

July 23, 2010

ACCUMULATE

Price Rs 185	Target Price Rs220
Sensex	18,131

Price Performance

(%)	1M	3M	6M	12M
Absolute	14	13	38	112
Rel. to Sensex	12	10	28	78

Source: Bloomberg

Stock Details

Sector	Banks
Reuters	ALBK.BO
Bloomberg	ALBK@IN
Equity Capital (Rs mn)	4467
Face Value(Rs)	10
No of shares o/s (mn)	447
52 Week H/L	188/79
Market Cap (Rs bn/USD mn)	83/1,768
Daily Avg Volume (No of sh)	1375287
Daily Avg Turnover (US\$m)	4.8

Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	55.2	55.2	55.2
FII/NRI	14.0	13.1	13.3
Institutions	14.1	15.6	15.1
Private Corp	5.0	4.0	3.5
Public	11.7	12.1	12.9

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- ALBK reported spectacular numbers for Q1FY11 with NII up 14.5% qoq and net profit up 54% qoq. Highlights were 29bps improvement in NIMs and lower NPAs sequentially
- The slippages surprised positively as they stood at Rs1.2bn, 0.8% annualised vis-à-vis 1.4% for Q1FY10 and 1.7% for FY10
- The gross NPAs were down by 7% qoq and net NPAs by 34% qoq. The provision cover stood at 73%
- Valuations attractive at 1.2x FY11E/0.9x FY12E ABV. Upgrade to ACCUMULATE with price target of Rs220 at 1.1x FY12E ABV

Strong NII growth driven by advances growth...

ALBK's NII for Q1FY11 has grown by 14.5% qoq to Rs8.5bn. The strong growth in NII was driven by 25.9% yoy (5.7% qoq) growth in advances and 29bps expansion in NIMs.

... And better NIMs as CDR expands

The NIMs expanded by ~29bps qoq driven by (1) 260bps expansion in CDR to 70% and (3) 21bps improvement in advances yield driven by higher SME loans.

Yield analysis

%	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (bps)	QoQ (bps)
Yield on advances*	10.5	10.5	10.2	9.7	9.8	-70	14
Yield on investments*	5.4	5.6	6.2	5.9	6.2	80	30
Yield on assets*	7.9	7.9	8.0	7.6	7.8	-8	21
Cost of funds*	5.4	5.6	5.4	5.1	5.1	-37	0
NIM*	2.5	2.3	2.6	2.6	2.8	29	21
Yield on advances #	10.9	10.8	10.5	10.1	10.3	-54	21
Yield on investments #	6.8	7.1	6.8	6.8	6.8	6	8
Yield on assets #	8.9	8.9	8.7	8.4	8.8	-8	34
Cost of Deposit #	6.1	6.3	6.0	5.6	5.6	-48	2
Cost of borrowings #	8.2	8.0	6.3	6.0	6.6	-159	61
Cost of funds #	6.2	6.4	6.0	5.6	5.7	-51	5
NIM #	2.7	2.5	2.7	2.8	3.1	43	29

Source: Company, Emkay Research

Note:* Calculated on basis of average quarterly balances # Reported

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2009	33,006	7,686	17.2	102.0	0.9	13.8	10.3	1.7
FY2010	42,688	12,067	27.0	121.2	1.1	19.1	6.6	1.5
FY2011E	47,709	15,422	34.5	152.2	1.2	20.7	5.2	1.2
FY2012E	54,525	17,562	39.3	190.3	1.1	19.6	4.5	0.9

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Net Interest Income	6,300	6,032	6,756	7,426	8,502	35.0	14.5
Other Income	3,695	4,048	3,395	4,020	2,986	-19.2	-25.7
Fee Income	1,315	1,630	1,360	1,920	2,986	127.0	55.5
Net Income	9,995	10,081	10,151	11,446	11,488	14.9	0.4
Total Operating Expenses	4,079	3,582	3,650	4,867	4,443	8.9	-8.7
As % Of Net Income	40.8	35.5	36.0	42.5	38.7		
Employee Expenses	2,721	2,242	2,094	3,057	2,853	4.9	-6.7
As % Of Net Income	27.2	22.2	20.6	26.7	24.8		
Other Expenses	1,359	1,340	1,556	1,810	1,590	17.1	-12.1
As % Of Net Income	13.6	13.3	15.3	15.8	13.8		
Operating Profit	5,915	6,498	6,501	6,579	7,045	19.1	7.1
As % Of Net Income	59.2	64.5	64.0	57.5	61.3		
Provisions	396	1,939	2,463	2,972	1,511	281.1	-49.2
Prov for NPA	2,510	1,707	1,100	2,986	700	-72.1	-76.6
PBT	5,519	4,560	4,039	3,607	5,534	0.3	53.4
Total Tax	2,481	1,224	585	1,363	2,064	-16.8	51.4
Adjusted PAT	3,038	3,336	3,454	2,244	3,470	14.2	54.6
Extra Ordinary Items	0	0	0	0	0		
Reported PAT	3,038	3,336	3,454	2,244	3,470	14.2	54.6
Reported EPS	6.8	7.5	7.7	5.0	7.8	14.3	54.6

Source: Company, Emkay Research

Advances growth remain robust

The advances growth was strong at 25.9% yoy and 5.7% qoq primarily driven by SME and corporate advances, which grew by 7.4%qoq and 5.1%qoq respectively. The industries which contributed to the growth were metals (19.6% qoq), iron and steel (9.5% qoq) and power (14% qoq).

