Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
BASF India	18-Sep-06	220	**236**	300
BEL	26-Sep-06	1,108	**1,160**	1,525
ICICI Bank	23-Dec-03	284	**695**	770
Orient Paper	30-Aug-05	214	**581**	800
UltraTech	10-Aug-05	384	**904**	1,000

Sharekhan Ltd
A-206, Phoenix House, 2nd Floor, Senapati Bapat Marg, Lower Parel, Mumbai - 400013, India.

UTI Bank

Emerging Star

Stock Update

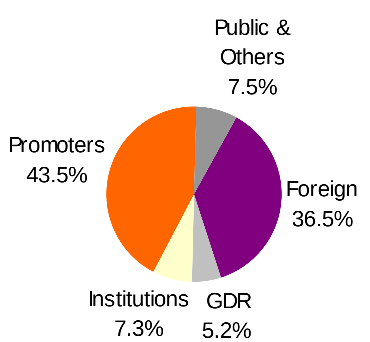
Price target revised to Rs490

Buy; CMP: Rs410

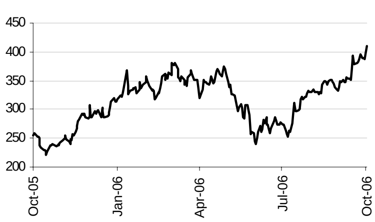
Company details

Price target:	Rs490
Market cap:	Rs11,398 cr
52 week high/low:	Rs425/220
NSE volume: (No of shares)	4.1 lakh
BSE code:	532215
NSE code:	UTIBANK
Sharekhan code:	UTIBANK
Free float: (No of shares)	14.3 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.4	16.9	-0.2	80.2
Relative to Sensex	-2.0	1.6	-10.7	21.0

Result highlights

- UTI Bank's Q2FY2007 net profit at Rs142.0 crore was in line with our expectations.
- The net interest income (NII) grew by 43% year on year (yoy) backed by a strong growth in the advances.
- Remarkably UTI Bank's net interest margins (NIMs) expanded by 12 basis points yoy and by 24 basis points quarter on quarter (qoq) as the yield on the assets expanded and there was a growth in the demand deposits at almost one and half times the growth in the overall deposits.
- The fee income too grew by a strong 66% yoy backed by a strong growth in the fee income from the cash management and retail businesses.
- The operating profit for the quarter grew by a slower 16% yoy to Rs274.5 crore. The slower growth was attributable to a steep rise in the employee and other cost. However, we believe that the rise in the cost is justifiable looking at the rapid growth expected in the bank's branch network.
- The net profit grew by a faster 30.2% due to a lower provisioning for investment depreciation and a higher loan provisioning.
- The net non-performing assets (NPAs) as a percentage of the bank's customer assets were flat at 0.74% compared with 0.73% in Q1FY2007. However, the same have come down substantially over Q2FY2006.
- UTI Bank's Tier-I capital adequacy ratio (CAR) stood at 6.71% at the end of Q2FY2007 whereas its overall CAR stood at 11.5%. The bank will have to go in for further Tier-I capital raising to sustain the growth.
- We expect UTI Bank to go in for plain equity issuance of $250 million by the end of FY2007 or early FY2008 which will raise its book value to Rs167 by the end of FY2008, up by 16% from our current estimates.
- At the current market price of Rs410, the stock is quoting at 14.1x its FY2008E EPS and 2.7x its FY2008E book value (BV). We reiterate our Buy recommendation on the bank with a revised price target of Rs490 based on our revised earnings as well as estimated increase in its book value.

