

BUY

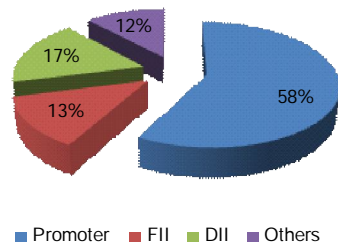
CMP*	Rs154
Target Price	Rs212

Stock Info

Sector	Banking
Market Cap (Rs cr)	7,334
52 Week High/Low	255/121
Avg. Daily Volume (3m, '000)	928
Avg. Daily Value (3m, cr)	15
Dividend Yield (%)	3.9
Sensex	16,167
Nifty	4,851
BSE Code	532480
NSE Code	ALBK

Stock Performance

(%)	ALLAHABAD BANK	NIFTY
1-week	4.8	1.5
1-month	6.5	(9.5)
1-year	(35.3)	(15.7)

Shareholding Pattern (%)**Stock Price Chart**

Note: *CMP as on November 28, 2011

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Consistency personified

We interacted with the management of Allahabad Bank (ALBK) at its analyst meet to understand the business environment for the bank. Key highlights of the same:

- Asset Quality:** The management acknowledged a difficult business environment due to slowing domestic economy and high interest rates. However, the bank has practiced prudence in lending to quality borrowers and shying away from risky businesses. The GNPA & NNPA stood at 1.8% & 0.7% as on 2QFY2012 respectively. The bank is 100% CBS as far as the identification of NPAs is concerned and remains focused on improving quality of assets in the backdrop of a challenging business environment. In fact, it has recovered Rs443cr loans of which Rs355cr were small loans of Rs5lakh and below during 1HFY2012. The management expects to recover another Rs550cr over H2FY2012. We expect the slippages to remain low on account of higher recoveries and anticipate GNPA of 1.8% over FY2012 and FY2013.
- Consistent growth & resilient NIMs:** ALBK has rebalanced its loan portfolio by getting out of certain riskier accounts such as short-term loan business in 2QFY2012. Nonetheless, the loan growth has been consistent and the bank has guided for loan growth to be 4-5% above systemic growth. Margins have been resilient as evident in 2QFY2012 on the back of lower cost of funds, high operating efficiency and asset re-pricing. We expect NIMs to be at ~3.3% in FY2012 and FY2013.
- Scalability:** ALBK has recruited about 7,200 new employees in the last three years and they are all mainly officers with CA or MBA qualification. The bank has become young, median age of junior officers is 36, which is expected to improve the productivity of the bank. Also, the bank is highly focused in scaling up its branches and ATMs. The management plans to increase the access points through expanding its branch network to 3,000 branches and 2,000 ATMs by FY2015. This would give a major boost to its fee income as well. The fee-based income has gone up from Rs213cr to Rs257cr, a growth of 21% in 2QFY2012. ALBK continues to be the largest partner of LIC as far as sale of Life Insurance policy is concerned. Also, it has over 2 lakh pensioners in its book. Scaling up of access point would aid fee income growth going forward.

Outlook and Valuation

Total business of ALBK has grown at a CAGR of 22% over the last four years. We expect ALBK to successfully implement the following broad strategies (a) focus on core deposit, reducing dependence on bulk deposits; (b) emphasis on CASA deposit mobilization; (c) maintaining a lean cost structure; (d) maintaining NIMs; (e) reviving fee-based income; and (f) reinvigorating recovery of NPAs. All these efforts would yield results and help the bank to strengthen its balance sheet on the one hand by maintaining moderate level of profitability and overcome the adverse impact of global slow down on the other. We expect ALBK to outperform the industry and continue to grow at the same pace of ~22% between FY2011-13E. ALBK is an attractively valued mid-size public sector bank with above average credit growth, lean cost structure, high CASA deposits and firm asset quality. Further, lower bulk dependence, wide branch network and higher coverage ratio makes ALBK preferable over its peers. At CMP of Rs154, the bank is trading at 0.7x FY2013E ABV. **We maintain our Buy on Allahabad Bank based on 1.0x FY2013E ABV, with a target price of Rs212, implying an upside of ~40% from the CMP.**

