17 March 2022

Initiating Coverage | Sector: Financials – Insurance

Star Health

A premium franchise!

Prayesh Jain – Research Analyst (Prayesh.Jain@MotilalOswal.com)

Research Analyst: **Nitin Aggarwal** (Nitin.Aggarwal@MotilalOswal.com) / **Urmila Bohra** (Urmila.bohra@MotilalOswal.com)

Star Health: A premium franchise!

Star Health

BSE Sensex	S&P CNX
56,817	16,975

CMP: INR609 **TP: INR750 (+23%)** **BUY**

Stock info

Bloomberg	STARHEAL IN
Equity Shares (m)	575.5
M.Cap.(INRb)/(USDb)	350.6 / 4.6
52-Week Range (INR)	940 / 603
12M Avg Val (INR M)	553

Financial Snapshot (INR b)

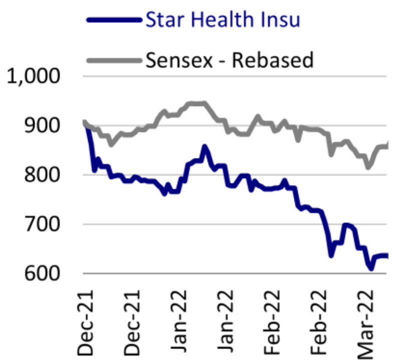
Y/E March	2022E	2023E	2024E
NEP	104.9	119.8	148.8
U/W Profit	-23.5	1.0	3.7
PBT	-17.4	9.3	14.5
PAT	-13.0	7.0	10.8
Ratios (%)			
Claims	90.1	65.3	65.3
Expense	16.9	15.7	14.3
Combined	120.4	94.4	93.0
RoE	-30.8	13.2	17.5
EPS (INR)	-22.6	12.1	18.8
Valuations			
P/E (x)	-27.1	50.5	32.5
P/BV (x)	7.1	6.2	5.2

Shareholding pattern (%)

As On	Dec-21
Promoter	58.9
DII	27.4
FII	9.9
Others	3.8

FII Includes depository receipts

Stock Performance (1-year)



A premium franchise!

- **Star Health, the market leader in the Indian Health Insurance industry, with retail market share of 31%, is poised to grow at a relatively faster pace vis-à-vis the overall Health Insurance industry.**
- **Indian health insurance is grossly underpenetrated – the penetration (premium as % of GDP) and density (premium per person) stand at 0.4% and USD5, respectively. Relatively, China / the US has penetration of 0.7%/4.1% and density of USD66/USD2,679.**
- **Only 3.5% of India's population is covered under the retail health insurance plan, and out-of-pocket expenditure is high at 63% (world average of 18%). These statistics indicate a large opportunity for health insurers going ahead.**
- **Standalone health insurance companies (SAHIs) have outperformed in the Retail segment (39% of the overall Health Insurance market), with their market share increasing from 40% to 50% in the past five years. This outperformance has been driven by 1) a single product focus, which has ensured product innovation; 2) a strong agency network; and 3) a strong association with hospitals. Among the SAHIs, Star Health has seen its market share increase to 32% in 10mFY22 (from 20% in FY18).**
- **In terms of distribution, it has the highest number of agents at 0.53m, with 786 branches. Also, it has tie-ups with 12,000+ hospitals.**
- **The company leads the market in product approvals acquired from the IRDAI. It is also a leader in specialty products, such as Cancer, Cardiac, Senior Citizens, and Diabetes, among others.**
- **With regard to profitability, pre-FY21, the company had been delivering a claims ratio in the range of 60–66% and a combined ratio of 92–94%. The opex ratio saw sharp improvement to 19.6% in FY21 from 27.8% in FY17. Performance has been better than that of peers.**
- **Going ahead, we expect Star to report a gross premium CAGR of 25% over FY21–24E, going from loss of INR8.3b in FY21 to PAT of INR10.8b in FY24E. At 32.5x FY24E P/E, we find the valuations reasonable. We value the company at 40x FY24E EPS to arrive at fair value of INR750.**

Retail Health Insurance – a large opportunity

The Health Insurance industry is poised to see a CAGR of 18%/23%/15%/11% in the Total/Retail/Group/Government segment over FY21–25 (CRISIL estimates). The stark under penetration of the market would be the primary growth driver. Currently, only 3.5% of the population is covered under retail health insurance plans. With government and corporate schemes, the coverage increases to 37% of the population. Relative to other major economies, India's health insurance premium as a percentage of GDP (0.36%), density (USD5), and out-of-pocket healthcare expenditure (63%) are worse off. Furthermore, the COVID-19 pandemic created a pull for health insurance demand, reflected in 29%/17% growth in retail health insurance premiums in FY21/10MFY22. Growth was driven by 1) a surge in the number of individuals subscribing for health insurance; 2) an increase in the sum assured by existing customers; and 3) price hikes implemented by companies in the past fiscal.

Market share of SAHIs at 50%+ in Retail Health; dominance to sustain

SAHIs dominated the Retail Health segment with market share of 50% in 10MFY22. Since FY18, market share has improved 10.3%. The overall market share in the Health segment was 26% and has improved ~5%. The single product focus of SAHIs (v/s the segment-wide presence of multi-line insurers) allows them to innovate in the product segment and launch a variety of products. A further boost comes from corporate agents adopting open architecture being allowed to have an association with three SAHIs over and above three multi-line general insurance companies.

STAR – largest retail player with 32% market share

STAR is, by far, the largest retail health market player with 32% market share and the second largest player in overall health with 14% market share. Over FY18-21, STAR has increased its market share in Retail Health by 8.3%, with its premium CAGR at 31% v/s the industry CAGR of 18%. It further gained 200bps and 25bps in the retail/group segment respectively during 10MFY22 on YoY basis. One of the key drivers of these gains in market share has been its product suite – it has the highest number of retail health products empaneled with the IRDAI. It has unmatched distribution strength, with the highest number of agents among SAHIs (0.53m) and tie-ups with ~90 corporate agents. It has a pan-India presence, with 786 health insurance branches spanning 25 states and five union territories. It has been steadily growing its hospital network tie-ups and now has 12k+hospitals under its umbrella. The management pedigree at STAR is top-notch, with Mr Venkataswamy Jagannathan, erstwhile CMD of United India Insurance, at the helm. Other key management persons also have vast experience in the Insurance industry.

Profitability marred by one-offs in FY21; expect significant improvement going ahead.

Empirically, STAR has reported a claims ratio of 60–66% and combined ratio of 92–94%, better than that of most peers. The outperformance has been possible on the back of 1) a higher share of retail health in its product mix v/s the industry, 2) a higher focus on SMEs in the Group Health segment, and 3) higher agent productivity vis-à-vis other SAHIs. FY21 was an exceptional year, wherein several one-offs dented performance, namely 1) the discontinuation of the Reinsurance Voluntary Quota Sharing Treaty (VQST), which led to an impact of INR9b on NEP, 2) the shift to the 1/365 calculation of unexpired risk reserve v/s the 50% method earlier, and 3) high COVID claims. Adjusted for these one-offs, the incurred claims ratio came in at 67% vis-à-vis the reported incurred claims ratio of 87%. During 9MFY22, the claims ratios remained elevated for the company at 94% on back of 3rd wave of Covid. The expense ratio saw steady decline to 19.6% in FY21 (from 27.8% in FY17) which further declined to 17.6% in 9MFY22, primarily on the back of scale benefits. This was also reflected in healthy average RoE of 18% during FY17–20. Going ahead, we expect the normalization of the claims ratio from FY23 and sustained improvement in the expense ratio, resulting in the combined ratio improving to 93% by FY24E. RoE should improve to 17.5% in FY24E.

Valuations at 32.5x FY24E P/E reasonable; we value it at 40x

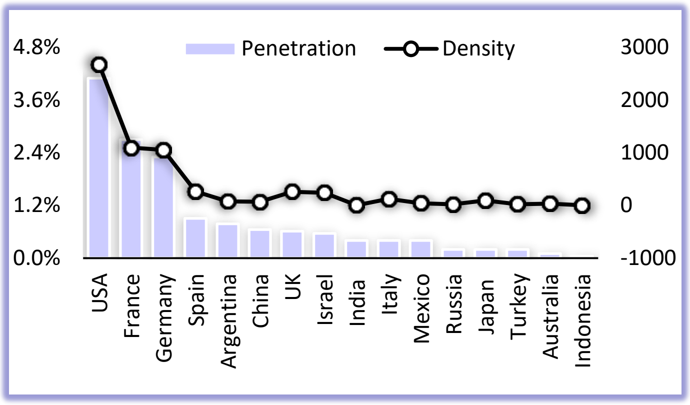
STAR Health would be the first SAHI to be listed in India. Among the general insurers, ICICI Lombard and The New India Assurance Co are direct plays, whereas GIC Re is an indirect play on the overall general insurance growth story. However, STAR offers a unique proposition to play the fastest growing segment in the General Insurance space. Given the market leadership in the Retail Health business, strong earnings growth prospects (25%+ CAGR), limited cyclicality risk (commercial lines and motor insurance have high cyclicality), and healthy RoE profile (15–17% over the medium term), we believe the stock deserves a premium. We have taken the discounted PAT approach to calculate fair P/E of 40x. On consensus estimates, ICICI Lombard trades at FY24E P/E of 25x. The relative premium for Star is justified as Star is focused on the fastest growing segment in the GI business – on the other hand, ICICI Lombard relies on cyclical segments. Moreover, Star's higher earnings growth and higher contribution from underwriting profit v/s investment income strengthens the case. Based on these factors, we arrive at fair value of INR750 and initiate coverage with a Buy rating.

Key risks

- While the COVID-19 pandemic did bring a pull for demand for health insurance, it also brought along with it a higher claims ratio. Further COVID waves could be detrimental to earnings given the severity of COVID-19 claims is 2x non-COVID-19 claims. **During FY21/H1FY22, on account of COVID-19, gross incurred claims amounted to INR16.4b/INR18.1b, whereas net incurred claims amounted to INR12b/INR17b. During 9MFY22 claims ratios for star health had remained elevated at 94% on back of covid claims, excluding which the claims ratio would have been at 66.5%.**
- The increase in competition from multi-line general insurers could pose a risk to STAR's growth.
- The extension of coverage of government schemes, such as Ayushman Bharat, to 'beyond BPL' families could slow the industry growth rate.

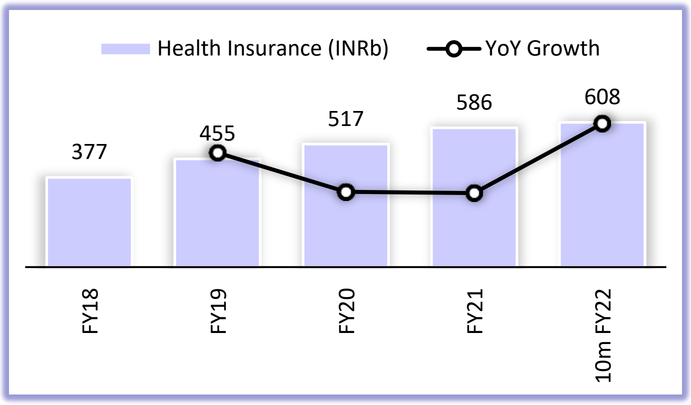
Story in charts

Exhibit 1: Lower health insurance penetration and density provide huge headroom for growth



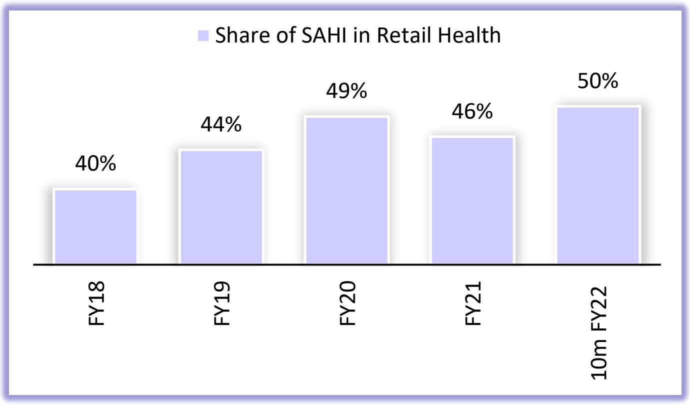
Source: MOFSL, Company

Exhibit 2: Industry growth strong historically



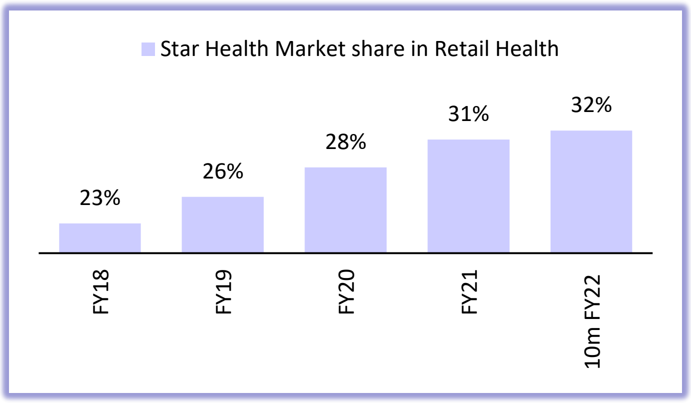
Source: MOFSL, General Insurance Council

