

Set to bloom again!

BFSI - Banks ▶ Visit Note ▶ September 21, 2023

TARGET PRICE (Rs) : NA

J&K Bank, under the incumbent management (MD Baldev Prakash since December 2021), has staged decent recovery (RoA/RoE at 0.9%/14% in FY23) from a prolonged weak performance over FY15-FY22, including high NPAs and even losses due to RBI's AQR, floods, political disruption and the pandemic. Post abrogation of Article 370, growth as well as NPA recovery prospects in J&K State have improved meaningfully, reflected in tourists' influx and on-ground economic activity, while the bank's inherent cost advantage due to higher CASA ratio (>50%) should help sustain its relatively high margins (>3.75%) and, thus, drive up RoAs well above 1%. The bank believes political interference has come down materially, while the RBI as well as Central govt should continue to have a say in the mgmt. to ensure a smooth conduct of the bank, even if part statehood is restored. With CET 1 at 11.4% (incl. Q1 PAT + ESPS), the bank plans to raise capital to the tune of Rs7.5bn at an appropriate time, thereby further boosting CET 1 by 90bps. Post the recent run-up, the stock trades at 1.4x its 1QFY24 ABV, while further re-rating will track the bank's delivery on growth coupled with better return ratios on guided lines and sustained mgmt. stability.

Jammu & Kashmir Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22	FY23
Net profit	4,649	(11,395)	4,321	5,016	11,974
Loan growth (%)	16.4	(2.8)	3.8	5.3	16.9
NII growth (%)	17.9	9.5	1.7	3.7	21.3
NIM (%)	3.9	4.0	3.8	3.6	4.0
PPOP growth (%)	24.3	(11.2)	5.7	(34.1)	74.9
Adj. EPS (Rs)	8.3	(17.9)	6.1	6.1	12.2
Adj. EPS growth (%)	122.0	(314.9)	0.0	0.5	100.1
Adj. BV (INR)	70.1	55.8	63.9	64.6	75.7
Adj. BVPS growth (%)	5.6	(20.4)	14.5	1.2	17.0
RoA (%)	0.5	(1.1)	0.4	0.4	0.9
RoE (%)	7.3	(17.5)	6.5	6.7	13.3
P/E (x)	12.8	(6.0)	17.7	17.6	8.8
P/ABV (x)	1.5	1.9	1.7	1.7	1.4

Source: Company, Emkay Research

Political, asset-quality risk abated meaningfully, while management stability adds to comfort: Post abrogation of Article 370 on February 3, 2021, J&K State (now UT) is under the governor's rule, leading to meaningful reduction in terrorism, political noise (incl. stone pelting) and steady socio-economic development including record influx of tourism. J&K Bank also underwent management change with the appointment of the current MD, Baldev Prakash (from SBI) in Dec-21. Since then, the top management has staged a gradual turnaround in the bank from its tumultuous past, including high NPAs due to RBIs AQR/floods/Pandemic, forcing the bank to abandon growth/unwind its credit portfolio. The bank believes political interference has come down materially, while RBI as well as the central government should continue to have enough say in the management to ensure a smooth conduct of the bank, even if statehood is restored. So, effectively, the bank may have dual control, including that of the central government, ensuring management/strategic business stability.

Growth set to accelerate, maintaining a balance between J&K/RoI with an unwavering focus on profitability and quality: Given multiple dislocations, including asset quality and political/management, the bank reported just 7% CAGR credit growth over FY15-21 (even declining in FY15/FY17/FY20), but it recovered gradually and registered healthy 17% growth in Q1FY24. Going forward, the bank expects growth to remain healthy on account of a thriving J&K economy and re-ignoration of growth in Rest of India (RoI). That said, the bank has taken multiple measures to strengthen its underwriting and credit monitoring practice, while it has upgraded its tech infrastructure to drive new-age retail lending. Within J&K – apart from tourism, industries/sectors such as power, infra, mining, education, hotel, and so on are thriving, leading to a huge growth opportunity for the bank. Competition on the lending side in J&K State still remains minimal and, thus, provides a perfect platform for the bank to ramp up growth. In RoI, the bank remains open to growth, but primarily into AAA corporates, which should help the bank improve overall LDR and, thus, support margins.

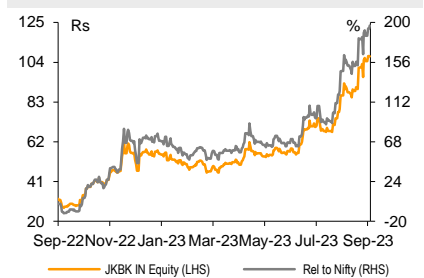
Strong margins, lower provisions to drive up RoAs >1%: The bank traditionally has benefitted from high CASA (>50%) leading to one of the lowest CoD/CoF @3.7%/3.8% in FY23 among peers, which along with accelerating growth led to healthy NIMs at 3.9-4.0%. Similar to other banks, some margin moderation may happen due to rising CoF, but the bank expects NIMs to sustain at >3.75% from a long-term perspective. The bank also expects its GNPA/NNPA ratio to reduce from 5.8%/1.4% to 4.5%/1% by FY24-end and then to <3%/1% mainly led by better recoveries (benefiting from SARFASEI, lower political interference, OTS and lumpy corporate resolutions), while healthy PCR @76% should help contain credit cost (even factoring in some build-up for ECL) going ahead and, thus, boost RoAs well above 1%.

