

Estimate change

TP change

Rating change



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Bloomberg	STARHEAL IN
Equity Shares (m)	576
M.Cap.(INRb)/(USD\$)	427.4 / 5.4
52-Week Range (INR)	940 / 469
1, 6, 12 Rel. Per (%)	41/-8/-
12M Avg Val (INR M)	451

## Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
NEP	98.1	115.9	138.2
U/W Profit	-20.6	2.3	3.6
PBT	-14.0	9.2	14.4
PAT	-10.4	6.9	10.8

## Ratios (%)

Claims	87.1	64.3	64.3
Commission	13.8	13.5	13.5
Expense	17.0	16.2	15.7
Combined	117.9	94.0	93.4
RoE	-25.7	11.9	14.3
EPS (INR)	-18.1	12.0	18.7

## Valuations

P/E (x)	-41.0	61.9	39.6
P/BV (x)	9.3	6.1	5.3

## Shareholding pattern (%)

As On	Jun-22	Mar-22
Promoter	58.8	58.9
DII	27.2	27.3
FII	9.6	9.8
Others	4.3	4.0

FII Includes depository receipts

**CMP: INR742**
**TP: INR850 (+15%)**
**Buy**

## NEP surprises positively, claims remain elevated

- Net underwriting profit stood at INR1.6b in 1QFY23 (v/s our underwriting loss estimate of INR415b). The beat was led by a 25% outperformance on NEP, which was driven by a release in unexpired risk reserve.
- Incurred claims came in 29% higher than our expectation at INR17.8b. Resultantly, incurred claims ratio stood at 66% (est. 64%).
- Overall, the combined ratio stood at 98.2% (est. 94.5%) v/s 121%/98.4% in 1Q/4QFY22.
- PAT, at INR2.1b, was higher than our forecasts of INR1.4b. The solvency ratio stood at 1.9 as compared to 1.7 in 4QFY22.

## Subdued premium growth with a decline in Group premium

- Total GWP stood at INR24.6b (7% lower than our estimate), a growth of 13% YoY. Within GWP, Retail Health saw decent growth of 13% YoY to INR22.7b, thereby maintaining its share in overall premium to 92%. The Group Health business declined by 43% YoY to INR1.6b. Personal Accident premium grew 31.5% YoY to INR358m.
- STARHEAL saw an improvement in the Retail Health renewal ratio to 94% in 1QFY23 v/s 90% in 1QFY22.
- Investment income at INR1.2b was 4% below our estimate, denoting a growth of 40% YoY.

## Elevated claims impact the combined ratio

- Incurred claims remain elevated at INR17.8b. It declined by 13% YoY, but remained flat sequentially. The loss ratio stood at 66% v/s 91%/68.1% in 1Q/4QFY22.
- Commission ratio, at 13.7%, was marginally higher than our forecast (13.5%). Expense ratio, at 18.2%, was also above estimate of 17%. Overall, the combined ratio, at 98.2%, was higher than our forecast of 94.5%. The combined ratio remained flat sequentially, but improved by 2,300bp.
- The company reported to underwriting profit of INR1.6b in 1QFY23, after reporting an underwriting loss for the past many quarters.

## Highlights from the management commentary

- The management maintained its Retail Health premium guidance at 20-25%, with 8-9% contributed by price hikes. However, it expects overall premium growth to stay muted, due to a decline in the Group business.
- For FY23, it guided at a claim/combined ratio of 65-66%/93-95%.
- ESOP expense stood at INR550m in 1QFY23. For 2Q/3QFY23, the management guided at an ESOP expense of INR550m/INR360m.

