MOTILAL OSWAL

2 February 2018

3QFY18 Results Update | Sector: Financials

J&K Bank

BSE SENSEX	S&P CNX
35,067	10,761

Bloomberg	JKBK IN
Equity Shares (m)	484.9
M.Cap.(INRb)/(USDb)	35.2/0.5
52-Week Range (INR)	96/63
1, 6, 12 Rel. Per (%)	-19/-23/-22
Avg Val, INRm	64.0
Free float (%)	40.8

Financials & Valuations (INR b)

Y/E March	2018E	2019E	2020E
NII	30.3	33.8	39.4
OP	16.9	19.2	23.6
NP	4.6	6.8	9.3
NIM (%)	3.8	3.7	3.6
EPS (INR)	8.6	12.2	16.8
EPS Gr. (%)	NA	46.2	37.7
BV/Sh. (INR)	97.2	107.0	121.3
ABV/Sh. (INR)	68.1	80.9	95.2
RoE (%)	8.9	11.9	14.7
RoA (%)	0.5	0.7	0.8
P/E(X)	8.1	5.7	4.2
P/BV (X)	0.7	0.7	0.6

CMP: INR70 TP: INR100 (+44%) Buy

Balance sheet growth picking up with improvement in asset quality

- JKBK reported PAT of INR725m in 3QFY18 (+1.1% QoQ), exceeding our estimate by 3%, aided by 33.8% growth in NII. PPoP was up 30.6% YoY (4% beat), despite high opex (23.1% YoY), raising the CI ratio to 57%. Provisions of INR2.5b were 5% below our estimate. Tax rate for 3QFY18 was 45.4% (v/s 40.9% in 2QFY18).
- NII grew ~34% YoY (+8% QoQ), led by an improvement in margins to 4% (+24bp QoQ, +103bp YoY) and a pick-up in loan growth (INR579b, +12.8%/+28.5% QoQ/YoY). NIM improved despite 27bp/55bp QoQ/YoY decline in yield on advances, as the bank shifted its treasury portfolio for growing loans.
- Both slippages (INR3.7b, INR4.8b in 2Q) and recoveries & upgrades (INR1.2b, INR1.4b in 2Q) moderated sequentially, leading to a 4.2% sequential increase in GNPA (INR62.3b, 10.11% of advances). However, PCR stood strong at 69.5% (28bp increase from 2QFY18). NNPA stood at INR24.9b (4.29% v/s 4.76% of advances in 2Q). Std. restructured loans stood at INR56.7b (9.8% of loans). Std. SDR book stood at INR5.5b as at 3QFY18.
- **Other highlights: (1)** Share of J&K state loans decreased to ~48.14% v/s 51.8% in 2QFY18, **(2)** CASA ratio stood at 49.9% (-97bp QoQ). **(3)** The bank is aiming to raise INR6-7b of equity within a total planned capital raise of INR20b, including equity, AT1 bonds and T2 bonds.

Valuation and view: Management is focused on purging the balance sheet, growing the J&K business, and monitoring and resolving problematic assets outside the home state. We believe asset quality will gradually turn a corner led by controlled slippages, while large proportion of rehabilitated loans may turn standard over the next two quarters. We cut FY19E PAT by 3% to account for a sharp pick-up in margins and maintain our TP of INR100 (upside of 44%), which corresponds to 1.1x Mar-20E ABV.

Quarterly Performance (INR Million)

