Date: May 5, 2022
Place: Chennai

Ref: SHAI/B & S/SE/25/2022-23

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.
Scrip Code: **STARHEALTH**

Dear Sir/ Madam,

Sub: Transcript of Q4 & FY22 Earnings Call - March 31, 2022

Further to the Company's letter dated April 28, 2022, April 30, 2022 and May 3, 2022 regarding intimation, presentation and audio recordings of Q4 and FY 22 Earnings Call please find attached the transcript of the call dated May 02, 2022.

This is for your kind information.

Thanking You,

For Star Health and Allied Insurance Company Limited,

Jayashree Sethuraman

Jayashree Sethuraman,
Company Secretary & Compliance Officer

Star Health and Allied Insurance Company Ltd.
Q4 & FY2022 Earnings Conference Call
May 2, 2022

Management:

Dr. S. Prakash - Managing Director

Mr. Anand Roy - Managing Director

Mr. Nilesh Kambli - CFO

Moderator: Ladies and gentlemen, good day and welcome to the Star Health and Allied Insurance Co. Ltd Q4 & FY2022 earnings conference call. As a reminder, all participant's lines will be in the listen-only mode and there will be an opportunity for you ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*'and then '0' on your touchtone phone. Please note that this conference is been recorded. I now have the conference over to Mr. Snighter Albuquerque from Adfactors PR. Thank you and over to you, sir.

Snighter Albuquerque: Good evening ladies and gentlemen from the senior management, we have with us Dr. S Prakash – Managing Director, Mr. Anand Roy - Managing Director, Mr. Nilesh Kambli - Chief Financial Officer and Mr. Vinod Rajamani - Head of Investor Relations. Before, we begin the 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 future financial and operating performances, benefits and synergies of the company's strategies, future opportunities and growth of the market of the company services. Further, I would also like to mention that some of the statements made may involve risks and uncertainties. Thank you and over to you. Mr. Anand Roy.

Anand Roy: Thank you and good evening to all of you. I thank you all for joining the Q4 & FY2022 earnings conference call of Star Health and Allied Insurance Company Ltd. I hope you, your colleagues and family members are all safe and healthy. I will give you brief overview of the industry trends and developments that we have witnessed in the last few months as well as walk you through the company's performance in terms of premium and distribution. My colleague, Dr. Prakash will cover aspects related to claims including the steps that are underway to manage them. Overall, the general insurance industry has reached gross premium of INRINR 2.2 lakh crore and registered a growth 11% for FY2022. As regards to health insurance industry there was 26.2% growth in health and auto accidental business in FY2022 over the financial year 2021 which was driven by 31% growth in Group Health business,39% growth in the Government Health Insurance business and Retail Health continued to grow infeasibly at 16.5% in FY2022 over the same period last year. With respect to Star Health, our GWP grew by 22.1% in FY2022 over FY2021 to INRINR 11,463 crore with the Retailed Health segment growing by 22.4% in FY2022 over FY2021 compared to the industry retailed health growth of 16.5% in the same period. In FY2022. Star Health has registered 33% market share in retail sales which is three times the second largest player in the industry. As far as accretion share is concern, Star Health has registered 42% market share. Agency business continues to contribute around 80% of overall business. Our agency strength has increased to 549,000 agents with an addition of 87,000 agents over last year. Corporate agents, banks and other tie-ups have also picked up momentum and the premium has grown by 63% in this segment. We had a number of positives in FY2022 on premium and distribution front. We launched several new products during the quarter including Star Women Care Policy and Star Health Premier Policy. Star Women Care

Policy, obviously covers women and their families which has many unique benefits and Star Health Premier is an offering for individuals above the age 50 years. We have seen encouraging results for both the products. As discussed during our last quarter earnings call, we have exited some of the large group health insurance policies during the quarter as evidence by the 28% reduction in group health premium during quarter Q4 FY2022 and this move should help improve profitability for us going forward. Group Health segment can be split into employer-employee groups such as large corporates and SME segment and non-employer-employee groups such as Group Master Policies for bank account holders. We remain very positive on the SME and non-employer-employee groups. Non-Employer-Employee Group policies are largely sold to retail customers of the bank and if we include these policies our overall retail growth is 23%. Our recent initiative to grow rural business has been impressive. It is proposed to be largely digital resulting in cost optimization model. Currently there are 200 branches and close to 800 one-man offices that are covered under this vertical. Health Benefit Plans including group such as critical illness and hospi-cash grew by 39%. We intensified our digital initiatives during the pandemic. Our app downloads have reached 1.46 million downloads, Digital policy issuance has been 60% in FY2022 versus 56% in FY2021. Digital sourcing defined as premium collected directly from our websites as well as third party web aggregators and online brokers has grown by 34% year-on-year and now accounts for 6% of the overall GWP for FY2022. We have launched our WhatsApp services in January 2022 in partnership with an Insuretech partner, we now have a conversational AI tool that can transform customer engagement for us on WhatsApp. We also launched sales renewals through WhatsApp the initial results are very encouraging and we will talk about it soon. We have developed an in-house machine learning model to predict whether a customer will renew his or her policy before the due date and with what probability for. The results have been very positive. This model has improved our renewal retention before the due date by approximately 3.5% and prevented revenue leakage. Quick quote engine the policy quotation can be generated easily by our agents in seconds on a user-friendly platform with minimal efforts ever since this loan out over 30,000 quotes were generated daily by our agents. Benchmarking shows that our agent's efficiency has improved over 40% and it leads to further higher agent adoption. Our new CRM includes lead direct interrogation provided for websites, customer portals, WhatsApp and our Twinkle chatbot channel along with user-interface based lead allocation logic enabled in the CRM. Language barriers and lead assignment is addressed and also Facebook ad leads and digital dialogues are enabled in the CRM. All this resulted in a 300% increase in our lead and campaign managements results. Now I would like to handover to my colleague Dr. S Prakash for claims related comments.

