



“Jammu & Kashmir Bank Limited  
Q3 FY '23 Earnings Conference Call”  
January 23, 2023



**MANAGEMENT:** **MR. BALDEV PRAKASH – MANAGING DIRECTOR AND  
CHIEF EXECUTIVE OFFICER – JAMMU & KASHMIR  
BANK LIMITED  
MR. PRATIK PUNJABI – CHIEF FINANCIAL OFFICER –  
ALONG WITH MANAGEMENT TEAM**

**MODERATOR:** **MS. DIVYA PUROHIT – ICICI SECURITIES LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to the J&K Bank Q3 FY '23 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Divya Purohit from ICICI Securities Limited. Thank you, and over to you, ma'am.

**Divya Purohit:** Thank you, Dorwin. Good evening, everyone, and welcome to Jammu and Kashmir Bank Limited results call. Today from the management, we have Mr. Baldev Prakash, Managing Director and CEO; and his team. Over to you, sir.

**Baldev Prakash:** Thank you, Divya. A Very Good Evening, Happy New Year and Warm Welcome to all the participants.

First a brief look at the good and the not so good on the overall economic, geo-political and industry front.

On the global front, the major geo-political tensions especially the Russia – Ukraine war is showing no signs of cooling down and the Covid worries in China have once again surged though they have started reopening. Amid the supply chain disruptions and ensuing food and energy crisis coupled with the financial market volatility arising from the aggressive monetary policy tightening, there are some risks stemming from the possibility of global slowdown. Though emerging markets apparently were more resilient in the recent periods, but the US monetary policy and the US dollar shall be the deciding factor for these economies in the near future. Yet some cues suggest that the Central Banks are mostly through with their rate hikes and monetary tightening and a belief of a pause and easing is taking hold in the market. The US Dollar too is off its 20-year highs.

In India, there seems some respite on commodity prices and other costs amidst strong revenues which appears to have boosted corporate performance. Macroeconomic stability is getting reinforced with inflation being brought into the tolerance band and lead indicators suggesting narrowing of the current account deficit being on course. Indian economy is projected to clock a growth of 7.0 per cent in 2022-23. Increase in the monthly GST revenue suggests an acceleration in the economic activity. Financials have had a good year so far. Credit growth has been robust while the deposit growth hasn't matched resulting in an elevated incremental Credit-Deposit ratio, the rise in interest rates notwithstanding.

With the restoration of its pristine glory, 2022 has been a remarkable tourism year for J&K with over 16 million tourist arrivals – highest in the history of the UT. The tourist arrivals have continued through the winter months and with new destinations being explored and added to the tourist map, the flow is going to improve further. This has resulted in significant employment creation in the UT. The UT government is giving a big push to the development of infrastructure especially connectivity – rail, road, & air, social infra like mega hospitals / institutions (AIIMS,

IITs, IIMs), smart cities - to market it as a favoured destination not only for tourists but also for investments. Presently J&K is at the threshold of transformation with holistic development, large scale investments pouring in various sectors and efforts being redoubled to restore peace.

Now a look at the financial performance of the Bank during Q3 / 9-month period ended Dec'2022.

Continuing with the sustained improvement in our overall functioning and the operating results, the Bank has recorded a better set of numbers during the Q3 / 9-month period ended Dec'2022.

Our deposit growth was 8% on YoY and 1.91% sequentially QoQ while our Net Advances grew at 14% and 4% respectively. Personal Finance has grown at over 14% YoY and among this the Housing Loan segment has recorded growth of almost 17% YoY and the consumption loans to government employees 16%. Credit growth outside J&K and Ladakh has been quite encouraging clocking almost 21% increase over Dec'2021 and consequently the share of Rest of India in the loan book of the Bank has crossed the 30% mark.

On the operating results, improvement is conspicuous on every parameter be it pre-provisioning or bottom-line;

Interest Income is up by 21% YoY for Q3 and 14% for the 9 Month period;

Non-Interest Income is up by 42% YoY for the quarter and 8% for 9 Month period;

Net Interest Income is up by 27% YoY on quarter & 19% on 9 Months basis.

