

BSE SENSEX
57,108

S&P CNX
17,007

CMP: INR720

TP: INR830 (+15%)

Buy



The Health Insurance Specialist



Stock Info

Bloomberg	STARHEAL IN
Equity Shares (m)	576
M.Cap.(INRb)/(USDb)	415 / 5.1
52-Week Range (INR)	940 / 469
1, 6, 12 Rel. Per (%)	0 / 2 / -
12M Avg Val (INR M)	440

Financials Snapshot (INR b)

Y/E March	2023E	2024E	2025E
NEP	112.9	134.6	160.6
U/W Profit	2.1	3.2	4.5
PBT	9.0	14.0	18.0
PAT	6.8	10.5	13.5

Ratios (%)

Claims	65.0	65.0	65.0
Commission	13.5	13.5	13.5
Expense	15.7	15.3	14.9
Combined	94.1	93.7	93.3
RoE	11.7	14.0	15.5
EPS (Rs)	11.8	18.2	23.4

Valuations

P/E (x)	61.3	39.5	30.8
P/BV (x)	5.9	5.2	4.4

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

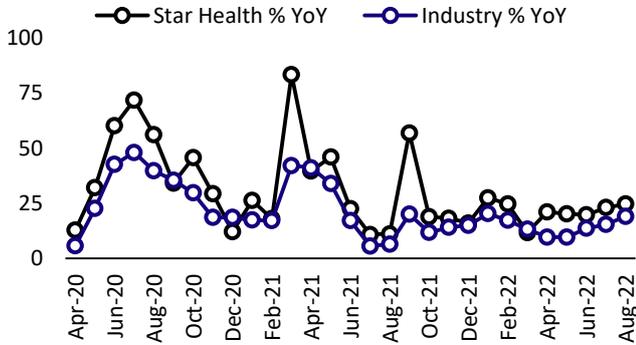
FII Includes depository receipts

Enhancing reach via distribution and new products

- In its FY22 Annual Report, STARHEAL outlined the strong growth opportunities in the Health Insurance space in India. After the lifting of COVID-related restrictions, there is growing acceptance of the need for hospitalization, leading to larger customer walk-ins wanting to avail Health Insurance policy without being prospected.
- With India ranking high in terms of diabetes, obesity, and cancer, along with increasing share of the older age population, the severity of hospitalized cases will continue to rise.
- STARHEAL is focusing on deepening its presence in rural India, with the creation of a dedicated vertical for addressing demand from these geographies. Given its increased impetus towards enhancing the bancassurance channel, it has increased its RM count by 28% in FY22.
- The agent count for STARHEAL grew 19% to 550k in FY22, while that of sponsored agents increased by 34% to 79k.
- STARHEAL continued to enhance its hospital network, with the addition of 1,949 hospitals to its overall network. The company was able to enter into pre-agreed agreements with 1,497 hospitals.
- The claims outgo of 87% comprises 21% on account of the COVID-19 pandemic. When deducted, the claims outgo of 66% compares favorably with average pre-pandemic claims outgo of 61%.
- The company launched seven products in FY22: Saral Suraksha Bima, Star Cardiac Care Insurance Policy – Platinum, Star Cancer Care Platinum Insurance Policy, Star Group Critical Illness Multipay Insurance Policy, Star Critical Illness Multipay Insurance Policy, Star Women Care Insurance Policy, and Star Health Premier Insurance Policy.
- The management’s strategy aims at extending technology across businesses, data collection and analysis, talent management, risk understanding, market understanding, systems security, and operational processes. In FY22, it invested extensively in digital platforms, data platform, automation, and omnichannel accessibility.
- **Valuation and view:** We cut our earnings for FY23/FY24/FY25 by 2%/3%/4% to factor in weaker than expected performance in terms of premium growth. We expect STARHEAL to deliver 18% gross premium CAGR over FY22-25, led by strong growth in the Retail Health Insurance. With increasing losses in the Corporate Health book, the management has taken a conscious decision to exit certain large corporate businesses, which will lead to a decline in the segment in FY23. Claim ratios are expected to improve with the impact of the pandemic receding. Scale benefits will result in expense ratio declining by 210bp over FY22-25E. As a result, we expect the combined ratio to improve to 93.3% in FY25 from 117.9% in FY22. We expect RoE to improve to ~16% in FY25 from 11.9% in FY23. **We maintain our Buy rating with a revised TP of INR830 (40x Sep’24E P/E).**

