



## “Jammu & Kashmir Bank Q4 FY 2016 Earnings Conference Call”

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**ANALYST: MR. MANUJ OBEROI - ELARA SECURITIES PRIVATE LIMITED**

**MANAGEMENT: MR. MUSHTAQ AHMAD - CHAIRMAN AND CHIEF EXECUTIVE  
OFFICER – JAMMU & KASHMIR BANK  
MR. PARVEZ AHMAD – EXECUTIVE PRESIDENT – JAMMU &  
KASHMIR BANK**

**Moderator:** Ladies and gentlemen good day and welcome to the J&K Bank Q4 FY2016 earnings conference call hosted by Elara Securities Private Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the 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 that this conference is being recorded. I now hand the conference over to Mr. Manuj Oberoi from Elara Securities Private Limited. Thank you and over to you Sir!

**Manuj Oberoi:** Thanks Vikram. Good morning everyone, on behalf of Elara Securities we welcome you all to the Jammu & Kashmir Bank Q4 and full year FY2016 results conference call. We have with us today the management of Jammu & Kashmir bank represented by Mr. Mushtaq Ahmad, Chairman and CEO and Mr. Parvesh Ahmad – Executive President. I would now request the Chairman Sir to please take us through the result highlights, which will be followed by a Q&A session. Over to you Sir!

**Mushtaq Ahmad:** Good morning ladies and gentlemen. It is really a pleasure for me to participate in the annual financial results concall. I was just discussing that everybody of us is quite aware of the state of economy and particularly the banking industry finances results of major public sector banks we have seen that indicates the stress in the industry and also the results of ICICI Bank. J&K Bank I should say that despite rise in our NPAs we have registered comparatively better performance.

The profit of the bank for the year has been 416 Crores as against 508 Crores last year but during the year you should also appreciate that we have created floating provision over and above the requirement to the extent of 330 Crores and otherwise this result would have been that profit would have been say around 746 Crores against 508 Crores. So we can very safely conclude that in fact there is a jump of 50% jump in the overall net profit but we saw that there is some stress in some of the assets even for the future so we have additionally secured and created a cushion to the extent of 350 Crores and I think that should give us some amount of convenience and some comfort.

Again there are certain other things that we need to just go through but before that I would say that let us go through briefly the figures, which might be already with you. The advances have registered a growth of 12.58% for the year from 44,585 Crores it moves to 50,193 Crores and overall business has also registered 8.38 growth the deposits have grown by say 5.53% from 65,756 Crores to 69390 Crores the networth of the bank. We were discussing about the networth of the bank, which has gone up from 6110 Crores to 6424 Crores which is a jump of 5.14%.

The overall net interest total income has declined by 4% from 6655 Crores to 7348 Crores again total interest expenses have in fact increased from 1409 Crores to 1546 Crores and this is the main reason that when we will come to this cost to income ratio besides other factors this is one of the factor also.

Operating profit has gone down by 9% from 1836 Crores to 1668 Crores and gross NPA last year it was 2764 Crores it is now 4368 Crores, the net NPA again it was 1236 Crores last time but this is 2164 Crores. Now gross NPA ratio has gone up from 5.97 to 8.32% the net NPA has gone up from 2.77 to 4.31% NPA coverage ratio, which was 59% last year it is not 56%.

CASA ratio which was last year 41.79 that 42% almost it has gone to 44% and probably this is one of the reason that still despite all the adverse factors we have been able to increase our marginally very marginally we have been able to increase our this net interest margin. Then again yield on advances has gone down from 11.52% to 10.90% which is the decline as 62 basis points but at the same time the cost of deposits which are 6.72% it has gone down to 6.34% so on the whole it is 38 basis points.

Then return on assets, which was last time 0.70% it is at 0.57% and return on equity from 8.60% to 6.65%, the net interest margin which was last year 3.81%, it is at 3.85% and I had in fact given this sort of commitment I should say that we will be trying to maintain it within the band of 3.80% to 4% so far we have been able to maintain it. As far as payout ratio is concerned it is continues to be 20% and number of business units it has increased from 817 to 857 and ATMs from 885 to 1006 here is one worrying factor that is cost to income ratio that last year it was 43.42% and it has gone to 48.11%, but I need to first of all discuss this cost to income ratio the reasons behind. First here is an increase on staff expenses, establishment expenses there has been revision and there have been some regularizations REs which were on contract basis they have been regularized so that there has been an increase in the expenses to the extent of 140 Crores and other 15 Crores has gone to the CSR and terminal benefits again we had to provide additionally this we have to get 60 Crores and the other factor was that overall there has been a decline of 307 Crores in the interest income 90 Crores on fee based income and another 217 Crores and this interest related income.

Another thing is that restructured book I think would be matter of concern for the investors and also for analysts but all I think is that our restructured book at a beginning of the year that was 2500 and it has increased to say some 3200 Crores to be precisely it is 3235 Crores and the main reason for this is that it is not that any further discount has been specifically restructured but already RBI has during the year annual financial report financial inspection they advised that we had restructured accounts where we had extended facilities or somewhere we have restructured provided this converted some work— in-capital facility and term loan facility into working capital term loans they just advised that the basic these accounts other than these restructured accounts of the same parities should also be part of the restructured account so that 622 Crores has been added that has been the main reason.

