# Investor Brief for March 2024

A Very **Good Afternoon** and Warm Welcome to all the participants to 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
Corporate Credit Head, Mr. Ashutosh Sarin
Liability and Commercial & Consumer Credit Head, Mr Narjay Gupta,
Impaired Assets Portfolio Management Head, Mr Shujaat Andrabi
Treasury Head, Mr Rakesh Koul
Chief Risk Officer 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 expectation 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 crore during April 2024 against the monthly average of Rs. 1.68 lakh crore 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 with 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 the 2.50% 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 (WADTDR) resulting in further pressure 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 two-three years, J&K has been witnessing growth and prosperity resurgence with significantly improved law & order situation. Thrust on infrastructure building is helping the core sectors of JK economy like Agriculture, Tourism, Arts & Crafts grow in an unprecedented manner. Transformation & modernization of the horticulture sector through the Holistic Agriculture Development Program (HADP) adopting the high-density plantations, mechanization, strengthening the Agri eco system 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 Crore over the next five years.

Similarly, after the record breaking tourist inflow in excess of 2 crore visitors last year, the numbers recorded during the first three months of this calendar year are well over 50 lakh and the trend suggests that the traction continues. A lot of demand is emerging in the home-stays in addition to the traditional tourism related facilities like hotels / guest houses, restaurants, adventure tourism, tourist taxis, etc. One encouraging trend is the increase in the foreign tourist arrivals which had been negligible over a prolonged period.

Coming to the financial numbers posted by the Bank for FY 2024, 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 (20% YoY), Personal Finance (15% YoY) and Credit Cards (23% YoY). The Retail to Corporate composition of the Loan portfolio is 2:1 while the Regional Contribution is JK 66%, Ladakh 2% and Rest of India 32%. Personal Finance constitutes 36% of the total Loan book.

Interventions through ambitious 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 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 call – moderation with tapering bias.

Focus of improving Asset quality continues and the result is fairly reflected in the numbers – GNPA of 4.08%, NNPA at 0.79% with Provision Coverage of 91.58% - all converging towards industry best. Excluding the Technical Write-off of Rs. 506 Crore, the GNPA 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 sometime get delayed. Bank has also implemented a robust Early Warning Signals (EWS) System to manage the SMAs & control the slippages. The average monthly slippages during FY 2024 have been controlled at below Rs. 100 Cr i.e. slippage ratio of below 1.40%.

Significant downsizing of 27% has been achieved in the Restructured Loan book during FY 2024 while the two accounts of Adani Power (Maharashtra & Mundra) which had been subjected to flexible structuring and had outstanding balance of about Rs. 188 crore at end of last fiscal also got adjusted during the year. The remainder of the Restructured Loan Book is performing satisfactorily with collection efficiencies of well above 90% and we envisage further downsizing / upgrade of same during current FY.

Ageing provision requirement for NPAs during FY 2025 is estimated at about Rs. 200 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.

Pertinent to mention that there has been no adverse impact on our Investment portfolio & valuations subsequent to the revised RBI guidelines. We are maintaining over 95% provisions for our NPIs. We also are maintaining Investment Fluctuation Reserve (IFR) of Rs. 210 Crore against requirement of Rs. 118 Crores as on March'2024.

With improving internal accruals supplemented by the fresh Equity raise 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 Crore in Budget 2024-25 for capitalization of J&K Bank, RRBs and Cooperative Banks, yet we are confident that the Bank shall be able to generate adequate growth & risk capital internally and not require recourse to the government infusion.

The income statement is reflective of good growth in Interest Income @ 20% YoY for the FY. However, due to higher rise in Interest Expended at 30% YoY, Net Interest Income has increased by 10% YoY for the year. The surge in Interest Expended is the outcome of industry-wide phenomena of repricing 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 & Retail has started bearing fruit and the efforts are continuing with ambitious digitally-aided campaigns of new customer onboarding and deployment of PoS / QR. Despite the pricing pressures on liability side, bank delivered NIMs of 3.92% which are fully aligned with the guidance given by the management at the beginning of the year.

Owing to recoveries in Technically Written-Off Loans getting delayed, other Income for the current year increased by only 10% YoY. Some impact of the lower TWO 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 in core non-interest income segments.

On the Returns front, Bank has delivered better results on the back of higher PAT. ROA for the year at 1.22%, RoE of 18.01% reflect significant improvements over 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 expended during the year, in reality can be considered as investments with anticipated good returns over the years to come. Sustained growth in PPOP (23%), PBT (34%) and PAT (48%) resulting in yet another record breaking year of profit of Rs. 1767.27 Crore has yet again proved that the Bank has delivered as per the expectations of its stakeholders on most of the parameters.

Based on the good annual performance, Board of the Bank in its meeting held today has recommended Dividend of 215% (Rs. 2.15 per share) for FY 2023.24.

The trend in employee costs is encouraging. Despite the Wage-Revision costs, the overall employee cost for FY 2023-24 is lower as compared to previous year and even below FY 2022. During the year, excess provisions made towards Superannuation benefits amounting to Rs. 263 crore were reversed. The Superannuation costs are going to moderate going forward owing to the scheduled retirements of good number of high-cost resources and savings owing to shifting to purchase of non-ROC Annuities for pension payments.

With synergies of People, Process & Technology, supplemented by a fundamentally strong Balance Sheet and progressive Business Model, Bank is well prepared to deliver even better performances in days to come.

**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. 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...