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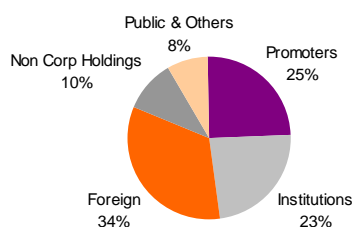
- ♦ Stock Update >> [Mahindra & Mahindra](#)
- ♦ Sector Update >> [Insurance](#)

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Mahindra & Mahindra

Apple Green
Stock Update
Price target revised to Rs865
Buy; CMP: Rs813
Company details

Price target:	Rs865
Market cap:	Rs49,916 cr
52 week high/low:	Rs826/585
NSE volume: (No of shares)	19.1 lakh
BSE code:	500520
NSE code:	M&M
Sharekhan code:	M&M
Free float: (No of shares)	46 cr

Shareholding pattern

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	12.3	15.8	18.5	13.0
Relative to Sensex	8.2	29.6	35.0	36.1

XUV 500: Pricing is a game changer
XUV 500 pricing disruptive; to dramatically alter perception for M&M

- Mahindra and Mahindra (M&M)'s XUV 500, perceived to be an entry segment luxury sports utility vehicle (SUV), has surprised with its disruptive pricing. The basic two-wheel drive model starts from Rs10.8 lakh and extends to Rs11.95 lakh ex showroom Delhi. The four-wheel drive starts from Rs12.88 lakh. The pricing has surprised us as we were expecting the new SUV to be priced higher than the top-end Scorpio at Rs13 lakh plus.
- M&M's new offering was earlier expected to be pitched against Tata Motors' Aria. However, with the surprise pricing it would now compete head-on with Toyota's Innova and Tata Motors' Aria, and would also attempt to migrate the high-end Scorpio customers to XUV 500.
- The initial pictures of XUV 500 also reveal a significant leap in terms of styling, interiors and technology. The hood incorporates a 140bhp mHawk engine with 330Nm torque and 6speed transmission with variable geometry turbocharger.
- New hi-tech features incorporated in the new vehicle are GPS, DVD, micro hybrid technology, voice command system, cruise control, parking sensors, six airbags, hill control system and antilock braking system (ABS) with electronic brakeforce distribution (EBD).
- The XUV 500 will be open for bookings in Mumbai, Delhi, Chennai, Bangalore and Pune from October 1, 2011.
- The company spent Rs650 crore in developing XUV 500 besides the investment in Chakan plant.

Valuation table

Particulars	FY08	FY09	FY10	FY11	FY12E	FY13E
Total income (Rs cr)	11328.6	12921.5	18381.9	23493.7	28920.7	33023.8
Y-o-Y change (%)	14.3	14.1	42.3	27.8	23.1	14.2
EBITDA (Rs cr)	1141.3	920.1	2755.6	3456.1	4055.7	4711.8
EBITDA margin (%)	10.1	7.1	15.0	14.7	14.0	14.3
Net profit (Rs cr)	1103.3	867.5	2087.2	2662.0	2872.4	3361.3
EPS (Rs)	19.0	12.6	32.7	42.0	46.8	54.7
Y-o-Y change (%)	-5.5	-33.8	159.7	28.5	11.3	17.0
PER (x)	42.8	64.6	24.9	19.3	17.4	14.8
P/B (x)	8.9	9.5	6.4	4.8	4.0	3.4
EV/EBITDA (x)	28.3	43.9	14.8	11.1	9.3	7.8
RoCE (%)	15.2	10.2	23.9	24.1	25.6	25.4
RoNW (%)	18.9	11.8	22.1	22.8	23.3	22.8

Aggressive pricing of XUV 500 may expand the entry-level luxury SUV market

In FY2011, the Indian utility vehicle (UV) market grew by 19% to 3.28 lakh units. The pace of growth has moderated to 9.2% in the year till date (YTD) FY2012. UVs priced lower than Rs15 lakh form the bulk of the market and have grown by 8% YTD FY2012. The higher UV segments are growing at a healthy pace on a small base.

