

Oriental Bank of Commerces


 DOLAT CAPITAL

CMP: ₹ 218
Target Price: ₹ 223
Reduce

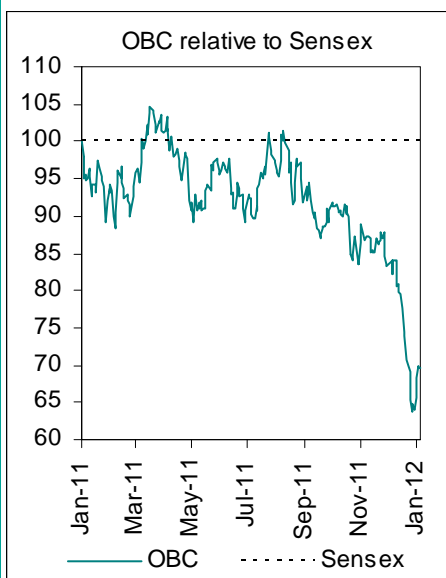
BSE Sensex	15815
NSE Nifty	4743

Scrip Details

Equity	₹2918mn
Face Value	₹ 10/-
Market Cap	₹63.6bn
	USD 1.2bn
52 week High / Low	₹ 406 / 190
Avg. Volume (no)	814,693
BSE Code	500315
NSE Symbol	ORIENTBANK
Bloomberg Code	OBC IN
Reuters Code	ORBC BO

Shareholding Pattern as on Sept'11 (%)

Promoter	58.0
MF/Banks/FIs	25.4
FIs	9.8
Public / Others	6.8



Recently, we interacted with Oriental Bank of Commerce's (OBC) management for a view on its business growth and asset quality

Healthy business expansion: In Q3 FY12, the bank's management expects credit and deposit growth in a range of 20% and 18% respectively compared to 21% and 19% in Q2 FY12. In deposits, CASA share is expected to be maintained at 23% level.

OBC's business growth in Q2 FY12 grew around 19.6%. In Q2 FY12, SME and overall priority sectors were key loan growth drivers. Going forward, higher retail term deposit rates will lead to higher deposit mobilisation. Further, OBC is expected to witness strong growth across all credit segments. Over FY11-13, we estimate OBC's business CAGR at 17%, nearly in line with the industry. On business volume growth front, we expect credit and deposit growth of 18% and 17% respectively in FY12 and 17% in FY13.

Stable margin: In Q3 FY12, NIM is expected to improve by 10 bps (QoQ) to 2.75% on the back of higher credit-deposit ratio and lesser write-back of interest income. In Q2 FY12, the bank reported margins of 2.64% compared to 3.3% in Q2 FY11 and 2.94% in Q1 FY12. We expect margin to fall by 60 bps to 2.24% (on yearly average basis) compared to the bank's management expectations of 20 bps fall to below 3% level compared to 3.2% in FY11.

Strain on asset quality: Overall, the bank's management expects gross NPA to remain stable in percentage terms on QoQ basis, but loan-restructuring to increase sharply in Q3FY12 and Q4FY12. Though, the bank's management is not sure of quantum of loan-restructuring to be done in Q3FY12, but they sounded quite negative on this front. Majority of large-ticket loan-restructuring would come from power (Rajasthan & Haryana SEBs), aviation (mainly Air India) sectors.

Asset quality deteriorated over past couple of quarters as CBS implementation led to ₹ 8bn of slippages in Q2 FY12. During Q2 FY12, the bank completed 100% migration of its loan book under the system-driven NPA recognition platform as expected.

The bank's exposure to power sector is close to ₹ 135bn (13% of total advances), of which 71% is with central & state government projects and rest with private companies' projects. Total exposure to state electricity boards is ₹ 81bn of which ₹ 38bn is secured by state government guarantee.

