

Q4FY14-Asset quality improves QoQ

CMP:	Rs.64.8
Target Price:	Rs.67.0
Recommendation:	Neutral

Stock Info

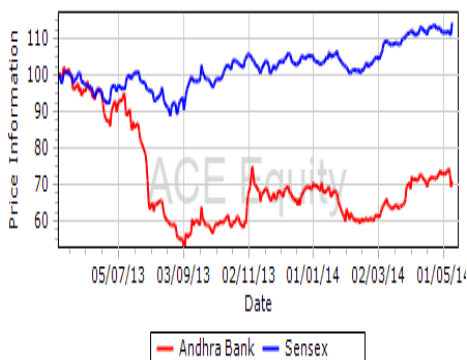
BSE Group	A
BSE Code	532418
NSE Symbol	ANDHRABANK
Bloomberg	ANDB IN
Reuters	ADBK.BO
BSE Sensex	22994
NSE Nifty	6859

Market Info

Market Capital	₹ 3626cr
Equity Capital	₹ 590cr
Avg. Trading Vol ('000)	1121.8
52 Wk High/ Low	98/47
Face Value	10

Shareholding Pattern (%) (March 2014)

Promoters	60.1
Domestic Institutions	10.9
Foreign Institutions	11.5
Public & Others	17.5



Andhra Bank reported decent set of performance during the quarter. While net interest income (NII) recorded 9.4% qoq growth, profit after tax on the back of employee cost adjustments jumped 93%.

Healthy earnings growth: Bank's reported profit grew 93% qoq to Rs 88cr primarily on account of jump in interest income & other income. Adjustment to employee cost too aided profitability in a big way. Interest income rose by 3.4% qoq, while interest expenses jumped by 1.5% qoq. NII, thus, witnessed 9.4% qoq increase. Effectively NIMs improved sequentially by 10bps to 2.65%. Non-interest income grew 11% qoq to Rs 337cr. Operating expense for the quarter declined both on yoy and qoq basis to Rs 437cr. Employee cost was lower due amortization of Rs 126.7cr of pension related costs .

Loan book provision, however, continues to be a cause of concern as bank reported 66.2% qoq jump in loan provisions for quarter. Reported provisions for the quarter were Rs 711cr as compared to Rs 428cr reported during 3QFY14.

Business growth gained some traction; need to be watchful of the same: While the bank reported 8% credit and deposits growth, 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 improves: NPLs improved qoq with GNPA's inching down by 26bps and NNPA's by 54bps for the quarter.

Outlook: Weaker CASA profile (~CASA 25%), 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 0.6x (based on Gordon growth model) its Adj FY15 book value and have arrived at a fair value of Rs 67 per share. Recommend Neutral Rating.

Financials:-

(Rs Cr)	FY12	FY13	FY14	FY15E
Net interest income	3759	3757	3737	4133
Operating Profit	2814	2767	2760	2985
PAT	1344	1289	436	702
EPS (Rs)	24.0	23.0	7.6	11.9
EPS Growth (%)	-1.0	-4.1	-67.1	57.0
RoE (%)	19.2	16.2	5.1	8.0
P/E (x)	2.7	2.8	8.5	5.4
PABV (x)	0.47	0.48	0.57	0.58



Q4FY13 Earnings Update

Particulars (Rs. cr)	Q4FY14	Q4FY13	YoY%	Q3FY14	QoQ %
Interest Earned	3,721	3,359	10.8	3,598	3.4
Interest Expended	2,771	2,406	15.2	2,729	1.5
Net Interest Income	950	953	-0.4	868	9.4
Other Income	337	354	-4.9	303	11.1
<i>Other income / Net Income (%)</i>	26	27		26	
Total income	1286	1307	-1.6	1171	9.8
Employee Expenses	182	381	-52.3	415	-56.2
Non-Employee expenses	255	213	20.0	235	8.7
Operating Expenses	437	594	-26.5	650	-32.8
<i>Cost-income Ratio (%)</i>	34	45		55	
Pre-Prov Profits	850	714	19.1	522	62.9
Provisions & Contingencies	711	365	94.8	428	66.2
PBT	138	349	-60.3	94	47.7
Provisions for Tax	50	4	1172.8	48	4.5
<i>Effective Tax Rate (%)</i>	36	1		51	
PAT (reported)	88	345	-74.4	46	93.3
EPS Diluted	1.5	6.2		0.8	
GNPA	5858	3714		5692	
NNPA	3342	2409		3653	
GNPA (%)	5.3%	3.7%	1.6%	5.6%	-0.3%
NNPA (%)	3.1%	2.5%	0.7%	3.7%	-0.5%
Total CAR (%)	10.8	11.8		11.0	



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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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