Date: November 04, 2024
Place: Chennai

Ref: SHAI/B & S/SE/142/2024-25

To,
The Manager
Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai – 400001
Scrip Code: **543412**

To,
The Manager
Listing Department
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot C/1,
G Block, Bandra-Kurla Complex
Mumbai – 400051.
Symbol: **STARHEALTH**

Dear Sir/ Madam,

Sub: Transcript of Q2 & H1 – FY2025 Earnings Call

Further to the Company's letter SHAI/B & S/SE/129/2024-25 dated October 14, 2024 regarding Earnings Call Intimation for Q2 & H1 – FY2025, please find attached transcript of the call dated October 30,2024.

The above information is being hosted on the Company's website at www.starhealth.in

This is for your kind information and records.

Thanking You,

For Star Health and Allied Insurance Company Limited,

JAYASHREE SETHURAMAN
Digitally signed by JAYASHREE SETHURAMAN
Date: 2024.11.04 17:29:10 +05'30'

Jayashree Sethuraman
Company Secretary & Compliance Officer

Encl: as above.

Star Health and Allied Insurance Company Limited
Q2 & H1-FY2025 Earnings Conference Call
October 30, 2024

Management:

Mr. Anand Roy – Managing Director & Chief Executive Officer
Mr. Nilesh Kambli – Chief Financial Officer
Mr. Aneesh Srivastava – Chief Investment Officer
Mr. Amitabh Jain - Chief Operating Officer
Mr. Aditya Biyani – Chief Strategy & Investor Relations Officer

Moderator: Ladies and gentlemen, good day and welcome to Star Health and Allied Insurance Company Limited Q2 & H1 FY2025 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing the "*" then "0" on your touch tone phone.

I now hand the conference over to Mr. Pratik Patil from Adfactors PR, Investor Relations Team. Thank you and over to you, sir.

Pratik Patil: Thank you, Steve. Good morning, everyone. From the senior management, we have with us, Mr. Anand Roy – Managing Director & Chief Executive Officer, Mr. Nilesh Kambli – Chief Financial Officer, Mr. Aneesh Srivastava – Chief Investment Officer, Mr. Amitabh Jain – Chief Operating Officer and Mr. Aditya Biyani – Chief Strategy & Investor Relations Officer.

Before we begin this conference call, I would like to mention that some of the statements made during the course of today's call may be forward-looking in nature, including those related to the future financial and operating performances, benefits and synergies of the companies strategies, future opportunities and growth of the market of the company services. Further, I would like to mention that some of the statements made in today's conference call may involve risks and uncertainties.

Thank you. And over to you, Mr. Anand Roy.

Anand Roy: Thank you, Pratik, and a very good morning to all of you. Thank you for joining Star Health's Q2 & H1-FY2025 Conference Call today. I would like to wish all of you and your family members a very happy and prosperous Diwali.

I will now hand over this conference to my colleague, Aditya, to take you through the company's presentations and then we will open up for questions.

Aditya Biyani: Thank you, Anand. Firstly, we would like to set the context for health industry in India. In a growing economy like ours, we believe individuals and families will experience an increase in disposable income which enables them to consider lifestyle enhancements, savings and investments in security measures like insurance, especially health insurance.

Post-COVID there has been a tremendous increase in awareness about health coverage, positioning the health insurance sector as the highest contributor to the general insurance industry. This growth has been driven by several factors like the adoption of technology, product innovation and an expanded reach alongside the rising risk of lifestyle diseases. In line with this, the regulator has envisioned insurance for all by 2047. Star Health insurance aims to ensure that every Indian citizen has access to quality healthcare through comprehensive coverage. The regulator's consumer-friendly approach while balancing all stakeholders interest, has made the environment conducive to profitable growth.

Coming to the industry overview:

The health segment remains largest in the overall GI, contributing almost 39% to the total GWP of the industry. For H1 FY'25 health insurance including personal accident industry has grown by 9.6% to reach 65,600 crore majorly driven by growth of 11.5% in Group Health and 18.3% growth in Retail Health. For Q2 FY'25 health insurance including personal accident industry has grown by 3.3%.

Star Health is committed to create innovative, affordable products for all socio-economic segments, leveraging technology and partnerships with healthcare providers to enhance service delivery.

Some of the key highlights of our business

The fresh growth is gaining strength. While the overall GWP has grown by 17%, outperforming the average industry growth, fresh growth for same period is 31% over last year's H1. The number of policy growth in fresh has been 14%, with overall number of policy growth of 9%. Agency fresh business in Q2 FY '25 versus Q2 FY '24 grew by 23%.

