

Recommendation	BUY
CMP (15/05/2013)	Rs.270
Target Price	Rs 324
Sector	Banking

**Stock Details**

BSE Code	500315
NSE Code	ORIENTBANK
Bloomberg Code	OBC IN
Market Cap (Rs cr)	7,512
Free Float (%)	42%
52- wk HI/Lo (Rs)	367/207.5
Avg. volume BSE (Quarterly)	75389
Face Value (Rs)	10
Dividend (FY 13)	92%
Shares o/s (Crs)	29.17

Relative Performance	1Mth	3Mths	1Yr
OBC	11.0%	-13.7%	17.6%
Sensex	8.3%	3.2%	22.3%

**Shareholding Pattern** 31<sup>st</sup> Mar 2013

Promoters Holding	58.00%
Institutional (Incl. FII)	34.81%
Corporate Bodies	2.41%
Public & others	4.78%

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**Higher slippages impact performance; valuations attractive**

The bank's operating performance for Q4FY13 was below estimates primarily due to higher provisions and stress on asset quality. Interest reversals on slippages impacted margins and therefore NIMs were flat sequentially. Higher operating cost (Rs 140 cr on employee wage revision) and higher provisions impacted the performance. However, tax write back helped the bank to report PAT of Rs 308 cr (down 5.7% QoQ and up 16.2% YoY). PAT for FY13 stood at Rs 1328 cr up by 16.3% YoY.

Although the quarter was below expectation on many counts; what is encouraging is excluding the one off; slippages was in line with expectation and also the bank has been able to increase its CASA ratio and improve its cost to income ratio on YoY basis. Moreover, the restructured book of the bank has come down substantially from 9.5% of advance book in Q3FY13 to 7.7% of total book in Q4FY13. Going forward, Management sticks to its guidance of improving NIMs and bringing down NPA levels.

The stock has been underperforming in the last one quarter despite the outperformance of the broader indices owing to the concerns relating to the bank's asset quality (high restructured book) and the lower return ratios. We believe that the current price factors in most of the concerns and the risk reward ratio turns favourable for the stock with limited downside from current levels. **Considering the structural improvements taking place in the balance sheet, we expect the bank's profitability to grow at 18.8% CAGR over FY13-FY15E. At CMP, the stock is trading at 0.75x and 0.69x FY14E and FY15E Adj BVPS and 5.0x and 4.2x FY14E and FY15E EPS respectively. In view of the recent correction in the stock price, we recommend to BUY the stock with a target price of Rs 324 (0.9x FY14E BV) indicating potential upside of 20% from current levels.**

