

Q1FY15-Impacted by farm loan waiver

CMP: Rs.83
Target Price: Rs.95
Upside/(Downside) %: 14%
Recommendation: ACCUMULATE

Stock Info

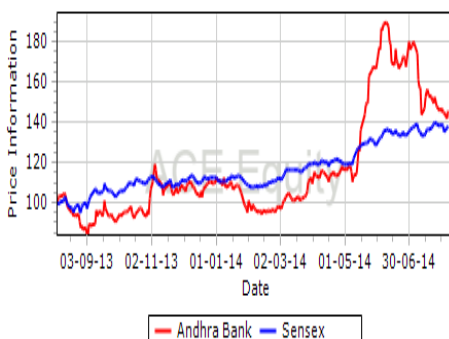
BSE Group	A
BSE Code	532418
NSE Symbol	ANDHRABANK
Bloomberg	ANDB IN
Reuters	ADBK.BO
BSE Sensex	25,908
NSE Nifty	7,747

Market Info

Market Capital	Rs 4,896 cr
Equity Capital	Rs 590cr
Avg. Trading Vol.	34,75,280
52 Wk High/ Low	110/47
Face Value	10

Shareholding Pattern (%) (30th Jun 2014)

Promoters	60.1
Domestic Institutions	12.5
Foreign Institutions	10.8
Public & Others	16.6



Aug 6, 2014

Andhra Bank reported disappointing set of numbers both on the top-line front and bottom-line. Net interest income (NII) was lower by 8.1% on YoY basis owing to higher interest costs. Non-interest income too declined by 15.4% on YoY basis, however on QoQ basis it increased by 17.3%. Lower NII and higher provisioning dragged the profitability for the bank.

Poor earnings growth, below estimates: The bank reported increase of 21% in profitability on sequential basis. However, on YoY basis it declined by 53.7% and stood at Rs 107 crs primarily on account of higher provisioning and weak non-interest income. Costs of funds increased sequentially by 20 bps resulting in higher interest cost and consequently lower NII which witnessed a decline of 8.1% sequentially to Rs 804 crs. NIM was at dismal 2.14% from 2.70% on YoY basis. Furthermore, the non-interest income for the quarter did not put up encouraging performance with decline of 15.6% YoY to Rs 395 crs which restricted the PAT growth. Also, the provisions reported during the quarter were at Rs 414 crs up by 7.6% on YoY basis. Higher provisioning is mainly on account of likely farm loan waiver promised by newly formed states of Telangana and Seemandhra. Bank had to classify Rs. 1,076 cr of agricultural loans as NPAs which resulted in interest reversals of Rs.303.90 cr. and provisions of Rs. 189.49 cr. The total impact of likely debt waiver on the bottom line is to the tune of Rs. 493.39 cr.

Lower CD ratio signifies business confidence still low: Bank reported 13.7% credit growth and 17.2% deposit growth for the quarter, the business momentum for the current year is expected to remain subdued. CD ratio for the quarter stood at 77.43 v/s. 79.98 last year. Declining CD ratio signifies interest rates still too high to make new projects/expansion viable.

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 60 bps on annual basis for the quarter. Fresh slippages for the quarter was Rs 619 crs while fresh restructured assets was Rs 893 crs.. While the Management expects the pace of slippages to moderate and restructuring pipeline to gradually come off, NPL risks continue to linger in near term.

Outlook: Weaker CASA profile (CASA 25%, term deposits 75%), paring down exercise of large corporate book (48% of total advances), need to raise further capital (Tier I at 7.7%) and asset quality headwinds with heavy restructuring book (9.5% 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. We recommend to **Accumulate** the stock with a price target of Rs 95 based on 1x P/ABV FY16E.

(Rs Cr)	FY13	FY14	FY15E	FY16E
Net interest income	3757	3737	3995	4672
Operating Profit	3808	4086	4016	4585
PAT	2330	1761	1854	2494
EPS (Rs)	23.0	7.6	8.6	15.3
EPS Growth (%)	-4.1	-67.1	12.9	78.7
RoE (%)	16.2	5.1	5.8	10.4
P/E (x)	3.6	11.0	9.7	5.4
PABV (x)	0.65	0.77	0.88	0.87

