



Client Advisory - IPO Note (Star Health)

Multi-Act Advisory:	<ul style="list-style-type: none"> • Star Health is the largest private sector health insurer with ~16% market share in 2021. The company provides a unique opportunity to gain from increase in penetration of health insurance in India. • Star Health has strategically positioned itself in the retail segment where claims ratios are lower and its relatively efficient agent network (which is 3x the next largest peer) provides it a competitive advantage. • Concentrating only on the health insurance, company has grown faster than the industry since 2013 and earned healthy returns during 2016-20 before 2021 was impacted due to Covid. 2022 is also expected to be affected by Covid but the pandemic has also increased the awareness of health insurance and company as well as industry is experiencing faster growth from the retail segment. • Considering the faster growth, relatively prudent underwriting and market leadership in retail segment, market could assign richer valuations to the company. • However, consistent equity dilution (limits gain to existing shareholders) and possibility of increased competition due to the new FDI norms are a risk. Solvency ratio has been also relatively on the lower side. • It could be an interesting company/business to consider from longer term perspective, but expensive IPO valuations and new Covid variant threat/risk might impact the sentiment regarding its IPO/listing.
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1. Company

Star Health and Allied Insurance Company Limited ('Company' or 'Star Health') is the largest private-sector health insurer with a market share of 15.8% in the Indian health insurance market in Fiscal 2021. Company is primarily focused on the Retail health segment which contributes ~85-90% of the gross written premium (GWP) while the Group business contributes ~10% of the GWP. Personal accident (PA) and travel are small categories contributing a total of ~2% of GWP. Company has ~31% market share in the retail health segment.

2. Industry Overview *(For some data points, we have used IRDAI handbook and the latest data available is till 2020 only)*

- The general insurance (GI) industry constitutes motor, health, fire, marine and other P&C insurance. Health insurance accounted for ~32% of the GI gross premium in 2021 and is one of the fastest growing segments in the general insurance industry (mix increased from ~23% in 2010 to ~32% now).
- The health insurance penetration in India is low at just 0.36% of GDP whereas the global average comes around 2% of GDP. Health insurance density indicates whether the health insurance sector of the country has developed. India is much behind in terms of health insurance density as compared to other developing and developed nations. China had ~13 times higher premium per person than India in 2019.
Total lives covered under health insurance is low at ~36% of population. Further, within that, most of the lives are covered by government schemes (mix on premium is low which indicates coverage would be very low). Total lives coverage is expected to increase and given the under penetration, this would be a major driver for growth. Retail schemes cover only ~3% of the population and is expected to increase to ~5% by FY 2025.
- Health insurance sector in India has mainly three types of players: (a) public sector general insurer, (b) private sector general insurer, and (c) standalone health insurers (SAHI). While the overall industry has grown at ~23% CAGR during 2010-2020, SAHI has grown faster at ~44% CAGR and accounted for ~25% of the market in 2020 vs ~13% in 2010.
- Health insurance industry has three sub-segments: (a) Government business, (b) Group business, and (c) Retail business. Government business contributes ~10% of the gross premiums while group business contributes ~50% of the gross premium. These two segments are highly competitive and historically have higher claim ratios. Retail segment accounts for the balance ~40% and traditionally has had lower claims ratio.
- SAHI segment, led by Star Health, has captured a significant share in the retail health segment and accounted for ~50% of the total retail premium in 2020.
- Given higher presence in government and group business, the public sector and private sector general insurance companies have typically higher claims ratio. Commission for public sector is the lowest as government business is mostly direct and ~40% of group business is direct. Even then, public sector companies have the highest combined ratios followed by private sector companies while SAHI has the best combined ratio in the industry.

New India Assurance is the market leader with ~18% market share in 2021 followed by Star Health (~16%), United India (~11%), National Insurance (~10%) and Oriental (~8%). Please refer the market share point later for more details.



