

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	STARHEAL IN
Equity Shares (m)	576
M.Cap.(INRb)/(USD\$)	402.9 / 4.9
52-Week Range (INR)	940 / 469
1, 6, 12 Rel. Per (%)	-9/-11/-
12M Avg Val (INR M)	392

Financials & Valuations (INR b)

Y/E March	2023E	2024E	2025E
NEP	113.9	132.9	158.7
U/W Profit	2.0	2.8	4.1
PBT	8.7	13.6	17.5
PAT	6.5	10.2	13.2

Ratios (%)			
Claims	65.3	65.1	65.1
Commission	13.5	13.5	13.5
Expense	16.1	15.4	15.0
Combined	94.9	93.9	93.5
RoE	11.3	13.7	15.3
EPS (Rs)	11.3	17.7	22.9

Valuations			
P/E (x)	61.9	39.4	30.6
P/BV (x)	5.8	5.1	4.3

Shareholding pattern (%)

As On	Sep-22	Jun-22
Promoter	58.6	58.8
DII	1.5	27.2
FII	10.3	9.6
Others	29.6	4.3

FII Includes depository receipts

CMP: INR699

TP: INR810 (+16%)

Buy

Higher claims ratio dents performance

- STARHEAL reported a PAT of INR931m in 2QFY23 vs INR2.1b in 1QFY23. This was 17% below our estimates. While net earned premium was broadly in-line with expectations, higher-than-expected loss ratio and lower-than-expected investment income led to the disappointment in profit.
- The management has maintained its guidance of 63-65% loss ratio and 93-95% combined ratio for FY23. The confidence in the guidance stems from 1) Loss ratio for Oct'22 stood at 63.5% and 2) a likely price hike in flagship product that contributes to ~50% of the premium. Also, the company is looking for a growth of 20-22% in premium for FY24.
- We lower our FY23/FY24/FY25 PAT estimates by 4%/3%/2% to account for higher loss ratios. We have also trimmed our GDPI assumption, especially on the group health segment. Our combined ratio estimates are higher by 80bp/20bp/20bp for FY23/FY24/FY25 to 94.9%/93.9%/93.5%, respectively. We reiterate our Buy recommendation with a revised price target of INR810 (40x Sep'24 EPS).

Weak performance in terms of profitability

- Net earned premium grew 4% QoQ to INR28b in 2QFY23, in line with our expectations. GDPI grew 11% YoY to INR32b in the quarter. Retail Health/Personal Accident segments grew 21.5%/20.3% YoY, respectively, while the group health segment declined 53% YoY in the quarter.
- Incurred claims were 4% higher than our estimates, leading to loss ratios of 68.2% v/s our estimates of 65%. Incurred claims for 1QFY23 was at 66.3% in the quarter.
- While the commission ratio at 13% was lower than our estimates, expense ratio at 16.6% was higher than estimates. Overall, in 2QFY23, the combined ratio at 97.9% (v/s 98.2% in 1QFY23) was weaker than our forecast of 95.6%.
- Investment income in policyholders' account at INR1.2b was 5% weaker than our forecasts, while shareholders' investment income at INR846m was in line with our estimates in the quarter.
- Profit for the quarter at INR931m missed our estimates by 17% (INR1,119m). The weakness was led by higher claims ratio and lower than forecasted investment income.
- For 1HFY23, NEP grew 18% YoY to INR55b. Underwriting profit stood at INR1.4b vs a loss of INR9.3b YoY; combined ratio stood at 97.9% vs 119.2% and PAT stood at INR3b vs a loss of INR3.8b in 2QFY23.
- Solvency ratio for 2QFY23 stood at 1.94 as compared to 1.87 in 1QFY23.

Key takeaways from the management commentary

- The company expects more than 1% reduction in claims ratio for 3QFY23 and in October 2022, the loss ratio stood at 63.5%.
- Star Health is looking to take a price hike in its flagship product, Family health optima, in 3QFY23. This product accounts for more than 50% of the premium.

Cut estimates to factor in weak performance

- We lower our FY23/FY24/FY25 PAT estimates by 4%/3%/2% to account for higher loss ratios. We have also trimmed our GDPI assumption, especially on the group health segment. Our combined ratio estimates are higher by 80bp/20bp/20bp for FY23/FY24/FY25 to 94.9%/93.9%/93.5%, in 2QFY23.
- 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 decided to exit certain large corporate businesses, leading to a segmental decline in growth in FY23.
- Claims ratio is expected to improve with the impact of the pandemic receding and the company seeing benefits of 1) higher share of specialized products, 2) increase in sum assured per policy, 3) lower share of group business and 4) increasing contribution of network hospitals in claims. Scale benefits will result in expense ratio declining 210bp over FY22-25E.
- As a result, we expect the combined ratio to improve to 93.5% in FY25 from 117.9% in FY22. We expect RoE to improve to ~15.3% in FY25 from 11.3% in FY23.
- We reiterate our Buy recommendation with a revised target price of INR810 (40x Sep'24 EPS).

