

Equity indices	% Chg			
	13-July	1-day	1-mth	3-mth
India				
Sensex	15,273	1.2	7.8	11.5
Nifty	4,505	1.3	8.0	12.2
Global/Regional markets				
Dow Jones	13,907	0.3	2.0	9.3
Nasdaq	2,707	0.2	3.1	7.5
FTSE	6,717	0.3	(0.2)	3.1
Nikkei	18,239	1.4	1.5	3.5
Hang Seng	23,054	(0.2)	9.7	11.1

Value traded (Rs bn)	BSE	NSE
Cash	67.5	148.5
Derivatives	10.0	488.8
Total	77.5	637.3

Net inflows (Rs bn)	Recent trends (days)			
	12-July	-7d	-15d	-30d
FII	7.0	79.3	137.5	157.1
MF	1.2	(7.7)	(6.4)	(4.9)

Forex / Crude	% Chg			
	13-July	1day	1mth	3mth
Rs/US\$	40.4	0.0	0.6	3.7
Euro/US\$	1.4	0.0	2.7	1.8
Crude(\$/bbl)	74.0	0.1	8.8	16.3

Mkt movers (Rs)	Close	Pr. Cl.	% Chg
Top gainers			
Monnet Ispat	326.4	293.3	11.3
Aditya Birla Nuvo	1,512.1	1,363.3	10.9
Man Industries	307.1	277.9	10.5
Top losers			
CMC	1,298.9	1,460.8	(11.1)
Rashtriya Chem	43.7	46.5	(6.0)
Gati	108.6	115.0	(5.6)

In focus

Bajaj Auto – Results Update

Margins take a nosedive

CMP: Rs 2,175 Target: Rs 2,324 HOLD

UTI Bank – Results Update

Strong credit growth bolsters results

CMP: Rs 641 Target: Rs 689 HOLD

Today's top picks **Sterlite, Tisco, SBI, ABB, IVRCL, Venus Remedies, KS Oils**

News track

- ❖ Over US\$ 4bn belonging to various global realty funds is ready to enter the Indian real estate sector following the US\$ 1bn which has already come in. (BS)
- ❖ Reliance Industries has signed up with the Punjab government for milk procurement and plans to buy 700,000 litres of milk every day from 150,000 farmers. Reliance Retail also plans 5,000 collection centres in UP and Bihar. (ET)
- ❖ Central Bank of India is raising capital to the tune of Rs 8.2bn (on higher price band) through an IPO which opens on July 24 and closes on July 27. The bank is offering 80mn shares in a price band of Rs 85-102 per share leading to 19.8% dilution on existing equity. (BL)
- ❖ Franklin Templeton has opposed Sun Pharma's US\$ 454mn acquisition of Israel's Taro Pharmaceutical. In a filing with the SEC, Templeton, which holds a 9% stake in Taro, said that Sun's offer of US\$ 7.75/share was too low and unjust to the minority shareholders of Taro. (BS)
- ❖ Bajaj Auto is looking for a big-ticket acquisition in the European motorcycle market, with companies like Ducati Motor Holding of Italy and Triumph Motorcycles of the UK figuring among the possible targets. (ET)
- ❖ M&M may buy some of the assets of Romanian tractor company Tractorul. (ET)

Source: BL: Business Line, BS: Business Standard, ET: Economic Times, FE: Financial Express

Volume shockers

(No of shares)	13-July	2-mth avg	Chg (x)
Infotech Enter	505,901	38,101	13.3
HMT	712,398	66,452	10.7
Noida Toll	1,459,577	154,746	9.4

Delivery toppers

	Del (%)	Total Vol	Cons Days Up
Balkrishna Indu	99.3	216,377	3
Dalmia Cement Bharat	90.4	140,517	3
Amtek Auto	88.7	511,850	3

Bajaj Auto

Results Update

CMP: Rs 2,175

Target: Rs 2,324

HOLD

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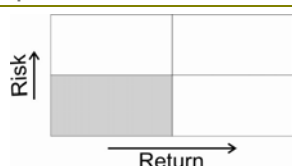
Company data

Particulars	
Market cap (Rs bn / US\$ bn)	222.1/5.4
Outstanding equity shares (mn)	101.2
52-week high/low (Rs)	3,175/2,063
6-month average daily volume	411,134

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs bn)	95.2	110.7	128.7
Growth (%)	25.7	16.3	16.2
Adj net profit (Rs bn)	12.9	13.1	15.1
Growth (%)	17.0	1.6	15.7
FDEPS (Rs)	122.4	129.4	149.7
Growth (%)	6.8	5.7	15.7
P/E (x)	17.8	16.8	14.5
RoE (%)	23.6	21.1	20.8

Risk-return profile



Shareholding pattern

(%)	Mar-07	Dec-06
Promoters	29.9	29.9
FIs	22.1	21.4
Banks & FIs	7.6	8.3
Public & Others	40.4	40.4

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Bajaj Auto	2,175	3.2	(11.0)	(21.5)
Sensex	15,273	7.8	11.5	8.2
BSE Auto	5,059	8.4	5.5	(10.3)

Margins take a nosedive

Bajaj Auto's (BAL) Q1FY08 results are disappointing, especially on the EBITDA margin front, due to much higher-than-anticipated employee cost. The margin has shrunk 330bps YoY to 13.1%, leading to a 20% dip in earnings vis-à-vis our estimates. We remain cautious on the stock as intensifying competitive pressures continue to mute profitability. We have revised our earnings estimates downwards to build in the impact of the below-par quarterly results. However, our price target remains unchanged at Rs 2,324 due to a corresponding increase in the value of BAL's investments. We continue to recommend a Hold on the scrip.

