Star Health and Allied Insurance Co. Ltd.

Date: August 2, 2023
Place: Chennai

Ref: SHAI/B & S/SE/ 95/2023-24

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 Q1 FY24 Earnings Call – June 30, 2023.

Further to the Company's letter SHAI/B & S/SE/86/2022-23 dated July 25, 2023 regarding Earnings Call Intimation for Q1 FY 2023-24, please find attached the transcript of the call dated July 28, 2023.

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

This is for your kind information.

Thanking You,

For Star Health and Allied Insurance Company Limited,

JAYASHREE SETHURAMAN
Digitally signed by JAYASHREE SETHURAMAN
Date: 2023.08.02 17:55:50 +05'30'

Jayashree Sethuraman,
Company Secretary & Compliance Officer

Star Health and Allied Insurance Company Limited
Q1 FY'24 Earnings Conference Call
July 28, 2023

Management:

Mr. Anand Roy – Managing Director & Chief Executive Officer

Mr. Nilesh Kambli – Chief Financial Officer

Mr. Amitabh Jain - Chief Operating Officer

Mr. Aneesh Srivastava – Chief Investment Officer

Mr. Aditya Biyani – Chief Corporate Strategy and Investor Relations Officer

Moderator: Ladies and gentlemen, good day and welcome to the Star Health and Allied Insurance Company Limited's Q1-FY2024 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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, Mr. Pratik Patil.

Pratik Patil: 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. Amitabh Jain – Chief Operating Officer, Mr. Aneesh Srivastava – Chief Investment Officer, Mr. Aditya Biyani – Chief Corporate Strategy &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's services.

Further, I would like to mention that some of the statements made in today's conference call may involve risks and uncertainties. Thank you and over to you Mr. Roy.

Anand Roy: Thank you and good evening to all of you. Thank you for joining Star Health's earnings call today. My name is Anand Roy, I'm the MD and CEO of the company.

I will first give you a brief overview of the industry trends and the 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. Later on, I will cover the financial performance and aspects related to claims, including the steps that are underway to manage them.

In Q1 FY24, the health insurance industry, including the personal accident business has grown by 21%, driven by 23% growth in group health and 18% growth in retail health.

Now we will talk about the growth and market share of Star Health.

For 3M-2024, that's the quarter one, our overall growth is 20%. Our retail growth rate is 19% versus the industry's retail growth rate of 18% during Q1FY24.

In Q1FY24, Star Health registered a 32% market share in retail health, which is more than 3x the second largest player in the industry. We aspire to grow higher than the market growth rate and increase our retail market share in the future.

As far as our accretion share is concerned, Star Health has registered 33% retail health accretion market share in Q1FY24.

Our agency business continues to contribute around 81% of the overall business. Our agency strength has increased to 6,42,588 agents with a net addition of 16,728 agents in the first quarter as compared to FY23.

In Q1FY24 our corporate agents, that is banks and other tie-ups continues to remain very strong and the premium has grown by more than 35% from this channel over Q1FY23.

Some of the highlights in the first quarter for us were as follows:

As far as premium and distribution is concerned, we have taken a price hike in the Family Health Optima plan, where the renewal pricing was effective from 1st May,2023. We are very happy to inform that the policy renewal in terms of both volume and value are in line with our expectation.

We continue to focus on our digital initiatives and we continue to make substantial strategic investment in the digital areas. The outcomes are:

- Our fresh digital business has grown by 26% in first quarter over the previous year first quarter.
- We have relaunched our Star Power app as the Star Health app. The key features of the Star Health app differentiated journeys of policies for policyholders and non-policy holders. Instant and scheduled call with our free telemedicine services which we call as Talk to Star. The management of family members of the policyholders are also made very simple. The network hospital search has been made simple for customers to access the nearest network hospital to them.
- The organic traffic to the website grew by 48% in our first quarter over the same period last year.
- Our brand campaign saved the savings, was well received and it has led to a 3.5% uptick in the buying consideration of the target segment.
- The dynamic QR code introduced on all our policy renewals and also on our digital platforms will ensure that the customers can now renew policies at the click of a button and it will also lead to cost savings in terms of collection cost.

