

NOVEMBER 30, 2011
BUY
MEDIUM RISK
PRICE Rs.152
TARGET Rs.260

BFSI

EARLIER RECO

BUY	
Price	Rs.189
Target	Rs.295
Date	Aug 01, 2011

SHARE HOLDING (%)

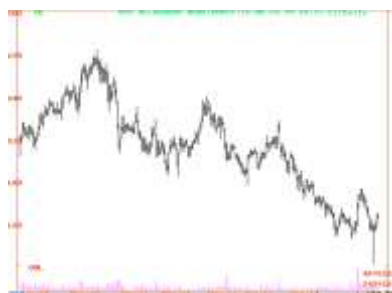
Govt.	58.0
FII	13.1
FI	17.2
Body Corporates	1.4
Public & Others	10.3

STOCK DATA

Reuters Code	ALBK.BO	
Bloomberg Code	ALBK.IN	
BSE Code	532480	
NSE Symbol	ALBK	
Market Capitalization*	Rs.72.3 bn US\$ 1.4 bn	
Shares Outstanding*	476 mn	
52 Weeks (H/L)	Rs.253/121	
Avg. Daily Volume (6m)	765,086 Shares	
Price Performance (%)		
1M	3M	6M
5	(15)	(23)
200 Days EMA: Rs.181		

*On fully diluted equity shares

Part of  Bonanza



ANALYST

Pritesh Bumb | +91 22 4093 5008
priteshb.bumb@sushilfinance.com

SALES:

Devang Shah | +91 22 4093 6060/61
devang.shah@sushilfinance.com

Allahabad Bank has posted a 21% YoY growth in net profit in Q2FY12, mainly on robust NII growth & lower tax provisions.

Key Highlights of Q2FY12

- During Q2FY12, its NII grew by a robust 36% YoY and stood at Rs.13.2 bn on the back of a decent 18% YoY growth in its Advances. Its Deposits grew by 25% YoY, while its term deposits grew by 27% YoY and CASA grew by 10.3% YoY. Its CASA share in total deposits declined by 423 bps YoY and 156 bps QoQ, now forming 30.6% of its total deposits. The Bank shed certain low yielding short term loans to the tune of Rs.45-50 bn and now reduced to only Rs.30 bn (3.1% of Advances) which also resulted in lower credit-deposit ratio of 68.2% i.e a fall by 405 bps YoY and 584 bps QoQ.
- Its non-interest income was muted and de-grew by 10% YoY on lower treasury & fee income.
- Its operating expenses grew by 24% YoY, mainly on higher employee expenses (33% YoY increase) on branch expansion & extra provisions on employee pension & gratuity (as a buffer for future requirements). Its Cost to Income ratio stood at 41.8% in Q2FY12 as compared to 40.4% in Q2FY11.
- The Bank's total provisions in Q2FY12 increased by 52% YoY to Rs.4.11 bn, largely on account of higher provisions on investment depreciation (Rs.824 mn in Q2FY12 as against Rs.36 mn in Q2FY11) while its loan loss provisions stood at Rs.3.01 bn, an increase of 52% YoY. As a result, its PBT grew by 5% YoY and stood at Rs.5.37 bn. The Bank's lower tax provisions on exemption benefits on some items in the quarter resulted a net profit growth of 21%, standing at Rs.4.9 bn for Q2FY12.

NIMs expand on repricing of advances & shedding low yielding short term loans

- In Q2FY12, its NIMs stood at 3.68% expanding by 34 bps YoY and 28 bps QoQ, mainly due to efficient re-pricing of its Advances and shedding low yielding short term loans while cost of deposits moved up marginally. The Bank has guided +3% NIMs in FY12, while we expect its NIMs to stabilize at 3.5% given higher spreads between Advances & Deposits. We also feel cost of funds will be stable in H2FY12 and no sharp increase in yields expected in the challenging scenario. Hence, we expect NIMs to improve by 13 bps YoY (3.38% in FY11) to 3.51% in FY12E.

