



The Pakistan Credit Rating Agency Limited

CRESCENT STAR INSURANCE LIMITED (CSINSURANCE)

IFS RATING REPORT

	NEW [DEC-16]	PREVIOUS [APR-16]	REPORT CONTENTS
Insurer Financial Strength (IFS) Rating	A-	A-	1. SUMMARY ANALYSES
Outlook	RW – Developing	RW – Developing	2. FINANCIAL SUMMARY
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			4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

DECEMBER 2016

<p>Profile & Ownership</p> <ul style="list-style-type: none"> Crescent Star Insurance Limited (CSInsurance), established in 1957; and listed on the Pakistan Stock Exchange Rescued by current sponsors from being insolvent after acquisition of the company in Feb-13; entire operations revamped and new strategy in place beginning CY14 CSInsurance is majority controlled by group of individuals including two private companies holding 55% Right issue in Mar16: PKR 207mln at par as compared to previous right issue (Mar14: PKR 300mln) with 40% discount <p>Governance & Management</p> <ul style="list-style-type: none"> Board of Directors, nominated by the sponsors, comprise professionals belonging to technology, engineering, health sciences and NBFCs sectors Key man behind the company, Mr. Naim Anwar, is the Managing Director and the CEO, and has built sound team of professionals <p>Business Risk</p> <ul style="list-style-type: none"> Small sized GPW witnessed a decline of 22% to PKR 166mln as CSInsurance strategically shredded loss making health portfolio (PKR 90mln); barring this, growth clock in at 39% YoY in 9M16 GPW mix stands dominated by motor (54%), followed by miscellaneous (25%), fire (12%) and marine (9%); misc. saw largest growth due to bond and engineering The top ten customer concentration is high at 51%; mainly due to single largest customer Bank of Punjab (35%) Improved loss ratio to 24% (9M15: 40%), reaping benefit from rationalization in motor and health portfolios Operational expense decreased in absolute size by 31% due to lower provision for bad debts (9M16: PKR 3mln, 9M15: PKR 13mln), however, low NPR keeps expense ratio alarmingly high at 76%; capacity building in anticipation of growth Investment income is low; providing negligible support to bottom-line Pre-tax profit improved to PKR 4mln, as compared to 9M15: loss of PKR 23mln excluding one-off gain from sale of investment property (PKR 113mln) <p>Business Strategy</p> <ul style="list-style-type: none"> Primary focus on direct line personal insurance in motor and health segment; small ticket risks in masses Technology upgradation taking synergic benefit from CSTechnologies – sister concern – in underwriting and claims management functions Expansion through acquisition and merger; (i) PICIC scheme is at an advance stage of regulatory approval, (ii) Pak-Kuwait Takaful, acquisition of majority stake (62.5%) is taking time in regulatory approval Management expects PICIC merger to bring potential business size to CSInsurance; which is currently not available to PICIC due to ongoing structural issues, however, PICIC is currently not compliant with SECP’s solvency requirements; pending regulatory approval of extension till merger is complete <p>Financial Risk</p> <ul style="list-style-type: none"> Sizeable investment book (end-Sep16: PKR 649mln) representing entire equity base; financed through right issue (PKR 207mln) in Mar16 and sale of investment property (PKR 300mln) in 4Q15 Small sized liquid investments (PKR 94mln), however, adequately provides coverage to claims liability by 1.5times Strategic investments (PKR 516mln), representing 80% of equity base, endows holding company structure to CSInsurance DSL carries investment risks, dependent upon successful commissioning of its operations (expected 2Q17), though comfort is drawn from restructuring of loans with lenders and liquidity breather through right issue of PKR 1bln in Dec-16 Return from these strategic investments is expected in the long term only, which remains to be seen CSI has reinsurance arrangements with Trust Re (rated ‘A-’ by AM Best) and PRCL 	<p style="text-align: center;">RATING RATIONALE</p> <p>The rating reflects CSInsurance’s strategy to focus on direct line personal insurance in motor and health segments, targeting small ticket clients. The company has shredded its corporate health portfolio - amid high losses. This enabled the company to improve underwriting performance, though expense ratio is still significantly high. The company’s liquidity profile matches the risk parameters for current size of business operations, however, going forward with rising business, improvement in liquidity profile is essential. The company is gearing towards growth with realigned organizational structure along with strengthened sales team, extended branch network, refined systems and control with upgraded IT infrastructure. Meanwhile, expansion through non-organic means is on cards with significant merger and acquisition in pipeline. At the same time, CSInsurance is moving towards a holding company structure through building its non-insurance strategic book. The company has completed (in Dec-16) deployment of sizeable funds (65% of equity) in Dost Steels Limited (DSL), funded through internal sources and fresh equity injection; herein, management of associated risks will be important. Moreover, it has entered FMCG sector - CSFoods and CSLuxury. While, CSTechnologies is aimed at providing group support.</p> <p style="text-align: center;">KEY RATING DRIVERS</p> <p>The rating remains on watch with developing status due to; (i) acquisition of controlling stake in DSL, herein, successful operations (expected CoD 2Q17) is critical, (ii) merger with PICIC Insurance is at advance stage of filing in high court; this may bring synergic benefits to the company, and (iii) acquisition of controlling stake (62.5%) in Pak Kuwait Takaful Company is pending regulatory approval; which would entail entrance in takaful market. Monitoring of subsequent solvency is crucial.</p> <p style="text-align: center;">INDUSTRY SNAPSHOT</p> <p>Pakistan general insurance continued growth trajectory (CAGR 4 years 10%). While fire and motor growth is driven by credit off by the banks, the miscellaneous segment has seen largest growth in health, crop, and livestock. The underwriting profitability improved, though change in tax laws shall impact net profits, going forward. Growth prospects are sanguine.</p>
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**GENERAL INSURANCE
Financials [Summary]**

