



RATING RATIONALE

15 Oct 2019

Oriental Bank of Commerce

Brickwork Ratings reaffirms the ratings of 'BWR A+' for Innovative Perpetual Debt Instrument amounting to Rs.800 Cr and reaffirms the rating of 'BWR A+' for Upper Tier II Bond issue of Rs.200 Cr of Oriental Bank of Commerce. The Rating is placed on Credit Watch with Developing Implications.

Particulars

Instrument	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (March 2019)	Present
Innovative Perpetual Debt Instrument	500 (raised ₹ 300 Cr)	500 (raised ₹ 300 Cr)	Long Term	BWR A+ (Outlook: Stable)	BWR A+ (Credit Watch with Developing Implications) Reaffirmed, removed outlook and placed on Credit watch
Innovative Perpetual Debt Instrument	300	300	Long Term	BWR A+ (Outlook: Stable)	BWR A+ (Credit Watch with Developing Implications) Reaffirmed, removed outlook and placed on Credit watch
Upper Tier II Bonds	200	200	Long Term	BWR A+ (Outlook: Stable)	BWR A+ (Credit Watch with Developing Implications) Reaffirmed, removed outlook and placed on Credit watch
Total	1000	1000	INR One Thousand Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings
Complete details of ISIN wise is provided in Annexure-I

Rating Action/ Outlook

Brickwork Ratings (BWR) has reaffirmed the ratings and placed the ratings on Credit Watch with Developing Implications by removing the outlook of bond issues of Oriental Bank of Commerce as tabulated above. The reaffirmation continues to factor in the Government of India (GOI)'s support with equity stake of 87.58%, business growth with an increase in advances, improving asset quality with gross NPA of 12.5% and net NPA of 5.91%, and comfortable capital adequacy ratios as of June 30, 2019, however earnings remain volatile and CASA ratio is declining as of June 30, 2019. The Government of



India (GOI) in August 2019 announced proposed amalgamation of 10 Public Sector Bank (PSBs) to form 4 PSBs wherein Oriental Bank of Commerce and United Bank of India is proposed to be amalgamated with Punjab National Bank. The Board's of the respective Banks have accorded their in-principle approval for the proposed amalgamation during September 2019. Brickwork Ratings has taken note and placed the ratings of bonds of these banks on Credit Watch with Developing Implications. The amalgamation is expected to bring in synergies of technology and human resources, increase the business and asset size and improve upon cost efficiency through branch rationalisation and asset monetisation, and reduce dependencies on GOI for capital infusion, strengthen capital and thereby manage the asset quality. However, any extension in timelines for completion of amalgamation and the smooth transition of the amalgamation shall be the rating sensitivities. BWR shall continue to monitor the developments in these Banks and effect appropriate rating action. With the proposed amalgamation, the merged bank of PNB-OBC- UnitedBOI shall make it as the second largest PSB following the State Bank of India

Key Rating Drivers

BWR has essentially relied upon the audited financials upto FY19 and unaudited financials of Q1FY20 of Oriental Bank of Commerce, publicly available information and information/ clarifications provided by the Bank's management.

Credit Strengths:

- The Bank's business has crossed Rs.4 lac crores as of Q1FY20, advances have increased by 16.39% to Rs.1.70 lac cr on yoy basis; CASA is 28.73% (Q1FY19: 31.40%)
- The Bank's Gross NPA and Net NPA is 12.56% and 5.91% respectively as of June 30, 2019. It has been improving over the last few quarters
- As of June 30, 2019, the Bank's Capital adequacy ratios of CRAR, Tier I and CET-1 of 13.77%, 10.94% and 10.81% respectively are comfortable and above the regulatory requirement.

