



“Jammu & Kashmir Bank Q3 FY 2016 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Jammu and Kashmir Bank Q3 FY'16 results conference call hosted by Elara Capital. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing “*” then “0” on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Rakesh Kumar from Elara Capital. Thank you and over to you Mr. Kumar!

Rakesh Kumar: Good morning everyone. On behalf of Elara Capital we would like to sincerely thank the Jammu & Kashmir Bank management to provide us the opportunity to host the call and we would like to also welcome all the participants on the call. We would like to request Chairman and CEO Mr. Mushtaq Ahmad to provide us a brief presentation on the Q3 results and thereafter we could start the Q&A session. Over to you Sir!

Mushtaq Ahmad: Thank you very much. Welcome everybody and a very good morning to all of you. I think, as far as the results of J&K Bank for Q3 are concerned this has been published and I am sure everybody might have gone through it whoever is interested in the balance sheet but just to have a just a small recap of the figures, the financials, I would say that the deposits there has been a very efficient liability management and as a result of that we could better our profitability. The total increase in these deposits has been around say 1% only and 77% of the deposits come from J&K and 23% from rest of India and also as far as CASA is concerned 51% comes from J&K and around 14.57%. We will continue from this credit portfolio.

Credit portfolio there has been a growth of 7% year-on-year basis but it is really a pleasant surprise that J&K while we were keeping our fingers crossed there has been a growth of 15% and we have been able to arrest negative growth outside J&K state and now we have covered up the gap. As far as CASA is concerned again we are providing a very good figure. Last year it was say 47.47% this CASA deposits and it has increased to almost 43% now and net interest income which was say 1968 Crores last year December 2014 it has improved to 2063 thereby giving an increase of around 5% and now coming to this other important figures, net profit of the bank which was say 104 Crores for the quarter ended December it is now 117.68 Crores and there has been a growth of 12.48% and again EPS which was 2.16 last time and this time it is 2.43 it has increased and the cost of deposits has also come up from 6.71 to 6.38. Yield on advances has slightly come down from 11.29 to 10.91. Then gross and net NPAs, of course, this has increased. Gross NPA as a percentage which was say 5.81% last year it is now 6.81% but good thing is that we have increased our provisions, in last year the net NPA were 3.22% it has come down 2.60%. So I was discussing about these gross NPAs. Gross NPA last year it was 5.81% it has increased to 6.81% during the year that is December 2014 to December 2015 and net NPAs, of course, which was 3.22% as on December 2014 it has come down to 2.60% it

is because of higher provisions and we have increased our provision coverage ratio from last year 61% to this year 66.18% and over and above that I should also share with you that beyond the actual provision requirements we have kept a floating provision in our impaired assets to the extent of 198 Crores and if there are any say delinquencies in the future also slippage and all that I think this is a sufficient figure to take care and as a matter of policy I think we will be building this floating provision for future as well and then again capital adequacy ratio under Basel III which stood at 12.78% last year it is, now 12.49%.

As far as net interest income is concerned it has improved by say 5% from 1968 Crores as I discussed I think to 2063 Crores then net profit I have discussed net interest margin of course is something which we need to discuss for the year ended December 2014 net interest margin was 3.77% but it has increased to 3.93%. This is because of this cost of deposit going down and also yield on advances also going down but the overall impact remains positive.

So these are the broader figures which I just wanted to share with you and other things can emerge during the question answer session.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Jiten Doshi from Enam Holdings. Please go ahead.

Jiten Doshi: Good morning Sir this is Mr. Jiten Doshi from Enam. My question pertains to the gross NPA and further provisioning. How much more pain do you see Sir and how have you complied with the RBI list of 150 companies on the NPA side?

Mushtaq Ahmad: The first thing I think that there is general opinion that as far as pain is concerned you call it as stress is not totally out of intensity still some pain remains I think even this Chairperson of State Bank of India they have expressed yesterday that more pain remains and directly, as all us know this is directly related to the state of economy the situation operating in the economy. So while we see that more pain is there and we should not say that we have got them out there are certain accounts where you have to keep your fingers crossed and also remain prepared also but at the same time I should say that when asset quality review was taken by Reserve Bank of India at that point of time they had specifically identified three accounts in respect of J&K Bank and the total exposure was around was say 265 Crores or 270 Crores and once we start discussion with them at that time they identified on only one account with an exposure of 63 Crores and another account I think they told that this has to be kept under watch till Q3 and another account again was kept under watch but in respect of one account I would say that yes it has weaknesses and may be slips it is very in fact a small exposure of around 40 Crores but the other account we have convinced RBI that it is a performing asset. It is a standard asset and we will take this final call I think in the current quarter when we are closing

accounts, finalizing the terms for the current account but we have already taken care as per instruction of Reserve Bank of India.