### Valuation and view

We remain optimistic about the overall prospects for STARHEAL, backed by: a) a strong growth in Retail Health, given its under-penetration, b) healthy earnings growth, led by normalization in the claims ratio, c) limited cyclicity risk (Commercial lines and Motor Insurance have high cyclicity), and d) healthy RoE profile (15-17% over the medium term). In 1QFY23, although claims were higher than our expectation on back of COVID-related medical inflation, its Retail Health business continued to grow better than the industry. While we broadly retain our FY24 estimate, we have cut our FY23 EPS by 9% to factor in higher ESOP costs. We also introduce our FY25 estimate, wherein we expect GWP/ underwriting profit/PAT growth of 19%/46%/30%. **We roll forward our TP to 40x Sep'24E from 40x FY24E to arrive at a revised fair value of INR850. We maintain our Buy rating.**

### Quarterly Performance

Y/E March	FY22				FY23E				FY22	FY23	1QFY23E	(INR m)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				Act v/s Est. (%)
Gross premium	21,851	28,847	27,045	36,892	24,637	33,317	33,398	45,871	1,14,635	1,37,243	26,591	-7.3
Net written premium	20,497	27,293	25,568	34,738	23,441	31,984	32,062	44,245	1,08,096	1,31,753	25,075	-6.5
Net earned premium	22,430	24,167	25,283	26,212	26,871	28,146	27,573	33,332	98,092	1,15,943	21,565	24.6
Investment Income	871	971	901	1,192	1,220	1,293	1,370	1,692	4,796	5,575	1,264	-3.5
<b>Total Income</b>	<b>23,301</b>	<b>25,138</b>	<b>26,184</b>	<b>27,404</b>	<b>28,090</b>	<b>29,439</b>	<b>28,944</b>	<b>35,024</b>	<b>1,02,887</b>	<b>1,21,517</b>	<b>22,828</b>	<b>23.0</b>
Change YoY (%)	109.2	62.6	78.3	266.1	20.6	17.1	10.5	27.8	111.0	18.1	-2.0	
Incurred claims	20,415	20,696	26,442	17,848	17,811	18,013	17,647	21,079	85,401	74,550	13,801	29.1
Net commission	2,665	3,597	3,588	5,072	3,220	4,318	4,328	5,893	14,922	17,759	3,385	-4.9
Employee expense	2,812	3,288	3,018	4,260	2,774	3,781	3,471	5,358	13,378	15,384	3,206	-13.5
Other expenses	698	1,746	1,359	1,204	1,498	1,407	1,475	1,549	5,007	5,929	1,053	42.2
Total Operating Expenses	26,590	29,326	34,407	28,384	25,303	27,519	26,921	33,880	1,18,707	1,13,622	21,445	18.0
Change YoY (%)	187.0	81.8	87.4	45.1	-4.8	-6.2	-21.8	19.4	86.7	-4.3	-19.3	
<b>Underwriting profit</b>	<b>-4,160</b>	<b>-5,159</b>	<b>-9,124</b>	<b>-2,172</b>	<b>1,568</b>	<b>627</b>	<b>652</b>	<b>-547</b>	<b>-20,615</b>	<b>2,320</b>	<b>119</b>	
Other charges	-18	-842	-	-	-	-	-	-	-860	-	-	
Operating profit	-3,271	-3,347	-8,223	-980	2,788	1,919	2,023	1,145	-15,820	7,895	1,383	
<b>Shareholder's P/L</b>												
Transfer from Policyholder's	-3,271	-3,347	-8,223	-980	2,788	1,919	2,023	1,145	-15,820	7,895	1,383	
Investment income	556	1,112	926	618	838	829	837	955	3,214	3,441	610	37.3
<b>Total Income</b>	<b>-2,715</b>	<b>-2,235</b>	<b>-7,297</b>	<b>-362</b>	<b>3,626</b>	<b>2,748</b>	<b>2,860</b>	<b>2,099</b>	<b>-12,606</b>	<b>11,336</b>	<b>1,993</b>	<b>81.9</b>
Provisions other than taxation	-	-	23	0	1	-	-	-	26	-	-	
Other expenses	90	90	363	795	745	743	471	175	1,334	2,134	117	537.5
<b>Total Expenses</b>	<b>90</b>	<b>90</b>	<b>386</b>	<b>795</b>	<b>746</b>	<b>743</b>	<b>471</b>	<b>175</b>	<b>1,360</b>	<b>2,134</b>	<b>117</b>	<b>538.2</b>
<b>PBT</b>	<b>-2,805</b>	<b>-2,325</b>	<b>-7,682</b>	<b>-1,158</b>	<b>2,880</b>	<b>2,005</b>	<b>2,388</b>	<b>1,924</b>	<b>-13,966</b>	<b>9,201</b>	<b>1,876</b>	
Tax Provisions	-705	-618	-1,899	-337	747	501	597	455	-3,559	2,300	469	59.3
<b>Net Profit</b>	<b>-2,100</b>	<b>-1,706</b>	<b>-5,783</b>	<b>-820</b>	<b>2,132</b>	<b>1,504</b>	<b>1,791</b>	<b>1,470</b>	<b>-10,407</b>	<b>6,901</b>	<b>1,407</b>	<b>51.5</b>
<b>Key Parameters (%)</b>												
Share in GWP												
Health-Retail	86.9	84.0	87.5	92.2	92.1	90.9	90.9	93.1	88.0	91.9	91.6	0.5
Health-Group	11.9	14.6	10.9	6.2	6.4	7.6	7.6	5.3	10.5	6.6	7.3	-0.8
Health-Government schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overseas Medical	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PA	1.2	1.4	1.6	1.6	1.5	1.5	1.5	1.6	1.5	1.5	1.1	0.3
Claims ratio	91.0	85.6	104.6	68.1	66.3	64.0	64.0	63.2	87.1	64.3	64.0	2.3
Commission ratio	13.0	13.2	14.0	14.6	13.7	13.5	13.5	13.3	13.8	13.5	13.5	0.2
Expense ratio	17.1	18.4	17.1	15.7	18.2	16.2	15.4	15.6	17.0	16.2	17.0	1.2
Combined ratio	121.1	117.3	135.7	98.4	98.2	93.7	92.9	92.2	117.9	94.0	94.5	3.8
Solvency	1.7	1.5	1.8	1.7	1.9							



