

Transcript**Conference Call of J & K Bank Limited.**

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Presentation Session

Moderator:

Good evening ladies and gentlemen. I am Rajkumar, moderator for this conference. Welcome to the conference call of Jammu and Kashmir Bank Limited. We have with us today, Dr. Haseeb A. Drabu, Chairman and Chief Executive, Mr. A. M. Mir, Executive Director and Chief Financial Officer, and Mr. Parvez Ahmed, President, Corporate Affairs and Investor Relations of Jammu and Kashmir Bank Limited. At this moment, all participants are in listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note, this conference is recorded. I would now like to hand over the conference to Dr. Haseeb A. Drabu. Dr. Haseeb you may go ahead sir.

Dr. Haseeb A. Drabu:

Good evening. Thanks very much for taking your time to attend this conference call. As you are aware, these are extraordinarily uncertain times and if I were an analyst, I would consider most interesting times, but looking at it from this side, these are very uncertain times. We have calibrated our entire growth strategy, not just now, but the last three to four quarters around the lines of the uncertainty, which we think is not ending very soon. So, we have a prolonged spell of uncertainty in the global markets. Viewed in that context, these quarterly results are what we expected them to be, in fact in some cases better than what we have thought. The highlights of this quarter are that the net interest margins of the bank have improved to 3.25% during this quarter from 2.98% in the corresponding quarter. Total deposits have increased about 18%, which is higher than the advances growth that we have seen in this quarter of about 13%. The yield on advances has improved to 11.7% compared to about 10.5%, so we are seeing a 120 basis point improvement in

the advances yield in this quarter. Correspondingly, the cost of deposits has seen an increase from 6.1 to 6.7, which is about 50 to 55 basis point hike. So, corresponding to a 50 basis point hike in the cost of deposits, we have seen a 150 basis point increase in the given advances, which actually has resulted in margin expansion. Our post tax return on average network is about close to 19%, it is at 18.71, up from 16.6%. The current account/saving accounts ratio has improved to 36.7% compared to 35.9% last time. Our cost to income ratio has come down from 40% to 37.87%. So, within this context, the numbers are emerging is that our net interest income has grown at about 30% quarter-on-quarter and about 28% on a nine-month basis. Operating profit is up 24% on a nine months to nine months basis and net profit is up 11% on a nine month to nine-month basis. So, essentially what we have done is that operating profit is up by very healthy 25%, but net profit is up only by about 11%, so the resultant provisioning figure that comes and we have increased our provisioning by about 50%. Our gross NPAs stay at about 2.5% of total advances. They were 2.5; ending December last year and they are 2.6. So, we do not see a major increase in the advances this is in the NPAs, though this is an area, which we need to kind of look at for the system as a whole as well as for the bank. Our net NPA is up from 0.8% to 1.2% resulting in a drop in coverage ratio, but as I said, we have increased the provisioning to about 50% in the course of this quarter. The negatives in this quarter has been in terms of the fee based income.

Our fee based income has dropped very sharply, 12% on Q-on-Q basis. There are two reasons for this, one of course is that J & K went through a prolonged spell of three months of bandh and hartal and that really affected our entire business on the non-interest income side and second is that we have not used treasury trading this time extensively resulting in minimal contribution from treasury. The reason for that, I can explain the course of our discussion also is that our view is we will make much better gains in this quarter as in Q4 as well as Q1. So, we have slightly different take on the treasury incomes compared to other banks who have shown extraordinarily good profits largely based on treasury profits. Where we stand out is that the profits that you see today are from our core business and as I said that our net interest income is up 30%, operating profits are up very significantly. So, the treasury component is very low, in some sense this gives you stability to the balance sheet as well as to your income streams. We would do hope to make money out of the treasury in this quarter as in Q4 as well as the sequential quarters from now on. Also, the reason for decline in treasury income is because last year at this time, we had

booked some profits from equities and liquid fuel funds, which at that time, we had to re-allocate, this time, we did not, so in some it is not a like to like comparison, because the equities component is very high and as you know with the market condition today, we could not have done a similar thing right now, but as far as the bond portfolio goes we have a certain take on the treasury, which will help us show much better performance in Q4. So, broadly this is why we have an instruction as to what I wanted to say just to reiterate that margins have expanded in this quarter, costs of deposits have gone up, but it has been outstripped by an increase in advances yield. Our return in equity is now 18%, close to 19% actually and our return asset is 1.37%. This is probably will be among the highest in the banking segments. Our earnings per share is about Rs.68 per share. We are very comfortably placed as far as capital adequacy goes at about 13.24 of which 12.57 is tier 1 and 0.67 is tier 2. So that is the introduction and I will be happy to take any questions now.

Question and Answer Session

Moderator:

Thank you sir. Ladies and gentlemen, we will begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing the # key.

Our first question comes from Mr. M. B. Mahesh of Edelweiss Capital.

M. B. Mahesh:

Good afternoon sir. My first question is on the advances side, could you just give us a breakup between within and outside J&K?

Dr. Haseeb A. Drabu:

Yes, our total advances in J&K stand at about 46% of our total advances. We have grown in J&K at about 30% and we have grown outside of J&K at about 7% to 10%.

M. B. Mahesh:

Okay. Sir on the slippage side, could you give us the three-month and the nine-month slippages that we have seen and two, which are the sectors, which has actually contributed to these slippages?

Dr. Haseeb A. Drabu:

Well, we have not seen any major slippages. We have seen a couple of accounts slip in, in fact we have treated quite consciously a large account which was stressed for a while as it is in NPA, even though it does not really qualify with NPA, so that we actually take some presumptive actions. There is one slippage in the commodities segment and actually both accounts are in the commodity

space. They are not in any other sector. One course is the steel and other is in oil. So, beyond that, we have not seen any slippage and this slippage has happened in the, one of course has just gone for a while, but as of now, under the norms strictly speaking, Reserve Bank norms of three months and all that is not having an NPA what we have declared it as an NPA, but the other one has gone into an NPA category. Actually, I am sorry, I must correct myself, one is from steel sector and one is from pharma sector, one is outside J&K, and one is inside J&K.

