Date: May 04, 2024
Place: Chennai

Ref: SHAI/B & S/SE/ 32 /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 Q4 & FY 2024 Earnings Call – March 31, 2024.

Further to the Company's letter SHAI/B & S/SE/15/2024-25 dated April 18, 2024 regarding Earnings Call Intimation for Q4 & FY 2024, please find attached transcript of the call dated April 30, 2024.

In compliance with Regulation 46 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 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: 2024.05.04 15:34:36 +05'30'

Jayashree Sethuraman
Company Secretary & Compliance Officer

Encl: as above.

Star Health and Allied Insurance Company Limited
Q4 & FY '24 Earnings Conference Call
April 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 and Investor Relations Officer

Moderator: Ladies and Gentlemen, good evening and welcome to Star Health and Allied Insurance Company Limited's Q4 & FY '24 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 this conference call, please signal an operator by pressing "*" then "0" on your touchtone 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, Sagar. Good evening everyone.

From the Senior Management, we have with us Mr. Anand Roy - Managing Director and 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 and Investor Relations Officer.

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 the 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 like to mention that some of the statements made in today's conference call may involve risk and uncertainties.

Thank you, and over to you, Mr. Roy.

Anand Roy: Thank you so much and a very good evening to all of you. Thank you very much for joining us today for the Earnings Conference Call of Star Health and Allied Insurance Company for Q4 'FY24 and for the entire twelve months of the Financial Year '24.

It gives me great pleasure to interact with all of you as we closed another successful financial year in which we gained three spots over the last financial year to become the seventh largest non-life insurance company in the country.

The Indian economy has continued its growth trajectory, suggesting a healthy economic growth for FY '25. Despite strong economic growth, we still have significant part of our population uninsured and underinsured, which poses a financial risk to households and potentially limits their access to quality health care. This offers a huge opportunity for the sector to work towards the stated vision of 'Insurance for All' by 2047 by the regulator.

In line with the IRDAI's vision and to be future ready, Star Health has successfully completed all milestones of National Health Claims Exchange and Ayushman Bharat Digital Mission platform integrations. Star has custom-built the entire NHCX and ABDM stack with its in-house engineering team.

In the last two financial years, we had embarked on a conscious journey of putting risk first and growth later. Some of the key initiatives that we undertook were:

- Focus on growth in profitability through robust underwriting guidelines.
- We realigned the distribution and product mix to cater to the emerging verticals along with our core agency vertical.
- We built multiple operational efficiencies that focused on productivity improvement and cost optimization measures.
- We recalibrated the portfolio across verticals and locations and portability and pricing etc.
- Our hospital management network management measures were diligent and our efforts in rationalizing the empanelment of network hospitals and focused on increasing the agreed pricing arrangements in network hospitals.
- On technology, we made multiple investments. We are one of the leading companies in terms of tech investments in the General Insurance space. Our investment in technology, digital and analytics have improved our customer experience.
- Prevention of fraud, waste and abuse by deploying new-age technologies has resulted in better management in these areas.

The above initiatives have helped us in chalking out a path towards secular growth for the years to come. This is reflected in our retail health market share of 33% for FY '24. We continue our leadership as the largest player with a size that is 3x the size of the next largest player in the retail health segment.

On the service and distribution front, our agency network with 701 thousand agents, 881 branches, 20,000 plus healthcare footprint including 14,200 network hospitals stands testimony to our mission to provide the best services to our customers.

One more important measure where Star Health stands distinguished is on cost leadership with an expense of management, which is well below the 35% norm as mandated by the IRDAI.

I am happy to share that as a customer-centered organization, we have settled more than 1 crore claims since our inception in 2006, a first for any health insurer, amounting to a disbursal of Rs. 44,000 crore over the last 18 years.

Our in-house claims management system and adoption of new edge technologies has enabled us to process 95% of our claims in less than two hours and a 24 by 7 availability for a seamless experience. With strengthened fundamentals, we are now poised to focus on growth with profit.

Let me now elaborate further on the performance of the company:

Coming to the premium and distribution, for the twelve months ended March '24, our gross written premium grew at a rate of 18% to Rs. 15,254 crore compared to Rs. 12,952 crore during the same period last year. We are the largest standalone health insurance company in India and our share of GWP is up close to 46% of the entire SAHI insurance space. Our market share for the twelve-months ended FY24, amongst all general insurance companies, is up by 22 basis points to 5.26% versus 5.04% in the previous year.