Dr. S Prakash: Thanks Anand. With regards to claims in Star Health Insurance for Q4 of FY2022, the claims ratio for Q4 of FY 2022 was 68.1% versus our Q3 FY2022 results of 104.6%. Q4 FY2022 claims ratio has almost normalized to pre-COVID level excluding the COVID Omicron impact. We see the trend continuing in April, 2022. The provisional claims ratio for April is around 67.6%. The combined ratio for Q4 FY2022 was 98.4% versus 135.7% in Q3 FY2022. And combined ratio for the whole year FY 2022 was 118% versus 122% for the previous year FY2021. The claims ratio for FY2022 is 87.1% and claims ratio for FY2022 and would have been 65.8% without the impact of pandemic. During Q4 FY2022, there were some impact of the Omicron wave. The COVID claim incurred during the quarter amounting to INR 1.2 billion, excluding this COVID Q4 FY2022 claims ratio is 63.9% only. I just want to brief some of the initiatives on claims. The share of hospital with the pricing arrangements, what we call as agreed network hospital, the cashless claims from these hospitals have a proportion of overall cashless claims and have increased from 55% for last year to 64%. Cashless turnaround time (TAT) that is those claims which are addressed within two hours from the time of receipt of claims documents have improved to close to 90%. For COVID claim TAT between 1 hour is close to 99%. We have initiated the process of identifying hospitals called valuable service provides. Currently, we have 1200+ hospitals, it is to help our valued customers to have hassle medical attention and quick processing of claims. Overtime, we expect to have better control on bench staffing to valuable service providers by negotiating better prices and offering a superior experience to our customers. We stepped up our telecommunication, what we call as Talk to Star close to 7 lakh consultations till date and wellness programs. 'Talk to Star' our teleconsultation has helped in cutting down claims costs by giving customer access to experienced doctors for second opinion and alternate medical solutions. So, in general, in terms of profitability Q4 FY2022 would have been a breakeven quarter excluding the impact of COVID and non-business ESOP cost. The COVID claims entered during the quarter amounted to INR1.2 billion and non-business ESOP cost was INR0.55 billion. Our investment assets have grown to INR 114 billion in FY2022 versus INR68 billion in FY2021. Investment leverage which is investment book to net worth has reached 2.4 times as on 31st March, 2022. We have further strengthened our gross IBNR 61 crore, during the quarter taking gross IBNR reserves to INR 397 crore. Solvency as on 31st March, 2022 is 1.67 times. This was expected considering Q4 FY2022 is the biggest quarter in terms of premium and the cost of acquisition is accounted upfront. As we speak, the provisional April, 2022 solvency is around 1.77 times and is estimated to improve going forward.

We have introduced seven new products and added features to seven products during this year. Our digital initiatives on sourcing and service side have given good results and we are progressing in the right direction. To conclude, ladies and gentleman our focus on the attractive retail health segment continued during this quarter. We believe that the worst of COVID in fact is behind us and things should only get more predictable going forward. We continue to believe that we are placed to take the advantage of industry's growth opportunities going ahead. Thank you so much.

Moderator: Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question, may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2'. Participants are requested to use handsets while asking a question. Ladies and gentleman, we will wait for moment while the question queue assembles. Reminder to the participants anyone who wishes to ask a question may press '*' and '1' at this time. The first question is from the line of Swarnabha Mukherjee B&K Securities. Please go ahead.

Swarnabha Mukherjee: Thank you for the opportunity and good afternoon sirs. My first question is on the retail health side on the growth wanted to know your thoughts on how you think FY2023 should turn up given that you now have 33% on the market share and have a quite sizable base going forward how do you think your growth could be on the current base?

Anand Roy: We are very focused mostly on the retail health segments and we believe that we are confident of growing much faster than the industry's growth rate as far as retail is concerned. We have been able to showcase close to mid-20s growth rate in the past and we believe that we will be able to sustain the growth rate in FY2023 also.