M. B. Mahesh: Okay and how much would be the three-month and nine-month slippage at a gross level?

Dr. Haseeb A. Drabu: I will not be able to give you a number on three months and nine months, just 1 second I will kind of give you a sense of... you want the absolute numbers is it?

M. B. Mahesh: Absolute or percentage, whichever...

Dr. Haseeb A. Drabu: Three months is Q3/Q3, we have gone up from 2.5% of our total advances 2.6%.

M. B. Mahesh: At a gross level sir?

Dr. Haseeb A. Drabu: This is the gross level. Gross NPA ratio you want?

M. B. Mahesh: I just want the number excluding any kind of up-gradation, recoveries, and stocks. How much will be the gross slippages?

Dr. Haseeb A. Drabu: Basically, we have gone up from about 470 to 530 crores.

M. B. Mahesh: Okay fine. Sir I saw a provision for the PNL for investments, this is provision for non-performing investments in this particular quarter, any specific reason for this?

Dr. Haseeb A. Drabu: No, we have not provided anything for investments in this quarter. At the moment, we have not, there is a provision for tax, then there are bad assets, which we have done at about Rs.7 crores. Provision for depreciation and interest is about Rs.1 crore.

M. B. Mahesh: That is the negative one, we have reversed it, but there is a provision for non-performing investments, which is the last entry there of about Rs.4 crores.

Dr. Haseeb A. Drabu: No, I will clarify this, give me a minute, I will clarify this.

M. B. Mahesh: Okay sir, what would be the duration that you would be running currently in your book?

Dr. Haseeb A. Drabu: We are running at about 2 years and 6-7 months.

M. B. Mahesh: In the AFA side?

Dr. Haseeb A. Drabu: AFA side will be about less than one year.

M. B. Mahesh: Okay, fine sir, thank you very much.

Moderator: Our next question comes from Mr. Sunil Kumar of Birla Sun Life.

Sunil Kumar: Hello sir.

Dr. Haseeb A. Drabu: Yeah, hi.

Sunil Kumar: Sir, about these advances, which you mentioned 46% J&K, you have grown by 30%.

Dr. Haseeb A. Drabu: In J&K, we have grown about 30%.

Sunil Kumar: Okay, and outside you said you have grown by?

Dr. Haseeb A. Drabu: 7% to 10%.

Sunil Kumar: That is during in the quarter?

Dr. Haseeb A. Drabu: Yes.

Sunil Kumar: Okay, and otherwise, how is the scenario now because quarter-on-quarter, there is a decline in the advances, I mean, 213 billion to 207 billion, so I mean what is the status now, I mean, has the situation improved?

Dr. Haseeb A. Drabu: No, you see you cannot really look at it from that perspective for us because we have a huge cyclical business where our advances peak in second and fourth, second quarter and then third quarter is very low because of horticulture business. So, it is not a fair assessment to do that, sequential decline. Yes, we have grown advances slowly that is a matter of policy decision. We have taken not just now, but four to five quarters ago and if you see our track record also, we have today the most seasoned loan book in the country largely because we have grown very slowly in the last two to three years. So, in a sense, you will see that this is a part of strategy, but as far as the sequential thing goes, it is largely because of corporatization of advances. We have grown deliberately much faster in J&K and if you recognize the fact there is 45% of advances in J&K, they contribute 75% of our profits. So, the margins are much better there and cost of deployment is much, much lower. The situation there we had a very specific problem from July, August, and September, which was that Amarnath issue and that is always there. We are now kind

of getting back to normal. We have not seen any impairment because of that. We have not seen any recession because of that, but what it did was it affected our fee based incomes and all that. So, the number of insurance policies, the number of bank guarantees, the number of commissions in that, all that kind of got into... other things associated with interest and all that continued very well. We have now left that behind us and I think we have now gone back to seeing the elections and we are now in the middle of another routine business and growing at about 10% to 12% of the state economy, which will give us a growth about 35% to 40%. We still hope to maintain 35% in J&K. We will end the year in advance at about 18% growth for the full year and it will be largely sold out of J&K. Our impairment in J&K is much, much less than what it is outside J&K and the risks of impairment that one is facing in the rest of the country is not there in J&K, except of course one segment, which has not still struck, but will strike the entire country is the whole export advances. We have some part of our handicraft run export, but beyond that it is a fairly insulated economy and a fairly insulated from the current troubles.

Sunil Kumar:

Should we expect some more increase in the NPA?

Dr. Haseeb A. Drabu:

Well, as a trend I think there is for the banking sector as a whole, we will see it, but I am not seeing very much of NPA increase for us. We have taken deliberately this quarter as I said earlier also accounts that were not really technically NPAs, as of now but declared them as NPAs as a pre-emptive action. I would imagine that we will end the year at a lower figure than what we are today, both in absolute as well as relative terms.

Sunil Kumar:

Okay, as a percentage also you are saying?

Dr. Haseeb A. Drabu:

Yes, as a percentage, as it is we have seen no increase. It is only in absolute terms, we seen an increase. Percentage terms, we have 2.5 and 2.6, it is not an increase, but I am saying even in absolute terms you will see a lower NPA level.

Sunil Kumar:

Because one would have thought that I mean looking at other banks, which have been growing at a very fast pace let's say more than 30% they have seen some increase in NPAs that is understood, but bank like J&K bank, which has been growing at over 20% to 22% and we just wanted to understand where this NPA is coming from, because in any case, you have been conservative?

Dr. Haseeb A. Drabu:

We have been conservative. See, it is obvious that it depends on how seasoned your loan book is. Today, 70% of my loan book is seasoned, so in the sense the risk of

impairment is much lower in J&K. Second is that with 45% of my portfolio in J&K, I do not have the same risks of impairment that others have, but of course on 50% of the portfolio, I face the same risk at all other banks do face. So, there is a bound to be some impairment rise in that, so there are two things we are have talking about. One is the trend yes; there is a rise in trend. Levels, we have still maintaining the earlier levels. We have not increased like many other banks. Going forward, I am saying that by the end of this fiscal, not only will we see a decline in the absolute levels of the NPA, we will also see a decline in the ratio of NPA, because we have already settle a couple of accounts, which had gone NPA in J&K. We will settle them and also I can see that, there was also an element of NPA management in our declaring NPAs right now, because we get another three months settle the things. It is more from a management perspective rather than a potential norm perspective that we have done this.

