JV CAPITAL SERVICES PVT. LTD

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ANDHRA BANK	CMP 141	BUY
INDUSTRY : BANKING	RISK PROFILE— LOW	TARGET 190

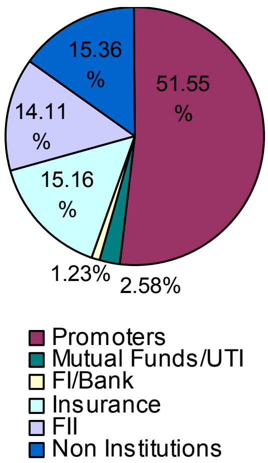
NSE Symbol :	Andhrabank

Key Data :

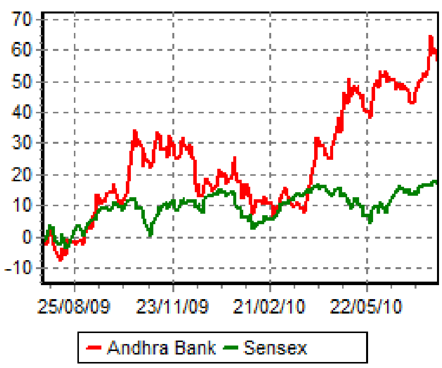
52 week H/L :	151/82
Market Cap (₹ Cr.) :	6865
Face Value :	₹10
Beta :	0.93
P/E :	6.83
Div % :	3.53
BV :	90.93
PBV :	1.56

(Source : Company)

Share Holding Pattern (%):



Relative Performance Analysis:



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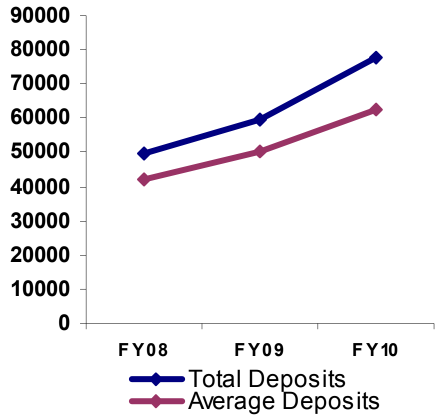
Andhra Bank's business segments are Treasury, Corporate/Wholesale Banking, Retail Banking and Other Banking Operations. Its loan portfolio includes priority sector advances, retail lending, agriculture loans, micro credit, educational loans and housing loans. Deposits offered include current deposits, savings bank deposits and term deposits. The Bank is an authorized dealer to deal in foreign exchange business through 43 designated B category branches of the Bank. It markets life and non-life insurance products, and mutual fund products.

INVESTMENT RATIONALE

- Andhra Bank has 1557 branches in India and 48 ECs, all these branches are under centralized core banking operations. Bank offers its customers a facility to subscribe to initial public offers of corporate using "Applications supported by blocked Amount" (ASBA) scheme.
- Clientele Expansion : 16.44lakh new accounts were opened in the CASA group during the year. To have a wilder presence, bank has opened new outlets in largely potential centers in Northern and westerns parts in India. Bank has opened 125 branches during the financial year.
- During the economic downturn of 2008-09, there was substantial drop in off take of loans on account of decreased economic activity. A substantial amount of loans which the bank has disbursed earlier, also turned into NPAs. However, with the pick up in economic activities from start of year 2010, the banking sector looks well set to capitalize on the rebound in the economy.
- Andhra Bank have a strong franchisee network in southern states. It is also one of the few PSU banks who have a strong balance sheet & strong provision coverage ratios and strong NPA management skills. This makes the bank strongly laced to capitalize on the initial phase of credit demand up cycle.
- Andhra Bank is one of the few PSU banks which is well capitalized. The bank has high Tier I and Tier II ratios. We believe to fund its moderate aim of 18-20% growth over next few years, the bank will not require any additional infusion of capital from the government. Thus the return ratios of the bank will not be diluted.

VALUATION:

In our view, We have valued the bank using Price/Book Value ratio. Our calculations for FY11 estimates the book value for bank to be ₹118, multiplying it by its long term P/BV multiple of 1.6 gives us a price target of ₹190.

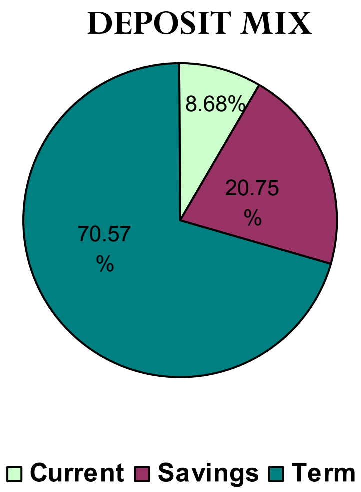


BUSINESS ENVIRONMENT:

Economic indicators like industrial production and PMI point to continued strong growth prospects for credit, particularly in the busy season starting Sep-10. Liquidity indicators signal tightening which would support higher lending growth as well as rates and hence margins at banks, which is typical in the initial stages of a credit up cycle. And finally, this recovery would likely result in improving asset quality, some signs of which are already visible.

