



# J&K Bank

Deutsche Equities India Investor Meet

Hong Kong - Singapore

**August 23 - 24, 2010**

# An Overview





## Basic Facts

- Incorporated in 1938

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- Listed on NSE & BSE

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- Rated “P1+” by S&P: highest degree of safety

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- Five decades of uninterrupted profitability and dividends



## One of a Kind

- Private sector bank despite government's majority holding

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- Sole banker and lender of last resort to the Government of J&K

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- Only private sector bank designated as RBI's agent for banking business

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- Carries out banking business of the Central Government:
  - Direct Tax collection
  - Indirect Tax collection
  - Utility payment collection

# Facets and Roles

- Commercial Bank

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- Development Financing Institution

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- Financial Services Provider

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- Central bank of J&K

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- Intermediary Institution

# Regional Goliath

- Dominates a Region
  - 380 branches in the state
  - 220 ATMs

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- Controls a Geography
  - Branches in every block of J&K

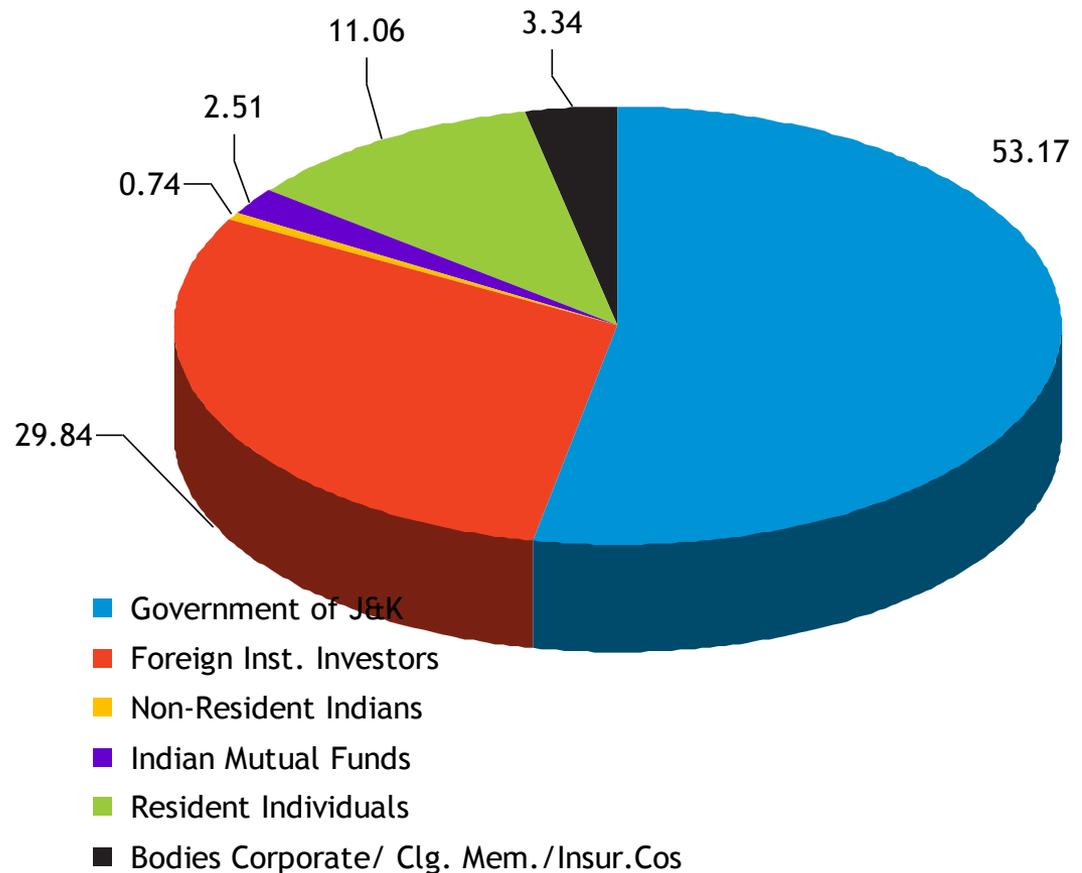
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- Possess a Community
  - Adult population of 8.6 million
  - 3.7 million account holders of J&K Bank

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- Monopolises Business in J&K
  - 87% share in advances
  - 70% share in deposits

# Shareholding Pattern (06.08.2010)



# Best of both worlds

- Private Bank in terms of its earnings, and

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- PSU Bank in terms of its cost structure

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- Public ownership
  - Stability
  - Safety

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- Private functioning
  - Efficiency
  - Growth

# Subsidiaries and Investments

- J&K Bank Financial Services Ltd
  - Providing Depository Services
  - Offering Stock Broking Services

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- Insurance JV with MetLife International

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- Distributor of
  - Life Insurance products; partner: MetLife
  - General Insurance; partner: Bajaj Allianz

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- Shareholder in J&K Gramin Bank

# The Quiet Transformation

2005-2009



# Business strategy: 2005-2012

- Two legged business model:
  - Increase lending in J&K, which is
    - high margin, low volume

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- Target niche lending in rest of the country, to
  - Improve margins and build volumes

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- Universal Bank in J&K

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- Corporate bank in rest of the country

# Phase I (2005-2009): Looking inward

- Change in composition of advances
  - In terms of geography: from ROI to J&K
  - In terms of asset types: from low margin to high margin

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- A greater focus on liability management
  - Increase low cost retail deposits
  - Increase the maturity structure

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- Restructure lending in ROI :
  - Re-pricing
  - Reduce consortium lending
  - Improve WC to TL ratio

# Inward strategy: Analytics

- J&K accounts for:
  - 1% of India's population
  - 0.6% of India's GDP

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- J&K accounts for:
  - 0.2% of India's personal credit
  - 0.12% of India's productive credit

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- Low capital consumption

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- Closed economy: No leakages

# Sectoral worldview:

- Muddled middle of the Indian banking sector to get squeezed
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- Bi-polar structure to emerge
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- Smaller banks -niche players - with regional dominance to outperform
    - Banking verticals with defined slivers of business
    - Focus on SMEs and the informal segment

# Contextual Strategic inference:

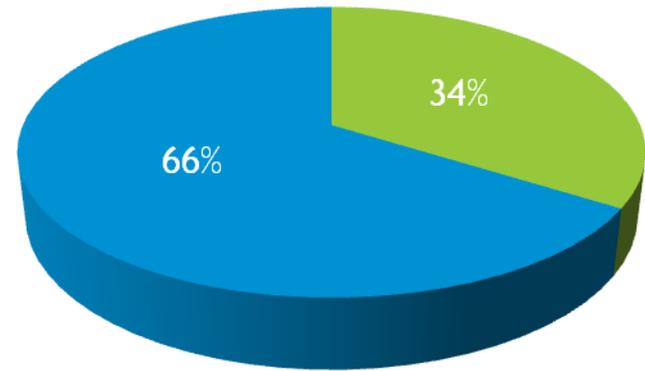
- In the current and emerging environment, what is required is:
  - Region-specific credit policies that suit the sub-national growth impulses and context
  - Productisation of finance to suit local enterprises

