

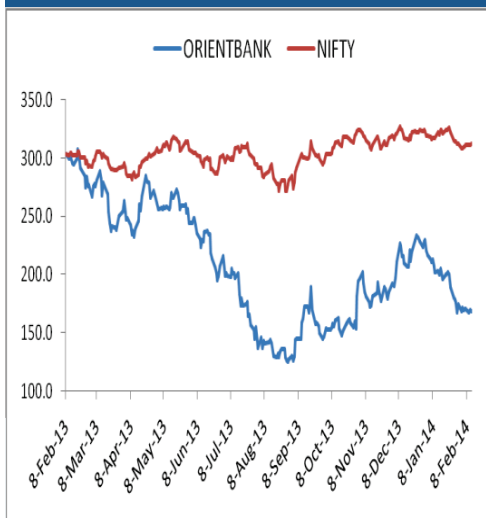
| Result update | BUY |
|-----------------------|--------|
| CMP | 172 |
| Target Price | 216 |
| Previous Target Price | 222 |
| Upside | 26 |
| Change from Previous | -2.703 |

| Market Data | |
|----------------------|------------|
| BSE Code | 500315 |
| NSE Symbol | ORIENTBANK |
| 52wk Range H/L | 310/121 |
| Mkt Capital (Rs Cr) | 4920 |
| Average Daily Volume | 2.21 cr |
| Nifty | 6084 |

| Stock Performance | 1M | 1yr | YTD |
|-------------------|-------|-------|-------|
| Absolute | -16.8 | -44.4 | -44.4 |
| Rel.to Nifty | -13.8 | -47.4 | -47.4 |

| Share Holding Pattern-% | Current | 1QFY14 | 4QFY1 |
|-------------------------|---------|--------|-------|
| Promoters | 59.1 | 58.0 | 58.0 |
| FII | 9.6 | 10.0 | 10.1 |
| DII | 24.9 | 24.0 | 24.6 |
| Others | 6.4 | 8.1 | 7.3 |

ORIENT BANK Vs Nifty



Orient bank reported weak set of quarterly numbers with net profit declined by 31% YoY due to muted growth in NII and higher operating expenses. Asset quality pressure remain persist with total impaired asset (GNPA+ Restructure advances) remain high at 11.1% of loan. Bank made lower provisions against bad loan despite of deterioration in asset. We have buy rating on the stock due to inexpensive valuation. We Value bank at Rs.216/share which is 0.5 times of FY14E's book value.

Muted NII growth on the back of margin compression

During quarter bank's NII grew by 2% YoY lower than expectation largely due to margin compression and lower growth in loan and deposits. Margin compression was on account of lower loan yield as compare to cost of deposits. Total interest income grew by 6% YoY while interest expenses increased by 18% YoY which drag lower growth in NII. Other income was lower by 10% YoY to Rs.341 cr versus Rs.378 cr in last year led by 48% declined in treasury gain. Overall revenue de-grew by 1% YoY to Rs.1571 cr.

Subdue NII growth and higher operating expenses led negative growth in PPP

Operating expenses increased by 9% YoY in which employee cost and other operating cost increased by 1% and 20% respectively. Flat employee cost was due to lower wage settlement provisions made by bank. Consequently CI ratio declined to 45.4% from 41.5% in last quarter and 48.2% in previous quarter. Muted NII growth, lower other income and higher operating cost led pre provisioning profit declined to 7% YoY.

Asset quality stress persists

During quarter bank made provisions and contingencies to tune of Rs.561 cr as against Rs.551 cr in previous quarter and Rs.604 cr in last quarter. During quarter bank reported fresh slippage of Rs. 1043 cr (3.1% annualized) as against Rs.1015 cr (3.2% annualized) in previous quarter. In absolute term GNPA increased by 6% YoY to Rs.5184 cr while provision decreased by 8% YoY to Rs.1351 cr. Consequently net NPA increased by 12% QoQ to Rs.3833 cr. In percentage term, gross GNPA and net NPA stood at 3.87% and 2.9% from 3.81% and 2.7% respectively sequentially. Due to lower provisions PCR (without technical write off) declined from 30% to 26%. Fresh restructure sharply surged to Rs.1365 cr during quarter and outstanding restructure book stood at Rs. 9687 cr

