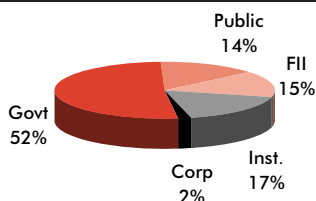
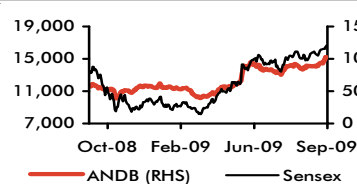


**BUY**Price Rs103Target Price %Upside  
Rs125 2.5↑Market Capitalisation  
Rs49,761 mn (US\$1,032mn)52 week range H/L (Rs) 104/35Shares o/s Daily vol  
(mn) (mn)  
485 0.79Reuters Bloomberg  
ADBK.BO ANDB INPerfm(%) 1M 3M 12M YTD  
Absolute 20.5 25.7 78.3 86.0Rel. to Sensex 6.8 9.4 41.8 7.6BSE Sensex Nifty  
16,677 4,958

Source: Bloomberg

**Shareholding pattern (%)**

Source: Bloomberg

**Price performance**

Source: Bloomberg

**Financials (Rs bn)**

Y/E Mar	FY09	FY10E	FY11E
Net int. inc.	16.27	19.40	23.81
Gross profit	12.88	15.56	19.62
Net profit	6.53	8.37	10.58
NIM (%)	2.6	2.6	2.5
RoE (%)	18.9	21.5	23.7
Adj. BVPS (Rs)	73.6	81.5	95.3
P/ABV (x)	1.4	1.3	1.1

Source: Company, Ambit Capital Research

Analyst  
**Krishnan ASV**  
Tel.: +91-22-3043 3205  
vkrishnan@ambitcapital.com

# Andhra Bank

## Steaming in

- Witnesses 18% upmove in the last 1 month; TP of Rs100 achieved
- Balance sheet realignment to help sustain margins
- Retail lending to offset slowdown in corporate lending
- Introducing FY11E estimates; marginally easing asset quality stress
- Reiterate **'BUY'** at current levels with revised TP of Rs125

In line with the banking sector in general and PSU banks in particular, Andhra Bank has moved up close to 18% over the last one month, thereby breaching our earlier target price of Rs100. Post- our interaction with the management, we now introduce our FY11E estimates for Andhra Bank. Factoring in the bank's superior track record on the asset quality front, we have also marginally eased the stress case scenario that we had introduced earlier.

**Valuation and recommendation:** At its CMP of Rs103, the stock quotes at 1.3x and 1.1x our FY10E and FY11E ABVPS estimates of Rs82 and Rs95 respectively. We reiterate our **'BUY'** recommendation on the stock with a revised target price of Rs125.

**Balance sheet realignment to help sustain margins:** Our interaction with the management suggests that the bank's NIMs are likely to stabilize around the current levels (2.85% as of Jun'09). As a result of having effected a PLR cut (of 25bps) during Jul'09, lower yields are likely to offset any benefit (from repricing) coming through from the reduction in cost of deposits.

**Exhibit 1: Business performance**

(Rs bn)	Q1FY10	Q1FY09	% chg	FY09	% chg
Deposits	603.69	491.75	22.8	593.90	1.6
Advances	449.11	340.81	31.8	444.28	1.1
Business	1,052.80	832.56	26.5	1,038.18	1.4
C-D ratio (%)	74.4	69.3		74.8	

Source: Company

As we have been saying in our earlier updates, the most heartening aspect of Andhra Bank's performance has been the sustained efforts on restructuring the liabilities side of the balance sheet. Although CASA mobilization has been muted, the bank has continued to shed high-cost bulk deposits over the last 15 months.

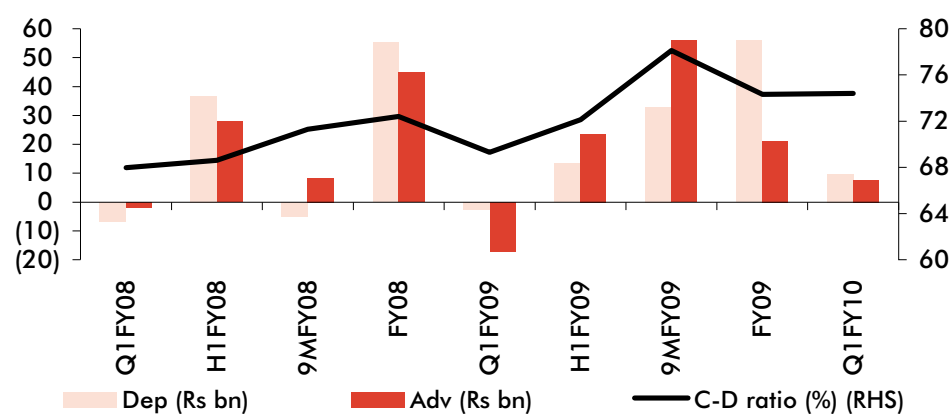
**Exhibit 2: QoQ movement in deposit mix**

