

We recently met Anand Roy (MD & CEO) and the senior management team of Star Health for an update on Company's strategy and the overall developments in the Health Insurance sector. Key views: 1) Company continues to drive profitable growth with premium growing ~1.1x that of the industry, and it aims to improve Combined ratio by ~1ppts YoY in FY25. 2) The recently-issued Master Circular is more about operational aspects of Health Insurance and from a financial standpoint, the reduction of Pre-existing disease (PED) exclusion phase to 3 years from the current 4 years will require re-pricing of some products, where the PED wait is more than 3 years. 3) Regulatory developments such as last year's EOM regulations and recent initiatives such as Bima Sugam and National Health Claims Exchange are positive for the sector and the company; Star Health is well positioned to benefit from the composite licensing, if it were to become reality. 4) In the medium term, the company aims to double its premium in 4 years, with continued improving profitability.

**Star Health: Financial Snapshot (Standalone)**

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Gross written premium	129,525	152,508	179,896	213,979	256,635
Net earned premium	112,616	129,383	150,958	178,777	212,464
Adj. PAT	6,186	8,450	10,537	12,648	14,822
Adj. EPS (Rs)	10.7	14.5	18.0	21.6	25.3
BVPS (Rs)	93.8	110.1	123.4	140.0	160.3
Adj. EPS growth (%)	(157.4)	35.3	24.3	20.0	17.2
BVPS growth (%)	16.6	17.4	12.0	13.5	14.5
NEP growth (%)	14.8	14.9	16.7	18.4	18.8
Combined ratio (%)	95.3	96.7	95.6	95.1	94.8
RoE (%)	12.3	14.4	15.5	16.4	16.9
P/Float (x)	2.2	1.9	1.7	1.5	1.2
P/E (x)	46.7	34.5	27.7	23.1	19.7
P/B (x)	5.3	4.5	4.0	3.6	3.1

Source: Company, Emkay Research

**Continue to walk on the profitable growth path**

Management is deeply committed to delivering profitable growth and they are progressing well on that path. For FY25, the management is confident of delivering premium growth that is ~1.1x that of the industry, and improving its combined ratio by 1 ppts YoY (with equal contributions from claims and Opex ratio) from last year's 96.7%. From the medium-term perspective, the company aims to double its premium in the next four years, while improving profitability consistently. For FY25, the growth will likely come in both, the retail and the group business. However, owing to the smaller base and productivity gains in multiple banca partnership, the growth in group segment will be higher than the retail. Management maintained that it is possible to achieve under 65% claims ratio in Health Insurance on sustainable basis, but this requires complete focus on the segment and saving on every aspect. This would include robust underwriting to smart negotiations with hospitals to foolproof fraud detection, which is why a multi-liner or life insurers (if they come in composite license era) will find it difficult to achieve this.

**Master Circular on Health Insurance largely touches operational aspects**

The recently-issued 'Master Circular on Health Insurance' largely deals with the operational aspects of Health Insurance including Waiting period, inclusion, claims settlement process, etc. As far as the financial impact of this circular is concerned, there are very few provisions like reducing PED waiting period to 3 years from the current 4 years, which can have some bearing. However, the circular is applicable prospectively, therefore, only products where the PED waiting period is >3 years can be re-priced; in many products the PED waiting period is already 3 years or even lower. On achieving 100% cashless claims settlement or limiting claims settlement post-hospital discharge to 3 hours, it's always the company's endeavor to achieve these to improve customer satisfaction. The regulatory developments such as EOM regulations and initiatives like Bima Sugam and National Health Claims Exchange are positive for the sector and the company. The company is well positioned to grow and capture opportunities in adjacency areas, if the composite license were to become a reality.

