

# Allahabad Bank

Sensex: 21240

CMP: INR 92

Target: INR 174



BFSI

**ALB reported impressive set of numbers largely in-line with our estimates. While NII improved by 11.5% to INR 13091 mn, net profit increased by 17.8% to INR 2758 mn led by improved operational performance. ALB benefited from increase in non-interest income, driven largely by sale of assets to ARCs and growth in fee-based income. Concerns of asset quality deterioration eased due to lower addition of fresh NPAs during the last quarter resulting in 4 bps sequential decline in NNPA. We retain our BUY rating and target of INR 174 on the stock.**

## NIMs at +2.7%

ALB witnessed marginal decline of 4 bps in NIMs to 2.8% on the back of 15 bps decline in YoA. ALB has reduced its base rate four times in last 15 months resulting in decline in yields. Cost of Deposit declined by mere 4 bps to 7.2% as ALB further reduced the proportion of bulk deposits to 6.3%. We expect NIMs to recover to ~3% levels over the next couple of years on the back of increased focus on high margin retail and MSME segments.

## CASA ratio improves to 31.2%

ALB witnessed 169 bps improvement in CASA ratio to 31.2% owing to 17.2% growth in savings deposits. This growth is largely because ALB has opened more than 200 branches in the last year. The bank has also consciously slowed down term deposit mobilisation in the last quarter to control cost of deposit to 7.24% from 7.28%.

## Sharp jump in non interest income

Non Interest income surged by 2.3x to INR 6960 mn largely driven by the sale of assets to ARCs and growth in fee-based income. ALB sold assets to ARCs amounting to INR 7.3 bn and booked a profit of INR 3.5 bn in the last quarter. Importantly core fee income improved by 32.2% to INR 2.7 bn. ALB has shifted investments worth INR 79.6 bn from available-for-sale to held-to-maturity portfolio and minimised its mark-to-market losses to INR 0.6 bn.

## Recovery activities bearing fruits

ALB's renewed focus on credit monitoring and faster recoveries & upgradations have started bearing fruits as recoveries surged by 7x to INR 25.7 bn in the last quarter. Slippages too were contained

below INR 12 bn (3.6% annualized) as against INR 16.9 bn (5.3%) in sequential quarter. It has written off assets worth INR 7.3 bn to ARCs at 50% discount to push up recovery and non interest income. This has aided the bank to register 4 bps improvement NNPA to 3.8%. ALB maintained that the pace of incremental slippages are expected to ease in coming couple of quarters and the bank is not witnessing any stress on agriculture portfolio due to well distributed monsoon this season.

## Restructured book - 10.2% of total advances

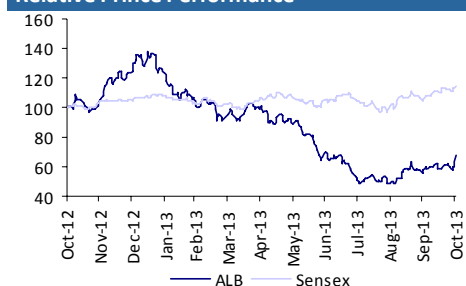
Restructured book remained flat at INR 136.1 bn, accounting for 10.2% of advances (10.5% of advances in Q1FY14). The bank has restructured advances of INR 3.5 bn in the last quarter. Slippages from restructured portfolio to NPA stood at INR 20.4 bn (15.0% of restructured book). Restructuring pipeline for the current quarter stands at ~INR 9.7 bn (including INR 2.1 of exposure to Lanco Infra & INR 1.5 bn exposure to Bombay Rayon).

## Outlook & Valuation

ALB's strategy of focussing in favour of high yielding MSME & retail segment in addition to stressing on CASA deposit mobilization will aid growth. Its renewed focus on credit monitoring and faster recoveries & upgradations will result in improvement in asset quality. Capitalization ratios are expected to improve significantly post the capital infusion by government and planned QIP by the bank. ALB at 0.46x FY15E BV factors in most of the concerns relating to deteriorating macroeconomic environment and elevated NPA levels. We retain our BUY rating and target of INR 174 on the stock.

