"Jammu & Kashmir Bank Limited
Q2 FY '25 Post-Earnings Conference Call"
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MANAGEMENT: **MR. BALDEV PRAKASH – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – JAMMU & KASHMIR BANK LIMITED**
MR. SUDHIR GUPTA – EXECUTIVE DIRECTOR – JAMMU & KASHMIR BANK LIMITED
MR. ASHUTOSH SAREEN – CORPORATE CREDIT HEAD – JAMMU & KASHMIR BANK LIMITED
MR. NARJAY GUPTA – RETAIL CREDIT AND LIABILITIES HEAD – JAMMU & KASHMIR BANK LIMITED
MR. RAKESH KOUL – TREASURY HEAD – JAMMU & KASHMIR BANK LIMITED
MR. RAJESH MALLA TIKOO – IMPAIRED ASSETS PORTFOLIO MANAGEMENT, HEAD – JAMMU & KASHMIR BANK LIMITED
MR. SUSHIL GUPTA – FINANCE HEAD – JAMMU & KASHMIR BANK LIMITED
DR. ALTAF KIRA – CHIEF RISK OFFICER – JAMMU & KASHMIR BANK LIMITED

MODERATOR: **MR. HARDIK – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to J&K Bank Q2/H1 FY '25 Earnings Conference Call, hosted by ICICI Securities. As a reminder, all participant line will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation conclude. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone.

I now hand the conference over to Mr. Hardik. Thank you, and over to you, sir.

Hardik: Thank you, operator. Hello, everyone. Good afternoon. On behalf of ICICI Securities, we welcome you all to the Q2 FY '25 Post-Earnings Conference Call of Jammu and Kashmir Bank. From the management side, we have with us MD and CEO, Mr. Baldev Prakash, and other officials of the bank.

I now hand the conference over to the management for their opening remarks, post which we will have a Q&A session. Over to you, sir.

Baldev Prakash: Thank you, Hardik. A very good afternoon, and warm welcome to all the participants to The Jammu and Kashmir Bank's September 2024 Earnings Call. First, let me introduce my management team who are accompanying me on this call. Our Executive Director, Mr. Sudhir Gupta; our Corporate Credit Head, Mr. Ashutosh Sareen; our Retail Credit and Liabilities head, Mr. Narjay Gupta; our Treasury Head, Mr. Rakesh Koul, joined from Mumbai; our IAPM, Impaired Assets Portfolio Management, head, Mr. Rajesh Malla Tikoo; our Finance Head, Mr. Sushil Gupta; and our Chief Risk Officer, Dr. Altaf Kira.

Before discussing the performance of the bank, let me briefly talk about the macroeconomic outlook. As we have entered into the second half of the year, though global growth appears to be steady, although -- 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 financial year '24-'25 by 20 basis points to 7% from the previous estimates of 6.8% in April. This upgrade has come in the backdrop of improved prospects of 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 fastest-growing economy amongst emerging markets and developing economies. The World Bank has also upgraded India's growth forecast to 7% for financial year '24-'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 up to August 2024 stands at INR9,13,855 crores, which depicts a Y-o-Y increase of 10.1%, affirming the continued momentum in the Indian economy.

The resilience of Indian economy has navigated the domestic stock markets to all-time high with FPI inflows seeing a turnaround from net outflows of US$4.2 billion in April to May 2024 to net inflows of US$19.2 billion during June to October 2024, that is 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 sell-off sparked by Beijing's stimulus package.

Whereas the United States Federal Reserve has begun the policy prework by cutting the benchmark interest rate, which is federal funds rate by 50 basis points, owing to the moderation of inflation and adverse impact of higher rate 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, Jammu and Kashmir's GDP is expected to be at INR2,63,399 crores in FY '25, growing 7.5% over FY '24. The GDP is likely to double in the next 5 years with emphasis on service sector, industries, horticulture, and tourism, according to J&K economic survey of '22-'23. The budgetary estimates for J&K for FY '24-'25 is about INR1,18,390 crores, with continued emphasis on developmental activities and provisions for other ongoing initiatives for sustainable agriculture, new industrial estate, employment generation, developing tourism and social inclusion.

