

July 13, 2007

**BUY**

Price	Target Price
<b>Rs 641</b>	<b>Rs710</b>
<b>Sensex</b>	<b>15,092</b>

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	9	37	33	132
Rel. to Sensex	2	20	20	68

Source: Capitaline

**Stock Details**

Sector	Banks
Reuters	UTBK.BO
Bloomberg	UTIB@IN
Equity Capital (Rs mn)	2827
Face Value	10
52 Week H/L	649/249
Market Cap (Rs bn)	Rs181.2bn/US\$4.5bn
Daily Avg Volume (No of shares)	1,207,546
Daily Avg Turnover (US\$)	15.8

**Shareholding Pattern (%)**

(31st Mar.'07)	
Promoters	43.1
FII	41.9
Institutions	6.9
Private Corp.	2.5
Public	5.6

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**UTI Bank**

Quarterly Update

**Improving balance sheet and earnings profile**

UTI Bank's Q1FY08 results have been in line with our expectations. Rather than the profit numbers for Q1FY08, what has excited us more is the bank's ability to improve the quality of its balance sheet and earnings despite its fast growth (~2.5x the industry average). The bank has improved its CASA mix by 200bps+, NPA at gross as well as net level are down and NIMs have expanded in rising interest rate scenario despite accelerated balance sheet growth.

Albeit that at the current valuations of the stock at 18.8x FY09E EPS and 2.5x FY09E ABV may look stretched, we believe that the rerating of the stock would continue looking at its ability to manage the growth without affecting its quality. We maintain our BUY recommendation on the stock with 12m-price target of Rs710.

**Robust advances and stable NIM sustain momentum in NII**

UTI Bank's NII grew by 38.8% yoy for Q1FY08 to Rs4.5bn, slightly lower than our estimates of Rs4.7bn. The continued strong momentum in NII was driven by 59.7% yoy growth in advances and stable NIM of 2.7%.

On sequential basis, the NIM were lower by 34bps as during the end of FY07, the bank had bought a priority sector lending portfolio of short term maturity (which is usual phenomenon at the year end) which pulled down overall yield on assets. Also in Q4FY07, the bank had received about Rs200mn of one-time interest on CRR balances, which shored up the NIMs. We believe that over coming quarters as this portfolio is redeemed, the NIM will rebound.

**Yield analysis**

%	Q1FY08	Q1FY07	Q4FY07	Change in bps	
				Yoy	qoq
Yield on advances*	10.36	9.14	9.67	122	70
Yield on investments*	7.35	7.05	7.51	30	-16
Yield on assets*	8.58	7.90	8.42	69	17
Cost of funds*	6.09	5.23	5.56	86	53
NIM*	2.50	2.66	2.86	-17	-36
Yield on assets (Reported)	9.15	8.13	8.98	102	17
Cost of funds (Reported)	6.43	5.45	5.92	98	51
NIM (Reported)	2.72	2.68	3.06	4	-34

Source: Company, Emkay Research

Note: \* Calculated on basis of average quarterly balances

**Retail liability franchise remains strong despite strong asset growth**

Despite strong growth in balance sheet, UTI Bank's CASA franchisee has expanded by 226bps over last year and now contributes 37.8% of the total deposits.

**CASA mix**

(Rs bn)	Q1FY08	Q1FY07	Q4FY07	% change	
				yoy	qoq
Savings Deposits	123	82	113	49.7	8.9
Current Deposits	108	67	121	60.1	-11.3
Total Deposits	611	421	588	45.1	3.9
Demand/Total (%)	37.8	35.5	39.9	226bps	-211 bps

Source: Company, Emkay Research

While on sequential basis, the CASA has gone down by 211bps, it's a usual phenomenon for the bank as its gets lot of current account float in Q2 and Q4 from its CMS services due to advance tax payments. Vindicating this, the savings account balances have in fact grown by 9% sequentially.

**Robust growth in other income...**

The other income during the quarter has grown by 70.7% yoy partially offsetting lower NII and high Opex. The treasury income (net of amortisation) has grown almost 3.5x over last year. The fee income has grown by robust 47.1% yoy to Rs2.7bn driven by an all-round growth in all the segments of the business.

**... Partially offsets high Opex**

The operating expenses during the quarter have grown little faster at 76.1%. However, we believe that with the branch network expanding by more than 110 new branches, we see these expenses as an investment in future growth through further exploitation of these new branches.

On sequential basis also, the employee expenses have gone up steeply by 66.0%. The bank has attributed this mainly to new recruitments undertaken over last two quarters.