Fresh to renewal ratio in H1 FY'25 is 25:75. The average sum insured of new policies have increased by 6% to Rs.10.3 lakhs per policy. Rs.5 lakhs and above sum insured policies now constitute 82% of the retail health portfolio versus 77% in Q2 FY'24. Our renewal growth is also picking up. In H1 FY'25 overall renewal increased by 7% by volume, which is number of policies and by 13% by GWP compared to H1 FY'24. Price increases have been absorbed well and renewal persistency has also increased because of our wellness initiatives such as telemedicine, PHC, condition management program and continual engagement with customers on various fronts. We will continue to take calibrated price increases in products for the appropriate risk. All the channels are firing and continue to grow.

Coming to our "ABCD Engines of Growth,"

A is for Agency:

Our agency vertical contributed around 80.4% of our overall business in H1 FY'25. Our agency strength has increased to 7,42,000 agents with recruitment of almost 25,000 agents in the September quarter. We have also seen a strong 17% increase in fresh GWP in H1 FY'25 over last year through this channel. Agency activation for H1 has grown by 12% over H1 FY'24.

B is for Banca

Our Banca channel includes banks, NBFCs and alternate channels, which contributes to around 8% to our GWP in FY'25, with a fresh GWP growth of 25%.

C is for Corporate

Our Corporate Business has contributed to 4% of our overall business in H1 FY'25. As we have recalibrated our corporate business, we have seen significant growth of 231% in corporate business though over a low base.

Lastly, D is for Digital

Our digital business comprises of our direct-to-consumer and online brokers, web aggregators. This business contributed to 7.4% of our overall business in H1-FY25. Our own direct-to-consumer channel contributed 72% to GWP and balance 28% comes from online brokers and web aggregators. We have also seen a robust growth of fresh business from this channel of over 41% in H1 FY'25.

I will now talk about some of our Claims Initiatives and Outcomes,

We continue to see elevated frequency and severity, especially in medical claims. We are working on several initiatives to have the most efficient claims processing engine in the industry like hospital rate negotiations, fraud detection measures and improved cashless turnaround metrics.

The PHC contribution to total claims outgoes stands at 0.6%. We track this as an investment in wellness initiative, which will support us in the coming years with improved renewal retention, enhanced customer engagement and reduction in hospital readmission of customers. Our preventive health checks have increased by 38% in Q2 FY'25. Our anti-fraud digital initiatives which are proprietary to Star Health have yielded savings of 3% of the claims outgo as a direct result of these measures. The proportion of cashless claim with agreed network hospitals have gone up to 74% in Q2 FY'25 versus 66% in Q2 FY'24. In terms of claims amount, 79% of the paid claims are cashless in Q2 FY'25. We continue to have one of the largest hospitals networks in India and have on boarded over 14,000 plus hospitals.

Our app downloads have reached 7.4 million as on Q2 FY'25 from 4.4 million as on Q2 FY'24. Our monthly active users have increased by 115% compared to Q2 FY'24 and organic traffic to our website has grown by 27% in Q2 FY'25 versus Q2 FY'24. Our NPS score stands at 59 as of September 2024.

Coming to our New Product Launches:

We have launched a modular product, "Super Star Plan," a personalized long-term health insurance solution aimed at providing greater value and flexibility for individuals and family. This product features a five-year policy term with modular coverage that attach to customers' needs throughout different life stages, allowing for customization and scalability.

Coming to our Financial Performance for H1:

Our combined ratio for H1 FY'25 stood at 101.1% versus 98.4% in H1 FY'24. Our claims ratio for H1 FY'25 stood at 70.2% versus 67.1% in H1 FY'24. Our expense ratio for H1 FY'25 stood at 30.8% versus 31.4% in H1 FY'24. For H1 FY'25, our profit before tax stood at Rs.575 crore and our PAT for H1 FY'25 stood at Rs.430 crore. Our non-annualized ROE for H1 FY'25 stood at 6.5%. Investment income in H1 FY'25 has grown to 650 crore versus 505 crore in H1 FY'24. Solvency of the company as on 30th September was 2.24 times compared to the regulatory requirements of 1.5 times.

Now coming to the Financial Performance of Q2:

Our combined ratio for Q2 FY'25 stood at 103% versus 99.2% in Q2 FY'24. Our claims ratio stood at 72.8% in Q2 FY'25 versus 68.7% in Q2 FY'24. The expense ratio for Q2 FY'25 stood at 30.2% versus 30.6% in Q2 FY'24. Investment income in Q2 FY'25 has grown to 354 crore versus 255 crore in Q2 FY'24. The yield for Q2 FY'25 stood at 8.8% versus 7.5% in Q2 FY'24. Our investment assets have grown by 17.2% and has reached 16,431 crore in Q2 FY'25.

Our profit before tax stood at 149 crore in Q2 FY’25 versus 167 crore in Q2 FY'24. Our PAT stood at 111 crore in Q2 FY’25 compared to 125 crore in Q2 FY'24.

Basis the combination of ABCD growth engine and our 3 competitive moats, which are cost leadership, paralleled distribution network and superior in-house claim servicing, we are confident of achieving our aspiration of 30,000 crore and tripling our PAT to 2,500 crore by Financial Year ‘28.

