"Jammu and Kashmir Bank Q3FY24 Earnings Conference Call"

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MODERATOR:	**MR. CHINTAN SHAH – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Jammu and Kashmir Bank Results Conference call hosted by ICICI Securities.

As a reminder, all participants line will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on a touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Chintan Shah. Thank you and. Over to you, sir.

Chintan Shah: Thank you, Riya. Good morning, everyone, and welcome to the Q3 FY'24 Earnings Conference Call for Jammu and Kashmir Bank. We have with us, from the Management, Mr. Baldev Prakash – Managing Director and CEO, along with the Senior 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, Chintan. A Very Good Morning and warm welcome to all the participants to the J&K Bank Dec'2023 Earnings Call on this very auspicious & special occasion when Ram Lalla Pran Pratishtha is being held at Ayodhya.

First, let me introduce my Management Team who are accompanying me on this call; Our Executive Director – Mr. Sudhir Gupta; our Corporate Credit Head – Mr. Ashutosh Sarin, our Commercial & Consumer Credit Head – Mr. Narjay Gupta, our (IAPM) Impaired Assets Portfolio Management Head – Mr. Shujaat Andrabi; our (DLM) Head, Deposit & Liability Management – Mr. Shafat Rufai; our Chief Financial Officer – Mr. Pratik Punjabi; and (CRO) Chief Risk Officer – Dr. Altaf Kira.

As per the analyst forecasts, India is expected to be the fastest-growing major economy over the next three years and growth rates ranging from 6.5% to 7% and is poised to become the world's third largest economy by year 2030. Overall credit growth in the country has been robust in Q3 as well; however, lagging deposit growth and increase in credit-deposit ratio is being viewed as a concern by the regulator. The rising cost of funds is also somewhat crimping the profitability and interest margins for most lenders. During the quarter, RBI flagged system-wide high growth in some components of consumer credit and as a counter-cyclic measure raised risk weights for unsecured consumer loans and banks' exposure to NBFCs. This significantly impacted the CRAR of banks with varying intensity depending upon their level of exposure to such segments.

While the J&K and Ladakh growth story is shaping up fast with establishment of rail links to connect land-locked Kashmir with rest of the country, yet, the weather this year played a little dampener, no snowfall impacting the winter tourist inflow in the valley. However, the pilgrim rush to the Mata Vaishno Devi shrine continues unabated. The Met Department has predicted a wet spell towards end of this month which is bound to bring some cheer for the tourist industry and the agriculturists as well.

The December quarter & nine months results of the Bank reflect business growth mostly aligned with the industry especially on credit front. Advances growing at 15.6% YoY and deposits lagging slightly at 9%. The Bank still has the lever in the form of low credit-deposit ratio to expand credit at a faster pace than deposit growth.

Despite challenges on the liability front, Our CASA ratio is hovering above the 50% mark sustaining the previous quarter level.

Advances growth has been broad-based both in regional & Sectoral distribution. While J&K loan book has grown by over 12%, Rest of India has registered 19% YoY growth.

Among sectors, Housing 21%, SME 21%, mostly driven by services, credit card 24% have been the major overall contributors. The thrust on retail in rest of India is evident from YoY growth of 24% in housing and 36% in car loans. The ratio of retail-to-Corporate loans in our overall portfolio is 2:1.

The hallmark performance metric of improvement in assets quality has been further reinforced. Controlled slippages of 1.29% annualized for the nine months period and the continuation of recovery momentum have resulted in our gross NPA coming down to 4.84% inching towards our market guidance while net NPA of 0.83% is already well below our year-end guidance level.

What needs to be appreciated here is that this has been achieved without resorting to any write-offs. Even in the restructured NPA loan book, there has been upgrade of about Rs.100 crores during Q3. It would be pertinent to mention that the two accounts of Adani Power (Maharashtra & Mundra) which had been subjected to flexible structuring and had outstanding balance of about Rs.175 crores at end of last quarter also got adjusted during the December quarter.

For infusing more strength & resilience to the balance sheet, the Bank has made additional provisions of Rs.118 crores over and above the RBI stipulations for non-performing loans during the quarter. Besides reducing the subsequent aging provision requirement, it has resulted in improving the coverage ratio to 91.61% and reducing the overall net NPA to just Rs.741 crores.

To take care of any stress buildup, the Bank is also maintaining buffer of additional provisions of Rs.113 crores for standard assets over the regulatory requirement plus a floating provision of Rs.124 crores. The total contingency provisions that the Bank is maintaining are Rs.670 crores. The credit cost, as a result of significant provision write-back is zero and it is expected to remain benign during the last quarter as well.

On the capital adequacy front, Bank has raised Rs.750 crores equity capital via QIP in Q3. Pursuant to Listing & Trading approvals by BSE and NSE for the shares issued by the Bank under ESPS-2023, we have also reckoned Rs.338 crores in the core capital as on Dec 31, 2023. However, the impact of increased risk-weights on consumer credit and exposure to NBFCs consumed significant additional capital resulting in capital adequacy ratio of 14.18% as on December 2023.

The CRAR of 14.18% does not include the nine months profit figure of Rs.1,128 crores which would result in an increment of 138 basis points in the ratio. Here, I would emphasize that we have applied the increased risk-weights as per regulatory direction although our consumer credit portfolio is mostly in the form of loans to the government employees of J&K and Ladakh UT with almost nil delinquency and by virtue of subsisting MoUs with the UT government can be deemed as adequately secure.

