

Star Health

Refer to important disclosures at the end of this report

FY23 combined ratio guidance achieved

CMP	Target Price
Rs 591 as of (April 28, 2023)	Rs 685 (▲) 12 months
Rating	Upside
BUY (■)	15.9 %

Change in Estimates

EPS Chg FY24E/FY25E (%)	-2.1/-6.6
Target Price change (%)	2
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY24E	FY25E
Emkay	16.6	21.1
Consensus	16.7	20.9
Mean Consensus TP (12M)	Rs 662	

Stock Details

Bloomberg Code	STARHEAL IN
Face Value (Rs)	10
Shares outstanding (mn)	582
52 Week H/L	780 / 451
M Cap (Rs bn/USD bn)	344 / 4.20
Daily Avg Volume (nos.)	6,17,438
Daily Avg Turnover (US\$ mn)	4.1

Shareholding Pattern Mar '23

Promoters	58.3%
FIIs	35.2%
DIIIs	1.4%
Public and Others	5.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	14	18	(18)	(16)
Rel. to Nifty	7	15	(19)	(20)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Star Health (Star) reported decent performance for Q4FY23, completing the year post the pandemic with a combined ratio for FY23 at 95.3%, coming near the top end of ~93/-95% combined ratio target. Premium growth for FY23 at 13% was largely in line with our estimates and was driven by ~18% growth in retail and a ~33% decline in group (in line with management's guidance of exiting the large corporate group health business). PAT for FY23 came in 13.7% lower than our estimate at Rs6.2bn, largely led by lower NEP than our estimates. However, with the company achieving the 95.3% CoR, we believe Star is on the right track to achieve profitable growth, given its expanding hospital network, strong distribution network, and some normalization in medical inflation. Given that Star is within the 35% Expense of Management (EoM) cap, the company is well positioned in the new EoM regulations era. We have tweaked our estimates for FY24-25E and reiterate our BUY rating with a revised Mar-24 TP of Rs685, implying a 32x FY25E P/E and 2.1x FY25E P/GWP.

Decent operating performance; lower NEP drives PAT miss: For Q4FY23, Star's GWP grew by 13.8% YoY to Rs4.2bn, broadly in line with our estimates. However, lower-than-expected NEP for Q4FY23 led to underwriting loss of Rs0.65bn, against our expectation of an underwriting profit of Rs0.46bn. Claims ratio for Q4FY23 and FY23 came broadly in line with our expectations at 62% and 65%, respectively, leading to an inline combined ratio for Q4FY23 and FY23 at 91.4% and 95.3%, respectively. Despite inline CoR, lower-than-expected PAT for FY23 at Rs6.18bn was driven by a 2% miss on NEP and 4% miss on investment income. Similarly, for Q4FY23, PAT at Rs1bn came significantly lower than our estimate of Rs2bn, driven by a miss on NEP and lower investment income. **(Exhibit 1)**

Management expects the combined ratio to improve further: Star is expected to deliver claims ratio of 63-65%, owing to strong FY23 performance, price hike taken in its major policies, and Covid-related impact largely behind. Claims costs are expected to further improve, driven by efficient claims processing systems in place, the shortest possible turnaround time, and efficient anti-fraud systems. Star should further see improvement in combined ratio as the price hike in key products and investments in distribution are expected to start delivering results. Star's EoM is below the 35% limit as against peers, and this paves way for Star to grow better than its peers, given its strong franchise, widening network of hospitals, and expanding distribution channels. **(Exhibit 9)**

Solvency ratio strong at 214%; no requirement of fresh capital: Star reported solvency ratio of 214% for FY23 vs. 167% for FY22 despite repayment of Rs2.5bn worth borrowing. With the required solvency factor being moved to premium-based factor from claims, we expect solvency ratio to be broadly stable in FY24 as PBT, RoE and premium growth are expected to move in a similar range. The ~Rs1bn miss in PAT for Q4FY23 led to a ~4% impact in solvency margin as against our expectation of ~220% solvency margin for FY23. However, improvement in solvency ratios should put the talks of capital raise to rest.

