

Andhra Bank's profit growth of 10% was on the back of steady all round performance in its core business. While margins remained stable with 2bps expansion sequentially, fee income registered growth of 35%. Lower provisioning dented asset quality very marginally. We continue to maintain a positive stance on the Bank's operational performance. We value the Bank at 1.5x its one year forward adjusted book value, implying a price target of Rs107 and an upside potential of 15% from the current levels. We maintain our HOLD rating on the stock.

#### Financial highlights

(Rs mn)	Q2 FY07	Q2 FY06	Growth	FY07E	FY06E	Growth
	(3)	(3)	(%)	(12)	(12)	(%)
Interest Income	7,721	6,353	21.5	33,366	26,744	24.8
Interest Expenses	(4,412)	(3,468)	27.2	(19,385)	(15,054)	28.8
Net Interest Income	3,309	2,886	14.7	13,981	11,690	19.6
Other Income	1,287	1,179	9.1	4,594	4,581	0.3
Net Total Income	4,595	4,065	13.1	18,576	16,271	14.2
Operating Expenses	(2,365)	(2,060)	14.8	(9,237)	(8,579)	7.7
Pre Provisioning Profit	2,231	2,005	11.3	9,339	7,691	21.4
Provisions	(92)	(146)	(37.4)	(1,484)	(2,086)	(28.9)
Profit Before Tax	2,139	1,859	15.1	7,855	5,605	40.1
Tax	(675)	(530)	27.4	(2,357)	(750)	214.2
Profit After Tax	1,464	1,329	10.2	5,499	4,855	13.3
Equity Capital	4,850	4,000	-	4,850	4,000	-
EPS (Rs) Annualized	12.1	13.3	-	11.3	12.1	-
PE @ Rs93	7.7	7.0	-	8.2	7.6	-

Source: Company data, India Infoline estimates

#### Profit growth of 10% aided by steady all-round performance

Andhra Bank reported net profit growth of 10%, through a combination of steady growth in all in its business segments. Profit growth was further aided by loan loss provision write back, which reduced provisioning requirements. Loan growth was steady at 23%, however retail lending was up by 36% during the quarter.

#### Net interest margin remained flat at 3.8%

The Bank has consciously reduced its exposure to low yield corporates and concentrated on the SME, agriculture and retail segments. This is seen in the above average growth in these segments with SME growing by 23%, agriculture by 28% and retail by 36%. This apart, the Bank has contained deposit growth at mere 8% and run down investments to manage credit growth. This helped maintain net interest margin at 3.82% (2bps expansion sequentially) despite pressure experienced by majority of the sector.

#### CASA ratio up to 40% in Q2 FY07

CASA deposits recorded a sharp growth of 21% yoy taking its proportion to 39.8%. This is also up sequentially from 37.7% in Q1 FY07. The growth in CASA proportion was a result of restricting itself from mobilizing wholesale deposits, which helped improve deposits mix.

#### Fee income growth showing good momentum

Andhra Bank is slowly showing signs of improved fee income franchisee. The Bank reported a 35% growth in fee income in Q2 FY07, in continuance of the 12% growth reported in Q1 FY07. Apart from third party product distribution and credit products, Bank's credit card business has recorded good growth. Turnover in this segment has gone up by 27% to Rs5.1bn.



**India Infoline Result Update**  
**Andhra Bank (Q2 FY07)**  
**CMP Rs93, Rating HOLD**  
**October 30, 2006**

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**Lower provisioning dented asset quality marginally**

While gross NPAs remained constant at Rs41.6bn sequentially, net NPAs rose marginally from Rs159mn to Rs226mn. This was more a result of lower loan loss provisioning on account of some write backs. However, net NPAs on a proportionate basis remained stable at 0.1% for the Bank.

**Other highlights during the quarter**

The Bank entered MOUs with educational institutions like GMR institute of Technology, SV University, IIT, Asian School of Business Management, Bhubaneswar, Consortium of Institutions of Higher Learning, Hyderabad, Sri Balaji Society, Pune etc for extending finance to their students, at concessional rate of interest.

Real Time Gross Settlement (RTGS) facility has been introduced in 600 Branches and National Electronic fund Transfer (NEFT) facility in 25 branches.

ATM/Debit Cardholders increased to 2.07mn in Q2 FY07 from 1.94mn in Q1 FY07.

**Valuations**

Andhra Bank is one of the few Banks, which despite a big equity dilution would continue to report ROE of 18% in FY07 and FY08 respectively. This along with clean asset quality would continue to offer the Bank better than average valuations. We value the Bank at 1.5x its one year forward adjusted book value, implying a price target of Rs107 and an upside potential of 15% from the current levels. We maintain our HOLD rating on the stock.

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