I think this is what I have to say and during question answer session we can deal on certain other matters.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. We have a first question from the line of Siddhesh Mahtra from Dimensional Securities. Please go ahead.

**Siddhesh Mahtra:** I did not understand why cost to income ratio was down this year I mean can you just elaborate it once again?

**Mushtaq Ahmad:** Yes, cost to income ratio which was last year 43% it has now gone up to 48% this is on account of No.1 there has been that revision in the salary and there was some REs around I think 1400 which were on contract basis they have been faced in the regular.

**Siddhesh Mahtra:** 1400 what I did not get you?

**Mushtaq Ahmad:** Relationship executives which we had appointed on contractual basis.

**Siddhesh Mahtra:** Employment on contractual basis.

**Mushtaq Ahmad:** They have been regularized and on CSR account there is 15 Crores expenses and then further gratuity and terminal benefits that we have to bear with this increased wage bill that is around 60 Crores and then you also see that there is a dip in the overall interest and non-interest income to the extent of 307 Crores that has contributed to the rise in the cost to income ratio from 43% to 48% but I feel that during the current year when we will be having better interest income also because we are going ahead with the better credit growth and all that I think this would be addressed and this should come down.

**Siddhesh Mahtra:** Okay and how much do you expect it to come down in 2017 or 2018 any guidance you would like to give?

**Mushtaq Ahmad:** You see I think immediately we would be in a position to address that this fee based income I think it should not be deployed. We can come back to that original level where we can recover with this 90 Crores and another that interest income with the credit growth and also some upgradation and all the this interest income should go up. We should expect that it should for the time being I think we should remain let say 44% to 45% but gradually I would say we will have to come down to 40% and over a period of next two to three years as I have been maintaining in my earlier this conferences also we should reach that level.

- Siddhesh Mahtra:** Okay and what were the slippages for this quarter?
- Mushtaq Ahmad:** Slippage in this quarter there have been five major accounts, two relating to steel industry and some other accounts also there in overall I think it could be around 1000 Crores.
- Siddhesh Mahtra:** Okay and your provision coverage ratio PCR has been down by 1000 basis points any reason for that?
- Mushtaq Ahmad:** No it has come down from PCR from 59%?
- Siddhesh Mahtra:** Last quarter it was 66 rights?
- Mushtaq Ahmad:** Yes, exactly it was there but that time again you see there was not slippage but this time there has been some slippage as I told you and despite that my provision coverage which is required that is only 45% strictly as per the this classification of assets. But I am holding 56% against that and also during my address I told that this I have additional floating provision of 350 Crores which is not assigned to any NPA but it is a part of overall provisions.
- Siddhesh Mahtra:** Okay, you said 1000 Crores are the slippages for this quarter right, any guidance on loan book?
- Mushtaq Ahmad:** I would say the coming quarter I think two to three accounts are still I think under stress and we have to take call on those but at the same time because those belong to the steel sector and Government of India is also thinking of some package to steel sector and in case some package comes even the existing NPAs on the steel sector they would get some relief and these accounts could get some relief, but at the same time I think need to remain prepared to bear that short stress and in addition to that that Food Corporation of India that account additional provision of some amount had to be placed because matter still I think it has to be resolved by the Government of India and Government of Punjab.
- Siddhesh Mahtra:** That is all from my side. Thank you.
- Moderator:** Thank you. We have a next question from the line of Sanjay Parikh from Reliance Mutual Fund. Please go ahead.
- Sanjay Parikh:** Sir one thing is on the non-J&K side Sir, we do lot of the lending through consortium lending now on a longer term basis Sir, would we want to move towards direct where we build our own I mean we hire some senior talent and then look towards direct even at the cost of growth can we see this over longer period of time because Sir that is where the pain has come and that is very significantly large? That is my question. So on that directional because see some of our peer banks they have hired some

very good talent and they are trying to build that corporate book and so we depend lot on consortium lending can we gradually over two three years reduce our dependence on consortium lending and build a book which is direct?

**Mushtaq Ahmad:**

I would see first of all let us analyse that when you are going to stress would be more in the mid cap sector and all that and mid cap level. Yes as far as this corporate book is concerned the stress has been there but most of the stresses in this steel sectors and there are consortium where we are our priority in preference remains the Government of India and we have very good relationship a very safe relationship there and participation in that. As far as that part is concerned we continue to do that but as far as other steel sector or even that power sector is concerned so we are very much cautious at the same time I should say that we continue to have the relationship with even consortium account of the maharatans and others, very good accounts like groups you have that Tata, you have that Birla's you have such groups where we would like to continue and even the real estate for example if you see real estate is also under stress, in a lot of stress but at J&K Bank we have got very good groups we do not feel that the stress we will like to continue the relationship but going forward I would say that yes, it will not be possible to just to discard the consortium relationship all partly and on preferential basis we will have to continue.

**Sanjay Parikh:**

Secondly Sir lot of banks have given a list like watch list what according to you would still be the stress and if you can give us some more granular details where which is not yet provided for?

