

Proxy Advisory Report (Addendum)

Star Health and Allied Insurance Company Ltd

COMPANY INFORMATION	MEETING DETAILS	E-VOTING DETAILS
BSE CODE: 543412 NSE SYMBOL: STARHEALTH ISIN: INE575P01011 Industry: General Insurance Email: info@starhealth.in Phone: 044-28288800 Registered Office: No.1, New Tank Street, Valluvarkottam High Road, Nungambakkam, Chennai, Tamil Nadu, 600034	Meeting Type: PB Voting Deadline: 3 rd March, 2022 Notice Date: 25 th January, 2022 Notice: Click here Annual Report: FY 2020-21 DRHP: Click here SES PA Report (PB): Report	e-Voting Platform: KFintech Cutoff Date: 28 th January, 2022 Remote E-voting Start: 2 nd February, 2022 Ends: 3 rd March, 2022

RESEARCH ANALYST: RAJORSHI PALIT

This Addendum is being issued based on e-mail dated 22nd February 2022 sent by Star Health and Allied Insurance Company Ltd ('the Company') w.r.t. Proxy Advisory Report ('PA Report') issued by SES in relation to the ensuing Postal Ballot of the Company.

There is no change in any SES recommendation.

BACKGROUND

SES, as per its policy, SES had e-mailed its PA Report to the Company on 20th February 2022 in respect of upcoming Postal Ballot of the Company with e-voting deadline 3rd March 2022.

Post the release of PA Report, SES had a conference call with the Company on 22nd February 2022, followed by an email from the Company which is reproduced at last in **blue text** along with the SES Response (**in black**).

It may be noted that the email of the Company (as per SES policy framed to comply with SEBI Circular dated 3rd August, 2020 [SEBI/HO/IMD/DF1/CIR/P/2020/147](#)) has already been forwarded to SES clients 'as it is', without any inputs from SES on 22nd February 2022. This Addendum provides appropriate responses of SES, wherever required.



ADDENDUM**SES COMMENTS ON COMPANY'S RESPONSE****1. Ratification of pre- IPO Star Health and Allied Insurance Co Ltd Employee Stock option Scheme 2019 (ESOP 2019)****a) Exercise Price**

... Prior to listing of the Company, the exercise price was determined by the NRC based on the fair market value of the equity shares at the time of grant. The fair market value (pre- listing) was determined based on the Valuation Report issued by a Merchant Banker from time to time. Hence, the exercise price does not remain static at Rs. 142.43/- during the scheme period.

The Company has also disclosed in the RHP that ESOP have been granted at Rs.142.43 or Rs.488.96, the then fair market value, based on valuation. The Company would follow the extant statute provisions as far as pricing of grant is concerned and proposes to grant the remaining options at the prevailing fair market value at the time of grant or at a discount not exceeding 20% of the fair market value as may be decided by the NRC.

It was also be noted that the percentage of options yet to be granted amounts to 0.41% of the paid up capital of the Company as on date.

SES Comments: SES had raised compliance concern on the resolution on the ground that the Company had not disclosed the exercise price or a pricing formula as required under SBEB Regulations. Further, SES could not have taken past practice of fixing Exercise price as per the fair market value into account as in the Notice of the proposed Resolution under Resolution #2 (ESOP Plan 2021) options are being granted at an Exercise Price of ₹ 10, thus establishing fact that NRC is fixing price without any given formula or benchmark, but based on identity of an allottee.

The Company has now clarified that the exercise price for the remaining options will be either at fair market value or at a maximum discount of 20% of fair market value. However, it may be noted that the clarification has been intimated via private communication between the Company and SES; and is not available in public domain. SES as a policy does not take into account private communication for change in recommendation which is based on public information.

Therefore, since the Company has not provided any clarification on Stock Exchange regarding the Exercise Price, SES recommendation change is unwarranted, however, shareholders may take note of the information provided by the Company and take an informed decision.

b) Maximum Options to employees

It may observed that the number of options pending grant is 0.41% of the paid up capital of the company.