Before we open for questions, we want to address the recent cyber incident that we experienced. As you are aware, we were the victim of a cyber attack, and although this situation has attracted much attention, we wanted to assure you that we have responded swiftly and decisively. We are working very closely with cyber security experts, regulatory and law enforcement authority to thoroughly investigate the breach, and we have succeeded in taking down the data exposed. We are also fortifying our systems with advanced security measures and controls to prevent any future incidents. More importantly, our claims processing and customer services has remained fully operational throughout this period. The trust and security of our customers is our top priority and we remain committed to upholding the highest standards of data protection. In fact, the trust that our customers placed in us is borne out by the robust fresh growth, renewal growth, agent activation and agent recruitment for the month of September and October 2024.

With all these updates, we can now open the floor for Q&A. Thank you so much.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Swarnabha Mukherjee from B&K Securities. Please go ahead.

Swarnabha Mukherjee: My first question is on the claims experience and the loss ratio. Our loss has gone up sizably not just on sequential but year-on-year basis as well by around 400-odd basis points or so. Just wanted to understand what are the factors driving this? Is it only the seasonal illness claims that is driving this or has anything spilled over from the previous quarters, on the claims management side, are there any challenges if you could highlight that and what corrective measures are you taking, what would be our loss ratio expectation as we move ahead in the year and any glide path that you may think in the upcoming quarters? I also wanted to understand how the situation is in October related to the claims? So that is the first part.

My second question, sir, is related to the impact of the price hike, at least in the financials, it is not mentioned that the price hike is percolating in terms of increasing growth in the earned premium level. Could you highlight why the premium growth is still in and around 15%-16%? Can we expect it to go up sometime in future, if you could highlight this?

Amitabh Jain: Thanks for the question. There are two, three reasons for the increase in LR. One is for the seasonal impact that happens in Q2 which you are aware about. We have roughly seen a 10% increase in our severity in Q2 and about 6% increase in frequency, largely led by increase in medical claims. Apart from that, there are two other factors that have played out in terms of the increase in LR. One is our increasing share in the group business ,you know group operates at a higher loss ratio and in group we see a slightly higher impact in this quarter. There is also some amount of the net loss ratio, there's some impact of the higher insurance arrangements for our long-term business that we had taken last year after Q2. That also has an impact. There are obvious concerns on medical inflation and that's an issue for the industry. We've been also seeing across media as you would have noticed that there are several challenges on that. We continue to invest on our network capabilities and better negotiations with hospitals. But some of these are industry wide issues and are being taken at that level and we believe that we continue to do better than most other players as far as the overall network management is concerned. If you've seen, typically in Q3 & Q4, the loss experience is better and we hope that the same trend will continue this year. The extended monsoon obviously has not helped us this year because it started pretty early and it has continued well into October which also had an impact. Some of the incidence patterns have changed this year compared to the previous years maybe because of the post-COVID era, the way it is evolving, heightened outreach by hospitals as far as marketing themselves and trying to also convert outpatients to inpatients and so on. There has also been a lot of awareness among the customers because of the cashless availability and availability of overall healthcare services. All of those factors are playing out. I think this is a year of change that we are going through and maybe we'll have to readjust to the new normal.

Swarnabha Mukherjee:

Just a follow up. Would it hence be fair to assume that in Q3 and Q4, I understand that the loss ratio experience as the seasonal illnesses weigh in, might not be as much as what we have seen in Q2 but compared to say Q3 and Q4 last year, ideally because of the other factors you mentioned, should we see an increase in loss ratio anyways over the next two quarters as well and then as a structural element, should we now think about the industry operating at a higher loss ratio and Star Health by extension?

Amitabh Jain: See, it will obviously have correction in 2-3 different ways. One is obviously more price corrections will be required and that is something that we've already started beyond what we had earlier planned. So that is something that we are doing. Also, we believe that the overall investment in wellness and telemedicine and home care services will start paying us some amount of returns over an extended period, and we are already witnessing some amount of impact in the way we are able to manage some of the medical cases. So, I believe obviously there will be some amount of changes in the way the industry operates. And finally, we have to work towards profitability as an industry. So I think loss ratios have to be controlled and managed in all these ways.

Swarnabha Mukherjee:

Your aspiration of taking group in the mix is higher. You have mentioned that it has shown some impact this quarter. Would you be able to like split the loss ratio between retail and group this quarter?

Amitabh Jain: We generally do not publish this. We see the point in group is that finally what matters is the combined ratio and typically in group as you know the expenses are lower. What we look at is the overall picture and not simply the loss ratio there. Therefore there will be some readjustment in the loss ratio versus expense ratio combination going forward as the group part grows.

Swarnabha Mukherjee: I have another question unanswered. So if that management could address it, that would be very helpful in terms of the price hike and NEP growth?

