

## Oriental Bank of Commerce

October 03, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Basel III Compliant Tier II Bonds	3,000	CARE A+ [Single A Plus] (under credit watch with developing implications)	Reaffirmed
Lower Tier II Bonds	1,025	CARE A+ [Single A Plus] (under credit watch with developing implications)	Reaffirmed
Upper Tier II Bonds*	-	-	Withdrawn
Upper Tier II Bonds	200	CARE A [Single A] (under credit watch with developing implications)	Reaffirmed
Perpetual Tier I Bonds	600	CARE A [Single A] (under credit watch with developing implications)	Reaffirmed
<b>Total</b>	<b>4,825</b> <b>(Rupees Four Thousand Eight Hundred and Twenty Five crore only)</b>		

\* CARE have noted that Oriental Bank of Commerce have exercised Call option in respect to upper tier-II bonds (ISIN: INE141A09090) and there is no outstanding under the said issue as on date. Taking cognizance of this, we hereby withdraw our rating for aforesaid mentioned issue.

### Detailed Rationale & Key Rating Drivers

The ratings assigned to various instruments of Oriental Bank of Commerce (OBC) continue to be on Credit Watch with Developing Implications following the host of announcement made by the Ministry of Finance (MoF), Government of India (GoI) on August 30, 2019 with respect to the proposed amalgamation of public sector banks, up-fronting of capital infusion earmarked for fiscal 2020 and measures to improve corporate governance standards of public sector banks.

Under the amalgamation process, Punjab National Bank (**PNB: CARE AA/AA-\*/A+<sup>@</sup>/A1+<sup>#</sup>; under credit watch with developing implications**) will act as an anchor bank and will take over OBC and United Bank of India (**UBI: CARE A+/CARE A-<sup>\*</sup>; under credit watch with developing implications**). The Boards of all three banks have given in-principle approval for the amalgamation. On completion of amalgamation, Punjab National Bank will be the second largest public sector bank in terms of asset size. The proposed amalgamation plan is currently undergoing various levels of approval processes. In the long term, the banks are expected to benefit from larger scale of operations leading to higher lending capacity, potential operational and cost efficiencies; however, in the short to medium term, the banks may face some operational challenges with respect to integration process.

The ratings of OBC continue to be supported by majority ownership and support by GoI, long track record of operations, comfortable resource profile, improved profitability and capitalization metrics during FY19 and strong liquidity position of the bank. CARE has also noted the removal of restrictions on OBC under Prompt Corrective Action (PCA) framework w.e.f January 31, 2019. The ratings, however, are constrained by modest asset quality albeit some improvement seen in FY19 and moderate profitability.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Majority ownership of GoI and long track record

Established in 1943, OBC is a public sector bank (PSB) of significant size and having a long track record with over 75 years of operations. As on March 31, 2019, the bank had strong pan-India presence through a network of 2,390 branches and 2,625 ATMs across the country. OBC is majority owned by GoI that held 87.58% stake as on Mar-19 up from 77.23% as on Mar-18. Over the past few years GoI has demonstrated strong support through regular capital infusion. As part of its recapitalization programme for PSBs, GoI infused Rs 6,686 crore in fiscal 2019 and Rs 3571 crore fiscal 2018.

##### Comfortable capital structure

OBCs capital profile had been impacted following large losses in FY18. However, with significant capital infusion by GOI in FY18 and 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 by reducing its risk weighted assets, the capital ratios of OBC improved significantly with CET-I, Tier-I and overall CAR of 10.81%, 10.94% and 13.77% respectively as on Jun-19. As per the Capital

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

Adequacy Norms, banks are required to maintain CET 1, Tier-I and CAR (including CCB) of 7.375%, 8.875% & 10.875% respectively which will increase by 0.625% each as on Mar-20. Also, there has been saving in capital on account of attribution of risk weights to exposures in the NBFC segment basis the external rating as per the new RBI guidelines. The capital ratios of the bank are thus sufficiently above the current minimum regulatory capital requirement (including CCB) as on Jun-19.

#### **Growth in advances during FY19 particularly retail segment**

During FY19, the total business of OBC grew by 14% to Rs.391,930 crores as on Mar-19 with net advances and deposits registering growth of 17% Y-o-Y and 12% Y-o-Y respectively. Much of the 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 formed 55% of the overall gross advances of OBC (excluding IBPC) as on Mar-19 whereas there has been marginal 2.5% decline in credit to corporates. Retail and MSME segment grew by 41.6% and 12.6% respectively during the year ended March 31, 2019. 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 solid franchise and GoI ownership. As on March 31, 2019, total borrowed funds stood at Rs.246,765 crores (PY: Rs. 217,040 crore) with deposits accounting for 94% (PY: 95.53%) and market borrowings accounting for remaining 6%. OBC's deposits grew by 12.2% to Rs.232,645 crore as on Mar-19 with low-cost current and savings account (CASA) deposits growing by 4.1% Y-o-Y during the period. OBC's CASA deposits constituted 29.40% of the overall deposit base of the bank as on Mar-19 down from 31.7% as on Mar-18. The ability of OBC to increase its share of CASA deposits in the overall deposit profile would be important for improving its earnings and resource profile.

