



## “J&K Bank Q3 FY14 Earnings Conference Call”

**February 11, 2014**



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*J&K Bank  
February 11, 2014*

**Moderator:** Ladies and Gentlemen, Good Day, and Welcome to the Jammu & Kashmir Bank Limited Q3 FY-'14 Earnings Conference Call hosted by Batliwala and Karani Securities. As a reminder all participant lines will be in the 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 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. Anand Dama from Batliwala and Karani Securities. Thank you. And over to you Mr. Dama.

**Anand Dama:** Thank you, operator. On behalf of B&K Securities we welcome everyone to the J&K Bank Post Results Conference Call. We have with us today Mr. Mushtaq Ahmad – Chairman and CEO; Mr. Parvez Ahmad – Executive President, and other senior management team. First, I would request the management to start the call with the opening remarks, after which we can have a Q&A session. Thanks. And over to you sir.

**Mushtaque Ahmed:** Thank you very much. Good morning everybody. I am also having within my team Mr. Arvind Gupta – he is zonal head for Jammu and then Mr. **Shizad** is also there, he is the Private Secretary in my office. I think as far as results are concerned we adopted the results on Saturday that is 8<sup>th</sup> of Feb and the broader results that the deposits have increased by around 11% I am giving you the figure as compared to December 2012 from Rs.57,000 crores to Rs.63,000 crores and Advances really even under these odd and very-very difficult times we have been able to register a growth of say 21.50% as far as our Credit Book is concerned that is from Rs.35,600 crores to Rs.43,300 crores; only thing is that this Credit has picked up in the last summer itself; and overall business has increased by say around 15%; Interest Income has grown by say for 9-months I am giving you figure year-on-year basis 11.89% from Rs.1,533 crores to Rs.1,715 crores, and total income 11.04% grew up, interest expanded of course, I think this is an area where I think everybody would need some explanation from the management against last year's Rs.939 crores this year it has been Rs.1,069 crores – here I would like to give some explanation once I am through with my figures and presentation – operating expenses of course have increased by say 17% in the quarter; total expenses of the bank have increased by say 14.5% from Rs.1,189 crores to Rs.1,362 crores. Operating profit has been flat at a growth of 1.40%, but here is an explanation for it, net profit of the bank has grown by say 11.02% from Rs.289 crores to Rs.321 crores. Anand, I think here you would like to see that the gross NPAs of the bank I think we have been properly able to manage and maintain these NPAs; last year it was Rs.582 crores and this year it is Rs.725 crores, but if you compare this figure let us say September or even June I think there has been marginal increase of around say around Rs.16 crores only. The bank has been very-very efficient and effective as far as the maintenance of NPAs recovery is concerned, and unfortunately despite our best of efforts there was one major account which slipped that was around Rs.100 crores and this whole figure has been despite that fall. The gross NPAs now stand at Rs.725 crores, net NPAs are at say Rs.97 crores, Gross NPA ratio which was 1.61% last year is now at 1.65% and net

NPAs have also increased from 0.14% to say 0.22%. Net NPA coverage ratio as we had committed that it will remain about 90% is at 90.24% against 94.21% last year. CASA ratio almost has remained same despite growth in the Deposits; it is at say 39% against last year's (+39%). CD ratio of course this is one area where you would be quite happy and to know that last year CD ratio that was at 62.48% it has increased to around 69% and then again earnings per share against 59.70 it is 66.28 this time. Return on assets almost flat at 1.87% to 1.88%. Return on equity almost there is a slight decline from 23.63% to 22.80%. Net Interest Margin of course I think we expect that for the 9-months it is going to be around 4.18% but for this quarter it has come down to 3.97% but for the 9-months say last year we had 3.93% but this year it is 4.18%. So it has been increased but slight decline as far as this quarter is concerned. Then again another thing that this cost-to-income ratio I should say that in this quarter it has gone up around the whole, it has gone up around 34.98% to 37.31%, there has been expenditure on account of Establishment Expenditure this year because of "Platinum Jubilee" we had to announce some extra increments in favor of our staff across the board. So it has slightly added but I think with the passage of time it will again come down. Capital Adequacy under Basel III is 13.01%, and under Basel II it is 13.44%. Last year I think the restructured book in the beginning of the year it was around December 1365 if you say March it was there but...no no I think from 1495 we are coming down to 1450 this is now I would like to explain that there had been one account that is south-India based which was restructured account but finally it has come and so it had to be downgraded to NPA level and we had to take it out of that restructured book and then classify that a non-performing asset. So as a result of that the restructured book has come down but there have been upgradation, there have been additions and recoveries and all that, but under NPA despite this thing this Rs.100 crores hit we have been able to increase, our gross NPAs have just increased by say Rs.16 crores only, this speaks about efforts that the management has been putting in across all the zones and that way we have been able to just properly maintain this NPA book. Now I think there is one concern I am sure question should also emerge, but I must say that there has been increase as far as Interest Expenditure is concerned at the same time there has been some decrease as far as Interest Income is concerned, I would say that in June quarter itself we repaid Deposits to the extent of Rs.5500 crores, as a result we kept under control our Interest Expenditure which was say Rs.993 crores in March, Rs.969 crores in June, Rs.968 crores in September, again there was jump in it, and in December '13 it went up to Rs.1069 crores. The reason being that we needed some Deposits but we mobilized Rs.4,500 crores Deposits mainly 3<sup>rd</sup> quarter beginning and end of the 2<sup>nd</sup> quarter. I think there had been slightly higher mobilization of Deposits to the extent of Rs.1,500 crores to Rs.2,000 crores. We needed the Deposits because we had to go for some disbursement; we made Loan disbursements to the extent of Rs.4,000 crores which was mainly done in the 3<sup>rd</sup> quarter in the last say 30 to 40 **9:50**. So as a result of that you see that Interest Income has given us this better results also, we must say that for the 4<sup>th</sup> quarter, Interest Income has reached Rs.1,715 crores against say Rs.1,624 crores only in June, but I am sure with the passage of time we are going to have better results as far as 4<sup>th</sup> quarter is concerned. So whatever extra we have mobilized that remains there, but there are going to be

