

January 17, 2008

BUY

Price **Rs134** Target Price **Rs170**

Sensex **19,868**

Price Performance

(%)	1M	3M	6M	12M
Absolute	15	26	28	44
Rel. to Sensex	11	21	(1)	3

Source: Capitaline

Stock Details

Sector	Banks
Reuters	ALBK.BO
Bloomberg	ALBK @IN
Equity Capital (Rs mn)	4467
Face Value	10
52 Week H/L	143/68
Market Cap	Rs58.5bn/US\$1.5bn
Daily Avg Volume (No of shares)	1.3mn
Daily Avg Turnover (US\$)	3.8mn

Shareholding Pattern (%)

(31 st Dec.'07)	
Promoters	55.2
FII	18.7
Institutions	9.7
Private Corp.	3.2
Public	13.3

Kashyap Jhaveri
Kashyap.jhaveri@emkayshare.com

+91 22 6612 1249

Pradeep Agrawal
pradeep.agrawal@emkayshare.com

+91 22 6612 1340

Allahabad BankResult
Update**Price target raised to Rs170**

Allahabad Bank reported a net profit of Rs3.65bn for Q3FY08, ahead of our expectations. However on the operating front, the results were slightly unexciting as redemption of the equity and MF investments led to lower than expected NII, which was compensated by higher treasury income. The asset quality continued to improve with gross NPA declining to 2.1% of assets (3.1% last year) and net NPA of less than 0.7%

We expect the margins to pick up in Q4FY08 driven by better CD ratio and improved yield on investments. We are revising our price target on the stock to Rs170 driven by the following factors; 1) higher P/ABV multiple of 1.2x and 2) higher adjusted book value for higher treasury gains and better than expected asset quality. We believe that the valuations of the stock are quite compelling looking at average RoE of 18.5% over FY08-10E.

Redemption of investments hits NII

Allahabad Bank reported 8.1% yoy decline in its NII to Rs 45bn. The lower NII was driven by two factors

- One time income of Rs 620mn in the Q3FY07, and,
- Redemption of the investments in the mutual funds, which led to lower interest income for the quarter.

Adjusted NIMs would be higher by about 50bps

The NIMs have also taken a hit during the quarter as they contracted by 5bps sequentially and 33bps (adjusted) on yoy basis.

We believe that NIMs could have been in the range of 2.9-3.0% if adjusted for the interest income on the redeemed investment portfolio. The banks' ability to maintain NIMs is reflected in the fact that the spreads on the advances book were maintained at 4.2%.

The deposit cost has for the first time in last nine quarters shown a declining trend as it declined by about 14bps over the preceding quarter.

Yield Analysis (%)

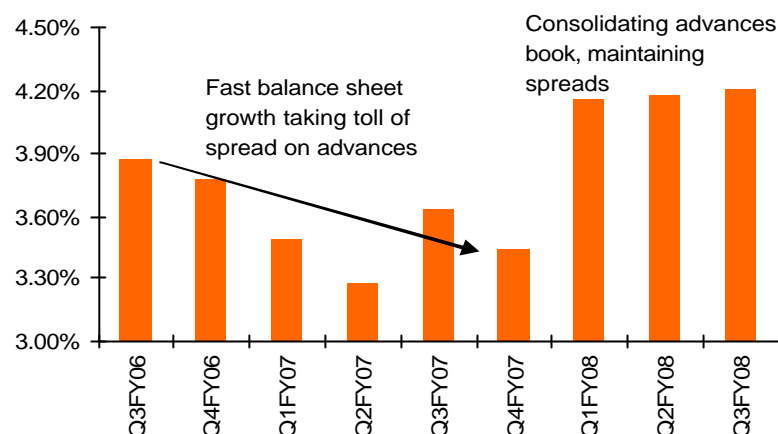
(%)	Q3FY08	Q3FY07	Q2FY08	yoy change in bps	qoq change in bps
Yield on advances	10.4	9.8	10.5	60	-14
Yield on investment	7.3	8.1	7.6	-83	-34
Yield on assets	8.5	8.0	8.5	50	02
Cost of funds	6.1	5.3	6.1	83	07
NIM	2.4	2.74	2.5	-33	-05
Yield on advances (Reported)	10.8	9.4	10.8	139	-8
Yield on investment (Reported)	7.5	7.6	7.5	-10	02
Cost of deposit (Reported)	6.6	5.7	6.7	82	-11
Cost of borrowings (reported)	7.2	7.5	6.4	-28	79
NIM (Reported)	2.8	3.0	2.8	-28	0.0

Source: Company, Emkay Research

We continue to like slower balance sheet growth

We like the continuance of the strategy of slower balance sheet growth as the advances have grown by 19.5% yoy compared with 42% growth achieved in FY07. As a result the bank has maintained 4.2%+ spread on the advances book compared with 3.6% in FY07.

