

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR572

TP: INR730 (+28%)

Buy

In-line performance; combined ratio at 92.8%

Bloomberg	STARHEAL IN
Equity Shares (m)	576
M.Cap.(INRb)/(USD\$)	334.5 / 4
52-Week Range (INR)	675 / 455
1, 6, 12 Rel. Per (%)	4/-21/-28
12M Avg Val (INR M)	573

Financials & Valuations (INR b)

Y/E March	2024	2025E	2026E
NEP	129.4	151.4	181.1
U/W Profit	0.9	3.0	5.2
PBT	11.3	14.9	18.9
PAT	8.5	11.2	14.1

Ratios (%)

Claims	66.5	65.3	65.3
Commission	13.2	13.0	13.0
Expense	17.0	16.4	15.7
Combined	96.7	94.7	94.0
RoE	12.8	15.6	16.7
EPS (INR)	14.4	19.2	24.2
EPS Growth (%)	35.8	32.7	26.2

Valuations

P/E (x)	39.6	29.9	23.7
P/BV (x)	5.1	4.3	3.7

Shareholding pattern (%)

Particulars	Mar-24	Dec-23	Mar-23
Promoter (%)	57.9	57.9	58.3
DII (%)	11.1	6.1	1.4
FII (%)	26.6	31.0	35.2
Others (%)	4.4	5.0	5.0

FII Includes depository receipts

- Profit jumped 40% YoY in 4QFY24 to INR1.4b, in line with our estimate.
- The incurred claims ratio came in at 64.1% (360bp YoY) vs. our estimate of 62.7% in 4Q. The expense ratio (including commission) stood at 28.6% vs. our estimate of 30%. Hence, the combined ratio came in at 92.8% (in line).
- For FY24, NEP/PAT grew 15%/37% YoY to INR129b/INR8.5b and the combined ratio was at 96.7% (vs. 95.3% in FY23).
- Star Health is expected to increase prices by 15-20% in 1QFY25 for senior citizen health insurance product and Young Star insurance product. Given the long-term growth potential for the industry, along with investments by Star Health in profitable channels and products, we reiterate our BUY rating on the stock with a TP of INR730 (based on 30x FY26E EPS).

Combined ratio in line with expectations

- Net earned premium stood at INR34b (up 17% YoY), broadly in line with our expectations. GDPI grew 18% YoY to INR50b.
- During the quarter, the net retention ratio (NWP/GWP) declined to 92% from 95% in 4QFY23 and 87% in 3QFY24 as the company entered into a reinsurance for health quota share treaty, with 50% share for its long-term retail health products, effective Apr'23.
- The incurred claims ratio came in at 64.1% (down 360bp YoY) in 4Q vs. our estimate of 62.7%.
- The commission ratio increased QoQ to 14.3% in 4Q. The expense ratio (incl commission) was at 28.6% vs. our estimate of 30%. Resultantly, the combined ratio came in at 92.8% (in line) vs. 91.4% in 4QFY23.
- Investment income in policyholders account stood at INR1.8b (in line), while shareholders' investment income at INR 1.1b was 5.5% below our estimate.
- Profit jumped 40% YoY in 4Q to INR1.4b, in line with our estimate.
- For FY24, NEP/PAT grew 15%/37% YoY to INR129b/INR8.5b and the combined ratio was at 96.7% (vs. 95.3% in FY23).
- The solvency ratio stood at 2.21 in 4QFY24 vs. 2.14 in 4QFY23.

Key takeaways from the management commentary

- The digital channel accounts for ~6% of the total premium for Star Health (~75% from D2C channel and the remaining 25% from web aggregators & online channels). Fresh sales grew 36% in digital channels. In 4Q, fresh sales in the agency channel grew 41% QoQ and 21% YoY.
- In the group business, the focus is mainly on the employer-employee segment (SME & MSME). This book commands healthy profitability, mainly coming from the HDFC channel. Star Health is now opening up banca, broker and online channels to grow this segment faster.
- The price hike in the flagship product in FY24 led to value growth; however, policy growth is expected to pick up in the coming year.

