



Asset Quality Worrisome!

18th May, 2017

CMP: Rs. 68
Target: Rs. 60
Recommendation: Reduce

Stock Info

BSE Group	A
BSE Code	532418
NSE Symbol	ANDHRABANK
Bloomberg	ANDB IN
Reuters	ADBK.BO
BSE Sensex	30,659
NSE Nifty	9,526

Market Info

Market Capital	Rs 4,550 cr
Equity Capital	Rs 681 cr
Avg. Trading Vol.	34,19,680
52 Wk High/ Low	76/45
Face Value	10

Shareholding Pattern (%) (Mar, 2017)

Promoters	61.3
Domestic Institutions	15.3
Foreign Institutions	5.5
Public & Others	17.9

Price Chart:



Income & Profitability:

Andhra Bank reported poor set of numbers for Q4 FY17. Interest earned grew by 2.6% YoY. Yield on advances dropped to 9.8% vs. 10.4% YoY and 9.4% sequentially while cost of deposit dropped to 6.1% vs. 7% YoY and 6.3% sequentially. Net interest income (NII) therefore increased by 12.3% on YoY basis to Rs 1,685 cr. Non-interest income however increased by 37.6% YoY & 7.7% QoQ to Rs 651 cr. NIM for the bank grew marginally to 3.49 from 3.41 YoY and strongly from 2.66 sequentially.

Business Growth:

Bank reported 5.8% credit growth advancing from Rs. 1,36,371 Cr. to Rs. 1,44,232 Cr YoY. MSME Advances grew by 17% YoY backed by micro enterprise growth of 56% YoY. Small enterprise portfolio de-grew by 4% YoY. Retail credit grew at 13% YoY on back of housing loans portfolio, which increased from Rs 11,811 cr to Rs 13,870 cr; an increase of 17.5% YoY.

Deposits grew at 12% YoY from Rs. 1,74,302 Cr to Rs. 1,95,441 Cr. CASA grew by 26% YoY backed by 28.3% YoY growth in savings deposits, while term deposits grew 7% YoY.

CD ratio for the quarter stood at 73.8% vs. 78.24% in the corresponding quarter of previous year. Cost to income ratio for the Bank declined to 38.6% in the quarter under review from 40.5% in corresponding quarter of previous year.

Asset Quality:

NPLs continued to remain at alleviated levels. Gross NPA and Net NPA stood at 12.25% and 7.57% for the quarter respectively vs. 8.39% and 4.6% YoY respectively. Provisions reported during the quarter were at Rs 1399 crs vs. Rs 1122 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, 770 in semi urban, 664 in urban & 729 in metro localities. ATMs/BNAs/CRs with bank stood at 3929. Total number of delivery channels as on Q4 FY 17 stood at 6875.

Valuations:

At CMP, stock is trading at P/ABV of 1.8(x) on FY19E. We have Reduce rating on the stock with fair value of Rs 60 at 1.6(x) P/ABV to FY 19E.

(Rs Cr)	FY15	FY16	FY17	FY18E	FY19E
Net interest income	4,538	5,321	5,242	5,882	6,744
Operating Profit	6,038	6,885	7,535	8,462	9,670
PAT	638	540	192	633	751
EPS (Rs)	10.6	8.6	2.8	8.2	8.6
EPS Growth (%)	40%	-19%	-67%	189%	6%
RoE (%)	6.3%	4.9%	1.7%	4.9%	5.5%
P/E (x)	7.4	6.2	24.0	8.3	7.9
PABV (x)	0.8	0.7	4.0	2.1	1.8



Q4 FY17 Earnings Snapshot

Particulars (Rs. cr)	Q4FY17	Q4FY16	YoY%	Q3FY17	QoQ %
Interest Earned	4,774	4,652	2.6	4,409	8.3
Yield on Advances (%)	9.8	10.4		9.4	
Interest Expended	3,089	3,151	-2.0	3,191	-3.2
Cost of Deposits (%)	6.1	7.0		6.3	
Net Interest Income	1,685	1,500	12.3	1,218	38.4
Other Income	651	473	37.6	604	7.7
Other income / Net Income (%)	28	24		33	
Total income	2336	1973	18.4	1822	28.2
Employee Expenses	530	455	16.4	570	-7.0
Non-Employee expenses	371	344	7.9	342	8.6
Operating Expenses	901	800	12.71	912	-1.2
Cost-income Ratio (%)	39	41		50	
Pre-Prov Profits	1,434	1,173	22.3	910	57.6
Provisions & Contingencies	1,299	1,023	27.1	828	56.9
PBT	135	151	-10.4	82	64.8
Provisions for Tax	100	99	0.8	25	300.0
Effective Tax Rate (%)	74	66		30	
PAT	35	52	-31.90	57	-38.4
EPS Diluted	0.5	0.8		0.8	
GNPA	17,670	11,444		16,888	
NNPA	10,355	6,036		9,382	
GNPA (%)	12.3%	8.4%	3.9%	11.9%	0.4%
NNPA (%)	7.6%	4.6%	3.0%	7.0%	0.6%
PCR	51.0%	56.9%		52.1%	
Total CAR (%)	12.4	11.6		11.4	
NIM	3.49	3.41	0.1	2.66	0.8
Advances	1,44,232	1,36,371	5.8	1,42,124	1.5
Deposits	1,95,381	1,74,302	12.1	1,90,506	2.6

