

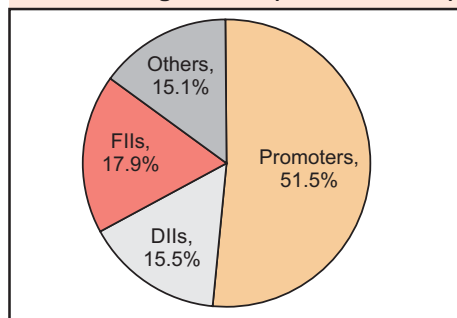
**ANDHRA BANK LTD.**

**Q3FY11 Result Update**

February 4, 2011

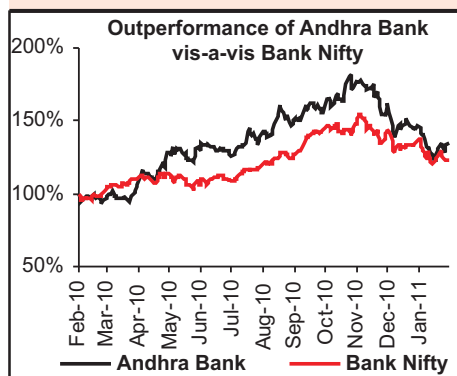
Key Stock Data	
Sector	Public Bank
CMP	₹138.65
52-wk High / Low	₹190.15 / 94.65
Market Cap	₹67.25bn (\$1461.9mn)
Avg 6m daily vol.	196305
BSE Sensex	18449.31
Reco	Buy
Target Price	₹185
Stock Codes	
Bloomberg Code	ANDB.IN
Reuters Code	ADBK.BO
BSE Code	532418
NSE Code	ANDHRABANK
Face Value	₹10per share

**Shareholding Pattern (31st Dec, 2010)**



Price Performance (%)			
1 Mth	3 Mths	6 Mths	1 Yr
-7.6%	-23.4%	-5.4%	34.7%

**Stock Price Performance**



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Andhra bank has reported strong operating performance in 3QFY11 and much above the market expectations. NII grew 44.2% on yoy basis mainly aided by strong growth in loan book (27.7% yoy) along with sharp improvement in NIM (56 bps yoy). Net profit increased by 20.2% yoy on back of strong core earnings inspite of subdued non-interest income.

**Key Performance Highlights**

➤ **Healthy growth in business**

The total business of the bank grew at 25.3% (yoy) to ₹147682cr at the end of 3QFY11 from ₹117899cr as of 3QFY10. Total deposits of the bank rose 23.4% to ₹82095cr at the end of 3QFY11 from ₹66547cr as of 3QFY10. CASA ratio declined marginally to 28.5% at the end of 3QFY11 from 30.4% as of 2QFY11 and 30.1% as of 3QFY10. During the same period, advances grew at 27.7 % (yoy) to ₹65587cr at the end of Q3FY11 from ₹51352cr as of 3QFY10. This has led to the improvement in C/D ratio from 77.2% at the end of 3QFY10 to 79.9% as of 3QFY11.

➤ **Active on the Core-interest income:**

The bank's focus on Core Banking has resulted increase in its Net Interest Income to Operating Income to 80.9% in 3QFY11 from 72.2% in 3QFY10. Further, the pan-India presence with 2615 delivery channels consisting of **1587** branches, 36 Extension Counters, 38 satellite offices and **954** ATMs as of Dec-10 will help in maintaining the ratio at same levels in another couple of years.

(continued...)

**Key Quarterly Updates**

(₹Cr)

Particulars	Q3 FY11	Q3 FY10	% change y-o-y	Q2 FY11	% change q-o-q
<b>Net Interest Income</b>	839.93	582.53	<b>44.2%</b>	783.26	<b>7.2%</b>
% of total operating income	80.9%	72.2%		80.4%	
<b>Non-Interest Income</b>	198.62	224.25	<b>-11.4%</b>	191.17	<b>3.9%</b>
% of total operating income	19.1%	27.8%		19.6%	
<b>Net Total Income</b>	<b>1038.55</b>	<b>806.78</b>	<b>28.7%</b>	<b>974.434</b>	<b>6.6%</b>
Operating expenses	411.94	324.97	<b>26.8%</b>	409.88	<b>0.5%</b>
% of total operating income	39.7%	40.3%		42.1%	
Employee cost	259.50	197.30	<b>31.5%</b>	260.10	<b>-0.2%</b>
% of total operating income	25.0%	24.5%		26.7%	
<b>Operating Profit</b>	<b>626.61</b>	<b>481.81</b>	<b>30.1%</b>	<b>564.56</b>	<b>11.0%</b>
Provisions and Contingencies	171.70	96.42	<b>78.1%</b>	119.58	<b>43.6%</b>
% of Pre. Prov. Profit	27.4%	20.0%		21.2%	
Profit before tax	454.91	385.39	<b>18.0%</b>	444.97	<b>2.2%</b>
Tax expense	124.00	110.00	<b>12.7%</b>	142.00	<b>-12.7%</b>
% tax rate	27.3%	28.5%		31.9%	
<b>Profit after Tax</b>	<b>330.91</b>	<b>275.39</b>	<b>20.2%</b>	<b>302.97</b>	<b>9.2%</b>
EPS (₹)	6.82	5.68	<b>20.2%</b>	6.25	<b>9.2%</b>

