

CMP: ₹512

Target: ₹ 650 (27%)

Target Period: 12 months

BUY

February 4, 2023

Outlook on growth, loss ratio remains encouraging...

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 December 2022
- Star Health has 830 branches and 14000+ network hospitals, with a presence in 25 states and five union territories

Q3FY23 Results: Steady market share in retail health; claims trend steady.

- GWP up 14.5% YoY to ₹ 3096 crore, NWP up 15.1% & NEP up 13.4% YoY
- Incurred claims declined 30.9% YoY. Claims ratio down from 68% to 63.7%
- Combined ratio within guidance at 94.8%; underwriting profit at ₹ 126 crore
- Net profit was at ₹ 210 crore vs. a loss of ₹ 578 crore YoY

What should investors do? Star Health is expected to maintain its leadership in retail health segment with sustainable long term growth opportunity. Higher than industry growth and targeted combined ratio of 95-96% provides confidence.

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

Target Price and Valuation: Given the risk of increase in competitive intensity driven by regulatory changes, we lower our valuation multiple at ~1.9x FY25E GDPI to arrive at a revised target price of ₹ 650 from ₹ 850 earlier. However, fundamental strength provides comfort.

Key triggers for future price performance:

- Price hikes coupled with increasing proportion of specialised products to aid premium growth at 20-22% and maintain market leadership
- Improving footprints in rural India, increase in bancassurance tie-up along with strengthening of own agency channel to propel business momentum
- Expansion of hospital tie-ups and faster claim settlement to keep claim ratio at 62-65%, thus resulting in combined ratio at 95-96%
- Strategy to enter life insurance business subject to regulatory approval and any regulatory change to intensify competition needs to be watched

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

- It is among the most dominant players in the Indian life insurance industry
- BUY with a target price of ₹ 1300



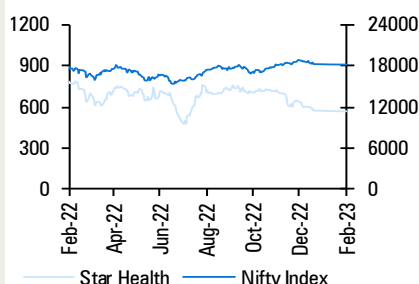
Particulars

Particulars	Amount
Market Capitalisation	₹ 29810 crore
52 week H/L	798/451
Net Worth	₹ 5328 crore
Face Value	₹ 10

Shareholding Pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	58.9	58.9	58.8	58.6	58.3
FII	9.9	9.8	9.6	10.3	35.5
DII	27.4	27.3	27.2	1.5	1.3
Others	3.75	4.02	4.34	29.60	4.94

Price performance



Key Highlights

- Combined ratio healthy at 94.8% in Q3FY23
- Key risk:** i) Increase in competitive intensity led by regulatory change ii) Uptick in claim ratio

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Key Financial Summary

	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-FY25E)
Gross written premium (GWP)	6890.7	9388.5	11739.6	29.4	13104.2	16052.3	19262.8	17.9
Net Incurred Claims	3087.4	4369.5	8727.5	56.0	7731.0	9352.0	10970.6	7.9
Underwriting Profit/Loss	168.4	(1331.8)	(2127.2)	NA	397.0	529.4	677.5	NA
Profit after Tax	272.0	(825.6)	(1203.6)	NA	723.4	841.1	1038.0	NA
NWP/Net Worth (x)	3.2	1.7	1.8		1.5	1.5	1.6	
Price/Float (x)	0.7	0.4	0.3		0.2	0.2	0.1	
P/GWP (x)	0.4	0.3	0.2		0.2	0.2	0.2	
P/E (x)	110.6	(36.4)	(25.0)		41.8	35.9	29.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results: Sequential uptick in premium growth; market share remains buoyant. Delivers under-writing profit, led by continued focus on opex, lower claim

