



## Jammu & Kashmir Bank Ltd. Q2 FY16 Quarterly Update

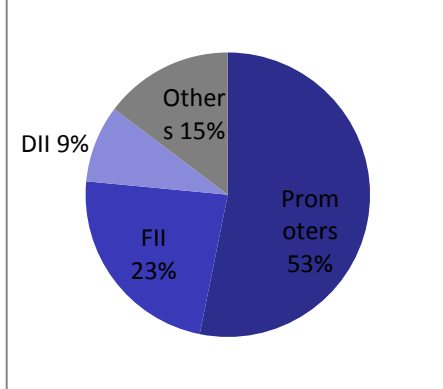
### MARKET DATA

|                              |          |
|------------------------------|----------|
| NSE TICKER                   | J&K Bank |
| Networth (₹ Cr)              | 6635     |
| P/BV Ratio (FY16E) (x)       | 0.6      |
| EPS (FY16E) (₹)              | 14       |
| Market Price (₹)             | 83       |
| P/E Ratio (FY16E) (x)        | 6        |
| 52 Week High (22/1/2015) (₹) | 161      |
| 52 Week Low (9/11/2015) (₹)  | 81       |
| Market Capitalisation (₹ Cr) | 4043     |

### AVERAGE MONTHLY VOLUME ('000)

|     |        |
|-----|--------|
| BSE | 731.9  |
| NSE | 1763.3 |

### SHARE HOLDING PATTERN



| RETURN   | 3M   | 6M    | 12M  |
|----------|------|-------|------|
| J&K Bank | -13% | -25%  | -41% |
| Sensex   | 0.5% | -3.5% | -9%  |

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In Q2FY16, J&K Bank PAT grew by 23% q-o-q (14% y-o-y) to ₹196crs due to lower provisions (41% q-o-q & 25% y-o-y). Loan growth was strong at 6% q-o-q (1% y-o-y) while NIMs improved by 10bps q-o-q. Also, asset quality improved marginally.

### Loan book grew; expects better growth going forward

After 5 consecutive quarters of stable to declining loan growth, J&K bank registered 6% q-o-q growth (7% & 4% for outside J&K region & within J&K respectively) led by corporate segment (6% q-o-q). Loans growth was led by Non-J&K portfolio (7% q-o-q; -6% y-o-y). Within J&K state, strong growth was witnessed in personal segment (7% q-o-q; 18% y-o-y) and agriculture (9% q-o-q; 14% y-o-y).

### NIMs improved q-o-q due to improvement in yield on investments

NIMs improved 10bps sequentially to 4.02%; although yields on advances declined by 4bps q-o-q to 11.29% while yield on investment improved 31bps. Management has guided that NIMs would remain in the range of 3.9% - 4.0% for FY16. Cost of funds remained stable at 1.59% from 1.58% q-o-q (1.66% y-o-y). Opex to Loan book declined by 9bps q-o-q to 3.35% (up 30bps y-o-y). Non-interest income declined by 7% q-o-q (up 49.5% y-o-y) due to decrease in treasury/trading income and insurance commission.

### Asset quality improved; near term asset quality to be under pressure due to lending outside J&K state

GNPA% declined by 17bps q-o-q to 6.5% as slippages was down from 370 crs to 202 crs q-o-q (377 y-o-y). PCR improved from 60.7% to 61.9% q-o-q (54.9% y-o-y) which resulted in a decline in NNPA% by 17bps to 2.8%. Outstanding restructured assets as a % of advance stood at 5.4% as against 5.8% q-o-q. Stressed assets % of advances stood at 8.2% as compared to 8.7% q-o-q. Management guided that the near term asset quality is expected to be under pressure due to lending outside J&K state (49% of total gross advances).

### Other Highlights

CASA ratio improved to 43.2% (~Rs270bn vs Rs250bn) in Q2 FY16 as against 39.7% y-o-y due to drawdown of term deposits. CD ratio improved by 373bps at 73.2% q-o-q (71.6% y-o-y) in Q2 FY16. Tier I capital at 11.4% will support growth going forward. Bank refinanced ₹800-1,000crs of loans under 5:25 scheme (2-3 accounts).