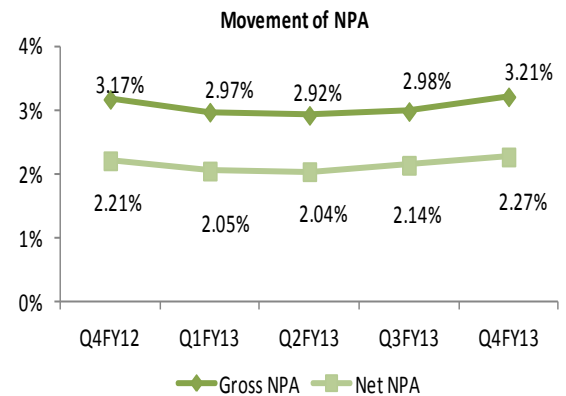
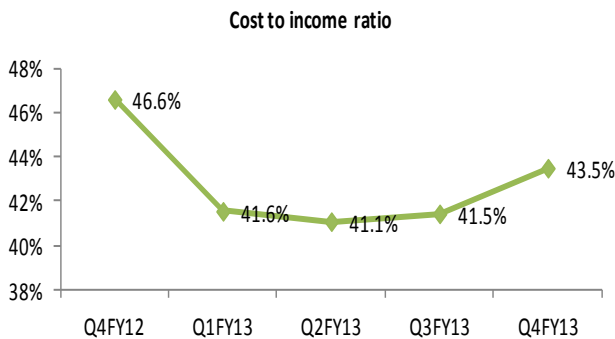
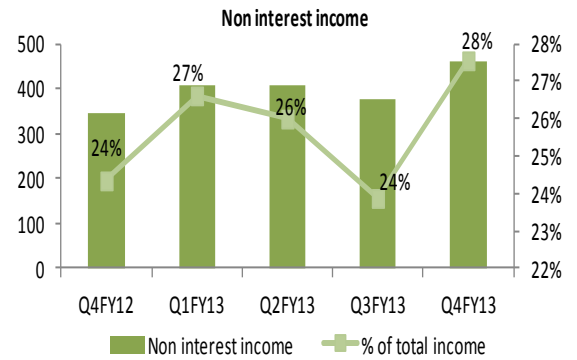
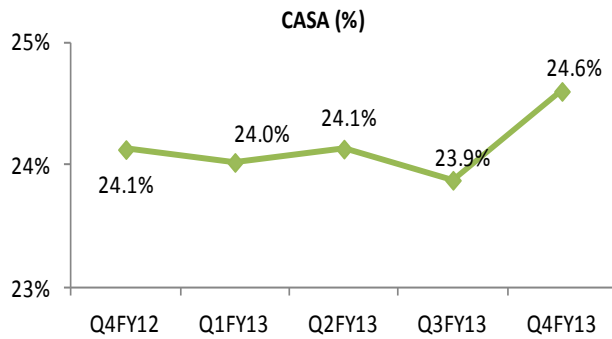
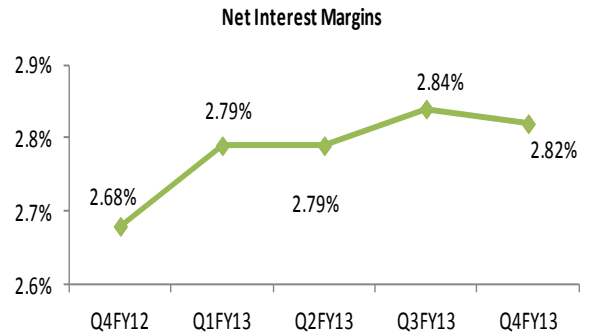
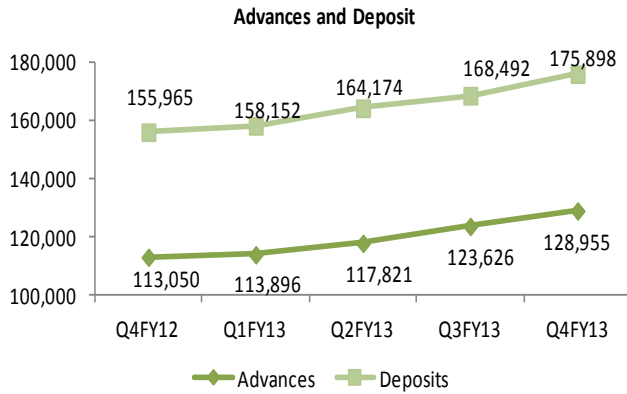
- Slippages stood at Rs 1,040 cr (vs Rs 813 cr in Q3FY13)
- Gross NPAs increased substantially as one solar power account of Rs 420 cr which the bank had initially guided for restructuring; turned into NPA owing to some issues on promoter guarantee.
- The bank added Rs 800 cr to its restructured book taking the total restructured book stands at Rs 9,940 cr (7.7% of total advance book)
- The restructuring pipeline for the bank stands at Rs 800 cr for Q1FY14E excluding Punjab SEB which has likely made a turnaround and would not approach for restructuring.
- Management has guided for Gross NPA of 2.9% and Net NPA of 2% with Provision Coverage Ratio at 68%.
- Capital Adequacy Ratio stood at 12.0% as on March 2013 with Tier I ratio of 9.2%.
- The bank declared dividend of Rs 9.2 per share; translating into a dividend yield of 3.4%.

Year	NII (Rs crs)	Growth (%)	Profit bef prov (Rs crs)	PAT (Rs. crs)	EPS (Rs)	P/E (x)	ABV (Rs)	P/ABV (x)	ROE %
FY12A	4,216	0.9%	3,141	1,142	39.13	6.90	242.7	1.11	9.9%
FY13A	4,701	11.5%	3,691	1,328	45.52	5.93	328.8	0.82	10.7%
FY14E	5,469	16.3%	4,334	1,576	54.01	5.00	359.2	0.75	11.8%
FY15E	5,934	8.5%	4,756	1,874	64.24	4.20	393.7	0.69	12.7%

