INVasset Corporate Insights

J&K Bank

5th January, 2024

INVASSET

India's Best Performing and Most Customer Centric PMS

Jammu & Kashmir Bank (J&K Bank) stands as a prominent and resilient banking institution, deeply rooted in the picturesque region of Jammu and Kashmir, India. As a publicly held banking company, it plays a pivotal role in offering a diverse spectrum of financial services, encompassing Retail Banking, Corporate Banking, and Treasury Operations. J&K Bank emerges as a stalwart financial institution, leveraging its regional expertise while embracing a progressive vision for national growth. The bank's financial soundness, diverse portfolio, and strategic initiatives position it as a strong spearhead, promising sustainable growth and continued success in the evolving financial landscape.

Lead Bank Responsibility: One distinctive feature setting J&K Bank apart is its designation as the sole Private Sector Bank entrusted with the significant responsibility of convening State/UT Level Bankers' Committee (SLBC/UTLBC) meetings. Successfully discharging its lead bank role in 12 districts of the Union Territory of Jammu & Kashmir, including prominent regions such as Srinagar, Baramulla, and Anantnag, underscores its integral role in the regional financial ecosystem.

Geographical Presence end and Network Expansion: With a formidable presence across the nation, J&K Bank operates through a network of 990 branches (including IARBs) strategically spread across 18 states and 4 union territories. Notably, its rural focus is significant, with 55% of branches situated in rural areas, aligning with the bank's commitment to inclusive growth. In tandem with technological advancement, the bank added 17 ATMs during FY23, augmenting its total ATM network to 1421, ensuring accessibility for customers across diverse regions.

Lending Landscape: The bank's gross advances totaled approximately Rs. 86,100 Crores, reflecting a well-diversified loan book. Personal loans dominate at 39%, closely followed by the service sector (33%), Industry (16%), and Agriculture (12%), demonstrating prudent risk distribution and having a diverse loan portfolio.

Subsidiaries and Sponsorship: The bank's wholly-owned subsidiary, JKB Financial Services Ltd., operates as a brokerage firm in the Union Territory of J&K, providing equity broking services, mutual fund distribution, and retail banking products. Affirming its commitment to rural development, J&K Bank sponsors J&K Grameen Bank, holding a significant 35% stake. Operating in 13 districts across J&K and Ladakh, the RRB plays a crucial role in financial inclusion with 215 branches and approximately 1120 employees.

Regional Dynamics: J&K Bank's profound ties to the socio-political landscape of Jammu and Kashmir (J&K) and Ladakh are evident through its allocation of 72% of total advances to these regions. This substantial commitment underscores the bank's crucial role as a financial lifeline for local businesses and residents, fostering economic development. However, it also highlights the potential risks the bank faces, as any regional unrest could significantly impact its growth, asset quality, and overall profitability, emphasizing the intertwined nature of the bank and regional stability.

Strategic Vision: J&K Bank's forward-looking approach emphasizes growth across all segments, expanding its footprint strategically in key areas nationwide, while steadfastly retaining its stronghold in J&K and Ladakh. This dual focus ensures business expansion, risk diversification, and sustained success in the dynamic banking landscape.

Stock Data	
CMP (05-01-2024)	129.70
52 Week High/Low	140/44.55
Face Value	1
Market Cap (In Crs)	14,244
Enterprise Value (In Crs)	1,30,297
NSE	J&KBANK
BSE	532209
Bloomberg	JKBK:IN
Sector	Private Sector Bank

Shareholding Pattern (in %)		
	DEC 23	SEP 23
Promoter	59.40	63.41
FII	5.16	2.61
DII	6.83	4.92
Public	28.60	29.06

Price Performance (in%)			
(%)	1M	6M	1Yr
Nifty 50	4.95	11.97	20.33
J&KBANK	12.44	97.71	130.58

Key Ratios	
P/E	9.51
P/S	1.38
P/B	1.35
Debt To Equity	12.6
ROE	13.1%
ROCE	4.92%
Dividend Yield	0.39%

