

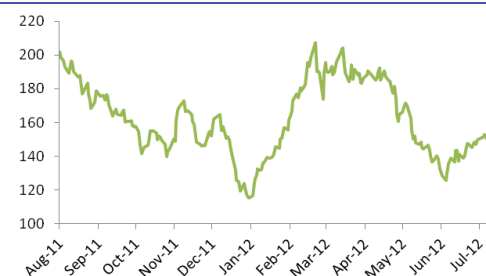
## Allahabad Bank

Recommendation	BUY
CMP (03/08/2012)	Rs. 132
Target Price	Rs. 205
Sector	Banking

## Stock Details

BSE Code	532480
NSE Code	ALBK
Bloomberg Code	ALBK IN
Market Cap (Rs cr)	7,367
Free Float (%)	44.76
52- wk HI/Lo (Rs)	211/114
Avg. volume BSE (Quarterly)	207,664
Face Value (Rs)	10
Dividend (FY 12)	60%
Shares o/s (Cr)	50.0

Relative Performance	1Mth	3Mths	1Yr
Allahabad Bank	-11.3%	-21.4%	-33.7%
Sensex	-0.9%	-0.4%	-5.9%



Shareholding Pattern	30 <sup>th</sup> June 2012
Promoters Holding	55.24%
Institutional (Incl. FII)	32.66%
Corporate Bodies	1.58%
Public & others	10.52%

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## Restructured book to remain a cause of worry

## ➤ Loan book growth moderates

Allahabad Bank's loan book grew at 11.9% YoY and remained flat on QoQ basis. Out of the total advances portfolio, Retail grew 15.5% YoY, agri grew 19.6% YoY and SME grew 11.7% YoY. Management expects to sustain loan growth of 20%+ going forward with major focus on retail book. We have factored in loan growth of 18.5% for FY13E and 18.4% for FY14E.

## ➤ NIMs decline sequentially

NIM stood at 3.17% in Q1FY13, as compared to 3.23% in Q4FY12 and 3.4% in Q1FY12 resulting from higher cost of funds coupled with decline in CASA ratio. Management has reiterated its guidance of maintaining NIMs 3%+ for FY13E. We expect NIMs to be at 3.1% for both FY13E and FY14E.

## ➤ Fee income continues to remain strong

Non-interest income of the bank declined 12.8% QoQ and increased 8.3% YoY to Rs 309.5 cr. Fee based income increased 15.5% YoY to Rs 239 cr in Q1FY13 and the bank showed a trading profit of Rs 55 cr vs 26 cr in Q1FY12. Management expects improvement in non-interest income in the coming quarters driven by higher recoveries. We expect non-interest income to grow at 8.5% for FY13E and 12.0% for FY14E.

## ➤ Restructured book remains a cause of concern in near term

Gross NPA of the bank increased by 5.0% QoQ and 34.8% YoY to Rs 2,162 cr. The bank witnessed slippage ratio of 2.14% vs slippage ratio of 2.4% in Q4FY12. The bank's restructured book increased by Rs 4,777 cr and stood at around Rs 10,727 crs (9.7% of advances) from earlier 5.7% of advances. During the quarter the bank has restructured stressed accounts (SEBs worth Rs 3,100 cr of which UP Power stood at Rs 2,500 cr) and some accounts in the textile and chemical industry of ~Rs 300 cr each. Going forward Management expects restructuring of ~Rs 700-800 cr. We expect Gross NPA to be at 1.95% and 1.94% for FY13E and FY14E

## Valuation &amp; Recommendation

Given the current challenging macro-economic scenario, the bank's strategy is to focus more on improving the asset quality rather than focus on growth and margins. We believe that the bank will continue to focus on strengthening its balance sheet. Being an attractive mid size public bank with above average credit growth, stable NIMs and comparatively healthy return ratios (RoE of ~20% and RoA of 1%+) we believe that Allahabad bank looks attractive at current levels.

