"Jammu and Kashmir Bank Q4 FY '24 Results Conference Call"

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

Moderator: Ladies and gentlemen, good day and welcome to Jammu and Kashmir Bank Q4 FY '24 Results 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Chintan Shah: Thank you, Sagar. Good morning, everyone, and welcome to the Q4 FY '24 Results Conference Call for Jammu and Kashmir Bank. We have with us from the Management, Mr. Baldev Prakash – Managing Director and CEO, along with the Management Team.

Before starting, I would like to congratulate the Management for excellent set of numbers and a healthy Q4. So, now without further delay, I would now like to hand over the floor to the management. Thank you, and over to you, sir.

Baldev Prakash: Thank you, Chintan. A very good morning and warm welcome to all the participants in the J&K Bank March 2024 Earnings Call.

First, let me introduce my management team who are accompanying me on this call. Our Executive Director – Mr. Sudhir Gupta.

Sudhir Gupta: Good afternoon.

Baldev Prakash: Our Corporate Credit Head – Mr. Ashutosh Sarin; Liability & Commercial & Consumer Credit Head – Mr. Narjay Gupta; our (IAPM) Impaired Assets Portfolio Management Head – Mr. Shujaat Andrabi; our Treasury Head – Mr. Rakesh Kaul joining in from Mumbai; CRO – Mr. Altaf Kira; and our new CFO – Mr. Fayaz Ganai.

During FY 2024, India's economy is estimated to have grown 7.6% and the growth expectations for FY 2025 as per IMF estimates is 6.8%, retaining its status as the world's fastest growing major economy.

GST collection of over Rs 2 lakh crores during April 2024 against the monthly average of 1.68 lakh crores for FY 2024 underlines the robust economy and kicking off the new fiscal on a fairly strong note.

Buoyant domestic demand has ensured a strong start to the fiscal and manufacturing PMI improving resulting in expansion of output in April 2024, albeit with slight moderation over March.

On the Policy Front:

RBI kept the policy rates unchanged on concerns of volatility in food inflation. The regulator feels that the full transmission of 2.5% hike in the benchmark repo rate since May 2022 has not happened except in case of fresh term deposits, thus inferring that there may be some more increase in the weighted average term deposit rates, resulting in further pressures on margins. Despite the pressures on the liability front, Banks have been posting decent numbers owing to the improved asset quality and provision write-backs.

Over the last 2-3 years, J&K has also been witnessing growth and prosperity resurgence with significantly improved law and order situations. Trust on infrastructure building is helping the core sectors of J&K economy like agriculture, tourism, arts and crafts grow in an unprecedented manner.

Transformation and modernization of horticulture sector through the holistic agriculture development program, adopting the high-density plantations, mechanizations, strengthening the agri-ecosystem by establishing the CA store network and better logistics is opening new vistas of development. As per estimates, the sector offers lending opportunities of over Rs. 50,000 crores over the next 5 years.

Similarly, after the record-breaking tourist inflow in excess of 2 crores visitors last year, the numbers recorded during the first 3 months of this calendar year are well over 50 lakhs and the trend suggests that the traction continues. A lot of demand is emerging in the home space in addition to the traditional tourism-related facilities like hotels, guesthouses, restaurants, advanced tourism, tourists' taxis etc. One encouraging trend is the increase in foreign tourist arrivals, which had been negligible over a prolonged period.

Coming to the Financial Numbers posted by the Bank for Financial Year ’24:

We feel reasonably satisfied that we have been able to deliver what we had guided on most of the business and financial parameters.

A double-digit deposit growth and 14% loan growth are in line with the market guidance with a strong Q4 performance. Growth contribution has been higher in housing that is at 20% Y-o-Y, personal finance 15% Y-o-Y and credit card 23% Y-o-Y.

The retail to corporate composition of the loan portfolio is 2.1, 2 is to 1, while the regional contribution is J&K 66%, Ladakh 2% and rest of India 32%.

Personal finance constitutes 36% of the retail loan group. Interventions through ambitious development and deployment of POS, QR codes, extensive new customer onboarding has started yielding dividends by improving the float balances in the CASA segment resulting in the Bank being able to sustain CASA at 50.51% despite industry-wide pressures on the liability side.

Retail deposits constitute 88% of the total deposits of the Bank. Our cost of deposits for Q4 has panned as we had guided during Q3 calls moderation with tapering bias.

Focus of improving assets quality continues and the result is fairly reflected in the numbers. Gross NPA of 4.08%, net NPA of 0.79% with PCR of 91.58% all converging towards industry-best. Excluding the technical write-off Rs. 506 crores, the gross NPA would be 4.58% broadly in line with our guidance for the year.

It could have been better but for the uncertainties of timing of some major recoveries which sometimes get delayed, Bank have also implemented a robust early warning signal system to manage the SMEs and control the slippages. The average monthly slippages during FY '24 have been controlled at below Rs. 100 crores that is the slippage ratio of below 1.4%.

A significant downsizing of 27% has been achieved in restructured loan book during FY '24. While the two accounts of Adani Power, Maharashtra and Mundra, had been subjected to flexible restructuring and had outstanding balance of about Rs. 188 crores at the end of the last fiscal also got adjusted during the year, the remainder of restructured loan book is performing satisfactorily with collection efficiencies of well above 90% and we envisage further downsizing upgrade of same during current financial year.

Aging provision requirement for NPA during FY '25 is estimated at about Rs 200 crores, but with the pipeline of envisaged recoveries and expected provision write back, there from our credit cost shall be benign for the current financial year as well.

