



UTI Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 15,092	UTIB IN
	REUTERS CODE
S&P CNX: 4,446	UTBK.BO

12 July 2007

Buy

Previous Recommendation: Buy

Rs641

Equity Shares (m)	278.7
52-Week Range	629/249
1,6,12 Rel.Perf.(%)	2/21/94
M.Cap. (Rs b)	178.7
M.Cap. (US\$ b)	4.4

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)
3/07A	24,784	6,590	23.4	34.5	27.4	5.3	11.6	21.0	1.1	5.5
3/08E	36,054	9,190	25.8	10.4	24.8	2.7	15.0	15.4	1.1	2.7
3/09E	48,059	12,422	34.9	35.2	18.4	2.4	13.0	13.7	1.1	2.5

UTI Bank reported a 39% growth in net interest income for 1QFY08. The growth is lower than our estimates as margins declined QoQ and loan growth was faster at 60% YoY. Total deposits growth was robust at 45%. CASA ratio increased 225bp to 38% YoY, but decreased QoQ. Margins improved 4bp YoY to 2.72% in 1Q (down from 3.06% in 4QFY07). The bank has maintained its robust asset quality.

- ✍ Deposits grow 45%; loans up 60%
- ✍ NII grows 39% YoY; margins expand 4bp YoY
- ✍ Core fee income rises 47%; trading gains also higher
- ✍ Asset quality remains robust
- ✍ Raising US\$1b of capital

Post-dilution (assuming issue at Rs600 per share), we expect an EPS of Rs25.8 for FY08 and Rs34.9 for FY09. The book value will be Rs241 in FY08 and Rs268 in FY09 with a RoE of 14-15%. The stock trades at a P/E of 18.4x and P/BV of 2.4x FY09 basis. Maintain **Buy**.

Y/E MARCH	(RS MILLION)									
	FY07				FY08*				FY07*	FY08E*
	1Q*	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	9,539	10,501	11,896	13,668	15,370	16,486	17,844	19,230	45,604	68,931
Interest Expense	6,321	6,849	7,738	9,025	10,901	11,301	11,994	12,482	29,933	46,678
Net Interest Income	3,218	3,652	4,158	4,642	4,468	5,185	5,851	6,748	15,671	22,252
Y-o-Y Growth (%)	44.7	43.0	44.7	48.4	38.8	42.0	40.7	45.4	45.3	42.0
Other Income	2,005	2,048	2,797	3,011	3,423	2,924	3,610	3,844	9,114	13,802
Net Income	5,223	5,699	6,956	7,653	7,892	8,109	9,461	10,592	24,784	36,054
Operating Expenses	2,392	2,955	3,370	3,430	4,212	4,284	4,717	4,916	12,146	18,130
Operating Profit	2,832	2,745	3,586	4,223	3,680	3,825	4,744	5,676	12,639	17,924
Y-o-Y Growth (%)	39.2	16.3	40.0	100.6	29.9	39.4	32.3	34.4	39.5	41.8
Provision & Contingencies	1,008	588	763	1,065	1,009	800	850	1,341	2,674	4,000
Profit before Tax	1,824	2,157	2,824	3,158	2,670	3,025	3,894	4,335	9,965	13,924
Tax Provisions	618	738	977	1,039	921	1,029	1,324	1,461	3,375	4,734
Net Profit	1,206	1,420	1,846	2,119	1,750	1,997	2,570	2,873	6,590	9,190
Y-o-Y Growth (%)	30.1	30.2	40.2	39.8	45.2	40.6	39.2	35.6	35.9	39.4
Int Exp/ Int Earned (%)	66.3	65.2	65.0	66.0	70.9	68.5	67.2	64.9	65.6	67.7
Other Income / Net Income (%)	38.4	35.9	40.2	39.3	43.4	36.1	38.2	36.3	36.8	38.3
Cost to Income Ratio (%)	45.8	51.8	48.4	44.8	53.4	52.8	49.9	46.4	49.0	50.3

E: M0St Estimates * Adjusted for reclassification of amortisation on HTM investments as part of other income

UTI Bank reported a 39% growth in net interest income for 1QFY08. The growth is lower than our estimates as margins declined QoQ and loan growth was faster at 60% YoY. Total deposits growth was robust at 45%. CASA ratio increased 225bp to 38% YoY, but decreased QoQ. Margins improved 4bp YoY to 2.72% in 1Q (down from 3.06% in 4QFY07). The bank has maintained its robust asset quality.

