

CMP: ₹ 554

Target: ₹ 650 (17%)

Target Period: 12 months

BUY

May 17, 2024

Steady Q4FY24; Improvement in efficiency to drive valuation

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 701 thousand agents, 881 branches, and 20,000-plus healthcare footprint this includes 14,200 network hospitals

Q4FY24 performance: Star Health Insurance reported healthy performance in Q4FY24 with market share maintained at 33% in retail health insurance market. While premium growth continued to remain steady at 18% YoY to ₹4968 crore, led by traction in customer accretion amid focus on strengthening distribution. Combined ratio came at 92.7% in Q4FY24 (claim ratio at 64.1%, expense ratio at 30.7%) vs 91.3% in Q4FY23. For FY24, combined ratio remained at 96.7% resulting in underwriting profit. Investment income increased 34% YoY to ₹290 crore (yield at ~8%) which resulted in earnings of ₹142 crore, up 40% YoY. Investment assets have increased to ~₹15,500 crore with leverage remaining steady at 2.4x.

Investment Rationale

- Outlook remains optimistic amid levers for growth:** Star Health reported steady market share with 17-18% growth in premium in FY24. Management aspires to grow faster than industry owing to 1) Retail business growth expected in mid-teens, 2) 15-20% increase in pricing for few products (Senior Citizen Red Carpet Policy and Young Star Insurance policy) forming ~10% of gross premium, 3) increased focus on group business in SME & MSME segment by opening of banca and digital distribution channel. In addition, the company has got approval to start operations in Gift City, enabling to cater to NRI customers and undertake business in foreign countries. Expect 18-19% CAGR in gross premium in FY25-26E.
- Focus on efficiency to aid profitability:** Increase in claim ratio has led to rise in combined ratio from 91.4% in Q4FY23 to 92.8% in Q4FY24. However, opex (EoM) remained well under norms at 28.6%. Going ahead, the company continues to prioritize risk with robust underwriting guidelines, selective in inward portability (<7% of premium) to ensure control on claims. Initiatives on technology upgradation, focus on network hospitals and re-calibration of business across segments and geographies is seen to aid operational efficiency. Thus, expect combined ratio to remain 95-96% in FY25-26E. Maintaining leverage at 2.3-2.4x and duration, investment income is seen to further support overall earnings. Expect earnings to grow at 20%+ CAGR in FY25-26E.

Rating and Target Price

- Continued strategy to maintain market share in retail health insurance market and focus on faster growth in SME segment with strengthening of distribution capabilities should aid premium growth trajectory ahead. Valuing the stock at ~1.9x FY26E float, we assign target price at ₹650. Recommend Buy



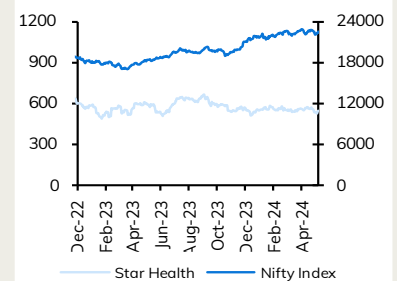
Particulars

Particulars	Amount
Market Capitalisation	₹ 32469 crore
52 week H/L	₹ 675/ 455
Net Worth	₹ 6628 crore
Face Value	10.0

Shareholding pattern

(in %)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	58.3	58.3	58.0	57.9	57.9
FII	35.2	33.1	30.6	31.0	26.6
DII	1.4	3.1	6.1	6.1	11.1
Public	5.02	5.56	5.23	4.96	4.38

Price Chart



Key risks

- Price revision resulting in higher rate of customer attrition
- Competition could impact growth and thus earnings growth

Research Analyst

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Gaurav Singh
gaurav.si@icicisecurities.com

Krishna Vyas
krishna.vyas@icicisecurities.com

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		272.5	421.6	
Profit after Tax	(825.6)	(1040.6)	618.6	845.0		1093.1	1268.7	
NWP/Net Worth (x)	1.7	1.7	1.9	2.1		2.2	2.2	
Price/Float (x)	0.5	3.1	2.4	1.8		1.9	1.6	
P/GWP (x)	3.5	2.8	2.5	2.0		1.8	1.5	
P/E (x)	(38.5)	(26.4)	44.2	39.5		30.4	26.2	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Highlights

