



Jammu & Kashmir Bank Ltd. Q4 FY16 Quarterly Update

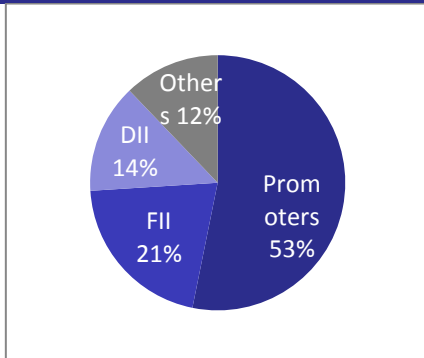
MARKET DATA

NSE TICKER	J&K Bank
Networth (FY17E Rs.crs)	6,825
P/BV Ratio (FY17E) (x)	0.4
EPS (FY17E) (₹)	12
Market Price (₹)	57
P/E Ratio (FY17E) (x)	4.9
52 Week High (5/6/2015)	118
52 Week Low (24/2/2016)	57
Market Capitalisation (Rs.crs)	2,746

AVERAGE MONTHLY VOLUME ('000)

BSE	160.25
NSE	1,312.82

SHARE HOLDING PATTERN



RETURN	3M	6M	12M
J&K Bank	-12%	-32%	-49%
Sensex	9%	4%	0%

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In Q4FY16, J&K Bank reported a loss of Rs. 56crs largely due to high provisions (66% q-o-q & 4% y-o-y). Loan book showed a growth of 7% q-o-q (13% y-o-y), while NIMs fell by 25bps q-o-q (32bps 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 13% y-o-y growth in advances. This is largely due to higher growth outside J&K which stood at 14% y-o-y compared to 0.2% y-o-y in the previous quarter. Growth within J&K stood at 12% y-o-y. Management has guided an ambitious growth target of ~22% within J&K & ~15% outside J&K for FY17E. However, we expect 15% and 10% growth within J&K & outside J&K for FY17E.

NIMs contracted due to decline in spreads

NIMs contracted by 25bps to 3.60% as spreads declined by 59bps sequentially as advances grew mainly from outside J&K where yields are lower. Management has guided that NIMs would remain in the range of 3.7% - 3.8% going ahead. Other income de-grew by 50% y-o-y led by 76.5% decline in miscellaneous income to Rs. 39crs and 5% y-o-y de-growth in fee income to Rs. 46crs. Cost to Income ratio increased by 192bps q-o-q to 51.46% largely due to higher employee cost. We have factored in steady NIMs and credit growth of ~13% CAGR which has resulted in NII growth of 8% CAGR to Rs. 3161crs in FY18E. However, pressure on margins cannot be ruled out due to higher slippages in the near term.

Asset quality remains under pressure

Slippages surged to 11.8% vs. run rate of 3.4% over last 6 quarters. As a result, GNPA & NNPA increased by 151bps & 171bps sequentially to 8.3% & 4.3% respectively. Bank has made floating provision of Rs. 150crs taking the outstanding balance to Rs. 348crs. However, PCR dropped by 10% to 56.2%. Stressed assets as a % of advance stood at 10.8% as against 7.96% q-o-q. 5:25/SDR stood at Rs. 1,100crs & Rs. 767crs respectively. Management has guided a watchlist of ~Rs. 1000crs mainly comprising exposure to steel, infra & textile sector and an elevated credit cost for FY17E.

Valuation

J&K bank's dominant position in J&K remains intact. However elevated credit cost and pressure on margins as bank lends to highly rated corporates outside J&K will keep earnings growth under pressure. We have lowered our PAT estimates by ~20% in FY17E.

We maintain BUY rating with a target price Rs. 68 (0.8x FY17E Adj.BV of Rs. 85 after adjusting for 70% provisioning on GNPA and 50% on restructured assets & strategic debt restructuring (SDR)).

