

Star Health and Allied Insurance Limited

IPO Note

Business Overview

Company Profile:

- Star Health and allied insurance Ltd. is one of the largest private health insurer in India with a market share of 15.8% in the Indian health insurance. From being the first standalone health insurance ("SAHI") company established in India in 2006, The company has grown into the largest SAHI company in the overall health insurance market in India. They have been consistently ranked first in the retail health insurance market in India based on retail health GWP over the last three Fiscal Years, according to CRISIL Research.

Product Mix:

- The company offers a range of flexible and comprehensive coverage product 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 Fiscal 2021 and 85.6%, 13.1%, 1.3% and 0.0001%, respectively, of the total GWP in the six months ended September 30, 2021.
- The company offers a range of flexible and comprehensive coverage product options primarily for retail health, group health, personal accident and overseas travel.
- The products include 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; and specialized products based on the age of the customers or on the disease-profile of the customers with pre-existing conditions.

Geographical Concentration:

- The company's large and well spread distribution network includes 779 health insurance branches across 25 states and 5 union territories in India as of September 30, 2021, with the Indian states of Tamil Nadu and Maharashtra collectively accounting for 35.3% of their total GWP in Fiscal 2021. Company's branches act as a hub to their SMS and agents, which enable them to access a geographically and demographically broad Indian customer base, including under-penetrated semi-urban and rural markets, facilitating future 176 expansion.

Issue Details

Fresh Issue Up to [●] Equity Shares, aggregating up to ₹20,000 million
Offer for sale of Up to 58,324,225 Equity Shares

Issue size: ₹ 7074 - 7249 Cr
No. of shares: 58,324,225 Shares
Face value: ₹ 10/-

Price band: ₹ 870 - 900
Bid Lot: 16 Shares and in multiple thereof

Post Issue Implied Market Cap:
 ₹ 50,136 - 51,796 Cr

BRLMs: CLSA, Credit Suisse and Jefferies
Registrar: KFin Technologies Pvt Ltd

Indicative Timetable

Activity	On or about
Issue Opens	30-11-2021
Issue Closes	02-12-2021
Finalization of Basis of Allotment	07-12-2021
Refunds/ Unblocking ASBA Fund	08-12-2021
Credit of equity shares to DP A/c	09-12-2021
Trading commences	10-12-2021

Listing: BSE & NSE

Issue Break Up

Retail	QIB	HNI
10%	75%	15%

Shareholding (%)

	Pre Issue	Post Issue
Promoters	66.22%	58.30%
Public - Investor Selling S/H	33.78 %	27.70%
Public	0.00%	14.00%
Total	100.00%	100.00%

*Computed using data given on pages 19, 62 and 78 of RHP

Star Health and Allied Insurance Limited

Competitive Strengths

The company is the largest private health insurance company in India with leadership in the attractive retail health segment

The company is the largest private health insurance company and the largest retail health insurance company in India by health GWP. As of March 31, 2019, 2020 and 2021, they issued 4.3 million, 5.1 million and 7.0 million health insurance policies, which was the highest among all health insurance providers. Their retail health GWP was over three times the GWP of the next highest retail health insurance market participant in Fiscal 2021, according to CRISIL Research. 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, according to CRISIL Research, making the retail health segment more attractive from a profitability perspective, since lower claims results in higher profitability.

The company has 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: The company has a pan-India distribution network that is one of the largest and well spread in the health insurance industry, accordingly to CRISIL Research. Their 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. Also 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 company's branches act as a hub to their SMS and agents, which enable them to access a geographically and demographically broad Indian customer base, facilitating future expansion. As of March 31, 2021, company had the largest number of individual agents among SAHI insurers, at approximately three times that of the SAHI company with the next highest number of agents, according to CRISIL Research. Their agents accounted for 59.9% of all the agents in the SAHI sector in India as of March 31, 2021, according to CRISIL Research.

Diversified product suite with a focus on innovative and specialized products.

The Company offers 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 their total GWP in Fiscal 2021 and 85.6%, 13.1%, 1.3% and 0.0001%, respectively, of their total GWP in the six months ended September 30, 2021. From Fiscal 2018 to September 30, 2021, they introduced 56 new products (including all variations of policies). Within their different product categories, the company has also developed premium products, such as Star Comprehensive Insurance Policy, which have additional coverages and higher sum insured than their traditional products. The company also introduced other innovative products that go beyond traditional health insurance policy coverage, such as 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 that company introduced in 2019.