more disbursement as far as Loans are concerned, and as a result of that we expect that Interest Income will increase substantially in the 4<sup>th</sup> quarter, and operating profit would also go up, and I am expecting that net profit would also go up, and at the same time our efforts in respect of recoveries, upgradations and all that, at the moment this momentum is very-very much in place, and we expect that we will be in a position to either maintain the existing NPA level or even bring it down. So those are the broader things that I wanted to share. I would now like to take questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Hardik Shah from Birla Sun Life Insurance. Please go ahead.

**Hardik Shah:** Sir, I would like to ask about the Advances growth. From which sector has this growth come from?

**Mushtaque Ahmed:** I must say that the growth from J&K is stronger as compared to growth in rest of India but if you recall in J&K the total we have been participating in the overall economy of J&K state and then rest outside it is mainly this... I must again repeat that it is public sector undertaking and very-very renowned corporate houses, big names it is only in those cases.

**Hardik Shah:** So Infra and Iron & Steel sectors contribute to your major corporate book portfolio if we have to speak about that then?

**Mushtaque Ahmed:** No, I think it has been diversified, it is not concentrated only in Infrastructure, we have been in trading, we have been for example you have Food Corporation of India, Power Finance Corporation, these higher where we have already sanctioned limits, and they are also picking up those limits by and by. So mainly it has been in those areas, but if you say that we have adopted any new Infrastructure, I would not say, yes, on that account.

**Hardik Shah:** But sir has there been any sale of assets to asset construction companies in this quarter?

**Mushtaque Ahmed:** No.

**Hardik Shah:** Top 5 say single borrow exposure as a percentage of your total Loan Book?

**Mushtaque Ahmed:** The top would be this Food Corporation of India and we have got this NHPC is there, Tatas are there, to an extent Reliance is there, even Birla is there.

**Hardik Shah:** Increase in this provision for that staff cost is a one-time thing right, 21 crores?

**Mushtaque Ahmed:** That is naturally you are expecting that there has to be a bilateral agreement which will take place from November 12 that is going to be on a IBA level and we are a part of that, one part.

The other part is we had to grant extra increment to all the staff members across the board as a token of this participation, their activities, their hard work in the “Platinum Jubilee.”

**Moderator:** Thank you. The next question is from the line of Alok Kapadia from Antique Finance. Please go ahead.

**Alok Kapadia:** Just had two questions; sir, one is that just want to understand why there is sudden surge in the cost of Deposits in the current quarter?

**Mushtaque Ahmed:** I just tried to explain that we had to mobilize some Deposits in second quarter towards its end and mainly this is mobilization on account of these Term Deposits and in today’s value the Term Deposits means something between 9% to 10%, and if your cost of Deposits is say 6% or slightly higher than that, and once you are contracting Deposits in the range of say 9-10% so naturally that is going to be **aspire 15.41** as far as cost of Deposits is concerned.

**Alok Kapadia:** What is the proportion of Bulk Deposits in the overall Deposits?

**Mushtaque Ahmed:** First, this Demand Deposits I think it is out of the total say Rs.63,000 crores portfolio your Demand Deposits is say Rs.5,000 crores, Savings Bank is something like around Rs.80,000 crores, Term Deposits Rs.34,000 crores, and within that Term Deposits I should say around 20% should be say Bulk Deposits.

**Alok Kapadia:** And sir last question what is the outlook on margin sir?

**Mushtaque Ahmed:** Margins this time, yes, it has been under pressure because of this mobilization of some of the Deposits but going forward I think our Net Interest margin should increase, it should be above 4%, otherwise also if you just take my Net Interest Margin year-on-year basis from 3.93 I am moving to 4.18, only thing is because of this mobilization of some of the Deposits in the third quarter I think the margin slightly came under pressure and it came down to 3.97. Otherwise also when we are taking an outlook about the margin I think one quarter would be too short a span of time to just evaluate these things and going forward it should remain above 4% always.

**Alok Kapadia:** There are no interest reversals in the interest earned line, right?

**Mushtaque Ahmed:** No.

**Moderator:** Thank you. The next question is from the line of Jignesh Shial from IDBI Capital. Please go ahead.

**Jignesh Shial:** First, just wanted to clarify, you said there have been one south-based company which has slipped from restructured to NPA, the quantum is Rs.100 crores right or that is different?

