

Star Health

BSE SENSEX

64,831

S&P CNX

19,254



Bloomberg	STARHEAL IN
Equity Shares (m)	576
M.Cap.(INRb)/(USDb)	369.7 / 4.5
52-Week Range (INR)	780 / 451
1, 6, 12 Rel. Per (%)	2/1/-22
12M Avg Val (INR M)	432

Financials Snapshot (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

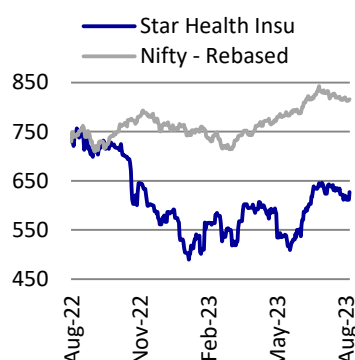
P/E (x)	59.2	33.9	27.5
P/BV (x)	5.6	4.8	4.1

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

Stock Performance (1-year)


CMP: INR632
TP: INR730 (+16%)
Buy

Building a 'healthier' future!

Stepping into the spotlight | All growth levers at play

- Star Health (STARHEAL) is expected to clock 20% retail health premium CAGR over FY23-25 led by: 1) increasing sum assured per policy, 2) price hike in its flagship product, and 3) deeper penetration that is driving growth in the number of policies.
- Management is intensely focusing on growing the business through the banca channel, with the help of the benefit-based products that have much higher profitability than retail health products. The share of banca stood at 5% in FY23 and is expected to double by FY25.
- The share of specialized products too has continued to rise and was at 15.5% in FY23 vs. 11.2% in FY21. The contribution of network hospitals to cashless claims has also been rising (67% in FY23 vs. 55% in FY21). We expect the trajectory to sustain given the increasing number of specialized products as well as rising associations with hospitals.
- STARHEAL has maintained its guidance of reaching a combined ratio of 93-95%, with a bias towards the lower end. Further, with solvency at 218%, we do not envisage any equity dilution in the near term.
- We expect a 19% NEP CAGR over FY23-25 and project the combined ratio to improve to 92.5% in FY25 from 95.0% in FY23. These should result in a PAT CAGR of 47% over FY23-25 and RoE improving to 16% in FY25 from 11% in FY23. We reiterate our BUY rating with a 1-year TP of INR730 (premised on 32x FY25E EPS).

Macro factors aided by favorable regulations to drive industry growth

- The Expense of Management (EOM) regulation will have positive outcomes for STARHEAL as a majority of the competition is above the threshold of 35%/30% (SAHIs/GI players), while STARHEAL operates well below.
- In terms of commissions, overall payouts were in excess of 30% for new book and 15% for old book. Management is looking to optimize the commission ratio by charging differently on old book and new book.
- The exposure draft had a clause that if the existing EOM is below the ceiling then it has to be maintained at levels of the last three-year average. However, the same has been removed.
- IFRS implementation is likely in a couple of years and that would benefit its profitability ratios as expenses would be booked over the term of the products.
- From here on, simultaneous activation of three key growth drivers: 1) a surge in the count of policies issued (retail health penetration of just 4%), 2) strategic implementation of price hikes (file & use rules make it easier), and 3) an upswing in the sum assured per policy will translate into a sustainable 20%+ CAGR for the industry over the medium term.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Several initiatives would drive strong premium growth

- STARHEAL has taken a 25% price hike in its flagship product – Family Health Optima – which has been well accepted by the market. The impact of the same on the number of policies is much lesser than earlier anticipated.
- Currently, less than 10% of policyholders increase their sum assured at the time of renewal. The company targets to raise this to 15%+ in near future.
- Specialized products, such as Senior Citizen, Cancer-related, Heart-related products etc., have done really well for the company. STARHEAL with its strong team of medical professionals has been able to price these products to ensure healthy profitability. The same would be difficult for competition to replicate.
- STARHEAL is focusing on a profitable product mix by increasing the share of specialized products. The company also aims to: a) augment claims processing through network hospitals, b) focus on profitable banca products, and c) hike prices.

