

CRISIL downgrades Allahabad Bank's tier I & II bonds

Anticipating the adverse impact of rise in bad loans on credit profile, CRISIL has downgraded the rating for Allahabad Bank's tier I perpetual bonds and Upper tier II bonds. It cut ratings for these bonds to "AA/negative" from "AA+/stable".

It also revised the rating outlook on Allahabad Bank's lower tier II bonds to "negative" from "Stable" and reaffirmed rating at "AA+".

The rating reflects the expected weakening of bank's credit risk profile due to significant deterioration in its asset quality and earnings profile. The profitability will continue to be adversely impacted given the asset quality challenges the bank faces, CRISIL said in statement.

The ratings, however, continue to factor in the strong support that Kolkata-based public sector lender will receive from the Government of India (GoI), and the bank's adequate capitalisation and resource profile.

Allahabad Bank's asset quality has been deteriorating over the past one year. Its gross non-performing assets (NPAs) rose to 4.8% as on June 30, 2013 from 1.8% as on March 31, 2012.

It also has a high proportion of restructured standard assets (RSAs) at 8.9% of gross advances as on June 30, 2013. This is higher than the industry average of around 7% for public sector banks (PSBs).

The bank's asset quality will remain under pressure over the medium term due to the challenging macro-economic environment and the sizeable exposure to vulnerable sectors such as infrastructure and iron and steel.

Its earnings profile is weak, marked by a declining net interest margin and high provisioning costs. Its NIM is likely to remain under pressure over the next few quarters due to high borrowing costs.

The bank's return on assets (RoA) ratio declined to 0.61% in 2012-13 from healthy levels of 1.12% and 1.05% in 2011-12 and 2010-11, respectively. It's reported RoA was 0.8% (annualised) for the quarter ended June 30, 2013.

Furthermore, bank's provisioning cover (excluding technical write-offs) has declined significantly to a low of around 20% as on March 31, 2013, from 47% as on March 31, 2012.

(Business Standard)