3. Business Verticals

The health (excluding PA & travel) insurance mainly has three sub-segments: (a) Retail business; (b) Group business; and (c) Government business. The vertical mix as disclosed by company and as per IRDAI data is as below:

Gross Premium Written - Segment Mix	2019	2020	2021	Average
Family Floater	58%	56%	53%	56%
Individual	8%	7%	7%	7%
Individual/Floater	12%	14%	18%	15%
Specialised	8%	8%	10%	9%
Retail Health	86%	85%	88%	86%
Non-SMEs	8%	8%	6%	7%
SMEs	3%	5%	4%	4%
Group Health	11%	13%	11%	11%
Government Health	0%	0%	0%	0%
Personal Accident	2%	2%	2%	2%
Travel	0%	0%	0%	0%
Total	100%	100%	100%	100%

Source: Company Data

Star Health - Premium Mix	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Government Schemes	72.4%	53.7%	11.4%	3.5%	1.9%	0.8%	0.7%	0.9%	0.0%	0.0%
Group Schemes	2.6%	3.8%	8.5%	7.9%	6.8%	7.0%	11.8%	9.2%	11.0%	13.0%
Retail - Family Floater Insurance Schemes	14.1%	25.2%	52.1%	57.4%	62.1%	64.9%	55.0%	58.7%	58.4%	77.3%
Retail - Individual Insurance Schemes	8.7%	14.6%	24.6%	28.0%	26.3%	24.1%	28.9%	28.1%	28.2%	7.6%
Total Health Insurance (excluding PA & travel)	97.7%	97.3%	96.5%	96.8%	97.1%	96.8%	96.5%	96.9%	97.6%	97.9%
PA Insurance		1.6%	1.9%	2.1%	2.2%	2.6%	3.1%	2.8%	2.2%	1.9%
Overseas Travel Insurance	2.3%	1.2%	1.5%	1.1%	0.7%	0.6%	0.4%	0.3%	0.2%	0.2%
Domestic Travel Insurance		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Health Insurance	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Retail as %age of Total Premium	22.8%	39.8%	76.6%	85.4%	88.4%	89.0%	83.9%	86.8%	86.6%	84.9%
GWP YoY Growth - Company	27.7%	-11.6%	-20.7%	26.8%	34.7%	36.6%	47.5%	40.6%	30.1%	27.2%
GWP YoY Growth - Industry	36.9%	17.3%	16.6%	25.1%	15.3%	21.3%	25.7%	21.6%	21.1%	11.9%

Source: IRDAI Insurance Statistics Handbook and Multi-Act Research. *Data for 2021 is not available yet for comparison.*

(A) Retail Business

Company is strategically focused on the retail segment and derives ~85-90% of its gross premium from this segment vs ~40% contribution for the overall industry. Based on market data, company had ~31% market share in retail segment at the end of 2021 (gaining - increased from ~13% in 2014).

The retail segment has the lowest claim ratio within the health insurance business at ~70-80% (industry claim ratio averaged ~77% during 2014-20). The retail health business is mainly dependent on the agent network of the players as individual agents contributed ~75% of the industry premium in 2020 (increased from 70% in 2015).

Company has the largest agent network in the industry with ~0.46 mn individual agents. CARE Insurance has the next largest agent network at ~0.125 mn and thus, Star Health has 3-4 times the agent network of the next largest player. Major private general insurers ICICI Lombard and Bajaj Allianz have agent network of ~0.06 mn and ~0.05 mn respectively.

Company has focused on building its agent network which contributes ~88% of the company's retail GWP. The productivity of company's agent network is comparable to the peers. This along with the underwriting outperformance (refer key observations) indicate that the high growth of company vs. industry has not come at the expense of profitability.



(B) Group Business

This contributes ~10% of the GWP of the company. The competitive intensity in this segment is high. Brokers and direct sale are the key distribution medium for this segment.

The industry claim ratio for this segment averaged ~110% during 2014-20. Considering the aggressive pricing and increased competition in the group health insurance segment, company has adopted a strategy of being selective in the group health segment and focus primarily on SMEs to avoid the aggressive pricing and increased competition in the wider mass market.

As per company's experience, SMEs typically have lower claims ratios compared to larger corporate organizations. However, they believe that their continued presence in the group health market provides them with the ability to penetrate effectively the broader group market in the future in response to improvements in underwriting and profitability. Mix of SME and Non-SME group business of company is as below:

Group Health GWP (INR millions)	2019	2020	2021	Loss Ratio (2021)	CAGR
Non-SMEs	4,090	5,814	5,993	117.9%	21.1%
SMEs	1,854	3,134	3,983	77.3%	46.6%
Total	5,943	8,948	9,977		29.6%
Mix of SME	31.2%	35.0%	39.9%		

(C) Government Business

After inception in 2006, government health insurance constituted a large portion of the GWP of company and provided the Company and its senior management with important experience in the health industry. However, in 2010, company made the strategic decision to shift away from the less profitable government health business toward the more attractive retail health insurance, which ultimately resulted in GWP from the government health sector declining to nil in 2019.

