

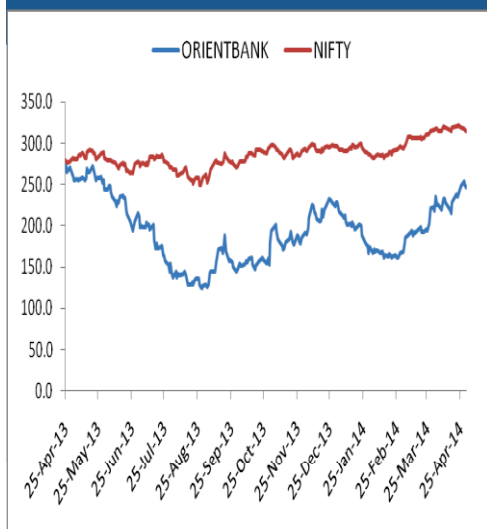
Result update	BUY
CMP	248
Target Price	280
Previous Target Price	216
Upside	13
Change from Previous	30

Market Data	
BSE Code	500315
NSE Symbol	ORIENTBANK
52wk Range H/L	279/121
Mkt Capital (Rs Cr)	7222
Average Daily Volume	16.49 cr
Nifty	6696

Stock Performance	1M	1yr	YTD
Absolute	11.0	-11.1	-11.1
Rel.to Nifty	11.1	-24.3	-24.3

Share Holding Pattern-%	Current	4QFY13	3QFY1
Promoters	59.1	59.1	58.0
FII	9.9	9.6	10.0
DII	24.0	24.9	24.0
Others	7.0	6.4	8.1

ORIENT BANK Vs NIFTY



Bank's profitability was just up by 1% YoY which was led by muted growth in NII due to margin compression in year on year basis and higher loan loss provisions. Higher recovery from bad loans and lower operating cost however provided some relief at operating profit but higher than expected bad loan provisions against higher slippage and tax rate caused marginal rise in net profit. Balance sheet growth was very limited to 8% with muted growth in loan and deposits make us compel to value bank in the range of 0.5 to 0.6 times of one year forward book which implies target value of Rs. 235 to Rs.280. But looking at sentiment boost up by external factors we believe bank would at upper side of valuation range.

Flat profit growth on the back of muted NII growth and higher provisions against bad loans

Orient bank net profit was up by mere 1% YoY to Rs.310 cr on account of muted growth in NII, higher provisions against pilling up bad loans and higher tax rate. Although non- interest income provided some cushion to earnings but sluggish performance in all around caused muted growth in net profit.

Muted growth in NII due to margin compression led by muted loan growth and shrinking CD ratio

During quarter bank's NII grew by 8% YoY to Rs.1309 cr due to compression in margin which was led by lower loan growth and declined of CD ratio. Other income registered healthy growth of 63% YoY to Rs.755 cr versus Rs.462 cr in last year which was led by higher recovery of bad debts to the tune of Rs.385 cr as against Rs.117 cr in 4QFY13 and commission & brokerage income of Rs.280 cr versus Rs.229 cr in 4QFY13. Total income grew by 23% YoY to Rs.2063 cr.

Lower operating cost was quite surprising

Operating cost declined by 7% YoY Rs.680 cr which was quite surprising. Employee cost was down by 13% YoY while other operating cost was up by 2% YoY. Cost income ratio was lower to 32.9% versus 43.5% in 4QFY13 and 45.4% in 3QFY14 which was very impressive. During quarter bank reported healthy bad loan recovery and lower cost which helped to registered operating profit growth of 46% YoY to Rs.1364 cr.

Financials

Rs, Cr

	2011	2012	2013	2014	2015E
NII	4178	4216	4701	5127	5684
Total Income	5138	5456	6356	7072	7842
PPP	3245	3141	3691	4155	4548
Net Profit	1503	1142	1328	1139	1656
EPS	51.5	39.1	45.5	38.0	55.2

(Source: Company/Eastwind)

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Higher provisions against bad loan galloping benefit of non interest income

Provisions and contingencies were increased by 66% QoQ largely due to higher provisions against bad loan which was led by higher than expected slippage and deteriorated asset quality. This quarter bank reported GNPA of Rs.5618 cr higher by 8% sequentially led by slippage of Rs.1205 cr which was up by 16% QoQ in absolute term. Bad loan provisions in absolute term were up by 27% QoQ which helped net NPA to up just by 2% sequentially in absolute term. In percentage term GNPA and net NPA stood at 4.03% and 2.8% versus 3.87% and 2.86% on sequential basis. Provisions coverage ratio without technical write off were up by 445 bps sequentially to 30.5%. Outstanding restructure book was Rs.10659 cr as against Rs.9687 cr in previous quarter. Total impaired assets (GNPA+ Restructure) for the quarter stood at 11.7% versus 11.1% of net advances on sequential basis.

