



**IPO Report**

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30<sup>th</sup> Nov'21

**Snapshot**

Star Health & Allied Insurance is and continue to be the largest private health insurer in India with a market share of 15.8% in the Indian health insurance market in Fiscal 2021. In Fiscal 2021 and the six months ended September 30, 2021, company had total GWP of ₹93,489.50 million and ₹50,697.82 million, respectively. From being the first standalone health insurance ("SAHI") company established in India in 2006, company have grown into the largest SAHI company in the overall health insurance market in India.

**VALUATION**

Company is bringing the issue at price band of Rs 870-900 per share at mcap/gwp multiple of 5.5x & mcap/net premium earned multiple of 10.31 on FY21 basis.

Company being the largest private health insurance company in India with leadership in the retail health segment has one of the largest and well spread distribution networks in the health insurance industry and integrated ecosystem. Company's focus on risk management with domain expertise drives a superior claims ratio and quality customer service. Company's substantial investment in technology and innovative business processes has demonstrated superior operating and financial performance.

But looking after volatile market conditions & valuations, we recommend "Subscribe" on issue for long term purpose.

<b>Price Band (Rs./Share)</b>	<b>870-900</b>
<b>Opening date of the issue</b>	<b>30<sup>th</sup> November 2021</b>
<b>Closing Date of the issue</b>	<b>02<sup>nd</sup> December 2021</b>
<b>No of shares pre issue</b>	553289944 Eq Shares
<b>Issue size</b>	Rs 7,074.21 Crs. – Rs 7,249.18 Crs
<b>Fresh Issue</b>	Rs 2000 Cr
<b>Offer For Sale (No)</b>	58324225 Eq Shares
<b>Face Value (Rs/ share)</b>	10
<b>Bid Lot</b>	16
<b>Employee Reservation</b>	Rs 100 Cr

**BIDDING DETAILS**

<b>QIBs (Including Anchor)</b>	75% of the offer (Approx 5,95,76,503 Eq Shares)
<b>Non-Institutional</b>	15% of the offer ( Approx 1,19,15,300 Eq Shares)
<b>Retail</b>	10 % of the offer ( Approx 79,43,533 Eq Shares)
<b>Lead managers</b>	Kotak Mahindra Capital Company Ltd, Axis Capital Ltd, Citigroup Global, ICICI Securities, CLSA India, Credit Suisse, Jefferies India, Ambit Private, DAM Capital, IIFL Securities, SBI Capital
<b>Registrar to the issue</b>	KFin Technologies Pvt. Ltd.

**WHAT WE LIKE**

**Is the largest private health insurance company in India with leadership in the attractive retail health segment.**

Company is the largest private health insurance company and the largest retail health insurance company in India by health GWP, with a 15.8% overall health insurance market share and a 31.3% retail health insurance market share in Fiscal 2021. As of March 31, 2019, 2020 and 2021, company issued 4.3 million, 5.1 million and 7.0 million health insurance policies, which was the highest among all health insurance providers. Company's retail health GWP was over three times the GWP of the next highest retail health insurance market participant in Fiscal 2021. Company is the largest SAHI insurer in India and the only SAHI company among the top five health insurance businesses in India in Fiscal 2021.

**Have one of the largest and well spread distribution networks in the health insurance industry**

Company have a pan-India distribution network that is one of the largest and well spread in the health insurance industry. Company's distribution network includes the largest branch network among non-public health insurance providers in India, as of December 31, 2020, which as of September 30, 2021 included 779 health insurance branches spread across 25 states and 5 union territories in India as of September 30, 2021. Company's 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.

**Extensive Hospital Network**

Company have successfully 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. Company's hospital network includes 11,778 hospitals, 65.7% of which had agreed packages with company as of September 30, 2021. The average claims amount in agreed network hospitals, which was ₹64,279.23 in Fiscal 2021, is typically lower than the average claims amount in non-agreed network hospital, which was ₹68,108.21 in Fiscal 2021. In the six months ended September 30, 2021, the average claims amount in agreed network hospitals was ₹73,880.44 and ₹73,200.05 in non-agreed network hospitals.



## COMPANY BACKGROUND

Star Health & Allied Insurance Company Ltd is the largest private health insurer in India with a market share of 15.8% in the Indian health insurance market in Fiscal 2021. In Fiscal 2021 and the six months ended from being the first standalone health insurance ("SAHI") company established in India in 2006, company have grown into the largest SAHI company in the overall health insurance market in India. Company's comprehensive health insurance product suite insured 20.5 million lives in Fiscal 2021 in retail health and group health, which accounted for 89.3% and 10.7%, respectively, of company's total health GWP in Fiscal 2021. Company is strategically focused on the retail health market segment and had retail health GWP of ₹82,150.90 million and ₹43,399.18 million in Fiscal 2021 and the six months ended September 30, 2021, respectively. September 30, 2021, company had total GWP of ₹93,489.50 million and ₹50,697.82 million, respectively. Company distribute its health insurance policies primarily through individual agents, which accounted for 78.9% of company's GWP in Fiscal 2021. Individual agents are the primary method of distribution in the health insurance industry.