Sunil Kumar:

And sir how about other income, you mentioned about fee-based income, which has gone down, because of strikes and bandh, and hartal, but where do you see the trend going forward in fee as well as treasury income also if you can throw some light?

Dr. Haseeb A. Drabu:

Yes, as I said on the fee based income now whatever insurance policies will not lapse. We will get most of it back in Q4, because you will have to pay up that kind of a thing. So, I will see the exceptionally good quarter in Q4 as far as that part of income is concerned, which is other income excluding treasury. I see an exceptional growth there, number one. Number two, on treasury, we have taken a very conscious view as to...we do not book profits like most banks today and I probably stand corrected on this, but most of the profits in many banks are coming out of treasury profits. In our case, it is quiet the opposite. It is our core business profit. So, we have a particular take on treasury. We will book some profits in Q4. We have obviously there is no need of provisioning right now. We are way above mark-to-market at the present time, so hopefully, our own understanding is that things will look much better in this quarter towards the middle of February and before the government announces volume program. So, we will book some profits there so that should compensate us. So, we will probably see a Q4, which is exceptionally good driven by treasury profits that will compensate the lack of non-interest incomes here. Our average is about 8.5% and 9% perhaps 10% or 11% of our total income comes from non-interest. This time, it is down to 5. Even if you go back to 5, you are at 100% level. So, I think, we will have exceptional gains in Q4.

- Sunil Kumar:** Okay. Sir, how much is the unrealized gain you have right now?
- Dr. Haseeb A. Drabu:** We are looking at about Rs.34 to 38 crores.
- Sunil Kumar:** Okay, you got very good opportunity actually when the yields were close to 5% and now yields are again up to 5.5 and 5.8 something?
- Dr. Haseeb A. Drabu:** We have bought some things; we have not sold at the moment. We are working on a strategy, which will help us to get about, as I said Rs.38 and Rs.40 crores we are right now sitting on so...
- Sunil Kumar:** And sir I wanted understand this note, which was mentioned about Metlife and RBI has not given to you the go ahead for further capital and your share stands reduced to 13.94, so what is this thing?
- Dr. Haseeb A. Drabu:** We had invested in Metlife 25%, we have joint ventures, RBI, had made a capital call and we had to contribute. There is prudential norm from Reserve Bank of India that any bank cannot invest more than 10% on its network in a JV. We have reached that ceiling, so consequent about that they have said that you cannot contribute. The capital call went through for Metlife as a consequence of not subscribe the capital call; our share has come down to 13.94. We have disclosed it, but I think it is in the interest investors to know the fact, that we don't hold 25, and we hold 13.94 now, but it is a joint venture, which is why we have not made provisions for it. It is not treated as equity investment; it is a joint venture, which we have categories in Reserve Bank of India, if there is a joint venture hence we will need to provide for it. So that is the reason for the second clarification, which comes in, we have not been making it for the last four years. So we checked with Reserve Bank if there a change in the quality of JV they said, there is no need, you are a joint venture partner and you hold 50% or whatever 40% of Metlife, it is a joint venture investment. So that's the two things that notes have come.
- Sunil Kumar:** Sir, how much you have already invested till now?
- Dr. Haseeb A. Drabu:** Rs.220 crores. I have a buyback arrangement with Metlife that in case I want to exit then I will get the amount back plus 15% annual compound interest.
- Sunil Kumar:** 15% interest and not any formula based on the market value or something.
- Dr. Haseeb A. Drabu:** No, not formula based, 15%.

Sunil Kumar: 15% annual interest. Okay, is your networth right now is Rs.2,600 crores?

Dr. Haseeb A. Drabu: Rs.2,500 crores right, 2640 is the actual figure, but lets us say 2600.

Sunil Kumar: So, I mean obviously with the profit coming in networth will go up only.

Dr. Haseeb A. Drabu: Yes, but the capital call was for Rs.70 crores.

Sunil Kumar: Rs.70 crores, your share?

Dr. Haseeb A. Drabu: Yeah.

Sunil Kumar: Okay, so what should we assume going forward then, I mean does the share....?

Dr. Haseeb A. Drabu: See, we are hoping to do a GDR if you recollect and we were saying we have a networth of 60,000 can we get more facility on this. We are interested in holding Metlife, we do not want to exit, RBI has not stipulated us to exit, but yes we will stay at about 13% till perhaps we get some head room on our investment and the moment we get it we have the option to replace our capital calls of earlier times also. So we would basically keep the insurance play with us and we are not looking at an exit at this point of time.

Sunil Kumar: So, if you invest money later your share may again go up to 25%.

Dr. Haseeb A. Drabu: That is right, that is right. It can't go beyond that, but yes at that level yes.

Sunil Kumar: Okay, thank you so much.

Moderator: Thank you sir, our next question comes from Mr. Alpesh Mehta of Motilal Oswal Securities.

Ajinkya Dhavale: Hi sir, this is Ajinkya from Motilal Oswal, I had two quick questions, one since you have not booked treasury profits, can I know your views on the GSEC yields movement over the next three to six months, that is what you are hoping to book profit and second question definitely from a more economic perspective where do you see deposit and credit growth for the overall industry next year and where are the retail term deposits rates or lending rates are headed in next six months.

Dr. Haseeb A. Drabu: I will not take a call on GSEC unless government volume program. At this point of time, this is fairly kind of market that has been policy induced rates. I am taking a view that we have policy rates and you have market rates and at this

point of time there is going to be a huge (not clear) between the two as one can see it on the ground. The way of fiscal policy has been managed there is definitely going to be a huge borrowing program of the Government of India which will come in the budget. So, between now and April which is the next trade policy, you will see one major trigger for bond market shake up, which is the... at this point of time, the way, we saw these top 5 yields in one market we were expecting that but it is not going to last very long. My own sense is that you will probably get into much high yield somewhere around April or May. So, you have a window between February and March, we can actually do some good creative trading, number one. Number two, as far as the overall situation goes, I think my own sense is that April or May is going to be very difficult, starting April next two quarters.