**Mushtaq Ahmad:**

I would say that first of all when we say that we have provided for whatever asset quality or asset classification is concerned, we have provided as per regulatory norms and over and above that we hold floating provision of 350 Crores which is a great relief for the bank. Going forward, I would say that when we discuss this NPAs we discuss the stress, I would still say there are one two or three major accounts which are through stress and we should remain prepared but at the same time one similar lining we see that Government of India as they have come out with a statement recently that they will provide some package to steel industry in case that happens I think that would be with great respite for the banks otherwise also I think you see there are certain times I would always say that there are these surprises and shocks and we should remain prepared and this stress is going to continue for some more products and I think everybody is quite serious that they should be in line with the policy of Reserve Bank of India that clean up of balance sheet by March 2017 has to be completed and everybody is serious about it we are also prepared for it but I would say that coming one or two quarters could be stressful for J&K Bank and we will take it.

**Sanjay Parikh:**

The last is what would be your approximate credit cost guidance for this year?

- Mushtaq Ahmad:** I think it will be declining it should be last year I think it was around 1% or plus 1% but it may slightly rise.
- Sanjay Parikh:** So if we were to give a range what could be the range for this year Sir?
- Mushtaq Ahmad:** I need to specifically calculate and come back to you.
- Sanjay Parikh:** Thank you very much Sir.
- Moderator:** Thank you Mr. Parikh. There were next question from the line of Nitin Kumar from Prabhudas Liladhar. Please go ahead.
- Nitin Kumar:** Good morning Sir. Sir what is our total exposure to these stress accounts, which you have highlighted that they may slip over the coming quarters?
- Mushtaq Ahmad:** You see we have this, it could be say I think accounts nearly 800 to say 1000.
- Nitin Kumar:** Would this also include accounts, which we have kept as standard but many other banks have already like downgraded one or more of these accounts would, this list also includes such accounts?
- Mushtaq Ahmad:** It could.
- Nitin Kumar:** Sir you said that the increase in restructured assets this quarter was due to us moving from facility wise basis to borrower wise and so there has not been any new borrower, which has been added, in the restructured category?
- Mushtaq Ahmad:** This is particularly related to flood the restructuring of those floods.
- Nitin Kumar:** So there is no new restructuring on the corporate?
- Mushtaq Ahmad:** No nothing on that side. Not major one I should say. You see previous book was around 2500 Crores and as we have to move to this restructured facility to borrower that is an impact of 622 Crores that takes it to say plus 3100 Crores and total restructured book is 3200 Crores so that means it is just like, I should say that small tranches could be here and there.
- Nitin Kumar:** Right and so what are the outstanding 525 in the SDR assets now?
- Mushtaq Ahmad:** 525 would be I think it is around 1100 Crores.

- Nitin Kumar:** Okay and SDR?
- Mushtaq Ahmad:** SDR still is some in pipe and SDR will be around 500 to 600.
- Nitin Kumar:** Of these how many is like will already be there as an NPL?
- Mushtaq Ahmad:** One particular account with 200 Crores.
- Nitin Kumar:** Sir coming back to the loan growth we still maintain 25% growth guidance in the home state is it?
- Mushtaq Ahmad:** I would say I expect that much but much depends how the funds flow from central package and I would be expecting that 22% to 25% could be quite achievable home state.
- Nitin Kumar:** Because I think that package like it was announced last year and so far if I see like across most segments growth has been on the softer side in a home state?
- Mushtaq Ahmad:** It has been but again I should say that there some interest and all that would come and again that should reduce this outstanding also but it depends much what is the pace of release of funds for the infrastructure sectors.
- Nitin Kumar:** Sir lastly like our tier I ratio has declined now to 10.6% and so what will be your plans on capital raising?
- Mushtaq Ahmad:** We have one or two options. One is that we can go to the market to improve to mobilize more capital and otherwise also we have founded our main promoter the J&K government and we will be in a position to just go with them also but other option we are also scouting.
- Nitin Kumar:** Do you think that that could happen in FY2017 now that you are guiding for a higher credit cost?
- Mushtaq Ahmad:** We have already been initiated some steps and approvals have been necessary approvals are with us.
- Nitin Kumar:** Thanks a lot.
- Moderator:** Thank you Mr. Kumar. We have a next question from the line of Gaurav Agarwal from E&R Advisors. Please go ahead.
- Gaurav Agarwal:** Good morning Sir. Thank you for this opportunity. Sir your 525 accounts which are 1100 Crores as on date how much of it is overlapping with restructured and NPA?

- Mushtaq Ahmad:** Which one?
- Gaurav Agarwal:** These 1100 Crores you mentioned has 525 stocks number right, out of this how much is NPA and restructured?
- Mushtaq Ahmad:** 525 on one stock which has already restructured in this quarter that is around 200 Crores and then one restructured account is there again the exposure would be they are around 500 Crores but that is not NPA and there could be some other one or two accounts where you have to keep your fingers crossed and that is why I am putting my figure around 1100.
- Gaurav Agarwal:** So just to confirm this 1100 Crores 200 Crores is NPA, 500 Crores is restructured and rest is standard right?
- Mushtaq Ahmad:** Yes that is okay.
- Gaurav Agarwal:** Sir this SDR pool of 600 Crores it is all completely restructured as on date right?
- Mushtaq Ahmad:** That yes, that restructured but at the same time I think SDR itself is restructuring and one of this accounts is very huge stress.
- Gaurav Agarwal:** Okay but it is restructured right so it is not fresh it is creation right?
- Mushtaq Ahmad:** No.
- Gaurav Agarwal:** Is it?
- Mushtaq Ahmad:** Yes.
- Gaurav Agarwal:** Okay, your employee expenses since we have incorporated all the major increases wage hike, new employees plus a temporary employees becoming permanent so would you see this employee expenses remaining around same level during FY2017?
- Mushtaq Ahmad:** There could be marginal increase but at the same time I think this year has been very bad as far as income is concerned we hope that our income is going be decent.
- Gaurav Agarwal:** I am talking about the absolute basis?
- Mushtaq Ahmad:** No I think there was 140 Crores is already on account of wage increase.

