

Star Health and Allied Insurance | BUY



A weak quarter

Star Health reported weak results, with a Combined Ratio (COR) of 103.0%, an adverse 380bps YoY, adverse 380bps QoQ. Despite strong investment yields of 8.8% (against 7.5% in 1Q), PAT fell 11.2% YoY to INR 1.1bn. Growth was slightly ahead of provisional figures, with GWP growing 17.1% YoY and NEP growing 15.5% YoY to INR 39.8bn. Within COR, opex was in line with guidance with EOM (Expenses of Management) to NWP (Net Written Premiums) at 30.3%, while Claims Ratio surprised negatively at 72.8%. Star Health management attributed higher claims to a combination of higher incidence (chance of a person getting admitted and seeking insurance) and higher severity (higher costs once admitted). This in turn was led by erratic monsoons, which started at end of 1Q and continue onto October, with 2Q bearing the maximum impact. As awareness around monsoon illnesses rise, people have a higher propensity to get admitted for treatment. While Star is spending aggressively on tele-medicine to arrest this tendency, behavioral change will only be gradual. The company had undertaken a blended price increase of c.10% in 12% of its portfolio in 1H25 and was planning a similar price hike in 2H. However, given the higher claims, mgmt. is now planning to take ~10% price hikes in 50%+ of its portfolio in 2H25. This should help bring down Claims Ratio over FY26-FY27, as the revised premiums are progressively earned. We do not materially change FY26e as price hikes should support improvement in Claims Ratio and COR. For FY25e, we cut earnings estimate by ~5%. Our nos. imply a 18% YoY growth in NEP/18% growth in PAT for 2H25e over 2H24. While mgmt. acknowledged pressure on FY25 COR given the weak 101.1% COR in 1H, the insurer remains focused on its 4 year strategy of 2x FY24 premiums, 3x FY24 PAT. We saw Star Health bounce back sharply post-Covid to report a 95.3% COR in FY23 and with price hikes already taken and more planned, see the company bounce back by 4Q25-FY26. We maintain our positive stance on the company – maintain BUY with an unchanged Target Price of INR 750, valuing the company at 35x FY26e EPS of INR 21.5.

- Price hikes can cushion COR in near term, Star planning 10% hikes on another 50% of portfolio in 2H: Star Health reported weak results, with a Combined Ratio (COR) of 103.0%, an adverse 380bps YoY, adverse 380bps QoQ. Within COR, opex was in line with guidance with EOM (Expenses of Management) to NWP (Net Written Premiums) at 30.3%, while Claims Ratio surprised negatively at 72.8%. Star Health management attributed higher claims to a combination of higher incidence (chance of a person getting admitted and seeking insurance) and higher severity (higher costs once admitted). This in turn was led by erratic monsoons, which started at end of 1Q and continue onto October, with 2Q bearing the maximum impact. As awareness around monsoon illnesses rise, people have a higher propensity to get admitted for treatment. While Star is spending aggressively on tele-medicine to arrest this tendency, behavioral change will only be gradual. The company had undertaken a blended price increase of c.10% in 12% of its portfolio in 1H25 and was planning a similar price hike in 2H. However, given the higher claims, mgmt. is now planning to take ~10% price hikes in 50%+ of its book in 2H25. This should help bring down Claims Ratio over FY26-FY27, as the revised premiums are progressively earned.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	750
Upside/(Downside)	45.3%
Previous Price Target	750
Change	0.0%

Key Data – STARHEAL IN

Current Market Price	INR516
Market cap (bn)	INR303.1/US\$3.6
Free Float	38%
Shares in issue (mn)	585.3
Diluted share (mn)	
3-mon avg daily val (mn)	INR711.4/US\$8.5
52-week range	648/455
Sensex/Nifty	79,942/24,341
INR/US\$	84.1

Price Performance

%	1M	6M	12M
Absolute	-15.0	-9.8	-12.3
Relative*	-10.4	-15.9	-29.9

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Gross premiums (INR bn)	115	130	153	182	216
GWP growth (% YoY)	22.1%	13.0%	17.8%	19.0%	19.0%
Net profit (INR bn)	(14.0)	6.2	8.5	9.4	12.8
EPS (INR)	-24.3	10.6	14.1	15.8	21.5
EPS growth (% YoY)	8.0%	143.8%	33.0%	11.6%	36.0%
Combined ratio (%)	117.9%	95.3%	96.7%	96.1%	95.1%
ROE (%)	-26.4%	9.6%	12.8%	13.2%	15.4%
PE (x)	(21.3)	48.5	36.5	32.7	24.0
BV (INR)	109.4	112.9	113.2	131.1	153.0
PBV (x)	4.7	4.6	4.6	3.9	3.4

