

# Andhra Bank

## BUY

Sep 23<sup>th</sup>, 2010

**C.M.P:**  
**Rs.162.40**

**Target Price:**  
**Rs. 187.00**

### 1 Year Comparative Graph

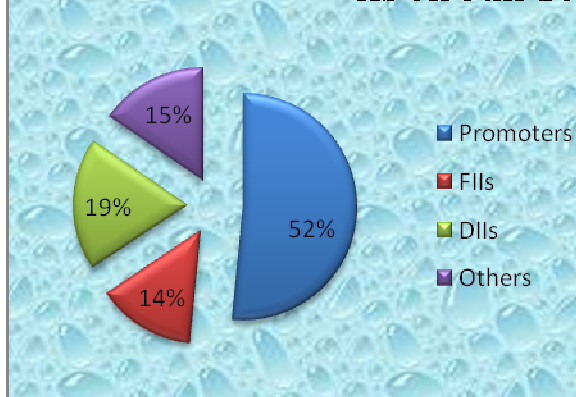


Andhra Bank Ltd BSE SENSEX

### Stock Data

<b>Sector</b>	Banks
<b>Face Value (Rs.)</b>	10.00
<b>52 wk. High/Low (Rs.)</b>	169.50/94.65
<b>Volume (2 wk. Avg.)</b>	256000
<b>BSE Code</b>	532418
<b>Market Cap (Rs.mn.)</b>	78764.00

### As on Jun 10



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### SYNOPSIS

- Andhra Bank is one of the leading public sector Banks offering a wide range of banking/financial services to its customers.
- The net profit during the Q1 FY 11 has increased to Rs.3204.10 millions from Rs. 2562.10 millions in the Q1 FY 10.
- The Capital Adequacy Ratio at the end of Q1 FY 11 is 13.25% as compared to 14.75% in Q1 FY 10.
- Andhra Bank has ranked 461 in one of the Top 500 Global financial Services Brands by UK based Brand Finance Company ranking.
- The Total Business of the Bank rose to Rs. 1, 31,844 crore, a growth of 24.59% from Rs. 1,05, 822 crore in June 2009.
- Andhra Bank issues Debit Cards with CVV and new feature of "Verified by Visa" was introduced.
- The company's net income and net profit are expected to grow at a CAGR of 19.85% and 29.15% over FY09 to FY12E.

Financials (Rs.mn.)	FY10	FY11E	FY12E
<b>Net Income</b>	63728.66	76474.39	92534.01
<b>Operating Profit</b>	18098.22	20987.87	23237.06
<b>PAT</b>	10458.48	12563.34	14067.14
<b>EPS (Rs.)</b>	21.56	25.90	29.00
<b>P/E (x)</b>	7.53	6.27	5.60

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## Peer Group Comparison

Name of the company	CMP(Rs.)	Market Cap.(Rs.Mn.)	EPS(Rs.)	P/E(x)	P/Bv(x)	Dividend (%)
Andhra Bank	162.40	78764.00	21.56	7.53	1.79	50.00
SBI	3140.55	1994243.3	153.54	20.45	3.02	300.00
Corporation Bank	693.00	99403.90	86.64	8.00	1.72	165.00
Vijaya Bank	82.15	35613.50	12.40	6.63	1.34	25.00

