

Star Health

BSE SENSEX
67,839

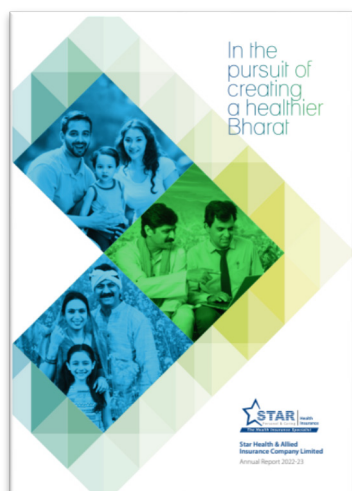
S&P CNX
20,192

CMP: INR645

TP: INR760 (+18%)

Buy

Ready to be the next-gen health insurance company



Bloomberg	STARHEAL IN
Equity Shares (m)	576
M.Cap.(INRb)/(USD\$)	368 / 4.4
52-Week Range (INR)	755 / 451
1, 6, 12 Rel. Per (%)	-1/4/-22
12M Avg Val (INR M)	439

Financials Snapshot (INR b)

Y/E March	2023	2024E	2025E
NEP	112.6	134.5	159.7
U/W Profit	2.0	5.0	6.8
PBT	8.3	14.4	17.7
PAT	6.2	10.8	13.3

Ratios (%)

Claims	65.0	63.5	63.3
Commission	13.7	13.7	13.7
Expense	16.7	16.3	15.8
Combined	95.3	93.5	92.8
RoE	11.1	15.2	16.0
EPS (Rs)	10.6	18.6	22.9

Valuations

P/E (x)	60.7	34.7	28.2
P/BV (x)	5.7	4.9	4.2

Shareholding pattern (%)

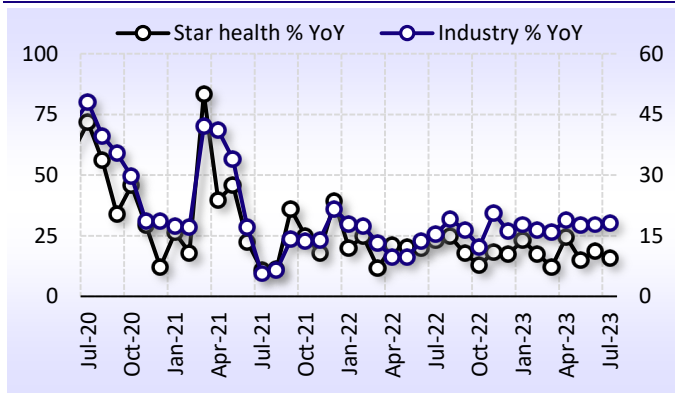
As On	Jun-23	Mar-23	Jun-22
Promoter	58.3	58.3	58.8
DII	3.1	1.4	2.1
FII	33.1	35.2	34.7
Others	5.6	5.0	4.3

FII Includes depository receipts

- In its FY23 annual report, STARHEAL outlined strong growth opportunities for health insurance in India. Since the Covid pandemic, there has been strong awareness in people about medical expenses, which has resulted in a rise in walk-in business from people looking for health insurance.
- With India ranking high in diabetes, obesity and cancer cases, in addition to an increasing share of older age population, the severity of hospitalization cases will continue to rise.
- STARHEAL is focusing on deepening its presence in rural India with the creation of a dedicated vertical for addressing demand from these geographies. It is also working on enhancing its bancassurance channel.
- While individual agents (82% share) would continue to be the bedrock for STARHEAL's growth, distribution channels, such as banca (5%) and digital (9%), will grow at a faster pace, with their cumulative share likely to rise in the next few years. This multi-channel approach has enhanced customer access convenience, strengthening the recall that **'Star Health is around the corner'**.
- The company's agent count increased by 14% to 626k in FY23. STARHEAL continued to enhance its reach in the hospital network with the addition of 2,042 hospitals in FY23. Additionally, the company entered into pre-agreed agreements with 1,996 hospitals. In FY23, it processed 1.08m claims through agreed network hospitals, of which 73.3% were cashless claims.
- During FY23, the company addressed 95% of cashless claims within 90 minutes, with 90% of reimbursements settled within seven days. The company handles all claims in-house, along with assurance visits to hospitals to assist customer interests and free supplementary medical opinions.
- STARHEAL has enabled the use of technology in business strategy, data collection and analysis, talent management, risk understanding, market understanding, systems security and operational processes. In FY23, the company invested extensively in digital platforms, data platforms, automation and omni-channel accessibility.
- **Valuation:** We expect the company to report a 19% CAGR in overall gross premium over FY23-25, driven by a 20% CAGR in retail health and a 10% CAGR in group business. Claims ratios are likely to normalize at ~64%, with the combined ratio at ~93%. These factors should boost STARHEAL's profitability over FY23-25, with RoE improving to 16% in FY25E from 11% in FY23. **We reiterate our BUY rating on the stock with a 1-year TP of INR760 (premised on 33x FY25E EPS).**

