



UTI Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,057	UTIB IN
	REUTERS CODE
S&P CNX: 4,052	UTBK.BO

12 January 2007

Buy

Previous Recommendation: Buy

Rs499

Equity Shares (m)	278.7
52-Week Range	530/222
1,6,12 Rel.Perf.(%)	7/52/9
M.Cap. (Rs b)	139.1
M.Cap. (US\$ b)	3.1

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
3/06A	18,079	4,851	17.4	42.4	28.7	4.8	11.1	18.4	1.1	5.1
3/07E	25,564	6,479	23.2	33.6	21.5	4.1	11.0	20.6	1.1	4.3
3/08E	33,387	8,486	30.4	31.0	16.4	3.4	10.5	22.5	1.1	3.5

UTI Bank reported 45% growth in net interest income for 3QFY07, higher than our expectation, on the back of strong balance sheet growth and margin expansion. Loan growth was 66% YoY in 3QFY07 compared with 44% YoY in 2QFY07, while growth in CASA deposits has been robust at 60%. Margins have improved by 8bp QoQ to 3.0% in 3QFY07 from 2.92% in 2QFY07. The bank has maintained asset quality despite making lower NPA provisions YoY.

- ✍ Deposits grow 50%; loans up 66%
- ✍ NII up 45% YoY; margins expand 8bp QoQ
- ✍ Core fee income rises 59%; trading gains increase by 68%
- ✍ Operating expenses up 65% owing to higher recruitment
- ✍ Net NPAs at 0.68%

We have raised our estimates by 3% in FY07 and similarly by 3% in FY08, factoring in a higher growth rate, improvement in margins and also higher operating costs. Stock trades at a PE of 16.4x FY08E and P/BV of 3.4x FY08E BV. Maintain **Buy** with a revised target price of Rs550 (valuing the bank at 3x FY09E BV).

Y/E MARCH	QUARTERLY PERFORMANCE										(RS MILLION)	
	FY06				FY07				FY06	FY07E		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Interest Income	6,218	6,876	7,467	8,327	9,539	10,501	11,896	12,336	28,888	44,272		
Interest Expense	3,994	4,322	4,593	5,198	6,321	6,849	7,738	7,910	18,106	28,818		
Net Interest Income	2,225	2,555	2,874	3,129	3,218	3,652	4,158	4,426	10,782	15,454		
Y-o-Y Growth (%)	34.8	41.4	53.7	59.4	44.7	43.0	44.7	41.5	47.5	43.3		
Other Income	1,500	1,781	1,734	2,281	2,245	2,048	2,797	3,020	7,296	10,110		
Net Income	3,725	4,336	4,609	5,409	5,463	5,699	6,956	7,445	18,079	25,564		
Operating Expenses	1,690	1,975	2,047	2,429	2,392	2,955	3,370	3,528	8,141	12,244		
Operating Profit	2,035	2,361	2,562	2,981	3,072	2,745	3,586	3,917	9,938	13,320		
Y-o-Y Growth (%)	39.6	515.0	42.8	49.1	51.0	16.3	40.0	31.4	75.7	34.0		
Provision & Contingencies	635	716	592	682	1,248	588	763	1,052	2,625	3,650		
Profit before Tax	1,399	1,645	1,970	2,299	1,824	2,157	2,824	2,866	7,313	9,670		
Tax Provisions	473	555	653	782	618	738	977	858	2,462	3,191		
Net Profit	926	1,090	1,317	1,517	1,206	1,420	1,846	2,008	4,851	6,479		
Y-o-Y Growth (%)	31.0	135.9	30.2	30.2	30.1	30.2	40.2	32.3	45.0	33.6		
Int Exp/ Int Earned (%)	64.2	62.8	61.5	62.4	66.3	65.2	65.0	64.1	62.7	65.1		
Other Income / Net Income (%)	40.3	41.1	37.6	42.2	41.1	35.9	40.2	40.6	40.4	39.5		
Cost to Income Ratio (%)	45.4	45.6	44.4	44.9	43.8	51.8	48.4	47.4	45.0	47.9		

E: M0St Estimates

UTI Bank reported 45% growth in net interest income for 3QFY07, higher than our expectation, on the back of strong balance sheet growth and margin expansion. Loan growth was 66% YoY in 3QFY07 compared with 44% YoY in 2QFY07, while growth in CASA deposits has been robust at 60%. Margins have improved by 8bp QoQ to 3.0% in 3QFY07 from 2.92% in 2QFY07. The bank has maintained asset quality despite making lower NPA provisions YoY.

