

January 29, 2025

**RESULT REPORT Q3 FY25** | Sector: Insurance (General)

# Star Health Insurance

## Early signs of performance improvement

### Our view – Combined ratio better adjusted for new accounting approach

**Combined Ratio** – Combined ratio better excluding the optical impact of 1/n accounting: The incurred claim ratio was at 71.4%, up by 375bps YoY but down by -135bps QoQ. For the retail business alone, the decline in loss ratio has been 180 bps QoQ. The company has repriced 65% of the product portfolio as of January 2025 and hence, has carried out most of the repricing. The impact of the same would be felt in the coming quarters. The company reported an expense ratio of 31.9%, up by 172bps YoY and 160bps QoQ. The expense ratio excluding the impact of 1/n accounting was 30.6% in 9MFY25. Thus, on a like for like basis, there has been no change in Expense Ratio. For 3Q, the Combined ratio was at 103.3%, up by 545bps YoY and 29bps QoQ but this would be better excluding the impact of 1/n accounting.

**Premium Growth** – Overall gross written premium growth remained reasonably healthy, adjusted for the optical impact of 1/n accounting: Reported gross written premium was up 5.3% YoY in 3Q. However, excluding the impact of 1/n accounting, GWP for the company grew by 16% YoY for 9MFY25 and 13.4% in 3Q, whereas the retail segment GWP grew by 14% for 9MFY25 and retail segment fresh GWP grew by 22% for 9MFY25. The Superstar product has taken off and overall growth in new business is comfortable. Management stated that the company should grow on a roughly 18% growth path, which would double FY24 premium in FY28.

**We maintain BUY rating on Star Health with a revised price target of Rs 535:** We value STAR at 30x FY26 P/E for an FY24-27E EPS CAGR of 16%. At our target, the implied FY26E P/B is 3.8x for an FY25/26/27E RoE of 9.8/13.2/14.8%.

*(See Comprehensive con call takeaways on page 2 for significant incremental colour.)*

### Other Highlights (See “Our View” above for elaboration and insight)

- **Net premiums earned:** Net premiums earned grew 2.6%/15.4% QoQ/YoY, driven higher sequentially by growth in retail health segment.
- **Loss ratios:** Overall loss ratio has improved/deteriorated by -135bps/375bps QoQ/YoY to 71.4%.
- **Expense control:** Expense ratio rose 88bps QoQ to 31.8% where opex fell -3.5% QoQ and commission and brokerage fell -8.3% QoQ

### Exhibit 1: Result table

Rs Mn	Q3 FY25	Q3 FY24	% yoy	Q2 FY25	% qoq
Gross Premiums written	37,961	36,058	5.3	43,713	(13.2)
Net Premium Written	35,604	31,519	13.0	39,750	(10.4)
Net Premium Earned	37,997	32,936	15.4	37,039	2.6
Income from Investments	2,000	1,626	22.9	2,084	(4.1)
<b>Total Income</b>	<b>40,012</b>	<b>34,563</b>	<b>15.8</b>	<b>39,142</b>	<b>2.2</b>
Commission & Brokerage	5,032	3,499	43.8	5,489	(8.3)
Operating Expenses	6,309	6,001	5.1	6,538	(3.5)
Total claims	27,145	22,295	21.8	26,959	0.7
<b>Underwriting Profit/(Loss)</b>	<b>(490)</b>	<b>1,142</b>	<b>(142.9)</b>	<b>(1,947)</b>	<b>(74.8)</b>
Operating Profit	1,525	2,769	(44.9)	156	875.1
<b>PAT</b>	<b>2,151</b>	<b>2,896</b>	<b>(25.7)</b>	<b>1,113</b>	<b>93.3</b>
<b>Key Ratios</b>					
Solvency Ratio	222.0%	223.0%	-100bps	224.0%	-200bps
Expense Ratio	31.8%	31.3%	48bps	30.9%	88bps
Incurred Claim Ratio	71.4%	67.7%	375bps	72.8%	-135bps
Net Retention Ratio	93.8%	87.4%	638bps	90.9%	286bps
Combined Ratio	103.3%	97.8%	545bps	103.0%	29bps