Exhibit 3: Gradual gains in retail health share by SAHIs



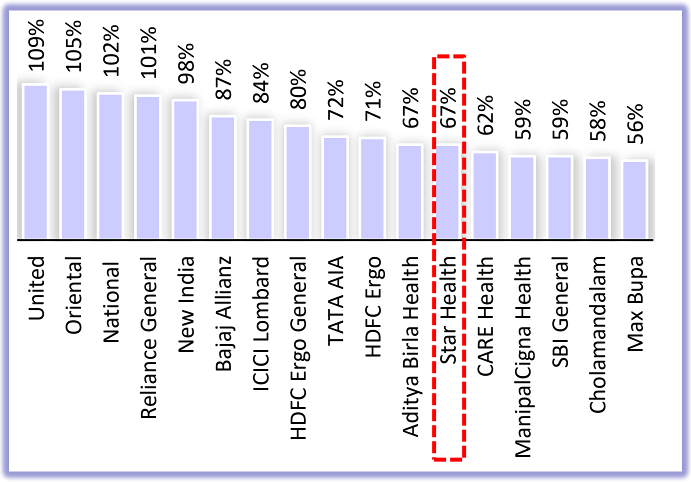
Source: MOFSL, GIC

Exhibit 4: Star Health gaining share in Retail Health segment



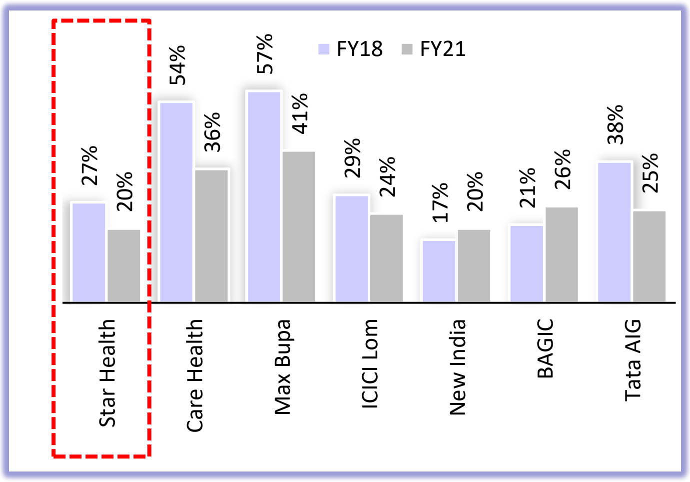
Source: MOFSL, GIC

Exhibit 5: Better profitability for Star Health, with lower claims ratio…



Source: MOFSL, Company

Exhibit 6: …along with declining opex



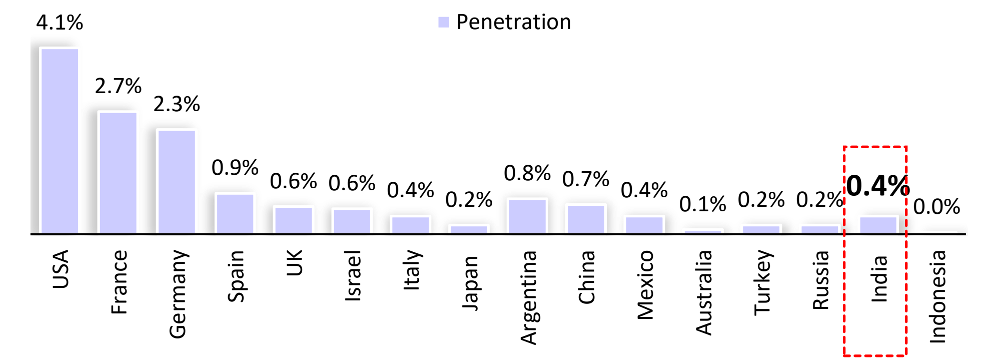
Source: MOFSL, Company

Health insurance industry poised for superior growth

Significant industry underpenetration provides headroom for growth

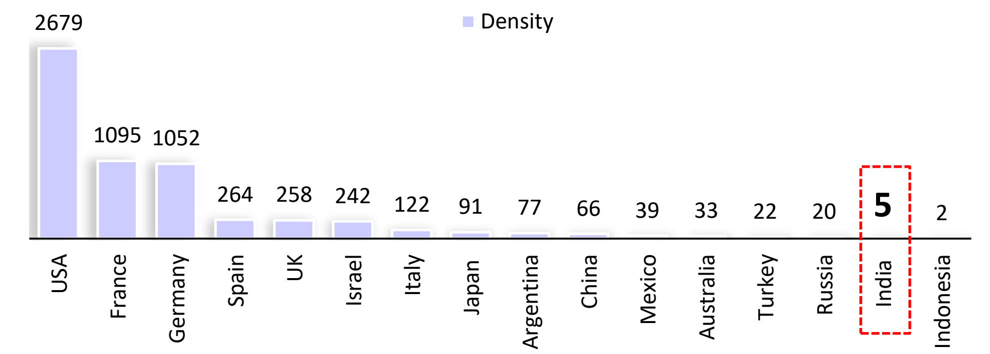
- The health insurance penetration (premium as a percentage of GDP) in India at 0.36% is significantly lower v/s the world average of 2%. India's health insurance density (measured as premium per person) stands at USD5, much lower v/s global peers – China stands at USD66 and the US at USD2,679.
- India spends ~3.5% of GDP on Healthcare vis-à-vis the world average of ~10%. Healthcare expenditure comprises healthcare goods and services consumed each year, paid either by the government, insurance companies, or the concerned individual.
- In India, the out-of-pocket expenditure on healthcare was nearly 63% of the total health expenditure as of 2018 v/s the world average of 18%. Furthermore, in India, insurance cover does not cover out-patient treatments.
- Healthcare inflation was consistently higher than the overall CPI inflation between FY18 and FY20. With COVID-19, treatment costs of non-COVID ailments have also increased owing to a few mandatory tests and higher consumables.
- The total number of lives covered stood at ~510m at end-FY21. However, in the Retail business, the number of lives covered stood at 49m in FY21, accounting for just 3.5% of the population.

Exhibit 7: Health insurance penetration (2019)



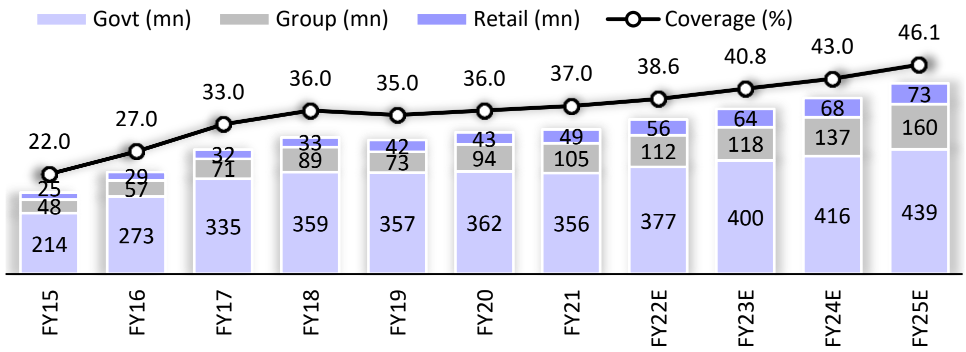
Source: MOFSL, Company

Exhibit 8: Health insurance density (2019)



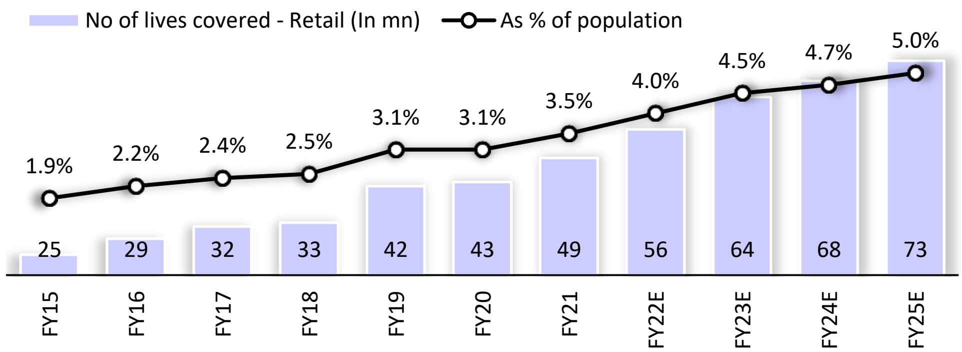
Source: MOFSL, Company

Exhibit 9: Rising overall coverage…



Source: MOFSL, Star Health RHP

Exhibit 10: …as well as that for the Retail segment



Source: MOFSL, Star Health RHP

Multiple levers for growth going ahead

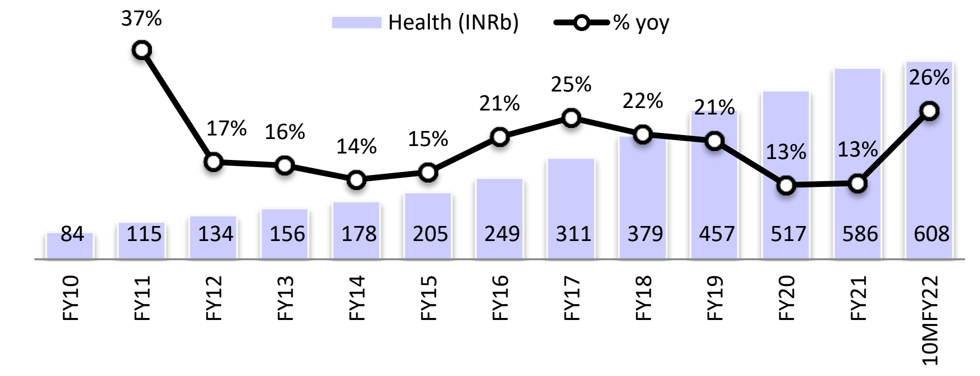
- In FY21, overall premium collections for the industry in the Health business stood at INR580b, of which PSU players accounted for 47%, whereas private and SAHIs accounted for 27% and 26%, respectively. Among the different segments, the share of the Group business stood at 48%, while Retail and Government shares came in at 45% and 7%, respectively. During 10MFY22, the Health insurance industry further grew to INR608b.
- With regard to growth, while FY21 was exceptionally strong for the Retail business (which grew 28%), the Group business moderated (with 10% growth) and the Government business posted decline (of 14%). During FY18–21, the Retail/Group/Government business posted a CAGR of 18%/15%/5%, taking the overall growth in the Health business to 16%. Despite on a higher base, retail segment grew by 17% YoY on 10MFY22 basis, however, group business gained momentum with 30% growth.
- Growth has come on the back of 1) huge underpenetration, 2) the pull created by the pandemic environment, 3) the launch of new products by insurers, 4) an increase in the sum assured by existing customers, and 5) price hikes taken by companies.
- In the Retail Health business, the market share of SAHIs increased to 50% in 10MFY22, from 40% in FY18. Between FY18-21 private players gained market share of 2% and these gains were at the cost of government players losing market share of 8%. On the other hand, in the Group business, SAHIs increased their share in the business by 2% to 11%, whereas private multi-line insurers

were the biggest gainers with a 12% market share increase to 33%. PSU insurers lost 14% market share during this period.