The income statement is reflective of good growth in interest income @21% YoY for the nine-month period, and 18% for Q3. However, due to a higher rise in interest expended at 32% YoY for nine months period and 35% YoY for Q3, net interest income has increased by only 11% YoY for the nine-month period. The surge in interest expended is the outcome of major repricing of maturing term deposits, reinvestments of overdue deposits, mobilization of fresh term deposits and CDs at higher rates especially in Q2 plus some internal cannibalization, full impact whereof was borne in Q3. As on Dec'2023, the average cost of term deposits of the Bank (excluding CDs) is 7.24% and 82% of the total Deposits are in the 7% to 8%, and above 8% interest rate buckets. Thus, there is limited scope of further repricing of term deposits and with redemption of CDs during the current quarter, plus scheduled maturity of Rs.10,700 crores term deposits from the high interest rate buckets (7% & above), the cost of deposits is expected to remain within 4.75% to 4.80% for Q4 thus signaling a plateau with bias towards tapering going down. However, our endeavor will be to improve it by augmenting our CASA further which is expected to be aided by the release of government payments generally happens in Q4, realization of fruit payments, and fructification of our recently conducted PoS and QR campaigns.

Owing to recoveries in technical write-off loans getting delayed, other income for the current year nine months period is down by 10% YoY while it is 41% down for Q3; however, anticipated resolutions of some technical write-off accounts in Q4 shall improve this metric.

Operating profit for the nine-month period is 14% higher than the previous year while PAT for the period is 57% higher backed by benign credit cost. With nine months profit for current year converging towards the full year PAT for the last year. The RoA as a result has improved to 1.06% for nine months and 1.15% for the quarter.

There is some good news on employee cost front also. The consultant hired by the Bank has identified sizeable excess provisions in some superannuation funds, gratuity in particular and advised not to make additional provisions towards this fund. The consultant has also advised shifting to purchase of non-RoC annuities for pension payments which shall result in reduced recurring costs on a sustained basis. The staff cost-to-total income has improved to 20.72% for Q3 vis-à-vis 26.79% in Q3 of the previous fiscal. Despite lower growth in net total income, the cost-to-income ratio moderated slightly to 62.36%. All-in-all, the stage is set for a good culminating quarter for the current financial year and we are sure to improve further and deliver better results.

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: We will now begin a question-and-answer session. Our first question is from the line of Mr. Manish Ostwal from Nirmal Bang Securities Private Limited. Please go ahead, sir.

Manish Ostwal: My question first is on the deposit growth side. We have grown lower than our advance growth even though the industry growth rate is 13%. So, why we are not able to grow the deposit commensurate to the growth in the loan book?

Baldev Prakash: This deposit growth as you have indicated is around 9% for us. Generally, the fourth quarter for the Bank remains always good as far as the deposit growth is concerned because in the second and third quarter the money is generally withdrawn by the farmers for their crops and in the fourth quarter generally it comes back and then this money mainly remains in the CASA, that has been a little challenging for the Bank as far as Q3 was concerned, but Q4, we are quite sure that we will be touching to the level which industry is expecting.

Manish Ostwal: The second question is on the rest of India portfolio, which grew 19% YoY. So, can you talk about the segments where we have grown, whether it is a consortium kind of lending or retail loan growth, so what is the color of growth in the rest of the India portfolio?

Baldev Prakash: Let me start with the retail loan. As far as housing loan is concerned, our rest of India book has grown by 24%, but the overall growth has been 400 crores, in the Jammu and Kashmir, it is 2,055 crores. While percentage is high, but overall, the gross number is 400 crores. Car loan, the growth is 35% though, but it is 63 crores.

Ashutosh Sarin: The corporate book during the quarter ended December 2023, it has moderated in a way that although the disbursements have been to the extent of more than 3,500 crores, but simultaneously, there has been some repayments expected and unexpected also, but at the same time what we have been doing is we have continued with our strategy, mostly the lending has been to the top corporates and the PSUs, Marathon and Navratan and AAA portfolio, which will be reflected in the external ranking book which has increased during this quarter.

Baldev Prakash: So, Manish, we are selecting our customers on our own, so we are not entering into the consortiums as you indicated as far as corporate book is concerned. The selection of a borrower is our choice. Corporate growth has been 15.32% for the quarter on YoY.

Manish Ostwal: On the provision line for the Q3 and the full year is a very, very low number compared to the last year and that is helping us to report 57% PAT growth for the nine months. So, first, whether the recovery piece is mostly done in our book, or we still see a very low credit cost in the coming quarter, or even FY'25, what is the trajectory you see given the underlying quality trend in the Bank.

Baldev Prakash: Manish, if you see that our credit cost has been zero for quite some time, and as I have indicated that it is expected to remain in this range in around zero level during the last quarter as well. Because we are expecting write-backs during the next year also, so in the next year also, this credit cost will be quite benign.

Manish Ostwal: There's one thing, the deposit repricing in our book and impact on the net interest margin. So, do you believe the current margin can sustain or there is some downward trajectory in net interest margin for the Bank?

