

**INITIATING COVERAGE**
**UTI Bank Ltd**
**Buy**
**Share Data**

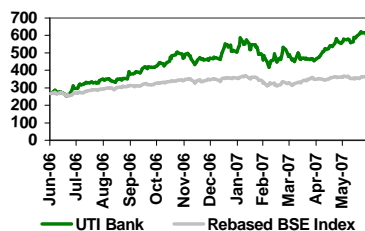
Market Cap	Rs. 174.91 bn
Price	Rs. 605
BSE Sensex	14,650.51
Reuters	UTBK.BO
Bloomberg	UTIB IN
Avg. Volume (52 Week)	0.21 mn
52-Week High/Low	620.75/252.9
Shares Outstanding	289.1 mn

**Valuation Ratios**

Year to 31 March	2008E	2009E
EPS (Rs.)	29.0	40.9
+/- (%)	28.1%	41.1%
PER (x)	20.9x	14.8x
P / PPP (x)	9.7x	6.5x
P / BV (x)	3.1x	2.8x

**Shareholding Pattern (%)**

Promoter	43
FII's	42
Institutions	7
Public & Others	8

**Relative Performance**

**Realizing Potential**

UTI bank is a financial institution engaged in providing banking and financial advisory services. The bank has the highest ATMs to branch ratio of 4.7 in the country. UTI bank has shown consistent improvement in the operating performance supported by high CASA ratio, low net NPAs, and strong growth in advances. The bank will leverage its existing branch and ATM network to increase its non-interest income. In order to meet advances growth and increase the capital adequacy ratio, the bank is planning to raise \$600 mn Tier I capital in FY08. For FY08E, we expect the bank's EPS to increase to Rs. 29 supported by growth in advances and fee based income.

**Key Figures**

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data) (FY07-09E)						
Net Interest Income	7,312	10,782	15,672	24,894	37,250	54.2%
Total Income	23,400	36,184	55,703	87,487	134,041	55.1%
Pre-Prov Operating Profit	5,656	9,938	13,578	20,422	30,586	50.1%
Net Profit	3,346	4,851	6,542	9,544	13,465	43.5%
Interest Expense/Interest Income (%)	62.0%	62.7%	65.6%	65.6%	66.5%	
Cost/Income Ratio (%)	24.8%	22.5%	21.9%	22.4%	21.9%	
<b>Per Share Data (Rs.)</b>						
EPS	14.1	17.1	22.6	29.0	40.9	34.5%
PER (x)	43.0x	35.4x	26.7x	20.9x	14.8x	
PPP per share	23.8	35.0	47.0	62.1	92.9	
Book value per share	101.7	101.6	117.5	192.6	216.3	

- We expect advances and deposits to grow at CAGR of 52.5% and 45% respectively for FY07-09E driven by growing economy and continuing branch expansion.
- At the current price of Rs. 605 the stock is trading at a forward P/BV of 3.1x FY08E and 2.8x FY09E.
- Our target price of Rs. 722 is based on a P/BV valuation and represents an upside of 19.4% from current levels. We initiate coverage with a Buy with a one year perspective.

## Investment Rationale

*Extension of P J Nayak's term till July31, 2009*

### *Continuation with PJ Nayak*

UTI has done exceedingly well under the chairmanship of Mr. P. J. Nayak. The issue of succession has been resolved with Mr. Nayak being appointed as whole time chairman of the bank for two year term ending July 31, 2009. This will boost the current management to continue with their expansion plan.

### *High CASA deposit and stable NIM*

The bank posted a robust business growth in FY07. Deposits grew by 46.6% while maintaining the CASA ratio at around 40%. This has helped bank to increase their NIM by 7bps to 2.92%. We expect NIM to remain stable given the high CASA ratio, and this would further improve yields on loan book.

### *Aggressive advances growth*

UTI bank's advances have posted a robust growth of 65% in FY07. Corporate loans, which accounts for 75.8% of total advances, increased 76.6% while retail loan increased 37.6%. The bank is expected to raise \$600 mn Tier I capital to fuel advances growth. Also, UTI is well positioned with wide branch network to exploit huge retail advances opportunities.

### *Potential for growth in other income*

For the FY07, other income forms 22.1% of total interest income. In order to boost fee based income, the bank has created two separate subsidiaries to market financial products and manage investments. Also, government and bancassurance business are likely to drive fee income in the coming years.

### *Wide branch and ATM network*

*Highest ATM to branch ratio of 4.7*

At 4.7 ATMs per branch, UTI has the highest ATM to branch ratio. It also has the third largest ATM network in the country. During the year, UTI has added 111 branches (including extension counters) and 450 ATMs, taking the number to 561 and 2,341 respectively. With branch and ATM expansion, we expect reduction in cost of funds, increase in fee income, and boost to the card business.

### *International opportunity*

During the year, the bank opened two new overseas branches at Singapore, & Hong Kong and a representative office in Shanghai. The opening of these overseas offices will provide significant opportunities to finance cross-border trade and manufacturing activities in addition to remittance and other business from the NRI community.

### *Consistency in asset quality*

For the FY07, asset quality has improved with net NPA ratios improving by 14bps to 0.61%. Overall quality of loan portfolio remained healthy with 84% of corporate advances with a rating of 'A' and above. However, the Company may face pricing pressure from these high rated corporate clients in a rising interest rate scenario.

*84% of corporate advances have a 'A' rating and above*

### **Key Risks**

#### *SUUTI stake sale*

The Government intends to sell 27.4% stake of SUUTI in UTI bank. LIC India, which already holds 10.4% in UTI bank, is one of the key contenders for buying this stake. Any change in ownership pattern of the bank may impact the outlook and performance of the bank in long run.

#### *Rebranding*

The UTI bank will rebrand itself as "Axis Bank". The negative outcome in terms of renaming of the bank could result in dilution of brand equity and huge rebranding expenditure.

*New avatar as "Axis Bank"*

### **Outlook**

We expect the bank to leverage its wide branch & ATM network and pursue a profitable growth strategy through corporate relationships and an accelerated retail customer acquisition. In FY08, the bank is expected to further consolidate its position in corporate lending and further increase its market-share. High CASA deposit, growth in fee based income, consistent asset quality, and huge branch network will help UTI to reach the target EPS of Rs. 29 for FY08E.

At the current price of Rs. 605, the stock is trading at a forward P/BV of 3.1x FY08E and 2.8x FY09E.

*Trading at the forward  
P/BV FY08E of 3.1x  
and Target Price of 722*

Based on a target P/BV multiple of 3.75x, we value UTI bank at Rs. 722. It provides an upside of 19.4% from the existing level of Rs. 605. We initiate the coverage with a Buy for the bank.

### Company Background

Promoted by Unit Trust of India in 1994, UTI bank is growing rapidly since inception. Presently, the bank has a wide network of more than 578 branch offices and Extension Counters. The bank also has a network of over 2,383 ATMs providing 24x7 banking convenience to its customers.

The key segments of the bank include retail banking, corporate banking, treasury, capital markets, NRI services, and financial advisory services such as merchant banking, project advisory, cash management and credit/debit card services.

Total net advances of the bank as of March 31, 2007 were Rs. 368.8 bn and total deposits were Rs. 587.9 bn. During the year, the bank opened two new overseas branches at Singapore & Hong Kong and a representative office at Shanghai.

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