

Rating: Subscribe for long term

Issue Offer

Fresh Issue of INR 20,000 Mn and Offer For Sale of 58,324,225 equity shares taking the total issue size to INR 72,492 Mn.

Issue Summary

Price Band (INR)	870-900
Face Value (INR)	10
Implied Market Cap (INR Mn)	517,961
Market Lot	16
Issue Opens on	Nov 30th, 2021
Issue Close on	Dec 2nd, 2021
No. of share pre-issue	553,289,944
No. of share post issue	575,512,166
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	75
NIB Portion	15
Retail Portion	10

Book Running Lead Managers

SBI Capital Markets Ltd, Ambit Pvt. Ltd.
Kotak Mahindra Capital Company Ltd.
ICICI Securities Ltd, IIFL Securities Ltd.
Jefferies India Pvt. Ltd, DAM Capital Advisors Ltd.
Citigroup Global Markets India Pvt. Ltd.

Registrar

KFin Technologies Pvt. Ltd.

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters & Promoter Group	66.2%	58.3%
Public	33.8%	41.7%

Objects of the issue

➤ Augmentation of capital base and maintenance of current solvency levels

Abhishek Jain

abhishek.jain@arihantcapital.com

022-422548871

Anushka Chitnis

Company Profile: Star Health and Allied Insurance Company Ltd. (STAR) is one of the largest private health insurers in India. Incorporated in 2006, it has a market share of 15.8% as of FY21. From being the first standalone health insurance ("SAHI") company in India in 2006, where it has grown into the largest SAHI company in the Indian health insurance market. Company's main focus is on the retail and group health insurance markets which accounted for 89.3% and 10.7% of the company's total Gross Written Premium (GWP) in FY21 respectively. It had also been consistently ranked first in the retail health insurance market in India based on GWP over the last three financial years. In FY21, retail health GWP was over 3x the retail health GWP of the next highest retail health insurance market participant, implying that they are well positioned to gain market share and grow the business.

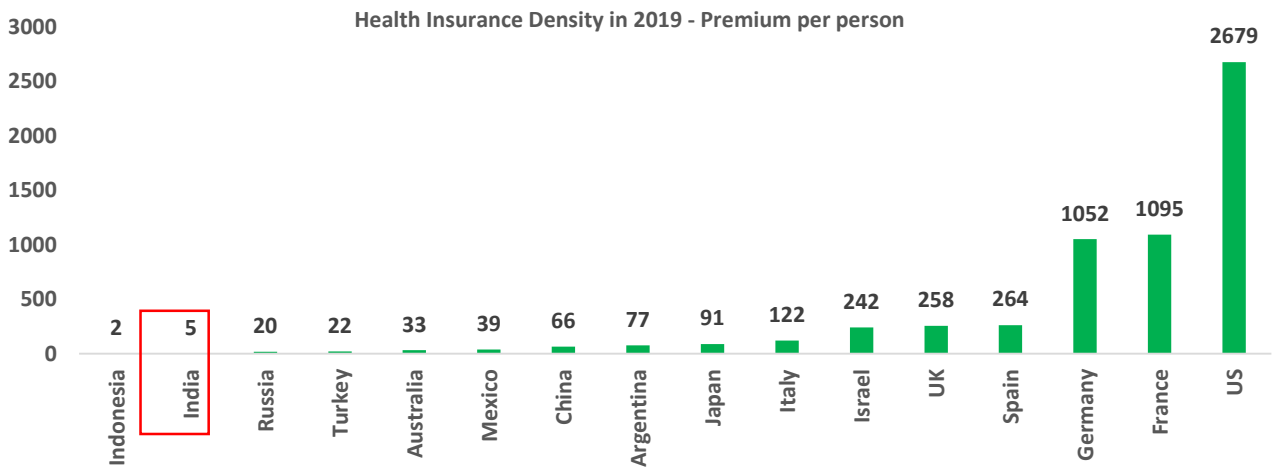
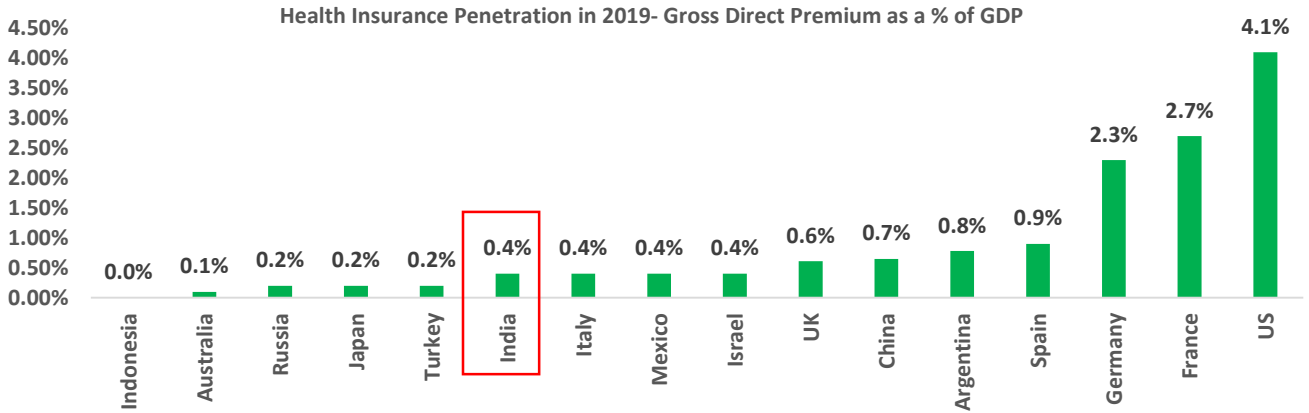
- **Largest private health insurance company:** STAR is a largest private health insurance company in India with market leadership in the considerably attractive retail health segment. The company accounts for almost 31.3% of the market share in this segment in FY21. Star Health has gained largest market share in accretion in Retail health premium in FY21. The company grew at a CAGR of 35% in FY21 which is 2x that of the industry CAGR.
- **Strong Distribution network:** It has largest network distribution in the health insurance industry. The company has the largest number of individual agents amongst all health insurers, at approximately 3x that of the health insurance company with the next highest number of agents (their agents account for 60% of all agents in the SAHI industry). It also has the largest branch network amongst SAHI Insurers, comprising of 779 branches spread across 25 states and 5 union territories.
- **Superior product mix:** It has diversified product suite with a focus on innovative product development. They offer coverage options in retail health, group health, personal accident and overseas travel through their rigorous development process. It offers family floater products, individual (tailored) products, and even specialized products for PED's.
- STAR has quality customer service and an in- house claims management system, and an extensive hospital network. Through their tele- medicine services, they provide customers with access to opinions from experienced medical professionals. This makes the customers experience more comfortable and builds trust, and also reduces claim associated costs for the company by prioritizing prevention over cure. Their in- house claims management systems helps them cut unnecessary costs and better trace frauds.
- **Claims and Combined Ratios are lowest for SAHI companies in the Retail Segment:** Claims ratios for SAHI companies clock in at 78% in FY21 vs 94% for the industry. Combined ratios for SAHI companies is 112% in FY21 vs 113% for the industry. STAR had a claims ratio of 87% and a combined ratio of 115% in FY21, owing to the effects of the pandemic, which are expected to normalize to 64-65% and 92-94% respectively in the coming years. The Retail Business Segment is poised to gain significant market share, and it also has the lowest claims ratio compared to the industry, clocking in at 73% vs 88% for the industry in FY21.

Valuation and Outlook

At the upper price band of INR 900, the issue is valued at a P/BV multiple of 14.2x based on its FY21 BVPS of INR 64. The Company has better track record than its peers in the health insurance industry- led by a higher share of retail health in its product mix v/s the industry, a higher focus on SMEs in the group health segment, and better agent productivity. In FY21, it had posted a loss due to one-offs and higher claim ratios on account of COVID, which is expected to normalize post FY22E. Its combined ratio has been among the best in the industry at 92-94%, except in FY21, which was impacted by one-off. The health insurance penetration (premium as a percentage of GDP) in India at 0.4% is significantly lower v/s global average of 2%. We recommend that investors subscribe for long term.