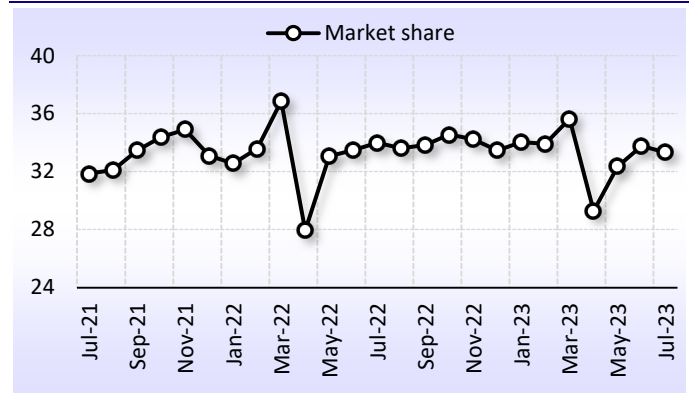
Story in charts

Exhibit 1: STARHEAL growing in line with industry growth in retail health segment...



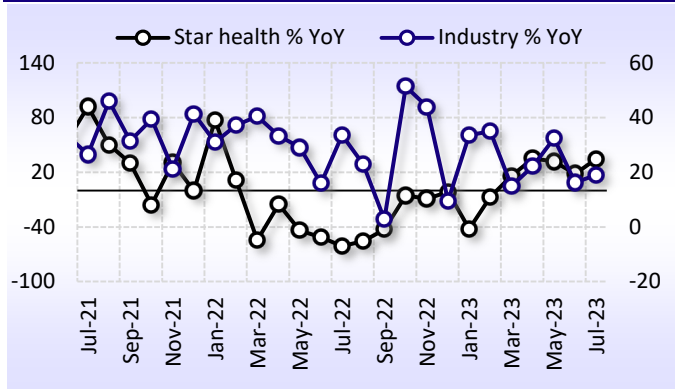
Source: MOFSL, GIC

Exhibit 2: ...while maintaining market share in the retail health segment



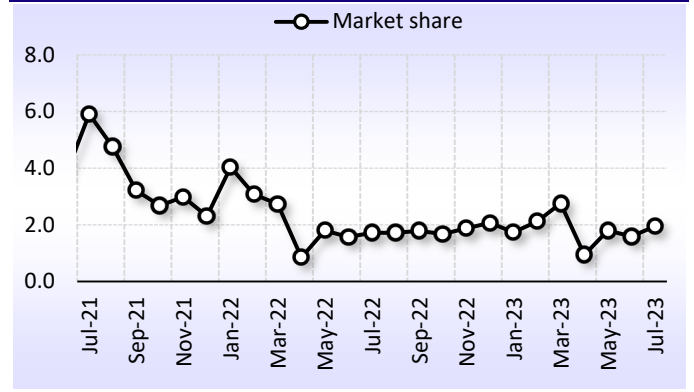
Source: MOFSL, GIC

Exhibit 3: On a lower base, the group health business is picking up pace in last few months...



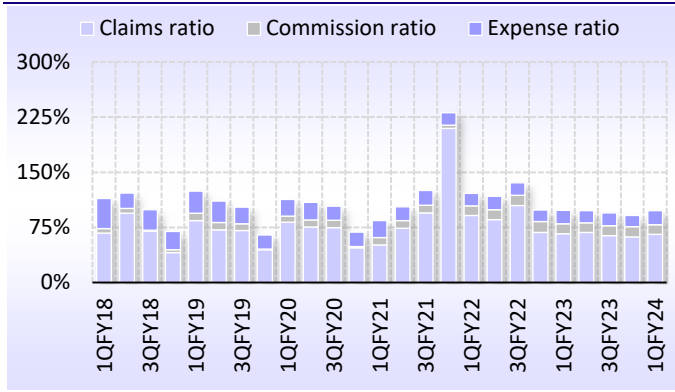
Source: MOFSL, GIC

Exhibit 4: ...with market share in group health business gradually scaling up



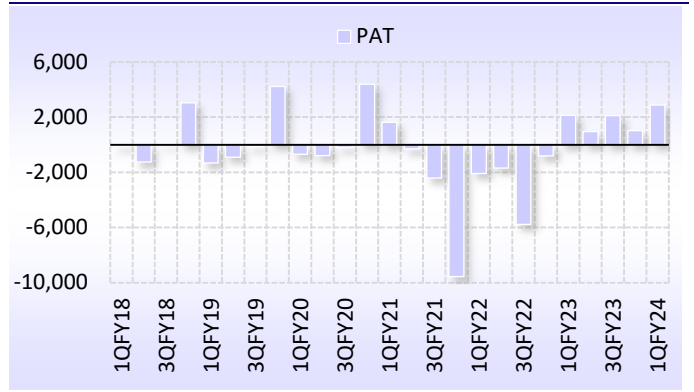
Source: MOFSL, GIC

Exhibit 5: Improvement in loss ratios leading to overall improvement in combined ratio



