

“J&K Bank Q1 FY 2016 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the J&K Bank Q1 FY 2016 earnings conference call hosted by Elara Securities Limited. As a reminder all participant lines will be in the listen only mode. 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. Rakesh Kumar of Elara Securities. Thank you and over to you Sir!

Rakesh Kumar: Thanks Inba. Good morning to you all for the Jammu & Kashmir Bank results conference call. We have with us on the line the senior management of the Bank Mr. Mushtaq Ahmad the Chairman and CEO and Mr. Parvez Ahmad, Executive President. Without much ado I would like to request Sir to take it ahead from here. Over to you Sir

Mushtaq Ahmad: Thank you and good morning to all of you. Before I take you through the presentation and the preliminary discussions I would say that the overall stress on the industry still continues and I think we will have to see this type of turbulence for sometime more and at J&K Bank really the last four quarters have been quite turbulent one. Again I would say that as per the very reliable rating agencies again the banking system would be adding other NPAs to the extent of 60,000 Crores to 100,000 Crores and that is a clear indication that still we are passing through the turbulence but at J&K Bank I think we are quite happy and pleased to announce that this quarter has been quite okay for us. Straightly I would take you to the parameters and the key ratios. The net profit of the bank for the quarter was 158.76 Crores as compared to corresponding quarter last year 130 Crores so there is a jump of 22% but if you compare this profit with Q4 of last year that is 102 Crores there is a jump of 56% in the net profit. Operating profit Q-o-Q last year it is really subdued I should say 2.41% but when we compare it with the March quarter there is a decline of around 20% and mainly this 20% is because in the fourth quarter we had reevaluation of depreciation that was 145 Crores that was the one time gain for the bank and now net interest income of the bank which was last year 768 Crores it was almost flat at 1752 Crores but from fourth quarter it is slightly up from 745 Crores to 753 Crores. One worrying thing has been that this gross NPA of the bank it has increased from say 2800 to around 3000 Crores from Q4 to Q1 of the current year and the net NPA which was say 1236 Crores these have slightly increased to 1277 Crores but at the same time I would say that the NPA coverage ratio was 55% in last June '14 and this has increased to 60.68 that is almost 61% and in certain cases we have over provided also, gross NPA stands at 6.63%, net NPA stands at 2.95% and one positive thing has been there, as far as CASA ratio is concerned last June it was 40.96 that is around say 41% but this year it is 45%, CD ratio almost flat at 70%. Yield on advances is something **[indiscernible-6.08]** around 18 basis points but at the same time in cost of deposits we have registered decline of around 48 basis points. Number of business units have increased from 795 to 821 again ATMs 825 to 906 but cost to income ratio has increased from 42% to 45%, this year we have to pay extra arrears and all that, we do hope that in the coming times I think we should go back to 40% as far as cost to income ratio is concerned.

On the deposit side I should say that though there has been a decline in the deposits that has been on the term deposits because we have repaid and we have not re-received those term deposits and as a result of that we have contained this interest expenditure but there has been an increase of 8% in the savings bank account and also current account around 3% that's why the CASA has moved up from 42% to 45%.

As far as the net interest margin is concerned we have been maintaining that we would like to maintain despite the odds that we have to face this turbulence and all that pay other we have been committing that it would stay around 4%. Last June it was 3.63% and it is now 3.93%, same way post tax return on assets last time it was 0.72% now it is 0.88% and the cost of deposits and yield we have discussed.

Capital adequacy ratio is very important thing, we need to discuss. It is flat at 12.93% last June and this June at the same figures, again as far as restructuring is concerned, restructuring has almost been same at the beginning of the current year, this March 31, it was 2467 Crores and it is almost 38 Crores up to 2505 Crores and this has been mainly on account of some corporate outside the J&K State.

Now coming to investment side, the yield on SLR securities has remained as 9.04% and non-SLR security it is 7.53% and on the total it is 8.35% which is best comparable with the industry. As far as

geographical distribution of the deposits and advances are concerned 78% of the deposits come from J&K State and 22% from outside J&K State. CASA ratio 52% from the state and 18% from outside J&K State and one good thing has happened this time that advances in J&K State have increased and now the distribution is 52% and 48% that is 52% within J&K State and 48% outside J&K State. When you have higher advances in J&K State that means higher yield and outside J&K State it would be now 48%, so I would expect because of this distribution moving in favor of J&K State the net interest margin should also increase. So number of branches I have already mentioned to you that within J&K State there is 707 outside 118 and same way our ATMs almost same distribution 824 or to 852.