- Star Health reported modest numbers on the business growth front as gross written premium (GWP) was up 14.5% YoY (down 3% QoQ) at ₹ 3096 crore
- Growth from retail health segment was higher than overall GDPI growth at 19% YoY (9MFY23). Continued focus on retail health segment led to 100 bps YoY improvement in market share (9MFY23) to 33%
- Net written premium (NWP) was up 15.1% YoY while earned premium growth was lower at 13.4% YoY to ₹ 2867 crore
- Incurred claims declined 30.9% to ₹ 1827 crore. Thus, the claims ratio for the quarter came in at 63.75% vs. 68% in the previous quarter and 104.58% YoY. Net commission expense were up 12.2% YoY while other operating expenses grew higher at 16.7% YoY; as a result, management expense ratio declined from 31.2% in Q3FY22 to 31% in Q3FY23. Combined ratio witnessed an improvement at 94.8% in Q3FY23. Resultantly, underwriting profit came in at ₹ 125.8 crore
- Under-writing profit coupled with investment income of ₹ 205 crore, Star Health posted net profit of ₹ 210.5 crore (in line with our estimates) vs. a loss of ₹ 578 crore YoY. Total float was at ₹ 12079 crore

Q3FY23 Earnings Conference Call highlights

- With de-growth in the group segment largely done, maintain guidance of premium growth at 20-22%. Retail health segment to witness continued traction while group business (focused on SME segment) should see similar traction
- Post hike in Medi-classic product earlier, price hike slated for floater health product, effective from February 2023 for new customers and from May 2023 for existing customers. Received regulatory approval for price hike proposal. No substantial decline seen in retention post price hike of Medi-classic plan
- Agency channel contributed 82% of overall business. Maintain target to add 80000-100000 agents in FY23E
- Strong agency channel should ensure business growth and reduce any competition pressure in case of approval of composite license. Agency addition target maintained at 80,000 – 1,00,000 in FY23E
- Composite license discussion currently in draft stage; need to see final guidelines. Applied for exposure license for life insurance segment, awaiting approval from regulator
- Average rise in sum insured increased ~13% to ₹ 8.8 lakh
- No substantial seasonal increase in claims experienced in Q3FY23. Thus, maintain guidance of loss ratio at 62-65% for FY23. Further, lower group business should also enable better claim ratio. Guidance for combined ratio is at 93-95% in FY23E

Peer comparison

Exhibit 1: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap		EPS (₹)				P/E (x)				P/EV (x)				RoE (%)			
	(₹)	TP(₹)	Rating	(₹ bn)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	
SBI Life Insurance	1140	1300	Buy	1141	14.6	15.1	16.3	17.0	78.3	75.7	69.8	67.0	3.4	2.9	2.5	2.2	15.2	8.5	10.8	10.4	
HDFC Life	489	540	Hold	1051	6.7	5.7	6.4	7.9	72.7	85.5	76.1	62.2	3.7	3.4	2.7	2.3	17.6	18.0	18.1	18.2	
Star Health	512	650	Buy	298	-14.1	-20.5	12.3	14.3	-36.4	-24.9	41.7	35.9	8.6	6.9	4.1	2.9	-23.6	-27.8	9.9	8.1	
ICICI Lombard	1133	1300	Hold	556	18.7	18.7	18.7	18.7	60.7	60.7	60.7	60.7	4.6	4.6	4.6	4.6	15.5	15.5	15.5	15.5	