Source: MOFSL, Company

Exhibit 6: Post Covid, STARHEAL has started to witness improved profitability



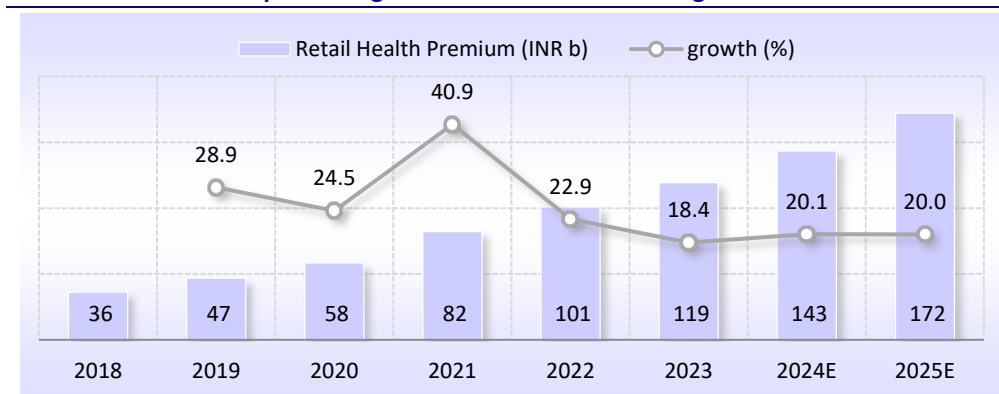
Source: MOFSL, Company

Huge opportunity for growth ahead

- India's health insurance sector is at the cusp of an unprecedented growth curve (~25% of Indians covered by any government or private health insurance scheme) on account of a convergence of various realities mentioned below:
 - The incidence of unforeseen medical challenges (e.g., Covid) and related costs has created an unprecedented need for protection.
 - Medical costs in organized health care facilities are perpetually rising, influenced by the introduction of advanced medical treatment, warranting a cost hedge.
 - There is a growing recognition that India can grow equitably if the benefits of health insurance are extended widely across rural India, where insurance coverage penetration is considerably lower than the Indian urban average.
 - There is a growing need for customized insurance products over traditional generic products.
 - There is a widening recognition that health insurance ensures social and financial inclusion.

- Following are some ways that Star Health supports the expansion of India's health insurance industry:
 - **First-mover:** Star Health was the first to enter; now leading the market; widening the market through customized products and services
 - **Customized:** Providing products for every customer need – a virtual supermarket
 - **Network:** Supports customers through one of the largest health insurance hospital networks in India (14,862 as of 31st Mar'23).

Exhibit 7: Retail health premium growth continues to be strong

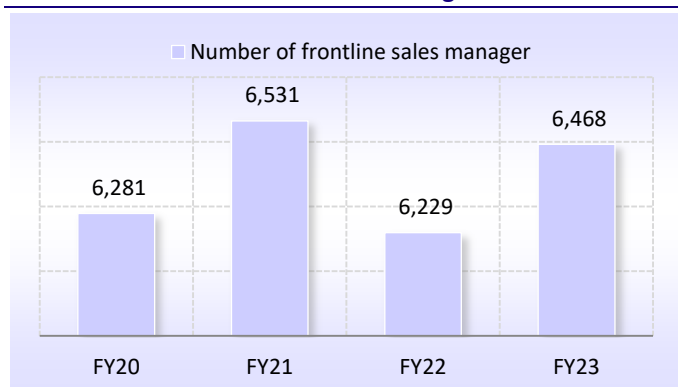


Source: MOFSL, Company

Enhancing its distribution reach

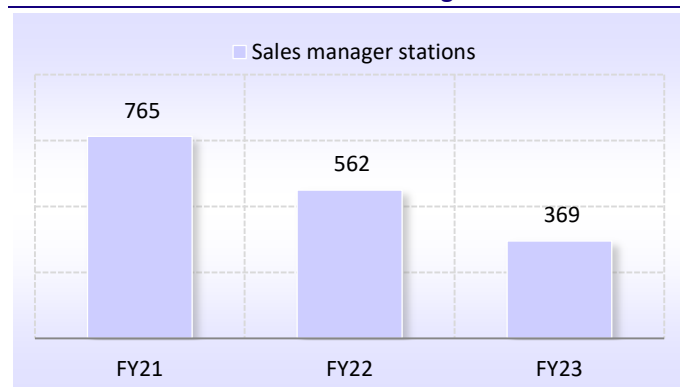
- Star Health is present in 25 states and 5 union territories. The company’s distribution network is supported by 835 Pan-India branches (including 200 in rural areas), 369 sales manager stations, 6,468+ direct sales personnel and 6,25,860 field agents.
- The agent count increased to 0.63m in FY23 from 0.55m in FY22 and 0.46m in FY21.
- In FY23, independent brokers accounted for more than 4.54% of the total GWP. During the same period, corporate agent banks and other corporate agents accounted for 4.16% and 0.23% of GWP, respectively
- It partnered 85 corporate agents, 37 banks and 48 Others, 469 brokers, 8 web aggregators, 85 insurance marketing firms, and strategic alliances with PSU banks, private and rural banks and NBFCs.
- As a result, Star Health is proximate to customers when they need health insurance products. This multi-channel approach has enhanced customer access convenience, strengthening the recall that ‘Star Health is around the corner’.
- The company has the largest branch network of any Indian non-public health insurance company, ~2.41x the number of the next largest non-public health insurance provider, as of Mar’23.

