



Asset Quality Deteriorates!

9th Aug, 2017

CMP: Rs. 54
Target: Rs. 50
Recommendation: Reduce

Stock Info

BSE Group	A
BSE Code	532418
NSE Symbol	ANDHRABANK
Bloomberg	ANDB IN
Reuters	ADBK.BO
BSE Sensex	32,014
NSE Nifty	9,978

Market Info

Market Capital	Rs 3,688 cr
Equity Capital	Rs 681 cr
Avg. Trading Vol.	33,77,220
52 Wk High/ Low	76/45
Face Value	10

Shareholding Pattern (%) (June, 2017)

Promoters	61.3
Domestic Institutions	15.6
Foreign Institutions	6.3
Public & Others	16.8

Price Chart:



Income & Profitability:

Andhra Bank reported Rs.40 Cr Net Profit for Q1 FY18. Interest earned grew by 0.7% YoY. Yield on advances dropped to 9% vs. 9.95% YoY and 9.8% sequentially while cost of deposit dropped to 5.81% vs. 6.7% YoY and 6.1% sequentially. Net interest income (NII) therefore increased by 13.5% on YoY basis to Rs 1,441 cr. Non-interest income however increased by 55.8% YoY & 15.8% QoQ to Rs 753 cr. NIM for the bank grew marginally to 3.1 from 2.9 YoY and deteriorated from 3.49 sequentially.

Business Growth:

Bank reported 6.2% credit growth advancing from Rs. 1,37,228 Cr. to Rs. 1,45,801 Cr YoY. MSME Advances grew by 23.20% YoY. Retail credit grew at 18.39% YoY on back of housing loans portfolio, which increased from Rs 12,313 cr to Rs 15,459 cr; an increase of 26% YoY.

Deposits grew at 5.6% YoY from Rs. 1,78,268 Cr to Rs. 1,88,272 Cr. CASA grew by 24.5% YoY backed by 27% YoY growth in savings deposits, while current deposits grew 5% YoY.

CD ratio for the quarter stood at 77.4% vs. 77% in the corresponding quarter of previous year. Cost to income ratio for the Bank declined to 37.5% in the quarter under review from 42.9% in corresponding quarter of previous year.

Asset Quality:

NPLs continued to remain at alleviated levels. Gross NPA and Net NPA stood at 13.3% and 8.06% for the quarter respectively vs. 10.3% and 6.2% YoY respectively. Provisions reported during the quarter were at Rs 1301 crs vs. Rs 944 crs in the corresponding quarter of previous year.

Network Expansion:

Number of branches for the bank stood at 2908, of which 745 are present in rural areas, 771 in semi urban, 663 in urban & 729 in metro localities. ATMs/BNAs/CRs with bank stood at 3928. Total number of delivery channels as on Q4 FY 17 stood at 6874.

Valuations:

At CMP, stock is trading at P/ABV of 1.6(x) on FY19E. We have Reduce rating on the stock with fair value of Rs 50 at 1.4(x) P/ABV to FY 19E.

(Rs Cr)	FY17	FY18E	FY19E
Net interest income	5,722	5,128	6,013
Operating Profit	8,808	8,404	9,508
PAT	188	220	275
EPS (Rs)	2.8	2.8	3.2
EPS Growth (%)	-68%	3%	11%
RoE (%)	1.6%	1.7%	2.1%
P/E (x)	24.6	19.1	17.2
PABV (x)	2.7	1.6	1.6



