

May 8, 2007

BUY

Price	Target Price
Rs77	Rs110
Sensex	13,765

Price Performance

(%)	1M	3M	6M	12M
Absolute	9	(14)	(13)	(7)
Rel. to Sensex	2	(9)	(17)	(16)

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	Rs34.4bn/US\$838mn
Daily Avg Volume (No of shares)	347,16
Daily Avg Turnover (US\$)	0.7mn

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 Bank

Quarterly
Update

Disappointing quarter; downgrading estimates

Allahabad Bank (ALBK) has reported a disappointing quarter with the NII growing by a sedate 5.8% to Rs4.85bn reflecting continued pressure on NIM driven by a very steep growth in loan book as the CASA mix has failed to improve further and in fact declined by 130bps yoy. On positive side, the core fee income has recorded a robust growth of 58.4% yoy to Rs1.1bn, which is a positive surprise. Driven by weak operational performance and higher effective tax rate, the net profit has declined by 16.5% yoy to Rs1.25bn.

The asset quality though has improved; it has been driven by higher recoveries and upgradation. The gross slippages at 1.6% have been higher than 1.3% reported last year which is likely to increase the provisioning requirement.

We have downgraded our FY08E and FY09E FDEPS by 2.8% and 2.0% respectively to Rs20.1 and Rs24.8 respectively to take into account higher margins pressure and higher provisioning requirement. At the current market price of Rs77, the stock is quoting at 3.3x its FY09E EPS and 0.7x FY09E ABV. We maintain our BUY recommendation with price target of Rs110.

Steep advances growth puts pressure on NIM

ALBK has reported a very modest 5.8% yoy growth in NII for Q4FY07 as the steep growth in the advances book continued to put pressure on margins. In fact, adjusted for one-time income on CRR, the NII would have remained flat yoy.

Rs mn	Q4FY07	Q4FY06	Q3FY07	% yoy chg	% qoq chg
Reported NII	4,852	4,587	4,847	5.8	0.1
Less: One time income	200	-	-	-	-
Adjusted NII	4,652	4,587	4,847	1.4	-4.0

The bank has funded the steep advances growth of 41.7% yoy (Rs413bn) with help of term deposits as CASA ratio has declined by 130bps yoy to 38.0%. The yield on advances has also failed to improve significantly as the bank opted for faster balance sheet growth at cost of yields.

Yield analysis

%	Q4FY07	Q4FY06	Q3FY07	Change in bps yoy	Change in bps qoq
Advances yield	9.23	8.75	9.87	48	-64
Investment yield	7.66	7.56	7.58	10	8
Average Yield on funds	8.39	8.01	8.20	38	19
Cost of Deposit	5.79	4.97	5.73	82	6
Average Cost of Funds	5.41	5.01	5.16	40	25
NIM	2.98	3.17	3.04	-19	-6

Source: Company, Emkay Research

Deposit mix

Rs bn	Q4FY07	Q4FY06	Q3FY07	% yoy chg	% qoq chg
Total Deposits	595.4	485.0	565.2	22.8	5.3
Current account	54.9	40.8	47.8	34.6	14.9
Savings account	171.2	149.7	165.6	14.4	3.4
CASA ratio (%)	38.0	39.3	37.7		

Source: Company, Emkay Research

We expect the margins to bounce back from Q1FY08 as the bank has recently taken a 75bps increase in its PLR from April 2007, which would be reflected in Q1FY08.

Fee income growth – a silver lining

The fee income has reported a smart jump of 58.4% yoy to Rs1.1bn driven by higher processing fees on LC/BG business and also on the advances book. Though such steep growth is not sustainable, we believe that the fee income growth to sustain at 19% CAGR over FY07-09E

The total non-interest income declined by 14.0% yoy to Rs1.25bn driven by lower dividend income (lower investible surplus in MFs) and lower treasury profits.

