

Q3FY13-Disappointing performance

CMP:	Rs.113
Target Price:	Rs.127
Upside/(Downside) %	14%
Recommendation:	ACCUMULATE

Stock Info

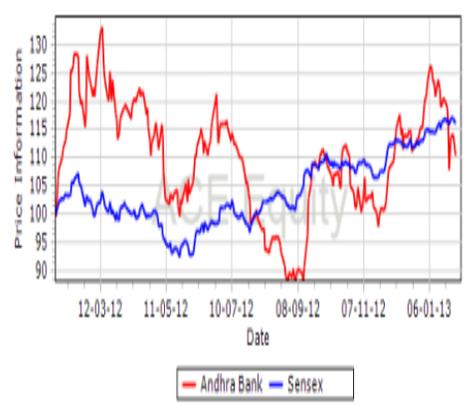
BSE Group	A
BSE Code	532418
NSE Symbol	ANDHRABANK
Bloomberg	ANDB IN
Reuters	ADBK.BO
BSE Sensex	6055.8
NSE Nifty	20005.0

Market Info

Market Capital	₹ 6278 cr
Equity Capital	₹ 559.6cr
Avg. Trading Vol. (NSE Qtly) ('000)	1121.8
52 Wk High/ Low	139/90
Face Value	10

Shareholding Pattern (%) (31th Dec 2012)

Promoters	58.0
Domestic Institutions	15.2
Foreign Institutions	13.0
Public & Others	13.8



Andhra Bank reported disappointing numbers both on the top-line front and bottom-line for the third quarter in a row this fiscal. While the Net interest income (NII) recorded poor growth owing to higher interest costs, the insignificant other income growth, weak non-interest income and sequential jump in provisions dragged the profitability for the bank.

Poor earnings growth, below estimates: The bank reported decline of 21% in profitability on sequential basis and 15% on annual basis at Rs 257 crs 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 YoY 1.3% at Rs 971 crs. In turn, the margins remained stagnant at 3% levels. Furthermore, the non-interest income for the quarter did not put up encouraging number with mere 1% growth YoY at Rs 971 crs which restricted the PAT growth. Also, the provisions reported during the quarter at Rs 285 crs shot up 104% on sequential basis. Again, CASA ratio standing stagnant at 26% levels weakens our confidence in business.

Business growth not quite encouraging: While the bank reported 15% credit growth and 14% deposit growth for the quarter, the business momentum for the next year again is expected to remain subdued with the bank closing the year with 14-15% growth levels and the much the same for FY14 too.

Asset quality deteriorates, NPL risks to linger: NPLs continue to show sharp deterioration with GNPA's moving up by 130 bps and NNPA's by 110 bps on annual basis for the quarter. While slippages at Rs 2058 crs stood higher for the quarter with two large accounts slipping into NPL category, the slippage ratio stood at 2.48%. Much of the pain and restructuring came from large corporate and MSME enterprises taking the total restructured book to Rs 10382 crs. Also, the SEB restructuring continues to remain challenging for the bank. While the Management expects the pace of slippages to moderate and restructuring pipeline to gradually come off, NPL risks continue to linger for near term.

Outlook: Weaker CASA profile (CASA 26%, term deposits 74%), paring down exercise of large corporate book (53% of total advances), need to raise further capital (Tier I at 8.06%) and asset quality headwinds with heavy restructuring book (11% of total advances) would continue to restrict growth for the bank. At current valuations we concede the stock is fairly valued, hence significant upside expectations remain dim in the medium-term and we maintain Accumulate rating on the stock; valuing the bank at 0.8X P/ABV FY14E for a price target of Rs 127.

Financials:-

(Rs Cr)	FY11	FY12	FY13E	FY14E
Net interest income	3222	3759	4060	4590
Operating Profit	2413	2814	2964	3387
PAT	1267	1344	1375	1520
EPS (Rs)	24.3	24.0	24.6	27.2
EPS Growth (%)	12.6	-1.0	2.2	10.6
RoE (%)	23.3	19.2	17.1	16.3
P/E (x)	4.7	4.7	4.6	4.2
PABV (x)	0.9	0.8	0.8	0.7