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

Policyholder's Account	Q3FY23	Q3FY23E	Q3FY22	YoY%	Q2FY23	QoQ%	
Gross Premium Written	3096.7	2930.5	2704.5	14.5	3192.9	(3.0)	Retail health market share remained at 33%
(-) Reinsurance ceded	153.3	(175.8)	147.7	3.8	154.0	(0.5)	
Net written premium (NWP)	2943.4	2754.7	2556.8	15.1	3038.9	(3.1)	
Net earned premium (NEP)	2867.2	2856.5	2528.3	13.4	2794.8	2.6	
(-) Net Incurred Claims	1827.8	1856.2	2644.2	(30.9)	1906.0	(4.1)	Claim ratio steady at 63.7%
(-) Net Commission Expense	402.6	310.9	358.8	12.2	396.4	1.6	Commission ratio at 13.7%
(-) Operating expenses related to insurance business	511.0	415.2	437.7	16.7	505.4	1.1	
(-) Total expense	2741.5	2582.4	3440.7	(20.3)	2807.9	(2.4)	
Underwriting Profit/Loss	125.8	153.7	(912.4)	(113.8)	(13.1)	NA	Combined ratio within guidance at 94.8%
Investment Income	115.7	120.0	90.1	28.4	123.3	(6.1)	
Operating Profit/Loss	241.5	273.7	(822.3)	(129.4)	110.2	119.1	
Transfer to Shareholder's Account	241.5	273.7	(822.3)	(129.4)	110.2	119.1	

Shareholder's Account	Q3FY23	Q3FY23E	Q3FY22	YoY%	Q2FY23	QoQ%	
Operating Profit/Loss	241.5	273.7	(822.3)	(129.4)	110.2	119.1	
Investment Income	89.7	0.0	92.5	(3.0)	83.7	7.2	
Other Income	1.73	1.50	0.0	4225.0	0.89	94.4	
(-) Expense and Provision	51.2	0.0	38.6	32.7	74.1	(31.0)	
Profit before tax	281.7	275.2	(768.3)	(136.7)	120.6	133.5	
(-) Provision for Taxation	71.3	70.2	(189.9)	(137.5)	27.6	158.7	
Profit after Tax	210.5	205.0	(578.4)	(136.4)	93.1	126.1	Net profit as lower claims drive performance

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

	FY23E			FY24E			FY25E
	Old	New	% change	Old	New	% change	Introduced
Gross written premium (GWP)	13865.2	13104.2	-5.5%	16906.2	16052.3	-5.1%	19262.8
Net earned premium (NEP)	12092.7	11643.1	-3.7%	14639.0	13958.3	-4.7%	16622.2
Net Incurred Claims	8150.4	7731.0	-5.1%	9881.3	9352.0	-5.4%	10970.6
Underwriting Profit/Loss	300.1	397.0	32.3%	553.8	529.4	-4.4%	677.5
Operating Profit/Loss	820.9	846.1	3.1%	1237.3	1194.8	-3.4%	1584.8
Profit after Tax	514.4	723.4	40.6%	848.3	841.1	-0.8%	1038.0

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current			Earlier	
	FY23E	FY24E	FY25E	FY23E	FY24E
NWP growth (%)	12.8	22.5	20.0	16.9	21.9
NEP growth (%)	17.4	19.9	19.1	21.9	21.1
Claims ratio (%)	66.4	67.0	66.0	67.4	67.5
Commission ratio (%)	13.0	12.5	12.5	13.0	12.5
Expenses ratio (%)	16.5	16.7	18.0	16.5	15.7
Combined ratio (%)	95.9	96.2	96.5	96.9	95.7
Underwriting Profit (%)	1.8	0.8	0.1	0.9	1.9
EBIT/NEP (%)	8.1	8.1	8.3	7.4	9.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Policy holder's Account				
₹ crore				
Policyholder's Account	FY22	FY23E	FY24E	FY25E
Gross written premium (GWP)	11739.6	13104.2	16052.3	19262.8
(-) Reinsurance ceded	704.4	655.2	802.6	963.1
Net written premium (NWP)	11035.2	12449.0	15249.7	18299.7
Net earned premium (NEP)	9917.7	11643.1	13958.3	16622.2
(-) Net Incurred Claims	8727.5	7731.0	9352.0	10970.6
(-) Net Commission Expense	1467.7	1618.4	1906.2	2287.5
(-) Operating expense	1849.6	1896.7	2170.7	2686.6
(-) Other expense	0.0	0.0	0.0	0.0
(-) Total expense	12044.8	11246.1	13428.9	15944.7
Underwriting Profit/Loss	(2127.2)	397.0	529.4	677.5
Investment Income	420.6	449.1	665.4	907.3
Operating Profit/Loss	(1706.6)	846.1	1194.8	1584.8
Transfer to Shareholder's Account	(1706.6)	846.1	1194.8	1584.8