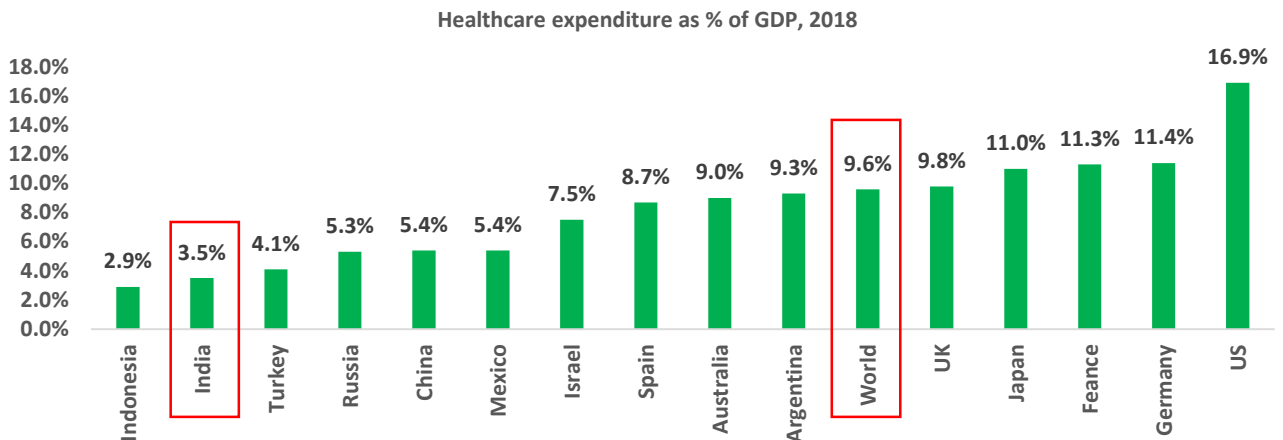
Industry Overview

Health Insurance Industry In India: The health insurance penetration in India is low at 0.4% of GDP whereas the global average comes around 2% of GDP. India is also behind in terms of health insurance density, compared to other developing and developed nations.



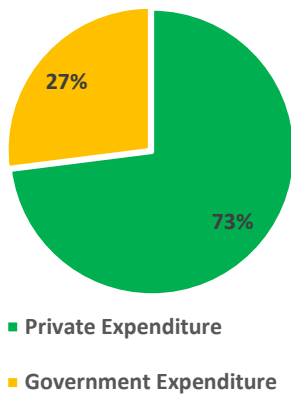
Source: RHP, CRISIL Research, Aриhant Capital Research

Healthcare Spends In India: According to the WHO, India's expenditure on healthcare (healthcare goods and services paid by government, insurance companies or by the individual) was 3.5% of GDP. India trails behind the world average of 9.8%. The share of public spending on healthcare services remains much lower compared to other countries (USD 78 for India vs USD 10,624 for the US in 2018). India's healthcare expenditure is skewed towards private expenditure (voluntary health insurance, direct payments for health by corporations and households) as compared to public expenditure. Out-of-pocket expenditure on healthcare is nearly 63% of total health expenditure as of 2018, i.e. most households and individuals either do not have health insurance or do not have an adequate cover. Furthermore, insurance covers in India did not cover out-patient treatments until recently.

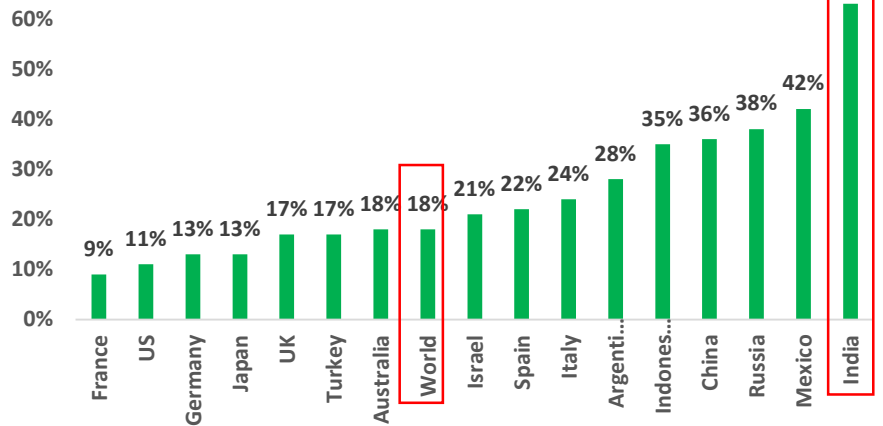


Source: RHP, CRISIL Research, Aриhant Capital Research

Healthcare Expenditure in India, 2018



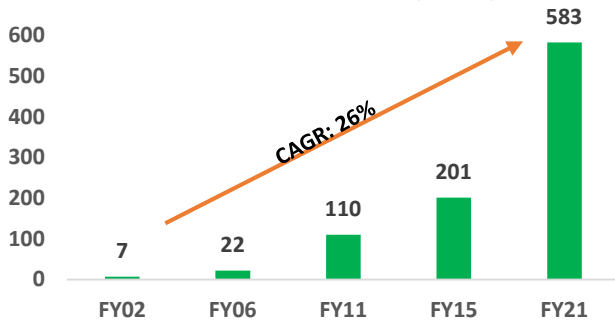
Out of Pocket Expenditure as a % of Total Healthcare Expenditure, 2018



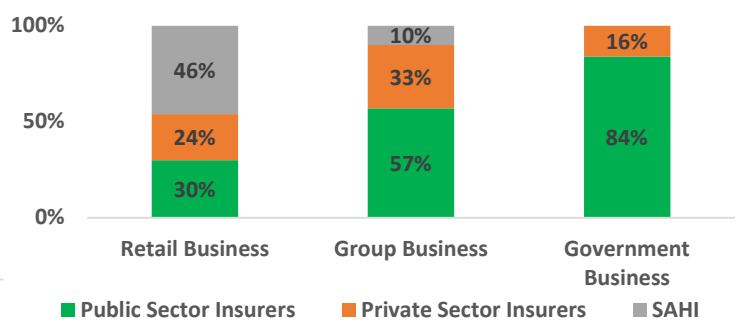
Source: RHP, CRISIL Research, Arianth Capital Research

Health Insurers in India: From FY02 to FY21, health insurance premium in India has increased 86x. Health insurance premiums have grown at a CAGR of 19% in the last 6 years ending FY21. In H1FY22 the health portfolio grew by 29%, which was significantly higher than the 18% growth during FY21. This growth in premium was due to the strong surge in premium income of standalone health insurance (SAHI) companies as the premium grew at a 39% CAGR during the last 6 years, admittedly on a low base, while that of private companies surged at a 21% CAGR. The growth of public sector companies has been relatively low as compared to others at 13% for the same period. In addition, SAHI companies account for 46% of the market share in the retail healthcare business in FY21, While Public Sector Insurers dominate the Government and Group Business with market share of 84% and 57% respectively in FY21. **SAHI companies mainly focus on the retail business** and have a market share of 46% in this segment as of FY21 which has increased from 27% in FY15.

Health Insurance Premium (INR Bn)



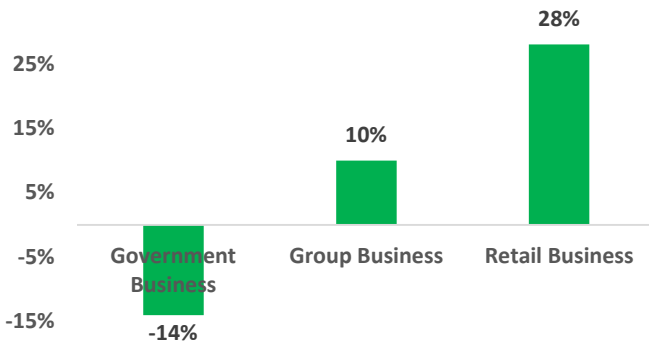
SAHI companies as a % of market share in FY21



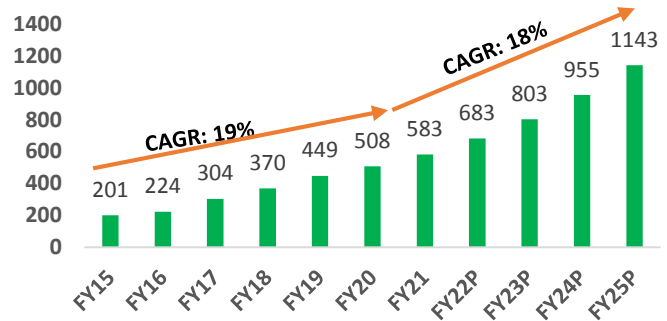
Source: RHP, CRISIL Research, Arianth Capital Research

Growth of the Health Insurance Industry In India: COVID-19 and high medical costs have increased the awareness and need for health insurance and driven individuals to sign up for the same. Health insurance gross direct premium increased by 16% in FY21 compared to FY20. This was largely driven by individual policies, wherein gross premium increased by approximately 28% as against 10% for group policies and de-growth in government business. CRISIL forecasts the gross direct premium for health insurers to grow at 18% CAGR over the next 4 years. the total premium is expected to grow 2x from INR 583 Bn (as of FY20) to close to INR 1,150 Bn by FY25. Pick-up in economic growth, higher disposable incomes, government initiatives focusing on health segments and growing awareness of insurance would be growth facilitators. Within the health insurance segments, CRISIL expects **Retail business to grow at a CAGR of 23% between FY21 to 25 as compared to 15% and 11% CAGR growth in Group and Government business respectively.** Increasing penetration, rising customer awareness and increasing focus from private and SAHI companies towards retail business are expected to facilitate growth of the segment.