Jiten Doshi: So were these accounts in J&K or out of J&K?

Mushtaq Ahmad: This is out of J&K.

Jiten Doshi: So how much more pains do you see Sir accelerating going forward. I mean do you see the same level of gross NPAs in Q4 as we see in Q3?

Mushtaq Ahmad: I think some of the accounts have been addressed and as far as Q4 is concerned I think there would be some stress on the accounts and consequently J&K I should say when you have multiple banking arrangements when you have consortium of accounts you have to follow the leader and the majority of the participants. So under those circumstances I think there would be some stress but at the same time as I mentioned in my inaugural remarks that we have kept a provision of 198 Crores. Over and above the requirement as of now so that should take care and as a matter of policy we are going to strengthen that particular figure quarter-on-quarter basis.

Jiten Doshi: Sir can you give us an update on MetLife your position in MetLife?

Mushtaq Ahmad: MetLife is quite in the process and there have been I should say it is process got slackened because of some regulatory restrictions and the amount of interest that these foreign investors had or the promoters had in this insurance industry after the new guidelines they are still evaluating how to go about it and you see that throughout the country I do not think that any foreign based insurers has taken a call to increase its stake here in the Indian Insurance Industry. But at our level yes we are in the process. Once we have we will go through the initial agreement and we stand by what we have said.

Jiten Doshi: Sir my last question pertains to your outlook for 2016-2017. What are you seeing as the advances growth in J&K and what are you seeing outside J&K for your bank?

Mushtaq Ahmad: I think when you see J&K, J&K we have been passing through very, very tough times, rather phase of turbulence I should say. Even today our growth has been around 15% but this growth you should say that some of the accounts got adjusted because of these insurance claim settlements and all that I would see that within J&K state I still maintain the 25% growth would be really something which is very, very much achievable but even under very distinct circumstances you should be over 20%. So I would say that average 22% would be there and outside J&K state we have done some exercise and I think that we will be in a position to achieve around 15% growth outside J&K state.

- Jiten Doshi:** So overall growth we are looking at about 18% to 20%.
- Mushtaq Ahmad:** Yes I should say between 18% and 19% or 18% and 20% you can also say.
- Moderator:** Thank you. The next question is from the line of Gaurav Agarwal from E&R Advisors. Please go ahead.
- Gaurav Agarwal:** Good morning Sir. What is the expected increase in opex for the next one, two years to support 18%, 19% kind of growth figure?
- Mushtaq Ahmad:** No what we say that within J&K state the total is composition of the business that we have in the state and outside J&K state our strategy policy would continue that we will be going.
- Gaurav Agarwal:** I mean operating expenses growth rate.
- Mushtaq Ahmad:** Operating expenses I think it should remain say around 8% to 10%.
- Gaurav Agarwal:** Sir may I know what is the reason for your employee cost to increase 20% YoY?
- Mushtaq Ahmad:** Because we had in fact the employee people on contract basis for two years and after their probation was completed so they have been taken into regular cadre so the employee cost has gone up.
- Gaurav Agarwal:** But Sir we took them in Q2 but in FY'15 also there were 20% YoY kind of growth.
- Mushtaq Ahmad:** No I would say that was done in August. The decision was taken in August but impact comes in third quarter.
- Gaurav Agarwal:** I mean Sir in FY'15 also 20% kind of growth we saw YoY in employee expenses.
- Mushtaq Ahmad:** No it is not like that because we have not recruited any person beyond that. So what we said was that there would be normal increment and etc whatever is there that would be there but you do not have backlog as far as contractual employees are concerned.
- Gaurav Agarwal:** Sir other thing is pertaining to your cost of deposits. So term deposits which are outside J&K do they have higher cost is under term deposit which are in J&K.
- Mushtaq Ahmad:** No there are some categories for example beyond 5 Crores you have to be totally **(inaudible) 15.57** and other than that I think you keep on this rate fixed which move say you review after say 15 days,

one month, quarter depending upon the market movements but as far as policy is concerned it is same across the board.

Gaurav Agarwal: What percentage of deposits is bulk deposits, more than 5, 10 Crores?

Mushtaq Ahmad: I think that we have to figure out.

