

Investors/Analysts Conference Call**July 30, 2007**

Moderator

Good afternoon ladies and gentlemen. I am Ravi Bob, the moderator for this conference. Welcome to the J&K Bank conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Mr. Chinmay Desai of Finquest Securities. Thank you and over to you sir.

Chinmay Desai

Thank you Ravi. I am Chinmay Desai, Research Analyst with Finquest Securities. A very good afternoon to all of you. I would like to welcome you all to the Q1 FY08 earnings call of J&K Bank. We have with us Dr. Haseeb Drabu, Chairman and Chief Executive of J&K Bank, to give us the highlights and details about the quarterly results and also the future outlook on the bank. Congratulations to the entire management of J&K Bank pursuing the spectacular performance this quarter. Without taking much time, I would like to hand over the floor to Dr. Drabu. Over to you sir.

Dr. Haseeb Drabu

Hi good afternoon everybody. I am sure you have got the investor updates, which is fairly comprehensive. We have sent most of our investors, I hope all of you might have got it the performance highlights for the quarter, we have also distributing the profit and loss account, balance sheet, all the detailed numbers are there including segmental revenue and profits, so I am sure you had a look at it, but just to take you through some aspects of our performance if you recollect I have constantly taken the view that the first 2 years which ended in March 31st we will consolidate our balance sheet, we will leverage it much better, and starting this quarter we will now move onto a growth phase. I am very happy to report that we have delivered on that count. Compared with our earlier Q1 this is the first Q1 where our advances growth is above 30%, we are growing at 32%, if you remember last year we were doing about 18 to 19% growth advances. When you look at the breakup of this advances growth, we are growing in J&K at about 54% and rest of the country at about 20 to 22%, which is in line with what I have been saying for the last couple of years that essentially we will grow our loan book much faster in J&K than outside which will help me then change the composition of advances in a manner which is more towards J&K, because if you recollect we started with the 80% advances outside of J&K and 20% within J&K, and now we are seeing at about 50:50, so in line broadly with that we have grown in this quarter. Typically, for J&K Bank the first quarter

is always a slack quarter because of the kind of businesses we are in and historically in Q2 and Q3 is the most buoyant quarter for us, but this time around we have changed that, our management of advances has been much better and we have grown at a very fast clip.

In terms of deposits also you can see the difference now that we were growing about 7 to 8% and we are now growing at about 20% in deposits, again it is not what it should be, but we had said that first quarter we will look at about 20% growth and start escalating it from here on.

The last year, perhaps about 18 months, liability management was another things that we had taken recourse to, but this quarter because of exceptional growth in the rate of interest and so on and so forth there has been an increase in the deposit rates and it has expanded about say 10%, but when you look at it in terms of our interest and advances this is the first quarter where we are actually showing a phenomenal improvement with interest on advance and loans doing about 40%, which is almost double of what used to be earlier, so there is better interest application, there is better realization, and consequently what has happened is that the advances yield has improved from about 9 levels to 10 quarter levels, there again we see a very significant thing. It is about a 125 basis point hike. You do not see that translate into a net interest margin because of a 100 basis point increase in cost of deposits, but I am sure you know the fact that cost of deposits will wash out in this quarter itself whereas the yield on advances is a continuing affair and that should see us through and we should see major improvements in the coming quarters as well. So while the cost of deposits will now **taper off** the impact of cost of deposit will **taper off**, the advances yield should show improvement and consequently take our net interest margins to above 3 levels, this is what we have maintained that we will do 3 levels. We have not done 3 levels, we are quite close to it at about 2.9, so there has not been a pressure on margins, they are out of the scene.

The take away from this quarter really is that our core business is growing very, very strongly and unlike other banks the treasury has come in to actually salvage the results, in our case there is no gain in treasury income, it is barely 2 – 2.5 crores. This says two things; one is that our core business is growing very much better, and the second thing it says is that we will focus on treasury now. We have not been taking aggressive position on treasury, but I still think we have rather 3 to 4 months of instability in interest rates and we should start building positions at about couple of months from now, and that should only help us improve our bottom line as we go along.

