

RATING RATIONALE

15 Oct 2019

Allahabad Bank

Brickwork Ratings reaffirms the ratings of ‘BWR A+’ for Basel III Tier II Bond issues amounting to Rs.1500 Cr of Allahabad Bank. The Rating is placed on Credit Watch with Developing Implications.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (March 2019)	Present
Basel III Compliant Tier II bonds	500	500	Long Term	BWR A+ (Outlook: Stable)	BWR A+ (Credit Watch with Developing Implications) Reaffirmed, removed outlook and placed on Credit watch
Basel III Compliant Tier II bonds	1000	1000	Long Term	BWR A+ (Outlook: Stable)	BWR A+ (Credit Watch with Developing Implications) Reaffirmed, removed outlook and placed on Credit watch
Total	1500	1500	INR One Thousand Five Hundred Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings
Complete details of ISIN wise is provided in Annexure-I

Rating Action/ Outlook

Brickwork Ratings (BWR) has reaffirmed the ratings and placed the ratings on Credit Watch with Developing Implications by removing the outlook of bond issues of Allahabad Bank as tabulated above. The reaffirmation continues to factor in the Government of India (GOI)’s support with equity stake of 92%, improved earnings and better capital adequacy ratios as of June 30, 2019, while business remains stagnant, has gross NPA of 17% and slippages of Rs.2962 Cr as of June 30, 2019. The Government of India (GOI) in August 2019 announced proposed amalgamation of 10 Public Sector Bank (PSBs) to form 4 PSBs wherein, Allahabad Bank is proposed to be amalgamated with Indian Bank. The Board’s of the respective Banks have accorded their in-principle approval for the proposed amalgamation during September 2019. Brickwork Ratings has taken note and placed the ratings of bonds of these banks on Credit Watch with Developing Implications. The amalgamation is expected to bring in synergies of technology and human resources, increase the business and asset size and improve upon cost efficiency through branch rationalisation and asset monetisation, and reduce dependencies on GOI for capital infusion, strengthen capital and thereby manage the asset quality. However, any extension in timelines



for completion of amalgamation and the smooth transition of the amalgamation shall be the rating sensitivities. BWR shall continue to monitor the developments in these Banks and effect appropriate rating action.

Key Rating Drivers

BWR has essentially relied upon the audited financials upto FY19 and unaudited financials of Q1FY20 of Allahabad Bank, publicly available information and information/ clarifications provided by the Bank's management.

Credit Strengths:

- The Bank's capital adequacy ratios as of March 31, 2019 was comfortable and above the regulatory requirement with the GOI's capital infusion of ~Rs.8700 Cr and maintained Risk weighted assets during FY19. The Bank continues to maintain its Capital adequacy ratios at comfortable levels and above the regulatory requirement. As of June 30, 2019, CRAR is 12.55% (FY19:12.51%), Tier I is 9.71% (FY19:9.68%) and CET-1 is 9.68% (FY19: 9.65%)
- NII and operating profits of the Bank for Q1FY20 have increased over the previous three quarters with the increase in advances since Q1FY19. NII for Q1FY20: Rs.1530 Cr (Q4FY19: Rs.1258 Cr, Q3FY19: Rs.1398 Cr, Q2FY19: Rs.1158 Cr) and Operating Profits for Q1FY20: Rs.860 Cr (Q4FY19: Rs.634 Cr, Q3FY19: Rs.769 Cr, Q2FY19: Rs.534 Cr)
- The Bank has generated net profits of Rs.128 Cr in Q1FY20 after a huge net loss amounting to Rs.6581 Cr in Q4FY19 and continuing losses over the past few quarters. The Bank made provisions (excluding taxes) amounting to Rs.732 Cr for Q1FY20 against higher provisions over the past few quarters.