In 2020, company again offered government health insurance through participation in Government Ayushman Bharat health program, which provides insurance benefits to low-income households, in order to gain experience in this new government initiative and understand the market dynamics of the scheme but ceased its participation in the scheme. In 2021, they have had NIL GWP from this segment.

4. Growth and Profitability

Particulars (INR in Millions)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	CAGR
Revenue	8,519	8,279	5,303	7,280	10,673	15,872	20,056	28,758	37,644	49,703	54,431	20.4%
YoY Growth	36.8%	-2.8%	-35.9%	37.3%	46.6%	48.7%	26.4%	43.4%	30.9%	32.0%	9.5%	
Company - GWP - YoY Growth	27.7%	-11.6%	-20.7%	26.8%	34.7%	36.6%	47.5%	40.6%	30.1%	27.2%	35.7%	
Health Insurance Industry GWP - YoY Growth	36.9%	17.3%	16.6%	25.1%	15.3%	21.3%	25.7%	21.6%	21.1%	11.9%	16.0%	
Profitability and Returns												Average
Loss ratio - calculated	91.2%	95.8%	63.2%	67.2%	64.0%	53.8%	60.5%	61.8%	64.2%	65.8%	87.0%	70.4%
Underwriting expense ratio - calculated	9.0%	25.6%	54.1%	43.7%	44.4%	33.4%	31.6%	31.2%	30.1%	27.4%	27.3%	32.5%
Combined Ratio - calculated	100.2%	121.4%	117.3%	110.9%	108.3%	87.3%	92.1%	93.0%	94.3%	93.2%	114.3%	102.9%
RONW	2.0%	-50.6%	-46.0%	-49.2%	-98.7%	61.0%	14.9%	17.7%	10.4%	16.3%	-22.2%	-13.1%

During 2012-13, company's business de-grew which seems due to the shift from government business. Post 2013, company has grown faster than the industry on a continuous basis. Since then, the company's loss ratios stabilized (lower considering retail segment) and company made decent returns during 2016-20 before 2021 was affected due to Covid. Some expenses like new office, employees, etc. could be front-loaded (refer key observations) and thus, the underwriting expense might come down going forward.



5. Key Observations

- **Distribution:** Distribution mix of GWP of the company is as below:

Particulars	2019	2020	2021
Agency	79.2%	78.3%	81.5%
Individual agents	77.4%	76.2%	78.9%
Corporate Agents - Bank	1.5%	1.9%	2.4%
Corporate Agents - Others	0.3%	0.2%	0.2%
Direct Sales	13.5%	10.1%	9.1%
Brokers	7.2%	10.0%	7.5%
Others	0.0%	1.6%	2.0%
Total	100.0%	100.0%	100.1%

Source: Prospectus

Given that ~85% of the GWP for company comes from the retail segment, individual agents should have a high share of the company's total business (75% mix for such business industry wide). However, they also derive ~10% of the GWP from group business where share of individual agents is very low (~8% in industry), the mix of individual agent for company is very high compared to industry. Assuming an 8% share of agents for other business, individual agents contribute ~90% of the total retail GWP for company.

Star Health has ~3 times the agent network of Religare (CARE Insurance) - the next largest SAHI company. Further, the total number of agents with public and private health insurers is ~0.22 mn and ~0.29 mn respectively. Considering the exclusivity norms of IRDAI (IRDAI norms allow individual agents to sell policies of three insurers – one life insurance company, one non-life insurer and one standalone health insurer), Star Health's agent network would be far higher than other peers.

Number of Individual Agents	2019	2020	2021
Star Health	290,000	360,000	460,000
ICICI Lombard	35,729	47,548	59,545
Bajaj Allianz	na	na	46,900
Religare (CARE Health)	55,520	85,544	124,340
HDFC Ergo Health (Earlier Apollo Munich)	49,481	72,747	98,072

Source: Company Data and Multi-Act Research

Given that, agent network is one of the key competitive strengths of company, we have evaluated the efficiency of company's agent network vs peers:

Retail Health GWP/Agent (INR' 000)	2019	2020	2021
Star Health	161.3	161.9	178.4
ICICI Lombard	270.9	123.1	123.6
Bajaj Allianz	na	na	171.3
Religare (CARE Health)	156.5	133.6	130.2
HDFC Ergo Health (Earlier Apollo Munich)	281.3	236.3	na

Source: Company Data and Multi-Act Research

Company's GWP/yield per agent is better than comparable SAHI - Religare (CARE Health) but lower than HDFC Ergo Health. Comparing to general insurance companies - it is similar to Bajaj Allianz and better than ICICI Lombard. This indicates that company is not sacrificing the productivity (and hence the resultant profitability) for higher growth.