### Valuation

At CMP, J&K Bank is trading at P/B multiple of 0.7x its FY16E BV of ₹115 and 0.6x its FY17E BV of ₹132. With gradual increase in return ratios, we believe the valuations should improve from current levels of 0.7x. We maintain BUY rating with a target price ₹ 110 (1.0x FY17E Adj.BV of Rs.110 after adjusting for 70% provisioning on GNPA & 50% on restructured assets).

### Quarterly Performance:

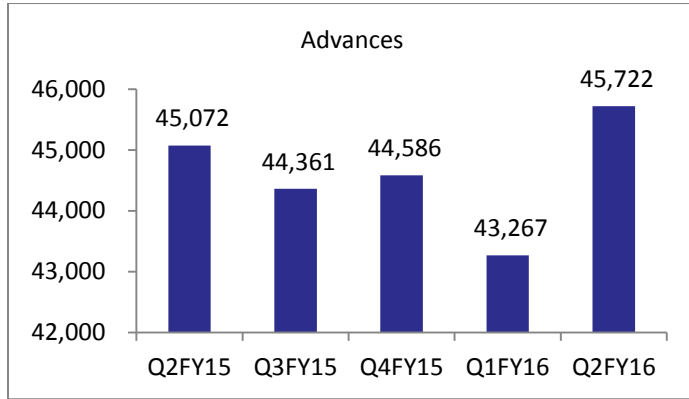
| Particulars ₹ Cr    | Q2 FY16 | Q2 FY15 | % YoY | Q1 FY16 | %QoQ | FY15  | FY14  | % YoY |
|---------------------|---------|---------|-------|---------|------|-------|-------|-------|
| Interest Income     | 1,721   | 1,799   | -4%   | 1,753   | -2%  | 7,061 | 6,767 | 4%    |
| Interest Expenses   | 1,027   | 1,107   | -7%   | 1,058   | -3%  | 4,410 | 4,083 | 8%    |
| Net Interest Income | 694     | 692     | 0%    | 695     | 0%   | 2,651 | 2,685 | -1%   |
| Other Income        | 127     | 85      | 50%   | 136     | -7%  | 594   | 390   | 52%   |
| Total Income        | 821     | 777     | 6%    | 830     | -1%  | 3,245 | 3,075 | 6%    |
| Operating Expenses  | 383     | 344     | 11%   | 372     | 3%   | 1,409 | 1,175 | 20%   |
| PPOP*               | 438     | 432     | 1%    | 458     | -4%  | 1,836 | 1,900 | -3%   |
| Total Provisions    | 127     | 168     | -24%  | 213     | -41% | 1,016 | 148   | 587%  |
| PBT                 | 311     | 265     | 18%   | 245     | 27%  | 820   | 1,752 | -53%  |
| Taxes               | 116     | 92      | 25%   | 87      | 33%  | 312   | 569   | -45%  |
| PAT                 | 196     | 172     | 14%   | 159     | 23%  | 509   | 1,183 | -57%  |
| EPS                 | 4.0     | 3.6     | 14%   | 3.3     | 23%  | 10.5  | 24.4  | -57%  |

