



"Jammu and Kashmir Bank Limited"

November 2, 2011



MODERATORS: MR. HATIM BROACHWALA
MR. MUSHTAQ AHMAD
MR. PARVEZ AHMED

Moderator: Ladies and gentlemen good day and welcome to the J&K Bank Q2 and FY'12 earnings conference call hosted by Fortune Equity Broker India Limited. As a reminder for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Hatim Broachwala. Thank you and over to you Sir.

Hatim Broachwala: Good morning everyone. On behalf of Fortune Equity, I welcome the management and all participants for the Q2 FY'12 earnings call of J&K Bank. Initially management will highlight the performance of the quarter and then we they can take questions. Over to you Sir.

Mushtaq Ahmad: Thank you. I am Mushtaq, Chairman and Chief Executive Officer of the Jammu and Kashmir Bank. Welcome all of you and first of all I would like to take you through the highlights for the half-year ended September 2011. We have adopted our financial results a couple of days back and as for the adopted results, I would like to inform that the overall business of the bank has now touched Rs.76000 Crores. The deposits last year stood Rs.39600 Crores which has increased to Rs.47000 Crores and the advances of the bank has grown by 22%, last year it was Rs.23000 Crores and this year we have recorded a figure of Rs.28000 Crores. I need to mention here last year in this Rs.23000 Crores we had the **(indiscernible) 2.02** which was over Rs.2000 in fact in realistic terms, our advances portfolio has increased from Rs.21000 Crores to Rs.28000 Crores which is over 35% and under the sales value it is very much heartening and an encouraging figure.

Now we will come to the net profit. Ladies and gentlemen, all of you are aware that the situation and the banking scenario that we are passing through but despite all the odds, the difficulties and I should say the turbulence that we have faced during last one to three years the figures at J&K Bank has to offer and present before you is, first that the net profit of the bank has increased by 24% for the last year, first half year, we had a net profit of Rs.309 Crores, which has increased to Rs.382 Crores. As everybody are aware, the provision of net interest margin, last year the net results margin was almost 3.69% and this year slightly we have come down to 3.65% mainly for two reasons. One that we had to hike the interest rate on the savings bank and number two is that we increased our distributed portfolio but the disbursements were made in the second fortnight of September. Therefore we cannot have much of impact visible in this balance sheet and the yield on advances of the bank has increased from last year 10.91% to 11.44% and we have reprised to an extent our credit

portfolio also and also we are increasing our base rate and we expect that the NIM is going to improve further.

Business for employee, business per growth has also increased. This cost to income ratio last year was 36.82%, it has gone up to 37.69% because we had some previous obligation number one and then there was increase in the establishment expenses. On account of these two major things it has increased. The capital adequacy of the bank stands at 13.61% on Basal II for September 2011. We are quite comfortable on that account. I must also just like to inform you that to improve our main business and the CASA deposits, we are increasing and expanding the network of the branch in J&K state and we have the plans, we are acquiring hiring the premises of our branch and we will be adding another 100 branches to our existing network during the current year. That up to March 2012 and I think this should also provide us better yield on advances because we will be expanding our sales business and number 2, expenses of business, expenses of network in J&K state would be only retail business in CASA deposits and from point of view also we hope that we will add better (indiscernible) 5.55 to our CASA base, and also increase our retail business which would protect our margins and also increase it.

So, these are the major things that I would like to share with you. So I think we can just go to the question and answer.

Moderator: Thank you very much Sir. We will now begin the question and answer session. We have the first question from the line of Suruchi Chaudhary from Edelweiss. Please go ahead.

Kunal: Yes sir, this is Kunal over here. Sir, just want to get more clarity on the loan book growth which is like 35% excluding net earnings, whether it is particularly within which sector it is coming from and secondly, how has been the growth in the non J&K region and whether it is mainly as a part of consortium or it is direct lending which is being done in the other parts of the cities or country apart from J&K?

Mushtaq Ahmad: No, I would say that as far as loan growth is concerned, it is across the bank. Previously we had 50-50 bases between J&K but once this increment was made on account of government, it is overdraft. So naturally this has shifted to outside J&K but our priority remains that we should lead 100% to this requirement of J&K state, for two reasons, number one is that margin yield and also that we capture our territory. Separately I should say as far as J&K is concerned on commercial basis we have grown by minimum 20% and we have deployed and continued to have surplus funds also and then again it was received from the J&K government in the last year. So this surplus fund we have deployed outside J&K state and it is not just restricted to one particular sector we have gone for real estate,

for wealth of development. We have also gone for other corporate houses and we have got better relationship with the major consortium and also government of India undertaking. I am afraid that this vision gains like I say within J&K it is now 39% and outside J&K it is 61%.

Kunal: This is in terms of, 39% and 51%?