Network expansion and improved settlement capability to augur well

- While individual agents (82% share) would continue to be the bedrock for STARHEAL's growth, distribution channels such as banca (5%) and digital (9%) will grow at a faster pace with cumulative share likely to rise in next few years.
- STARHEAL works with 14,000+ network hospitals and seven home health care (HHC) service providers. HHC service is a game changer in health care industry. Through technology, the TAT for claims settlement has improved and at present STARHEAL settles 90% of cashless claims within the stipulated two hours.

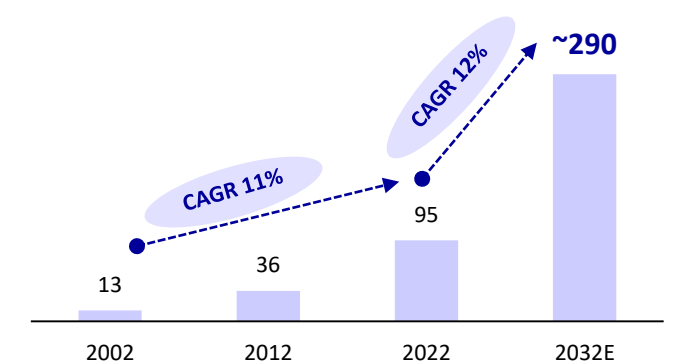
Focusing on profitable growth; reiterate BUY

- We remain optimistic on the overall growth prospects for STARHEAL backed by: a) its strong growth potential in retail health segment due to its under-penetration, b) healthy earnings growth owing to normalization of claims ratio, and c) limited cyclical risk (commercial lines and motor insurance have high cyclical risks).
- We expect the company's overall gross premium to report 19% CAGR over FY23-25 driven by 20% CAGR in retail health business and 10% CAGR in group business. Claims ratios are likely to normalize to ~64% with combined ratio at ~93%. These are likely to propel STARHEAL's profitability over FY23-25.
- **We reiterate our BUY rating on the stock with a 1-year TP of INR730 (premised on 32x FY25E EPS).**

Health insurance industry: the outlook appears bright

- Health insurance premium has witnessed a robust CAGR of 18% vs. 7% for the entire general insurance industry during FY19-23. Of this, retail health has clocked a CAGR of 18% too.
- India is a highly underpenetrated market with a healthcare OPE of 51% vs. 26% globally. India's healthcare expenditure in FY22 stood at USD95b, which is expected to post a 12% CAGR over FY22-32 to reach ~USD290b (as per World Bank estimates).
- The pandemic has heightened awareness regarding the necessity of insurance and emphasized not only on the need for coverage, but also on the importance of having sufficient protection.
- From here on, simultaneous activation of three key growth drivers: 1) a surge in the count of policies issued (retail health penetration of just 4%), 2) strategic implementation of price hikes (file & use rules make it easier), and 3) an upswing in the sum assured per policy will translate into a sustainable 20%+ CAGR for the industry over the medium term.

Exhibit 1: Indian healthcare spends growing in double digits (USD b)...



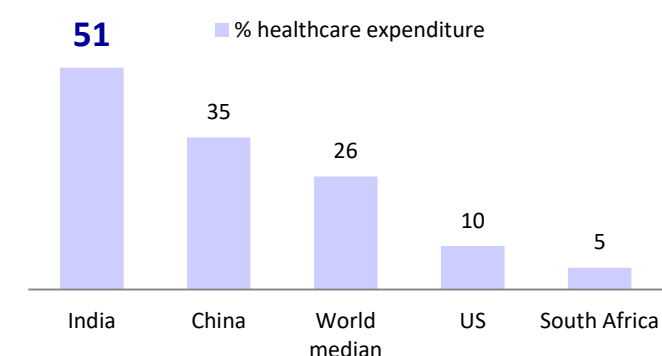
Source: World Bank Estimates, MOFSL, Company

Exhibit 2: ...with strong organized market growth across segments

	Market size (USD b)	Organized market 5yr CAGR
Healthcare Delivery (IPD & OPD)	USD60b	12%
Pharma & Wellness (Online - 5%)	USD25b	20%+
Diagnostics, Devices & Others	USD10b	13%