At CMP, Allahabad Bank is trading at 0.65x and 0.55x of its FY13E & FY14E ABV whereas on PE it is trading at 3.26x and 2.66x in FY13E and FY14E respectively. **We continue to maintain BUY on the stock with a target price of Rs 205.**

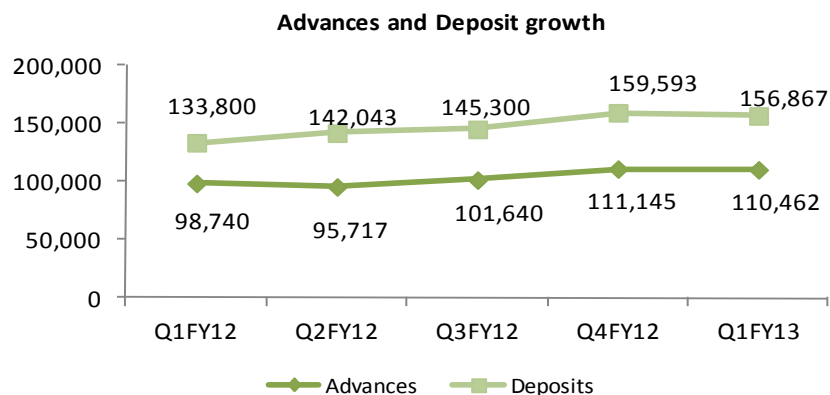
Year	NII (Rs crs)	Growth (%)	Profit bef prov (Rs crs)	PAT (Rs. crs)	EPS (Rs)	P/E (x)	P/ABV (x)	P/ABV (x)	ROE %
FY11A	4,022	51.8%	3,055	1,423	29.88	4.42	150.1	0.88	18.7%
FY12A	5,163	28.3%	3,770	1,867	38.72	3.41	178.3	0.74	19.6%
FY13E	5,987	16.0%	4,229	2,024	40.49	3.26	204.1	0.65	17.9%
FY14E	6,959	16.2%	4,885	2,485	49.71	2.66	240.7	0.55	18.9%



## Allahabad Bank

### Loan book growth moderates

Allahabad Bank's loan book grew at 11.9% YoY and remained flat on QoQ basis. Out of the total advances portfolio, Retail grew 15.5% YoY, agri grew 19.6% YoY and SME grew 11.7% YoY. Amongst retail portfolio, mortgage grew at 14% YoY and Commercial Vehicle grew 30% YoY during the quarter. Management continues to maintain its focus on the retail book portfolio. Management expects to sustain loan growth of 20%+ going forward with more focus on asset quality. We have factored in loan growth of 18.5% for FY13E and 18.4% for FY14E.

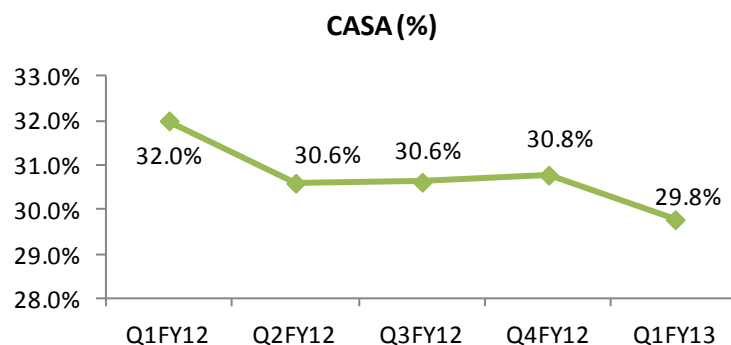


Source: Company data, Nirmal Bang Research

### CASA ratio continues to witness pressure

The bank's total deposits grew by 17.2% YoY whereas on sequential basis it declined 1.7% to Rs 156,867 cr in Q1FY13. CASA deposits grew at 8.4% YoY whereas it declined 4.5% on QoQ basis which resulted in decline in the CASA ratio to 29.6% from 30.5% in Q4FY12 and 32.0% in Q1FY12. The bank's CA declined 17.5% on sequential basis whereas the SA declined 1.3% QoQ which led to the decline in CASA ratio for the company. The proportion of retail term deposits increased to 58.8% of total deposits in Q1FY13.