Actual vs estimated performance

(Rs bn)	Actual	Estimated	% Variance
Net sales	21.1	21.1	(0.2)
EBIDTA	2.8	3.0	(8.5)
PAT	2.3	2.8	(19.8)
EPS (Rs)	22.4	27.9	(19.8)

Source: Company, Religare Research

Quarterly results

(Rs bn)	Q1FY08	Q1FY07	% Chg YoY	Q4FY07	% Chg QoQ
Volumes (in nos)	571,591	647,094	(11.7)	628,387	(9.0)
Realisation per vehicle (Rs)	36,898.9	34,039.3	8.4	36,817.3	0.2
Net sales	21.1	22.0	(4.2)	23.1	(8.8)
EBITDA	2,753.6	3,606.9	(23.7)	3,262.9	(15.6)
EBITDA margin (%)	13.1	16.4	-	14.1	-
EBITDA per vehicle (Rs)	4,817.4	5,574.0	(13.6)	5,192.5	(7.2)
PAT	2.3	2.7	(14.9)	3.1	(26.5)
PAT margin (%)	10.7	12.1	-	13.3	-
Core PAT per vehicle (Rs)	2,725.3	3,117.0	(12.6)	3,059.5	(10.9)
EPS (Rs)	22.4	26.3	(14.9)	30.5	(26.5)
Cash EPS (Rs)	27.2	31.0	(12.3)	35.0	(22.2)
Core EPS (Rs)	15.4	19.9	(22.8)	19.0	(19.0)

Source: Company, Religare Research

Net sales down 4% reflecting industry-wide slowdown...

BAL's net sales were down 4% YoY during Q1FY08 to Rs 21.1bn mainly due to a 13% drop in motorcycle volumes and only marginal growth in three-wheelers. The decline is in line with the industry-wide slowdown witnessed in auto sales due to rising interest rates and the adoption of stringent norms for auto financing by banks. Moreover, sales were affected by major structural changes initiated by BAL in its distribution and logistic channels during the quarter, which resulted in inventory reduction of 45,000 bikes at dealerships.

Higher sales of premium and executive bikes raised realisations by 8% YoY

...though realisations stronger as high-end bike sales rise

The company's realisation per vehicle improved significantly by 8% YoY on the back of increased sales of high-end (premium and executive) bikes and three-wheelers. Volume sales of BAL's 150cc+ motorcycle segment grew 25% YoY, while the proportion of three-wheeler sales increased by 160bps to 12.5% of total sales.

Volume sales

(Nos)	Q1FY08	Q1FY07	% Change
Motorcycles			
Domestic	379,491	497,416	(23.7)
Exports	114,551	70,771	61.9
Total	494,042	568,187	(13.0)
Scooters			
Domestic	6,209	7,626	(18.6)
Exports	4	406	(99.0)
Total	6,213	8,032	(22.6)
Three-wheelers			
Domestic	36,087	43,789	(17.6)
Exports	35,249	27,086	30.1
Total	71,336	70,875	0.7
Overall			
Domestic	421,787	548,831	(23.1)
Exports	149,804	98,263	52.5
Total	571,591	647,094	(11.7)
Proportion of two-wheelers (%)	87.5	89.0	-
Proportion of three-wheelers (%)	12.5	11.0	-

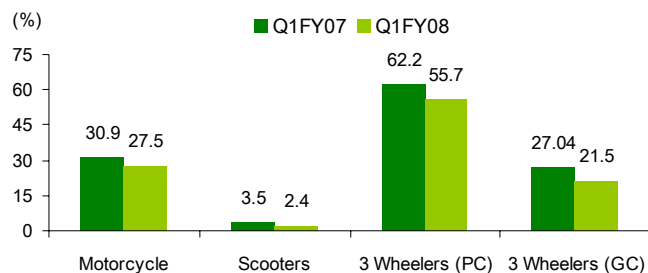
Source: Company

Market share shrinks across segments

The slowdown in volume sales led to a drop in BAL's market share across all its three segments comprising motorcycles, scooters and three-wheelers. However, the company continues to dominate in the executive and premium bike segments, and three-wheeler passenger carrier category. Erosion of market share in the motorcycle segment has come primarily from a drop in sales of 100cc bikes.

BAL's market share has dipped across segments due to sluggish volume sales

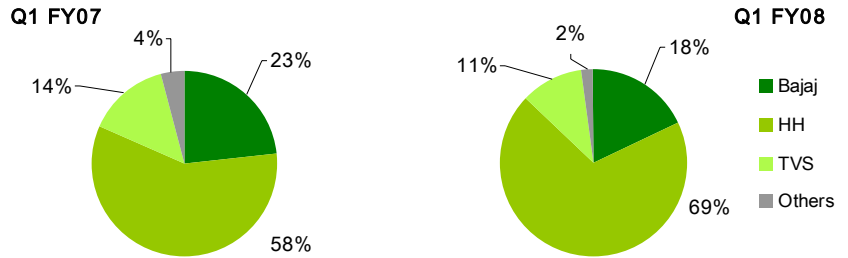
Fall in market share



Source: Siam, Religare Research

*PC: Passenger Carrier; GC: Goods Carrier

Market share of major players in 75cc-125cc bike segments



Source: Siam, Religare Research *PC: Passenger Carrier; GC: Goods Carrier

Q1FY08 YoY volume growth in 75cc-125cc bike segments

(%)	Domestic	Exports	Overall
Bajaj Auto	(39.3)	54.1	(28.4)
Hero Honda	(6.7)	(31.5)	(7.6)
TVS Motor	(36.4)	(3.7)	(33.8)
Industry	(20.9)	11.3	(18.6)

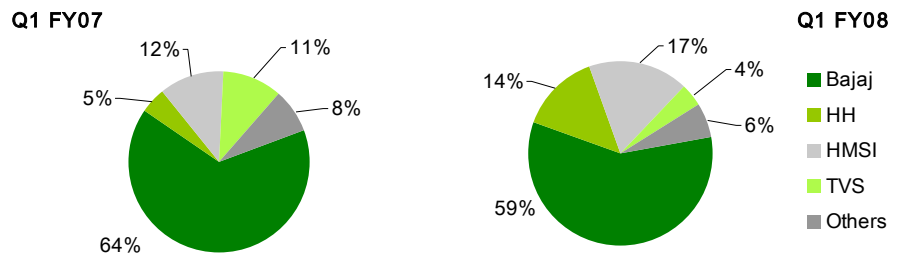
Source: Siam

High-end bike segments doing well

BAL's performance in the high-end bike segment (125cc+) has been extremely strong over the last couple of years. During the current quarter as well, the company was able to sustain growth despite new launches by other major players. BAL's volume sales of 125cc-250cc bikes has increased by 11% YoY during Q1FY08, with 150cc+ bikes growing at a higher rate of 25% YoY.

