



“Jammu & Kashmir Bank Limited
Q4 FY '23 Earnings Conference Call”

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**MANAGEMENT: MR. BALDEV PRAKASH – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER – JAMMU & KASHMIR
BANK LIMITED**

ALONG WITH THE MANAGEMENT TEAM

MODERATOR: MR. RUSHAD KAPADIA – ICICI SECURITIES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY '23 Earnings Conference Call of J&K Bank 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 question after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing Star then Zero on your touchstone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rushad Kapadia from ICICI Securities. Thank you, and over to you, sir.

Rushad Kapadia: Thank you, Michelle. Good morning, everybody, and welcome to the Q4 FY '23 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 now like to hand over the floor to the management. Thank you, and over to you, sir.

Baldev Prakash: Thank you, Rushad. A Very Good Morning (actually it is a very early morning) and Warm Welcome to all the participants.

First let me tender my regrets that we had to postpone the Earnings Call due to some exigencies.

Following on with the gloom cast by Covid-19, global economy has been struggling with overlapping crises over the last two years – be it the geopolitical conflicts, monetary policy tightening through incessant policy rate hikes or the latest liquidity troubles after a series of global bank crises. While the impact appears to have been contained to some extent yet the adverse impacts on economic growth are quite visible.

With the fears on the global economic front notwithstanding, many market analysts believe that this could well be India's decade basis the consumption-driven growth driven by a large, young and rising share of the upper-middle income population. Incidentally, IMF has projected India's growth rate for FY 2023-24 at 5.9% and average 6.1% over the next 5 years. However, future growth will be contingent on investments and India emerging as an attractive investment destination.

Non-food credit growth of banks in India for FY'2023 increased by 15.4% primarily due to improved credit off-take in services and agriculture sector with personal loans growing at a shade above 20%. Significant improvement has been recorded in asset quality with banks' gross NPA falling to below 5% level. Owing to inflation concerns, RBI, over the last one year, has increased the policy Repo rate by 250 basis points resulting in increased borrowing costs, rise in EMIs and some moderation in credit offtake especially in the last quarter of FY'2023.

For our home turf i.e. J&K, FY 2023 has been a wonderful year. A year buzzing with activity on account of infrastructure development – rail, road / tunnels, smart cities and social infra, -

unprecedented tourist inflow – 1.88 crore during calendar year 2022 – and consequent upsurge in overall economic activity. The environment is further enthused due to upcoming events scheduled in the UT with regard to the G-20 summit.

The government estimates suggest tourist inflow to surpass 2 crore during calendar year 2023. Significant push in the Budget for FY 2024 for Capex at Rs. 41,500 crore (35% of total budget of Rs. 118,500 Crore of the UT), clearance of investment proposals of above Rs. 30,000 Crore with land bank of over 47,000 Kanals for creation of 42 industrial estates, etc are all harbingers of an accelerated growth phase in the UT. Ladakh UT also is experiencing commensurate growth in infra and tourism sectors.

As we announce the annual financial results, I am reminded of an oft-repeated adage ‘All is well that ends well’. In our case FY 2022-23 has not only ended well but has concluded on a high and historic note of success.

During my first interaction with you last year, some friends had advised me not to over commit on promises of delivery till I was more acquainted with the Bank, its working culture, its strengths, weaknesses and opportunities. But during the first three months at the Bank itself I had gauged the potential and the intrinsic value that the Bank had which only required to be unlocked in a calibrated manner. Now a year later, looking back to my assessment and envisaged outcome vis-a-vis these set of numbers, I feel immensely proud to state that on most counts we have delivered better-than-promised results.

Today, I see an unmistakable shift in performance as well as the functioning of Bank. Right from operations and business to compliance and vastly improved corporate governance, the leap from turn-around to transformation in the Bank is as perceptible as it is promising. While making our balance-sheet stronger with every passing quarter, we have now entered into a progressive-phase wherein business-growth coupled with process-excellence is all set to yield even better returns for all the stakeholders of Bank.

I am delighted to share with you our record-breaking annual net of Rs 1197 Cr, which is a historic and highest-ever annual profit for the Bank. While growing 139% YoY annually we have also clocked an unprecedented quarterly net at Rs 476 Cr.

Our record annual profits reflect not only the improving operational efficiency but brings to fore the resilience, resolve and enterprising capabilities of our highly dedicated workforce. In a way we have met market expectations and honoured the trust reposed in us by all our stakeholders. We have navigated through challenges, adapted well to changing market dynamics, emerged stronger than ever and raring to scale newer heights of growth and prosperity.

Our deposit growth was 6.4% on YoY and 3.5% sequentially QoQ. Our Net Advances grew at 17% on YoY and 6% on QoQ basis which broadly corresponds to the industry credit growth and an improvement over our market guidance. Among the sectors, Housing Loans recorded growth

of around 20% YoY. Rest of India loan book buoyed by Corporate credit growth recorded YoY increase of about 22%. In JK & Ladakh Consumer Loans and Housing Loans recorded growth of 19% apiece.

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

Interest Income is up by 25% YoY for Q4 and 17% for the FY;

Net-Interest Income is up by 22% YoY for the quarter and 21% for the FY;

Despite proportionately providing for the Wage Revision (which is due from Nov 2022), Operating Profit is up by 75% YoY for the year.

Cost-to-Income ratio has moderated to 66.22% for the year against 77.18% in previous year despite creation of proportionate provision for the wage revision which is due from Nov'2022. The trend is evident and we are on course to bring it gradually down to industry level by addressing the factors.

The highlight of the performance during the year is reflected in the vastly improved Asset Quality. Our GNPA has come down to 6% level while NNPA is well below 2% which are decadal lows on these parameters. We had envisaged a net recovery of Rs. 1000 crore in NPA. The achievement far exceeds the guidance with net recoveries of Rs. 1300 crore in NPAs and another Rs. 120 crore in technically written-off loans. We continue to maintain a provision coverage of above 85% level. With stabilization of the upgraded core banking solution, we have greatly tied over the slippages also which had been elevated during the first three quarters due to some technical issues.

