



Long way to go!

13th Feb, 2017

CMP: Rs. 56
Target: Rs. 37
Recommendation: Sell

Stock Info

BSE Group	A
BSE Code	532418
NSE Symbol	ANDHRABANK
Bloomberg	ANDB IN
Reuters	ADBK.BO
BSE Sensex	28,306
NSE Nifty	8,787

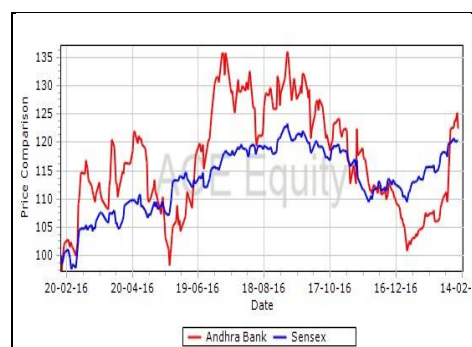
Market Info

Market Capital	Rs 3,852 cr
Equity Capital	Rs 681 cr
Avg. Trading Vol.	28,78,810 cr
52 Wk High/ Low	65/42
Face Value	10

Shareholding Pattern (%) (Dec, 2016)

Promoters	61.3
Domestic Institutions	15.4
Foreign Institutions	6.0
Public & Others	17.3

Price Chart:



Income & Profitability:

Andhra Bank reported poor set of numbers for Q3 FY17. Interest earned de-grew by 0.3% YoY. Yield on advances dropped to 9.4 vs. 10.7 YoY and 9.9 sequentially while cost of deposit dropped to 6.3 vs. 7.1 YoY and 6.6 sequentially. Net interest income (NII) therefore decreased by 10.6% on YoY basis to Rs 1,218 cr. Non-interest income however increased by 59% YoY & 6% QoQ to Rs 604 cr. NIM for the bank dropped to 2.66 from 3.24 YoY and 3.11 sequentially.

Business Growth:

Bank reported 4.5% credit growth advancing from Rs. 1,35,971 Cr. to Rs. 1,42,124 Cr YoY. MSME Advances growth stood at 9% YoY backed by micro enterprise growth of 56% YoY & 31% QoQ. Small enterprise portfolio de-grew by 12% YoY and 7% QoQ. Retail credit grew at 14% YoY on back of housing loans portfolio, which increased from Rs 11,104 cr to Rs 13,244 cr; an increase of 19% YoY.

Deposits grew at 12% YoY from Rs. 1,69,799 Cr to Rs. 1,90,506 Cr. CASA grew by 30% YoY backed by 40% YoY growth in savings deposits, while term deposits grew 6% YoY.

CD ratio for the quarter stood at 75% vs. 80% in the corresponding quarter of previous year. Cost to income ratio for the Bank inclined to 50.1% in the quarter under review from 40.8% in corresponding quarter of previous year due to higher employee cost which grew by 36% YoY to Rs 570 cr.

Asset Quality:

NPLs continued to remain at alleviated levels. Gross NPA and Net NPA stood at 11.88% and 6.98% for the quarter respectively vs. 7.0% and 3.89% YoY respectively. Provision coverage ratio for the bank deteriorated from 57.9% to 52.1% YoY. Provisions reported during the quarter were at Rs 828 crs vs. Rs 906 crs in the corresponding quarter of previous year.

Network Expansion:

Number of branches for the bank stood at 2872, of which 735 are present in rural areas, 762 in semi urban, 656 in urban & 719 in metro localities. ATMs/BNAs/CRs with bank stood at 3764. Total number of delivery channels as on Q3 FY 17 stood at 6674.

Valuations:

At CMP, stock is trading at P/ABV of 3.1(x) on FY18E. We have Sell rating on the stock with fair value of Rs 37 at 1.5(x) P/ABV to FY 18E.

(Rs Cr)	FY15	FY16	FY17E	FY18E
Net interest income	4,538	5,321	5,242	5,882
Operating Profit	6,038	6,885	7,535	8,462
PAT	638	540	192	633
EPS (Rs)	10.6	8.6	2.8	9.3
EPS Growth (%)	40%	-19%	-67%	229%
RoE (%)	6.3%	4.9%	1.7%	5.4%
P/E (x)	7.4	6.2	20.0	6.1
PABV (x)	0.8	0.7	3.4	2.3



