

Estimate change	↑
TP change	↑
Rating change	↑

Bloomberg	STARHEAL IN
Equity Shares (m)	576
M.Cap.(INRb)/(USDb)	344.2 / 4.2
52-Week Range (INR)	780 / 451
1, 6, 12 Rel. Per (%)	8/-19/-21
12M Avg Val (INR M)	316

Financials & Valuations (INR b)

Y/E March	2023	2024E	2025E
NEP	112.6	129.4	154.4
U/W Profit	2.0	3.2	5.2
PBT	8.3	13.3	18.0
PAT	6.2	10.0	13.5

Ratios (%)

Claims	65.0	63.9	63.9
Commission	13.7	13.7	13.7
Expense	16.7	15.9	15.1
Combined	95.3	93.5	92.7
RoE	11.1	14.1	16.4
EPS (Rs)	10.6	17.1	23.2

Valuations

P/E (x)	55.6	34.5	25.5
P/BV (x)	5.2	4.5	3.9

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	58.3	58.3	58.9
DII	26.1	26.4	27.3
FII	10.6	10.4	9.8
Others	5.0	4.9	4.0

FII Includes depository receipts

CMP: INR592

TP: INR 720 (+22%)

Buy

Commendable all-round performance

- Star Health (STARHEAL) reported a PAT of INR1.02b in 4QFY23 v/s INR2.1b in 3Q. This was 25% above our estimate fueled by better-than-expected claims and expense ratio. Hence, operating profit came in at INR751m v/s our estimate of INR514m. GDPI grew 14% YoY to INR42b during the quarter.
- Management has guided for a higher-than-industry growth in premium and an improvement in combined ratio in FY24. The confidence in the guidance stems from: a) price hikes, b) strong growth in benefit-based products within the banca channel, and 3) significant benefits arising from fraud claim detection.
- We raise our FY24/25 earnings estimates by 3%/6% mainly led by lower expense ratios. These gains were partially offset by weaker-than-forecasted investment performance. Our combined ratio estimates are lower by 30bp/60bp for FY24/FY25 to 93.5%/92.7%. **Reiterate BUY with a revised TP of INR720 (based on 36x FY25E EPS).**

Improvement in claims & expense ratio drives profitability

- STARHEAL's net earned premium grew 11% YoY to INR29b in 4QFY23. GDPI rose 14% YoY to INR42b. Retail Health/Personal Accident segments grew 17%/3% YoY, while group health segment dipped 16% YoY in 4QFY23.
- Incurred claims were lower than our expectations and thus the loss ratio came in at 62%, which is below our estimate of 63.7%.
- While the commission ratio came in at 14.1% (slightly higher than our estimates), expense ratio stood at 15.3% (marginally lower than our estimates). Overall, the combined ratio came in at 91.4% (v/s 98.4% in 4QFY22), which was better than our forecast of 92.7%.
- Investment income in policyholders' account (at INR1.4b) was 15% higher than our forecast. However, the shareholders' investment income came in at INR790m that was 16% below our estimate during the quarter.
- Profit for the quarter was at INR1,018m v/s our estimate of INR812m (25% beat). The beat was primarily driven by better-than-estimated expense & claims ratio.
- For FY23, STARHEAL's NEP was at INR113b (+11% YoY); Underwriting profit stood at INR2.05b (v/s a loss of INR20.6b YoY); Combined ratio was at 95.3% (v/s 119.7%); and PAT stood at INR6.2b (v/s a loss of INR10.4b).
- Solvency ratio for 4QFY23 was at 2.14 (v/s 2.17 in 3QFY23).

Key takeaways from the management commentary

- STARHEAL will soon launch its new product offering on the wellness side and sees this as a big opportunity for which it is working with an InsureTech firm. It will be a structured and organized program with a focus to reduce the intensity of claims in certain segments and geographies.

- Growth in retail health for FY23 was a mix of 50:50 in terms of volumes (NOP growth of 9%) and value. In FY24, growth will be driven more by value than volume (60:40) because of the price hikes implemented.

