"Jammu & Kashmir Bank Limited
Q2 FY2024 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome the Jammu & Kashmir Bank Q2 FY2024 Earnings Conference Call hosted by ICICI Securities Limited. 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 you can press "*" then "0" on your touchtone phone to signal an operator. 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 Sir!

Chintan Shah: Thank you Sagar. Good morning everyone and welcome to the Q2 FY2024 results conference call for Jammu & Kashmir Bank. We have with us from the management Mr. Baldev Prakash, MD and CEO along with the management team. I would now like to congratulate the management for great set of numbers so now without further delay, I would like hand over the floor to the management. Thanks you and over to your Sir!

Baldev Prakash: Thank you Chintan. A very good morning and warm welcome to all the participants. First, let me introduce my management team who are accompanying me on this call. We have our corporate credit head, Mr. Ashutosh Sareen, and our retail credit head, Mr. Narjay Gupta, our Impaired Assets Management Vertical Head Mr. Shujaat Andrabi, our CFO Mr. Pratik Punjabi and Chief Risk Officer Mr. Altaf Kira. Amid the challenges of some concerns on global headwinds emanating from the geo-political issues, global slowdown and stubborn inflation, Indian economy seems to have exhibited remarkable resilience. Though growth inflation dynamics have been quoted as a cause of concern by Reserve Bank of India owing to the uncertainty of food inflation. Uncertainties on account of rising crude prices, dollar index and all-time high US bond yields have become more pronounced and pose a dual challenge for central banks of managing financial stability along with price stability.

RBI has expressed confidence on the strength of macroeconomic fundamentals and financial sector stability in India. RBI has also pointed to a protracted period of high interest rates continuing before the regulator decides on some moderation depending on a sustained reduction in inflation. The regulator has, however, sounded caution on the build-up of unsecured personal loans and advised the financial sector to be more vigilant and create adequate buffers during good times. The GDP growth forecast for the year has been retained at 6.5%.

A spate of good Q2 numbers are being declared by most of the banks with robust credit growth. However, rising cost of deposits and consequent contraction in margins are visible almost universally. The J&K and Ladakh growth story continues with major infrastructure under implementation and some strategic ones nearing completion. The Udhampur – Baramulla rail link is scheduled to be thrown open in the early 2024 which shall pave way for all-weather and economical connectivity route giving a boost to tourism and trade. The two UTs which used to be nearly shut during the harsh winter months, are now witnessing year-round activities. In J&K, the euphoria for winter sports has already started and record tourist influx is expected. Tourism and trade related activities, as a result, are expected to do better with greater employment generation and proliferation of the benefits to other sectors as well. The bank continues to deliver results in line with the market guidance with sustained improvement in financial parameters. The numbers for September 2023 are promising and reassuring of the strengthening fundamentals for a more prosperous future.

Growth in business numbers is aligned with the industry. Advances growing at 18% YoY and deposits at 9%. The lower deposit growth is as per the strategy. The levers that the bank has in the form of low credit-deposit ratio and excess short-term investments provide us space for funding part of the credit growth by realignment. During the first half of current fiscal also, part of the short-term investments was redeployed through the credit route. Despite lower growth in CASA numbers, we are still maintaining a CASA ratio of over 50% which is a rarity in the industry. Advances growth has been diversified and was majorly contributed by growth in high rated corporate recording increase of 19% YoY while retail advances recorded growth of 12% YoY. In the personal loan segment, growth was more pronounced in home loans about 20% YoY and credit cards with a smaller base growing at 25% YoY. The ratio of retail to corporate loans in our overall portfolio is 2:1. The income statement is reflective of good growth in interest income at 23% YoY for the half year, 17% in net-interest income, 20% in non-interest income, 23% in operating profit and 73% in PAT. Even on sequential basis net interest income is up by 4% and PAT by 17%. Other income, however, is below the Q1 level as there was no significant resolution of technical write off account during Q2. Provision write-back from TWO accounts had contributed to the non-interest income during Q1.

The financial parameters reflect sustained improvement in almost every metric. Despite increase in the cost of deposits which is an industrywide trend, the improvement in yield on advances and yield on investments have resulted in NIM further improving to 4.07% for the quarter and 4.03% for the half-year which is slightly better than our conservative guidance. Pertinently, the trend reflected in the results of banks declared so far, some moderation has been witnessed in the net interest margin and thus our bank has been a better performer on this front.

On the operations front, despite creating provisions for the impending IBA wage revision, cost-to-income has slightly moderated by 14 basis points on Q-o-Q basis. We have recently rolled out online account opening facility with video KYC and with maturing of our other technology adoption initiatives of centralized processing for account opening, loan appraisal of personal consumption, consumer loans, etc., including STP model for government employees per employee productivity and profitability shall vastly improve by rationalizing of human resources from transaction processing to business acquisition and marketing. This shall result in gradual improvement in the efficiency ratio as well.