Despite proportionately providing for the Wage Revision (which is due from Nov 2022), Operating Profit is up by 65% YoY for the Quarter and 41% for the 9-month period.

Even on the sequential Q-o-Q basis, there is marked improvement in all operational parameters.

Consequently, we have registered a quarterly PAT of Rs. 311.59 Crore (which is the second highest quarterly profit during the last seven years) recording growth of 79% YoY and 28% QoQ. The 9-month period PAT of Rs. 721.05 crore is 85% higher than the profit for corresponding period of previous year.

Cost-to-Income ratio has moderated slightly to 63.71% for the quarter despite creation of proportionate provision for the wage revision which is due from Nov'2022.

Asset Quality has further improved with GNPA moderating 42 basis points from Sep quarter. It could have been still better but some large ticket resolutions are taking some time and hopefully shall culminate during this quarter. We continue to maintain a provision coverage of 85% level.

The CRAR has improved to 13.82% owing to the raising of T-2 Bonds during Dec' quarter. With the inclusion of the 9-month profit, the resultant CRAR will be above 14.75%.

A look at the comparative quarterly results over the last seven years reveals best performance in Dec'2022 on a number of parameters like

Highest NIM 4.10%

Highest CRAR 13.82%.

Highest productivity: Biz Per employee 14.82 Crore; per Branch almost 200 crore

Lowest GNPA 7.25%; NNPA 2.08%

And the trend is clear that every subsequent quarter shall be a path breaking one.

During the 3<sup>rd</sup> quarter, we raised Tier-2 capital of Rs. 1021 Crore to augment our Capital base. Pertinent to mention that T-2 Bonds amounting to Rs. 500 crore are getting redeemed in Dec 2024. We are also looking to further augment the Capital of the Bank especially the CET-1 during this quarter (Q4) through ESPS as also internal accruals which are expected to be encouraging this year thereby targeting a CRAR in the range of 15% by March'2023.

We 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. We will now proceed with the question answer session. Anyone who wishes to ask a question may press star and 1 on their touchtone phone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use handset while asking a question. Ladies and Gentlemen, we will wait for a moment, while the question queue assembles. The first question is from the line of Devvrat Himatsingka from Augmenta Research. Please, go ahead Sir.

**Devvrat Himatsingka:**

So firstly, I would like to congratulate you on a fantastic set of numbers. So that is very commendable. Just had a few questions. My first question would be pertaining to the tax rate. Sir, I have noticed that we pay 40% tax. So can you please highlight why we do this? And are we planning to move to the 25% tax bracket or what is the vision forward? If you could just address this and come to my next question after this?

**Baldev Prakash:**

Yes. Can I ask our CFO to respond to it, please, Devvrat?

**Devvrat Himatsingka:**

Yes, sure.

**Pratik Punjabi:**

Good evening, Devvrat. We are effectively paying only 25%. The reason of what it will be a little higher is because of the deferred tax liability which is happening on account of two key reasons. One is depreciation as per our books is lower than the income tax rate. And the second reason is, which is very good reason is that bank is having more standard asset provision as compared to lesser nonperforming asset provision from the P&L perspective. So that creates a deferred tax liability which increases the effective tax rate.

**Devvrat Himatsingka:**

Okay. Sir, you've announced the stock option scheme of about roughly 7 crore shares, which is roughly 7% -- under a little bit of 7% of equity. And you've done that at INR 40 to INR 43. So I

wanted to ask that. And another follow-up question was that when do we expect the tax rate to change and become normal?

**Baldev Prakash:** Yes. So about the -- you are asking about the staff -- employee stock option. You are saying?

**Devvrat Himatsingka:** Correct.

**Baldev Prakash:** Yes. So that we are planning to have. I think we have got the board approval. And during this month and -- during this quarter, we are planning to have it. But we have not decided about the pricing as of now. Most probably, we will be doing it around the book value. Yes. About the deferred tax, I think Pratik will explain it.

