

Rating Rationale for Andhra Pradesh State Financial Corporation's Fixed Deposit Programme upto Rs. 180 Crore

Brickwork Ratings (BWR) has reaffirmed the rating of BWR FA+ (Pronounced BWR FA plus) with a stable outlook for the following rating of APSFC:

Instruments	Amount	Rating	Assigned/ Reaffirmed	Rating History	
				Rating Review	Rating As on
Fixed Deposit	Upto Rs 180 Crore	BWR FA+ (Stable)	Reaffirmed	BWR FA+ (Stable) July 2010	BWR FA+ (Stable) February 2009

“BWR FA+” rating for fixed deposits stands for an instrument that is considered to offer ADEQUATE safety in terms of timely servicing of interest and principal. (Brickwork Ratings application for registration with RBI in this regard is pending with them).

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 APSFC, publicly available information and clarifications provided by them and the Corporation's track record of meeting all the obligations under the Fixed Deposits Programme promptly.

The rating, inter alia, factors diversified loan portfolio, growth in sanctions and disbursements of loans, adequate capital adequacy, increasing NIM margin and Government of Andhra Pradesh ownership and the continued support enjoyed by the APSFC from the State Government.

APSFC has posted growth in sanctions and disbursement of loans. The sanctioned loans grew from Rs 885.67 crores in FY09 to Rs 1052.38 crores in FY10 registering a growth of 18.82%, while disbursements have grown from 685.70 crores in FY09 to Rs 707.99 crores in FY10 registering a subdued growth of 3.25%. The Corporation recovered Rs.785.12 crore in FY10 against Rs.658.08 crore recovered during the previous year, registering a growth of 19.30%. For nine months ended Dec 31, 2010 sanctions and disbursements were Rs 818.83 crore and Rs 604.85 crore respectively.

APSFC's total income has increased by 21.53% to Rs 288.17 crore in FY10 from Rs 237.53 crore in FY09. The total income increased by 12.94% to Rs 132.18 crore in H1FY11 from Rs 117.04 crore in H1FY10. While interest income stood at Rs 126.33 crore in H1FY11 as against Rs 112.90 crore in H1FY10, growth by 11.90%, other income was Rs 5.85 crore during H1FY11 as against Rs 4.14 crore during H1FY10. The growth in interest income was mainly due to an increase in the average assets size and the increase in other income was mainly due to higher recovery from bad debts written off. During H1FY11, the total expenditure increased to Rs 95.49 crore from Rs 86.96 crore during H1FY10. The

interest expenses grew at a much lower pace at 4.29% than the interest income. APSFC's net profit registered a healthy growth of 57.92% from Rs. 42.85 crore in FY09 to Rs. 67.68 crore in FY10. The net profit for H1FY11 stood at Rs 25.68 crore as compared to Rs 23.89 crore in H1FY10, a growth of 7.49%.

APSFC's asset quality, however, has deteriorated during H1FY11. The gross NPAs have gone up from Rs 116.25 crore in FY10 to Rs 348.58 crore in H1FY11. The net NPAs also increased to Rs 302.94 in H1FY11 from Rs 102.15 as on 31st March 2010.

APSFC has reported total capital adequacy ratio of 17.27% as on 30th September 2010 (15.09% as on 31st March 2010).

Brickwork Ratings expects the performance of APSFC to be stable over the next year.

Analysts	Media
<p>Rajalakshmi R, Lead-Analyst rajalakshmi.r@brickworkratings.com</p> <p>Shilpi Agarwal, Co- Analyst shilpi.a@brickworkrating.com</p>	<p>Anitha G media@brickworkratings.com</p> <p>Relationship Contact</p> <p>K N Suvarna Senior VP - Business Development kn.suvarna@brickworkratings.com</p>
<p>Phone: 1-860-425-2742</p>	

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BWR's Fixed Deposit Rating Symbols / Definitions have undergone minor changes. For information on BWR's Rating Symbols and their definition, please refer to our website link <http://www.brickworkratings.com/scale.html>. It is clarified that the said change in the definition should not be construed as a change in the Rating.