

Oriental Bank of Commerce

Performance Highlights

Particulars (Rs cr)	1QFY11	4QFY10	% chg (qoq)	1QFY10	% chg (yoy)
NII	1,057	989	6.9	484	118.4
Pre-prov. profit	822	777	5.8	517	59.1
PAT	363	317	14.6	257	41.1

Source: Company, Angel Research

Oriental Bank of Commerce (OBC) posted net profit growth of 41.1% on a yoy basis and 14.6% on a sequential basis to Rs363cr, above our estimate of Rs325cr mainly because of better-than-estimated NII coupled with lower provisioning expenses. Robust operating performance with a stable asset quality was the key highlight of the result.

Strong core performance: Advances and deposits growth stood at 20.3% and 19.8% yoy, respectively. The bank's reported NIM in 1QFY2011 improved to 3.34% (from 3.27% in 4QFY2010) due to the fall in the cost of deposits from 5.65% to 5.61% in 4QFY2010; however, on a yoy basis, it declined sharply by 180bp, which was reflected in strong NII growth. Asset quality performance was impressive relative to its peers. Gross NPA and net NPA ratios stood at 1.7% (1.7% in 4QFY2010) and 0.7% (0.9% in 4QFY2010), respectively. The resilience in restructured accounts is commendable considering a slippage of Rs373cr (relatively low slippage ratio of 7% of total restructured accounts of Rs5,318cr). The bank has already provided Rs220cr in FY2010 towards pension liability (which could be Rs500cr–600cr) During the quarter, the bank also provided Rs50cr as per the revised gratuity liability, which could be approximately Rs200cr.

Outlook and valuation: In light of the bank's improved near-term NIMs and asset quality and consistent with our revised target multiples for other banks, we upgrade our FY2012E target P/ABV multiple for OBC to 1.05x. This is still at a discount to peers, keeping in mind OBC's relatively lower sustainable RoAs because of its weak deposit mix (low CASA of 25%) and low fee income. NIMs are likely to witness pressure in the coming quarters as deposit rates go up. At the CMP, the stock is trading at 5.7x FY2012E EPS of Rs66.9 and 0.97x FY2012E ABV of Rs389.6, lower than our target multiple of 1.05x. Hence, **we recommend an Accumulate on the stock with a Target Price of Rs409.**

Key Financials

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
NII	1,997	2,907	3,890	4,237
% chg	18.7	45.6	33.8	8.9
Net Profit	742	1,202	1,523	1,676
% chg	110.2	62.0	26.7	10.0
NIM (%)	2.0	2.4	2.7	2.5
EPS (Rs)	36.1	45.3	60.8	66.9
P/E (x)	10.5	8.4	6.2	5.7
P/ABV (x)	1.5	1.4	1.1	1.0
RoA (%)	0.9	0.9	1.0	0.9
RoE (%)	14.8	16.5	19.2	18.3

Source: Company, Angel Research

ACCUMULATE

CMP	Rs379
Target Price	Rs409

Investment Period	12 Months
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Stock Info

Sector	Banking
Market Cap (Rs cr)	9,487
Beta	1.1
52 Week High / Low	385/161
Avg. Daily Volume	1,36,698
Face Value (Rs)	10
BSE Sensex	17,992
Nifty	5,409
Reuters Code	ORBC.BO
Bloomberg Code	OBC@IN

Shareholding Pattern (%)

Promoters	51.1
MF / Banks / Indian Fls	27.8
FII / NRIs / OCBs	16.0
Indian Public / Others	5.1

Abs. (%)	3m	1yr	3yr
Sensex	2.8	18.6	18.1
OBC	9.4	127.1	62.7

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Exhibit 1: 1QFY2011 performance

