Mr. Nilesh Kambli
Chief financial officer
Star Health and Allied Insurance Company Limited,
No.1, New Tank Street, Valluvar kottam high road, Nungambakkam,
Chennai- 600034

September 20, 2021

Dear Sir/Madam,

Re: Rating Letter for Star Health And Allied Insurance Company Limited

India Ratings and Research (Ind-Ra) has upgraded Star Health and Allied Insurance Company Limited's (Star) Long-Term Issuer Rating to 'IND AA' from 'IND AA-'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	**Date of Issuance**	**Coupon Rate**	**Maturity Date**	**Size of Issue (billion)**	**Rating/Outlook**	**Rating Action**
Subordinated debt*	-	-	-	INR2.5	IND AA-/Stable	Upgraded
Subordinated debt*	-	-	-	INR5.0	IND AA-/Stable	Assigned

*Details in Annexure

In issuing and maintaining its ratings, India Ratings relies on factual information it receives from issuers and underwriters and from other sources India Ratings believes to be credible. India Ratings conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security.

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It will be important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, accuracy of or the inadequacy of information or for any other reason India Ratings deems sufficient.

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In this letter, "India Ratings" means India Ratings & Research Pvt. Ltd. and any successor in interest.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please email us at infogrp@indiaratings.co.in

Sincerely,

India Ratings

Prakash Agarwal
Prakash Agarwal
Director

J.Z.Haria
Jindal Zaverchand Haria
Director

Annexure: Facilities Breakup

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
Subordinated debt	INE575P08016	6 September 2017	10.25	6 September 2024	INR2	IND AA-/Stable
Subordinated debt	INE575P08024	30 October 2017	10.20	30 October 2024	INR0.5	IND AA-/Stable
				Total utilised limit	INR2.5	
				Total unutilised limit	INR5.0	IND AA-/Stable

India Ratings & Research
A Fitch Group Company

India Ratings Upgrades Star Health and Allied Insurance to 'IND AA'/Stable; Rates Additional Sub-Debt

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SEP 2021

By Jinay Gala

India Ratings and Research (Ind-Ra) has upgraded Star Health and Allied Insurance Company Limited's (Star) Long-Term Issuer Rating to 'IND AA' from 'IND AA-'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
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Subordinated debt*	-	-	-	INR5.0	IND AA-/Stable	Assigned

*Details in Annexure

The upgrade reflects Star's continued increase in market share in the overall retail health space, capital infusion during pandemic from marquee investors and shareholders, scaling up of franchise with wider reach and agent network, along with incremental plans to raise capital through initial public offer (IPO), thereby helping Star build and improve solvency margin from the current levels and cater to future growth needs and build incremental buffers for the ongoing pandemic. The upgrade also factors in the absence of accounting and reinsurance treaty changes. Star would have maintained positive profitability withstanding the impact of the pandemic.

KEY RATING DRIVERS

Sustained Leadership Position in Health Insurance Segment: Star is the largest retail private health insurance provider in India with a market share of 31.3% in FY21 (FY20: 28.6%, FY19: 22.8%) and 41% in incremental business. It also has a 4.7% market share in the overall general insurance space and a 15.7% market share in the overall health insurance space as of FY21. Star had 87.9% of its gross written premium under retail category in FY21 (FY20: 84.7%). The renewals also remained higher at 97.9% in FY21 (FY20: 94.5%). The gross written premium increased at a CAGR of 36% to INR94 billion over FY15-FY21, against the industry growth of 20%. The company has a long and established track record in health insurance, a reasonable in-house claim processing efficiency, and a large team of doctors and empanelled hospitals. Star has a wide distribution network encompassing agents, bancassurance partners and brokers, and alternate channels such as online, direct marketing and tele-calling, which support the growth of the business. The company has tie ups with around 10,870 hospitals with more than 7,000 hospitals on agreed network, and 737 branches across 26 states and four union territories. It has a large agency channel with 0.46 million agents, 7,000 inhouse sales manager and 483 full-time medical professionals driving sales and underwriting for the company.

