Investor Brief for December 2024

Good Evening and warm welcome to all the participants to the J&K Bank December'2024 Earnings Call.

This is my first interaction with you in my new role as MD & CEO of this Bank, since taking over on 30th December, 2024. At the outset, I would like to briefly introduce myself.

My name is Amitava Chatterjee and in my last professional capacity, I was discharging my duties as Deputy Managing Director, Commercial Clients Group, SBI. I have a career spanning over three decades with SBI where I joined as Probationary Officer in 1990 and held key leadership roles across diverse geographical locations and strategic functions including leading SBI's operations as CGM (Circle Head) in New Delhi and Jaipur. I have also served as the MD & CEO of SBI Capital Markets.

Accompanying me on this call are my fellow colleagues from the Bank's senior management:
Executive Director, Mr. Sudhir Gupta
Corporate Credit Head, Mr. Ashutosh Sareen
Retail Credit and Liability Head, Mr. Narjay Gupta
Impaired Assets Portfolio Management Head, Mr. Rajesh Malla Tikoo
Finance Head, Mr. Sushil Kumar Gupta
Chief Risk Officer, Mr. Altaf Hussain Kira
And DGM Treasury, Mr. Ajay Kohli
Whilst this Bank has a rich legacy of over eight decades and is a household name in this part of the country viz. UTs of J&K and Ladakh, the Bank has frequently been in news in the recent past for all the good reasons with the remarkable turnaround of the Bank appreciated by one and all including the

Honourable Prime Minister. As I venture into this new role, I am fully cognizant of the responsibility on my shoulders to sustain the good work done under the leadership of my predecessor Mr.Baldev Prakash and build upon it further to take the Bank to even greater heights in the years ahead.

My foremost and immediate focus in on fulfilling the commitments made by the Bank with respect to market guidance for FY 2025, which we maintain unchanged, though we acknowledge that achieving the set guidance on a few parameters could be challenging especially given the economic slowdown being witnessed:

- Credit growth of 15%
- Deposit growth 12%
- CASA 50%
- NIM 3.75% to 3.85%
- RoA 1.25% to 1.30%
- RoE 17% to 18%
- GNPA 3.50%

The reassessment and consequent realignment of Bank's strategies, if need be, will be taken up at the beginning of next financial year only.

From an economic outlook perspective, the global economy is projected to remain resilient as it has in 2024 despite several headwinds with IMF retaining its stable yet underwhelming growth forecast for 2024 and 2025 unchanged at 3.2% amidst waning inflation. Domestically, there has been a slowdown in growth momentum with growth in real GDP in Q2 at 5.4%, which is the lowest in seven quarters. This decline in growth is mainly on account of substantial deceleration in industrial growth from 7.4% in Q1 to 2.1% in Q2. Another reason for the moderation in growth is exhaustion of pent-up demand accumulated during the pandemic. As a result of this slowdown RBI has reduced its growth projection for FY 2024-25 from 7.2% to 6.6%. However, High Frequency Indicators for Q3 indicate that the slowdown has bottomed out and Indian economy is recovering from the slowdown in momentum, aided by strong festive demand and pick up in rural activities with real GDP growth for Q3 and Q4 projected at 6.8% and 7.2% respectively. Despite this downward revision, India's medium-term prospects remain healthy with India set to become the world's third-largest economy by 2030-31 and forecast to grow at an annual rate of 6.7%. Thus, Indian economy is set to maintain its position as a major driver of global growth at a time when the overall world economy is projected to remain relatively stagnant.

With inflation gradually moving towards Central Bank targets from multi-decadal highs, several Central Banks have embarked on policy pivots. However, Monetary Policy Committee of RBI has kept the policy repo rate unchanged with neutral stance and focus on durable alignment of inflation with the target, while supporting growth. During the quarter, RBI has, in consistency with its neutral policy stance, reduced Cash Reserve Ratio by 50 bps (in two equal tranches of 25 bps w.e.f. December 14 and December 28, 2024) to 4% to ease any potential liquidity stress in coming months due to tax outflows, increase in currency in circulation and volatility in capital flows with this step estimated to release a primary liquidity of about Rs.1.16 lakh crore to the banking system.