Particulars (Rs cr)	1QFY2011	4QFY2010	% chg (qoq)	1QFY2010	% chg (yoy)
Interest earned	2,831	2,685	5.4	2404	17.7
Interest expenses	1,774	1,696	4.6	1920	(7.6)
NII	1,057	989	6.9	484	118.4
Non-interest income	215	265	(19.1)	392	(45.2)
Total income	1,272	1,255	1.4	876	45.2
Operating expenses	450	478	(5.9)	359	25.2
Pre-prov. profit	822	777	5.8	517	59.1
Provisions & cont.	228	417	(45.4)	151	50.6
PBT	594	359	65.3	366	62.6
Prov. for taxes	231	42	444.2	108	113.6
PAT	363	317	14.6	257	41.1
EPS (Rs)	14.5	12.7	14.6	10.3	41.1
Cost-to-income ratio (%)	35.4	38.1		41.0	
Effective tax rate (%)	38.9	11.8		29.6	
Net NPA (%)	0.7	0.9		0.7	

Source: Company, Angel Research

Exhibit 2: 1QFY2011 actual v/s Angel estimates

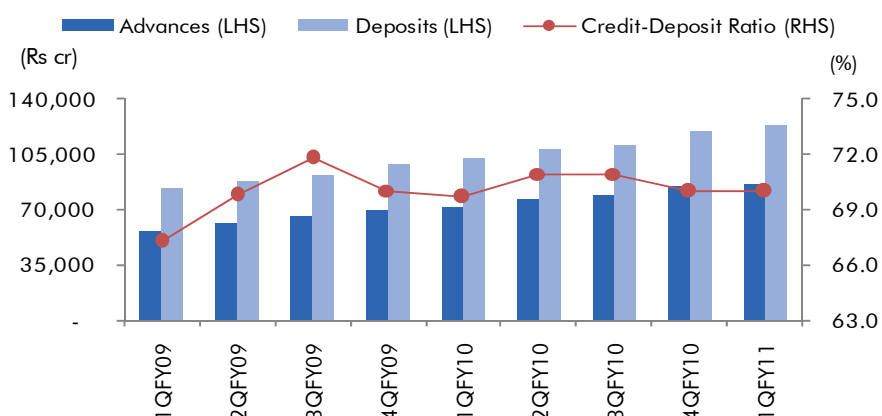
Particulars (Rs cr)	Actual	Estimates	Var. (%)
NII	1,057	972	8.8
Non-interest income	215	226	(5.1)
Total income	1,272	1,198	6.2
Operating expenses	450	434	3.5
Pre-prov. profit	822	763	7.7
Provisions & cont.	228	269	(15.2)
PBT	594	495	20.2
Prov. for taxes	231	170	36.2
PAT	363	325	11.8

Source: Company, Angel Research

Advances growth in line with the industry

During 1QFY2010, business growth stood at 20.0% yoy, driven by advances growth of 20.3% yoy to Rs86,098cr and deposits growth of 19.8% yoy to Rs1,23,057cr. The bank's CD ratio remained stable sequentially at 70.0%. SME exposure of the bank increased to Rs12,365cr from Rs7,080cr, thereby registering robust growth of 75%. CASA deposits increased by 28.5% yoy to Rs29,963cr, which constituted 24.3% of the total deposits. Total sanctions outstanding at the end of 1QFY2011 stood at Rs12,000cr. OBC targets to grow its advances and deposits by 21% and 22%, respectively for FY2011E.

Exhibit 3: Trend in advances and deposits



Source: Company, Angel Research

Substantial NIM improvement in last few quarters

The bank's reported NIM in 1QFY2011 improved to 3.34% (from 3.27% in 4QFY2010) due to the fall in the cost of deposits from 5.65% to 5.61% in 4QFY2010. The improvement was more dramatic on a yoy basis due to a sharp 180bp decline in cost of deposits, which was reflected in strong NII growth of 118.4% yoy. We expect the bank to witness relatively higher downward pressure on NIMs as deposit rates go up in the coming quarters.