Maintain estimates to factor in the strong performance

- We raise our FY24/25 EPS estimates by 3%/6% mainly led by lower expense ratios. These gains were partially offset by weaker-than-forecasted investment performance. Our combined ratio estimates are lower by 30bp/60bp for FY24/FY25 to 93.5%/92.7%.
- We expect STARHEAL to deliver 19% gross premium CAGR over FY23-25, led by strong growth in Retail Health Insurance. With exit from group insurance now in the base, management expects a strong growth in group segment as well.
- Claims ratio is likely to improve as the company benefits from: 1) higher share of specialized products, 2) increase in sum assured per policy, 3) lower share of group business, 4) increasing contribution of network hospitals in claims and 5) price hikes. Scale benefits will result in the expense ratio falling 160bp over FY23-25E.
- Hence, we expect the combined ratio to improve to 92.7% in FY25 from 117.9% in FY22. We also expect RoE to improve to ~16.4% in FY25 from 11.1% in FY23.
- **Reiterate BUY with a revised TP of INR720 (based on 36x FY25E EPS).**

Changes to our estimates

INR b	Old Est.		New Est.		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
NEP	129.2	154.3	129.4	154.4	0.1	0.1
Net claims	82.6	98.6	82.7	98.7	0.1	0.1
Net commission	19.8	23.6	20.1	24.0	1.7	1.6
Expenses	24.2	28.0	23.3	26.5	-3.6	-5.3
Underwriting Profit/(Loss)	2.7	4.1	3.2	5.2	22.2	27.9
Investment income (PH)	7.6	9.7	7.1	9.4	-5.9	-3.5
PAT	9.7	12.7	10.0	13.5	2.8	6.4
Claim ratio	63.9	63.9	63.9	63.9	0.0	0.0
Commission ratio	13.5	13.5	13.7	13.7	0.2	0.2
Expense ratio	16.5	16.0	15.9	15.1	-0.6	-0.9
Combined ratio	93.9	93.3	93.5	92.7	-0.4	-0.7

Quarterly Performance

(INR m)