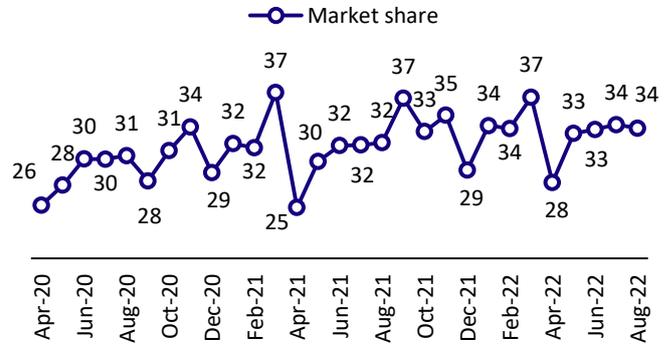
Story in charts

Exhibit 1: STARHEAL is outperforming industry growth in terms of Retail Health...



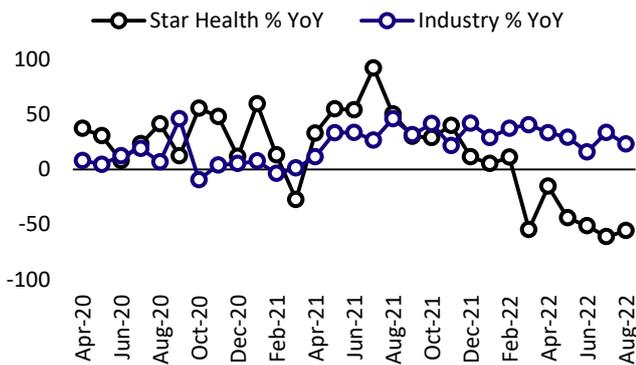
Source: MOFSL, GIC

Exhibit 2: ...leading to a sustained improvement in market share for the Retail Health segment



Source: MOFSL, GIC

Exhibit 3: Exiting several Group Health businesses led to an underperformance in STARHEAL v/s that of the industry



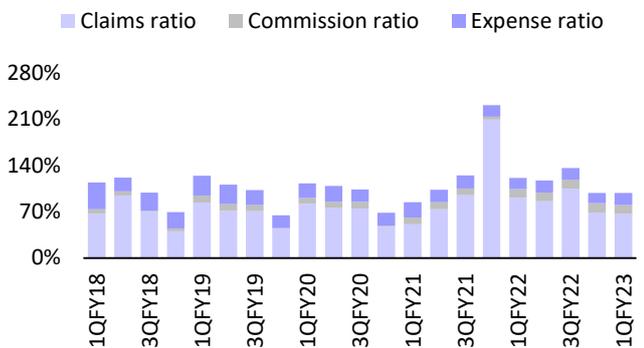
Source: MOFSL, GIC

Exhibit 4: As a result, its market share in Group Health is declining



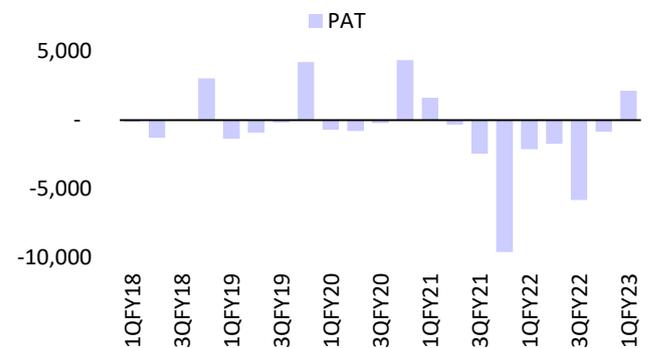
Source: MOFSL, GIC

Exhibit 5: Improvement in loss ratios led to an overall improvement in the combined ratio



Source: MOFSL, Company

Exhibit 6: Following seven quarters of losses, STARHEAL reported a profit in 1QFY23

