



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
18-Jan-2019	A-	-	Stable	Maintain	YES
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

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 captures the company's consolidation process in DSL and backward merger of CSFoods into PICIC Insurance, while fulfilling regulatory and legal requirements. Profitability and curtailed expansion in insurance business along with unfilled casual vacancies on Board is also a consideration. CSInsurance holds major stake in DSL, herein, smooth running of operations and consequent turnover build-up is critical. Generation of cash return from subsidiaries is important. 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 General Insurance(Jun-18)
Related Research	Sector Study General Insurance(Nov-18)
Rating Analysts	Zeeshan Munir zeeshan.munir@pacra.com +92-42-35869504



Profile

Legal Structure Crescent Star Insurance Limited (CSInsurance) is a listed on the Pakistan Stock Exchange.

Background CSInsurance was established in 1957. Since its inception, CSI has been engaged in providing non-life general insurance services mainly in the sphere of Motor, Health, Fire, Marine, Engineering, Travel, Livestock & Crop and Miscellaneous all across Pakistan. The company executed another right issue of PKR 250 mln at par, the proceeds have been received in Jan-18. Previous right issues (Mar-16: PKR 207 mln @ par; Mar-14: PKR 300 mln @ 40% discount).

Operations CSInsurance head office is located in Karachi. The company operates a network of 11 branches across the country; three in Karachi, one each in Hyderabad, Multan, Rawalpindi and Sialkot, two each in Lahore and Islamabad.

Ownership

Ownership Structure CSInsurance has 80% and 20% shareholding of individuals and corporates respectively. Roomi Enterprise currently holds the largest share of 6%.

Stability Company has a diversified ownership structure with small percentage holdings of corporates and individuals.

Business Acumen Mr. Naim Anwar, the main driving force behind the company, has been in the insurance industry for more than two decades. Mr. Naim was the Executive Director at Adamjee Insurance and Deputy Managing Director at PICIC Insurance before joining CSI.

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

Governance

Board Structure There is an eight member BoD, including the CEO as well. However, approval of three directors is under process subject to SECP's approval.

Members' Profile Mr. Naim Anwar is the Chairman of the BoD and also the CEO which is a non-compliance of Code of Corporate Governance. Members of BoD, nominated by the sponsors, comprise professionals belonging to technology, engineering, health sciences and NBFCs sectors.

Board Effectiveness There are three committees to the board namely i) Audit, ii) Investment and iii) Human Resource & Remuneration. In Sept-18, there was only one member each in Audit Committee and HR & Remuneration Committee and two members in the Investment Committee. The attendance in the Committee meetings has been generally low in case of Audit and Investment Committee meetings. No meeting of the HR & Remuneration Committee was held during CY18.

Financial Transparency The external auditors of the company, M/s Grant Thornton Anjum Rahman Chartered Accountants, have qualified the opinion for the year end CY17. 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). The qualification against the interest accrued on advance has been upheld by the auditors in the half year review report of CY18.

Management

Organizational Structure The operations have been clearly segregated from the sales function. The 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 Key man behind the company is the CEO, Mr. Naim Anwar, who has built a sound team of professionals. Each of the division is headed by a senior resource. Top and middle tier management team is experienced. Heads of a number of departments are vacant as per the latest organogram of the company which include Head of Re-insurance; Head of IT; Head of marketing; Head of Sales and Head of HR.

Effectiveness The CEO meets all department heads in joint meeting on periodic basis, to discuss key issues and developments. There are currently four management committee namely Audit Committee; Investment Committee; Risk Management Committee and Underwriting, Claims, RE-insurance and Risk Management (UCRR) Committee. In the absence of Heads of various departments, the CEO and Resident Directors directly get involved in the decision making of the concerned departments.

Claim Management System CSInsurance has a centralized claims processing function for all segments except for motor claims. The motor claims are decentralized till the amount of PKR 10,000 and above which all claims are posted to the Head Office (HO). Upon claims intimation the surveyor prepares a report which is then scrutinized by branches first and then forwarded to HO along with supporting documents.

Investment Management Function Company has a formally documented investment policy approved by the BoD. As per the policy, the investment committee shall comprise of two non-executive directors in addition to CEO and CFO. There is an Investment Committee, both, at BoD level and Management level. The Investment objectives in priority order will be a) capital preservation; b) liquidity maintenance; and c) earning optimal risk adjusted return. Investment Policy however lacks any formal limits authorization and instead of quantifying the limits, it has been all subjected to approval of Investment Committee on case to case basis.

