December 26, 2013

Takaful Pakistan Limited

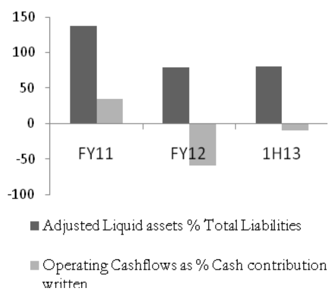
Chairman: Mr. Saeed Khan & CEO: Mr. Syed Arif Hussain

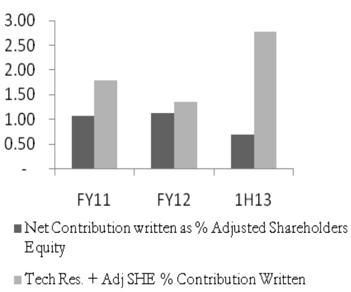
Analysts: Talha Iqbal
Mohammad Arsal Ayub

Category	**Latest**	**Previous**
Takaful Financial Strength	**BBB+** Dec 16, '13	**BBB+** Sept 03, '12
Outlook*	***N/A***	***N/A***

**under Rating Watch-Developing Status*

Key Financial Trends





(In Rs. M)	**FY11**	**FY12**	**1H13**
Gross Contribution	165	212	114
Market Share	0.4%	0.5%	0.7%
Net Contribution	149	151	95
Net Claims ratio	49%	52%	52%
Combined ratio	110%	117%	108%
Net Profit / (Loss)	3.9	8.8	11.4
Adj. Equity	139	135	138
Operating Leverage	96%	110%	138%
Financial Leverage	113%	114%	128%
Insurance debt % Gross Contribution	10.2%	14.8%	13.1%

Rating Rationale

The assigned rating incorporates adequate retakaful arrangements for key segments, strong benefits performance in motor business which is TPL's core line of business, low level of insurance debt and conservative investment profile. Ratings are constrained by persistent trend in underwriting losses albeit having declined over time, uncertain liquidity profile and modest risk adjusted capitalization level and absence of re-takaful cover for terrorism and health business.

TPL has retakaful/reinsurance arrangements in place with reputable counterparties for its major business lines. Labuan Re is the lead re-takaful operator on the company's panel; around 80% of the business is ceded to reinsurers rated at-least 'A-'. While treaty capacity has been enhanced for marine business, maximum retention on net account is limited to Rs. 2m for fire, engineering & marine segments, Rs. 0.45m for miscellaneous & bond business and Rs. 0.5m for motor segment. Retakaful cover has not been negotiated for health and terrorism business. The former represents about 18% of the total business volume with loss ratio in the health segment being over 100% in the on-going year. During FY12, TPL had provided coverage to 98 terrorism related risks with highest exposure of Rs. 62m, representing 46% of the company's own equity. These risks were also retained on net account. Loss experience in terrorism business has so far been favorable.

Growth of 28% in business volumes was recorded in FY12 although gross contributions have remained below projections in FY12 and in the ongoing year. Going forward, TPL's business development strategy entails enhancing existing infrastructure by way of addition of new branches and hiring additional front office staff for achieving the targeted business volumes. Growth in contributions has been manifested in motor and health segments which account for around 70% of the total business. Benefits performance in motor segment, TPL's major business line, compares favorably to industry average while benefit ratio in health segment is on the higher side and continues to create a drag on underwriting results. Although, overall benefits performance has depicted stability; further increase in business volumes is required to absorb the company's expense base and bring about improvement in results from underwriting operations. Accounting for investment income stemming largely from stable avenues, TPL reported positive results on an aggregate basis in 1H13 (including earnings from discontinued operations) with profit in Shareholders' Fund exceeding deficit in Participants Takaful Fund. Excluding earnings from discontinued operations, the company is still in loss, though the same has declined in the ongoing year.

Liquid assets (excluding discontinued operations) in relation to total liabilities (excluding discontinued operations) stood at 0.52x (FY12: 0.48x; FY11: 0.56x) at end-June 2013. Operating cash inflow (adjusted for investment income) was lower at Rs. 7.4m (FY11: Rs. 18.4m) while operating cash outflow was reported in 1H13. Level of outstanding insurance debt in relation to gross contribution compares favorably with peers. The company has maintained a conservative investment profile with around 85% of the investment portfolio comprising TDRs placed with banks rated 'A' and above. Credit and market risk emanating from the portfolio is considered manageable.

Net equity stood at Rs. 138m at end-1H13. Given that internal capital generation has remained limited, leverage indicators which are currently on the lower side may trend upwards assuming targeted business volumes are achieved. Besides maintaining leverage indicators within prudent limits, equity injection is also warranted to enhance the company's loss absorption capacity and to achieve compliance with minimum solvency requirement (MSR) of Rs. 125m at-end Dec'13. Management expects settlement of case with the Securities & Exchange Commission of Pakistan to result in reduction in liabilities and a consequent increase in equity. As per management, the same will allow TPL to meet MSR in FY13. Recovery from an investment may also facilitate the company to meet MSR. Moreover, we have also been given to understand that the management is developing an equity enhancement plan at the request of the Board of Directors. JCR-VIS will track progress in this regard. Outcome of pending litigations in lieu of Amaan Travel Takaful Scheme may have impact on the company's liquidity profile; the sponsors have agreed to provide support to meet any eventuality as a result of these litigations.

Overview of the Institution

TPL was incorporated in 2006 and commenced its operations in 2007. Financial statements for 2012 were audited by M/s M.Yousuf Adil Saleem & Company, who have been reappointed as external auditors for 2013. Internal audit of the company was last conducted by Ernst & Young in 2011. The company has out-sourced internal audit activities to M/s KPMG for 2013. JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: IFS		
16-Dec-13	BBB+	Rating Watch - Developing		Reaffirmed
03-Sep-12	BBB+			Rating Watch - Developing
31-May-11	BBB+	Stable		Reaffirmed
19-Apr-10	BBB+	Stable		Downgrade
18-Dec-09	A-	Negative		Maintained