

April 28, 2008

BUY

Price	Target Price
Rs81	Rs110
Sensex	17,126

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

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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
Total deposits	494.4	414.5	439.1	19.3	12.6
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
Total	1,833	1,384	1,477	32.5	24.2

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
Total	914	812	281	12.6	225.2

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 Rs 81, 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

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