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Company update and TP
revision

Insurance

Target price: Rs700

Earnings revision

(%)	FY23E	FY24E
NEP	↓ 3.0	↓ 6.0
PAT	↑ 3.0	↑ 5.0

Target Price Revision

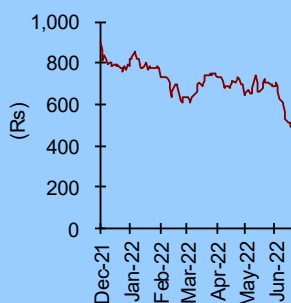
Rs700 from Rs837

Shareholding pattern

	Sep '21	Dec '21	Mar '22
Promoters	58.9	58.9	58.9
Institutional investors	37.2	37.4	37.1
MFs and others	0.0	0.1	0.1
FI/Banks	0.3	0.1	0.0
Insurance Cos.	0.5	0.5	0.4
FII	36.4	36.7	36.6
Others	3.9	3.7	4.0

Source: NSE

Price chart



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INDIA

ICICI Securities

Star Health and Allied Insurance Co.

BUY

Maintain

Rs474

Business moats to help combat competitive pressures

Retail health is a high growth business with high entry barriers. This is proved by the fact that (1) retail health premiums have grown by 20% CAGR over the last 5 years and (2) no player has been able to grow its market share meaningfully apart from Star Health and Care Health over the last 5 years. In such an industry scenario, STAR is a distant market leader in retail health (31% as of FY23-TD based on monthly GDPI data released by General insurance council) and well entrenched with 550k agents, 12,820 network hospitals and 807 branches. Additionally, the high share of PSU insurers with low solvency continues to provide a growth opportunity for strong players like Star. Considering a range of GDPI growth (15-20%) and combined ratio (93-95%), possible PAT in FY24E is Rs9.75bn-11.6bn and ROE of 13-16%, implying current valuations of 23.5x-28x. Our estimates factor lower end of the earnings estimates. We believe the fear of business impact on life insurers selling retail health indemnity is overdone. **Maintain BUY.**

- ▶ **Retail health insurance is a high growth industry and STAR has a pole position in the same. This continues to be the investment thesis:** STAR retail health GDPI has grown at 29% CAGR between FY18-22 vs industry retail health GDPI growth of 18%. FY23-TD growth has moderated to 13% on the high base of Apr/May'21. Market share as on FY23-TD stood at 30.6%, higher than 29% in FY22-TD (Apr and May'21).
- ▶ **No player has been able to gain market share in retail health organically except Star and Care:** No company has been able to garner a significant amount of market share in the retail health segment except Star Health and Care Insurance (and also HDFC Ergo due to acquisition of Apollo Munich which was SAHI). Star/Care retail health market share has improved from 23%/4% in FY18 to 33%/7% in FY22, respectively.
- ▶ **PSU pie will continue to give market share gain opportunity to well-entrenched players like STAR:** PSU market share erosion in retail health segment along with low solvency ratios will provide enough headroom for the growth of strong private players. PSUs' retail health market share declined from 38.3% in FY18 to 25.9% in FY23-TD.
- ▶ **Fears of life insurers selling retail health indemnity leading to business impact of STAR is overdone:** Life insurance companies offered indemnity based health products till 2016. They had an indemnity product (which was long term) till 2013. Approximately 21,000 policies were sold per annum till 2013 compared to ~8.8mn retail health policies sold by non-life insurers in FY13. Even now, life insurance companies offer critical illness products. As such, with strong agency (550k agents) and hospital network (12,820 network hospitals) along with product innovations, STAR should be able to sustain any increase in competitive pressure.
- ▶ **Maintain BUY:** We value the stock with a revised target price of Rs700 based on 40x (earlier 50x) FY24E EPS of Rs17.5 (earlier 16.7). We factor GDPI CAGR of 16.5% between FY22-24E, investment leverage of 2.3x in FY24E, combined ratio of 95% and investment yield of 7% for FY24. Our change in multiple reflects the possibility of heightened competition, subsequent covid waves and overall increase in the cost of capital.