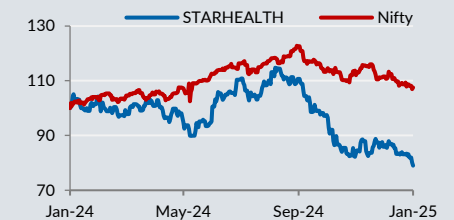
Source: Company, YES Sec-Research

Recommendation	: BUY
Current Price	: Rs 442
Target Price	: Rs 535
Potential Return	: +21%

### Stock data (as on January 29, 2025)

Nifty	23,033
52 Week h/l (Rs)	647 / 426
Market cap (Rs/USD mn)	261517 / 3020
Outstanding Shares (mn)	588
6m Avg t/o (Rs mn):	560
Div yield (%)	-
Bloomberg code:	STARHEAL
NSE code:	STARHEALTH

### Stock performance



	1M	3M	1Y
Absolute return	-8.0%	-18.1%	-21.2%

### Shareholding pattern (As of Dec'24 end)

Promoter	57.7%
FII+DII	34.0%
Others	8.3%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	535	625

### Financial Summary

Rs mn	FY25E	FY26E	FY27E
NEP	150,097	175,614	205,468
% yoy	16.0%	17.0%	17.0%
Op profit	4,641	8,838	12,067
% yoy	-36.5%	90.4%	36.5%
PAT	6,823	10,331	13,344
% yoy	-19.3%	51.4%	29.2%
EPS (Rs)	11.7	17.7	22.8
P/E (x)	37.9	25.0	19.4
P/B (x)	3.5	3.1	2.7
RoE (%)	9.8%	13.2%	14.8%

### Δ in earnings estimates

Rs.	FY25E	FY26E	FY27E
EPS (New)	11.7	17.7	22.8
EPS (Old)	11.6	17.7	22.9
% change	0.3%	-0.1%	-0.2%

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## COMPREHENSIVE CON-CALL TAKEAWAYS

### Revenue / premium growth

- **Growth excluding 1/n accounting**
  - Excluding the impact of 1/n accounting, GWP for the company grew by 16% YoY for 9MFY25 and 13.4% for 3Q.
  - Excluding the impact of 1/n accounting, fresh GWP grew by 27% YoY for 9MFY25.
  - **Segment-wise GWP Growth**
    - Excluding the impact of 1/n accounting, retail segment GWP grew by 14% for 9MFY25.
    - Excluding the impact of 1/n accounting, retail segment fresh GWP grew by 22% for 9MFY25.
  - **More on 1/n accounting**
    - The premium for long-term health business were recognised in the year of underwriting, which will be now spread across the tenure of the policy.
    - On without 1/n basis, the share of long-term policies in GWP was at 10% 9MFY25 as against 7% in 9MFY24.
    - The share of 3-year policies is 9% for 3Q whereas the share of 1-year policies is 91%.
- **IFRS**
  - IFRS is expected to get implemented in few years and the current change in accounting (1/n) is a transition towards IFRS.
  - In IFRS, the net acquisition cost will also get deferred over the tenure of the policy and hence will reflect the true economic return on equity.
- **Market share**
  - Retail Health market share was maintained at 32.2%.
- **Number of policies**
  - The number of policies in fresh retail segment grew by 13% YoY for 9MFY25.
- **Fresh to renewal ratio**
  - The fresh to renewal ratio for 9MFY25 was 24:76 as against 22:78 in 9MFY24.
- **Value vs volume**
  - In 9M, roughly 50% of the growth or 7% has come from value growth whereas the remaining 50% or 7% has come from volume growth.
- **Trend in 4Q**
  - The growth trend in January looks positive and the company is hoping to close the year on a positive note.
- **Reinsurance commission**
  - Due to 1/n accounting, for long-term policies, there has been deferment of reinsurance commission.
- **Group business (Non Banca)**
  - The company decided to focus on SME and mid-corporate clients but the loss ratio experience was elevated.
  - However, there is no change in strategy since this is a very small portion of overall business at about 4% share.
  - The company is focusing on improving the selection of business.

