



# Oriental Bank of Commerce

 Relative to sector: **Outperformer**
**Praveen Agarwal**

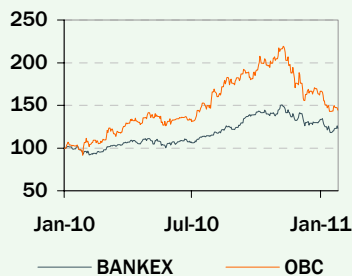
 Executive Director – BFSI  
 Email: praveen.agarwal@enam.com  
 Tel: 9122 6754 7609

**Siddharth Goel**

 AVP – BFSI  
 Email: siddharth.goel@enam.com

**Namesh Chhangani**

 AVP – BFSI  
 Email: namesh.chhangani@enam.com

**Relative Performance**


Source: Bloomberg, ENAM Research

**Stock data**

 No. of shares : 251mn  
 Market cap : Rs 82.9 bn  
 52 week high/low : Rs 545 / Rs 253  
 Avg. daily vol. (6mth) : 974,100 shares  
 Bloomberg code : OBC IB  
 Reuters code : ORBC.BO

Shareholding (%)	Dec-10	QoQ chg
Promoters	51.1	0.0
FIs	16.7	(0.0)
MFs / UTI	5.8	0.1
Banks / FIs	19.6	(0.6)
Others	6.8	0.5

**Financial summary**

Y/E Mar	PAT (Rs mn)	EPS (Rs)	Change (%)	P/E (x)	BV (Rs)	Adj. BV (Rs)	P/BV (x)	P/Adj. BV (x)	RoE (%)	RoA (%)	Net NPA (%)
2009	8,904	36	6	9.3	258	246	1.3	1.3	14.6	0.9	0.6
2010	11,347	45	27	7.3	292	273	1.1	1.2	16.5	0.9	0.9
2011E	15,909	63	40	5.2	344	322	1.0	1.0	20.0	1.1	0.9
2012E	17,115	59	(7)	5.6	394	375	0.8	0.9	17.1	1.0	0.7

Source: Company, ENAM Research; Note - We have assumed equity infusion of Rs 15.2 bn in FY12

**ASSET QUALITY DISAPPOINTS**

OBC reported 41% YoY increase in net profit at Rs 4 bn – slightly above our estimates – due to lower provisioning expenditure. The bank maintained moderate but balanced business growth ensuring sufficient liquidity. Core income grew 18% YoY, led by credit growth of ~16% and margins improvement of 10 bps YoY. However, margins at 3.1% declined sequentially by 20 bps due to the impact of rise in cost of deposits. Non interest income reported marginal decline led by lower treasury gains; however, core fee income grew 12% YoY. Asset quality disappointed due to higher NPA accumulation. While Gross NPAs rose 21% QoQ, net NPAs rose 35% as a result of lower provisioning expenses.

**Key highlights**

- Credit growth was driven by 56% YoY growth in SME portfolio, which now contributes 17% to overall credit. Deposits growth at ~17% was in tandem with advances growth. The bank has sufficient liquidity with current C-D ratio at 70%; moreover, YTD incremental C-D ratio too stands at a comfortable 73%
- With respect to the second Pension liability, OBC holds an ad-hoc provision of Rs 3.6 bn (pending final actuarial valuation); and has provided Rs 500 mn towards gratuity expenses in Q3FY11.

**Valuations**

Business momentum remained sluggish, with total business growing by 16% YoY, below the industry growth rate. The balance sheet has started showing signs of stress, with slippage ratio of over 2%. CASA ratio at ~25% is below peers' average, which would put pressure on margins in a rising interest rate environment. We have reduced our FY12E earnings estimate by 5% and have reduced the target multiple to 1.2x (from 1.3x earlier). However, on the back of attractive valuation at CMP, we maintain a **BUY rating** on the stock with a revised **target price of Rs 450** (1.2x FY12E ABV and 8x FY12E earnings) – upside of 36%.

## Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
Interest Income	30,328	26,716	14	29,919	1	120,124	102,571	17
Interest Expended	20,029	17,987	11	19,148	5	77,581	73,497	6
<b>Net Interest Income</b>	<b>10,299</b>	<b>8,729</b>	<b>18</b>	<b>10,771</b>	<b>(4)</b>	<b>42,543</b>	<b>29,074</b>	<b>46</b>
Non-Interest Income	2,314	2,377	(3)	2,141	8	9,184	12,000	(23)
<b>Net Income</b>	<b>12,613</b>	<b>11,106</b>	<b>14</b>	<b>12,912</b>	<b>(2)</b>	<b>51,727</b>	<b>41,075</b>	<b>26</b>
Operating Expenses	4,873	4,878	(0)	4,853	0	19,415	16,859	15
<b>Operating profit</b>	<b>7,739</b>	<b>6,228</b>	<b>24</b>	<b>8,059</b>	<b>(4)</b>	<b>32,312</b>	<b>24,215</b>	<b>33</b>
Provision & Contingencies	1,918	1,921	(0)	2,263	(15)	8,743	8,160	7
<b>PBT</b>	<b>5,822</b>	<b>4,307</b>	<b>35</b>	<b>5,796</b>	<b>0</b>	<b>23,568</b>	<b>16,056</b>	<b>47</b>
Tax	1,739	1,413	23	1,820	(4)	7,660	4,708	63
<b>Net Profit</b>	<b>4,083</b>	<b>2,894</b>	<b>41</b>	<b>3,976</b>	<b>3</b>	<b>15,909</b>	<b>11,347</b>	<b>40</b>
No. of shares (mn)	251	251	-	251	-	251	251	-
<b>Rep. EPS - non-annualized (Rs.)</b>	<b>16</b>	<b>12</b>	<b>41</b>	<b>16</b>	<b>3</b>	<b>63</b>	<b>45</b>	<b>40</b>
<b>Yields &amp; Margins (%)</b>								
Yield on advances	10.3	10.3	4 bps	10.3	3 bps	10.2	10.0	19 bps
Cost of deposit	6.1	6.2	(16)bps	5.9	22 bps	5.8	6.4	(65)bps
Net interest margin	3.1	3.0	10 bps	3.3	(20)bps	3.0	2.4	61 bps
Cost to income	38.6	43.9	(528)bps	37.6	106 bps	37.5	41.0	(351)bps
<b>Asset quality</b>								
Gross NPAs (Rs bn)	17.6	12.9	37.0	14.6	21.1	17.9	14.7	21.8
Gross NPAs (%)	1.94	1.64	30 bps	1.67	27 bps	1.86	1.74	12 bps
Net NPAs (Rs bn)	8.2	5.8	39.7	6.1	34.5	8.2	7.2	13.7
Net NPAs (%)	0.91	0.75	16 bps	0.70	21 bps	0.87	0.87	(0)bps
Provisioning coverage (%)	53.1	54.3	(118)bps	58.1	(499)bps	54.0	50.7	328 bps
<b>Capital (%)</b>								
Tier-I	9.1	9.8	(69)bps	9.4	(29)bps	9.8	9.3	50 bps
CAR	12.4	13.2	(82)bps	12.8	(42)bps	12.3	12.5	(22)bps
<b>Balance sheet (Rs. Bn)</b>								
Advances	908	786	15.6	867	4.7	951	835	13.9
Deposits	1,293	1,107	16.8	1,258	2.8	1,353	1,203	12.5
CASA (%)	25.2	24.4	77 bps	25.4	(18)bps	25.3	25.0	33 bps

Source: Company, ENAM Research. Note: Full year (FY10 and FY11E) numbers and ratios are on calculated basis.

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