- **Analysis of Claims:** Given that the company is present mainly in retail health insurance (lower claims vs group and Govt. business), its incurred claims ratio is better than the industry. However, within the retail health segment also, company's underwriting has outperformed the industry in claims incurred by ~16 percentage points during 2014-20. It also has averaged underwriting outperformance in group health but incurred more claims in the recent years (even higher than industry in 2020).



Comparison vs Industry	2014	2015	2016	2017	2018	2019	2020	Average
Star Health vs Industry (Health excl. travel & PA)	-29.5%	-38.1%	-49.7%	-44.3%	-32.0%	-28.0%	-22.3%	-34.8%
Star Health vs Industry (Retail Health)	-15.0%	-20.4%	-25.1%	-14.8%	-13.9%	-13.1%	-13.2%	-16.5%
Star Health vs Industry (Group Health)	-41.8%	-30.8%	-68.2%	-54.6%	-8.0%	-17.5%	12.9%	-29.7%

Note: The table depicts the difference in claims ratio of company vs Industry. So, a negative 15% means that company's claim ratio was lower than the industry by 15 percentage points (and lower the better). Source: IRDAI Insurance Statistics Handbook and Multi-Act Research. Data for 2021 is not available yet for comparison.

Agreed Network Hospital and Claims

At end of 2021, company's hospital network included over 10,870 hospitals. Out of the total number of hospitals in their network, company has entered into pre-agreed arrangements with over 7,000 hospitals (~64.9% of total hospital network).

Company has tie-ups with the agreed hospital network that provides access to competitive pricing at attractive, pre-negotiated rates, which lowers claims costs and increases customer engagement. As the hospital network grows, company believes that its negotiating power with hospitals has increased, which has also had a positive impact on customer engagement and improved loss ratios.

Particulars	2019	2020	2021
Agreed network hospitals (Cashless claims - mn)	0.23	0.38	0.33
As %age of total cashless claims	47.9%	57.6%	55.9%
As %age of total claims	35.9%	42.7%	38.8%

Source: Company Data and Multi-Act Research

- **Commission:** Company pay ~12-14% commission on GWP. Commission depends on the type of policy and is regulated by the IRDAI. As calculated below, company pays ~16% commission to the individual agents, ~13% to corporate agents, ~6-7% to brokers (mainly for group) and ~14% to others. Direct business contributes nearly 10% of the GWP.

Analysis of Commission by Type	2019	2020	2021	Average	Change
Agents (Individual)	16.1%	16.1%	16.2%	16.2%	0.1%
Corporate Agents	12.5%	13.1%	13.4%	13.0%	0.8%
Brokers	6.3%	5.5%	7.1%	6.3%	0.8%
Others	na	14.3%	13.8%	14.0%	

Source: Company Data and Multi-Act Research

Particulars	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Average
Commission on Direct Business/GWP	4.8%	9.2%	10.1%	10.5%	11.0%	11.3%	12.1%	13.8%	13.3%	14.0%	11.0%
Commission on Reinsurance ceded/GWP ceded	17.2%	26.4%	27.4%	25.0%	34.3%	35.5%	38.0%	37.9%	35.5%	32.8%	31.0%
Net Commission on Net Premium Written	0.6%	2.2%	4.3%	8.1%	4.0%	4.2%	4.3%	6.4%	6.5%	8.2%	4.9%

Source: Company Data and Multi-Act Research

Despite a 12-14% commission on GWP, the net commission cost has averaged ~6% of NWP over the last 5 years mainly as company gets higher commission on the reinsurance ceded. Ideally the reinsurance commission should cover for commission as well as the other operating expenses (they don't incur any expense and get the insurance positions). Total underwriting expense ratio is ~30% for the company. Further, lower claims might also be contributing a bit to higher reinsurance commission.