- The company has strengthened its market presence, maintaining retail health market share of 33% and retaining its position as the largest standalone health insurer in India
- Share of GWP is ~46% of entire SAHI (Standalone Health Insurers) insurance space. Market share for FY24 rose by 22 basis points to 5.26% vs 5.04% in FY23.
- In FY24, premium growth was driven by price increase undertaken in flagship product. Going forward, management expects growth to be driven by both value and volume in equal proportion. Retail segment is expected to grow in mid-teens aided by digital and tech advancements.
- Focus is on penetration in semi-urban and rural areas to enhance customer reach
- The company took few key business developments with an aim of placing risk first and growth later which includes;
- Improved operational efficiency to enhance productivity and cost optimization measure
- Emphasis on profitable growth through implementation of robust underwriting guidelines
- The company made investment in technology, digital and analytics to further augment customer experience, mitigating fraud, waste and abuse through deployment of new-age technological solutions
- The company realigned its distribution channel and product mix to cater to emerging markets and further recalibrated product portfolio across various industry sectors, locations, portability options and pricing
- Strong agency network with 701 thousand agents, 881 branches, and 20,000-plus healthcare footprint which includes 14,200 network hospitals
- The company saw an increase in cashless claims paid from 80% in FY23 to 87% in FY24

Profit & Loss

- The company aims to increase prices of 2 products - Senior Citizen Red Carpet Policy and Young Star Insurance policy (both forming 10% of GWP) by 15% - 25% in FY25E
- The company has received a green signal to start operations in GIFT city, which will improve NRI customer experience and increase business operations for foreign countries
- Agency business contributed around 82% of overall business in FY24, while corporate agents, digital channel and other direct channel contributes 8%/6%/4% respectively
- To expand reach in semi-urban and rural areas, the company has opened more than 1,150 sales manager stations by Mar'24. The company has over 2,000 customer touchpoints as of Mar'24, with 881 branches.
- Combined ratio in FY24 climbed by 148bps to 96.7% from 95.3% in FY23
- Investment assets in Q4FY 24 grew by 16% YoY to ₹15,491 crore.
- Investment yield improved by 8bps from 6.9% in FY23 to 7.7% in FY24
- Implementation of IFRS caused revision in earnings by 28% from ₹854 crore to ₹1,080 crore and increased RoE by 330 bps from 14.4% to 17.7%

Exhibit 1: Variance Analysis

Policyholder's Account	Q4FY24	Q4FY23	YoY%	Q3FY24	QoQ%	
Gross Premium Written	4968.3	4199.2	18.3	3605.8	37.8	Retail health market share remained steady at 33%
(-) Reinsurance ceded	398.3	206.0	93.3	453.9	(12.3)	
Net written premium (NWP)	4570.0	3993.2	14.4	3151.9	45.0	
Net earned premium (NEP)	3395.3	2912.5	16.6	3293.6	3.1	Lower retention at 92%
(-) Net Incurred Claims	2177.4	1805.4	20.6	2229.5	(2.3)	Claim ratio improved at 64.1%
(-) Net Commission Expense	651.6	561.2	16.1	349.9	86.2	Comission ratio up at 14.3%
(-) Operating expenses related to insurance business	657.4	610.7	7.6	600.1	9.6	
(-) Total expense	3486.4	2977.3	17.1	3179.4	9.7	
Underwriting Profit/Loss	(91.0)	(64.8)	40.5	114.2	(179.7)	Combined ratio improved QoQ at 92%
Investment Income	118.7	115.7	2.6	117.7	0.8	Higher yield benefit investment income
Operating Profit/Loss	90.0	75.7	18.9	276.9	(67.5)	
Transfer to Shareholder's Account	90.0	75.7	18.9	276.9	(67.5)	
Shareholder's Account						
Operating Profit/Loss	90.0	75.7	18.9	276.9	(67.5)	
Investment Income	112.2	77.7	44.4	122.1	(8.1)	
Other Income	2.41	1.33	81.2	0.20	1105.0	
Profit before tax	189.7	136.7	38.8	387.7	(51.1)	
(-) Provision for Taxation	47.4	34.3	38.4	98.1	(51.7)	
Profit after Tax	142.3	102.4	39.0	289.6	(50.8)	Higher investment income & steady premium aided earnings

Financial Summary

Exhibit 2: Policyholder's Account ₹ crore

Policyholder's Account	FY22	FY23	FY24	FY25E	FY26E
Gross written premium (GWP)	11463.5	12952.5	15254.5	18139.1	21404.2
Net written premium (NWP)	10809.5	12319.6	14067.4	16778.7	19905.9
Net earned premium (NEP)	9809.2	11261.6	12938.3	15098.8	18029.6
(-) Net Incurred Claims	8540.0	7320.9	8600.0	9935.0	11791.3
(-) Net Commission Expense	1492.2	1682.8	1853.7	2181.2	2587.8
(-) Operating expense	1838.5	2053.8	2394.4	2710.1	3228.9
(-) Other expense	0.0	0.0	0.0	0.0	0.0
(-) Total expense	3330.7	3736.6	12848.0	14826.4	17608.0
Underwriting Profit/Loss	(2061.6)	204.7	90.3	272.5	421.6
Investment Income	479.6	501.4	640.7	822.5	877.1
Operating Profit/Loss	(1582.0)	706.1	730.9	1094.9	1298.6
Transfer to Shareholder's Account	(1582.0)	706.1	730.9	1094.9	1298.6

