

MAY 20, 2011

BUY

LOW RISK

PRICE Rs. 189

TARGET Rs.295

## BFSI

### EARLIER RECO

<b>BUY</b>	
Price	Rs.252
Target	Rs.295
Date	22 Oct., 2010

### SHARE HOLDING (%)

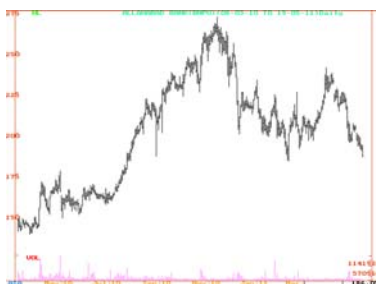
Promoters	58.1
FII	15.1
FI	15.5
Others	1.2
Public & Others	10.1

### STOCK DATA

<b>Reuters Code</b>	<b>ALBK.BO</b>	
<b>Bloomberg Code</b>	<b>ALBK.IN</b>	
<b>BSE Code</b>	<b>532480</b>	
<b>NSE Symbol</b>	<b>ALBK</b>	
<b>Market Capitalization*</b>	<b>Rs. 90 bn US\$ 2bn</b>	
<b>Shares Outstanding*</b>	<b>476mn</b>	
<b>52 Weeks (H/L)</b>	<b>Rs.271 /150</b>	
<b>Avg. Daily Volume (6m)</b>	<b>130,946 Shares</b>	
<b>Price Performance (%)</b>		
<b>1M</b>	<b>3M</b>	<b>6M</b>
<b>(14)</b>	<b>(10)</b>	<b>(25)</b>
<b>200 Days EMA: Rs.206</b>		

\*On fully diluted equity shares

Part of  Classic



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Allahabad Bank has reported an increase of 15% in its net profit during Q4FY11 largely driven by a strong growth in Net Interest Income (NII) and decent core fee income. Results were in line with our estimates despite high pension provisions and spike in NPA provision, the Bank delivered a strong performance mainly due to robust growth in its core business.

### Key Highlights of Q4FY11

- During Q4FY11, Allahabad Bank posted 55% YoY growth in NII, mainly due to a robust 31% YoY growth in advances. The overall business touched Rs. 2264 bn, registering a growth of 27% YoY. The deposits profile remained strong growing at 24% YoY backed by strong CASA deposits growth of 26% YoY and low reliance on bulk deposits (14% of total deposits). The Bank's CASA deposits now form 34% of its total deposits.
- The bank reported a decent 17% growth in non-interest income for the quarter, driven by strong fee income and recoveries despite lower treasury income.
- An increase of 97% YoY and 88% QoQ was seen in employee expenses on account of provisions made for the New Pension Scheme (NPS) for existing employees and one time pension provision for retired employees. Now as the liability has been crystalized we don't see any major spike in employee expenses (Remaining Liability of Rs. 5664.6 million will be amortized over four years).
- The Bank was able to expand its NIMs by 50 bps to 3.49% (from 3.0% in Q4FY10) mainly due to high yields, lower cost of funds and improved Credit-Deposit ratio of 340 bps to 71.7%. We expect NIMs to be maintained in range of 3%-3.25% as bank continues to keep lower reliance on bulk deposits and target low cost deposits.

### Asset Quality Moderates

- During the quarter, the Bank saw an uptick in quantum of both the gross NPAs and net NPAs on a YoY basis and sequential basis but remained stable in terms of percentage of advances. Its gross NPAs grew by 35% YoY and stood at 1.74% as against 1.69% in Q4FY10. Its net NPAs grew by 57% YoY and were at 0.79% as against 0.66% in Q4FY10. Sequentially gross NPAs increased by 7% and net NPAs grew by 45%.
- The bank increased its NPA provisioning during the quarter by 11% YoY to Rs. 3.3 bn, as a result of which, its provisioning coverage ratio now stands at a healthy of 76%. Considering the substantially high NPA provisioning done by the Bank during FY11 and relatively stable Gross NPAs around 1.7%, we believe the bank won't face much of a problem in maintaining its asset quality going forward.

### Update on Business

- The bank has successfully brought all its branches under a 100% CBS implementation.
- The bank also has been able to augment its market share both in terms of credit and deposit. The market share in credit has now reached 2.31% (from 2.24% in FY10) while deposit market share is at 2.23% (from 2.15% in FY10).

### OUTLOOK & VALUATION

Allahabad Bank is the oldest PSU bank with 146 years of existence. It is a mid-sized PSU bank with total business size of about Rs. +2.3 trillion and +2% market share. Government infused capital of approx. 7000 million taking its holding to 58% stake in the bank. It has a pan-India presence with the network of 2,415 branches largely concentrated in Uttar Pradesh, West Bengal and Bihar along with 60% of branches located in rural and semi-urban areas.

The Bank currently trades at an attractive valuation of 0.9x FY13E ABV and 4.8x FY13E Earnings. We believe that the stock can trade at ABV multiple of 1.3x FY13E ABV given its strong sustainable ROE of +19% and good business quality. High CDR, well-capitalized, strong business growth, high CASA ratio of 34%, strong network base, are the other key factors which make the Bank attractive. Maintain Buy rating with a price target of Rs. 295 (at 1.3x of its FY13E ABV).