# Strategic shift: CONTOURS



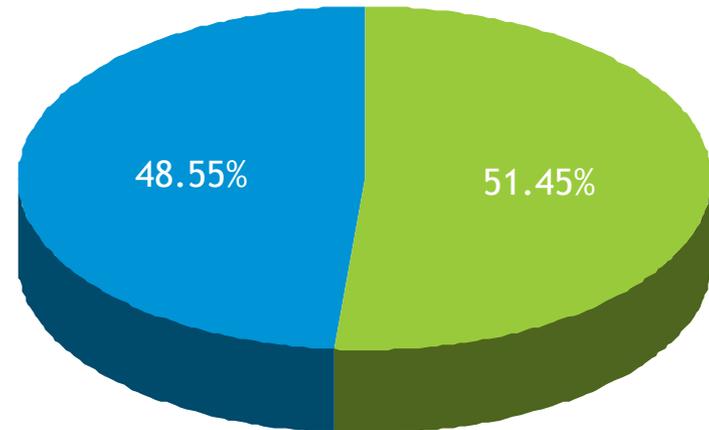
# Loan Book: By Geography

2004



■ J&K ■ ROI

2010

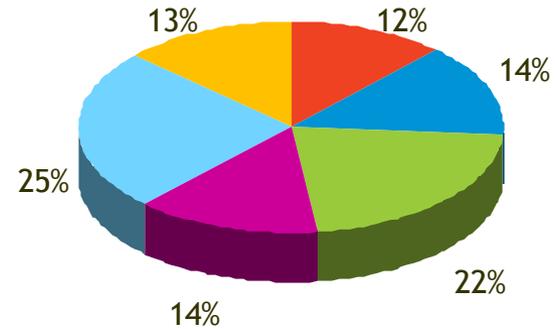


■ J&K ■ ROI

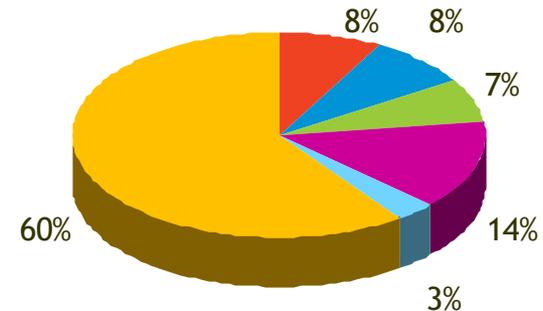


# Sector-wise advances (2010)

## Within J&K

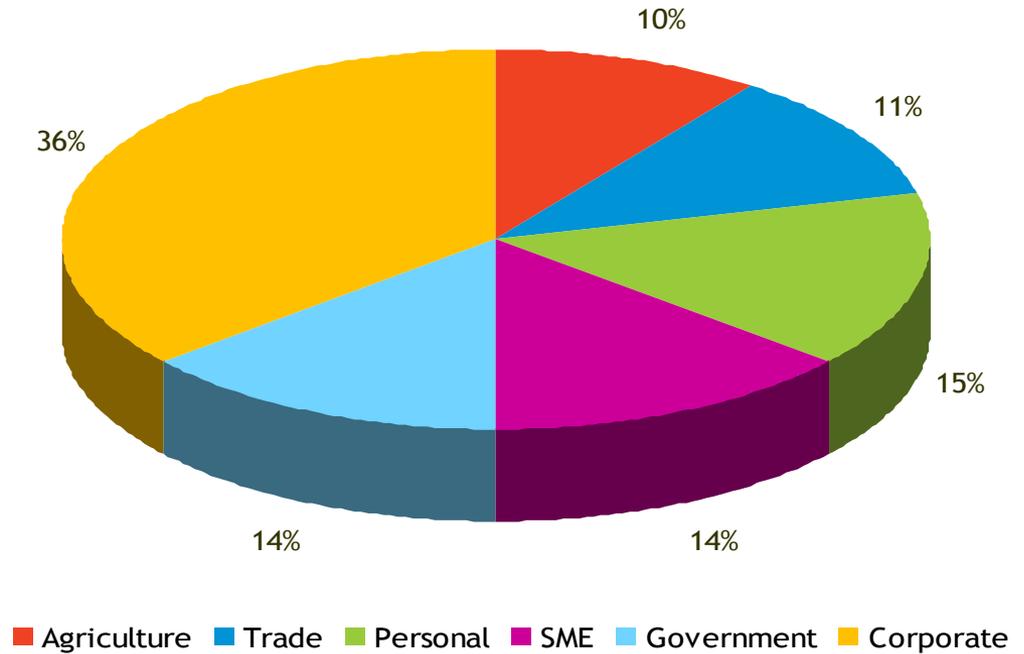


## Rest of India



# Sector-wise advances (2010)

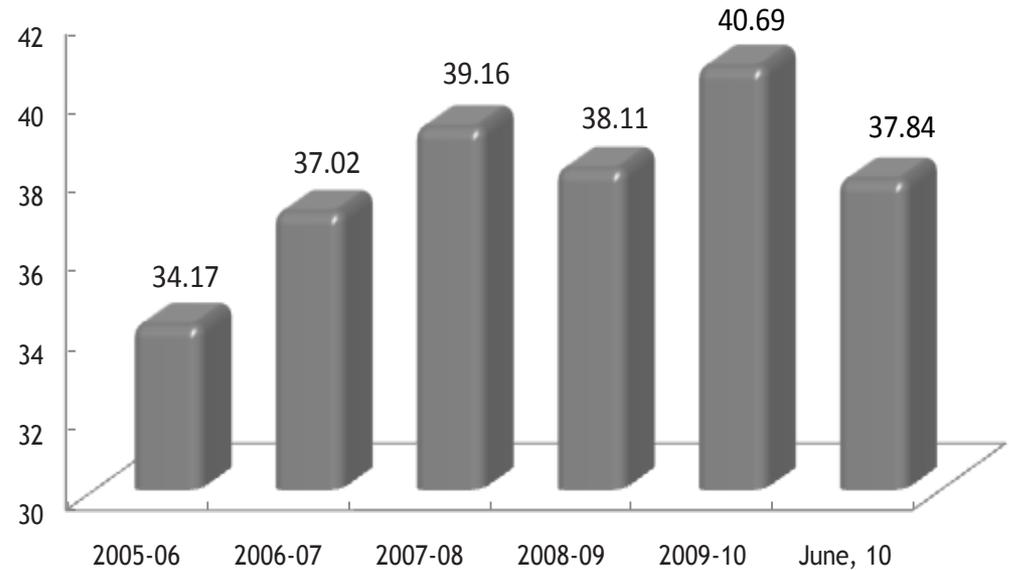
## The Bank as Whole



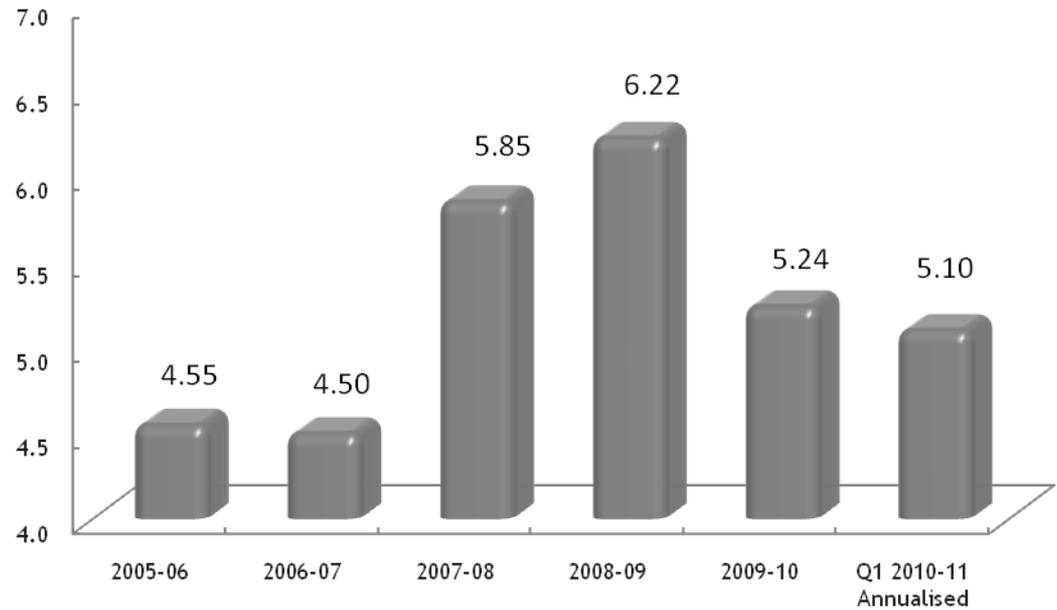
# Strategic shift: RESULTS



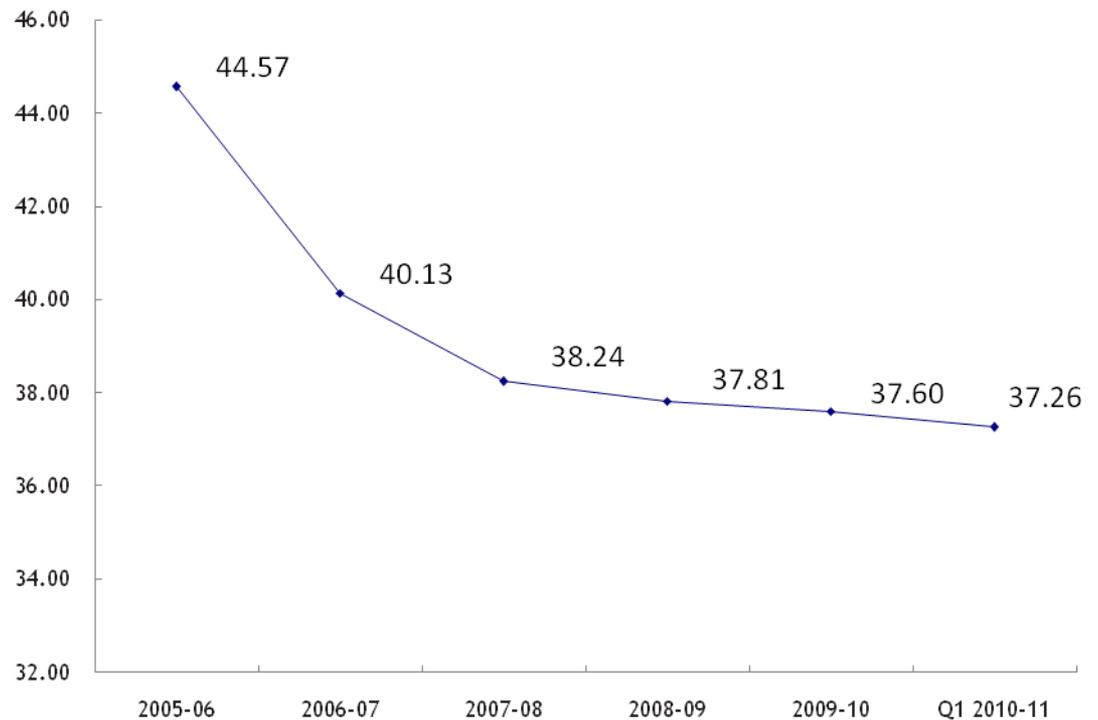
# Liability Structure: Increasing CASA (%)