Our agency business contributed around 82% of our overall business for the twelve months ended March '24. Our agency strength has increased to 701 thousand agents, with a net addition of 16,000 agents in the March quarter and 75,000 agents in the last twelve months.

As accessibility is the key to providing exceptional customer service, we have synergized our presence in Bancassurance and digital channels with our existing physical presence, which empowers us to cater to the needs of India, including rural India, i.e., Bharat. In order to increase penetration in the semi-urban and rural geographies, we have 1,154 sales manager stations, which are small individual service centres. With 881 branches, we have 2,000-plus customer touchpoints to ensure better service. Of the 19,000-plus PIN codes in India, Star Health is present in 17,106 PIN codes via our sales distribution network.

As regards our corporate agency tie-ups, we have now 58 tie-ups in the banks and NBFC space. This channel has contributed to around 5% of our GWP and is growing at a healthy pace of more than 39% as far as fresh premium is concerned. We expect this growth to accelerate as we move forward.

Our digital business contributes to around 6% of our overall GWP. The digital channels, which comprises of our own channels as well as third-party aggregators, have been growing at a brisk clip of 34% in fresh business. At a more granular level, 75% of our digital GWP comes from our own digital channels and the balance 25% comes from our online brokers and web aggregators.

For FY '24, we have grown by 108% in the fresh employer-employee group segment. With improvement in pricing and prudent risk selection, this segment also offers opportunities for substantial growth in the coming years.

We have received approval to start our Gift city operations, which will help us serve the needs of NRI customers as well as underwrite business for foreign countries. This will further boost our growth prospects in future years.

I will now talk about some of our claims initiatives and the outcomes:

- In terms of claims amount, 87% of the paid claims in twelve months FY '24 were cashless versus 80% in the previous year.
- Auto adjudication of claims through technology has helped us in drastically reducing our turnaround times. 34% of agreed network hospitals that equate to 75% of the overall cashless claims have been on-boarded on our auto adjudication platforms.
- Our anti-fraud, waste and abuse AI/ML models, which are proprietary to Star Health, continue to yield savings for us in terms of claims outgo. In terms of savings, we were able to attribute 1.5% of the gross earned premium as a direct result of these measures.

I will now talk about our financial performance:

- Combined Ratio: The combined ratio for twelve months ended March '24 was 96.7% and the combined ratio for the fourth quarter of FY '24 was 92.7%. Claim ratio for the twelve months ended March '24 was 66.5% and 64.1% in Q4 of FY '24.
- Expense ratio for twelve months stood at 30.2% and for the fourth quarter of FY '24, it was 28.6%.
- Investment income: Our investment assets have grown to Rs. 15,491 crore in Q4 of FY '24, showing a growth of 16% year-on-year. The yield for twelve months FY '24 was 7.7% versus 6.9% in the previous year. The investment income during FY '24 grew 34% to Rs. 1,084 crore versus Rs. 835 crore in the previous year. The investment income during Q4 also grew by 34% to 293 crore versus Rs. 218 crore in the previous year.
- Profits: Our PBT of Rs. 190 crore for Q4 of FY '24 was 39% higher than the same period last year. The Q4 PAT came in at Rs. 142 crore with a growth rate of 40% over the same period last year. The twelve months FY '24 recorded PBT of Rs. 1,129 crore, displayed a growth of 37% over the same period of last year. The PAT for twelve month FY '24 was Rs. 845 crore. This is the highest in our company's history and represents a growth of 37% over the previous year. The ROE for twelve months ended March '24 has increased to 14.4% versus 12.4% for the previous year.
- On an IFRS basis our PAT for FY '24 stands at Rs. 1,080 crore with a ROE of 17.7%.
- On solvency, we have a very strong capital base and our solvency as of 31st March '24 is 2.21x compared to the regulatory requirements of 1.5x.

A couple of key highlights of Q4 and FY '24 business highlights, with this I will end my speech:

- We registered a growth of 41% in agency fresh business in Q4 FY '24 over Q3 versus 21% of the same corresponding period of last year.
- The average sum insured of new policies has increased by 10% on a year-on-year basis to Rs. 9.87 lakhs. Rs. 5 Lakhs and above sum insured now constitute 77% of our retail portfolio versus 70% of the previous year.