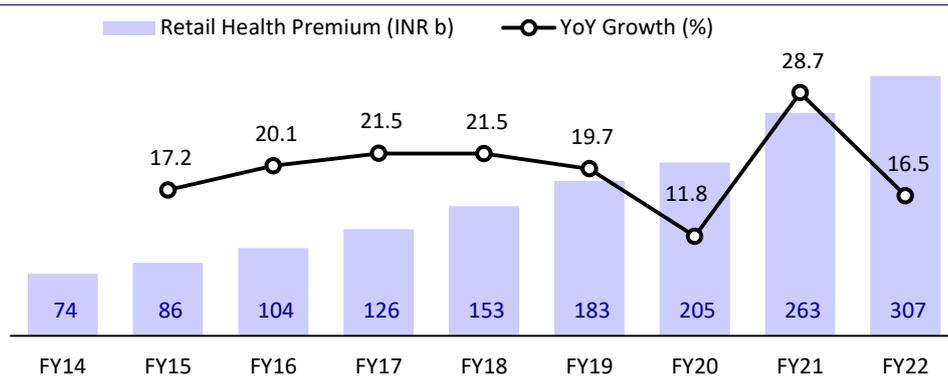


Source: MOFSL, Company

Huge opportunity for growth ahead

- Relative to the developed world, incidence of health disorders has been high in India. The treatment of these ailments occurs primarily through out of pocket expenditure (55% in FY22).
- At present, there is greater acceptance of the need for hospitalization for immediate and effective therapy. A rising number of patients are seeking treatment in corporate or private hospitals, where the cost of treatment is usually higher than the industry average. All this calls for higher expenses, which needs to be covered by Health Insurance.
- With people living longer, the incidence of disease is rising, and there is a greater need to secure one's future during old age through timely and relevant Insurance.
- Increased awareness of Health Insurance during the COVID-19 pandemic led to larger customer walk-ins without being prospected.
- Key health issues among India's population:
 - The population of those above 60 is pegged ~11.88%. The number of elderly persons is expected to grow to 173m by CY26.
 - India accounts for the second largest number of diabetic patients.
 - It comprises the third largest number of cancer patients in the world.
 - Obesity in India rose to 24%/23% among women/men in the last few years.
- The management expects the strong demand momentum in Retail Health Insurance to continue as new individuals subscribe to policies, existing customers increase sum assured levels, and companies raise policy premiums.
- STARHEAL sees challenges in the form of simplifying Insurance products, enhance the role of technology in facilitating product awareness, accessibility, and availability.

Exhibit 7: Growth in Retail Health premium remains strong

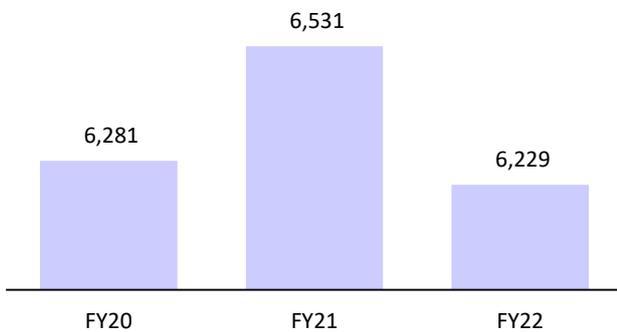


Source: IRDAI, General Insurance Council

Building a strong distribution network

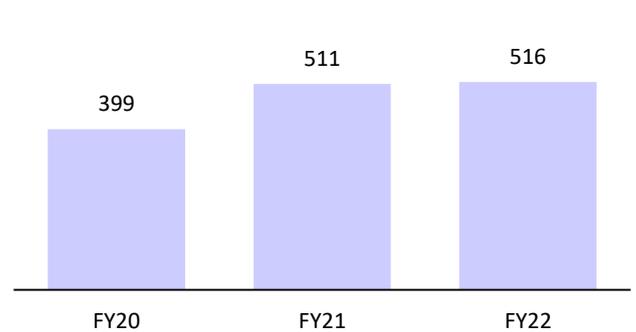
- STARHEAL is present in 26 states and four Union Territories. Its distribution network is supported by 807 pan-India branches.
- Nearly 39%/23%/30%/8% of the company’s revenue was derived from South/West/North/East India by the close of FY22.
- The company has created a dedicated vertical to address the demand from rural India and widen its geographic footprint. The number of sales managers for rural areas grew to 516 from 511.
- In FY22, individual agents accounted for over 79% of the GWP. The count of individual agents grew 18% to 549k in FY22, while that of sponsored agents touched 79k in FY22 from 59k in FY21.
- Its agency distribution channel comprises corporate agent Banks/others that accounted for INR2.2b/INR210m of GWP, respectively.