Further, Union Budget has provided for – INR17,000 crores for J&K, which would lead to improvement in fiscal position and enable the government of J&K to work on fulfilling the developmental needs and aspiration of local people. After the record inflow of tourists in J&K for financial year '23-'24, the unprecedented growth in tourism sector continues with 1.08 crores tourists visiting in the first 6 months of 2024. The tourism sector has recorded an annual average growth rate of 15.13% during the last 3 years.

Border tourism has picked up and hitherto unknown locations like Gurez, Keran, and Teetwal have been opened for tourism. In the early part of 2024, the number of foreign tourists have seen a staggering 61% increase on a Y-o-Y basis. With the ongoing investments in the tourism sector, Kashmir Valley is 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 on the financial performance of the bank for quarter 2 and half year first of financial year '25. The bank has posted another strong set of profitability numbers for this quarter with quarterly operating profit crossing INR750 crores mark and net profit for Q2 recorded at INR551 crores, witnessing a growth of 44.6% Y-o-Y and 32.6% Q-on-Q, and stays on course towards delivering results as per the guidance for the short and medium term.

Overcoming a degrowth in deposits in the previous quarter over the March levels, deposits have grown at 9% Y-o-Y. The traction in deposits that we had mentioned in our Q1 earnings call is clearly evident now with 4% Q-on-Q 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 the continuing higher interest rate cycle and today's youth with a higher risk appetite changing 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 Jammu & Kashmir and Ladakh, which accounts for around 89% of our deposit base still above 51.5%.

As we speak, the CASA ratio 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 half year financial year '25, CASA is expected to improve further.

Advances have grown at 9.5% Y-o-Y with higher growth in Rest of India at 10.8% against 7.2% growth in Jammu & Kashmir and Ladakh. Though Q-o-Q growth has been muted, part of the muted growth can be attributed to the slowdown in economic activity in J&K on account of assembly elections, which have recorded an impressive voter turnout of around 64%.

With the successful conclusion of elections, economic activity of UT is expected to gather pace. Further, the advances to NBFCs have been restricted by decline owing to caution sounded by Reserve Bank of India. Another factor is the Q-o-Q decrease in the Corporate Loan book of the bank on account of a conscious call for time being to focus on high-yielding retail loan book compared to corporate loan book in order to compensate the pressure on margins on account of higher cost of deposits due to change in mix, and results are evident with an improved NIM on a quarter-on-quarter basis.

Personal Finance has grown at 11.4% Y-o-Y, most prominent being housing loan with growth of 15.6% Y-o-Y. Rest of India growth of 20.3% Y-o-Y 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 segments in rest of India. Sectoral credit to SME has also recorded a Y-o-Y growth of 12.7%. The geographical loan book composition continues to be at around the same levels that is 72-28 for J&K and Rest of India with a retail corporate split of around 2:1 with retail loans being dominant in Jammu & Kashmir and Ladakh, and corporate loans dominating the Rest of India loan book.

The income statement reflects a good growth and interest income for half year growing at 12.9% Y-o-Y and other income at 17.1% Y-o-Y, while the operating costs have been restrained, owing to the moderation of employee costs, declining 3% Y-o-Y for the half year. Operating profit for the half year has grown by 30% Y-o-Y, registering an impressive increase of 32.3% on a Q-on-Q basis. The bank continues to register impressive profits with PAT for half year increasing 36.6% Y-o-Y being recorded at INR966.41 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 4.8% on account of higher accruals to term deposits, bank has not only been able to maintain, but also 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 half year has 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 the 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, that is 0.91% annualized for the half year against 1.25% for half year 1 FY '24. Though the total NPA, including technical write-off accounts, has come down, owing to technical write-off recovery of INR92 crores, which also reflects in the boosted other income for Q2. Gross NPA and net NPA have recorded a marginal increase on a Q-on-Q basis and had been recorded at 3.95% and 0.85%, respectively, as on 30th September '24.