- With regard to future growth, the share of households falling in the income bracket above INR0.2m is estimated to go up to 35% in FY22 (from 23% in FY17), providing the potential target segment for healthcare service providers.
- Over the past five years, TPAs have enrolled with 57,453 hospitals to 172,995 – this has improved the claims settlement process for customers, especially the availability of cashless claims. Resultantly, awareness and word of mouth would lead to an increase in the number of health insurance products.
- Going ahead, we expect the growth momentum to sustain on the following factors: 1) customers depending only on corporate insurance policies would start choosing individual policies as well; 2) as per capita income improves, the affordability of buying health insurance would improve further; 3) Internet penetration, along with the usability of the same, would improve in lower tier towns; and 4) insurers, along with the regulator, would aim to simplify their products as much as possible.
- With regard to future growth, CRISIL expects an 18% CAGR over FY21–25, within which Retail would be 23%, Group 15%, and Government 11%. However, we would not be surprised to see the industry clocking higher growth than this based on the aforementioned factors.
- On the distribution front, for the Retail Health business, the agency channel plays a vital role as it accounts for three-fourths of the premium collections. Considering this, SAHIs increased their agent count to 681,145 in FY20 from 405,924 in FY18. For the Group business, brokers contributed the maximum share of 42% to the total premiums, whereas 33% of the business came from direct sales (other than online). The share of bancassurance is relatively high for the Group business at 12% (Retail stands at 8%).

The six-year industry CAGR stands at 19% – SAHIs at 39%, private insurers at 21%, and PSU insurers at 13%.

Exhibit 11: Health insurance premium growth trend

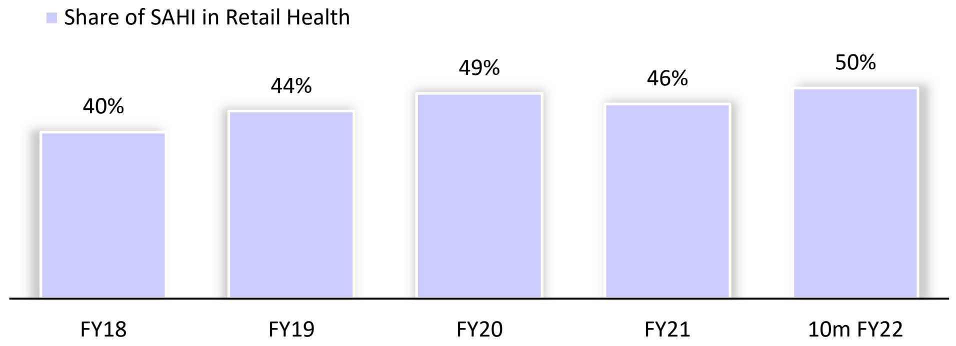


Source: MOFSL, Company

Key advantages for SAHIs

- A single product focus helps SAHIs better cater to customer requirements.
- There is a strong focus on the underpenetrated and relatively profitable Retail business segment.
- Corporate agents adopting open architecture are allowed to have an association with three SAHIs over and above the three multi-line general insurance companies.

Exhibit 12: Rising SAHI market share in the Retail Health segment



Source: MOFSL, Company

Improving cost and claims ratios for SAHIs

- With regard to operating expenses as a percentage of the gross premium, SAHIs stood at 26% v/s 19% for the overall health industry. Costs have been higher due to the Retail focus, where customer acquisition costs are much higher v/s the Group business. However, notably, SAHIs saw the cost ratio reducing to 26% in FY20 from 35% in FY15. Digitalization could aid further decline in the future.
- Private companies and SAHIs had claims ratios of 82% and 66%, respectively, as of FY20, while the claims ratio was much higher at 102% for public insurers.
- Within the Retail segment, the claims ratio remained relatively better for SAHIs at 59% as of FY20 v/s 67% and 92% for private and public insurers, respectively.
- The share of TPAs in the total health insurance claims paid decreased to 69% in FY20 from 74% in FY16. In-house claims processing is relatively faster as the insurer is better equipped to explain the expenses not covered directly to the policyholder, enabling the quicker redressal of grievances.

First two COVID Waves drove premium growth but impacted claim ratio

- **The frequency of claims surged during the second wave, with COVID-related claims during Apr–Aug'21 at 1.4m v/s 1m in FY21, an increase of 44%. The severity of claims declined 24% to INR112,366 during this period.** The key reason for the fall in severity was the preparedness of hospitals, established cost of treatment, discovery of the line of treatment, and rollout of vaccination doses.
- In the event of a third COVID wave, we believe a sizeable chunk of India's population would be vaccinated with both doses (currently, ~32% of the population has received both doses) and the preparedness of hospitals and the government administration would be much better, thus reducing the severity.
- Currently, ~8.3m doses are being administered daily, of which 2.6m/5.7m are for the first/second dose. At this pace, **almost 80% of the population would be vaccinated with both doses over the next 3–4 months**.
- **From a health insurer's perspective, the momentum in premium growth would sustain in the event of a third wave. Growth would accrue from 1) a higher number of individuals subscribing for health insurance, 2) existing customers increasing their sum assured, and 3) a possible price hike,**

considering a sharp increase in claim ratios for most players in FY21 and 1HFY22.

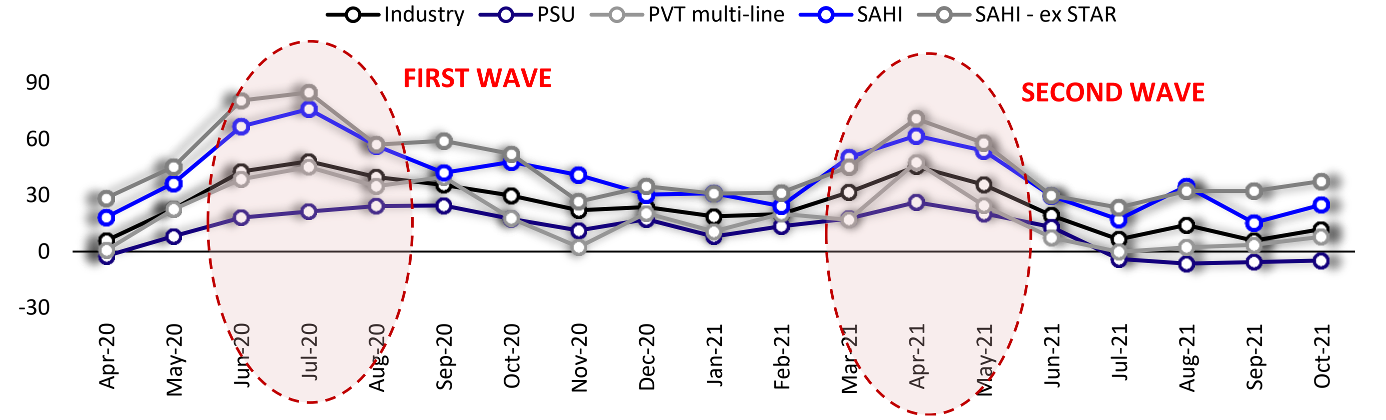
- **Claim ratios are expected to remain elevated throughout FY22 as non-COVID claims have seen a sharp increase in frequency as well as severity. Non-COVID claims pertaining to respiratory disorders, Dengue, and Chikungunya have seen a sharp surge.**

Exhibit 13: Second wave sees higher number of COVID-19 claims, but severity falling significantly

	FY21	5MFY22	Change (%)
No. of claims (m)	0.99	1.42	43.96
Amount of claims (INR b)	145.6	159.56	9.6
Severity per claim (INR'000)	147.6	112.4	-23.9
Settled claims (m)	0.85	1.17	38.19
Amount of settled claims (INR b)	78.3	104.0	32.7
Severity of settled claims (INR'000)	92.3	88.6	-3.9
Repudiated claims (m)	0.04	0.07	61.30
Amount of repudiated claims (INR b)	3.6	5.0	37.7
Severity per repudiated claim (INR'000)	86.4	73.8	-14.6
Outstanding claims (m)	0.10	0.18	87.70
Amount of outstanding claims (INR b)	63.7	50.6	-20.5
Severity per outstanding claim (INR'000)	666.1	282.2	-57.6

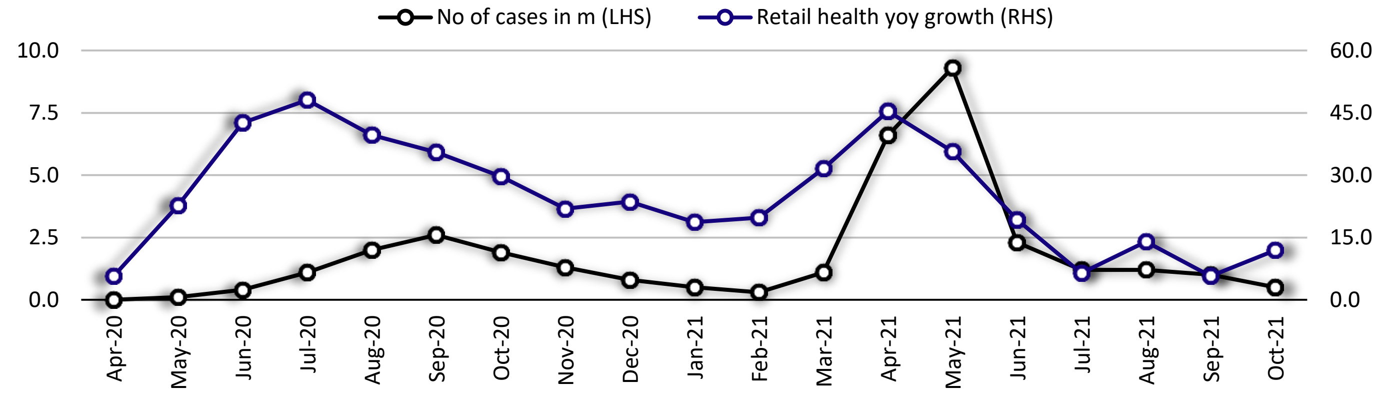
Source: Media Reports, MOFSL

Exhibit 14: Premium growth for retail health accelerates amid first and second COVID waves



Source : General Insurance Council, MOFSL

Exhibit 15: Strong correlation between number of COVID cases and retail health premium growth



Source: Media reports, General Insurance Council, MOFSL

Exhibit 16: Brief industry overview

	Industry Size	10yr CAGR	FY21 growth (%)	10MFY22 growth (%)
Overall GI:	INR2t USD30b	15%	5%	12%
Health Insurance:	INR600b USD8b	18%	13%	26%

Source: MOFSL, Company

Exhibit 17: Industry summary

	Retail	Corporate	Govt	Total
Ind Size (INR b)	260	280	40	600
Ind Size (USD b)	3.5	3.7	0.5	8
FY21 growth (%)	28	8	-10	13
Star Health Size (INR b)	82	10	0	92
Star Health Size (USD b)	1.1	0.13		1.23
Market share FY21 (%)				
SAHI	46	11	0	26
PSU	30	57	84	47
Private	24	33	16	28
STAR	31	4	0	16
Mix FY21 (%)				
SAHI	80	20	0	
PSU	30	60	10	
Private	40	55	5	
Industry	45	47	7	
STAR	89	11	0	
Claims ratio average (%)				
SAHI	50	75		60
PSU	95	110		100
Private	70	85		80
Industry	70	110		97
STAR	**60**	**100**		**66**

Source: MOFSL, Company

Exhibit 18: Health Insurance – segmental performance

Overall Health (INR b)	FY18	FY19	FY20	FY21	10M FY22	10M FY21
Retail	**158**	**183**	**205**	**263**	**238**	**203**
% of Total Health	42	40	40	45	39	42
YoY Growth		16	12	29	17	
Group	**180**	**205**	**256**	**277**	**311**	**239**
% of Total Health	48	45	49	47	51	49
YoY Growth		14	25	8	30	
Others	**38**	**66**	**56**	**46**	**60**	**42**
% of Total Health	10	15	11	8	10	9
YoY Growth		73	-15	-19	43	
Total Health	**377**	**455**	**517**	**586**	**608**	**483**
YoY Growth %		21	14	13	26	