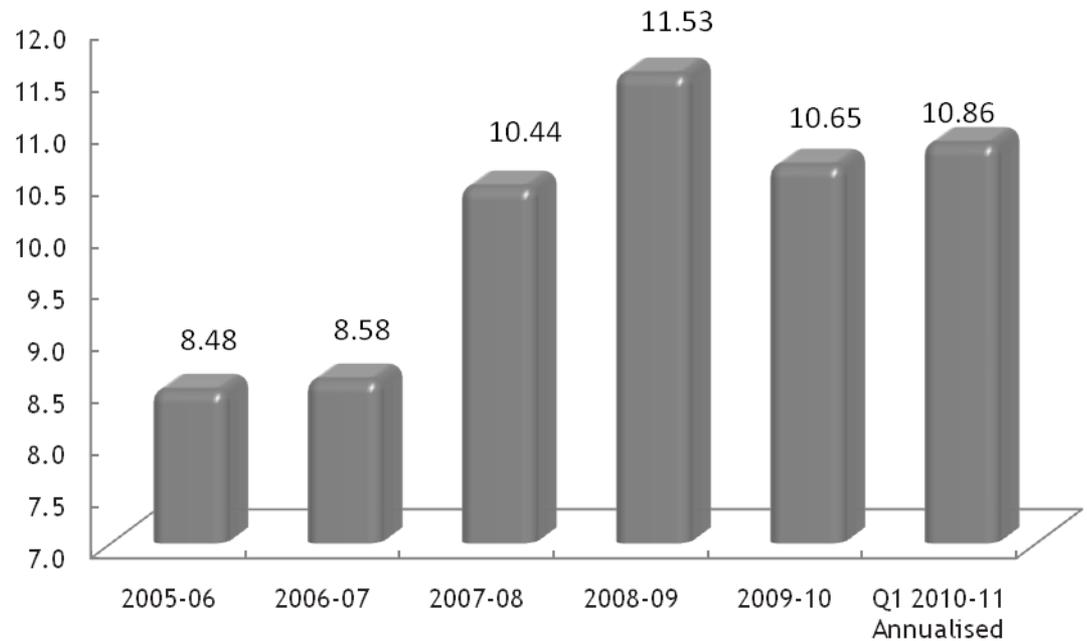
# Cost of Deposits(%): Stable



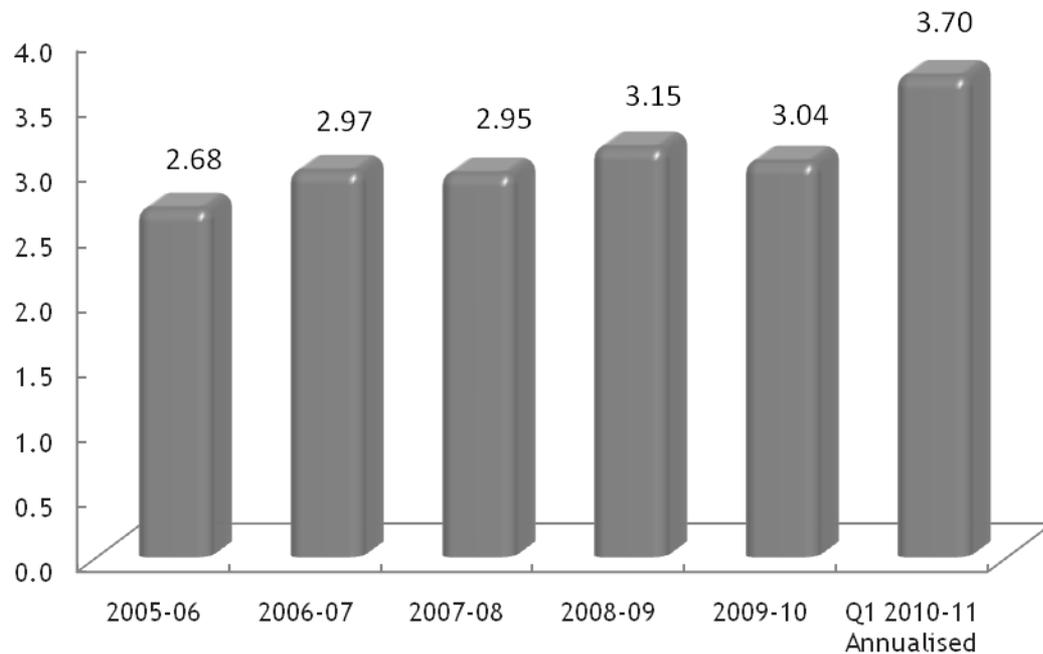
# Cost to Income Ratio (%): Sharp drop



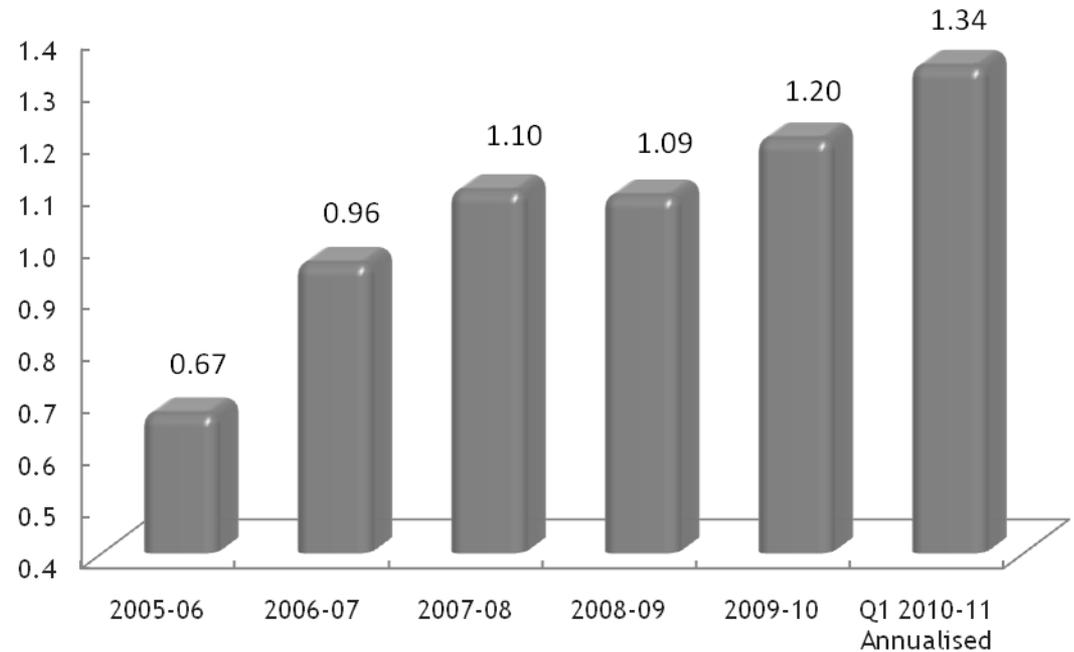
# Advances Yield (%) Increasing



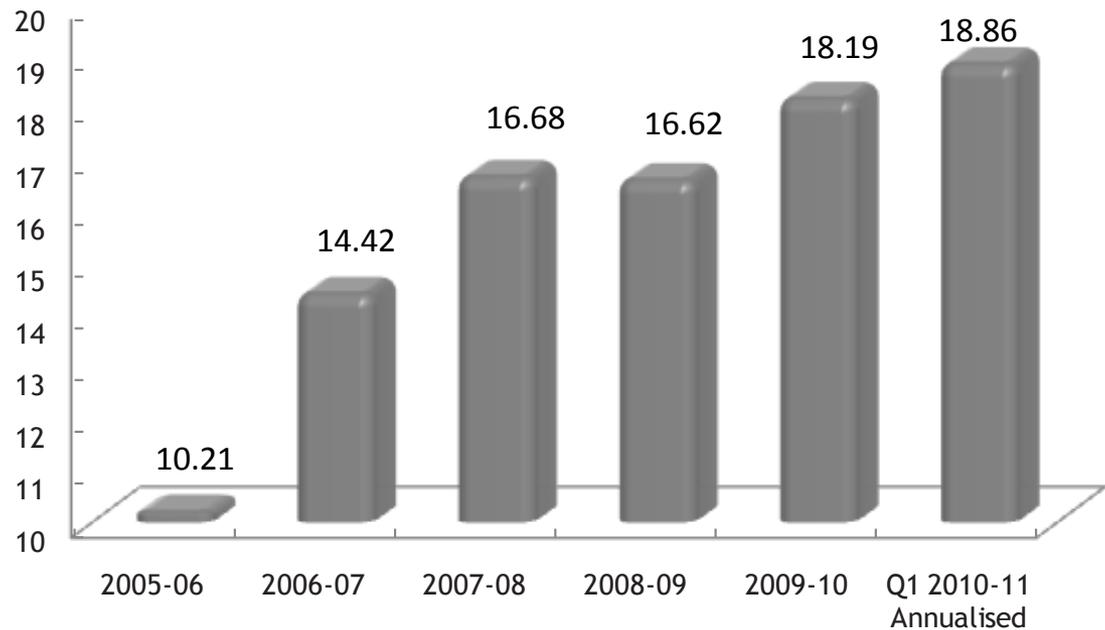
# NIIMs(%): Rising



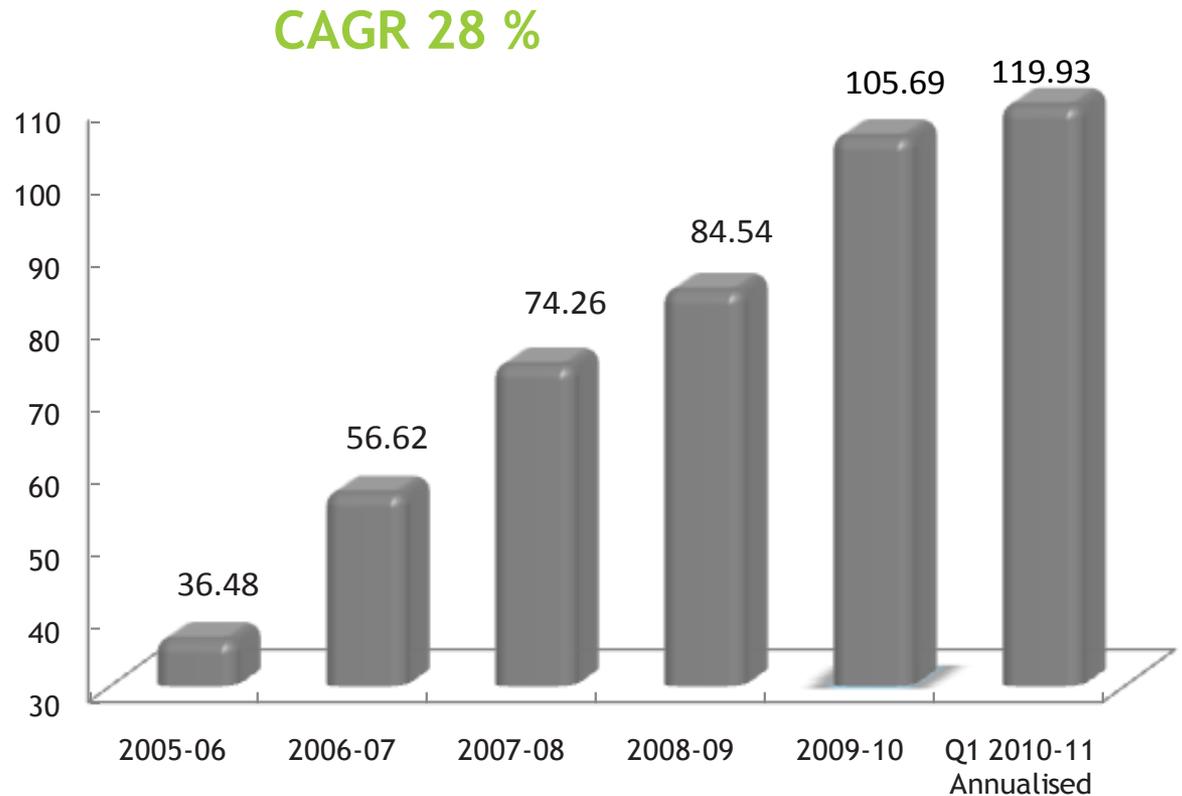
# Return on Assets (%): Consistent rise



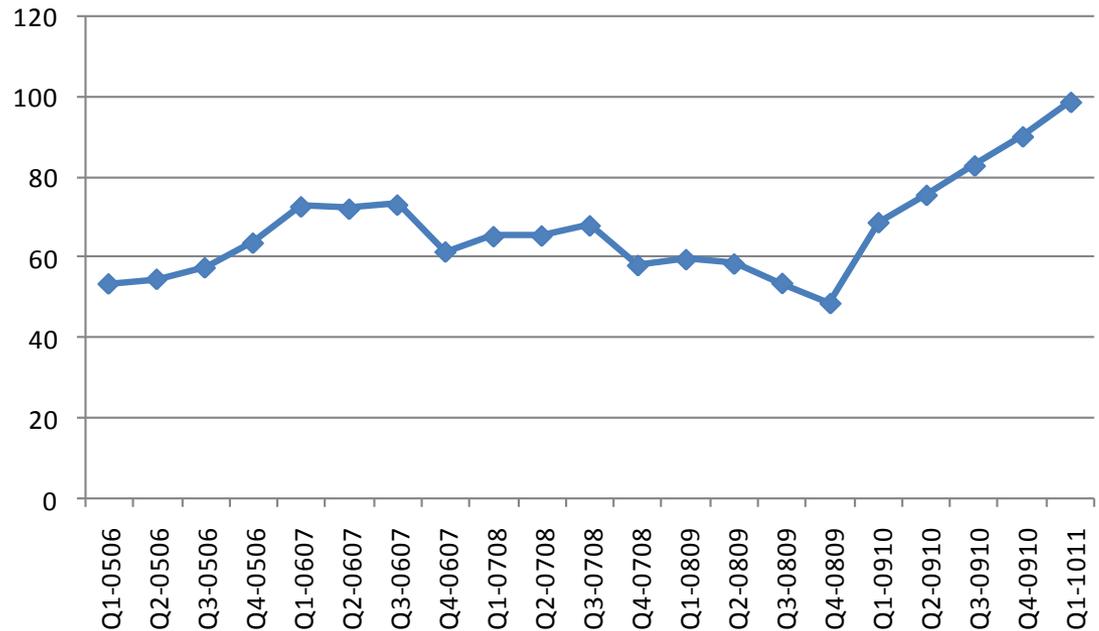
# Return on Equity (%): On the rise



# Earnings per share (Rs.): Steady growth



# NPA Coverage (%) International levels



\* Ratio from Q4 - 0910 onwards includes Technical Write-off

# Financial: Valuation Measures

	2005-06	2006-07	2007-08	2008-09	2009-10	Q1 10-11
Earnings per share (Rs.) (Ann)	36.48	56.62	74.26	84.54	105.69	119.93
Net Asset Value (Rs.)	371.20	414.36	476.28	541.04	621.00	650.98
Adjusted Book Value (Rs.)	343.43	374.43	434.30	481.74	607.73	649.32
Price to book value ratio	1.23	1.73	1.35	0.91	1.22	1.19
Price to adjusted book value ratio	1.33	1.91	1.48	1.02	1.25	1.19
Price Earning Ratio (on Ann EPS)	12.50	12.64	8.65	5.80	7.18	6.44
Market Capital to Deposits (%)	9.41	13.77	10.89	7.21	9.88	9.94
Market price as on date (Rs.)	456.05	715.85	642.10	490.65	759.00	771.85