Y/E March	FY17				FY18				FY17	FY18
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Interest Income	16,723	16,857	16,495	16,782	16,803	16,664	16,830	20,970	66,858	71,267
Interest Expense	10,398	10,443	10,666	10,232	9,681	9,438	9,028	12,798	41,739	40,945
Net Interest Income	6,325	6,414	5,830	6,550	7,122	7,226	7,802	8,172	25,119	30,322
% Change (YoY)	-9.0	-7.6	-13.5	1.2	12.6	12.7	33.8	24.8	-7.3	20.7
Other Income	1,167	1,309	1,207	1,246	1,102	1,050	1,078	2,140	4,929	5,371
Total Income	7,492	7,723	7,037	7,795	8,224	8,277	8,880	10,312	30,048	35,693
Operating Expenses	4,000	3,967	4,106	5,032	4,539	4,635	5,053	4,584	17,105	18,811
Operating Profit	3,493	3,756	2,931	2,764	3,685	3,642	3,827	5,728	12,943	16,882
% Change (YoY)	-23.8	NA	-25.1	-27.4	5.5	-3.0	30.6	107.3	-22.4	30.4
Provisions	3,137	9,921	7,263	7,683	2,787	2,429	2,501	2,991	28,003	10,708
Profit before Tax	355	-6,165	-4,332	-4,919	899	1,213	1,326	2,736	-15,060	6,174
Tax	127	-141	652	624	-1,785	497	602	2,231	1,263	1,544
Net Profit	228	-6,024	-4,985	-5,543	302	716	725	506	-16,323	4,631
Operating Parameters										
NIM (Reported, %)	3.4	3.4	3.0	3.5	3.7	3.8	4.0	3.8	3.3	3.8
Loan Growth (%)	12.9	4.0	-3.5	-0.8	-0.2	8.0	28.5	21.0	-0.8	21.0
Deposit Growth (%)	10.8	11.9	15.3	4.4	4.0	0.7	-1.4	11.0	4.4	11.0
CASA Ratio (%)	43.1	45.1	47.4	51.7	50.9	45.1	49.9	45.5	51.7	45.5
CD ratio (%)	70.8	68.0	60.8	68.7	67.9	72.9	79.2	74.9	68.7	74.9
Asset Quality										
Gross NPA	47,149	56,830	57,149	60,000	56,406	59,829	62,321	58,514	60,000	58,514
Gross NPA (%)	9.3	11.3	11.8	11.2	10.8	10.9	10.1	9.7	11.2	9.7
Net NPA	30,235	32,364	26,991	24,254	22,672	24,426	24,877	22,539	24,254	22,539
Net NPA (%)	6.2	6.8	6.0	4.9	4.7	4.8	4.3	3.7	4.9	3.7

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Exhibit 1: Quarterly Snapshot