Exhibit 8: Trend in the number of frontline sales managers



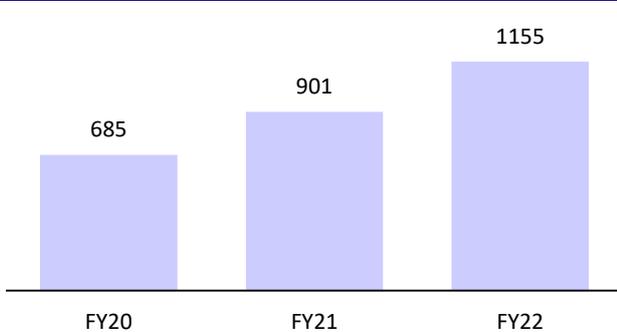
Source: MOFSL, Company

Exhibit 9: Trend in the count of rural sales managers



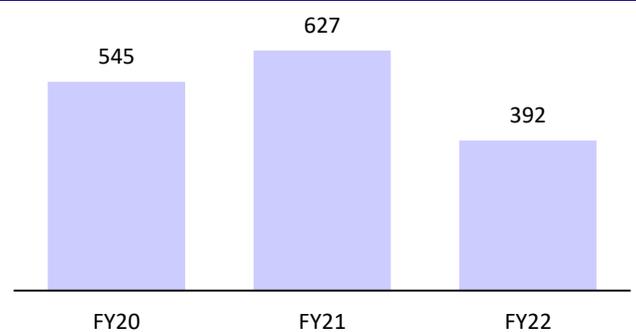
Source: MOFSL, Company

Exhibit 10: Trend in the number of relationship managers within the bancassurance channel



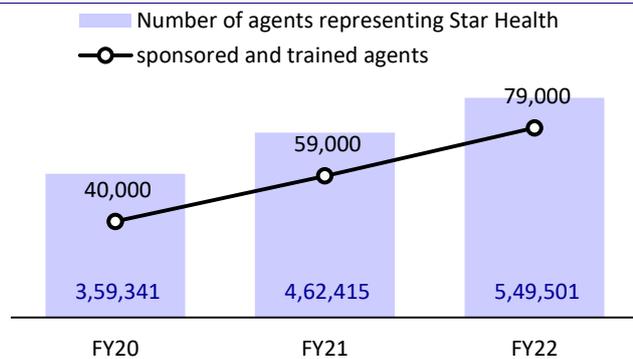
Source: MOFSL, Company

Exhibit 11: Trend in the number of agency development managers



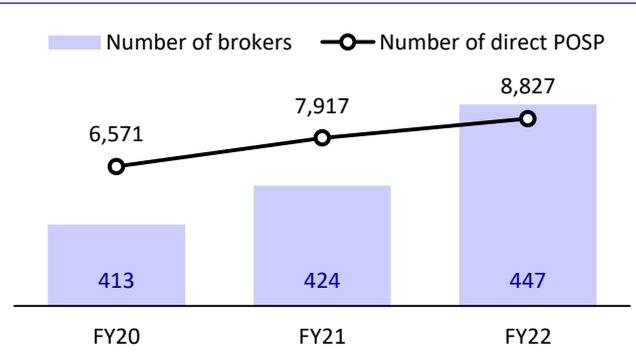
Source: MOFSL, Company

Exhibit 12: Trend in total and sponsored agents count



Source: MOFSL, Company

Exhibit 13: Trend in the number of brokers and POSP

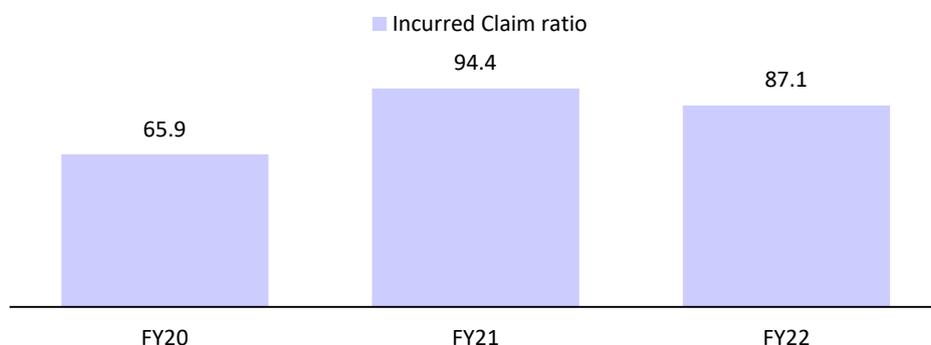


Source: MOFSL, Company

Claims processes getting stronger

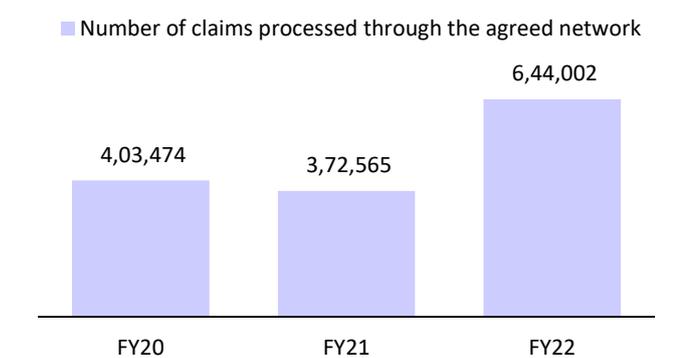
- During FY22, 89.93% cashless claims were settled in less than two hours by STARHEAL.
- The company addressed 95% cashless claims within 90 minutes and settled 90% reimbursements within seven days.
- The claims outgo of 87% comprised 21% on account of the pandemic; when deducted, the claims outgo of 66% compares favorably with the pre-pandemic claims outgo average of 61%.
- Following the accelerated rollout of the vaccinations during the last financial year, the pandemic has reduced to no more than a mild fever that seldom warrants hospitalization. This should translate into claims ratio declining from FY23.

