

August 14, 2020

## Oriental Bank of Commerce: Ratings upgraded and withdrawn

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Basel II Compliant Lower Tier II Bonds	1,200.00	1,200.00	[ICRA]AA- (Stable); Removed from 'rating watch with positive implications,' upgraded from [ICRA]A+ and withdrawn with a Stable outlook
Basel III Compliant Tier II Bonds	3,000.00	3,000.00	[ICRA]AA- (hyb) (Stable); Removed from 'rating watch with positive implications,' upgraded from [ICRA]A+ (hyb) and withdrawn with a Stable outlook
<b>Total</b>	<b>4,200.00</b>	<b>4,200.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The Government of India (GoI) had announced the amalgamation of Oriental Bank of Commerce (OBC) with Punjab National Bank (PNB; Tier II bonds rated [ICRA]AA- (hyb) (Stable)) on August 30, 2019. On March 28, 2020, the Reserve Bank of India's (RBI) notification stated that the amalgamation of OBC and United Bank of India (UBI) into PNB, 2020 dated March 4, 2020, issued by the GoI will be effective from April 1, 2020. As a result, all the branches and customers, including the depositors of OBC and UBI, are now the branches and customers of PNB. Thus, OBC has ceased to exist as an independent entity. The above-mentioned instruments have been transferred to the merged entity (PNB). The rating upgrade is driven by the amalgamation of OBC into PNB. The ratings were withdrawn in accordance with ICRA's policy on withdrawal and suspension.

For the rating rationale for the merged entity, please [Click here](#)

### Key rating drivers and their description

Not applicable as the rated instruments have been withdrawn

### Liquidity position

Not applicable as the rated instruments have been withdrawn

### Rating sensitivities

Not applicable as the rated instruments have been withdrawn

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA Rating Methodology for Banks</a> <a href="#">ICRA Policy on Withdrawal and Suspension of Credit Rating</a>
Parent/Group Support	The ratings factor in the merged entity's sovereign ownership and the demonstrated track record of capital infusion by the GoI
Consolidation/Standalone	To arrive at the ratings, ICRA has considered the consolidated financials of PNB, erstwhile OBC (e-OBC) and erstwhile UBI (e-UBI)

## About the company

Erstwhile OBC was one of the mid-size public sector banks, which primarily operated in northern India. As of December 31, 2019, the bank's network comprised 2,371 branches and 2,603 ATMs, with ~50% of the branches located in rural and semi-urban areas. On March 28, 2020, the RBI notified that the amalgamation of OBC and UBI into PNB Scheme, 2020 dated March 4, 2020, issued by the GoI will come into effect from April 1, 2020. As a result, all the branches and customers, including the depositors of OBC and UBI, will be treated as the branches and customers of PNB.

On a standalone basis, e-OBC's asset base stood at Rs. 2.68 lakh crore as on December 31, 2019 against Rs. 2.70 lakh crore as on March 31, 2019. Its asset quality indicators i.e. GNPA and NNPA stood at 12.64% and 5.98%, respectively, as on December 31, 2019, against 12.66% and 5.93%, respectively, as on March 31, 2019. Its reported Tier I and CRAR stood at 11.10% and 13.70%, respectively, as on December 31, 2019 vis-à-vis 9.98% and 12.73%, respectively, as on March 31, 2019.

As on March 31, 2020, the merged bank had 10,910 domestic branches and 13,530 ATMs. Its gross and net NPAs stood at 13.76% and 5.45%, respectively, as on April 1, 2020, with a Tier I capital ratio of 9.97% and CRAR of 12.32%.

