

CMP: ₹704

Target: ₹ 825(17%)

Target Period: 12 months

May 4, 2022

BUY

Promising outlook going ahead

About the stock: Star Health is the largest standalone insurer engaged in health insurance segment with relatively superior market share, operating performance.

- Star Health is a market leader in the retail health insurance segment with ~33% market share, as of March 2022
- Star Health has 807 branches and 12000+ network hospitals, with a presence in 25 states and five union territories

Q4FY22 Results: Star Health reported continuance of healthy premium growth.

- GWP up 13% YoY and 36% QoQ to ₹ 3689 crore, NWP up 32.6% YoY
- Claims down 32.5% QoQ to ₹ 1784 crore, commission up 41% QoQ
- Underwriting loss at ₹ 217 crore vs. a loss of ₹ 1292 crore YoY
- Combined ratio (as reported) at 98.4% vs. 135.7% QoQ
- Net loss was at ₹ 82 crore vs. a loss of ₹ 956 crore YoY

What should investors do? Star Health is expected to maintain its leadership in retail health segment with sustainable long term growth opportunity. Premium growth at ~20-23% CAGR & focus on underwriting profit is seen keeping RoE ahead of peers.

- We maintain **BUY** rating on the stock

Target Price and Valuation: We value Star Health at ~2.6x FY24E GDPI (53x FY24E EPS) at ₹ 825, considering two metrics - price to premium (GWP) and price to float.

Key triggers for future price performance:

- Under penetration & lower density provides long term growth opportunity
- Market leadership to sustain with new product launches & inching up customer sum assured
- Continued focus on strengthening agency channel along with digital & banca tie ups to boost business growth. Increasing hospital network to keep a tab on claims coupled with better customer experience
- Subsiding of Covid claims to boost profitability & solvency

Alternate Stock Idea: Apart from Star Health, we like HDFC Life Insurance.

- It is among the most dominant players in the Indian life insurance industry
- BUY with target price of ₹670



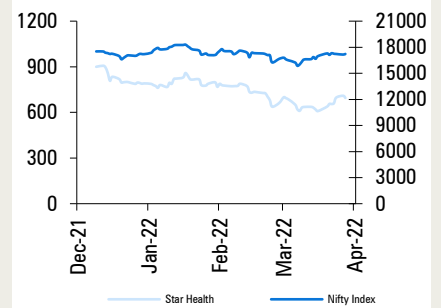
Particulars

Particulars	Amount
Market Capitalisation	₹ 40490 crore
52 week H/L	940/603
Net Worth	₹ 4513 crore
Face Value	₹ 10

Shareholding Pattern

(in %)	Dec-21	Mar-22
Promoter	58.9	58.9
FII	9.9	9.8
DII	27.4	27.3
Others	3.75	4.02

Price performance



Key Highlights

Claims ratio down from 94.4% to 87.1% for FY22

Key risk: i) Increasing competition could limit pricing power ii) pandemic may impact profitability

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Key Financial Summary

	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-FY24E)
Gross written premium (GWP)	6890.7	9388.5	11739.6	29.4	14847.0	18564.0	25.8
Net Incurred Claims	3087.4	4369.5	8727.5	56.0	8659.5	10335.3	8.8
Underwriting Profit/Loss	168.4	(1331.8)	(2127.2)	NA	162.6	426.8	NA
Profit after Tax	272.0	(825.6)	(1203.6)	NA	632.6	889.6	NA
NWP/Net Worth (x)	3.2	1.7	1.8		2.2	2.7	
Price/Float (x)	0.9	0.6	0.4		0.3	0.3	
P/GWP (x)	0.6	0.4	0.3		0.3	0.2	
P/E (x)	151.5	(49.9)	(34.3)		65.5	46.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: steady quarter; outlook optimistic

