

# Oriental Bank of Commerce (ORIBAN)

Rs. 250

## WHAT'S CHANGED...

PRICE TARGET ..... Upgraded to Rs 301 from Rs 255  
 EPS (FY10E) ..... Unchanged  
 EPS (FY11E) ..... Unchanged  
 RATING..... Upgraded to Outperformer from Performer

## Consistent sequential growth imparts visibility..

OBC reported Q2FY10 results which were in line with our estimates. Business growth of 24% YoY, non interest income grew by 46%, operating profit growth of 24%, CAR @ 12.7%, GNPA@1.5% & NNPA@ 0.7% looks pretty strong and augurs well for the future growth trajectory. We expect the bank to grow its balance sheet at 16% CAGR on a conservative basis over FY09-FY11E to Rs 151128 crore. On PAT we estimate a modest 13% CAGR over FY09-FY11E

### ■ Asset growth balanced, quality improving

Business mix of the bank grew by 24% YoY to Rs 184425 crore contributed by 23.5% in deposits and slightly higher growth of 25.2% in advances to Rs 76527 crore. Retail book grew over 27% to Rs 10614 crore, showing the focus area for the bank going ahead as well. Bulk deposits which ranged around 29-30% in Q2FY09 at Rs 26556 crore is now just 14% of deposits at Rs 15824 crore. The share of bulk deposits is expected to slid further in coming quarters.

### ■ NIM expanding, expected to improve further

Shedding of bulk deposits one hand and growing loan book on other hand helped the bank to register 16% growth in NII on QoQ basis which is commendable. This led to improvement in NIM by 19bps QOQ to 2.02%. A CASA deposit at 24% is on lower side but the new management has laid down roadmap to improve on this parameter and early signs are visible. This should lead to improvement in NIM going ahead thereby adding to NII.

## Valuation

The bank is trading at attractive valuation of 0.8x FY11E ABV. Improving NIM at 2.2-2.3%, controlled asset quality with improving coverage ratio of 55-60%, improving non interest income makes us comfortable in terms of visibility for healthy growth in coming years. We therefore value the bank at Rs 301/share (0.95x FY11E ABV) and rate the stock as **OUTPERFORMER**

### Exhibit 1: Performance Highlights

Rs Crore	Q2FY10	Q2FY10E	Q2FY09	Q1FY10	YoY Gr. (%)	QoQ Gr. (%)
NII	561.0	727.0	521.7	484.2	7.6	15.9
Other Income	305.1	219.6	209.2	391.9	45.8	-22.2
Total Income	866.1	946.6	730.8	876.1	18.5	-1.1
PPP	504.9	573.9	406.7	516.9	24.1	-2.3
PAT	270.8	283.0	236.9	257.4	14.3	5.2
EPS	10.8	11.3	9.5	10.3	-	-

Source: Company, ICICIdirect.com Research

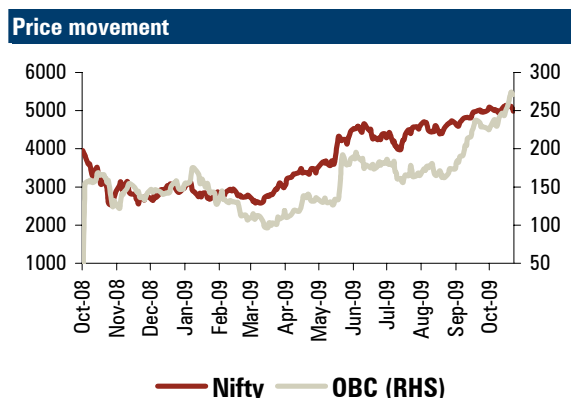
Rating matrix	
Rating	: <b>Outperformer</b>
Target	: Rs. 301
Target Period	: 12 months
Potential Upside	: 20 %

Key Financials				
(Rs Crore)	FY08	FY09	FY10E	FY11E
NII	1682.0	1996.5	2420.7	2755.7
PPP	1219.0	1685.0	2056.0	2407.1
PAT *	841.3	906.0	1025.0	1152.0