Exhibit 14: Growth in Retail Health premium remains strong



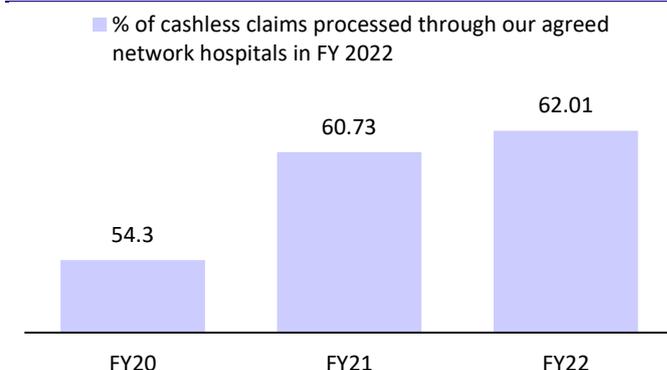
Source: IRDAI, General Insurance Council

Exhibit 15: Strong growth momentum in the Health business



Source: MOFSL, Company

Exhibit 16: Loss ratio to normalize to 94% by FY24



Source: MOFSL, Company

Product launches in FY22

- STARHEAL launched seven products in FY22: Saral Suraksha Bima, Star Cardiac Care Insurance Policy – Platinum, Star Cancer Care Platinum Insurance Policy, Star Group Critical Illness Multipay Insurance Policy, Star Critical Illness Multipay Insurance Policy, Star Women Care Insurance Policy, and Star Health Premier Insurance Policy.
- Key products – Family Health Optima Insurance Plan, Star Comprehensive Insurance Policy, Medi Classic Insurance Policy, and Senior Citizens Red Carpet Health Insurance Policy – accounted for 89.3% of the company's Retail Health business in FY22.

Enhancing the use of technology

The management's strategy aims at extending technology across business strategy, data collection and analysis, talent management, understanding risk, understanding the market, systems security, and operational processes. The company invested extensively in digital platforms, data platform, automation, and omnichannel accessibility. For instance,

- Its Star Virtual Office application empowered the sale of policies at remote locations;
- The customer-facing self-service application – Star Power – led to a personalized and consistent engagement;
- Its underwriting and claims processes were facilitated by a bespoke information system;
- Its claims processing was made customer friendly (with specific functions technologically decentralized to branches) that improved the turnaround time;
- The technology-driven claims process handheld customers across every stage;
- Automated claims verification reduced the customer waiting time.
- The company also invested in Auto IVRS, claim status update on a toll-free number, automated incoming email management system, conversational BOTS, vision AI, and Star Provider Portal.
- Its best-in-class customer relationship management, self-service portals, digital innovation, and advancements in mobile applications are expected to strengthen the company's service standards.

Other key trends

Exhibit 17: Trend in employee retention rate and average age

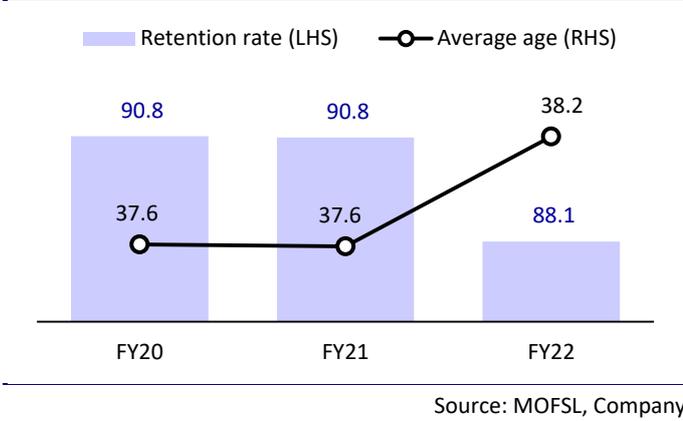


Exhibit 18: Trend in revenue per employee (INR m)

