

Star Health

Estimate change	↔
TP change	↑
Rating change	↔

Bloomberg	STARHEAL IN
Equity Shares (m)	576
M.Cap.(INRb)/(USDb)	362.8 / 4.4
52-Week Range (INR)	780 / 451
1, 6, 12 Rel. Per (%)	6/13/-34
12M Avg Val (INR M)	370

Financials & Valuations (INR b)

Y/E March	2023	2024E	2025E
NEP	112.6	134.5	159.7
U/W Profit	2.0	5.0	6.8
PBT	8.3	14.4	17.7
PAT	6.2	10.8	13.3

Ratios (%)

Claims	65.0	63.5	63.3
Commission	13.7	13.7	13.7
Expense	16.7	16.3	15.8
Combined	95.3	93.5	92.8
RoE	11.1	15.2	16.0
EPS (INR)	10.6	18.6	22.9

Valuations

P/E (x)	58.8	33.6	27.3
P/BV (x)	5.5	4.8	4.0

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	58.3	58.3	58.8
DII	25.8	26.1	27.2
FII	10.4	10.6	9.6
Others	5.6	5.0	4.3

FII Includes depository receipts

CMP: INR625 TP: INR730 (+17%) Buy

Higher expenses dent profitability, combined ratio

- Star Health (STARHEAL) reported PAT of INR2.9b in 1QFY24 vs. INR2.1b in 1QFY23. PAT was 19% below our estimate due to a higher-than-expected expense ratio. Thus, operating profit came in at INR2.9b vs. our estimate of INR4b. GDPI grew 20% YoY to INR29b.
- STARHEAL hikes the price of the Family Health Optima plan (renewal plan), with effect from 1st May'23. The earnings benefits would accrue in 2HFY24.
- The company has maintained its guidance for a combined ratio to be in the range of 93-95% and claims ratio at 63-65%. The confidence in the guidance stems from: a) price hikes, b) strong growth in benefits-based products in the banca channel, and 3) significant benefits from fraud claim detection. The company will continue to grow faster than the industry in terms of premium. We maintain FY24/FY25 estimates and reiterate our **BUY** with a TP of INR730 (based on 32x FY25E EPS).

Higher operating expenses impact profitability

- STARHEAL's net earned premium grew 13% YoY to INR30b in 1QFY24. GDPI rose 20% YoY to INR29b. Retail Health/Personal Accident segments both grew 19% YoY, whereas the group health business grew 28% YoY.
- Incurred claims were in line with our estimate, but the claims ratio at 65.4% was higher than our estimate of 64%. It was down 90bp YoY/up 340bp QoQ.
- While the commission ratio at 13.1% was lower than our estimate by 60bp, the expense ratio at 19.3% was higher than our expectation by 170bp. Overall the combined ratio at 97.8% was higher than our estimate of 95.3%. This was compared to 98.2% in 1QFY23.
- STARHEAL has been actively recruiting for its tech team. The expense ratio has increased on account of higher fixed costs (advertising and marketing spends) and lower NEP considering seasonality in 1QFY24.
- Investment income in policyholders accounts at INR1.5b was in line with our estimate, while Shareholders investment income at INR1b was 16% higher than our estimate.
- Profit stood at INR2.9b vs. our estimate of INR3.5b (19% miss). The miss was primarily driven by higher-than-estimated expenses and the claims ratio.
- The solvency ratio stood at 2.18x vs. 2.14x in 4QFY23.

Key takeaways from the management commentary

- STARHEAL hiked the price of the Family health optima plan (renewal plan), with effect from 1st May'23. The earnings benefits would accrue in 2HFY24.
- The price arrangement with network hospitals is factored into the price hike. There were no material price revision arrangements with hospitals in the last six months.
- The group business focuses on the SME segment and is expected to double in FY24. The Banca segment of the group business is doing better than expected.
- The contribution of non-agency stands at ~30% and is growing aggressively.

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Valuation and view: Maintain estimates with BUY

- We expect STARHEAL to deliver a 19% gross premium CAGR over FY23-25, led by strong growth in Retail Health Insurance. The management expects strong growth in the group segment as well.
- The company has maintained its guidance for the combined ratio to be in the range of 93-95% and claims ratio at 63-65%. The confidence in the guidance stems from: a) price hikes, b) strong growth in benefits based products in the banca channel, and 3) significant benefits from fraud claim detection.
- STARHEAL will continue to grow faster than the industry in terms of premium. We maintain our FY24/FY25 estimates and reiterate our **BUY** rating with a TP of INR730 (based on 32x FY25E EPS).

