

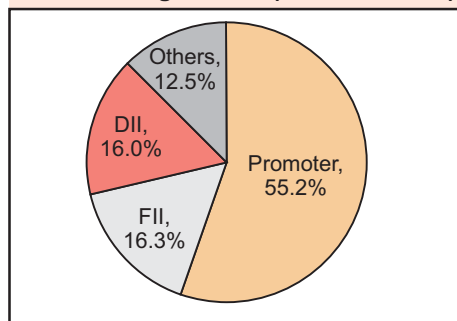
## ALLAHABAD BANK LTD.

Q3FY11 Result Update

January 31, 2011

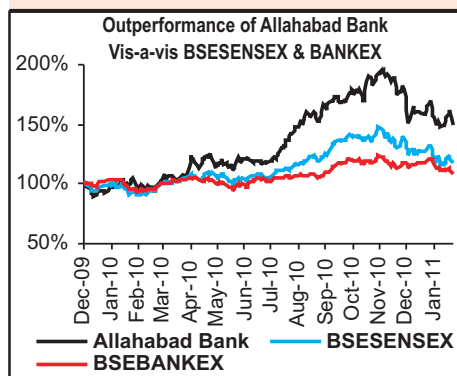
Key Stock Data	
Sector	Public Bank
CMP	₹201.80
52-wk High / Low	₹271 / 126.55
Market Cap	₹90.14bn (\$2003.2mn)
Avg 6m daily vol.	156033
BSE Sensex	18395.97
Reco:	'BUY'
Target Price:	₹250
Stock Codes	
Bloomberg Code	ALBK.IN
Reuters Code	ALBK.BO
BSE Code	532480
NSE Code	ALBK
Face Value	₹10per share

### Shareholding Pattern (31st Dec, 2010)



Price Performance (%)			
1 Mth	3 Mths	6 Mths	1 Yr
-5.5%	-20.4%	6.8%	49.0%

### Stock Price Performance



**Hetal Shah, Analyst**  
(hetal@keynoteindia.net)  
(+9122-30266059)

Allahabad bank has reported strong operating performance in 3QFY11 and much above the market expectations. Growth in NII was at ₹1051.63cr up by 55.7, mainly on account of robust growth in the advances book. Further, the other income decreased by 24.1% on yoy basis at ₹257.64cr and increase in the cost to income ratio by 40 bps has restricted the operating profit growth to 21.3% (yoy) at ₹788.43cr and Net Profit growth at 20.4% on y-o-y basis.

### Key Performance Highlights

#### ➤ Healthy growth in business

The bank's total Advances grew by 32.2% to ₹86837as at Dec 31, 2010 from ₹65680cr as at Dec 31, 2009. Its total Deposits grew by 28.4% to ₹120948cr as at Dec 31, 2010 from ₹94164cr as at Dec 31, 2009. The market share of Advances and Deposits as of Dec-10 increased to 2.3% and 2.4% respectively. The CD ratio hovers ~71.8% as of Dec-10 and the consistent growth in its total business would result in maintaining its CD ratio around 72% going forward.

#### ➤ Active on the Core-interest income:

The bank's focus on Core Banking has resulted increase in its % of Net Interest Income to Operating Income to 80.3% in 3QFY11 from 66.6% in 3QFY10. The various plans were implemented by the bank to increase its core banking income are as follows:

- **116 Branches** have been opened including upgradation of 55 Extension Counters into full-fledged branches during the nine months ending Dec-2010, of which 10 are Rural, 38 are Semi-Urban, 36 are Urban and

(continued...)

