

RATING REPORT

Cyan Limited

REPORT DATE:

January 1, 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	Negative		Stable	
Rating Date	January 1, 2021		December 31, 2019	
Rating Action	Maintained		Reaffirmed	

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 – 62.03%</i>	
<i>General Public – 15.18%</i>	
<i>Mr. Hussain Dawood – 8.00%</i>	

APPLICABLE METHODOLOGY(IES)

Corporates (May 2016)

<http://vis.com.pk/docs/Corporate-Methodology-201605.pdf>

Asset Management Companies (March 2016)

<http://www.vis.com.pk/docs/AMC-Methodology-201603.pdf>

Cyan Limited

OVERVIEW
OF THE
INSTITUTION

RATING RATIONALE

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 is also

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:**Strong sponsor strength**

Assigned ratings continue to draw comfort from strong sponsor profile of Dawood Hercules Group; a prominent industrial conglomerate having presence across diversified sectors including fertilizer, PVC, food, power generation, coal mining, LNG storage and private investments. In 2019, the group reported an annual turnover of around Rs. 226b.

Equity investments comprise the majority portion of the asset base

CL's total asset base majorly (93%) comprises short-term investment portfolio which is funded primarily by equity base. The investment portfolio stood at around Rs. 2.5b (FY19: Rs. 2.3b; FY18: Rs. 2.1b) at end-9M'20. During the outgoing year, on average basis, the exposure in public equities remained at ~92% and the remaining was vested towards mutual funds, PIBs and TDRs. Moreover, the company's yield on equity portfolio outperformed the benchmark index (KSE-100) in 2019.

In the backdrop of Covid-19 impact and its subsequent economic recovery, improving macroeconomic sentiments (government's announced multi-sectoral relief package of Rs. 1.2 trillion and favorable outlook for construction & textile sector) and anticipated performance of equity market, CL's investment strategy was realigned to maintain a high growth and investments and the exposures were built accordingly with major focus towards high growth potential sectors. Major investments are made in technology, vanaspati and allied, steel, cement and banking sectors. On fixed income front, liquidity derived from maturing T-Bills during 2020 was channeled in long term PIBs while exposure in TDRs was also enhanced.

Given limited revenue diversification, overall earnings profile remains sensitive to equity market volatilities and is subject to associated market risk.

Core revenue stream is derived from dividend income and capital gains earned from investments. Post 2016, the dividend income has declined on a timeline basis and the same trend continued in the ongoing year; registering a decline of ~46% in 9M'20 as compared to the corresponding period last year due to CL focus shifted towards growth companies. This decline was partially offset by capital gains on investments. Significant increase in financial charges led to a negative bottom-line in 9M'20; however, CL is expected a positive outcome going forward due to single digit interest rate.

Moreover, the company also undertakes consultancy services for public and private issues/mandates. Given the limited IPO in public market, advisory income (2019: Rs. 12m; 2018: Rs. 10.8m) has emanated solely from services rendered to related parties.

the Chairman at the Pakistan Stock Exchange Limited (PSX) and the Pebbles (Pvt.) Limited, the real estate arm of Dawood Hercules (DH) Group and is leading all real estate initiatives of the Group.

While remaining sound, leverage indicators have increased on a timeline basis.

Equity base of the company has receded by ~50% over the period of three years (2016-19) by virtue of bumper dividends and holding of Strategic Portfolio (Dawood Lawrencepur Limited and Dawood Hercules Corporation Limited). In the ongoing year, paid-up capital was increased through issuance of 5% bonus share which was funded by retained earnings.

The overtime capital erosion along with the increase in utilization of short-term funding (undertaken to take market advantage for excess returns) in the ongoing year resulted in an increase in leverage indicators. Gearing and leverage were reported at 0.43x (2019: 0.14x) and 0.40x (2019: 0.19x) as at end-9M'20, respectively. However, certain comfort is drawn from strong liquidity buffers with liquid assets to short term borrowings being reported at 4.35x (2019: 11.91x) at end-9M'20.

Cyan Limited
Appendix I

FINANCIAL SUMMARY				
	(amounts in PKR millions)			
<u>BALANCE SHEET</u>	Dec 31, 2017	Dec 31, 2018	Dec 31, 2019	Sept 31, 2020
Cash and Bank Balances	5.3	9.6	1.9	1.7
Total Investments <i>(including short-term and long-term)</i>	2,440.9	2,109.0	2,367.5	2,581.7
Total Assets	2,548.2	2,264.0	2,521.7	2,731.5
Short-Term Borrowings	-	211.8	190.0	573.2
Total Liabilities	276.1	429.9	405.4	787.4
Paid-up Capital	586.3	586.3	586.3	615.6
Tier-1 Equity <i>(excluding surplus)</i>	1,741.7	1,377.4	1,476.8	1,400.5
Net Worth	2,270.1	1,834.1	2,116.3	1,944.3
<u>INCOME STATEMENT</u>				
Revenue from Operations	235.1	325.7	237.4	39.6
Operating Expenses	96.4	114.7	144.5	95.5
Profit Before Tax	(535.9)	(211.0)	94.8	(2.9)
Profit After Tax	(537.9)	(218.1)	97.9	(17.7)
<u>RATIO ANALYSIS</u>				
Average Return on Equity Portfolio	-22.8%	-7.7%	18.9%	0.6%
Efficiency (%)	41.0%	35.2%	60.9%	241.2%
Gearing	-	0.15	0.14	0.43
Leverage	0.12	0.23	0.19	0.40
Current Ratio	9.4	5.2	6.2	3.4
ROAA (%)	-17.3%	-9.1%	4.1%	-0.9%
ROAE (%)	-19.8%	-10.6%	5.0%	-1.2%
Liquid Assets to Total Liabilities (x)	8.9	4.9	5.7	3.2

ISSUE/ISSUER RATING SCALE & 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

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

(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

'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			
Name of Rated Entity	Cyan Limited				
Sector	Inv. Banks / Inv. Cos. / Securities Cos.				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	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
Instrument Structure	N/A				
Statement by the Rating Team	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.				
Probability of Default	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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Due Diligence Meeting Conducted	Name	Designation		Date	
	Mr. Faisal Nadeem Mangroria	CFO		December 02, 2020	