

November 2, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs161	Rs200
EPS change FY12E/13E (%)	NA/NA
Target Price change (%)	-16
Nifty	5,258
Sensex	17,465

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	(19)	(18)	(38)
Rel. to Nifty	(4)	(16)	(14)	(27)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

	Banks
Bloomberg	ALBK@IN
Equity Capital (Rs mn)	4762
Face Value(Rs)	10
No of shares o/s (mn)	476
52 Week H/L	271/139
Market Cap (Rs bn/USD mn)	77/1,563
Daily Avg Volume (No of sh)	712070
Daily Avg Turnover (US\$mn)	2.4

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	58.0	58.0	58.0
FII/NRI	13.0	14.6	15.1
Institutions	17.2	15.8	15.5
Private Corp	1.4	1.2	1.2
Public	10.3	10.4	10.1

Source: Capitaline

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- **ALBK results well ahead of estimates with NII at Rs13.2bn. Net profit at Rs4.9bn further aided by lower tax rate of 9%**
- **The NII grew by 36%yoy to Rs13.2n driven by 28bps expansion in NIM's, albeit advance growth remain moderate at just 16.6%yoy**
- **Key highlight for the quarter was- significantly lower slippages at just Rs5.2bn. Mgmt guided for slippage to fall back to normal levels**
- **Positively surprised by the substantial improvement in NIMs and lower slippage numbers. Maintain ACCUMUALTE rating with TP of Rs200**

Excellent results; Surprise positively on slippages

ALBK's NII came in at Rs13.2bn, clocking a growth of 36%yoy, significantly ahead of our as well as street expectations. The growth was driven by 28bps expansion in NIM's helped by higher yield on advances, albeit advance growth remained moderate at just 16.6%yoy. Non interest income also reported a healthy growth of 8.1%qoq underpinned by 32%yoy growth in fee income. Further aided by lower tax rate of just 9.2%, net profit came in at Rs4.9bn beating our as well street expectation by a big margin. Key highlight for the quarter was the slippage number, which came in at just Rs5.2bn despite bank migrating all accounts below Rs5mn during the quarter.

The advance growth was lower at just 16.6%yoy (-3.1%qoq), as the bank got rid of short term loans to the tune of Rs40bn, as part of the portfolio rebalancing exercise. However deposit growth was strong at 25%yoy (6.1%qoq) led by higher growth in term deposits. Resultantly, CD ratio came down substantially from 74% in previous quarter to 67% in Q2FY12.

Yield analysis

%	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (bps)	QoQ (bps)
Yield on advances*	10.1	10.1	10.4	11.2	12.2	213	96
Yield on investments*	6.7	7.4	7.3	7.5	7.6	84	5
Yield on assets*	8.3	8.4	8.6	9.3	9.8	150	49
Cost of funds*	5.2	5.3	5.4	6.2	6.5	123	26
NIM*	3.0	3.1	3.2	3.1	3.3	27	24
Yield on advances #	10.4	10.6	10.7	11.6	12.6	221	98
Cost of Deposit #	5.7	6.0	6.0	7.0	7.1	138	11
Cost of funds #	5.8	5.9	6.0	6.9	7.1	133	24
NIM #	3.3	3.4	3.5	3.4	3.7	41	28

Source: Company, Emkay Research

Note: * Calculated on basis of average quarterly balances # Reported

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2010	41,664	12,063	27.0	121.2	1.1	19.1	6.3	1.3
FY2011	53,929	14,231	29.9	145.0	1.0	18.7	5.4	1.1
FY2012E	64,286	17,038	35.8	171.4	1.0	18.6	4.5	0.9
FY2013E	76,106	20,513	43.1	204.3	1.0	19.2	3.7	0.8