The grant of ESOPs is determined by the NRC based on certain performance parameters of the employees. Hence the grant of options varies among employees and hence instead of the number of options it has been capped in percentage terms.

The maximum options that can be granted i.e 1% of the issued capital is also disclosed by the Company in the offer document during listing.

SES Comments: SES had raised governance concern on the resolution on the ground that the Notice did not explicitly state the maximum options per employee and the interpretation of disclosure was left to the shareholders.

The Company has stated that the disclosure on maximum options is available in the offer document. In this regard, SES would reiterate that the Notice should be self-contained in nature, providing shareholders with all the relevant information without the need to refer other documents.

It may be noted that although, the Company has disclosed that 1% of the issued capital can be granted, there is no disclosure on the absolute number of ESOPs that can be allotted to an individual employee. Further, the Company has stocks worth 0.41% of the paid-



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up capital left in the ESOP scheme. As per the ESOP disclosure, entirety of the remainder options can be issued to single individual, without taking further shareholder approval. SES is raising concern in this regard.

Shareholders may take note of the clarification provided by the Company and SES comments thereon, and take an informed decision.

c) Accelerated Vesting.

*The Company has also disclosed in the offer document that the objectives of ESOP Plan 2019 are, among others **to reward employees for past as well as future performance, link interest of employees with Shareholders, foster ownership and reward for loyalty.***

*There are certain employees who have been with the Company since inception and the concept of ESOP has been recently introduced hence, **the Company had framed the ESOP scheme that would recognize the efforts put in by the veterans as well as encourage the present employees to perform and grow with the company.***

Considering the predominant role and value created by the retiring employees the Scheme has an enabling provision for acceleration and may be implemented by NRC on a case to case basis.

SES Comments: SES had raised governance concern on the resolution on the ground of accelerated vesting to employees in case of retirement. While the Company has clarified that it intends to award the veterans for their contribution *via* accelerated vesting of options, SES reiterates that such a provision defeats the primary objective of employee retention. Moreover, such a provision would turn the ESOP scheme into a monetary bonus scheme, which is fundamentally different from very nature of ESOP schemes.

Therefore, SES retains its concern on accelerated vesting.

Further, the Company has stated that the “ESOP has been recently introduced”. SES is of the view that the said disclosure is inconsistent with the past practice of the Company since SES finds that as per RHP, the Company has been granting ESOPs since 2007.

Shareholders may take note of the clarifications provided by the Company and SES comments thereon, and take an informed decision.

2. Ratification of pre- IPO Star Health and Allied Insurance Co Ltd Employee Stock option Scheme 2021 (ESOP 2021)

The aforementioned ESOP Scheme had been approved by the shareholders and disclosed in the Offer Document of the Company during the IPO.

We wish to clarify that all options under the said scheme have been granted and there would be no further issuance under the said scheme. Though ratification is not required as per Reg 12(1) of SEBI (SBEB & SE) Regulations, 2021 it is placed for member's approval for transparency and good corporate governance practice.

The options were granted at an exercise price of Rs.10/- per options considering the contribution of Mr. V Jagannathan towards the growth and performance of the Company since inception and his continued association with the company as Chairman & CEO till his current tenure (i.e) till 16th June 2025. The grant of ESOPs has also been approved by IRDAI.

Mr.V.Jagannathan is the founder of the Company, who took the initiative to build the Company with a very moderate premium income in the year 2006. He has more than 47 years of experience in the insurance industry. He has also been awarded the “Social Entrepreneur for Star Cancer Care” award at the Six Sigma Excellence Awards, 2017. He has previously worked with United India Insurance Company in the capacity of Chairman cum Managing Director.

The options granted under the Scheme shall vest after 1 year from the date of grant. However, the vesting is subject to continuation of employment.

SES Comments: SES had raised governance concern on vesting of entire stock option pool to Mr. V Jagannathan at a deep discount to the market price.