Asset quality again has been a standout parameter of our performance. Slippage ratio which had been a major pain point last year, is the highlight of current year's performance. Gross slippage of just 1.25% annualized for the half-year and the continuation of recovery momentum have resulted in our gross NPA coming down to 5.26% while net NPA is approaching the 1% mark. The trend corroborates that we are on course to achieve the year-end target of 4.5% of gross NPA and net NPA below 1%.

In absolute terms significant downsizing has happened in the gross NPAs by about Rs.1270 Crores, in technical write off loans Rs.460 Crores and also in the restructured standard loans by Rs.530 Crores since September 2022 thus ensuring that the balance sheet is now highly cleaned and much stronger. Further reinforcing our balance sheet, we have taken the provision coverage ratio to 90% level. Recovery, resolution of technical write off accounts did not materialize during the Q2. However, we are envisaging significant resolutions happening in such and other NPAs during the second half which shall further bolster the bottom-line of the bank.

The restructured loan book is performing satisfactorily and its downsizing is continuing. The credit cost has remained well below the guidance at just 11 basis points during the half year and we are confident to keep it to the bare minimum owing to controlled slippages, high PCR which reduces our ageing provision requirement and expected write-backs on account of recoveries.

With the trend of profitability, we envisage adequate internal accruals during the year. We also have enabling board approvals for raising of equity and T-2 capital which we may consider utilizing at the appropriate time and price, depending on the evolving scenario including RBI's stance on risk weights for consumer credit.

The capital adequacy ratio of 14.53% as on September 2023 is without reckoning the half-yearly profit and the 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. The first question is from the line of Ashwini Agarwal from Demeter Advisors LLP. Please go ahead.

Ashwini Agarwal: Congratulations on a very, very, strong quarter and wonderful result. So I had a few questions one is of course the ESPS, I saw that the ESPS is still not being considered for capital adequacy calculations. Where is that process now?

Baldev Prakash: Thank you very much. See ESPS, there was some process involved because we wanted to have some approvals in place. Now I am happy to tell you that we have all the approvals in place and maybe another one week time this money will be because the shares will be directed to individual employees account and this money will be accounted for and this is a matter of a few days.

Ashwini Agarwal: Okay perfect that is great. Second is that your cost to income ratio has obviously improved better growth in balance sheet and the growth in net interest income and profits after tax has also grown so I wanted to ask, when you think about the next two to three years, where do you think the cost to income ratio can go? Do you think that a target of somewhere in the early 50s is possible, how are you thinking about cost to income ratio?

Baldev Prakash: Yes Ashwini as I have indicated in my talk also there are various steps we are taking to address the cost information because this is one piece, we are now fully focused to fix it so as far as the technology is concerned, various steps have already taken, some are maturing in month or two months time so from that point of view, I am sure that the staff productivity and staff profitability will increase and lot of transactions related business will shift to that technology and staff will be aligned more for garnering of new businesses, that is one. Another part is that we are working in a focused manner as far as our staff costs are concerned. We believe that something we are missing in that, but we are not yet sure because that process is still on and from the terminal delivery point of view also we are looking into it and I am quite confident that by this year even if nothing comes out of that study which is relating to our staff benefits, we will be ending it around 60% definitely and going forward will be further improving.

Ashwini Agarwal: On the credit costs, I mean the provisions were basically 11 basis points in Q2, which is much lower than what is on a number on a sustainable basis so on a long term basis, how do you think about credit costs? What should we factor in a sustainable credit cost over the medium term?

Baldev Prakash: Actually can I ask you to CFO Pratik Punjabi to respond to this question?

Pratik Punjabi: Yes, good morning, Ashwini. In terms of credit cost for March 24, 2023, our guidance for this will be less than 10 this is point we are very well on track. You can see as our H1 cost which is less than 10 basis points, this is largely riding on the fact that we are unwinding value from reduction in MPS resulting into lower credit costs, so this is sustained till March 25, 2023 post March 25, 2023 that is the March 26, 2023, March 27, 2023 and March 28, 2023 normal banking curve will prevail and then we expect the cost to be around 50 to 60 basis points in a staggered manner.

Ashwini Agarwal: Perfect. And last question is on the capital raise I mean if you take ESPS and profits till date into account, your capital adequacy is already well above 15%. How much are you looking to raise via equity and how much via subordinated bone?

Pratik Punjabi: 750 Crores approval is already in place from the board, so we are going ahead with 750 Crores as far as equity is concerned. Bond we have not yet made a final call. Actually we think that we may not require the raising this year, but still we will be again revisiting this thing in the last quarter and then take a final call on that.

