

Retail Equity Research

Star Health and Allied Insurance Co Ltd

BUY

General Insurance

BSE CODE: 543412 NSE CODE: STARHEALTH
Bloomberg CODE: STARHEAL:IN SENSEX: 82,353

12 Months Investment Period Rating as per Mid Cap
CMP Rs. 630 TARGET Rs. 738 RETURN 17% ↑
(Closing: 04-09-24)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Demand expected to drive growth momentum

Star Health and Allied Insurance Co commenced operations in 2006 and is India's first standalone health insurance provider. It offers health, personal, accident and travel (both domestic and overseas) insurance. It has one of the largest health insurance networks in India with more than 14,340 hospitals.

- In Q1FY25, net earned premium (NEP) grew 15.7% YoY to Rs. 3,520cr with growth in retail health premium and enhanced contribution from new business.
- However, the combined ratio deteriorated 140bps YoY to 99.2%, owing to a 220 bps YoY rise in claims ratio.
- In Q1FY25, Star Health delivered sound performance with increasing contribution from distribution networks in GWP. The renewal and combined ratios are expected to improve on the back of continuous management attention. Hence, we retain our BUY rating on the stock with a target price of Rs. 738, based on 4.75x FY26E BVPS.

Strong brand image boosted topline

In Q1FY25, gross written premium (GWP) rose 17.9% YoY to Rs. 3,476cr with a 20bps YoY increase in market in general insurance segment. The retail GWP grew 14.8% YoY. Long-term policies' share within retail GWP improved to 7% vs 5% in Q1FY24, providing a strong outlook. The renewal ratio was 92.8% vs 97.3% in Q1FY24, lower than the company historical average of 95-96%. While the ratio of fresh to renew business improved to 25:75 vs 23:77 in Q1FY24. Fresh premium growth was 18% YoY with retail health fresh premiums seeing a mid-teens YoY growth. Further, an increase in reinsurance commission to Rs. 117cr vs Rs. 34cr in Q1FY24 compressed NEP growth to 15.7% YoY.

Unexpected claims pushed up claims ratio

In Q1FY25, the combined ratio surged 140bps YoY to 99.2% on account of a 220bps YoY rise in claim ratio to 67.6%. But it was rescued by an 80bps YoY fall in the expense ratio to 31.6%. Claims saw a more-than-expected 19.6% YoY rise and thus impacted the claims ratio. Further, allocation of the wellness cost also increased the claims ratio. Underwriting profit fell 3.4% YoY. As a result, PAT rose 10.8% YoY to Rs. 319cr. Solvency ratio strengthened to 2.29x in Q1FY25 vs 2.21x in Q4FY24, above the statutory requirement of 1.5x.

Key concall highlights

- Star Health aims to deliver 2x GWP growth to reach Rs. 30,000cr and 3x PAT growth to reach Rs. 2,500cr by FY28 on the back of its well-defined growth engines and competitive moat.
- In Q1FY25, 90% of claims were paid cashless vs 84% in Q1FY24. Further enhanced digitalization helped the company to service 92% claims in just 2 hours, improving the overall customer experience.
- The company plans to hike prices for ~30% of its portfolio by 10-15% in FY25.

Valuation

The company's efforts to enrich the customer experience by digitalising internal processes should further strengthen its brand image and drive demand for products. Growth in the banca partnerships and contribution from agency businesses would help capture fresh business. Additionally, the company is looking to bolster its sales distribution network, which could boost the business in the near term. Further, the implementation of wellness and prevention programmes may help control claim ratios in the long term. While a price hike may have a minimal impact on the company's strong brand image, it is expected to deliver robust results going ahead. Hence, we retain our BUY rating on stock with a target price of Rs. 738, based on 4.75x FY26E BVPS.

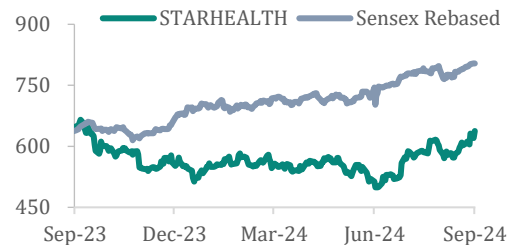
Company Data

Market Cap (cr)	Rs. 37,332
Outstanding Shares (cr)	58.5
Free Float	39.0%
Dividend Yield	0.0
52 week high	Rs. 675
52 week low	Rs. 477
6m average volume (lacs)	11.0
Beta	0.3
Face value	Rs.10

Shareholding (%)	Q3FY24	Q4FY24	Q1FY25
Promoters	57.9	57.9	57.9
FII's	31.0	26.6	21.6
MFs/Insti	6.1	11.2	15.1
Public	3.8	3.0	3.4
Others	1.2	1.4	2.0
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	24.3%	12.6%	0.1%
Absolute Sensex	8.0%	11.9%	26.3%
Relative Return*	16.4%	0.7%	-26.1%

*over or under performance to benchmark index



Standalone (cr)	FY24A	FY25E	FY26E
Net Earned Premium	12,938	15,447	17,774
Growth (%)	14.9	19.4	15.1
Total Income	13,580	16,230	18,753
Profit Before Tax	1,129	1,470	1,821
Growth (%)	36.6	30.3	23.8
Net Profit	845	1,103	1,366
Growth (%)	36.6	30.5	23.8
EPS (Rs)	14.5	18.8	23.3
Growth (%)	35.3	30.1	23.8
BV (Rs)	113.2	132.1	155.4
RoE	12.7	14.3	15.0
P/E	37.4	33.9	27.3
P/BV	4.8	4.8	4.1
Solvency (%)	221	232	242



