



The Pakistan Credit Rating Agency Limited

CRESCENT STAR INSURANCE LIMITED (CSINSURANCE)

IFS RATING REPORT

	NEW [DEC-17]	PREVIOUS [JUN-17]	REPORT CONTENTS
Insurer Financial Strength (IFS) Rating	A-	A-	1. SUMMARY ANALYSES
Outlook	RW – Developing	RW – Developing	2. FINANCIAL SUMMARY
			3. RATING SCALE
			4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

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.



The Pakistan Credit Rating Agency Limited

**GENERAL INSURANCE
Financials [Summary]**

Crescent Star Company Insurance Limited (CSInsurance)

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

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Rated Entity

Name of Rated Entity
Sector
Type of Relationship

Crescent Star Insurance Limited (CSInsurance)
 Insurance - General
 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:
Sector Research:

Insurer Financial Strength Rating Methodology
 Insurance | General - Viewpoint | Oct-17

Rating Analysts

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Rating Team Statement

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

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