



## UTI Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 13,607	UTIB IN
	REUTERS CODE
S&P CNX: 3,985	UTBK.BO

17 April 2007

Buy

Previous Recommendation: Buy

Rs466

		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)
Equity Shares (m)	278.7	3/07A	25,772	6,590	23.4	34.4	19.9	3.9	11.6	21.0	1.1	4.1
52-Week Range	615/222	3/08E	34,133	8,345	29.6	26.6	15.7	3.2	10.5	22.4	1.0	3.4
1,6,12 Rel.Perf.(%)	-6/7/21	3/09E	42,937	10,378	36.9	24.4	12.6	2.7	10.3	23.2	1.0	2.9
M.Cap. (Rs b)	129.9											
M.Cap. (US\$ b)	3.0											

UTI Bank reported 48% growth in net interest income (NII) for 4QFY07, higher than our expectation on the back of strong balance sheet growth. Loan growth was 65% YoY for the quarter versus 66% YoY in 3QFY07. Total deposit growth has been robust at 47%. CASA ratio was maintained at 40% YoY; while it improved from 37% in 3QFY07. Margins were up 6bp QoQ to 3.06% for the quarter. Despite lower NPA provisioning, the bank's asset quality has improved.

- ☞ Deposits up 47%; loans up 65%
- ☞ NII grew 48% YoY; margins expanded 6bp QoQ
- ☞ Core fee income up 59%; trading gains down 34%
- ☞ 111 branches and ECs and 450 ATMs added in FY07
- ☞ Gross NPA and net NPA down at 0.95% and 0.61% respectively

We have raised our EPS estimates by 5% in FY08 and 6% in FY09. Our estimates factor in a higher growth rate, margin improvement, sustained fee income growth and also higher operating costs. The stock is trading at a P/E of 12.6x FY09E and P/BV of 2.7x FY09E BV. Maintain **Buy** with a target price of Rs554 (valuing the bank at 3.2x FY09E BV).

Y/E MARCH	(RS MILLION)									
	FY06				FY07				FY06	FY07
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Interest Income	6,218	6,876	7,467	8,327	9,539	10,501	11,896	13,668	28,888	45,604
Interest Expense	3,994	4,322	4,593	5,198	6,321	6,849	7,738	9,025	18,106	29,933
<b>Net Interest Income</b>	<b>2,225</b>	<b>2,555</b>	<b>2,874</b>	<b>3,129</b>	<b>3,218</b>	<b>3,652</b>	<b>4,158</b>	<b>4,642</b>	<b>10,782</b>	<b>15,671</b>
Y-o-Y Growth (%)	34.8	41.4	53.7	59.4	44.7	43.0	44.7	48.4	47.5	45.3
Other Income	1,500	1,781	1,734	2,281	2,245	2,048	2,797	3,011	7,296	10,101
<b>Net Income</b>	<b>3,725</b>	<b>4,336</b>	<b>4,609</b>	<b>5,409</b>	<b>5,463</b>	<b>5,699</b>	<b>6,956</b>	<b>7,653</b>	<b>18,079</b>	<b>25,772</b>
Operating Expenses	1,690	1,975	2,047	2,429	2,392	2,955	3,370	3,430	8,141	12,146
<b>Operating Profit</b>	<b>2,035</b>	<b>2,361</b>	<b>2,562</b>	<b>2,981</b>	<b>3,072</b>	<b>2,745</b>	<b>3,586</b>	<b>4,223</b>	<b>9,938</b>	<b>13,626</b>
Y-o-Y Growth (%)	39.6	515.0	42.8	49.1	51.0	16.3	40.0	41.7	75.7	37.1
Provision & Contingencies	635	716	592	682	1,248	588	763	1,065	2,625	3,664
<b>Profit before Tax</b>	<b>1,399</b>	<b>1,645</b>	<b>1,970</b>	<b>2,299</b>	<b>1,824</b>	<b>2,157</b>	<b>2,824</b>	<b>3,158</b>	<b>7,313</b>	<b>9,962</b>
Tax Provisions	473	555	653	782	618	738	977	1,039	2,462	3,372
<b>Net Profit</b>	<b>926</b>	<b>1,090</b>	<b>1,317</b>	<b>1,517</b>	<b>1,206</b>	<b>1,420</b>	<b>1,846</b>	<b>2,119</b>	<b>4,851</b>	<b>6,590</b>
Y-o-Y Growth (%)	31.0	135.9	30.2	30.2	30.1	30.2	40.2	39.6	45.0	35.9
Int Exp/ Int Earned (%)	64.2	62.8	61.5	62.4	66.3	65.2	65.0	66.0	62.7	65.6
Other Income / Net Income (%)	40.3	41.1	37.6	42.2	41.1	35.9	40.2	39.3	40.4	39.2
Cost to Income Ratio (%)	45.4	45.6	44.4	44.9	43.8	51.8	48.4	44.8	45.0	47.1