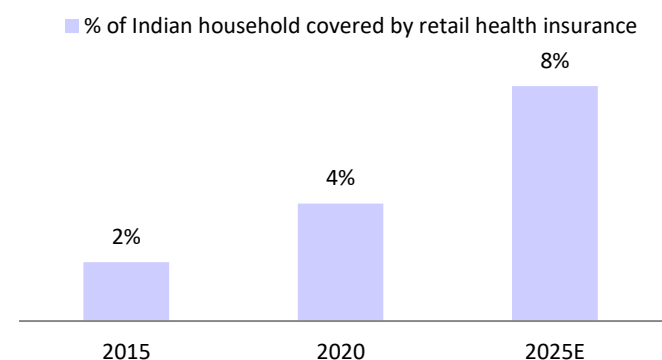
Source: CRISIL Estimates, rainbow & Medplus DRHP filings, MOFSL, Company

Exhibit 3: India's out-of-pocket expenses on healthcare remain high...



Source: WHO (FY20), MOFSL, Company

Exhibit 4: ...with substantial room for growth

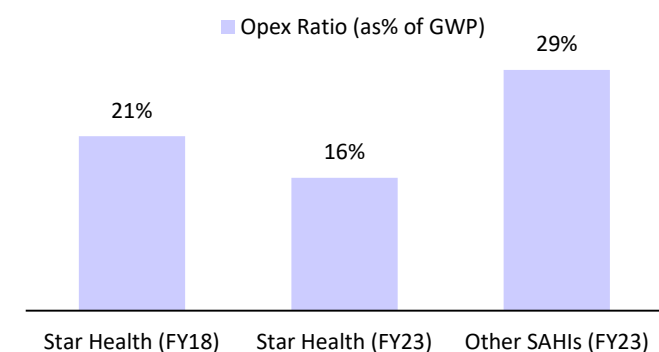


Source: IRDAI, MOFSL, Company

Regulations have been favorable for the industry

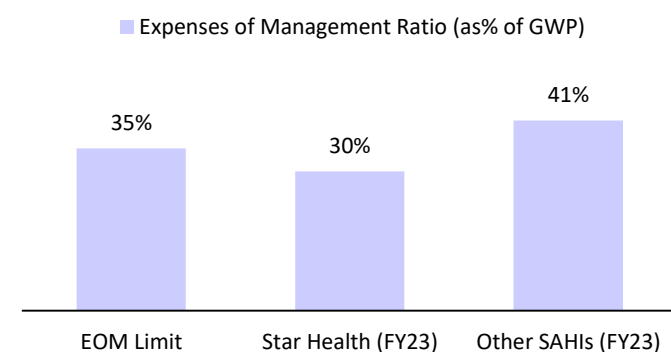
- EOM shall be capped at 35% for SAHIs and 30% for general insurers. Further, if the actual EOM exceeds 10% of the projected EOM given in the business plan (at the beginning of the year) then there will be no variable pay to the MD/CEO/KMP for the said year.
- Currently, all SAHIs – except STARHEAL – have EOM above 35% and they will have to reduce this as per the glide path indicated in the EOM regulation. The combined ratio for the general insurance players is more than 100% and hence their ability to charge higher commission is limited (excess can still be charged to shareholders' account).
- In terms of commissions, overall payouts were in excess of 30% for new book and 15% for old book. Management is looking to optimize the commission ratio by charging differently on old book and new book.
- The exposure draft had a clause that if the existing EOM is below the ceiling then it has to be maintained at levels of the last three-year average. However, the same has been removed.
- File & Use has made life easier for insurance companies as the pricing action can be prompt, which will allow them to maintain profitability.

