



Asset Quality Deteriorates!

8th Aug, 2016

CMP: Rs. 58
Target Price: Rs. 63
Upside/ (Downside) %: 8%
Recommendation: HOLD

Stock Info

BSE Group	A
BSE Code	532418
NSE Symbol	ANDHRABANK
Bloomberg	ANDB IN
Reuters	ADBK.BO
BSE Sensex	28,182
NSE Nifty	8,711

Market Info

Market Capital	Rs 4,712 cr
Equity Capital	Rs 681 cr
Avg. Trading Vol.	25,28,020 cr
52 Wk High/ Low	82/42
Face Value	10

Shareholding Pattern (%) (June, 2016)

Promoters	61.3
Domestic Institutions	16.2
Foreign Institutions	6.5
Public & Others	16.0

Price Chart:



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Income & Profitability:

Andhra Bank reported poor set of numbers for Q1 FY17. Top-line grew by 3.7% YoY. Higher provisioning led to lower bottom-line, dropping to Rs 31 cr, down by 85% YoY. Net interest income (NII) however, increased by 9.7% on YoY basis to Rs 1,269 cr. Non-interest income increased by 54% YoY & 2.3% QoQ to Rs 484 cr. NIM improved marginally to 2.9 from 2.87 on YoY basis.

Business Growth:

Bank reported 9% credit growth from Rs. 1,25,846 Cr. to Rs. 1,37,228 Cr YoY. MSME Advances growth stood at 3% backed by micro and medium enterprise growth of 30% and 22% respectively. Small enterprise portfolio de-grew by 15%. Retail credit grew at 26.5% YoY on back of housing loans portfolio, which increased from Rs 10,073 cr to Rs 12,313 cr; an increase of 22% YoY. Deposits grew at 16.2% YoY from Rs. 1,53,380 Cr to Rs. 1,78,268 Cr. CASA grew by 14.4% YoY while term deposits grew 16.9% YoY. CD ratio for the quarter stood at 77% vs. 82% in the corresponding quarter of previous year. Cost to income ratio for the Bank came down to 43% in the quarter under review from 44% in corresponding quarter of previous year indicating tight control over expenses.

Asset Quality:

NPLs continued to remain at alleviated levels. Gross NPA and Net NPA stood at 10.3% and 6.2% for the quarter respectively vs. 5.8% and 3% YoY respectively. Provision coverage ratio for the bank deteriorated from 61.3% to 51.9% YoY. Provisions reported during the quarter were at Rs 944 crs vs. Rs 503 crs in the corresponding quarter of previous year.

Network Expansion:

Number of branches for the bank stood at 2821, of which 832 are present in rural areas, 759 in semi urban, 763 in urban & 467 in metro localities. ATMs/BNAs/CRs with bank stood at 3711. Total number of delivery channels as on Q1 FY 17 stood at 6570.

Valuations:

We have valued the stock at its P/ABV multiple of 0.95 (x) & arrived at fair value of Rs 63 per share. At current market price, the stock is trading at P/ABV of 0.88 (x) its FY17 estimates. We have "HOLD" rating on the stock.

Financial Snapshot:

(Rs Cr)	FY13	FY14	FY15	FY16	FY17E
Net interest income	3,757	3,737	4,538	5,321	5,534
Operating Profit	4,804	5,070	6,038	6,885	7,176
PAT	1,289	436	638	540	232
EPS (Rs)	23.0	7.6	10.6	8.6	3.4
EPS Growth (%)	-4%	-67%	40%	-19%	-60%
RoE (%)	15.3%	5.0%	6.3%	4.9%	2.1%
P/E (x)	4.1	8.4	7.4	6.2	17.1
PABV (x)	0.7	0.7	0.8	0.7	0.9



Q1 FY17 Earnings Snapshot

Particulars (Rs. cr)	Q1FY17	Q1FY16	YoY%	Q4FY16	QoQ %
Interest Earned	4,372	4,215	3.7	4,652	-6.0
Yield on Advances (%)	10.0	10.8		10.4	
Interest Expended	3,103	3,058	1.5	3,151	-1.5
Cost of Deposits (%)	6.8	7.5		7.0	
Net Interest Income	1,269	1,157	9.7	1,500	-15.4
Other Income	484	314	53.9	473	2.3
Other income / Net Income (%)	28	21		24	
Total income	1753	1472	19.1	1973	-11.2
Employee Expenses	438	376	16.6	455	-3.7
Non-Employee expenses	314	270	16.4	344	-8.6
Operating Expenses	753	646	16.52	800	-5.8
Cost-income Ratio (%)	43	44		41	
Pre-Prov Profits	1,000	825	21.1	1,173	-14.8
Provisions & Contingencies	944	503	87.6	1,023	-7.7
PBT	56	323	-82.6	151	-62.8
Provisions for Tax	25	120	-79.2	99	-74.8
Effective Tax Rate (%)	45	37		66	
PAT	31	203	-84.65	52	-39.7
EPS Diluted	0.5	3.4		0.8	
GNPA	14,137	7,238		11,444	
NNPA	8,147	3,650		6,036	
GNPA (%)	10.3%	5.8%	4.6%	8.4%	1.9%
NNPA (%)	6.2%	3.0%	3.2%	4.6%	1.6%
PCR	51.9%	61.3%		56.9%	
Total CAR (%)	11.9	10.4		11.6	
NIM	2.90	2.87		3.41	
Advances	1,37,228	1,25,846	9.0	1,36,371	0.6
Deposits	1,78,268	1,53,380	16.2	1,74,302	2.3

