

February 2, 2012

Reco	Previous Reco
Buy	Accumulate
CMP	Target Price
Rs109	Rs140
EPS change FY12E/13E (%)	-2.6/+5
Target Price change (%)	-8
Nifty	5,270
Sensex	17,432

Price Performance

(%)	1M	3M	6M	12M
Absolute	29	(8)	(19)	(21)
Rel. to Nifty	17	(8)	(18)	(18)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	ANDB@IN
Equity Capital (Rs mn)	5596
Face Value(Rs)	10
No of shares o/s (mn)	560
52 Week H/L	159/79
Market Cap (Rs bn/USD mn)	61/1,242
Daily Avg Volume (No of sh)	621045
Daily Avg Turnover (US\$m)	1.3

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	58.0	58.0	58.0
FII/NRI	13.3	13.2	13.4
Institutions	15.4	15.8	15.4
Private Corp	2.1	2.0	2.1
Public	11.2	11.0	11.1

Source: Capitaline

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- Andhra Bank Q3FY12 NII at Rs9.8bn / non-int inc at Rs2.4bn - ahead of estimates. Hence, despite higher std asset provisioning, PAT at Rs3bn was in line
- Slippages tap out at Rs3.8bn, more towards normalized levels. Surprised +vely by large upswing in recoveries. But LLPs remain low at 0.5% vs net slippages of 1.8%
- Loan portfolio grew 21% yoy (7% qoq). Reported NIM at 3.8% was flat qoq and was aided by 50bps qoq rise in CASA ratio (27%) and + 200bps qoq rise in LDR to 80%
- NPL ratios improve with PCR up by 370bps and NNPL/net worth at 12%. The stock trades at 0.8x/0.7x FY12 / FY13ABV. Upgrade to BUY with target price of Rs140

Results inline; strong recoveries are +ve surprise

Andhra Bank Q3FY12 NII at Rs9.8bn was marginally ahead of expectations. Higher than expected non-interest income (more in form of forex gains) was offset against higher standard asset provisioning. Asset quality reported material improvement with GNPA / NNPA at Rs18.8bn/Rs9.4bn down 5%+ each. This was largely due to strong recoveries and up-gradation including more normal slippages (Rs3.8bn vs Rs10bn in Q2FY12). Reported NIM at 3.81% was almost flat sequentially.

On flip side: Restructured loan portfolio increased to 4.6% of total book. Under the other infrastructure segment, the bank has restructured loans to the tune of Rs9bn. Despite almost doubling of doubtful/loss assets yoy, LLPs still remained low at 0.5% vs net incremental slippages of 1.8%

On the balance sheet side: Loan portfolio expanded 20.7% yoy and 7% qoq. Growth in deposits too remains healthy at 20.2% yoy and 4.5% qoq. However, CASA ratio improved by 500bps qoq to 26.6%. LDR too inched to 80.2% levels. **NIM at 3.8% is substantial higher for a bank like Andhra Bank which has 57% of loan portfolio towards large corporates and mere 27% CASA ratio.**

Yield analysis

%	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (bps)	QoQ (bps)
Yield on advances*	10.8	11.2	11.8	12.3	12.5	169	23
Yield on investments*	7.1	7.0	7.5	7.5	7.4	28	-11
Yield on assets*	9.0	9.2	9.6	10.1	10.2	120	14
Cost of funds*	5.4	5.9	6.3	6.6	6.8	133	14
NIM*	3.6	3.4	3.3	3.4	3.4	-13	-1
Yield on advances#	11.1	11.6	12.2	12.5	12.8	169	31
Yield on assets#	9.1	9.2	9.7	10.1	10.3	124	20
Cost of funds#	5.9	5.9	6.4	6.7	6.8	99	19
NIM#	3.9	3.7	3.8	3.8	3.8	-10	-1

Source: Company, Emkay Research Note: * Calculated on basis of average quarterly balances. #reported