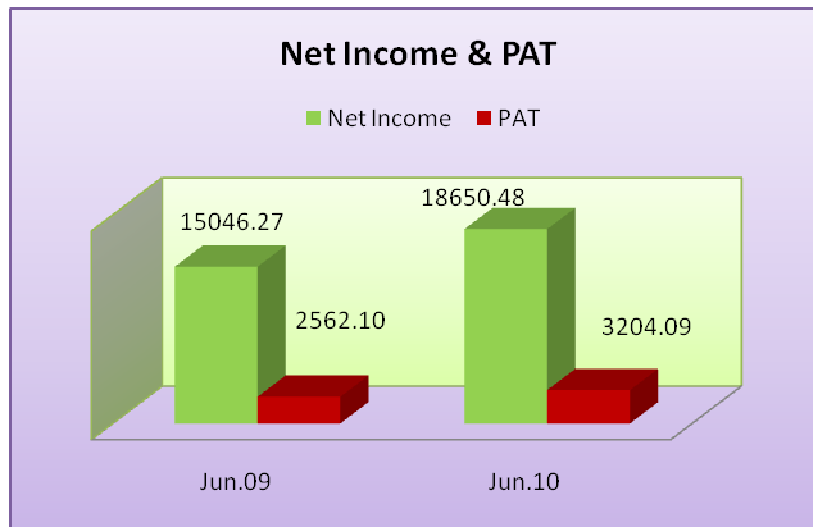
\*As on 23/09/2010

## Investment Highlights

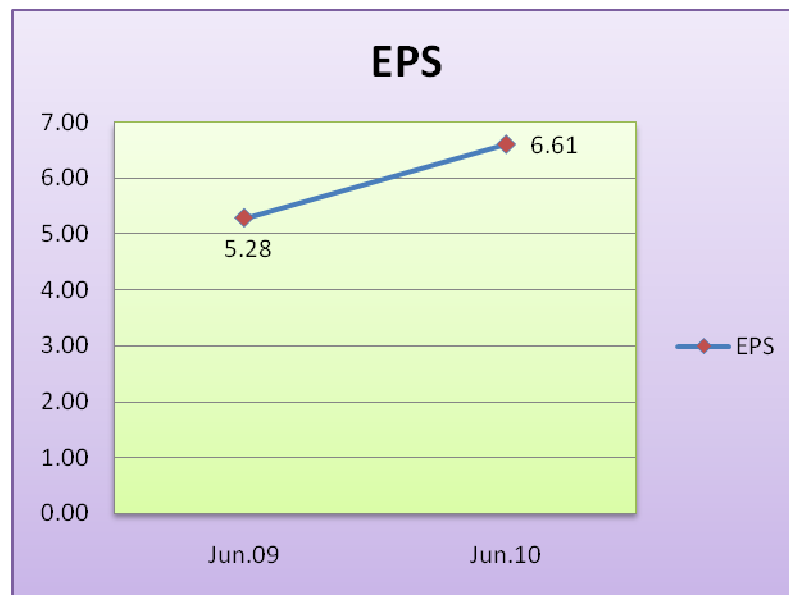
### ✚ Results Updates (Q1 FY11) (Standalone)

Andhra Bank has reported a net profit of Rs 3,204.10 million for the quarter ending on Jun.30, 2010 against Rs 2,562.2.10 million for the quarter ending on Jun.30, 2009, an increase of 25.05%. Interest earned stood at Rs 18,650.48 million for the quarter ending Jun.30, 2010 against Rs 15,046.27 million for the same quarter last year, a rise of 23.95%. Interest expended increased 5.37% to Rs 11,288.04 million from Rs 10,632.56 million in the same quarter last year.

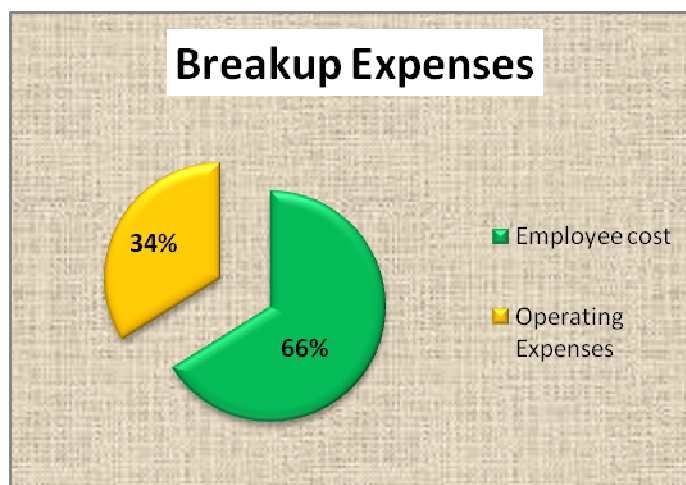
Quarterly Results - Standalone (Rs in mn)			
As at	Jun - 09	Jun - 10	%Change
<b>Net Income</b>	15046.27	18650.48	23.95%
<b>Net Profit</b>	2562.10	3204.10	25.05%
<b>Basic EPS</b>	5.28	6.61	25.06%



EPS of the company for the quarter stood at Rs.6.61 for equity share of Rs.10.00 each.