Swarnabha Mukherjee: Sir, the reason why I asked was because in Q4 there was slight tapering from that mid 20's level so whether this was largely aberration because of the COVID wave at the start of the period that infected the distribution or anything else to read into that also?

Anand Roy: Yeah, you are right, so Q4 of last financial year that is 2021 had a major COVID upsurge especially in the month of March and thereby the base was on the higher side. So, there was little bit of tapering on the growth rate in the current input but having said that we have been to improve our market share during the year and also accretion rates are more than 42% of the industry. So, I think we will be able to maintain the guidance which we are giving you.

Swarnabha Mukherjee: Okay, in terms of the loss ratio going ahead, so if we consider that some amount of COVID claims will continue to be there so how much can we think in terms of generally you were in that 63-65% what you have guided in terms of loss ratio. Does that include a steady state COVID claim that might come through or should we expect something like what you mentioned for April around 67.5% or so loss ratio?

Dr.Prakash: See April, we do not have the exact figure as it is only a provisional figure but it should be somewhere between 64-65% because we had only yesterday the month has come to an end. So, we do not have the exact figures for April. It should be somewhere around 64-65%. With regard to your question on the COVID 19, the impact of pandemic we had seen a progressive decline from January to March and April also is very favourable. The number of COVID claims are substantially less during April and the impact of pandemic as we could see for the whole quarter by number of claims it was around 4.7% and by amount it was around 6.3%. For the month April, we are yet to study the numbers exactly.

Swarnabha Mukherjee: Yeah, I mean Sir, what I wanted to mean was that there would be of course if COVID is continuous phenomena here on, like we will have to live with it. So, then some amount of COVID claim should also continue to come all health insurer every quarter as you mentioned here. So, your guidance of loss ratio does that bake that in or should we expect a little bit additional over and above what you guide in terms of the loss ratio? That is what I wanted.

Nilesh Kambli: Based on the experience some part of COVID is building as we spoke also that we have improved the IBNR also by INR 61 crore. So, some part of COVID is definitely built into the loss ratio that we have been projecting.

Swarnabha Mukherjee: Okay and also on the specialized product given that you have grown at a very strong rate, how were the profitability of those products and would there be any definite impact on loss ratios because they are now at around 15% of the mix.

Dr.Prakash: See for specialized products are now contributing mostly 15% of our overall retail health GWP and specialized products are doing relatively well, when we exclude the impact of pandemic, we continue to see them favourably.

Swarnabha Mukherjee: Okay, would that mean that loss ratio would be better than your blended loss ratio?

Dr.Prakash: Yes, certainly the loss ratios are expected to be much less for our traditional specialty products like cardiac care, cancer care and diabetes care policies but recently, we have introduced exclusive policy for women care taking into consideration all the women-related health care needs and this product, we recently launched may be close to 5-6 weeks now and it is very well accepted in the market. We are seeing a very good response and it is also reasonably priced high compared to our routine Family Health Optima and other Medi classic individual products.

Swarnabha Mukherjee: Okay, that’s helpful. Sir, if you could share, you had disclosed in the DRHP, loss ratio in SME and non-SME for the group business. If you could share where it stands at end of FY2022 or Q4 FY2022 and also what is the percentage of non-employer-employee business in your group business.

Nilesh Kambli: In the current year SME number is including the COVID so that is the reason, we have not disclosed it but we can share it offline, state of COVID and non-COVID. In terms of non-employer-employee with our new partnerships it has started to pick up very well. We saw traction for Feb and March and that is the growth area in the coming period.

Moderator: Thank you Mr. Mukherjee that you return to the question queue for the follow-up questions. The next question is from the line Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: Couple of questions and rather clarification, firstly on solvency, can you clarify if my understanding is correct, basically the deferred tax asset is also hurting your solvency, I mean that going forward if you return to profitability and if your PAT is going to be INR 600 crore and PBT is INR 800 crore, broadly it is the INR 800 crore that will equally to the Available Solvency Capital. So, basically my question is that okay if my understanding is correct that over a last year Available Solvency Capital is more hurt by like PBT number because it is loss and also going forward because your solvency gradually requirement will move from claims to premium. So, that is why the required solvency margin to go down. So that is the question number one. Second in terms of growth basically, let's break it down. I am telling that on the growth side and that is my second question if the overall retail health is mostly around 20% and the public sector is growing slow that means the multi-line and SAHI put together are going to grow at 24-25%. Is the target to grow in line with our multi-line and SAHI and they have the capital that is sort of going to support growth. Two question first is the solvency my clarification and second on the growth target. Thank you.