\*PPOP - Pre-Provisioning Operating profits



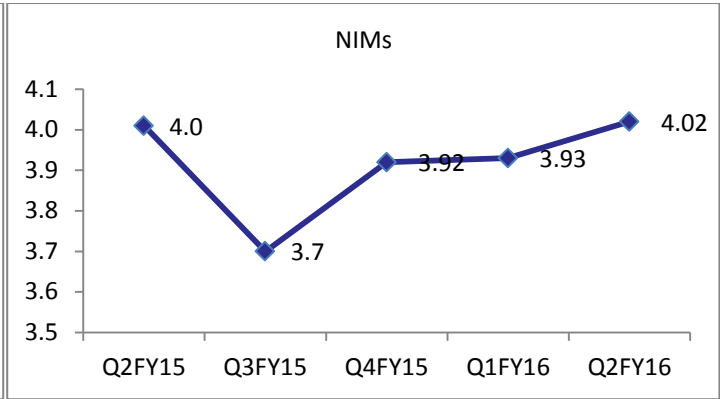
**Graphs for important parameters**

**High growth in Loan book**



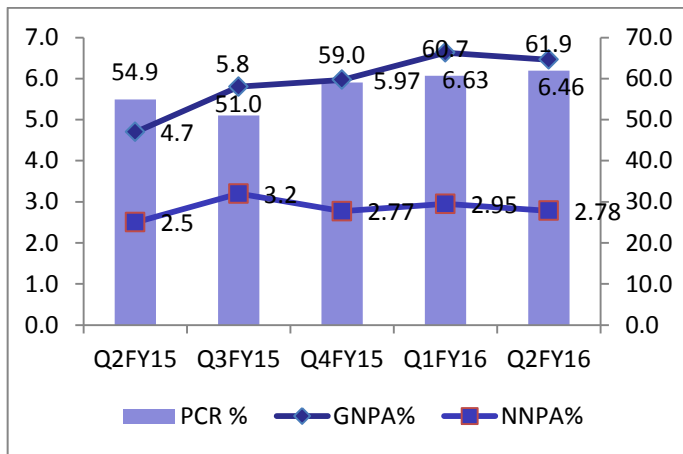
Source: Company, Dimensional Securities

**Steady improvement in NIMs**



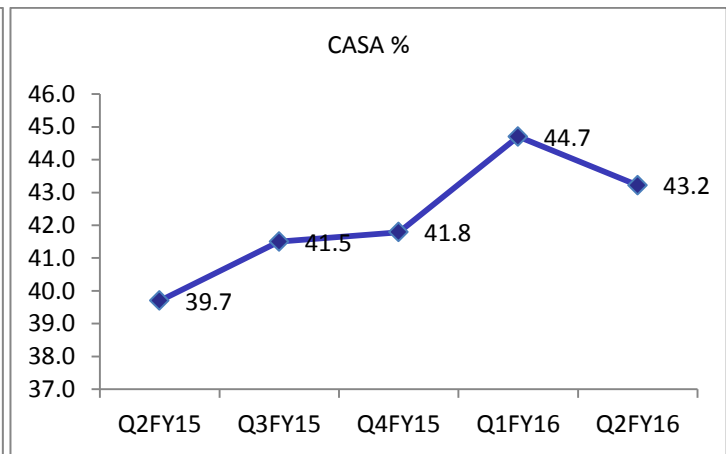
Source: Company, Dimensional Securities

**Stressed Assets remain high**



Source: Company, Dimensional Securities

**Steady improvement in CASA ratio**



Source: Company, Dimensional Securities



**QUARTERLY PERFORMANCE:**

| Particulars ₹ Cr                    | Sep-15 | Sep-14 | % YoY | Jun-15 | %QoQ  | FY15  | FY14  | % YoY |
|-------------------------------------|--------|--------|-------|--------|-------|-------|-------|-------|
| Interest Income                     | 1,721  | 1,799  | -4%   | 1,753  | -2%   | 7,061 | 6,767 | 4%    |
| Interest Expenses                   | 1,027  | 1,107  | -7%   | 1,058  | -3%   | 4,410 | 4,083 | 8%    |
| Net Interest Income                 | 694    | 692    | 0%    | 695    | 0%    | 2,651 | 2,685 | -1%   |
| Other Income                        | 127    | 85     | 50%   | 136    | -7%   | 594   | 390   | 52%   |
| Total Income                        | 821    | 777    | 6%    | 830    | -1%   | 3,245 | 3,075 | 6%    |
| Operating Expenses                  | 383    | 344    | 11%   | 372    | 3%    | 1,409 | 1,175 | 20%   |
| Operating Profits before provisions | 438    | 432    | 1%    | 458    | -4%   | 1,836 | 1,900 | -3%   |
| Total Provisions                    | 127    | 168    | -24%  | 213    | -41%  | 1,016 | 148   | 587%  |
| PBT                                 | 311    | 265    | 18%   | 245    | 27%   | 820   | 1,752 | -53%  |
| Taxes                               | 116    | 92     | 25%   | 87     | 33%   | 312   | 569   | -45%  |
| PAT                                 | 196    | 172    | 14%   | 159    | 23%   | 509   | 1,183 | -57%  |
| EPS                                 | 4.0    | 3.6    | 14%   | 3.3    | 23%   | 10.5  | 24.4  | -57%  |
| <b>Asset Quality</b>                |        |        |       |        |       |       |       |       |
| GNPA Rs. Cr                         | 3,082  | 2,187  | 41%   | 2,995  | 3%    | 2,764 | 783   | 253%  |
| NNPA Rs. Cr                         | 1,270  | 1,109  | 15%   | 1,277  | -1%   | 1,236 | 102   | 1112% |
| GNPA %                              | 6.5    | 4.7    | 176   | 6.6    | -17   | 6.0   | 1.7   | 427   |