**Pratik Punjabi:** We expect that to normalize only by end of next year.

**Devvrat Himatsingka:** So you're saying by FY '24, fourth quarter, like is that correct?

**Pratik Punjabi:** Yes. Yes.

**Devvrat Himatsingka:** Okay. And sir, 1 last question, if I may. When do we start seeing the benefit of state activities in the loans and deposits?

**Baldev Prakash:** Which activity?

**Devvrat Himatsingka:** All the state activity that's happening, when do we see that flowing into the numbers? Or the business tourism activity effect that are happening?

**Baldev Prakash:** Yes. So two things up there. One is that as far as the tourism activity is there, we have seen quite a good activity. I think a lot of tourist are coming even in these months, in the winter also, the tourism is there. So that is obviously having a positive impact on the small tourists, the things like shikara and restaurants and the taxis. These are having a good business.

Of course, hotels also are getting the benefit of it. But as far as the other area of investment is concerned, the government is taking a lot of proactive steps to improve the investment to come to the state. I think people have been waiting for a year. And now I think this year, we can expect some good investments to come in the Union Territories.

**Devvrat Himatsingka:** And that should definitely help the bank also, right, because we've got a majority market.

**Baldev Prakash:** J&K Bank should get the maximum benefit out of that.

**Devvrat Himatsingka:** Okay. And sir, can you give us some guidance on future NPAs and provisions? I understand you've given us a great guidance on the macroeconomic situation, but when it comes to the Bank, what kind of NPAs and provisioning are we expecting, say, over the next couple of quarters, if you can?

- Baldev Prakash:** Yes. So we have 7.25% as of now as gross NPAs and the way teams are working on ground quite aggressively, we are quite confident that we will be ending the year at around 6%, March '23. And this I'm talking of the recovery. We are not including any write-offs. We have not included any write-off in 7.25%. And as far as -- what was your next question was about?
- Devvrat Himatsingka:** Sir, next question -- sir, it was just the provisioning. So I mean you kind of cleared that.
- Baldev Prakash:** Yes. So for provisioning, we have the right back in and bad and doubtful. I think the trend should continue because almost 85% -- most of our accounts, which are quite old are almost fully provided.
- Moderator:** The next question is from the line of Sonaal from Bowhead. Please go ahead.
- Sonaal:** Congratulations on good set of numbers. I have a few queries. Is there any one-off in the NIMs? Either income tax recovery or interest service which you think may not occur in the next couple of quarters or this is a recurring tax rate? This is a recurring NIM do you think?
- Baldev Prakash:** No recovery from income tax. As Pratik has told, this is basically because of the deferred tax liabilities.
- Sonaal:** Sir, what about NIM, Net interest margin, sir?
- Baldev Prakash:** Net interest margin, yes. I mean so we are having -- the 4% plus NIM and our guidance in the last quarter was also that we will be keeping it around this range, 3.9% to 4%, 4.10% -- 4.1%. So we are expecting this to continue as far as last quarter is concerned.
- Sonaal:** Sir, regarding our recurring employee costs, so we had provisioned this quarter. So will we have this kind of provision in the coming quarters and years as well? So this is a recurring salary rate or there was some back dated adjustment in this quarter which may not be recurring?
- Baldev Prakash:** It was nothing back dated actually. This is basically the -- see the IBA, our -- the wage revision is due now from November 2022. So as a prudent measure, we are taking these steps to create a buffer -- to create a provision so that we don't have the pressure at the eleventh hour. So this is only the provision we are creating.
- Sonaal:** So sir, can I consider this to be your quarterly salary rate or maybe it will be a little higher going forward because the provision was for two months and going forward will be for three months? I'm just trying to understand what could be your average salary for 2024 at a broad level, employee cost at a broad level?
- Pratik Punjabi:** Can I answer?
- Baldev Prakash:** Yes. Yes.
- Pratik Punjabi:** See, this IBA agreement will not really payable immediately or even in the medium term because it takes about two years or a little more than that to fructify all those legal things before the actual

payout is happening. So I was trying to say that this bank is actually being conservative by making a necessary provision to make it more resilient -- making the bank more resilient to face whatever could possibly happen two to three years down the line. So yes, this incremental provision will be part of our run rate now because we have the ability to absorb it.

