



The Pakistan Credit Rating Agency Limited

# CRESCENT STAR INSURANCE LIMITED (CSINSURANCE)

## IFS RATING REPORT

	<b>NEW [DEC-17]</b>	<b>PREVIOUS [JUN-17]</b>	<b>REPORT CONTENTS</b>
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DECEMBER 2017

## **Profile & Ownership**

- Crescent Star Insurance Limited (CSInsurance), established in 1957; is 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
- The company plans to issue another right issue of PKR 250mln, the proceeds are expected to be received by Jan-18

## **Governance & Management**

- Eight member BoD, 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

## **Business Risk**

- During 9MCY17, small sized GPW witnessed a decline of 52% to PKR 80mln as CSInsurance strategically shredded loss making portfolio
- GPW mix stands dominated by motor (56%), followed by miscellaneous (27%), marine (9%) and fire (5%)
- Loss ratio increased to 29% (9M16: 24%), however, CSInsurance is still reaping benefit from rationalization in motor and health portfolios
- Low NPR keeps expense ratio alarmingly high at 133% (9M16: 76%); capacity building in anticipation of growth
- Pre-tax profit registered massive growth to PKR 90mln, as compared to (9M16: PKR 4mln) mainly on the back of proceeds from sale of DSL shares amounting to PKR 137mln. Excluding one-off sale, investment income is low; providing negligible support to bottom-line

## **Business Strategy**

- Primary focus on direct line personal insurance in motor and health segment; small ticket risks in masses
- Technology up-gradation taking synergic benefit from CSTechnologies – sister concern – in underwriting and claims management functions
- CSInsurance is fast moving towards a holding company structure through building its non-insurance strategic book
- Acquisition of major stake in DSL, herein, successful operations (revised expected CoD end-Nov17) is critical
- Other significant developments including merger of CSFoods with and into PICIC

## **Financial Risk**

- Sizeable investment book (end-Sep17: PKR 880mln) representing entire equity base; financed through right issue (PKR 207mln) in Mar16, sale of investment property (PKR 300mln) in 4Q15 and sale of investment in DSL (PKR 66mln)
- CSInsurance's equity base has been strengthened (9M17: PKR 755mln, 9M16: PKR 646mln). However, incremental benefit to the liquidity position was limited (9M17: PKR 104mln) as the rest of the cash is invested in strategic investments
- CSInsurance's small sized liquid investment book (end-Sep17: PKR 104mln), is majorly deployed (68%) in bank deposits, followed by government securities (20%), and debt securities (12%)
- However, strategic investments to the tune of PKR 547mln will provide boost to the company once the return starts flowing in the future
- The liquidity provides 1.5 times coverage to claims liability, as the risk profile of motor segment gives rise to only small sized claims
- DSL carries investment risks, dependent upon successful commissioning of its operations, though comfort is drawn from restructuring of loans with lenders and liquidity breather through right issue of PKR 1bln in Dec-16
- CSInsurance has reinsurance arrangements with Trust Re (rated 'A-' by AM Best) and PRCL

## **RATING RATIONALE**

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 alarmingly 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. CSInsurance is fast moving towards a holding company structure through building its non-insurance strategic book. The company has completed deployment of sizeable funds 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. To further expand its footprint in the retail business, CSInsurance plans to intake fresh equity through way of right issue.

## **KEY RATING DRIVERS**

The rating remains on watch with developing status due to acquisition of major stake in DSL, herein, successful operations (revised expected CoD end-Nov17) is critical and other significant developments including merger of CSFoods with and into PICIC. The rating requires desirable outcome from above factors. Meanwhile, risk absorption capacity needs to be kept intact.

## **INDUSTRY SNAPSHOT**

Pakistan's general insurance growth has picked up (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, health, crop, livestock, etc. The industry is exploring various untapped avenues, while upgrading its operating platform.



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**GENERAL INSURANCE  
Financials [Summary]**

**Crescent Star Company Insurance Limited (CSInsurance)**

	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
	9M	Annual	Annual	Annual
<i>PKR mln</i>				
<b>BALANCE SHEET</b>				
<b>Investments</b>				
Liquid Investments	104	158	74	90
Other Investments	776	547	297	184
	880	705	371	274
Insurance Related Assets	252	255	248	238
Other Assets	61	49	220	63
<b>TOTAL ASSETS</b>	<b>1,194</b>	<b>1,009</b>	<b>838</b>	<b>575</b>
Equity	755	664	510	352
Underwriting Provisions	51	72	116	116
Insurance Related Liabilities	104	96	94	59
Other Liabilities	284	177	119	47
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>1,194</b>	<b>1,009</b>	<b>838</b>	<b>575</b>
<b>INCOME STATEMENT</b>	<b>30-Sep-17</b>	<b>31-Dec-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>
<b>Gross Premium Written (GPW)</b>	<b>80</b>	<b>190</b>	<b>266</b>	<b>237</b>
Net Premium Revenue (NPR)	90	206	237	136
Net Claims	(26)	(55)	(92)	(25)
Net Operational Expenses	(119)	(166)	(183)	(156)
<b>UNDERWRITING RESULTS</b>	<b>(56)</b>	<b>(15)</b>	<b>(39)</b>	<b>(44)</b>
Investment Income	138	39	125	7
Other Income/ (expense)	27	1	3	3
<b>PROFIT BEFORE TAX</b>	<b>109</b>	<b>25</b>	<b>90</b>	<b>(34)</b>
<b>RATIO ANALYSIS</b>	<b>30-Sep-17</b>	<b>31-Dec-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>
<b>Underwriting Results</b>				
Loss Ratio	29%	27%	39%	18%
Combined Ratio	162%	107%	106%	133%
<b>Performance</b>				
Operating Ratio	22%	88%	51%	125%
Investment Yield	140%	34%	8%	12%
<b>Liquidity &amp; Solvency</b>				
Liquidity Ratio – times	1.5	1.3	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
<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.

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Rated Entity

**Name of Rated Entity** Crescent Star Insurance Limited (CSInsurance)  
**Sector** Insurance - General  
**Type of Relationship** Solicited

**Purpose of the Rating** Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Outlook	Action
6-Dec-17	A-	RW-Developing	Maintain
23-Jun-17	A-	RW-Developing	Maintain
29-Dec-16	A-	RW-Developing	Maintain
18-Apr-16	A-	RW-Developing	Maintain
6-Oct-15	A-	Stable	Maintain

Related Criteria and Research

**Methodology:** Insurer Financial Strength Rating Methodology  
**Sector Research:** Insurance | General - Viewpoint | Oct-17

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