



The Pakistan Credit Rating Agency Limited

## Rating Report

### Crescent Star Insurance Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jan-2023	A (ifs)	-	Stable	Maintain	Yes
31-Mar-2022	A (ifs)	-	Stable	Harmonize	Yes
28-Jan-2022	A-	-	Stable	Maintain	Yes
29-Jan-2021	A-	-	Stable	Maintain	Yes
31-Jan-2020	A-	-	Stable	Maintain	Yes
20-Jul-2019	A-	-	Stable	Maintain	Yes
18-Jan-2019	A-	-	Stable	Maintain	Yes
14-Jun-2018	A-	-	Stable	Maintain	-
06-Dec-2017	A-	-	Developing	Maintain	-
23-Jun-2017	A-	-	Developing	Maintain	-

#### Rating Rationale and Key Rating Drivers

Crescent Star Insurance Limited (CSIL or the Company) predominantly has a holding Company structure through building its non-insurance strategic book. IFS (Insurer Financial Strength) rating of CSIL portrays the Company's relative ability to meet liabilities towards the policyholders. The rating reflects Crescent Star Insurance's strategy directed towards direct line insurance in motor and miscellaneous segments. Focus remains on underwriting risk-free business. This has enabled the Company to improve underwriting losses, though the expense ratio is still high. A considerable investment has been undertaken by CSIL in Dost Steels Limited (DSL) which has remained non-cash producing over an extensive period. In order to convert DSL into an income generating unit, a revival plan is being chalked out for quite some time aimed at providing much required leadership, as well as requisite funding for working capital and operational needs. Further, a contingent merger of a subsidiary is further expected to unlock synergistic benefits for the Company, materialization of which remains crucial. The Company's current liquidity profile matches the risk parameters for the size of business operations, however, going forward, should the insurance business increase, improvement in liquidity profile is essential.

During CY22 economy, mired with multiple challenges i.e. natural disasters (Floods), the political instability trickles down toward a dip in business activities. Reduction in management expenditure and product innovation shall remain crucial for the industry participants in order to solidify their market position.

The rating watch captures the Company's consolidation process in Dost Steel Limited and merger of CS Foods into PICIC Insurance, while fulfilling regulatory and legal requirements. Keeping the business model, the management prefers facultative arrangements. The cash return from subsidiaries is important. Meanwhile, risk absorption capacity needs to be kept intact.

#### Disclosure

<b>Name of Rated Entity</b>	Crescent Star Insurance Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	IFS Rating
<b>Applicable Criteria</b>	Methodology   General Insurance Rating(Mar-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   General Insurance(May-22)
<b>Rating Analysts</b>	Muhammad Noor Ul Haq   noorulhaq@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Crescent Star Insurance Limited was incorporated in 1957 and is listed on Pakistan Stock Exchange (PSX).

**Background** Crescent Star Insurance Limited (CSIL) was established in 1957. In Feb-2013, new management took over the company. A new board invariably revamped the entire operating structure of the Company with a new business strategy.

**Operations** CSIL has been engaged in providing non-life insurance services mainly in the sphere of Motor, Health, Fire, Marine, Credit & Suretyship, Travel, Livestock & Crop, and Miscellaneous across Pakistan. The head office of CSIL is located in Karachi. The Company operates a network of 11 branches across the country; three in Karachi, one in Hyderabad, Multan, Rawalpindi, and Sialkot, and two in Lahore and Islamabad.

## Ownership

**Ownership Structure** Major shareholding (97.8%) of the Company is held with multiple individuals whereas (1.8%) is held by joint stock companies and pension fund trusts, and (0.4%) of shares are held by Mr. Naim Anwar.

**Stability** A diversified ownership structure is set in place for the Company, evidenced by various individuals and corporates comprising the shareholding structure.

**Business Acumen** Mr. Naim Anwar is considered the man of the last mile for Crescent Star Insurance. He has been part of the insurance industry for over 20 years and was previously associated with Adamjee Insurance (Executive Director) and PICIC as deputy managing director.

**Financial Strength** CSIL has developed a holding company structure, diversifying into other sectors of steel, FMCG, technology and luxury.

## Governance

**Board Structure** The board structure comprises eight members, 3 Executive Directors including Mr. Naim Anwar - CEO, 2 Non-Executive and 3 Independent Directors. Three board committees have been established by CSIL, namely; i) Audit, ii) Investment and iii) HR& Remuneration.

**Members' Profile** Mr. Naim Anwar holds the position of Chairman of the Board. Mr. Naim has been associated with the corporate world for more than 30 years out of which 24 years have been in senior positions in the insurance industry having a vast experience in the fields of Sales & Operations, re-insurance, Underwriting & Claims and Risk Management. The remaining board members comprise professionals of various financial and non-financial backgrounds.

**Board Effectiveness** The audit committee and investment committee conduct quarterly meetings, whereas HR& Remuneration holds meeting on annual basis, to ensure effective oversight of the Company's operations.