- Sonaal:** No, I understand, sir, this is a recurring salary rate. That's what you are seeing basically.
- Baldev Prakash:** Yes. Yes. Correct. That's correct.
- Sonaal:** Okay. There's no one-off in this. Okay.
- Baldev Prakash:** No, no.
- Pratik Punjabi:** No one off.
- Sonaal:** Sir, thirdly, I wanted to understand from you what was your SMA-1 and SMA-2 this quarter? And the amount of EGCLGS loan we have outstanding?
- Pratik Punjabi:** Yes, just a moment.
- Baldev Prakash:** So SMA-1, SMA-1 and SMA-2 -- so potential NPA, that is SMA-1 and SMA-2. This quarter was 7,663 and as on 21st January, it has come down to 3,295. Yes. Last quarter -- December quarter, it was quite elevated. We know that, but we were working on the solution because the solution was basically occurred because of our migration to Finacle 10 and we have addressed the problem. And now you will see that the potential NPAs and all SMA levels, you will find that we will be fixing this and which will be visible for this month and this quarter onwards.
- Sonaal:** So sir, what is SMA-1, SMA-2 out of this?
- Baldev Prakash:** SMA-1 and SMA-2, both. You are saying separately, you are asking separate?
- Sonaal:** Yes, sir.
- Baldev Prakash:** 31st December, SMA-1 was 5,071 and SMA-2 was INR 2,592 crores. Total, it comes to the INR 7,663 crores.
- Sonaal:** And sir, what is the breakup in January, what you said, which generally date were you referring to?
- Management:** The January 21<sup>st</sup> is 2,523 in SMA-1 and 772 in SMA-2.
- Sonaal:** And do you think that by March quarter, this number would improve?
- Baldev Prakash:** Yes. By March quarter, you will find that significant improvement will be there in potential NPA.

- Sonaal:** So all the technology changes and the entire you are thinking you are done with it? Or will be done by then?
- Baldev Prakash:** We have fixed it, yes. Yes, it is done.
- Sonaal:** And also the follow-up mechanism, which you were planning?
- Baldev Prakash:** Yes, yes. The slippage will also be seen the improvement in slippage ratio also.
- Sonaal:** And sir, in terms of the EGCLGS loans, what is the amount?
- Baldev Prakash:** Which one? Sonaal, can you repeat, please?
- Sonaal:** So these GECL, what is the amount?
- Pratik Punjabi:** You're not very audible. I think you've gone away from the microphone.
- Management:** Sir, should I respond?
- Baldev Prakash:** Yes.
- Unknown Executive** Sonaal, the GECL portfolio total as of the...
- Moderator:** Sorry, this is the operator, the line for Sonaal has disconnected.
- Management:** Okay.
- Moderator:** If you would like to answer the question, continue answering it for the sake of -- for the benefit of the participants, you can go ahead.
- Management:** Okay. So he may be on the listen-only mode, so he can also listen to this. So the total GECL portfolio as on 31st December, it was INR 1,513 crores, out of which INR 1,394 crores is standard, INR 119 crores is NPA. And about the moratorium that only INR 380 crores is now under moratorium. And in that, from 6 months to 12 months, it is INR 118 crores and above one year is INR 250 crores. This is a full detail about the GECL portfolio.
- Moderator:** We have the next question from Darshil from Sapphire Capital.
- Darshil:** Congratulations on a great set of numbers. Sir, I would like to ask what is the level of AUM growth we are targeting and what kind of ROA can we expect in the future?
- Baldev Prakash:** Yes. So ROA as of now, we are 92.92% for this quarter. And hopefully, we will be ending up around 1%. That is what we are trying hard. And by the end of this year, we should be reaching to around 1%. And the growth as far as advances are concerned, as of now we are at -- clocking at 14%. We should be having definitely around 16% to 18% growth in advances. And deposits, yes, it's a little sluggish, but we should be able to grow around two digits. Yes, 11%, 12%.

