

- The rating continues to be constrained by lack of diversification in revenue streams. Apart from advisory income from a related party of Rs. 13m in 2021, the company's revenue streams are almost entirely composed of portfolio returns. Although dividend income on the portfolio witnessed an upward trend, capital losses due to plunging KSE-100 index reduced profitability levels. In lieu of the same, the company reported net loss amounting Rs. 301m in HY2022. Rebound in equity market, sustainability in quantum of dividend income and diversification in investment portfolio are considered key factors to improve profitability profile, going forward.
- With deterioration in profitability, RoAA & RoAE have reduced since 2021.

Table 3: RoAA &amp; RoAE

(Rs. Mn)	2020	2021	1H2022
RoAA	12.90%	7.09%	-25.67%
RoAE	22.00%	12.88%	-54.34%

- Incorporating unrealized losses on investment portfolio, efficiency of the company weakened in HY2022 to 119% after improving over the past two years (2021: 32.4%, 2020: 55%). With deleveraging plans on board, efficiency ratios are expected to improved with reduced burden of financial costs.

#### With elevated market risk, risk of equity erosion is heightened.

- Equity base of the company declined in 2021 and HY2022 due to dividends paid and losses reported, respectively. The same without revaluation surplus/(deficit) was recorded at Rs.835m (2021: Rs. 1.4b, 2020: Rs. 1.8b) at end-June'22.
- The company has increased its dividend per share to Rs. 10/share in CY21 (CY20: Rs. 5/share). Payout ratio is calculated at a sizeable 303% in CY21. No dividends were declared in HY2022 due to negative bottom-line.
- With lower equity base and elevated debt levels to pay dividends and manage business operations, gearing and leverage indicators increased to 0.73x and 0.83x, respectively at end-Dec'21 and end-June'22, respectively. Going forward, management plans to deleverage the balance sheet and at end-Sep'22, quantum of short-term borrowings reported on books amounted Rs. 300m. Reducing debt levels to zero at the end of the ongoing year is a key rating driver.
- 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 2.59x at end June'22 (Dec'21: 3.05x, Dec'20: 5.27x).

Table 3: Balance Sheet (Extract)

(Rs. Mn)	CY19	CY20	CY21	1H2022
Investments	2,367.5	2,946.3	2,632.3	1,836.6
Cash	1.9	7.8	0.2	0.1
Total Assets	2,521.7	3,004.4	2,730.3	1,965.1
Equity (excluding revaluation surplus)	1,477.2	1,775.8	1,383.0	835.4
Short term borrowings	195.4	225.9	671.4	610.1
Total Liabilities	405.4	552.0	847.1	691.3
Gearing (x)	0.14	0.13	0.49	0.73
Leverage (x)	0.27	0.31	0.61	0.83

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

<b>FINANCIAL SUMMARY</b>		<b>(Amounts in PKR millions)</b>				
<b>BALANCE SHEET</b>		<b>1HY2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Cash and Bank Balances		0.1	0.2	7.8	1.9	9.6
Total Investments <i>(including short-term and long-term)</i>		1,836.6	2,632.3	2,946.3	2,367.5	2,108.9
Total Assets		1,965.1	2,730.3	3,004.4	2,521.7	2,264.1
Lease Liabilities		-	31.2	9.1	17.2	-
Short-Term Borrowings		610.1	671.4	225.9	195.4	218.1
Total Liabilities		691.3	847.1	552.0	405.4	430.0
Paid-up Capital		615.6	615.6	615.6	586.3	586.3
Equity <i>(excluding re-measurement &amp; surplus)</i>		835.4	1,383.0	1,775.8	1,477.2	1,379.2
<b>INCOME STATEMENT</b>		<b>1HY2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Revenue from Operations		62	660	512	237	326
Operating Expenses (Inc. Finance cost)		74	218	287	156	129
Profit Before Tax		(336)	217	470	95	(211)
Profit After Tax		(301)	203	357	98	(218)
<b>RATIO ANALYSIS</b>		<b>1HY2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Efficiency (%)		118.6%	32.4%	54.6%	61.9%	38.0%
Gearing		0.73	0.49	0.13	0.13	0.16
Leverage		0.83	0.61	0.31	0.27	0.31
Current Ratio		2.66	3.24	5.67	6.20	5.23
ROAA (%)*		-25.7%	7.1%	12.9%	4.1%	-9.1%
ROAE (%)*		-54.3%	12.9%	22.0%	6.9%	-14.0%
Liquid Assets to Total Liabilities (x)		258.8%	305.3%	527.2%	574.1%	492.7%
<b>*Annualized</b>						

## ISSUE/ISSUER RATING SCALE & DEFINITIONS II

## Appendix

### 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>				
	11/14/2022	A	A-1	Negative	Maintained
	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. Shamoan Chaudry	CEO		October 11, 2022	
	Mr. Anas Karimi	CFO		October 11, 2022	