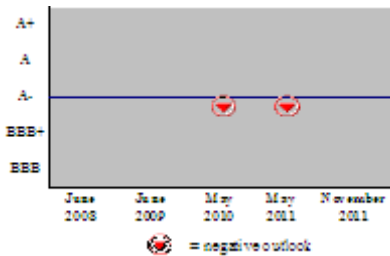




**RATING (DECEMBER 2011)**  
**TPL DIRECT INSURANCE**  
**LIMITED (TDIL)**

	NEW	PREVIOUS
<b>Insurance Financial Strength</b>	A-	A-
<b>Outlook</b>	-	Negative

**IFS RATING HISTORY**



**FINANCIAL DATA**  
**PKR (MLN)**

	Sep-11*	Dec-10
Equity	353	195
Investments	194	37
Gross Premium	367	409
Underwriting Results	48	18
Adjusted Underwriting Results	6	(26)
Pre-tax Profit / (loss)	19	(14)
Loss Ratio (%)	40	42
Expense Ratio (%)	58	65
Combined Ratio (%)	98	108
Operating Ratio (%)	94	104
Liquidity Ratio** (x)	0.8^	0.1
Solvency Ratio*** (x)	2.6^	2.5

\* Based on unaudited accounts for nine months ended September 30, 2011

\*\*Liquidity Ratio: Adjusted liquid assets/Net Claims Expense

\*\*\*Solvency Ratio: Financial Base/ Net Claims

^Annualized

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**RATING RATIONALE AND KEY RATING DRIVERS**

- The rating reflects TDIL's business strategy to capture a sizable share in a developing market niche - personal lines insurance - supported by robust technology platform, and quality systems and processes. The business model envisages use of advanced technology and comprehensive evaluation of risk prior to writing it. TDIL's profitability, currently limited, is expected to improve mainly on account of targeted expansion in the product slate. The ease in the financial risk profile of TDIL, following injection of fresh capital, is a key rating consideration.
- The rating is dependent on the company's ability to achieve sustainable business volume while aligning its liquidity and risk absorption capacity in this course. Meanwhile, any significant increase in the prevailing loss pattern impacting TDIL's underwriting performance could have negative implications for the rating.

**ASSESSMENT**

- Ever since the economic downturn in 2008, the insurance industry has been facing major challenges arising from muted GDP growth, precarious security situation, widening fiscal imbalance, and rising inflation. The economic slowdown has further intensified the competitive landscape of the insurance industry putting pressure on premium pricing. Consequently, the industry growth as well as overall profitability continues to remain uncertain. The industry, cognizant of growth impediments, is taking steps to improve its operating platform to offer an improved level of services. Moreover, the regulator has taken a strict stance to invariably implement governing regulations in the industry. Lately entry of a broad array of reinsurers in the market, after the exit of some leading re-insurers, is good though the looming risk is departure of other leading reinsurers should their views on the Pakistani market change.
- TDIL has exclusive focus on personal lines insurance. Currently, the company operates largely in motor insurance segment, while slowly diversifying into other personal insurance businesses (travel and health). At end-Sep11, the motor portfolio, in terms of makes, continued to be dominated by Toyota (49%), followed by Honda (22%), Suzuki (21%), and others (8%).
- During 9MCY11, TDIL managed to achieve a considerable growth in GPW on a YoY basis. In line with TDIL's increased risk appetite and limited exposure in luxury vehicles, the cession was brought to almost naught. There was slight improvement in the company's loss ratio, enabled through better risk management practices. Moreover, improvement in expense ratio provided a little margin, thus combined ratio improved to 98% (CY10: ~108%). This resulted in underwriting profit, albeit nominal, for the period. At the same time, improved investment income on YoY, enhanced the bottom line by a significant margin.
- Going forward, TDIL projects a moderate growth, while targeting its niche market with the same strategy. Meanwhile, TDIL plans to share C-Track costs with some of the co-insurers that would help reduce management expenses (C-Track depreciation and related monitoring charges). At the same time TDIL intends to diversify its portfolio mix by focusing on other personal lines insurance products.
- TDIL has reinsurance arrangements with good re-insurers. The company operates under excess of loss treaties with Malaysian Re (rated 'A-' by Fitch – 45% share), Best Reinsurance (rated 'A-' by A.M. Best – 20% share), and Pakistan Reinsurance Company (35% share). Moreover, TDIL possesses a well-equipped IT infrastructure in order to facilitate its operations and risk management.
- TDIL's investment portfolio, constituting 55% of its equity at end-Sept11, comprises two segments: (i) strategic and (ii) non-strategic. Strategic investments - ~ 54% of the total investment book, include a subsidiary – EVAC Pakistan (Private) Limited and an associate – TPL Properties (Private) Limited. (PKR 100mln – with 9% ownership). Trading holdings are dominated by Government bonds (25%) followed by bank deposits (12%), and income based mutual funds (9%). In addition, TDIL operates a running account with its parent company for the purchase of C-Track units with maximum limit of PKR 250mln. TDIL earns mark up on the advance balance (PKR 185mln at end-Sept11), which constituted a major proportion (88%) of investment income.
- TDIL's financial risk has slightly improved as evident by improvement in the liquidity ratio. This was followed by fresh capital injection of PKR 150mln through IPO. However, a portion of fresh cash has again been deployed in a non-liquid avenue (TPL Properties (Private) Limited). Moreover, the company paid off significant portion of its running finance facility with outstanding balance of PKR 16mln as at end-Sept11 (2010: PKR 37mln). Due to higher equity base of TDIL, its reported solvency ratio is better than most peers. Nevertheless, the company has yet to built volumes, thus its financial base will normalize in the medium term.

**PROFILE**

- TPL Direct Insurance Limited (TDIL), formed in 1992 as Jupiter Insurance, was acquired by TPL Holdings in 2005. TDIL listed on KSE since September 2011, is a subsidiary (67% holding) of TPL Trakker Limited - Pakistan's first and the largest vehicle tracking and fleet management company. Other group companies include TPL Properties (Private) Limited, which lately has got requisite funding to complete a 28 storey commercial building in Karachi - Centre Point - targeted for completion within 2012.
- TDIL's board of directors comprises seven members, including the Chief Executive Officer. The Chairman of the board, Mr. Jameel Yusuf - Sitara-e-Shujaat, is head of the key sponsoring family. The recent listing, first of any company from the group, is expected to augur well for governance framework of the Company. The CEO, Mr. Saad Nissar, an MBA from IBA, has played a pivotal role in establishing the group's franchise while being associated with the group since 2000. He is assisted by a team of professionals who are with TDIL since its acquisition by TPL Holdings.