

CMP: ₹740

Target: ₹ 860(16%)

Target Period: 12 months

July 31, 2022

BUY

## Leadership in retail health continues, Outlook steady

**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 ~31.6% market share, as of June 2022
- Star Health has 807 branches and 13000+ network hospitals, with a presence in 25 states and five union territories

### Q1FY23 Results: Lower claims aids profitability

- GWP up 13% YoY to ₹2463 crore, NWP up 32.6% YoY and NEP up 20% YoY
- Incurred claims decline 12.8% YoY to ₹ 1781 crore, Claims ratio down from 91.0% to 66.3% as impact of Covid recedes
- Underwriting profit at ₹156.8 crore versus a loss of ₹416 crore YoY
- Combined ratio (as reported) at 98.2% versus 121.1% YoY
- Net profit stood at ₹213.2 crore versus a loss of ₹209.8 crore YoY

**What should investors do?** Star Health is expected to maintain its leadership in retail health segment with sustainable long term growth opportunity. Steady claims ratio and 20-25% growth in premium to improve combined ratio and support RoE.

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

**Target Price and Valuation:** We value Star Health at ~3.1x FY24E GDPI (59x FY24E EPS) to arrive at revised TP of ₹860 from ₹825 earlier.

### Key triggers for future price performance:

- Under penetration & lower density provides long term growth opportunity
- Improving footprints in rural India & launch of specialised products to help maintain above industry growth and thus maintain market leadership
- Prospect of increase in number of banc-assurance partners along with strengthening of own agency channel to propel business momentum
- Life insurance selling health indemnity to increase competition, though fear seems overdone at this time

**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 ₹635



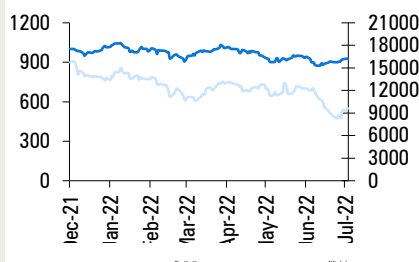
### Particulars

Particulars	Amount
Market Capitalisation	₹ 42784 crore
52 week H/L	940/469
Net Worth	₹ 4881 crore
Face Value	₹ 10

### Shareholding Pattern

(in %)	Dec-21	Mar-22	Jun-22
Promoter	58.9	58.9	58.8
FII	9.9	9.8	9.6
DII	27.4	27.3	27.2
Others	3.75	4.02	4.34

### Price performance



### Key Highlights

Claims ratio down to 98.2% to 121.1% YoY

**Key risk:** i) Increasing competition could limit pricing power ii) rising yields could limit investment income

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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	14356.8	17664.0	22.7
Net Incurred Claims	3087.4	4369.5	8727.5	56.0	8239.9	9946.7	6.8
Underwriting Profit/Loss	168.4	(1331.8)	(2127.2)	NA	326.1	395.9	NA
Profit after Tax	272.0	(825.6)	(1203.6)	NA	705.4	832.2	NA
NWP/Net Worth (x)	3.2	1.7	1.8		2.1	2.6	
Price/Float (x)	1.0	0.6	0.4		0.4	0.3	
P/GWP (x)	0.6	0.5	0.4		0.3	0.2	
P/E (x)	160.2	(52.8)	(36.2)		62.1	52.6	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q1FY23 Results: Modest quarter on overall business growth

- Gross written premium (GWP) was up by 12.7% YoY (down 33% QoQ due to seasonality) to ₹2463 crore. This growth was slower than total industry growth of 22.5% and SAHI player's growth of 27.9% (according to provisional data from general insurance council).
- Net written premium (NWP) was up by 14.4% YoY while earned premium growth was higher at 19.8% YoY to ₹2687 crore, indicating higher flow from previously written policies.
- Retail health segment GDPI growth was at 20.2% YoY and this segment formed 93.4% of total GDPI premium. Market share in retail health segment stood at 31.6% as against 29.2% YoY.
- Incurred claims declined by 12.8% to ₹1781 crore, mostly due to waning impact of 3rd wave of pandemic. Thus, claims ratio came in at 66.28% in Q1FY23 vs 68.09% in Q4FY22 & 91.01% YoY.
- Combined ratio came in at 98.2% vs 121.4% YoY and insurer posted an underwriting profit of ₹156.8 crore. With an investment income (policyholder) of ₹122 crore, operating profit of ₹278.8 crore.
- Total float was up 38% YoY to ₹11462 crore and investment income (shareholder + policyholders) came in at ₹204 crore, up 41% YoY. Thus, Star Health posted a net profit of ₹213 crore, versus a loss of ₹209 crore YoY and against our expectation of a profit of ₹142 crore.

