# RATING REPORT

# Takaful Pakistan Limited

**REPORT DATE:**
January 24, 2017

**RATING ANALYSTS:**
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## RATING DETAILS

| | Latest Rating | Previous Rating |
|---|---|---|
| **Rating Category** | **Long-term** | **Long-term** |
| **Entity** | BBB+ | BBB+ |
| **Rating Date** | *Jan 23, 2017* | *Dec 23, 2015* |
| **Rating Outlook** | Stable | Stable |
| **Outlook Date** | *Jan 23, 2017* | *Dec 23, 2015* |

## COMPANY INFORMATION

| | |
|---|---|
| **Incorporated in 2006** | **External auditors:** Riaz Ahmed and Co., Chartered Accountants |
| **Public Limited Company** | **Chairman of the Board:** Mr. Syed Abdul Razzaq |
| **Key Shareholders (with stake 5% or more):** | **Chief Executive Officer:** Mr. Syed Tariq Hussain |
| House Building Finance Company – 29.0% | |
| Al-Buhaira National Insurance Company – 17.0% | |
| Al-Baraka Bank (Pakistan) Limited – 17.0% | |
| Sitara Chemical Industries Limited – 10.0% | |
| Arif Habib Corporation Limited – 10.0% | |
| Mal Al Khaleej Investments LLC – 8.5% | |
| Emirates Investment Group – 6.70% | |

## APPLICABLE METHODOLOGY(IES)

**JCR-VIS General Takaful Rating Criteria** *http://jcrvis.com.pk/Images/takaful.pdf*

# Takaful Pakistan Limited

## OVERVIEW OF THE INSTITUTION

*Takaful Pakistan Limited (TPL) was incorporated in June 2006 as an unlisted public limited company. The company is primarily involved in carrying out general takaful business, as specified under Insurance Ordinance 2000, Insurance Rules 2002 and Takaful Rules, 2012 (TR 2012).*

## RATING RATIONALE

Capitalization indicators of Takaful Pakistan Limited (TPL) have benefited in the ongoing year to some extent from retention of profits. However, given the equity base of Rs. 172.4m, capitalization indicators still remain constrained; external support may be required to improve the risk profile of the institution. Sponsors are considering equity injection in the on-going year, which should translate into an improved risk profile for the entity. The company needs to comply with the minimum capital requirement of Rs. 500m by end-December 2017. Liquidity profile of the company is considered adequate in view of sizeable liquid cushion (liquid assets in relation to liabilities), positive operating cash flows and manageable level of insurance debt.

Re-takaful panel at TPL comprises 6 operators with Labuan-Re as lead operator in all major segments. There were a few changes on the panel with the exit of PRCL and inclusion of General Insurance Cooperation of India (GIC Re) and Emirates Re. According to SECP's regulations, 80% of re-takaful share must be placed with companies rated in the 'A' band or higher; 70% of TPL's re-takaful panel are rated in the 'A' band or higher. Cession in fire and marine is the highest where treaty capacities have increased on a timeline basis while health business was retained entirely on net account. Given the proportion of motor and health business, overall cession continues to be low in comparison to peers. The company has assumed more risk on net account at such retention levels. The outcome of this strategy would be measured over time.

TPL underwrote gross contributions amounting to Rs. 333.6m (2014: Rs. 274.4m) during 2015; gross contributions amounted to Rs. 184.2m in 9M16. Largest contribution to the business mix remained motor segment followed by health. In line with past trends, proportion of motor business vis-à-vis non-motor business witnessed growth during 2015 and period ending September 2016. Going forward, the management envisages diverting share of health and motor business toward fire and marine on account of lower claims risk associated with the latter. Effective implementation of the said strategy while maintaining business growth remains to be seen. With recently launched takaful windows by conventional insurance operators, existing takaful providers face significant competition from established players in the general insurance industry.

Historically, the company has reported an underwriting loss from operations. However, magnitude of the loss was curtailed during 2015 and further in 9M16. Reduced losses were as a result of prudent underwriting and improved performance of its motor segment while the remaining segments remained in loss. In line with management strategy of gradually consolidating health business, underwriting results may improve, going forward.

There were notable changes in the senior management team. With the exit of CEO in September 2016, two directors were appointed as executive directors. Mr. Tariq Hussain was appointed as CEO for TPL and is responsible for the investment and support functions of the company. Moreover, Dr. Mumtaz Hashmi oversees all underwriting related activities. There was significant turnover at the positions of Chief Financial Officer (CFO) & Company Secretary, Head of Risk, Head of IT, Head of Operations, Head of Marketing and Head of Claims. There are no plans of strengthening the team currently.

