



## Jammu & Kashmir Bank Ltd.

### Q3 FY16 Quarterly Update

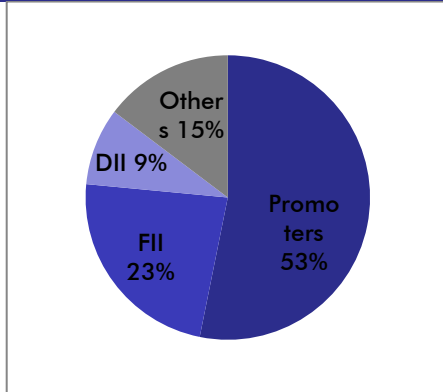
#### MARKET DATA

NSE TICKER	J&K Bank
Networth (FY16E Rs.crs)	6,580
P/BV Ratio (FY16E) (x)	0.6
EPS (FY16E)( ₹)	12
Market Price (₹)	68
P/E Ratio (FY16E) (x)	5.5
52 Week High (4/3/2015)	119
52 Week Low (24/2/2016)	64
Market Capitalisation (Rs.crs)	3,090

#### AVERAGE MONTHLY VOLUME ('000)

BSE	76.02
NSE	271.17

#### SHARE HOLDING PATTERN



RETURN	3M	6M	12M
J&K Bank	-23%	-35%	-37%
Sensex	-8%	-15%	-20%

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In Q3FY16, J&K Bank PAT de-grew by 40% q-o-q (up 13% y-o-y) to Rs. 118crs due to high provisions (89% q-o-q & 9% y-o-y) and low other income (19% q-o-q & 3% y-o-y). There was moderation in loan book growth at 2% q-o-q (5% y-o-y), while NIMs fell by 17bps q-o-q (15bps y-o-y) as asset quality deteriorated.

#### Loan book grew y-o-y; expects better growth going forward

J&K bank as a whole registered 5% y-o-y growth in advances whereas growth in advances outside J&K remained flat at 0.2% and within J&K stood at 15% y-o-y. Personal loan book as a % of total loan book increased from 17% to 19% y-o-y where as corporate loan book as a % of total loan book decreased from 52% to 50% y-o-y. Management has guided an ambitious growth of 25% within J&K & 15% outside J&K for FY17E. We expect 15% and 10% growth within J&K & outside J&K for FY17E.

#### NIMs declined q-o-q due to fall in yield on advances & investments

NIMs declined by 17bps sequentially to 3.85% as yields on advances & investments declined by 38bps & 23bps q-o-q to 10.9% & 7.63% respectively while cost of funds declined by 3bps to 6.38%. Management guided that lending outside J&K will be at ~70bps above the current base rate of 9.4% and preference would be given to bhara ratna companies & large corporates. Management has guided that NIMs would remain in the range of 3.8% - 4.0% going ahead. Cost to Income ratio increased by 295bps to 49.64% largely due to contractual recruitments on bank payroll.

#### Improving PCR ratio despite higher slippages

GNPA% increased by 35bps q-o-q to 6.8% as slippages increased from Rs. 202crs to 331crs q-o-q. However, PCR which was 61.9% in Q2 FY16 improved to 66.2% (51% for Q2 FY15) due to higher credit cost which jumped to 2% resulting in a decline in NNPA% by 18bps to 2.6%. Stressed assets as a % of advance stood at 7.96% as against 8.22% q-o-q.

#### Valuation

While the credit growth for the current year has been anaemic, we expect credit growth to pick up in FY17E driven by improving Indian GDP. We expect loan book to grow at 11% CAGR (FY15-18E). Backed by operating performance, we expect RoA and RoE to be 1% and 11% by FY17E respectively. At CMP, J&K Bank is trading at P/B multiple of 0.6x its FY16E BV of Rs. 107 and 0.6x its FY17E BV of ₹113. We maintain BUY rating with a target price Rs. 102 (0.9x FY17E Adj.BV of Rs.114 after adjusting for 70% provisioning on GNPA and 50% on restructured assets & strategic debt restructuring (SDR)).

