

Estimate change	↔
TP change	↓
Rating change	↔

Bloomberg	STARHEAL IN
Equity Shares (m)	576
M.Cap.(INRb)/(USDb)	291.3 / 3.6
52-Week Range (INR)	810 / 451
1, 6, 12 Rel. Per (%)	-9/-36/-37
12M Avg Val (INR M)	283

Financials & Valuations (INR b)

Y/E March	2023E	2024E	2025E
NEP	115.2	130.1	155.2
U/W Profit	3.1	2.8	4.2
PBT	8.9	13.0	17.0
PAT	6.7	9.8	12.8

Ratios (%)

Claims	64.6	63.9	63.9
Commission	13.5	13.5	13.5
Expense	16.9	16.4	15.9
Combined	95.0	93.8	93.3
RoE	11.5	13.1	14.9
EPS (Rs)	11.6	17.0	22.2

Valuations

P/E (x)	43.2	29.4	22.5
P/BV (x)	4.1	3.6	3.1

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	58.3	58.6	58.9
DII	26.4	1.5	27.4
FII	10.4	10.3	9.9
Others	4.9	29.6	3.8

FII Includes depository receipts

CMP: INR501

TP: INR700 (+40%)

Buy

Strong performance driven by a beat on premium

- Star Health (STARHEAL) reported a PAT of INR2.1b in 3QFY23 v/s INR931m in 2Q. This was 22% above our estimate led by better-than-expected net earned premium growth (16% beat) to INR29b. GDPI grew 10% YoY to INR31b.
- The management has maintained its guidance of 63-65% loss ratio and 93-95% combined ratio for FY24. The confidence in the guidance stems from: a) price hike in the flagship product that contributed ~50% of the premium and b) growth from banca channels during the quarter.
- We raise our FY23E EPS by ~13% while broadly retaining our FY24/FY25 estimates, as the benefits from better-than-expected underwriting performance were offset by weaker-than-forecasted investment performance. Our combined ratio estimates are lower by 90bp/40bp/60bp for FY23/FY24/FY25 to 95.0%/93.8%/93.3%, respectively. **Maintain BUY** with a revised TP of INR700 (based on 35x Sep'24E EPS). Uncertainties around regulations and increasing competition have resulted in a cut in the valuation multiple.

Growth in NEP drives profitability

- STARHEAL's net earned premium grew 13% YoY to INR29b (16% beat) in 3QFY23. GDPI rose 10% YoY to INR31b. Retail Health/Personal Accident segments grew 26%/19.5% YoY, respectively, while the group health segment declined 23% YoY during the quarter.
- While incurred claims were higher than expectations, loss ratio came in at 63.7%, which is in-line with our estimate of 63.5%. Incurred claims stood at 68.2% during the quarter.
- The commission ratio and expense ratio came in at 13.7% and 17.4%, respectively, which were in line with our estimates. Overall, the combined ratio came in at 94.8%, which was a bit weaker than our forecast of 94.2% (v/s 135.7% in 3QFY22).
- Investment income in policyholders' account at INR1.15b was 13% lower than our forecast, while shareholders' investment income at INR897m was 6% above our estimate during the quarter.
- Profit for the quarter was at INR2,105m v/s our estimate of INR1,727m (22% beat). The beat was primarily driven by better-than-estimated NEP.
- For 9MFY23, NEP was at INR84b (+16% YoY); Underwriting profit was at INR2.7b (v/s a loss of INR18b YoY); Combined ratio was at 96.9% (v/s 125%); and PAT stood at INR5.2b (v/s a loss of INR9.6b).
- Solvency ratio for 3QFY23 was at 2.17 v/s 1.95 for 2QFY23.

Key takeaways from the management commentary

- STARHEAL will implement 25% price hike in its flagship product - Family Health Optima - w.e.f. 1st Feb'23 for new policies and from 1st May'23 for renewal policies.
- Management has aggressive plans to grow in the bancassurance channel as banks are now allowed to have tie ups with nine insurance companies in each segment.
- The growth is likely to be faster than the industry with the growth in group health business to kick in from FY24E. The company maintained its FY23 guidance for combined ratio at 93-95% and claims ratio at 63-65%.