Financials

Year	NII	PPP	NP	NIM (%)	BV (Rs)	ABV (₹)	RoAA (%)	ROAE	P/B (x)	P/ABV (x)	P/E(x)
FY10	29,074	24,215	11,347	2.4	292	272	0.9	16.5	0.7	0.8	4.8
FY11	41,775	32,451	15,029	2.9	350	326	1.0	17.1	0.6	0.7	3.6
FY12E	38,049	28,563	10,229	2.2	377	323	0.6	9.6	0.6	0.7	6.2
FY13E	42,348	30,248	9,453	2.1	402	325	0.5	8.3	0.5	0.7	6.7

Figure in ₹ mn

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January 9, 2012

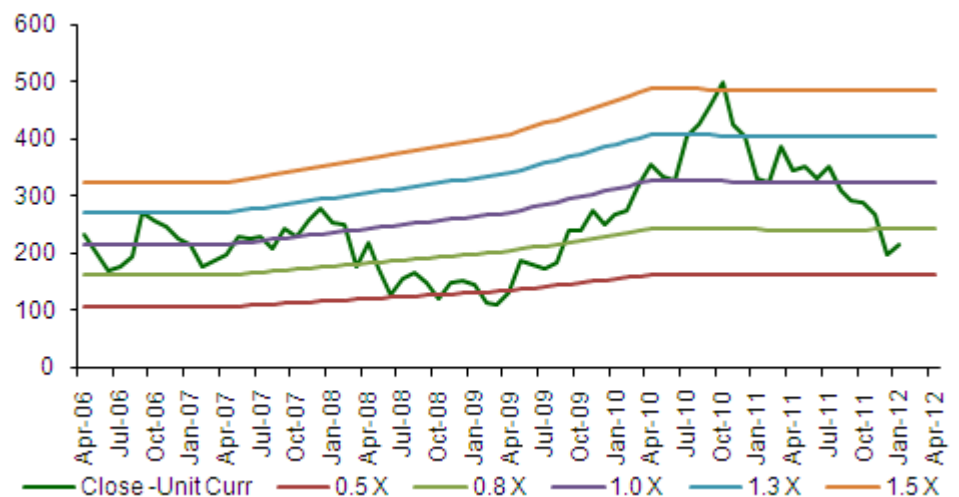
The bank's management expects Rajasthan & Haryana SEBs loans to come for restructuring in Q3FY12. The bank's exposure to GTL group (₹ 5bn) has been already restructured. In Aviation sector, the bank's total exposure is ₹ 15bn (1.4% of total advances), of which exposure to Kingfisher is ₹ 460mn (backed by receivables). Rest is with AirIndia and Jet Airlines. Post FY12, the bank's management expects things to revive in FY13 on restructuring front.

On gross NPA front, we factor increase in GNPA to 3.2% March-2012 from 1.98% in March-2011 and 2.95% in Q2FY12. On loan-restructuring front, we expect doubling of restructured loan book to ₹ 92bn on end-March-12 from ₹ 52bn as on end March-11.

Valuation

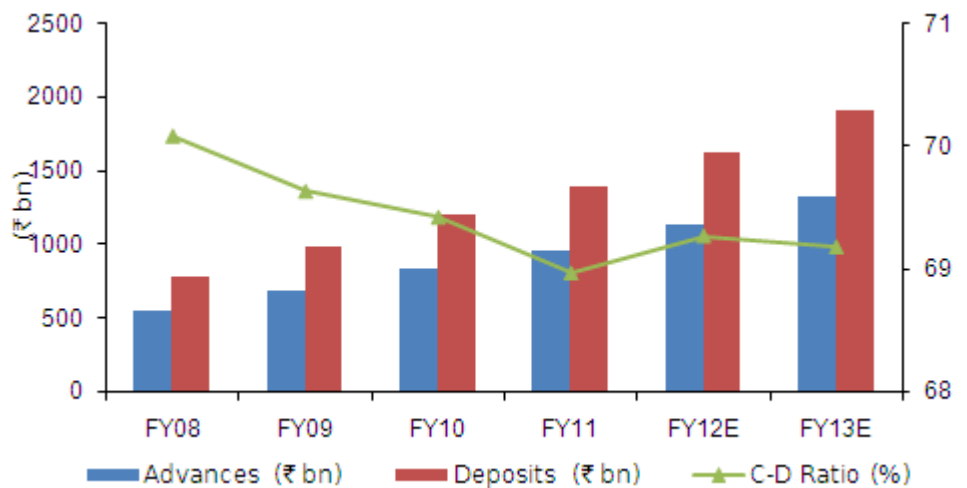
We expect business to grow 17% CAGR during FY11-13 and margins to hover around 2.2-2.3%. At current market price of ₹ 218, the stock quotes at 0.67x adjusted book value FY13. We value the bank at ₹ 223 at 0.7x ABV FY13; we rate the stock as a Reduce.