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				
₹ crore				
Balance Sheet	FY22E	FY23E	FY24E	FY25E
Source of Funds				
Share Capital	572.9	575.9	575.9	575.9
Reserves and Surplus	5674.5	7653.5	9814.7	11064.1
Net Worth	6247.4	8229.4	10390.6	11640.0
Fair value gains	0.7	15.9	36.8	65.3
Borrowings	720.0	470.0	470.0	470.0
Deferred Tax Liability	0.0	0.0	0.0	0.0
Total	6968.0	8715.3	10897.4	12175.3
Application of Funds				
Shareholder Investments	3664.6	4788.0	6373.8	7422.1
Policyholder Investments	6805.8	8891.9	11837.0	13783.9
Total Investments	10470.4	13679.9	18210.8	21206.1
Deferred Tax Assets	826.1	582.8	299.9	95.0
Fixed Assets	125.1	178.1	258.3	218.2
Cash and Bank balance	1090.9	1280.7	1535.4	1828.4
Other current assets	682.7	776.0	933.3	1148.2
Total Current Assets	1773.6	2056.8	2468.7	2976.6
Current Liabilities	1839.1	1621.6	1930.8	2233.7
Provision	6312.2	7118.0	8409.5	10086.9
Total Current Liabilities	8151.3	8739.6	10340.3	12320.6
Net Current Assets	(6377.7)	(6682.8)	(7871.5)	(9344.0)
Total	6968.0	8715.3	10897.4	12175.3

Source: Company, ICICI Direct Research

Exhibit 7: Shareholder's Account				
₹ crore				
Shareholder's Account	FY22E	FY23E	FY24E	FY25E
Operating Profit (from Policyholder's account)	(1706.6)	846.1	1194.8	1584.8
Investment Income	226.5	299.4	358.3	488.6
Other Income	0.3	0.4	0.4	0.4
(-) Expense and Provision	128.7	179.0	429.4	686.7
Profit before tax	(1608.4)	966.8	1124.1	1387.1
Provision for Taxation	404.8	(243.3)	(282.9)	(349.1)
Profit after Tax	(1203.6)	723.4	841.1	1038.0

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios				
Key Ratios	FY22E	FY23E	FY24E	FY25E
Incurred Claims ratio (%)	88.0	66.4	67.0	66.0
Commission Ratio (%)	13.3	13.0	12.5	12.5
Expense Ratio (%)	17.3	16.5	16.7	18.0
Combined ratio (%)	118.6	95.9	96.2	96.5
Investment yield (%)	9.6	7.5	7.8	7.9
Investment Income / NEP (%)	6.4	6.3	7.2	8.3
PAT margin (%)	(12.1)	6.2	6.0	6.2
RoE (%)	(27.8)	9.9	8.1	8.9
ROCE (%)	(23.9)	9.3	7.7	8.5
NWP/Net Worth (x)	1.8	1.5	1.5	1.6
Debt/EBIT (x)	(0.5)	0.5	0.4	0.3
Debt/Equity (x)	0.12	0.06	0.05	0.04
ABV (₹)	73.7	123.6	176.8	198.3
Valuation				
Price/Float (x)	0.3	0.2	0.2	0.1
P/GWP (x)	0.2	0.2	0.2	0.2
P/E (x)	(25.0)	41.8	35.9	29.1
P/ABV (x)	7.0	4.2	2.9	2.6

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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