



The Pakistan Credit Rating Agency Limited

Rating Report

Crescent Star Insurance Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Jan-2022	A-	-	Stable	Maintain	Yes
29-Jan-2021	A-	-	Stable	Maintain	Yes
31-Jan-2020	A-	-	Stable	Maintain	Yes
20-Jul-2019	A-	-	Stable	Maintain	Yes
18-Jan-2019	A-	-	Stable	Maintain	Yes
14-Jun-2018	A-	-	Stable	Maintain	-
06-Dec-2017	A-	-	Developing	Maintain	-
23-Jun-2017	A-	-	Developing	Maintain	-
29-Dec-2016	A-	-	Developing	Maintain	-
18-Apr-2016	A-	-	Developing	Maintain	-

Rating Rationale and Key Rating Drivers

Crescent Star Insurance (CSIL or the Company) predominantly has a holding Company structure through building its non-insurance strategic book. IFS (Insurer Financial Strength) rating of CSIL portrays the Company's relative ability to meet liabilities towards the policyholders. The rating reflects Crescent Star Insurance's strategy directed towards direct line insurance in motor and miscellaneous segments. Focus remains on underwriting risk free business, though volumes remain relatively low, hindering the underwriting profitability of the Company. A considerable investment has been undertaken by CSIL in Dost Steels Limited (DSL) which has remained non-cash producing over an extensive period. In order to convert DSL into an income generating unit, a revival plan is being chalked out for quite some time aimed at providing much required leadership, as well as requisite funding for working capital and operational needs. Further, a contingent merger of a subsidiary is further expected to unlock synergistic benefits for the Company, materialization of which remains crucial. The Company's current liquidity profile matches the risk parameters for the size of business operations, however, going forward, should the insurance business increase, improvement in liquidity profile is essential.

During CY21, bank financing and automotive sector growth facilitated the industry progression. As COVID re-emerged through its "Omicron" variant, its potential implications remain yet to unfold in the coming year. Reduction in management expenditure and product innovation shall remain crucial for the industry participants in order to solidify market position.

The rating watch captures the Company's consolidation process in Dost Steel Limited and merger of CS Foods into PICIC Insurance, while fulfilling regulatory and legal requirements. Keeping the business model, the management prefers facultative arrangements. The cash return from subsidiaries is important. Meanwhile, risk absorption capacity needs to be kept intact.

Disclosure

Name of Rated Entity	Crescent Star Insurance Limited
Type of Relationship	Solicited
Purpose of the Rating	IFS Rating
Applicable Criteria	Methodology General Insurance Rating(Jun-21)
Related Research	Sector Study General Insurance(May-21)
Rating Analysts	Wajahat Arjumand Ansari wajahat.ansari@pacra.com +92-42-35869504

Profile

Legal Structure Crescent Star Insurance Limited (CSI), a listed company, was established in 1957. The company operates in insurance, food and luxury sector.

Background In Feb-2013, new management took over the company, following acquisition. New board invariably revamped the entire operating structure of the company with a new business strategy.

Operations The Company operates a network of 16 branches across the country; seven in Karachi, three in Lahore, one each in Hyderabad, Quetta, Islamabad, Faisalabad, Multan, and Sialkot.

Ownership

Ownership Structure Major shareholding of the Company is held by various individuals, whereas a minor shareholding is taken up corporates.

Stability A diversified ownership structure is set in place for the Company, evident by various individuals and corporates comprising the shareholding structure

Business Acumen Mr. Naim Anwar is considered the man of last mile for Crescent Star Insurance. He has been part of the insurance industry for over 20 years and was previously associated with Adamjee Insurance (Executive Director) and PICIC as deputy managing director.

Financial Strength CSIL has developed a holding company structure, diversifying into other sectors of steel, FMCG, technology and luxury.

Governance

Board Structure The board structure comprises of eight, with three executive directors being present on the board.

Members' Profile Mr. Naim Anwar holds the position of chairman of the Board. The remaining board members comprise professionals of various financial and non-financial backgrounds.

Board Effectiveness Three board committees have been established by CSIL, namely; i) Audit, ii) Investment and iii) HR& Remuneration, to ensure effective oversight of the Company's operations.

Transparency A qualified report had been provided by the auditors, Crowe Hussain Chaudhry & Co., of CSIL for the period ended CY20. The basis of qualified opinion pertained to three key matters; i) impairment testing on investment in subsidiaries (Crescent Star Luxury & Crescent Star Technology) ii) Accrued Interest Income iii) Premium Receivable

Management

Organizational Structure The organization structure comprises six major divisions (i) Operations – underwriting, Claims, and Reinsurance, (ii) Business Development – Sales and marketing, (iii) Finance – Accounts, Treasury, Investment, and secretarial practices, (iv) Business and Commercial Applications – Information Technology, (v) Human Resource – HR and corporate communication, and (vi) Admin – Administration and Purchase.

Management Team A sound management team has been built by the CEO, with each division being headed by experienced personnel. The top and middle tier of the Company is lead by a competent group of individuals.

Effectiveness Each of the division is headed by a senior resource. Moreover, there is an advisor to the CEO, who is responsible for carrying out feasibilities of investment decisions having strategic nature. He was previously designated as DMD, now have limited role.

MIS CSI uses General Insurance System (iGIS) developed by Centegy Technologies. System generated MIS reports have been customized according to the company's specific control procedures.