Shareholding (%)	Sep-13
Promoters	55.24
FII's	8.24
DII's	21.96
Others	14.56

## Relative Price Performance

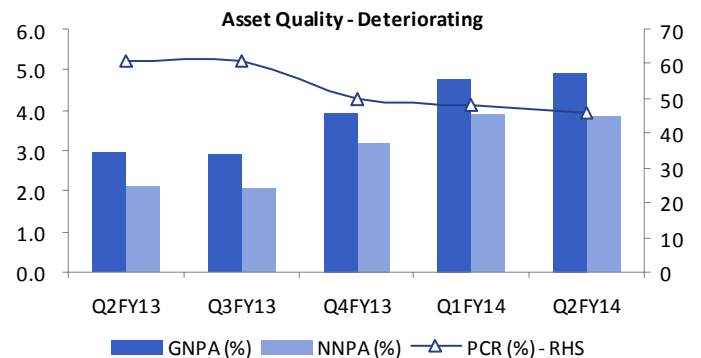
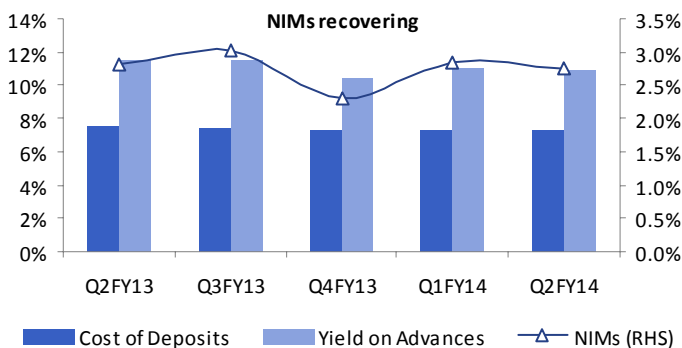
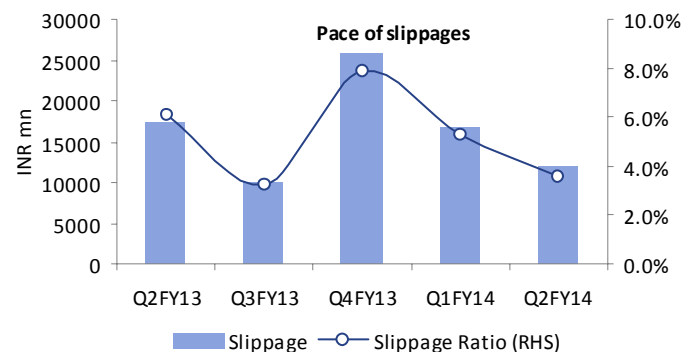
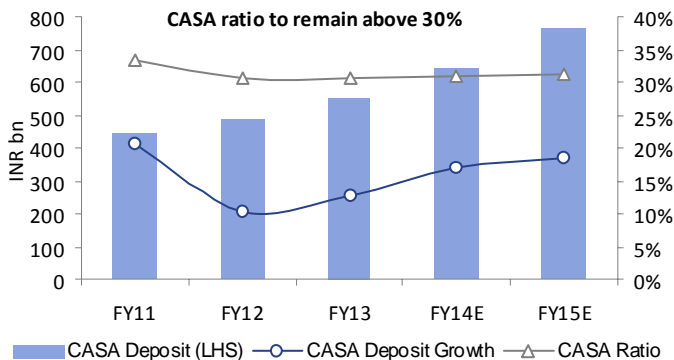


Key Data	
BSE Code	532480
NSE Code	ALBK
Bloomberg Code	ALBK IN
Reuters Code	ALBK.BO
Shares O/S (mn)	500.03
Face Value	10
Mcap (INR bn)	45.88
52 Week H/L	190.80/64.9
2W Avg. Qty, NSE	2940674
Free Float (INR bn)	20.53
Beta	1.38