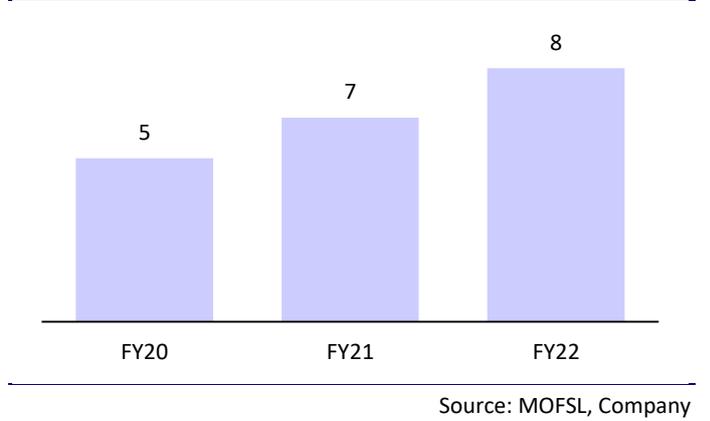


Exhibit 19: Trend in renewal retention ratio (%)

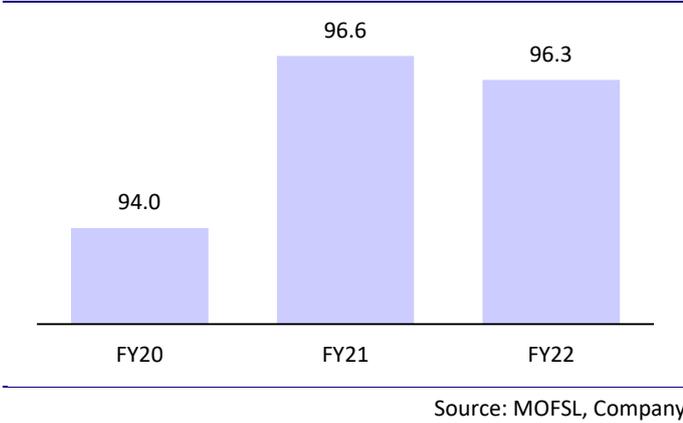


Exhibit 20: Trend in first call/mail resolution (%)

