

VISIT UPDATE

MID CAP

Share Data

Reuters code	ORBC.BO
Bloomberg code	OBC IN
Market cap. (US\$ mn)	1,791
6M avg. daily turnover (US\$ mn)	4.1
Issued shares (mn)	292
Target price (Rs)	360

Performance (%) 1M 3M 12M

Absolute	2	(12)	(39)
Relative	0	(4)	(27)

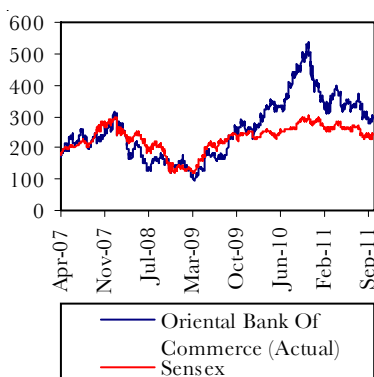
Valuation Ratios

Yr to 31 Mar	FY12E	FY13E
EPS (Rs)	52.9	63.4
+/- (%)	2.8	19.8
ABV (Rs)	364.0	409.9
+/- (%)	10.7	12.6
PER (x)	5.7	4.8
PABV (x)	0.8	0.7
Dividend/Yield (%)	3.6	3.6

Major shareholders (%)

Promoters	58
FII's	11
MF's	5
BFSI's	19
Public & Others	7

Relative performance



Oriental Bank of Commerce Maintain Outperformer

Price: Rs 301

BSE Index: 17,083

14 October 2011

Headwinds persist, but risk-reward favourable

We met Oriental Bank of Commerce's (OBC) CMD Mr. Nagesh Pydah to discuss the Bank's business strategy and outlook on asset quality. Management expects 20% loan growth in FY12 with NIMs at ~3%. Despite systemic stress, GNPA's to remain range bound at ~2% (+/- 10 bps variation) by FY12-end, on the back of higher recoveries/upgrades.

Key highlights:

- **Targets 20% loan growth on lower base:** Post conscious slow down in loan growth in FY11 (15%), bank expects 20% growth in FY12 (Q2FY12 ~ 21%) on a lower base. Bank is steadily increasing share of working capital loans to 45%, as it helps in better churning of portfolio, Asset-liability management and better fee income.
- **CASA sustenance near term objective; meaningful improvement only in long term:** CASA growth is under pressure due to rising term deposit rates, however, bank expects its CASA ratio to retrace back to 25% by FY12-end from 23% in 1QFY12 led by ongoing branch expansion and reduction in bulk deposits. However, management admits that improving CASA ratio > 25% will require vigorous efforts including originating government float like PNB. Management is confident of maintaining margins at ~3%+ benefitting from improvement in C/D ratio and asset re-pricing.
- **Focus to improve/sustain fee income:** Bank has been taking steps to supplement/compensate its fee income and thus, maintain RoA at ~1%. It has tied up with SBI for credit cards and with oriental insurance co for distribution of mediclaim policies to improve its third party distribution income. Bank has also set up syndication desk (current team of 7 people), which will cater primarily to mid corporate segment, where bank has dominant presence and expertise.
- **Optimistically targets GNPA at 2% (+/- 10 bps):** Management expects slippages to peak out by 2QFY12 with entire loans migrating on system (advances below Rs 1 mn were pending at the end of 1QFY12) and FY12 slippage ratio at ~1.3-1.5%. However, better recoveries/upgrades should help bank sustain GNPA's at ~2% with +/- 10 bps variations (2.1% in 1QFY12) and NNPA at ~1% for FY12. But we have conservatively build-in higher NPAs (2.3% in FY12) given higher exposure to stressed sectors such as real-estate, SME and infra.