- Mushtaque Ahmed:** Precisely I think it should be Rs.94 crores or 95 crores.
- Jignesh Shial:** So this total slippage of around Rs.140 crores during this quarter of which Rs.94 crores is this particular account?
- Mushtaque Ahmed:** Yes exactly.
- Jignesh Shial:** And the rest would be sir, is it different accounts?
- Mushtaque Ahmed:** This is across, I think smaller accounts and all that, and sometimes you see that in one quarter the account may slip, the other quarter you can upgrade the account recoveries overdues and all this is concerned, and as far as this current quarter is concerned we are expecting lot of recoveries, upgradations and all that, but at the same time I think we are passing a stressful period. So therefore also you must remain prepared for any untoward situation because we are also participating in the same situation.
- Jignesh Shial:** So is there any definite pipeline that you are seeing for the NPA or for the restructuring?
- Mushtaque Ahmed:** No, as far as NPAs are concerned, I would say that this quarter should be better for the bank but, yes, as far as restructuring is concerned I think because of this some regulatory procedures and all that from '15 onwards you will have different set of structures, so many people are rushing for this restructuring and all that, and we being part of some of the accounts as far as consortium is concerned, yes, I think we should expect something but if you specifically ask J&K Bank related issues, no.
- Jignesh Shial:** Secondly, now since you are saying the margins has been little dipping this time because of around Rs.4,500 crores Bulk Deposits that you have accounted during this quarter, now then you are saying that disbursements will be coming up for that in this Q4 and then accordingly the margin should be improving further, is it right?
- Mushtaque Ahmed:** Margins continue to improve... I think you have raised a very important and very relevant question, I should say that we have been able to disburse Loans to the extent of say around Rs.4,000 crores beginning say September something in December, and the full impact of the income for this must emerge only in the current quarter, and then we are expecting that there is going to be further disbursements as far as our Loan Book is concerned, we do expect that this quarter it should give us better income and there could be say a check on Interest Expenditure.
- Jignesh Shial:** Since you already informed that major of your customer base is either the Large Corporates or the PSU side, so if that is the case are you seeing any pressure coming up on the yields on advances specifically or there is no such thing because generally they are the AAA rated kind of companies so yields are generally lower?

- Mushtaque Ahmed:** As far as these bigger corporates are concerned only we have been going for these corporate, and I know in certain cases we have advance money at just base rate that is 10.25% in our case, and safety and security in respect of these advances is paramount for us, but with our cost of Deposits, this CASA and all, even at this level I think it is very very attractive for the bank and I think we will be going into that, but if you want to have more yield you contract more risk, and I think we will have to properly calculate and manage the risk and do not increase the risk for the portfolio or for the bank.
- Jignesh Shial:** Lastly, what are your branch expansion for this quarter and for FY-'15 and where you want to grow now?
- Mushtaque Ahmed:** Yes, already if you see the number of branch in last 1-year we have been able to add something like 90 branches, probably 30 to 40 branches we would be in a position to add during the current quarter.
- Jignesh Shial:** And that would be majorly in the State of J&K or it would be outside J&K?
- Mushtaque Ahmed:** Primarily J&K and outside J&K also, because this place is already identified and we will just formally inaugurating those parts.
- Moderator:** Thank you. The next question is from the line of Jigar Walia from OHM Group. Please go ahead.
- Jigar Walia:** Sir just to understand I missed out slightly when was this Bulk Deposits raised?
- Mushtaque Ahmed:** The bulk deposits I think it was raised somewhere in the month of August and September also, and naturally it did not have much of the impact in September quarter, so we had to just incur interest expenditure on the higher side in the last quarter Q3.
- Jigar Walia:** The Deposits increase which has happened in Q3 is the normal Deposit increase from Q2 to Q3?
- Mushtaque Ahmed:** I think we should have curtailed this at say Rs.3,000 crores but it went to Rs.4,500 crores and there has been an increase of say Rs.1,500 crores which we could have avoided but in any case I think then we have the disbursements and there are disbursements in the pipeline and I think we are going to utilize these funds.
- Jigar Walia:** Sir two questions; one is what is the cost of this deposits approx? And then in terms of disbursements where are the disbursements planned – is it like outside JK to Corporates and other projects or is it like...?

- Mushtaque Ahmed:** I think we can expect that there could be disbursements in J&K state also and also outside J&K state, and we can expect that from here onwards I think there could be disbursements to the extent of around Rs.4,000 crores to Rs.5,000 crores.
- Jigar Walia:** And sir can you give some idea in terms of cost of these deposits and yield on these disbursements?
- Mushtaque Ahmed:** Yield on disbursements will remain slightly on average basis it should be say between 12.50% to 13% but as far as cost of deposits is concerned I think would remain around less than 7%.
- Jigar Walia:** No, no, not the blended sir this incremental that we raised the excess funding.
- Mushtaque Ahmed:** Yes, yes I am talking of incremental and J&K state I think average it should be around 30% and outside J&K state it should be say around 12.25-12.50%.
- Jigar Walia:** Just Rs.1500-2000 crores of extra deposit that we raised 3000 crore extra bulk deposits...?
- Mushtaque Ahmed:** That has been between 9% to 10%.
- Moderator:** Thank you. The next question is from the line of Abhishek Kothari from Network Stock Broking. Please go ahead.
- Abhishek Kothari:** I just wanted to know branches addition have been 96, while only 14 employees have been added over the last 1-year.
- Mushtaque Ahmed:** No, I think there is some confusion as far as the number of employees is concerned, I think it should be slightly more than that, because in the first half year itself we have recruited something like 1600 people.
- Abhishek Kothari:** Then I guess the presentation...?
- Mushtaque Ahmed:** I think this figure has to be relooked and rechecked.
- Abhishek Kothari:** I just wanted to know what is our cumulative NPA from restructured book?
- Management:** Of Rs.103 crores we have provision of Rs.89 crores.
- Abhishek Kothari:** Is this capital adequacy ratio under Basel III of '13 inclusive of profits?
- Mushtaque Ahmed:** Yes, naturally profit is inclusive in it.
- Abhishek Kothari:** 9-months profit had been added to it?