#### Quarterly Performance:

Particulars ₹ Cr	Q3 FY16	Q3 FY15	y-o-y	Q2 FY16	q-o-q	FY15	FY14	y-o-y
Interest Income	1,703	1,750	-3%	1,721	-1%	7,061	6,767	4%
Interest Expenses	1,030	1,111	-7%	1,027	0%	4,410	4,083	8%
Net Interest Income	674	639	5%	694	-3%	2,651	2,685	-1%
Other Income	103	100	3%	127	-19%	594	390	52%
Total Income	776	739	5%	821	-5%	3,245	3,075	6%
Operating Expenses	385	358	8%	383	1%	1,409	1,175	20%
PPOP*	391	381	3%	438	-11%	1,836	1,900	-3%
Total Provisions	240	220	9%	127	89%	1,016	148	587%
PBT	151	160	-5%	311	-51%	820	1,752	-53%
Taxes	34	56	-39%	116	-71%	312	569	-45%
PAT	118	105	13%	196	-40%	509	1,183	-57%
EPS	2.4	2.2	13%	4.0	-40%	10.5	24.4	-57%

\*PPOP - Pre-Provisioning Operating profits

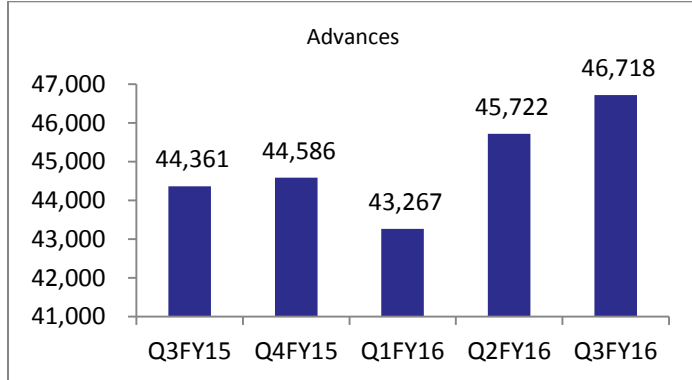


### Conference Call Highlights Q3 FY16

- Bank has guided 25% growth in loan book within J&K & 15% growth in loan book outside J&K. Overall growth would be ~18-19%.
- Loan book growth outside J&K to come from government institutions like NTPC, FCI, PFC etc.
- For lending outside J&K, yields have dropped as bank has been resorting to lending to govt. institutions just over base rate.
- Opex growth has been high as bank has undertaken contractual employees on bank's payroll.
- RBI under (Asset Quality Review) AQR has identified 3 accounts of Rs. 265crs. One account is done; second account remains under watch list which is of Rs. 40crs (manufacturing) where bank will take a call in Q4 FY16, and for the third account bank has convinced RBI to keep as standard (energy/power).
- RBI has asked the bank to provide Rs. 56crs provision on certain accounts. Currently, the bank holds Rs. 198crs as floating provisions and will continue to build more going ahead.
- Bank has about Rs. 1000crs as SMA-2 a/c which is 2-3% of total loans.
- No 5:25 scheme during the quarter. However, bank has a 5:25 scheme exposure of Rs. 1025crs. from iron, steel & infra. Under SDR, bank has outstanding assets of Rs. 767crs with 3 accounts.
- Stressed assets like Essar, Bhushan are still standard in the bank's book; these companies are already under huge stress and can potentially turn bad.
- ARC Sale – Nothing during last 2-3 years.

