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RESULTS REVIEW

UTI Bank

Rs. 464

Q4FY07 results update

Analyst
Ravikant Bhat
+91-22-6637 1186
ravikant.bhat@idbicapital.com

Nifty: 3998; Sensex: 13620

Key Stock Data

Sector	Banking
Bloomberg/Reuters	UTIB@IN/UTBK.BO
Shares o/s (m)	281.6
Market cap (Rs m)	131,184
Market cap (US$ m)	3,126
3-m daily average vol.	180,360

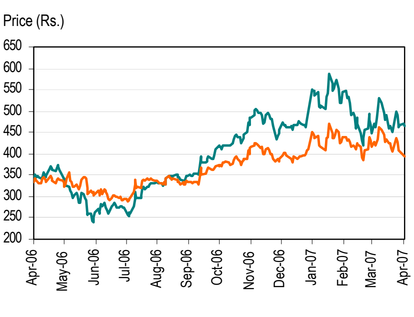
Price Performance

52-week high/low			Rs615/222
	-1m	-3m	-12m
Absolute (%)	3.8	(14.9)	39.1
Rel to Sensex (%)	(5.6)	(11.1)	21.2

Shareholding Pattern (%)

Promoters	43.10
FIIs/NRIs/OCBs/GDR	41.90
MFs/Banks/FIs	6.91
Non Promoter Corporate	2.49
Public & Others	5.59

Stock vs Relative to Sensex



Source: Capitaline

Summary

Successfully passes rate hike baton

UTI Bank's latest quarter results are again outstanding on many counts. Yet, the most important factor we think is the strong expansion in yields on advances and the robust margin expansion that the bank has managed. The bank has maintained a strong business momentum with a 53% YoY increase in overall business. Defying the broader trend of a slower growth in credit in Q4FY07, UTI Bank's advances have astoundingly risen 63% YoY in Q4FY07 and 65% YoY in FY07.

The results season has kicked off with strong results from UTI Bank. We feel a coterie of bank's should emerge towards the end of FY07 results that shall continue to perform inspite of the difficult operating environment. After reading into the bank's latest quarter results, there's no doubting that UTI Bank will be there in this strong league.

Result highlights

- Business growth is 65% YoY with advances growing 65% YoY to Rs.368.7bn and deposits showing a growth of 47% to Rs.588bn. Low cost deposits at Rs.234bn have shown a growth of 46% YoY and have remained stable at 40% of total deposits. Consumer credit has expanded 38% YoY moving to Rs.8,928m.
- Net Interest Income (NII) for the quarter has increased 48% YoY to Rs.4,642m, the increase for the year is 45% YoY to Rs.15,671m. Inspite of fund costs rising 39bps YoY to 5.92%, the bank has added 14bps to FY06 NIM taking the FY07 NIM to 3.06%. This has been enabled because of a strong increase in yield on advances.
- Fee income growth remains strong at 43% YoY. The marginal decline in trading profits has been strongly offset by a surge in fee-based income. The trading profits declined 14.3% YoY to Rs.1,857m while the fee income increased 61% YoY to Rs.8,244m. UTI Bank's net income for FY07 has risen by 43% YoY to Rs.25,772m. Fee income is 32% of net income and 15% of the bank's total income.
- The general provisioning in Q4FY07 has increased 56.4% YoY to Rs.1,066m though there is a marked decline in NPA provisioning by 62% YoY to Rs.83m. The FY07 provisions have increased 33% YoY to Rs.9,962m. The effective tax rate is 33% for the year. UTI Bank's net profit has moved up 40% YoY to Rs.2,118m in Q4FY07 while it has increased 36% YoY to Rs.6,590m for the entire FY07.
- UTI Bank has maintained capital adequacy of 11.52% in FY07. This is marginally up from 11.06% in FY06. UTI Bank has raised Tier II capital domestically as well as in foreign currency in FY07.
- The bank trades at 4.5x FY07 ABV Rs.105 and 20.4x FY07 EPS Rs.22.8. The networth of the bank for FY07 is Rs.32.3bn and has increased 16% over FY06.