Another major highlight is the reinforcement of Balance Sheet strength by augmenting the Capital Adequacy. We raised Tier-2 bonds over Rs. 1000 crore in Q3 and the significant internal accruals during the year have resulted in an improved CRAR of 15.39% with CET-1 above 11%.

Here I would like to inform you that the Bank had launched ESPS during Q4 for raising up to Rs. 300 crore of Equity Capital from employees and the issue was fully subscribed. However, owing to observations of the Statutory Auditors regarding transfer of amounts by some employees from their general purpose pre-existing personal loans (Salary Overdraft and Consumption Loan) to their Savings Bank account used for subscribing to issue, we, as a matter of adopting prudent Corporate Governance standards, have not reckoned the amount in the Capital and a decision in this regard shall be taken after getting clarifications / clearance.

The Bank has also on-boarded Merchant Banker to explore sale of stake in PNB-Metlife.

Employee productivity & profitability has improved significantly.

Net Interest Margin during Q4 was at 3.94% and for the FY 2023 it stood at 3.89%. There has been some increase in cost of deposits due to higher growth rate in Term Deposits which is a result of the hardening of interest rates prompting some shift from saving to Term deposits. However, our CASA at 54.10% is at a healthy level.

We expect our NIM to remain strong as a good amount of our dated Securities portfolio (about 8000 crore) at lower current yields is getting redeemed this year which will get reinvested at higher yields improving our returns on investment portfolio.

Board of Directors of the Bank have recommended Dividend at 50% of the Face Value of shares. Bank had paid the last dividend to its shareholders for FY'2016 so the resumption has been after seven long years.

Looking ahead, we recognize that the financial landscape is constantly evolving. But we are highly optimistic about our growth for the current year. With various transformational projects underway, we expect a surge in business along with upward movement in other financial indicators. Growth across all segments will be our prime focus besides increasing our footprint in strategic areas of the country as part of business-expansion and risk-diversification while retaining our stronghold in J&K and Ladakh.

Let me put it on record that striking a balance between digital presence and physical relevance, we have set out on to a transformational drive that will accelerate business growth while enhancing customer experience and adding delight to their digital journeys.

Towards this end we are making rapid advances in becoming a tech-bank by adapting to best global practices and investing in advanced technologies from Open Banking API, STP Platforms and Cloud Adoption to AI and ML Based Analytics to drive innovation and improve business outcomes.

Lastly, as we celebrate this milestone, we remain mindful of the complex challenges that lie ahead due to ever-changing global and regional economic landscape. But with a deeply dedicated team, the support of our customers, and our unwavering commitment to excellence, we are confident as well as prepared to adapt to new realities.

Together, we have achieved this historic milestone, and I look forward to our collective journey towards a shared-future filled with even greater achievements.

Once again I thank you all and acknowledge your guidance, support and trust and we expect it to continue in the coming days.

For financial year 2024, our guidance will be credit growth of about 15%, NIM in the range of 3.75%, CASA in the range of 55%, cost-to-income in the range of 60%, ROA around 0.90%, ROE around 14%, Gross NPA around 4.5%, Net NPA around 1.5%.

I will be glad to have your questions now. Thank you so much.

Moderator: Thank you very much. The first question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: Congratulations for delivering a great set of numbers for the financial year 2023 and surpassing your guidance by a big margin. So thank you to your leadership and team J&K for that. My question on the, first, on the balance sheet growth on the quarter-to-quarter. You have seen 9% growth on the balance sheet side and 6% loan book side, but the NII down by 1%. So is there any month end related loan growth or lower category of spread book growth during the quarter? Can you explain why there is anomaly in the NI side versus the balance sheet growth?

Baldev Prakash: Yes. Manish, thank you very much, and good morning, and you have been always a great guidance and support to us. As far as this last quarter decline in net interest is because of the factor that there was a continuous growth in the policy repo rate and there was a demand from our customers that some -- our profitability was okay. So some relief was passed on by us voluntarily to our customer. That is .50 basis point across the board, all customers and 1 basis point to our customers of weaker sections. So because of that, there's a dip in this interest income, particularly in the last quarter. That was the only reason.

Manish Ostwal: Okay. And secondly, sir, on your guidance, to the cost-to-income ratio of 60% from the current financial year, 66.2%, which is a significant improvement. But if you take over -- the medium-term journey for this line item to play out because of the increase in productivity across the business lines, so, can you -- can we expect that we can further -- the journey can reach to 50% 2 to 3 years' time frame? How do you see that thing to play out in your assessment?

Baldev Prakash: Yes. Manish, actually, the trajectory will be like this only. So for this year, we are targeting 60%. And going forward, it should be coming to the range of 54%, 55% as per the industry standard. Maybe another 1 or 2 years, we should be there.

Manish Ostwal: Okay. And lastly, sir, any update on the equity capital raise plan for the Bank for the financial 2024, any plan for that?

Baldev Prakash: So as of now, we are adequately capitalized, and we may require growth capital, but we have to go to the Board. As of now, we are not approached the Board. Hopefully, in this quarter, we will reach and we'll advise you suitably. But capital-raising plans will be obviously, we'll be looking at 10 the third quarter or fourth quarter.

Manish Ostwal: And lastly, sir, you've given a guidance of credit growth of 15%. So similar will be the deposit growth? Or how would be different?

Baldev Prakash: Deposit growth, we are expecting around 10%, and that is what the industry guidance also is there. We are in line with that guidance. So we are expecting 9% to 10% in deposits or 11% maximum, and credit, of course, will be around 15%.

Manish Ostwal: Thank you very much sir and pleasure to talking to you sir.