Minor tweak to our estimates, reiterate BUY with a revised Mar-24 TP of Rs685: We have tweaked our estimates for FY24/25E, reflecting Q4FY23 developments. Our medium to long-term growth and profitability expectations remain broadly unchanged. We reiterate our BUY rating on the stock with our Mar-24 TP of Rs685 (implying 32x FY25E P/E and 2.1x FY25E P/GWP).

Financial Snapshot

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
GWP	1,14,635	1,29,525	1,55,430	1,88,164	2,29,502
Combined ratio (%)	117.9	95.3	94.7	94.0	93.6
U/W result	-20,616	2,046	3,381	4,998	5,972
Net profit	-10,407	6,186	9,644	12,300	14,880
RoE (%)	-25.6	12.3	16.3	17.8	18.5
Solvency ratio (%)	167.0	214.0	211.1	208.0	198.1
EPS (Rs)	-18.7	10.7	16.6	21.1	25.6
BVPS (Rs)	80.5	93.8	110.0	128.1	148.7
P/GWP	3.0	2.7	2.2	1.8	1.5
P/E	-31.7	55.3	35.7	28.0	23.1
P/B	7.3	6.3	5.4	4.6	4.0

Source: Company, Emkay Research team.emkay@whitemarquesolutions.com use and downloaded at 05/02/2023 05:37 PM

Exhibit 1: Q4FY23/FY23 Result

(Rs mn)	Q4FY23	Q4FY22	%YoY	Q4FY23E	% Var	FY23	FY22	%yoy	FY23E	% Var
Gross written premium (GWP)	41,992	36,892	13.8	42,195	-0.5	1,29,525	1,14,635	13.0	1,29,727	-0.2
Net Written Premium (NWP)	39,932	34,738	15.0			1,23,196	1,08,095	14.0		
Net earned Premium (NEP) - A	29,125	26,212	11.1			1,12,616	98,092	14.8		
Expenses										
Claims Incurred (Net)	18,054	17,848	1.2	19,598	-7.9	73,204	85,400	-14.3	74,748	-2.1
Commission (Net)	5,618	5,072	10.8			16,828	14,922	12.8		
Operating Expenses	6,108	5,464	11.8			20,538	18,385	11.7		
Total expense - B	29,780	28,384	4.9			1,10,570	1,18,707	-6.9		
U/W Profit/(Loss) C = A-B	-654	-2,173	NM	467	NM	2,046	-20,616	NM	3,162	-35.3
Policyholder investment income	1,405	1,192	17.9			5,014	3,814			
Operating Profit	751	-980	NM			7,060	-16,802	NM		
PBT	1,361	-1,158	NM			8,264	-13,967	NM		
PAT	1,018	-820	NM	2,024	-49.7	6,186	-10,407	NM	7,166	-13.7
Combined ratio (%)	91.4	98.4	-7.1pppts	91.4	0.0pppts	95.3	117.9	-22.5pppts	95.3	0.0pppts
Retention Ratio	95.1	94.2	0.9pppts			95.1	94.3	0.8pppts		
NEP/NWP (%)	73	75	-2.5pppts			91.4	90.7	0.7pppts		
Net claims ratio	62.0	68.1	-6.1pppts	61.6	0.4pppts	65.0	87.1	-22.1pppts	64.8	0.2pppts
Net commission ratio	14.1	14.6	-0.5pppts			13.7	13.8	-0.1pppts		
Management expense ratio	15.3	15.7	-0.4pppts			16.7	17.0	-0.3pppts		
Solvency ratio	2.14	1.67	47.0pppts			2.14	1.67	47.0pppts		

Source: Company, Emkay Research

Exhibit 2: Residual income valuation for Star Health

Cost of Equity	12.0%
FY25 PAT (Rs mn)	12,300
PAT CAGR FY25-38	16%
Terminal growth	8.0%
Mar-24 Fair value (Rs mn)	3,97,674
No. of shares (mn)	581.7
Mar-24 Fair value per share (Rs)	684
Mar-24E Target Price	685
CMP	591
Upside	16%
	BUY