- Star Health reported a good set of numbers on the business growth front as gross written premium was up 36.4% QoQ and 13.1% YoY to ₹ 3689 crore. Growth in net written premium (NWP) on a yearly basis was higher than gross figures at 32.6% YoY to ₹ 3473 crore, as lesser premium was ceded with re-insurers, while sequentially NWP was up 35.9%
- Earned premiums also showed healthy growth of ~4x to ₹ 2621 crore but sequentially it showed modest growth of 3.7% as higher chunk of policies may have been written during end of the quarter
- Retail health business showed a strong traction of 51.3% YoY and 27.2% QoQ (data taken from general insurance council), this segment now forms ~93% of total premium. Group health business declined 18% YoY as the company exits some loss making large corporate business
- Incurred claims declined sequentially by 32.5% to ₹ 1784 crore mostly due to waning impact of third wave of pandemic, claims ratio for the quarter came in at 68.09% against 104.5% in the previous quarter. Commission expenses jumped 41% QoQ and ~4.5x YoY as business picked up momentum and as a result of which net commission ratio increased 57 bps QoQ to 14.6% for the quarter, and for full year ended FY22 it was at 13.8%
- Management expense ratio for the quarter and full year came in at 30.17% and 30.12%, respectively, thus combined ratio (as reported) for the quarter came in at 98.42%. The company posted underwriting loss of ₹ 217.2 crore as combined ratio (calculated) basis reached just over 100% mark
- Total float was up 66% YoY to ₹ 11373 crore. This was mainly due to healthy gross premium growth and higher net retention. Thus investment income (shareholder + policyholders) came in at ₹ 180 crore, up 46.2% YoY
- The company on an overall basis posted a loss of ₹ 82 crore against our expectation of a loss of ₹ 162 crore

Q4FY22 Earnings Conference Call highlights

- Retail health continues to see good traction. Maintained ~33% market share in retail segment
- Also, 80% business contribution from agency, added ~87000 agents last year
- Exited some group health insurance business for improving profitability
- Remain positive on SME and non-employer segment in group business
- Digital sourcing was up 34% YoY and accounts for 40% of overall GWP
- Normalised claim ratio to pre-Covid levels in Q4. Provisional claim ratio for April 2022 is around 67.6%
- Total ₹ 1200 crore worth Covid claims came in Q4FY22 due to omicron variant, ex-Covid claims ratio would have been ~53%
- Gross INBR reserves at ₹ 397 crore
- Expect growth in retail segment to be around mid-20s level
- Specialised products form 15% of overall GWP mix
- Taken hike in one of the premium products in retail health
- Of the total claims ~64% are cashless in nature
- Renewal premium at 94% for FY22

Peer comparison

Exhibit 3: Peer Comparison

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)				P/E (x)				RoE (%)			
	(₹)	TP(₹)	Rating		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
SBI Life Insurance	1080	1400	Buy	1,145	14.6	15.1	16.6	18.9	74.2	71.7	65.1	57.2	15.2	13.7	11.1	12.0
HDFC Life	579	670	Buy	1204	6.8	6.7	9.0	8.9	85.3	86.0	64.7	65.2	17.6	18.0	18.1	18.2
Star Health	704	825	Buy	404	-14.1	-20.5	10.7	15.1	-50.0	-34.3	65.6	46.6	-23.6	-27.8	12.2	13.9
ICICI Lombard	1284	1550	Buy	687	32.4	26.4	32.4	39.6	39.6	48.7	39.6	32.5	21.3	14.3	14.8	15.7