Y/E March	FY22				FY23				FY22	FY23	4QFY23E	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	30,967	41,992	1,14,635	1,29,525	41,919	0.2
Net written premium	20,497	27,293	25,568	34,738	23,441	30,389	29,434	39,932	1,08,096	1,23,196	39,845	0.2
Net earned premium	22,430	24,167	25,283	26,212	26,871	27,948	28,672	29,125	98,092	1,12,616	30,018	-3.0
Investment Income	871	971	901	1,192	1,220	1,233	1,157	1,405	4,796	5,014	1,222	15.0
Total Income	23,301	25,138	26,184	27,404	28,090	29,181	29,829	30,530	1,02,887	1,17,630	31,240	-2.3
Change YoY (%)	109.2	62.6	78.3	266.1	20.6	16.1	13.9	11.4	111.0	14.3	14.0	
Incurred claims	20,415	20,696	26,442	17,848	17,811	19,060	18,278	18,054	85,401	73,204	18,952	-4.7
Net commission	2,665	3,597	3,588	5,072	3,220	3,964	4,026	5,618	14,922	16,828	5,375	4.5
Employee expense	2,812	3,288	3,018	4,260	2,774	3,590	3,805	4,368	13,378	14,537	4,881	-10.5
Other expenses	698	1,746	1,359	1,204	1,498	1,465	1,306	1,739	5,007	6,001	1,517	.
Total Operating Expenses	26,590	29,326	34,407	28,384	25,303	28,079	27,415	29,780	1,18,707	1,10,570	30,726	-3.1
Change YoY (%)	187.0	81.8	87.4	45.1	-4.8	-4.3	-20.3	4.9	86.7	-6.9	8.3	
Underwriting profit	-4,160	-5,159	-9,124	-2,172	1,568	-131	1,258	-654	-20,615	2,046	-708	-7.5
Other charges	-18	-842	-	-	-	-	-	-	-860	-	-	
Operating profit	-3,271	-3,347	-8,223	-980	2,788	1,102	2,415	751	-15,821	7,060	514	45.9
Shareholder's P/L												
Transfer from Policyholder's	-3,271	-3,347	-8,223	-980	2,788	1,102	2,415	751	-15,821	7,060	514	45.9
Investment income	556	1,112	926	618	838	846	914	790	3,212	3,388	940	-15.9
Total Income	-2,715	-2,235	-7,297	-362	3,626	1,948	3,329	1,541	-12,609	10,449	1,454	
Provisions other than taxation	-	-	23	0	1	-	2	8	23	11	-	
Other expenses	87	90	363	795	745	741	509	173	1,334	2,174	406	-57.5
Total Expenses	87	90	386	795	746	741	512	180	1,357	2,185	406	-55.6
PBT	-2,802	-2,325	-7,682	-1,158	2,880	1,207	2,817	1,361	-13,966	8,264	1,048	29.8
Tax Provisions	-705	-618	-1,899	-337	747	276	713	343	-3,559	2,078	237	44.8
Net Profit	-2,097	-1,706	-5,783	-820	2,132	931	2,105	1,018	-10,407	6,186	812	25.4
Key Parameters (%)												
Share in GWP												
Health-Retail	86.9	84.0	90.0	90.7	92.1	92.3	91.4	92.9	88.0	92.3	93.2	-0.3
Health-Group	11.9	14.6	8.5	7.6	6.4	6.2	7.0	5.6	10.5	6.2	5.1	0.5
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	1.5	1.6	1.5	1.5	1.6	1.5	1.5	1.5	1.7	-0.3
Claims ratio	91.0	85.6	104.6	68.1	66.3	68.2	63.7	62.0	87.1	65.0	63.1	-1.1
Commission ratio	13.0	13.2	14.0	14.6	13.7	13.0	13.7	14.1	15.6	13.7	13.5	0.6
Expense ratio	17.1	18.4	17.1	15.7	18.2	16.6	17.4	15.3	17.1	16.7	16.1	-0.8
Combined ratio	121.1	117.3	135.7	98.4	98.2	97.9	94.8	91.4	119.7	95.3	92.7	-1.3
Solvency	1.7	1.5	1.8	1.7	1.9	2.0	2.2	2.1	1.7	2.1		



Key takeaways from the management commentary

Business

- There is a strong start to the new financial year, for Apr'23 the premium growth so far is about 27% – management expects a 25% growth for the full month and the loss ratio is likely to be lesser than last year
- STARHEAL's retail health grew 18% YoY v/s 15.3% YoY for the industry in FY23. In 4QFY23, it witnessed a growth of 15.2% v/s 16.0% for the industry. Resultantly, market share in 4Q was at 35% in retail health and for FY23 it was at 34% and 33% in FY22. The company aspires to grow market share every year.
- Agency business contributed 82% with agency count of 626k, and addition of 16k in 4QFY23 and 76k in FY23.
- Corporate Agency including banks saw a strong growth of 43% YoY. New tie ups included Standard Chartered, India Post Financial Bank and further additions are expected from NBFCs in the near term.
- Digital initiatives sourcing saw 28% growth in FY23 contributing to INR6.3b of premium. App downloads reached 2m and 95% growth was seen in website visits.
- Sum Assured per policy rose 13% YoY to INR0.9m and the share of policies with Sum Assured of INR0.5m+ increased to 70% v/s 64% in FY22.
- Benefit products grew 53% YoY and the share has increased 61bp to 2.3bp from 1.7bp.
- STARHEAL will soon launch its new product offering on the wellness side and sees this as a big opportunity for which it is working with an InsureTech firm. It will be a structured and organized program with a focus to reduce the intensity of claims in certain segments and geographies. For policyholders, it will be as a part of their policy.
- About 2.5% policies are long-term policies and in the digital channel 50% of new customers come for long-term products. Its focus is likely to increase on this.