	FY16				FY17				FY18			Change (%)	
INR m	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**YoY**	**QoQ**
Profit and Loss													
Net Interest Income	**6,948**	**6,945**	**6,737**	**6,471**	**6,325**	**6,414**	**5,830**	**6,550**	**7,122**	**7,226**	**7,802**	**34**	**8**
Other Income	**1,356**	**1,265**	**1,027**	**1,392**	**1,167**	**1,309**	**1,207**	**1,246**	**1,102**	**1,050**	**1,078**	**-11**	**3**
Trading profits	457	388	212	413	362	467	374	229	263	26	-20	-105	-179
Fee Income	422	490	469	456	437	348	413	451	400	392	432	5	10
Miscellaneous Income	478	387	345	522	368	495	420	565	440	633	666	59	5
Total Income	**8,305**	**8,210**	**7,764**	**7,863**	**7,492**	**7,723**	**7,037**	**7,795**	**8,224**	**8,277**	**8,880**	**26**	**7**
Operating Expenses	**3,722**	**3,833**	**3,854**	**4,054**	**4,000**	**3,967**	**4,106**	**5,032**	**4,539**	**4,635**	**5,053**	**23**	**9**
Employee	2,526	2,550	2,536	2,681	2,678	2,781	2,761	2,997	3,032	3,080	3,278	19	6
Others	1,196	1,283	1,318	1,373	1,322	1,186	1,346	2,035	1,508	1,555	1,774	32	14
Operating Profits	**4,583**	**4,377**	**3,910**	**3,809**	**3,493**	**3,756**	**2,931**	**2,764**	**3,685**	**3,642**	**3,827**	**31**	**5**
Core Operating Profits	**4,126**	**3,989**	**3,698**	**3,396**	**3,130**	**3,289**	**2,557**	**2,534**	**3,422**	**3,616**	**3,848**	**51**	**6**
Provisions	2,129	1,266	2,397	3,971	3,137	9,921	7,263	7,683	2,787	2,429	2,501	-66	3
PBT	**2,454**	**3,111**	**1,513**	**-162**	**355**	**-6,165**	**-4,332**	**-4,919**	**899**	**1,213**	**1,326**	**NA**	**9**
Taxes	867	1,155	337	398	127	-141	652	624	-1,785	497	602	-8	21
PAT	**1,588**	**1,956**	**1,177**	**-560**	**228**	**-6,024**	**-4,985**	**-5,543**	**302**	**716**	**725**	**NA**	**1**
Balance Sheet													
Deposits (INR b)	**623**	**624**	**644**	**694**	**690**	**699**	**742**	**725**	**717**	**704**	**732**	**-1**	**4**
Loans (INR b)	**433**	**457**	**467**	**502**	**489**	**476**	**451**	**498**	**487**	**513**	**579**	**28**	**13**
Asset Quality													
GNPA	**29,945**	**30,817**	**33,395**	**43,686**	**47,149**	**56,830**	**57,149**	**60,000**	**56,406**	**59,829**	**62,321**	**9**	**4**
NNPA	**12,768**	**12,697**	**12,150**	**21,640**	**30,235**	**32,364**	**26,991**	**24,254**	**22,672**	**24,426**	**24,877**	**-8**	**2**
Slippages	3,699	2,023	3,312	14,798	13,774	10,625	1,910	6,476	5,055	4,804	3,711	94	-23
Restructured loans	25,054	24,862	25,047	32,353	32,475	32,461	32,487	63,817	64,152	66,121	67,145	107	2
% of Loans	5.8	5.4	5.4	6.4	6.6	6.8	7.2	12.8	13.2	12.9	11.6	35	652
Ratios (%)												Change (bps)	
Asset Quality Ratios												YoY	QoQ
GNPA (%)	6.6	6.5	6.8	8.3	9.3	11.3	11.8	11.2	10.8	10.9	10.1	-176	-79
NNPA (%)	3.0	2.8	2.6	4.3	6.2	6.8	6.0	4.9	4.7	4.8	4.3	-170	-47
PCR (Calculated, %)	57	59	64	50	36	43	53	60	60	60	60	731	28
PCR (Reported, %)	**61**	**62**	**66**	**56**	**50**	**54**	**62**	**67**	**70**	**69**	**70**	778	28
Slippage Ratio	3.3	1.8	3.0	13.3	12.7	9.3	1.6	5.2	4.1	4.0	2.6	92.7	-147.9
Credit Cost	1.7	0.8	2.5	2.7	2.1	5.7	4.9	5.0	3.8	1.6	1.6	-333.3	1.4
Business Ratios													
Fees to Total Income	5.1	6.0	6.0	5.8	5.8	4.5	5.9	5.8	4.9	4.7	4.9	-100	13
Cost to Core Income	50.5	51.6	53.5	58.5	59.1	58.7	65.8	71.9	60.3	60.8	61.4	-442	52
Tax Rate	35.3	37.1	22.2	-245.4	35.8	2.3	-15.1	-12.7	-198.7	40.9	45.4	6042	442
CASA	44.7	43.2	42.7	44.1	43.1	45.1	47.4	51.7	43.1	45.1	49.9	245	475
Loan/Deposit	69.5	73.2	72.6	72.3	70.8	68.0	60.8	68.7	67.9	72.9	79.2	1841	624
Margins - Reported (%)													
RoA	0.9	1.1	0.7	-0.3	0.1	-1.5	-2.4	-2.7	0.2	0.4	0.4	279	0
RoE	10.3	12.3	7.2	-3.5	1.4	-41.2	-35.6	-40.2	2.0	4.6	4.8	4040	17
Yield on loans	11.3	11.3	10.9	10.1	9.9	9.8	9.6	9.3	9.5	9.3	9.0	-55	-27
Yield on investments	7.6	7.9	7.6	7.4	7.6	7.5	7.5	7.3	7.0	7.0	7.1	-37	11
Yield on funds	10.4	10.5	10.3	9.7	9.5	9.6	9.4	9.4	9.6	9.5	9.2	-17	-36
Cost of funds	6.6	6.4	6.2	5.7	6.3	6.3	5.7	5.6	6.3	5.3	0.0	-568	-528
Cost of Deposits	6.4	6.4	6.4	6.2	6.0	5.9	5.8	5.7	5.3	5.2	4.9	-85	-30
Margins	3.9	4.0	3.9	3.6	3.4	3.4	3.0	3.5	3.7	3.8	4.0	103	24