Gaurav Agarwal: Lastly has the cut in deposits factored in your cost of deposits. The cut on term deposits in the last two, three quarters whatever we have done are this fully factored in your present cost of deposit?

Mushtaq Ahmad: Yes exactly because it is only after just factoring and everything that you determine the cost of deposits.

Gaurav Agarwal: Because Sir in the last three quarters cost of deposits have not moved. It is just three, four basis point down. That is what I was asking.

Mushtaq Ahmad: What we say that it is because you must also say cost of deposit because it is not only related to your term deposit when your CASA is increasing your cost of deposit is going to come down.

Moderator: Thank you. The next question is from the line of Anurag Mantri of Jefferies. Please go ahead.

Anurag Mantri: Sir coming back to the asset quality question. I think you mentioned that there were three accounts which were identified for Jammu and Kashmir Bank in the AQR and the total exposure out of that was 270 Crores and out of that so there is one account of 63 Crores which has been identified but it is in the watch list right now.

Mushtaq Ahmad: No it has already been downgraded, it is downgraded the part of our gross NPA number one. There is another account which is small account around 1140 Crores that was kept under watch but I think in the current quarter we will have to take a call on that, another account while the cost of the date of operation and all that. Date of commencement, this commencement of this production and all that that has already been taken care etc., and that standard asset is going to continue as a standard asset and maximum this hit that we had to undergo we have already done that 62 Crores and may be another 40 Crores.

Anurag Mantri: Balance around the 170 Crores.

Mushtaq Ahmad: No that is the standard asset. I think there was some confusion which we have convinced.

- Anurag Mantri:** Sir what would be the sectors for these three accounts?
- Mushtaq Ahmad:** One account is steel and the other account I think small account we are 40 Crores that hopefully that should also be I think that is manufacturing.
- Anurag Mantri:** The standard account which you managed to convince RBI.
- Mushtaq Ahmad:** **(Inaudible) 19.06**
- Anurag Mantri:** Sir secondly regarding your 525 SDR I think you done 1000 Crores of 525 refinancing till date right.
- Mushtaq Ahmad:** We have done in respect of two accounts only that is around 1000 Crores.
- Anurag Mantri:** So within that has anything slipped into NPA or that remains standard.
- Mushtaq Ahmad:** This is so far the standard.
- Anurag Mantri:** What would be the pipeline for 525 if any?
- Mushtaq Ahmad:** 525 we can expect no visibility but we can have there could be some surprises but as of now there is no visibility on that account.
- Anurag Mantri:** But any rough number like may be 200, 300 Crores or something.
- Mushtaq Ahmad:** No I cannot say we have not just gone to that thing.
- Anurag Mantri:** Similarly for SDRs I think around 767 Crores you have done till now. Has anything slipped into NPA in that?
- Mushtaq Ahmad:** No.
- Anurag Mantri:** Any pipeline that you can shed light on?
- Mushtaq Ahmad:** Yes exactly other than SDR there could be one or two accounts.
- Anurag Mantri:** Sir is it safe to assume that all the SDR accounts that you have of 767 Crores most of it will be from the restructured book.
- Mushtaq Ahmad:** Partly.

- Anurag Mantri:** Any quantification possible?
- Mushtaq Ahmad:** Not at this point.
- Anurag Mantri:** And similarly in the 525 that you have around 1000 Crores how much would be from the restructured book?
- Mushtaq Ahmad:** Not exactly from restructured book.
- Anurag Mantri:** That is mainly standard.
- Mushtaq Ahmad:** Yes.
- Moderator:** Thank you. The next question is from the line of Anand Laddha of HDFC Mutual Fund. Please go ahead.
- Anand Laddha:** Sir this floating provision of 180 Crores we did this quarter there is a part of our NPA provision already Sir?
- Mushtaq Ahmad:** Yes this is part of NPA provision but it is beyond what we are required to maintain.
- Anand Laddha:** The improvement in the coverage ratio is because of the 180 Crores initial provision you have done.
- Mushtaq Ahmad:** Of course it is part of that yes.
- Anand Laddha:** Just further wanted to understand on this AQR review. In our case has any of the large deal company has been declared we were suppose to declare NPL AQR and large steel exposure Sir.
- Mushtaq Ahmad:** Only three accounts which I have mentioned nothing beyond that.
- Anand Laddha:** All the SDR can you also taken. You also have an exposure to large textile account Sir, where SDR has been announced that is also part of NPA Sir.
- Mushtaq Ahmad:** No.
- Anand Laddha:** But SDR has been announced in that exposure.
- Mushtaq Ahmad:** SDR yes but it is under process.

