

BSE SENSEX

77,210

S&P CNX

23,501

CMP: INR519

TP: INR730 (+41%)

Buy



Bloomberg	STARHEAL IN
Equity Shares (m)	585
M.Cap.(INRb)/(USDb)	303.9 / 3.6
52-Week Range (INR)	675 / 455
1, 6, 12 Rel. Per (%)	-9/-9/-30
12M Avg Val (INR M)	547

Financials Snapshot (INR b)

Y/E March	2024	2025E	2026E
NEP	129.4	151.7	181.5
U/W Profit	0.9	3.1	5.2
PBT	11.3	15.0	18.9
PAT	8.5	11.2	14.2

Ratios (%)

Claims	66.5	65.3	65.3
Commission	13.2	13.0	13.0
Expense	17.0	16.4	15.6
Combined	96.7	94.7	93.9
RoE	12.8	15.6	16.8
EPS (INR)	14.4	19.2	24.2
EPS growth (%)	35.8	33.1	26.1

Valuations

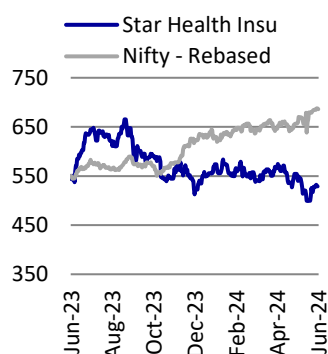
P/E (x)	35.9	27.0	21.4
P/BV (x)	4.6	3.9	3.3

Shareholding pattern (%)

As On	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

Stock Performance (1-year)



Robust growth outlook, attractive valuations

- Star Health's stock performance has been under pressure due to concerns over business model sustainability for standalone health insurers (SAHIs) if the government modifies the Insurance Act to allow a composite license.
- We note that SAHIs have inherent business model strengths that are difficult to replicate in a short time, such as a wide product portfolio, deep engagement with hospitals, claims processing capabilities and underwriting capabilities.
- On the other hand, life insurers have built an agency network over the years that gives them an advantage. Nevertheless, there is an overlap of life insurance agents having tie-ups with health insurers and changing the same would not be easy.
- In line with its guidance, Star Health delivered 18-20% premium growth in Apr-May'24. In the medium term, we expect combined ratio improvement to be driven by an increase in the share of its bancassurance channel (mainly credit-linked benefits-based products) and unwinding of URR from 1) the price hike of FHO implemented in FY24 and 2) a rising share of long-term products.
- We expect Star Health to report a CAGR of 18%/29% in NEP/PAT over FY24-26E and RoE to improve to 17% in FY26 from 13% in FY24. The stock trades at FY26E P/E of 21x. We maintain BUY with a one-year TP of INR730.

Composite license: Inherent business model bodes well for SAHIs

Recently, Mr. Siddhartha Mohanty, Chairman of Life Insurance Corp. of India (LIC), made an announcement that the insurer may enter the health insurance segment and can explore inorganic options if a composite license is approved by the government. This move would need a change in the Insurance Act. After this announcement, concerns have been raised around the sustainability of the leadership of SAHIs. The key concern is that life insurers will disrupt the business model and SAHIs could lose market share.

With the entry of new players, the market share loss is inevitable, but we note that SAHIs' inherent business model still gives them an advantage:

- **Claims processing capabilities:** In FY23, the industry processed 27.5m health insurance claims vs. 2.3m life insurance claims. The frequency of claims in health insurance and the complexity of claims processing is multi-fold of life insurance claims. SAHIs have built robust processes, which have evolved over the years using the historical claims experience. This is difficult to replicate.
- **Hospital network:** SAHIs have developed deep relationships and engagement with hospital networks in the country and have set up network agreements, which offer a win-win deal to all stakeholders (customer, insurer and hospital). Star Health/CARE/Niva Bupa/Manipal Cigna have arrangements with 14,295/9,400+/10,000+/8,500+ hospitals.

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- **Product innovation:** SAHIs, through their robust database on medical history of Indian population, have been launching specialized products, such as cancer care, diabetes care, senior citizen, young star and women specific. Emulating the same in the initial stages would be a challenge for life insurers.