Business events

- UTI Bank added a total 110 new branches in FY07 of which 81 branches were added in Q4FY07 alone. The bank has unexpired 30 licenses and plans to add another 110-115 branches in FY08.
- The issue of successor to the incumbent CMD Dr. P. J. Nayak is a significant event. Mr. Nayak who has driven the fledgling bank till present may step down as RBI has insisted the post of CMD be split. Dr. Nayak does not wish to lead the bank in any capacity but CMD.

Result analysis and outlook

Business growth will sustain with marginal moderation

We have been for some time worried about the growth that can now happen in the banks' business. RBI's pro-activeness in tightening the cords and pulling the bank's up for slowing down the credit has had it's effect in FY07 when the systemic growth in credit slowed down to 28% YoY by end Q4FY07 from 31% witnessed in 9MFY07 period. Therefore, UTI Bank's strong 63% YoY credit growth in Q4FY07 comes as a surprise and certainly defies the systemic trend we were observing.

We feel there will be more in the offing and for a few good reasons. Foremost, the reason for a slowdown in credit has not just been the interest rates becoming prohibitive but also the resources. Banks have found it hard to leverage high cost deposits at a better spread. The results have been sagging NIM's. UTI Bank on the contrary has successfully raised resources, maintained a stable CASA, and has clients / customers lined up asking for loans.

Two, the bank has a strong client base with over 6m customers, which is expanding rapidly. The branch expansion plans are impressive and the reach and clientele can only make things better as far as business is concerned.

Three, the Q4FY07 business, we believe, has come largely from older branches. The 80 odd branches added in the last quarter of FY07 might still not have started contributing significantly to the bank's business.

And four, but not the least, we think there shall be a scramble to get a share of a relatively smaller business pie as monitory measures may slowdown credit in the first two quarters. So in the new equation we shall see aggressive banks like UTI Bank retaining or rather increasing their share in the pie while there shall be some who will lose business to banks like UTI Bank. A clearer picture on who shall lose business share should emerge by end of the FY07 results though it is clear that UTI Bank shall sustain business growth in FY08.

Margins should remain largely neutral

Expanding yield on advances and interest credit on CRR balances caused the 10bps YoY accretion to NIM taking it to 3.06% in Q4FY07. UTI Bank's NIM has expanded 7bps YoY to 2.92% for entire FY07. The slower expansion in the FY07 NIM as compared to the last quarter NIM can be attributed to the faster rise in interest costs impacting 9MFY07 NIM. UTI Bank has also raised some portion of capital and working funds at coupon above 10% during the year, which we believe has also added to the costs.

However, the bank has been able to pass on the rate hike successfully and the same is reflecting in the yields. Yields on various loan categories have moved to double digits ranging from 9.7% to 11.25%. Netting off the CRR interest, whose effect should be in a +5 to +6bps range in Q4FY07 and shall be absent going forward, we feel the bank's NIM may hover around 3%.

Fee income sources increase

UTI Bank tied up with MetLife Insurance to cross sell their life insurance products through it's branches. The bank has earned a commission income of Rs.180m in its 4 months of engagement with the company. UTI Bank has added credit cards to it's retail product offering with four different variants. The bank expects about 10-12% of future fee income to flow from the cards' business (including the debit cards). Fees charged to retail customers constitute about 50% of the bank's fee income. UTI Bank's loan syndication business has slipped and may remain prone to cyclicality as rising interest rates may make corporates put on hold their money raising plans reducing the overall volume.

UTI Bank has sustained growh in fee income which has risen 61% YoY in FY07 against a 63% YoY growth in FY06. The fee income growth for UTI Bank should remain strong as it expands business and moves to different geographic locations.

NPA's continue to dip

The calculated additional slippages in FY07 are around Rs.407m or just 0.28% of the additional gross advances in FY07. UTI Bank's NPA's in percentage terms have therefore improved further. The GNPA's have improved from 1.68% (Rs.3,780m) in FY06 to 1.12% (Rs.4,187m) in FY07 whereas NNPA's have improved from 0.98% (Rs.2,198m) in FY06 to 0.72% (Rs.2,663m) in FY07. The bank's GNPA's and NNPA's as a percentage to customer assets have slipped still lower to 0.95% (from 1.28%) and 0.61% (from 0.75%) respectively.