We have tied up with AU Small Finance Bank, Bank of Maharashtra, and Godrej Housing Finance during the quarter which will further expand our reach and also strengthen sales of our higher sum assured policies. With the new expense of management guidelines provided by the IRDAI, this provides an immense growth opportunity for us.

In order to reach newer geographies, we have identified almost 1000 sales manager stations which are located in semi urban and rural areas. These are small individual service centres of which 410 have already become operational during the first quarter. The expenses of management regulation gives us a lot of flexibility to gain in the Banca and alternate channel business areas along with our agency channel.

The average sum assured of our new policies has increased by 10% on a year-on-year basis which now stands at Rs. 9.5 lakhs on average. Five lakhs and above sum insured now constitutes 76% of the retail health portfolio versus 69% in the first quarter of last year.

The premium from benefit plans have grown by 29% in the first quarter. The share of such products within the overall GWP has increased by 17 bps to 2.5% in the first quarter of FY24.

I will now talk about the claims initiatives and the outcomes:

61% of the number of paid claims in the first quarter are through cashless, versus 56% in the first quarter of last year. In terms of claims amount, 84% of the paid claims in Q1FY24 were cashless versus 80% in Q1FY23. Cashless claims settled within two hours came in at around 94%.

Auto adjudication of claims through our investments in tech has helped in drastically improving turnaround times and thereby improving customer satisfaction. 28% of our agreed network hospitals representing 67% of cashless claims have been onboarded under these initiatives. The number of such claims settled has risen to 60,000 in Q1 of FY24, a growth of 34% versus Q4 of FY23. So, on a sequential basis, it has grown by 34%.

We continue to improve on the claims related milestones. Within overall cashless claims the share of hospitals with pricing arrangements that is agreed network hospitals, cashless claims is 61% versus 56% in the Q1 of FY23.

As you will be aware, fraud control is one of the critical factors to address in a health insurance business, especially in a retail health insurance business like ours. Our anti-fraud digital initiative has started to produce savings in claims outgo. There's a 0.9% incremental benefit in terms of lower claims ratio in the Q1FY24 and SAS has assisted in 80% of those cases.

Claims initiatives plan to bring efficiency or reduction in readmission, home health care initiative, it is a very innovative initiative that we have taken. First notice of loss initiative through app for remote and virtual survey, which will help us to advise customers on appropriate hospitals nearest to their homes.

Our financial performance, we are focused on sustainable profitable growth and taking decisions to achieve that goal. Our combined ratio for Q1FY24 has improved to 97.80% versus 98.24% in Q1 of FY23. Improvement in combined ratio is achieved through claims ratio improvement. The claim ratio for Q1FY24 has improved by around 1% to 65.4% versus 66.3% in Q1FY23.

The expense ratio has slightly increased in Q1FY24 to 32.4% versus 32.0% in Q1FY23 mainly on account of the Fixed cost vis a vis Q1-2024 being a smaller quarter in terms Gross premium.

Our investment assets have grown to Rs. 13,303 crore in Q1FY24 versus Rs. 11,463 crore in Q1FY23. With a rise in interest rates, fresh investments are deployed at a higher yield and realization of profits on ETFs, the yield for Q1 FY24 rising to 7.45% versus 7.11% in Q1 of FY23.We continue to invest in equity portfolio through ETFs. The investment income in Q1FY24 grew by 23% to Rs. 250 crore over Q1 of FY23 of Rs. 204 crore.

Q1FY24 recorded a profit before tax of Rs. 384 crore versus Rs. 288 crore reported in the Q1 of FY23. Our profit after tax in the first quarter of FY24 came in at Rs. 288 crore versus Rs. 213 crore in the first quarter of FY23, representing a growth of 35% in our PAT numbers. Non-annualized ROE for the quarter has increased to 5.2% compared to 4.6% in Q1 of FY23.

Solvency as on 30th June is 2.18 times compared to the regulatory requirement of 1.5 times. This solvency has been achieved despite availing only the 4% mandatory reinsurance.

To conclude, we at Star Health continue to invest in the profitable and sustainable growth opportunities available in the health insurance segment and we are on our desired path of realising the same. Thank you so much and now we are happy to take your questions.