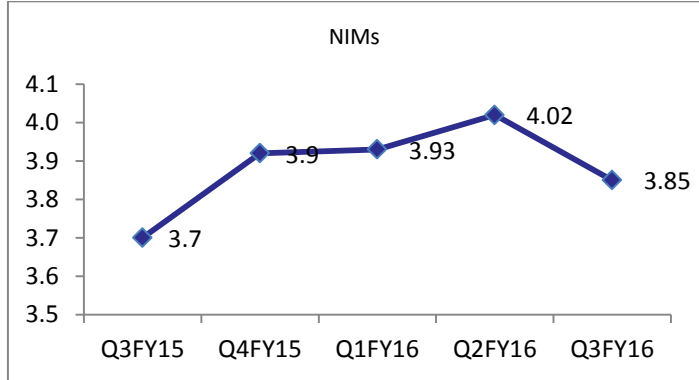
### Graphs for important parameters

#### Steady improvement in loan book growth



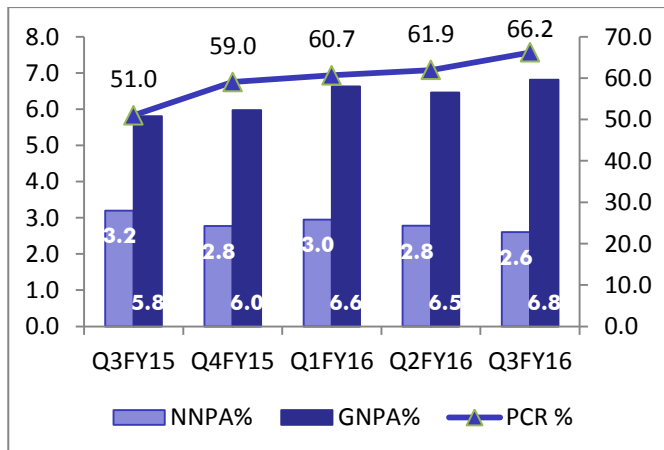
Source: Company, Dimensional Securities

#### NIMs declining due to pressure on yields



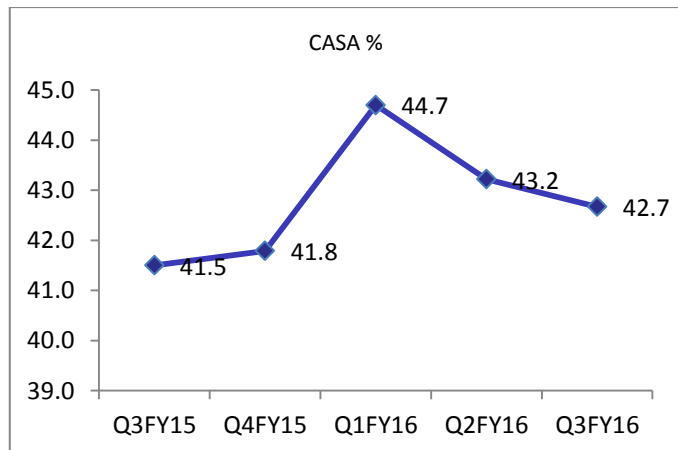
Source: Company, Dimensional Securities

#### Improving PCR Ratio



Source: Company, Dimensional Securities

#### Steady CASA ratio



Source: Company, Dimensional Securities



**QUARTERLY PERFORMANCE:**

Particulars ₹ Cr	Dec-15	Dec-14	y-o-y	Sep-15	q-o-q	FY15	FY14	y-o-y
Interest Income	1,703	1,750	-3%	1,721	-1%	7,061	6,767	4%
Interest Expenses	1,030	1,111	-7%	1,027	0%	4,410	4,083	8%
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PAT	118	105	13%	196	-40%	509	1,183	-57%
EPS	2.4	2.2	13%	4.0	-40%	10.5	24.4	-57%
<b>Asset Quality</b>								
GNPA Rs. Cr	3,339	2,658	26%	3,082	8%	2,764	783	253%
NNPA Rs. Cr	1,215	1,428	-15%	1,270	-4%	1,236	102	1112%
GNPA %	6.8	5.8	101	6.5	35	6.0	1.7	427
NNPA %	2.6	3.2	-60	2.8	-18	2.8	0.2	257
PCR % Calculated	63.6	46.3	1735	58.8	482	55.3	87.0	-3171
PCR % Reported	66.2	51.0	1518	61.9	426	59.0	90.3	-3128
Slippages	331	576	-43%	202	64%	2,526	411	515%
Slippage Ratio %	2.84	5.20	-236	1.77	107	5.67	0.89	478
Restructured assets	2,505	1,804	39%	2,486	1%	2,467	1,576	57%
Restructured assets % of advances	5.36	4.07	129	5.44	-8	5.53	3.40	214
Fresh Restructuring	-	503	-100%	-	-	1,352	664	104%
Credit Cost %	2.05	1.99	6	1.11	94	2.28	0.32	196
Stressed Assets % of Advances	7.96	7.27	69	8.22	-26	8.30	3.60	471
<b>Ratios %</b>								
Fees to Advances	0.49	0.47	1	0.51	-2	0.46	0.43	3
Cost to Income ratio	49.64	48.48	116	46.68	295	43.42	38.21	521
Tax Rate	22.24	34.67	-1242	37.13	-1488	38.00	32.50	550
Loan/Deposit	72.58	69.42	317	73.22	-64	67.80	66.90	91
CASA %	42.67	41.5	117	43.22	-55	41.79	39.1	269
CAR (Basel III) %	12.49	12.78	-29	12.76	-27	12.57	12.69	-12
Tier I %	11.15	11.37	-22	11.38	-23	11.26	11.22	4
Tier II %	1.34	1.41	-7	1.38	-4	1.31	1.47	-16
Opex to Loan book	3.30	3.23	7	3.35	-5	3.16	2.53	63
Yield on Advances *	10.9	11.3	-38	11.29	-38	11.52	12.23	-71
Cost of Deposits *	6.4	6.7	-33	6.41	-3	6.72	6.7	2
Quarterly NIMs *	3.9	3.7	15	4.0	-17	3.81	4.2	-39
BV-Calculated	136	126	7%	133	2%	126	118	7%
Adj. Net worth (adj. for NNPA)	5,367	4,702	14%	5,195	3%	4,874	5,622	-13%
Adj. BVPS (adj. for NNPA)	111	97	14%	107	3%	100	116	-13%

