

Estimate change	↑
TP change	↔
Rating change	↔

Bloomberg	STARHEAL IN
Equity Shares (m)	576
M.Cap.(INRb)/(USD\$b)	338.7 / 4.1
52-Week Range (INR)	675 / 489
1, 6, 12 Rel. Per (%)	8/-19/-7
12M Avg Val (INR M)	538

Financials & Valuations (INR b)

Y/E March	2024E	2025E	2026E
NEP	129.2	151.5	181.2
U/W Profit	1.7	3.4	5.7
PBT	12.2	15.6	19.8
PAT	9.1	11.7	14.8

Ratios (%)

Claims	65.9	65.3	65.3
Commission	12.7	12.7	12.7
Expense	17.5	16.5	15.7
Combined	96.1	94.5	93.7
RoE	13.0	14.5	15.8
EPS (INR)	15.7	20.1	25.5
EPS Growth (%)	47.6	28.0	26.8

Valuations

P/E (x)	36.8	28.8	22.7
P/BV (x)	4.5	3.9	3.3

Shareholding pattern (%)

Particulars	Dec-23	Sep-23	Dec-22
Promoter (%)	57.9	58.0	58.3
DII (%)	6.1	6.1	1.3
FII (%)	31.0	30.6	35.5
Others (%)	5.0	5.6	4.9

FII Includes depository receipts

CMP: INR578

TP: INR730 (+26%)

Buy

Adjusted PAT beat of 24%; combined ratio better than estimates

- Profit for the quarter stood at INR2.9b, as compared to our estimate of INR1.9b, registering a beat of 49%. Adjusted for gains from reinsurance treaty, PAT came in at INR 2.4b, 24% higher than our estimates.
- Incurred claims and claims ratio were broadly in line with our estimates. Additionally, STARHEAL plans to implement price revisions for a few products in the current quarter, which accounts for ~10% of the total premium.
- We have increased our EPS estimates 10%/2.7%/3.9% for FY24/25/26 to factor in higher underwriting profits. Considering the long-term growth potential for the industry, along with investments by STARHEAL in profitable channels and products, we reiterate our BUY rating on the stock with a TP of INR730 (based on 30x FY26E EPS).

Claims ratio in line & SH investment income improves profitability

- STARHEAL's net earned premium grew 15% YoY to INR33b in 3QFY24. GDPI rose 16% YoY to INR36b. Retail Health/Group Health/Personal Accident segments both grew 17%/17%/4% YoY
- Incurred claims and claims ratio were broadly in line with our estimates. Claims ratio came in at 67.7%, up 400bp YoY and down 100bp QoQ.
- Commission ratio at 11.1% was lower than our expectations of 13.7%; and expense ratio was at 19%, higher than our expectations by 190bp. While absolute expenses were in line with expectations, the deviation in ratio was owing to the reinsurance treaty.
- Overall, the combined ratio at 97.8% was better than our forecasts of 98.8%. This was 94.8% in 3QFY23.
- Investment income in the policyholders' account, amounting to INR1.6b, aligned with our forecasts, whereas shareholders' investment income at INR 1.2b exceeded estimates by 9.7%. Increase in shareholder's investment income was on account of capital gains booked during the quarter (~INR 300m).
- PAT came in at INR 2.9b, resulting in a growth of 38% YoY. For 9MFY24, NEP/PAT came in at INR 95b/INR7b resulting in growth of 14%/36%.
- Solvency ratio for 3QFY24 stood at 2.23, as compared to 2.17 in 3QFY23

Key takeaways from the management commentary

- A significant increase in the instances of fever and infections contributed to an increase in incurred claims in Sep'23 and Oct'23. However, Covid cases are not a cause of concern.
- Medical inflation at industry level remains elevated. Price hikes on renewal policies and selective underwriting in the group health segment would help improve the claims ratio.
- STARHEAL has slowed down on inwards portability of customers from the agency channel and continues to focus on quality. However, there is no decline in new business from the agency channel.