Ashwini Agarwal: 750 Crores will happen during the next three to four months.

Pratik Punjabi: Yes this quarter.

Ashwini Agarwal: Okay, perfect. Thank you, Sir. Thank you for answering all my questions. All the best and once again, congratulations on a great job.

Moderator: Thank you so much. The next question is from the line of Mr. Jai Mundra from ICICI Securities. Please go ahead.

Jai Mundra: Sir, can you also put some perspective on your broad outlook on the growth and within which you know how are you looking at growth from the UT of J&K and Ladakh and outside and rest of India? Also your thought process on cost of deposits and yield side evolution which would enhance the margin trajectory that would be useful Sir.

Baldev Prakash: As far as growth is concerned, our strategy of last year focusing in the rest of the country on the high value corporate which are good rated, list of the government corporations which are high rated so that will continue, besides that we are going ahead with the opening of around 17 branches in the rest of the country this year so those branches, besides supporting our liability franchise will also be focused on improving the home loan portfolio in the good center so that strategy will continue as far as the rest of the country is concerned and the same trend of growth, the percentage growth which is happening definitely will be happening rather improving as far as the rest of the country is concerned. The home territory of J&K and Ladakh is seeing an uptick in all economic activities. Lot of investment, individuals are doing in the renovation of houses, construction of houses that activity seems to be improving further during this year so we are expecting little better growth as far as our home country is concerned on the retail front and also on the horticulture and agriculture because now lot of acceptability of this high density apple is coming in the farmers so high density apple means three to four times yield and that three to four times yields will be requiring more of the storage as well as logistic facilities and we are already proactively working on that, already started working on that and we will be having a good growth out of that sector also. Besides that, the major sector which will be contributing to all small, small other activities including the hospitality that will be the tourism which is seeing a record growth in J&K, particularly in the Kashmir region. So government has already set the targets of more than 2.25 Crores of tourist during this year. Already we are reaching to around 2 Crores. I am sure this number 2.25 will be achieved so this tourism will support all types of economic activities including the hospitality.

Jai Mundra: Just before, how would it translate to overall growth and within which the rest of India and again J&K and Ladakh?

Baldev Prakash: Well, we are growing at around 18% as of now and we want to maintain the level around 17%-18% during this half year also, rest of India is concerned and home territory of J&K is concerned. We are expecting the rest of India will be a tat better because of the ticket size. Cost of the deposit I think you have mentioned there. Yes, I agree that cost of deposit has seen some uptick in this quarter also, but since we have to align our rates with the competition, so that will be defined by the competition. But I am sure that will not have an impact on our NIM. We are confident of maintaining our NIM in the range which we have already advised in our guidance.

Jai Mundra: Understood, Sir. Sir, if I can ask the cost of savings deposit for us, I mean what would be the blended cost of savings deposit for us? We have given the cost of funds and cost of deposit. But if you have that number that is one that?

Baldev Prakash: Actually this will again depend upon the competition, but as of now our cost of bank is 2.90%.

Jai Mundra: Last question Sir before I come back in the queue you specified that credit costs will remain negligible, but if you can also give some perspective on the slippages and gross NPA and net NPA by year end that would be very useful.

Baldev Prakash: Can I ask our IMP head Shujaat Andrabi to tell about the growth.

Shujaat Andrabi: Good morning. Slippages, that was the first thing we have been attending since last year and the slippages have come down and it was during the H1 that ended on September 30, 2023 it was in the range of 1.5% and in the last year that is 2022-2023 the gross slippages for the whole year where around 12% so we have come down to just 1.5% and we assure you that it will be in the range of 1.5.

Baldev Prakash: There is a background for this. A lot of technology support we have taken to control that. We have now the trackers which provides proactive information to our team relating to the SMS, relating to the low turnover accounts also which are cash credit account as well as there is a tracker for NPA so lot of technology support has been brought in to control the slippages as well as NPA. Slippage will be in this range only 1.25 to 1.5.

Jai Mundra: Sure, Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Umang Shah from Kodak Mutual Fund. Please go ahead.

Umang Shah: Thanks for taking my question and congratulations on a very good quarter so just a couple of questions. One is continuing from the previous point on asset quality, now clearly you already guided that slippages are likely to be fairly range bound and credit cost for this year are likely to be around 10-12 basis points, but just wanted a bit of a clarification. Mr. Punjabi did mention that similar sort of credit costs are likely to continue until March 25, 2023 post which we expect some sort of a normalization so if you could just throw some light as to which, I mean what gives us the confidence that next year too the credit cost will remain as benign as they are at this point of time.