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Valuation and view: Maintain estimates with BUY

- Star Health has tightened its underwriting standards to focus on high-quality business. We remain optimistic about 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 d) deepening presence.
- Star Health is expected to increase prices by 15-20% in 1QFY25 for senior citizen health insurance product and Young Star insurance product. These products account for ~10% of the total premium.
- 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	FY24	4QFY24E	Act v/s Est. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Gross premium	24,637	31,929	30,967	41,992	29,486	37,317	36,058	49,683	1,29,525	1,52,545	49,249	0.9
Net written premium	23,441	30,389	29,434	39,932	28,008	35,446	31,519	45,700	1,23,196	1,40,674	45,424	0.6
Net earned premium	26,871	27,948	28,672	29,125	30,438	32,056	32,936	33,953	1,12,616	1,29,383	33,736	0.6
Investment Income	1,220	1,233	1,157	1,405	1,460	1,510	1,626	1,810	5,014	6,407	1,827	-0.9
Total Income	28,090	29,181	29,829	30,530	31,898	33,566	34,563	35,764	1,17,630	1,35,790	35,563	0.6
Change YoY (%)	20.6	16.1	13.9	11.4	13.6	15.0	15.9	17.1	14.3	15.4	16.5	
Incurred claims	17,811	19,060	18,278	18,054	19,909	22,022	22,295	21,774	73,204	85,999	21,148	3.0
Net commission	3,220	3,964	4,026	5,618	3,668	4,854	3,499	6,516	16,828	18,537	6,266	4.0
Employee expense	2,774	3,590	3,805	4,368	3,577	3,952	3,861	4,732	14,537	16,122	5,037	-6.0
Other expenses	1,498	1,465	1,306	1,739	1,829	2,012	2,140	1,842	6,001	7,823	2,303	-20.0
Total Operating Expenses	25,303	28,079	27,415	29,780	28,983	32,839	31,794	34,864	1,10,570	1,28,480	34,754	0.3
Change YoY (%)	-4.8	-4.3	-20.3	4.9	14.5	17.0	16.0	17.1	-6.9	16.2	16.7	
Underwriting profit	1,568	-131	1,258	-654	1,454	-784	1,142	-911	2,046	903	-1,018	
Operating profit	2,788	1,102	2,415	751	2,915	726	2,769	900	7,060	7,309	809	11.2
Shareholder's P/L												
Transfer from Policyholder's	2,788	1,102	2,415	751	2,915	726	2,769	900	7,060	7,309	809	11.2
Investment income	838	846	914	790	1,040	1,066	1,223	1,146	3,388	4,475	1,212	-5.5
Total Income	3,626	1,948	3,329	1,541	3,954	1,792	3,992	2,046	10,449	11,784	2,022	
Other expenses	745	741	509	173	110	119	114	128	2,174	470	136	-5.8
Total Expenses	746	741	512	180	111	121	115	149	2,185	496	136	9.7
PBT	2,880	1,207	2,817	1,361	3,844	1,671	3,877	1,897	8,264	11,289	1,886	0.6
Change YoY (%)	-202.8	-151.9	-136.7	-217.5	33.5	38.5	37.6	39.5	-159.2	36.6	38.6	
Tax Provisions	747	276	713	343	965	418	981	474	2,078	2,838	452	4.9
Net Profit	2,132	931	2,105	1,018	2,879	1,253	2,896	1,423	6,186	8,450	1,434	-0.8
Key Parameters (%)												
Share in GWP												
Health-Retail	92.1	92.3	91.4	92.9	91.7	91.9	91.6	91.0	92.3	91.6		
Health-Group	6.4	6.2	7.0	5.6	6.9	6.6	7.0	7.6	6.2	6.6		
PA	1.5	1.5	1.6	1.5	1.4	1.5	1.4	1.4	1.5	1.5		
Claims ratio	66.3	68.2	63.7	62.0	65.4	68.7	67.7	64.1	65.0	66.5	62.7	1.4
Commission ratio	13.7	13.0	13.7	14.1	13.1	13.7	11.1	14.3	13.7	13.2	13.8	0.5
Expense ratio	18.2	16.6	17.4	15.3	19.3	16.8	19.0	14.4	16.7	17.0	16.2	-1.8
Combined ratio	98.2	97.9	94.8	91.4	97.8	99.2	97.8	92.8	95.3	96.7	92.6	0.1
Solvency	1.9	2.0	2.2	2.1	2.2	2.1	2.2	2.2	2.1	2.2		