Year End	Net Interest Income		Net Profit		EPS	NIM	GNPA	ROA	ROE	Valuation	
	(Rs cr)	% growth	(Rs cr)	% growth	(Rs)	%	%	%	(%)	P/E (x)	P/ABV (x)
FY2010	2,650	22.8	1,206	57.0	27.0	2.6	1.7	1.1	19.1	5.7	1.2
FY2011	4,022	51.8	1,423	18.0	29.9	3.2	1.7	1.0	18.7	5.2	1.0
FY2012E	5,187	29.0	1,862	30.8	39.1	3.3	1.8	1.1	20.1	3.9	0.9
FY2013E	6,216	19.8	2,247	20.7	47.2	3.3	1.8	1.1	20.5	3.3	0.7

Profit & Loss

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
Interest income	8,369	11,015	14,912	17,909
Interest expenses	5,719	6,992	9,725	11,693
Net interest income	2,650	4,022	5,187	6,216
Non-Interest Income	1,516	1,370	1,211	1,532
Total Income	4,166	5,393	6,398	7,748
Operating expenses	1,618	2,338	2,600	3,151
Pre-provision profits	2,549	3,055	3,797	4,597
Provisions	777	1,124	1,440	1,560
Profit before tax	1,772	1,931	2,357	3,037
Income tax	565	508	495	790
Net profit	1,206	1,423	1,862	2,247
EPS (Rs)	27.0	29.9	39.1	47.2

Balance Sheet

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
Cash	380	357	384	370
Bank Balances	8,788	10,671	11,610	12,410
Cash & bank bal.	9,168	11,027	11,994	12,780
Investments (net)	38,429	43,247	52,769	64,906
Loans	72,357	94,536	115,365	141,898
Loan loss reserves	752	912	1,142	1,405
Loans (net)	71,605	93,625	114,222	140,494
Fixed assets	1,118	1,148	1,183	1,218
Other assets	1,379	2,239	2,307	2,378
Total Assets	121,699	151,286	182,476	221,776
Total deposits	106,056	131,887	158,664	192,816
Total borrowings	5,435	6,918	8,978	11,605
Other liabilities	3,455	3,974	4,800	5,455
Total Liabilities	114,946	142,779	172,441	209,877
Shareholders' equity	6,753	8,507	10,034	11,899
BVPS	132	160	192	232
Adj. BVPS	124	148	178	212

Key Ratios

Y/E March	FY2010	FY2011	FY2012E	FY2013E
Asset Quality Ratios (%)				
Gross NPA	1.7	1.7	1.8	1.8
Net NPA	0.7	0.8	0.8	0.8
LLP as % of avg. assets	0.8	0.6	0.7	0.7
Growth Ratios (%)				
Advances growth	21.8	30.8	22.0	23.0
Deposits growth	24.8	24.4	20.3	21.5
CD Ratio	67.5	71.0	72.0	72.9
CASA Deposit Ratio	34.5	33.5	31.5	31.8
Net Interest Income	22.8	51.8	29.0	19.8
Fee Income	32.7	(9.6)	(11.7)	26.5
Core earnings growth	26.2	29.4	18.6	21.1
Pre-Provision Profits	34.1	19.9	24.3	21.1
Net Profit	57.0	18.0	30.8	20.7
Total Assets	24.6	24.3	20.6	21.5
NIM (%)	2.6	3.2	3.3	3.3
ROE (%)	19.1	18.7	20.1	20.5
ROA (%)	1.1	1.0	1.1	1.1
Cost/Income (%)	38.8	43.4	40.6	40.7
Capital Adequacy Ratio (%)				
Tier I	8.1	8.6	8.7	8.4
Tier II	5.5	4.4	4.0	3.6
Total CAR	13.6	13.0	12.7	12.0
Per Share Data (Rs)				
EPS	27.0	29.9	39.1	47.2
DPS	5.5	6.0	7.0	8.0
BVPS	131.7	160.5	192.4	231.6
Adj. BVPS	123.9	148.5	177.6	211.7
P/E (x)	5.7	5.2	3.9	3.3
P/ABV (x)	1.2	1.0	0.9	0.7

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