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

Swarnab Mukherjee: So, I have two, three questions. First on the new business side, new business numbers have not come up yet. So, I just wanted to understand whether we are facing any kind of challenges in terms of new business, whether is this in terms of where the pricing of our policies are? Or is there any other kind of headwind that are there, if you could explain that. And what are the steps you are taking regarding that?

Also, the second question is in terms of the renewal rate. So, while you have given the renewal rate number in the presentation, I wanted to understand that in terms of number of policies, how should we see it or if you could give us the growth in the overall number of policies, it could also be very helpful.

Also, thirdly, it terms of the cost side, I see that there has been a jump in the advertising cost. As you had mentioned that the increase in the cost ratio is primarily due to the fixed cost base.

So, should we then expect that advertising cost run rate to be similar for the remaining part of the year. And on the employee cost base also if you could explain what the run rate could going ahead and how the variable cost is accounted for? So, whether it is apportioned over the year or it is taken in the fourth quarter?

And lastly on the commission ratio, it has come down. So, how should we read this? If you could highlight whether this is the reason of the mix of group versus retail.

Anand Roy: As far as new business is concerned; the company has registered a growth of 15% in our new business. We have taken some strategic shifts in our new business and in business planning. We have kind of tightened our underwriting standards in certain areas. We have taken a risk based price hike in our FHO product. We are incentivizing our channels for better outcomes. So, that will be the long-term strategic shift that the company has taken. But having said that, the new business continues to grow fairly for us and we are very confident that we will continue to grow at a good rate.

As far as our renewal rates are concerned, we have seen very good retention rates as I mentioned already in my opening remarks. The FHO price hike which we had taken, we had anticipated a drop of 4-5% in our number of policies, which typically used to happen when we took a price hike earlier in FY17 but we are seeing the initial results are very encouraging and the drop-off rates are much lower than what we had anticipated so, in that context, it seems to be a good beginning.

Nilesh Kambli: We are doing strategic investment in people and technology which is a part of the digital initiative that we're taking, so this advertisement and publicity are part of the digital initiative and we continue to invest in this channel. The absolute amount of fixed costs, it's on a sequential basis. The investment in people that we have done, and the salary increments, typically which happens as the new year has begins, that has led to an absolute cost increase compared to last year. One needs to compare Q4 versus Q1, because fixed cost is sequential. We are well on target to achieve the full year fixed cost budget. So, it's more a temporary Q1 phenomena, because the GWP ends up lower, in the beginning of the year.

Swarnab Mukherjee: In terms of the commission ratio?

Nilesh Kambli: See commission ratio again, with digital business also picking up now, it will slightly trend lower.

Swarnab Mukherjee: Can this be the run rate that we assume for the rest of the year.

Nilesh Kambli: See what has happened, with this is EoM regulations coming in, we are looking at a new structure. So, while the overall expense ratio will be similar, while we continue to invest, there can be structural shift between opex and commission, but the overall cost structure will be in line with our targets.

Moderator: We have the next question from the line of Avinash Singh from EMKAY Global.

Avinash Singh: Couple of questions. The first one is on the claims ratio. Given that from May, 2023 you took price hike in renewal as well and you had already increased prices of FHO. So, with some kind of adjustment in prices, why is still the sort of a claims issue, again, it's not the way of, but one would have expected claim ratio to improve a bit better on annual basis, because the price hike is also coming into picture and then of course, your more or less normalization in claims are very normal, you are now coming into picture.

So, can you explain, I mean despite the price hike, I mean claims ratio, they are still a bit on the sort of inflated side, that's one.

Second, on the retail health, of course you have repriced. Can you sort of comment on competitive intensity in the market, whether, you know, either it's the pricing or the payouts are concerned, because now of course other new EoM regulation. Of course, earlier also there were certain practices, but you are officially -- the commission cap is now moved to overall cap. And also, everybody is chasing, I mean from SAHI'S to multiline, everybody chasing retail health. So, how is the pricing environment as well as the, you know, the competitive environment of the distributors?