Pertinent to mention that there has been no adverse impact on our investment portfolio and valuations subsequent to the revised RBI guidelines. We are maintaining over 95% of provisions for our NPIs. We also are maintaining investment fluctuation reserve of Rs. 200 crores against requirement of Rs. 118 crores as on March 2024.

With improving internal accruals supplemented by fresh equity raised via QIP during the year, our capital adequacy is 15.33% with a significantly improved CET-1 of 12.02%. Though J&K UT government has made a provision of Rs. 500 crores in budget '24-'25 for capitalization of J&K Bank, RRBs and Cooperative Banks, yet we are confident that Banks shall be able to generate adequate growth and risk capital internally and not require recourse to the government infusion.

The income statement is reflective of good growth in interest income at 20% Y-o-Y for the financial year. However, due to a higher rise in interest expended at 30% Y-o-Y, net interest income has increased by 10% Y-o-Y for the year. The surge in interest expended is the outcome of the industry wide phenomena of re-pricing of term deposits and mobilization of fresh term deposits at higher rates resulting in increased WADTDR.

Our endeavor to improve the Liability franchise with an optimal mix of CASA and retail has started bearing fruit and the efforts are continuing with ambitious digitally aided campaigns of new customer onboarding and deployment of POS and QR codes.

Despite the pricing pressures on the liability side, Banks delivered a NIM of 3.92%, which are fully aligned with the guidance given by the management at the beginning of the year.

Owing to recoveries in technical write-off loans getting delayed, other income of the current year increased by only 10% Y-o-Y. Some impact of the lower technical write-off recoveries was offset by increased income from the insurance distribution business resulting from the new IRDAI guidelines while good growth on comparative basis was achieved on core non-interest income segments.

On the returns front, the Bank has delivered better results on the back of higher PAT. ROA of the year at 1.22%, ROE at 18.01% reflects significant improvements over the previous year. There has been moderation of almost 4 percentage points in the cost-to-income ratio despite higher technology spends during the year, which though being expanded during the year in reality can be considered as investments with anticipated good returns over the years to come.

Sustained growth in P-POP 23%, PBT 34%, PAT 48% resulting in yet another record-breaking year of profit of Rs. 1,767.27 crores. 1,767.27 crores has yet again proved that the Bank has delivered as per the expectations of its stake holders on most of the parameters.

Based on the good annual performance, the Board of the Bank in its meeting held yesterday has recommended a dividend of Rs. 2.15 per share for the financial year '23-'24. The trend in employee cost is increasing despite the wage revision cost. The overall employee cost for the Year '23-'24 is lower as compared to previous year and even below the financial year '22.

During the year, excess provision made to our superannuation benefits amounted to Rs. 263 crores were reversed. The superannuation costs are going to moderate going forward owing to the scheduled retirements of a good number of high-cost resources and savings owing to the shifting to purchase of non-ROC annuities for pension payments.

With synergies of people, process and technology supplemented by a fundamentally strong balance sheet and progressive business model, Bank is well prepared to deliver even better performance in the days to come.

Market guidance for the Financial Year ‘24-'25 will be the credit growth of around 15%, deposit growth of around 12%, CASA 50%, NIM 3.75-3.85%, ROA 1.25-1.3%, ROE 17-18%, gross NPA at 3.5%.

I thank you all and acknowledge your guidance, support and trust and we expect to continue it in the coming days. I will be glad to have your questions now. Thank you so much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Arjun from Bowhead. Please go ahead.

Sonaal Kohli: Hello, sir. This is Sonaal Kohli from Bowhead. Congratulations again on a stellar year in quarter. Remarkable what the team has done. Sir, I have two questions. Firstly, on the loan-to-deposit ratio, considering we are going to grow our loan book by 15% and deposits by 12%, what prevents us from taking our loan-to-deposit ratio further and over the years, we expect to inch it up and where do you see it in the next 1-2 years?

The second question was pertaining to the state of Jammu and Kashmir. This year we have obviously by choice grown much faster than the rest of India. How do you see that going in the next 1-2 years? And when do you see the growth in Jammu and Kashmir economy translating into growth of the loan book by the Bank? I understand that we purposely may not have been growing that fast to put systems in place, but at what point of time do you decide to accelerate the pedal on Jammu and Kashmir?

Baldev Prakash: Yes, Sonaal, thank you so much. So, our LDR is below 70% as of now and we have a good scope of improving it. We are targeting it to be around 72% during the year and obviously the investment, depending upon the potential, we will be shifting some of the investment book to our credit book as and when it is required.

And the second question is related to J&K economy. I am happy to tell you that in the last 3-4 years, there has been a consistent improvement in the J&K economy and this trend is likely to continue going further also. And in this year, we are expecting the real connectivity with the value from the rest of the country, which will have a multi-fold impact on the overall tourism related activities.

And the agriculture sector is also now looking up. I have already indicated that there is a huge amount of potential of growth in agriculture. So, that will also support the Jammu and Kashmir Bank to a large extent because we have a lot of rural-urban and semi-urban **(RUSU)** network and while we will continue ensuring that we are not losing markets here rather improving it, but we are in the process of transforming our digital journey and our processing of our loans by CPCs. Retail, we are almost through. SME, I think another one quarter, we will be there.

So, once the processing is centralized, then the branches will be looking after only the sourcing of the business, and we will have standard practices of processing and the risks will also be contained. So, then we can see that we paddle it up further.