\* without extra ordinary

Valuation summary				
	FY08	FY09	FY10E	FY11E
EPS (Rs)	33.6	36.2	40.9	46.0
P/E (x)	7.4	6.9	6.1	5.4
Price / Adj Book (x)	1.2	0.9	0.8	0.8
GNPA%	2.3	1.5	1.8	2.1
NNPA%	1.0	0.6	0.8	1.3
RoNA (%)	1.0	0.9	0.9	0.8
RoE (%)	14.8	13.8	13.1	13.2

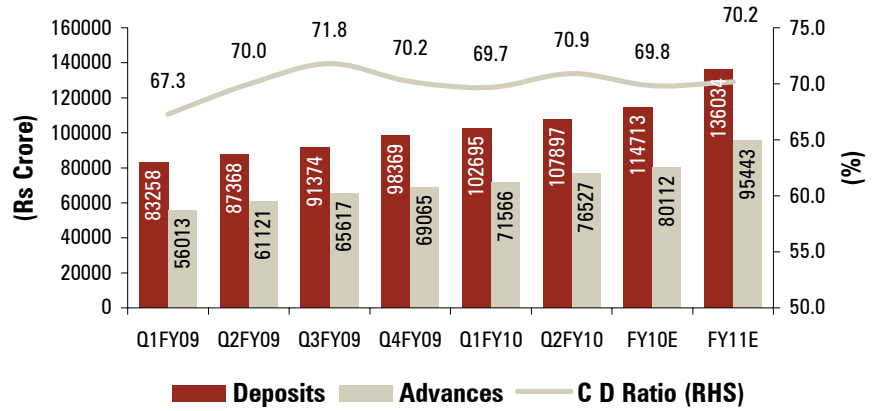
Stock data	
Market Capitalisation	Rs 6289 crore
GNPA (Q2FY10)	Rs 1179 crore
NNPA (Q2FY10)	Rs 499 crore
NIM (Q2FY10)	2.02 %
52 week H/L	286 / 95
Equity capital	Rs 251 crore
Face value	Rs 10
MF Holding (%)	4.8
RI Holding (%)	10.1



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**Business Highlights**

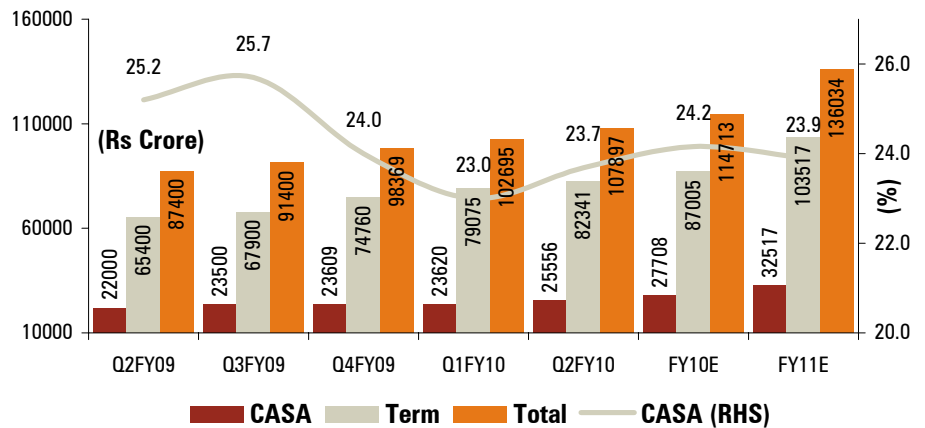
**Exhibit 2: Business growth picking momentum**



Source: Company, ICICIdirect.com Research

The bank is growing its looking at pan India presence which will help it to grow its business and improve CASA deposits.

