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Allahabad Bank (ALBK) is one of the oldest banks in India and was established in the historic town of Allahabad on 24th April 1865 by a group of Europeans. As on Dec'11, the bank has a network of 2477 branches and 212 ATMs, serving 26 million customers. Presently, the bank has a pipeline of loan sanctions worth ₹180 billion and aims to grow its total business by 25% to ₹2.8 trillion in FY12 and above ₹4 trillion by FY15.

Investor's Rationale

Robust Q3FY'12 performance

On account of higher fee-based income and growth in core operations, public sector lender, ALBK posted a 34.8% growth in net profit at ₹5.6 billion for the Q3FY12, against ₹4.1 billion in the same period last year. The other income of the bank rose 35% to ₹3.5 billion in the last quarter, against ₹2.6 billion in the same period last year. The net interest income or the difference between interests earned and paid out increased by 31.3% to ₹13.8 billion. The provisions in the last quarter increased about 26% to ₹4.7 billion in the last quarter, against ₹3.7 billion in the same period last year.

Higher margin growth

In line with expectations, net interest margin (NIM) improved at 3.7% against 3.4% in the same period last year and stable sequentially, supported by an unexpected material decline in cost of deposits and an improved C/D ratio. Aided by stable margin, higher other income and modest growth in opex, RoA improved to 1.4%, the highest amongst PSU Banks.

Fall in asset quality

The bank's asset quality depreciated during the quarter as both the net and gross non performing asset (NPA) ratio crawled up to 0.8% and 1.9% respectively. The rise in bad loans led to higher provisioning for the lender. NPA provisions stood at ₹3.0 billion compared with ₹1.7 billion a year back, a surge of 74% y-o-y.

Healthy loan book growth

Driven by growth in Agri, Retail and Priority sector credit, ALBK's loan book grew by healthy 17.1% on yoy basis and 5% on qoq basis at ₹1,016.4 billion. The retail credit stood at ₹144 billion out of the total book. Meanwhile, deposits grew at 20% to ₹0.15 million in rising interest rate regime. Consequently, the cost of deposits moved up to 6.8%. The bank's capital adequacy ratio stood at 12.75% as on December 31, 2011.

Market Data

CMP (₹)	203	
Target Price	230	
Stop Loss	194	
Duration	Mid-term	
52-week High-Low (₹)	240.0/113.6	
Rise from 52WL (%)	18.0	
Correction from 52WH (%)	44.1	
Beta	1.31	
	3M-	38.9
Stock Return (%)	6M-	15.5
	9M-	7.5
Market Cap (₹bn)	96.8	
Enterprise Value (₹bn)	1,405.8	

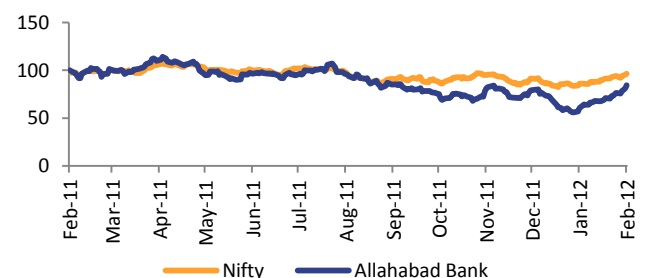
Shareholding Pattern

	Dec'11	Sep'11	Chg
Promoters (%)	58.0	58.0	-
FII (%)	11.9	13.0	(1.1)
DII (%)	17.8	17.3	0.6
Public & Others (%)	12.3	11.8	0.5

Quarterly Performance

(₹ bn)	Q3 FY'12	Q3 FY'11	Q2 FY'12	%Y-o-Y Change	%Q-o-Q Change
NII	13.8	10.5	13.1	31.3	4.7
Net profit	5.6	4.1	4.8	34.8	14.8
NIM (%)	3.7	3.4	3.7	30bps	-
Net NPA (%)	0.8	0.6	0.7	20bps	10bps
CAR (%)	12.7	12.7	12.9	(20bps)	-
ROA	1.4	1.3	1.2	20bps	10bps
EPS	11.7	9.3	10.2	14.7	25.8

One Year Price Chart





Balance Sheet (Consolidated)

(₹billion)	FY09A	FY10A	FY11A
Equity Capital	4.5	4.8	4.8
Reserves & Surplus	65.2	82.6	99.8
Shareholders' Fund	69.6	87.3	104.6
Deposits	1,060.5	1,318.8	1,620.0
Borrowings	54.4	69.2	72.6
Other Liabilities & Provisions	35.0	40.7	41.1
Capital Employed	1,219.5	1,516.1	1,838.3
Cash and Balances with RBI	71.8	79.0	98.8
Money at call and short notice	20.0	31.4	39.6
Investments	386.4	435.0	480.1
Advances	716.1	936.3	1,180.0
Fixed Assets	11.3	11.6	13.6
Other Assets	13.9	22.8	26.2
Capital Deployed	1,219.5	1,516.1	1,838.3

Key Ratios

	FY09A	FY10A	FY11A
Operating Margin (%)	30.4	27.5	27.0
NPM (%)	14.7	13.0	13.4
Cost to Income Ratio (%)	39.4	44.1	38.6
ROE (%)	17.6	16.5	17.9
ROCE (%)	2.1	2.1	2.1
ROA (%)	1.0	0.9	1.0
EPS (₹)	27.5	30.2	39.3
P/E ratio (x)	7.4	6.7	5.2
Book Value (₹)	155.9	183.4	219.6
P/BV ratio (x)	1.3	1.1	0.9

Profit & Loss Account (Consolidated)

(₹billion)	FY10A	FY11A	FY12E
Interest Income	83.8	110.8	140.0
Interest Expended	57.2	69.9	93.8
Net Interest Income	26.6	40.9	46.2
Growth (%)	-	53.9	12.9
Other Income	15.4	13.6	15.4
Operating Income	42.0	54.5	61.6
Growth (%)	-	29.9	12.9
Operating Expenses	16.5	24.1	23.8
Operating Profit	25.5	30.5	37.8
Growth (%)	-	19.8	24.0
Operating Margins (%)	30.4	27.5	27.0
Provisions and Contingencies	13.4	16.3	19.3
Share of earnings/loss in Associates	0.3	0.3	0.3
Net Profit	12.3	14.4	18.7
Net Profit Margin (%)	14.7	13.0	13.4

Valuation

In consideration of its future plans, ALBK is hopeful of maintaining NIM at over 3.5% by the end of this fiscal. The bank is also seeking ₹10 billion capital infusion from the Central Government under the recapitalization scheme by the end of this fiscal.

Moreover, the bank's liquidity and adequate capital will further help it to grow its advances in the coming two quarters but the moderating economic growth is still a major concern for the bank. However, with the growth in its core business, it is expected that ALBK will touch higher level of profitability in future. Considering all the above prospects, we are rating the stock as 'BUY' at the current market price of ₹203.



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