## Takaful Pakistan Limited

## Appendix I

| FINANCIAL SUMMARY | | | *(amounts in PKR millions)* |
|---|---|---|---|
| **BALANCE SHEET** | **DEC 31, 2015** | **DEC 31, 2014** | **DEC 31, 2013** |
| **Cash and Bank Deposits** | 327.8 | 287.3 | 282.0 |
| **Investments** | 68.0 | 31.7 | 25.3 |
| **Investment Properties** | - | - | - |
| **Insurance Debt** | 31.2 | 40.5 | 29.4 |
| **Total Assets** | 577.4 | 577.2 | 519.2 |
| **Net Worth** | 172.4 | 151.9 | 157.0 |
| **Total Liabilities** | 405.1 | 425.3 | 357.1 |
| | | | |
| **INCOME STATEMENT** | | | |
| **Net Premium Revenue** | 262.2 | 169.4 | 175.3 |
| **Net Claims** | 134.1 | 94.0 | 101.8 |
| **Underwriting Profit (Loss)** | (8.2) | (26.1) | (36.2) |
| **Net Investment Income** | 14.1 | 16.3 | 20.0 |
| **Profit (Loss) Before Tax** | 24.7 | (5.3) | (11.0) |
| **Profit (Loss) After Tax** | 21.4 | (7.6) | (13.2) |
| | | | |
| **RATIO ANALYSIS** | | | |
| **Cession Ratio (%)** | 21% | 24% | 22% |
| **Gross Claims Ratio (%)** | 49% | 65% | 65% |
| **Net Claims Ratio (%)** | 53% | 51% | 55% |
| **Underwriting Expense Ratio (%)** | 51% | 52% | 60% |
| **Combined Ratio (%)** | 103% | 103% | 115% |
| **Net Operating Ratio (%)** | 94% | 99% | 88% |
| **Insurance Debt to Gross Premium (%)** | 9% | 15% | 13% |
| **Operating Leverage (%)** | 151% | 166% | 140% |
| **Financial Leverage (%)** | 143% | 144% | 120% |
| **Adjusted Liquid Assets to Technical Reserves (%)** | 158% | 137% | 170% |

## ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

# JCR-VIS Credit Rating Company Limited

## RATING SCALE & DEFINITIONS: INSURER FINANCIAL STRENGTH

**AAA**
Highest capacity to meet policyholder and contract obligations; Risk factors are negligible.

**AA+, AA, AA-**
Very high capacity to meet policyholder and contract obligations; However, risk is modest, but may vary slightly over time due to business/economic conditions.

**A+, A, A-**
High capacity to meet policyholder and contract obligations; Risk factors may vary over time due to business/economic conditions.

**BBB+, BBB, BBB-**
Adequate capacity to meet policyholder and contract obligations; Risk factors are considered variable over time due to business/economic conditions.

**BB+, BB, BB-**
Marginal capacity to meet policyholder and contract obligations; Risk factors may vary widely with changes in business/economic conditions.

**B+, B, B-**
Low capacity to meet policyholder and contract obligations; Risk factors are capable of fluctuating widely with changes in business/economic conditions.

**CCC**
Very low capacity to meet policyholder and contract obligations; Risk may be substantial.

**CC**
Weak capacity to meet policyholder and contract obligations; Risk may be high.

**C**
Very weak capacity to meet policyholder and contract obligations; Risk may be very high

**D**
Extremely weak capacity to meet policyholder and contract obligations; Risk is extremely high.

**Rating Watch**: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

**Rating Outlooks**: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

**'p' Rating**: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

## REGULATORY DISCLOSURES — Appendix III

| | |
|---|---|
| **Name of Rated Entity** | Takaful Pakistan Limited |
| **Sector** | Insurance |
| **Type of Relationship** | Solicited |
| **Purpose of Rating** | Entity Rating |

**Rating History**

| Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
|---|---|---|---|---|
| RATING TYPE: ENTITY | | | | |
| 1/23/2017 | BBB+ | - | Stable | Reaffirmed |
| 12/23/2015 | BBB+ | - | Stable | Reaffirmed |
| 12/19/2014 | BBB+ | - | Stable | Rating Watch Removed |
| 12/16/2013 | BBB+ | - | Rating Watch - Developing | Reaffirmed |
| 9/3/2012 | BBB+ | - | - | Rating Watch – Developing |
| 5/31/2011 | BBB+ | - | Stable | Reaffirmed |

| | |
|---|---|
| **Instrument Structure** | N/A |
| **Statement by the Rating Team** | JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities. |
| **Probability of Default** | JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default. |
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