

BUZZING

STOCK

Andhra Bank

CMP – Rs.92

Analyst

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Key Stock Data

Sensex	13,072
Nifty	3,777
Sector	Banks – Public Sector
Bloomberg	ANDB@IN
Reuters	ADBK.BO
No. of shares (m)	485
Market Cap (Rs m)	44741
Market Cap (US\$ m)	1001
52-week H/L	Rs.109/56

Shareholding Pattern (%)

Promoters	51.55
Mutual Funds	5.17
FIs	18.21
Corporate Bodies	6.93
Pubic & Others	18.14

Q2FY07 Results
Good show of numbers

After a little subdued FY06, Andhra Bank is pushing up it's bottomline again in FY07. While the bank had put up a good show in core income areas in FY06, a dip in it's other income by 39% has caused a negative net profit growth in FY06. The NII in the latest quarter has grown by 15%, operating profit by 11%, and net profit by 10% to Rs.1,464m. The provisions have been significantly lower at Rs.92m against Rs.146m in the corresponding FY06 quarter.

Fund profile is aiding margin expansion

Andhra Bank has been serious on the margin front and has continuously worked towards maintaining the share of low cost deposits high in it's fund profile. The low cost deposits of the bank are close to 40%. While there has been a visible uptick in the cost of funds - +17bps to 4.85% in 1HFY07, the bank has managed to expand the NIM by 13bps to 3.81%.

The bank has gone slow in picking up deposits and they have grown only by 8.9% YoY to Rs.325bn. Advances however have moved up strongly 23% nudging the CD ratio from 64.5% in 1HFY06 to 72.8% in 1HFY07.

Andhra Bank for the present has seems to have successfully avoided what other banks could not. By not picking up deposits in the heated market, it has earned handsome basis points for it's NIM. The real test for the bank should come now. The scope for aggressively expanding credit now remains a close function of growth in deposits for the next two quarters. And this should also remain a test for how bank manages it's interest liabilities.

Good progress seen in non-interest income areas

Andhra Bank has maintained the share of it's non-interest fee based income areas to the total income earned. The fee income in 1HFY07 constitutes 11.75% of total income Rs.17,625 which is marginally up from 11.6% in September 2005. It's moved up a percent to 23% of net income for 1HFY07 against 22% in 1HFY06. The major change in other income YoY has been 13.6% dip in trading profit to Rs.232m. The fee and forex income has registered a growth of 23% to Rs.2,073m in 1HFY07.

Consistency seen in asset quality

The asset quality of Andhra Bank has shown impressive consistency in absolute and percentage terms. There seem to be no signals pointing towards delinquencies inspite of a rapid growth in assets. The bank's provisioning coverage has moved up from 88% in September 2005 to 93.5% in September 2006. The GNPA's on a YoY basis have declined from Rs.4,351m to Rs.4,161m. Hence, on an expanded base of gross credit, they have declined steeply by 51bps to 1.76%. The NNPA's too have declined 16bps to 0.1%.

The provisions for the latest quarter have only been on account of NPA's. The Rs.92m provision for NPA's is significantly down from Rs.146m in corresponding period last year.

Valuations

Andhra Bank has been amongst the preferred mid-sized bank stocks and has hence not gone totally undiscovered. The share price of Andhra Bank currently trades at 8.5x 1HFY07 EPS Rs.10.8. The bank's book value per share increased from Rs.51.4 in 1HFY06 to Rs.65 in 1HFY07. On current valuations, the bank's stock price is 1.4x the BVPS.

Given the sound fundamentals, Andhra Bank should be able to get multiples in the range of 1.7x – 1.8x based on current valuations. That means the bank should again touch it's 52-week high Rs.109.

Financial Snapshot										
Andhra Bank						Rs.m	Ratios (%)			
	Q2FY07	Q2FY06	Chng (%)	FY06	FY05	Chng (%)		FY06	FY05	Chng (%)
Interest Income	7,721	6,353	21.5	26,744	22,735	17.6	CD	66.7	65.2	2.3
Interest expended	4,412	3,468	27.2	15,054	12,044	25.0	CAR	14.0	12.1	15.6
NII	3,309	2,886	14.7	11,690	10,690	9.3	NIM	3.6	3.3	7.8
Other Income	1,287	1,179	9.1	4,581	7,534	(39.2)	RoA	1.8	1.4	33.3
Net Income	4,595	4,065	13.1	16,271	18,224	(10.7)	RoE	28.3	16.8	68.7
Operating expenses	2,365	2,060	14.8	8,579	8,295	3.4				
Payments to employees	1,459	1,247	17.1	4,929	5,395	(8.6)				
Other expenses	905	813	11.3	3,651	2,899	25.9				
Operating income	2,231	2,005	11.3	7,691	9,929	(22.5)				
Provisions and contg.	92	146	(37.1)	2,117	2,501	(15.3)				
NPA provisions	92	146	(37.1)	400	124	222.6				
Other provisions	0	0	-	1,717	2,377	(27.8)				
PBT	2,139	1,859	15.1	5,574	7,429	(25.0)				
Taxes	675	530	27.4	719	2,228	(67.7)				
PAT	1,464	1,329	10.2	4,855	5,201	(6.7)				

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