- Moderator:** Thank you. The next question is from the line of Jai Mundra from B&K Securities. Please go ahead.
- Jai Mundra:** Sir just coming back on this asset quality we have finalized three accounts which under RBI AQR of which one account of around 63 Crores from steel that has already been downgraded in this quarter and then fourth quarter we are estimating this 40 Crores account would be downgraded and then third account.
- Mushtaq Ahmad:** It could continue to be standard because it has all the qualities and there are no preemptions that it will be downgraded.
- Jai Mundra:** Sir this SDR so Sir there was one this textile account. Has that been taken into SDR because other banks they have also taken that?
- Mushtaq Ahmad:** Yes exactly, bank consortium will take SDR.
- Jai Mundra:** Sir what was the quantum of 525 done during the quarter I understand this outstanding is 1002 Crores.
- Mushtaq Ahmad:** During the quarter we have not done.
- Moderator:** Thank you. The next question is from the line of M.B. Mahesh of Kotak Securities. Please go ahead.
- MB Mahesh:** Sir couple of questions, one, this quarter you have reversed a provision of about 53 Crores from contingencies, any specific reason for the same one.
- Mushtaq Ahmad:** Last time I think there was some apprehension in the mind when we were undertaking that order that has been addressed but keeping something in the contingency that can be appropriated towards any other liability any other obligation but we thought it is better than it will become part of the provision and which cannot be withdrawn from the provisions.
- MB Mahesh:** No but it was again you tried to make it against a specific asset which was not required anymore.
- Mushtaq Ahmad:** Not at all, that that time also we thought that there could be certain things, that time we kept it under contingency but finally we thought it is better that we take it directly to the asset provision.
- MB Mahesh:** Second one is this outside J&K growth any reason why we have again restarted this entire lending out here because for a while we were trying to derisk our entire portfolio there?

Mushtaq Ahmad: Again we have properly calculated the risk and our preference and priority again remains that Government of India does these undertakings and we have expanded our exposure to that only say Food Corporation of India, Power Finance Corporation of India, and NTPC is there, like that we have gone and mainly this exposure goes to these undertakings.

MB Mahesh: Sir my last question is on this again the entire asset quality now that nearly half the banking system has declared certain textile/steel accounts as NPAs, would there be a pressure from your side to declare it in the next quarter?

Mushtaq Ahmad: As far as the steel is concerned I think Bhushan Steel already under that package that JLF and all that. It is under stress and again I think we are also participating in Essar Steel that is very these are the two accounts I think why we are facing some amount of stress.

MB Mahesh: But the regulator seemed to have gone ahead and ask are certain banks to declare these assets as NPAs. That is the broad discussion we have had from many banks. Just trying to understand would this result in pain in subsequent quarters when large part of the banking system has declared as NPAs.

Mushtaq Ahmad: I would say even under consortium the situation of individual accounts and relationship with different banks different participants in the consortium is different. One particular company may be behaving a better manner with say A bank and not with B bank. So naturally these factors have to be factored in while when you are clearing the status category of a particular company or the account.

MB Mahesh: Sir the only question is that in certain cases even the working capital lines were declared as NPA. So I think that leaves very little headroom for the other banks who are participating in a similar line of credit to also not declare it as NPA.

Mushtaq Ahmad: I would simply say that when at the end of a particular quarter the total situation of the account has to be analyzed to come to some conclusion. Factors of the situation may vary from institution to institution bank to bank. So depending upon their individual situation status they will have to take account.

Moderator: Thank you. The next question is from the line of Prakash Sharma from CLSA. Please go ahead.

Prakash Sharma: Good morning Sir. Just a couple of questions on the asset quality part only, just wanted to reconfirm that Essar since you were mentioning it SRO is downgraded to NPA and Bhushan exposure is in the refinancing status and held as standard loan. That is correct.

Mushtaq Ahmad: Essar is not downgraded with J&K Bank.

