

# RATING REPORT

## Cyan Limited

### REPORT DATE:

January 24, 2024

### 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	January 24, 2024		November 14, 2022	
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. Abdul Samad Dawood
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Mohammad Shamoony Chaudry
<i>Dawood Corporation (Pvt.) Limited – 64.7%</i>	
<i>General Public – 29.3%</i>	

### APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Non-Bank Financial Companies  
<https://docs.vis.com.pk/docs/NBFCs202003.pdf>

VIS Rating Scale: <https://docs.vis.com.pk/docs/VISRatingScales.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, Inbox Business Technologies (Private) Limited, and Pebbles (Private) Limited.

RATING RATIONALE

Cyan Limited (‘CYAN’ or the ‘Company’), a Public Listed Company, is a part of Dawood Group (DG), the Company is a subsidiary of Dawood Corporation (Private) Limited. CYAN is an investment management company with 2 principal lines of business: 1) Investment in public equities and 2) Strategic advisory services.

During the review period, the organization underwent significant leadership changes. The Board elected Mr. Abdul Samad Dawood as Chairman, taking over from Mr. Hasan Reza Ur Rahim. Additionally, Mr. Mohammad Shamoon Chaudry stepped into the role of Chief Executive Officer, following Mr. Sulaiman S. Mehdi’s tenure. Mr. Muhammad Anas Karimi was appointed as Chief Financial Officer, succeeding Mr. Faisal Nadeem. Moreover, the position of Company Secretary was assumed by Mr. Imran Chagani after resignation by Mr. Asim H. Akhund.

Key Rating Drivers:

Ratings continues to draw support from sponsors:

The assigned ratings take into account the association of the Company with DG. DG is 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 2022, the group reported a consolidated total asset of Rs. 765.5b (2021: Rs. 662.7b), with a turnover of Rs. 356.6b (2021: Rs. 311.8b) and net profit of Rs. 42.9b (2021: Rs. 50.7b).

The market risk stemming from the investment portfolio has remained on the higher side due to elevated concentration at both sector and scrip levels.

Table 1: Investment Portfolio

(Rs. Mn)	Dec'21	%	Dec'22	%	Sept'23	%
PIB's	46	1.8%	49	3.2%	43	2.7%
Term Deposits	11	0.4%	3	0.2%	3	0.2%
Mutual Fund	2	0.1%	2	0.2%	271	17.2%
Quoted shares – related parties	589	22.4%	623	42.4%	741	47.1%
Listed shares	1,984	75.4%	793	54.0%	516	32.8%
<b>Total Investments</b>	<b>2,632</b>	<b>100.0%</b>	<b>1,470</b>	<b>100.0%</b>	<b>1,574</b>	<b>100.0%</b>
<b>Total Asset</b>	<b>2,730</b>		<b>1,575</b>		<b>1,605</b>	

During 2022, the Company focused on three mandates to reinforce itself for the longer term. Firstly, it underwent a cost rationalization exercise during which they sold off substantial property and equipment and streamlined its operations by consolidating with Dawood Hercules Corporation Limited. Secondly, the Company significantly deleveraged its balance sheet, reducing overall risk against potential impacts of interest rate increases. Thirdly, it refined its investment focus on high dividend yielding stocks, which helped in lowering the overall risk of the investment portfolio. Additionally, a portion of the trading portfolio was retained to capitalize on potential gains in volatile markets.

*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.*

The Company's investment portfolio continue to comprise a major chunk of the asset base at 93.3% and 98.2% at the end-Dec'22 and Sept'23, respectively. The investment portfolio has contracted as a result of liquidation of short-term investments, with total investments decreasing from Rs. 2.6b as of Dec'21 to Rs. 1.5b as of Dec'22. On the other hand, long-term investment increased to Rs. 622.7m (FY21: Rs. 46.2m) by end-Dec'22, primarily attributed to the reallocation of Dawood Lawrencepur Limited from short-term to long-term investments. As of Sept'23, investment portfolio stood higher at Rs. 1.6b in line with fair value gain on long-term portfolio. The Company offloaded short-term investments worth Rs. 231m in 9M'CY23 to realize capital gain.