- Gaurav Agarwal:** Right these days I do not think there should be any upward pressure on employee expenses?
- Mushtaq Ahmad:** No it should not be I think we hope that it is going to come down.
- Gaurav Agarwal:** Sir just last two questions what was the total interest reversal amount for the whole, is it 300 Crores, I heard you mentioning some interest impact of 300 Crores is it the interest?
- Mushtaq Ahmad:** It was not. It is 307 Crores, basically deduction decline in the interest income to the extent of 217 Crores and then decline in fee based income to the extent of 90 Crores.
- Gaurav Agarwal:** So Sir what was the interest reversal for the full year and for Q4 since Q4 had major slippages?
- Mushtaq Ahmad:** Interest reversal, I think we have not as such I think downgraded I need to come back on the interest reversal.
- Gaurav Agarwal:** Sir just last two questions, can I have this J&K specific NPA and restructured number as on date?
- Mushtaq Ahmad:** Major I think 80% of coming from outside and rest is could be the J&K.
- Gaurav Agarwal:** And NPAs?
- Mushtaq Ahmad:** NPA same provision.
- Gaurav Agarwal:** Sir in this quarter we had seen quite a remarkable growth in the outside J&K book so is it the short term ended nature of the book which comes for six seven months?
- Mushtaq Ahmad:** It is the composition. We have also given a long-term loan and also some short-term also.
- Gaurav Agarwal:** Because it is against as per guidance we were trying to grow our J&K book faster than the outside J&K book?
- Mushtaq Ahmad:** We have of course done this thing but what happens when we are giving shorter loans for six months that ratio is not maintained but finally if you see the gross of this J&K growth book it has increased from 9500 Crores to 26000 Crores in last five years and we are expecting an addition of 5000 Crores in the current year.
- Gaurav Agarwal:** Okay and lastly Sir your NIM guidance for FY2017?

- Mushtaq Ahmad:** NIM guidance I will repeat that you see I have told that we should remain within the band of 3.80% to 4% and we are at 3.85% and this quarter has been down to 3.60% maximum that I think at least from 3.7% to 3.9% I think would be the guidance.
- Gaurav Agarwal:** Thank you.
- Moderator:** Thank you very much. We have a next question from the line of Sonal Kohli from E&R Advisors. Please go ahead.
- Sonal Kohli:** Thank you for this opportunity. Sir firstly wanted to understand considering where we are and considering the stand has been that we will be moving more towards AAA rated banks and that is the stand for perhaps most of the banks as well. Would the NIMs for the banking sector as a whole and for your banks has well because of you know the lower margins on the AAA kind of book be impacted, is that a fair assumption at least from a year perspective?
- Mushtaq Ahmad:** I would say that J&K has plus point, plus point is that we are pursuing two businesses model one within J&K and one outside J&K state. So if you have any weakness outside J&K state that is registered by business within J&K state. But exclusively if you go outside J&K state like other banks we are also impacted.
- Sonal Kohli:** So incrementally there will be some impact so J&K you obviously would not increase your margins they are already very high to offset the down you will continue to get that benefit but the negative side happen for the outside J&K have I understood correctly?
- Mushtaq Ahmad:** Yes.
- Sonal Kohli:** Sir you know secondly on this stress side Sir sorry I came little late in the call. My apologies for asking this if it already been answered; Sir considering the a large part of the banking sector in even for us outside J&K are consortium loans what is the visibility on stretch when you say so let say tomorrow if the State Bank or ICICI Bank would be consortium leaders?
- Mushtaq Ahmad:** I think everybody is under stress even ICICI Bank, State Bank of India results is all expected today. I have not seen the results today.
- Sonal Kohli:** But if the incrementally they decided to show more stress is it possible that we may also see some surprise?

**Mushtaq Ahmad:** Exactly, I have already explained that there could be stress and the stress would be say around a 1000 Crores in this quarter or the next quarter overall and I think that should wind up, or cleaning of balance sheet deposits and this could be there because there are visibly one or two accounts where we have to stress but at the same time plus point is that steel sector as per announcement of Government of India I think we are coming out with some package as Honorable Finance, Union Finance Minister has declared. Once that package is there I think that going to be a big relief for the steel industry and as well as for the banking industry and that should improve the overall the situation of the steel industry but is still to happen. Another alarming thing is about Food Corporation of India where we were expecting that this matter could have been resolved between Government of India and Government of Punjab but what has happened the Reserve Bank of India has advised the bank to keep provision against that 12000 Crores of loans so we are also participating in that loan and we had also took some provision, all things shape up on that account that is also a worry.