Source: MOFSL, IRDAI

Exhibit 19: Performances of industry players in Retail Health segment

Retail Health (INR b)	FY18	FY19	FY20	FY21	3Yr CAGR (%)	10m FY22	10m FY21	YTD Gr (%)
General Insurers	**95.8**	**101.7**	**105.1**	**141.7**	**14**	**119.1**	**111.7**	**7**
Pvt General Insurers	**35.2**	**36.2**	**36.4**	**62.6**	**21**	**54.9**	**49.2**	**12**
Bajaj Allianz	5.3	6.1	6.9	8.0	15	6.7	6.3	7
Cholamandalam MS	2.2	2.3	2.4	2.9	10	2.6	2.4	7
Future Generali	0.4	0.6	0.9	1.6	56	1.2	1.3	-10
HDFC ERGO	7.8	5.4	8.9	27.2	52	23.5	21.0	12
ICICI –Lombard	10.8	9.7	5.9	7.4	-12	6.9	6.0	16
IFFCO –Tokio	1.2	1.4	1.6	2.1	19	1.5	1.7	-11
Royal sundaram	1.7	2.0	2.2	2.0	4	1.6	1.6	4
SBI General	1.0	1.8	2.9	3.5	52	3.2	2.7	16
Tata-AIG	2.6	4.4	1.8	3.2	7	3.7	2.4	53
Others	2.0	2.4	2.9	4.6	31	4.0	3.8	6
PSU General Insurers	**60.6**	**65.6**	**68.7**	**79.1**	**9**	**64.1**	**62.5**	**3**
National	14.9	16.3	17.4	20.8	12	17.8	16.1	10
New India	21.4	23.4	23.7	26.0	7	21.3	20.5	4
Oriental	14.1	15.3	15.5	18.6	10	14.0	15.1	-8
United India	10.2	10.6	12.1	13.6	10	11.1	10.7	3
SAHI	**62.6**	**81.5**	**99.6**	**121.3**	**25**	**118.9**	**91.3**	**30**
Aditya Birla	0.8	2.0	3.5	5.6	94	5.3	4.4	21
HDFC ERGO Health*	10.8	13.9	14.5	0.0	-100	0.0	0.0	0
ManipalCigna	2.2	2.7	3.1	3.9	21	3.6	3.1	16
Max Bupa	6.3	7.4	8.7	13.6	29	16.7	10.2	63
Care Insurance	6.2	8.7	11.4	16.2	38	17.0	12.6	35
Star Health	**36.3**	**46.8**	**58.3**	**82.1**	**31**	**76.4**	**61.0**	**25**

Source: MOFSL, IRDAI

Exhibit 20: Performances of industry players in Group Health segment

Group Health (INR b)	FY18	FY19	FY20	FY21	3Yr CAGR (%)	10m FY22	10m FY21	YTD Gr (%)
General Insurers	**164.8**	**182.6**	**225.2**	**247.5**	**15**	**273.8**	**215.8**	**27**
Pvt General Insurers	**37.0**	**59.9**	**79.4**	**90.3**	**35**	**95.8**	**76.9**	**25**
Bajaj Allianz	7.9	12.3	11.6	11.3	13	12.7	10.1	25
Cholamandalam MS	0.4	0.4	0.9	1.4	49	0.9	1.3	-26
Future Generali	1.8	2.2	3.0	2.9	16	3.8	2.4	56
HDFC ERGO	1.9	6.1	6.7	10.1	73	8.9	7.2	24
ICICI –Lombard	7.3	12.9	21.1	19.0	38	22.6	20.4	11
IFFCO –Tokio	4.6	6.0	9.1	10.0	30	10.6	8.9	20
Royal sundaram	1.1	1.5	1.7	1.5	10	1.5	1.2	23
SBI General	3.7	3.4	4.5	9.0	34	9.2	7.7	20
Tata-AIG	1.5	1.9	6.6	7.5	73	7.4	6.1	22
Others	5.8	10.9	11.7	13.8	34	18.2	11.7	55
PSU General Insurers	**127.8**	**122.6**	**145.8**	**157.3**	**7**	**178.0**	**138.8**	**28**
National	33.6	21.0	19.8	29.6	-4	29.6	27.8	6
New India	39.7	45.9	63.9	77.0	25	91.1	68.0	34
Oriental	21.4	23.3	27.2	26.6	8	33.4	22.4	49
United India	33.1	32.4	34.9	24.1	-10	23.9	20.6	16
SAHI	**15.6**	**22.7**	**30.5**	**29.6**	**24**	**36.8**	**23.0**	**60**
Aditya Birla	1.5	2.3	4.1	6.1	58	7.3	4.8	54
HDFC ERGO Health*	4.9	5.8	5.9	0.0	-100	0.0	0.0	0
ManipalCigna	1.1	2.0	2.5	3.5	49	4.0	2.7	49
Max Bupa	1.0	1.7	3.1	3.1	44	4.7	2.4	95
Care Insurance	3.1	4.9	6.0	6.9	31	10.1	5.6	80
Star Health	**4.0**	**5.9**	**8.9**	**10.0**	**35**	**10.5**	**7.5**	**40**

Source: MOFSL, IRDA

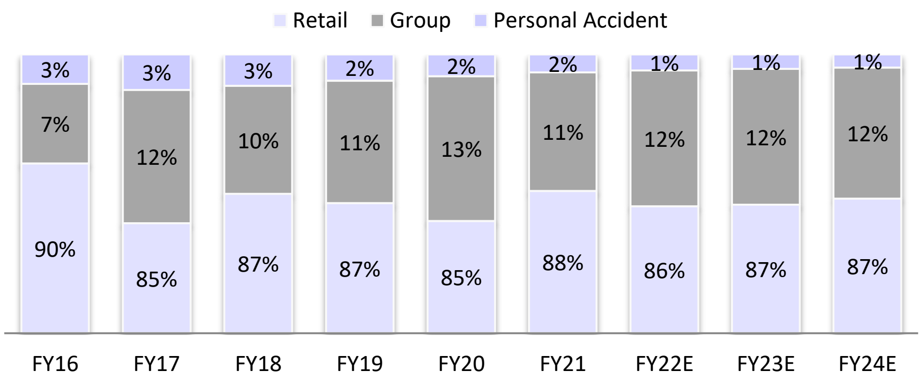
Star Health: Fastest growing player in Retail Health

Premium growth momentum to continue

- **Star Health, established in 2006, is India's first SAHI company.**
- **It is the largest private health insurer in India, with market share of 14.3%, GWP of INR86.9b in 10MFY22, Retail Health market share of 32%, and Group Health share of 3.4%.**
- **Retail Health and Group Health accounted for 86.0% and 12.6%, respectively, in 9MFY22. The retail health GWP was over 3x the retail health GWP of the next highest retail health insurance market participant.**
- **The FY18–21 CAGR stood as follows: Overall – 31.4%, Retail – 32.4%, Group – 35.3%, and Personal Accident (PA) – 8.5%.**
- **We expect STAR to post a 25% CAGR in gross premium during FY21–24E, led by a 25%/30%/13% CAGR in Retail Health / Group Health / Personal Accident.**

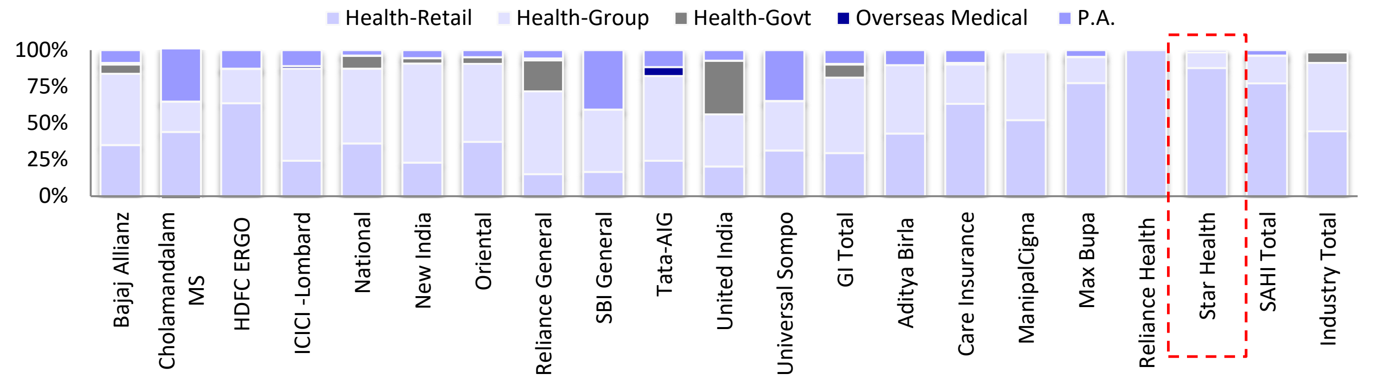
- Star Health's business mix is dominated by the Retail Health segment, which has 86% contribution to overall premium. This is attributable to its strong focus on the segment, visible from its leadership position, with 32% market share. Star Health, over the years, has outgrown the industry in the Retail Health segment and expanded its market share by 11% over FY18–21. The gap between Star Health's market share and that of the 2nd largest retail health player (HDFC Ergo – merged entity) has further widened to 22% from 10% during this period.
- Star Health has also built a dedicated vertical to deepen its presence in rural and semi-urban geographies. This would further fasten its pace of growth in the Retail Health segment and strengthen its market positioning.
- The Retail Health segment saw a robust 36% CAGR over FY16–21. The company saw a marginal slowdown in growth in 10MFY22 v/s other SAHIs. This was on the back of a higher base effect – as last year, newer product launches such as Covid Rakshak and Covid Kavach saw strong demand, but they saw limited renewals in FY22. As the base effect normalizes, we expect the growth momentum to return; over FY21–24E, the Retail Health segment would see a healthy 25% CAGR.

Exhibit 21: Business mix dominated by Retail Health



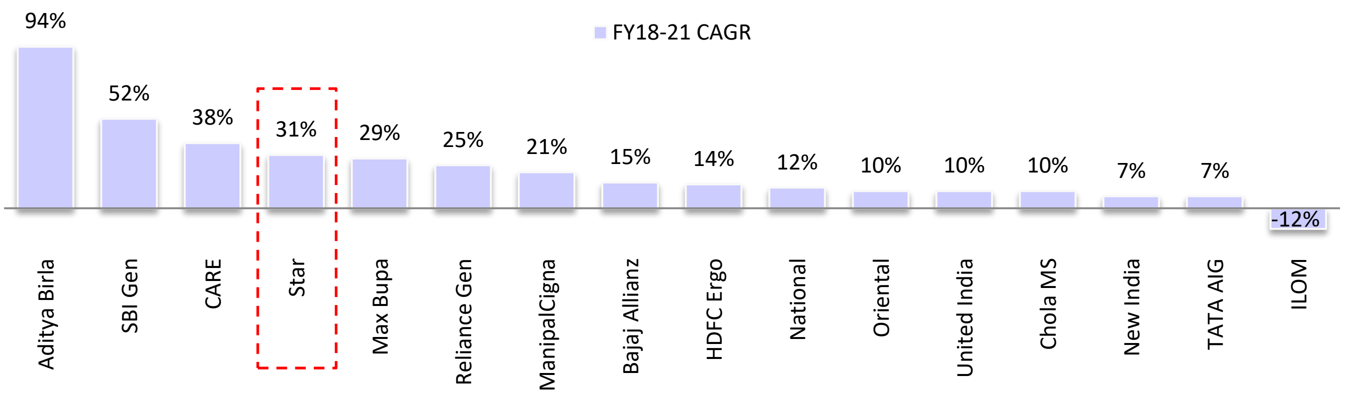
Source: MOFSL, Company

Exhibit 22: Highest share of business from Retail Health among large players



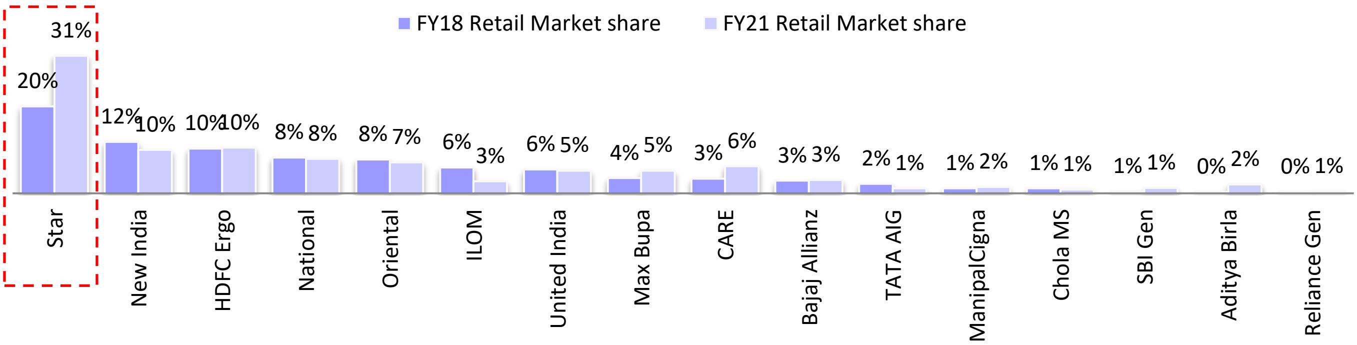
Source: MOFSL, Company

Exhibit 23: Among fastest growing companies in Retail Health…



Source: MOFSL, Company

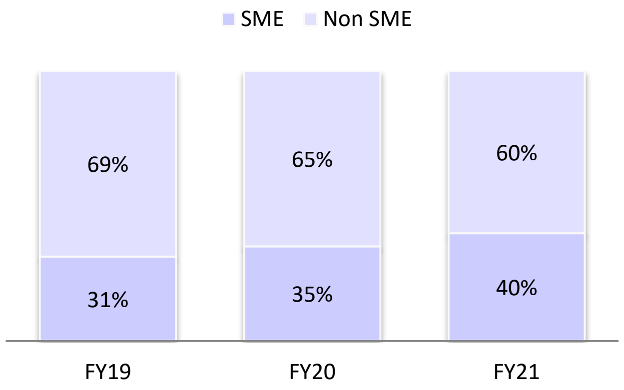
Exhibit 24: …despite being the largest player