Source: Company, MOSL

Other highlights

- Loan growth was led by 38%/28%/21% YoY growth in trade/personal/SME loans within J&K. Loans within J&K comprised 48.1% (v/s 51.8% in 2QFY18) of total loans.
- Deposits declined 1.4% YoY (due to high base) but increased 4% QoQ. As of 3QFY18, home deposits comprised 86.4% of total deposits.
- CASA deposits registered 4% YoY growth, led by growth in SA deposits. CASA ratio stood at 49.9%, with home state CASA ratio at 54%.
- Total pool of stressed assets remains high at INR95b (NNPA, OSRL, SDR, S4A) at 16.4% of advances, but recognition is largely behind and recoveries and upgrades are expected to pick up as the bank has taken additional measures to implement SARFAESI and form a separate cell to resolve stressed assets outside J&K.

3QFY18 Conference call highlights

Asset quality related

- Exposure to NCLT cases (List 1 & 2): INR3,500cr. Provisioning on these accounts is more than the regulatory limit. Therefore, the bank does not expect major haircut in case of sale to ARCs
- Restructured book break-up: J&K: INR4,794cr – most of these accounts are out of moratorium period; bank has seen some repayment in these accounts due to satisfactory turnover. Bank expects these accounts to be upgraded within 1 year.
- Out of J&K restructured book of INR4,794: INR700cr is due to floods (in FY15) and INR3,700 due to civil unrest. The moratorium period for INR700cr got over on Dec’17.
- On the repayments : The government has announce a budgetary subsidy of INR1,000cr, wherein borrower will pay 2/3rd of the total amount and 1/3rd (interest burden) will come from state government.
- J&K State NPA: INR1000cr (last 2 quarters’ GNPAs were mainly rest of India), SARFAESI is being made applicable in J&K.
- SDR book has overlap with restructuring (quantum not mentioned). Out of the S4A book, one account is transferred to SDR.
- Majority of the slippages for quarter are due to NCLT-related cases.

Balance sheet /P&L related

- Due to implementation of GST and also various government policies, there was a spike in employee expenses. Also, provisions for gratuity have increased based on actuarial valuations (INR15cr for this quarter). Bank has also adjusted waivers of principal amount in other opex amounting to INR7cr.
- Bank has used their treasury portfolio (mainly CP’s and CD’s) to boost up loan growth, which has helped the margins for the quarter.
- Majority of growth in advances came from NBFCs and PSUs.
- QIP before March 18, Amount : INR500-700cr. Planning to raise additional Tier1 through QIP.
- Raised Tier 2 bonds INR1,000cr.

Valuation and view

- While large stock of restructured loans is a concern, the problem areas are clearly identified to be outside J&K, and the management is proactive in recognition and resolution of stressed assets with a focus on stress outside home state. We have cut our FY19 PAT estimates by 3% in view of sharp uptick in margins, cost control and improved outlook on stress resolution
- The management's focus on 20%+ growth within J&K, while closely monitoring growth and asset quality on non-home book is commendable. Recoveries in outside J&K stressed assets remains key to improvement in asset quality/earnings going forward.
- Based on improvement in income visibility due to margins uptick, cost control, peaking out of balance sheet stress and improved outlook on resolution, and attractive valuations (0.7x FY19 BV), we maintain our BUY rating with a TP of INR100 (0.8x Mar 20E BV) representing a 44% upside from CMP.