SES takes note of the justification provided by the Company on issue of stock option to Mr. Jagannathan. However, it may be noted that the options issued at face value of ₹ 10 would account to ~₹182 crores perquisite value as per current market price. SES is of the view that vesting of such huge benefit to a single person that too at accelerated vesting to a person who is presently 77 years old is



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not aligned with the purpose of the ESOP Scheme as described in the Scheme document. Therefore, SES retains its concern on excessive perquisite value.

It may be noted that the ESOP scheme was approved on 11th November 2021 and the Company's shares were listed on 10th December 2021. The close timelines of the approval of the Scheme and listing raises question as to why the Company proceeded with the scheme approval when the listing process was almost complete? What was the urgency of seeking approval pre-listing of shares?

The Company in RHP has also mentioned that "Venkatasamy Jagannathan is entitled to be granted 2,500,000 employee stock options under the ESOP Plan 2021, subject to approval from the IRDAI". However, the Company has not mentioned if the IRDAI has provided its approval on the allotment or the same is pending. SES is of the view that this information is important and relevant for the Shareholders.

Further, analysis has been done in SES Comments of Resolution #3.

Shareholders may seek clarification from the company in this regard, and take an informed decision.

3. Change in designation of Chairman & CEO

The change in designation has been recommended for complying with the SEBI Regulations.

The change in designation will not affect the remuneration payable to the Chairman & CEO.

The remuneration and other payments made to Mr. V Jagannathan and other managerial personnel has been disclosed in the RHP (Pg. No. 18) filed by the Company.

As per the disclosure, Chairman & CEO 's fixed remuneration had been reduced from Rs.4 crore in FY 20 to Rs. 2.8 Crore in FY 21. The value as shown in the RHP explicitly states that major part of the remuneration was on account of accounting sweat equity allotted to him in FY 20. Hence, compared to other managerial personnel he received less remuneration than other persons.

SES Comments: SES understands that the proposed Resolution is for seeking approval for change in designation. However, it is important to note that Mr. Jagannathan was appointed as Executive Chairman & CEO for a term of 5 years w.e.f. 17th June 2020. The change in designation, if approved, will be effective from 27th January 2022 till 16th June 2025, on his existing terms. The Company will seek approval for remuneration payable to Mr. Jagannathan only upon completion of his term if he seeks re-appointment.

Therefore, SES has raised concern regarding his remuneration in the current Resolution.

SES had raised governance concern on change in designation of Mr. V Jagannathan on the ground of disproportionate remuneration pay and vesting of excessive perquisite value to Mr. Jagannathan under ESOP 2021 Scheme.

The Company has clarified that the disparity in his FY 2021 remuneration and remuneration of other directors was on account of accounting of sweat equity allotted to him in FY 2020. The sweat equity allotted to him as per RHP accounted to ₹ 42 crores of remuneration.

While comparing the remuneration of Mr. Jagannathan with other directors, the Company has excluded the value from sweat equity. SES does not agree with such an interpretation. Attention is drawn to Section 2(78) of Companies Act, 2013

2. Definitions

(78) "remuneration" means any money or its equivalent given or passed to any person for services rendered by him and **includes perquisites as defined under the Income-tax Act, 1961 (43 of 1961)**;

As per the provision, remuneration is holistic in nature and inclusive of perquisites. Therefore, the components of remuneration cannot be seen in isolation to each other. In view of the above, comparing the remuneration of directors for FY 2021 on a holistic basis, SES reiterates that pay of Mr. Jagannathan is disproportionate to other Executive Director.

Analysis of Equity Linked Benefits vested on the EDs

SES has analyzed the benefits allotted to Mr. Jagannathan and other Executive Directors, Mr. S. Prakash and Mr. Anand Roy