So gentlemen these were the major highlights of our presentation and I would also say now that within J&K State we are opening more and more branches, the process could not be continued because of the glut last time and we were busy with those gluts reactivating some of the branch and bringing back the operations on track. Of course we were the first in J&K State the first bank in the whole of the state to restore operations within a period of the weeks time but then again it took time to come back on track, we are quite happy that we have been able to come back and then again all the stress plus other things is the history of past. We hope for very good future. And in J&K State I should also say that we are expecting good message from the Central government which has not happened so far and that will include infrastructure development, spending on railway lines, power projects and also health and education and that is going to boost the circulation of money and J&K Bank being the major player in J&K State is going to be the beneficiary of this package and notwithstanding the flash floods we had a very, very, very tough year and we passed through challenging times last year still we were very successful in maintaining accretive growth of around 17% to 18% in J&K State but outside J&K State we could not pursue much and in the coming year I should say that we have already committed that with this package coming in and also the normal growth accretive growth within J&K State would be say minimum 25% and beyond but outside J&K State if it happens between 12% to 15% that would be quite okay for us and I do hope that the coming quarter would be brighter as you see the first quarter itself but again I would caution again about the stress and we have to keep our fingers crossed for two or three quarters more. Thank you very much and if there is any question we will gladly like to reply to that.

- Moderator:** Ladies and gentlemen we will now begin the question and answer session. The first question is from Alok Kapadia of Antique Finance. Please go ahead.
- Alok Kapadia:** Congratulation Sir, very good set of numbers. Sir just two questions one is that we have seen the non J&K book especially in the corporate side run down significantly some roughly 20,000 Crores in June last year to 17, 500 Crores this year so where has this run down happened Sir?
- Mushtaq Ahmad:** Mainly these are repayments and in the last quarter of 2013 there was some short-term loan which has been repaid.
- Alok Kapadia:** Sir, just can you give us some flavor on how these 17500 Crores what would be the names of a top five exposures and some kind of color on, what is the size of our largest exposure in the 17500 Crores?
- Mushtaq Ahmad:** Mainly I think I should say if you just take Government of India undertakings this will be Food Corporation of India, and this could be Power Finance Corporation of India and again some exposure to ILFS and then we have an exposure to Tata and also exposure to Reliance.
- Alok Kapadia:** Sir will it be fair to assume these five, six names would be 30%-40%-50% of the loan book will it be fair?
- Mushtaq Ahmad:** If you discuss Tata it would be around 3% of the total book, ILFS would be again 2% and others would be 1% to 2% but this Tata group, FCI, then PFC, FCI around 3%, total outstanding I am talking.
- Alok Kapadia:** Sir the other thing I just wanted to check is that Sir what is the strategy we are following on the non J&K book in terms of fresh disbursements and sanctions what strategy are we following?
- Mushtaq Ahmad:** Already I think we have some proposals and processes our board has also approved and mainly we are for the top rate this Government of India undertakings and private corporate houses that strategy continues but in between we have taken an exposure in some MSME and I think this experience has not been that much encouraging so now the stress would be that yes, we are outside J&K State we have a stronger network outside J&K State and we want to continue with this

Pan India presence, so we have to be outside and best of the best and we are now clearing outside for higher yield but security and safety of our funds.

