

Transcript**Conference Call of Jammu & Kashmir Bank****Event Date / Time** : **30th July 2008, 16:30 IST****Event Duration** : **31 mins 04 secs****Presentation Session**

Moderator:

Good evening ladies and gentlemen. I'm Gopal, moderator for this conference. Welcome to the conference call of Jammu & Kashmir Bank. We have with us Dr. Haseeb A. Drabu, Chairman & Chief Executive, Mr. A. M. Mir, Executive Director & Chief Financial Officer and Mr. Parvez Ahmed, President– Corporate affairs & Investor Relations.

At this moment, all participants are in listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Dr. Haseeb A. Drabu. Please go ahead sir.

Haseeb A Drabu:

Thank you very much for joining us. I will give you a brief introduction, I trust you would have got the earnings update as well as the press release, but to take to through the numbers, I think we have had a strong quarter particularly in the context of the overall macroeconomic environment that we have all seen. Broadly to take you through the numbers we have recorded a net profit of about 95 crores in the first quarter would say increase of 14% over the corresponding period previous year. The operating profits are up by a healthy 38% at 181 crores for the first quarter as compared to Q1 of last year, but going beyond the numbers of operating profits as well as net profit, I think the critical highlights of this quarter of our performance has been that despite what's been happening in the economy and the kind of measures that the RBI has been introducing including the ones yesterday. The net interest margin of the bank has improved from 2.9% last year to 3.1% in the current quarter. This is driven by an improvement in the advance to heal but more particularly is

driven by the reduction in the cost of deposits. I think we perhaps the only bank in the country where the cost of deposits have come down, they have come down from 6% to 5.7% in this quarter. The cost of deposits have come down largely on the back of an improvement in the CASA ratio which is now 39% compared to 36% a year ago and that has facilitated our reeducation cost of deposits. Our return asset has shown substantial improvement from 0.7% last year to 1.16% this year. As far as gross and net NP as go, we have seen an improvement in both ratios gross NP has at down to 2.3 compared to 2.8 last year and net is also down from 0.98% to 0.96%. The post tax return equity is now at 16 plus percent. Our earnings per share is moved from 17 to 19.5 not annualized. There has been an improvement in our burning of capital, our CRAR is now gone down from 13% to 12.20 with tier one being 11.5 and tier two 0.61%. So all in all what seems to have been the major highlight is that we have managed to not only to protect our margins but improve them and this is happened also the entire strategy which we outlined as we go will focus more and more on J & K is bearing substantial fruit because we are not seeing a slowdown in advances growth as normally other banks would, but we are growing at about 35%, 40% in J & K which has improved our advances yield from 10.6, 10.8%, so a compositional shift in advances has lead to an improvement in the yield and going forward, I think we would continue to protect our margins, we will see some changes in costs of deposits, I think we will see in the next two quarters that cost of deposits will improve. As an improve due rate in the sense the costs of deposits will raise. In anticipation of that today we had a board meeting which finalized the results and we have increased our PLR by 50 basis points. So we are leaving ourselves from head room to do improvement in deposit rates as well, but given the fact that we have been early bird, both today and earlier in raising PLR, it helps us to sustain our margins. Going forward we see advances growth over 20, 25% really on the back of growth in J & K which as I have said is doing very well for say 35, 40% with advances yield of about 14% already and that should see us through the next two quarters as well, but I do expect that the environment will is fairly uncertain as very evident from the fact that the Reserve Bank yesterday created a gap of about 300 basis points between reverse repo and repo indicating hike in uncertainty, we also feel that there may be some more changes in the rates and we expect the next two quarters to be difficult, but we will certainly keep our margins intact even as the cost of deposits its go up. Broadly that's what the basic numbers is and I will be happy to take questions and then perhaps go on from there. Thank you.

Moderator: Thank you sir. Ladies and gentlemen we will now begin the question and answer session. If you have a question please press * and 1 on your telephone keypad and wait for your turn to ask the question. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing hash key.

First question comes from Ms. Sai Anjali of Capital Market

Sai Anjali: Hello Mr. Haseeb, I would like to know what is your YOA for the quarter?

Haseeb A Drabu: YO as in you want Advances.

