Allahabad Bank

October 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Upper Tier II Bonds	1,000.0	**CARE A; Credit watch with developing implication (Single A, under credit watch with developing implication)**	**Continues to be on credit watch**
Perpetual Bonds	150.0	**CARE A; Credit watch with developing implication (Single A, under credit watch with developing implication)**	
Subordinated Tier II Bonds	1,000.0	**CARE A+; Credit watch with developing implication (Single A Plus, under credit watch with developing implication)**	
Perpetual Bonds	-	**-**	**Withdrawn**

Details of instruments/facilities in Annexure-1

CARE has rated the aforesaid Upper Tier II Bonds and the Perpetual Bonds (under Basel II) one notch lower than the Lower Tier II Bonds in view of their increased sensitiveness to the bank's Capital Adequacy Ratio (CAR), capital-raising ability and profitability during the long tenure of the instruments. The ratings for these hybrid instruments factor in the additional risk arising due to the existence of the lock-in clause in these instruments. Any delay in payment of interest/principal (as the case may be) following the invocation of the lock-in clause, would constitute an event of default as per CARE's definition of default and as such, these instruments may exhibit a somewhat sharper migration of the rating compared to conventional subordinated debt instruments.

Tier II Bonds under Basel III are characterized by a 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer a loss of principal. PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations, and thus enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in financial losses and raising the Common Equity Tier I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable.

In CARE's opinion, the parameters considered to assess whether a bank will reach the PONV are similar to the parameters considered to assess the rating of Tier II instruments even under Basel II. CARE has rated the Tier II Bonds under Basel III after factoring in the additional feature of PONV.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the instruments of Allahabad Bank (AB) continue to draw strength from the majority ownership and demonstrated fund support by Government of India (GOI), strong deposit base due to pan-India presence with an extensive branch network and diversified advance portfolio mix. The ratings also factor in the removal of the bank from Prompt Corrective Action (PCA) framework of RBI following improvement in capitalisation and reduction in net NPA level.

The ratings continue to be constrained by the moderate asset quality impacting the profitability in FY19 (refers to the period April 01 to March 31), though improvement was witnessed in Q1FY20.

The ratings continue to be under credit watch with developing implications following the announcement by Ministry of Finance (MoF) to amalgamate Allahabad Bank into Indian Bank, with Indian bank being the anchor bank. The scheme is subject to receipt of various statutory and regulatory approvals. The proposed amalgamation would result in a larger entity with measures to improve operational efficiency and risk management of the combined entity.

CARE Ratings would continue to monitor further developments on the proposed merger and would review the ratings in accordance with the progress on the process.

CARE has withdrawn the rating assigned to the Perpetual Bond issue of Rs.150 crore of AB with immediate effect, as AB has repaid the aforementioned Bonds in full and there is no amount outstanding under the issue as on date.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage along with demonstrated fund infusion by GoI

GoI continues to be the major shareholder of AB and its stake increased from 71.81% as on June 30, 2018 to 92.01% as on June 30, 2019 due to fresh infusion of capital by GoI. The GoI infused total amount of Rs.11,740 crore in three tranches

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

(Rs.1,790 crore in July 2018, Rs.3,054 crore in November 2018 and Rs.6,896 crore in February 2019) under the Public Sector Bank's recapitalization plan in FY19. The government's support in the form of capital infusion enabled the bank to meet the regulatory capitalisation requirement and also in removal of the bank from PCA.

Improvement in capitalisation level
The overall and Tier I CAR improved from 8.69% & 6.69% as on March 31, 2018 to 12.51% & 9.68% as on March 31, 2019 respectively, mainly due to aggregate fund infusion of Rs.11,740 crore by the GoI in FY19. The overall and Tier I CAR further improved to 12.55% & 9.71% as on June 30, 2019 due to accretion of profit to reserves.

Strong deposit base due to pan-India presence with extensive branch network
The total deposits of the bank increased marginally from Rs.2,13,604 crore as on March 31, 2018 to Rs.2,14,335 crore as on March 31, 2019 due to increase in current account and savings deposit of the bank, which offset the impact related to decline in bulk deposit. As on June 30, 2019, total deposits remained at Rs.2,13,076 crore.
The bank's gross Credit Deposit (CD) ratio declined from about 78% as on March 31, 2018 to 76.32% as on March 31, 2019 due to marginally lower advance as on March 31, 2019. The CD ratio increased to 77.30% as on June 30, 2019 as Ab was able to increase its advances post removal of PCA related restrictions in February 2019.
The total branch network reduced from 3245 branches as on March 31, 2018 to 3229 branches as on March 31, 2019 mainly due to consolidation of a few branches. AB has a pan-India network of 3,229 domestic branches as on June 30, 2019. However, the bank's major concentration of branches is in east and north India.