Raise FY23 estimate by 13%, maintain buy

- We raise our FY23E EPS by ~13% while broadly retaining our FY24/FY25 estimates, as the benefits from better-than-expected underwriting performance were offset by weaker-than-forecasted investment performance. Our combined ratio estimates are lower by 90bp/40bp/60bp for FY23/FY24/FY25 to 95.0%/93.8%/93.3%, respectively.
- We expect STARHEAL to deliver 18% gross premium CAGR over FY22-25, led by strong growth in the Retail Health Insurance. With increasing losses in the Corporate Health book, the management has decided to exit certain large corporate businesses, leading to a segmental decline in growth in FY23E.
- Claims ratio is expected 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 declining 100bp over FY23-25E.
- Hence, we expect the combined ratio to improve to 93.3% in FY25 from 117.9% in FY22. We also expect RoE to improve to ~14.9% in FY25 from 11.5% in FY23.
- **Retain BUY** with a revised TP of INR700 (based on 35x Sep'24E EPS). Uncertainties around regulations and increasing competition have resulted in a cut in the valuation multiple.

Changes to our estimates

INR b	Old Est.			New Est.			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
NEP	112.4	129.6	154.7	115.2	130.1	155.2	2.5	0.3	0.4
Net claims	74.2	84.4	100.6	74.5	83.1	99.2	0.3	-1.5	-1.4
Net commission	16.6	19.9	23.7	16.7	19.9	23.8	0.3	0.3	0.4
Expenses	20.3	23.1	26.8	21.0	24.3	28.0	3.6	5.0	4.4
Underwriting Profit/(Loss)	1.3	2.3	3.5	3.1	2.8	4.2	145.2	19.6	21.2
Investment income (PH)	5.4	7.9	10.2	4.8	7.6	9.7	-10.3	-4.6	-4.6
PAT	5.9	9.8	12.7	6.7	9.8	12.8	12.6	-0.6	0.5
Claim ratio	66.0	65.1	65.1	64.6	63.9	63.9	-1.4	-1.2	-1.2
Commission ratio	13.5	13.5	13.5	13.5	13.5	13.5	0.0	0.0	0.0
Expense ratio	16.4	15.7	15.3	16.9	16.4	15.9	0.5	0.7	0.6
Combined ratio	95.9	94.2	93.8	95.0	93.8	93.3	-0.9	-0.4	-0.6

Quarterly performance

(INR m)