Deposits grow 45%; loans up 60%

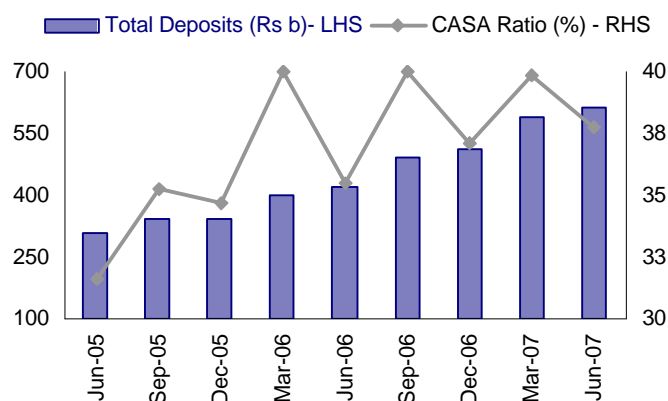
Balance sheet growth remained strong. Total deposits grew 45% YoY to Rs611b. Savings account deposits grew 50% YoY, while current account deposits grew 60% YoY. The proportion of CASA deposits improved YoY by 225bp, although decreased to 210bp QoQ to 38%. The bank has been very aggressive in opening new branches, with a strong focus on salary accounts resulting in a strong growth in CASA deposits.

DEPOSIT GROWTH (RS M)

	JUN-06	MAR-07	JUN-07	YOY GR. (%)	QOQ GR. (%)
Savings	82,250	121,260	123,120	49.7	1.5
Current	67,130	113,040	107,500	60.1	-4.5
Term	271,560	353,560	380,290	40.0	7.6
Total	420,940	587,860	610,910	45.1	3.9

Source: Company/ Motilal Oswal Securities

TREND IN DEPOSITS



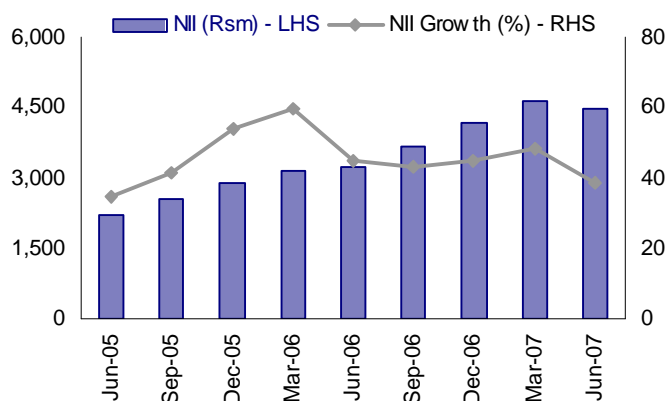
Source: Company/ Motilal Oswal Securities

Total loans increased 60% YoY and 12% QoQ to Rs413b. Corporate loans continue to drive the strong loan growth for the bank.

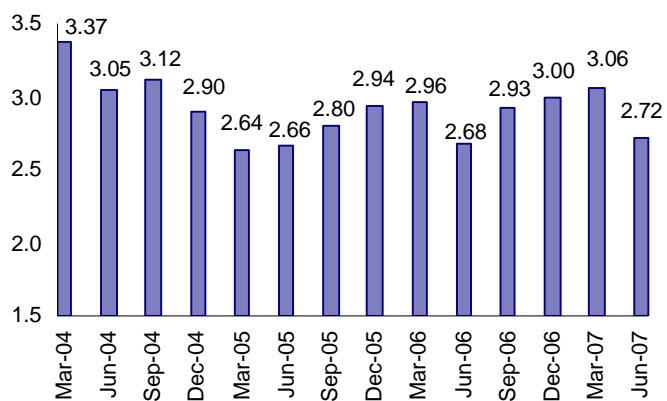
NII grows 39% YoY; margins expand 4bp YoY

NII increased 39% YoY to Rs4.5b. However, NII decreased 4% QoQ as margins declined QoQ. Cost of funds increased 51bp QoQ and 98bp YoY to 6.43%. NIM improved 4bp YoY to 2.72%, while it decreased QoQ by 34bp. This is an annual trend for UTI Bank - margins decline in 1Q due to built up of priority sector loans in 4Q at lower yields. Further, the bank has continued to grow very fast in terms of loans, which has resulted in a decline in margins. As these priority sector loans (3-6 months duration) run off the books coupled with the forthcoming capital raising, we expect margins to improve in coming quarters.