Q2 FY 24 Result Update

Q2 FY24 Result Comparison (In Rs Cr)					
	Q2 FY24	Q1 FY24	Q2 FY23	QOQ	YOY
NII	1333.83	1283.30	1204.12	3.94%	10.77%
Operating Profit	534.47	528.05	483.33	1.22%	10.58%
PBT	544.41	451.32	406.43	20.63%	33.95%
Net Profit/(Loss)	381.07	326.45	243.49	16.73%	56.50%
EPS	3.72	3.21	2.49	15.89%	49.40%

Result Highlights

The Q2 FY24 financial results of Jammu & Kashmir Bank showcase robust growth and financial health, with significant improvements across key performance indicators. The Net Interest Income (NII) experienced a healthy increase, rising to ₹1,333.83 Crores, up by 3.94% from the previous quarter and a notable 10.77% from the same quarter in the previous fiscal year. This reflects a steady growth in the bank's core income-generating activities.

Operating Profit also trended upwards, registering a modest QOQ rise of 1.22% to ₹534.47 Crores and a more substantial YOY increase of 10.58%. Profit Before Tax (PBT) saw an impressive surge, escalating by 20.63% QOQ and 33.95% YOY to ₹544.41 Crores, indicating effective management and profitable operations.

Net Profit followed a similar upward trajectory, with a significant 16.73% QOQ and a remarkable 56.50% YOY growth, standing at ₹381.07 Crores. The Earnings Per Share (EPS) climbed from ₹3.21 to ₹3.72 QOQ, and experienced a substantial jump from ₹2.49 in the corresponding quarter of the previous year, marking a 49.40% YOY increase. These figures demonstrate the bank's success in enhancing shareholder value and its strong momentum in financial performance.

Robust Risk Management and Proactive Approach: Jammu & Kashmir Bank showcasing a robust risk management framework, advocates its proactive approach in identifying and mitigating potential risks. The bank's use of advanced tracking systems for SMS alerts, low turnover accounts, and Non-Performing Assets (NPAs) demonstrated a commitment to staying ahead of emerging challenges. This proactive stance positions the bank to swiftly respond to evolving market dynamics and reinforce its resilience in the face of uncertainties.

Strategic Technological Investments for Innovation: A key highlight of Jammu & Kashmir Bank's strategy revolves around its proactive investment in technology to drive innovation. The adoption of advanced analytics, artificial intelligence (AI), and machine learning (ML) reflects a forward-looking approach in leveraging technology for data-driven decision-making. The bank's commitment to enhancing customer experiences through digital banking platforms underscores its recognition of technology as a catalyst for innovation and efficiency. These aspects collectively contribute to the bank's resilience, adaptability, and strategic positioning in a dynamic and competitive banking landscape.

Focus on Geographic Diversification and Sectoral Growth: The bank's growth strategy extends beyond its home territory of J&K and Ladakh, focusing on geographic diversification and sectoral expansion. With a keen interest in high-value corporates and strategic branch openings across India, Jammu & Kashmir Bank aims to tap into opportunities beyond its traditional stronghold. The anticipation of increased economic activities in sectors like horticulture, agriculture, and tourism aligns with the bank's vision for strategic growth beyond regional boundaries.

Commitment to Employee Welfare and Efficient Cost Management: Jammu & Kashmir Bank demonstrated a commitment to employee welfare by acknowledging anticipated retirements and putting in place provisions for pension-related costs. The strategic approach to managing human resources, including the gradual retirement of senior employees, reflects the bank's focus on ensuring a smooth transition while efficiently managing costs.

Concall Highlights

Macroeconomic Overview: The prevailing macroeconomic Indian landscape amidst global headwinds portrays the remarkable resilience exhibited by the Indian economy. The key concerns range from geopolitical issues and a potential global economic slowdown to stubborn inflation and uncertainties related to food inflation. Amid these challenges, the Reserve Bank of India (RBI) expressed confidence in the macroeconomic fundamentals of India and underscored the stability of the financial sector. Cautious action regarding unsecured personal loans, and continuous vigilance in the financial sector to be followed.