OBC's P/BV Chart



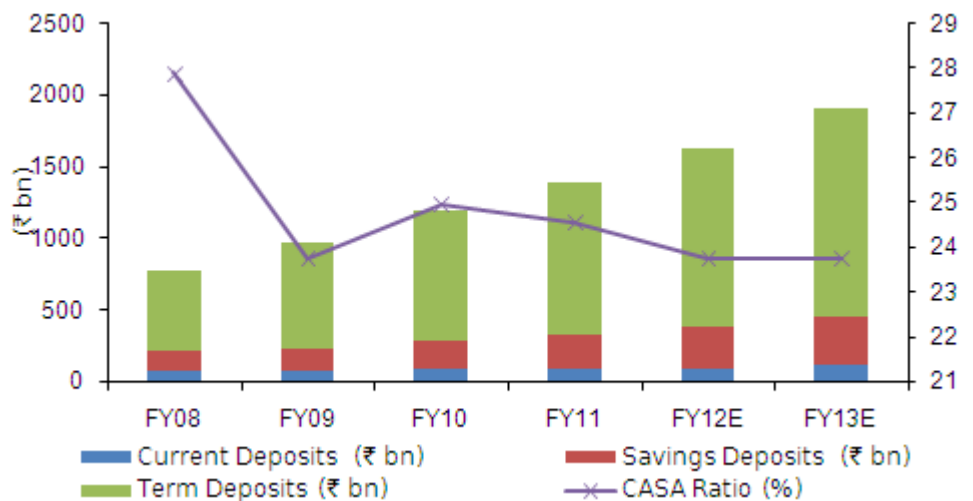
Source: Banks, Dolat Research

OBC's Business Mix



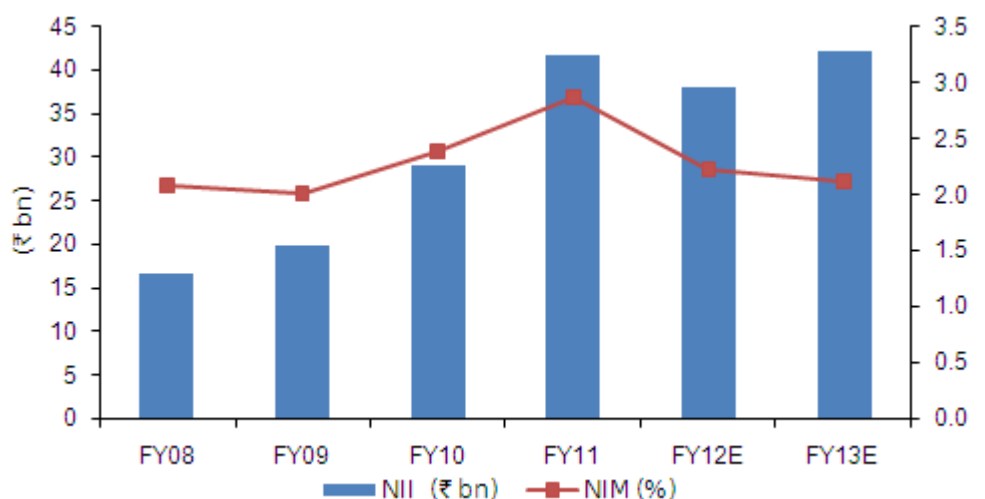
Source: Banks, Dolat Research

OBC's Deposit Profile