Exhibit 1: We cut our FY19 PAT estimates by -2.8%

INR b	Old Estimates			Revised Estimates			Change (%)		
	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
Net Interest Income	30.0	33.0	38.5	30.3	33.8	39.4	1.2	2.4	2.4
Other Income	5.4	6.0	6.6	5.4	6.0	6.6	0.0	0.0	0.0
Total Income	**35.3**	**39.0**	**45.1**	**35.7**	**39.8**	**46.0**	**1.0**	**2.1**	**2.0**
Operating Expenses	18.1	19.5	21.2	18.8	20.6	22.4	4.2	5.7	5.7
Operating Profits	**17.3**	**19.5**	**23.9**	**16.9**	**19.2**	**23.6**	**-2.2**	**-1.6**	**-1.2**
Provisions	11.4	9.5	11.1	10.7	9.5	10.3	-6.4	-0.4	-7.2
PBT	**5.8**	**9.9**	**12.8**	**6.2**	**9.7**	**13.3**	**5.8**	**-2.8**	**3.9**
Tax	1.5	3.0	3.8	1.5	2.9	4.0	5.8	-2.8	3.9
PAT	**4.4**	**7.0**	**9.0**	**4.6**	**6.8**	**9.3**	**5.8**	**-2.8**	**3.9**
Loans	561	651	755	603	699	811	7.5	7.5	7.5
Deposits	833	983	1,160	804	949	1,120	-3.5	-3.5	-3.5
Margins (%)	3.84	3.65	3.62	3.77	3.68	3.64			
Credit Cost (%)	2.10	1.50	1.50	1.85	1.40	1.30			
RoA (%)	**0.50**	**0.68**	**0.75**	**0.54**	**0.69**	**0.80**			
RoE (%)	**8.39**	**12.29**	**14.15**	**8.86**	**11.92**	**14.68**			

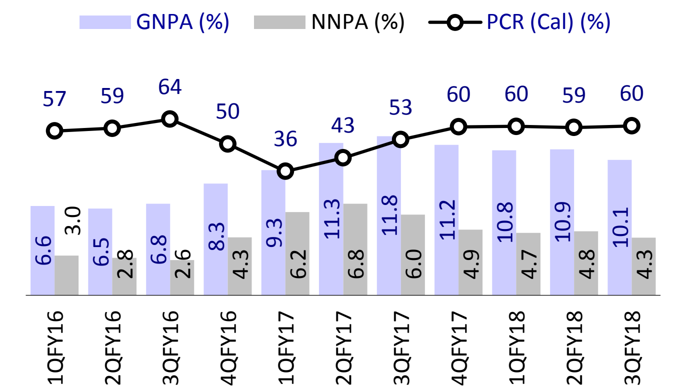
Exhibit 2: DuPont Analysis: RoE's to gradually improve over FY19/20