Agency strength of life insurers a key distribution advantage

- Life insurance companies have been increasing their agency count over the past few years. The total count for the industry/private players/LIC has gone up by 27%/38%/17% between FY20 and FY24. In FY24, the industry increased the agency count by 10.6%.
- We note that the agency channel dominates retail health distribution with a 73% share for the industry in FY23.
- A majority of the agents selling health insurance products are associated with life insurance companies. In case a composite license is allowed, shifting the customer base from the existing health insurance company to another player will be a tall task.

Product mix likely to be favorable

- Star Health is focusing on improving its product mix, wherein the share of credit-linked benefits based products sold via the bancassurance channel is expected to double over the next few years from 5% in FY24.
- Additionally, the share of long-term policies (greater than one-year term) has increased to 6%. As URR unwinds into NEP from these businesses, we expect improvements in the combined ratio.
- Similarly, the price hike implemented for renewal policies of Family Health Optima benefitted GWP in FY24, but will be earned as NEP in FY25, which will help the combined ratio.

Expanding branch and hospital network

- Star Health has the deepest branch presence in the country among SAHIs and private players. This bodes well for a granular growth over the medium term.
- Of over 19,000 pin codes in India, the company is present in 17,106 pin codes via its sales distribution network.
- Even in terms of hospital network, it has been expanding its presence and deepening its association.
- The ratio of hospitals with agreements to total hospitals increased from 65% in FY21 to 74% in FY23. Resultantly, the share of cashless claims being processed at these hospitals increased from 55% in FY21 to 74% in FY24.

Loss ratios to improve in FY25

- About 87% of paid claims in FY24 were cashless vs. 80% in FY23. Cashless TAT improved with 95% of claims being settled within two hours.
- Around 34% of agreed network hospitals (representing 75% of the cashless claims) have been on-boarded under the authorized auto adjudication initiative. This helps to drastically reduce TAT.
- Star Health has also tightened its underwriting standards to enhance its focus on quality business, leading to recalibration of some geographies and portability business.

- Furthermore, benefits of price hikes, mix shifting toward benefit-based products and further gains from fraud detection will help reduce the overall loss ratio.

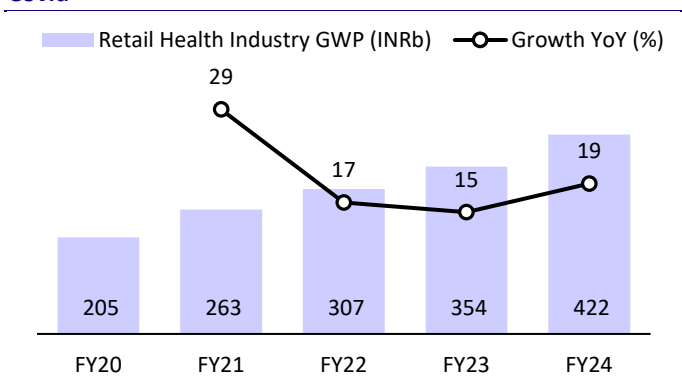
Valuation and view: Focusing on profitable growth; reiterate BUY

- 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 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 its 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).

Exhibit 1: Sizing up the retail health potential 5-8x by FY30

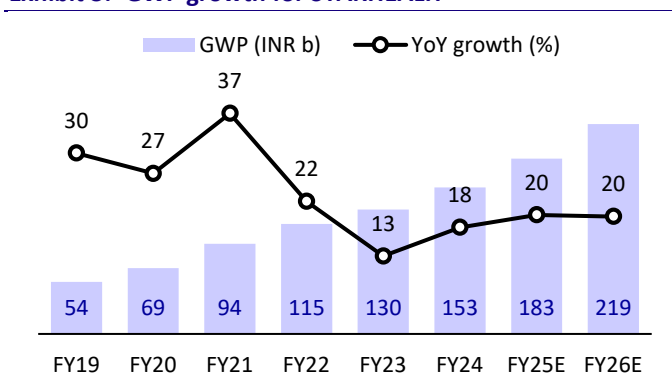
	FY23	FY30	Remarks				
No of customers (m)	53	37	Assuming 5% drop in count every year				
Ticket size (INR)	6,573	12,809	Assuming 10% CAGR due to premium hikes, SA increase				
Industry gross premium (INR b)	348	473					
Ratio of new customers to existing customers until FY30 (x)	1.0	1.5	2.0	2.5	3.0	3.5	4.0
New customers (m)	53	79	106	132	159	185	212
20% lower ticket size (INR)	10,247	10,247	10,247	10,247	10,247	10,247	10,247
FY30 Industry size of new customers (INR b)	542	813	1,084	1,355	1,626	1,897	2,168
FY30 total customer base (m)	90	116	143	169	196	222	248
Total Industry in FY30 (INR b)	1,015	1,286	1,557	1,828	2,099	2,370	2,641
FY23-30 CAGR (%)	17	21	24	27	29	32	34
Total industry size in FY30 vs FY23	2.9	3.7	4.5	5.3	6.0	6.8	7.6