Credit Risks:

- As of Q1FY20, the Bank's business remains stagnant at Rs.3.78 lakh Cr (FY19: Rs.3.78 lakh Cr). Deposits decreased by Rs.1259 Cr while advances increased by Rs.1150 Cr during Q1FY20. The CASA ratio though higher than the peers at 47.9% has decreased from 49.5% in FY19
- Cost to income ratio of 56.02% as of Q1FY20 is relatively higher than its amalgamating bank (Indian Bank @ 44.6%).
- Asset quality issues remain a concern with Gross NPA of Rs.28,703 Cr and GNPA @17.43% as of June 30, 2019. However, the Provision Coverage Ratio of 78.58% is better than the peer PSBs average PCR of 74.05%. During Q1FY20, Slippages amounted to Rs.2962 Cr which has increased over the past three quarters. The reductions to NPA during Q1FY20 amounted to Rs.2964 Cr with Write offs of Rs.1992 Cr, cash recovery of Rs.501 Cr and upgradation of Rs.372 Cr. Fresh slippages or additional provisioning requirement on account of ageing of the NPAs remains a key monitorable.



Analytical Approach and Applicable Rating Criteria

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Sensitivities

The focus post amalgamation in the initial few months is likely to move from credit growth and investments to achieving synergies between the entities, enable better customer management, effect branch rationalisation and manpower optimisation;

The Combined entities will have bigger business size, ability to manage costs and improve profitability, reduce stress on the asset quality and strengthen the capital adequacy. However, the ability of the banks to stabilise operations and increase focus on business growth and investment within a year shall be beneficial for these entities, an extension of that time frame shall be a key rating sensitivity

Positive: Amalgamation of Allahabad Bank with Indian Bank is expected to be a credit positive for Allahabad Bank. However, it can be strongly ascertained on receipt of consolidated financials of these amalgamating banks.

Negative: Prolongment of amalgamation process and delay in increasing the business growth may lead to rating action or revision in outlook

Liquidity Position: Adequate

Allahabad Bank has adequate liquidity with the Liquidity Coverage Ratio of 165.14% against the minimum required of 100%. Bank's Basel III leverage ratio of 4.8% is above the regulatory requirement of 4.5%. The regulator has revised the regulation on Basel III Leverage ratio, it shall be 4% for Domestic Systemically Important Banks and 3.5% for other banks, effective from quarter commencing October 01, 2019.

Key Covenants of the facilities rated

Basel III compliant bonds are subject to guidelines/regulations of the Reserve Bank of India (RBI) and as detailed in term sheet of respective issues. BWR considers them as Highly Complex instruments in terms of published criteria. Bank has raised Basel III Tier II Bonds of Rs.500 Cr in January 2015 for a period of 10 years @ coupon of 8.78% payable annually and also raised the Basel III Tier II Bonds of Rs.1000 Cr in December 2015 for a period of 10 years @ coupon of 8.64% payable annually. The Debenture Trustee confirms of timely servicing of coupon payments on these instruments.

Key Financial Indicators (in INR Crs)

Allahabad Bank	Audited	Audited	Audited	UnAud.	UnAud.
Key Parameters – Rs Cr	2017	2018	2019	Q1FY19	Q1FY20
Total Deposits	201,870	213,604	214,335	208,219	213,076
<i>Deposit Growth (in %)</i>	<i>0.61%</i>	<i>5.81%</i>	<i>0.34%</i>		<i>2.33%</i>
Gross Advances	158,103	166,436	163,552	156,918	164,702
<i>Loans Growth (%)</i>	<i>0.25%</i>	<i>5.27%</i>	<i>-1.73%</i>		<i>4.96%</i>
Total Business	359,973	380,040	377,887	365,137	377,778
Business Growth (%)	0.45%	5.57%	-0.57%		3.46%
CASA Ratio %	45.79%	46.50%	49.49%	45.68%	47.85%
Profitability Ratios (%)					
RoE (%)	Negative	Negative	Negative	-164.64%	7.62%
RoA (%)	Negative	Negative	Negative	-3.28%	0.22%
NIM (%)	2.54%	2.20%	2.58%	3.18%	2.85%
Net Interest Income (NII)	5287	4732	5511	1704	1530
Non-Interest Income	2644	2693	1700	195	424
Operating Profits	3867	3438	2767	830	860
Provisions (exclg tax)	4180	8836	11898	2774	732
PAT	-314	-4674	-8333	-1944	128
Cost to Income Ratio (%)	51.25%	58.13%	61.63%	56.28%	56.02%
Asset Liability Profile (%)					
Loans/Deposit Ratio	79.03%	77.92%	76.31%	75.36%	77.30%
Gross NPAs to Advances	13.09%	15.96%	17.55%	15.97%	17.43%
Net NPAs to Advances	8.92%	8.04%	5.22%	7.32%	5.71%
Std. Restructured Adv as a % of Gross Adv.	2.94%	0.57%	0.30%	0.73%	0.33%
Gross NPA% + SRA % (Stressed Advances)	16.03%	16.53%	17.85%	16.70%	17.76%
Provision Coverage Ratio	50.11%	62.91%	79.85%	67.81%	78.58%
CRAR (%)	11.45%	8.69%	12.51%	6.88%	12.55%
<i>Tier I</i>	<i>8.49%</i>	<i>6.69%</i>	<i>9.68%</i>	<i>4.88%</i>	<i>9.71%</i>
<i>CET-I</i>	<i>8.20%</i>	<i>5.57%</i>	<i>9.65%</i>	<i>4.79%</i>	<i>9.68%</i>
<i>AT-I</i>	<i>0.29%</i>	<i>1.12%</i>	<i>0.03%</i>	<i>0.09%</i>	<i>0.03%</i>
<i>Tier II</i>	<i>2.96%</i>	<i>2.00%</i>	<i>2.83%</i>	<i>2.00%</i>	<i>2.84%</i>