Government Partnerships and Loan Security Measures: Jammu & Kashmir Bank's strategic approach to lending, particularly in its association with government employees and the measures in place to secure loans to this segment is an addressal step in reference to the personal loans extended to state government employees and the mitigating factors, the MOU is specifically related to loans for government employees, outlining a unique approach to this segment of the loan portfolio. The fact that the bank has established MOUs with the government for loans to its employees adds an additional layer of security to these transactions. This strategic collaboration serves as a risk-mitigation measure, as it implies a higher degree of assurance regarding the repayment of loans. While this arrangement is exclusive to loans for government employees, it showcases the bank's commitment to exploring innovative ways to secure its lending activities. This qualitative insight into the bank's approach to collaborating with government entities for specific loan segments provides a deeper understanding of its risk management practices.

Growth Strategy and Future Outlook: Jammu & Kashmir Bank's growth strategy, aligns with industry trends and anticipated future developments. The bank reported growth in business numbers with advances growing at an impressive 18% YoY and deposits at 9%. What stood out was the bank's strategic expansion beyond its home territory of J&K and Ladakh to the rest of India. The focus was on high-value corporates, and there were strategic branch openings to facilitate this expansion. Within its home territory, the bank anticipated an uptick in economic activities, particularly in sectors such as horticulture, agriculture, and tourism-related activities. The optimistic outlook for economic growth was bolstered by investments in infrastructure and expectations of increased tourism.

Equity Raise and ESPS: The Bank secured approval for Employee Stock Purchase Scheme, adding a significant 43 basis points to the Common Equity Tier 1 (CET1) capital. Additionally, the bank initiated equity capital raising of 750 Crores. There are ongoing discussions with both the government and the market for a potential combination, emphasizing a collaborative approach to meet capital requirements. The advanced-stage initiatives that would impact employee costs, and clarity on these initiatives are expected in the next quarter.

Contingent Provisions and Ind-AS Transition: A critical aspect of risk management involves the bank's contingency provisions and its preparations for the transition to Indian Accounting Standards (Ind-AS). The bank had strategically built a contingency provision of 690 Crores, supplemented by a floating provision of 134 Crores. These provisions were not solely for restructured assets but were intentionally built into the balance sheet to prepare for the impending Ind-AS migration. The bank had engaged consultants to assist in this transition, and the risk team had conducted runs on expected losses based on portfolio behavior to align the contingency provisions with anticipated risks.

SME Exposure and Risk Mitigation: Elevated exposure to Small and Medium-sized Enterprises (SMEs) with a specific focus on SME1 and SME2 categories is in the pipeline. While SME zero seemed to be higher, the NPA numbers for SME1 and SME2 had witnessed a drastic reduction, currently standing at around 6.5%. The ongoing efforts to mitigate risks associated with SMEs and optimism about the continuous improvement in the SME portfolio over time show the potential future in this segment.

Write-offs, Provisioning, and Contingency Provisions: There have been seemingly negligible credit cost, write-offs, and the impact on net slippages coupled with a reduction in gross NPAs by almost 400 Crores. The bank has a commitment to maintaining a healthy provision coverage ratio and an existence of a contingency provision of 690 Crores, which was intentionally built into the balance sheet in preparation for the Ind-AS migration. These provisions were not solely for restructured assets but were part of the bank's strategic planning.

