“Jammu & Kashmir Bank Limited Q1 FY '24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Q1 FY '24 Earnings Conference Call of Jammu and Kashmir Bank hosted by ICICI Securities. As a reminder, all participants lines will be in the listen-only-mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Chintan Shah from ICICI Securities. Thank you, and over to you.

Chintan Shah: Yes. Thank you, Yashashri. Good morning, everyone present on the call and thank you for being on the call. This is Chintan Shah from ICICI Securities. I welcome you all to the Q1 FY '24 results conference call for Jammu and Kashmir Bank. We have with us from the management, Mr. Baldev Prakash, Managing Director and CEO, along with the management team.

So without further delay, I would like to now hand over the call over to the management for their opening remarks, followed by a Q&A. Thank you and over to you, sir.

Baldev Prakash: Thank you, Chintan. A very good morning, and warm welcome to all the participants. The Indian economy seems to have carried the momentum from past years into the current fiscal and there has been no evidence by far that suggests a slowdown in the current financial year, 2023-'24. India ended the financial year '23 on a strong note as per provisional estimates released by the NSO recently stating the real GDP growth of '22-'23 stood at 7.2%, higher than 7% as was projected earlier. The GST collections have been robust and the services sector recording decade high expansion during the first 2 months of current fiscal.

However, owing to global concerns, exports and -- exports are struggling, food inflation pushed inflation higher in June, monsoon remains a key factor till weather conditions normalize. For '23-'24, the Central Government sees growth at about 6.5%. As per S&P Global Rating, India is poised to be the fastest-growing economy for the next 3 years, estimating it to grow at 6.7% to 6% in '23-'24 and 6.9% in succeeding 2 years. The growth is driven primarily by strength of the domestic demand. Stock market has witnessed a prolonged bull-run with the sensex even crossing the 67,000 mark, supported by strong FII inflows.

According to the IMF, manufacturing is showing weakness across G20 economies and global trade remains weak, but the demand for services is strong, particularly where tourism is recovering. The IMF did not indicate any change to its April '23 global GDP growth forecast of 2.8%, down from 3.4% in 2022, but said that risks were mostly tied -- tilted to the downside, including intensifying Russia's war in Ukraine, stubborn inflation and more financial sector stress that could disrupt markets.

First quarter global growth slightly outpaced projections in its April forecast. But data since then has shown a mixed picture with pockets of resilience along with signs of slowing momentum. Coming to J&K and Ladakh, the UTs have witnessed profound affirmative and progressive changes in the last 4 years, encompassing its entire governance, including development activities, public administration and security matters, which are positively impacting every aspect of economics and social well-being.

The tourism industry has witnessed rapid improvement as J&K saw a record 1.9 crores footfall in the calendar year '22, and over 80 lakhs people have already visited the UT during the first half of this year. And the total tourist arrivals for year '23 is expected to cross 2 crores. Tourism has a cascading impact on multiple allied sectors like hotels, restaurants, houseboats, taxi, the car operators, homestays, handicrafts, dry fruits, small businesses, etcetera. Other sectors of the economy are also getting the push from infrastructure development, which has also improved the accessibility by providing all weather connectivity.

Banks across board have continued with good run-off financial results in Q1 of financial year on the back of robust growth numbers. Due to inflation concerns, owing to high food prices, RBI may not reduce the policy rates in the near term and the decision will largely hinge on global developments and moderation of weather conditions in the country. Continuing with the sustained improvement in financial parameters, the bank has delivered another set of good quarterly numbers for June '23.

What is discernible in the Q1 numbers is manifest in the growth in core revenue numbers, the interest income and the fee income. Year-on-year increase of 26% in interest income, 24% in NII, 12% in noninterest income has contributed to 38% increase in operating profit compared to corresponding quarter of previous financial year. On the sequential basis also there is marked improvement in pre-provisioning operating profit, that is BPOP by 17%. Y-o-Y growth in advances at 17% and sequential 3% on a Q-on-Q basis is at par with the industry.

Deposit growth at 8% Y-o-Y is lower than the industry. On a sequential basis, June -- that is June over March, decline in deposits has been a trend with the bank, owing to movement of government funds, which usually remain at the peak during March quarter. The bank had surplus liquidity, part of which was leveraged to support the credit growth.

Owing to the existing interest rate differential, there has been some internal cannibalization of deposits, a shift from CASA to towards Term - though most of our saving deposits accounts have exhibited inelastic character over sustained periods. Despite this slight shift, which is an industry phenomenon, our bank is maintaining a CASA ratio of 53.29%.

In advances, while corporate loans at 17% and personal loans at 15% contribute majorly to the Y-o-Y growth, it has been the Personal Finance segment, which has majorly contributed to Q-on-Q growth numbers. In the Personal segment, housing loans have grown at over 20% on a Y-o-Y and 4.5% on a Q-on-Q basis. In order to address shortfall in PL sub-segment, bank got over 44,000 eligible loan accounts, aggregating to over INR2,000 crores with term registered during the quarter to improve performance under MSME lending.