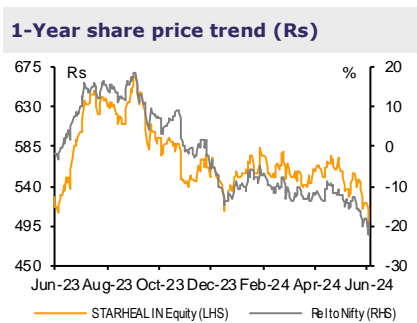
**Following the material underperformance, the valuation has turned attractive**

After ~25% underperformance relative to NIFTY, STARHEAL valuations (FY26E P/E: 23x) have turned attractive, given its pole position in the promising health insurance market and Management's confidence in profitable growth. From the shareholding perspective too, the promoter appears committed and a large part of the Private Equity investors have exited. We currently have a REDUCE rating; however, after the underperformance, STARHEAL shares are trading below our TP. We shall review our estimates in due course.

Target Price – 12M	Mar-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	5.2
CMP (05-Jun-24) (Rs)	499.3

Stock Data	Ticker
52-week High (Rs)	675
52-week Low (Rs)	455
Shares outstanding (mn)	585.3
Market-cap (Rs bn)	292
Market-cap (USD mn)	3,505
Net-debt, FY25E (Rs mn)	0
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	345.5
ADTV-3M (USD mn)	4.1
Free float (%)	-
Nifty-50	22,620
INR/USD	83.4
<b>Shareholding, Mar-24</b>	
Promoters (%)	57.9
FPIs/MFs (%)	26.6/11.2

Price Performance			
(%)	1M	3M	12M
Absolute	(10.4)	(10.0)	(7.6)
Rel. to Nifty	(11.1)	(10.6)	(24.0)

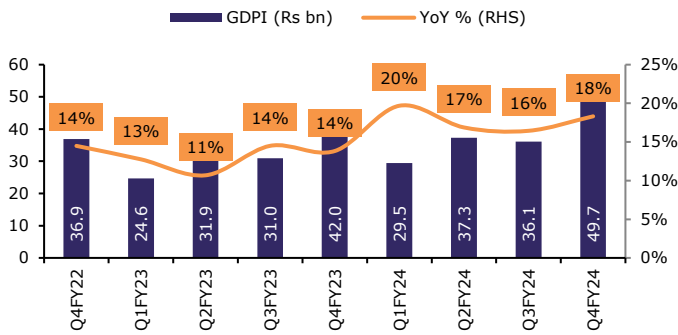


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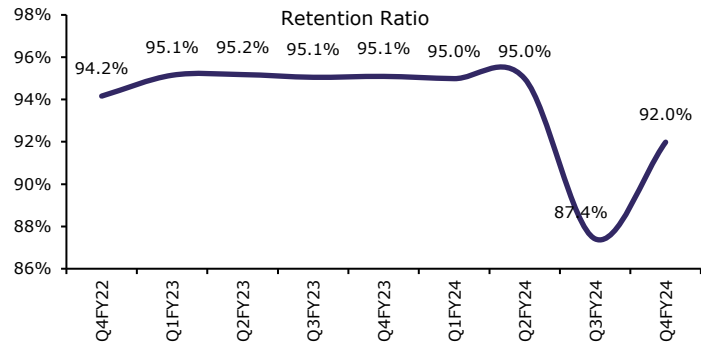
# Story in Charts

