Investor Brief for September 2024

A very **Good Afternoon** and warm welcome to all the participants to the J&K Bank September, 2024 Earnings Call.

First let me introduce my Management Team who are accompanying me on this call;
Executive Director, Mr. Sudhir Gupta
Corporate Credit Head, Mr. Ashutosh Sareen
Retail Credit and Liability Head, Mr. Narjay Gupta
Treasury Head, Mr. Rakesh Koul
Impaired Assets Portfolio Management Head, Mr. Rajesh Malla Tikoo
Finance Head, Mr. Sushil Kumar Gupta
And our Chief Risk Officer, Mr. Altaf Hussain Kira

Before discussing the performance of the Bank, let me briefly talk about the macroeconomic outlook.

As we have ventured into the second half of the year, though global growth appears to be steady, however by historical standards it remains subdued. But taking into consideration the continuing geopolitical conflicts and intermittent volatility in the global financial markets, the global economic activity has shown resilience in the first half of the current financial year. Whilst IMF has retained its global growth forecast at 3.2% in 2024, it has upgraded India's growth forecast for FY 2024-25 by 20 basis points to 7% from the previous estimate of 6.8% in April. This upgrade has come in the backdrop of improved prospects for private consumption, particularly in rural areas on the back of favourable monsoon, higher sowing activity and moderating inflation. With this upward revision, India's growth story remains intact as India continues to maintain its position as the fastest growing economy amongst emerging markets and developing economies. The World Bank has also upgraded India's growth forecast to 7% for FY 2024-25. Private consumption and investment, two major factors of growth with a combined share of more than 90% of GDP, are expanding at a robust pace of more than 7%. Total gross GST revenue for the year to date (upto August 2024) stands at Rs.9,13,855 crores which depicts a YoY increase of 10.1% affirming the continued momentum in the Indian economy. The resilience of Indian economy has navigated the domestic stock market to all time high, with FPI flows seeing a turnaround from net outflows of US$ 4.2 billion in April-May 2024 to net inflows of US$

19.2 billion during June-October 2024 (till October 7, 2024), reflecting investor confidence in India's long term growth prospects. Though of late, there has been a correction in the domestic markets owing to FPI selloff sparked by Beijing's stimulus package.

Whereas the United States Federal Reserve has begun the policy pivot, by cutting the benchmark interest rate viz. the Federal Funds Rate by 50 basis points owing to the moderation of inflation and adverse impact of higher rates on unemployment levels creating recession worries, RBI has kept the policy repo rate unchanged demonstrating a balanced approach for managing inflationary risks while considering growth prospects.

Coming to the specifics of economic outlook for our home territory, J&K's GDP is projected to be at Rs.2,63,399 crores in FY25, growing 7.5% over FY24. The GDP is likely to double in the next five years with emphasis on service sector, industries, horticulture and tourism, according to the 'J-K Economic Survey 2022-23'. The budgetary estimate for J&K for FY 2024-25 is about Rs.1,18,390 crores with continued emphasis on developmental activities and provisions for other ongoing initiatives for sustainable agriculture, new industrial estates, employment generation, developing tourism and social inclusion. Further, Union Budget has provided for a special central assistance of Rs.17,000 crores for J&K, which would lead to improvement in the fiscal position and enable the Government of J&K to work on fulfilling the developmental needs and aspiration of the local people.

After the record inflow of tourists in J&K for FY 2023-24, the unprecedented growth in tourism sector continues with 1.08 crore tourists visiting in the first six months of 2024. The tourism sector has recorded an annual average growth rate of 15.13% during the last three years. Border tourism has picked up and hitherto unknown locations like Gurez, Keran and Teetwal have been opened up for tourism. In the early part of 2024, the number of foreign tourists has seen a staggering 61% increase on a YoY basis. With the ongoing investments in the tourism sector, Kashmir valley soon getting connected with rest of India through train, revival of cinematic interest in the region and rapidly emerging popularity of Kashmir as a top destination for weddings, the region expects even stronger numbers in the future. This would help the region's economic transformation as tourism industry stands as the second largest sector in Kashmir after horticulture.

Now, speaking of the financial performance of the Bank for Q2 and HY1 of FY25, the Bank has posted another strong set of profitability numbers for this quarter, with quarterly operating profit crossing the Rs.750 crore mark and net profit for Q2 recorded at Rs.551 crores, witnessing a growth of 44.6% YoY, 32.6% QoQ and stays on course towards delivering results as per the guidance for the short to medium-term.