Target Price – 12M	NA
Change in TP (%)	NA
Current Reco.	Not Rated
Previous Reco.	NA
Upside/(Downside) (%)	NA
CMP (20-Sep-23) (Rs)	107.2

Stock Data	Ticker
52-week High (Rs)	112
52-week Low (Rs)	27
Shares outstanding (mn)	961.5
Market-cap (Rs bn)	103
Market-cap (USD mn)	1,240
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	12
ADTV-3M (Rs mn)	917.6
ADTV-3M (USD mn)	11.0
Free float (%)	30.0
Nifty-50	19,901
INR/USD	83.1
Shareholding, Jun-23	
Promoters (%)	63.4
FPIs/MFs (%)	2.2/2.4

Price Performance

(%)	1M	3M	12M
Absolute	24.0	83.2	232.2
Rel. to Nifty	20.3	72.6	194.2

1-Year share price trend (Rs)**Anand Dama**

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Story in Charts

Exhibit 1: Peer Overview

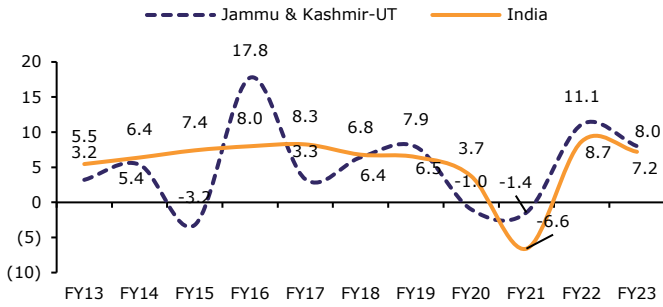
	J&K Bank	KBL	Federal	SIB	DCB	KVB	RBL	CSB
Loan Book (Q1FY24) – Rs bn	845	615	1,835	717	355	660	731	207
CAGR - 3 years	7.7	4.3	14.8	3.6	12.3	12.7	8.8	23.4
- Retail	327	232	584	165	220	156	330	23
%	38.7	37.7	31.8	23.0	62.0	23.7	45.1	11.0
- SME	97	171	335	151	24	222	75	25
%	11.5	27.8	18.2	21.0	6.7	33.6	10.3	12.2
- Corporate	248	132	671	265	29	136	250	62
%	29.3	21.5	36.6	37.0	8.1	20.5	34.2	30.0
CASA (%) - 1QFY24	53.3	32.2	31.8	32.6	26.0	32.9	37.3	32.2
SA (%)	42.6	27.5	25.5	27.2	21.1	22.8	19.6	24.1
CA (%)	10.7	4.7	6.4	5.4	4.9	10.1	17.7	8.1
CoD (%)	4.3	5.1	5.3	4.9	6.6	5.0	6.2	5.00
CoF (%)	4.6	5.5	5.6	4.4	6.7	5.0	6.1	5.4
Branches (nos)	1,001	901	1,366	941	436	808	520	706
Deposits per branch (Rs mn)	1,212	965	1,629	1,015	986	999	1,647	347
NIM – Q1FY24 (%)	4.0	3.7	3.2	3.3	3.8	4.2	4.8	5.4
NIM - Avg for past 3 yrs	3.8	3.2	3.1	2.9	3.6	3.8	4.2	4.9
GNPA ratio (%)	5.8	3.7	2.4	5.1	3.3	2.0	3.2	1.27
NNPA ratio (%)	1.4	1.4	0.7	1.9	1.2	0.6	1.0	0.32
PCR (Specific) (%)	76.9	62.1	71.3	65.1	64.1	70.7	69.6	75.0
RSA (%)	2.6	4.1	1.9	1.8	4.0	1.3	1.1	0.1
CAR (%)	14.8	17.0	14.3	16.5	17.1	17.7	16.7	26.0
Tier I (%)	11.9	13.8	12.5	14.0	14.8	16.0	15.1	24.8
CET 1 (%)	10.6	13.8	15.5	14.0	14.8	16.0	15.1	24.8
Dupont (%) - FY23								
NII	3.4	3.3	3.0	2.9	3.5	3.9	4.0	4.9
Non-Int Income	0.5	1.0	1.0	0.8	0.8	1.4	2.2	1.2
- Fees	0.5	1.2	0.8	0.0	0.8	1.1	2.1	1.1
Net Income	4.0	4.4	4.0	3.7	4.4	5.3	6.3	6.1
Opex	2.6	2.1	2.0	2.2	2.8	2.4	4.3	3.5
- Staff Cost	2.0	1.1	0.6	1.3	0.4	0.8	1.2	0.5
- Other Opex	0.7	0.9	1.4	1.0	2.4	1.6	3.1	2.9
PPoP	1.3	2.3	2.0	1.5	1.6	2.9	2.0	2.6
Provisions	0.1	0.8	0.3	0.4	0.3	1.2	0.9	-0.1
PBT	1.3	1.5	1.7	1.1	1.3	1.7	1.1	2.7
Tax	0.4	0.3	0.4	0.3	0.3	0.4	0.3	0.7
RoA	0.9	1.2	1.3	0.7	1.0	1.3	0.8	2.1
RoE	14.2	15.0	15.1	12.8	11.5	13.7	6.7	20.2
MD & CEO	Baldev Prakash	Srikrishnan Harihara Sarma	Shyam Srinivasan	P.R Seshadri	Murali M Natrajan	Ramesh Babu Boddu	R. Subramaniakumar	Pralay Mondal
- Age	56	61	61	60	61	60	64	57
- Tenure ending	26-Oct-24	9-Jun-26	22-Sep-24	1-Oct-26	28-Apr-24	23-Jan-26	22-Jun-25	14-Sep-25
Promoter Holding (%)	63.4	-	-	-	14.8	2.3	-	49.7
Top 3 public Shareholders	LIC - 1.42, Sanjeev Arora - 1.3	LIC - 4.66, B Sumanth Kumar Reddy - 2.39, Sreenadha Reddy Nayani - 1.16	HDFC MF - 4.49, Mirae Asset MF - 3.28, Yusuffali Abdul Kader -3.24	Yusuffali Abdul Kader - 4.32, LIC - 2.69, Kotak MF - 2.3	Tata MF - 4.94, HDFC MF - 4.47, DSP MF - 4.22	ICICI MF - 4.66, Franklin Templeton MF - 4.55, Jhunjunwala Rakesh - 4.5	Maple Ii B.V. - 9.98, ICICI Prudential Life - 3.28, Nippon MF - 3.09	SBI MF - 7.07, Yusuffali Abdul Kader - 2.17, Omers Administration Corporation - 2.07
ABV - 12TTM	77	220	91	27	130	108	222	181
P/ABV	1.4	1.1	1.6	1.0	1.0	1.3	1.0	1.8