Source: MOFSL, Company

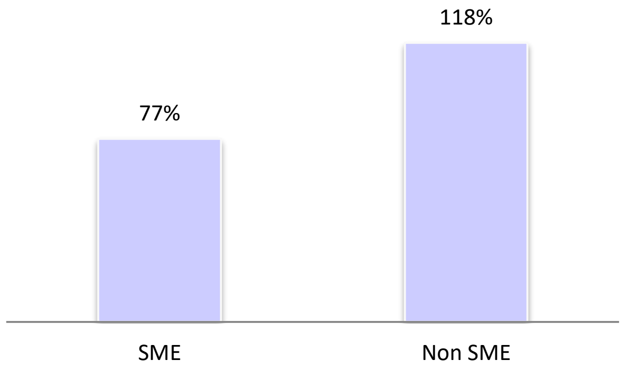
- The Group segment saw a sharp jump of 30% over FY19–21. This was primarily driven by SMEs, which grew 46.6% over this period. SMEs are the key focus area for STAR as it has adopted the strategy of being selective in undertaking risks to avoid aggressive pricing and increased competition in the wider mass market. STAR intends to increase its focus on the SME segment in the Group Health Insurance sector, wherein the loss ratio stood at just 77.3% in FY21 v/s 117.9% in the Non-SME Group segment. Furthermore, a robust agency franchise provides STAR the added advantage to expand its SME clientele. We expect the Group segment to grow at a faster pace, posting 30% CAGR over FY21–24E.

Exhibit 25: Continuous increase in share of SME segment…



Source: Company, MOFSL

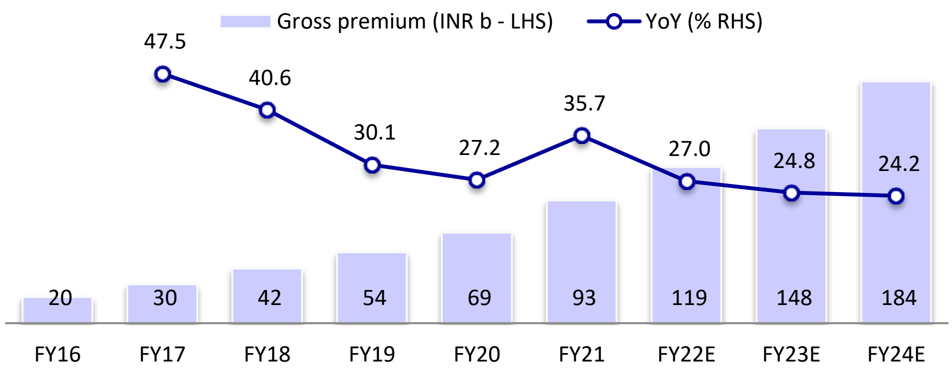
Exhibit 26: …as claims ratios favorable for SME business



Source: Company, MOFSL

- Overall, we expect the momentum in STAR's business to sustain, given the expected industry growth, and drive a further increase in market share – as the company increases its reach with individual agents and improves its productivity by increasing the share of sponsored agents, one of the key focus areas. Also, considering the pandemic situation and rising loss ratios, price hikes in the Health business are expected to come through with new product filings. Resultantly, we expect STAR to report a gross premium CAGR of 25% over FY21–24E. NEP is expected to grow at a higher CAGR of 44% over this period going forward.

Exhibit 27: Gross premium remains strong

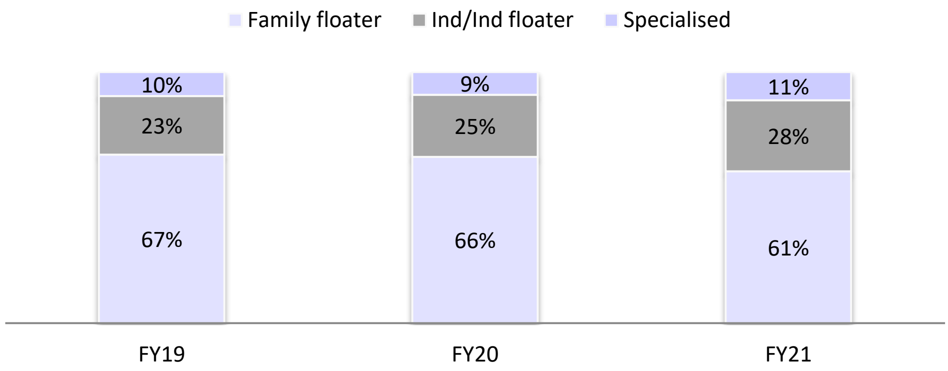


Source: MOFSL, Company

Wide bouquet of product offerings, with family floater dominating the mix

- In the Retail Health segment, STAR's product portfolio comprises individual (along with floater), family floater, and specialized policies – based on a) the age of the customers (such as Star Senior Citizens Red Carpet and Young Star) as well as b) the disease-profile of customers with pre-existing conditions (such as Diabetes Safe, HIV Care, and Star Cardiovascular Care). Such a wide product portfolio has been a key enabler for market share gains. In fact, STAR has the highest number of health products empaneled with the IRDAI.
- In FY21, family floater policies accounted for 60.5% of STAR's total retail health GWP, whereas individual and individual/floater policies accounted for 28.3%. The share of specialized policies increased to 11.2% in FY21 from 9.5% in FY19.

Exhibit 28: Declining share of family floater

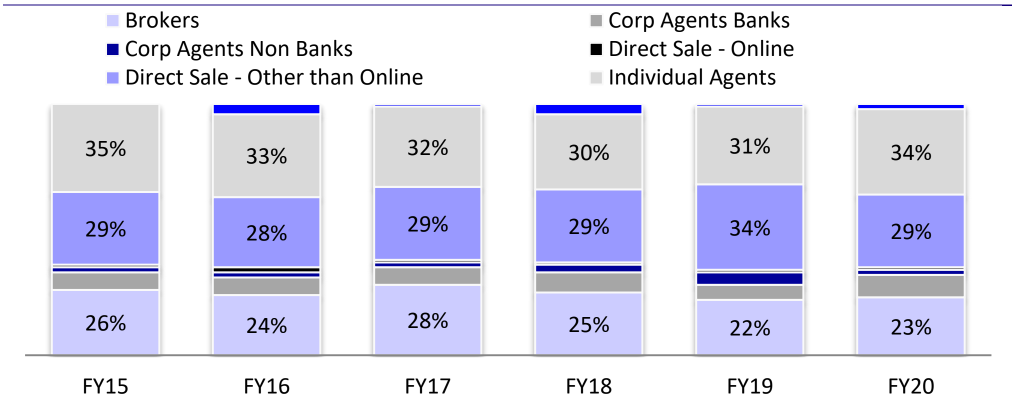


Source: MOFSL, Company

Wide distribution reach; agency accounts for 79% of premiums

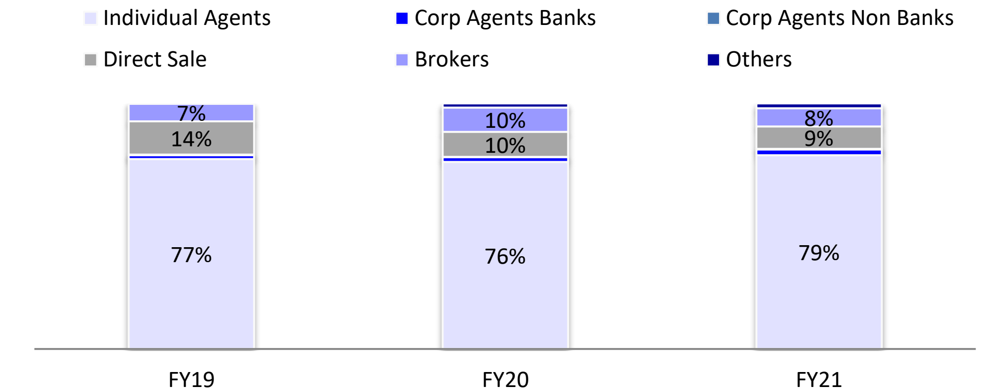
- Distribution plays a major role with regard to market share gains, especially in the Retail segment. STAR Health drives its distribution primarily through the agency channel, which accounted for 78.9% of the GWP in FY21. It has the strength of 0.46m individual agents, the highest among the SAHI companies. The management expects the agent addition run-rate at 0.1m p.a. to continue to further strengthen its agency channel.
- It is focusing strongly on improving its agent productivity. For this, the company has created a separate category of agents who are trained, called sponsored agents. It has also increasingly migrated its agents onto the technology platform. Resultantly, the productivity of such agents has turned out to be much higher than that of regular agents. The share of sponsored agents in STAR's network has increased to 12.7% (0.06m), at a CAGR of 44.7%, in the past few years.

Exhibit 29: Distribution mix for Health industry



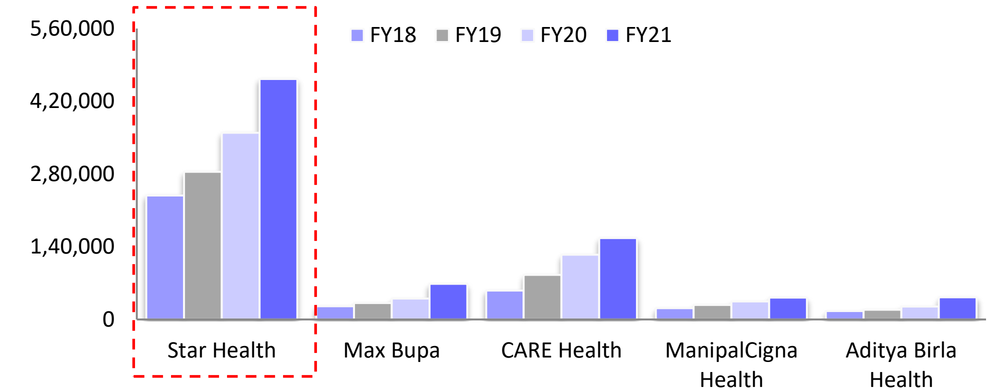
Source: MOFSL, Company

Exhibit 30: Distribution mix for Star Health dominated more by individual agents



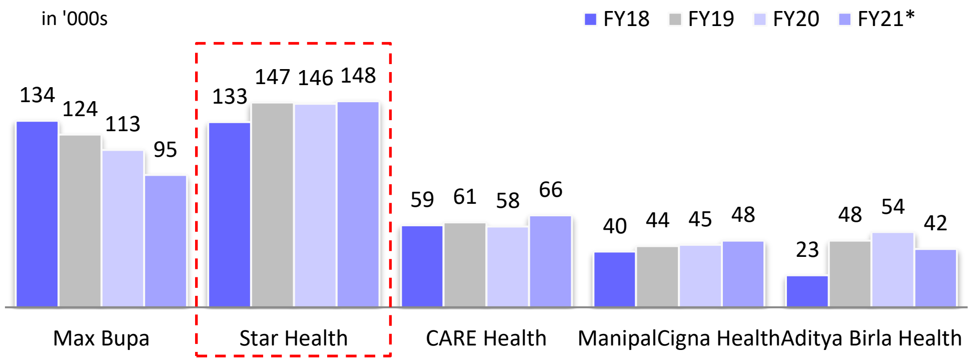
Source: MOFSL, Company

Exhibit 31: Highest number of individual agents among SAHIs



Source: MOFSL, Company

Exhibit 32: Highest in terms of per agent productivity



**Annualized premium based on Q3 Fiscal 2021 premium per Individual Agent* Source: MOFSL, Company

- Along with individual agents, STAR has tied up with banks such as Bank of Baroda, Punjab National Bank, and Karur Vysya Bank. It has also engaged with other corporate agents, such as Paytm and ICICI Securities. It also has tie-ups with fintech players such as Overall, and a network of 90+ corporate agents.
- As of 31st March 2021, its distribution network had grown to 779 health insurance branches, spanning 25 states and five union territories in India. Existing branches are further supplemented by an extensive network of over 562 sales manager stations (SMS; small individual service centers) and over 6,892 in-house sales managers.
- The company intends to leverage these non-agency channels by deepening its presence in addition to expanding its agency channel, adding to its overall premium growth. STAR expects its direct online channel to contribute 5% to its GWP in FY22 and further double over the next few years. It plans to enter into tie-ups with fintech players to offer its customers facilities such as BNPL and EMIs on premiums.