Nilesh Kambli: Avinash to answer on the solvency, yes, it is correct that once we start towards profitability, we will get the benefit of deferred tax which currently gets weighted in the year of loss. Second is, as we had spoken that with the lower claims ratio, we start moving to RSM 1 and the requirement of RSM 2 keeps on reducing, the gap between RSM 2 and RSM 1 keeps on reducing, that's beneficial and with profitability along with deferred tax the actual PBT also gets added to the net worth. So, all these three factors will contribute to the improvement in solvency and that is what we had commended that April, where we have seen around 64-65% loss ratio. The solvency has jumped up almost 10 points from 1.67 to 1.77 times provisional in the month of April and we believe it will continue to move forward in the coming months.

Avinash Singh: Yes and second question on growth then again sort of had some follow-up in the solvency. Second question on growth, are you targeting your growth to be in line with the SAHI and multi-line, if the overall sector is going to grow at 20% because the public sector is going slow. SAHI plus multi-lines will be going somewhere around 25% or something. So, what is your growth target?

Anand Roy: Yes, see Avinash, we are looking at ensuring, as you rightly said a growth higher than the industry itself. Now in the industry if you remove the public sector and only counting the SAHI and multi-line then we believe that you will be able grow at that pace or even slightly higher than that but our focus is right now not only on growth but also quality of growth that is something that we want to definitely make a change. So, we have decided that our underwriting in certain areas are getting more stringent and we are also looking at exiting certain loss making areas which I have already spoken about especially on the larger corporate side. So that will definitely have some impact on the growth but we are confident that we will be able to growth faster than the industry.

Avinash Singh: Okay thank you. Just a few follow-up because your solvency side, of course I understand but you have clarified going forward you are going to get relief from two sides. I mean of course on the Available Solvency Capital side, it is the PBT that will be aiding not just PAT. And the second part is that on the required solvency side, you are saying that initially you are because particularly in the next quarter when the delta quarter moves out in the last 12 months, your solvency requires capital so gradually move more towards the premium factor than the claims.

That put together, I think this 167% solvency should not be a cause of worry for us. Is my understanding correct?

Nilesh Kambli: Absolutely, that is where we spoke available solvency which has improved and we believe in the next 3-4 months it should be well above 1.9 levels.

Moderator: Thank you. The next line is from of Ajox Fredrick from Unifi capital. Please go ahead.

Ajox Fredrick: Hi, there thanks for the opportunity, I just have one clarification on unexpired reserves. So how do we see that number going forward. I am assuming there are two levers, one is unearned revenue and the other increased in risk reserve itself. So, what is driving this increase, particularly in Q4?

Nilesh Kambli: Yeah that is what we have been mentioning why Q4 the combined ratio is good but still it's a breakeven quarter. So, what happens in Q4 is, last quarter roughly 35-36% of our business happens in Q4. With 1/365 losses of URR, large part of it is in the reserve. Already growth on 31st March though it is part of the net written premium, everything is URR because its only one day that will expire but balance 364 days earnings will come in the next following year. So that is the reason Q4 will also have a higher URR addition to the unexpired with reserve. Having said that one has to look at the balance sheet method of URR. So, for the full-year basis net written premium to outstanding URR is around 56% and one has to look at quarterly net written premium and what the P&L impact of it on the URR. It is slightly technically we can it offline also. Quarter 4 it will always be higher URR number.

Ajox Frederick: So, if we normalize it over a year that will be well and good. Okay, I understood that. Sir, number 2 is on the non-operating expenses particularly the ESOP costs. So, what is the runway there?

Nilesh Kambli: ESOPs were granted on December 1st 2021, we said 12 months resting period, the first four months cost has come in the current year from 1st December to 31st March around INR 74 crore. The balance cost for 1st April to 30th November will come in 2022-23 which is around INR 150 crore, that is non-business expenditure it does not have an impact on the solvency.

Ajox Frederic: So, this INR 150 crore is for this year 2022-23.

Nilesh Kambli: Yeah 2022-23 balance INR 150 crore.

Moderator: Thank you the next question is from the line of Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Firstly, when looking at the growth when you are saying you will be able to grow oppose of 20%. Could you throw some light as to what would be drivers in terms of number of policies, premium increase, sum assured increase, what would be the key drivers for this?

Anand Roy: The focus will be on the retail side. As far as the distribution mix is concerned Star Health is very strong in the Agency business and will continue to be the main growth driver and our other alternate channel like bank insurance, digital as well as we have started a new vertical for semi urban and rural markets, these will also play a major role in our growth for the current financial year as well as for the future. But as far as business mix is concerned, last financial year we have been able to showcase more than 23% improvement in the sum insured of the policy that we are selling as far as new policies are concerned. I think that will remain a focus our area where we would like higher sum insured policy and that will be something that we are incentivizing our sales team to focus on that. We are also looking at some data points here where the contribution of higher sum insured policy that is 5 Lakhs and above sum insured has gone up from 50% in FY 2020 to 64% in FY2022. I think that will be the trajectory that we would like to maintain to grow our retail business. Distribution as I told will be heavily focused on retail piece.

