

Oriental Bank of Commerce

May 22, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Basel III Compliant Tier II Bonds	3,000	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A+; Negative (Single A Plus; Outlook: Negative)
Lower Tier II Bonds	1,025	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A+; Negative (Single A Plus; Outlook: Negative)
Upper Tier II Bonds	700	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A; Negative (Single A; Outlook: Negative)
Perpetual Tier I Bonds	600	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A; Negative (Single A; Outlook: Negative)
Total	5,325 (Rupees Five Thousand Three Hundred and Twenty Five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in outlook of the rating of Oriental Bank of Commerce (OBC) takes into account substantial capital infusion by Government of India of Rs.6,686 crores during FY19 resulting in significant improvement in capital adequacy ratios and improvement in asset quality with reduction in Net NPA levels to less than 6% as on Mar-19. Also, the bank has reported net profits of Rs.55 crore during FY19 following large losses of Rs.5,872 crore in FY18.

The rating continues to derive strength from the majority ownership of the Government of India (GoI) and demonstrated strong support by GoI, long standing track record of operations of the bank with widespread branch network, healthy resource and liquidity profile. The ratings also take into consideration the growth in deposits and advances during FY19. CARE has also noted removal of restrictions on OBC under Prompt Corrective Action framework w.e.f January 31, 2019

The ratings, however, continue to be constrained by modest asset quality albeit improvement seen in FY19 and moderate profitability with marginal profits reported in FY19 following losses for two consecutive years.

Going forward continued ownership and support from GoI and the bank's ability to grow its loan book and improve its profitability while maintaining adequate capitalization and further improve its asset quality would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership of GoI and long track record

OBC is a nationalized bank of significant size which has a long track record of operations of over 75 years with a pan India network. Government of India is the major shareholder in OBC and has demonstrated strong support through regular capital infusion. In FY19, GoI had infused capital of Rs.6,686 crore (PY: Rs.3,571 crores) in the bank as part of its recapitalization programme for Public Sector Banks (PSBs). Consequently, the shareholding of GoI has increased from 77.23% as on Mar-18 to 87.58% as on March 31, 2019.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Comfortable capital structure

OBCs capital profile had been impacted following large losses in FY18. However, with significant infusion of capital by the GOI in FY19, issue of shares of Rs.250 crore to employees under Employee Share Purchase Scheme (ESPS) and credit accretive lending by the bank to conserve capital (reduction in Risk Weighted Assets by 0.6% despite a growth in gross advances by 15.75% during FY19), the capital ratios of OBC have improved significantly as reflected by CAR, Tier-I CAR and CET-I ratios of 12.73%, 9.98% and 9.86% respectively as on March 31, 2019 as against 10.50%, 7.61% and 7.46% respectively as on Mar-18 (an increase by more than 200 bps). As per the Capital Adequacy Norms, banks are required to maintain CAR, Tier-I CAR and CET 1 (including CCB) of 10.875%, 8.875% & 7.375% which will increase by 0.625% as on Mar-20. The capital ratios of the bank are thus sufficiently above the current minimum regulatory capital requirement (including CCB) as on Mar-19.

The bank is planning to raise further capital of nearly Rs.3,000 crore over the next 2 years including Rs.1000 crore through QIP in FY20, which is expected to maintain the cushion in terms of capital adequacy in view of 8-9% increase in RWA envisaged in line with 10-12% growth in advances and increased capital requirement as on Mar-20.

Growth in advances during FY19 particularly retail segment

The bank has seen healthy growth in advances by 16% to Rs.1,71,549 crores as on March-2019. Much of this growth in advances has been seen in Q4FY19 post equity infusion and consequent lifting of the restrictions on the bank under the PCA framework on January 31, 2019.

Growth has largely been seen in RAM (Retail, Agriculture & MSME) segment which forms 55% of the overall gross advances of OBC (excluding IBPC) as on Mar-19 whereas there has been decline in credit to corporates. OBC has stated its intent to focus on growth in retail segment with target to increase the share of RAM to around 65-70% over the next 3 years.

Comfortable resources profile

OBC continues to enjoy healthy deposits profile on the back of its franchise and GOI ownership. OBC's deposits grew by 12.20% to Rs.2,32,645 crore as on Mar-19 with CASA deposits growing by 4% during the period. OBC's CASA Deposits constituted 29.40% of the overall deposit base of the bank as on Mar-19 (albeit declined from 31.68% as on Mar-18). The ability of OBC to increase its share of CASA deposits in the overall deposit profile would be important from the perspective of improving its earnings and resource profile.

