

## Strong performance; aggressive provs add comfort

January 30, 2012

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs156	Rs200
EPS change FY11E/12E (%)	17.7/12.2
Target Price change (%)	NA
Nifty	5,087
Sensex	16,863

### Price Performance

(%)	1M	3M	6M	12M
Absolute	35	8	(23)	(23)
Rel. to Nifty	23	13	(16)	(16)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Banks
Bloomberg	ALBK@IN
Equity Capital (Rs mn)	4762
Face Value(Rs)	10
No of shares o/s (mn)	476
52 Week H/L	240/114
Market Cap (Rs bn/USD mn)	74/1,491
Daily Avg Volume (No of sh)	1327189
Daily Avg Turnover (US\$mn)	3.9

### Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	58.0	58.0	58.0
FII/NRI	12.0	13.0	14.6
Institutions	17.8	17.2	15.8
Private Corp	1.8	1.4	1.2
Public	10.5	10.3	10.4

Source: Capitaline

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- ALBK results ahead of estimates with NII at Rs13.8bn (est Rs12.7bn). Net profit at Rs5.6bn (est Rs5.6bn) further aided by higher trading gains and lower tax rate of 8%
- Strong NII growth (31.3%yoy) driven by stable NIMs vs our exp of 20bps dip. Advances grew 5% qoq in line with expectations
- Slippages at Rs5.9bn vs our est of Rs5.5bn. However, fresh restructuring of Rs10.5bn was a -ve surprise. Net stressed asset stand at 4.8% of advances vs 3.8% in Q2FY12
- Upgraded FY12E/FY13E numbers by 17.7%/12.2 for largely lower tax rate. Aggressive provisioning policy provides comfort. Remains our top pick amongst mid-size PSU banks

### Consistent performer; higher restructuring slight negative

ALBK's NII came in at Rs13.8bn, growth of 31.3%yoy, ahead of our/street expectations. The growth was driven by 5bps expansion in NIM's to 3.7% vs our expectations of 20bps contraction. The resilience in NIMs over M9FY12 has been outperforming our expectations every quarter. Other income also stood strong at Rs3.5bn (35.4%YoY) aided by robust fees and recoveries. Further aided by lower tax rate of just 7.9%, net profit came in at Rs5.6bn beating our as well street expectation by a huge margin.

While the advance growth was robust at 4.9%qoq, deposit grew by relatively lower 2.3%qoq. Resultantly CD ratio improved by 175bps qoq to 69.1%. With slippages capped at Rs6bn and stable recoveries/ upgradation at Rs1.7bn, asset quality remained broadly stable with GNPA/ NNPA at 1.9% and 0.8%. Restructuring at Rs10.5bn (1% of advances) was however slight negative. **ALBK has provided at >100% of net incremental slippages unlike many of its peers which have seen sharp deterioration in provisioning policies.**

### Yield analysis

%	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (bps)	QoQ (bps)
Yield on advances*	10.1	10.4	11.2	12.2	11.9	185	-25
Yield on investments*	7.4	7.3	7.5	7.6	7.4	-3	-17
Yield on assets*	8.4	8.6	9.3	9.8	9.4	98	-35
Cost of funds*	5.3	5.4	6.2	6.5	6.1	77	-36
NIM*	3.1	3.2	3.1	3.3	3.3	22	2
Yield on advances #	10.6	10.7	11.6	12.6	12.2	163	-35
Yield on assets #	9.3	9.5	10.3	10.9	10.5	117	-35
Cost of Deposit #	6.0	6.0	7.0	7.1	6.8	85	-32
Cost of funds #	5.9	6.0	6.9	7.1	6.8	84	-33
NIM #	3.4	3.5	3.4	3.7	3.7	29	5

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	67,074	20,051	42.1	176.6	1.2	21.6	3.8	0.9
FY2013E	77,434	23,005	48.3	213.1	1.1	21.0	3.3	0.8