Ajinkya Dhavale:

Okay and you think it will again rise fast and that period of assessment.

Dr. Haseeb A. Drabu:

I would think so.

Ajinkya Dhavale:

Okay, and second economic related question is on the growth for the next year and the interest rate movements on the retail deposit side as well as the lending rate from the ground.

Dr. Haseeb A. Drabu:

No, again one of the things that deposits rates issue I am really able to take a call because now it is a fairly segmented market. We are now getting into a highly fragmented market in retail deposit as well as profit deposit. You have already seen how public sector versus private sector thing is shaping up. I would see there will be a softening of rates, but not at the rate at which people expect it to be and I do not see the same softening of rates in the lending side. I see a much more gradual reduction in the lending rather than what is being expected at this point in time, but then you never know because you have one set of banks who are forced to do things that, otherwise, one wouldn't want to do, just look at what is happening the way they are kind of been lending to certain sectors of the corporate. That's not a very good signal honestly so to that extent my own sense is that you will see a much sharper drop in deposit rates than in lending rates.

Ajinkya Dhavale:

Okay, and of them coming the J&K Banks specifically, the risk conversion is pretty evident in our current result and you have built up the investment book, what will be the strategy for the next year?

Dr. Haseeb A. Drabu:

I think, it is a good time to get into the bond market on the non (not sure) side also. When you look at that part of it, it is not active, but I think, we are taking a position on that.

By and large, we will grow at about 15% to 18%, probably we will end at 18% to 20% of advances and we will grow our treasury book a little more in this period. We will go slightly over rate on investments; there is no doubt about that. I think, that is what probably is.

Ajinkya Dhavale:

Will that come at a cost of slight margins then?

Dr. Haseeb A. Drabu:

It will not. It would not come at the cost of margins why would that happen?

Ajinkya Dhavale:

No, I mean the treasury yields incrementally will be much lower than if you lend the money right?

Dr. Haseeb A. Drabu:

Yeah, but then that the whole turn around time is much smaller. If you are lending at on the (not clear) side, you will be lending for five years and treasury is now 3 for 40 years. We are not getting paper of 10 years and we are getting into to see a paper and there the returns are very good.

Ajinkya Dhavale:

Right, I think, you have not cut the PLR after 125 bits somewhat?

Dr. Haseeb A. Drabu:

We will not cut the PLR. At least, I am not going to take a decision unless, I see the government borrowing program and by all indication, this is massive. So, the supply of the paper will be phenomenal and that will make a mess of the corporate bond market also, which is looking like (not clear), but if have an option, look at the way the spreads are today and what will happen to a month and half from now and you will have AAA with GSEC with a AAA bond where will you put your money, so very evidently that will squeeze out, that will elbow out the profit bond paper also, so this might be a good opportunity between let's say in February and early March to look at that as a paper and then see how it works. I think you are right; we are going...

Ajinkya Dhavale:

Yeah Okay, thanks.

Dr. Haseeb A. Drabu:

Thank you.

Moderator:

Our next quest comes from Mr. Pranav Gokhale of Religare AMC.

Pranav Gokhale:

Good evening sir. Good set of numbers. Just couple of questions, one is on the advanced break up in terms of the industry as well as the overall profile. Can you help me with that please?

Dr. Haseeb A. Drabu:

From position of advances, first geographies 45% gain or 47%.

Pranav Gokhale: No not in terms of geography, but in terms of sectoral exposure.

Dr. Haseeb A. Drabu: Yeah, while sectoral exposure; we had almost now 40% in SME. J&K growing at about 30%, bulk of our advances in J&K are SMEs and horticulture, so those two sectors are driving our things, and so essentially we look at it from an industry perspective about. We will have about 25% in corporate, is what you are looking at right? We have about 30% of SMEs, 10% of horticulture that is about 40% that takes you to about 65%. Then, we have about 12% to 15% in retail and then rest is your personal others.

Pranav Gokhale: Okay, just in case of the overall industry wide exposure, is it more horticulture and SMEs, but is it across any particular industries where you feel that the exposure is reached or something like that? In the sense, my question is, which are the key industries that you are looking at where you could see some problems or anything?

Dr. Haseeb A. Drabu: Where we see problem, frankly SMEs are fairly diversified, so we are not seeing a problem there, something in pharma, there is something in commodity, there is something in steel, something in cement, so it is an all round thing, it is ranging from pharma to textile, whatever. It is a small bunch of and the reason being these all are in Jammu and they are there not because of any particular reason, but because of the excise duty exemption, so all and sundry electronics have come and you know pharma has come and so on and so forth, so you see a motley mix of that, right. As far as trouble sectors, but the only one that I am looking at and that is not very large project for us. We are less than I think 4% on that is the exports. Because my own sense is that the trouble will hit the Indian economy from the export side. Now you see, just look at the ECBC premium to pay in ratio and you will find how much has gone up in the last three months and I think till March, this quarter and this fiscal you won't see it, because all banks are restructuring it. You will see that pain emerge sometime in May or June and that is when I think the trouble will start hitting us.

Pranav Gokhale: Thank you, sir.

Moderator: Thank you sir. Our next quest comes from Mr. K. R. Shrivastava of Business Line.

K.R. Shrivastava: Good evening, Dr. Drabu.

Dr. Haseeb A. Drabu: Hi, Shrivastava, how are you?