Source: Company, ICICI Direct Research

Exhibit 4: Variance Analysis

Policyholder's Account	Q4FY22	Q4FY22E	Q4FY21	YoY%	Q3FY22	QoQ%	
Gross Premium Written	3689.2	0.0	3261.8	13.1	2704.5	36.4	Premium growth largely driven by retail health
(-) Reinsurance ceded	215.4	0.0	641.4	(66.4)	147.7	45.8	
Net written premium (NWP)	3473.8	0.0	2620.5	32.6	2556.8	35.9	Higher retention pushes NWP
Net earned premium (NEP)	2621.2	0.0	663.8	294.9	2528.3	3.7	
(-) Net Incurred Claims	1784.8	0.0	1390.4	28.4	2644.2	(32.5)	Claims include ₹1200 worth covid related claims
(-) Net Commission Expense	507.2	0.0	112.6	350.5	358.8	41.4	
(-) Operating expenses related to insurance business	546.4	0.0	453.1	20.6	437.7	24.8	
(-) Total expense	2838.4	0.0	1956.1	45.1	3440.7	(17.5)	
Underwriting Profit/Loss	(217.2)	0.0	(1292.3)	(83.2)	(912.4)	(76.2)	Increased Opex and Commissions drive underwriting loss
Investment Income	119.2	0.0	84.8	40.6	90.1	32.3	
Operating Profit/Loss	(98.0)	0.0	(1207.5)	(91.9)	(822.3)	(88.1)	
Transfer to Shareholder's Account	(98.0)	0.0	(1207.5)	(91.9)	(822.3)	(88.1)	
Shareholder's Account							
	Q4FY22	Q4FY22E	Q4FY21	YoY%	Q3FY22	QoQ%	
Operating Profit/Loss	(98.0)	0.0	(1207.5)	(91.9)	(822.3)	(88.1)	
Investment Income	60.6	0.0	38.2	58.8	92.5	(34.5)	Fall in investment income due to hardening of yield
Other Income	1.2	0.0	0.1	1077.1	0.04	2825.0	
(-) Expense and Provision	79.5	0.0	109.2	(27.2)	38.6	106.2	
Profit before tax	(115.7)	0.0	(1278.4)	(90.9)	(768.3)	(84.9)	
(-) Provision for Taxation	(33.7)	0.0	(321.5)	(89.5)	(189.9)	(82.2)	
Profit after Tax	(82.0)	0.0	(956.9)	(91.4)	(578.4)	(85.8)	Net loss investment income was not sufficient to cover underwriting loss

Source: Company, ICICI Direct Research

Exhibit 5: Change in estimates

	FY23E			FY24E		
	Old	New	% change	Old	New	% change
Gross written premium (GWP)	14628.9	14847.0	1.5%	18000.3	18564.0	3.1%
Net earned premium (NEP)	12276.2	12641.6	3.0%	15151.9	15311.5	1.1%
Net Incurred Claims	8409.2	8659.5	3.0%	10227.5	10335.3	1.1%
Underwriting Profit/Loss	121.1	162.6	34.3%	464.2	426.8	-8.1%
Operating Profit/Loss	643.5	685.0	6.5%	1093.0	1050.9	-3.9%
Profit after Tax	589.0	632.6	7.4%	948.0	889.6	-6.2%

Source: Company, ICICI Direct Research

Exhibit 6: Assumption

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
NWP growth (%)	25.1	25.0	23.3	23.0
NEP growth (%)	27.5	21.1	23.8	23.4
Claims ratio (%)	68.5	67.5	68.5	67.5
Commission ratio (%)	12.4	12.1	12.4	12.1
Expenses ratio (%)	15.6	14.9	15.6	15.0
Combined ratio (%)	96.5	94.5	96.5	94.6
Underwriting Profit (%)	0.7	1.8	0.2	2.3
EBIT/NEP (%)	6.9	8.0	6.6	8.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 44: Policy holder's Account					
	₹ crore				
Policyholder's Account	FY20	FY21	FY22E	FY23E	FY24E
Gross direct premium income (GPDI)	6890.7	9349.0	11739.6	14847.0	18564.0
Gross written premium (GWP)	6890.7	9388.5	11739.6	14847.0	18564.0
(-) Reinsurance ceded	1629.3	2204.2	704.4	1039.3	1299.5
Net written premium (NWP)	5261.4	7144.8	11035.2	13807.7	17264.5
Net earned premium (NEP)	4693.0	5022.8	9917.7	12641.6	15311.5
(-) Net Incurred Claims	3087.4	4369.5	8727.5	8659.5	10335.3
(-) Net Commission Expense	340.9	583.8	1467.7	1712.2	2089.0
(-) Operating expense	1102.0	1401.4	1849.6	2107.3	2460.4
(-) Other expense	(5.8)	0.0	0.0	0.0	0.0
(-) Total expense	4524.5	6354.6	12044.8	12479.0	14884.7
Underwriting Profit/Loss	168.4	(1331.8)	(2127.2)	162.6	426.8
Investment Income	192.4	260.6	420.6	522.4	624.1
Operating Profit/Loss	360.8	(1071.2)	(1706.6)	685.0	1050.9
Transfer to Shareholder's Account	360.8	(1071.2)	(1706.6)	685.0	1050.9

