

## Q1FY13-Disappointing quarter

<b>CMP:</b>	<b>Rs.100</b>
<b>Target Price:</b>	<b>Rs.148</b>
<b>Upside/(Downside) %</b>	<b>48%</b>
<b>Recommendation:</b>	<b>Buy</b>

### Stock Info

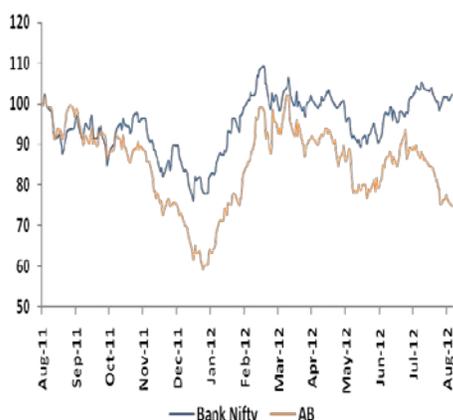
<b>BSE Group</b>	A
<b>BSE Code</b>	532418
<b>NSE Symbol</b>	ANDHRABANK
<b>Bloomberg</b>	ANDB IN
<b>Reuters</b>	ADBK.BO
<b>BSE Sensex</b>	5282.5
<b>NSE Nifty</b>	17412.9

### Market Info

<b>Market Capital</b>	₹ 5570.6cr
<b>Equity Capital</b>	₹ 559.6cr
<b>Avg. Trading Vol. (NSE Qtly)</b>	69471
<b>52 Wk High/ Low</b>	138/79
<b>Face Value</b>	10

### Shareholding Pattern (%) (30<sup>th</sup> June 2012)

<b>Promoters</b>	-
<b>Domestic Institutions</b>	15.1
<b>Foreign Institutions</b>	13.4
<b>Non Promoters Corp.</b>	2.3
<b>Public &amp; Others</b>	11.2
<b>Govt. Holdings</b>	58.0



Aug 07, 2012

Generating Wealth. Satisfying Investors.

Andhra Bank reported disappointing numbers both on the top-line front and bottom-line for Q1FY13. While the Net interest income (NII) recorded poor growth owing to higher interest costs, the insignificant other income growth and higher credit costs dragged the profitability for the bank on annual basis.

**Poor earnings growth, below estimates:** The bank reported decline of 6% in profitability on annual basis at Rs 362 crs primarily on account of spike in interest costs and higher provisions. The interest costs spike dented the top-line with NII recording mere 3% growth both YoY and QoQ basis at Rs 938 crs. Furthermore, the non-interest income for the quarter did not put up encouraging number with mere 3% growth on sequential basis at Rs 236 crs which restricted the PAT growth. We tone down our PAT estimates for FY13 and FY14 to factor in the subdued earnings performance for FY13.

**Asset quality deteriorates, NPL risks to linger:** The GNPA's rose by 112 bps and NNPA's by 110 bps on annual basis marking deterioration in asset quality of the bank for the quarter. We concede higher slippages and exposure to troubled sectors of the economy could have accentuated the bad loans for the quarter. In addition to this, higher provisions for the quarter at Rs 207 crs also call for NPL risks going ahead.

**Outlook:** Andhra Bank though shows inherent business strength and pricing power, but require to focus on quality liability franchise and quality earnings maintaining the high return ratios recorded by the bank in the past. While Q1 looked weak both in terms of earnings and asset quality; given the macro turbulence confronting the entire sector and Q1 being a lull quarter for most of the times, we expect the business to pick up in the forthcoming quarters and the core capital and provision cushion makes us positive on the bank. That said, we do stand wary w.r.t. asset quality and the sensitive exposures, but find the bank worth buying at cheap valuations and consider the stock to be bought on dips. Maintain BUY target price of Rs 148, valuing the bank at 0.8X P/ABV FY 14E.

### Financials:-

(Rs Cr)	FY11	FY12	FY13E	FY14E
<b>Net interest income</b>	3222	3759	4268	4968
<b>Operating Profit</b>	2413	2814	3163	3734
<b>PAT</b>	1267	1344	1537	1833
<b>EPS (Rs)</b>	24.3	24.0	27.5	32.8
<b>EPS Growth (%)</b>	12.6	-1.0	14.3	19.3
<b>RoE (%)</b>	23.3	19.2	19.1	19.2
<b>P/E (x)</b>	4.1	4.1	3.6	3.0
<b>PABV (x)</b>	0.8	0.7	0.7	0.5

Source: Company, Aриhant Research.