Operating Expenses:

As %age of Net Written Premium (NWP)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Average
Employees remunerations & welfare benefits	16.0%	29.0%	24.5%	21.3%	23.9%	19.8%	19.7%	17.4%	16.2%	16.4%	20.4%
Rent Rates & taxes	1.7%	3.0%	2.4%	2.0%	2.0%	1.8%	1.4%	1.2%	1.1%	0.9%	1.7%
Advertising & Publicity	1.2%	5.8%	2.1%	4.5%	3.0%	2.6%	3.4%	3.2%	2.5%	1.9%	3.0%
Software expenses	0.5%	2.1%	1.8%	1.2%	1.1%	0.9%	0.8%	0.7%	0.7%	0.7%	1.1%
Outsourcing expenses	na	na	na	na	na	1.1%	1.2%	1.2%	1.2%	1.1%	1.2%
In House Claim Processing Cost					-3.8%	-3.7%	-3.8%	-3.9%	-3.9%	-3.9%	-3.8%
Depreciation	1.8%	4.2%	1.2%	1.5%	1.1%	0.9%	0.7%	0.7%	0.6%	0.6%	1.3%
Others	3.8%	7.7%	7.3%	5.8%	2.1%	4.0%	3.6%	3.2%	2.6%	1.4%	4.2%
Total	25.0%	51.9%	39.3%	36.3%	29.5%	27.4%	27.0%	23.7%	20.9%	19.2%	30.0%

Note: Company transfers 3% of the GWP (excluding reinsurance inwards) towards in house claims processing expenditure to claims as per the IRDAI regulations.



Operating expense as % of NWP increased from ~25% in 2012 to ~30-40% during 2013-15 but has come down to ~20% in 2021. Employee cost is the main cost accounting for ~70% of the gross operating costs. Advertisement cost, rent, rates & taxes, and other expenses have declined over the last 4-5 years - some of it could be due to digitization, cost cutting, etc. and some due to operating leverage benefit from fixed/semi-fixed costs.

Given that company is growing very fast, investment in sales employees (~60% of total employees) could be to get the fast growth and thus, front ended. As company starts growing at a medium pace, the employee cost might come down as %age of the net written premium. Company could also experience operating leverage in other fixed and semi-fixed costs.

- **Solvency Margin and Equity Dilution:** Solvency ratio is a regulatory measure of capital adequacy. Solvency Ratio means the ratio of the amount of Available Solvency Margin to the amount of Required Solvency Margin calculated as per IRDA regulations. **IRDAI requires general insurance companies to have a solvency margin of at least 1.50.**

Particulars	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Solvency Margin	1.66	1.91	1.50	2.40	5.99	1.61	1.77	1.53	1.50	2.23	
Solvency ratio prescribed by Regulation	1.30	1.40	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	
											CAGR
Revenue	8,279	5,303	7,280	10,673	15,872	20,056	28,758	37,644	49,703	54,431	26.5%
Equity Capital Raised (INR Mn)	687	1,062	95	923	806	3,100	-	3,500	1,475	26,391	
Number of O/S Shares	221	281	331	339	371	426	456	462	489	548	12.0%
Revenue per share	37	19	22	31	43	47	63	82	102	99	13.0%

Note: For 2021, we have used O/S shares as average was impacted due to share issuance during the year.

Solvency Margin	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Star Health	1.66	1.91	1.50	2.40	5.99	1.61	1.77	1.53	1.50	2.23
Care Health	na	2.45	2.10	2.04	1.85	1.91	1.56	1.56	1.55	2.45
ICICI Lombard	1.36	1.55	1.75	1.95	1.82	2.10	2.05	2.24	2.17	2.90
Solvency ratio prescribed by Regulation	1.30	1.40	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50

Given that company was loss making till 2015, company had to fund its growth and operations through equity fund raise. During 2016-20 company made decent returns but it was growing faster and thus, had to rely on outside money for growth. In 2021, Company raised ~26,000 mn mainly to fund Covid losses and its growth.

Since 2012, company's revenue has grown ~27% CAGR but the number of shares has also grown at ~11% CAGR. This has limited the growth for existing shareholders to ~14% CAGR only. Given that company was loss making till 2015 and a one-time impact of Covid affected in 2021, the dilution may decline going forward. Company is planning to raise ~20,000 mn from IPO which could fund growth for the near to medium term.

Similar to Star Health, Care Health operates with lower solvency margin. This could be due to fast growth and need of equity capital (wait till the last moment till it is required to raise capital). ICICI Lombard maintains comfortable solvency margin.

- **Takeover:** In 2018, A consortium of WestBridge AIF (Safecrop), investor Rakesh Jhunjhunwala and Madison Capital signed definitive agreements with the shareholders of Star Health to purchase the shares of the insurer. The company was valued at ~INR 65,000 mn (~142 per share) which was ~2.4 times its 2018 revenue. We have analyzed the valuation multiples of deal with past and latest valuations of the company:

Multiples of Equity Dilution	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Price per share (highest)	10.0	39.2	21.1	23.3	14.7	na	na	47.0	na	na	na	489.0
Revenue per share	49.9	45.8	37.4	18.9	22.0	31.5	42.8	47.1	63.1	81.5	101.5	105.6
Price/Revenue	0.20	0.86	0.56	1.24	0.67	na	na	1.00	na	na	na	4.63

Note: Excluded rights issue and sweat equity transactions as they are not necessary to reflect the true value at that time.