Prayesh Jain: Sir, what are your thoughts on price. I think we took a 15% hike in our flagship where as in the previous year, what are your thoughts on price hikes in both retail health as well as group health.

Anand Roy: See as far as retail health is concerned, as you rightly said we have taken up price hike in one of our leading products in the Family Health Optima. We are also looking at revision in prices in some of our other products as we speak. We are evaluating a couple of them and probably if the case allow, we will be filing that with regulator for a price revision. But price revision is the last option for Star Health insurance we do not take it as a first option. We tried to have internal levers, to promote profitability of those products by pushing for higher sum insured and reducing incentives. But we are looking a couple of products for price revision. As far as group policies are concerned, we have already decided to be quite conservative as far as large corporate business is concerned because this segment unfortunately is loss leader as far as health insurance business is concerned. So, we are very conservative there but we are very positive about the SME segments and the other bank assurance set of groups which we are focusing on. I hope that answers your question.

Prayesh Jain: It does definitely, sir another thing was the URR question, on a full-year basis would you be prepared to presume a URR, if your industry with a growth of 20% plus and in a 35% of the business coming in the fourth quarter. Is it fair to assume a 15-16% kind of URR for the full year?

Nilesh Kambli: URR, you have to again consider as a balance sheet number. If you take the schedule 14 number, the outstanding URR divided by the net written premium. It is roughly around 56%, that is the trend which will continue in future. Then you can calculate, because it is the function of growth as well. URR is not a standalone number, it is function of growth. And when I look at that quarterly number for the outstanding URR and how it will release to the P&L.

Prayesh Jain: Okay, and Sir lastly on the claims bit again, how are seeing the severity in the non-COVID claims, have they been raising substantially, per se on a pre-COVID versus currently what is the additional severity of those claim and whether we expect this severity to go down or one more point to that would be whether any COVID related amounts are being built in those claims right now, that would be my last question.

Dr. S Prakash: The severity for non-COVID claim, if you see over a period of last four months, there is a progressive decline because I think people have got most of their medical issues addressed during the third quarter of last year and we are not seeing any fresh trend or new onset of epidemics or fever during this January, February, March and even April also. So I have a feeling that there are no major surgical procedures waiting to be addressed as we saw during Q2-Q3. Here most of the pendency are addressed. There are no fresh bouts of any infectious diseases and non-COVID claims we do not see any such in the last 3-4 months.

Prayesh Jain: Sir, my question was more particularly if I had compared like-to-like between say claim on a particular surgery, currently versus pre-COVID. How has been the severity and whether any specific COVID-related like the COVID test, or the PPE kit, are all those are still being recovered out of those, or how is the trend, has that changed?

Dr. S Prakash Overall on the non-COVID front, severity there is definitely some decline compared to the peak of the pandemic and the Q3-Q4 whatever we faced. So progressively month-on-month we could see some decrease in the severity for non-COVID claims. Although hospitals are in the mindset of charging for some of the protective equipment and COVID related tests. But we are able to have a better control with the hospitals and we could see month-on-month a progressive gentle decline in the average amount we pay per claims.

Moderator: Thank you. Ladies and gentleman in order to ensure that the management is able to address question from all participants in the conference, please limit your question to two per participant, should you have a follow-up question, we would request you to rejoin the question queue. The next question is from the line of Sanketh Godha from Spark Capital. Please go ahead.

Sanketh Godha: Sir, if you see the contribution of new business as a percentage of the total premium, what you have collected it seems to have come off to the 23% and if seen absolute numbers it has declined by 5% probably if I do a back calculation in FY2022. Sir, just wondering if new business growth remains little muted compared to overall total premium growth in retail health and largely driven by renewals. Then should we expect the loss ratios to be on the little higher side compared to what we have reported before or you are confident that the higher contribution of specialized products contributing to the entire premium which invariably has better loss ratios can compensate for any deterioration happening because of mix changing between new and renewal. That is the first question I have and the second question is again thought the solvency as you have said has improved to 1.77 times in the April month on provisional basis.

Are we revisiting our reinsurance strategy to make it more capital efficient or given you get the kind of commission from the reinsurer, any thought process on that direction or any incremental object on that direction will be useful.

Anand Roy: So, to address your question on the new business. See the new business, current year's performance is coming of a very high growth of last financial year for 2021, where the company was able to grow new business by 70% plus. So, it's purely a base effect and many of this COVID-related policies did not get renewed which were taken in the last financial year. So, it had its impact on the current year's new business growth. But we are very focused on new business and contribution of the new business and we expect that this financial year, we will be able to substantially grow the new business also and the renewal business hopefully as well. So, the accretion will be the right parameter to see how the company is performing retail premium accretion that the company has almost 42% market share and we have been able to maintain somewhere close to that and grow that also. So, I think that would be sufficient as far as our business growth plans are concerned. I will request Nilesh to talk about the other second question.