Result table Rs (cr)

Particulars	H1FY07	H1FY06	% yoy chng	Q2FY07	Q2FY06	% yoy chng	% qoq chng
Net interest income	687.0	477.9	43.7	365.2	255.5	43.0	13.5
Other income	429.3	328.1	30.8	204.8	178.1	15.0	-8.8
Fee income	*343.4*	*217.3*	*58.0*	*181.4*	*109.3*	*66.0*	*12.0*
Trading profits	*63.3*	*104.0*	*-39.1*	*23.3*	*68.8*	*-66.1*	*-41.6*
Net income	1,116.3	806.1	38.5	569.9	433.6	31.4	4.3
Operating expenses	534.6	366.5	45.9	295.5	197.5	49.6	23.5
Operating profit	581.7	439.6	32.3	274.5	236.1	16.3	-10.6
Provisions	183.6	135.2	35.8	58.8	71.6	-18.0	-52.9
Taxes	135.6	102.8	31.9	73.8	55.5	33.0	19.3
Net profit	238.5	180.8	31.9	142.0	109.0	30.2	17.8

Strong growth of 43% in NII...

UTI Bank reported a strong 43% growth in its NII on the back of a 58.2% growth (as on the last reporting Friday of Q2FY2007) in its advances. Its deposits also reported a strong growth of 43.7%.

NIMs expand despite addition of international business

UTI Bank's NIMs expanded despite growing international business. The NIMs expanded as the yields on the assets expanded by 65 basis points and the rapid growth in the demand deposits helped in mitigating the overall cost of funds.

In %	Q2FY2007	Q2FY2006	Q1FY2007
Yield on assets	8.34	7.59	8.13
Cost of funds	5.42	4.93	5.45
NIM	2.92	2.66	2.68

Deposit mix

Rs crore	Q2FY07	Q2FY06	Q1FY07	% yoy	% qoq
Deposits	48,920.4	34,055.0	42,094.0	43.7	16.2
Demand deposits	19,568.2	12,005.0	14,938.0	63.0	31.0
as % of total deposits	40.0	35.3	35.5		
Term deposits	29,352.2	22,050.0	27,156.0	33.1	8.1

The growing proportion of the high yield personal loans and the reducing proportion of lower yield car loans and commercial vehicle loans has helped the bank to increase its yield on assets dramatically.

Mix of the retail loans

	Q2FY07	Q2FY06	Q1FY07	Change in basis points	
				yoy	qoq
Retail loans as percentage of total loans	29.2	27.8	30.4	66.2	8.3
As % of retail					
Two-wheelers	1.0	1.0	1.0	66.2	8.3
Commercial vehicles	18.0	36.0	21.0	-16.9	-7.2
Personal loans	30.0	5.0	27.0	897.2	20.3
Mortgages	37.0	37.0	36.0	66.2	11.3
Car loans	6.0	12.0	8.0	-16.9	-18.8
Others	8.0	9.0	7.0	47.7	23.8

Strong growth in fee income

The fee income grew by a sharp 66% yoy in line with the asset growth. The growth in the fee income was achieved on the back of a strong growth in the fee income from corporate banking and the sale of retail products.

Break-up of fee income (Rs crore)

Particulars	H1 FY07	H1 FY06	% yoy chg	Q2 FY07	Q2 FY06	% yoy chg
Corporate banking	101.0	66.0	53.0	47.0	37.0	27.0
Business banking	67.0	47.0	42.6	34.0	18.0	88.9
Capital markets	56.0	37.0	51.4	28.0	14.0	100.0
Retail banking	115.0	59.0	94.9	68.0	32.0	112.5

We expect UTI Bank's fee income to grow at a compounded annual growth rate of 48% over FY2006-08E, in line with the growth in its business.

Operating expenses rise steeply

The operating expenses rose steeply by 55.7% yoy to Rs980.4 crore. We believe that the steep rise in the operating expenses is attributable to two factors. One, during the previous twelve months the bank has aggressively grown its branch network as well as its assets. Secondly, the bank has significantly expanded its employee base during the quarter in anticipation of further expansion in the network. The bank has got licences to open 100 more branches from the Reserve Bank of India.

Branch network

	Q2FY2007	Q2FY2006	Q1FY2007
Branches	469	373.0	463
ATMs	2,021	1,737.0	1,959

However core operating profit grows by a strong 50.2%

A strong growth in the NII and the rising fee income resulted in a strong 50.2% year-on-year (y-o-y) growth in the operating profit excluding the trading profits, albeit the reported operating profit grew by only 16.3% yoy.