- Prakash Sharma:** So this steel account is which you have downgraded 63 Crores is something else.
- Mushtaq Ahmad:** That is different and it is a small account and I would say one account I think it is somewhere but 100% sure that it is steel related.
- Prakash Sharma:** So like was Essar steel not on the list itself or was your exposure that one that where it was discussed and kind of you could convince RBI there.
- Mushtaq Ahmad:** We have not discussed that because the situation did not arise where we would discuss it.
- Prakash Sharma:** Sir just you shared the number on 525 stock of loans 1000 Crores and SDR 767. Could you just share the size of your ARC sell down, ARC receipts?
- Mushtaq Ahmad:** We have not.
- Prakash Sharma:** Sir there is nothing there in the last two to three years.
- Mushtaq Ahmad:** No.
- Moderator:** Thank you. The next question is from the line of Prashant Kumar from Credit Suisse. Please go ahead.
- Prashant Kumar:** Thank you for taking my question. Just on restructured loan book wanted to get some clarity that like what was the slippage from restructured loan book in this quarter and also going forward like what is the run rate of slippage that you expect and also wanted to get some sense that we had earlier done some restructuring under the special package of RBI for within J&K accounts. So what is the status of that and have we seen any slippage from that in this quarter?
- Mushtaq Ahmad:** I would say that my restructured book which was say 2467 in the last quarter it is almost static in the sense that now it is around 2500 Crores and as far as J&K is concerned there has been no slippage from the package that we announced and we dispensed to the people here and restructured book it remains almost same. There has been minor slippage which has been say around 36 Crores. Nothing more than that and in the current quarter as I see my restructured book it will not be very much.
- Prashant Kumar:** Going forward Sir any part of restructured book where RBI has asked you to make higher provisions or.

Mushtaq Ahmad: Yes there were some it is not only restructured book but even some other assets. RBI had identified some of the accounts while they asked J&K Bank to just make additional provisions to the extent of 56 Crores. As per the guidelines we have already taken action on that. We have provided extra provisions have been done for that part.

Prashant Kumar: You have fully provided for that extra provision.

Mushtaq Ahmad: That we have done I think here is a gap they wanted to do it in two quarters and major we have already done.

Prashant Kumar: You mentioned that next quarter the impact of RBI AQR would be only to the tune of around 40 Crores and this quarter it was 60 Crores, roughly just wanted to get some sense that in terms of slippages for next quarter it should roughly remain in the same range in this quarter.

Mushtaq Ahmad: I would say this quarter has been better and we expect next quarter but considering the level of stress that we have in the banking industry I think it will be too early to predict anything.

Prashant Kumar: Sir from the slightly longer term perspective also just extension in this question that say for next year from that what would be your guidance in terms of asset quality at that NPA levels restructured levels like where do you expected to stabilize some color about?

Mushtaq Ahmad: I would simply say that I would say that though some people say that this stress would remain for another two quarters, one quarter or something but again next year is going to be quite challenging because of course we would say that the economy may turn towards recovery but the impact of that recovery will take some time. So therefore you have to remain prepared to bear some short impact of that recovery for some time, so therefore next year again has to anywhere the friends has to be over cautious and they will have to take extra proactive steps.

Moderator: Thank you. The next question is a followup from the line of Gaurav Agarwal from E&R Advisors. Please go ahead.

Gaurav Agarwal: Thank you again Sir. Refinancing of 525 it was 1000 Crores as on date right. Refinancing under 525 the amount outstanding is 1000 Crores. Sir out of this I think Bhushan Steel was previously restructured and then it is refinanced. Am I correct because in Q1 clarified that thing.

Mushtaq Ahmad: No I think it is under the refinance scheme.

Gaurav Agarwal: But it was not restructured previously. It was standard right before 525.

- Mushtaq Ahmad:** I feel so yes.
- Gaurav Agarwal:** In total Sir how many accounts are there?
- Mushtaq Ahmad:** Where.
- Gaurav Agarwal:** Under 525 how many accounts in total are there?
- Mushtaq Ahmad:** I think two to three accounts only.
- Gaurav Agarwal:** Sir the yields they have been coming down for a quite a time, so what are your guidance on your composite yield?
- Mushtaq Ahmad:** Yield I think it should remain at the same level as of now say around 11. It would be there but at the same time I would say that this falling yield is compensated by the fall in cost of deposits.
- Gaurav Agarwal:** Outside J&K which part of loans are you targeting now is it the same consortium profit loan or some other?
- Mushtaq Ahmad:** Basically my first preference is Government of India undertakings, Navratan, and thereafter financially quite stable corporate houses and then also last option would be this MSMEs and retail.
- Gaurav Agarwal:** Sir just last question. Can you tell me your J&K yield and outside J&K yield?
- Mushtaq Ahmad:** I do not think it would be in position because finally yield going to remain on the bank as a whole.
- Gaurav Agarwal:** Sir what is the corporate rate at which you lent outside J&K.
- Mushtaq Ahmad:** Outside J&K would be say plus 70.
- Gaurav Agarwal:** Plus 70 okay base rate plus 70 basis point right.
- Mushtaq Ahmad:** So outside J&K base rate in most of the corporate it is just base rate or base rate with some marginal addition.
- Gaurav Agarwal:** That is it from my side Sir thank you.
- Moderator:** Thank you. The next question is from the line of Nitin Kumar from Prabhudas Lilladher. Please go ahead.