No. of Shares	48477702	48477702	48477802	48477802	48477802	48477802

# Profitability Measures

	2005-06	2006-07	2007-08	2008-09	2009-10	Q1 10-11
Net Interest Margins (%) (Ann)	2.68	2.97	2.95	3.15	3.04	3.70
Yield on Advances (Av) (%) Ann	8.48	8.58	10.44	11.53	10.65	10.86
Cost of Deposits (Av) (%) Ann	4.55	4.50	5.85	6.22	5.24	5.10
Return on Assets (%) Ann	0.67	0.96	1.10	1.09	1.20	1.34
Return on Equity (%) Ann	10.21	14.42	16.68	16.62	18.19	18.86

# Asset Quality

	Mar 2006	Mar 2007	Mar 2008	Mar 2009	Mar 2010	Jun 2010
Gross NPA (in Rs. mn)	3701.90	5018.30	4852.30	5592.70	4623.10	450.07
Net NPAs (in Rs. mn)	1338.70	1935.70	2035.50	2875.10	643.30	8.05
Gross NPA (%)	2.52	2.89	2.53	2.64	1.97	1.92
Net NPA (%)	0.92	1.13	1.08	1.37	0.28	0.03
NPA Coverage (%)	63.64	61.43	58.05	48.59	90.13*	98.72*
Gross NPA to Net Worth (%)	20.57	24.98	21.02	21.32	15.36	14.26

\* Including Technical Write-off

# Operating Measures

	2005-06	2006-07	2007-08	2008-09	2009-10	Q1 10-11
Operating Expenses to AWF (Ann. %)	1.36	1.35	1.31	1.34	1.44	1.59
Operating Expenses to Total Income (%)	19.00	18.08	15.06	14.56	16.62	17.84
Operating Expenses to Other Income (%)	311.00	232.47	164.73	192.15	138.71	182.71
Staff cost to Total Income (%)	10.59	10.69	8.43	8.62	10.55	12.48