INCREASING LOAN BOOK:

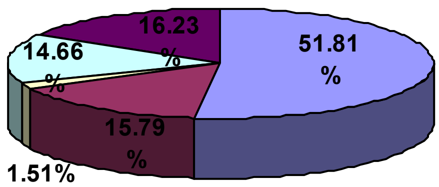
In FY10, the loan book of Andhra Bank grew by 48%. There is a pick up of demand for retail loans in India. In FY10, the lender disbursed around ₹ 54,000 cr of which ₹8,900 cr comprised retail advances. Out of which, home loans comprised ₹3,480 cr, education loans ₹1,647 cr, non-agriculture gold loan ₹1,382 cr, personal loans ₹971 cr and rest miscellaneous advances. Andhra Bank is providing gold loans at less interest as compared to its peers which are charging more. Gold demand is expected to be strong in the coming months, the bank aims to grow its gold loans to ₹3000cr from the present ₹1400cr. The bank currently has a branch network of 1,700 pan- India with gold loan facilities available in 1,100 branches.

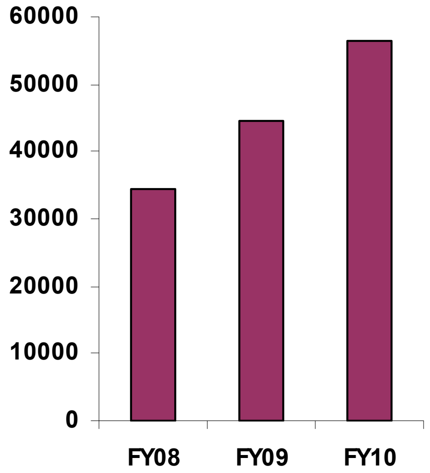


BUSINESS OPORTUNITY– RAPIDLY GRWOING AGRICULTURE SECTOR

Agriculture is an important growth trigger of an economy. States like Punjab and Haryana being pre-dominantly agrarian states would show a turnaround in coming years. Food processing industry would be a growth area and Andhra Bank can find business opportunity in this area. Other than that Andhra bank is forayed into agricultural sector with a number of schemes. The various aspects of agriculture that the Andhra Bank is dealing with presently are-

- short term production credit for raising of crops
- working capital requirements to pisiculture and poultry farming
- investment credit to medium and long term loans to creation of income generating assets like farm mechanization, godowns, livestock, minor irrigation, plantation etc
- formulation of bankable schemes
- conducting farmers meets in both kharif and rabi season to educate the farmers on various banking schemes
- conducting training programs to farmers through rural development institutes





Advances have shown a healthy growth of 27.19%

STRONG ASSET QUALITY

Andhra Bank's asset quality remains fairly good with gross non performing assets(NPAs) at 0.86% and net NPAs at 0.17%, which are among the lowest in the industry. The provision coverage ratio till FY10 end stood at over 91%. The bank also saw a 31% growth in deposits in FY10 with the share of low cost of CASA deposits at 29.43% while term deposits form the rest. Cost of deposits too fell to 6.10% in FY10 from 6.96% in previous year.

EXPANSION PLANS

- Andhra Bank has 1557branches in India and 48 ECs, all these branches are under centralized core banking operations.
- Bank offers its customers a facility to subscribe to initial public offers of corporates using "Applications supported by blocked Amount" (ASBA) scheme.
- Clientele Expansion : 16.44lakh new accounts were opened in the CASA group during the year.
- To have a wilder presence, bank has opened new outlets in largely potential centres in Northen and westerns parts in India. Bank has opened 125 branches during the financial year.
- Bank's Insurance Joint Venture with Legal & General and Bank of Baroda, named : "India first life Insurance Co ltd." commenced its operations this financial year.
- AB Smart Card project is implemented for Electronic Benefit Transfer of Govt. Schemes covering 10.17 lakh members. As a part of educating the rural population about the various banking services, four Financial Literacy and Credit Counselling Centres(FLCCs) were set up in the four districts of A.P., where Andhra Bank is the lead bank. The bank has finalized a road map as per the directions of RBI to provide banking service outlets in the villages having population above 2,000 by the year 2011. The plan will be implemented with Business Correspondent network (i.e., Branchless banking mode).

FUTURE OUTLOOK

- As per the management, the bank targets its CRAR between 13% and 14% over the next three years. To achieve these targets bank needs to take some initiatives like;
- Bank needs to increase the Tier l capital with an accelerated growth in Net profit.
- By mobilizing the Tier ll bonds as per the headroom eligibility.

VALUATIONS:

With rebound in industrial activity we expect the demand for loans to pick up. Also the amount of NPAs should peak by Q2FY11. We have valued the bank using Price/Book Value ratio. Our calculations for FY11 estimates the book value for bank to be ₹118, multiplying it by its long term P/BV multiple of 1.6 gives us a price target of ₹190.

Earning Estimates				
Particulars	**2008**	**2009**	**2010**	**2011E**
Interest Earned	4209	5374	6372	7519
Other income	626	765	964	1060
Total Income	4836	6140	7337	8579
Expenses	3799	4851	5527	6190
Operating Profit	1056	1288	1809	2389
Provisions	139	390	374	434
Tax	333	220	390	528
PAT	575	653	1046	1427
EPS	11.87	13.46	21.56	29.41

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RISK PROFILE:

Low Risk : Fundamentally Sound companies, with low beta. Expected market performance is 0-10%

Medium Risk : Expected market performance is 10-20%. Preferably for the Investors with a maximum time frame of 6 months.

High Risk : High Beta Stocks, expected market performance is more than 20%, Preferably for the investors willing to take advantage of market momentum & are aggressive in nature.

Disclaimer Appendix

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