| NNPA %                              | 2.8    | 2.5    | 28    | 3.0    | -17   | 2.8   | 0.2   | 257   |
| PCR % Calculated                    | 58.8   | 49.3   | 949   | 57.4   | 144   | 55.3  | 87.0  | -3171 |
| PCR % Reported                      | 61.9   | 54.9   | 702   | 60.7   | 124   | 59.0  | 90.3  | -3128 |
| Slippages                           | 202    | 377    | -46%  | 370    | -45%  | 2,526 | 411   | 515%  |
| Slippage Ratio %                    | 1.77   | 3.35   | -158  | 3.42   | -165  | 5.67  | 0.89  | 478   |
| Restructured assets                 | 2,486  | 1,269  | 96%   | 2,505  | -1%   | 2,467 | 1,576 | 57%   |
| Restructured assets % of advances   | 5.44   | 2.82   | 262   | 5.79   | -35   | 5.53  | 3.40  | 214   |
| Fresh Restructuring                 | -      | 130    | -100% | 26     | -100% | 1,352 | 664   | 104%  |
| Credit Cost %                       | 1.11   | 1.49   | -38   | 1.97   | -86   | 2.28  | 0.32  | 196   |
| Stressed Assets % of Advances       | 8.22   | 5.32   | 290   | 8.74   | -52   | 8.30  | 3.60  | 471   |
| <b>Ratios %</b>                     |        |        |       |        |       |       |       |       |
| Fees to Advances                    | 0.51   | 0.40   | 11    | 0.49   | 2     | 0.46  | 0.43  | 3     |
| Cost to Income ratio                | 46.68  | 44.34  | 234   | 44.81  | 187   | 43.42 | 38.21 | 521   |
| Tax Rate                            | 37.13  | 34.92  | 221   | 35.32  | 181   | 38.00 | 32.50 | 550   |
| Loan/Deposit                        | 73.22  | 71.57  | 165   | 69.49  | 373   | 67.80 | 66.90 | 91    |
| CASA %                              | 43.22  | 39.7   | 352   | 44.7   | -148  | 41.79 | 39.1  | 269   |
| CAR (Basel III) %                   | 12.76  | 12.66  | 10    | 12.93  | -17   | 12.57 | 12.69 | -12   |
| Tier I %                            | 11.38  | 11.27  | 11    | 11.6   | -22   | 11.26 | 11.22 | 4     |
| Tier II %                           | 1.38   | 1.39   | -1    | 1.33   | 5     | 1.31  | 1.47  | -16   |
| Opex to Loan book                   | 3.35   | 3.06   | 30    | 3.44   | -9    | 3.16  | 2.53  | 63    |
| Quarterly NIMs                      | 4.02   | 4.0    | 1     | 3.9    | 9     | 3.81  | 4.2   | -39   |
| BV-Calculated                       | 133    | 124    | 7%    | 129    | 3%    | 126   | 118   | 7%    |
| Adj. Networth (adj. for NNPA)       | 5,195  | 4,918  | 6%    | 4,992  | 4%    | 4,874 | 5,622 | -13%  |
| Adj. BVPS (adj. for NNPA)           | 107    | 101    | 6%    | 103    | 4%    | 100   | 116   | -13%  |