Source: Company, Emkay Research

Exhibit 3: Implied valuation multiples for Star Health

Valuation multiple on Target Price	Rs 685
FY25E P/E	32x
FY25E P/B	5.3x
RoE (%)	17.8%
FY25E P/GWP	2.1x
Valuation multiple on CMP	Rs 591
FY25E P/E	28x
FY25E P/B	4.6x
RoE (%)	17.8%
FY25E P/GWP	1.8x

Source: Company, Emkay Research

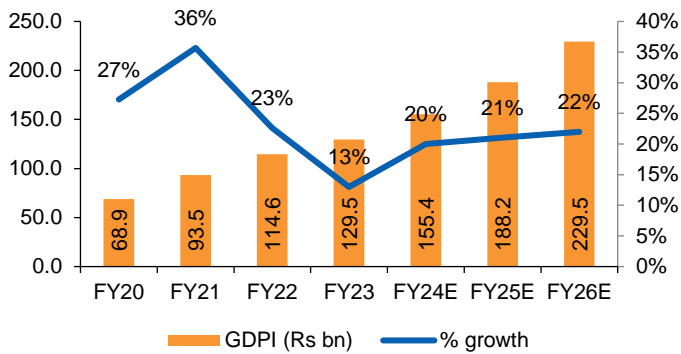
Exhibit 4: Changes in Estimates

(Rs mn)	FY24E			FY25E			FY26E		
	Old	Revised	Change (%)	Old	Revised	Change (%)	Old	Revised	Change (%)
GWP	1,57,054	1,55,430	-1.0	1,88,597	1,88,164	-0.2	NA	2,29,502	NM
U/W Result	2,993	3,381	13.0	5,468	4,998	-8.6	NA	5,972	NM
Net Profit	9,849	9,644	-2.1	13,166	12,300	-6.6	NA	14,880	NM
Claims ratio (%)	64.8	64.6	-0.2pppts	64.8	64.3	-0.5pppts	NA	64.0	NM
Combined Ratio (%)	94.9	94.7	-0.2pppts	93.9	94.0	0.1pppts	NA	93.6	NM
Solvency Ratio (%)	222.0	211.1	-10.9pppts	220.3	208.0	-12.3pppts	NA	198.1	NM