Our home territory of J&K is not behind when it comes to economic development with state GDP doubling from Rs.1.7 lakh crore in 2015-16 to Rs.2.45 lakh crore in 2023-24, despite facing challenges in the form of massive floods, political unrest and Covid 19 pandemic. And the GDP is estimated to double again in the next five years with emphasis on service sector, industries, horticulture and tourism, according to the 'J-K Economic Survey 2022-23'. The year 2024 has been significant for J&K marked by developments across political, economic and social spheres with important events like successful conduct of state elections with high voter turnout of around 64%, multiple visits by the Honourable Prime Minister to the region showcasing government's commitment to the region's development and laying foundation for projects worth Rs.41,700 crores with inauguration of institutions like AIIMS in the region. With the beginning of 2025, Kashmir's long-awaited dream of rail connectivity will finally see the light of the day with the Srinagar-New Delhi rail link, a monumental infrastructure project spanning over two decades set to become a reality with its scheduled inauguration this month. The new rail link promises to be a game-changer for various stakeholders, including local businesses, students, tourists and non-local workers, as it opens doors to enhanced connectivity and economic growth.

J&K Tourism Department has declared 2024 as one of the best tourist seasons in the valley's history as the UT of J&K welcomed 2.35 crore tourists in 2024 with an extraordinary 300% increase in foreign tourist arrivals over the past two and a half years. With inauguration of Z-Morh tunnel, the popular tourist destination of Sonamarg would also open up for winter tourism. The railway connectivity and the plans to develop four new destinations – Kokernag, Doodhpathri, Bhadarwah and Baradari with world class tourist infrastructure as a joint venture between the World Bank, J&K Government and the Centre will further boost tourism in the UT, thereby contributing to region's continued economic transformation as tourism industry stands as the second main industry in Kashmir after horticulture.

Shifting focus to the financial performance of the Bank for Q3 and 9 months of FY25, I'm pleased to announce that the Bank has continued its recent history of consistently recording impressive profitability numbers again this quarter and is on course to post lifetime record annual profits for the third year in a row, which is testimony to the remarkable turnaround of this Bank and its commitment to deliver on the promises made. Operating profit for this quarter is again almost touching Rs.750 crores with net profit for the quarter recorded at Rs.532 crores, witnessing a growth of 33% YoY.

The Bank has done reasonably well in the last two quarters in mobilizing deposits, registering a 9.7% growth YoY despite a de-growth in Q1 and considering that historically deposit growth has been better in Q4, we expect to further improve upon this in the last quarter. However, there are challenges on the CASA front, which are persistent across the banking industry with share of Term Deposits in Total Deposits rising to 61.4% in September 2024 from 59.8% a year ago, as per RBI data. This reduction in CASA ratio owing to accretion in term deposits at a much faster pace than CASA is attributable mainly to two reasons viz. want for higher returns driven by high inflation and people parking their funds in high interest rate deposits before the impending rate cut, with 84% of our Term Deposits in the 7%-8% interest rate bucket. In our case also, Term Deposits have grown at 15% YoY against a growth of only 4.4% in CASA deposits. Despite this, the Bank continues to maintain its position of having one of the best CASA ratios in the industry even in these challenging times at 48.17% with CASA in our home territories of JKL, which accounts for around 90% of our deposit base, still holding strong above 51%. Though in terms of CASA Ratio, there is reduction on QoQ basis, in absolute terms, the CASA deposits have increased by 1.25% QoQ. With the release of government payments in Q4, payment realizations in Horticulture sector, strong winter tourism season and the probable continuation in the slowdown in equity markets, we expect augmentation of our CASA Ratio in the last quarter.