Non-interest income declines due to poor treasury income

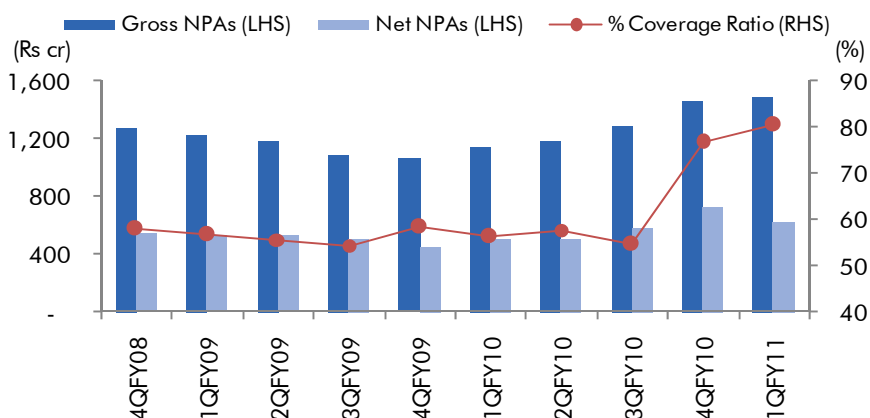
The bank's non-interest income declined by 45.2% yoy to Rs215cr, due to a 92.9% decline in the profit on sale of investments to Rs17cr. However, core non-interest income (excluding treasury) was strong at Rs198cr, up 27.7% yoy, driven by commission, exchange and brokerage (30.2% yoy) and profit from Forex transactions (24.0% yoy). Income from recoveries grew by 14.6% yoy to Rs16cr. During the quarter, the bank marketed over 6,000 policies with first premium collection of Rs25cr and booked gross commission income of Rs10cr from the operations of its life insurance joint venture.

Commendable asset quality performance

OBC's gross NPAs increased marginally by 1.8% sequentially to Rs1,495cr in 1QFY2011. As a result, gross NPA and net NPA ratios stood at 1.7% (1.7% in 4QFY2010) and 0.7% (0.9% in 4QFY2010), respectively. Even the resilience in restructured accounts is commendable considering a slippage of Rs373cr (relatively low slippage ratio of 7% of total restructured accounts of Rs5,318cr). However, management indicated that 2QFY2011 is more crucial for a major portion of the restructured book.

On the back of strong operating performance, the bank improved its provision coverage ratio (including technical write-off) to 80.4% in 1QFY2011 from 76.7% in 4QFY2010.

Exhibit 4: Trend in asset quality



Source: Company, Angel Research, Note: NPA coverage % excluding technical write-offs till 3QFY2010

Investment portfolio

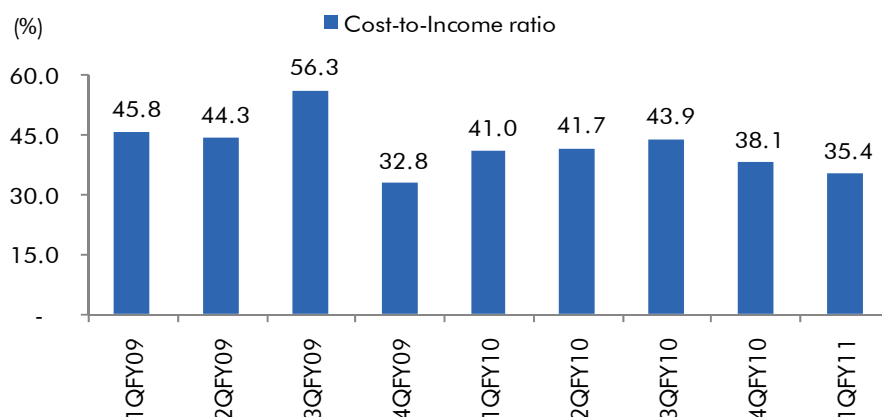
Out of the total investment portfolio of Rs37,482cr, the bank holds 80% in HTM and 20% in AFS. The modified duration of its AFS portfolio stood at 3.2 years at the end of the quarter.