## Highlights from the management commentary

### Business

- Retail health market share for STARHEAL improved by 300bps to 32% in 1QFY23.
- The company launched a new product namely “Star health Assure” during the quarter.
- STARHEAL took 25% price hike in its flagship products which contributes to 6% of its overall premium. Price hike will be implemented from July’22.
- Rural business is growing at faster pace of more than 70% for STARHEAL mainly led by its digital channels.
- Initial signal from rural market is very positive and the average ticket size is also close to urban markets. The quality of business is good with healthy claims ratio. STARHEAL has 500 distribution outlets in the rural market. The management remains very optimistic about this space.
- Re-evaluating the pricing of the products is a continuous phenomenon based on claims experience. However reprising is not the first preference for the management and they will rather initially negotiate with hospitals on pricing before considering any price hike.
- STARHEAL continues to remain a retail focused company and has grown at faster pace than the industry in 1QFY23. Management remains confident of delivering 20-25% growth in the retail health, with 8-9% of it coming through price hike. However, overall growth might remain muted on back of lower group business.
- CSC is government of India initiative with 500k outlets across the country. STARHEAL is the only SAHI player on that platform and management sees a huge opportunity here. They have already completed the required technological platform integration. They are positive to gain a substantial market share.
- Health insurance is a service intensive business therefore the management remains confident of retaining the market share no back of their efficiency, even if the space opens up to life insurance players.
- Median age is around 41years with median sum assured of INR0.85m.

### Financials

- ESOP expense for the quarter was at INR550m. Management expects ESOP cost for Q2FY23 to be INR550m and in 3QFY23 to be at INR360m.
- Investment leverage stood at 2.3x
- Solvency is expected to move towards premium based calculation from claim based calculation by Sept ‘22.
- During the quarter the company saw reversal of unexpired reserve, the management has suggested this to be a normal phenomenon for 1Q.

### Claims

- Claims inflation has been higher on back of compulsory RTPCR test performed and cost of protective kits.
- 1QFY23 saw an impact of INR200m on back of Covid claims.
- Cashless claims for the quarter were around 80%.
- Average increase in claims size for STARHEAL was lower than the average medical cost inflation on back of better pricing arrangement with hospitals.