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

In-house Claims Management System: The company believes the claims process is the most sensitive part of a customer's experience with health insurance, and their approach to claims management is a key part of their customer service proposition. To reduce the costs associated with claims, they engage with the customers through their in-house tele-medicine service, TALK TO STAR, which provides customers with access to experienced doctors that can give second opinions and alternative medical solutions over the telephone or internet. In addition, in order to streamline the claims process and improve turnaround times, the company has designated their claims processing offices in Mumbai, Delhi, Kolkata and Kerala to process their cashless claims (up to a fixed financial limit). Any other claims, including all reimbursement claims, are processed by their claims processing office in Chennai.

In-house Medical Expertise: They follow a differentiated strategy of employing 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 company believes the knowledge of their medical professionals, combined with the financial acumen of their 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 the wellness of the customers.

Extensive Hospital Network: According to CRISIL Research, the company has 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. Their hospital network enables them to monitor the quality of medical service provided to their 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 them as of September 30, 2021. The proportion of the number of cashless claims from the agreed network hospitals compared to non-agreed network hospitals has been increasing, which has resulted in claims from non-agreed network hospitals decreasing from 51.1% in Fiscal 2019 to 45.0% in Fiscal 2021.

Star Health and Allied Insurance Limited

The company has made substantial investment in technology and innovative business processes:

Their investments in information technology in digital technologies, data platform and automation are key drivers that have improved the effectiveness, efficiencies and innovations within the business. They have invested in advanced technologies to develop a flexible and integrated information technology platform across the business processes. Their in-house built digital platform helps them interact with their customers, agents, sales teams, hospitals, diagnostics centers, employees, web aggregator 166 partners, corporate agents, as well as corporate agent banks and other intermediaries, seamlessly. The company has integrated platforms such as their new customer relationship management ("CRM") program, which manages the relationships and interactions with customers and potential customers and helps to improve customer experience, satisfaction, lead management and provide unified experience to the customer from servicing standpoint, Their claims management system and the policy administrative system, as well as on portals for consumers, agents, network hospitals and their mobile applications.

They have consistently demonstrated superior operating and financial performance:

Profitability and return: The company has undertaken initiatives involving both investments targeted at increasing their profitability and cost reduction measures in order to create an efficient, scalable platform across the pan-India multi-channel distribution network that helps position their business for profitable growth with limited additional investment. These initiatives have focused on reducing costs and exercising strong control over expenses in order to support profitable growth over the longer-term. In particular, they have undertaken a number of cost control measures, including by using technology across their businesses to conduct meetings electronically across India to save on travel and related costs; using of digital means of communication to save on printing and stationary costs and to process claims; as well as promoting the use of company's customer and agent portals for purposes of distributing and receiving policy and claims documents and payments. They have also recently re-negotiated lease agreements with certain landlords of their branches during the COVID-19 crisis, which has also led to reductions in rental cost. As a result of these measures, the 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. The company's initiatives have also focused on investing in processes, technology, training and people to achieve higher GWP growth with limited additional net investment. They have invested in technologies such as customer and agent applications and their online portals to improve productivity and realize scale in the company's business.

Investment Income Performance: Their investment strategy is driven by the regulatory investment guidelines, the liability profile of the Company and their risk appetite. Their investment assets are divided into long-term and short-term assets. The long-term assets are mostly held to maturity assets and are meant to enhance long-term returns and short-term assets are for liquidity management. They have diversified their investment portfolio using internal exposure norms based on its risk appetite in order to improve investment yields while maintaining portfolio quality. The long-term funds are invested in Government Securities, State Development Loans, Corporate Bonds, Fixed Deposits, REITs, InvITs and ETFs, while short-term funds are managed using bank FDs, Overnight Mutual Funds, CPs, CDs, T-Bills, CMBs, Short Maturity Bonds and Tri-Party REPOs (TREPs). Asset allocation at any point is done considering the risk-adjusted relative attractiveness of the asset classes.

