

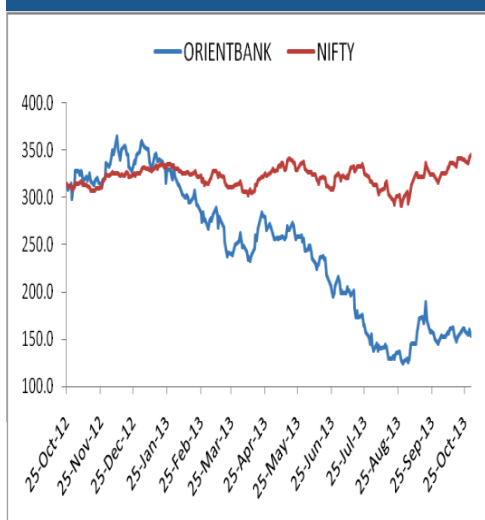
Result update	NEUTRAL
CMP	153
Target Price	171
Previous Target Price	171
Upside	12
Change from Previous	

Market Data	
BSE Code	500315
NSE Symbol	ORIENTBANK
52wk Range H/L	368/121
Mkt Capital (Rs Cr)	4471
Average Daily Volume	2664221
Nifty	6252

Stock Performance	1M	1yr	YTD
Absolute	4.1	-51.3	-51.3
Rel.to Nifty	-4.0	-60.8	-60.8

Share Holding Pattern-%	Current	1QFY14	4QFY13
Promoters	58.0	58.0	58.0
FII	10.0	10.1	9.6
DII	24.0	24.6	25.2
Others	8.1	7.3	7.2

ORIENT BANK Vs Nifty



Orient bank's operating performance was lower than expected and ROE and ROA both were declined sequentially. Balance sheet growth was moderate and asset quality deteriorated sequentially. PCR was lower against regulatory requirement. Most of operating as well as financials metrics were disappointed us. At the current price of Rs.153, stock is trading at 0.4 times of one year forward book. We have neutral view on the stock with price target of Rs.171.

NII growth below of expectation

During 2QFY14 Orient bank reported NII growth of 10.7% YoY to Rs.1281 cr below of street expectation. Lower NII growth was attributed by lower average yield on loan and compression in margin. Bank has witnessed moderate loan and deposits growth. Credit deposits ratio was at 73.3% in 2QFY14 versus 72.6% in 1QFY14 and 71.8% in 2QFY13.

Increased CI ratio led declined operating profit

Operating profit was declined by 10.4% YoY to Rs.825 cr primarily due to higher operating expenses which increased by 19.5% YoY to Rs.768 cr. Employee cost and other operating expenses increased by 21.7% and 16.4% YoY respectively. Cost income ratio increased to 60% from 58% in 1QFY14 and 55.5% in 2QFY13.

Deteriorating asset quality; PCR declined

Gross non performing asset increased by 14% YoY to Rs.4887 cr from Rs.4303 cr in previous quarter and as a percentage of advances GNPA increased to 3.81% versus 3.36% in 1QFY14. During the quarter bank made lower loan loss provision of Rs.332 cr as against Rs.345cr in 1QFY14 as the result net NPA increased by 17% to Rs.3423 cr as against Rs.2936 cr in previous quarter. In percentage term net NPA stood at 2.7% versus 2.3% in 1QFY14 and consequently PCR without technical write off declined to 30% from 31.7% in 1QFY14. During quarter bank reported higher slippage (annualized) at 3.2% versus 2.4% in 1QFY14. Total outstanding restructure asset was Rs.9412 cr which implies 11.1% of total loan impairment assets against 12.1% in 2QFY13. PCR with technical write off reported by bank was 61.5% below of regulatory requirement of 70%. Despite of deteriorating asset quality bank made lower provision against loan loss and was stood at Rs.340 cr versus Rs.489 cr in previous quarter.

Financials

	Rs, Cr				
	2011	2012	2013	2014E	2015E
NII	4178	4216	4701	5719	6710
Total Income	5138	5456	6356	7419	8410
PPP	3245	3141	3691	2968	3364
Net Profit	1503	1142	1328	1032	1165
EPS	51.5	39.1	45.5	35.4	39.9

(Source: Company/Eastwind)

ORIENTAL BANK

Net profit declined on account of lower NII growth, higher CI ratio and higher loan loss provisions

Net profit of the bank declined by 16.8% YoY to Rs.251 cr below of street expectation primarily due to muted NII growth, higher operating expenses and higher loan loss provisions (YoY). During quarter bank reported tax rate of 8.4% versus 36.4% in 1QFY14 and 34.5% in 2QFY13. Lower profit led ROA (EW calculation) declined to 0.5% from 0.7% sequentially and ROE (EW calculation) declined to 7.9% against 10.8% from previous quarter.

Moderate loan and deposits growth

Bank's loan grew by 9% YoY and 0.3% QoQ to Rs.1284 bn versus expectation of 12%. Retail loan exhibited moderate traction by 15.6% YoY followed by mid corporate which grew by 10.5% YoY and large corporate loan grew by 5.8% YoY. Deposits grew by 6.7% YoY and -0.6% QoQ to Rs.1752 bn in which current account and saving account grew by 6.5% and 9.1% on yearly basis respectively. Term deposits reported 6.1% YoY to Rs.1322 bn from Rs.1245 bn. CASA ratio by and large stable at 24.5% on YoY basis but improved by 80 bps sequentially.