The sustained improvement in yield on advances and yield on investment has resulted in NIM of 3.98% for the June quarter. Improvement in the yield on investment is a result of reinvestment of short-term securities acquired during low interest rate regime at better yields. There is further scope of improvement in the yields as we still have significant amount of redemptions of low-yielding investments happening in the ensuing periods. With the adoption of centralized processing for account opening, loan appraisal of personnel that is consumption and consumer loans, etcetera, including STP model for government employees for employee productivity and profitability and resultant efficiency ratios are gradually improving.

The cost-to-income ratio has moderated to 65.07% from 69.17% in corresponding period in financial year 2023 and 68.24% in March 2023 quarter. With better leveraging of technology, our intermediation cost that is cost to serve are bound to go down significantly. Plus, we have a significant number of high-cost employees scheduled to retire over the next 3 to 4 years. Coming to assets quality, we have further reduced our gross NPA and net NPA ratios to 5.7% and 1.39%, respectively. And we are on course to achieve the year-end target of 4.5% of gross NPA.

Provision coverage, we have increased to 87.55%. Recovery during the quarter was somewhat muted, but the highlights of the quarter is controlled slippages. After witnessing our elevated slippages last year due to some technical issues, our slippage ratio has been below 1.5% annualized during the June quarter. The restructured loan book is performing satisfactorily and it has reduced by over INR240 crores during the current quarter and the trend for reducing it further shall continue.

On the credit cost front, 26% -- 26 basis point during Q1, we are confident to keep it to the bare minimum owing to the controlled slippage, high PCR, which reduces our aging provision requirement and expected write-backs on account of recoveries. We foresee adequate internal accruals during the year, which are expected to suffice our CET1 capital requirements. However, we have an enabling Board approval for raising of capital, which we may consider utilizing at appropriate time and price. If need be, there will be more clarity regarding this going forward, maybe after Q3 based on the trend of PAT. The capital adequacy ratio of 14.83% as on June '23 is without reckoning the quarterly profit and amount mobilized under ESPS 2023.

Once again, I thank you all and acknowledge your guidance, support and trust, and we expect it to continue in the coming days. I will be glad to have your questions now. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Vivek from DSP Mutual Fund.

Vivek: Congratulations on another good quarter. My question is around your expansion plans, especially in your loan book as well as your deposit base. If you split it into your core state business and union territory business and outside of -- and the Rest of India business, what would be the proportion that you target in both corporate loans as well as retail loans and in deposits? So, if we look at the bank a year from now or a couple of years from now, what are the proportions that you would have so that you can maintain healthy credit quality as well as deposit base?

Baldev Prakash: Thank you, Vivek. Good question. And as far as expansion plan is concerned, we have already approved around 20 branches in the rest of country, particularly, those places where very good potential exists for the business and where we do not have the existing presence. The focus will be based -- in this area will be mainly on liabilities, but there will be expectations from these branches to grow the quality business in loans also, particularly the retail part, that is home loans, home loans or adequacy loans or auto loans, etcetera.

As far as the Rest of India business proportion is concerned, you might have observed this in the last year that the rest of country business contribution is going up. We ended up with 32%. This year also, we are expecting to work on the same strategy. Hopefully, we should be reaching to around 35% this year.

The overall, I think, in the medium-term, we expect a percentage of Rest of India business in the range of around 40%. And as far as the business of the type of business is concerned, Rest of India, our focus remains on the good corporates and the government corporations. And now this year, the shift is towards home loans to improve our home loan book in the rest of country also besides in our home territories.

Vivek: Just on that when you expand the cost income ratio would be at around current levels now sir. I mean, or is there any scope for improvement there? That's my last question.

Baldev Prakash: Yes. So, cost-to-income ratio, we are -- see this is mainly contributed by the staff cost. So staff costs, as I have indicated, will be, a little bit rigid is there, but that is being addressed in a very effective manner. As I have told in my opening remarks, the high-cost employees are getting retired now and the new employees will have only 1/3 of the cost. So overall, with the expansion plan, cost-to-income ratio is not going to be impacted significantly. And then we are leveraging the technology also.

Moderator: We have our next question from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Sir, just first up, I wanted to touch upon the cost to income part. I think on an annual basis, we have guided that around 60% is the cost to income that we would look at for FY '24. So, is there any change to that? Because currently, we are at 65% and based on your commentary also, I think it looks like the cost-to-income ratio is not likely to go down, right?

Baldev Prakash: No. Deepak, we are confident to meet the guidance. There has been a lot of steps which we have taken. If you might have observed, this cross-selling income has seen a good uptick because of our new tie-ups with the third-party players. Then, our treasury income has also seen improvement -- improving this quarter.

Then technical write-off, we are expecting a good recovery, which will be obviously impact positively the cost-to-income ratio. And around 1,500 employees are getting retired in next 3 years, 3 to 4 years. And these are all high value -- high cost employees. So, all these factors, I'm sure this year, we should be meeting the guidance. And going forward, the improvement will be more significant.

Deepak Poddar: So, what you're saying is that the 60% cost to income this year is still a likelihood, right?

Baldev Prakash: Yes, yes. We will make it happen.