Exhibit 5: Significant operating leverage compared to others



Source: IRDAI, MOFSL, Company

Exhibit 6: Star is already operating well below EOM limit



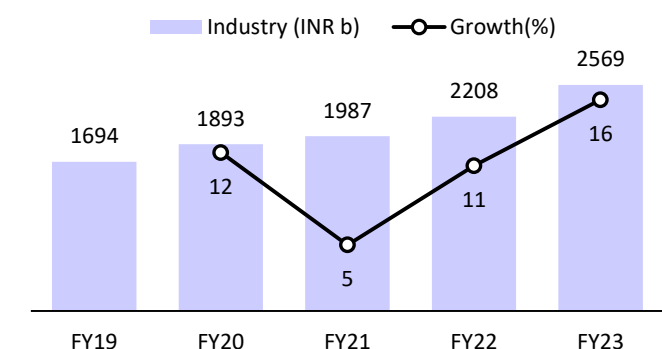
Source: IRDAI, MOFSL, Company

Several initiatives would boost strong premium growth

- During FY18-23, STARHEAL clocked a 27% CAGR in its health premium and had a retail market share of 34% in FY23 vs. 24% in FY18.
- Overall, SAHIs have registered a 33% CAGR during the period aided by inherent strengths in the business model, including: 1) a strong agency channel network, 2) ample management focus on one segment, 3) a wide suite of curated product offerings, and 4) deep connects with hospitals. These strengths, in our view, will empower SAHIs to maintain their market dominance.
- STARHEAL has taken a 25% price hike in its flagship product – Family Health Optima – which has been well accepted by the market. The impact of the same on the number of policies is much lesser than earlier anticipated.
- Currently, less than 10% of policyholders increase their sum assured at the time of renewal. The company targets to raise this to 15%+ in near future.
- Over the decade, STARHEAL's focus will be to increase the share of high sum assured policies and raise the contribution from HNIs. Moreover, the company wants to be in a position to price its products 10-20% higher than competition.

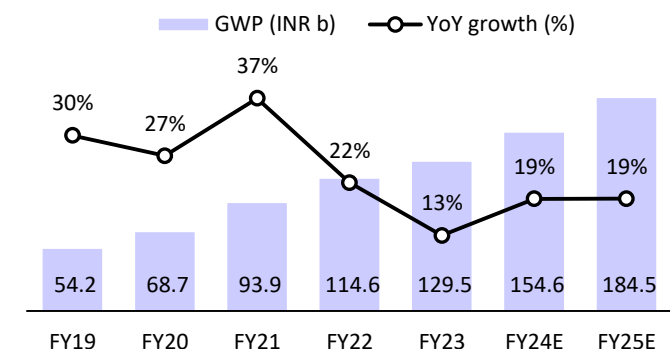
- Tier 1 and metro towns witness an average sum assured in the range of INR0.5m to INR1.0m, while in lower tier towns the sum assured initially starts from INR0.1m to INR0.2m and then scales up in later years. The company is aiming to increase this further through increasing awareness of adequate sum assured.