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Valuation and view: Increase in EPS estimates with BUY

- STARHEAL has tightened its underwriting standards to emphasize its focus on high-quality business. We remain optimistic on the overall prospects for Star Health, backed by: a) strong growth in retail health, given its under-penetration, b) strong push from the banca channel, c) sustained growth in specialized products and deepening presence.
- We believe that Star Health can deliver long-term growth with the investments made in profitable channels and products. We reiterate our BUY rating on the stock with a TP of INR730 (based on 30x FY26E EPS).

Quarterly Performance

Y/E March	FY23				FY24				FY23	FY24E	3QFY24E	Act v/s Est. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Gross premium	24,637	31,929	30,967	41,992	29,486	37,317	36,058	49,249	1,29,525	1,52,110	36,231	-0.5
Net written premium	23,441	30,389	29,434	39,932	28,008	35,446	31,519	45,424	1,23,196	1,40,398	34,456	-8.5
Net earned premium	26,871	27,948	28,672	29,125	30,438	32,056	32,936	33,736	1,12,616	1,29,166	32,956	-0.1
Investment Income	1,220	1,233	1,157	1,405	1,460	1,510	1,626	1,827	5,014	6,423	1,661	-2.1
Total Income	28,090	29,181	29,829	30,530	31,898	33,566	34,563	35,563	1,17,630	1,35,589	34,616	-0.2
Change YoY (%)	20.6	16.1	13.9	11.4	13.6	15.0	15.9	16.5	14.3	15.3	16.0	
Incurred claims	17,811	19,060	18,278	18,054	19,909	22,022	22,295	20,844	73,204	85,070	22,410	-0.5
Net commission	3,220	3,964	4,026	5,618	3,668	4,854	3,499	5,810	16,828	17,830	4,720	-25.9
Employee expense	2,774	3,590	3,805	4,368	3,577	3,952	3,861	4,891	14,537	16,281	4,185	-7.8
Other expenses	1,498	1,465	1,306	1,739	1,829	2,012	2,140	2,303	6,001	8,283	1,697	26.1
Total Operating Expenses	25,303	28,079	27,415	29,780	28,983	32,839	31,794	33,848	1,10,570	1,27,465	33,013	-3.7
Change YoY (%)	-4.8	-4.3	-20.3	4.9	14.5	17.0	16.0	13.7	-6.9	15.3	20.4	
Underwriting profit	1,568	-131	1,258	-654	1,454	-784	1,142	-112	2,046	1,701	-57	NA
Operating profit	2,788	1,102	2,415	751	2,915	726	2,769	1,715	7,060	8,125	1,604	72.6
Shareholder's P/L												
Transfer from Policyholder's	2,788	1,102	2,415	751	2,915	726	2,769	1,715	7,060	8,125	1,604	72.6
Investment income	838	846	914	790	1,040	1,066	1,223	1,212	3,388	4,541	1,115	9.7
Total Income	3,626	1,948	3,329	1,541	3,954	1,792	3,992	2,927	10,449	12,666	2,719	
Other expenses	745	741	509	173	110	119	114	136	2,174	478	123	-7.6
Total Expenses	746	741	512	180	111	121	115	136	2,185	482	123	-6.4
PBT	2,880	1,207	2,817	1,361	3,844	1,671	3,877	2,792	8,264	12,183	2,596	49.3
Change YoY (%)	-202.8	-151.9	-136.7	-217.5	33.5	38.5	37.6	105.2	-159.2	47.4	-7.9	
Tax Provisions	747	276	713	343	965	418	981	678	2,078	3,043	649	51.2
Net Profit	2,132	931	2,105	1,018	2,879	1,253	2,896	2,114	6,186	9,141	1,947	48.7

Key Parameters (%)

Share in GWP												
Health-Retail	92.1	92.3	91.4	92.9	91.7	91.9	91.6		92.3	91.9		
Health-Group	6.4	6.2	7.0	5.6	6.9	6.6	7.0		6.2	6.6		
PA	1.5	1.5	1.6	1.5	1.4	1.5	1.4		1.5	1.5		
Claims ratio	66.3	68.2	63.7	62.0	65.4	68.7	67.7	61.8	65.0	65.9	68.0	-0.3
Commission ratio	13.7	13.0	13.7	14.1	13.1	13.7	11.1	12.8	13.7	12.7	13.7	-2.6
Expense ratio	18.2	16.6	17.4	15.3	19.3	16.8	19.0	15.8	16.7	17.5	17.1	2.0
Combined ratio	98.2	97.9	94.8	91.4	97.8	99.2	97.8	90.4	95.3	96.1	98.8	-0.9
Solvency	1.9	2.0	2.2	2.1	2.2	2.1	2.2	-	2.1	2.2		