Volume sales of 150cc+ bikes up 25% YoY

Market share of major players in 125cc-250cc bike segments



Source: Siam, Religare Research

Q1FY08 YoY volume growth in 125cc-250cc bike segments

(%)	Domestic	Exports	Overall
Bajaj Auto	1.5	72.5	11.2
Hero Honda	236.7	222.9	236.2
HMSI	70.4	1,004.3	84.3
TVS Motor	(56.9)	75.3	(46.7)
Industry	13.2	94.4	22.0

Source: Siam

Exports on the rise while domestic sales take a hit

Exports reported a robust 53% YoY growth in overall volume sales, backed by 62% growth in bikes and a 30% increase in three-wheelers. Domestic sales suffered a decline of 23% YoY.

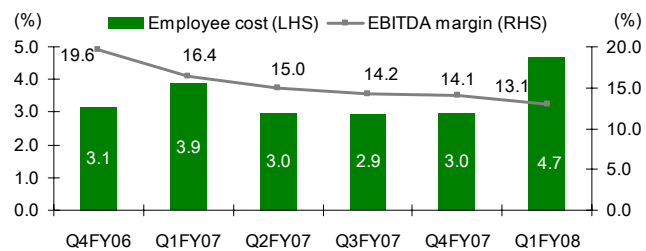
Three-wheeler sales to pick up from Q2FY08-end

Though three-wheeler sales remained flat YoY in Q1FY08, we expect the momentum to pick up in Q2FY08 as the contribution from exports – a key growth driver for this segment – has increased to 49% of total sales. BAL continues to dominate the passenger carrier segment with a 56% market share. The company has recently launched the two-stroke digital direct injection (DDI) in the passenger carrier segment and GC high deck tray in the goods carrier segment to reinforce its stronghold.

Negative surprise on EBITDA margin

The EBITDA margin came as a negative surprise, dipping 330bps YoY and 100bps QoQ to 13.1%, mainly on account of much higher-than-anticipated employee cost. The rise in input cost, overall decline in sales and competitive pricing environment in the 100cc motorcycle segment has put a further squeeze on the EBITDA margin.

Higher employee costs (as a % of sales)



Source: Company

PAT declines 15% YoY

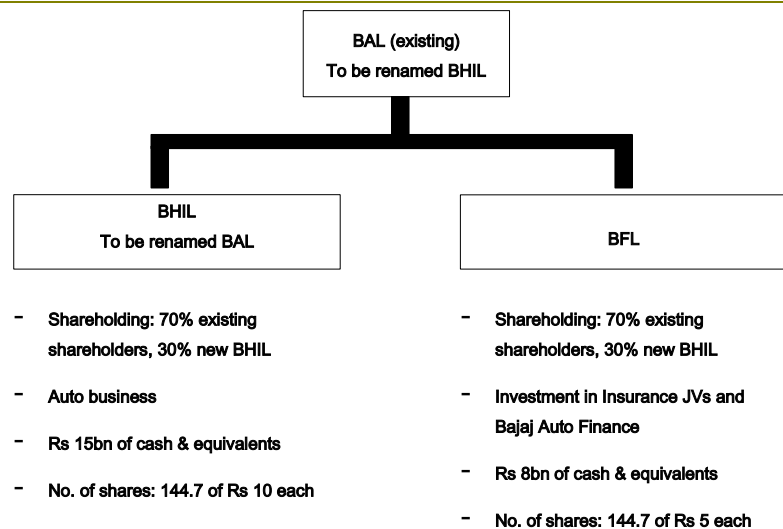
BAL reported a net profit of Rs 2.3bn in Q1FY08, signifying a decline of 15% YoY and 27% QoQ. This translates into an EPS of Rs 22.4.

Insurance and retail businesses racing ahead smoothly

BAL's insurance business continues to grow very strongly. The gross written premium of its general insurance segment grew by 27% YoY in Q1FY08, while that of life insurance rose 45% YoY during the same period. BAL's retail arm, Bajaj Auto Finance, also maintained its strong growth with total disbursements rising 30% YoY to Rs 7.4bn and net profit rising 21% YoY to Rs 41mn during Q1FY08.

Business update

Scheme of de-merger



Source: Company

During Q1FY08, BAL announced the de-merger scheme for its auto, finance and investment businesses. However, we do not see any value unlocking due to BAL's low dependency on its other businesses. Post de-merger, there shall be three companies, namely Bajaj Auto (BAL), Bajaj Holding and Investments (BHIL) and Bajaj Finserv (BFL). The existing BAL would be renamed BHIL, and BHIL would be renamed BAL.

Future outlook

Slew of new launches to restore market share in the high-end bike segment

Market share and profitability to improve

We expect BAL to regain its market share in the high-end bike segment following a slew of new launches. The company has already launched three new models, namely the *Pulsar 200 DTS-i* (in February 2007), *Discover 135 DTS-i* (April 2007) and *Pulsar 220 DTS-Fi* (June 2007). BAL expects its new 125cc bike launch planned for September 2007 to drive future growth. The product is expected to earn higher margins than the *Platina*, and the company is targeting initial sales of 50,000 units per month. Any cannibalisation of existing sales on account of the new bike launch is expected to improve profitability due to the increasing proportion of high-end bikes.

Management confident of achieving 10% annual sales growth...