Deposits grow 50%; loans up 66%

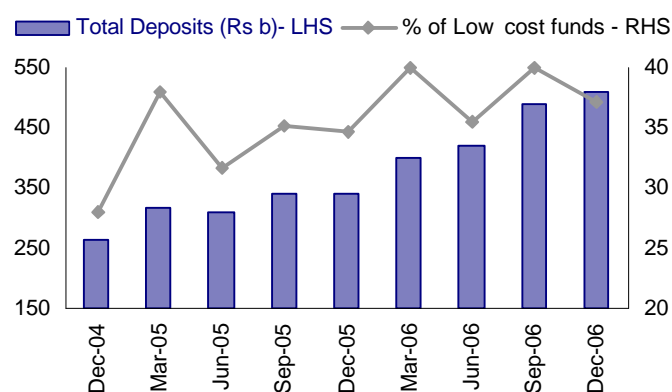
Balance sheet growth remained strong. Total deposits grew 50% YoY to Rs509b. Savings account deposits grew 59% YoY, while current account deposits grew 61% YoY. The share of CASA deposits declined QoQ by 290bp, although they improved by 240bp YoY to 37%.

DEPOSIT GROWTH (RS M)

	DEC-05	SEP-06	DEC-06	GR. (%) YOY	GR. (%) QOQ
Savings	65,700	97,260	104,310	58.8	7.2
Current	52,400	98,530	84,520	61.3	-14.2
Term	222,150	294,070	320,370	44.2	8.9
Total	340,250	489,860	509,200	49.7	3.9

Source: Company/ Motilal Oswal Securities

TREND IN DEPOSITS



Source: Company/ Motilal Oswal Securities

Total loans increased 66% YoY to Rs323b, while retail loans grew 59% YoY to Rs92b. For 3QFY07, retail loans constituted 28% of total loans.

RETAIL ASSETS (% OF TOTAL)

	Q3FY06	Q2FY07	Q3FY07
Auto	47	25	22
-CVs	29	18	16
-4 wheelers	16	6	5
-2 wheelers	2	1	1
Housing	25	37	43
Personal Loans	19	30	27
Others	9	8	7

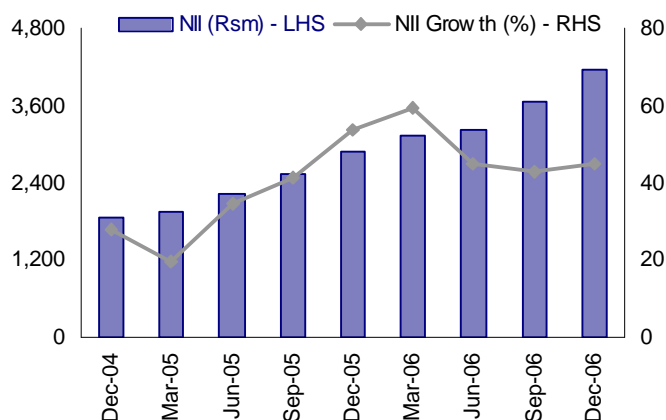
Source: Company/ Motilal Oswal Securities

While retail loans continue to witness strong growth, driven primarily by mortgages (which now form 43% of retail loans), even corporate loans have grown at a strong pace. Corporate loans have increased by 68% YoY. While retail loans have been growing at a fast pace, management believes that in the current environment, the corporate segment offers greater profitability. Therefore, the bank aims to grow its corporate book in line with growth in its retail book.

NII grows 45% YoY; margins expand 8bp QoQ

Net interest income (NII) grew 45% YoY in 3QFY07, driven by strong growth in advances and investments, together with higher share of demand deposits.

