Star Health and Allied Insurance Company Limited

April 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Debt-Subordinate Debt	470.00	CARE AA*; Stable	Assigned
Issuer Rating	-	CARE AA+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

* CARE Ratings Limited (CARE Ratings) has rated the aforesaid subordinate debt considering the regulatory conditions and in view of their sensitiveness to the company's solvency ratio and profitability due to the regulatory covenants during the long tenure of the instrument. Interest payable on subordinate debt will be subject to the following:
• The solvency of the issuer remains as per regulatory stipulation.
• Where the impact of such payment may result in net loss or increase the net loss, prior approval of the authority for such payment will be obtained.
Any delay in payment of interest / principal (as the case may be) following the invocation of covenants, would constitute an event of default as per CARE Ratings' definition of default and as such these instruments may exhibit sharper migration of the rating.

Rationale and key rating drivers

Ratings assigned to Star Health and Allied Insurance Company Limited (Star) factor in its leading market position in retail health insurance space, comfortable solvency margins, and improving profitability metrics owing to strong underwriting practices. The rating further factors in ownership and articulation of need-based support from the promoters in the form of capital and management support via representation on board and various committees.

However, ratings are constrained by company's presence in single line of business which exposes its earnings and profitability to event risks compared to players in diversified lines of businesses.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could lead to positive rating action/upgrade:

- Ability to demonstrate growth and increase market share on sustained basis.
- Sustained improvement in underwriting profitability and overall return metrics.
- Ability to raise growth capital and maintain solvency buffers exceeding 2.2 times.

Negative factors: Factors that could lead to negative rating action/downgrade:

- Any material changes in the shareholding pattern, leading to expectation of diminished shareholder support.
- Deterioration in underwriting performance and thereby decline in profitability metrics.
- Decline in the solvency margin below 1.70x on a sustained basis.
- Significant decrease in the size of operations and market share.

Analytical approach:

Standalone

Outlook: Stable

The Stable outlook reflects CARE Ratings Limited's (CARE Ratings') view that the company will maintain its market share with continued focus on underwriting profitable business.

Detailed description of the key rating drivers:

Key strengths

Leading market position in retail health insurance space:

Star is a leading retail standalone health insurance (SAHI) company with a 13% market share in the health insurance space (GI+SAHI players) as of December 31, 2023 [Mar-23: 14%] and 46% market share amongst SAHI companies [Mar-23: 50%].

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Since the company is a retail focused player, retail business accounts to 93% of total health gross written premium (GWP) as of December 31, 2023. Considering only the retail health insurance business (GI+SAHI players) Star holds a market share of 33% as of December 31, 2023 [Mar-23: 34%]. Over the last 5 years, the company's GWP has witnessed compounded annual growth rate (CAGR) of 55% against CAGR of 19% and 26% reported by industry (GI+ SAHI) and SAHI players respectively. Over the last few quarters, with a view to improve underwriting performance and profitability, Star has consciously curtailed businesses exhibiting high claims ratios and hiked premiums across product categories. This has resulted into a moderate decline in its market share over the last few quarters.

Nevertheless, the company continues to be a dominant player within the health insurance space. Over the last few years, health insurance has emerged as growth driver of the non-life insurance industry with the segment's GWP share (within overall GI GWP) increasing from 33.2% for YTD FY22 (April- February) to 37.5% for YTD FY24 (April- February).

Star has a long-established track record of over 17 years and operates with 877 branches as of December 31, 2023 [PY.: 835] with a pan India presence. Company's agency channel consists of individual agent network of 6.84 lakh agents [Mar-23: 6.09 lakhs] and employee strength of 15,770 [Mar-23: 14,598] as of December 31, 2023, which accounted for 82% of GWP sourced during 9MFY24 [Mar-23: 82%]. As of December 31, 2023, Star had tie-ups with 48 corporate and banca agents' channel which sourced 5% of total GWP [Mar-23: 5%]. Star also has a network of 14,203 hospitals as of March 31, 2023, with 67% of the claims paid during FY23 being paid via agreed network hospital (ANH – hospital with whom company has pre decided pricing for treatments).