**Exhibit 1: Star Health reports ~18% GDPI growth during Q4FY24**



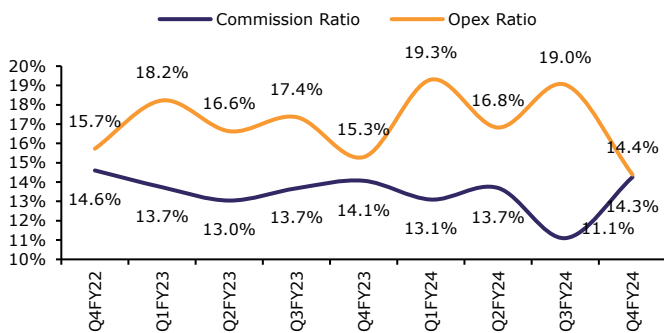
Source: Company, Emkay Research

**Exhibit 2: Net retention ratio stands at 92% for Q4FY24**



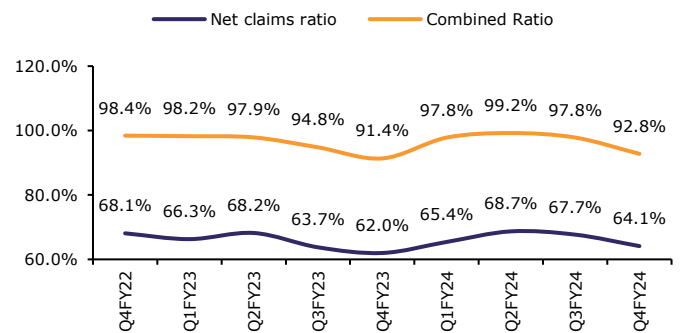
Source: Company, Emkay Research

**Exhibit 3: Commission ratio rises to 14.3% during Q4FY24**



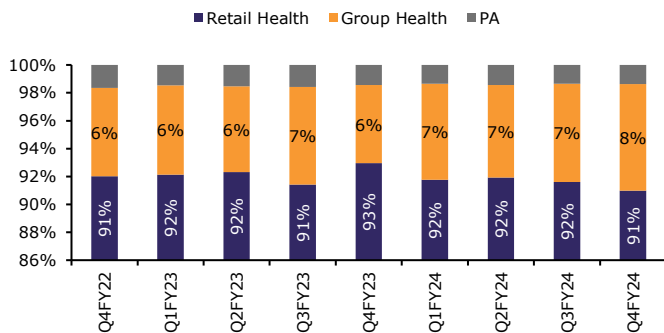
Source: Company, Emkay Research

**Exhibit 4: Higher claims ratio results in 92.8% combined ratio for Q4FY24**



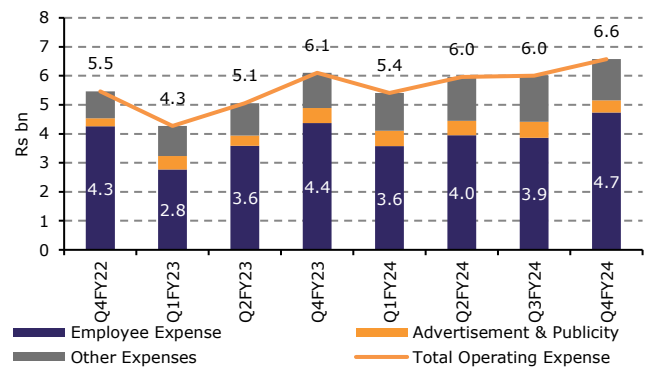
Source: Company, Emkay Research

**Exhibit 5: Share of Group health inches up to 8%**



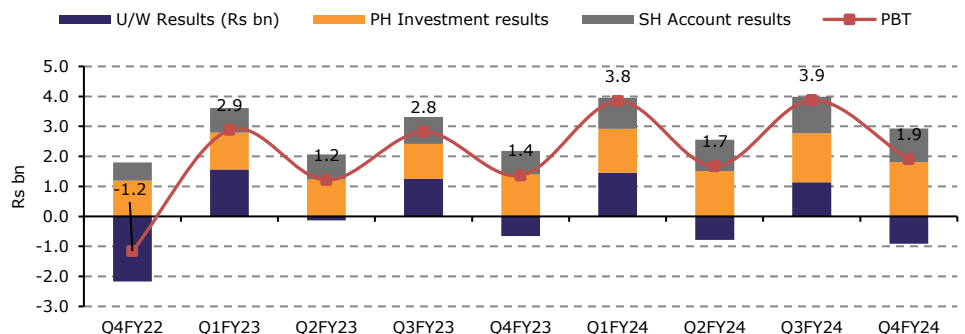
Source: Company, Emkay Research

**Exhibit 6: Operating expenses composition**



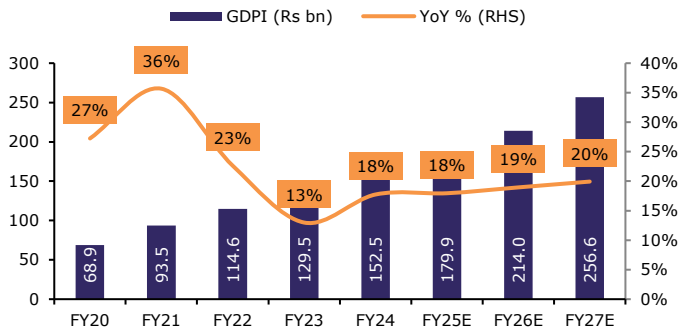
Source: Company, Emkay Research

**Exhibit 7: Profit before tax increases YoY to Rs1.9bn during Q4FY24, driven by higher investment income**



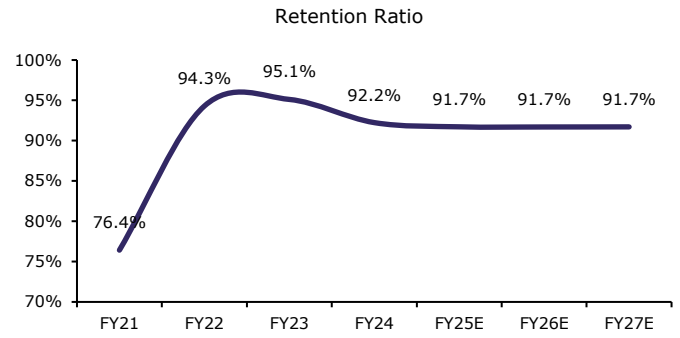
Source: Company, Emkay Research

**Exhibit 8: We expect 18% GDPI growth during FY25E**



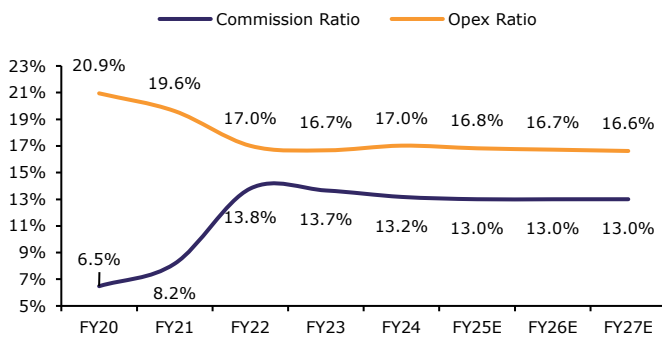
Source: Company, Emkay Research