Moderator: Thank you. The next question is from the line of Ankit Ladhani from Mahindra Manulife. Please go ahead.

Ankit Ladhani: I just wanted to get your thoughts on the auditor qualification that is there in the reported number?

Baldev Prakash: Yes, Good morning Ankit. So as I have covered this in my opening remarks, we had an issue of employee stock purchase scheme in Q4 of the last year. And this issue was oversubscribed -- the issue size was INR300 crores in the equity capital. But the auditors, the -- some of our employees, they have utilized their existing limits in the consumption limits, consumption loan limit, personal loan limit and transferred the money from these limits to the saving bank account. This money in the ESPS was invested from the employees' savings bank accounts. So there was a difference of opinion between the bank and the statutory auditors. They said that this is indirectly funding of your own equity by way of granting loans to your employees.

So since there was a difference of opinion, so as a matter of abundant caution and the best corporate governance standard. We have not reckoned this amount in the capital, and the decision will be taken after getting the clarification and clearance for respective authorities. So this is that.

Ankit Ladhani: Okay, sir. And one more question. The deposit growth for this year is actually at close to 6%, which is lower than what has been there for the industry as well as how do you expect it to move from 6% currently to 10% in the next year?

Baldev Prakash: Yes. Ankit, yes, I understand that the growth in deposits has been a little subdued during this year. But this year, there will be 2 plans for improving that deposit. One will be that we are focused on improving CA part of CASA by both ways by providing the digital solution to our customers and the second year marking the dedicated current account marketing teams for the new areas, particularly in our J&K territories.

The second strategy will be that we are expanding in the rest of India operations. The purpose will be also for deposit growth besides the advances. So we are sure that these two steps will help us in improving the deposit.

Ankit Ladhani: But any particular reason that you can pinpoint for the lower than industry deposit was in 6% or it was just competition and you are not ready to pay high interest rate, something on those, right?

Baldev Prakash: No, actually. There was -- as of now, in our area of operations, we don't foresee any state competition, though we welcome the competition because it improves our efficiency also. But as of now, I'm sure that 1 or 2 factors may be counted that now the government deposits, which used to be in the shape of current account or saving bank account. They are shifting through PFMS, and the efficiency of managing the funds has improved on the government level, so that has also factored our deposit. But finally, this is being compensated by mobilizing the retail deposits from the general public.

And also, Ankit, I would like to inform you that we are adequately capitalized. Adequately, the liquidity is there for the financial year '23. A large number of short-term investments, which we are -- we don't pursue deposit growth aggressively because of the large number of short-term investments, we had in the treasury.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal: from Demeter Advisors LLP. Please go ahead.

Ashwini Agarwal: Congratulations to you and your team for delivering an excellent set of numbers and exceeding the guidance and the targets that you had shared with us earlier. A couple of questions. One is that in your opening remarks, you spoke about expanding your presence in rest of India. And I just wanted to ask what is going to be your loan growth strategy outside the state of -- or outside the UTs that you are present in. Because historically, that has been a pain point for the bank where you have gone and lend in geographies to borrowers who were you're not familiar with or your bank was not familiar with and that resulted in stress in loans. So how are you going to pursue the loan growth strategy outside of your core area of operation?

Baldev Prakash: Okay. Ashwin, thank you very much. Very good question actually, you have asked. This -- the focus on rest of India operations, particularly the loan growth is continuing from the last year. And if you see the growth in rest of India business is higher than our overall business in the advances. So the same strategy will be followed and continued during this year also, the strategy was that we are focused aggressively on booking the quality corporates that are high-rated corporates elected companies and also the good Navratna and Maharatnas, we have been successful in implementing this strategy in India business. We will continue to do that besides this year, we will be adding the focus on home loan segment during this year.

So I think this rest of India business we did calibrated approach and the cautious approach we should be able to make a good amount of business in our rest of India territory and branches. We have improved, actually, there's improvement in credit underwriting skills of the staff also.

Ashwini Agarwal: Okay. Sir, the second question relates to your response to the first participant where you said that you've given a rebate. So on the interest rate, which is why our NIM our net interest income did not grow during the fourth quarter? So this is on the loan side, you gave a rebate to all the borrowers.

- Baldev Prakash:** Yes, yes, yes. Across the board, .50 basis points; and for weaker sections, 1 percentage.
- Ashwini Agarwal:** Okay. Was this a onetime thing or that's on an ongoing basis going to continue?
- Baldev Prakash:** No, no, this was a onetime thing because of the -- there was a demand from the customers, and we attribute to their demand, only one time.
- Ashwini Agarwal:** Okay. And sir, coming back to the auditors' qualifications. I had two follow-up questions. So there were two clarifications actually. One is that some people borrowed money to subscribe to the shares as you pointed out. But the second one was also that some of the subscription money came in after the shares were allotted, which I think, is sort of operationally unacceptable because you can't issue shares unless the money is received. And the related question is how many such instances are there? I mean, if you could share the numbers of how many employees subscribed out of which how many people had borrowed and how many employees put in the money after the shares of issue. So I just want to understand the scale of the trespass, if I may.
- Baldev Prakash:** Yes, yes, yes. Should I ask CFO to respond Ashwini?
- Ashwini Agarwal:** Yes, please.
- Pratik Punjabi:** This is Pratik Punjabi. I'm the CFO with J&K Bank. I'll answer the question in the way that we planned or implemented the entire scheme exactly in the way ASBA function. So at the time of application, immediately, Lien was marked for the savings bank accounts of any employee wishing to participate in the scheme. So the issue closed at 5 p.m. on 21st of March, and NRC was called and allotments were decided. So operationally, by the time it closed, it went to beyond 6. And then 22nd of March is a holiday. So the staff had left, but we still ran the query on the program from our remote accesses and the money was debited. Very few, out of INR274.75 crores collected, hardly few lakhs was spilled over and the query didn't run, which got collected on 23rd of March. So in effect, we collected exactly in line with the SEBI guidelines and ASBA functioning.
- Ashwini Agarwal:** Okay. And sir, how many people are sort of in this situation where they borrowed money to fund their savings bank account?
- Pratik Punjabi:** No. Actually, Ashwin, the total subscription was 9,800 employees, but there was no loan for this purpose from the bank side. Bank has never granted any loan for the purpose of investment in this ESPS by the employees. That is one. Another thing was that the money was debited from the saving accounts of the employees. And that saving bank accounts, in some cases, we are not able to understand whether that money has come from the loan account or it has come from any savings account. So that's very difficult to understand that how this money has come in the saving bank account.

