"Jammu & Kashmir Bank Limited

Q1 FY '25 Earnings Conference Call"

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MODERATOR: **MR. CHINTAN SHAH – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Jammu and Kashmir Bank Q1 FY '25 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch tone phone. Please note that this conference has been recorded.

I now hand the conference over to Mr. Chintan Shah from ICICI Securities. Thank you and over to you, sir.

Chintan Shah: Yes. Thank you, Aditya. Good evening, everyone and welcome to the Q1 FY '25 Results Conference Call for Jammu and Kashmir Bank. On the onset, I would like to congratulate the bank for a strong set of numbers. From the bank, we have with us from the management, Mr. Baldev Prakash, our Managing Director and CEO, along with the other senior management team.

So now without further delay, I would now like to hand over the floor to the management. Thank you and over to you, Baldev, sir.

Baldev Prakash: Thank you Chintan. Thank you for the appreciation. Very good afternoon and warm welcome to all the participants to The Jammu and Kashmir Bank June '24 Earnings Call. First, let me introduce my management team who are accompanying me on this call. Our Corporate Credit Head, Mr. Ashutosh Sareen; our Impaired Assets Portfolio Head, Mr. Shujaat Andrabi; our Chief Risk Officer, Dr. Altaf Kira; our Deputy General Manager Treasury, Mr. Ajay Kohli; and our CFO, Mr. Fayaz Ganai.

Let me start with some brief macroeconomic and banking industry trends. As per latest RBI bulletin, there are signs of some strengthening in the global economy, notwithstanding the continuing geopolitical concerns. Global trade in goods and services is gathering momentum. In India also, the improvement in outlook on agriculture and rural spending is manifest in signs of weakening momentum in the economy for the current quarter. The growth dynamics and the impetus of budget of 2025 on capex, job creation and a favorable monsoon are pointers to a good economic year for the country. We may also be seeing some moderation in the interest rates in the coming days.

Despite some pressure on the liability side, banking in the country is currently passing through a purple patch with best asset quality in decades, peak earnings, efficient IT-enabled digital systems, lowering cost to serve and tad readily available systems and collaborations to ensure customer convenience, et cetera. The regulators being cognizant of the suitability of these good times, for making the systems more resilient and sustainable, is bringing in or planning to prescribe more stringent controls and metrics, starting with higher risk weights on the unsecured personal loans and exposure to NBFC. RBI is very watchful on the liquidity matters as is clear from the very recent dropped guidelines on LCR. Implementation of ECL framework is also on the card and it can be phased in any time now.

J&K economy, too, is moving ahead with growth estimates being pegged at 7.5% for financial year '25. The UT budget also lays emphasized on capital expenditure, which is earmarked at 31% on the total budget. Fiscal deficit of the UT has been forecast within the FRBM limit of 3% on the back of higher central transfers. The union government has provided additional INR17,000 crores to the UT by assuming the responsibility of annual expenditure of INR12,000 crores on UT Police and INR5,000 crores as additional grant. The tourist influx is continuing unabated and the new arrivals during the current calendar year have already crossed the INR1 crores mark in 6 months.

The thrust on unlocking the economic potential of the UT, especially in agriculture and industry sectors are the focus areas of the UT budget. Incentivizing the efficient land utilization through medium and high-density plantations under HADP that is, Holistic Agriculture Development Plan and augmenting the logistics with planned increase of over 25,000 metric tons controlled atmosphere storage space in financial year 2025, are helping growth in production levels at exponential rates. All these measures are bound to improve the per capita income of the UT households, thus opening more restarts of savings and investments.

Coming to the financial numbers for Q1 of FY '25. The bank is nicely moving along on the planned lines towards delivering results as per the guidance for the short term as well as for the medium term. First quarter has usually been a lean period, given the cyclic nature of the saving investment cycle in the UT. In addition, this year, there has been some holding back in the economic activity during the first quarter because of elections also. The degrowth in deposits over March figure is the result of this phenomenon; however, there is already good traction in the deposit attrition during the current quarter.

Deposit growth of just under 10% on a Y-o-Y basis, with loan book growing at 13% during the corresponding period has resulted in CD ratio moving up to 72%, which is well within our comfort zone. Credit growth for June over March 2024 is just under 2%. We have been able to maintain CASA in close vicinity of 50%, while some banks have witnessed steep drop from March levels. In the loan book, growth in outside Jammu and Kashmir, Ladakh portfolio has been a tad higher at 15.5% on a Y-o-Y basis, against 9.6% in Jammu Kashmir and Ladakh.

