



Asset Quality Worrisome!

19<sup>th</sup> Nov, 2016

**CMP:** Rs. 54  
**Target:** Rs. 25  
**Recommendation:** Sell

Stock Info

BSE Group	A
BSE Code	532418
NSE Symbol	ANDHRABANK
Bloomberg	ANDB IN
Reuters	ADBK.BO
BSE Sensex	26,000
NSE Nifty	8,010

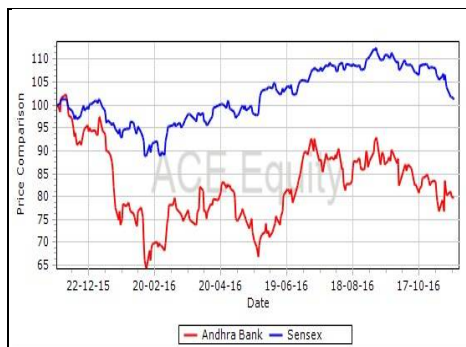
Market Info

Market Capital	Rs 3,681 cr
Equity Capital	Rs 681 cr
Avg. Trading Vol.	27,23,980 cr
52 Wk High/ Low	70/42
Face Value	10

Shareholding Pattern (%) (Sep, 2016)

Promoters	61.3
Domestic Institutions	15.4
Foreign Institutions	7.4
Public & Others	15.9

Price Chart:



Income & Profitability:

Andhra Bank reported poor set of numbers for Q2 FY17. Top-line grew by 2.9% YoY. Higher provisioning led to lower bottom-line, dropping to Rs 52 cr, down by 80% YoY. Net interest income (NII) however, increased by 4.5% on YoY basis to Rs 1,360 cr. Non-interest income increased by 43% YoY & 18% QoQ to Rs 570 cr. NIM dropped marginally to 3.1 from 3.2 on YoY basis.

Business Growth:

Bank reported 8% credit growth from Rs. 1,30,908 Cr. to Rs. 1,41,535 Cr YoY. MSME Advances growth stood at -1% backed by micro and medium enterprise growth of 26% and 12% respectively. Small enterprise portfolio de-grew by 4%. Retail credit grew at 22% YoY on back of housing loans portfolio, which increased from Rs 10,528 cr to Rs 12,810 cr; an increase of 22% YoY. Deposits grew at 7% YoY from Rs. 1,65,985 Cr to Rs. 1,77,628 Cr. CASA grew by 7% YoY while term deposits also grew 7% YoY. CD ratio for the quarter stood at 80% vs. 79% in the corresponding quarter of previous year. Cost to income ratio for the Bank inclined to 46% in the quarter under review from 45% in corresponding quarter of previous year.

Asset Quality:

NPLs continued to remain at alleviated levels. Gross NPA and Net NPA stood at 11.5% and 6.6% for the quarter respectively vs. 5.7% and 3.0% YoY respectively. Provision coverage ratio for the bank deteriorated from 63% to 50% YoY. Provisions reported during the quarter were at Rs 957 crs vs. Rs 525 crs in the corresponding quarter of previous year.

Network Expansion:

Number of branches for the bank stood at 2841, of which 841 are present in rural areas, 761 in semi urban, 768 in urban & 471 in metro localities. ATMs/BNAs/CRs with bank stood at 3778. Total number of delivery channels as on Q2 FY 17 stood at 6657.

Valuations:

Andhra bank has witnessed a significant rise in its NPA. Dwindling asset quality concerns may affect the functioning and recovery of loans should be closely watched. At current market price, the stock is trading at P/ABV of 3.1 (x) on FY18 estimates which are unreasonable. We have "Sell" call on the stock with fair value of Rs 25 at 1(x) P/ABV based on present ABV of Rs 25 per share.

Financial Snapshot:

(Rs Cr)	FY15	FY16	FY17E	FY18E
Net interest income	4,538	5,321	5,598	6,165
Operating Profit	6,038	6,885	7,519	8,394
PAT	638	540	185	529
EPS (Rs)	10.6	8.6	2.7	7.8
EPS Growth (%)	40%	-19%	-68%	186%
RoE (%)	6.3%	4.9%	1.7%	4.5%
P/E (x)	7.4	6.2	19.9	6.9
PABV (x)	0.8	0.7	4.0	3.1



Q2 FY17 Earnings Snapshot

Particulars (Rs. cr)	Q2FY17	Q2FY16	YoY%	Q1FY17	QoQ %
Interest Earned	4,473	4,346	2.9	4,372	2.3
Yield on Advances (%)	9.9	11.0		10.0	
Interest Expended	3,113	3,044	2.3	3,103	0.3
Cost of Deposits (%)	6.6	7.3		6.8	
<b>Net Interest Income</b>	<b>1,360</b>	<b>1,302</b>	<b>4.5</b>	<b>1,269</b>	<b>7.1</b>
Other Income	570	398	43.1	484	17.9
Other income / Net Income (%)	30	23		28	
<b>Total income</b>	<b>1930</b>	<b>1700</b>	<b>13.5</b>	<b>1753</b>	<b>10.1</b>
Employee Expenses	558	483	15.5	438	27.3
Non-Employee expenses	328	286	14.6	314	4.3
<b>Operating Expenses</b>	<b>886</b>	<b>769</b>	<b>15.20</b>	<b>753</b>	<b>17.7</b>
Cost-income Ratio (%)	46	45		43	
<b>Pre-Prov Profits</b>	<b>1,044</b>	<b>931</b>	<b>12.1</b>	<b>1,000</b>	<b>4.4</b>
Provisions & Contingencies	957	525	82.3	944	1.4
<b>PBT</b>	<b>87</b>	<b>406</b>	<b>-78.7</b>	<b>56</b>	<b>54.4</b>
Provisions for Tax	35	155	-77.4	25	40.0
Effective Tax Rate (%)	40	38		45	
<b>PAT</b>	<b>52</b>	<b>251</b>	<b>-79.46</b>	<b>31</b>	<b>65.9</b>
EPS Diluted	0.8	4.2		0.5	
GNPA	16,263	7,470		14,137	
NNPA	9,411	3,750		8,147	
GNPA (%)	11.5%	5.7%	5.8%	10.3%	1.2%
NNPA (%)	6.6%	3.0%	3.7%	6.2%	0.4%
PCR	50.4%	63.0%		51.9%	
Total CAR (%)	12.1	11.0		11.9	
NIM	3.11	3.20		2.90	
Advances	1,41,535	1,30,908	8.1	1,37,228	3.1
Deposits	1,77,628	1,65,985	7.0	1,78,268	-0.4