Mushtaq Ahmad: 39% is J&K state and 51% outside J&K state.

Suruchi Chaudhary: Okay, are they outstanding?

Mushtaq Ahmad: Yes.

Kunal: Okay and sir just want to understand in terms of margins as well at 3.7%, definitely we should look at a positive trend here on considering that say the loan growth was also secured towards the last fortnight. So we have not seen that kind of a CD the entire benefit on the yields as well?

Mushtaq Ahmad: Well, I am very much confident on one ground that since we made the disbursements of loan in the second fortnight of September 2011, therefore the impact on the interest is not visible that should emerge and become visible hardly in the second quarter but that should up our entire income and also margin, but at the same time, I think the recent development whereby the Reserve Bank of India has totally deregulated the savings bank and this entire interest regime. So I think that is going to push up the interest rate and that is going to exert some pressure on the net interest margin, but still I think we have not so far increased but I think we have to fall in line with the market and we have also to increase the rate on seventh mix, very shortly I think within a couple of days only. So, from that angle I think, yes, we will have to take that haul of pressure on our net interest margin as well.

Kunal: Sir, but apart from that because of the switch between the J&K and non-J&K portfolio, do we see any pressure on margin because of that?

Mushtaq Ahmad: What I say is since you have got a lot of major savings bank and CASA deposit come from our J&K state and whatever CASA deposits we have got 75% to 80% it comes from savings bank. So we are going to raise interest rate on the savings bank. So that will really have an impact on the net interest margin as well.

Kunal: Sir, one last question on asset quality, definitely we have been doing much better as compared to the previous year. So what is the outlook over that, do you see like slippages and even gross and P&L sustaining below 2% levels, what is the outlook on that?

Mushtaq Ahmad: Our gross NPA 500 as compared to last year and this quarter we do not have a major slip, we would not accept any major slips in the next half year as well. We are not accepting. As a bank we do not accept any surprises and any slippages along that, but positively we will be looking at, at least we will be recovering minimum 60 to 70 Crores from our NPAs and I am confident that we will solve the gross NPA from 542 this figure to less than 500 Crores in the growth of throughout the year and that will push up my coverage ratio, which is 92% as of now.

Kunal: Thanks a lot.

Moderator: Thank you. The next question is from the line of Alok Kapadia from Antique Finance. Please go ahead.

Alok Kapadia: Good set of numbers. I just had two questions one is on the margin any kind of guidance because earlier last quarter we were talking about profits in margin so now are we looking at 3.5%?

Mushtaq Ahmad: No, last time I have made a commitment that time our margin was over 3.7% and this time is slightly it is less than 3.7% mainly because we had to have this impacts of rise of interest based on savings bank and also across this liability but one major thing this recent development while the Reserve Bank of India had deregulated savings bank we have to raise our savings bank interest rates by minimum 1% and not even in two cases 1.5 lakhs and like that. So that will have an impact on our net interest margin but I am committed that the debt will come down from 3.5% level. Presently how we are going to protect our margins we sanctioned lot of loan but unfortunately the disbursement portfolio in the second fortnight of the customer. So as a result we could not have any positive yield on our advances. So current quarter we are expecting the division our interest income and that will take care of this interest pressure to the extent of 80% to 90%.

Alok Kapadia: The second question on the loan growth. Any kind of guidance on what you think our proportion of loan mix would be between J&K and non-J&K over the next 12 months Sir, because are we looking at increasing a proportion to J&K given that state is during very, very well in terms of anything they have returned to normalcy?

Mushtaq Ahmad: Previously if you last year or previous that the proportion of the loan book between J&K and outside J&K was 50-50 basis but due to repayment of state government overdraft it has came down to 41% to 59% but now it is now 59% is J&K 61% outside J&K. We would like to increase focus more in J&K state for the reason here major it has to be retail trade only and this CASA business. But it is remaining concept for us so here I think the credit absorption capacity is there but it has to be has catered to and that is going to take time till then we would like to deploy our surplus funds outside J&K state but by and by we would like that over a period of next two to three years we should have 50-50 scenario or 45-50 like that we will be moving up because we have better margins than J&K state to rest of J&K.

Alok Kapadia: I just have another question are we see increasing competition from the other private sector banks in J&K?

Mushtaq Ahmad: We have been operating in J&K state right from early 50s and they were operating in 90s. It was only in 90 when militancy started there in some of these banks shutdown their shutters and two banks State Bank of India, (indiscernible) 16.28 corporative banks they were operating normally accepting that they had shifted some of your branch to the major context for safety purposes only. Now they are going back we were facing this thing and I think the competition I would say the competition is okay that keeps everybody at queue.

Alok Kapadia: One long data point what is the restructured book this quarter?