- Management has maintained their guidance of claims ratio to be around 65-66% for FY23.
- **Expenses – On back of in-house TPA, STARHEAL used to transfer 3% of opex to claims until 1QFY22, however they have changed the same to 1% from 2QFY22. Therefore there was a base effect on YoY basis.**
- **Combined ratio** - Management has guided for combined ratio of 93-95% for FY23.
- **Commission ratio**
- Within the obligatory reinsurance which is at 4%, fixed commission rate of 15% is paid on this.
- Increasing contribution of benefit products which will led to lower commission ratio.

### Distribution

- Agency channel now contributes to 81% of the overall premium.
- The company saw pick up in momentum in corporate tie-ups, thereby delivering a growth of 57% in 1QFY23.
- STARHEAL recently also tied up with IDFC First bank.
- Direct channel is growing by 35% and STARHEAL intents to invest more on this channel as that will be more profitable on the long run. Presently, 60% of the overall physical business is contributed by the direct channel.

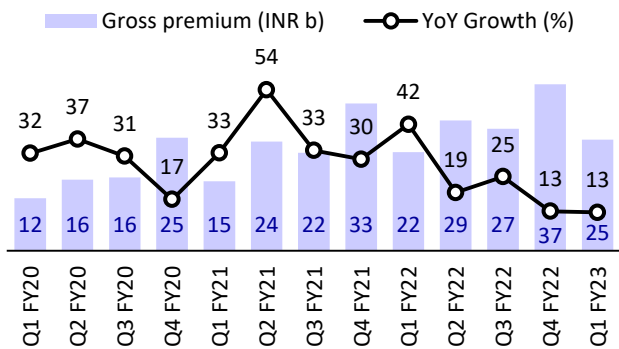
### Exhibit 1: Cutting our FY23E/FY24E EPS by ~9/4% to factor higher than expected claims and expenses

INR b	Old Est.		New Est.		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Total GDPI	140.0	173.0	137.2	163.6	-2.0	-5.4
NWP	132.1	163.1	131.8	157.1	-0.2	-3.7
<b>NEP</b>	113.6	140.3	115.9	138.2	2.1	-1.5
Net claims	<b>72.8</b>	<b>89.9</b>	<b>74.6</b>	<b>88.9</b>	<b>2.4</b>	<b>-1.2</b>
Net commission	17.8	22.0	17.8	21.2	-0.2	-3.6
Expenses	21.3	24.4	21.3	24.6	-0.1	0.8
Employee expenses	15.4	17.2	15.4	17.7	0.0	2.7
Other expenses	5.9	7.2	5.9	6.9	-0.2	-3.7
<b>Underwriting Profit/(Loss)</b>	<b>1.7</b>	<b>4.0</b>	<b>2.3</b>	<b>3.6</b>	<b>39.5</b>	<b>-10.5</b>
Investment income (PH)	6.0	8.0	5.6	7.9	-7.7	-1.0
Operating profit	7.7	12.0	7.9	11.5	2.5	-4.2
Investment income (SH)	3.9	4.6	3.4	4.3	-12.4	-8.1
PBT	10.1	14.9	9.2	14.4	-8.9	-3.7
Tax	2.5	3.7	2.3	3.6	-8.9	-3.7
<b>PAT</b>	<b>7.6</b>	<b>11.2</b>	<b>6.9</b>	<b>10.8</b>	<b>-8.9</b>	<b>-3.7</b>
Claim ratio	64.1	64.1	64.3	64.3	0.2	0.2
Commission ratio	13.5	13.5	13.5	13.5	0.0	0.0
Expense ratio	16.2	15.0	16.2	15.7	0.0	0.7
Combined ratio	93.7	92.5	94.0	93.4	0.2	0.9