Personal finance has grown at 14.6% on a Y-o-Y basis, while home loan has grown by 18.1% over the year. The loan book composition continues to be 70-30 for Jammu Kashmir, Ladakh and rest of India. Our cost of deposit has moderated by 5 basis points from the previous quarter. Gross NPA of the bank has further reduced to 3.91% as on June 2024. Coming below the psychological mark of 4% and net NPA is at 0.76% while maintaining the provision coverage of 91.57%, all converging towards industry best. Aided by a robust early warning signal system and effective monitoring and follow up framework, slippages for the quarter have come down to an all-time low of 0.73% on an annualized basis.

Recoveries during the quarter were INR300 crores, which includes INR28.75 crores in technically written-off accounts. In line with our guidance, based on the recoveries, our credit cost for the quarter is negative. The restructured portfolio is also holding very well with collection efficiency in the standard restructured accounts at almost 100%. Aging provision requirements for NPAs during the remaining 3 quarters of FY '25 is estimated at about INR145 crores, but with the pipeline of envisaged recoveries and expected provisioning write-back there from our credit cost shall be benign for the current financial year as well.

The income statement is reflective of growth in interest income at 13% Y-o-Y for the quarter. Net interest income increase of 7%, operating profit by 13% and profit after tax by 27%. Moderation of cost of deposits to 4.66% and improvement in yield on advances and investment to 9.5% and 6.78%, respectively, has resulted in the NIM staying strong at 3.86% for the quarter. The annualized return on asset and return on equity have been recorded at 1.08% and 14.82%, respectively. We have created an additional floating provision of INR66 crores during the quarter to augment the contingency provisions for being in a state of readiness for ECL implementation.

The total contingency provisions maintained by the bank, including the floating provisions are at INR630 crores. Preliminary estimates conducted with the onboard consultant have pegged bank requirement for ECL at 0.60%. And by that measure, the contingency provisions would be adequate. Other income impact is due to lower technical write-off recovery vis-a-vis first quarter last year and booking of arrears of insurance commission in Q4 of the last year.

However, other income is going to improve over the quarters with increased technical right of recovery, higher volumes in cross-sell, commission on government business and the revision of fees and charges. There is good news on the employee cost front also after the one-off reversal of excess provision for gratuity in Q4 last year, we are seeing moderation in the provision of pension benefits that will continue over a prolonged period.

The provision requirements for pension will go further down with the scheduled requirements of good number of high-cost pension-eligible resources over the year. CRAR has been recorded at 15.07% and CET-1 at 11.76% without threatening profit after tax of INR415.49 crores, a 50 basis point impact. With healthy accruals, we may not require issuance of additional equity capital, but decision about bonds, Tier 2 bonds shall be reviewed in quarter 3. You might also have witnessed a lengthy disclosure in notes to account regarding outstanding pension reimbursement due from the Jammu and Kashmir UT government.

Owing to various regions and non-implementation of MOU with the UT government and the bank, which could facilitate seeking of reimbursement of the pension disbursement made by the bank to the UT government pensioners directly from RBI, as is done by other agency banks. There were delays in reimbursement resulting in accumulation of outstanding deals. However, the matter has been resolved now with the full reimbursement of all deals happening during this month. And going forward, this issue of delays in reimbursement and accumulation of deals will not happen as the bank will be seeking reimbursement of the pension disbursed directly from RBI going forward.

Finally, an update about the IT & BPR transformation journey that the bank is undergoing. Total automation of customer journeys for personal loans is complete and delivered, while for

MSME and corporate, the solutions are on the anvil and would be in place within 3 to 6 months. The central processing units have already been established both for liabilities as well as for asset. And necessary capacity building, too, has been taken care of to usher in a revamp technological modernized, axile and digitally future-ready bank, focused on delivering the ultimate customer experience.

We maintained the guidance for the financial year 2025, as discussed in the March quarter call. I thank you all and acknowledge your guidance, support and trust. We expect it to continue in the coming days.

I will be now glad to have your questions. Thank you.

Moderator: Thank you very much. Our first question is from the line of Shamita, an individual investor.

Shamita: Actually, I'm asking about CASA ratio. Is there any in future the improvement will happen?