Mushtaq Ahmad: I think total I will pass Parvez who was handling this subject, I will pass on this question to him. He will answer.

Parvez Ahmed: During this quarter half year the restructured loan book is to the tune of 188 Crores and I would like to take up this opportunity to provide a clarification in respect of our restructured loan book. Last time the previous concall I have mentioned that the restructured loan book is to the extent of 2100 Crores and the figure is today 2200 Crores but let me elaborate on this things so as to our any kind of the conclusion on this particular thing. So far the restructured loan book is concerned the major portion is on account of the CDR packing. We are in the consortium advances and if there is a problem in terms of the particular project, which is not taking up the sometime from time-to-time we have to restructure that particular account and give comfort to the borrowers. If you see the major of this particular amount 2200 Crores almost 50% to 60% is in the CDR mechanism and it is the call of leader of the consortium bank who fix the call on a particular account and we have to fall in line as a member of the consortium advance. So those accounts we have taken our review are doing well. There are no any new major problems with respect of this

particular problem but out of the 2200 restructured loan book out of each 188 during this particular half year. This is to the extent of 100 Crores and rest of the accounts are doing very well and this is well diversified both in J&K as well as outside the J&K and the J&K the most of is restructured loan book was relating to the tourism infrastructure, which we have to restructure because of the disturbances which we have seen in the last couple of years and also the restructured assets because of between getting normalized in the J&K state are going well and outside the J&K state all those accounts, which has been restructured are doing well. I would like to also mention here that in 2008-2009 and the RBI allowed the bank to do this second restructuring. We have also done the restructuring to the tune of 600 Crores at that time but there is no slippage in that particular restructured loan book, which we have restructured on account of the second restructuring.

Alok Kapadia: Thank you.

Moderator: Thank you. We have the next question from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Good morning Sir and congratulations on good set of numbers. I just wanted to get a sense on this MetLife deal I mean will the Q3 all the formalities have been done. When do we see the profit accruing to J&K Bank?

Mushtaq Ahmad: I think this MetLife has already approached the regulators for certain approvals and they are expecting very shortly those approvals and once those approvals come then I think again it J&K Bank and this MetLife also that will fructify and we accept that it should have an in the half year.

Ashish Sharma: You are not sure whether it will happen in Q3 but it will sure happen second half?

Mushtaq Ahmad: Second half year only, last year current quarter.

Ashish Sharma: You mentioned about the branch strategy where the focus will be on opening branches in the state of J&K you also mentioned in the second half we will open another 100 branches. Will that impact your cost to income ratio?

Mushtaq Ahmad: No, I think then we are opening that we may have to save some cost but naturally the loans will be not already taking tune of the cost but also there will be contributing to the profitability of the bank.

- Ashish Sharma:** You mentioned that you have to toil in line with the competition and increased savings rate now. What sort of impact do you see on the margins I mean and will it be possible for you to pass on increase to the lender, the borrower?
- Mushtaq Ahmad:** I think we are increasing our base rate on the strongly with again that the CASA we are going to be increase in the CASA fund, cost of deposits and therefore that has to be passed on to the also the borrowing community.
- Ashish Sharma:** What is the current base rate Sir?
- Mushtaq Ahmad:** Base rate that is done but we will be giving it we are taking a view to increase it within a couple of days and we will minimum I think it should be within 10.5 to 10.75.
- Ashish Sharma:** This will be first hike for this quarter?
- Mushtaq Ahmad:** Yes I think.
- Ashish Sharma:** Just one last question on the incremental loan book growth for this sequential quarter. What will be the split between J&K and non-J&K?
- Mushtaq Ahmad:** I think J&K and non-J&K either we will try to maintain the existing ratio of 41 or 61 or 39, but J&K provide us some scope because we are not scope to deploy some funds in the concepts here that we have with hydropower and some infrastructure projects are also coming up in J&K. I think we will start this half year we will be in a position to deploy some 700 to 1000 Crores in J&K. All these on in two sectors or as it will be repaid.
- Ashish Sharma:** Thank you Sir and all the best for the next quarter.
- Moderator:** Thank you. The next question is from the line of Parag Jariwala from Anand Rathi Securities. Please go ahead.
- Parag Jariwala:** Congratulations on good set of numbers. When I see your presentation your yield on investment is 7.22% for the quarter I mean this is like highest in last two to three years I mean what experienced this?
- Mushtaq Ahmad:** I think it is mainly because of some turning of this portfolio number one and we are expecting also that 7.22 J&K at least minimum 7.45 at end of the current year.