TREND IN NII GROWTH

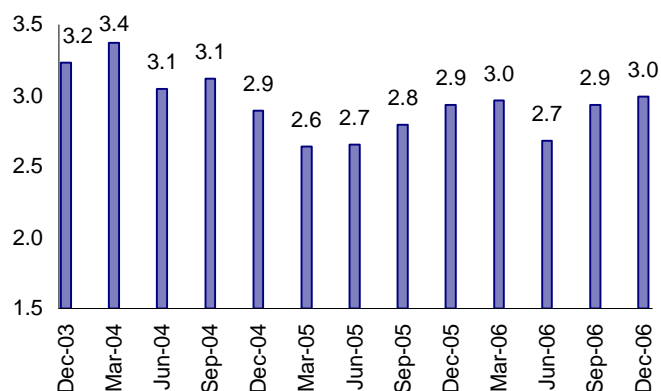


Source: Company/ Motilal Oswal Securities

NIM increased by 8bp QoQ, this being the second consecutive quarter of sequential increase in margins. NIMs increased to 3.0% in 3QFY07 from 2.92% in 2QFY07. The bank believes that it now has a credible and encouraging

pipeline of corporate advances, indicating a visible upswing in the credit cycle. As this translates into loan assets, UTI Bank's NIM should rise further. Average cost of funds decreased marginally to 5.53% in 3QFY07 compared with 5.42% in 2QFY07, but increased 67bp from 4.86% in 3QFY06.

TREND IN NIM (%)



Source: Company/ Motilal Oswal Securities

Core fee income rises 61%; trading gains rise by 68%

Fee income growth has continued to be steady — it grew 61% YoY in 3QFY07. The bank has diversified its sources of fee income in the last 12 months and built in a sustainable source of income. We expect steady growth in fee income in future years, as well. Retail banking fee income is up 100% YoY, while business banking, corporate banking and capital market-related fee income is up 55%, 44% and 5% YoY, respectively.

Treasury income increased by 68% YoY to Rs793m. The share of trading profits in operating revenue increased to 11% in 3QFY07 from 10% in 3QFY06.

UTI Bank currently generates fee income from activities like credit transactions, cash management, ATM sharing, collection for governments, retail banking (including distribution of third party products), capital markets, debt syndication and placements, and debit cards. It has also put in place a wealth management team, which will begin contributing to fee income growth.

The bank has also launched its own credit cards in 2QFY07 (a pilot project has started already). Besides, its international branches (initially Singapore, later China, Hong Kong and Dubai) will start contributing to fee income. Even in the corporate segment, the bank foresees increased opportunities to earn fees in the areas of project appraisal, loan syndication etc.

Operating expenses up 65% on heavy recruitment

Operating expenses increased 65% YoY, as employee expenses increased 84%. The bank recruited 3,300 new employees during 9MFY07 to gear up for setting up new branches in 2HFY07. A lot of employees have been recruited for its third party distribution business, which should result in higher retail fees in the following quarters.

Network expansion continues

The bank's ATM network of 2,126 ATMs is the third largest in the country. UTI Bank has a wide presence by virtue of its 481 branches and Extension Counters across 275 cities and towns compared with 1,820 ATMs and 413 branches and Extension Counters across 236 cities and towns a year ago. During 3QFY07, the bank added 12 branches and Extension Counters and 105 ATMs. Overall, the bank plans to have ~530 branches by FY07.

Net NPAs at 0.68%

Net NPAs have declined marginally QoQ by 6bp to 0.68%, although they are down from 0.95% in 3QFY06. The provisions held together with accumulated write-offs as a proportion of gross NPAs and accumulated write-offs amount to 76% as of 3QFY07 (excluding accumulated write-offs, provision cover stands at 43%).

Despite the strong balance sheet expansion over the last couple of years, the bank has managed to keep net NPAs below 1%, as it has a strong internal rating system in place. We do not see any concern on this front arising in future years and expect net NPAs to stabilize at around the 1% level.

Tier-I ratio at 7%

Tier-I capital adequacy is at 7%, marginal improvement QoQ. The management has ruled out any equity raising in FY07 and would raise hybrid capital to shore up its Tier-I ratio. UTI Bank has raised hybrid capital of US\$150m and Rs2b by way of Upper Tier-II Bonds and US\$46m and Rs2.1b by way of Tier-I Perpetual Debt during the nine months of the current fiscal year.

This capital raising is a part of the US\$700m capital raising announced by the bank some time ago in the form of hybrid

Tier-I, Upper Tier-II and subordinated bonds during FY07. UTI Bank's management has clearly indicated that equity capital issuance would not occur until 2HFY08.

