30 October 2024

2QFY25 Results Update | Sector: Insurance

Star Health

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	STARHEAL IN
Equity Shares (m)	588
M.Cap.(INRb)/(USDb)	303.1 / 3.6
52-Week Range (INR)	648 / 455
1, 6, 12 Rel. Per (%)	-9/-17/-39
12M Avg Val (INR M)	557

Financials & Valuations (INR b)

Y/E March	2025E	2026E	2027E
NEP	149.7	175.3	205.9
U/W Profit	-0.6	1.6	3.9
PBT	13.3	16.7	21.4
PAT	10.0	12.5	16.0
Ratios (%)			
Claims	67.9	67.0	66.5
Commission	13.8	13.8	13.8
Expense	16.6	16.2	15.7
Combined	98.3	97.0	96.0
RoE	14.0	15.1	16.6
EPS (INR)	17.0	21.3	27.4
EPS Growth (%)	17.8	25.4	28.5
Valuations			
P/E (x)	30.6	24.4	19.0
P/BV (x)	4.0	3.4	2.9

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	57.7	57.9	58.0
DII	17.1	20.4	23.0
FII	17.7	16.3	13.7
Others	7.6	5.4	5.2

FII Includes depository receipts

CMP: INR516 TP: INR630 (+22%) Buy

Elevated loss ratio hits profitability, PAT miss of 29%

- Star Health (STARHEAL)'s net earned premium grew 16% YoY to INR37b (in line). For 1HFY25, net earned premium rose 16% YoY.
- Total investment income stood at INR3.6b (15% above est.), up 39% YoY. For 1HFY25, it came in at INR6.5b, a growth of 29% YoY.
- Claim ratio stood at 72.8% (vs. our est. of 70.5%). It increased 410bp YoY mainly due to the rising share of the group segment (leading to a higher loss ratio), heightened medical inflation, and elevated claims.
- The increase in loss ratio led to a 380bp YoY surge in the combined ratio to 103% (est. 100%) in 2QFY25. The company is confident of achieving a 95-96% combined ratio in the long term, but heightened medical inflation remains a challenge in the short term.
- The underwriting loss for the quarter came in at INR1.9b vs. INR784m YoY.
- A higher-than-expected loss ratio led to a 29% miss in PAT in 2QFY25 to INR1.1b (down 11% YoY). For 1HFY25, PAT grew 4% YoY to INR4.3b. Management guides for PAT to increase to INR25b by FY28.
- Considering the weak performance in 2QFY25 and structural headwinds in the form of elevated medical inflation, we cut our earnings estimates by 7.4%/12.2%/14.7% for FY25/FY26/FY27. **We reiterate our BUY rating on the stock with a TP of INR630 (based on 26x Sep'26E EPS).**

Claims ratio at 73%, the highest since Covid-19, hits profitability

- Gross written premium at INR43.7b grew 17% YoY (in line) in 2QFY25, led by 15% YoY growth in retail health premium and 42% YoY growth in group health premium. Management guides GWP to reach INR300b by FY28.
- New business contributed ~25% of the overall premiums, +31% YoY in 1HFY25. Growth was driven by value as well as volume. 12% of the new business was contributed by portability. New customers to Star Health as well as industry will be drivers for growth in new business.
- The commission ratio at 13.8% (est. 13.2%) was largely flat YoY, while net commission grew 13% YoY to INR5.5b (5% above our est.).
- Expense ratio at 16.4% (est. 16.2%) declined 40bp YoY on account of a 60bp decline in other expenses, while employee expenses increased 30bp as a % of NWP. Operating expenses were in line with our estimates.
- To maintain the loss ratio, STARHEAL has carried out repricing of products, contributing 10-12% of the premiums. The company is planning a repricing of ~50-60% of the product portfolio, following the differential pricing method based on cohorts.
- The solvency ratio for 2QFY25 was 2.2x vs. 2.1x in 2QFY24.
- For 2HFY25, we expect NEP/PAT to grow 16%/31% YoY to INR77.5b/INR5.7b. The Loss ratio and combined ratio for 2HFY25 are likely to be 66% and 96% (flat YoY), respectively.