Claims

- Four-pronged approach is planned to improve loss ratios: 1) prudent claim settlement, 2) well negotiated pricing arrangement with network hospitals (volume-based), 3) technology, and 4) risk-based pricing.
- About 73% of the claims were cashless v/s 63% in FY22 in terms of volumes. In terms of value, 80% of the claims were cashless v/s 71% in FY22.
- Turnaround time for 90% of the claims was within two hours, while 21% of the hospitals representing 59% of cashless claims have been on-boarded under auto adjudication of claims.
- Share of hospitals with pricing arrangement was at 67% v/s 64% in FY22.

Financials

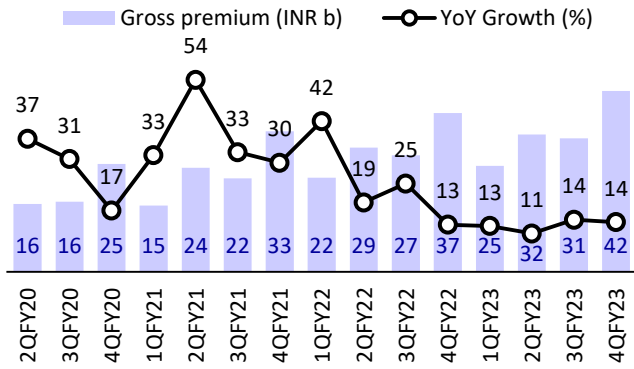
- Expense ratio cut back in spite of lower share of group business
- Further ESOP issuances will be at market price
- Excluding ESOP costs, RoEs for FY23 will be higher and 16-18% can be achieved in FY24.
- Under IFRS, RoEs will further improve by 300-400bp as costs are also amortized

Guidance

- The company has maintained its FY23 guidance for combined ratio to be in the range of 93-95% and claims ratio at 63-65%. Star will continue to grow faster than the industry in terms of premium, while combined ratio will definitely be better than FY23.
- There was 1.3% improvement in loss ratio in FY23 because of fraud detection; initiative started in the second half of FY23, while FY24 will see the full benefits.
- Combined ratio improvement will be driven by mix, EOM regulations and banca channel growth
- Volume growth has been healthy in Apr'23; growth has been heterogeneous in both retail and group segments. Group segment growth is mainly driven by the profitable SME segment.
- Growth in retail health for FY23 was a mix of 50:50 in terms of volumes (NOP growth of 9%) and value. In FY24, growth will be driven more by value than volume (60:40) because of the price hikes implemented.