Liquidity profile

According to Structural Liquidity Statement as on April 15, 2018, the bank had negative cumulative mismatches in the buckets beyond 30 days. However, these negative mismatches were below the limits of negative mismatches approved by the board of the bank. Also, the bank had excess SLR securities which can be liquidated or borrowing can be raised against these; on strength of these ALM profile is expected to be comfortable. Liquidity coverage ratio of OBC stood at 119.13% in FY19 (minimum requirement at 100% and on ongoing basis). The high renewal rate of bank's retail term deposits also support its liquidity profile.

Key Rating Weaknesses**Moderate asset quality albeit improvement seen in FY19**

The bank has reported GNPA% and NNPA% of 12.66% and 5.93% as on March 31, 2019 as against 17.63% and 10.48% as on March 31, 2018 (a reduction of nearly 450-500 bps). The improvement is seen on the back of recoveries/upgradation of Rs.5,026 crores in FY19 (PY Rs.2798 crore) write-offs of loans aggregating Rs.6457 crores in FY19 (PY Rs.6357 crore) whereas the fresh slippages were lower at Rs.7,066 crores in FY19 (5.79% of Standard Advances as on March-19) as against Rs.12,429 crore (8.66%) in FY18. Significant capital infused by the GOI has allowed the bank to provide for the loans.

The provisions coverage ratio of the bank has improved from 45.35% (excluding TWOs) as on March 31, 2018 to 56.53% as on March 31, 2019.

The asset quality is expected to improve further, with recovery from accounts under NCLT, arrest on fresh

slippages, increase in share of retail credit wherein lower delinquencies are seen and increase in share of higher rated accounts (BBB and above; the percentage of which has increased from 64% as on Mar-18 to 70% as on Mar-19).

Modest earning profile albeit marginal profits at net level reported during FY19

The bank's profitability profile remains moderate as reflected by PAT of Rs.55 crore reported during FY19 (as against net loss of Rs.5,872 crore during FY18).

OBC, registered a increase in net interest income by 22% y-o-y to Rs.5,498 crore from Rs.4,511 crore largely on account of increase in interest on investments and reduction in interest expenses on account of marginal reduction in cost of deposit and bonds. NIM increased to 2.20% during FY19 as against 1.87% in FY18. The non-interest income declined marginally by 4% to Rs.2,669 crores during FY19. The operating profits, however, were only marginally higher at Rs.3,754 crore during FY19 (as against Rs.3,703 crore during FY18) due to nearly 22% increase in operating expenses.

However, owing to lower provisioning of Rs.7,385 crore during FY19 (3% of ATA) as against Rs.9,798 crore (4% of ATA) due to lower slippages, OBC reported PBT level losses of Rs.3,632 crore during FY19 as against Rs.6,094 crore during FY18. OBC reported marginal profits at PBT level during Q4FY19 of Rs.3 crore.

Going forward, with growth in advances and increase in NIMs as well as recovery from written-off accounts, operating profits are expected to improve whereas the credit cost are expected to decline to 1.5%-2.0% in FY20. The bank is expected to report ROTA of around 0.5% in FY20.

Analytical approach: Standalone; factoring in capital support and majority ownership of Government of India given it being a public sector bank.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[CARE's Policy on Default Recognition](#)

[Bank - CARE's Rating Methodology For Banks](#)

[Financial Sector –Financial Ratios](#)

About the Company

OBC was established in Lahore on February 19, 1943, by Late Rai Bahadur Lala Sohan Lal, the first Chairman of the Bank. The registered office of the Bank was shifted to Delhi in 1950. The Bank was nationalized on April 15, 1980 and became a public sector bank. The majority stakeholder of OBC is Government of India (GoI), which held 87.58% stake in the bank as on March 31, 2019. As on March 31, 2019, the Bank is operating through a network of 2,390 branches across India.

Brief Financials (Rs. crore)	FY18(A)	FY19(A)
Total operating income	20,181	20,537
PAT	-5,872	55
Gross Advances	148,206	1,71,549
ROTA (%)*	-ve	0.02
NIM (%)*	1.87	2.20
Net NPA (%)	10.47	5.93
CAR (%)	10.50	12.73