Management is also targeting 30 lakh new savings accounts for FY13E and has managed to open 5 lakh savings accounts in Q1FY13. Management targets a CASA ratio of 32% for FY13E. We believe that the reduction in bulk deposits (currently ~19-20%) will lead to some improvement in the bank's CASA ratio going forward. We expect CASA ratio to be at 31% for FY13E and 31.4% for FY14E.



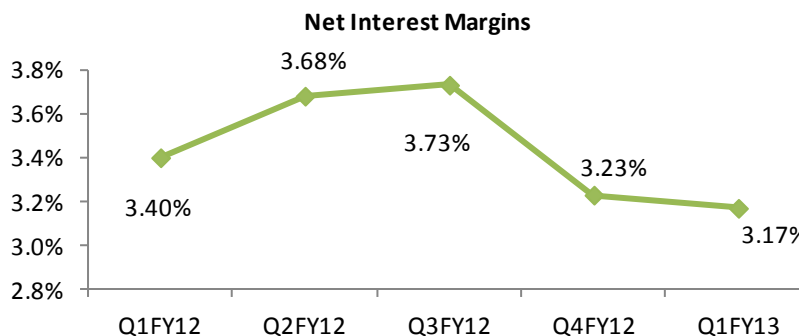
Source: Company data, Nirmal Bang Research



## Allahabad Bank

### NIMs decline sequentially

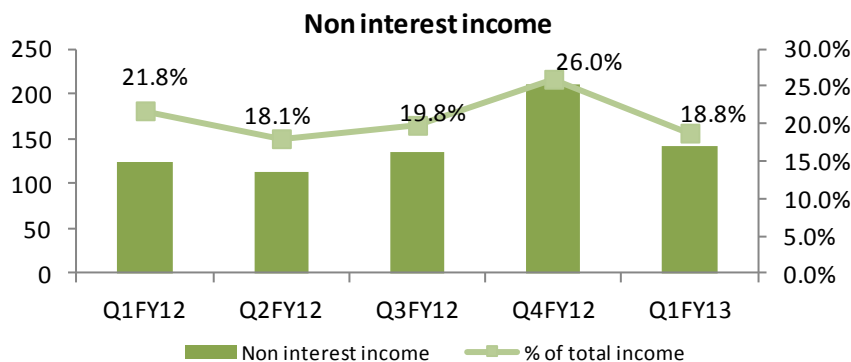
Net Interest Margin (NIM) stood at 3.17% in Q1FY13, as compared to 3.23% in Q4FY12 and 3.4% in Q1FY12 which was in line with expectation. The higher cost of funds (7.67% in Q1FY13 vs 6.98% in Q4FY12 and 6.86% in Q1FY12) coupled with decline in CASA ratio resulted in decline in the bank's overall NIMs. Despite the challenging environment, the bank has been able to witness NIMs of above 3%. Going forward, Management has reiterated its guidance of maintaining NIMs 3%+ for FY13E. We expect NIMs to be at 3.1% for both FY13E and FY14E.



Source: Company data, Nirmal Bang Research

### Other income witnesses decline; Fee income continues to remain strong

Non-interest income of the bank declined 12.8% QoQ whereas on YoY basis the bank witnessed a growth of 8.3% to Rs 309.5 cr. Fee based income increased 15.5% YoY to Rs 239 cr in Q1FY13 and the bank showed a trading profit of Rs 55 cr vs 26 cr in Q1FY12. However, the bank witnessed lower growth in recoveries on YoY basis which restricted the growth in the bank's non interest income. Management expects improvement in non-interest income in the coming quarters driven by higher recoveries and focus on fee income with a target of 15% growth. We expect non-interest income to grow at 8.5% for FY13E and 12.0% for FY14E.