Sanketh Godha: Anand, just on the loss ratio if you expand a bit because of the mix, basically you are trying to say that the mix will go back to may be 27-28% or 25% plus kind of a percentage contribution of new to the total. Then you are confident that 64-65% kind of a loss ratio is still achievable? Just to extend the argument.

Anand Roy: Absolutely, the new business contribution will be upwards of 25% is what we are expecting and as a result of that our loss ratios traditionally have been hovering around between 64-65% we should be able to maintain that going forward.

Sanketh Godha: Yes got it, on the reinsurance Sir.

Nilesh Kambli: To add one more point, this FHO price increase that we have taken in August 2021. Jan-March 2022 is our biggest quarter, where these policies have got renewed and the benefit of this renewal will throw in the current year. The actual benefit or the biggest part of benefit of FHO price increase will flow in the current year. On the reinsurance part, we have been evaluating reinsurance but as we see that the things are improving, we have kept it is as a backup plan. Second is, as we spoke last time as well, incase if there is some urgency or COVID wave that comes in, sub-debt is an option available which will give us an immediate solvency booster. We have around INR 800 crore of sub-debt eligibility based on 31st March numbers. But sub-debt is definitely available.

Sanketh Godha: And last one, out of the total claims that are settled, how much are cashless in nature. You have said that large part are happening at the preferred network but it is that percentage of cashless claim. So out of the total claims what we settle in year or in 2022, what is percentage is reimbursement or non-cashless in nature?

Dr. S Prakash: From the cashless, there is progressively increasing response to cashless. Post the pandemic, Omicron wave, we could see hospitals opting more for cashless and by number of claims, it is around 64% cashless. Financial outgo it should be more 72-73%.

Sanketh Godha: Got it Sir, thank you very much, that is it from my side.

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

Shreya Shivani: Sir I have two questions, firstly on the gross premium growth so while if I see the growth the Star has reported in FY2019, FY2020 and FY2021 is of around 35%, 27% and 36% on gross premium level. So, while you have spoken about the levers you have, do you think these 30% plus growth level not just Star but even the SAHI players or the industry were seen due to that is something that can get repeated in the coming years of 2023-2024 or do you think that is the advantage that COVID gave you in the past years as sort of built in over there. Secondly, on the hospital network we can see that you have added around 2000 hospitals in FY 2022. If you can give a little bit flavour around these, are these hospitals more on Tier-II, Tier-III cities focused, do you get better rate in these hospitals than the rates you get from large hospital network and do you have any targets like I remember seeing a newspaper article where you spoke about, you will be adding one lakh agents every year. Sir, do you have any targets on many hospitals you will be adding to your network. Sir, these are my two questions.

Dr. S. Prakash: We are seeing a lot of interest from the hospitals to be our network providers and we do around 200 hospitals in a month for empanelment. So it is not a matter of just increasing the number of network hospitals, it is the quality of the transaction and the number of claims. So we want hospitals who are scoring well in our assessment and who are valuable service providers to participate more rather than having more and more number of hospitals. The hospitals we are increasing to have a pan India presence so that a customer from the rural or Tier-2 city also should have an access to our network hospitals. But the quality of business will depend only we will see we will have to empanel them this year. Some of them are curious to be empaneled, some of them are effectively working after empanelment, and they are having a good insurance business in their turnover. So these things we will know only after a year, but in the last financial year, 90% of the empanelment that we had whether it is a bigger hospital or a smaller hospital, we are only doing it with a pricing arrangement. Before we used to accept hospitals based on the empanelment request if they submit all the necessary documents, but now we are making it as mandate that 90% of them get empaneled with us only if they accept to our pricing arrangement. So this newer empaneled hospitals when they start working actively with us with the pricing arrangement we have, we should be able to better address this immediately.

Nilesh Kambli: To answer your first question on growth, as 22% growth was recorded for FY22 for FY2022 against a large base. Accretion is the right number for a company of our size. More important, we have been able to increase the market share from 31% to 33% and going ahead, with large base, quality of the growth is also important which we want to maintain. So we believe that 22% growth of the current year is very good and important thing is to grow higher than the market growth and keep on improving the market share.

Shreya Shivani: But you don't believe that the kind of growth that you saw -- the industry was seeing of 30%-40% in the past couple of years that you sort with you guys strengthening your underwriting and maintaining a quality of book, that would be a thing of the past, right, the kind of 30%-40% growth that you were seeing?

Anand Roy: When you compare the other companies, I don't want to name any, but you have to look at the size of the business and it is not fair to compare that Start Health has more than 65% market share in the SAHI space. So obviously the growth rates do not match. Given the quality of business and other parameters that is more important to us to now, we are looking at higher than the industry growth rates but focusing more on quality.

Moderator: The next question is from the line of Ansuman Deb from ICICI Securities. Please go ahead.