Provision coverage ratio 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 phasing of NPAs for the second half year is estimated at about INR127 crores. 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 marginal increase in gross NPA. CRAR has been recorded at 14.99% and CET1 at 11.66% without reckoning the half yearly profit, which has an impact of 100 basis points. 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 needed.

At last, an update on the continuing BPR transformation journey of the bank. The bank has implemented WhatsApp banking for offering an additional channel for servicing to our 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 E&Y 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.

So, we maintain our earlier guidance for financial year 2025, which is credit growth of around 15%, deposit growth of around 12%, CASA 50%, NIM 3.75% to 3.85%, ROA 1.25% to 1.3%, ROE 17% to 18%, gross NPA 3.5%.

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.

Moderator: Thank you very much sir. We will now begin the question-and-answer session.

Baldev Prakash: Hardik?

Hardik: Yes. Sir, we have actually seen a very strong other income growth. Can you let us know what exactly is contributing to that?

Baldev Prakash: So three factors basically. One is that the technical write-off recovery has been quite healthy. We have been able to recover more than INR90 crores during this quarter. And the second thing is now the annuity which we were purchasing with ROC clause earlier, now we have started purchasing it without ROC clause. So the staff costs have come down drastically, which we indicated in our Q1 call also.

And the third thing is now the money which has been reimbursed by government on account of pensions, now we are efficiently deploying it in investment as well as in the credit route. That is also giving a lot of boost.

Hardik: Okay. Sir, another question is what is your loan growth guidance? And what exactly are the sectors which will be contributing to it?

Baldev Prakash: So our loan growth guidance continues to be in the range of 15%. And our loan book is consisting of retail around 70% and corporate around 30%. So we continue to maintain the same percentage. And obviously, retail will be the dominating segment in the long-term growth.

Hardik: Okay. And sir, in the first question, you mentioned something about the ROC clause. Can you explain what exactly is it?

Baldev Prakash: So we were purchasing our annuities -- staff annuities, which the staff benefits annuities we were purchasing with return on capital clause. So because of that return on capital clause, we were paying extra premium of around 20% to 25%. So that we have then studied the industry, the other banks also. Nobody is purchasing that ROC clause now. So we have actually taken a call to purchase it without ROC clause, as other banks are doing. So because of that, the premium has come down.

Hardik: Okay. And can you quantify the impact of that in FY '25?

Baldev Prakash: So that will be around INR120 crores to INR125 crores.

Hardik: Okay. Understood, sir. And sir, another question is, sir, we have witnessed a marginal decline in yields quarter-on-quarter. Can you explain what has happened? And how should we look at the yield for the full year as well as in FY '25?

Baldev Prakash: Yield on advances?

Hardik: Yes.

Baldev Prakash: It has gone up, I think. I think around 20%, it has gone up. Yes, the cost on deposits have also gone up. So the effort will be to see that our yield is improved in a manner that our cost of deposits will be lesser than the -- I mean, cost of deposits should be in control.

Hardik: Okay. And so what will you guide for FY '26, the margin guidance, the yield and the cost of deposit guidance?

Baldev Prakash: So cost of deposits, today, we are at around 4.8%. We are expecting it to be in this range only, because the interest rate increase, we are not expecting now. Maybe after a quarter or so, we can expect the decrease -- the reversal.

But as far as yield on advances is concerned, so in the quarter -- 1 quarter, we have increased it from 9.5% to 9.57% maybe in this range, 9.6% or something, we are expecting it to be in this range. So we don't find much challenge in maintaining the yield on advances. That's why I told you that our focus is more on growing the retail book, so that our yield on advances is improved. Similarly, the treasury yield is also improving. So there also we are getting around 7.12% -- 7.1% or 7.12% now.