Exhibit 7: Retail health industry growth picking up pace post-Covid



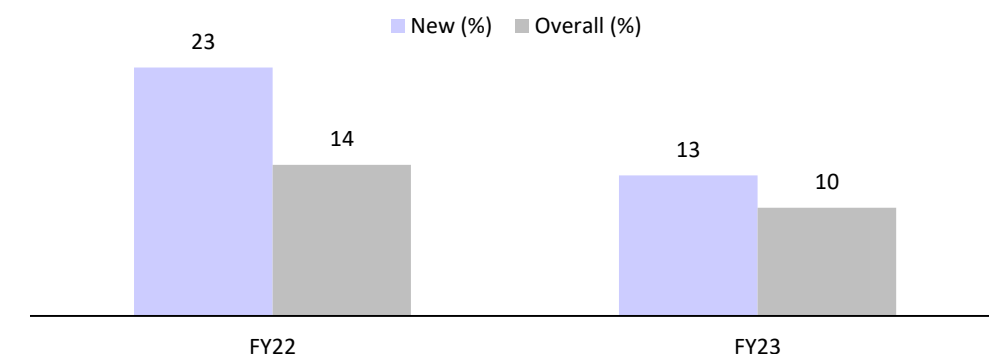
Source: IRDAI, MOFSL, Company

Exhibit 8: GWP growth for STARHEAL



Source: IRDAI, MOFSL, Company

Exhibit 9: Growth in average sum assured for the retail health policies

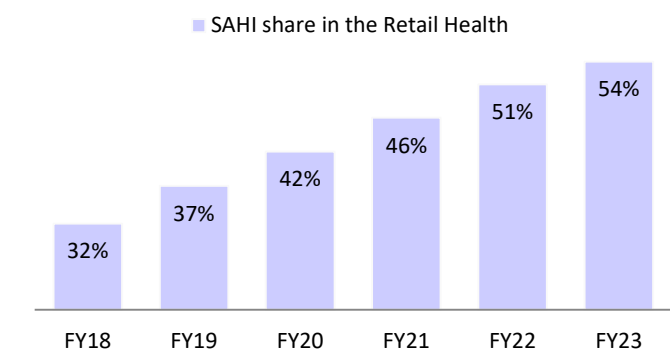


Source: MOFSL, Company

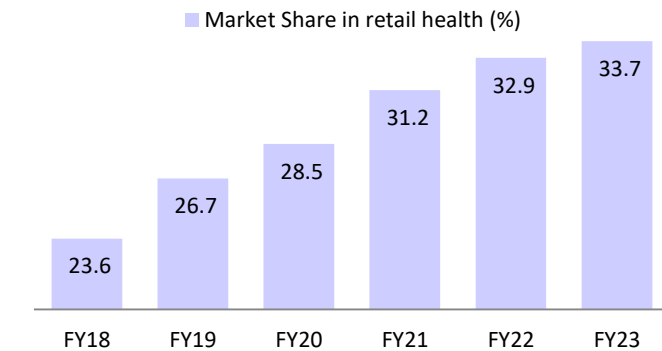
Diversifying its premium mix towards more profitable segments

- STARHEAL, in recent years, has increased its share of premium from more profitable products. The first move towards this goal was to reduce the share of group business to 6% in FY23 from 11% in FY21.
- Conversely, the company has increased the share of specialized products to 16% in FY23 from 10% in FY19, which have a relatively higher profitability.
- The company has been the pioneer in specialty products such as new born baby cover from day 1, transplantation where donor is also being covered, artificial insemination et al. Management aims to launch more such products.
- Specialized products, such as Senior Citizen, Cancer-related, Heart-related products etc., have done really well for the company. STARHEAL with its strong team of medical professionals has been able to price these products to ensure healthy profitability. The same would be difficult for competition to replicate.
- The combined ratio for the Senior Citizen product is much lesser than 100%, indicating strong underwriting and right pricing of the product.

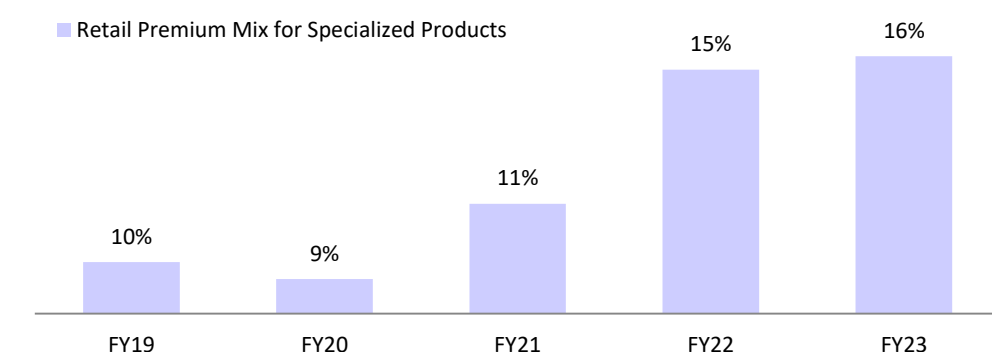
- Going ahead, the company plans to scale up its business on the credit-linked side and also aims to increase the sum assured per policy in the segment, which will help improve the combined ratio.
- STARHEAL will soon enter the premium financing business through tie-ups with fintech players without taking any risk on its balance sheet.