- Darshil:** Okay, that's helps a lot. And sorry, sir, I actually missed the number in the beginning. So could you just clarify what is our PCR?
- Baldev Prakash:** PCR is 85% as of now.
- Darshil:** Okay. That helps a lot. And sir, what about our -- any other provisioning that we are looking for? Any big term core -- credit cost for future? Can you, help me with that, sir?
- Baldev Prakash:** No, not much provisioning. Rather, we are expecting write-back of provision during this quarter because a lot of our big ticket NPAs, which are already provided for are likely to be settled.
- Moderator:** The next question is from the line of Manish Ostwal from Nirmal Bang Securities Limited.
- Manish Ostwal:** Very great performance and extremely great turnaround of the bank by your able leadership. So thank you to you and your team, first of all. And I have a couple of questions. The first question on the net interest margin expansion trajectory. So we have seen on 4th of May, the Reserve Bank started to increase in interest rates in almost 225 basis point policy already moved, and we have seen the repricing in the loan market by various banks, including J&K Bank. Whereas the deposit repricing is very slow because of its own nature. So the sector having a tailwind of NIM expansion and J&K also showing the same trend.
- So my question is, first, where do you see the sustainable net interest margin for J&K Bank, given the mix of the loan book?
- Baldev Prakash:** Yes, thank you, Manish. Our NIM as on December is 4.10 annualized. And in our last quarter guidance also, we said it will be around 3.9 to 4.10, in this range only. And we continue to have the same guidance as of now also. There are two reasons for that. One is that we have the sufficient liquidity available in the system. And the other is that we are happy that we have almost 53% to 54% of CASA deposits, which are hardly impacted by the growth and by the increase in interest rates. So with these supporting sectors, I think we should be able to maintain our NIM at around 4% level.
- Manish Ostwal:** Even in FY '24, sir?
- Baldev Prakash:** FY '24 is -- I think it is too early to say. But March '24, definitely, we should be having the sense.
- Manish Ostwal:** Okay. The second question on the wage division part. So we have taken some provision with respect to wage division. So what is the -- first is what is the salary increase wage division assumption? And secondly, what is the total -- two months' total impact on the salary -- wage -- employee cost?
- Baldev Prakash:** So Manish, we are providing as a prudent measure because we are expecting around 15% to 18% of increase as usual in the IBA package. And for calculating that, we are providing it every quarter because we are able to provide it, so we are providing it so that we don't have that sudden requirement at the eleventh hour. So that we will continue doing it every quarter as a prudent measure only.

- Manish Ostwal:** Can you quantify the number, sir, please for two months, November and December?
- Management:** Manish, actually, what we have started providing it is 12% of the wage. So for the two months, it is INR 55 crores. But actually, this is as a prudent measure like our MD sir said. Otherwise, our Board of directors, you already know that our -- this wage structure, it is not really aligned with the IBA and we have got some component, which we had actually introduced as a variable way. Now the Board of Directors is actually contemplating that variable, it has to be performance linked and just for giving this pay protection to the employees, it may be -- it had to be phased out because the Board of Directors had actually passed a resolution that it has to be phased out over a period of time.
- Though we have not started that process yet, but it is there in the pipeline and maybe the wage revision on the one side and the phasing out of the variable pay component that was there in the pay, it will actually go concomitantly and with the requirement of this provision, it will not be very high. But as on date, yes, as a prudent measure, as a conservative measure, we have done the full provisioning at 12% of the wage bill.
- Manish Ostwal:** And the last question I have on the loan book mix in terms of EBLR, MCLR and the fixed-rate book. So can you provide the breakdown of our loan book?
- Pratik Punjabi:** Yes. So we have 47% on floating. And out of this 47% of loan book is 71% is -- no, sorry, 47% is floating rate, yes. And out of that 71 is external benchmark linked and 28% or 29% is MCLR linked.
- Manish Ostwal:** Okay, sir. And only 1 thing sir before the call, if it is possible, provide the earnings update on the BSE exchange, so that it will be much easier to analyze and have a more fruitful conversation with the J&K bank management team.
- Baldev Prakash:** We'll do it, Manish.
- Management:** Actually the board meeting it ended a bit late. So there was no time available to upload it. But immediately after the call -- the presentation will be there on our website, and I will also mail it to the investors also.
- Manish Ostwal:** Absolutely. But it will be helpful if it is -- next time, we can manage this little better.
- Management:** Sure. We will do that next time.
- Moderator:** The next question is from the line of Ashwini Agarwal from Demeter Advisors.
- Ashwini Agarwal:** Congratulations on an excellent set of numbers. So two questions there, and I missed the opening remarks. But on capital rates, so one is you've announced some INR 300 crores to be issued as employee stock options. But from what I recall, there was a conversation about raising more capital sometime in the fourth quarter. Could you provide an update on that? And where do you want your capital adequacy to be by the time this financial year end?