Quarterly Performance

Y/E March	FY23				FY24E				1QFY24E	Act v/s Est. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Gross premium	24,637	31,929	30,967	41,992	29,486	37,676	37,160	50,228	29,071	1.4
Net written premium	23,441	30,389	29,434	39,932	28,008	35,830	35,339	47,821	27,647	1.3
Net earned premium	26,871	27,948	28,672	29,125	30,438	32,480	34,339	37,247	31,147	-2.3
Investment Income	1,220	1,233	1,157	1,405	1,460	1,504	1,549	1,626	1,447	0.9
Total Income	28,090	29,181	29,829	30,530	31,898	33,984	35,889	38,874	32,594	-2.1
Change YoY (%)	20.6	16.1	13.9	11.4	13.6	16.5	20.3	27.3	16.0	
Incurring claims	17,811	19,060	18,278	18,054	19,909	20,787	21,977	22,775	19,934	-0.1
Net commission	3,220	3,964	4,026	5,618	3,668	4,909	4,841	6,698	3,788	-3.2
Employee expense	2,774	3,590	3,805	4,368	3,577	4,164	4,413	4,708	3,218	11.2
Other expenses	1,498	1,465	1,306	1,739	1,829	1,684	1,632	1,911	1,647	11.0
Total Operating Expenses	25,303	28,079	27,415	29,780	28,983	31,544	32,864	36,092	28,587	1.4
Change YoY (%)	-4.8	-4.3	-20.3	4.9	14.5	12.3	19.9	21.2	13.0	
Underwriting profit	1,568	-131	1,258	-654	1,454	936	1,475	1,156	2,560	-43.2
Operating profit	2,788	1,102	2,415	751	2,915	2,440	3,025	2,782	4,007	-27.3
Shareholder's P/L										
Transfer from Policyholder's	2,788	1,102	2,415	751	2,915	2,440	3,025	2,782	4,007	-27.3
Investment income	838	846	914	790	1,040	1,102	1,168	720	893	16.4
Total Income	3,626	1,948	3,329	1,541	3,954	3,542	4,193	3,502	4,900	
Provisions other than taxation	1	-	2	8	1	-	-	-	-	
Other expenses	745	741	509	173	110	113	117	421	178	-38.1
Total Expenses	746	741	512	180	111	113	117	421	178	-37.7
PBT	2,880	1,207	2,817	1,361	3,844	3,429	4,076	3,081	4,722	-18.6
Tax Provisions	747	276	713	343	965	857	1,019	766	1,181	-18.3
Net Profit	2,132	931	2,105	1,018	2,879	2,571	3,057	2,314	3,542	-18.7
Key Parameters (%)										
Share in GWP										
Health-Retail	92.1	92.3	91.4	92.9	91.7					
Health-Group	6.4	6.2	7.0	5.6	6.9					
PA	1.5	1.5	1.6	1.5	1.4					
Claims ratio	66.3	68.2	63.7	62.0	65.4	64.0	64.0	61.1	64.0	1.4
Commission ratio	13.7	13.0	13.7	14.1	13.1	13.7	13.7	14.0	13.7	-0.6
Expense ratio	18.2	16.6	17.4	15.3	19.3	16.3	17.1	13.8	17.6	1.7
Combined ratio	98.2	97.9	94.8	91.4	97.8	94.0	94.8	89.0	95.3	2.5
Solvency	1.9	2.0	2.2	2.1	2.2					



Key takeaways from the management commentary

Business

- In 1QFY24, the overall health industry grew 21% YoY, with group health growing 23% YoY and retail health growing by 18% YoY.
- Retail health segment for STARHEAL grew 19% YoY vs. 18% for the industry. New business growth stood at 15%.
- Agency network accounts for ~81% of business. In 1QFY24, the company added 16,728 new agents. The corporate segment grew 35%.
- The turnaround time for 94% of the claims is within two hours, while 28% of the hospitals, representing 67% of cashless claims, have been on-boarded under auto adjudication of claims.
- The company settled 60,000 claims in 1QFY24, up 34% QoQ.
- Competition is intense in retail health business. With EOM benefits, STARHEAL may venture into different products as other players focus on reducing EOM.
- The company has tightened its underwriting strategy in certain areas. There is a shift in its long-term strategy toward incentivizing distribution partners.
- There have been talks with regulator for the implementation of IFRS, which is expected by 2025. STARHEAL has to submit its first impact analysis to the regulator by 30th Sep'23.
- It has re-launched its Star Power app, which provides free tele services, network hospitals search, etc. The organic traffic to the website grew 43%.
- The company has been actively recruiting its tech team. The expense ratio has increased on account of high fixed costs and lower NEP considering seasonality in 1QFY24.
- STARHEAL would continue to invest in marketing and advertising costs. It has identified ~1,000 sales management stations, of which 400 became operational in 1QFY24.
- The investment yield for 1QFY24 stood at 7.45% vs. 7.11% in 1QFY23. This was higher on account of booking of gains in the ETF segment.