Source: Company, Emkay Research

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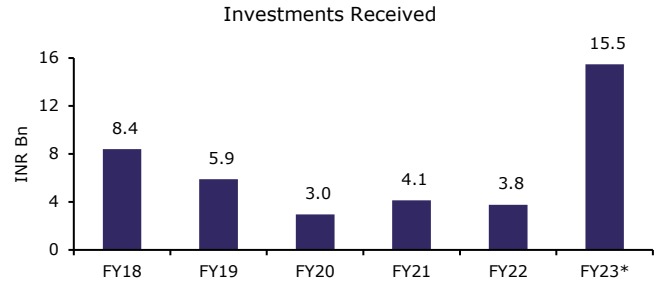
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Exhibit 2: J&K's GDP growth is expected to accelerate post abrogation of Article 370 and so also benefit J&K Bank...



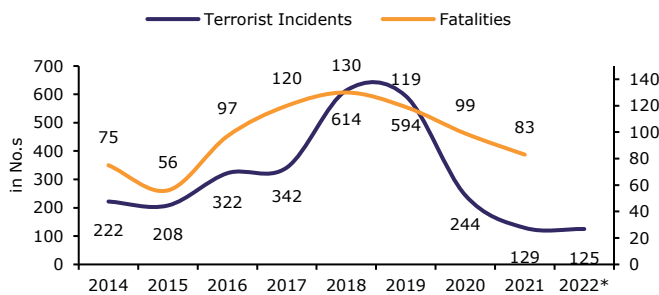
Source: MoSPI, RBI, Emkay Research

Exhibit 3: Investments in J&K have improved with first FDI coming through Dubai's Emaar group



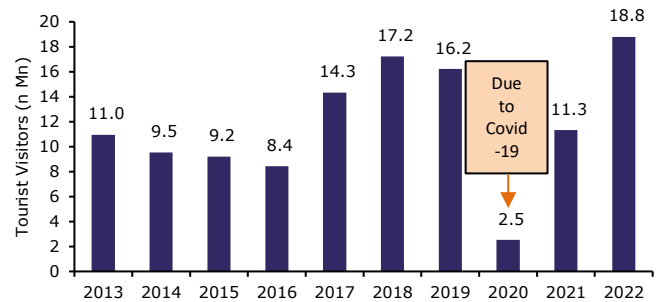
Source: Union Ministry, Emkay Research, *till January 2023

Exhibit 4: Terrorist activities have reduced meaningfully in the past few years mainly to demonetization and abrogation of Article 370



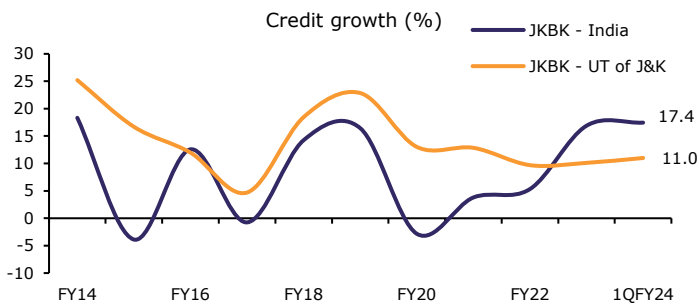
Source: PIB, Emkay Research, *Fatalities data for 2022 is not available

Exhibit 5: ...leading to historically high tourist influx and, thus, support economic growth and employment



Source: Ministry of Tourism, Emkay Research

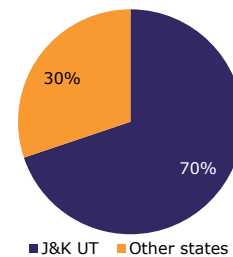
Exhibit 6: Credit growth has picked up of late after a prolonged weakness due to higher NPAs and external disruptions (Add growth line for J&K State)