Market Cap	Rs273bn/US\$3.4bn	Year to Mar	FY21	FY22	FY23E	FY24E
Bloomberg	STARHEAL IN	NEP (Rs mn)	50,228	98,092	1,11,789	1,32,630
Shares Outstanding (mn)	575.5	PAT (Rs mn)	-8,255	-10,407	6,487	10,104
52-week Range (Rs)	907/474	EPS (Rs)	-21.75	-18.08	11.27	17.56
Free Float (%)	41.1	% Chg YoY	NM	NM	NM	56%
FII (%)	36.6	P/E (x)	NM	NM	42	27
Daily Volume (US\$/'000)	3,206	P/BV (x)	6.8	6.0	4.0	3.5
Absolute Return 3m (%)	(36.2)	Combined Ratio (%)	114.8	117.9	95.5	94.8
Absolute Return 12m (%)	NA	Solvency Ratio (x)	2.22	1.98	2.23	2.25
Sensex Return 3m (%)	(10.2)	Return on Inv(%)	7.6%	8.7%	6.5%	7.0%
Sensex Return 12m (%)	2.3	RoE (%)	-28.1	-19.6	9.8	13.6

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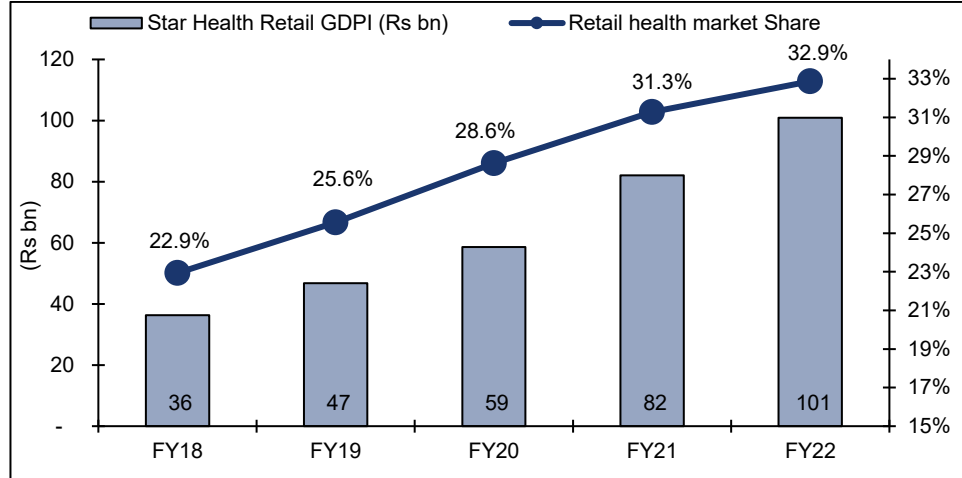
Investment thesis – Macro tailwinds underway for retail health industry and Star holds a dominant position

Retail health insurance is a high growth industry and STAR has a pole position in the same.

STAR retail health GDPI has grown at 29% CAGR between FY18-22 vs industry retail health GDPI growth of 18%.

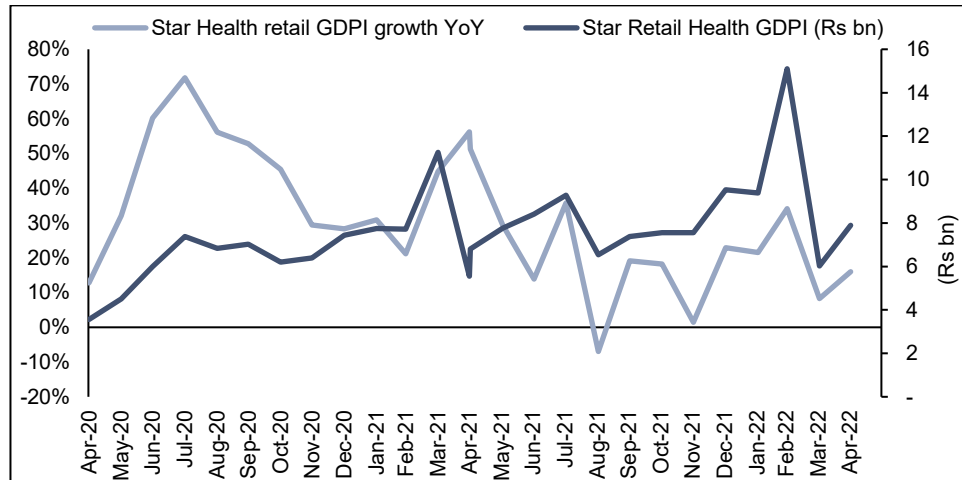
FY23-TD growth has moderated to 13% on the high base of Apr/May'21

Chart 1: STAR retail health GDPI trend



Source: General Insurance council.