(Con call takeaways continue on the next page)

- **New business**
  - The company is confident about new business.
  - The Superstar product has taken off and overall growth in new business is comfortable.
  - Fresh business has grown 22% YoY on GWP basis and 12% YoY on NOP (Number of Policies) basis.
- **Guidance**
  - The company should grow on a roughly 18% growth path, which would double FY24 premium in FY28.
- **Banca business**
  - The Banca business has seen a slowdown due to slowdown in PSU banks and due to oversight on insurance sales by banks.
  - However, the company continues to focus on this channel and continues to add new partners.

## Loss ratio

- **Claims Ratio / Loss ratio levels**
  - The claims ratio was 70.7% in 9MFY25 vs 67.3% in 9MFY24.
  - For 9MFY25, the retail loss ratio was at 69.2% and group loss ratio was 90.4%.
- **Sequential decline in loss ratio**
  - The loss ratio has declined 1.4% points on sequential basis.
  - For retail business, the decline has been 180 bps.
- **Customer behaviour**
  - The company would like to do better than the reported loss ratio but there was an impact due to customer preference for surgical intervention as opposed to conservative treatment.
- **Product repricing**
  - The company has repriced 65% of the product portfolio as of January 2025 and hence, has carried out most of the repricing.
  - The impact of the same would be felt in the coming quarters.
  - **More on repricing**
    - The company is mindful about the sensitivity of customers to price hikes.
    - However, price hikes are not the first port of call and reflect the market reality of medical inflation.
    - The annualised yield targeted is 10-12%.
    - The impact of price hikes will be seen over 18-24 months.
    - The retention has been good after price hikes.
    - On a blended basis, the price hike have been 8-9%.
- **Banca and new business**
  - There has been more worsening on this side.
  - The company has taken corrective action and things will look better.
  - On a comparative basis, Banca is generally a lower loss ratio business since the products sold are attachment products.
- **Other steps for improving loss ratio**
  - Pricing alone cannot solve for loss ratio.
  - The company is taking various portfolio corrections based on a micro-segmentation approach.
  - The company is also working on the supply side with the providers.

(Con call takeaways continue on the next page)

- **More on hospital cost management**
  - The industry is taking time to solve the hospital maturity cycle.
  - The company is trying to examine the way the billing is happening.
  - It is looking at the basic protocol for medical admission so that hospitalization for things such as simple fever can be minimized.
  - The company is also focusing on raising awareness among customers on wellness and health conditions.
  - The company is using preventive measures to contain readmission rates.
  - Lastly, the company is also talking to the government and regulator so all plans are able to fall into place.

## Expense ratio

- **Expense Ratio levels**
  - The expense ratio was 31.2% in 9MFY25 vs 31.0% in 9MFY24.
  - The expense ratio excluding the impact of 1/n accounting was 30.6% in 9MFY25.
- **Stable Expense Ratio**
  - On a like for like basis, there has been no change in Expense Ratio.
  - Due to 1/n accounting, which has decreased the denominator, which is Net Written Premium, the Expense ratio has risen sequentially by 1.6% points.
- **Banca business impact**
  - The company has been improving the share of Banca business, which sells more Benefit products, which have higher cost.
- **Long-term business impact**
  - In the retail business, the share of long-term business has risen for which the cost has been accounted upfront as per the pre-existing practice, which has caused the Expense Ratio to look higher (since part of the premium for long-term business gets deferred).
- **Guidance**
  - The company will continue to see a 0.5-0.7% benefit going forward on like for like basis but the impact of 1/n accounting will have to be factored in.
- **Commission**
  - The regulator has not placed a separate cap on commission.
  - On a case to case, the company is in discussion with partners.
  - The company has some headroom on the EoM side compared with peers, which it intends to utilise strategically.

