

# Allahabad Bank

## Revising Target Price Down

- We are setting our April 2008 target price for the stock at Rs68, which implies 10% downside from the current level. We retain our Underweight rating.
- ALBK's higher-than-peer balance sheet growth is increasingly worrying as its deposit rate hikes over the past 12 months were 325bp, almost double that of peers, vs PLR hikes of 125bp, only slightly above peers; We foresee increasing margin pressure which may not be fully evident in upcoming 4Q results given front-ended repricing of the loan book.
- We are lowering our sustainable margin estimate for ALBK given this high-growth tendency in a tight deposit market and our concerns about increasing loan loss provision charges, which were extremely low at 12bp in 3Q07. Our normalized ROE forecast now stands revised to 13.6% and target multiple at 0.55x book vs the current trading multiple of 0.7x.
- The stock has significantly underperformed the Sensex almost consistently over the past six months, and we expect this to continue.
- Our price target is based on the Gordon Growth Model. We believe the key risk is better pricing power

## Underweight

**Rs75.95**

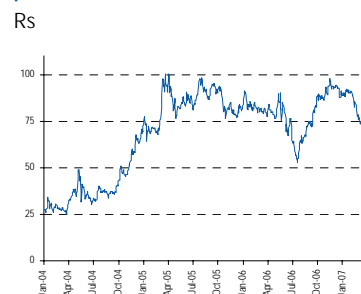
19 April 2007  
Price Target: Rs68.00

### India Banks

**Sachin Sheth**<sup>AC</sup>  
(91-22) 6639-3004  
sachin.sheth@jpmorgan.com

**Sunil Garg**  
(852) 2800-8518  
sunil.garg@jpmorgan.com

Figure 1: ALBK: Share price performance



Source: Bloomberg, JPMorgan

Reuters: [ALBK.BO](#); Bloomberg: [ALBK IN](#)

Rs in millions, year-end December

	FY06	FY07E	FY08E	FY09E	Price	GDR	NA
Net profit	7,061	7,797	8,364	8,718	52-week range	Rs.99.4-53	Reuters
Basic EPS (rep'd) (Rs)	15.8	17.5	18.7	19.5	Market cap	US\$0.9B	Bloomberg
Basic EPS growth (%)	1.2	10.4	7.3	4.2	Shares outstanding	447MM shares	52-wk range
P/E (basic) (x)	4.8	4.4	4.1	3.9	Free float	40%	Ratio
BVPS (Rs)	81.5	93.9	107.1	120.6	Avg daily value	US\$1.8MM	Avg daily volume
P/BV (basic) (x)	0.93	0.81	0.71	0.63	Avg daily volume	0.86MM shares	Current prem (%)
ROE (%)	23.7	19.9	18.6	17.1	BSE Sensex	13,620	13-wk avg prem (%)
Tier 1 ratio (%)	9.5	8.7	8.1	7.6	Exchange rate	Rs42.08/US\$1	52-wk avg prem (%)
P/COPS (basic) (x)	3.8	2.9	2.7	2.2	Performance	1 mth	3 mths
DPS (Rs)	4.6	5.0	5.5	6.0	Absolute (%)	1.9	-16.1
Dividend yield (%)	6.0	6.6	7.2	7.9	Relative (%)	-6.50	-14.1
							-15.6

Source: JPMorgan estimates, Company data, Bloomberg.

[www.morganmarkets.com](http://www.morganmarkets.com)

J.P. Morgan India Private Limited

See page 3 for analyst certification and important disclosures, including investment banking relationships.

JPMorgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Sachin Sheth  
(91-22) 6639-3004  
sachin.sheth@jpmorgan.com

Asia Pacific Equity Research  
20 April 2007



### Analyst Certification:

The research analyst(s) denoted by an “AC” on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analyst denoted by an “AC” on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers; and (2) no part of any of the research analyst’s compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

### Important Disclosures

- **Client of the Firm:** Allahabad Bank is or was in the past 12 months a client of JPMSI.
- **Non-Investment Banking Compensation:** An affiliate of JPMSI has received compensation in the past 12 months for products or services other than investment banking from Allahabad Bank.

#### Allahabad Bank (ALBK.BO) Price Chart



Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.

This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.

JPMorgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

### Explanation of Equity Research Ratings and Analyst(s) Coverage Universe:

JPMorgan uses the following rating system: **Overweight** [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] **Neutral** [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] **Underweight** [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] The analyst or analyst’s team’s coverage universe is the sector and/or country shown on the cover of each publication. See below for the specific stocks in the certifying analyst(s) coverage universe.