TREND IN NII GROWTH



TREND IN NIM (%)



Source: Company/ Motilal Oswal Securities

Core fee income rises 47%; higher trading gains

Fee income growth has continued to be steady for UTI Bank – up 47% YoY. The bank has diversified its sources of fee income over the last two years and built in a

sustainable source of income. We expect strong growth in fee income in future years as well.

Strong fee income growth for UTI Bank is driven by strong corporate fees on back of rising loan book coupled with increased thrust on third party products, including insurance and wealth management. Fees contribute 1.4% of assets (similar to 1QFY07).

Treasury profits (after adjusting amortization on HTM investments) increased significantly from Rs159m in 1QFY07 to Rs708m in 1QFY08.

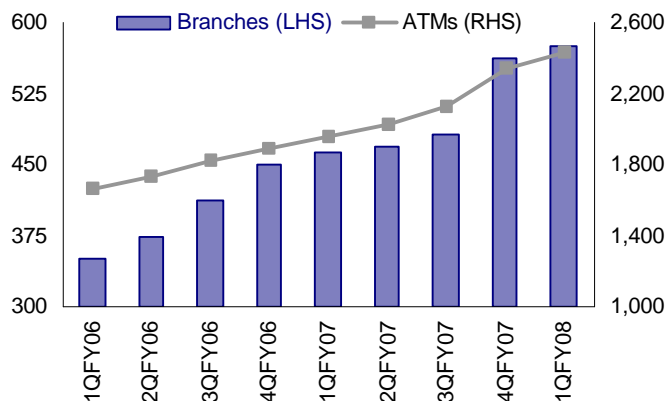
Opex continue to grow fast

Operating expenses increased sharply by 76% YoY, with employee expenses increasing 86% YoY. We believe this has been due to a rapid expansion of branches, increased hiring for fee based products coupled with higher salaries, as retaining talent at lower and middle level has been a key challenge for new generation private banks. While a strong rise in opex is concerning (cost/income having increased to 53%), we believe that the management is investing in building up business for future growth.

Network expansion continues

The bank increased its reach to 574 branches and extension counters and 2,428 ATMs across 341 cities and towns. During the quarter, it added 13 branches and extension counters and 87 ATMs. We believe the bank has applied for ~100 new branch licences for the current year. The bank’s network of 2,428 ATMs is the third largest in the country. UTI Bank had 1,959 ATMs and 463 branches and extension counters across 263 centres a year ago.

RAPID NETWORK EXPANSION

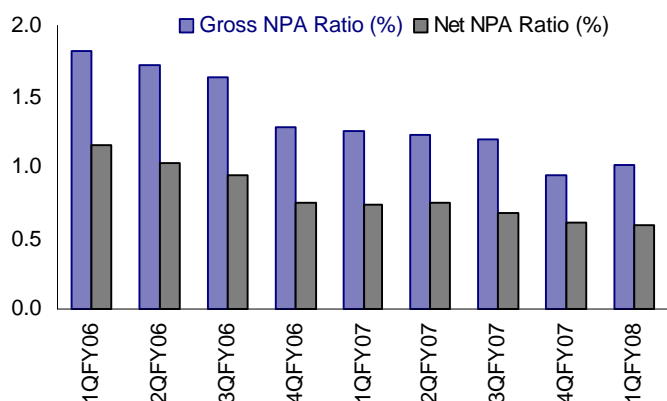


Source: Company/ Motilal Oswal Securities

Asset quality remains robust

UTI bank continued to maintain robust asset quality despite growing its advances at a very fast pace of 60% YoY (against industry growth of ~25%). Improvement in asset quality continued in 1QFY08 with gross NPAs down to 1.01% from 1.25% in 1QFY07. However, QoQ gross NPAs increased 6bp to 1.01%. On an absolute basis, gross NPAs have increased by 13% QoQ and 16% YoY, in line with the asset growth. The bank made higher provision of Rs496m (v/s Rs138m in 1QFY07 and Rs83m in 4QFY07) towards NPAs during 1QFY08 and thus managed to bring down net NPAs to 0.59% from 0.61% in 4QFY07 and 0.73% in 1QFY07.

ASSET QUALITY REMAINS ROBUST



Source: Company/ Motilal Oswal Securities

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. We do not see any concern on this front arising in future years and expect net NPAs to stabilize around the 1% level.

