

30 November 2021

Star Health & Allied Insurance – SUBSCRIBE

Investment Thesis

Star Health and Allied Insurance Company Ltd. (Star Health) is coming out with an initial public offering (IPO) on November 30, 2021. The issue comprises of fresh issue worth Rs.20,000mn and offer for sale of 5,83,24,225 equity share by the selling shareholders. Objective of the issue is to augment the company's capital base and insolvency level.

Star Health is one of the largest private health insurers in India with a market share of 15.8% in FY21. 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 FY21. Within the health insurance umbrella, Star Health focused largely on the retail segment and generated ~88% of its premiums from this segment, which is much higher than any of its peers. Star health is a leader in the retail health insurance business and accounted for over 31.3% of the overall GWP collected in FY21. Over FY18-21, it has improved its market share from 19.8% in FY18 to 31.3% in FY21. In term of number of policies issued in FY21, Star Health was the market leader with 27% share in the total health insurance policies issued in FY21.

Star Health distributes health insurance policies primarily through individual agents, which accounted for 78.9% of its gross premium in FY21. Between FY19-21, total number of individual agents grew at 27.3% CAGR to 4.6 lakhs in FY21 and 5.1 lakhs by end of H1FY22. Its distribution channel also includes corporate agent banks, which accounted for 2.4% of gross premium in FY21. Star Health leads the market in terms of new branch opening from FY18. Over FY18-21, its branch network expanded by 26.3% CAGR to 737 in FY21 and further to 779 branches by H1FY22. In terms of hospital reach, Star Health had 11,778 hospitals in network as of Sept. 2021. Out of the total number of hospitals, the company had entered into pre-agreed arrangements with 7,741 hospitals and processed 3.3 lakhs or 55% of its total cashless claims.

Financials

- During the past 2 years, revenue of Star Health de-grew at a CAGR of 19.3% while PAT de-grew at a CAGR of 153.8% in the same period.

Standal. (Rs.Mn.)	FY19	FY20	FY21	FY22E	FY23E
Total Income	37,135	48,854	52,834	60,759	69,873
EBITDA	1,647	3,608	-10,712	4,690	5,394
% growth	NA	119.1	-396.9	143.8	15.0
PAT	1,282	2,720	-8,256	3,536	4,066
EPS (Rs.) #	2.2	4.8	-14.5	6.2	7.1
P/E (x) *#	400.8	188.9	-62.2	145.3	126.4
RoE (%) #	10.2%	13.7%	-23.4%	9.3%	9.8%

* At highest price band # Post listing

IPO Details

Issue Open Date	30 November, 2021
Issue Close Date	02 December, 2021
Price Band (Rs.)	870.00 to 900.00
Issue Size (Rs. Mn)*	72,491.80
Issue Size (Shares)	8,05,46,447
Market Lot	16 Equity Share
Listing Exchanges	BSE and NSE
Face Value (Rs.)	10.0/-

* At highest price band

Key Details

Fresh Issue*	2,22,22,222 Equity Shares
Offer for Sales*	5,83,24,225 Equity Shares
Issue Type	100% Book Built Issue
Book Running Lead Manager	Kotak Mahindra Capital, Axis Capital, BofA Securities India, Citigroup Global Markets India, ICICI Securities, KFin Technologies, CLSA India, Credit Suisse Securities (India), Jefferies India, Ambit, DAM Capital Advisors, IIFL Securities and SBI Capital Markets
Issue Structure	QIB: 75% Retail: 10% Non – Institutional: 15%
Credit of Shares to Demat Account	09 December, 2021
Issue Listing Date	10 December, 2021

* At highest price band

Key Business Highlights

- Star Health is the largest private health insurer in India with a market share of 15.8% in the Indian health insurance market in FY21 with GWP of Rs.93,489mn in FY21.
- From being the first standalone health insurance company established in India in 2006, Star Health has into the largest company in the overall health insurance market in India. Its comprehensive health insurance product suite insured 20.5 million lives in FY21 in retail health and group health, which accounted for 89.3% and 10.7%, respectively, of total health GWP in FY21.
- Star Health has built one of the largest health insurance hospital networks in India, with 11,778 hospitals out of which with 7,741 hospitals or 65.7% of the total number of hospitals, Star Health has entered into pre-agreed arrangements as of September 30, 2021.