- Baldev Prakash:** Yes. So Tier 2, we have already raised, as you know, INR 1,021 crores during this quarter, during third quarter. And this quarter, we have the approval of INR 500 crores -- up to INR 500 crores from Board. So out of that, around INR 300 crores, we are expecting through employee stock purchasing, which is also approved by the Board and may be implemented during one month time. And we are also contemplating to sell the stake in one of the consumer company where we hold some 3%, around 3%. So there also we are expecting some. So around INR 500 crores, we should be able to get. And by the end of this year, we should be having CRAR of 15% plus surely.
- Ashwini Agarwal:** Sir, one question. You've initially made a comment in response to another question that the shares will be issued to employees at book value, but that's significantly higher than current market price. I mean how will that act as an incentive to subscribe? I mean, wouldn't employees prefer to buy shares in the market at a much lower price?
- Baldev Prakash:** It will be around book value, what I'm saying, we are expecting that market should respond positively to the results. And we will be watching the market in a month or so. And then we will be trying to have it around the portfolio.
- Management:** And actually there's a pricing formula for it. Yes. This is not a stock option. Actually, it is an employee stock purchase team. Yes. So there is a pricing formula that is actually prescribed by SEBI. So its historical prices of some period of highs, lows the weekly, weekly this average. So the pricing is based on that only. And over and above that, the employees will be getting a discount, actually. The price that is arrived at the employees will be given the discount. So that will be the incentive to the employees for investing in it.
- Ashwini Agarwal:** Yes, I understand. And sir, second question I had was that in the footnotes to the quarter results, I saw a higher number of fraud-related detection in the December quarter. Is this purely a fluke? Or is it because you transitioned now to Finacle 10, you're able to spot these things earlier. Could you just provide some color on why we had a higher number of fraud detection in the December quarter?
- Management:** Yes, just a moment. You will take that? It is only one account.
- Pratik Punjabi:** So the amount -- this is Pratik here, the amount maybe higher, but number is not higher. It is only one account.
- Baldev Prakash:** This is actually one account, which was already NPA and it was under the investigation of the Central Agency, so we have declared it as a fraud.
- Moderator:** The next question is from Sonaal from Bowhead India.
- Sonaal:** So what is the quantum of ECLGS loans on the books as on 31st December?
- Baldev Prakash:** Yes. Ishaq, can you just repeat that answer?

