

## Investor Brief for June 2024

A Very **Good Afternoon** and Warm Welcome to all the participants to the J&K Bank June'2024 Earnings Call.

First let me introduce my Management Team who are accompanying me on this call;

Corporate Credit Head, Mr. Ashutosh Sarin

Impaired Assets Portfolio Management Head, Mr. Shujaat Andrabi

Chief Risk Officer Mr. Altaf Kira

DGM Treasury, Mr. Ajay Kohli

And our CFO Mr. Fayaz Ganai

Let me start with some brief macro-economic 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 the signs of quickening momentum in the economy from the current quarter. The growth dynamics and the impetus of budget 2025 on CAPEX, job creation and a favourable monsoon are pointers to a good economic year for India. We may also be seeing some moderation in the interest rates in coming days.

Despite some pressures 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 TAT, readily available systems and collaborations to ensure customer convenience, etc. The Regulator, being cognizant of the suitability of these good times for making the system 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 NBFCs, RBI is very watchful on the liquidity matters as is clear from the very recent draft guidelines on LCR. Implementation of the ECL framework is also on the cards 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 FY 2025. The UT budget also lays emphasis on capital expenditure which is earmarked at 31% of 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 Rs. 17 thousand Crore to the UT by assuming the responsibility of annual expenditure of Rs. 12000 crore on UT police and Rs. 5000 crore as additional grant.

The tourist influx is continuing unabated and the new arrivals during the current calendar year have already crossed the 1 Crore mark in six months. The thrust on unlocking the economic potential of the UT especially in agriculture and industrial sectors are the focus areas of the UT budget. Incentivizing the efficient land utilization through medium / high density plantations under HADP and augmenting the logistics with planned increase of 25000 MTs CA Storage space in FY 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 vistas of savings and investments.

Coming to the financial numbers for Q1 of FY 2025, the Bank is nicely moving along on the planned lines towards delivering results as per the guidance for the short-term and 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 was some holding-back in the economic activity during the first quarter because of elections also. The de-growth in deposits over March figure is the result of this phenomenon. However, there is already good traction in the deposit accretion during the current quarter. Deposit growth of just under 10% on YoY 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 Mar' 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 JKL portfolio has been a tad higher at 15.5% (YoY) against 9.6% in JK&L. Personal finance has grown at 14.6% YoY while Housing loans have grown by 18.1% over the year. The loan book composition continues to be 70:30 for JKL and rest of India. Our Cost of Deposits has moderated by 5 basis points from the previous quarter.

GNPA of the Bank has further reduced to 3.91% as on June'2024 - coming below the psychological mark of 4% and NNPA is 0.76% while maintaining Provision Coverage of 91.57% - all converging towards industry best. Aided by a robust Early Warning Signals (EWS) System and an effective monitoring / follow-up framework, slippages for the quarter have come down to an all-time low

of 0.73% (annualized). Recoveries during the quarter were Rs. 300 crore which includes Rs. 28.75 crores in Technically Written-Off loans. 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%.

Ageing provision requirement for NPAs during remaining 3 quarters of FY 2025 is estimated at about Rs. 145 Crore but with the pipeline of envisaged recoveries and expected provision write-back therefrom, our Credit Cost shall be benign for the Current FY as well.

The income statement is reflective of growth in Interest Income @ 13% YoY for the quarter, NII increase of 7%, Operating profit by 13% and PAT by 27%. Moderation of cost of deposits to 4.66% and improvement in Yield on Advances / Investments to 9.50% & 6.78% respectively has resulted in the NIM staying strong at 3.86% for the quarter. The annualized Return on Asset (RoA) and Return on Equity (RoE) have been recorded at 1.08% and 14.82% respectively.

We have created additional floating provision of Rs. 66 Crore 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 floating provisions) are Rs. 630 crores. Preliminary estimates conducted with the on-board consultant have pegged Bank's requirement for ECL at 0.60% and by that measure the contingency provisions would be adequate.

Other Income impact is due to lower TWO recovery v/s 1<sup>st</sup> quarter last year and booking of arrears of Insurance commission in Q4 of last year. However, other income is going to improve over the quarters with increased TWO recovery, higher volumes in cross sell, commission on government business and revision of fees / 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 for pension benefits that will continue over a prolonged period. The provision requirement for pension will go further down with the scheduled retirements of good number of high-cost pension-eligible resources over the years.

CRAR has been recorded at 15.07% and CET1 at 11.76% without reckoning PAT of Rs. 415.49 Crore (a 50 basis point impact). With healthy accruals we may not require issuance of additional equity capital but decision about bonds (T2) shall be reviewed in Q3.

You might have also witnessed a lengthy disclosure in Notes to Accounts regarding outstanding Pension reimbursements due from the JK UT Government. Owing, to various reasons and non-implementation of MoU between the UT Government and the Bank which could facilitate seeking of reimbursement of the pension disbursements made by the Bank to the UT Government pensioners directly from RBI as is done by other agency banks, there were delays in such reimbursements resulting in accumulation of outstanding dues. However, the matter has been resolved now with the full reimbursement of all dues happening during this month. And going forward this issue of delays in reimbursement and accumulation of dues will not happen as the Bank shall be seeking reimbursement of the Pension disbursed directly from the RBI.

Finally an update about the IT and 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 Assets and necessary capacity building too has been taken care of to usher in a revamped, technically modernized, agile, & a digitally future-ready Bank focused on delivering the ultimate customer experience.

We maintain the guidance for the FY 2025 as discussed in March quarter call.

### **Market Guidance for FY 2024-25**

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

I thank you all and acknowledge your guidance, support and trust and we expect it to continue in the coming days.

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 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 our institution.

For any further questions, queries, details, comments or anything else, the team is always available and you can also direct your queries to our Investor Relations desk and we will definitely respond...