Interest Earned to AWF (%) (Ann)	6.71	6.89	7.93	8.48	7.62	8.05
Non-Interest Income to AWF (%) (Ann)	0.44	0.58	0.80	0.70	1.04	0.87
Capital Adequacy Ratio (Basel I) (%)	12.14	13.24	12.80	13.46	14.81	14.83
Tier I (%)	11.76	12.60	12.14	12.77	11.91	12.03
Tier II (%)	0.38	0.64	0.66	0.69	2.90	2.80
Capital Adequacy Ratio (Basel II) (%)				14.48	15.89	16.14
Tier I (%)				13.80	12.79	13.11
Tier II (%)				0.68	3.10	3.03

# Efficiency Measures

	2005-06	2006-07	2007-08	2008-09	2009-10	Jun 2010
Cost to Income Ratio (%)	44.57	40.13	38.24	37.81	37.60	37.26
CD Ratio (%)	61.67	67.79	66.04	63.42	61.92	61.22
CASA Ratio (%)	34.17	37.02	39.16	38.11	40.69	37.84
Business per Employee (in Rs. mn)	55.57	61.74	62.82	70.72	77.41	77.82
Net profit per Employee (in Rs mn) (Ann)	0.26	0.40	0.48	0.54	0.66	0.75
Business per Branch (in Rs. mn)	845.60	937.30	934.60	1011.90	1124.90	1125.50
Net Profit per Branch (in Rs. mn) (Ann)	3.94	6.09	7.09	7.69	9.56	10.79

# Snap shot comparison

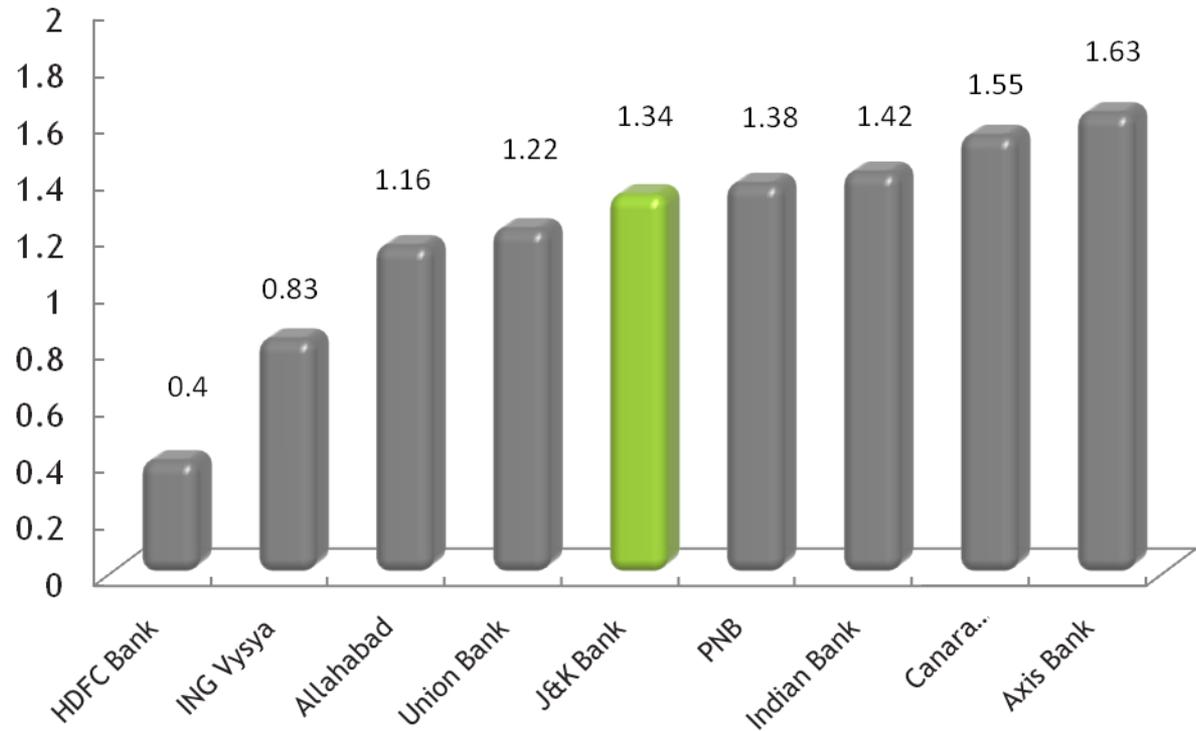
Performance Indicators	2004	2010
Return on Assets (%)	0.45	1.34
Return on Equity (%)	9.70	18.86
NPA % Advances	1.02	0.03
Coverage (%)	38	98.72*
Cost to Income (%)	46.6	37.3
CASA (%)	28	37.84
NIIMS (%)	2.2	3.70
EPS (Rs.)	32.5	119.9
Net Profit (Rs. bn)	1	5

