The Pakistan Credit Rating Agency Limited

TPL DIRECT INSURANCE LIMITED (TDIL)

IFS RATING REPORT

	NEW [MAY-17]	PREVIOUS [DEC-16]
Insurer Financial Strength (IFS) Rating	A+	A
Outlook	Stable	Stable

MAY 2017

Profile & Ownership

- TPL Direct Insurance Limited (TDIL); formed in 1992, is listed on Pakistan Stock Exchange since Sep-11
- Greenoaks Global Holdings (GGH) an international shareholder in TDI, is offloading its stake in TDI and TPL Group intends to buy it back. This will bring change in ownership structure and accordingly will modify the governance framework. Consequently, TPL Group's shareholding and representation on board will increase

Management

- The CEO, Mr. Saad Nisar, an MBA from IBA, has been on the position since Jan-09, and is supported by a team of experienced professionals

Business Risk

- GPW of the company clocked in at PKR 2,056mln for CY16, showing high growth of 26%. The book is dominated by motor segment (92%), followed by health (4%), fire (3%); window takaful grew by 88%
- The company historically had exclusive focus on personal line insurance (motor, health, travel), but now shifting focus towards corporate lines – fire and marine
- Motor segment – forte of the company – drived growth, new segment of fire, marine and health added PKR 143mln in CY16 (CY15: Nil)
- Loss ratio of conventional business significantly improved to 42% (CY15: 47%), while window takaful posted slight improvement in loss ratio of 54% (CY15: 55%)
- Expense ratio improved to 57% (CY15: 62%) on the back of higher gross premium written in CY16, resulting improved combined ratio 103% (CY15:111%)
- Conventional underwriting posted improvement with a profit of PKR 8mln, as against loss of PKR 105mln in CY15; whereas, window takaful underwriting posted a loss of PKR 72mln in participant's takaful fund and profit of 83mln in Operator's fund
- Window takaful operations remained in net consolidated deficit of PKR 89mln (OF: Profit of PKR 34mln, PTF: PKR (123mln), deteriorating participant's takaful fund from PKR 57mln in CY15 needs management attention
- Net Investment income (CY16: PKR 58mln), mainly comes from stable stream of bank deposits carrying low financial risk-supports bottomline

Business Strategy

- TDIL envisages to continue expansionary stance and improve its standing in the industry
- The company is eying 3 to 4 times growth in the next five years; capitalizing on strong footprints in retail; motor segment growth is inevitable, while strengthening corporate line remains to be seen
- The underwriting strategy for corporate is conservative while retaining small proportion on net account, wherein, focus on profitability remains important

Financial Risk

- TDIL's investment book (PKR 1,371mln) constitutes 1.3times of its equity base at end-Dec16
- Predominant portion has been deployed in liquid avenues (PKR 1,295mln), mainly in Term Deposits in banks, reflecting risk averse strategy of sponsors
- Liquidity cover to claims liability, currently at robust level (6.8times), provides cushion for ongoing expansion as the company underwrites larger risks in fire and marine
- Reinsurance arrangements are with reputable reinsurers; Trust Re (rated 'A-by AM Best) and Hannover Re (rated 'AA-' by S&P)

RATING RATIONALE

The rating reflects established position of the company in its niche market personal line auto insurance. The company has been sustainably augmenting its market positioning. Third largest player in motor segment, TDIL holds substantial share in industry's GPW of the segment. Advanced technology infrastructure has continued providing an edge to the company amidst high competition. Rolling out new business strategy, the company launched corporate line insurance in fire and marine segments. With structured efforts, TDI intends to fortify its inroads in commercial lines. This has added diversity to product slate of TDIL. Capitalizing on strong foothold in niche market Direct Insurance TDIL is establishing relationships with intermediaries; bankers and auto manufacturers. Window takaful volumes are growing, though profitability is yet to materialize in this segment. With rise in business size, the underwriting profitability must transpire. Currently, the financial risk profile is equipped with sound liquidity, however, needs to be monitored carefully as the company takes the trajectory of growth

KEY RATING DRIVERS

The rating is dependent upon the company's ability to increase its system share, inline with expansion strategy, thereby, adding diversification to revenue stream. Translation of the same in the form of enhanced profitability is beneficial. Cohesiveness and sustainability in the management team is important. At the same time, the absolute & proportional size of liquid as well as earning investment book is essential.

INDUSTRY SNAPSHOT

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.

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TPL Direct Insurance Limited (TDIL)

BALANCE SHEET	31-Dec-16	31-Dec-15	31-Dec-14
	Annual	Annual	Annual
Investments	Audited	Audited	Audited
Liquid Investments	1,295	961	221
Other Investments	75	210	288
	1,370	1,170	509
Insurance Related Assets	381	199	146
Other Assets	822	680	798
TOTAL ASSETS	**2,573**	**2,049**	**1,452**
Equity	1,116	975	514
Underwriting Provisions	1,053	795	677
Insurance Related Liabilities	272	200	183
Other Liabilities	132	80	79
TOTAL EQUITY & LIABILITIES	**2,573**	**2,049**	**1,452**

INCOME STATEMENT	31-Dec-16	31-Dec-15	31-Dec-14
Gross Premium Written (GPW)	**2,056**	**1,635**	**1,286**
Net Premium Revenue (NPR)	1,744	1,421	1,073
Net Claims	(801)	(691)	(536)
Net Operational Expenses	(980)	(887)	(582)
UNDERWRITING RESULTS	(37)	(157)	(46)
Investment Income	58	47	16
Other Income/ (expense)	62	102	76
PROFIT BEFORE TAX	**83**	**(8)**	**46**

RATIO ANALYSIS	31-Dec-16	31-Dec-15	31-Dec-14
Underwriting Results			
Loss Ratio	46%	49%	50%
Combined Ratio	103%	111%	104%
Performance			
Operating Ratio	96%	100%	95%
Investment Yield	5%	6%	2%
Liquidity & Solvency			
Liquidity Ratio – times	6.8	5.5	1.4

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.