Source: Company, Emkay Research

**Key financials – Quarterly**

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD' 12	YTD' 11	YoY (%)
Net Interest Income	10,516	11,513	11,755	13,182	13,805	31.3	4.7	38,743	28,711	34.9
Other Income	2,574	4,695	2,859	3,092	3,484	35.4	12.7	9,435	9,007	4.8
Fee Income	1,480	2,660	1,900	2,145	2,130	43.9	-0.7	6,175	4,966	24.4
Net Income	13,090	16,208	14,615	16,274	17,289	32.1	6.2	48,178	37,717	27.7
Total Operating Expenses	5,209	8,407	5,719	6,781	6,990	34.2	3.1	19,490	14,976	30.1
As % Of Net Income	39.8	51.9	39.1	41.7	40.4			40.5	39.7	
Employee Expenses	3,196	6,024	3,822	4,675	4,898	53.3	4.8	13,395	9,552	40.2
As % Of Net Income	24.4	37.2	26.2	28.7	28.3			27.8	25.3	
Other Expenses	2,013	2,383	1,897	2,107	2,092	3.9	-0.7	6,095	5,424	12.4
As % Of Net Income	15.4	14.7	13.0	12.9	12.1			12.7	14.4	
Operating Profit	7,882	7,801	8,896	9,493	10,300	30.7	8.5	28,689	22,741	26.2
As % Of Net Income	60.2	48.1	60.9	58.3	59.6			59.5	60.3	
Provisions	2,359	4,655	3,197	4,117	4,212	78.6	2.3	11,526	6,584	75.1
Prov for NPA	1,750	3,300	1,656	3,016	3,057	74.7	1.3	7,728	4,700	64.4
PBT	5,523	3,146	5,699	5,376	6,087	10.2	13.2	17,163	16,158	6.2
Total Tax	1,368	569	1,518	496	483	-64.7	-2.7	2,497	4,507	-44.6
Adjusted PAT	4,156	2,576	4,181	4,880	5,604	34.9	14.8	14,666	11,651	25.9
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	4,156	2,576	4,181	4,880	5,604	34.9	14.8	14,666	11,651	25.9
Reported EPS	9.3	5.4	8.8	10.2	11.8	26.5	14.8	31	26	18.1

Source: Company, Emkay Research

**Strong traction in Corp/ Agri drives advance growth**

ALBK's advances grew by a healthy 5%qoq to Rs1tn aided by strong traction in Corporate and Agri advances. While corporate book grew by strong 6.7%qoq, Agri book also grew equally strong at 6.3%qoq.

**Advance mix**

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Retail	119	130	133	139	144	20.7	3.3
Agriculture	122	134	136	126	134	10.1	6.3
MSME	124	144	163	162	161	30.2	-0.5
Corp & Others	504	528	556	530	566	12.3	6.7
<b>Total</b>	<b>868</b>	<b>936</b>	<b>987</b>	<b>957</b>	<b>1,004</b>	<b>15.7</b>	<b>4.9</b>

Source: Company, Emkay Research

**CASA profile stable aided by relatively better growth in savings deposit**

Consistent addition in the branch network further aided by significant addition of saving account holders in West Bengal, helped to grow saving deposit by 3%qoq. Moreover with a relatively lower growth in term deposit at 2.3%qoq, CASA share remain stable at 30.6%.

**CASA Mix**

Rs bn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Current Deposits	79	92	81	76	76	-4.8	-0.7
Savings Deposits	323	350	348	359	369	14.4	3.0
CASA	402	442	429	435	445	10.6	2.3
Term deposits	807	877	910	986	1,008	24.9	2.3
Total Deposits	1,209	1,319	1,338	1,420	1,453	20.1	2.3
CASA (%)	33.3	33.5	32.0	30.6	30.6	-264	1

Source: Company, Emkay Research

### Higher trading gains and recovery drives other income

The non-interest income grew by a healthy 12.7%qoq to Rs3.5bn helped by three fold increase in trading gains and higher recovery. Fee income remained stable during the quarter at Rs2.1bn.

#### Other Income

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
Fee/Commission income	1,480	2,660	1,900	2,145	2,130	43.9	-0.7	6,175	3,026	104.1
Trading gains/(losses)	200	130	260	71	210	5.0	194.5	541	2,000	-72.9
Forex gains/(losses)	260	330	170	420	300	15.4	-28.6	890	420	111.9
Other non int income	634	1,575	529	456	844	33.1	85.3	1,829	1,431	27.8
<b>Total</b>	<b>2,574</b>	<b>4,695</b>	<b>2,859</b>	<b>3,092</b>	<b>3,484</b>	<b>35.4</b>	<b>12.7</b>	<b>9,435</b>	<b>6,877</b>	<b>37.2</b>

Source: Company, Emkay Research

### Tax refund further aided net profit growth

Strong operating performance further aided by lower tax rate (7.9%) resulted in strong 35%yoy growth in net profit to Rs5.1bn. The bank has paid excess tax of Rs4.5bn in FY10/11, which it has partially written back during the quarter. The remaining portion will be written back over next one or two quarters.