Equity dilution plans on table

We had indicated in the Q2FY07 result update note that UTI Bank may have to raise equity capital as it was expanding it's balance sheet fast. A temporary capital in the form of subordinate debt, even if carrying a maturity above nine years, has it's own costs as the bank has to raise it more frequently. A more durable capital in the form of equity can allow the bank rest longer before it raises fresh capital and will have greater headroom to raise Tier II capital. It shall also boost stock liquidity.

Table 1: Resources raised

Sr. No	Instrument	Type	Tenure	Coupon	Curr.	Amt. Raised
Capital						
1.	Foreign Currency Hybrid Subordinated Bonds	Upper Tier II	180m	7.25%	USD	150m
2.	Unsecured Redeemable Subordinated Debentures	Tier I	Perpetual	10.05%	INR	2,140m
3.	Foreign Currency Hybrid Bonds	Tier I	Perpetual	7.17%	USD	46m
4.	Unsecured Redeemable Subordinated Debentures	Tier II	180m	9.35%	INR	2,000m
5.	Unsecured Subordinated Debentures	Upper Tier II	180m	9.5%	INR	1,075m
6.	Unsecured Redeemable Non-convertible Subordinated Debentures	Tier II	120m	10.1%	INR	2,509m
Other borrowings						
7.	Bonds / Notes	-		3m USD LIBOR + 40bps	USD	250m

Source: Company reports; IDBI Capital Market Services

Valuations

The networth of the bank has increased 16% YoY to Rs.32,336m. This takes the bank's BV to Rs.115. Adjusting the uncovered NPA's, we get an adjusted BV of Rs.107. The stock's current price trades at 4.4x FY07 ABV.

Just three but very important issues!

- **Change of guard is imminent but no heir apparent to the bank**

  Though the finance ministry through SUUTI approved continuation of Dr. Nayak as the CMD of UTI Bank, the RBI has refused to budge from it's insistence that UTI Bank should in the footsteps of other private sector banks split the top post in the bank into that of a Chairman and a Managing Director. Dr. Nayak on an earlier count in 2004 had offered to step down when the issue came up, as his term was about to expire. He was then given an extension to continue with both the offices. It appears likely that Dr. Nayak may finish his spectacular and long innings with the bank after his present tenure ends.

  An IAS officer from the Orissa cadre, Dr. Nayak was a senior bureaucrat in the finance ministry of the Government of India. After his tenure with UTI, he took on the reins of the fledgling UTI Bank in 2000. He proved his mettle as a banker as he steered UTI Bank and put it on the growth fastrack. Dr. Nayak is extremely respected in the industry circles and is very rightly credited with building a quality new generation private sector bank. Dr. Nayak is leaving the bank when the bank has again cheered investors giving one more quarter of outstanding results. The new heads will face the challenge of living up to the legacy of Dr. Nayak and ensure that their leadership remains as dynamic, if not, then more than that of their predecessor.

  UTI Bank Board will have a daunting task before itself scouting for a Chairman and a MD who will ably step into the shoes of Dr. Nayak. There have been no pointers towards an internal candidate so far. We have to watch this space with fingers crossed.

- **LIC buying SUUTI's stake in UTI Bank**

  Country's largest life insurer LIC has been amongst the promoters of UTI Bank and currently holds 10.38%. Recently, speculations have been rife that LIC may buy into SUUTI's 27.44% in UTI Bank. This shall take LIC's total holding in the bank to 37.82%. No doubt, the bank will get a strong promoter, the largest financial institution in the country with profits that exceed even that of SBI by a large margin. But only time will tell how it would influence the decision making in UTI Bank.

- **Fresh branding**

  UTI Bank will not be able to use the 'UTI' name after December 2007 (the debate / dispute is still on, on who would retain the 'UTI' name. It will likely remain with SUUTI / UTI). It shall have to undergo a name change. Though it may not have to reposition itself in the market, it shall have to undergo a fresh round of extensive branding exercise. The costs involved will mostly be a non-issue as the bank has been anticipating and budgeting the same. However, the test shall be on a name that shall have a recall and how effectively it is communicated to everyone through various media.