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 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 Pakistan's general insurance has witnessed continuous growth (CAGR 4 years 11%). 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.

Relative Position Company is categorized as a small sized insurance company with a market shares of less than 0.2%.

Revenue Company wrote a premium of PKR 92 mln in 9M18 registering a growth of almost 15% as compared to corresponding period last year. (9M17: PKR 80 mln).

Profitability Company recorded a loss before tax of PKR 11 mln in 9M18 as compared to a profit of PKR 110 mln in corresponding period last year. Although, underwriting results showed an improvement to close at a gain of PKR 4 mln in 9M18 as compared to a loss of PKR 7 mln in the same period last year.

Investment Performance Investment income showed a sharp plunge from PKR 138 mln in 9M17 to a dismal PKR 0.4 mln. The gain earned in the last period was on account of sale of equity securities held in Dost Steels Limited. The bulk of strategic book is currently non-earning.

Sustainability Going forward, company plans to consolidate its stake in DSL and CSFood. For the merger of CSFood into PICIC Insurance, company is awaiting courts' final verdict. In case of food business, company plans to pull out of Golden Chick brand and re-brand the stores to Fat Burger with introduction of Fat Buff. Insurance related primary focus will be on direct personal lines in motor segment – small ticket risks in masses – and health business from Middle East. Further, technology up-gradation taking synergic benefit from CSTechnologies – sister concern – in underwriting and claims management functions will help boost up the volumes. Company's strategy is to build low risk portfolio and achieve underwriting profitability to support funding for building strategic book.

Financial Risk

Claim Efficiency Claims outstanding days increased to a whopping 2998 days in 9M18 as compared to 700 days in corresponding period last year. This massive increase is a result of reduced claims expense as compared to provision for outstanding claims.

Re-Insurance CSInsurance has reinsurance arrangements with XL Bermuda Ltd (Rated 'A+' by S&P), Santam Re (Rated 'AA-' by S&P) and PRCL. All treaties are XOL and the total capacity in Fire and Engineering has been reduced to PKR 150 mln in CY18 (PKR 300 mln in CY17). The treaty terms have been changed to non-proportional basis, in line with most peers.

Liquidity CSInsurance's equity base has been strengthened (9M18: PKR 978mln, 9M17: PKR 755mln). However, the incremental benefit to the liquidity position was limited (9M18: PKR 88mln) as the rest of the cash is invested in strategic investments. The liquidity provides 1.5 times coverage to claims liability, as the risk profile of motor segment gives rise to only small sized claims.

Capital Adequacy CSInsurance is compliant with the SECP's mandated requirement of PKR 500mln. The equity stands at PKR 978mln.



Crescent Star Company Insurance Limited (CSInsurance)

BALANCE SHEET	<i>PKR mln</i>	<i>PKR mln</i>	<i>PKR mln</i>
	30-Sep-18	31-Dec-17	31-Dec-16
	9M	Annual	Annual
Investments			
Liquid Investments	88	93	158
Other Investments	778	765	547
	866	858	705
Insurance Related Assets	241	238	255
Other Assets	167	146	49
TOTAL ASSETS	1,275	1,243	1,009
Equity	978	989	664
Underwriting Provisions	49	57	72
Insurance Related Liabilities	108	110	96
Other Liabilities	140	86	177
TOTAL EQUITY & LIABILITIES	1,275	1,243	1,009
INCOME STATEMENT			
	30-Sep-18	31-Dec-17	31-Dec-16
Gross Premium Written (GPW)	92	113	190
Net Premium Revenue (NPR)	82	110	206
Net Claims	(5)	(37)	(55)
Net Operational Expenses	(119)	(170)	(166)
UNDERWRITING RESULTS	(43)	(98)	(15)
Investment Income	0	139	39
Other Income/ (expense)	31	35	1
PROFIT BEFORE TAX	(11)	76	25
RATIO ANALYSIS			
	30-Sep-18	31-Dec-17	31-Dec-16
Underwriting Results			
Loss Ratio	6%	34%	27%
Combined Ratio	152%	189%	107%
Performance			
Operating Ratio	-114%	-31%	88%
Investment Yield	1%	110%	34%
Liquidity & Solvency			
Liquidity Ratio – times	1.5	1.3	1.3



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

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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)

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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