



The Pakistan Credit Rating Agency Limited

# UNIVERSAL INSURANCE COMPANY LIMITED

## RATING REPORT

	<b>PROPOSED</b> <b>[SEP 17]</b>	<b>PREVIOUS</b> <b>[JUNE 17]</b>
Insurer Financial Strength (IFS) Rating	A-	A-
Outlook	Stable	Stable

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SEP 2017

**Profile & Ownership**

- Universal Insurance Company Limited (UVICL), incorporated in 1958, is listed on Pakistan Stock Exchange (PSX).
- Downsized beginning 2015, the company is operating through two branches (CY15: 1 branch, CY14: 19 branches).
- Majority ownership of the company is held by Bibojee Group (87%), through holding company “Bibojee Services Private Limited” (BSL).
- Bibojee group is well established in having various industrial sectors including Textile, Auto, Tyres & Rubber and Engineering.

**Governance and Management**

- Nine members BoD constitutes six members from sponsoring family- including the CEO. One member is an employee of the group alongwith an independent director lately inducted.
- The CEO, Mr. Gohar Ayub Khan, replaced in succession to Begum Zeb Gohar Khan (Late), in Jan-16. Managing Director – Mr. Amir Raza, is an experienced insurance professional long associated with the company.
- The Auditors M/s Hameed Chaudhary & Co, issued an unqualified opinion on results of CY16.

**Business Risk**

- In 1H17, GPW of UVICL amounted to PKR 8mln (1H16: PKR 15mln), the sole business underwritten is of Bibojee Group – through facultative acceptance and small sized coinsurance.
- Underwriting reported loss of PKR 19mln (1H16: 7mln).
- The bottom line is supported by investment income (1H17; PKR 15.5mln, 1H16; PKR 20mln) on the back of improved performance of the associate-Gandhara Industries.
- Decreased business written surged net Loss Ratio drastically to 75% (1H16: 39%).

**Business Strategy**

- The management, after resolving structural issues, is revisiting its business strategy to re-enter in the market.
- The company is planning a right issue, in order to boost its liquidity profile. For this, an undertaking is in place.
- In the meantime, UVICL’s business strategy would continue to entail underwriting insurance business only from group companies – coinsurance and facultative - and selected clients, with low loss ratio, and improve profitability.

**Financial Risk**

- Reinsurance arrangements comprise a combination of surplus, quota share and excess of loss treaties with optimal capacity limits, while reinsurance panel needs considerations.
- Investment portfolio at end June-17 (PKR 347mln) is majorly strategic investments (56%), and the rest comprises liquid avenues (44%).
- Strategic investment comprises ownership stake (5.5%) in Gandhara Industries
- Market value of the strategic investment in BWM & GIL is approximately PKR 612 thousand and 769mln respectively at end June 17.
- The sponsor intends to enhance the paid-up capital of the company from PKR 416.8mln to PKR 500mln by end-Dec 17. For this, the sponsor ‘Bibojee Services (private) Limited’ is expected to raise cash by selling a stake.

**RATING RATIONALE**

The rating of Universal reflects strong parentage of the company – Bibojee group. The parentage has provided multi-faceted support to the company: a) injection of capital (PKR 167mln), three times, to date from the time of the crisis, b) sustenance in the cleansing period spanning over a couple of years, c) captive business and d) further equity injection, as approved by the board. With additional equity injection, the liquidity of the company is expected to improve further. The business strategy envisages tapping captive business with gradual entry into the market business. The road ahead is long, as the company would be building the marketing force after enlistment with the banks. The ratings also incorporate significant market value of the strategic investment book; which also yields benefit in the form of dividends.

**KEY RATING DRIVERS**

The rating is dependent upon enhancement of liquidity position of the company, augmenting its risk absorption capacity, as envisaged by the board and the management. Meanwhile, continued improvement in the business profile of the company, is also imperative for the rating.

**INDUSTRY**

Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 12%). While conventional segments of fire and motor growth has been driven by private sector credit off take by the banks, the miscellaneous segment has seen largest growth in non-conventional avenues; bond business, health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.



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## GENERAL INSURANCE Financials [Summary]

### The Universal Insurance Company Limited (UVICL)

	PKR mln			
<b>BALANCE SHEET</b>	<b>30-Jun-17</b>	<b>30-Dec-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>
	IH17	Annual	Annual	Annual
<b>Investments</b>				
Liquid Investments	150	140	156	164
Other Investments	197	*	140	116
Insurance Related Assets	185	203	240	314
Other Assets	267	274	249	253
<b>TOTAL ASSETS</b>	<b>799</b>	<b>804</b>	<b>784</b>	<b>847</b>
Equity	655	643	553	360
Underwriting Provisions	1	10	23	25
Insurance Related Liabilities	111	117	161	369
Other Liabilities	32	34	46	93
<b>TOTAL EQUITY &amp; LIABIL</b>	<b>799</b>	<b>804</b>	<b>784</b>	<b>847</b>
<b>INCOME STATEMENT</b>	<b>30-Jun-17</b>	<b>30-Dec-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>
<b>Gross Premium Written (GP)</b>	<b>8</b>	<b>36</b>	<b>45</b>	<b>68</b>
Net Premium Revenue (NPR)	7	26	28	35
Net Claims	5	9	56	(2)
Net Operational Expenses	(31)	(60)	(34)	(106)
<b>UNDERWRITING INCOME</b>	<b>(19)</b>	<b>(26)</b>	<b>51</b>	<b>(73)</b>
Investment Income	15	79	34	10
Other Income/ (expense)	17	19	39	11
<b>PROFIT BEFORE TAX</b>	<b>14</b>	<b>71</b>	<b>124</b>	<b>(52)</b>
<b>RATIO ANALYSIS</b>	<b>30-Jun-17</b>	<b>30-Dec-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>
<b>Underwriting Results</b>				
Loss Ratio	-75%	34%	201%	6%
Combined Ratio	409%	284%	-313%	308%
<b>Performance</b>				
Operating Ratio	-88%	-98%	574%	248%
Investment Yield	9%	25%	12%	4%
<b>Liquidity &amp; Solvency</b>				
Liquidity Ratio – times	2.1	1.8	1.5	0.5

\* MV of company's investments in Bannu woolen Mills & Gandhara Industries as at 30 June 2017 = PKR 770mln

The Universal Insurance Company Limited (UVICL)

Sep-17

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**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
<b>AAA</b>	<b>Exceptionally Strong.</b> 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.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very Strong.</b> 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
<b>A+</b> <b>A</b> <b>A-</b>	<b>Strong.</b> 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.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good.</b> 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.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderately Weak.</b> 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> <b>B</b> <b>B-</b>	<b>Weak.</b> 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>CCC</b> <b>CC</b> <b>C</b>	<b>Very Weak.</b> 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.
<b>D</b>	<b>Distressed</b> 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.