- Alok Kapadia:** Okay. Sir and this, there were other accounts in the non J&K book linked to the Iron and Steel sector two or three names, so have we participated in this 525 refinancing scheme for some of these accounts?
- Mushtaq Ahmad:** Like?
- Alok Kapadia:** Sir Bhushan Steel?
- Mushtaq Ahmad:** Yes, Bhushan Steel I think we are a part of that package.
- Alok Kapadia:** So we have refinanced under 525.
- Mushtaq Ahmad:** Yes.
- Alok Kapadia:** Sir the other thing is that there was one rigorous state account in the NPA category any update on that Sir, have been able to regularize it Sir?
- Mushtaq Ahmad:** I think you are referring to the Bombay based one.
- Alok Kapadia:** That's correct.
- Mushtaq Ahmad:** Yes very good positive developments, developments have been there, we had a term loan to the extent of 300 Crores and then through investment route to around 100 Crores. Investment route has been totally repaid, 100 Crores has been repaid and there are just over dues up to 50 Crores which we are expecting in the current month and we do hope with that the repayment of that 50 Crores discount would be upgraded.
- Alok Kapadia:** Okay, so Sir, almost 400 Crores would come out of gross NPA right Sir?
- Mushtaq Ahmad:** Yes, less 300 Crores because 400 Crores was 300 plus 100, 100 Crores has been repaid.
- Alok Kapadia:** Sir just one last question on the J&K Bank strategy that, so what where is this loan growth coming from J&K Sir, as in which segment are we lending?
- Mushtaq Ahmad:** See, J&K first of all I should say that because of the Government of India spending we will not be directly participating in that spending but to support that spending you need ancillary industries and ancillary support and to finance that number of trucks, tippers then you have contractors guarantee, contractors limits and all these things, that would be there and as far as power generation is concerned already there is commitment from our side we will be participating directly because they are indicating some loans, it has to be on from the private partnership that model and when it is private partnership naturally equity **(inaudible-19.01)** J&K Bank is going to participate number two, number three you see total composition of the business of J&K State it is of mainly horticulture is there, agriculture is there, we have got handicrafts, we have got **(unclear-19.18)** and all that so these sectors are also growing side by side and there lies the credit appetite and scope for credit deployment.
- Alok Kapadia:** Sir just one last question Sir, what is the update on this Metlife stake share Sir?
- Mushtaq Ahmad:** We have already just indicated to the promoters that we are looking for the price we are in the process of getting valuation and all that, once we have that then we will proceed with all this.
- Moderator:** Our next question is from Ashish Sharma of Enam Asset Management. Please go ahead.
- Ashish Sharma:** Sir on the strategy part we have seen that the Rest of India book is sort of going down in the environment where we see that the PSU bank itself will not be growing their book much too do we see that the consortium lending participation we were doing will sort of slowed down and the book will not grow as we would have thought going forward Sir?
- Mushtaq Ahmad:** We slowed down last year but this year we have to move forward.
- Ashish Sharma:** But when you see there is not much opportunity because these PSU banks themselves are struggling to see growth, so will we look at sort of a growing the book on our own or not participating in the consortium lending?

- Mushtaq Ahmad:** No I would say that as far this weaker accounts are concerned there is an opportunity to go independently, we would not even be averse to that part but mainly it will be in the consortium also lending its not that totally we have stopped, I think it has slowed down and what would be the total credit appetite of J&K Bank that would not be much as compared to the public sector bank like State Bank of India the normal bank. I think we are not very weak, we will have our share.
- Ashish Sharma:** So from guidance perspective should we take 25% growth in the J&K book and may be a closer to a single digit sort of growth?
- Mushtaq Ahmad:** We expect 12% to 15% outside J&K State and within J&K State around 25% as you have said right.
- Ashish Sharma:** Okay. Perfect Sir, and then Sir coming back to the stress asset formation part, how much amount is already refinanced under the 525 rule data on that and on all the accounts where we have sort of have put in provisions in last four quarters, have we seen any write-back of those provisions, I think you said HTL was a, a case which is sort of turn around so any write-back of the provision we have taken already?
- Mushtaq Ahmad:** No even on IGR we have not taken write-backs are has happened after 30th of June and that will have an impact on second quarter results.
- Ashish Sharma:** Okay, what would be the quantum Sir?
- Mushtaq Ahmad:** I already explained that number one we have already recovered our Bond money that is around 100 Crores and we are expecting to upgrade this facility of 300 Crores, so No.1 that will be 300 and there are some couple of other accounts, while in fact there has been some technical issues in accounts but we do expect those accounts could be upgraded but at the same time we are all humans, we must remain prepared for some shocks and surprises under current situation.
- Ashish Sharma:** Okay and accounts in the watch list which you are finding will not be sort of a turnaround and anything which is under the pipeline in terms of slippage?
- Mushtaq Ahmad:** See number one all your impaired and stress assets are under watch and we are pursuing for their recoveries and settlements and number two while you see that the accounts are under especially mentioned account those are always under watch list.
- Ashish Sharma:** Sir this the number on the 525 refinance how much we have already done?
- Mushtaq Ahmad:** I need to check and come back to you.
- Moderator:** A next question is from Anand Laddha of HDFC Mutual Fund. Please go ahead.
- Anand Laddha:** Sir this quarter slippages of 339 Crores can you give some more light in that in terms of what was the largest account that slipped, how much was the slippages on the J&K Book and how much was the slippages from the non J&K book?
- Mushtaq Ahmad:** I would say there were two major two accounts one in Delhi and one in Bombay and these amounted to something like 150 Crores and we do hope in the current quarter we are going to upgrade those accounts also, there were some small technical issues on that.
- Anand Laddha:** Sir, this account pertains to which sector Sir?
- Mushtaq Ahmad:** Delhi based it is steel and Bombay based it is automobiles.
- Anand Laddha:** Sir when you say steel this is the largest steel exposure you have?
- Mushtaq Ahmad:** Its not that exposure is not more something like 70 Crores.
- Anand Laddha:** Okay. Sir both these account taken together is Rs.150 Crores?
- Mushtaq Ahmad:** Yes, almost.
- Anand Laddha:** And balance slippages pertain to the J&K book?
- Mushtaq Ahmad:** Those are small outside J&K within J&K as well but there is small account.
- Anand Laddha:** Sir what is the outlook Sir, given that we have 6% of the book has been restructured book, if you can give some color what could be the industry wide exposure in the restructured book, is iron & steel the largest, what is the outlook Sir?