Coverage Universe: **Sachin Sheth:** Allahabad Bank (ALBK.BO), Bank of Baroda (BOB.BO), Bank of India (BOI.BO), Canara Bank (CNBK.BO), Centurion Bank of Punjab (CENB.BO), Development Credit Bank (DCBA.BO), HDFC (Housing Development Finance Corporation) (HDFC.BO), HDFC Bank (HDBK.BO), ICICI Bank (ICBK.BO), Indian Overseas Bank (IOBK.BO), Infrastructure Development Finance Company (IDFC.BO), Karnataka Bank (KBNK.BO), Punjab National Bank (PNBK.BO), State Bank of India (SBI.BO), Syndicate Bank (SBNK.BO), Union Bank of India (UNBK.BO), YES Bank Ltd (YESB.BO)

#### JPMorgan Equity Research Ratings Distribution, as of March 30, 2007

	Overweight (buy)	Neutral (hold)	Underweight (sell)
JPM Global Equity Research Coverage	42%	41%	17%
IB clients*	49%	51%	38%
JPM SI Equity Research Coverage	38%	48%	14%
IB clients*	68%	64%	53%

\*Percentage of investment banking clients in each rating category.

For purposes only of NASD/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category.

**Valuation and Risks:** Please see the most recent JPMorgan research report for an analysis of valuation methodology and risks on any securities recommended herein. Research is available at <http://www.morganmarkets.com>, or you can contact the analyst named on the front of this note or your JPMorgan representative.

**Analysts' Compensation:** The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

#### Other Disclosures

**Options related research:** If the information contained herein regards options related research, such information is available only to persons who have received the proper option risk disclosure documents. For a copy of the Option Clearing Corporation's Characteristics and Risks of Standardized Options, please contact your JPMorgan Representative or visit the OCC's website at <http://www.optionsclearing.com/publications/risks/riskstoc.pdf>.

#### Legal Entities Disclosures

**U.S.:** JPMSI is a member of NYSE, NASD and SIPC. J.P. Morgan Futures Inc. is a member of the NFA. JPMorgan Chase Bank, N.A. is a member of FDIC and is authorized and regulated in the UK by the Financial Services Authority. **U.K.:** J.P. Morgan Securities Ltd. (JPMSL) is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority. **South Africa:** J.P. Morgan Equities Limited is a member of the Johannesburg Securities Exchange and is regulated by the FSB. **Hong Kong:** J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission in Hong Kong. **Korea:** J.P. Morgan Securities (Far East) Ltd, Seoul branch, is regulated by the Korea Financial Supervisory Service. **Australia:** J.P. Morgan Australia Limited (ABN 52 002 888 011/AFS Licence No: 238188) is regulated by ASIC and J.P. Morgan Securities Australia Limited (ABN 61 003 245 234/AFS Licence No: 238066) is a Market Participant with the ASX and regulated by ASIC. **Taiwan:** J.P.Morgan Securities (Taiwan) Limited is a participant of the Taiwan Stock Exchange (company-type) and regulated by the Taiwan Securities and Futures Commission. **India:** J.P. Morgan India Private Limited is a member of the National Stock Exchange of India Limited and The Stock Exchange, Mumbai and is regulated by the Securities and Exchange Board of India. **Thailand:** JPMorgan Securities (Thailand) Limited is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission. **Indonesia:** PT J.P. Morgan Securities Indonesia is a member of the Jakarta Stock Exchange and Surabaya Stock Exchange and is regulated by the BAPEPAM. **Philippines:** J.P. Morgan Securities Philippines Inc. is a member of the Philippine Stock Exchange and is regulated by the Securities and Exchange Commission. **Brazil:** Banco J.P. Morgan S.A. is regulated by the Comissao de Valores Mobiliarios (CVM) and by the Central Bank of Brazil. **Japan:** This material is distributed in Japan by JPMorgan Securities Japan Co., Ltd., which is regulated by the Japan Financial Services Agency (FSA). **Singapore:** This material is issued and distributed in Singapore by J.P. Morgan Securities Singapore Private Limited (JPMS) [mica (p) 069/09/2006 and Co. Reg. No.: 199405335R] which is a member of the Singapore Exchange Securities Trading Limited and is regulated by the Monetary Authority of Singapore (MAS) and/or JPMorgan Chase Bank, N.A., Singapore branch (JPMCB Singapore) which is regulated by the MAS. **Malaysia:** This material is issued and distributed in Malaysia by JPMorgan Securities (Malaysia) Sdn Bhd (18146-x) which is a Participating Organization of Bursa Malaysia Securities Bhd and is licensed as a dealer by the Securities Commission in Malaysia. **Pakistan:** J. P. Morgan Pakistan Broking (Pvt.) Ltd is a member of the Karachi Stock Exchange and regulated by the Securities and Exchange Commission of Pakistan.