## Combined ratio

- The combined ratio on 1/n basis was 101.8% in 9MFY25 vs 98.3% in 9MFY24.
- The combined ratio excluding the impact of 1/n accounting was 101.3% in 9MFY25.

## Channel growth and mix (excluding the impact of 1/n accounting)

- **Agency**
  - The agency channel contributed 80% of the total business in 9MFY25.
  - The fresh GWP in agency channel grew by 14% YoY for 9MFY25.
  - Total agents stood at 761,000 as of Dec 2024 with net addition of 19,000 agents in Q3FY25.
  - The agent recruitment number was at 66,000 for 9MFY25.
  - Agency activation for 9MFY25 was up by 13% YoY.

(Con call takeaways continue on the next page)

- **Banca channel**
  - The banca channel contributed 8% of the total business in 9MFY25.
  - The banca channel GWP has grown by 20% YoY in 9MFY25.
  - The number of banca partners were at 69.
  - In 3QFY25, the company has added Bajaj Finance and Neo Growth as new partners.
- **Corporate channel**
  - The corporate channel contributed 4% of the total business in 9MFY25.
- **Digital channel**
  - The digital channel contributed 8% to the total business in 9MFY25.
  - The fresh business from digital channel grew by 58% in 9MFY25.
  - The company's own direct to consumer channel contributed 72% to the digital channel and the balance 28% is contributed by online brokers and web aggregators.
  - **App**
    - The company's app downloads were 8.6mn as on 9MFY25.
    - The monthly active user base crossed 1mn as of December 2024.

## Solvency

- Solvency ratio was 2.22x as of December 2024 as against 2.23x at September 2024.

## Investments

- **Investment Assets**
  - The overall investment assets for the company were at Rs 166.66 bn, up 15% YoY.
- **Investment Income**
  - The investment income in 9MFY25 was at Rs. 9.96 bn as against Rs 7.90bn in 9MFY24.

## Return Ratios

- The non-annualised Return on Equity was 9.7% in 9MFY25.

## Renewal Persistency

- The company's renewal persistency was at 87% on number of policies.

## Sum Insured

- The average sum insured of new policies has increased by 10% YoY to Rs 1.06mn per policy.
- On the retail health policies, the Rs 0.5mn and above sum insured policies contributed 82% in 9MFY25 vs 77% in 9MFY24.

## New Product

- The company's recently launched product 'Super Star', which offers 21 optional covers.
- This product has achieved good success driving fresh business growth for the company.
- The product has become the top selling product on the company's digital platform and also on the leading web aggregator and digital partner platform.

## Exhibit 2: Other Business Parameters

Rs mn	Q3 FY25	Q3 FY24	% yoy	Q2 FY25	% qoq
<b>Net Premium Earned</b>					
Health retail	35,300	31,062	13.6%	34,301	2.9%
Health Group, Corporate	2,697	1,874	44.0%	2,738	-1.5%
<b>Total</b>	<b>37,997</b>	<b>32,936</b>	<b>15.4%</b>	<b>37,039</b>	<b>2.6%</b>
<b>Segment Underwriting Profit / (Loss)</b>					
Health retail	(461)	1,059	-143.5%	(1,773)	-74.0%
Health Group, Corporate	(29)	83	-134.8%	(174)	-83.4%
<b>Total</b>	<b>(490)</b>	<b>1,142</b>	<b>-142.9%</b>	<b>(1,947)</b>	<b>-74.8%</b>

Source: Company, YES Sec – Research

## Exhibit 3: Quarterly Actuals Vs Estimates

Q3FY25 (Rs. mn)	Actuals	Estimates	Diff, %
Net Premium Earned	37,997	37,001	2.7
Underwriting Profit/(Loss)	(490)	(511)	4.2
PAT	2,151	1,999	7.6