Source: Company Data Ace Equity, Aриhant Research



Income Statement					
Year to 31st March (Rs.Cr)	FY13	FY14	FY15	FY16	FY17E
Interest Income	12,910	14,297	16,369	17,635	18,508
Interest Expenses	9,153	10,560	11,831	12,314	12,975
Net Interest Income	3,757	3,737	4,538	5,321	5,534
- growth %	-0.1%	-1%	21%	17%	4%
Other Income	1,047	1,333	1,500	1,564	1,642
Fee-based Income	760	833	936	972	1,020
Treasury Income	282	492	557	585	614
Other non interest income	6	7	7	8	8
Operating Income	4,804	5,070	6,038	6,885	7,176
- growth %	4%	6%	19%	14%	4%
Operating Expenses	2,037	2,310	2,739	2,925	3,055
- Staff Cost	1,287	1,383	1,698	1,735	1,802
- Other Operating Exp.	750	927	1,041	1,191	1,253
Gross Profits	2,767	2,760	3,298	3,960	4,121
- growth %	-2%	0%	19%	20%	4%
Provisions	996	2,027	2,080	2,956	3,700
Profit Before Taxes	1,771	734	1,218	1,004	421
Taxes	482	298	580	464	190
Profit After Taxes	1,289	436	638	540	232
- growth %	-4%	-66%	47%	-15%	-57%

Balance Sheet					
As on 31st March (Rs. cr)	FY13	FY14	FY15	FY16	FY17E
LIABILITIES					
Capital	560	590	603	681	681
Reserves & Surplus	7,882	8,148	9,461	10,313	10,505
Shareholders Fund	8,441	8,737	10,064	10,994	11,186
Deposits	1,23,796	1,41,845	1,55,012	1,74,302	1,95,218
Borrowings	11,119	13,185	15,307	9,716	7,287
Other liabilities & provisions	2,943	3,573	4,787	4,949	3,966
Total Liabilities	1,46,299	1,67,341	1,85,170	1,99,962	2,17,658
ASSETS					
Cash on hand & with RBI	6,022	7,912	7,517	8,791	8,749
Money at call and short notice	767	1,529	146	181	215
Advances	98,373	1,07,644	1,25,955	1,30,788	1,43,867
Investments	37,632	45,357	46,499	53,864	57,856
Fixed assets	303	434	1,264	1,368	1,505
Other assets	3,200	4,466	3,789	4,969	5,466
Total Assets	1,46,299	1,67,341	1,85,170	1,99,962	2,17,658

Ratio Analysis					
Year to 31st March	FY13	FY14	FY15	FY16	FY17E
Basic Ratio (Rs.)					
EPS	23.0	7.6	10.6	8.6	3.4
Book Value per share	151	152	154	151	152
Adjusted Book Value	131	94	95	77	66
Dividend per share	5.0	1.1	2.0	0.5	0.5
Asset Quality (%)					
Gross NPAs	3.8	5.3	5.3	8.4	10.8
Net NPAs	2.3	3.1	2.9	4.6	6.4
Coverage	61.4%	58.4%	58.9%	56.9%	48.5%
Profitability ratios (%)					
RoE	15.3%	5.0%	6.3%	4.9%	2.1%
RoA	0.9%	0.3%	0.3%	0.3%	0.1%
NIM	3.0%	2.6%	2.8%	3.2%	2.9%
Operating Profit Margin	34%	32%	34%	36%	36%
Net Profit Margin	9%	3%	4%	3%	1%
Cost to Income	42%	46%	45%	42%	43%

Spread analysis (%)					
	FY13	FY14	FY15	FY16	FY17E
Yield on advances	11.3	10.8	10.9	10.7	10.0
Yield on investments	7.4	7.2	7.6	8.1	7.9
Yield to interest earning assets	9.5	9.4	9.5	9.6	9.2
Cost of funds	6.8	6.7	6.8	6.5	6.4
Spread	2.7	2.7	2.7	3.1	2.8
Net Interest Income to AWF					
Net Interest Income to AWF	2.8	2.4	2.6	2.8	2.7
Non Interest Income to AWF					
Non Interest Income to AWF	0.8	0.9	0.9	0.8	0.8
Operating Profit to AWF					
Operating Profit to AWF	2.1	1.8	1.9	2.1	2.0
Net Profit to AWF					
Net Profit to AWF	1.0	0.3	0.4	0.3	0.1
Valuation ratios (x)					
P/E	4.1	8.4	7.4	6.2	17.1
P/BV	0.6	0.4	0.5	0.3	0.4
P/ABV	0.7	0.7	0.8	0.7	0.9

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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%

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