

Shubh Nivesh



CMP: ₹ 602

Target: ₹ 730 (21%)

Target Period: 12 months

BUY

August 26, 2024

Favourable external outcomes remains near term catalyst...

About the stock: Star Health is the largest standalone health insurer in the country with a robust in-house claim management system and strong agency network

- Strong geographical presence with 718 thousand agents, 887 branches, and 20,000-plus healthcare footprint this includes 14,300 network hospitals

Investment Rationale

- Beneficiary of external support amid focus on improving insurance penetration:** India has lower insurance penetration (at 4% of GDP in FY23) compared to global average of 6.8%, with penetration in general insurance remaining far behind at 1% vs global average of 4%. Thus, increasing insurance penetration remains one of the core focus areas for government as well as regulator. Reduction in GST on insurance products (currently at 18%) and approval of composite license scheme (parliament approval awaited) are some of the major developments which remains watchful. Any favourable outcome, amid providing push to insurance penetration, remains beneficial for Star Health insurance. Reduction in GST rates is expected to increase attractiveness and affordability of insurance products, thereby aiding business growth. Evaluation on expansion into protection products, on approval of composite license scheme, is seen to complement existing health insurance business.
- Outlook remains optimistic amid levers for growth:** Star Health reported steady market share with 17-18% growth in premium. Management aspires to grow faster than industry targeting to double GWP to ₹30,000 crore by FY28E, implying growth of ~19% CAGR. Levers for sustained growth are 1) Enhancing existing distribution strength of agency with target to reach 10 lakh in 2-3 years, 2) Diversifying channel mix through focus on banca and digital distribution, 3) 10-15% increase in pricing for few products (~30% of portfolio) and 4) increased focus on group business in SME & MSME segment.
- Focus on efficiency to aid profitability:** Management continues to prioritize risk with robust under-writing guidelines to ensure quality and sustainability of earnings. Selective in inward portability to ensure control on claims, technology upgradation, focus on network hospitals and re-calibration of business across segments & geographies is seen to aid combined ratio and operational efficiency. Thus, management targets earnings at ~₹2500 crore in FY28E. Maintaining leverage at 2.3-2.4x, investment income is seen to further support overall earnings.

Rating and Target Price

- Existing moats in terms of focussed approach, distribution strength and network tie-ups coupled with technology adoption remains core and is seen to aid business growth. Any favourable regulation could act as catalyst for sustained growth ahead. Valuing the stock at ~2.1x FY26E float (~35x FY26E EPS), we assign target price at ₹ 730. Recommend Buy



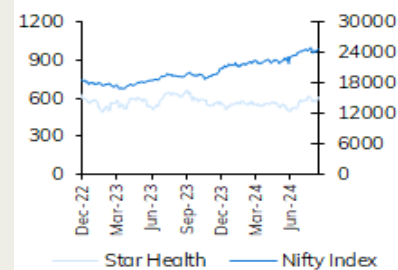
Particulars

Particulars	Amount
Market Capitalisation	₹ 35251 crore
52 week H/L	₹ 675/ 455
Net Worth	₹ 6628 crore
Face Value	10.0
DII Holding (%)	15.1
FII Holding (%)	21.6

Shareholding pattern

(in %)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	58.3	58.0	57.9	57.9	57.9
FII	33.1	30.6	31.0	26.6	21.6
DII	3.1	6.1	6.1	11.1	15.1
Public	5.56	5.23	4.96	4.38	5.42

Price Chart



Key risks

- Increase in claims amid aggressive customer selection could impact combined ratio
- Competition could impact business growth and profitability

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Key Financial Summary

	FY21	FY22	FY23	FY24	3 year CAGR (FY21-FY24)	FY25E	FY26E	2 year CAGR (FY24-FY26E)
Gross written premium (GWP)	9388.5	11463.5	12952.5	15254.5	17.6	18139.1	21404.2	18.5
Net Incurred Claims	4369.5	8540.0	7320.9	8600.0	25.3	9935.0	11791.3	17.1
Underwriting Profit/Loss	(1331.8)	(2061.6)	204.7	90.3		171.8	322.0	
Profit after Tax	(825.6)	(1040.6)	618.6	845.0		1056.7	1219.5	
NWP/Net Worth (x)	1.7	1.7	1.9	2.1		2.2	2.2	
Price/Float (x)	0.5	3.4	2.6	1.9		2.0	1.8	
P/GWP (x)	3.8	3.0	2.7	2.2		1.9	1.6	
P/E (x)	(41.8)	(28.7)	47.9	42.9		34.1	29.6	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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