Exhibit 2: Retail health industry growth picking up pace after Covid



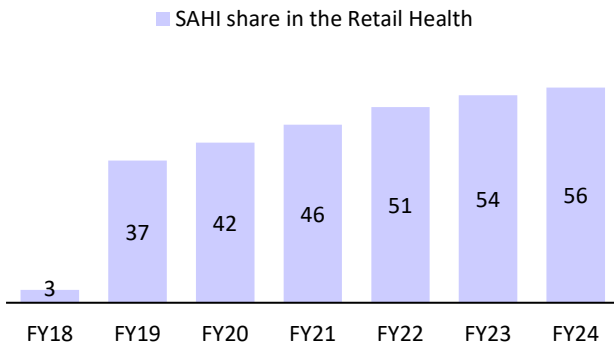
Source: IRDAI, MOFSL, Company

Exhibit 3: GWP growth for STARHEALH



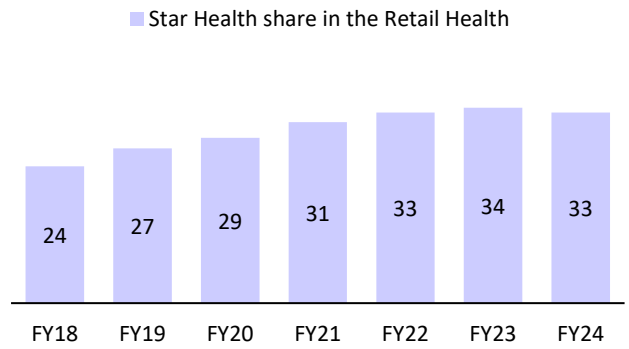
Source: IRDAI, MOFSL, Company

Exhibit 4: SAHIs gaining market share in retail health (%)



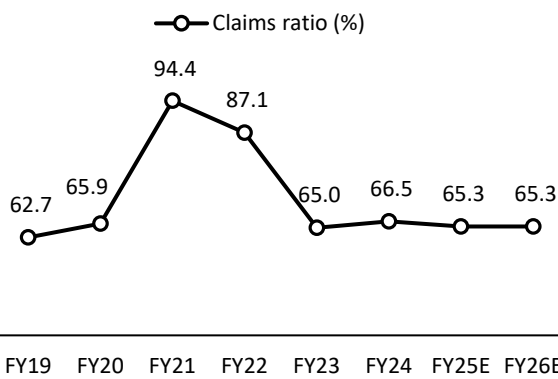
Source: MOFSL, Company

Exhibit 5: Star Health's market share inching upward (%)