Source: Company, Emkay Research

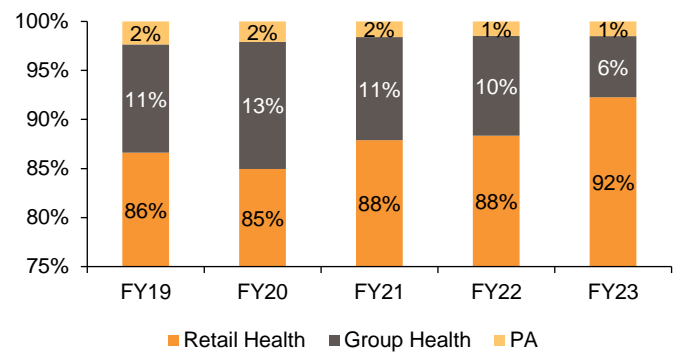
Story in Charts

Exhibit 5: GDPi is expected to grow at 20% levels going forward



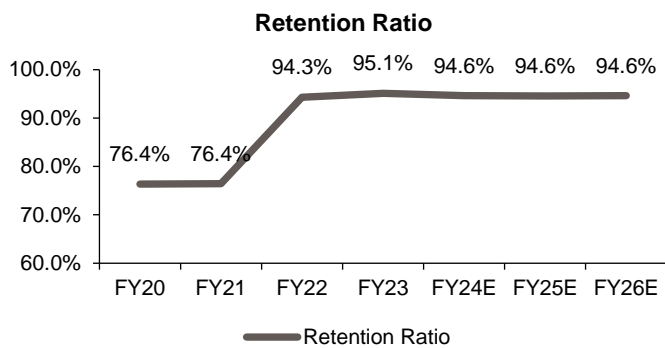
Source: Company, Emkay Research

Exhibit 6: Retail health constitutes ~92% of the overall GDPi product mix



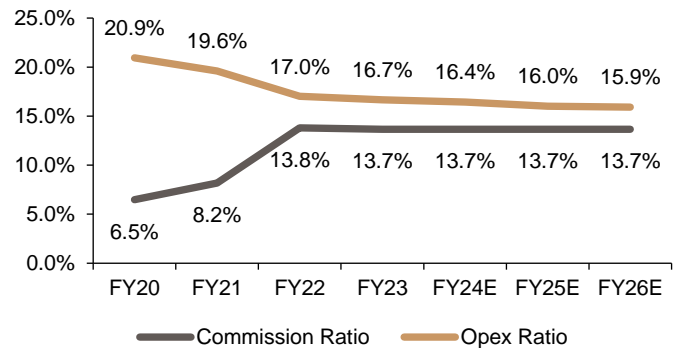
Source: Company, Emkay Research

Exhibit 7: Retention ratio is expected to hover at 95% levels



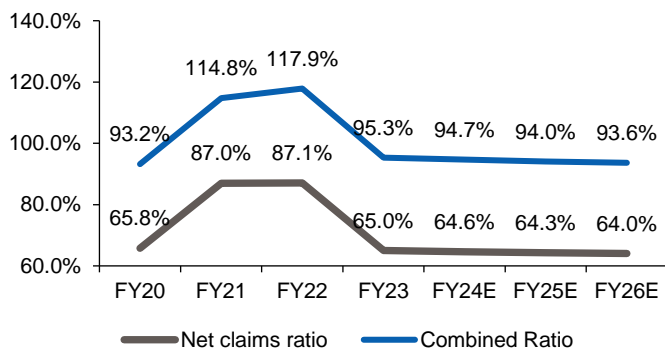
Source: Company, Emkay Research

Exhibit 8: Expense ratios are expected to decline going forward



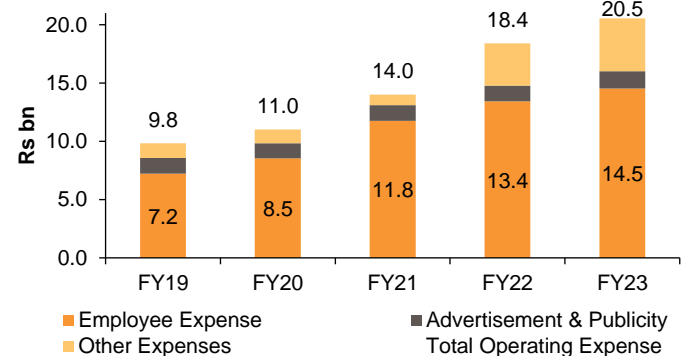
Source: Company, Emkay Research

Exhibit 9: Combined ratio is expected to improve to 94.7% for FY24



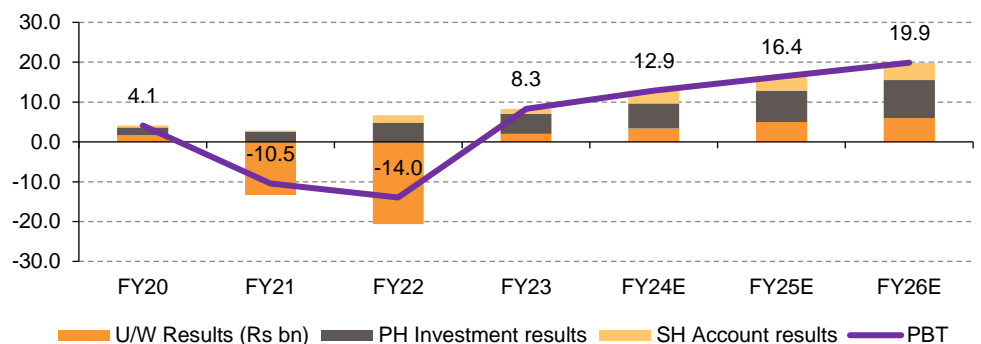
Source: Company, Emkay Research

Exhibit 10: Operating expense constitution



Source: Company, Emkay Research

Exhibit 11: PBT improves to Rs8.3bn for FY23



Source: Company, Emkay Research

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Conference Call Highlights

- Star recorded the highest-ever underwriting profit for the year in FY23 at Rs2bn and PAT of Rs6bn.
- For Apr-23, Star has seen good traction in the business with expected growth of ~25%; and loss ratios for April-23 have seen some improvement as compared to the previous year.
- Star registered a retail health market share of 34% for FY23 and the incremental retail health market share stood at 40% for FY23.
- Star added 76,000 agents during the year, of which exclusive agents constituted 18,000.
- Management stated the company continues to aggressively expand partnerships with banks and other corporate agents.
- During the quarter, Star partnered with Standard Chartered Bank, Indian Post Bank, and other small finance banks.
- Management stated that the new EoM guidelines should provide more flexibility and growth opportunities.
- During the quarter, the company launched two new products, one in the group health category and the Star Special Care Gold product for Individual HIV patients.
- Star established a wellness proposition available to its policyholders as well as non-policyholders. For policyholders, the wellness proposition provides discounts on premiums after the completion of health-related targets. For non-policyholders, the company provides tele-medical solutions, which are expected to generate leads for premium growth.
- Management stated that the Antifraud Digital Initiative has provided an incremental benefit of 1.3% in terms of lower claims ratio.
- The expense ratio fell to 30.3% for FY23 despite the significant cutdown in the group health business.
- Regarding FY24 outlook, management stated the company has been beating the industry and will continue to grow faster than the industry.
- Management expects the combined ratio to improve, better than the previous year.
- For FY24, new ESOPs will be issued at market rates and, hence, there would be no impact on the profit and loss account.
- For FY23, the retail health segment saw 9% growth due to volume and 9% growth on account of the rise in premium value.