Source: Company Data Ace Equity, Arihant Research



Income Statement				
Year to 31st March (Rs.Cr)	FY15	FY16	FY17E	FY18E
Interest Income	16,369	17,635	17,998	18,898
Interest Expenses	11,831	12,314	12,400	12,734
<b>Net Interest Income</b>	<b>4,538</b>	<b>5,321</b>	<b>5,598</b>	<b>6,165</b>
- growth %	21%	17%	5%	10%
Other Income	1,500	1,564	1,921	2,230
Fee-based Income	936	972	1,123	1,302
Treasury Income	557	585	791	919
Other non interest income	7	8	8	9
<b>Operating Income</b>	<b>6,038</b>	<b>6,885</b>	<b>7,519</b>	<b>8,394</b>
- growth %	19%	14%	9%	12%
Operating Expenses	2,739	2,925	3,455	3,788
- Staff Cost	1,698	1,735	2,096	2,311
- Other Operating Exp.	1,041	1,191	1,359	1,478
<b>Gross Profits</b>	<b>3,298</b>	<b>3,960</b>	<b>4,064</b>	<b>4,606</b>
- growth %	19%	20%	3%	13%
Provisions	2,080	2,956	3,746	3,724
<b>Profit Before Taxes</b>	<b>1,218</b>	<b>1,004</b>	<b>319</b>	<b>882</b>
Taxes	580	464	134	353
<b>Profit After Taxes</b>	<b>638</b>	<b>540</b>	<b>185</b>	<b>529</b>
- growth %	47%	-15%	-66%	186%

Balance Sheet				
As on 31st March (Rs. cr)	FY15	FY16	FY17E	FY18E
<b>LIABILITIES</b>				
Capital	603	681	681	681
Reserves & Surplus	9,461	10,313	10,482	10,970
Shareholders Fund	10,064	10,994	11,163	11,651
Deposits	1,55,012	1,74,302	1,91,732	2,08,428
Borrowings	15,307	9,716	9,230	9,691
Other liabilities & provisions	4,787	4,949	5,998	6,824
<b>Total Liabilities</b>	<b>1,85,170</b>	<b>1,99,962</b>	<b>2,18,123</b>	<b>2,36,594</b>
<b>ASSETS</b>				
Cash on hand & with RBI	7,517	8,791	9,092	9,132
Money at call and short notice	146	181	215	253
Advances	1,25,955	1,30,788	1,45,175	1,62,596
Investments	46,499	53,864	56,915	57,474
Fixed assets	1,264	1,368	1,410	1,452
Other assets	3,789	4,969	5,317	5,689
<b>Total Assets</b>	<b>1,85,170</b>	<b>1,99,962</b>	<b>2,18,123</b>	<b>2,36,594</b>

Ratio Analysis				
Year to 31st March	FY15	FY16	FY17E	FY18E
<b>Basic Ratio (Rs.)</b>				
EPS	10.6	8.6	2.7	7.8
Book Value per share	154	151	163	170
Adjusted Book Value	95	77	14	17
Dividend per share	2.0	0.5	0.2	0.5
<b>Asset Quality (%)</b>				
Gross NPAs	5.3	8.4	12.1	11.8
Net NPAs	2.9	4.6	7.1	6.4
Coverage	58.9%	56.9%	50.0%	53.0%
<b>Profitability ratios (%)</b>				
RoE	6.3%	4.9%	1.7%	4.5%
RoA	0.3%	0.3%	0.1%	0.2%
NIM	2.8%	3.2%	2.9%	2.9%
Operating Profit Margin	34%	36%	38%	40%
Net Profit Margin	4%	3%	1%	3%
Cost to Income	45%	42%	46%	45%

Spread analysis (%)				
	FY15	FY16	FY17E	FY18E
Yield on advances	10.9	10.7	9.9	9.4
Yield on investments	7.6	8.1	7.7	7.5
Yield to interest earning assets	9.5	9.6	8.9	8.6
Cost of funds	6.8	6.5	6.2	5.8
Spread	2.7	3.1	2.8	2.8
<b>Net Interest Income to AWF</b>				
Net Interest Income to AWF	2.6	2.8	2.7	2.8
<b>Non Interest Income to AWF</b>				
Non Interest Income to AWF	0.9	0.8	0.9	1.0
<b>Operating Profit to AWF</b>				
Operating Profit to AWF	1.9	2.1	2.0	2.1
<b>Net Profit to AWF</b>				
Net Profit to AWF	0.4	0.3	0.1	0.2
<b>Valuation ratios (x)</b>				
P/E	7.4	6.2	19.9	7.0
P/BV	0.5	0.3	0.3	0.3
P/ABV	0.8	0.7	4.0	3.1

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**Stock Rating Scale**

	<b>Absolute Return</b>
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5% to -12%
Sell	< -12%

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