

Banking

Allahabad Bank

Buy

(Sharp rise in slippages; restructured assets leads to higher provisions)

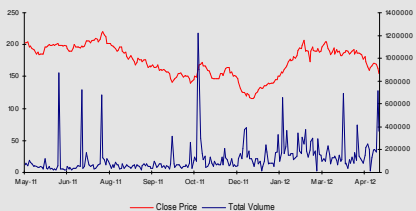
CMP Rs 153

Target Price Rs 196

Key Data

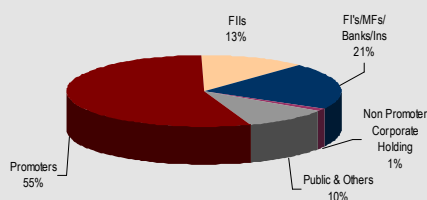
Face Value	10
Market Cap (Rs in mn)	76504
Total O/s Shares (in mn)	500.0
Free Float	44.8%
52 Week High / Low	222/113
Avg. Monthly Volume (BSE)	190066
Avg. Monthly Volume (NSE)	1496843
BSE Code	532480
NSE Code	ALBK
Bloomberg Code	ALBK IN
Beta	1.2
Date of Incorporation	Apr 1865
Last Dividend Declared	60%
Six month return	-10.1%
Indices	BSE 200

One Year Price Chart



Source: Capitaline

Share Holding Pattern 31.03.2012



Source: Company, KJMC Research

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Allahabad Bank has reported PAT of Rs 4002.2mn, up 55.4%YoY below our estimates of Rs 4597.2mn mainly due to decline in other income by 24.4% to Rs 3551.4mn and lower interest income. NII for the quarter grew by 11.9% YoY below our estimates while NIM for the quarter contracted by 40bps to 3.1% mainly due to reversal of interest, higher interest cost, lower credit offtake. ALBK reported highest slippages during the quarter to the tune of Rs 9.7bn while restructured assets stood at Rs 26bn. GNPA and NNPA of the bank stood at 1.9% and 1% respectively.

The stock is currently trading at 0.6x of its FY14E ABV. We value the standalone business at 0.8x of its FY13E ABV at Rs 245.0 and maintain our buy rating on the stock with Target Price of Rs 196.

Key Highlights

Advances grew sequentially; NIM declined: Advances for the quarter grew 18.7%YoY and 10.6% sequentially to Rs 1.1tn due to strong growth in agri and MSME advances while deposits for the quarter grew by 21.0%YoY and 9.8% sequentially. In addition, NIMs of the bank declined by 40bps to 3.1% sequentially mainly due to reversal of interest and higher cost of funds.

Tax rate remains lower: In continuation to its previous two quarter trends ALBK has provided lower tax rate of 10.4% since it has not availed tax benefits earlier on certain items like rural advances, priority sector advances, writeoffs etc. thereby continues to help net profits.

Slippages and restructured assets rise significantly: Asset quality of the bank remained stable with Gross NPA and NNPA at 1.9% and 1.0% respectively. Slippages during the quarter stood high at Rs 9.7bn which includes Rs 2.6bn from agri, Rs 4bn from MSME and one big account of Hydro project of Rs 900mn. Major chunk of slippages continues to remain in priority sector lending which constituted Rs 13bn during FY12 of the slippages of Rs 22bn. The rise in agri NPAs was mainly due to late payment release by sugar factory of Rs 45bn to sugarcane farmers. However, bank has made provisions upto 84% of net slippages during FY12. On restructuring front, bank has restructured Rs 26bn during the quarter which includes Air India of Rs 5bn and SEBs(Uttar Haryana, Rajasthan, Jodhpur) of Rs 11bn. The total outstanding restructured advances stood at Rs 92.9bn in which Rs 2.3bn have slipped into the NPL category. ALBK will further restructure UP SEB of Rs 21bn and Bharti Shipyard of Rs 2bn in the coming quarters.

Standalone Financial Snapshot

(Rs in mn)

Particulars	FY10	FY11	FY12	FY13E	FY14E
Interest Income (Rs)	83692.1	110147.0	155232.8	178353.9	204012.6
NII (Rs)	26504.9	40224.7	51622.2	56857.0	67060.3
PAT (Rs)	12063.8	14231.0	18663.6	20165.5	24951.2
EPS (Rs)	27.0	29.9	37.3	40.3	49.9
ABV (Rs)	121.2	145.0	171.1	203.3	244.9
P/E (x)	5.7	5.1	4.1	3.8	3.1
P/ABV (x)	1.3	1.1	0.9	0.8	0.6

Other income grew sharply: Other income of the bank declined by 24.4%YoY to Rs 3.6bn mainly due to decline in fee income by 11.3% to Rs 2.4bn and other non interest income by 87.8% to Rs 191mn. However, Trading gains increased sharply to Rs 590mn.