Source: Company, Emkay Research

Exhibit 7: Share of RoI in credit could have inched up a bit to ~32%

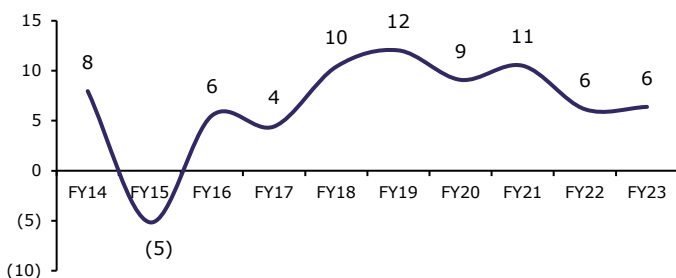
JKBK - 1QFY24 - Credit mix %



Source: Company, Emkay Research

Exhibit 8: Deposits growth has been slower as the bank intends to improve the LDR

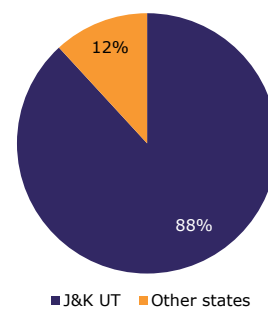
JKBK - 1QFY24 - Deposits growth %



Source: Company, Emkay Research

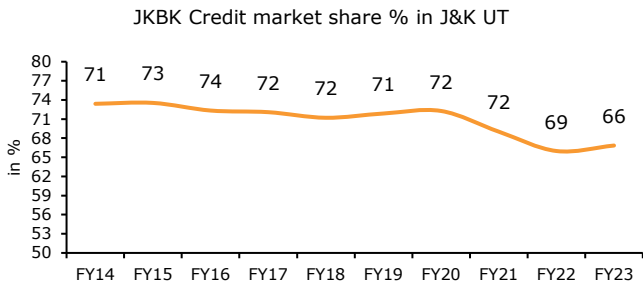
Exhibit 9: Deposits remain largely dominant in J&K

JKBK - 1QFY24 - Deposits mix %



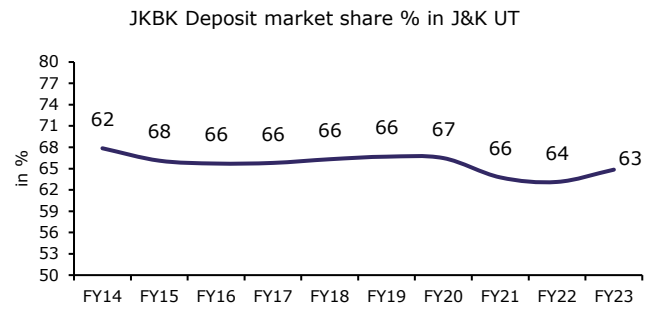
Source: Company, Emkay Research

Exhibit 10: J&K Bank has slightly lost credit market share in the state of J&K, but it is set to gain as growth accelerates



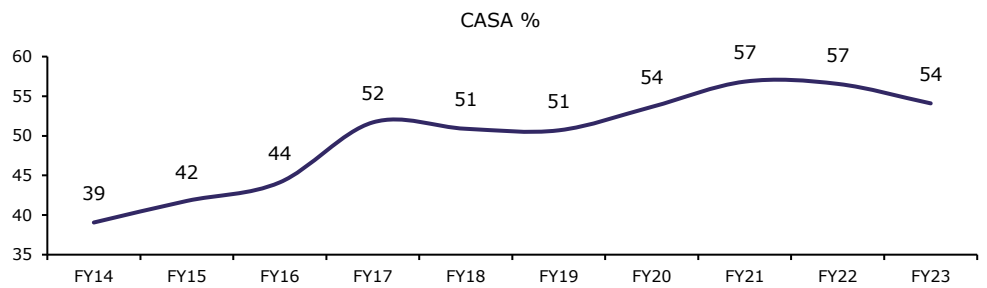
Source: Company, RBI, Emkay Research

Exhibit 11: ...and so also in deposits in the state of J&K



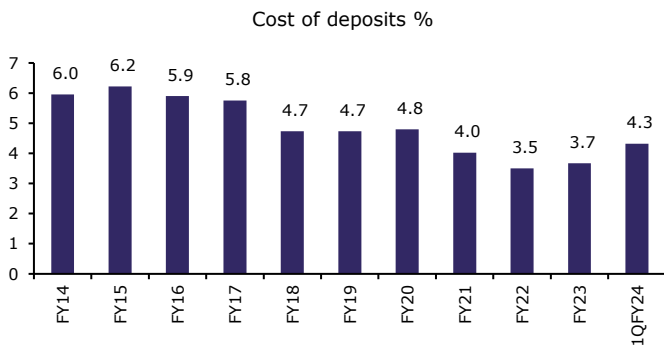
Source: Company, RBI, Emkay Research

Exhibit 12: The bank traditionally has sustained healthy CASA ratio due to strong CASA mobilization in the state of J&K