#### Country and Region Specific Disclosures

**U.K. and European Economic Area (EEA):** Issued and approved for distribution in the U.K. and the EEA by JPMSL. Investment research issued by JPMSL has been prepared in accordance with JPMSL's Policies for Managing Conflicts of Interest in Connection with Investment Research which can be found at <http://www.jpmorgan.com/pdfdoc/research/ConflictManagementPolicy.pdf>. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Germany:** This material is distributed in Germany by J.P. Morgan Securities Ltd. Frankfurt Branch and JPMorgan Chase Bank, N.A., Frankfurt Branch who are regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht. **Australia:** This material is issued and distributed by JPMSAL in Australia to "wholesale clients" only. JPMSAL does not issue or distribute this material to "retail clients." The

recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of JPMSAL. For the purposes of this paragraph the terms “wholesale client” and “retail client” have the meanings given to them in section 761G of the Corporations Act 2001. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for persons licensed by or registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months’ prior.) J.P. Morgan Broking (Hong Kong) Limited is the liquidity provider for derivative warrants issued by J.P. Morgan International Derivatives Ltd and listed on The Stock Exchange of Hong Kong Limited. An updated list can be found on HKEx website: <http://www.hkex.com.hk/prod/dw/Lp.htm>. **Korea:** This report may have been edited or contributed to from time to time by affiliates of J.P. Morgan Securities (Far East) Ltd, Seoul branch. **Singapore:** JPMSI and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Legal Disclosures section above. **India:** For private circulation only not for sale. **Pakistan:** For private circulation only not for sale. **New Zealand:** This material is issued and distributed by JPMSAL in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. JPMSAL does not issue or distribute this material to members of “the public” as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of JPMSAL.

**General:** Additional information is available upon request. Information has been obtained from sources believed to be reliable but JPMorgan Chase & Co. or its affiliates and/or subsidiaries (collectively JPMorgan) do not warrant its completeness or accuracy except with respect to any disclosures relative to JPMSI and/or its affiliates and the analyst’s involvement with the issuer that is the subject of the research. All pricing is as of the close of market for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein. JPMSI distributes in the U.S. research published by non-U.S. affiliates and accepts responsibility for its contents. Periodic updates may be provided on companies/industries based on company specific developments or announcements, market conditions or any other publicly available information. Clients should contact analysts and execute transactions through a JPMorgan subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

Revised March 30, 2007.