Baldev Prakash: Yes, sir. So about CASA ratio traditionally, we have been above 50%. This quarter also, it is nearly 50%, 49.77% to be precise. But as today, we talk, we are already above 50%. And given the franchise of the bank, particularly in the Rusu areas, in our core territory, we are expecting it to be above 50% going forward also.

Shamita: Any future expansion planning outside the Jammu?

Baldev Prakash: So sir last year also, we have opened a few branches in the rest of India territory. This year also, we have a plan of opening between 15 to 20 branches in the rest of the India. And of course, Jammu and Kashmir and Ladakh need-based expansion based on the business requirement or for the purpose of financial inclusion will continue happening.

Moderator: Our next question is from the line of Harsh from Yashwi Securities.

Harsh: I just wanted to check if there is any update on the guidances that were given in the past quarter, if there are any changes?

Baldev Prakash: Yes. Harsh, our guidance remain the same. We have given the guidance of credit growth of around 15%, deposits growth of around 12%, CASA 50%, NIM 3.75% to 3.85%, ROA 1.25% to 1.3%, ROE 17% to 18% and gross NPA 3.5%. We will maintain this guidance.

Harsh: And sir, the other guidance of the employee cost that was a 5% to 6% increase. And opex, an 8% to 10% increase. Does that also remain same?

Baldev Prakash: Yes. That also remains same. It will be single digit.

Moderator: Our next question is from the line of Chintan Shah.

Chintan Shah: Sir, 2, 3 questions from my end. So largely, sir, on the asset quality. So sir, are we seeing any pockets of stress and on the personal loans like we see there are many banks who are highlighting stress in the microfinance portfolio, so we don't have any exposure, but we have a large personal loan portfolio. So are we seeing any bits of stress there?

Baldev Prakash: So Chintan, our personal loan portfolio consists of majorly, the consumption loan and personal loan to the government employees of Jammu and Kashmir and Ladakh UTs. So their salary is being credited to our account -- our saving bank account and EMIs are being debited from savings to the loan account. And this product is quite old product, so there is hardly any delinquencies in this. So we don't foresee any stress in this portfolio. And the second thing is about -- over and above this, we have an enabling MoU with the government, which enables that in case of death or any dismissal of government employees, so the terminal benefits first right will be the bank loan and then the remaining amount will be paid to the concerned employee's family.

Chintan Shah: And sir, any other pockets of stress, we anticipate? Or any pockets where you are seeing some early warning signals there and restricting our growth in that segment?

Baldev Prakash: So as of now, we don't have any concern on asset quality. In fact, there's no big account, more than 10 accounts, which is more than INR10 crores account, which would be stressed. So as of now, we are better off.

Chintan Shah: Yes. And on the margin front, I think many banks are still not be able to curtail their cost of deposit significantly. I think for us, the cost of deposits are almost peaked out. And now we don't anticipate any rise in the cost of deposits, right? Will that be a fair assumption to make?

Baldev Prakash: Yes. Yes, it's a fair assumption.

Moderator: Our next question is from the line of Amit Kumar from Master Trust.

Amit Kumar: So sir, my question is that do you see any growth in your revenue from the rest of India vertical in the coming quarters?

Baldev Prakash: So rest of India vertical has been quite vibrant during the last year also. And the 2 areas have been continuously under focus: One is the big loans corporate book, that is all high-quality loans, high rated loans; and the second is the home loan segment. So obviously, that book is growing at a pace over 15%. So obviously, the revenue will go up.

Moderator: Thank you. Our next question is from the line of Jai Mundhra.

Jai Mundhra: If you can, sir, talk about the geographical -- sorry, the state situations in the last 3 months, I mean, since the last quarter? And your outlook in the -- for the UT of J&K and Ladakh? And how do you see the growth there in the J&K business, in the J&K region?

Baldev Prakash: Yes. So there -- 2, 3 things which I would like to tell you about this. One is that the tourist inflow is continuing, and we are expecting to make one more record this year. By the end of this year or before the end of this year, the train connectivity will be completed with the rest of

India to valley. And obviously, the tourist will continue coming in the bigger number. So that will have a positive impact on the earnings of locals and the local households.

And number two is about the elections, you see, the type of turnout in the elections has been unprecedented. After so many years, we have seen more than 50% turnout in the recently held Lok Sabha elections. So these are the good signs, which are indicating better days to come. Yes, a few incidents here and there, particularly, in the Poonch-Rajouri area and in the Samba and Kathua border area. That has happened. But I think we believe very sincerely that these are only the scattered incidents and may not going to have a negative impact on the growth story of the UT. As far as Amarnath Yatra is concerned and Mata Vaishno Devi Yatra is concerned, again, the yatrees, the numbers are going up and up every year. This year, it is a record number.