**Exhibit 9: Retention ratio to decline and hover at ~92% during FY25-27E**



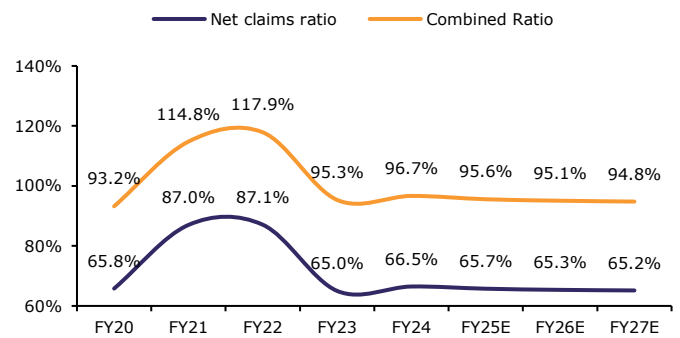
Source: Company, Emkay Research

**Exhibit 10: Total expense ratio expected to remain around 30%**



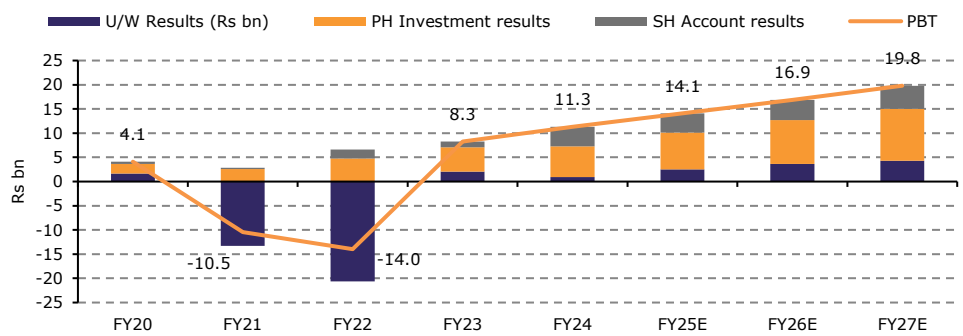
Source: Company, Emkay Research

**Exhibit 11: We expect the combined ratio to improve to 95.6% during FY25E**



Source: Company, Emkay Research

**Exhibit 12: Star Health is expected to deliver PBT of Rs14bn by FY25E**



Source: Company, Emkay Research

## Star Health: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
GDPI	129,525	152,508	179,896	213,979	256,635
Gross written premium	129,525	152,508	179,896	213,979	256,635
Net written premium	123,196	140,674	164,994	196,217	235,365
<b>Net earned premium</b>	<b>112,616</b>	<b>129,383</b>	<b>150,958</b>	<b>178,777</b>	<b>212,464</b>
Net incurred claims	73,204	86,000	99,230	1,16,826	1,38,432
Net commission	16,828	18,537	21,454	25,508	30,602
Operating expense	20,538	23,944	27,754	32,810	39,120
<b>Total expense</b>	<b>110,570</b>	<b>128,480</b>	<b>148,438</b>	<b>175,144</b>	<b>208,155</b>