- Our digitally native policy, Smart Health Pro, is showing good progress and the quarter-on-quarter growth is approximately 33% in this product.
- The share of our long-term policies within the retail GWP has increased to 6% in FY '24 versus 4% in FY '23.
- Furthering our customer-centric approach, an external agency has measured our overall NPS for the company at 56 points.
- We are about to complete one full year cycle in our FHO price hike, and the renewal numbers are holding as per our envisaged plans.
- Home Health Care program is now live in 50 cities. Star Health customers can now avail home health care services by speaking with our doctors and medical professionals who will visit their homes to provide them services.
- Prevention and wellness: Our engagement with customers on our prevention and wellness programs has seen a significant jump. Preventive Health Checks (PHCs) have increased by 250% in FY '24. Our customers are using telemedicine like never before. There has been a 45% increase in telemedicine services this year. Our condition management programme has found wide acceptance across the country.
- Customer app: As regards our Star Health customer app, we have launched a new version of this app in August of '23. Our customer app downloads have increased by 174% in FY '24 to more than 5 million plus downloads, and our monthly active users are now more than 7 lakhs average users per month. Our app rating is 4.4 on the Google Play store and 4.6 on the iOS store.
- The average age of our customers over the number of lives covered is 31 years in FY '24 as compared to 32 years in the previous year.
- Organic traffic to the website grew by 46% in FY '24 over the same period last year.
- Star Health is a certified ISO:22301 company for Business Continuity and Management Systems, BCMS, and ISO:27001 for Information Security Management Systems, ISMS, which clearly depicts a robust governance framework at an enterprise level.
- To demonstrate our ESG focus, we are able to score 43 points in the first year of active participation in the 2023 S&P Global Corporate Sustainability Assessment.

I would really like to thank all my Star Health family members for their immense dedication and the strong support from our shareholders and Board members. And last, but most important, the massive trust placed on us by our valued customers and partners that has enabled us to achieve this success.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Madhukar Ladha from Nuvama Wealth. Please go ahead.

Madhukar Ladha: I had a couple of questions. First, on the claims ratio, so we have seen some improvement in Q4 after Q3, but it's still higher than Q4 FY '23 levels. So, what is our sense in terms of how this number should be over the next couple of years given what happened in FY '24? That's my first question. Next, just the data-keeping question. Can you split the GWP between travel and PA for the full year? I think you used to give that, but it's not given this time around. That's the other one. I will come back in the queue later.

Anand Roy: So, Madhukar, on the claims ratio, see, let us all be clear, we are in the business of paying claims and we try to make sure that our claims processes are best in the industry. As we speak, our claims ratio for the fourth quarter has definitely is at 64.1% and the full year is at 66.5%. We are very confident with all the measures that we are taking in terms of our technology intervention, in terms of our network management, we will be able to bring down this claims ratio actually going forward, but we are not going to compromise our customer services when we are doing that and that is the direction given to the team.

As far as the GWP is concerned, our travel business is still very nascent. We are growing this book. We have less than, I think, Rs. 10 crore in travel insurance and our PA business is around Rs. 220 odd crore. We expect to double down on personal accident business and grow it faster.

Moderator: Thank you. The next question is from the line of Swarnabha Mukherjee from B&K Securities. Please go ahead.

Swarnabha Mukherjee: So, I have three questions. First, sir, I just wanted to understand from the net earned premium. So, net earned premium has lacked the GDPI growth in this financial year. Now that we are moving into FY '25, I just wanted to understand that assuming that say the GDPI growth remains stable at where it is around 17%, in that case how should we think about the net earned premium growth? Would it be higher than the GDPI growth this year around as the benefits of the price hike comes in or it will be something in the similar range? If you could highlight that, that is the first question.

Second is also wanted to understand what internal targets you have for this year in terms of how you want to grow and where you want to take the combined ratio for FY '25? And in terms of growth so that FY '24 had a large component coming from value growth, so how are we planning to accelerate our growth on the volume side next year, If you can give some colour?

And lastly, I have a data keeping question. There has been a reserve release on the IBNR side. So, if you could highlight what it was that for, and if this is a one-time thing, or should we expect something like that to recur in future?

Nilesh Kambli: Swarnabha, good evening. On the earned premium growth, if you see for the full year, the earned premium has gone by 15% and it's an average of growth of last year. Last year, we had grew our business by 13%. This year, it is 18%, next year, it will be an average of the growth of the two years so, we are expecting growth in line with the growth in business for next year.