Key takeaways from the management commentary

Business

- In 9MFY24, Star Health registered a 33% market share in Retail Health (flat YoY), which is more than 3x the second-largest player in the industry.
- The average sum insured of new policies has increased 11% YoY.
- Total long-term policies sold by Star Health increased to ~6% (includes benefit and indemnity products) vs. 4% earlier.
- Being risk averse to long-term policies, Star Health has entered into a reinsurance agreement for the Health Quota Share Treaty. Star intends to grow its long-term portfolio.
- Increase in shareholder's investment was on account of capital gains booked during the quarter (~INR 300m).

Claims

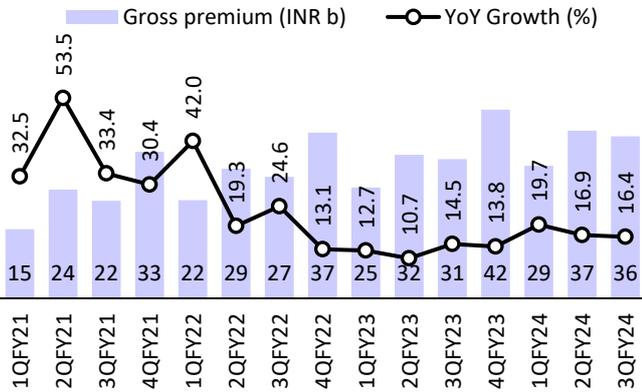
- There was a significant increase in the instances of fever and infections in Sep'23 and Oct'23, resulting in a rise in incurred claims. However, Covid cases are not a cause of concern.
- Medical inflation at the industry level remains elevated. Price hikes in a couple of products during the quarter contribute to ~10% of the premium.
- Price hikes on renewal policies would help improve the claims ratio. Similarly, with selective underwriting in the group health segment, particularly the SME segment, the loss ratios tend to see improvement.
- In terms of the claims amount paid, 69% of the paid claims are cashless for 9MFY24. Cashless TAT came in around 94%, i.e., claims settled within two hours' time.
- The auto adjudication of claims helps drastically reduce the turnaround time. 34% of agreed network hospitals representing 74% of the cashless claims have been on boarded under authorized adjudication initiative. Anti-fraud digital initiatives have produced good savings in the claims.

Distribution

- In order to increase the penetration in semi urban and the rural geographies, Star plans to open 1000 sales manager stations; these are small individual service centres and sales distribution centres, of which 839 have already become operational in 9MFY24. Of the 19,000 PIN codes in India, we are now present in 17,000 odd PIN codes via agency network.
- Agency business contributed around 82% of the overall business for 9MFY24. Agency's strength has increased to 6,84,000 agents with a net addition of close to 63,000 agents in 9MFY24.
- Star health has slowed down on inwards portability of customers from the agency channel and continues to focus on quality. There is no decline in fresh agency business.
- The bancassurance growth in fresh business is at 40% in 9MFY24 (now contributes 5% of the total premium). Here, the attachment business contribution is significant and the indemnity plans largely from PSU banks. Fresh business through bancassurance and the digital business has grown by close to 33% in 9MFY24. Digital initiatives account for ~7.2% of the total premium

