

Good show- Still long way to go

5th Nov, 2014

CMP: Rs.88
Target Price: Rs.95
Upside/(Downside) % 9%
Recommendation: HOLD

Andhra Bank reported good set of numbers both on the top-line front and bottom-line. Net interest income (NII) was up by 5.6% on YoY basis. Non-interest income increased by 23.0% on YoY basis, however on QoQ basis it decreased by 29.7%. Decrease in other income is an indication of cut throat competition in retail fee income.

Stock Info

BSE Group	A
BSE Code	532418
NSE Symbol	ANDHRABANK
Bloomberg	ANDB IN
Reuters	ADBK.BO
BSE Sensex	27,860
NSE Nifty	8,324

Good earnings growth, but still long way to go: Net profit for the bank increased by 104.5% on YoY basis to Rs 144 crs. Although, NIM was at dismal 2.93% from 3.16% on YoY basis. Furthermore, the non-interest income for the quarter did not put up encouraging performance with decline of 29.7% QoQ to Rs 277 crs which is reflection of competition increasing in retail loan segment. Also, the provisions reported during the quarter were at Rs 491 crs which is almost at the same level compared to last year. Higher provisioning is mainly on account of farm loan waiver promised by newly formed government in the states of Telangana and Seemandhra. Going forward bank expects to significantly improve its performance which in our view is difficult looking at the current scheme of things.

Market Info

Market Capital	Rs 5,177 cr
Equity Capital	Rs 590cr
Avg. Trading Vol.	38,92,510
52 Wk High/ Low	110/54
Face Value	10

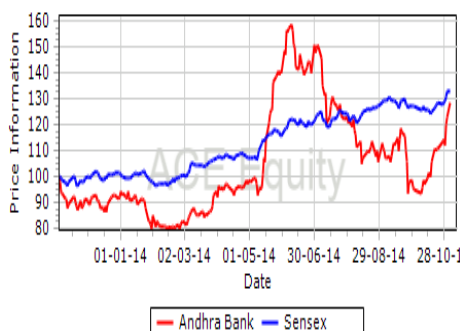
Increasing CD ratio signifies business confidence increasing: Bank reported 14.1% credit growth and 12.2% deposit growth for the quarter, the business momentum for the current year is expected to pick up. CD ratio for the quarter stood at 79.24 v/s. 77.90 last year. Increasing CD ratio signifies business environment conducive for growth.

Shareholding Pattern (%) (30th Sep 2014)

Promoters	60.1
Domestic Institutions	14.7
Foreign Institutions	7.4
Public & Others	17.8

Asset quality deteriorates, NPL risks to linger: NPLs continue to show sharp deterioration with GNPA's moving up by 84 bps to 6.0% and NNPA's by 32 bps to 3.9% on annual basis for the quarter. Fresh slippages for the quarter was Rs 1,008 crs while fresh restructured assets was Rs 1,455 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 24.4%, term deposits 75.6%), paring down exercise of mid & large corporate book (48.8% of total advances), need to raise further capital (Tier I at 7.5%) 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 **HOLD** 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)	3.8	11.6	10.3	5.7
PABV (x)	0.69	0.81	0.93	0.92

Source: Company data, Arihant Research



Q2FY15 Earnings Update

Particulars (Rs. cr)	Q2FY15	Q2FY14	YoY%	Q1FY15	QoQ %	Comments
Interest Earned	4,146	3,592	15.4	3,810	8.8	
Yield on Advances (%)	10.7	11.2		11.2		Yield decreased by 50bps is a cause for concern
Interest Expended	3,042	2,547	19.5	3,007	1.2	
Cost of Deposits (%)	7.9	7.8		7.8		
Net Interest Income	1,104	1,045	5.6	804	37.4	
Other Income	277	226	23.0	395	-29.7	Decreasing non interest income from core operations
Other income / Net Income (%)	20	18		33		
Total income	1382	1271	8.7	1198	15.3	
Employee Expenses	373	401	-6.9	339	9.9	
Non-Employee expenses	262	227	15.6	232	12.9	
Operating Expenses	636	628	1.2	572	11.1	
Cost-income Ratio (%)	46	49		48		
Pre-Prov Profits	746	643	16.0	626	19.1	
Provisions & Contingencies	491	502	-2.1	414	18.6	
PBT	254	141	80.9	212	20.0	
Provisions for Tax	110	70	57.1	105	4.8	
Effective Tax Rate (%)	43	50		50		
PAT	144	71	104.5	107	35.0	
EPS Diluted	2.5	1.3		1.8		
GNPA	6884	5187		6827		NPA's still very high
NNPA	4316	3477		4322		
GNPA (%)	6.0%	5.2%	0.8%	6.0%	0.0%	
NNPA (%)	3.9%	3.5%	0.3%	3.9%	0.0%	
Total CAR (%)	10.3	11.5		10.5		

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

Note : we have assumed issue of 5.55 cr shares @ Rs 90 per share in FY15 and 5 cr shares @ Rs 100 per share in FY16 to govt

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%

Source: Company data, Arihant Research

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	3.8	11.6	10.3	5.7
P/BV	0.6	0.6	0.6	0.6
P/ABV	0.7	0.8	0.9	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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