E: M0St Estimates

UTI Bank reported 48% growth in net interest income for 4QFY07, higher than our expectation on the back of strong balance sheet growth. Loan growth was 65% YoY for the quarter versus 66% YoY in 3Q. Total deposit growth has been robust at 47%. CASA ratio was maintained at 40% YoY; while it improved from 37% in 3QFY07. Margins were up 6bp QoQ to 3.06% for the quarter. Despite lower NPA provisioning, the bank's asset quality has improved.

### Deposits grew 47%; loans up 65%

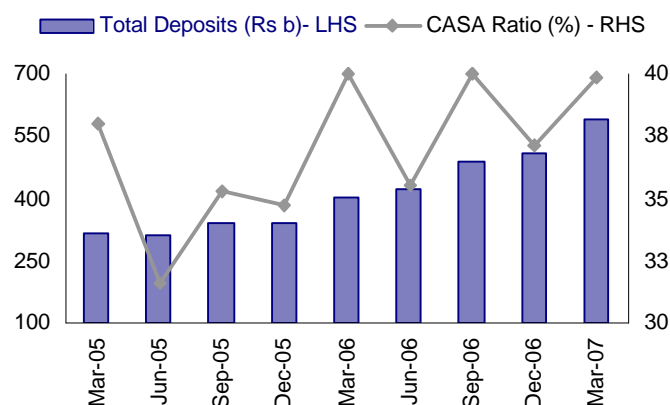
Balance sheet growth remained strong. Total deposits grew 47% YoY to Rs588b. Savings account deposits grew 50% YoY, while current account deposits grew 42% YoY. The proportion of CASA deposits improved QoQ by 300bp, although YoY it remained stable at 40%. The bank has set an ambitious target to increase the CASA ratio to 50% by FY08. Rapid branch expansion in Tier II and Tier III cities, diversified product offerings and aggressive marketing are indicated to be its key strategies in this direction. We have built in a 300bp increase in CASA ratio for FY08 to arrive at the 43% level.

#### DEPOSIT GROWTH (RS M)

	MAR-06	DEC-06	MAR-07	GROWTH (%)	
				YOY	QOQ
Savings	80,660	104,310	121,260	50.3	16.2
Current	79,700	84,520	113,040	41.8	33.7
Term	240,780	320,370	353,560	46.8	10.4
<b>Total</b>	<b>401,140</b>	<b>509,200</b>	<b>587,860</b>	<b>46.5</b>	<b>15.4</b>

Source: Company/ Motilal Oswal Securities

#### TREND IN DEPOSITS



Source: Company/ Motilal Oswal Securities

Total loans increased 65% YoY to Rs369b, whilst retail loans grew 38% YoY to Rs89.3b. As of March 2007, retail loans constituted 24% of total loans (down from 29% in 4QFY07 and 28% in 3QFY07). Retail loans experienced a slowdown QoQ, as the bank's personal loan portfolio decreased from Rs24.9b in 3QFY07 to Rs9.8b in 4QFY07. Housing loans surged 175% YoY, albeit on a smaller base.

#### RETAIL ASSETS COMPOSITION (%)

	4QFY06	3QFY07	4QFY07
Auto	59	22	27
CVs	43	16	22
4-wheelers	15	5	5
2-wheelers	1	1	0
Housing	27	43	54
Personal Loans	4	27	11
Others	10	7	7
<b>Retail Advances/Total Advances</b>	<b>29</b>	<b>28</b>	<b>24</b>

Source: Company/ Motilal Oswal Securities

Management reiterates that it plans to increase the share of retail assets to 28-29% in the next few quarters. The slowdown in retail credit growth was unintended; but the bank preferred to grow its corporate loan book aggressively owing to the more attractive yields.