- K.R. Shrivastava:** I am fine. The most of the questions have got exhausted. I just wanted to understand from the point of capital raising, now that the GDR option has virtually closed, are you looking to raise any capital from the domestic market to fund the business growth?
- Dr. Haseeb A. Drabu:** We you growing at 11%, 12%, or 15%, let's say 20% with capital adequacy of 13.24 with a Tier1 of 12.5, why do I need capital? There is no need for it at the moment of time.
- K.R. Shrivastava:** So, that means you are essentially ruling out any capital raising this quarter that is the last quarter?
- Dr. Haseeb A. Drabu:** Yeah, unless I have some good reason to raise capital, I have not seen it.
- K.R. Shrivastava:** Okay and the other question is on Metlife, what is this FDI hike were to materialize this financial year, then does your strategy change for Metlife?
- Dr. Haseeb A. Drabu:** Yes it will of course, because Metlife itself strategy will change because they will want to go up to 74 or 49 as it may be and they will have to look out. We are basically not financial investors in Metlife. We are strategic investors. We have distribution relationship with them.
- K.R. Shrivastava:** Sir, I did not get you? You are not?
- Dr. Haseeb A. Drabu:** We are not financial investors in Metlife. We are strategic investors, we are promoters and we have a distribution arrangement with them, so for us it is not the financial investment in equity, the joint venture, which has come down at this point of time from 25% to 13% because we could not contribute the capital, why we could not contribute the capital, I explained, so that is there, once we have the option to do so, we will do it. We have head room in the next six months, I think, by the end of March, we will have our (not clear) increased. We may be able to contribute capital and once we do that we will take it up from there.
- K.R. Shrivastava:** So, there is no question of exit?
- Dr. Haseeb A. Drabu:** At this point of time, we do not see any exit, why should we? It is not going to drain us of any resources right now. We are not looking for any money at this point of time and investment made three years back, so we are okay with it. It does not invoke any provisioning for us because it is a joint venture and the RBI insulates are such that we do not have to provide for it. So it has been there and when markets improve and I get Rs.800 crores for my Rs.220

crores and I am okay as said. Right now, I do not see any need.

K.R. Shrivastava: Okay and overall do you expect to sustain or even better your Q3 performances than Q4?

Dr. Haseeb A. Drabu: Much better.

K.R. Shrivastava: Okay, basically because of treasury income or even the core business?

Dr. Haseeb A. Drabu: Core business will remain as the same. I think we have now shown you for the last 12 quarters. We are doing an excellent thing on core business. We have stabilized our core business to give 25% every quarter on quarter. We are improving our margins in the worst of times. We have 3.25 today. In advances yield is high, and ROE is high, excellent kind of stuff. The treasury is something that has (not sure) to the entire game. We have so far resolutely refused to play that game. Because, we are a small bank, we cannot absorb the losses. It is easy to say that why we could have sold out when the yields were at 4 and 4.5 and bought it. I will have to meet SLR requirements also, where would I meet them from? I would have to buy at about five levels and today; I would have had the mark-to-market loss. So, we take a very, very conservative route on that front, but yes we are sitting on a treasury gain of Rs.35 crores at this point of time and those are up for redemption in May, so I will sell them off in the course of this quarter and book that, but I am not going to play a treasury game to improve my profitability, that is something that I am very clear about. Unless market condition stabilize, and I know we are on a point of inflection, but that is now rates will go down from here, so we will build a book on the understanding that rates will ease out and once they start easing out somewhere around mid of the next fiscal, we will slowly bring in treasury as a contributor. Today, treasury is neither draining us nor contributing, which is a fair play in uncertain times, but hopefully towards the middle of next fiscal, we should see some gain coming in, but Q4 definitely we will have some treasure gains, definitely.

K.R. Shrivastava: What you have to say on what the RBI governor was indicating the other day that there is still scope for the banks to bring down the loan rates?

Dr. Haseeb A. Drabu: Well, that is a view, of course, very informed towards the governor, one cannot say very much about it.

K.R. Shrivastava: Sir from your side, do you plan to bring down PLR?

- Dr. Haseeb A. Drabu:** Not at the moment and what prevents from doing sub PLR lendings tell me?
- K.R. Shrivastava:** Yeah, that has been the practice in the industry anyway.
- Dr. Haseeb A. Drabu:** It is from Indian Loan Book, it is sub-PLR, what is the big deal about a PLR? It has become more like a bank rate. Bank rate is 6 and Repo rate is 4.5, operating rate today is not bank rate.
- K.R. Shrivastava:** No just as a reference point as a benchmark?
- Dr. Haseeb A. Drabu:** Well I think we are comfortable with 14.5 at this present time, as I said; I will not take call on any of the rate issues till the government reveals its program.
- K.R. Shrivastava:** Okay fine, thank you sir.
- Dr. Haseeb A. Drabu:** Thank you.
- Moderator:** Thank you sir. Our next quest comes from Ms. Lakshmi Manohar of Capital Market.
- Lakshmi Manohar:** Hello, my question is on the CASA. On Q on Q basis, the CASA has remained stable and you have indicated, you will grow it to 40% by this year and so what will it be for the coming quarter?
- Dr. Haseeb A. Drabu:** We have increased our CASA compared to corresponding period to the last year, haven't we?
- Lakshmi Manohar:** On Q on Q, I am talking sir, compared to September and this quarter, there will be a marginal increase.
- Dr. Haseeb A. Drabu:** In September, we have huge seasonality in our incomes, you must compare it on a sequential basis on Q3 on Q3 or nine months until nine months, so we have improved it from 35% to 37%. We will end the year you see most of our, now is the time that our CASA is the highest which is January to March because all our (not clear) come back to the money and put it in their saving costs and all that, so I would still think that we will do about 40% of CASA by March 31.
- Lakshmi Manohar:** Okay, you are still confident in that?
- Dr. Haseeb A. Drabu:** We have historically kind of had a CASA pattern of that and when you compare sequentially, we have all through the year been up compared to our previous year, so I see no reason for a decline in that.
- Lakshmi Manohar:** On the recoveries, how much was the recovery this quarter?

