

Annual Surveillance

Rating Rationale for rating reaffirmation of Andhra Bank's Perpetual (Tier I) Bonds Issue for ₹ 200 Crore

Issue Rating: BWR AA+

Outlook: Stable

Brickwork Ratings has reaffirmed the rating of BWR AA+ (Pronounced BWR Double A plus) 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	Rating As on
Perpetual (Tier I) Bond	₹ 200 crore	BWR AA+ (Stable)	Reaffirmed	December 2008	December 2018	BWR AA+ (Stable) November 2009	BWR AA+ (Stable) November 2008

'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 increasing operating profit, comfortable capital adequacy and the Government of India's equity stake and its continued support. The credit quality of the Bank is constrained by its increasing NPA's.

The bank has performed well during HY1 FY11. Its business has grown from ₹ 103,818 crore during FY09 to ₹ 134,193 crore during FY10 to ₹ 139,604 crore during HY1FY11. 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 and gross advances have grown from ₹ 44,428 crore in FY09 to ₹ 56,505 crore during FY 10 to ₹ 61,020 crore during HY1FY11. The Bank has reported a growth in profitability of 17% during HY1 FY11 over HY1 FY10.

The bank's gross NPAs have increased from ₹ 488 crore as on 31st March 2010 to ₹ 770 crore as on 30th September 2010. The gross NPA levels as a percentage of total advances were 1.26% as on 30th September 2010 compared to 0.86% as on 31st March 2010. The net NPA levels have increased from 0.16% as on 30th September 2009 to 0.17% as on 31st March 2010 to 0.49% as on 30th September 2010.

The bank is well placed in terms of provisioning with provisioning levels at 78.85% as on 30th September 2010, higher than 70% as stipulated by the Reserve Bank of India.

The bank's net interest margin has increased to 3.81% in HY1FY11 as compared to 3.21% as on March 31, 2010. CASA level stood at 30.39% as on 30th September, 2010. The cost of deposits has substantially decreased to 5.58% during HY1 FY11 as against 6.10% during 31st March 2010. However, the Return on Advances has increased from 10.92% in FY10 to 10.93% in HY1 FY11.

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 HY1FY 11 as compared to ₹ 2106 in HY1FY10.

The Return on Average Assets has increased from 1.39% as on 31st March 2010 to 1.42% as on 30th September 2010.

The bank has a well defined internal capital adequacy assessment policy to comprehensively evaluate capital adequacy requirements. As on 30th September 2010, the bank has reported a total capital adequacy ratio of 12.41% and Tier I of 7.29%.

The bank has reported a credit-deposit ratio of 77.87% as on 30th 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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