Deepak Poddar: And secondly, sir, I wanted to understand now in your opening remarks, in one of the recent interviews, you had mentioned that we are confident of achieving INR4,000 crores in profit over the next 4 years. So, I just wanted to understand what -- I mean, what do you mean by the statement actually? I mean, this INR4,000 crores in terms of annual profit that you are looking to achieve over the next 4 years, is that what we are trying to do here?

Baldev Prakash: Yes. So by FY '28, financial year 2028, we have a target of INR4,000 crores of profit and INR5 lakh crores of business. So, it is around 3 times of the profit, which we have generated in the last year, 2023. So given the factors which are including the growth -- business growth as well as the income streams, the -- I mean, the steps taken for improving the cost-to-income ratio, I'm pretty confident that we will be able to achieve that level of INR4,000 crores of profit.

Deepak Poddar: And what sort of -- I mean, growth we're assuming in this year? I mean, next -- by FY '28, what sort of CAGR growth we are looking at when we are factoring in INR4,000 crores of profit?

Baldev Prakash: So, our -- around 15% to 16%, definitely, we will be achieving this year as far as the credit growth is concerned. And over a period of time, it will be in the range of around 16%, hopefully, and we will be able to do that.

Deepak Poddar: And sir, my final question is on your ROA. So, what's the aspirational ROA we are looking at for our kind of business?

Baldev Prakash: See we are touching around 1% now, as of now. And that is where I think we are looking for 1% plus. We want to maintain it 1% plus, around 1%, 1% plus.

Moderator: We have our next question from the line of Rishikesh Oza from RoboCapital.

Rishikesh Oza: My first question is respect to the...

Moderator: Sir, I'm sorry, can you use your handset mode please. Your voice is breaking.

Rishikesh Oza: My first question is with the wage provision. So was this a one-off item? Or this is expected to continue?

Baldev Prakash: Can you please repeat your question?

Rishikesh Oza: So, we've taken INR112 crores of wage provision this quarter. So, is this a one-off item? Or we expect this to continue for a few quarters going ahead?

Baldev Prakash: 112, what is 112.

Rishikesh Oza: I'm talking about the wage provisions that we have taken this quarter.

Baldev Prakash: Wage provision. Okay. So, see the salary is -- for the employees is due from November 2022 revision, okay. So, the salary revision from IBA. So for that, we are making a provision every quarter. This is also part of that provision only. There is no, I mean, special provision for other things.

Rishikesh Oza: So, are we expecting this to continue for the coming few quarters too?

Baldev Prakash: Yes. Every quarter, we are making it because that salary revision is maybe happening next year or any time. So till that time, this provision, we will be continue making it.

Rishikesh Oza: And sir, what was the gross slippages for this quarter?

Baldev Prakash: Shujaat, you have the number?

Syed Hussain: I'm Shujaat, the gross slippages is on an annualized basis this quarter is below 1.5%.

Baldev Prakash: It is INR283 crores during this quarter.

Rishikesh Oza: So, I think it is significantly lesser than what we were seeing in the past few quarters. So, do we stick to our guidance in Q1 where you have indicated the credit cost will be 0 for FY '24?

Baldev Prakash: Yes, mostly during this quarter, it will be around less than 0 and maybe in the third and fourth quarter, let us see. But definitely, it will be below 1%.

Rishikesh Oza: So, with respect to the credit cost will be less and I think if opex also trends down towards 60% cost to income, so fair to say from Q2 onwards, you can see INR400 crores to INR450 crores plus of profit?

Baldev Prakash: Let us see, but we are confident that we will be -- I mean, keeping this trend of, I mean, growth both in business as well as in the profitability.

Moderator: We have our next question from the line of Manish Ostwal from Nirmal Bang Securities.

Manish Ostwal: And I delayed the call slightly late. So, can you start your comment about the J&K state economy and how the credit demand environment in the state.

Baldev Prakash: Good morning Manish, see, as I referred in my opening remarks, the state has seen a renewed interest from various angles from the development activities. Now the environment, the business eminent in the union territory is improving a lot, and which is driven mainly by tourism. Last year, the state had -- the union territory has recorded around 1.9 crores in footfall. And this year, it will be definitely growing more than 2 crores. And the G20 meeting has actually improved the sentiments further. And this the type of, I mean, activities is supporting all the small, small activities, including hotels and restaurants and including the taxi operators, the small handicraft and the car operators, etcetera.

Over and above, maybe early part of the next calendar year, we will be having the rail connectivity with right up to Baramulla. I mean a lot of improvements we are seeing on ground happening in the union territory of J&K. And this is the right time to get invested in the state and J&K Bank is the best instrument for that.

Manish Ostwal: The second question on your growth in the business. So advances growth at 17% and the deposit growth, 8%. Actually, deposit base has declined on a quarter-to-quarter basis by 1% and the CD ratio around 69%. So, because of our CD ratio is low, that's why we are growing the deposits slowly or any competitive pressures we are seeing in the market? Why the deposit base declined quarter-to-quarter? And why is it low compared to the loan growth on a Y-o-Y basis?