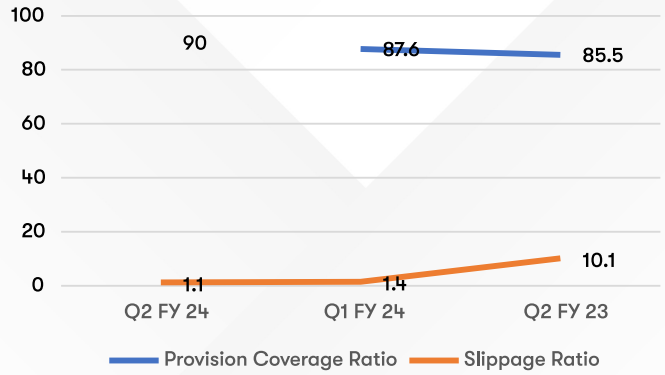
Asset Quality and NPAs: The bank's asset quality has emerged as a standout parameter. The gross slippage, stood at just 1.1% for the Q2 FY24. The proactive use of technology, including trackers for SMS alerts, low turnover accounts, and NPAs, played a pivotal role in effectively controlling slippages. The gross NPA witnessed a substantial reduction, nearing the year-end target of 4.5%, while the net NPA was approaching the 1% mark. The measures taken, including downsizing in gross NPAs, addressing technical write-off accounts, and managing restructured standard loans, collectively contributed to the strengthening of the balance sheet.

Technology-Driven Efficiency and Innovation: In line with the broader industry trend of digitization, Jammu & Kashmir Bank has been proactively investing in technology to streamline its operations. This includes the implementation of advanced analytics, artificial intelligence (AI), and machine learning (ML) algorithms to gain actionable insights into customer behavior, risk management, and overall portfolio performance.

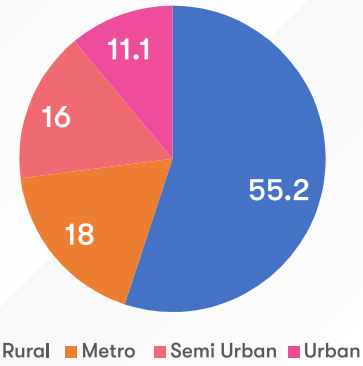


Story Through Charts

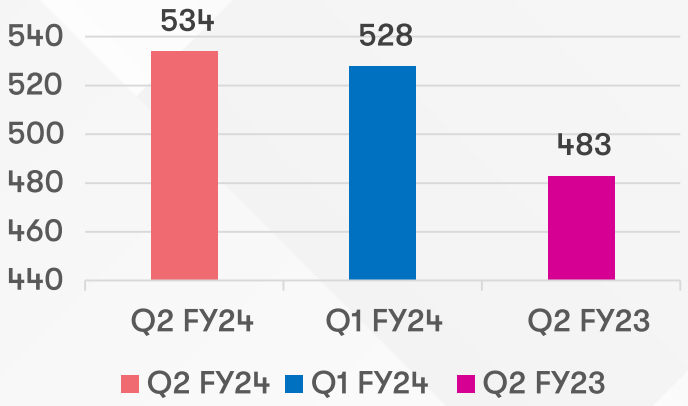
Asset quality ratios (In %)



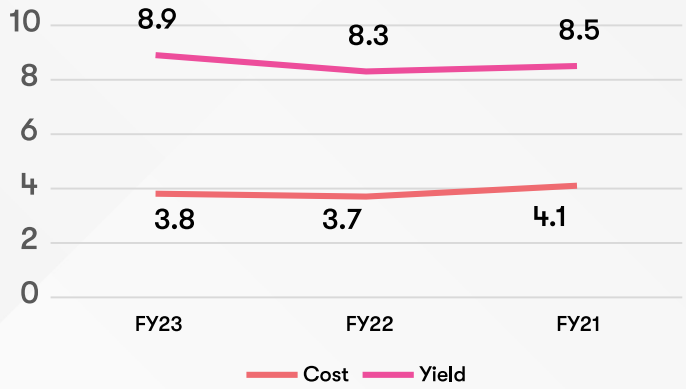
Lending Tiers (%Share)