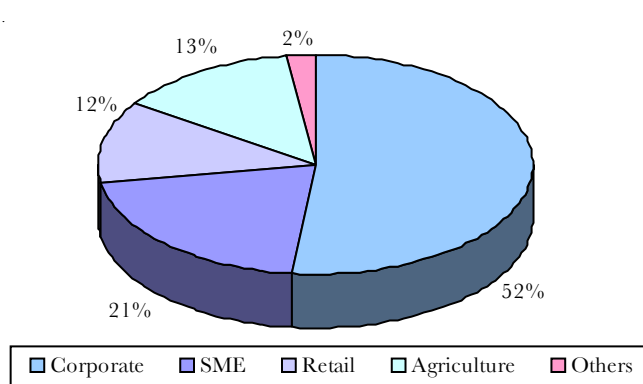
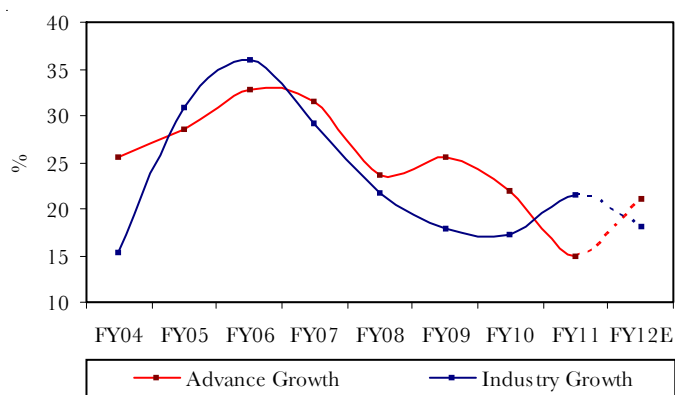
Outlook and valuations: Though we expect asset quality pressures to remain, healthy capital adequacy (Tier I > 10%) provides cushion to absorb shocks. Stock has witnessed sharp correction and is now trading at attractive valuations of 0.8x FY12 and 0.7x FY13 ABV. We maintain our Outperformer rating on the stock with a target price of Rs 360.

Post consolidation in FY11, expects 20% loan growth in FY12 on lower base

Bank expects credit growth to rebound in FY12 to 20%+ with share of working capital loans to rise to 45% from current 43% and with strong Tier-I capital of ~10.8%, the bank should not be constrained by paucity of capital for achieving stronger business growth over the next couple of years. During 2QFY12, credit and deposit growth has been robust at ~21% and ~19% respectively, leading to ~300 bps QoQ improvement in C-D ratio to ~71% in 2QFY12. Bank has also been taking initiatives to expand its home loan portfolio for which it has identified 600 branches in metro and semi urban areas and has also tied up with reputed developers. However, Gold loans will be restricted only to semi urban and rural areas and will be used only for complying with PSL requirements.

After conscious slowdown in FY11, bank targets above industry growth rate in FY12...

Bank has dominant position in SME segment with higher share of 21%, which helps generate higher yields but is also relatively risky...



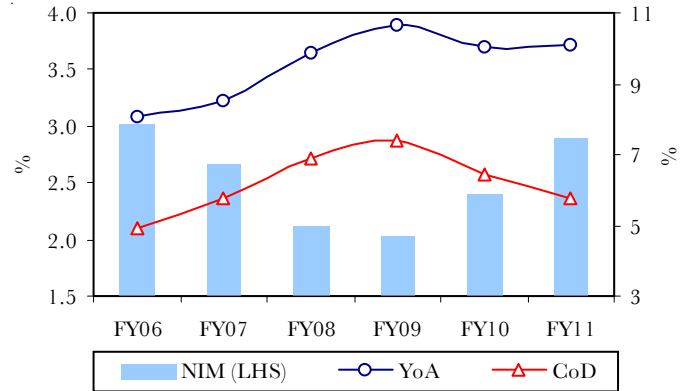
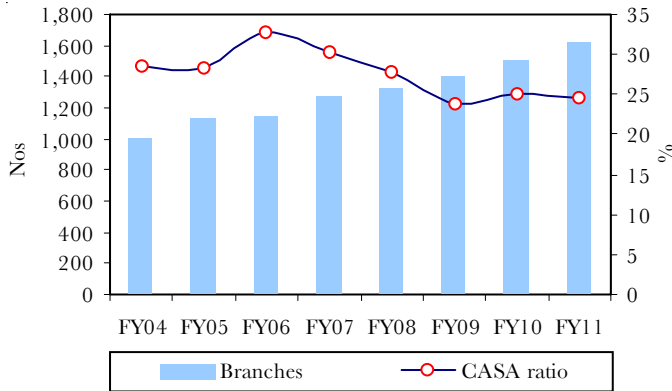
Source: Company, B&K Research