- Parag Jariwala:** This is mean that your have shredded your low earning assets, earning investment to high earning investment in current year?
- Mushtaq Ahmad:** We are number one in that also that we are just readjusted for tier II and I told you the yes there is some low income, there is some low tier II taking high interest security.
- Parag Jariwala:** If MetLife get clearance in this quarter or the next quarter what is the profitability expected from the sales?
- Mushtaq Ahmad:** We have already as per agreement we have just something like on growth on the profit investment of 190 Crores to this year. The total investment has been 220 Crores.
- Parag Jariwala:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Jigar Walia from OHM Group. Please go ahead.
- Jigar Walia:** Good morning Sir and congratulations. You mentioned that much of our advances growth happened in the second half. Say if you can quantify what was the large term how much and also if you can give some idea on the frequency of the deposit growth during the quarter because our deposits growth has been very, very quarter-on-quarter?
- Mushtaq Ahmad:** First I would like to say yes our first of all we will see how much we can grow. We aim we should go increase our aggressive loan book for 3000 Crores over 30000 Crores by the end of the current year. So based on that we will also increase our deposits. We would not like to see that this on the liable funds and also we are looking for some opportunities that deployment resulted for this department. We have made our deposits to grow by 20% or less but little bit above 22% and the precisely it should be 25%.
- Jigar Walia:** But the deposit growth was normalized during the quarter. It was spread out through the quarter?
- Mushtaq Ahmad:** That is the strategy for the second half year as well.
- Jigar Walia:** On the advances how much is sanctioned outstanding?
- Mushtaq Ahmad:** You need the sanction which are not been result. I think it is more than 1500 Crores.

- Jigar Walia:** You think that these will get comfortably disbursed should you increase the rates by 75 BPS?
- Mushtaq Ahmad:** We are just examining I think we will have to increase our base rate by minimum 50 to 75 basis points.
- Jigar Walia:** Sir, just to understand this particular intent to increase the savings rate of course we can pass it on and compensate for the NIMs but there is no pressure as such, I mean there would be pressure from our customers but not so much from the competition because largely the other banks who are there the SBIs and bit of HDFC even they are high on retail and they would not be increasing the saving the rate so even if we do we need the first one to two and if we can pass on the lending rate that can be done even without hiking the base rate by just increasing the spreads?
- Mushtaq Ahmad:** While we share the base rate plus so unless and you encourage the base rate you cannot pass that to the borrower one part and the other part when we are talking of increasing the interest rate on service tax is not payable that really competition but you have to be fair to the customer who have remained loyal to the incident.
- Jigar Walia** True, but there would be any pressures on our lending targets, I mean you would be comfortably achieving the lending targets?
- Mushtaq Ahmad:** Absolutely, I can assure you No.1 with the opportunities that are going to available within J&K state is No.1 part and No.2 the undisbursed loans I think that we will be very comfortably achieving the targets.
- Jigar Walia** There have been some news on the political and state rate, lot of comments from the opposition side, you can just share your comments?
- Mushtaq Ahmad:** No, I think should have gone through media yesterday there is no political unrest nothing like that.
- Jigar Walia:** No, lot of noise in terms of allegations and particularly post the change in RBI arrangement under state finances?
- Mushtaq Ahmad:** No, it is not a noise but it is a question of understanding the issue.
- Jigar Walia:** If you can just help us to understand sir, I mean how is the situation otherwise?

- Mushtaq Ahmad:** No, it's okay 100% this thing you know that J&K state had the best season of last 25 years and we expect still better to do the season next year also hence it is not that largely the tourist season was high in October 15, but if it going to be a prolonged due to the season end that has been even very positive results for the economy as a state.
- Jigar Walia:** Okay, can you share within J&K and outside J&K ratio for September last year?
- Mushtaq Ahmad:** Last year it was the 50 – 50 and this year it has come down to 39 to 61, 61 out of J&K state primarily because of that repayment of government over bonds.
- Jigar Walia:** What is the maximum that will go to in terms of outside, do we have an upper limit 70 or 75 in the temporary, of course in the longer run we will go back to 50-50?
- Mushtaq Ahmad:** I think this ratio, this could be the scenario which would not change and now it will be positive change in the sense that this ratio will be more comfortable for J&K state. This is for two reasons not simply that for any emotional reason or that but here we have got stronger margins, better repayments and better business and then very strong CASA base.
- Jigar Walia:** Yes, but in terms of the incremental lending ideally from the sanctions and all they would be more from the outside J&K so that makes will keep further say from 61 to may be 65?
- Mushtaq Ahmad:** Yes, I agree with you.
- Jigar Walia:** What is the upper limit that we would not go beyond that?
- Mushtaq Ahmad:** No, we have not fixed as such any upper limit but that how we like to move about.
- Jigar Walia:** Any perspective on the fee income, if we increase the savings rate then may be increases in the fee charge or something like that?
- Mushtaq Ahmad:** I think we have already established that our day to day finance from fourth quarter that will start its operations from and once we have approvals in the and that will start functioning that was our fee income base position and will be have to activate our distribution of insurance and third parties.
- Jigar Walia:** Thanks a lot Sir.
- Moderator:** The next question is from the line of Udit Mitra from Mape Securities. Please go ahead.