Financials

| | 2011 | 2012 | 2013 | 2014E | 2015E |
|--------------|------|------|------|-------|-------|
| NII | 4178 | 4216 | 4701 | 5136 | 6970 |
| Total Income | 5138 | 5456 | 6356 | 6724 | 8558 |
| PPP | 3245 | 3141 | 3691 | 3680 | 4707 |
| Net Profit | 1503 | 1142 | 1328 | 1046 | 1812 |
| EPS | 51.5 | 39.1 | 45.5 | 34.9 | 60.4 |

(Source: Company/Eastwind)

ORIENTAL BANK

Subdue loan and deposits growth

On balance sheet front, bank reported very sluggish growth rate with deposits grew by 4% YoY in which current account and saving account deposits grew by 3% and 12% YoY. CASA deposits in absolute term grew by 10% YoY and in percentage to total deposits it stood at 24.2% as against 23.9% in last quarter. Loan grew by 8.4% YoY to Rs.1340 bn led by 16% YoY growth in retail loan followed by mid corporate and large corporate. Credit deposits ratio for the quarter remained same and it stood at 73.4%.

Margin compression on account of higher cost of fund than loan yield

Bank reported 15 bps QoQ margin compressions on account of higher cost of fund than loan yield. During quarter bank's cost of fund declined by 10 bps QoQ while yield on loan declined by 38% QoQ to 10.8% from 11.2%. Yield in investment also declined from 7.4% to 6.9% which also cause margin compression.

Profitability declined on account of muted NII growth, higher operating expenses and tax rate

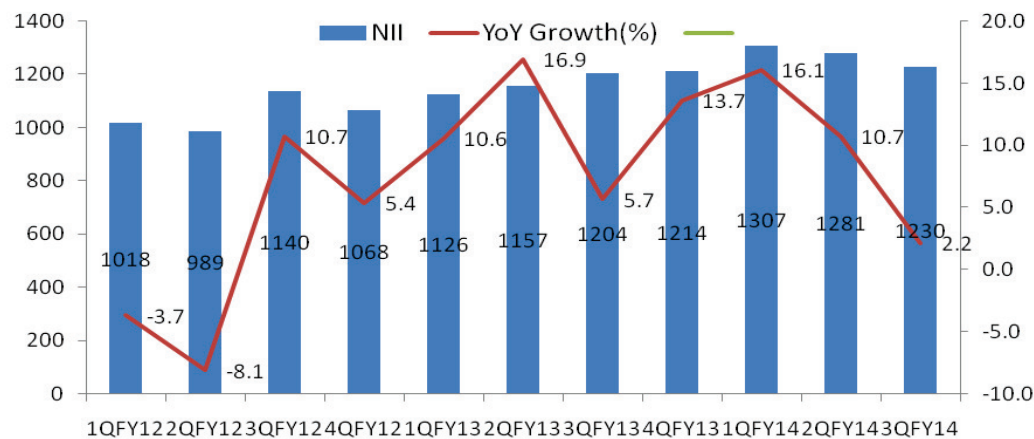
Orient bank's profitability declined by 31% YoY to Rs.224 cr lower than our expectation of Rs. 269 cr largely due to weak performance all around. During quarter bank reported muted NII growth, lower other income, higher operating cost and higher tax rate.

Valuation & View

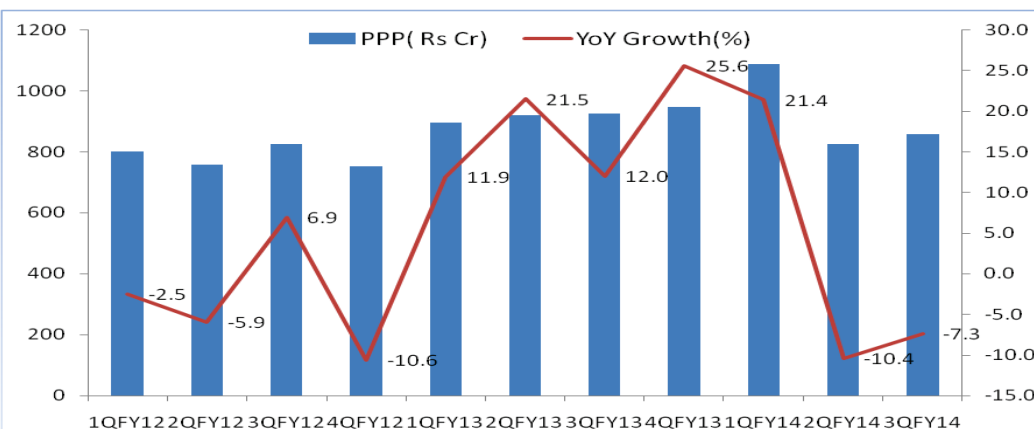
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ORIENTAL BANK