Source: MOFSL, Company

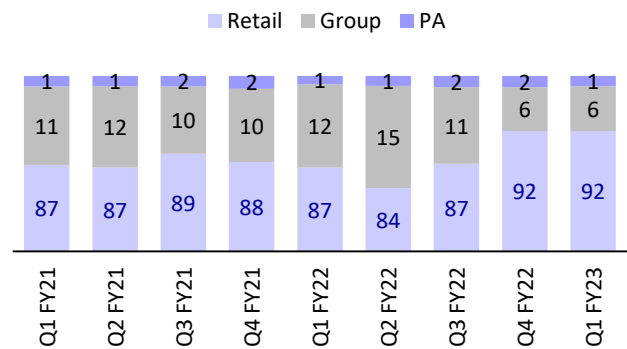
## Key exhibits

Exhibit 2: Sustained GWP growth



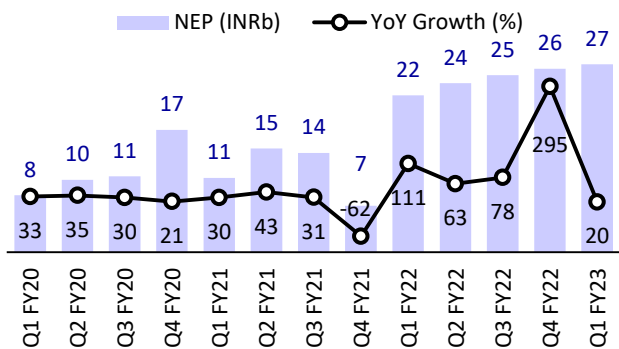
Source: MOFSL, Company

Exhibit 3: Increasing share of retail health in the overall GWP premium mix



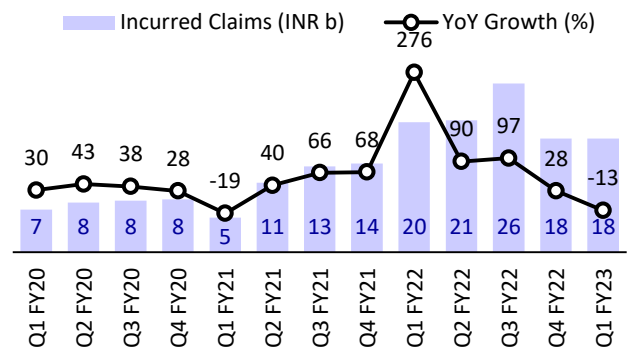
Source: MOFSL, General Insurance Council

