



The Pakistan Credit Rating Agency Limited

## Rating Report

### Crescent Star Insurance Limited

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#### Rating History

Dissemination Date	IFS Rating	Outlook	Action	Rating Watch
26-Jan-2024	A (ifs)	Stable	Maintain	Yes
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	-

#### Rating Rationale and Key Rating Drivers

The assigned rating reflects the modest position of the Company in terms of GPW in the general insurance space. The Company is focusing on growth arenas other than banking channels. Hence the liner of business that the Company underwrites reflects that very approach. The emphasis is on direct line insurance in credit & suretyship, along with miscellaneous segments. Overall, the commitment to underwrite risk-free business has resulted in a notable enhancement of Crescent Star's GPW, translating into improved performance on comparative terms. The liquidity of the Company was previously stuck in a major investment. Under a new arrangement, this liquidity is now flowing back. The Company has received PKR 150mln and hopes to receive the entire PKR 350mln in the coming days. This will beef up the liquidity of the Company. The management has expressed the intention to keep the amount in government securities or bank placements. Materialization of these initiatives, along with liquidity enhancement, remains crucial for the Company. On the financial risk side, the Company's current liquidity profile caters to its current portfolio only. The risks of the Company underwriting are granular and work under facultative agreements. Having a predecided treaty of reinsurance is preferred for insurance companies. Moreover, the Company's relative ability to meet liabilities towards the policyholders remains well.

The rating captures the Company's consolidation process in a merger of Crescent Star Foods into PICIC Insurance, while fulfilling regulatory and legal requirements. Transparency and governance standards remain important.

#### 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-23),Methodology   Rating Modifiers(Apr-23)
<b>Related Research</b>	Sector Study   General Insurance(Jun-23)
<b>Rating Analysts</b>	Faiqa Qamar   faiqa.qamar@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Crescent Star Insurance Company Limited ("Crescent Star" or "the Company") was incorporated in 1957, as a public limited company.

**Background** Crescent Star was established in 1957. In 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** The Company underwrites various classes of general insurance business including fire, marine, motor, health, engineering and bonds & credit insurance. The Company operates a network of 06 branches across the country; two in Karachi, one in Multan, Sialkot, Lahore and Islamabad. The head office of the Company is located in Karachi.

## Ownership

**Ownership Structure** Crescent Star Insurance's significant ownership interest of ~97.8%, is dispersed among a diverse group of individuals.

**Stability** The Company's ownership structure is marked by diversity, encompassing a broad spectrum of individuals and corporate entities as integral components of its shareholding composition.

**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 more than 3 decades and was previously associated with Adamjee Insurance (Executive Director) and PICIC as Deputy Managing Director.

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

## Governance

**Board Structure** Eight members Board (BoD) manages the overall policy framework of the Company. There are three Independent, two Non-Executive and three Executive Directors on the BoD. There is a female presence on the BoD.

**Members' Profile** The BoD's Chairman, Mr. Naim Anwar boasts a long-standing association with the insurance sector having diverse experience of more than 3 decades on different fields Sales & operations, re-insurance, Underwriting & Claims and Risk Management. The remaining board members comprise professionals of various financial and non-financial backgrounds.

**Board Effectiveness** Three BoD committees - Audit, Investment and HR& Remuneration. 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-22. 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** The CEO Mr. Naim Anwar is the man at last mile. He possesses more than 3 decades 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 a 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" constitutes 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 Gross Premium Written (GPW), the general insurance industry has a total size of ~PKR 166.5bln during 9MCY23 (9MCY22: ~PKR 113.7bln), exhibiting a growth of ~46%. However, the underwriting performance of the industry witnessed an improvement of ~260% and was reported at ~PKR 9.9bln during 9MCY23 (9MCY22: ~PKR 2.7bln). Investment income contributed to the industry's earnings reported at ~PKR 20.6bln during 9MCY23 (9MCY22: ~PKR 8.0bln). However, current economic conditions remain imperative for the overall performance of the insurance industry.

**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'23.

**Revenue** Crescent Star is involved in conventional business and reported GPW of ~PKR 253mln during 9MCY23, witnessing growth of ~105% on YoY (9MCY22: ~PKR 123mln). The GPW mix is dominated by credit & suretyship segment (~51%), followed by miscellaneous (~41%), motor (~5%) and marine & aviation (~3%).

**Profitability** During 9MCY23, the underwriting income of the Company posed a substantial increase, reported at ~PKR104mln (9MCY22: ~PKR 14mln). Improvement in underwriting income owing to higher business generated during the period coupled with a prudent approach of management to reduce managerial expenses. Similarly, the trend is also reflected in the PAT of the Company which reported at ~PKR 143mln in 9MCY23 (9MCY22: ~PKR 50mln).