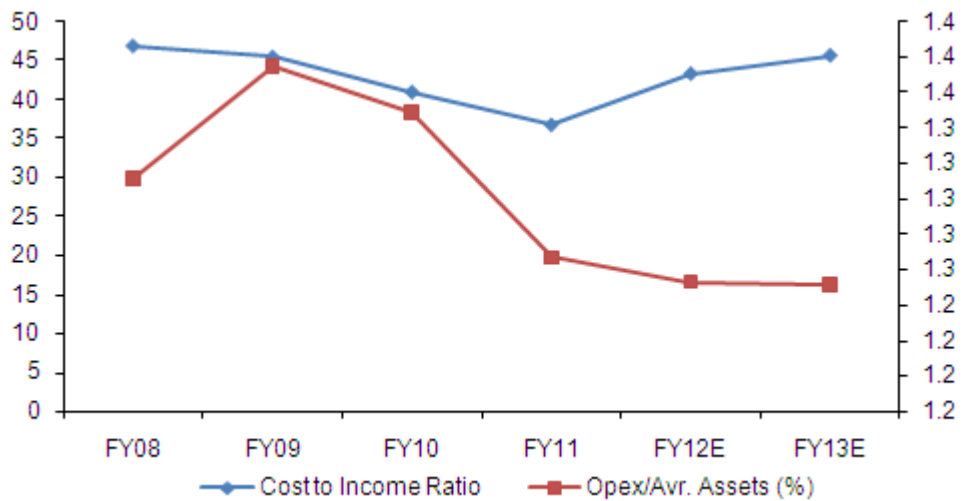
Source: Banks, Dolat Research

OBC's NII & NIM (%)



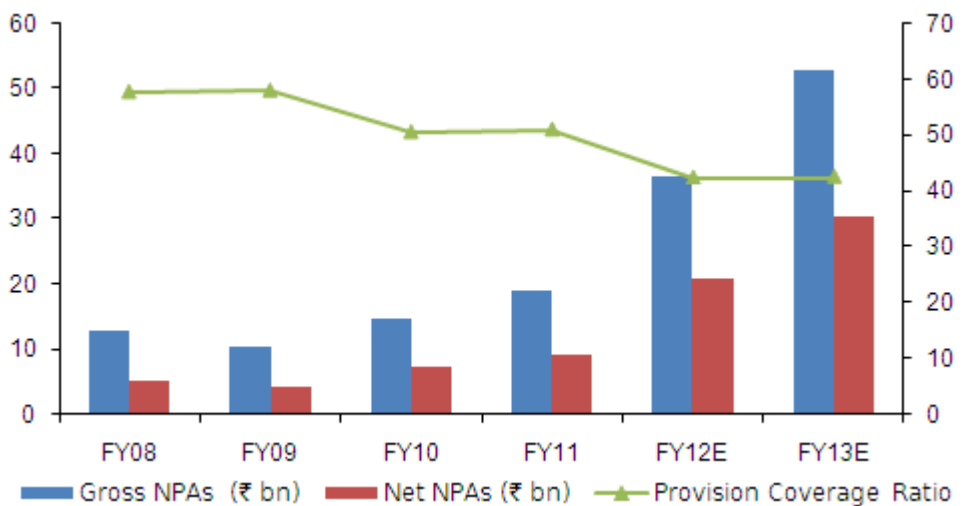
Source: Banks, Dolat Research

OBC's Operating Cost Structure (%)