Price hike

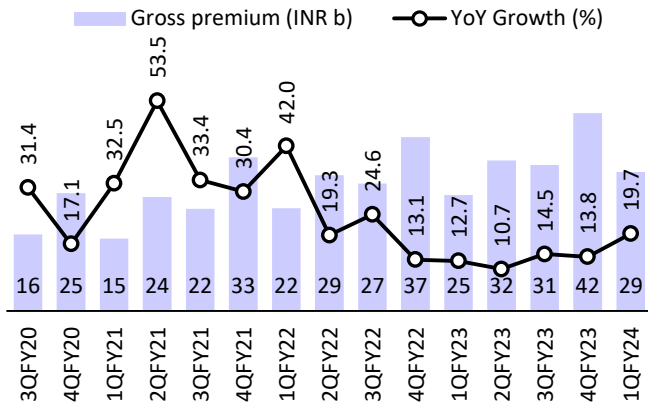
- STARHEAL hiked the price of the Family health optima plan (renewal plan), with effect from 1st May'23, is in line with the company's strategy. The earnings benefits would accrue in 2HFY24.
- The price arrangement with network hospitals is factored in the price hike. There are no material price revision arrangements with hospitals in the last six months.
- If a customer shifts from Family Health Optima to other retail plan, it is counted under the renewal plan. The retention ratio is better than expectations.

Group Health

- The group business focuses on the SME segment and is expected to double in FY24. The Banca segment of the group business is doing better than expected.
- The contribution of the non-agency stands at ~30% and is growing aggressively. The company has partnered with AU Small Finance Bank, Godrej Housing Finance and Bank of Maharashtra in 1QFY24.