Source: Company, Dimensional Securities

**RoA Tree Analysis:**

| Particulars                         | Sep-15 | Jun-15 | Mar-15 | Dec-14 | Sep-14 | FY15  | FY14   |
|-------------------------------------|--------|--------|--------|--------|--------|-------|--------|
| Interest Income                     | 9.4%   | 9.6%   | 9.0%   | 9.6%   | 10.1%  | 9.13% | 9.00%  |
| Interest Expenses                   | 5.6%   | 5.8%   | 5.5%   | 6.1%   | 6.2%   | 5.70% | 5.43%  |
| Net Interest Income                 | 3.8%   | 3.8%   | 3.5%   | 3.5%   | 3.9%   | 3.43% | 3.57%  |
| Other Income                        | 0.7%   | 0.7%   | 1.4%   | 0.5%   | 0.5%   | 0.77% | 0.52%  |
| Total Income                        | 4.5%   | 4.6%   | 5.0%   | 4.1%   | 4.3%   | 4.19% | 4.09%  |
| Operating Expenses                  | 2.1%   | 2.0%   | 2.0%   | 2.0%   | 1.9%   | 1.82% | 1.56%  |
| Employee                            | 1.4%   | 1.4%   | 1.2%   | 1.3%   | 1.3%   | 1.16% | 0.99%  |
| Others                              | 0.7%   | 0.7%   | 0.8%   | 0.7%   | 0.7%   | 0.67% | 0.57%  |
| Operating Profits before provisions | 2.4%   | 2.5%   | 3.0%   | 2.1%   | 2.4%   | 2.37% | 2.53%  |
| Total Provisions                    | 0.7%   | 1.2%   | 2.0%   | 1.2%   | 0.9%   | 1.31% | 0.20%  |
| PBT                                 | 1.7%   | 1.3%   | 1.0%   | 0.9%   | 1.5%   | 1.06% | 2.33%  |
| Taxes                               | 0.6%   | 0.5%   | 0.5%   | 0.3%   | 0.5%   | 0.40% | 0.76%  |
| PAT (RoA)                           | 1.1%   | 0.9%   | 0.5%   | 0.6%   | 1.0%   | 0.66% | 1.57%  |
| Average Assets/ Average Equity      | 11.67  | 12.01  | 13.07  | 12.22  | 12.43  | 13.07 | 14.20  |
| RoE                                 | 12.5%  | 10.5%  | 6.9%   | 7.0%   | 12.0%  | 8.60% | 22.34% |