Sonaal Kohli: Sir, is my understanding correct that you have two further levers to protect or increase your link as compared to relatively to other Banks? One is, in the last 1-2 years, you have grown in rest of India much faster, and your margins are obviously much higher in Jammu and Kashmir. So, as it starts catching pace with the overall loan book growth, you will have an additional lever compared to what you had in the last 1-2 years on the margins. And secondly, the loan-to-deposit ratio still has not really long way to go should you decide to accelerate it.

Baldev Prakash: Absolutely, absolutely. I think you have said it right. Besides the two points which you have already told, one is the CASA strength of the Bank which is continuing to propel. I mean, we are having the advantage of lower cost of deposits or cost of funds. Because of that, we are able to finance quality business at the competitive rates.

Sonaal Kohli: So, sir, can our NIMs improve further compared to what you have seen? Is there a possibility? That's all I am asking.

Baldev Prakash: Yes, yes, that is a possibility, but we are strengthening our systems, so that we are not ending up to a situation which we have seen a few years before.

Sonaal Kohli: So, the NIMs have a possibility of being more than the guidance, have a possibility?

Baldev Prakash: Too early to say that, but we will definitely try and improve it above our guidance, as we have done this year.

Moderator: Thank you. The next question is from the line of Gaurav Agrawal from Nine One Capital. Please go ahead.

Gaurav Agrawal: Sir, on your employee cost, you know, last quarter you mentioned that despite the benefits that you are going to accrue in this financial year, next financial year FY '25, you expect a Y-o-Y decline in the employee cost. Sir, what is your outlook right now on that?

Baldev Prakash: So, Ishaq, can you just come and give the numbers? Just a moment, Gaurav. We are just explaining it.

Mohmad Ishaq: Good afternoon, Gaurav. Ishaq here. So, we had guided that, we had a feeling that there is a lot of value, actually, extra provisioning in our superannuation funds. So, that assignment we gave to our consultant to assess what was the requirement and what was the level of provision that we were maintaining under these superannuation heads. So, immediately he recognized and realized that we had a huge excess in the gratuity. So, there is a reversal of 243, that is in the notes to the accounts also, it has been mentioned by the authors. So, there was a reversal of that amount because that was in excess.

Secondly, now this was a onetime thing. The reversal was one time, but one more thing is the provisioning towards the pension benefits, the pension payments. So, we were purchasing annuities with an ROC class.

Again, there is the consultant, he has suggested that we shift to non-ROC annuities and again there is also scope. The amount that he has said is well above 200, but we are not factoring that much. We are saying that 150 to 200 crores will be the annual saving on their contribution towards the pension annuities also. So, this will continue for a long time.

And the third thing that is actually tapering this superannuation cost is the retirements of the employees. A lot of high-cost employees are retiring. Almost 700 have actually retired over the last two years and more are retiring during this year and the current year. So, a lot of numbers, there will be again some reduction in the requirements for the terminal benefits. This is the other thing.

So, this is one thing that is panning. If you see, this cost is for the current year. Now, because of one, this reversal, it has been lower than last year and even the previous year, that is '22 also.

Gaurav Agrawal: So, for FY '25, do you expect this employee cost because of the benefits you mentioned? So, do you expect it to remain flat on the low base? Obviously, for FY '24, do you expect it to grow by like mid-single digit?

Baldev Prakash: Yes, yes.

Mohmad Ishaq: In the range of 5% to 6%, we are anticipating that it will go up 5% to 6% only. Yes.

Gaurav Agrawal: And sir, your other cost, you know, has gone up quite substantially. It is up like 26% and you mentioned that you have been investing on tech side on a lot of other initiatives. Sir, what is your guidance on the other cost, which is around 1,300 Cr for FY '24, 1,181 to be specific?

Baldev Prakash: So, Gaurav, the technology investment will continue happening and as far as the earnings are concerned, I think…

Mohmad Ishaq: Yes, like this year, we had an OpEx of 135 crores almost on the tech side and the CAPEX of 180 crores, so almost 300 crores of this depends on the investment, infra building, the technology infra building because like MD sir said in his speech also, in the initial words, that we are on a transformation journey and we are actually taking all our processes. We are mechanising all our processes, which is bringing in efficiencies in our processes, saving the resource cost a lot. This is why, despite 800 retirements over the last two years, we didn't require any new recruitment to be done.

Gaurav Agrawal: I understood. On the guided cost, I think that you mentioned, you have Rs. 200 crores of aging provision for FY '25, right? Did I hear the number correctly or is there any mistake from my side?

Baldev Prakash: You have heard it correctly and we were expecting it in the last quarter. But because of various delays, we are expecting it now may be first quarter, maximum second quarter. So, the credit cost is expected to be near zero or almost negligible.

Gaurav Agrawal: So, 200 crore is the aging provision and then you are expecting some recovery on the provision side. So, net-net you are assuming for the full financial year near to zero kind of a number. That is for full financial year, right? Not for Q1.

Baldev Prakash: That is correct.

Gaurav Agrawal: And sir, lastly, if I may, you know, your RWA, if I, just one second. So, your RWA for the year end is 93,000 crore, right?

Baldev Prakash: Yes.

Gaurav Agrawal: So, sir, I think it has grown by 20% while advances are up only 14. So, this segment is specifically leading to higher growth in RWAs and hence the higher requirement of capital and how is the outlook on this side?

Baldev Prakash: So, let me request our CRO, Mr. Altaf Kira to respond, Gaurav.

Altaf Kira: Our risk-related assets have grown. If you look at our credit risk-related assets, they have grown by around 2,000 crores and operational risk-related assets remain stagnant and market risk-related assets have increased because of the regulatory change and increase in the portfolio. That is one.