A: Audited

*Note: Ratios computed based on average of annual opening and closing balances

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Upper Tier II	INE141A09090	12-Feb-09	8.75%	12-Feb-24	500.00	CARE A; Stable
Bonds-Perpetual Bonds	INE141A09108	17-Dec-09	9.10%	Perpetual;	300.00	CARE A; Stable
Bonds-Perpetual Bonds	INE141A09116	17-Sep-10	9.05%	Perpetual	300.00	CARE A; Stable
Bonds-Upper Tier II	INE141A09124	20-Sep-10	8.68%	20-Sep-25	200.00	CARE A; Stable
Bonds-Lower Tier II	INE141A09132	30-Nov-12	8.93%	30-Nov-22	1025.00	CARE A+; Stable
Bonds-Tier II Bonds	INE141A08019	27-Oct-14	9.20%	27-Oct-24	1000.00	CARE A+; Stable
Bonds-Tier II Bonds	INE141A08035	26-Oct-15	8.34%	26-Oct-25	1000.00	CARE A+; Stable
Bonds-Tier II Bonds	INE141A08043	24-Jun-16	9.05%	24-Jun-26	1000.00	CARE A+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Bonds-Lower Tier II	LT	-	-	-	-	-	1)Withdrawn (06-Sep-16)
2.	Bonds-Upper Tier II	LT	-	-	-	-	-	1)Withdrawn (06-Sep-16)
3.	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (18-Aug-17)	1)CARE AA; Negative (20-Dec-16) 2)CARE AA (06-Sep-16)
4.	Bonds-Upper Tier II	LT	500.00	CARE A; Stable	-	1)CARE A; Negative (25-Sep-18) 2)CARE A+; Negative (22-May-18)	1)CARE A+; Negative (18-Aug-17)	1)CARE AA-; Negative (20-Dec-16) 2)CARE AA- (06-Sep-16)
5.	Bonds-Perpetual Bonds	LT	-	-	-	-	-	1)Withdrawn (20-Dec-16) 2)CARE AA- (06-Sep-16)
6.	Bonds-Perpetual Bonds	LT	300.00	CARE A; Stable	-	1)CARE A; Negative	1)CARE A+; Negative	1)CARE AA-; Negative

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
						(25-Sep-18) 2)CARE A+; Negative (22-May-18)	(18-Aug-17)	(20-Dec-16) 2)CARE AA- (06-Sep-16)
7.	Bonds-Perpetual Bonds	LT	300.00	CARE A; Stable	-	1)CARE A; Negative (25-Sep-18) 2)CARE A+; Negative (22-May-18)	1)CARE A+; Negative (18-Aug-17)	1)CARE AA-; Negative (20-Dec-16) 2)CARE AA- (06-Sep-16)
8.	Bonds-Lower Tier II	LT	300.00	CARE A+; Stable	-	1)CARE A+; Negative (25-Sep-18) 2)CARE AA-; Negative (22-May-18)	1)CARE AA-; Negative (18-Aug-17)	1)CARE AA; Negative (20-Dec-16) 2)CARE AA (06-Sep-16)
9.	Bonds-Upper Tier II	LT	200.00	CARE A; Stable	-	1)CARE A; Negative (25-Sep-18) 2)CARE A+; Negative (22-May-18)	1)CARE A+; Negative (18-Aug-17)	1)CARE AA-; Negative (20-Dec-16) 2)CARE AA- (06-Sep-16)
10.	Bonds-Lower Tier II	LT	725.00	CARE A+; Stable	-	1)CARE A+; Negative (25-Sep-18) 2)CARE AA-; Negative (22-May-18)	1)CARE AA-; Negative (18-Aug-17)	1)CARE AA; Negative (20-Dec-16) 2)CARE AA (06-Sep-16)
11.	Bonds-Tier II Bonds	LT	1000.00	CARE A+; Stable	-	1)CARE A+; Negative (25-Sep-18) 2)CARE AA-; Negative (22-May-18)	1)CARE AA-; Negative (18-Aug-17)	1)CARE AA; Negative (20-Dec-16) 2)CARE AA (06-Sep-16)
12.	Bonds-Tier I Bonds	LT	-	-	-	1)Withdrawn (22-May-18)	1)CARE A (Under Credit watch with Developing Implications) (06-Feb-18) 2)CARE A; Negative	1)CARE A+; Negative (20-Dec-16) 2)CARE A+ (30-Sep-16) 3)CARE A+ (06-Sep-16)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
							(18-Aug-17)	
13.	Bonds-Tier II Bonds	LT	1000.00	CARE A+; Stable	-	1)CARE A+; Negative (25-Sep-18) 2)CARE AA-; Negative (22-May-18)	1)CARE AA-; Negative (18-Aug-17)	1)CARE AA; Negative (20-Dec-16) 2)CARE AA (06-Sep-16)
14.	Bonds-Tier II Bonds	LT	1000.00	CARE A+; Stable	-	1)CARE A+; Negative (25-Sep-18) 2)CARE AA-; Negative (22-May-18)	1)CARE AA-; Negative (18-Aug-17)	1)CARE AA; Negative (20-Dec-16) 2)CARE AA (06-Sep-16) 3)CARE AA (23-Jun-16)
15.	Bonds-Tier I Bonds	LT	-	-	-	1)Withdrawn (22-May-18)	1)CARE A (Under Credit watch with Developing Implications) (06-Feb-18) 2)CARE A; Negative (18-Aug-17)	-

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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