

## Q2FY13-Disappointing performance

<b>CMP:</b>	<b>Rs.106</b>
<b>Target Price:</b>	<b>Rs.127</b>
<b>Upside/(Downside) %</b>	<b>19%</b>
<b>Recommendation:</b>	<b>ACCUMULATE</b>

### Stock Info

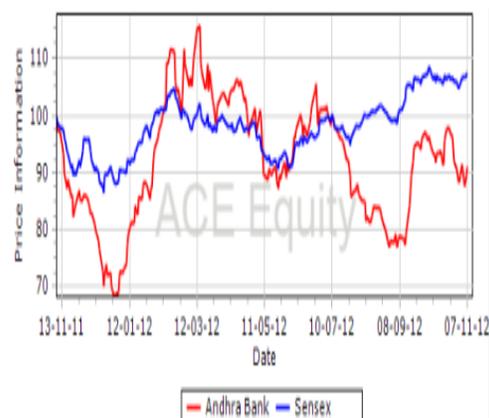
<b>BSE Group</b>	A
<b>BSE Code</b>	532418
<b>NSE Symbol</b>	ANDHRABANK
<b>Bloomberg</b>	ANDB IN
<b>Reuters</b>	ADBK.BO
<b>BSE Sensex</b>	5760.1
<b>NSE Nifty</b>	18902.4

### Market Info

<b>Market Capital</b>	₹ 5959.5cr
<b>Equity Capital</b>	₹ 559.6cr
<b>Avg. Trading Vol. (NSE Qtly) ('000)</b>	772.8
<b>52 Wk High/ Low</b>	139/79
<b>Face Value</b>	10

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

<b>Promoters</b>	58.0
<b>Domestic Institutions</b>	15.3
<b>Foreign Institutions</b>	12.8
<b>Public &amp; Others</b>	13.8



Nov 07, 2012

Generating Wealth. Satisfying Investors.

Andhra Bank reported disappointing numbers both on the top-line front and bottom-line for the second consecutive in row this fiscal. While the Net interest income (NII) recorded poor growth owing to higher interest costs, the insignificant other income growth and weak CASA profile dragged the profitability for the bank on annual basis.

**Poor earnings growth, below estimates:** The bank reported decline of 10% in profitability on sequential basis at Rs 326 crs and mere 3% YoY growth primarily on account of spike in interest costs and weak non-interest income. The interest costs spike dented the top-line with NII witnessing decline both QoQ and YoY 5% and 6% respectively at Rs 894 crs. In turn, the margins took a hit and were recorded at 3%, reporting 18% decline YoY. Furthermore, the non-interest income for the quarter did not put up encouraging number with 7% decline on sequential basis at Rs 219 crs which restricted the PAT growth. Though YoY CASA recorded decent growth, on sequential basis the performance was poor with CASA ratio standing stagnant at 26% levels. The subdued earning performance would take a toll on return ratios going ahead.

**Asset quality deteriorates, NPL risks to linger:** As anticipated the NPLs stood on the higher side and bad loans continue to weigh down the earnings of the bank. The GNPA's rose by 80 bps and NNPA's by 70 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. Further, the restructured book at 9077 crs also stood on the higher side. Though credit costs moved down, NPL risks continue to linger.

**Outlook:** Muted credit off-take, higher deposit costs and deterioration in asset quality formed the concern areas for the bank. Given the asset quality pressures that continue to weigh down earnings and the disappointing performance of the bank for past 2 quarters indicates its vulnerability to tough environs and we do see downside from current levels. Therefore, we mellow down our price target at Rs 127 (Earlier Rs 148), valuing the bank at 0.8X P/ABV FY14E and consequently bring down our rating to Accumulate building the impending pressures into our estimates. We concede the price momentum has yet to factor in the negatives completely and we foresee stock price correction from hereon.

### 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>	4.4	4.5	3.9	3.3
<b>PABV (x)</b>	0.9	0.8	0.8	0.7

Source: Company, Arianth Research.



## Q2FY13 Earnings Update

Particulars (Rs. cr)	Q2FY13	Q2FY12	YoY%	Q1FY13	QoQ %	Comments
Interest Earned	3,198	2,783	14.9	3,121	2.5	
Interest Expended	2,304	1,831	26.6	2,183	5.6	Expenditure stood on the higher side
<b>Net Interest Income</b>	<b>894</b>	<b>951</b>	<b>-6.0</b>	<b>938</b>	<b>-4.8</b>	Poor NII income growth
Other Income	219	178	23.4	236	-6.9	Other income show not encouraging QoQ, YoY looks decent
<i>Other income / Net Income (%)</i>	20	16		20		
<b>Total income</b>	<b>1113</b>	<b>1129</b>	<b>-1.4</b>	<b>1174</b>	<b>-5.2</b>	
Employee Expenses	297	274	8.5	297	0.1	
Non-Employee expenses	178	169	5.6	174	2.3	
<b>Operating Expenses</b>	<b>475</b>	<b>442</b>	<b>7.4</b>	<b>471</b>	<b>0.9</b>	YoY opex spiked up
<i>Cost-income Ratio (%)</i>	43	39		40		
<b>Pre-Prov Profits</b>	<b>638</b>	<b>687</b>	<b>-7.1</b>	<b>703</b>	<b>-9.3</b>	
Provisions & Contingencies	139	261	-46.5	207	-32.5	Credit costs have gone down
<b>PBT</b>	<b>499</b>	<b>426</b>	<b>17.0</b>	<b>497</b>	<b>0.4</b>	
Provisions for Tax	173	110	57.3	135	28.1	
<i>Effective Tax Rate (%)</i>	35	26		27		
<b>PAT (reported)</b>	<b>326</b>	<b>316</b>	<b>3.0</b>	<b>362</b>	<b>-10.0</b>	<b>Weak bottom-line performance owing to poor interest income and other income and not very encouraging numbers</b>
EPS Diluted	5.8	5.7		6.5		
GNPA	3014	1987		2358		NPLs shot up significantly
NNPA	1831	1086		1293		
GNPA (%)	3.5	2.7		2.7		GNPAs climbed upwards
NNPA (%)	2.2	1.5		1.5		
Total CAR (%)	12.4	13.1		12.4		



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	4.4	4.5	3.9	3.3
P/BV	0.9	0.8	0.7	0.6
P/ABV	0.9	0.8	0.8	0.7



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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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