Sai Anjali: Yeah.

Haseeb A Drabu: I say it's 10.82.

Sai Anjali: 10.82 and in June 07, in the previous quarter?

Haseeb A Drabu: 10.3.

Sai Anjali: You were saying that you are all planning to increase the cost of deposits possibly in the next two quarter right?

Haseeb A Drabu: No, we are not planning to increase our cost of deposits, we will improve the interest rate on deposits of some maturities whether that results in an increase in a cost of deposits, may or may not happen because if we improve our CASA to 42 if we have said we would that be may negated, but we will off course consequent about what's been happening in the market and the way we have also hiked our PLR, we will increase the deposit rates on some maturity.

Sai Anjali: I am so sorry, I didn't get the last bit?

Haseeb A Drabu: We will increase the rates on deposits of some maturities. That may or may not transit into higher cost of deposits because it may get negated by a higher CASA, so what I am seeing is that we currently we perhaps are the only bank in the country where cost of deposits have come down, that may not be possible now for the next two quarters, because we are seeing a very adverse macroeconomic environment and we would have to hike our deposit rates in line with what's happening in the market to be able to finance our advances growth. To that

extent for some maturities, some segments, some time buckets we will increase our deposit rates.

Sai Anjali: Okay but nothing in the second quarter is it, no changes in the second quarter?

Haseeb A Drabu: We may increase now, we will see CRR today, we will see the deposit rates this quarter itself.

Sai Anjali: Thank you Mr. Haseeb, that's it?

Moderator: Next question comes from Mr. Sunil Kumar of Birla Sunlife.

Sunil Kumar: Yeah Hello sir. Just wanted to check, you said yield on advances this quarter is 10.82. Press release says 10.37.

Haseeb A Drabu: That's corresponding figure last year.

Sunil Kumar: No, 10.37 for this quarter, corresponding says 10.23. So this quarter the yield is what, 10.37 or 10.32...

Haseeb A Drabu: 10.37.

Sunil Kumar: Okay because it has come down actually. If its 10.37 it's come down from the previous quarter.

Haseeb A Drabu: We will analyze, I will just check that.....No, it's hasn't come down, it's Q1-07

Sunil Kumar: No, Q1-07, no sir, fourth quarter 08.....?

Haseeb A Drabu: What ever there are differences in the composition of advances, so we are doing a year on year comparison, I don't think we should do a comparison on March over first quarter because our advances in J & K at that point are much higher because of articles advances and yields are better there. So like to like we have improved from 10.2 to 10.4.

Sunil Kumar: Okay. So you were saying that particularly certain annual advances wherein the interests are received in the fourth quarter.

Haseeb A Drabu: That's right. Absolutely right.

Sunil Kumar: Okay. Second is on the financial services company which you have mentioned that you have got permission and you are looking at some JV partner and all. If you can give me some status on that front?

Haseeb A Drabu: Not at the moment perhaps in the course of second quarter we shall look at it. But we are exploring and seeing what

would be a best fit for us and hopefully in second quarter we should have some (not sure) or an update on that but at the moment it is as is we are in (not sure) basis we haven't seen move except that we have all the provision in place now and we haven't really focused on that as its really has been mould like you know try and get through the bad environment that we all seem to be stuck in.

Sunil Kumar:

Okay right and what's the status of branches.

Haseeb A Drabu:

We are adding about 45 branches, we have got licenses for about 60 and we have said that we will want to by March 31st have a branch in every block of J&K, we have improved that now we will go to second level of penetration, therefore larger the blocks we will double it and we will also opening up branches in western and northern India where we want to increase our penetration. We are not focused on east at the moment, we are focused on north and west. So we should add about 60 branches for the year.

Sunil Kumar:

Sure and out of this investment depreciation, how much was on account of equity.

Haseeb A Drabu:

18 crores.

Sunil Kumar:

And you transferred some sum to HTM category is it?

Haseeb A Drabu:

No, we have(inaudible)

Sunil Kumar:

Alright, actually the AFS have come down?

Haseeb A Drabu:

AFS has come down, Yeah. But we haven't transferred any in this course of this quarter. I think today our AFS is about 22% compared to 27%, which was earlier.