**Sonal Kohli:** So Sir on the steel side and this FC side you are not in your guiding built in any recovery as of now when you say 1000 Crores it means additional 1000 Crores but it does not build in the recovery it has not been net number including the recovery?

**Mushtaq Ahmad:** You see as far as steel is concerned unless and until there is some package or the competition threat from China that fully addressed and taken care off, you cannot expect much of recoveries under steel sector but other sectors of course improvement is there and recoveries and we are also expecting that in other sector as we have done in the current quarter also some very good amount of recoveries has been affected but not in the steel sectors.

**Sonal Kohli:** So Sir broadly, if I understood you correctly what you were saying is 1000 Crores is an incremental stress?

**Mushtaq Ahmad:** But this is not steel.

**Sonal Kohli:** This basically 1000 Crores of stress includes all forms of potential shocks which can comes from including the business in consortium led banks, this is your internal assessment if the consortium led banks comes with the surprises.

**Mushtaq Ahmad:** No that is my internal assessment also but I think considering the financial health of account that we have kept under our radar I think that is the point.

**Sonal Kohli:** Sir do we expect any stress on the bond portfolio we have in the private sectors?

**Mushtaq Ahmad:** No we do not have any.

- Sonal Kohli:** Thank you so much.
- Moderator:** Thank you Mr. Kohli. We have our next question from the line of Jay Mundra from B&K Securities. Please go ahead.
- Jay Mundra:** Sir you mentioned about you know we are hopeful of some sort of steel packages Sir if you can just share some broad concalls of what could be included in that package?
- Mushtaq Ahmad:** I would simply take you to the statement which was made by Union Finance Minister, Mr. Jaitley a few weeks back where he had said that we will come out with some package where I think we were discussing about this package which was stated by the Union Finance Minister steel package so I would say still the details of the package what we would be doing I think for broader thing he has told that we would ensure that package out and the banking industry should not suffer on account of the steel sector.
- Jay Mundra:** Yes, but I was just wondering Sir if you have any more let us say...?
- Mushtaq Ahmad:** No I do not have any other details other than that. It is precise statement.
- Jay Mundra:** Could it be like financial package or would it be more of operational or business kind of a package?
- Mushtaq Ahmad:** I think it could be business and operational both.
- Jay Mundra:** Secondly Sir you mentioned this 1000 Crores of kind of internal watch list excluding steel right, so I believe this would be the sector could be textile and what else could be that?
- Mushtaq Ahmad:** It could be textiles, steel and infra.
- Jay Mundra:** But because you mentioned this is excluding steel right?
- Mushtaq Ahmad:** This could include steel.
- Jay Mundra:** Okay so all put together this is 1000 Crores?
- Mushtaq Ahmad:** I did not say that this steel is excluded yes it could be around 1000.
- Jay Mundra:** And Sir lastly what could be the slippages from restructured book in this quarter?
- Mushtaq Ahmad:** Restructured, I think these are the accounts, which are almost restructured.

- Jay Mundra:** Yes, Sir for this 4<sup>th</sup> quarter what could be the slippages from restructured book in this quarter?
- Mushtaq Ahmad:** Restructured you I think under watch we have kept around 600.
- Jay Mundra:** Sir actually I was asking the during the quarter of around this 1400 Crores slippages how much is this?
- Mushtaq Ahmad:** I am telling that under restructured there could be 600.
- Jay Mundra:** Sir lastly if you can reconcile this SDR number. Sir last quarter we had 767 Crores number of SDR so would it be largely same right, there would be no fresh SDR exposure in this quarter?
- Mushtaq Ahmad:** Under one or two accounts, which I have mentioned those could be considered on SDR.
- Jay Mundra:** Thank you very much.
- Moderator:** Thank you Mr. Mundra. We have a next question from the line of Anurag Mantri from Jefferies. Please go ahead.
- Anurag Mantri:** Good morning Sir. Sir firstly a couple of data points questions, from your reverse slippages of around I think 480 Crores this quarter how much is from the AQR and what could be the SMA-2 book currently and in the previous quarter I just want to understand the movement of that?
- Mushtaq Ahmad:** The first thing is that under AQR I should say there is now the one account which is say around I think 50 Crores only and there was another account 64 Crores which we have downgraded and the previous quarter as well and there is nothing more that out of it.
- Anurag Mantri:** Sir the SMA-2 book outstanding as of Q4 and Q3 if you can provide that?
- Mushtaq Ahmad:** SMA-2 I will pass on that information separately. I do not have that readily available with me. I am actually from a distant place, not from my office, so that is not readily available with me but SMA-1 or 2 is never more than say 500 to 600 in our case, because we keep on watching them under the strict watch and monitoring.
- Anurag Mantri:** Sir could you give us some more color on your total steel exposure as to how much is the outstanding how much is out of that is NPA how much is restructured how much might be 525 SDR?
- Mushtaq Ahmad:** Steel sector, I think would be around say 800 to 900 which is already NPA and another 400 to 500 which have to be kept under watch which is giving some amount of stress.