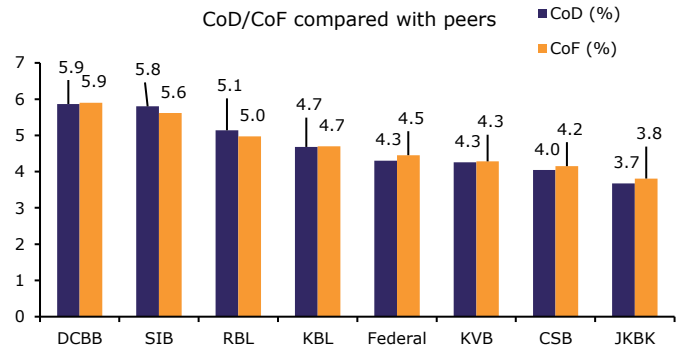
Source: Company, Emkay Research

Exhibit 13: ...leading to continued lower CoD/CoF



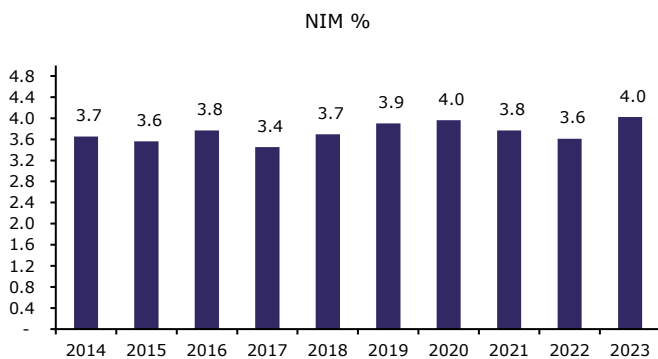
Source: Company, Emkay Research

Exhibit 14: J&K Bank has lower CoD/CoF vs. peers



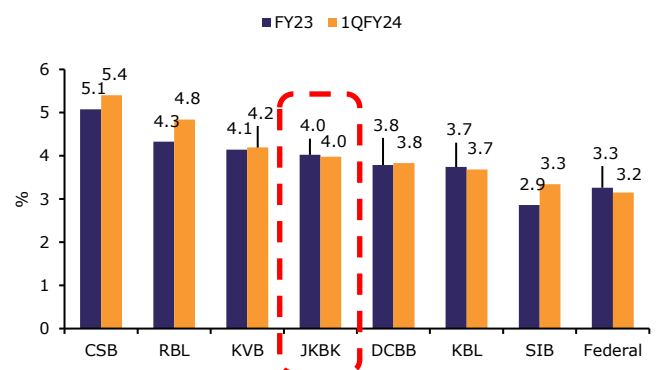
Source: Company, Emkay Research

Exhibit 15: The bank has seen meaningful pick-up in NIM, but it could soften a bit due to rising CoF



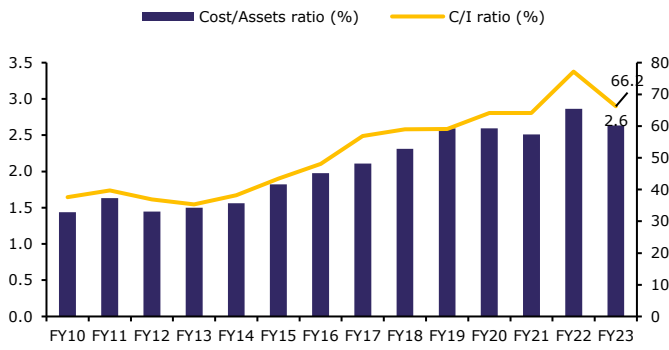
Source: Company, Emkay Research

Exhibit 16: J&K Bank's NIM has been stronger vs. some regional peers due to lower CoF



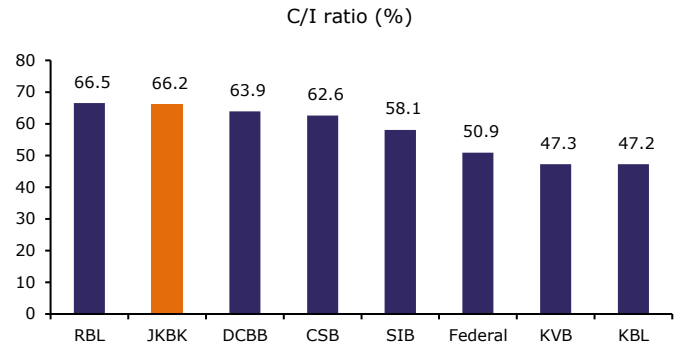
Source: Company, Emkay Research

Exhibit 17: The bank has a higher C/I ratio...



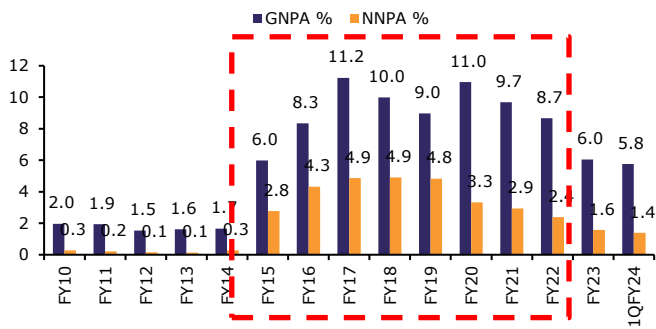
Source: Company, Emkay Research

Exhibit 18: ...so also, for many other small/mid-size PVBs



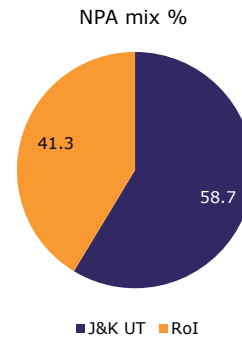
Source: Company, Emkay Research

Exhibit 19: GNPA/NNPA ratio for the bank has improved due to strong recoveries/upgrades