Proactive provisioning towards pension, gratuity

OBC's total operating expenses increased by 25.5% yoy and declined by 5.9% sequentially to Rs450cr. The cost-to-income ratio stood at 35.4%, substantially better than its eight-quarter average of 43.0%, driven by an 11.5% decline in employee costs on a sequential basis. The bank has already provided Rs220cr in FY2010 towards pension liability (which could be approximately Rs500cr–600cr). During the quarter, the bank also provided Rs50cr as per the revised gratuity liability, which could be approximately Rs200cr.

During 1QFY2011, the bank added 13 branches and 59 ATMs, increasing its total network to 1,526 and 1,034, respectively.

Exhibit 5: Trend in productivity

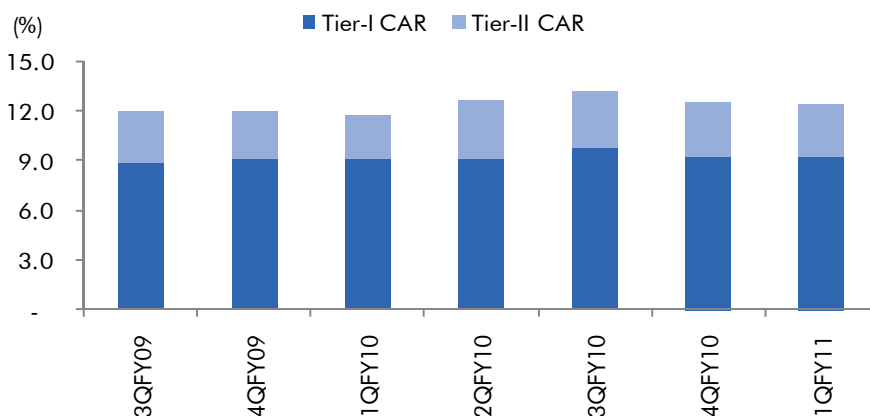


Source: Company, Angel Research

Comfortable capital adequacy

The bank's CAR stood at 12.4%, with Tier-I capital of 9.2% (forming 74% of the total CAR). With the government holding already at the minimum permissible level of 51%, the bank has requested the government for capital infusion of Rs1,000cr. However, the bank still has adequate headroom to raise Tier-II capital (as indicated by the higher proportion of Tier-I capital to CAR).

Exhibit 6: Comfortable capital adequacy



Source: Company, Angel Research

Investment Arguments

Low operating costs owing to urban-centric business

OBC's strong balance sheet growth is funded largely by bulk deposits, which resulted in substantial compression in NIM (70bp) during FY2007–09. However, during FY2010, the NIM improved by 40bp to 2.4%, largely driven by deposit repricing benefit. Structurally, low margins of the bank are compensated by low opex/average assets of the bank. In fact, at FY2010 opex level of 1.3% of average assets, the bank's cost efficiency was the highest compared to peers, partly because of its urban-centric branch network and corporate-focused business.

Good asset quality attributable to large corporate credit book

Corporate credit comprised a substantial 45% of the bank's credit book at the end of FY2010. Consequently, asset quality was relatively under control, with slippages at 1.6% in FY2010. Thus, low credit cost, coupled with low operating costs, to an extent, compensate for the bank's low NIM.

Modest CASA franchise and fee income

On account of bulk deposits comprising a substantial 23% of deposits at the end of 1QFY2011 and CASA ratio being one of the lowest amongst peers (24.3%), OBC is relatively more exposed to NIM pressure in a rising interest rate environment. The bank's fee income, at 0.6% of average assets in FY2010, was also one of the lowest amongst PSU banks.