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2010	31,594	10,455	21.6	89.0	1.3	26.0	5.8	1.2
FY2011	40,674	12,159	21.7	111.1	1.2	22.3	5.0	1.0
FY2012E	47,365	13,297	23.8	127.1	1.1	18.8	4.6	0.9
FY2013E	52,853	17,476	31.2	152.3	1.3	20.6	3.5	0.7

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Net Interest Income	8,399	8,615	9,105	9,512	9,839	17.1	3.4	28,456	23,594	20.6
Other Income	1,986	2,990	2,170	1,778	2,353	18.4	32.3	6,301	5,980	5.4
Fee Income	660	627	594	618	695	5.2	12.4	1,906	1,750	8.9
Net Income	10,386	11,606	11,275	11,290	12,191	17.4	8.0	34,756	29,574	17.5
Total Operating Expenses	4,119	4,490	4,277	4,422	4,515	9.6	2.1	13,213	12,560	5.2
As % Of Net Income	39.7	38.7	37.9	39.2	37.0			38.0	42.5	
Employee Expenses	2,595	2,976	2,731	2,736	2,847	9.7	4.1	8,314	8,067	3.1
As % Of Net Income	25.0	25.6	24.2	24.2	23.4			23.9	27.3	
Other Expenses	1,524	1,514	1,546	1,686	1,668	9.4	-1.0	4,900	4,493	9.1
As % Of Net Income	14.7	13.0	13.7	14.9	13.7			14.1	15.2	
Operating Profit	6,266	7,115	6,998	6,869	7,676	22.5	11.7	21,543	17,014	26.6
As % Of Net Income	60.3	61.3	62.1	60.8	63.0			62.0	57.5	
Provisions	1,717	3,027	1,770	2,607	3,094	80.2	18.7	7,471	3,432	117.7
Prov for NPA	1,520	2,028	1,171	2,209	395	-74.0	-82.1	3,775	2,651	42.4
PBT	4,549	4,088	5,229	4,262	4,582	0.7	7.5	14,072	13,583	3.6
Total Tax	1,240	960	1,370	1,100	1,550	25.0	40.9	4,020	4,040	-0.5
Adjusted PAT	3,309	3,128	3,859	3,162	3,032	-8.4	-4.1	10,052	9,543	5.3
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	3,309	3,128	3,859	3,162	3,032	-8.4	-4.1	10,052	9,543	5.3
Reported EPS	6.8	5.6	6.9	5.7	5.4	-20.4	-4.1	18.0	19.6	-8.5

Source: Company, Emkay Research

Loan growth driven by infra, metals and NBFCs

Loan growth at 20.7% yoy and 7.4% remains broad based across all segments: large corporates (up 26.1% yoy and 11.5% qoq), SME (up 21% yoy and 3% qoq), Agri (13% yoy and 6% qoq) and retail (up 9% yoy and flat sequentially).

Amongst corporates, the growth was driven by exposures: Power Rs178bn up 7% qoq, Textiles Rs43bn (up 4% qoq), Iron and steel Rs60bn (up 9% qoq) and NBFCs (up 6.6% qoq).

Loan book remains broad based

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	% of total
Mid-corporate/SME	98	111	116	115	119	20.6	2.7	15.0
Agriculture	101	104	105	108	114	13.0	5.6	14.4
Retail	100	105	109	110	109	9.1	-0.8	13.8
Others	357	395	428	404	450	26.1	11.5	56.9
Total	656	714	757	737	792	20.7	7.4	100.0

Source: Company, Emkay Research

Lower CASA = Increasing dependence on bulk deposits and higher cost.

Against 20% yoy (4.5% qoq) growth in total deposits, growth in CASA deposits came in far too lower at 12.1% yoy (6.4% qoq). Resultant CASA ratio stood at 26.6%. A lower CASA mix has called for increasing reliance on bulk deposits. Cost of deposits for the bank at 7.6% for Q3FY12 was up 13bps qoq and 175bps yoy.