Solvency: As of September 30, 2021, company had a solvency ratio of 1.52x, compared to the IRDAI prescribed control level of 1.50x.

For further details, refer to 'Strengths' page 162 of RHP

Star Health and Allied Insurance Limited

Business Strategies

Continue to leverage and enhance market leadership in the attractive retail health insurance segment:

The Indian health insurance market remains in the early stages of its life cycle and continues to be one of the most underpenetrated health insurance markets globally, according to CRISIL Research. The more complicated nature of health insurance products and the associated specialized proprietary distribution and customer assistance that are required to service customers result in higher entry barriers and more attractive claims ratios, according to CRISIL Research. The Company intends to leverage their market leading position scale in the retail health insurance segment to expand their customer base in parallel with India's favourable demographics, while growing profitability and increasing their operating leverage. In particular, the company intends to use health analytics, customer patterns and behavior's from their large customer base for better customer selection and products development; leverage their strong brand in the retail health insurance sector to attract quality agents and build their agency distribution network; expand their use of alternate distribution channels, such as their corporate agent banks channel and other channels that complement their agency network; expand their offerings of innovative and custom products and wellness benefits tailored to the customers' needs

Continue to enhance existing distribution channels and develop alternative channels:

The company intends to grow and diversify their distribution network to expand customer reach in order to generate new business and drive up-selling of company's products to their large customer base, consistent with their profitability objectives. They also plan to achieve this by expanding agency, while entering into alternate channels for distribution.

Expand agency and branch networks: Company intends to continue to nurture and support the growth of their agent network, including their sponsored health insurance agents, through internal systems and processes that company believes will enhance agent productivity and retention, as well as their professional development.

Digital sales: Company intends to continue to focus on growing their business through digital sales and web aggregators to continue to make the customer experience a more user-friendly and deliver a quality customer service experience. As consumer purchase preferences continue to shift supported by the increasing use of mobile and digital devices, company believes digital sales will continue to increase as a percentage of their total sales. They intend to facilitate this by making their digital sales more accessible to their customers, including in local languages. They also intend to continue to expand sales through web aggregators.

Collaborations with Fintech and Insurtech companies: As they look to continue to increase sales and operational efficiencies, they aim to collaborate with Fintech and Insurtech companies to develop disruptive technology to differentiate their business from the competitors and improve customer experience, such as collaborations with digital wallets that enable them to make and receive payments and distribute their 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:

The company's product strategy is to deliver health insurance products that are aligned to the needs of the Indian customer base in each of their distributing channels and across different geographic market segments. The company intends to continue to align the products by developing health needs-based solutions supported by research, their strong in-house medical expertise and the innovation driven product development process. The company's products have a track record of innovation and industry firsts, and they intend to continue to innovate to design new products and solutions to cater to the varying needs of their existing and potential customers through the following:

Innovative Products: Design and offer innovative and 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 in connection with organ transplants; coverage of air ambulances as part of existing product coverage; comfort and preventative coverage initiatives and the promotion of wellness through incentives for preventative behavior such as undergoing diagnostic/preventive tests during the policy year.

Disease-Specific Products: Focus on moving up the health insurance product value chain by offering higher sum insured products and innovative products that cover specific health risks, such as coverage of bariatric surgery for morbid obesity.

Demographic- and Geographic-Specific Products: Continue to evaluate products that are tailored to specific demographics and geographies, such as products tailored to the specific needs of women; outpatient and micro-insurance products designed 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.

Telemedicine Services: Continue to engage with the company's customers, such as through TALK TO STAR by encouraging customers to contact the company in an effort to help assist them on the availability of various treatments and hospitals in order create a better customer experience. Also provide other value added services to promote Wellness of customers.

Star Health and Allied Insurance Limited

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

The company intends to continue to build on their investments in the digitization of their business and any incremental investments company's makes in the future to improve operational efficiencies and customer service. Their digitization strategy focuses on eight key target areas: intelligent automation; hyper-personalization; advanced analytics; omni-channel; microservices; cloud; business process optimization and software development process optimization. The company intends to continue to integrate these technologies across their business.