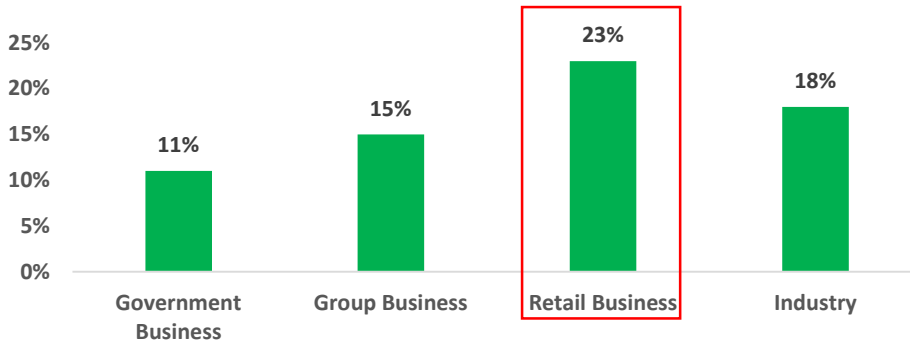
YoY Growth in the Insurance Business Segments, FY21



Projected growth in gross direct premium (INR Bn)



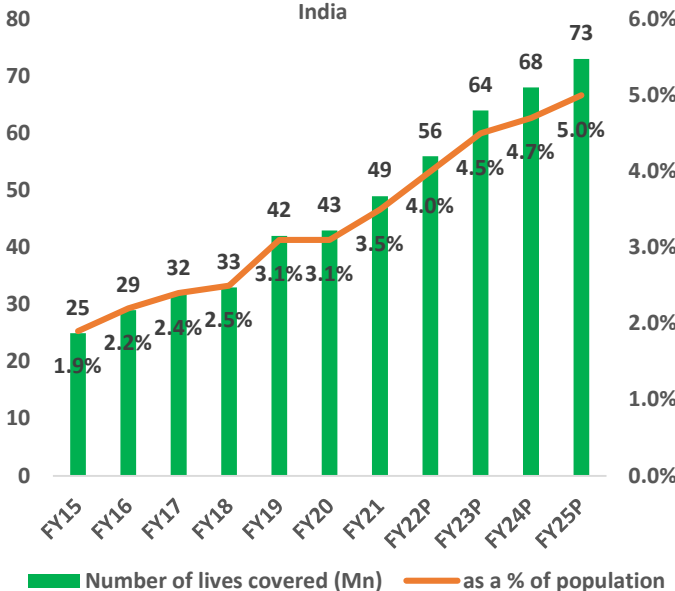
4 year CAGR in Gross Premium (by FY25)



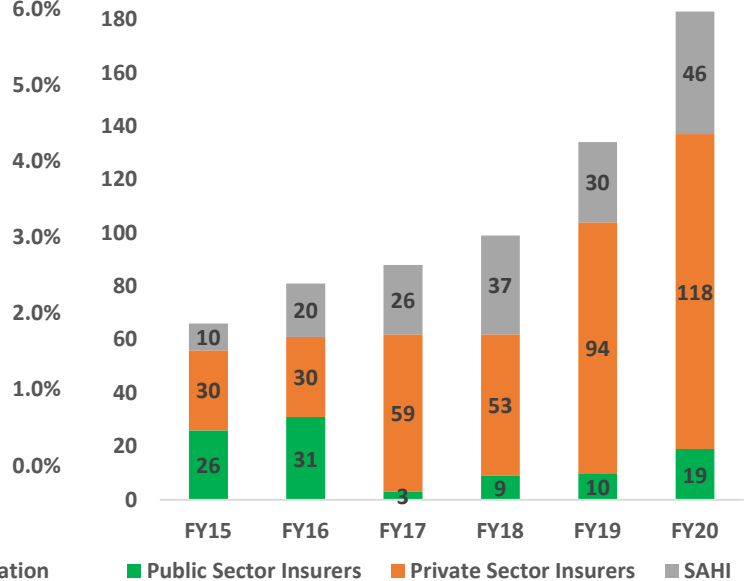
Source: RHP, CRISIL Research, Arianth Capital Research

Growth in the Retail Health Insurance Segment and SAHI in India: During the last 5 years, the number of lives covered has increased at a 12% CAGR, increasing the proportion of lives covered to population to 36% from 22%. **This is expected to increase to 670 million accounting for approximately 46% of total population by FY25.** In terms of retail business, the number of lives covered increased from 25 million in FY15 to 43 million in FY20, increasing the proportion of lives covered from 1.9% to 3.1% during the same period. People avoid buying individual health insurance policies because they are covered under a corporate health plan. Customer awareness towards drawbacks of group cover has encouraged the purchase of retail health policies. Retail policies are also more convenient to customize than corporate plans.

Lives covered in retail health insurance business in India



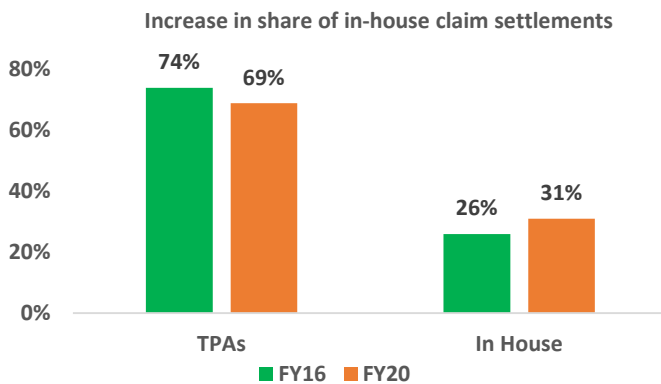
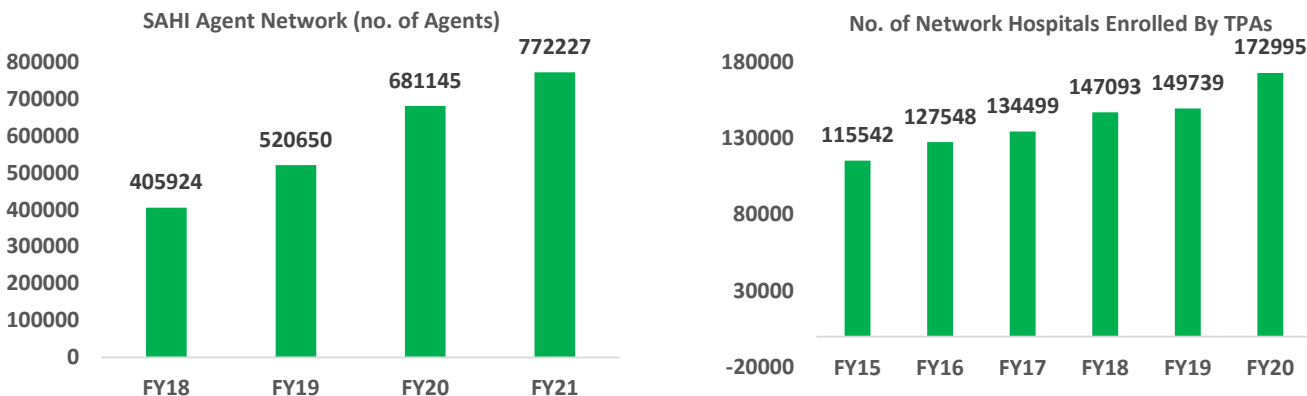
Number of health insurance products approved