Y/E MARCH	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Interest Income	**3.51**	**3.57**	**3.43**	**3.47**	**3.10**	**3.51**	**3.42**	**3.39**
Fee income	0.51	0.44	0.62	0.46	0.44	0.46	0.45	0.44
Fee to core Income	*12.6*	*11.0*	*15.4*	*11.6*	*12.4*	*11.5*	*11.7*	*11.4*
Core Income	**4.02**	**4.01**	**4.05**	**3.93**	**3.53**	**3.96**	**3.87**	**3.83**
Operating Expenses	**1.50**	**1.56**	**1.82**	**1.98**	**2.11**	**2.18**	**2.08**	**1.93**
Cost to Core Income	37.3	38.9	45.0	50.4	59.6	54.9	53.8	50.5
Employee cost	0.99	0.99	1.16	1.35	1.38	1.44	1.40	1.31
Employee to total exp	*66.0*	*63.3*	*63.4*	*68.4*	*65.6*	*66.2*	*67.2*	*67.9*
Others	0.51	0.57	0.67	0.63	0.72	0.73	0.68	0.62
Core Operating Profit	**2.52**	**2.45**	**2.23**	**1.95**	**1.43**	**1.79**	**1.79**	**1.90**
Trading and others	0.23	0.08	0.15	0.19	0.17	0.16	0.15	0.14
Operating Profit	**2.74**	**2.53**	**2.38**	**2.14**	**1.60**	**1.95**	**1.94**	**2.03**
Provisions	**0.43**	**0.20**	**1.31**	**1.25**	**3.45**	**1.24**	**0.96**	**0.88**
NPA	0.29	0.11	1.08	1.15	2.61	1.18	0.92	0.85
Others	0.14	0.08	0.23	0.10	0.84	0.06	0.04	0.04
PBT	**2.31**	**2.33**	**1.06**	**0.89**	**-1.86**	**0.71**	**0.98**	**1.15**
Tax	0.71	0.76	0.40	0.35	0.16	0.18	0.29	0.34
Tax Rate	*30.9*	*32.5*	*38.0*	*39.9*	*-8.4*	*25.0*	*30.0*	*30.0*
ROA (%)	**1.60**	**1.57**	**0.66**	**0.53**	**-2.01**	**0.54**	**0.69**	**0.80**
Leverage (x)	14.7	14.2	13.1	12.5	13.4	16.5	17.4	18.3
ROE (%)	**23.6**	**22.3**	**8.6**	**6.6**	**-27.0**	**8.9**	**11.9**	**14.7**