Nilesh Kambli: To answer the first question in terms of claims ratio while we have taken the price increase which is effective 1st May, 2023 the benefits in terms of earnings, we follow the 1/365 approach. So, the earning benefit will come only second half onwards. In fact, we are very happy that in spite of price rise kicking in only in 1st of May, 2023 we are able to reduce the loss ratio by almost 1% compared to last year. Inflation has moved by one year, but since we're able to reduce the loss ratio, this is a good achievement, is what we believe.

Anand Roy: As far as the competitive intensity is concerned in retail health, we have been seeing extremely intense competition in this business for the last two to three years. It's not something new. Of course, now with the new EoM structure kicking in, I think Star Health has a benefit, because we have the levers now to enter into segments where we were not very active earlier, while at the same time our competitors may have to bring down their cost structures to comply with the regulations. So, I think you know we are already operating in a very highly competitive environment and we are able to grow faster than the industry and maintain our market share and in fact improve upon it. So, we don't see that as any particular challenge right now. In fact, I think it will be beneficial for us.

Avinash Singh: You have a lot of large public sector bank as your banka partner. Do you see sort of a potential for higher growth in that, because that would be generally under penetrated channel, but at the same time the channel performance is somewhat lower. And do you sort of offer just a retail product or offer certain kind of a group product for their customer that is basically kind of a in nature retail, but offered as a group? So, do you see any sort of growth improving there by tweaking products?

Anand Roy: We are very lucky to have some of the leading public sector banks with us as our partners. There's a lot of opportunity to engage with them even closely and increase our book size there. The strategy for us is mostly on the branch banking on these banks. It is largely retail products, but offered on a group platform. So, individual customers buy it, but the product is constructed on a group platform and I think that will continue. What we are seeing is very high levels of engagement with all of these banks, the management of the banks are extremely happy. We are the largest player in all these bank relationships as far as health business is concerned. Most of the banks have renewed their contracts with us for three years or even six years, like Punjab National Bank. So, this will be a good avenue of growth for us as we go forward.

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

Shreya Shivani: I have three questions. First is on the loss ratios and I'm sort of repeating this question over here. So, apart from the price hike, the way I was trying to understand was that, last quarter we had a loss ratio of 62%. First quarter generally doesn't have any seasonal diseases etc. In second quarter, third quarter, we will have some impact of seasonal diseases. So, what one would expect was that the loss ratios should have been higher in second quarter and third quarter and this quarter should have been a much more normalized, if not as close to fourth quarter, because I understand the reserve accounting, the way it functions. It shouldn't have been significantly higher than fourth quarter. And I also want to understand why the IBNR reserves has also increased much more than what you have generally seen in the previous 1Q.

Second question is on the growth rate. So, the retail book last year, not the overall book, just the retail book last year was growing at 18% without any price hike, only the new business got a price hike last year. So, now this year when you are growing retail book, the retail book is only growing at 19-20% in spite of the price hike that we have taken. So, shouldn't the price hike have added a few more percentage points to the growth rate? I mean I'm just not able to match the numbers between the growth that is coming in and the better improved renewal ratios that you're talking about or the improved retention ratios that you're talking about.

And the third question is simply, one of the peer private general insurer reported their result and for them the commission ratios and the other opex ratio has sort of switched places. And it seems like that you know the impact of EoM guidelines have finally come in and the commission ratios are rebasing everywhere. So, I was just wondering whether that didn't happen for the health insurance segment, because your commission ratios are largely in line with what we've seen historically. And since when do we expect that commission ratio to start reflecting the change.

Nilesh Kambli: In terms of loss ratio, we have always mentioned that Q4 is our best quarter because of the non-existence of any epidemics, the loss ratio is better. When it comes to Q1 typically, there are no epidemics, but there are elective surgeries which takes place. And you know while the frequency is lower, the severity is higher. We have seen that the loss ratio is typically higher compared to Q4. But that's the primary reason of Q1 loss ratio, which is higher. But if you see for us it's an improvement compared to last year as well, which is a good sign. In terms of IBNR and outstanding results, you know IBNR we have a reduction this time, because the cashless claims have proportionate increased. As we had mentioned in the script from 80% to 84%. On an overall basis, you know, claim outstanding is a function of cash settlements in the hospital. So, that's an ongoing, number depends upon when the due dates for this hospital payments come through.