In terms of value growth and volume growth, this year we have taken a substantial price increase in our flagship product, which has led to higher value growth. But with the expansion that we have done in our agency footprint with focus on digital business, Banca businesses, we expect volume growth to pick up in this year.

Swarnabha Mukherjee: Sir, would it be possible to maybe give a split between how much for the full year, the value and the volume components were in the growth, and how we can think about it in the next year?

Nilesh Kambli: Traditionally, the value and volume growth in a year where we are also going to price increase, it is typically 50-50%. This year, it was more towards value growth, but typically it will be 50-50% in terms of value and volume.

Swarnabha Mukherjee: On the growth and combined ratio aspiration, if you could give some colour?

Nilesh Kambli: The aspiration is to grow higher than the market growth rate. We expect the market to grow in mid-teens when it comes to retail health business. In the group health segment, we are focusing a lot on the SME and MSME segment. We have a 2% market share, and that segment offers a huge opportunity for growth. In terms of combined ratio, as Anand sir mentioned, currently we are at 96.5%, both on the expense ratio as well as the claims ratio, we have taken numerous initiatives, which will ensure that we will improve on this combined ratio.

Swarnabha Mukherjee: So, just to rephrase the question, so this year there were, I think, higher than anticipated claims that had come in the second quarter, I think partly in the third quarter. If we were to strip that out and try to understand what would be a normalized number of combined ratios, where would that number be?

Nilesh Kambli: I think it's very difficult to comment on that, but I mean, you know the historical loss ratios for us and this year was an exception.

Swarnabha Mukherjee: And lastly, on the IBNR review, if you could help?

Nilesh Kambli: What we published is the claim outstanding and IBNR number, which has shown a reduction compared to December. It's a function of the claims ratio. You know, December, we have seen a higher claims ratio of 68% in March, it's 64%. You know, as the inflow of claims reduces, there is a decrease in the outstanding claims because we pay the claims in less than one month and in terms of cashless claims, these are settled on a 30 days basis with the hospitals. It's a function of the claims ratio, the outstanding claims in IBNR.

Swarnabha Mukherjee: So, if I understood correctly, it is basically the provisions have now resulted in actual claims which has, where the flow has happened.

Nilesh Kambli: That's correct. The outstanding claims have got paid over a period.

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

Shreya Shivani: Sir, I have two questions. First is on the reinsurance side. So, last quarter, the reinsurance as a percentage of probably the gross premiums was at about 13%, I think. This time it's lower. The percentage has slipped. So, I'm not sure because you had said that you have changed your plan and now a bigger portion, because of the higher long-term policies, you have increased the amount of book that you are re-insuring. So, where will that percentage settle down? Whether it will be at 5%, 10%, 13%, if some clarity on that would be useful.

Sir, second is on the reserve ratio. So, you have guided earlier that usually your reserve ratio will be at about in the range of 57%, maybe 58% of the net premiums. But for this year also, it's come in a little higher at more than 59%. So, is that a steady state we should expect, or this was just one-off? Where would the reserve ratio as percentage of net premiums?

Nilesh Kambli: Last December, it was a nine-month financials. We had done a retrospective treaty effective 1st April. So, that's the reason for the quarter the ceding was higher, but on a nine-month basis, the ceding ratio was 92%, which is maintained for the full year as well, because Q4 we have ceded a similar percentage. Based on the current mix of business of long-term and benefit products where we have reinsurance arrangement, it should be in the range of around 8% to 8.5% when it comes to re-insurance ceding.

Shreya Shivani: So, on overall book for annual year, 8% to 8.5% is something that we should continue to assume, right?

Nilesh Kambli: Correct. On the reserve ratio, I understand what you are referring to is the URR outstanding compared to the NWP.

Shreya Shivani: Correct, URR divided by net written premium.

Nilesh Kambli: Net written premium. So, it was 59% last year. It continues to be 59% in the current year as well. While we have a higher growth in the long-term policies, because we have done a treaty for the long-term business, the ratio has been constant at 59%.

Shreya Shivani: Sir, this 59%, we should assume that this is the run rate, right? Because earlier I think at the time of IPO or something, I remember we had built in 57% and we were working with 57%. So, I just wanted to understand why 57% has moved to 59% and whether this will persist.