Claim Management System A centralized claims systems, with the exception of motor insurance, has been set in place by the Company. Upon claims intimation the surveyor prepares a report which is then scrutinized by branches first and then forwarded to HO along with supporting documents. The claims department at HO approves the claims and recommendation for payment is forwarded to finance department.

Investment Management Function The investment decision making is channeled through a formal investment policy statement, duly approved by the BoD. The IPS states the presence of non-executive directors to be present in the investment committee, along-with the CEO and CFO. An investment committee has been established at the board, as well as operational level.

Risk Management Framework CSI has given authority to branches pertaining to policy data entry for all business segments and the main purpose behind such strategy is to procure enhanced business through branches. The branches enter all data required to issue a policy which is reviewed by HO.

Business Risk

Industry Dynamics During CY21, bank financing and automotive sector growth facilitated the industry progression. As COVID re-emerged through its "Omicron" variant, its potential implications remain yet to unfold in the coming year. Reduction in management expenditure and product innovation shall remain crucial for the industry participants in order to solidify market position.

Relative Position CSIL has less than 1% market share in general insurance industry, establishing it as a small player within the industry.

Revenue The Company wrote a premium of PKR 72.6mln in 9MCY21 as compared to PKR 76.8mln in 9MCY20, depicting a minor decline of 5.5% given the volatile economic environment. The management has adopted a prudent approach of underwriting business instead of writing premium based on the high-risk factor.

Profitability The underwriting performance of the Company declined from PKR 16.5mln for the period ended 9MCY20, to PKR 5.4mln for the period ended 9MCY21, with such a decline attributed to decreased business being captured in motor segment, as well as enhancement of credit and suretyship policy reinsurance. Profit before tax i.e. PKR 42.6mln (9MCY19: PKR 54.3mln) was supplemented by Interest Income pertaining to the advance of shares issues to Dost Steel Limited.

Investment Performance Investment income of PKR 4mln for the period ended 9MCY21 (9MCY20: PKR 2mln) is generated through dividend income, gained from equity security investments.

Sustainability Going forward the Company intends to capitalize on the direct line personal insurance in motor segment and gain synergic benefit from CS Technologies in underwriting and claims management functions., whilst building a low-risk portfolio focusing on equity transactions to earn and record a sizeable gain

Financial Risk

Claim Efficiency The outstanding claims provision for the period amounted to PKR 61.5mln for the period ended 9MCY21, whereas total claims for the period amounted to PKR 2.9mln indicating a strong provision being recorded during the period.

Re-Insurance CSIL has facultative reinsurance arrangements with XL Bermuda Ltd (Rated 'A+' by S&P), Santam Re (Rated 'AA-' by S&P) and PRCL.

Cashflows & Coverages The liquid assets / net insurance premium coverage stood at 1.0 times for the period ended 9MCY21, indicating sufficient coverage in terms of liquidity. Further, significant strategic investments of the Company provided a strong liquid net insurance / net insurance claims ratio of 26.1 times.

Capital Adequacy CSIL is remains well compliant of the SECP's minimal capital requirement of PKR 500mln, holding paid up capital of PKR 1,077mln and an equity base of PKR 1,061mln for the period ended 9MCY21.



PKR mln

Crescent Star Insurance Company Limited
Listed Public Limited

Sep-21 **Dec-20** **Dec-19** **Dec-18**
9M **12M** **12M** **12M**

A BALANCE SHEET

1 Investments	890	889	875	870
2 Insurance Related Assets	212	193	171	156
3 Other Assets	269	237	192	132
4 Fixed Assets	12	15	16	21
5 Window Takaful Operations	-	-	-	-
Total Assets	1,383	1,333	1,254	1,180
1 Underwriting Provisions	47	46	53	48
2 Insurance Related Liabilities	65	64	63	62
3 Other Liabilities	210	191	159	135
4 Borrowings	-	3	5	6
5 Window Takaful Operations	-	-	-	-
Total Liabilities	322	304	280	252
Equity	1,061	1,029	974	927

B INCOME STATEMENT

1 Gross Premium Written	71	105	116	115
2 Net Insurance Premium	71	113	111	122
3 Underwriting Expenses	(66)	(93)	(109)	(200)
Underwriting Results	5	20	2	(78)
4 Investment Income	5	2	4	0
5 Other Income / (Expense)	32	44	58	40
Profit Before Tax	43	66	64	(38)
6 Taxes	(12)	(12)	(14)	(14)
Profit After Tax	31	55	49	(52)

C RATIO ANALYSIS

1 Profitability				
Loss Ratio (Net Insurance Claims / Net Insurance Premium)	4.0%	6.6%	12.6%	14.3%
Combined Ratio (Loss Ratio + Expense Ratio)	92.4%	82.2%	98.0%	164.2%
2 Investment Performance				
Investment Yield	0.7%	0.2%	0.4%	0.0%
3 Liquidity				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	1.59	1.60	1.40	1.36
4 Capital Adequacy				
Liquid Investments / Equity	69.8%	71.7%	74.4%	77.7%

Insurer Financial Strength (IFS) Rating

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of the insurance company to meet policyholders and contractual obligations.

Scale	Definition
AAA	Exceptionally Strong. Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
AA+ AA AA-	Very Strong. Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small.
A+ A A-	Strong. Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.
BBB+ BBB BBB-	Good. Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
BB+ BB BB-	Weak. Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
B+ B B-	Very Weak. Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
CCC CC C	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Distressed. Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and declared insolvent by the regulator.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.	Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.	Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.	Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.	Harmonization A change in rating due to revision in applicable methodology or underlying scale.
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Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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