Book Value (Rs)	157	91	30		71	36
GOI stake (%)	65.92%	64.78%	85.82%		71.81%	92.01%

About the Bank

Background: Allahabad Bank, established in 1865 and nationalized in 1969 is one of the major public sector banks headquartered at Kolkata, and having a strong presence in North and Eastern parts of India. The Bank has a large network of delivery channels totalling to 10046 (inclusive of 3229 branches + 792 ATMs + 6025 BCs). The Bank's 3229 branches are spread across 1205 rural, 759 semi-urban, 647 urban and 618 metro branches as at the end of June 30, 2019

Management: The Managing Director and Chief Executive Officer post of Allahabad Bank which was vacant since August 2018 has been occupied by Shri CH. S. S. Mallikarjuna Rao since September 2018. However, effective from October 01, 2019 the said post has been vacant after after posting of the incumbent to another Bank. The Bank's top management responsibilities are shouldered by the two Executive Directors (ED), Shri K Ramchandran (ED since December 26, 2018) and Shri P R Rajagopal (ED since March 01, 2019).

Non Co-operation with previous Rating agencies - Not Applicable

Rating History for the last three years (including withdrawn/suspended ratings)

S. No.	Instrument	Current Rating			Rating History		
		Type	Amount (Rs Crs)	Rating	30-Mar-2019	26-Sep- 2018	25 Oct 2017
1	Basel III Tier II Bonds	Long term	500	BWR A+ (Credit Watch with Developing Implications) Reaffirmed; removed outlook and placed on Credit Watch	BWR A+ (Outlook: Stable) Reaffirmed	BWR A+ (Outlook: Stable) Downgrade	BWR AA (Credit Watch with Positive Implications)
2	Basel III Tier II Bonds	Long Term	1000	BWR A+ (Credit Watch with Developing Implications) Reaffirmed; removed outlook and placed on Credit Watch	BWR A+ (Outlook: Stable) Reaffirmed	BWR A+ (Outlook: Stable) Downgrade	BWR AA (Credit Watch with Positive Implications)
	Total		1500	INR One Thousand Five Hundred Crores Only			

Complexity Levels of the Instrument: Highly Complex

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Complexity levels of the Rated Instruments](#)
- [Banks and Financial Institutions](#)
- [Basel III Compliant Instruments](#)

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**Allahabad Bank
ISIN wise facilities
Annexure-1**

Type of Instrument	Issue Date	Amount (₹ Cr)	Interest Rate	Maturity Date	ISIN
Basel III Tier II Bonds	20-Jan-2015	500	8.78%	20-Jan-2025	INE428A08028
Basel III Tier II Bonds	21-Dec-2015	1000	8.64%	20-Dec-2025	INE428A08044
Total		1500	INR One Thousand Five Hundred Crores Only		



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