Nilesh Kambli: Basically there are two things. One is our proportion of group business was around 12% and group business is done typically in the first half of the year that's the reason the reserve to NWP ratio was lower. With the higher proportion of retail business and long-term policies, it has slightly shifted in the favour of 59% compared to 57% two years back. It's a function of the products and the business that we are writing.

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

Prayesh Jain: Sir, just a follow-up question on one of the previous participants. So, if you look at your long-term policy, how much would you have accounted for it in FY '24? And also, in conjunction with the price hike that we have taken and the impact of which would have been seen in the fourth quarter largely on the renewal policies, I would ideally assume that the unwinding would happen from URR to NEP at a much higher pace in the next year. So wouldn't the ratio be better, NEP to GWP or NEP to NWP would be on the higher side? That would be one.

Second, on the loss ratio again, in the 3Q call we had highlighted that there is a significant improvement that we had seen, and the loss ratios were much lower, but eventually the quarterly loss ratios have come in at 64% probably higher than what you would have been thinking. Any adverse movement that happened towards the later part of the quarter that kind of impacted the loss ratio? And lastly, any thoughts on growth and premiums and combined ratios for FY '25, how should we think about them? And those will be my questions.

Nilesh Kambli: On the loss ratio, you mentioned there was an improvement. So, from 68% in quarter three, it has moved to 64%, which is a 4% reduction when it comes to loss ratio. In terms of NEP and the correlation to the price increase, whatever price increase we do, it gets reflected in the GWP and NWP as well, which flows into the earned premium. It's a function of the growth in business which will be reflected in the earned premium.

In terms of growth, I think we mentioned that we want to grow higher than the market growth rate. We expect market to grow in mid-teens and we will continue to improve our market share. There are huge opportunities in the group health business as well and we will continue to improve on the combined ratio as well. This year it was 96.5% with our expense initiatives as well as loss ratio initiatives, we will have an improvement in both these segments.

Prayesh Jain: Nilesh, just on that, on the URR bit, so I definitely agree to the point that the GWP or GDP definitely and even for that matter NWP is the benefit of the price hike, but a large part of it would go into URR, right, in the month of March and that would kind of unwind into NEP next year. So, that was the question even on price hike as well as the share of long-term policy that you would have written through the period. And added to that, would it also benefit the combined ratio in any sense for next year?

Nilesh Kambli: Absolutely, Prayesh, any price increase is done to have an improvement in the earned premium which results in a lower loss ratio because the claim strength follows the actual experience in the market whereas price increase gets affected in the earned premium. It will definitely have a benefit in the coming year.

Moderator: Thank you. The next question is from the line of Nidhesh from Investec. Please go ahead.

Nidhesh: Firstly, if you can share the data on new premium growth for the quarter and followed by year? And secondly, what is the price hike you have taken, if any, in this year or you are planning to take in FY '25? These are the two questions.

The first question is the new premium growth for FY '24 and Q4 FY '24.

Anand Roy Our new premium growth is very, very strong in Q4 of FY '24. We don't disclose the data. We can talk on a one-to-one basis. But right now we are seeing very strong new business growth both on the retail side in mid-teens and also on the corporate group business side we are seeing substantial growth.

There are multiple channels which are firing for us. One is the agency channel then we have our digital channel, and of course, our Bancassurance channel. We have also strongly activated our broker channel, the retail broking piece, which we call as alternate channels, which is also shaping up well and we expect that these four verticals, which is driving growth for us, will give us good performance for the years to come.

As far as the re-pricing of any products are concerned, yes, we do have some plans to re-price couple of our products. We had thought about our Senior Citizen Red Carpet Policy and another product called Young Star Insurance Policy both of these products combined contribute to close to 10% of our GWP. We expect to take a price hike in both of these products in the first quarter itself.

Nidhesh: What would be the quantum of price hike on these products?

Anand Roy: Typically, as we have seen in the past, our price hikes varies between 15% to 25% odd percent, we expect something in that range. We are working it out right now.

Moderator: Thank you. Our next question is from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

Nischint Chawathe: First of all, the price hike that we took effective this year, how much of this benefit has flown in this year and how much will probably, some of it roll over next year? If you could kind of give some colour on that?