Other income

Rs mn	Q4FY07	Q4FY06	Q3FY07	% yoy chg	% qoq chg
CEB	197.8	395.0	634.0	-49.9	-68.8
Trading	1,134.8	715.5	427.5	58.6	165.5
Forex	190.8	180.6	24.7	5.6	673.5
Dividend	111.4	339.9	69.4	-67.2	60.4
Others	-99.0	92.0	99.3	-207.6	-199.7
Amortisation	-283.5	-266.2	-257.3	6.5	10.2
Total	1,252.2	1,456.8	997.6	-14.0	25.5

Source: Company, Emkay Research

Higher tax provisions further pull down profits

The moderate performance at the operating level for further hit by higher tax rate as the bank had write back of deferred tax liabilities during Q4FY07 which resulted in effective tax rate of 34.3% for Q4FY07 compared with 8.3% in the same quarter last year.

Rs mn	Q4FY07	Q4FY06	Q3FY07	% yoy chg	% qoq chg
NPA	600	410	100	46.3	500.0
As of advances	0.15	0.14	0.03		
Investment depreciation	330	1,514	47	-78.2	601.1
Std assets	510	260	170	96.2	200.0
Others	-137	-483	-401	-71.6	-65.7
Provision for Taxes	673	136	483	395.8	39.3
Effective tax rate (%)	34.8	8.3	14.4		

Source: Company, Emkay Research

Asset quality shows some slippage

Albeit, ALBK's GNPA have declined over last year, the gross slippages are on rise. The gross slippages for FY07 stood at 1.6% of the gross advances, compared with 1.3% in FY06. Also with lower provisioning and write-backs, the NNPA have risen from 0.8% of net advances in FY06 to 1.1% in FY07.

We believe that increase in slippages and declining provision cover (59.7% as on March 2007 compared with 79.2% in March 2006), would increase the provisioning requirement for the bank and we have taken the same into our numbers.

Rs mn	Q4FY07	Q4FY06	Q3FY07	% yoy chg	% qoq chg
Gross NPA	10.94	11.84	11.84	-7.6	-7.6
% of gross advances	2.6	3.9	3.1		
Net NPA	4.40	2.46	2.73	78.9	61.2
% of net advances	1.1	0.8	0.7		
Provision cover (%)	59.7	79.2	76.9		

Comfortable capital adequacy

With total CAR of 12.52% 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 have downgraded our FY08E and FY09E FDEPS by 2.8% and 2.0% respectively to Rs20.1 and Rs24.8 respectively to take into account higher margins pressure and higher provisioning requirement. At the current market price of Rs77, the stock is quoting at 3.3x its FY09E EPS and 0.7x FY09E ABV. We maintain our BUY recommendation with price target of Rs110.

EPS (Rs)	FY08E	FY09E
Old estimates	20.7	25.3
New estimates	20.1	24.8
% change	-2.8	-2.0

Quarterly results

Rs mn	FY07	FY06	% yoy chg	Q4FY07	Q4FY06	Q3FY07	% yoy chg	% qoq chg
NII	17,508	15,775	11.0	4,852	4,587	4,847	5.8	0.1
Other Income	3,764	4,823	-21.9	1,252	1,457	998	-14.0	25.5
<i>Fee income</i>	3,133	2,283	37.2	1,135	715	427	58.6	165.5
Net income	21,272	20,597	3.3	6,104	6,044	5,845	1.0	4.4
Operating expenses	10,277	10,357	-0.8	2,872	2,703	2,584	6.3	11.1
Pre-Provision profits	10,994	10,240	7.4	3,232	3,341	3,260	-3.3	-0.9
Provisions	2,645	2,693	-1.8	1,302	1,701	-84	-23.4	-1,650.0
<i>NPA</i>	900	768	17.2	600	410	100	46.3	500.0
Profit before tax	8,349	7,547	10.6	1,930	1,640	3,344	17.7	-42.3
Taxes	852	487	75.0	673	136	483	395.8	39.3
Net Profit	7,497	7,059	6.2	1,258	1,505	2,862	-16.4	-56.0

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	1.2	4.9
FY2007E	21,271	7,501	16.8	70.4	1.2	18.5	1.1	4.6
FY2008E	24,685	8,985	20.1	85.0	1.2	18.9	0.9	3.9
FY2009E	28,810	11,079	24.8	111.2	1.2	20.0	0.7	3.1

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