

Star Health and Allied Insurance Company Ltd

Incorporated in 2006, Star Health and Allied Insurance Company Ltd (Star Health) is one of the largest private health insurers in India with a market share of 15.8% in Fiscal 2021. The company primarily focuses on the retail health market segment. It offers a range of flexible and comprehensive coverage options for retail health, group health, personal accident, and overseas travel, accounting for 87.9%, 10.5%, 1.6%, and 0.01%, respectively, of the total Gross Written Premium (GWP) in Fiscal 2021. As of September 30, 2021, its network distribution includes 779 health insurance branches across 25 states and 5 union territories in India. Star Health has also built one of the largest health insurance hospital networks in India with more than 11,778 hospitals.

Positives: (a) The largest private health insurance company in India with leadership in the attractive retail health segment (31.3% market share in FY21). (b) One of the largest and well spread distribution networks in the health insurance industry and an integrated ecosystem. (c) The diversified product suite with a focus on innovative and specialized products Scalable. (d) Experienced Board and senior management team.

Investment concerns: (a) Further impact of the Covid-19 pandemic could increase claim (b) Any increase in competition could negatively impact the company's profitability.

Outlook & Valuation:

Star Health stands out among other standalone health insurers (SAHI) in terms of size, strong growth rates (32% Gross Written Premium CAGR over FY18-21) and better operational performance which is reflected in pre-Covid numbers for the company (~93% combined ratio). The valuations commanded by Star Health at ~5.5x FY21 Mcap/GWP, are in-line with recent deals in the SAHI space and appears fair considering its positioning. **Hence, we recommend SUBSCRIBE from a long-term perspective only.**

Key Financials

Y/E March (Rs cr)	FY2019	FY2020	FY2021	Q1FY21	Q1FY22
Gross Premiums Written	5,415	6,891	9,349	3,967	5,070
% chg	-	27.2	35.7	-	27.8
Premium earned (Net)	3,580	4,693	5,023	2,712	4,660
% chg	-	31.1	7.0	-	71.8
Operating Profit/(Loss)	165	361	(1,071)	271	(662)
% chg	-	119.0	(396.9)	-	(344.4)
Net profit	128	268	(826)	199	(380)
% chg	-	109.0	(408.1)	-	(290.8)
EPS	2.2	4.7	(14.3)	3.5	(6.6)
P/E	404.0	193.3	-	-	-
P/BV (x)	42.6	31.8	14.9	-	-
ROE	10.5	16.5	(23.7)	-	-

Angel Research; Note: Valuation ratios based on post-issue shares and at ₹900 per share.

SUBSCRIBE

Issue Open: Nov 30, 2021
Issue Close: Dec 02, 2021

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹553.3cr

Offer for Sale: 5.38cr share

Fresh issue: ₹2,000cr

Post Eq. Paid up Capital: ₹574.4cr

Issue size (amount): ₹7,249cr

Price Band: ₹870-900

Lot Size: 16 shares

Post-issue mkt.cap: ₹50,146*– 51,806cr**

Promoter holding Pre-Issue: 66.2%

Promoter holding Post-Issue: 58.4%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	75%
Non-Institutional	15%
Retail	10%

Post Issue Shareholding Pattern

Promoters	58.4%
Public	41.6%

Amarjeet S Maurya

+022 4000 3600, Extn: 6831

amarjeet.maurya@angelbroking.com

Company background

Incorporated in 2006, Star Health and Allied Insurance Company Ltd (Star Health) is one of the largest private health insurers in India with a market share of 15.8% in Fiscal 2021. The company primarily focuses on the retail health market segment.

It offers a range of flexible and comprehensive coverage options for retail health, group health, personal accident, and overseas travel, accounting for 87.9%, 10.5%, 1.6%, and 0.01%, respectively, of the total Gross Written Premium (GWP) in Fiscal 2021. In FY2021 and the 6 months ended September 30, 2021, they had total Gross Written Premium (GWP) of ₹9,348.95cr and ₹5,069.78cr, respectively.

The company mainly distributes policies through individual agents and also includes corporate agent banks and other corporate agents. As of September 30, 2021, its network distribution includes 779 health insurance branches across 25 states and 5 union territories in India. Star Health has also built one of the largest health insurance hospital networks in India with more than 11,778 hospitals. Their existing branches are also supplemented by an extensive network of over 562 Sales Managers Stations ("SMS") and over 6,892 in house sales managers.

Issue details

Star Health is raising ₹7,294cr through fresh issue (₹2,000cr) and Shareholder are selling equity share 5.83cr through offer for sale in the price band of ₹870-900.