- Mushtaq Ahmad:** I would say as of now our restructured book is spread over different sectors but still I think all the sectors are more because it percolates to all those sectors but I see that for the time being I think steel and even infrastructure some of that area that would remain under stress and we should keep a very hawk's eye on that.
- Anand Laddha:** Sir, of this 2400 restructured book what could be the steel exposure in that and construction exposure in that Sir?
- Mushtaq Ahmad:** As far as restructured book is concerned large industries and services it is plus 40%, infrastructure is around 32%, SME is around 10%, agriculture 1.57%, trade is 4.24% and then others around 8%.
- Anand Laddha:** Sir do you foresee any large account from restructured book which is showing signs of stress or which is a part of SME 2, what could be that quantum Sir?
- Mushtaq Ahmad:** I think these details have to be worked out and then we can discuss somewhere when we meet.
- Anand Laddha:** Sure. Sir what is the outlook on asset quality slippages for the full year?
- Mushtaq Ahmad:** I would say that for J&K Bank we should say that, we should not have big shocks and surprises rather we should be in a position to control our NPAs and also make some recoveries as we have done in SGL we were expecting some one or two more account and also I think the major concern for us was REI Agro but thank God that we have been able to provide to the extent of 608 Crores against the exposure of 675.
- Anand Laddha:** But Sir in this account which you have mentioned REI Agro is there any recovery chances or is there is something which the bank can recover at the industry level?
- Mushtaq Ahmad:** To start with we have independent control over their assets and I think we can independently just dispose those assets and then recover that money but I think that should be between 150 to 200 Crores now.
- Anand Laddha:** Okay. But nothing is happening at the industry level because there was some talk that those accounts will get restructured.
- Mushtaq Ahmad:** I would say as of now we should not say that there are something because already I think the manner under which account has undergone some surveillance and all that I think the scope for restructuring is minimum.
- Moderator:** Next question is from Gaurav Agarwal of ENR Advisor. Please go ahead.
- Gaurav Agarwal:** Sir I wanted to know the figure for 525 total loans which have been refinanced under 525?
- Mushtaq Ahmad:** I think major of this refinancing would be this Bhushan Steel and but exact number figure I think I need to check and come back to you.
- Gaurav Agarwal:** Sir Bhushan steel has already a restructured account right?
- Mushtaq Ahmad:** I think this is a refinanced one.
- Gaurav Agarwal:** No, earlier before this 525 refinancing.
- Mushtaq Ahmad:** It was restructured earlier.
- Gaurav Agarwal:** Sir what about the J&K base restructured out of the total restructuring book how much is J&K specific because I remember in the last quarter it was 641 Crores, just wanted to check how it has moved?
- Mushtaq Ahmad:** J&K total would be around 686 Crores out of total 2500 Crores, 686 and 1818 is outside J&K State. This is coming to 73% outside J&K State and 27% within J&K State.
- Gaurav Agarwal:** Sir can you give the break up of the J&K specific restructured as in how much from corporate or SME trade details agri?
- Mushtaq Ahmad:** I think I have total is available with me but breakup I am not in a position to provide to you right now, overall I have already mentioned other industry it is very, very minimal but we have not taken it within and outside J&K State.
- Gaurav Agarwal:** Sir one query is your Basel filings you gave exposure which are included off non funded exposure as well right?