CASA remains stable: CASA share remains stable at 30.5% with savings increased by 5.9% sequentially and current deposits increasing sharply by 26.2% QoQ. Management has guided to open 250branches in FY13 which will help to maintain its CASA share.

Valuations and Outlook

ALBK has been reporting excellent performance since last three quarters but failed to deliver in Q4FY12 which was mainly due to significant rise in slippages and restructured assets. However, bank has made necessary provisions. Going forward, asset quality will remain stable expecting some recoveries in the coming quarters while pressure to remain on the restructured assets. Management will be focusing more on the recovery of NPAs in agri. On the business growth, credit offtake is expected to moderate at 18% given the expected slower pace of growth in GDP. The stock is currently trading at 0.6x of its FY14E ABV. We value the standalone business at 0.8x of its FY14E ABV at Rs 245 and maintain our Buy rating on the stock with Target Price of Rs 196.

Quarterly Result Q4 FY12

Particulars (Rs mn)	Q4FY12	Q4FY11	yoy (%)
Interest earned	41,682.4	31,192.1	33.6
-Interest on advances/bills	30763.1	23485.4	31.0
-Income on investments	10397.4	7461.1	39.4
-Interest on bal. with RBI	484.3	216.1	124.1
-Others	37.6	29.5	27.5
Interest expenses	28798.7	19679	46.3
Net Interest Income (NII)	12,883.7	11,513.10	11.9
Other Income	3551.4	4694.7	-24.4
Total income	16,435.1	16,207.8	1.4
Operating expenses	7,424.4	8,407.3	-11.7
-Employee cost	4950.4	6024	-17.8
-Other operating expenses	2474	2383.3	3.8
Operating profit	9,010.7	7,800.50	15.5
Provision for contingencies	4544	4655.1	-2.4
PBT	4,466.7	3145.400	42.0
Provision for taxes	464.5	569.3	-18.4
Net profit	4,002.2	2,576.10	55.4
Equity	5000.3	4762.2	5.0
EPS	8.0	5.4	48.0
Ratios (%)			
Int. exp/Int earned (%)	69.1	63.1	-
Cost/Income ratio (%)	45.2	51.9	-
Emp. cost/Int. Income (%)	11.9	19.3	-
Gross NPAs (Rs)	20589.8	16479.2	24.9
Net NPAs (Rs)	10917	7363.7	48.3
Gross NPAs (%)	1.83	1.74	5.2
Net NPAs (%)	0.98	0.79	24.1
ROA (%)	0.9	0.7	18.9
CAR (%)	12.8	13.0	-1.0
Advances (Rs)	1111451	936248.9	18.7
Deposits (Rs)	1595930.8	1318871.6	21.0
Business (Rs)	2,707,381.8	2,255,120.5	20.1
CD ratio (%)	69.6	71.0	-1.9
Investments (Rs)	542834.4	432470.6	25.5
Total assets (Rs)	1829345.7	1512863.6	20.9
Provisions	9672.8	9115.5	6.1
Provision coverage (excl. tech. write-off)	47.0	55.3	-15.1

Source: Company, KJMC Research

Financial Summary

Income Statement

(Year ending March, Rs Mn)	FY10	FY11	FY12	FY13E	FY14E
Interest Income					
-Interest/Discount on advances and bills	63984.5	82741.9	116641.3	130839.9	150036.9
-Income on Investments	19447.5	26702.7	37163.8	46654.4	52951.4
-Int. on bal. with RBI	251.7	546.9	1228.9	659.5	824.4
-Others	8.4	155.5	198.8	200.0	200.0
Total Interest Income	83692.1	110147.0	155232.8	178353.9	204012.6
Total Interest expense	57187.2	69922.2	103610.6	121496.8	136952.3
Net Interest Income	26504.9	40224.7	51622.2	56857.0	67060.3
Other Income	15158.9	13704.1	12986.8	14982.2	16505.8
Total Income	41663.9	53928.8	64609.0	71839.2	83566.1
Employees Cost	10115.7	15576.2	18344.9	20465.1	23577.1
Other operating expenses	6062.4	7806.9	8569.0	9624.4	11087.9
Total operating expenses	16178.0	23383.1	26913.9	30089.4	34664.9
Operating Profit	25485.8	30545.8	37695.1	41749.8	48901.2
Provisions and contingencies	7769.2	11238.8	16069.6	15896.6	16497.1
Profit before tax (PBT)	17716.6	19307.0	21625.5	25853.2	32404.1
Tax provisions	5652.8	5075.9	2961.9	5687.7	7452.9
Profit After Tax (PAT)	12063.8	14231.0	18663.6	20165.5	24951.2
(% change)	57.0	18.0	31.1	8.0	23.7
EPS	27.0	29.9	37.3	40.3	49.9
Share Capital	4467.0	4762.2	5000.3	5000.3	5000.3