Spread on advances book



Source: Company, Emkay Research

Balance sheet growth

Rs bn	Q3FY08	Q3FY07	Q2FY08	% yoy chg	% qoq chg
Advances	452	378	417	19.5	8.4
Total deposits	680	565	659	20.4	3.3
Current deposits	53	48	52	10.2	2.3
Savings deposits	190	166	180	14.6	5.5
CASA (%)	35.6	37.7	35.1		

Source: Company, Emkay Research

Strong momentum in the fee income continues

While the treasury gains which grew almost 6-fold over last year drove the total other income, the fee income continued its strong momentum as it grew by 36.8% yoy to Rs901mn during the quarter. The bank has witnessed high double digit growth in the fee income for the fifth consecutive quarter.

Other Income

Rs mn	Q3FY08	Q3FY07	Q2FY08	% yoy chg	% qoq chg
Trading	3,014	428	359	604.2	738.7
CEB	901	659	1,042	36.8	-13.5
Others	87	169	156	-48.4	-44.2
Amortisation	-273	-276	-271	-1.3	0.4
Total	3729	979	1,285	281.0	190.1

Source: Company, Emkay Research

Treasury gains used for higher provisioning

The bank has used higher treasury gains for making higher provisioning for loss assets. The total provisions for the quarter stood at Rs1.25bn compared with a write back of Rs84mn in the same quarter last year.

Rs mn	Q3FY08	Q3FY07	Q2FY08
NPA	1,112	100	310
As % of advances	0.25	0.03	0.07
Investment Depreciation	-188	47	-118
Standard assets	376	170	106
Other	-50	-401	20
Total	1,250	-84	318

Source: Company, Emkay Research

Asset quality continues to improve

ALBK had shown some signs of higher slippages during last year. However, the asset quality is back on track with significant improvements as both, gross and net NPA have declined during the quarter.

Asset quality

Rs mn	Q3FY08	Q3FY07	Q2FY08	% yoy chg	% qoq chg
Gross NLA	9,443	11,835	10,198	-20.2	-7.4
% of gross advances	2.1	3.1	2.4		
Net NLA	3,038	2,730	3,152	11.3	-3.6
% of net advances	0.7	0.7	0.8		
Provision cover (%)	67.8	76.9	69.1		

Source: Company, Emkay Research

Comfortable capital adequacy

With total CAR of 13.0% and tier I capital adequacy of 8.7%, the bank is adequately capitalised for future growth and would not require an equity dilution anytime soon.

Valuations and view

We are revising our price target on the stock to Rs170 driven by the following factors; 1) higher P/ABV multiple of 1.2x and 2) higher adjusted book value for higher treasury gains and) improved asset quality. We believe that the valuations of the stock are quite compelling looking at average RoE of 18.5% over FY08-10E.

Quarterly Results

	M9FY08	M9FY07	% y-o-y chng	Q3FY08	Q3FY07	Q2FY08	% y-o-y Chng	% q-o-q chng
Net interest income	13,382	12,655	5.7	4,453	4,847	4,418	-8.1	0.8
Other Income	5,961	2,504	138.1	3,729	979	1,285	281.0	190.1
<i>Fee income</i>	2,717	2,116	28.4	901	659	1,042	36.8	-13.6
Net income	19,343	15,159	27.6	8,182	5,826	5,704	40.4	43.4
Operating expenses	8,248	7,392	11.6	2,971	2,565	2,709	15.8	9.7
Operating profit	11,095	7,767	42.8	5,211	3,260	2,995	59.8	74.0
Provisions & Contingencies	1,813	1,343	35.0	1,250	-84	318	-1,588.2	293.0
<i>Prov for NPA</i>	1,977	300	559.0	1,112	100	310	1,011.7	258.6
Profit before tax	9,282	6,424	44.5	3,961	3,344	2,677	18.4	48.0
Provision for Taxes	1,230	180	584.6	311	483	280	-35.7	11.1
Net profit	8,052	6,244	28.9	3,651	2,862	2,397	27.6	52.3

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2007	21,271	7,501	16.8	70.4	1.2	18.5	8.0	1.9
FY2008E	25,332	9,691	21.7	94.7	1.3	19.9	6.2	1.4
FY2009E	27,615	9,899	22.2	114.7	1.1	17.5	6.0	1.2
FY2010E	32,131	12,418	27.8	139.4	1.2	18.9	4.8	1.0

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Share & Stock Brokers Ltd is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Share & Stock Brokers Ltd, nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Share & Stock Brokers Ltd's prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Emkay Share and Stock Brokers Ltd.,

Paragon Center, Ground Floor, C-6

Pandurang Budhkar Marg, Worli, Mumbai – 400 013. , Tel no. 66121212. Fax: 66121299