



Allahabad Bank

Instrument	Amount (In Rs. Crore)	Rating Action
Certificate of Deposit Programme	Rs. 20,000 crore	[ICRA]A1+ Reaffirmed

ICRA has reaffirmed the [ICRA] A1+ (pronounced ICRA A one plus) rating to the Rs. 20,000 crore Certificate of deposit programme of Allahabad Bank (AB)[†].

The reaffirmation of the highest credit quality short term rating reflects Government of India's (GOI) majority ownership (increased to 58.9% as on September 30, 2014), the bank's well established franchise in Eastern and Central regions giving it access to a high proportion of low-cost deposits (CASA deposits constituted 33.13% of total deposits on Sep-14) imparting the bank with a favorable Asset Liability Maturity (ALM) and cost of deposits. Based on the ALM profile of the bank as on September 10, 2014, negative mismatches in the less than 6 month bucket (after adjusting for excess SLR securities of Rs. 9,538 crore) stood at ~8.03% of total assets; furthermore after adjusting for estimated release of SLR securities on account of run-down of term deposits (over the next 6 months) the adjusted ALM negative gaps for the bank in the less than 6 month bucket would be at a comfortable 3.6%, while the adjusted mismatch in the less than 12 month bucket would be around 5.7%. ICRA expects this gap to be met given the banks strong financial flexibility and majority Gol ownership.

Credit growth of AB has witnessed a moderation in a challenging operating environment and also following the banks focus on managing its asset quality. In 2013-14 AB's credit expanded by 7.61% (against the industry average of 14%), while annual credit growth as on September 30, 2014 remained muted at 6.92%. As for asset quality, subsequent to the significant rise in gross NPA% of the bank in 2013-14, ABs gross NPAs declined marginally in H1, FY2015 to 5.36% from 5.73% as on March 2014 on the back of a reduction in its NPA generation rate (3.83% in H1, FY 2015 against 4.79% in FY 2014) and upgradation/recoveries of a few large ticket exposures. Despite this decline, AB's gross NPAs remain higher than the PSBs average. Additionally AB continues to have a sizable book of standard restructured advances of 8.5% (6.5% excluding exposure to state power distribution companies) in September 2014 against 7.74% in March 2014, which could continue to exert pressure on its asset quality indicators going forward. Higher level of vulnerable assets has also impacted the earnings profile of the bank. In H1 2015 the bank's net interest margins witnessed some firming up and increased to 2.87% against 2.51% in FY 2014[†] which has lead to some improvement in operating profitability of the bank, however overall return on average assets dipped to 0.23% in H1 2015 against 0.55%[†] in FY 2014 impacted by higher credit provisions[†] which increased to 1.44% in H1 2015 against 0.99%[†] in FY 2014. ICRA does not expect the overall profitability for AB to improve significantly in FY2015 owing to expected elevated level of credit provisioning given ABs higher level of restructured advances and NPAs. In ICRA's view, AB's profitability could improve in FY2016 and more effectively in FY2017 if asset quality pressures reduce and credit provisioning decline. Further, annual amortisation of ~Rs 150 crore each year pertaining to pension and gratuity liability would be over by FY2015 and thus to that extent would reduce AB's employee expenses and pressure on profitability from FY2016. Over the medium-term the earnings of the bank would be contingent upon its ability to ensure adequate lending spreads, regular repayments from exposures which have been restructured while also maintaining a control over NPA generation.

ABs CRAR under Basel III norms was 9.99% as on September 2014. On the capitalisation front, AB is dependent on Gol for fresh capital mobilisation for meeting the higher minimum capital requirements under Basel III norms as well as for growth. AB can also mobilize equity through QIP issuances. Based on ICRA's estimate assuming a growth in risk weighted assets of 12%-14% and internal capital generation rate of 8-12% AB would require additional equity amounting to Rs. 3,400 crore to Rs. 8,200 crore by March 31, 2019 in order to meet the proposed enhanced higher capital requirements under Basel III. ICRA expects the capitalization support from Gol to be forthcoming going forward.

[†] "For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications"

[†] Financial ratios are as per ICRA's computations

[†] as percentage of average total assets



Bank profile

Allahabad Bank (AB) was among the 14 banks which were nationalized in 1969. AB is 58.9% owned by Government of India (GoI) and is headquartered in Kolkata. The bank operates primarily in the states of West Bengal & Uttar Pradesh, which accounts for over 48% of its branch network. The branch demographic profile has a skew in favor of rural and semi-urban segments and on the strength of this network bank has a healthy base of low cost deposits (CASA at 33.13% as on September 30, 2014). The bank has computerized all of its branches and extension counters while Core Banking Solutions (CBS) has been implemented across all its branches. For the financial year ended March 31, 2014 the bank reported a Profit after Tax (PAT) of Rs.1,172 crore on an asset base of Rs. 2,19,582 crore as compared to a PAT of Rs.1,185 crore on an asset base of Rs.2,03,517 crore for the previous financial year. For the half year period ended September 30, 2013 the bank reported a profit after tax of Rs. 254 crore against a profit of Rs. 688.9 crore during the corresponding period in the previous financial year. As on September 30, 2014, the bank reported Capital adequacy was 9.99% (Tier-1: 7.64%; both Basel III), while its Gross NPA was 5.36% and Net NPA% was 3.54%.

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For further details please contact:

Analyst Contacts:

Ms. Vibha Batra, (Tel. No. +91-11-4545 302)
vibha@icraindia.com

Relationship Contacts:

Mr. Jayanta Chatterjee (Tel. No. +91-80-43326401)
jayantac@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: **9871221122**

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: **9821086490**

Email: shivakumar@icraindia.com

1802, 18th Floor, Tower 3,
Indiabulls Finance Centre,
Senapati Bapat Marg,
Elphinstone, Mumbai 400013,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: **+91 9903394664**

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Bangalore****Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: **989986490**

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-
79-25569231

Pune**Mr. L. Shivakumar**

Mobile: **989986490**

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 99, CTS 3909, Range Hills
Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B, Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500