### Key Quarterly Updates

Particulars	(₹Cr)					
	Q3 FY11	Q3 FY10	% change y-o-y	Q2 FY11	% change q-o-q	
<b>Net Interest Income</b>	1051.64	675.57	<b>55.7%</b>	969.2	<b>8.5%</b>	
% of total operating income	80.3%	66.6%		73.8%		
<b>Non-Interest Income</b>	257.64	339.53	<b>-24.1%</b>	344.74	<b>-25.3%</b>	
% of total operating income	19.7%	33.5%		26.2%		
<b>Net Total Income</b>	<b>1309.28</b>	<b>1015.1</b>	<b>29.0%</b>	<b>1313.94</b>	<b>-0.4%</b>	
Operating expenses	520.85	364.97	<b>42.7%</b>	532.41	<b>-2.2%</b>	
% of total operating income	39.8%	36.0%		40.5%		
Employee cost	319.59	209.35	<b>52.7%</b>	350.35	<b>-8.8%</b>	
% of total operating income	24.4%	20.6%		26.7%		
<b>Operating Profit</b>	<b>788.43</b>	<b>650.13</b>	<b>21.3%</b>	<b>781.53</b>	<b>0.9%</b>	
Provisions and Contingencies	235.88	246.28	<b>-4.2%</b>	271.44	<b>-13.1%</b>	
% of Pre. Prov. Profit	29.9%	37.9%		34.7%		
Profit before tax	552.55	403.85	<b>36.8%</b>	510.09	<b>8.3%</b>	
Tax expense	136.75	58.48	<b>133.8%</b>	107.52	<b>27.2%</b>	
% tax rate	24.8%	14.5%		21.1%		
<b>Profit after Tax</b>	<b>415.8</b>	<b>345.37</b>	<b>20.4%</b>	<b>402.57</b>	<b>3.3%</b>	
EPS (₹)	9.31	7.73	<b>20.4%</b>	9.01	<b>3.3%</b>	

(E- Keynote Capitals Institutional Research Estimates)

32 are Metropolitan Branches taking the **total number to 2402** branches, of which **38** Branches have been opened during 3QFY11 and have **40 authorizations** for opening new branches.

- The Bank achieved 100% CBS implementation in 3QFY11.
- Hassle Free Internet Banking, SMS Banking, e-Payment of Taxes, Instant ATM-cum Debit Card facility, RTGS/NEFT fund transfer facility implemented in all CBS branches.

➤ **Increase in earnings**

The Bank delivered ROE of 20.5% (annualized) and ROA of 1.2% (annualized) for Q3FY11 and is well capitalized for growth with Total Capital Adequacy of 12.8% as at Dec 31, 2010.

➤ **Consistent Performance in Asset Quality**

The asset quality of the bank is comfortable with gross and net NPA ratios of 1.8% and 0.6% respectively, as of Dec-2010. Provision coverage stands at 80.2% well above RBI's mandate of 70%.

### New developments and future plans

➤ **Strategic Alliances**

- Tie-up with the Life Insurance Corporation of India for opening Current Accounts.
- Universal Sompo General Insurance Company Ltd (USGICL) has launched a Unique Health Insurance Scheme viz. "Sampoorna Swasthya Kavach" exclusively for the bank's customers.

➤ **Expansion Initiatives**

- The bank has planned to achieve ₹220000cr in total Business and to increase the number of branches to 2425 before the end of FY2011.
- It has envisaged crossing ₹4.00 lac crore in total Business, increase in number of Branches to 3000 and to open 2000 ATMs within next 3 years.
- It launched its First Mobile Banking Van with ATM facility and also one Coin Vending Machine in Jharkhand.
- 2618 villages (population >2000) & 15549 villages (population <2000) to be covered by Mar-2012 & Mar-2014 respectively, of which:
  - o 26 Brick & Mortar branches.
  - o 200 Biometric ATMs.
  - o 2 Mobile Vans fitted with ATMs in 16 villages.
  - o Remaining villages through Business Correspondents.
- Under Financial Inclusion Plan, the bank is likely to cover nearly 1000 villages, where banking facilities are not available, during the FY2011.

➤ **Other recent developments**

- The bank ranked 8th position among the India's Best Banks by Business Today-KPMG study of the strongest, fastest growing and most efficient Banks in the country.
- Business today ranked the bank 1st among the India's Best Banks in the growth of fee based income.
- It occupied 66th Rank in the FORTUNE-500 list of the India's Largest Corporations by FORTUNE-INDIA GROUP.
- Online payment Gateway services provided to make real time payments to 746 merchants at the billing company with instant debit from the customers' accounts.
- Two products-X press Money and Money Gram are available for making Inward remittances by NRIs.
- Financial Inclusion Plan (Pilot Project) launched at Bamangachi (W.B.), Narayanpur (U.P.), Godda (Jharkhand) and Nagod (M.P.).