Pratik Punjabi: This is riding on the fact that when we concluded March 23, 2023 we were at 6.04% of gross NPA which we brought down to 5.77 as of June and which is now down to 5.26 as of September 30, 2023 so our guidance was that for March 2024, we will be at 4.5%. Similarly, we estimate and expect around 3.1% to be around March 2025 so the story starts with unlocking the value from the gross NPA and then there is obviously denominator will take when we start growing our book by improving our CET one ratio now having capitalized things like that therefore, this is a story of effecting good recovery from in March 2024 as well as in March 2025. Thereafter once we reach 3.1%, we think that a lot of sticky NPAs will be left at the bottom of the line and then with the new growth coming in, there could be possibility of normal banking curve and credit kicking in and that is the point.

Umang Shah: Understood and Sir, but do we have any large lumpy NPA's which are due for resolution, let us say over next two to three quarters?

Baldev Prakash: Not that much large now, but a lot of NPA we are working on and definitely in the last two quarters we will see that good amount of recovery in NPA as well as in technical write off accounts will be effected.

Umang Shah: Understood Sir my second question was related to margins now again on the margin front clearly our performance has been far better compared to some of the peer banks or similar sized banks that are operating in the country. But just want to understand that again taking a slightly longer view that how should we look at margins in the second-half and next year and will it be driven more by expansion in the loan to deposit ratio or do we have any levers on the yield front given that cost of deposits are rarely under our control. Do we have any levers on the yield front which will help support margins?

Pratik Punjabi: So there are a couple of levers as well so first is the credit deposit ratio and we have given our market guidance that for March 2024, we could be around 72%, but we have sustained ourselves at 69% in September quarter so moment we start leveraging our deposits despite the fact we are going to be protective of our deposit franchise in J&K. The second lever is the redemption of investments and you can see that with the increase in the yields of our investment portfolio also so that has already exceeded 6.5%, which was just about a year ago and 5.5% so these are the two strong factors that are going to help us in maintaining the NIM and the last part is the CASA. While the CASA ratio per se has not compared to March 24, 2023 but we are still one of the better banks in the industry, operating at about 50% CASA range.

Umang Shah: Okay understood. I got it Sir and Sir, lastly on OPEC, so just a clarification, in your opening comments you did mention that by the end of the fiscal we want to achieve a 60% cost to income ratio and this is without factoring in any benefits if at all, which can come from our exercise that we are doing in terms of evaluating the terminal benefits which are being paid to employees. Did I hear that correct?

Baldev Prakash: Yes Umang you are correct so on the cost to income ratio we have working on it and even if nothing is coming from that exercise on the staff front, we are confident that with the support of technology lot of the routine transactions will be shifting to the technologies and the staff will be utilized more for business and marketing.

Umang Shah: Understood and just one last question Sir. You did mention that the ESPS scheme approval has come in and we would be able to utilize that quantum into our CRAR calculations as well. Any indications as to how much does it add to our tier one capital and any timelines by when we will we might look at raising fresh equity capital?

Baldev Prakash: So one is that ESPS will add 43 basis points to CP1 and the capital raising exercise we have already started and we are trying to complete it within this quarter itself.

Umang Shah: Sir, I am referring to the equity capital you mean to say that the equity fund raise will happen in this quarter?

Baldev Prakash: Yes equity fund and tier 2 we have not taken a final call, we will take that call in the last quarter because we think that we may not require it during this year.

Umang Shah: Okay Sir, I am just kind of repeating this so in this quarter 81 bonds what you already mentioned, which will happen in this quarter I am talking about pure equity share capital that also will happen in this quarter because I guess you guys put out a press release saying that the equity capital raise was deferred.

Baldev Prakash: Umang that was relating to the additional, we wanted to have some additional capital 750 approval was already there in the last board meeting so that was relating to only that 750 only already there and that is for the equity capital and we are now working on raising of equity capital of 750 Crores, not everything.

Umang Shah: Okay thank you so much for the clarification. Yes.

Moderator: Thank you. The next question is from the line of Bunty Chawla from IDBI Capital. Please go ahead.

Bunty Chawla: Thank you, Sir. Thank you for giving the opportunity. Just a small question on the restructure assets. Though restructured assets are coming at a slightly lower pace last quarter was 980 Crores and currently it is 910 Crores so how one should see this book moving ahead and is there any moratorium left or it is completely out of the moratorium and on the provisioning part, it seems to be slightly on the lower side it is just 68 Crores. We are holding the provision against 900 Crores any view on that?

Shujaat Andrabi Residual book is behaving very constructively and there are no concerns on this. You must have seen there was no down regulation. There was just around the region of 13 Crores during the last quarter against 79 Crores in the corresponding quarter of the last financial year so it is coming down and in Q3, I assure you, you will see significant reduction in the restructured portfolio and there is no concern. This 68 Crores is without considering the DIIP which we are maintaining another for standard portfolio, which is around 55 Crores for that so we are adequately for that. The NPA are almost provided for to the extent of 80% in that.