(Rs bn)	Q1FY09	H1FY09	9MFY09	FY09	Q1FY10
Current deposits	36.98	45.99	44.83	52.16	45.14
Savings deposits	126.18	126.41	126.33	134.38	140.12
CASA deposits	163.16	172.40	171.16	186.54	185.26
Retail term deposits (core deposits)	220.71	226.75	275.66	358.74	385.35
Bulk deposits	107.88	106.00	91.13	48.62	33.08
Term deposits	328.59	332.75	366.79	407.36	418.43
Total deposits	491.75	505.15	537.95	593.90	603.69

Source: Company

**Credit growth to moderate:** Our interaction with the management indicates that the bank's credit growth is likely to moderate over the Jul-Sep'09 quarter. The bank is focused on growing its retail book that currently accounts for less than 20% of the overall loans, with growing emphasis on housing loans as well as loans against gold, which have been a huge draw over the last few months. On the corporate book, the management indicated that Andhra Bank has been witnessing a gradual draw-down of existing sanctions (that were hitherto unutilized). Although the pace of growth on the corporate book has been muted, the mix of corporate loans has skewed towards private corporates from one oriented towards the PSUs (oil marketing companies and fertilizer companies) last year. Our estimates factor in a 20% growth in advances during the current fiscal (as against ANDB's guidance of a ~25% growth in the loan book) and a 28% growth in the loan book during FY11E.

**Exhibit 3: Incremental business - headroom to go slow on deposit accretion**



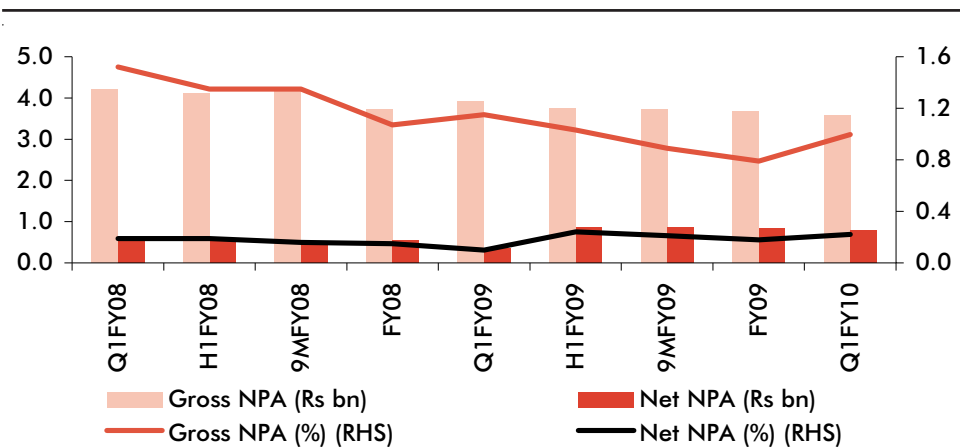
Source: Company

Given the lower-than-guided loan book growth that we have factored in for the current fiscal, we believe that Andhra Bank has sufficient headroom to go slow on deposit accretion over the next couple of quarters.

**Asset quality - best in the business:** Although Andhra Bank's asset quality is currently amongst the best in the overall banking space, we have only marginally eased the stress that we had introduced earlier. We build in a marginal spillover from the restructured portfolio (~5% of the current loan book) into NPAs during the current fiscal, thus resulting in a relative deterioration in asset quality ratios from current levels. However, despite maintaining a fair amount of stress on ANDB's asset quality, we believe that asset quality will continue to remain the bank's key strength.

From current levels, we expect Andhra Bank to witness a slip-up in asset quality (in absolute terms as well as ratios) during the rest of the current fiscal before recovering lost ground during FY11E.

**Exhibit 4: Asset quality - likely to deteriorate from current levels during FY10E and subsequently recover lost ground during FY11E**



Source: Company, Ambit Capital Research

**Valuation and recommendation:** At its CMP of Rs103, the stock quotes at 1.3x and 1.1x our FY10E and FY11E ABVPS estimates of Rs82 and Rs95 respectively. We reiterate our **'BUY'** recommendation on the stock with a revised target price of Rs125, indicating an upside of 25% from current levels.