Baldev Prakash: So as, Manish I have referred in my opening remarks also, this has been a trend which has been curtailed significantly this quarter because -- particularly because of the government deposits, which generally peak in the month of March. So, the first quarter they again utilized those funds and then first quarter, it goes down. But if you see now going forward, besides, of course, the government deposits will start coming and plus, there will be price accretion in the retail deposit, which will be happening because of our -- a lot of steps we have taken, including the digital initiatives, which we are providing to our customers.

So, I'm sure that this quarter, you will see a good improvement in the deposits also. But on -- because of the historical reasons, this quarter has been subdued as far as the overall deposits are concerned. Manish, I just want to add, 1.3 lakh savings bank account we have opened in this quarter and this is a historic actually. We have been very active and moving -- all the branches are moving out and proactively opening these accounts. So, this will definitely change the entire perspective of the deposits going forward.

Manish Ostwal: And on the capital raise plan, you said quarter 3 and quarter 4, we'll be raising the capital. So what could be the size of the capital raise whenever it happens?

Baldev Prakash: So as of now, we have the approval of INR750 crores for CET1 and INR1,000 crores for Tier 2, but we -- Tier 2, of course, we should be raising in the third quarter. But for CET1, we will take a call after third quarter only. So maybe after -- maybe after -- maybe in the month of January, we will take a call.

Manish Ostwal: And lastly, sir, in your technological initiative, you talk on your commentary, but if it is better to put certain moving parts in like of transaction happening through digital channel versus vis-a-vis branch network, it should be part of the presentation so that we can compare with other banks, how the J&K Bank is performing on those parameters with the other banks. It will be more helpful to understand the insight or the technological strength of the bank.

Baldev Prakash: Yes. We will make it in the next presentation. But as of now, over 90% of the transactions are happening digitally, 10% in the branch channels.

Manish Ostwal: And all the very best and I've seen the progress of the bank under your leadership and your entire team. So, all the best to your team for the coming quarter.

Moderator: We have our next question from the line of Amit Kumar Gupta from Fintrekk Capital.

Amit Gupta: Sir, I have 2 questions. One is we have seen a very bad flood kind of a situation in Himachal and Uttarakhand. So, I just wanted to understand how is the situation of floods in Jammu and how much will be the impact on the business as such? And my second question is regarding the divestment of the PNB MetLife stake, which we have talked about in the last quarter as well. What is the progress on that? And is there any valuation change on the metric? And when we expect that to be completed?

Baldev Prakash: Amit, see, as far as that situation is concerned, we do not see -- we have not seen any flood-like situation in Jammu and Kashmir. And so far, there is no cause of worry. And we don't have much operations in Uttarakhand and Himachal also. So, no impact of floods or any sort of things in our businesses. And about the divestment of PNB MetLife, as I have covered during my last quarter also, that is -- that call we have not yet taken. That will be only the last thing we will be doing. Hopefully, this year, we may not require it. So as of now, I think this, this we will think only in the next year.

Amit Gupta: Sir, pardon of my ignorance, earlier in one of the con calls, it was decided that it would be done in H1 FY '24. Is there a change in the time line for that?

Baldev Prakash: As of now, we don't need it, actually. So far, the internal accruals are good and there's no urgency for us to do that.

Moderator: We have our next question from the line of Sangeeta Purushottam from Cogito.

Sangeeta Purushottam: Congratulations on a great set of numbers. I have 2 questions primarily. One is relating to a previous comment you made about the ROA being, the ROA that you're comfortable being about 1%. Could you just clarify that? Is that for this year? Or are you looking at that as like a medium-term target? And what kind of therefore ROE would the bank be able to generate? That is one question.

My second question is that given the resurgence in the economy of J&K, are you likely to see increased competitive activity from other banks entering the territory? And how are you positioned? And how would you also maintain your cost of funds, which has been a big advantage so far that it's been amongst the lowest in the country?

Baldev Prakash: The first question is about ROA. When I'm talking of around 1% of ROA that is applicable to this year. So going forward, we will see how the business environment pan out. But in the longer term, we will be looking to around 1.4% to 1.5% over the last 3 to 4 years. That is one. Another is about the competition, yes, because of the increased activities in the UT, both for J&K and Ladakh, competition is going to happen. But for that, we have taken a good number of steps, including the branch expansion.

Then we have a big strength actually. We have all the employees who are local. And they are well versed with the local culture. They are known to the local people and they speak their language. And because of that, there is a strong building -- that brand building -- the brand image is there for the bank. So generally, our customers, they despite the fact that the competition may come and lure our -- try and lure our customer, we are not much worried. But we are not complacent also. We are taking the proactive steps, ensuring that our business remain intact, rather grows.

Moderator: We have our next question from the line of Gururaj Kalyan from KCMPL.

Gururaj Kalyan: Congratulations for a wonderful set of numbers once more. I'm liking the trajectory on seeing of the bank over the last many quarters. I just want to go back to a question we raised in the last call, which was the ESOP issue. That's the first of my questions to understand where it is now? Is it resolved? Is it still an open discussion? I'd appreciate an update on that, sir?