Exhibit 10: SAHI gaining market share in retail health

Source: MOFSL, Company

Exhibit 11: STARHEAL's market share inching upwards

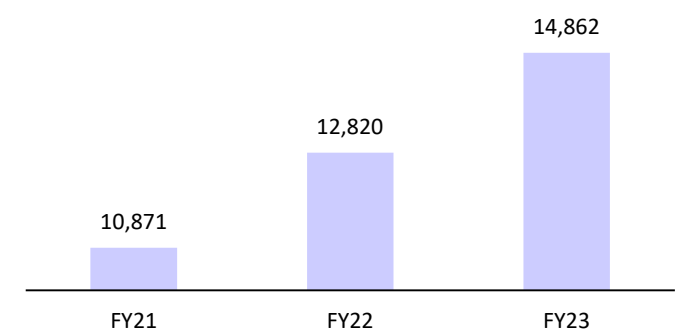
Source: MOFSL, Company

Exhibit 12: Retail premium mix for specialized products

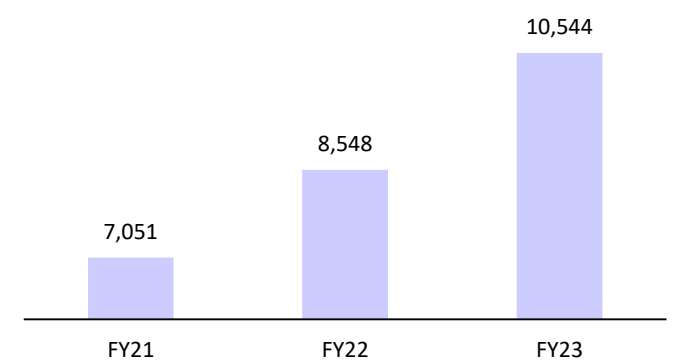
Source: MOFSL, Company

Improving hospital network relationships

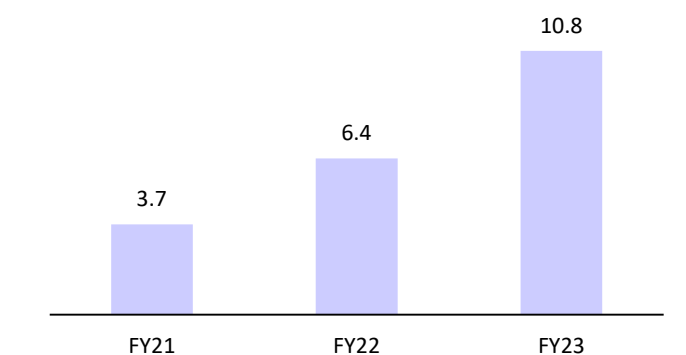
- STARHEAL, in a bid to improve the claim experience for its clients and revive the loss ratios, has taken action against several hospitals in the past. Action could mean a simple notice of suspension.
- A preferred hospital network is a win-win for all the three stakeholders: 1) hospitals get higher footfalls, 2) customer gets seamless service and faster claim settlements and 3) the company benefits from agreed pricing, which leads to lower loss ratios.
- Hospital tie ups are helping STARHEAL improve its claim ratios as the company is playing the role of claim scrutinizer through its team of medical professionals.
- Currently, ~14,000 hospitals are empanelled with STARHEAL as the rest got dismissed for various irregularities.

Exhibit 13: STARHEAL's network hospitals

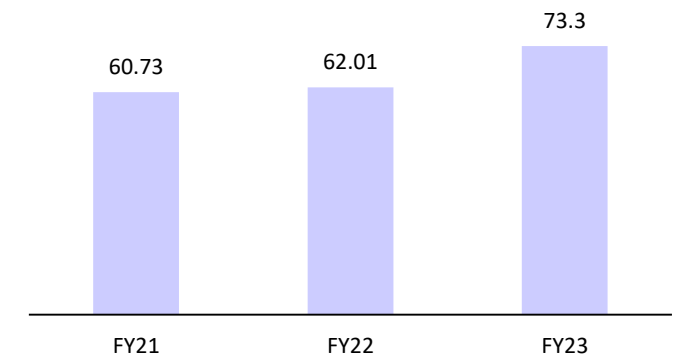
Source: MOFSL, Company

Exhibit 14: Its network hospitals with pre-agreed pricing

Source: MOFSL, Company

Exhibit 15: Claims processed via the agreed network (in m)