Moderator: We have questions from the line of Jai. Please go ahead, sir.

Jai: Sir, firstly, there were media reports saying that the bank could see or the bank is likely -- I mean, something in terms of succession. If you can clear, I would take this opportunity to understand what does that mean? Or if this is the normal succession planning at the bank?

Baldev Prakash: This is a normal succession planning process now, Jai. Actually, my tenure is ending at the end of December. So that process has been started by the government. And might be those reports you must have seen in the newspapers.

Jai: Sir, the MD of J&K Bank, would this be -- I mean, who appoints them. Does the J&K government has a role or this is purely by RBI or this is a joint thing? Or how does it work?

Baldev Prakash: So it is more of a joint sort of effort, because J&K government is the promoter, 55%, I mean, majority shareholder. So they basically have the say in selection of 1 or 2 or 3 candidates. Then finally, one out of that lot is selected by Reserve Bank of India and advised.

Jai: Right. So sir, what is the status? I mean, has the Board sent one name? Or how is it right now? Or where are we in that process?

Baldev Prakash: So that process has already started, as you have already indicated. We are yet to send it to Reserve Bank of India. Maybe in a few days' time, we should be able to send it. But the process is in an advanced stage now.

Jai: Okay. Sure. Secondly, sir, if you can highlight, are there any areas -- while we see that credit costs have been almost negative, but are you seeing any -- I mean, if you can share your SMA number, maybe zero, one and two? And are you seeing any trends, any portfolio which is seeing a little bit of higher stress? Or first, if you can share the SMA 0, 1, 2 number in absolute rupees crores, and then...

Baldev Prakash: Our SMA numbers, SMA-0 is INR13,300 crores today. And our SMA-1 is INR4,086 crores. And SMA-2 is INR3,000 crores. This is as on 30th September. And today, our SMA-0 has come down to INR4,195 crores, SMA-1 INR3,000 crores, and SMA-2 INR1,200 crores. So what we are seeing, actually, SMA if it goes up, then salary comes and other repayments come, then it goes after -- before 10th, it goes down drastically. And yes, the number seems to be still a little on the higher side, but we are working on it. And you will find that every quarter-on-quarter basis, it will further go down.

So we don't find much stress in our book. And in fact, if I can say that the big accounts, say anything above INR20 crores, we don't have any account SMA today out of the bigger accounts. These are all smaller accounts, agriculture and retail mainly.

Jai: Okay. So, sir, this SMA-0 plus 1 plus 2 of roughly INR20,000 crores, there is no corporate account, which is more than INR20 crores. Is that the understanding?

Baldev Prakash: There is no account in SMA more than INR20 crores in corporate book.

Jai: Right. That is very good to hear. And so sir, I mean, you are saying that these accounts may be in SMA, but as and when the salaries process, they become perfectly stranded?

Baldev Prakash: Absolutely. It is happening simply because there's the book -- traditionally, all the installments fed in the system to be paid on last day of the month, 30th or 31st. So that is the problem. Actually, because of that, the last day of the month, you'll find the higher level of SMA, and then the salary comes on 1st or 2nd or 3rd, then immediately, that goes down.

Jai: And sir, secondly, what is your thought process on bringing down GNPA? I mean, you could have either negligible credit costs and negative credit costs that we are showing right now or you can have slightly accelerated GNPA and maybe accelerated write-off and bring down GNPA. So how do you look at the write-off, because current stress formation is clearly negligible. So maybe you can use that time to bring down GNPA? Or how do you look at it?

Baldev Prakash: So, Jai, actually, we have a very calibrated approach towards bringing down the gross NPA as well as net NPA. And that approach has actually paid rich dividends so far. We continue to have the similar approach. I mean, both credit as well as STIC because we have been continuously bringing the OTSs for the small loans and taking actions under SARFAESI and various other enablers with a disciplined approach.