Till 2012, company's loss ratios were poor. During 2016-2020, company earned over cost of capital returns and started gaining a good share in the retail health segment. Even then, Price/Revenue was ~1 times during 2017. The takeover deal took place at ~2.4 times revenue in 2018. Thereafter the valuation increased to ~4.6 times revenue in 2021 (July).



• **Impact of Covid:**

Quantitative Impact of Covid in 2021 (In millions)	
Claims Settled/Paid	0.15
Gross Claims Paid	15,286
Outstanding Covid claims at end of FY 21	1,103
Total Gross Incurred Claims	16,390
Less: Claims covered by reinsurer	4,329
Net Incurred Claims	12,061
Net Amount/Claim ('000)	80.4
Covid Claims as %age of Total Incurred Claims	27.6%

Given that company is a standalone health insurance company, its business was the most affected due to Covid. As the COVID-19 risk would not have been accounted for in policies active at the time of the outbreak of COVID-19, claims were higher than usual levels. Based on information disclosed by the company, Covid claims accounted for ~28% of the total claims incurred in 2021. This along with an accounting adjustment (reduced revenue by ~20%) resulted in a higher loss ratio of 87% in 2021 vs usual loss ratio of ~55-65%. Excluding these, the claims ratio would have been around 63%.

Second Wave of Covid

Company's DRHP covers information till the 31st March 2021 and does not detail much on the impact of the second wave. For the industry, Covid claims reported in Q1 has already crossed one million in comparison to 0.98 million cases in the whole of last financial year. For ICICI Lombard, in Q1, 46,136 was the number of claims that got intimated for COVID in first quarter of this year. For last full FY for ICICI Lombard, it was 49,266.

Considering this, Star Health also could experience higher claims in 2022 and thus, loss ratios might be impacted due to this.

- **Quality of Earnings Issue:** For defined benefit obligations, company assumes a salary escalation of 3% p.a. for the first five years and 1.5% p.a. thereafter. This is low compared to the average salary hikes in India. Even for company, the per employee cost has increased by ~26% during 2019-21. Trend of salary hike assumption by company is as below:

Particulars	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Rate Of Compensation Increase	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%	2.0%	3.0%	3.0%	3.0%

Company's listed peer ICICI Lombard considers a 9% p.a. escalation for this calculation. Using a lower salary escalation, the PBO (liability) would be understated and the expense charged to the income statement would also be lower. While the amount may not be material, this is a red flag from the Quality of Earnings point of view.

6. Key Drivers

- The insurance density is lower in India and lives covered by other than government policies is less than 10% of total population. Increase in per capita income, awareness of health insurance, etc. would lead to higher penetration and thus, growth for the company.
- Agent network has been key to growth in the retail segment. Industry players are growing the agent network but it is still ~25-30% of the agent network of life insurance sector. Thus, there is huge room for growth and this would be one of the key drivers for growth in retail health segment.

7. Key Risks

- FDI limit in insurance companies has been increased from 49% to 74%. This will allow foreign ownership and control and thus, will attract higher amounts of foreign capital towards the sector. This could increase competition in the industry and may affect the claim ratios in the medium to long run.
- Company is focused only on the health insurance segment. In case of increased competitive intensity, health events like Covid, etc. the claims ratio would increase in the health business which would affect the company's overall business growth and profitability as they don't have other businesses to focus on during such times.

8. Market Share and Comparison with Industry

Market Share of top companies in the total health (excl. PA & travel) market and the trend is as below:

Total Health Premium (excl. PA & travel)	Type	2014	2015	2016	2017	2018	2019	2020	Average	Change
National	Public	17.2%	18.6%	16.5%	15.6%	14.4%	13.1%	10.4%	15.1%	-6.8%
New India	Public	18.9%	19.6%	19.8%	19.6%	18.9%	18.4%	18.5%	19.1%	-0.4%
Oriental	Public	10.7%	10.2%	10.7%	10.9%	9.7%	9.0%	9.1%	10.0%	-1.6%
United India	Public	15.2%	15.8%	16.8%	17.2%	15.1%	11.9%	10.5%	14.7%	-4.7%
HDFC ERGO^	Private	0.3%	0.2%	0.3%	0.2%					
HDFC ERGO^^	Private	3.4%	2.5%	2.3%	2.3%	2.6%	2.8%	2.5%	6.9%	-0.2%
HDFC ERGO Health**	SAHI	3.8%	3.7%	3.9%	3.9%	4.2%	4.4%	4.6%		
Bajaj Allianz	Private	3.8%	3.1%	3.0%	3.2%	3.5%	4.9%	4.2%	3.7%	0.4%
ICICI Lombard	Private	8.7%	6.7%	5.8%	5.5%	5.2%	5.1%	5.3%	6.0%	-3.4%
IFFCO Tokio	Private	1.6%	1.7%	1.8%	1.7%	1.8%	1.8%	2.6%	1.9%	1.0%
Reliance	Private	2.5%	2.2%	2.1%	1.0%	2.0%	2.2%	2.7%	2.1%	0.2%
Max Bupa	SAHI	1.8%	1.9%	1.9%	1.9%	2.0%	2.0%	2.3%	2.0%	0.6%
Religare (Care Health)	SAHI	0.9%	1.3%	1.8%	2.1%	2.5%	3.6%	4.2%	2.3%	3.4%
Star Health	SAHI	6.0%	7.1%	8.0%	9.4%	10.9%	11.7%	13.2%	9.5%	7.2%
Top Players		94.6%	94.6%	94.6%	94.5%	92.8%	91.0%	90.3%		
Others		5.4%	5.4%	5.4%	5.5%	7.2%	9.0%	9.7%		
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		

^L&T Insurance was acquired by HDFC Ergo. **Apollo Munich Health Insurance was merged with HDFC ERGO Health. ^^HDFC ERGO General Insurance company. Source: IRDAI Insurance Statistics Handbook. Data for 2021 is not available yet.

PSUs and ICICI Lombard have lost market share in the total health insurance segment (excl. PA and travel) during 2014-20. Star Health (7.2%) and Care Health (3.4%) have gained the most. Within the retail segment, market share loss by PSUs has been higher and the private general insurers have also lost market share (ICICI Lombard, the most). Star Health has gained ~18% market share while Care Health has gained ~5% market share. Max Bupa (also a SAHI) has gained ~2% market share as shown below:

Retail Premium (excl. PA & travel)	Type	2014	2015	2016	2017	2018	2019	2020	2021	Average	Change
National	Public	14.3%	14.3%	13.0%	11.6%	10.1%	9.4%	8.7%	7.9%	11.2%	-6.4%
New India	Public	20.0%	18.4%	16.5%	14.4%	13.4%	12.7%	11.3%	9.9%	14.6%	-10.1%
Oriental	Public	10.9%	9.8%	9.6%	9.8%	8.4%	7.6%	6.8%	7.1%	8.7%	-3.8%
United India	Public	10.4%	9.6%	9.1%	8.3%	7.0%	6.0%	6.1%	5.2%	7.7%	-5.2%
HDFC ERGO^	Private	0.2%	0.4%	0.5%	0.4%	0.0%	0.0%	0.0%			
HDFC ERGO^^	Private	4.2%	4.7%	4.5%	4.5%	5.1%	3.1%	3.1%	10.4%	11.3%	-0.2%
HDFC ERGO Health**	SAHI	6.2%	6.0%	6.2%	6.5%	7.1%	7.9%	8.6%			
Bajaj Allianz	Private	3.5%	3.4%	3.5%	3.3%	3.2%	3.7%	3.6%	3.1%	3.4%	-0.4%
ICICI Lombard	Private	7.8%	8.0%	7.3%	7.2%	7.1%	5.5%	2.9%	2.8%	6.1%	-5.0%
IFFCO Tokio	Private	0.6%	0.7%	0.8%	0.9%	0.8%	0.8%	0.8%	0.0%	0.7%	-0.6%
Reliance	Private	0.8%	0.5%	0.7%	0.6%	0.5%	0.5%	0.5%	0.5%	0.6%	-0.3%
Max Bupa	SAHI	3.3%	3.9%	4.2%	4.2%	4.1%	4.2%	4.4%	5.2%	4.2%	1.8%
Religare (Care Health)	SAHI	0.9%	1.7%	2.7%	3.4%	4.0%	5.0%	5.7%	6.2%	3.7%	5.3%
Star Health	SAHI	12.7%	14.8%	17.3%	19.7%	23.6%	26.7%	29.2%	31.3%	21.9%	18.6%
Top Players		95.9%	96.2%	95.7%	94.7%	94.3%	93.1%	91.8%	89.6%		
Others		4.1%	3.8%	4.3%	5.3%	5.7%	6.9%	8.2%	10.4%		
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		

^L&T Insurance was acquired by HDFC Ergo. **Apollo Munich Health Insurance was merged with HDFC ERGO Health. ^^HDFC ERGO General Insurance company. Source: IRDAI Insurance Statistics Handbook. Data for 2021 sourced from Company Prospectus.

