April 30, 2025

**RESULT REPORT Q4 FY25** | Sector: Insurance (General)

# Star Health Insurance

## Directional improvement possible going forward

### Our view – FY25 a distinctly disappointing year for the industry

**Claims / Loss Ratio – While claims ratio improved sequentially, more was expected, given historical seasonality but management has guided for improvement**: The claims ratio was at 69.2%, up by 511bps YoY but down by -220bps QoQ. On an annual basis, there has been a material rise in claims ratio from 66.5% in FY24 to 70.3% in FY25. This was driven by behavioural changes leading to increased surgical intervention and greater preference for hospitalization. The company is seeing green shoots for new business in terms of loss ratio. There has been a pricing correction for about 60-65% of the retail portfolio and 20-40% price hike for the banca portfolio. The company has also micro-segmented markets and is focusing on profitable ones. Regulatory intervention is also expected. Post the sequential improvement seen, the loss ratio is expected to improve further. The expense ratio without 1/n basis was 29.9% in FY25, which was better than 30.2% in FY24 and more improvement is expected.

**Premium Growth – Growth outcomes seem optically challenged due to 1/n accounting but otherwise were reasonably healthy:** Gross written premium, including impact of 1/n accounting, was up 3.4% YoY and 35% QoQ in 4Q. Excluding 1/n accounting impact, the growth was 13% YoY in 4Q. The GWP growth was 10% for FY25 including the 1/n impact but excluding it, the same was 15% YoY. This was driven by fresh GWP growing 22% YoY while renewal GWP grew 12.5% YoY in FY25. Fresh retail GWP has grown 25% in FY25. Fresh GWP has grown 16% and 13% for agency and banca channels and 21% and 71% for corporate and digital channels.

**We maintain BUY rating on Star Health with a revised price target of Rs 475**: We value STAR at 24x FY27 P/E for an FY25-27E EPS CAGR of 35%. At our target, the implied FY27E P/B is 3.1x for an 26/27E RoE of 12.1/13.6%.

***(See Comprehensive con call takeaways on page 2 for significant incremental colour.)***

### Other Highlights (See "Our View" above for elaboration and insight)

- **Net premiums earned**: Net premiums earned was flat QoQ but grew 11.9% YoY, where sequentially Retail de-grew -0.2% but Group grew by 1.5%.
- **Loss ratios**: Overall loss ratio has improved/deteriorated by -220bps/511bps QoQ/YoY to 69.2%.
- **Expense control**: Expense ratio fell -184bps QoQ to 30% where opex rose 8.4% QoQ and commission and brokerage rose 51% QoQ.

**Exhibit 1: Result table**

| Rs Mn | Q4 FY25 | Q4 FY24 | % yoy | Q3 FY25 | % qoq |
|---|---|---|---|---|---|
| Gross Premiums written | 51,380 | 49,683 | 3.4 | 37,961 | 35.3 |
| Net Premium Written | 48,196 | 45,700 | 5.5 | 35,604 | 35.4 |
| Net Premium Earned | 37,983 | 33,953 | 11.9 | 37,997 | (0.0) |
| Income from Investments | 1,859 | 1,810 | 2.7 | 2,000 | (7.0) |
| **Total Income** | **39,866** | **35,764** | **11.5** | **40,012** | **(0.4)** |
| Commission & Brokerage | 7,598 | 6,516 | 16.6 | 5,032 | 51.0 |
| Operating Expenses | 6,836 | 6,574 | 4.0 | 6,309 | 8.4 |
| Total claims | 26,301 | 21,774 | 20.8 | 27,145 | (3.1) |
| **Underwriting Profit/(Loss)** | **(2,752)** | **(911)** | **202.2** | **(490)** | **461.8** |
| Operating Profit | (869) | 900 | (196.6) | 1,525 | (157.0) |
| **PAT** | **5** | **1,423** | **(99.6)** | **2,151** | **(99.8)** |
| **Key Ratios** | | | | | |
| Solvency Ratio | 221.0% | 221.0% | 0bps | 222.0% | -100bps |
| Expense Ratio | 30.0% | 29.8% | 16bps | 31.8% | -184bps |
| Incurred Claim Ratio | 69.2% | 64.1% | 511bps | 71.4% | -220bps |
| Net Retention Ratio | 93.8% | 92.0% | 182bps | 93.8% | 1bps |
| Combined Ratio | 99.2% | 92.8% | 642bps | 103.3% | -409bps |