- Nitin Kumar:** Good morning Sir. How do we see the restructuring portfolio shaping up in next fiscal?
- Mushtaq Ahmad:** I do not think it would be coming down in the current quarter but we expect in the say next financial year.
- Nitin Kumar:** So we are not anticipating any stress in the J&K related restructuring was the moratorium over there would be like coming to end in first quarter next fiscal.
- Mushtaq Ahmad:** I would not totally rule out there would be no stress but it would be marginal and manageable.
- Moderator:** Thank you. The next question is from the line of Anurag Mantri of Jefferies. Please go ahead.
- Anurag Mantri:** Sir thank you for taking my followup question. Sir regarding your savings account growth it is quite muted at around 5.5%, 6% currently. Is there any strategy to kind of runoff the deposits which are outside J&K or if you can throw any color on that.
- Mushtaq Ahmad:** I explained it in my inaugural remarks that outside J&K previously there was negative growth and there was a negative gap. That gap has been fulfilled whatever we had last year at December we are again reaching that, that means we have addressed the gap and now it is time for us to move forward. We have already sanctioned some amount and I am expecting that disbursement outside J&K state could take place to the extent of 3000 to 4000 Crores. Within J&K state already we have witnessed a 15% growth and J&K growth could be around say 20% to 25% but outside J&K it will remain 15%. So on the whole I would say that it would be around 18% to 19%.
- Nilanjan:** Sir this is Nilanjan. Within J&K the current account seems to be slightly depressed. Is it related to the past flooding and not enough MSME SME deposits getting accrued?
- Mushtaq Ahmad:** I would say that last year of course as you know that we had to pass through very, very difficult time. So even savings bank some of the people had to resort to expenditure from savings bank and current deposits but moving forward when the package announced by Central Government of India to the extent of 80,000 Crores plus another 30,000 Crores for the **(inaudible) 38.26** I think that has been to boost the inflation of money and through that we will be in a position to increase our float. But at the same time I must tell that savings banks accounts are increasing and as a result of that the CASA which was say last year it has improved by 1.5% as compared to last year and I am looking forward that this CASA is going to further improve because the branch network that we have added in J&K state to the extent of 300 branch every passing day, every passing quarter the business mobilized from these branch as to the CASA because CASA deposits and CASA liability from these branches more than 70%. So every time they are adding and it is because of that very strong force that our net

interest margin which was say 3.77% last year even under present circumstance to all the turbulence challenge and everything it has moved up to 3.93%. I would say that yes coming here CASA would increase, demand deposits would increase, current deposits would increase and another thing that as we see funds which were flowing from Central Government to the State Government and which were the man and strong source for your this demand deposits saving banks deposits there was lot of slackness and stalemate in that and as a result of that this people have just withdrawn the demand deposits.

Anurag Mantri: Thank you Sir for that and another question on this because we just talked about those two specifics steel accounts. It would really help if you can help us understand the kind of collaterals or relations you may have given that lot of analysts on the call would have highlighted right that those two accounts have been recognized as an NPA so it will help if you can help us understand what kind of relationship or a collateral you have based on which you might have been able to convince RBI?

Mushtaq Ahmad: No it is not RBI we have not discussed these accounts because state of the accounts with J&K Bank was quite okay.

Anurag Mantri: Ever otherwise Sir.

Mushtaq Ahmad: Even otherwise it has remained good but these accounts we should also say since these accounts are under stress the stress may explain to all the consortium partners.

Anurag Mantri: So you are essentially not guaranteeing that this is not going to sleep I mean.

Mushtaq Ahmad: No I would not be in a position the standard account is very strong today. I will not be in a position to guarantee under the present situation even for that account and no banker I think of mediocre prudence would do that.

Anurag Mantri: How much collateral if I can ask your loan to collateral would be there just in case you need to there is option of liquidity?

Mushtaq Ahmad: Consortium whatever decisions or arrangement has to emerge or to be arrived at that has to be through the consortium. Bank cannot do anything there.

Anurag Mantri: Sorry to extend this would all the collateral whatever those fixed assets or working assets there might be everything is under consortium or would you have a separate terms of agreement with particular corporate.