CASA mix

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Current Deposits	52	72	56	53	55	6.1	3.6
Savings Deposits	182	196	197	194	207	13.8	7.1
CASA	234	268	253	247	263	12.1	6.4
Term deposits	587	654	656	697	724	23.4	3.8
Total Deposits	821	922	909	944	987	20.2	4.5
CASA (%)	28.5	29.1	27.8	26.1	26.6	-192	46

Source: Company, Emkay Research

Asset quality pressure eases; +vely surprised by recoveries

Under the guidance of new management, the bank has done a remarkable job on recoveries and up-gradation front includes tap on slippages. Slippages number at Rs3.8bn (1.9% of total loans) appears tad to lower and we await management details on the same. The banks efforts towards NPA management have garnered results in form of sequential decline in NPA. GNPA / NNPA at Rs18.8bn / Rs9.4bn have actually declined 5% / 13% each.

But LLPs remain low despite rise in doubtful and loss assets

Though, ANDB managed the show on NPLs front, the LLPs for M9FY12 have remained lower despite rise in the net slippages as well as increase in the doubtful and loss assets.

Loan book classification

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Sub-Standard	5,509	5,572	5,905	12,675	11,321	105.5	-10.7
Doubtful	3,214	4,215	5,754	6,927	7,284	126.6	5.1
Loss Assets	0	71	76	74	238		222.3
Total	3,214	4,286	5,830	7,001	7,521	134.0	7.4

source: Company, Emkay Research

Restructured assets rise in infrastructure

O/s. restructured loan portfolio increased to Rs36.7bn or 4.6% of total loan portfolio. Stress was witnessed across segments of MSME – Rs6bn (against Rs2.2bn in Q2FY12) and major industries – Rs26bn (against Rs20.8bn in Q2FY12). Major Industries included an account under “Other infrastructure” summing to Rs9bn. We believe this would be from telecom space and the management would have taken some hit in form of NPV loss.

Provision break up

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
On NPL	1,520	2,028	1,171	2,209	395	-74.0	-82.1	3,775	2,651	42.4
As % of advances	0.23	0.28	0.15	0.30	0.05			0.50	0.52	
Others	197	999	599	397	2,700	-		3,696	781	373.2
Total	1,717	3,027	1,770	2,607	3,094	80.2	18.7	7,471	3,432	117.7

Source: Company, Emkay Research

Asset quality

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Gross NPA (Rs bn)	8,723	9,956	11,764	19,871	18,841	116.0	-5.2
Net NPA (Rs bn)	3,081	2,737	3,374	10,867	9,433	206.1	-13.2
Gross NPA (%)	1.3	1.4	1.6	2.7	2.4		
Net NPA (%)	0.5	0.4	0.5	1.5	1.2		
Net NPLs/Net worth (%)	5.7	4.2	4.9	15.1	12.6		
Provision cover (%)	64.7	72.5	71.3	45.3	49.9		
Provision cover (incl tech w/off)	80.4	83.9	82.0	61.7	65.4		

Source: Company, Emkay Research

Valuations and view

Although ANDB has shown remarkable improvement in the stressed assets driven by sharply higher recoveries and upgrades in bad assets, we still remain quite wary of the improvement for three reasons: (1) significantly high 23% exposure to power sector (of which about a third is to SEB) and (2) significantly lower LLPs and (3) quite sharp shift in the NPAs in favor of doubtful and loss assets. We believe that for these reasons, the valuations may not look beyond 1x ABV. The stock trades at 0.8x / 0.7x FY12/FY13 ABV. We have changed our estimates marginally by -2.6%/+5% for FY12E/FY13E. With significant derating of the stock upgrade to BUY with target price of Rs140. Our ABV assumptions have seen downgrade of ~4.5% due to change in the slippage estimates.