- Anurag Mantri:** Right but currently standard?
- Mushtaq Ahmad:** Yes.
- Anurag Mantri:** Sir you mentioned 900 Crores is already NPA?
- Mushtaq Ahmad:** Almost yes.
- Anurag Mantri:** 500 are in the watch list?
- Mushtaq Ahmad:** Around 500 under watch.
- Anurag Mantri:** How much would be the restructured?
- Mushtaq Ahmad:** Restructured would be same around 400 Crores used to be restructured.
- Anurag Mantri:** Okay and anything apart from this, which might have gone into 525 or SDR apart from 900 and 500 and 400 that, you mentioned?
- Mushtaq Ahmad:** No not so far.
- Anurag Mantri:** Okay and the total exposure would be?
- Mushtaq Ahmad:** Total exposure to steel, sorry the details are not with me right now, let us continue but in the meantime I will find out.
- Anurag Mantri:** Sir you mentioned that regarding your PCR currently you are required to have around 45% coverage for this year and you would maintain 56% and on top of that you have an additional provision what would this amount be for next year, what would this 45% increase to next year after the ageing of NPA?
- Mushtaq Ahmad:** As far as this PCR is concerned I would say that strictly as far as asset classification I require around 45% average. The provision of 300 say 350 Crores so we keep on building this floating provision for future, even when I say 1000 Crores for the current quarter 1000 Crores means I have to provide 150 Crores only but I am still holding in my provision this portfolio is 350 Crores of total provision that should not impact my profitability. But my preference would be that whenever there is any future slippage towards NPAs and all that that should be taken care by the current profits not strictly regard to your floating provision. As we have done currently we have really even if you see my Q4 results I

am sure Q3 there is a loss of 56 Crores but at the same time 150 Crores have been shifted to floating provision otherwise my profit net profit was 78 Crores.

**Anurag Mantri:** I was asking that 45% requirement that you had for this year based on regulatory requirements for the coverage do you have any sense of how much have could increased to or any estimate, how much would have increased by the end of next year so that increased?

**Mushtaq Ahmad:** First thing is that when you are talking of asset classification naturally some would slide to doubtful I and doubtful II on that account I would say that there could be some recoveries some upgradation and all that I would not say that finally it should remain around the same level.

**Anurag Mantri:** Thank you.

**Moderator:** Thank you Mr. Mantri. We have a next question from the line of Aditya Jain from CLSA. Please go ahead.

**Aditya Jain:** Good morning Sir. I wanted to ask the recoveries in this quarter have been quite healthy, wondering where, which sector it has come from and have there been sales to ARC asset reconstruction companies?

**Mushtaq Ahmad:** As far as asset reconstruction company we are (inaudible) 44.29, there could be say around 100 to 200 Crores but recoveries have been in say something in real estate also and then retail sector also.

**Aditya Jain:** Sir and then on the floating provisions that you provided just wanted to confirm is it adjusted in the net NPL figure that you have given or is it on top of that?

**Mushtaq Ahmad:** It is already accounted for.

**Aditya Jain:** It is included so net NPAs are after excluding?

**Mushtaq Ahmad:** It is accounted for.

**Aditya Jain:** There had been some news around the CAG audit. I was wondering if you could provide some details on why it was done I mean what happened there?

**Mushtaq Ahmad:** What type of CAG audit?

**Aditya Jain:** I had come across some news to this effect. I am not sure if there is anything that you could provide on this regard?

- Mushtaq Ahmad:** This is a public sector bank as far as J&K government is concerned. Every time I think when we have to go for the balance sheet and AGM you will have to have comments of CAG and if you go through our balance sheet every time they have to comment or they have to pass their comments that is the part of my balance sheet every year. There is nothing fancy to do all that.
- Aditya Jain:** Thank you very much.
- Moderator:** Thank you Mr. Jain. We have a next question from the line of Rishindra Goswami from Locus Investment. Please go ahead.
- Rishindra Goswami:** Can you give us the total outstanding of security receipts on your balance sheet? SRs from asset sale related investment receipt? How much would be the stock on the balance sheet now?
- Mushtaq Ahmad:** You want me to say something about these government securities and all that?
- Rishindra Goswami:** No just the investments receipts that you would have received from sale of assets to ARC?
- Mushtaq Ahmad:** Recently we have done one account small account and that should now initiate.
- Rishindra Goswami:** Was there any asset sale in FY2016 to ARC?
- Mushtaq Ahmad:** One account I think it was 1100 Crores account and it is not much.
- Rishindra Goswami:** Just in terms of the restructured balance now that you have over 3200 Crores does it include all the related borrower facility etc., that stock?
- Mushtaq Ahmad:** I do not follow you exactly you want know.
- Rishindra Goswami:** I was just clarifying because I think as per the annual report disclosure of FY2015 the related accounts put together the total RA was about 3500 Crores so is that the number?
- Mushtaq Ahmad:** That time it was 2500 Crores. In 2015 it was 2500 Crores.
- Rishindra Goswami:** 2500 I think the annual report disclosure if you check along?
- Mushtaq Ahmad:** You are talking of restructured account?