Key takeaways from the management commentary

Business

- In FY24, Star Health registered a 33% market share in Retail Health, which is 3x higher than the second-largest player in the industry.
- Policies with sum assured of five lakhs and above now constitute more than 77% of portfolio vs. 69% in the same period last year.
- There was 10% growth in average sum assured of new policies in retail health and 11% growth in overall sum assured.
- In terms of the claims amount paid, 74% of the paid claims were cashless in FY24. 95% of the claims were settled within two hours.
- The auto adjudication of claims helps drastically reduce the turnaround time. 34% of agreed network hospitals, representing 84% of the cashless claims, have been onboarded under the authorized adjudication initiative. Anti-fraud digital initiatives have produced good savings in claims.
- Star Health is very selective about inward portability. Less than 7% of the new business book is inwardly ported and the rest is new to insurance.
- The persistency ratio for Star Health stands at 98%, considering the perceived 4-5% hit on policy volumes.
- Of the 19,000 PIN codes in India, Star Health is now present in 17,106 PIN codes via its agency network. Star Health has tie-ups with 14,000+ network hospitals.

Distribution

- Agency business contributed around 82% of the overall business in FY24. Agency workforce increased to by 16,000 in 4QFY24 and 75,000 net addition in FY24.
- GWP acquired through the online channel in FY24 stood at INR9.7b vs. INR8.9b in FY23.
- The digital channel accounts for ~6% of the total premium for Star Health (~75% from D2C channel and the remaining 25% from web aggregators & online channels). Fresh sales grew 36% for digital channels.
- In 4Q, fresh sales in the agency channel grew 41% QoQ and 21% YoY.
- Growth in new business premium was in mid-teens for both agency and SME segments.
- In the group business, the focus is mainly on the employer-employee segment (SME & MSME). This book commands health profitability, mainly coming from the HDFC channel. Star Health is now opening up banca, broker and online channels to grow this segment faster.
- Non-agency channels have health profitability, especially the D2C channel has the best ROE.

Price Hike

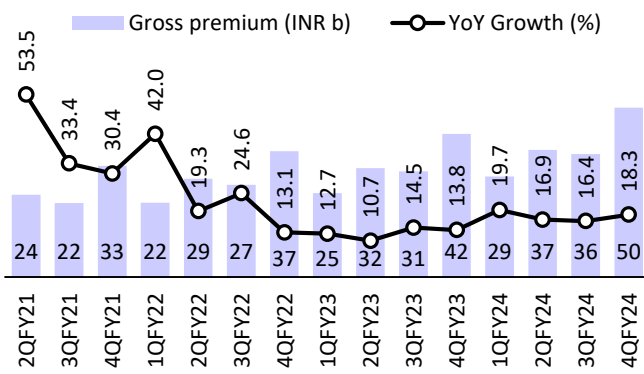
- The price hike in the flagship product in FY24 led to value growth; however, policy growth is expected to pick up in the coming year.
- Price hikes on renewal policies would help improve the claims ratio. Similarly, with selective underwriting in the group health segment, particularly the SME segment, the loss ratios tend to see improvement.
- The positive impact on GWP of the price hike taken last year will last until Apr'24; however, in NEP, it will continue throughout the year.
- Star Health is expected to increase prices by 15-20% in 1QFY25 for senior citizen health insurance product and Young Star insurance product. These products account for ~10% of the total premium.

Others

- Smart Health Pro as a digital and customizable health insurance product reported strong growth of 33% in 4QFY24.
- Star Health will continue to grow its group health business, which will be reflected in market share growth.
- The re-insurance rate is expected to be in the range of ~8-8.5%.
- ~6.5% of the investment book is equity in nature and the rest is fixed income with average duration of 3.3 years. Total unrealized gains as on Mar'24 stand at INR950-990m.