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

Balance Sheet	FY22	FY23	FY24	FY25E	FY26E
Source of Funds					
Share Capital	575.5	581.7	585.3	585.3	585.3
Reserves and Surplus	5793.7	5983.9	6042.9	7136.1	8404.8
Net Worth	6369.3	6565.6	6628.2	7721.4	8990.1
Fair value gains	26.7	23.4	103.6	62.7	90.2
Borrowings	720.0	470.0	470.0	470.0	470.0
Deferred Tax Liability	0.0	0.0	0.0	0.0	0.0
Total	7115.9	7058.9	7201.8	8254.0	9550.3
Application of Funds					
Shareholder Investments	4493.9	5345.9	6336.1	6126.6	7045.6
Policyholder Investments	6879.6	8046.2	9154.8	11378.1	13084.8
Total Investments	11373.4	13392.1	15490.9	17504.7	20130.4
Deferred Tax Assets	776.7	568.9	358.2	95.0	95.0
Fixed Assets	117.1	111.3	175.1	209.1	222.6
Cash and Bank balance	563.6	309.4	444.6	1660.9	1983.3
Other current assets	683.2	844.4	1299.0	1271.0	1321.0
Total Current Assets	2140.6	1834.0	2276.8	2931.9	3304.3
Current Liabilities	1961.2	2030.1	2477.9	2033.0	2365.8
Provision	6202.2	7268.7	8374.7	10089.3	11965.6
Total Current Liabilities	8163.3	9298.8	10852.5	12122.3	14331.5
Net Current Assets	(6916.5)	(8145.1)	(10852.5)	(9190.5)	(11027.2)
Total	7115.9	7058.9	7201.8	8618.3	9420.8

Source: Company, ICICI Direct Research

Exhibit 3: Shareholder's Account ₹ crore

Shareholder's Account	FY22	FY23	FY24	FY25E	FY26E
Operating Profit (from Policyholder's a/c)	(1582.0)	706.1	730.9	1094.9	1298.6
Investment Income	313.3	333.1	443.4	442.9	472.3
Other Income	8.1	5.7	4.1	0.4	0.4
(-) Expense and Provision	1336.0	218.5	49.6	77.4	75.8
Profit before tax	(1396.6)	826.4	1128.9	1460.8	1695.5
Provision for Taxation	(356.0)	(207.8)	(283.8)	(367.7)	(426.8)
Profit after Tax	(1040.6)	618.6	845.0	1093.1	1268.7

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

Key Ratios	FY22	FY23	FY24	FY25E	FY26E
Incurring Claims ratio (%)	88.0	66.4	67.0	65.8	65.4
Commission Ratio (%)	13.3	13.0	12.5	13.0	13.0
Expense Ratio (%)	17.3	16.5	16.7	17.0	17.0
Combined ratio (%)	118.6	95.9	96.2	95.8	95.4
Investment yield (%)	9.6	7.5	7.5	7.4	7.4
Investment Income / NEP (%)	6.4	6.3	7.2	8.3	7.4
PAT margin (%)	(12.1)	6.2	6.0	7.2	7.0
RoE (%)	(27.8)	9.9	8.1	14.0	14.0
RoCE (%)	(23.9)	9.3	7.7	13.2	13.3
Valuation					
NWP/Net Worth (x)	1.7	1.9	2.1	2.2	2.2
Debt/EBIT (x)	(0.5)	0.5	0.4	0.3	0.3
Debt/Equity (x)	0.12	0.06	0.05	0.06	0.05
ABV (I)	75.5	126.5	174.0	129.6	151.1
Price/Float (x)	3.1	2.4	1.8	1.9	1.6
P/GWP (x)	2.8	2.5	2.0	1.8	1.5
P/E (x)	(26.4)	44.2	39.5	30.4	26.2
P/ABV (x)	7.4	4.4	3.2	4.3	3.7

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according -to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Vishal Narnolia, MBA, Gaurav Singh, PGDM, Krishna Vyas, MMS, Research Analysts Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.