Sunil Kumar:

And the duration stands at?

Haseeb A Drabu:

Duration for AFS is about 18 months. Our strategy has been right clear we have been raised like we have been trading at the short end to minimize our MPM losses and things, we have worked I think our losses perhaps you know was way time crores among such heavy environmental problems and now we large and on the equity side we have already have made back about 8 crores. So we don't see other thing the difference you see at the operating profits at 40% and net was at 14% is largely because you must have seen the provisioning is double for 47 crores to 87 crores and 28 crores out of that is to be MPM. Out of 18 is essentially coming from the equity which is being rebooked so it is kind of you know write it back to equal.

Sunil Kumar: Sure sir thank you so much and all the best.

Haseeb A Drabu: Thank you.

Moderator: Next question comes from Mr. Mahesh of Edelwiess

Mahesh: Hello, Mr. Drabu just couple of questions. One was on the yield on advances. Your current transact within J & K is roughly about 14% and if I am to understand this your advances book is about 50:50 within J & K and outside

Haseeb A Drabu: 45, 50, 55.

Mahesh: 55 within the state?

Haseeb A Drabu: No, we still haven't reach that stage. Its 40, 45 in J & K and about 60,65 outside J & K

Mahesh: Sir but then the overall yield on advances even if we look at 14% within J & K, it comes to some 8% outside J & K, any. I am right on these figures?

Haseeb A Drabu: Well not 8, it will be closer to 9, but the thing really is that we are in consortium in most cases outside and the fresh advances instrumental advances have been done at about 10, 10.5, 11 and that is cause, our yields definitely are much lower in outside J & K than within J & K, there is no doubt about that.

Mahesh: And how much would be in consortium branding?

Haseeb A Drabu: Outside of J & K almost 80% is consortium.

Mahesh: 80% Okay. Sir we had last time indicated that you will look at provision coverage to increase from current levels to about 55% to around 70%, any changes on this because the provision coverage remains more or less the same?

Haseeb A Drabu: No, we haven't changed that. We would end the year with that. What we did was you know if you remember we were at 65% and then in March we dropped our provisions because we took a very large hit on one consortium advance. So which had drew able with the NPAs. So we are hoping to settle that first second quarter and that should improve the NPA coverage to about buy back again by second quarter and we then do hope to improve it to 70% by the end of the year. Still looking at the 70% in J & K

Mahesh: Okay, sir if I am right is real estate would be contributing some where about 12 to 14% of your loan book?

- Haseeb A Drabu:** Now lesser, 8% because we have dropped our... see we had about 15 at the peak and we have constantly being adjusting our(not sure) exposures. We are not adjusting as a force, we are not doing a forced exit but our loan had been contracted five years ago and now there some being adjusted. So we are below sub 10% level.
- Mahesh:** And you are not seeing any kind of delinquencies in this book?
- Haseeb A Drabu:** We are not seeing any stress there, no, so we are not seeing because it is very concentrated with three or four fairly significant players who are not in any kind of stress and at the moment and doesn't look like they would be.
- Mahesh:** Off this sub 10%, most of it is in the commercial real estate private space?
- Haseeb A Drabu:** Yeah.
- Mahesh:** Okay, sir how much would be the bulk deposits of your total book currently?
- Haseeb A Drabu:** 27%.
- Mahesh:** Oh there has been no change across the quarter?
- Haseeb A Drabu:** Little margin on the client.
- Mahesh:** Okay, sir and this time how much would be the government contribution to your total advances?
- Haseeb A Drabu:** It's come down, we are operating at the 1800 crores, so 1800 on a base of 20000 crores.
- Mahesh:** Okay and you have booked any income from in the same from in this particular quarter from.....?
- Haseeb A Drabu:** We have done the quarterly fee income. Quarterly we have done, we have now moved to a quarterly cycle because it was starting our fourth quarter results. So we have now annualized it and we take account of it, so we have done I think about we have done about 9 crores.
- Mahesh:** Okay, fine sir, thank you sir
- Haseeb A Drabu:** Thanks.
- Moderator:** Next question comes from Mr. Piyush of HSBC.