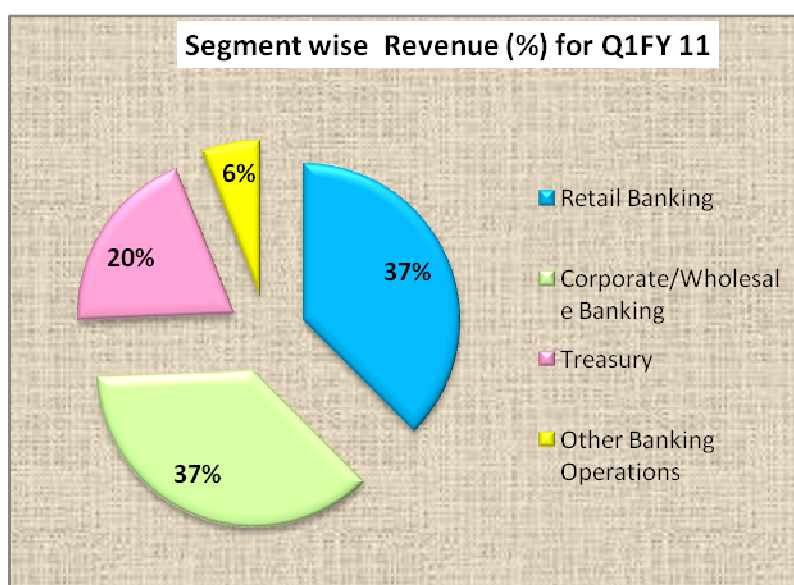


## Breakup Expenses



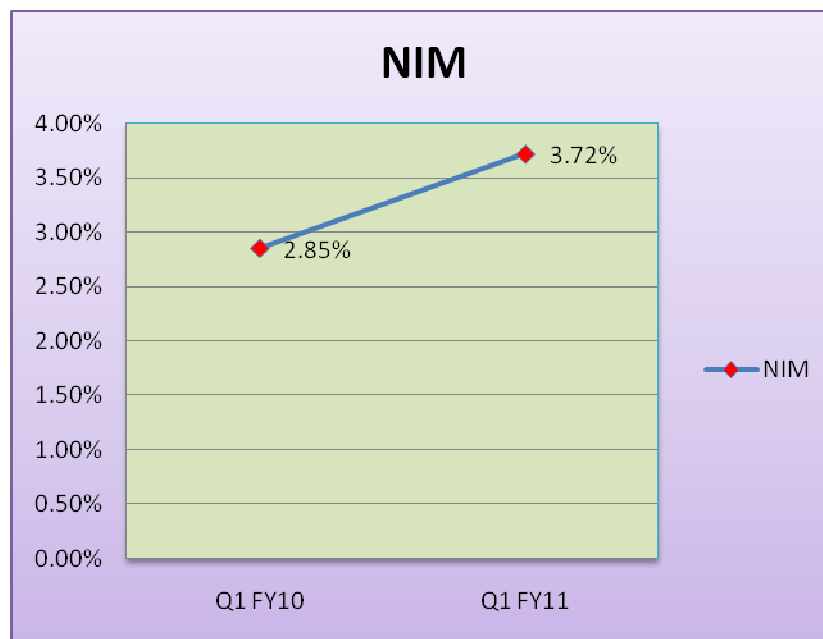
## Segment wise Revenue

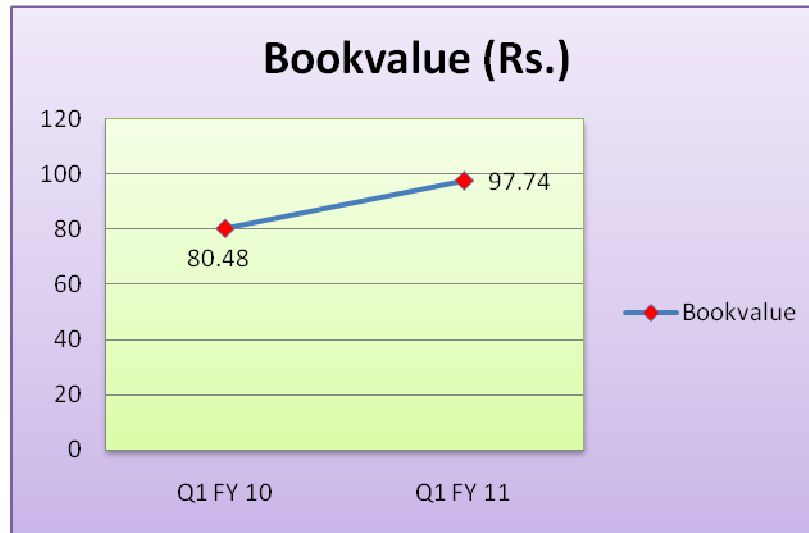
Particulars (Rs.mn.)	Q1 FY11
Retail Banking	77,803.00
Corporate/Wholesale Banking	76,364.00
Treasury	40,548.00
Other Banking Operations	12,608.00
<b>Total</b>	<b>207,323.00</b>



## Balance Sheet

- ✓ The operating profit of the bank for the quarter June 2010 stood at Rs. 510.40 crore against Rs. 348.00 crore in the quarter of June 2009, recorded a growth of 46.67%.
- ✓ Net Interest Income increased to Rs. 736.25 crore from Rs. 441.37 crore in the quarter of June 2009 with a growth of 66.81%. Net Interest Margin (NIM) moved up significantly to 3.72% for the quarter June 2010 from 2.85% of the quarter June 2009.
- ✓ Bank has earned Fee based income of Rs. 16.95 crore for the quarter ended June 2010 compared to Rs. 15.59 crore for June 2009.
- ✓ The book value increased to Rs. 97.74 as on June '10 from Rs. 80.48 a year ago. Return on Net worth also improved to 28.01% for June '10 versus 27.15% last year.





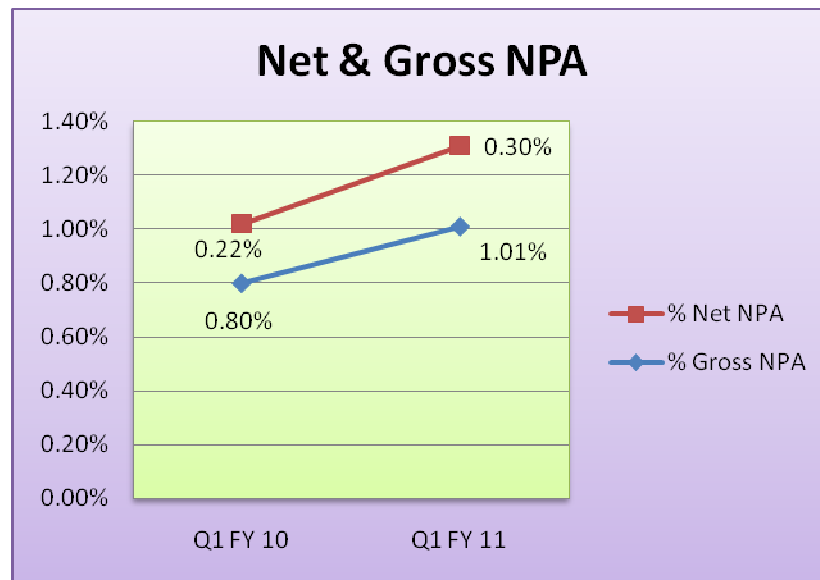
#### **Business Growth**

- a) **Total Business:** Total Business of the Bank as on 30.6.2010 stood at Rs. 1, 31, 844 crores. The total business increased by Rs. 26,022 from Rs. 1,05,822 crores as on 30.06.2009, recording a growth of 24.59%.
- b) **Deposits:** Total deposits of the Bank increased by Rs.13, 789 crore to Rs.74, 700 crore from Rs. 60, 911 crore as on 30.6.2009, recording a growth of 22.64%.
- c) **CASA Deposits:** CASA deposits increased from Rs.18, 646 crore as on 30.6.2009 to Rs.22, 089 crore as on 30.6.2010, registering a growth of 18.47%. The share of CASA deposits stood at 29.57%.
- d) **Advances:** The Gross Bank Credit stood at Rs.57, 144 crore as on 30.6.2010, registering an increase of Rs.12, 233 crore over Rs. 44,911 crore of previous year, with growth rate of 27.24%. The Credit Deposit ratio stood at 76.86%.

