Oriental Bank of Commerce

Instrument	Amount	Rating Outstanding
Basel III Compliant Tier 2 Bonds	Rs 1000 crore	[ICRA]AA+(hyb)(Negative) assigned
Basel III Compliant Additional Tier 1 Bonds	Rs 1000 crore	[ICRA]AA-(hyb) reaffirmed Outlook revised from Stable to Negative
Basel III Compliant Tier 2 Bonds	Rs 1000 crore	[ICRA]AA+(hyb) reaffirmed, Outlook revised from Stable to Negative
Lower Tier 2 Bonds programme	Rs 1200 crore	[ICRA]AA+, reaffirmed, Outlook revised from Stable to Negative
Lower Tier 2 Bonds programme	Rs 500 crore	[ICRA]AA+, reaffirmed,Outlook revised from Stable to Negative
Lower Tier 2 Bonds programme	Rs 500 crore	[ICRA]AA+, reaffirmed,Outlook revised from Stable to Negative
Upper Tier 2 Bonds programme	Rs 500 crore	[ICRA]AA, reaffirmed, Outlook revised from Stable to Negative
Perpetual Bonds (Tier 1) programme	Rs. 250 crore	[ICRA]AA, reaffirmed, Outlook revised from Stable to Negative
Upper Tier 2 Bonds programme	Rs. 500 crore	[ICRA]AA, reaffirmed, Outlook revised from Stable to Negative

ICRA has revised the outlook on the long term ratings of Oriental Bank of Commerce, from stable to negative. ICRA has also assigned a fresh rating of [ICRA]AA+(pronounced ICRA double A plus) with a negative outlook on the Basel III Compliant Tier 2 Bonds programme of the bank. ICRA has reaffirmed the [ICRA]AA+(pronounced double ICRA A plus) rating on Rs 2200 crore Lower Tier 2 Bonds programme of Oriental Bank of Commerce, [ICRA]AA(pronounced ICRA AA) on the Rs 1000 crore Upper Tier 2 Bonds and Rs, 250 crore Perpetual Bonds (Tier 1) Bonds Programme, [ICRA]AA+(hyb) (pronounced ICRA double A plus hybrid) on the Rs 1000 crore Basel III compliant Tier 2 Bonds programme , [ICRA]AA-(hyb) (pronounced ICRA double A minus hybrid) on the Rs 1000 crore Basel III compliant Additional Tier 1 Bonds programme Oriental Bank of Commerce (OBC). The letters “hyb” in parenthesis suffixed to a rating symbol stand for “hybrid”, indicating that the rated instrument is a hybrid subordinated instrument with equity-like loss-absorption features; such features may translate into higher levels of rating transition and loss-severity vis-à-vis conventional debt instruments.

The rating for the Basel III compliant Tier I bonds is two notches lower than the Basel III complaint Tier II bonds of the bank as these instruments have the following loss absorption features that make them riskier.

- Bank has full discretion at all times to cancel distribution/payments and cancellation of discretionary payments shall not be an event of default.
- The minimum capital conservation ratio applicable to the banks may restrict the bank from servicing these Tier I bonds in case the Common Equity Tier-I falls below limit as prescribed by RBI.
- These Tier I bonds are expected to absorb losses through Write-Down Mechanism at the Objective Pre-Specified Trigger Point fixed at Bank’s Common Equity Tier-I ratio as prescribed by RBI, 5.5% till March 2019 and thereafter 6.125% of Total Risk Weighted Assets of the Bank or when the “Point of Non Viability” (PONV) trigger is breached in the RBI’s opinion.

The revision in outlook factors in rising share of vulnerable assets for OBC(Gross NPA% + Restructured Advances% excluding SEBs and Air India) from 11.2% as on June 30, 2014 to 14.7% as on June 30, 2015, relatively high NPA generation rate(3.3% in FY15 and 4.4 % in Q1FY16 vis-a-vis public sector banks average of 3.3% in FY15 and 3.3% in Q1FY16) . With the increased portfolio vulnerability ,relatively high unprovided NPAs (Net NPA% of 3.76% as on June 30, 2015) , credit provisioning requirements of OBC are likely to remain elevated in the medium term , and improvement in OBCs profitability indicators would hinge upon its ability to bring down its credit costs. Though OBCs reported CET 1 capital is above the minimum requirements as per RBI(7.97% as on June 30, 2015) , as per ICRA's estimates, the bank would require around Rs 7000-8600 crore of Common Equity Tier 1 Capital from FY16-19 (approximately 50-65% of present Networth at 12-15% CAGR in risk weighted assets) to meet the enhanced Tier 1 capital requirements under BASEL III. Nevertheless, ICRA takes comfort from OBCs majority Government of India (GoI) ownership(59.13% as on September 30, 2015), and GoIs proposal for equity capital infusion of Rs 70,000 crore in PSBs during FY16-FY19 , GoI's medium term roadmap for capital infusion in PSBs is positive for OBCs capitalisation profile.

OBCs exposure to vulnerable sectors was moderate (Power Sector- 11.09% of portfolio as on June 30,2015, Iron & Steel 6.7% & Construction 1.4%, Sugar 0.9%) as compared with the systemic averages (Power Sector 9%, Iron and Steel 4.6% , Construction 1.7% sugar 0.8%). As for incremental credit growth for the bank is the bank is focusing on collateral backed retail and SME lending. Ability of the bank to recover from its existing NPAs, control fresh slippages and timely recovery from restructured advances and other vulnerable exposures would be critical for its asset quality profile going forward.

ICRA has taken note of OBCs relatively low profitability indicators (Profit Before Tax(PBT) /Average Total assets (ATA) was 0.75% in FY14, 0.28% in FY15[*] and 0.83% in Q1FY16, on account of some compression in Net Interest Margins(from 2.44% in 2013-14 to 2.26% in FY15) and one time provisioning on wage revision of 309.74 crore as well as adjustments of Rs 280.42 crore made in respect of financial assets sold to Asset Reconstruction Companies in FY14 (0.26% of average total assets) . OBCs good operating efficiency (operating expenses at 1.33% in relation to average assets in FY15 and 1.31% in Q1FY16) continues to be a positive. As for incremental profitability, In ICRA's opinion, net interest margins of the bank are likely to remain at around 2.3-2.4%going forward as well and the relatively high unprovided NPAs (net NPA% of 3.76 % as on June 30, 2015) are likely to keep credit provisioning requirements of OBC elevated in the medium term and improvement in OBCs profitability indicators would be linked to its ability to bring down its credit costs.

Bank Profile

Oriental Bank of Commerce was incorporated in 1943 and nationalised in April 1980. Government of India held 59.13% stake in OBC's as on September 30, 2015 .OBC was merged with the financially depressed Global Trust Bank in August 2004 and prior to that with Punjab Co-operative Bank and Bari Doab in 1997.OBC has a strong franchise in northern India, which allows it to have a stable deposit base and gives it access to a wide range of customers. The bank's presence in the South and West has improved following its August 2004 acquisition of GTB. OBC had a total of 2252 branches as on June 30, 2015 and all of its branches are under CBS network. OBC reported a Profit After Tax(PAT) of Rs 497 crore on an asset base of Rs 229892 crore in 2015 vis-a-vis PAT of Rs 1139.41 crore on an asset base of Rs. 219652 crore in FY2014. For the first quarter ended June 30, 2015, OBC reported a PAT of Rs. 257.84 vis-a-vis PAT of Rs. 364.54 crore in the quarter ended June 30, 2014.

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[*] The bank made additional provisions of Rs 417.81 crore

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