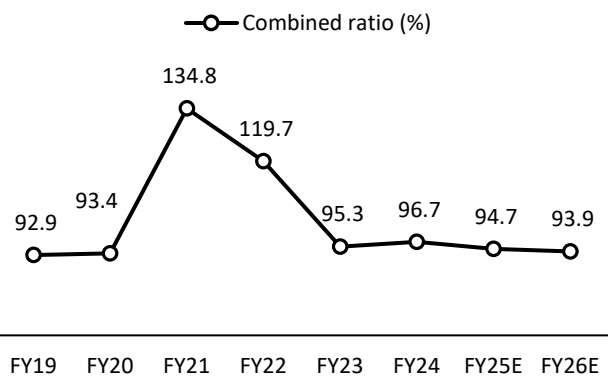
Source: MOFSL, Company

Exhibit 6: Claims ratio expected to settle at around ~65.3%



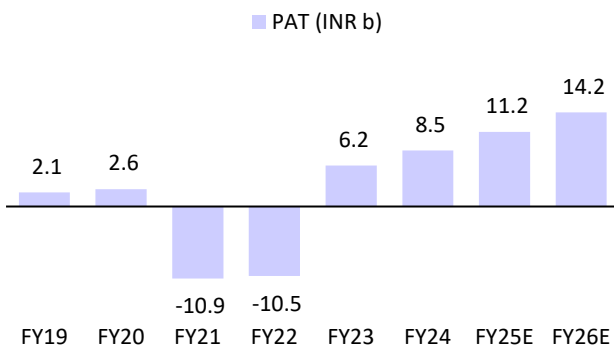
Source: MOFSL, Company

Exhibit 7: Combined ratio to moderate in coming years



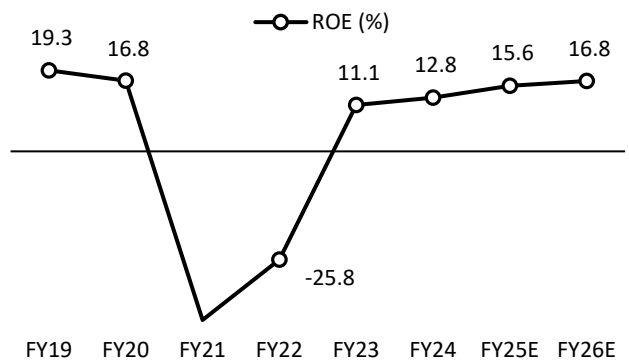
Source: MOFSL, Company

Exhibit 8: Trend in PAT



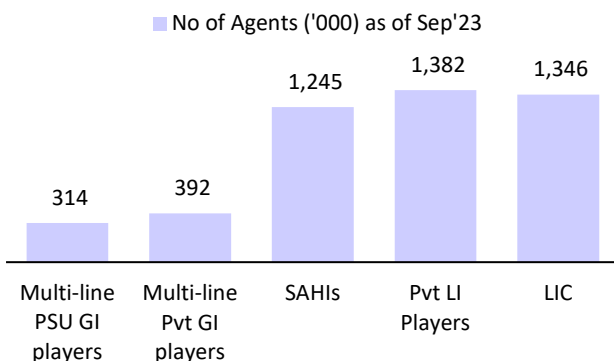
Source: MOFSL, Company

Exhibit 9: ROE to trend upward



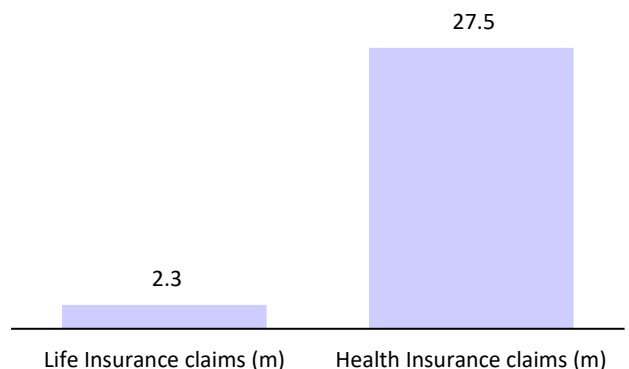
Source: MOFSL, Company

Exhibit 10: Total number of agents across segments



Source: MOFSL, GIC Council, IRDAI

Exhibit 11: Number of claims registered by health and life insurance players in FY23 (m)

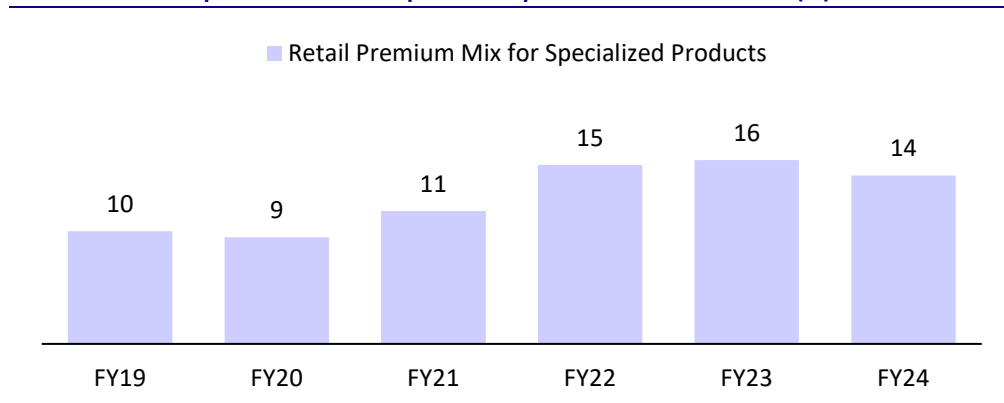


Source: MOFSL, GIC Council, IRDAI

Exhibit 12: Total number of agents added by Life insurance players in FY24 (In m)