Asset quality stable

- The Bank witnessed fresh slippages of Rs.5.2 bn (Rs.6.7 bn in H1FY12) with +50% being contributed on account of migration of "Rs.0.5 mn & below" ticket size loans to system based NPA recognition. However, robust recoveries & upgradation of Rs.1.6 bn and higher write-offs of Rs.2.5 bn helped contain Gross NPAs. The incremental slippage ratio stood at 0.5% (+2% annualized) in Q2FY12.
- The Bank is hopeful to get its slippage rate back to normal in the range of 1.3%-1.4% and has now completely migrated to 100% system based NPA recognition, hence negative surprises from this count may not be expected going forward.
- In absolute terms, Gross NPLs increased by 17% YoY & 7% QoQ to Rs.17.2 bn and Net NPLs increased by 45% YoY & 13% QoQ to Rs.6.6 bn. In percentage terms, Gross NPLs stood at 1.77% i.e. stable YoY but an increase of 15 bps QoQ, while Net NPLs stood at 0.69% i.e. an increase of 10 bps YOY and 9 bps QoQ in Q2FY12.
- The Bank's restructured loan portfolio stood at 3% of advances at Rs.29.41 bn. Its provision coverage ratio remained high at 79.6% (incl. technical write-offs) and CAR stood at a healthy 13.0%, with a Tier-I ratio of 8.9%.

OUTLOOK & VALUATION

Allahabad Bank has managed to grow at a decent pace in the past few years and maintain a high quality asset profile. Moreover, considering its strong NII performance in H1FY12 & continuing high margins, we have increased our NII estimates for FY12E & FY13E. However, in light of challenging credit offtake conditions, increasing credit risk, higher investment depreciation provisioning & higher than expected operating expenses, we have reduced our FY12 & FY13 APAT estimates. We now expect its Advance & Deposit to grow by 18.9% & 15.2% in FY12E and 17.9% & 15.2% in FY13E, while its Net Profit to grow by 10% in FY12E & by 16% in FY13E. The Bank currently trades at an attractive valuation of 0.8x FY13E ABV & 3.9x FY13E Earnings. We believe the stock can trade at 1.3x P/ABV given its strong deposit franchise, decent asset quality & sustainable ROE of around 19%. We maintain our "BUY" rating on the stock with a revised price target of Rs.260.

KEY FINANCIALS

Y/E Mar.	EPS (Rs.)	EPS (% chg)	RoE (%)	NIM (%)	Net NPL(%)	CASA (%)	CAR (%)	P/ABV (x)	PER (x)	Div. Yield(%)
FY10	27.5	55.4	21.8	3.0	0.7	34.5	13.6	1.2	5.5	3.6
FY11	30.2	9.9	20.6	3.4	0.8	33.5	13.0	1.0	5.0	3.9
FY12E	33.2	9.7	18.6	3.5	0.8	33.0	12.5	0.9	4.6	4.3
FY13E	38.5	16.1	18.7	3.4	0.8	32.6	12.0	0.8	3.9	4.9

QUARTERLY RESULTS STATEMENT

(In mn)

Y/E March	Q2FY12	Q2FY11	YoY Chg	Q1FY12	QoQ Chg
Interest earned	38,933	26,369	47.6%	35,498	9.7%
- on Advances / Bills	29,614	19,840	49.3%	26,994	9.7%
- Income on investments	9,072	6,308	43.8%	8,342	8.8%
- on bal with RBI and other banks	201	143	40.7%	161	24.9%
- others	46	78	-41.0%	2	2594.1%
Interest Expended	25,751	16,677	54.4%	23,743	8.5%
Net Interest Income	13,182	9,692	36.0%	11,756	12.1%
Other income	3,092	3,447	-10.3%	2,859	8.1%
- Treasury Income	70	380	-81.6%	260	-73.1%
Operating income	16,274	13,139	23.9%	14,615	11.4%
- Employee expenses	4,675	3,503	33.4%	3,822	22.3%
- Other Operating expenses	2,107	1,821	15.7%	1,897	11.1%
Total Operating Expenses	6,781	5,324	27.4%	5,719	18.6%
Operating profit	9,493	7,815	21.5%	8,896	6.7%
Provisions and contingencies	4,117	2,714	51.7%	3,197	28.8%
- NPL Provisions	3,016	2,250	34.0%	1,656	82.2%
PBT	5,376	5,101	5.4%	5,699	-5.7%
Provision for Tax	496	1,075	-53.9%	1,518	-67.3%
PAT	4,880	4,026	21.2%	4,181	16.7%
EPS	10.2	9.0	13.7%	8.8	16.7%
PPP (Ex-Treasury)	9,423	7,435	26.7%	8,636	9.1%