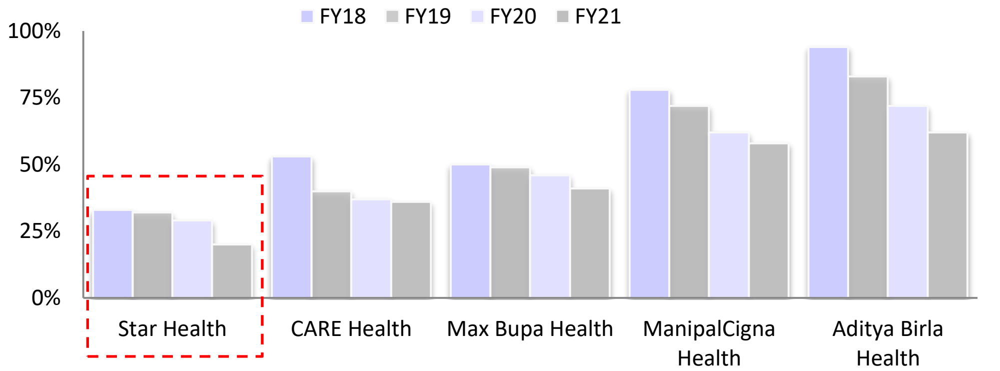
Deep association with 11k+ hospitals

- STAR has tied up with over 11k hospitals, and it has entered into pre-agreed arrangements with over 7k of these hospitals. More than 55% of the cashless claims processed have been through agreed network hospitals.
- The advantage of agreed network hospitals is that they typically offer better negotiated package-based pricing. Moreover, the average claim amount in these hospitals is lower than the average claim amount in non-agreed network hospitals.

Cost ratios improve substantially in past five years

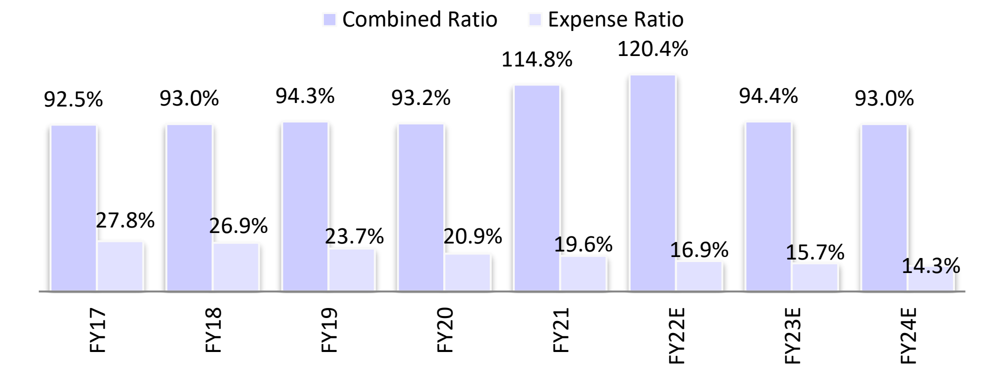
- STAR has seen a significant improvement in cost ratios over the past five years – employee costs as a percentage of NWP reduced to 12.4% in 9MFY22 from 21.2% in FY17. Other expenses as a percentage of NWP fell to 5.2% in 9MFY22 from 6.6% in FY17. The benefits have primarily come from scale advantage on the back of strong premium growth. We expect the trend in cost ratios to head south considering the strong growth in premium collections and increasing use of technology tapering off employee cost growth. Resultantly, the combined ratio is expected to be 93.0% by FY24E

Exhibit 33: Lowest expense ratio among SAHIs



Source: MOFSL, Company

Exhibit 34: Improving expense ratio and combined ratio

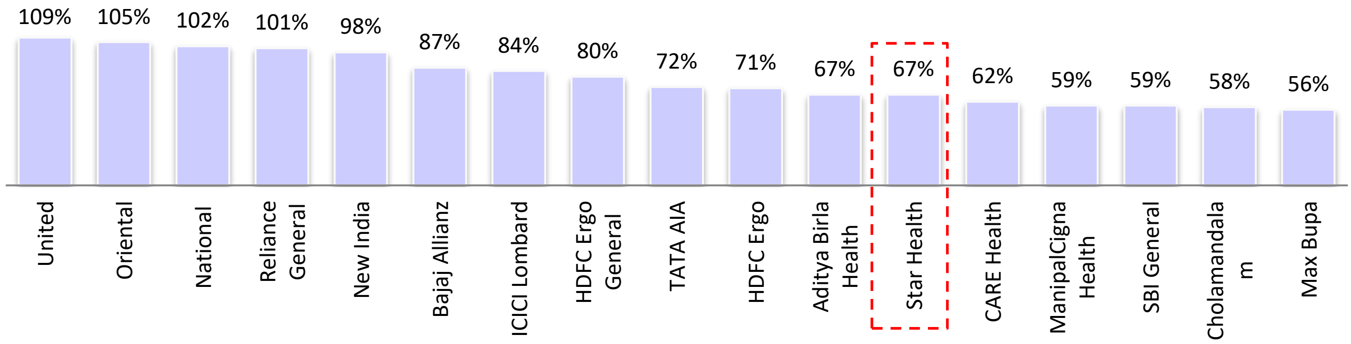


Source: MOFSL, Company

Claims ratio rises due to COVID, especially in FY20 and FY21; expected to normalize

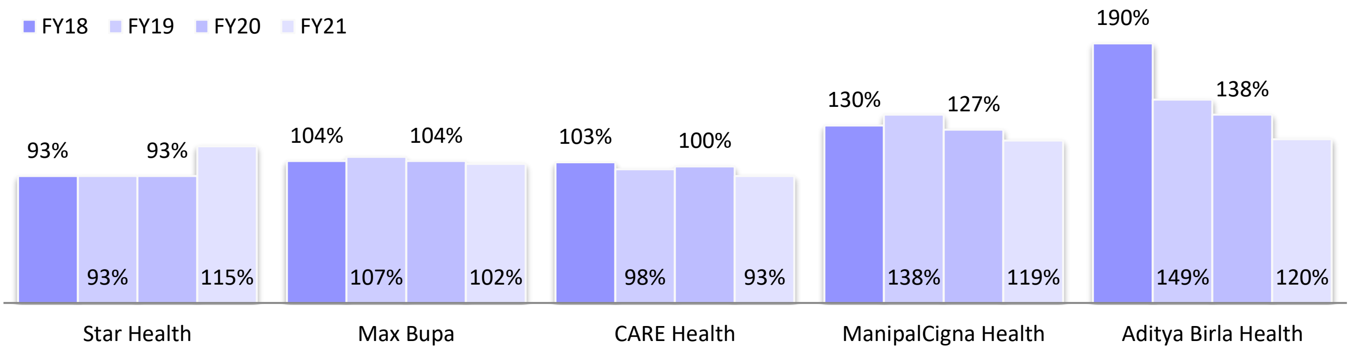
- STAR has complete in-house claims management capabilities, which has been a key customer service proposition.
- Gross claims as a percentage of gross premiums increased to 57.1% in FY21 and further inched up to 89.7% from 50.2% in FY17. A large portion of this spike was seen on back of severe impact by COVID claims.
  In FY21, STAR settled and paid 0.15m claims related to COVID-19, amounting to gross paid claims of INR15,286m. Excluding one-offs, the claims ratio for FY21 stood at 67%, better than that of most players in the industry. During 9MFY22, claims ratios continued to remain elevated at 94% led by new variant of Covid, excluding this, the claim ratio stood at 66.5%. Assuming there is no further COVID wave, we expect the claims ratio to normalize going ahead.

Exhibit 35: Among lowest claims ratio percentage (avg for FY18, FY19, FY20, 9MFY21)



Source: MOFSL, Company

Exhibit 36: Among lowest combined ratios, one-offs in FY21

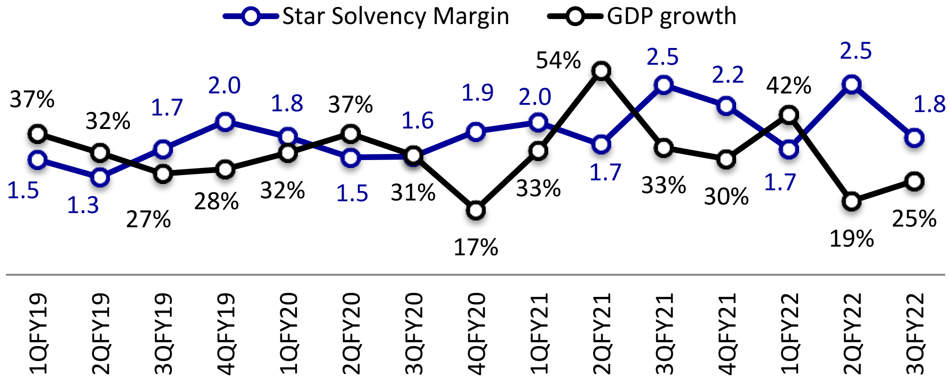


Source: MOFSL, Company

Recent fundraising leads to healthy solvency ratio; no further capital requirement expected by FY24E

The Health Insurance business is a high capital consumption business, and with high growth, the need for capital only increases. With a premium CAGR of 36%, the capital requirement or required solvency margin has seen a CAGR of 33%. The solvency ratio, resultantly, has been weaker at 1.5–1.6 over FY18–20, against the regulatory requirement of 1.5. In FY21, following the equity capital raise from promoters and other entities amounting to INR26b, the IPO fundraise of INR20b and subordinated debt of INR 4.7b, solvency has improved to 1.8x. In addition to this, Star also has board approval in place for further capital raise of INR2.3b via subordinated debt. The management believes with this level of healthy solvency, there will be no further capital requirement for the next 4–5 years.

Exhibit 37: Solvency margin and premium growth



Source: MOFSL, Company

Financial analysis and valuations

Financial performance adversely impacts one-offs in FY21

- The discontinuation of the Reinsurance Voluntary Quota Share Treaty (VQST) on a clean-cut basis with effect from 1st April 2021 led to the one-time impact of a reduction in net premiums of INR4,833m – on account of portfolio entry without corresponding portfolio withdrawal. The discontinuation of said reinsurance treaty further resulted in the creation of additional unearned premium reserve (UPR) of INR4,371m, with a corresponding increase in loss before tax and a reduction in 'Reserves and Surplus' as of 31st March 2021.

IRDAI Circular on clean cut reinsurance treaties

- Creation of UPR and Outstanding Claims Reserve (Including IBNR/IBNER) for Premium Ceded under Clean-cut Reinsurance Treaties
- It is observed that some insurers enter into one-year Quota Share Reinsurance Treaty on Clean-cut basis. The provision towards the unexpired premium reserve / IBNR / IBNER, on such treaties, is neither provided by Direct insurer (cedant) nor by the reinsurer(s).
- It is hereby advised that Direct insurers (cedant) shall create the adequate reserves, as follows, in accordance with the IRDAI (Assets, Liabilities and Solvency Margin of General Insurance Business) Regulations, 2016:
- Unearned Premium Reserve and Premium Deficiency Reserve towards the unexpired risk at the end of the treaty period; and
- Outstanding Claims Reserve (including IBNR/IBNER) towards the outstanding claims on the date of expiry of the treaty.

https://www.irdai.gov.in/ADMINCMS/cms/whatsNew_Layout.aspx?page=PageNo3816&flag=1

- During the year, the company changed its accounting policy for the provisioning of UPR from the 50% method to the 1/365 method effective from 31st March 2021. This necessitated a reduction in the net premium earned by INR5,761m.
- COVID-19 net paid claims have an average claims paid size of INR0.08m (compared with an average non-COVID-related net paid claims size of INR0.04m) due to longer hospitalization days and the severity of the COVID-19 disease. The higher average claims paid on account of COVID-19 claims resulted in an exceptional net incurred claims impact of INR6,158m in FY21.
- In FY21, 2,453,190 shares were issued as sweat equity to the Chairman & CEO at a face value of INR10 per share, for which experts determined a fair value of INR182 per share. The difference between the fair value and issue price of INR421.95m is accounted as 'Compensation Cost' in the P&L account and credited to 'Reserves and Surplus'. The said difference is taxable as perquisites in the hands of the Chairman. Moreover, as authorized by the shareholders, the income tax of INR181.40m paid thereafter has been accounted for as 'Compensation Cost' in the P&L account.

