Investor Brief for Dec 2023

A Very **Good Morning** and Warm Welcome to all the participants to the J&K Bank Dec'2023 Earnings Call on this very auspicious & special occasion when Ram Lalla Pran Pratishta is being held at Ayodhya.

First let me introduce my Management Team who are accompanying me on this call;

Our Executive Director, Mr. Sudhir Gupta

Corporate Credit Head, Mr. Ashutosh Sarin

Commercial & Consumer Credit Head, Mr. Narjay Gupta,

Impaired Assets Portfolio Management Head, Mr. Shujaat Andrabi

Deposit & Liability Management Head, Mr. Shafaat Rufai

Chief Financial Officer Mr. Pratik Punjabi

And Chief Risk Officer Dr. Altaf Kira.

As per Analyst forecasts, India is expected to be the fastest-growing major economy over the next three years with growth rates ranging from 6.5% to 7% and is poised to become the world's third largest economy by year 2030 .

Overall Credit growth in the country has been robust in Q3 as well, However, lagging deposit growth and increase in Credit-Deposit ratio is being viewed as a concern by the Regulator. Rising cost of funds is also somewhat crimping the profitability and interest margins for most lenders. During the quarter RBI flagged system-wide high growth in some components of consumer credit and as a counter-cyclic measure raised Risk-Weights for unsecured consumer loans and banks' exposure to NBFCs. This significantly impacted the CRAR of banks with varying intensity depending upon their level of exposure to such segments.

While the J&K and Ladakh growth story is shaping up fast with establishment of rail links to connect land-locked Kashmir with rest of the country, yet the weather this year played a dampner – no snowfall impacting the winter tourist inflow to the valley. However, the pilgrim rush to the Mata Vaishno Devi shrine continues unabated. Met department has predicted a wet spell towards end of this month which is bound to bring some cheer for the tourist industry and the agriculturists.

December quarter & 9-Month results of the Bank reflect business growth mostly aligned with the Industry especially on Credit front. Advances growing @ 15.6% YoY and deposits slightly lagging @ 9%. The Bank still has the lever in the form of low Credit-Deposit ratio to expand credit at a faster pace than deposit growth. Despite challenges on the liability front, Our CASA ratio is hovering above the 50% mark sustaining the previous quarter level.

Advances growth has been broad-based – both in Regional & Sectoral distribution. While JK loan book has grown by over 12%, RoI has registered 19% YoY growth. Among Sectors, Housing (21%), SME (21% - mostly driven by Services), Credit Card (24%) have been the major overall contributors. The thrust on Retail in RoI is evident from YoY growth of 24% in Housing and 36% in Car loans. The ratio of Retail to Corporate loans in our overall portfolio is 2:1.

The hallmark performance metric of improvement in Asset Quality has been further reinforced. Controlled Slippages of 1.29% (annualized) for the 9-month period and the continuation of recovery momentum have resulted in our GNPA coming down to 4.84% inching towards our market guidance while NNPA of

0.83% is already well below our year-end guidance level. What needs to be appreciated here is that this has been achieved without resorting to any Write-Offs.

Even in the Restructured NPA Loan book, there has been upgrade of about Rs. 100 crore during Q3. It would be pertinent to mention that the two accounts of Adani Power (Maharashtra & Mundra) which had been subjected to flexible structuring and had outstanding balance of about Rs. 175 crore at end of last quarter also got adjusted during the December quarter.

For infusing more strength & resilience to the Balance Sheet, the Bank has made additional provisions of Rs. 118 crore over and above the RBI stipulations for Non-Performing Loans during the quarter. Besides reducing the subsequent aging provision requirement, it has resulted in improving the Coverage Ratio to 91.61% and reducing the overall Net NPA to just Rs. 741 Crore.

To take care of any stress buildup, Bank is also maintaining buffer of additional provisions of Rs. 113 crore for Standard Assets over the Regulatory requirement plus a Floating Provision of Rs. 124 Crore. The total contingency provisions that the Bank is maintaining are Rs. 670 Crore.

The Credit cost, as a result of significant provision write-back is ZERO and it is expected to remain benign during the last quarter as well.

On the Capital Adequacy front, Bank raised Rs. 750 Crore Equity capital via QIP in Q3. Pursuant to Listing & Trading approvals by BSE and NSE for the shares issued by the Bank under ESPS-2023, we have also reckoned the Rs. 338 Crore in the core capital as on Dec 31, 2023. However, the impact of increased Risk-Weights on Consumer Credit & exposure to NBFCs consumed significant additional capital resulting in Capital Adequacy ratio of 14.18% as on Dec'2023. The CRAR of 14.18% does not include the 9-month profit figure of Rs. 1128 crore which would result in increment of 138 basis points in the ratio.

Here, I would emphasize that we have applied the increased Risk-Weights as per Regulatory direction although our Consumer Credit portfolio is mostly in the form of loans to the government employees of J&K and Ladakh UTs with almost NIL delinquency and by virtue of subsisting MoUs with the UT governments can be deemed as adequately secure.

The income statement is reflective of good growth in Interest Income @ 21% YoY for the 9-month period, and 18% for Q3. However, due to higher rise in Interest Expended at 32% YoY for 9-Month period and 35% YoY for Q3, Net Interest Income has increased by only 11% YoY for the 9-month period. The surge in Interest Expended is the outcome of major repricing of maturing term deposits, reinvestment of overdue deposits, mobilization of fresh term deposits & CDs at higher rates especially in the Q2 plus some internal cannibalization full impact whereof was borne in Q3. As on Dec'2023, average cost of Term Deposits of the Bank(excluding CDs) is 7.24% and 82% of the Term Deposits are in the 7% to 8%, and above 8% interest rate buckets. Thus there is limited scope of further repricing of Term deposits and with redemption of CDs during the current quarter, plus scheduled maturity of Rs. 10700 crore term deposits from the high-interest rate buckets (7% & above), the Cost of Deposits is expected to remain within 4.75% to 4.80% for the Q4 thus signaling a plateau with bias towards tapering going forward. However, our endeavor will be to improve it by augmenting our CASA further which is expected to be aided by the release of government payments in Q4, realization of fruit payments, and fructification of the recently conducted PoS / QR campaigns.

Owing to recoveries in Technically Written-Off Loans getting delayed, other Income for the current year 9-M period is down by 10% YoY while it is 41% down for Q3. However, anticipated resolutions of some TWO accounts in the Q4 shall improve this metric. Operating Profit for the 9-Month period is 14% higher than previous year while PAT for the period is 57% higher backed by benign Credit Cost – with nine-month profit for current year converging towards the full year PAT of last year. The RoA as a result has improved to 1.06% for 9-Months & 1.15% for the quarter.

There is some good news on the Employee Cost front also. The consultant hired by the Bank has identified sizeable excess provisions in some superannuation funds (Gratuity in particular) and advised not to make additional provisions towards this fund. The consultant has also advised shifting to purchase of Non-RoC annuities for Pension payments which shall result in reduced recurring costs on a sustained basis. The Staff Cost to Total Income has improved to 20.72% for Q3 vis-à-vis 26.79% in Q3 of previous fiscal. Despite lower growth in net-total income, the Cost-to-Income ratio has moderated slightly to 62.36%.

All-in-all, the stage is set for a good culminating quarter for the current FY and we are sure to improve further and deliver better results.

Once again I thank you all and acknowledge your guidance, support and trust and we expect it to continue in the coming days.

I will be glad to have your questions now…………Thank you very much.

****