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD' 12	YTD' 11	YoY (%)
Net Interest Income	9,692	10,516	11,513	11,755	13,182	36.0	12.1	24,938	18,194	37.1
Other Income	3,447	2,574	4,695	2,859	3,092	-10.3	8.1	5,951	6,433	-7.5
Fee Income	1,940	1,480	2,660	1,900	2,565	32.2	35.0	4,465	3,486	28.1
Net Income	13,139	13,090	16,208	14,615	16,274	23.9	11.4	30,889	24,627	25.4
Total Operating Expenses	5,324	5,209	8,407	5,719	6,781	27.4	18.6	12,500	9,767	28.0
<i>As % Of Net Income</i>	<i>40.5</i>	<i>39.8</i>	<i>51.9</i>	<i>39.1</i>	<i>41.7</i>			<i>40.5</i>	<i>39.7</i>	
Employee Expenses	3,503	3,196	6,024	3,822	4,675	33.4	22.3	8,497	6,356	33.7
<i>As % Of Net Income</i>	<i>26.7</i>	<i>24.4</i>	<i>37.2</i>	<i>26.2</i>	<i>28.7</i>			<i>27.5</i>	<i>25.8</i>	
Other Expenses	1,821	2,013	2,383	1,897	2,107	15.7	11.1	4,003	3,411	17.4
<i>As % Of Net Income</i>	<i>13.9</i>	<i>15.4</i>	<i>14.7</i>	<i>13.0</i>	<i>12.9</i>			<i>13.0</i>	<i>13.9</i>	
Operating Profit	7,815	7,882	7,801	8,896	9,493	21.5	6.7	18,389	14,859	23.8
<i>As % Of Net Income</i>	<i>59.5</i>	<i>60.2</i>	<i>48.1</i>	<i>60.9</i>	<i>58.3</i>			<i>59.5</i>	<i>60.3</i>	
Provisions	2,714	2,359	4,655	3,197	4,117	51.7	28.8	7,313	4,225	73.1
Prov for NPA	2,250	1,750	3,300	1,656	3,016	34.0	82.2	4,672	2,950	58.4
PBT	5,101	5,523	3,146	5,699	5,376	5.4	-5.7	11,076	10,635	4.1
Total Tax	1,075	1,368	569	1,518	496	-53.9	-67.3	2,014	3,139	-35.8
Adjusted PAT	4,025	4,156	2,576	4,181	4,880	21.2	16.7	9,061	7,496	20.9
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	4,025	4,156	2,576	4,181	4,880	21.2	16.7	9,061	7,496	20.9
Reported EPS	9.0	9.3	5.4	8.8	10.2	13.7	16.7	19.0	16.8	13.4

Source: Company, Emkay Research

Better yields and moderate cost increases help NIMs

ALBK's cost of deposits, having already moved by 127bps till last quarter has shown signs of moderation. During Q2FY12, the cost of deposits moved up by just 11bps qoq. Quite more than compensating for the same, the yield on advances for the quarter moved up by 96bps qoq driven by a 50bps increase in the BPLR/base rate in last quarter and also due to shedding of some low yielding short term loans.

Loan growth moderates led by portfolio restructuring

ALBK's advances growth moderated to 16.6%yoy, while declined 3.1%qoq to Rs957bn as the bank got rid of short term loans to the tune of Rs40bn as part of the portfolio rebalancing exercise. The short term loans now stands reduced at just Rs35bn, constituting just 3.6% of the total loan book. Resultantly, corporate loan declined by 4.7%qoq to Rs530bn. However, the retail book continued to grow with 4.9%qoq growth aided by 7.4%qoq growth in housing loans.

Advance mix

Rs bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Retail	116	119	130	133	139	20.4	4.9
Agriculture	121	122	134	136	126	4.4	-7.0
SME	114	124	144	163	162	41.9	-0.8
Others	470	504	528	556	530	12.7	-4.7
Total	821	868	936	987	957	16.6	-3.1

Source: Company, Emkay Research

Strong deposit growth leads to lower CASA

With more than 90% of the incremental deposit mobilization during the quarter coming from term deposits, CASA mix came down further to 30.6%. However with increased focus on CASA aided by further expansion in branch network, the bank expects the ratio to improve going forward.

CASA Mix

Rs bn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Savings Deposits	84	79	92	81	76	-9.9	-5.5
Current Deposits	310	323	350	348	359	15.8	3.1
CASA	394	402	442	429	435	10.3	1.5
Term deposits	742	807	877	910	986	32.8	8.4
Total Deposits	1,136	1,209	1,319	1,338	1,420	25.0	6.1
CASA (%)	34.7	33.3	33.5	32.0	30.6	-409	-141

Source: Company, Emkay Research

Fee income grows much steeper than the portfolio growth

The noninterest income grew by a healthy 8.1%qoq to Rs2.6bn helped by strong 35%qoq growth in fee income driven by higher processing fee and forex gains. We are quite surprised by the fact that the fee income has grown at steeply higher rates than the growth in the loan portfolio.