Exhibit 38: Adjusted incurred claims ratio

Particulars	INR m	COVID Claims	INR m
1/365 change	5,761		
VQT discontinuance Premium hit	4,833	No of claims settled (mn)	0.15
VQT discontinuance IBNR hit	4,371	Gross claims	15,286
Total UPR Hit	14,965	Per claim (INR)	1,01,909
Actual Unexpired risk reserve	21,219	Outstanding claims	1,103
Net off one time	6,254	Gross incurred claims	16,390
		Net incurred claims	12,061
Actual NEP	50,228	Reinsurance claims	4,329
Add: one time hit	14,965	Impact of higher ticket size of COVID claims	6,158
Adjusted NEP	65,193		
Incurred claims	43,695		
Incurred claims ratio – actual	87.0%		
Incurred claims ratio – adjusted	67.0%		
COVID Claims	6,158		
Net off COVID Claims	37,537		
Incurred claims ratio – adjusted	57.6%		

Source: MOFSL, Company

Strong premium growth ahead; 25%/44% gross premium/NEP CAGR

We expect the gross premium for STAR to witness a 25% CAGR during FY21–24E, led by a 25%/30%/13% CAGR in Retail Health / Group Health / Personal Accident. NEP growth is expected to be higher at 44% owing to the lower base of FY21, when the company had to create additional URR, which impacted NEP growth. However, over the medium term, NEP growth would mirror the growth in gross premium.

Combined ratios to see steady improvement, driven by cost ratio

STAR's combined ratio should see steady improvement going ahead as the claims ratios normalize in the post-COVID phase and the benefits of operating leverage further drive down the expense ratio. We expect the combined ratio to significantly improve from an expected 120.4% in FY22 to 93.0% in FY24E.

Peer comparison

Exhibit 39: Health Insurance in India – peer comparison

	Star Health		Care Health		Max Bupa		ICICI Lom		New India		BAGIC		Tata AIG	
	FY18	FY21	FY18	FY21	FY18	FY21	FY18	FY21	FY18	FY21	FY18	FY21	FY18	FY21
Mix (%)														
Retail	87	88	56	63	84	77	44	24	29	23	31	35	36	24
Group	10	11	28	27	14	18	30	63	53	68	46	49	20	58
Govt	0	0	0	0	1	0	2	0	12	4	3	6	0	0
PA	3	2	9	9	1	5	18	11	6	5	12	9	24	12
Others	0	0	5	1	0	0	7	2	0	0	8	1	21	6
Mkt Share (%)														
Retail	23	31	4	6	4	5	7	3	14	10	3	3	2	1
Group	2	4	2	2	1	1	4	7	22	29	5	4	1	3
Govt	0	0	0	0	0	0	1	0	28	10	2	3	0	0
PA	3	3	2	4	0	2	10	7	11	12	4	4	4	3
GWP (INR b)	41.6	93.5	10.9	25.6	7.5	17.5	23	30.2	76.6	115.7	16.9	24	7.2	13
NWP (INR b)	32.0	71.4	8.2	19.8	5.1	13.5	16.3	26	68.5	107.4	15.7	18.3	5	11.2
NEP (INR b)	27.4	50.2	6.8	17.3	5.8	11.5	13.5	25.6	64.8	102.6	13.3	18.2	4.2	9.1
Ratio (%)														
Claims	62	87	51	55	50	56	68	78	103	93	78	77	60	67
Commission	4	8	-5	1	5	5	-20	1	8	7	8	6	-19	9
Expense	27	20	53	36	57	41	29	24	17	20	21	26	38	25
Combined	93	115	99	93	111	102	77	103	128	120	107	109	80	101
U/W profit (INR b)	0.5	-13.3	-0.7	0.3	-0.3	-1.1	2.1	-0.9	-19	-21	-1.5	-1.7	0.7	-0.8

Source: MOFSL, Company

Exhibit 40: Global Health Insurance – peer comparison

	Revenue		PAT		ROE		P/E	
(in USD b)	CY21	CY22	CY21	CY22	CY21	CY22	CY21	CY22
United Health Group Inc	346	377	23.1	25.8	26.8	28.0	19.9	17.4
Cigna Corp	189	199	7.4	7.9	15.7	15.4	9.0	8.1
Centene Corp	140	149	3.7	4.3	11.9	13.0	13.3	11.3
Humana Inc	101	110	3.4	3.9	17.3	16.7	15.8	14.1
Anthem Inc	161	175	7.7	8.6	18.1	19.2	14.3	12.5
Molina Healthcare Inc	31	33	1.1	1.3	25.6	27.2	15.9	13.9

Source: MOFSL, Bloomberg

Valuations reasonable at FY24E P/E of 32.5x

Initiate with a BUY rating

STAR Health would be the first SAHI to be listed in India. Among the general insurers, ICICI Lombard and The New India Assurance Co are direct plays, whereas GIC Re is an indirect play on the overall general insurance growth story. However, STAR offers a unique proposition to play the fastest growing segment in the General Insurance space. Given the market leadership in the Retail Health business, strong earnings growth prospects (25%+ CAGR), limited cyclicality risk (commercial lines and motor insurance have high cyclicality), and a healthy RoE profile (15–17% in the medium term), we believe the stock deserves a premium. We have taken the discounted PAT approach to calculate fair P/E of 40x. On consensus estimates, ICICI Lombard trades at FY24E P/E of 25x. The relative premium for Star is justified as 1) Star is focused on the fastest growing segment in the GI business, whereas ICICI Lombard relies on cyclical segments, 2) higher earnings growth, and 3) higher contribution from underwriting profit v/s investment income. Based on the same, we arrive at fair value of INR750. We initiate coverage with a BUY rating.

Exhibit 41: Discounted PAT approach to valuation

Particulars	Value
FY25-30 Growth	20.0%
FY31-35 Growth	15.0%
FY35-40 Growth	10.0%
Terminal PAT growth	8.0%
Cost of equity	14.2%
Discounted value (INR b)	199
Terminal value discounted (INR b)	230
Fair value (INR b)	**429**
No of shares (m)	570
Per share (INR)	**750**
FY24E EPS	19
Fair P/E (x)	40
CMP (INR)	609
Upside	**23%**

Source: MOFSL, Company

SWOT analysis

Strengths

- Distribution reach, especially through individual agents
- In-house claims settlement process aids strict vigilance over fraudulent claims and control over costs
- Tie-ups with hospitals across the country
- Wide variety of products, addressing all customer segment needs
- One of the few companies in the Health segment to report underwriting profit
- Strong management

Weaknesses

- Higher revenue concentration on one product could pose risk
- Capital requirement is huge

Opportunities

- Highly underpenetrated market, with just 3% of the population covered under individual schemes
- COVID-19 has increased awareness among customers and there is a strong pull
- Digitalization of health records would provide easier access and enable a smoother claims process
- New platforms are enabling the easier processing of health insurance applications

Threats

- High competitive intensity in the segment with overall 30 players (24 Pvt + 4 PSUs + 5 SAHIs)
- Another COVID-like pandemic could significantly dent profitability
- Pricing in Group segment continues to be a challenge given stiff competition

Bulls and Bears Scenario analysis

Base case

- ☑ We expect Retail Health / Group Health / Personal Accident GWP to grow by 25%/30%/13% in CAGR in FY21-24E.
- ☑ We assume claims paid as a percentage of GWP at 90%/ 65%/ 65% over FY22–24E.
- ☑ Investment yields are assumed at 6.2% each year.
- ☑ The resultant combined ratio is estimated to be 120.4%, 94.4%, and 93.0% in FY22, FY23, and FY24, respectively.
- ☑ We estimate PAT of INR10.8b in FY24.

Bull case

- ☑ We expect Retail Health/ Group Health / Personal Accident GWP to be higher by 3%/3%/3% over FY22–24E.
- ☑ We assume claims paid as a percentage of GWP to be lower by 1% each year over FY22–24E.
- ☑ Investment yields v/s base assumptions are assumed to be higher by 20bps every year.
- ☑ The resultant combined ratio is expected to improve by 240bps, 220bps, and 180bps in FY22, FY23, and FY24, respectively.
- ☑ Compared with the base case assumption of PAT of INR10.5b, we see PAT of INR14.7b in FY24.
- ☑ At 50x the fair value works out to INR1,280 per share

Bear case

- ☑ We assume Retail Health / Group Health / Personal Accident GWP growth to slow and be lower by 3%/3%/3% each year over FY22–24E.
- ☑ Claims paid as a percentage of GWP are expected to be higher by 1% each year over FY22–24E.
- ☑ Investment yields v/s base assumptions are assumed to be lower by 20bps each year over FY22–24E.
- ☑ The resultant combined ratio is estimated to increase by 46bps, 145bps, and 240bps in FY22, FY23, and FY24, respectively, v/s our base case assumption.
- ☑ Compared with the base case assumption of PAT of INR10.8b, we see PAT of INR7.0b in FY24.
- ☑ At 35x the fair value works out to INR428 per share

Exhibit 42: Scenario analysis

	Actual	Base Case			Bull Case			Bear Case		
	FY21	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY23
GWP	93.5	118.8	148.2	184.1	121.6	155.4	197.7	115.9	141.2	171.2
Growth (%)	35.7	27.0	24.8	24.2	30.0	27.8	27.2	24.0	21.8	21.2
NEP	50.2	104.9	119.8	148.8	107.4	122.7	156.1	102.5	111.5	135.2
YoY growth (%)	7.0	108.9	14.2	24.2	113.8	14.2	27.2	104.0	8.9	21.2
Underwriting Profit	-13.3	-23.5	1.0	3.7	-21.3	3.4	6.2	-23.4	-1.4	-0.9
YoY growth (%)	-918.8	76.3	-104.3	265.7	60.3	-115.9	81.3	75.4	-94.2	-32.8
Operating Profit	-10.7	-19.6	6.4	11.0	-17.4	9.0	13.8	-19.8	3.5	5.3
YoY growth (%)	-396.9	83.2	-132.7	70.7	62.6	-151.4	54.3	84.7	-117.5	54.7
PAT	-8.3	-13.0	7.0	10.8	-14.8	9.8	14.7	-13.4	4.8	7.0
YoY growth (%)	-403.6	57.6	-153.6	55.4	79.1	-166.4	50.2	61.7	-135.7	47.6
Claims ratio	87.0	90.1	65.3	65.3	89.0	65.7	65.7	91.1	68.1	68.0
Commission ratio	8.2	13.5	13.5	13.5	13.1	11.2	11.2	13.2	11.3	11.4
Expense ratio	19.6	16.9	15.7	14.3	16.0	15.3	14.3	16.6	16.5	16.0
Combined Ratio	114.8	120.4	94.4	93.0	118.0	92.2	91.2	120.9	95.9	95.5

Source: MOFSL, Company

Key management personnel

Venkatasamy Jagannathan, Chairman and CEO

He holds a master's degree in economics from Annamalai University, Tamil Nadu. He has more than 47 years of experience in the Insurance industry. He has previously worked with United India Insurance Company in the capacity of Chairman and Managing Director.

Subbarayan Prakash, Managing Director

He holds a bachelor's degree in medicine and surgery from the Bharathidasan University, Tamil Nadu, and a master's degree in surgery in the branch of general surgery from the Tamil 195 Nadu Dr. M.G.R. Medical University. He has several years of experience as a surgeon and has previously worked with Saudi Operation & Maintenance Company Limited as a Specialist in General Surgery/Traumatology.

Anand Shankar Roy,Managing Director

He holds a bachelor's degree in commerce from the University of Madras and a post-graduate diploma in management from International Management Institute, New Delhi. He has 21 years of experience in the Insurance industry and has previously worked with American Express Travel Related Services and ICICI Lombard General Insurance Company Limited.