# Strategic shift: PEER REVIEW



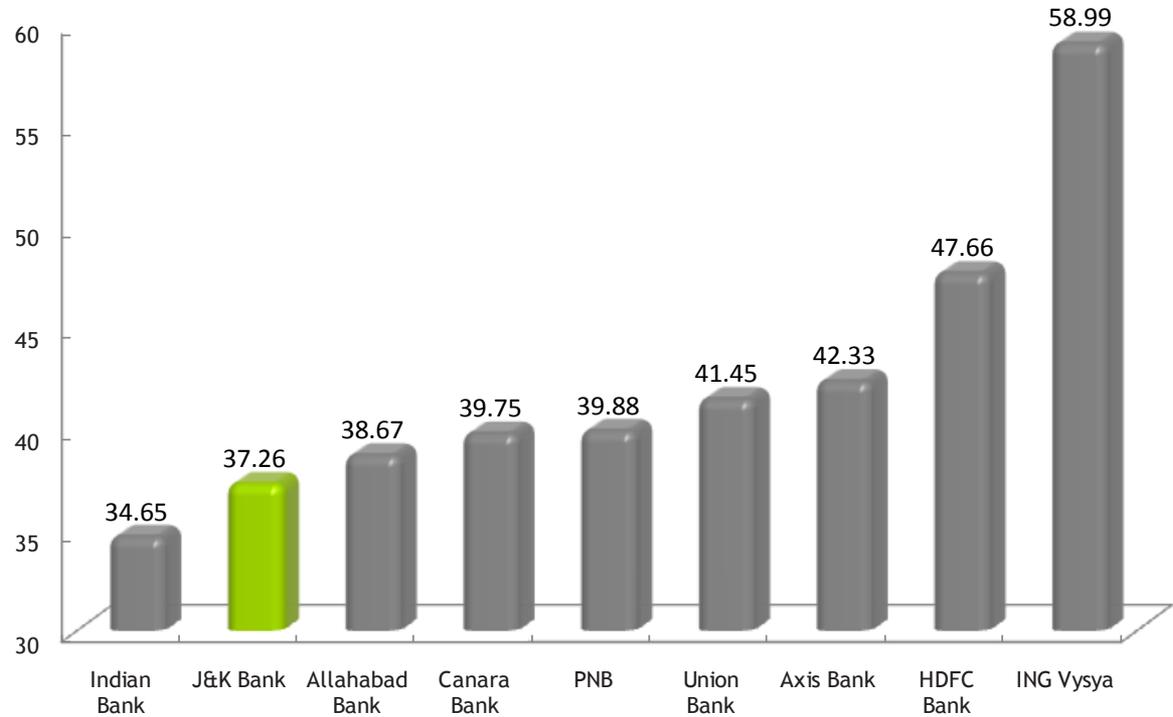
# Return on Assets (%) (Annualised)