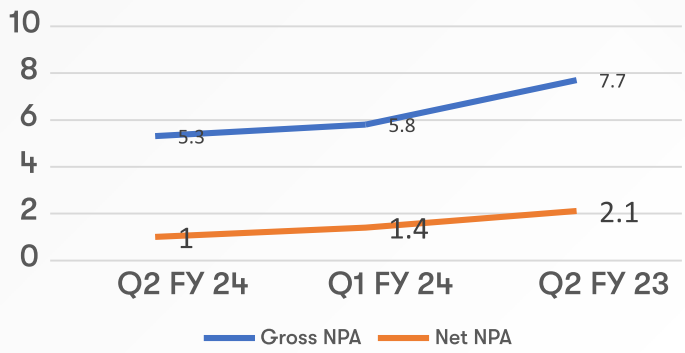
Operating Profit (In Cr)



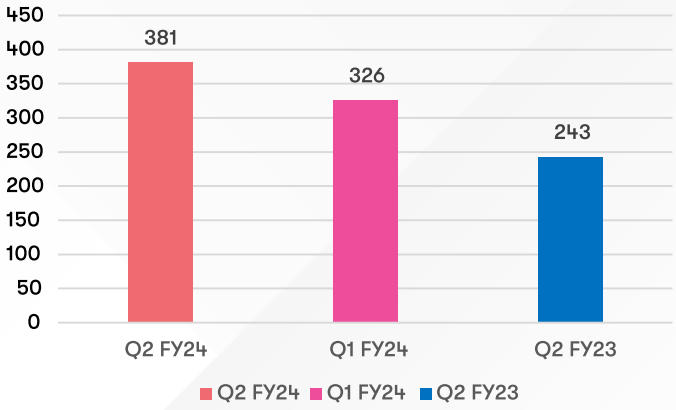
Yield & Cost of Funds (In %)



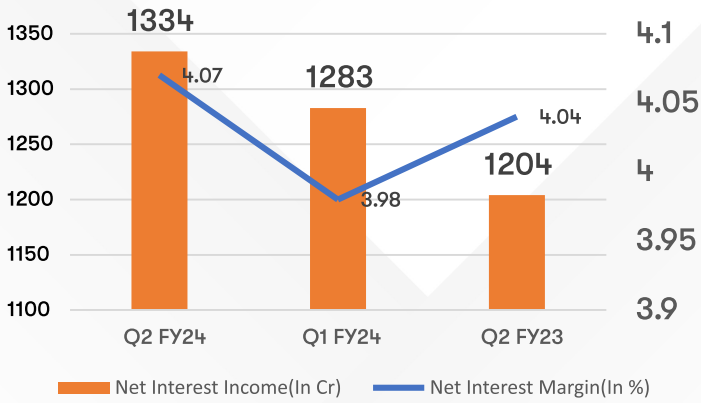
NPA (In %)



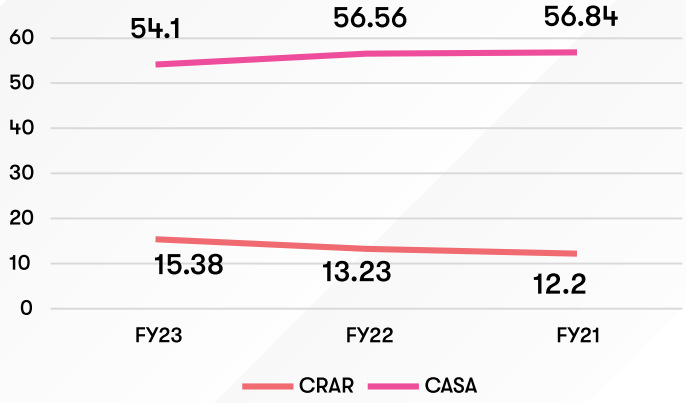
PAT (In Cr)