There was also one concern in the NPAs last time, if you remember in the Q4 we had taken a fairly large increase in our NPAs, but if you now see that we have been able to substantially reduce the NPAs down from 500 to 480 levels, we ended the year at 501, and we are down to 487, as usual we have done our provisioning and we have improved our coverage from 61 to 65%. But I had also said that at the annual results concall that much of my NPA coverage and NPA per se will be adjusted by the second quarter, we are in course for that, first quarter we have done well, but we will do better in second quarter, so we should see a much healthier position in NPA as well as the coverage ratio as a result. We have not compromised on any provisioning norm, in fact we have gone ahead and provided much more than what the RBI wants us to provide, we could have

easily shown another Rs. 5 - 10 crores in terms of profit, but I have constantly taken the view that till we reach the level of 80% I am still in a frame of mind to do better provisioning, it improves the stability of the bank and is in the long-term interest of the bank; so while we could have really done about Rs. 90 crores we have chosen not to do that, and hopefully we shall compensate for those in the next quarter.

Broadly, that is what I would want to say, and as I said that you have already the numbers with you I will be happy to take any questions that you have. Thank you.

Moderator

Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions please press *1 on your telephone keypad. On pressing *1 participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question please press *1 now. Participants who wish to ask questions please press *1. The first question comes from Mr. Nilang Mehta of HSBC.

Nilang Mehta

Good afternoon sir and thank you for taking my question. My question is on the deposit front. Sir, what is the CASA for the current quarter and compared to the previous quarter?

Dr. Haseeb Drabu

The CASA levels which we have now you see our cost of deposit has gone up this quarter largely because of the CASA coming down, it was 37% as of last year, it is 36% now. There is only a marginal variation in CASA, it was 37%, now 35.83 so 36%, but this is getting you know affected by the ____ we took towards the end of the thing, and we have said that we will reach levels of CASA of about 40 in the course of this year.

Nilang Mehta

Okay sir. and sir how much would be the bulk deposit as a percentage of term deposit and what is the tenure of that, because March would have been a quarter where you would have taken bit of term deposits.

Dr. Haseeb Drabu

Yes, we have, but bulk deposits as you know the duration is very small in terms of it is basically maximum 90 days, which if you see the context in which we took the bulk deposits we had reached 73% of our credit deposit ratio.

Nilang Mehta

Right.

Dr. Haseeb Drabu

So, we basically were covering our liquidity issue at that point of time, and the larger context is that I had shed bulk deposits majorly to build up the CASA in the transition we need recourse to term deposits and bulk deposits. So today it is about 21% is what we have in terms of the bulk deposits.

Nilang Mehta

Okay, and this would not be more than 90 days you are saying?

Dr. Haseeb Drabu

Not more than 90 days.

Nilang Mehta

Okay so now you would be able to benefit out of the....

Dr. Haseeb Drabu

That is right, we will stay back.

Nilang Mehta

Okay, sir just to get a perspective on the strategy going forward, you have been propagating that we are restructuring a balance sheet, a moderate growth, and which you have been successful for last 1 year, and this year now we are ___ on growth, but looking at the liquidity conditions and the uncertainty surrounding that and the predictability of you know cost of deposits not there to the great extent because you know RBI still not very sure what path they want to take on the liquidity front. How do you see this growth strategy is panning out, because would not it be prudent to still stay on a moderate growth path and maintain profitability of margins rather than compromise margins and grow at 30%?

Dr. Haseeb Drabu

Yes. The issue really is that you have to understand when I am saying high growth, as I said in my opening statement also I am looking at high growth in J&K. Now my margins in J&K are well above 4.5%. Now, even if I squeeze that what the option I am saying is that I will grow much faster in J&K which gives me a much better margin rather compared to rest of the country, where I am growing at 20%. It will shift the composition of our advances towards that and give me much better yields, it is already kicking in, now I have moved from...., you know we were 8, we have done within 16 months 10.5, so that should compensate for my this thing even if there is increase in deposits, and even if _____ I can take recourse to you know higher price deposits to fund my advances growth, because the margins I have a very, very high in J&K, that is above 4.5%. Then also we are looking at, you know, arrangements like raising capital, which would fund some of our growth, and that is in some ways the low cost resource.