Business	Q2FY12	Q2FY11	YoY Chg	Q1FY12	QoQ Chg
Advances	968,540	820,881	18.0%	987,400	-1.9%
Deposits	1,420,432	1,136,332	25.0%	1,333,818	6.5%
- CASA Deposits	434,840	394,300	10.3%	430,550	1.0%
- Term deposits	985,592	740,434	33.1%	904,729	8.9%
Gross NPL	17,152	14,703	16.7%	16,044	6.9%
Net NPL	6,641	4,565	45.5%	5,886	12.8%

Ratio (%)	Q2FY12	Q2FY11	YoY chg (bps)	Q1FY12	QoQ chg (bps)
Gross NPAs	1.8	1.8	-	1.6	15
Net NPAs	0.7	0.6	13	0.6	9
ROA Annualized	1.2	1.3	(4)	1.1	12
C/I Ratio	41.8	41.7	12	39.8	201
CAR	13.0	13.5	(50)	12.8	24
-Tier I	8.9	8.4	52	8.6	38
Yield on Advances	12.6	10.4	221	11.6	98
Cost of Deposits	7.1	5.7	138	7.0	11
Net Interest Margin	3.7	3.3	34	3.4	28
CASA Ratio	30.6	34.8	(423)	32.2	(156)
Credit / Deposit ratio	68.2	72.2	(405)	74.0	(584)

Source: Company, Sushil Finance Research Estimate

PROFIT & LOSS STATEMENT

(Rs.bn)

Y/E March	FY10	FY11	FY12E	FY13E
Interest income	83.7	110.8	140.6	160.1
Interest expense	57.2	69.9	89.6	102.2
Net interest income	26.5	40.9	51.0	57.9
<i>NII Growth %</i>	<i>22.9</i>	<i>54.2</i>	<i>24.7</i>	<i>13.5</i>
Other income	15.4	13.9	12.5	13.6
- Treasury profits	5.8	1.6	0.5	0.5
Total income	41.9	54.8	63.5	71.5
Operating expenses	16.2	24.1	27.2	29.9
Pre-provision Profit	25.7	30.7	36.3	41.5
Total Provisions	7.8	11.2	14.6	15.4
- NPL Provision	8.3	8.8	11.4	12.5
PBT	17.9	19.5	21.6	26.2
Tax	5.7	5.1	5.8	7.9
APAT	12.3	14.4	15.8	18.3
<i>PAT Growth %</i>	<i>55.4</i>	<i>17.2</i>	<i>9.7</i>	<i>16.1</i>
PPP (Ex Treasury)	20.0	29.1	35.8	41.0
<i>PPP Growth %</i>	<i>47.9</i>	<i>46.0</i>	<i>22.8</i>	<i>14.7</i>

BALANCE SHEET STATEMENT

(Rs.bn)

As on 31 st March	FY10	FY11	FY12E	FY13E
Cash balances	66	92	110	100
Advances	588	716	936	1,113
Investments	298	386	435	494
- Govt. Securities	214	310	351	404
Fixed assets	11	11	12	13
Current assets	15	14	23	25
Total assets	978	1,219	1,516	1,745
Equity Cap	4	4	5	5
Reserves & Surplus	56	65	83	95
Shareholders' funds	60	70	87	100
Deposits	850	1,061	1,319	1,519
- Demand deposits	294	366	442	502
- Term deposits	556	695	877	1,018
Borrowings	38	54	69	80
Current Liabilities	30	35	41	47
Total liabilities	978	1,219	1,516	1,745