Crescent Star Company Insurance Limited (CSInsurance)

PKR mln

BALANCE SHEET	30-Sep-16 9M16	31-Dec-15 Annual	31-Dec-14 Annual
Investments			
Liquid Investments	94	74	90
Other Investments	555	297	184
	<u>649</u>	<u>371</u>	<u>274</u>
Insurance Related Assets	264	248	238
Other Assets	46	220	63
TOTAL ASSETS	<u>960</u>	<u>838</u>	<u>575</u>
Equity	374	510	352
Underwriting Provisions	130	116	116
Insurance Related Liabilities	72	94	59
Other Liabilities	71	119	47
TOTAL EQUITY & LIABILITIES	<u>647</u>	<u>838</u>	<u>575</u>

INCOME STATEMENT	30-Sep-16	31-Dec-15	31-Dec-14
Gross Premium Written (GPW)	166	266	237
Net Premium Revenue (NPR)	157	237	136
Net Claims	(37)	(92)	(25)
Net Operational Expenses	(119)	(183)	(156)
UNDERWRITING RESULTS	<u>1</u>	<u>(39)</u>	<u>(44)</u>
Investment Income	5	125	7
Other Income/ (expense)	1	3	3
PROFIT BEFORE TAX	<u>6</u>	<u>90</u>	<u>(34)</u>

RATIO ANALYSIS	30-Sep-16	31-Dec-15	31-Dec-14
Underwriting Results			
Loss Ratio	24%	39%	18%
Combined Ratio	100%	106%	133%
Performance			
Operating Ratio	96%	51%	125%
Investment Yield	7%	8%	12%
Liquidity & Solvency			
Liquidity Ratio – times	1.5	1.0	2.0



RATING SYMBOLS & DEFINITIONS:

**INSURER FINANCIAL STRENGTH (IFS)
RATING SCALE & DEFINITIONS**

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

RATING 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-	Moderately Weak. Moderately weak with an uncertain capacity to meet policyholder and contract obligations. Though positive factors are present, overall risk factors are high, and the impact of any adverse business and economic factors is expected to be significant.
B+ B B-	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.
CCC CC C	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.
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, a) some material identifiable event and/or b) deviation from expected trend. 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 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, but may stay in abeyance for long. 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, or c) the rating remains suspended for six months.

Disclaimer: PACRA's IFS rating does not constitute any form of guarantee of the ability of the insurance company to meet policyholders' obligations; nor does it constitute a recommendation to effect or discontinue any policy of insurance. PACRA's rating is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



Rated Entity

Name of Rated Entity
Sector
Type of Relationship

Crescent Star Insurance Limited (CSInsurance)
 Insurance - General
 Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Outlook	Action
29-Dec-16	A-	RW-Developing	Maintain
18-Apr-16	A-	RW-Developing	Maintain
6-Oct-15	A-	Stable	Maintain
25-Mar-15	A-	Stable	Upgrade
1-Apr-14	BBB+	Stable	Initial

Related Criteria and Research

Methodology:
Sector Research:

Insurer Financial Strength Rating Methodology
 Insurance | General - Viewpoint | Nov-16

Rating Analysts

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Rating Team Statement

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

Disclaimer

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Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer.

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

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Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter;

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Probability of Default (PD)

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