In terms of the commission ratios, you know we are an agency heavy business. So, while other GI players it can shift between opex and commission. But for us, it's an agency heavy business, which is always, you know, Commission were always paid. So, for us there will not be much of an impact going forward in this. There's a slight movement between OPEX and commission, but nothing major will kick in.

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

Prayesh Jain: Firstly on the Opex front, you know while you mentioned that you are making investments. So, you know whether this kind of run rate will sustain, even if you look at the employee cost on a YoY basis, it's a higher by around 29% right. And that's some significantly high number or 29% jump in employee cost. Could you break it down for us in the sense that, you know, how many employees you would have added over this period and what kind of hikes that you would have given and what is the variable cost jump that you would have given in this period? So, that will help us understand better as to what could we expect going ahead from here on.

Second is, with regards to the network hospital agreed rates, what would be the trend that you would have seen with regards to all these charges or surgery cost that would have happened to increase, that would have happened say in the last couple of quarters particularly. And would you say that whatever increase that would have happened would have been adequately priced by you guys.

And lastly with all the movements in the growth, possibly being on a slightly on the lower side and what we are working with expenses on the higher side, would you still maintain your guidance of 20% YoY growth in premiums and loss ratio of 63-65% and a combined of 93-95%?

Anand Roy: As far as the employee cost is concerned, we have invested a lot in our digital business and when I say digital, it's not only about the digital marketing, it's also about the digital operations of the company. We have on boarded close to 30 engineers and very senior leaders on the technology side and these are investments that are being made for the long-term structural shift which the company is going through in terms of digitizing its processes to improve the customer experience and also lower cost. But if you look at it sequentially, I don't think the employee cost has gone up so much. If you look at it quarter-on-quarter to previous year, definitely it look higher. But having said that, we are very confident on the growth which we have committed in terms of 20% YoY growth for this year. In fact on the 63-65% and combined ratio of 93-95%, we believe that we should definitely deliver on the lower side of both of these bands. So, the business is on track and we are very confident of achieving those goals.

Prayesh Jain: On the network hospitals?

Anand Roy: What was the question on the network hospitals?

Prayesh Jain: What has been the change in the agreed rate in the past six months? And would that have been, because the channel checks suggests that it has been anywhere between 10-12% for private insurers, the increase in the agreed rates. So, whether that would have been adequately priced in in your price hike or you would say that that would not really be priced in.

Anand Roy: I think it is definitely priced in adequately in our price hike. And to be very frank, you know, the rate agreement that Star Health has with its network of hospitals is very different to what probably other companies are able to command or demand. Our agreements are very proprietary in nature and definitely better than what most industry players are able to attain. But to answer your question, yes the rate hike has been priced in.

Nilesh Kambli: One more thing, I think what you're referring to is only big, listed players. You know the proportion of those players in our whole portfolio is still lower. So, that impact will not flow in the way we're talking about.

Moderator: We will take the next question from the line of Sahej Mittal from 3PInvestment Managers. Please go ahead.

Sahej Mittal: So, first is on the number of policies. So, if you could quantify the number of policies in Q1 at the end of Q1FY24 versus Q4FY23, yeah, that would be helpful. Then I'll take my second question.

Nilesh Kambli: You're talking about the number of policy growth?

Sahej Mittal: The number of retail policies.

Nilesh Kambli: Count of policies we'll get back to you on one to one basis.

Sahej Mittal: And the second one is, has there been a price revision with the agreed network hospital chain.

Nilesh Kambli: It's an ongoing process Sahej, we are not seeing any steep price increases in our network. In fact, we are able to better negotiate prices with some of the larger hospitals.

Sahej Mittal: So, nothing in the last three odd months or maybe last six months? Nothing material?

Nilesh Kambli: Nothing material.

Sahej Mittal: And the last one is on Opex. So, once this IFRS gets implemented, if you can quantify what proportion of our Opex is fixed in nature in a sense that what proportion of Opex then will not get up-fronted and then will get appropriately recorded in terms of the premiums being recorded for that particular year. If you could quantify that number. So, for the last year, the OPEX was close to about Rs. 2000 odd crore. If you can just give out that number.