Mr. Jagannathan

Allotment Date	Scheme	No of Shares	Issue Price (₹)	Consideration	Exercise Price (₹)
11-09-07	ESES 2007	3,50,000	10	Other than cash	NA
02-Jun-08	ESES 2007	3,50,000	10	Other than cash	NA
02-Jul-09	ESES 2007	3,50,000	10	Other than cash	NA
29-Mar-10	Preferential Allotment	18,60,000	10	Cash	10
22-Mar-13	Sweat Equity Shares	10,04,000	23.32	Other than cash	NA
06-Feb-14	Sweat Equity Shares	1,30,100	22.24	Other than cash	NA
10-Apr-15	Sweat Equity Shares	5,88,298	33	Other than cash	NA
31-Mar-16	Sweat Equity Shares	4,94,321	41	Other than cash	NA
02-Jan-17	Sweat Equity Shares	13,97,480	47	Other than cash	NA
07-Dec-20	Sweat Equity Shares	24,53,190	182	Cash & Other than cash	Cash- 10, Other than Cash- 172
Total Shares		89,77,389			

Other EDs

Directors	Scheme	No of Options	Shares Allotted	Exercise Price (₹)
S Prakash	ESOP 2019	33,60,746	13,44,298	142.43
Anand Roy	ESOP 2019	33,60,746	13,44,298	142.43

Pre-Listing Shareholding (as per RHP)

Directors	No. of Equity Shares	% of Share Capital
V Jagannathan	53,03,740*	0.96
S Prakash	13,44,298	0.24
Anand Roy	13,44,298	0.24

*The total shares vested on Mr. Jagannathan is 89,77,389. SES could not find records of sale of the remainder shares by Mr. Jagannathan.

SES has observed that the Company issued equity linked benefits to Mr. Jagannathan since 2007. Cumulatively, the number of shares (inclusive of sweat equity) issued to him is ~90 lakhs as per SES calculations based on the disclosures in the RHP. It may be noted that majority of the benefits have been granted without cash consideration. Additionally, the Company has granted entirety of 25 lacs stock options of ESOP 2021 scheme to him at face value of ₹ 10.

On the other hand, Mr. Prakash and Mr. Roy were allotted ESOPs for a cash consideration of ~₹ 142. Although, these Directors have been recently appointed by the Company, there is a huge disparity in the exercise price at which the EDs have been given benefits vis a vis Mr. Jagannathan. This disparity in exercise price amongst directors leads to significant difference in perquisite value/benefit and finally affects the remuneration of directors.

Participation in Offer for Sale

As per the RHP, Mr. Jagannathan intended to sell up to 10 lakh shares in Offer for Sale for the IPO. The Price Band of IPO was from ₹ 870 to ₹ 900 per share. Considering that Mr. Jagannathan sold the intended stake at ₹ 900, he would have incurred a benefit of ₹ 90 crores. It may be noted that the benefit incurred would have majorly accounted for shares allotted to him under the ESOP or Sweat Equity Plan that were allotted to him with no cash consideration or upon Preferential Issues (Shares allotted at ₹ 10 each).

In view of the above, SES retains its concern on disproportionate pay. However, shareholders may take note of the clarifications provided by the Company and SES comments thereon, and take an informed decision.

4. Approve Article 101A of the Articles of Association


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*The Company is regulated by the Insurance Regulatory & Development Authority of India (IRDAI), which decides the entity or individuals who would act as Promoters of the Company. **IRDAI has mandated that the promoters shall be liable to bring in capital to meet the solvency requirements as and when required and the promoters have declared that they would abide by the directions of the Authority. A copy of the IRDAI regulation is also attached for easy reference.***

*In the pre- IPO round of the Company, in addition to new investors, **the promoter group had also contributed to the capital of the Company. On account of the above, the shareholders who have been designated as promoters by SEBI/IRDAI are provided with the right to nominate Director on the Board of the Company.** Further, it may be observed that the right to nominate directors by the shareholders has been disclosed in the RHP (Pg No. 207) filed by the Company.*

SES Comments: SES had raised technical compliance concern on unintended drafting error of resolution, and governance concern on promoter rights being disproportionate with shareholding.

SES understands that the promoters need to infuse capital in the Company. However, Article 101A provides for nomination of 1 director by just being classified as a Promoter. SES would reiterate that such a clause has no additional requirement of shareholding and thus resultantly negates the very proposition of skin in the game. This in turn provides disproportionate power to the Promoter.