Jai Mundhra: And your assessment of the credit growth in J&K region?

Baldev Prakash: So if you see that economy of Jammu and Kashmir is likely to grow by 7.5%. So by that estimate, we are quite confident it will be above 15%.

Jai Mundhra: And sir, what we hear is that other private banks have started accelerating their branch opening and their customer acquisition in the state of J&K in the last 3, 4 years, which was not the case earlier. How do you see the competitive assessment now versus, let's say, 2, 3 years back? If there any perceived -- if there is any perceptible change in the competitive scenario there in terms of the deposit or loan book?

Baldev Prakash: Yes. So there is definitely branch openings by other banks. It is happening for the last 3 years, which I'm able to see. And obviously, some competition will be there, and that competition has to be met by us on the strength of, one, that the customer loyalty and service. The other is that we have improved our offering by way of adopting more and more digital initiatives. And going forward also, this journey, we will continue with more aggression. And we are quite confident we will maintain our market share. So far, we have done it.

And number two, the overall economy of the state and UT is going to see a sea change because of various reasons, including the HADP, which I referred in my opening remarks. So that is one. And the other thing is our continuous increased focus in the rest of India. So there also, we are likely to get a good increase in the market share in the rest of India. So overall, we don't see much thing of concern as of now.

Jai Mundhra: Right, sir. And last question first on my side. We have this unsecured personal loan book, which primarily pertains to J&K state employees. Any change in the credit behaviour there or in terms of asset quality because we keep hearing negative dues flow on the unsecured side?

Baldev Prakash: No, absolutely intact, this book is there. So the delinquencies are hardly any delinquencies. And this has been always consistently around less than 0.5%. And there, too, after some time once the terminal benefits are settled, the money is received in our account. So this book has been always a good asset for the bank, and this will continue to be in the future also.

Moderator: Our next question is from the line of Umang Shah from Kotak Mutual Funds.

Umang Shah: Firstly, congratulations on a good quarter. Just a few questions. One is -- I'm sorry, I missed your comment on the pension disbursement front. If you could just explain it again? And was there any one-off component in the employee cost or the opex line item for this quarter?

Baldev Prakash: So Umang, as far as the pension is concerned, there is no one-off. Last quarter, we had one-off because of the gratuity, the provision, which was written there. And this year, the pension is -- there's 2 things that happened. One is that the normal retirement this year, there's was a retirement of 400 employees, who were eligible for pensionary benefits. And going forward also in the next 4 years, we have calculated more than 1,200 employees. 1,200 employees are getting retired, so that will have a positive impact on the provisions for pensionary provisions.

And over and above that, we had the practice of taking the ROC clause in the annuities, so that has been revisited. So because of that also we are getting a non-ROC and around 25% to 30% saving is happening because of that. So that's why this will be -- the saving will be on a prolonged basis.

Umang Shah: Okay. And the pension disbursement, which is mentioned in the notes to accounts, I mean, there is no transaction related, or the impact related to that in the P&L per se, right?

Baldev Prakash: No. This was actually the pension disbursement to the government pensioner, and we had MoU, but it was not getting implemented. We wanted to get it directly from Reserve Bank of India. And now that issue has been settled. So entire money has been paid. Going forward, this money we will be getting directly from RBI, so that there's no delay as far as reimbursement of pension from government is concerned.

Umang Shah: Okay, understood. Understood. That's helpful. And sir, second question was on asset quality. Now clearly, the slippages seem to be undershooting. And given that first quarter is usually a little slow quarter per se. But clearly, I mean, you have kind of surprised positively on the credit cost as well as slippages front. Do you think for the full year, you would want to kind of revise your credit cost guidance per se? Or you still retain your full year credit cost guidance, which you had given earlier?

Baldev Prakash: No, I think we will maintain the credit cost, which will be benign going forward in the next 3 quarters also. And our asset quality, we have given a guidance of 3.5%, we will be definitely likely to achieve that.

Umang Shah: Okay. Perfect. Sir and last question to my end was pertaining to your tenure. I mean we are kind of closing in to the end of your current tenure, which will be in December '24. By when should we expect the Board will take a call in terms of submitting your name for renewal? Any thoughts on that?