Baldev Prakash: Manish, let me assure you and everybody that this is the outcome of major repricing of maturing term deposits and mobilization of fresh term deposit and CDs. As I have indicated that average cost of term deposits for the Bank excluding CD is 7.24 and this portfolio is 82%, and the term deposits are in the range of 7% to 8% and above 8%. So, now there is very limited scope for further repricing of term deposits and this redemption of CDs during the current quarter will be leading us to an expected cost of deposit of 4.75% to 4.8% in Q4. NIM for Q4 will be above our 3.90% guidance, that much I can assure you.

Manish Ostwal: Lastly, sir, most of our metrics is very comparable to the other well-performing banks. The only area where we need to improve our performance is the cost-to-income ratio, which is on a higher side. So, what we are doing to achieve to reduce this cost-to-income ratio and improve the productivity at a branch level and overall Bank level basically?

Baldev Prakash: Manish, few steps are being taken for that. One, of course, is the staff cost has improved in last year and last quarter also as I have indicated in my talk. And the second thing is we are in the process of transforming the Bank to a digital platform wherein the staff will be more deployed towards marketing and sourcing, this will happen in this year only and maximum people will be for the purpose of marketing and sourcing of business as per the good banks norms. So, we are quite confident that going forward also, the staff costs will be limited, #1. #2, as more people will be deployed towards marketing, the average business, average profit per employee will go up and obviously it will be moderating the cost-to-income ratio.

Manish Ostwal: Last one data point. What should be the tax rate that one should assume because the last quarter it was 30%, now it is 24.8% in full year and nine months is 27.45%?

Pratik D. Punjabi: So, you should assume 26%.

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

Ashwini Agarwal: As you alluded to in your opening comments, the operating performance was actually quite soft and there is a very solid profit growth that has been led by lower provisions and to some degree lower taxes and employee cost benefits. So, a couple of things here. First is on other income, I mean, with a loan growth that you're seeing of 18%, 19% and mostly led by retail, I would have expected the other income line to be reasonably strong. What has led to this line being as weak as it is – is the treasury which has underperformed, could you throw some light on that?

Baldev Prakash: I assure you there is no cause of worry.

Pratik D. Punjabi: See, other income, one of the important factors has been the cash recovery from technically written-off account. So, last year we had close to Rs.230 crores of cash recovery coming from technically written-off accounts, which is an important driver for our other income. The other elements of other income have shown a targeted rise, measured rise, and this year I can confirm to you that our other income will outperform last year's other income in Q4. So, with respect to the total recovery happening from TWO so far in nine months, we have recovered Rs.113 crores, which is reflecting in our current nine months P&L. And when we look at every client case that is lying in the stages of final orders, we expect another Rs.150 crores coming from cash recovery from TWO in Q4. So, that will take it well above Rs.250 crores and beat even last year. So, our guidance is close to be around Rs.950 crores of other income in the full year and we stand by our guidance which will be more than Rs.756 crores which was last year.

Ashwini Agarwal: On the employee cost which are down significantly, and the opening comments suggested that you received a very favorable report towards provisioning for gratuities and retirement benefits, is that's the reason why these costs are low or is there some other reason and going forward should we take this Rs.650 crores or thereabouts as the new base and inflation linked growth over this or how do we forecast this line?

Pratik D. Punjabi: We had promised in our earlier calls that we will be looking into the employee cost in detail. So, there are two elements to the employee cost. One is the live salary, and one is the terminal benefits provision. So, live salary was out of question to be reviewed because we are exactly aligned to IBA. So, that required us to do a total review of the terminal benefits cost. So, we appointed a consultant as mentioned in our earlier calls and several representations in our discussions with investors and what that has yielded now is that we were carrying excess provisions particularly in the gratuity provisioning. So, what we have done is we have taken a very measured approach. First, the extra provision that was held as on 31st March '23 data, we have not reversed that yet. We will wait till 31st March '24, and once we have an audited position, then we will consider reversing that. But the provision made in Q1 and Q2 because it is pertaining to the current financial year and my financial year is still open, we have gone ahead and reversed that particular thing after having a detailed discussion with our auditors. Now, the next step is sustainability of this benefit going forward. Yes, as mentioned in the opening remarks of our M.D., sir, we used to buy the annuity or pension which had a ROC clause, that is return on corpus clause. So, what our consultant is suggesting is that these purchases are not anymore required to be done. If we chose not to do this starting from 1st of April 2024, then we expect a sustainable year-on-year cost saving of at least 100 to 150 crores every year.

Ashwini Agarwal: So, next year, your total employee cost for fiscal '25 would still be lower than what they were in FY'24 even accounting for the IBA settlement, etc., would that be a fair assumption?

Pratik D. Punjabi: Yes.

Management: Live cost will be same, but the terminal benefits will be less.

Pratik D. Punjabi: Live cost, we have already provided, so therefore -

Moderator: Our next question is from the line of Sonaal from Bowhead. Please go ahead.

Sonaal: A couple of questions. Firstly, is on the gratuity side. In terms of accounting standards when you start reducing this number, would you do this over a one-year period or whatever accumulative extra cost you have provided, would you do it over the three, five-year period so that the cost-to-income remains benign for the next few years or would you add it back at one go?