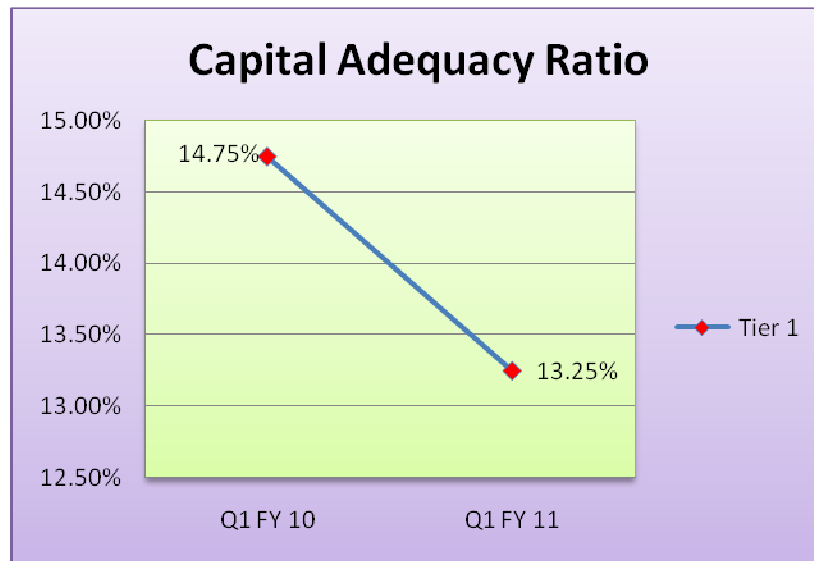
MSME Advances stood at Rs. 8,764 crore as at the end of June 2010, as against Rs.5, 978 crore as at the end of June 2009, reflecting a growth of 46.60%. Retail Advances also recorded a substantial growth of 36.69% over last year quarter, reaching Rs.8, 822 Crore by 30.6.2010, as against Rs.6, 454 crore as on 30.6.2009.

## ✚ Asset Quality & Recovery

- a) **NPA:** Gross NPAs stood at 1.01% as compared to 0.80% as on 30.6.2009. Net NPAs stood at 0.30% as on 30.6.2010 compared to 0.22% as on 30.6.2009. In absolute terms, the Gross NPA was Rs 579.26 crore (previous year Rs.359.08 Crore) and Net NPAs stood at Rs.169.78 crores (previous year Rs 99.61 crore).
- b) **Provision coverage:** The NPA Provision coverage ratio stood at 85.87% as at 30.6.2010, compared to 70% as at 30.6.2009.
- c) **Return on Assets:** The Return on Assets worked out to 1.47 % as compared to 1.48 % as at June 2009.
- d) **Capital Adequacy Ratio:** Capital Adequacy was at a robust 13.25% as against the regulatory minimum requirement of 9.00%.







#### **Ranked Global Banking 500**

ANDHRA BANK with a brand value of \$ 134 million, has been listed as one the Top 500 Global Financial Services Brands by UK based Brand Finance co. Andhra Bank is ranked 461 in the Brand Finance @ Global Banking 500.

#### **Financial Inclusion**

Andhra Bank is going ahead with the plans of Financial Inclusion of all 1144 villages above a population of 2000 allotted to them to be fully covered by March 2012. This is being done under the Business Correspondent Model using Information Communication Technology (ICT).

## **India International Bank (Malaysia) BHD**

Andhra Bank's joint venture banking subsidiary jointly with BOB and IOB in Malaysia has moved forward with clearances received from the regulator in Malaysia. The name is finalized as India International Bank (Malaysia) BHD.

## **Technology Initiatives**

- ✓ Number of ATMs increased to 886 as on 30th June 2010 from 778 as on 30th June 2009. Internet Banking (Retail and Corporate) with transaction facility was launched for CBS Customers.
- ✓ As on 30th June 2010, 70,645 customers (69146 Retail and 1499 Corporate customers) have registered for Internet Banking facility. Bank has been approved as Self Certified Syndicate Bank (SCSB) by SEBI for the purpose of accepting ASBA (Application Supported by Blocked Amount) applications from investors of IPOs / FPOs.
- ✓ As at the end of June 2010, Bank had 2531 delivery channels comprising 1560 branches, 47 extension counters, 886 ATMs and 38 Satellite offices.
- ✓ Andhra Bank issues Debit Cards with CVV for online payments and new security feature "Verified by Visa" was introduced as per RBI guidelines for transactions through Internet using Banks Credit and Debit Cards.

## **Company Profile**

Andhra Bank was founded by the eminent freedom fighter and a multifaceted genius, Dr. Bhogaraju Pattabhi Sitaramayya. The Bank was registered on November 20, 1923 and commenced business on November 28, 1923 with a paid up capital of Rs1.00 lakh and an authorised capital of Rs10.00 lakhs. Apart from regular banking services and solutions, Andhra Bank has introduced some attractive services such as AB Premium Current Account and AB Privilege Corporate Salary Savings Bank Account with extra benefits to the customers. Also, the bank has launched AB Saral Housing Loan scheme featuring housing loans upto Rs. 20 Lacs.