### 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	18.9	2.6	0.7	34.5	13.6	1.4	7.4	2.7
<b>FY11E</b>	<b>30.2</b>	<b>9.9</b>	<b>18.6</b>	<b>3.2</b>	<b>0.8</b>	<b>33.5</b>	<b>13.0</b>	<b>1.3</b>	<b>6.7</b>	<b>2.9</b>
<b>FY12E</b>	<b>35.9</b>	<b>18.9</b>	<b>18.7</b>	<b>3.0</b>	<b>0.8</b>	<b>33.3</b>	<b>11.8</b>	<b>1.1</b>	<b>5.7</b>	<b>3.4</b>
<b>FY13E</b>	<b>42.8</b>	<b>19.2</b>	<b>19.2</b>	<b>3.0</b>	<b>0.7</b>	<b>33.2</b>	<b>11.6</b>	<b>0.9</b>	<b>4.8</b>	<b>3.9</b>

**QUARTERLY RESULTS STATEMENT** (in mn)

Y/E March	Q4FY11	Q4FY10	YoYChg	Q3FY11	QoQChg
Interest earned	31,192	22,066	41.2%	28,555	9.2%
- on Advances / Bills	23,485	16,637	41.2%	21,309	10.2%
- Income on investments	7,461	5,387	38.5%	7,117	4.8%
- on bal with RBI & other banks	216	42	415.9%	108	99.5%
Interest Expended	19,679	14,640	34.4%	18,038	9.1%
<b>Net Interest Income</b>	<b>11,513</b>	<b>7,426</b>	<b>55.0%</b>	<b>10,516</b>	<b>9.5%</b>
Other income	4,695	4,020	16.8%	2,576	82.2%
- Treasury Income	120	610	-80.3%	200	-40.0%
<b>Operating income</b>	<b>16,208</b>	<b>11,446</b>	<b>41.6%</b>	<b>13,093</b>	<b>23.8%</b>
Employee expenses	6,024	3,057	97.0%	3,196	88.5%
Other Operating expenses	2,383	1,810	31.7%	2,013	18.4%
Total Operating Expenses	8,407	4,867	72.7%	5,209	61.4%
<b>Operating profit</b>	<b>7,801</b>	<b>6,579</b>	<b>18.6%</b>	<b>7,884</b>	<b>-1.1%</b>
Provisions and contingencies	4,655	2,972	56.7%	2,359	97.4%
- NPL Provisions	2,986	1,882	58.6%	1,100	171.4%
<b>PBT</b>	<b>3,145</b>	<b>3,608</b>	<b>-12.8%</b>	<b>5,526</b>	<b>-43.1%</b>
Provision for Tax	569	1,363	-58.2%	1,368	-58.4%
<b>PAT</b>	<b>2,576</b>	<b>2,245</b>	<b>14.8%</b>	<b>4,158</b>	<b>-38.0%</b>
PPP (ex-treasury)	7,651	5,968	28.2%	7,665	-0.2%
EPS	5.4	5.0	7.6%	9.3	-41.9%

Business	Q4FY11	Q4FY10	YoYChg	Q3FY11	QoQChg
Advances	945,710	724,370	30.6%	868,370	8.9%
- Retail Credit	130,290	100,820	29.2%	119,130	9.4%
Deposits	1,318,872	1,060,560	24.4%	1,209,480	9.0%
- CASA deposits	441,560	365,870	20.7%	402,300	9.8%
- Term deposits	877,312	694,690	26.3%	807,180	8.7%
Gross NPL	16,479	12,218	34.9%	15,405	7.0%
Net NPL	7,364	4,702	56.6%	5,067	45.3%

Ratio (%)	Q4FY11	Q4FY10	YoYchg (bps)	Q3FY11	QoQChg (bps)
Gross NPAs	1.7	1.7	5	1.8	(3)
Net NPAs	0.8	0.7	13	0.6	20
Coverage	55.3	61.5	(620)	67.1	(1,180)
ROA Annualized	0.7	1.2	(42)	1.3	(54)
C/I Ratio	52.3	44.9	735	40.4	1,186
Yield on Advances	10.7	10.1	60	10.6	13
Yield on Investment	7.2	6.8	44	7.1	6
Cost of Deposits	6.0	5.6	43	6.0	6
NIM	3.5	3.0	49	3.4	5
CASA	33.7	35.0	(129)	33.4	29
Credit / Deposit Ratio	71.7	68.3	341	71.8	(9)