- Mushtaq Ahmad:** I think mainly it is under consortium.
- Rakesh Kumar:** Sir with reference to this MCLR lending norms like outside J&K we are facing there would be some competition on this corporate lending front. So like how much pressure we could see on the credit especially outside J&K on the corporate lending side after this MCLR comes into effect.
- Mushtaq Ahmad:** I would just maintain that when I am outside J&K state my first priority is that whatever surplus I have got from J&K state that should be dispensed in viable channels and that is true the Government of India undertaking in big corporate, established corporate houses, established payments finances standing. So here my concern and my priority is stability and security of my funds and this why when I am mobilizing my CASA within J&K state say around 52% and my cost of deposit is quite enviable for others I am prepared to go at base rates plus marginal increase on that. Outside J&K state it is not yield where I have presence it is basically the security and safety of my funds. So even if see what base rate outside J&K state that will be 9.5% but my cost of deposit we are back in J&K state and the surplus available I can easily make 3% to 4% in that. I will continue with that.
- Rakesh Kumar:** But how much reduction in the credit yield we might anticipate or we might see like from here?
- Mushtaq Ahmad:** I have already told that say it is sub 11 this time but it will remain around 11 and at the same time again I would be repeating that whenever there is any decline in the yield on advances this is compensated by a decline in the cost of deposits.
- Moderator:** Thank you. The next question is from the line of Jigar Walia from OHM Group. Please go ahead.
- Jigar Walia:** Good afternoon to the team and Sir congratulations for the relatively good set of numbers. Sir two things I am happy that you made some floating provision. Sir just want to confirm is to part of these the NPL provisions that is shown in the breakup of provisions. So have we utilized it or is it a still available for utilization?
- Mushtaq Ahmad:** Whenever we say that we have floating provision, it means it is not asset specific, it is not assigned. It is sort of a cushion for the future.
- Jigar Walia:** Sir, I will follow up on clarification, you mentioned that Essar and all is servicing to us very well, so can we assume it is not a part of SMA2 right now and if you can share what is the overall SMA2 number for us?
- Mushtaq Ahmad:** SMA2 should not be more than, I think 1000, it should be within that, and about Essar I will have to specifically see whether it is or not.

- Jigar Walia:** Sir would be comfortable sharing generally what would be our overall exposure to Essar?
- Mushtaq Ahmad:** I think it should be 400 I think.
- Moderator:** The next question is from the line of Jahnvi Goradia from Motilal Oswal Securities, please go ahead.
- Jahnvi Goradia:** Sir if you consider the slippages for the quarter of 300 Crores and if you were to explore the impact of AQR, even then it is about 240-250 odd Crores, so any color on that, are these corporate retail within J&K or outside and what is your outlook going ahead if I were to exclude the big names that we are talking about?
- Mushtaq Ahmad:** We discussed these things; at that definitely we should remain prepared for some slippage and all that and also at the same time there should be preparedness for providing cushion to that.
- Jahnvi Goradia:** Sir, just your outlook on normalized slippages sir FY 2017?
- Mushtaq Ahmad:** I would say that this stress may be there for another two to three quarters, not beyond that, but always you see that when there is an upturn in the economy, recovery, revival of the economy, the impact takes some time to yield the results, to give the results and to make visibility on the ground.
- Jahnvi Goradia:** Sir your color on the 240-250 odd Crores which is other than the AQR, are these corporate retail, granular, within J&K or outside?
- Mushtaq Ahmad:** This is outside J&K.
- Jahnvi Goradia:** So are these corporate accounts?
- Mushtaq Ahmad:** These are medium accounts, not big accounts, but I mentioned to you one account would be 63-64 Crores which has been downgraded. There is another 40 Crores which may be downgraded again the current quarter, but third account would be out of that.
- Jahnvi Goradia:** Sir, if I were to aggregate all those accounts which are classified as NPA by other banks but which are not yet downgraded by J&K, if I were to aggregate?
- Mushtaq Ahmad:** Under AQR I have already mentioned it; this is not more than 40 Crores which has not been downgraded which will be in case if it does not perform in the current quarter.

Jahnvi Goradia: Sir, not AQR, but other than that if there are accounts which are not a part of AQR for J&K currently, but which are classified by the other banks as NPA, if I were to aggregate all of that, what percent of the loan book would be in such accounts?