Anand Roy: See, as Amitabh alluded to, we have decided to take price hikes on products. These were earlier not as per plan. But having seen this elevated, loss ratios in some of the pockets, we have decided to go ahead with that. We have already taken a price revision in two products. One is a senior citizen and one is the young star, but of course, we are also contemplating price increases in a couple of other products this month and the next. We will keep you informed as and when we go ahead with that. Having said that, I think the growth of business is very encouraging and we are seeing growth across all the channels and we believe that whatever we are doing as far as the business strategies are concerned is paying off on all the channels that we are operating in and we believe that with the higher growth coming in, in terms of registration, the loss ratio will also fall under control over a period of time.

Moderator: The next question is from the line of Prayesh Jain from Motilal Oswal Financial Services. Please go ahead.

Prayesh Jain:

Just to continue on the point of loss ratio and combined ratio, at the beginning of the year we had mentioned our aspirations to improve the loss ratio by 50 basis points YoY and combined by 100 basis points which seems to be a stretch now. Any color on what kind of combined ratio or loss ratio should we expect for the full year of FY'25? Also Anand, you mentioned about price hikes. Would you also consider another price hike in Family Health Optima?

One more question on the group business. While you mentioned that group business is high for us, but I would assume that a large portion of that group business is banca-based because your contribution from banca is almost like 8%, so in that sense that particular piece of business ideally has a lower loss ratio versus the employer, employee. In that sense it would be great if you could give us a split between the employer, employee and banca-led products and relatively how the loss ratio kind of impact happens from the banca channel because that is something which has seen a significant increase rather than the employer, employee.

Anand Roy: Yes, there are four parameters that we track very closely as far as our business outcomes are concerned. Number one is the fresh renewal business growth. We also track the ICR and the OPEX ratio. Out of these four parameters, we are well in control on three parameters. The claims ratio is definitely elevated beyond what we had anticipated due to the seasonal effects which Amitabh mentioned. I think we will be able to deliver the target that we have set for ourselves in terms of improving combined ratio by 100 basis points for this financial year, on the OPEX side of it. On the claim side, as you rightly mentioned, it looks a little challenging. We'll have to see with our pricing strategy how we are able to bring it under control. Coming to the pricing of other products including Family Health Optima, we are considering all of this right now. We are not able to give exact dates when we will go through with this, but we are looking at all the products in terms of price correction. You might have seen that the medical inflation in the industry is very high and unfortunately, we are seeing that it is happening consistently across board without any let up, so, we will have to take price corrections when necessary. As far as group business is concerned, our bancassurance business continues to operate at a healthy level, but we are definitely seeing significant competition in the corporate groups, because of some reset and tariffs as far as property and casualty insurance is concerned, it has gone down, and we have also seen the group business prices becoming more competitive. We have always tried to focus on the smaller corporates, but there seems to be lot of pricing competition there as well. We are evaluating the corporate business strategy as we speak, how we are going to play out in the future given the pricing market the way it is operating. Having said that, I think we are very confident on achieving the annual target that we had set out to achieve 18,000 crore and we are also looking forward that the next four years will be good for the company.

Prayesh Jain:

Anand, my question was very specific on the banca share. The banca is already at 8% and that is the kind of mix on the group business. Why should the group loss ratio be impacted by increase in banca because that's generally a lower loss ratios business? That was my understanding. Correct me if I'm wrong.

Anand Roy: No, no. See in banca, we are not talking about the loss ratios. When we spoke about the group loss ratio, it is more on the corporate loss ratio, not on the banca.

Moderator: The next question is from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani:

Sir. I wanted to understand if you can share the loss ratio or the combined ratio trend for the retail industry? I believe that data is available for you because we tend to get this data on the motor side from some of your peers. At least that will help us understand how the whole industry and the retail book is moving. If that data is available, it will be very useful.

Anand Roy: Retail for the industry?

Shreya Shivani:

Yes. The loss ratio or the combined ratio for the retail health industry, if that data is available on 1Q versus 1Q, 1H versus 1Hand could be shared, it would be an interesting data point.

Anand Roy: Yes, we can give it to you offline. We have market intelligence, but we have to go by what is published by various companies and what we have is market intelligence. We can share it with you.

Shreya Shivani:

We were talking about our equation with the hospitals and that is something which is happening across. Any updates on any kind of changes in the industry practices or the private health insurers coming together to have better negotiation with hospitals, any updates on that because we continue to hear hospitals versus insurers very frequently?

Amitabh Jain: The way we are taking this up is that the industry wide effort is happening through the GI Council and there has been some progress on that. The Council has taken up the matter with specific hospitals. First of all, we are looking at how we can as an industry have a common set of understanding on various billing patterns, the billing heads, the understanding of room rent, how that can get standardized and also that across the industry it helps everyone and starts making lot of improvement in the hygiene as far as hospital pricing goes. We can then get to the next level of actual negotiation of prices across the industry or across a set of players. That is the kind of progress that is happening. These things take time, but there's been some improvement on this area.

Shreya Shivani: When can we hear something finally shaping up from the GI Council, in couple of months, quarters, any timeline, and will it be publicly available?