Exhibit 1: Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	366,383,000	66.2%	335,552,113	58.4%
Public	186,906,944	33.8%	238,848,942	41.6%
Total	553,289,944	100.0%	574,401,055	100.0%

Source: Source: RHP, Note: Calculated on upper price band

Objectives of the Offer

- The IPO aims to utilize the net proceed to augment the company's capital base and insolvency level.

Exhibit 2: Income Statement

Y/E March (₹ cr)	FY2019	FY2020	FY2021	Q1FY21	Q1FY22
Premium from direct business written	5,415	6,891	9,349	3,967	5,070
% chg	-	27.2	35.7	-	27.8
Premiums earned (Net)	3,580	4,693	5,023	2,712	4,660
% chg	-	31.1	7.0	-	71.8
Other Income	134	192	261	126	270
Total Income	3,714	4,885	5,283	2,838	4,930
Claims Incurred (Net)	2,298	3,087	4,369	1,634	4,111
Commission	264	341	584	302	626
Operating Expenses (Insurance)	987	1,096	1,401	631	854
Operating Profit/(Loss)	165	361	(1,071)	271	(662)
% chg	-	119.0	(396.9)	-	(344.4)
Income from investments	61	101	163	62	160
Other income	0	0	0	2	7
Total Income	226	462	(908)	334	(495)
Provisions (Other than taxation)	4	(3)	34	0	0
Other expenses	40	52	104	18	18
Profit before tax	182	413	(1,046)	317	(513)
Provision for taxation	54	145	(220)	117	(132)
Profit after tax	128	268	(826)	199	(380)
EPS	2.2	4.7	(14.3)	3.5	(6.6)
% chg	-	109.0	(408.1)	-	(290.8)

Source: Company, Angel Research

Balance Sheet

Y/E March (₹ cr)	FY2019	FY2020	FY2021	Q1FY21	Q1FY22
Sources Of Funds					
Share Capital	456	491	548	491	553
Share Application Money	350	-	-	-	-
Employee Stock Option Outstanding	-	-	0	-	1
Reserves And Surplus	587	1,153	3,676	1,352	3,765
Fair Value Change A/c – Shareholder	-	1	(3)	3	2
Fair Value Change A/C - Policyholder	-	2	(5)	5	4
Borrowings	250	250	250	250	650
Total	1,643	1,897	4,467	2,101	4,975
Application Of Funds					
Investments - Shareholders	952	1,478	2,632	1,842	3,200
Investments - Policyholders	2,078	2,812	4,205	3,763	5,403
Loans	-	-	-	-	-
Fixed Assets	98	102	99	93	116
Deferred Tax Asset	142	147	421	74	549
Current Assets	-	-	-	-	-
Cash And Bank Balances	893	611	1,879	606	878
Advances And Other Assets	709	977	1,265	596	616
Sub-Total (A)	1,602	1,588	3,144	1,202	1,494
Current Liabilities	902	1,179	1,564	1,563	1,567
Provisions	2,492	3,051	5,195	3,310	5,325
Sub-Total (B)	3,394	4,230	6,759	4,873	6,892
Net Current Assets (C) = (A - B)	(1,792)	(2,642)	(3,615)	(3,671)	(5,398)
Miscellaneous Expenditure	-	-	-	-	-
Debit Balance In P&L Account	164	-	725	-	1,105
Total	1,643	1,897	4,467	2,101	4,975

Source: Company, Angel Research

Key Ratios

Y/E March	FY2019	FY2020	FY2021	Q1FY21	Q1FY22
Valuation Ratio (X)					
P/E	404.0	193.3	-	-	-
P/BV	42.6	31.8	14.9	-	-
Per Share Data (Rs)					
EPS	2.2	4.7	(14.3)	3.5	(6.6)
Book Value	21.1	28.3	60.5	31.8	55.6
Returns (%)					
ROE	10.5	16.5	(23.7)	-	-
ROA	8.5	15.3	(20.4)	-	-
Operating Ratios (X)					
Solvency Ratio	1.5	1.5	2.2	1.5	1.5
Loss Ratio	64.2	65.8	87.0	60.3	88.2
Expense Ratio	23.7	20.9	19.6	21.4	17.9
Commission Ratio	6.4	6.5	8.2	10.2	13.1
Combined Ratio	94.3	93.2	114.8	91.9	119.2
Investment Yield	7.5	7.6	7.1	7.3	9.8

Source: Company, Angel Research

DISCLAIMER

Angel Broking Limited (hereinafter referred to as “Angel”) is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager and investment advisor with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.