- Dr. Haseeb A. Drabu:** We have done I think about 18 crores of recoveries in this quarter, but we will in Q4, I have already indicated that we have already settled a few accounts and one of the reasons why we took some NPAs on our books was to give us enough time of three months to be able to recover and settle the accounts. It is more in the need for NPA management rather than a prudential non-perspective (not audible) an account which you know we stepped, but had met the guidelines of three months already because we had taken the NPA largely for management purposes so we should be able to see. I have committed to this that by March 31 not only will the absolute number of NPA lower but the corrected numbers will also be lower.
- Lakshmi Manohar:** Has there been any re-pricing of asset this quarter?
- Dr. Haseeb A. Drabu:** No, we are not having any re-pricing as such.
- Lakshmi Manohar:** Okay and your JV what will be the income you generated from JV this quarter?
- Dr. Haseeb A. Drabu:** We have not booked most of our commission as I was saying that we have not booked much of our incomes this quarter from this largely because our insurance business went for a toss in that period of strike, but I should still be able to give you some numbers on our insurance. We had done about close to Rs.7 crores of insurance commission compared to Rs.6 crores last year.
- Lakshmi Manohar:** Okay thank you.
- Moderator:** Thank you, madam. Our next quest comes from Mr. Rahul Jain of CLSA.
- Rahul Jain:** Good evening sir, just a couple of questions. Sir if I look at the names on quarter on quarter basis, it has come down by 16 basis point, whereas your yield on advances has gone up while cost of deposits have come down, so why NIMS have kind of fallen on quarter on quarter basis?
- Dr. Haseeb A. Drabu:** I don't know, where quarter on quarter basis, where NIMS has fallen, my net interest margin.
- Rahul Jain:** Sir, actually in this quarter it was it was 3.5% where in the last quarter it was 3.41.
- Dr. Haseeb A. Drabu:** The way our business has structured, I do not know, there must be a seniority element in it but Q2 to Q3 as you are right, it is 3.41 is largely much because of that, so otherwise if you look at it sequentially, we have shown substantial improvement in our, that is the reason why that has happened.

Rahul Jain: Sir, is it because a kind of advances during the quarter, it is also kind of come down by 3%, so it is because of that?

Dr. Haseeb A. Drabu: But I also said that advances, you cannot really compare Q2 to Q3. It is a section of that perhaps yes.

Rahul Jain: Okay fine and another question is basically if I look at your coverage span for the last couple of quarters, it has been coming down from the peak of 68% in the last year, so can you throw some light on that sir?

Dr. Haseeb A. Drabu: Well one of course is that incremental NPAs have not been covered to the same extent, we have certainly covered them as per the norm, but they are able to cover them but we have not covered them adequately instead I would cover the issue, but as I was saying that we have done NPAs largely for a purpose of NPA management and not anything else and we have to set these accounts, so coverage ratio are really significant March on March and we will go back to 70% coverage by March of this year, so that is the view we have taken and it is only for a interim purpose that, second is that some of our provisioning that we have done this year this quarter is excessive on tax, number one and now we did not do and number two is RBI has asked such that do some provisioning for these structured accounts. Now that does not come under coverage. Probably one of the few banks that actually has covered even that, so we have done about Rs.10 crores of coverage on that which is not reflected in the coverage ratio. It is outside the coverage ratio, so those are the two reasons why it has lead to decline.

Rahul Jain: Okay, basically provisioning that you have done on restructured account is not classified for the coverage?

Dr. Haseeb A. Drabu: Yeah that is right.

Rahul Jain: Okay and sir you are saying that you will reach to 70% by March 2009 or March 2010.

Dr. Haseeb A. Drabu: March 2009.

Rahul Jain: Okay, so next quarter likely that there will be more NPA provisioning?

Dr. Haseeb A. Drabu: Yeah. There will be.

Rahul Jain: Okay and sir, just wanted to understand does your bank provide for new wage settlement bill as well, AS15 and new wage hike provision, unlike other PSU banks.

Dr. Haseeb A. Drabu: No and our costing commissions are very, very low. We have gone from 40 to 37 so; we are probably to get about 36 by March.

Rahul Jain: Okay and sir, actually, I am sorry I missed out on this slippages number, which you said, absolute number during the quarter. Sir, can you just repeat it again for me please?

Dr. Haseeb A. Drabu: I really do not know, we had got those numbers from, the gross NPA that are up from Rs.470 crores to Rs.540 crores.

Rahul Jain: That is the gross NPA, but slippages, the fresh addition that you have done in this quarter.

Dr. Haseeb A. Drabu: Yeah, we have done two accounts, which I will tell you, just give me a minute, we have done about Rs.37 crores.

Rahul Jain: That is the fresh addition during the quarter and you were saying that one account is because of technical in nature, which you have recovered in the interim period?

Dr. Haseeb A. Drabu: That is right.

Rahul Jain: Okay. What would be the quantum of that if you can disclose?

Dr. Haseeb A. Drabu: It is about Rs.26 crores.

Rahul Jain: Okay. It is Pharma Company and sir, just on that bond deal sign, that you spoke about. Sir, what is the average yield on one portfolio currently?

Dr. Haseeb A. Drabu: It must be close to 6.68 or something.

Rahul Jain: Okay. So, basically, obviously, you have that much of headroom to kind of...

Dr. Haseeb A. Drabu: Yeah, we have that headroom, it is about 6.8.

Rahul Jain: Yeah and sir, you mentioned that your unrealized gains are around Rs.35 crores.

Dr. Haseeb A. Drabu: That is right.

Rahul Jain: Okay and on this JV thing with Metlife, currently, the stake has come down to 14% from 25% earlier. Alright and you said that if you want to exit from this JV, you will get whatever amount that you have invested around Rs.220 crores plus annual compounded interest of 15%.

Dr. Haseeb A. Drabu: That is right.

Rahul Jain: How many years it has been sir? I am sorry to ask this question, but.

Dr. Haseeb A. Drabu: Four years.

Rahul Jain: Four years okay. I think, that is it from my side. Thank you so much sir.

Dr. Haseeb A. Drabu: Thanks.

Moderator: Thank you sir. Followup question comes from Mr. Pranav Gokhale of Religare AMC.

Pranav Gokhale: Most of my questions are answered just a particular question on the slippages overall, how the NPA movement has been for the nine months period? I mean the openings, additions, provisioning, up gradations, and then the closing portion please.

Dr. Haseeb A. Drabu: I would not have the ready number as in how much we have recovered and how much we have actually slipped, but net acquisitions, you obviously have the number.

Pranav Gokhale: Right, but there were some movements of...

Dr. Haseeb A. Drabu: Just give me the name please again?

Pranav Gokhale: My name is Pranav Gokhale calling from Religare AMC.

Dr. Haseeb A. Drabu: Okay, Pranav Gokhale Religare AMC. I will have it sent it to you.