Valuation

- Star Health has insured 20.5 million lives and generated a gross premium of Rs.93,489mn in FY21, which was highest amongst the peers. It offers a range of flexible and comprehensive coverage options primarily for retail health, group health, personal accident and overseas travels. Retail and group health contributed 87.9% and 10.5% to the gross premium in FY21. Star Health's products target customers, which includes individuals, families, students, senior citizens, as well as persons with pre-existing medical conditions across the broader middle market customer segment.
- Covid-19 pandemic has severely impacted the performance of Star Health as it resulted into higher claims and deterioration of the solvency ratio of the company. Covid-19 claim size was almost double as compared to non-Covid-19 related claim size. In FY21, the pandemic accounted for 30% of its net paid claims by value. Further with severe second wave, this increased to 41% of the net paid claims by value. Consequently, the net incurred claims ratio increased to 87% in FY21 as compared to 64.2% and 65.8% in FY19 and FY20, respectively. For H1FY22, this ratio stood at 88.2% as compared to 60.3% in H1 FY21. With almost successful vaccination drive by the government, we feel that pandemic being the key risk for the company is subsidized for the near term. But re-emergence of another wave in the country or occurrence of any deadly variant will be considered negative for the company. However, with evolving maturity in the medical treatments for the pandemic, we feel that the risk for the Star Health will be lesser as compare the risk levels in H1FY22.
- With one of the largest private health insurers in India, focused largely on the retail segment, distributes health insurance policies primarily through individual agents, insured 20.5 million lives and generated GWP of Rs.93,489mn in FY21 and pandemic risk for will subsidized with successful vaccination drive, we are recommending **SUBSCRIBE** to the IPO of Star Health and Allied Insurance Company Ltd.

Risk & Concern

- Covid-19 pandemic has severely impacted Star Health as it resulted into higher claims and deterioration of the solvency ratio, any new wave may have negative impact on the company's performance.
- Brand, reputation and market perception are critical to maintaining market share, any negative publicity may have adverse effect on business, financial condition and results of operations of Star Health.
- Star Health depend on accuracy and completeness of information provided by customers or counterparties for pricing and underwriting, any unavailability or inaccuracy of which may disrupt the business.

Graphs & Charts

Figure 1: Net Sales Trend

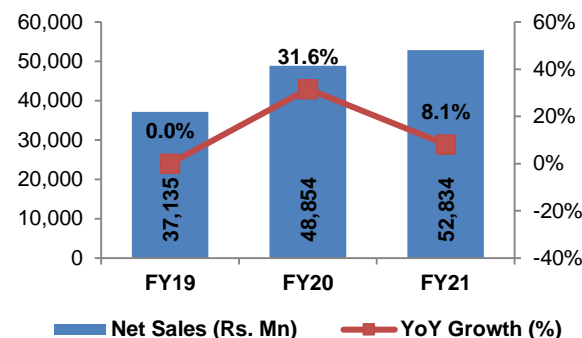


Figure 2: EBITDA & EBITDA Margin Trend

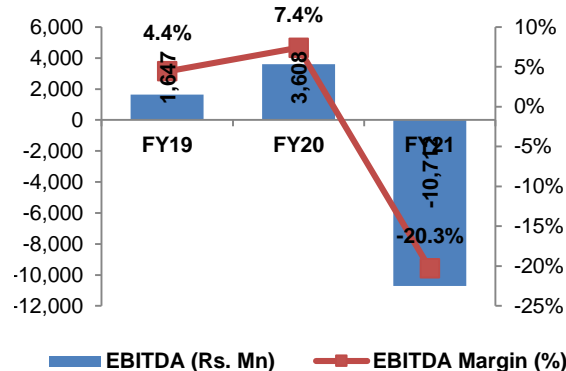


Figure 3: PAT Trend

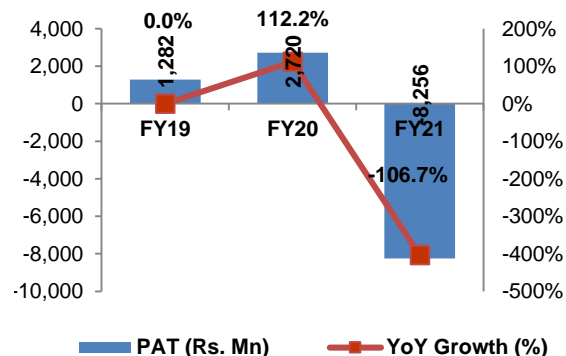
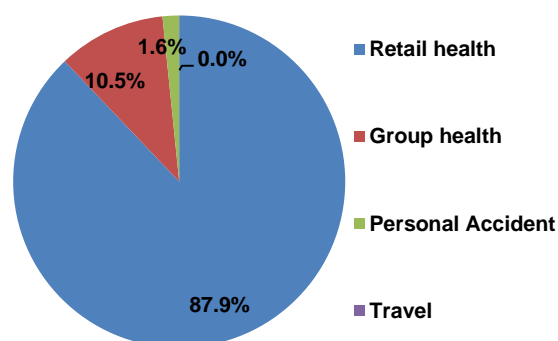


Figure 4: Segment-wise GWP (FY21)



Name
Jitendra Upadhyay

Designation
Research Analyst

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Bonanza Portfolio Ltd. Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063

Web site: <https://www.bonanzaonline.com>

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BSE CM: INB 011110237 | BSE F&O: INF 011110237 | MSEI: INE 260637836

| CDSL: a) 120 33500 | NSDL: a) IN 301477 | b) IN 301688 (Delhi) | PMS: INP 000000985 | AMFI: ARN -0186

