

April 28, 2008

**BUY**

Price	Target Price
<b>Rs81</b>	<b>Rs110</b>
<b>Sensex</b>	<b>17,126</b>

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	6	(8)	(12)	(4)
Rel. to Sensex	(0)	(7)	(1)	(20)

Source: Capitaline

**Stock Details**

Sector	Banking
Reuters	ADBK.BO
Bloomberg	ANDB @IN
Equity Capital (Rs mn)	4850
Face Value(Rs)	10
No of shares o/s (mn)	485
52 Week H/L	130/67
Market Cap (Rs bn/USD mn)	39/972
Daily Avg Volume (No of shares)	851666
Daily Avg Turnover (US\$m)	1.8

**Shareholding Pattern (%)**

	M'08	D'07	S'07
Promoters	51.6	51.6	51.6
FII/NRI	19.3	19.4	19.2
Institutions	12.7	12.5	12.4
Private Corp	2.2	2.6	2.5
Public	14.3	13.9	14.4

**Kashyap Jhaveri**[kashyap.jhaveri@emkayshare.com](mailto:kashyap.jhaveri@emkayshare.com)

+91 22 6612 1249

**Pradeep Agrawal**[pradeep.agrawal@emkayshare.com](mailto:pradeep.agrawal@emkayshare.com)

+91 22 6612 1340

# Andhra Bank

Result  
Update

## Disappointing set of numbers

Andhra Bank has reported disappointing numbers. The net profit declined by 10.4%yoy led by weak operating performance. The NII slipped 11.6%yoy to Rs3.43bn as there was pressure on margins. The NIM contracted 84bps yoy and 33bps sequentially.

The business growth remain stable at 20.5%yoy during the quarter. The total deposits have grown by 19.3% yoy to Rs494bn whereas the advances grew by 22.4% to Rs345.6bn. Improving asset quality has been saving grace as the NPAs have declined at both gross and net level in relative terms. The provision cover stood at strong 86%.

At the current market price of Rs81, the stock is quoting at 5.2x its FY09E EPS and 0.9x FY09E ABV. We maintain our BUY recommendation with price target of Rs110.

**NII growth falls- hit by lower NIM's**

ANDB has reported a fall of 11.6% yoy growth in its NII to Rs3.4bn driven by a steep 84bps yoy drop in NIM. The pressure on NIMs was driven by rising cost of funds which has gone up by 113bps yoy.

**Yield analysis**

%	Q4FY08	Q4FY07	Q3FY08	Change in bps	
				yoy	qoq
Yield on advances	10.5	10.0	10.6	58	-3
Yield on investments	7.3	7.7	7.3	-41	1
Yield on assets	8.9	8.6	8.6	29	29
Cost of funds	6.3	5.2	5.7	113	61
NIM	2.6	3.5	2.9	-84	-33

Source: Company, Emkay Research

Quarterly numbers are calculated on average balances

**... As lower CASA increases funding cost**

The lower CASA and higher cost term deposits have pushed up the cost of funds for the bank. The CASA deposit has fallen 96bps to 33.6% during the quarter, resulting in higher deposit cost. At the same time, the bank had raised some high cost bulk deposits in the later part of Q4FY07 to meet the asset liability mismatch. While the bank later on replaced this bulk deposits with term deposits which were less costly than bulk deposits but during the same time term deposits rates were also higher on yoy basis.

**Deposit mix**

Rs bn	Q4FY08	Q4FY07	Q3FY08	% yoy chg	% qoq chg
Demand deposits	165.9	143.1	149.6	15.9	11.0
Term deposit	328.4	271.4	289.6	21.0	13.4
<b>Total deposits</b>	<b>494.4</b>	<b>414.5</b>	<b>439.1</b>	<b>19.3</b>	<b>12.6</b>
CASA ratio (%)	33.6	34.5	34.1	-96bps	-49bps

Source: Company, Emkay Research

As the high cost term deposits are likely to come for repricing only early this year, we expect the improvement in NIMs to come only in Q1FY09 unless the CASA float is increased substantially.

## Fee income growth remain modest

The other income has grown by 32.5% yoy primarily driven by higher fee income and treasury gains. Treasury income increased almost double to Rs320mn whereas fee income grew 41% yoy to Rs640mn during the quarter. The strong growth in fee income during H2FY08 is attributable to increased in third party product sale like bancassurance where the bank has tied up with LIC.