Other Income

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Fee/Commission income	1,940	1,480	2,660	1,900	2,565	32.2	35.0	8,605	6,475	32.9
Trading gains/(losses)	900	200	130	260	71	-92.1	-72.6	661	4,813	-86.3
Forex gains/(losses)	190	260	330	170	0	-100.0	-100.0	760	730	4.1
Other non int income	417	634	1,575	529	456	9.3	-13.9	3,194	1,858	71.9
Total	3,447	2,574	4,695	2,859	3,092	-10.3	8.1	13,220	13,876	-4.7

Source: Company, Emkay Research

Fee income break up

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
LC/BG	570	480	620	760	650	14.0	-14.5
Locker Rent	40	20	30	180	30	-25.0	-83.3
Processing Fees	710	320	1,130	430	980	38.0	127.9
Others	620	660	880	520	480	-22.6	-7.7
Exchange	190	260	330	170	420	121.1	147.1
Total	2,130	1,740	2,990	2,060	2,560	20.2	24.3

Source: Company, Emkay Research

Core operating profit grow by 30.3%yoy

Driven by strong growth in NII and higher fee income, the bank reported 21.5%yoy growth in operating profit. Adjusted for trading gains, the operating profit growth was even higher at 20.3%yoy to Rs9.8bn.

Core operating profit shows strong growth

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Reported operating profit	7,815	7,882	7,801	8,896	9,493	21.5	6.7
Less: Treasury gains	900	200	130	260	71	-92.1	-72.6
Core operating profit	6,915	7,682	7,671	8,636	9,422	36.3	9.1
Pension/ Gratuity	600	600	3,189	374	374		
Adjusted operating profit	7,515	8,282	10,860	9,010	9,795	30.3	8.7

Source: Company, Emkay Research

Provisions may trend down driven by higher recoveries and upgrades

ALBK's provision costs remained high during the quarter driven by significant write offs. However, significantly higher recoveries and upgradation rates have also helped in keeping the GNPA's under check and we believe that the same will also help in keeping the provision costs low going forward.

The recoveries and upgrades as % of opening GNPA's for the quarter were at 46% annualized in tandem with 44% and 51% for FY10 and FY11.

Provision break up

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
On NPL	2,250	1,750	3,300	1,656	3,016	34.0	82.2	4,672	2,950	58.4
As % of advances	0.27	0.20	0.35	0.17	0.32			0.5	0.4	
On Standard Assets	234	130	327	451	11		-97.6	462	360	28.3
Investment Depreciation	36	358	900	1,129	824	NA	-27.0	1,953	55	3,443.9
Others	195	121	128	-39	266	36.3	-784.1	227	860	-73.6
Total	2,714	2,359	4,655	3,197	4,117	51.7	28.8	7,313	4,225	73.1

Source: Company, Emkay Research

Lower tax rate further aided net profit growth

Strong operating performance further aided by lower tax rate (9.2%) resulted in strong 21.2%yoy growth in net profit to Rs4.9bn. The bank was able to take exemption benefits on certain items in the quarter, which it was not able to do earlier due to lack of information. However with bank now completely on CBS, had all the relevant data handy, and hence was able to claim tax exemptions on items like rural advances, long term loans etc. The management also guided that the bank has paid excess tax of Rs3bn in the last years and it expects to get a refund of the same in H2FY12

Slippage surprise positively; slippage rate to normalize going forward

The bank surprised positively on the asset quality front, as it sailed through with just Rs5.2bn of slippages during the quarter. This is commendable considering the fact that it moved all accounts below Rs5mn to system based NPA recognition during the quarter. More than 50% of the slippages came from less than Rs0.5mn accounts. As the bank moved completely to system based NPA recognition, the management is hopeful of getting the slippage rate back to the normal level of 1.5%.

The bank exposure to power sector remains higher at 14.25% of the total book, with SEB exposure at close to 9%. However the bank suggested that all the accounts are performing and none of the SEB's has approached for restructuring so far. The bank has exposure to some troubled SEBs like UP, W.Bengal and Tamil Nadu alongwith other SEBs like Haryana and Delhi. Tamin Nadu SEB exposure stands at Rs3bn.

Asset quality

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Gross NPA	14,703	15,405	16,479	16,044	17,152	16.7	6.9
Net NPA	4,565	5,067	7,364	5,886	6,641	45.5	12.8
Gross NPA (%)	1.8	1.8	1.7	1.6	1.8		
Net NPA (%)	0.6	0.6	0.8	0.6	0.7		
Net NPLs/Net worth (%)	6.1	6.4	8.7	6.6	7.0		
Provision cover (%)	69.0	67.1	55.3	63.3	61.3		
Provision cover (incl tech w/off)	81.0	80.2	75.7	79.9	79.6		

Source: Company, Emkay Research

Slippages

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Cumulative (Rs mn)	5,719	9,342	17,471	1,518	6,718	17.5	
Quarterly (Rs mn)	4,539	3,623	8,129	1,518	5,200	14.6	242.6
Cumulative (%)	0.70	1.08	1.87	0.15	0.70		
Quarterly (%)	0.55	0.42	0.87	0.15	0.54		