Pratik D. Punjabi: There are three elements to the cost that we debit to the profit & loss account. One is the past service cost, the other is the current service cost, and the third aspect is the interest cost. Clearly, our planned assets are now more than the obligations, so therefore the interest costs will remain muted. Even the current service cost will remain muted because you are already carrying excess provision. Now, with respect to the past service cost, we will have to revisit this as I mentioned as on the fourth quarter of this particular financial year of how this impact will unfold and after thorough discussions with our auditors and the best practices we will take a decision at that point in time, but our endeavor will always be to have a sustainable benefit rather than a spiking P&L.

Sonaal: I think that's a great idea because your cost-to-income will remain benign for the next few years and by that time all the measures you're thinking of would automatically play out and the operating leverage will be at play in the next couple of years.

Baldev Prakash: Sonaal, just to supplement Pratik, one factor which will have a significant impact is that retirement of high-cost employees in the next two, three years, which we have indicated in our earlier calls also, this will also save a good number to us.

Sonaal: So, sir, hypothetically, I'm not asking you to give a definitive answer because it's about the future that two, three years down the line, your employee cost may still be lower than FY'24, adding all the elements of employee cost including gratuity and everything and the retirement benefits do you think it's a possibility?

Baldev Prakash: It seems to be a possibility because it will be definitely, I mean, tapering, maybe little benign, that looks like a possibility because the ROC clause will have an impact in that.

Sonaal: Sir, secondly, on the NIM side, for next year, is it too early for me to ask a question or do you think you're still confident of maintaining this 3.8, 3.9 or even better rate in the coming years, what kind of tools do you have for the next year, and was there any one-off in this quarter spike which led to a NIM decline?

Baldev Prakash: So, yes, it was one-off, and I think let us address this question a little more in detail. Pratik, do you have the data with you?

Pratik D. Punjabi: Yes.

Baldev Prakash: So, one, I think I can assure you, Sonaal, that our market guidance was 3.75 to 3.90. I can assure you that we will be catering that market guidance in Q4. And we have the detailed data and calculations done on this front, this was one-off, and Pratik has the data. I can request Pratik to just quickly go through that.

Pratik D. Punjabi: So, Sonaal, picking up from what our sir mentioned in the opening remarks is that the cost of the deposits has already peaked, and we expect it to plateau and eventually taper down from that position. The details are as follows:

What we observed was that in terms of deposit there was a 4,300 crores of net deposit growth in Q2. So, when deposits grow in Q2, the full impact comes only in Q3. But, when I compare that with the growth in term deposits in Q3 itself, it is just 1,100 crores. That's point #1. The second point is, talking about plateau and tapering is a shift in the repricing. So, if I make buckets of various deposits based on the interest rates, the high interest rates come between 6% to 7%, which are our card rates and then some exceptional cases of above 7% to 8% which are typically bidded corporate deposits. So, even in that area, we have already peaked. So, 82% of term deposits are sitting in this high interest rate bucket. So, the chances of further repricing have gone down. So, that translates to, as sir mentioned in the opening remarks, 7.24% of the term deposit cost with a 50% to 51% of a CASA ratio, this translates to 3.6. If I take our savings Bank account interest rates also into factor which carries a 40% weightage, the additional impact is 1.16. So, thus we concluded that our total Q4 deposit cost will be not more than 4.75% to 4.8% should be less. What it translates is that the full year cost, so like Q1 it was 4.3, Q2 it was 4.38, then it touched peak 4.82, and if I take 4.75 in the Q4, it will be less than 4.6. More importantly, there are two additional factors. 10,000 crores from these higher buckets are getting matured in Q4 itself, and we have made a very good renewal policy in December '23 itself where the overdue or mature deposits, if they are renewed within the period of 14-days, then they can be renewed only with the value date of maturity. But, if the 14 days less, then they will be only renewed with prospective rates. And for the broken period, the interest rate will be served based on the actual interest rate or the savings rate, whichever is lower. So, the way we are positioned today, we don't expect it to peak anymore and hence our guidance on NIM stands. We are a conservative management; we gave the guidance of 3.75% to 3.9% and we clearly expect to beat that for your pleasant surprise.

Sonaal: Lastly, sir, on this aspect only, so would you expect your Q1 cost of deposits to be lower than Q4 assuming other things are constant based on what you are now today? And secondly, is any repricing happening on that one side which will also aid your NIMs in Q1 or Q4?

Pratik D. Punjabi: So, on the advances side, if you observe the yields on advances are continuously growing. So, if you look at my previous quarter, it was 9.5 and it has gone up to 9.68. So, whenever the cost of the deposits or any cost of funds go up, that get translated into the MCLR calculations and correspondingly the advances will get repriced. And therefore, after having a careful mix I must again reiterate that we are still at 69.82 CD ratio. So, we have all the levers in our control to ensure to maintain the NIM on a sustainable basis even for the times to come.

Moderator: Next question is from the line of Rakesh Kumar from B&K Securities. Please go ahead.

Rakesh Kumar: A couple of questions. Firstly, as we had a discussion before also, even with higher margin, our cost-income is quite high and that is because of non-interest income number. And a related question is on the duration of the investment trading book. So, what is the plan there because a couple of banks have increased or have been increasing their duration in the last two quarters?