## Oriental Bank of Commerce

Income Statement	Q4FY13	Q4FY12	YoY (%)	Q3FY13	QoQ (%)	Comments	FY13	FY12	YoY (%)
Advances	128,955	111,978	15.2%	123,626	4.3%	Advances grew by 14.1% yoy and 4.3% qoq. Retail advances increased 25% yoy. Large and mid corporate advances grew by 17.5% yoy and 13.3% yoy respectively.	128,955	111,978	15.2%
Deposits	175,898	155,965	12.8%	168,492	4.4%		175,898	155,965	12.8%
<b>CASA ratio</b>	<b>24.6%</b>	<b>24.1%</b>		<b>23.9%</b>		CASA deposits grew 14.8% YoY and 7.3% QoQ leading to an improvement in CASA ratio both QoQ and YoY.	<b>24.6%</b>	<b>24.1%</b>	
Interest Earned	4,534	4,221	7.4%	4,469	1.5%		17,705	15,815	12.0%
Interest Expended	3,321	3,153	5.3%	3,264	1.7%		13,004	11,599	12.1%
<b>Net Interest Income</b>	<b>1,214</b>	<b>1,068</b>	<b>13.6%</b>	<b>1,204</b>	<b>0.8%</b>	Net Interest Income grew by 13.6% YoY and was flat QoQ. Reported NIM was stable sequentially as yield on advances declined owing to interest reversals. Bulk deposits increased 9% QoQ and stood at 20% of deposits vs 19% in the previous quarter.	<b>4,701</b>	<b>4,216</b>	<b>11.5%</b>
<b>NIMs</b>	<b>2.82%</b>	<b>2.68%</b>		<b>2.84%</b>		Although cost of deposits declined; yield on advances also declined resulting in flat NIMs.			
Other Income	462	344	34.3%	378	22.2%	Non-interest income witnessed strong growth driven by strong recoveries in written off accounts and higher treasury income. Fee income also witnessed improvement QoQ	1,655	1,240	33.4%
Total Income	1,675	1,412	18.7%	1,582	5.9%		6,356	5,456	16.5%
<b>Other income as % of total income</b>	<b>27.6%</b>	<b>24.3%</b>		<b>23.9%</b>			<b>26.0%</b>	<b>22.7%</b>	
Payment to employees	443	396	11.9%	391	13.4%		1576	1357	16.2%
Other operating expenses	286	262	9.1%	265	7.9%		1089	959	13.6%
Total operating expenses	729	658	10.8%	656	11.1%		2665	2315	15.1%
<b>Cost to income ratio</b>	<b>43.5%</b>	<b>46.6%</b>		<b>41.5%</b>		Operating expenses increased 10.8% YoY and 11.1% QoQ led by 11.9% YoY and 13.4% growth in staff cost. The bank provided Rs 140 cr towards additional pension liabilities. Despite this C/I ratio improved YoY to 43.5% on YoY basis.	<b>41.9%</b>	<b>42.4%</b>	
<b>Profit before provisioning</b>	<b>947</b>	<b>754</b>	<b>25.5%</b>	<b>926</b>	<b>2.2%</b>		<b>3,691</b>	<b>3,141</b>	<b>17.5%</b>
Provisions	759	534	42.0%	604	25.7%		2,155	1,715	25.6%
Profit before tax	188	220	(14.5%)	323	(41.8%)		1,536	1,426	7.7%
Tax	(120)	(45)	165.1%	(4)	3021.8%		208	284	(26.8%)
<b>Profit after tax</b>	<b>308</b>	<b>265</b>	<b>16.2%</b>	<b>326</b>	<b>(5.7%)</b>		<b>1,328</b>	<b>1,142</b>	<b>16.3%</b>
EPS	10.6	9.1	16.2%	11.2	(5.7%)		45.5	39.1	16.3%
<b>Gross NPA</b>	<b>3.21%</b>	<b>3.17%</b>		<b>2.98%</b>		Asset quality deteriorated with GNPA and NNPA increasing both QoQ and YoY. Slippages increased by Rs 1,040 cr of which Rs 460 cr came from a large solar power account. Provisions increased by 42% QoQ.	<b>3.21%</b>	<b>3.17%</b>	
<b>Net NPA</b>	<b>2.27%</b>	<b>2.21%</b>		<b>2.14%</b>		The bank restructured Rs 800 cr in Q4FY13 and the outstanding restructured book stood at Rs 9,940 cr (7.7% of total loan book). Rs 1400 cr was upgraded from the restructured book due to the new RBI guidelines on restructuring. The restructuring pipeline for Q1FY14 is at Rs 800 cr excluding Punjab SEB.	<b>2.27%</b>	<b>2.21%</b>	