In view of the above, SES is retaining its concern on disproportionate rights.

Shareholders may take note of the clarification provided by the Company and SES comments thereon, and take an informed decision.

COMPANY'S EMAIL DATED 22ND FEBRUARY 2022

Dear XXX,

This has reference to the Postal Ballot issued by the Company

We are in receipt of your report on the voting recommendations on the shareholder resolutions mentioned in the Postal Ballot Notice.

In this connection, please find below our feedback.

1. Ratification of pre- IPO Star Health and Allied Insurance Co Ltd Employee Stock option Scheme 2019 (ESOP 2019)

a) Exercise Price

The aforementioned ESOP Scheme had been approved by the shareholders and disclosed in the Offer Document of the Company during the IPO.

The present ratification is on account of the requirement under Regulation 12 of SEBI (SBEB & SE) Regulations 2021. Also, both Companies Act 2013 and SEBI Regulations seek to protect the employees in respect of options already granted.

Prior to listing of the Company, the exercise price was determined by the NRC based on the fair market value of the equity shares at the time of grant. The fair market value (pre- listing) was determined based on the Valuation Report issued by a Merchant Banker from time to time. Hence, the exercise price does not remain static at Rs. 142.43/- during the scheme period.

The Company has also disclosed in the RHP that ESOP have been granted at Rs.142.43 or Rs.488.96, the then fair market value, based on valuation. The Company would follow the extant statute provisions as far as pricing of grant is concerned and proposes to grant the remaining options at the prevailing fair market value at the time of grant or at a discount not exceeding 20% of the fair market value as may be decided by the NRC.

It was also be noted that the percentage of options yet to be granted amounts to 0.41% of the paid up capital of the Company as on date.

b) Maximum Options to employees

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The maximum options that can be granted i.e 1% of the issued capital is also disclosed by the Company in the offer document during listing.

c) Accelerated Vesting.

The Company has also disclosed in the offer document that the objectives of ESOP Plan 2019 are, among others to reward employees for past as well as future performance, link interest of employees with Shareholders, foster ownership and reward for loyalty.

There are certain employees who have been with the Company since inception and the concept of ESOP has been recently introduced hence, the Company had framed the ESOP scheme that would recognise the efforts put in by the veterans as well as encourage the present employees to perform and grow with the company.

Considering the predominant role and value created by the retiring employees the Scheme has an enabling provision for acceleration and may be implemented by NRC on a case to case basis.

2. Ratification of pre- IPO Star Health and Allied Insurance Co Ltd Employee Stock option Scheme 2021 (ESOP 2021)

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We wish to clarify that all options under the said scheme have been granted and there would be no further issuance under the said scheme. Though ratification is not required as per Reg 12(1) of SEBI (SBEB & SE) Regulations, 2021 it is placed for member's approval for transparency and good corporate governance practice.

The options were granted at an exercise price of Rs.10/- per options considering the contribution of Mr. V Jagannathan towards the growth and performance of the Company since inception and his continued association with the company as Chairman & CEO till his current tenure (i.e) till 16th June 2025. The grant of ESOPs has also been approved by IRDAI.

Mr.V.Jagannathan is the founder of the Company, who took the initiative to build the Company with a very moderate premium income in the year 2006. He has more than 47 years of experience in the insurance industry. He has also been awarded the "Social Entrepreneur for Star Cancer Care" award at the Six Sigma Excellence Awards, 2017. He has previously worked with United India Insurance Company in the capacity of Chairman cum Managing Director.

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3. Change in designation of Chairman & CEO

The change in designation has been recommended for complying with the SEBI Regulations.

The change in designation will not affect the remuneration payable to the Chairman & CEO.

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As per the disclosure, Chairman & CEO's fixed remuneration had been reduced from Rs.4 crore in FY 20 to Rs. 2.8 Crore in FY 21. The value as shown in the RHP explicitly states that major part of the remuneration was on account of accounting sweat equity allotted to him in FY 20. Hence, compared to other managerial personnel he received less remuneration than other persons.

