

# RATING REPORT

## MAPLE LEAF CAPITAL LIMITED

### REPORT DATE:

December 21, 2023

### RATING ANALYST:

Tayyaba Ijaz, CFA  
[tayyaba.ijaz@vis.com.pk](mailto:tayyaba.ijaz@vis.com.pk)

Rating Category	Initial Ratings	
	Long-term	Short-term
Entity	A-	A-1
Rating Date	December 21, 2023	
Rating Action	Initial	
Rating Outlook	Stable	

### COMPANY INFORMATION

Incorporated in 2014	External Auditors: Riaz Ahmad & Company, Chartered Accountants
Private Limited Company	Chairman of the Board: Mr. Taufique Sayeed Saigol
Key Shareholding	Chief Executive Officer: Mr. Waleed Tariq Saigol
<i>Kobinoor Textile Mills Limited – 82.919%</i>	
<i>Mr. Taufique Sayeed Saigol – 8.375%</i>	
<i>Mr. Tariq Sayeed Saigol – 5.025%</i>	

### APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates (May, 2023)  
<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>  
 VIS Rating Scale:  
<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

## MAPLE LEAF CAPITAL LIMITED

OVERVIEW OF  
THE  
INSTITUTION

*Maple Leaf Capital Limited was incorporated on April 25, 2014 under the Repealed Companies Ordinance, 1984 (now Companies Act, 2017). Its registered office or head office is situated at 42 Lawrence Road, Lahore.*

**Profile of Chairman:**

*Mr. Tanfeeq Sayeed Saigol is the Chief Executive of Kohinoor Textile Mills Limited and Director in all KMLG companies. He is a leading and experienced industrialist of Pakistan. He graduated as an Industrial Engineer from Cornell University, USA in 1974.*

**Profile of CEO**

*Mr. Waleed Tariq Saigol was schooled at Aitchison College, Harrow School and holds a bachelor's degree from the London School of Economics & Political Science. He has a rich experience of Textile & Cement Sectors. He serves on the Boards of KTML, ML CFL, MLPL and Maple Leaf Industries Limited.*

## RATING RATIONALE

Incorporated in 2014, Maple Leaf Capital Limited ('MLCL' or 'the Company') operates as a subsidiary of Kohinoor Textile Mills Limited (KTML). KTML holds an 82.919% equity stake in MLCL. MLCL is part of the Kohinoor Maple Leaf Group, a leading industrial conglomerate having presence across diversified sectors including cement, textiles, power, and capital markets. The principal business of the Company is to buy, sell, hold or otherwise acquire or invest the capital of the Company in any sort of financial instruments and commodities.

**Key Rating Drivers**

**Company's Profile:** MLCL operates as an investment management company, primarily established to invest the Group's capital in financial instruments and commodities. Shareholding is held by KTML and members of the sponsoring group, who actively participate in the Company's operations. The Board of Directors (BoD) consists of seven members, including the Chairman and CEO, with the remaining members serving as non-executive directors. The Board has formed three committees for effective oversight of Company's operations. These include, Investment Committee (IC), Management Committee (MC), Accounts and Audit Committee (A&AC).

**Table 1: Board of Composition**

Board of Directors	
<b>Taufique Sayeed Saigol</b>	Chairman
<b>Waleed Tariq Saigol</b>	CEO
<b>Sayeed Tariq Saigol</b>	Non-Executive Director
<b>Syed Mohsin Naqvi</b>	Non-Executive Director
<b>Arif Ijaz</b>	Non-Executive Director
<b>Daniyal Saigol</b>	Non-Executive Director
<b>Jahanara Saigol</b>	Non-Executive Director

The senior management team depicts stability and comprises seasoned professionals with extensive experience in business, risk management, financial planning, equity management, and equity investment. The Company's total workforce stands at 19 employees as of Oct 31<sup>st</sup>, 2023. The organizational structure is divided into three distinct functions: the Research Department, Finance Department, and Internal Audit Department. The Research Department is headed by the Chief Investment Officer (CIO). Under the CIO, there is the Head of Research, overseeing a team of eight research analysts, each specializing in specific sectors, and a data entry operator. The hierarchy within the Finance Department begins with the Head of Finance, followed by the Senior Manager of Finance, and subsequently, the Assistant Managers of Accounts. Internal audit Department consists of a team of three resources to effectively manage this function.

**Investment Policy:** The Company has implemented an Investment Policy Statement (IPS) devised by Research Department and approved by BoD. The policy statement offers direction on fund management and the Company's operations. The Investment Committee (IC) oversees investment activities and the decision-making process of the management. The Board of Directors relies exclusively on the IC for supervising the Management Committee (MC) and ensures the ultimate oversight for implementing the IPS. The MC holds an ongoing responsibility for implementing the IPS.

MLCL aims to generate income derived through capital gains, dividends and interest income primarily by investing in companies listed at the Pakistan Stock Exchange (PSX), secured debt instruments, commodities, real estate and startup businesses. The benchmark return is 1 year

Average KIBOR rate. The diversification strategy for MLCL dictates that the fund should limit its investment in any single asset to a maximum of 15%, and for investments within a specific sector, the cap should not exceed 30%. Meanwhile, any breach of these thresholds shall require approval from IC. Given the Company is exposed to economic, market and financial risk through its investing activities, the management aims to pay huge importance on quality of assets and exercise due care while selecting investment opportunities. The MC is responsible for the risk management of the Company. The asset allocation is derived from the benchmark return expectations, which is agreed upon by MC and BoD annually.