- Udit Mitra** Thanks for taking my question, the first question is that yields on investment has gone up and I can see a shift in non SLR portfolio also is other than the ASS portfolio what is the comprise of other than TDS?
- Parvez Ahmed:** In terms of the composition of the AFS portfolio the most of the things are posted in the CDs and CPs and also the government can other approved securities which are to the tune of the Rs.687 Crores and it is also a component of the debentures and bonds, which is to the extent of Rs.1683 Crores but in terms of the portfolio which is around Rs.4556Crores that is in the CDs and CPs.
- Udit Mitra:** Okay, but CD, and CP have come down over a period of six months if see, by certain BPS I mean it have not improved from when it was in March?
- Parvez Ahmed:** March number was 4620 it around the same number 4556 as end.
- Udit Mitra:** No, I am talking about the CD and CP rates in the market if I see what it was in the March it has come down a bit but your yield has improved so I am trying to figure out where the delta has been generated?
- Mushtaq Ahmad:** We have also invested in the debentures and bonds, which has also helped us in yields, it the question of changing the portfolio as well explained by the Chairman earlier.
- Udit Mitra:** My second question is that basically you are saying that business sentiment has improved in the J&K state as you said or the Chairman said that everything has improved your current account as a percentage of overall deposit has come down to sharply if I see over the last 10 to 12 quarters can you explain what's happening basically?
- Mushtaq Ahmad:** Last year the entire we were holding these state government accounts and the balances would remain with J&K Bank only so when once we entered into that arrangement with Reserve Bank of India the state government entered into this arrangement with the Reverse Bank of India and we were appointed as one, we have to transfer these accounts same day to Reserve Bank of India account, so it is because of that otherwise there is no change.
- Parvez Ahmed:** I would like to add here, partly the component is associated with the change of the arrangement which has taken place like the shift from the J&K Bank to the RBI. The second component is that most of the investors during the period have suffered to pass their investments in the saving and the term deposits where they are earning a better rate of interest compared to the previous year and we have also seen that some component shift taking place because of the fact, in fact saving and the return.

- Udit Mitra:** The last question is regarding your saving account as you said I think you are going to raise the rates in 2 or 3 days how much market share do you have in the saving account as far as J&K is concerned because I believe you are pretty much the largest account holder in savings account?
- Mushtaq Ahmad:** Our saving bank's account should be 13000 Crores, what I have said that within next one to two days we are going to take a view of increase of this thing.
- Udit Mitra:** No, my sense is like why you want to increase it because you believe that the new competition will take away, I mean that the smaller bank private banks are increase it, I am sure how much presence they have in the state of J&K like Yes, and Corporation and IndusInd?
- Mushtaq Ahmad:** No it is not surely I already explained to another question, is not purely on this thing that we have competition or we don't have the competition but I think we should have to be fair to our account holders who have been quite loyal to J&K Bank so the benefit has to go to them.
- Udit Mitra:** But on the other side on market side would be seen you are going to borrower?
- Mushtaq Ahmad:** No, we are not too much under pressure from competition side.
- Udit Mitra:** That is what I am precisely saying, the current environment the way the asset quality of the Indian banks are playing out if you are raising a base rate by 15 BPS to 75 BPS are you not going to put pressure on your borrower in the current environment?
- Mushtaq Ahmad:** No, I would like to mention that so far as the regulation of the J&K Bank, bank has to take a view depending upon the composition of our portfolio like in our case loss of 259% as to the saving bank is in 12% is in the current whereas in the term deposit so today we are holding the meeting all these aspects it will be deliberated keeping in view the composition taking in view the competition taking in view the kind of the benefit we should also I mean pass on to the customer is also in the J&K state will (indiscernible) 37.23 we would like to take all this aspects is seen to consideration before taking a final view in the matter.
- Udit Mitra:** Is it possible to give a kind of breakup between below one lakh and above one lakh account?
- Mushtaq Ahmad:** Up to one lakh roughly 25% is up to one lakh and the rest is above one lakh.