Source: Company, Dimensional Securities

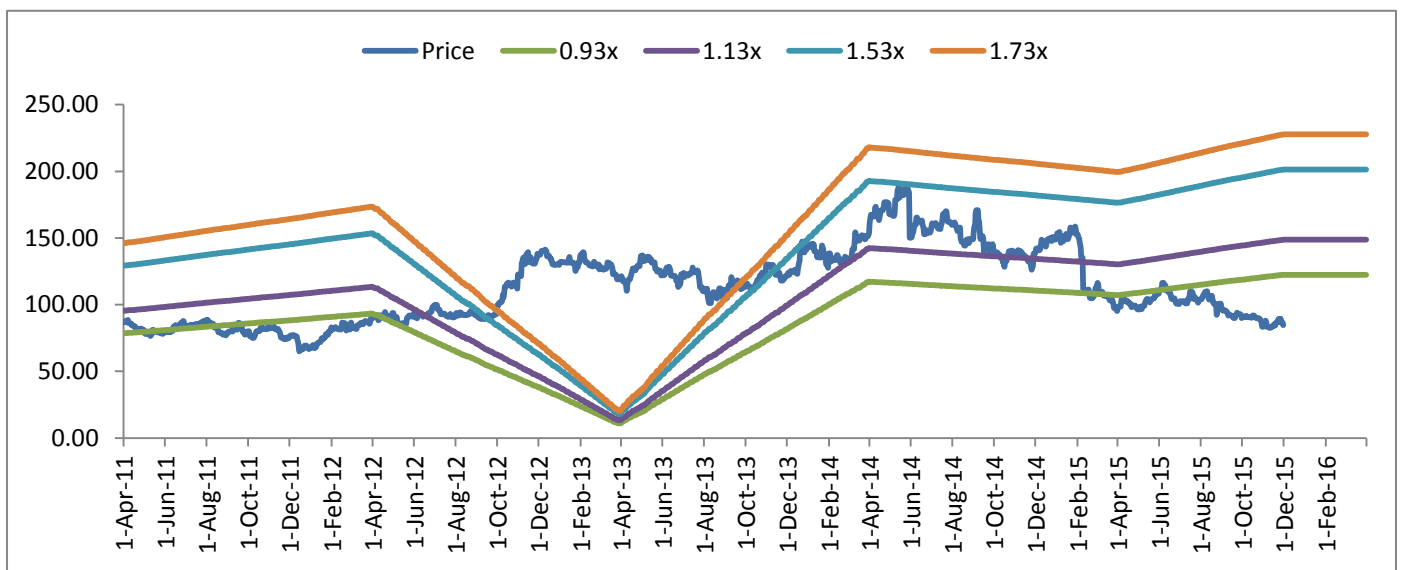


### OUTLOOK & VALUATION: -

J&K Bank reported a better performance than expected with a) higher growth in loan book after stable to negative growth for past 5 consecutive quarters, b) improvement in NIM & c) improved asset quality. However, recoveries in outside J&K stressed assets remains key to improvement in asset quality and earnings going forward.

At CMP, J&K Bank is trading at P/B multiple of 0.7x its FY16E BV of ₹115 and 0.6x its FY17E BV of ₹132. We maintain BUY rating with a target price ₹ 110 (1.0x FY17E Adj.BV of Rs.110 after adjusting for 70% provisioning on GNPA & 50% on restructured assets).

### P/BV (Forward)



Source: Dimensional Securities



**STANDALONE PROFIT & LOSS STATEMENT:**

| Particulars, Rs. Cr            | FY14  | FY15  | FY16E | FY17E |
|--------------------------------|-------|-------|-------|-------|
| Interest Earned                | 6,767 | 7,061 | 7,435 | 8,280 |
| Interest expended              | 4,083 | 4,410 | 4,501 | 4,981 |
| Net Interest Income            | 2,685 | 2,651 | 2,934 | 3,300 |
| Other Income                   | 390   | 594   | 505   | 581   |
| NII+ Other Inc.                | 3,075 | 3,245 | 3,439 | 3,880 |
| Employees Cost                 | 744   | 894   | 872   | 962   |
| Op, Admin & Other exp          | 431   | 515   | 606   | 668   |
| Profit Before Provision & Cont | 1,900 | 1,836 | 1,960 | 2,251 |
| Provisions & Contingencies     | 148   | 1,016 | 923   | 884   |
| PBT                            | 1,752 | 820   | 1,037 | 1,366 |
| Provision for Tax              | 569   | 312   | 353   | 464   |
| PAT                            | 1,183 | 509   | 685   | 902   |

