

July 16, 2007

BUY

Price	Target Price
Rs92	Rs110
Sensex	15,273

Price Performance

(%)	1M	3M	6M	12M
Absolute	21	27	0	61
Rel. to Sensex	11	9	(8)	14

Source: Capitaline

Stock Details

Sector	Banks
Reuters	ALBK.BO
Bloomberg	ALBK @IN
Equity Capital (Rs mn)	4467
Face Value	10
52 Week H/L	99/53
Market Cap	Rs41.0bn/US\$1.0bn
Daily Avg Volume (No of shares)	401,640
Daily Avg Turnover (US\$)	0.8mn

Shareholding Pattern (%)

(31st Mar.'07)	
Promoters	55.2
FII	19.6
Institutions	7.4
Private Corp.	2.5
Public	15.3

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Allahabad BankQuarterly
Update**Stability regained**

Allahabad Bank (ALBK) has reported Rs2.0bn net profit for Q1FY08 driven robust growth in non-fund based income and lower provisioning. Albeit the NII at Rs4.5bn is lower than our estimates of Rs4.9bn, the same is driven by slower balance sheet growth while the margins have remained intact. The bank has consistently seen erosion in margins over last five quarter driven by rapid balance sheet growth, a trend that might reverse over next couple of quarters. The bank has reported robust operating profit growth of 39.3% yoy (highest in last five quarters) to Rs2.9bn. The asset quality remains robust with net NPA declining below 1%.

At the current valuations, the stock is quoting at 4.1x FY09E EPS and 0.9x FY09E ABV. We maintain our BUY recommendation with price target of Rs110.

Balance sheet growth slows – stability in NIM regained

ALBK has reported a strong 15.4% yoy growth in NII to Rs4.5bn (albeit lower than our estimates of Rs4.9bn) driven by an advances growth of 25% and stable NIM of 2.97%. The NIMs have remained stable on yoy as well as sequential basis.

Albeit the NII growth has been lower than our estimates, we would rather like to focus on the fact that the NIM have now regained the stability after lull performance over previous five quarters driven by steep balance sheet growth which had strained the funding cost.

In fact if one adjusts for the impact of one time income on CRR balances in Q4FY07, the NIMs actually have gained by ~10bps.

Yield analysis

(%)	Q1FY08	Q1FY07	Q4FY07	yoy chg in bps	qoq chg in bps
Advances yield	10.6	8.8	9.2	179	133
Investment yield	7.3	7.5	7.7	-19	-39
Average Yield on funds	9.5	8.0	8.6	149	86
Cost of Deposit	6.4	5.3	5.8	111	61
Cost of borrowings	6.3	7.5	5.0	-113	134
Average Cost of Funds	6.4	5.3	6.3	106	9
NIM	3.0	3.0	3.0	-3	-1

Source: Company, Emkay Research

Fee income growth – upward trend continues

The fee income has reported a smart jump of 33.4% yoy to Rs1.0bn driven by higher processing fees on LC/BG business and also on the advances book. The bank has also gained significantly from implementation of technology which has helped cross selling of third party products.

The total non-interest income grown ~1.5x driven by higher treasury gains compared with treasury losses last year.

Other income

Rs mn	Q1FY08	Q1FY07	Q4FY07	% yoy chg	% qoq chg
CEB	94	-137	198	-	-52.6
Trading	1,011	758	1,135	33.4	-10.9
Others	113	192	200	-40.9	-43.3
Amortisation	-272	-252	-284	7.9	-4.1
Total	947	562	1,252	68.5	-24.4

Source: Company, Emkay Research

Opex grows modest

The Opex for the quarter has grown by 7.2% yoy in line with our expectations driven by a modest 3% increase in employee expenses. The other Opex has grown by 13.3% yoy. We expect the other Opex to continue to rise faster than average Opex growth as the bank continues its efforts in CBS implementation.

Lower provisioning helps further

The strong performance at the operating level for further aided by lower provisioning on account of write back of investment depreciation during the quarter. The NPA provisioning was in line at 0.14% of the advances.

Asset quality also improves

ALBK had shown some signs of higher slippages during last year. However, over Q1FY08 the bank has regained asset quality improvement and both, gross and net NPA have declined in absolute as well as % terms sequentially.

Rs mn	Q1FY08	Q1FY07	Q4FY07	% yoy chg	% qoq chg
Gross NPA	9,978	12,062	10,936	-17.3	-8.8
% of gross advances	2.5	3.7	2.6		
Net NPA	3,231	2,589	4,402	24.8	-26.6
% of net advances	0.8	0.7	1.1		
Provision cover (%)	68	79	60		

Comfortable capital adequacy

With total CAR of 12.71% and tier I capital adequacy of 8.12%, the bank is adequately capitalised for future growth and would not require an equity dilution anytime soon.

Valuations and view

We like the stability regained by the bank in terms of its NIMs and non-fund based income. We had mentioned in our last quarterly results' review that the bank is likely report a modest expansion in margins driven by increase in PLR undertaken. We expect the margins expansion to continue in the coming quarter as dependence on the term deposit reduces driven by slower balance sheet growth and full impact of PLR hikes comes into effect. At the current valuations, the stock is quoting at 4.1x FY09E EPS and 0.9x FY09E ABV. We maintain our BUY recommendation with price target of Rs110.

Quarterly results

Rs mn	Q1FY08	Q1FY07	Q4FY07	% y-o-y chng	% q-o-q chng
NII	4,511	3,910	4,852	15.4	-7.0
Other Income	947	562	1,252	68.5	-24.4
<i>Fee income</i>	1,011	758	1,135	33.4	-10.9
Net income	5,458	4,471	6,104	22.1	-10.6
Operating expenses	2,569	2,397	2,872	7.2	-10.5
Pre-Provision profits	2,889	2,074	3,232	39.3	-10.6
Provisions	245	1,624	1,302	-84.9	-81.2
<i>NPA</i>	0	100	600	-100.0	-100.0
Profit before tax	2,644	450	1,930	487.6	36.9
Taxes	639	-833	673	-176.8	-5.0
Net Profit	2,004	1,283	1,258	56.3	59.3

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	P/ABV (x)	PE (x)
FY2006	20,599	7,052	15.8	62.8	1.4	29.5	1.5	6.1
FY2007E	21,271	7,501	16.8	70.4	1.2	18.5	1.4	5.8
FY2008E	23,641	8,429	18.9	83.7	1.1	17.9	1.2	5.1
FY2009E	27,538	10,518	23.5	107.8	1.2	19.4	0.9	4.1

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