### Q1FY23 Earnings Conference Call highlights

- Retail Health growth moderated owing to base effect. Agency channel contributed 81% of overall business
- Star Premier and Women's Care launched in previous quarter are doing well
- Average rise in sum insured per policy is 19% YoY to ₹1.8 lakh
- In Star Medi-classic product, the company has taken 25% price hike, it contributed 6% to total retail premium
- Entered into banca tied up with IDFC First Bank for distribution on products
- Current quarter claim ratio has 0.7% impact due to Covid claims. Claim expense higher by ~2% due to Covid related precautions and test
- Lower scale of premium (1st quarter phenomenon) has led to slight increase in opex ratio. In Q2FY22, ~2% of opex was shifted in claims to factor in cost related to in-house claim settlement. Thus, opex ratio to normalize from Q2FY23 onwards
- Guidance for claims ratio is 63-65% and combined ratio at 93-95% in FY23E
- Premium retail growth to be ~20-25%, overall growth could be slightly lower due to group business.
- Solvency to improve owing to shift from existing claim basis to premium basis. Solvency to be ~193-198% by year end
- ESOP expenses - ₹55 crore in Q1FY23. Total impact to be ~₹145 crore in FY23E (₹55 crore in Q2FY23 and ₹35 crore in Q3FY23)
- Star Health, only SAHI player on government healthcare platform. Expect healthy traction ahead, though clarity on benefits awaited
- ~8% of premium is contributed by pure online channel

## Peer comparison

Exhibit 3: Peer Comparison

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)				P/E (x)				P/EV (x)				RoE (%)			
	₹	TP(₹)	Rating		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
SBI Life Insurance	1295	1500	Buy	1145	14.6	15.1	17.6	21.5	88.9	86.0	73.7	60.2	3.9	3.3	2.9	2.5	15.2	8.5	12.0	14.0
HDFC Life	555	635	Buy	1204	6.7	5.7	7.4	8.9	82.5	97.1	75.0	62.4	4.2	3.9	3.1	2.5	17.6	18.0	18.1	18.2
Star Health	740	860	Buy	427	-15.1	-21.0	12.2	14.4	-49.1	-35.2	60.4	51.2	12.5	10.0	8.4	6.8	-23.6	-27.8	13.4	13.0
ICICI Lombard	1219	1550	Buy	609	32.4	25.9	21.3	19.3	37.6	47.1	57.2	63.2	7.5	6.6	5.7	5.0	21.3	14.5	14.8	15.1

Source: Company, ICICI Direct Research

**Exhibit 4: Variance Analysis**

Policyholder's Account	Q1FY23	Q1FY23E	Q1FY22	YoY%	Q4FY22	QoQ%	
<b>Gross Premium Written</b>	2463.7	2949.9	2185.1	12.7	3689.2	(33.2)	Largely driven by 20.2% YoY uptick in retail health
(-) Reinsurance ceded	119.6	177.0	135.5	(11.8)	215.4	(44.5)	
<b>Net written premium (NWP)</b>	2344.1	2772.9	2049.6	14.4	3473.8	(32.5)	
<b>Net earned premium (NEP)</b>	2687.1	2628.6	2243.0	19.8	2621.2	2.5	Higher unwinding of URR fuels NEP growth
(-) Net Incurred Claims	1781.1	1856.2	2041.4	(12.8)	1784.8	(0.2)	Claims fall steeply as impact of Covid subsides
(-) Net Commission Expense	322.0	310.9	266.5	20.8	507.2	(36.5)	
(-) Operating expenses related to insurance business	427.2	415.2	351.0	21.7	546.4	(21.8)	
<b>(-) Total expense</b>	2530.3	2582.4	2659.0	(4.8)	2838.4	(10.9)	
<b>Underwriting Profit/Loss</b>	156.8	46.3	(416.0)	(137.7)	(217.2)	(172.2)	Combined ratio declines at 98.2% vs 121% YoY
Investment Income	122.0	150.0	88.9	37.2	119.2	2.3	
<b>Operating Profit/Loss</b>	278.8	196.3	(327.1)	(185.2)	(98.0)	(384.4)	
<b>Transfer to Shareholder's Account</b>	278.8	196.3	(327.1)	(185.2)	(98.0)	(384.4)	