Y/E March (INR mn)	FY12	FY13	FY14E	FY15E
Interest income	155233	174357	200477	233537
Interest Expended	103606	125693	140920	162347
Net interest income	51627	48664	59557	71190
Growth (%)	28.35%	-5.74%	22.38%	19.53%
NIM (%)	3.42%	2.76%	2.94%	3.00%
APAT	18668	11852	15173	20170
Growth (%)	31.17%	-36.51%	28.02%	32.94%
EPS (INR)	37.33	23.70	30.34	40.34
P/E	4.75	5.34	3.02	2.27
P/ABV	1.04	0.99	0.55	0.46
Net NPA	0.98%	3.19%	2.58%	2.40%
RoA	1.12%	0.61%	0.69%	0.79%
RoE	19.64%	10.84%	12.40%	14.22%
Dividend Yield	3.38%	4.74%	6.54%	7.63%

**Quarterly Financials**

Particulars (INR mn)	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	% YoY	% QoQ
Interest Earned	42805	44447	42524	45637	46071	7.63	0.95
Interest Expended	31062	31144	31963	32518	32980	6.17	1.42
<b>Net Interest Income</b>	<b>11743</b>	<b>13302</b>	<b>10560</b>	<b>13118</b>	<b>13091</b>	<b>11.48</b>	<b>(0.21)</b>
NIM (%)	2.80	3.02	2.30	2.83	2.75	(5 bps)	(8 bps)
Other Income	3021	3407	5245	5013	6960	130.35	38.84
<b>Net Total Income</b>	<b>14764</b>	<b>16709</b>	<b>15806</b>	<b>18131</b>	<b>20051</b>	<b>35.80</b>	<b>10.59</b>
Operating Expenses	6741	8109	8133	7912	8515	26.31	7.62
Payments to / Provisions for employees	4418	5635	5450	5257	5505	24.59	4.71
Other operating expenses	2323	2474	2683	2655	3011	29.59	13.39
Cost/Income Ratio (%)	45.66	48.53	51.46	43.64	42.47	(319 bps)	(117 bps)
<b>Operating Profits</b>	<b>8023</b>	<b>8600</b>	<b>7673</b>	<b>10219</b>	<b>11535</b>	<b>43.78</b>	<b>12.88</b>
Provisions & Contingencies	4645	4324	6225	4455	7422	59.79	66.60
Profit Before Tax	3378	4276	1448	5764	4114	21.77	(28.64)
Provision for Tax	1036	1168	186	1633	1355	30.80	(17.01)
<b>Net Profit</b>	<b>2342</b>	<b>3108</b>	<b>1262</b>	<b>4131</b>	<b>2758</b>	<b>17.77</b>	<b>(33.23)</b>
<b>EPS</b>	<b>4.68</b>	<b>6.22</b>	<b>2.52</b>	<b>8.26</b>	<b>5.52</b>	<b>17.77</b>	<b>(33.23)</b>
Equity	5000.3	5000.3	5000.3	5000.3	5000.3	-	-
GNPA	33114	35316	51370	61645	86133	160.11	39.72
NNPA	23306	24775	41268	49217	50478	116.59	2.56
(%) GNPA	2.95	2.91	3.92	4.78	4.94	199 bps	16 bps
(%) NNPA	2.10	2.06	3.19	3.87	3.83	173 bps	(4 bps)
RoA (%)	0.51	0.67	0.26	0.83	0.54	3 bps	(29 bps)