Bunty Chawla: Thank you Sir.

Moderator: Thank you. The next line is from the question of Sonaal from Bowhead. Please go ahead.

Sonaal: Hello, Sir many congratulations on great numbers, turning around the bank, in your early part of your tenure. Sir, two questions first, how many people are you expecting to retire over next 1-2 years and what kind of savings and employee cost would it take? And how much of the salary hikes you have already provided and where do you think the final number would settle that after the wage negotiations and when do you expect it to be completed?

Baldev Prakash: Sonaal, thank you very much so one is about the retirement of our people so we have indicated in the last call also around 1500 people of which three and above senior people who are covered under the old pension scheme so they are expecting them that will support that and the second part is relating to the splitting the IP related package so we are already providing it for last so many quarters with 15% provision every quarter and I am sure that we will be having a soft landing once I think we are having 220 Crores as of now for the half year.

Sonaal: So are you saying that whatever you are expecting has already been fully provided and is there any one off in the employee cost, so this is a recurring number for your employee cost?

Baldev Prakash: So now actually depending upon the level of the package, if you see the past around 15% increment has been given to the employees so at the rate of 15% we have already provided for it. If it is a little higher, I think that we have to see and at that point we will take the call.

Sonaal: And Sir have you calculated what kind of impact, while this will be positive for you, these 1500 employees, retiring, but what kind of quantum could it be? Would it be like 50 Crores or 100 Crores or would be like 200 Crores benefit for you?

Baldev Prakash: Sonaal I think we have to come back to you on the number. We will be reaching out to you by e-mail.

Sonaal: Great, Sir. Sir, in terms of the employee cost, what kind of trajectory do you see for growth over let us say next 2-3 years so let us say if we take FY2023 number versus FY2026 number which is a medium term, do you think there will be any major increase or you would expect the number to be broadly similar without taking these pension fund benefits?

Pratik Punjabi: Good morning Sonaal, March 2023, the employee cost was 2700 Crores and for March 2024, we expect this to be around 3000 Crores but the driver of that number or growth is nothing but the provision.

Sonaal: But going forward do you think it will stabilize around this number for next two or three years or do you expect a significant jump from this number?

Pratik Punjabi: We do not expect any significant jump because as we already mentioned that we have already undertaken a study of how what are the components of this cost and we expect impact from rationalization and these are just mentioned that there will be retiring around, we will retirement of around 1500 very senior employees, senior scale employees in next two to three years so we do not expect significant jump from this level.

Sonaal: Sir as for equity raises concerned, is it going to happen through the union territory of Ladakh or is it going to be through the market or there will be a combination of both?

Pratik Punjabi: So as of now it looks like a combination of both but for market near 750 Crores approval is already there so we are going ahead with that parallelly discussions are on with both the government, the promoters, let us see how it turns out.

Sonaal: And Sir as far as the employee cost is concerned, the exercises you are taking whether on pension or the various heads you have which could lead to savings of the further salary for the bank, and the incentive structures you have been working on, by when you think you will be in a stage to have clarity and share with us.

Pratik Punjabi: We should be able to share that by next quarter, December end. We are working on it quite on advanced stage now but let us see because after that we have analyzed it also maybe it will take another 2-3 months' time.

Sonaal: Sir, just one last thing. Do you think that you would want to raise the money now or would you want to raise the money after you have clarity on this aspect because that will be a major positive for our bank, we will get discounted by the market and we will get a much better?

Pratik Punjabi: I think we are going ahead with raising of capital 750 Crores now.

Sonaal: Understood. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Umang Shah from Kotak Mutual Fund. Please go ahead.

Umang Shah: Thanks for giving an opportunity again just one data keeping question, Sir this quarter are non-interest income within which the miscellaneous income has seen a sharp sequential drop, is this related to recoveries from return of accounts or is it something else?

Baldev Prakash: No I mentioned in my opening talk also it is relating to the technical write off, last quarter we had a significant recovery this quarter we are not having that. So this is because of that only.

Umang Shah: Sir, is it possible to quantify how much are the recoveries in this quarter and in the first half?

Baldev Prakash: First half I have number. In the first half recovery was 79 Crores and in this particular quarter the recovery 6 Crores but it is a matter of fact that we are on course of our recovery. We maintain our annual guidance. There have been cases because this require some regulatory approvals before the result is finally achieved so there is a spillover of the date in the first three weeks also of this particular month itself we have recovered reasonable amount to maintain our guidance, but we will continue to recover.

Umang Shah: Understood perfect. Thank you so much, Sir.

Moderator: Thank you. The next question is from the line of Chetan Sharma from Systematic Shares and Stock Limited. Please go ahead.