And now going by, regarding the risk-related assets, we believe that they still remain in line because if you look at our risk-related density, it has remained in the range of 58% to 60%. Still here it is 60%. We will continue to remain in this band. And furthermore, if you look at the unsecured book and the NBFC book, the changes in the risk rates, that has led to around 100 bps of increase in the risk rates.

Baldev Prakash: So, I think, Gaurav, essentially the risk-related assets have been increased because of the increased risk rates.

Moderator: Thank you. The next question is from the line of Milind Karmarkar from Dalal and Broacha. Please go ahead.

Milind Karmarkar: I had a couple of questions. One was that the yield on advances, the issue is that if our home loan portfolio is growing faster and so is our agriculture portfolio, I suppose that in both these cases, the yield would be slightly on the lower side. So, would it impact our overall yields going forward? That was my first question.

And my second question was relating to the economies specifically in Jammu and Kashmir. Where do you see the maximum growth coming from, from which segment in the coming, say, two to three years? That was my second question.

Baldev Prakash: Yes. So, Milind, as far as yield on advances is concerned, you are right that agriculture is generally the low yielding product, but the major segment is the personal loan segment to the government employees, where the maximum yield is being earned by the Bank. And then the other segment is the MSMEs. MSMEs also are seeing a lot of uptick in, because of the overall economy, improvement in economy in J&K. So, you have anything to add?

Mohmad Ishaq: Yes, Milind, good afternoon. Like you said that agri, it may be earning lower yields for us, but in fact, if you see that we have almost 10,000 crores parked in there because of this priority sector short fall, we have almost 10,000 crores of this funds parked in low yielding, very low yielding, 3%, 2.9%, this NABARD and other things. If those get released and those get deployed at even 8%, though, there will be an uptick in the yields, number one. Yes, exactly.

And number two, what MD sir has said that actually the housing, yes, that is there, but we have got the other segments which are well above 11% also. So, the balancing thing is that it will remain and we have actually factored it at the same level, like we have during this current year, almost for the last three quarters, it has been maintained at that 9.55%.

Baldev Prakash: So, coming to your second question, Milind, the economy in J&K, which segments are looking like growing better? So, as I have already indicated, the home loan segment is seeing a very good growth of over 20% and this is expected to continue this year also because there is a pent-up demand also. The people have started investing in their homes, which they have not done for quite a long period of time and the cost of housing is going up both in our Jammu as well as in Kashmir areas. That is one. The other thing which is I think propelling the overall economy is the tourism sector, which is looking very good this year again.

Milind Karmarkar: Any growth which you can see on the industrial side? Because I hear that Jindals are setting up a paint plant near Pulwama. Are there any other industries coming to Jammu and Kashmir as of now?

Baldev Prakash: Yes. So, not that big industries but medium level industries, medium size industries are coming up in and around Jammu. So, that is one attraction is the government new investment policy wherein there are benefits to the investors in the industry also as well in the capital subsidy side also. So, that segment is basically confined around Jammu side. But yes, some industries are coming in that area.

Altaf Kira: JSW.

Baldev Prakash: JSW is also coming.

Moderator: Thank you. The next question is from the line of Ashish Goel from InvestSavvy Portfolio Management LLP. Please go ahead.

Ashish Goel: Congratulations to the team and I have two questions. One is given that your low cost of funds, which is a lot of the CASA is coming from Jammu and Kashmir area where I think you already have a fairly large coverage. So, the additional funds which will be garnered, what is the plan to keep the cost of those funds low? Because on an incremental basis, if they are coming in at more expensive, then the growth outside may not generate that much profit on a like-to-like basis.

Baldev Prakash: Yes. So, Ashish, good question, and I think I will respond it in two ways. One, that since the economy is looking up, the savings in our home territory will also go up. So, once the savings go up, obviously the saving capacity in the form of deposits will also further go up. So, we are not seeing much of a concern as far as our home territory is concerned.

So, as rest of India, so the strategic expansion plan which we have started last year will continue and that will be based on two things. One, that what is the scope of getting the low-cost deposits? That is one. And what is the scope of improving my home loan segments, home loan portfolio there? So, based on these two things and the potential, we will continue having a strategic expansion plan this year again.

Ashish Goel: Sir, is the growth in deposits a little cyclical? Because like last Q-o-Q it was about 9% and this Q-o-Q it is about 6.7%. So, it has kind of slowed down. So, is it that March quarter generally you see a slight slowdown in deposit growth because people pull out for advanced tax et cetera?

Baldev Prakash: No, but March quarter generally is better than the other quarters. This year also what is the quarter? So, Q-on-Q it is more than 5%.

Ashish Goel: But Q-on-Q last quarter was about 9%. So, that's why I was wondering that why has it slowed down Q-o-Q.

Baldev Prakash: I think that may be some abrasion, but generally the last quarter is better than the other quarters in deposits and that is happening over a period of time, we have seen it.

Ashish Goel: And how do you see this while I think you address the employee cost bit, your previous question, which was the other question I had, but going forward what number of employees would be possibly retiring this year? And what would be the impact on cost, some rough ballpark in cost saving on this when they retire?

Baldev Prakash: So, see, we have given this number last quarter also that we have 1,500 high-cost resources which will be retiring in the next 3 to 4 years' time and that number remains the same only and over and above that now the terminal benefits will be based on non-ROC clause. Earlier it was ROC clause. So, that will also save around 150 to 200 crores as Ishaq has already indicated. So, going forward I think on the employee cost front, we do not have much worries now.