Drive profitability by leveraging scale and further improving financial performance:

Company intends to continue to focus on improving their operating and financial performance by reducing the combined ratio and improving their underwriting results. In order to do this, they intend to do the following:

- Continue to grow their agreed hospital network, in particular in semi-urban and rural markets, based on claims traffic to benefit from profitable negotiated pricing arrangements and improve loss ratios and claim servicing
- Engage in fraud control and mitigation by studying customer behavior and utilizing preventive fraud analytics to prevent and detect frauds.
- Reduce net expense ratio by continuing to eliminate, standardize and automate internal processes
- Use advanced analytics of data on customer patterns and behaviors and claims to reduce claims costs and improve customer selection, while better tailoring the products to their customers' needs
- Continue to target under-penetrated rural markets, where infrastructure is improving and discretionary spending is increasing.

For further details, refer to 'Strategies' page 168 of RHP

Object of the offer

The objects of the Offer are to augment the Company's capital base and maintain solvency levels. The amount to be funded from Net Proceeds towards augmentation of the Company's capital base is ₹[●] million

The Net Proceeds are proposed to be deployed in Fiscal 2022 towards augmentation of the Company's capital base.

Star Health and Allied Insurance Limited

Profile of Directors

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: 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.

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: 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.

Deepak Ramineedi: is a Non-Executive Nominee Director of the Company. He holds a bachelor's degree in technology from the Indian Institute of Technology, Bombay and a post-graduate diploma in management from the Indian Institute of Management, Ahmedabad. He has several years of experience in the private equity industry and has previously worked with Credit Suisse Securities (India) Private Limited. He is currently employed by WestBridge Advisors LLP.

Utpal Hemendra: Sheth is a Non-Executive Nominee Director of the Company. He holds a bachelor's degree in commerce from the University of Bombay. He has also been awarded a certificate of merit by the Institute of Chartered Financial Analysts of India and has cleared the final examination of the Institute of Cost and Works Accountants. He has been working with Rare Enterprises since 2003 and is currently the chief executive officer of Rare Enterprises, a proprietary asset management firm, and is responsible for investment and risk management.

Rohit Bhasin: is an Independent Director of the Company. He has been granted a certificate of practice by the Institute of Chartered Accountants of India. He has 29 years of experience in the investment banking industry and has previously worked with Pricewaterhousecoopers Private Limited from where he resigned as the partner affairs leader and a member of the India leadership team. He was also an area director in the merchant banking division at Standard Chartered Bank. He is an independent director of Tanla Platforms Limited.

Anisha Motwani: is an Independent Director of the Company. She holds a bachelor's degree in science and a master's degree in business administration from the University of Rajasthan. She has various years of experience in the finance and automobile industries and has previously worked with Tara Sinha McCann Erickson Private Limited, Euro RSCG Advertising Private Limited as vice president, General Motors India Private Limited as director in marketing, Max New York Life as senior vice president in marketing and the World Bank.

Berjis Minoo Desai: is an Independent Director of the Company. He holds a bachelor's degree of law from the University of Bombay and a master's degree in law from the University of Cambridge, United Kingdom. He is a director on the board of directors of Deepak Fertilisers and Petrochemicals Corporation Limited, The Great Eastern Shipping Company Limited, Jubilant Food works Limited, Man Infraconstruction Limited and Praj Industries Limited. He has various years of experience in the practice of law and has previously worked with J. Sagar Associates. He is currently an independent law practitioner

Given above is the abstract of data on directors seen on page 217 of the RHP

Star Health and Allied Insurance Limited

Financials (Restated Consolidated)

(₹ In Millions)

Particulars	June 30, 2021	March 31, 2021	March 31, 2020	March 31, 2019
Equity Share Capital	5,532.90	5,480.87	4,906.38	4,555.76
Reserves	37,651.71	36,757.85	11,530.43	5870.59
Net Worth	31,994.14	34,846.44	16,286.81	12,156.93
Total Borrowings	6,500.00	2,500.00	2,500.00	2,500.00
Revenue from Operations	47,789.03	71,447.51	52,613.96	41,414.65
EBITDA	(4,815.07)	(9,746.20)	4,684.65	2,359.40
Profit/Loss Before Tax	(5,126.34)	(10,459.50)	4,134.25	1,822.47
Net Profit/Loss for the year	(3,802.69)	(8,255.81)	2,680.02	1,282.26
Basic EPS	(6.93)	(16.54)	5.59	2.81
Diluted EPS	(6.93)	(16.54)	5.48	2.78