UV segment growth and market share (%)

	Total UV	Less than 15 lakh	Rs15-25 lakh	Rs25 lakh+
YTD FY11	126407	117032	8512	863
YTD FY12	138084	126352	10248	1484
% change	9.2	8.0	20.4	72.0
Mkt. share (%)		91.5	7.4	1.1

XUV 500 has been uniquely positioned as the starting point of the entry-level luxury SUV segment and at the top end of the low-priced SUV range. This unique positioning, on the one hand, encourages SUV customers to upgrade to the luxury SUV and, on the other hand, it indulges those who avoid premium SUVs due to the steep pricing differential between premium sedans and SUVs. XUV 500 is expected to fill in the gap between the class-defining Scorpio and Toyota Fortuner segments.

XUV 500 demand can sustain 1,000 units a month in domestic market; exports may double up the demand

The market leader Toyota Innova in the Rs10-15 lakh UV segment sells around 4,000 units. M&M's Scorpio sells around 3,500 units. We expect XUV 500 to sustain 1,000 units a month assuming a 20% market share of the Innova-dominated segment, though cannibalisation of top end Scorpio is a definite possibility. Additional volumes may come from exports using the SsangYong distribution network which may double the overall demand for the product.

M&M to become the most entrenched player in Indian UV space

In August 2011, the company had launched the entry-level Scorpio at Rs7.59 lakh ex Delhi. This offering has increased the affordability of its SUV range. The XUV 500 is positioned to migrate the entry-level SUV customers to the premium end beyond XUV 500 to SsangYong products. Its luxury offerings from SsangYong would include the Korando and Rexton ranges. M&M has now become the most entrenched player in the Indian SUV space.

UV market product positioning

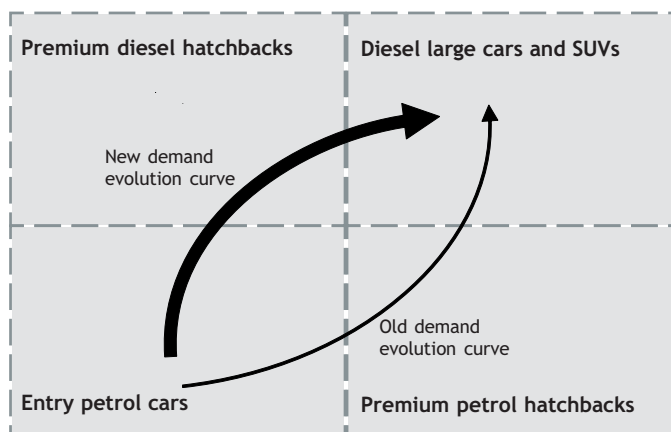
Products	On road (price Delhi lakh)
M&M Bolero	7.1
GM Tavera	7.3
Tata Sumo Grande	8.0
M&M Xylo	8.5
M&M Scorpio	8.8
Tata Safari Dicor	9.3
Toyota Innova	10.2
Force One	10.7
M&M XUV 500	12.0
Tata Aria	13.2
M&M Rexton (Exp Price)	16.5
M&M Korando (Exp Price)	17.0
Ford Endeavour	19.4
GM Captiva	20.7
Toyota Fortuner	23.1
Mitsubishi Outlander	23.1
Honda CRV	25.6

91% of UV market

Long-term car demand trending up on diesel curve

The demarcation of diesel for SUVs and petrol for compact cars is blurring. The explosive growth in diesel hatchbacks is creating a large base which will either upgrade to the premium diesel cars or the diesel SUVs. Scorpio, XUV 500 and Innova are a few products that would benefit the most as customers upgrade in the diesel product curve. Assuming no major policy change, dieselisation in hatchbacks would create significant demand for SUVs.

Demand evolution curve likely to invert due to petrol-diesel pricing differential



Policy decisions on VAT refund and diesel price deregulation are the key overhangs

The management has indicated that the value-added tax (VAT) refund issue shall be resolved by the Maharashtra state government in Q2FY2012. Under a major policy overhaul, the government has decided to stop the VAT incentives for sales outside Maharashtra. This is a negative step as it would affect the future investments in Maharashtra. However, the industry is hopeful of a partial roll-back.

Another major policy roadblock for diesel cars emerged after the finance minister indicated that the diesel used in diesel passenger cars and UVs may not be subsidised. Given the under-recoveries of Rs6-8 per litre on the diesel front, the de-control mechanism would reduce the price differential between petrol and diesel. It would also increase the pay-back time for diesel cars. However, given

the superior mileage of the diesel variants and the lower price of diesel vis-à-vis petrol, even after the deregulation the demand for diesel cars is expected to remain healthy.