Y/E March	FY22				FY23				FY22	FY23E	3QFY23E	Act v/s Est. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Gross premium	21,851	28,847	27,045	36,892	24,637	31,929	30,967	42,786	1,14,635	1,30,295	28,969	6.9
Net written premium	20,497	27,293	25,568	34,738	23,441	30,389	29,434	40,669	1,08,096	1,23,911	27,578	6.7
Net earned premium	22,430	24,167	25,283	26,212	26,871	27,948	28,672	31,769	98,092	1,15,237	24,820	15.5
Investment Income	871	971	901	1,192	1,220	1,233	1,157	1,222	4,796	4,831	1,331	-13.1
Total Income	23,301	25,138	26,184	27,404	28,090	29,181	29,829	32,991	1,02,887	1,20,068	26,152	14.1
Change YoY (%)	109.2	62.6	78.3	266.1	20.6	16.1	13.9	20.4	111.0	16.7	-0.1	
Incurred claims	20,415	20,696	26,442	17,848	17,811	19,060	18,278	19,324	85,401	74,474	15,761	16.0
Net commission	2,665	3,597	3,588	5,072	3,220	3,964	4,026	5,486	14,922	16,696	3,723	8.1
Employee expense	2,812	3,288	3,018	4,260	2,774	3,590	3,805	4,881	13,378	15,050	3,471	9.6
Other expenses	698	1,746	1,359	1,204	1,498	1,465	1,306	1,680	5,007	5,948	1,269	.
Total Operating Expenses	26,590	29,326	34,407	28,384	25,303	28,079	27,415	31,372	1,18,707	1,12,168	24,223	13.2
Change YoY (%)	187.0	81.8	87.4	45.1	-4.8	-4.3	-20.3	10.5	86.7	-5.5	-29.6	
Underwriting profit	-4,160	-5,159	-9,124	-2,172	1,568	-131	1,258	398	-20,615	3,069	597	110.6
Other charges	-18	-842	-	-	-	-	-	-	-860	-	-	
Operating profit	-3,271	-3,347	-8,223	-980	2,788	1,102	2,415	1,620	-15,820	7,901	1,928	25.2
Shareholder's P/L												
Transfer from Policyholder's	-3,271	-3,347	-8,223	-980	2,788	1,102	2,415	1,620	-15,820	7,901	1,928	25.2
Investment income	556	1,112	926	618	838	846	914	834	3,214	3,388	845	8.2
Total Income	-2,715	-2,235	-7,297	-362	3,626	1,948	3,329	2,453	-12,606	11,289	2,774	
Provisions other than taxation	-	-	23	0	1	-	2	-	26	-	-	
Other expenses	90	90	363	795	745	741	509	406	1,334	2,401	471	8.0
Total Expenses	90	90	386	795	746	741	512	406	1,360	2,401	471	8.5
PBT	-2,805	-2,325	-7,682	-1,158	2,880	1,207	2,817	2,047	-13,966	8,888	2,302	22.4
Tax Provisions	-705	-618	-1,899	-337	747	276	713	486	-3,559	2,222	576	23.8
Net Profit	-2,100	-1,706	-5,783	-820	2,132	931	2,105	1,561	-10,407	6,666	1,727	21.9
Key Parameters (%)												
Share in GWP												
Health-Retail	86.9	84.0	90.0	90.7	92.1	92.3	91.4	92.5	88.0	92.1	89.3	2.1
Health-Group	11.9	14.6	8.5	7.6	6.4	6.2	7.0	5.8	10.5	6.3	9.0	-2.0
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	1.7	1.5	1.6	1.7	-0.1
Claims ratio	91.0	85.6	104.6	68.1	66.3	68.2	63.7	60.8	87.1	64.6	63.5	0.2
Commission ratio	13.0	13.2	14.0	14.6	13.7	13.0	13.7	13.5	13.8	13.5	13.5	0.2
Expense ratio	17.1	18.4	17.1	15.7	18.2	16.6	17.4	16.1	17.0	16.9	17.2	0.2
Combined ratio	121.1	117.3	135.7	98.4	98.2	97.9	94.8	90.5	117.9	95.0	94.2	0.6
Solvency	1.7	1.5	1.8	1.7	1.9	2.0	2.2		1.7			



Key takeaways from the management commentary

Business

- In 9MFY23, retail health segment growth for Star Health was at 19.4% v/s 14.9% for the industry. Market share in retail segment improved 120bp to 34% at the end of 9MFY23. Retail health accretion market share was at 42%.
- STARHEAL will implement 25% price hike in its flagship product - Family Health Optima - w.e.f. 1st Feb'23 for new policies and from 1st May'23 for renewal policies. Post the price hike, Medi-classic retention will continue to be good and well accepted by market. The contribution of this product to the premium is at 46% for 9MFY23.
- The company has evaluated all parameters before taking price hikes that will be different across zones based on the loss experiences in the zones. All approvals for the same are in place.
- For 9MFY23, the corporate agent segment continues to remain strong and premium from this channel has grown by 49%.
- The sum assured for new policies have grown 13% YoY to INR0.88m per policy.

- In 9MFY23, rural business grew 43% and number of rural agents jumped 69%. While app downloads were over at 1.85m, digital sourcing has grown 27% YoY. Over 9MFY23, organic traffic on the websites rose 43%.
- Earlier STARHEAL had launched a product named Star Combi (a term insurance product built in health insurance). In case the regulator allows composite license, it shall evaluate the prospects for entering into similar categories.
- The 3QFY23 quarter did not see any major impact of respiratory disease and the loss ratio for Jan'23 stood at 62.4%.