- Mushtaque Ahmed:** I think so.
- Moderator:** Thank you. The next question is from the line of Kartik from Espirito Santo. Please go ahead.
- Kartik:** Just quickly on a broader question, how is competition shaping up in your home market which is Jammu and Kashmir? What we see is lot of private sector banks are opening branches more aggressively in at least Jammu region, any color on that will be useful.
- Mushtaque Ahmed:** No, I think when you are just studying the competition and the competitive environment and J&K economy at that time I would say that you must see the overall business that a particular bank has, and also we must study the graph of that business, if you see for last 10-15-years the graph of business held by J&K Bank whether it is in terms of Credit Book whether it is in term of Deposits I think we have been marginally increasing our share over the last 10-15-years and even more than that, and if you speak about competition I think there is a lot of hue and cry but actually if you see situation on the ground we have State Bank of India which is operating with say around 170 to 180 branches in J&K state and they have been there for last say around 60 to 70-years even prior to this partition, then we have Punjab National Bank and all such I think there are 42 banks operating in J&K state and it is there for last more than 40-years in this case. Of course, there have been some new entries like ICICI Bank has come 10-15 branches, then HDFC has come some 60-65 branches then Axis Bank has got few branches. I think as far as J&K Bank is concerned you should simply see my positioning in J&K economy that I am contributing to 68% of the Loan Book of the entire state, #1, and as far as Deposits are concerned we are holding around 63-64% percent of the total system of the Deposits that the system has, and rest is distributed between these say 41 banks. And going forward also and also see the sort of expansion that we had in our network in last two years we have been able to add say 200 branches but all the other banks despite their new branches and all that they have not been able to add more than say 50 branches in total accumulation I should say.
- Kartik:** The incremental business growth as well as on the profitability in the home market and this economic environment generally?
- Mushtaque Ahmed:** I think we passed through a very-very stressful year and the stress continues still, but minus this gas, oil and this Deposit mobilization I think our profitability would have been between 25-30%, and I am sure going forward with our viable operations and all that, we will be in a position even in future to lock our profitability between 20-25%.
- Kartik:** And sir are you confident that the incremental business growth will be primarily coming from the J&K and underlying economy support such kind of (+20%) growth sir?
- Mushtaque Ahmed:** We are interested to expand our operations more in J&K because we have very attractive margins which are over 6% but at the same time when you have surplus for J&K state and your credit absorption capacity within J&K state is linked, one part, the other I think rider I should

say is that the ticket size is very-very small. So since we have surplus, this surplus has to be deployed outside J&K state in different various sectors. So when we are growing in J&K state, at the same time we will have to explore viable avenues for deployment of surplus funds outside J&K state across various sectors.

**Moderator:** Thank you. The next question is from the line of Adarsh P from Prabhudas Lilladher. Please go ahead.

**Adarsh P:** Joined a little late, wanted to check on the Advances growth, outside non-J&K, it seems the Corporate Book there has grown by +20%. You all have been sounding a little bit caution on asset quality outside non-J&K. So, where is this growth coming from if you can just kind of give some color on that?

**Mushtaque Ahmed:** Outside J&K state, we have been maintaining that we are so much optimistic and we will be in a position to grow at say 20% outside J&K state but any growth between 15% to 20% would be okay outside J&K state, but within J&K state I am sure that we will be in a position to lock minimum growth of 25%.

**Adarsh P:** The question was more relating to what kind of growth is ....because you have been steadily adding Rs.1500 or Rs.2000 crores in that particular book on a quarterly basis, so just wanted to understand which sectors are you lending to or which kind of corporates are you lending to?

**Mushtaque Ahmed:** As far as J&K state is concerned, I think it is across all the components of the economy, but outside J&K state our priority would remain public sector undertakings and the top corporate houses in any sectors.

**Adarsh P:** I think this question may have been asked but within the existing reference to the CDR cell which is publicly known, do you all have a pipeline, with the names which all of us already...?

**Mushtaque Ahmed:** This question was raised sometime earlier as well. We are also members of big consortia accounts and if there is any surprise within that consortia we are going to face that situation but if you see there could be anything specific to the J&K Bank or it should be J&K Bank related I would say 'no.'

**Adarsh P:** But the question is you maybe a smaller member of a large consortium, but...

**Mushtaque Ahmed:** Exactly I say that. My word will not just impact the decision. So majority has to take a decision and we have to follow because I am a part of the whole situation but as of now I do not think, but at the same time the sort of situation you are moving through, the sort of situation you are facing, the economics environment when you are operating say less than 5% lower, under these circumstances, a lot of bottlenecks, whether those are on account of this policy decision, other things and all, everything is very-very much there. So therefore, as long

as stress is there not on the J&K Bank, of the banking units in the country I think we must remain prepared for surprises, shocks and stresses.