## Financials

### Income Statement

Y/E March (INR mn)	FY12	FY13	FY14E	FY15E
Interest income	155233	174357	200477	233537
<i>Growth (%)</i>	<i>40.93%</i>	<i>12.32%</i>	<i>14.98%</i>	<i>16.49%</i>
Interest Expended	103606	125693	140920	162347
Net interest income	51627	48664	59557	71190
<i>Growth (%)</i>	<i>28.35%</i>	<i>-5.74%</i>	<i>22.38%</i>	<i>19.53%</i>
Other Income	12987	14769	16689	19026
Net Income	64613	63433	76246	90215
Operating Expenditure	26914	29581	33471	37730
Operating Income	37699	33852	42775	52485
Provisions & Contingencies	16074	18325	22271	24470
PBT	21626	15527	20504	28014
Tax	2958	3675	5331	7844
PAT	18668	11852	15173	20170
APAT	18668	11852	15173	20170
<i>Growth (%)</i>	<i>31.17%</i>	<i>-36.51%</i>	<i>28.02%</i>	<i>32.94%</i>
EPS (INR)	37.33	23.70	30.34	40.34

### Balance Sheet

Y/E March (INR mn)	FY12	FY13	FY14E	FY15E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	5000	5000	5000	5000
Reserves	100066	108525	126296	147374
Total Shareholders Funds	105066	113525	131296	152375
Total Deposits	1595931	1787416	2073403	2436248
<i>Growth (%)</i>	<i>21.01%</i>	<i>12.00%</i>	<i>16.00%</i>	<i>17.50%</i>
Borrowings	90945	100976	113396	125869
Other Liabilities & Provisions	37634	42374	46188	49421
<b>Total Liabilities</b>	<b>1829576</b>	<b>2044292</b>	<b>2364283</b>	<b>2763914</b>
<b>APPLICATION OF FUNDS</b>				
Current Assets	140252	130707	146787	160424
Investments	542832	583059	664687	764390
Advances	1111451	1294897	1515029	1799854
<i>Growth (%)</i>	<i>18.71%</i>	<i>16.51%</i>	<i>17.00%</i>	<i>18.80%</i>
Fixed Assets	11977	12515	12818	13034
Other Assets	23063	23114	24963	26211
<b>Total Assets</b>	<b>1829576</b>	<b>2044292</b>	<b>2364283</b>	<b>2763914</b>

### Key Ratios

Y/E March (INR mn)	FY12	FY13	FY14E	FY15E
<b>Per Share Data (INR)</b>				
EPS	37.33	23.70	30.34	40.34
BVPS	210.12	227.04	262.58	304.73
ABVPS	171.09	127.39	167.28	201.19
DPS	6.00	6.00	6.00	7.00
<b>Profitability Ratios</b>				
Yield on Advances	11.53%	10.77%	10.85%	10.90%
Cost of Deposits	7.11%	7.43%	7.30%	7.20%
Net Interest Margin	3.42%	2.76%	2.94%	3.00%
RoA	1.12%	0.61%	0.69%	0.79%
RoE	19.64%	10.84%	12.40%	14.22%
<b>Balance Sheet Ratios</b>				
Credit/Deposit Ratio	69.64%	72.45%	73.07%	73.88%
Investment/Deposit Ratio	34.01%	32.62%	32.06%	31.38%
CASA Ratio	30.49%	30.73%	31.00%	31.26%
Capital Adequacy Ratio (CAR)	12.83%	11.03%	11.40%	11.53%
Tier I	9.13%	8.05%	8.20%	8.43%
<b>Asset Quality Ratios</b>				
Gross NPA	1.85%	3.97%	3.31%	2.90%
Net NPA	0.98%	3.19%	2.58%	2.40%
Provision Coverage Ratio	71.86%	48.10%	60.13%	61.85%
Slippage Ratio	2.18%	4.90%	3.20%	2.85%
<b>Efficiency Ratios</b>				
Cost to Income Ratio	41.65%	46.63%	43.90%	41.82%
Business per Employee (in INR mn)	121.70	137.30	155.19	181.39
Profit per Employee (in INR mn)	0.80	0.50	0.66	0.86
<b>Valuation Ratios</b>				
P/E	4.75	5.34	3.02	2.27
P/ABV	1.04	0.99	0.55	0.46
Dividend Yield	3.38%	4.74%	6.54%	7.63%

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