Nilesh Kambli: So, Sahej one thing is that, the insurance industry, especially the listed players, you know the regulator is looking at implementing IFRS effective 1st April 25. I talk in terms of ratios of, you know, last year our OPEX ratio was 30%, out of which around 7.5-8% is fixed cost, balance is variable cost, which will be deferred over the policy period roughly 22-23% cost. And that will be applicable both for the commission as well as the reinsurance commission receivable.

Moderator: The next question is from the line of Nischint Chawathe from Kotak. Please go ahead.

Nischint Chawathe: Just two small questions on group business. Have we finally sort of, kind of said that group business starts growing from here on? And given the fact that the employer-employee segment has seen significant price hike, is it kind of more accretive at the combined ratio?

Anand Roy: So, Nischint the group business strategy continues to remain focused on the SME segment and that's our sweet spot. We have taken a very, very steep target of increasing our group business this year. Last year it was constituting -- I'm talking purely on the employer, employee corporate business, not on the Banca groups. We expect that you know this year we should be able to double what we did last year. 2X is what we are planning to do. Let's see how that pans out. As far as large corporates are concerned, we continue to remain very, very selective. We are not very bullish about that, but we will evaluate as we go along.

Nischint Chawathe: So, your 20% premium growth target includes you know, group 2X, and then the rest of it retail, is that the way I should read it?

Anand Roy: 20% growth targets include the group business, yes.

Nischint Chawathe: And just one clarification, the Banca group business or the group business that you're doing under the Banca, the Banca business is growing under the group design, that in your presentation gets reflected in the retail?

Anand Roy: No, it gets reported as per the product filing which is under groups.

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

Supratim Dutta: So, the first question is on the renewal premium ratio. So, I just wanted to understand whether if a customer shifts from Family Health Optima to a lower premium policy with Star Health will he or she still be considered in that renewal premium basket or will that be considered as a new policy? So, that's one. The next question was on the Banca side. You know, you laid out your strategy. Just wanted to understand what proportion of your premiums is currently coming from the Banca channel alone? And yeah, I understand that you had a target of increasing that to 10% over the medium term, does that strategy still remain in place or you have revised those targets?

Anand Roy: The renewal of FHO customers, if they migrate to any of our other products within the Star Health franchise, we count them under renewal itself. We do not count them as new business. And the second question is Banca, I had guided for maybe 10% some time back, but now we are already clocking at 15% of our fresh business and we hope that you know we will end the year with even better numbers than that.

Supratim Dutta: So, just one follow up on that. So, could you give us the breakdown that, you know, how many people have actually shifted from Family Health Optima to some other products, is that something that you would give?

Anand Roy: No, unfortunately I'm not able to disclose that number but what I can tell you is our retention ratios are better than what we had thought about.

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

Sanketh Godha: My simple question is that if you look at ANH contribution has increased from 56% to 61%, which should improve your loss ratio. We have a price hike, which everyone else has alluded to. But still the quantum of improvement which happened in the loss ratio has not happened. So, in my view, is it because your specialized policies contribution has come off a bit compared to the previous quarter? And then also the mix -- even if you're growing 15 percentage kind of in new and then the mix is more moving in the favour of renewal rather than new in the entire GWP of retail and that is dragging down the loss ratio. So, just wanted to understand that part, little in a better way how it will play out?

Anand Roy: Sanketh as already mentioned that, you know, our improvement in loss ratio as compared to the last year itself showcases that the strategies that we are following are working out well for us. Now what you're talking about, the price hike will take some time to eventually derive the benefit for us, so it will play out over the next 12 to 15 months. So, I think it will only get better from here.

So, as far as the renewal to fresh mix is concerned, we keep tracking that very closely. As we continue to invest in our distribution channels, we are opening, as I told you, more than 1000 locations in the semi-urban and rural markets, we expect that our fresh to renewal mix will continue to be similar or better.

Sanketh Godha: But Anand in the call you have been saying that that we are investing into people and the channel. You give the distribution mix on the total premium. Maybe if you can allude to something on distribution mix with respect to new business. It means, has it moved away from agency, more Banca or more direct or more digital is contributing more? Just to understand that part a little better, that investment is even getting reflected into the diversification in the distribution mix.