Source: Company, Dimensional Securities



**RoA Tree Analysis:**

Particulars	Dec-15	Sep-15	Jun-15	Mar-15	Dec-14	FY15	FY14
Interest Income	9.2%	9.4%	9.6%	9.0%	9.6%	9.1%	9.0%
Interest Expenses	5.5%	5.6%	5.8%	5.5%	6.1%	5.7%	5.4%
Net Interest Income	3.6%	3.8%	3.8%	3.5%	3.5%	3.4%	3.6%
Other Income	0.6%	0.7%	0.7%	1.4%	0.5%	0.8%	0.5%
Total Income	4.2%	4.5%	4.6%	5.0%	4.1%	4.2%	4.0%
Operating Expenses	2.1%	2.1%	2.0%	2.0%	2.0%	1.8%	1.6%
Employee	1.4%	1.4%	1.4%	1.2%	1.3%	1.2%	1.0%
Others	0.7%	0.7%	0.7%	0.8%	0.7%	0.7%	0.6%
Operating Profits before provisions	2.1%	2.4%	2.5%	3.0%	2.1%	2.4%	2.5%
Total Provisions	1.3%	0.7%	1.2%	2.0%	1.2%	1.3%	0.2%
PBT	0.8%	1.7%	1.3%	1.0%	0.9%	1.0%	2.3%
Taxes	0.2%	0.6%	0.5%	0.5%	0.3%	0.40%	0.8%
PAT (RoA)	0.6%	1.1%	0.9%	0.5%	0.6%	0.7%	1.6%
Average Assets/ Average Equity	11.71	11.67	12.01	13.07	12.22	13.07	14.20
RoE	7.4%	12.5%	10.5%	6.9%	7.0%	8.6%	22.3%

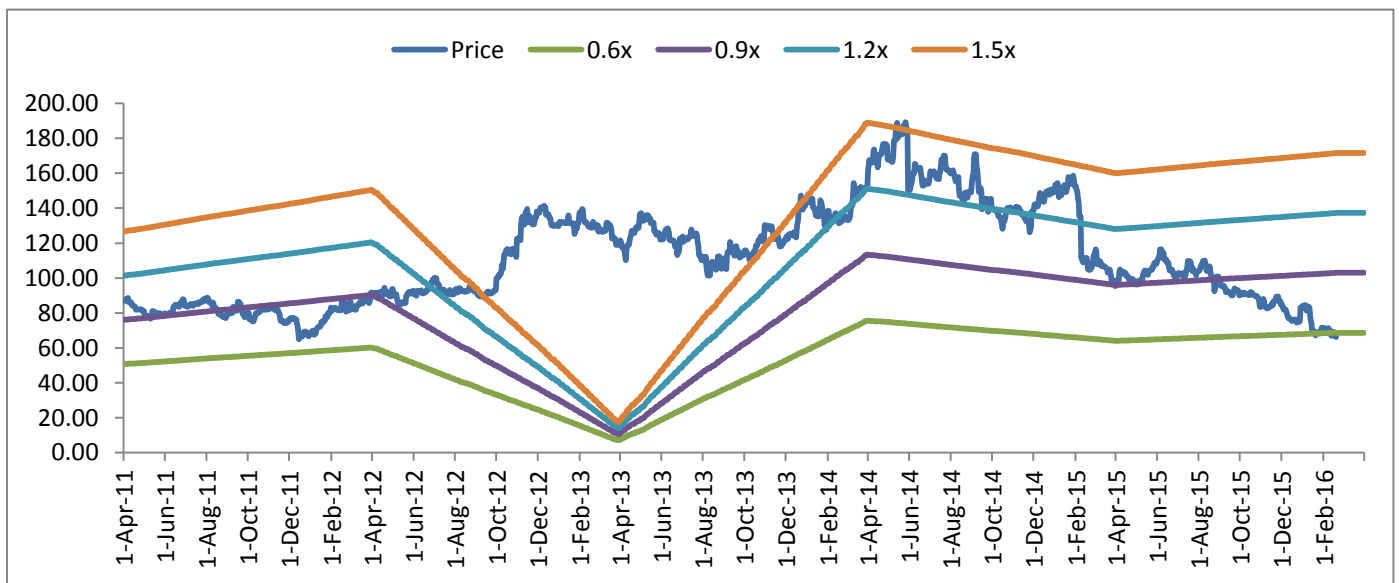
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**OUTLOOK & VALUATION: -**

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At CMP, J&K Bank is trading at P/B multiple of 0.6x its FY16E BV of ₹107 and 0.6x its FY17E BV of Rs.113. We maintain BUY rating with a target price Rs. 102 (0.9x FY17E Adj.BV of Rs.114 after adjusting for 70% provisioning on GNPA and 50% on restructured assets & strategic debt restructuring (SDR)).