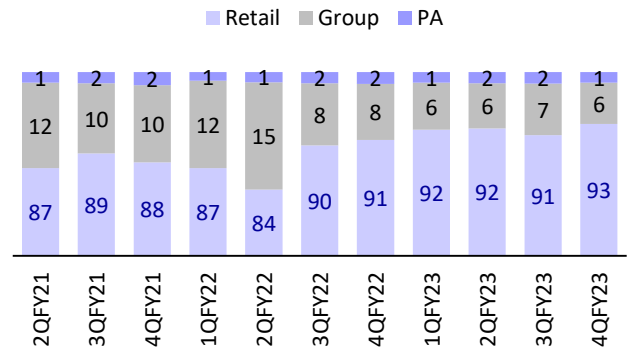
Key exhibits

Exhibit 1: Premium growth improves



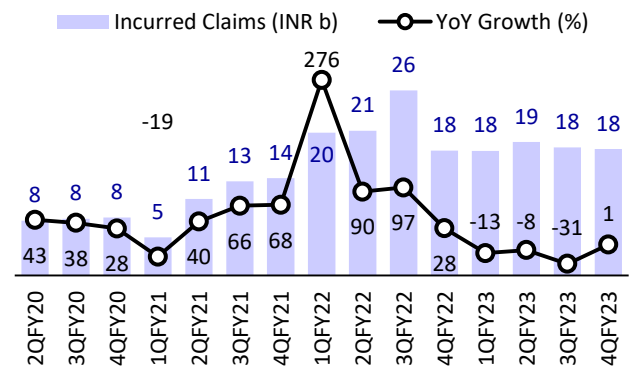
Source: MOFSL, Company

Exhibit 2: Share of retail health improves too



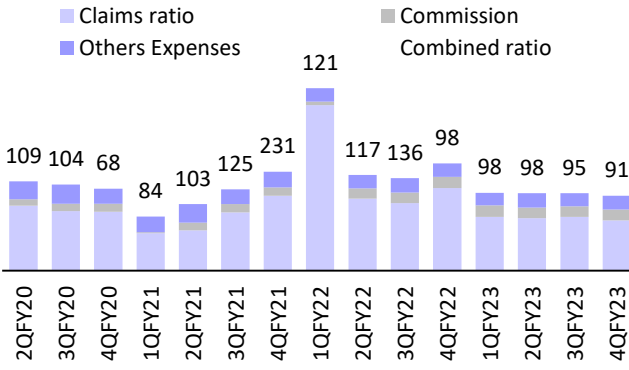
Source: MOFSL, Company

Exhibit 3: Incurred claims remain stable



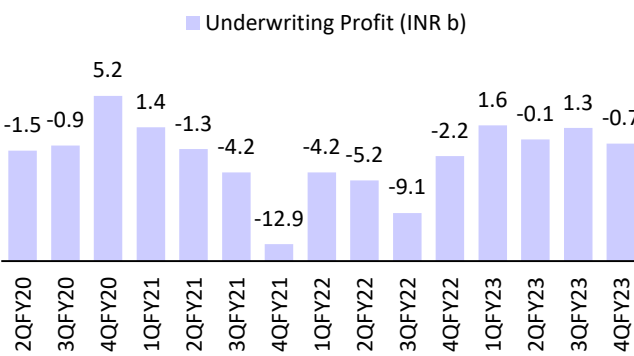
Source: MOFSL, Company

Exhibit 4: Combined ratio improves in 4QFY23



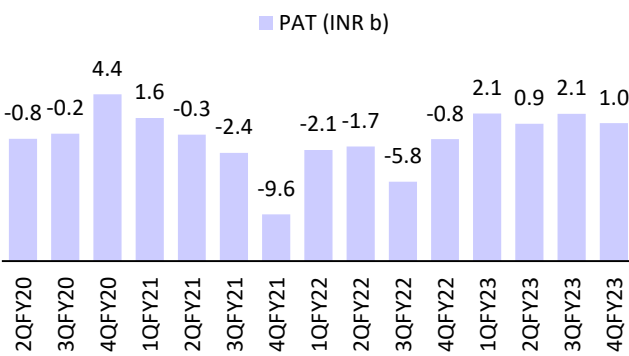
Source: MOFSL, Company

Exhibit 5: Underwriting loss of INR0.7b in 4QFY23



Source: MOFSL, Company

Exhibit 6: Improvement in PAT on YoY basis



Source: MOFSL, Company

Financials and valuations

Income Statement							(INR m)	
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
Retail Health	36,291	46,789	58,252	82,075	1,00,870	1,19,475	1,43,437	1,72,125
Group Health	4,026	5,938	8,897	9,963	12,066	8,076	8,884	9,772
PA	1,165	1,270	1,337	1,489	1,685	1,939	2,229	2,564
Total GDPI	41,611	54,154	68,651	93,885	1,14,635	1,29,525	1,54,550	1,84,460
Change (%)	40.6	30.1	26.8	36.8	22.1	13.0	19.3	19.4
NWP	31,961	41,415	52,395	71,794	1,08,096	1,23,196	1,46,999	1,75,448
NEP	27,397	35,795	46,841	46,266	98,092	1,12,616	1,29,359	1,54,394
Change (%)	43.3	30.7	30.9	-1.2	112.0	14.8	14.9	19.4
Net claims	16,921	23,410	30,305	43,764	85,400	73,204	82,666	98,665
Net commission	1,366	2,637	3,404	14,922	16,828	16,828	20,116	24,009
Expenses	8,613	9,827	11,013	14,031	18,443	20,538	23,337	26,481
Employee expenses	6,291	7,220	8,526	11,765	13,436	14,537	16,281	18,235
Other expenses	2,322	2,607	2,487	2,266	5,007	6,001	7,056	8,246
Underwriting Profit/(Loss)	497	-78	2,119	-17,385	-20,673	2,046	3,240	5,239
Investment income (PH)	887	1,398	1,639	2,505	4,796	5,014	7,111	9,368
Operating profit	1,384	1,214	3,873	-14,880	-15,878	7,060	10,351	14,607
Investment income (SH)	544	612	1,212	1,718	3,214	3,331	4,338	4,935
PBT	1,712	1,389	4,632	-14,527	-14,024	8,264	13,276	17,960
Tax	10	540	1,389	-3,601	-3,559	2,078	3,319	4,490
Tax rate (%)	0.6	38.9	30.0	24.8	25.4	25.1	25.0	25.0
PAT	1,702	849	2,633	-10,926	-10,465	6,186	9,957	13,470