Source: Company, ICICI Direct Research

Exhibit 46: Balance sheet					
	₹ crore				
Balance Sheet	FY20	FY21	FY22E	FY23E	FY24E
Source of Funds					
Share Capital	490.6	548.1	572.9	575.9	575.9
Reserves and Surplus	1157.1	3675.8	5674.5	5668.5	5773.1
Net Worth	1647.7	4223.9	6247.4	6244.4	6349.0
Fair value gains	3.1	(7.6)	0.7	17.1	36.7
Borrowings	250.0	250.0	750.0	800.0	850.0
Deferred Tax Liability	0.0	0.0	0.0	0.0	0.0
Total	1900.8	4466.6	6998.0	7061.4	7235.6
Application of Funds					
Shareholder Investments	1478.2	2632.1	3675.1	4258.4	5413.6
Policyholder Investments	2811.7	4204.6	6825.3	7908.5	10053.9
Total Investments	4290.0	6836.7	10500.4	12167.0	15467.5
Deferred Tax Assets	146.7	421.3	826.1	613.4	314.1
Fixed Assets	101.9	99.0	125.1	191.7	286.9
Cash and Bank balance	611.4	1879.0	1090.9	1390.6	1684.3
Other current assets	976.7	1265.0	682.7	903.7	1037.5
Total Current Assets	1588.2	3144.0	1773.6	2294.3	2721.8
Current Liabilities	1179.4	1564.3	1839.1	1805.2	2123.3
Provision	3050.6	5194.6	6312.2	7478.3	9431.3
Total Current Liabilities	4230.0	6758.9	8151.3	9283.5	11554.6
Net Current Assets	(2641.8)	(3614.9)	(6377.7)	(6989.3)	(8832.9)
Total	1900.8	4466.6	6998.0	7061.4	7235.6

Source: Company, ICICI Direct Research

Exhibit 45: Shareholder's Account					
	₹ crore				
Shareholder's Account	FY20	FY21	FY22E	FY23E	FY24E
Operating Profit (from Policyholder's)	360.8	(1071.2)	(1706.6)	685.0	1050.9
Investment Income	101.1	163.1	226.5	281.3	336.0
Other Income	0.0	0.3	0.3	0.4	0.4
(-) Expense and Provision	48.6	138.2	128.7	121.2	198.5
Profit before tax	413.4	(1046.0)	(1608.4)	845.4	1188.8
Provision for Taxation	(141.4)	220.4	404.8	(212.8)	(299.2)
Profit after Tax	272.0	(825.6)	(1203.6)	632.6	889.6

Source: Company, ICICI Direct Research

Exhibit 47: Key Ratios					
Key Ratios	FY20	FY21	FY22E	FY23E	FY24E
Inurred Claims ratio (%)	65.8	87.0	88.0	68.5	67.5
Commission Ratio (%)	6.5	8.2	13.3	12.4	12.1
Expense Ratio (%)	21.4	20.7	17.3	15.6	14.9
Combined ratio (%)	93.7	115.9	118.6	96.5	94.5
Investment yield (%)	8.1	7.4	9.6	8.0	8.2
Investment Income / NEP (%)	6.5	7.8	6.4	6.3	6.2
PAT margin (%)	5.8	(16.4)	(12.1)	5.0	5.8
RoE (%)	16.5	(23.6)	(27.8)	12.2	13.9
ROCE (%)	14.3	(22.0)	(23.7)	10.6	12.3
NWP/Net Worth (x)	3.2	1.7	1.8	2.2	2.7
Debt/EBIT (x)	0.6	(0.2)	(0.5)	0.9	0.7
Debt/Equity (x)	0.15	0.06	0.12	0.13	0.13
ABV (₹)	28.1	59.6	73.7	87.9	108.2
Valuation					
Price/Float (x)	0.9	0.6	0.4	0.3	0.3
P/GWP (x)	0.6	0.4	0.3	0.3	0.2
P/E (x)	151.5	(49.9)	(34.3)	65.5	46.6
P/ABV (x)	25.0	11.8	9.5	8.0	6.5

Source: Company, ICICI Direct Research

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Sell: <-15%



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