Exhibit 8: Trend in frontline sales manager count



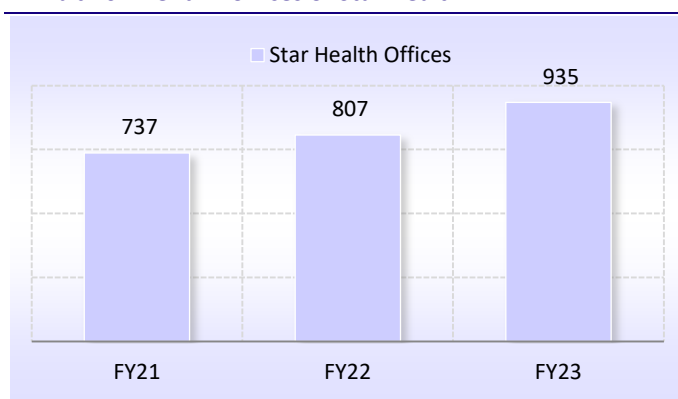
Source: MOFSL, Company

Exhibit 9: Trend in count of sales manager stations



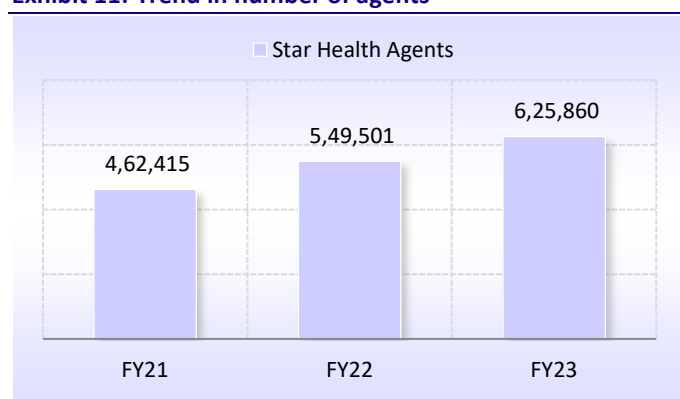
Source: MOFSL, Company

Exhibit 10: Trend in offices of Star Health



Source: MOFSL, Company

Exhibit 11: Trend in number of agents

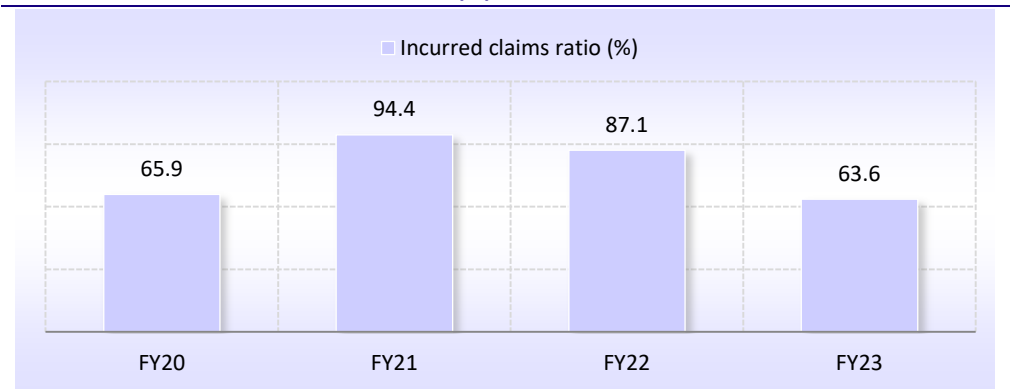


Source: MOFSL, Company

Claims processes getting stronger

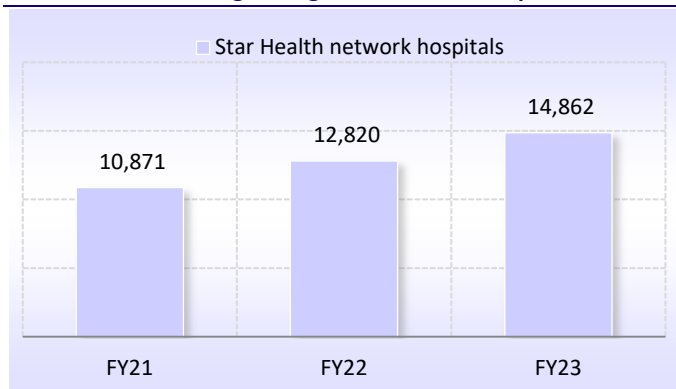
- Star Health works with 14,000+ network hospitals and seven home health care (HHC) service providers. It is among the first to implement hospital scorecard, which is evaluated based on various parameters that help in automating claims procedure.
- Claims Relations Cell (multilingual officers) assists claimants throughout the process. The combination of human expertise, information technology and supporting infrastructure has translated into credible outcomes.
- During FY23, the company addressed 95% of cashless claims within 90 minutes, with 90% of reimbursements settled within seven days.
- The company handles all claims in-house, along with assurance visits to hospitals to assist customer interests and free supplementary medical opinions (when necessary).
- In FY23, Star Health processed 1.08m claims through agreed network hospitals, of which 73.3% of claims were cashless.
- The company’s superior claims settlement ratio and service are driven by deep risk management insights and domain expertise (proprietary claims management, medical expertise and hospital network engagement).