Diversified advance portfolio mix
The gross advance portfolio of the bank declined from Rs.1,66,436 crore as on March 31, 2018 to Rs.1,63,552 crore as on March 31, 2019, but marginally increased to Rs.1,64,702 as on June 30, 2019. The increase in gross advances in Q1FY20 was attributable to removal of PCA related restrictions from the bank in February 2019 (imposed in May 2018).
The portfolio of advances remained diversified with large industries contributing about 28% and retail, agriculture and MSME loans contributing about 45% of the loan portfolio. The bank has made concentrated efforts to increase its exposure in the retail credit segment. The proportion of retail credit increased from 10.57% as on March 31, 2018 to 12.32% as on March 31, 2019 and further to 12.64% as on June 30, 2019. The agricultural advance remained almost stable at 16.03% as on March 31, 2019 and 16.14% as on June 30, 2019. The proportion of MSME loan declined from 18.95% as on March 31, 2018 to 16.13% as on March 31, 2019 and further to 15.84% as on June 30, 2019, mainly due to sluggish market conditions.

Removal of PCA restrictions imposed by RBI
RBI had first placed the bank under PCA from January, 2018, which implied restriction relating to accessing/renewing high cost deposits and CDs, entering into new lines of business, borrowings from inter-bank market, making dividend payments and expanding its staff, contain administrative expenses; and restrictions on incurring any capital expenditure other than for technological upgradation and for some emergency situations. RBI further imposed certain additional restrictions on AB in May 2018 due to Bank's stretched CRAR and Leverage Ratio position, which are to restrict expansion of Risk weighted Assets, to reduce exposure to un-rated and high-risk advances, to restrict creation of non-Banking assets and to restrict accessing/renewing wholesale/costly deposits/certificate of deposits. The bank was removed from the PCA list in February 2019 and all the PCA related restrictions on the bank were removed.

Key Rating Weaknesses
Deterioration in financial performance in FY19 albeit improvement in Q1FY20
The bank's total income declined marginally by 2.56% y-o-y to Rs.18,564 crore in FY19, despite a marginal increase in the yield, mainly due to losses booked on investments and forex losses. The bank's NIM increased from 1.95% in FY18 to 2.22% in FY19. Operating cost as a percentage of average total assets increased from 1.65x during FY18 to 1.79x during FY19 mainly due to higher employee related expenses.
The credit cost increased from 4% in FY18 to 4.69% in FY19 mainly due to higher provisions on NPA accounts.
The bank reported negative ROTA of 3.36% in FY19 as against a negative ROTA of 1.93% in FY18. On an absolute basis, the bank reported loss of Rs.8,334 crore during FY19 as against a loss of Rs.4,674 crore in FY18 which was largely on account of significant provisions and write-offs.
The performance of the bank, however, improved in Q1FY20 supported by significantly lower provisions. It reported PAT of Rs.128 crore in Q1FY20 as compared to net loss of Rs.1944 crore in Q1FY19.

Stressed asset quality
The asset quality of the bank deteriorated in FY19 with GNPA increasing from 15.96% as on March 31, 2018 to 17.55% as on March 31, 2019 due to higher slippages and de-growth in advances. The GNPA continued to remain high at 17.43% as on June 30, 2019.
Provision Coverage ratio (PCR) improved from 62.91% as on March 31, 2018 to 79.81% as on March 31, 2019. The PCR

continued to remain high at 78.58% as on June 30, 2019. The increase in provision led to improvement in NNPA which improved from 8.04% in FY18 to 5.22% in FY19 but declined marginally to 5.71% in Q1FY20.

Prospects
The banking sector is reeling under asset quality pressure thereby impacting profitability. The asset quality review conducted by RBI led to build up of non-performing assets. Credit growth has been subdued due to slowdown in the economy and capital constraints especially in the case of PSU banks. Going forward, asset quality stress is expected to continue and profitability will be subdued. Only with the turnaround in the economy and resolution of NPAs, the banking sector would embark on a growth trajectory.

Liquidity: Strong
As per the structural liquidity statement of the bank as on June 30, 2019, the liquidity is comfortable with no cumulative negative mismatches upto 1 year. Further, AB has maintained excess SLR investments of Rs.8,518 crore as on June 30, 2019. The liquidity coverage ratio (LCR) of AB stood at 165.14% as on June 30, 2019. The bank's liquidity profile is supported by a healthy proportion of low cost CASA deposits and also access to systemic sources of funds, such as refinance limits from RBI and access to the call money market.

Analytical Approach: CARE has considered the standalone business and financial profile of Allahabad Bank along with ownership and expected support from Government of India.