(E- Keynote Capitals Institutional Research Estimates)

➤ **Increase in earnings**

The Bank delivered ROA of 1.4% (annualized) for Q3FY11 and is well capitalized for growth with Total Capital Adequacy of 12.0% as at Dec 31, 2010.

➤ **Consistent Performance in Asset Quality**

The asset quality of the bank is comfortable with gross and net NPA ratios of 1.3% and 0.5% respectively, as of Dec-2010. Provision coverage stands at 80.4% well above RBI's mandate of 70%.

**New developments and future plans**

- The bank submitted a road map to RBI to provide banking service outlets in villages with population above 2000 by March 2012. The outlets will function through Business correspondents (BCs) mode by leveraging technology. The bank already covered 195 villages under FIP and has target to cover 500villages by March 2011 and 1144 villages by March 2012. In order to strengthen Financial Inclusion (FI), the Bank has opened 8.60lakhs 'No Frill Accounts' under Branch Banking.
- Bank has lent ₹2297.30cr to Self Help Groups (SHG) by the end of Dec-10 and has commenced serving the SHG members through Smart cards at their doorsteps through Business Correspondents. The pilot project is rolled out in four branches i.e. Rayavaram, Kadium, Anaparathi & Bibinagar covering about 2400 SHGs through branchless banking mode and is expected to be implemented in more number of branches going forward.
- Best Public Sector Bank Banking Excellence Award by the State Forum of Banker's Clubs, Kerala.
- Best Bank Performance on Key Parameters under CAMEL Rating adjudged by The Analyst – Magazine.
- Best Bank (Mid –Size) Award by Business World and Best Bank for the Quality of Assets Awarded by Business Today.

**Concerns**

- Major branch concentration in South India.
- Interest rate fluctuations, change in RBI policies.
- Consolidation in Banking Industry.

**Valuations**

At CMP of ₹138.65, the stock is trading at 1.56 FY10 P/ABV and is expected to trade at 1.35x FY11E and 1.13x FY12E P/ABV. Looking into the latest developments, we revise our target price to ₹185 per share by assigning a multiple of 1.50x FY12E P/ABV, with a Buy recommendation.

## Financials

<b>Profit &amp; Loss Statements</b>						(₹Cr)
Particulars	FY08	FY09	FY10	FY11E	FY12E	
<b>Interest Earned</b>	<b>4209.56</b>	<b>5374.61</b>	<b>6372.86</b>	<b>8203.85</b>	<b>9742.67</b>	
Interest on advances	3176.92	4215.06	5161.27	6627.82	7941.25	
Income from Investment	967.93	1098.98	1188.32	1541.50	1762.00	
Interest on RBI balances & others	36.69	37.67	15.82	33.28	39.42	
Others	28.02	22.90	7.45	1.24	0.00	
<b>Interest expended</b>	<b>2870.00</b>	<b>3747.71</b>	<b>4178.13</b>	<b>5015.56</b>	<b>6108.88</b>	
<b>Net Interest Income</b>	<b>1339.56</b>	<b>1626.90</b>	<b>2194.73</b>	<b>3188.29</b>	<b>3633.78</b>	
Non-Interest Income	652.06	765.00	964.62	812.59	899.13	
<b>Net Total Income</b>	<b>1991.62</b>	<b>2391.90</b>	<b>3159.35</b>	<b>4000.87</b>	<b>4532.92</b>	
<b>Operating Expenses</b>	<b>934.67</b>	<b>1113.27</b>	<b>1349.54</b>	<b>1699.32</b>	<b>1975.28</b>	
Staff costs	509.39	624.06	824.09	1092.62	1278.27	
Other expenses	425.28	489.21	525.45	606.70	697.01	
<b>Pre-provisioning profit (PPP)</b>	<b>1056.95</b>	<b>1278.63</b>	<b>1809.81</b>	<b>2301.55</b>	<b>2557.63</b>	
Provisions and Contingencies	139.38	389.98	373.97	562.27	552.44	
<b>PBT</b>	<b>917.57</b>	<b>888.65</b>	<b>1435.84</b>	<b>1739.29</b>	<b>2005.19</b>	
Tax	342.00	244.85	390.00	489.72	567.74	
<b>PAT</b>	<b>575.57</b>	<b>643.80</b>	<b>1045.84</b>	<b>1249.56</b>	<b>1437.45</b>	
<b>EPS (₹)</b>	<b>11.87</b>	<b>13.47</b>	<b>21.56</b>	<b>25.76</b>	<b>29.64</b>	
<b>Book Value (₹)</b>	<b>67.00</b>	<b>75.20</b>	<b>90.93</b>	<b>108.96</b>	<b>129.71</b>	
<b>Adjusted Book Value (₹)</b>	<b>65.89</b>	<b>73.56</b>	<b>88.96</b>	<b>102.59</b>	<b>123.15</b>	