**Adarsh P:** So one more small question, in the fourth quarter we as a bank seem to be having higher credit cost and because of some write-off. So, I just wanted to understand one, if you can explain that a little bit? And more importantly how do you see that in the current scenario? Can this fourth quarter seasonality be quite high?

**Mushtaque Ahmed:** If I just analyze my fourth quarter last year I think it was very-very bad, but this year our third quarter was quite bad despite our best of recovery, there was one slippage of Rs.95 crores or slightly above that, as a result of which negated our efforts, otherwise you would have seen that our gross NPA level would have come down, but I am expecting that my fourth quarter is going to be better as compared to the third quarter.

**Moderator:** Thank you. The next question is from the line of Mona Khetan from Elara Capital. Please go ahead.

**Mona Khetan:** What is J&K Bank's exposure to the Infra and Power sectors, the quantum of exposure as a part of the loan book?

**Mushtaque Ahmed:** Power would be say around 8%, then Telecommunications 2%, then again General Infrastructure would be 3%, overall is around 15%.

**Mona Khetan:** Sir, if I am correct, this number was around 10% a few quarters back, so...?

**Mushtaque Ahmed:** This time it is 15%, Rs.6,619 crores is the total exposure outstanding.

**Mona Khetan:** Sir, on the South-based slippage from the restructured portfolio that you spoke about, what sector would that be?

**Mushtaque Ahmed:** This is again oil exploration.

**Mona Khetan:** You mentioned that slippage from the restructured to NPA to the tune of Rs.106 crores. So this includes the Rs.94 crores of ...?

**Mushtaque Ahmed:** Yes, exactly, there is Rs.95 crores of that.

**Mona Khetan:** So prior to this we have only some Rs.10-15 crores of slippage from NPA?

**Mushtaque Ahmed:** Here also I think it would be too early to say something but let me say that as far as this account is concerned I think we will have very pleasant news in the next financial.

- Moderator:** Thank you. The next question is from the line of Krish Shanbhag from Pride Investments. Please go ahead.
- Krish Shanbhag:** We saw a very sharp rise in profits in the Retail segment whereas a sharp profits in the Wholesale Banking segment. Can you tell why this has happened? And whether this trend will continue?
- Mushtaque Ahmed:** I try to explain that within J&K basically it is Retail and 60% of it is Priority. So if there is any increase mainly it will be Retail-related. And outside J&K also, we are not into the big Corporate, of course, we are there, mainly for the Corporate Houses and all that, but at the same time, we have a very strong net worth outside J&K state which is only mobilizing Retail business. So it is on account of that which trend is going to continue for future as well.
- Krish Shanbhag:** Sir, my second question is on the tax paid. You have made a provision of around Rs.400 crores for the nine months period, but the press release states that you have paid advance tax of Rs.444 crores. Can you tell me why there is this kind of a difference?
- Mushtaque Ahmed:** I think \_\_\_\_\_ and **38.44** all that, but I think some variation is permitted, whatever advance you pay, you pay on the basis of estimates.
- Krish Shanbhag:** So essentially indicate they were estimating very high profits in the fourth quarter?
- Mushtaque Ahmed:** Let us hope but if situation permits.
- Krish Shanbhag:** Sir, my last question is on your NPAs. Can you give a sense of where you see your gross NPA/net NPA and your provisioning cover for the next say one year?
- Mushtaque Ahmed:** This NPA provision, I would have to visit my estimates for the next year, but for the current year that is March '14 I think we should have this provision coverage ratio of about 90% and the gross NPA as of now is Rs.725 crores but we expect that there could be recoveries and it could come down also, but at the same time you never know what happens in the fourth quarter, there could be a surprise thing but only one thing as of now I can tell you that things would be quite manageable.
- Moderator:** Thank you. The next question is from the line of Tanya Kothari from CD Equisearch. Please go ahead.
- Tanya Kothari:** Sir, what is the margin in the J&K state for this quarter? And what was the margin for rest of India?

- Mushtaque Ahmed:** As far as J&K is concerned it is 6.5 something. Rest of India again margin is not much, it is around 2.7, but if you compare the margins outside J&K state which used to be less than 2% 2-3 years back is now 2.7% and even outside J&K state the margins are moving up.
- Tanya Kothari:** Sir, once again, can you repeat the slippage from the restructured assets?
- Mushtaque Ahmed:** Rs.103 crores within that restructured book for which we have provision of Rs.89 crores.
- Tanya Kothari:** Are you going to maintain the credit deposit ratio which is at 58% for this quarter, what is your guidance for that?
- Mushtaque Ahmed:** I have always given the guidance that my CDR which used to be below 60% should remain 65% or a little above that.
- Tanya Kothari:** And sir, the same for CASA ratio-to-CASA, how do you see panning out for the next year?
- Mushtaque Ahmed:** I have been trying that it should go up say 41-42% but as of now we are holding say around 39% only, and hopefully I think it should also go up say to 41% towards the close of the year.
- Moderator:** Thank you. The next question is from the line of Sohail Halai from Motilal Oswal Securities. Please go ahead.
- Sohail Halai:** I just wanted to understand out of the Corporate Book of around Rs.20,000 crores outside J&K, how much of it would be in terms of consortium?
- Mushtaque Ahmed:** Consortium would be around say 20-25% total, not more than that.
- Sohail Halai:** And sir, you just mentioned about basically in terms of asset quality for the restructuring. So what sense do you get in terms of how big the number could be in terms of restructuring going forward in the next couple of quarters?
- Mushtaque Ahmed:** I have always been maintaining that you will have to slightly go back to my restructured book; 3-4 years back it used to be say Rs.2700 crores, came down to Rs.1300 crores, then last year it went to Rs.1800 crores even. I would say that we should maintain this restructured book; should remain between Rs.1400 crores to say Rs.1800 crores, but even under odd circumstances it should not cross Rs.2000 crores.
- Sohail Halai:** So the maximum that you can see is more Rs.600 crores kind of restructuring happening?
- Mushtaque Ahmed:** I do not expect that it should be there, but going by the current structure I should say even we should bring it down, but we have to give a very-very safe band of commitment.