Quarterly Performance:

Particulars ₹ Cr	Q4 FY16	Q4 FY15	y-o-y	Q3 FY16	q-o-q	FY16	FY15	y-o-y
Interest Income	1,666	1,745	-5%	1,703	-2%	6,844	7,061	-3%
Interest Expenses	1,019	1,062	-4%	1,030	-1%	4,133	4,410	-6%
Net Interest Income	647	683	-5%	674	-4%	2,710	2,651	2%
Other Income	139	279	-50%	103	35%	504	594	-15%
Total Income	786	961	-18%	776	1%	3,214	3,245	-1%
Operating Expenses	405	386	5%	385	5%	1,546	1,409	10%
PPOP*	381	576	-34%	391	-3%	1,668	1,836	-9%
Total Provisions	397	381	4%	240	66%	976	1,016	-4%
PBT	(16)	195	-108%	151	-111%	692	820	-16%
Taxes	40	93	-57%	34	18%	276	312	-12%
PAT	(56)	102	-155%	118	-148%	416	509	-18%
EPS	(1.2)	2.1	-155%	2.4	-148%	8.6	10.5	-18%

*PPOP - Pre-Provisioning Operating profits



QUARTERLY PERFORMANCE:

Particulars ₹ Cr	Mar-16	Mar-15	y-o-y	Dec-15	q-o-q	FY16	FY15	y-o-y
Interest Income	1,666	1,745	-5%	1,703	-2%	6,844	7,061	-3%
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Total Income	786	961	-18%	776	1%	3,214	3,245	-1%
Operating Expenses	405	386	5%	385	5%	1,546	1,409	10%
Employee	259	229	13%	254	2%	1,020	894	14%
Others	147	157	-6%	132	11%	527	515	2%
Operating Profits before provisions	381	576	-34%	391	-3%	1,668	1,836	-9%
Total Provisions	397	381	4%	240	66%	976	1,016	-4%
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Asset Quality								
GNPA Rs. Cr	4,369	2,764	58%	3,339	31%	4,369	2,764	58%
NNPA Rs. Cr	2,164	1,236	75%	1,215	78%	2,164	1,236	75%
GNPA %	8.3	6.0	235	6.8	151	8.3	6.0	235
NNPA %	4.3	2.8	154	2.6	171	4.3	2.8	154
PCR % Reported	56.2	59.0	-287	66.2	-1003	56.2	59.0	-287
Slippages	1,480	411	260%	331	347%	2,383	2,526	-6%
Slippage Ratio % (annualised)	11.79	3.69	810	2.84	896	4.75	5.67	-92
Restructured assets	3,235	2,467	31%	2,505	29%	3,235	2,467	31%
Restructured assets % of advances	6.45	5.53	91	5.36	108	6.45	5.53	91
Credit Cost %	3.16	3.42	-25	2.05	111	1.94	2.28	-33
Stressed Assets % of Advances	10.76	8.30	245	7.96	279	10.76	8.30	245
Ratios %								
Fees to Advances (annualised)	0.47	0.54	-7	0.49	-1	0.45	0.51	-6
Cost to Income ratio	51.56	40.12	1144	49.64	192	48.11	43.42	468
Tax Rate	-245.38	47.82	NA	22.24	NA	39.85	38.00	185
Loan/Deposit	72.33	67.80	453	72.58	-25	72.33	67.80	453
CASA %	44.13	41.79	234	42.67	146	44.13	41.79	234
RoA %	-0.3	0.56	-86	0.65	-95	0.57	0.7	-13
RoE %	-3.45	6.64	-1009	7.22	-1067	6.65	8.6	-195
CAR (Basel III) %	11.81	12.57	-76	12.49	-68	11.81	12.57	-76
Tier I %	10.6	11.26	-66	11.15	-55	10.6	11.26	-66
Tier II %	10.1	11.4	-132	10.91	-82	10.9	11.52	-62
Opex to Loan book	6.2	6.5	-35	6.38	-23	6.34	6.72	-38
Margins %								
Yield on Advances *	10.1	11.4	-132	10.91	-82	10.9	11.52	-62
Cost of Deposits *	6.2	6.5	-35	6.38	-23	6.34	6.72	-38
Quarterly NIMs *	3.6	3.9	-32	3.9	-25	3.85	3.8	4
Balance Sheet								
BV-Calculated	132	126	5%	136	-2%	132	126	5%
Adjusted Net worth	4,260	4,874	-13%	5,367	-21%	4,260	4,874	-13%
Adj. BV	88	100	-13%	111	-21%	88	100	-13%
Capital	49	49	0%	48	0%	49	49	0%
Net Worth	6,424	6,110	5%	6,582	-2%	6,424	6,110	5%
FV	1	1	NA	1	NA	1	1	NA
Deposits	69,390	65,756	6%	64,364	8%	69,390	65,756	6%
Investments	20,354	25,124	-19%	20,306	0%	20,354	25,124	-19%
Loans	50,193	44,586	13%	46,718	7%	50,193	44,586	13%