- Mushtaq Ahmad:** I think it will be both.
- Gaurav Agarwal:** It will be both, because some people give funded plus non-funded differently but here I can find only one number so I assume that it will be both.
- Mushtaq Ahmad:** No it will be combined one.
- Gaurav Agarwal:** So Sir out of this metal exposure is around 2600 Crores this is slightly three month old number.
- Mushtaq Ahmad:** Restructured book you are talking?
- Gaurav Agarwal:** No I am talking about the total metal and steel exposure which is around 2650 Crores.
- Mushtaq Ahmad:** Metal and metal product could be 6%.
- Gaurav Agarwal:** So out of this how much would be in the restructured or NPA category or how much is standard currently left standard?
- Mushtaq Ahmad:** I should say that overall it has come from these major industries only but metal it could not be too much there. But any how we have to again go back.
- Gaurav Agarwal:** And lastly Sir, the interest reversal?
- Mushtaq Ahmad:** Interest reversal, those accounts with around 200 Crores to 300 Crores where we have been set and at the same time where there has been upgradation.
- Gaurav Agarwal:** No Sir I am asking these 369 Crores of slippages how much was the interest reversal we had to do in Q1?
- Mushtaq Ahmad:** Those details are not readily available with me.
- Moderator:** Next question is from Abhishek Kothari of Anand Rathi. Please go ahead.
- Abhishek Kothari:** Sir in this 370 Crores slippages what is the slippage from restructured book?
- Mushtaq Ahmad:** I think mainly it is from standard.
- Abhishek Kothari:** Okay. And have we done any sale to ARC?
- Mushtaq Ahmad:** No.
- Abhishek Kothari:** And what would be our SMA II portfolio as on June 30?
- Mushtaq Ahmad:** SMA II would be I think around 500 to 600 Crores.
- Moderator:** Next question is from Vallabh Kulkarni of Motilal Oswal Securities. Please go ahead.
- Vallabh Kulkarni:** Sir actually couple of things which are happening on the margins front, the mix is slowly shifting towards J&K I think couple of years it has increased from less than 40 to now 52% of the loans are in J&K which is the higher margin business and secondly the CASA you are also improving so just wanted to understand what would be the ideal mix you would be targeting J&K rest of India obviously you have given some growth targets for this year but in your mind what would be the proportion and secondly from where this CASA momentum is coming?
- Mushtaq Ahmad:** First thing I must tell you that distribution earlier I had targeted that distribution between J&K State and outside J&K State should be 50-50 but in J&K we had the growth of around 17% to 18% while outside J&K State there was negative growth so as a result of that also I think this jump to 52% and 48% but this is good for bank in the sense that when you are lending in J&K State your margin is higher and if you are lending outside J&K State your margin is less and as far as CASA is concerned CASA, first of all I would say that roughly it will be 50-50 distribution between state and outside J&K State. And CASA as you know that in last three four years we have been opening branches like anything and we have opened more than 300 branches in J&K State itself and I repeatedly said this thing that when you are opening a branch in J&K State the business composition is like that that when you are mobilizing deposits 60 to 70% of the deposits are CASA deposits and on the credit side around 90% are in the priority sector. So this CASA is coming from these areas only and if you see the distribution of CASA 52% from J&K State and 18% from outside J&K State.
- Vallabh Kulkarni:** And on the margins front you touched on it, so I have numbers for two three quarters what are the current margins within J&K State and outside?