**Exhibit 5: Valuation**

	FY10E	FY11E
EVA Valuation (Rs)	104	118
Upside (%)	1	15
Fair value P/ABV (x)	1.5	1.8
Fair value using ABV (Rs)	100	131
Upside (%)	(2)	27
Average fair value (Rs)	102	125
Total return incl. div. yield (%)	3	25

Source: Ambit Capital Research estimates

**Exhibit 6: Profit & Loss**

Rs bn	FY06	FY07	FY08	FY09	FY10E	FY11E
Interest Income	26.74	33.15	42.10	53.75	63.91	80.00
Interest Expense	15.05	18.98	28.70	37.48	44.51	56.19
<b>Net Interest Income</b>	<b>11.69</b>	<b>14.18</b>	<b>13.40</b>	<b>16.27</b>	<b>19.40</b>	<b>23.81</b>
% Growth	9.29	21.26	-5.50	21.45	19.23	22.73
Treasury Income	0.99	0.88	1.76	2.73	2.80	2.81
Other Income from Banking Operations	3.59	3.59	4.50	4.92	6.40	7.97
Total Income	16.27	18.64	19.66	23.92	28.60	34.59
Employees Expenses	4.93	5.49	5.09	6.24	7.49	8.61
Other Operational Expenses	3.65	3.84	4.00	4.80	5.55	6.36
<b>Operating Profit</b>	<b>7.69</b>	<b>9.31</b>	<b>10.57</b>	<b>12.88</b>	<b>15.56</b>	<b>19.62</b>
% Growth	-22.59	21.08	13.50	21.86	20.77	26.12
Tax	0.72	2.47	3.42	2.45	4.12	5.21
Loan Loss Provisions	2.12	1.56	1.39	3.90	3.07	3.82
<b>Net Profit</b>	<b>4.85</b>	<b>5.28</b>	<b>5.76</b>	<b>6.53</b>	<b>8.37</b>	<b>10.58</b>

**Exhibit 7: Balance Sheet**

Rs bn	FY06	FY07	FY08	FY09	FY10E	FY11E
Capital	4.85	4.85	4.85	4.85	4.85	4.85
Reserves and surplus	24.09	26.71	27.64	31.62	36.58	42.92
Deposits	339.22	414.54	494.37	593.90	727.63	916.81
Borrowings	7.58	7.34	5.91	13.11	15.11	21.11
Other liabilities & provisions	30.98	22.14	33.48	41.21	50.56	58.75
<b>Total liabilities</b>	<b>406.73</b>	<b>475.58</b>	<b>566.24</b>	<b>684.69</b>	<b>834.74</b>	<b>1,044.45</b>
Cash & balances with RBI	38.61	29.49	49.02	48.53	57.66	71.05
Balances with banks	12.79	10.75	7.93	4.34	3.11	16.25
Investments	114.44	143.01	148.98	169.11	201.37	230.79
Advances	221.00	278.89	342.38	441.39	550.76	690.54
Fixed assets	1.93	1.92	2.19	3.35	3.80	4.35
Other assets	17.97	11.52	15.74	17.96	18.04	31.45
<b>Total assets</b>	<b>406.73</b>	<b>475.58</b>	<b>566.24</b>	<b>684.69</b>	<b>834.74</b>	<b>1,044.43</b>

**Exhibit 8: Business Ratios**

	FY06	FY07	FY08	FY09	FY10E	FY11E
Credit-Deposit(%)	64.4	66.3	68.4	72.0	75.1	75.5
Investment / Deposit (%)	35.9	34.2	32.1	29.2	28.0	26.3
Cash / Deposit (%)	14.1	12.2	10.7	10.1	8.6	9.0
RoAA (%)	1.3	1.2	1.1	1.0	1.1	1.1
RoE (%)	20.5	17.4	18.0	18.9	21.5	23.7
Dividend Yield (%)	3.4	3.7	3.9	4.4	5.8	7.3

**Exhibit 9: Per Share Data**

	FY06	FY07	FY08	FY09	FY10E	FY11E
Book value per share (Rs)	59.7	65.1	67.0	75.2	85.4	98.5
Adj. Book value per share (Rs)	58.6	64.1	65.9	73.6	81.5	95.3
Price/ Adj. Book value (x)	1.8	1.6	1.6	1.4	1.3	1.1
EPS (Rs)	11.7	10.9	11.9	13.5	17.3	21.8
EPS growth (%)	-9.8	-7.3	9.0	13.5	28.1	26.5
P/E (x)	8.8	9.5	8.7	7.6	6.0	4.7

