

BUZZING

STOCK

Allahabad Bank

CMP – Rs.96

Analyst

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Key Stock Data

Sensex	18658
Nifty	5441
Sector	Banks – Public
Bloomberg	ALBK IN
Reuters	ALBK.BO
No. of shares (m)	447
Market Cap (Rs m)	42,950
Market Cap (US\$ m)	1,093
52-week H/L	Rs.113/68

Shareholding Pattern (%)

Promoters	55.23
Mutual Funds	7.95
FII's	19.31
Corporate Bodies	2.41
Pubic & Others	15.11

Sector performance

Mid-sized banks that remained range bound for a long time finally moved in the rally on the stock markets. The movement however has brought some of the fundamentally sound banks mid-sized at par or at a negligible premium above their reported ABV's.

The reason for the sector's mixed performance (the private banks and SBI in the PSB space have performed well) relates more to the concern on the rates front. The liquidity in the system is immense (about Rs.700bn being deployed in reverse repo on 10 Oct). Elevated food and oil prices may again keep the RBI hawkish on inflation. Therefore, a likelihood of another CRR hike cannot be ruled out. And since 50bps might not be enough to make a dent, RBI may well announce a phased out 100bps hike. What remains to be seen is whether a relief would come in the form of some token interest payment on CRR balances.

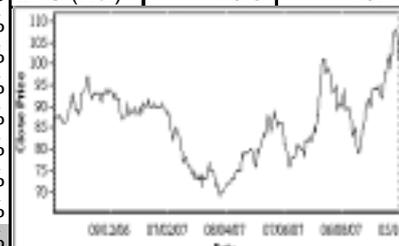
Two, the loan pick up has been slower. The YTD growth for H1FY07 was 7% whereas it has been 3.5% in H1FY08. Collectively, a sentiment has grown that mid-sized and smaller banks may take higher margin hits. And those with comparatively weaker fee income or in the process of building fee income streams may find it difficult to match performance this year. Mid-sized PSB's particularly seem to reflect this investor sentiment.

Valuations

Allahabad Bank has a much leaner structure employing just over 20,000 employees for a 2,107 branch network giving it a cost advantage. The margins improved in Q1FY08 by 3bps YoY to 2.97%. The RoA's have been higher and the bank with its CBS implementation should be able to stay put in fierce competition. Allahabad Bank trades at a very attractive multiple of 5.7x the FY07 EPS Rs.16.8. On a FY07E ABV of Rs.90, the current price is discounted 1.06x.

Financial Snapshot

Allahabad Bank							Ratios		
	1QFY08	1QFY07	Chng (%)	FY07	FY06	Chng (%)		FY07	FY06
Interest Income	14,405	10,390	38.6%	48,839	37,672	29.6%	CD	70.4%	62.0%
Interest expended	9,893	6,481	52.7%	31,331	21,898	43.1%	CAR	12.7%	13.4%
NII	4,511	3,910	15.4%	17,507	15,774	11.0%	NIM	2.9%	-
Other Income	946	814	16.3%	3,764	4,825	-22.0%	RoA	1.3%	1.4%
Net Income	5,458	4,723	15.6%	21,271	20,599	3.3%	RoE	22.6%	29.6%
Operating expenses	2,569	2,649	-3.0%	10,272	10,358	-0.8%	ABV (Rs.)	90.4	76.0
Payments to employees	1,574	1,518	3.7%	6,207	6,811	-8.9%	EPS (Rs.)	16.8	16.1
Other expenses	995	1,131	-12.0%	4,065	3,547	14.6%			
Operating income	2,889	2,074	39.3%	10,999	10,241	7.4%			
Provisions and contg.	245	1,624	-84.9%	2,645	2,693	-1.8%			
NPA provisions	555	100	455.2%	900	768	17.2%			
Other provisions	(310)	1,524	-120.3%	1,745	1,925	-9.3%			
PBT	2,643	450	487.6%	8,354	7,549	10.7%			
Taxes	639	(833)	-176.8%	852	487	75.0%			
PAT	2,004	1,282	56.3%	7,501	7,061	6.2%			



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