- Sohail Halai:** Sir, in terms of restructuring of this around Rs.1400 crores, how much of it would be within J&K and outside J&K?
- Mushtaque Ahmed:** I think mainly it is outside J&K state where you have bigger accounts and while there is stress has been more on the economy.
- Sohail Halai:** And sir, how much would be in the form of Infrastructure Loan that has been restructured?
- Mushtaque Ahmed:** I think I need to visit to the book and come back to you.
- Sohail Halai:** And sir, last question from my side, basically in terms of SA Deposit growth, can you just tell me like how is it shaping up within J&K, because if we see the growth has been moderating over the last few quarters?
- Mushtaque Ahmed:** SA Deposits 95% come from J&K state and 5% from outside J&K state.
- Sohail Halai:** How is the growth actually we are seeing there, because overall growth has also been moderating, so is it because of the competition that...?
- Mushtaque Ahmed:** Outside J&K state I think we are not mobilizing so much of Deposits simply because Deposits are very expensive and costly, but J&K state 53% of the Deposits are CASA Deposits, so our thrust is that mobilize more Deposits from J&K state.
- Moderator:** Thank you. The next question is from the line of Devam Modi from Equirus Securities. Please go ahead.
- Devam Modi:** Firstly wanted to know, what is the pending RIDF balance that we would be having?
- Mushtaque Ahmed:** RIDF should be around Rs.1700-1800 crores.
- Devam Modi:** And sir, we understand that in the longer-term, we are probably going to be very strong in J&K, but currently, are we seeing any loss market share especially on the Deposits front within J&K state?
- Mushtaque Ahmed:** No, market share J&K state of J&K Bank has been increasing always, we have not lost a single penny to any other competitor.
- Devam Modi:** We clearly not lost any market share within J&K state on the Deposits front?
- Mushtaque Ahmed:** You study in J&K state J&K Bank contribution has always been around 67-68% and this time also we are around that 68%.

**Devam Modi:** Apart from those Bulk Deposits that you mentioned, have you seen any other increase in deposit rate or something like that across the board, because those Bulk Deposits explain only a part of the increase in the cost of fund?

**Devam Modi:** Even Retail Term Deposits, rate has been going on, because there have been completion healthy to an extent and unhealthy also, and the fourth quarter you have seen that there has been an empirical observation as far as fourth quarter is concerned that everybody is running after Deposits with a policy of bag, borrow, steal whatever you want to maintain and expand your balance sheet. Not J&K Bank at least.

**Devam Modi:** So in the near term while we will maintain our market share we could see the cost of deposits going up because of competition, is that the case?

**Mushtaque Ahmed:** As we have explained, as far as competition is concerned, we have not lost anything, we have been there, and the competition has been there for more than 60-70 years and of course there has been much hype in media, other publishing and all that, but as far as we are concerned we are having 53% of our Deposits under CASA in J&K state, then as far as Retail is concerned definitely in Retail you have to be market competitive, but as far as CASA is concerned that is also going to be your strength.

**Devam Modi:** I just wanted to understand the reason for the negative provisioning?

**Mushtaque Ahmed:** Negative provisioning in the sense is that Tier-I slippage in the restructured book, and there you had some amount and this (DFV) Diminishing Fair Value, and that amount was naturally reversed from the restructured book, and that gave you sufficient cushion which could be utilized as the provision for your NPAs, so you never required any additional provision for that. Again, I think the NPA increase has been only say Rs.15 crores, but DFV has been far-far higher than that.

**Devam Modi:** This is only because of a sort of improvement in fair value of the restructured book?

**Mushtaque Ahmed:** The account is under restructured book, at that time you have to maintain some provision in the form of DFV. Once the account goes out of that restructured book then you can reverse that DFV. So our increase in overall gross NPA has been 16% and even if we have to provide 90% for that, so naturally you require only say around Rs.13-14 crores as additional provision. But DFV why I provided, you said it is Rs.24 crores, there has been that situation.

**Devam Modi:** And finally, what is the split of the restructured book within and outside J&K state?

**Mushtaque Ahmed:** Mainly, out of J&K state while you have corporate houses, other big accounts and while we have been most compare to J&K state.