Pranav Gokhale: Sure, thanks.

Moderator: Thank you sir. Followup question comes from Mr. Alpesh Mehta of Motilal Oswal Securities.

Alpesh Mehta: Hello sir, my question has been answered. Thanks a lot.

Dr. Haseeb A. Drabu: Okay.

Moderator: Followup question comes from M. P. Magesh of Edelweiss Capital.

M. P. Magesh: Sir, just to understand on the JV side. You currently have at about 14% and RBI is not allowing you to make incremental investment unless you have the desired network.

Dr. Haseeb A. Drabu: RBI has a simple principle that you can invest only upto 10%. We have reached that limits that's it.

M. P. Magesh: Yeah sir, even if I include the nine months profit and the incremental profit that you get in Q4, adding probably the Rs.30 odd crores that you would get from the treasury side. You would not be able to increase it to 25% right?

Dr. Haseeb A. Drabu: Not right away. No question.

M. P. Magesh: There will be no way you will be able to do it even in FY10.

Dr. Haseeb A. Drabu: We will lead up with Rs.1,760 crores addition to our networth to be able to do that. We will not be able to do it right away, but we will probably, and capital calls do not come everyday na? So, they have made one capital call so, we have subscribed to that now, which is like say our share is Rs.70 crores, that Rs.70 will be our headroom. Then, by the time the next capital call comes, it will be 2010 or 2011 so, it is around that. I think they are expecting the capital call of about Rs.350 crores over the next three years so.

M. P. Magesh: Rs.350 crores would be your contribution or would be the total contribution to Metlife?

Dr. Haseeb A. Drabu: No, that will be our contribution.

M. P. Magesh: Rs.350 crores additional it was.

Dr. Haseeb A. Drabu: No, total.

M. P. Magesh: Total, okay so, that was Rs.70 crores in the original call and another Rs.30 crores in the next two years' time.

Dr. Haseeb A. Drabu: About Rs.220 crores, Rs.350 crores, Rs.130 crores, Rs.70 crores, and another Rs.80 crores whatever that is...

M. P. Magesh: Yeah so, that will be the call, which you are expecting in the next two years' time.

Dr. Haseeb A. Drabu: That is right.

M. P. Magesh: Okay and you expect any kind of issue to fund this capital currently?

Dr. Haseeb A. Drabu: We do not need it right now, but you see we are also thinking of some options, we are not yet completely looked at it, but we are looking at, we have now (not sure) company called (not sure) financial company.

M. P. Magesh: Correct.

Dr. Haseeb A. Drabu: We may shift this to that company, which does not then reach to 10% networth kind of a thing and we will take it from there.

M. P. Magesh: And from there you can invest into it and there is no restriction there.

Dr. Haseeb A. Drabu: Absolutely and no exposure also.

M. P. Magesh: Okay and just one more question, you have restructured? You have provided 10 crores for restructuring.

Dr. Haseeb A. Drabu: I think it is Rs.7 crores something like that.

M. P. Magesh: Rs.7 crores. What would be the gross restructured assets, which you have done in this quarter?

Dr. Haseeb A. Drabu: We have not, I can tell you the number of accounts, I think we have done about 80 odd accounts with a total amount of about I think, Rs.200 odd crores.

M. P. Magesh: Sir, you would incrementally see more restructuring happening in this quarter because most of the other banks have yet to start their complete restructuring exercise?

Dr. Haseeb A. Drabu: No, we do not see much of restructuring actually now, but I do not think, most banks have even taken into account this amount of provisioning. To be honest, it is a very complicated way of doing it. You have to rule the net present value of provisional loss and all that.

M.P. Magesh: Perfect.

Dr. Haseeb A. Drabu: So, we have done that largely to be compliant and our post whatever has happened in the system, I think, it is desirable that we do it, and we were quick on it because, I will tell you reason for our recession was so much of the RBI thing, but because of the trouble in the valley, so we started sometime around in September and then RBI came out with this norms and all that.

M. P. Magesh: Sir, how much would your total advances be related to exports?

Dr. Haseeb A. Drabu: Around 3.5% to 4%.

M. P. Magesh: 3.5% to 4%. Sir is this guideline, which came out from RBI, which allowed all the export related credit facilities advance from 90 days to 180 days, actually reduces the kind of NPA setting in the system.

Dr. Haseeb A. Drabu: Yeah.

M. P. Magesh: So, you still believe that there is going to be incremental NPAs even if this provision has been given to banks.

Dr. Haseeb A. Drabu: Yeah, that is why I said boss, I said look by March, you will not see anything, the one will be (not clear) it will be over na?

M.P. Magesh: Correct.

Dr. Haseeb A. Drabu: Then you will come to April or May. That time you will see it surfacing.

M.P. Magesh: Okay, fine thank you sir.

Moderator: Thank you sir. Our next question comes from Mr. Mahesh of Fidelity Investments.

Mahesh: I have a question on your book, actually you are a banker for the State Government so, could you give some number on how much percentage of your business is with J&K Government.

Dr. Haseeb A. Drabu: We have Rs.1700 crores with J&K Government out of a portfolio Rs.22,000 crores.

Mahesh: Okay so, this would be on the liability side?

Dr. Haseeb A. Drabu: No, this is the asset side.

Mahesh: And any deposits with them?

Dr. Haseeb A. Drabu: Well, deposits keep coming in the system, but we do not have a number, it does not go beyond, it is there on a 1700 overdraft facility with us and there is fat chance that they will have to deposit with us from the government side so, the government deposits we do not have. What we have is the government gives salaries to people and those salaries are with us, but those are not government deposits, right?

Mahesh: Right.

Dr. Haseeb A. Drabu: And money comes from Central Government to the State Government it passes through us, but that is not a State Government deposit. So, you can say the net balance with State Government is negative to the tune of Rs.1700 crores, if we fund them. So, there is not much of deposit yet, but there is a flow to the system, which helps us.

Mahesh: Right and also, you are talking about deposits, could you give the breakup of like deposits in J&K, outside J&K, and in your rules.

Dr. Haseeb A. Drabu: 60% of deposits are in J&K and rest is outside of J&K.