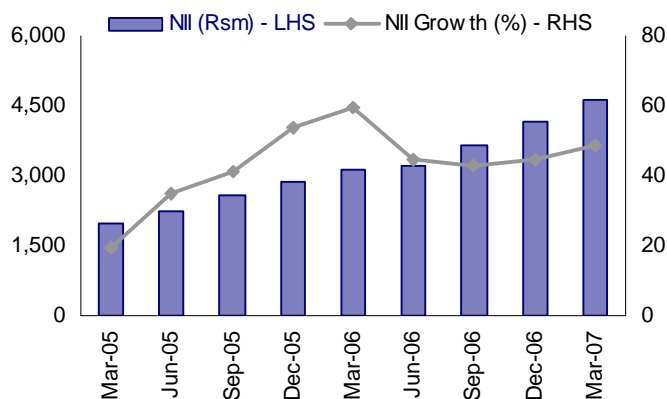
The bank has grown its agricultural advances 108% YoY (to Rs41b) and SME advances by 65% and for mid-corporates by 59% YoY respectively. The bank continues to maintain a high-growth trajectory in its corporate advances portfolio registering YoY growth of 77%.

Going forward management does not expect credit demand to slow down substantially and stated that the bank has an attractive pipeline of loan proposals, which would help it to maintain the higher than industry growth trajectory in its advances book.

### NII grew 48% YoY; margins expanded 6bp QoQ

NII grew 48% YoY in 4QFY07, driven by strong growth in advances and investments and improvement in yields on advances.

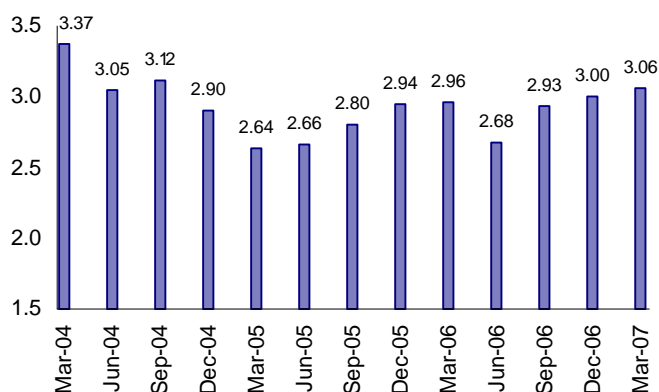
TREND IN NII GROWTH



Source: Company/ Motilal Oswal Securities

NIM increased by 6bp QoQ, the third straight quarter of sequential increase in margins for the bank. NIMs increased to 3.06% in 4QFY07 from 3.00% in 3QFY07. For the full year FY07, NIM improved by 7bp to 2.92%. We expect NIMs to be maintained at the current level as growth of the bank moderates going forward. Average cost of funds increased 39bp to 5.92% in 4QFY07 versus 5.53% in 3QFY07 and increased 84bp from 5.08% in 4QFY06. The yields on advances improved by 48bp QoQ to reach 9.67%; this helped record higher NIMs.

TREND IN NIM (%)



Source: Company/ Motilal Oswal Securities

The bank remains confident of maintaining its NIMs at ~3% going forward, as it has been able to pass on the hike in cost of funds to the customers. Also, UTI Bank expects increasing yields owing to its focus on SME and mid-corporate loans, which offer higher yields. The average

yield on SME loans was 10.4%; mid corporate loans was 10.8%; and on the overall corporate loan book, it was 9.5% for FY07. The bank intends to contain cost of funds by aggressively growing its CASA and retail deposits.

**Core fee income rises 59%; trading gains fall**

Fee income growth has continued to be steady — it grew 59% YoY in 4QFY07. The bank has diversified its sources of fee income over the last two years and built up a sustainable source of income. We expect steady growth in fee income in future years, as well. Retail banking fee income is up 65% YoY, while business banking, corporate banking and capital market related fee income is up 10%, 50% and 186% YoY, respectively. The fees from capital market related services of debt syndication and placement increased from Rs140m in 4QFY06 to Rs400m in 4QFY07.

Treasury income declined YoY to Rs430m from Rs660m in 4QFY06. Trading profits as a percentage of operating revenue reduced from 12% in 4QFY06 to 6% in 4QFY07.