Distribution

- STARHEAL has maintained its target of adding 90k-100k agents in FY23 and beyond. During 3QFY23, it added 23,700 agents.
- As at 3QFY23, the agency force stood at 610k and it now accounts for 82% of the total distribution mix.
- Over the next five years, distribution share from partnerships and banca channels is expected to improve to 25-27%. Further, the share from digital channels should move towards 20-25% level.

Claim & Combined ratios

- The company focuses on improving its loss ratio through 1) Prudent claim settlement, 2) well negotiated volume-based pricing arrangement with network hospitals, 3) technology-enabled fraud detection, and 4) risk-based pricing.
- During 9MFY23, ~81% of the amount settled was in cashless claims. Cashless turnaround time (i.e. claims settled within two hours) came to around 90%. In cashless, the company has introduced auto adjudication of claims and this helps in drastically improving the turnaround time. ~17% of hospitals have been on boarded under this initiative. Share of hospitals with agreed pricing is 76% v/s 64% YoY.

Guidance

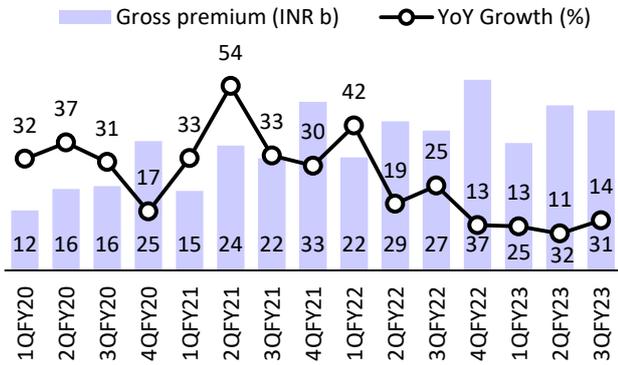
- The company has maintained its FY23 guidance for combined ratio to be in the range of 93-95% and claims ratio at 63-65%.
- Management has aggressive plans to grow in the bancassurance channel as banks are now allowed to have tie ups with nine insurance companies in each segment.
- For retail health, the growth is expected to be faster than the industry while growth in group health business will pick up from FY24E on a low base of FY23.

Others

- Opex-to-GWP stood at 16.5%. ~50% of this cost was fixed and 50% was variable.
- Expense ratio remained stable in spite of the falling share of group business.
- The company has successfully transitioned to premium-based solvency; under risk-based solvency (Singapore method), the solvency will be 2x of the required levels.