- Mushtaq Ahmad:** Within J&K State should be around 6% and outside it is less than 3%.
- Vallabh Kulkarni:** Okay, Sir again on the CASA ratio front, the J&K State has struggled with floods over the last year so just wanted to know firstly what the CASA ratio within the state is and how it has moved before and after the floods, have you seen any adverse moment on that front?
- Mushtaq Ahmad:** It has contained the CASA growth because lot of spending was done for reconstruction and revival of flood victims those people who are maintaining their CASA accounts with J&K Bank but at the same time these 300 branches that we have opened these are mainly in those areas where there was no adverse impact of flood so that has really saved and going forward I think we will maintain the current ratio of 45% that would be great.
- Vallabh Kulkarni:** Sir continuing on the flood related impact, again just wanted to understand from you that was there any relaxation of about one year two years given for any of the account, asking because that happened in August last year so one year might end this quarter so anything on that front?
- Mushtaq Ahmad:** I think this package has been extended mainly in the fourth quarter and I think that should reflect somewhere in the fourth quarter of the current year.
- Vallabh Kulkarni:** Okay, nothing much would happen.
- Mushtaq Ahmad:** No I don't see. And also you should understand that if we understand the geography of this area mainly the flood was in the area around Jhelum River and some of the districts Pulwama District, Budgam District, Sopore is here, Baramulla is here, Bandipore is here likewise you have got this Ganderbal district these were not impacted by the floods. Mainly it was Srinagar city and then Anantnag District.
- Vallabh Kulkarni:** Sure. Sir and lastly we have sufficient provision on REI so I know we don't follow an aggressive write-off policy so would you also be following some other policy in case of this account or probably that is one way we can see some improvement in the reported ratios at least?
- Mushtaq Ahmad:** One thing is there that it should be write off. We have to make use of all the force and in case our force does not yield any result then this person, company, has to be taken to an extent whereby other people feel deterred, so no write off and we are not aggressive on writing off but at the same time you have to give sufficient provision to fall back upon.
- Moderator:** Next question is from Bunty Chawla of Dimensional Securities, please go ahead.
- Bunty Chawla:** I need to confirm one situation in the notes to account there is one 670 Crores of exposure is it with REI-Agro?
- Mushtaq Ahmad:** REI is the 670 Crores.
- Bunty Chawla:** And 90% of it is fully provided right?
- Mushtaq Ahmad:** 608 is the provision against that.
- Bunty Chawla:** Remaining 70 Crores you have to provide in next two to three quarters?
- Mushtaq Ahmad:** Yes, we have to provide in next quarter itself.
- Bunty Chawla:** And can you throw some light on the refinancing part Bhushan steel, is it moratorium four years right?
- Mushtaq Ahmad:** I think it is something like that. Yes.
- Bunty Chawla:** Okay three to four years will be the just the interest part will come and on the fourth or fifth year payment.
- Mushtaq Ahmad:** That is standard refinancing.
- Bunty Chawla:** Means three to four years you have to give the moratorium?
- Mushtaq Ahmad:** Depends upon the cash flows.
- Moderator:** Our next question is from Janvi Guradia of Motilal Oswal Asset Management. Please go ahead.
- Janvi Guradia:** Sir my question is on SME and trade book in the outside J&K portfolio so growth there has been a bit inconsistent because it degrew for a couple of quarters in the last year then a sudden jump in the

March quarter and now again it has de-grown so could you give me some flavor on what is the composition of this book what is the average ticket size and their yields?

Mushtaq Ahmad: Ticket size specifically sector wise or segment wise I would not be in a position to give but mainly on corporate book that is around say more than 75% is outside J&K State and rest is mixture of SME, trade and all that, yes last year it was quite a turbulent year for the industry as such but for J&K Bank more than that because of floods not much of attention was given for growth of the loan book but yes within J&K State I should say that we did well despite all the odds we have been growing at around 17% to 18% and that has happened but ticket size I will have to work out.

Janvi Guradia: Sir yields, yields on the SME and trade book?

Mushtaq Ahmad: Yield is I think around say 11.5 to 12%.

Janvi Guradia: Sir my next question is on term deposits because they have degrown over the last couple of quarters so is it because there is no balance sheet growth we are facing competition and what is your outlook on deposit growth going ahead?

Mushtaq Ahmad: So I think then you will have to see the composition of the growth of deposits. If you see my CASA has been growing and CASA has grown, that is why we have grown from 42% to 45%. But on term deposits we took a very conscious decision that first of all we need to understand our credit appetite, scope for credit deployment and thereafter to mobilize deposits, unnecessarily just mobilizing deposits for the sake of expanding balance sheet or showing higher balance or inflating the size of the balance sheet I think there is no sense about it and even last year we had to repay something like around 4000 Crores to 5000 Crores. We will not encourage any renewal in those accounts and that saved us from huge interest expenditure and that policy is going on.

Janvi Guradia: So Sir going ahead if your loan growth is around 15-odd% for the entire book then we could see the term deposit growing again?

Mushtaq Ahmad: Yes of course depending upon our credit growth I think we will grow above that but this will remain subordinate to our credit growth.

Moderator: A next question is from Anand Laddha of HDFC Mutual Fund. Please go ahead.

Anand Laddha: Sir just again on the restructured loan book, you mentioned 32% of the restructured loan book is from Infra side can you give just breakup how much from power, how much from the road?

Mushtaq Ahmad: Yes that I can give you.

Anand Laddha: Sir in the meantime I also wanted to ask you, do you also have exposure to SEB?

Mushtaq Ahmad: No we don't have any. We have zero exposure there.

Anand Laddha: Even to J&K State Sir?

Mushtaq Ahmad: J&K State we have got this Power Development Corporation but that's a very cash rich company.

Anand Laddha: Okay so we don't have any exposure to any of the state utility.

Mushtaq Ahmad: But we have exposure to Power Development Corporation of J&K State.