**STANDALONE BALANCE SHEET:**

| Particulars, Rs. Cr                 | FY14          | FY15          | FY16E         | FY17E          |
|-------------------------------------|---------------|---------------|---------------|----------------|
| <b>SOURCES OF FUNDS :</b>           |               |               |               |                |
| Capital                             | 49            | 49            | 49            | 49             |
| Reserves Total                      | 5,675         | 6,062         | 6,586         | 7,277          |
| Deposits                            | 69,336        | 65,756        | 75,620        | 86,963         |
| Borrowings                          | 1,765         | 2,340         | 2,307         | 2,653          |
| Other Liabilities & Provisions      | 1,795         | 1,880         | 2,802         | 3,687          |
| <b>TOTAL LIABILITIES</b>            | <b>78,620</b> | <b>76,085</b> | <b>87,364</b> | <b>100,628</b> |
| <b>APPLICATION OF FUNDS</b>         |               |               |               |                |
| Cash & Balances with RBI            | 3,046         | 2,373         | 3,079         | 3,781          |
| Balances with Banks & money at Call | 1,168         | 1,361         | 2,519         | 3,093          |
| Investments                         | 26,195        | 25,124        | 28,642        | 32,652         |
| Advances                            | 46,385        | 44,586        | 51,274        | 58,965         |
| Fixed Assets                        | 534           | 689           | 632           | 730            |
| Other Assets                        | 1,292         | 1,953         | 1,227         | 1,416          |
| <b>TOTAL ASSETS</b>                 | <b>78,620</b> | <b>76,086</b> | <b>87,372</b> | <b>100,636</b> |

**RATIO & ANALYSIS:**

| Particulars, Rs. Cr              | FY14  | FY15  | FY16E | FY17E |
|----------------------------------|-------|-------|-------|-------|
| <b>Spread Analysis</b>           |       |       |       |       |
| Yield on Advances                | 11.5% | 11.0% | 11.0% | 10.5% |
| Cost of Funds                    | 5.8%  | 6.2%  | 6.0%  | 5.7%  |
| Net Interest Margin              | 3.7%  | 3.6%  | 3.7%  | 3.6%  |
| <b>Profitability Ratio</b>       |       |       |       |       |
| RoE, % post dividend             | 17.0% | 6.6%  | 8.2%  | 9.9%  |
| RoE, %                           | 22.3% | 8.6%  | 10.7% | 12.9% |
| RoA, %                           | 1.6%  | 0.7%  | 0.8%  | 1.0%  |
| Interest Expense/Interest Income | 60.3% | 62.5% | 60.5% | 60.1% |
| Non-Interest Income/Total Income | 12.7% | 18.3% | 14.7% | 15.0% |
| <b>Efficiency Ratio</b>          |       |       |       |       |
| Cost/Income                      | 38.2% | 43.4% | 43.0% | 42.0% |
| Employee Cost/Operating Expenses | 63.3% | 63.4% | 59.0% | 59.0% |
| <b>Asset Liability Ratio</b>     |       |       |       |       |
| Credit/Deposit                   | 66.9% | 67.8% | 67.8% | 67.8% |
| CASA/Deposit                     | 39.1% | 41.8% | 39.5% | 40.0% |
| Investment/Deposits              | 37.8% | 38.2% | 37.9% | 37.5% |
| <b>Asset Quality</b>             |       |       |       |       |
| GNPA (%)                         | 1.7%  | 6.0%  | 5.0%  | 4.5%  |
| NNPA (%)                         | 0.2%  | 2.8%  | 2.0%  | 1.6%  |
| Stress Assets (%)                | 3.6%  | 8.3%  | 6.9%  | 5.8%  |
| <b>Valuation Ratios</b>          |       |       |       |       |
| Book Value (Rs)                  | 115.9 | 100.5 | 115.3 | 131.6 |
| Book Value (Adj.) (Rs)*          | 104.6 | 92.2  | 92.7  | 109.6 |
| EPS (Rs)                         | 24.4  | 10.5  | 14.1  | 18.6  |
| Dividend (Rs)                    | 5.0   | 2.1   | 2.8   | 3.7   |
| P/BV                             | 1.3   | 0.8   | 0.7   | 0.6   |
| P/E                              | 6.3   | 8.1   | 6.0   | 4.6   |

\*Book Value Adj is calculated after adjusting 70% provision on GNPA & 50% on restructured assets.

Source: Company, Dimensional Securities



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