Credit Risks:

- As of Q1FY20, NII and Operating profits have marginally decreased from previous quarter
- Cost to income ratio has increased to 50.88% as of Q1FY20 is higher than its amalgamating banks (Punjab National Bank @ 44% and United Bank of India @49.6%)
- The Bank's asset quality has been improving with a decrease in Gross NPA of Rs.26,141 Cr in Q1FY19 to Rs.21,717 Cr in Q4FY19 and Rs.21,369 Cr in Q1FY20. However, slippages to NPA have remained volatile over the quarters and stood at Rs.1,413 Cr as of June 30, 2019. The Bank has a Provision Coverage Ratio of 76.32% and is better than the PSBs average PCR of 74.05%. Fresh slippages or additional provisioning requirement on account of ageing of the NPAs remains a key monitorable.

Analytical Approach and Applicable Rating Criteria

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).



Rating Sensitivities

The focus post amalgamation in the initial few months is likely to move from credit growth and investments to achieving synergies between the entities, enable better customer management, effect branch rationalisation and manpower optimisation;

The Combined entities will have bigger business size, ability to manage costs and improve profitability, reduce stress on the asset quality and strengthen the capital adequacy. However, the ability of the banks to stabilise operations and increase focus on business growth and investment within a year shall be beneficial for these entities, an extension of that time frame shall be a key rating sensitivity

Positive: Amalgamation of Oriental Bank of Commerce and United Bank of India with Punjab National Bank is expected to be a credit positive for the Banks. However, it can be strongly ascertained on receipt of consolidated financials of these amalgamating banks.

Negative: Prolongment of amalgamation process and delay in increasing the business growth may lead to rating action or revision in outlook

Liquidity Position: Adequate

Oriental Bank of Commerce has adequate liquidity with the Liquidity Coverage Ratio (LCR) of 120.74% as of June 30, 2019. The minimum LCR required is 100%.

Key Covenants of the facilities rated

BWR has rating of two issues of Innovative Perpetual Debt Instruments and Upper Tier II bonds. The Innovative Perpetual Debt Instruments of Rs.300 Cr (out of the rated Rs.500 Cr) raised in Dec 2009 has a coupon of 9.10% payable annually, the Innovative Perpetual Debt Instruments of Rs.300 Cr raised in September 2010 has a coupon of 9.05% payable annually. The Upper Tier II bond issue of Rs.200 Crores raised in September 2010 has a coupon of 8.68% payable annually and the tenor is 15 years. The coupon payments on these bond issues is serviced regularly and confirmed by the Debenture Trustee.

Key Financial Indicators (in INR Crs)

Oriental Bank of Commerce	Audited	Audited	Audited	UnAudited	UnAudited
Key Parameters – Rs Cr	FY 2017	FY 2018	FY 2019	Q1FY19	Q1FY20
Total Deposits	219,339	207,346	232,645	201,774	232,374
<i>Deposit Growth (in %)</i>	<i>4.99%</i>	<i>-5.47%</i>	<i>12.20%</i>		<i>15.17%</i>
Gross Advances	166,438	148,206	171,549	146,159	170,121
<i>Loans Growth (%)</i>	<i>8.33%</i>	<i>-10.95%</i>	<i>15.75%</i>		<i>16.39%</i>
Total Business	385,777	355,552	404,194	347,933	402,495
<i>Business Growth (%)</i>	<i>6.41%</i>	<i>-7.83%</i>	<i>13.68%</i>		<i>15.68%</i>
CASA Ratio %	30.50%	31.68%	29.40%	31.40%	28.73%
Profitability Ratios (%)					