Rs crore	Q2FY2007	Q2FY2006	% yoy change
Reported operating profit	274.5	236.1	16.3
Less: treasury profits	23.3	68.8	-66.1
Operating profit excluding treasury profits	251.2	167.3	50.2

Net profit grows by 30.2% due to lower provisioning

The net profit for Q2FY2007 grew by a higher 30%, as the provisioning requirement for Q2FY2007 was much lower. The total provisions were lower at Rs58.8 crore during the quarter under review compared with Rs71.6 crore in Q2FY2006.

The provision for the standard assets was higher due to the increased rate of provisioning at 0.7% (earlier 0.4%) of the standard assets.

Provisions break-up (Rs crore)

Provision for	Q2FY2007	Q2FY2006
Standard assets	23.9	6.84
NPAs	21.4	53.39
Investment depreciation	-11.3	-10.6
Others	24.7	22.0

Source: Company

Asset quality shows consistent improvement

UTI Bank's net NPA level (as a percentage of its net customer assets) improved to 0.74% in Q2FY2007 from 1.03% in Q2FY006. However, on a sequential basis the same was flat compared with 0.73% in Q1FY2007.

Need to boost Tier-I CAR further

During September 2006, UTI Bank raised Rs214 crore via an issue of hybrid Tier-I capital. As a result UTI Bank's Tier-I capital remained stable at 6.7% despite an aggressive growth in the balance sheet size. However, the bank will have to further raise hybrid Tier-I capital to boost its Tier-I CAR and help it maintain the growth rate. The bank is planning a hybrid Tier-I capital issue in the overseas markets sometime soon. The bank's plan of an equity issue to raise further funds may follow the same.

The recent hybrid Tier-I capital issue has been placed at a high coupon rate of 10.05%. Raising further funds through the same route may increase the cost of funds. However, we believe that as long as the earnings yield of the stock is less than the interest rate on the debt to be issued, it would always be more earnings accretive to borrow money rather than issue equity.

The bank may also go in for a plain equity issue in FY2008 for the balance amount, which will also help it boost its book value per share.

Valuation and view

We have revised our earnings estimates to take into account the higher growth in assets, improvement in the NIMs and the higher other income. We have revised our EPS for FY2007 and FY2008 by 2.9% and 6.1% respectively.

Further as we mentioned above, we expect the bank to go in for plain equity raising may be by the end of FY2007 or early FY2008 and raise approximately $250 million or Rs1,100 crore which may boost its book value to Rs167 per share at the end of FY2008 from our estimates of Rs143.2.

At the current market price of Rs410, the stock is quoting at 14.1x its FY2008E EPS and 2.7x its FY008E BV. We reiterate our Buy recommendation on the bank with a price target of Rs490 based on our revised earnings and imminent equity issuance.

Key financials

Particulars	FY2005	FY2006E	FY2007E	FY2008E
Net profit (Rs crore)	332.0	485.0	601.4	772.3
% y-o-y growth	*13.9*	*46.1*	*24.0*	*28.4*
Shares in issue (crore)	23.3	27.8	27.8	27.8
EPS (Rs)	14.3	17.4	21.6	27.8
% y-o-y growth	*13.5*	*22.3*	*24.0*	*28.4*
PER (x)	27.5	22.5	18.1	14.1
P/PPP (x)	15.6	11.0	9.0	6.9
Book value (Rs)	88.0	103.1	120.1	143.2
P/BV (x)	4.5	3.8	3.3	2.7
Adjusted book value (Rs)	78.9	94.4	112.4	140.4
P/ABV (x)	5.0	4.2	3.5	2.8
RoE (x)	18.7	18.4	19.3	21.0