## Key financial indicators (audited)

	e-OBC Standalone FY2019	e-OBC Standalone 9M FY2020	Merged <sup>^</sup> April 1, 2020
Net interest income	5,505	4,149	NA
Profit before tax	-3,631	651	NA
Profit after tax	54	440	NA
Net advances	1,59,285	1,59,004	6,96,849
Total assets	2,70,408	2,68,233	12,44,381
% CET I	9.86%	11.04%	9.17%
% Tier I	9.98%	11.10%	9.97%
% CRAR	12.73%	13.70%	12.32%
% Net interest margin	2.19%	2.05%	NA
% PAT / ATA	0.02%	0.22%	NA
% Return on net worth	0.39%	3.33%	NA
% Gross NPAs	12.66%	12.64%	13.76%
% Net NPAs	5.93%	5.98%	5.45%
% Provision coverage excl. technical write-offs	56.53%	56.05%	64.19%
% Net NPA/ CET	65.4%	58.9%	66.3%

*Note: Amount in Rs. crore; All calculations are as per ICRA research*

*Total assets and net worth exclude revaluation reserves*

*Source: e-OBC, ICRA research*

*<sup>^</sup> Merged financials for PNB, e-OBC and e-UBI as on April 1, 2020*

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

S. No	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years							
		Type	Amount Rated	Amount Outstanding	Rating 14-Aug-2020	FY2020 19-Sep-2019	FY2019 13-Mar-2019	14-Sep-2018	24-May-2018	FY2018 03-Apr-2018	21-Aug-2017	31-May-2017
1	Basel III Compliant Tier II Bonds Programme	Long Term	3,000.00	3,000.00	[ICRA]AA-(hyb) (Stable); Withdrawn	[ICRA]A+ (hyb) %	[ICRA]A+ (hyb) (Stable)	[ICRA]A+ (hyb) (Negative)	[ICRA]AA- (hyb) (Negative)	[ICRA] AA-(hyb) (Negative)	[ICRA] AA-(hyb) (Negative)	[ICRA] AA-(hyb) (Negative)
2	Basel II Lower Tier II Bonds Programme	Long Term	1,200.00	1,025.00 <sup>^</sup>	[ICRA]AA - (Stable); Withdrawn	[ICRA]A+ %	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)	[ICRA] AA- (Negative)	[ICRA] AA- (Negative)	[ICRA] AA- (Negative)
3	Basel II Upper Tier II Bonds Programme	Long Term	500.00	-	-	-	[ICRA] A- (Stable); Withdrawn	[ICRA] A- (Negative)	[ICRA] A+ (Negative)	[ICRA] A+ (Negative)	[ICRA] A+ (Negative)	[ICRA] A+ (Negative)
4	Basel III Compliant Tier I Bonds	Long Term	3,000.00	-	-	-	-	-	-	[ICRA]A (hyb) (Negative); withdrawn	[ICRA]A (hyb); (Negative)	[ICRA]A (hyb); (Negative)
5	Basel II Perpetual Bonds	Long Term	250.00	-	-	-	-	-	-	-	-	-

<sup>^</sup> Rs. 175 crore of bonds yet to be issued

% Rating Watch with Positive Implications

Amount in Rs. crore

## Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE141A08019	Basel III Compliant Tier II Bonds Programme	27-Oct-2014	9.20%	27-Oct-2024	1,000.00	[ICRA]AA- (hyb) (Stable); Withdrawn
INE141A08035	Basel III Compliant Tier II Bonds Programme	26-Oct-2015	8.34%	26-Oct-2025	1,000.00	[ICRA]AA- (hyb) (Stable); Withdrawn
INE141A08043	Basel III Compliant Tier II Bonds Programme	24-Jun-2016	9.05%	24-Jun-2026	1,000.00	[ICRA]AA- (hyb) (Stable); Withdrawn
INE141A09132	Lower Tier II Bonds Programme	30-Nov-2012	8.93%	30-Nov-2022	1,025.00	[ICRA]AA- (Stable); Withdrawn
-	Lower Tier II Bonds Programme	Yet to be issued	-	-	175.00	[ICRA]AA- (Stable); Withdrawn

Source: e-OBC

### Annexure-2: List of entities considered for consolidated analysis – Not applicable

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