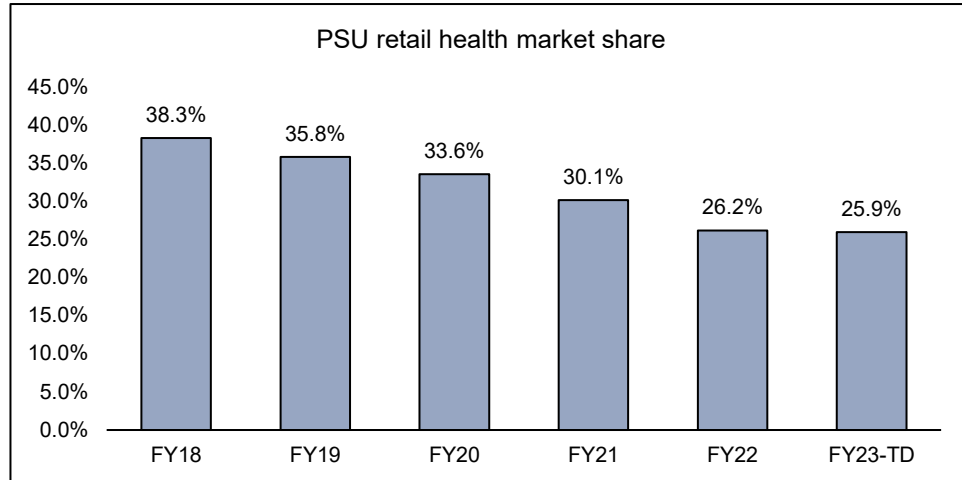
Chart 2: STAR retail health monthly GDPI trend



Source: General Insurance council

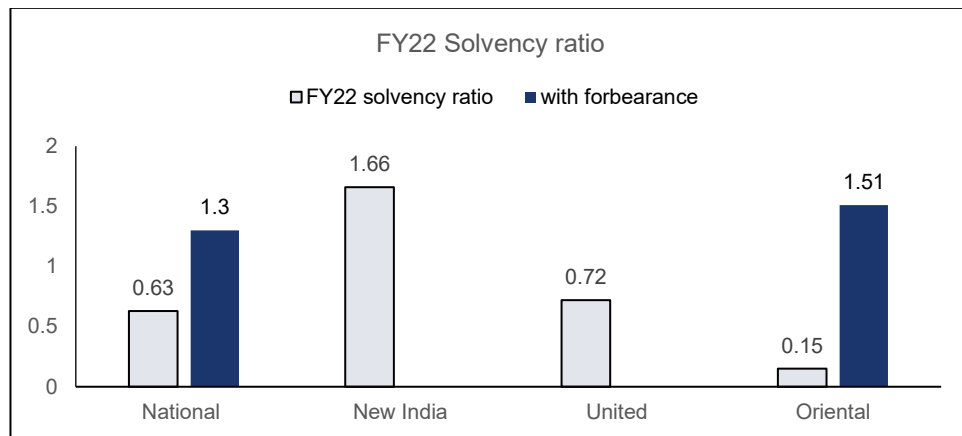
PSU pie could continue to give market share to strong private players

Chart 3: PSUs have lost market share in retail health segment. This trend can continue which will be beneficial for players like STAR



Source: General Insurance council

Chart 4: Solvency is weak and a business challenge for PSU players



Source: General Insurance council

No player has been able to gain significant market share in retail health segment organically

Table 1: No insurer has gained meaningful market share in retail health segment organically except STAR and Care

No company has been able to garner a significant amount of market share in the retail health segment except Star Health and Care Insurance (and also HDFC Ergo due to acquisition of Apollo Munich which was SAHI)