In order to ensure prudent investment policies, the MLCL Board of Directors recommends considering the following minimum criteria before making investments. These criteria include, but are not limited to, the following benchmarks:

- a) Debt-to-equity ratio.
- b) Return on equity.
- c) Book value per share.
- d) Price-to-earnings ratio and other relative valuation measures.
- e) Asset liquidity and other financial indicators.

Furthermore, the investment decision also integrates the sponsors' profile, senior management team, a comprehensive assessment of the investee company's policies, business model and the government's position on the specific sector. As per IPS, the entry and exit levels are to be pre-defined in order to avoid speculative tendencies.

**Investment Mix:** The Company's investment portfolio consists of both long-term and short-term investments, with the short-term investments representing almost 90% of the total asset base. The long-term investment included equity investments in various startup companies, with a major focus on e-commerce and technology solutions.

MLCL generally acquires equity shares with a typical investment horizon ranging from one to three years. The Company does not maintain a trading portfolio. Related party exposure in listed equities has reduced significantly to 11.4% (FY22: 31.8%; FY21: 37.8%). This reduction is primarily due to the substantial liquidation of its position in TRG Pakistan Limited over the past two years, prompted by substantial unrealized losses. Factors contributing to TRG's stock downfall include falling revenues, management controversies, and legal challenges, all of which have adversely affected investor confidence and the company's market valuation. The equity stake of MLCL in TRG stood lower at 0.74% (FY22 & FY21: 2.53%) at end-Jun'23. Other short-term investment in related party pertains to MLCFL, in which the Company's stake has remained unchanged at 1.09%.

Other than related party short-term investments, largely including public listed stocks, stood higher at Rs. 5.5b (FY22: Rs. 3.0b; FY21: Rs. 6.3b). Market risk emanating from this portfolio is on a higher side due to high concentration at sector and script level as of Jun 30, 2023. Meanwhile, in order to mitigate price risk and enhance profitability, the management has undertaken a diversification strategy for its investment portfolio, since July 2023. A significant portion of the investments has been allocated towards dividend-yielding value stocks.

**Profitability:** In FY22, the Company suffered substantial losses on its investment portfolio due to various macroeconomic issues and political instability. During that period, Pakistan's current account deficit worsened significantly, increasing to USD 17.4 billion from USD 2.8 billion 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 12.28% to close at 41,541 by the end of June 2022. Investor confidence was further shaken when the PSX was downgraded from the MSCI emerging market index to a frontier market. Foreign investors offloaded USD 297 million in stocks during FY22. Local investors, including individuals, companies, banks, and other organizations, invested USD 157 million, USD 111 million, USD 115 million, and USD 60 million in shares, respectively. Conversely, mutual funds and brokers were net sellers, offloading USD 128 million and USD 20 million 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 FY23, MLCL's profitability metrics showed some recovery with return on portfolio outperformed the 1 year average KIBOR rate. Meanwhile, in FY22, the Company's equity portfolio underperformed vis-à-vis benchmark returns owing to lackluster performance of PSX. In FY23, inclusive of dividend yield, MLCL's return on portfolio was recorded at 21.8% (FY22: -63.9%; FY21: 71.1%) vis-à-vis benchmark return (i.e., 1-year Average KIBOR) of 18.03% (FY22: 10.87%; FY21: 7.25%). Efficiency ratio of the company improved to 59.2% in FY23 as compared to negative ratio in the preceding year due to net losses on investment portfolio.

KSE-100 index saw a significant 22.7% increase equivalent to 9961 points as of November 6, 2023 as compared to 43,899 as at Jun 30, 2023. The trend is expected to continue, with expected easing of inflation and political stability. In view of anticipated growth in PSX returns, along with a shift in the investment mix of MLCL towards greater diversification and a higher proportion of dividend-yielding assets, it is projected that profitability metrics will experience a notable improvement, going forward. Based on projections, the short-term investment portfolio is anticipated to yield a 35% annual return as capital gains in FY24. Additionally, dividend income is projected to make up approximately 20% of the total revenue composition.

**Liquidity and Capitalization Profile:** MLCL has a strong liquidity position, largely underpinned by its investments in publicly traded stocks. The liquid assets to total liabilities stand at 2.49x (FY22: 3.72x; FY21: 4.54x) as of Jun 30, 2023. The paid-up capital of the company amounted to Rs. 3.01b (FY22 & FY21: Rs. 3.01b). By the end of FY23, the company's equity base rose to Rs. 4.4 billion, following a significant recovery from the substantial equity erosion experienced in the previous year due to losses. The debt profile of the Company entirely comprised of short-term borrowings, acquired to finance the purchase of short-term investments.

Overall capitalization profile of the Company is underpinned by risk strong absorption capacity as reflected by comfortable leverage indicators maintained on a timeline basis. The debt leverage and gearing stood at 0.59x (FY22: 0.31x; FY21: 0.27x) and 0.48x (FY22: 0.26x; FY21: 0.19x), respectively, by end-FY23. The rating also takes into account the commitment of funds by way of short-term loans totaling Rs. 1 billion from KTML and Rs. 1 billion from MLCFL, aimed at bolstering MLCL's investment operations.

REGULATORY DISCLOSURES		Appendix I			
<b>Name of Rated Entity</b>	Maple Leaf Capital Limited				
<b>Sector</b>	Miscellaneous				
<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>				
	21-12-2023	A-	A-1	Stable	Initial
<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.				
<b>Disclaimer</b>	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2023 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
<b>Due Diligence Meeting Conducted</b>	<b>Name</b>	<b>Designation</b>		<b>Date</b>	
	Mr. Malik Imran	Senior Manager Accounts & Finance		31-October-2023	
	Mr. Farrukh Zia Awan	DGM Finance			