Tier-I ratio at 6.3% to raise US\$1 b in FY08

Capital adequacy stood at 11.5% of which Tier I is 6.3%. UTI Bank is in the process of raising capital through an issue to the promoters and a GDR issue totaling US\$1b. Out of incremental capital raising, the bank is offering 43% to its current promoters. The rest is likely to be raised through GDR or QIP. Assuming the average issue price at Rs600-625 per share, the dilution could be 25-26%, but

would be significantly book accretive. Also the Tier I capital would expand to >12% (currently at 6.3%).

Valuation and view

Over the last few years, UTI Bank has demonstrated its ability to grow at a strong pace across all parameters with stable margins and clean asset quality. Post capital raising, we expect the bank to maintain its strong growth rates. Post-dilution (assuming issue at Rs600 per share), we expect an EPS of Rs25.8 for FY08 and Rs34.9 for FY09. The book value will be Rs241 in FY08 and Rs268 in FY09 with a RoE of 14-15%. The stock trades at a P/E of 18.4x and P/BV of 2.4x FY09 basis. Maintain **Buy**.

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 UTI in 1994, the bank has a countrywide presence through a network of 574 branches, and extension counters across 341 locations and 2,428 ATMs. 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 35% (CAGR, FY07-09E) along with margin expansion to result in NII growth of over 37% over the same period.
- ✍ Robust asset quality despite a very fast growth in assets over the last couple of years.
- ✍ Has built a strong retail network on the platform of best technology and quality manpower.

Key investments risks

- ✍ Low provision cover (42%) could hurt the bank, were delinquencies to increase, particularly in the retail asset segment.
- ✍ Change in norms of foreign ownership limits could impact valuations.

COMPARATIVE VALUATIONS

		UTI BANK	HDFC BANK	ICICI BANK
P/E (x)	FY08E	24.8	28.1	19.8
	FY09E	18.4	20.5	16.5
P/BV (x)	FY08E	2.7	3.6	2.9
	FY09E	2.4	3.2	2.5
RoE (%)	FY08E	15.4	16.7	15.3
	FY09E	13.7	16.5	16.4
RoA (%)	FY08E	1.1	1.4	1.0
	FY09E	1.1	1.5	1.0

SHAREHOLDING PATTERN (%)

	JUN.07	MAR.07	JUN.06
Promoter	42.9	43.1	43.5
Domestic Inst	8.6	6.9	7.3
Foreign	40.0	41.9	41.8
Others	8.5	8.1	7.4

Recent developments

- ✍ UTI bank would change its name to Axis Bank during FY08.
- ✍ Dr. Nayak has been reappointed as Chairman of the bank for a further period of two years.
- ✍ UTI Bank has announced its equity raising plan (~US\$1b), implying 26% of current equity dilution.

Valuation and view

- ✍ Core earnings momentum will continue to drive valuations. Possibility of an M&A will also keep the action alive.
- ✍ We expect earnings to grow by 37% CAGR over FY07-09E. On a post diluted basis (assuming issue at Rs600 per share), the stock trades at a P/E of 18.4x and P/BV of 2.4x FY09 basis. Maintain **Buy**.

Sector view

- ✍ YTD loan growth of 25% and deposit growth of 23%.
- ✍ Macro economic factors remain conducive for strong profitable growth for Indian banks.
- ✍ Benefits of significant improvement in asset quality not yet factored in earnings and valuations.
- ✍ We maintain an overweight stance on the sector.

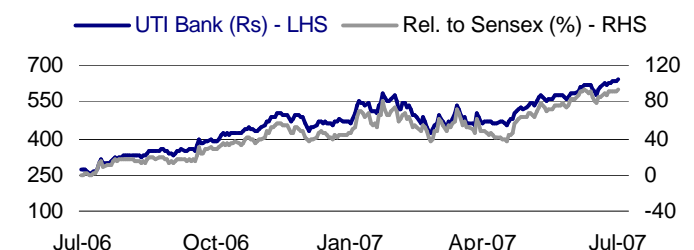
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	25.8	28.4	-9.0
FY09	34.9	36.3	-4.0