**Concerns**

- Restructuring exercise in lending to different verticals under RBI's guidelines may lead to increase in NPAs and thus affecting the bank's asset quality. Further, increase in number of accounts turning into NPA's from the restructured portfolio would lead to increase in provisioning amount, having a negative impact on the profits.
- The bank can face stiff competition from other PSU banks, due to insignificant presence in southern and western region of India.

**Valuations**

The bank's total business, distribution network and vast customer base in CASA-rich states enable it to leverage significant business opportunities in the current rising interest rate scenario. This along with a balanced loan portfolio and high proportion of low-cost funds will help the bank to earn better margins compared to its peers. And it is well positioned with good asset quality backed by provisioning of more than 70%. Considering the above factors, we maintain our target price of ₹250 per share by assigning a multiple of 1.50x FY12E P/ABV, with a Buy recommendation. At CMP of ₹201.8, the stock is trading at 1.66 FY10 P/ABV and is expected to trade at 1.40x FY11E and 1.21x FY12E P/ABV.

## Financials

### Profit & Loss Statements (₹Cr)

Particulars	FY08	FY09	FY10	FY11E	FY12E
<b>Interest Earned</b>	<b>6225.27</b>	<b>7364.74</b>	<b>8369.21</b>	<b>10924.78</b>	<b>13142.76</b>
Interest on advances	4459.83	5494.39	6398.47	8215.37	9954.01
Income from Investment	1723.53	1849.35	1944.77	2657.23	3159.44
Interest on RBI balances & others	39.49	10.75	25.18	39.58	29.31
Others	2.42	10.25	0.79	12.60	0.00
<b>Interest expended</b>	<b>4498.87</b>	<b>5206.07</b>	<b>5718.72</b>	<b>6961.78</b>	<b>8504.90</b>
<b>Net Interest Income</b>	<b>1726.40</b>	<b>2158.67</b>	<b>2650.49</b>	<b>3963.00</b>	<b>4637.86</b>
Non-Interest Income	910.71	1141.92	1515.90	1162.68	1162.00
<b>Net Total Income</b>	<b>2637.11</b>	<b>3300.59</b>	<b>4166.39</b>	<b>5125.68</b>	<b>5799.86</b>
<b>Operating Expenses</b>	<b>1157.58</b>	<b>1399.44</b>	<b>1617.84</b>	<b>2045.77</b>	<b>2402.16</b>
Staff costs	689.88	873.94	1011.38	1317.03	1567.80
Other expenses	467.70	525.50	606.46	728.75	834.35
<b>Pre-provisioning profit (PPP)</b>	<b>1479.53</b>	<b>1901.15</b>	<b>2548.55</b>	<b>3079.91</b>	<b>3397.70</b>
Provisions and Contingencies	357.37	825.38	776.92	944.28	1000.30
<b>PBT</b>	<b>1122.16</b>	<b>1075.77</b>	<b>1771.63</b>	<b>2135.63</b>	<b>2397.40</b>
Tax	147.41	307.17	565.30	632.47	714.49
<b>PAT</b>	<b>974.75</b>	<b>768.60</b>	<b>1206.33</b>	<b>1503.16</b>	<b>1682.92</b>
<b>EPS (₹)</b>	<b>21.82</b>	<b>17.21</b>	<b>27.01</b>	<b>33.65</b>	<b>37.67</b>
<b>Book Value (₹)</b>	<b>116.88</b>	<b>131.00</b>	<b>151.17</b>	<b>177.08</b>	<b>206.38</b>
<b>Adjusted Book Value (₹)</b>	<b>88.27</b>	<b>102.00</b>	<b>121.20</b>	<b>144.16</b>	<b>166.91</b>

(E - Keynote Capitals Institutional Research Estimates)