Anand Roy: Yes, sure. So, one number I can give you today is that our non-agency new business is now more than 30% contribution which includes Banca, digital and, you know, these two are main channels. We are seeing very fast growth in both of these channels. Now with the new guidelines under the expense of management, which we have got, I think you know we are going to go very aggressive in these two channels.

Sanketh Godha: Anand this number 30%, if you can disclose, how it was last year and how it has, we just wanted to understand the trajectory.

Anand Roy: Sanketh, we can take that offline. Maybe you can talk to us later.

Sanketh Godha: The last one from my side. We started the call year, or in the fourth quarter call, we guided that the group health might go back to 10-11% percentage of GWP which was before 2023. But still if I look that number it's around 6-7%. And it is believed that group health is seasonally strong in first quarter. So, just wanted to understand still the 10-11% guidance remains or that number might tone down a bit for the entire year?

Anand Roy: So, the group health, the number that we have taken will be somewhere around 10-11%, but that will include the bancassurance group.

Nilesh Kambli: See Sanketh first business is typically large corporate. As mentioned, we are focusing more on SME businesses and Banca Group. You know, the group business has grown for us by 30%. And you know, this is only the first quarter. So, we're confident as we move along the overall mix will keep on increasing.

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

Dipanjan Ghosh: First, you mentioned you know in terms of strategic shift for your new business towards non-agency, and you gave some colour on 30% coming from that Channel. Just wanted to get some idea of how the pay-out structures on these non-agency channels differs from your agency, especially for the new business and how the trajectory is shaping up incrementally from a competitive pay-out perspective. And secondly, if you can give some colour on how the claims frequency differs between your metros versus smaller markets or basis sum assured, I mean if you can give some colour on that?

Anand Roy: So, first thing is we are not shifting our business from agency to non-agency. It is just that the contribution of non-agency business is increasing because of our renewed aggression in that segment. Agency continues to be the largest contributor for us, around 70% of new business and 30% plus comes from the non-agency channels. As far as the frequency and all is concerned, these are data that we are not able to disclose. These are very proprietary to us, so unfortunately we cannot do that.

Dipanjan Ghosh: Just to follow-up on the first one, I was asking more from the perspective of how the distribution pay-out on the new business vary between your agency versus non-agency, some qualitative colour on that?

Nilesh Kambli: See, we are incentivizing our channels based on outcomes. We look at the overall profitability of the business, the product segment that the channel is contributing. It's a mix of loss ratio and expense ratio and what we look at is the combined ratio, we don't look at pay-out ratio separately. We consider the combined ratio in terms of profitability of the channel.

Moderator: Thank you. We have the next question from the line of Devansh Nigotia from SIMPL. Please go ahead.

Devansh Nigotia: Clarification on the IFRS application. It is -- you mentioned 1st April '25.

Nilesh Kambli: Yes, for listed player it will be 1st April '25, you know, the IRDA chairman himself had conducted call with the listed players and large life insurance players and he has mandated that, you know, prepare yourself and be ready by 1st April '25.

Devansh Nigotia: So, it's still a directional guidance that he has given. It's not a formal announcement yet.

Nilesh Kambli: There is no formal announcement, but you know there is a weekly update from the regulator in terms of where are you in terms of the impact analysis, the technology. We conducted a call last week with a technology partner. We have given a mandate that the first impact analysis should be done by 30th September for all the players. So, there are very specific directions that are coming in.

Devansh Nigotia: And what is the MTM gains booked in our investment book?

Aneesh Srivastava: MTM gains, so in the overall book, there are no gains as such.

Devansh Nigotia: 7.4% yield is what we should work with for the year.

Aneesh Srivastava: As we have disclosed back, there were some profits booked in ETFs. So, this quarter yield is marginally higher. But there is a continuous optimization of an asset allocation, you know, keeping in mind the relative valuations. So, let's see. I mean it would be certainly reasonably higher than the previous year. So, this is what we expect, but let's see. It depends on the opportunities that we get.

Devansh Nigotia: So, what is the employee cost we should work with for the year FY'23?