- Management stated new hospitals have shown significant interest in getting empaneled with Star and the company expects the agreed network of hospitals to further grow. Management highlighted that more claims were processed where there was a pricing arrangement.
- Management expects 16-18% RoE for FY24, with price hikes in some of the products and with a majority of ESOP costs being accounted for in the previous year.

Exhibit 12: Key Financial Summary

Policyholder Account (Y/E March, Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Gross Direct Premium (GDPI)	93,490	1,14,635	1,29,525	1,55,430	1,88,164	2,29,502
Gross Written Premium (GWP)	93,490	1,14,635	1,29,525	1,55,430	1,88,164	2,29,502
Net Written Premium (NWP)	71,448	1,08,095	1,23,196	1,47,054	1,78,000	2,17,119
Net Earned Premium (NEP)	50,228	98,092	1,12,616	1,34,687	1,62,141	1,95,212
Net incurred claims	43,695	85,400	73,204	87,073	1,04,316	1,25,019
Net commission expense	5,838	14,922	16,828	20,085	24,310	29,654
Operating expense	14,014	18,385	20,538	24,148	28,517	34,567
Total Expense	63,546	1,18,707	1,10,570	1,31,306	1,57,143	1,89,240
Underwriting result	-13,318	-20,616	2046	3381	4998	5972
Investment income	2,606	4,796	5,014	6,254	7,834	9,530
Insurance result	-10,712	-15,820	7,060	9,635	12,831	15,502
Operating profit	-10,712	-15,820	7,060	9,635	12,831	15,502
Shareholder Account						
(Y/E March, Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY25E
Operating profit	-10,712	-15,820	7,060	9,635	12,831	15,502
Investment income	1,631	3,133	3,331	3,848	4,201	4,977
Expenses and provisions	1,382	1,360	2,185	600	600	600
Profit before tax	-10,460	-13,967	8,264	12,883	16,432	19,879
Tax expense	-2,204	-3,560	2,078	3,240	4,132	4,999
Profit after Tax	-8,256	-10,407	6,186	9,644	12,300	14,880
Balance Sheet						
(Y/E March, Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY25E
Source of Funds						
Shareholders fund	42,242	63,693	65,656	65,656	74,538	86,510
Fair value gains	-76	267	234	0	0	0
Borrowings	2,500	7,200	4,700	4,700	4,700	4,700
Total	44,666	71,159	70,589	70,356	79,238	91,210
Application of Funds						
Investments	68,367	1,13,734	1,33,921	1,53,165	1,81,278	2,16,174
Shareholders	26,321	44,939	53,459	54,946	63,391	72,968
Policyholders	42,046	68,796	80,462	98,219	1,17,887	1,43,206
Other Assets	5,203	8,938	6,802	3,618	1,228	1,289
Cash & Bank Balances	18,790	5,635	3,094	8,707	10,432	12,502
Other current assets	12,650	6,828	8,444	10,133	12,160	14,591
Current liabilities	15,643	19,607	20,301	23,120	26,178	31,760
Provisions	51,946	62,022	72,687	83,821	99,680	1,21,587
Net Current Assets	-36,149	-69,165	-81,451	-88,101	-1,03,267	-1,26,253
Accumulated losses	7,245	17,652	11,316	1,673	0	0
Total	44,666	71,159	70,589	70,356	79,238	91,210
Net worth	34,996	46,041	54,339	63,983	74,538	86,510
Key ratios						
(Y/E March, %)	FY21	FY22	FY23	FY24E	FY25E	FY26
Retention ratio	76.4	94.3	95.1	94.6	94.6	94.6
Incurred claims ratio	87.0	87.1	65.0	64.6	64.3	64.0
Net commission ratio	8.2	13.8	13.7	13.7	13.7	13.7
Expense ratio	19.6	17.0	16.7	16.4	16.0	15.9
Combined ratio	114.8	117.9	95.3	94.7	94.0	93.6
Net investment yield	7.6	8.7	6.7	7.0	7.2	7.3
GWP/Net worth	2.2	1.8	2.0	2.4	2.5	2.7
NWP/Net worth	1.7	1.7	1.9	2.2	2.4	2.5
Return on Equity	-32.1	-25.7	12.3	16.3	17.8	18.5
Solvency ratio	223	167	214	211	208	198
Investment leverage (x)	2.1	2.5	2.5	2.3	2.3	2.4