Dr. Mohmad Ishaq: Actually, in our policy also, we have maintained that we are comfortable with the duration of five. And when we foresee that the interest rates are going to come down actually then we go for longer duration securities as it is visible in our portfolio also; it has gone to 3.44 if you see the duration of the portfolio has gone to 3.4 portfolio I'm talking, so it has increased by more than one year over there. So, actually we are going with that strategy that whenever we expect the rates to go down, we go for longer term securities at the time when the yields are high. So, we are building that portfolio, we're building the portfolio in long-term government securities also and long-term SDLs also. So, there's a lot of appreciation if you see in the book value MTM, though it's mostly in the HTM part that we pass these HDLs and GSec. But we are doing this by increasing our duration so that when the rates start coming down, there will be a lot of positive MTM in the book.

Rakesh Kumar: Sir, I was also referring to the AFS book in particular where the duration is relatively on a lower side.

Dr. Mohmad Ishaq: Our AFS book is very small as on date. You see generally what we do is also used for mostly trading, so we park it for some one, two, three because in the HFT there's a difference of 90 days, we have to offload it. But, once we see some shorter term these profits or variances where we can book profits. So, actually it is not a big book, if you see the AFS book as on date, it mostly consists of the CDs, we have almost 1,600 crores of CDs invested there. So, that also takes it down. The CDs are very short term. So, the duration because of that is down, otherwise it's a smaller book, but we are building up with good corporate bonds also. So, in the AFS book also, there is a shift, but because of the quantum of the CDs, the overall impact is not showing in the duration.

Rakesh Kumar: So, that's the point. Like even if you're increasing the HTM book duration, you will have only one opportunity in the Q1 when you shift securities from HTM to AFS. So, like why we are not having clear focus on the AFS book in the street?

Shujaat Andrabi: Yes, yes, exactly. There is a focus on the AFS book also, but the last time actually what we had done, we will be parking the longer-term securities in our HTM so that in the first quarter the like you see the shifting of securities from HTM to AFS for this booking of gains and other things. And once the threshold is reduced, at that time also there will be shifting, because RBI will be reducing these thresholds to come down. So, at that time also there will be some shifting from the HTM. But definitely, we have augmented our trading staff also at the treasury, we have hired consultants also there. So, there is a lot of shifts happening in the treasury as on date and product booking is being viewed over there what we are offering currently and what we have to offer.

Dr. Altaf Kira: In fact, in line with the new valuation guidelines that will be effective from 1st of April, we are taking every measure, for example, if you look at the bond in AFS segment, we have built up bond segment and then we are trying to build up during this quarter and going forward this AFS, that strategy is currently in place. Even if you look at, we have done around 900 crores in AFS book with respect to bonds, apart from what Mr. Shujaat said regarding the CDs and the treasury bills.

Rakesh Kumar: What is the expectation that we have for the FY'25 credit growth trajectory?

Baldev Prakash: So, credit growth, we are expecting in the range of mid-teens and that is what is expected by the industry. Little bit muted growth is expected on account of lesser traction towards NBFCs because of the reasons relating to risk weight, and other segments, we are looking quite good, and particularly the home territory of Jammu and Kashmir is seeing a lot of activity relating to the tourism, the horticulture, and the MSME and a good number of projects coming up in the infrastructure segment. So, the overall growth in credit in the next year looks like in the range of around 15%, 16%, 17%.

Rakesh Kumar: So, would that means loan deposit ratio would not expand materially from that current level, which is already low?

Pratik D. Punjabi: It will. So, our guidance has been that we will try and take it to 70% March '24 and up to 75% by March '25. The entire idea is to maintain the NIMs. So, that is the lever that we will be using to our benefit.

Rakesh Kumar: If I compare your TD cost, I understand and very much appreciate that it is going to fall from the peak. But at the current level, the TD cost is relatively higher for us as compared to other banks and we are a leader in the state we are operating. So, why the TD cost is so high for us?

Pratik D. Punjabi: Because of the growth that is being witnessed in J&K, there is a lot of competition coming in and this has been our core territory always, and we are quite committed to protect it and we are very, very competitive on the TD cost. But the advantage that comes to us is our CASA, which is one of the best in the industry, and therefore the weighted average cost of the overall deposits will always and always be lower as compared to the industry. So, that is how we manage.

Dr. Mohmad Ishaq: The weighted average residual maturity of our portfolio is 0.83 years, so it is less than one year, and a lot of these high-cost deposits are actually getting matured. Now, what you are saying is that why it is high. See, mostly the retail portfolio, more than 80% is our retail term deposit. So, in that, you don't have any non-withdrawable clause, so you can't impose that non-withdrawable clause. So, people have the freedom to reinvest prematurely also. That is what Mr. Pratik, the CFO actually was hinting at. There has been a lot of shifting from the lower priced buckets to the higher priced buckets during this high interest rate regime over the last two, three quarters exactly. So, if you look how it has moved the term deposit cost, it was not as high as this, it was just 6.68% in June, it moved up to 6.8% in September, now it has moved up to 4.74%. So, actually, what has happened is there has been an internal shift. But what now is happening is one part that the policy has been reviewed, so you cannot backdate matured FD from the date of original maturity. You don't pay higher interest for the broken period. So, as the current saving Bank rate because the term deposits rates are higher as in saving Bank rate what we are paying. So, actually for us it will be effective. For the broken period, it will be only the saving Bank rate. So, a lot of things that have been now reviewed and the policies, other things to manage like shifts and manage opportunities actually is with the Bank, not with the customer. But the one part that it has to be actually remembered, appreciated, that because of this term portfolio being majorly retail, we can't impose that non-withdrawable clause in the retail deposits because of the RBI guidance and they had this lever available with them to go for reinvestment and they did that.