Focus to improve CASA ratio; Aims to maintain margins at ~3%+

CASA growth is under pressure due to rising gap between savings and term deposit rates and structural destruction in current deposits. However, bank expects its CASA ratio to retrace back to 25% by FY12-end from 23% in 1QFY12, led by ongoing branch expansion and reduction in bulk deposits (reduced bulk deposits of Rs 70 bn since Mar 11). Bank has embarked on an aggressive branch expansion adding 49 branches in 2QFY12 to reach 1693 and will be adding another 100 branches during the course of FY12. Bank has also merged ~25 overlapping GTB and OBC branches located in the same vicinity, which has released 25 additional branch licenses. Though management initially targeted 30% CASA in medium-term, however, has now moderated target to 27% in medium-term as improving CASA ratio meaningfully (like PNB) is difficult unless bank is able to source government float. Bank has taken several initiatives in this direction which is expected to yield results going forward. Despite cost pressure, bank targets 3% NIM in FY12 on the back of higher growth (thus, improving CD ratio) and asset re-pricing.

Bank has embarked on an aggressive branch expansion to gradually improve its other-wise low CASA ratio despite operating in CASA rich northern region....

Bank expects to maintain margins at ~3% for FY12...



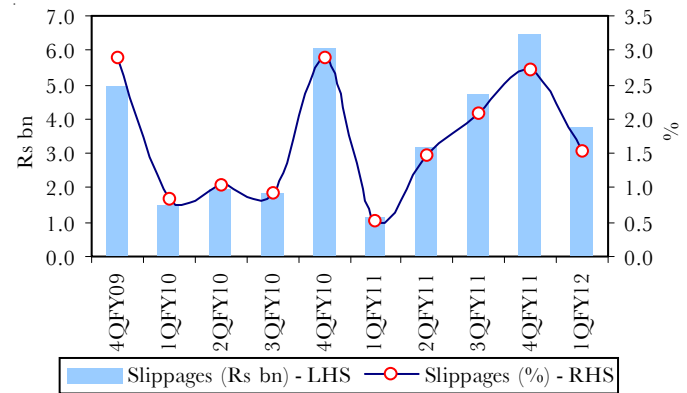
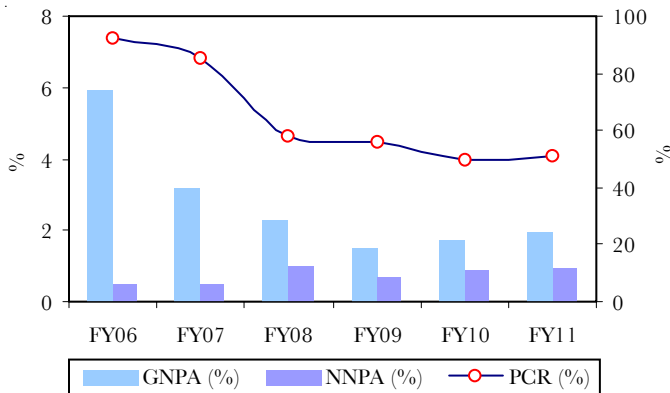
Source: Company, B&K Research

Asset quality concerns remain given higher exposure to stressed sectors

Management expects slippages to peak out by 2QFY12 with entire loans migrating on system (advances below Rs 1 mn were pending at the end of 1QFY12) and expects FY12 slippage ratio at ~1.3-1.5%. Better recoveries/upgrades should help bank sustain GNPA at ~2% with +/- 10 bps variation (2.1% in 1QFY12) and NNPA at ~1% for FY12. However, we have conservatively build-in higher NPAs (2.3% in FY12) given higher exposure to stressed sectors such as real-estate, SME, infra and restructured loans. Bank's total exposure to SEB is ~70 bn (primarily Rajasthan, UP and Haryana), however, has no exposure to Tamilnadu electricity board. Till now, bank has not witnessed any stress in its power exposure. Banks exposure to GTL and Air India is Rs 4 bn and Rs 17 bn respectively.