- Udit Mitra:** Thanks a lot sir and all the best.
- Moderator:** The next question is from the line of Prakash Sharma from CLSA. Please go ahead.
- Prakash Sharma:** Good morning gentlemen, I have just couple of question, one could you give me the breakup of retail and corporate loan? Total loans within retail and corporate?
- Mushtaq Ahmad:** I think we would like to forward these figures to you.
- Prakash Sharma:** Would you be able to remained me when was this CDR package executed like when did this almost Rs.1000 Crores of restructured loans when were they recognized as restructured loans?
- Mushtaq Ahmad:** On the portfolio of roughly Rs.2800 Crores so far the question of taking a particular account with CDR it is a ongoing process across the industry it is not related to the J&K Bank only but I was trying to mention here that whenever we are joining the consortium if the consortium takes a call to restructure a particular account like I will site an example, like the Kingfisher so for others have to follow like, so the restructuring will takes place through the CDR mechanism is an ongoing process across the banking industry and we are also the part of it and so far our restructured loan is concerned the maximum portion 50% to 60% portion is also relating to the CDR mechanism which has been taken as call as been taken by the consortium base.
- Prakash Sharma:** If I remember correctly the last quarter you had restructured about Rs.40 Crores of loans right, and this half you done about Rs.188 Crores?
- Mushtaq Ahmad:** Yes, that is right.
- Prakash Sharma:** Just wanted to know the definition by which you disclose this amount of Rs.2200 Crores if a particular company has taken two-three types of loans from J&K Bank and one facility gets restructured would the Rs.2200 Crore number include all sorts of loans or only that particular facility?
- Mushtaq Ahmad:** It is included only that particular facility but it never happens in consolidation, in the sense for example, if a particular project they have not taken off and the particular project has for a term loan as well as the working capital component, the working capital component the thing will come only into picture once the projects takes off so it never happens in the pieces it happens together, so we have very few instances there these kind of few instances

can be quoted that the part we have been taken to the restructured and the part it remains , it never happen like that.

- Parvez Ahmed:** CDR and Tax is always an integral it is not done in isolation of one or the other.
- Prakash Sharma:** Thank you very much Sir.
- Moderator :** Thank you. The next question is from the line of Amit Ganatra from Religare Asset Management Company. Please go ahead.
- Amit Ganatra:** Sir, what was the amount of OD, government OD, which you received post that arrangement with RBI?
- Mushtaq Ahmad:** It was Rs.2300 Crores last year, that in March, it was repaid, March figures do not include the government overdrafts.
- Amit Ganatra:** No, but last year September would include government overdrafts, right?
- Mushtaq Ahmad:** Yes, it was more than Rs.2000 Crores.
- Amit Ganatra:** So, basically that means that your J&K portfolio although the composition has come down but one excludes the impact of this OD that portfolios also grown by 18%-19% but just the impact of the government holder portfolios the composition came down?
- Mushtaq Ahmad:** I think our growth has been to the extent of plus 20%
- Amit Ganatra:** J&K.
- Mushtaq Ahmad:** Yes.
- Amit Ganatra:** Okay, it just be impact of that government overdraft which is basically skewing this entire?
- Mushtaq Ahmad:** Yes, figure wise, okay but since I could say that the curve growth impact has been just neutralized by that impact.
- Amit Ganatra:** Yes, so on an incremental basis can one expect 20% kind of growth from the J&K region?
- Mushtaq Ahmad:** Yes, we have been historically growing at 20% minimum, but we expect more than that.
- Amit Ganatra:** Thank you.

- Moderator :** Thank you, we have the next question from the line of M.B. Mahesh from Kotak Securities. Please go ahead.
- M. B. Mahesh** Good afternoon Sir, and congratulations on good set of numbers, first question on is it a fair assumption that today your branch network within J&K is roughly about 40% your market share?
- Mushtaq Ahmad:** No, is not 40% as far as the deposits are concerned we have 62% share and as far as the loan book is concerned our share is 70%.
- M. B. Mahesh:** Your total branches market share?
- Mushtaq Ahmad:** Total branches should be around 600 branches through office and J&K it is 450.
- M. B. Mahesh:** That would be translating to about a 40% share there within J&K in terms of market share of branches?
- Mushtaq Ahmad:** Yes.
- M. B. Mahesh** I just wanted to understand, if you are adding another 100 branches what addition are you going to get so great that it make sense for you to actually expand branches within J&K rather than outside J&K?
- Mushtaq Ahmad:** No, when J&K mean these are the branch with have wider better potential for business and these are under banked areas.
- M. B. Mahesh** What is the advantage you get, because your better of actually expanding outside J&K because the opportunity their will be much better for you?
- Mushtaq Ahmad:** No, I think when you see our composition after this income and expenditure the business in J&K is of 6% margin and outside of J&K it is of 3%
- M. B. Mahesh** But you already have a great share?
- Mushtaq Ahmad:** No, that is there but I should put a cap now, when we need a scope I should tap the scope.
- M. B. Mahesh** What will be the savings deposit market share in J&K right now because you have a total deposits of 13500 how much would it be within J&K?
- Mushtaq Ahmad:** J&K should be plus Rs.10000.

