

UTI Bank

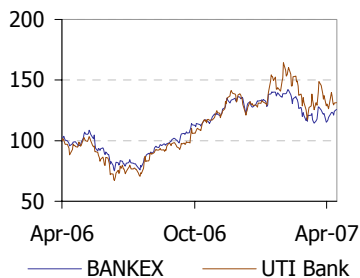
 Relative to sector: **Under review**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

| | |
|------------------------|------------------|
| No. of shares | : 281mn |
| Market cap | : Rs 132bn |
| 52 week high/low | : Rs 615/ Rs 222 |
| Avg. daily vol. (6mth) | : 925,700 shares |
| Bloomberg code | : UTIB IN |
| Reuters code | : UTBK.BO |

Shareholding (%) Mar-07 QoQ chg

| | | |
|------------------|--------|-------|
| Indian Promoters | : 43.1 | (0.1) |
| MFs & UTI | : 6.8 | (1.4) |
| Banks & FIs | : 0.1 | (0.1) |
| FIIIs/GDR | : 41.7 | 1.0 |
| Indian Public | : 5.6 | 0.0 |
| Others | : 2.7 | 0.6 |

BETTER THAN EXPECTED

UTI Bank's Q4FY07 results exceeded our expectations with YoY PAT growth at 39% to Rs 2.1bn, aided largely by a strong NII growth of 48% YoY. The high NII growth was on account of 47% growth in balance sheet and improvement in NIMs, which improved 6bps sequentially and 10bps YoY to 3.06%, even as cost of funds rose 39bps sequentially and 84bps YoY to 5.92%.

Q4 Highlights

- CASA rose to ~40% from 37% in Q3. The number of savings accounts rose from ~3.4mn in FY06 to 4.7mn in FY07 reflecting a 50% YoY growth vs. overall deposit growth of 47% for FY07.
- Fee-income rose 59% YoY, leading to 32% increase in non-interest income, despite a 34% YoY fall in treasury gains. Fee-income from the capital markets segment saw a 186% YoY rise to Rs 400mn for the quarter while retail fee-income grew 81% YoY to Rs 2.8bn in FY07.
- The bank provided ~Rs 681mn on account of new provisioning norms on standard assets prescribed by the RBI. Of this, Rs 450mn was provided in Q4FY07, thereby explaining the 56% YoY rise in provisioning for Q4FY07.
- The retail portfolio grew by only 38% YoY vis-a-vis overall credit growth of 65% YoY. Around Rs 15bn of short-term loans (treated as personal loans) were given by the bank through DDA (Delhi Development Authority), which were returned due to the non-allotment of houses. Excluding this, retail grew 60% YoY.

We believe that the numbers are encouraging, given that concerns over margins have been largely addressed. The management has also guided on equity issuance during FY08 with Tier-I capital falling to 6.4%. At CMP of Rs 466 the stock trades at 3.2x FY08E book value and 15.3x FY08E earnings. Given the event risk (uncertainty in top management) since the CMD has put in his papers, we put the stock under ratings review.

Financial summary

| Y/E Mar | PAT (Rs mn) | EPS (Rs) | Change YoY (%) | P/E (x) | BV (Rs) | P/BV (x) | NPAs (%) | P/Adj.BV (x) | RoE (%) | RoA (%) |
|---------|----------------|-------------|-------------------|------------|------------|-------------|-------------|-----------------|------------|------------|
| 2005 | 3,346 | 14.1 | 17.4 | 33.0 | 88 | 5.3 | 1.1 | 5.7 | 25.7 | 1.2 |
| 2006 | 4,851 | 17.6 | 24.5 | 26.5 | 103 | 4.5 | 0.8 | 4.8 | 18.4 | 1.1 |
| 2007 | 6,590 | 23.4 | 33.3 | 19.9 | 120 | 3.9 | 0.7 | 4.1 | 21.0 | 1.1 |
| 2008E | 8,563 | 30.4 | 29.9 | 15.3 | 145 | 3.2 | 0.6 | 3.4 | 22.9 | 1.0 |