Source: Company, YES Sec – Research

## ANNUAL FINANCIALS

### Exhibit 4: Profit & Loss Statement

Rs mn	FY23	FY24	FY25E	FY26E	FY27E
Gross written premium	129,525	152,545	176,952	207,033	242,229
Net written premium	123,196	140,674	163,149	190,885	223,335
Net earned premium	112,616	129,383	150,097	175,614	205,468
Net claims	73,204	86,000	103,567	117,661	135,609
Net commission	16,828	18,537	21,536	25,197	29,480
Expense of Management	20,538	23,944	27,572	32,069	37,520
Underwriting profit/(Loss)	2,046	903	(2,578)	687	2,859
Investment income	5,014	6,407	7,219	8,150	9,208
<b>Operating profit</b>	<b>7,060</b>	<b>7,309</b>	<b>4,641</b>	<b>8,838</b>	<b>12,067</b>
<b>Shareholder's account</b>					
Operating profit	7,060	7,309	4,641	8,838	12,067
Investment income	3,388	4,475	5,068	5,657	6,571
Total income	10,449	11,784	9,709	14,495	18,637
Expenses	2,185	496	600	702	822
PBT	8,264	11,289	9,109	13,792	17,816
Tax	2,078	2,838	2,286	3,462	4,472
<b>PAT</b>	<b>6,186</b>	<b>8,450</b>	<b>6,823</b>	<b>10,331</b>	<b>13,344</b>

Source: Company, YES Sec - Research

### Exhibit 5: Balance sheet

Rs mn	FY23	FY24	FY25E	FY26E	FY27E
<b>Sources of funds</b>					
Share capital	5,817	5,853	5,853	5,853	5,853
Reserves and Surplus	59,839	60,429	67,252	77,583	90,926
Fair value change account	233	1,036	1,036	1,036	1,036
Borrowings	4,700	4,700	4,700	4,700	4,700
Claims Outstanding gross	8,423	9,074	9,982	10,980	12,078
Current liabilities	11,878	15,704	17,589	19,875	22,459
Provisions	72,687	83,747	93,797	105,052	117,658
<b>Total Liabilities</b>	<b>163,577</b>	<b>180,543</b>	<b>200,207</b>	<b>225,078</b>	<b>254,710</b>
<b>Application of funds</b>					
Investments - Shareholders	53,459	63,361	68,698	78,862	92,738
Investments - Policyholders	80,462	91,548	103,555	116,727	132,137
Fixed assets	1,113	1,751	1,951	2,151	2,351
Deferred tax asset	5,689	3,582	3,082	2,582	2,082
Cash and bank balances	3,094	4,446	6,915	9,252	10,397
Advances and other assets	19,760	15,856	16,005	15,505	15,005
<b>Total Assets</b>	<b>163,577</b>	<b>180,543</b>	<b>200,207</b>	<b>225,078</b>	<b>254,710</b>