- Devam Modi:** So within J&K state would be how much percentage of the total restructured book?
- Mushtaque Ahmed:** I think J&K state should be less than 34%.
- Moderator:** Thank you. The next question is a follow up from the line of Hardik Shah from Birla Sun Life Insurance. Please go ahead.
- Hardik Shah:** Sir, I just wanted to ask you if it is possible for you to share how much of the incremental advances would be towards the restructured book and the accounts that have slipped to NPA?
- Mushtaque Ahmed:** No, I do not think we encourage such people.
- Hardik Shah:** What would be your ALM profile look like, if you look at the type buckets, how would the mismatch look like?
- Mushtaque Ahmed:** No mismatch, it is under tolerable limits.
- Hardik Shah:** And finally, how are you with respect to the priority sector targets?
- Mushtaque Ahmed:** Yes, we have to recategorize some of the priority, because there have been change in the priority sector advances, recategorization and all that. We were far above that 40%, but now we are less in that and we are also trying. With the expansion of our credit portfolio in J&K state whatever gap is left that can be addressed.
- Hardik Shah:** So, you do not see yourself falling short of the Priority Sector target?
- Mushtaque Ahmed:** It should take some time, this year there is going to be some gap, but in future I think we would be in a position to meet the target.
- Hardik Shah:** And sir, just final question from me, the incremental advances that you are expecting 20-25% growth rate, which sectors are you seeing this demand coming from?
- Mushtaque Ahmed:** As far as J&K is concerned, we are looking forward for a growth of 25% and that will be across all the components of the economy within J&K state, that is your Horticulture, your Agriculture, Services Sector, Tourism and all that. Outside J&K state it will be across all the sectors but there our criteria is that we will have to go to the best in in the sector.
- Hardik Shah:** Any particular sector that you are staying away from?
- Mushtaque Ahmed:** We do not wish to go to Power more, except in J&K state while you have this hydro-based units and there we will be expanding, and the Power sector within J&K state is doing extremely well.



- Moderator:** Thank you. The next question is a follow up from the line of Sri Karthik from Espirito Santo. Please go ahead.
- Sri Karthik:** Basel III risk weighted assets?
- Mushtaque Ahmed:** We will come back to you.
- Sri Karthik:** And the margins, you mentioned 6.05 within J&K state?
- Mushtaque Ahmed:** 6.50.
- Sri Karthik:** The reason why I ask is because when I look at it from a sequential basis both J&K and rest of India seems to be flattish or improving, while the overall margin reported has declined by more than 35 basis points, just wanted to understand why that ...?
- Mushtaque Ahmed:** I have tried to explain that there was mobilization of some Bulk Deposits in the second quarter, as a result of that which had impact on this Interest Expenditure, that really pushed down our Net Interest Margin, but going forward when we are increasing our Deposits in J&K state, the Deposits base would come to 53-54% of our CASA Deposits, we see that this was a temporary phase, which would be rectified in due course of time, and I am looking that in future this margin must remain about 4%, and I am confident with the state of operations that we have within J&K state and also the selectivity and risk pattern that we are adopting in our operations of J&K state, and margin outside J&K state has been less than 3% but if you compare it with say 2-3 years back we have in fact added 1% even outside J&K state. So that is the viability and feasibility of the operations that we carry out.
- Moderator:** Thank you. The next question is from the line of Jigar Walia from OHM Group. Please go ahead.
- Jigar Walia:** Can you provide the outstanding balance of contingency reserve?
- Mushtaque Ahmed:** We still got around Rs.40 crores.
- Jigar Walia:** In the investment side there has been an increase in AFS. So if you can help understand what are the investments that we have done in this quarter?
- Mushtaque Ahmed:** CD and CP, nothing other than that.
- Jigar Walia:** And these will be to the our preferred top Corporates and...?
- Mushtaque Ahmed:** Yes, of course, highly rated.

- Jigar Walia:** Do you expect the dividends to increase given the ...?
- Mushtaque Ahmed:** Widely I should say that we would try to maintain the 20% dividend payout ratio.
- Jigar Walia:** The state government using J&K Bank as the primary banker and they shifted as they had an OD account and then they shifted to RBI. I understand that J&K Bank still acts as an agent of RBI. So is there a decent fee income that we would be generating on this particular...?
- Mushtaque Ahmed:** We are doing it. All the planned funds, non-planned funds of the J&K government are routed through J&K Bank. What happens at the end of the day whatever balance is there that is transmitted to RBI account, but the number of transactions and the transaction fee comes to J&K Bank.
- Jigar Walia:** So we primarily on fee income apart from the ...?
- Mushtaque Ahmed:** While there is increase in planned fund, non-planned fund, our transaction fee goes up.
- Jigar Walia:** Sir, if you can update a little bit on the Apple scheme maybe the NREGA disbursements, some of these developments which are happening?
- Mushtaque Ahmed:** Like in J&K state?
- Jigar Walia:** Yes sir.
- Mushtaque Ahmed:** If you compare economy of J&K state and have a look say 10 years back when the economy was say operating at 3-4% growth, today it is (+7%) and we expect that with the spending plans that the government has and infrastructure development that is taking place whether it is in the form of the Road project, Bridge or Railway links, huge spending is there. So what happens is that either it is through Government of India this funding or the state government funding here you do not require any excepting one or two these Road projects \_\_58:32 syndication of loans and banks have also participated, otherwise there is no scope for credit expansion, but to support this type of Infrastructure, you require some ancillary industry which is financed and supported by the banking system and J&K Bank remains main in the primary for this financing. So going forward I think there is huge scope in J&K state as far as the infrastructure and related activities are concerned, and again, upgradation, Horticulture and more and more coming within the fold of Horticulture, Agriculture, a lot of tourism inflow, in J&K there has been a huge tourist inflow in 3-4 years, and that has cascading impact upon all the sectors of the J&K economy. So with these things going forward we expect that the economy in J&K State GDP should grow beyond 7% and we can even safely presume and expect that it may go above 8% also. And with that I think there is huge demand for credit growth and allied activities and allied processes.

