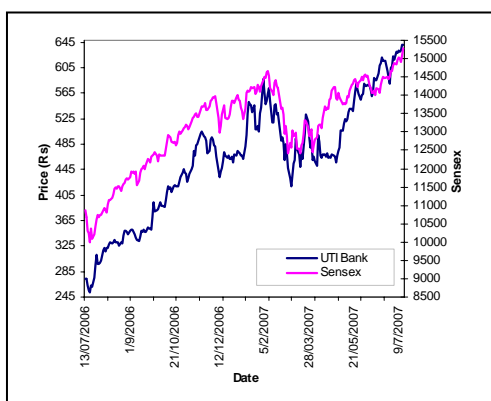


UTI Bank
CMP: Rs642
Hold
**Target Price: Rs720
(12 Months)**
Sarika Purohit Lohra
Tel: 022 – 4040 3800 Ext: 348
e-mail: sarika.purohit@angeltrade.com
Alpesh Mehta
Tel: 022 – 4040 3800 Ext: 333
e-mail: alpesh.mehta@angeltrade.com

Sector	Banking
Market Cap (Rs cr)	18,125
Beta	1.11
52 WK High / Low	659/249
Avg Daily Volume	214341
Face Value (Rs)	10
BSE Sensex	15,273
Nifty	4,505
BSE Code	532215
NSE Code	UTIBANK
Reuters Code	UTBK.BO
Bloomberg Code	UTIB@IN

Shareholding Pattern (%)

Promoters	42.9
MF/Banks/Indian FIs	8.6
FII/ NRIs/ OCBs	42.8
Indian Public	5.6

Share Price Vs Sensex

Q1FY2008 Result Update
Performance Highlights

- Net Interest Income up 39%:** UTI Bank's Net Interest Income (NII) for Q1FY2008 grew 39% yoy to Rs447cr (Rs322cr), which was much in line with our expectation of Rs456cr. The strong growth in NII is attributed to a 60% growth in Advances, while Net Interest Margins (NIMs) improved marginally to 2.72% (2.68%). While Interest Income of the Bank improved 61% yoy to Rs1,537cr (Rs954cr), Interest Expenses increased 72% yoy to Rs1,090cr (Rs632cr).
- Non-Interest Income grows 53%:** During Q1FY2008, the Bank's Non-Interest Income grew 52% yoy to Rs342cr (Rs225cr) following a 47% growth in Fee Income to Rs272cr (Rs185cr) alongwith a whopping 344% growth in Treasury Income to Rs71cr (Rs16cr). The Bank's leadership position in Corporate Services like placement and syndication of loans and project advisory aided the strong growth in Fee Income. UTI Bank's CMS business also witnessed a 153% growth in Cash Management Services (CMS) to Rs140,105cr (Rs 55,434cr).
- Net Profit jumps 45%:** UTI Bank's Net Profit for Q1FY2008 grew 45% yoy to Rs175cr (Rs121cr), which was above our expectation of a 36% yoy growth to Rs164cr. The strong growth in Net Profit was seen on the back of strong business growth, improved yield on interest income and robust growth in non-interest income. The Bank reported an EPS of Rs6.1 (Rs4.3).
- NIMs remain flat:** Net Interest Margins (NIMs) of UTI Bank remained flat with a marginal 4bp improvement to 2.72% (2.68%), whereas on a sequential basis, NIMs slipped 34bp. The Bank witnessed pressure on margins due to acquisition of certain short-term priority assets. Besides this, the Bank's cost of funds also increased to 6.43% (5.45%). We expect the Bank to report NIMs of 3% once priority accounts are settled and there's an improvement in the low-cost deposit ratio.