Anand Laddha: Not to the likes of Rajasthan, Haryana, UP, Tamil Nadu.

Mushtaq Ahmad: All zero.

Anand Laddha: Okay.

Mushtaq Ahmad: This break up did have some where but sorry I think we have to defer this for some time.

Anand Laddha: Sir our exposure to J&K Power Corporation, how large that can be Sir?

Mushtaq Ahmad: It could be around 500 to 600 Crores as of now but the commitment is around 800 Crores.

Anand Laddha: Okay. Sir on the 525 Scheme for Bhushan Steel just wanted to understand is it the 40,000 Crores debt of Bhushan Steel has been restructured under 525 or is the part of the loan has been refinanced?

Mushtaq Ahmad: I think earlier it was restructured by the banking system and then this was refinanced.

- Anand Laddha:** Refinance was done for the whole amount or it is just 15000-16000 Crores of loan cash is refinanced?
- Mushtaq Ahmad:** No I think it is for the whole.
- Anand Laddha:** Because I understand Sir working capital limit doesn't come into 525 Scheme?
- Mushtaq Ahmad:** In our case it is a part of that. Your earlier question about restructured book, I mentioned it earlier also as far as large scale industries are concerned, large scale and services sector is concerned 44% is there infrastructure we have 32% SME is 10%, agriculture 1.57%, trade is 4.24% and others are 8%.
- Anand Laddha:** Sir in infrastructure what is the further breakup?
- Mushtaq Ahmad:** I don't think that would be there right now.
- Moderator:** Next question is from Anurag Mantri of Jefferies. Please go ahead.
- Anurag Mantri:** Sir just wanted to know if we can get any color on the outstanding restructured and the NPA numbers for individual sectors may be for example for textile?
- Mushtaq Ahmad:** I would give you this number but I think No.1 total this NPA under that restructured book.
- Anurag Mantri:** Sir the outstanding standard restructured and the NPA outstanding currently for sectors such as textile, iron and steel construction.
- Mushtaq Ahmad:** Total NPA under that restructured book is 345 Crores and provision against that would be 50% and further break up is not with me.
- Anurag Mantri:** Okay, sir can we get it from you at a later stage.
- Mushtaq Ahmad:** Oh! You can.
- Moderator:** A next question is from M B Mahesh of Kotak Securities. Please go ahead.
- MB Mahesh:** Sir couple of questions, one, this quarter you have made a provision for non performing investment of 25 Crores, just wanted to check the nature of this and second you had indicated earlier that specific real estate accounts exposure on the debenture side was repaid so ideally you should have seen a reversal in your non performing investment as well right?
- Mushtaq Ahmad:** Right, what has happened in fact Mr. Mahesh is that as far as that upgradation is concerned it happened after June 30. We couldn't take it so this quarter we will be reversing that provision also but as far as the other which we have added it this is Bombay based again where we have given a bond and this is around 100 Crores which has slipped and we have provided for that.
- MB Mahesh:** So when you say the slippages of for the quarter of 370 Crores that will not include the investments right?
- Mushtaq Ahmad:** No that is purely on the credit side.
- MB Mahesh:** So there was an additional this 25 Crores of provisions that you have done here against this what is the outstanding principal sitting against it?
- Mushtaq Ahmad:** I think total bonds were 100 Crores.
- MB Mahesh:** The bonds were 100 Crores and then you had additional of about 50 to 75 Crores in the loan book.
- Mushtaq Ahmad:** No, its not. It was exclusively I would not be in a position to name this particular company.
- MB Mahesh:** No just trying to understand because you said 150 Crores was that two accounts which came from Delhi and Bombay.
- Mushtaq Ahmad:** This was on the exclusively one particular company which has slipped.
- MB Mahesh:** That is perfect sir. Just wanted to understand how much was the, because the exposure sits both on the loan side as well as on the investment side right?
- Mushtaq Ahmad:** Yes, that is second account.
- MB Mahesh:** So in the loan account you said these two accounts pertains was about 150 Crores and you said there is an additional 100 Crores in the bond portfolio?