Ashish Goel: So, in terms of growth you think revenue growth will be more than the employee cost growth?

Baldev Prakash: Yes, definitely.

Ashish Goel: And that is after like taking this quarter into account because this quarter we have seen a significant drop. So, it is like around 480, like it has come down. So, from here we will see 5 to 6 or on an annual basis or on the previous average?

Baldev Prakash: So, we are seeing on an annual basis around 5% to 6% of the total increase, which will be much below our overall growth in the businesses.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Demeter Advisors LLP. Please go ahead.

Ashwini Agarwal: The question I had related to the provision that you have made during the year for frauds in the notes to accounts amounting to 241.76 crores, which is roughly, you know, give or take about 25-26 basis points of your loan book. So, I just wanted to ask, I mean, how do you look at this number? Is this higher or in line with what the Banking sector generally experiences and should this be ongoing or other systemic investments you are making towards technology and various other things, are you likely to see this number go down? How should I think about this?

Mohmad Ishaq: The number that you are talking about is actually from the financial side. That is the loan side, credit side because, you see, depending on the diversion of funds and other things, there are sometimes the other Banks also declare the accounts as a fraud and this is exactly the same. This is from a consortium account that has been declared as fraud by the other members of a consortium and others. So, we have to follow suit in that. There is no other fraud other than this. This is actually from the credit side only.

Ashwini Agarwal: So, this would be similar to what other Banks in the system are also experiencing.

Baldev Prakash: Yes, correct, Ashwini.

Ashwini Agarwal: And sir, second question I had is that, you know, you have roughly about 3,000 odd crores as receivables from the government on account of pension liabilities. Do you get any interest from these delayed payments? The pension receivables from government?

Baldev Prakash: So, Ashwini, we are an agency Bank to the government of Jammu and Kashmir and Ladakh. So, being an agency Bank, we will not be able to charge interest as per the provisions. So, there is some lag in the recovery, but it comes every, every month it is coming.

Ashwini Agarwal: And no, no, I was just looking at all the numbers, you know, investment in NABARD, refinance, RIDS and SIDBI and in response to a previous question, it was a very encouraging response that as your priority sector loans grow, some of these low yielding deposits or investments will probably get redeemed. So, overall, they should have a positive impact on NIMs. In that context, I was wondering if the pension is also, pension receivables is a source of income, but that I should not assume to be the case.

Baldev Prakash: That will not earn any income to us, but that is actually the transaction-based income is coming in the form of government commission.

Ashwini Agarwal: And sir, my last question is with elections most likely to be held in the state in the next six months or so before September if the Supreme Court ruling is to be seen, how do you expect the change, any change in how the board is constituted or the management of the Bank? How do you see things going ahead?

Baldev Prakash: Ashwini, this is a difficult question for me to ask today. One thing is there that now the type of governance policies have been institutionalized in the Bank. I am pretty sure that these will continue and the monitoring of the Bank at the government level, the central government level, I think it will continue happening like this. So, we need not worry much about that.

Moderator: Thank you. The next question is from the line of Jai Mundra from ICICI securities. Please go ahead, sir.

Jai Mundra: Sir, few questions. One is, if you can break down the fee income on a full-year basis, so what I can see is 825 crore is the fee. How much of that would be treasury and recovery from write-off? And how much will be the core fee?

Baldev Prakash: Just a moment, I am giving you a break. So, out of 825.48, 132.25 is from the commission and exchange, 105.78 is from the insurance commission, that is the cross-selling income, the treasury and trading gains are 115.60 and other miscellaneous income is 471.85. So, total comes to be 825.48. And out of this, technical write-off is around 100 crores this year.

Jai Mundra: So, sir, if I remove the treasury and write-off, I mean, recovery from write-off, then the fee income is somewhere around 610 crores, right? On an asset base of roughly 1.5 lakh crore, this number is roughly 40 basis point, right? So, I just wanted to take your view that, you know, this number, fee income or core fee income as a percentage of asset at 40 basis point is very suboptimal. If you look at your fee asset, the industry average would be anywhere around 90-100 basis point. So, your thoughts and the roadmap on this parameter, which is P2 assets or P2 loan, you know, over the next two years, and what are the initiatives that we are taking and how easy or difficult could it be?

Baldev Prakash: So, Jai, actually, you have a very valid point, and we are aware of that, this is something where we need to improve and for that we have already taken steps. I think I have already said in the earlier calls that we are now having a system of large credit units, which are headed by the relationship managers and the credit support officers. These are the people who will remain in the credit vertical for a longer period of time, and they will have a limited number of accounts to serve. So, the purpose is that they must get the holistic value of the account. It should not remain only up to the interest income. So, we have already started working on it, but of course, it will take some time to actually reach to the industry average, but we are targeting to reach that.

And the second is, of course, the FOREX and the treasury income, which where the investment we have already started during this year, and we are quite hopeful that we will have a uptick in the overall treasury and FOREX income also.

Mohmad Ishaq: Cross-selling, we are seeing around 60% growth.

Baldev Prakash: Cross-selling, we have seen that 60% growth during the year, and we continue to do well there also.

Jai Mundra: And secondly, sir, on asset quality, right. So, first is, how big is the proportion of J&K state? You know, state government employees constitute portfolio out of, let us say 37,000, 39,000 crore of personal finance that we have.

Baldev Prakash: So, we have around 18,000-20,000 crores of personal loan finance to the J&K government employees and where the quality is top class. Actually, we are not having any delinquencies in this segment less than 0.5% that too on account of deaths or the suspension or some other issues only.

Altaf Kira: Mostly death.