Note: Above data obtained from pages 16 to 331 and 335 of RHP

Comparison with peers

Company	FV/Share (₹)	EPS (Basic)	RONW (%)	NAV (₹ per share)	P/E (times)
Star Health and Allied Insurance Company Limited	10.00	(16.54)	(23.69)	63.58	-
Listed Peers					
ICICI Lombard General Insurance Company Ltd.*	10.00	32.41	19.81	163.56	46.66
New India Assurance Company Limited.	5.00	9.95	8.81	112.17	15.30

*ICICI Lombard General Insurance Company Ltd. is not strictly comparable with the Company as they operate under general insurance with health insurance not forming a significant component, whereas the Company is a standalone health insurance provider. #

Financial information for Peers is sourced from the financial statements for the fiscal year ended March 31, 2021 submitted to stock exchanges

NOTES:

(1) Closing Share price as per NSE, closing prices as of November 18, 2021

(2) Financial Statement values for or as on the end of fiscal year 2021 and on a consolidated basis wherever applicable

(3) Net Worth calculated as sum of 'Equity Capital', 'Other Equity', 'Share application money-pending allotment' and 'Fair value change account' and Number of shares (for NAV) as per NSE on March 31, 2021

(4) Basic EPS and Diluted EPS refer to the Basic EPS and Diluted EPS after extraordinary items sourced from the financial statements for the year ended March 31, 2021

(5) RONW calculated based on Net Profit divided by Net Worth as on March 31, 2021

(6) P/E is calculated based on share price and diluted earnings per share after extraordinary items

^ Not applicable since EPS is negative

Note: Above data obtained from page 107 of RHP

Star Health and Allied Insurance Limited

Key Risk Factors

- The recent global COVID-19 outbreak has significantly affected the company's business and operations. The scope, duration, and frequency of measures to contain the pandemic and the adverse effects of COVID-19 remain uncertain and could be severe, and the full extent to which the COVID-19 pandemic and the various responses to it impact the company's business, operations, and financial results will depend on numerous evolving factors that they may not be able to accurately predict, including There are outstanding litigation proceedings against the Company. Any adverse outcome in such proceedings may have an adverse impact on their reputation, business, financial condition, results of operations and cash flows.
- Company's brand, business reputation and market perception is critical to maintaining market share and growing their business and any negative publicity could have a material adverse effect on the business, financial condition and results of operations. The company is dependent on sales through large format stores, multi-brand outlets, its franchisees, and online retailers for a significant portion of their revenues. The company's business, results of operations and financial condition could suffer if they fail to maintain relationships with such third parties.
- The company depend on the accuracy and completeness of information provided by or on behalf of their customers and counterparties for pricing and underwriting the insurance policies, handling claims and maximizing automation, the unavailability or inaccuracy of which could limit the functionality of the products and disrupt their business.
- The company has incurred losses in Fiscal 2021 and the six months ended September 30, 2021 and may incur losses in the future, which could adversely affect the company's operations and financial conditions and the trading price of their Equity Shares.
- Company's loss reserves are based on estimates as to future claims liabilities and if they prove inadequate, it could lead to further reserve additions and materially adversely affect their results of operations.
- The company could be subject to claims by the customers and/or regulators for alleged mis-selling.
- Pandemics, such as the recent coronavirus, COVID-19, and other catastrophic events, such as natural disasters could materially increase their liabilities for claims by policyholders, result in losses in the investment portfolios, and have a material adverse effect on company's business, financial condition and results of operations.
- The discontinuance of the voluntary quota share treaty ("VQST") reinsurance treaty and the change in method of accounting for UPR has materially impacted company's financial condition and results of operations.
- The company's failure to continue to adapt to technological change and the evolving use of data in the health insurance industry in India, could adversely affect their ability to maintain or increase their business volumes, profitability and market share.
- If company is unable to meet solvency ratio requirements, they could be subject to regulatory actions and could be forced to stop transacting any new business or change the business strategy or slow down their growth.

(Please read carefully the Risk Factors given in detail in section II (page 26 onwards) in RHP)

Star Health and Allied Insurance Limited

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