RATING REPORT

Pak-Qatar General Takaful Limited

REPORT DATE:
March 28, 2016

RATING ANALYSTS:
Muniba Khan
muniba.khan@jcrvis.com.pk

Sidra Ahsan Qureshi
sidra.qureshi@jcrvis.com.pk

RATING DETAILS		
	Latest Rating	Previous Rating
Rating Category	Long-term	Long-term
Entity	A-	A-
Rating Date	*Mar 2, '16*	*Dec 31, '14*
Rating Outlook	Stable	Positive
Outlook Date	*Mar 2, '16*	*Dec 31, '14*

COMPANY INFORMATION	
Incorporated in 2006	**External auditors:** M/s M. Yousuf Adil Saleem & Co.
Public unlisted Company	**Chairman of the Board:** H.E. Shaikh Ali Bin Abduallah
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Javed Muslim
Said Gul & Family - 36.6%	
Sheikh Ali Bin Abdullah - 14.7%	
Qatar International Islamic Bank - 14.1%	
Masraf Al-Rayan - 12.7%	
Qatar Islamic Insurance Company - 11.3%	
Fawad Yusuf Securities - 6.5%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria *http://www.jcrvis.com.pk/images/methodology.pdf*

Pak-Qatar General Takaful Limited

OVERVIEW OF THE INSTITUTION

PQGTL was incorporated in March 2006 as an unquoted public limited company. The company is engaged in general takaful business and operates with 13 branches. Its shareholding is largely held by Qatar based financial institutions. The financial statements for 2015 are audited by M/s M. Yousuf Adil Saleem & Co.

RATING RATIONALE

The assigned rating of Pak-Qatar General Takaful Limited (PQGTL) reflects strong financial support from Qatar based financial institutions. Sponsors had approved capital injection of Rs. 200m earlier; all of which was planned to be received by end-March 2015. With a major portion of this equity received in the form of right shares, a balance of Rs. 11.3m is expected to be injected in the coming years. As a result, total adjusted equity of the company increased to Rs. 386.5m (FY14: Rs. 323.4m, FY13: Rs. 293m) in 9M15. Enhancement in equity base is expected to arrest the rising leverage indicators; leverage indicators of the company are currently higher in comparison to peers.

PQGTL reported gross contribution of Rs. 1.0b (Rs. 1.03b) in FY14. The company booked total premium of Rs. 531.5m in 9M15 vis-à-vis targeted contribution base of around Rs. 750m for FY15; the business target was revised downwards from Rs. 1b. Aggregate top line of the company depicted a negative growth on account of gradual transfer of its health segment to its associate concern. Resultantly, more than three-fourths of business emanated from motor contributions; whereas the company had planned to reduce its motor segment while higher growth budgeted in fire and marine segments. Going forward, the company projects to maintain exposure in motor segment to almost half of business volumes.

The company has an adequate reinsurer panel featuring BBB and above rated reinsurers. There were certain changes observed on the panel for 2015 as MNRB exited. Labuan Re continues to be the lead re-takaful company with 37.5% of treaty share. Moreover, Hannover Re is exclusively appointed for terrorism segment. Given that the company plans to grow in other segments, retention of some segments has been changed. Total capacity of all segments has also increased in anticipation of higher business volumes in fire and engineering, given upcoming projects in the country. Moreover, with higher retention on books vis-à-vis industry averages, risk of the company is considered high with major risk falling on net account.

Overall net claims ratio has followed a stable trend for the past 3 years, marginally falling to 63.7% (FY13: 64.7%, FY12: 59.9%) in FY14. Highest loss ratios were recognized from health and marine segment. Net claims ratio of health has remained above 90% throughout the years. Owing to high losses on net account, the company decided to park this segment in its associated company Pak-Qatar Family Takaful Limited. Underwriting loss amounted to Rs. 2.4m (FY13: underwriting loss of Rs.22m, FY12: underwriting loss of Rs. 33.2m) for FY14 and Rs. 27.5m in 9M15. With a history of underwriting losses, Participants Takaful Fund was in deficit up to FY14. However, performance of the same showcased an improvement in the outgoing year with PTF reporting a surplus of Rs. 8.8m.

Insurance debt of the company was piling up for the past few years. As part of contributions from non-motor segments are collected in arrear vis-à-vis motor business, which is collected at the time of policy issuance, contributions due but unpaid from non motor clients showcased higher balances. However, insurance debt decreased to Rs. 267.2m by end-9M15 on the back of recovery efforts made by the company. Insurance debt to gross premium was reported at 37.5% (FY14: 37.7%, FY13: Rs.28.8%, FY12: 22.7%) for 9M15. Aging profile of the company is considered satisfactory with majority receivables falling in the bucket of 0-3 months.

PQGTL holds a conservative investment portfolio with more than three-fourths of exposure in fixed income instruments. The company's investment portfolio comprises of Sukuk certficates, Mututal funds and TDRs. Market and credit risk emanating from the portfolio is considered manageable.

There were notable changes at senior management positions; fresh inductions include qualified & experienced professionals. Moreover, the company plans to beef up its sales staff for improving marketing outcomes and proactively respond to increasing competition from takaful window operations of conventional insurance companies.

Pak-Qatar General Takaful Limited **Appendix I**

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Cash and Bank Deposits	179.1	219.1	139.3
Investments	264.1	319.3	224.5
Investment Properties	-	-	-
Insurance Debt	378.3	296.4	124.4
Total Assets	1,057.9	1,055.4	644.4
Net Worth	323.4	293	200.2
Total Liabilities	734.5	762.5	444.3
INCOME STATEMENT	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Net Contribution Revenue	506.2	426.4	165.9
Net Claims	542.2	457.40	193.7
Underwriting Profit	(2.4)	(22.0)	(33.3)
Net Investment Income	39.7	30.6	25.8
Profit Before Tax (SHF)	32.1	40.5	30.5
Deficit transferred to Participants' equity	13.1	10.6	7.3
Profit After Tax (SHF & PTF)	5.38	22.6	11.4
RATIO ANALYSIS	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Market Share (Gross Contribution) (%)	-	-	-
Cession Ratio (%)	15.4%	16.6%	21.3%
Gross Claims Ratio (%)	62.6%	62.6%	53.2%
Net Claims Ratio (%)	63.7%	64.7%	59.9%
Underwriting Expense Ratio (%)	36.6%	38.4%	50.4%
Combined Ratio (%)	100.3%	103.1%	110.3%
Net Operating Ratio (%)	95.3%	98.6%	102.6%
Insurance Debt to Gross Contribution (%)	37.7%	28.8%	22.7%
Operating Leverage (%)	262%	240%	160%
Financial Leverage (%)	155%	176%	144%
Adjusted Liquid Assets to Technical Reserves (%)	89%	104%	126%

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	Pak-Qatar General Takaful				
Sector	Insurance/Takaful				
Type of Relationship	Solicited				
Purpose of Rating	Insurer Financial Strength Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Outlook**	**Short Term**	**Rating Action**
			RATING TYPE: IFS		
	2-Mar-16	A-	Stable		Maintained
	31-Dec-14	A-	Positive		Maintained
	19-Jun-13	A-	Stable		Upgrade
	29-Nov-12	BBB+	Positive		Maintained
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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2015 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.				