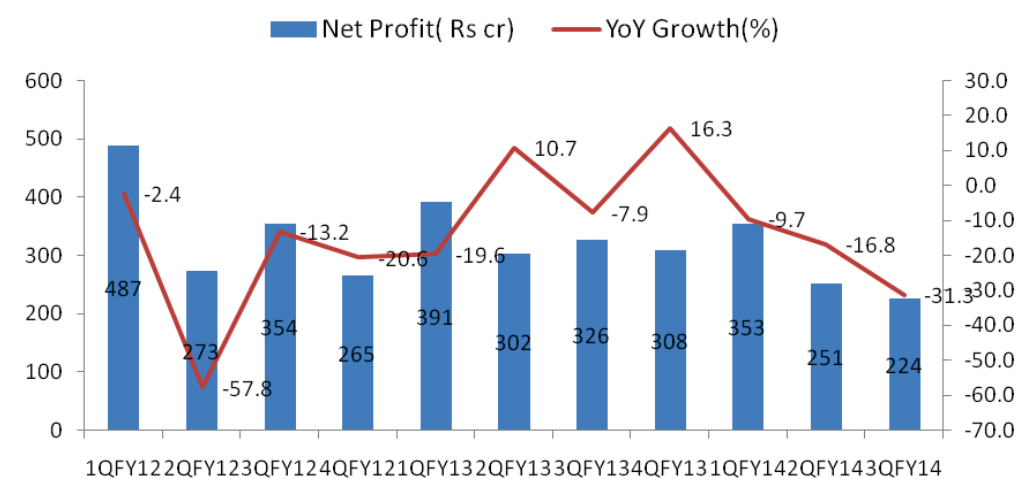
Chart Focus



Muted NII growth on the back of margin compression



Subdued NII growth and higher operating expenses led negative growth in PPP



Profitability declined on account of muted NII growth, higher operating expenses and tax rate

ORIENTAL BANK

Quarterly Result (Rs Cr)

| | 3QFY14 | 2QFY14 | 3QFY13 | % YoY Gr | % QoQ Gr | 3QFY14E |
|---|--------|--------|--------|----------|----------|---------|
| Interest/discount on advances / bills | 3622 | 3591 | 3507 | 3.3 | 0.9 | 3783 |
| Income on investments | 1075 | 1076 | 954 | 12.7 | -0.1 | 1137 |
| Interest on balances with Reserve Bank of India | 21 | 9 | 8 | 167.2 | 135.4 | 20 |
| Others | 6 | 0 | 0 | 2868.4 | 5027.3 | 4 |
| Total Interest Income | 4723 | 4676 | 4469 | 5.7 | 1.0 | 4943 |
| Others Income | 341 | 312 | 378 | -9.8 | 9.3 | 425 |
| Total Income | 5064 | 4988 | 4847 | 4.5 | 1.5 | 5368 |
| Interest on deposits | 3322 | 3234 | 3150 | 5.5 | 2.7 | 0 |
| Interest on RBI/Inter bank borrowings | 93 | 93 | 79 | 17.9 | 0.0 | 0 |
| Others | 78 | 68 | 35 | 119.1 | 14.9 | 0 |
| Interest Expended | 3493 | 3395 | 3264 | 7.0 | 2.9 | 3548 |
| NII | 1230 | 1281 | 1204 | 2.2 | -3.9 | 1395 |
| Other Income | 341 | 312 | 378 | -9.8 | 9.3 | 425 |
| Total Income | 1571 | 1593 | 1582 | -0.7 | -1.4 | 1820 |
| Employee | 394 | 446 | 391 | 0.8 | -11.7 | 496 |
| Other Expenses | 319 | 322 | 265 | 20.3 | -0.8 | 359 |
| Operating Expenses | 713 | 768 | 656 | 8.7 | -7.1 | 856 |
| PPP(Rs Cr) | 858 | 825 | 926 | -7.3 | 4.0 | 965 |
| Provisions | 561 | 551 | 604 | -7.1 | 1.9 | 581 |
| PBT | 297 | 275 | 323 | -7.8 | 8.3 | 384 |
| Tax | 73 | 23 | -4 | -1996.1 | 215.3 | 115 |
| Net Profit | 224 | 251 | 326 | -31.3 | -10.8 | 269 |