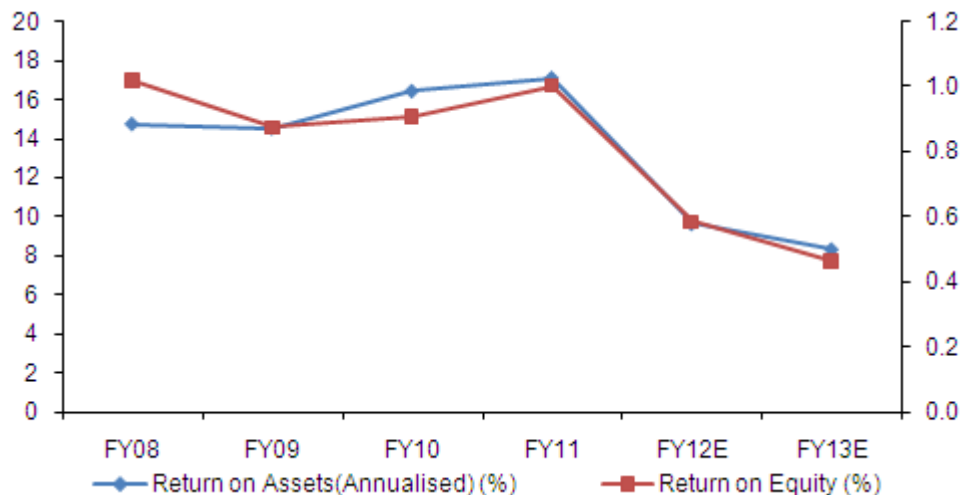
Source: Banks, Dolat Research

OBC's Asset Quality



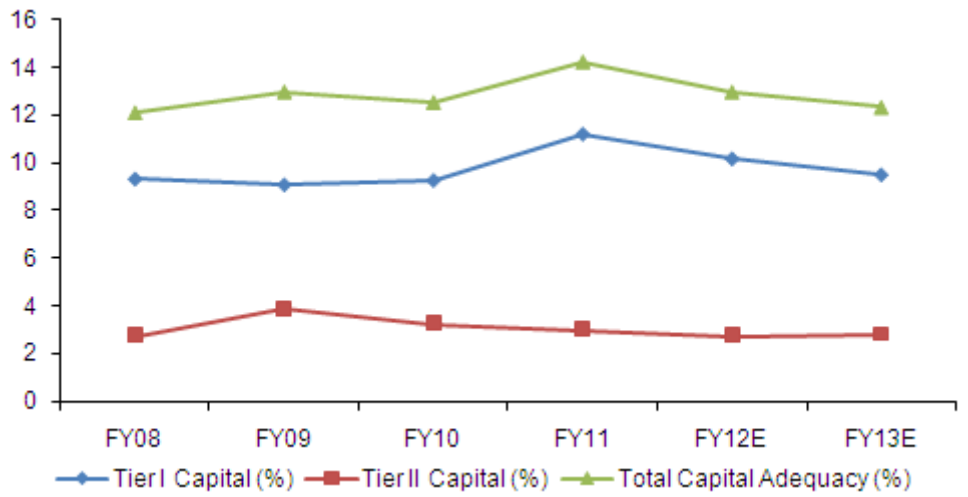
Source: Banks, Dolat Research

OBC's Return Ratios (%)



Source: Banks, Dolat Research

OBC's Capital Adequacy (%)