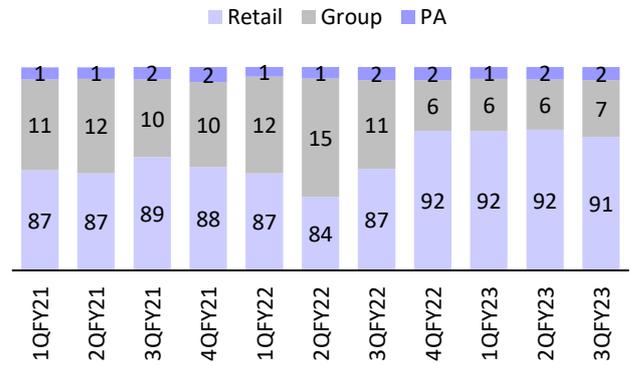
Key exhibits

Exhibit 1: Improvement in Premium growth



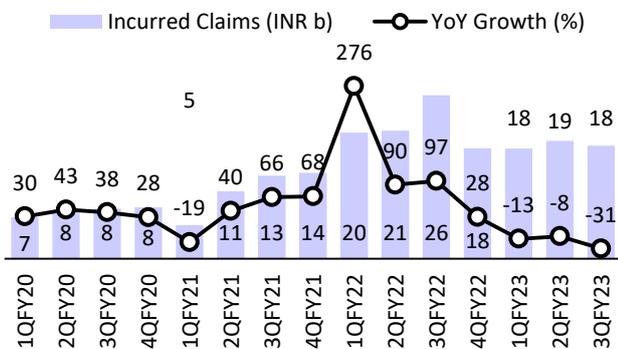
Source: MOFSL, Company

Exhibit 2: Share of retail health remains steady



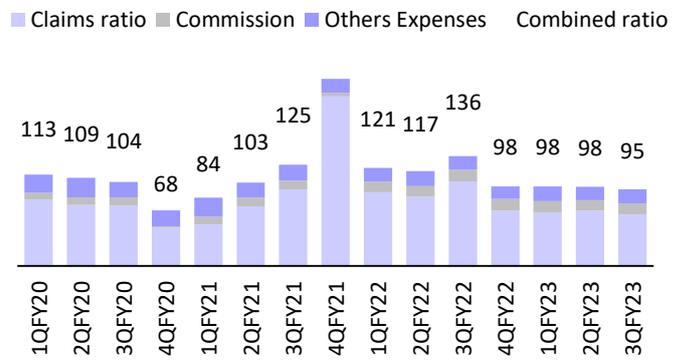
Source: MOFSL, Company

Exhibit 3: Moderation seen in claims incurred



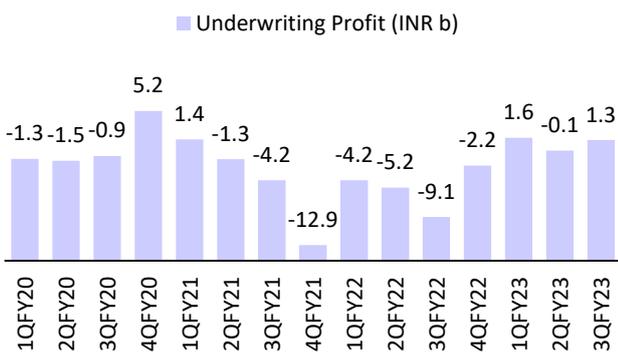
Source: MOFSL, Company

Exhibit 4: Combined ratio improves in 3QFY23



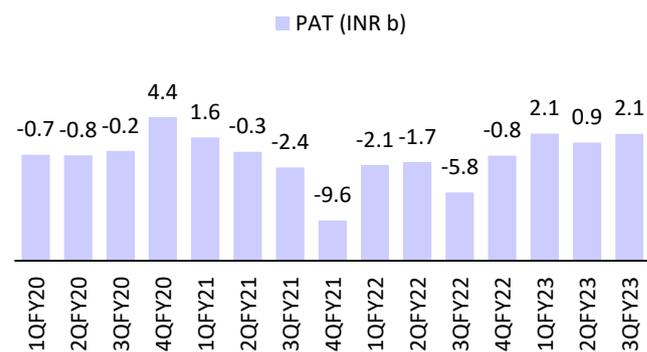
Source: MOFSL, Company

Exhibit 5: Underwriting profit of INR1.3b



Source: MOFSL, Company

Exhibit 6: Improvement in PAT on QoQ basis



Source: MOFSL, Company

Financials and valuations

Income Statement						(INR m)		
Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
Retail Health	36,291	46,789	58,252	82,075	1,00,870	1,20,035	1,44,042	1,72,851
Group Health	4,026	5,938	8,897	9,963	12,066	8,205	9,025	9,928
PA	1,165	1,270	1,337	1,489	1,685	2,055	2,364	2,718
Total GDPI	41,611	54,154	68,651	93,885	1,14,635	1,30,295	1,55,431	1,85,497
Change (%)	40.6	30.1	26.8	36.8	22.1	13.7	19.3	19.3
NWP	31,961	41,415	52,395	71,794	1,08,096	1,23,911	1,47,815	1,76,407
NEP	27,397	35,795	46,841	46,266	98,092	1,15,237	1,30,077	1,55,238
Change (%)	43.3	30.7	30.9	-1.2	112.0	17.5	12.9	19.3
Net claims	16,921	23,410	30,874	43,695	85,401	74,474	83,125	99,205
Net commission	1,366	2,637	3,404	5,857	14,922	16,696	19,917	23,770
Expenses	8,613	9,827	11,013	14,031	18,385	20,997	24,254	28,018
Employee expenses	6,291	7,220	8,526	11,765	13,378	15,050	17,307	19,903
Other expenses	2,322	2,607	2,487	2,266	5,007	5,948	6,947	8,115
Underwriting Profit/(Loss)	497	-78	1,550	-17,316	-20,615	3,069	2,780	4,246
Investment income (PH)	887	1,398	1,639	2,505	4,796	4,831	7,555	9,707
Operating profit	1,384	1,214	3,303	-14,811	-15,820	7,901	10,335	13,954
Investment income (SH)	544	612	1,212	1,718	3,214	3,388	4,266	4,826
PBT	1,712	1,389	4,062	-14,458	-13,966	8,888	13,040	17,032
Tax	10	540	1,389	-3,601	-3,559	2,222	3,260	4,258
Tax rate (%)	0.6	38.9	34.2	24.9	25.5	25.0	25.0	25.0
PAT	1,702	849	2,633	-10,857	-10,407	6,666	9,780	12,774