Advance mix

Rs bn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Retail	84.1	90.3	92.9	100.8	105.2	25.1	4.3
Agriculture	95.8	96.3	109.8	115.7	116.0	21.1	0.3
SME	56.2	72.7	84.0	97.7	105.0	86.7	7.4
Others	365.3	339.5	370.1	410.2	431.0	18.0	5.1
Total	601.4	598.7	656.8	716.0	757.2	25.9	5.7

Source: Company, Emkay Research

CASA maintained despite strong growth

Despite strong growth in advances, the CASA profile remained stable with CASA mix at 34.2%, flat qoq and up 52bps yoy. The proportion of wholesale deposits remained stable at 16% with differential rate deposits being almost negligible.

CASA Mix

Rs bn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Savings Deposits	63	62	69	83	77	22.2	-7.4
Current Deposits	238	251	262	283	294	23.3	3.9
CASA	301	313	331	366	371	23.0	1.3
Term deposits	593	560	611	695	713	20.2	2.6
Total Deposits	894	873	942	1,061	1,083	21.2	2.1
CASA (%)	33.7	35.8	35.1	34.5	34.2	52	-28

Source: Company, Emkay Research

Strong growth in fee income

The strong traction in LC/BG commissions has driven 17.5% growth in fee income which partially offset the expected sharp drop in the trading gains. While the growth in commission is on account of increase in volumes, the sustainability of the same will be key thing to monitor.

Other Income

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Fee/Commission income	1,315	1,630	1,360	1,920	1,546	17.5	-19.5
Trading gains/(losses)	2,140	1,683	1,330	617	900	-58.0	45.9
Forex gains/(losses)	150	190	190	220	160	6.7	-27.3
Other non int income	90	546	515	1,263	380	324.0	-69.9
Total	3,695	4,048	3,395	4,020	2,986	-19.2	-25.7

Source: Company, Emkay Research

Note: Trading gains for Q4FY10 include Rs800mn of gains of mutual fund.

Fee income break up

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Bills	110	120	110	140	110	0.0	-21.4
LC/BG	340	350	440	370	600	76.5	62.2
Locker Rent	140	30	30	30	150	7.1	400.0
Processing Fees	330	700	430	830	340	3.0	-59.0
Others	390	420	360	550	340	-12.8	-38.2
Exchange	150	190	190	220	160	6.7	-27.3
Total	1,460	1,810	1,560	2,140	1,700	16.4	-20.6

Source: Company, Emkay Research

Core operating profit grows at sharp 62% yoy

While lower trading gains resulted in 19% yoy growth in operating profit (lower than NII growth), the core operating profit has grown by sharper 62% yoy.

Core operating profit growth sharper

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Reported operating profit	5,915	6,498	6,501	6,579	7,045	19.1	7.1
Less: Treasury gains	2,140	1,683	1,330	617	900	-58.0	45.9
Core operating profit	3,775	4,816	5,171	5,962	6,145	62.8	3.1

Source: Company, Emkay Research

Provisions moderate alongwith lower slippages

As the slippages have moderated during the quarter, the provisions have too moderated. The provisions for NPAs stood at 9bps during the quarter compared to 40bps in Q1FY10. ALBK has also provided Rs665mn for an OTS scheme for the agri debt relief customers. **However, Rs1.2bn of agri debt relief loans may be recognised as NPAs only in next quarter.**

Provision break up

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
On NPL	2,510	1,707	1,100	2,986	700	-72.1	-76.6
As % of advances	0.42	0.29	0.17	0.42	0.09		
On Standard Assets	15	2	7	5	127	766.4	2,380.4
Investment Depreciation	-2,147	177	629	317	20	-100.9	-93.9
Others	19	53	728	-336	665	3,483.8	-297.7
Total	396	1,939	2,463	2,972	1,511	281.1	-49.2

Source: Company, Emkay Research

Slippages – strong positive surprise

We are positively surprised by sharply lower slippages during the quarter which were at just Rs1.2bn for the quarter. As a result, the gross NPAs were down by 6.8% qoq. From the restructured asset portfolio, the slippages were Rs250mn, or <1% of the restructured portfolio. For FY11, we still have built in slippages of ~1.5% or Rs12bn.

During the quarter, even as ALBK has provided lower for NPAs, it has also not written back much provisions resulting in better provision cover of 73%, improvement of almost 11% over Q4FY10. We have still built in credit costs of 0.8% in our numbers.