Andhra Bank has also partnered with various financial institutions like Kotak Mahindra, Reliance, Birla Sun Life Mutual Fund and Fidelity Mutual Fund, assisting them in sales of their Mutual Fund products. The bank has also signed a Memorandum of Understanding (MoU) with Maruti Suzuki Ltd. for financing 4 wheeler vehicles. Andhra Bank is the first bank in India to have launched mobile biometric ATMs. These ATMs stop at predestinated sites, and instead of entering the personal identification number (PIN), the customers have to match their finger prints with their recorded finger prints in the bank database. This has enabled even the illiterate or uneducated customers of the bank to enjoy the ATM facility being offered by the bank.

## Financials Results

### 12 Months Ended Profit & Loss Account (Standalone)

Value(Rs. in million)	FY09A	FY10A	FY11E	FY12E
Description	12m	12m	12m	12m
<b>Net Income</b>	<b>53746.17</b>	<b>63728.66</b>	<b>76474.39</b>	<b>92534.01</b>
Other Income	7653.82	9646.20	10128.51	10837.51
<b>Total Income</b>	<b>61399.99</b>	<b>73374.86</b>	<b>86602.90</b>	<b>103371.52</b>
Interest Expended	-37477.12	-41781.29	-49325.98	-60239.64
<b>Net Interest Income</b>	<b>23922.87</b>	<b>31593.57</b>	<b>37276.92</b>	<b>43131.88</b>
Operating Expenses	-11042.58	-13495.35	-16289.05	-19894.81
<b>Operating Profit</b>	<b>12880.29</b>	<b>18098.22</b>	<b>20987.87</b>	<b>23237.06</b>
Provisions & Contingencies	-3899.78	-3739.74	-3777.82	-3834.12
Profit before Tax	8980.51	14358.48	17210.06	19402.95
Tax	-2450.00	-3900.00	-4646.72	-5335.81
<b>Profit after Tax</b>	<b>6530.51</b>	<b>10458.48</b>	<b>12563.34</b>	<b>14067.14</b>
Equity Capital	4850.00	4850.00	4850.00	4850.00
Reserves	31619.93	39250.44	51813.78	65880.92
Face Value (Rs)	10.00	10.00	10.00	10.00
Total No. of Shares	485.00	485.00	485.00	485.00
<b>EPS (Rs)</b>	<b>13.46</b>	<b>21.56</b>	<b>25.90</b>	<b>29.00</b>

## Quarterly Ended Profit & Loss Account (Standalone)

Value(Rs. in million)	31-Dec-09	31-Mar-10	30-Jun-09	30-Sep-10E
Description	3m	3m	3m	3m
<b>Net Income</b>	<b>16025.63</b>	<b>17079.46</b>	<b>18650.48</b>	<b>19956.01</b>
Other Income	2242.49	2691.05	2081.87	2269.24
Total Income	18268.12	19770.51	20732.35	22225.25
Interest Expended	-10200.31	-10517.70	-11288.04	-12173.17
<b>Net Interest Income</b>	<b>8067.81</b>	<b>9252.81</b>	<b>9444.31</b>	<b>10052.08</b>
Operating Expenses	-3249.68	-3980.77	-4340.34	-4669.71
<b>Operating Profit</b>	<b>4818.13</b>	<b>5272.04</b>	<b>5103.97</b>	<b>5382.38</b>
Provisions & Contingencies	-964.22	-2229.40	-519.88	-807.36
Profit before Tax	3853.91	3042.64	4584.09	4575.02
Tax	-1100.00	-640.00	-1380.00	-1281.01
<b>Profit after Tax</b>	<b>2753.91</b>	<b>2402.64</b>	<b>3204.09</b>	<b>3294.01</b>
Equity Capital	4850.00	4850.00	4850.00	4850.00
Face Value (Rs)	10.00	10.00	10.00	10
Total No. of Shares	485.00	485.00	485.00	485
<b>EPS (Rs)</b>	<b>5.68</b>	<b>4.95</b>	<b>6.61</b>	<b>6.79</b>