Baldev Prakash: Thank you Gururaj, so as of now, the ESOP issue, see this quarter, we have not counted that amount of which we have raised in ESOP as like in our March quarter also. So whatever ratios you are seeing is excluding of that amount. And these auditors, they have raised this question last quarter. We have referred this matter to the regulatory authorities. We are yet to get a response from that side from them, but nobody has asked us to reverse that amount and pay back to the employees as of now.

Gururaj Kalyan: And the second question is, it's heartened to hear that INR4,000 crores is your targeted profit number for FY '28. But is it at the PBT level or the PAT level, sir?

Baldev Prakash: That is -- we are talking about PAT.

Gururaj Kalyan: PAT level?

Baldev Prakash: Yes.

Gururaj Kalyan: And the final question is, J&K Bank has set a scotching rate of growth over the last multiple quarters. When would you see this trajectory peaking, sir? I mean, obviously, we can't continue at this pace forever. And while I would like it to be true. If I had to ask you, when do you see this kind of growth little peaking? What would be your answer to that?

Baldev Prakash: See the overall environment -- business environment in our home territory is improving. And there is a further scope of improvement. As I've told a lot of new steps the government has taken in this territory, which -- and then law and order has improved, the accessibility of this area, even the train connectivity is getting improved. I mean all the business activities are seeing a very good uptick. And we, being the major financial institution available in this territory, so obviously, the maximum benefits is getting to J&K Bank. So as of now, I think we see that a good growth is expected, but very difficult to say when it may peak out as of now. Maybe definitely in the medium term, we see that business environment will continue improving.

Gururaj Kalyan: So, most of the gains so far have come from tremendous operational efficiency, would that be a right thing to say, sir? Enhancement of operational efficiency. Would that be a key trigger so far?

Baldev Prakash: You are talking about NIM?

Gururaj Kalyan: No, overall. If I look at the bank's performance overall, so the turnaround has been a dramatic improvement in operational efficiency. Would that be a correct statement?

Baldev Prakash: So that is one part. Another part is a lot of work has been done on the governance levels. And then in the steps we have taken in the technology also has a big contribution to our overall improvement in the efficiency.

Gururaj Kalyan: So on the revenue side, you're saying that the growth is going to come because you're looking at the Rest of India and looking at about 40% coming from the Rest of India, which derisks the Jammu and Kashmir issue. And that is going to come more from corporate and government operations. Would that be correct, sir?

Baldev Prakash: Supported by housing.

Gururaj Kalyan: And housing, okay. It's a great pleasure for me to look at these numbers, makes me very happy. And I wish all of you lot of good luck to accelerate this further.

Moderator: We have our next question from the line of Prit Nagersheth from Wealth Finvisor.

Prit Nagersheth: Sir, my question is, first is book keeping question. What would be our book value after quarter one?

Baldev Prakash: Book value after...

Prit Nagersheth: Quarter one.

Baldev Prakash: Quarter...

Prit Nagersheth: After this quarter?

Baldev Prakash: After this quarter.

Prit Nagersheth: Yes after Q1.

Baldev Prakash: After accounting of ESPS, around, 83%, I think it should be 83%.

Prit Nagersheth: My second question, sir, is that right now, the capital markets are in a good space and attracting a lot of investments. So, would it not make better sense to prepone your plan to raise capital, the CET1 capital right in this environment rather than wait for, say, in January-February where the capital markets could be maybe in a different space, different sector?

Baldev Prakash: Good question, Prit. Actually, we have deliberated on this issue a lot. And as of now, number one, we are expecting good internal accruals. That is one. Another thing is we do not want to divest below the book value. So that also is -- that pricing is also a factor. So after -- I mean considering all these aspects, we have taken the call that let's wait for some time.

Prit Nagersheth: So sir, the next question is regarding dividend. Do we see any dividend starting and any kind of dividend policy being framed going forward considering the growth that is coming up?

Baldev Prakash: Yes. We have a dividend policy and the Board will take a call appropriately depending upon the performance of the bank. Last year, we have given a dividend of INR0.50 per share. We have started it after long years.

Prit Nagersheth: But do we have any policy that states that a certain percentage of the profits will be distributed as dividend?

Baldev Prakash: Yes. We have the policy. I don't remember it exactly, but the policy is there in place.

Moderator: We have our next question from the line of Jathin from Investsavvy Portfolio Management LLP.

Jathin: We had 2 questions. One is that we've been seeing that credit costs till last quarter, there was actually a write-back of around INR175 crores, whereas this quarter there's been a provisioning and contingency of INR75 crores. Now going forward, how do you see these numbers pan out for this year as in the next few quarters? And the other thing was you mentioned that deposit growth was lower because money moves out, government moves money out in Q1. So March, there is excess cash up and then it moves out in Q1. But on a year-on-year basis, that phenomena would kind of even out. So, how do you see that? And what is your view on that part?

Baldev Prakash: Jathin, so as far as credit cost is concerned, we are expecting it to be below 1% during the entire year. And this quarter, it's still in the negative only, less than 0. So this quarter, recoveries were a little muted and they must be happening in the coming quarters. That is one. Another thing is that last quarter means March quarter, we had a one-off entry of five twins where a good amount of INR230 crores amount was recovered. So that was contributed to that quarter's income.

