

BUZZING

STOCK

Allahabad Bank

CMP – Rs.91

Analyst

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Key Stock Data

Sensex	13860
Nifty	3974
Sector	Banks – Public Sector
Bloomberg	ALBK.IN
Reuters	ALBK.BO
No. of shares (m)	446
Market Cap (Rs m)	40,648
Market Cap (US\$ m)	916
52-week H/L	Rs.99/52

Shareholding Pattern (%)

Promoters	55.0
Mutual Funds	9.0
FIs	13.5
Corporate Bodies	0.0
Pubic & Others	22.3

Recent Results

It was a dismal show of numbers in the 2QFY07 results of Allahabad Bank. Though the bank delivered a strong balance sheet and profitability growth, the quality of earnings was affected as the margins were dented by 25bps. Chasing credit growth (47% YoY) proved costly as the bank contracted high cost deposits on book (growth of 23.6% YoY). The growth in profitability has been more on account of provision write back. The NII growth has crawled at 6% while the net income has shown a negative growth of 3%.

However at times when bank stocks have moved up substantially and trading at the fair multiples attributable to them, Allahabad Bank being closer to its BV on consensus forward estimates, looks an attractive pick at the current levels. The performance of the scrip will depend heavily on the efforts that bank takes to improve its margins as also the other income which also took a dip in the latest quarter.

Improvement in core income possible

...if the bank focuses on retail low cost deposits as well as current accounts while giving a temporary halt to aggressive expansion of bulk and term deposits. The bank does have a modest CASA ratio of around 38% and should be able to improve the same marginally by year-end. Allahabad Bank has a network of 2,000+ branches. It has plans to bring about 400 branches under CBS by end FY07 and another 500 by end FY08. The benefits of technology should start showing in the bank's books in terms of cost cutting as well as better deposits on current account.

The NII in the latest quarter was Rs.3,899m, a 6% YoY growth. The NIM moved down to 2.8% from 3.05% a year ago. The bank should be able to manage an improvement in this number by end FY07.

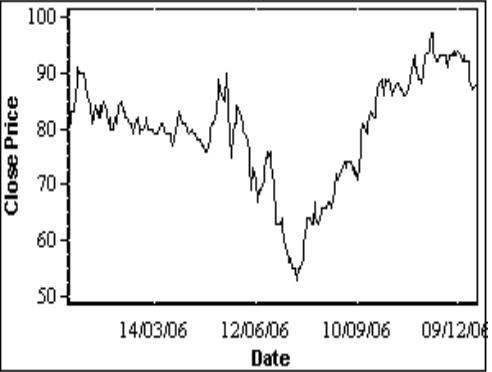
Good asset quality should not cause provisioning troubles

Allahabad Bank's GNPA's stand at 3.24% while the NNPA's are 0.75%. The bank has targeted to further improve provisioning and bring down the NNPA's to 0.6% levels in FY07. Though the provisioning on account of standard assets has gone up because of change in the RBI norms for the same, going forward, the bad loan provisioning shouldn't be substantial.

Allahabad Bank should remain under MAT till FY08 as it carries forward its historical losses. Thus it should get the benefit of lower tax rates or the minimum alternate tax till FY08.

Valuation

Allahabad Bank trades at 4.85x the Q2FY07 annualised EPS Rs.18.8. On a FY07E ABV of Rs.80, the current price is discounted 1.13x.

Financial Snapshot										
Allahabad Bank						Rs.m		Ratios (%)		
	Q2FY07	Q2FY06	Chng (%)	FY06	FY05	Chng (%)		FY06	FY05	Chng (%)
Interest Income	11,458	9,018	27	37,672	31,856	18	CD	56	51	11.5
Interest expended	7,559	5,343	41	21,898	18,216	20	CAR	13.4	12.5	6.7
NII	3,899	3,676	6	15,774	13,640	16	NIM	3.3	3.5	(5.7)
Other Income	1,221	1,621	(25)	6,067	6,399	(5)	RoA	1.4	1.3	6.8
Net Income	5,120	5,297	(3)	21,841	20,039	9	RoE	30	36	(16.8)
Operating expenses	2,687	2,883	(7)	11,600	9,313	25				
Payments to employees	1,383	1,572	(12)	6,811	5,417	26				
Other expenses	1,304	1,311	(1)	4,789	3,896	23				
Operating income	2,432	2,414	1	10,241	10,726	(5)				
Provisions and contg.	(197)	559	(135)	2,693	4,756	(43)				
NPA provisions	100	228	(56)	768	400	92				
Other provisions	(297)	331	(190)	1,925	4,356	(56)				
PBT	2,630	1,856	42	7,549	5,971	26				
Taxes	529	172	207	487	553	(12)				
PAT	2,100	1,683	25	7,061	5,418	30				

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