



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
14-Jun-2018	A-	-	Stable	Maintain	-
06-Dec-2017	A-	-	Developing	Maintain	YES
23-Jun-2017	A-	-	Developing	Maintain	YES
29-Dec-2016	A-	-	Developing	Maintain	YES
18-Apr-2016	A-	-	Developing	Maintain	-

Rating Rationale and Key Rating Drivers

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 injected fresh equity through way of right issue.

The rating watch has been removed post successful commissioning of DSL operations. CSInsurance holds major stake in DSL, herein, smooth running of operations and consequent turnover build-up is critical. 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 Insurer Financial Strength (IFS) Rating General(Jun-17)
Related Research	Sector Study Insurance General(Oct-17)
Rating Analysts	Muneeb Rashid muneeb.rashid@pacra.com +92-42-35869504 Jhangeer Hanif jhangeer@pacra.com +92-42-35869504

CRESCENT STAR INSURANCE LIMITED (CSINSURANCE)	
PROFILE	
Incorporated	1957
Profile	<ul style="list-style-type: none"> CSInsurance is a small sized general insurance company operating with a network of 7 branches.
Legal Status	Listed
Head Office	Karachi

INDUSTRY SNAPSHOT
<p>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.</p>

OWNERSHIP

- CSInsurance is majority controlled by group of individuals including two private companies holding ~55%
- The company executed another right issue of PKR 250mln at par, the proceeds have been received in Jan-18
- Previously, right issue in Mar16: PKR 207mln at par as compared to previous right issue (Mar14: PKR 300mln) with 40% discount

GOVERNANCE

- Eight member BoD, nominated by the sponsors, comprise professionals belonging to technology, engineering, health sciences and NBFCs sectors
- The external auditors of the company, M/s Grant Thornton Ajum Rahman Chartered Accountants, have qualified the opinion for the year end CY17
- The qualification pertains to following factors; i) Interest accrued amounting to PKR 66.5mln on advance against issue of shares to Dost Steels Limited, and ii) Balances relating to claims (PKR 4.7mln) and reinsurance recoveries (PKR 3.8mln)

MANAGEMENT

- Key man behind the company, Mr. Naim Anwar, is the Managing Director and the CEO, and has built sound team of professionals

BUSINESS RISK

- Small sized GPW witnessed a decline of 40% to PKR 113mln as CSInsurance strategically shredded loss making portfolio
- GPW mix stands dominated by motor (51%), followed by miscellaneous (30%), marine (8%) and fire (8%)
- Loss ratio increased to 34% (CY16: 27%), however, CSInsurance is still reaping benefit from rationalization in motor and health portfolios. Low NPR keeps expense ratio alarmingly high at 155%; capacity building in anticipation of growth
- Pre-tax profit registered massive growth to PKR 75mln, as compared to (CY16: PKR 25mln) mainly on the back of proceeds from sale of DSL shares amounting to PKR 138mln. Excluding one-off sale, investment income is low; providing negligible support to bottom-line
- During 3MCY18, GPW clocked-in at PKR 35mln registering YoY increase of 146%; mainly owing low base of last year. GPW mix in first three months largely remained intact

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, the company successfully started commercial operations in Mar-18. Smooth running of operations is critical
- Other significant developments including merger of CSFoods with and into PICIC

FINANCIAL RISK

- Sizeable investment book (end-Mar18: PKR 663mln) representing 67% of equity base; financed through right issue of PKR 250mln in Mar-18, right issue of PKR 207mln in Mar-16, sale of investment property (PKR 300mln) in 4Q15 and sale of investment in DSL (PKR 138mln)
- Equity base has been strengthened (end-Mar18: PKR 991mln, end-Dec17: PKR 988mln). However, incremental benefit to the liquidity position was limited (end-Mar18: PKR 94mln) as the rest of the cash is invested in strategic investments
- CSInsurance's small sized liquid investment book (end-Mar18: PKR 94mln), is majorly deployed (62%) in bank deposits, followed by government securities (23%), and debt securities (15%). Strategic investments to the tune of PKR 569mln will provide boost to the company once the return starts flowing in the future
- The liquidity provides 1.6 times coverage to claims liability, as the risk profile of motor segment gives rise to only small claims
- DSL carries investment risks, dependent upon smooth running of 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



The Pakistan Credit Rating Agency Limited

GENERAL INSURANCE
Financials [Summary]

Crescent Star Company Insurance Limited (CSInsurance)

BALANCE SHEET	31-Mar-18	31-Dec-17	31-Dec-16	31-Dec-15
	3M	Annual	Annual	Annual
<i>PKR mn</i>				
Investments				
Liquid Investments	94	91	158	74
Other Investments	569	765	547	297
	663	856	705	371
Insurance Related Assets	244	238	255	248
Other Assets	404	147	49	220
TOTAL ASSETS	1,311	1,241	1,009	838
Equity	991	988	664	510
Underwriting Provisions	61	57	72	116
Insurance Related Liabilities	100	110	96	94
Other Liabilities	159	86	177	119
TOTAL EQUITY & LIABILITIES	1,311	1,241	1,009	838
INCOME STATEMENT	31-Mar-18	31-Dec-17	31-Dec-16	31-Dec-15
Gross Premium Written (GPW)	35	113	190	266
Net Premium Revenue (NPR)	24	110	206	237
Net Claims	6	(37)	(55)	(92)
Net Operational Expenses	(39)	(170)	(166)	(183)
UNDERWRITING RESULTS	(9)	(98)	(15)	(39)
Investment Income	1	139	39	125
Other Income/ (expense)	9	35	1	3
PROFIT BEFORE TAX	0	76	25	90
RATIO ANALYSIS	31-Mar-18	31-Dec-17	31-Dec-16	31-Dec-15
Underwriting Results				
Loss Ratio	-25%	34%	27%	39%
Combined Ratio	138%	189%	107%	106%
Performance				
Operating Ratio	-100%	-31%	88%	51%
Investment Yield	3%	111%	34%	8%
Liquidity & Solvency				
Liquidity Ratio – times	1.6	1.3	1.3	1.0



INSURER FINANCIAL STRENGTH (IFS) RATING 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.

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>
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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.

Rating Team Statements

(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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (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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