### Asset quality broadly stable; Restructured assets rise significantly

The slippages during the quarter stood at Rs5.9bn, marginally higher than Rs5.3bn in Q2FY12. A large part of the slippages (60%) accrued in Priority sector lending, with one big account (footwear manufacture) of Rs1.2bn also slipping during the quarter. ALBK does not have any exposure to GTL or Kingfisher.

However on the flip side the bank added Rs10.5bn (1% of Advances) to its restructured book during the quarter, taking the outstanding restructured book to Rs38.2bn (3.8% of Advances). The restructuring was scattered across sectors, Iron & steel (Rs1.8bn), Infra (Rs2.2bn), Pharma (Rs1.5bn) and textiles (Rs1.5bn). However there was no restructuring SEB's during the quarter. The bank exposure to power sector remains higher at 13.2% of the total book, with Distribution companies exposure at close to 6%.

Though, ALBK has not restructured any of the SEB accounts during M9FY11, we have built in additional standard assets restructuring provisions of Rs1bn to our FY13E numbers.

#### Asset quality

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Gross NPA	15,405	16,479	16,044	17,152	18,870	22.5	10.0
Net NPA	5,067	7,364	5,886	6,641	7,960	57.1	19.9
Gross NPA (%)	1.8	1.7	1.6	1.8	1.9		
Net NPA (%)	0.6	0.8	0.6	0.7	0.8		
Net NPLs/Net worth (%)	6.4	8.7	6.6	7.0	8.0		
Provision cover (%)	67.1	55.3	63.3	61.3	57.8		

Source: Company, Emkay Research

#### Slippages

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Cumulative (Rs mn)	9,342	17,471	1,518	6,718	12,618	35.1	
Quarterly (Rs mn)	3,623	8,129	1,518	5,200	5,900	62.9	13.5
Cumulative (%)	1.4	1.9	0.6	1.4	1.7		
Quarterly (%)	1.7	3.5	0.6	2.2	2.3		

Source: Company, Emkay Research

### But aggressive provisions for NPA's is a big comfort

We continue to draw comfort from the fact that ALBK continues to provide aggressively for the NPLs. While for M9FY12, ALBK's net slippages were at 0.7% of the advances, it has already taken a charge of 0.8% to the P&L. Amongst the large to mid size PSU banks we have found such aggressive practices with only BOB and PNB.

#### Provision break up

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD' 11	YTD' 10	YoY (%)
On NPL	1,750	3,300	1,656	3,016	3,057	74.7	1.3	7,728	4,700	64.4
As % of advances	0.20	0.35	0.17	0.32	0.30			0.8	0.5	
On Standard Assets	130	327	451	11	272		2,444.9	734	490	49.8
Investment Depreciation	358	900	1,129	824	633	NA	-23.2	2,586	413	526.1
Others	121	128	-39	266	251	107.5	-5.8	478	981	-51.3
<b>Total</b>	<b>2,359</b>	<b>4,655</b>	<b>3,197</b>	<b>4,117</b>	<b>4,212</b>	<b>78.6</b>	<b>2.3</b>	<b>11,526</b>	<b>6,584</b>	<b>75.1</b>

Source: Company, Emkay Research

#### Valuations and view

The bank has shown steady performance over the last 8-9 quarters with strong operating growth and stable asset quality. The resilience in NIMs in the range of 3.4-3.7% has far outperformed our initial expectation. We draw comfort from the fact that the bank has been making aggressive provisioning on NPA's, as it has provided more than 100% on the incremental slippages over 9MFY12. We have upgraded our numbers for FY12E/13E by 17.7/12.2% largely to take into account lower tax rates. The risk to remains from the restructuring of SEBs also is now built into our numbers.