UTI Bank currently generates fee income from activities such as 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. It launched credit cards in August 2006. The bank has a debit card base of 0.6m, third largest in the country. The cards business is a significant contributor to retail fee income

The bank has an objective to become a pan-Asian bank. The Hong Kong branch was opened in March 2007 and the Dubai branch in April 2007. In addition, its Singapore branch and Shanghai representative office are already functioning. The growing international business would lead to higher fee income for the bank going forward.

**A QoQ slowdown in staff cost, a surprise**

Operating expenses increased 41% YoY, as employee expenses increased 42% and other operating costs

increased 41%. The high growth was in line with the rapid branch expansion of the bank. However there was a 22% (Rs257m in absolute figures) reduction QoQ in staff cost that came as a surprise. The bank has aggressively built up its manpower during 3QFY07. Apart from this, the bank does not attribute any specific reason for the savings in staff costs in the fourth quarter. As a result, cost-to-income ratio reduced sharply from 48% in 3QFY07 to 45% in 4QFY07 (remained stable YoY).

### **Network expansion continues**

The bank's ATM network of 2,341 ATMs is the third largest in the country. It has a wide presence through its 561 branches and extension counters (EC) across 332 centers compared with 1,891 ATMs and 450 branches and extension counters across 258 centers a year ago. It has added 111 branches and ECs during FY07. The bank plans to add another 100-115 branches in FY08. The bank has 30 licenses unutilized with them and it has plans to apply for 125 licenses with the RBI.

### **Improvement in asset quality continues**

Net NPAs have declined marginally QoQ by 7bp to 0.61%, although they are down from 0.75% in 4QFY06. The provisions made held together with accumulated write-offs as a proportion of gross NPAs and accumulated write-offs amount to 76% as of 4QFY07 (excluding accumulated write-offs, provision cover stands at 36%).

Importantly the bank has reduced its gross NPAs from 1.28% in 4QFY06 and 1.20% in 3QFY07 to 0.95% in 4QFY07. There is a reduction of Rs533m in absolute terms in gross NPAs compared with December 2006. The reduction in gross NPAs that came as a positive surprise helped the bank to make lower provisions for NPAs during the quarter and still manage to reduce the net NPA ratio. The provision for NPAs was lower at Rs83m in 4QFY07 versus Rs303m in 3QFY07 and Rs214m in 4QFY06.

UTI Bank made higher provisions for standard assets in accordance with the RBI's revised norms for provisioning

for specified asset classes. This higher provisioning was however in line with our expectations.

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. More than 84% of its corporate advances are rated 'A and above'. We do not foresee any concern in this area arising ahead and expect net NPAs to stabilize at the 1% level.

### **Tier-I ratio at 6.4%**

Tier-I capital adequacy is at 6.4%, a reduction of 60bp QoQ and 80bp YoY. Management has guided that it will issue fresh equity in FY08 to shore up its Tier I capital. However the bank has not divulged any further details on the same. The bank has raised hybrid capital US\$150m and Rs3.1b by way of Upper Tier-II Bonds; US\$46m and Rs2.1b by way of Tier-I Perpetual Debt and Rs3.9b of Lower Tier-II capital during FY07.

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.

### **Key triggers to watch for in FY08**

The term of Mr. P. J. Nayak, CMD of the bank is expected to expire on 31 July 2007. Though the board had reappointed him as CMD for a further tenure of two years, the RBI has objected to this appointment with a recommendation that seeks to separate the functions of chairman and managing director. Mr. Nayak thereafter has expressed his unwillingness to work in any capacity other than CMD and thus said that he will cease to be associated with the bank after 31 July 2007. Mr. Nayak has been a key driver of the strong profitable growth of the bank in recent years. We look at his departure and successful replacement as a risk.

Specified Undertaking of Unit Trust of India (SUUTI) currently holds 27.4% of the share capital of the bank, which is expected to be sold in FY08. LIC which already holds 10.4% stake in the bank is believed to be interested in purchasing the stake from SUUTI.

**Valuation and view**

We have raised our EPS estimates by 5% in FY08 and 6% in FY09, factoring in a higher growth rate, improvement in margins, sustained fee income growth and also higher

operating costs. The stock is trading at a PE of 12.6x FY09E and P/BV of 2.7x FY09E BV. Maintain **Buy** with a target price of Rs554 (valuing the bank at 3.2x FY09E BV).