Source: RHP, CRISIL Research, Arianth Capital Research

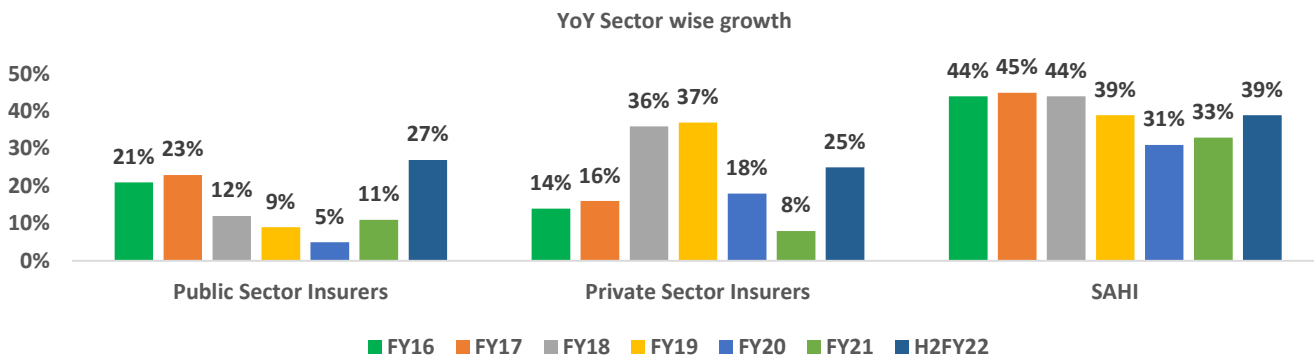
Growth in Distribution Channels, Hospital Networks, and trends in claim settlement in the SAHI and Retail business: The industry depends a lot on individual agents to guide and educate customers to purchase policies and seek coverage. Companies have been focusing on increasing their agent network to enhance their breadth and depth of distribution. All the SAHI insurers cumulatively had 400,000 agents as of FY18; this number has increased to 772,000 agents by FY21. **Insurers have also been focusing on increasing their tie ups with hospitals to make the process more convenient for customers. Insurers either tie up with hospitals on their own or use the network of Third Party Administrators (TPAs).** The share of TPAs in total health insurance claims paid has decreased from 74% in FY16 to 69% in FY20. This is because private insurers are enhancing focus towards in-house claims processing as it is faster (the insurer is better equipped to explain expenses and redress grievances quickly). **Insurers have reimagined the claim settlement process for policyholders by accepting digital documents without human intervention, providing real time tracking of the claim status and cashless settlement to ensure quick and efficient claims processing.**

Retail business policies are often purchased with the guidance of an insurance agent to help navigate plan choices and premiums. However, increasing digitalization, easy data availability through digital channels like web aggregators have increased transparency and the trust aspect towards insurance process. **Individual agents dominate the distribution network for retail business; but share of web-aggregator and other online channels has increased.**



Source: RHP, CRISIL Research, Aриhant Capital Research

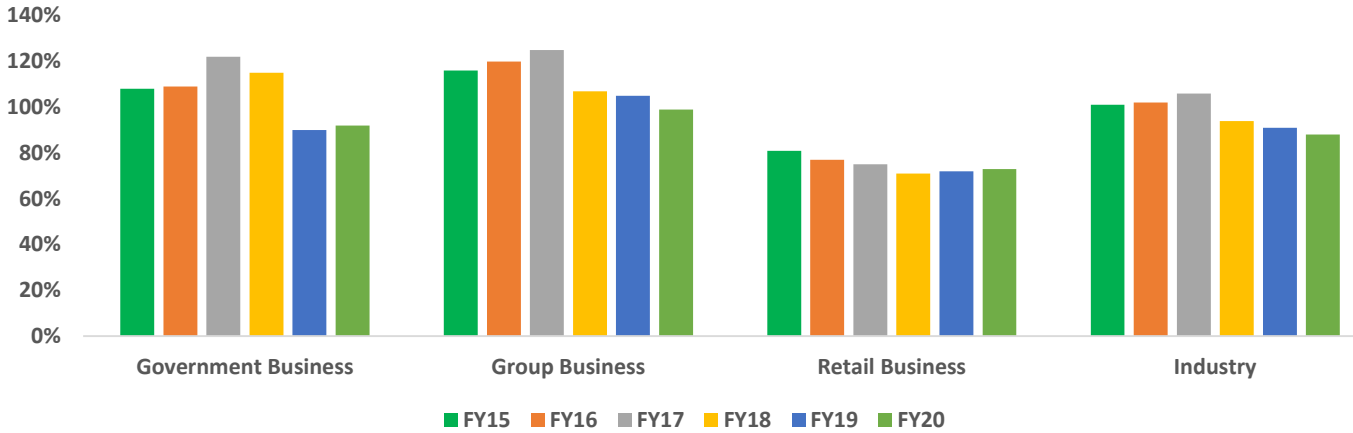
Market Share for SAHI continues to grow: Premium of SAHI grew at a 39% CAGR during FY15- 21, compared to that of private companies at a 21% CAGR. Market share for SAHI companies increased from 10% in FY15 to 26% in FY21, it is further expected to increase by FY25 as insurers increase their focus on retail business where SAHI have a market share of 46% and 49% as of FY21 and H1FY22, respectively. Growth drivers include: single product focus; strong focus on the profitable retail segment; Open architecture where banks and other corporate agents are allowed to partner with SAHIs insurers.



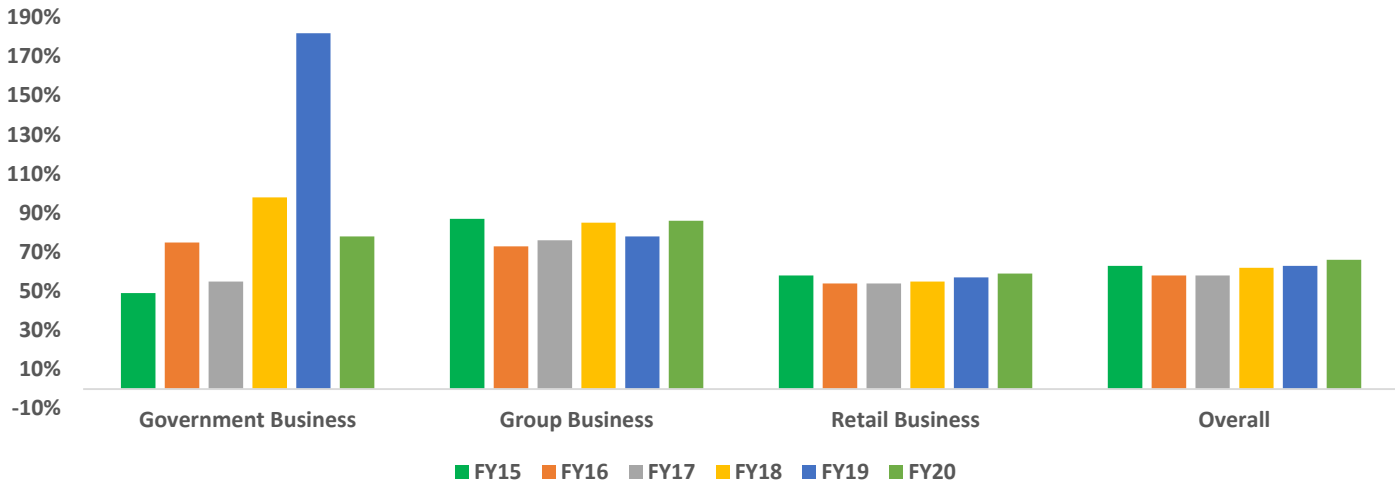
Source: RHP, CRISIL Research, Aриhant Capital Research

Operating Expenses and Claims Ratio: Claims ratio for the retail segment is the lowest compared to the group and government segments, and remains relatively better for SAHI insurers at 59% as of FY20 as compared to 67% and 92% for Private sector and Public sector insurers respectively.

Retail business has the lowest claims ratio



Segment wise claims ratio for SAHI



Source: RHP, CRISIL Research, Arianth Capital Research

Business Overview:

Star Health and Allied Insurance Company Ltd. is currently the largest private health insurer in India with a market share of 15.8% in the Indian health insurance market in FY2021. In FY21 and H122, they had a total GWP of INR 93,489.50 Mn and INR 50,697.82 Mn, respectively. From being the first standalone health insurance ("SAHI") company in India, **they have grown into the largest SAHI company** in the overall health insurance market in India.

They are strategically **focused on the retail health market segment**, as their comprehensive health insurance products insured 20.5 Mn lives in FY21 in the retail health and group health insurance, which accounted for 89.3% and 10.7%, respectively, of the total GWP in FY21. The company has consistently been ranked first in the retail health insurance market in India based on retail health GWP over the last three FYs.

