

## Strong profit but slippages may haven risen

July 28, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs137	Rs150
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,488
Sensex	18,210

Price Performance (%)	1M	3M	6M	12M
Absolute	2	(6)	4	(0)
Rel. to Nifty	3	0	6	(2)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Banks
Bloomberg	ANDB@IN
Equity Capital (Rs mn)	5596
Face Value(Rs)	10
No of shares o/s (mn)	560
52 Week H/L	190/124
Market Cap (Rs bn/USD mn)	77/1,745
Daily Avg Volume (No of sh)	195974
Daily Avg Turnover (US\$m)	0.6

### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	58.0	58.0	51.6
FII/NRI	13.4	14.8	18.2
Institutions	15.4	14.7	15.5
Private Corp	2.1	1.7	2.4
Public	11.1	10.8	12.4

Source: Capitaline

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- Andhra Bank's NII well above our estimates at Rs9.1bn; PAT at Rs3.9bn was up 20% yoy on back of lower provisions. However, gross NPAs saw sharp increase of 18% qoq
- Adjusted NII at Rs9.3bn was up 27% yoy. NII growth aided by strong 6% sequential growth in loan book. The reported NIMs were up 8bps qoq!!!
- Asset quality deteriorated further; credit costs at 0.15% appear low. Large exposure to problematic sector of MFI and power remains area of concern
- Though concerns remain on asset quality valuations at 0.9x FY13ABV and div yield of 5% will work as support. Maintain ACCUMULATE with target price of Rs150

### Topline ahead of expectations; PAT was driven by lower provisions

Andhra Bank Q1FY12 NII at Rs9.1bn was well above our estimates of Rs8.3bn. This growth in NII was led by healthy 3.5% yoy growth in loan book and mere 2bps sequential contraction in NIM. While non-interest income growth came in lower at Rs2.2bn (up 4.2%) muted increase in operating expenses and lower than expected provisions aided growth in net profit which was up 20.4% yoy to Rs3.9bn.

Adjusted for interest reversal, NII grew 26.6% yoy to Rs9.3bn. **The NIMs at 3.77% were up 8bps sequentially, only PSU bank to report qoq expansion in NIMs!!!**

### Yield analysis

%	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (bps)	QoQ (bps)
Yield on advances*	10.6	10.6	10.8	11.2	11.8	118	57
Yield on investments*	6.7	6.7	7.1	7.0	7.5	82	47
Yield on assets*	8.4	8.6	9.0	9.2	9.6	127	44
Cost of funds*	5.1	5.1	5.4	5.9	6.3	124	46
NIM*	3.3	3.5	3.6	3.4	3.3	3	-2
NIM#	3.7	0.0	3.9	3.7	3.8	5	8

Source: Company, Emkay Research Note: \* Calculated on basis of average quarterly balances. #reported

### Favorable loan mix and lower cash balances could have driven NIMs

We believe that the NIMs expansion would have been driven by (1) 50bps increase in the lending rates last quarter (2) favorable loan mix (SME + retail i.e ~30% of total loan portfolio) and (3) in Q4FY11, ANDB had significantly high RBI and cash balances which may have been redeemed now.

### Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2010	31,594	10,455	21.6	89.0	1.3	26.0	7.3	1.5
FY2011	41,179	12,664	22.6	111.1	1.3	23.2	6.1	1.2
FY2012E	45,214	13,656	24.4	131.1	1.1	19.2	5.6	1.0
FY2013E	52,069	16,652	29.8	156.7	1.2	19.6	4.6	0.9

Source: Company, Emkay Research

**Key financials – Quarterly**

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Net Interest Income	7,362	7,832	8,399	8,615	9,105	23.7	5.7
Other Income	2,082	1,912	1,986	2,990	2,170	4.2	-27.4
Net Income	9,444	9,744	10,386	11,605	11,274	19.4	-2.9
Total Operating Expenses	4,341	4,099	4,119	4,490	4,277	-1.5	-4.8
As % Of Net Income	46.0	42.1	39.7	38.7	37.9		
Employee Expenses	2,871	2,601	2,595	2,976	2,731	-4.9	-8.3
As % Of Net Income	30.4	26.7	25.0	25.6	24.2		
Other Expenses	1,471	1,498	1,524	1,514	1,546	5.1	2.1
As % Of Net Income	15.6	15.4	14.7	13.0	13.7		
Operating Profit	5,103	5,645	6,266	7,115	6,998	37.1	-1.7
As % Of Net Income	54.0	57.9	60.3	61.3	62.1		
Provisions	519	1,196	1,717	3,027	1,770	241.0	-41.5
Prov for NPA	174	957	1,520	2,028	1,171	574.0	-42.3
PBT	4,584	4,450	4,549	4,088	5,228	14.0	27.9
Total Tax	1,380	1,420	1,240	960	1,370	-0.7	42.7
Adjusted PAT	3,204	3,030	3,309	3,128	3,858	20.4	23.3
Extra Ordinary Items	0	0	0	0	0		
Reported PAT	3,204	3,030	3,309	3,128	3,858	20.4	23.3
Reported EPS	6.6	6.2	6.8	5.6	6.9	4.6	23.3

