



## Company Report

### Andhra Bank Ltd.

24<sup>TH</sup> Nov '09**BUY**

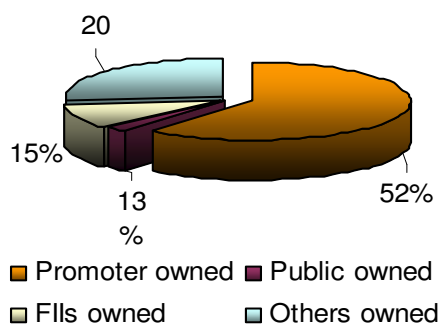
CMP Rs 117

Target Price Rs 155

BSE Code	532418
NSE Code	ANDHRABANK
Market Cap (Rs Mn)	56745.00
52 Week High/Low	125/37
Industry	Banking
Face Value	Re 10
Shares O/S	48,50,00,000
Avg Daily Vol (30 Days)	2.12

EPS (TTM)	19.45
Book Value	75.46
Beta	1.15
P/E	6.01
P/B	1.55

#### Shareholding Pattern



### Company snapshot

Andhra Bank, founded by the freedom fighter Dr. Bhogaraju Pattabhi Sitaramayya, commenced business on 28 November 1923. The bank is headquartered in Hyderabad and has a concentrated network in the state of Andhra Pradesh with major proportion of its advances being generated from the branches located in the state.

### Robust Quarterly Performance

Ratios (%)	Q2FY10	Q2FY09	Q1FY10
<b>NIM</b>	<b>2.90</b>	<b>3.00</b>	<b>2.50</b>
<b>NNPA</b>	<b>0.16</b>	<b>0.24</b>	<b>0.22</b>
<b>Return on Assets*</b>	<b>1.54</b>	<b>1.12</b>	<b>1.44</b>
<b>Return on Equity*</b>	<b>30.05</b>	<b>19.89</b>	<b>25.60</b>
<b>Cost of Funds*</b>	<b>5.88</b>	<b>6.21</b>	<b>6.13</b>
<b>Cost on Deposits*</b>	<b>6.70</b>	<b>7.08</b>	<b>7.05</b>
<b>Cost to income ratio</b>	<b>39.45</b>	<b>50.27</b>	<b>48.78</b>
<b>Prov Coverage Ratio</b>	<b>81.12</b>	<b>76.65</b>	<b>72.26</b>

\*: Figures has been annualized

The Bank has posted whopping qtrly result during the qtr ending Sept'09. The return on Asset of bank stood at 1.54% as compare to 1.12 % ( Q2FY09) & 1.44 % ( Q1FY10).The bank has also shown rise in Return on Equity as it stood at 30.05% as compare to 19.89%(YoY) & 25.60%(QoQ).The Provision coverage ratio of bank stood at 81.12% as compare to 76.65 % ( Q2FY09) & 72.26 % ( Q1FY10) The cost ratios of the bank depicted the firm trend as cost of funds shown drop to 5.88% from 6.21% (YoY) & 6.13%(QoQ)The cost to income ratio of bank has also shown great improvement to 39.45% from 50.27%(YoY) and 48.78% (QoQ).The Net Interest Margin of bank increased to 2.90% form 2.50% in qtr ended June'2009.The growth was mainly attributed to drop in cost of funds and higher credit to deposit ratio during the qtr ended Sept'09.