Quarterly Financials (Standalone)

Profit & Loss Account

Rs. cr	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Premium Earned (Net)	3,520	3,044	15.7	3,395	3.7
Income from Invt. (net)	172	146	17.5	182	(5.6)
Total Operating Income	3,692	3,190	15.7	3,577	3.2
Opt. Exp. Rel. Ins	572	540	5.9	658	(13.1)
Incurred Claims	2,379	1,990	19.6	2,175	9.4
Commission (net)	429	368	16.5	654	(34.4)
Total Op. Expenses	3380	2898	16.6	3487	(3.1)
Operating Profit	312	292	7.0	90	246.63
Non-op. income	125	104	20.4	115	9.1
Non-op. expense	11	11	(1.2)	15	(26.4)
PBT	426	384	10.9	190	124.6
Tax	107	97	11.1	47	126.2
Reported PAT	319	288	10.8	142	124.1
Adj. EPS (Rs.)	5.45	4.95	10.1	2.43	124.3

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Premium Earned (Net)	15,845	-	15,447	17,774	(2.5)	-
Profit before tax	1,564	-	1,470	1,821	(6.0)	-
Net profit	1,173	-	1,103	1,366	(6.0)	-
EPS (Rs.)	20.1	-	18.84	23.32	(6.3)	-

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Premium Earned	9,809	11,262	12,938	15,447	17,774
Inc. from inv.	480	501	642	783	979
Total op. Income	10,289	11,763	13,580	16,230	18,753
% change	111.0	14.3	15.4	19.5	15.5
Op. Exp. Rel. ins.	1,839	2,054	2,395	2,840	3,282
Incurred Claims	8,540	7,320	8,594	10,225	11,739
Commission	1,492	1,683	1,860	2,191	2,532
Others	-	-	-	-	-
Total Op. Exp	11,871	11,057	12,849	15,256	17,553
Operating Profit	(1,582)	706	731	974	1,200
Non-op. income	321	339	447	558	697
Non-op. expense	136	218	50	62	77
PBT	(1,397)	826	1,129	1,470	1,821
% change	(3.4)	n.m.	36.6	30.3	23.8
Tax	(356)	208	284	368	455
Tax Rate (%)	25.5	25.1	25.1	25.0	25.0
Reported PAT	(1,041)	619	845	1,103	1,366
Adj*	-	-	-	-	-
Adj PAT	(1,041)	619	845	1,103	1,366
% change	(4.1)	n.m.	36.6	30.5	23.8
No. of shares (cr)	57.6	58.2	58.5	58.5	58.5
Adj EPS (Rs)	(18.7)	10.7	14.5	18.8	23.3
% change	(14.3)	n.m.	35.3	30.1	23.8

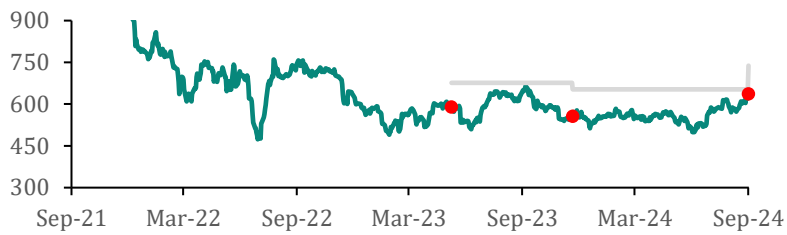
BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Invt. - Policyholders	6,880	8,046	9,155	10,894	12,964
Invt. - Shareholders	4,494	5,346	6,336	7,793	9,586
Fixed assets	117	111	175	184	193
Deferred tax assets	777	569	358	358	358
Net Current assets	(6,917)	(8,145)	(9,109)	(11,130)	(13,666)
Debit Bal in P&L account	1,765	1,132	287	301	316
Total	7,116	7,059	7,202	8,401	9,751
Share Capital	576	582	585	585	585
Reserves & Surplus	5,794	5,984	6,043	7,146	8,511
Fair Value Change	27	23	104	190	166
Borrowings	720	470	470	479	489
Deferred Tax Liability	-	-	-	-	-
Total	7,116	7,059	7,202	8,401	9,751
BVPS (Rs)	110.7	112.9	113.2	132.1	155.4
% change	43.6	2.0	0.3	16.6	17.7

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Valuation					
P/E (x)	n.m.	50.5	37.4	33.9	27.3
P/BV (x)	6.4	4.8	4.8	4.8	4.1
Per Share (Rs.)					
EPS	n.m.	10.7	14.5	18.8	23.3
BVPS	110.7	112.9	113.2	132.1	155.4
Earnings (%)					
RoE	n.m.	9.4	12.7	14.3	15.0
Expenses (%)					
Loss Ratio	87.1	65.0	66.4	66.2	66.0
Combined Ratio	117.2	95.3	96.7	96.5	96.4
Solvency (%)					
Solvency	167	214	221	232	242

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
11-May-23	ACCUMULATE	676
23-Nov-23	BUY	653
4-Sep-24	BUY	738

Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note; **Reduce:** Reduce your exposure to the stock due to limited upside; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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