Nilang Mehta

Okay. So basically then sir the great part of the yield advances has gone up primarily you are saying because your mix not shifting towards J&K?

Dr. Haseeb Drabu

Is it shifting, also there is some repricing which we have done in rest of the country. I think you know rest of the country you still find that there is an improvement overall in the sector. So there is repricing happening. That combined with our share in J&K going up has improved advances here. This is exactly what I have been saying for the last 2 years now.

Nilang Mehta

Okay. And Sir the last question is on the suppose equity dilution, any thoughts on that and time line you have framed?

Dr. Haseeb Drabu

We have got board approval, #1. We have done the postal ballots. We have now got in principle approval from the Government of J&K. We are awaiting RBI, we have sent this to the RBI, so we are awaiting that. After that comes we will then look at the merchant banker and investor banker who is involved with this. We have identified four to five people. So we will take it up from there and we are looking at a time line perhaps in September end October beginning.

Nilang Mehta

Okay. And what amount we are looking to raise sir?

Dr. Haseeb Drabu

We basically have not yet figured out the whole thing, but about 600 - 700 crores is what our requirement is.

Nilang Mehta

Okay. It will be a combination of GDR QIP?

Dr. Haseeb Drabu

We have to finalize that little bit.

Nilang Mehta

Thank you very much sir.

Dr. Haseeb Drabu

Most welcome.

Moderator

Thank you very much sir. Next in line we have Mr. Chirag from Anand Rathi Securities.

Chirag

Good afternoon sir.

Dr. Haseeb Drabu

Yeah, hi Chirag.

Chirag

Yeah. I wanted to know the figure of investment and the breakout like AFS or HFT.

Dr. Haseeb Drabu

Our investment portfolio, see we have constantly being reducing our overall investment book, and that is one of the reasons that why our income ____ has come down, because if you remember 2 years ago we took a large hit, and today about 65% of the book is in the AFS portfolio.

Chirag

Okay. Can you give me the figure?

Dr. Haseeb Drabu

I can give you the figure for as on June '07, we should have roughly about 7000 crores of total investment book, out of which about 2000 crores is AFS portfolio and about 5000 crores is the HTM portfolio. The duration on the HTM is about 3 years duration and on the AFS is 18 months.

Chirag

Okay sir. Thank you.

Moderator

Thank you very much sir. Participants who wish to ask question please press *1. The next question comes from Ms. Lakshmi of Capital Market.

Lakshmi

Hello. This is regarding question you answered before, is there 65% of your book is in AFS is it?

Dr. Haseeb Drabu

HTM.

Lakshmi

Okay. And what is the cost of deposit for the quarter?

Dr. Haseeb Drabu

Cost to deposit for the quarter ended we are doing about 5.9.

Lakshmi

5.9.

Dr. Haseeb Drabu

Yeah. Up from 4.9.

Lakshmi

Pardon me.

Dr. Haseeb Drabu

Up from 4.9 last quarter.

Lakshmi

Okay. And yield on advances.

Dr. Haseeb Drabu

Is about 10.25.

Lakshmi

Okay.

Dr. Haseeb Drabu

Up from 9.

Lakshmi

And how much was the recovery on NPA this quarter?

Dr. Haseeb Drabu

I mentioned the figures on the NPA. We have actually done substantially better because if you remember we had done a 500 crore was our NPA, and we are down to about 480 this quarter compared to 345 in last quarter. Essentially, we had taken some legacy items into our books on March that has raised our NPA,

but we have started recovery process and by second quarter we should reduce it substantially to levels of about 420, and our NPA coverage has improved from 60 to 65%, and our net NPA is now on the 1%, it is 0.98, compared to 1.13 in March.