Shareholder's Account	Q1FY23	Q1FY23E	Q1FY22	YoY%	Q4FY22	QoQ%	
<b>Operating Profit/Loss</b>	278.8	196.3	(327.1)	(185.2)	(98.0)	(384.4)	
Investment Income	82.1	60.0	55.7	47.3	60.6	35.3	Rise in investment income despite rise in interest rate scenario
Other Income	1.8	0.0	0.0	4213.7	1.17	50.4	
(-) Expense and Provision	74.7	80.0	9.0	730.1	79.5	(6.1)	
<b>Profit before tax</b>	287.9	176.3	(280.3)	(202.7)	(115.7)	(348.8)	
(-) Provision for Taxation	74.7	33.8	(70.5)	(206.0)	(33.7)	(321.6)	
<b>Profit after Tax</b>	213.2	142.6	(209.8)	(201.6)	(82.0)	(359.9)	Net profit as lower claims drive performance

Source: Company, ICICI Direct Research

**Exhibit 5: Change in estimates**

	FY23E			FY24E		
	Old	New	% change	Old	New	% change
Gross written premium (GWP)	14847.0	14356.8	-3.3%	18564.0	17664.0	-4.8%
Net earned premium (NEP)	12641.6	12298.4	-2.7%	15311.5	14735.9	-3.8%
Net Incurred Claims	8659.5	8239.9	-4.8%	10335.3	9946.7	-3.8%
Underwriting Profit/Loss	162.6	326.1	100.6%	426.8	395.9	-7.3%
Operating Profit/Loss	685.0	848.5	23.9%	1050.9	1019.0	-3.0%
Profit after Tax	632.6	705.4	11.5%	889.6	832.2	-6.5%

Source: Company, ICICI Direct Research

**Exhibit 6: Assumption**

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
NWP growth (%)	21.0	23.0	25.1	25.0
NEP growth (%)	24.0	19.8	27.5	21.1
Claims ratio (%)	67.0	67.5	68.5	67.5
Commission ratio (%)	12.7	12.5	12.4	12.1
Expenses ratio (%)	16.1	15.2	15.6	14.9
Combined ratio (%)	95.8	95.2	96.5	94.5
Underwriting Profit (%)	1.5	1.3	0.7	1.8
EBIT/NEP (%)	7.9	7.8	6.9	8.0

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 44: Policy holder's Account					
	₹ crore				
Policyholder's Account	FY20	FY21	FY22	FY23E	FY24E
Gross written premium (GWP)	6890.7	9388.5	11739.6	14356.8	17664.0
(-) Reinsurance ceded	1629.3	2204.2	704.4	1005.0	1236.5
<b>Net written premium (NWP)</b>	<b>5261.4</b>	<b>7144.8</b>	<b>11035.2</b>	<b>13351.8</b>	<b>16427.5</b>
<b>Net earned premium (NEP)</b>	<b>4693.0</b>	<b>5022.8</b>	<b>9917.7</b>	<b>12298.4</b>	<b>14735.9</b>
(-) Net Incurred Claims	3087.4	4369.5	8727.5	8239.9	9946.7
(-) Net Commission Expense	340.9	583.8	1467.7	1695.7	2053.4
(-) Operating expense	1102.0	1401.4	1849.6	2036.7	2339.9
(-) Other expense	(5.8)	0.0	0.0	0.0	0.0
<b>(-) Total expense</b>	<b>4524.5</b>	<b>6354.6</b>	<b>12044.8</b>	<b>11972.3</b>	<b>14340.0</b>
<b>Underwriting Profit/Loss</b>	<b>168.4</b>	<b>(1331.8)</b>	<b>(2127.2)</b>	<b>326.1</b>	<b>395.9</b>
Investment Income	192.4	260.6	420.6	522.4	623.1
<b>Operating Profit/Loss</b>	<b>360.8</b>	<b>(1071.2)</b>	<b>(1706.6)</b>	<b>848.5</b>	<b>1019.0</b>
<b>Transfer to Shareholder's Account</b>	<b>360.8</b>	<b>(1071.2)</b>	<b>(1706.6)</b>	<b>848.5</b>	<b>1019.0</b>