Table 2: Financials (Rs. m)

Year-end: March	Q4FY07	Q3FY07	FY07	FY06	FY05
Interest Income	13,668	11,896	45,604	28,888	19,242
Interest expended	9,025	7,738	29,933	18,106	11,930
NII	4,642	4,158	15,671	10,782	7,312
YoY Change (%)	48%	45%	45%	47%	27%
Other Income	3,011	2,797	10,101	7,296	4,158
Fee and other income	2,579	2,005	8,244	5,129	3,188
Treasury income (non-interest)	432	793	1,857	2,167	970
Net Income	7,653	6,956	25,772	18,079	11,470
YoY Change (%)	41%	51%	43%	58%	3%
Operating expenses	3,430	3,370	12,146	8,141	5,814
Payments to employees	889	1,147	3,814	2,402	1,769
Other expenses	2,541	2,223	8,332	5,739	4,045
YoY Change (%)	41%	65%	49%	40%	39%
Operating income	4,223	3,586	13,626	9,938	5,656
YoY Change (%)	42%	40%	37%	76%	-19%
Provisions and contingencies	1,066	763	3,664	2,625	619
NPA provisions	983	763	2,098	2,443	585
Other provisions	83	0	1,567	182	34
YoY Change (%)	56%	29%	40%	324%	-77%
PBT	3,157	2,824	9,962	7,313	5,037
Taxes	1,039	977	3,372	2,462	1,691
Tax rate (%)	33%	35%	33.9%	33.7%	33.6%
PAT	2,118	1,846	6,590	4,851	3,346
YoY Change (%)	40%	40%	36%	45%	20%
Extraordinary income	0	0	0	0	0
Normalised PAT	2,118	1,846	6,590	4,851	3,346
YoY Change (%)	40%	40%	36%	45%	20%

Source: Company reports; IDBI Capital Market Services

Table 3: Key ratios and valuations (%)

Year-end: March	FY07	FY06	FY05
CASA	39.9	40.0	38.0
CD	62.0	55.0	49.0
Cost of Funds	5.6	4.9	4.8
NIM	2.9	2.8	2.9
C/I	47.1	45.0	50.7
GNPA's	1.1	1.7	2.1
NNPA's	0.7	1.0	0.7
CAR	11.6	11.1	12.7
EPS (Rs.)	22.8	17.1	28.6
PE (x)	20.4	27.2	16.2
BV (Rs.)	115	100	87
ABV (Rs.)	105	93	81
P/ABV (x)	4.4	5.0	5.7

Source: Company reports; IDBI Capital Market Services

Equity Sales/Dealing

Manish Agarwal	(91-22) 66371152/54	manish.agarwal@idbicapital.com
Ankur Agarwala	(91-22) 66371155	ankur.agarwala@idbicapital.com
Vikash Bhartiya	(91-22) 66371152	vikash.bhartiya@idbicapital.com
Manoj Shettigar	(91-22) 66371157	manoj.shettigar@idbicapital.com
Rachit Shah	(91-22) 66371153	rachit.shah@idbicapital.com
Manisha Rathod	(91-22) 66371156	manisha.rathod@idbicapital.com
Charushila Parkar	(91-22) 66371154	charushila.parkar@idbicapital.com
Himanshu Marfatia	(91-22) 66371151	himanshu.marfatia@idbicapital.com
Samit Sanyal	(91-22) 66371154	samit.sanyal@idbicapital.com

Production & Database

S. Narasimhan Rao	(91-22) 66371165	narasimhan.rao@idbicapital.com

IDBI Capital Market Services Ltd. (A wholly owned subsidiary of IDBI Ltd.)
Registered Office: 5th floor, Mafatlal Centre, Nariman Point, Mumbai – 400 021. Phones: (91-22) 6637 1212. Fax: (91-22) 2288 5850/60. Email: info@idbicapital.com