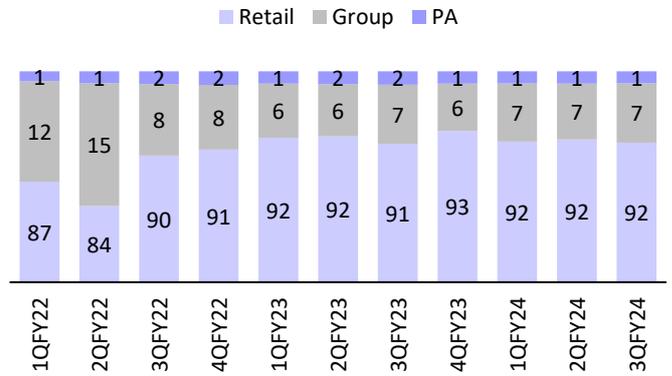
Key exhibits

Exhibit 1: Trend in premium growth



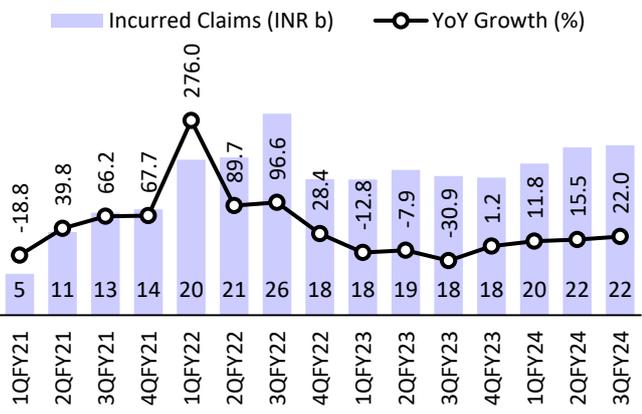
Source: MOFSL, Company

Exhibit 2: Share of retail health is stable



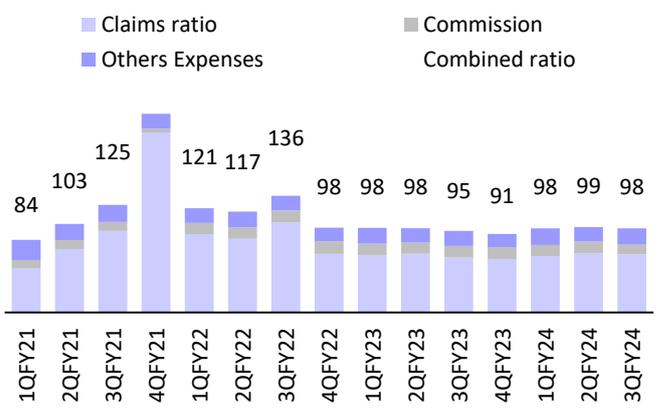
Source: MOFSL, Company

Exhibit 3: Incurred claims flat QoQ



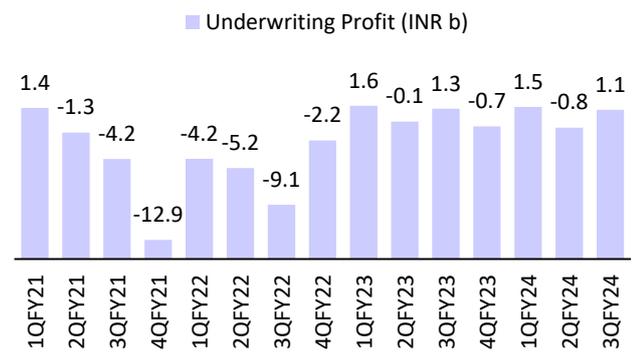
Source: MOFSL, Company

Exhibit 4: Combined ratio improved sequentially



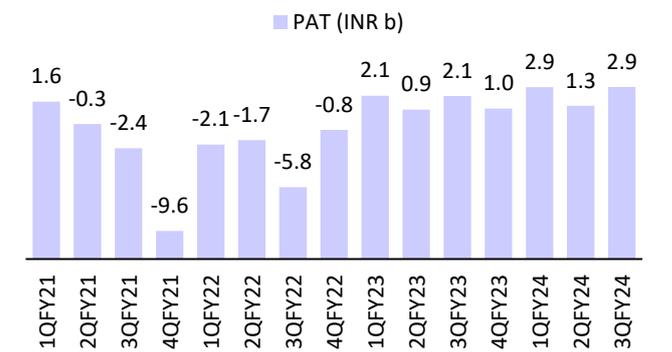
Source: MOFSL, Company

Exhibit 5: Underwriting profit of INR1.1b in 3QFY24



Source: MOFSL, Company

Exhibit 6: Trend in PAT



Source: MOFSL, Company

Financials and valuations

Income Statement						(INR m)
Y/E March	2021	2022	2023	2024E	2025E	2026E
Retail Health	82,075	1,00,870	1,19,475	1,39,786	1,67,743	2,01,291
Group Health	9,963	12,066	8,076	10,095	12,114	13,931
PA	1,489	1,685	1,939	2,229	2,564	2,948
Total GDPI	93,885	1,14,635	1,29,525	1,52,110	1,82,421	2,18,171
Change (%)	36.8	22.1	13.0	17.4	19.9	19.6
NWP	71,794	1,08,096	1,23,196	1,40,398	1,68,374	2,01,372
NEP	46,266	98,092	1,12,616	1,29,166	1,51,537	1,81,235
Change (%)	-1.2	112.0	14.8	14.7	17.3	19.6
Net claims	43,695	85,400	73,204	85,070	98,920	1,18,306
Net commission	14,922	16,828	16,828	17,830	21,383	25,574
Expenses	14,031	18,443	20,538	24,564	27,832	31,700
Employee expenses	11,765	13,436	14,537	16,281	18,235	20,423
Other expenses	2,266	5,007	6,001	8,283	9,597	11,277
Underwriting Profit/(Loss)	-17,316	-20,673	2,046	1,701	3,401	5,654
Investment income (PH)	2,505	4,796	5,014	6,423	7,566	8,937
Operating profit	-14,811	-15,877	7,060	8,125	10,967	14,591
Investment income (SH)	1,718	3,214	3,331	4,524	5,146	5,768
PBT	-14,458	-14,024	8,264	12,171	15,578	19,760
Tax	-3,601	-3,559	2,078	3,043	3,894	4,940
Tax rate (%)	24.9	25.4	25.1	25.0	25.0	25.0