Source: Company data, JM Financial. Note: Valuations as of 30/Oct/2024

JM Financial Institutional Securities Limited

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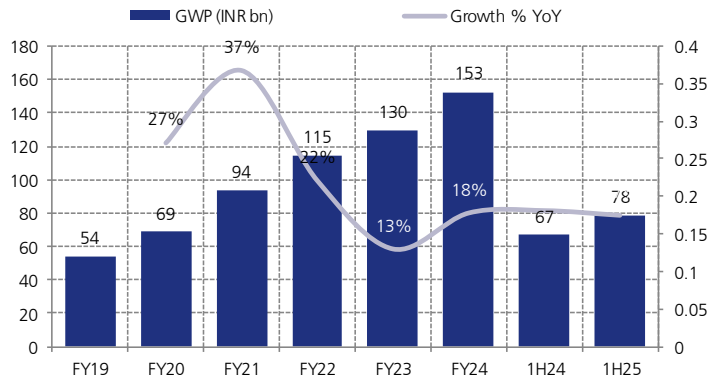
- Growth remains steady, claims costs should normalise by 4Q25-FY26:** Growth was slightly ahead of provisional figures, with GWP growing 17.1% YoY and NEP growing 15.5% YoY to INR 39.8bn. We do not materially change FY26e as price hikes should support improvement in Claims Ratio and COR. For FY25e, we cut earnings estimate by ~5%. Our nos. imply a 18% YoY growth in NEP/18% growth in PAT for 2H25e over 2H24. . While mgmt. acknowledged pressure on FY25 COR given the weak 101.1% COR in 1H, the insurer remains focused on its 4 year strategy of 2x FY24 premiums, 3x FY24 PAT.
- Valuation and view:** Over FY22-FY24 (post IPO), Star has lagged SAHs in growth, seen a change in management and faces a regulatory threat over eliminating agent-insurer tie-ups and composite licences. Despite this, we see the business under-valued at 24x FY26e PAT, as the targeted 2x FY24 premiums and 3x FY24 PAT by FY28 looks comfortable. We saw Star Health bounce back sharply post-Covid to report a 95.3% COR in FY23 and with price hikes already taken and more planned, see the company bounce back by 4Q25-FY26. We maintain our positive stance on the company – maintain BUY with an unchanged Target Price of INR 750, valuing the company at 35x FY26e EPS of INR 21.5.

Exhibit 1. Star Health 2Q25: Key quarterly trends

Earnings Table (INR mn)	2Q24	1Q25	2Q25	YoY (%)	QoQ (%)
Net earned premiums	32,056	35,203	37,039	15.5%	5.2%
Net claims incurred	22,022	23,789	26,959	22.4%	13.3%
Net commissions	4,854	4,288	5,489	13.1%	28.0%
Opex, included in EOM of insurance business	5,963	5,722	6,538	9.6%	14.3%
Underwriting result	-783	1,404	-1,947	148.5%	-238.7%
Investment income	1,510	1,713	2,084	38.0%	21.7%
Other income	0	4	19	#DIV/0!	361.9%
Operating Profit	726	3,121	156	-78.5%	-95.0%
Investment income-Shareholders' A/C	1,052	1,241	1,461	38.9%	17.8%
Other income	14	10	3	-78.3%	-68.7%
Other opex + depreciation	121	110	132	9.3%	20.9%
Profit before tax	1,671	4,262	1,488	-11.0%	-65.1%
Taxes	-418	-1,072	-375	-10.3%	-65.0%
Profit after taxes	1,253	3,189	1,113	-11.2%	-65.1%
Loss ratio	68.7%	67.6%	72.8%	4.1%	5.2%
EOM to NWP	30.5%	31.6%	30.3%	-0.3%	-1.3%
Combined ratio	99.2%	99.2%	103.0%	3.8%	3.9%
Investment yield	7.5%	7.5%	8.8%	1.32%	1.28%