Q4 FY17 Earnings Snapshot

Particulars (Rs. cr)	Q1FY18	Q1FY17	YoY%	Q4FY17	QoQ %
Interest Earned	4,402	4,372	0.7	4,774	-7.8
Yield on Advances (%)	9.1	10.0		9.8	
Interest Expended	2,961	3,103	-4.6	3,089	-4.1
Net Interest Income	1,441	1,269	13.5	1,685	-14.5
Other Income	753	484	55.8	651	15.8
Other income / Net Income (%)	34	28		28	
Total income	2194	1753	25.2	2336	-6.1
Employee Expenses	484	438	10.3	530	-8.8
Non-Employee expenses	341	314	8.5	371	-8.1
Operating Expenses	825	753	9.54	901	-8.5
Cost-income Ratio (%)	38	43		39	
Pre-Prov Profits	1,370	1,000	37.0	1,434	-4.5
Provisions & Contingencies	1,301	944	37.9	1,299	0.1
PBT	68	56	22.0	135	-49.4
Provisions for Tax	28	25	12.0	100	-72.0
Effective Tax Rate (%)	41	45		74	
PAT	40	31	30.01	35	15.0
EPS Diluted	0.6	0.5		0.5	
GNPA	19,428	14,137		17,670	
NNPA	11,120	8,147		10,355	
GNPA (%)	13.3%	10.3%	3.0%	12.3%	1.1%
NNPA (%)	8.1%	6.2%	1.8%	7.6%	0.5%
PCR	51.7%	51.9%		51.0%	
Total CAR (%)	12.4	11.9		0.0	
NIM	3.12	2.90	0.2	3.49	-0.4
Advances	1,45,801	1,37,228	6.2	1,44,232	1.1
Deposits	1,88,272	1,78,268	5.6	1,95,381	-3.6

Source: Company Data Ace Equity, Arihant Research



Income Statement			
Year to 31st March (Rs.Cr)	FY17	FY18E	FY19E
Interest Income	18,218	18,619	20,806
Interest Expenses	12,496	13,490	14,793
Net Interest Income	5,722	5,128	6,013
- growth %		-10%	17%
Other Income	3,086	3,276	3,496
Fee-based Income	2,067	2,166	2,286
Treasury Income	1,016	1,107	1,207
Other non interest income	4	3	3
Operating Income	8,808	8,404	9,508
- growth %		-5%	13%
Operating Expenses	4,405	4,685	4,575
- Staff Cost	2,137	2,386	2,631
- Other Operating Exp.	2,268	2,299	1,944
Gross Profits	4,403	3,719	4,934
- growth %	11%	-16%	33%
Provisions	3,856	3,352	4,475
Profit Before Taxes	547	367	459
Taxes	359	147	184
Profit After Taxes	188	220	275
- growth %		17%	25%

Balance Sheet			
As on 31st March (Rs. cr)	FY17	FY18E	FY19E
LIABILITIES			
Capital	681	871	871
Reserves & Surplus	10,748	11,879	12,154
Shareholders Fund	11,429	12,749	13,025
Deposits	1,95,476	2,12,210	2,35,756
Borrowings	8,867	8,424	8,672
Other liabilities & provisions	9,674	10,992	13,230
Total Liabilities	2,25,446	2,44,375	2,70,683
ASSETS			
Cash on hand & with RBI	9,323	9,557	10,609
Money at call and short notice	8,856	668	801
Advances	1,36,871	1,62,596	1,83,733
Investments	62,389	63,179	66,776
Fixed assets	1,543	1,589	1,637
Other assets	6,464	6,788	7,127
Total Assets	2,25,446	2,44,375	2,70,683

Ratio Analysis			
Year to 31st March	FY17	FY18E	FY19E
Basic Ratio (Rs.)			
EPS	2.8	2.8	3.2
Book Value per share	167	145	149
Adjusted Book Value	25	34	35
Dividend per share	0.0	0.0	0.0
Asset Quality (%)			
Gross NPAs	12.5	11.1	11.0
Net NPAs	7.1	6.0	5.4
Coverage	52.0%	52.0%	52.0%
Profitability ratios (%)			
RoE	1.6%	1.7%	2.1%
RoA	0.1%	0.1%	0.1%
NIM	2.9%	2.4%	2.5%
Cost to Income	50.0%	55.7%	48.1%

Spread analysis (%)			
	FY17E	FY18E	FY19E
Yield on advances	9.8	9.2	9.1
Yield on investments	7.6	7.5	7.5
Yield to interest earning assets	8.8	8.3	8.3
Cost of funds	6.1	6.1	6.0
Spread	2.7	2.2	2.3
Net Interest Income to AWF			
	2.8	2.3	2.4
Non Interest Income to AWF			
	1.5	1.5	1.4
Operating Profit to AWF			
	2.1	1.7	2.0
Net Profit to AWF			
	0.1	0.1	0.1
Valuation ratios (x)			
P/E	24.6	19.1	17.2
P/BV	0.4	0.4	0.4
P/ABV	2.7	1.6	1.6

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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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