As of September 30, 2021 company's distribution network had grown to 779 health insurance branches spread across 25 states and 5 union territories in India. Company's existing branches are also supplemented by an extensive network of over 562 Sales Managers Stations ("SMS"), which are small individual service centres, and over 6,892 in-house sales managers, as of September 30, 2021. Company's other origination channels include distribution by direct online sales through telemarketing and its website, brokers, insurance marketing firms and web aggregators.

Company 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 company's total GWP in Fiscal 2021 and 85.6%, 13.1%, 1.3% and 0.0001%, respectively of company's total GWP in the six months ended September 30, 2021. Company's products target a variety of customer segments, including individuals, families, students, senior citizens, as well as persons with pre-existing medical conditions across the broader middle market customer segment.

Company offer a range of flexible and comprehensive coverage options primarily for the following types of insurance:

- Retail health insurance, which is paid for by private individuals or families, generally through out-of-pocket expenses or private insurance;
- Group health insurance, which is paid for by employers typically in the form of company health insurance plans that may involve co-payments by the employee;
- Government health insurance, which is paid for by the government, typically in the form of central or state government health insurance programs.

Company also offer personal accident and travel insurance, which is paid for by either individuals or families or by employers.



## INVESTMENT RATIONALE

<p><b>Strong Industry Outlook</b></p>	<p>The Indian health insurance market continues to be underpenetrated, with a health insurance penetration of only 0.36% of GDP in 2019, compared to the global average of approximately 2.0% of GDP. India has one of the lowest health insurance densities globally, based on per capita premium, at US\$5 in 2019. A number of demographic factors, including increasing life expectancy and population growth in India, as well as the high portion of out of pocket expenses as a percentage of total healthcare expenditure by patients in India (62.67% in 2018), are driving the need of healthcare services and the growth in the health insurance industry in India. Awareness of health insurance in India has been growing, including as a result of measures taken by the Government of India, and this trend has been accelerated by the prospect of hospitalization due to COVID-19, as well as the rising cost of medical care in private hospitals and the need for health insurance.</p>
<p><b>Leadership in the attractive retail health segment</b></p>	<p>The retail health segment in India is expected to emerge as a key growth driver for the overall health insurance market due to its lower claims ratio of 73%, as compared to government health and group health with claims ratios of 92% and 99%, respectively, in Fiscal 2020, making the retail health segment more attractive from a profitability perspective, since lower claims results in higher profitability. From Fiscal 2019 to Fiscal 2021, company's retail health GWP grew at a CAGR of 32.5%. Company accounted for 40.5% of the total accretion in retail health GWP in the Indian retail health industry as a whole in Fiscal 2021 compared to Fiscal 2020. Company's overall retail health insurance market share by GWP, increased from 28.6% in Fiscal 2019 to 31.3% in Fiscal 2021, resulting in growth of 40.5% in Fiscal 2021 compared to growth in the overall retail health insurance industry of only 28% in Fiscal 2021. Company's position as the largest private health insurance company and the largest retail health insurance company in India by health GWP positions it well to continue to generate growth and increase market share in the retail health insurance market.</p>
<p><b>Consistently demonstrated superior operating and financial performance</b></p>	<p>Company have recently re-negotiated lease agreements with certain landlords of its branches during the COVID-19 crisis, which has also led to reductions in rental cost. As a result of these measures, company's Net Expense Ratio was 30.1%, 27.4%, 27.8% and 31.0% in Fiscal 2019, 2020 and 2021 and the six months ended September 30, 2021, respectively. Company's Combined Ratio has historically been stable, amounting to 94.3% in Fiscal 2019 and 93.2% in Fiscal 2020. In Fiscal 2021, company's Combined Ratio increased to 114.8% primarily due to certain exceptional accounting adjustments primarily related to withdrawal from a reinsurance treaty in Fiscal 2021, and the exceptional impact of the COVID-19 crisis in Fiscal 2021.</p>



## Retail Health GWP

The following table sets forth GWP and market share for the following categories of products in company's retail health segment for the periods indicated.