## UTI Bank: an investment profile

### Company description

UTI Bank is a private sector bank in India, with a balance sheet size of Rs733b. Promoted by the UTI in 1994, the bank has a countrywide presence through a network of 561 branches, and extension counters across 332 locations and 2,341 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 26% (CAGR over FY07-FY09E) along with margin expansion to result in NII growth of over 32% over the same period.
- ✍ Net NPAs down to 0.6%, 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 (36%) could hurt the bank should delinquencies increase, particularly in the retail asset segment
- ✍ Change in norms of foreign ownership limits could impact valuations

### Recent developments

- ✍ UTI Bank has begun international operations with its first overseas branch in Singapore
- ✍ Dr. Nayak has decided to step down from his capacity as CMD from July 2007 post expiry of his term. The board is yet to decide who his successor will be.
- ✍ The bank has raised hybrid capital US\$150m and Rs3.1b by way of Upper Tier-II Bonds; US\$46m and Rs2.1b by way of Tier-I Perpetual Debt and Rs3.9b of Lower Tier-II capital during FY07

### Valuation and view

- ✍ We expect earnings to grow by 25% CAGR over FY07-09E. The stock is trading at 12.6x FY09E EPS and 2.7x FY09E BV. Maintain **Buy** with a target price of Rs554 (valuing the bank at 3.2x FY09E BV)

### Sector view

- ✍ YTD loan growth of 28%, down from 30% for past three 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

#### COMPARATIVE VALUATIONS

		UTI BANK	HDFC BANK	ICICI BANK
P/E (x)	FY08E	15.7	20.3	19.8
	FY09E	12.6	15.6	16.5
P/BV (x)	FY08E	3.2	4.1	2.9
	FY09E	2.7	3.3	2.5
RoE (%)	FY08E	22.4	21.9	15.4
	FY09E	23.2	23.5	16.4
RoA (%)	FY08E	1.0	1.4	1.0
	FY09E	1.0	1.4	1.0

#### SHAREHOLDING PATTERN (%)

	MAR.07	DEC.06	MAR.06
Promoter	43.1	43.2	43.7
Domestic Inst	6.9	8.4	7.0
Foreign	41.9	40.8	42.2
Others	8.1	7.6	7.1

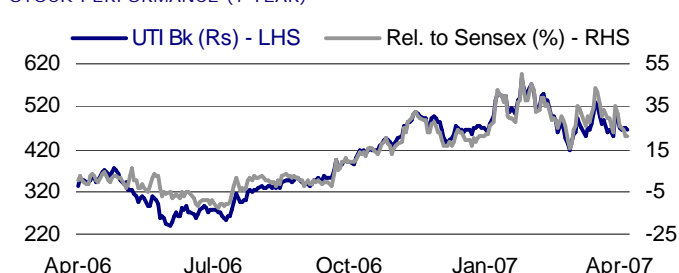
#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	29.6	28.1	5.4
FY09	36.9	34.6	6.4

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
466	554	19.0	Buy

#### STOCK PERFORMANCE (1 YEAR)





INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Interest Income	19,242	28,888	45,604	64,018	82,385
Interest Expended	11,930	18,106	29,933	42,900	55,214
<b>Net Interest Income</b>	<b>7,312</b>	<b>10,782</b>	<b>15,671</b>	<b>21,118</b>	<b>27,171</b>
Change (%)	26.7	47.5	45.3	34.8	28.7
Other Income	4,158	7,296	10,101	13,015	15,767
<b>Net Income</b>	<b>11,470</b>	<b>18,079</b>	<b>25,772</b>	<b>34,133</b>	<b>42,937</b>
Operating Expenses	5,814	8,141	12,146	16,690	21,113
<b>Operating Income</b>	<b>5,656</b>	<b>9,938</b>	<b>13,626</b>	<b>17,443</b>	<b>21,825</b>
Change (%)	-19.0	75.7	37.1	28.0	25.1
Other Provisions	619	2,625	3,664	4,800	6,100
<b>PBT</b>	<b>5,037</b>	<b>7,313</b>	<b>9,962</b>	<b>12,643</b>	<b>15,725</b>
Tax	1,691	2,462	3,372	4,299	5,346
<b>PAT</b>	<b>3,346</b>	<b>4,851</b>	<b>6,590</b>	<b>8,345</b>	<b>10,378</b>
Change (%)	20.2	45.0	35.9	26.6	24.4
Proposed Dividend	878	1,126	1,267	1,408	1,690