Source: Company, Dimensional Securities



RoA Tree Analysis:

Particulars	Mar-16	Dec-15	Sep-15	Jun-15	Mar-15	FY15	FY16
Interest Income	8.5%	9.2%	9.4%	9.6%	9.0%	9.1%	8.8%
Interest Expenses	5.2%	5.5%	5.6%	5.8%	5.5%	5.7%	5.3%
Net Interest Income	3.3%	3.6%	3.8%	3.8%	3.5%	3.4%	3.5%
Other Income	0.7%	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	1.3%	1.4%	1.4%	1.4%	1.2%	1.2%	1.3%
Others	0.8%	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	2.0%	1.3%	0.7%	1.2%	2.0%	1.3%	1.2%
PBT	-0.1%	0.8%	1.7%	1.3%	1.0%	1.0%	0.9%
Taxes	0.2%	0.2%	0.6%	0.5%	0.5%	0.40%	0.4%
PAT (RoA)	-0.3%	0.6%	1.1%	0.9%	0.5%	0.7%	0.5%
Average Assets/ Average Equity	12.47	11.71	11.67	12.01	13.07	13.07	12.47
RoE	-3.6%	7.4%	12.5%	10.5%	6.9%	8.6%	6.6%

Source: Company, Dimensional Securities

OUTLOOK & VALUATION: -

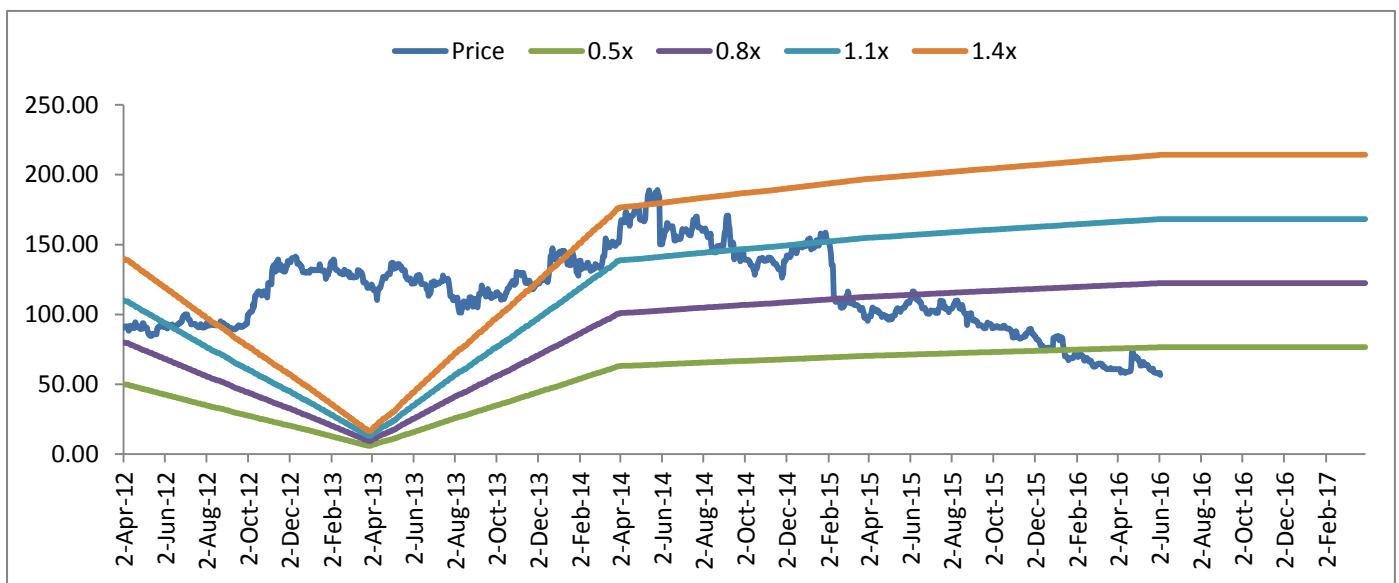
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REVISED ESTIMATES