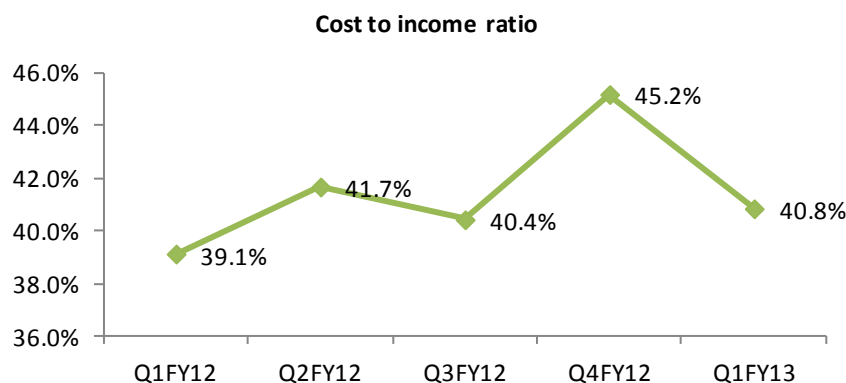


Source: Company data, Nirmal Bang Research

### Cost to income ratio witnesses improvement

Allahabad Bank witnessed significant improvement in its cost to income ratio in Q1FY13. In the previous quarter the bank had witnessed significant increase in other operating expense by 18.3% QoQ. In the current quarter the bank witnessed decline in both employee expense and other opex on QoQ basis. This led to a significant improvement in the bank's cost to income ratio which stood at 40.8% vs 45.2% in Q4FY12.

The bank added 21 new branches taking the total branch network to 2,537 in Q1FY13. Going forward Management intends to open 250 branches in FY13E. We expect cost to income ratio of the bank to remain elevated given the significant expansion plans. We expect cost to income ratio to be at 42.8% for FY13E and FY14E.



Source: Company data, Nirmal Bang Research

### Asset quality deteriorates; huge restructuring

The Gross NPA of the bank increased by 5.0% QoQ and 34.8% YoY to Rs 2,162 cr. Gross NPA ratio stood at 1.96% which was sequentially higher by 13 bps while Net NPA ratio stood at 1.09% higher by 11 bps which seems well under control. The bank witnessed slippage ratio of 2.14% (Rs 590.5 cr during the quarter) mainly from agri and SME. However, the slippage ratio was lower as compared to slippage ratio of 2.4% in Q4FY12. The bank witnessed 70% of the slippages from less than 50 lakh accounts.

The recovery ratio of the bank witnessed slight decline from 49.7% in Q4FY12 to 45.6% in Q1FY13. However, the bank targets higher recovery at Rs 1,500 cr for FY13E. Provision coverage ratio of the bank (including technical write off) stood at 73.57% in Q1FY13.

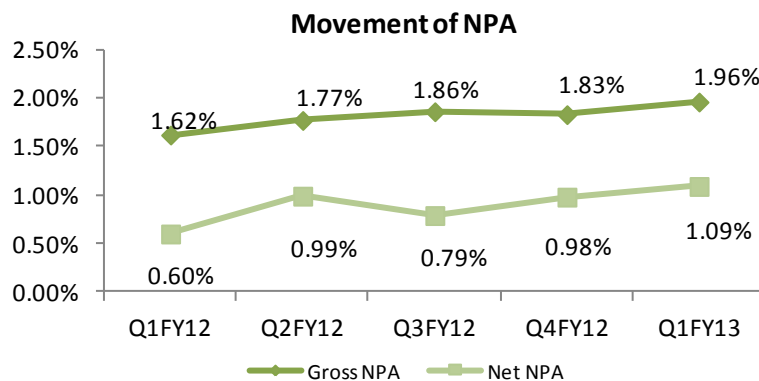
The bank reported lower provisions as compared to Q4FY12 levels. Out of the total provisions of Rs 441.58 cr; Rs 62.18 cr stood as provisions for standard assets. The bank had a write-back on MTM provisions of Rs ~ 96 cr.

The cause of concern is the bank's restructured book which increased by Rs 4,777 cr and stood at around Rs 10,727 crs (9.7% of advances) from earlier 5.7% of advances. During the quarter the bank has restructured stressed accounts (SEBs worth Rs 3,100 cr of which UP Power stood at Rs 2,500 cr) and some accounts in the textile and chemical industry of ~Rs 300 cr each. Slippages from the restructured book stood at Rs 250 cr.

According to Management, NPAs have scope for improvement over the coming quarters, as the restructured book has factored in most of large-ticket accounts that were in pipeline. Going forward Management expects restructuring of ~Rs 700-800 cr which includes Rs 400-500 to Bharti Shipyard.