Source: Company, Sushil Finance Research Estimate

### PROFIT & LOSS STATEMENT (Rs.bn)

Y/E March	FY10	FY11	FY12E	FY13E
Interest income	83.7	110.8	138.0	164.0
Interest expense	57.2	69.9	91.3	110.4
<b>Net interest income</b>	<b>26.5</b>	<b>40.9</b>	<b>46.7</b>	<b>53.7</b>
NII Growth %	22.9	54.2	14.1	15.0
Other income	15.4	13.9	15.5	17.4
- Treasury profits	5.8	1.6	1.4	1.4
<b>Total income</b>	<b>41.9</b>	<b>54.8</b>	<b>62.2</b>	<b>71.1</b>
Operating expenses	16.2	24.1	23.8	26.2
<b>Pre-provision Profit</b>	<b>25.7</b>	<b>30.7</b>	<b>38.4</b>	<b>44.9</b>
Total Provisions	7.8	11.2	13.1	14.7
Provision - NPL	8.3	8.8	10.5	12.0
<b>PBT</b>	<b>17.9</b>	<b>19.5</b>	<b>25.4</b>	<b>30.2</b>
Tax	5.7	5.1	8.2	9.8
<b>PAT</b>	<b>12.3</b>	<b>14.4</b>	<b>17.1</b>	<b>20.4</b>
PAT Growth %	55.4	17.2	18.9	19.2
<b>PPP (Ex Treasury)</b>	<b>20.0</b>	<b>29.1</b>	<b>37.1</b>	<b>43.5</b>
PPP Growth %	47.9	46.0	27.2	17.4

### BALANCE SHEET STATEMENT (Rs.bn)

As on 31 <sup>st</sup> March	FY10	FY11E	FY12E	FY13E
Cash balances	92	110	118	133
Advances	716	936	1,122	1,322
Investments	386	432	508	582
- Govt. Securities	310	353	427	499
Fixed assets	11	11	12	13
Current assets	14	22	24	25
<b>Total assets</b>	<b>1,219</b>	<b>1,513</b>	<b>1,783</b>	<b>2,075</b>
Equity Capital	4	5	5	5
Reserves and Surplus	65	80	94	109
<b>Shareholders' funds</b>	<b>70</b>	<b>85</b>	<b>98</b>	<b>114</b>
Deposits	1,061	1,319	1,560	1,822
- Demand deposits	366	442	520	605
- Term deposits	695	877	1,040	1,216
Borrowings	54	69	80	88
Current liabilities	35	40	46	51
<b>Total liabilities</b>	<b>1,219</b>	<b>1,513</b>	<b>1,783</b>	<b>2,075</b>

### FINANCIAL RATIO STATEMENT

Y/E March	FY10	FY11E	FY12E	FY13E	Y/E March	FY10	FY11E	FY12E	FY13E
<b>Profitability Ratios</b>					<b>Asset-Liability Profile</b>				
EPS (Rs)	27.5	30.2	35.9	42.8	Capital Adequacy Ratio	13.6	13.0	11.8	11.6
Earnings growth (%)	55.4	9.9	18.9	19.2	- Tier I CAR	8.1	8.6	7.4	7.4
CEPS (Rs)	28.9	30.2	35.9	42.8	Adv. / Deposit Ratio	67.5	71.0	71.9	72.6
PPP / Share (Rs)	57.6	64.5	80.7	94.3	Equity / Assets	5.7	5.6	5.5	5.5
ROAA (%)	1.1	1.1	1.0	1.1	Equity / Loans	9.7	9.1	8.8	8.6
ROAE (%)	18.9	18.6	18.7	19.2	Loan Growth	21.8	30.7	19.8	17.9
DPS (Rs)	5.5	6.0	7.0	8.0	Deposit Growth	24.8	24.4	18.3	16.8
Dividend Payout (%)	23.4	23.2	22.7	21.8	Balance Sheet Growth	24.6	24.1	17.9	16.3
<b>Efficiency Ratios (%)</b>					<b>Spreads Analysis (%)</b>				
C-I Ratio(Excl Treasury)	44.8	45.2	39.1	37.5	Yield on Advances	9.8	10.0	10.2	10.3
Salary / Non Int cost	62.5	64.8	59.0	59.0	Yield on Investments	5.7	6.5	6.6	6.6
Other Inc (Ex tr.) / Net Total Inc (Ex Tr.)	26.6	23.1	23.2	23.0	Cost of funds	5.7	5.6	6.0	6.2
Cost Asset Ratio	1.5	1.8	1.4	1.4	NIM (Calculated)	2.6	3.2	3.0	3.0
CASA	34.5	33.5	33.3	33.2	<b>Valuation</b>				
Tax Rates	31.5	26.2	32.5	32.5	Dividend Yield (%)	2.7	2.9	3.4	3.9
<b>Asset Quality Ratios</b>					BVPS (Ex. Reval Res)	155.9	178.6	206.4	239.9
Gross NPLs	1.7	1.7	1.8	1.9	Adjusted BVPS	145.4	163.2	187.4	219.6
Net NPLs	0.7	0.8	0.8	0.7	P/E (x)	7.4	6.7	5.7	4.8
Coverage	61.5	55.3	55.8	61.1	P/PPP (x)	3.5	3.2	2.5	2.2
Provision/ Loans	1.2	0.9	0.9	0.9	<b>P/ABV (x)</b>	<b>1.4</b>	<b>1.3</b>	<b>1.1</b>	<b>0.9</b>

Source : Company, Sushil Finance Research Estimates

## Rating Scale

This is a guide to the rating system used by our Equity 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.

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