## *Business Details*

Andhra Bank, founded by the freedom fighter Dr. Bhogaraju Pattabhi Sitaramayya, commenced business on 28 November 1923. The bank is headquartered in Hyderabad and has a concentrated network in the state of Andhra Pradesh with major proportion of its advances being generated from the branches located in the state. Andhra Bank is a fast growing public sector bank in the country with a total business size of Rs.110460 crore as on 30 Sept 2009. It renders services through 2421 delivery channels consisting of 1536 branches, 798 ATMs spread over 22 states and 2 Union Territories. The bank played an important role towards developing and expanding self help groups (SHGs). It continued to focus on agriculture and allied activities ensuring a steady flow of credit to this sector. Finance to Agricultural sector by bank stood at Rs 7482 Crores. All Branches of the Bank are under CBS. Bank has also launched Online Tax payment (eTax) along with Internet Banking (Retail as well as Corporate). Bank also provides facilities like SMS Alerts over Mobile Phones for certain type of transactions and account balances are made available to clientele registered for this facility. As on 30th September 2009, 7.53 Lakh customers got registered for this facility. Bank is also providing its customers facility to request for account information through SMS-pull facility. Customer can seek balance enquiry, mini-statement, cheque status, etc through this facility. Bank also offers customers the facility to subscribe to Initial Public Offers of corporate using Applications Supported by Blocked Amount Scheme. Bank's Internet Banking Customers can participate in Online Trading via M/s Religare. Bank has also launched a web based fast forex remittance facility (AB Speedway) for the benefit of NRIs of U.S.A .

## *Industry Outlook*

Indian banking industry faced many uncertainties during 2008-09 in the face of tight market liquidity in the global financial markets. The RBI's prompt and relevant measures ensured adequate domestic and foreign liquidity to Indian banking industry so that the flow of credit to productive sectors would not suffer much. Yet, on account of the severe global economic slowdown and its spillover effects on India, growth of bank credit to commercial sector decelerated in 2008-09. Moreover, expansion in net foreign exchange assets of the Indian banking industry moderated to a large extent. However, the Indian banks, in general, posted healthy financial results during 2008-09 compared to their global peers despite challenging economic conditions. The outlook for Indian banking industry remains positive in 2009-10 on the backdrop of its stricter prudential regulation by the RBI, sound financial indicators and stable political regime.

## Investment Rationale

### *Undertaken various Brand Build measures*

Bank has recently received R2 approval for the insurance Joint Venture with Legal & General and Bank of Baroda. Also, Bank has signed MOU for launching a banking subsidiary in Malaysia jointly with Bank of Baroda and Indian Overseas Bank. This will help the bank in expanding its presence in Malaysia. Bank has tied up with Piaggio Vehicles aimed at offering a highly competitive retail financing scheme that ensure low interest rates to the customers which will in turn provide boost to the credit offtake of bank. Also, the new corporate slogan '**Andhra Bank...for all your needs**' is introduced during the first quarter reflecting good recall and visual value.

### *Branch Expansion*

Bank has opened 104 branches during the Half year taking the total number of branches to 1536. With 49 ECs, 38 Satellite Offices and 798 ATMs the total number of delivery channels of banks has increased to 2421. Also, number of ATMs of the Bank increased to 798 as on 30-09-2009. Besides Banks owned ATMs, the ATM/ Debit Cards issued by Bank are accepted on NFS Network, VISA Network and under bilateral arrangements numbering in all 45000 ATMs Number of ATM/Debit Cards issued by the bank increased from 35.4 Lakhs as on 31-03-2009 to 45.52 Lakhs as on 30-09-2009. For remote branch connectivity for CBS, Bank has deployed 251 VSATs.

### *Robust Credit growth*

Retail credit registered robust growth of 34.73% over previous year and reached Rs. 7149 Crs as at the end of September-09 Also, lending to MSME sector has gone up by 52.19% and reached Rs. 6835 Crs. All other advances including Corporate credit moved up to Rs. 25645 Cr from Rs. 19800 Cr, year on year.

### *Future Plans*

Bank aims to attain a business mix of Rs.1,30,000 Crs by the end of March 2010 at a growth rate of 30% and Rs.1,50,000 Crs by September 2010. Bank is also targeting to reach CASA percentage of 33% of total deposits by March2010. Bank shall be rolling out the insurance products of its own Joint Venture for sale by July 2010. Banking subsidiary in Malaysia jointly with BoB and IOB expected to function next year.

