RATING REPORT

Takaful Pakistan Limited

REPORT DATE:
April 17, 2019

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
Entity	BBB+	BBB+
Rating Date	*Mar 28, 2019*	*Mar 27, 2017*
Rating Outlook	Stable	Rating Watch - Developing
Outlook Date	*Mar 28, 2019*	*Mar 27, 2017*

COMPANY INFORMATION

Incorporated in 2006	**External auditors:** KPMG Taseer Hadi & Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Salim Habib Godil
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Rizwan Hussain
Mr. Rizwan Hussain – 17.11%	
Mr. Salim Habib Godil – 17.11%	
Mr. Salman Hussain – 17.11%	
Mr. Shahzad Habib Godil – 17.11%	
House Building Finance Corporation – 14.19%	
Al Baraka Bank Pakistan Limited – 8.32%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS General Takaful Rating Criteria https://www.vis.com.pk/kc-meth.aspx

Takaful Pakistan Limited

OVERVIEW OF THE INSTITUTION

Incorporated in June 2006, Takaful Pakistan Limited (TPL) operates as an unlisted public limited company. Primary business of the company includes providing general takaful covers, as specified under Insurance Ordinance 2000, Insurance Rules 2002 and Takaful Rules, 2012 (TR 2012).

Profile of Chairman:

Mr. Salim Godil is a well-known figure in automobile sector in Pakistan, possessing an experience of more than 35 years. Currently, he is serving as a Managing Director of three Toyota dealerships situated in Karachi. He is also the chairman of Pak Limousine Services (Automobile rental services and cab business solutions) and Striet Pakistan (Pvt) Ltd (Armored vehicle manufacturer).

Furthermore, Mr. Godil also actively participates in social services and is among the founding members of Memon Medical Institute.

Profile of CEO:

Mr. Rizwan Hussain is a seasoned professional and an insurance industry specialist with a diversified experience of all the functions. He remained associated with EFU General Insurance for 25+ years, having worked across distinctive organizational functions from insurance sales, marketing and customer service to executive level strategy formulation, corporate account

RATING RATIONALE

The assigned rating of Takaful Pakistan Limited (TPL) factors in the significant changes undertaken by the company to comply with regulatory requirements. During ongoing year 2018, TPL underwent major structural changes in terms of its shareholding pattern, profile of board of directors (BoD) & senior management team; the newly inducted management team also formulated an aggressive long term business strategy.

Key Rating Drivers

Organizational structural and strategic changes in TPL

Since 2017, the company was unable to meet the Minimum Paid-up Capital Requirement (MCR) of Rs. 500m. In January 2018, a consortium comprising four individual investors acquired 68.44% of TPL. As a result, paid up capital increased to Rs. 613.0m at end-June 2018, resulting in compliance with minimum MCR; accounting for discount on issuance of shares, paid up capital amounted to Rs. 500m. However, with significant accumulated losses on the books, equity base of the company amounted to Rs. 310.8m at end-December 2018. Capitalization levels are expected to increase on account of internal capital generation while no further equity injection planned in the coming years.

Table 1: Shareholding Pattern

Sponsors	Share %
Mr. Salim Habib Godil	17.11%
Mr. Shahzad Habib Godil	17.11%
Mr. Syed Salman Hussain	17.11%
Mr. Rizwan Hussain	17.11%
House Building Finance Corporation (HBFCL)	14.19%
Al Baraka Bank Pakistan Limited (ABBPL)	8.32%
Sitara Chemicals industries Limited	4.89%
Mal Al-Khaleej Investment, UAE	4.16%
Total	**100%**

Management team and other initiatives

Post-acquisition by the new sponsors, BoD has been reconstituted comprising seven members. During 2018, Mr. Salim Habib Godil was appointed as Chairman of the Board while Mr. Rizwan Hussain serves as Managing Director & CEO. In addition, Mr. Kamran was appointed as Head of Motor segment while Mr. Umair Ismail oversees the function of underwriting and claims for the Non-Motor segment. In addition, Ms. Naheed Merchant has been appointed as Head of Legal and Compliance and Mr. Noman Zaidi has been appointed as Head of Human Resource. Moreover, the company has strengthened its sales and distribution network and also initiated a service satisfaction survey program to receive feedback from customers.

Table 2: Board of Directors (BoD) Composition

Name	Nominee of	Status
Mr. Salim Habib Godil	-	Chairman
Mr. Shahzad Habib Godil	-	Non-Executive
Mr. Syed Salman Hussain	-	Non-Executive
Mr. Ashraf Ali Velji	HBFCL	Non-Executive
Mr. Ahmed Shuja Kidwai	ABBPL	Non-Executive

management, risk underwriting and claims management. Prior joining the TPL, he served as executive director of EFU.

Mr. Hussain is an MBA graduate and a Certified Director (PICG). He has attended various training programs in insurance, takaful, marketing and strategy management.

Mr. Syed Tariq Hussain		Non-Executive
Mr. Rizwan Hussain	-	Executive / CEO

Improvement in the governance framework of the company

With the appointment of new management, numerous initiatives to improve the governance structure have been undertaken. KPMG – Taseer Hadi & Co. has been appointed as an external auditor, Shari'ah auditor and tax advisor while EY Ford Rhodes has been taken on Board as an internal audit advisor. Both auditors belong to the 'A' category of SBP's Panel of Auditors. Moreover, the company has established a Shari'ah supervisory council to vet operational matters such as product specifications and any specialized risks to cover. In view of this, TPL has planned to launch a wide range of new products under the ambit of personal and business takaful.