And because of that, a lot of people have finally turned and then they have repaid the money, that's why we have been able to bring the level from around 10% to 3.95% today. And our guidance is 3.5%. We are expecting that if we may even better that. So as of now, NPA seems to be absolutely no worry, Jai.

Jai: Right. And then, last thing, if you can highlight, where do you think the growth would be coming from within J&K and outside J&K?

Baldev Prakash: Now J&K will pick up, because J&K, you know, in the first Lok Sabha elections and then the assembly elections back to back, so first, my staff was little involved in the election duties. And the government also was under model code of conduct. So that has had an impact on the growth of the bank. So now since everything is over, we are expecting that J&K economy now will pick up and the J&K book will show a better growth.

Rest of India is already growing. We are expecting naturally because second half or the third and fourth quarters are generally better as far as growth is concerned. So the momentum will remain in the Rest of India. Maybe the numbers will further improve. But now the momentum will be picked up in J&K and Ladakh.

Jai: Right. And sir, if I may just add, what is your -- is there any sensitivity of the -- now there is a regime change in the J&K, I mean, maybe very early days, but is there any -- I mean, what could be the risk in terms of growth, maybe new regime, maybe going slow on the earlier projects which have already been started or maybe in the interim period till the time they come out with their own spending plans? Could there be a risk in terms of the projects which are already halfway completed? Or could there be any other policy change which could impact J&K Bank?

Baldev Prakash: We don't find much concern on that front. One that, whatever projects are going on are of big projects, basically the infrastructure projects, where I don't think any impact will be there of the local governance. The second thing is the growth is expected to come from MSME and the agriculture, where the policy framework is already in place, the type of policy the government is having, HADP, Holistic Agriculture Development Plan for agriculture.

And similarly, one scheme, we call it Yuva scheme for MSME, which has been launched during the last 1 or 2 years. Those schemes are actually giving a lot of benefit to the people at large. So any popular government would rather further strengthen those schemes instead of putting the brakes on those. That is what my belief is. So instead of any concern, I think we find that there will be further boost to the economy and to these schemes.

Moderator: The next question is from the line of Hardik. Please go ahead, sir.

Hardik: I have a follow-up question that can you let us know your NPA recovery and technical write-off recovery pipeline?

Baldev Prakash: So technical write-off recovery pipeline, our target is -- how much is our target for the year?

Management: We are envisaging a recovery of about INR1,531 crores in the financial year. And out of that, we have already achieved INR760 crores. Further, recovery of INR771 crores is estimated in some accounts of big size ticket.

Baldev Prakash: You're talking about NPA?

Management: Yes. And in case of technical write-off accounts, we are envisaging a recovery of about INR350 crores in the next 2 quarters.

Baldev Prakash: Let me sum up, Hardik. So as far as NPA is concerned, the recovery is expected in the range of INR700 crores to INR800 crores. As far as technical write-off accounts is concerned, we are expecting INR300-plus crores. Out of that, almost INR125 crores we have already recovered, rest of the amount will be followed in this half year.

Hardik: Okay. That's clear, sir. And one more question, sir. Can you tell us what your cost-to-income guidance is? And how should it be directionally?

Baldev Prakash: So cost-to-income guidance, I think we have given it, 58% -- 57% to 58%. It will be definitely better than that.

Hardik: Okay, sir.

Baldev Prakash: So Hardik, if there are any questions, we can take them. Otherwise, we will request the participants can send the questions over e-mail also.

Hardik: Yes sir, I think we are almost done. The operator can announce that if anybody has a question, they can come back directly to the bank or can route it through us. Yes sir, we can conclude. If you have any concluding remarks?

Baldev Prakash: So thank you, Hardik, and thank you, Jai. Thank you all the participants for joining in today and being part of this 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, detailed comments, etcetera, the team is always available, and you can also direct your queries to our Investor Relations desk, and we will definitely respond. Thank you so much.

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