

Good show- Still long way to go

5th Feb, 2015

CMP:	Rs.91
Target Price:	Rs.95
Upside/(Downside) %	5%
Recommendation:	Neutral

Andhra Bank reported good set of numbers both on the top-line front and bottom-line. Net interest income (NII) was up by 45.0% on YoY basis. Non-interest income increased by 28.8% on YoY basis.

Good earnings growth, but still long way to go: NII for the bank stood at 1,259 crs an increase of 45.0% on YoY basis. NIM was at 3.43% from 2.93% on QoQ basis. Provisions reported during the quarter were at Rs 542 crs which is 26.5% increase on YoY basis and 10.2% on QoQ basis. Net profit for the bank increased by 342.6% on YoY basis to Rs 202 crs.

Increasing CD ratio signifies business confidence increasing: Bank reported 15.7% credit growth and 7.9% deposit growth for the quarter, the business momentum for the current year is expected to pick up. CD ratio for the quarter stood at 83.6 v/s. 77.9 last year. Increasing CD ratio signifies business environment conducive for growth.

Poor asset quality, NPL risks to linger: NPLs continue to remain at alleviated levels with GNPA's moving up by 44 bps to 6.0% and NNPA's by 5 bps to 3.7% on annual basis for the quarter. Fresh slippages for the quarter was Rs 454 crs vs. Rs 1,008 crs on QoQ basis, while fresh restructured assets was Rs 431 crs vs. Rs 1,455 crs on QoQ basis. Pace of slippages is moderating and restructuring pipeline is gradually coming off, however, NPL risks continue to linger in near term.

Outlook: Weaker CASA profile (CASA 25.9%, term deposits 74.1%), paring down exercise of mid & large corporate book (51.3% of total advances), need to raise further capital (Tier I at 8.0%) and asset quality headwinds with heavy restructuring book (9.3% 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.

Stock Info

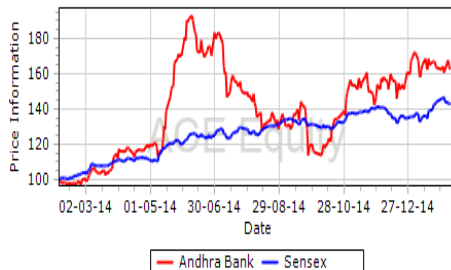
BSE Group	A
BSE Code	532418
NSE Symbol	ANDHRABANK
Bloomberg	ANDB IN
Reuters	ADBK.BO
BSE Sensex	28,883
NSE Nifty	8,724

Market Info

Market Capital	Rs 5,365 cr
Equity Capital	Rs 590cr
Avg. Trading Vol.	45,15,200
52 Wk High/ Low	110/54
Face Value	10

Shareholding Pattern (%) (31st Dec 2014)

Promoters	60.1
Domestic Institutions	16.3
Foreign Institutions	7.6
Public & Others	16.0



(Rs Cr)	FY13	FY14	FY15E	FY16E
Net interest income	3,757	3,737	3,995	4,672
Operating Profit	4,804	5,070	5,321	6,141
PAT	1,289	436	529	1,025
EPS (Rs)	23.0	7.6	8.6	15.3
EPS Growth (%)	-4%	-66%	21%	94%
RoE (%)	15.3%	5.0%	5.5%	10.1%
P/E (x)	4.0	12.0	10.6	5.9
PABV (x)	0.71	0.84	0.97	0.96

Source: Company data, Arihant Research



Q3FY15 Earnings Update

Particulars (Rs. cr)	Q3FY15	Q3FY14	YoY%	Q2FY15	QoQ %	Comments
Interest Earned	4,150	3,598	15.4	4,146	0.1	
Yield on Advances (%)	11.7	11.6		11.5		Yield increased by 10 bps
Interest Expended	2,891	2,729	5.9	3,042	-5.0	
Cost of Deposits (%)	7.7	7.8		7.8		
Net Interest Income	1,259	868	45.0	1,104	14.0	
Other Income	390	303	28.8	277	40.6	Strong other income growth
Other income / Net Income (%)	24	26		20		
Total income	1649	1171	40.8	1382	19.4	
Employee Expenses	463	415	11.6	373	24.0	
Non-Employee expenses	263	235	12.2	262	0.3	
Operating Expenses	726	650	11.8	636	14.2	
Cost-income Ratio (%)	44	55		46		
Pre-Prov Profits	923	522	77.0	746	23.8	
Provisions & Contingencies	542	428	26.5	491	10.2	
PBT	382	94	307.9	254	50.0	
Provisions for Tax	180	48	275.0	110	63.6	
Effective Tax Rate (%)	47	51		43		
PAT	202	46	342.6	144	39.6	
EPS Diluted	3.4	0.8		2.5		
GNPA	7118	5692		6884		NPA's still very high
NNPA	4264	3653		4316		
GNPA (%)	6.0%	5.6%	0.4%	6.0%	0.0%	
NNPA (%)	3.7%	3.7%	0.1%	3.9%	-0.2%	
Total CAR (%)	10.5	11.0		10.3		
NIM	3.4	3.4		2.9		
Advances	1,18,763	1,02,644	15.7	1,14,928	3.3	
Deposits	1,42,078	1,31,700	7.9	1,45,084	-2.1	

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	4.0	12.0	10.6	5.9
P/BV	0.6	0.6	0.6	0.6
P/ABV	0.71	0.84	0.97	0.96



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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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