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Capital	2,738	2,787	2,816	2,816	2,816
Reserves & Surplus	21,344	25,935	31,116	37,812	46,214
<b>Net Worth</b>	<b>24,082</b>	<b>28,722</b>	<b>33,932</b>	<b>40,629</b>	<b>49,030</b>
<b>Deposits</b>	<b>317,120</b>	<b>401,135</b>	<b>587,860</b>	<b>764,218</b>	<b>936,167</b>
Borrowings	17,948	26,943	37,721	41,493	45,642
Other Liab & Provisions	18,287	40,510	73,057	94,974	123,466
<b>Total Liabilities</b>	<b>377,437</b>	<b>497,311</b>	<b>732,570</b>	<b>941,314</b>	<b>1,154,306</b>
Current Assets	45,029	36,418	67,340	83,276	85,258
Investments	150,480	215,274	268,970	336,213	420,266
<b>Advances</b>	<b>156,029</b>	<b>223,142</b>	<b>368,760</b>	<b>497,826</b>	<b>622,283</b>
Net Fixed Assets	5,184	5,677	7,500	8,000	8,500
Other Assets	20,714	16,800	20,000	16,000	18,000
<b>Total Assets</b>	<b>377,437</b>	<b>497,311</b>	<b>732,570</b>	<b>941,314</b>	<b>1,154,306</b>

KEY ASSUMPTIONS					
(%)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Deposit Growth	51.3	26.5	46.5	30.0	22.5
Advances Growth	66.6	43.0	65.3	35.0	25.0
Investments Growth	93.1	43.1	24.9	25.0	25.0
Provision Coverage	46.3	41.8	36.4	56.4	55.6
Dividend per share	2.8	3.5	4.5	5.0	6.0

E: Most Estimates

RATIOS					
Y/E MARCH	2005	2006	2007E	2008E	2009E
<b>Spreads Analysis (%)</b>					
Avg. Yield-Earning Assets	6.7	7.1	7.9	8.5	8.6
Avg. Cost - Int. Bear. Liab	4.3	4.7	5.7	6.0	6.2
Interest Spread	2.3	2.3	2.2	2.5	2.4
Net Interest Margin	2.5	2.6	2.7	2.8	2.8

Profitability Ratios (%)					
RoE	18.9	18.4	21.0	22.4	23.2
RoA	1.1	1.1	1.1	1.0	1.0
Int. Expended/Int. Earned	62.0	62.7	65.6	67.0	67.0
Other Income/Net Income	36.3	40.4	39.2	38.1	36.7

Efficiency Ratios (%)					
Op Exp/Net Income	50.7	45.0	47.1	48.9	49.2
Employee Cost/Op.Exps	30.4	29.5	31.4	32.6	33.3
Business per Empl. (Rs m)	815	83.7	79.0	88.7	100.7
Net Profit per Empl. (Rs n)	0.7	0.7	0.7	0.7	0.7

Asset Liability Profile (%)					
Advances/Deposit Ratio	49.2	55.6	62.7	65.1	66.5
Invest./Deposit Ratio	47.5	53.7	45.8	44.0	44.9
G-Sec/Investment Ratio	50.1	54.8	54.8	54.8	54.8
Gross NPAs to Advance:	2.0	1.7	1.1	1.4	1.8
Net NPAs to Advances	1.1	1.0	0.7	0.6	0.8
CAR	12.7	11.1	11.6	10.5	10.3
Tier 1	8.9	7.3	6.4	6.3	6.2

VALUATION					
Book Value (Rs)	88.0	103.1	120.5	144.3	174.1
Price-BV (x)	5.3	4.5	3.9	3.2	2.7
Adjusted BV (Rs)	82.6	97.9	114.3	137.3	162.6
Price-ABV (x)	5.6	4.8	4.1	3.4	2.9
EPS (Rs)	12.2	17.4	23.4	29.6	36.9
EPS Growth	1.7	42.4	34.4	26.6	24.4
Price Earnings (x)	38.1	26.8	19.9	15.7	12.6
OPS (Rs)	20.7	35.7	48.4	61.9	77.5
Price-OP (x)	22.6	13.1	9.6	7.5	6.0

E: Most Estimates



For more copies or other information, contact

**Institutional:** Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motiloswal.com

**Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021**

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