Piyush: Yes sir good evening, just a couple of questions. Sir what has been the deposits and advances growth during the quarter?

Haseeb A Drabu: We have done about almost 16% in 15.78 advances, 15.5 in deposits.

Piyush: Sir actually I don't have a base figure as I haven't received the press release, so can you give the actually?

Haseeb A Drabu: Yeah, I will give the numbers. 08-09 Q1 we have done a deposit of 28,500 crores up from 24,745 crores.

Piyush: 24,000.....?

Haseeb A Drabu: 24,750 crores and as advances of 20,075 crores as against 17,350 crores.

Piyush: Okay, sir coming back to our capital raising plans, what is the status on that?

Haseeb A Drabu: No, nothing as now.....

Piyush: So the warrants that have been issued to the J & K government, they remain effective?

Haseeb A Drabu: Well they will be extinguished if we can't do it by February. We have time till February and if we can't get it through we will extend the warrant.

Piyush: Okay, so until and unless GDR issue happens?

Haseeb A Drabu: Exactly continuous on that. The warrant will be triggered off the day the GDR operation starts.

Piyush: Okay, till February we have the time?

Haseeb A Drabu: Yeah we have time till February.

Piyush: And sir regarding capital adequacy you said we are at 11.

Haseeb A Drabu: 11.59, 11.6 on tier one.

Piyush: 11.61?

Haseeb A Drabu: 11.60 on tier one and .61 on tier two adding to a total of 12.2.

Piyush: So sir we will be requiring a capital if we want to grow 25, 30% for the current year.

Haseeb A Drabu: No, why would you, how much would you...I mean you would not below 10% in any case.

Piyush: Okay, so we are comfortably placed, if you won't be able to raise any capital for next one year?

Haseeb A Drabu: No, we are comfortable, in fact under the devised norms its actually continue as at. So we are fairly comfortable on our capital. In fact you know this is we are seeing that we are all capitalized in some way, it's not in cutting of change of capital. So to the extent I think we are way above what the RBI requires and under the new norms it improves further. So we are in no hurry, in fact even when we are doing GDR, we have survey specifically that this not for regulatory purposes. It's not that as I am running short on capital, if I won't raise capital. It was for strategic purposes as well as some business opportunity which we were thinking, we wanted to fund our joint ventures in met life and we were looking at some acquisitions and sponsor for which off course have to be you know start to depending on how the markets will move.

Piyush: Sir what is the total invested capital in the met life till date?.

Haseeb A Drabu: Total, we have invested in met life so far is 180 crores.

Piyush: 180 crores?.

Haseeb A Drabu: Almost 200 crores.

Piyush: 200 crores, so it remains the bill last quarter number.

Haseeb A Drabu: Yeah, we have not yet taken the capital call, we are waiting for the Reserve Bank function to be called for that.

Piyush: Sir you are saying the advances the rest of India contributes 60, 65% and within J&K state 40 to 45%?

Haseeb A Drabu: Yeah, now it's more like 45, 55.

Piyush: 45, 55 okay and what about deposits?.

Haseeb A Drabu: Deposits would be in the range of about 40, 60.

Piyush: 40 rest of India?.

Haseeb A Drabu: No actually the exact number is that J & K as on date gives us 64% on deposits and rest of India 36%..

Piyush: 36% and what is the difference between the costs between the two?