Outlook and valuation

In light of the bank's improved near-term NIMs and asset quality and consistent with our revised target multiples for other banks, we upgrade our FY2012E target P/ABV multiple for OBC to 1.05x. This is still at a discount to peers, keeping in mind OBC's relatively lower sustainable RoAs because of its weak deposit mix (low CASA of 25%) and low fee income. NIMs are likely to witness pressure in the coming quarters as deposit rates go up. At the CMP, the stock is trading at 5.7x FY2012E EPS of Rs66.9 and 0.97x FY2012E ABV of Rs389.6, lower than our target multiple of 1.05x. Hence, **we recommend an Accumulate on the stock with a Target Price of Rs409.**

Exhibit 7: Key assumptions

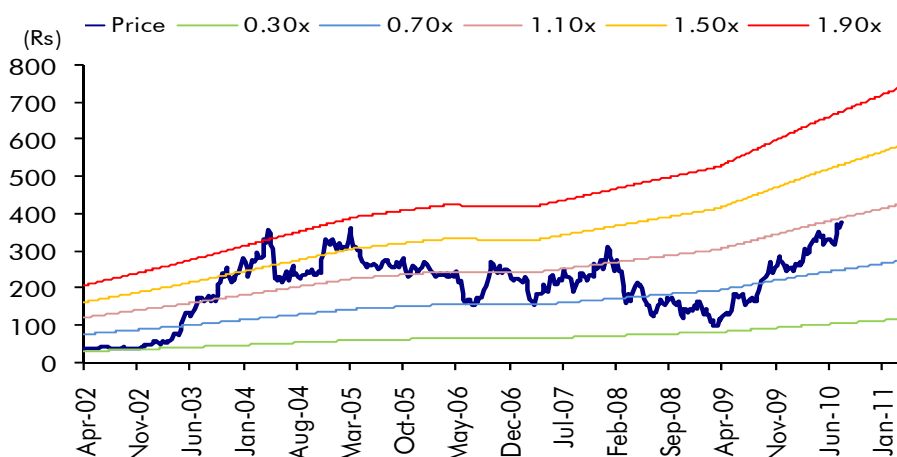
Particulars (%)	Earlier estimates		Revised estimates	
	FY2011E	FY2012E	FY2011E	FY2012E
Credit growth	18.0	18.0	20.0	18.0
Deposit growth	17.0	16.0	19.0	16.0
CASA ratio	24.5	23.9	24.1	23.5
NIM	2.7	2.5	2.7	2.5
Other income growth	(19.8)	16.5	(20.0)	16.6
Growth in staff expenses	12.0	16.0	12.0	16.0
Growth in other expenses	12.0	16.0	12.0	16.0
Slippages	1.7	1.8	1.4	1.3
Coverage ratio	71.0	72.6	70.4	70.1
Treasury gain/(loss) (% of investments)	0.1	0.1	0.1	0.1

Source: Company, Angel Research

Exhibit 8: Change in estimates

Particulars (Rs cr)	FY2011E			FY2012E		
	Earlier estimates	Revised estimates	% chg	Earlier estimates	Revised estimates	% chg
NII	3,859	3,890	0.8	4,291	4,237	(1.3)
Non-interest income	963	961	(0.2)	1,122	1,120	(0.1)
Total income	4,821	4,850	0.6	5,413	5,357	(1.0)
Operating expenses	1,889	1,889	-	2,191	2,191	-
Pre-prov. profit	2,932	2,962	1.0	3,222	3,166	(1.7)
Provisions & cont.	768	654	(14.9)	949	626	(34.0)
PBT	2,164	2,308	6.7	2,273	2,540	11.7
Prov. for taxes	736	785	6.7	773	863	11.7
PAT	1,428	1,523	6.7	1,500	1,676	11.7