Chetan Sharma: Good morning, Pratik Sir. So just one question with regard to the overall book so in terms of what are the unsecured loans in the overall loan book and that is it as of now?

Pratik Punjabi: As far as unsecured personal loans are concerned, we have a book of 20,000 Crores and I just want to add that this book consists of our loan to that employees of J&K and Ladakh government, which are backed by MOU with the government that in case any default happens for any loan, the government will take NOC for the terminal benefits of those employees that is why the delinquencies or the NPA levels will be almost insignificant.

Chetan Sharma: And in terms of any NPAs as of now or have you experienced any NPA in this as of now?

Pratik Punjabi: No significant NPA. Less than 1%.

Chetan Sharma: Thanks a lot.

Moderator: Thank you. The next question is from the line of Anand Dama from Emkay Global. Please go ahead.

Anand Dama: Thank you for the opportunity and so basically you guided for the margins to be reasonably strong and stable around the current level in the near term, but what is the medium term outlook on the margin side?

Pratik Punjabi: Our guidance continue to be around 3.75 to 3.9%, but we are conservative management and we have time and again beaten the estimates even this particular quarter we reported 4.07% for this particular quarter so our guidance continues to remain same and we will sustain ourselves in this particular year on that.

Anand Dama: So do you think that the guidance that you are giving 3.75 is very, very conservative because given the way basically your book is structured and your cost of fund management has been so you should not basically see any margin contraction below maybe 3.9 or 4?

Pratik Punjabi: I think you are assessment is correct, but one thing is there that still the liability franchise, lot of competition we are expecting or we are facing as of now also so given that factor in mind, we have kept this guidance in this frame which we think we will be definitely able to achieve.

Anand Dama: Just linked to that, basically the cost of funding advantage that you have on the liability front that typically you get from the J&K state, any partnerships that you would look at in terms of maybe some NBFC's or the co-lending partners? Because they would obviously look at your cost of an advantage and basically like opportunity on the lending front so that actually can give big protection in terms of margins for you going forward so any thoughts about that?

Pratik Punjabi: On the partnership if I am able to clearly hear you….

Anand Dama: Either you have co-lending partnerships or basically something of that sort.

Pratik Punjabi: So as of now we are working on having the tie-ups with Fintech those who are working on the liability side, right, they are providing the solutions. We will provide the value that so that is going on and besides that lot of work is going on providing the QR code and the cost machines also to garner the current account so that is going on and as such partnership with other corporate, we are not looking only the Fintech.

Anand Dama: OK, got it and Sir anything that you would want to talk about on the fee income plan because that is little bit lower when we look at the other private banks as such, somewhere about 50 basis points or so, so any plans over there, any target that you have in mind and what will be the strategy to take it up?

Pratik Punjabi: Non-interest income Anand in the last year we have added two of our partners in that insurance sector income I mean the life insurance this year we are adding one more partner in the non-life so these things, these partnerships will start yielding the results during this year and we are expecting them to actually improve our non-interest income and besides that, lot of work has been done on the trading side also last year being the treasury being shifted to Mumbai from Kashmir so they took some time for stabilization now we have empowered them with good quality staff and the consultant is working with them on improving the various segments so where they can earn money so these two things, one is the bank insurance segment, another is treasury income. We are quite bullish on improving on this.

Anand Dama: Anything on CSFC that you can talk about because I think you would be sitting on a decent CSFC? So you basically will have a very decent CSFC book, right so you can actually generate some fee income from that?

Ashutosh Sareen: We have a significant number in our MSME books, but I think as of now we do not intend to upload to any CFSC to book any profit on that?

Anand Dama: Any reason why you would not want to?

Ashutosh Sareen: So what we are saying from CFSC front as of now we have not decided on this we will take it all appropriately in the month of March.

Anand Dama: So that could be an additional revenue source for you going forward.

Moderator: Thank you. The next question is from the line of Andrey Purushottam from Cogito. Please go ahead.

Andrey Purushottam: This is a more general question. We visited Kashmir recently in about September and what was not obvious to us was that there was a great deal of infrastructure spend happening. We could not see it okay so I was just wondering whether you can give us some flavor as to what is really happening in the state of Kashmir, particularly in the area of infrastructure and other areas of growth? You gave us some flavor earlier in this discussion but if you could give us a little bit more flavor as to what is actually happening which may not be obviously visible to a casual visitor?

Baldev Prakash: Andrey in case you have listed from Jammu to Kashmir by road, you must have noticed it. But I think you have flown from either Delhi or Mumbai, so you might have been there so you see from Jammu to Srinagar, once you come that type of infrastructure, the road and the tunnels and the railways, the bridge on the river, I mean these are the unique things I have not seen in India, these type of tunnels this is the first time I am seeing this type of tunnel and beyond that if you go the tunnel near our Sonamarg and that going to this the draft area so this is a lot of big, big infrastructure projects which are happening and as I also indicated the train connectivity from Udhampur to Baramulla that will be happening during this 2024, I mean 2024 first half. So these all are infrastructure related things which will be supporting the overall tourism.