Source: Company, ICICI Direct Research

Exhibit 46: Balance sheet					
	₹ crore				
Balance Sheet	FY20	FY21	FY22E	FY23E	FY24E
<b>Source of Funds</b>					
Share Capital	490.6	548.1	572.9	575.9	575.9
Reserves and Surplus	1157.1	3675.8	5674.5	5668.5	5793.6
<b>Net Worth</b>	<b>1647.7</b>	<b>4223.9</b>	<b>6247.4</b>	<b>6244.4</b>	<b>6369.5</b>
Fair value gains	3.1	(7.6)	0.7	17.1	36.6
Borrowings	250.0	250.0	750.0	800.0	850.0
Deferred Tax Liability	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>1900.8</b>	<b>4466.6</b>	<b>6998.0</b>	<b>7061.4</b>	<b>7256.1</b>
<b>Application of Funds</b>					
Shareholder Investments	1478.2	2632.1	3675.1	4252.3	5297.2
Policyholder Investments	2811.7	4204.6	6825.3	7897.1	9837.7
<b>Total Investments</b>	<b>4290.0</b>	<b>6836.7</b>	<b>10500.4</b>	<b>12149.4</b>	<b>15135.0</b>
Deferred Tax Assets	146.7	421.3	826.1	588.9	309.0
Fixed Assets	101.9	99.0	125.1	187.1	275.4
Cash and Bank balance	611.4	1879.0	1090.9	1352.8	1620.9
Other current assets	976.7	1265.0	682.7	889.5	1020.3
<b>Total Current Assets</b>	<b>1588.2</b>	<b>3144.0</b>	<b>1773.6</b>	<b>2242.4</b>	<b>2641.3</b>
Current Liabilities	1179.4	1564.3	1839.1	1722.2	2047.3
Provision	3050.6	5194.6	6312.2	7365.6	9057.2
<b>Total Current Liabilities</b>	<b>4230.0</b>	<b>6758.9</b>	<b>8151.3</b>	<b>9087.8</b>	<b>11104.5</b>
<b>Net Current Assets</b>	<b>(2641.8)</b>	<b>(3614.9)</b>	<b>(6377.7)</b>	<b>(6845.5)</b>	<b>(8463.2)</b>
<b>Total</b>	<b>1900.8</b>	<b>4466.6</b>	<b>6998.0</b>	<b>7061.4</b>	<b>7256.1</b>

Source: Company, ICICI Direct Research

Exhibit 45: Shareholder's Account					
	₹ crore				
Shareholder's Account	FY20	FY21	FY22E	FY23E	FY24E
<b>Operating Profit (from Policyholder's c</b>	<b>360.8</b>	<b>(1071.2)</b>	<b>(1706.6)</b>	<b>848.5</b>	<b>1019.0</b>
Investment Income	101.1	163.1	226.5	281.3	335.5
Other Income	0.0	0.3	0.3	0.4	0.4
(-) Expense and Provision	48.6	138.2	128.7	187.5	242.8
<b>Profit before tax</b>	<b>413.4</b>	<b>(1046.0)</b>	<b>(1608.4)</b>	<b>942.6</b>	<b>1112.1</b>
Provision for Taxation	(141.4)	220.4	404.8	(237.3)	(279.9)
<b>Profit after Tax</b>	<b>272.0</b>	<b>(825.6)</b>	<b>(1203.6)</b>	<b>705.4</b>	<b>832.2</b>

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
<b>Valuation</b>					
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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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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