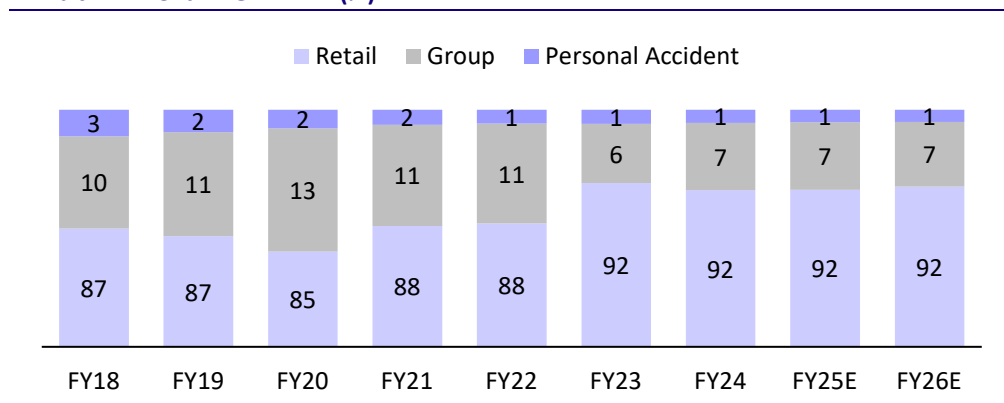
Insurer	No. of Agents as of 01-Apr-2023	ADDITION in FY24	DELETION in FY24	Net No. of Agents in FY24	YoY growth (%)
Private Insurers	1.3	0.6	0.3	1.5	38
LIC	1.3	0.5	0.4	1.4	17
Total	2.6	1.0	0.7	2.9	27

Exhibit 13: Retail premium mix for specialized products for Star Health (%)



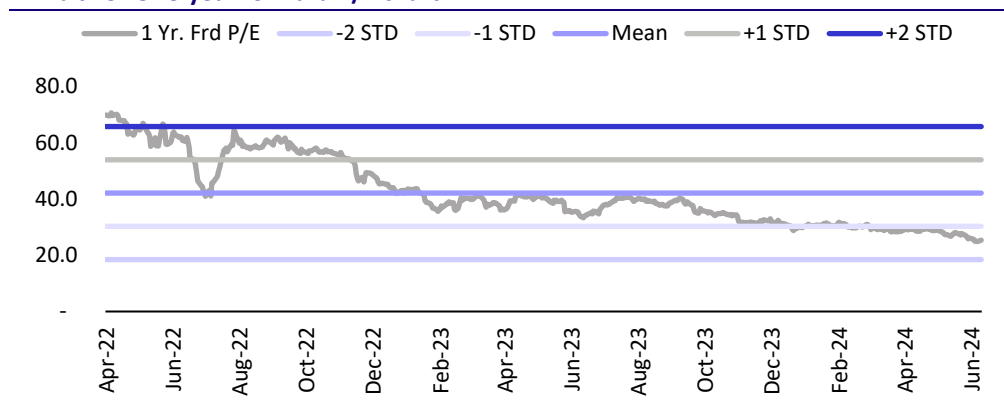
Source: MOFSL, Company

Exhibit 14: Trend in GWP mix (%)