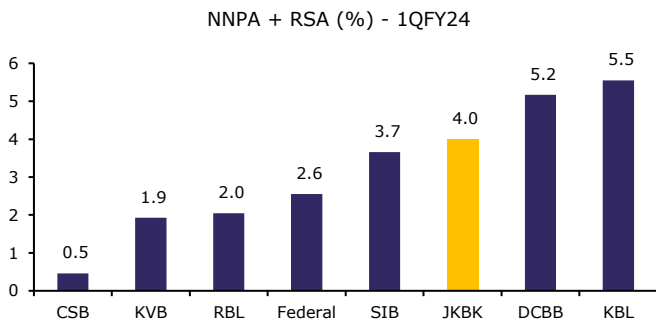
Source: Company, Emkay Research

Exhibit 20: NPA split between J&K and RoI



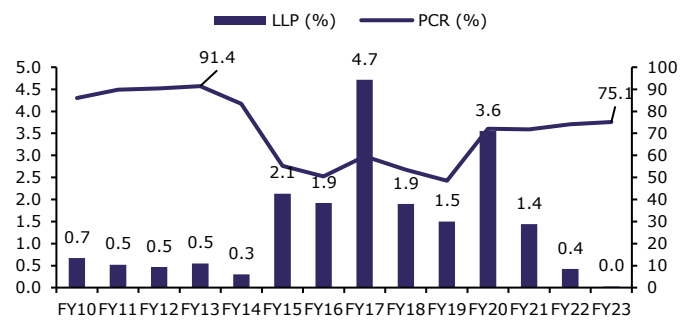
Source: Company, Emkay Research; RoI - Rest of India

Exhibit 21: Overall stress pool (NNPA + RSA) for J&K Bank remains elevated vs. peers and has scope for further improvement



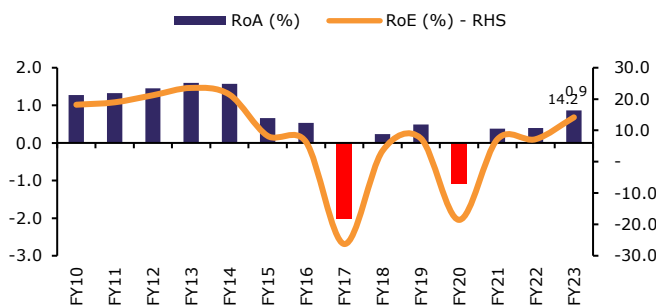
Source: Company, Emkay Research

Exhibit 22: Credit cost has come down meaningfully in FY23, but should inch up a bit due to build-up towards ECL



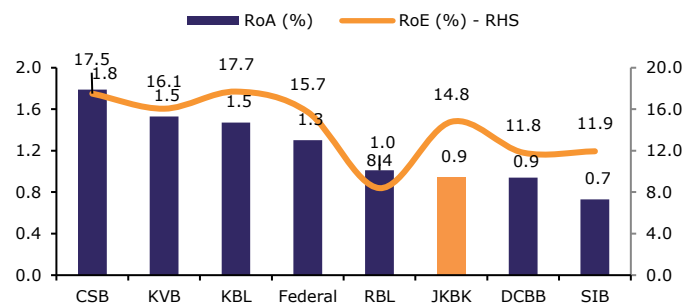
Source: Emkay Research

Exhibit 23: The bank has seen healthy improvement in RoA/RoE trajectory and it should improve further by >1% as growth picks up



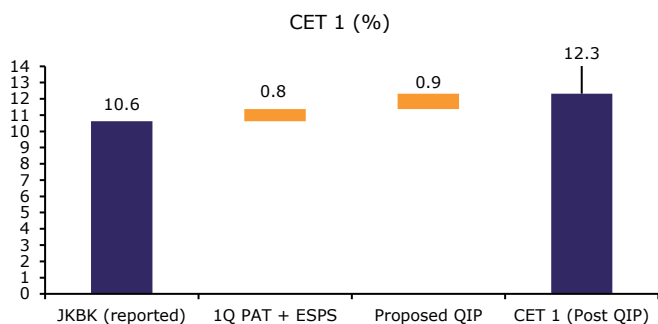
Source: Company, Emkay Research

Exhibit 24: J&K Bank has slightly moderate RoA/RoE vs. peers, but there is scope to improve