RoE (%)	Negative	Negative	0.46%	-15.92%	3.27%
RoA (%)	Negative	Negative	0.02%	-0.65%	0.16%
NIM (%)	2.42%	2.17%	2.73%	2.82%	2.41%
Net Interest Income (NII)	4910	4511	5498	1338	1371
Non-Interest Income	2766	2782	2669	461	715
Operating Profits	4170	3703	3754	724	1025
Provisions	5264	9575	3699	1117	912
PAT	-1094	-5872	55	-393	113
Cost to Income Ratio (%)	45.66%	49.22%	54.05%	59.72%	50.88%
Asset Liability Profile (%)					
Loans/Deposit Ratio	75.88%	71.48%	73.74%	72.44%	73.21%
Gross NPAs to Advances	13.73%	17.63%	12.66%	17.89%	12.56%
Net NPAs to Advances	8.96%	10.48%	5.93%	10.63%	5.91%
Std. Restructured Adv as a % of Gross Adv.	3.63%	0.51%	0.24%	0.41%	0.31%
Gross NPA% + SRA % (Stressed Advances)	17.36%	18.14%	12.90%	18.30%	12.87%
Provision Coverage Ratio	53.61%	64.07%	75.84%	64.59%	76.32%
CRAR	11.64%	10.50%	12.73%	10.25%	13.77%
<i>Tier I</i>	8.88%	7.61%	9.98%	7.28%	10.94%
<i>CET-I</i>	7.59%	7.46%	9.86%	7.13%	10.81%
<i>AT-I</i>	1.29%	0.15%	0.12%	0.15%	0.13%
<i>Tier II</i>	2.76%	2.89%	2.75%	2.97%	2.83%
<i>Book Value</i>	365.7	162.86	100.59	na	na
<i>GOI stake</i>	58.38%	77.23%	87.58%	77.23%	87.58%

na: not available

About the Bank

Background: Oriental Bank of Commerce ('OBC') is a Public Sector Bank with its corporate office based in Gurugram, and having operations in all major commercial centres in the country. As of June 30, 2019, it had 2,390 branches and 2,620 ATMs.

Management: Shri Mukesh Kumar Jain is the Managing Director and Chief Executive Officer of the Bank since July 15, 2017. He is supported by two Executive Directors Shri Balakrishna Alse and Shri Vijay Dube.

Non Co-operation with previous Rating agencies - Not Applicable

Rating History for the last three years (including withdrawn/suspended ratings)

S. No	Instrument	Current Rating			Rating History		
		Type	Amount (Rs Crs)	Rating	30-Mar-2019	26 Mar 2018	25 Oct 2017
1	Innovative Perpetual Debt instrument	Long term	500 (raised Rs.300 Cr)	BWR A+ (Credit watch with Developing Implications) Reaffirmed; removed outlook and placed on Credit Watch	BWR A+ (Outlook: Stable) reaffirmed	BWR A+ (Outlook:Negative) reaffirmed	BWR A+ (Credit watch with Positive Implications)
2	Innovative Perpetual Debt instrument	Long term	300	BWR A+ (Credit watch with Developing Implications) Reaffirmed; removed outlook and placed on Credit Watch	BWR A+ (Outlook: Stable) reaffirmed	BWR A+ (Outlook:Negative) reaffirmed	BWR A+ (Credit watch with Positive Implications)
3	Upper Tier II Bonds	Long term	200	BWR A+ (Credit watch with Developing Implications) Reaffirmed; removed outlook and placed on Credit Watch	BWR A+ (Outlook: Stable) reaffirmed	BWR A+ (Outlook:Negative) reaffirmed	BWR A+ (Credit watch with Positive Implications)
4	Lower Tier II Bonds	Log terms	300 (Nil raised)	-	Withdrawn	BWR AA- (Outlook:Negative) reaffirmed	BWR AA- (Credit watch with Positive Implications)
	Total		1300	Rupees One Thousand Three Hundred Crores Only			

Complexity Levels of the Instrument: Highly Complex

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Complexity levels of the Rated Instruments](#)
- [Banks and Financial Institutions](#)
- [Basel III Compliant Instruments](#)

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Oriental Bank of Commerce
ISIN wise facilities
Annexure-1

Type of Instrument	Issue Date	Amount (₹ Cr)	Interest Rate	Maturity Date	ISIN
Innovative Perpetual Debt Instrument	17-Dec-2009	500 (raised ₹ 300 Cr)	9.10%	Perpetual	INE141A09108
Innovative Perpetual Debt Instrument	17-Sep-2010	300	9.05%	Perpetual	INE141A09116
Upper Tier II Bond	20-Sep-2010	200	8.68%	20-Sep-2025	INE141A09124
Total		1000	INR One Thousand Crores Only		

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About Brickwork Ratings :Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.



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