Anand Roy: On a portfolio basis, we would have April as the last month, which will have a direct impact on the price hike but as far as the net earned premium is concerned, that will flow throughout this financial year also because of all the policies that got renewed over the last twelve months so, there will be some positive impact on the NEP, but on the GWP basis, April would be the last one because we launched the price hike in May of last year, if that answers your question.

Nischint Chawathe: If you could give some colour in terms of proportion of business that you kind of got ported in and some colour in terms of proportion of business that got ported out to peers?

Anand Roy: We are very selective about inward portability and unlike many other peers in this business, our focus is more on expanding the market and creating fresh business opportunities rather than porting insurance from other companies.

Having said that it's not that we do not accept portability. We do, but less than 7% of our new business book is coming from portability and more than 90% is actually new to insurance business, which we believe is a better underwriting strategy in the long run to make it a sustainable growth.

Nischint Chawathe: And any sense in terms of how much would be ported out, I mean, if let's say this was not ported out, how much could your growth be or some colour on that? I am sure there is a way you track that.

Anand Roy: We do have internal trackers, but we do not have any official information, but let me just give you some picture of this. Star Health has the best persistency rates in the industry. Last year also it was no different. We were able to secure more than 98% in terms of value of our renewal book. As far as our volume-wise retention is concerned, we had predicted that because of the significant price hike we had taken on the Family Health Optima Product that there would be a drop off. We saw that drop off happening between 4% to 5% as we had predicted. So, how many of them got ported out and how many of them did not renew itself, that data, though we have some internal understanding, unfortunately we will not be able to disclose here because we don't have the data right now.

Nischint Chawathe: No issues. Just one small technical question finally. You know, I am looking at Slide 17 on IFRS disclosure and what I see is that the deferred expenses on procurement cost, now this amount has gone up, I think, almost 32% year-on-year. So, when your overall business is growing at 18% and this is growing at 32%, how should we really think of it? I see your overall expenses with commissions this year has gone up by 14%.

Nilesh Kambli: Yeah, so Nischint, here it is a function of FY '22 expenses which were booked in FY '23 and FY '23 going further to FY '24, so, it's like an earned premium thing something coming from last year, something going from this year as well. It's a technical thing and this also shows our investment in the business. While 18% is the overall growth in digital business, Banca business, we have grown much, much faster and that requires investment in terms of acquisition cost.

Nischint Chawathe: So, deferred expenses on procurement cost is essentially what? Essentially means that the expenses that under IFRS, I mean, what you have spent this year and what technically has life which you can kind of defer over a period of time. So, I believe this pertains to the business that you have done in this year, right? It has no opening balance and sort of no growth forward.

Nilesh Kambli: That's correct, Nischint, but whatever was deferred last year comes to this year and whatever business we have done in the current year, we can defer to next year so the growth in business that we have seen in quarter four, the digital business that we have done, it requires a huge upfront investment. Those can defer to for the future period.

Nischint Chawathe: So, these are net numbers is what you are saying?

Nilesh Kambli: Exactly.

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

Supratim Datta: Sir, just wanted to understand the group business has increased as a proportion of your overall GWP. If you could give us some colour how the loss ratio in the group business is currently and how different is it from FY '22 when you bid this business pretty frequently? So, if you could give us some colour on that, and what are your aspirations of building this group business as a proportion of overall GWP going forward? That's the first question.

Coming to my second question currently we have seen over the last few months a number of changes on the product design, be it lower waiting period for PEDs or lower moratorium. Wanted to understand what kind of new product development opportunities does this give and how does this change the profitability of the product? That would be my second question.

And lastly, when it comes to investment this year has been very strong when it comes to investment income. Just wanted to understand what proportion of your book is now equities and what is the tenure of your bond book? That would be very helpful.

Anand Roy: I will take the group business question and I will request Aneesh to handle the investment question. Group business actually is divided into two portions, we do underwrite employer-employee groups, mostly focused on the MSME and SME segment and that's where the aspirations to grow the business is and we have seen very, very healthy loss ratios and very profitable book. Most of this business comes from our agency channel currently, but as we speak we are really opening up the Bancassurance and broking channels as well as this particular vertical is concerned and also our digital channels.

So, as you rightly put it, we have a very significant experience of handling large corporates and group businesses in the past. We definitely are very calibrated in our strategy not to go down any loss-making in business opportunities. We will focus on the profit making opportunities in the SME, MSME and probably in the mid-corporate segment. That is going to be the sweet spot we will operate in.