Going forward, company's ability to maintain its market share in the competitive health insurance space will be our key rating monitorable.

Comfortable solvency margins; supported by demonstrated ability to raise growth capital:

The company's solvency position derives support from its ability to raise timely growth capital at regular intervals both from designated promoters and via capital markets. The reported solvency margin for Star was at 2.14x as on March 31, 2023 [PY.: 1.67x] above the regulatory requirement of 1.5x, translating into excess capital of ₹1,565.86 crore. In the past, the company's solvency has been supported by internal accruals and need-based capital support from investors. In FY21, the company's designated promoters along with other investors infused total capital of ₹2,644.60 crore followed by the company raising ₹2,000 crore via IPO in FY22. The solvency is also supported by ₹470 crore of subordinate debt issued by the company.

As on December 31, 2023, Star's solvency margin stood at 2.23x [PY.: 2.17x], translating into excess capital of ₹1,960.48 crore.

Considering the company's current solvency and medium-term growth plans, the company has adequate solvency levels. Going forward, considering the company's focus on underwriting profitable business, CARE Ratings expects the company's internal accruals to improve in the medium term. This, coupled with articulated need-based capital support by the promoters provides comfort.

Improving profitability:

Star started its operations in 2006, Star had booked underwriting profits of ₹120 crore and ₹155 crore in FY19 and FY20, respectively. In FY21 and FY22, the company reported losses due to also impacted by high COVID-19-related claims payouts (loss ratio peaked to 94.44% in FY21) and due to change in accounting policy (provision method for unearned premium was changed from 50% of the premium method to 1/365 method).

Since FY23, as the business returned to normalcy, the company reported underwriting profits. The company's conscious call to curtail growth in risker geographies, repricing of premium, pausing large group business has led to improvement in claims to net earned premium (NPE) to 65.00% in FY23 [PY.: 87.06%]. Reported expense of management (EOM) to net written premium (NWP) stood at 30.33% in FY23 [PY.: 30.81%] which is below the regulatory requirement of 35.00% providing flexibility in terms of operating expense for future growth. Led by improved claims ratio and stable EOM combined ratio increased to 98.18% [PY.: 121.02%] with company booking underwriting profits of ₹205 crore [PY.: ₹-2,062 crores]. The profitability was further supported by investment income of ₹835 crore [PY.: ₹793 crore] with calculated investment yield of 6.51% [PY.: 7.68%]. Therefore, the company's calculated return on total assets (ROTA) and return on net worth (RONW) in FY23 stood at 4.53% [PY.: -9.15%] and 14.36% [PY.: -30.47%], respectively.

In 9MFY24, the company continued to report an underwriting profit of ₹181 crore [PY.: ₹269 crore] with a combined ratio of 98.25% [PY.: 96.85]. Moreover, supported by investment income of ₹791 crore [PY.: ₹616 crore], company's ROTA and RONW stood at 6.01% and 16.66% respectively.

Going forward, CARE Ratings expects the company to continue to maintain underwriting profitability with business growth. Combined ratio is expected to range between 95% and 97% going forward.

Key weakness

Single line of business:

SAHI companies operate within single line of business of health insurance which exposes their earnings and profitability to event risks compared to players in diversified lines of businesses (LOBs). While CARE Ratings takes cognisance of retail nature of Star's business which is granular and generally exhibits lower claims ratio compared to group business, the company may experience higher claims payouts in case of a specific event risk such as COVID-19 pandemic. This may increase the sensitivity of the company's profitability and solvency buffers to such risks thereby necessitating company to raise additional capital.