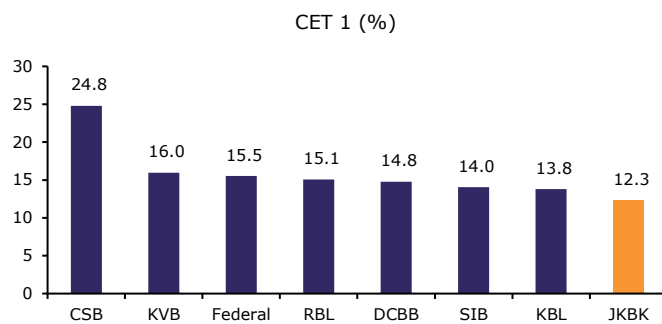
Source: Company, Emkay Research

Exhibit 25: The bank plans to shore up capital via QIP



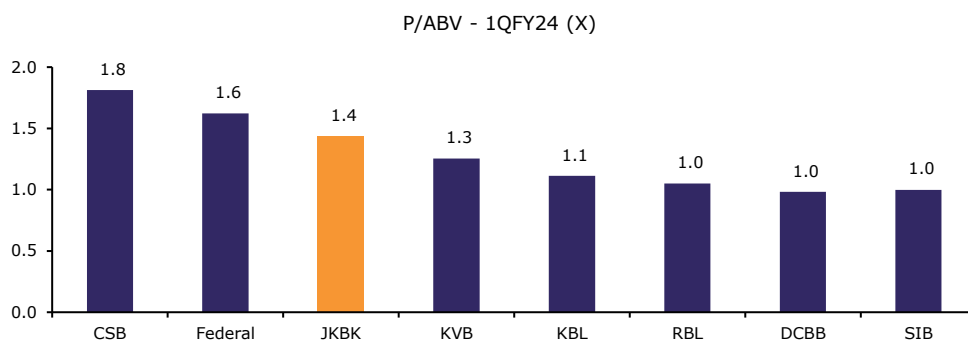
Source: Emkay Research

Exhibit 26: J&K Bank’s CET 1 compared with peers



Source: Emkay Research

Exhibit 27: J&K Bank’s P/ABV (TTM) vs. peers



Source: Emkay Research; JKBK adjusted for ESPS

Exhibit 28: Management Profile

Name	Designation	Age	Profile	Date of Joining
Baldev Prakash	MD and CEO	56	Mr. Baldev Prakash has been serving as the MD and CEO of the bank since December 2021. Having completed graduation in economics and post-graduation in history, Mr. Prakash continued pursuit of professional excellence during his service career with SBI by accomplishing multiple degrees and diplomas offered by the Indian Institute of Banking and Finance, thus bringing a diverse wealth of experience and expertise spanning over three decades with the country’s largest bank. Mr. Prakash also has international exposure of successfully handling remittances business including treasury operations at Muscat (Sultanate of Oman).	Dec-21
Sudhir Gupta	ED	NA	Mr. Sudhir Gupta joined the services of the Bank as Probationary Officer in the year 1989 and has served the Bank over three decades in different capacities across the operational topography of the Bank. Mr. Gupta has also demonstrated his leadership skills in J&K Grameen Bank where he was deputed as chairman for a period two years.	Dec-22
Pratik D Punjabi	General Manager / CFO	NA	Mr. Pratik, who joined the bank in July 2022, is a Chartered Accountant and has 22 years of professional experience in finance at Kotak Mahindra Group, IDBI Bank, Bank of America and HSBC besides leadership role in First Abu Dhabi Bank and a top rated finance company in Oman, MUSCAT Finance SAOG. He has been in Finance-leadership roles for over 8 years.	Jul-22
Altaf Hussain Kira	Chief Risk Officer	52	Dr. Altaf Hussain Kira, aged 52 years, holds a Ph.D. in Economics and Post-Doctoral Fellowship from IGIDR, Mumbai. He also holds a degree in MBA (Finance) from University of Kashmir and CAIIB-II from Indian Institute of Banking and Finance. Dr. Kira’s vast banking experience spanning over 26 years assists the senior management of the Bank in the development and implementation of the Bank’s Risk Management functions.	Jun-21

Source: Company, Emkay Research

Jammu & Kashmir Bank : Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22	FY23
Interest Income	76,755	84,462	81,111	80,135	93,551
Interest Expense	42,916	47,396	43,403	41,022	46,098
Net interest income	33,839	37,066	37,708	39,112	47,453
NII growth (%)	17.9	9.5	1.7	3.7	21.3
Other income	8,126	5,459	7,190	7,440	7,568
Total Income	41,965	42,525	44,898	46,552	55,021
Operating expenses	24,786	27,275	28,785	35,928	36,436
PPOP	17,179	15,250	16,112	10,625	18,585
PPOP growth (%)	24.3	(11.2)	5.7	(34.1)	74.9
Core PPOP	15,054	14,660	13,591	9,748	18,194
Provisions & contingencies	10,582	26,251	10,772	3,198	741
PBT	6,597	(11,001)	5,341	7,427	17,844
Extraordinary items	0	0	0	0	0
Tax expense	1,948	394	1,020	2,411	5,870
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	4,649	(11,395)	4,321	5,016	11,974
PAT growth (%)	129.3	(345.1)	(137.9)	16.1	138.7
Adjusted PAT	4,649	(11,395)	4,321	5,016	11,974
Diluted EPS (Rs)	8.3	(16.0)	6.1	5.4	11.6
Diluted EPS growth (%)	129.3	(291.3)	(137.9)	(11.4)	116.4
DPS (Rs)	0.0	0.0	0.0	0.0	0.5
Dividend payout (%)	0.0	0.0	0.0	0.0	5.2
Effective tax rate (%)	29.5	(3.6)	19.1	32.5	32.9
Net interest margins (%)	3.9	4.0	3.8	3.6	4.0
Cost-income ratio (%)	59.1	64.1	64.1	77.2	66.2
Shares outstanding (mn)	557.0	713.6	713.6	935.0	1,031.7