Valuation

In our previous note, "Price target revised to Rs814", dated September 2, 2011 we had upgraded our volume growth assumptions for M&M. Our FY2012 and FY2013 earnings per share (EPS) estimates are Rs46.8 and Rs54.8 respectively. We are again upgrading our sum-of-the-parts (SOTP) price target to Rs865 per share as we expect the stock to get re-rated considering the company's promising product line and the sustainable demand for most of its products. Our revised price target is based on a higher price/earnings multiple (from 12x to 13x on FY2013E EPS) to the core business. We maintain our Buy recommendation on the stock.

The author doesn't hold any investment in any of the companies mentioned in the article.

Insurance

Sector Update

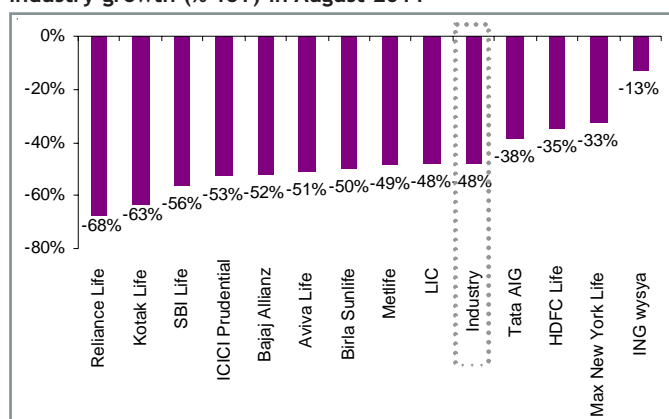
APE contracts again in August

The annual premium equivalent (APE) of the life insurance industry declined by 47.8% year on year (YoY) while it increased by 5.9% month on month (MoM). The private players posted an APE growth of 3.2% MoM in August 2011 compared to a 7% growth reported by Life Insurance Corporation of India (LIC). However, on a year-till-date (YTD) basis (ie April-August 2011), the APE of the industry continued to contract with the private players showing a higher decline (41% YTD) compared to a 17.5% decline shown by LIC.

- ♦ The market share of the private players remained stable at 28% levels in August this year. Among the private players HDFC Life's market share expanded to 14.6% from 11.3% in August 2010 while that of Max New York Life (MNYL) increased to 7.7% from 4.9% in August 2010. SBI Life, ING Life and ICICI Prudential showed contraction in their market share on a year-on-year (Y-o-Y) basis.
- ♦ In terms of APE growth for August 2011, most of the players posted a decline YoY with Reliance Life and Kotak Life showing the highest contraction (68% and 63% YoY respectively) followed by ICICI Prudential and Bajaj Allianz showing ~52% decline each.

- ♦ On a YTD basis, the life insurance industry continues to report a decline in APE as the new unit-linked insurance policy (ULIP) guidelines set in and insurers awaited the clearance from the Insurance Regulatory and Development Authority (IRDA) for launching new products. The APE growth is expected to remain weak for a couple of months and pick up momentum in H2FY2012.