**Transparency** The External Auditors of the Company, M/s Crowe Hussain Chaudhury & Co, have expressed a qualified opinion for the year ended Dec-21. Qualification pertains to i) impairment testing on investment ii) accrued interest income and advance for the issuance of shares to Dost Seel Limited and iii) premium receivable.

## Management

**Organizational Structure** The organization structure comprises six major divisions (i) Operations – underwriting, Claims, and Reinsurance, (ii) Business Development – Sales and marketing, (iii) Finance – Accounts, Treasury, Investment, and secretarial practices, (iv) Business and Commercial Applications – Information Technology, (v) Human Resource – HR and corporate communication, and (vi) Admin – Administration and Purchase.

**Management Team** A key man behind the Company is CEO Mr. Naim Anwar. He possesses more than 30 years of experience in the corporate world out of which 24 years have been in senior positions. Each division is headed by a senior resource. He has built a sound team of professionals. The top and middle-tier management team are experienced.

**Effectiveness** The Board has formed three Management Committees, i) Underwriting, Reinsurance, and Co-insurance Committee which is chaired by Mr. Tanveer Ahmed, whereas ii) Claims Settlement Committee iii) Risk Management & Compliance Committee is led by Mr. Naim Anwar, meetings of management committees are conducted on a frequent basis to minimize risk.

**MIS** Crescent Star uses General Insurance System developed by Centegy Technologies. MIS reports have been customized according to control procedures.

**Claim Management System** A centralized claims management system with the exception of motor insurance has been set in place by the Company. Upon claims intimation, the surveyor prepares a report which is then scrutinized by branches first and then forwarded to Head Office along with supporting documents. The claims department at HO approves the claims and the recommendation for payment are forwarded to the finance department.

**Investment Management Function** The investment decision-making is channeled through a formal investment policy, duly approved by the BoD, states that the investment committee shall comprise two non-executive directors in addition to CEO and CFO.

**Risk Management Framework** The Company has clearly laid down approval limits for different tiers starting from the Branch Manager to the CEO. A detailed document, "Risk Management Guidelines" constitute a risk environment, while laying down underwriting and reinsurance guidelines and identifying functions and responsibilities of all participants from the BoD to the support staff.

## Business Risk

**Industry Dynamics** In terms of GPW, the industry has a total size of PKR ~114bln for 9MCY22 (9MCY21: PKR~89bln), registering a growth of ~28% YoY basis. Investment income has deteriorated to PKR ~8bln for 9MCY22 (9MCY21: PKR 9.45bln), despite hike in policy rate, insurance companies had to bear losses in equity securities. Industry has earned PAT of PKR 7.45bln for 9MCY22 (9MCY21: PKR 9.9bln), owing to higher claims, lower investment income and imposition of super tax. Some major industry claims have resulted in slight increase in claim ratio, recent flood will further impact profitability of insurance companies in last quarter of CY22.

**Relative Position** Crescent Star Insurance Limited is categorized as a small-sized insurance company with a market share of less than 1% as of Sep'22.

**Revenue** The Company underwrote a premium of PKR 92mln in CY21 as compared to PKR 116mln in CY20, whereas during 9MCY22 Company's GPW surged to PKR~ 123mln, witnessed 73% growth in its topline period on period basis (9MCY21: PKR~71mln). The Company is focused on a prudent approach. The top line was dominated by the Miscellaneous Segment with a whopping 84.6% (CY20: 77%). Further in 9MCY22 credit and suretyship were dominant in revenue generation followed by miscellaneous. Credit and suretyship witnessed an increase of 66% on period on period basis(9MCY22: PKR~85mln, 9MCY21: PKR~51mln).

**Profitability** During CY21 underwriting performance of the Company was recorded at PKR~ 1mln, whereas 9MCY22 Company recorded its underwriting profits to PKR~ 14mln owing an increase of 180% on YoY. This robust performance attributes to the credit and security segment which witnessed an increase of 57%. Further profit before tax of the Company recorded at PKR~ 68mln (9MCY21: PKR~43mlnmln).

**Investment Performance** There has been an improvement in investment income of the Company. CSIL earned an investment income of PKR 9mln during 9MCY22 (9MCY21: PKR 5mln; CY21: PKR 5mln).

**Sustainability** The Company is looking forward to the positive outcomes of the merger petition of Crescent Star Foods (Pvt) Ltd (CSF) with and into PICIC Insurance Ltd (PICIC). Further investment in DSL can give a strong future strategy to open up areas of interest that can produce positive results favoring the stakeholders.

## Financial Risk

**Claim Efficiency** During the period 9MCY22 total claims outstanding surged to PKR~ 66mln (9MCY21: PKR~ 62mln). Additionally, commercial efficiency(Insurance related Assets/Insurance related liabilities) ratio of the Company remained stagnant at 3.1x in CY21 which provides confidence in the Company's ability to pay off its related short-term liabilities. During 9MCY22 commercial efficiency ratio further, strengthen to 4.0x reflecting that Company can pay off its short-term debts.