**Core operating profit growth much slower**

(Rs mn)	Q1FY08	Q1FY07	Q4FY07	% change	
				yoy	qoq
Reported operating profit	3,679	2,832	3,983	29.9	-7.6
Less: Treasury gains#	708	160	192	343.8	269.5
Core operating profit	2,972	2,672	3,791	11.2	-21.6

Source: Company, Emkay Research

# Net of amortisation expenses

**Branch network**

(Rs mn)	Q1FY08	Q1FY07	Q4FY07
Branches	574	463	561
ATMs	2428	1959	2341

Source: Company

**Robust asset quality – incremental slippages remain low**

The asset quality remained robust with GNPA at 1% of gross customer assets (1.3% last year) and net NPA at 0.6% of net customer assets (0.73% last year). The incremental slippages were also low at 0.5% of incremental advances, in line with our estimates.

**Equity raising in FY08**

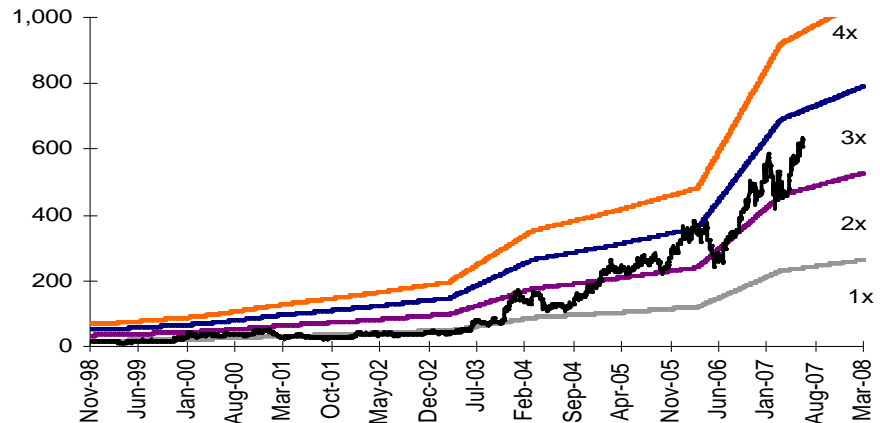
The capital adequacy at the end of the quarter was a 6.3%. The bank is likely to wind up its capital raising exercise during the current quarter. We have factored in 26% dilution in the equity (74.3mn shares @ Rs600). Albeit the size of dilution is large we believe that quality of its assets and earnings will help bank to raise the equity capital easily.

**Valuation and view**

We expect UTI Bank’s net revenues and net earnings to grow at a CAGR of 41.9% and 36.8% respectively over FY07-09E.

Albeit that at the current valuations of the stock at 18.8x FY09E EPS and 2.5x FY09E ABV may look stretched, we believe that the rerating of the stock would continue looking at its ability to manage the growth without affecting its quality. We maintain our BUY recommendation on the stock with 12m-price target of Rs710.

**UTI Bank-P/ABV Band (x)**



Source: BSE, Emkay Research

**Quarterly results**

Rs mn	Q1FY08	Q1FY07	Q4FY07	% yoy chg	% qoq chg
Net interest income	4,468.3	3,218.4	4,642.3	38.8	-3.7
Other Income	3,423.2	2,005.0	2,771.0	70.7	23.5
<i>Fee</i>	2,715.3	1,845.5	2,579.4	47.1	5.3
<i>Other</i>	707.9	159.5	191.6	343.8	269.5
Net Income	7,891.5	5,223.4	7,413.3	51.1	6.5
Operating Expenses	4,212.1	2,391.6	3,430.3	76.1	22.8
Pre-provision profit	3,679.4	2,831.8	3,983.0	29.9	-7.6
Provisions & Contingencies	1,009.1	1,007.9	825.1	0.1	22.3
<i>NPA</i>	496.1	137.8	82.9	260.0	498.4
<i>Others</i>	513.0	870.1	742.2	-41.0	-30.9
Profit before tax	2,670.3	1,823.9	3,157.9	46.4	-15.4
Provision for Taxes	920.5	618.2	1,039.0	48.9	-11.4
Net Profit	1,749.8	1,205.7	2,118.9	45.1	-17.4

**Valuation table**

Y/E March 31	Net income (Rs mn)	Net profit (Rs mn)	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	P/ABV (x)	PE (x)
FY2006	18,083	4,851	17.4	95.2	1.1	18.4	6.6	36.4
FY2007	25,772	6,590	23.4	112.6	1.1	21.0	5.6	34.8
FY2008E	35,654	8,935	24.9	231.9	1.0	15.0	2.7	25.7
FY2009E	47,742	12,330	34.0	258.6	1.0	13.6	2.4	18.6

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