Source: Company, KJMC Research

Balance Sheet

(Year ending March, Rs Mn)	FY10	FY11	FY12	FY13E	FY14E
Application of funds					
Share Capital	4467	4762	5000	5000	5000
Reserves & Surplus	63063	80312	100066	116573	137859
Total Deposits	1060558	1318872	1595931	1851880	2185283
Borrowings	54355	69182	90945	109134	130961
Other Liabilities and provisions	34550	39736	37404	43493	47693
Total liabilities	1216992	1512864	1829346	2126090	2506815
Sources of funds					
Cash and Balances with RBI	71838	79009	87125	117919	138944
Bal. with banks	19844	31265	53128	32520	30314
Total Advances / Credit	716049	936249	1111451	1311511	1573813
Total Investments	384286	432471	542834	623526	717015
Fixed Assets	11183	11482	11975	13205	13830
Other Assets	13792	22388	22833	27399	32879
Total assets	1216992	1512864	1829346	2126090	2506815

Source: Company, KJMC Research

Key Ratios

Key Ratios	FY10	FY11	FY12	FY13E	FY14E
(A) Efficiency Ratios (%)					
Int. exp/Int. earned	68.3	63.5	66.7	68.1	67.1
Cost / Income	38.8	43.4	41.7	41.9	41.5
C-D ratio	67.5	71.0	69.6	70.8	72.0
Net Interest Margin	2.5	3.1	3.2	3.0	3.0
B) Solvency					
Gross NPAs/ Net Advances (%)	1.7	1.8	1.9	1.9	1.8
Net NPAs/ Net Advances (%)	0.7	0.8	1.0	0.9	0.8
C) Measures of Investment					
EPS (Rs)	27.0	29.9	37.3	40.3	49.9
BV (Rs)	131.7	160.5	192.9	226.0	268.7
Adjusted BV (Rs)	121.2	145.0	171.1	203.3	244.9
DPS (Rs)	5.5	6.0	6.0	6.5	7.0
Avg. ROE (%)	19.1	18.7	19.6	17.8	18.9
Avg. ROA (%)	1.1	1.0	1.1	1.0	1.1
P/E (x)	5.7	5.1	4.1	3.8	3.1
P/ABV (x)	1.3	1.1	0.9	0.8	0.6
Dividend yield (%)	3.6	3.9	3.9	4.2	4.6
Effective Tax Rate (%)	31.9	26.3	13.7	22.0	23.0
D) Growth Rates (%)					
Deposits	24.8	24.4	21.0	16.0	18.0
Advances	21.8	30.8	18.7	18.0	20.0
E) Other performance parameters					
No. of branches (No.)	2287.0	2415.0	2516.0	2641.0	2766.0
No. of employees (No.)	20959.0	21227.0	22334.0	23504.9	24617.4
Business per branch (Rs mn)	776.8	933.8	1076.1	1197.8	1359.0
Profit per branch (Rs mn)	5.3	5.9	7.4	7.6	9.0
Business per employee (Rs mn)	84.8	106.2	121.2	134.6	152.7
Profit per employee (Rs mn)	0.6	0.7	0.8	0.9	1.0

Source: Company, KJMC Research

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Recommendation Parameters

Expected returns in absolute terms over a one-year period

Buy	- appreciate more than 20% over a 12- month period
Accumulate	- appreciate 10% to 20% over a 12- month period
Hold / Neutral	- appreciate up to 10% over a 12- month period
Reduce	- depreciate up to 10% over a 12- month period
Sell	- depreciate more than 10% over a 12- month period

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Products	Contains	Frequency
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IPO Note	Reports based on IPO Analyst Meet and Company Fundamentals	Time to Time
Event Report	Reports based on special events such Budget, Monetary policy etc.	Time to Time
Morning Market Compass	Morning Market Compass containing information on Indian & Global Markets, Indices and key company events.	Mon-Fri
(B) Alternative Research		
Dividend Yield Stocks	Reports based on analysis of Dividend Yield.	Time to Time
Alternative Research Note	Investments based on Open Offer, Buy-Back, FPO Arbitrage, IPO/FPO leverage investments.	Time to Time
What's in & What's out	List of companies, Purchase / Sold in particular month by different AMC's.	Monthly
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Daily Performance Report for Liquid & Liquid Plus Funds	Report containing daily, weekly, monthly, half yearly & yearly performance of only Liquid & Liquid Plus plans along with ranking of each fund for Corporates & Institutions.	Mon-Fri
Daily Performance Report for all Debt & Equity Funds	Report containing daily, weekly, monthly, half yearly & yearly performance along with ranking of each fund.	Mon-Fri
Product Notes	Brief Details about different products like Mutual fund, Fixed Deposits, Bonds, IPOs, Insurance & Home Loans.	Time to time

Data Sources : Capitalline, Companies, Bloomberg, Various Websites & publication available on Public domain.

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