Source: Company, YES Sec-Research

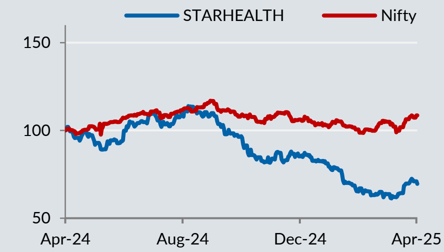
YES SECURITIES
INSTITUTIONAL EQUITIES

| | | |
|---|---|---|
| Recommendation | : | **BUY** |
| Current Price | : | Rs 393 |
| Target Price | : | Rs 475 |
| Potential Return | : | +21% |

**Stock data** (as on April 30, 2025)

| | |
|---|---|
| Nifty | 24,295 |
| 52 Week h/l (Rs) | 647 / 327 |
| Market cap (Rs/USD mn) | 233880 / 2747 |
| Outstanding Shares (mn) | 588 |
| 6m Avg t/o (Rs mn): | 447 |
| Div yield (%): | - |
| Bloomberg code: | STARHEAL IN |
| NSE code: | STARHEALTH |

**Stock performance**




| | 1M | 3M | 1Y |
|---|---|---|---|
| Absolute return | 9.2% | -10.5% | -31.9% |

**Shareholding pattern** (As of Dec'24 end)

| | |
|---|---|
| Promoter | 57.7% |
| FII+DII | 34.0% |
| Others | 8.3% |

**Δ in stance**

| (1-Yr) | New | Old |
|---|---|---|
| Rating | BUY | BUY |
| Target Price | 475 | 450 |

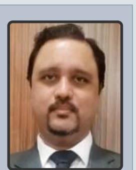
**Financial Summary**

| Rs mn | FY25 | FY26E | FY27E |
|---|---|---|---|
| NEP | 148,222 | 168,996 | 197,726 |
| % yoy | 14.6% | 14.0% | 17.0% |
| Op profit | 3,870 | 6,989 | 9,745 |
| % yoy | -46.9% | 80.6% | 39.4% |
| PAT | 6,396 | 9,085 | 11,611 |
| % yoy | -24.1% | 42.1% | 27.8% |
| EPS (Rs) | 10.9 | 15.5 | 19.8 |
| P/E (x) | 36.1 | 25.4 | 19.9 |
| P/B (x) | 3.3 | 2.9 | 2.5 |
| RoE (%) | 9.4% | 12.1% | 13.6% |

**Δ in earnings estimates**

| Rs. | FY25E | FY26E | FY27E |
|---|---|---|---|
| EPS (New) | NA | 15.5 | 19.8 |
| EPS (Old) | NA | 17.7 | 22.8 |
| % change | NA | -12.4% | -13.4% |

**SHIVAJI THAPLIYAL**
Head of Research (Overall)
& Lead Sector Research Analyst
+91 22 6992 2932



**SIDDHARTH RAJPUROHIT,** Analyst
**SURAJ SINGHANIA,** Associate

# COMPREHENSIVE CON-CALL TAKEAWAYS

## Loss ratio aspects

- **Rise in loss ratio**
  - There has been a material rise in claims ratio from 66.5% in FY24 to 70.3% in FY25, which on IFRS basis was 70.7% (in FY25).
  - This was driven by both higher frequency and higher severity of claims.
  - This in turn was driven by behavioural changes leading to increased surgical intervention, more conservative approach and greater preference for hospitalization.
  - Areas driving this include cancer care, gynaecology and obstetrics and neurological issues.
  - Availability of cashless insurance has also promoted this.
  - The company has strengthened its IBNR reserves on account of all of this.
- **Potential for improvement in loss ratio**
  - The fresh business is moving well as the company is seeing green shoots for new business in terms of loss ratio for the cohorts monitored.
  - There has been a pricing correction for about 60-65% of the retail portfolio and 20-40% price hike for the banca portfolio.
  - The company has micro-segmented markets and is focusing on profitable ones.
  - More than 50% of hospital billings have been digitized.
  - The company is undertaking a complete transformation of its core claims system, which will happen by 2Q and this will control leakage and improve fraud control.
  - Regulatory intervention is also expected.
  - There has been sequential improvement in loss ratio and with the steps taken, loss ratio is expected to improve further.
- **Segmental loss ratio**
  - **Segmental Claims Ratio outcomes**
    - For FY25, the retail loss ratio was at 68.8% as compared to 65.8% in FY24.
    - The group loss ratio was 89.8%. in FY25 as compared to 77.3% in FY24
  - **Group business**
    - The company has been very selective with group business over the last 3 quarters and its loss ratio is expected to improve.
    - The contribution of group segment in total GWP has reduced to 7% in Q4FY25 from 9% in Q2FY25.
- **More on rise in frequency**
  - The rise in frequency is still in single digit but closer to 10%.
  - This is a higher annual rise in frequency than the 3-4% that used to be seen earlier.
- **More on rise in severity**
  - Medical inflation for the market has been 10-15% but the company has controlled it well below 10%.
  - The annual rise in frequency has been 7%.
  - Frequency is impacted by movement from secondary to tertiary care hospitals, more conservative treatment and cancer screening.
- **Persistency**
  - When price hike was effected in the FHO policy 3 years ago, about 5-6% of the consumers dropped off.