#### **Liquidity profile: Strong**

According to Structural Liquidity Statement as on April 15, 2019, the bank had negative cumulative mismatches in the buckets beyond 30 days. However, these negative mismatches were within the acceptable limits. Also, the bank had excess SLR securities which can be liquidated or borrowing can be raised against these. On strength of this, ALM profile is expected to be comfortable. Liquidity coverage ratio of OBC stood at 119.1% 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's reported asset quality metrics improved with GNPA% and NNPA% of 12.66% and 5.93% respectively as on March 31, 2019 as against 17.63% and 10.48% respectively as on March 31, 2018 (a reduction of nearly 450-500 bps). The improvement was on 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) and lower fresh slippages of 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 higher for the loans. As a result, 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**

OBC's profitability remained weak during FY19 with operating profits of Rs.3754 crore (PY: Rs.3703 crores), however due to lower provision in FY19 and with tax adjustments the bank reported PAT of Rs.55 crores in FY19 against losses of Rs.5872 crores in FY18. OBC registered an increase in net interest income by 22% Y-o-Y to Rs.5,498 crore on account of margin improvements. Net interest margin (NIM) increased to 2.2% in FY19 as against 1.87% in FY18. Also, owing to lower provisioning of Rs.7,385 crore during FY19 (3% of average total assets (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 profits at PAT of Rs.113 crores during Q1FY20.

**Analytical approach:** Standalone, factoring in capital support and majority ownership of Government of India being a public sector bank

#### **Applicable Criteria**

Criteria on assigning Outlook to Credit Ratings

[CARE's Policy on Default Recognition](#)  
[Criteria for placing rating on credit watch](#)  
[CARE's Rating Methodology for Banks](#)  
[Financial Sector –Financial Ratios](#)  
[Factoring Linkages in Ratings](#)  
[Bank - Rating framework for Basel III instruments \(Tier I & Tier II\)](#)  
[CARE's Policy on withdrawal](#)

### 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.

On August 30, 2019, MoF announced proposed amalgamation of ten public sector banks into four banks, under which Punjab National Bank (**PNB: CARE AA/AA-\*/A+<sup>@</sup>/A1+<sup>#</sup>; under credit watch with developing implications**) will act as an anchor bank and will take over Oriental Bank of Commerce and United Bank of India (**UBI: CARE A+/CARE A-\*; under credit watch with developing implications**)

*\*(For Upper Tier II Bonds & Perpetual Bonds), <sup>@</sup> ( For BASEL III Tier I Bonds) and <sup>#</sup> (For Certificate of Deposits)*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total Income	20,181	20,537
PAT	-5,872	55
Net Advances	1,36,368	1,59,285
Net NPA (%)	10.48	5.93
ROTA (%)	-ve	0.02
Capital Adequacy Ratio (%)	10.50	12.73

A: Audited

**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	Date of Issuance	ISIN	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Upper Tier II	February 12, 2009	INE141A09090	8.75%	12-Feb-24	0.00	Withdrawn
Bonds-Perpetual Bonds	December 17, 2009	INE141A09108	9.10%	Perpetual;	300.00	CARE A (Under Credit watch with Developing Implications)
Bonds-Perpetual Bonds	September 17, 2010	INE141A09116	9.05%	Perpetual	300.00	CARE A (Under Credit watch with Developing Implications)
Bonds-Upper Tier II	September 20, 2010	INE141A09124	8.68%	20-Sep-25	200.00	CARE A (Under Credit watch with Developing Implications)
Bonds-Lower Tier II	November 30, 2012	INE141A09132	8.93%	30-Nov-22	1025.00	CARE A+ (Under Credit watch with

Name of the Instrument	Date of Issuance	ISIN	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
						Developing Implications)
Bonds-Tier II Bonds	October 27, 2014	INE141A08019	9.20%	27-Oct-24	1000.00	CARE A+ (Under Credit watch with Developing Implications)
Bonds-Tier II Bonds	October 26, 2015	INE141A08035	8.34%	26-Oct-25	1000.00	CARE A+ (Under Credit watch with Developing Implications)
Bonds-Tier II Bonds	June 24, 2016	INE141A08043	9.05%	24-Jun-26	1000.00	CARE A+ (Under Credit watch with Developing Implications)

**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	-	-	1)CARE A (Under Credit watch with Developing Implications) (11-Sep-19) 2)CARE A; Stable (22-May-19)	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	LT	300.00	CARE A (Under	1)CARE A (Under	1)CARE A; Negative	1)CARE A+; Negative	1)CARE AA-; Negative

	Bonds			Credit watch with Developing Implications)	Credit watch with Developing Implications) (11-Sep-19) 2)CARE A; Stable (22-May-19)	(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 (Under Credit watch with Developing Implications)	1)CARE A (Under Credit watch with Developing Implications) (11-Sep-19) 2)CARE A; Stable (22-May-19)	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+ (Under Credit watch with Developing Implications)	1)CARE A+ (Under Credit watch with Developing Implications) (11-Sep-19) 2)CARE A+; Stable (22-May-19)	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 (Under Credit watch with Developing Implications)	1)CARE A (Under Credit watch with Developing Implications) (11-Sep-19) 2)CARE A; Stable (22-May-19)	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+ (Under Credit watch with Developing Implications)	1)CARE A+ (Under Credit watch with Developing Implications) (11-Sep-19) 2)CARE A+; Stable (22-May-19)	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+ (Under Credit watch with Developing Implications)	1)CARE A+ (Under Credit watch with Developing Implications)	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-Sep-19) 2)CARE A+; Stable (22-May-19)			
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 (18-Aug-17)	1)CARE A+; Negative (20-Dec-16) 2)CARE A+ (30-Sep-16) 3)CARE A+ (06-Sep-16)
13.	Bonds-Tier II Bonds	LT	1000.00	CARE A+ (Under Credit watch with Developing Implications)	1)CARE A+ (Under Credit watch with Developing Implications) (11-Sep-19) 2)CARE A+; Stable (22-May-19)	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+ (Under Credit watch with Developing Implications)	1)CARE A+ (Under Credit watch with Developing Implications) (11-Sep-19) 2)CARE A+; Stable (22-May-19)	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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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