Mahesh: How much? Sorry.

Dr. Haseeb A. Drabu: 60% of our deposits are in J&K.

Mahesh: Sure and how much would be retail?

Dr. Haseeb A. Drabu: Retail in that 60%?

Mahesh: Total.

Dr. Haseeb A. Drabu: Total, retail would be I do not know, we are looking at about 45% to 46%.

Mahesh: Sure and what would be the tenure of these deposits in terms of how much would be less than one year maturity?

Dr. Haseeb A. Drabu: When looking at that, I honestly do not have a ready number, I can have it sent to you, less than one year will be about 18% to 20% of our deposits.

Mahesh: 18% to 20%. So, most of them are longer tenures?

Dr. Haseeb A. Drabu: Yeah, basically one year plus.

Mahesh: Okay, sure thank you.

Moderator: Thank you sir. Our next question comes from Mr. Piyush Harlalkar of HSBC AMC.

Piyush Harlalkar: Good afternoon sir. I am sorry for being late, so few of my questions can be repetitive. So, first of all wanted to have your outlook on the NPA front, as yours is the one bank, which has gone aggressive in NPA provisioning?

Dr. Haseeb A. Drabu: You are asking for the bank or for the system.

Piyush Harlalkar: For the bank and as well as for the system.

Dr. Haseeb A. Drabu: For the bank, I have already said that by March, our NPAs will lower than what we are today, not only in the relative term, but also in the absolute numbers. Number one, I do not say, for the system is a whole, yes, there is rising trend, we have been a part of the rising trend, though ours is much, much slower than what it is in other cases. Our total NPA is up from 2.5 to 2.6, which is really not kind of situation that seems to go out rising, but I do expect some NPAs happening in the system during this quarter and particularly the Q1 of next year, which is why we have gone regressive on provisioning. I expect some of the export NPAs to come on to the books of bank in the course of Q1 next year, but again I don't think, there is an alarming position for the sector because even though, there is a rising trend, the level is still very, very much well within the manageable level of 2.5, 2.7, 3, 3.5 or whatever

and then when you bring in the element of provisioning with it, it becomes very, very manageable.

Piyush Harlalkar: Okay and sir, regarding like the reason why our other income were lower during the quarter?

Dr. Haseeb A. Drabu: I have gone to great length to explain this.

Piyush Harlalkar: So, this is the trading income, which is lower?

Dr. Haseeb A. Drabu: Trading I said was mostly the reason one, we have held back our booking profits from treasury, which included Q4 number 1, number 2 is that we had a three-month strike in J&K, which resulted in lot of loss of income, which is not so much loss, but (not clear) income, which will happen in Q4 of this year and those are two reasons that we found that last year this time it is relative number, we had booked lot of equity gain, which are not available to us right now.

Piyush Harlalkar: Okay and sir, how much is the profit that we have not booked and will be booking in fourth quarter?

Dr. Haseeb A. Drabu: On treasury?

Piyush Harlalkar: Yeah, on treasury?

Dr. Haseeb A. Drabu: Rs.35 crore.

Piyush Harlalkar: Rs.35 crores. Okay and sir, the outlook regarding the business going forward the growth like.

Dr. Haseeb A. Drabu: For us it is 18% to 20% and mostly 80%, not varying 80% advances and about 20% deposits. We take a view that we too outstrip our advance growth by the deposits, which was done this quarter in the bank must be liquid and well funded so, that is how you see.

Piyush Harlalkar: Sir, like you said that in deposits 60%, which is within in J&K and 40% outside, what about advances?

Dr. Haseeb A. Drabu: 45% in J&K and 65% outside.

Piyush Harlalkar: Okay so, what is the strategy going forward like, whether there will be..?

Dr. Haseeb A. Drabu: I think, we have clearly outlined last 3 years about our advances J&K is in 20% and now they have gone on to 46%. We increased them to 50% by the year ended 50%-50%. So, that is how, we have learnt to book that.

Piyush Harlalkar: Okay, thank you sir.

Moderator: Thank you sir. Followup question comes from Mr. Sunil Kumar of Birla Sunlife.

Sunil Kumar: Sir, about the branches, you had a plan of opening 60 to 70 branches, where are we now?

Dr. Haseeb A. Drabu: We are on the course with that. We will hit 600 by I think by March, it is 572 today and add 38 in the course of this month.

Sunil Kumar: Okay and the rest of the 30 to 40, you will be opening in next year? Sorry.

Dr. Haseeb A. Drabu: Yes, then we have got some more license from Reserve Bank so, we will be opening around 45 branches in the course of next year.

Sunil Kumar: Okay and all these 60 to 70 branches are outside J&K?

Dr. Haseeb A. Drabu: Not all, no not all. Actually, these follow 1:3 ratio.

Sunil Kumar: Sorry, 1:3. Okay. Right, thank you so much.

Dr. Haseeb A. Drabu: Thanks.

Moderator: Thank you sir. There are no further questions. Now, I hand over the floor to Dr. Haseeb A. Drabu, Chairman and Chief Executive for closing comments.

Dr. Haseeb A. Drabu: Thank you very much, not much to say by way of closing comments. Thank you very much. It is always a pleasure to talk to all of you, very impressive comments and I hope, I have answered all your questions and this by way of reaffirmation, we will surely look at Q4 in the same manner which we have done till now and we are looking at about Rs.415 crores to Rs.420 crores of profit in the course of the year that is what we have guidance what we have said in the beginning of the year and we are still on to it and we hope to exceed that number. Broadly, things having on course in Q3 as most of you also kind of indicated and we will know the NPA management front, I think just need one more kind of thing to tell you that as I have said that we have taken an aggressive position on base and we have done some pre-emptive actions for reasons of management of NPA, we took some NPAs in our book at this point in time, which otherwise would not have been so. This is only to settle them and already we have shown the results in the first month, we have been able to settle a few accounts and by the end of March, we should see a much better position on NPAs, most in absolute as well as relative terms. Thank you very much for taking time off to come for this conference call. Thank you.

Moderator:

Thank you sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's Conference Call Service. You may disconnect the lines now. Thank you and have a pleasant evening.

Note:

- 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.