BAL has reaffirmed its 10% annual revenue growth target for FY08. We remain cautious on the company's stance as other players as likely to launch new platforms and versions in the high-end segment. However, with technology and competitive pricing being crucial to success in this segment, we believe BAL remains the strongest contender due to its robust R&D department.

...with EBITDA margin at 15% by Q3FY08

The management expects the EBITDA margin to return to 15% by the end of the third quarter, following the launch of its new bike in September. The company has also initiated price hikes in certain models. We expect BAL's EBITDA margin to improve gradually from Q2FY08 onwards as sales improve.

Muted earnings growth expected over FY07-FY09 due to margin pressure

Muted earnings growth expected over FY07-FY09

BAL's earnings have grown at a CAGR of 30% over FY05-FY07, aided by strong volume growth and operating margin expansion. However, we expect the earnings growth to remain muted at 8% CAGR over FY07-FY09 primarily due to pressure on the operating margin arising from fierce competition and pricing wars.

Valuation

Estimates revised downward but target unchanged at Rs 2,324

We have revised our earnings estimates downwards by 1% and 7% for FY08E and FY09E respectively to build in the impact of the disappointing Q1FY08 results. However, our price target remains unchanged at Rs 2,324 due to a corresponding growth in value of BAL's investments. We reiterate our Hold recommendation on BAL.

Higher investment value keeps target unchanged at Rs 2,324 despite earnings downgrade

Sum-of-parts valuation

(Rs per share)	New	Old	Change (%)
Bajaj Auto (new)	1,172	1,191	(1.5)
Bajaj Finserv	418	418	0.0
Bajaj Holding and Investment	734	716	2.6
Total	2,324	2,324	0.0

Source: Religare Research

Financials

Profit and Loss statement

(Rs bn)	FY06	FY07	FY08E	FY09E
Revenues	75.7	95.2	110.7	128.7
Growth (%)	29.4	25.7	16.3	16.2
EBITDA	12.4	14.2	15.7	18.6
Growth (%)	54.3	14.6	10.4	18.7
Depreciation	1.9	1.9	2.2	2.6
EBIT	10.5	12.3	13.4	16.0
Growth (%)	69.8	17.4	9.4	19.4
Interest	0.0	0.1	0.0	0.0
Other income	5.3	5.6	5.8	6.2
EBT	15.8	17.8	19.3	22.3
Growth (%)	45.5	12.6	8.3	15.7
Tax	4.8	4.9	6.2	7.1
Effective tax rate	30.3	27.6	32.0	32.0
Adj net income	11.0	12.9	13.1	15.1
Growth (%)	43.7	17.0	1.6	15.7
Shares outstanding (mn)	101.2	101.2	101.2	101.2
FDEPS (Rs)	114.6	122.4	129.4	149.7
DPS (Rs)	30.0	30.0	30.0	30.0
CEPS (Rs)	133.5	141.2	151.5	175.0

Source: Company, Religare Research

Cash flow statement

(Rs bn)	FY06	FY07	FY08E	FY09E
Net income	10.6	12.9	13.1	15.1
Depreciation	1.9	1.9	2.2	2.6
Other adjustments	(6.4)	-	-	-
Changes in WC	4.6	(1.1)	2.3	1.5
Operating cash flow	10.7	13.7	17.6	19.2
Capital expenditure	(2.2)	(5.0)	(5.0)	(5.0)
Investments	(13.4)	-	-	-
Other investing inc/(exp)	4.7	-	-	-
Investing cash flow	(10.9)	(5.0)	(5.0)	(5.0)
Free cash flow	(0.1)	8.7	12.6	14.2
Issue of equity	-	-	-	-
Issue/repay debt	2.4	0.3	0.3	0.3
Dividends paid	(2.5)	(3.4)	(3.4)	(3.4)
Others	(0.0)	-	-	-
Financing cash flow	(0.1)	(3.1)	(3.1)	(3.1)
Beg. cash & cash eq	1.1	0.8	6.4	15.9
Chg in cash & cash eq	(0.3)	5.6	9.5	11.1
Closing cash & cash eq	0.8	6.4	15.9	27.0

Source: Company, Religare Research

Recommendation history

Date	Event	Target (Rs)	Reco
29-May-07	Company Update	2,324	Hold
13-Jul-07	Results Update	2,324	Hold

Source: Religare Research

Balance sheet

(Rs bn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	0.8	6.4	15.9	27.0
Accounts receivable	3.0	3.4	4.5	5.0
Inventories	2.7	3.9	4.3	5.8
Others current assets	22.0	27.7	34.3	42.2
Current assets	28.6	41.3	59.1	79.9
LT investments	58.6	58.6	58.6	58.6
Net fixed assets	11.1	13.9	16.4	18.5
CWIP	0.4	0.7	1.0	1.3
Total assets	98.7	114.5	135.1	158.4
Payables	11.8	14.5	18.8	22.9
Others	23.6	27.0	33.3	40.5
Current liabilities	35.4	41.5	52.1	63.3
LT debt	14.7	15.0	15.3	15.6
Other liabilities	0.9	0.9	0.9	0.9
Equity capital	1.0	1.0	1.0	1.0
Reserves	46.7	56.2	65.8	77.6
Net Worth	47.7	57.2	66.9	78.6
Total liabilities	98.7	114.5	135.1	158.4
BVPS (Rs)	471.4	565.1	660.8	776.8