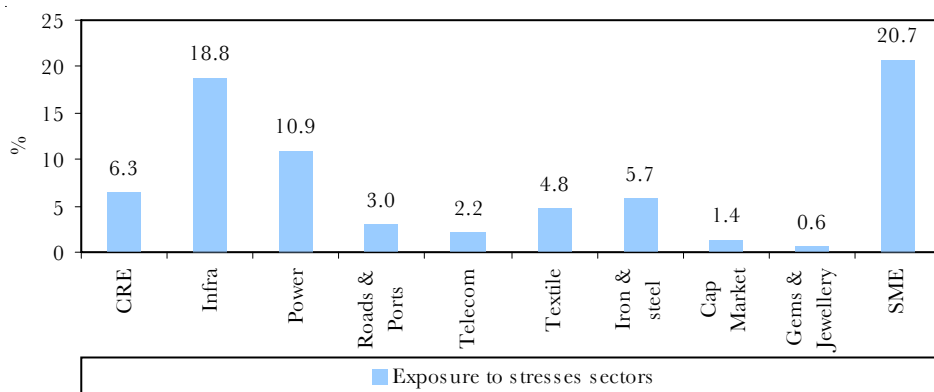
Bank expects GNPA to be ~2% with +/- 10 bps variation (2.1% in 1QFY12)...

Management expects slippages to peak out by 2QFY12... FY12 slippage ratio expected at ~1.3-1.5%...



Source: Company, B&K Research

OBC's exposure to Infra especially power is high....



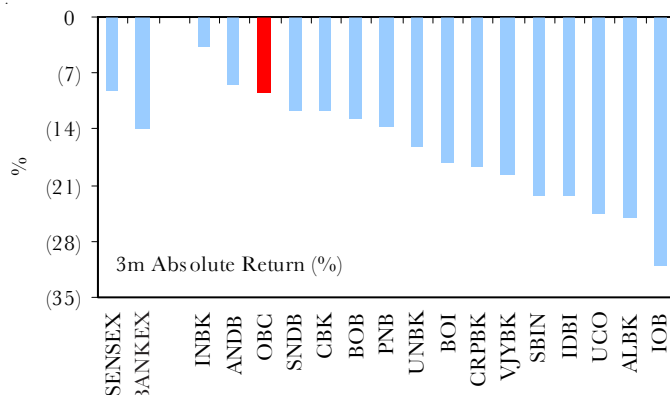
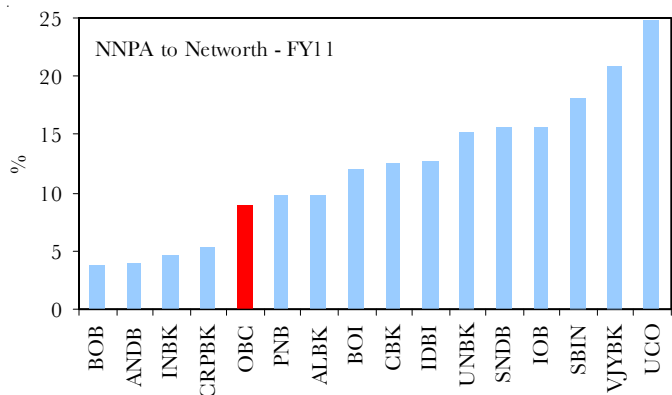
Source: Company, B&K Research

Outlook and Valuations

Though we expect asset quality pressures to remain, healthy capital adequacy (Tier I > 10%) provides cushion to absorb shocks. Stock has witnessed sharp correction and is now trading at attractive valuations of 0.8x FY12 and 0.7x FY13 ABV. We maintain our Outperformer rating on the stock with a target price of Rs 360.

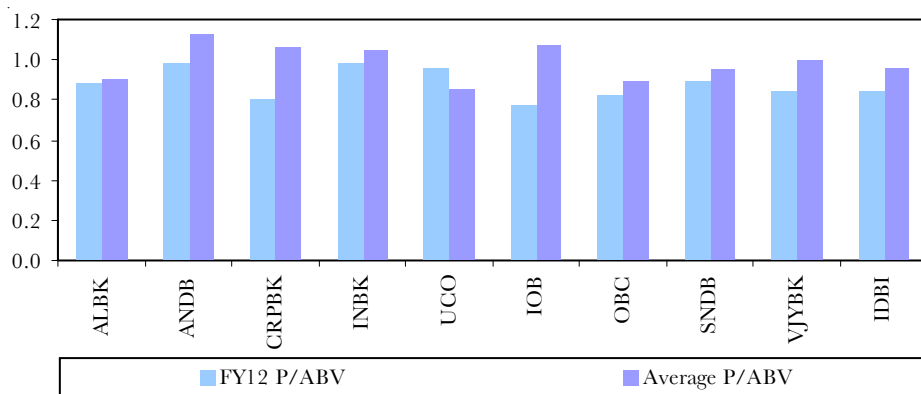
After recent capital infusion (Rs 17.4 bn) bank stands in a better position to absorb shocks...