- Jigar Walia:** Finally, one question, given the tough overall market environment and all, would you like to revise your guidance or revisit your guidance, maybe '14 or '15?
- Mushtaque Ahmed:** Of course, '15 we have not so far visited, first of all, we will see what is going to be the face for '15, that is our balance sheet termination in March '14 but I would say that despite huge constant stress we expect that '14 is also going to be as per expectations as far as the guidance goes, we expect that profit has to grow by say 25% but maybe it remains 15% or 20%, that would be like that, otherwise overall profit I think I have discussed with you, and then again this profit growth would be slightly subdued because last year March we received Rs.72 crores on account of MetLife, that would not be real this time. So therefore, technically, percentage wise profit would be lesser. But as far as business growth is concerned, I think we are expecting better business and also side-by-side it is also going to surprise also for the bank, for the system as such.
- Moderator:** Thank you. The next question is a follow up from the line of Hardik Shah from Birla Sun Life Insurance. Please go ahead.
- Hardik Shah:** I just wanted to know if there is any particular single borrower where you expect slippage to happen in say next 3-6 months which is like Rs.100 crores which happened now?
- Mushtaque Ahmed:** The entire economy is going under stress....
- Hardik Shah:** Where I am coming from some accounts maybe having more stress than others. So...
- Mushtaque Ahmed:** As far as consortium accounts are concerned, naturally, we are very-very junior partners and here we have to follow the decision of the overall consortium, #1. So therefore, there could be some surprises, shocks in that situation but if you see anything specifically related to J&K Bank, I would say 'no.'
- Hardik Shah:** If we have to quantify the pipeline including your consortium participation how much would it be in terms of numbers?
- Mushtaque Ahmed:** You should always keep open as we have been maintaining in the past also that there could be upgradation in restructuring but at the same time there could be slippage. So, our restructured portfolio, as I have already tried to explain, as of now it is Rs.1400 crores, it could come down or it could increase by say Rs.250-300 crores, but this has been there for the last 2-3 years, and we have been properly managing and we are confident that we will manage with the same spirit.
- Moderator:** Thank you. The next question is from the line of Anand Dama from B&K Securities. Please go ahead.

- Anand Dama:** One is that we had a lumpy Corporate which slipped in this quarter. Just to understand was there any interest reversal or NPA in this quarter particularly because of which the margins would have been hit more?
- Mushtaque Ahmed:** Yes, when they split naturally you have to reverse the interest.
- Anand Dama:** Can we have the interest reversal figure for this quarter?
- Mushtaque Ahmed:** This type of information is not readily available for presentation. We will come back to you.
- Anand Dama:** Sir, second question was in terms of provision write-back, somewhere I think you explained that because you had these restructured loans slipping into NPA, you already had some amount of provisions on your book, but despite that I think you had some other Rs.50 crores NPA also. So I think there has to be some incremental provision that you would have made in this quarter, but despite that ....
- Mushtaque Ahmed:** I think we did not require much of the provisioning for one reason, investment portfolio we wanted some provision but due to appreciation, #1, and #2, always we see that the provision we are already maintaining (+90%) for our NPAs, I think that has been positive for the bank, otherwise you are required to only maintain 15% of the provision for use of standard assets, we are not taking into account that, but we say that overall NPA it should be say (+90%).
- Anand Dama:** And for fourth quarter can we expect there should be some moderation in the slippage if there is no lumpy Corporate?
- Mushtaque Ahmed:** I would say that as compared to last year fourth quarter this quarter should be very good.
- Anand Dama:** And same would be the case in terms of restructuring?
- Mushtaque Ahmed:** Restructuring as of now nothing but always you should try to operate between the band because 11,000 some accounts may upgraded or some account may slip also. So always we say that as of now our restructured book is say around Rs.1400 crores but it could go say by Rs.200-300 crores more or even in worst scenario could go up to Rs.2000 crores, but finally I think if you see our trend in the past 2-3 years it has been coming down, in one quarter going up, next quarter again coming down, it has been like that and this is the sort of situation we will have to live with.
- Anand Dama:** There was some question that what is the CDR pipeline that we have? I don't mean by that what is the \_\_\_\_\_ 1.6.6 that we have done?
- Mushtaque Ahmed:** No, no, I do not think that under CDR there is anything in the pipeline, what is going to emerge in the future I cannot foretell right now.



*J&K Bank  
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**Moderator:** Thank you. As there are no further questions I would now like to hand the floor over to Mr. Anand Dama for closing comments.

**Anand Dama:** On behalf of B&K Securities, thanks to the management as well as all participants in the conference.

**Mushtaque Ahmed:** From our side, thank you everybody, it is really a great opportunity always to talk to our people who are very much interested, who understand, study J&K Bank and I must express special gratitude for the people who have after analysis really pointed out some of the weak areas and this gives us ample opportunities to \_\_\_\_ **1.6.6** those areas also and when we meet next time I think the picture should be still better. Thank you very much.

**Moderator** Thank you. On behalf of Batliwala & Karani Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.