Change (%)	44.2	-50.1	210.1	NA	NA	NA	46.7	30.6

Balance sheet						(INR m)		
Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
Equity Share Capital	4,556	4,556	4,906	5,481	5,755	5,755	5,755	5,755
Reserves & Surplus	5,040	7,726	14,132	29,516	40,285	63,846	73,626	86,400
Net Worth	9,596	12,282	19,038	34,996	46,040	69,601	79,381	92,155
FV change	-	-	31	-76	267	-	-	-
Borrowings	2,500	2,500	2,500	2,500	7,200	7,200	7,200	7,200
Other liabilities	21,374	33,943	38,361	67,589	81,629	94,149	1,14,857	1,39,282
Total Liabilities	33,470	48,725	59,930	1,05,010	1,35,136	1,70,950	2,01,438	2,38,637
Investments (SH)	8,658	9,523	18,110	27,941	44,939	52,939	60,939	68,939
Investments (PH)	12,988	20,778	24,789	40,426	68,796	92,910	1,21,847	1,56,572
Net Fixed Assets	969	981	1,019	990	1,171	1,221	1,271	1,321
Def Tax Assets	-	1,420	70	4,213	7,767	7,767	7,767	7,767
Current Assets	5,834	7,093	9,827	12,650	6,828	7,761	9,258	11,049
Cash & Bank	5,021	8,930	6,114	18,790	5,635	8,352	355	-7,012
Total Assets	33,470	48,725	59,930	1,05,010	1,35,136	1,70,950	2,01,438	2,38,637

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
GWP growth	40.6	30.1	26.8	36.8	22.1	13.7	19.3	19.3
NWP growth	40.0	29.6	26.5	37.0	50.6	14.6	19.3	19.3
NEP growth	43.3	30.7	30.9	-1.2	112.0	17.5	12.9	19.3
Claim ratio	61.8	65.4	65.9	94.4	87.1	64.6	63.9	63.9
Commission ratio	4.3	6.4	6.5	8.2	13.8	13.5	13.5	13.5
Expense ratio	26.9	23.7	21.0	19.5	17.0	16.9	16.4	15.9
Combined ratio	93.0	95.5	93.4	122.1	117.9	95.0	93.8	93.3

Profitability Ratios (%)

RoE	19.5	7.8	16.8	-40.2	-25.7	11.5	13.1	14.9
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Valuations

	2018	2019	2020	2021	2022	2023E	2024E	2025E
BVPS (INR)	21.1	27.0	38.8	63.9	80.0	120.9	137.9	160.1
Change (%)	21.5	28.0	43.9	64.6	25.3	51.2	14.1	16.1
Price-BV (x)	23.7	18.5	12.9	7.8	6.2	4.1	3.6	3.1
EPS (INR)	3.7	1.9	5.4	-19.8	-18.1	11.6	17.0	22.2
Change (%)	44.2	-50.1	187.9	-469.1	-8.7	-164.1	46.7	30.6
Price-Earnings (x)						43.2	29.4	22.5

E: MOFSL Estimates

NOTES

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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