Correction in OBC has been lesser than peers during past 3 months given its attractive valuations...



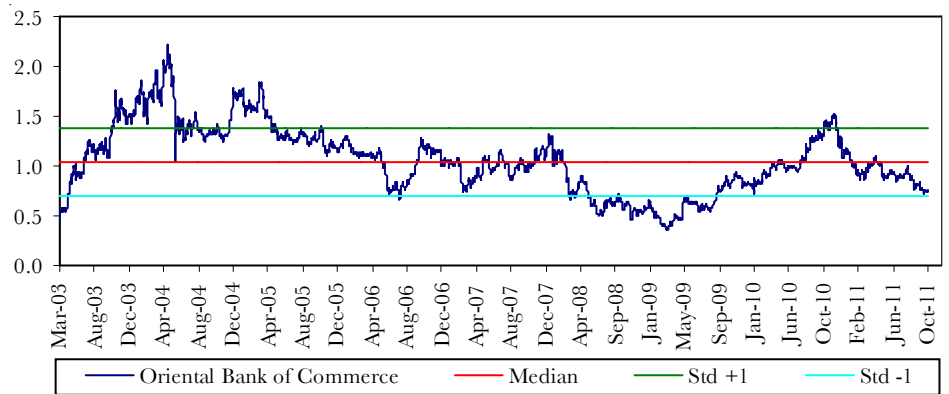
Source: Company, B&K Research

OBC is trading at lower than its 5yr avg valuation of 0.9x...



Source: Company, B&K Research

1 yr forward P/ABV chart



Source: Company, B&K Research

Income Statement

Yr end 31 Mar (Rs mn)	FY10	FY11E	FY12E	FY13E
Interest income	102,571	120,878	148,562	168,636
Interest expense	(73,497)	(79,103)	(104,422)	(117,681)
Net interest income	29,074	41,775	44,140	50,955
<i>Growth (%)</i>	<i>45.6</i>	<i>43.7</i>	<i>5.7</i>	<i>15.4</i>
Non-interest income	12,000	9,601	11,564	13,660
Operating income	41,075	51,376	55,703	64,614
Operating expenses	(16,860)	(18,925)	(22,707)	(26,273)
- Staff expenses	(9,713)	(10,485)	(12,883)	(15,700)
Pre-provisions profit	24,215	32,451	32,997	38,342
Core operating profit	19,979	31,698	31,497	36,392
<i>Growth (%)</i>	<i>68.1</i>	<i>58.7</i>	<i>(0.6)</i>	<i>15.5</i>
Provisions & Contingencies	(8,160)	(12,065)	(11,245)	(12,292)
Pre-tax profit	16,055	20,386	21,752	26,050
(before non-recurring items)				
Pre-tax profit	16,055	20,386	21,752	26,050
(after non-recurring items)				
Tax (current + deferred)	(4,708)	(5,357)	(6,308)	(7,554)
Net profit	11,347	15,029	15,444	18,495
Adjusted net profit	11,347	15,029	15,444	18,495
<i>Growth (%)</i>	<i>27.4</i>	<i>32.4</i>	<i>2.8</i>	<i>19.8</i>
Net income	11,347	15,029	15,444	18,495

Balance Sheet

Yr end 31 Mar (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and balance with RBI/Banks	145,999	190,887	215,802	260,406
Investments	357,853	420,748	488,248	575,929
Advances	834,893	959,082	1,119,554	1,306,016
Interest earning assets	1,338,745	1,570,717	1,823,604	2,142,350
Fixed assets (Net block)	13,941	13,978	14,085	14,789
Other assets	21,624	28,739	31,943	35,856
Total assets	1,374,310	1,613,434	1,869,631	2,192,995
Deposits	1,202,576	1,390,543	1,635,300	1,929,654
Other int. bearing liab.	48,870	56,392	63,927	73,466
Total Int. bearing liab.	1,291,930	1,502,462	1,746,861	2,055,585
Other liab. and prov.	40,484	55,528	47,634	52,465
Share capital	2,505	2,918	2,918	2,918
Reserves & surplus	79,874	108,054	119,853	134,493
Shareholders' funds	82,379	110,971	122,770	137,411
Total equity & liab.	1,374,310	1,613,434	1,869,631	2,192,995