Overcoming a de-growth in deposits in the previous quarter over the March levels, deposits have grown at 9% YoY. The traction in deposits that we had mentioned in our Q1 earnings call is clearly evident now with 4% QoQ growth in the current quarter. Despite the industry-wide pressure on CASA deposits with overall CASA in the banking industry declining to the pre-pandemic levels of 39%, owing mainly to continuing higher interest rate cycle and today's youth with a higher risk appetite chasing better returns from mutual funds and capital markets, our Bank continues to have one of the best CASA ratios in the industry at 48.60% with CASA in our home territories of JKL, which accounts for around 89% of our deposit base, still above 51.50%. As we speak, the CASA of the Bank is again hovering in the vicinity of 50% with both demand and saving deposits growing over Q2 numbers in absolute terms. With the expected reversal in interest rate cycle in HY2 FY25, CASA is expected to improve.

Advances have grown at 9.5% YoY with higher growth in ROI at 10.8% against the 7.2% growth in JKL, though the QoQ growth has been muted. Part of the muted growth can be attributed to the slowdown in economic activity in J&K on account of the assembly elections which recorded an impressive voter turnout of around 64%. With the successful conclusion of the elections, economic activity in the UT is expected to gather pace. Further, the advances to NBFCs have been restricted by design owing to the caution sounded by RBI. Another factor is the QoQ decrease in the Corporate Loan book of the Bank on account of a conscious decision, for the time being, to focus on higher yielding retail loans compared to corporate loans in order to compensate the pressure on margins on account of higher cost of deposits due to change in mix and the results are evident with an improved NIM QoQ.

Personal Finance has grown at 11.4% YoY, most prominent being housing loans with growth of 15.6% YoY. ROI growth of 20.3% YoY in personal loans, with 21.2% in housing loans and 25.7% in car loans, is in line with the Bank's strategy of making inroads in retail loan segment in ROI. Sectoral credit to SME has also recorded a YoY growth of 12.7%. The geographical loan book composition continues to be at around the same levels - 72:28 for JKL and ROI with a retail corporate split of around 2:1 with retail loans being dominant in JKL and corporate loans dominating the ROI loan book.

The income statement reflects a good growth with interest income for HY growing at 12.9% YoY and other income at 17.1% YoY while the operating costs have been restrained, owing to the moderation of employee costs, declining 3% YoY for HY. Operating profit for the HY has grown by 30% YoY registering an impressive increase of 32.3% QoQ. The Bank continues to register impressive profits with PAT for HY increasing 36.6% YoY, being recorded at Rs.966.41 crores for this half year.

Despite the industry-wide pressure on margins, which is evident in our case also with the increase in Cost of Deposits for Q2 to 4.80% - on account of higher accruals to term deposits, Bank has not only been able to maintain but has recorded an improvement in NIM to 3.90% for this quarter and NIM for half year is recorded at 3.88%, which is above our conservative guidance. The annualized Return on Assets and Return on Equity for HY have been recorded at 1.24% and 16.52%, and are on the right trajectory as per our guidance for this fiscal. Cost to Income ratio, which has been a persistent concern during the recent years, has come down below the level of 60%, being recorded at 54.56% and 58.07% for quarter and half year respectively and is expected to continue to moderate in the short to medium term.

In terms of asset quality, the gross slippage ratio continues to be under control and is below the 1% mark – 0.91% (annualized) for the half year against 1.25% for HY1 FY24. Though the total NPA (including TWO) has come down owing to TWO recovery of Rs.92 Crores, which also reflects in the boosted other income for Q2, GNPA and NNPA have recorded a marginal increase QoQ and have been recorded at 3.95% and 0.85% respectively as on 30 September 2024. PCR continues to be at a healthy level of above 90%. The marginal increase is partly on account of recovery actions under SARFAESI slowing down owing to the unavailability of revenue officials, who were engaged in facilitation of J&K assembly elections.

The restructured portfolio is also holding well with collection efficiency in standard restructured accounts at almost 100% during the quarter and half-year.

The provision requirement on account of ageing of NPAs for the second half-year is estimated at about Rs.127 Crore but with our expected recoveries and resultant provision write backs, we expect the credit cost to be benign for the current fiscal. Even in the current quarter, there is no credit cost in spite of the marginal increase in Gross NPA.

CRAR has been recorded at 14.99% and CET 1 at 11.66%, without reckoning the half-yearly profit which has an impact of 100 bps. With continuing healthy internal accruals, we are not looking at raising any additional equity during the current fiscal but may consider raising debt capital in the second half-year, if need be.

At last an update on the continuing BPR transformation journey. The Bank has implemented WhatsApp Banking for offering an additional channel for servicing of customers. The Bank has also embarked on an ambitious transformational journey towards a revamped Sales and Service Operating Model for the Bank dubbed as 'J&K Bank 2.0' for which Ernst & Young has been roped in as a consultant. This project is a conscious and strategic move to break free from the constraints of traditional banking, propelling the Bank towards a future where agility, sales excellence and customer-centricity define our operations.

We maintain our earlier guidance for FY 2025.

- 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...