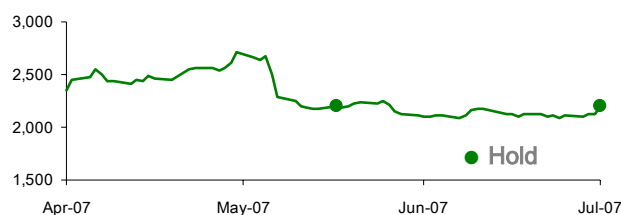
Source: Company, Religare Research

Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	16.5	14.9	14.4	14.7
EBIT margin (%)	13.8	12.9	12.1	12.5
Net profit margin (%)	15.5	13.0	12.1	12.0
FDEPS growth (%)	65.3	6.8	5.7	15.7
Receivables (days)	11.6	12.2	13.3	13.8
Inventory (days)	17.0	17.5	18.9	20.0
Payables (days)	55.2	59.2	63.9	69.1
Current ratio (x)	0.8	1.0	1.1	1.3
Interest coverage (x)	-	-	-	-
Debt/equity ratio (x)	0.3	0.3	0.2	0.2
ROE (%)	26.0	23.6	21.1	20.8
ROCE (%)	17.7	18.0	17.2	18.0
ROAE (%)	11.5	11.5	10.8	10.9
EV/Sales (x)	3.1	2.4	2.0	1.7
EV/EBITDA (x)	18.9	16.1	14.0	11.2
P/E (x)	19.0	17.8	16.8	14.5
P/BV (x)	4.6	3.8	3.3	2.8
P/CEPS (x)	16.3	15.4	14.4	12.4

Source: Company, Religare Research

Stock performance



Source: Religare Research

UTI Bank

Results Update

CMP: Rs 641

Target: Rs 689

HOLD

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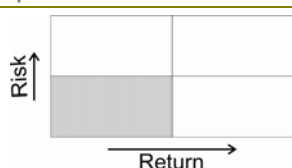
Company data

Particulars	
Market cap (Rs bn / US\$ bn)	180.1/ 4.5
Outstanding equity shares (mn)	281.6
52-week high/low (Rs)	659/249
Quarterly average daily volume	316,721

Financial snapshot

Particulars	FY07	FY08E	FY09E
NII (Rs bn)	15.7	21.3	28.9
Growth (%)	45.3	36.1	35.4
Adj net profit (Rs bn)	6.6	8.8	11.7
Growth (%)	35.9	33.8	32.2
FDEPS (Rs)	23.4	24.8	32.8
Growth (%)	34.4	5.9	32.2
P/ABV (x)	6.1	2.9	2.6
RoE (%)	21.6	15.5	13.5

Risk-return profile



Shareholding pattern

(%)	Jun-07	Mar-07
Promoters	42.9	43.1
FIs	39.8	41.7
Banks & FIs	8.6	6.9
Public	8.7	8.3

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
UTI Bank	641	9.6	36.7	28.4
Sensex	15,273	7.8	11.5	8.2
Bankex	8,282	11.6	23.9	11.4

Credit growth, non-interest income bolster results

UTI Bank has delivered better-than-expected results for Q1FY08 primarily on the back of higher loan growth and robust non-interest income. The strong asset growth led a 38.8% YoY rise in net interest income (NII) to Rs 4.5bn, with a stable margin of 2.7%. The bank is in the process of raising tier-I capital to sustain its growth momentum. While the equity issue will be book value accretive, it would reduce the bank's ROE. The stock is currently trading at a P/ABV of 2.6x on FY09E; considering the limited upside from current levels, we recommend a Hold with a target price of Rs 689.

Quarterly results

(Rs bn)	Q1FY08	Q1FY07	% Chg YoY	Q4FY07	% Chg QoQ
Int on advances	10.1	5.5	84.0	8.4	21.1
Inc on invts	4.9	3.8	31.0	4.8	2.0
Int on bal with RBI	0.3	0.3	16.4	0.5	(32.6)
Interest income	15.4	9.5	61.1	13.7	12.5
Interest expenses	(10.9)	(6.3)	72.5	(9.0)	20.8
NII	4.5	3.2	38.8	4.6	(3.7)
Other income	3.4	2.2	52.5	3.0	13.7
Total income	7.9	5.5	44.4	7.7	3.1
Operating exp	(4.2)	(2.4)	76.1	(3.4)	22.8
PPP	(1.0)	(1.2)	(19.1)	(1.1)	(5.3)
Prov and W/off	2.7	1.8	46.4	3.2	(15.4)
PBT	(0.9)	(0.6)	48.9	(1.0)	(11.4)
Taxes	1.7	1.2	45.2	2.1	(17.4)
PAT	2.7	2.7	-	3.1	-
Cost/ Inc Ratio (%)	53.4	43.8	-	44.8	-

Source: Company, Religare Research

Result highlights

Advances up 60% YoY, far above industry average

UTI Bank has posted 60% YoY growth in advances to Rs 412.8bn during Q1FY08, substantially higher than the industry growth rate of 25%. Driven by the higher asset growth, NII rose 38.8% YoY to Rs 4.5bn. Deposits logged 45% YoY growth during the quarter to Rs 610.1bn.

NIM stable at 2.7%...

With the rise in interest rates, the bank's yield on advances improved to 10.4% compared to 9.14% a year ago and 9.67% at the end of Q4FY07. Cost of deposits rose marginally to 6.43% as the share of low-cost CASA deposits rose to 38.8% compared to 35.5% a year ago. The net interest margin (NIM) thus remained stable YoY at 2.7%, but dipped 35bps sequentially. Excluding interest income on the bank's CRR balance with the RBI that was booked in Q4FY07, the drop in margins reduces to 25bps.

Leadership in corporate bond placement and syndication aids growth in fee income

...expected to remain firm as high-cost deposits mature

The management expects NIMs to start improving with the maturity of short-term priority sector assets acquired towards the end of Q4FY07. Our estimates factor in margins remaining stable at last year's level of around 2.8%.

Fee income clocks strong 47% YoY growth

Fee income continues to grow at a robust rate. For the quarter, non-interest income, excluding treasury gains, grew 47% YoY to Rs 2.7bn. A leadership position in placement and syndication of corporate bonds, coupled with robust growth in the cash management and third-party product distribution segments would continue to aid higher fee income growth. Treasury income was also up at Rs 708mn compared to Rs 159.3mn a year ago.

High recruitment levels raise operating expenses

Operating expenses have increased 76% YoY to Rs 4.2bn driven by higher personnel expenses. Swelling recruitment levels led by an expanding geographical presence has resulted in the higher expenses.