(Con call takeaways continue on the next page)

- Hence, with price hikes, sometimes retaining good (low loss ratio) customers becomes an unintended challenge.
- This time, the price hike has been effected in a more nuanced manner with discounts being provided for the better customers (with lower loss ratio).
- For the price hike effected in January, the company is seeing good trends in retention.
- The loss ratio of the Family Health Optima product (FHO) is 80% but it will come down by 2-3% points.

▪ **Actuarial pricing**

- Whether all the behavioural changes in the market are structural or not, the company will learn in due course of time.
- The changes in actuarial pricing take time.
- Whenever a reset happens, it settles down in a year or two.

## Common empanelment by GIC

▪ There has been substantial progress in this regard with sub-committees being created and there are early signs of breakthroughs.

▪ The industry is also working on better fraud control and efficiency.

## Return on equity

▪ There has been a marginal impact due to MTM on investment portfolio.

▪ The deferred acquisition cost under IFRS is lower on account of 1/n accounting.

▪ **RoE outcomes**

- The Return on Equity was 9.7% in FY25.
- The Return on Equity on IFRS basis was 9.5% in FY25.

## Combined ratio

▪ **Earlier guidance**

- Earlier, the company had guided that there would be a 100 bps improvement in combined ratio in FY25, driven by 50 bps improvement each in loss ratio and expense ratio.

▪ **Expense ratio**

- While the improvement in loss ratio did not play out, the improvement in expense ratio did play out when considered without the impact for 1/n accounting.
- The company expects the improvement in expense ratio to continue to play out with improvement in technology.
- **Expense Ratio outcomes**
  - The expense ratio was 30.8% in FY25 vs 30.2% in FY24.
  - The expense ratio on IFRS basis was 30.4% in FY25.
  - The expense ratio without 1/n basis was 29.9% in FY25.

▪ **Combined Ratio outcomes**

- The combined ratio on 1/n basis was 101.1% in FY25 vs 96.7% in FY24.
- The combined ratio on without 1/n basis was 100.2% in FY25.

## Revenue and profit guidance

▪ The company continues to guide for doubling of topline in FY28 (in 4 years from FY24 levels) and tripling of IFRS profit.

(Con call takeaways continue on the next page)

## Investment portfolio

- As solvency levels stabilized, the company had built its equity book.
- The share of equity in AUM rose from 6.7% as of March 2024 to 15% as of March 2025.
- Profit booking rose to Rs 0.85bn in 2Q, then declined to Rs 0.55bn and then to just Rs 0.11bn in 4Q with a total of Rs 1.84bn in FY25.
- The reason for decline in profit booking was that the company got reinvestment opportunities quickly.
- Even with the moderation in yield, the same stood at 7.8%, which is still good.
- **Investment Assets**
  - The overall investment assets for the company were at Rs 179 bn, up 15.5% YoY.
- **Investment Income**
  - The investment income in FY25 was at Rs. 12.8 bn as against Rs 10.8 bn in FY24.

## Premium (revenue) growth outcomes

- Excluding the impact of 1/n accounting, GWP for the company grew by 15% YoY for FY25.
- Fresh GWP grew 22% YoY while renewal GWP grew 12.5% YoY in FY25.
- The fresh to renewal ratio for FY25 was 23:77 as against 22:78 in FY24.
- Renewal rate continues to be healthy at 98% in 4Q.
- The share of long-term policies in GWP was at 10% FY25 as against 7% in FY24.
- **Retail Health GWP Growth**
  - Excluding the impact of 1/n accounting, retail fresh GWP grew by 25% YoY for FY25.
  - The company continues to be a leader in retail health market with a market share of 33%.
- **Number of policies**
  - The number of polices in fresh retail segment grew by 11% YoY for FY25.