Source: Company, Emkay Research

**B/s. growth remained muted despite exponential growth in loan book**

While loan portfolio expanded 6% qoq, growth in balance sheet was lower at 0.6% sequentially. We believe this could have been due to redemption of high RBI and cash balances.

ANDB bank has huge exposure to problematic sectors of Power and MFI segment. During our recent interaction, management clearly directed that 70% of incremental lending is towards infra segment. We expect some slippages on this portfolio.

On the liabilities front, deposits for the bank were up 22% yoy (albeit down 1.4% qoq). While CASA deposits grew 14.5% yoy, significant accretion was seen in term deposits. Term deposits for the bank were up 25% yoy. The bank has ~30% of its deposits in the nature of bulk deposits.

**All round performance on the loan growth front**

The 6% sequentially growth in loan book was supported by all round growth in segments of - SME (up 4.2% qoq and 32.1% yoy), retail (up 3.9% qoq and 23.5% yoy) and other including large corporate (up 8.3% qoq and 39.4% yoy).

**Loan book breakdown**

Rs bn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Mid-corporate/SME	88	92	98	111	116	32.1	4.2
Agriculture	89	96	101	104	105	18.0	1.0
Retail	88	92	100	105	109	23.5	3.9
Others	307	329	357	395	428	39.4	8.3
<b>Total</b>	<b>571</b>	<b>610</b>	<b>656</b>	<b>714</b>	<b>757</b>	<b>32.5</b>	<b>6.0</b>

**CASA ratio remains in sub-30% mark**

CASA deposits at Rs253bn were down 5.5% qoq primarily led by step 22% qoq decline in current deposits. With targeted branch addition and initiative towards mobilizing CASA deposits, we expect CASA ratio for the bank to improve further. CASA ratio for the bank as at end Q1FY12 came in at 27.8% (down 122bps qoq).

**CASA mix**

Rs bn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Current Deposits	52	61	52	72	56	7.5	-22.1
Savings Deposits	169	178	182	196	197	16.7	0.5
CASA	221	238	234	268	253	14.5	-5.5
Term deposits	526	548	587	654	656	24.7	0.3
Total Deposits	747	786	821	922	909	21.7	-1.4
CASA (%)	29.6	30.3	28.5	29.1	27.8	-174	-122

**Asset quality deteriorates further; credit cost at 0.15% appears too low**

GNPA at Rs11.7bn were up 18.2% qoq. We believe this could predominantly be on account of system based NPA recognition. The bank provided Rs625mn towards RBI regulated norm for NPA including restructured assets. With PCR at 71.3%, NNPA was up 23.3% qoq to Rs3.4bn. We believe that the slippages could have been in the range of Rs2-2.5bn for the quarter.

**Provision break up**

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
On NPL	174	174	957	1,520	1,171	574.0	-23.0
As % of advances	0.03	0.03	0.15	0.21	0.15		
Others	345	345	239	197	599	73.5	
<b>Total</b>	<b>519</b>	<b>519</b>	<b>1,196</b>	<b>1,717</b>	<b>1,770</b>	<b>241.0</b>	<b>3.1</b>

Source: Company, Emkay Research

**Asset quality**

Rs bn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Gross NPA (Rs bn)	5,793	7,702	8,723	9,956	11,764	103.1	18.2
Net NPA (Rs bn)	1,698	2,994	3,081	2,737	3,374	98.7	23.3
Gross NPA (%)	1.0	1.3	1.3	1.4	1.6		
Net NPA (%)	0.3	0.5	0.5	0.4	0.5		
Net NPLs/Net worth (%)	3.6	5.9	5.7	4.2	4.9		
Provision cover (%)	70.7	61.1	64.7	72.5	71.3	63	-119
Provision cover (incl tech w/off)	85.9	78.9	80.4	83.9	82.0	-386	-193