- Mushtaq Ahmad:** No, just I will like to explain to you, bond which has slipped in the current quarter that is an dependent one separate one so that has slipped we have provided for that also and in other account where working capital would be around 300 Crores and bond 100 Crores so it was non performance investment plus non performance loan so the total of 400 Crores but they have repaid that 100% of that investment side and in the current quarter whatever provision we have created for that that would be added back to the balance sheet, that is profit and loss. We do expect that even that 300 Crores already over dues to the extent of 40 Crores to 50 Crores have to be repaid by the company which we do expect very strongly it will be repaid and this account would be upgraded.
- MB Mahesh:** Just one clarification, in the earlier part of the call you mentioned that the real estate account had already made some part payments in the current quarter right, was I incorrect in that?
- Mushtaq Ahmad:** They have made the payment.
- MB Mahesh:** Okay fine. The second question is on the account which slipped in the previous quarter where you had indicated there was some technical reasons on the ground of which it was downgraded, you had indicated that this could be subsequently upgraded but we don't see that in the current quarter, is that a fair assumption?
- Mushtaq Ahmad:** Did I mention last quarter?
- MB Mahesh:** Yes you have mentioned some education account which is about somewhere between one account which is 200 and 300 Crores?
- Mushtaq Ahmad:** No we have not been able to upgrade so far and we are still contesting that.
- MB Mahesh:** And the last question is this that you are seeing in the agri portfolio this year is it a fair assumption to say that a part of the growth is coming in because repayment rates have kind of declined quite sharply because a large part of it is moving in the moratorium period or there is genuine disbursements which is happening which is leading the loan growth out there?
- Mushtaq Ahmad:** No I think it should be genuine disbursements and fewer accounts, if you see exactly the restructured book even under agriculture it is minimum.
- MB Mahesh:** Okay. My last question is in addition to the earlier question which was asked on the composition of the loan book, if over a period of time between last year and this year you have seen a significant reduction in the exposure outside J&K the yields should have reflected that change, we are not seeing that as in it remains more or less at somewhere closer to about 11.3 to 11.4% mark for the last few quarters, any reason why this change is not reflecting through?
- Mushtaq Ahmad:** Because even in J&K state also pricing has to be properly done and I think we were previously charging around 13% was the yield and finally we have to re-price some of the loan accounts and yield is also low because your NPA book has inflated to an extent.
- MB Mahesh:** The slippages have declined so the income reversals should have also kind of released quite a bit in terms of on a sequential basis so just trying to understand that part?
- Mushtaq Ahmad:** We do expect in the current year.
- Moderator:** A next question is from Gaurav Agarwal of ENR Advisors. Please go ahead.
- Gaurav Agarwal:** Sir this HDIL full amount has been repaid or has it been upgraded?
- Mushtaq Ahmad:** No it has not been upgraded but they have repaid that investment money they repaid, that was 100 Crores which they have totally liquidated and it can be upgraded when you have some repayments in the credit portfolio.
- Gaurav Agarwal:** But sir this Bombay Shipping Company it is still a GNP right?
- Mushtaq Ahmad:** No that is restructured one.
- Gaurav Agarwal:** Sir as you said in the beginning of the call that these are turbulent times so sir on the current stress situation can I assume 5% incremental stress on the worst case scenario?
- Mushtaq Ahmad:** On the industry?
- Gaurav Agarwal:** No for you particularly.

- Mushtaq Ahmad:** No 5% I don't know, I think now you have got 6.63% and we should say that in the current year we should bring it down to say something like it should remain between slightly above 5%.
- Gaurav Agarwal:** Sir current stress total if I add?
- Mushtaq Ahmad:** If you say I would again maintain same thing there are certain grounds under the consortium or multiple banking system where you have to follow the decision of the majority and independently I would say that there are no loans specific to J&K bank where we should feel stress, that I have been maintaining and repeating quarter over quarter.
- Gaurav Agarwal:** But Sir this 5% incremental stress may happen if the consortium based accounts go bad right?
- Mushtaq Ahmad:** No I would not say 5% is going to happen on the whole its 50,000 Crores I think in addition that would constitute 5% or something like that.
- Moderator:** Thank you. Ladies and gentlemen that was the last question, I now hand the floor back to Mr. Rakesh Kumar for closing comments. Over to you Sir.
- Rakesh Kumar:** Thanks to all the participants. On behalf of Elara Capital I would like to thank all the participants and J&K Bank Management to spare time to enrich us. Thank you and good day.
- Mushtaq Ahmad:** Thank you very much. Thanks for organizing this conference and always a pleasure to speak to the community of analysts and community of investors and also I think it is always a great help for the bank to formulate its plans when we understand your concerns we have feedback from you, again that always add value to our system, to strategy and overall policy planning. Thank you very much and really again I should say that we will have repeated opportunities to interact in this manner.
- Moderator:** Thank you very much. Participants, with that we conclude this conference. Thank you for joining us and you may now disconnect your lines.

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