



Jammu & Kashmir Bank Ltd. Q1 FY17 Quarterly Update

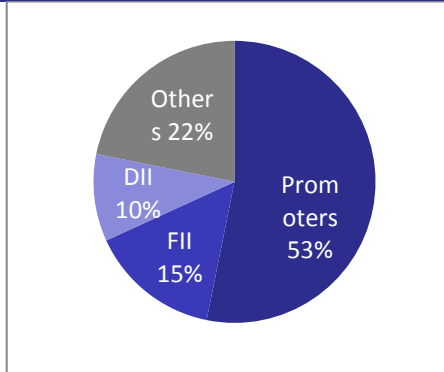
MARKET DATA

NSE TICKER	J&K Bank
Networth (FY18E Rs.crs)	7,391
P/BV Ratio (FY18E) (x)	0.5
EPS (FY18E) (₹)	14
Market Price (₹)	70
P/E Ratio (FY18E) (x)	4.9
52 Week High (28/8/2015)	101
52 Week Low (3/6/2016)	56
Market Capitalisation (Rs.crs)	3,381

AVERAGE MONTHLY VOLUME ('000)

BSE	427
NSE	1,839

SHARE HOLDING PATTERN



RETURN	3M	6M	12M
J&K Bank	13%	4%	-33%
Sensex	9%	19%	1%

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J&K Bank reported weak set of numbers with PAT declining by 86% y-o-y to Rs. 23crs as it continued to build floating provisions which now stands at Rs. 348crs. NII declined by 9% y-o-y largely due to high interest reversals on the back of fresh slippages which now stands at Rs. 1377crs. Loan book showed a growth of 14% y-o-y led by 20% y-o-y growth outside J&K and 10% y-o-y growth in J&K.

Loan book grew y-o-y; expect better growth going forward

J&K bank as a whole registered 14.4% y-o-y growth in advances. However, loan growth outside J&K stood at 19.7% y-o-y while loan growth within J&K stood at 9.6% y-o-y. The bank has indicated that ~40% of the non J&K book is related to government undertakings and hence has nominal asset quality implications. Management has guided growth target of ~16% within J&K & ~12% outside J&K for FY17E. We have taken similar kind of growth in our model.

NIMs contracted due to high interest reversals

NIMs contracted by 55bps to 3.38% as spreads declined by 98bps y-o-y due to higher interest reversals and incremental lending to corporates on lower yields. Management has guided that NIMs would improve and remain in the range of 3.8% - 4.0% going ahead. Other income de-grew by 14% y-o-y to Rs. 117crs led by 25% decline in miscellaneous income to Rs. 28crs and 21% de-growth in treasury income to Rs. 36crs. Cost to Income ratio increased by 857bps y-o-y to 53.38%. We have factored in NIMs as per the guidance given by the management which has resulted in NII growth of 9.4% CAGR to Rs. 3,244crs in FY18E. However, pressure on margins cannot be ruled out on account of higher slippages in the near term.

Deterioration in asset quality peaked, we expect gradual recovery ahead

Slippages surged to 11.3% vs. 3.4% annualised y-o-y. As a result, GNPA & NNPA increased by 268bps & 324bps y-o-y to 9.3% & 6.2% respectively. The bank has w/off Rs. 783crs of loans which resulted in 603bps q-o-q (1056 y-o-y) fall in PCR to 50.1%. Restructured book stands at Rs. 3,247crs. Management has guided improvement in asset quality trends and they will continue to create some floating provisions out of profits which currently stand at Rs. 348crs. 5:25/SDR stood at Rs. 965crs and Rs. 1,118crs respectively of which 67% are already recognized as NPAs.

Valuation

J&K bank's dominant position in J&K remains intact. However, elevated credit cost and pressure on margins due to lending to high rated corporates outside J&K is keeping earnings growth under pressure. We have lowered our PAT estimates by ~11% in FY17E. We revise our rating from BUY to HOLD with a target price Rs. 80 (1.0x FY18E Adj.BV of Rs. 80 after adjusting for 70% provisioning on GNPA and 50% on restructured assets & strategic debt restructuring (SDR)).