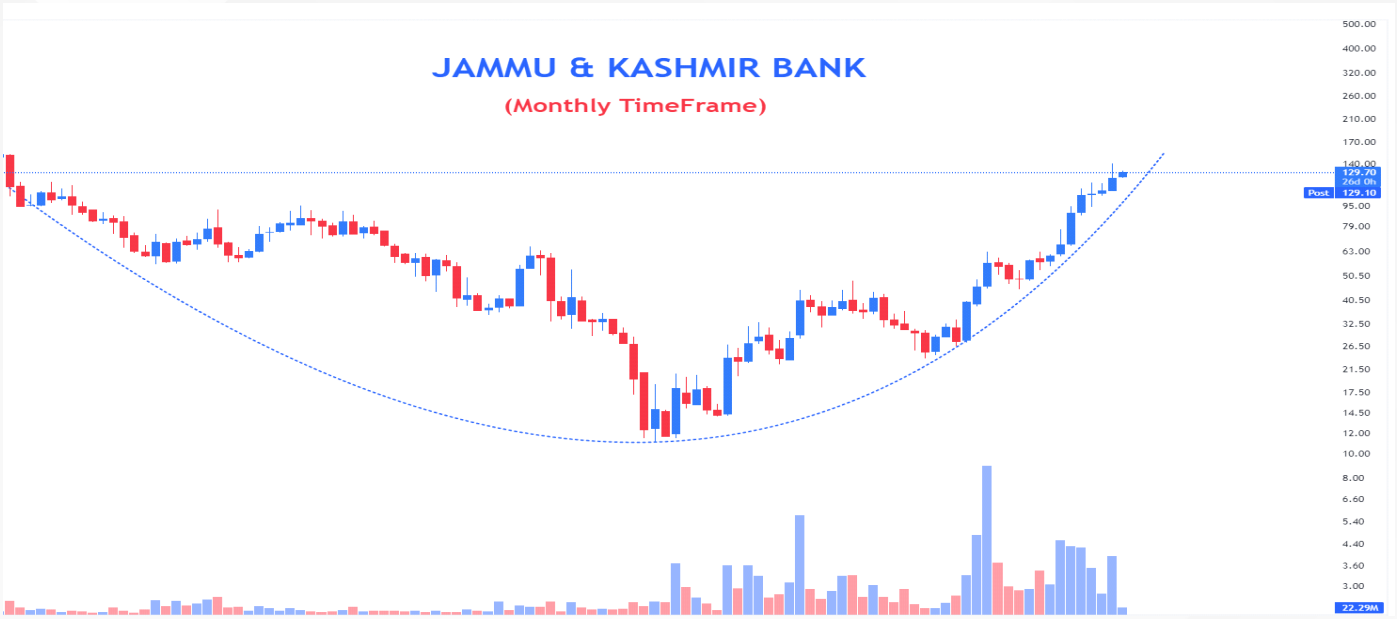
Interest Income & Margin



Capital Ratios (In %)



Technical Outlook



The monthly timeframe chart of Jammu and Kashmir Bank exhibits a well-formed "rounding bottom" pattern, indicating a potential bullish trend reversal. The price action has reached a critical juncture where it's approaching the resistance level that caps the rounding bottom. A breakout above this level could signify the start of a sustained upward movement. The moving averages data provides further insight into the stock's momentum. The Simple Moving Averages (SMAs) and Exponential Moving Averages (EMAs) for various periods (5, 10, 20, 50, 100, and 200 days) are presented, showing a general upward trend as the shorter-term averages are higher than the longer-term ones, which is often interpreted as a bullish signal. Lastly, the Relative Strength Index (RSI) values for daily and weekly timeframes are 62.21 and 74.12, respectively. These values indicate strong buying pressure in the recent periods, with the weekly RSI nearing overbought territory, which could suggest a heightened interest and potential for price increases if the momentum continues.

Moving Averages Days	Simple Moving Average	Exponential Moving Average
5	126.55	127.28
10	125.86	126.15
20	125.96	124.14
50	116.20	117.60
100	108.16	106.93
200	83.30	90.32

Pivot Levels : FIBONACCI		
R1 126.87	Pivot 124.52	S1 122.17
R2 128.32		S2 120.72
R3 130.67		S3 118.37

	Daily	Weekly
Relative Strength Index (RSI)	62.21	74.12

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