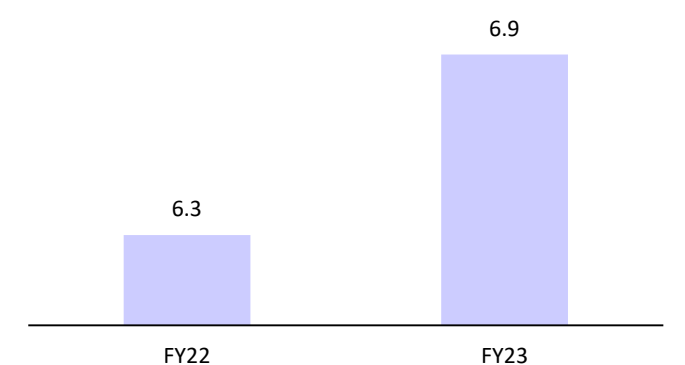
Source: MOFSL, Company

Exhibit 16: % of cashless claims processed via STARHEAL's agreed network hospitals

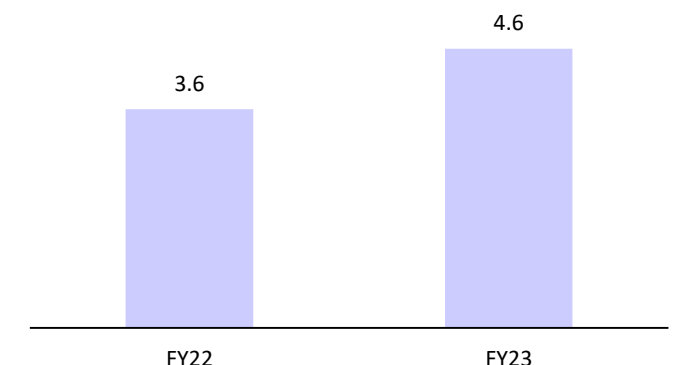
Source: MOFSL, Company

Agency channel's share to reduce

- Going ahead, the company aims to optimize commission payouts to agents on the back-book by linking payout to the loss ratios of each agent. Besides, rates could differ on back-book and the new business.
- Industry garners ~70% of the business from individual agents, while STARHEAL generates 82% of its business from this channel.
- The gap will be addressed by scaling up digital and banca channels at a faster pace than the agency business over the next few years.
- The company aims to scale up the share of digital and banca channels to 20% over the next 3-5 years from ~15% at present. About 70% renewals are expected in FY24 via the digital methods.

Exhibit 17: GWP from Digital Channels (as a % of total GWP)

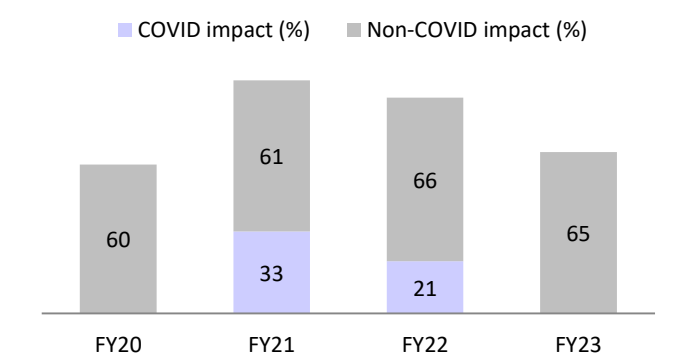
Source: MOFSL, Company

Exhibit 18: GWP from Banca Channels (as a % of total GWP)