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
641	750	17.0	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	68,931	92,783	
Interest Expended	11,930	18,106	29,933	46,678	62,598	
Net Interest Income	7,312	10,782	15,671	22,252	30,185	
Change (%)	26.7	47.5	45.3	42.0	35.6	
Other Income	3,701	6,421	9,114	13,802	17,874	
Net Income	11,012	17,203	24,784	36,054	48,059	
Operating Expenses	5,814	8,141	12,146	18,130	24,538	
Operating Income	5,199	9,063	12,639	17,924	23,521	
Change (%)	-23.8	74.3	39.5	41.8	31.2	
Other Provisions	162	1,752	2,674	4,000	4,700	
PBT	5,037	7,311	9,965	13,924	18,821	
Tax	1,691	2,462	3,375	4,734	6,399	
PAT	3,346	4,849	6,590	9,190	12,422	
Change (%)	20.2	44.9	35.9	39.4	35.2	
Proposed Dividend	878	1,126	1,267	1,779	2,135	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
Capital	2,738	2,787	2,816	3,558	3,558	
Reserves & Surplus	21,344	25,935	31,116	82,002	91,926	
Net Worth	24,082	28,722	33,932	85,561	95,484	
Deposits	317,120	401,135	587,856	764,213	993,477	
Borrowings	17,948	26,943	52,046	57,250	68,700	
Other Liab & Provisions	18,287	40,510	58,738	76,359	99,267	
Total Liabilities	377,437	497,311	732,572	983,383	1,256,929	
Current Assets	45,029	36,418	69,183	75,011	87,738	
Investments	150,480	215,274	268,972	349,663	447,569	
Advances	156,029	223,142	368,765	534,709	695,122	
Net Fixed Assets	5,184	5,677	6,732	8,000	8,500	
Other Assets	20,714	16,800	18,921	16,000	18,000	
Total Assets	377,437	497,311	732,572	983,383	1,256,929	

KEY ASSUMPTIONS		(%)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
Deposit Growth	51.3	26.5	46.5	30.0	30.0	
Advances Growth	66.6	43.0	65.3	45.0	30.0	
Investments Growth	93.1	43.1	24.9	30.0	28.0	
Provision Coverage	46.0	57.9	63.5	53.9	52.1	
Dividend per share	2.8	3.5	4.5	5.0	6.0	

E: MOST Estimates

RATIOS						
Y/E MARCH	2005	2006	2007	2008E	2009E	
Spreads Analysis (%)						
Avg. Yield-Earning Asset	6.7	7.1	7.8	8.8	9.0	
Avg. Cost - Int. Bear. Liab	4.3	4.7	5.6	6.4	6.6	
Interest Spread	2.3	2.3	2.2	2.4	2.4	
Net Interest Margin	2.5	2.6	2.7	2.9	2.9	

Profitability Ratios (%)						
RoE	18.9	18.4	21.0	15.4	13.7	
RoA	1.1	1.1	1.1	1.1	1.1	
Int. Expended/Int. Earned	62.0	62.7	65.6	67.7	67.5	
Other Income/Net Income	33.6	37.3	36.8	38.3	37.2	

Efficiency Ratios (%)						
Op Exp/Net Income	52.8	47.3	49.0	50.3	51.1	
Employee Cost/Op. Exps	30.4	29.5	31.4	32.0	34.6	
Business per Empl. (Rs r)	815	83.7	79.0	80.6	83.0	
Net Profit per Empl. (Rs i)	0.7	0.7	0.7	0.7	0.7	

Asset Liability Profile (%)						
Advances/Deposit Ratio	49.2	55.6	62.7	70.0	70.0	
Invest./Deposit Ratio	47.5	53.7	45.8	45.8	45.1	
G-Sec/Investment Ratio	50.1	54.8	61.1	58.8	57.4	
Gross NPAs to Advances	2.0	1.7	1.1	1.1	1.3	
Net NPAs to Advances	1.1	0.7	0.4	0.5	0.6	
CAR	12.7	11.1	11.6	15.0	13.0	
Tier 1	8.9	7.3	6.4	12.0	10.0	

VALUATION						
Book Value (Rs)	88.0	103.1	120.5	240.5	268.3	
Price-BV (x)	7.3	6.2	5.3	2.7	2.4	
Adjusted BV (Rs)	82.6	99.4	117.0	235.5	260.3	
Price-ABV (x)	7.8	6.5	5.5	2.7	2.5	
EPS (Rs)	12.2	17.4	23.4	25.8	34.9	
EPS Growth	1.7	42.4	34.5	10.4	35.2	
Price Earnings (x)	52.5	36.8	27.4	24.8	18.4	
OPS (Rs)	19.0	32.5	44.9	50.4	66.1	
Price-OP (x)	33.8	19.7	14.3	12.7	9.7	

E: MOST Estimates

N O T E S



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UTI Bank

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|---|----|
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| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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