As far as deposits are concerned, as I have already discussed, besides yes, our dependency is there on the government deposits, which will continue accrual to the bank because we are the agency bank for the government and all the government deposits are with us only. And the second will be that a lot of other steps we have taken, including the expansion plan, which will be supporting our liability franchise. And that will be happening in the state -- in the UT of J&K and Ladakh as well as the rest of the country.

Moderator: We have our next question from the line of Arjun Bagga from Baroda BNP Paribas Mutual Fund.

Arjun Bagga: So, just wanted to check with you. So during the quarter, advances growth exceeded the deposits growth and that's the reason that CD ratio increased to 70%. So, just wanted to check what kind of a number would we be comfortable with incrementally? And what would be a number that we'll be looking at for a steady state?

Baldev Prakash: The levers for lower CD ratio and short-term surplus also supplement our credit growth. So that is one point. And the growth, which we have seen around 17% this quarter, we are likely to maintain the same level and we are confident of meeting our guidance.

Arjun Bagga: Any specific numbers if you were to give that -- the 70% could go to what levels?

Baldev Prakash: CD ratio, maybe maximum 72%.

Arjun Bagga: So maximum would be 72%?

Baldev Prakash: Yes.

Arjun Bagga: And sir, just a clarification regarding the cost-to-income ratio. So for this quarter, we were at 65%. So did I hear this correct that for the full year, we are expecting 60%. And by FY '26 or maybe next 2, 3 years, we are expecting that to come to somewhere between 50%, 55%. Is that understanding correct?

Baldev Prakash: Mid-50. Yes, you are very much correct. We will be touching around 60% this year and then going forward around mid-50s.

Arjun Bagga: And just lastly, on the NIM side. So what kind of number are we looking at for the full year FY '24, net interest margin?

Baldev Prakash: NIM, our guidance is 3.75% to 3.9%. I think we will be in that range only. This quarter, it is 3.98%. But going forward, let us see how the liabilities -- because we are expecting that some competition will be there in liabilities. So, keeping that in the mind, we are confident of meeting our NIM guidance. That is 3.75% to 3.90%.

Moderator: We have our next question from the line of Asha Rawal from Shubkam Ventures.

Asha Rawal: Sir, my question is pertains to the borrowings. In this quarter, we have seen sharp chunks in the borrowing. So, I just wanted to know, in near term, it is going to remain the same? Or how do you see the trend going forward?

Baldev Prakash: Borrowing this quarter, I think it will be in this range only. It will be flat only because we don't see the need of borrowing because going forward. This quarter has been exceptional because the government funds have been withdrawn. But going forward, we will see that the growth will be happening in deposits also. And we have a short-term investment of about INR7,000 crores in CDs and treasury bills, which will be supporting us in the credit growth. So, borrowings will be muted only.

Asha Rawal: And sir, I just wanted to know how much the percentage of the government in the deposits contribute towards deposits?

Baldev Prakash: Percentage of government in the deposits, government deposits. That data is not readily available very unfortunately. We will email you.

Asha Rawal: So, do you see the NIM pressure going forward in terms of cost of funds or like -- expansion the 25 branch in this year. So, the cost of funds should -- I mean, it should grow from here on, right? I mean it can't be remain the same, which we have seen in this quarter like previous some quarters?

Baldev Prakash: Yes, yes. No, I fully agree with you. And that is what we are saying that the NIM should be around 3.75% to 3.90% in that range. So, we are also expecting the same trend as far as cost of deposits or cost of fund is concerned.

Moderator: We have our next question from the line of Sonaal Kohli from Bowhead.

Sonaal Kohli: Congratulations on a good set of numbers. I have few questions. Sir, firstly, in 2023, was any one-off income or in any major cost item?

Baldev Prakash: 2023? Sonaal, can I give it to our CFO, Mr. Pratik.

Pratik Punjabi: Sonaal, in 2023, there were 3 one-off items. The first in terms of cost was the ESPS cost, which is a discount given to the employees. The second was clearing the balance sheet with the intangible to declare the dividend because that's a regulatory requirement. And the third was a reversal of an income item, which was receivable from a corporation because, again, for the regulatory reasons.

Sonaal Kohli: Sir, what was the quantum of these one-offs, total?

Pratik Punjabi: So the intangible -- the combined value was in the range of INR150 crores.

Sonaal Kohli: So would this occur again this year or now it's nonrecurring in '24?

Pratik Punjabi: No, no, that won't recur, that won't recur.

Baldev Prakash: Yes, that will not happen this year.

Sonaal Kohli: So, you're saying INR150 crores difference would -- I mean, if these recurring items, if I understood you correctly, the recurring items wouldn't happen, your PBT would have been higher by INR150 crores. Is my understanding correct? Or am I missing that?

Baldev Prakash: Yes, that is the correct understanding Sonaal.