Change in estimates

INR b	Old Est.			New Est.			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Total GDPI	133.6	159.3	190.1	133.0	158.7	189.4	-0.5	-0.4	-0.3
NWP	128.3	152.9	182.5	126.6	151.0	180.3	-1.3	-1.2	-1.2
NEP	112.9	134.6	160.6	113.9	132.9	158.7	0.9	-1.2	-1.2
Net claims	73.3	87.5	104.3	74.4	86.5	103.3	1.5	-1.1	-1.0
Net commission	17.3	20.6	24.6	17.1	20.4	24.3	-1.4	-1.3	-1.2
Expenses	20.1	23.3	27.1	20.4	23.3	27.0	1.5	-0.3	-0.3
Employee expenses	14.7	16.9	19.5	14.7	16.9	19.5	0.0	0.0	0.0
Other expenses	5.4	6.4	7.7	5.7	6.3	7.6	5.7	-1.2	-1.2
Underwriting Profit/(Loss)	2.1	3.2	4.5	2.0	2.8	4.1	-5.3	-11.3	-9.2
Investment income (PH)	5.6	7.9	10.2	5.4	7.9	10.2	-3.3	0.0	0.0
Operating profit	7.7	11.1	14.7	7.4	10.7	14.3	-3.9	-3.2	-2.8
Investment income (SH)	3.4	4.3	4.8	3.4	4.3	4.8	-1.5	0.0	0.0
PBT	9.0	14.0	18.0	8.7	13.6	17.5	-3.9	-2.6	-2.3
Tax	2.3	3.5	4.5	2.2	3.4	4.4	-3.9	-2.6	-2.3
PAT	6.8	10.5	13.5	6.5	10.2	13.2	-3.9	-2.6	-2.3
Claim ratio	65.0	65.0	65.0	65.3	65.1	65.1	0.4	0.1	0.1
Commission ratio	13.5	13.5	13.5	13.5	13.5	13.5	0.0	0.0	0.0
Expense ratio	15.7	15.3	14.9	16.1	15.4	15.0	0.5	0.1	0.1
Combined ratio	94.1	93.7	93.3	94.9	93.9	93.5	0.8	0.2	0.2