## Allahabad Bank

Considering the overall macroeconomic environment and the bank's huge concentration in the retail and agri segment and a higher restructured book we expect the bank's asset quality to remain under pressure in the near term. We expect Gross NPA to be at 1.95% for FY13E and 1.94x for FY14E.



Source: Company data, Nirmal Bang Research

Income Statement	Q1FY13	Q1FY12	YoY (%)	Q4FY12	QoQ (%)
Interest Earned	4,458	3,550	25.6%	4,168	7.0%
Interest Expended	3,152	2374	32.8%	2880	9.5%
<b>Net Interest Income</b>	<b>1306</b>	<b>1176</b>	<b>11.1%</b>	<b>1288</b>	<b>1.4%</b>
Other Income	310	286	8.3%	355	(12.8%)
Total Income	1615	1461	10.5%	1644	(1.7%)
Payment to employees	436	382	14.0%	495	(12.0%)
Other operating expenses	224	190	18.2%	247	(9.4%)
Total operating expenses	660	572	15.4%	742	(11.1%)
<b>Profit before provisioning</b>	<b>956</b>	<b>890</b>	<b>7.4%</b>	<b>901</b>	<b>6.1%</b>
Provisions	313	320	(2.0%)	454	(31.1%)
Profit before tax	642	570	12.7%	447	43.8%
Tax	128	152	(15.4%)	46	176.5%
<b>Profit after tax</b>	<b>514</b>	<b>418</b>	<b>22.9%</b>	<b>400</b>	<b>28.4%</b>
EPS (quarterly)	10.3	8.8	17.1%	8.0	28.4%

Source: Company data, Nirmal Bang Research

- Net Profit has shown a growth of 22.9% YoY at Rs 514 cr mainly due to 11.1% YoY increase in net interest income and lower provisions.
- EPS for Q1FY13 stood at Rs 10.3 while for Q1FY12, it was Rs 8.8.
- Capital Adequacy Ratio (CAR) of the Bank as on Q1FY13 stood at 12.94% with Tier I ratio of 9.3%.

Allahabad Bank**Valuation and Recommendation**

Given the current challenging and uncertain macro-economic scenario, the bank's strategy is to focus more on improving the asset quality rather than focus on growth and margins. We believe that in the near term the asset quality is likely to remain under pressure. However, the bank has been able to maintain stable return ratios with RoE of ~20% and RoA of ~1.1% which is still better than most of the PSU banks.

We believe that the bank will continue to focus on strengthening its balance sheet and in course outperform the industry performance. Being an attractive mid size public bank with above average credit growth, stable NIMs and comparatively healthy return ratios we believe that Allahabad bank looks attractive at current valuations.

At CMP, Allahabad Bank is trading at 0.65x and 0.55x of its FY13E & FY14E ABV whereas on PE it is trading at 3.26x and 2.66x in FY13E and FY14E respectively. We continue to maintain BUY on the stock with a target price of Rs 205.