Source: Company, Angel Research

Exhibit 9: P/ABV band


Source: Company, Angel Research

Exhibit 10: Recommendation summary

Company	Reco.	CMP (Rs)	Tgt. price (Rs)	Upside (%)	FY2012E P/ABV (x)	FY2012E Tgt P/ABV (x)	FY2012E P/E (x)	FY10-12E CAGR in EPS (%)	FY2012E RoA (%)	FY2012E RoE (%)
AXISBK	Buy	1,362	1,688	23.9	2.6	3.2	13.5	27.4	1.6	20.5
HDFCBK	Buy	2,102	2,514	19.6	3.3	4.0	17.5	36.5	1.7	20.6
ICICIBK	Buy	927	1,145	23.6	1.8	2.2	15.4	29.2	1.4	15.1
YesBk	Neutral	292	-	-	2.3	-	14.8	18.7	1.3	17.1
SIB	Neutral	190	-	-	1.1	-	6.7	17.1	1.0	17.8
FedBk	Neutral	353	-	-	1.0	-	7.5	31.4	1.4	14.6
SBI	Accumulate	2,473	2,596	5.0	1.4	1.6	10.8	25.7	1.0	19.5
BOI	Neutral	411	-	-	1.3	-	8.0	24.3	0.8	17.3
CorpBk	Accumulate	569	607	6.6	1.0	1.1	5.4	13.4	1.0	20.5
IndBk	Neutral	225	-	-	1.1	-	5.5	7.6	1.3	21.0
DenaBk	Buy	99	114	15.7	0.8	1.0	4.4	12.1	0.9	18.9
IOB	Accumulate	115	125	9.1	0.8	0.9	5.8	23.8	0.6	14.6
OBC	Accumulate	379	409	8.0	1.0	1.1	5.7	21.6	0.9	18.3
PNB	Reduce	1,054	948	(10.1)	1.4	1.3	7.1	9.5	1.2	22.0
UnionBk	Neutral	315	-	-	1.2	-	5.6	17.1	1.1	24.1
UcoBk	Buy	92	112	21.5	0.8	1.0	4.0	12.0	0.8	23.8

Source: Company, Angel Research

Income statement

Y/E March (Rs cr)	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E
Net Interest Income	1,605	1,691	1,682	1,997	2,907	3,890	4,237
- YoY Growth (%)	5.3	5.4	(0.6)	18.7	45.6	33.8	8.9
Other Income	553	612	628	1,071	1,200	961	1,120
- YoY Growth (%)	8.5	10.6	2.6	70.7	12.0	(20.0)	16.6
Operating Income	2,158	2,303	2,310	3,068	4,107	4,850	5,357
- YoY Growth (%)	6.1	6.7	0.3	32.8	33.9	18.1	10.4
Operating Expenses	966	998	1,080	1,383	1,686	1,889	2,191
- YoY Growth (%)	21.4	3.3	8.2	28.1	21.9	12.0	16.0
Pre - Provision Profit	1,192	1,305	1,230	1,685	2,421	2,962	3,166
- YoY Growth (%)	(3.7)	9.5	(5.7)	37.0	43.7	22.3	6.9
Prov. & Cont.	228	252	(32)	526	818	654	626
- YoY Growth (%)	(43.8)	10.8	(112.6)	(1748.9)	55.6	(20.0)	(4.2)
Profit Before Tax	964	1,053	1,262	1,159	1,604	2,308	2,540
- YoY Growth (%)	15.8	9.2	19.9	(8.1)	38.3	43.9	10.0
Prov. for Taxation	161	226	421	254	469	785	863
- as a % of PBT	16.7	21.5	33.3	21.9	29.3	34.0	34.0
PAT	803	827	841	905	1,134	1,523	1,676
- YoY Growth (%)	(17.4)	2.9	1.7	7.6	25.3	34.3	10.0