### Balance Sheets (₹Cr)

Particulars	FY08	FY09	FY10	FY11E	FY12E
<b>Sources of Funds</b>					
Paid-up Equity Share Capital	446.7	446.7	446.7	446.7	446.7
Reserves	4774.35	5405.25	6306.25	7463.68	8772.15
<b>Net Worth</b>	<b>5221.05</b>	<b>5851.95</b>	<b>6752.95</b>	<b>7910.38</b>	<b>9218.85</b>
Deposits	71616.38	84971.79	106055.75	127266.90	146356.94
Borrowings	1792.00	3848.94	5435.48	5658.07	6498.57
Other Liabilities & Provisions	4314.09	2975.33	3455.03	3139.67	3365.83
<b>Total Liabilities</b>	<b>82943.52</b>	<b>97648.01</b>	<b>121699.21</b>	<b>143975.03</b>	<b>165440.18</b>
<b>Applications of Funds</b>					
Cash & Balances with RBI	6288.85	5115.38	7183.78	6999.68	8208.72
Bal with Banks & money at call	753.24	1521.39	1984.45	2041.57	2052.18
Investments	23400.25	29651.05	38428.62	41998.08	47566.00
Advances	49720.47	58801.76	71604.87	90093.39	104566.44
Fixed Assets	1071.47	1109.75	1118.27	1145.05	1169.35
Other Assets	1709.24	1448.68	1379.22	1697.26	1877.50
<b>Total Assets</b>	<b>82943.52</b>	<b>97648.01</b>	<b>121699.21</b>	<b>143975.03</b>	<b>165440.18</b>

(E - Keynote Capitals Institutional Research Estimates)

**Return Ratios (%)**

	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11(E)</b>	<b>FY12(E)</b>
Net Interest Margin (NIM)	2.6%	2.9%	2.9%	3.3%	3.1%
Yield on Advances	10.8%	10.9%	10.6%	10.7%	11.0%
Yield on Investments	8.2%	7.0%	5.7%	6.6%	7.1%
Cost of Deposits	6.7%	6.6%	6.0%	6.1%	6.4%
Return on Average Assets	1.3%	0.9%	1.1%	1.1%	1.1%
Return on Average Net worth/ROAE	20.1%	13.9%	19.1%	20.5%	19.6%
Dividend Yield (%)	1.7%	1.2%	2.7%	3.3%	3.6%
Effective tax rate	13.1%	28.6%	31.9%	29.6%	29.8%

(E: Keynote Capitals Institutional Research Estimates)

**Per share Data**

	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11(E)</b>	<b>FY12(E)</b>
EPS (₹)	21.82	17.21	27.01	33.65	37.67
Book Value (₹)	116.88	131.00	151.17	177.08	206.38
Adjusted Book value (₹)	88.27	102.00	121.20	144.16	166.91

(E: Keynote Capitals Institutional Research Estimates)

**Valuation ratios (%)**

	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11(E)</b>	<b>FY12(E)</b>
P/e (x)	9.25	11.73	7.47	6.00	5.36
P/BV (x)	1.73	1.54	1.33	1.14	0.98
P/ABV (x)	2.29	1.98	1.66	1.40	1.21

(E: Keynote Capitals Institutional Research Estimates)

**Institutional Equity Team**

Subramanyam Ravisankar  
 Director - Equities sravisankar@keynotecapitals.net +91 22 3026 6018

**Analysts / Associates**

Krishna Mahale krishna@keynoteindia.net +91 22 3026 6059  
 Denil Savla denil@keynoteindia.net +91 22 3026 6073  
 Hetal Shah hetal@keynoteindia.net +91 22 2269 4325  
 Ashwin Chavan ashwin@keynoteindia.net +91 22 3026 6059  
 Rohan Admane rohan@keynoteindia.net +91 22 2269 4322  
 Rajesh Sinha rajesh@keynotecapitals.net +91 22 2269 4322  
 Mamta Singh mamta.singh@keynotecapitals.net +91 22 3026 6057

**Technical Analyst**

Sanjay Bhatia sanjay@keynotecapitals.net +91 22 3026 6065

**Dealing / Sales**

Nilesh Dhruv Nilesh@keynoteindia.net +91 22 3026 6040  
 Puja Shah puja.shah@keynoteindia.net +91 22 3026 6057  
 Farha Shaikh farha@keynoteindia.net +91 22 3026 6057

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4th Floor, Balmer Lawrie Building, 5, J. N. Heredia Marg, Ballard Estate, Mumbai 400 001. INDIA  
 Tel. : 9122-2269 4322 / 24 / 25 • www.keynoteindia.net

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