The retail health market segment is expected to be a key growth driver for the health insurance industry, and the company as well (after the COVID-19 crisis due to low penetration of health insurance, high out-of-pocket expenses for healthcare costs, and since only 10% of the population has insurance policies outside of government plans). In FY21, retail health GWP for the company was over 3x the retail health GWP of the next highest retail health insurance market participant, positioning them well to continue to grow the business and market share.

Distribution:

The company distributes their health insurance policies **primarily through individual agents**, which accounted for 78.9% of the GWP in FY21. They are the primary method of distribution since health insurance is largely an assisted product in which customers require help in selecting the policy best suited to their needs and during the claims process.

As of FY21, they had the largest number of individual agents among SAHI insurers, at approximately 3x that of the SAHI company with the next highest number of agents. Their total number of individual agents grew at a CAGR of 27.3% from 0.29 Mn as of March 31, 2019 to 0.46 Mn as of March 31, 2021 and was 0.51 Mn as of September 30, 2021.

The growth in productivity of agents the company sponsors to become licensed through training is higher than the overall productivity of agents that are associated with other companies too (as per the company's observation). As of September 30, 2021, **they have sponsored and trained 0.07 Mn individual agents**, representing 14% of the total number of agents. The total number of sponsored individual agents grew at a CAGR of 44.7% from FY20 to FY21.

Their distribution channel **also includes corporate agent banks**, which accounted for INR 2,209.19 Mn and INR 1,415.38 Mn of the GWP in FY21 and H1FY22, respectively, and other corporate agents, which accounted for INR 190.96 Mn and INR 317.96 Mn of the GWP in FY21 and H1FY22, respectively.

They have led the non-public health insurance market in terms of number of new branch openings since FY18, and their **branch network** was over 2.5x the number of the next largest non-public health insurance provider as of FY21. As of September 30, 2021 their distribution network had grown to 779 health insurance branches across 25 states and 5 union territories in India.

The existing branches are supplemented by a network of over 562 **Sales Managers Stations ("SMS")**, which are small individual service centers, and over 6,892 in-house sales managers, as of September 30, 2021. Their other origination channels include distribution by direct online sales through telemarketing and their website, brokers, insurance marketing firms and web aggregators.

Product Offering:

They offer a range of flexible and comprehensive coverage options primarily for retail health, group health, personal accident and overseas travel, which account for 87.9%, 10.5%, 1.6% and 0.01%, respectively, of the total GWP in FY21 and 85.6%, 13.1%, 1.3% and 0.0001%, respectively, of the total GWP in H1FY22.

Their products target a variety of customer segments, including individuals, families, students, senior citizens, as well as persons with preexisting medical conditions.

The product mix includes:

- **Family floater products-** In which the sum insured covers the entire family on the payment of a single annual premium.
- **Individual products-** Which are tailored to the needs of the individual.
- **Specialized products-** Which focus on customers with pre-existing conditions after accounting for the associated risks.

They **developed the specialized products** through an innovation-driven product development process which involves an analysis of market demand and coverage gaps. From FY18 to H1FY22, they launched 56 new products (including variations of policies).

Claims Management:

Their **in-house claims management Capabilities** is a key part of customer service. Since the claims process is the most sensitive part of a customer's experience with health insurance, controlling the claims process allows them to make the process more customer friendly, deliver quality service, and control the costs associated with the claims process. It also enables them to improve the accuracy and cost-efficiency of the actual claim amounts and better detect fraudulent claims.

Their claims function is largely centralized, with certain specific functions decentralized to their branches, which **streamlines the claims process and improves turnaround times**.

They also employ technologies during the claims process, such as their claims relationship cell, which proactively assists customers through every stage of a cashless claim.

They also engage with customers through their **in-house tele-medicine service, TALK TO STAR**, which reduces costs associated with claims by giving customers access to experienced doctors that can give second opinions and alternative medical solutions over the telephone or internet and even real-time updates.

Digital Technologies:

Their investments in digital technologies, data platform and automation will continue to be key drivers that improve the effectiveness, efficiencies and innovations within the business.

They have invested in advanced technologies to develop a flexible and integrated IT platform across business processes, such as their **agent application, STAR ATOM, which assists agents to complete the policy sales process remotely in an effective and efficient manner**, and their **customer self-service application, STAR POWER, which lets them deliver a customer consistent and personalized experience that meets the customers' needs**. They are also actively focused on streamlining the underwriting and claims processes for customers through their proprietary information systems that they developed in-house.

Network Of Hospitals:

They have built **one of the largest health insurance hospital networks in India**, with 11,778 hospitals as of September 30, 2021.

Out of the total hospitals in their network, they have entered into pre-agreed arrangements with 7,741 hospitals, or 65.7%, of the total hospitals. As of September 30, 2021, and in FY21 and H1FY22, they processed 0.33 Mn and 0.25 Mn claims, respectively, or 55.0% and 62.0%, respectively, of the total number of cashless claims, through their agreed network hospitals.

The agreed hospital network allows them to:

Monitor the quality of medical service provided and provides access to competitive pricing at attractive, pre-negotiated rates, which lowers claims costs and increases customer engagement. These agreed network hospitals typically offer better negotiated package-based pricing, and the average claims amount in these hospitals is typically lower than average claims amount in non-agreed network hospitals, which has a positive impact on the claims ratio and profitability.

Improve the overall customer service experience through reduction in wait time for claims to be processed until final settlement. These interactions also drive customer retention and renewals, while serving to promote products to newer customers.

They intend to **leverage the current size of their hospital network and market position** to increase the number of agreed packages they have with hospitals, helping them realize efficiencies, while still providing quality customer service and increasing customer engagement.

Key Strengths:

They are the largest private health insurance company in India with leadership in the attractive retail health segment:

The retail health segment in India will emerge as a key growth driver for the health insurance market due to its lower claims ratio of 73% in FY20, as compared to government health and group health with claims ratios of 92% and 99%, respectively, making the retail health segment more attractive and profitable. From FY19 to FY21, their retail health GWP grew at a CAGR of 32.5%, and their size and established market share positioned them well to continue to capitalize on the dynamics in the retail health insurance sector. They accounted for 40.5% of the total accretion in retail health GWP in the Indian retail health industry in FY21. In addition to procuring new business, they also have a steady stream of customers coming back with 97.9% renewals by GWP value for retail health business in FY21, as well as 63.4% higher inward portability compared to FY20, which shows the increase in retail health GWP from new customers. Average retail health sum insured for the Company grew at a CAGR of 11.7% from FY19 to FY21, which is an indication of the Company selling new policies with higher sum insured, as well as customers choosing to upgrade their insurance coverage to higher sum insured products when they renew. As a result, their overall retail health insurance market share by GWP, increased from 28.6% in FY19 to 31.3% in FY21, resulting in growth of 40.5% in FY21 compared to growth in the overall retail health insurance industry of only 28% in FY21. Their position as the largest private health insurance company and the largest retail health insurance company in India by health GWP positions them well to continue to generate growth and increase market share in the retail health insurance market.

They have one of the largest and well spread distribution networks in the health insurance industry and an integrated ecosystem that enables them to continue to access the growing retail health insurance market:

Pan India Presence: Their pan-India distribution network is one of the largest and well spread in the health insurance industry. It includes the largest branch network among non-public health insurance providers in India, which as of September 30, 2021 included 779 health insurance branches across 25 states and 5 union territories. Their branch network is supplemented by an extensive network of over 562 SMS and over 6,892 in-house sales managers as of September 30, 2021. The branches act as a hub to their SMS and agents, which let them access a geographically and demographically broad Indian customer base, facilitating future expansion.

Agency distribution channel: Health insurance is largely an assisted product wherein customers often require help selecting the policy best suited to their potential medical needs, personal circumstances, financial means and making claims. **Individual agents provide this assistance directly** and having a large network of agents enhances the breadth and depth of policy distribution. As of FY21, they had the largest number of individual agents among SAHI insurers, at approximately 3x that of the SAHI company with the next highest number of agents.

Their agents accounted for 59.9% of all the agents in the SAHI sector in India as of FY21. Their total number of individual agents grew at a CAGR of 27.3% from 0.29 Mn as of FY19 to 0.46 Mn as of FY21 and was 0.51 Mn as of H1FY22. Additionally, as of H1FY22, 0.07 Mn of their agents were engaged (trained) directly by the company to sell health insurance policies. The number of agents engaged directly to sell health insurance grew at a CAGR of 44.7% from FY19 to FY21. In FY19, 20 and 21 and H1FY22, their agency network accounted for 79.3%, 78.2%, 81.5% and 80.4%, respectively, of their GWP.