Andrey Purushottam: And the 18% growth that we have and generally guiding towards. Is there any difference between your growth in your native state and the rest of India?

Baldev Prakash: So rest of India is 19 and overall 18.

Andrey Purushottam: Thank you very much.

Moderator: Thank you. The next question is from the line of Sonaal from Bowhead. Please go ahead.

Sonaal: Thank you Sir once again for this opportunity. So this income from return of accounts, what is the kind of, so I understand that usually for most banks the first half is usually very low and the second-half is higher so it will help us if you can give some broad idea of the kind of income from return of accounts do you expect for the full year. Secondly, if I remember correctly, you know there was some sort of commission income which used to get on a recurring basis which you did not book last year in fact you reversed it, has anything been booked on that front this year from tower company and what kind of other income could we get from first half versus full year you know?

Pratik Punjabi: So they are technical write off is concerned and for the trend generally the second-half recoveries are better than the first half. I will not be able to specify the amount because it is work in process maybe by the next quarter we will be having the clarity as far as the amount is concerned. Number two, about the recovery from government department that is still under discussion. We have not yet neither accounted for it or not recovered from the government but the discussion is on we may get something this year, we may not may be this year.

Sonaal: But do you think this will be a recurring income for you going forward or this may not be a recurring income or are you saying that the permission may not come this year, but the recurring nature of the income which will stay, you know the approvals may take time or you are saying that it is a possibility that even this income may not be recurring going forward, the one we used to get from the collecting of those power bills etc?

Pratik Punjabi: So one thing is there that earlier the money which we are talking is mainly on account of fiscal receipt of this in our branches there the cost per transaction we are expecting a little more but surely these all these transactions are only on the digital front, so digital front that it will be a nominal charge so we are not doing much as going forward, but the recovery part which is there, we are trying to get it as soon as possible.

Sonaal: Great, Sir any other initiatives which you are taking on the other income which may fructify in next two years or so as somebody said that your income is relatively low to the bank so let us say you know these things take time, by FY2026 which are the initiatives which could lead to your other income? So you know, raising it may not happen in the immediate near term, but over let us say time frame of two to three year?

Pratik Punjabi: So we have working hard on the trading front. We have taken the services of consultant and they have already started working on it. We have put in 20 young boys and girls in the trade very recently those people are in the training as of now. So we are expecting that trading will be supporting us big time, even the money by that time this technical write off money will be exhausted so that part will be filled in by in a much better manner that is one. Another thing which I told you a lot of partnerships we have entered in the last one year and one this year on the life as well as non-life fund. So these will be supporting us as far as other income is concerned and on business our portfolio is now actually not up to the mark up to our expectations there also focus is there so we are in the process of improving that level also.

Moderator: Thank you. The next question is from the line of Arjun Bhatia. Please go ahead.

Arjun Bhatia: So on the hospitality front what is happening in Jammu & Kashmir so there was COVID and obviously for obvious reasons not too much of what would have happened in hospitality takes time. It is like a 4-5 years that a project takes so are you seeing a lot of approvals happening, lot of sectors and are they lead indicators or what could happen if the state of Jammu & Kashmir on the hospitality and contractual work which could eventually flow in?

Baldev Prakash: So on hospitality front one is that big hotels one or two enquiries we have seen, they are coming up particularly in the Calgam area and Jim nagar, so that is one but three star, four stars lot of things coming up and we are also there as far as financing is concerned and one thing which is happening in a big way is the home stay, so home stay in interiors, which I am talking about major cities, not interiors, so lot of home stays there, we have 25 schemes and we are the only bank who is running this scheme as of now and we are working with the government very closely to fund the home stay. So that is an area which is supporting the hospitality sector and the fact that lot of financing on taxies and other things that is going on.

Arjun Bhatia: Sir is government starting any schemes on this front like discounted interest rates and also there was a scheme for GST benefits. Is it scheme traction in general?

Baldev Prakash: I am not able to understand it. Can you repeat please?

Arjun Bhatia: Sir is there any interest mentioned with the government is offering to the industry for putting up infrastructure in Jammu & Kashmir as well for the hospitality and also any GST benefits and are they started seeing any traction now since we have post COVID now?

Baldev Prakash: Yes, some traction is visible last time 30,000 Crores approvals government has already given to those new units, some of them have been financed by us and but that will take some more time I think maybe one year or so actually it will be seen on ground.

Arjun Bhatia: Thank you.

Moderator: Thank you. The next question is from the line of Jai Mundra. Please go ahead.