Sonaal Kohli: Secondly, sir, in terms of NIMs, from a longer-term perspective, bearing let's say next 1 or 2 quarters, where do you see the NIM settling and what would be the drivers of those? And from a long-term perspective, what could be your loan-to-deposit ratio? You said INR7,000 crores of deposit are maturing, but at the same time, investments are maturing. At the same time, you're maintaining the loan-to-deposit ratio will be 72%. So, this 72% is 2024 target or a medium-term, long-term target? And if this is not the long-term medium-term target, where could we end up considering we are way lower than any other bank in the country?

Baldev Prakash: So long-term could be around 75%. This I am talking about. 72% we are talking about short-term target. And this INR7,000 crores is -- we are expecting this year itself.

Sonaal Kohli: So that itself would lead to a nice delta in your loan-to-deposit ratio?

Baldev Prakash: Yes, yes. That is a good lever with us. That's why our borrowings will be muted only.

Sonaal Kohli: And sir, with your gross NPAs coming down logically speaking, based on whatever I understand, you will have a nice delta in your NIMs. But despite that, you are expecting a nice decline in NIMs in spite of loan-to-deposit ratio increasing, leverage reducing because you are making healthy profits compared to the past, so your leverage ratio will also fall. So, is this like a realistic target? Or are you being a little conservative? And what would be a medium-term NIM target, considering increasing loan cost to deposit ratio and leverage and recoveries in NPAs?

Baldev Prakash: Sonaal, as I have told last time also, we want to be a little conservative as far as NIM is concerned, NIM percent is concerned because we have to just see how the deposit swap pans out in the future. That is the only concern in our mind, maybe cost of deposit is likely to go up because of the competition going up. We'll have a better, I think, clarity after Q2 as far as NIMs are concerned.

Sonaal Kohli: And sir, when you're talking about INR4,000 crores profit estimate, are you -- and you are comparing with 2023, obviously, 2023 was a low credit cost period. So I have 2 questions here. So, what are likely to be credit costs in 2024-'25? Are they likely to remain low or post-2024, they're likely to go up in 2025? So, what is the runway we have? Is it like 6 months? Is it like more like 2 years in terms of low credit cost? And when you are building 2028 estimates, are you taking similarly lower level of credit cost even in the future or you're using a more normalized credit cost in this INR4,000 crores expense?

Baldev Prakash: Yes, yes. Pratik, can you...

Pratik Punjabi: Sonaal, I'd like to answer that question. Credit cost, we expect in '28 to be in the range of less than 1%, around that particular kind of thing. The key reasons are going to be growth in business, leveraging of capital coming to our benefit, the long-term capital plan and internal accruals and thereby strengthening the network. And NIMs, we expect -- because we are already conservative right now, we expect to sustain them based on the mathematical estimates that we have made.

Baldev Prakash: And Sonaal, the one factor which will be supporting us to achieve the target which we have taken will be the reduction in employee cost. As I covered in our opening remarks, 1,500 employees will be retiring in the next 3 to 4 years and all these are high-cost employees. And the employee cost as of now is 65%. And the target is to below 50%. Because of this factor, we will be able to achieve this.

Sonaal Kohli: Sir, the other question I had was regarding the credit cost outlook for '24 and '25. Would it remain benign in the both the years or the era of low credit cost is over for us?

Baldev Prakash: No, no. It will remain benign for this year and in the next year also. We are expecting recoveries.

Sonaal Kohli: And sir, are there any other levers like -- I see that our other income is very low compared to other banks. Are we doing anything about it? And I have actually 3 more questions. First is regarding other income. Are we doing anything about it? And from a long-term perspective, is there a strategic intent to increase it over a period of time. The second question was pertaining to the SMAs, both end of the quarter and mid-month, which you normally share. First 2 questions and then I'll ask you the third one later.

Baldev Prakash: So Sonaal, other income, we have taken a lot of steps, particularly relating to cross-sell income, improving the cross-selling income. In the last year, we had 3 tie-ups, new tie-ups with various other companies. And this year, those tie-ups will be delivering us some income, which will be over and above, which we have earned last year. Then the subsidiary, which we have, JKBFSL, that is not fully leveraged as of now.

We have taken this year a target to leverage that subsidiary fully and improving our other income. Then government receipts both in the Ladakh as well as in our JNK, as of now, nothing much is coming in the government receipts, it's likely to improve during this year. We have taken steps in that and we are leveraging the technology for that. The second question was relating to SMA?

Sonaal Kohli: SMAs, both end of the quarter and mid-month.

Baldev Prakash: Yes. So SMA, Shujaat can you take...

Syed Hussain: Yes. SMAs at the end of the quarter -- at the end of the month, I should say, we are seeing some inflated figures. But as compared to the last year, if you see September '22 figure, our total SMA as on -- that was INR28,000 crores. But if you see the March figure, you can see it's a complete reversal. We had SMA 1 and 2 of just INR5,300 crores. Same is the position as of June, it was INR5,367 crores. And if you see it today, it's around INR3,000 crores only, which is less than 5%.

Baldev Prakash: Sonaal, see, we have worked hard as far as slippages are concerned. Hardly any slippages are happening now. Now SMA is the next target. So SMA 1 and SMA 2, you'll find a lot of improvement in this quarter.

