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Allahabad Bank's profitability to be hit in FY16: ICRA

High credit costs, provision of NPA sale to ARCs weigh on books

BS Reporter | Mumbai
December 11, 2015 Last Updated at 00:45 IST



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Public sector lender Allahabad Bank's profitability for FY16 would be bogged down by elevated bill for credit costs and provisions for sale of bad loans to asset reconstruction companies (ARCs) at a loss, rating agency ICRA said.

With banks required to meet enhanced capital adequacy norms, the Kolkata-based bank might need an equity capital of Rs 4,084-6,700 crore by March 2019, according to the rating agency.

ICRA has reaffirmed its 'A1+' rating for Allahabad Bank's Rs 20,000-crore commercial paper programme. The rating factors in the government's majority ownership in the bank (62.7 per cent as of September 2015) and high proportion of low-cost deposits. The current and savings deposits constituted 34.9 per cent of total deposits in September 2015.

ICRA said the higher level of vulnerable assets impacted the earnings profile of the bank. Its pool of vulnerable assets remained high at 7.85 per cent. However, gross NPA dropped to 5.26 per cent against 5.73 per cent a year ago through a combination of recoveries and also through sale of assets to ARCs.

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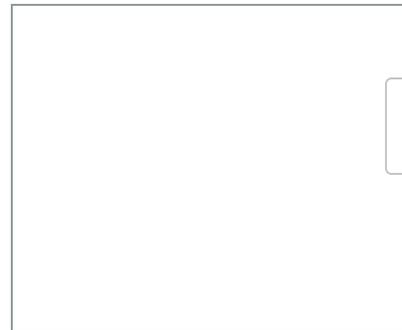
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During April-September 2015, its net interest margins increased to 2.86 per cent against 2.77 per cent a year ago. This led to some improvement in operating profitability. However, the overall return on average assets remained flat at 0.29 per cent in the first six months of FY16 compared to 0.28 per cent a year ago.

ICRA does not expect the bank's overall profitability to improve significantly in FY16 because of the expected

elevated level of credit provisioning. The lender has a large pool of restructured advances and NPAs. The bank also has the obligation for amortisation of loss on sale of NPAs to ARCs over the next six to seven quarters. The un-amortised loss is Rs 541 crore (4.49 per cent of Tier-1 capital as of September 2015).

ICRA said Allahabad Bank remains dependent on the government to meet the enhanced capital adequacy requirements prescribed under Basel-III.

The bank's capital adequacy was 10.35 per cent and Tier-I capital was 7.76 per cent in September 2015.

The bank is required to maintain at least 7.62 per cent of Tier-I capital and capital adequacy ratio of 9.62 per cent by March 2016, in line with the road map for the Basel-III rollout.

It would also require an additional core equity amounting to Rs 4,083-6,720 crore (33-54 per cent of the current net worth) by March 31, 2019.

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