Balance sheet

Y/E March (Rs cr)	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E
Share Capital	251	251	251	251	251	251	251
Reserves & Surplus	4,920	5,350	5,525	7,153	7,987	9,188	10,513
Deposits	50,197	63,996	77,857	98,369	120,258	143,107	166,004
- Growth (%)	4.9	27.5	21.7	26.3	22.3	19.0	16.0
Borrowings	876	623	1,840	722	2,887	3,436	3,985
Tier 2 Capital	567	1,476	1,726	2,000	2,000	2,400	2,832
Other Liab. & Prov.	2,126	2,242	3,507	4,044	4,048	5,162	6,126
Total Liabilities	58,937	73,936	90,705	112,539	137,431	163,543	189,710
Cash Balances	4,263	5,336	7,322	6,880	8,087	10,017	12,450
Bank Balances	1,262	2,173	2,892	5,345	6,513	7,751	8,991
Investments	16,818	19,808	23,951	28,489	35,785	41,405	45,252
Advances	33,577	44,138	54,566	68,500	83,489	100,187	118,221
- Growth (%)	32.7	31.5	23.6	25.5	21.9	20.0	18.0
Fixed Assets	384	383	387	1,384	1,394	1,609	1,811
Other Assets	2,633	2,098	1,587	1,940	2,162	2,573	2,985
Total Assets	58,937	73,936	90,705	112,539	137,431	163,543	189,710
- Growth (%)	9.0	25.4	22.7	24.1	22.1	19.0	16.0

Ratio analysis

Y/E March	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E
Profitability ratios (%)							
NIMs	3.0	2.7	2.1	2.0	2.4	2.7	2.5
Cost to Income Ratio	44.8	43.3	46.7	45.1	41.1	38.9	40.9
RoA	1.4	1.2	1.0	0.9	0.9	1.0	0.9
RoE	18.9	15.4	14.8	14.8	16.5	19.2	18.3
B/S ratios (%)							
CASA Ratio	32.6	30.3	27.9	23.7	25.0	24.1	23.5
Credit/Deposit Ratio	66.9	69.0	70.1	69.6	69.4	70.0	71.2
CAR	11.0	12.5	12.1	11.4	11.7	10.5	10.5
- Tier I	10.4	10.1	9.3	8.0	8.7	7.8	7.8
Asset Quality (%)							
Gross NPAs	6.0	3.2	2.3	1.5	1.7	1.6	1.5
Net NPAs	0.5	0.5	1.0	0.6	0.9	0.5	0.4
Slippages	1.4	1.1	1.3	0.9	1.6	1.4	1.3
Loan Loss Prov./Avg. Assets	0.0	(0.3)	(0.2)	0.2	0.4	0.4	0.3
Provision Coverage	92.3	85.2	57.9	58.2	50.7	70.4	70.1
Per Share Data (Rs)							
EPS	32.1	33.0	33.6	36.1	45.3	60.8	66.9
ABVPS	206.4	223.5	221.8	250.4	278.0	337.1	389.6
DPS	5.2	4.7	4.7	7.3	9.1	11.0	12.0
Valuation Ratios							
PER (x)	11.8	11.5	11.3	10.5	8.4	6.2	5.7
P/ABVPS (x)	1.8	1.7	1.7	1.5	1.4	1.1	1.0
Dividend Yield	1.4	1.2	1.2	1.9	2.4	2.9	3.2
DuPont Analysis (%)							
NII	2.8	2.5	2.0	2.0	2.3	2.6	2.4
(-) Prov. Exp.	0.4	0.4	(0.0)	0.5	0.7	0.4	0.4
Adj. NII	2.4	2.2	2.1	1.4	1.7	2.2	2.0
Treasury	0.3	0.2	0.2	0.5	0.3	0.0	0.0
Int. Sens. Inc.	2.8	2.3	2.3	1.9	2.0	2.2	2.1
Other Inc.	0.6	0.8	0.6	0.6	0.6	0.6	0.6
Op. Inc.	3.4	3.1	2.8	2.5	2.6	2.8	2.7
Opex	1.7	1.5	1.3	1.4	1.3	1.3	1.2
PBT	1.7	1.6	1.5	1.1	1.3	1.5	1.4
Taxes	0.3	0.3	0.5	0.2	0.4	0.5	0.5
RoA	1.4	1.2	1.0	0.9	0.9	1.0	0.9
Leverage (x)	13.3	12.3	14.5	16.6	18.1	19.0	19.2
RoE	18.9	15.4	14.8	14.8	16.5	19.2	18.3

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Disclosure of Interest Statement

	Oriental Bank of Commerce
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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