Aneesh Srivastava: Our investment book which is there in equities as of 31st March was approximately 4.5% and over and above that we had around 2.2% investment in REITs and InVITs and some exposures in AIF so, that is how the book is around 6.5%. And in terms of, as I understand you are asking about the duration of the portfolio, so our core fixed income portfolio duration is 3.7 years and if we include the liquidity, so duration would be around 3.3 years.

Supratim Datta: And just one follow up here. What would be the unrealized gain sitting on the book?

Aneesh Srivastava: Unrealized gain as on 31st March is approximately Rs. 95-99 crore.

Supratim Datta: And on the regulatory side, if you could just give some clarity there?

Anand Roy: Yes, there are multiple regulatory developments happening as we speak. Many of them are in draft stages and consultation. As far as products are concerned, the regulator is keen to reduce the moratorium period from 8 years to 5 years. There is some discussion about reducing the pre-existing disease waiting periods, reduction from 4 years to 3 years and so on and so forth. So, I think all of these changes, we are obviously watching them closely and we are designing our strategies. The regulator also does allow insurance companies to take price revisions more freely nowadays. So, if that is needed to recalibrate these coverage, we will definitely evaluate that at that point of time.

Moderator: Our next question is from the line of Anirudh Shetty from Solidarity Investment Managers. Please go ahead.

Anirudh Shetty: So, my first question was essentially, we aspire to grow faster than the industry like we have done in the past. But given the current context is that we are a very dominant leader with 33% market share. And over time, there is a possibility that composite licence comes through the industry to get more competitive with life insurance getting in. So how does one think about just the levers of ability to keep growing faster on this base and the industry dynamics change?

Anand Roy: We are growing in line with our expectations. We do want to improve our market share, but as I have already articulated, we are growing with a very conscious approach of putting underwriting quality first and growth later. As you can imagine, it's not a very difficult business to showcase growth for the sake of growth. It is not very difficult for us to do that but how do you grow with quality and on a sustainable basis is the question in front of us. We believe that we have got the right formula to keep doing that.

We do have, as I mentioned earlier, four major channels which we doubled on. One is the agency channel, which is the main contributor, and we have the digital channel and, of course, the Bancassurance channel. This year, we are also looking at the group channel, the GMC channel in a larger way.

As far as the composite licence is concerned, I think this has been going on for a long time now and we have articulated our views in the past. We believe that this may happen, may not happen, we will not comment on that, but if it does happen, Star Health will be prepared to grab opportunities that comes along with this change in regulations.

I think, the kind of distribution that Star Health has, the kind of brand recall that we have and the affinity with our distributors and customers across the country, we are quite well positioned to look at other lines of businesses also because we believe that if this opportunity does arise, we will grab it with both hands.

Anirudh Shetty: And my second question is in our group business of, say FY '24, about Rs. 1,100 crore, how much would be SME vis-a-vis the large corporates?

Anand Roy: Very insignificant because we are not a large player in the large corporate space. As I mentioned earlier, we are a SME, MSME and mid-corporate player. And that Rs. 1,100 crore, which you are talking about, also includes our Bancassurance groups, which are largely retail businesses but reported under groups.

Anirudh Shetty: And just one final question is, we have done a lot in terms of using fraud analytics to reduce our claims ratios. Do you see further scope for improvement here to just using these analytics going forward or we have maxed out on our ability to make it out there?

Amitabh Jain: Yeah, so as you rightly said, this is a continuous activity and endeavour, right? As we get deeper into various layers of our business and understand where the opportunities could be to further either improve our claims' assessment quality or our efficiencies in managing those claims or our network management abilities. I think we keep discovering new aspects and this will be a journey and this is not the end.

Moderator: Thank you. The next question is from the line of Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh: So, just one or two questions. First, on this non-agency led retail sales business that you are originating incrementally, just trying to get some sense of how you envisage the combined ratio in this business a few years out. I would assume that the current origination cost in this business will be higher, but probably you would be expecting a favorable claims trend incrementally, which should probably offset that. So, just wanted to get some colour on how you see the combined evolving in the non-agency segment for the retail that is getting originated incrementally.

Second, data keeping question, if you can give the data on the share of business or number of policies with the vintage of more than four years currently versus let's say what it would have been, let's say, in 2021 or 2022, two, three years back?