- Management:** Yes. Sonaal, the total amount of the GECL portfolio as on 31st December, the outstanding in those accounts, INR 1,513 crores. Out of that certain dot portfolio is INR 1,394 crores, NPA is INR 119 crores and the remaining moratorium there is for INR 380-odd crores. Among that six months to one year moratorium for INR 118 crores and above one year moratorium for INR 250 crores.
- Sonaal:** So can I say that most of your book is already paying?
- Management:** Yes, definitely. Only INR 380 crores of this amount is now remaining under the moratorium.
- Sonaal:** Yes. And in terms of how -- in terms of your -- is there any large amount comment between your SMA restructured book or do you have that handy?
- Baldev Prakash:** So restructured book around INR 3,000 crores. Shuja, you have the number.
- Management:** Yes, sir. Yes.
- Sonaal:** I am asking you the common numbers of you restructured book in SMA.
- Management:** Yes, yes, that SMA actually -- sorry, this restructure actually does not contribute to large numbers to the restructure sorry -- this SMA book.
- Sonaal:** Understood. Thirdly, sir, your GNPA's, I think, have fallen, but your NPAs have risen. What is the reason for this?
- Baldev Prakash:** Please repeat the question?
- Sonaal:** So our GNPA has fallen from INR 6,064 crore to INR 5,946 in this quarter, quarterly on a Q-on-Q basis, while your NNPA has actually increased.
- Baldev Prakash:** Net NPA. Okay. The pure net NPA, yes, you're right. So what has happened is that's because we have done TWO recoveries. There is more...
- Management:** Technical Written-off Accounts.
- Baldev Prakash:** Yes. So, TWO, technical written-off accounts have been recovered. And therefore, the NNPA is going up. But our NNPA ratio has improved even on Q-on-Q.
- Management:** Actually, Sonaal, you see for the new slippages, you make the provisions as per the IRAC norms. And for the substandard it is just 15% and the recovery that you are actually getting, it is from the chronic accounts where you have 100% provision or higher rate of provision. So actually, what is happening though the GNPA has come down but because of this lower provisioning on the new slippages the NNPA has gone up.
- Sonaal:** Okay. And sir, in terms of your tax rate, what is the tax rate likely for you for 2024, the reported tax rate?

**Baldev Prakash:** Tax rate will be around 30. It will go below 30 in fact. Currently, we have deferred tax liability position, which will begin to unwind towards the end of FY '24. So it will begin to go lower.

**Sonaal:** And what will be this number for 2023 roughly? Tax rate? Nine months are done, so three months more left.

**Baldev Prakash:** So currently, our effective tax rate as -- are you asking effective tax rate?

**Sonaal:** No, sir, I'm asking what will be the reported tax rate for you in 2023?

**Baldev Prakash:** 2023 will be between 30% to 33%.

**Sonaal:** 30% to 33%.

**Baldev Prakash:** Yes, yes. It may come down. There is a big refund that we're expecting once it materializes, then we will pass the necessary accounting entry and then it will come down. But otherwise, if you look at my current effective tax rate, it will continue that only.

**Sonaal:** And FY '25 should be back to normal 25% level?

**Baldev Prakash:** Yes, yes. Correct.

**Sonaal:** And sir, I missed this, my call got disconnected. What are the advances growth are you expecting this year?

**Baldev Prakash:** Yes. So advances growth, as of now, it is around 14%. This trend will continue. And this quarter, we are expecting to reach around 16% to 18% somewhere.

**Sonaal:** Next year or next quarter, you're saying?

**Baldev Prakash:** This quarter. This quarter.

**Sonaal:** In the coming -- okay. So you're expecting a nice growth this quarter.

**Baldev Prakash:** Clear, yes. Decent growth would be there.

**Sonaal:** And sir, just to reconfirm, okay. So the employee cost number is not clear. This may not be a recurring number in case you do the assistance with the chart I mentioned about going forward in terms of your variable pay.

**Baldev Prakash:** Employee cost you are talking?

**Sonaal:** Yes.

**Baldev Prakash:** So employee cost, you see it is because of the provision only. This we have already explained on that benefit. Otherwise, you see the employee cost is coming. And obviously, it is impacting our cost income ratio also, which is also getting the benefit of that.

**Moderator:** The next question is from the line of Ashwini Agarwal from Demeter Advisors.

**Ashwini Agarwal:** What I was wondering was that now that you have updated the technology and a lot of systems and processes have been put into place. Two questions and they're kind of interrelated. On a policy front, as the state starts to spend more money on infrastructure and on projects, it is both an opportunity as well as a risk in the sense that opportunity to grow your loan book, but also the risk that some of these state projects may eventually become large NPLs because there'll be large chunky accounts. So how are you thinking about that? And what is the role of government direction in these new loans? So that's question number one.