**Re-Insurance** The management of Crescent Star Insurance Limited prefers facultative arrangements.

**Cashflows & Coverages** During the year CY21 liquidity of the Company remained stagnant and recorded at 1.1x (CY20: 0.9x), whereas trends remained unchanged, during 9MCY22 liquidity of the Company recorded at 1.0x. Liquid Assets of the Company surged at PKR~ 109mln (9MCY21: PKR~ 98mln, CY21: PKR~111mln)

**Capital Adequacy** Crescent Star Insurance is well positioned with the SECP's mandated requirement of PKR 500mln. The equity stands at just above PKR~ 1bln at CY21



PKR mln

Crescent Star Insurance Company Limited  
Listed Public Limited

Sep-22	Dec-21	Dec-20	Dec-19
9M	12M	12M	12M

#### A BALANCE SHEET

1 Investments	259	261	252	241
2 Insurance Related Assets	273	211	193	171
3 Other Assets	980	921	873	826
4 Fixed Assets	10	11	15	16
5 Window Takaful Operations	-	-	-	-
<b>Total Assets</b>	<b>1,522</b>	<b>1,405</b>	<b>1,333</b>	<b>1,254</b>
1 Underwriting Provisions	85	42	46	53
2 Insurance Related Liabilities	69	69	64	63
3 Other Liabilities	239	215	191	159
4 Borrowings	-	-	3	5
5 Window Takaful Operations	-	-	-	-
<b>Total Liabilities</b>	<b>393</b>	<b>326</b>	<b>304</b>	<b>280</b>
<b>Equity/Fund</b>	<b>1,129</b>	<b>1,079</b>	<b>1,029</b>	<b>974</b>

#### B INCOME STATEMENTS

##### CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	123	92	105	116
2 Net Insurance Premium/Net Takaful Contribution	80	96	113	116
3 Underwriting Expenses	(66)	(95)	(92)	(109)
<b>Underwriting Results</b>	<b>14</b>	<b>0</b>	<b>20</b>	<b>7</b>
4 Investment Income	9	5	2	4
5 Other Income / (Expense)	45	47	45	58
<b>Profit Before Tax</b>	<b>68</b>	<b>52</b>	<b>67</b>	<b>69</b>
6 Taxes	(19)	(5)	(19)	(14)
<b>Profit After Tax</b>	<b>50</b>	<b>47</b>	<b>48</b>	<b>54</b>

#### C RATIO ANALYSIS

<b>1 Profitability</b>				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Contribution	1.8%	10.3%	6.6%	12.0%
Combined Ratio (Loss Ratio + Expense Ratio)	82.2%	99.8%	82.0%	93.8%
<b>2 Investment Performance</b>				
Investment Yield	4.6%	1.8%	1.0%	2.2%
<b>3 Liquidity</b>				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	1.6	1.6	1.6	1.4
<b>4 Capital Adequacy</b>				
Liquid Investments / Equity (Funds)	9.7%	10.3%	9.9%	9.3%

**Insurer Financial Strength (IFS) Rating**

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

Scale	Definition
AAA (ifs)	<b>Exceptionally Strong.</b> Exceptionally Strong capacity to meet policy holders and contract obligations. Risk factors are minimal, and the impact of any adverse business and economic factors is expected to be extremely small.
AA++ (ifs) AA+ (ifs) AA (ifs)	<b>Very Strong.</b> Very Strong capacity to meet policy holders and contract obligations. Risk factors are very low, and the impact of any adverse business and economic factors is expected to be very small.
A++ (ifs) A+ (ifs) A (ifs)	<b>Strong.</b> Strong capacity to meet policy holders and contract obligations. Risk factors are low, and the impact of any adverse business and economic factors is expected to be small.
BBB++ (ifs) BBB+ (ifs) BBB (ifs)	<b>Good.</b> Good capacity to meet policy holders and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be manageable.
BB++ (ifs) BB+ (ifs) BB (ifs)	<b>Modest.</b> Modest capacity to meet policy holders and contract obligations. Though positive factors are present, risk factors are relatively high, and the impact of any adverse business and economic factors is expected to be significant.
B++ (ifs) B+ (ifs) B (ifs)	<b>Weak.</b> Weak capacity to meet policy holders and contract obligations. Risk factors are high, and the impact of any adverse business and economic factors is expected to be very significant.
CCC (ifs) CC (ifs) C (ifs)	<b>Very Weak.</b> Very weak capacity to meet policy holders and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors may lead to insolvency or liquidity impairment
D (ifs)	<b>Distressed.</b> Extremely weak capacity with limited liquid assets to meet policy holders and contract obligations, or subjected to some form of regulatory intervention or declared insolvent by the regulator.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. 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 rating outlook of the respective opinion.</p>	<p><b>Suspension</b> It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.</p>	<p><b>Withdrawn</b> A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
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**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s): General Insurance & Takaful Operator, Life Insurance & Family Takaful Operator.

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(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)

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(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 | Clause 11-(A)(p).

(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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