FINANCIAL RATIO STATEMENT

Y/E March	FY10	FY11	FY12E	FY13E
Profitability Ratios				
EPS (Rs)	27.5	30.2	33.2	38.5
Earnings growth (%)	55.4	9.9	9.7	16.1
CEPS (Rs)	28.9	31.6	34.8	40.2
PPP / Share (Rs)	57.6	64.5	76.1	87.2
ROAA (%)	1.1	1.1	1.0	1.0
ROAE (%)	21.8	20.6	18.6	18.7
DPS (Rs)	5.5	6.0	6.5	7.5
Dividend Payout (%)	23.4	23.2	22.9	22.7
Efficiency Ratios (%)				
Salary / Non Int. Cost	62.5	64.8	64.5	64.5
C-I ratio (Excl Treasury)	44.8	45.2	43.2	42.2
Other Inc (Ex tr.) / Net Total Inc (Ex Tr.)	26.6	23.1	19.0	18.4
Cost Asset Ratio	1.5	1.8	1.7	1.6
CASA	34.5	33.5	33.0	32.6
Tax Rates	31.5	26.2	27.0	30.0
Asset Quality Ratios (%)				
Gross NPLs	1.7	1.7	2.0	2.1
Net NPLs	0.7	0.8	0.8	0.8
Coverage	79.0	75.7	78.0	77.0
Provision / Loans	1.2	0.9	1.0	0.9

Y/E March	FY10	FY11	FY12E	FY13E
Asset-Liab. Profile (%)				
Capital Adequacy Ratio	13.6	13.0	12.5	12.0
- Tier I CAR	8.1	8.6	8.2	7.9
Adv. / Deposit Ratio	67.5	71.0	73.3	75.0
Loan Growth	21.8	30.7	18.9	17.9
Deposit Growth	24.8	24.4	15.2	15.2
Balance Sheet Growth	24.6	24.4	15.1	14.9
Equity / Assets	5.7	5.8	5.7	5.7
Equity / Loans	9.7	9.3	8.9	8.7
Spreads Analysis (%)				
Yield on Advances	9.8	10.0	10.5	10.3
Yield on Investments	5.7	6.5	6.6	6.5
Cost of funds	5.7	5.6	6.0	5.9
Net Interest Margin	3.0	3.4	3.5	3.4
Valuation				
BV / Share	136.5	165.2	190.8	220.6
Adjusted BV / Share	125.9	149.8	172.0	198.1
Dividend Yield (%)	1.6	3.6	3.9	4.3
P/E (x)	5.5	5.0	4.6	3.9
P/PPP (x)	2.6	2.4	2.0	1.7
P/ABV (x)	1.2	1.0	0.9	0.8

Source : Company, Sushil Finance Research Estimates

Rating Scale

This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.
- Stock Review Reports:** These are Soft coverage's on companies where Management access is difficult or Market capitalization is below Rs. 2000 mn. Views and recommendation on such companies may not necessarily be based on management meeting but may be based on the publicly available information and/or attending Company AGMs. Hence Stock Reviews may be just one-time coverage's with an occasional Update, wherever possible.

Additional information with respect to any securities referred to herein will be available upon request.

This report is prepared for the exclusive use of Sushil Group clients only and should not be reproduced, re-circulated, published in any media, website or otherwise, in any form or manner, in part or as a whole, without the express consent in writing of Sushil Financial Services Private Limited. Any unauthorized use, disclosure or public dissemination of information contained herein is prohibited. This report is to be used only by the original recipient to whom it is sent.

This is for private circulation only and the said document does not constitute an offer to buy or sell any securities mentioned herein. While utmost care has been taken in preparing the above, we claim no responsibility for its accuracy. We shall not be liable for any direct or indirect losses arising from the use thereof and the investors are requested to use the information contained herein at their own risk.

This report has been prepared for information purposes only and is not a solicitation, or an offer, to buy or sell any security. It does not purport to be a complete description of the securities, markets or developments referred to in the material. The information, on which the report is based, has been obtained from sources, which we believe to be reliable, but we have not independently verified such information and we do not guarantee that it is accurate or complete. All expressions of opinion are subject to change without notice.

Sushil Financial Services Private Limited and its connected companies, and their respective directors, officers and employees (to be collectively known as SFSP), may, from time to time, have a long or short position in the securities mentioned and may sell or buy such securities. SFSP may act upon or make use of information contained herein prior to the publication thereof.