Exhibit 4: NEP growth came at 20%



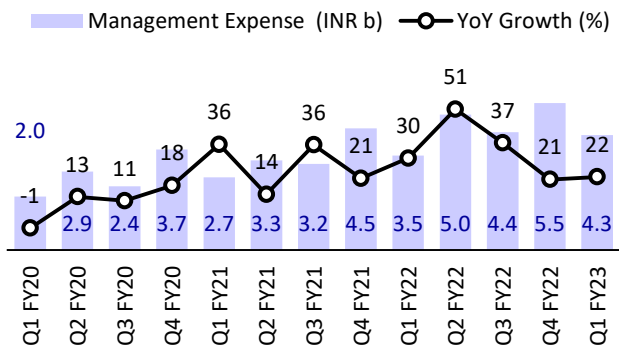
Source: MOFSL, Company

Exhibit 5: Incurred claims remains stable sequentially



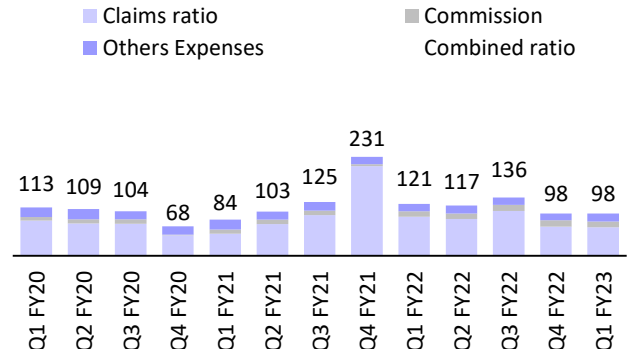
Source: MOFSL, Company

Exhibit 6: Total expenses in-line with expectation



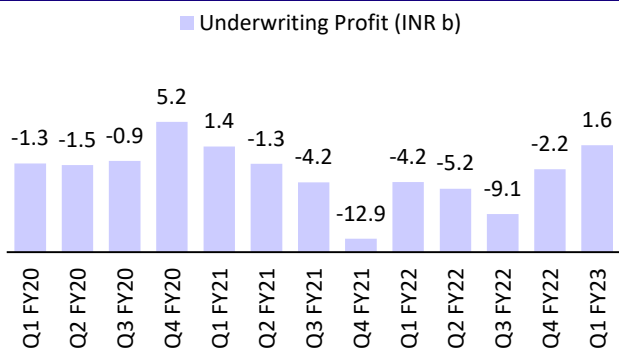
Source: MOFSL, Company

Exhibit 7: Combined ratio maintained at 98%



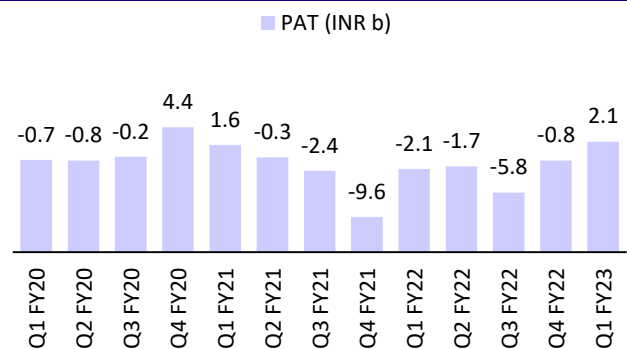
Source: MOFSL, Company

Exhibit 8: Star health turned to underwriting profit



Source: MOFSL, Company

Exhibit 9: Trend in PAT



Source: MOFSL, Company

## Financials and valuations

Income Statement						(INR M)	
Y/E March	2019	2020	2021	2022	2023E	2024E	2025E
Retail Health	46,789	58,252	82,075	1,00,870	1,26,088	1,51,305	1,81,566
Group Health	5,938	8,897	9,963	12,066	9,049	9,954	10,950
PA	1,270	1,337	1,489	1,685	2,106	2,359	2,642
<b>Total GDPI</b>	<b>54,154</b>	<b>68,651</b>	<b>93,885</b>	<b>1,14,635</b>	<b>1,37,243</b>	<b>1,63,618</b>	<b>1,95,157</b>
Change (%)	30.1	26.8	36.8	22.1	19.7	19.2	19.3
NWP	41,415	52,395	71,794	1,08,096	1,31,753	1,57,073	1,87,351
<b>NEP</b>	<b>35,795</b>	<b>46,841</b>	<b>46,266</b>	<b>98,092</b>	<b>1,15,943</b>	<b>1,38,224</b>	<b>1,64,869</b>
Change (%)	30.7	30.9	-1.2	112.0	18.2	19.2	19.3
Net claims	23,410	30,874	43,695	85,401	74,550	88,877	1,06,009
Net commission	2,637	3,404	5,857	14,922	17,759	21,172	25,253
Expenses	9,827	11,013	14,031	18,385	21,313	24,603	28,402
Employee expenses	7,220	8,526	11,765	13,378	15,384	17,692	20,346
Other expenses	2,607	2,487	2,266	5,007	5,929	6,911	8,056
<b>Underwriting Profit/(Loss)</b>	<b>-78</b>	<b>1,550</b>	<b>-17,316</b>	<b>-20,615</b>	<b>2,320</b>	<b>3,572</b>	<b>5,204</b>
Investment income (PH)	1,398	1,639	2,505	4,796	5,575	7,920	10,177
Operating profit	1,214	3,303	-14,811	-15,820	7,895	11,492	15,382
Investment income (SH)	612	1,212	1,718	3,214	3,441	4,266	4,826
<b>PBT</b>	<b>1,389</b>	<b>4,062</b>	<b>-14,458</b>	<b>-13,966</b>	<b>9,201</b>	<b>14,370</b>	<b>18,654</b>
Tax	540	1,389	-3,601	-3,559	2,300	3,593	4,663
Tax rate (%)	38.9	34.2	24.9	25.5	25.0	25.0	25.0
<b>PAT</b>	<b>849</b>	<b>2,633</b>	<b>-10,857</b>	<b>-10,407</b>	<b>6,901</b>	<b>10,778</b>	<b>13,990</b>
Change (%)	-50.1	210.1	NA	NA	NA	56.2	29.8