Advances growth has been lagging with Net Advances only growing at 7% YoY while on a QoQ basis, there has hardly been any change. This slow growth in advances has not been broad-based though with advances to Personal, SME and Agricultural sectors, making up around 61% of the Bank's gross advances, growing at more than 10% YoY. The sectors which have been mainly contributing to this overall lag in growth of advances are Trade and Corporate, remaining almost stagnant or marginally below the numbers a year ago with part of the reasons for the same being the caution exercised in certain sectors by design owing to the caution sounded by various regulators and a conscious decision, for the time being, to focus on higher yielding retail loans in order to compensate the pressure on margins on account of higher cost of deposits due to change in mix, which were mentioned in the previous earnings call as well. The Bank's decision is yielding intended results with consistent improvement in NIM for two quarters now, though in the current quarter the improvement in NIM has been partially aided by boost in yield on investments as well, rising 7 bps QoQ to 6.90% for Q3. With NIM for 9 months being recorded at 3.93%, comfortably above our guidance, we now intend to improve our focus on Corporate Loans in the last quarter for improving our Advances growth with an aim to maintain a retail corporate split at and around 2:1.

Within our biggest sector of Personal Finance, YoY growth in ROI at 17.8% has outpaced the growth in JKL at 9.5%, with housing loans being the best performing segment at Bank level with 13.1% YoY growth whereas in ROI, both housing loans and car loans have grown rapidly at 18.4% and 22.4% YoY respectively which again shows that the Bank is successfully executing its plans of expanding its retail portfolio in ROI.

The income statement reflects positives throughout with Net Interest Income for 9 months growing at 10.7% YoY and other income at 21.9% YoY while the operating costs continue to be under control growing marginally at 1.1% only, with the biggest contributor – employee costs declining by 1.9% YoY. Most notable within the income statement is a growth of 32% to 33% YoY in both operating profit and net profit for the 9 months with operating profit for the period crossing Rs.2100 crores and net profit almost reaching Rs.1500 crores, recorded at Rs.1498 crores. The fact that this growth has been recorded over a year in which Bank has already posted record lifetime profits adds further weight to it.

In line with the expectations outlined by us in our earnings call a year ago, Cost of Deposits seems to have peaked with high accretion in Term Deposits especially in the high interest rate bucket of 7%-8% and is moderating now reducing by 4 bps QoQ and recorded at 4.76% for Q3 and 4.74% for 9 months. The annualized Return on Assets and Return on Equity for 9 months have been recorded at 1.28% and 16.96%, and are in line with our guidance for this fiscal. Cost to Income ratio, where the Bank was an outlier with CIR of 77.18% for FY 2021-22, has been brought to a comparable level of below 60%, being recorded at 57.80% for the 9 months with further moderation expected going forward.

In terms of asset quality, though the recoveries have slowed down owing to the impact of slowdown in domestic economy on borrower's repayment capacities, fresh slippages continue to remain under control with gross slippage ratio for the 9 months of current financial year below the 1% mark – 0.97% (annualized) against 1.29% for the corresponding period last year. Gross NPA has witnessed an increase in Q3 with GNPA Ratio being recorded at 4.08% as on 31 December 2024 and consequentially Net NPA also witnessing an increase and being recorded at 0.94%. However, the Bank expects substantial improvement in these parameters in Q4 as the Bank has launched a Special One Time Settlement Scheme – Karz se Mukti which is valid till March 31, 2025. Such a scheme was being demanded by trade and industry bodies in our core territories and hence, the Bank expects good response and recovery under the same. Despite this increase in GNPA in the current quarter, the credit cost continues to be benign and we expect it to remain like this for the current fiscal in line with our earlier guidance. The Bank continues to maintain a healthy PCR of around 90%.

On the capital front, CRAR has been recorded at 15.09% and CET 1 at 11.67%, without reckoning the 9 months net profit which has an incremental impact of 148 bps. With continuing healthy internal accruals, the Bank is well placed with adequate capital buffers. Further, increase in FII/FPI shareholding of the Bank from 5.81% a year ago to 7.07% as on 31 December 2024, despite the financial services sector experiencing the highest FPI outflow of Rs.54,500 crores in 2024 is a strong validation of the Bank's growth story and long-term potential.

The platform for another record-breaking year is set and we expect a good ending to the current financial year coinciding with a good beginning to my innings as leader of this resilient institution.

I thank you all for listening patiently and look forward to your support and trust going ahead for taking this Bank forward and delivering value to our customers and other stakeholders.

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

Concluding remarks after Q&A session

Thank you, ____XX Moderator XX________, and thank you to all the participants for joining in today. For any further questions or queries, you can contact our Investor Relations desk.