Source: Company, MOSL

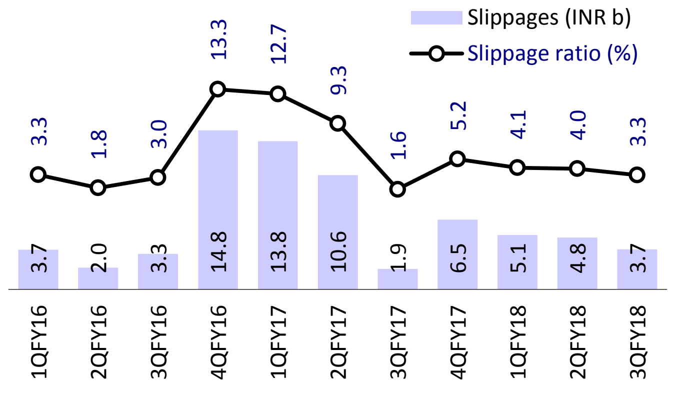
Story in charts

Exhibit 3: NNPA ratio declined 47bps QoQ



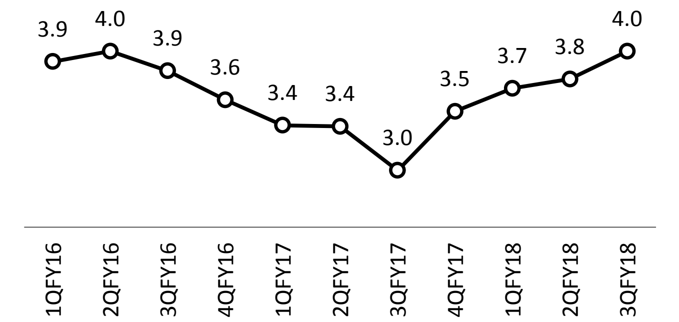
Source: Company, MOSL

Exhibit 4: Annualized slippages moderated to 3.3%



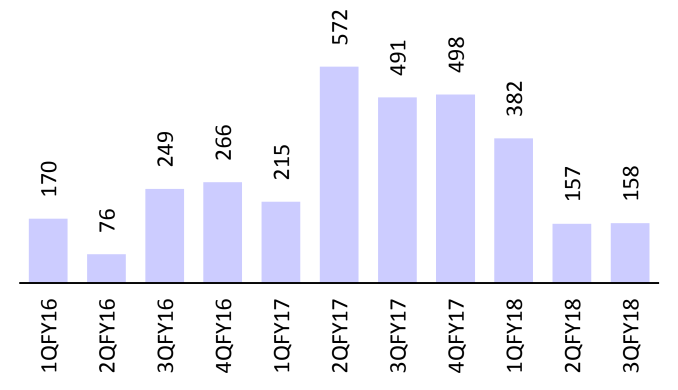
Source: Company, MOSL

Exhibit 5: NIMs increase 24bp sequentially



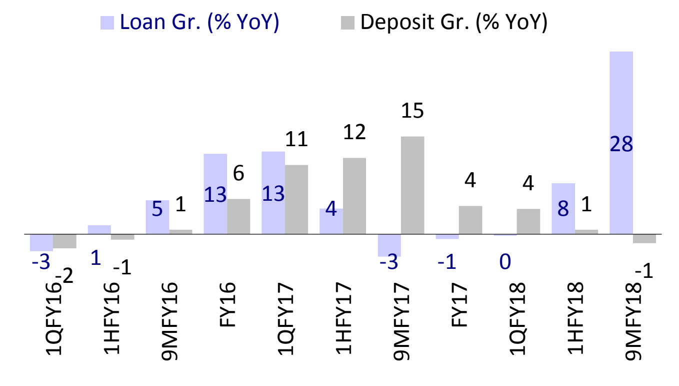
Source: MOSL, Company

Exhibit 6: Credit costs increased by 10bp in the quarter



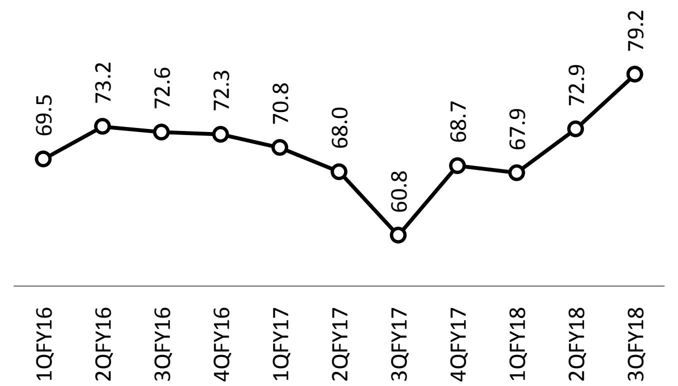
Source: MOSL, Company

Exhibit 7: Loan growth picked up (28% YoY)



Source: MOSL, Company

Exhibit 8: CD ratio picked up ~624bp sequentially



Source: MOSL, Company

Financials and valuations

Income Statement								(INR Million)
Y/E March	**2013**	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Interest Income	61,368	67,670	70,611	68,436	66,858	71,267	80,596	94,527
Interest Expense	38,208	40,825	44,102	41,335	41,739	40,945	46,795	55,141
Net Interest Income	**23,160**	**26,845**	**26,509**	**27,101**	**25,119**	**30,322**	**33,801**	**39,386**
Change (%)	26.0	15.9	-1.3	2.2	-7.3	20.7	11.5	16.5
Non Interest Income	4,837	3,903	5,940	5,040	4,929	5,371	5,961	6,617
Total Income	**27,998**	**30,747**	**32,449**	**32,141**	**30,048**	**35,693**	**39,762**	**46,003**
Change (%)	28.9	9.8	5.5	-0.9	-6.5	18.8	11.4	15.7
Operating Expenses	9,890	11,750	14,090	15,462	17,105	18,811	20,590	22,419
Pre Provision Profits	**18,108**	**18,998**	**18,358**	**16,679**	**12,943**	**16,882**	**19,172**	**23,584**
Change (%)	32.1	4.9	-3.4	-9.1	-22.4	30.4	13.6	23.0
Provisions (excl tax)	**2,842**	**1,479**	**10,155**	**9,762**	**28,003**	**10,708**	**9,501**	**10,266**
PBT	**15,266**	**17,519**	**8,203**	**6,917**	**-15,060**	**6,174**	**9,671**	**13,318**
Tax	4,715	5,694	3,117	2,757	1,263	1,544	2,901	3,995
Tax Rate (%)	30.9	32.5	38.0	39.9	-8.4	25.0	30.0	30.0
PAT	**10,551**	**11,825**	**5,086**	**4,160**	**-16,323**	**4,631**	**6,770**	**9,323**
Change (%)	31.4	12.1	-57.0	-18.2	-492.3	-128.4	46.2	37.7
Equity Dividend (Incl tax)	**2,836**	**2,836**	**1,222**	**1,021**	**0**	**978**	**1,347**	**1,347**
Core PPP*	**16,614**	**18,429**	**17,235**	**15,208**	**11,576**	**15,461**	**17,680**	**22,017**
Change (%)	24.5	10.9	-6.5	-11.8	-23.9	33.6	14.4	24.5