Valuation and view

We have raised our estimates by 3% in FY07 and 3% in FY08, factoring in a higher growth rate, improvement in margins and also higher operating costs. The stock trades at a PE of 16.4x FY08E and P/BV of 3.4x FY08E BV. Maintain **Buy** with a revised target price of Rs550 (valuing the bank at 3x FY09E BV).

UTI Bank: an investment profile

Company description

UTI Bank is a private sector bank in India, with a balance sheet size of Rs650b. Promoted by UTI in 1994, the bank has a countrywide presence through a network of 481 branches, extension counters across 275 locations and 2,126 ATMs. Under the leadership of Dr. Nayak, the bank has made significant strides in all segments and has emerged as one of the stronger players in the Indian banking space.

Key investment arguments

- ✍ We expect loan growth of 30% (CAGR, FY06-09E) along with margin expansion to result in NII growth of over 39% over the same period.
- ✍ Net NPAs down to less than 1%, containing further delinquencies through strong risk management systems.
- ✍ Has built a strong retail network on the platform of best technology and quality manpower

Key investments risks

- ✍ Low provision cover (43%) could hurt the bank, were delinquencies to increase, particularly in the retail asset segment
- ✍ Change in norms of foreign ownership limits could impact valuations

COMPARATIVE VALUATIONS

		UTI BANK	HDFC BANK	ICICI BANK
P/E (x)	FY07E	21.5	29.2	27.4
	FY08E	16.4	22.3	21.8
P/BV (x)	FY07E	4.1	5.3	3.5
	FY08E	3.4	4.4	3.2
RoE (%)	FY07E	20.6	19.8	13.5
	FY08E	22.5	21.7	15.3
RoA (%)	FY07E	1.1	1.3	1.1
	FY08E	1.1	1.3	1.0

SHAREHOLDING PATTERN (%)

	SEP.06	JUN.06	SEP.05
Promoter	43.4	43.5	43.8
Domestic Inst	7.7	7.3	6.8
Foreign	43.1	41.7	42.4
Others	5.8	7.5	7.0

Recent developments

- ✍ UTI Bank has begun international operations with its first overseas branch in Singapore
- ✍ The bank has got fresh approval from RBI for opening 100 new branches and 226 ATMs in the current year.
- ✍ UTI Bank has raised Hybrid Capital of US\$150m & Rs2b by way of Upper Tier - II Bonds and US\$46m & Rs 2.1b by way of Tier-I Perpetual Debt during the nine months of the current fiscal year.

Valuation and view

- ✍ Core earnings momentum will continue to drive valuations. Possibility of an M&A will also keep the action alive.
- ✍ We expect earnings to grow by 31% CAGR over FY06-09. The stock trades at PE of 16.4x FY08E and P/BV of 3.4x FY08E BV. Maintain **Buy** with a revised target price of Rs550 (valuing the bank at 3x FY09E BV).

Sector view

- ✍ YTD loan growth of 28%, one of the highest in the last 12 years.
- ✍ Volatility in interest rates will impact bond gains
- ✍ Benefits of significant improvement in asset quality not yet factored in earnings, valuations
- ✍ We maintain an overweight stance on the sector

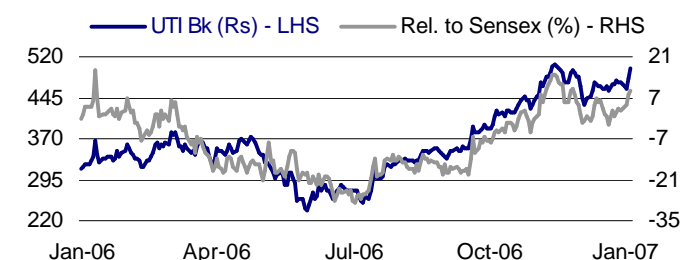
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	23.2	22.7	2.1
FY08	30.4	27.9	9.0