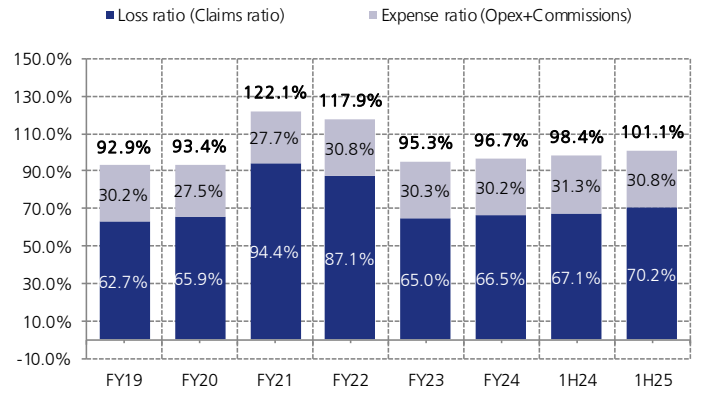
Source: Company, JM Financial

Exhibit 2. Growth has remained steady at 17%+



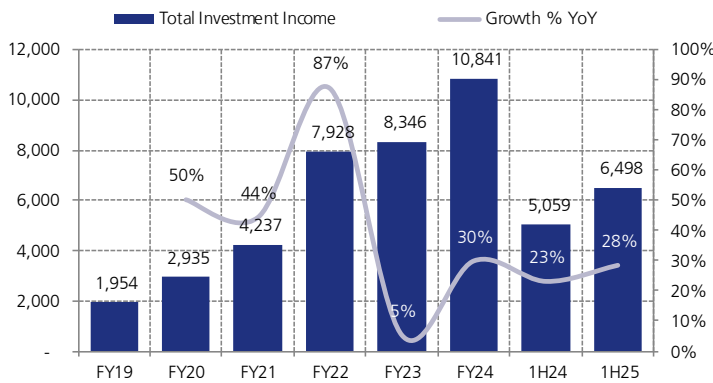
Source: Company, JM Financial

Exhibit 3. Claims Ratio had quickly normalised post-Covid



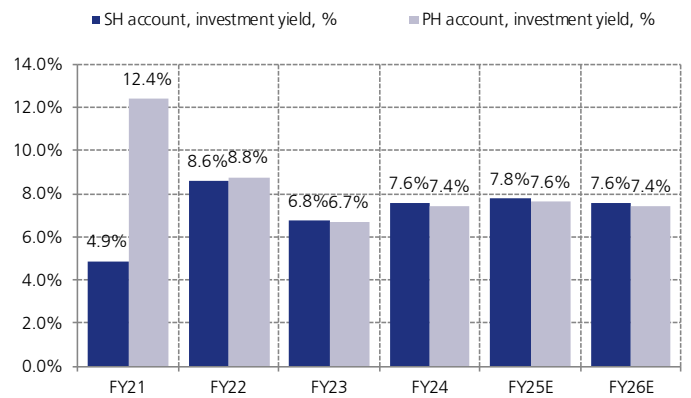
Source: Company, JM Financial

Exhibit 4. Investment income has grown ahead of premiums



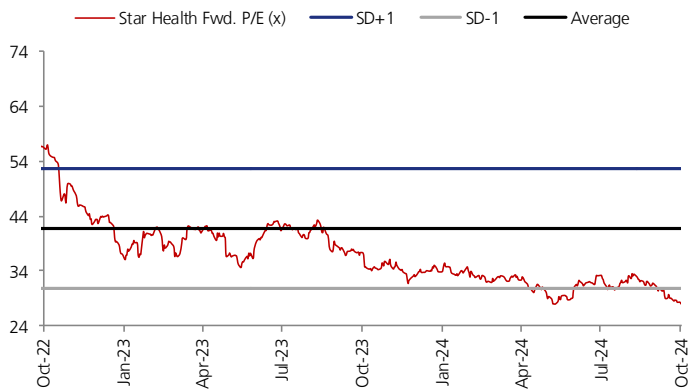
Source: Company, JM Financial

Exhibit 5. Expect steady 7%+ yields in near term



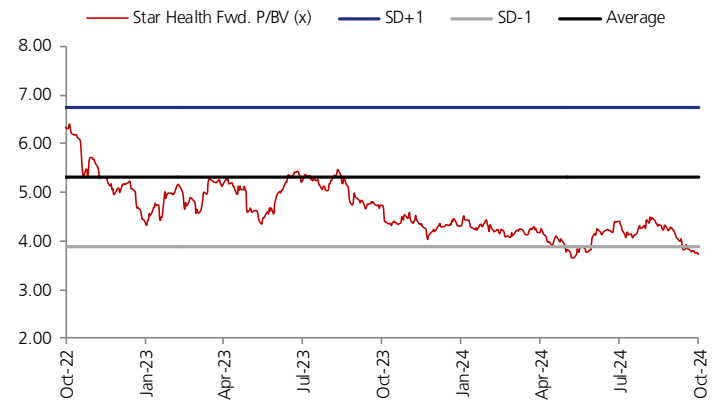
Source: Company, JM Financial

Exhibit 6. Star Health trades below 1SD from mean PE



Source: Company, JM Financial

Exhibit 7. P/B multiple has corrected to about historical lows



Source: Company, JM Financial

Financial Tables (Standalone)