- Ashwini Agarwal:** Sir, all the best, and I wish you the best to achieve the very, very ambitious and aggressive targets you've set out. I'm sure you will do very well in the coming year.
- Baldev Prakash:** Thank you, Ashwin.
- Moderator:** Thank you. The next question is from the line of Debesh Agarwala from IDBI Capital. Please go ahead.
- Debesh Agarwala:** Sir, three questions from my end. What is the current outstanding balance on the restructured loan account as on 31st March?
- Baldev Prakash:** I'm requesting Mr. Shujaat Andrabi, our general manager credit, General Manager IAPM will respond to this very place.
- Shujaat Andrabi:** Yes, so the restructuring book is around INR2,400 crores there. Out of which, around INR1,200 crores is in NPA, and we're holding around 78% to 80% of the provision against the NPAs and overall provision against the restructured book is in the range of 48% to 50%.
- Debesh Agarwala:** Okay. Sir, how has the collection experience on the restructured book in last financial year, that is, FY23?
- Shujaat Andrabi:** It has been very good. In fact, the reception book has come down by around INR1,200 crores during this year. And we have a very good experience where the up gradations, we had a lot of recoveries in this.
- Baldev Prakash:** Only any slippage. The book is holding well.
- Moderator:** The next question is from the line of M.B. Mahesh from Kotak Securities. Please go ahead.
- M B Mahesh:** I'm sorry, I think we missed the earnings update. What are the slippages for the quarter?
- Shujaat Andrabi:** We have gross slippages of around INR1,000 crores from this quarter for the -- for Q4, but they are significantly lower than what we used to have in the first 3 quarters. I can share with you during the quarter, we had gross slippage of INR 2,200 crores, then in September, we had around INR1,800 crores. Then in December, it was around INR 2,500 crores. But during the first -- last quarter, it has come down last year, it's around INR 995 crores gross slippages. But I can assure you that April was a significant downfall in this, and it was in double digits only, has not even crossed INR100 crores.
- M B Mahesh:** So this INR995 crores, can you give some breakup as to what has resulted in this -- for this quarter?
- Shujaat Andrabi:** Yes, it's both corporate as well as retail, something, two-third is from the corporate side and rest is in detail. But most of it has been upgraded, and the net slippages for the whole year is at --

there were some technical issues and those have been addressed, and everything is addressed now. And from April and March has been very good. April has been a significant improvement, it's only in double digits, and we'll have further improvement in this.

Pratik Punjabi: Mahesh, can I just comment here. The issue was relating to our upgradation of technology platform. We had shifted from Finacle 7 platform to Finacle 10 in the month of June. After that, there were some technical glitches in the system. And because of that, slippages were happening. Though we were able to upgrade it immediately, but we were not able to fix the issue. So, in the month of January, we have fixed the issue. After that, you find there's a drastic improvement in the slippages.

M B Mahesh: And in this year, do you have any major resolutions, which is still pending on the corporate side that you're waiting for?

Baldev Prakash: Yes.

M B Mahesh: What is it in terms of..

Shujaat Andrabi: We Have Resolutions coming from NCLT, we should expect a recovery of around INR300 crores from there, then we are also ascending some loan assets to NARCEL. They are doing their due diligence. And by June quarter or by the September quarter, there should be a transfer of around INR300 crores to NARCEL, so that it would give a big boost. Then we are also planning to sell some of the loan assets to ARC's but will take some time. That will happen in Q2. And there are other recovery measures that we are taking in the UT of J&K because most of the portfolio is on sole banking basis.

Baldev Prakash: So Mahesh, the process which we started last year for recovery and the resolution of NPAs, particularly the bigger NPAs in the rest of India, quite old one also that will continue, and we have a book there. We understand that, that book has now matured and the recovery will continue getting from those accounts.

M B Mahesh: Sorry, just one clarification. Is it fair to assume that FY '24 credit costs will also head closer to 0 or probably 0.

Baldev Prakash: Yes, because we will have the provision write-back, so this will be 0 or less than even that.

Shujaat Andrabi: And we have been conservative in the writing back of provisions. We have maintained our provision. So those will also be unlocked during this year.

Moderator: The next question is from the line of Ashish Goel on from Invest Savvy Portfolio Management.

Ashish Goel: Congratulations on a great set of numbers. Very happy to see a consistent improvement in performance. I think quite a few of the queries have been answered, but I have two queries which remains. One is the retail profitability quarter-on-quarter is down by some INR100 crores ,

INR113 is what part of that was because of the rebate offered? And is the rebate a permanent reduction on the rate or the spread? Or is it like for the quarter has been offered in next quarter, it will not be offered? That is one.

And the other is in terms of the impact of slippages, what is the impact of slippages on the profitability? So while you've given, it's very encouraging to see that slippages have come down from INR 2,200 crores to INR900 crores and possibly going to be less than INR300 crores? In terms of profitability, how does that translate to profitability? These are the two questions, please.

Baldev Prakash:

Yes. Thank you very much, Ashish. The first thing is that the discount of interest rate was a onetime measure, which was given to that visible sections of our customers. And after that, we are holding that rate, and we have not discounted further anything. That is one. And another thing is the slippages. Yes, obviously, the slippages will have the positive impact on the profitability because ultimately, though earlier also, the slippages were recovered immediately. But now ab-initio, this will be contained by following up at the level before SME.