Individual agents have been the primary method of distribution of health insurance policies and accounted for 34% of the health insurance GWP generated by SAHI and general insurance companies in FY20.

They support the growth of their agent network through internal systems and processes that enhance agent performance and retention, as well as their professional development.

They also give periodic refresher training to let agents stay up-to-date with industry developments and new products and policies. They have an agency portal that allows agents to access details of relevant data that can increase agent productivity. They also have in place an initiative called "agency club" with the objective of recognizing strong agent performance and facilitate networking. The agency club helps agents improve technical, marketing and communication skills.

The Average GWP from individual agents, has increased from INR 0.16 Mn in FY19 to INR 0.18 Mn in FY21 at a CAGR of 5.8% and was INR 0.17 Mn in H1FY22. The productivity of individual agents that were sponsored to become licensed and trained by the company increased from INR 0.15 Mn in FY19 to INR 0.17 Mn in FY21 at a CAGR of 8.1% and was INR 0.17 Mn in H1FY22.

Their agency distribution channel also includes corporate agent banks, which accounted for INR 2,209.19 Mn and INR 1,415.38 Mn of GWP in FY21 and the H1FY22, respectively, and other corporate agents, which accounted for INR 190.96 Mn and INR 317.96 Mn of GWP in FY21 and the H1FY22, respectively.

Key corporate agent banks include Bank of Baroda, Punjab National Bank and Karur Vysya Bank. **They have also engaged with other corporate agents**, such as Pay TM and ICICI Securities, on API technology integrations, as well as PolicyBazaar, a broker, each of which enable them to distribute policies and conduct underwriting processes without human intervention.

Other Distribution Channels: In addition to individual, corporate agent banks and other corporate agents, they maintain diversified channels of distribution, which include distribution by **direct online sales through telemarketing**, the **website and interactive applications, brokers, insurance marketing firms and web aggregators**. They have 8 dedicated telemarketing units as of H1FY22.

They have a diversified product suite with a focus on innovative and specialized products:

They offer a range of flexible and comprehensive coverage options primarily for retail health, group health, personal accident and overseas travel, which accounted for 87.9%, 10.5%, 1.6% and 0.01%, respectively, of the total GWP in FY21 and 85.6%, 13.1%, 1.3% and 0.0001%, respectively, of the total GWP in H1FY22. From FY18 to H1FY22, the company introduced 56 new products (including all variations of policies).

They develop products through an innovation-driven product development process, which includes extensive market research in which they analyze market demand and coverage gaps, and profitability analyses. In developing products, they focus on the family and economic, age, disease and the geographic profiles of customers. As a part of the process, they involve members of the marketing, products, claims, actuarial and underwriting teams, which included in-house medical professionals, in the various stages of the process, to meet the needs of different customer profiles. The products include **family floater products**, such as **their Family Health Optima Insurance Plan**, in which the sum insured covers the entire family on the payment of a single annual premium; **individual products**, such as **Medi classic Insurance Policy (Individual) and Accident Care Individual Insurance Policy**, which are tailored to the needs of the individual; and **specialized products based on the age of the customers**, such as **Senior Citizens Red Carpet Health Insurance Policy and Young Star Insurance Policy**, as well as on the **disease-profile of the customers with pre-existing conditions**, such as **Diabetes Safe Insurance Policy, Star Net Plus and Star Cardiac Care Insurance Policy**. Family floater policies accounted for 67.1%, 66.3%, 60.5% and 57.8% of the total retail health GWP in FY19,20,21 and H1FY22, respectively; individual and individual/floater policies accounted for 23.4%, 24.7%, 28.3% and 28.7% of the total retail health GWP in FY19,20,21 and H1FY22, respectively; and their specialized policies accounted for 9.5%, 9.0%, 11.2% and 13.5% of their total retail health GWP in FY19,20,21 and H1FY22, respectively.

Within the product categories, they have also developed premium products, such as **Star Comprehensive Insurance Policy**, which has additional coverages and higher sum insured than the traditional products. They also introduced other innovative products that go beyond traditional health insurance policy coverage, such as their **top-up health insurance**, which allows customers to increase the coverage of their existing health insurance policy. They have also introduced products and pricing that are tailored to specific geographies, such as **Star Micro Rural and Farmers Care**, which are rural-specific products.

They are also present in the group health insurance sector, which accounted for 10.5% and 13.1% of the total GWP in FY21 and H1FY22, respectively. Due to aggressive pricing and increased competition in this segment, they are **selective in underwriting group health risk, and focus primarily on SMEs** to avoid the aggressive pricing and increased competition in the mass market. SMEs typically have lower claims ratios compared to large corporate organizations. Their continued presence in the group health market will let them penetrate the broader group market in the future in response to any improvements in underwriting and profitability.

Strong risk management focus with domain expertise driving a superior claims ratio and quality customer service:

In-house Claims Management System: The claims process is the most sensitive part of a customer's experience with health insurance. To reduce the costs associated with claims, they engage with customers through their **in-house tele-medicine service, TALK TO STAR**, which gives customers access to experienced doctors that can give second opinions and alternative medical solutions over the telephone or the internet.

In order to streamline the claims process and improve turnaround times, they have their **designated claims processing offices** in Mumbai, Delhi, Kolkata and Kerala to process cashless claims up to a fixed financial limit. Any other claims, including reimbursement claims, are processed by the claims processing office in Chennai.

From inception till H1FY22, they have processed approximately 6.7 Mn claims, and controlling the claims process lets them make the claims process more customer friendly and to deliver better quality customer service.

It also enables them to reduce the costs associated with the claims process, ensure the accuracy and cost-efficiency of the actual claim amounts and better detect fraudulent claims. **They have multiple supporting teams to assist with the claims management process** that identify and addresses fraud or erroneous billing at network hospitals; audit cashless claims and re-negotiate agreement terms with network hospitals; and provide 24-hour customer support seven days a week to address complaints and claims-related inquiries. They have actively focused on **streamlining the claims process for customers through in house proprietary information systems** that enable them to process certain claims in a cashless manner. This technology enables customers to self-administer claims online. In FY21 and in the H1FY22, 94.1% and 89.9%, respectively, of claims settled were processed within 30 days.

In-house Medical Expertise: They employ a large number of medical professionals in various key business functions, including product introduction and innovation, underwriting, hospital network management, claims processing and verification. The knowledge of medical professionals, combined with the financial acumen of the management team and the market intelligence of the field staff, helps facilitate efficient business performance, including the prevention of fraud, undertaking disciplinary action of network hospitals and promoting wellness of customers.

Medical professionals provide support during product development by providing opinions on risk incidence and claims mitigation proposals. They form part of the centralized medical underwriting team. Medical professionals also help manage claims and treatment costs, including direct interaction with hospitals, field verification to ensure the veracity of claims and identifying fraudulent activity or process deficiencies. As of September 30, 2021, they employed 590 in-house full-time medical professionals.

Extensive Hospital Network: They have built **one of the largest health insurance hospital networks in India**, which plays an important role in the Company's loss ratio performance and efficient service delivery. Their hospital network lets them monitor the quality of medical services provided to customers and provides access to competitive pricing at attractive, pre-negotiated rates, which lowers claims costs and increases customer engagement.

Their hospital network includes 11,778 hospitals, 65.7% of which had agreed packages with the company as of H1FY22. **The proportion of the number of cashless claims from agreed network hospitals compared to non-agreed network hospitals has been increasing.** Cashless Claims from network hospitals were 62.0% in H1FY22. The average claims amount in agreed network hospitals, which was INR 64,279.23 in FY21, is lower than the average claims amount in non-agreed network hospital, which was INR 68,108.21 in FY2021.

They engage with customers through their **Telemedicine service** by encouraging customers to contact them for help on the availability of various treatments and hospitals to create a better customer experience. As their hospital network grows, their negotiating power with hospitals will increase, which will have a positive impact on customer engagement and improve loss ratios.

They made substantial investment in technology and innovative business processes:

Investments in IT, in digital technologies, data platform and automation are key drivers that improved the effectiveness, efficiencies and innovations within the business. They have invested to develop flexible and integrated IT platforms across business processes. Their **in-house built digital platform** helps them interact with customers, agents, sales teams, hospitals, diagnostics centers, employees, web aggregators partners, corporate agents, as well as corporate agent banks and other intermediaries, seamlessly. They have integrated platforms such as the new **customer relationship management ("CRM") program**, which manages relationships and interactions with customers and potential customers and helps improve customer experience, satisfaction, lead management and provides a unified experience to the customer from servicing standpoint, **claims management system and the policy administrative system, as well as on portals for consumers, agents, network hospitals and their mobile applications.**

They built these platforms based on prior claims experience, to include an auto-underwriting engine that facilitates the quick onboarding of customers.