Source: Company data, Nirmal Bang Research



## Financials

Profitability (Rs. Crs)	FY12	FY13	FY14E	FY15E	Balance Sheet (Rs. Crs)	FY12	FY13	FY14E	FY15E
Interest earned	15,815	17,705	19,670	21,863	Deposits	155,965	175,898	205,645	239,577
Interest expended	11,599	13,004	14,201	15,928	(of which CASA)	(37,628)	(43,185)	(50,794)	(59,894)
<b>Net interest income</b>	<b>4,216</b>	<b>4,701</b>	<b>5,469</b>	<b>5,934</b>	Borrowings	5,259	7,679	8,012	8,459
Non interest income	1,240	1,655	1,903	2,188	Other liab and prov	4,368	4,345	4,779	5,257
<b>Total income</b>	<b>5,456</b>	<b>6,356</b>	<b>7,372</b>	<b>8,122</b>	Total liabilities	165,592	187,922	218,437	253,293
Operating expenses	2,315	2,665	3,038	3,366	Equity capital	292	292	292	292
Staff costs	1,357	1,576	1,813	1,994	Reserves and Surplus	11,651	12,484	13,718	15,217
Other Op Exp	959	1,089	1,225	1,372	<b>Net worth</b>	<b>11,943</b>	<b>12,776</b>	<b>14,010</b>	<b>15,509</b>
<b>Operating profit</b>	<b>3,141</b>	<b>3,691</b>	<b>4,334</b>	<b>4,756</b>	<b>Total liab and equity</b>	<b>177,535</b>	<b>200,697</b>	<b>232,447</b>	<b>268,802</b>
Provisions	1,715	2,155	2,135	2,141	Cash and bank bal	8,727	8,590	7,579	6,773
Profit before tax	1,426	1,536	2,199	2,616	Investments	52,101	58,555	67,530	78,488
Taxes	284	208	624	742	Advances	111,978	128,955	152,473	178,394
<b>Net profit</b>	<b>1,142</b>	<b>1,328</b>	<b>1,576</b>	<b>1,874</b>	Fixed assets	1,421	1,227	1,326	1,432
<b>Quarterly (Rs. Crs)</b>	<b>June.12</b>	<b>Sep.12</b>	<b>Dec.12</b>	<b>Mar.13</b>	Other assets	3,308	3,370	3,539	3,716
<b>Net interest income</b>	1,126	1,157	1,204	1,214	<b>Total assets</b>	<b>177,535</b>	<b>200,697</b>	<b>232,447</b>	<b>268,802</b>
Non interest income	408	407	378	462	<b>Key Ratios</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14E</b>	<b>FY15E</b>
<b>Total income</b>	1,534	1,564	1,582	1,675	<b>Yield Ratios</b>				
Operating expenses	638	643	656	729	<b>Avg Yield on Assets</b>	10.2%	9.4%	8.9%	8.5%
<b>Operating profit</b>	897	921	926	947	Yield on Advances	11.6%	11.4%	11.4%	11.4%
Provisions	332	460	604	759	Yield on Investments	7.2%	7.0%	7.1%	7.1%
Profit before tax	564	461	323	188	<b>Cost of Int Bearing Liab</b>	7.6%	7.5%	7.2%	6.9%
Taxes	173	159	(4)	(120)	Cost of Deposits	7.6%	7.5%	7.1%	6.8%
<b>Net profit</b>	391	302	326	308	Net Interest Spread	2.6%	1.9%	1.8%	1.6%
<b>Profitability Ratios</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14E</b>	<b>FY15E</b>	NIM	2.7%	2.7%	2.8%	2.8%
Cost / Income Ratio	42.4%	41.9%	41.2%	41.4%	<b>Balance Sheet Ratios</b>				
Net profit margin	20.9%	20.9%	21.4%	23.1%	Gross NPA	3.2%	3.2%	3.2%	3.3%
RONW	9.9%	10.7%	11.8%	12.7%	Net NPA	2.2%	2.3%	2.2%	2.3%
<b>Growth Ratios</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14E</b>	<b>FY15E</b>	Return on Assets	0.7%	0.7%	0.7%	0.7%
Advances Growth	16.8%	15.2%	18.2%	17.0%	CASA	24.1%	24.6%	24.7%	25.0%
Deposit Growth	12.2%	12.8%	16.9%	16.5%	Loan-deposit ratio	71.8%	73.3%	74.1%	74.5%
NII Growth	0.9%	11.5%	16.3%	8.5%	Provision cov ratio	31.7%	30.0%	33.0%	33.0%
PAT Growth	-24.0%	16.3%	18.7%	18.9%	<b>Per share data</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14E</b>	<b>FY15E</b>
Pre prov growth	-3.2%	17.5%	17.4%	9.7%	EPS	39.1	45.5	54.0	64.2
Non int income growth	29.2%	33.4%	15.0%	15.0%	BVPS	380	408	450	502
<b>Valuation Ratios</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14E</b>	<b>FY15E</b>	Adjusted BVPS	243	329	359	394
P/BV	0.71	0.66	0.60	0.54	Dividend per share	7.9	9.2	10.0	11.0
P/ABV	1.11	0.82	0.75	0.69	Dividend yield	2.9%	3.4%	3.7%	4.1%
P/E	6.90	5.93	5.00	4.20					

Source: Company data, Nirmal Bang Research

## NOTES

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