Pratik Punjabi:

Yes, exactly. And you see there were slippages space were very much on the higher side during the first 3 quarters of the month, of the year and even in January month, like our MD Sir said, and this has said that there were some technical issues. We had done a lot of customization in the previous version of the Finacle, which we are actually not migrated to the new version. So there were some technical issues that accounts got downgraded, but those have upgraded also immediately. And interest reversal actually did not happen. So we didn't have to reverse any interest on that part because almost a simultaneous downgrade and then an upgrade. So there was no adverse impact actually of those slippages on the interest. So you might see -- have seen that the interest in during those days because we didn't have to reverse the interest because almost simultaneously upgraded.

And now exactly -- now when repays are down, definitely, there is an improvement in overall working and the NPA there is no new accretion, actually. There's a net -- there's decrease in the NPA, and we are expecting it to go further down by INR700 crores to INR800 crores like we have reported a figure of higher than INR200 crores, we are expecting it to go below INR4,500 crores by the year-end. So actually, there will be an unlocking and there won't be any interest reversal that interest income will not get down.

Moderator:

The next question is from the line of Arjun Bhatia from Bowhead Investment Advisors. As the current participant -- sir, the current participant has lull. We'll move on to the next participant. And the question is from the line of Amit B, an individual investor.

Amit B:

Congratulations for your great performance. So I have two questions. So one question is, I mean, it is regarding the MetLife stake, what you have got. So on that, I wanted some clarity in terms of when the sale would take place? And what is the approach valuation of that?

Pratik Punjabi: Okay. Yes. Actually, we had given this guidance last time also that we are exploring the possibility of divestment of this PNB MetLife stake, and the amount that is there on book is almost INR60 crores. And actually had obtained a valuation previously also they valued as a company at around INR12 000 to 13,000 crores. So that gives this value of almost INR360 crores, INR375 crores to this investment. And the Merchant Bank has already been on boarded. In fact, we had on boarded the Merchant Bank in the Q4 itself. And let us see, it can materialize during this quarter or in the next quarter.

Amit B: Okay. Got it. Understood. I have another question, so that is like we have discussed all the positive aspects of how the bank is performing. But coming to the negative aspects that what we foresee in the next, say, 1 year of time, is there anything that can be highlighted or can be presented?

Baldev Prakash: Yes. I think, Amit, the major focus will be how to improve our deposit portfolio. That is a challenge for the industry also and for us also. Obviously, there -- the more focus will be required, more energy will be invested there. So -- and I'm sure because the acceptability of the brand particularly in our home territories will help us in improving our liabilities franchise. And besides that, the efforts will be augmented by our expansion plan in the rest of India, as we have already covered in our opening remarks.

Amit B: Okay. Great. So Okay. One more question I have got. So like looking at the branch opening, we see a lot of branches that are opened in the state of Jammu and Kashmir and Union Territory of Ladakh, and how about the, I mean, the branches in South India or the other parts of India. How much branches the target is to add for the next 1 year?

Baldev Prakash: Amit, for rest of India, we have planned around 20 to 25 branches in the major cities. Rest of India, also in other parts -- means rest of India and other parts of the country. But as far as our home territories are concerned, I think we have adequate coverage as of now. Yes, we will be thinking the new branches only at strategic locations. And otherwise, whatever will be required for financial inclusion, that minimum will be ensuring in our home territories.

Moderator: The next question is from the line of Sonaal from Bowhead Investment Advisors.

Sonaal: Congratulations on very good numbers and the turnaround we have come through. I had several questions. Apologies if I joined a little late. So firstly, what is the outlook? All these questions are pertaining to 2024. So what is the outlook for gross, for advances growth, for provisioning for gross advances growth, gross slippages and recoveries as well as NIMs?

Baldev Prakash: Outlook for advances, as I covered in my opening remarks, we are looking to a growth rate of around 14%, 15% in the range of around 15% in advances. That is very much in line with the industry growth estimates. And the second question is relating to NIM. I think we are holding NIM at around 3.89% to 3.90%. Given a little bit may be the challenge in the liability franchise,

I think we should be holding NIM around 3.75% to 3.8% definitely in this range. And traditionally, we have been doing -- we have been holding business in our bank.

As far as asset quality is concerned, I think you have -- we have already responded to the queries on asset quality. We are maintaining the quality of our assets at a level where the slippages are now happening very few in the last month. In the month of April, it is less than 100, and I think we should be holding in the similar range also. So from asset quality point of view, I can assure you that you will be only surprised to see the positive side of the quality.

Sonaal: So provisioning required in FY '24 as well as what kind of employee costs and other opex growth would you expect?

Baldev Prakash: Can I ask the CFO to respond on this is.

Pratik Punjabi: This is Pratik here. See, even in financial year '23, we have almost had a flat operating expenses when compared to financial year '22. This is despite the fact that we have proportionately provided for employee cost, which take in from November '22. In that regard, we expect it to remain flatter. We don't expect any significant changes. In fact, our current operating expenses also includes two one-off items -- so of close to INR100 crores. So our guidance would be flat.

Sonaal: Flat, total operating expenses or flat employee cost expenses?

Pratik Punjabi: Total operating expenses, I mean, when I say flat, I take it as like 1% increase.

Sonaal: Okay. And sir, that's very heartening to know and must concentrate the MD, Sir. He's really turned around the bank along with his team both on every aspect and that's in a very short period of time. Sir, in the SMA-1, SMA-2, if it's possible for you to share the current numbers as well as the outlook? And in what timeframe do you think you'll get this also under control? And yes.

Baldev Prakash: Yes, yes, Sonaal, SMA-1 and SMA-2, Shujaat will be talking on this.