Moderator: The next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: So, just three questions. One is, what is the current cost of your term deposits that you're carrying in your books?

Pratik D. Punjabi: 7.24%.

MB Mahesh: The second question is this benefit that you got on the gratuity side, do you think that you will get something similar on the pension side as well?

Management: So, what we are doing on the side of pension is that historically we have been buying annuities with a return on corpus clause. So, when the beneficiary of the pension passes away, obviously then the pension stops, and the corpus comes back to us. But that comes at a high cost and that annuity price is higher than the annuity price without the return on corpus clause. And because our pensioners count amongst overall staff count is now reducing and as sir mentioned, that another 1,500 senior staff are about to retire in next couple of years. So, we will be taking a decision effective from 1st April '24 to go for annuities without return on corpus clause. So, that benefit will come.

MB Mahesh: And that will be sizable as compared to gratuity because that's a much larger pool?

Management: So, we are expecting the amount to be in the range of 100 to 150 crores. So, once we do the bidding process and once we receive the bids from the people who are ready to give those annuities to us, various LIG companies, then we will be able to formalize that exact amount, but this is what we expect it to be, and this benefit will be sustainable.

MB Mahesh: In your pension, if you look at the outstanding, you have about 13,000 employees, how many would be part of defined benefit and defined contribution?

Pratik D. Punjabi: As on date out of the 12,000 employees on rolls of the Bank, 5,000 are actually covered by the pension benefit and rest of employees who have been actually engaged after 2010, they are covered under NPS, around 7,000 employees.

MB Mahesh: In your pension pool, what would be the contribution of active members in that book if you would have that data?

Pratik D. Punjabi: You see, they don't contribute actually directly. The Bank in its CTC contributes 15% of the wage bill towards the pension.

MB Mahesh: No, no, no. I just wanted to know what the current active members in the pension plan are today. 5,000 currently would be who are serving the Bank and then you would have retired employees.

Pratik D. Punjabi: You mean to say those who are actually getting the pension from the Bank?

MB Mahesh: Absolutely.

Pratik D. Punjabi: 6,000 plus employees.

MB Mahesh: So, 5,000 active members who are part of the staff right now and 6,000 who are retired and who are receiving pension?

Pratik D. Punjabi: Exactly. Exactly.

MB Mahesh: So, total active members is about 11,000?

Pratik D. Punjabi: Yes.

Moderator: Our next question is from the line of Mr. Kishore Agarwal from Bajaj AMC. Please go ahead.

Kishore Agarwal: I have two questions. One is on the cost-to-income side. What is the benefit that you derived from the reversal of provisions in this quarter? And do you think this 30% cost-to-income is sustainable despite the pension and gratuity benefit that you will receive next year?

Management: What we have done in this particular quarter is we have reversed Rs.67 crores and this has been disclosed in our notes to accounts #4, we have reversed Rs.67 crores provision towards the gratuity which we made in Q1 and Q2. Furthermore, we have not provided anything for Q3, and we expect not to provide anything either in Q4. So, that is the straight answer to that. Now, in terms of sustaining and improving cost-to-income ratio, we have drawn a proper plan as to how income aspects need to be looked at, what we are going to do in the other income, and I think someone also asked this question in this call itself that how we aim to improve our operating profits. So, that is what is now the focus of the management. One is **(Inaudible) 51:18** of the Bank overall will continue to sustain itself as we improve the asset quality, and we expect the credit cost to be benign not only in this year but also in the next financial year. But the focus now will now be a lot more on improving the operating profit and we don't expect any significant surge in the operating costs. So, that's better to remain almost flat, if the income goes up automatically, our cost to income ratio will go below 60.

Kishore Agarwal: My last question is on capital adequacy.

Baldev Prakash: So, capital adequacy, I have covered in my opening remarks, 14.18 as of now, and if you add the profit for these nine months, it will be improved by 138 basis points, so 15.56% above the regulatory requirements.

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

Anand Dama: You talked about the expired deposits and how basically you will actually provide an extra benefit to the customers in terms of the deposits account in 14 days you will offer a higher rate. Was there any impact of that, particularly in this third quarter apart from the typical increasing the term deposit cost that you have incurred as well?

Baldev Prakash: Good morning, Anand. Yes, so as you mentioned, there was a surge in the net growth in the term deposits in Q2 by over 4,000 crores and that stood for the entire Q3. So, obviously there is an impact to that. But what we mentioned is that this is peak and when I say it is peak, what I mean is that going forward it will either plateau and then eventually start to taper down. One more important aspect is that towards the last week of September, we addressed CDs of around 2,000 crores. That is because we wanted to keep our funding positions ready due to loan sanctions of close to 5,000 plus crores in this particular quarter. Now, the CDs have also fallen off and will also start to mature in this particular Q4. So, even that cost will get completely muted. So, this particular quarter witnessed two or three types of peaking things; one is the CD, one is the growth, and the last part was the shift in the buckets of the pricing. So, there was a shift from a low price term deposit to a high price term deposit, but that has also peaked as we mentioned in the opening remarks. To add to that, our overall Rs.10,000 crores of deposits from the higher priced bucket matured in Q4. So, therefore we say this will taper down. And even the average life or the average residual maturity of the total deposits in term case is 0.83 which is less than one.