Jai Mundra: So, what was the, less than 5%, is this?

Mohmad Ishaq: Less than 0.5%.

Baldev Prakash: 0.5.

Mohmad Ishaq: Delinquency ratio in this segment. There is a government employee segment that is less than 0.5%. That is less than 0.5%.

Jai Mundra: And sir, last year FY '24 along with FY '23, we had a very good asset quality outcomes, right, in terms of negligible slippages, maybe negative slippages, and negative credit cost. So, going ahead, A, how would you look at gross slippages and recovery and hence overall credit cost? I think in your opening remarks, you had mentioned that credit cost would be benign kind of a thing. But how would you look at gross slippages and how would you look at recovery and hence credit cost?

Baldev Prakash: So, two things, Jai. One is that now the system of onboarding the customers as I have told has been transformed totally. Now we have the specialized team who are well trained to look after the credit. So, the onboarding of customers is properly taken care. The slippages have been stopped because of that.

Number two, the accounts which are already there under stress NPAs or SMAs. So, we have the SMA tracker. Extensive use of technology is being undertaken to ensure that we are lowering the SMAs and maximum at SMA-0 level. SMA-1 and SMA-2 is at heightened alert level. So, our people are also now sensitized towards that.

As far as NPA is concerned, there is a standard operating process and for that everybody is now being asked and daily basis monitoring is done. Monthly basis we have extensive review of all the high value NPA accounts and then there is aging factor also. So, those recoveries are expected to come this year again like last year and before that also. So, as far as the assets quality is concerned, Jai, I can assure you we will continue doing well as we have done in the last two years.

Altaf Kira: Gross slippages will be in line.

Baldev Prakash: The slippages will be of course aligned with whatever we have seen around 1.3%, 1.4%.

Jai Mundra: And sir, do you have a recovery pipeline from NCLT or maybe ARC or NIRCL etc. corporate stress set recovery pipeline?

Baldev Prakash: So, actually around 100 and 150 crores of amount of technical write-off we were expecting during this quarter which has actually now gone to the next quarter, maybe first quarter of this year or maximum second quarter of this year. That is likely to happen. We have the clear visibility, the names also. And of course, the other small recoveries which are happening in our home territories, they will continue happening. We have the specialized teams and those teams are absolutely working on recovering these loans.

Jai Mundra: And sir, is there any standard assets provisioning that you are carrying which is apart from restructured loans provisioning? Because the current times are clearly very good. You are having negative credit cost write back. So, any thoughts on creating contingency provisions and if you have any outstanding standard assets provisioning apart from restructured provisions?

Baldev Prakash: Yes, so how much is the 124 crores is the floating provision. Yes, so, Jai, 124 crores is the floating provision over, and above which is mandatory as per regulatory guidelines.

Moderator: Thank you. Our next question is from the line of Sandeep Raj from Oculus Capital Growth Fund. Please go ahead.

Sandeep Raj: So, my question was regarding the RBI draft guidelines on project financing which mentioned that 5% general provision should be made. So, I just wanted to have your view, would that affect us in any way or just wanted your thoughts on that?

Baldev Prakash: Sandeep, we have just gone through these guidelines today only, draft guidelines today only. And the back of the envelope calculation is that we will not have any significant impact. 1,416 crores is the amount where DCSO has not yet happened. So, out of a portfolio of more than 1 lakh crores, 1,416 crores is the amount which may be required for higher provisioning as per the draft guidelines we understand today.

Ashutosh Sarin: And I would like to add, I am Ashutosh. The guidelines which has been circulated by RBI, presumably they don't, there is no mention that existing portfolio it will be impacted because I presume that once these draft guidelines, they come into circulation, then after that the project financing which will happen, it will be applicable to those projects only.

Baldev Prakash: But these are our projections only. Even if it is on the existing portfolio, we have a very negligible portfolio.

Moderator: Thank you. The next question is from the line of Chintan Shah from ICICI Securities. Please go ahead, sir.

Chintan Shah: Sir, just one question from my end. On the ECL provisioning, sir, we believe we will have to migrate to the ECL provisioning norms in probably a year or two. So, what would be our total provision on our books? Total provision, what we have standard of floating, restructuring, et cetera. The total provision, which we have on our books, what would be that number, if you could share?

Baldev Prakash: So, how much is our provision?

Mohmad Ishaq: There is still 433 for the standard and floating is 124.

Baldev Prakash: 433 plus 124, that is the amount of provision we are having, and our calculation so far indicates that we will have a soft landing on the ECL platform as and when it is implemented.

Chintan Shah: So, in terms of the ECL implementation, we won't be having any knee-jerk reaction on the provision side. So, despite having almost nil credit cost for FY '24 and even the same expectation for FY '25.

Baldev Prakash: That's correct.

Chintan Shah: So, anything on the margin? So, the yields have seen a sharp decline actually in this quarter. Probably it was also higher base in the last quarter. So, anything to read there? Will there be a continuation of declining yields or are they expected to settle around 9.5 or so?

Baldev Prakash: The yield on advances?

Chintan Shah: Yes, sir.

Baldev Prakash: Yield on advances.

Mohmad Ishaq: Actually, in the Q3, there were a couple of one-offs. So, there were recoveries and upgradations in some accounts where the unapplied interest also was booked to the extent of 45-50 crores. So, that was an uptick to the 9.78 region on the yield advances. Otherwise, if you take out that one-off effect, it has been 9.54 almost consistently over the last three-four quarters. So, we are actually anticipating it to continue like that because unless and until there is a rate cut by the regulator, this will continue because the trend has continued over the last three quarters.