## Annual Financial Matrix

Rs Cr

Particulars	FY06	FY07	FY08	FY09
<b>Net Interest Income</b>	1169.10	1417.68	1340.20	1627.87
<b>Growth%</b>	----	21.26	(5.47)	21.46
<b>Other Income</b>	392.63	446.82	630.61	765.36
<b>Net Income</b>	1561.74	1864.51	1970.82	2393.24
<b>Growth%</b>	----	19.39	5.70	21.43
<b>Operating Expenditure</b>	858.78	933.51	909.19	1104.40
<b>Pre Provision profit</b>	702.95	931.00	1061.62	1288.83
<b>Growth%</b>	---	32.44	14.03	21.40
<b>Provisions</b>	145.18	146.34	139.37	390.05
<b>PBT</b>	557.77	784.66	922.25	898.79
<b>Tax</b>	71.98	246.91	342.534	245
<b>PAT</b>	485.79	537.75	579.72	653.79
<b>Associate Profit/Loss</b>	2.70	1.90	3.08	2.26
<b>Adjusted PAT</b>	488.50	539.66	582.80	656.05
<b>Growth</b>	----	10.47	7.99	12.57
<b>Adjusted NPM</b>	31.28	28.94	29.57	27.41
<b>Equity Capital</b>	485.00	485.00	485.00	485.00
<b>EPS</b>	10.00	11.10	12.00	13.50

### Quarterly Financial Matrix

Rs Cr

Particulars	Q2FY10	Q2FY09	Q1FY10
Net Interest Income	514.65	433.51	441.37
Other Income	233.19	126.39	238.07
Net Income	747.85	559.91	679.45
Operating Expenditure	295.04	281.49	331.44
Pre Provision profit	452.81	278.42	348.00
Provisions	57.83	56.89	(3.22)
PBT	394.98	221.53	351.23
Tax	121.00	60.00	95.00
PAT	273.98	161.53	256.23
Equity Capital	485.00	485.00	485
EPS	5.60	3.30	5.30

### Yield Analysis

Ratios (%)	Q2FY10	Q2FY09	Q1FY10
Yield on Advances	10.53	11.27	10.85
Yield on Invst	6.26	7.04	6.50
Yield on Assets	8.78	9.21	8.69

Note : Figures has been annualized

### Cost Ratios

Ratios (%)	Q2FY10	Q2FY09	Q1FY10
Cost on Deposits*	6.70	7.08	7.05
Cost of Funds*	5.88	6.21	6.13
Cost to Income Ratio	39.45	50.27	48.78

\* : Figures has been annualized

### Return ratios

Ratios (%)	Q2FY10	Q2FY09	Q1FY10
NIM	2.90	3.00	2.50
Return on Equity	30.05	19.89	26.26
Return on Assets	1.54	1.12	1.48

Note : Figures has been annualized

### Other Ratios

Ratios (%)	Q2FY10	Q2FY09	Q1FY10
NNPA%	0.16	0.24	0.22
GNPA%	0.83	1.03	0.80
CD Ratio	77.36	72.14	74.39
CASA Ratio	32.34	34.14	30.69
Prov Coverage ratio %	81.12	76.65	72.26

## Past Price movement of the stock



## Valuation

At the current price of Rs 117, the Bank is trading at 6.01 times to its TTM eps of Rs 19.45. The bank has posted whopping results for qtr ended Sept'09. With the plans of strengthening its network and customer base while focusing on further enhancement in the customer service through innovative products and services, bank will continue to leverage technology for an all-round performance.

Looking at the strong financial performance, the bank looks undervalued at the current price of Rs 117. Hence we recommend investors to "BUY" the stock with the price target of Rs 155 in medium term which is 32% above from the current price of Rs 117.

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HEM MULTI COMMODITIES PRIVATE LIMITED

MEMBER-NCDEX, MCX

HEM FINANCIAL SERVICES LIMITED

SEBI REGISTERED CATEGORY I MERCHANT BANKER

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