Baldev Prakash: Okay. So Umang, that process has already started. And all the stakeholders have ceased off the issue. I think shortly, you will -- we will be able to inform all the stakeholders about the future course of action, the successful planning of MD and CEO.

Moderator: Our next question is from the line of Prabal from Ambit Capital.

Prabal: My first question was how do you assess the impact of the new draft circular of RBI on LCR?

Baldev Prakash: Yes, Prabal, so as of now, our LCR is around 135%. And we have calculated the impact of the draft guidelines. It will be around 15% on our bank. So if we take into account that impact, it comes to be 120%. So against a minimum of 100%, we are much, much better off.

Prabal: And would you like to maintain more liquidity on the balance sheet, or you are comfortable with the new normal of 120% now?

Baldev Prakash: No, 120%, we are absolutely okay.

Prabal: Sir, second question was what is your credit-to-deposit ratio in currently derived 72%. So how do you think about that going on?

Baldev Prakash: So credit-deposit ratio has been in the range of 70% to 74% in the last year also, I think we will maintain it between 70% to 75% maximum.

Prabal: Sir, you are moving outside of Jammu and Kashmir and doing more of the corporate loans, what kind of customers are these? What's the rating profile of these customers? What segment do you typically have right to win?

Baldev Prakash: So as far as rest of India corporate segment is concerned, we are having the best of the corporates. Best of the corporates, all AAA-rated or the government Maharatna and similar companies. So these are all almost very good customers.

Prabal: Okay. And where you would be facing competition from some of the larger banks? So how do you compete with these people and get the mandate for yourself?

Baldev Prakash: So we compete and sometime we win, sometimes we lose. But generally, on the strength of our low-cost deposits, we compete with the major banks in this segment.

Prabal: And these are mostly PSU customers, mostly government-backed...

Baldev Prakash: You can say 65%, 70% are government-backed.

Prabal: Sir, you mentioned that your aim is to maintain -- is to improve ROA to 1.25%, currently, it's at 1.10%. What are the levers you see of the improvement here on?

Baldev Prakash: So I think 1.25% is on the radar by the end of this year. And Ishaq, do you want to tell something?

Mohmad Ishaq Wani: Yes. Actually, if you look at this quarter also like, MD sir, has mentioned in his opening remarks, that we have made a provision -- additional provision of INR66 crores in -- floating provisions for this contingency provisions. So if we reckon that also, so we are already above the mark that we have given the guidance. And definitely, we are going to maintain it at a level better than what we had guided.

Moderator: Our next question is from the line of Harsh from Yashwi Securities.

Harsh: I had a couple of questions. So a couple of quarters ago, we had guided, by FY '28, we would be looking at a bottom line of INR4,000 crores. So would that still stay?

Baldev Prakash: Yes, it stands, Harsh. We have planned and we have budgeted our internal target keeping that target in line.

Harsh: Okay. Okay. And sir, I see a slight increase in the yield on the advances part. But last quarter, we had guided that it would remain flat. So do you see a further scope of increasing the yield? Or would this be the peak?

Baldev Prakash: I think this will be -- broadly, I think this will be in this range only.

Mohmad Ishaq Wani: Yes. The recoveries actually that happened during this quarter, the INR272 crores in the live, there were some upgrades also. And in the upgrades, there is some realization of the unapplied interest. So that also help with the yield in some -- to some -- some basis points of the yield comes from that also. So this phenomenon happens. Otherwise, normally what we had guided that this yield will be in this range only, the 9.4%, 9.45%, it remains like that because the portfolio is like that only. Yes, there will be some change, if there is a repricing on account of some policy -- interest rate changes, policy rate changes, then definitely there may be a change in the yields also.

Harsh: Okay. And sir, last question, could you mention the share of business that the bank has in the state of Jammu and Kashmir?

Baldev Prakash: We are holding about -- sorry, okay. 70% is in Jammu Kashmir, Ladakh and 30% in rest of India.

Moderator: Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to management for closing comments.

Baldev Prakash: Thank you very much. And thank you all the participants for joining in today and being part of the healthy interaction. We hope to remain engaged more often and we will be looking forward to your suggestions and guidance for further betterment of the bank. For any further questions, queries, details, comments, et cetera, the team is always available, and you can also direct your queries to our Investor Relations desk, and we will definitely respond. Thank you so much.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.