## Channel growth and mix (on without 1/n basis)

- **Agency**
  - The agency channel contributed 82% of the total business in FY25.
  - The fresh GWP in agency channel grew by 16% YoY in FY25 and contributed 61% of total fresh GWP.
  - **Agent Count**
    - Total agents stood at 775,000 as of March 2025 with net addition of 74,000 agents in FY25.
    - **Guidance**
      - The company aims to expand its agency network to 1mn agents in the next 3 years.
- **Banca channel**
  - The banca channel contributed 7% of the total business in FY25.
  - The fresh GWP in banca channel grew by 13% YoY in FY25 and contributed 15% of total fresh GWP.
  - The banca channel growth has moderated with banks prioritizing regulatory compliance and core business focus over insurance distribution.
  - The number of banca partners were at 71.

(Con call takeaways continue on the next page)

- **Corporate channel**
  - The fresh GWP in corporate channel grew by 21% YoY in FY25 and contributed 7% of total fresh GWP.
  - The corporate channel contributed 3% of the total business in FY25.
- **Digital channel**
  - The fresh GWP in digital channel grew by 71% YoY in FY25 and contributed 17% of total fresh GWP.
  - The digital channel contributed 8% to the total business in FY25.
  - The company's own direct to consumer channel contributed 72% to the digital channel and the balance 28% is contributed by online brokers and web aggregators.
  - **App**
    - The company's app downloads were 10mn as on FY25, up from 5.7mn in FY24.

## NPS

- The company NPS score stood at 54 in FY25 as compared to 42 in FY24.
- The claims NPS stood at 55 in FY25 vs 47 in FY24.
- Claims NPS was driven by enhancement in service quality, faster turnaround time and technology pre-authorisation.

## Solvency

- Solvency ratio was 2.21x as at March 2025 as against 2.22x at December 2024.

## Sum Insured

- The average sum insured of new policies has increased by 10% YoY to Rs 1.6mn per policy.
- On the retail health policies, the Rs 0.5mn and above sum insured policies contributed 87% in FY25 vs 83% in FY24.

## New Product

- The company's recently launched product 'Super Star' has garnered premiums of more than Rs 5.5bn in FY25.
- The product offers 21 optional covers and unique features like 'freeze your age' and 'limitless care'.
- The product has also become a top seller across digital platforms.

### Exhibit 2: Other Business Parameters

| Rs mn | Q4 FY25 | Q4 FY24 | % yoy | Q3 FY25 | % qoq |
|---|---|---|---|---|---|
| **Net Premium Earned** | | | | | |
| Health retail | 35,246 | 31,953 | 10.3% | 35,300 | -0.2% |
| Health Group, Corporate | 2,737 | 2,001 | 36.8% | 2,697 | 1.5% |
| **Total** | **37,983** | **33,953** | **11.9%** | **37,997** | **0.0%** |
| | | | | | |
| **Segment Underwriting Profit / (Loss)** | | | | | |
| Health retail | (2,624) | (839) | 212.8% | (461) | 469.3% |
| Health Group, Corporate | (127) | (71) | 78.3% | (29) | 342.0% |
| **Total** | **(2,752)** | **(911)** | **202.2%** | **(490)** | **461.8%** |

Source: Company, YES Sec – Research

### Exhibit 3: Quarterly Actuals Vs Estimates

| Q4FY25 (Rs. mn) | Actuals | Estimates | Diff, % |
|---|---|---|---|
| Net Premium Earned | 37,983 | 37,335 | 1.7 |
| Underwriting Profit/(Loss) | (2,752) | (1,369) | (101.0) |
| PAT | 5 | 1,514 | (99.7) |