Q3FY13 Earnings Update

Particulars (Rs. cr)	Q3FY13	Q3FY12	YoY%	Q2FY13	QoQ %	Comments
Interest Earned	3,231	2,923	10.5	3,198	1.0	
Interest Expended	2,260	1,939	16.5	2,304	-1.9	
Net Interest Income	971	984	-1.3	894	8.7	NII growth not quite encouraging, weak YoY
Other Income	238	235	1.2	219	8.5	Subdued other income performance
<i>Other income / Net Income (%)</i>	20	19		20		
Total income	1209	1219	-0.8	1113	8.6	
Employee Expenses	312	285	9.6	297	5.1	
Non-Employee expenses	185	167	11.1	178	4.1	
Operating Expenses	497	452	10.2	475	4.7	YoY opex spiked up
<i>Cost-income Ratio (%)</i>	41	37		43		C/I ratio still stands on higher side
Pre-Prov Profits	712	768	-7.2	638	11.6	
Provisions & Contingencies	285	309	-7.9	139	104.3	Credit costs jumped dramatically QoQ
PBT	427	458	-6.8	499	-14.4	
Provisions for Tax	170	155	9.7	173	-1.7	
<i>Effective Tax Rate (%)</i>	40	34		35		
PAT (reported)	257	303	-15.2	326	-21.1	Weak bottom-line performance owing to poor interest income and other income and not very encouraging numbers
EPS Diluted	18.4	23.2		21.6		
GNPA	3302	1884		3014		NPLs shot up significantly
NNPA	2023	943		1831		
GNPA (%)	3.7	2.4		3.5		GNPAs continue to stand on the higher side
NNPA (%)	2.3	1.2		2.2		
Total CAR (%)	11.9	12.6		12.4		



Income Statement				
Year to 31st March (Rs.Cr)	FY11	FY12	FY13E	FY14E
Interest Income	8291	11339	12562	14338
Interest Expenses	5070	7579	8502	9749
Net Interest Income	3222	3759	4060	4590
- growth %	47	17	8	13
Fee-based Income	659	671	743	823
Treasury Income	235	182	203	227
Other Non-interest Income	2	6	5	6
Operating Income	4118	4618	5011	5646
- growth %	30	12	8	13
Operating Expenses	1705	1804	2047	2258
- Staff Cost	1104	1150	1255	1377
- Other Operating Exp.	601	654	791	881
Gross Profits	2413	2814	2964	3387
- growth %	33	17	5	14
Provisions	646	991	1055	1277
Profit Before Taxes	1767	1823	1909	2111
Taxes	500	480	535	591
Profit After Taxes	1267	1344	1375	1520
- growth %	21	6	2	11

Balance sheet				
As on 31st March (Rs. Cr)	FY11	FY12	FY13E	FY14E
LIABILITIES				
Capital	560	560	560	560
Reserves & Surplus	5,933	6,920	8,000	9,520
Deposits	92,156	105,851	120,670	138,771
- growth %	18.6	14.9	14.0	15.0
Borrowings	7,640	8,241	10,081	12,417
Other liabilities & provisions	2,612	3,393	3,901	4,685
TOTAL LIABILITIES	108,902	124,964	143,211	165,952
ASSETS				
Cash, Inter-bank, etc	7,184	5,564	7,867	9,876
Money at call and short notice	3,275	3,082	3,838	4,507
Advances	71,435	83,642	95,770	109,178
- growth %	27.2	17.1	14.5	14.0
Investments	24,205	29,629	32,157	36,679
Fixed assets	318	303	377	572
Other assets	2,485	2,745	3,203	5,141
TOTAL ASSETS	108,902	124,964	143,211	165,951

Ratio Analysis				
	FY11	FY12	FY13E	FY14E
Basic Ratio (Rs.)				
EPS	24.3	24.0	24.6	27.2
Book Value per share	124.3	133.7	153.0	180.1
70% Adjusted Book Value	124.8	138.4	137.3	161.4
Dividend per share	5.5	5.5	4.5	5.5
Asset Quality (%)				
Gross NPAs	1.4	2.1	3.5	3.7
Net NPAs	0.4	0.3	2.0	2.1
NPA Coverage	72.5	84.7	43.8	44.4
Profitability ratios (%)				
RoAE	23.3	19.2	17.1	16.3
RoAA	1.3	1.1	1.0	1.0
NIM	3.6	3.6	3.3	3.2
Operating Profit Margin	26.3	23.1	21.9	22.0
Net Profit Margin	13.8	11.0	10.2	9.9
Cost to Income	41.4	39.1	40.8	40.0
Fee-based income to Operating Income	16.0	14.5	14.8	14.6

	FY11	FY12	FY13E	FY14E
Spread analysis (%)				
Yield on advances	10.5	12.0	11.6	11.7
Yield on investments	6.8	7.3	6.7	6.8
Yield on interest-earning assets	8.5	10.0	9.5	9.5
Cost of funds	4.9	6.5	6.4	6.4
Spread	3.6	3.5	3.1	3.1
Net Interest Income to AWF	3.3	3.3	3.1	3.1
Non Interest Income to AWF	0.9	0.8	0.7	0.7
Operating Profit to AWF	2.5	2.5	2.3	2.3
Net Profit to AWF	1.3	1.2	1.1	1.0
Valuation ratios (x)				
P/E	4.7	4.7	4.6	4.2
P/BV	0.9	0.8	0.7	0.6
P/ABV	0.9	0.8	0.8	0.7



Arihant Research Desk

E. research@arihantcapital.com
T. 022-42254827

Head Office

3rd Floor, Krishna Bhavan,
67 Nehru Road, Vile Parle (East),
Mumbai - 400057
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

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

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