Q3 FY17 Earnings Snapshot

Particulars (Rs. cr)	Q3FY17	Q3FY16	YoY%	Q2FY17	QoQ %
Interest Earned	4,409	4,422	-0.3	4,473	-1.4
Yield on Advances (%)	9.4	10.7		9.9	
Interest Expended	3,191	3,060	4.3	3,113	2.5
Cost of Deposits (%)	6.3	7.1		6.6	
Net Interest Income	1,218	1,362	-10.6	1,360	-10.5
Other Income	604	379	59.4	570	6.0
Other income / Net Income (%)	33	22		30	
Total income	1822	1741	4.6	1930	-5.6
Employee Expenses	570	420	35.7	558	2.1
Non-Employee expenses	342	291	17.6	328	4.2
Operating Expenses	912	711	28.33	886	2.9
Cost-income Ratio (%)	50	41		46	
Pre-Prov Profits	910	1,031	-11.7	1,044	-12.8
Provisions & Contingencies	828	906	-8.6	957	-13.5
PBT	82	125	-34.2	87	-5.3
Provisions for Tax	25	90	-72.2	35	-28.6
Effective Tax Rate (%)	30	72		40	
PAT	57	35	64.39	52	10.5
EPS Diluted	0.8	0.5		0.8	
GNPA	16,888	9,521		16,263	
NNPA	9,382	5,103		9,411	
GNPA (%)	11.9%	7.0%	4.9%	11.5%	0.4%
NNPA (%)	7.0%	3.9%	3.1%	6.6%	0.3%
PCR	52.1%	57.9%		50.4%	
Total CAR (%)	11.4	10.8		12.1	
NIM	2.66	3.24	-0.6	3.11	-0.5
Advances	1,42,124	1,35,971	4.5	1,41,535	0.4
Deposits	1,90,506	1,69,799	12.2	1,77,628	7.2

Source: Company Data Ace Equity, Arihant Research



Income Statement				
Year to 31st March (Rs.Cr)	FY15	FY16	FY17E	FY18E
Interest Income	16,369	17,635	17,998	19,190
Interest Expenses	11,831	12,314	12,756	13,308
Net Interest Income	4,538	5,321	5,242	5,882
- growth %	21%	17%	-1%	12%
Other Income	1,500	1,564	2,293	2,580
Fee-based Income	936	972	1,399	1,530
Treasury Income	557	585	891	1,047
Other non interest income	7	8	3	3
Operating Income	6,038	6,885	7,535	8,462
- growth %	19%	14%	9%	12%
Operating Expenses	2,739	2,925	3,564	4,019
- Staff Cost	1,698	1,735	2,164	2,386
- Other Operating Exp.	1,041	1,191	1,400	1,633
Gross Profits	3,298	3,960	3,971	4,443
- growth %	19%	20%	0%	12%
Provisions	2,080	2,956	3,660	3,352
Profit Before Taxes	1,218	1,004	310	1,091
Taxes	580	464	118	458
Profit After Taxes	638	540	192	633
- growth %	47%	-15%	-64%	229%

Ratio Analysis				
Year to 31st March	FY15	FY16	FY17E	FY18E
Basic Ratio (Rs.)				
EPS	10.6	8.6	2.8	9.3
Book Value per share	154	151	163	173
Adjusted Book Value	95	77	17	24
Dividend per share	2.0	0.5	0.0	0.0
Asset Quality (%)				
Gross NPAs	5.3	8.4	12.1	11.4
Net NPAs	2.9	4.6	6.9	6.2
Coverage	58.9%	56.9%	52.0%	52.0%
Profitability ratios (%)				
RoE	6.3%	4.9%	1.7%	5.4%
RoA	0.3%	0.3%	0.1%	0.3%
NIM	2.8%	3.2%	2.7%	2.7%
Operating Profit Margin	34%	36%	37%	39%
Net Profit Margin	4%	3%	1%	3%
Cost to Income	45%	42%	47%	47%

Balance Sheet				
As on 31st March (Rs. cr)	FY15	FY16	FY17E	FY18E
LIABILITIES				
Capital	603	681	681	681
Reserves & Surplus	9,461	10,313	10,506	11,139
Shareholders Fund	10,064	10,994	11,187	11,820
Deposits	1,55,012	1,74,302	1,91,732	2,08,428
Borrowings	15,307	9,716	12,825	12,183
Other liabilities & provisions	4,787	4,949	5,992	6,352
Total Liabilities	1,85,170	1,99,962	2,21,736	2,38,783
ASSETS				
Cash on hand & with RBI	7,517	8,791	7,942	8,646
Money at call and short notice	146	181	175	210
Advances	1,25,955	1,30,788	1,45,175	1,62,596
Investments	46,499	53,864	61,967	60,558
Fixed assets	1,264	1,368	1,410	1,452
Other assets	3,789	4,969	5,068	5,322
Total Assets	1,85,170	1,99,962	2,21,736	2,38,783

Spread analysis (%)				
	FY15	FY16	FY17E	FY18E
Yield on advances	10.9	10.7	9.8	9.4
Yield on investments	7.6	8.1	7.6	7.5
Yield to interest earning assets	9.5	9.6	8.7	8.6
Cost of funds	6.8	6.5	6.2	6.0
Spread	2.7	3.1	2.5	2.6
Net Interest Income to AWF	2.6	2.8	2.6	2.6
Non Interest Income to AWF	0.9	0.8	1.1	1.2
Operating Profit to AWF	1.9	2.1	1.9	2.0
Net Profit to AWF	0.4	0.3	0.1	0.3
Valuation ratios (x)				
P/E	7.4	6.2	20.0	6.1
P/BV	0.5	0.3	0.3	0.3
P/ABV	0.8	0.7	3.4	2.3

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Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5% to -12%
Sell	< -12%

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