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
499	550	10.2	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Interest Income	19,242	28,888	44,272	60,345	75,966
Interest Expended	11,930	18,106	28,818	39,585	49,120
Net Interest Income	7,312	10,782	15,454	20,760	26,846
Change (%)	26.7	47.5	43.3	34.3	29.3
Other Income	4,158	7,296	10,110	12,627	15,424
Net Income	11,470	18,079	25,564	33,387	42,270
Operating Expenses	5,814	8,141	12,244	16,426	21,391
Operating Income	5,656	9,938	13,320	16,961	20,879
Change (%)	-19.0	75.7	34.0	27.3	23.1
Other Provisions	619	2,625	3,650	4,200	4,750
PBT	5,037	7,313	9,670	12,761	16,129
Tax	1,691	2,462	3,191	4,275	5,161
PAT	3,346	4,851	6,479	8,486	10,968
Change (%)	20.2	45.0	33.6	31.0	29.2
Proposed Dividend	878	1,126	1,115	1,282	1,282

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Capital	2,738	2,787	2,787	2,787	2,787
Reserves & Surplus	21,344	25,935	31,299	38,503	48,189
Net Worth	24,082	28,722	34,086	41,290	50,975
Deposits	317,120	401,135	553,567	691,958	864,948
Borrowings	17,948	26,943	37,721	41,493	45,642
Other Liab & Provisions	18,287	40,510	52,663	68,462	89,001
Total Liabilities	377,437	497,311	678,037	843,204	1,050,567
Current Assets	45,029	36,418	52,587	55,023	68,266
Investments	150,480	215,274	290,619	371,993	464,991
Advances	156,029	223,142	314,631	393,288	491,610
Net Fixed Assets	5,184	5,677	6,200	6,900	7,700
Other Assets	20,714	16,800	14,000	16,000	18,000
Total Assets	377,437	497,311	678,037	843,204	1,050,567

KEY ASSUMPTIONS					
(%)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Deposit Growth	51.3	26.5	38.0	25.0	25.0
Advances Growth	66.6	43.0	41.0	25.0	25.0
Investments Growth	93.1	43.1	35.0	28.0	25.0
CRR	5.0	5.0	5.5	5.5	5.5
Provision Coverage	46.3	41.9	55.4	64.8	76.3
Dividend per share	2.8	3.5	4.0	4.6	4.6

E: MOSI Estimates

RATIOS					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Spreads Analysis (%)					
Avg. Yield-Earning Assets	6.7	7.1	7.9	8.3	8.3
Avg. Cost - Int. Bear. Liab	4.3	4.7	5.7	6.0	6.0
Interest Spread	2.3	2.3	2.3	2.3	2.3
Net Interest Margin	2.5	2.6	2.8	2.8	2.9

Profitability Ratios (%)					
RoE	18.9	18.4	20.6	22.5	23.8
RoA	1.1	1.1	1.1	1.1	1.2
Int. Expended/Int. Earned	62.0	62.7	65.1	65.6	64.7
Other Income/Net Income	36.3	40.4	39.5	37.8	36.5

Efficiency Ratios (%)					
Op Exp/Net Income	50.7	45.0	47.9	49.2	50.6
Employee Cost/Op. Exps	30.4	29.5	31.1	31.5	29.8
Business per Empl. (Rs m)	815	83.7	74.6	814	87.2
Net Profit per Empl. (Rs n)	0.7	0.7	0.6	0.7	0.8

Asset Liability Profile (%)					
Advances/Deposit Ratio	49.2	55.6	56.8	56.8	56.8
Invest./Deposit Ratio	47.5	53.7	52.5	53.8	53.8
G-Sec/Investment Ratio	50.1	54.8	40.6	31.7	25.4
Gross NPAs to Advance:	2.0	1.7	1.6	1.8	1.8
Net NPAs to Advances	1.1	1.0	0.7	0.6	0.4
CAR	12.7	11.1	11.0	10.5	10.3
Tier 1	8.9	7.3	6.4	6.3	6.2

VALUATION					
Book Value (Rs)	88.0	103.1	122.3	148.2	182.9
Price-BV (x)	5.7	4.8	4.1	3.4	2.7
Adjusted BV (Rs)	82.6	98.0	117.0	142.4	178.0
Price-ABV (x)	6.0	5.1	4.3	3.5	2.8
EPS (Rs)	12.2	17.4	23.2	30.4	39.4
EPS Growth	17	42.4	33.6	31.0	29.2
Price Earnings (x)	40.9	28.7	21.5	16.4	12.7
OPS (Rs)	20.7	35.7	47.8	60.9	74.9
Price-OP (x)	24.2	14.0	10.4	8.2	6.7

E: MOSI Estimates

N O T E S



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UTI Bank

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|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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