Applicable Criteria:
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios –Financial Sector
Factoring Linkages in Ratings
Bank – CARE's Rating Methodology for Banks
Bank – Rating Framework for Basel III instruments (Tier I & Tier II)
Policy on Withdrawal of ratings

About the Company
AB, incorporated in 1865, is a public sector bank. GOI is the major shareholder of AB, holding 92.01% equity stake as on June 30, 2019. AB manages a deposit and gross advance base of Rs.2,14,335 crore and Rs.1,63,552 crore respectively as on March 31, 2019. AB has a network of 3,229 domestic branches as on June 30, 2019.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total Income	19,051	18,564
PAT	-4,674	-8,334
Interest Coverage (times) – Before Provisions	1.30	1.24
Interest Coverage (times) – After Provisions	0.43	0.20
Total Assets	2,50,157	2,45,632
Net NPA (%)	8.04	5.22
ROTA (%)	-1.93	-3.36

A: Audited

Status of non-cooperation with previous CRA:
Not Applicable

Any other information:
Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Upper Tier II	INE428A09075	March 19, 2009	9.28%	March 19, 2024	500.00	CARE A (Under Credit watch with Developing

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
						Implications)
Bonds-Perpetual Bonds	INE428A09125	December 18, 2009	9.08%	Call option	150.00	CARE A (Under Credit watch with Developing Implications)
Bonds-Perpetual Bonds	INE428A09091	-	-	-	-	Withdrawn
Bonds-Upper Tier II	INE428A09117	December 18, 2009	8.58%	December 18, 2019	500.00	CARE A (Under Credit watch with Developing Implications)
Bonds-Tier II Bonds	INE428A08051	January 25, 2017	8.15%	January 25, 2027	1000.00	CARE A+ (Under Credit watch with Developing Implications)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Bonds-Lower Tier II	LT	-	-	1)Withdrawn (11-Sep-19)	1)CARE A+; Negative (22-Feb-19) 2)CARE A+; Negative (22-May-18)	1)CARE AA; Negative (06-Oct-17)	1)CARE AA; Negative (16-Dec-16) 2)CARE AA (26-Sep-16)
2.	Bonds-Upper Tier II	LT	500.00	CARE A (Under Credit watch with Developing Implications)	1)CARE A (Under Credit watch with Developing Implications) (11-Sep-19)	1)CARE A; Negative (22-Feb-19) 2)CARE A; Negative (22-May-18)	1)CARE AA-; Negative (06-Oct-17)	1)CARE AA-; Negative (16-Dec-16) 2)CARE AA- (26-Sep-16)
3.	Bonds-Lower Tier II	LT	-	-	1)Withdrawn (11-Sep-19)	1)CARE A+; Negative (22-Feb-19) 2)CARE A+; Negative (22-May-18)	1)CARE AA; Negative (06-Oct-17)	1)CARE AA; Negative (16-Dec-16) 2)CARE AA (26-Sep-16)
4.	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (26-Sep-16)
5.	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (16-Dec-16) 2)CARE AA (26-Sep-16)
6.	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (06-Oct-17)	1)CARE AA; Negative (16-Dec-16) 2)CARE AA (26-Sep-16)
7.	Bonds-Perpetual Bonds	LT	150.00	CARE A (Under Credit watch with Developing Implications)	1)CARE A (Under Credit watch with Developing Implications) (11-Sep-19)	1)CARE A; Negative (22-Feb-19) 2)CARE A; Negative (22-May-18)	1)CARE AA-; Negative (06-Oct-17)	1)CARE AA-; Negative (16-Dec-16) 2)CARE AA- (26-Sep-16)
8.	Bonds-Perpetual	LT	-	-	1)CARE A (Under	1)CARE A;	1)CARE AA-;	1)CARE AA-;

	Bonds				Credit watch with Developing Implications) (11-Sep-19)	Negative (22-Feb-19) 2)CARE A; Negative (22-May-18)	Negative (06-Oct-17)	Negative (16-Dec-16) 2)CARE AA- (26-Sep-16)
9.	Bonds-Upper Tier II	LT	500.00	CARE A (Under Credit watch with Developing Implications)	1)CARE A (Under Credit watch with Developing Implications) (11-Sep-19)	1)CARE A; Negative (22-Feb-19) 2)CARE A; Negative (22-May-18)	1)CARE AA-; Negative (06-Oct-17)	1)CARE AA-; Negative (16-Dec-16) 2)CARE AA- (26-Sep-16)
10.	Bonds-Tier II Bonds	LT	1000.00	CARE A+ (Under Credit watch with Developing Implications)	1)CARE A+ (Under Credit watch with Developing Implications) (11-Sep-19)	1)CARE A+; Negative (22-Feb-19) 2)CARE A+; Negative (22-May-18)	1)CARE AA; Negative (06-Oct-17)	1)CARE AA; Negative (16-Dec-16) 2)CARE AA (26-Sep-16)
11.	Bonds-Tier I Bonds	LT	-	-	-	1)Withdrawn (22-Feb-19) 2)CARE A-; Negative (22-May-18)	1)CARE A+; Negative (18-Dec-17)	-
12.	Bonds-Tier I Bonds	LT	-	-	-	1)Withdrawn (22-May-18)	-	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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