Exhibit 12: Trend in incurred claims ratio (%)



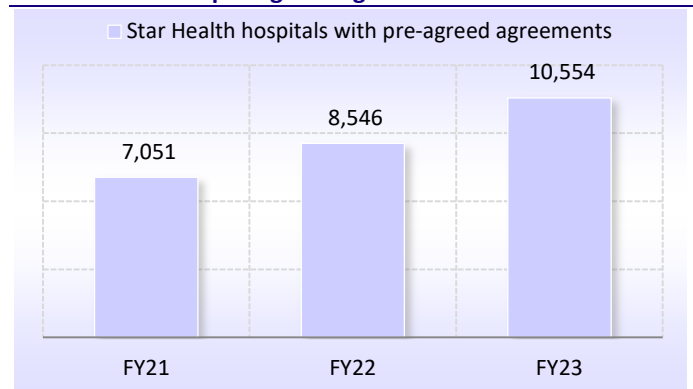
Source: MOSL, Company

Exhibit 13: Increasing strength of network hospitals...

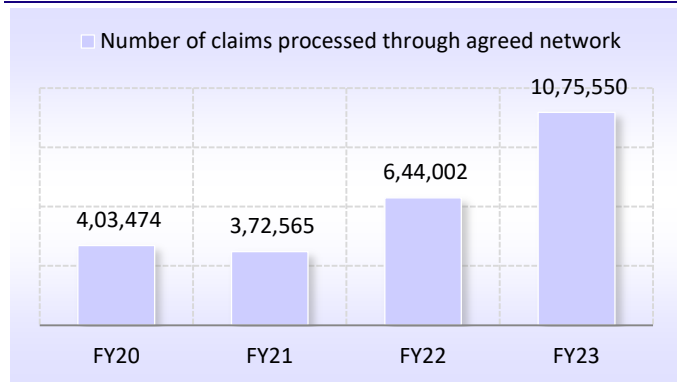


Source: MOFSL, Company

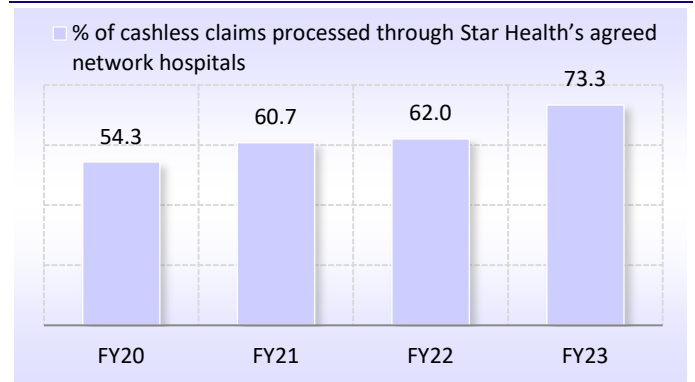
Exhibit 14: ...with pre-agreed agreements



Source: MOFSL, Company

Exhibit 15: Rising number of claims through agreed network

Source: MOFSL, Company

Exhibit 16: % of cashless claims increasing

Source: MOFSL, Company

New initiatives in FY23

- In FY23, the company invested in the following modules.
 - **Virtual Office:** Included sales empowerment, My Earnings My Business, Product 360, Dashboards, Customer360 and Claims Journey
 - **Underwriting:** Future-proofed by ensuring 360-degree readiness
 - **New solution benefits:** Achieved industry-best capabilities, including cross-product migration, auto-allocation, commissions, account payables, bulk printing and accounts receivables; designed TVC workflows, CMU workflows and CMU dashboards for the medical teams.
 - **Projects:** Twinkle, WhatsApp, SM portal, Fraud Management, Data Lake, Claims Digitization, Codification of Diseases and Auto Adjudication
- Key technologies invested in
 - **SaaS:** Automate fraud prevention
 - **Data lake:** Establishing (extract, transform and load) ETL and a data lake pipeline on Azure cloud enhanced future-readiness
 - **Automation:** Extended to tele verification, auto adjudication of claims and renewal processes
 - **Open-source technologies:** Java, React JS and Spring Boot for development and utilized cloud services
 - **Deployment:** Kubernetes and Docker Architecture: Web 2.0 technologies with micro-services-based architecture platform
 - **Compatibility:** Mobile-first and cloud native technologies
 - **Backbone:** Digital infrastructure backbone, architecture design and monitoring systems

Transforming in a next-gen digital health insurance company

At Star Health, technology has been enabled in business strategy, data collection and analysis, talent management, risk understanding, market understanding, systems security and operational processes. The company invested extensively in digital platforms, data platform, automation and omni-channel accessibility. For instance,