Liquidity: Strong

Star's investments are largely invested in fixed income securities (including central government bonds), listed equity shares and money market instruments, which are readily marketable, thereby extending it ample liquidity support. Of the total investment portfolio of ₹14,001.03 (excluding capital held in equity shares and equity exchange traded funds) crore as on December 31, 2023, 34% is held in G-secs, and 61% is held in the form of 'AAA/AA+'-rated corporate bonds. Against this, peak claims paid in last 5 years stood at ₹8,540 crore. The company reported cash and bank balance of ₹274 crore as on December 31, 2023, against which yearly interest repayment for sub debt is ₹41 crore, providing ample cover.

Assumptions/Covenants

Not Applicable

Environment, social, and governance (ESG) risks

The company is committed to sustainability, driven by a comprehensive and structured approach to understand the relevant issues impacting stakeholders and business. The company follows a collaborative approach towards business growth, wherein the company intends to elevate the standard of living of employees, communities, investors, and other key stakeholders simultaneously. Being player in health insurance space, the company is conscious about the general community's needs and the same in considered in decision-making process. This is reflected in the company's focus specifically on health, accident, and travel insurance - all characterised by quick turnaround times, high frequency, and high value claims. In addition to the above, the formal inclusion of ESG / sustainability as an additional lens through which review of the business goals helps company to introspect and identify new ways to integrate sustainability as a way of life into everyday functioning. The company's materiality assessment process for the year 2022-23 has aided in identifying key material topics on sustainability through engagement with both internal and external stakeholders. The company has undertaken a Materiality Assessment in consultation with a third-party organisation for the first time and intends to review progress on ESG initiatives under each material topic yearly.

Applicable criteria

Definition of Default
Issuer Rating
Rating Outlook and Rating Watch
Financial Ratios - Insurance Sector
Insurance Sector

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Insurance	Other Insurance Companies

Star is a PAN-India-based standalone health insurance company headquartered at Chennai, licensed by IRDA in 2006. Star is a public listed company with major shareholders being Safecrop Investments India LLP (WestBridge Capital - holding 40.40%) and (Late) Rakesh Jhunjhunwala & family (holding 17.21%). Star is a leading SAHI with a market share (based on GDP of SAHI players) of 46% and market share (including GDP of SAHI and GI players) of 13% in December 2023.

Star product offerings are retail and group health insurance cover (it has about 65 products in health portfolio), personal accident cover, and travel insurance cover. However, the company is retail focused with retail business accounting to 93% of total GWP in 9MFY24. The company has a PAN India presence via its branch network of 877 as on December 31, 2023 [PY.: 835]. The company has a base of 6.84 lakh individual agents/sales force contributing to 82% of GWP in 9MFY24, and 48 channels partners. The company also has tie-ups with 14,203 hospitals in FY23, 67% (as % of total claims) are agreed network hospitals (ANH).

Brief Financials (Rs, crore)	FY21 (A)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Gross written premium	9,389	11,463	12,952	10,286
PAT	-1,086	-1,041	619	703
Claims outstanding	859	940	842	1,061
Total assets*	10,051	12,684	14,614	15,887
Tangible net worth* (Incl. fair value changes)	3,046	3,785	4,832	5,760
NNPA (%)	0.00	0.00	0.00	0.00
Solvency margin (times)	2.22	1.67	2.14	2.23

A: Audited UA: Unaudited; Note: 'these results are latest financial results available'
*Adjusted for deferred tax assets and intangible assets

Status of non-cooperation with previous CRA:
Not Applicable

Any other information:
Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debt-Subordinate Debt	INE575P08032	29/09/2021	8.75	29/09/2028	400.00	CARE AA; Stable
Debt-Subordinate Debt	INE575P08040	28/10/2021	8.75	29/10/2028	70.00	CARE AA; Stable
Issuer Rating	-	-	-	-	-	CARE AA+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Debt-Subordinate Debt	LT	470.00	CARE AA; Stable				
2	Issuer Rating	LT	0.00	CARE AA+; Stable				

LT: Long term;

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debt-Subordinate Debt	Complex
2	Issuer Rating	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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