	Market share - Retail Health					Delta FY22 over FY18
	FY18	FY19	FY20	FY21	FY22	
Acko General	0%	0%	0%	0%	0%	0.0%
Bajaj Allianz	3%	3%	3%	3%	3%	-0.6%
Cholamandalam MS	1%	1%	1%	1%	1%	-0.3%
Navi General*	0%	0%	0%	0%	0%	0.0%
Edelweiss**	0%	0%	0%	0%	0%	0.0%
Future Generali	0%	0%	0%	1%	0%	0.2%
Go Digit	0%	0%	0%	0%	0%	0.1%
HDFC ERGO	5%	3%	3%	10%	10%	5.1%
ICICI -Lombard	7%	5%	3%	3%	3%	-3.9%
IFFCO -Tokio	1%	1%	1%	1%	1%	-0.2%
Kotak Mahindra	0%	0%	0%	0%	0%	0.1%
Liberty General	0%	0%	0%	0%	0%	0.0%
Magma HDI	0%	0%	0%	0%	0%	0.0%
Raheja QBE	0%	0%	0%	0%	0%	0.0%
Reliance General	0%	0%	0%	1%	1%	0.1%
Royal Sundaram	1%	1%	1%	1%	1%	-0.4%
SBI General	1%	1%	1%	1%	1%	0.8%
Shriram General	0%	0%	0%	0%	0%	0.0%
Tata-AIG	2%	2%	1%	1%	2%	0.0%
Universal Sampo	0%	1%	0%	0%	0%	-0.1%
Star Health	23%	26%	29%	31%	33%	9.9%
CARE Insurance	4%	5%	6%	6%	7%	3.2%
Total	100%	100%	100%	100%	100%	

Source: General insurance council

Table 2: Considering a range of GDP growth (15-20%) and combined ratio (93-95%), the possible PAT in FY24E is Rs9.75bn-11.6bn; Our base case factors lower end of the earnings estimates.

FY24E	Base	Bull Case	Bear Case
GDP growth	17.0%	20.0%	15.0%
Loss ratio	66%	64.2%	66.2%
Commission ratio	14%	14%	14%
Opex ratio	15%	15%	15%
Investment income	7.00%	7.00%	7.00%
Combined Ratio	94.75%	93.00%	95.00%
Results (Rs bn)			
GDP	1,55,567	1,65,058	1,51,589
NWP	1,47,789	1,56,805	1,44,010
NEP	1,32,630	1,40,721	1,29,239
Underwriting results	2,591	5,212	2,202
PAT	10,104	11,636	9,752
ROE (%)	13.60883	15.3	13.2
Investment leverage	2.280869	2.28	2.27
Net Earned Premium	1,32,630	1,40,721	1,29,239
Underwriting Profits	2,591	5,212	2,202
Investment Income	11,667	11,094	11,586
PAT	10,104	11,636	9,752
Investment leverage	2.3	2.3	2.3
PE	27.1	23.5	28.1
PB	3.50	3.54	3.64