Source: Company, Company, Emkay Research

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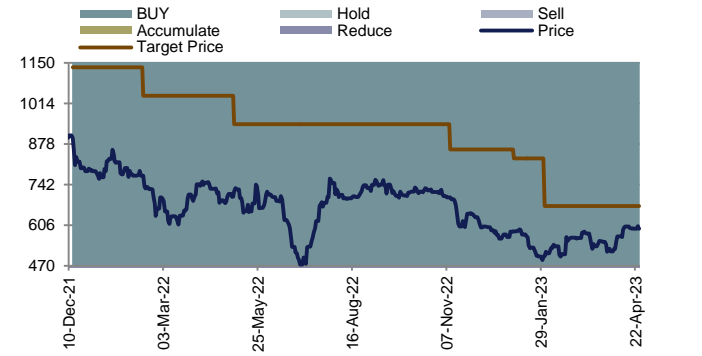
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RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
03-Apr-23	527	670	12m	Buy	Avinash Singh
30-Mar-23	527	670	12m	Buy	Avinash Singh
06-Feb-23	523	670	12m	Buy	Avinash Singh
01-Feb-23	502	670	12m	Buy	Avinash Singh
17-Jan-23	566	830	12m	Buy	Avinash Singh
05-Jan-23	585	830	12m	Buy	Avinash Singh
03-Jan-23	584	860	12m	Buy	Avinash Singh
10-Nov-22	699	860	12m	Buy	Avinash Singh
29-Sep-22	708	945	12m	Buy	Avinash Singh
22-Sep-22	712	945	12m	Buy	Avinash Singh
05-Sep-22	758	945	12m	Buy	Avinash Singh
24-Aug-22	720	945	12m	Buy	Avinash Singh
31-Jul-22	747	945	12m	Buy	Avinash Singh
27-Jun-22	515	945	12m	Buy	Avinash Singh
04-May-22	720	945	12m	Buy	Avinash Singh
24-Mar-22	697	1,040	12m	Buy	Avinash Singh
13-Feb-22	772	1,040	12m	Buy	Avinash Singh
13-Dec-21	897	1,135	12m	Buy	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

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