Scrip-wise analysis of the short term portfolio is indicative of concentration in specific stocks. United Bank Limited (UBL), and System Limited (SYS) comprised 69.6% and 19.0% of the listed equity portfolio respectively, as of Sept'23. Resultantly, sector-wise exposure shows a significant tilt towards commercial banks and technology & communication sectors. In addition to equity holdings, the Company has diversified its holdings by taking an exposure in money market mutual funds. Specifically, as of Sept'23, the Company holds units in NBP Government Securities Liquid Fund and MCB Cash Management Optimizer with market value of Rs.2.3m and Rs. 267.7m respectively.

The finalization of the IMF deal, fiscal discipline, and the clampdown on smuggling as well as control over speculation in the forex market led to a stable exchange rates and improved investor sentiments. Resultantly, a bullish trend was observed on the Pakistan Stock Exchange (PSX) during the second half of CY23. Going forward, due to political and economic uncertainties, the management expects no changes in its current investment strategy and portfolio allocations.

**Enhanced profitability metrics were driven by gains on the investment portfolio, buoyed by the upward trajectory of the KSE-100 index. However, the absence of diversification in revenue streams continues to pose a limitation on the overall rating.**

In FY22, the Company suffered substantial losses on its investment portfolio due to various macroeconomic issues and political instability. In FY22, Pakistan's current account deficit worsened significantly, increasing to USD 17.4b from USD 2.8b in the previous year. The suspension of the IMF program in February 2022 further exacerbated the situation, leading to a decline in foreign exchange reserves. The Pakistan Stock Exchange (PSX) also saw a notable decline, with the KSE-100 index dropping 12.3% to close at 41,541 by the end of Jun'22. Investor confidence was further shaken when the PSX was downgraded from the MSCI emerging market index to a frontier market. Foreign investors offloaded USD 297m in stocks during FY22. Local investors, including individuals, companies, banks, and other organizations, invested USD 157m, USD 111m, USD 115m, and USD 60m in shares, respectively. Conversely, mutual funds and brokers were net sellers, offloading USD 128m and USD 20m worth of shares, respectively.

The Pakistan Stock Exchange (PSX) faced a challenging start in FY23, with expectations of initial selling pressure. However, prospects of a rebound were anticipated later in the year, potentially targeting a 20% growth in the KSE-100 index. This optimism is based on the easing of inflation and the anticipated support from sectors such as oil and gas exploration, banks, and fertilizers, with the cement sector also expected to rally once inflation decreases and construction activity picks up. In 9M'CY23, CYAN's profitability metrics showed some recovery with return on portfolio outperformed the average return on KSE-100 index.

The Company's return on the equity portfolio underperformed the benchmark returns (KSE-100 index) during 2022. However In 9M'CY23, inclusive of dividend yield, CYAN's average return on portfolio was recorded at 45.55% (FY22: -48.98%; FY21: 17.68%) outperforming vis-à-vis benchmark return of 14.38% (FY22: -9.36%; FY21: 1.92%).

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

(Rs. Mn)	2021	2022	9M'2023
<b>Dividend Income</b>	88.1	147.0	97.2
<b>Amortisation on government securities</b>	2.1	2.4	2.3
<b>Interest income on government securities</b>	4.0	4.0	3.6
<b>Profit on term deposits receipt</b>	0.6	0.5	0.4
<b>Return on Investments</b>	<b>94.8</b>	<b>153.9</b>	<b>103.6</b>
Realized gain/ (Loss)	566.2	(127.7)	63.3
<b>Other Income</b>	15.0	1.5	1.4
<b>Unrealized gain/(Loss)</b>	<b>(243.9)</b>	<b>(371.4)</b>	<b>99.8</b>
<b>Operating Expenses Inc. finance cost</b>	(215.3)	(121.3)	31.6
<b>Profit/(Loss) before tax</b>	<b>216.8</b>	<b>(464.9)</b>	<b>236.4</b>
<b>Profit/(Loss) after tax</b>	<b>203.4</b>	<b>(439.0)</b>	<b>204.3</b>

The rating continues to be constrained by lack of diversification in revenue streams. Advisory income from related party has remained nominal over the years. Efficiency of the Company has strengthened in 9M'CY23 to 18.9% compared to over the past three years (2022: 373.0%; 2021: 32.4%; 2020: 54.6%) which is in line with Company's mandate.