Jai Mundra: Hi Sir couple of questions actually one is that you have given a good slide on SME numbers so the trend is improving, but still the number looks elevated as a percentage of total loans while I agree that the trend has been improving but still SME2 at around 3% of overall loan and SME1 at additional 3% I mean that would mean that there could be some risk to the slippages that you could see so your thoughts here?

Baldev Prakash: Thank you Jai. So overall SME, yes if you see SME zero seems to be higher. We are working on it. This SME tracker which are referred is actually a big support of as far as the SME's are concerned. But if you see SME1 and SME2 which is NPA so numbers have reduced drastically which is around 6.5% as of now so the teams are working on all these accounts individually and you find hardly any slippages are happening out of this so maybe yes I agree with you that it should be little lesser than our present number that is there. I think with the passage of time you will find improvement in this portfolio.

Jai Mundra: Sir related question would be like, so let us say you highlighted that of Jammu & Kashmir, I mean the personal loan given to the employee of the state government that has some let us say mitigating factor, right? the bank has an MOU with the government and hence your principle is more or less secured. Is there any such covenant? Do you have any such covenant in any of other portfolio, maybe your loan to some of the other entities or SME or state government exposure?

Baldev Prakash: So this MOU is specifically related to the loan to employees of the government so as far as this SME book is concerned, that is only account to account basis. We have 1, 2, 3 accounts where the government guarantees available but not as a general.

Jai Mundra: Thanks and Sir, secondly then in this in first half your credit cost have been negligible, but at the same time the write off amount is also negligible, right so your net slippages are negative and hence you are seeing a good let us say reduction in net NPA with benign credit cost also but I think the write off you will have to do right and that will increase the provisioning if you were to maintain the PCR so how should one look at those things?

Pratik Punjabi: It is a very welcome and a good question and I was wondering why this was not raised. So different ways so net NPA for the first time gone below 1000 Crores so I think that I do not know whether anyone has noticed a little more of over 900 Crores and we have clear line of sight in terms of how we are going to recover from the two portfolio, which stands at around 4300 Crores also there is enough work to be done on that particular aspect. We also have got a policy or to answer specifically to your question, we got a policy approved by the board on how type of can be done and things like that. Having said that, allow me to assure you that we will ensure that we maintain healthy levels of provision coverage ratio and if you see the reduction in the gross NPA in absolute terms between last quarter and this quarter was close to 400 Crores but if you see like in the profit and loss account on account of the provision, it is hardly 9 Crores so it shows that how we are reinforcing the balance sheet, how we are making the balance sheet more resilient and that is now being seen in ratio which improved from 87.5 last quarter to 89.9 this quarter.

Jai Mundra: Thank you. So we have some standard assets provisions on restructured loan but outside of that, do you have any other contingent or countercyclical provisions apart from regulatory standard assets?

Pratik Punjabi: Yes, we have 690 Crores in our book that is contingency provision also plus we have a floating provision of 134 Crores.

Jai Mundra: So this 690 Crores provisions, this is not restructured assets provision, right? this is outside of restructured?

Pratik Punjabi: It is 690 Crores is contingency. We are preparing the bank for Ind-AS smooth migration and therefore we have built this in the balance sheet intentionally.

Jai Mundra: In another word Sir, you have a 900 Crores of net NPA and you are saying that you have additional 600 Crores of contingent provision is that how it is?

Pratik Punjabi: You understand it correctly.

Jai Mundra: Okay and then Sir this contingent provision as you said after trading the bank for Ind-AS transition, is there any rough preliminary estimates that contingent provision you would take this to a certain percentage of loan book whatever 1% or 1.5%?

Pratik Punjabi: Our risk team has done some reruns on expected losses based on the portfolio behavior and we are right now we expect a smooth landing with respect to migration from our current account to Ind-AS.

Jai Mundra: No, of course Sir, you would have a smooth landing, but I am asking if there is any numerical estimate to what kind of a buffer you would think you would be achieving before the migration happens?

Pratik Punjabi: Basically see exact number it will be difficult to tell, but these calculations and these provisions are aligned with the estimates.

Jai Mundra: Right. But is there any percentage to loan that or you would want to keep certain proportion of loan bases your historical behavior?

Pratik Punjabi: As I already mentioned this is very early to state because we have engaged the before consultant to help us in Ind-AS migration so once we have reports coming from their model, we will be in a better position to tell you on the numbers.

Jai Mundra: Understood. Okay Sir that is very helpful, Sir. Thank you and all the best.

Moderator: Thank you. We would take that as our last question. I would now like to hand the conference over to management for closing comments.

Baldev Prakash: Thank you, Sagar and thank you to all the participants for joining in today. For any further questions, queries, details, comments or anything else, 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. On behalf of ICICI Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.