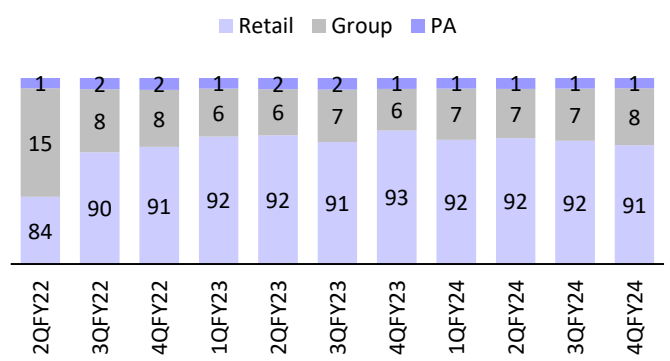
Key exhibits

Exhibit 1: Trend in premium growth



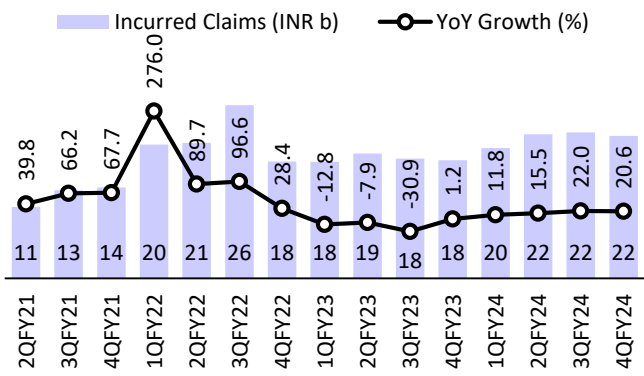
Source: MOFSL, Company

Exhibit 2: Share of retail health is stable



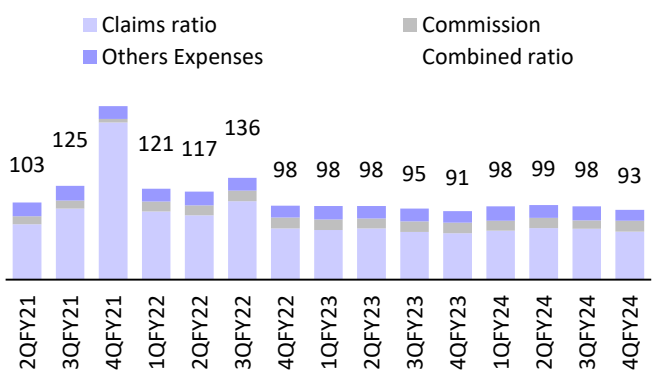
Source: MOFSL, Company

Exhibit 3: Incurred claims flat QoQ



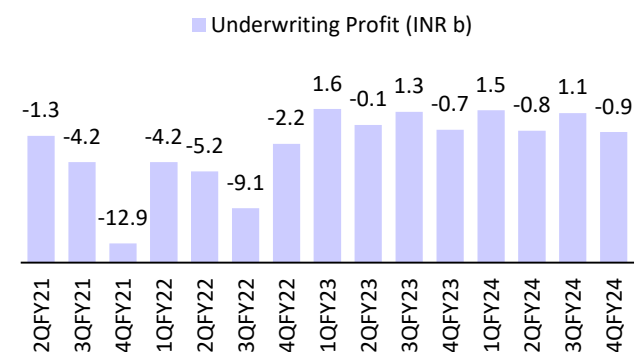
Source: MOFSL, Company

Exhibit 4: Claims ratio declined QoQ



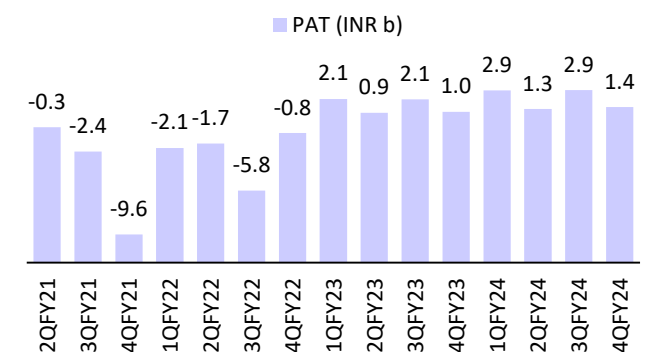
Source: MOFSL, Company

Exhibit 5: Underwriting loss of INR0.9b in 4QFY24



Source: MOFSL, Company

Exhibit 6: Trend in PAT



Source: MOFSL, Company

Financials and valuations

Income Statement						(INR m)
Y/E March	2021	2022	2023	2024	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	1,52,545	1,82,421	2,18,171
Change (%)	36.8	22.1	13.0	17.8	19.6	19.6
NWP	71,794	1,08,096	1,23,196	1,40,674	1,68,225	2,01,193
NEP	46,266	98,092	1,12,616	1,29,383	1,51,402	1,81,074
Change (%)	-1.2	112.0	14.8	14.9	17.0	19.6
Net claims	43,695	85,400	73,204	86,000	98,837	1,18,207
Net commission	14,922	16,828	16,828	18,537	21,910	26,203
Expenses	14,031	18,443	20,538	23,944	27,645	31,490
Employee expenses	11,765	13,436	14,537	16,122	18,056	20,223
Other expenses	2,266	5,007	6,001	7,823	9,589	11,267
Underwriting Profit/(Loss)	-17,316	-20,673	2,046	902	3,010	5,173
Investment income (PH)	2,505	4,796	5,014	6,407	7,338	8,455
Operating profit	-14,811	-15,877	7,060	7,309	10,348	13,628
Investment income (SH)	1,718	3,214	3,331	4,434	5,127	5,820
PBT	-14,458	-14,024	8,264	11,289	14,948	18,858
Tax	-3,601	-3,559	2,078	2,838	3,737	4,714
Tax rate (%)	24.9	25.4	25.1	25.1	25.0	25.0
PAT	-10,857	-10,464	6,186	8,450	11,211	14,143

Balance sheet						(INR m)