<b>Underwriting profit</b>	<b>2,046</b>	<b>903</b>	<b>2,520</b>	<b>3,633</b>	<b>4,309</b>
Investment income	5,014	6,407	7,598	9,089	10,686
Other income	0	0	0	0	0
<b>Operating profit</b>	<b>7,060</b>	<b>7,309</b>	<b>10,118</b>	<b>12,722</b>	<b>14,995</b>
<b>Shareholder results</b>	<b>1,204</b>	<b>3,979</b>	<b>3,958</b>	<b>4,175</b>	<b>4,806</b>
<b>PBT</b>	<b>8,264</b>	<b>11,289</b>	<b>14,076</b>	<b>16,896</b>	<b>19,801</b>
Extraordinary items	0	0	0	0	0
Tax expense	2,078	2,838	3,539	4,248	4,979
<b>Reported PAT</b>	<b>6,186</b>	<b>8,450</b>	<b>10,537</b>	<b>12,648</b>	<b>14,822</b>
PAT growth (%)	(159.4)	36.6	24.7	20.0	17.2
<b>Adjusted PAT</b>	<b>6,186</b>	<b>8,450</b>	<b>10,537</b>	<b>12,648</b>	<b>14,822</b>
<b>Diluted EPS (Rs)</b>	<b>10.4</b>	<b>14.2</b>	<b>18.0</b>	<b>21.6</b>	<b>25.3</b>
Diluted EPS growth (%)	(155.8)	36.3	26.9	20.0	17.2
<b>DPS (Rs)</b>	<b>0.0</b>	<b>0.0</b>	<b>3.0</b>	<b>5.0</b>	<b>5.0</b>
<b>Dividend payout (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>16.7</b>	<b>23.1</b>	<b>19.7</b>
Effective tax rate (%)	25	25	25	25	25
Shares outstanding (mn)	581.7	585.3	585.3	585.3	585.3