Liquidity Indicator- Adequate: Star has adequate cover for policyholders' liabilities (unexpired risk reserve plus claims outstanding plus dues to other insurance companies) through assets (investment book plus cash and bank balance), which stood at 1.44x in FY21 (FY20:1.56x, FY19: 1.62x). Considering only the high-quality liquid assets (government securities, and cash and bank balance), the above ratio stood at 0.8x in FY21 (FY20: 0.85x, FY19: 1.05x).

Star had adequate capital buffers at 1QFYE22, supported by its sizeable net worth and solvency margins. Its shareholding has been distributed among three large shareholders, who infused INR5 billion in FY20 for growth needs. The company raised INR26.2 billion in FY21 during the pre-IPO capital raise from existing shareholders as well as new set of large investors during the pandemic. The company also plans to raise additional capital of about INR20 billion in the upcoming IPO in FY22, thereby supporting its solvency margins.

Moreover, its investment book portfolio quality has been stable as more than 75.7% of its investments in FY21 (FY20: 71.2%) consisted of debt securities either rated 'AAA' and under government-backed securities. Also, the share of debt investments (based on book value) in government securities stood at 42.5% in FY21 (FY20: 38.0%). Thus, the liquidity profile of the investment book is stable to cater to the needs of the policyholders with 10.97% of the book having a maturity profile of up to one year. The extent of surplus in solvency is critical in determining the insurer's ability to service the subordinated debt. In FY21, Star reported a one-time loss, largely due to an accounting change where Star had given up its reinsurance treaty for FY22 and moved to 1/365 method (more conservative method) from unexpired premium reserve method for recognition of premium, necessitating Star to seek permission from the Insurance Regulatory and Development Authority for debt servicing, which was granted for servicing the subordinated debt in 1QFY22.

Established Claim Processing and Underwriting Practices: Star has a well-established risk management framework to identify, assess, and monitor risks across the health segment, with a strong focus on retail health policyholders. The company has a specialised underwriting team, comprising segment experts, which enables quick and efficient assessment and management of business-specific risks. However, Star's settlement ratio was lower than that of its peers' at 83.4% in FY21 (FY20: 82.9%). This was largely due to underwriting pre-existing diseases and also because the company has been catering to the mass retail segment, which leads to higher rejection of improper claims. Star, henceforth, plans to retain a large portion of its business, with reinsurance being limited to minimal mandatory requirements and incremental reinsurance would be more risk based than capital saving tool. The increased size and scale will help Star negotiate better with hospital network, and the inhouse claim processing will lead to further validating of claims raised by hospitals and help rationalise ultimate payouts.

Experienced Management: Star has an experienced and professional management team, and underwriting and claim-processing business heads, who have been with the company for a long period, with minimal attrition at the senior level. However, post the change in shareholding in FY19, Star had reshuffled roles and brought in professionals from the industry for the roles of the chief financial officer and chief information officer. Also, the company has appointed a full-time actuary to enable product monitoring and maintain risk measurement while scaling up the business processes. Star has also seen changes at the board level with the entry of new shareholders enhancing the diversity of the board; which had remained stable since the last two years.

Operating and Capital Buffers Turn Volatile due to COVID-19: Star's profitability has improved over the years with stabilisation of the combined ratios, which remained below 100% during FY16-FY20. Even after factoring in previous UPR method, re-adding the reinsurance treaty provision and excluding one-off items, Star's combined ratio would have been around 98.4% in FY21. However, the reported claim ratio increased to 88.4% of the net earned premium excluding 3% claim processing cost in FY21, due to the COVID-19 pandemic, and accounting and reinsurance treaty changes. The severity in claims increased in FY21, largely due to Covid-19 claims, which showed higher severity and formed 27.5% of the overall claims. The company has, over the years, moved away from government business and has been focussing on the retail health segment, which forms 90% of the gross written premium and is likely to continue to do so. The claim ratio excluding the accounting and reinsurance treaty changes stood at 66.8% in FY21 (excluding 3% claim processing cost; FY20: 61.5%), largely due to a rise in severity claims due to the pandemic. In lieu of the COVID-19 outbreak, Star also incrementally revised the pricing of products where there has been a permanent change in the loss ratio to contain the rise in loss ratio.