- Rishindra Goswami:** Restructured along with the related facilities all put together was about 3500 Crores if my numbers are correct as on FY2015 so I just wanted to clarify whether that number is comparable to the 3200 Crores that now you have?
- Mushtaq Ahmad:** You see previously this is particularly the impact has been on account of the restructuring is impacted by the floods. So that time we had taken 1674 Crores which was included in 2500 Crores and then Reserve Bank of India comes forward to that you have to restructure not according to the facilities extended but the borrower world and the impact was that we had to add another 522 Crores to that thing and now as a result of that impact of that this restructured book has gone up to 3200 Crores.
- Rishindra Goswami:** Would you have the restructured book broken down by sector may be steel power etc?
- Mushtaq Ahmad:** That is already taken care.
- Rishindra Goswami:** I just wanted the split of that restructured book that you have split between steel, power, etc., we have that data point?
- Mushtaq Ahmad:** We can pass on that to you, but you have to wait for that.
- Rishindra Goswami:** Thanks.
- Moderator:** Thank you Mr. Goswami. We have a next question from the line of Jignesh Shail from Quant Capital. Please go ahead.
- Jignesh Shail:** Thanks for the opportunity Sir. Just quick questions, I mean this 350 Crores floating provision has it been provided during this quarter or it had been in the previous quarters?
- Mushtaq Ahmad:** Which provision?
- Jignesh Shail:** The floating provision of 350 Crores did you provide this Q4 or it was in the earlier quarters?
- Mushtaq Ahmad:** No this is over and above the assets, this previous quarter it was 180 Crores and this quarter we have provided further 150 Crores.
- Jignesh Shail:** Secondly this Punjab government exposure how much you provided how much would be balance?
- Mushtaq Ahmad:** Under food credit to Punjab government our exposure is around 300 Crores and out of that they wanted 15% provision that would come say 45 Crores but already 7.5 Crores for March which is 22 Crores that has been provided.

- Jignesh Shail:** Just lastly so now if I understand that correct you have a total stressed accounts of close to 1000 Crores 800 to 1000 Crores, which includes in infrastructure and textile is I getting it right?
- Mushtaq Ahmad:** It is in infrastructure, it is in textile, it is in steel also.
- Jignesh Shail:** If you can guide me the total steel exposure that J&K has if you can tell me that amount if you have that readily available?
- Mushtaq Ahmad:** Yes please.
- Jignesh Shail:** The total steel exposure of the bank, how much would be the total steel exposure or the total steel outstanding?
- Mushtaq Ahmad:** I can give you major I think I can count it, may be between 1500 and 2000, I will give you figures separately.
- Jignesh Shail:** That will do for me Sir. Thanks a lot.
- Moderator:** Thank you Mr. Shail. We have a next question from the line of Akhil Dhawan from Locus. Please go ahead.
- Akhil Dhawan:** Just a couple of questions; first just wanted to clarify so if I look at your restructured plus your GNPA I get a figure of roughly about and I add in what is sitting in 525 that is not currently restructured I am getting about 8000 Crores or thereabouts of total stress accounts in addition to that you are saying there could be another 1000 Crores stress so the total quantum will be about 9000 Crores, stress loan the reason I am asking is because if I look at non-core that was about 24000 Crores for the last, so stress is about 9000 and in your non-J&K book is roughly advances non-J&K are roughly about 24000 so even if I assume 80% of these if like you said 80% of the stress is coming from non-J&K what would imply that the total stress or NPA on the non-J&K book is about 30% or thereabouts so what I am trying to understand is you know at an overall level for the non-J&K book how much of that book is in sensitive sectors, how much of that book is in consortium loans can you give us some color?
- Mushtaq Ahmad:** When I spoke about stress mainly these accounts are major accounts and those were outside J&K space and I have already given the composition what it could be but within J&K space there are account, which have stress, but the ticket size is very small.

- Akhil Dhawan:** The second thing is just in terms of the incremental stress that you are expecting just I want to make sure understand this right you said about 1000 Crores that is...?
- Mushtaq Ahmad:** Which have some stress, yes?
- Akhil Dhawan:** Correct and those are all pretty standard assets right?
- Mushtaq Ahmad:** No out of that we have already downgraded around 200 Crores.
- Akhil Dhawan:** I see, so about 800 Crores of that will still be standard today and most of that be sitting in your restructured accounts.
- Mushtaq Ahmad:** No out of those what I speak about stress, yes, none of this is NPA this already accounted. There was some confusion but I think this would be still I think we have to these are not slipped, these are considered as standard assets.
- Akhil Dhawan:** Right and in addition to that there is another 600 Crores of restructured assets which is also under watch is that right?
- Mushtaq Ahmad:** Not in addition to that including that.
- Akhil Dhawan:** Okay, so potentially you are saying total slippage could be about 1000 Crores in the coming year?
- Mushtaq Ahmad:** Yes. Recoveries are also very strong expectations of recovery and upgradation.
- Akhil Dhawan:** Right and then just in terms of steel the last exposure that I saw or the last disclosure I saw on your total metals exposure was actually 2800 Crores of which currently about you are seeing 800-900 Crores NPA so assuming this package relief package does not come what portion of your metals exposure could then be under stress?
- Mushtaq Ahmad:** This is already I think under steel if you specifically are still not be more than 500 to 600 Crores.
- Akhil Dhawan:** Just last question if I look at the depreciation for this year despite gross block growing by about 15%-odd for the full year depreciation has actually declined by 30% the depreciation expenses so any particular reason for that?
- Mushtaq Ahmad:** I think last year I think there were some those bonds, which were recovered so that would have helped.