**P/BV (Forward)**



Source: Company, Dimensional Securities

**STANDALONE PROFIT & LOSS STATEMENT:**

Particulars, Rs. Cr	FY14	FY15	FY16E	FY17E	FY18E
Interest Earned	6,767	7,061	6,819	7,111	7,872
Interest expended	4,083	4,410	4,131	4,255	4,754
Net Interest Income	2,685	2,651	2,688	2,856	3,118
Other Income	390	594	487	560	644
NII+ Other Inc.	3,075	3,245	3,175	3,416	3,763
Employees Cost	744	894	964	962	1,019
Op, Admin & Other exp	431	515	497	541	599
Profit Before Provision & Cont	1,900	1,836	1,715	1,913	2,145
Provisions & Contingencies	148	1,016	827	820	822
PBT	1,752	820	888	1,093	1,323
Provision for Tax	569	312	307	378	458
PAT	1,183	509	580	715	865

Source: Company, Dimensional Securities

**STANDALONE BALANCE SHEET:**

Particulars, Rs. Cr	FY14	FY15	FY16E	FY17E	FY18E
<b>SOURCES OF FUNDS :</b>					
Capital	49	49	49	49	49
Reserves Total	5,675	6,062	6,523	7,067	7,705
Deposits	69,336	65,756	64,770	72,542	83,424
Borrowings	1,765	2,340	1,890	2,117	2,435
Other Liabilities & Provisions	1,795	1,880	1,673	1,908	2,253
<b>TOTAL LIABILITIES</b>	<b>78,620</b>	<b>76,085</b>	<b>74,904</b>	<b>83,683</b>	<b>95,865</b>
<b>APPLICATION OF FUNDS :</b>					
Cash & Balances with RBI	3,046	2,373	2,591	3,192	3,671
Balances with Banks & money at Call	1,168	1,361	338	805	2,090
Investments	26,195	25,124	20,099	22,109	24,320
Advances	46,385	44,586	47,261	52,932	60,872
Fixed Assets	534	689	738	813	884
Other Assets	1,292	1,953	3,877	3,831	4,028
<b>TOTAL ASSETS</b>	<b>78,620</b>	<b>76,086</b>	<b>74,904</b>	<b>83,683</b>	<b>95,865</b>

Source: Company, Dimensional Securities

**RATIO & ANALYSIS:**

Particulars	FY14	FY15	FY16E	FY17E	FY18E
<b>Spread Analysis</b>					
Yield on Advances	11.5%	11.0%	10.7%	10.5%	10.4%
Cost of Funds	5.8%	6.2%	6.0%	5.9%	5.8%
Net Interest Margin	3.7%	3.6%	3.8%	3.9%	3.7%
<b>Profitability Ratio</b>					
RoE %	22.3%	8.6%	9.2%	10.4%	11.6%
RoA %	1.6%	0.7%	0.8%	0.9%	1.0%
Interest Expense/Interest Income	60.3%	62.5%	60.6%	59.8%	60.4%
Non-Interest Income/Total Income	12.7%	18.3%	15.3%	16.4%	17.1%
<b>Efficiency Ratio</b>					
Cost/Income	38.2%	43.4%	46.0%	44.0%	43.0%
Employee Cost/Operating Expenses	63.3%	63.4%	66.0%	64.0%	63.0%
<b>Asset Liability Ratio</b>					
Credit/Deposit	66.9%	67.8%	73.0%	73.0%	73.0%
CASA/Deposit	39.1%	41.8%	42.8%	42.5%	43.0%
Investment/Deposits	37.8%	38.2%	31.0%	30.5%	29.2%
<b>Asset Quality</b>					
GNPA (%)	1.69%	6.03%	7.50%	8.00%	7.60%
NNPA (%)	0.22%	2.77%	2.98%	3.09%	2.71%
<b>Valuation Ratio</b>					
Book Value (Adjusted), Rs.	116	101	107	113	126
EPS, Rs.	24.4	10.5	12.0	14.7	17.8
Dividend, Rs.	5.0	2.1	2.1	3.0	4.0
P/BV, x	1.3	0.7	0.6	0.6	0.5
P/E, x	6.3	6.3	5.5	4.5	3.7

\*Book Value- Adjusted for NNPA

Source: Company, Dimensional Securities



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