Continuing improvement in asset quality

The improvement in asset quality continued in Q1FY08 with gross NPAs down to 1.01% from 1.25% at the end of Q1FY07 and net NPAs at 0.59% from 0.73%.

Plans to raise US\$ 1bn via equity issue to promoters and GDRs

UTI Bank's capital adequacy ratio (CAR) at the end of Q1FY08 stood at 11.5% with the tier-I ratio at 6.33%. In order to maintain the current pace of growth, the bank has to shore up its tier-I capital. Accordingly, it has announced plans to raise US\$ 1bn through an equity issue via a mix of preferential allotment to promoters and GDRs or any other equity instruments.

Raising fresh equity capital at Rs 575.8/share which is 4.4x current book value

Issue to enhance book value but depress ROE...

UTI Bank has already firmed up plans to raise Rs 42.8bn by issuing 74.3mn shares at a base price of Rs 575.8/share. Of this, 31.9mn shares would be issued to existing promoters. The issue price is almost 4.4x the existing book value of Rs 130/share at the end of Q1FY08. With this issue, the bank's book value would increase to Rs230 by the end of FY08, though ROE would remain depressed for the next 2-3 years.

...but growing distribution network to boost profitability

UTI Bank is currently trading at 2.6x FY09E adjusted book value (on a post-dilution basis). We believe that the bank will continue to grow its business at more than the industry average as its distribution network expands. The increase in customer base would bring in added low-cost deposits and also help generate higher fee income. Thus, we expect the bank to sustain its current profitability growth trend, and generate a sustainable ROE of around 17.5% over the long term.

Limited upside from current levels; Recommend Hold

Based on a dividend discount model we value UTI Bank at Rs 689. This represents limited upside from the current price and we hence recommend a Hold on the stock.

Financials

Profit and Loss statement

(Rs bn)	FY06	FY07	FY08E	FY09E
Interest earned	28.9	45.6	66.7	89.8
Interest expended	(18.1)	(29.9)	(45.3)	(60.9)
Net interest income	10.8	15.7	21.3	28.9
Growth (%)	47.5	45.3	36.1	35.4
Non-interest income	7.3	10.1	12.4	15.5
Comm, Exchange & Brokerage	4.9	6.8	9.4	12.4
Growth (%)	75.5	38.4	22.7	25.2
Operating expenses	8.1	12.1	17.0	22.8
Pre-provisioning profits	9.9	13.6	16.7	21.6
Growth (%)	75.7	37.1	22.7	29.3
Provisions & contingencies	2.6	3.7	3.5	4.2
PBT	7.3	10.0	13.3	17.4
Income tax, Interest tax	2.5	3.4	4.4	5.7
Net profit	4.9	6.6	8.8	11.7
Growth (%)	45.0	35.9	33.8	32.2

Source: Company, Religare Research

Balance sheet

(Rs bn)	FY06	FY07	FY08E	FY09E
Cash in hand & bal with RBI	24.3	37.9	62.6	82.1
Balance with banks, Money at call	12.1	18.2	20.0	22.0
Investments	215.3	269.0	356.7	429.5
Advances	223.1	368.8	534.7	708.5
Fixed assets (net)	5.7	6.2	6.9	7.6
Other assets	16.8	23.5	26.3	29.5
Total assets	497.3	723.6	1,007.2	1,279.1
Equity capital	2.8	2.8	3.6	3.6
Reserves & surplus	25.9	29.5	78.1	86.9
Net worth	28.7	32.3	81.7	90.5
Deposits	401.1	587.9	823.1	1,080.1
Current deposits (a)	79.7	113.0	156.6	201.2
Savings bank deposits (b)	80.7	121.3	171.6	223.1
Term deposits (c)	240.8	353.6	495.0	655.9
Borrowings (incl sub-ord bonds)	44.7	63.8	81.9	92.5
Other liabilities & provisions	22.6	39.4	20.3	15.9
Total liabilities	497.3	723.6	1,007.2	1,279.1

Source: Company, Religare Research

Recommendation history

Date	Event	Target (Rs)	Reco
16-Jul-07	Results Update	689	Hold

Source: Religare Research

Key ratios

Year-end March	FY06	FY07	FY08E	FY09E
Per share data				
Shares outstanding (mn)	278.7	281.6	355.9	355.9
EPS (Rs)	17.4	23.4	24.8	32.8
DPS (Rs)	3.5	4.5	5.5	7.0
Book value (Rs)	103.1	114.8	229.5	254.2
Adjusted book value (Rs)	95.3	105.4	220.5	242.2

Valuation ratios

P/E (x)	36.8	27.4	25.9	19.6
P/BV (x)	6.2	5.6	2.8	2.5
P/ABV (x)	6.7	6.1	2.9	2.6

Earnings quality (%)

Net interest margin	2.7	2.7	2.6	2.6
Yield on advances	8.1	9.1	9.3	9.4
Yield on investments	7.0	7.2	7.4	7.5
Cost of funds	4.6	5.5	5.8	5.9
Cost/Income	45.0	47.1	50.4	51.3
Return on average net worth	18.4	21.6	15.5	13.5
Return on average assets	1.1	1.1	1.0	1.0

Growth ratios (%)

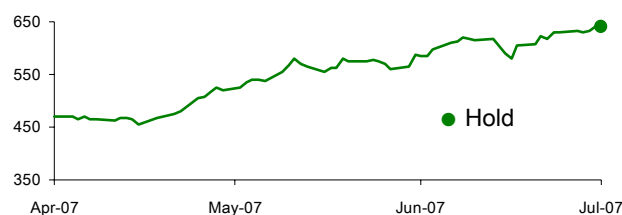
Net interest income	47.5	45.3	36.1	35.4
Other income	75.5	38.4	22.7	25.2
Total income	57.6	42.6	30.8	31.7
Pre-provisioning profit	75.7	37.1	22.7	29.3
Net profit	45.0	35.9	33.8	32.2
Advances	43.0	65.3	45.0	32.5
Deposits	26.5	46.5	40.0	31.2