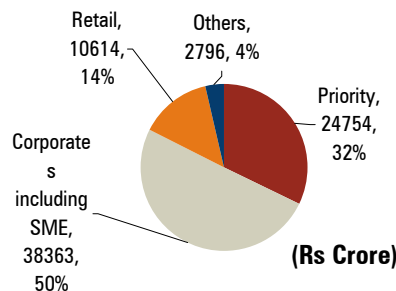
**Exhibit 3: Deposit mix showing early signs of improvement**



Source: Company, ICICIdirect.com Research

One important point to consider here is that in absolute terms CASA is trending upwards but due to higher growth in term deposits CASA % is sloping down. We feel on absolute basis the bank is garnering low cost deposits

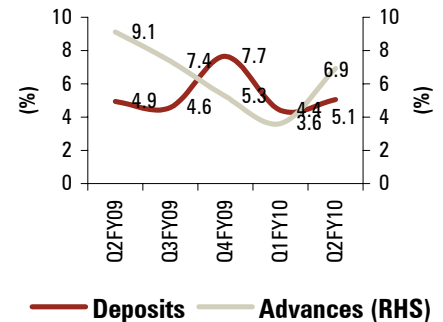
**Exhibit 4: Loan book break up for Q2FY10**



Source: Company, icicisecurities.com

The growth in advances was contributed by retail segment and we feel this will be the focus area going ahead as well

**Exhibit 5: Sequential growth rates**



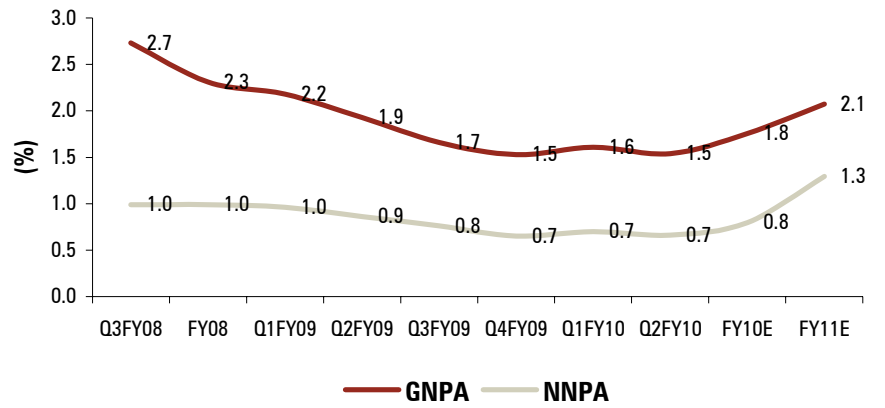
Source: Company, icicisecurities.com

Bank has done well in containing asset quality post GTB merger. Currently NNPA stands at 0.7%, but we have build in higher NPA for FY11E on account of restructured loans

Coverage ratio of the bank is improving at around 58-59% which we feel will improve further in coming years

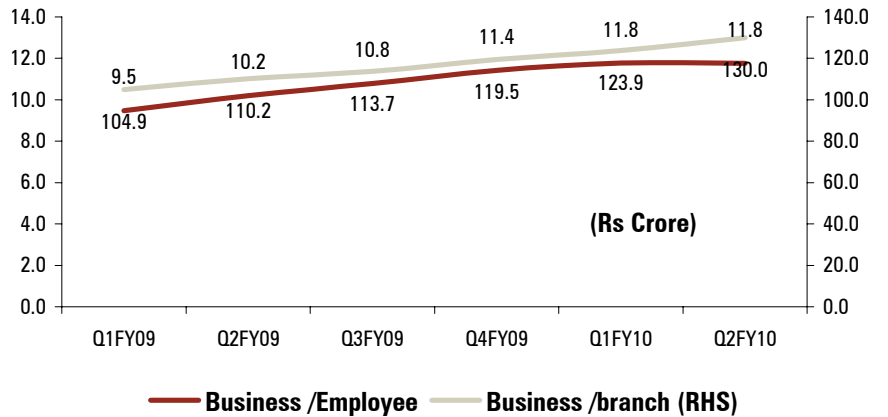
Productivity parameters are one of the best in the industry

**Exhibit 6: Cautious on asset quality**



Source: Company, ICICIdirect.com Research

**Exhibit 7: Productivity improvement pretty consistent**



Source: Company, ICICIdirect.com Research

**Going Forward**

The bank is targeting business mix of over Rs 2 lac crore by FY10E. The bank currently holds around 117 new branch licenses of which 14 branches were added in Q2FY10 and bank plans to open the rest by Jan 2010. This should help the bank to grow its balance sheet and improve CASA deposits going forward.