Shujaat Andrabi: SMA-1 and 2, the potential NPA portfolio was it was -- and if you talk of March '22, it was around INR10,470 crores on that date. So due to continuous follow-up at the level of -- from day, right from the level of our MDS to the grassroots level desk office at the branch, so there has been significant improvement, I should say, this year, it was the path breaking year for as far as our quality is concerned, right, in the recovery in NPA as well as controlling our SMEs.

So as of March, I can share with you, it was -- it has been reduced by more than 50%. And where SMA-1 and SMA-2 aggregate balance of INR5,300 crores only as on 31st of March 2022 against INR10,500 crores as on 31st of March 2022. There's significant improvement.

Sonaal: What is the SMA-1 out of this? And what is SMA-2 out of this? And historically, after the week or so because of technical reasons, your SMA falls. There's some technical issue, which still

needs to be fully sorted out. So if we could give a sense, had it further reduced in middle week and what that number is? And what is the breakup between SMA-1 and SMA-2.

Management: NPA, it will not be even 3%, 2% of our advances portfolio. Yes. Standard as is.

Baldev Prakash: That is the figure of SMA-1 and SMA-2 out of this.

Management: Yes, sir. SMA-1 as on 31st of March, it was INR5,200 crores, and the SMA-2 was only INR100 crores.

Sonaal: SMA-2 was only INR100 crores. And sir, can you give a mid-month number in April so that we have the context? Any mid-month number in the April would reflect what the SMA-1 and SMA-2 let's call it.

Management: I don't have it with me, but as of 29th April, I remember it was just INR2,900 crores. Our -- this SMA-1 and SMA-2 combined was less than INR3,000 crores. It INR3,000 crores.

Sonaal: Sir, next question I had was that unlike all the banks in India, you have significant headroom to expand considering our loan deposit ratio is very, very favourable compared to the banks. So you could pull out from your invested book and still grow your loan book. Despite that, why do you think your margins will fall because you have the lever to shift from investment to loan book? So unlike other banks, by should you also go through the same trajectory of interest rate fall.

Secondly, in your retail portfolio, how much time does it take you to pass through the interest? And what is the average duration of your personal loans and retail loan portfolio? So how long does would it take to reprice that part of the portfolio?

Baldev Prakash: Yes. Sonaal, Ashutosh, can you respond?

Ashutosh Sarin: Yes, sir. Sonaal, one part of this question, like you said that why are we actually giving a lower guidance on the NIM though we have opportunities on the loan book side to expand and some shift from investments to the loans. That's correct. Previously, our risk capital was very low. Our capital was low, and so we couldn't have much of the risk-weighted assets on our book. But that the capital adequacy has improved over the time, definitely, it makes a lot of sense to shift from the low-yielding investments to loans.

And one more thing, MD Sir in his presentation, he gave a number of INR8000 crores updated securities that are actually getting redeemed this year. During low interest rate regime, over the last two years, what we had been actually pursuing in the investments we were going with very short-term investments, CDs, T-bills and short term these dated securities. But the yields on those were in the range of 4% and 5%. Now with the redemption of so much of an amount, definitely, a part of it, like MD sir also said that we will not be pursuing deposit growth in excess of 8% and 9%, 9% in the rate. That is one part.

There's an indication that there will be some funding of the loans from the investments that are getting. So though we have given a conservative estimate of the NIM definitely, but the think you put forward is very valuable. And we are also already contemplating that. We have to ship some part of their low-yielding investments. And actually, we have got the opportunity. These are actually getting redeemed this year, and this will actually, there will be a shift from this to the loan book, but it will be calibrated one. It will be calibrated one. So the funding will be from this to the other part.

Sonaal: So sir, if I understood you correctly, your NIM's outlook is a little on the conservative side, it could be different. And as you continue to reprice, maybe your outlook for NIM in FY '24 could be higher than in FY '24. And my second question was -- is my understanding correct? And my second question was, as far as your retail loan book is concerned, personal loan book is concerned, how long does it take you to reprice? So maybe if you are not fully able to reprice this year, would that happen in 2025, and therefore, would the NIM further expand in FY '25?

Baldev Prakash: Yes. Sonaal, just a moment. Ashutosh will be responding.

Ashutosh Sarin: Sonaal, I'm Ashutosh Sarin. Actually, our retail loan book, majority of which comprises the personal loans, which have been given to the government employees. It is on a fixed interest basis. Although it is linked with our 3 years MCLR, but the rate of interest speaks for the full duration of the loan. And they generally always in the range of 7 years.

Sonaal: Sir, going forward, are we changing this model?

Baldev Prakash: No. Sonaal, because we are having a good margin there and there's acceptability of the scheme among the government employees, so we will be holding this. And slippages are hardly any slippages there. And Sonaal, the first part of your question about the NIM, I think we have kept it conservative. We will see how the market be and how we are able to shift the investment book to loan, maybe after 1 or 2 quarters when the guidance revise.

Sonaal: Sir, lastly, I think the bank has done a fabulous job in last 1.5 years. On every front, we can think of, been tracking the bank for 9 years. We've never seen a period like this in the last 9 years and these kind of initiatives. At the bank, my heartiest congratulations to the team and one humble suggestion, which we could, again, take it to a different direction. Maybe we should, sir, hold future quarterly con calls after releasing the presentation, at least give the investment community a few hours or a day to go through the presentation and hold it in a time which is convenient so that we get the maximum attention attendance from the investment community, which may not have been possible today or in the last quarterly call because the presentation came out later. Just a humble suggestion as a friendly shareholder from my side.

Baldev Prakash: Definitely, Sonaal. We noted this, and we'll ensure it.