Ansuman Deb: So my question was regarding the slide number 8 that you have given in terms of the adjustments for FY2021 and FY2022, so essentially 21.3% is the COVID and the non-business ESOP cost adjustment in FY22. So remaining normative combined ratio for FY2022 would have been 96.6% odd. But in pre-COVID level, we were doing somewhere around 93%. So is this because of the higher growth and URR requirement, if you could just clarify on that.

Nilesh Kambli: What we are saying is the full year non-COVID loss ratio which is 65.8%. There are certain COVID related protocols that these patients had to follow in terms of the PPE cost, in terms of the COVID test. That is what Dr. Prakash sir answered, right. As we move on COVID impact is getting over. The severity of these claims were coming down. For quarter 4 if you see, excluding COVID, the loss ratio is 64%. I think that will be right parameter to see pre-COVID and post-COVID loss ratio. And we're confident that we will be able to achieve that in the coming period as well.

Ansuman De: So basically it is difference that you are saying seeing also has an element of COVID related impact on the non-COVID cases as well.

Nilesh Kambli: Yes.

Moderator: The next question is from the line of Devansh Nigotia from SIMPL. Please go ahead.

Devansh Nigotia: Sir, just a reclarification for ESOP cost, we mentioned INR 74 crore for FY2022. We are guiding INR 150 crore for FY23. And what would be that number for FY2020.

Nilesh Kambli: No. This is a one-time ESOP tranche given to the Chairman and CEO, which was given on 1st December and it's for a 12-month period. So this is a definite fixed cost for a 12-month period divided in two financial years between FY2022 and FY2023.

Devansh Nigotia: So beyond FY2023 currently there are no ESOP which can be exercised.

Nilesh Kambli: It's a single grant which will get vested on 30th November after 12 months period.

Devansh Nigotia: And what would be the renewal premium for us. So far I think last 4 years, we have disclosed the numbers. But let's in the period between let's say 2011 to 2017, the renewal premium based on volume and based on value if you can give just a directional number where would that number be?

Nilesh Kambli: So renewal premium as we have disclosed it in the presentation on a value basis, it is 94% for 12 months period ended FY2022. Volumes we have not disclosed.

Devansh Nigotia: Where would that number lie historically? Let's say, so for last DRHP we disclosed for 3 years and for this year, we have already disclosed. So let's say between period of 2011 to 2017, where would this range of renewals be for us?

Nilesh Kambli: It's always around 95% to 97% on a historical basis.

Devansh Nigotia: And when we say that our solvency ratio will improve, so assuming a 20% business growth, so are we clocking 20% ROEs in April, if that is the direction of profitability or if you can just share some comments.

Nilesh Kambli: The combined ratio is something which will be stable. Profitability is a function of growth and the accounting method that is used. So for Q4 with the highest business, the cost is upfront because though the combined ratio is in that range, there won't be much profit because the cost of acquisition of that business is upfront, so the profitability and the quarter will not match. It's a function of the growth quarter in which you are doing the business and the combined ratio for that quarter.

Devansh Nigotia: And there was this one off that we mentioned. So if we look at our adjustments that you mentioned for FY2022, 21.3% includes COVID claims and the one-time settlement of INR 235 crore in last quarter, correct?

Nilesh Kambli: So the adjustment that we spoke about related to COVID, so to that extent, yes. All the COVID claims are settled.

Devansh Nigotia: Sir, regarding this one off if you can just highlight because when we looked at the results of other health insurance players, this one off did not come from them. So if you can just help us understand how is our business mix different from them that we had this one off for our business? If you can just throw some light over there.

Nilesh Kambli: This one off that we spoke about it was related to COVID claims, which had come up for reimbursement settlement during Q1, Q2. And we had done certain deduction following ICMR guidelines, state government guidelines. There were grievances, there were some directions from the regulator that these are your customers and whatever hospitals have charged, you will have to honour those commitments. We're not sure, it will be definitely there for other players in some quantity, not sure how much they have disclosed it, but that was the case for us and it's within the year.

Devansh Nigotia: This question might be repetitive, but let's just for UPR adjustment, when we look at the historical numbers using the 50% method against the one by 365 that we are currently using, how would the combined ratios change in that case? Let's say, in which case it would be higher order or in which case it would be lower? In which case reported PAT would be higher or the reported ROEs will be higher? How should one adjust the historical numbers to look at how the numbers will flow for us in the next 1, 2, 3 years? Just a direction on this.

Nilesh Kambli: In terms of historical numbers, we had disclosed last three years in the DRHP FY2019, FY2020, FY2021 numbers and FY2022 numbers are also on one by 365 basis for us. Your second question on 50% profitability, now if you take URR to net written premium, it is 56%. So instead of 50% URR, you're actually at 56% URR for the current year, so that's the impact on the profitability that comes.

Devansh Nigotia: So it's just that the absorption of operating expense and commission, which is the difference between these two way of accounting because claim ratios are any which ways for the premium. If that's the right understanding.