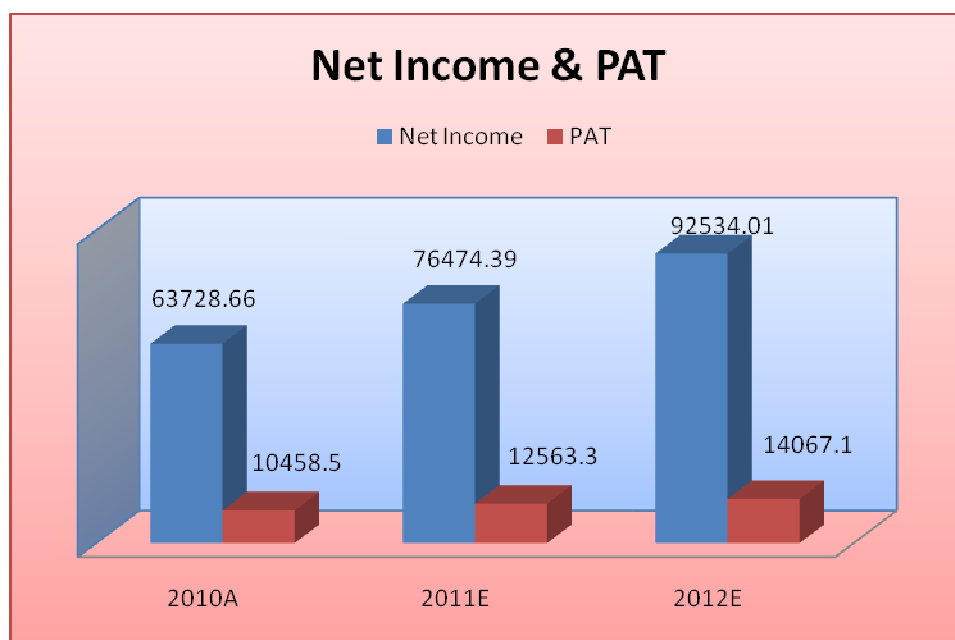
## Key Ratio

Particulars	2009(A)	2010(A)	2011(E)	2012(E)
Operating Profit Margin (%)	23.97%	28.40%	27.44%	25.11%
PAT Margin (%)	12.15%	16.41%	16.43%	15.20%
P/E (x)	12.06	7.53	6.27	5.60
ROE (%)	21.59%	27.55%	24.92%	21.86%
ROCE (%)	2.02%	2.07%	2.26%	2.36%
Debt Equity Ratio (x)	20.06	22.00	17.40	14.31
Book value (Rs)	75.20	90.93	116.83	145.84
P/BV (x)	2.16	1.79	1.39	1.11