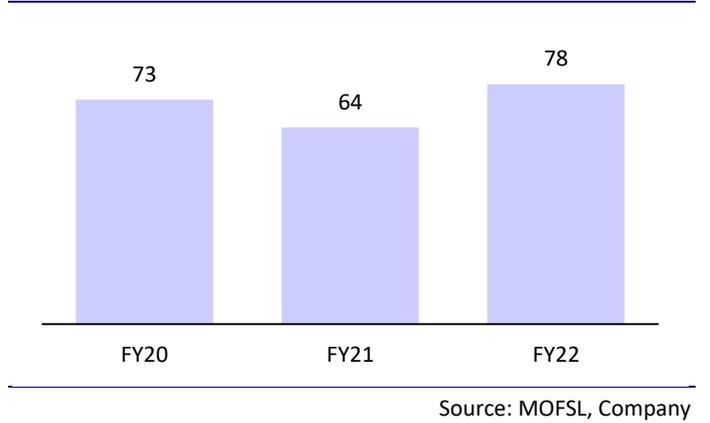


Exhibit 21: Trend in the number of bancassurance partners

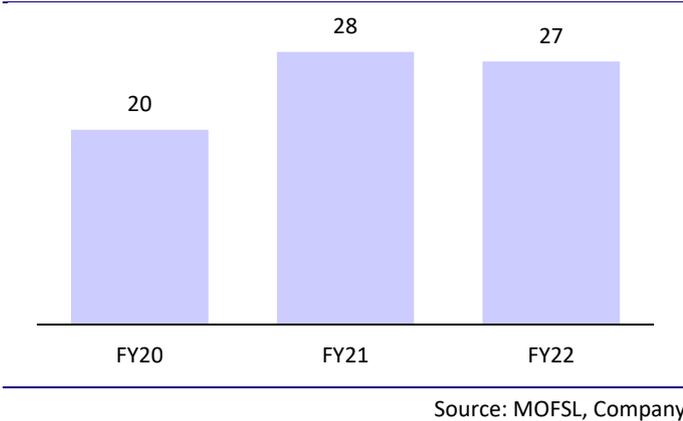


Exhibit 22: Trend in corporate agents count

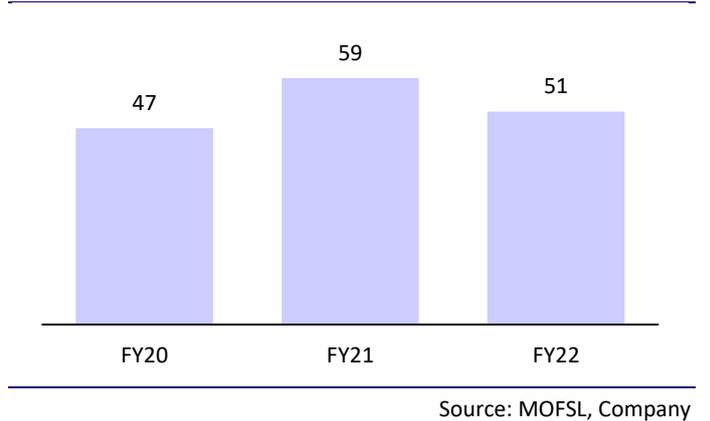


Exhibit 23: Operating expenses rise as pre-COVID expenses make a comeback, technology investments increase

INR m	FY22	FY21	YoY (%)
Employees' remuneration and welfare benefits	13,436	11,765	14.2
Travel, conveyance, and vehicle running expenses	305	193	58.2
Rents, rates, and taxes	746	662	12.8
Repairs and maintenance	288	194	48.8
Printing and stationery	189	150	25.8
Communication	299	228	31.1
Legal and professional charges	402	304	32.3
Advertisement and publicity	1,342	1,359	-1.2
Software expenses	777	531	46.3
In-house claim processing	-1,143	-2,808	-59.3
Others	1,744	1,453	20.0
Total	18,385	14,031	31.0

Source: MOFSL, Company

Exhibit 24: Yield on investments

INR b	FY18	FY19	FY20	FY21	FY22
Policyholders					
Total funds	13.1	17.8	23.1	38.9	61.4
Total investments	13.0	17.9	24.8	40.4	68.8
Yield on investments	8.36%	7.54%	7.55%	7.13%	8.25%
Shareholders					
Total funds	8.7	12.2	16.8	26.9	40.1
Total investments	8.7	12.4	18.1	27.9	44.9
Yield on investments	8.36%	7.54%	7.55%	7.13%	8.25%

Source: MOFSL, Company

Exhibit 25: Ageing of claims

	Number of claims			Claim amount (INR'00)		
	FY22	FY21	YoY (%)	FY22	FY21	YoY (%)
Less than or equal to six months	94,520	89,097	6.1	5,291	5,817	-9.0
More than six months, but less than or equal to one year	13,336	4,103	225.0	523	245	113.2
More than one year, but less than or equal to two years	2,516	209	1,103.8	133	0	NA
Over two years	232	95	144.2	106	0	NA
Total	1,10,604	93,504	18.3	6,053	6,211	-2.6

Source: MOFSL, Company

Exhibit 26: Remuneration of key management personnel

INR m	Designation	FY22	FY21	YoY (%)
Mr. V.Jagannathan	Chairman and CEO	757	632	19.8
Dr. S. Prakash	Managing Director	66	49	34.9
Mr. Anand Roy	Managing Director	66	49	36.2

Source: MOFSL, Company

Valuation and view

- We remain optimistic about the overall prospects of STARHEAL, backed by: a) a strong growth in Retail Health Insurance, given its under-penetration; b) healthy earnings growth, led by normalization in the claims ratio; and c) limited cyclical risk (commercial lines and Motor Insurance have a high cyclical risk).
- We expect overall gross premiums to clock 18% CAGR over FY22-25, led by 21% CAGR in the Retail Health. We expect the claims ratios to normalize to ~65%, with a combined ratio of ~93.5%. This should enable it to return to profitability over FY23-24E.
- We cut our earnings estimates for FY23/FY24/FY25 by 2%/3%/4% due to weaker than expected premium growth but retain our Buy rating on the stock with a revised TP of INR830 (based on 40x Sep'24 P/E).

Key risks

- Increase in competition from multi-line general insurers could pose a risk to STARHEAL's growth and market position.
- The extension of coverage of government schemes (such as *Ayushman Bharat*) to 'beyond BPL' families may slow the industry growth rate.
- Catastrophic events (such as natural disasters) may materially increase the claim liabilities by policyholders, resulting in losses.
- Adverse movement in investment yields may impact investment income.