Asset quality

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Gross NPA (Rs bn)	10,931	10,821	11,605	12,218	11,393	4.2	-6.8
Net NPA (Rs bn)	2,198	2,084	2,275	4,702	3,084	40.3	-34.4
Gross NPA (%)	1.8	1.8	1.8	1.7	1.5		
Net NPA (%)	0.4	0.4	0.4	0.7	0.4		
Net NPLs/Net worth (%)	3.6	3.2	3.3	7.0	4.3		
Provision cover (%)	79.9	80.7	80.4	61.5	72.9		

Source: Company, Emkay Research

Slippages

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Cumulative (Rs mn)	2,125	4,012	5,944	12,382	1,180	-44.5	-90.5
Quarterly (Rs mn)	2,125	1,887	1,932	6,437	1,180	-44.5	-81.7
Cumulative (%)	0.35	0.67	0.91	1.73	0.16		
Quarterly (%)	0.35	0.32	0.29	0.90	0.16		

Source: Company, Emkay Research

Capital adequacy remains comfortable

ALBK's CAR remained comfortable at 13.6% with tier I CAR of 8.2%. The management is also confident of getting Rs10bn of innovative perpetual debt capital from the government which will boost the tier I and total CAR by 130bps.

Valuations and view

We believe that ALBK's current valuations of 1.1x FY11E ABV and 0.9x FY12E ABV are not unreasonable. Looking at strong performance on slippages and 19-20% RoEs over next two years despite building 1.5% slippages and 0.8% in credit costs, we upgrade the stock from HOLD to ACCUMULATE with price target of Rs220.

Key Financials

Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net interest income	21,587	26,505	33,463	38,740
Other income	11,419	16,183	14,246	15,786
Net income	33,006	42,688	47,709	54,525
Operating expenses	13,994	16,178	17,377	19,840
Pre provision profit	19,012	26,510	30,332	34,686
PPP excl treasury	12,148	18,877	25,332	29,686
Provisions	8,254	8,794	7,683	8,894
Profit before tax	10,758	17,716	22,649	25,792
Tax	3,072	5,653	7,227	8,230
Tax rate	29%	32%	32%	32%
Profit after tax	7,686	12,063	15,422	17,562

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Liabilities				
Equity	4,467	4,467	4,467	4,467
Reserves	54,052	63,063	76,917	92,911
Net worth	58,519	67,530	81,384	97,378
Deposits	849,718	1,060,558	1,254,854	1,430,191
Borrowings	68,243	88,954	102,975	120,098
Total liabilities	976,480	1,217,041	1,439,212	1,647,667
Assets				
Cash and bank	66,368	91,682	111,032	126,546
Investments	274,011	368,043	397,024	444,365
Customer assets	610,518	732,292	901,531	1,046,435
Others	25,584	25,024	29,625	30,320
Total assets	976,480	1,217,041	1,439,212	1,647,667

Key Ratios (%)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
NIM	2.5	2.5	2.6	2.6
Non-ll/avg assets	1.3	1.5	1.1	1.0
Fee income/avg assets	0.5	0.5	0.5	0.6
Opex/avg assets	1.4	1.3	1.2	1.2
Provisions/avg assets	0.6	1.3	0.8	0.8
PBT/avg assets	1.1	1.5	1.6	1.6
Tax/avg assets	0.0	0.0	0.0	0.0
RoA	0.9	1.1	1.2	1.1
RoAE	13.8	19.1	20.7	19.6
GNPA (%)	1.8	1.7	1.5	1.5
NNPA (%)	0.7	0.7	0.5	0.4
Tier I (%)	7.2	7.3	7.6	8.0

Valuations Table

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net profit (Rs mn)	7,686	12,067	15,422	17,562
Shares in issue (mn)	447	447	447	447
EPS (Rs)	17.2	27.0	34.5	39.3
PER (x)	10.3	6.6	5.2	4.5
FDEPS(Rs)	17.2	27.0	34.5	39.3
FDPER (x)	10.3	6.6	5.2	4.5
Book value (Rs)	111.5	131.7	162.7	198.5
P/BV (x)	1.6	1.4	1.1	0.9
Adj book value (Rs)	102.0	121.2	152.2	190.3
P/ABV (x)	1.7	1.5	1.2	0.9
P/PPP (x)	4.2	3.0	2.6	2.3
Dividend yield (%)	1.4	3.1	1.7	1.7

Recommendation History: Allahabad Bank – ALBK IN

Date	Reports	Reco	CMP	Target
03.05.2010	Allahabad Bank Q4FY10 Result Update	Hold	160	150
25.01.2010	Allahabad Bank Q3FY10 Result Update	Buy	136	150
23.10.2009	Allahabad Bank Q2FY10 Result Update	Buy	126	150
20.07.2009	Allahabad Bank Q1FY10 Result Update	Accumulate	79	100

Recent Research Reports

Date	Reports	Reco	CMP	Target
22.07.2010	Punjab National Bank Q1FY11 Result Update	Accumulate	1,056	1,100
22.07.2010	Yes Bank Q1FY11 Result Update	Reduce	298	260
21.07.2010	MAGFIL Q1FY11 Result Update	Buy	76	90
20.07.2010	HDFC Bank Q1FY11 Result Update	Hold	2,050	1,950

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