Star Health and Allied Insurance

Growth to drive rerating; maintain BUY

STARHEAL printed soft NEP growth (+11% YoY, 4% below our estimates), impacted by a slowdown in group business; however, loss ratios clocked in at 62% (-1.8pps QoQ, in-line) driving COR to 91.4% (-3.4pps QoQ). While FY23 RoE was sub-optimal at ~12% due to soft growth (+15% YoY), we expect STARHEAL to deliver a rebound in growth (~22% CAGR over FY23-25E) and stable loss ratios, supported by a price hike in its flagship product and tighter underwriting and claims review process. As the largest standalone health insurer (FY23 retail GDPI market share of 34%), our thesis on STARHEAL is anchored in a very strong distribution network, retail-dominated business mix and best-in-class opex ratios. We expect STARHEAL to deliver revenue/APAT CAGR of 22/41% over FY23-25E and RoEs in the range of 17/18% for FY24E/25E and maintain BUY with an unchanged TP of INR795 (DCF derived multiple at 38x Mar-25E P/E and 6x Mar-25E P/ABV).

- **Loss ratios surprise positively:** NEP at INR29.1bn grew 11% YoY (4% below estimate), on account of its conscious decision to shed group business (NEP: -44% YoY) and deceleration in retail segment (NEP +18% YoY). Loss ratios improved sharply to 62% (-1.8pps QoQ, albeit in-line), owing to a tighter claims review process aimed at eliminating fraudulent claims. Commission ratios inched up marginally to 14.1% (+39bps QoQ), owing to a higher retail mix; this, alongside lean expense ratio at 15.3% (-207bps QoQ), drove COR to 91.4% (-3.4pps QoQ) and PAT (in-line) to INR1.02bn.
- **Ask rate on growth seems doable:** Management stated that the company has clocked strong growth of 27% YoY and better MoM loss ratios in Apr-23 MTD. Given the combination of a favourable base and a 25% price hike in its flagship product "Family Health Optima (FHO)" (>50% of retail GDPI), we believe the company can deliver growth in the range of 20-22%. We firmly believe that this flagship product repricing will help contain loss ratios and CORs.
- **Renewal mix key monitorable for FY24:** Given the sharp price hike in the flagship product effective May-23 onwards, we await to see the renewal rates in this product. Given the increase in banca tie-up limit, we await evidence of STARHEAL's progress in forging partnerships with new banks; this can significantly improve profitability from benefit-based products.

Financial summary

(INR bn)	Q4 FY23	Q4 FY22	YoY (%)	Q3 FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
Net earned premium (NEP)	29.13	26.21	11.1	28.67	1.6	98.1	112.6	138.2	167.4
Underwriting profits	-0.65	-2.17	NM	1.26	NM	-21.5	0.5	3.9	3.9
EBIT	1.35	-1.17	NM	2.80	-51.9	-13.6	8.9	15.3	17.1
EBIT margin (%)	4.6	-4.5	NM	9.8	NM	-13.9	7.9	11.1	10.2
PAT	1.02	-0.82	NM	2.10	-51.6	-10.4	6.2	11.0	12.4
P/B (x)						7.4	6.3	5.3	4.4
P/E (x)						NM	55.6	31.2	27.8
ROE (%)						NM	12.3	18.4	17.3

Source: Company, HSIE Research

Change in estimates

(INR bn)	FY24E			FY25E		
	Revised	Old	Change (%)	Revised	Old	Change (%)
Net earned premiums	138.2	138.3	0.0	167.4	168.5	-0.6
Operating profits	15.4	13.6	13.1	17.2	16.1	6.7
CORs	94.3	95.4	-110bps	94.8	95.3	-50bps
APAT	11.0	9.7	13.6	12.4	11.6	6.9
RoE (%)	18.4	16.7	175bps	17.3	16.8	47bps

Source: Company, HSIE Research

BUY

CMP *(as on 28 Apr 2023)*	INR 592
Target Price	INR 795
NIFTY	18,065

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR795	INR795
EPS %	FY24E	FY25E
	+13.6%	+6.9%

KEY STOCK DATA	
Bloomberg code	STARHEAL IN
No. of Shares (mn)	582
MCap (INR bn) / ($ mn)	342/4,177
6m avg traded value (INR mn)	246
52 Week high / low	INR 780/451

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	17.2	(18.1)	(14.2)
Relative (%)	15.0	(19.6)	(20.9)

SHAREHOLDING PATTERN (%)	Dec-22	Mar-23
Promoters	58.3	58.3
FIs & Local MFs	1.3	1.4
FPIs	10.4	10.6
Public & Others	30.1	29.7
Pledged Shares	0.0	0.0

Source : BSE

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Disclosure:

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