Nilesh Kambli: The employee cost, you know, has two components, the fixed cost and the variable cost. Sales manager's salaries are variable and there is incentive based on the growth in business. So, very difficult to give a number to it.

Devansh Nigotia: You mentioned that we have added 30 engineers, but the step up that we see for the base quarter June also there was a Rs. 56 crore ESOP cost. Adjusting for that the run date was Rs. 220-230 crore and this quarter is Rs. 358 crore. And June is actually a dull quarter with lower variable cost. So, considering that the employee cost increase excluding is actually 62% YoY, June on June, that is my--.

Nilesh Kambli: ESOP cost is not part of the employee cost, ESOP cost is part of the P&L. The Rs. 55 crore ESOP cost is not part of the employee cost last year. You cannot exclude that from the employee cost. The employee cost is comparable last year and the current year. I just hope we have done investment in people, you know, Banca channel, which is growing, there are relationship managers we have deployed. The sales manager has an incentive based on fresh business. So, all this will lead to an increase in variable costs and the fixed cost for the first quarter will be higher, because it's sequential. The people we have deployed in digital technology, that's the fixed cost, which will come month on month. And there is an increment element also effective 1st April.

Devansh Nigotia: The variable cost and the employee cost, we've not classified it under commissions, unlike General Insurance Companies?

Nilesh Kambli: The commission is purely IRDAI registered intermediaries, the sales manager are internal employees of the company.

Devansh Nigotia: So, in case of Ind AS implementation, will that -- how will that number play out then for the variable cost of employee? It will stay as it is or it will be then apportioned over the year, how will that work?

Anand Roy: The sales manager cost, because it is variable and it is linked to the business that it will be apportioned over the policy period. The fixed cost of business, the accounts, the claims team, which are fixed in nature that will not be apportioned. The sales related variable cost will be apportioned.

Moderator: Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio Managers Private Limited. Please go ahead.

Prakash Kapadia: If I were to look at the GDPI of Star Health, could you give us some sense, how much of that is in the top ten cities as of now. And directionally, as we are trying to penetrate and go deeper, what kind of trends we see for us and the industry in terms of health insurance. And secondly, what is our stated investment policy in terms of debt equity, in terms of percentage of net worth or how do we assess -- to optimize returns between debt and equity?

Aneesh Srivastava: So, from the perspective of optimizing the returns between debt and equity, see large part of investment patterns are as per the regulations which defines that minimum what we have to do. So, if you look at it minimum 65% has to be in government security, state government securities and AAA rated papers. So, now beyond that, 35% of portfolio is that which can be allocated in various asset classes where we feel that by investing there depending upon relative valuations, how we can maximize the yield.

You would also see that most of the insurance companies do not take very aggressive risks. So, in our case for example, a non-fixed income book as of now would be around 6% and our intent is that we would increase it to say 10% or so. Going beyond 10% perhaps would be a very gradual and very opportunistic kind of thing. If we get a very interesting opportunity, perhaps then we can it. So, this is what the broad thought process is.

Prakash Kapadia: Does this book say when markets were low, has it ever crossed 10% or no?

Aneesh Srivastava: No. We are building this non fixed income book and we are not in a hurry to really just go ahead and very actively do this.

Moderator: The next question is from the line of Manish Gupta from Solidarity Investment Managers. Please go ahead.

Manish Gupta: So, just wanted to understand that as you go deeper into rural India or Tier-3, Tier-4 India, would your combined ratio or would you be able to share what your combined ratio by geography is?

Nilesh Kambli: No, the combined ratio by geography we'll not be able to present it so early. I mean that will take some time, because that is all proprietary information.

Manish Gupta: But directionally, one would imagine that competitive and density in Tier-3, Tier-4 towns should be lower than Tier-1, Tier-2 cities. So, would your hypothesis be that as you go in Tier-3, Tier-4, your combined ratio would improve?

Nilesh Kambli: Yeah, absolutely. I mean, the combined ratio in rural areas is lower compared to urban areas and that will definitely help in the overall combined ratio of the company.

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

Nilesh Kambli: Thanks for joining the call late in the evening and listening patiently to us. We had a very good first quarter and we are optimistic about the remaining nine months achieving the growth and profitability targets for FY24. 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.