## ICICIdirect.com Coverage Universe (BFSI)

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
<b>Bank of India</b>										
<b>Idirect Code</b>	BANIND	<b>CMP</b>	409	FY09	3007.3	57.2	7.3	2.0	1.5	25.0
		<b>Target</b>	350	FY10E	3586.2	68.2	6.1	1.6	1.4	23.9
<b>Mcap (Rs Cr)</b>	21722	<b>Upside (%)</b>	-14	FY11E	4532.0	86.2	4.8	1.4	1.5	25.9
<b>Bank of Baroda</b>										
<b>Idirect Code</b>	BANBAR	<b>CMP</b>	498	FY09	2227.2	61.1	7.9	1.5	1.1	18.7
		<b>Target</b>	532	FY10E	2582.0	70.6	6.9	1.2	1.1	18.4
<b>Mcap (Rs Cr)</b>	18646	<b>Upside (%)</b>	7	FY11E	3117.6	85.3	5.7	1.1	1.1	18.7
<b>Dena Bank</b>										
<b>Idirect Code</b>	DENBAN	<b>CMP</b>	65	FY09	422.6	14.7	4.4	1.0	1.0	21.3
		<b>Target</b>	86	FY10E	488.9	12.6	5.1	0.9	0.9	18.8
<b>Mcap (Rs Cr)</b>	1916	<b>Upside (%)</b>	32	FY11E	572.7	14.8	4.4	0.8	0.9	17.7
<b>Indian Overseas Bank</b>										
<b>Idirect Code</b>	INDOVE	<b>CMP</b>	116	FY09	1325.8	24.3	4.8	1.0	1.2	22.1
		<b>Target</b>	144	FY10E	1292.7	23.7	5.0	1.1	1.0	17.6
<b>Mcap (Rs Cr)</b>	6320	<b>Upside (%)</b>	24	FY11E	1887.9	34.7	3.4	0.8	1.2	22.3
<b>IDBI Bank</b>										
<b>Idirect Code</b>	IDBI	<b>CMP</b>	118	FY09	858.5	7.8	15.8	1.4	0.6	12.1
		<b>Target</b>	116	FY10E	925.8	12.8	9.6	1.3	0.5	11.8
<b>Mcap (Rs Cr)</b>	8555	<b>Upside (%)</b>	-13	FY11E	1132.4	14.2	8.6	1.3	0.5	12.7
<b>OBC</b>										
<b>Idirect Code</b>	ORIBAN	<b>CMP</b>	250	FY09	906.0	36.2	6.9	0.9	0.9	13.8
		<b>Target</b>	301	FY10E	1025.0	40.9	6.1	0.8	0.9	13.1
<b>Mcap (Rs Cr)</b>	6289	<b>Upside (%)</b>	20	FY11E	1152.0	46.0	5.4	0.8	0.8	13.2
<b>Punjab National Bank</b>										
<b>Idirect Code</b>	PUNBAN	<b>CMP</b>	845	FY09	3091.3	98.0	8.5	1.8	1.4	22.9
		<b>Target</b>	UR	FY10E	3260.7	103.4	8.0	1.6	1.2	20.4
<b>Mcap (Rs Cr)</b>	26612	<b>Upside (%)</b>		FY11E	4139.5	131.3	6.3	1.5	1.3	22.8
<b>SBI</b>										
<b>Idirect Code</b>	STABAN	<b>CMP</b>	2220	FY09	91.2	143.7	15.3	2.7	1.1	17.1
		<b>Target</b>	2217	FY10E	99.4	156.5	14.1	2.5	1.0	16.2
<b>Mcap (Rs Cr)</b>	143303	<b>Upside (%)</b>	0	FY11E	100.0	195.0	11.3	2.1	1.0	17.5
<b>Union Bank of India</b>										
<b>Idirect Code</b>	UNIBAN	<b>CMP</b>	265	FY09	1727.6	34.2	8.0	1.6	1.2	21.4
		<b>Target</b>	250	FY10E	1886.0	37.3	7.3	1.4	1.1	19.7
<b>Mcap (Rs Cr)</b>	13725	<b>Upside (%)</b>	-6	FY11E	2308.1	45.7	6.0	1.2	1.1	20.4
<b>Axis Bank</b>										
<b>Idirect Code</b>	UTIBAN	<b>CMP</b>	931	FY09	1815.5	50.6	18.9	3.5	1.4	19.1
		<b>Target</b>	1100	FY10E	2166.2	53.0	18.0	2.5	1.3	16.2
<b>Mcap (Rs Cr)</b>	33952	<b>Upside (%)</b>	18	FY11E	2572.2	62.9	15.2	2.2	1.2	14.7
<b>HDFC Bank</b>										
<b>Idirect Code</b>	HDFBAN	<b>CMP</b>	1622	FY09	2244.9	52.8	31.7	5.1	1.4	17.2
		<b>Target</b>	1881	FY10E	2843.5	63.0	26.6	3.7	1.4	15.9
<b>Mcap (Rs Cr)</b>	69133	<b>Upside (%)</b>	16	FY11E	3901.0	86.4	19.4	3.4	1.6	17.6
<b>Kotak Bank</b>										
<b>Idirect Code</b>	KOTMAH	<b>CMP</b>	757	FY09	275.8	8.0	98.4	7.6	1.0	7.5
		<b>Target</b>	584	FY10E	444.9	12.9	61.0	6.9	1.5	11.1
<b>Mcap (Rs Cr)</b>	26924	<b>Upside (%)</b>	-23	FY11E	536.6	15.5	50.6	6.7	1.6	12.6
<b>Yes Bank</b>										
<b>Idirect Code</b>	YESBAN	<b>CMP</b>	240	FY09	303.8	10.3	22.9	4.4	1.6	20.7
		<b>Target</b>	245	FY10E	421.3	14.2	16.5	3.5	1.6	23.0
<b>Mcap (Rs Cr)</b>	7284	<b>Upside (%)</b>	2	FY11E	617.7	19.6	12.0	2.4	1.9	23.7