Amitabh Jain: I would suggest that where we can have a direct connect with the GI Council team there. Mr. Sekar is driving this on behalf of the Council and we can have that discussion but a couple of meetings have happened already and we look forward to that gaining traction.

Moderator: The next question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: My first question is around your experience so far in the medium term, the doubling of premium and tripling of profit. The doubling of premium is something you are on track probably with what is happening so far. On claim side, the question here is that you have done whatever you could, I mean, you took price hikes across portfolio last year, you have been increasing your agreed hospital network, your fraud detection systems are helping you control cost. You have been taking all the measures, but the outcome is going in the other direction probably because I mean in the post-COVID world there is perhaps a big behavioral shift, one, from the hospitals in terms of the persistent price hikes, that one expected that okay post-COVID would normalize, so that is continuing. Second from the population insured pool, probably the behavioral change in terms of seeking hospitalization even for something that can be taken care at home or OPD but there again you cannot control because that creates controversy and if you say that, okay, this particular malaria case was not to be hospitalized. Now on these two things, I mean, you do not have a control on your hospitals inflation, you do not have a control on this big behavioral shift that is perhaps leading to rising in claims frequency. You have one choice which is price hike, but price hike is so far, not being able to overcome that. Now, what are the triggers, that will make you feel that you can still be on the right track because, you have very limited levers available, so I mean the tripling of profit over the medium term, if there is so much of uncertainty in the near term, how it's going to play out? That's one.

My second question, if you can just help me with what's going to be the impact of some accounting changes regarding long-term policy, what kind of a policy gets affected and what could be the impact on growth?

Anand Roy: Avinash, I think you articulated it beautifully. This is the challenge the industry is facing in terms of the shift in consumer behavior as well as the medical inflation. In all the forums that we are participating, we are taking this up with the regulators, with the government bodies and we are hoping that something will be done, and as we have mentioned there's some effort being taken at the GI Council level as well to bring some control over this. But our immediate solution is on pricing the products as per the risk that we are exposed to and we are looking at options of cohort-based pricing where consumers will be priced differently based on their experience. I think this is something which is in the works and we plan to introduce this very quickly. Other than that, the shift in consumer behavior will be managed to some extent through our investments in wellness and prevention, which we are doing consistently, and as we have mentioned almost more than 60 to 70 basis points of our loss ratios are currently accounted in our investments on these wellness and prevention platforms. We believe that over a period of time this will start showing results and we are already seeing results presently by heightened persistency of these consumers who are engaging better with us. There are definitely green shoots here. The answer to your question is right now we have to go for more proactive product pricing which we are probably going to do in the immediate future. As far as the long-term accounting is concerned, I'm requesting Nilesh to answer it.

Nilesh Kambli: In terms of long-term accounting, it will be effective 1st of October. What will happen is the long-term policy related premium will be reported on a yearly basis. So, if it's a three-year policy, only one year GWP will be reported, one year NWP will be reported. For us the impact is NEP since we are on 1x365 basis, there is no change in the on-premium. What will happen is because the net return premium will reduce, it will have an impact on the expense ratio, the reported expense ratio while there will be no impact on the underwriting profits to be reported going forward. We believe in the industry, it will have some impact in the way things are done in terms of long-term policies.

Avinash Singh: What's your share of this long term premium currently?

Nilesh Kambli: It's around 4% to 5%.

Avinash Singh: Could you also help me out on what is the proposal of benefit product in your entire mix? Typically that would help your claims ratio, so currently what's the benefit product in your mix?

Nilesh Kambli: The benefit will be around 2.5% to 3%.There are two long term products. One is the benefit product which comes from bancassurance channel and second is the long term retail. That is also picking up. So it's a combination of both these products.

Moderator: The next question is from the line of Sanketh Godha from Avendus Spark. Please go ahead.

Sanket Godha: I want to understand will the 31% also include long-term business? If I do a clean analysis, trying to understand indemnity growth, and one year policy growth, then this 31% will translate into what kind of a number in that sense? Secondly, just wanted to understand this 31% includes how much contribution from both if it is there any? Second question is that to what extent of your business have you already taken a price hike? Assuming you are planning for a couple of more products to take price hike, then if you add up those couple of more products then eventually for the entire year what portion of business can potentially see a price hike and induction? Lastly, what portion of your investment income in the current quarter is driven by capital gain?

Anand Roy: Sanketh, couple of data points. Our policy related growth is also in double digits as far as new business is concerned. The growth is coming both in value as well as in volumes and that's what we keep tracking. We have always maintained that our business operations are more towards expanding the scope of health insurance. We are not so much dependent on portability and so on. Our portability share has remained the same as much as last year, which is around 12%-odd in our overall contribution to fresh business. It was the same last year, it continues to be the same this year. We are aggressive in markets where we want to be, but we are selective in markets where we believe it won't make sense. As far as the pricing is concerned, we have already taken product repricing in almost 10-12% of our product contribution as we speak and we plan to take in a few other products. As we exit this year I think almost 50- 60% of our product GWP will be repriced. That's what we're doing.