Quarterly Performance:

Particulars ₹ Cr	Q1 FY17	Q1 FY16	y-o-y	Q4 FY16	q-o-q	FY16	FY15	y-o-y
Interest Income	1,672	1,753	-5%	1,666	0%	6,844	7,061	-3%
Interest Expenses	1,040	1,058	-2%	1,019	2%	4,133	4,410	-6%
Net Interest Income	633	695	-9%	647	-2%	2,710	2,651	2%
Other Income	117	136	-14%	139	-16%	504	594	-15%
Total Income	749	830	-10%	786	-5%	3,214	3,245	-1%
Operating Expenses	400	372	7%	405	-1%	1,546	1,409	10%
PPOP	349	458	-24%	381	-8%	1,668	1,836	-9%
Total Provisions	314	213	47%	397	-21%	976	1,016	-4%
PBT	36	245	-85%	(16)	-320%	692	820	-16%
Taxes	13	87	-85%	40	-68%	276	312	-12%
PAT	23	159	-86%	(56)	-141%	416	509	-18%
EPS	0.5	3.3	-86%	(1.2)	-141%	8.6	10.5	-18%

**Conference Call Highlights Q1 FY17****• Loan Book**

1. Within J&K State - Management had given a guidance of 22-25% growth in advances within J&K state. But after the current turmoil in J&K, they have guided it down to 16-17%.
2. Outside J&K State – Management has guided 12-13% growth in advances outside J&K state. On an optimistic note, it can go to 15%.
3. Management has guided that that focus would be on retail & SME book within J&K state. Outside J&K state focus would be on navratna companies, companies that have a good track record with J&K bank and large PSUs.
4. ~40% of the loan book outside J&K is with PSU & GOI undertakings, while another large part is to better rated corporate.

• Asset Quality

1. Write offs - In Q1 FY17, write offs (including technical write offs) stands at Rs. 783crs vs Rs. 2.6crs q-o-q (For FY16, write offs were Rs. 328crs). Management has guided a recovery of 25-30% out of Rs. 783crs over a period of next 1-2 years. Technical w/offs have mainly come from the loan book outside J&K state.
2. Break up of GNPA within J&K & outside J&K

Particulars	Rs. crs
GNPA within J&K State	1,100-1,200 (850 last quarter)
GNPA outside J&K State	3,515-3,615
Total	4,715

3. Delinquency – Fresh slippages of Rs. 1,377crs from 3 large accounts in steel/power/textile sector. These accounts were under 5:25 and SDR.
4. 5:25 and SDR has 5 accounts amounting to Rs. 1,118crs and Rs. 966crs out of which ~Rs. 650crs & ~Rs. 750crs are under NPA.
5. Recoveries in NPAs were strong during Q1 FY17, Rs. 221crs vs Rs. 83crs in Q4 FY16.

- **Others** - On Met life stake sale bank has been going slow on the deal as clarity on regulatory issues have come in FY16. Bank has ~5.3% stake in Met life.



QUARTERLY PERFORMANCE:

Particulars ₹ Cr	Jun-16	Jun-15	y-o-y	Mar-15	q-o-q	FY16	FY15	y-o-y
Interest Income	1,672	1,753	-5%	1,666	0%	6,844	7,061	-3%
Interest Expenses	1,040	1,058	-2%	1,019	2%	4,133	4,410	-6%
Net Interest Income	633	695	-9%	647	-2%	2,710	2,651	2%
Other Income	117	136	-14%	139	-16%	504	594	-15%
Total Income	749	830	-10%	786	-5%	3,214	3,245	-1%
Operating Expenses	400	372	7%	405	-1%	1,546	1,409	10%
Employee	268	253	6%	259	4%	1,020	894	14%
Others	132	120	11%	147	-10%	527	515	2%
Operating Profits before provisions	349	458	-24%	381	-8%	1,668	1,836	-9%
Total Provisions	314	213	47%	397	-21%	976	1,016	-4%
PBT	36	245	-85%	(16)	-320%	692	820	-16%
Taxes	13	87	-85%	40	-68%	276	312	-12%
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EPS	0.5	3.3	-86%	(1.2)	-141%	8.6	10.5	-18%
Asset Quality								
GNPA Rs. Cr	4,715	2,995	57%	4,369	8%	4,369	2,764	58%
NNPA Rs. Cr	3,023	1,277	137%	2,164	40%	2,164	1,236	75%
GNPA %	9.3	6.6	268	8.3	99	8.3	6.0	235
NNPA %	6.2	3.0	324	4.3	188	4.3	2.8	154
PCR % Reported	50.1	60.7	-1056	56.2	-603	56.2	59.0	-287
Slippages	1,377	370	272%	1,480	-7%	2,383	2,526	-6%
Slippage Ratio % (annualised)	11.28	3.42	786	11.79	-52	4.75	5.67	-92
Restructured assets	3,247	2,505	30%	3,235	0%	3,235	2,467	31%
Restructured assets % of advances	6.65	5.79	86	6.45	20	6.45	5.53	91
Credit Cost %	2.57	1.97	60	3.16	-60	1.94	2.28	-33
Stressed Assets % of Advances	12.84	8.74	410	10.76	208	10.76	8.30	245
Ratios %								
Fees to Advances (annualised)	0.43	0.49	-6	0.47	-4	0.45	0.51	-6
Cost to Income ratio	53.38	44.81	857	51.56	182	48.11	43.42	468
Tax Rate	35.75	35.32	43	-245.38	28112	39.85	38.00	185
Loan/Deposit	70.80	69.49	131	72.33	-153	72.33	67.80	453
CASA %	43.08	44.7	-162	44.13	-105	44.13	41.79	234
RoA %	0.12	0.88	-76	-0.3	42	0.57	0.7	-13
RoE %	1.42	10.26	-884	-3.45	487	6.65	8.6	-195
CAR (Basel III) %	11.89	12.93	-104	11.81	8	11.81	12.57	-76
Tier I %	10.64	11.6	-96	10.6	4	10.6	11.26	-66
Tier II %	1.25	1.33	-8	1.21	4	10.9	11.52	-62
Opex to Loan book	3.27	3.44	-17	3.23	4	6.34	6.72	-38
Margins %								
Yield on Advances	9.9	11.3	-139	10.09	-15	10.9	11.52	-62
Cost of Deposits	6.0	6.4	-41	6.15	-15	6.34	6.72	-38
Quarterly NIMs	3.4	3.9	-55	3.6	-22	3.85	3.8	4
Balance Sheet								
BV-Calculated	133	129	3%	132	0%	132	126	5%
Adjusted Net worth	3,423	4,992	-31%	4,260	-20%	4,260	4,874	-13%
Adj. BV	71	103	-31%	88	-20%	88	100	-13%
Capital	49	48	0%	49	0%	49	49	0%
Net Worth	6,447	6,269	3%	6,424	0%	6,424	6,110	5%
FV	1	1		1		1	1	NA
Deposits	69,000	62,265	11%	69,390	-1%	69,390	65,756	6%
Investments	21,384	23,599	-9%	20,354	5%	20,354	25,124	-19%
Loans	48,854	43,267	13%	50,193	-3%	50,193	44,586	13%

Source: Company, Dimensional Securities



RoA Tree Analysis:

Particulars	Jun-16	Mar-16	Dec-15	Sep-15	Jun-15	FY15	FY16
Interest Income	8.9%	9.2%	9.4%	9.6%	9.0%	9.1%	8.8%
Interest Expenses	5.5%	5.5%	5.6%	5.8%	5.5%	5.7%	5.3%
Net Interest Income	3.4%	3.6%	3.8%	3.8%	3.5%	3.4%	3.5%
Other Income	0.6%	0.6%	0.7%	0.7%	1.4%	0.8%	0.6%
Total Income	4.0%	4.2%	4.5%	4.6%	5.0%	4.2%	4.1%
Operating Expenses	2.1%	2.1%	2.1%	2.0%	2.0%	1.8%	2.0%
Employee	1.4%	1.4%	1.4%	1.4%	1.2%	1.2%	1.3%
Others	0.7%	0.7%	0.7%	0.7%	0.8%	0.7%	0.7%
Operating Profits before provisions	1.9%	2.1%	2.4%	2.5%	3.0%	2.4%	2.1%
Total Provisions	1.7%	1.3%	0.7%	1.2%	2.0%	1.3%	1.2%
PBT	0.2%	0.8%	1.7%	1.3%	1.0%	1.0%	0.9%
Taxes	0.1%	0.2%	0.6%	0.5%	0.5%	0.40%	0.4%
PAT (RoA)	0.1%	0.6%	1.1%	0.9%	0.5%	0.7%	0.5%
Average Assets/ Average Equity	11.84	11.71	11.67	12.01	13.07	13.07	12.47
RoE	1.4%	7.4%	12.5%	10.5%	6.9%	8.6%	6.6%

Source: Company, Dimensional Securities

OUTLOOK & VALUATION: -

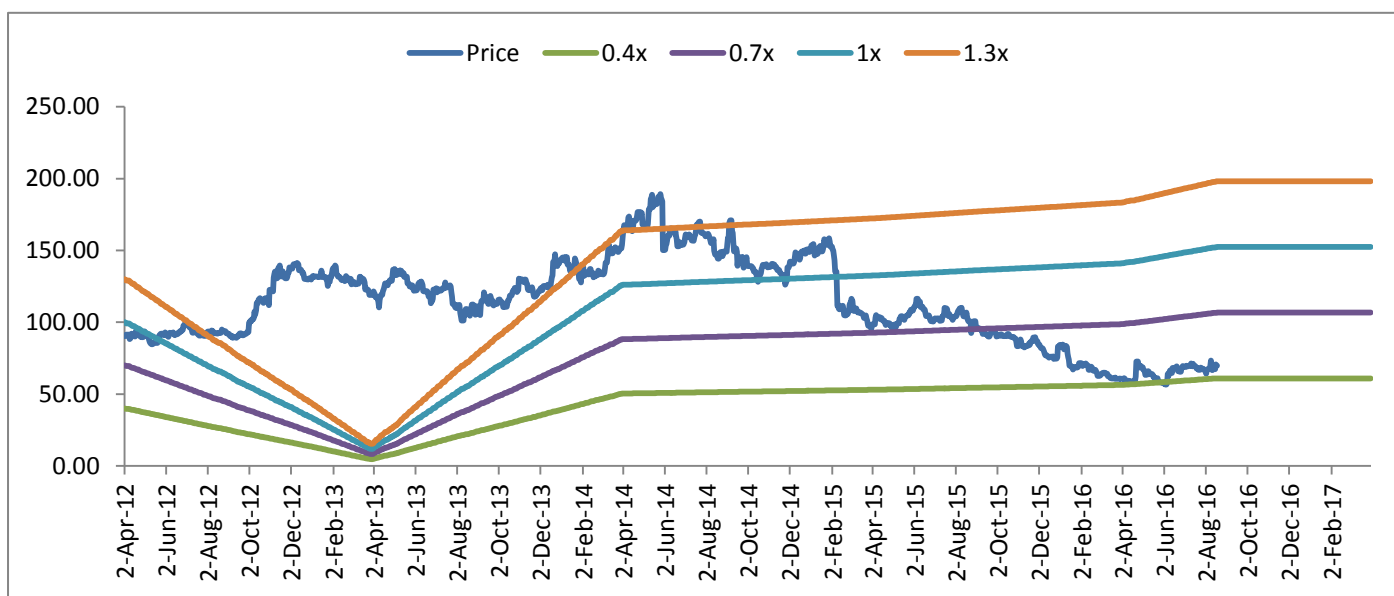
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We revise our rating from BUY to HOLD with a target price Rs. 80 (1.0x FY18E Adj.BV of Rs. 80 after adjusting for 70% provisioning on GNPA and 50% on restructured assets & strategic debt restructuring (SDR)).