### Other income

Rs mn	Q4FY08	Q4FY07	Q3FY08	% yoy chg	% qoq chg
Trading	320	141	368	127.1	-13.1
CEB	640	454	613	41.0	4.5
Forex	80	109	88	-26.5	-8.8
Others	980	867	614	13.0	59.7
Amortisation	-207	-187	-206	10.6	0.6
<b>Total</b>	<b>1,833</b>	<b>1,384</b>	<b>1,477</b>	<b>32.5</b>	<b>24.2</b>

Source: Company, Emkay Research

## Modest rise in Opex – lower AS-15 liabilities

The Opex has declined by 7.6% yoy to Rs2.1bn driven by a 25% decline in staff expenses. The bank has written back Rs200mn on account of AS-15 liabilities which it thought was in excess of actual requirement

## Higher tax provisions cause further pain

Despite 6%yoy growth in operating profit, the bank reported a 10.4% decline in net profits as the effective tax rate was higher at 44% for the quarter. The management has attributed the higher tax rate to tax on appreciation on the HTM category portfolio which is taxable under the IT Act. The

### Break up of provisions

Rs mn	Q4FY08	Q4FY07	Q3FY08	% yoy chg	% qoq chg
NPA	280	80	370	250.0	-24.3
As % of advances	0.08%	0.03%	0.07%		
Investment dep	480	452	-150	6.3	-420.2
Other	154	280	61	-45.0	152.5
<b>Total</b>	<b>914</b>	<b>812</b>	<b>281</b>	<b>12.6</b>	<b>225.2</b>

Source: Company, Emkay Research

## Asset quality remains robust

The bank has continued on the asset quality improvement. The gross NPA during the quarter have declined to 1.07% (1.41% last year) and net NPA to 0.15% (0.17% last year). The provision cover also remain higher at 86% for the quarter.

Rs mn	Q4FY08	Q4FY07	Q3FY08	% yoy chg	% qoq chg
GNPA (Rs)	3,724	3,970	4,219	-6.2	-11.7
GNPA (%)	1.07	1.41	1.35		
NNPA (Rs)	537	473	499	13.7	7.7
NNPA (%)	0.2	0.2	0.2		
Provision cover (%)	86	88	88		

Source: Company, Emkay Research

## Valuations and view

At the current market price of Rs81, the stock is quoting at 5.2x its FY09E EPS and 0.9x FY09E ABV. We maintain our BUY recommendation with price target of Rs110.

## Quarterly results

	FY08	FY07	% y-o-y chng	Q4FY08	Q4FY07	Q3FY08	% y-o-y chng	% q-o-q chng
Net interest income	14,199	14,175	0.2	3,429	3,879	3,701	-11.6	-7.4
Other Income	5,814	4,469	30.1	1,833	1,384	1,477	32.5	24.2
Fee income	2,128	1,816	17.2	640	454	613	41.0	4.5
Net income	20,012	18,644	7.3	5,262	5,263	5,178	0.0	1.6
Total operating expenses	9,443	9,332	1.2	2,131	2,305	2,295	-7.6	-7.1
Pre-provision profit	10,569	9,312	13.5	3,131	2,958	2,883	5.9	8.6
Provisions	1,394	1,464	-4.8	914	810	278	12.8	229.0
Profit before tax	9,176	7,849	16.9	2,218	2,147	2,605	3.3	-14.9
Provision for Taxes	3,420	2,470	38.5	975	760	1,015	28.3	-3.9
Net Profit	5,756	5,379	7.0	1,243	1,387	1,590	-10.4	-21.9

## Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	P/ABV (x)	PE (x)
FY2006	16,271	4,855	10.0	58.6	1.3	20.5	1.4	8.1
FY2007	20,012	5,756	11.9	64.1	1.2	17.8	1.3	7.3
FY2008	21,306	6,103	12.6	74.1	1.2	18.0	1.1	6.4
FY2009E	24,537	7,553	15.6	86.1	1.3	19.3	0.9	5.2

**DISCLAIMER:** This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Share & Stock Brokers Ltd is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Share & Stock Brokers Ltd, nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Share & Stock Brokers Ltd's prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Emkay Share and Stock Brokers Ltd.,  
Paragon Center, Ground Floor, C-6

Pandurang Budhkar Marg, Worli, Mumbai – 400 013. , Tel no. 66121212. Fax: 66121299