Source: Company, Emkay Research

Miscellaneous Metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Operating metrics (%)</b>					
Retention ratio	95.1	92.2	91.7	91.7	91.7
Incurred claims ratio	65.0	66.5	65.7	65.3	65.2
Net commission ratio	13.7	13.2	13.0	13.0	13.0
Opex ratio	16.7	17.0	16.8	16.7	16.6
<b>Combined ratio</b>	<b>95.3</b>	<b>96.7</b>	<b>95.6</b>	<b>95.1</b>	<b>94.8</b>
RSM-to-NWP	20.0	20.0	20.0	20.0	20.0
Solvency ratio	214.0	214.6	217.1	207.5	198.2
<b>Claims ratio (%)</b>					
Motor TP	0.0	0.0	0.0	0.0	0.0
Motor OD	0.0	0.0	0.0	0.0	0.0
Health	65.0	66.5	65.7	65.3	65.2
Fire	0.0	0.0	0.0	0.0	0.0
Crop	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
<b>GWP mix (%)</b>					
Motor TP	0.0	0.0	0.0	0.0	0.0
Motor OD	0.0	0.0	0.0	0.0	0.0
Health	100.0	100.0	100.0	100.0	100.0
Fire	0.0	0.0	0.0	0.0	0.0
Crop	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	8,817	5,853	5,853	5,853	5,853
Reserves & surplus	56,839	60,429	66,345	76,066	87,961
<b>Net worth</b>	<b>65,656</b>	<b>66,282</b>	<b>72,197</b>	<b>81,919</b>	<b>93,814</b>
Fair value gains	234	1,036	0	0	0
Borrowings	4,700	4,700	4,700	4,700	4,700
<b>Total liabilities &amp; equity</b>	<b>70,589</b>	<b>72,018</b>	<b>76,897</b>	<b>86,619</b>	<b>98,514</b>
Policyholder investments	80,462	91,548	1,12,424	1,29,939	1,55,018
Shareholder investments	53,459	63,361	61,518	69,295	78,811
Other assets	6,802	5,333	1,881	1,931	2,027
Cash & bank balances	3,094	4,446	9,923	11,683	13,843
Other current assets	8,444	12,990	15,588	18,705	22,446
Claims outstanding	8,423	10,419	11,391	12,677	15,114
Unearned premium	72,309	83,311	97,346	1,14,787	1,37,688
Other current liab.	20,301	24,779	27,090	30,147	35,943
Provisions	378	436	0	0	0
<b>Net current assets</b>	<b>(81,451)</b>	<b>(91,090)</b>	<b>(98,926)</b>	<b>(1,14,546)</b>	<b>(1,37,342)</b>
<b>Total assets</b>	<b>70,589</b>	<b>72,018</b>	<b>76,897</b>	<b>86,619</b>	<b>98,514</b>
BVPS (Rs)	93.8	110.1	123.4	140.0	160.3
Investment leverage (x)	2.5	2.4	2.3	2.3	2.4
Net investment yield (%)	6.7	7.5	7.4	7.4	7.4
PH investment yield (%)	6.7	7.2	7.5	7.5	0.0
SH investment yield (%)	6.8	7.1	7.1	7.3	0.0
NWP/Networth (x)	2.0	2.1	2.3	2.4	2.5
Required Solvency [RSM]	24,639	28,135	32,999	39,243	47,073
Available Solvency [ASM]	52,765	60,376	71,656	81,420	93,316