Anand Dama: So, when you say that 10,000 crores of deposits maturing, so what is the cost of that deposit and what basically it would be pricing, whether it will be higher or it will be lower?

Baldev Prakash: So, these are the deposits that are maturing from the higher brackets I'm saying. So, once the interest regimes begin to come down, we will then booking this at a comparatively lower deposit rate.

Pratik D. Punjabi: Out of these 10,000 crores, 8,100 crores are actually getting matured from the 7% to 8% interest bucket, and 2,500 crores is getting matured from the 8% and plus bucket. So, these are the highest costing buckets amount will be flowing out. So, when we replenish this, the costs will be below it, because now the CA ratio that we are having are from 6% to 7%, 7.10% is the highest rate in our CA rates. So, if these are reinvested, it will be at a lower cost definitely.

Anand Dama: We have seen a lot of newspapers carrying that there is no snow in the Kashmir region. Today, obviously was impacted, we see a lot of cancellations happening. There are a lot of snow-fed rivers. If basically the wet season doesn't really start the pool the impact is there. So, what are your thoughts on that, and can you just basically also repeat what is the kind of contingency provision buffer that you carry outside your facility at this point of time?

Baldev Prakash: So, Anand, yes, there is a delay in snowfall this year. But the good news is that the Met department is predicting a wet spell towards the end of this month. So, this has not happened the first time, this has happened earlier also. And besides that, the pilgrim crush for Mata Vaishno Devi Shrine is continuing unabated. So, from that point of view, immediately there is no need of worry. I think though the snow has delayed but we believe that as per the Met department also the snowfall will happen little later.

Pratik D. Punjabi: And sir, to add to this, the apple crop, especially now people have shifted to their drip irrigation and this man-made irrigation. So, they are not fully dependent on the rainfall alone because of the vagaries of the weather, you can never be sure about these things. So, people have already started doing such things. There are bore wells, tube wells for irrigation and there are canals for irrigation. Now for this new high-density plantation, people have installed that drip irrigation scheme. So, there's a lot of now man-made irrigation. So, they are not fully dependent on the rains for irrigation.

Anand Dama: But in this kind of a situation, is there any provision for restructuring of the loans?

Baldev Prakash: So, as of now, Anand, we don't feel any need of that.

Anand Dama: Can you just help us with the contingency buffer?

Baldev Prakash: As we mentioned, we we've built a lot of contingencies; we have 113 crores additional provision in case of standard advances, which is over and above the RBI requirement, we have a floating provision of 124 crores already made in the March of last year and we also have 670 crores of contingency provision. But more importantly, I want to tell you that this particular quarter we have made additional NPA provision over and above the RBI requirements also which has actually resulted in improved PCR and absolutely low level of NNPA. So, NNPA has is now down to a bigger 740-odd crores and in terms of percentage, it is 0.83%.

Anand Dama: This contingency buffer of 6.7 billion that we talked about which is outside the NPA, right?

Baldev Prakash: Yes, yes. Contingency. And Anand, just to supplement your question on the tourism front, so tourism is happening much more in some places. So, Kashmir is known for more tourism in summer than in winter. So, that aspect is absolutely intact.

Moderator: Next question is from the line of Ashish Goel from InvestSavvy Portfolio Management LLP. Please go ahead.

Ashish Goel: I had two or three questions. One is when you say that over the next two to three years, you will have several senior employees retiring, now taking into account that those will possibly be either replaced by junior level staff or maybe done away with in terms of better digital efficiencies, but, at the other end you would start having the pension cost on them, what would be the kind of savings for the Bank for this set of employees, and out of the 5,000 people on pension plan, how many of these guys would be going away?

Pratik D. Punjabi: You see, we are seeing the scheduled superannuation retirements of around 1,500 people over the next 3-4 years. So, all of these will be actually from the pension staff, the ones who are eligible for pension payments. So, one part is now you are talking about the expenditure, but what you see, they have already rendered services of over 30-years, and they are eligible for full pension when they render 33-years of service. So, this is the pension obligation. Their pension obligation is already fully provided for. Now, the only thing that remains to be provided is if there is an increase in DA, now that the revision has already happened, so over the next year, there will be no revision, and even the escalation on that part, that has been taken care of in this last year, this actuarial valuation already though they have estimated at a higher level, the load factor is only 3%. So, the pension was already increased by 3%, it won't increase by 17%, this IBA is about. So, there are two or three things. One, the pension obligation up to the current service it is already provided for because they rendered more than 33-years of service and the actuarial valuations are actually done on that. If they leave today also, they will receive the full pension on the basis of today's pension. So, any escalation that will remain is the DA increase only, nothing beyond that.

Ashish Goel: Will there be any saving because they would obviously be high-cost employees and I would presume that once they retire their cost to Bank would be lower than what it would be today?

Baldev Prakash: Because the new employees will be coming on NPS. So, from the point of view of terminal benefits, it will not be as far as provident fund is concerned.

Pratik D. Punjabi: Even the current cost is because currently if an employee who is retiring, he gets a salary of 2, 2.5 lakhs, the new employee he will get a 60,000, 75,000. So, for one employee, so the cost definitely will be tapering.