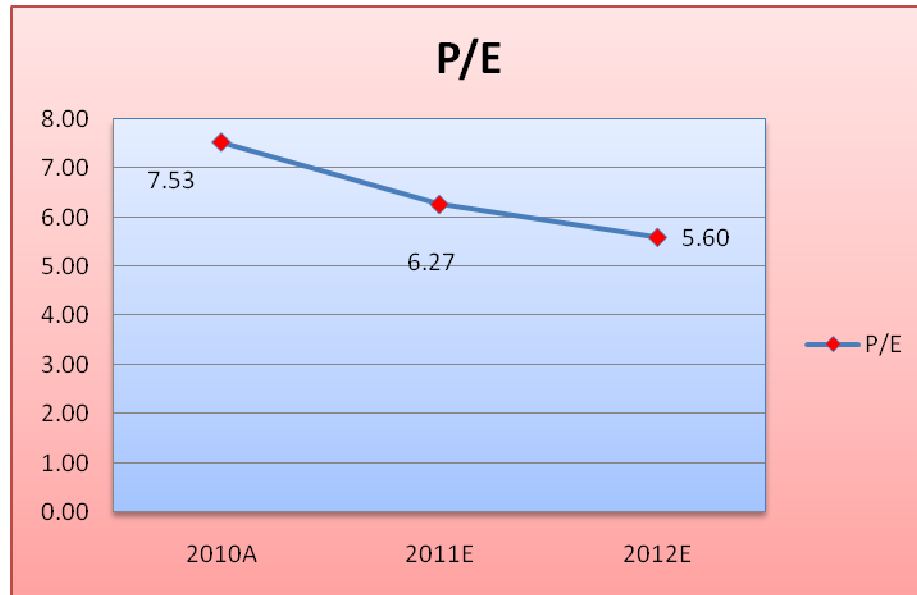
A-Actual E-Expected

## Charts:

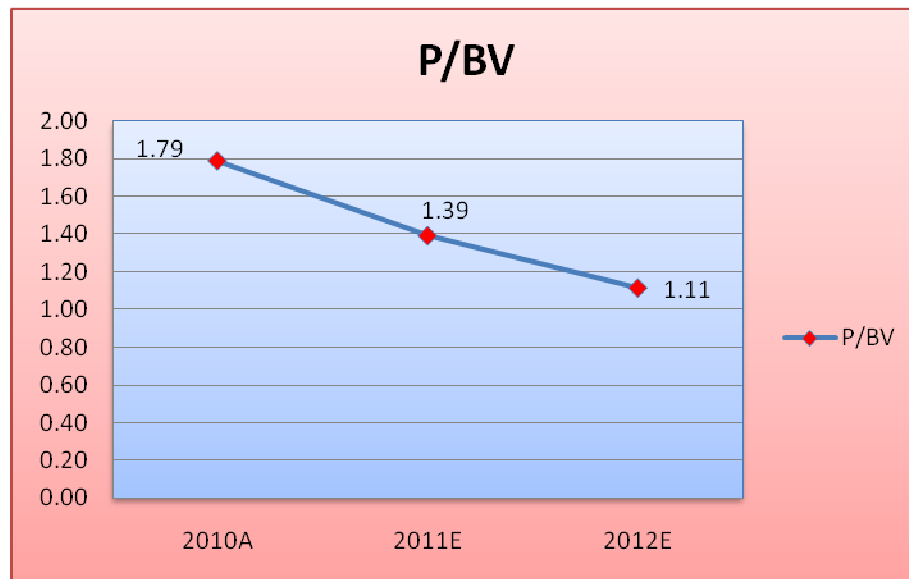
- Net Income & PAT**



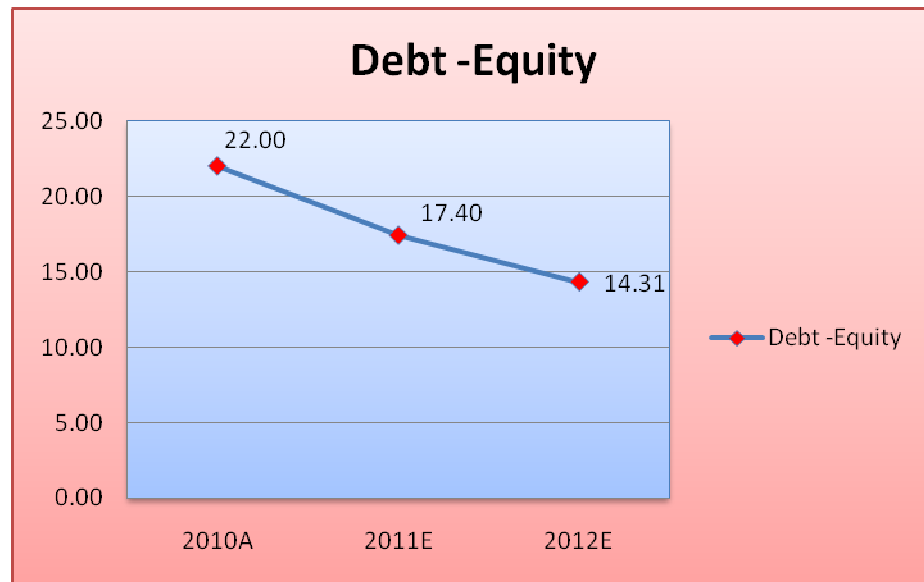
- **P/E Ratio (x)**



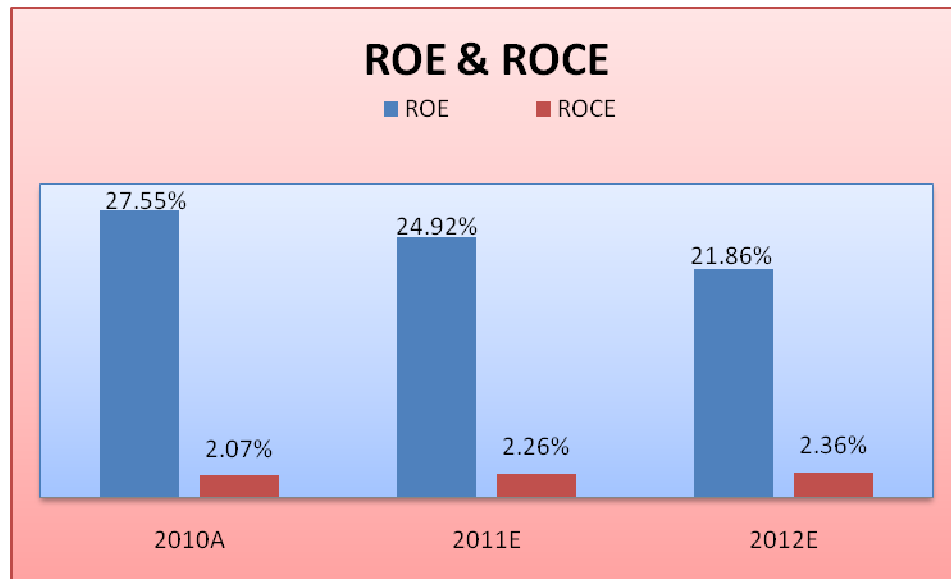
- **P/BV (X)**



- **Debt Equity Ratio (x)**



- **ROE & ROCE**





## Outlook and Conclusion

- At the market price of Rs.162.40, the stock is trading at 6.27 x and 5.60 x for FY11E and FY12E respectively.
- The OPM of the stock is at 27.44% for FY11E and 25.11% for FY12E.
- Price to book value of the company is expected to be at 1.39 x for FY11E and 1.11 x for FY12E respectively.
- EPS of the company is expected to be at Rs.25.90 and Rs. 29.00 for the earnings of FY11E and FY12E respectively.
- The Capital Adequacy Ratio at the end of Q1 FY 11 is 13.25% as compared to 14.75% in Q1 FY 10.
- Andhra Bank has ranked 461 in one of the Top 500 Global financial Services Brands by UK based Brand Finance Company ranking.
- At the end of June 2010, Bank had 2531 delivery channels comprising 1560 branches, 47 extension counters, 886 ATMs and 38 Satellite offices.
- We recommend '**BUY**' this stock with a target price of **Rs.187.00** for medium to long term investment.

## **Industry Overview**

### **Banking**

The Indian banking system is financially stable and resilient to the shocks that may arise due to higher non-performing assets (NPAs) and the global economic crisis, according to a stress test done by the Reserve Bank of India (RBI).

Significantly, the RBI has the tenth largest gold reserves in the world after spending US\$ 6.7 billion towards the purchase of 200 metric tonnes of gold from the International Monetary Fund (IMF) in November 2009. The purchase has increased the country's share of gold holdings in its foreign exchange reserves from approximately 4 per cent to about 6 per cent.

In the annual international ranking conducted by UK-based Brand Finance Plc, 20 Indian banks have been included in the Brand Finance® Global Banking 500. In fact, the State Bank of India (SBI) has become the first Indian bank to be ranked among the Top 50 banks in the world, capturing the 36th rank, as per the Brand Finance study. The brand value of SBI increased from US\$ 1.5 billion in 2009 to US\$ 4.6 billion in 2010. ICICI Bank also made it to the Top 100 list with a brand value of US\$ 2.2 billion. The total brand value of the 20 Indian banks featured in the list stood at US\$ 13 billion.

Meanwhile, loan disbursement from scheduled commercial banks which included regional rural banks as well posted a growth of 16.04 per cent by March 12, 2010, on a year-on-year basis, as per the latest data released by RBI. The RBI had earlier predicted that the credit growth during 2009-10 would be around 16 per cent.