Lakshmi

Okay. Thank you.

Dr. Haseeb Drabu

Thank you.

Moderator

Thank you very much mam. Participants who wish to ask question please press *1. The next question comes from Mr. Rahul of CLSA.

Ashish Agarwal

Hi Sir. This is Ashish Agarwal. Just one small question on the fee part; the fee income has apparently grown at from 64%, can you just highlight what was the driver behind this?

Dr. Haseeb Drabu

See if you recollect, we have one component of our fee coming in annually, which was bloating our annual income fee and this is ___ to our service to document, book Government of India and Government of J&K. We have decided to make it now in four quarters, which used to be burden, so one part of it has come, which is about I think 6 crores, has come from the government, and has been booked in this quarter, which has shown an exceptional rise in the fee based income. There is also a rise in our interest income on corresponding quarter and we are also doing some amount of mutual fund selling, which has worked there, but essentially the exceptionally growth that you are seeing is related to the fact that we have booked 6 crores, we annually book 30-32 crores for our fee to government for the service at year end, and we have taken the first quarter in that.

Ashish Agarwal

Okay. Thank you a lot.

Moderator

Thank you very much sir. Participants who wish to ask question please press *1. Participants who wish to ask question please press *1. The next question comes from Ms. Kajol of ICICI

Kajol

Good afternoon sir. Can you tell me about the branch network of yours?

Dr. Haseeb Drabu

We have as on date 544 branches.

Kajol

Okay, and they are mostly everything in Jammu and Kashmir?

Dr. Haseeb Drabu

No, we have about 250 branches outside of J&K, and under 300 in J&K. We have our branch network in every single state of the country and we have a very large network in Delhi and in Bombay. We have 27 branches in Delhi and we have about 19 branches in Mumbai.

Kajol

Okay. That's it. Thank you.

Dr. Haseeb Drabu

Thanks.

Moderator

Thank you very much mam. Next in line we have Mr. Sashan from Alchemy.

Sashan

Good afternoon sir. Sir I just wanted to know one thing by when do you think you would be able to conclude the capital raising that your planning right now?

Dr. Haseeb Drabu

October

Sashan

So by October it will be completely ___ books?

Dr. Haseeb Drabu

Yes.

Sashan

Okay sir. Right sir. Thanks.

Moderator

Thank you very much sir. Next in line we have a follow up questions from Nilang Mehta of HSBC.

Nilang Mehta

Thank you for taking my question again sir. I just wanted to understand briefly the NPA trends, which you are seeing in your portfolio and going forward what is the outlook?

Dr. Haseeb Drabu

See NPA I was very clear that it is the part of the whole 2 year cleaning up, and March 31st I took a hit of about 130 crores, all legacy, but it was a one time, you know I had indicated in my earlier calls, in fact I had indicated it in my balance sheet the year before that this is something that will happen. It is a part of the clean up, and it is a one-time effort. So we reached about 500 that point in March, and a lot of it is getting adjusted, and a lot of it is getting settled, and two large accounts we had taken are also getting settled, and I had said that by half year I should show you much better NPA position than we have, because we have started from a position if you go back to last June it was 0.72% of our total advances, then it rose to about 1.13, and we are back to under 1 now at 0.98. Our coverage has also improved from 61 to 65%, but specifically on the NPA itself I think we have come down below 500, now we are at 480 or something, and we should be doing another 100 crores in the course of this quarter. So, we should look at about 420 something in NPA, in absolute terms. So, going forward, unless something exceptional happens, we don't see a stress in any of our accounts now. Not a single account is something that is stressed or looking stressed. So, we should be doing much better on this.

Nilang Mehta

Okay. Thank you very much sir.

Moderator

Thank you very much sir. Participants who wish to ask question, please press *1. The next question comes from Mr. Manish of Motilal Oswal.

Manish

Hello sir.

Dr. Haseeb Drabu

Hi, Manish.