Source: Company Data Ace Equity, Arihant Research



Income Statement				
Year to 31st March (Rs.Cr)	FY16	FY17E	FY18E	FY19E
Interest Income	17,635	17,998	19,190	21,413
Interest Expenses	12,314	12,756	13,308	14,668
Net Interest Income	5,321	5,242	5,882	6,744
- growth %	17%	-1%	12%	15%
Other Income	1,564	2,293	2,580	2,925
Fee-based Income	972	1,399	1,530	1,689
Treasury Income	585	891	1,047	1,234
Other non interest income	8	3	3	3
Operating Income	6,885	7,535	8,462	9,670
- growth %	14%	9%	12%	14%
Operating Expenses	2,925	3,564	4,019	4,578
- Staff Cost	1,735	2,164	2,386	2,631
- Other Operating Exp.	1,191	1,400	1,633	1,947
Gross Profits	3,960	3,971	4,443	5,092
- growth %	20%	0%	12%	15%
Provisions	2,956	3,660	3,352	3,840
Profit Before Taxes	1,004	310	1,091	1,252
Taxes	464	118	458	501
Profit After Taxes	540	192	633	751
- growth %	-15%	-64%	229%	19%

Balance Sheet				
As on 31st March (Rs. cr)	FY16	FY17E	FY18E	FY19E
LIABILITIES				
Capital	681	681	871	871
Reserves & Surplus	10,313	10,506	12,049	12,800
Shareholders Fund	10,994	11,187	12,919	13,671
Deposits	1,74,302	1,91,732	2,08,428	2,30,628
Borrowings	9,716	12,825	12,183	12,793
Other liabilities & provisions	4,949	5,992	6,352	6,840
Total Liabilities	1,99,962	2,21,736	2,39,882	2,63,930
ASSETS				
Cash on hand & with RBI	8,791	7,942	9,746	5,643
Money at call and short notice	181	175	210	252
Advances	1,30,788	1,45,175	1,62,596	1,86,985
Investments	53,864	61,967	60,558	63,967
Fixed assets	1,368	1,410	1,452	1,495
Other assets	4,969	5,068	5,322	5,588
Total Assets	1,99,962	2,21,736	2,39,882	2,63,930

Ratio Analysis				
Year to 31st March	FY16	FY17E	FY18E	FY19E
Basic Ratio (Rs.)				
EPS	8.6	2.8	8.2	8.6
Book Value per share	151	163	147	156
Adjusted Book Value	77	17	32	38
Dividend per share	0.5	0.0	0.0	0.0
Asset Quality (%)				
Gross NPAs	8.4	12.1	11.4	11.1
Net NPAs	4.6	6.9	6.2	5.6
Coverage	56.9%	52.0%	52.0%	52.0%
Profitability ratios (%)				
RoE	4.9%	1.7%	4.9%	5.5%
RoA	0.3%	0.1%	0.3%	0.3%
NIM	3.2%	2.7%	2.7%	2.9%
Cost to Income	42.5%	47.3%	47.5%	47.3%

Spread analysis (%)				
	FY16	FY17E	FY18E	FY19E
Yield on advances	10.7	9.8	9.4	9.5
Yield on investments	8.1	7.6	7.5	7.5
Yield to interest earning assets	9.6	8.7	8.6	8.5
Cost of funds	6.5	6.2	6.0	6.0
Spread	3.1	2.5	2.6	2.5
Net Interest Income to AWF	2.8	2.6	2.6	2.7
Non Interest Income to AWF	0.8	1.1	1.1	1.2
Operating Profit to AWF	2.1	1.9	2.0	2.1
Net Profit to AWF	0.3	0.1	0.3	0.3
Valuation ratios (x)				
P/E	6.2	24.0	8.3	7.9
P/BV	0.3	0.4	0.5	0.4
P/ABV	0.7	4.0	2.1	1.8

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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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