Nilesh Kambli: Maybe you can take it offline in detail, it's very specific. We can explain you in detail in terms of how the accounting method is different from the 50% regular one.

Moderator: The next question is from the line of Madhukar Ladha from Elara Capital. Please go ahead.

Madhukar Ladha: First, sir, you mentioned that a couple of products you're looking to increase pricing on, can you give us some sense on, what extent of price increase could you be looking at and what percentage of GWP are these two products? And second I wanted to get a sense on the industry given COVID claims were very high and you would have some sense of what competition is likely to do as well. Do you think generally for the industry, we should see increases in premiums? So, some sort of comments on that will be helpful.

Dr. S. Prakash: There's 2 products that we have recently launched and one is in the pipeline. All these are products with very attractive features, which the industry has not introduced. For example, we have introduced cover for a newborn baby from day one, and the antenatal and also procedures that can be done in-natal. So very, very passionately we are introducing new features like homecare, aftercare services, and rehabilitation, pain management and that sort. So, all these things, are well accepted by the customers and we are seeing a very good response and we have also priced it appropriately so that these products, we wish it should reach around

20% of our sales in this financial year, and that should give us considerably good premium and help us to have more fresh premium, which should subsequently help us in our loss ratio as well.

Madhukar Ladha: Sir, I think you had also mentioned that you were looking to raise pricing in 2 existing products or did I sort of miss anything in there?

Dr. S. Prakash: You are right. The existing products, we are closely monitoring. One of our products is close to reaching the threshold and once it crosses the threshold, naturally, we will go for price revision. We are monitoring and it is in the pipeline. One product will be very close to like for submission for revision. The other product we'll be closely watching. As it crosses the threshold, we are going to ask for revision.

Madhukar Ladha: And sir, What percentage would those two products be of your GWP?

Dr. S. Prakash: I was telling you it should be around 15%-20% this year, all new products we are going to introduce.

Madhukar Ladha: I'm not talking about the new products, I'm talking about the existing products which are likely to reach the threshold of repricing.

Dr. S. Prakash: That'll need some time for us, because we are going to do the revision based on our actuarial calculation and it should undergo IRDAI approval and then post approval as we launch these products, we will get to know that these are all products that are contributing 10% to 15% of the premium so far. So if we are going to increase the premium by 15%-20%, so proportionately we may have some GWP benefits on that.

Madhukar Ladha: And finally, any comments on what you see likely to happen in the industry. Loss ratios have been high for the last couple of years. So are we seeing sort of a re-pricing across the board? What's your sense?

Dr. S. Prakash: The pricing is now not the only issue. There are multi-pronged approach is what we are trying to do. And there is also lots of support from the regulator in this direction. So I think, we love to look at acquiring more and more market share. So we have to optimize the price. At the same time, we will have to look at our loss ratios. So we are looking at multi-pronged approach. I don't want to reveal all that in this call. But with the new strategy that we are ideating and we are trying to implement this year, we generally look forward to a very positive outcome.

Moderator: The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir, one question is, you have displayed some competitive data and it seems like in this industry, you are much above your competitors. So do you see any sort of consolidation play happening in this industry as such? Because obviously, there are no network effects. But then, there is instance of one player of you being very large. How do you see the consolidation playing out? That is one. Second is, now we have gained some scale and we are talking about maybe doubling in the next three years. So are there any economies of scale that you see in your cost structure playing out for you, in the next three years? So while you've guided for a loss ratio of 63% to 65%, and maybe that's completely variable, but on the expense side, do you see any economies of scale playing out for you as you further gain scale from the current size?

Dr. S. Prakash : So with regard to the consolidation as such, we are in touch with the industry, and we don't find any news or we don't see any consolidation happening in the recent future. And on your second question, I'll ask CFO to address.

Nilesh Kambli: So we believe, in terms of expenses, we always ensure that the growth in business is higher than the growth in our expenses, both on the cost of acquisiton as well as the operating expenses. And we believe that these contribute to operating leverage next year as well as years to come.

Sarvesh Gupta: So do you have any sort of a plan in terms of, for example, earlier in FY2020, you were at, let's say, around 26%-27% expense ratio. So where do you see this number trending in the next 3 years?

Nilesh Kambli: So this year, our expense ratio is 30.8%. This is largely on account of the change that we had done. Earlier you should transfer 3% claim processing costs. For the current year, based on our size and scale, we have transferred 1% cost from operating expenses to claims. So 30.8% directionally it will keep on coming down anywhere between 50 to 100 basis points giving us a benefit on a continued basis.

Sarvesh Gupta: Per year.

Moderator: Ladies and gentleman that was the last question for today. I now have the conference over to Mr. Nilesh Kambli for closing comments. Thank you, and over to you, sir.

Nilesh Kambli: So thank you, everyone, for taking time this evening and joining this investor call and patiently listening to us. We look forward to a profitable and growth oriented FY2023 and the years to come. Thank you very much.

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