## Q4FY12 Earnings Update

Particulars (Rs. cr)	Q1FY13	Q1FY12	YoY%	Q4FY12	QoQ %	Comments
Interest Earned	3,121	2,634	18.5	2,999	4.1	
Interest Expended	2,183	1,724	26.6	2,085	4.7	Expenditure stood on the higher side
<b>Net Interest Income</b>	<b>938</b>	<b>910</b>	<b>3.1</b>	<b>914</b>	<b>2.7</b>	Poor NII income growth
Other Income	236	217	8.7	230	2.5	Other income show not encouraging
<i>Other income / Net Income (%)</i>	20	19		20		
<b>Total income</b>	<b>1174</b>	<b>1127</b>	<b>4.2</b>	<b>1144</b>	<b>2.6</b>	
Employee Expenses	297	273	8.7	319	-6.8	
Non-Employee expenses	174	155	12.6	164	6.0	
<b>Operating Expenses</b>	<b>471</b>	<b>428</b>	<b>10.1</b>	<b>483</b>	<b>-2.5</b>	QoQ Opex moderated
<i>Cost-income Ratio (%)</i>	40	38		42		
<b>Pre-Prov Profits</b>	<b>703</b>	<b>700</b>	<b>0.5</b>	<b>661</b>	<b>6.4</b>	
Provisions & Contingencies	207	177	16.7	244	-15.2	YoY credit costs have gone up
<b>PBT</b>	<b>497</b>	<b>523</b>	<b>-5.0</b>	<b>417</b>	<b>19.0</b>	
Provisions for Tax	135	137	-1.5	78	74.0	
<i>Effective Tax Rate (%)</i>	27	26		19		
<b>PAT (reported)</b>	<b>362</b>	<b>386</b>	<b>-6.2</b>	<b>340</b>	<b>6.5</b>	<b>Tepid PAT growth, YoY growth turned out to be disappointment</b>
EPS Diluted	6.5	6.9		6.1		
GNPA	2358	1176		1798		
NNPA	1293	337		756		
GNPA (%)	2.7	1.6		2.1		GNPAs climbed upwards
NNPA (%)	1.5	0.5		0.9		
Total CAR (%)	12.4	13.23		13.2		



Income Statement				
Year to 31st March (Rs.Cr)	FY11	FY12	FY13E	FY14E
Interest Income	8291	11339	12650	14855
Interest Expenses	5070	7579	8382	9886
<b>Net Interest Income</b>	<b>3222</b>	<b>3759</b>	<b>4268</b>	<b>4968</b>
- growth %	47	17	14	16
Fee-based Income	659	671	743	823
Treasury Income	235	182	203	227
Other Non-interest Income	2	6	5	6
<b>Operating Income</b>	<b>4118</b>	<b>4618</b>	<b>5219</b>	<b>6024</b>
- growth %	30	12	13	15
Operating Expenses	1705	1804	2056	2291
- Staff Cost	1104	1150	1255	1377
- Other Operating Exp.	601	654	801	913
<b>Gross Profits</b>	<b>2413</b>	<b>2814</b>	<b>3163</b>	<b>3734</b>
- growth %	33	17	12	18
Provisions	646	991	1028	1187
<b>Profit Before Taxes</b>	<b>1767</b>	<b>1823</b>	<b>2134</b>	<b>2546</b>
Taxes	500	480	598	713
<b>Profit After Taxes</b>	<b>1267</b>	<b>1344</b>	<b>1537</b>	<b>1833</b>
- growth %	21	6	14	19

Balance sheet				
As on 31st March (Rs. Cr)	FY11	FY12	FY13E	FY14E
<b>LIABILITIES</b>				
Capital	560	560	560	560
Reserves & Surplus	5,933	6,920	8,063	9,897
Deposits	92,156	105,851	123,846	146,138
- growth %	18.6	14.9	17.0	18.0
Borrowings	7,640	8,241	10,081	12,417
Other liabilities & provisions	2,612	3,393	3,991	4,901
<b>TOTAL LIABILITIES</b>	<b>108,902</b>	<b>124,964</b>	<b>146,541</b>	<b>173,913</b>
<b>ASSETS</b>				
Cash, Inter-bank, etc	7,184	5,564	8,079	10,369
Money at call and short notice	3,275	3,082	3,838	4,507
Advances	71,435	83,642	98,697	116,463
- growth %	27.2	17.1	18.0	18.0
Investments	24,205	29,629	32,960	38,594
Fixed assets	318	303	377	550
Other assets	2,485	2,745	2,588	3,430
<b>TOTAL ASSETS</b>	<b>108,902</b>	<b>124,964</b>	<b>146,541</b>	<b>173,913</b>

Ratio Analysis				
	FY11	FY12	FY13E	FY14E
<b>Basic Ratio (Rs.)</b>				
EPS	24.3	24.0	27.5	32.8
Book Value per share	124.3	133.7	154.1	186.9
70% Adjusted Book Value	124.8	138.4	135.5	186.9
Dividend per share	5.5	5.5	6.0	7.0
<b>Asset Quality (%)</b>				
Gross NPAs	1.4	2.1	3.6	4.1
Net NPAs	0.4	0.3	2.1	2.7
NPA Coverage	72.5	84.7	40.4	34.9
<b>Profitability ratios (%)</b>				
RoAE	23.3	19.2	19.1	19.2
RoAA	1.3	1.1	1.1	1.1
NIM	3.6	3.6	3.4	3.4
Operating Profit Margin	26.3	23.1	23.3	23.5
Net Profit Margin	13.8	11.0	11.3	11.5
Cost to Income	41.4	39.1	39.4	38.0
Fee-based income to Operating Income	16.0	14.5	14.2	13.7

Spread analysis (%)				
	FY11	FY12	FY13E	FY14E
Yield on advances	10.5	12.0	11.5	11.5
Yield on investments	6.8	7.3	6.7	6.8
Yield on interest-earning assets	8.5	10.0	9.3	9.3
Cost of funds	4.9	6.5	6.2	6.2
Spread	3.6	3.5	3.1	3.1
Net Interest Income to AWF	3.3	3.3	3.2	3.2
Non Interest Income to AWF	0.9	0.8	0.7	0.7
Operating Profit to AWF	2.5	2.5	2.4	2.4
Net Profit to AWF	1.3	1.2	1.2	1.2

Valuation ratios (x)				
	FY11	FY12	FY13E	FY14E
P/E	4.1	4.1	3.6	3.0
P/BV	0.8	0.7	0.6	0.5
P/ABV	0.8	0.7	0.7	0.5



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### Stock Rating Scale

	<b>Absolute Return</b>
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5

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