Rs Cr	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14
Amount of GNPA								
Opening Balance	3580	3378	3466	3690	4184	4303	4887	5184
Additions	707	652	814	1041	764	1015	1043	1205
Reductions	910	564	589	547	645	431	746	772
Closing balance	3378	3466	3690	4184	4303	4887	5184	5618
Amount of NPA	2306	2390	2610	2459	2936	3423	3833	3904
Amount of Provisions	1071	921	925	1570	1366	1464	1351	1713
ASSETS QUALITY								
Slippage as a % of Advance	2.5	2.2	2.6	3.2	2.4	3.2	3.1	3.5
Reductions as a % of opening Gross NPA	25.4	16.7	17.0	14.8	15.4	10.0	15.3	14.9
Reductions as a % of Advances	3.2	1.9	1.9	1.7	2.0	1.3	2.2	2.2
Provision made during the yr as a % of Advances	3.8	3.1	3.0	4.9	4.3	4.6	4.0	4.9
Provision Coverage Ratio	31.7	26.6	25.1	37.5	31.7	30.0	26.1	30.5
GNPA as % of Advance	3.0	2.9	3.0	3.2	3.4	3.8	3.9	4.0
NNPA as % of Advance	2.0	2.0	2.1	1.9	2.3	2.7	2.9	2.8

Sluggish growth in balance sheet led by muted loan and deposits growth

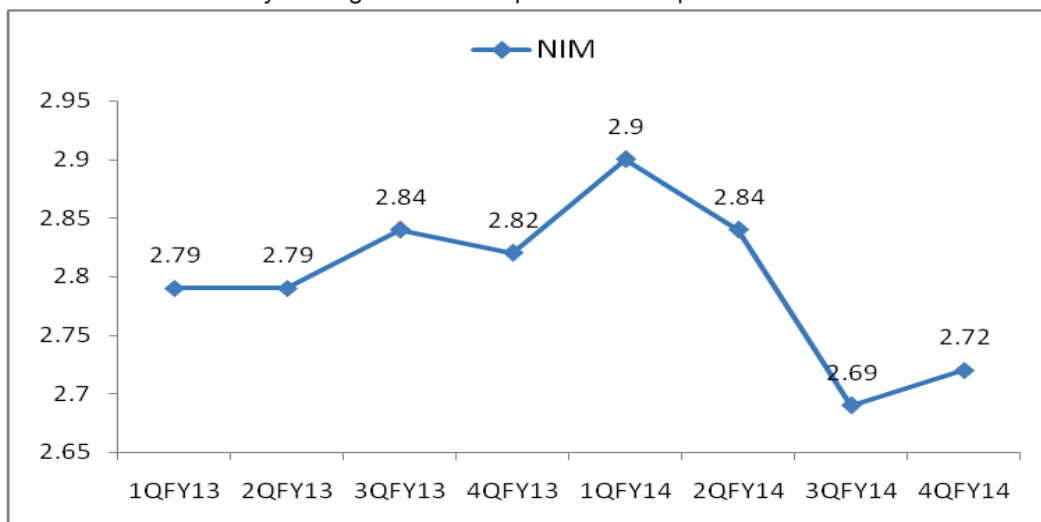
On balance sheet growth parameters, bank reported total business growth of 8% in which advances grew by 8% while deposits grew by 10 YoY respectively. In loan composition, large corporate loan grew by 9.6% YoY and share in total loan remained stable at 53% versus 52% in last quarter previous year despite of slowdown in economy. Retail credit grew by 11% YoY but share remained same at 11% in total advance. Deposits grew by 10% YoY led by saving account growth of 11.5% and term deposits growth of 10% YoY. CASA ratio remained stable at 24.3%.

% Composition	4QFY13	3QFY14	4QFY14
Large Corporates	52.0	51.2	52.7
Mid Corporates	19.7	19.5	19.5
Retail Credit	11.2	11.7	11.5
Others	17.1	17.6	16.3

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Sequentially margin improved by 3 bps due to declined cost of fund

Margin at sequential basis improved by 3 bps to 2.72% versus 2.69% which was led by declined cost of fund and improvement in investment yield. Cost of fund (calculated) declined by 13 bps on sequential basis led by FCNR deposits otherwise CASA ratio remained flat. Investment yield improved by 35 bps QoQ to 7.3% versus 6.9% helped to improved margin while loan yield declined by 18 bps to 10.9% versus 11% on calculated basis which was led by still higher loan composition in corporate book.