- Akhil Dhawan:** That means that depreciation last year was higher than normal, this I am talking about depreciation and amortization of your gross block?
- Mushtaq Ahmad:** No.1 there was trading profit also and there were some assets, which had to be provided for this year I think that impacted last year.
- Akhil Dhawan:** So those would have flown through the depreciation expenses?
- Mushtaq Ahmad:** Not the depreciation, exactly depreciation I think would be relating to this, let me check.
- Akhil Dhawan:** We will take it offline. Thank you.
- Moderator:** Thank you Mr. Dhawan. We have a next question from the line of Vivek Varma from PIMB. Please go ahead.
- Vivek Varma:** Sir can I have size of your standard restructured book?
- Mushtaq Ahmad:** Yes, overall out of this 3200, 610 Crores is in MTM.
- Vivek Varma:** Thank you.
- Moderator:** Thank you Mr. Varma. We have a next question from the line of Sri Shankar from Prabhudas Liladhar. Please go ahead.
- Sri Shankar:** Sir when you are participating in this consortium accounts what is an element of risk that you are willing to take when you participate with a lead banks so my question is if you generally go with almost all the lead banks or if there is any specific lead banks you are comfortable with in the underwriting of these loans and that is where you participate as a consortium number that is my first question?
- Mushtaq Ahmad:** Well, I think it is a very important portion of bit diplomatic portion. I would say that yes, exactly we have our own preferences, not preferences in the sense that there is some particular preferences for bank and all that but normally I think it is somewhere it is 10 becomes 50 and even sometimes other major banks which was there and some of the cases we had some not good experience so we have discarded.
- Sri Shankar:** That means Sir if I understand clearly probably if it is lead bank the State Bank of India etc., probably you would if they and what is the kind of exposure that you normally will take it assuming that

looking at the size of what State Bank is and what is the size of us here today we are 50000 Crores in terms of credit roughly about and if you look at those kind of stuff to what extent the lead bank takes and what is the kind of a risk that you will take on your book, given the size of your bank as a percentage?

**Mushtaq Ahmad:** Two things will determine, they are major two just lead us to any decision that is No.1 my own network, No.2 the borrower slating and all that and based on that and my appetite and this factor we will take we would participate in it.

**Sri Shankar:** So having got that experience in this consortium lending going forward are you going to revisit or relook at this policy that you are having so far?

**Mushtaq Ahmad:** No, I think consortium of course we are not joining every account as the borrower companies this consortium but financially very sound this government of India, Maharatan, Navratan and all that banks we take is not all other accounts were we join this consortium and certain cases we go on our own and we need not go for even multiple banking sometimes independently sometimes with the consortium but it is not that we jump for very multiple banking or all the consortium, it always has to be subordinate to my policy.

**Sri Shankar:** Thank you.

**Moderator:** Thank you Mr. Shankar. We have a next question from the line of Mr. Manuj Oberoi from Elara Securities. Please go ahead Sir.

**Manuj Oberoi:** Sir most of my questions have been answered just one last thing you guided for the credit growth in J&K state at 20%-22% correct?

**Mushtaq Ahmad:** Okay.

**Manuj Oberoi:** Now how much credit growth you are looking from non-J&K?

**Mushtaq Ahmad:** Non-J&K major I have already told that Government of India undertaking and established business houses around 15% only or it could be between 12% and 15% to be precisely.

**Manuj Oberoi:** Similar color to the deposit as well for the J&K and the non J&K?

- Mushtaq Ahmad:** J&K will go for this better deposit mobilization because of the cost outside J&K it is very expensive so we do not encourage much on that account whatever retail deposits we get CASA we get that we do.
- Manuj Oberoi:** Any ballpark percentage wise you have, any ballpark expected number you have for the J&K deposit mobilization Sir?
- Mushtaq Ahmad:** As of now you see it is 75% 25% outside J&K state but basically because we have very strong in J&K and within two years, four to five years we have been able to add more than 300 in J&K state and we are just pursuing those branches to mobilize, more deposits which are mobilizing deposits spread is 70% whatever you mobilize is CASA deposits and that is a very good I think model.
- Manuj Oberoi:** Thank you Sir. That is it from my side.
- Moderator:** Thank you Sir, ladies and gentlemen that was the last question I would now like to hand the floor back to Mr. Manuj Oberoi of Elara Securities for closing comments. Over to you Sir!
- Manuj Oberoi:** Thank you, on behalf of Elara Securities I would like to thank the management for the wonderful insights and thank all the participants for joining in. Thank you all.
- Mushtaq Ahmad:** Thanks a lot, my small request would be that there are certain issues which have been raised while I have to go back to the records and come back I would request Elara organization please help consolidate those queries so that we can reply to individuals. Thank.
- Manuj Oberoi:** Sure Sir we will do that Sir.
- Mushtaq Ahmad:** Thank you very much and thanks a lot it was always pleasure and privilege to participate in such type of these concalls so that we get really better questions and then going back you need certain concerns we would need to address those concerns and reframe our faults. Thank you very much again.
- Moderator:** Thank you Sir. Ladies and gentlemen on behalf of Elara Securities Private Limited that concludes this conference. Thanks for joining us. You may now disconnect your lines.