Aneesh Srivastava: Sanketh, in first half of this financial year, we have booked 110 crore of profits and these profits are looking at the market conditions.

Sanket Godha: And will the second quarter be similar, including first half?

Aneesh Srivastava: So you're asking me to tell you forward-looking. -

Sanket Godha: No, I'm asking for the current quarter. You said for first half it is 110 crore.

Aneesh Srivastava: Second quarter is 80 crore.

Sanket Godha: With the 31% growth, just wondering, your 14% growth is in number of policies, so that 31% growth is maybe because your long-term contribution would have gone up. So if I assume fairly that one year-to-one year product growth will still be more than 14% as a whole?

Anand Roy: Yes Sanketh, that 31% growth what we are talking about is coming from both. We are definitely pushing for long term also because we believe that long term is good both from the consumer point of view as well as the insurance company's point of view in terms of persistency. Both of long term policies is very, very kosher in our scheme of things. We are pushing for it., but, yes, if you go by only annualized policy, we will be around upwards of 25% kind of a growth rate.

Moderator: The next question is from the line of Mohit Surana from HDFC Asset Managers. Please go ahead.

Mohit Surana: The figure you mentioned around the increase in severity and frequency is of 10% and 6%. Please tell me if I'm reading this correctly, if the net incurred claims for the first half has increased by 21% YoY. Of that 10% and 6% is explained by increasing severity and frequency then around 6% to 7% will be normal volume increase. Is that the correct way to read it?

Amitabh Jain: Yes.

Mohit Surana: Can you give some color on how should we see both parameters, severity and frequency going forward?

Amitabh Jain: So as I said earlier this is basically seasonality that has played out maybe to a higher extent than what was expected. Q3, Q4 we generally see lower impact and we hope that the same will play out this year as well.

Mohit Surana: What you mentioned on seasonality will be truer in case of increase in frequency. Do we believe that the increase in severity part of it is the more structural than seasonal or do you think there is some seasonality in severity part of the increase?

Amitabh Jain: Yes, in severity also I think it's more of some correction that has happened in set of our network pricing and therefore some of it will be one-time and we believe that the impact will be lower going forward.

Moderator: The next question is from the line of Prakash Kapadia from Spark PMS. Please go ahead.

Prakash Kapadia: Two questions from my end. Earlier, we were targeting combined ratio being lower and we were also looking at retail growth being higher than SAHI players and industry. So, what are we are missing as a leader? Is it just the seasonality impact or underwriting? And from here on, if I were to look at slightly medium term, obviously, you have your target of longer term profitability and GWP doubling, so profitability tripling. In the medium term, how do we evaluate you? Is it going to be a slowdown in business and the trade-off of profitability? What is the game plan because it's slightly confusing, despite the leadership we have, we've not been able to get better combined ratios or profitability. Are we okay in slowing down growth in the near term and focusing on profitability or we think the balance of profitability and growth will be there, How do we look at say the next few quarters from here on?

Anand Roy: See, there is absolutely no thoughts or no plans to slow down the growth. Our growth continues to be the main focus area. As I've mentioned earlier, we are looking at an overall growth of 18% this year to achieve our target of 18,000 crore, for which we are very much on track. We are looking at the company's growth rate to be in line with the industry's growth rate. We are slightly behind on the retail side as we speak, but on the new business side on retail, we are definitely up there, but on the renewals because of the price impact we had last year the base effect, it's a large base, we are seeing a little slower growth in GWP. However, our persistency has definitely improved significantly over last year in terms of number of policies even on renewals, so, the growth engine and the growth aspirations continue. We don't have any thoughts of compromising on that. As far as the outcome in terms of financial, in terms of overall combined ratio and claims ratio is concerned, on the OPEX side, the company continues to be the best in the industry as far as our expense of management rates are concerned and I think it will only improve going forward with our investments that we are making in tech and other areas. As far as the claims ratio is concerned, this is a challenge the entire industry is facing and obviously being a market leader, we also face this challenge, Q2 is typically quite most impactful, but we expect that the loss ratios will improve in Q3 and Q4,. In addition to that, we are taking proactive measures in terms of product pricing, in terms of investments in our various wellness and prevention facilities which we believe will help us in keeping the claims ratio under control as what we are planning to.

Prakash Kapadia: All of us know group business always is the trade-off between lower expense ratio, but higher claims ratio. Would you still continue to grow group at a low base obviously for us, but would the growth rate continue?

Anand Roy: Yes, group business, we will continue to grow, but as I mentioned earlier, there has definitely been a very significant pricing correction in the group portfolio at the industry level. We are recalibrating our strategy on group. We will probably not like to do business which are definitely going to be loss-making, we would not like to participate in those areas, but we will continue to focus on group, especially the small and medium corporates which comes through our regular distribution channels like digital and agency.