REVISED ESTIMATES

Particulars (Rs. crs.)	FY17E			FY18E		
	Revised	Old	%Change	Revised	Old	%Change
NII	2,746	2,816	-2%	3,241	3,161	3%
PAT	509	571	-11%	682	822	-18%

P/BV (Forward)



Source: Company, Dimensional Securities

**STANDALONE PROFIT & LOSS STATEMENT:**

Particulars, Rs. Cr	FY14	FY15	FY16	FY17E	FY18E
Interest Earned	6,767	7,061	6,844	7,095	7,914
Interest expended	4,083	4,410	4,133	4,349	4,674
Net Interest Income	2,685	2,651	2,711	2,746	3,241
Other Income	390	594	504	731	585
NII+ Other Inc.	3,075	3,245	3,215	3,477	3,825
Employees Cost	744	894	1,020	1,135	1,264
Op, Admin & Other exp	431	515	527	592	667
Profit Before Provision & Cont	1,900	1,836	1,668	1,749	1,894
Provisions & Contingencies	148	1,016	976	972	852
PBT	1,752	820	692	778	1,042
Provision for Tax	569	312	276	269	361
PAT	1,183	509	416	509	682

Source: Company, Dimensional Securities

STANDALONE BALANCE SHEET:

Particulars, Rs. Cr	FY14	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS :					
Capital	49	49	49	49	49
Reserves Total	5,674	6,060	6,372	6,782	7,322
Deposits	69,328	65,736	69,379	76,329	84,344
Borrowings	1,765	2,340	2,240	2,631	3,024
Other Liabilities & Provisions	1,797	1,726	2,214	2,411	2,660
TOTAL LIABILITIES	78,613	75,910	80,254	88,201	97,398
APPLICATION OF FUNDS :					
Cash & Balances with RBI	3,046	2,373	3,127	3,053	3,374
Balances with Banks & money at Call	1,170	1,362	77	998	51
Investments	26,185	22,740	20,334	21,124	23,169
Advances	46,385	44,586	50,193	57,185	65,744
Fixed Assets	535	690	764	818	860
Other Assets	1,292	4,160	5,758	5,022	4,200
TOTAL ASSETS	78,613	75,910	80,254	88,201	97,398

Source: Company, Dimensional Securities

**RATIO & ANALYSIS:**

Particulars	FY14	FY15	FY16	FY17E	FY18E
Spread Analysis					
Yield on Advances	11.5%	11.0%	10.1%	9.9%	9.8%
Cost of Funds	5.8%	6.2%	5.8%	5.6%	5.5%
Net Interest Margin	3.7%	3.6%	3.8%	3.7%	3.9%
Profitability Ratio					
RoE %	22.3%	8.6%	6.6%	7.7%	9.6%
RoA %	1.6%	0.7%	0.5%	0.6%	0.7%
Interest Expense/Interest Income	60.3%	62.5%	60.4%	61.3%	59.1%
Non-Interest Income/Total Income	12.7%	18.3%	15.7%	21.0%	15.3%
Efficiency Ratio					
Cost/Income	38.2%	43.4%	48.1%	49.7%	50.5%
Employee Cost/Operating Expenses	63.3%	63.4%	65.9%	65.7%	65.4%
Asset Liability Ratio					
Credit/Deposit	66.9%	67.8%	72.3%	74.9%	77.9%
CASA/Deposit	39.1%	41.8%	44.1%	44.2%	44.6%
Investment/Deposits	37.8%	34.6%	29.3%	27.7%	27.5%
Asset Quality					
GNPA (%)	1.66%	5.97%	8.32%	9.50%	9.00%
NNPA (%)	0.22%	2.85%	4.37%	6.03%	5.42%
Valuation Ratio					
Adjusted Book Value , Rs.	116	101	88	70	78
EPS, Rs.	24.4	10.5	8.6	10.5	14.1
Dividend, Rs.	5.0	2.1	1.8	1.8	2.5
P/BV, x	1.3	0.7	0.7	1.0	0.9
P/E, x	6.3	6.3	7.1	6.7	5.0

*Book Value- Adjusted for NNPA

Source: Company, Dimensional Securities



ANALYST CERTIFICATION

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