- the company has progressively migrated its technology stack to cloud; its strategy is weighted toward 'build' vs. 'buy' approach, with a preference for core insurance technology solutions.
- the company's Star Virtual Office application has empowered the sale of policies in remote locations
- the customer facing self-service Star Power application led to personalized, consistent engagement
- underwriting and claims processes were facilitated by a bespoke information system
- claims processing was made customer-friendly (with specific functions technologically decentralized to branches), resulting in a better turnaround time
- the technology-driven claims process handheld customers in every stage
- automated claims verification reduced customer waiting time
- the company invested in Auto IVRS, claim status update on a toll-free number, automated incoming email management system, conversational BOTS, vision AI and Star Provider Portal
- The best-in-class customer relationship management, self-service portals, digital innovation and advancements in mobile applications are expected to strengthen the company's service standards

Exhibit 17: Service support & value-added services provided by Star Health

Our service support

- Our Voice Intelligence team (VIT), including Customer Care and Claims Relation Cell, has adopted Lean Six Sigma methodologies for process improvement
- Employees have completed 14 Process Certification programs, with 70% adoption
- Enhanced SOP documentation has improved operational consistency.
- The revamped Star Health website and digital platforms provide a user-friendly customer engagement journey.
- Process automation in three important areas has helped improve service level agreements
- The multilingual call center is available round-the-clock.
- The Renewal Retention Cell ensures timely policy renewals
- The Agency Care Cell assists agent queries.
- 369 SM stations pan-India serve as facilitation centers.

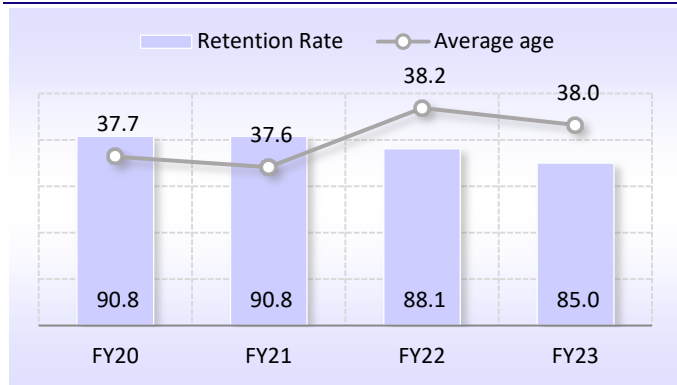
Our value-added services

- We offer telemedicine services.
- Our Wellness and Condition Management Programs help customers manage their health.
- We provide Elder Risk Assessment support.
- WhatsApp services empower customers to request policy documents, claims intimation, check claims status and upload claims reimbursement documents.
- A StarPower app comprises a self-booking feature for preventive health check-ups.
- A dedicated Claims Relation Cell proactively assists customers.