Source: Company, Ambit Capital Research estimates

## Technical View — Andhra Bank

### Overbought, buy on decline

Exhibit 10: Daily Chart



Source: MetaStock

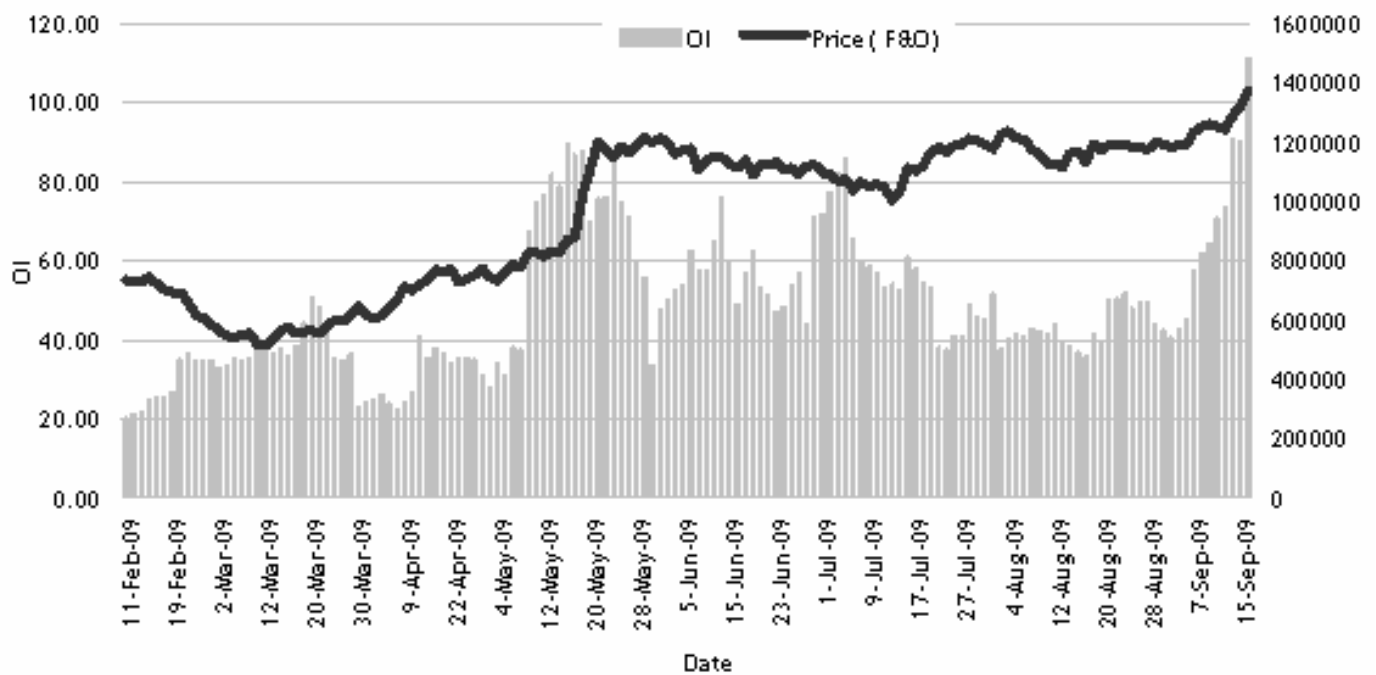
- The RSI on daily chart is reading over 80 mark and this indicates the upside is limited from current market price which is at Rs103.
- On weekly Chart the MACD is witnessing negative divergence indicates correction is on the cards.
- We advise to book profit and wait for correction and recommend buying the stock around 10DMA which is at Rs94.
- Therefore buy on decline would be a right approach as the risk reward is not favorable at current market price.

**Ashish Shroff**  
Technical Analyst  
Tel.: +91-22-3043 3209  
ashishshroff@ambitcapital.com

## Derivatives View — Andhra Bank

- The stock has broken out of its recent range with good OI build-up.
- This has also been accompanied by significant uptick in delivery volumes.
- We think that 92 on the way down is going to be an extremely important support level for the stock and any declines should be used to accumulate with that as the Stop.

**Exhibit 11: OI & price (F&O)**



Source: Ambit Capital research

## Explanation of Investment Rating

<b>Investment Rating</b>	<b>Expected return (over 12-Month period from date of initial rating )</b>
Buy	>15%
Hold	5% to 15%
Sell	<5%

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**Ambit Capital Pvt. Ltd.**

Ambit House, 3rd Floor  
449, Senapati Bapat Marg, Lower Parel,  
Mumbai 400 013, India.

Phone : +91-22-3043 3000

Fax : +91-22-3043 3100

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