Mushtaq Ahmad: I would disagree with one thing that when you are taking status of a particular account it has to be in relation to the status in your bank, not in relation to any other bank, there are people who are good paymasters for J&K Bank but bad for others and there are people who are bad paymasters for J&K Bank and good paymasters for other branch, so you have to take individual situation, individual status of account, not that what is happening in the overall consortium or in multiple banking. If I had somebody who is totally my obligations, I do not have a reason to downgrade it. Others if it is not meeting there, they will have to downgrade, I have some accounts which are NPA with me but at the same time, standard with other banks and there may be certain accounts which are NPA with other banks and standard with us, banks fund individual status, individual behavior, and individual operation under each bank.

Moderator: The next question is from the line of Rishindra Goswami from Locus Investments, please go ahead.

Rishindra Goswami: The total restructured balances that you have stated about 2500 Crores, do you include the 525 in the accounts part of that?

Mushtaq Ahmad: No.

Rishindra Goswami: That is over and above these 2500 Crores, okay, another quick clarification you mentioned that were the LTR process is on what would be your exposure to that account?

Mushtaq Ahmad: Around 500 Crores.

Rishindra Goswami: Would you have any kind of industry wise or sector wise breakup for the restructured book?

Mushtaq Ahmad: We have got, we can send it to you.

Moderator: The next question is from the line of Jai Mundhra from B&K Securities, please go ahead.

Jai Mundhra: Sir a small clarification sir, this 198 Crores of floating provisions, what was the new provision that was made in this floating provision because in the notes to accounts that you have sent, all the provision is coming in to provision for bad and doubtful debt, so is this 198 Crores part of this 288 Crores provisions?

- Mushtaq Ahmad:** 198 Crores, this is always cushion for future unidentified accounts, these are unassigned, whatever your provision requirement is, this is over and above that?
- Jai Mundhra:** Is this not a part of provision line item?
- Mushtaq Ahmad:** It is not, whatever you have to assign, depending upon the status of asset standard you have to provide 15% and you have also to specify the account, but here 198 is over and above that, it is not specific to any asset.
- Jai Mundhra:** That is understood Sir, but I just want to know how much of that 198 Crores we have done in this quarter, 198 Crores is the outstanding balance.
- Mushtaq Ahmad:** Yes, I must say previously we had already floating around 17, then I had contingency of around 52.5 that is 70 Crores I had already that cushion was available with me from the previous quarter and other than that it would be 128 Crores, 128 Crores has been provided in the previous quarter ending December 2015.
- Jai Mundhra:** Because Sir, in this 128 Crores that we have provided in this quarter I cannot see those details in the provision and contingency breakup, that is what I wanted.
- Mushtaq Ahmad:** This not assigned to anything, so there cannot be any details to it.
- Moderator:** The next question is from the line of Siddhesh Mhatre from Dimensional Securities, please go ahead.
- Siddesh Mhatre:** Sir you said SDR is around 763 Crores and right now someone mentioned that textile account in SDR procedure is 500 Crores, does that include that?
- Mushtaq Ahmad:** No, these 500 Crores whatever we have this is included.
- Siddesh Mhatre:** Remaining 267 is from where, which account?
- Mushtaq Ahmad:** I think in one or two accounts?
- Siddesh Mhatre:** Two accounts of 267 Crores I think.
- Mushtaq Ahmad:** I need to check what is the total number of account and we can come back to you.
- Moderator:** We will take our last question which is from the Gaurav Agarwal from ENR Advisors, please go ahead.

- Gaurav Agarwal:** Sir, this 500 Crores Alok exposure is part of SDR right?
- Mushtaq Ahmad:** I never mentioned any account. I would say textile account.
- Gaurav Agarwal:** Was it previously standard or from restructured?
- Mushtaq Ahmad:** No restructuring only standard account.
- Gaurav Agarwal:** Sir Essar still is restructured for us right?
- Mushtaq Ahmad:** There was some package in that particular account again that has gone to SDR.
- Gaurav Agarwal:** Sir, Essar Steel is restructured for us right?
- Mushtaq Ahmad:** No.
- Gaurav Agarwal:** It is standard for us right?
- Mushtaq Ahmad:** Yes.
- Moderator:** Ladies and gentlemen, that was the last question. I would now like to hand the floor over to Mr. Rakesh Kumar for closing comments.
- Rakesh Kumar:** Thanks Margaret. I would like to thank the management and all the participants. Thanks a lot Sir for sparing your precious time to give insights in to the results.
- Mushtaq Ahmad:** Thank you very much, always a pleasure to talk to you, interact with you people and I think we will get more opportunities to be on this platform. Thank you very much and have a good day.
- Moderator:** Thank you. On behalf of Elara Capital, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.