Manish

Hi. Sir, just can you spend some time on explaining something about the situation in J&K State?

Dr. Haseeb Drabu

Well, looking much better than it was last year this time. I mean, we obviously have some, you know, reactive things like today, this whole Gujarat thing, 4-5 people. But, overall the environment is much more positive. There has been a slow down in the peace process at the national level, which is obviously having impact on the State of J&K, in terms of how rapidly the violence de-escalates. But, one thing is beyond doubt and I keep saying that, that we are on a path towards recovery both politically and economically. But, there will be periods when it will slow down, there will be periods when it will be very rapid. The PM had just come here last month and he started some initiatives, which is yielding results now. We had the Defense Minister here day before yesterday examining the whole process of demilitarization, it's an indicator of the fact that the level of violence has come down and everybody now feels that the level of troops in relation to the level of violence is very high. Therefore, some restructuring is required. We will also see some changes in the composition of the security forces, away from Army towards the Police, which is a major indicator that the Government of India also feels that there has been a lot of stability and reduction in violence. So, they are looking to now redeploy the Army elsewhere, rather than keep it at the current levels.

In terms of economic growth, I think the private _____ plan is working very well. We are seeing a lot of off take of credit happening in the State. We see our average ticket size going up from 2-3 crores to 7-8 crores to 17-20 crores. And, we also see that a lot of private investment is coming to J&K. Airtel is pushing another 400-500 crores, Reliance has set up shop here. We have a lot of pharma companies that are coming in, and it has reached about 3000 crores level of private investment in the State of J&K. So, that again is a very healthy sign with Indian private corporate sector now taking a decisive call on J&K. The good news also is that both the Reserve bank of India as well as the Government of India have extended their concessional packages to J&K for another, we are in '07, for another 6 years now, till 2013. There will be no income tax, no sales tax, no VAT and so on and so forth. And, the Reserve Bank also has had extended its concessions by a year. So, we should see that a favorable impact of that on the economic flows, and once the economic flows reach a certain level, I think that has a very salutary impact on the way the civil society and the social setup and the political setup responds to it. So, we are seeing a hiked increase in our economic activities that's having a favorable impact. Again, as far as tourists go, both pilgrim and non-pilgrim tourists are very high this year and we are facing huge pressures of space, how to accommodate them, but it has been better than last year.

Manish

Okay sir. Thanks a lot.

Moderator

Thank you very much sir. Participants who wish to ask question, please press *1. We have a follow up question from Mr. Sashan of Alchemy.

Sashan

Sir, I just wanted to understand the yield movement, the yield on advances movement here on.

Dr. Haseeb Drabu

I am looking at about 10.5 to 11. Largely because again bulk of my advances growth has happened this quarter, we have improved our J&K lending, so I'm looking at an improvement of about..., definitely in the next 3 months we should add about 10.5, and going forward I'm looking at about 10.75 - 11, because a large part of my advance is contracted at 11%. And, the advance which are pushing down my yield, which are at 7.5 - 8, we have now more or less either repriced them or have recalled them. So, there is comfort from that side. I should see a steeper movement in advances yield. It's been quite steep actually, because it was 8.28 only 16 months ago and now it is at 10 - 10.25.

Sashan

So, it would be effectively at 10.5 on an average basis?

Dr. Haseeb Drabu

I would think so.

Sashan

Okay. Right sir. Thank you.

Moderator

Thank you very much, sir. Participants who wish to ask question, please press *1. Participants who wish to ask question, please press *1. At this moment, there are no further questions from the participants. I would like to hand over the floor back to Mr. Chinmay Desai for final remarks.

Chinmay Desai

Thank you Ravi and many thanks to all the participants on the call. Also, we thank the management of J&K Bank, Dr. Haseeb Drabu, for being on the call and giving us an opportunity to host the call. We look forward to many such calls in the future. Thank you sir.

Dr. Haseeb Drabu

Thank you very much. All the best. Thanks.

Moderator

Thank you very much sir. Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.

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