Asset quality

Proportion of low-cost deposits (%)	40.0	39.9	39.9	39.3
Credit-Deposit ratio (x)	55.6	62.7	65.0	65.6
Investment/Deposit (%)	53.7	45.8	43.3	39.8
Net NPA ratio	1.0	0.7	0.6	0.6
CAR	11.1	11.6	17.4	15.8
Tier-I ratio	7.3	6.4	12.8	11.2

Source: Company, Religare Research

Stock performance



Source: Religare Research

Recommendation tracker

Date	Company	Report type	Stock price (Rs)	Target (Rs)	Reco
5-Jun-07	Omax Auto	Results Update	92	126	BUY
5-Jun-07	Dishman Pharma	Initiating Coverage	265	315	BUY
6-Jun-07	Information Technology	Sector Update	NA	NA	NA
7-Jun-07	Cinemax India	Company Update	162	189	BUY
7-Jun-07	DLF Universal	IPO Note	NA	NA	SUBSCRIBE
11-Jun-07	Biocon	Company Update	438	542	BUY
13-Jun-07	Federal Bank	Initiating Coverage	272	362	BUY
13-Jun-07	Sangam India	Initiating Coverage	67	95	BUY
13-Jun-07	KPIT Cummins Infosystems	Initiating Coverage	144	173	BUY
13-Jun-07	PVR Cinemas	Results Update	216	240	HOLD
14-Jun-07	Ashok Leyland	Company Update	36	48	BUY
15-Jun-07	Greenply Industries	Results Update	139	180	BUY
15-Jun-07	Riddhi Siddhi Gluco Biols	Results Update	276	365	BUY
18-Jun-07	Sasken Communication Technologies	Company Update	505	647	BUY
18-Jun-07	Bihar Tubes	Initiating Coverage	94	172	BUY
19-Jun-07	Aventis Pharma	Company Update	1,360	1,670	BUY
19-Jun-07	ICICI Bank	FPO Note	918	1,080	SUBSCRIBE
21-Jun-07	Cinemax India	Results Update	150	189	BUY
22-Jun-07	Garware Offshore	Company Update	214	272	BUY
25-Jun-07	Sangam India	Company Update	64	95	BUY
25-Jun-07	Spice Communications	IPO Note	41-46	NA	SUBSCRIBE
26-Jun-07	Opto Circuits (India)	Initiating Coverage	376	456	BUY
26-Jun-07	Nava Bharat Ventures	Initiating Coverage	164	268	BUY
27-Jun-07	Mahindra & Mahindra	Visit Note	720	888	BUY
28-Jun-07	Inox Leisure	Results Update	134	120	SELL
29-Jun-07	HDIL	IPO Note	430-500	NA	SUBSCRIBE
29-Jun-07	Petronet LNG	Initiating Coverage	55	73	BUY
2-Jul-07	Allied Digital Services	IPO Note	170-190	NA	NA
3-Jul-07	Indoco Remedies	Visit Note	286	383	BUY
5-Jul-07	Ashok Leyland	Company Update	38	48	BUY
5-Jul-07	Venus Remedies	Initiating Coverage	474	708	BUY
6-Jul-07	Nava Bharat Ventures	Company Update	170	268	BUY
9-Jul-07	IT Services	Sector Update	NA	NA	NA
10-Jul-07	Opto Circuits (India)	Results Update	386	456	BUY
10-Jul-07	Apollo Tyres	Company Update	347	468	BUY
11-Jul-07	Dishman Pharma	Company Update	339	357	HOLD
11-Jul-07	HDFC Bank	Results Update	1,148	1,287	HOLD
12-Jul-07	Infosys Technologies	Results Update	1,930	2,466	BUY
12-Jul-07	South Indian Bank	Initiating Coverage	140	175	BUY
13-Jul-07	Nava Bharat Ventures	Company Update	196	268	BUY
16-Jul-07	Bajaj Auto	Results Update	2,175	2,324	HOLD
16-Jul-07	UTI Bank	Results Update	641	689	HOLD

Market trends

BSE sectoral indices

	% Chg				Constituent performance
	13-July	1-day	1-mth	3-mth	
Automobiles	5,058	1.0	8.2	3.5	
Banks	8,282	0.8	11.0	23.2	
Capital Goods	13,059	0.9	17.1	34.0	
Comm. & Tech.	3,818	0.3	2.6	2.7	
Consumer Durables	4,180	(0.7)	5.6	8.2	
FMCG	1,864	0.4	4.2	2.4	
Healthcare	3,849	(0.5)	1.4	3.3	
IT	4,898	0.6	(2.0)	(4.9)	
Metal	12,001	4.6	14.3	25.5	
Oil & Gas	7,820	1.8	4.9	15.5	
Mid-caps	6,795	0.2	9.9	19.9	
Small-caps	8,216	0.0	11.8	19.3	

Number of companies: down 5% down 2-5% down 0-2% up 0-2% up 2-5% up 5%

Emerging markets

Country	% Chg				
	13-July	1-day	1-mth	3-mth	6-mth
Brazil	57,644	0.1	5.7	17.8	35.2
Shanghai	3,905	(0.2)	(5.5)	8.6	38.4
Hong Kong	23,054	(0.2)	9.7	11.1	15.1
India	15,273	1.2	7.8	11.5	8.2
South Korea	1,960	(0.1)	10.6	27.9	41.1
Taiwan	9,516	0.5	11.0	18.3	22.1

FII statistics

(US\$ mn)	1-day	WTD	MTD	YTD
India	171.6	651.1	1,395.0	7,100.1
South Korea	(119.5)	(232.9)	71.1	379.7
Taiwan	541.2	1,344.0	2,984.4	11,169.1
Thailand	1,330.2	318.7	920.0	4,098.6