Source: Company, Emkay Research

Valuation & Key Metrics					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/B (x)	5.3	4.5	4.0	3.6	3.1
P/E (x)	46.7	34.5	27.7	23.1	19.7
P/Float (x)	2.2	1.9	1.7	1.5	1.2
P/GWP (x)	2.2	1.9	1.6	1.4	1.1
Dividend yield (%)	0.0	0.0	0.6	1.0	1.0
<b>DuPont-RoE split (%)</b>					
NEP/avg assets	90.9	89.6	91.8	95.8	98.1
Net incurred claims	59.1	59.6	60.3	62.6	63.9
Commission + Opex	30.2	29.4	29.9	31.3	32.2
<b>Underwriting profit</b>	<b>1.7</b>	<b>0.6</b>	<b>1.5</b>	<b>1.9</b>	<b>2.0</b>
PH investment income	4.0	4.4	4.6	4.9	4.9
<b>Operating profit</b>	<b>5.7</b>	<b>5.1</b>	<b>6.2</b>	<b>6.8</b>	<b>6.9</b>
Shareholder results	1.0	2.8	2.4	2.2	2.2
Tax expense	1.7	2.0	2.2	2.3	2.3
<b>RoA</b>	<b>5.0</b>	<b>5.9</b>	<b>6.4</b>	<b>6.8</b>	<b>6.8</b>
Leverage ratio (x)	2.0	2.3	2.3	2.4	2.4
<b>RoE</b>	<b>12.3</b>	<b>14.4</b>	<b>15.5</b>	<b>16.4</b>	<b>16.9</b>
<b>Growth rates (%)</b>					
GDPI	13.0	17.7	18.0	18.9	19.9
Gross written premium	13.0	17.7	18.0	18.9	19.9
Net written premium	14.0	14.2	17.3	18.9	20.0
Net earned premium	14.8	14.9	16.7	18.4	18.8
Claims incurred	(14.3)	17.5	15.4	17.7	18.5
Operating profit	NM	3.5	38.4	25.7	17.9

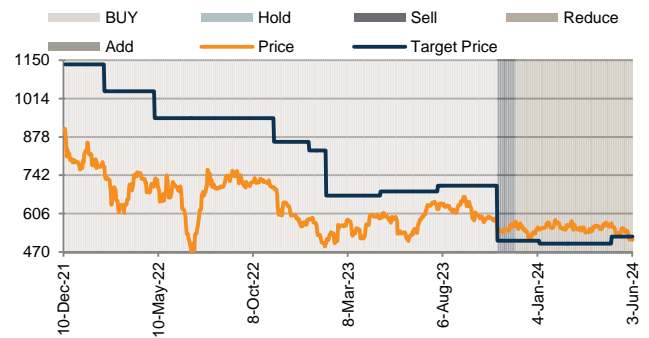
Source: Company, Emkay Research

## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-May-24	572	525	Reduce	Avinash Singh
03-Apr-24	560	500	Reduce	Avinash Singh
06-Mar-24	554	500	Reduce	Avinash Singh
01-Feb-24	584	500	Reduce	Avinash Singh
18-Jan-24	569	500	Reduce	Avinash Singh
07-Jan-24	549	500	Reduce	Avinash Singh
28-Dec-23	540	510	Reduce	Avinash Singh
30-Nov-23	578	510	Reduce	Avinash Singh
01-Nov-23	548	510	Sell	Avinash Singh
18-Oct-23	592	705	Buy	Avinash Singh
05-Oct-23	595	705	Buy	Avinash Singh
04-Oct-23	589	705	Buy	Avinash Singh
29-Jul-23	622	705	Buy	Avinash Singh
09-Jul-23	603	685	Buy	Avinash Singh
29-Apr-23	591	685	Buy	Avinash Singh
03-Apr-23	527	670	Buy	Avinash Singh
30-Mar-23	527	670	Buy	Avinash Singh
06-Feb-23	523	670	Buy	Avinash Singh
01-Feb-23	502	670	Buy	Avinash Singh
17-Jan-23	566	830	Buy	Avinash Singh
05-Jan-23	585	830	Buy	Avinash Singh
03-Jan-23	584	860	Buy	Avinash Singh
10-Nov-22	699	860	Buy	Avinash Singh
29-Sep-22	708	945	Buy	Avinash Singh
22-Sep-22	712	945	Buy	Avinash Singh
05-Sep-22	758	945	Buy	Avinash Singh
24-Aug-22	720	945	Buy	Avinash Singh
31-Jul-22	747	945	Buy	Avinash Singh
27-Jun-22	515	945	Buy	Avinash Singh
04-May-22	720	945	Buy	Avinash Singh
24-Mar-22	697	1,040	Buy	Avinash Singh
13-Feb-22	772	1,040	Buy	Avinash Singh
13-Dec-21	897	1,135	Buy	Avinash Singh

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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