

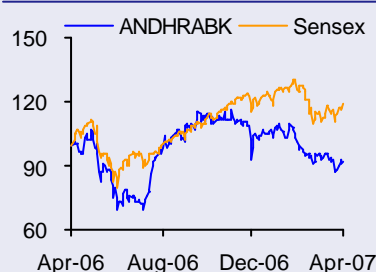
## Andhra Bank (Q4 FY07) - Investment Update

<b>Recommendation</b>	<b>BUY</b>
CMP	Rs81.6
Target Price	Rs104
Upside	27%
Market Cap	Rs39.6bn
52 Week H/L	Rs98.5/56.6
Face Value	Rs10
BSE Code	532418
NSE Code	ANDHRABANK
Bloomberg Code	ANDB@IN
Reuters Code	ADBK.BO
1 Month avg vol.	0.1mn

### Share Holding Pattern

Mar'07	(%)
Government	51.6
Institutions	10.7
FII	19.1
Public	18.6

### Share Price Trend



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**Profit growth remained flat (0.1%), though was marginally above our expectations. High net interest spread (3.45%), sustained fee income growth (12%) and improved asset quality (net NPA at 0.17%) have been the major highlights of Q4 FY07 results. We continue to like the Bank for its high net interest margin, one of the best asset quality and greater flexibility to manage the current business situation. Andhra Bank is one of our top pick in the sector and we maintain our BUY rating on the stock with a price target of Rs104.**

### Result update

#### Profit growth was flat, though core operating profit up by 62%

Net profit remained flat at Rs1.4bn on account of inflated profits in Q4 FY06 due to an net income tax write back. Notwithstanding this, core operating profits were up by a strong 62% on the back of 25% NII growth and 12% fee income growth. This helped cover up for the increased cost to income ratio (56.2% as against 45.2%).

#### We like Bank's controlled loan growth strategy

Bank continued its controlled loan growth strategy in Q4 FY07 as well with advances growing at 25.6%. As a result there was no pressure on raising wholesale resources. Despite this deposit growth stood at 22.2%; leaving ample excess liquidity on the books. Consequently credit deposit ratio improved modestly by 180bps to 67%.

#### Interest spread remained high on account of rising asset yield

Andhra Bank enjoys one of the highest advances yield amongst its peer group on account of high Agri and SME lending. The latter, which grew by 33.3% along with rise in lending rates, helped interest on advances grow by 44%. This coupled with low pressure on funding cost improved net interest spread by 25bps to 3.45% in Q4 FY07.

#### Asset quality blip in Q3 FY07, corrected in Q4 FY07

Asset quality was back to being the best within the peer group with net NPAs at 0.17%. The Bank put the Q3 FY07 blip in asset quality behind it as improved loan loss provisioning coupled with drop in gross NPAs. Gross NPAs now stood at Rs4bn as against Rs4.4bn in Q3 FY07, while net NPAs stood at Rs473mn and Rs575mn respectively.

#### Andhra Bank could trade at premium to its peers

Stable profit growth, expanding ROE, high ROA (best among its peers) and clean asset quality with net NPA at 0.17% is likely to improve valuations for the Bank. Consequently we expect the Bank to trade at a premium to its peers.

### Table: Valuation summary

	FY05	FY06	FY07E	FY08E	FY09E
Net Profit (Rs mn)	5,201	4,855	5,379	6,018	6,945
Growth (%)	12.2	(6.7)	10.8	11.9	15.4
EPS (Rs)	13.0	10.0	11.1	12.4	14.3
ROAA (%)	1.7	1.3	1.3	1.2	1.2
ROE (%)	31.6	20.5	17.6	17.7	18.4
PE (x)	6.3	8.1	7.4	6.6	5.7
P/ Bv (x)	1.8	1.4	1.2	1.1	1.0
P/ Adj Bv (x)	1.8	1.4	1.3	1.2	1.1

Source: Company data, India Infoline Estimates



Table: Quarterly Financials

(Rs mn)	Q4 FY07 (3)	Q4 FY06 (3)	Growth (%)	Q3 FY07 (3)	Growth qoq (%)	FY07 (12)	FY06 (12)	Growth (%)
Interest Income	9,699	7,232	34.1	8,128	19.3	33,147	26,744	23.9
Interest Expenses	(5,820)	(4,130)	40.9	(4,493)	29.5	(18,972)	(15,054)	26.0
Net Interest Income	3,879	3,102	25.1	3,635	6.7	14,175	11,690	21.3
Other Income	1,384	1,441	(3.9)	1,329	4.2	5,018	4,581	9.5
Net Total Income	5,263	4,543	15.9	4,964	6.0	19,193	16,271	18.0
Operating Expenses	(2,305)	(2,488)	(7.3)	(2,356)	(2.2)	(9,332)	(8,579)	8.8
Cost/ Income	56.2	45.2		52.5		48.6	52.7	
Pre Provisioning Profit	2,958	2,055	43.9	2,607	13.4	9,861	7,691	28.2
Provisions	(810)	(1,194)	(32.2)	(645)	25.7	(2,012)	(2,086)	(3.5)
Profit Before Tax	2,148	861	149.5	1,963	9.4	7,849	5,605	40.0
Tax	(760)	525	(244.8)	(600)	26.7	(2,470)	(750)	229.3
Profit After Tax	1,388	1,386	0.1	1,363	1.8	5,379	4,855	10.8
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Advances (Rs bn)	278	221	25.6	256	8.5	278	221	25.6
Deposits (Rs bn)	415	339	22.2	361	14.8	415	339	22.2
Assets (Rs bn)	475	407	16.9	425	12.0	475	407	16.9
CASA (%)	34.5	36.3		37.0		34.5	36.3	
NII/ Average Assets (%)	3.45	3.20		3.59		3.21	3.18	
GNPA (%)	1.41	1.94		1.72		1.41	1.94	
NNPA (%)	0.17	0.24		0.44		0.17	0.24	
GNPA (Rs mn)	3,970	4,369		4,396		3,970	4,369	
NNPA (Rs mn)	473	525		1,110		473	525	
CAR (%)	11.3	14.0		12.8		11.3	14.0	

Source: Company data, India Infonline Research



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