Change (%)	44.2	-50.1	210.1	N.A	-4.2	N.A	61.0	35.3

Balance sheet							(INR m)	
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
Equity Share Capital	4,556	4,556	4,906	5,481	5,755	5,817	5,817	5,817
Reserves & Surplus	5,040	7,726	14,132	29,516	40,285	59,839	69,796	83,266
Net Worth	9,596	12,282	19,038	34,996	46,040	65,656	75,613	89,082
FV change	-	-	31	-76	267	234	-	-
Borrowings	2,500	2,500	2,500	2,500	7,200	4,700	4,700	4,700
Other liabilities	21,374	33,943	38,361	67,589	81,629	92,988	1,16,601	1,40,895
Total Liabilities	33,470	48,725	59,930	1,05,010	1,35,136	1,63,577	1,96,913	2,34,677
Investments (SH)	8,658	9,523	18,110	27,941	44,939	53,459	61,979	70,498
Investments (PH)	12,988	20,778	24,789	40,426	68,796	80,462	1,09,400	1,44,124
Net Fixed Assets	969	981	1,019	990	1,171	1,113	1,163	1,213
Def Tax Assets	-	1,420	70	4,213	7,767	5,689	5,689	5,689
Current Assets	5,834	7,093	9,827	12,650	6,828	8,444	9,206	10,987
Cash & Bank	5,021	8,930	6,114	18,790	5,635	5,636	9,477	2,165
Total Assets	33,470	48,725	59,930	1,05,010	1,35,136	1,54,803	1,96,913	2,34,677

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
GWP growth	40.6	30.1	26.8	36.8	22.1	13.0	19.3	19.4
NWP growth	40.0	29.6	26.5	37.0	50.6	14.0	19.3	19.4
NEP growth	43.3	30.7	30.9	-1.2	112.0	14.8	14.9	19.4
Claim ratio	61.8	65.4	64.7	94.6	87.1	65.0	63.9	63.9
Commission ratio	4.3	6.4	6.5	20.8	15.6	13.7	13.7	13.7
Expense ratio	26.9	23.7	21.0	19.5	17.1	16.7	15.9	15.1
Combined ratio	93.0	95.5	92.2	134.9	119.7	95.3	93.5	92.7
Profitability Ratios (%)								
RoE	19.5	7.8	16.8	-40.4	-25.8	11.1	14.1	16.4
Valuations								
BVPS (INR)	21.1	27.0	38.8	63.9	80.0	112.9	130.0	153.1
Change (%)	21.5	28.0	43.9	64.6	25.3	41.1	15.2	17.8
Price-BV (x)	28.1	21.9	15.2	9.3	7.4	5.2	4.5	3.9
EPS (INR)	3.7	1.9	5.4	-19.9	-18.2	10.6	17.1	23.2
Change (%)	44.2	-50.1	187.9	-471.5	-8.8	-158.5	61.0	35.3
Price-Earnings (x)						55.6	34.5	25.5

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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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