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

Indian Hotels Company

Apple Green

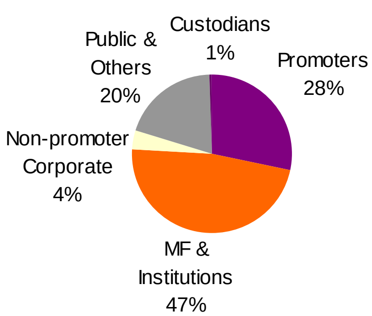
Stock Update

Merger to be earnings accretive

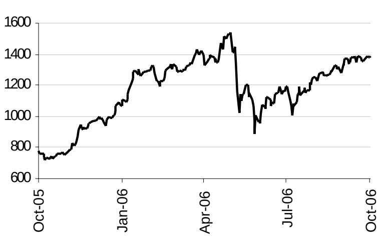
Buy; CMP: Rs1,388

Company details	
Price target:	Rs1,474
Market cap:	Rs8,107 cr
52 week high/low:	Rs1,385/1,371
NSE volume: (No of shares)	73,760
BSE code:	500850
NSE code:	INDHOTEL
Sharekhan code:	INDNHOT
Free float: (No of shares)	4.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	19.7	43.8	18.5	55.3
Relative to Sensex	11.3	25.0	6.1	4.3

Event

The board of directors of Indian Hotels Company Ltd (IHCL) has approved the proposal for amalgamation of 4 of its subsidiary/associate companies with itself. Specifically, the proposal seeks to amalgamate Indian Resort Hotels Ltd, Gateway Hotels and Gateway Resorts Ltd, Asia Pacific Hotels Ltd and Taj Lands End Ltd into the company in terms of a scheme of amalgamation under section 391-394 of the Companies Act 1956.

Scheme of amalgamation

The amalgamation will be effective from April 01, 2006 and will be completed by issuing fresh equity shares of IHCL to the existing shareholders of the 4 companies based on a swap ratio. At the same time, all the shares held by IHCL in these 4 companies shall stand cancelled.

The swap ratio has been fixed as given below.

- A swap ratio of 2:7 for the merger of Indian Resort Hotels Ltd with IHCL ie for every 7 shares (with the face value of Rs10) of Indian Resort Hotels Ltd, the shareholders will be issued 2 new shares (with the face value of Rs10) of IHCL.
- A swap ratio of 10:47 for the merger of Gateway Hotels and Gateway Resorts Ltd with IHCL ie for every 47 shares (with the face value of Rs10) of Gateway Hotels and Gateway Resorts Ltd, the shareholders will be issued 10 new shares (with the face value of Rs10) of IHCL.
- Since the company holds 100% of the issued, subscribed and paid-up capital of Asia Pacific Hotels Ltd and Taj Lands End Ltd, the entire share capital held by the company in Asia Pacific Hotels Ltd and Taj Lands End Ltd shall stand cancelled upon the proposed amalgamation becoming effective.

Earnings table Rs (cr)

Particulars	FY2004	FY2005	FY2006	FY2007E	FY2008E
Stand-alone					
Net profit (Rs cr)	28.5	83.1	181.2	257.8	250.3
Share in issue (cr)	4.5	5.0	5.8	5.9	5.9
EPS (Rs)	6.3	16.5	31.0	43.9	42.7
% y-o-y growth	*32.5*	*161.8*	*87.6*	*41.7*	*-2.9*
PER (x)	187.7	71.7	38.2	27.0	27.8
Book value (Rs)	197.0	225.1	293.7	325.5	355.2
P/BV (x)	6.0	5.3	4.0	3.6	3.3
EV/Ebidta (x)	45.3	27.3	18.6	13.4	13.4
Dividend yield (%)	0.7	0.8	1.1	1.1	1.1
RoCE (%)	4.6	7.5	14.0	18.3	16.7
RoNW (%)	3.2	7.3	10.6	13.5	12.0
Consolidated					
Net profit (Rs cr)	46.2	126.0	246.7	345.9	356.2
EPS (Rs)	10.2	25.1	42.2	59.0	60.7
% y-o-y growth	*142.9*	*145.1*	*68.4*	*39.6*	*3.0*
PER (x)	115.8	47.3	28.1	20.1	19.5

Assumptions and valuations

In our analysis of the above-mentioned scheme of amalgamation, we have made the following assumptions.