Source: Company, YES Sec – Research

# ANNUAL FINANCIALS

### Exhibit 4: Profit & Loss Statement

| Rs mn | FY23 | FY24 | FY25 | FY26E | FY27E |
|---|---|---|---|---|---|
| Gross written premium | 129,525 | 152,545 | 167,814 | 191,307 | 223,830 |
| Net written premium | 123,196 | 140,674 | 155,252 | 176,959 | 207,042 |
| Net earned premium | 112,616 | 129,383 | 148,222 | 168,996 | 197,726 |
| Net claims | 73,204 | 85,940 | 104,194 | 116,607 | 134,453 |
| Net commission | 16,828 | 18,596 | 22,407 | 25,482 | 29,814 |
| Expense of Management | 20,538 | 23,954 | 25,406 | 28,313 | 33,127 |
| Underwriting profit/(Loss) | 2,046 | 893 | (3,785) | (1,407) | 331 |
| Investment income | 5,014 | 6,401 | 7,655 | 8,396 | 9,414 |
| **Operating profit** | **7,060** | **7,294** | **3,870** | **6,989** | **9,745** |
| | | | | | |
| Shareholder's account | | | | | |
| Operating profit | 7,060 | 7,294 | 3,870 | 6,989 | 9,745 |
| Investment income | 3,388 | 4,471 | 5,190 | 5,817 | 6,548 |
| Total income | 10,449 | 11,765 | 9,060 | 12,806 | 16,293 |
| Expenses | 2,185 | 496 | 512 | 676 | 791 |
| PBT | 8,264 | 11,269 | 8,548 | 12,130 | 15,502 |
| Tax | 2,078 | 2,838 | 2,152 | 3,045 | 3,891 |
| **PAT** | **6,186** | **8,431** | **6,396** | **9,085** | **11,611** |

Source: Company, YES Sec – Research

### Exhibit 5: Balance sheet

| Rs mn | FY23 | FY24 | FY25 | FY26E | FY27E |
|---|---|---|---|---|---|
| **Sources of funds** | | | | | |
| Share capital | 5,817 | 5,853 | 5,878 | 5,878 | 5,878 |
| Reserves and Surplus | 59,839 | 60,429 | 64,359 | 73,444 | 85,055 |
| Fair value change account | 233 | 1,036 | 885 | 885 | 885 |
| Borrowings | 4,700 | 4,700 | 4,700 | 4,700 | 4,700 |
| Claims Outstanding gross | 8,423 | 9,074 | 14,731 | 16,204 | 17,824 |
| Current liabilities | 11,878 | 15,704 | 26,480 | 29,922 | 33,812 |
| Provisions | 72,687 | 83,747 | 90,814 | 101,712 | 113,917 |
| **Total Liabilities** | **163,577** | **180,543** | **207,846** | **232,745** | **262,072** |
| | | | | | |
| **Application of funds** | | | | | |
| Investments - Shareholders | 53,459 | 63,361 | 71,857 | 79,895 | 91,102 |
| Investments - Policyholders | 80,462 | 91,548 | 107,126 | 119,801 | 134,631 |
| Fixed assets | 1,113 | 1,751 | 1,849 | 2,049 | 2,249 |
| Deferred tax asset | 5,689 | 3,582 | 3,512 | 3,012 | 2,512 |
| Cash and bank balances | 3,094 | 4,446 | 6,684 | 11,670 | 15,761 |
| Advances and other assets | 19,760 | 15,856 | 16,817 | 16,317 | 15,817 |
| **Total Assets** | **163,577** | **180,543** | **207,846** | **232,745** | **262,072** |

Source: Company, YES Sec – Research

### Exhibit 6: Ratio analysis

| Particulars | FY23 | FY24 | FY25 | FY26E | FY27E |
|---|---|---|---|---|---|
| **Key ratios** | | | | | |
| Claims ratio | 65.0% | 66.4% | 70.3% | 69.0% | 68.0% |
| Opex ratio | 16.7% | 17.0% | 16.4% | 16.0% | 16.0% |
| Commission ratio | 13.7% | 13.2% | 14.4% | 14.4% | 14.4% |
| Combined ratio | 95.3% | 96.7% | 101.1% | 99.4% | 98.4% |
| Underwriting P/L Ratio | 1.8% | 0.7% | -2.6% | -0.8% | 0.2% |
| RoA | 3.9% | 4.9% | 3.3% | 4.1% | 4.7% |
| RoE | 9.6% | 12.8% | 9.4% | 12.1% | 13.6% |
| Dividend payout | 2.4% | 0.0% | 0.0% | 0.0% | 0.0% |
| Investments leverage | 2.0 | 2.3 | 2.5 | 2.5 | 2.4 |
| | | | | | |
| **Per share ratios (Rs)** | | | | | |
| EPS | 10.6 | 14.4 | 10.9 | 15.5 | 19.8 |
| BVPS | 112.9 | 113.2 | 119.5 | 134.9 | 154.7 |
| DPS | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | |
| **Valuation ratios** | | | | | |
| P/E (x) | 36.9 | 27.3 | 36.1 | 25.4 | 19.9 |
| P/B (x) | 3.5 | 3.5 | 3.3 | 2.9 | 2.5 |
| | | | | | |
| **Growth (%)** | | | | | |
| Gross written premium | 13.0% | 17.8% | 10.0% | 14.0% | 17.0% |
| Net earned premium | 14.8% | 14.9% | 14.6% | 14.0% | 17.0% |
| Claims | -14.3% | 17.4% | 21.2% | 11.9% | 15.3% |
| Commissions | 12.8% | 10.5% | 20.5% | 13.7% | 17.0% |
| Net income | -159.4% | 36.3% | -24.1% | 42.1% | 27.8% |