Source: MOFSL, Company

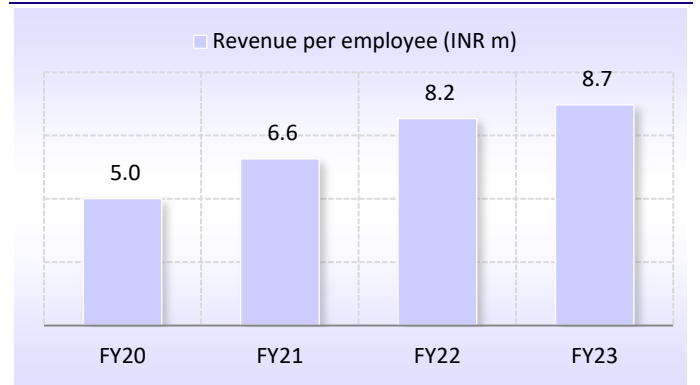
Other key trends

Exhibit 18: Trend in employee retention rate (%) and average age



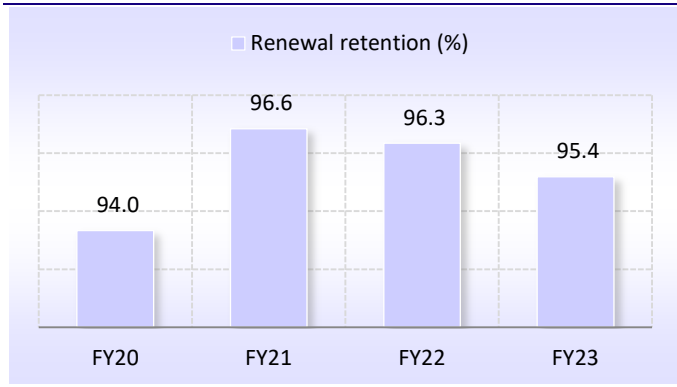
Source: MOFSL, Company

Exhibit 19: Trend in revenue per employee



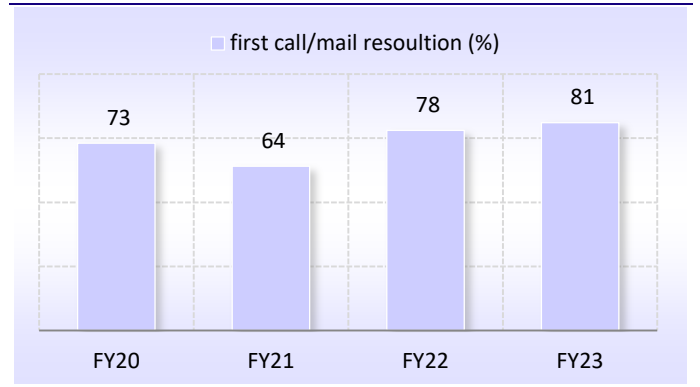
Source: MOFSL, Company

Exhibit 20: Trend in renewal retention ratio



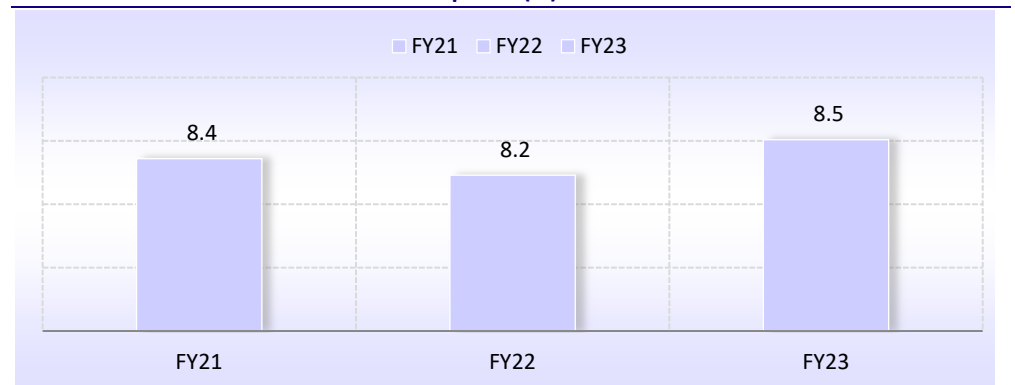
Source: MOFSL, Company

Exhibit 21: Trend in first call/mail resolution



Source: MOFSL, Company

Exhibit 22: Retention of cancellation requests (%)



Source: MOFSL, Company

Exhibit 23: Operating expenses increase as pre-Covid expenses make a comeback, technology investments increase

INR m	FY23	FY22	% YoY
Employees' remuneration & welfare benefits	14,537	13,436	8.2
Travel, conveyance and vehicle running expenses	372	305	22.0
Rents, rates & taxes	884	746	18.5
Repairs and maintenance	287	288	-0.3
Printing & stationery	163	189	-13.8
Communication	263	299	-12.0
Legal & professional charges	161	402	-60.0
Advertisement and publicity	1466	1,342	9.2
Software expenses	1,379	777	77.5
In-house claim processing	-1294	-1,143	13.2
Others	2,320	1,744	33.0
Total	20,538	18,385	11.7

Source: MOFSL, Company

Exhibit 24: Yield on investments

INR b	FY18	FY19	FY20	FY21	FY22	FY23
Policyholders						
Total funds	13.1	17.8	23.1	38.9	61.4	75.0
Total investments	13	17.9	24.8	40.4	68.8	80.5
Yield on investments (%)	8.36	7.54	7.55	7.13	8.25	6.94
Shareholders						
Total funds	8.7	12.2	16.8	26.9	40.1	49.8
Total investments	8.7	12.4	18.1	27.9	44.9	53.5
Yield on investments (%)	8.36	7.54	7.55	7.13	8.25	6.94

Source: MOFSL, Company

Exhibit 25: Ageing of claims

	No of claims			Claims amount (INR '00)		
	FY23	FY22	% YoY	FY23	FY22	% YoY
Less than or equal to 6 months	1,17,644	94,520	24.5	5,187	5,291	-2.0
More than 6 months Less than or equal to 1 year	8,324	13,336	-37.6	174	523	-66.7
More than 1 year Less than or equal to 2 year	482	2,516	-80.8	76	133	-42.9
More than 2 years	363	232	56.5	89	106	-16.0
Total	1,26,813	1,10,604	14.7	5,526	6,053	-8.7

Source: MOFSL, Company

Valuation and view

- We remain optimistic on overall growth prospects for STARHEAL, given: a) its strong growth potential in retail health due to under-penetration, b) healthy earnings growth owing to normalization of claims ratio, and c) limited cyclical risk (commercial lines and motor insurance have high cyclical risks).
- The management is focusing on growing the business through the banca channel, with the help of the benefit-based products that have much higher profitability than retail health products. The share of banca stood at 5% in FY23 and is expected to double by FY25.
- We expect a 19% CAGR in the company's overall gross premium over FY23-FY25, driven by a 20% CAGR in retail health business and 10% CAGR in group health business. Claims ratios are likely to normalize at ~64%, with the combined ratio at ~93%. These factors are likely to boost STARHEAL's profitability over FY23-FY25.
- We reiterate our BUY rating on the stock with a 1-year TP of INR760 (premised on 33x FY25E EPS).

Key risks

- Increase in competition from multi-line general insurers could pose a risk to STARHEAL's growth and market position.
- The extension of coverage of government schemes (such as Ayushman Bharat) beyond BPL families may slow the industry growth rate.
- Catastrophic events (such as natural disasters) may materially increase claim liabilities by policyholders, resulting in losses.
- Adverse movement in investment yields may impact investment income.