Moderator: The next question is from the line of Supratim Datta from Ambit Capital. Please go ahead.

Supratim Datta: My first question is on the group business. Could you give us a split of what is your employer, employee and what is your attachment product, split of GWP and how both of them have grown, if you could give us some color on that, it would be helpful?

Moving to the next step, on the digital side, it seems like the digital channel percentage contribution has reduced in the second quarter. Just trying to understand what is the reason for this fall? On the loss ratio side, one point you mentioned was a long-term policy reinsurance also adversely impacting the loss ratio. Just wanted to understand that because my understanding was that this long term reinsurance actually help you offset some of the losses. So what has happened, if you could give us some color on that, it would be very helpful?

Anand Roy: Our digital business has definitely shown much higher growth in the second quarter than the first quarter and in fact it is now the fastest growing channel for us and we are investing heavily into our digital business. We probably have one of the best digital business books in the entire industry with a very significant contribution to our top line as well as to our bottom line, so we continue to invest very heavily on the digital side of things. As far as the group business is concerned, as I mentioned earlier, we have a very small portion of group business in GMC,that is employer, employee which contributes around only 3% of our overall book right now. But even in that, we have experienced deterioration of rates when it comes to mid-corporates and large-corporates which is an even smaller portion of the 3%, so, we are evaluating whether we should continue in those areas. But, as far as small corporates and the MSME is concerned, definitely, that is our focus area and we'll continue to keep investing there. As far as the long-term numbers are concerned, Nilesh, can you take that.

Nilesh Kambli: So long term RI, if you remember last year we had done it in December. So this is for long term retail policies. What we're saying is compare H1 compared to H1. Last there was no long term whereas this year it is and we have said its 50%. There is a reduction when it comes to net earned premium for long-term once the benefit comes to RI Commission. That's the comparison we're talking about, H1 versus H1. There optically because the loss ratio is seeded on an earned premium basis the loss issue gets impacted vis-à-vis last year, but in terms of profitability of that business, it continues to be a very good business line and it's just a comparison of loss ratios.

Moderator: The next question is from the line of Madhukar Ladha from Nuvama Wealth Management. Please go ahead.

Madhukar Ladha: Most of my questions have been answered, but just coming back on our growth part and our target of tripling profits 3X, right, so given how things are playing out, it seems that the industry is facing this problem of high claim ratio. Are we seeing any signs that this can change, how can we drive this change or should we settle for the fact that this retail health and health SAHI is in particular, right, that sort of 12%-14%, ROE business, even if there is some improvement?

Second, you mentioned that you're looking to take price hikes on almost 60% of the portfolio. So, what extent will the price hikes be? Can you quantify? And you've already taken price hikes on about 12% of the portfolio if I'm not wrong. What is the price hike over there? What is the quantum average work there?

Anand Roy: See, you're right, we have taken price hike of 12% and the average price increase was around 10% in these two products. As far as the future products are concerned, it might be on the similar lines or slightly higher, but as I mentioned, we are also looking at a differentiated pricing model like based on cohorts of customers experience and we are evaluating that as we speak. As the medical inflation keeps increasing in India unfortunately, insurance companies have to reprice their products to pass on the cost to the end consumers,so that will happen. But I think going forward, the way in managing the situation is by driving more traffic towards our preferred network of hospitals, by investing more in our wellness and customer engagement activities, and finally, of course, by making sure that there is a very strong industry-wide engagement with the healthcare ecosystem which we are driving definitely, which we believe will play off for the benefit for the entire industry.

Madhukar Ladha: Do you change your guidance after seeing this given that the loss ratios are so high in this year and we are seeing this problem in the industry over the next couple of years, would you like to sort of revise your guidance?

Anand Roy: So see, it's like this. I think this year we were expecting 100 basis points improvement in the combined. We had kind of planned for 50 basis points improvement in OPEX and 50 basis points improvement in claims. On the OPEX side we are confident that we will be able to do what we have planned. On the claims side that there is a heightened medical outgo for the entire company and the industry.We obviously will have to look at that as we speak. But Q3 and Q4 is typically better for all of us in the industry level and we hope that will help us,but whether we'll get to that, I would not like to comment on that. As far as our medium-term is concerned, we stick to our plans. We definitely believe that we are on track to achieve our 2X GWP by FY'28 and 3X PAT by FY'28. Those two numbers, we definitely believe we are in a position to deliver given all the corrections that we are taking.

Moderator: The next question is from the line of Himanshu Taluja from Aditya Birla Sun Life. Please go ahead.

Himanshu Taluja: Just a few questions., you hosted an Analyst Day towards June end and you've given some guidance on the combined ratio as well three-fourth. You have an adverse effect in the month of June itself, also you know that second quarter typically remains high from both severity and the frequency of the claims, at the start of the year, you decided to get in some of the group businesses, which will eventually lead to a higher loss ratio. What has typically changed so that you see more loss ratios guidance looks? Secondly, at the start of the year you always think that probably the normal combined ratio would be around 95%, 96%. We typically end up at a higher number. Is that a structural change and should one probably change the assumption and take the combined ratio towards the higher end of the assumption?