Y/E March	2021	2022	2023	2024	2025E	2026E
Equity Share Capital	5,481	5,755	5,817	5,853	5,853	5,853
Reserves & Surplus	29,516	40,285	59,839	60,429	71,640	85,784
Net Worth	34,996	46,040	65,656	66,282	77,493	91,637
FV change	-76	267	234	1,036	-	-
Borrowings	2,500	7,200	4,700	4,700	4,700	4,700
Other liabilities	67,589	81,629	92,988	1,08,525	1,29,757	1,55,596
Total Liabilities	1,05,010	1,35,136	1,63,577	1,80,543	2,11,950	2,51,933
Investments (SH)	27,941	44,939	53,459	63,361	73,264	83,166
Investments (PH)	40,426	68,796	80,462	91,548	1,04,850	1,20,813
Net Fixed Assets	990	1,171	1,113	1,751	1,801	1,851
Def Tax Assets	4,213	7,767	5,689	3,582	3,582	3,582
Current Assets	12,650	6,828	8,444	12,990	15,534	18,578
Cash & Bank	18,790	5,635	14,410	7,312	12,920	23,943
Total Assets	1,05,010	1,35,136	1,63,577	1,80,543	2,11,950	2,51,933

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2021	2022	2023	2024	2025E	2026E
GWP growth	36.8	22.1	13.0	17.8	19.6	19.6
NWP growth	37.0	50.6	14.0	14.2	19.6	19.6
NEP growth	-1.2	112.0	14.8	14.9	17.0	19.6
Claim ratio	94.4	87.1	65.0	66.5	65.3	65.3
Commission ratio	20.8	15.6	13.7	13.2	13.0	13.0
Expense ratio	19.5	17.1	16.7	17.0	16.4	15.7
Combined ratio	134.8	119.7	95.3	96.7	94.7	94.0

Profitability Ratios (%)

RoE	-40.2	-25.8	11.1	12.8	15.6	16.7
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Valuations

	2021	2022	2023	2024	2025E	2025E
BVPS (INR)	63.9	80.0	112.9	113.2	132.4	156.6
Change (%)	64.6	25.3	41.1	0.3	16.9	18.3
Price-BV (x)	9.0	7.1	5.1	5.1	4.3	3.7
EPS (INR)	-19.8	-18.2	10.6	14.4	19.2	24.2
Change (%)	-469.1	-8.2	-158.5	35.8	32.7	26.2
Price-Earnings (x)			53.8	39.6	29.9	23.7

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