Industry Life growth (% YoY) in August 2011



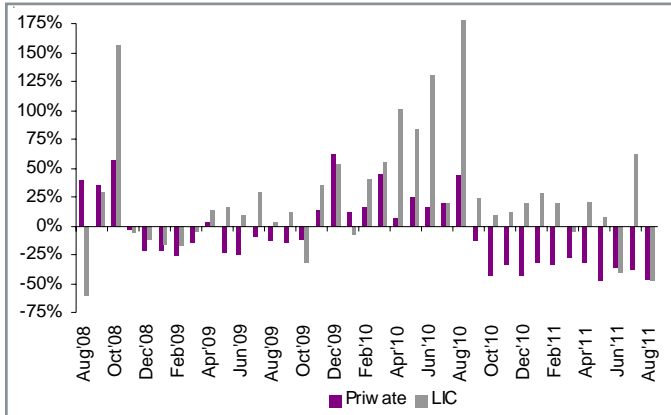
APE growth

Insurer	Aug-11	Aug-10	% Y-o-Y	% M-o-M	YTDFY12	YTDFY11	% Y-o-Y
Bajaj Allianz	124.0	260.0	-52.3	1.3	519	925	-43.9
ING wysya	50.8	58.4	-12.9	25.7	180	209	-13.8
Reliance Life	86.7	268.6	-67.7	-5.8	412	1,103	-62.6
SBI Life	194.9	443.1	-56.0	3.3	699	1,284	-45.6
Tata AIG	65.3	105.8	-38.3	-30.5	295	412	-28.4
HDFC Life	224.2	344.8	-35.0	-2.3	902	1,324	-31.9
ICICI Prudential	270.9	575.8	-52.9	8.8	1,169	2,483	-52.9
Birla Sunlife	126.8	253.3	-49.9	30.1	531	898	-40.8
Aviva Life	43.2	88.4	-51.2	-61.8	239	278	-13.9
Kotak Life	39.3	106.5	-63.1	-40.6	211	382	-44.7
Max New York Life	100.6	149.2	-32.6	-16.7	564	687	-17.9
Metlife	34.5	67.2	-48.7	-8.6	150	210	-28.3
Private Total	1,626.4	3,053.7	-46.7	3.2	6,702	11,346	-40.9
LIC	4101.6	7912.3	-48.2	7.1	15,315	18,566	-17.5
Industry	5728.1	10965.9	-47.8	5.9	22,017	29,912	-26.4

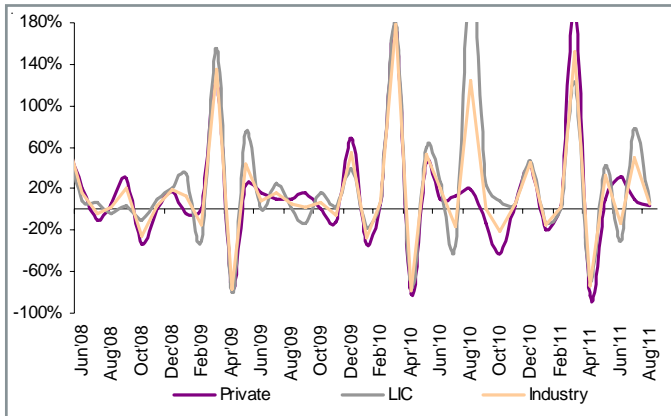
APE growth stable on M-o-M basis but continues to decline YoY

After contracting by 39.2% YoY in June 2011, the APE for the life insurance industry grew by 10.6% YoY in July 2011 while it declined by 48% in August 2011 mainly contributed by LIC. The private players witnessed an APE contraction of 47% YoY whereas LIC saw its APE falling by 48% YoY. On an M-o-M basis the APE of the private players grew by 3.2% compared to 7.1% growth recorded by LIC.

Trend in industry growth (% YoY)



Trend in industry growth (% MoM)

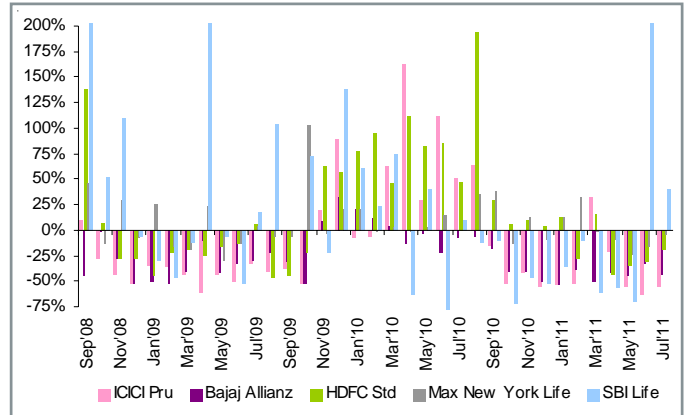


Growth for private players sluggish

The private players saw their APE contract by 47% YoY as several of them awaited IRDA clearance for new products and were working on distribution to market new products.

Notably, amongst the private players Reliance Life Insurance witnessed a contraction of 68% YoY followed by Kotak Life (-63%), ICICI Prudential (-52%) and Bajaj Allianz (-52%) YoY.

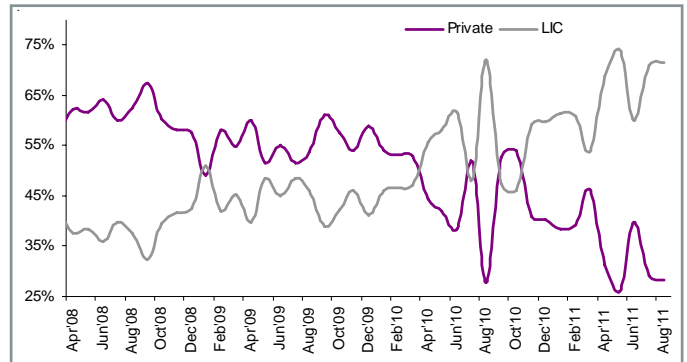
Trend in APE growth of major private players



Private players' market share remained stable in August

The market share of private players remained stable at 28.3% in August 2011 compared to 27.8% in August 2010.