Source: I-Sec Research

Financial summary

Table 3: Profit and loss statement

(Rs mn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
GDP	8,602	10,911	14,692	20,073	29,601	41,611	54,154	68,907	93,490	1,14,623	1,32,963	1,55,567
Add: Reinsurance accepted	7	229	4	3	1	-	-	-	-	11	-	-
GWP	8,609	11,140	14,696	20,076	29,602	41,611	54,154	68,907	93,490	1,14,635	1,32,963	1,55,567
Less Reinsurance ceded	2,471	2,704	2,158	4,679	6,770	9,651	12,739	16,293	22,042	6,540	6,648	7,778
NWP	6,138	8,435	12,538	15,397	22,832	31,960	41,415	52,614	71,448	1,08,095	1,26,315	1,47,789
Less : Reserve for unexpired risks	1,026	1,681	2,359	259	3,717	4,564	5,620	5,684	21,219	10,003	14,526	15,159
NEP	5,112	6,754	10,179	15,139	19,115	27,396	35,795	46,930	50,228	98,092	1,11,789	1,32,630
Claims Incurred	3,230	4,539	6,511	8,146	11,567	16,920	22,976	30,874	43,695	85,400	73,440	87,469
Commission	138	367	1,010	611	953	1,366	2,638	3,409	5,838	14,922	17,437	20,401
Operating expenses	3,186	3,319	4,552	4,539	6,253	8,614	9,827	11,020	14,014	18,385	20,148	22,168
Total Operating expenses	3,324	3,685	5,562	5,150	7,206	9,979	12,464	14,429	19,851	33,307	37,585	42,570
Underwriting profit and loss	-1,441	-1,471	-1,894	1,843	341	496	355	1,626	-13,318	-20,616	763	2,591
Total Investment Income (Policyholder)	146	425	420	642	624	888	1,340	1,924	2,606	4,796	5,238	7,057
Impairment / Mgmt expenses	-	-	-	-	-	-	48	-58	-	-	-	-
Operating profit / Loss	-1,295	-1,046	-1,474	2,485	965	1,384	1,647	3,608	-10,712	-15,820	6,001	9,648
Income from investments (Shareholder)	37	113	92	181	382	592	614	1,012	1,631	3,133	3,421	4,610
Other Income	2	-	-	-	-	-	1	2	3	81	-	-
Total Investment income	184	538	512	823	1,006	1,479	1,954	2,936	4,237	7,928	8,659	11,667
Provision (other than taxation)	-	-	-	-	-	-	40	-34.88	344	26	50	50
Non-operating expenses	-0	1	1	1,301	168	264	400	520.26	1,038	1,334	750	750
PBT	-1,256	-933	-1,382	1,366	1,179	1,712	1,822	4,136	-10,459	-13,967	8,672	13,508
Provision for taxation	-	-	-	-	-	10	540	1,456	-2,204	-3,560	2,185	3,404
Recurring PAT	-1,256	-933	-1,382	1,366	1,179	1,702	1,282.3	2,680	-8,255	-10,407	6,487	10,104

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Sources Of Funds												
Share Capital	3,269	3,339	3,621	3,870	4,556	4,556	4,556	4,906	5,481	5,755	5,755	5,755
Employee stock option	-	-	-	-	-	-	-	-	3	757	-	-
Share Application Money Pending Allotment	-	-	-	-	-	-	3,500	-	-	-	-	-
Reserves And Surplus	2,221	2,109	2,749	3,318	5,746	5,746	5,871	11,530	36,758	57,181	63,538	73,439
Fair Value Change Account	-	-	-	-	-	-	31	-76	267	-	-	-
Borrowings	-	-	-	-	-	2,500	2,500	2,500	2,500	7,200	6,500	6,500
Total	5,490	5,447	6,371	7,187	10,301	12,801	16,427	18,968	44,666	71,159	75,793	85,695
Application Of Funds												
Investments	2,807	3,513	5,018	8,067	14,285	21,647	30,301	42,900	68,367	1,13,734	1,52,701	1,80,632
Shareholders	-	-	-	-	-	-	9,523	14,782	26,321	44,939	48,084	51,450
Policyholders	-	-	-	-	-	-	20,778	28,117	42,046	68,796	1,04,617	1,29,182
Fixed Assets	531	599	585	654	838	970	981	1,019	990	1,171	1,371	1,571
Deferred Tax Asset	-	-	-	-	-	-	1,420	1,467	4,213	7,767	7,767	7,767
Current Assets												
Cash And Bank Balances	1,818	2,155	3,278	2,719	3,311	5,020	8,930	6,114	18,790	5,635	5,917	6,213
Advances And Other Assets	2,335	2,311	2,077	2,280	3,692	5,835	7,093	9,767	12,650	6,828	7,328	7,828
Sub-Total (A)	4,154	4,466	5,355	5,000	7,003	10,855	16,023	15,882	31,440	12,464	13,245	14,041
Current Liabilities	1,346	1,579	2,097	2,381	2,782	5,375	9,003	11,794	15,643	19,607	22,744	26,611
Provisions	3,412	5,103	7,442	7,739	11,450	16,001	24,939	30,506	51,946	62,022	76,548	91,707
Sub-Total (B)	4,759	6,682	9,539	10,120	14,232	21,376	33,942	42,300	67,589	81,629	99,292	1,18,317
Net Current Assets (C) (A - B)	-605	-2,216	-4,184	-5,120	-7,228	-10,521	-17,920	-26,418	-36,149	-69,165	-86,047	-1,04,276
Debit Balance In Profit And Loss Account	2,757	3,552	4,952	3,586	2,407	705	1,644	-	7,245	17,652	-	-
Total	5,490	5,447	6,371	7,187	10,301	12,801	16,427	18,968	44,666	71,159	75,793	85,695