(E - Keynote Capitals Institutional Research Estimates)

<b>Balance Sheets</b>						(₹Cr)
Particulars	FY08	FY09	FY10	FY11E	FY12E	
<b>Sources of Funds</b>						
Paid-up Equity Share Capital	485	485	485	485	485	
Reserves	2764.29	3161.99	3925.04	4799.73	5805.95	
<b>Net Worth</b>	<b>3249.29</b>	<b>3646.99</b>	<b>4410.04</b>	<b>5284.73</b>	<b>6290.95</b>	
Deposits	49436.55	59390.02	77688.21	90118.32	102734.89	
Borrowings	590.51	3351.23	5852.44	6712.26	6749.86	
Other Liabilities & Provisions	3347.99	2140.97	2480.13	1984.95	2608.48	
<b>Total Liabilities</b>	<b>56624.34</b>	<b>68529.21</b>	<b>90430.82</b>	<b>104100.27</b>	<b>118384.18</b>	
<b>Applications of Funds</b>						
Cash & Balances with RBI	4901.67	4853.34	6698.70	6460.55	6508.80	
Bal with Banks & money at call	792.64	434.16	4468.96	4446.87	4628.48	
Investments	14898.24	16911.11	20881.00	22078.99	23885.86	
Advances	34238.39	44139.26	56113.51	69161.49	80883.16	
Fixed Assets	219.46	335.29	355.66	344.28	350.58	
Other Assets	1573.94	1856.05	1912.99	1608.08	2127.31	
<b>Total Assets</b>	<b>56624.34</b>	<b>68529.21</b>	<b>90430.82</b>	<b>104100.27</b>	<b>118384.18</b>	

(E - Keynote Capitals Institutional Research Estimates)

**Return Ratios (%)**

	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11(E)</b>	<b>FY12(E)</b>
Net Interest Margin (NIM)	3.0%	3.0%	3.2%	3.8%	3.5%
Yield on Advances	10.8%	11.4%	10.9%	10.9%	11.1%
Yield on Investments	6.6%	6.9%	6.3%	7.2%	7.7%
Cost of Deposits	6.6%	7.0%	6.1%	5.9%	6.2%
Return on Average Assets	1.1%	1.0%	1.3%	1.3%	1.3%
Return on Average Net worth/ROAE	18.0%	18.9%	26.0%	25.8%	24.8%
Dividend Yield (%)	2.9%	3.2%	3.6%	4.8%	5.5%
Effective tax rate	37.3%	27.3%	27.2%	28.2%	28.3%

(E: Keynote Capitals Institutional Research Estimates)

**Per share Data**

	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11(E)</b>	<b>FY12(E)</b>
EPS (₹)	11.87	13.47	21.56	25.76	29.64
Book Value (₹)	67.00	75.20	90.93	108.96	129.71
Adjusted Book value (₹)	65.89	73.56	88.96	102.59	123.15

(E: Keynote Capitals Institutional Research Estimates)

**Valuation ratios (%)**

	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11(E)</b>	<b>FY12(E)</b>
P/e (x)	11.68	10.30	6.43	5.38	4.68
P/BV (x)	2.07	1.84	1.52	1.27	1.07
P/ABV (x)	2.10	1.88	1.56	1.35	1.13

(E: Keynote Capitals Institutional Research Estimates)

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