Source: Company, Emkay Research

**Valuations and view**

While reported NIM expanded 8bps qoq to 3.77%, we believe with huge term deposit base and high bulk deposits, margins would compress by 20bps over FY12. The slippages have been on rise for last two quarters and high exposure to SME, MFI and power sector could spring more surprises on NPAss. However, valuations at 0.9x FY13ABV with 5% dividend yield are not undemanding. We maintain ACCUMULATE with target price of Rs150

**Key Financials****Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	21,947	32,210	36,381	41,673
Other income	9,646	8,970	8,833	10,396
Net income	31,594	41,179	45,214	52,069
Operating expenses	13,495	17,049	18,179	20,170
Pre provision profit	18,098	24,131	27,035	31,899
PPP excl treasury	14,853	22,723	26,535	31,399
Provisions	3,740	6,461	7,992	8,678
Profit before tax	14,359	17,669	19,044	23,221
Tax	3,900	4,999	5,387	6,569
Tax rate	27%	28%	28%	28%
Profit after tax	10,459	12,671	13,656	16,652

**Balance Sheet (Rs. Mn)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
<b>Liabilities</b>				
Equity	4,850	5,596	5,596	5,596
Reserves	39,250	59,328	71,656	86,653
Net worth	44,100	64,924	77,252	92,249
Deposits	776,882	921,563	1,126,440	1,352,198
Borrowings	82,441	102,520	102,789	104,298
Total liabilities	903,424	1,089,007	1,306,481	1,548,745
<b>Assets</b>				
Cash and bank	111,677	104,590	118,683	156,081
Investments	202,994	236,180	286,977	342,692
Customer assets	566,951	720,213	877,371	1,025,528
Others	21,802	28,024	23,449	24,444
Total assets	903,424	1,089,007	1,306,481	1,548,745

**Key Ratios (%)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	2.8	3.2	3.0	2.9
Non-ll/avg assets	1.2	0.9	0.7	0.7
Fee income/avg assets	0.3	0.2	0.2	0.2
Opex/avg assets	1.7	1.7	1.5	1.4
Provisions/avg assets	0.6	0.7	0.9	0.9
PBT/avg assets	1.6	1.6	1.5	1.5
Tax/avg assets	0.4	0.5	0.4	0.4
RoA	1.3	1.3	1.1	1.2
RoAE	26.0	23.2	19.2	19.6
GNPA (%)	0.9	1.4	1.6	1.7
NNPA (%)	0.2	0.4	0.4	0.4

**Valuations Table**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	10,455	12,664	13,656	16,652
Shares in issue (mn)	485	560	560	560
EPS (Rs)	21.6	22.6	24.4	29.8
PER (x)	6.4	6.1	5.6	4.6
FDEPS(Rs)	18.7	22.6	24.4	29.8
FDPER (x)	7.3	6.1	5.6	4.6
Book value (Rs)	90.9	116.0	138.1	164.9
P/BV (x)	1.5	1.2	1.0	0.8
Adj book value (Rs)	89.0	111.1	131.1	156.7
P/ABV (x)	1.5	1.2	1.0	0.9
P/PPP (x)	3.7	3.2	2.8	2.4
Dividend yield (%)	3.6	4.0	4.7	5.1

**Recommendation History: Andhra Bank – ANDB IN**

Date	Reports	Reco	CMP	Target
02/02/2011	<a href="#">Andhra Bank Q3FY11 Result Update</a>	Buy	137	165
29/10/2010	<a href="#">Andhra Bank Q2FY11 Result Update</a>	Buy	176	210
27/01/2010	<a href="#">Andhra Bank Q3FY10 Result Update</a>	Accumulate	107	130
29/10/2009	<a href="#">Andhra Bank Q2FY10 Result Update</a>	Accumulate	112	130

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
27/07/2011	<a href="#">Bank of Baroda Q1FY12 Result Update</a>	Hold	875	950
27/07/2011	<a href="#">Canara Bank Q1FY12 Result Update</a>	Hold	496	535
25/07/2011	<a href="#">Bank of India Q1FY12 Result Update</a>	Hold	404	420
22/07/2011	<a href="#">Union Bank of India Q1FY12 Result Update</a>	Hold	309	330

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