Star Health's market share in the retail segment has grown from ~13% in 2014 to ~31% at end of 2021. However, this rapid shift of market share towards SAHI companies was triggered by a regulatory change wherein IRDAI provided a platform to SAHIs to build their agency force in February 2013. SAHIs can sign up existing life insurance agents without any additional exam requirements as per this regulation and thus, this provided a growth lever to the SAHI companies.

General insurance companies are not allowed to use this platform and any future change in regulation allowing general insurance companies could impact the market share gain/growth of SAHI companies, including Star Health.



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9. IPO & Shareholding

Shareholding of the major shareholders is as below:

Name of Shareholder	Holding %	# of Shares in OFS	Post IPO Holding %	Remarks
Safecrop Investments India LLP	45.3%	30.7	38.2%	>> promoter
Safecrop - other group entities	0.2%	0.1	0.2%	>> promoter group
Rakesh Jhunjunwala	14.0%		13.5%	>> promoter
Rekha Rakesh Jhunjunwala	3.3%		3.1%	>> promoter group
Apis Growth 6 Limited	5.8%	7.7	4.2%	
MIO IV Star	5.0%	4.1	4.1%	>> Madison
University of Notre Dame DU LAC	4.5%	7.4	3.0%	
MIO Star	3.3%	4.1	2.5%	>> Madison
Essa Abdulla Al Ghurair	2.5%		2.4%	
Syed M. Salahuddin	2.5%		2.4%	
Gamnate Pte. Ltd.	2.2%		2.1%	
ROC Capital Pty Ltd	2.1%	2.5	1.6%	
Massachusetts Institute of Technology	1.7%		1.7%	
Tata Capital Growth Fund II	1.3%		1.3%	
American Funds Insurance Series Global Small Capitalization Fund	1.1%		1.1%	
Others	5.1%	3.4	18.8%	
Total	100.0%		100.0%	

Note: We have assumed IPO price of 900 per share (high end of IPO band) for OFS and IPO to calculate the post IPO shareholding.

Company's IPO is a combination of fresh issue and Offer for Sale (OFS). The structure and purpose of issue is as detailed below:

Particulars (INR millions)	Amount
Fresh Issue	20,000
Offer for Sale	up to 60.1 mn shares
Total	na
The fresh issue proceeds (net of expenses) will be used towards	
Augmentation of capital base and maintenance of current solvency levels	100%

Valuations

Given that earnings and book value would be impacted in FY 2022 due to Covid, we have used P/Net Premium as method to evaluate the indicative valuation range. We have used 50% weight each for Private Market Value (PMV) based valuation and relative valuation (using 10% discount to ICICI Lombard multiples). The indicative valuation range based on that is as below:

Particulars	2022		2023	
	Low	High	Low	High
PMV Based Valuation	191	379	229	455
Relative Valuation	387	612	465	734
Indicative Valuation Range	289	495	347	595

Please note that the valuations are only indicative. Considering the high end of IPO band, company is priced at ~8.5 times Price to Revenue (2022 – assumed 20% growth in revenue) which is at ~30% premium to the average high-end multiples of ICICI Lombard.



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Statutory Details: -

Multi-Act Equity Consultancy Private Limited

(SEBI Registered Portfolio Manager - Registration No. INP000002965)

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Risk factors

General risk factors

- a. Securities investments are subject to market risks and there is no assurance or guarantee that the objective of the investments will be achieved.*
- b. As with any investment in securities, value of the Client's investments can go up or down depending on the factors and forces affecting the capital market. MAECL is neither responsible nor liable for any losses resulting from such factors.*
- c. The information on investments is subject to external risks such as war, natural calamities, and policy changes of local / international markets which affect stock markets.*
- d. MAECL has renewed its SEBI PMS registration effective October 14, 2014 and has commenced its portfolio management activities with effect from January 2011. However, MAECL has more than 10 years of experience in managing its own funds invested in the domestic market.*