Source: Company, Emkay Research

Valuations and view

We are positively surprised by the substantial improvement in NIMs and lower slippage numbers. With large part of deposit cost increases having materialized (150bps over past six quarters), the NIMs are expected to stabilize at around 3.5%. With all NPAs recognition migrated to the system based classification, the slippages are also expected to normalize to 1.5% levels. The key threat now remains the power sector exposure which stands at 14.2% of the total loan book, one of the highest in the sector. To build the same into our numbers we have upped our slippage number for FY13E slippage number to 1.5% (vs 1.2%) earlier resulting in ~6% downward revision in our ABV assumption for FY13E.

We believe that ALBK's current valuations of 0.9x FY12E/0.7x FY13E ABV are attractive looking at average 19% RoEs for FY12-13E. We maintain ACCUMULATE with TP of Rs200.

Key Financials**Income Statement (Rs. Mn)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	26,505	40,225	51,069	60,726
Other income	15,159	13,704	13,218	15,380
Net income	41,664	53,929	64,286	76,106
Operating expenses	16,178	23,383	26,957	29,686
Pre provision profit	25,485	30,546	37,330	46,420
PPP excl treasury	17,852	28,931	36,330	45,420
Provisions	7,769	11,239	13,332	17,529
Profit before tax	17,716	19,307	23,998	28,891
Tax	5,653	5,076	6,959	8,378
Tax rate	32%	26%	29%	29%
Profit after tax	12,063	14,231	17,038	20,513

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity	4,467	4,762	4,762	4,762
Reserves	63,063	80,312	93,728	110,341
Net worth	67,530	85,074	98,491	115,103
Deposits	1,060,558	1,318,872	1,628,469	1,942,909
Borrowings	88,954	108,965	130,020	156,206
Total liabilities	1,217,041	1,512,911	1,856,980	2,214,218
Assets				
Cash and bank	91,682	110,274	148,898	199,586
Investments	368,043	408,838	492,708	601,817
Customer assets	732,292	959,882	1,178,624	1,374,972
Others	25,024	33,917	36,774	37,844
Total assets	1,217,041	1,512,911	1,856,980	2,214,218

Key Ratios (%)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	2.4	2.9	3.0	3.0
Non-ll/avg assets	1.4	1.0	0.8	0.8
Fee income/avg assets	0.5	0.5	0.5	0.5
Opex/avg assets	1.3	1.5	1.5	1.3
Provisions/avg assets	1.3	1.0	0.9	1.2
PBT/avg assets	1.5	1.3	1.3	1.3
Tax/avg assets	0.5	0.3	0.4	0.4
RoA	1.1	1.0	1.0	1.0
RoAE	19.1	18.7	18.6	19.2
GNPA (%)	1.7	1.8	1.6	1.6
NNPA (%)	0.7	0.8	0.7	0.7

Valuations Table

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	12,063	14,231	17,038	20,513
Shares in issue (mn)	447	476	476	476
EPS (Rs)	27.0	29.9	35.8	43.1
PER (x)	5.9	5.4	4.5	3.7
FDEPS(Rs)	25.3	29.9	35.8	43.1
FDPER (x)	6.3	5.4	4.5	3.7
Book value (Rs)	131.7	160.5	188.7	223.6
P/BV (x)	1.2	1.0	0.8	0.7
Adj book value (Rs)	121.2	145.0	171.4	204.3
P/ABV (x)	1.3	1.1	0.9	0.8
P/PPP (x)	2.8	2.5	2.0	1.6
Dividend yield (%)	3.4	3.7	4.1	4.4

Recommendation History: Allahabad Bank – ALBK IN

Date	Reports	Reco	CMP	Target
22/07/2011	Allahabad Bank Q1FY12 Result Update	Accumulate	218	240
02/05/2011	Allahabad Bank Q4FY11 Result Update	Buy	198	250
28/01/2011	Allahabad Bank Q3FY11 Result Update	Buy	202	250
28/12/2010	Allahabad Bank Management Meet Update	Buy	216	300

Recent Research Reports

Date	Reports	Reco	CMP	Target
01/11/2011	Punjab National Bank Q2FY12 Result Update	Accumulate	1,013	1,270
31/10/2011	Bank of Baroda Q2FY12 Result Update	Accumulate	772	950
31/10/2011	Canara Bank Q2FY12 Result Update	Hold	469	500
31/10/2011	Corporation Bank Q2FY12 Result Update	Accumulate	427	520

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