Resultantly, the Company reported net profit amounting to Rs. 204.3m in 9M'CY23 as compared to net loss of Rs. 292.2m in the SPLY. Growth in quantum of dividend income and diversification in investment mix are considered key factors to improve the overall risk profile, going forward.

#### Sound liquidity and capitalization profiles:

(Rs. Mn)	CY21	CY22	9M'CY23
Equity (excluding revaluation surplus)	1,383.0	697.8	902.1
Short term borrowings	671.4	255.7	-
Total Liabilities	847.1	343.3	102.0
Gearing (x)	0.49	0.37	0.00
Leverage (x)	0.61	0.49	0.11
ROAA	7.1%	-20.4%	17.1%
ROAE	12.9%	-42.2%	34.0%
Liquid Asset to Total Liabilities (x)	3.05	2.47	7.80

Liquidity profile of the Company remains strong, given that investment in listed equities is the mainstay of operations. Liquid assets to total liabilities improved significantly to 7.80x (2022: 2.47x; 2021: 3.05x) due to absence of any outstanding bank borrowings as at the end Sept'23.

The tier-1 equity stood higher at Rs. 902.1m (FY22: Rs. 697.8; FY21: Rs. 1.4b) on account of higher profitability and retention of these profits. Meanwhile, the core equity decreased in the preceding year was due to combined impact of dividend payouts and losses. Nonetheless, leverage indicators have remained at comfortable levels on a timeline basis. As

of the end of Sep'23, the Company's financial position strengthened with an increased equity base and no debt, leading to gearing and leverage ratios improving to 0.00x and 0.11x, respectively. Going forward, the management remains committed to maintaining a conservative financial strategy, which is a key consideration in evaluating the Company's credit rating.

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

<b>FINANCIAL SUMMARY</b>		<b>(Amounts in PKR millions)</b>			
<b>BALANCE SHEET</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>9M'2023</b>	
Cash and Bank Balances	7.8	0.2	0.4	5.3	
Short-term Investment	2,902.2	2,586.1	846.8	790.8	
Long-term Investment	44.1	46.2	622.7	784.4	
<b>Total Assets</b>	<b>3,004.4</b>	<b>2,730.3</b>	<b>1,574.8</b>	<b>1,604.5</b>	
Lease Liabilities	9.1	31.2	-	-	
Short-Term Borrowings	225.9	671.4	255.7	-	
<b>Total Liabilities</b>	<b>552.0</b>	<b>847.1</b>	<b>343.3</b>	<b>102.0</b>	
Paid-up Capital	615.6	615.6	615.6	615.6	
Equity (excluding re-measurement & surplus)	1,775.8	1,383.0	697.8	902.1	
<b>INCOME STATEMENT</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>9M'2023</b>	
Revenue from Operations	511.7	660.4	26.3	166.9	
Operating Expenses (Inc. Finance cost)	286.7	218.4	121.3	31.6	
Profit Before Tax	469.5	216.8	(464.9)	236.4	
Profit After Tax	357.3	203.4	(439.0)	204.3	
<b>RATIO ANALYSIS</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>9M'2023</b>	
Efficiency (%)	54.6%	32.4%	373.0%	18.9%	
Gearing (x)	0.13	0.49	0.37	-	
Leverage (x)	0.31	0.61	0.49	0.11	
Current Ratio (x)	5.67	3.24	2.50	7.86	
ROAA (%)	12.9%	7.1%	-20.4%	17.1%	
ROAE (%)	22.0%	12.9%	-42.2%	34.0%	
Liquid Assets to Total Liabilities (x)	5.27	3.05	2.47	7.80	

REGULATORY DISCLOSURES				Appendix II	
<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>				
	01/24/2024	A	A-1	Stable	Maintained
	11/14/2022	A	A-1	Negative	Maintained
	11/11/2021	A	A-1	Stable	Maintained
	01/1/2021	A	A-1	Negative	Maintained
	12/31/2019	A	A-1	Stable	Reaffirmed
	01/2/2019	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
	05/16/2014	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. Mohammad Shamoan Chaudry		CEO		22- December- 2023
Mr. Muhammad Anas Karimi		CFO			