## Continued...

<b>IDFC</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	IDFC	<b>CMP</b>	159	FY09	748.0	5.8	26.3	3.2	2.5	12.7
		<b>Target</b>	162	FY10E	952.0	7.3	20.7	2.9	2.9	14.6
<b>Mcap (Rs Cr)</b>	20143	<b>Upside (%)</b>	2	FY11E	1103.9	8.5	17.8	2.6	2.9	15.2
<b>LICHF</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	LICHF	<b>CMP</b>	795	FY09	532.4	62.6	12.9	3.0	2.0	25.3
		<b>Target</b>	710	FY10E	608.9	63.4	12.8	2.5	1.8	21.8
<b>Mcap (Rs Cr)</b>	6794	<b>Upside (%)</b>	-11	FY11E	719.4	74.9	10.8	2.1	1.8	20.5
<b>MOSL</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	MOTOSW	<b>CMP</b>	158	FY09	93.4	6.6	23.9	2.8	8.3	11.8
		<b>Target</b>	184	FY10E	153.6	10.8	14.5	2.5	8.4	17.1
<b>Mcap (Rs Cr)</b>	2353	<b>Upside (%)</b>	16	FY11E	191.0	13.4	11.7	2.1	8.9	17.8
<b>Rel Cap</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	RELCAP	<b>CMP</b>	767	FY08	1334.7	54.2	14.7	2.5	7.7	18.6
		<b>Target</b>	800	FY09	1151.4	46.8	17.0	2.3	5.8	14.0
<b>Mcap (Rs Cr)</b>	18972	<b>Upside (%)</b>	4	FY10E	1073.5	43.6	18.2	2.0	4.6	11.6

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**Outperformer:** 20% or more;

**Performer:** Between 10% and 20%;

**Hold:**  $\pm 10\%$  return;

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