For Quarter ended Jun, 2010



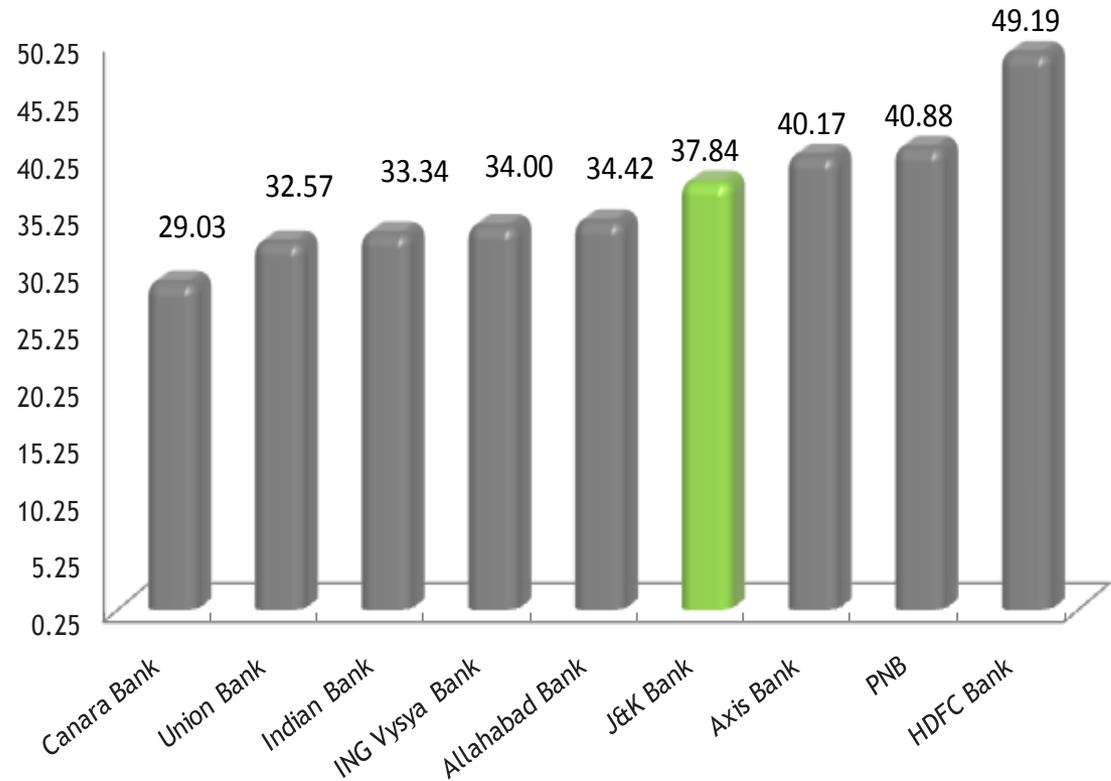
For Quarter ended Jun, 2010

# Cost to Income (%)



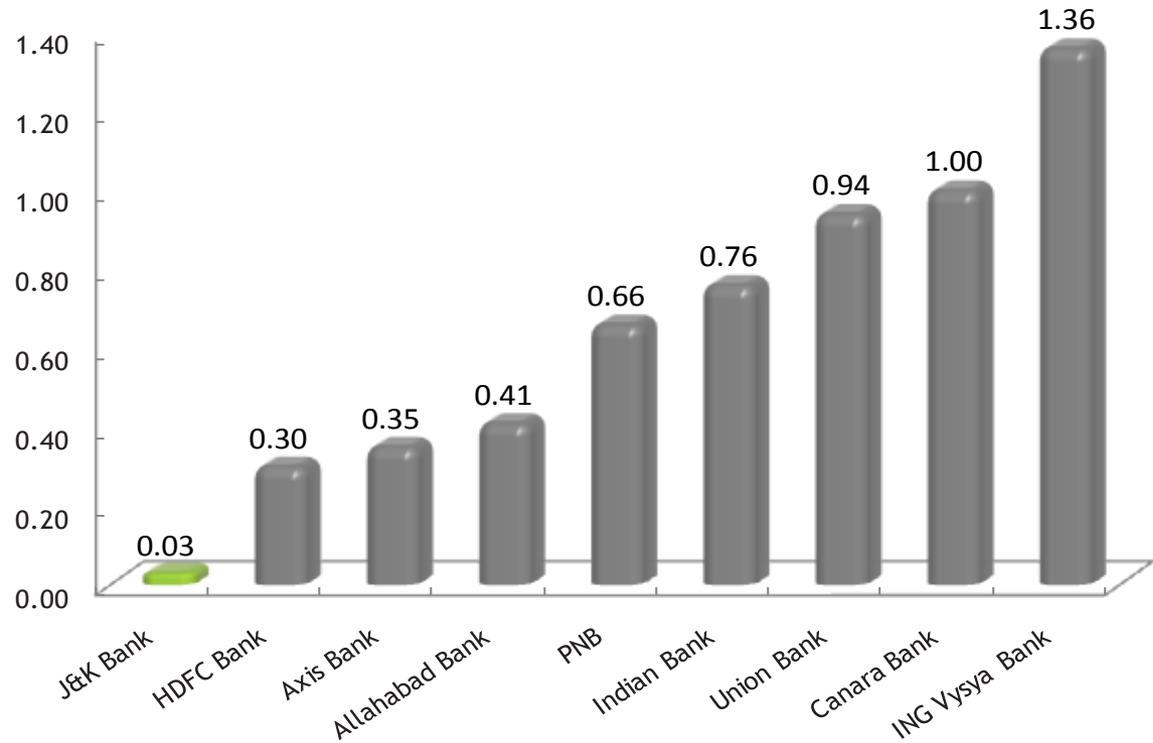
# CASA Ratio (%)

As on Jun, 2010



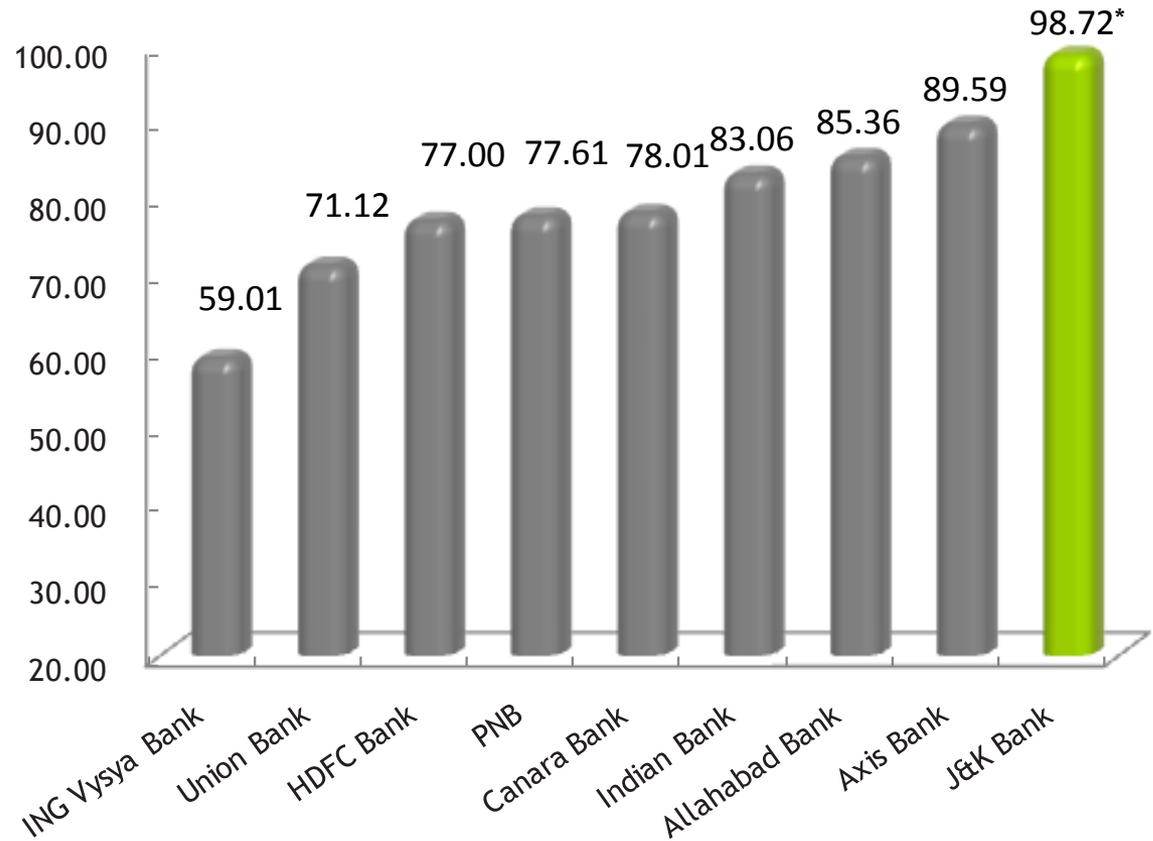
# Net Impaired Loans (%)