Exhibit 2 : Key Financials

Y/E March (Rs cr)	FY2006	FY2007	FY2008E	FY2009E
NII	1,078	1,567	2,175	2,624
%chg	47.5	45.3	38.8	20.6
Net Profit	485	659	842	1012
%chg	45.0	35.9	27.8	20.2
NIM(%)	2.6	2.7	2.7	2.7
EPS (Rs)	17.4	23.4	29.7	35.5
P/E (x)	36.9	27.4	21.6	18.1
P/BV (x)	6.2	5.1	4.3	3.6
P/ABV (x)	6.74	5.41	4.48	3.68
RoAA (%)	1.1	1.1	1.0	1.0
RoANW (%)	18.4	20.6	21.7	21.6

Source: Company, Angel Research

- **Operating Expenses escalate 76%:** UTI Bank's operating expenses for the period under review increased 76% yoy to Rs422cr (Rs239cr). This was mainly on account of a 86% rise in employee cost to Rs148cr (Rs80cr), and 72% increase in other operating expenses to Rs274cr (Rs160cr). The increase in operating expenses was seen on the back of the ongoing network expansion plans. During the period, the Bank added 13 new branches and 87 ATMs. Over a period of one year, the Bank added around 111 branches alongwith three overseas branches at Dubai, Singapore, Hong Kong and a Representative office in Shanghai to develop its offshore corporate and capital market business.
- **Strong business growth:** Total Business of the Bank grew 51% yoy to Rs1,02,376cr following a strong growth in Advances of 60% to Rs41,285cr (Rs25,836cr). Deposits grew 45% yoy to Rs61,091cr (Rs42,094cr). Demand deposits grew 55% yoy to Rs23,062cr (Rs14,938cr) while the share of low-cost deposits improved 230bp yoy to 37.8% (35.5%). On a sequential basis, CASA ratio declined by 210bp, which is in line with industry. We expect CASA ratio of 40% for FY2008.
- **Superior Asset quality:** UTI Bank's asset quality remained strong during Q1FY2008, with the Gross NPA ratio at 1.01% (1.25%) and Net NPA ratio at 0.59% (0.61%). Sequentially the Gross NPA ratio increased marginally by 6bp from 0.95%. However, in absolute terms, Gross NPA has increased to Rs483cr from Rs419cr in FY2007, and Net NPAs increased to Rs281cr (Rs266cr).
- **Capital raising to boost Capital Adequacy:** The Bank's Capital Adequacy Ratio (CAR) stood at 11.50% (11.57%). To augment its capital requirement for future growth, the Bank would be raising \$1bn capital by way of preferential issue of shares and GDR. The UTI Bank will also issue shares to its government promoter's viz., SUUTI, LIC and GIC to further augment its capital requirements.

Outlook and Valuation

UTI Bank has an excellent mix of Retail and Corporate loan portfolio. The Bank will be focusing on improving its NIMs. The capital raised by the Bank will be Book accretive despite a dilution in the RoNW. We maintain a positive outlook on the Bank. At the CMP of Rs642, the stock trades at 18.1x FY2009E EPS of Rs35.5 and 3.7x Adjusted Book Value of Rs175. **We maintain a Hold on the stock with a Target Price of Rs720.**

Exhibit 2: Q1FY2008 Performance

	Q1FY2008	Q1FY2007	% chg	FY2008E	FY2007	% chg
Interest Earned	1,537.0	953.9	61.1	6,625.3	4,560.4	45.3
Interest Expenses	1,090.0	632.1	72.4	4,449.8	2,993.3	48.7
Net Interest Income	447.0	321.8	38.9	2,175.5	1,567.1	38.8
Non-Interest Income	342.3	224.5	52.5	1,264.5	1,010.1	25.2
Total Income	789.3	546.3	44.5	3,440.0	2,577.2	33.5
Operating Expenses	421.8	239.2	76.4	1,664.8	1,214.6	37.1
Pre Prov. Profit	367.5	307.2	19.6	1,775.2	1,362.6	30.3
Provs. & Conting.	100.9	124.8	(19.1)	512.3	366.1	39.9
PBT	266.6	182.4	46.2	1,262.9	996.5	26.7
Prov. for Taxes	92.1	61.8	48.9	420.9	337.5	24.7
PAT	174.5	120.6	44.8	842.0	659.0	27.8
EPS (Rs)	6.1	4.3	43.4	29.7	23.4	26.6
Cost to Income (%)	53.4	43.8		48.4	47.1	
Effective tax rate (%)	34.5	33.9		33.3	33.9	
CAR (%)	11.5	10.3		13.2	11.6	
Net NPA	0.59	0.73		0.55	0.61	

Source: Company, Angel Research



Angel Broking Limited

Research Team Tel: 4040 3800

E-mail: research@angeltrade.com

Website: www.angeltrade.com

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