Source: Company data, I-Sec research

Table 5: Cashflow

(Rs mn)	2019	2020	2021	FY22	FY23E	FY24E
Premium received from policyholders, including advance receipts & payables to policy holders	64,101	79,791	1,11,215	1,33,921	1,32,963	1,55,567
Receipts/(Payments) from other entities carrying on insurance business (including reinsurers)	-4,355	-4,750	-8,599	7,774	-6,648	-7,778
Payments of claims	-28,264	-38,853	-53,324	-88,805	-73,440	-87,469
Payments of commission and brokerage	-6,786	-8,926	-12,658	-15,873	-17,437	-20,401
Payments of other operating expenses	-9,990	-11,083	-14,442	-19,237	-20,148	-22,168
GST (Net off GST-ITC)	-6,247	-8,630	-12,250	-17,017	-5,000	-5,000
Income Tax	-583	-968	-913	56	-2,185	-3,404
Deposits, advances and staff loans	-112	-108	-127	-263	2,637	3,367
Cashflows from Operating Activities	7,764	6,474	8,904	556	10,741	12,712
Purchase of fixed assets	-385	-337	-461	-628	-350	-350
Proceeds from sale of fixed assets	78	1	0			
Purchases of investments	-30,356	-75,866	-3,48,679	-15,66,274	-38,967	-27,931
Sales of investments	21,550	63,536	3,21,267	15,22,401		
Rents/Interests/Dividends received	1,801	2,610	3,698	6,660	8,659	11,667
Expenses related to investments	-2	-5	-8	-19		
Cashflows from Investment Activities	-7,313	-10,060	-24,182	-37,860	-30,658	-16,614
Proceeds from issuance of share capital	3,500	1,475	26,391	20,656		
Interest/dividends paid	-166	-256	-256	4,435	-130	-202
Cash flows from Financing Activities	3,334	1,219	26,135	25,091	-130	-202
Movements during the year	3,785	-2,367	10,856	-12,214	-20,047	-4,104
Opening Balance	3,716	7,502	5,135	15,991	3,777	-16,270
Closing Balance	7,502	5,135	15,991	3,777	-16,270	-20,374

Source: Company data, I-Sec research

Table 6: Key ratios

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
GDPI growth		27%	35%	37%	47%	41%	30%	27%	36%	23%	16.0%	17.0%
Reinsurance ceded % of GDPI	29%	25%	15%	23%	23%	23%	24%	24%	24%	6%	5%	5%
Provision for Unexpired risks % of NWP	56%	60%	59%	50%	50%	50%	60%	58%	73%	57%	60.6%	62.1%
Loss ratio	63%	67%	64%	54%	61%	62%	64%	66%	87%	87%	66%	66%
Commission ratio	2%	4%	8%	4%	4%	4%	6%	6%	8%	14%	13.8%	13.8%
Opex ratio	52%	39%	36%	29%	27%	27%	24%	21%	20%	17%	14.7%	15.0%
Investment income yields	4.0%	10.5%	7.3%	8.6%	7.1%	6.7%	5.9%	6.7%	6.2%	7.7%	6.5%	7.0%
Combined Ratio	117%	111%	108%	87%	92%	93%	94%	93%	115%	118%	94.2%	94.8%
Investment leverage		1.9	3.5	2.2	1.8	2.3	2.5	2.6	2.0	2.5	2.2	2.3
Solvency	1.91	1.5	2.4	5.99	1.61	1.77	2.0	1.9	2.2	1.7	2.2	2.2
PE		nm	nm	166	192	133	123	87	nm	nm	42.2	27.1
PB		119	160	63	29	24	26	14	7.1	6.3	4.0	3.5

Source: Company data, I-Sec research

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