Product Category	Retail Health GWP (Rs in Million)					
	Fiscal Year ended March 31,			CAGR(%)	Six months ended Sept 30,	
	2019	2020	2021	2019-2021	2020	2021
<b>Family Floater</b>	31395.74	38728.30	49708.08	25.8%	21017.85	25085.97
<b>Individual</b>	4330.30	4753.67	6313.77	207%	2852.12	3064.61
<b>Individual /Floater</b>	6622.36	9665.04	16926.79	59.9%	7149.25	9370.17
<b>Specialised</b>	4442.71	5241.64	9202.26	43.9%	3872.09	5878.43
<b>Total</b>	<b>46791.10</b>	<b>58388.95</b>	<b>82150.90</b>	<b>32.5%</b>	<b>34891.31</b>	<b>43399.18</b>

Source : RHP

## OBJECTS OF ISSUE

Company proposes to utilise the Net Proceeds towards augmentation of its capital base and maintenance of solvency levels.

## RISKS

Company face intense competition in the Indian health insurance market from both public and private-sector competitors. Company's primary competitors are: (i) major public-sector non-life insurers, such as the New India Assurance Company Limited, United India Insurance Company Limited, National Insurance Company Limited and the Oriental Insurance Company Limited; (ii) major private-sector non-life insurers, such as ICICI Lombard General Insurance Limited, HDFC Ergo General Insurance Limited, TATA AIG General Insurance Limited, Bajaj Allianz General Insurance Company Limited, SBI General Insurance Company Limited, Cholamandalam MS General Insurance Company Limited and Reliance General Insurance Company Limited; (iii) other SAHI companies, such as CARE Health Insurance Limited, Manipal Cigna Health Insurance Limited, Aditya Birla Health Insurance Limited and Max Bupa Health Insurance Limited.

Source:RHP

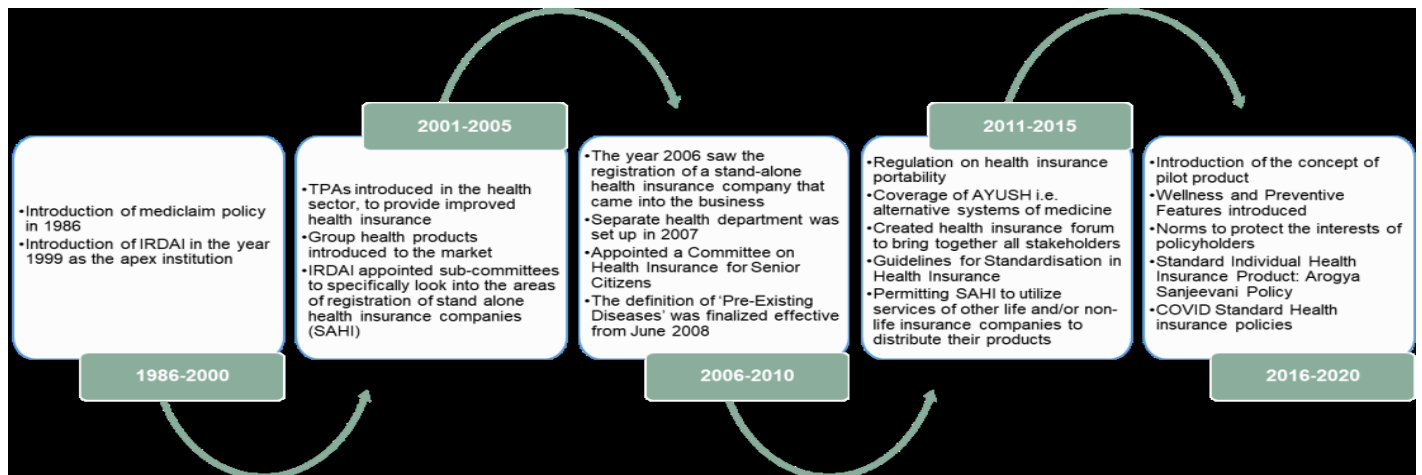


**INDUSTRY OVERVIEW**

**Indian Health Insurance Industry**

The following graphic sets forth the key regulatory changes in the health insurance industry as of March 31, 2021:

**Key regulatory changes in health insurance industry**



From Fiscal 2002 to Fiscal 2021, the health insurance premium in India has increased 86 times.

In terms of products, presently life insurance companies can sell only fixed benefit health plans, while non-life and standalone health insurers can sell both fixed benefit as well as indemnity-based plans. In fixed benefit policies, insurers pay a fixed amount which is the sum insured following a claim. In indemnity-based policies, popularly known as Mediclaim insurance plan, insurers reimburse the cost of medical treatment incurred by the customers (subject to policy cover, exclusions, co-pay, etc.). The regular individual health plans or family floater plans are mostly available under indemnity plans.