- Management:** I have this one unprecedented things, the Board meeting extended very late into the night. And you will appreciate that immediately, when these results were disseminated through the exchanges, I immediately started sending copies of the mail along with this investor update, and that was at 2:45 in the morning.
- Sonaal:** But sir, the investors won't be reading the press at 2:45 in the morning unfortunately.
- Management:** But I ensure is that actually when they get up in the morning, they have it.
- Baldev Prakash:** We will ensure, Sonaal, in the future also, we see...
- Sonaal:** Maybe call it 10 AM and 11 AM would have made more sense. This a simple suggestion.
- Management:** It is very good suggestion.
- Baldev Prakash:** Very good suggestion. Well taken sir.
- Moderator:** The next question is from the line of Arjun Bhatia from Bowhead Investment Advisors.
- Arjun Bhatia:** Can you please provide your risk-weighted asset figure as of Q4?
- Baldev Prakash:** Yes, Arjun, our CRO is going to respond to your question.
- Management:** So our risk-weighted assets, the total risk credits was 67,367 and our market risk registered 1,850 and then operation risk to 8,154. That total works out to 77,373. And going by the risk density, we have been able to maintain the risk-weighted density total risk is in the range of 3%. And that's a very healthy.
- Arjun Bhatia:** And any outlook for this weighted assets to total assets ratio next year?
- Baldev Prakash:** Yes. Yes. We'll be going ahead with the same guidance and try to maintain this risk-weighted asset density. If you also look at the portfolio that has been added to the overall portfolio, out of the INR4,000 crores around portfolio, more than INR2,600, INR2700 crores has been the AAA, which has entailed a very discrete of 20%, and that has helped us in reorienting our portfolio and having an optimal certain trade-off.
- Management:** Arjun, I would like to add one thing here. You see there is rate actually like our CRO said that the incremental risk rates are lower because we are actually now lending to a better credit quality portfolio. We are having better rated these borrowers now. But one thing we have to see our risk-weighted assets, you may see if you compare it with some other banks like the private or the public sector bank, you may see that it is a little higher, but there's a reason. We have got a very good portfolio of the government employees of J&K and Ladakh. Though there are no delinquencies in that, no credit cost involved. It's a very secret portfolio, but the risk rate that is applied to that is 100%.

Baldev Prakash: 75%.

Management: 75%. So it is -- actually, that should qualify that would have attracted 20%. Like our own employees, it could have attracted a very low risk weight, but then the regulatory guidance there, so it attracts a higher risk rate. That actually contributes to this higher risk-weighted assets of our book, though the risk is not that much.

Moderator: The next question is from the line of Hiten Boricha from Sequent Investments.

Hiten Boricha: Most of my question is answered. Just based the numbers of PNB MetLife valuation have given the valuation is around INR10,00 crores, INR12,000 crores. And the value in our book was around INR60 crores or INR50 crores. I just missed that number, sir.

Pratik Punjabi: Yes. It is, the investment is INR60 crores, fine is the book value at the face value of INR10 per share. So we have got actually INR6 crores shares this company. So at a market value of INR65, the overall value of the investment, it comes to INR370 crores, INR380 crores to that extent. So there will be a gain of around INR330 crores to INR740 crores in that investment if it is offloaded.

Moderator: The next question is from the line of Gururaj Kalyan from Kalyan Consultants.

Gururaj Kalyan: Yes. The first question was regarding the PNB MetLife. So you're saying that the value is around approximately INR330-odd crores that starts my question now. And larger governance question and my concern since last night has been two things. One, around the extraordinary elongated Board meeting, which makes me uncomfortable obviously, as an investor.

Second is the qualifying comments made by auditors, which you responded by saying that, listen, I mean there's absolutely everything is in line. But they mentioned two things. One, they mentioned very specifically that the bank employees should not have been aware of the situation to begin with. And it's also against the regulations. Could you help me as a lay investor who has a very large part of my portfolio in J&K Bank because I believe in the bank? This was a very rude shock from me. Could you take some time to help me grow to this, please?

Baldev Prakash: Yes. Gururaj, First of all, yes, apologies for this meeting went on long because it has happened because of our discussions were continuously on this topic only. We were trying to put forth our point, but then finally, we attribute to the point of view of the CS's. Let me make it very clear that this scheme, the 2023 scheme of ESPS is just like the scheme which happened in the last 2021, and the same auditors also gave the clearance for the 2022 scheme.

So when the earlier scheme, which is a similar scheme for the employees, that has been already approved by the statutory or and other authorities also with the -- we have gone exactly with the seamless scheme with the same process, and there's nothing different between the earlier scheme and the new scheme as far as ESPS is concerned.

Number two is that as per the scheme, this thing regulation, the bank was not supposed to give any loan for purchase of shares to the employees. And we adhere to that and confirm that we have not given any loan to the employees for -- specifically for purchase of ESPS and followed all the tons of the scheme. That is one.

The other thing is that the facilities which they avail are in the form of personal loans, consumption loans, and these personal consumption loans are having the salaries of our employees also getting created every month. So these are just like the current account being used as it same bank account. Number three, this money has gone not from the loan account. It has gone from the savings bank account of the customer -- of the employees. So I think there's no - - from our point of view, we are very clear that we have followed the scheme appropriately.

And over and above, when there was the difference of opinion between the bank and the statutory auditor, we have gone ahead by and sought the opinion reputed law firm for the country. They also agreed to the point of view, which were put forth by bank. So we are sure that we have not done anything wrong, but it is a matter of time that we will get the clearances and clear this entire thing. Whatever we have done is matter of prudence only and in the best corporate governance practices.

Gururaj Kalyan: Excellent. The concern is because of the extraordinarily strong language of the auditors, where we rarely see such strong language in the recent note. That's one. Thank you. But anyway, thank you. I have understood the situation better. And the final question I have was the PNB Met. Is it a question of if or it's a question of when?

Baldev Prakash: Yes. It is difficult to say that when it happens, we will take a call on this. But as of now, it will be difficult for us when it will happen. Yes, depending upon the circumstances and the valuations, we will take a call and will inform accordingly.

Gururaj Kalyan: Understood. So on the depending on the right price?

Baldev Prakash: Yes, yes.