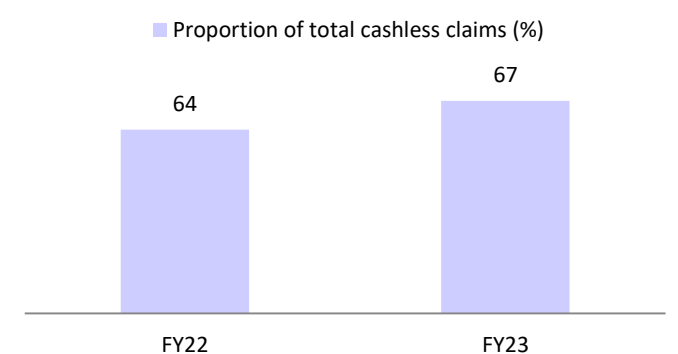
Source: MOFSL, Company

Strengthening claims capability and focusing on higher digital sales

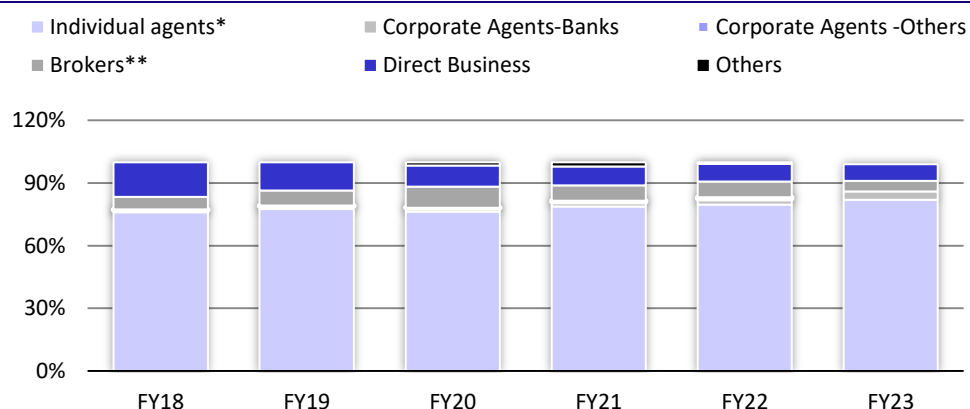
- STARHEAL works with 14,000+ network hospitals and seven home health care (HHC) service providers. HHC service is a game changer in the health care industry.
- It is among the first to implement hospital scorecard, which is evaluated based on various parameters that help in automating claims procedure.
- Currently, it has 2,900+ hospitals meeting the good hospital score and 14% of them have a pre-authorization for auto adjudication.
- About 90% of the cashless claims settlements have a turnaround time of less than two hours. The cashless claims settlement process operates as a hub-and-spoke model – hub being the Chennai office and spokes being 12 zonal offices (zonal offices can settle claims upto specific amounts).
- Combined ratio in metro cities is relatively higher than lower tier cities. Further, digital customers report relatively lower loss ratios (50%) than agency channel. Hence, the company is focusing intensely to increase the penetration in lower tier cities and enhance its digital sales.
- Median age of the customers is 46-47 years for STARHEAL. As age increases, premium also rises and hence the claim ratios can be under control.

Exhibit 19: Claims ratio heading near pre-Covid levels

Source: MOFSL, Company

Exhibit 20: Proportion of total cashless claims increases

Source: MOFSL, Company

Exhibit 21: Channel mix for STARHEAL

Source: MOFSL, Company

Focusing on profitable growth; reiterate BUY

- We remain optimistic on the overall growth prospects for STARHEAL backed by:
 - a) its strong growth potential in retail health segment due to its under-penetration, b) healthy earnings growth owing to normalization of claims ratio, and c) limited cyclical risk (commercial lines and motor insurance have high cyclical risk).
- We expect the company's overall gross premium to report 19% CAGR over FY23-25 driven by 20% CAGR in retail health business and 10% CAGR in group business. Claims ratios are likely to normalize to ~64% with combined ratio at ~93%. These are likely to propel STARHEAL's profitability over FY23-25.
- **We reiterate our BUY rating on the stock with a 1-year TP of INR730 (premised on 32x FY25E EPS).**

Key risks

- Intensified competition from multi-line general insurers could pose a risk to STARHEAL's growth prospects and market position.
- Failure to estimate incurred medical expenses accurately or the frequency of claims used in the pricing of products could have a severe effect on the business.
- Catastrophic events, such as natural disasters, could materially increase the claims liabilities, resulting in losses.
- Adverse movement in investment yields could hurt investment income.

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)	29.9	23.4	16.2	9.9	7.9	5.6	4.8	4.1
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)						59.2	33.9	27.5

E: MOSL Estimates

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NOTES

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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

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