## Allahabad Bank

## Financials

Profitability (Rs. Crs)	FY11	FY12	FY13E	FY14E	Balance Sheet (Rs. Crs)	FY11	FY12	FY13E	FY14E
Interest earned	11,015	15,523	18,220	21,242	Deposits	131,887	159,593	188,740	223,837
Interest expended	6,992	10,361	12,233	14,283	(of which CASA)	(44,182)	(48,668)	(58,509)	(70,285)
<b>Net interest income</b>	<b>4,022</b>	<b>5,163</b>	<b>5,987</b>	<b>6,959</b>	Borrowings	6,918	9,094	10,798	13,409
Non interest income	1,370	1,299	1,409	1,578	Other liab and prov	3,974	3,740	4,189	4,608
<b>Total income</b>	<b>5,393</b>	<b>6,461</b>	<b>7,396</b>	<b>8,537</b>	Total liabilities	142,779	172,428	203,728	241,854
<b>Operating expenses</b>	<b>2,338</b>	<b>2,691</b>	<b>3,167</b>	<b>3,652</b>	Equity capital	476	500	500	500
Staff costs	1,558	1,835	2,165	2,489	Reserves and Surplus	8,031	10,007	11,621	13,639
Other Op Exp	781	857	1,003	1,163	<b>Net worth</b>	<b>8,507</b>	<b>10,507</b>	<b>12,122</b>	<b>14,139</b>
<b>Operating profit</b>	<b>3,055</b>	<b>3,770</b>	<b>4,229</b>	<b>4,885</b>	<b>Total liab and equity</b>	<b>151,286</b>	<b>182,935</b>	<b>215,849</b>	<b>255,992</b>
Provisions	1,124	1,607	1,699	1,778	Cash and bank bal	11,027	14,025	15,975	19,581
Profit before tax	1,931	2,163	2,530	3,107	Investments	43,247	54,283	64,440	76,437
Taxes	508	296	506	621	Advances	93,625	111,145	131,674	155,960
<b>Net profit</b>	<b>1,423</b>	<b>1,867</b>	<b>2,024</b>	<b>2,485</b>	Fixed assets	1,148	1,198	1,318	1,449
<b>Quarterly (Rs. Crs)</b>	<b>Sep.11</b>	<b>Dec.11</b>	<b>Mar.12</b>	<b>June.12</b>	Other assets	2,239	2,283	2,443	2,565
<b>Net interest income</b>	1,318	1,381	1,288	1,306	<b>Total assets</b>	<b>151,286</b>	<b>182,935</b>	<b>215,849</b>	<b>255,992</b>
Non interest income	309	348	355	310	<b>Key Ratios</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>
<b>Total income</b>	1,627	1,729	1,644	1,615	<b>Yield Ratios</b>				
Operating expenses	678	699	742	660	<b>Avg Yield on Assets</b>	8.4%	9.7%	9.5%	9.3%
<b>Operating profit</b>	949	1,030	901	956	Yield on Advances	10.0%	11.4%	11.3%	11.0%
Provisions	412	421	454	313	Yield on Investments	6.5%	7.6%	7.4%	7.4%
Profit before tax	538	609	447	642	<b>Cost of Int Bearing Liab</b>	5.6%	6.7%	6.6%	6.5%
Taxes	50	48	46	128	Cost of Deposits	5.4%	6.6%	6.5%	6.4%
<b>Net profit</b>	488	560	400	514	Net Interest Spread	2.8%	3.0%	2.9%	2.8%
<b>Profitability Ratios</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	NIM	3.2%	3.2%	3.1%	3.1%
Cost / Income Ratio	43.4%	41.7%	42.8%	42.8%	<b>Balance Sheet Ratios</b>				
Net profit margin	26.4%	28.9%	27.4%	29.1%	Gross NPA	1.7%	1.8%	1.95%	1.94%
RONW	18.7%	19.6%	17.9%	18.9%	Net NPA	0.8%	1.0%	0.82%	0.81%
<b>Growth Ratios</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	Return on Assets	1.0%	1.1%	1.0%	1.1%
Advances Growth	30.8%	18.7%	18.5%	18.4%	CASA	33.5%	30.5%	31.0%	31.4%
Deposit Growth	24.4%	21.0%	18.3%	18.6%	Loan-deposit ratio	71.0%	69.6%	69.8%	69.7%
NII Growth	51.8%	28.3%	16.0%	16.2%	Provision cov ratio	55.3%	60.0%	59.0%	59.0%
PAT Growth	18.0%	31.2%	8.4%	22.8%	<b>Valuation Ratios</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>
Pre prov growth	19.9%	23.4%	12.2%	15.5%	EPS	29.9	38.7	40.5	49.7
Non int income growth	-9.6%	-5.2%	8.5%	12.0%	BVPS	160	193	225	266
<b>Ratios</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	Adjusted BVPS	150	178	204	241
P/BV	0.83	0.69	0.59	0.50	Dividend per share	6.0	6.0	7.0	8.0
P/ABV	0.89	0.75	0.66	0.56	Dividend yield	4.5%	4.5%	5.2%	6.0%
P/E	4.48	3.46	3.31	2.70					

Source: Company data, Nirmal Bang Research

## NOTES

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