Source: Company, ENAM estimates

Results update

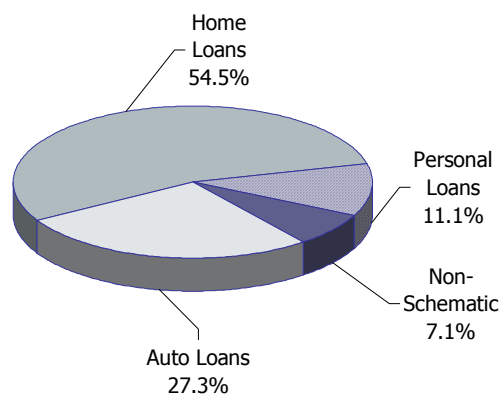
| (Rs mn) | Quarter ended | | | | | 12 months ended | | |
|----------------------------|---------------|--------------|-------------|--------------|-------------|-----------------|---------------|-------------|
| | Mar-07 | Mar-06 | % Chg | Dec-06 | % Chg | Mar-07 | Mar-06 | % Chg |
| Interest income | 13,668 | 8,327 | 64.1 | 11,896 | 14.9 | 45,604 | 28,888 | 57.9 |
| Interest expended | 9,025 | 5,198 | 73.6 | 7,738 | 16.6 | 29,933 | 18,106 | 65.3 |
| Net interest income | 4,642 | 3,129 | 48.4 | 4,158 | 11.6 | 15,671 | 10,782 | 45.3 |
| Non-interest income | 3,011 | 2,281 | 32.0 | 2,797 | 7.6 | 10,101 | 7,296 | 38.4 |
| - Trading income | 431.6 | 656.9 | (34.3) | 792.8 | (45.6) | 1,857 | 2,167 | (14.3) |
| - Fee and other income | 2,579 | 1,624 | 58.8 | 2,005 | 28.7 | 8,244 | 5,129 | 60.7 |
| Net income | 7,653 | 5,409 | 41.5 | 6,956 | 10.0 | 25,772 | 18,079 | 42.6 |
| Operating expenses | 3,430 | 2,429 | 41.2 | 3,370 | 1.8 | 12,146 | 8,141 | 49.2 |
| % of net income | 45 | 45 | - | 48 | - | 47 | 51 | - |
| Operating income | 4,223 | 2,981 | 41.7 | 3,586 | 17.8 | 13,626 | 9,938 | 37.1 |
| Provision & contingencies | 1065.1 | 682 | 56.3 | 762.8 | 39.6 | 3,664 | 2,625 | 39.6 |
| PBT | 3,158 | 2,299 | 37.4 | 2,824 | 11.8 | 9,962 | 7,313 | 36.2 |
| Tax | 1,039 | 782 | 32.9 | 977.4 | 6.3 | 3,372 | 2,462 | 37.0 |
| Net profit | 2,119 | 1,517 | 39.6 | 1,846 | 14.8 | 6,590 | 4,851 | 35.9 |
| EPS (Rs.) | 7.5 | 5.4 | 38.2 | 6.6 | 14.6 | 23.4 | 17.6 | 33.0 |
| NIM (%) | 3.06 | 2.96 | - | 3.00 | - | 2.92 | 2.85 | - |
| Cost of funds (%) | 5.92 | 5.08 | - | 5.53 | - | 5.60 | 4.94 | - |
| Credit (Rs. bn) | 369 | 223 | 65 | 323 | 14 | 369 | 223 | 65 |
| Retail Credit (Rs. bn) | 89 | 65 | 38 | 92 | (3) | 89 | 65 | 38 |
| Deposits (Rs. bn) | 588 | 401 | 47 | 509 | 15 | 588 | 401 | 47 |
| CASA (%) | 40 | 40 | - | 37 | - | 40 | - | - |
| Investments (Rs. bn) | 269 | 215 | 25 | 245 | 10 | 269 | 215 | 25 |
| Balance Sheet (Rs. bn) | 733 | 497 | 47 | 650 | 13 | 733 | 497 | 47 |
| Gross NPAs (Rs.mn) | 4,187 | 3,780 | - | 4,723 | - | 4,187 | 3,780 | - |
| Gross NPAs (%) | 0.95 | 1.28 | - | 1.20 | - | 0.95 | 1.28 | - |
| Net NPAs (Rs.mn) | 2,663 | 2,198 | - | 2,669 | - | 2,663 | 2,198 | - |
| Net NPAs (%) | 0.61 | 0.75 | - | 0.68 | - | 0.61 | 0.75 | - |
| Tier I (%) | 6.42 | 7.26 | - | 6.96 | - | 6.42 | 7.26 | - |
| Tier II (%) | 5.15 | 3.82 | - | 4.87 | - | 5.15 | 3.82 | - |
| CAR (%) | 11.57 | 11.08 | - | 11.83 | - | 11.57 | 11.08 | - |

Source: Company, ENAM Research

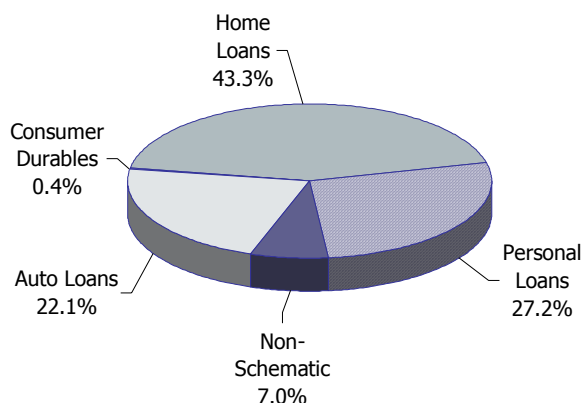
Loans to DDA

Loans to the tune of Rs 15bn extended through DDA were classified as personal loans (personal loans comprised 27% of retail loans portfolio in Dec 06). However, as these loans have matured during Q4FY07, the proportion of personal loans to retail loans has declined significantly to 11% in Q4FY07.

Break up of Retail Q4FY07



Break up of Retail Q3FY07



Source: Company

Significant rise in CMS volumes

Cash remittance volumes for FY07 increased to ~Rs 3.8 trillion vs. Rs 2.1 trillion in FY06. The number of clients has also risen significantly from 1,432 in March 2006 to 2,164 in March 2007.

Placement and Syndication business has fallen

The corporate bond and debt syndication volume fell from Rs 345bn in FY06 to Rs 242bn in FY07. The management believes this is largely on account of the fall in market volumes as not many issues have taken place over the last few months.

Operating expenses rose 41%

Operating expenses for Q4FY07 grew 41% YoY led by a 42% YoY rise in staff costs. The bank has increased its headcount by 3427 employees to 9980 employees in FY07, reflecting the aggressive expansion being undertaken during the year.

Asset quality remains stable

Gross NPAs fell from 1.2% in Q3FY07 to 0.95% in Q4FY07, whereas net NPAs fell from 0.68% in Q3FY07 to 0.61% in Q4FY07.

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