Chintan Shah: And if we look at the write-offs for the current quarter, actually they seem to be quite aggressive at 520 crores. Also, I assume that these would be fully provided and despite that write-offs, we are having a reversal of credit cost. So, how do we read that?

Altaf Kira: Fully provided, this all 506 crores is 100% provided. We only put these accounts to TWO only after four years they are in the NPA category and where we are holding 100% provision. So, putting them to TWO doesn't make any effect on the bottom line, on the profit of the Bank.

Chintan Shah: And sir, this credit cost which we have seen negative for the current quarter, so what would the reason for that be?

Altaf Kira: It will be benign, yes.

Mohmad Ishaq: Actually, you see the recovery is like the pipeline of recoveries for current year also, that's financial year '25 also. We have almost a 1,000 crores of pipeline of these recoveries and taken the haircut and other things also. So, we anticipate a provision write-back of almost 350-400 crores. So, on the other side, there is an ageing requirement of 200 crores. So, there definitely will be a provision write-back that will be actually a negative figure and the credit cost will again be negative only.

Chintan Shah: So, we mean to say that we have already provided more on the assets and the recovery rates are higher than what is provided for, and therefore we are seeing a provision write-back.

Baldev Prakash: Exactly.

Mohmad Ishaq: Exactly. You see, our provision coverage ratio is already about 91%. And in fact, the Board of the Bank also approved a policy where we are maintaining an additional provision for the NPA at 10% for the substandard for the doubtful categories. So, there is an additional provision, there is a incremental provision that we are maintaining, additional provision 136 crores for the NPAs also.

Moderator: Thank you. The next question is from the line of Darpin Shah from ENAM Asset Management Company. Please go ahead.

Darpin Shah: Most of the questions have been answered. Just one on cost of deposits. How do you see that moving in FY '25?

Baldev Prakash: Thank you, Darpin. So, cost of deposit, we have indicated in quarter 3 that it will be around 4.57, and we have maintained that level.

Mohmad Ishaq: Like we have said that most of the re-pricing of our term deposit portfolio has already happened and currently what we see as per our data, the weighted average term deposit rate out of our portfolio is almost 7.2% and given the CASA component and other things, our cost of deposits will remain at the current level, that is 4.7%, but with a tapering. Because going forward, if there is any rate cut or something like that, there will be a tapering. Otherwise, the re-pricing has already happened. So, there is not any scope of further re-pricing on that. So, the rate, the cost of deposit will actually sustain on this level and lower than this level.

Darpin Shah: And just, you know, if you can provide a breakup of loans by nature in terms of EBLR linked, fix trade book, MCLR linked?

Baldev Prakash: Yes, so it is almost 50-50, Darpin. 50% of our loans is external benchmark linked and 50% towards the MCLR linked.

Moderator: Thank you. The next follow-up question is from the line of Arjun from Bowhead. Please go ahead.

Sonaal Kohli: So, your non-employee cost in FY '24 for full year was 1,180 crores. How do you see this growth in Fiscal Year ‘25?

Baldev Prakash: Non-employee cost?

Sonaal Kohli: Yes.

Baldev Prakash: In and around 8% to 10% we are expecting a normal increase in this cost, Sonaal.

Moderator: Thank you. The next question is from the line of Nawaz Sarfaraz from Dalal and Broacha Portfolio Managers. Please go ahead.

Nawaz Sarfaraz: Just one question. Can you give us some idea with regards to the sectors or segments which contributed to the slippages in the current quarter?

Baldev Prakash: Slippages during the current quarter. Which is the sector?

Altaf Kira: Sir, it is spread across all sectors. Small loans, no big exposure has fallen in this. The highest exposure is only 10 crores, which has fallen during this quarter, and it was around...

Baldev Prakash: That is MSME.

Altaf Kira: Yes, sir.

Baldev Prakash: So, Nawaz, this is spread across MSME and agriculture and the trade also. So, because amount are small, so these are the small ticket size accounts.

Nawaz Sarfaraz: Then we can expect recovery to happen also immediately going ahead.

Altaf Kira: Yes.

Baldev Prakash: Yes.

Altaf Kira: Upgradations and recoveries are happening in these accounts because it is easy because the ODOs are just around 90 days.

Nawaz Sarfaraz: And this is mostly come from J&K or ROI?

Baldev Prakash: J&K.

Altaf Kira: J&K.

Moderator: Thank you. The next question is from the line of Jayesh Shah from OHM Portfolio Equi Research. Please go ahead.

Jayesh Shah: Sir, I have just one question. What is the proportion of J&K loan? My question is, what is the percentage of J&K loans in the overall loan book and within that, what is the percentage of loans to Ladakh? And any implications of current problems that are happening in Ladakh on our portfolio?

Baldev Prakash: No, see, we have 67% of the loan book total to J&K and 2% of the total loan book to Ladakh. And the current problems are not that serious also. And the major segments in Ladakh are the hotel and the government employee segment. So, that book has been holding very well. So, we don't find much challenges there and 67% of our total loan book is from the Jammu and Kashmir territory.

Moderator: Thank you. The next question is from the line of Gaurav Agrawal from Nine One Capital. Please go ahead.

Gaurav Agrawal: Sir, just needed one clarification on the other OpEx, which is the non-employee part. You just said that it is expected to go up by only 10%. Is that correct?

Baldev Prakash: Yes. 8-10% I have told. We are expecting it to grow in this range only.