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22	FY23
Asset quality					
Gross NPLs	62,213.0	76,715.9	69,547.1	65,205.0	52,043.9
Net NPLs	32,039.7	21,457.4	19,601.1	16,858.6	12,970.9
GNPA ratio (%)	9.0	11.0	9.7	8.7	6.0
NNPA ratio (%)	4.8	3.3	2.9	2.4	1.6
Provision coverage (%)	48.5	72.0	71.8	74.1	75.1
Gross slippages	29,645.0	40,537.9	11,068.9	31,308.7	74,466.1
Gross slippage ratio (%)	4.3	5.8	1.5	4.2	8.6
LLP ratio (%)	1.5	3.6	1.4	0.4	0.0
NNPA to networth (%)	49.6	36.9	31.2	22.0	14.0
Capital adequacy					
Total CAR (%)	12.5	11.4	12.2	13.2	15.4
Tier-1 (%)	10.6	9.9	10.3	11.7	12.3
CET-1 (%)	10.6	9.9	10.3	11.7	12.3
RWA-to-Total Assets (%)	67.1	63.0	57.3	55.5	53.0
Miscellaneous					
Total income growth (%)	19.3	5.9	(1.8)	(0.8)	15.5
Opex growth (%)	24.9	10.0	5.5	24.8	1.4
Core PPOP growth (%)	12.8	(2.6)	(7.3)	(28.3)	86.6
PPOP margin (%)	20.2	17.0	18.2	12.1	18.4
PAT/PPOP (%)	27.1	(74.7)	26.8	47.2	64.4
LLP-to-Core PPOP (%)	70.3	179.1	79.3	32.8	4.1
Yield on advances (%)	10.1	10.5	9.5	9.0	9.3
Cost of funds (%)	4.9	4.9	4.1	3.6	3.8

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22	FY23
Share capital	557	714	714	935	1,032
Reserves & surplus	65,704	63,221	67,542	80,137	98,401
Net worth	66,261	63,935	68,256	81,072	99,432
Deposits	896,388	977,882	1,080,611	1,147,104	1,220,377
Borrowings	26,240	20,196	20,152	23,708	28,923
Interest bearing liab.	922,627	998,078	1,100,763	1,170,812	1,249,300
Other liabilities & prov.	25,173	26,708	33,900	54,140	110,890
Total liabilities & equity	1,014,062	1,088,721	1,202,919	1,306,024	1,459,623
Net advances	662,714	643,990	668,417	704,007	822,855
Investments	231,605	230,522	308,142	338,350	348,292
Cash, other balances	58,620	97,829	94,976	87,850	88,787
Interest earning assets	952,938	972,340	1,071,536	1,130,207	1,259,933
Fixed assets	16,746	20,705	20,124	19,537	22,715
Other assets	44,377	95,674	111,260	156,280	176,975
Total assets	1,014,061	1,088,721	1,202,919	1,306,024	1,459,623
BVPS (Rs)	108.1	75.6	82.0	76.5	84.0
Adj. BVPS (INR)	70.1	55.8	63.9	64.6	75.7
Gross advances	692,888	699,249	718,363	752,353	861,928
Credit to deposit (%)	73.9	65.9	61.9	61.4	67.4
CASA ratio (%)	50.7	53.7	56.8	56.6	54.1
Cost of deposits (%)	4.7	4.8	4.0	3.5	3.7
Loans-to-Assets (%)	65.4	59.2	55.6	53.9	56.4
Net advances growth (%)	16.4	(2.8)	3.8	5.3	16.9
Deposit growth (%)	12.0	9.1	10.5	6.2	6.4
Book value growth (%)	8.7	(30.0)	8.4	(6.7)	9.7

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY19	FY20	FY21	FY22	FY23
P/E (x)	12.8	(6.0)	17.7	17.6	8.8
P/B (x)	1.5	1.9	1.7	1.7	1.4
P/ABV (x)	1.5	1.9	1.7	1.7	1.4
P/PPOP (x)	3.5	5.1	4.8	9.5	6.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.5
DuPont-RoE split (%)					
NII/avg assets	3.5	3.5	3.3	3.1	3.4
Other income	0.9	0.5	0.6	0.6	0.5
Fee income	0.6	0.5	0.4	0.5	0.5
Opex	2.6	2.6	2.5	2.9	2.6
PPOP	1.8	1.5	1.4	0.8	1.3
Core PPOP	1.6	1.4	1.2	0.8	1.3
Provisions	1.1	2.5	0.9	0.3	0.1
Tax expense	0.2	0.0	0.1	0.2	0.4
RoA (%)	0.5	(1.1)	0.4	0.4	0.9
Leverage ratio (x)	16.5	18.4	20.4	19.3	17.5
RoE (%)	7.3	(17.5)	6.5	6.7	13.3
Quarterly data					
Rs mn, Y/E Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
NII	10,342	12,041	12,577	12,496	12,833
NIM(%)	3.5	4.0	4.1	3.9	4.0
PPOP	3,815	4,833	5,447	4,496	5,281
PAT	1,660	2,435	3,120	4,763	3,265
EPS (Rs)	1.73	2.53	3.25	4.62	3.16

Source: Company, Emkay Research

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