Source: Banks, Dolat Research

INCOME STATEMENT					IMPORTANT RATIOS				
Particulars	Rs.mn				Particulars	Mar10	Mar11	Mar12E	Mar13E
	Mar10	Mar11	Mar12E	Mar13E					
Net Interest Income	29,074	41,775	38,049	42,348	DPS (Rs)	9.1	11.0	8.0	8.0
CXB	5,721	6,349	7,280	8,260	Book Value (Rs)	292	350	377	402
Profits on sale of investments	4,236	754	1,550	1,250	Adjusted Book Value (Rs)	272	326	323	325
Profits on foreign exchange	759	1,233	1,788	1,838	EPS (Rs)	45	60	35	32
Other operating income	1,284	1,265	1,815	2,080	EPS Growth (%)	27.4	32.3	(41.5)	(7.6)
Total other income	12,000	9,601	12,433	13,428	Payout (%)	20.1	18.4	22.8	24.7
Total Income	41,075	51,376	50,482	55,776	Net interest margin (%)	2.4	2.9	2.2	2.1
Salaries	9,713	10,485	11,851	13,523	Spread (%)	1.9	2.4	1.7	1.6
Other operating costs	7,147	8,440	10,068	12,005	Cost-to-income (%)	41.0	36.8	43.4	45.8
Total Overheads	16,860	18,925	21,919	25,528	ROAA				
Profit before provisions	24,215	32,451	28,563	30,248	Net Interest Income	2.3	2.8	2.2	2.1
Bad Debt Provisions	5,316	9,344	10,055	12,750	Other Income	1.0	0.6	0.7	0.7
Stnd. Asset Provision	320	350	767	830	Less Overheads	(1.3)	(1.3)	(1.3)	(1.3)
Investment Provisions	(5)	963	1,500	1,265	Less Provisions	(0.7)	(0.8)	(0.9)	(0.9)
Other provision	2,529	1,427	2,550	2,640	Less Tax	(0.4)	(0.4)	(0.2)	(0.2)
Total provisions	8,160	12,083	14,872	17,485	ROAA	0.9	1.0	0.6	0.5
Profit before tax	16,055	20,368	13,691	12,763	ROAE	16.5	17.1	9.6	8.3
Tax	4,708	5,339	3,462	3,310	Valuation				
Reported Net profit	11,347	15,029	10,229	9,453	Price Earnings (x)	4.8	3.6	6.2	6.7
BALANCE SHEET					Price to Book Value (x)	0.7	0.6	0.6	0.5
Particulars	Mar10	Mar11	Mar12E	Mar13E	Price to Adjusted BV (x)	0.8	0.7	0.7	0.7
Cash with RBI	80,868	95,151	110,705	129,474	Dividend Yield (%)	4.2	5.1	3.7	3.7
Cash at call	65,131	95,736	90,820	101,663	Asset Quality				
Total Cash	145,999	190,887	201,525	231,137	Gross NPLs	14,688	19,206	36,646	52,971
Govt. securities	327,530	365,997	428,165	507,271	Restructured standard Loans	57,250	52,410	72,100	91,785
Other investments	30,323	54,750	69,701	82,579	Gross Impaired Loans	71,938	71,616	108,746	144,756
Total Investments	357,853	420,748	497,866	589,850	Net NPLs	7,238	9,382	21,067	30,392
Bills discounted	28,650	26,849	56,543	66,125	Provision coverage ratio (%)	50.7	51.2	42.5	42.6
Cash credit	289,642	383,245	418,419	489,325	Gross NPLs (%)	1.7	2.0	3.2	3.9
Term loans	516,601	548,988	655,900	767,050	Net NPLs (%)	0.9	1.0	1.9	2.3
Total Credit	834,893	959,082	1,130,862	1,322,500	Assumptions				
Gross Fixed Assets	21,385	22,364	24,292	27,750	Yield on Advances (%)	10.0	10.0	11.2	11.3
Accumulated Depreciation	7,566	8,627	9,162	9,788	Yield on Investment (%)	7.7	7.1	7.6	7.6
Net Fixed Assets	13,820	13,737	15,130	17,962	Cost of Deposits (%)	6.4	5.8	7.5	7.7
Capital work in progress	121	241	0	0	Interest Inc. on Cash (%)	1.6	2.0	1.5	1.4
Other Assets	21,624	28,739	40,158	33,650	CRAR (%)	12.5	14.2	13.0	12.3
Total Assets	1,374,310	1,613,434	1,885,541	2,195,099	Growth in credit book (%)	21.9	14.9	17.9	16.9
Demand Deposits	102,173	93,976	102,029	119,472	Growth in Deposits (%)	22.3	15.6	17.4	17.1
Savings Deposits	198,056	247,504	285,681	334,521	Growth in Investments (%)	25.6	17.6	18.3	18.5
Term Deposits	902,347	1,049,063	1,244,751	1,457,557	Gross slippages ratio (%)	1.5	1.7	2.9	3.2
Total Deposits	1,202,576	1,390,543	1,632,460	1,911,550	Credit Cost (%)	0.7	1.0	1.0	1.0
Perpetual Debts (IPDI)	5,500	8,500	10,500	13,500	E-estimates				
Upper Tier II Capital	10,000	11,000	12,500	15,000					
Subordinate Debt	10,000	11,000	12,500	15,000					
Other Borrowings	23,370	25,892	45,691	50,357					
Total Borrowings	48,870	56,392	81,191	93,857					
Other liabilities	40,484	55,528	53,420	64,500					
Equity	2,505	2,918	2,918	2,918					
Reserves	79,874	108,054	115,552	122,274					
Total Equity	82,379	110,971	118,470	125,192					
Total Liab & Equity	1,374,310	1,613,434	1,885,541	2,195,099					



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BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside up to 5%
SELL	Negative Returns

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