- We have assumed that the profits of Indian Resort Hotels Ltd will grow at the same rate as that of IHCL.
- The profits of Gateway Hotels and Gateway Resorts Ltd (which has a single property with 98 rooms in Bangalore) have been assumed as per the average room rates and occupancy levels prevailing in Bangalore.
- We have assumed a fully-diluted equity post-merger (assuming the complete conversion of foreign currency convertible bonds [FCCB]) in our earnings per share (EPS) calculations.
- We have not considered any incremental earnings from Asia Pacific Hotels and Taj Lands End as these are both 100% subsidiaries of IHCL and their earnings are already included in our estimates for consolidated IHCL profits.

Equity dilution post-merger

No of shares as on March 31, 2006 (cr)	5.84
Dilution for FCCB issue (cr)	0.03
Diluted no of shares (cr)	5.87
Merger swap ratio	
- Indian Resorts	2:70
- Gateway Hotels	10:47
No of shares added (cr)	
- Indian Resorts	0.09
- Gateway hotels	0.01
Diluted no of shares post-merger (cr)	5.96
Equity dilution due to merger (%)	1.60

Impact of amalgamation on earnings

	% holding	Net profit (Rs cr)		
		FY06	FY07E	FY08E
IHCL consolidated pre-merger		**246.7**	**345.9**	**356.2**
Indian Resorts*	18.8	7.31	8.3	7.0
Gateway Hotels*	45.24	4.5	5.8	6.6
Asia Pacific Hotels	100.00	already included in IHCL consolidated		
Taj Lands End	100.00	already included in IHCL consolidated		
IHCL consolidated post-merger			**360.0**	**369.8**
Old EPS (Rs)		42.2	59.0	60.7
New no of shares (cr)			6.0	6.0
New EPS (Rs)			60.4	62.0
% change in EPS			*2.4*	*2.1*

* Profits considered only for additional stake acquired.

Based on the back-of-the-envelope calculations, we believe that the proposed merger will lead to an equity dilution of 1.6% for IHCL. Considering fully-diluted equity post-merger, our calculations yield an EPS of Rs60.4 for FY2007E (representing a 2.4% increment to our earlier EPS estimate of Rs59) and an EPS of Rs62.0 for FY2008E (representing a 2.1% increment to our earlier EPS estimate of Rs60.7). Thus, the proposed merger is expected to be earnings accretive.

We are in the process of revising the numbers once there is clarity on the given amalgamation. We shall revise our estimates post the quarterly results.

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

Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Associated Cement Companies
Bajaj Auto
Balrampur Chini Mills
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Godrej Consumer Products
Grasim Industries
Hindustan Lever
Hyderabad Industries
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico Industries
Maruti Udyog
Lupin
Nicholas Piramal India
Omax Auto
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Sundaram Clayton
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

Allahabad Bank
Andhra Bank
Cipla
Gateway Distriparks
International Combustion (India)
JK Cement
Madras Cement
Shree Cement
Transport Corporation of India

Emerging Star

3i Infotech
Aban Offshore
Cadila Healthcare
KSB Pumps
Marksans Pharma
Navneet Publications (India)
New Delhi Television
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Solectron Centum Electronics
Television Eighteen India
Thermax
TVS Motor Company
UTI Bank
Welspun Gujarat Stahl Rohren

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
BASF India
Deepak Fertilisers & Petrochemicals Corporation
Genus Overseas Electronics
HCL Technologies
ICI India
India Cements
Jaiprakash Associates
JM Financial
KEI Industries
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
South East Asia Marine Engineering & Construction
Subros
Sun Pharmaceutical Industries
Surya Pharmaceuticals
UltraTech Cement
Union Bank of India
Universal Cables
Wockhardt

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India

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