Particulars (Rs. in crs.)	FY17E			FY18E		
	Revised	Old	%Change	Revised	Old	%Change
NII	2,816	2,856	-1.4%	3,161	3,118	1.4%
PAT	571	715	-20.1%	822	865	-5%

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	7,232	8,080
Interest expended	4,083	4,410	4,133	4,416	4,919
Net Interest Income	2,685	2,651	2,711	2,816	3,161
Other Income	390	594	504	580	638
NII+ Other Inc.	3,075	3,245	3,215	3,395	3,799
Employees Cost	744	894	1,020	1,135	1,264
Op, Admin & Other exp	431	515	527	515	503
Profit Before Provision & Cont	1,900	1,836	1,668	1,745	2,032
Provisions & Contingencies	148	1,016	976	871	776
PBT	1,752	820	692	874	1,256
Provision for Tax	569	312	276	302	435
PAT	1,183	509	416	571	822

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	5,675	6,062	6,375	6,776	7,371
Deposits	69,336	65,756	69,390	77,717	89,375
Borrowings	1,765	2,340	2,240	2,530	2,909
Other Liabilities & Provisions	1,795	1,880	2,214	2,310	2,509
TOTAL LIABILITIES	78,620	76,085	80,268	89,382	102,212
APPLICATION OF FUNDS :					
Cash & Balances with RBI	3,046	2,373	3,127	3,109	3,575
Balances with Banks & money at Call	1,168	1,361	76	344	748
Investments	26,195	25,124	20,354	22,186	24,183
Advances	46,385	44,586	50,193	56,216	64,649
Fixed Assets	534	689	764	828	906
Other Assets	1,292	1,953	5,754	6,699	8,152
TOTAL ASSETS	78,620	76,086	80,268	89,382	102,212

Source: Company, Dimensional Securities

**RATIO & ANALYSIS:**

Particulars	FY14	FY15	FY16	FY17E	FY18E
Spread Analysis					
Yield on Advances	11.5%	11.0%	10.1%	10.2%	10.1%
Cost of Funds	5.8%	6.2%	5.7%	5.6%	5.5%
Net Interest Margin	3.7%	3.6%	3.8%	3.7%	3.7%
Profitability Ratio					
RoE %	22.3%	8.6%	6.6%	8.6%	11.5%
RoA %	1.6%	0.7%	0.5%	0.7%	0.9%
Interest Expense/Interest Income	60.3%	62.5%	60.4%	61.1%	60.9%
Non-Interest Income/Total Income	12.7%	18.3%	15.7%	17.1%	16.8%
Efficiency Ratio					
Cost/Income	38.2%	43.4%	48.1%	48.6%	46.5%
Employee Cost/Operating Expenses	63.3%	63.4%	65.9%	68.8%	71.5%
Asset Liability Ratio					
Credit/Deposit	66.9%	67.8%	72.3%	72.3%	72.3%
CASA/Deposit	39.1%	41.8%	44.1%	44.0%	44.3%
Investment/Deposits	37.8%	38.2%	29.3%	28.5%	27.1%
Asset Quality					
GNPA (%)	1.69%	6.03%	8.34%	8.80%	8.00%
NNPA (%)	0.22%	2.77%	4.31%	4.66%	3.99%
Valuation Ratio					
Book Value, Rs.	118	126	132	141	153
EPS, Rs.	24.4	10.5	8.6	11.8	16.9
Dividend, Rs.	5.0	2.1	2.1	3.0	4.0
P/BV, x	1.3	0.5	0.5	0.4	0.4
P/E, x	6.3	6.3	7.1	4.9	3.4

*Book Value- Adjusted for NNPA

Source: Company, Dimensional Securities



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