Change in estimates

Rs bn	New estimates		Old estimates		% chg	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Net interest income	38,671	42,671	36,381	41,673	6.3	2.4
Pre provision profit	29,286	32,901	27,035	31,899	8.3	3.1
Profit before tax	18,760	24,657	19,044	23,221	-1.5	6.2
Profit after tax	13,297	17,476	13,656	16,652	-2.6	4.9

Key Financials

Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	21,947	32,210	38,671	42,671
Other income	9,646	8,465	8,694	10,182
Net income	31,594	40,674	47,365	52,853
Operating expenses	13,495	17,049	18,080	19,952
Pre provision profit	18,098	23,626	29,286	32,901
PPP excl treasury	14,853	22,218	28,186	31,801
Provisions	3,740	6,461	10,526	8,245
Profit before tax	14,359	17,164	18,760	24,657
Tax	3,900	4,999	5,463	7,180
Tax rate	27%	29%	29%	29%
Profit after tax	10,459	12,166	13,297	17,476

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity	4,850	5,596	5,596	5,596
Reserves	39,250	59,328	71,297	87,117
Net worth	44,100	64,924	76,893	92,713
Deposits	776,882	921,563	1,055,572	1,267,128
Borrowings	82,441	102,520	102,865	104,909
Total liabilities	903,424	1,089,007	1,235,330	1,464,750
Assets				
Cash and bank	111,677	104,590	111,207	146,258
Investments	202,994	236,180	269,488	321,698
Customer assets	566,951	720,213	833,462	974,154
Others	21,802	28,024	23,525	25,055
Total assets	903,424	1,089,007	1,235,330	1,464,750

Key Ratios (%)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	2.8	3.2	3.3	3.2
Non-Il/avg assets	1.2	0.8	0.7	0.8
Fee income/avg assets	0.3	0.2	0.2	0.2
Opex/avg assets	1.7	1.7	1.6	1.5
Provisions/avg assets	0.6	0.7	0.9	0.9
PBT/avg assets	1.6	1.6	1.5	1.7
Tax/avg assets	0.4	0.5	0.4	0.5
RoA	1.3	1.2	1.1	1.3
RoAE	26.0	22.3	18.8	20.6
GNPA (%)	0.9	1.4	2.3	2.8
NNPA (%)	0.2	0.4	0.7	0.8

Valuations Table

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	10,455	12,159	13,297	17,476
Shares in issue (mn)	485	560	560	560
EPS (Rs)	21.6	21.7	23.8	31.2
PER (x)	5.1	5.0	4.6	3.5
FDEPS(Rs)	18.7	21.7	23.8	31.2
FDPER (x)	5.8	5.0	4.6	3.5
Book value (Rs)	90.9	116.0	137.4	165.7
P/BV (x)	1.2	0.9	0.8	0.7
Adj book value (Rs)	89.0	111.1	127.1	152.3
P/ABV (x)	1.2	1.0	0.9	0.7
P/PPP (x)	2.9	2.6	2.1	1.9
Dividend yield (%)	4.6	5.0	6.0	6.4

Recommendation History: Andhra Bank – ANDB IN

Date	Reports	Reco	CMP	Target
28/07/2011	Andhra Bank Q1FY12 Result Update	Accumulate	137	150
02/02/2011	Andhra Bank Q3FY11 Result Update	Buy	137	165
29/10/2010	Andhra Bank Q2FY11 Result Update	Buy	176	210
27/01/2010	Andhra Bank Q3FY10 Result Update	Accumulate	107	130

Recent Research Reports

Date	Reports	Reco	CMP	Target
31/01/2012	United Bank of India Q3FY12 Result Update	Accumulate	70	80
31/01/2012	ICICI Bank Q3FY12 Result Update	Accumulate	902	1,200
31/01/2012	Punjab National Bank Q3FY12 Result Update	Accumulate	940	1,200
30/01/2012	Allahabad Bank Q3FY12 Result Update	Accumulate	156	200

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