Quarterly Performance												(INR m)
Y/E March	FY22				FY23E				FY22	FY23	2QFY23E	Act v/s Est. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Gross premium	21,851	28,847	27,045	36,892	24,637	31,929	30,992	45,425	1,14,635	1,32,959	32,897	-2.9
Net written premium	20,497	27,293	25,568	34,738	23,441	30,389	29,505	43,265	1,08,096	1,26,577	31,581	-3.8
Net earned premium	22,430	24,167	25,283	26,212	26,871	27,948	25,374	33,750	98,092	1,13,920	27,791	0.6
Investment Income	871	971	901	1,192	1,220	1,233	1,331	1,605	4,796	5,389	1,293	-4.6
Total Income	23,301	25,138	26,184	27,404	28,090	29,181	26,705	35,356	1,02,887	1,19,308	29,084	0.3
Change YoY (%)	109.2	62.6	78.3	266.1	20.6	16.1	2.0	29.0	111.0	16.0	15.7	
Incurred claims	20,415	20,696	26,442	17,848	17,811	19,060	16,112	21,445	85,401	74,429	18,342	3.9
Net commission	2,665	3,597	3,588	5,072	3,220	3,964	3,983	5,889	14,922	17,056	4,263	-7.0
Employee expense	2,812	3,288	3,018	4,260	2,774	3,590	3,471	4,881	13,378	14,715	3,682	-2.5
Other expenses	698	1,746	1,359	1,204	1,498	1,465	1,357	1,376	5,007	5,696	1,390	.
Total Operating Expenses	26,590	29,326	34,407	28,384	25,303	28,079	24,924	33,591	1,18,707	1,11,896	27,677	1.5
Change YoY (%)	187.0	81.8	87.4	45.1	-4.8	-4.3	-27.6	18.3	86.7	-5.7	-5.6	
Underwriting profit	-4,160	-5,159	-9,124	-2,172	1,568	-131	450	159	-20,615	2,024	114	NA
Other charges	-18	-842	-	-	-	-	-	-	-860	-	-	
Operating profit	-3,271	-3,347	-8,223	-980	2,788	1,102	1,782	1,765	-15,820	7,413	1,407	-21.7
Shareholder's P/L												
Transfer from Policyholder's	-3,271	-3,347	-8,223	-980	2,788	1,102	1,782	1,765	-15,820	7,413	1,407	-21.7
Investment income	556	1,112	926	618	838	846	845	886	3,214	3,388	829	2.1
Total Income	-2,715	-2,235	-7,297	-362	3,626	1,948	2,627	2,650	-12,606	10,801	2,235	
Provisions other than taxation	-	-	23	0	1	-	-	-	26	-	-	
Other expenses	90	90	363	795	745	741	471	177	1,334	2,134	743	-0.3
Total Expenses	90	90	386	795	746	741	471	177	1,360	2,134	743	-0.3
PBT	-2,805	-2,325	-7,682	-1,158	2,880	1,207	2,156	2,473	-13,966	8,666	1,492	-19.2
Tax Provisions	-705	-618	-1,899	-337	747	276	539	605	-3,559	2,167	373	-26.2
Net Profit	-2,100	-1,706	-5,783	-820	2,132	931	1,617	1,868	-10,407	6,500	1,119	-16.8
Key Parameters (%)												
Share in GWP												
Health-Retail	86.9	84.0	87.5	92.2	92.1	92.3	90.7	94.2	88.0	92.6	92.1	0.2
Health-Group	11.9	14.6	10.9	6.2	6.4	6.2	7.7	4.2	10.5	5.9	6.4	-0.2
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	1.6	1.6	1.5	1.5	1.5	0.0
Claims ratio	91.0	85.6	104.6	68.1	66.3	68.2	63.5	63.5	87.1	65.3	66.0	2.2
Commission ratio	13.0	13.2	14.0	14.6	13.7	13.0	13.5	13.6	13.8	13.5	13.5	-0.5
Expense ratio	17.1	18.4	17.1	15.7	18.2	16.6	16.4	14.5	17.0	16.1	16.1	0.6
Combined ratio	121.1	117.3	135.7	98.4	98.2	97.9	93.4	91.6	117.9	94.9	95.6	2.3
Solvency	1.7	1.5	1.8	1.7	1.9	2.0			1.7			



Key takeaways from the management commentary

Business

- Retail segment growth was driven by 8-10% value terms, while 10-12% was driven by volumes.
- Retail health renewal ratio has declined from 98% in FY21 to 94.4% in YTD FY23. This is still the best in the industry.
- The sum assured per policy has seen an increase during 1HFY23 by 10% overall and 14% for the new policies. The average sum assured now stands at INR870k per policy.
- The company has recently launched its new product "Star extra protect", which is an add on cover to existing products like family health optima. This would provide additional premium and improve loss ratios.
- Share of specialized products has increased to 16.5% in 1HFY23 vs 13.5% in 1HFY22. The loss ratio on these products is lower than company level loss ratio.
- The average claim size for Star Health has been lower when compared with industry average. Also, the same has been on a declining trend for Star Health.
- Dengue and respiratory ailment related claims, that generally occur in October-November were more prominent in 2QFY23. So far in 40 days of 3QFY23 there have been limited such claims.

Distribution

- During 1HFY23, the company added 36k agents and expects to add 80-100k agents in FY23
- Company will soon be announcing a tie up with South based Small Finance Bank for distribution of health insurance products. The company has opened five new branches in J&K during this year.
- Digital business continues to grow at a faster pace than company level growth and now accounts for 11% of GWP. 1.7m downloads of app till 30th September, 2022 and 83% of the agents are using digital platform.

Guidance

- Star Health maintained its guidance of 63-65% Loss ratio and 93-95% combined ratio for FY23. For FY24, the company is expecting a growth of 20-22% in premium.
- Company focuses on improving its loss ratio through 1) Prudent claim settlement, 2) well negotiated volume based pricing arrangement with network hospitals, 3) technology enabled fraud detection, and 4) risk based pricing
- The company expects more than 1% reduction in claim ratio for 3QFY23 and in October 2022, the loss ratio was at 63.5%.
- Star Health is looking to take a price hike in its flagship product Family health optima in 3QFY23. This product accounts for 50%+ of the volumes.