Sonaal Kohli: And sir, regarding in doing all these activities regarding the bank, whether it is your employee cost or whether it's your other income or technology or many of the initiatives which you may be taking which we will not be aware about. Are you hiring any outside consultants or it's all being done in-house only?

Baldev Prakash: No. As far as this employee cost is concerned and the manpower assessment area, we have hired a consultant, which is Big 4 and they are on the job and maybe the picture will be clear in a quarter or so. And we have also...

Sonaal Kohli: For any other initiative have you hired a consultant?

Baldev Prakash: Yes. So other consultant, we have hired, that's again Big 4 for the impact of ECL, likely impact of ECL as for index and that work is also in process.

Sonaal Kohli: And sir, in addition to these employees retiring, could there be any other levers for reducing employee costs like technology or anything else in the future...

Baldev Prakash: Yes. So all options are on the table as of now because of that only this consultant is working with us. So this is apparently very clear to us even before consultant, where these 1,500 employees are retiring. All these are high-cost employees. So that I've already covered. Then with the recommendations of the consultant, we will take in the steps to improve upon that.

Sonaal Kohli: So, do you expect significant improvement in this ratio beyond FY '24 as well, like in the next 3, 4 years, like for your '28 target?

Baldev Prakash: Sonaal, it will be difficult for me to say on this today. Maybe next quarter, things will be clear once we have the recommendations of consultant ready with us.

Moderator: We have our next question from the line of Gaurav Agrawal from Nine One Capital.

Gaurav Agrawal: Sir, three quarters back, we had this problem of technical slippages. And you gave some reason that you were upgrading your IT systems, etcetera, because of which the accounts became NPA temporarily and while you were able to recover them in that same quarter. Sir, can you just elaborate a bit more on what happened exactly with those accounts? What is the status of those accounts now? And if you can also share whether those issues are behind us and what gives you confidence that those kind of issues will not arise?

Baldev Prakash: Gaurav, very good question. See, we had migrated the platform itself, the core banking platform itself, which was overdue. We have done it last year. And after that, the normal banking operations was not a problem, but because of this new software upload, new software upgradation, the slippages were happening. There were some patch which was working in the earlier software, which was not operating in the new software, which we find out with the support of our technology team and that has been fixed now and that is a thing of past. And because of that only, you are seeing that we are now in full control of slippages. We had INR282 crores of slippages. So this is a thing of past now and in future, we don't foresee any such problem, which is beyond our control.

Gaurav Agrawal: Sir, in terms of your slippage's guidance, I joined the call a bit late. So, can you please help me if you have given any guidance on slippages part for FY '24, the whole of FY '24? Q1 was very good.

Baldev Prakash: Yes. So, we will be in a similar range, less than 2%.

Gaurav Agrawal: So, in terms of absolute figures, it was around INR280 crores. So, we expect somewhere around INR300 crores kind of, since it is on a quarterly basis?

Syed Hussain: It's not more than that. Yes, exactly. INR300 crores per...

Baldev Prakash: Maximum INR300 crores per quarter, you can think expect.

Syed Hussain: We can guide you sir. It has not been more than INR30 crores during this month for 24 days that have gone by.

Gaurav Agrawal: And sir, on the restructured book, you have around INR1,000 crores of restructured book, which is non-NPA, which is kind of standard. How is the track record on that growth? How is the recovery so far? How much of it is has come out of moratorium? How much of it is paying you currently? If you can share any statistics on this INR1,000 crores of restructured standard assets would be helpful for us to understand your NPA trajectory.

Baldev Prakash: Yes. So as far as restructure book is concerned, can you share me the data.

Syed Hussain: So, we have a restructured book of...

Gaurav Agrawal: You have INR2,200 crores, of which I think INR1,000-odd crores is NPA. So...

Syed Hussain: Which is provided for to the extent of 78%.

Baldev Prakash: So, one is that the restructured book is holding well. There are no further slippages. This quarter, we had a recovery of INR242 crores out of that book. So, there are recoveries happening now. And given the business environment, which is improving in the overall -- our area of operations. So, these accounts will be performing, will become performing and this book is likely to go further down during this year.

Gaurav Agrawal: And anything on the recovery part, how much of these accounts which are supposed to pay of this INR1,000 crores. Out of that, how much are paying you regularly?

Syed Hussain: There has been no slippages, there have been addition of only...

Baldev Prakash: Do you have any figures?

Syed Hussain: Yes, sir, recoveries are forthcoming as per the envisaged these repayment schedules and restructured terms and conditions. And during the next 2 quarters, we are hopeful of upgrading INR400 crores out of this, which is fully provided for, and we will unlock the provision entirely, 100% provision.

Baldev Prakash: Gaurav, as of now, restructured book is not a concern for us.

Gaurav Agrawal: Maybe, sir, I'll take this offline and the last question is...

Moderator: Mr. Agrawal, I request you to join back the queue, sir. Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to management for closing comments. Over to you, sir.

Baldev Prakash: Thank you so much. And thank you all the participants for joining in today in our conference call. For any further questions or queries or details and comments or anything else which you want, the team is always available and you can also direct your queries to our Investor Relations desk, and we will definitely respond. Thank you. Have a nice day.

Moderator: Thank you, sir. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.