As on Jun, 2010



# Coverage Ratio (%): Highest in India

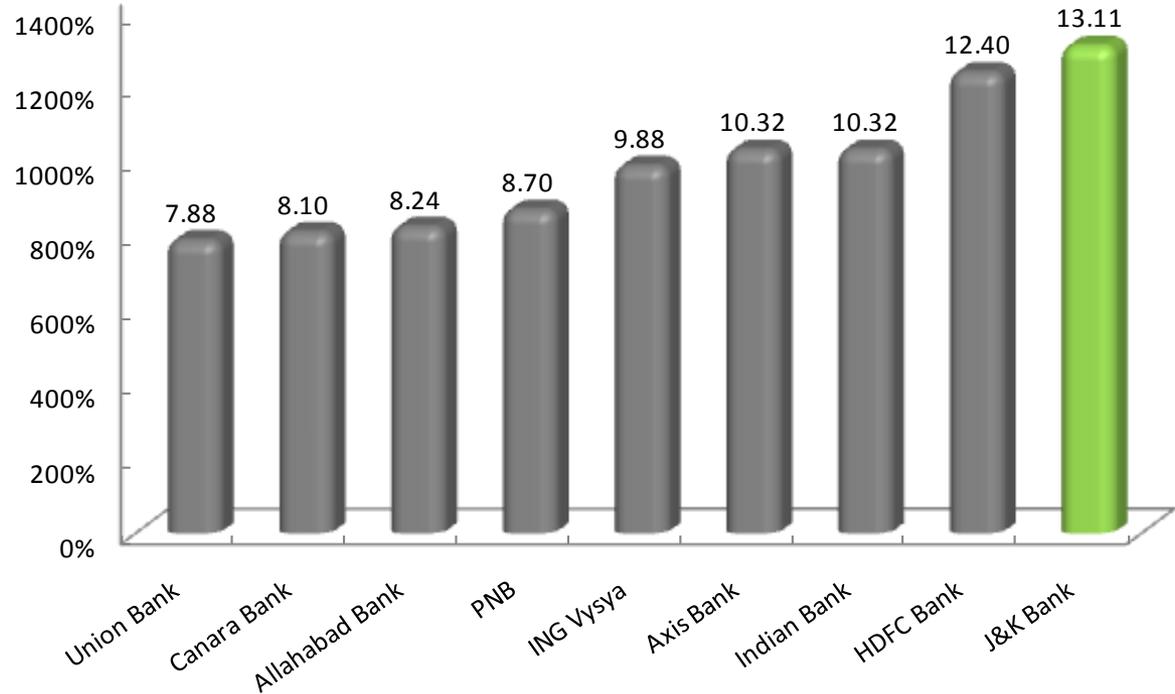
As on Jun, 2010



\* Including Technical Write-off

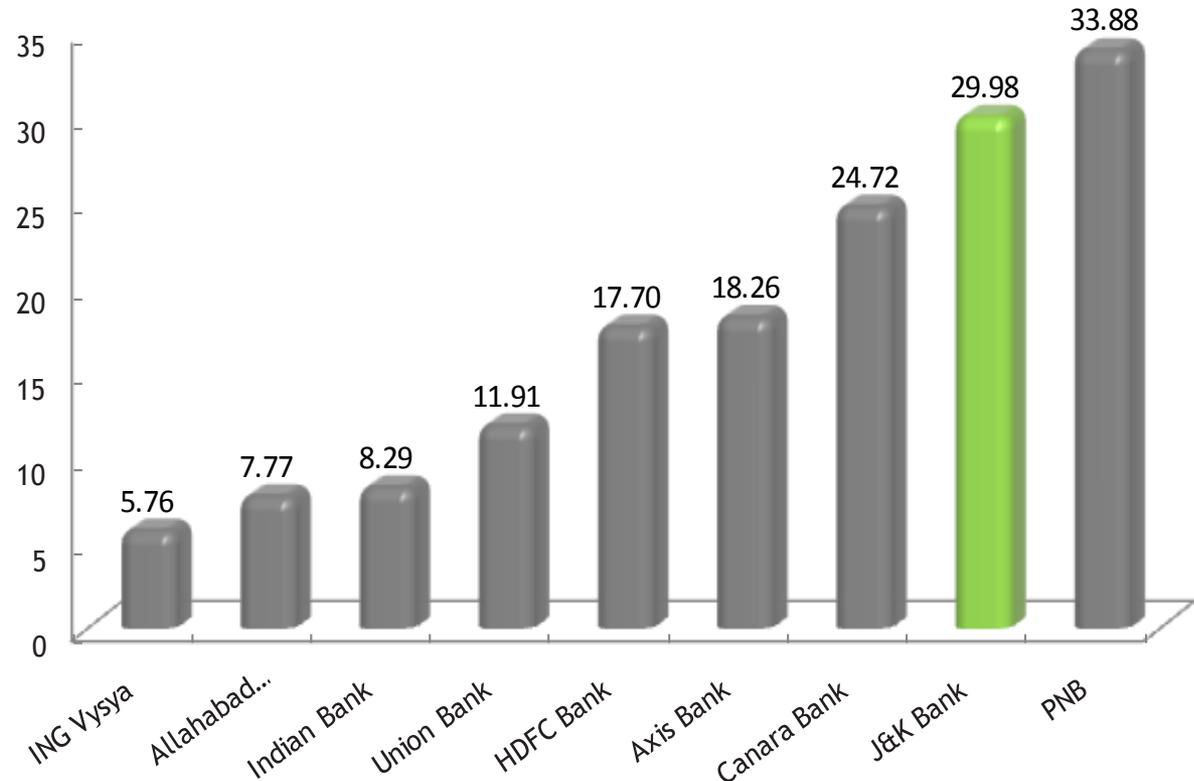
# Tier I Capital (%) (Basel II)

As on Jun, 2010



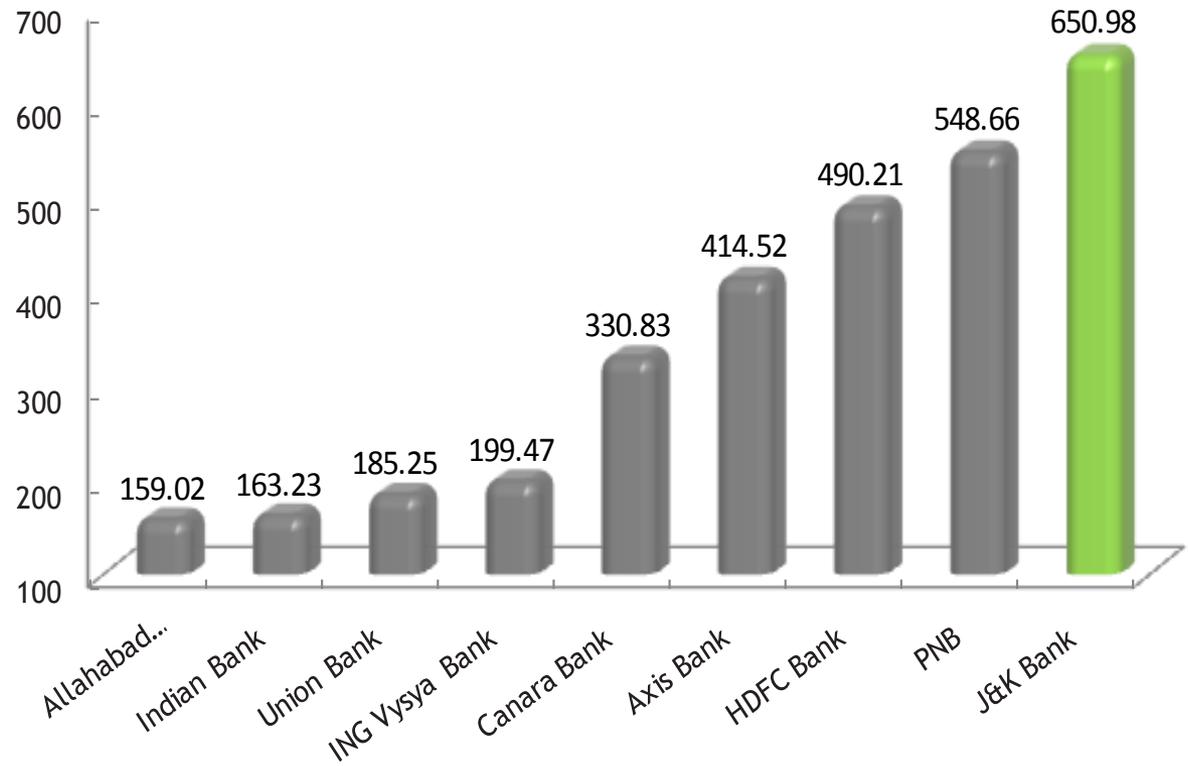
For Quarter ended Jun, 2010

# Earnings per Share (Rs.)



# Book value (Rs.)

As on Jun, 2010



# Phase II (2009-2012): Growth

- Phase I completed

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- Earning side of the balance sheet among the top three in the banking industry.

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- Phase II of strategy: Growth was to start in 2009; deferred due global and national macroeconomic environment

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- Tier II issue of Rs. 6 billion; preparing for CD growth

# Plans ahead



# Ground work for Growth

- Raised Rs. 6 billion as long term resource in the form of Tier II capital

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- Making liabilities the driver

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- Improving CD ratio

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- Insulating earnings from environment
  - Linking asset to local needs
  - Linking liabilities to local sources

# Phase II: Size and Structure

- Business growth
  - Specialist bank in ROI
  - Universal Bank in J&K

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- Focus on size
  - Inorganic growth
  - Organic

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- Structural reorganization
  - Towards a financial conglomerate

# Carving a niche, nationally

Nationally, focus on:

- Under-serviced areas with high turnover

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- Specialised sectoral lending

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- Specialist branch chain – leather, grains, spices

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- A specialist bank outside

# Specialist strategy

- Leveraging intellectual capital by replicating J&K commercial agriculture lending in rest of India

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- Mismatch between growth sources and credit supply

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- High growth and yield areas under-serviced in terms of credit

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- Major sectors like plantations and commercial agriculture still financed informally

# The J&K edge

- Normal banks have corporate, SME and retail banking divisions
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- Comparatively, we have corporate, SME and special banking divisions

# Third party products

- Make branch network a distribution channel for financial products

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- Reduce incentive for major banks to enter J&K

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- Beef up non-interest incomes

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- Reduce income volatility

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- Make assets sweat harder

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- Improve business per branch per person

# Investment banking

- Leveraging our core competence of domain and geographical expertise, and having
- 
- J&K Government a captive client
    - State Government investing USD 240 billion in power over the next four years
    - Mandated to take Power Development Corporation public

# Interesting inorganic opportunities

- Converting J&K Gramin Bank into an MFI

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- Making 1,400 Common Service Centres as banking correspondents over the next one year

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- Exploring inorganic opportunities for JKBFSL to beef up earnings and increase momentum



**J&K Bank**

**THANK YOU**