PAT	-10,857	-10,464	6,186	9,128	11,683	14,820

Balance sheet						(INR m)
Y/E March	2021	2022	2023	2024E	2025E	2026E
Equity Share Capital	5,481	5,755	5,817	5,817	5,817	5,817
Reserves & Surplus	29,516	40,285	59,839	68,967	80,650	95,470
Net Worth	34,996	46,040	65,656	74,784	86,467	1,01,287
FV change	-76	267	234	-	-	-
Borrowings	2,500	7,200	4,700	4,700	4,700	4,700
Other liabilities	67,589	81,629	92,988	1,09,778	1,29,944	1,55,801
Total Liabilities	1,05,010	1,35,136	1,63,577	1,89,262	2,21,111	2,61,788
Investments (SH)	27,941	44,939	53,459	61,979	70,498	79,018
Investments (PH)	40,426	68,796	80,462	94,463	1,11,263	1,31,423
Net Fixed Assets	990	1,171	1,113	1,163	1,213	1,263
Def Tax Assets	4,213	7,767	5,689	5,689	5,689	5,689
Current Assets	12,650	6,828	8,444	9,060	10,866	12,995
Cash & Bank	18,790	5,635	5,636	16,908	21,581	31,399
Total Assets	1,05,010	1,35,136	1,54,803	1,89,262	2,21,111	2,61,788

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2021	2022	2023	2024E	2025E	2026E
GWP growth	36.8	22.1	13.0	17.4	19.9	19.6
NWP growth	37.0	50.6	14.0	14.0	19.9	19.6
NEP growth	-1.2	112.0	14.8	14.7	17.3	19.6
Claim ratio	94.4	87.1	65.0	65.9	65.3	65.3
Commission ratio	20.8	15.6	13.7	12.7	12.7	12.7
Expense ratio	19.5	17.1	16.7	17.5	16.5	15.7
Combined ratio	134.8	119.7	95.3	96.1	94.5	93.7

Profitability Ratios (%)

RoE	-40.2	-25.8	11.1	13.0	14.5	15.8
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Valuations

	2021	2022	2023	2024E	2025E	2025E
BVPS (INR)	63.9	80.0	112.9	128.6	148.7	174.1
Change (%)	64.6	25.3	41.1	13.9	15.6	17.1
Price-BV (x)	9.1	7.2	5.1	4.5	3.9	3.3
EPS (INR)	-19.8	-18.2	10.6	15.7	20.1	25.5
Change (%)	-469.1	-8.2	-158.5	47.6	28.0	26.8
Price-Earnings (x)			54.4	36.8	28.8	22.7

E: MOFSL Estimates

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