Moderator: The next question is from the line of Sonaal from Bowhead Investment Advisors.

Sonaal: Sir, a couple of questions. Firstly, sir, was there any other reason why the Board meeting got postponed or the employee accounting -- cost of accounting was the -- user accounting was the only reason? This is my first question.

Baldev Prakash: Sonaal, as I told earlier that this was -- we were trying to convince our auditor. And we also gave the example of the last, this thing ESPS, but they were also good for -- their point of view. So there were some discussions and that was the reason the Board meeting, which went on a little late. And no other thing was there, and this was the only issue of discussion.

Sonaal: Sir, secondly, on the MetLife, just re-clarification on numbers because I think 2 different numbers came up in response to someone else's question. So for the sake of clarity, can you recap what is the book value? Is it INR60 crores? And what is the market value of MetLife? And therefore, the difference to what is the gain because the previous numbers were not adding up?

Pratik Punjabi: It adds up, Sonaal. So you see INR60 crores of face value. These are 6 crores shares of at face value INR10, that we are maintaining. The company is valued at around INR13,000 crores as on date. So that gives actually the value of day -- if we say the split value of this share, it comes to INR65 around about. So if you go with that, the total amount that will be realized will be almost on INR400 crores.

Sonaal: Sorry. So the realized values for the market value is INR400 crores?

Pratik Punjabi: Yes. And the gain will be INR330 crores, INR340 crores.

Sonaal: Okay. Understood. Sir, lastly, I think in the opening remarks, you mentioned, which I missed, but I came to on now that there has been some rebate given to the customers. Can you please explain what that rate is will it happen this quarter or subsequent quarters? And were the margins low because of that rebate? And if that rebate was to be reversed? What could be expansion in the margins going forward?

Baldev Prakash: Yes. So this was a onetime activity only. Ashutosh can you...

Ashutosh Sarin: Sonaal, yes. Ashutosh here. Actually, because of the consistent, persistent quite in repo rates from the RBI side during the last financial year, so we have been receiving requests from the trading and the business community and the other stakeholders also that the bank should come out or given the comfortable profitability position of the bank. And as the goodwill gesture towards the last month of quarter 3, we decided to reduce the interest by 50 basis points across the board for trading and MSME customers. And for govt -sponsored schemes, we did it to a one-step ahead by 1%. So full impact of that came in this quarter.

Sonaal: What was the impact?

Baldev Prakash: It's a onetime decision only.

Sonaal: Sir, what was the impact on NIMs because of this?

Pratik Punjabi: So the total, actually, you see if you see for the quarter, the total impact on the NIM would have been INR50 crores for the quarter. I'm talking for the quarter March.

Sonaal: Sir, have you reversed this in Q1 or it will remain like this in Q1?

Pratik Punjabi: There is no reversal actually happening. This was a relief that was due to the there will be a reversal.

- Baldev Prakash:** That is the reduction in the trusted on individual accounts.
- Sonaal:** Yes, yes. That's what I meant. So this reduction or the reduction has been reversed and gone back to normal in Q1.
- Baldev Prakash:** It stays. It stays.
- Sonaal:** So it is not a one-off in that sense. It is a continuing thing from the...
- Pratik Punjabi:** It is like this, the spread, the borrower spread, actually, it was actually reduced.
- Sonaal:** So the impact is almost INR150 crores per quarter or INR600 crores in the year.
- Pratik Punjabi:** INR50 crores...
- Sonaal:** No, no, INR50 crores was for 1 month. Now you did it a month. So in the coming quarter, it will be INR150 crores?
- Pratik Punjabi:** It was done in December '22. So if it was first December 2022. So you see the impact of this for 1 month in Q4 impact was fourth quarter and the full quarter impact is almost INR50 crores. You see our -- this, the portfolio that is actually linked to this is something somewhere like INR 34,000, INR33,000 crores. So if you go with that, so the impact was in this range, INR50 crores for the quarter.
- Sonaal:** So sir, as the cost goes up on deposits at some point in time, would you take away this spread and make it back to normal at some point of time during the year? Or it will stay throughout the year? Or it's too early for me to ask you that question?
- Baldev Prakash:** I think let us wait and see depending upon the competitive interest rate offered by other banks. We will take a call. We have to be competitive with the market.
- Pratik Punjabi:** And because these are actually floating rate loans and these get re-priced. And even spreads get reviewed after some time. In this case, I think the review may be due next year. So these -- all these things get reviewed over a period of time. It is not that it will remain like this forever.
- Sonaal:** Sir, can I say this was led by market forces consideration you're trying to maintain your market share or taking advantage of this, not by any other consideration?
- Baldev Prakash:** No, no, no. It was topically to retain the customer and the market competitive all competitors.
- Sonaal:** And at the right time, you would do whatever it takes to take advantage of that.
- Management:** Yes. Yes.

- Moderator:** The next question is from the line of Kayur Asher from PNB MetLife.
- Kayur Asher:** Yes. Many congratulations to you and the entire team for a good set of numbers. Sir, most of my questions have been answered. Just one thing. Sir, in the earlier calls, we had guided about targeting a potential rating grade. So sir, just wanted to understand where are we on that? And what are basically the expectations of these rating agencies whether they are targeting any financial milestones for us to or before we take this call.
- Baldev Prakash:** Yes. Thank you very much, and you have asked a good question. I was expecting this question from any of you. So we are expecting rating upgrade, as I have also discussed this in the last quarter. And hopefully, the numbers should give the confidence to the rating agencies this time, and we should get the rating upgrade.
- Kayur Asher:** Sir, just a follow-up on that, sir, is there a rating review time line that we would be considering or...
- Baldev Prakash:** No, we will be approaching now after these results, we are approaching. We are shortly approaching the rating agency and requesting them to redo it.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing. Over to you, sir.
- Baldev Prakash:** Thank you, and thank you to 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 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. Thank you.