Financials and valuation

Income Statement								(INR m)	
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E	
Retail Health	36,291	46,789	58,252	82,075	1,00,870	1,19,475	1,43,437	1,72,125	
Group Health	4,026	5,938	8,897	9,963	12,066	8,076	8,884	9,772	
PA	1,165	1,270	1,337	1,489	1,685	1,939	2,229	2,564	
Total GDPI	41,611	54,013	68,651	93,885	1,14,635	1,29,525	1,54,550	1,84,460	
Change (%)	40.6	29.8	27.1	36.8	22.1	13.0	19.3	19.4	
NWP	31,961	41,287	52,395	71,794	1,08,096	1,23,196	1,46,999	1,75,448	
NEP	27,397	36,624	46,841	46,266	98,092	1,12,616	1,34,504	1,59,658	
Change (%)	43.3	33.7	27.9	-1.2	112.0	14.8	19.4	18.7	
Net claims	16,921	22,976	30,874	43,695	85,400	73,204	85,448	1,01,063	
Net commission	1,366	2,637	3,404	14,922	16,828	16,828	20,116	24,009	
Expenses	8,613	9,827	11,013	14,031	18,443	20,538	23,918	27,807	
Employee expenses	6,291	7,220	8,526	11,765	13,436	14,537	16,862	19,560	
Other expenses	2,322	2,607	2,487	2,266	5,007	6,001	7,056	8,246	
Underwriting Profit/(Loss)	497	1,184	1,550	-17,316	-20,673	2,046	5,021	6,779	
Investment income (PH)	887	1,398	1,639	2,505	4,796	5,014	6,140	7,232	
Operating profit	1,384	2,477	3,303	-14,811	-15,877	7,060	11,161	14,011	
Investment income (SH)	544	612	1,212	1,718	3,214	3,331	4,029	4,582	
PBT	1,712	2,652	4,062	-14,458	-14,024	8,264	14,429	17,741	
Tax	10	540	1,389	-3,601	-3,559	2,078	3,607	4,435	
Tax rate (%)	0.6	20.4	34.2	24.9	25.4	25.1	25.0	25.0	
PAT	1,702	2,112	2,633	-10,857	-10,464	6,186	10,822	13,306	

Balance sheet								(INR M)	
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E	
Equity Share Capital	4,556	4,556	4,906	5,481	5,755	5,817	5,817	5,817	
Reserves & Surplus	5,040	7,726	14,132	29,516	40,285	59,839	70,661	83,967	
Net Worth	9,596	12,282	19,038	34,996	46,040	65,656	76,477	89,783	
FV change	-	-	31	-76	267	234	-	-	
Borrowings	2,500	2,500	2,500	2,500	7,200	4,700	4,700	4,700	
Other liabilities	21,374	33,943	38,361	67,589	81,629	92,988	1,11,456	1,30,486	
Total Liabilities	33,470	48,725	59,930	1,05,010	1,35,136	1,63,577	1,92,633	2,24,970	
Investments (SH)	8,658	9,523	18,110	27,941	44,939	53,459	61,979	70,498	
Investments (PH)	12,988	20,778	24,789	40,426	68,796	80,462	94,463	1,11,263	
Net Fixed Assets	969	981	1,019	990	1,171	1,113	1,163	1,213	
Def Tax Assets	-	1,420	70	4,213	7,767	5,689	5,689	5,689	
Current Assets	5,834	7,093	9,827	12,650	6,828	8,444	9,206	10,987	
Cash & Bank	5,021	8,930	6,114	18,790	5,635	5,636	20,134	25,319	
Total Assets	33,470	48,725	59,930	1,05,010	1,35,136	1,54,803	1,92,633	2,24,970	

E: MOSL Estimates

Financials and valuation

Ratios

Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
GWP growth	40.6	29.8	27.1	36.8	22.1	13.0	19.3	19.4
NWP growth	40.0	29.2	26.9	37.0	50.6	14.0	19.3	19.4
NEP growth	43.3	33.7	27.9	-1.2	112.0	14.8	19.4	18.7
Claim ratio	61.8	62.7	65.9	94.4	87.1	65.0	63.5	63.3
Commission ratio	4.3	6.4	6.5	20.8	15.6	13.7	13.7	13.7
Expense ratio	26.9	23.8	21.0	19.5	17.1	16.7	16.3	15.8
Combined ratio	93.0	92.9	93.4	134.8	119.7	95.3	93.5	92.8

Profitability Ratios (%)

RoE	19.5	19.3	16.8	-40.2	-25.8	11.1	15.2	16.0
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Valuations

	2018	2019	2020	2021	2022	2023	2024E	2025E
BVPS (INR)	21.1	27.0	38.8	63.9	80.0	112.9	131.5	154.4
Change (%)	21.5	28.0	43.9	64.6	25.3	41.1	16.5	17.4
Price-BV (x)	30.6	23.9	16.6	10.1	8.1	5.7	4.9	4.2
EPS (INR)	3.7	4.6	5.4	-19.8	-18.2	10.6	18.6	22.9
Change (%)	44.2	24.1	15.8	-469.1	-8.2	-158.5	74.9	23.0
Price-Earnings (x)						60.7	34.7	28.2

E: MOSL Estimates

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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