- They also have developed omni-channel applications, such as the **agent application STAR ATOM**, which allows agents to process proposals and issue receipts using their smart phone tablets and digitizes the customer acquisition process.
- Their **customer self-service application STAR POWER**, which lets them deliver a customer experience that meets customers' insurance needs through a seemingly single channel regardless of customer entry points, and allows customers to enter into zero-contact new policy purchases, renew policies online and complete claim business process through the channel applications
- They also have developed "**Twinkle bot**", that acts as a reference point for customers FAQ's, to reduce customer call volume and human error and increase efficiency and customer satisfaction.

They also employ programs such as **Wellness for customers and the general public**, which incentivize people to improve their health through reward programs, while collecting valuable business intelligence that enables them to improve operations and further tailor products.

As of September 30, 2021, approximately 0.3 Mn agents used STAR ATOM. The number of digitally issued policies as a percentage of the total number of policies issued in terms of GWP collected has increased from 36.2% in FY20 to 56.4% in FY21 and further increased to 63.2% in the H1FY22. GWP acquired through online channels has increased from INR 2,127.8 Mn in FY19 to INR 3,781.80 Mn in FY21. In H1FY22, GWP acquired through online channels was INR 2,130.84 Mn.

They have also actively focused on streamlining the underwriting and claims processes through proprietary information systems that were developed in-house.

- These include their "**traffic light**" **processing** that provides for the scoring and categorization of specific agents and hospitals (segregating agreed and non-agreed network hospitals) in order to assist teams to process claims.
- Their **COVID-19 dashboard**, which provide data on COVID-19-related claims and helps process COVID-19-related claims
- Their **analytic dashboard**, which lets them view claims on a zone-wise, disease-wise, and mortality-wise basis, as well as indicating whether the claims were processed on a cashless or reimbursement basis, which helps identify potential areas of inefficiency or loss.

This has also reduced dependence on paperwork and physical infrastructure, as well as improved end-to-end customer-centric service experience. They strive to continue to improve and utilize new technologies to gain a competitive advantages and serve as an important driver to achieving performance goals.

Key Strategies

- **Continue to leverage and enhance market leadership in the attractive retail health insurance segment:** The Indian health insurance market is one of the most underpenetrated health insurance markets globally. Many demographic factors are expected to drive growth in this industry, with the Indian retail health insurance segment being particularly attractive due to its lower penetration, density and claims ratio compared to other health insurance segments. The complicated nature of health insurance products and the specialized proprietary distribution and customer assistance required result in higher entry barriers and more attractive claims ratios. They intend to leverage their **market lead in the retail health insurance segment** and expand the customer base, grow profitability, and increasing operating leverage. They will use health analytics, customer patterns and behaviors from their large customer base for better customer selection and product development; leverage their strong brand in the retail health insurance sector to attract quality agents and build the agency distribution network; expand the use of alternate distribution channels, such as the corporate agent banks channel and other channels that complement the agency network; expand their offerings of innovative and custom products and wellness benefits tailored to customers' needs.
- **Continue to enhance existing distribution channels and develop alternative channels:**
 1. **Expand agency and branch networks:** They will continue to nurture and support the growth of the agent network, through internal systems and processes to enhance agent productivity, retention, and professional development. They intend to use their **agency care cell** to train and educate agents on products and underwriting principles, as well as other channels that promote retention, such as the **agency club**, which recognizes strong agent performance and facilitates networking among agents. They will also **promote** individual sponsored health insurance agents, to encourage career progression. They will support the growth of their agency network by further **expanding their branch network** in the underpenetrated semi-urban and rural regions of India to grow their GWP. They also plan to strengthen their existing corporate agent bank relationships by **entering into new corporate agent bank arrangements** to expand geographic and customer reach. They also intend to continue to evaluate strategic opportunities with new corporate agent banks and pursue collaborations with other corporate agents, such as LIC Housing Finance and ICICI Securities.
 2. **Digital sales:** They intend to continue to grow the business through digital sales and web aggregators to continue to make the customer experience more user-friendly and deliver a quality experience. As consumer purchase preferences continue to shift supported by the increasing use of mobile and digital devices, digital sales will increase. They intend to make **digital sales more accessible to customers**, including in **local languages**. They also intend to continue to expand sales through web aggregators.
 3. **Focus on SME Group sales:** They intend to **increase on the SME segment of the Group health insurance** sector, in which their GWP grew at a CAGR of 46.6% from FY19 to FY21 and for which they had a **loss ratio of 77.3%** in FY21, **compared to the loss ratio of 117.9% of the non-SME-Group segment** in FY21.

4. Collaborations with Fintech and Insurtech companies: They aim to collaborate with Fintech and Insurtech companies to develop disruptive technology to differentiate from competitors and improve customer experience, such as collaborations with digital wallets that enable them to make and receive payments and distribute products through their digital applications, as well as collaborating on smaller "bite-sized" insurance products, which are more affordable insurance offerings that can be purchased for specific health needs, in order to target underpenetrated markets.

- **Continue product innovation and provide value added services:**

1. Innovative Products: Design and offer innovative, tailored products to a broad base of customers, including in the premium and high net worth markets, that go beyond traditional health insurance policy coverage, such as top-up health insurance products; coverage of organ donor expenses; coverage of air ambulances; comfort and preventative coverage initiatives and the **promotion of wellness** through incentives for preventative behavior.
2. Disease-Specific Products: Focus on moving up the product value chain by offering higher sum insured products that cover specific health risks, such as **coverage of bariatric surgery for morbid obesity**.
3. Demographic- and Geographic-Specific Products: Continue to evaluate products that are **tailored to specific demographics and geographies**, such as products tailored to the needs of women; outpatient and micro-insurance products for the needs of rural populations; home care products for senior citizens that are linked to coverage of inpatient hospital stays; and day care services coverage to serve the needs of young families.
4. Telemedicine Services: Continue to engage with customers, through TALK TO STAR by encouraging them to contact the company in an effort to assist them on the availability of various treatments and hospitals to create a better customer experience. They intend to **increase the number of telemedicine consultations** conducted, with an aim of eventually providing free telemedicine services, including outside the Company's ecosystem.
5. Value Added Services: Increase emphasis on value-added services to **promote wellness**, such as surveys of customer risk profiles, reviewing medical records and measuring heart rates and other indicators of health by doctors, which can help reduce mortality, as well as by coaching customers to take preventive actions and get appropriate care to improve health, as well as assisting and comforting customers through the health insurance process.

- **Utilize the digitization of business to improve operational efficiencies and customer service:**

1. Hyper-personalization: They will continue to use **hyper-personalization processes that use AI** and real-time data to deliver relevant and personalized content, product, and service information to customers and agents. As the company learns from the data collected, they will understand and customize interactions with customers even more.
2. Advanced Analytics: They will use **predictive analytics to appraise and control risk** in underwriting, pricing, rating, claims and marketing. They also intend to use data analytics to gain insights into systemic inefficiencies, track individual practitioner performance in the hospital network, as well as track the health of populations to identify people at risk for chronic diseases. They also intend to continue to build investments in improved **enterprise data warehouse** as a centralized data repository for business intelligence, analytics and other business purposes in order to improve business performance, as well as investments in other innovative digital platforms, such as utilizing AI, machine learning, robotic process automation, Chatbot platforms and natural language processing.
3. Omni-channel: They intend to continue to build their omni-channel by offering customers, agents and other partners a seamless, integrated experience through **STAR ATOM** to increase satisfaction and reduce inefficiencies and claims costs. **Each customer contact through their omni-channel builds on the customer's previous interaction**, allowing customers to access their history of services and interactions, which helps optimize the use of medical services and reduces claims costs.
4. Intelligent automation: They will continue to employ robust processes in the business through intelligent bots, such as **"Twinkle bot"** that has acts as a reference point for customers for FAQ's, including in relation to COVID-19, to reduce customer call volume and human error, and increase customer satisfaction.
5. Microservices: They intend to continue to utilize microservices to **design better propositions** for customers and agents, which will improve productivity, turn-around-times, and speed.
6. Cloud: They intend to continue to adopt cloud technologies throughout the business to **increase efficiencies and reduce costs**, such as making medical record-sharing easier and safer, automating backend operations, and facilitating the use and maintenance of the other technologies, as well storing customer records remotely and sharing data with hospitals and other business partners.
7. Business Process Optimization: They will continue to optimize the business by implementing automated business processes like straight-through processing in connection with policy purchases and claims processing, which **decreases manual interventions and operating costs** and increases efficiency.
8. Software development process optimization: They intend to continue upgrading and introducing **new technologies to improve efficiencies and productivity** and reduce waste, such as using scaling and agile software and frameworks.