Valuation & View

Bank's profitability was just up by 1% YoY which was led by muted growth in NII due to margin compression in year on year basis and higher loan loss provisions. Higher recovery from bad loans and lower operating cost however provided some relief at operating profit but higher than expected bad loan provisions against higher slippage and tax rate caused marginal rise in net profit. Balance sheet growth was very limited to 8% with muted growth in loan and deposits make us compel to value bank in the range of 0.5 to 0.6 times of one year forward book which implies target value of Rs. 235 to Rs.280. But looking at sentiment boost up by external factors we believe bank would at upper side of valuation range.

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Quarterly Result (Rs Cr)

	4QFY14	3QFY14	4QFY13	% YoY Gr	QoQ Gr	4QFY14E	Variation(%)
Interest/discount on advances / bills	3717	3622	3494	6.4	2.6	3830	-3.0
Income on investments	1115	1075	969	15.1	3.7	1141	-2.3
Interest on balances with Reserve Bank of India	23	21	12	90.0	8.6	20	12.8
Others	47	6	60	-21.7	733.3	4	997.3
Total Interest Income	4901	4723	4535	8.1	3.8	4995	-1.9
Others Income	755	341	462	63.4	121.4	397	90.1
Total Income	5655	5064	4996	13.2	11.7	5392	4.9
Interest Expended	3592	3493	3321	8.2	2.8	3725	-3.6
NII	1309	1230	1214	7.8	6.4	1270	3.0
Other Income	755	341	462	63.4	121.4	397	90.1
Total Income	2063	1571	1676	23.1	31.3	1667	23.8
Employee	386	394	443	-12.7	-1.9	431	-10.3
Other Expenses	293	319	286	2.4	-8.2	353	-16.9
Operating Expenses	680	713	729	-6.8	-4.7	784	-13.3
PPP(Rs Cr)	1384	858	947	46.2	61.2	884	56.6
Provisions	931	561	759	22.7	65.9	599	55.4
PBT	453	297	188	141.0	52.4	285	59.1
Tax	143	73	-120	-218.7	95.5	85	67.1
Net Profit	310	224	308	0.7	38.4	199	55.7

Balance Sheet (Rs Cr)

Deposits	193491	182470	175898	10.0	6.0
Loan	139556	133962	128955	8.2	4.2

Asset Quality

GNPA	5618	5184	4184	34.3	8.4
NPA	3904	3833	2459	58.8	1.9
% GNPA	4.0	3.9	3.2		
% NPA	2.8	2.9	1.9		

ORIENT BANK

Financials & Assupion

P/L	2011	2012	2013	2014	2015E
Interest/discount on advances / bills	8954	12075	13758	14564	15773
Income on investments	2774	3671	3854	4311	4682
Interest on balances with Reserve Bank of India	335	34	31	83	83
Others	25	35	61	60	60
Total Interest Income	12088	15815	17705	19017	20597
Others Income	960	1240	1655	1945	2157
Total Income	13048	17055	19359	20963	22754
Interest Expended	7910	11599	13004	13890	14912
NII	4178	4216	4701	5127	5684
NII Growth(%)	43.7	0.9	11.5	9.1	10.9
Other Income	960	1240	1655	1945	2157
Total Income	5138	5456	6356	7072	7842
Employee	1048	1357	1576	1677	1943
Other Expenses	844	959	1089	1240	1350
Operating Expenses	1892	2315	2665	2917	3294
PPP(Rs Cr)	3245	3141	3691	4155	4548
Provisions	1742	1999	2363	2575	2182
Net Profit	1503	1142	1328	1139	1656
Net Profit Growth(%)	32.4	-24.0	16.3	-14.2	45.4

Key Balance sheet data

Equity Capital	292	292	292	300	300
Reserve & Surplus	10805	11651	12484	12258	13794
Net Worth	11097	11943	12776	12558	14094
Deposits	139054	155965	175898	193491	207116
Borrowings	5639	5259	7679	7864	8630
Other liabilities and provisions	5553	4368	4345	7026	8616
Total Liability	161343	177535	200697	220938	238456
Cash in hand	9515	8462	8172	9795	10787
Money with call	9574	265	418	4284	4315
Loan	95908	111978	128955	139556	150216
Investments	42075	52101	58555	61466	66881
Fixed Asset	1398	1421	1227	1262	1294
Other Assets	2874	3308	3370	4575	4962
Total Assets	161343	177535	200697	220938	238456

Eastwind Calculation

Yield on Advances	9.3	10.8	10.7	10.4	10.5
Yield on Investments	6.6	7.0	6.6	7.0	7.0
Yield on Funds	7.8	9.2	9.0	9.0	9.0
Cost of Borrowings	7.7	7.3	5.9	5.9	7.0
Cost of fund	5.5	7.2	7.1	6.9	6.9

Valuation

Book Value	380	409	403	419	470
P/BV	1.0	0.6	0.6	0.6	0.5
P/E	7.5	6.4	5.5	6.5	4.5

Source: Eastwind/Company