Events calendar

Board meetings

July 16		17	18
Thirumalai Chemicals		Foseco India	Accent Tech
Tayo Rolls		Ucal Fuel Systems	Four Soft
Eimco Elecon (India)		Betala Glo S	Mafatla Indu
19		20	21
Wipro		Satyam Computer Services	Sesa Goa
ACC		Cosmo Films	Shreyas Shipping & Logistics
Kirloskar Oil Engines		Karur Vysya Bank	
22		23	24
SUNDAY		Century Textiles & Industries	JSW steel
		Dabur India	Balrampur Chini Mills
		M & M Financial Services	City Union Bank
25		26	27
Zuari Industries		Tata Power co.	Colgate Palmolive India
Steel Authority Of India		ABB	Ramco Industries
HDFC		Maruti Udyog	Madras Cements
28		29	30
The Andhra Sugars		SUNDAY	NEPC India
Shipping Corporation Of India			Wyeth
XPRO India			Aditya Birla NUVO

Trade data

Institutional bulk deals

Scrip	Client	Buy/Sell	Quantity	Avg Price (Rs)
Balasure All	Kotak Mahindra UK Ac Sandstone Capital India	B	456,047	28.5
Balrampur Chini Mills	Fidelity Management And Research Company A/C	B	1,700,000	75.8
FCI OEN Conn	Ultra India Fund Ac India Diversified Mauritius	B	38,504	677.7
FCI OEN Connectors	Ultra India (Mauritius) India Diversified Mauritius	B	77,260	677.6
Gayatri Proj	Goldman Sachs Investments Mauritius	B	50,000	322.4
Goldstone Tech	Standard Chartered Mutual Fund	B	433,500	115.4
Infotech Enr	Morgan Stanley And Co Intl Ac Morgan Stanley	B	493,166	394.9
Infotech Enterprises	Morgan Stanley Dean Witter Mauritius Co	B	368,403	394.8
Kirloskar EI	Sundaram BNP Paribas Mutual Fund	B	300,000	165.9
Micro Technologies (India	BSMA	S	68,926	261.5
Nitco Tiles	HSBC Financial Services(Middle East)	B	325,000	230.0
Pfizer	Fidelity Trustee Co Fidelity Equity Fund	S	157,247	803.0
RPG Transmission	Union Investment Luxembourg Ac Uniasia Pacific	B	225,000	293.3
RPG Transmission	Union Investment Luxembourg SA	B	160,921	291.1
SREI Infrastructure Finan	Arsaig Partners(Asia) Pte A/C Arisaig India	B	2,860,686	95.8
SREI Infrastructure Finan	Citigroup Global Markets Mauritius	S	1,950,000	95.8
SREI Infrastructure Finan	Deutsche Securities Mauritius	S	927,000	96.0
Sup Syncot	IDBI	S	50,000	2.4
Tanej Aero	Franklin India Fund Scheme	B	173,058	227.0
Vishal Retail	J P Morgan India	B	120,000	785.9
Vishal Retail	J P Morgan India	S	500	787.0
Zensar Technologies	Citigroup Global Markets Mauritius	B	600,000	340.0
Zensar Technologies	Merril Lynch Capiatl Markets Espana S A	B	466,000	340.0
Zensar Technologies	Morgan Stanley & Co International A/C Morgan	B	259,000	340.0
Zensar Technologies	Morgan Stanley Dean Witter Mauritius Co	B	169,914	344.6

Source: BSE

Insider trading

Scrip	Acquirer/Seller	Buy /Sell	Shares transacted		Post-transaction holding	
			Qty	%	Qty	%
Ashapura Minechem	Navnitlal R Shah	S	10,000	-	5,855,251	15.0
Fairfield Atlas	Riad Fyzee	S	10,000	-	-	-
Fairfield Atlas	Riad Fyzee	S	20,000	-	250,742	-
Gtn Textiles (Formerly Known As Gtn	Swati Patodia	B	250,000	-	260,000	-
Gtn Textiles (Formerly Known As Gtn	Binod Kumar Patodia	S	250,000	-	833,020	-
IL&FS Investment Managers	Infrastructure Leasing & Fin Serv	B	3,150,000	12.3	13,770,27	53.6
Karuturi Networks	Anitha Karuturi	S	145,587	-	481,855	1.9
Karuturi Networks	Anitha Karuturi	S	51,413	-	430,442	1.7
Lupin	Kusum Gupta	S	100	-	899	-
Motor & General Finance (MGF)	Grosvenor Estates	B	20,196	0.1	160,079	0.8
Munjal Showa	UTI Mutual Fund	S	801,491	2.0	1,239,074	3.1
PI Drugs & Pharmaceuticals	Fraxis Life Sciences & PACS	B	2,785,188	27.1	5,650,000	54.9
Ritesh Industries	Sanjeev Arora	B	5,111	-	677,926	7.4
Ritesh Industries	Sanjeev Arora	B	1,248	-	679,174	7.4
Ritesh Industries	Sanjeev Arora	B	36,990	-	716,164	7.8
Shetron	Shetron Enterprises	B	32,000	0.4	1,507,531	16.7
Solar Explosives	JF India Fund	S	595,458	3.4	400,000	2.3
UTI Bank	UTI Mutual Fund	B	920,034	-	8,290,903	2.9
UTI Bank	UTI Mutual Fund	S	6,690,086	-	-	-
Zensar Technologies	Dr Ganesh Natarajan	S	2,139	-	375,529	1.6

Scrip	Acquirer/Seller	Buy/Sell	Shares transacted		Post-transaction holding	
			Qty	%	Qty	%
Zensar Technologies	Jubilee Investments & Industries	B	100	-	1,140,029	4.8
Zensar Technologies	Fujitsu Services	S	6,220,134	26.6	-	-
Zensar Technologies	Fujitsu Services Holding B V	S	694,657	3.0	-	-
Zensar Technologies	Pedriano Investments	B	6,914,691	28.9	6,914,691	28.9

Source: BSE

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