And lastly, you alluded to the fact that you will be focusing on underwriting quality versus growth, and we have also seen you kind of ramping up on some of the channels out there. So, just wanted to get some sense, while you may not give a guidance, but is it fair to assume that as the vintage of the book increases, and given that the quantum of price hikes will be taking in, let's say, the next 18 months will be lower than what you took in the last 18 months, is it a fair assumption that the overall gross premium growth numbers can be dented on the growth aspect from what we have seen currently in the last, let's say, two, three quarters? Those are my three questions.

Anand Roy: Non-agency led growth largely comes from our digital channels, D2C and web aggregators partnerships it also comes from our Bancassurance and alternate channels to retail brokers. As far as the combined operating ratios of these channels are concerned, they are very, very healthy. In fact, we are investing a lot of our time and energy in growing our D2C piece because it has the best ROEs amongst all our business channels. We believe that these are definitely worth investing for a long period of time and we will continue to do so.

As far as the share of business of policy greater than four years is concerned, we don't disclose that data, but we do disclose what is our persistency. I'm sure you can figure it out. But having said that, we track different cohorts very closely. We make sure that every cohort is profitable on a combined ratio basis, and we take necessary interventions whenever it is needed in terms of price hikes, in terms of calibrating our commissions and incentives and so on and so forth.

We are an 18-year-old company, we have all kinds of cohorts already built into our business. We don't really worry about renewal cohorts. What we worry about is how do we make sure that customers have a good experience with us and how do we make sure that we keep servicing them better, the regulations today allow us enough flexibility to price our products as we need to and I think that is something that we will keep doing as we go forward.

Dipanjan Ghosh: Sir, on the growth part, how should one think of it given that next year, the year after the quantum of price hikes will be lower than, let's say, the last 18 months?

Anand Roy: Our growth has always been led by value growth 50% and volume growth 50% so, we are back to that. We expect that with the strategies that we have put in place in terms of our agency business as well as our Bancassurance and digital business, we expect that growth will be higher than the industry and definitely we hope that with our strategies, if we execute well, we will keep improving our market share as we go every year forward.

Dipanjan Ghosh: Just one follow up on the first question. You said that the return ratios on these new channels are more profitable than your legacy channels. So, when you kind of make this statement, it's adjusted for vintage. I mean, on a similar like-to-like vintage cohort basis, you are kind of making this statement, right?

Anand Roy: Absolutely.

Moderator: Thank you. Our next question is from the line of Shobhit Sharma from HDFC Securities Limited. Please go ahead.

Shobhit Sharma: Sir, I have two questions. One is on the number of policies growth. So, for the nine months period, the number of policies growth reported was close to 2%. Wherein we have seen agency channel has shown a growth of only 4% as the digital channel seems to have a flattish growth. So, what kind of growth are we looking towards these kind of channels?

Anand Roy: As I mentioned in my opening speech, our digital channels have grown at close to 40% plus in terms of fresh premium. So, that number what you are quoting is wrong.

Shobhit Sharma: Second question, sir, is on the loss ratio. We have reported a better loss ratio down 4% quarter-on-quarter. So, can you give us the sense that why this loss ratio is down? Is this because of the claim cost inflation which has reduced or is there a fall in incidence rates?

Amitabh Jain: There is an overall increase, yes, but the loss ratio also consists of our expenses on things like preventive health checkup, wellness initiative, the OPD business and claims. Also, the share of group health business has grown where it works on a higher loss ratio while on the combined still works for us because the expense ratios there are lower. So, all of those have contributed to the increase in loss ratio and some of these are like the numbers you would have seen in the initial address on preventive health checkups and tele-consultation, there are very, very significant increases that have happened and this is all an investment in the future so that our future book can be much better and those are the kind of things we are doing. So, nothing really is a major cause of worry.

Moderator: Thank you. Ladies and gentlemen, we would take that as our last question for today. I would now like to hand the conference over to Mr. Nilesh Kambli for closing comments.

Nilesh Kambli: Thank you everyone for joining the call. It was a year of transition for us with the new CEO starting FY '24 and the significant price increase that we took in the FHO segment, the introduction of EOM regulations and the various initiatives of the regulator as well. With the 37% growth in PAT, in FY '24 we are fully geared up to deliver stronger growth and a strong financial performance for FY '25. Thank you very much.

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