

Q3FY14-Disappointing performance

CMP:	Rs.55
Target Price:	Rs.60
Upside/(Downside) %	10%
Recommendation:	Hold

Stock Info

BSE Group	A
BSE Code	532418
NSE Symbol	ANDHRABANK
Bloomberg	ANDB IN
Reuters	ADBK.BO
BSE Sensex	20377
NSE Nifty	6063

Market Info

Market Capital	₹ 3069cr
Equity Capital	₹ 590cr
Avg. Trading Vol. (NSE Qtly) ('000)	1121.8
52 Wk High/ Low	107/47
Face Value	10

Shareholding Pattern (%) (Dec 2013)

Promoters	60.1
Domestic Institutions	11.0
Foreign Institutions	11.2
Public & Others	17.7

Andhra Bank reported disappointing numbers on every count. While net interest income (NII) recorded 17% qoq de-growth, profit after tax on the back of deteriorating asset quality declined 36% qoq.

Poor earnings growth, below estimates: The bank reported decline of 36% in profitability on sequential basis and 82% on annual basis at Rs 46 crs primarily on account of flat interest income and higher provisions. Interest income remained flat qoq, while interest expenses rose 7.2% qoq. NII, thus, witnessed 17% qoq decline. Net interest margin thus declined sequentially by 62bps to 2.54%. However, non-interest income for the quarter supported total income number with 34% qoq growth to Rs 303 crs. Also, the provisions reported during the quarter at Rs 428 crs declined qoq by 15%. Again, CASA ratio reduced qoq from 23.9% to 23.6%.

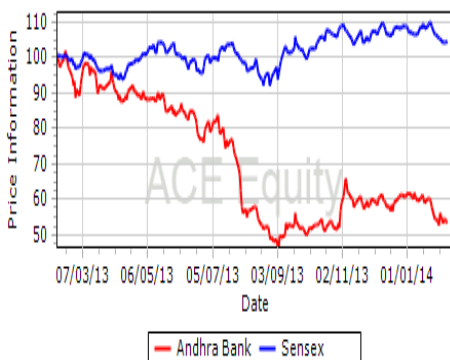
Business growth not quite encouraging: While the bank reported 14% credit growth and 17% deposit growth for the quarter, the business momentum for the next year again is expected to remain subdued with the bank closing the year with 14-15% growth levels.

Asset quality deteriorates, NPL risks to linger: NPLs continue to show sharp deterioration with GNPA's moving up by 190bps and NNPA's by 140bps on annual basis for the quarter. 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 24%), paring down exercise of large corporate book, need to raise further capital and asset quality headwinds with heavy restructuring book would continue to restrict growth for the bank. At current valuations, we believe stock captures most negatives surrounding bank's business environment and we see limited downside from here on. We have valued stock at 0.52x (based on Gordon growth model) its Adj FY15 book value and have arrived at a fair value of Rs 60 per share. We maintain Hold rating on the stock.

Financials:-

(Rs Cr)	FY12	FY13	FY14E	FY15E
Net interest income	3759	3757	3846	4062
Operating Profit	2814	2767	2594	2511
PAT	1344	1289	434	586
EPS (Rs)	24.0	23.0	7.6	9.9
EPS Growth (%)	-1.0	-4.1	-67.2	31.6
RoE (%)	19.2	16.2	5.1	6.7
P/E (x)	2.5	2.6	8.0	6.1
PABV (x)	0.43	0.45	0.46	0.52





Q3FY13 Earnings Update

Particulars (Rs. cr)	Q3FY14	Q3FY13	YoY%	Q2FY14	QoQ %
Interest Earned	3,598	3,231	11.4	3,592	0.2
Interest Expended	2,729	2,260	20.8	2,547	7.2
Net Interest Income	868	971	-10.6	1,045	-16.9
Other Income	303	238	27.2	226	34.2
<i>Other income / Net Income (%)</i>	26	20		18	
Total income	1171	1209	-3.2	1271	-7.9
Employee Expenses	415	312	33.0	401	3.4
Non-Employee expenses	235	185	26.6	227	3.4
Operating Expenses	650	497	30.6	628	3.4
<i>Cost-income Ratio (%)</i>	55	41		49	
Pre-Prov Profits	522	712	-26.7	643	-18.9
Provisions & Contingencies	428	285	50.2	502	-14.8
PBT	94	427	-78.1	141	-33.5
Provisions for Tax	48	170	-71.8	70	-31.4
<i>Effective Tax Rate (%)</i>	51	40		50	
PAT (reported)	46	257	-82.3	71	-35.5
EPS Diluted	0.8	4.6		1.3	
GNPA	5692	3302		5187	
NNPA	3653	2023		3477	
GNPA (%)	5.6%	3.7%	1.9%	5.2%	0.4%
NNPA (%)	3.7%	2.3%	1.4%	3.5%	0.1%



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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
NEUTRAL	0-5
REDUCE	<0

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