Balance sheet						(INR M)	
Y/E March	2019	2020	2021	2022	2023E	2024E	2025E
Equity Share Capital	4,556	4,906	5,481	5,755	5,755	5,755	5,755
Reserves & Surplus	7,726	14,132	29,516	40,285	64,082	74,859	88,850
<b>Net Worth</b>	<b>12,282</b>	<b>19,038</b>	<b>34,996</b>	<b>46,040</b>	<b>69,837</b>	<b>80,614</b>	<b>94,605</b>
FV change	-	31	-76	267	-	-	-
Borrowings	2,500	2,500	2,500	7,200	7,200	7,200	7,200
Other liabilities	33,943	38,361	67,589	81,629	1,02,536	1,24,496	1,50,388
<b>Total Liabilities</b>	<b>48,725</b>	<b>59,930</b>	<b>1,05,010</b>	<b>1,35,136</b>	<b>1,79,572</b>	<b>2,12,310</b>	<b>2,52,193</b>
Investments (SH)	9,523	18,110	27,941	44,939	52,939	60,939	68,939
Investments (PH)	20,778	24,789	40,426	68,796	92,910	1,21,847	1,56,572
Net Fixed Assets	981	1,019	990	1,171	1,221	1,271	1,321
Def Tax Assets	1,420	70	4,213	7,767	7,767	7,767	7,767
Current Assets	7,093	9,827	12,650	6,828	8,175	9,746	11,625
Cash & Bank	8,930	6,114	18,790	5,635	16,560	10,740	5,969
<b>Total Assets</b>	<b>48,725</b>	<b>59,930</b>	<b>1,05,010</b>	<b>1,35,136</b>	<b>1,79,572</b>	<b>2,12,310</b>	<b>2,52,193</b>

E: MOSL Estimates

## Financials and Valuation

Ratios							
Y/E March	2019	2020	2021	2022	2023E	2024E	2025E
GWP growth	30.1	26.8	36.8	22.1	19.7	19.2	19.3
NWP growth	29.6	26.5	37.0	50.6	21.9	19.2	19.3
<b>NEP growth</b>	<b>30.7</b>	<b>30.9</b>	<b>-1.2</b>	<b>112.0</b>	<b>18.2</b>	<b>19.2</b>	<b>19.3</b>
Claim ratio	65.4	65.9	94.4	87.1	64.3	64.3	64.3
Commission ratio	6.4	6.5	8.2	13.8	13.5	13.5	13.5
Expense ratio	23.7	21.0	19.5	17.0	16.2	15.7	15.2
<b>Combined ratio</b>	<b>95.5</b>	<b>93.4</b>	<b>122.1</b>	<b>117.9</b>	<b>94.0</b>	<b>93.4</b>	<b>92.9</b>
Profitability Ratios (%)							
RoE	7.8	16.8	-40.2	-25.7	11.9	14.3	16.0
Valuations	2019	2020	2021	2022	2023E	2024E	2025E
BVPS (INR)	27.0	38.8	63.9	80.0	121.3	140.1	164.4
Change (%)	28.0	43.9	64.6	25.3	51.7	15.4	17.4
<b>Price-BV (x)</b>	<b>27.5</b>	<b>19.1</b>	<b>11.6</b>	<b>9.3</b>	<b>6.1</b>	<b>5.3</b>	<b>4.5</b>
EPS (INR)	1.9	5.4	-19.8	-18.1	12.0	18.7	24.3
Change (%)	-50.1	187.9	-469.1	-8.7	-166.3	56.2	29.8
<b>Price-Earnings (x)</b>					<b>61.9</b>	<b>39.6</b>	<b>30.5</b>

NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
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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