And question number two is that as you look forward to more piece in the valley and normalization of activity, how are you seeing the business competitive environment change? Are you seeing more activity from private sector banks, the leaders like ICICI or Axis becoming more aggressive in branch rollouts?

**Baldev Prakash:** Yes. So actually, two questions, let me respond to each one, one by one. About the loan book in the state, yes, because the activity is now looking up for the last one year. So the focus in the state will be mainly retail, retail means all MSME as well as agriculture and of course, the personal segment loans, including housing.

And that will continue. And as far as our big ticket is concerned, of course, we will take only good ones and the major focus as far as the big ticket is concerned, is rest of India, that is out of J&K state and Ladakh. So that strategy we have followed and we will continue to that strategy during this quarter also. And in the medium term also. As far as the peace initiatives, land orders and other things are concerned, yes, there is a significant improvement which is thereby resulting in large inflow of tourists in the Union Territory. And yes, that is resulting in increased competition mainly in Jammu and Katwa area, near Punjab area.

But as far as value is concerned, we are not seeing much competition as of now, but definitely, we welcome the competition because it provides the opportunity to improve further. And we are ready to face the competition because the unique thing with the bank is that there is a lot of loyalty factor. And this bank employs the staff from the state only. And because of that, there's a lot of connect between the customer and the staff and a lot of understanding of culture and the values. So that is an advantage to us, which is a unique.

**Ashwini Agarwal:** Okay. Sir, 1 more question, which is related. Now that the shareholding of erstwhile Jammu and Kashmir state has been divided into the Union Territory of Ladakh and Union Territory of Jammu and Kashmir, how has that changed your sort of relationship with the government? I mean now is it more similar to other PSU banks, so it's Department of Financial Services within the Ministry of Finance, that's overseeing the operations or is it still at a state level? I mean, given your experience in State Bank of India, if you could help us understand how things have changed or are they more or less the same?

**Baldev Prakash:** So a little difference as far as SBI is concerned because here, we are closely working in -- with the government of J&K as well as Ladakh. And primarily, we are in sync with both the

governments. Yes, for the broader monitoring, the DFS is monitoring and guiding us as far as the key initiatives are concerned, which are driven from the central government. But the -- initially, the immediate role remains with the Union Territory Government of JK and as well as Ladakh.

**Ashwini Agarwal:** And prior to the reorganization of the state, the DFS had a similar amount of oversight or lower oversight?

**Baldev Prakash:** That was lower because earlier it was state and then the state -- because the holding was with the state. So it was less -- very less impact from DFS.

**Ashwini Agarwal:** Okay. So would it be fair for me to assume that J&K Bank today is run more along the lines of other PSU banks than previously?

**Baldev Prakash:** Yes, I think we can safely assume that.

**Ashwini Agarwal:** Okay. And would there be any pressure from either the state administration or from the center for you to support certain schemes relating to real development of Jammu and Kashmir or the economic activity? And does that sort of compromise your long-term asset quality outlook in any way? Is that something you worry about?

**Baldev Prakash:** No. Ashwini. Actually, as far as pressure is concerned, there is no pressure, but since we are working in a state, which needs a lot of development. And in fact, the NPA ratio, NPA of the state of J&K and Ladakh is excellent actually. And in India, if you see any UT where the minimum NPA, which is only the Ladakh. And in the J&K also, it is very minimal. And we are rather keen to support the employment opportunities and the self-employment, we want to enable this in the -- in both the union territories of J&K and Ladakh. There is no pressure as such.

**Moderator:** As there are no further questions, I would now like to hand the conference over to the management for closing comments. Over to you, sir.

**Baldev Prakash:** Thank you so much, and thank you all the participants for joining in today. For any further questions, queries comments or anything else, the team is always available, and you can also direct your queries to our Investor Relations desk, and we will be definitely responding that. Thank you, and wish you a very happy Republic Day. Bye-bye.

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

**Baldev Prakash:** Thank you.