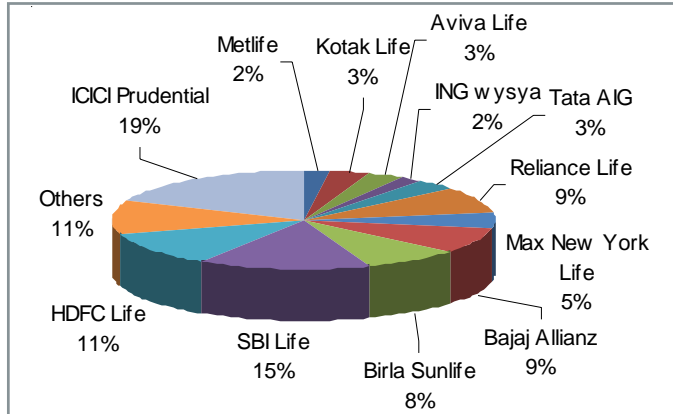
Trend in market share (MoM)



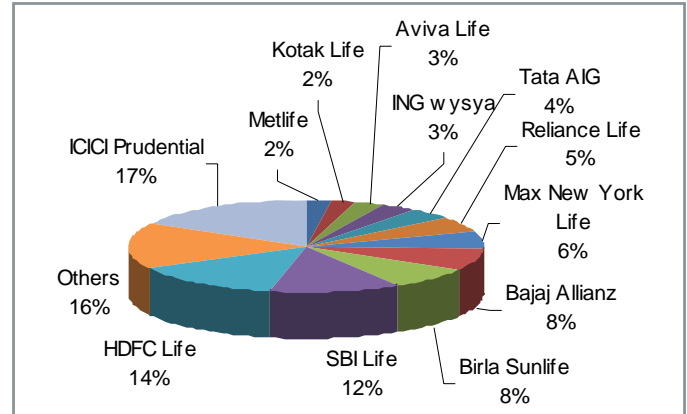
ICICI Prudential maintains leadership position

Though ICICI Prudential's market share declined to 15.6% from 18.9% in August 2010, it still remains the market leader among the private insurers. HDFC Life has a market share of 14.6% followed by SBI Life (12% market share), Bajaj Allianz (7.8% market share) and MNYL (7.7% market share).

Market share of private players in YTD FY12



Market share of the private players in corresponding FY11 period



Outlook

Although the premium collections had showed some recovery in July 2011(led by a strong growth by LIC) yet the same contracted in August. The insurers are in the process of launching new products and revamping their distribution structure (bank assurance tie-ups,

realignment of agent force etc) to curtail their expenses. The IRDA's recent proposal to scrap the 4.5% guarantee clause in pension products is a positive development and would result in the launch of new products. The APE growth is expected to remain weak for a couple of months and pick up momentum in H2FY2012.

The author doesn't hold any investment in any of the companies mentioned in the article.

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Housing Development Finance Corporation
HDFC Bank
Infosys
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

Apollo Tyres
Bajaj Auto
Bajaj FinServ
Bajaj Holdings & Investment
Bank of Baroda
Bank of India
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Corporation Bank
Crompton Greaves
Divi's Laboratories
GAIL India
Glenmark Pharmaceuticals
Godrej Consumer Products
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Piramal Healthcare (Nicholas Piramal India)
PTC India
Punj Lloyd
Sintex Industries
State Bank of India
Tata Global Beverages (Tata Tea)
Wipro

Cannonball

Allahabad Bank
Andhra Bank
IDBI Bank
Madras Cements
Phillips Carbon Black
Shree Cement

Emerging Star

Axis Bank (UTI Bank)
Cadila Healthcare
Eros International Media
Greaves Cotton
IL&FS Transportation Networks
IRB Infrastructure Developers
Max India
Opto Circuits India
Patels Airtemp India
Thermax
Yes Bank
Zydus Wellness

Ugly Duckling

Ashok Leyland
Bajaj Corp
CESC
Deepak Fertilisers & Petrochemicals Corporation
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