- Haseeb A Drabu:** Substantially large and we have the cost of deposits within J & K, I have to probably give you a number would be somewhere around perhaps if you look at the total figures could be around 4.5 and 5 and maximum it would be about 9, so the total would be about 6%.
- Piyush:** And sir our strategy was to raise more deposits outside J&K
- Haseeb A Drabu:** No, not quite, our strategy was to increase CASA within that happened to largely to J & K which we have done. CASA is almost 40 now. We are trying to end the year 42 and what we have decided, we will deploy more advances in J & K which we have done because now the vision has improved substantially as far as advances in J&K go and that's helped us tried over this whole thing in the programmed margins. We were looking at more deposits out of J&K and we are using the rest of India as a kind of fall back where we have raised bulk deposits to ... (not sure) the requirement.
- Piyush:** So, if final means our target in advances is the current level the required or we want some optimum level going forward for advances and deposits both?
- Haseeb A Drabu:** No, I think we have right now we are behind the curve easing (note sure) the equal advances of 20, 25% and corresponding deposit of.....
- Piyush:** No, I am saying regarding rest of India and J & K state, the proportion between the two?
- Haseeb A Drabu:** I think we will go to 50:50.
- Piyush:** 50:50 in deposit and advances both?
- Haseeb A Drabu:** No, in deposit we will look at the same ratio of 65,35.
- Piyush:** Okay and the advances is 50:50.
- Haseeb A Drabu:** Yeah.
- Piyush:** Okay thanks a lot sir.
- Moderator:** Next question comes from Mr. Alpesh Mehta of Motilal Oswal Securities Limited.
- Alpesh Mehta:** Hello, good evening sir. Sir regarding our fee based income, you said that 9 crores is that we have booked from the government business in this quarter which was not there, in the first quarter of FY08 right, so if I exclude that it is 9 crores....

Haseeb A Drabu: 6, crores, last year also we have taken account of quarterly payment of 6 crores. We have taken 6 crores from government this quarter and we have taken similar amount, in fact we have higher amount last quarter

Alpesh Mehta: Last quarter you have taken a.....

Haseeb A Drabu: 8 crores this quarter.

Alpesh Mehta: 8 crores and first quarter of FY08 how much was the amount sir?

Haseeb A Drabu: 6 crores.

Alpesh Mehta: 6 crores, so if I exclude that also, our fee based income is actually dropping, any specific reason for that?

Haseeb A Drabu: We had to return 2 crores to the government because of the calculation which comes at the end of the year. So, we had that I think we had to return 3 crores, so that is one reason for the stagnation in the other income.

Alpesh Mehta: But sir even I exclude that amount also, then also there is around 10% de-growth in the previous income.

Haseeb A Drabu: We ...(not sure) perhaps, we also looking at this specific details of that as to where is that dropping, but it's not coming out of government in sense because that's more like a fixed income because when you look at the other incomes essentially insurance has grown, trading has improved, miscellaneous income have also.....

Alpesh Mehta: Basically the rest of income you are getting is from commission and exchange part.

Haseeb A Drabu: To which an exchange has it kind of come down probably about 25....

Alpesh Mehta: to 23 crores and I guess that you include government previous income from the this portion only?

Haseeb A Drabu: That's what I am saying, it is stagnating, it is not increasing or declining, if you account for the fact we paid back(in audible) this year out of this, so then it's more or less stagnant. It's not declining.

Alpesh Mehta: Okay, but in that case also when the macro environment is so difficult, I just thought that the previous income would be the main source of revenue for the bank at that moment because the ...

- Haseeb A Drabu:** Our model is not like the Axis or the Kotak where it becomes a main source of income, but we are still doing very interest led banking and I think the results for that are quite encouraging...
- Alpesh Mehta:** Yeah, that the encouraging fact that you are actually improving your margins and most of the banks are having a pressure in the margin. That's right and sir just correct me if am wrong, J & K advances right now is 40% and the deposit is 65%, right?
- Haseeb A Drabu:** That's right.
- Alpesh Mehta:** Okay and the trading profit are mainly from the equity book?
- Haseeb A Drabu:** Where else?
- Alpesh Mehta:** It has to be basically or else you must have booked something at the beginning of the
- Haseeb A Drabu:** No, we haven't booked it earlier
- Alpesh Mehta:** Okay, thanks a lot sir.
- Haseeb A Drabu:** Yeah, thanks.
- Moderator:** Next question comes from Ms. Manisha Porwal of Arihant Capital
- Manisha Porwal:** Hello, good afternoon sir, actually I just wanted to know your plans on met life like any color on how your plan for met life is now turning up?
- Haseeb A Drabu:** Well we have staying rested, I mean there is no two ways about that we have gone through a very difficult phase where this is dazzle that it's not going to make money till 2011 to 2012. So we are staying rested, that's safe, we think we have prepared to invest more in that business. We see that is the long term plan and at the moment that's our basic view. We have put in all the capital because that they met life will grow so fast
- Manisha Porwal:** So are we the commission and exchange portion which we have seen just a moment ago we were discussing on the decline, so is it still viable, met life the state....?
- Haseeb A Drabu:** No, commission, exchange we were discussing revenue from the other income and break it up into commission exchange and insurance commission. Insurance commissions has improved 47%, so that's not the one that suffering, we are looking at more(not sure) that we had