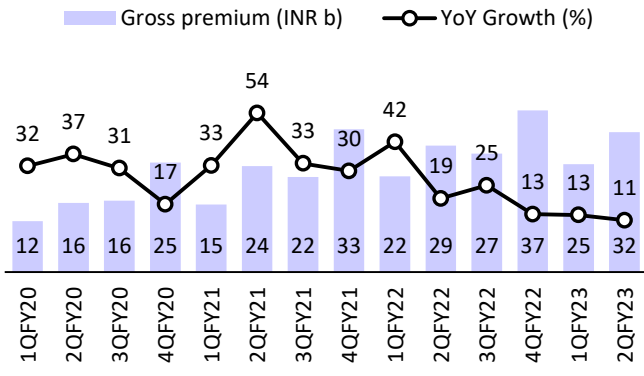
Financials

- Commission rate has declined on back of higher share of direct in the overall premium.
- ESOP cost to the founder will continue in 3QFY23 for two months at a cost of INR360m.

- Rural growth has been higher at 60%+ and hence the company is looking to set up satellite offices at more locations.
- Modified Duration of investment in 4.2yrs.
- Claims based solvency is at 1.95x, while premium based solvency is at 2.08x.

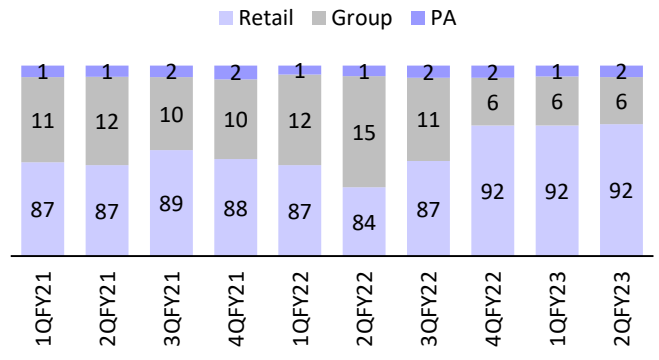
Key exhibits

Exhibit 1: Premium growth is weak



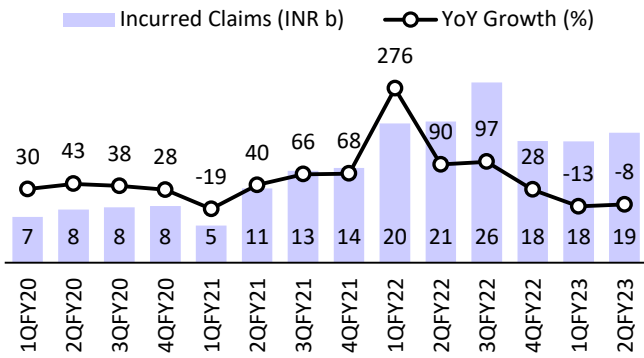
Source: MOFSL, Company

Exhibit 2: Share of retail health continues to rise



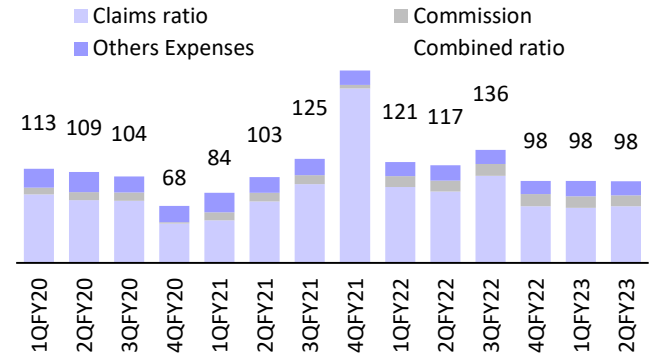
Source: MOFSL, Company

Exhibit 3: Increase in claims on a QoQ basis



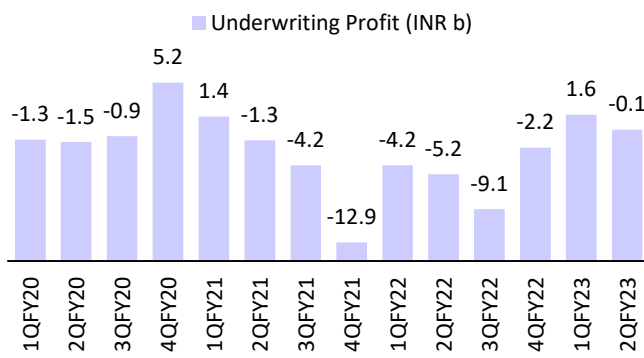
Source: MOFSL, Company

Exhibit 4: Combined ratio shows no sign of falling



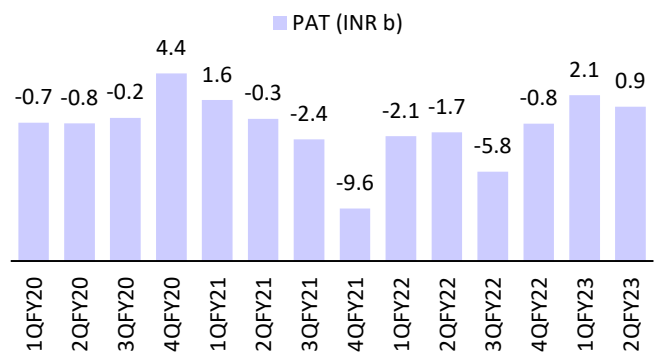
Source: MOFSL, Company

Exhibit 5: Underwriting loss of INR0.1b



Source: MOFSL, Company

Exhibit 6: Volatility in PAT continues



Source: MOFSL, Company

Financials and valuations

Income Statement						(INR M)		
Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
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	7,843	8,627	9,490
PA	1,165	1,270	1,337	1,489	1,685	2,055	2,364	2,718
Total GDPI	41,611	54,154	68,651	93,885	1,14,635	1,32,959	1,58,664	1,89,416
Change (%)	40.6	30.1	26.8	36.8	22.1	16.0	19.3	19.4
NWP	31,961	41,415	52,395	71,794	1,08,096	1,26,577	1,51,048	1,80,324
NEP	27,397	35,795	46,841	46,266	98,092	1,13,920	1,32,923	1,58,685
Change (%)	43.3	30.7	30.9	-1.2	112.0	16.1	16.7	19.4
Net claims	16,921	23,410	30,874	43,695	85,401	74,429	86,491	1,03,255
Net commission	1,366	2,637	3,404	5,857	14,922	17,056	20,353	24,298
Expenses	8,613	9,827	11,013	14,031	18,385	20,411	23,267	27,035
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	5,696	6,344	7,574
Underwriting Profit/(Loss)	497	-78	1,550	-17,316	-20,615	2,024	2,811	4,098