**Investment Performance** The investment book of the Company comprises equity securities which stand at ~PKR 152mln in 9MCY23 (9MCY22: ~PKR 106mln). Whereas, the company's investment income stood at ~PKR 17mln posted an increase of 88% on YoY (9MCY22: ~PKR 9mln). The investment income of the Company is primarily driven through dividend income.

**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).

## Financial Risk

**Claim Efficiency** As of 9MCY23, total claims outstanding surged to PKR~ 63mln (9MCY22: PKR~ 66mln). Additionally, the commercial efficiency (Insurance-related Assets/Insurance-related liabilities) ratio of the Company stood at 4.5x in 9MCY23 (9MCY22: 4.0x) which provides confidence in the Company's ability to pay off its related short-term liabilities.

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

**Cashflows & Coverages** As of 9MCY23, the liquidity positioning of the Company posed a dip and reported at ~0.5X (9MCY22: ~1.0X), owing to higher premiums generated during the period. Liquid Assets of the Company stood at PKR~ 159mln (9MCY22: PKR~ 125mln)

**Capital Adequacy** Crescent Star Insurance is well positioned with the SECP's mandated requirement of PKR 500mln. The equity stands at PKR~ 1.2bln as at 9MCY23 (9MCY22: ~PKR 1.1bln)



PKR mln

Crescent Star Insurance Company Limited  
Listed Public Limited

Sep-23	Dec-22	Dec-21	Dec-20
9M	12M	12M	12M

#### A BALANCE SHEET

1 Investments	371	265	261	252
2 Insurance Related Assets	292	190	211	193
3 Other Assets	964	1,002	921	873
4 Fixed Assets	9	10	11	15
5 Window Takaful Operations	-	-	-	-
<b>Total Assets</b>	<b>1,637</b>	<b>1,467</b>	<b>1,405</b>	<b>1,333</b>
1 Underwriting Provisions	153	100	42	46
2 Insurance Related Liabilities	65	67	69	64
3 Other Liabilities	165	190	215	191
4 Borrowings	-	-	-	3
5 Window Takaful Operations	-	0	-	-
<b>Total Liabilities</b>	<b>384</b>	<b>358</b>	<b>326</b>	<b>304</b>
<b>Equity/Fund</b>	<b>1,253</b>	<b>1,109</b>	<b>1,079</b>	<b>1,029</b>

#### B INCOME STATEMENTS

##### CONSOLIDATED INCOME STATEMENT

1 Gross Premium Written/Gross Contribution Written	253	177	92	105
2 Net Insurance Premium/Net Takaful Contribution	196	118	95	112
3 Underwriting Expenses	(92)	(153)	(95)	(92)
<b>Underwriting Results</b>	<b>104</b>	<b>(35)</b>	<b>0</b>	<b>20</b>
4 Investment Income	17	9	5	2
5 Other Income / (Expense)	19	62	47	44
<b>Profit Before Tax</b>	<b>140</b>	<b>36</b>	<b>52</b>	<b>66</b>
6 Taxes	3	(9)	(5)	(12)
<b>Profit After Tax</b>	<b>143</b>	<b>27</b>	<b>47</b>	<b>55</b>

#### C RATIO ANALYSIS

<b>1 Profitability</b>				
Loss Ratio - Net Insurance & Takaful Claims / Net Insurance Premium or Takaful Contribution	0.6%	3.4%	10.4%	6.6%
Combined Ratio (Loss Ratio + Expense Ratio)	46.9%	129.8%	99.8%	82.3%
<b>2 Investment Performance</b>				
Investment Yield	7.0%	3.4%	1.8%	1.0%
<b>3 Liquidity</b>				
(Liquid Assets - Borrowings) / Outstanding Claims Including IBNR	2.5	1.8	1.6	1.6
<b>4 Capital Adequacy</b>				
Liquid Investments / Equity (Funds)	12.7%	10.4%	10.3%	9.9%

### 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
<b>AAA (ifs)</b>	<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.
<b>AA++ (ifs)</b> <b>AA+ (ifs)</b> <b>AA (ifs)</b>	<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.
<b>A++ (ifs)</b> <b>A+ (ifs)</b> <b>A (ifs)</b>	<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.
<b>BBB++ (ifs)</b> <b>BBB+ (ifs)</b> <b>BBB (ifs)</b>	<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.
<b>BB++ (ifs)</b> <b>BB+ (ifs)</b> <b>BB (ifs)</b>	<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>B++ (ifs)</b> <b>B+ (ifs)</b> <b>B (ifs)</b>	<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.
<b>CCC (ifs)</b> <b>CC (ifs)</b> <b>C (ifs)</b>	<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
<b>D (ifs)</b>	<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.

**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 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.

**Suspension** 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.

**Withdrawn** 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.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**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

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- (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)
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- (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)

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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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