estimated certain level and then the first quarter we will get the final estimate because you must recognize that we have done on the basis of transaction as determined by the Reserve Bank of India. So every transaction we have a certain charge, so by the end of the year we can calculate, settle with government and clear it off. So that the capital issue on insurance commission specifically which improves met life, we have grown 47%.

Manisha Porwal:

Okay thank you sir, thanks a lot?

Moderator:

Next question comes from Mr. Ramnath of Kotak

Ramnath:

Good evening sir, just one small data point. Do you adjust the investment amortization expense against the other income?

Haseeb A Drabu:

Yes we do.

Ramnath:

Sir, what is the quantum of that?

Haseeb A Drabu:

4.5 crores, 5 crores.

Ramnath:

For both this year and last quarter, last year also it was the same thing?

Haseeb A Drabu:

come down by 1 crore. It was around 6, now it's around 4.5

Ramnath:

Okay fine sir, yeah thanks.

Moderator:

Next is a follow-up question by Mr. Sunil Kumar of Birla Sunlife.

Sunil Kumar:

Yeah, thanks, my question was on same income only, thanks.

Haseeb A Drabu:

Okay.

Moderator:

Next is a follow-up question by Mr. Piyush of HSBC.

Piyush:

Sir just a small question, regarding your NPS provisions during the quarter was 41 crores. So how much out of this is investment depreciation?

Haseeb A Drabu:

Our total provisions were about 86 and depreciation on investment was about 28.

Piyush:

28 crores?.

Haseeb A Drabu:

Out of which 18 are equities, 10 is.....

- Piyush:** Okay so on the fixed income portfolio we had an interim hit of fully 10 crores Rupees?
- Haseeb A Drabu:** Actually under 10, yeah it's for
- Piyush:** And how much cushions we do have more because in the current quarter also we have seen yields moving up quite fast.
- Haseeb A Drabu:** Yeah we have another 25 basis points.
- Piyush:** So as the yields have passed 25 basis points so we may see a depreciation hit going forward as well.
- Haseeb A Drabu:** Our HTM is now almost 80%, 22 is only in the AFS, that to in the duration of 18 months, then where will the depreciation come from way. It's not going to be a winning order that will stop the profitability of the bank.
- Piyush:** Okay sir, thank you.
- Moderator:** There are no further questions, now I handover the floor to Mr. Haseeb A Darbu for closing comments.
- Haseeb A Drabu:** Thanks very much that has been a wonderful session. Just to reiterate that I think the basic take away from this quarter has been significant improvement in all these critical ratios whether its tax in this margins, costs of deposits, turn in equities, turn in assets. I think we are in right course and what seems to have helped us through this period is our basic shift in strategy which introduced two and half years ago to focus on J & K which is fairly credits sound in terms of the overall volume and is giving us outstanding either advances. As far as the overall environment goes, I think we are looking at the difficult period ahead, there will be uncertainty which has been indicated by the Reserve Bank in the status measures, but we have tried our best to compensate that to an improvement in our own way we do our liability management which has shown the results this quarter that CASA has come down in spite of very unfavorable situation. We hope to continue the same basic strategy and we hope that the next quarter will be better for us largely because we won't have the same level of provisioning to make that we have made this quarter. So hopefully we should see net profit levels of 25% to 30% in the next quarter and going forward in the year end also. We do hope to show an improvement in advances growth which we had conservatively estimated, Q1 is always low period of growth for us because the advances starts picks up in J&K Q2 and our best quarter in J & K Q3. So we do hope in the next two quarters we shall see a higher growth

in advances and we would also focus a little more on liability management which shall ensure that our net interest margins actually is not improved will stay at the current level 50%. Thanks very much for taking interest and taking time to come for this con call. Thank you very much.

Moderator:

Thank you sir, ladies and gentlemen, this concludes the conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.