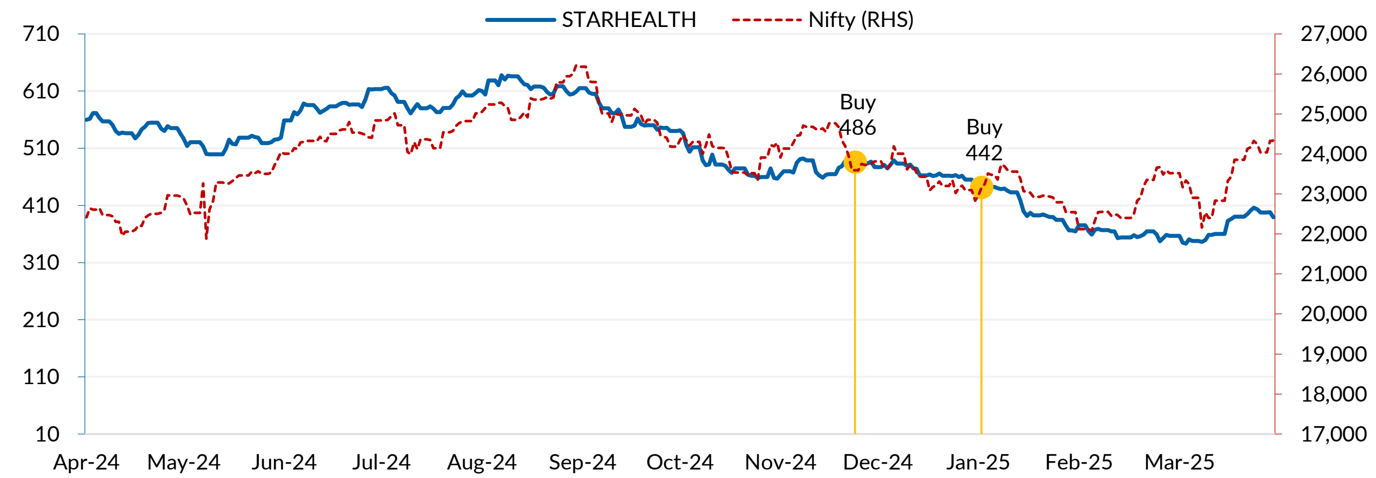
Source: Company, YES Sec – Research

### Exhibit 7: Change in annual estimates

| Y/e 31 Mar (Rs mn) | Revised Estimate | | | Earlier Estimate | | | *% Revision* | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E |
| Net Premium Earned | NA | 168,996 | 197,726 | NA | 175,614 | 205,468 | *NA* | *(3.8)* | *(3.8)* |
| Operating Profit | NA | 6,989 | 9,745 | NA | 8,838 | 12,067 | *NA* | *(20.9)* | *(19.2)* |
| Profit After Tax | NA | 9,085 | 11,611 | NA | 10,331 | 13,344 | *NA* | *(12.1)* | *(13.0)* |

Source: Company, YES Sec – Research

## Recommendation Tracker



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**Details of Compliance Officer:** Aditya Goenka | Email: compliance@ysil.in / Contact No.: 022-65078127 | **Grievances Redressal Cell:** customer.service@ysil.in / igc@ysil.in

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Name of the Research Analyst : Shivaji Thapliyal, Siddharth Rajpurohit, Suraj Singhania

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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SHIVAJI THAPLIYAL
Digitally signed by SHIVAJI THAPLIYAL
Date: 2025.04.30 13:26:24 +05'30'
Lead Analyst signature

SIDDHARTH ARVIND RAJPUROHIT
Digitally signed by SIDDHARTH ARVIND RAJPUROHIT
Date: 2025.04.30 13:31:27 +05'30'
Analyst signature

SURAJ SINGHANIA
Digitally signed by SURAJ SINGHANIA
Date: 2025.04.30 13:34:34 +05'30'
Associate signature

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