Source: Company data, Arihant Research



Q1FY15 Earnings Update

Particulars (Rs. cr)	Q1FY15	Q1FY14	YoY%	Q4FY14	QoQ %	Comments
Interest Earned	3,810	3,386	12.5	3,721	2.4	
Yield on Advances (%)	10.7	11.2		11.2		Yield decreased by 50bps is a cause for concern
Interest Expended	3,007	2,513	19.7	2,771	8.5	
Cost of Deposits (%)	7.9	7.8		7.8		Share of term deposits increasing
Net Interest Income	804	874	-8.1	950	-15.4	
Other Income	395	468	-15.6	337	17.3	Decreasing non interest income from core operations
Other income / Net Income (%)	33	35		26		
Total income	1198	1342	-10.7	1286	-6.9	
Employee Expenses	339	385	-11.9	182	86.8	
Non-Employee expenses	232	210	10.6	255	-8.8	
Operating Expenses	572	595	-3.9	437	31.0	
Cost-income Ratio (%)	48	44		34		
Pre-Prov Profits	626	746	-16.1	850	-26.3	
Provisions & Contingencies	414	385	7.6	711	-41.8	Provisions higher due to likely farm loan waiver
PBT	212	361	-41.3	138	53.4	
Provisions for Tax	105	130	-19.2	50	109.4	
Effective Tax Rate (%)	50	36		36		
PAT	107	231	-53.7	88	21.5	
EPS Diluted	1.8	4.1		1.5		
GNPA	6827	4748		5858		Rs 1,076 crs provided for likely farm loan waiver
NNPA	4322	3212		3342		
GNPA (%)	6.0%	4.7%	1.3%	5.3%	0.7%	
NNPA (%)	3.9%	3.3%	0.6%	3.1%	0.8%	
Total CAR (%)	10.5	11.5		10.8		

Source: Company data, Arihant Research



Income Statement				
Year to 31st March (Rs.Cr)	FY13	FY14	FY15E	FY16E
Interest Income	12,910	14,297	16,081	18,386
Interest Expenses	9,153	10,560	12,087	13,714
Net Interest Income	3,757	3,737	3,995	4,672
- growth %	0%	-1%	7%	17%
Other Income	1,047	1,333	1,326	1,469
Fee-based Income	760	833	836	919
Treasury Income	282	28	30	31
Other non interest incom	6	7	-	-
Operating Income	4,804	5,070	5,321	6,141
- growth %	4%	6%	5%	15%
Operating Expenses	2,037	2,310	2,630	3,025
- Staff Cost	1,287	1,383	1,583	1,812
- Other Operating Exp.	750	927	1,047	1,213
Gross Profits	2,767	2,760	2,690	3,116
- growth %	-2%	0%	-3%	16%
Provisions	996	2,027	1,902	1,586
Profit Before Taxes	1,771	734	789	1,530
Taxes	482	298	260	505
Profit After Taxes	1,289	436	529	1,025
- growth %	-4%	-66%	21%	94%

Balance Sheet				
As on 31st March (Rs. cr)	FY13	FY14	FY15E	FY16E
LIABILITIES				
Capital	560	590	645	695
Reserves & Surplus	7,882	8,148	8,983	9,433
Shareholders Fund	8,441	8,737	9,628	10,128
Deposits	1,23,796	1,41,845	1,63,122	1,87,590
Borrowings	11,119	13,185	16,670	21,826
Other liabilities & provisions	2,943	3,573	4,269	4,899
Total Liabilities	1,46,299	1,67,341	1,93,689	2,24,443
ASSETS				
Cash on hand & with RBI	6,022	7,912	8,294	8,996
Money at call and short notice	767	1,529	1,834	2,201
Advances	98,373	1,07,644	1,24,867	1,48,592
Investments	37,632	45,357	52,509	57,289
Fixed assets	303	434	469	506
Other assets	3,200	4,466	5,716	6,859
Total Assets	1,46,299	1,67,341	1,93,689	2,24,443

Ratio Analysis				
Year to 31st March	FY13	FY14	FY15E	FY16E
Basic Ratio (Rs.)				
EPS	23.0	7.6	8.6	15.3
Book Value per share	151	152	156	151
Adjusted Book Value	128	108	94	95
Dividend per share	5.0	1.1	2.0	3.0
Asset Quality (%)				
Gross NPAs	3.8	5.4	6.8	6.0
Net NPAs	2.3	3.2	3.9	3.1
NPA Coverage	39%	35%	44%	50%
Profitability ratios (%)				
RoE	15.3%	5.0%	5.5%	10.1%
RoA	0.9%	0.3%	0.3%	0.5%
NIM	3.0%	2.6%	2.4%	2.4%
Operating Profit Margin	34.4%	32.4%	30.6%	30.9%
Net Profit Margin	9%	3%	3%	5%
Cost to Income	42%	46%	49%	49%

Spread analysis (%)				
	FY13	FY14	FY15E	FY16E
Yield on advances	11.3	10.8	10.7	10.5
Yield on investments	7.4	7.2	7.2	7.1
Yield to interest earning asset	9.5	9.4	9.1	9.0
Cost of funds	6.8	6.8	6.7	6.5
Spread	2.7	2.6	2.4	2.4
Net Interest Income to AWF				
Net Interest Income to AWF	2.84	2.43	2.26	2.28
Non Interest Income to AWF	0.8	0.9	0.8	0.7
Operating Profit to AWF				
Operating Profit to AWF	2.1	1.8	1.5	1.5
Net Profit to AWF	0.97	0.28	0.30	0.50
Valuation ratios (x)				
P/E	3.6	11.0	9.7	5.4
P/BV	0.6	0.5	0.5	0.5
P/ABV	0.7	0.8	0.9	0.9

Source: Company data, Arihant Research



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Stock Rating Scale

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

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