P&L (technical account) (INR mn)

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Gross premiums	114,635	129,525	152,545	181,528	216,018
Net written premiums	108,095	123,196	140,674	169,832	205,217
Net Earned Premiums	98,092	112,616	129,383	151,391	184,694
Investment income	4,796	5,014	6,407	7,762	9,152
Total revenue	102,887	117,630	135,790	159,153	193,846
Claims Incurred (net)	85,400	73,204	86,000	100,826	121,159
Commission (net)	14,922	16,828	18,537	22,927	29,141
Opex related to insurance	18,385	20,538	23,944	27,237	31,387
Total expenses	118,707	110,570	128,480	150,991	181,687
Operating Profit	-15,820	7,060	7,309	8,161	12,159
o.w. underwriting profit	-20,616	2,046	903	400	3,007

Source: Company, JM Financial

P&L (Shareholder's account) (INR mn)

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Operating profit/(loss)	(15,820)	7,060	7,309	8,161	12,159
Income from investments	3,133	3,331	4,434	4,937	5,569
Total revenue	(12,606)	10,449	11,784	13,098	17,729
Total expenses	1,360	2,185	496	500	595
Profit / (Loss) before tax	(13,967)	8,264	11,289	12,598	17,133
Taxes	-	2,078	2,838	3,171	4,312
Profit / (Loss) after tax	-13,967	6,186	8,450	9,427	12,821

Source: Company, JM Financial

Operational metrics (INR mn)

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
GWP growth	22.1	13.0	17.8	19.0	19.0
NPE growth	50.6	14.0	14.2	20.7	20.8
Retention Ratio (%)	94.3	95.1	92.2	94.0	95.0
NPE/NPW (%)	90.7	91.4	92.0	89.1	90.0
Loss Ratio (%)	87.1	65.0	66.5	66.6	65.6
Total Expense Ratio (%)	30.8	30.3	30.2	29.5	29.5
COR	117.9	95.3	96.7	96.1	95.1
Yield on Policyholder A/C (%)	8.8	6.7	7.4	7.6	7.4
Yield on Shareholder A/C (%)	8.6	6.8	7.6	7.8	7.6
ROA (%)	(11.6)	4.3	5.1	4.8	5.5
ROE (%)	(26.4)	9.6	12.8	13.2	15.4

Source: Company, JM Financial

Balance Sheet (INR mn)

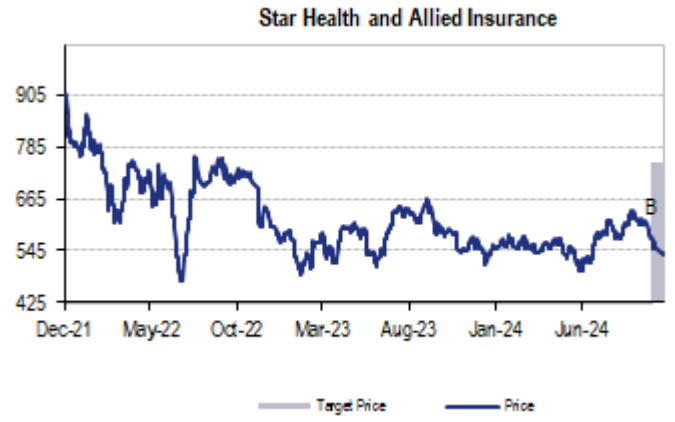
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Investments	113,734	133,921	154,909	184,750	220,277
Fixed assets	1,171	1,113	1,751	2,189	2,736
Net current assets	(61,398)	(75,762)	(87,508)	(107,323)	(130,577)
Debit balance in P&L account	17,652	11,316	2,866	2,866	2,866
Total assets	71,159	70,589	72,018	82,481	95,302
Borrowings	7,200	4,700	4,700	4,700	4,700
FV change account	267	234	1,036	1,036	1,036
Equity Capital	5,755	5,817	5,853	5,853	5,853
Reserves and Surplus	57,937	59,839	60,429	70,893	83,714
Shareholder's equity	71,159	70,589	72,018	82,481	95,302

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
9-Oct-24	Buy	750	

Recommendation History



APPENDIX I

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Corporate Identity Number: U67100MH2017PLC296081

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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