

BUZZING

STOCK

# Oriental Bank of Commerce

CMP – Rs.177

## Analyst

Ravikant Bhat  
ravikant.bhat@idbicapital.com  
+91-22-6637 1186

## Key Stock Data

Sensex	12787
Nifty	3733
Sector	Banks –Public Sector
Bloomberg	OBC.IN
Reuters	ORBC.BO
No. of shares (m)	250
Market Cap (Rs m)	44,275
Market Cap (US\$ m)	1032
52-week H/L	Rs.280/139

## Shareholding Pattern (%)

Promoters	51.09
Mutual Funds / FI's	22.04
FII's	18.96
Corporate Bodies	2.19
Pubic & Others	5.72

## Latest Updates

**1) OBC to jointly establish an insurance company** – OBC has entered into a non-binding MoU with Canara Bank and HSBC to set up and start life insurance business in the country. OBC shall own 23% of equity, while the rest shall be contributed by HSBC (26%) and Canara Bank (51%). All three bank's put together have a customer base of more than 40m people through 3,600 branches and offices. The insurance company shall have a starting capital of Rs.3,250m.

**2) PLR hike** – OBC has hiked it's PLR twice in the last quarter of FY07. It first raised PLR 25 bps in January and then by another 75bps in February taking the PLR to 12.5%.

## Q3FY07 Results

**Faster growth in business** – OBC which was targeting business to cross Rs.1,000 achieved the target in first nine months of FY07. OBC has achieved Rs.196bn additional business this year till 9MFY07 which is a YoY increase of 23.7%. The deposit base has increased 23.8% YoY to Rs.607bn and advances by 25% YoY to Rs.83bn.

The bank has been trying to maintain the retail focus by increasing lending to main retail categories like home loans by trying to achieve a more retail leverage in the balance sheet. Though the bank has been achieving disbursements to retail sector, it's low cost retail deposits remain low at 30%. The bank has added 26 more branches this year taking the branch tally to 1,233 and 98 extension counters with 62 additions happening this year alone.

Interest rate pressures are forcing banks to raise longer tenor deposits that are usually priced higher. Hence, OBC's CASA we feel may not show a rapid improvement. The bank may have to rely more on term deposits for funding going forward.

## Margin pressures remain but lower provisions lift profits

OBC's interest income has increased 25% YoY to Rs.13,137m in Q3FY07. However, as has also happened with many other banks, rising interest costs have pushed up interest expenses by 36% YoY to Rs.8,924m. The bank's NII has therefore seen a rise of 7% YoY in 3QFY07.

The non-interest income has shown a strong growth of Rs.1,201m in Q3FY07, YoY change of 50%. This is in spite of a negative growth in treasury income by Rs.544m or -35% YoY.

OBC's provisions however declined substantially and the reported net profit has therefore shown a strong 27% growth YoY. The bank's provisions have nosedived from Rs.921m to Rs.693m, a decline of 24.8% YoY.

OBC reported a net profit growth of Rs.390m to Rs.1,824m, up 27% YoY.

## Valuations

OBC's current price is 6.3x it's FY07E EPS Rs.28.3. The price is almost trading at par to the FY07E BV Rs.176.

Financial Snapshot										
Oriental Bank of Commerce						Rs.m		Ratios (%)		
	Q3FY07	Q3FY06	Chng (%)	FY06	FY05	Chng (%)		FY06	FY05	Chng (%)
Interest Income	13,137	10,499	25	41,189	35,719	15	CD	60	54	11.5
Interest expended	8,924	6,549	36	25,139	20,482	23	CAR	12	9	35.3
NII	4,213	3,950	7	16,051	15,237	5	NIM	-	-	-
Other Income	1,330	1,263	5	5,528	5,052	9	RoA	1.4	2.0	(30.8)
Net Income	5,543	5,213	6.3	21,578	20,289	6	RoE	17	31	(46.5)
Operating expenses	2,476	2,225	11	9,659	7,957	21				
Payments to employees	1,304	1,119	17	5,005	3,969	26				
Other expenses	1,173	1,106	6	4,654	3,989	17				
Operating income	3,067	2,988	3	11,920	12,332	(3)				
Provisions and contg.	693	921	(24.8)	4,731	6,462	(27)				
Provisions	0	0	-	0	0	-				
PBT	2,374	2,067	15	7,189	5,870	22				
Taxes	550	633	(13)	1,617	(1,391)	(216)				
PAT	1,824	1,434	27.2	5,571	7,261	(23)				

For further clarifications contact: Anita Bhat; anita.bhat@idbicapital.com; 91-22-6637 1187 / S. Narasimhan Rao; narasimhan.rao@idbicapital.com; 91-22-6637 1165

**Disclaimer:**  
 This document has been prepared by IDBI Capital Market Services Ltd (IDBI Capital) and is meant for the recipient for use as intended and not for circulation. This document should not be reported or copied or made available to others. The information contained herein is from the public domain or sources believed to be reliable. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. IDBI Capital, its directors and employees, will not in any way be responsible for the contents of this report. This is not an offer to sell or a solicitation to buy any securities. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis. IDBI Capital, its directors or employees, may from time to time, have positions in, or options on, and buy and sell securities referred to herein. IDBI Capital, during the normal course of business, from time to time, may solicit from or perform investment banking or other services for any company mentioned in this document.