#### Change in estimates

	New estimates (Rs bn)		Old estimates (Rs bn)		% chg	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Net interest income	52,889	61,079	51,069	60,726	3.6	0.6
Pre provision profit	39,924	47,572	37,330	46,420	7.0	2.5
Provisions	15,766	16,484	13,332	17,529	18.3	-6.0
Profit before tax	24,158	31,088	23,998	28,891	0.7	7.6
Profit after tax	20,051	23,005	17,038	20,513	17.7	12.2

Source: Company, Emkay Research

We believe that ALBK's current valuations of 0.9x FY12E/0.8x FY13E ABV are attractive looking at average 19% RoEs for FY12-13E. We maintain ACCUMULATE with TP of Rs200. ALBK remains our top pick amongst mid-size PSU banks.

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

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
<b>Net interest income</b>	26,505	40,225	52,889	61,079
Other income	15,159	13,704	14,185	16,355
Net income	41,664	53,929	67,074	77,434
Operating expenses	16,178	23,383	27,150	29,862
Pre provision profit	25,485	30,546	39,924	47,572
PPP excl treasury	17,852	28,931	38,924	46,572
Provisions	7,769	11,239	15,766	16,484
<b>Profit before tax</b>	17,716	19,307	24,158	31,088
Tax	5,653	5,076	4,107	8,083
Tax rate	32%	26%	17%	26%
Profit after tax	12,063	14,231	20,051	23,005

**Balance Sheet (Rs. Mn)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
<b>Liabilities</b>				
Equity	4,467	4,762	4,762	4,762
Reserves	63,063	80,312	95,906	113,896
Net worth	67,530	85,074	100,668	118,659
Deposits	1,060,558	1,318,872	1,595,565	1,907,984
Borrowings	88,954	108,965	130,438	155,562
Total liabilities	1,217,041	1,512,911	1,826,671	2,182,204
<b>Assets</b>				
Cash and bank	91,682	110,274	145,890	195,999
Investments	368,043	408,838	483,921	592,038
Customer assets	732,292	959,882	1,162,938	1,356,619
Others	25,024	33,917	33,922	37,549
Total assets	1,217,041	1,512,911	1,826,671	2,182,204

**Key Ratios (%)**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	2.4	2.9	3.2	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	1.4
Provisions/avg assets	1.3	1.0	1.1	1.1
PBT/avg assets	1.5	1.3	1.3	1.4
Tax/avg assets	0.5	0.3	0.2	0.4
RoA	1.1	1.0	1.2	1.1
RoAE	19.1	18.7	21.6	21.0
GNPA (%)	1.7	1.8	1.8	2.0
NNPA (%)	0.7	0.8	0.7	0.6

**Valuations Table**

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	12,063	14,231	20,051	23,005
Shares in issue (mn)	447	476	476	476
EPS (Rs)	27.0	29.9	42.1	48.3
PER (x)	5.9	5.4	3.8	3.3
FDEPS(Rs)	25.3	29.9	42.1	48.3
FDPER (x)	6.3	5.4	3.8	3.3
Book value (Rs)	131.7	160.5	193.2	231.0
P/BV (x)	1.2	1.0	0.8	0.7
Adj book value (Rs)	121.2	145.0	176.6	213.1
P/ABV (x)	1.3	1.1	0.9	0.8
P/PPP (x)	2.8	2.5	1.9	1.6
Dividend yield (%)	3.4	3.7	5.0	5.6

**Recommendation History: Allahabad Bank – ALBK IN**

Date	Reports	Reco	CMP	Target
02/11/2011	<a href="#">Allahabad Bank Q2FY12 Result Update</a>	Accumulate	161	200
22/07/2011	<a href="#">Allahabad Bank Q1FY12 Result Update</a>	Accumulate	218	240
02/05/2011	<a href="#">Allahabad Bank Q4FY11 Result Update</a>	Buy	198	250
28/01/2011	<a href="#">Allahabad Bank Q3FY11 Result Update</a>	Buy	202	250

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
27/01/2012	<a href="#">Bank of India Q3FY12 Result Update</a>	Reduce	5,353	320
27/01/2012	<a href="#">Canara Bank Q3FY12 Result Update</a>	Hold	464	500
25/01/2012	<a href="#">Bank of Baroda Q3FY12 Result Update</a>	Accumulate	790	950
25/01/2012	<a href="#">Union Bank of India Q3FY12 Result Update</a>	Reduce	207	210

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