- **Drive profitability by leveraging scale and further improving financial performance:**

1. Continue to grow the agreed hospital network in semi-urban and rural markets, based on claims traffic to benefit from profitable negotiated pricing arrangements and improve loss ratios and claim servicing.
2. Engage in fraud control and mitigation by studying customer behavior and utilizing preventive fraud.
3. Reduce the net expense ratio by continuing to eliminate, standardize and automate internal processes.
4. Enhance the customer-centric service experience to drive GWP through customer communications, and by focusing on customer engagement and retention levels, as well as to drive up-selling of their products.

5. Use advanced analytics of data on customer patterns and behaviors and claims to reduce claim costs and improve customer selection, while better tailoring products.
6. Make each branch across the network a profit center by instituting benchmarks and evaluating and compensating branch managers based on profitability to drive branch profitability and improve customer service.
7. Continue to target under-penetrated rural markets, where infrastructure is improving and discretionary spending is increasing.

Key Risks

- The recent global COVID-19 outbreak has significantly affected the business and operations.
- They did not meet the required minimum expenditure towards CSR activities under the Companies Act, 2013 for FY21 and they may be subject to penalties.
- They may be unable to obtain external reinsurance on a timely basis at reasonable costs and could be exposed to credit risks in their reinsurance contracts.
- Their Promoters do not have adequate experience and have not actively participated in the business activities, which may have an adverse impact on the management and operations of the Company.
- If they fail to deliver products that are aligned to the needs of the customer base in each of the distribution channels in a profitable manner, the business could be materially and adversely affected.
- Their debt obligations contain restrictions that impact the business and expose it to risks that could materially adversely affect the liquidity and financial condition.
- The limitations on their ability to cancel health insurance policies and inflexibility regarding pricing of health insurance policies could have a material adverse effect on the business, financial condition, results of operations and prospects.

Peer Comparison:

Company	P/E (x)	Net Profit (INR Mn)	Diluted EPS	Net Worth (INR Mn)	RoNW	NAV/ Equity Share
Star Health and Allied Insurance Co Ltd.	-54	-8256	-17	34846	-24%	64
ICICI Lombard General Insurance Co Ltd.	47	14731	32	74352	20%	164
New India Assurance Co Ltd.	15	16278	10	184854	9%	112

Number of products created per health insurance company in FY20

Company	Individual	Senior Citizen	Family	Disease Specific	Critical Illness	Others	Total Products Released
Star Health & Allied Insurance Co Ltd.	5	1	2	5	1	3	17
HDFC Ergo General Insurance Co Ltd.	7	1	0	3	1	4	16
Bajaj Allianz General Insurance Co Ltd.	5	1	2	0	2	1	11
Care Health Insurance Ltd.	2	1	1	3	2	1	10
Max Bupa Health Insurance Co Ltd.	5	1	1	0	1	2	10
The Oriental Insurance Co Ltd.	1	1	0	2	1	0	5
National Insurance Co Ltd.	2	0	1	0	0	1	4
ICICI Lombard General Insurance Co Ltd.	2	0	1	0	0	1	4
United India Insurance Co Ltd.	1	0	1	0	0	1	3

Source: RHP, CRISIL Research, Arianth Capital Research

Management:

Key Person	Description
Venkatasamy Jagannathan	Venkatasamy Jagannathan is the Chairman and CEO of the Company. He holds master's degree of arts in economics from the Annamalai University, Tamil Nadu. He has more than 47 years of experience in the insurance industry. He has also been awarded the "Social Entrepreneur for Star Cancer Care" award at the Six Sigma Excellence Awards, 2017. He has previously worked with United India Insurance Company in the capacity of chairman cum managing director.
Subbarayan Prakash	Subbarayan Prakash is the Managing Director of the Company. He holds a bachelor's degree in medicine and surgery from the Bharathidasan University, Tamil Nadu and a master's degree in surgery in the branch of general surgery from the Tamil Nadu Dr. M.G.R. Medical University. Further, he has been admitted as a fellow qua surgeon of the Royal College of Physicians and Surgeons of Glasgow. He has also been registered in the Tamil Nadu Medical Register. He has several years of experience as a surgeon and has previously worked with Saudi Operation & Maintenance Company Limited as a specialist in general surgery/traumatology. and a post-graduate diploma in management from the Indian Institute of Management, Calcutta.
Anand Shankar Roy	Anand Shankar Roy is the Managing Director of the Company. He holds a bachelor's degree in commerce from the University of Madras and a post graduate diploma in management from International Management Institute, New Delhi. He has 21 years of experience in the insurance industry and has previously worked with American Express Travel Related Services and ICICI Lombard General Insurance Company Limited.
Sumir Chadha	Sumir Chadha is a Non-Executive Nominee Director of the Company. He holds a bachelor's degree in computer science from Princeton University, New Jersey and a master's degree in business administration from Harvard Business School, Boston. He is the co-founder of WestBridge Capital and has several years of investing experience in Indian companies, both public and private. He started his career with Emerson Electric in Hong Kong, responsible first for business development across Asia and then marketing in China. Subsequently, he spent five years with Citigroup in New York, where he was responsible for making investments in the global consumer sector.

Source: RHP, Arihant Capital Research

Financial Performance:

Statement of Profit and Loss (INR Mn)	2019	2020	2021
Operating Profit/ Loss			
Misc. Insurance	1647	3608	-10712
Income From Investments			
Interest, Dividend & Rent (Gross)	612	989	1618
Profit on Sale of Investments	3	22	13
Other Income			
Others	1.08	0.33	3.22
TOTAL INCOME	2263	4620	-9078
Provisions (Other Than Taxation)			
For Doubtful Debts	0	5	344
Provision for Impairment of Investments	40	-40	0
Other Expenses			
Investments written off	0	195	0
Others			
Key Management Personnel Remuneration	26	26	685
Management expenses allocated	10	0	0
Donation	28	1	1
Interest on NCD	256	256	256
Remuneration To Non-Executive Directors - Profit Related Commission	5	5	1.92
Late Fees	0	0	1
CSR Expenses	28	34	56
Consultancy fees	32	0	3
Bad Debts Written Off	15	5	2
Loss/(Gain) on sale / Discard of Fixed Assets	0	-1	32
TOTAL EXPENSES	440	485	1382
Profit Before Tax	1822	4134	-10460
Net Provision for Taxation	540	1415	-2204
Profit After Tax	1282	2720	-8256

Source: RHP, Arihant Capital Research

Balance Sheet (INR Mn)	2019	2020	2021
Sources of Funds			
Share Capital	4556	4906	5481
Share Application Money	3500	0	0
Employee Stock Options Outstanding	0	0	3
Reserves and Surplus	5871	11530	36758
Fair Value Account Change- Shareholder	0	11	-29
Fair Value Account Change- Policyholder	0	20	-47
Borrowings	2500	2500	2500
TOTAL	16426	18968	44666
Application of Funds			
Investments- Shareholders	9523	14782	26321
Investments- Policyholders	20778	28117	42046
Fixed Assets	981	1019	990
DTA's	1420	1467	4213
Current Assets			
Cash and Bank Balances	8930	6114	18790
Advances and other Assets	7093	9767	12650
Total Current Assets	16023	15882	31440
Current Liabilities			
Other Current Liabilities	9023	11794	15643
Provisions	24919	30506	51946
Total Current Liabilities	33943	42300	67589
Net Current Assets	-17920	-26418	-36149
Debit in Profit and Loss Account	1644	0	7245
TOTAL	16426	18968	44666

Cash Flow Statement (INR Mn)	2019	2020	2021
Cash Flow from Operations	7764	6474	8904
Cash Flow from Investing Activities	-7313	-10060	-24182
Cash Flow from Financing Activities	3334	1219	26135
Cash used during the year	3785	-2367	10856
Opening Cash Balance	3716	7502	5135
Closing cash Balance	7502	5135	15991

Source: RHP, Arianth Capital Research

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880