Source: Company, YES Sec - Research

## Exhibit 6: Ratio analysis

Particulars	FY23	FY24	FY25E	FY26E	FY27E
<b>Key ratios</b>					
Claims ratio	65.0%	66.5%	69.0%	67.0%	66.0%
Opex ratio	16.7%	17.0%	16.9%	16.8%	16.8%
Commission ratio	13.7%	13.2%	13.2%	13.2%	13.2%
Combined ratio	95.3%	96.7%	99.1%	97.0%	96.0%
Underwriting P/L Ratio	1.8%	0.7%	-1.7%	0.4%	1.4%
RoA	3.9%	4.9%	3.6%	4.9%	5.6%
RoE	9.6%	12.8%	9.8%	13.2%	14.8%
Dividend payout	2.4%	0.0%	0.0%	0.0%	0.0%
Investments leverage	2.0	2.3	2.3	2.3	2.3
<b>Per share ratios (Rs)</b>					
EPS	10.6	14.4	11.7	17.7	22.8
BVPS	112.9	113.2	124.9	142.6	165.4
DPS	0.3	0.0	0.0	0.0	0.0
<b>Valuation ratios</b>					
P/E (x)	41.6	30.6	37.9	25.0	19.4
P/B (x)	3.9	3.9	3.5	3.1	2.7
<b>Growth (%)</b>					
Gross written premium	13.0%	17.8%	16.0%	17.0%	17.0%
Net earned premium	14.8%	14.9%	16.0%	17.0%	17.0%
Claims	-14.3%	17.5%	20.4%	13.6%	15.3%
Commissions	12.8%	10.2%	16.2%	17.0%	17.0%
Net income	-159.4%	36.6%	-19.3%	51.4%	29.2%

Source: Company, YES Sec – Research

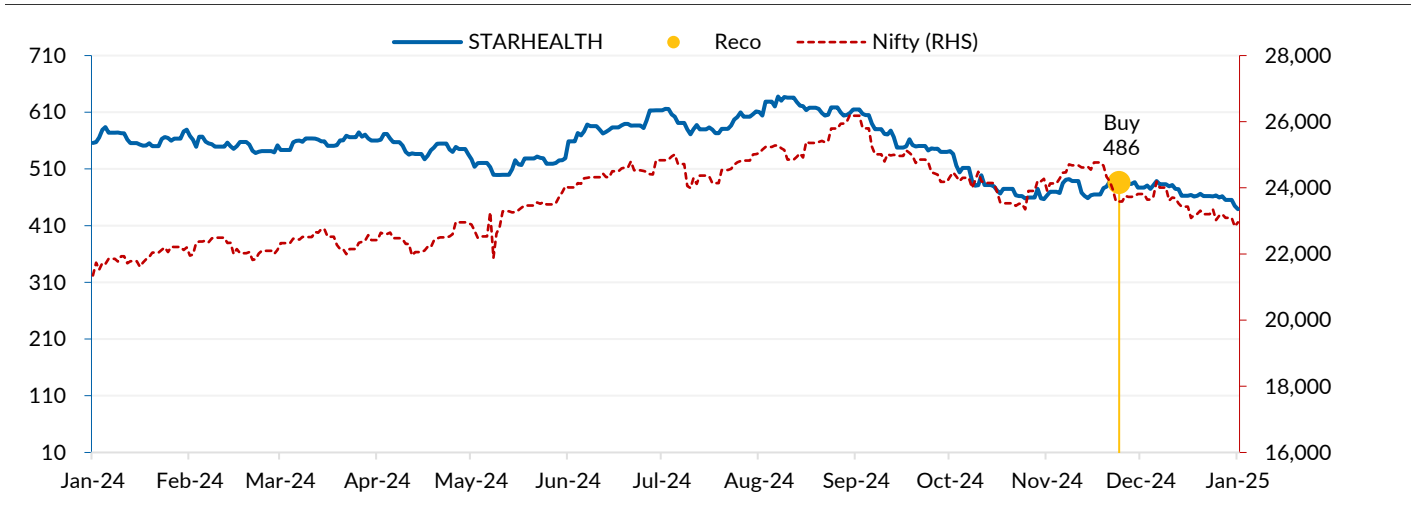
## Exhibit 7: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net Premium Earned	150,097	175,614	205,468	151,391	177,128	207,240	(0.9)	(0.9)	(0.9)
Operating Profit	4,641	8,838	12,067	4,623	8,855	12,112	0.4	(0.2)	(0.4)
Profit After Tax	6,823	10,331	13,344	6,804	10,339	13,374	0.3	(0.1)	(0.2)

Source: Company, YES Sec – Research



## Recommendation Tracker



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Name of the Research Analyst : Shivaji Thapliyal, Siddharth Rajpurohit, Suraj Singhania

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