Balance Sheet (Rs Cr)

| | | | | | | |
|----------|--------|--------|--------|------|-----|--------|
| Deposits | 182470 | 175153 | 164174 | 11.1 | 4.2 | 184299 |
| Loan | 133962 | 128353 | 123623 | 8.4 | 4.4 | 135102 |

Asset Quality

| | | | | | | |
|--------|------|------|------|------|------|--|
| GNPA | 5184 | 4887 | 3690 | 40.5 | 6.1 | |
| NPA | 3833 | 3423 | 2610 | 46.9 | 12.0 | |
| % GNPA | 3.9 | 3.8 | 3.0 | | | |
| % NPA | 2.9 | 2.7 | 2.1 | | | |

Source: Company/Eastwind

ORIENTAL BANK

| P/L | 2011 | 2012 | 2013 | 2014E | 2015E |
|---|--------|--------|--------|--------|--------|
| Interest/discount on advances / bills | 8954 | 12075 | 13758 | 14677 | 16545 |
| Income on investments | 2774 | 3671 | 3854 | 4316 | 4491 |
| Interest on balances with Reserve Bank of India | 335 | 34 | 31 | 80 | 80 |
| Others | 25 | 35 | 61 | 17 | 17 |
| Total Interest Income | 12088 | 15815 | 17705 | 19090 | 21134 |
| Others Income | 960 | 1240 | 1655 | 1588 | 1588 |
| Total Income | 13048 | 17055 | 19359 | 20678 | 22721 |
| Interest on deposits | 7474 | 11213 | 12553 | 11765 | 13408 |
| Interest on RBI/Inter bank borrowings | 23 | 38 | 111 | 175 | 189 |
| Others | 413 | 348 | 340 | 525 | 567 |
| Interest Expended | 7910 | 11599 | 13004 | 13954 | 14164 |
| NII | 4178 | 4216 | 4701 | 5136 | 6970 |
| NII Growth(%) | 43.7 | 0.9 | 11.5 | 9.3 | 35.7 |
| Other Income | 960 | 1240 | 1655 | 1588 | 1588 |
| Total Income | 5138 | 5456 | 6356 | 6724 | 8558 |
| Employee | 1048 | 1357 | 1576 | 1796 | 2272 |
| Other Expenses | 844 | 959 | 1089 | 1248 | 1579 |
| Operating Expenses | 1892 | 2315 | 2665 | 3043 | 3851 |
| PPP(Rs Cr) | 3245 | 3141 | 3691 | 3680 | 4707 |
| Provisions | 1742 | 1999 | 2363 | 2243 | 2118 |
| Net Profit | 1503 | 1142 | 1328 | 1046 | 1812 |
| Net Profit Growth(%) | 32.4 | -24.0 | 16.3 | -21.2 | 73.3 |
| Key Balance sheet data | | | | | |
| Deposits | 139024 | 155965 | 175898 | 189928 | 205123 |
| Deposits Growth(%) | 15.6 | 12.2 | 12.8 | 8.0 | 8.0 |
| Borrowings | 5639 | 5259 | 7679 | 9996 | 10796 |
| Borrowings Growth(%) | 15.4 | -6.7 | 46.0 | 30.2 | 8.0 |
| Loan | 95908 | 111978 | 128955 | 139271 | 150413 |
| Loan Growth(%) | 14.9 | 16.8 | 15.2 | 8.0 | 8.0 |
| Investments | 42075 | 52101 | 58555 | 63976 | 69094 |
| Investments Growth(%) | 17.6 | 23.8 | 12.4 | 9.3 | 8.0 |
| Eastwind Calculation | | | | | |
| Yield on Advances | 9.3 | 10.8 | 10.7 | 10.5 | 11.0 |
| Yield on Investments | 6.6 | 7.0 | 6.6 | 6.7 | 6.5 |
| Yield on Funds | 7.8 | 9.2 | 9.0 | 9.4 | 9.6 |
| Cost of deposits | 5.4 | 7.2 | 7.4 | 6.2 | 6.5 |
| Cost of Borrowings | 7.7 | 7.3 | 5.9 | 5.9 | 7.0 |
| Cost of fund | 5.5 | 7.2 | 7.1 | 7.0 | 6.6 |
| Valuation | | | | | |
| Book Value | 380 | 409 | 403 | 433 | 483 |
| P/BV | 1.0 | 0.6 | 0.6 | 0.4 | 0.4 |
| P/E | 7.5 | 6.4 | 5.5 | 5.0 | 2.9 |

Source: Company/Eastwind