Source: MOFSL, Company

Exhibit 15: One-year forward P/E chart



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)	
Y/E March	2019	2020	2021	2022	2023	2024	2025E	2026E	
Retail Health	46,789	58,252	82,075	1,00,870	1,19,475	1,39,512	1,67,414	2,00,897	
Group Health	5,938	8,897	9,963	12,066	8,076	10,824	12,989	14,937	
PA	1,270	1,337	1,489	1,685	1,939	2,117	2,435	2,800	
Total GDPI	54,013	68,651	93,885	1,14,635	1,29,525	1,52,545	1,82,838	2,18,635	
Change (%)	29.8	27.1	36.8	22.1	13.0	17.8	19.9	19.6	
NWP	41,287	52,395	71,794	1,08,096	1,23,196	1,40,674	1,68,610	2,01,621	
NEP	36,624	46,841	46,266	98,092	1,12,616	1,29,383	1,51,749	1,81,459	
Change (%)	33.7	27.9	-1.2	112.0	14.8	14.9	17.3	19.6	
Net claims	22,976	30,874	43,695	85,400	73,204	85,999	99,064	1,18,459	
Net commission	2,637	3,404	14,922	16,828	16,828	18,537	21,960	26,259	
Expenses	9,827	11,013	14,031	18,443	20,538	23,944	27,667	31,514	
Employee expenses	7,220	8,526	11,765	13,436	14,537	16,122	18,056	20,223	
Other expenses	2,607	2,487	2,266	5,007	6,001	7,823	9,611	11,291	
Underwriting Profit/(Loss)	1,184	1,550	-17,316	-20,673	2,046	903	3,058	5,227	
Investment income (PH)	1,398	1,639	2,505	4,796	5,014	6,407	7,338	8,455	
Operating profit	2,477	3,303	-14,811	-15,877	7,060	7,309	10,396	13,682	
Investment income (SH)	612	1,212	1,718	3,214	3,287	4,089	5,128	5,822	
PBT	2,652	4,062	-14,458	-14,024	8,264	11,289	14,998	18,913	
Tax	540	1,389	-3,601	-3,559	2,078	2,838	3,749	4,728	
Tax rate (%)	20.4	34.2	24.9	25.4	25.1	25.1	25.0	25.0	
PAT	2,112	2,633	-10,857	-10,464	6,186	8,450	11,248	14,185	

Balance sheet								(INR m)	
Y/E March	2019	2020	2021	2022	2023	2024	2025E	2026E	
Equity Share Capital	4,556	4,906	5,481	5,755	5,817	5,853	5,853	5,853	
Reserves & Surplus	7,726	14,132	29,516	40,285	59,839	60,429	71,678	85,863	
Net Worth	12,282	19,038	34,996	46,040	65,656	66,282	77,530	91,715	
FV change	-	31	-76	267	234	1,036	1,139	1,253	
Borrowings	2,500	2,500	2,500	7,200	4,700	4,700	4,700	4,700	
Other liabilities	33,943	38,361	67,589	81,629	92,988	1,08,525	1,29,862	1,55,752	
Total Liabilities	48,725	59,930	1,05,010	1,35,136	1,63,577	1,80,543	2,13,232	2,53,420	
Investments (SH)	9,523	18,110	27,941	44,939	53,459	63,361	73,264	83,166	
Investments (PH)	20,778	24,789	40,426	68,796	80,462	91,548	1,04,850	1,20,813	
Net Fixed Assets	981	1,019	990	1,171	1,113	1,751	1,801	1,851	
Def Tax Assets	1,420	70	4,213	7,767	5,689	3,582	3,582	3,582	
Current Assets	7,093	9,827	12,650	6,828	8,444	12,990	15,569	18,617	
Cash & Bank	8,930	6,114	18,790	5,635	14,410	7,312	14,166	25,391	
Total Assets	48,725	59,930	1,05,010	1,35,136	1,63,577	1,80,543	2,13,232	2,53,420	

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2019	2020	2021	2022	2023	2024	2025E	2026E
GWP growth	29.8	27.1	36.8	22.1	13.0	17.8	19.9	19.6
NWP growth	29.2	26.9	37.0	50.6	14.0	14.2	19.9	19.6
NEP growth	33.7	27.9	-1.2	112.0	14.8	14.9	17.3	19.6
Claim ratio	62.7	65.9	94.4	87.1	65.0	66.5	65.3	65.3
Commission ratio	6.4	6.5	20.8	15.6	13.7	13.2	13.0	13.0
Expense ratio	23.8	21.0	19.5	17.1	16.7	17.0	16.4	15.6
Combined ratio	92.9	93.4	134.8	119.7	95.3	96.7	94.7	93.9
Profitability Ratios (%)								
RoE	19.3	16.8	-40.2	-25.8	11.1	12.8	15.6	16.8

Valuations	2019	2020	2021	2022	2023	2024	2025E	2025E
BVPS (INR)	27.0	38.8	63.9	80.0	112.9	113.2	132.5	156.7
Change (%)	28.0	43.9	64.6	25.3	41.1	0.3	17.0	18.3
Price-BV (x)	19.2	13.3	8.1	6.5	4.6	4.6	3.9	3.3
EPS (INR)	4.6	5.4	-19.8	-18.2	10.6	14.4	19.2	24.2
Change (%)	24.1	15.8	-469.1	-8.2	-158.5	35.8	33.1	26.1
Price-Earnings (x)					48.7	35.9	27.0	21.4

E: MOFSL Estimates

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NOTES

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BUY	>=15%
SELL	< - 10%
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