Gaurav Agrawal: Sir, your full year CAPEX, considering 6% increase in employee cost and 10% increase in other OpEx, your total operating cost should be around Rs. 4,000-4,100 crore. Does it correspond equal to your number like my ballpark in the similar range? Rs. 4,000-4,100 crore kind of number?

Baldev Prakash: Yes, Gaurav, your calculation is correct.

Moderator: Thank you. The next question is from the line of Jai Mundra from ICICI Securities. Please go ahead.

Jai Mundra: Just two clarifications. One is, sir, on DCCO related projects, we said that the total affected exposure could be around Rs.1,400 crores. If I look at our presentation slide 28, then the infrastructure is around Rs.7,700 crore and there is a Rs.1,300 crores of real estate and there may be some eligible exposure somewhere else also, maybe Rs. 910-1,000 crore is a total exposure. It is unlikely to be personal finance, trade, agri, services, etc. So, that Rs.1,400 crores out of maybe infra and real estate exposure of Rs. 9,000 crore looks a bit higher. So, is that the understanding right that those DCCO related matters, this is the total universe, right? The infra and maybe the real estate and out of which Rs. 1,400 crore exposure has some linkages with DCCO thing.

Baldev Prakash: Yes. So, as far as the projects relating to infrastructure, the total amount is Rs. 3,950 crores. Out of Rs. 3,950, DCCO is yet to happen for Rs. 1,416 crores. So, what I was referring to, the amount where the DCCOs are yet to happen.

Jai Mundra: So, out of total infra exposure around, let us say, 30%, 30-35% is where the DCCO is yet to happen, right?

Baldev Prakash: Yes, that's correct.

Jai Mundra: And these would be rest of India projects, right? Or this could have some...

Baldev Prakash: This is mainly in our home territories relating to power.

Jai Mundra: Secondly, sir, there was on April 1st, there was a new RBI norms on investment reclassification and the HTM to AFS and AFS to HTM and the revaluation of mark-to-market. Is there any positive or negative implication on the CET-1 one after that, you know, after we would have redrawn the balance sheet on April 1st?

Baldev Prakash: Yes. So, Jai, can I request our Treasury Head, Mr. Rakesh Kaul, to respond to your question if he is online?

Rakesh Kaul: Sir, basically, I would like to clarify here. Basically, earlier, we were having 80% in HTM and in AFS and HFT, we were holding 20%. Now, after these new guidelines, 67% is in HTM and

33% is in AFS and HFT. What has this translated into? We have transferred around 34 crores to AFS reserve, and 35 crores have been transferred to general reserve. That is around 70 crores we have transferred to our reserve, and it is a beneficial part. There is nothing active in that, sir.

Baldev Prakash: Jai, is this suffice your question?

Jai Mundra: Yes. I got the thing, sir. But Mr. Kaul, sir, if you can highlight, let's say, would this have any bearing on the treasury income for the year, let's say, in your selection of securities after this new AFS guideline because you seem to have less flexibility on stock reclassification after you purchase, right? So, would there be any bearing on the treasury gains for the Bank in general?

Rakesh Kaul: No, basically, what will we see, basically earlier also, Bank were having both facilities available, were able to shift the securities to AFS and we could also make the direct sales from STM, but Bank has never opted for both the options in any year. In all my previous years, we have only used only one option now. And so, it will not give us any negative impact to my portfolio.

Jai Mundra: And now it's in this quarter, if you sell, let's say, AFS securities, it will come in profit on sale of investment as usual. It's just that the AFS reserve will be debited, right?

Rakesh Kaul: Yes, correct.

Jai Mundra: So, the reported ROA may not have any impact to the extent of the sale already done.

Baldev Prakash: No, no, it has happened on 1st April, basically, it will impact. Because 31st of my class was not different. It happened on 1st of April.

Jai Mundra: So, let's say if you sell something out of AFS in the money and you earn something in this quarter, let's say, in the month of May, then that gain will come as a normal line item, profit on sale of investment.

Baldev Prakash: Yes, correct.

Jai Mundra: And your AFS reserve, which you have already created, that will be debited.

Baldev Prakash: Correct, but it happened on 1st of April, in this quarter. Not in the last quarter.

Jai Mundra: And sir, in your opening remarks, you had mentioned something about two large power projects, Adani Power and Mundra, that they are subject to, I think, flexible restructured accounts.

Baldev Prakash: Yes.

Jai Mundra: And I think they were under 525, if I am right.

Baldev Prakash: Yes.

Jai Mundra: And what has changed there? What has happened there? I missed that.

Baldev Prakash: They have been liquidated now. December quarter.

Jai Mundra: So, you have not been a part of the refinancing which would have been done at...

Altaf Kira: Yes.

Baldev Prakash: We are not part of it.

Jai Mundra: And that would have released some provisions, right? Because earlier, you may have to keep some provisions in the 500.

Altaf Kira: Yes.

Baldev Prakash: Yes.

Altaf Kira: The structural.

Jai Mundra: Thank you so much, sir. And sir, we have reached the end of the session. If you have any closing remarks to make? Thank you.

Baldev Prakash: Thank you, Jai and Chintan. And thank you to all the participants for joining in. So, before I close, the Q4 deposit growth was 3.50% in the last year, and this year, it is above 5%. Above 5%. I think there was a question on the deposit growth in Q4 vis-à-vis Q3. So, last year, Q4, it was 3.5%. This year, it is above 5%.

So, thank you, Jai and Chintan, and thank you to all the participants for joining in today. For any further questions, queries, details, comments, etc., or anything else, the team is always available, and you can also direct your queries to our Investor Relation desk, and we will definitely respond. Thank you.

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