- M. B. Mahesh:** Could you just give us a break up for your underlying infrastructure portfolio today?
- Mushtaq Ahmad:** We will give separately send you these figures.
- M. B. Mahesh:** One last question is you had mentioned Rs.110 Crores in your MetLife stake sale, is that the profit side you are talking about?
- Mushtaq Ahmad:** I would like to elaborate again that our total investment in MetLife is Rs.220 Crores and 22 Crores share out of that we have an agreement with MetLife that we will be offloading 8 Crores at the cost of Rs.190 but the basic cost of those 8 Crores is just 80 Crores annually so therefore we are going to have Rs.100 Crores as our surplus profitability.
- M. B. Mahesh:** This you will be booking it over the next two quarters, is that of case?
- Mushtaq Ahmad:** Yes, we have said we would be booking this in the second half.
- M. B. Mahesh:** One last question is, you have a fairly low CD ratio but yet you been mobilizing deposits and this quarter again you have grown that deposit book about 10% QoQ what is the thought process behind this, because clearly you do not need deposits to grow your book by another 20 odd%?
- Mushtaq Ahmad:** Even a few decline in the market we are earning there so even we are earning 1% after saving the SLR, CRR that could be.
- M. B. Mahesh:** So, it is basically since you are getting some very marginal spread doing this business?
- Mushtaq Ahmad:** Not less than 1% in any gain but basically we mobilizing the deposit in J&K state, outside J&K state but assure you that this is been the bank has deployment opportunities and the deployment is on margin.
- M. B. Mahesh:** So these are margin dilute right at the end of the day because if you are taking?
- Mushtaq Ahmad:** Yes, it was there, some times it increase volume even with the low margin.
- M. B. Mahesh:** But you would be taking deposits, because if you are taking term deposits you are taking it about a cost 9% when you deploying in 8-9% what you gain in that Sir?
- Mushtaq Ahmad:** No, I think if you just go through our press release I don't think that we are loosing anywhere.

- M. B. Mahesh** Thanks a lot.
- Moderator:** The next question is from the line of Jyothi Katri from Systematix Shares. Please go ahead.
- Jyothi Katri:** I just missed down your margin guidance for the FY'12 you said that you will be increasing term deposits rate by around 100 to 150 basis points and I mean you are also likely to increase the base rate by around 50 to 75 basis points, how do you see the margin shape part in the second half?
- Mushtaq Ahmad:** I think we will going to have pressure on the margin but we try that our minimum net interest margin should not come below in 3.5%, however we are trying to increase our net interest margin to two things, No.1 is that this prices has been passed on to the borrowing community so that whatever adverse impact is on the bank that should not destroy extra pressure on our margin but even under adverse circumstances or circumstances we plan that our net interest margin should not fall below 3.5%
- Jyothi Katri:** Okay.
- Moderator:** Thank you. The next question is from the line of Mona Kethan from Elara Capital. Please go ahead.
- Mona Kethan:** Hello Sir, thanks for taking up my question. Could I get your view on the target loan growth for FY'12?
- Mushtaq Ahmad:** We expect that our loan growth should be somewhere around Rs.32000Crores.
- Mona Kethan:** Okay, and I just missed on the branches part that is what is your share of branches in the J&K state?
- Mushtaq Ahmad:** J&K out of total 1400 branches our share is the 40% that is we have got 450 branches in outside and J&K state.
- Mona Kethan:** Okay, and your total incremental branches for FY'12 is for the entire, including outside J&K is how much?
- Mushtaq Ahmad:** We intent to have 100 branches in J&K state and 50 to 20 branches at outside J&K state.

- Mona Kethan:** Okay, and one more quick one in terms of your investment to deposit ratio what is your outlook, do you see it going down, going forward like it was 44% in March 2011 ended and it stands at 42% now?
- Mushtaq Ahmad:** Basically deposits have gone over our CDR, Credit Deposit Ratio so we earn that our Credit Deposit Ratio should be 65% and as just end this investment and other things but if my CDR does not touch that 65% so naturally that has to be parked somewhere in the investments again.
- Mona Kethan:** Could I get your position in the infra sector the exposure as of September 2011?
- Mushtaq Ahmad:** I need to read it my figures and pass on these figures to you.
- Mona Kethan:** Okay, and one last one, what percentage of your loan book is on a floating rate basis?
- Mushtaq Ahmad:** Roughly I should say that around Rs.20000 Crores should be on floating basis.
- Mona Kethan:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Sohail Halay from Motilal Oswal. Please go ahead.
- Sohail Halay:** Good morning, I just have one question can I have the movement of NPA during the quarter?
- Mushtaq Ahmad:** Yes, during the quarter the addition was to the tune of Rs.50 Crores and the half yearly basis it was Rs.136 Crores and the actual recovery which has been effected during the quarter and half year was Rs.36 Crores and Rs.113 Crores and that makes the net of Rs.541 Crores of the gross NPA at the end of this September.
- Sohail Halay:** Sir, are you talking about recovery and upgradation both?
- Mushtaq Ahmad:** The major component is basically the recovery is affected and upgradation component is small.
- Sohail Halay:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Aditya Singhanian from Enam Holdings. Please go ahead.

