

## Annual Surveillance

### Brickwork Ratings reaffirms “BWR AAA” for Andhra Bank’s Lower Tier II Bonds Issue for ₹ 320 Crore

**Issue Rating: BWR AAA**

**Outlook: Stable**

Brickwork Ratings has reaffirmed the rating of BWR AAA (Pronounced BWR Triple A) with a stable outlook for the following Issue of Andhra Bank:

Instruments	Amount	Rating	Assigned/ Reaffirmed	Issue Date	Maturity Date	Rating History		
						Review As on	Review As on	Rating As on
Lower Tier II	₹ 320 crore (out of ₹ 500 crore)	BWR AAA (Stable)	Reaffirmed (December 2010)	Dec 2009	Dec 2019	-	BWR AAA (Stable) Dec. 2010	BWR AAA (Stable) Dec. 2009
Other Outstanding ratings of Andhra Bank are:								
Upper Tier II	₹ 200 crore	BWR AA+ (Stable)	Reaffirmed	March 2009	March 2024	-	BWR AA+ (Stable) January 2010	BWR AA+ (Stable) January 2009
	₹ 520 crore			June 2009	June 2024			
	₹ 280 crore			Dec 2009	Dec 2024			
Perpetual (Tier I) Bonds	₹ 200 crore	BWR AA+ (Stable)	Reaffirmed	Dec 2008	Dec 2018	BWR AA+ (Stable) Nov. 2010	BWR AA+ (Stable) Nov. 2009	BWR AA+ (Stable) Nov. 2008

‘BWR AAA’ rating stands for an instrument that is considered to offer the BEST credit quality in terms of timely serving of debt obligations. ‘BWR AA+’ rating stands for an instrument that is considered to offer HIGH credit quality in terms of timely serving of debt obligations. A “Stable” rating outlook signifies the expectation of the rating being stable in the near term. The rating has been reaffirmed taking into account the financial performance of the bank, publicly available information and clarifications sought from the bank.

The rating, inter alia, factors Bank’s operating profit, improving net interest margin, Government of India’s equity stake and its continued support. However, the credit quality of the Bank is constrained by its increasing NPA’s.

The bank’s business has grown from ₹ 103,818 crore during FY09 to ₹ 134,193 crore during FY10 to ₹ 139,604 crore during HY1FY11 vs ₹ 110,461 crore during HY1FY10. Deposits have grown from ₹ 59,390 crore in FY 09 to ₹ 77,688 crore during FY10 registering a growth of 30.81% and to ₹ 78,584 crore in HY1FY11 vs ₹ 62,279 crore in HY1FY10 and gross advances have grown from ₹ 44,428 crore in FY09 to ₹ 56,505 crore during FY 10 to ₹ 61,020 crore during HY1FY11 as compared to ₹ 48,182 crore in HY1FY10. The Bank has reported a growth in profitability of 17.58% during HY1 FY11 over HY1 FY10.

However, gross NPA’s have increased from ₹ 398 crore as on 30<sup>th</sup> September 2009 to ₹ 770 crore as on 30<sup>th</sup> September 2010. The gross NPA levels as a percentage of total advances were 1.26% as on 30<sup>th</sup> September 2010 compared to 0.83% as on 30<sup>th</sup> September 2009. The net NPA levels have increased from 0.16% as on 30<sup>th</sup> September 2009 to 0.17% as on 31<sup>st</sup> March 2010 to 0.49% as on 30<sup>th</sup> September 2010.

The bank is well placed in terms of provisioning with provisioning levels at 78.85% as on 30<sup>th</sup> September 2010, higher than 70% as stipulated by the Reserve Bank of India, though this has come down from 91.56% as on 31<sup>st</sup> March 2010.

Net interest margin has increased to 3.81% in HY1FY11 as compared to 3% in HY1FY10. NIM margins as on 31<sup>st</sup> March 2010 was 3.21%. CASA level stood at 30.39% as on 30<sup>th</sup> September, 2010. The cost of deposits has substantially decreased to 5.58% during HY1 FY11 as against 6.55% during HY1FY10. However, the Return on Advances has increased from 10.92% in FY10 to 10.93% in HY1 FY11 while the Return on Advances during HY1FY10 was 11.19%.

The bank has registered a growth of 17.55% in net profit, reaching a level of ₹ 623 crore in HY1FY11 (₹ 530 crore in HY1FY10). The bank's interest income has increased significantly during the half year to achieve a level of ₹ 3806 crore in HY1FY11 from ₹ 3062 crore in HY1FY10. The interest expenses increased by 8.55%, ₹ 2286 in HY1FY11 as compared to ₹ 2106 in HY1FY10.

The Return on Average Assets has increased from 1.39% as on 31<sup>st</sup> March 2010 to 1.42% as on 30<sup>th</sup> September 2010 while decreased from 1.51% as on 30<sup>th</sup> September 2009.

As on 30<sup>th</sup> September 2010, the bank reported a Capital adequacy Ratio of 12.41% of which the share of Tier I capital was 7.29%.

The bank has reported a credit-deposit ratio of 77.87% as on 30<sup>th</sup> September 2010 which is which is around the average levels reported in industry.

Brickwork Ratings expects the performance of the bank to be “Stable” over the next one year.

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