4. Approve Article 101A of the Articles of Association

The Company is regulated by the Insurance Regulatory & Development Authority of India (IRDAI), which decides the entity or individuals who would act as Promoters of the Company.

IRDAI has mandated that the promoters shall be liable to bring in capital to meet the solvency requirements as and when required and the promoters have declared that they would abide by the directions of the Authority. A copy of the IRDAI regulation is also attached for easy reference.

In the pre- IPO round of the Company, in addition to new investors, the promoter group had also contributed to the capital of the Company



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On account of the above, the shareholders who have been designated as promoters by SEBI/IRDAI are provided with the right to nominate Director on the Board of the Company.

Further, it may be observed that the right to nominate directors by the shareholders has been disclosed in the RHP (Pg No. 207) filed by the Company.

With Regards

XXX

IRDAI (Transfer of Equity Shares of Insurance Companies) Regulations, 2015- Click [here](#)



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Disclaimer Sources

Only publicly available data has been used while making the report. Our data sources include Notice of Shareholders' Meeting, BSE, NSE, SEBI, Capitaline, MCA, Moneycontrol, Businessweek, Reuters, Annual Reports, IPO Documents and Company Website.

Analyst Certification

The Analyst(s) involved in development of this Report certify that no part of the Research Analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the Research Analyst(s) in this Report. The concerned Research Analyst(s) and Director(s) do not have any pecuniary relationship with the Reported Company, except that they may be holding miniscule shares in the Company which does not impact their independence in respect of this Report.

SES may be a shareholder in the Company holding equity shares as disclosed on its [website](#). The objective of SES' investment is solely to obtain Shareholders' communications from the Company as a shareholder.

CAUTIONARY STATEMENT

The recommendations made by SES are based on publicly available information and conform to SES's stated Proxy-Advisory Guidelines. SES opinion is based on SES's interpretation of law and governance benchmarks, which may differ from opinion/ benchmarks of other analysts or practitioners. Further, SES analysis is recommendatory in nature and reflects how SES would have voted if it was a shareholder. Therefore, SES expects that the clients will evaluate the effect of their vote on their investments independently and diligently and will vote accordingly. Subscribers may also carry out an impact analysis of their votes and keep the same as an addendum for their records. In our opinion, Institutional investors are positioned significantly differently from other shareholders due to their ability to engage the board and the management to bring out desired result. As a firm, it is our endeavour to improve the level of corporate governance while not causing any disruption in company's proceedings and therefore we respect the independence of investors to choose alternate methods to achieve similar results.

Disclaimer

While SES has made every effort, and has exercised due skill, care and diligence in compiling this report based on publicly available information, it neither guarantees its accuracy, completeness or usefulness, nor assumes any liability whatsoever for any consequence from its use. This report does not have any approval, express or implied, from any authority, nor is it required to have such approval. The users are strongly advised to exercise due diligence while using this report.

This report in no manner constitutes an offer, solicitation or advice to buy or sell securities, nor solicits votes or proxies on behalf of any party. SES, which is a not-for-profit Initiative or its staff, has no financial interest in the companies covered in this report except what is disclosed on its website. The report is released in India and SES has ensured that it is in accordance with Indian laws. Person resident outside India shall ensure that laws in their country are not violated while using this report; SES shall not be responsible for any such violation.

All disputes shall be subject to jurisdiction of High Court of Bombay, Mumbai.

Concern terminology

NC – Compliance Concern: The Company has not met statutory compliance requirements

FC – Fairness Concern: The Company has proposed steps which may lead to undue advantage to a particular class of shareholders and can have adverse impact on non-controlling shareholders including minority shareholders

GC – Governance Concern: SES questions the governance practices of the Company. The Company may have complied with the statutory requirements in letter. However, SES finds governance issues as per its standards.

TC - Disclosures & Transparency Concern: The Company has not made adequate disclosures necessary for shareholders to make an informed decision. The Company has intentionally or unintentionally kept the shareholders in dark.

Company Information



Stakeholders Empowerment Services

SEBI Reg. No. INH000000016

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