Following the financial crisis, new deposits have gravitated towards public sector banks. According to RBI's 'Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks: September 2009', nationalised banks, as a group, accounted for 50.5 per cent of the aggregate deposits, while State Bank of India (SBI) and its associates accounted for 23.8 per cent. The share of other scheduled commercial banks, foreign banks and regional rural banks in aggregate deposits were 17.8 per cent, 5.6 per cent and 3.0 per cent, respectively.

With respect to gross bank credit also, nationalised banks hold the highest share of 50.5 per cent in the total bank credit, with SBI and its associates at 23.7 per cent and other scheduled commercial banks at 17.8 per cent. Foreign banks and regional rural banks had a share of 5.5 per cent and 2.5 per cent respectively in the total bank credit.

The report also found that scheduled commercial banks served 34,709 banked centres. Of these centres, 28,095 were single office centres and 64 centres had 100 or more bank offices.

The confidence of non-resident Indians (NRIs) in the Indian economy is reviving again. NRI fund inflows increased since April 2009 and touched US\$ 47.8 billion on March 2010, as per the RBI's June 2010 bulletin. Most of this has come through Foreign Currency Non-resident (FCNR) accounts and Non-resident External Rupee Accounts.

Foreign exchange reserves were up by US\$ 1.69 billion to US\$ 272.783 billion, for the week ending June 11, on account of revaluation gains. June 21, 2010.

### **Major Developments**

The Monetary Authority of Singapore (MAS) has provided qualified full banking (QFB) privileges to ICICI Bank for its branch operations in Singapore. Currently, only SBI had QFB privileges in country.

The Indian operations of Standard Chartered reported a profit of above US\$ 1 billion for the first time. The bank posted a profit before tax (PAT) of US\$ 1.06 billion in the calendar year 2009, as compared to US\$ 891 million in 2008.

Punjab National Bank (PNB) plans to expand its international operations by foraying into Indonesia and South Africa. The bank is also planning to increase its share in the international business operations to 7 per cent in the next three years.

The State Bank of India (SBI) has posted a net profit of US\$ 1.56 billion for the nine months ended December 2009, up 14.43 per cent from US\$ 175.4 million posted in the nine months ended December 2008.

Amongst the private banks, Axis Bank's net profit surged by 32 per cent to US\$ 115.4 million on 21.2 per cent rise in total income to US\$ 852.16 million in the second quarter of 2009-10, over the corresponding period last year. HDFC Bank has posted a 32 per cent rise in its net profit at US\$ 175.4 million for the quarter ended December 31, 2009 over the figure of US\$ 128.05 million for the same quarter in the previous year.

### **Government Initiatives**

The government plans to invest US\$ 3.63 billion into public sector banks to aid them for maintaining their capital adequacy ration (CAR), as per the Union Budget presented by the Union Finance Minister in February 2010. Out of the total allocation, US\$ 2.1 billion would be used for recapitalisation of the public sector banks during April-June 2010 and US\$ 1.5 billion will be invested during the rest of 2010-11.

The RBI has allowed banks to make changes in the repayment schedules or drawdown without prior approval from the central bank. However, such a change could be made on the condition that the average maturity of the loan should remain the same. The move is expected to make external commercial borrowing (ECB) transactions easier. Transactions both through automatic and approval routes can take advantage of this change. Now, without the prior approval of RBI, Indian companies may borrow up to US\$ 500 million in a year.

Further, RBI also allowed domestic scheduled commercial banks to open up their branches in Tier III to Tier VI regions that have population of up to 49,999 without the prior permission of the central bank. Banks such as PNB and UCO Bank are planning to take advantage of this initiative and would open around 440 and 89 branches, respectively, in such regions.

In its platinum jubilee year, the RBI, the central bank of the country, in a notification issued on June 25, 2009, said that banks should link more branches to the National Electronic Clearing Service (NECS). Ideally, all core-banking-enabled branches should be part of NECS. NECS was introduced in September 2008 for centralised processing of repetitive and bulk payment instructions. Currently, a little over 26,000 branches of 114 banks are enabled to participate in NECS.

The repo rate and the reverse repo rate were increased by 25 basis points each in mid-March 2010.

The Monetary Policy Statement 2010-11, dated April 20, 2010, specifies the following monetary measures:

The repo rate has been raised by 75 basis points from 5.25 per cent to 6.00 per cent with immediate effect.

The reverse repo rate has been raised by 50 basis points from 4.50 per cent to 5.00 per cent with immediate effect.

The cash reserve ratio (CRR) of scheduled banks has been raised by 25 basis points from 5.75 per cent to 6.0 per cent of their net demand and time liabilities (NDTL) effective the fortnight beginning April 24, 2010.

Meanwhile, outstanding bank credit in the 15 days up to January 29, 2010 rose by US\$ 4.32 billion, pointing to a revival in credit growth. This is the highest year-on-year growth recorded since August 14, 2009. Furthermore, the outstanding bank credit in the 15 days up to February 12, 2010, rose by US\$ 4.87 billion to US\$ 658.24 billion,

according to data from the Reserve of Bank of India (RBI), marking a 15.07 per cent year-on-year growth in credit.

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*Firstcall India also provides Financial Advisory services with respect to raising of capital through FCCBs, GDRs, ADRs and listing of the same on International Stock Exchanges namely AIMs, Luxembourg, Singapore Stock Exchanges and Other international stock exchanges.*

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