**Standalone health insurers’ growth much faster than the overall industry**

Health insurance premiums have grown at a CAGR of 19% in the last 6 years ending Fiscal 2021. In addition, in the first six months of Fiscal 2022, the health portfolio grew by approximately 29%, which was significantly higher than the approximately 18% growth during the corresponding period of Fiscal 2021. This growth in premium was due to the strong surge in premium income of standalone health insurance companies as the premium grew at a 39% CAGR during the last 6 years (Fiscal 2015-Fiscal 2021), admittedly on a low base, while that of private companies surged at a 21% CAGR. On the other hand, the growth of public sector companies has been relatively low as compared to others at 13% for the same period.

**Gross direct premium to be close to ₹1,150 billion by Fiscal 2025**

CRISIL Research forecasts the gross direct premium for health insurers to grow at approximately 18% CAGR over the next four years. Consequently, the total premium is expected to grow by approximately two times from ₹583 billion (as of Fiscal 2020) to close to ₹1,150 billion by Fiscal 2025. Pick-up in economic growth, higher disposable incomes, government initiatives focusing on health segments and growing awareness of insurance would be key growth facilitators. Availability of wide range of products that offer varied health covers, depending on the need for the customers is expected to provide further impetus to the sector’s growth. The introduction of health insurance schemes by government, which includes Personal Accident (PA) schemes like Pradhan Mantri Suraksha Bima Yojana (PMSBY), introduction of Pradhan Mantri Jan Aarogya Yojana (PMJAY) and financial inclusion drive (Jan Dhan Yojana, etc.). PA cover from Indian Railway Catering and Tourism Corp (IRCTC) and so on, has resulted in increasing penetration of the health insurance market in India.

**Retail business segment to grow at much faster pace**

Within the health insurance industry, CRISIL Research expects Retail business to growth at a CAGR of 23% between Fiscal 2021 to 2025 as compared to 15% and 11% CAGR growth in Group and Government business respectively. COVID-19 has both increased the awareness and the need for health insurance which has driven individuals to sign up for health insurance during the current financial year. Going forward, the increasing penetration, rising customer awareness and increasing focus from private and SAHI companies towards retail business are expected to facilitate strong growth of the segment.

Source: RHP



(Rs in Mn)

Financials	H1FY22	FY21	FY20
Total Revenue (A)	-4946.80	-9077.76	4619.61
Total Expenditure (B)	179.54	1381.74	485.36
PBT	-5126.34	-10459.50	4134.25
Tax	-1323.65	-2203.69	1414.54
PAT	-3802.69	-8255.81	2680.02
Investment Leverage	2.55	1.97	3.14
Eq Cap	5532.90	5480.87	4906.38

## PEERS ANALYSIS

Following is peer group analysis:

	Type of Player	Gross Premium (Rs in Mn)	Direct (Rs in Mn)	Market Share %		Retail Business Premium (Rs in Mn)		Market Share %	
				FY21	6MFY22	FY21	6MFY22	FY21	6MFY22
<b>New India Assurance</b>	Public	107238	78469	18.4%	21.2%	25997	12992	9.9%	9.3%
<b>Star Health</b>	SAHI	92039	51319	15.8%	13.9%	82075	44364	31.3%	31.6%
<b>United India</b>	Public	62402	31892	10.7%	8.6%				
<b>National Insurance</b>	Public	55492	33257	9.5%	9.0%	20830	10774	7.9%	7.7%
<b>Oriental Insurance</b>	Public	47419	34836	8.1%	9.4%	18579	8575	7.1%	6.1%
<b>HDFC General</b>	Ergo Private	37335	18369	6.4%	5.0%	27236	13703	10.4%	9.8%
<b>HDFC Health</b>	Ergo SAHI	NA	NA	NA	NA	NA	NA	NA	NA
<b>ICICI Lombard</b>	Private	26392	17868	4.5%	4.8%	7357	4141	2.8%	3.0%
<b>CARE Health</b>	SAHI	23101	15192	4.0%	4.1%	16190	9669	6.2%	6.9%
<b>Bajaj Allianz</b>	Private	20746	19601	3.6%	5.3%	8035	4169	3.1%	3.0%
<b>Max Bupa Health</b>	SAHI	16660	12243	2.9%	3.3%	13555	9652	5.2%	6.9%
<b>SBI General</b>	Private	12563	7016	2.2%	1.9%	3514	1654	1.3%	1.2%
<b>Aditya Health</b>	Birla SAHI	11658	6943	2.0%	1.9%	5590	3162	2.1%	2.3%
<b>Tata AIG General</b>	Private	10702	6207	1.8%	1.7%	3156	2121	1.2%	1.5%
<b>Reliance General</b>	Private	8872	5997	1.5%	1.6%	1432	821	0.5%	0.6%
<b>Manipal Health</b>	Cigna SAHI	7445	4335	1.3%	1.2%	3936	2168	1.5%	1.5%
<b>Cholamandalam MS General</b>	Private	4287	2010	0.7%	0.5%	2479	1363	0.9%	1.0%

Source: RHP



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