Ashish Goel: So, that's what I was asking. If you were to take a guess on this, what would be the kind of saving you would see going forward in the next two to three years because you did mention that would be some saving which the Bank will be having, so could you roughly take a guess on what kind of saving on an annual basis would be there?

Pratik D. Punjabi: If you have been watching these con calls and other things, so last time also we had given a guidance that by '28 we see a cost-income ratio of thereabout 50%, will be achieving that level by the next 3-4 years.

Ashish Goel: In terms of cyclicity of your CASA money coming in etc., as sir also pointed out that Q2 and Q3 typically are the seasons where people draw for expenses and maybe harvesting, whatever, you're sowing and other expenses plus I think festivities, etc., so in Q4, what kind of bump up do you expect on the deposit side?

Baldev Prakash: There are three, four factors in this and this has been happening for many years and historically there are evidence for that. One is that generally in the fourth quarter the government payments are released in large numbers. So, that money comes mainly in CASA. Another thing is the realization of fruits particularly the apple crop that happens in this quarter. And we are running very aggressive in PoS and QR campaign that is UPI QR campaign. So, that money is straight away going, that is basically the cash in the economy is going to the current accounts. So, that is also one enabler. So, that's why we are quite confident that while 4.75 to 4.82 we have guided that will be more supported by these factors of improving our CASA ratio and there are historical evidences to this what I'm saying.

Ashish Goel: If you were to say top two or three points which you feel make you excited about the future and maybe one or two points which you feel keep you up at night that could be an issue, what would those be? This is a very generic one but would be good to hear from you.

Baldev Prakash: Good, you have asked it. Let me say there are many, but I'll just say 2-3. You see in the story of assets quality of the Bank, it is phenomenal actually for the last two years, if you see every quarter, whatever we are saying, we are promising even better than that. So, that will continue because now that type of discipline is actually institutionalized. That is one. Another thing is the profitability of the Bank going every quarter, every year. We are actually creating records. So, that definitely is going to do a lot of good to the Bank and the other few things is the digital transformation, which I indicated in my opening remarks, I mean, the type of digital initiatives which we have taken are unprecedented, which are going to impact not only the business but the cost factors of the Bank also, and then lot of things are being done in the capacity building of the Bank, that is particularly creating the able manpower and creating the leadership of the Bank for future. So, that is something which will give a long-term impact to the Bank as far as the loyalty, the business and the commitment is concerned. And the last one is the type of investment we are now making in our treasury. It has never happened again. The Treasury is operating from Mumbai, earlier it was operating from Srinagar. So, a lot of investments we have already done in the form of manpower. Now, we are engaged with a good consultant, and we are expecting the treasury to be another good profit center for the Bank going forward in a year or so. So, all these factors together make me too bullish on the future of the Bank. That is one. The challenge if you ask me is only that, God forbid, the law-and-order situation should remain as it is today. As of now we don't find any apprehension.

Ashish Goel: Are you actually seeing the benefit of the infrastructure push, etc., coming in because the numbers are still to fully reflect that, so when do you think they will start reflecting it in a big way?

Baldev Prakash: As far as direct funding to these big companies, which are engaged in the infrastructure projects is concerned, we have a limited presence there, but the equipments, generally the subcontractors are local people, so the heavy equipments which are required by them are financed by us. So, you will see that going forward also we will have this type of business happening in MSME segment, which is already happening actually, it will increase further.

Moderator: Ladies and gentlemen, this will be the last question of the day from the line of Bunty Chawla from IDBI. Please go ahead.

Bunty Chawla: As we have seen during this quarter, the restructured assets has increased on a sequential basis and that too from the J&K portfolio. If you can share the reason behind that? Because you've already highlighted credit cost next year, can we see any risk arising from this restructured assets going forward, so, if you can share your outlook on that?

Baldev Prakash: Let me request Ishaq to take this question. But before that, I assure you that there is absolutely no worry on this aspect.

Dr. Mohmad Ishaq: Bunty, this increase is actually a good thing if you have compared it with the last quarter. This is a shift from this NPA, so there has been an upgrade, what actually MD sir also covered in his presentation earlier speech that there has been an upgrade of almost 100 crores in the restructured book. So, actually it is not a new restructuring, it is a shift from the NPA to restructured asset. So, this is a good positive thing that has happened.

Baldev Prakash: So, that is the thing to be appreciated.

Bunty Chawla: So, going forward, how this should move in terms of credit cost for us for next year as such?

Baldev Prakash: Credit cost, we have already indicated that it will remain near zero in 2024 also and '25 also.

Bunty Chawla: From a long-term perspective, how we are seeing the ROA trajectory going forward, any targeted number we are trying to achieve in next three to four or five years, if you can share some thought process on that sir?

Baldev Prakash: Yes, yes, I think we have a guidance which is already there; we have a guidance of around 1.3 to 1.4 in March 2028 and this quarter I think we are at 1.15. So, in the near-term we can see 1.25.

Moderator: Ladies and gentlemen, that was the last question of the day. I now hand the conference over to management for closing comments.

Baldev Prakash: So, thank you, Chintan, and team and thank you to all the participants for joining in today. For any further queries, details, comments on 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 and have a nice day.

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