Quality of reinsurance panel

Reinsurance panel of TPL constitutes international reinsurers such as Lubuan Re (Rated A- by A.M. Best), GIC Re (Rated A- by A.M.Best), Africa Re (Rated A- by A.M.Best), Saudi Re (Rated BBB+ by S&P) and Tunis Re (Rated BBB- by A.M.Best), all maintaining adequate ratings and above with international rating agencies. Going forward, the company plans to approach the international market for their new lines of businesses such as travel takaful, travel guarantee, agriculture and crop takaful. Developments in this regard are yet to materialize.

Healthy projected business volumes; critical to improve underwriting quality given significant growth plans

Historically, TPL has reported underwriting losses from operations on account of which a consolidation strategy was adopted. However, with the change in management, the company has gained an aggressive stance towards building its business volumes. The company targeted to grow its contribution base by more than three-folds to Rs. 653m, by end-CY18. However, given the stringent market conditions, the company underwrote total business of Rs. 375.9m at end of 2018. TPL plans to achieve a gross contribution level of Rs. 2.7b by end-2020. Management intends to focus aggressively on motor, health, crop & livestock and travel segments with motor expected to contribute 78.1% of total business in 2019. Given anticipated high concentration in motor, management must be cognizant of the inherent risks associated with this business; impact of the same will be evident at the portfolio seasons. Translation of the same into a profitable bottom line will remain contingent on prudent underwriting management while maintaining key performance metrics.

Table 3: Business Mix

Rs. in millions	**CY18**	**CY17**	**CY16**	**CY15**
Fire	7.2%	16.4%	13.9%	8.3%
Marine	6.6%	15.4%	11.0%	6.8%
Motor	80.2%	42.5%	57.5%	68.8%
Health	2.5%	25.1%	17.2%	15.8%
Miscellaneous	3.5%	0.5%	0.4%	0.2%
Total Contributions	**375.9**	**149.8**	**219.5**	**333.6**

Underwriting performance, claims ratio & profitability

Given the management strategy of gradually consolidating the health business over the years, underwriting results are expected to improve in anticipation of better loss ratios. The company reported a significant underwriting loss of Rs. 86.9m in CY18 on account of a high expense base. This translated into a combined ratio above 100% mark. Profitability indicators will need to be maintained to be commensurate with the assigned rating.

Table 4: Profitability Indicators

	CY18	CY17	CY16	CY15
Underwriting Profit *(Rs. in millions)*	(86.9)	(4.1)	(12.2)	(8.2)
Underwriting Expense Ratio	106.4%	62.8%	51.3%	52.0%
Net Claims Ratio	53.5%	40.1%	53.8%	51.1%
Combined Ratio	159.9%	103.0%	105.1%	103.1%

Moderate capitalization and liquidity levels

Given recent fresh capital injection of Rs. 200m, operating and financial leverage of the company improved considerably during the period under review. However, in line with aggressive growth in business, net risk retained by TPL will increase considerably. The company may need to increase capitalization levels further for supporting such a business plan. Liquidity profile is also considered sound in view of presence of sizeable liquid assets in relation to total liabilities. Insurance debt of the company in proportion to gross contributions was reported at a manageable level of 11.2%.

Table 5: Leverage Indicators

	CY18	CY17	CY16	CY15
Operating Leverage	41.0%	67.0%	132.4%	151.3%
Financial Leverage	75.3%	34.7%	80.3%	115.2%

Outlook on investments

TPL maintains a balanced portfolio with investments parked in both equity and Islamic debt securities. In anticipation of an uptick in the stock market, the company increased its exposure in equities. While market risk on the same is considered manageable, ability to earn sufficient investment income to support operations will be a key rating driver.

Takaful Pakistan Limited Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**DEC 31, 2018**	**DEC 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Cash and Bank Deposits	88.3	26.9	238.1	327.8
Investments	499.5	298.2	138.8	68.0
Investment Properties	-	-	-	-
Insurance Debt	42.2	15.1	22.6	31.2
Total Assets	952.8	479.0	559.3	577.4
Net Worth	310.8	205.6	180	172.4
Total Liabilities	532.4	232.8	379.3	405.1
INCOME STATEMENT				
Net Contribution Revenue	145.1	137.7	239.1	262.2
Net Claims	77.6	55.2	128.7	134.1
Underwriting Profit (Loss)	(86.9)	(4.1)	(12.2)	(8.2)
Net Investment Income	2.3	8.8	18.1	14.1
Profit (Loss) Before Tax	(72.8)	22.1	24.1	33.7
Profit (Loss) After Tax	(75.2)	18.1	21.2	30.4
RATIO ANALYSIS				
Cession Ratio	14.2%	30.9%	23.1%	17.2%
Gross Claims Ratio	48.7%	45.2%	56.4%	45.0%
Net Claims Ratio	53.5%	40.1%	53.8%	51.1%
Underwriting Expense Ratio	106.4%	62.8%	51.3%	52.0%
Combined Ratio	159.9%	103.0%	105.1%	103.1%
Net Operating Ratio	150.5%	94.8%	103.9%	99.9%
Insurance Debt to Gross Contribution	11.2%	10.1%	10.3%	9.4%
Operating Leverage	41.0%	67.0%	132.4%	151.3%
Financial Leverage	75.3%	34.7%	80.3%	115.2%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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: 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.vis.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.vis.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.vis.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	Insurer Financial Strength Rating
Rating History	see table below

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
3/28/2019	BBB+	-	Stable	Rating Watch Removed
3/27/2018	BBB+	-	Rating Watch - Developing	Update
2/9/2018	-	-	-	Withdrawn
1/23/2017	BBB+	-	Stable	Reaffirmed
12/23/2015	BBB+	-	Stable	Reaffirmed
12/19/2014	BBB+	-	Stable	Rating Watch Removed

Instrument Structure	N/A
Statement by the Rating Team	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 insurer financial strength only and is not a recommendation to buy or sell any securities.
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