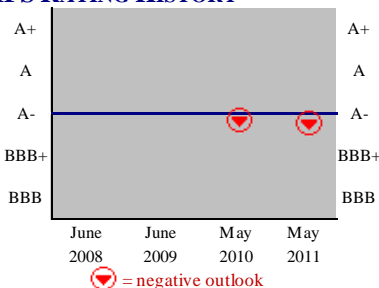


RATING (MAY 2011)
TPL DIRECT INSURANCE
LIMITED (TDIL)

	NEW	PREVIOUS
Insurance Financial Strength	A-	A-
Outlook	Negative	Negative

IFS RATING HISTORY



FINANCIAL DATA

PKR (mln)

	Dec-10	Dec-09
Equity	194.6	213.5
Investments	36.4	40.7
Gross Premium	408.7	287.3
Underwriting Results	17.8	29.4
Adjusted Underwriting Results	(26.0)	3.5
Pre-tax (loss)/ Profit	(14.5)	10.1
Loss Ratio (%)	42.8	28.91
Expense ratio (%)	65.0	69.5
Combined ratio (%)	107.8	98.4
Operating ratio (%)	104.3	95.5
Liquidity ratio (x) (Adjusted liquid assets/ net claims expense)	0.4	0.8
Solvency ratio (%) (Net Claims expense/ Financial Base)	39.6	15.1

ANALYSTS

Amara Gondal
+92 42 5869504
amara.gondal@pacra.com

Jhangeer Hanif
+92 42 5869504
jhangeer@pacra.com

RATING RATIONALE AND KEY RATING DRIVERS

- The rating reflects the strength of TDIL's business strategy to capture a sizable share in a developing market niche – personal lines insurance, majorly focused on autos – 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. Despite sizable growth in GPW, TDIL's profitability came under pressure owing to rise in loss ratio, in the absence of supplemental income from non-earning advances tied-up with group companies.
- The outlook on the rating is negative, highlighting the company's relatively high financial risk. This is an outcome of significant proportion of non-liquid assets – mainly advance for property and other investments – that, in turn, has constrained the company's liquidity. The group is actively pursuing various options for strengthening its liquidity profile. A continued delay in the execution of the same would have negative implications for the rating.

ASSESSMENT

- TDIL's generates a major proportion of its business from personal line motor insurance. At end-Dec10, the motor portfolio, in terms of makes, was dominated by Toyota (48%), and followed by Suzuki (21%), Honda (23%), and others (8%). Almost all vehicles (98%) are Saloon. The company is gradually diversifying its GPW portfolio by entering into other personal line business – travel insurance and health insurance.
- TDIL, during 2010, continued registering sizeable growth (2010: 42%, 2009: 53%) in its GPW. This was mainly attributed to recovery in the auto industry, supplemented by TDIL's focused marketing strategy in its specialty niche. TDIL's loss ratio had traditionally remained lower amongst peers, mainly a factor of tracking devices (C-Track) limiting huge snatch /theft losses for the company. However, in 2010, it experienced a significant upturn in the loss ratio to 43% (2009: 29%), attributable to declining protection provided by C-Tracks due to Jammers. Although TDIL's expense ratio improved on YoY basis, high losses translated into higher combined ratio, and, thus, resulted into underwriting loss – adjusted by admin expenses. At the same time, the investment income, improved YoY, yet, continued to remain limited owing to small size of investment book. Resultantly, the company posted pre-tax net loss.
- Going forward, TDIL projects a moderate growth, while targeting its niche market with innovative ideas. The company expects to control rising trend in its loss ratio, enabled by advancement in tracking devices. 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). TDIL's recent brand alliance with Standard Chartered Bank, United Bank Limited, and NIB would help the company in achieving GPW growth. However, recent earthquakes in Japan, in the form of production disruptions, might impact local auto industry, thereby posing challenges for the company as well.
- TDIL, with a very low cession level of 4.5%, has reinsurance arrangements with international re-insurers arranged through a broker – ARL International. The company operates under excess of loss treaties with Malaysian Re (rated 'A-' by Fitch), Best Reinsurance (rated 'A-' by A.M. Best), and Pakistan Reinsurance Company.
- TDIL has a very small investment portfolio, constituting 6.5% of its total asset base at end-Dec10. Investment book is dominated by Government bonds (55%) followed by income based mutual funds (26%), and equities (6.4%). In addition, TDIL operates a financial arrangement in the form of advances to its parent company for the purchase of C-Track units with maximum limit of PKR 200mln. TDIL earns mark up on the outstanding balance (PKR 94mln at end-Dec10), which constituted a major proportion (77%) of investment income.
- TDIL's financial risk has increased. This is attributed to non-liquid assets (35% of total assets); (a) advance for purchase of office space (PKR 159mln at end-Dec10) and (b) advance for the purchase of shares (PKR 35mln). Besides impacting TDIL's profitability, these advances have constrained TDIL's liquidity profile. To meet liquidity requirements, the company has increased its limit of running finance facility to PKR 50mln (2009: PKR 25mln), with outstanding balance of PKR 37mln as at end-Dec10 (2009: PKR 24mln). Due to higher equity base of TDIL, its solvency ratio is better than peers despite deteriorating during 2010.

PROFILE

- TPL Direct Insurance Limited (TDIL), formed in 2005, has exclusive focus on personal line insurance. Currently, the company operates largely in motor insurance segment, while also diversifying into other personal insurance businesses (travel and health). TDIL is the wholly owned subsidiary of TPL Trakker Limited (TTPL), which is a 70:30 joint venture between TPL Holdings (Pvt.) Limited and Digicore Holdings Limited, the world's leading vehicle tracking company. TTPL, the Pakistan's first and the largest vehicle tracking and fleet management company has remained a mainstay in TDIL's business strategy.
- TDIL's board of directors comprises seven members, including the Chief Executive Officer. The Chairman of the board, Mr. Jameel Yusuf, is head of one of the sponsoring families. The CEO, Mr. Saad Nissar, an MBA, has played a pivotal role in establishing the group's franchise.