- Aditya Singhania:** Just, pardon me, if you could provide us some more details on the restructured amount of Rs.2200-odd Crores if you could help with what is the inside J&K state and outside some exact amounts if you could and what is infra, not infra and within that if there is anything in power or SCSB etc.?
- Mushtaq Ahmad:** On account of the restructured loan book the incremental 200-odd Crores which we have mentioned it is well diversified both in J&K as well as outside the J&K.
- Aditya Singhania:** I wanted for the entire book of Rs.2200Crores?
- Mushtaq Ahmad:** Yes, I will be sending these figures separately to you in terms of the breakup but there is no any major component on account of the power or infra within the restructured loan book.
- Aditya Singhania:** Okay, and the CDR part that you mentioned that 50% to 60% that is on the 2200 Crore book or the incremental done during the first half?
- Mushtaq Ahmad:** No, that is on the entire restructured loan book of Rs.2200 Crores.
- Aditya Singhania:** Okay, but if you see the FY'11 annual report as I understand it that the breakup of restructuring done during the year shows that is zero from CDR and 500-600 Crores done is all excess CDRs so I am trying to understand what most of the CDRs stuff done in FY'10 and FY'9?
- Mushtaq Ahmad:** No, this is a thing which is happening every year during the particular year if there is no CDR in a particular financial year it may happen, but if you see over a period of time whenever this restructuring loan book takes place it is mostly on the CDR thing and the rest as is the mostly relating to the though it is a infrastructure otherwise this portfolio is done diversified it is concentrating in a particular sector.
- Aditya Singhania:** We appreciate that, Sir, but it is almost 8% of loans so what is your outlook for this amount when can we start to see this amount reduced if it have some guidance?
- Mushtaq Ahmad:** So far this particular restructured loan book as I said that in respect of this entire Rs.2200 Crores is already to the tune of Rs.100 Crores and so far the rest of portfolio is concerned we have seen, these are not basically restructured sectors, the stress part which was to the tune of 100 Crores that was already put into NPA and most of these major accounts are doing well, we do not have subsidy, the projects are going in time and the kind of timeframe which we are looking at how it is going to get reduced I will send you the figures separately.

- Aditya Singhania:** Thank you very much.
- Moderator:** Thank you. We will take a final question from the line of Jigar Walia from OHM Group. Please go ahead.
- Jigar Walia:** Thanks for the opportunity, Sir, want to know any plans to decrease the term deposit rate?
- Mushtaq Ahmad:** I think we should for the time being heave a sigh of relief that at least there are indications that there is not going to be a hike and once I think that reversal start we will fall in line but I should not say immediate rising right now.
- Jigar Walia:** You mentioned that around Rs.20000 Crores of the loan book is on floating basis if you can give some more idea on that is how much get reprised immediately and how much you wanted be over a with resets?
- Mushtaq Ahmad:** I think I have to review at the figure and come back to you.
- Jigar Walia:** Okay, earlier we have discussed our long-term targets for loan deposits even profitability for if you can revisit those for FY'13-14 something like that in terms of profit targets or something?
- Mushtaq Ahmad:** No I have already given the target; I have given that for the current year that is March 2012 we have given that the profits should be something like 600 Crores and if you see the trend for the first half year I think we are on track. No.1, this business 85000 but I would not be too much satisfied about given that business target even with the low volume of business I can have the target at that profit I would love that, but next year we planned that we should have 100,000 Crores of business and 1000 Crore of profit by March 2013.
- Jigar Walia:** Thanks a lot.
- Moderator:** Thank you. As there are no further questions I would like the floor over to Mr. Hatim Broachwala for closing comments.
- Hatim Broachwala:** I would like to thank Mr. Mushtaq Ahmed and Mr. Parvez Ahmed for taking your time out and also to all the participants for participating.
- Harjit:** Sir, this is Harjit here. Once again congratulations for excellent set of numbers in this quarter. We hope to see such numbers going forward also. I am sure we will see such



Jammu and Kashmir Bank Limited
November 02, 2011

numbers and thank you so much for excessively and patiently answering each and every participant's thank you so much.

Mushtaq Ahmad:

Thank you very much thanks for organizing this telecom we do hope that in future also we will be having this type of telecom and better set of numbers always. Thank you very much, thanks to every body.

Moderator:

Thank you, on behalf of Fortune Equity Broker India Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.