Margin compression on account of lower loan yield as increased in cost of deposits

Net interest margin compressed by 6 bps sequentially on account of the lower yield on advances and higher cost of fund. Yield on loan (EW calculation) declined to 11.2% from 11.4% in 2QFY13 while cost of fund (EW Calculation) increased to 7.8% from 7.7% in 1QFY14.

Valuation & View

Orient bank's operating performance was lower than expected and ROE and ROA both were declined sequentially. Balance sheet growth was moderate and asset quality deteriorated sequentially. PCR was lower against regulatory requirement. Most of operating as well as financials metrics were disappointed us. At the current price of Rs.153, stock is trading at 0.4 times of one year forward book. We have neutral view on the stock with price target of Rs.171.

ORIENTAL BANK

Financial & Assuption

Quarterly Result (Rs Cr)

	2QFY14	1QFY14	2QFY13	% YoY Gr	% QoQ Gr
Interest/discount on advances / bills	3591	3635	3425	4.8	-1.2
Income on investments	1076	1045	986	9.1	2.9
Interest on balances with Reserve Bank of India	9	30	3	165.2	-71.0
Others	0	7	0	-47.6	-98.5
Total Interest Income	4676	4718	4415	5.9	-0.9
Others Income	312	538	407	-23.3	-42.0
Total Income	4988	5256	4821	3.5	-5.1
Interest on deposits	3234	3302	3149	2.7	-2.1
Interest on RBI/Inter bank borrowings	93	92	70	33.1	1.1
Others	68	17	38	76.3	309.0
Interest Expended	3395	3411	3257	4.2	-0.5
NII	1281	1307	1157	10.7	-2.0
Other Income	312	538	407	-23.3	-42.0
Total Income	1593	1845	1564	1.8	-13.7
Employee	446	450	366	21.7	-1.0
Other Expenses	322	306	276	16.4	5.0
Operating Expenses	768	757	643	19.5	1.4
PPP(Rs Cr)	825	1088	921	-10.4	-24.2
Provisions	551	533	460	19.7	3.3
PBT	275	556	461	-40.5	-50.6
Tax	23	202	159	-85.5	-88.5
Net Profit	251	353	302	-16.8	-28.9

Balance Sheet (Rs Cr)

Net Worth	12764	13129	11928	7.0	-2.8
Deposits	175153	176275	164175	6.7	-0.6
Loan	128353	127995	117821	8.9	0.3

Asset Quality

GNPA	4887	4303	3466	41.0	13.6
NPA	3423	2936	2390	43.2	16.6
% GNPA	3.8	3.4	2.9		
% NPA	2.7	2.3	2.0		

Source : Eastwind/ Company

ORIENTAL BANK

Financials & Assuption

P/L	2011	2012	2013	2014E	2015E
Interest/discount on advances / bills	8954	12075	13758	16609	19101
Income on investments	2774	3671	3854	4865	5457
Interest on balances with Reserve Bank of India	335	34	31	78	78
Others	25	35	61	14	14
Total Interest Income	12088	15815	17705	21568	24651
Others Income	960	1240	1655	1700	1700
Total Income	13048	17055	19359	23267	26351
Interest on deposits	7474	11213	12553	15254	17251
Interest on RBI/Inter bank borrowings	23	38	111	149	172
Others	413	348	340	446	517
Interest Expended	7910	11599	13004	15849	17941
NII	4178	4216	4701	5719	6710
NII Growth(%)	43.7	0.9	11.5	21.7	17.3
Other Income	960	1240	1655	1700	1700
Total Income	5138	5456	6356	7419	8410
Employee	1048	1357	1576	2626	2977
Other Expenses	844	959	1089	1825	2069
Operating Expenses	1892	2315	2665	4451	5046
PPP(Rs Cr)	3245	3141	3691	2968	3364
Provisions	1742	1999	2363	1678	1907
Net Profit	1503	1142	1328	1032	1165
Net Profit Growth(%)	32.4	-24.0	16.3	-22.3	12.9

Key Balance sheet data

Deposits	139024	155965	175898	196963	220598
Deposits Growth(%)	15.6	12.2	12.8	12.0	12.0
Borrowings	5639	5259	7679	8498	9854
Borrowings Growth(%)	15.4	-6.7	46.0	10.7	16.0
Loan	95908	111978	128955	148298	170543
Loan Growth(%)	14.9	16.8	15.2	15.0	15.0
Investments	42075	52101	58555	65747	73745
Investments Growth(%)	17.6	23.8	12.4	12.3	12.2

Eastwind Calculation

Yield on Advances	9.3	10.8	10.7	11.2	11.2
Yield on Investments	6.6	7.0	6.6	7.4	7.4
Yield on Funds	7.8	9.2	9.0	10.1	10.1
Cost of deposits	5.4	7.2	7.1	7.7	7.8
Cost of Borrowings	7.7	7.3	5.9	5.9	7.0
Cost of fund	5.5	7.2	7.1	7.7	7.8

Valuation

Book Value	380	409	438	442	472
P/BV	1.0	0.6	0.6	0.4	0.3
P/E	7.5	6.4	5.5	4.4	3.9

Source: Company/Eastwind