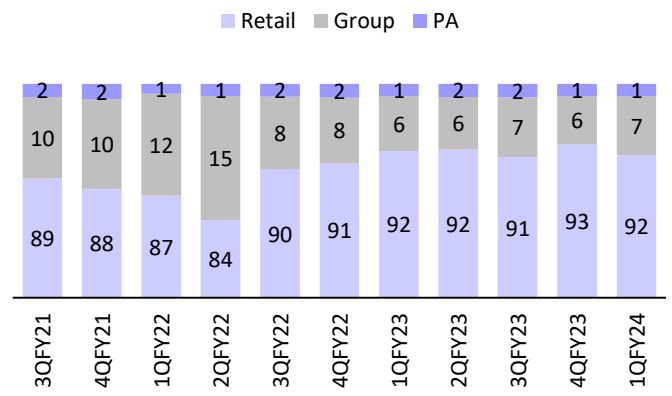
Key exhibits

Exhibit 1: Improvement in Premium growth



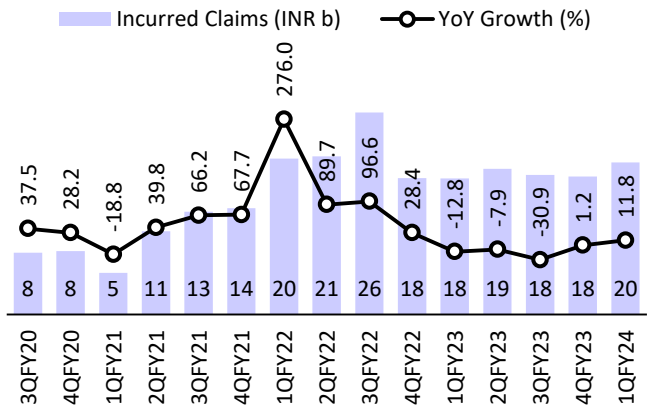
Source: MOFSL, Company

Exhibit 2: Share of retail health is stable



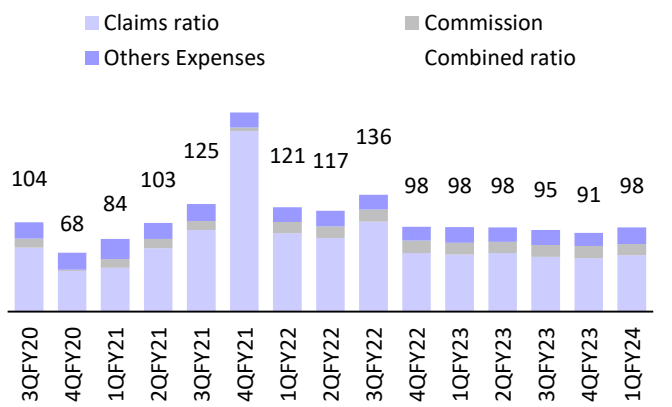
Source: MOFSL, Company

Exhibit 3: Incurred claims increased sequentially



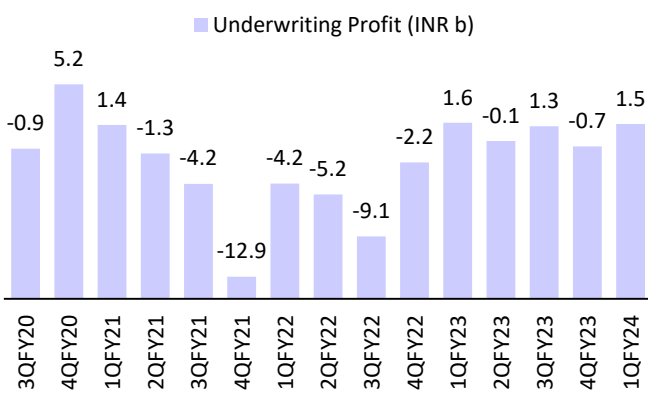
Source: MOFSL, Company

Exhibit 4: Drag in combined ratio sequentially



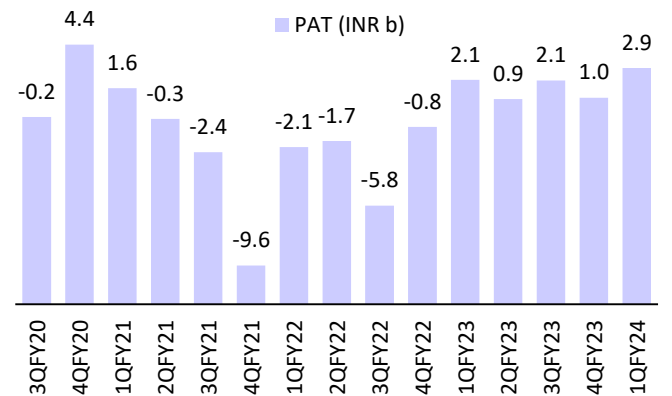
Source: MOFSL, Company

Exhibit 5: Underwriting profit of INR1.5b in 1QFY24



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	1,34,504	1,59,658
Change (%)	43.3	30.7	30.9	-1.2	112.0	14.8	19.4	18.7
Net claims	16,921	23,410	30,305	43,764	85,400	73,204	85,448	1,01,063
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	23,918	27,807
Employee expenses	6,291	7,220	8,526	11,765	13,436	14,537	16,862	19,560
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	5,021	6,779
Investment income (PH)	887	1,398	1,639	2,505	4,796	5,014	6,140	7,232
Operating profit	1,384	1,214	3,873	-14,880	-15,878	7,060	11,161	14,011
Investment income (SH)	544	612	1,212	1,718	3,214	3,331	4,029	4,582
PBT	1,712	1,389	4,632	-14,527	-14,024	8,264	14,429	17,741
Tax	10	540	1,389	-3,601	-3,559	2,078	3,607	4,435
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	10,822	13,306

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	70,661	83,967
Net Worth	9,596	12,282	19,038	34,996	46,040	65,656	76,477	89,783
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	1,11,456	1,30,486
Total Liabilities	33,470	48,725	59,930	1,05,010	1,35,136	1,63,577	1,92,633	2,24,970
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	94,463	1,11,263
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	20,134	25,319
Total Assets	33,470	48,725	59,930	1,05,010	1,35,136	1,54,803	1,92,633	2,24,970

E: MOSL 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	19.4	18.7
Claim ratio	61.8	65.4	64.7	94.6	87.1	65.0	63.5	63.3
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	16.3	15.8
Combined ratio	93.0	95.5	92.2	134.9	119.7	95.3	93.5	92.8

Profitability Ratios (%)

RoE	19.5	7.8	16.8	-40.4	-25.8	11.1	15.2	16.0
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Valuations

	2018	2019	2020	2021	2022	2023	2024E	2025E
BVPS (INR)	21.1	27.0	38.8	63.9	80.0	112.9	131.5	154.4
Change (%)	21.5	28.0	43.9	64.6	25.3	41.1	16.5	17.4
Price-BV (x)	29.7	23.2	16.1	9.8	7.8	5.5	4.8	4.0
EPS (INR)	3.7	1.9	5.4	-19.9	-18.2	10.6	18.6	22.9
Change (%)	44.2	-50.1	187.9	-471.5	-8.8	-158.5	74.9	23.0
Price-Earnings (x)							33.6	27.3

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
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