Nilesh Kambli, CFO

He holds a bachelor's degree in commerce from the University of Mumbai. He has cleared the final examination held by the Institute of Chartered Accountants of India. He has previously worked with Bharti AXA General Insurance Company Limited, Citicorp Finance (India) Limited, and ICICI Lombard General Insurance Company Limited. He joined the company as CFO in 2020.

Aneesh Srivastava, CIO

He holds a bachelor's degree in science and a master's degree in business administration from Lucknow University. He is a member of the Council of Chartered Financial Analysts. He has over 25 years of experience in fund management and the Insurance industry. He has previously worked with Bajaj Allianz Life Insurance Company Limited, IDBI Fortis Life Insurance Company Limited, India Advisory Partners Private Limited, and Sahara India. He joined the company as Chief Investment Officer in 2020.

Kannaiyapillai Harikrishnan, Sr Exe Director – Marketing

He holds a bachelor's degree and master's degree in veterinary sciences from the Tamil Nadu Agricultural University. He is also an Associate of the Insurance Institute of India. He has several years of experience in the Insurance industry and has previously worked with United India Insurance Company Limited. He joined the company as Zonal Manager in 2008.

Sriharsha Anant Achar, Chief HR Officer

He holds a bachelor's degree in engineering from the University of Bombay and a Doctor of Business Administration degree in human resource management from the University of Canterbury, New Zealand. He has previously worked with HDFC ERGO General Insurance Company Limited, Apollo Munich Health Insurance Company Limited, and Apollo Hospitals Enterprise Limited. He joined the company as Chief Human Resource Officer in 2020.

Margabandhu Radhakrishnan, Chief Risk Officer

He holds a master's degree in commerce from the University of Madras. He has previously worked with Reliance General Insurance Company Limited. He joined the company as Senior Executive - Technical Department in 2007.

Chandra Shekhar Dwivedi, Appointed Actuary

He holds a bachelor's degree in technology from Kanpur University and a Master of Business Administration degree from the Sikkim Manipal University, Sikkim. He joined the company as Assistant Vice President in 2019 and was assigned the role of Appointed Actuary of the company. He has previously worked with Universal Sompo General Insurance Company Limited and KA Pandit Consultants and Actuaries.

Risk factors

- While the COVID-19 pandemic did bring a pull for demand for health insurance, it also brought along with it a higher claims ratio. Further COVID waves could be detrimental to earnings given the severity of COVID-19 claims is 2x non-COVID-19 claims. **During FY21/H1FY22, on account of COVID-19, gross incurred claims amounted to INR16.4b/INR18.1b, whereas net incurred claims amounted to INR12b/INR17b. For 9MFY22, claims ratios has remained elevated at 94% on back of covid claims, excluding which the claims ratio would have been at 66.5%.**
- The increase in competition from multi-line general insurers could pose a risk to STAR's growth.
- The extension of coverage of government schemes, such as Ayushman Bharat, to 'beyond BPL' families could slow the industry growth rate.
- Failure to accurately estimate incurred medical expenses or the frequency of claims used in the pricing of products could have a materially adverse effect on the business.
- Catastrophic events, such as natural disasters, could materially increase the claims liabilities by policyholders, resulting in losses.
- Adverse movement in investment yields could impact investment income.

Financials and Valuation

Income Statement (INR M)

Y/E March	2018	2019	2020	2021	2022E	2023E	2024E
Retail Health	36,291	46,789	58,252	82,075	1,02,594	1,28,243	1,60,303
Group Health	4,026	5,938	8,897	9,963	14,447	18,058	21,670
PA	1,165	1,270	1,337	1,489	1,712	1,918	2,148
Total GDPI	**41,611**	**54,154**	**68,907**	**93,490**	**1,18,753**	**1,48,219**	**1,84,121**
Change (%)	40.6	30.1	27.2	35.7	27.0	24.8	24.2
NWP	31,961	41,415	52,614	71,448	1,11,628	1,39,326	1,73,074
NEP	**27,397**	**35,795**	**46,930**	**50,228**	**1,04,930**	**1,19,820**	**1,48,844**
Change (%)	43.3	30.7	31.1	7.0	108.9	14.2	24.2
Net claims	16,921	22,976	30,874	43,695	94,504	78,245	97,198
Net commission	1,366	2,637	3,409	5,838	15,034	18,765	23,310
Expenses	8,613	9,827	11,020	14,014	18,871	21,809	24,673
Employee expenses	6,291	7,220	8,536	11,750	13,513	15,540	17,404
Other expenses	2,322	2,607	2,484	2,264	5,358	6,270	7,269
Underwriting Profit/(Loss)	**497**	**355**	**1,626**	**-13,318**	**-23,478**	**1,002**	**3,663**
Investment income (PH)	887	1,398	1,866	2,606	3,857	5,422	7,299
Operating profit	1,384	1,648	3,608	-10,712	-19,621	6,424	10,962
Investment income (SH)	544	612	989	1,618	2,892	3,592	4,292
PBT	**1,712**	**1,823**	**4,134**	**-10,460**	**-17,352**	**9,300**	**14,452**
Tax	10	540	1,415	-2,204	-4,338	2,325	3,613
Tax rate (%)	0.6	29.6	34.2	21.1	25.0	25.0	25.0
PAT	**1,702**	**1,283**	**2,720**	**-8,256**	**-13,014**	**6,975**	**10,839**
Change (%)	44.2	-24.6	112.0	NA	NA	NA	NA

Balance sheet (INR M)

Y/E March	2018	2019	2020	2021	2022E	2023E	2024E
Equity Share Capital	4,556	4,556	4,906	5,481	5,755	5,755	5,755
Reserves & Surplus	5,040	7,726	11,530	29,516	43,744	50,719	61,558
Net Worth	**9,596**	**12,282**	**16,437**	**34,996**	**49,499**	**56,474**	**67,313**
FV change	-	-	31	-76	-	-	-
Borrowings	2,500	2,500	2,500	2,500	7,200	7,200	7,200
Other liabilities	21,374	33,943	42,300	67,589	76,457	1,04,829	1,33,681
Total Liabilities	33,470	48,725	61,267	1,05,010	1,33,156	1,68,503	2,08,194
Investments (SH)	8,658	9,523	14,782	26,321	41,321	51,321	61,321
Investments (PH)	12,988	20,778	28,117	42,046	62,243	87,489	1,17,784
Net Fixed Assets	969	981	1,019	990	1,040	1,090	1,140
Def Tax Assets	-	1,420	1,467	4,213	7,500	7,500	7,500
Current Assets	5,834	7,093	9,767	12,650	9,500	11,858	14,730
Cash & Bank	5,021	8,930	6,114	18,790	11,553	9,246	5,720
Total Assets	**33,470**	**48,725**	**61,267**	**1,05,010**	**1,33,156**	**1,68,503**	**2,08,194**

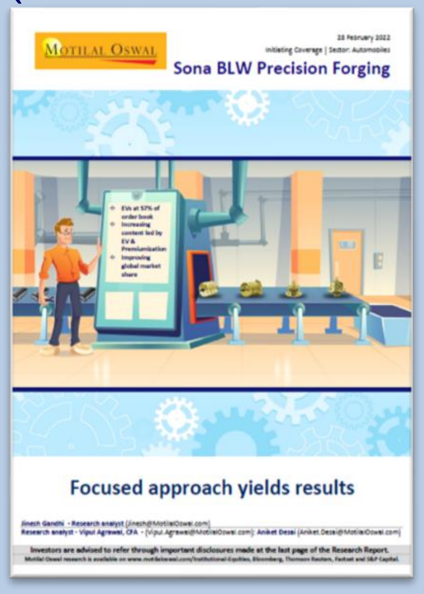
Financials and Valuation

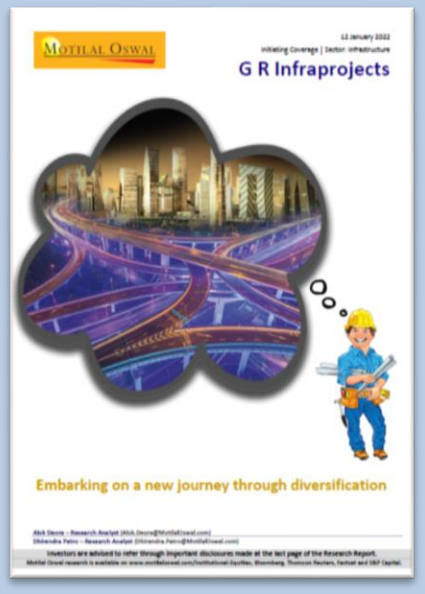
Ratios							
Y/E March	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
GWP growth	40.6	30.1	27.2	35.7	27.0	24.8	24.2
NWP growth	40.0	29.6	27.0	35.8	56.2	24.8	24.2
NEP growth	**43.3**	**30.7**	**31.1**	**7.0**	**108.9**	**14.2**	**24.2**
Claim ratio	61.8	64.2	65.8	87.0	90.1	65.3	65.3
Commission ratio	4.3	6.4	6.5	8.2	13.5	13.5	13.5
Expense ratio	26.9	23.7	20.9	19.6	16.9	15.7	14.3
Combined ratio	**93.0**	**94.3**	**93.2**	**114.8**	**120.4**	**94.4**	**93.0**
Profitability Ratios (%)							
RoE	19.5	11.7	18.9	-32.1	-30.8	13.2	17.5
Valuations	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
BVPS (INR)	21.1	27.0	33.5	63.9	86.0	98.1	117.0
Change (%)	21.5	28.0	24.3	90.6	34.7	14.1	19.2
Price-BV (x)	**34.6**	**27.0**	**21.7**	**11.4**	**7.1**	**6.2**	**5.2**
EPS (INR)	3.7	2.8	5.5	-15.1	-22.6	12.1	18.8
Change (%)	44.2	-24.6	96.8	-371.7	50.1	-153.6	55.4
Price-Earnings (x)						**50.5**	**32.5**

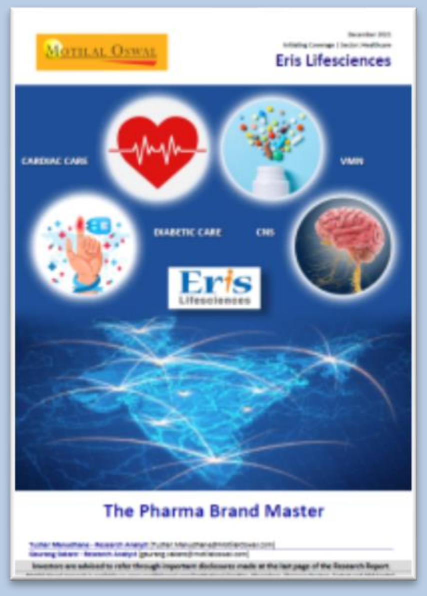
E: MOFSL Estimates

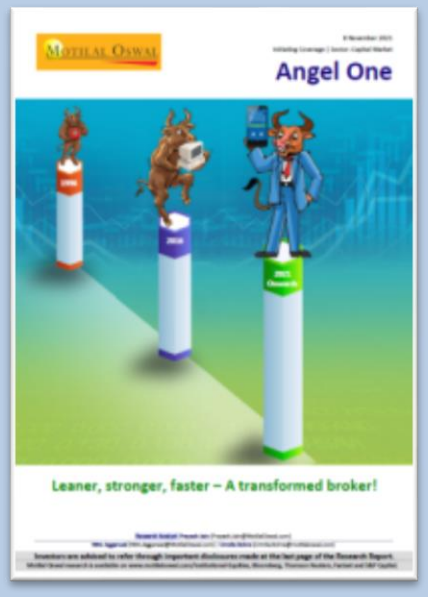
REPORT GALLERY

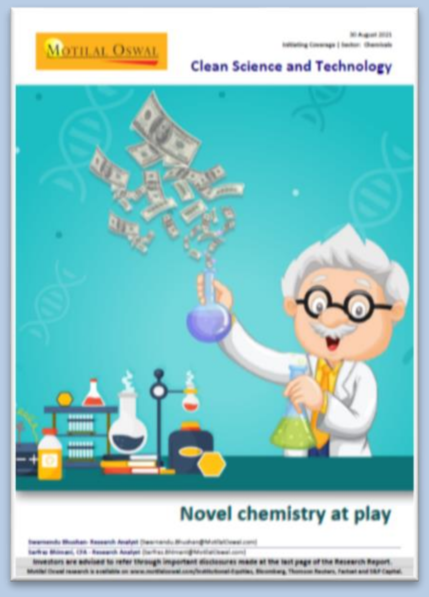
RECENT INITIATING COVERAGE REPORTS











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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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