---

**Copyright 2007 JPMorgan Chase & Co. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of JPMorgan.**

## Allahabad Bank: Summary of financials

Rs in millions, year-end March

Income statement					Balance sheet gearing				
	FY06	FY07E	FY08E	FY09E		FY06	FY07E	FY08E	FY09E
<b>Margins (% of Earning Assets)</b>	<b>3.25%</b>	<b>3.31%</b>	<b>3.00%</b>	<b>2.93%</b>	Loan/Deposit	60%	64%	65%	66%
Earning Assets/Assets	97%	95%	95%	95%	Investment/Assets	33%	30%	29%	29%
<b>NIM (as % of avg. Assets)</b>	<b>3.14%</b>	<b>3.15%</b>	<b>2.85%</b>	<b>2.79%</b>	Loan/Assets	53%	56%	57%	57%
<b>Net Interest Income</b>	<b>15,774</b>	<b>19,166</b>	<b>20,803</b>	<b>24,247</b>	Customer deposits/Liab.	94%	93%	93%	93%
					LT Debt/Liabilities	0%	0%	0%	0%
<b>Total Non-Interest Revenues</b>	<b>4,677</b>	<b>5,717</b>	<b>6,667</b>	<b>7,641</b>	<b>Asset quality/capital</b>				
Fee income	4,088	5,040	5,888	6,746		<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY09E</b>
FX/Trading gains	589	677	779	896	Loan loss reserves/Loans	3.1%	2.5%	2.3%	2.3%
Other operating income	0	0	0	0	NPLs/loans	3.9%	3.4%	3.1%	3.0%
<b>Total operating revenues</b>	<b>20,452</b>	<b>24,884</b>	<b>27,470</b>	<b>31,889</b>	Loan loss reserves/NPLs	79.2%	73.3%	72.8%	76.1%
Operating costs	(11,420)	(13,055)	(14,739)	(16,558)	Growth in NPLs	-7.8%	7.9%	12.3%	16.0%
<b>Operating profit</b>	<b>9,032</b>	<b>11,829</b>	<b>12,731</b>	<b>15,331</b>	Tier 1 Ratio	9.5%	8.7%	8.1%	7.6%
Loan Loss Provisions	(1,298)	(1,985)	(3,082)	(4,223)	Total CAR	13.4%	11.7%	11.4%	11.1%
Other provisions	(655)	(1,099)	551	514	<b>Per share data</b>				
Exceptionals	0	0	0	0		<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY09E</b>
Disposals/ Other income	0	0	0	0	EPS (Rs)	15.81	17.45	18.72	19.51
<b>Pre-tax profit</b>	<b>7,079</b>	<b>8,744</b>	<b>10,200</b>	<b>11,622</b>	Dividend (Rs)	4.56	5.00	5.50	6.00
Tax [rate]	(18)	(947)	(1,836)	(2,906)	Payout ratio	29%	29%	29%	31%
Minorities/preference dividends	0	0	0	0	NAV	81.45	93.91	107.13	120.65
<b>Attributable net income</b>	<b>7,061</b>	<b>7,797</b>	<b>8,364</b>	<b>8,717</b>	Avg. Shares issued (mn)	446.70	446.70	446.70	446.70
<b>Key balance sheet</b>					<b>DuPont analysis</b>				
	<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY09E</b>		<b>FY06</b>	<b>FY07E</b>	<b>FY08E</b>	<b>FY09E</b>
Net Customer Loans	291,478	370,177	451,616	541,939	<b>NIR/Avg. Assets</b>	<b>3.14%</b>	<b>3.15%</b>	<b>2.85%</b>	<b>2.79%</b>
Gross Loans	300,855	379,539	462,060	554,605	Non IR/Total Rev	22.9%	23.0%	24.3%	24.0%
Investments	179,847	201,067	232,526	276,674	<b>Total Rev/Avg. Assets</b>	<b>4.07%</b>	<b>4.08%</b>	<b>3.77%</b>	<b>3.68%</b>
Other Earning Assets	43,900	51,798	60,254	70,054	Cost/Income	55.84%	52.46%	53.65%	51.92%
<b>Average Earning Assets = (A)</b>	<b>484,641</b>	<b>578,502</b>	<b>693,621</b>	<b>828,086</b>	Cost/Assets	2.27%	2.14%	2.02%	1.91%
Total assets	552,920	665,500	792,305	942,817	<b>Operating ROAA</b>	<b>1.80%</b>	<b>1.94%</b>	<b>1.75%</b>	<b>1.77%</b>
Interbank funding	(0)	(0)	0	0	LLP/Loans	-0.50%	-0.58%	-0.73%	-0.83%
Customer deposits	484,997	581,996	692,576	824,165	Loan/Assets	52.02%	55.84%	57.73%	58.59%
Other Interest Bearing Liabilities	468	1,164	1,385	1,648	Other inc:provs	-0.13%	-0.18%	0.08%	0.06%
<b>Average Interest Bearing Liab. = (B)</b>	<b>447,190</b>	<b>534,312</b>	<b>638,560</b>	<b>759,887</b>	Tax	0.25%	10.84%	18.00%	25.00%
<b>Average Assets</b>	<b>502,185</b>	<b>609,210</b>	<b>728,903</b>	<b>867,561</b>	MI	0.00%	0.00%	0.00%	0.00%
Shareholders' equity	36,385	41,949	47,856	53,893	<b>ROAA</b>	<b>1.41%</b>	<b>1.28%</b>	<b>1.15%</b>	<b>1.00%</b>
Risk Weighted Assets	381,798	484,883	591,557	709,869	<b>RoRWA</b>	<b>1.90%</b>	<b>1.80%</b>	<b>1.55%</b>	<b>1.34%</b>
Average Risk Weighted Assets	371,058	433,340	538,220	650,713	Equity/Assets	5.94%	6.43%	6.16%	5.86%
					<b>ROE</b>	<b>23.67%</b>	<b>19.91%</b>	<b>18.63%</b>	<b>17.13%</b>

Source: Company data, JPMorgan estimates.