As the combined ratio stabilises with the end of pandemic, the franchise size and scale would help business drive underwriting profit and build-up of investment float would drive the overall profitability in the medium-to-long term. The expense ratio as a percentage of the net earned premium was 30%-36% in the last four years (FY21: 31.6% in FY21, FY20: 31.4%). Star's combined ratio weakened to 120% in FY21 (FY20: 93%), due to accounting and reinsurance treaty changes as well as to a certain extent due to pandemic's impact.

As per Ind-Ra's estimates, Star's solvency margin (1QFY22: 1.65x, FY21: 2.20x, FY20: 1.88x) utilisation is highly sensitive to the growth in the gross written premium as well as the net claim ratio. As per Ind-Ra's stress case scenerio, the company's solvency margin would continue to be adequate to meet the regulatory requirements post factoring infusion of primary capital raised through IPO, which would be around INR20 billion along with issuance of subordinated debt of about INR5 billion depending upon market conditions in FY22.

Single Line of Business Could lead to Volatility in Claims; Diversified Shareholding Structure: The ratings are constrained by Star's single product line of business compared with other general insurance companies. During events like pandemic, there could be a heightened volatility in claim ratio if a single segment is impacted compared to diversified general insurers. However, within the single product line, Star has diversified its offerings with the granular retail health segment accounting for a larger share of the gross written premium, thereby mitigating this risk to a certain extent.

Also, the diversified nature of shareholders could support the entity during growth times. However, the flow of capital flow during periods of stress needs to be monitored.

RATING SENSITIVITIES

Positive: A sizable rise in the overall health insurance market share and establishment of further strengthening of franchise could be a positive rating trigger. Furthermore, demonstrated ability to maintain stable combined ratio through the cycles with continued underwriting profitability and stable claim ratio, along with adequate solvency margin buffer over and above the regulatory requirements through internal accruals or equity infusion to navigate volatile times would be positive for the ratings.

Negative: The inability to manage volatility in the claim ratio on a sustained basis, along with weakening of the underwriting performance, thereby affecting the profitability and solvency buffers, would lead to a negative rating action. A rise in the claim ratio above 67% or the combined ratio exceeding 100% or the solvency margin falling below 1.65x on a sustained basis could lead to a negative rating action.

COMPANY PROFILE

Star commenced its operations in 2006. The business interests span health insurance, overseas mediclaim policy and personal accident. It has a pan-India presence, with 737 branch offices, a network of 464,000 agents, with cashless and reimbursement facilities, and over 10,870 network hospitals across India. The key promoters are Safecorp Investments India LLP (Westbridge Capital) with 45.33% stake, Rakesh Jhunjhunwala & family (17.26%) and Madison group (8%).

FINANCIAL SUMMARY

Particulars	**FY21**	**FY20**
Gross written premium (INR million)	93,885	68,651
Total equity (INR million)	34,846	18,888

Net profit (INR million)	-10,858	2,633
Solvency margin (x)	2.22	1.88
Combined ratio(%)	1.20	0.93
Return on net worth (%)	-31.1	13.9
Source: Star		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	12 November 2020	14 November 2019	5 October 2018
Issuer rating	Long-term	-	IND AA/Stable	INDAA-/Stable	IND AA-/Stable	INDA+/Stable
Subordinated debt	Long-term	INR7.5	IND AA-/Stable	IND A+/Stable	IND A+/Stable	IND A/Stable

ANNEXURE

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
Subordinated debt	INE575P08016	6 September 2017	10.25	6 September 2024	INR2	IND AA-/Stable
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				Total utilised limit	INR2.5	
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COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Subordinated debt	High

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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DISCLAIMER

Applicable Criteria

Financial Institutions Rating Criteria
Non-Bank Finance Companies Criteria

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