Second part to the question. Congrats for the new business premium because this is one area that you really wanted to achieve that, but you have probably taken various price hike in the past as well. Despite that we see the growth coming down from 20 towards 16, even in the past price hike your loss ratios has gone up, but you are again taking the price hike with the new business premium, but again it can eventually lead to a problem of a portability like situation where higher portability and the renewal premium growth will be subdued again. So how would you address them both and what is the new normal for us to understand?

Anand Roy: As far as our new business growth is concerned where the strategy hasn't changed, we continue to focus on new to Star Health and new to industry growth as a main driver. Portability has never been the main strategy of this company, so we don't intend to change that and thereby there is no adverse selection if you are asking about that. That is the main agenda. The second one, as far as our price revisions are concerned, yes, we did take a price revision in our FHO last year, but we did not get the full impact of it as we had anticipated, but since we are considering looking at all products for the current financial year as I mentioned, we are looking at repricing almost 50% to 60% of our products in the next couple of months. As far as the long-term outlook of this business is concerned, we strongly believe that the business growth, the opportunity of increasing insurance penetration continues to be very high. Health insurance is the focus area for all industry players, including us. As an industry leader, we think that we are in a good position to capture the opportunity which is available and with multiple things which is present, the tailwinds which is coming up for this industry in terms of a hopeful GST reduction in the health insurance products and all of that and if some kind of regulations or some kind of arrangements can be done between healthcare providers and payers, I think that will also be good for the industry. We do not see any specific long-term challenges, but we are going through a short term pain because of the heightened medical inflation we have seen and we are taking corrective measures to control that.

Himanshu Taluja: Sorry sir, I'm just trying to understand more from a combined ratio aspect. Has that probably changed because severity of the claims are rising, medical inflation is there, because what happens typically is we think that the loss ratio is likely to sustain between 60-65% where probably you will end up at 4-5% in core operating profitability eventually. I'm just trying to understand, has it changed, do you believe that potentially one should think given the medical inflation right now, one should tend towards the higher end of the curve?

Anand Roy: These are factors of multiple things. See, loss ratio cannot be looked upon in isolation, right. We have to look, as you rightly said at the combined ratio levels, and if we are able to operate in the combined ratio bands that we are comfortable in, because loss ratios are different for different lines of business, so, yes, I think structurally there has been an increase in loss ratios for the entire industry and we are nowhere away from that, so we are also experiencing the same. But at a combined ratio level, our sweet spot, we ideally want to achieve a certain level, but definitely the first half of this year is heightened. If you ask me, are we confident of getting to that level, which we want to be in, maybe a 95-96% combined ratio, which is what our end objective is, as I told you, probably, in the short-term it may be difficult, but in the mid-term it is doable for us.

Himanshu Taluja: Just one last question not pertaining only to Star Health, just for my understanding, what we are seeing post-COVID the actual number of the lives is not growing, it remains stagnant, the volume growth has not been there. Do you believe, is there a change where people are moving more towards the corporate end of the policy, the younger generation is moving towards the corporate end of the policies rather than individual? And given your market share is too high as well, unless the volume growth picks up, it will be difficult for things to normalize. Can you just put some area why the number of the lives in the industry is not growing? Has it changed people's thinking of having a more corporate version, younger generation shifting towards more of the corporate end of the policies rather than going to an individual policy?

Anand Roy: In fact, I would put it the other way. We are experiencing a very high growth in the younger generation. We are seeing our digital business growing rapidly. I don't think that's the concern right now. I can't speak for the industry. Yes, the industry is facing challenges on volume growth. But, as far as we are concerned we track volume growth closely and we are seeing good outcomes there, our volume growth is there in double digits and much higher in the digital side of things. So I don't think that's a challenge for us right now. Having said that, , most of the companies are looking at health insurance business from a top line perspective and so competition is quite intense. As a leader in the industry we believe that it is our duty to not only grow our business but to also expand the market which we are doing and we are investing more in tier 2, tier 3 cities, smaller towns, expanding our distribution in terms of branches, in terms of agents, all of that. This year also we are on track to add 100,000 new agents who will contribute to our business in the future. Hence I think these are some of the basics that we continue to invest in and we are quite confident that this business will continue to grow.

Moderator: Ladies and gentlemen, that was the last question for today's conference call. I now hand the conference over to Mr. Nilesh Kambli for the closing comments.

Nilesh Kambli: Thank you everyone for joining the call. As mentioned, we are confident of our long-term objective in terms of doubling our revenue and tripling of PAT growth. These are some of the short come challenges and we are working towards answering these challenges. Thanks a lot.

Moderator: On behalf of Star Health and Allied Insurance Company Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.