Financials and valuation

Income Statement								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Retail Health	36,291	46,789	58,252	82,075	1,00,870	1,23,061	1,47,674	1,77,208
Group Health	4,026	5,938	8,897	9,963	12,066	8,446	9,291	10,220
PA	1,165	1,270	1,337	1,489	1,685	2,106	2,359	2,642
Total GDPI	41,611	54,154	68,651	93,885	1,14,635	1,33,613	1,59,323	1,90,070
Change (%)	40.6	30.1	26.8	36.8	22.1	16.6	19.2	19.3
NWP	31,961	41,415	52,395	71,794	1,08,096	1,28,269	1,52,950	1,82,467
NEP	27,397	35,795	46,841	46,266	98,092	1,12,876	1,34,596	1,60,571
Change (%)	43.3	30.7	30.9	-1.2	112.0	15.1	19.2	19.3
Net claims	16,921	23,410	30,874	43,695	85,401	73,348	87,462	1,04,341
Net commission	1,366	2,637	3,404	5,857	14,922	17,290	20,616	24,595
Expenses	8,613	9,827	11,013	14,031	18,385	20,103	23,346	27,125
Employee expenses	6,291	7,220	8,526	11,765	13,378	14,715	16,923	19,461
Other expenses	2,322	2,607	2,487	2,266	5,007	5,387	6,424	7,664
Underwriting Profit/(Loss)	497	-78	1,550	-17,316	-20,615	2,136	3,171	4,511
Investment income (PH)	887	1,398	1,639	2,505	4,796	5,575	7,920	10,177
Operating profit	1,384	1,214	3,303	-14,811	-15,820	7,711	11,091	14,688
Investment income (SH)	544	612	1,212	1,718	3,214	3,441	4,266	4,826
PBT	1,712	1,389	4,062	-14,458	-13,966	9,017	13,970	17,960
Tax	10	540	1,389	-3,601	-3,559	2,254	3,492	4,490
Tax rate (%)	0.6	38.9	34.2	24.9	25.5	25.0	25.0	25.0
PAT	1,702	849	2,633	-10,857	-10,407	6,763	10,477	13,470
Change (%)	44.2	-50.1	210.1	-512.3	-4.1	-165.0	54.9	28.6

Balance sheet								(INR M)
Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
Equity Share Capital	4,556	4,556	4,906	5,481	5,755	5,755	5,755	5,755
Reserves and Surplus	5,040	7,726	14,132	29,516	40,285	63,944	74,421	87,891
Net Worth	9,596	12,282	19,038	34,996	46,040	69,699	80,176	93,646
FV change	-	-	31	-76	267	-	-	-
Borrowings	2,500	2,500	2,500	2,500	7,200	7,200	7,200	7,200
Other liabilities	21,374	33,943	38,361	67,589	81,629	1,01,464	1,22,853	1,48,075
Total Liabilities	33,470	48,725	59,930	1,05,010	1,35,136	1,78,363	2,10,229	2,48,921
Investments (SH)	8,658	9,523	18,110	27,941	44,939	52,939	60,939	68,939
Investments (PH)	12,988	20,778	24,789	40,426	68,796	92,910	1,21,847	1,56,572
Net Fixed Assets	969	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	5,834	7,093	9,827	12,650	6,828	7,959	9,490	11,321
Cash and Bank	5,021	8,930	6,114	18,790	5,635	15,567	8,914	3,000
Total Assets	33,470	48,725	59,930	1,05,010	1,35,136	1,78,363	2,10,229	2,48,921

E: MOFSL estimates

Financials and valuation

Ratios

Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
GWP growth	40.6	30.1	26.8	36.8	22.1	16.6	19.2	19.3
NWP growth	40.0	29.6	26.5	37.0	50.6	18.7	19.2	19.3
NEP growth	43.3	30.7	30.9	-1.2	112.0	15.1	19.2	19.3
Claim ratio	61.8	65.4	65.9	94.4	87.1	65.0	65.0	65.0
Commission ratio	4.3	6.4	6.5	8.2	13.8	13.5	13.5	13.5
Expense ratio	26.9	23.7	21.0	19.5	17.0	15.7	15.3	14.9
Combined ratio	93.0	95.5	93.4	122.1	117.9	94.1	93.7	93.3

Profitability Ratios (%)

RoE	19.5	7.8	16.8	-40.2	-25.7	11.7	14.0	15.5
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Valuations	2018	2019	2020	2021	2022	2023E	2024E	2025E
BVPS (INR)	21.1	27.0	38.8	63.9	80.0	121.1	139.3	162.7
Change (%)	21.5	28.0	43.9	64.6	25.3	51.4	15.0	16.8
Price-to-BV (x)	34.2	26.7	18.6	11.3	9.0	5.9	5.2	4.4
EPS (INR)	3.7	1.9	5.4	-19.8	-18.1	11.8	18.2	23.4
Change (%)	44.2	-50.1	187.9	-469.1	-8.7	-165.0	54.9	28.6
Price-to-Earnings (x)						61.3	39.5	30.8

E: MOFSL estimates

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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