Key Ratios

Yr end 31 Mar	FY10	FY11E	FY12E	FY13E
Valuation ratios (x)				
Adjusted EPS (Rs)	45.3	51.5	52.9	63.4
BVPS (Rs)	292.2	350.0	390.0	440.6
Adjusted Book NAV/share	272.7	328.7	364.0	409.9
PER	6.7	5.9	5.7	4.8
Price/Book	1.0	0.9	0.8	0.7
Price/Adjusted book	1.1	0.9	0.8	0.7
Dividend Yield (%)	3.0	3.4	3.6	3.6
Du-Pont ratios				
NII/Avg. Assets (%)	2.3	2.8	2.5	2.5
Non-interest income/Avg Assets	1.0	0.6	0.7	0.7
- Fee income/Avg Assets	0.5	0.5	0.5	0.5
- Trading gains/Avg Assets	0.3	0.1	0.1	0.1
Cost/Avg Assets	1.3	1.3	1.3	1.3
Non-tax Provisions/Avg Assets	0.7	0.8	0.6	0.6
Tax Provisions/Avg Assets	0.4	0.4	0.4	0.4
RoA (%)	0.9	1.0	0.9	0.9
Leverage	18.2	17.0	16.1	16.8
RoE (%)	16.5	17.1	14.3	15.3
Balance sheet ratios (%)				
Loan growth	21.9	14.9	17.0	17.0
Deposit growth	22.3	15.6	17.6	18.0
Loans/Deposits	69.4	69.0	68.5	67.7
Investments/Deposits	29.8	30.3	29.9	29.8
CASA ratio	25.0	24.6	24.9	24.9
Profitability ratios (%)				
NIMs	2.4	2.9	2.6	2.6
Interest spread	2.0	2.5	2.2	2.2
Yield on advances	10.0	10.1	10.9	10.5
Cost of deposits	6.4	5.8	6.6	6.4
Efficiency/other P/L ratios (%)				
Non-int. income/Net income	29.2	18.7	20.8	21.1
Trading income/Net income	10.3	1.5	2.7	3.0
Cost/Income	41.0	36.8	40.8	40.7
Asset quality ratios (%)				
Gross NPLs	1.7	2.0	2.3	2.6
Net NPLs	0.9	1.0	1.0	1.0
Net NPLs/Net worth	9.7	8.9	9.8	10.2
Loan provisions/Avg loans	0.7	1.1	1.0	1.0
Provisions cover	49.6	51.2	55.0	60.0
Capitalisation ratios (%)				
Tier I cap.adequacy	9.3	11.1	10.6	10.2
Total cap.adequacy	12.5	14.1	14.6	14.2

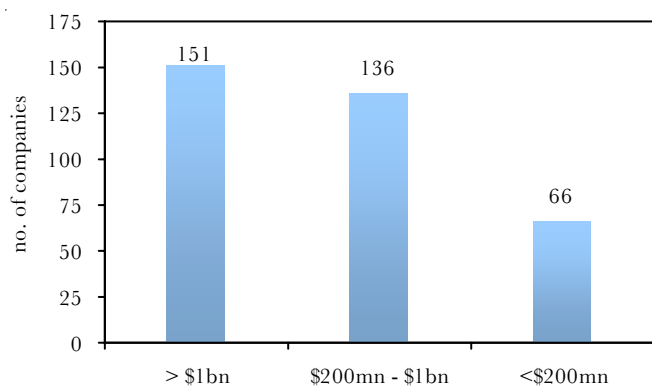
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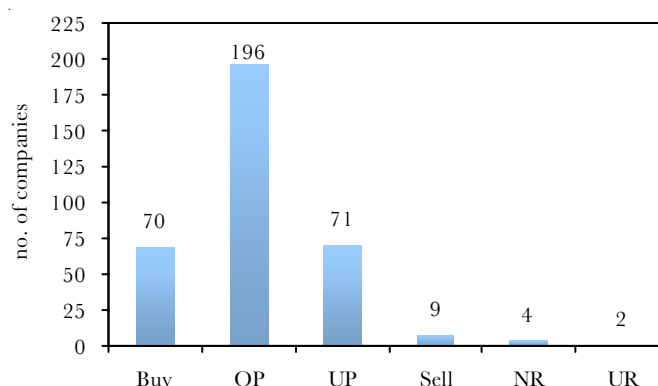
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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