Investment income (PH)	887	1,398	1,639	2,505	4,796	5,389	7,920	10,177
Operating profit	1,384	1,214	3,303	-14,811	-15,820	7,413	10,732	14,275
Investment income (SH)	544	612	1,212	1,718	3,214	3,388	4,266	4,826
PBT	1,712	1,389	4,062	-14,458	-13,966	8,666	13,610	17,547
Tax	10	540	1,389	-3,601	-3,559	2,167	3,402	4,387
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	6,500	10,207	13,160
Change (%)	44.2	-50.1	210.1	-512.3	-4.1	-162.5	57.0	28.9
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 & Surplus	5,040	7,726	14,132	29,516	40,285	63,680	73,888	87,048
Net Worth	9,596	12,282	19,038	34,996	46,040	69,435	79,643	92,803
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	98,612	1,19,778	1,44,751
Total Liabilities	33,470	48,725	59,930	1,05,010	1,35,136	1,75,247	2,06,621	2,44,754
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	7,920	9,451	11,283
Cash & Bank	5,021	8,930	6,114	18,790	5,635	12,491	5,346	-1,128
Total Assets	33,470	48,725	59,930	1,05,010	1,35,136	1,75,247	2,06,621	2,44,754

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
GWP growth	40.6	30.1	26.8	36.8	22.1	16.0	19.3	19.4
NWP growth	40.0	29.6	26.5	37.0	50.6	17.1	19.3	19.4
NEP growth	43.3	30.7	30.9	-1.2	112.0	16.1	16.7	19.4
Claim ratio	61.8	65.4	65.9	94.4	87.1	65.3	65.1	65.1
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	16.1	15.4	15.0
Combined ratio	93.0	95.5	93.4	122.1	117.9	94.9	93.9	93.5

Profitability Ratios (%)

RoE	19.5	7.8	16.8	-40.2	-25.7	11.3	13.7	15.3
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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	120.7	138.4	161.3
Change (%)	21.5	28.0	43.9	64.6	25.3	50.8	14.7	16.5
Price-BV (x)	33.2	25.9	18.0	10.9	8.7	5.8	5.1	4.3
EPS (INR)	3.7	1.9	5.4	-19.8	-18.1	11.3	17.7	22.9
Change (%)	44.2	-50.1	187.9	-469.1	-8.7	-162.5	57.0	28.9
Price-Earnings (x)						61.9	39.4	30.6

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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