*Core PPP is (NII+Fee income-Opex)

Balance Sheet								
Y/E March	**2013**	**2014**	**2015**	**2016**	**2017**	**2018E**	**2018E**	**2018E**
Share Capital	485	485	485	485	522	557	557	557
Equity Share Capital	485	485	485	485	522	557	557	557
Preference Share Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	48,162	56,751	60,616	63,755	56,243	59,896	65,319	73,296
Net Worth	**48,647**	**57,236**	**61,101**	**64,240**	**56,765**	**60,453**	**65,876**	**73,852**
Deposits	**642,206**	**693,359**	**657,562**	**693,903**	**724,631**	**804,340**	**949,122**	**1,119,963**
Change (%)	20.4	8.0	-5.2	5.5	4.4	11.0	18.0	18.0
of which CASA Dep	**251,910**	**270,833**	**274,764**	**306,204**	**374,602**	**365,975**	**433,749**	**511,823**
Change (%)	16.0	7.5	1.5	11.4	22.3	-2.3	18.5	18.0
Borrowings	10,750	17,650	23,397	22,400	12,761	14,164	16,289	18,732
Other Liabilities & Prov.	15,830	17,953	17,248	22,138	26,030	30,455	35,633	41,690
Total Liabilities	**717,433**	**786,197**	**759,307**	**802,681**	**820,187**	**909,412**	**1,066,919**	**1,254,238**
Current Assets	54,043	42,139	37,338	32,030	53,859	60,445	72,259	86,368
Investments	**257,411**	**262,158**	**227,596**	**203,536**	**212,909**	**182,739**	**222,356**	**272,366**
Change (%)	19.0	1.8	-13.2	-10.6	4.6	-14.2	21.7	22.5
Loans	**392,004**	**463,846**	**445,858**	**501,933**	**498,161**	**602,775**	**699,219**	**811,094**
Change (%)	18.5	18.3	-3.9	12.6	-0.8	21.0	16.0	16.0
Fixed Assets	4,562	5,338	6,889	7,637	15,433	16,660	18,103	19,806
Other Assets	9,413	12,924	41,627	57,544	39,824	46,793	54,982	64,604
Total Assets	**717,433**	**786,405**	**759,307**	**802,681**	**820,187**	**909,412**	**1,066,919**	**1,254,238**

Asset Quality								
GNPA (INR m)	6,438	7,834	27,641	43,686	60,000	58,514	55,282	55,311
NNPA (INR m)	553	1,020	12,363	21,640	24,254	22,539	20,098	20,087
GNPA Ratio	1.62	1.67	6.00	8.35	11.39	9.71	7.91	6.82
NNPA Ratio	0.14	0.22	2.77	4.31	4.87	3.74	2.87	2.48
Slippage Ratio	1.38	1.05	5.45	5.35	6.53	3.00	2.20	2.20
Credit Cost	0.64	0.24	1.95	1.97	4.46	1.85	1.40	1.30
PCR (Excl Tech. write off)	87.4	83.4	53.1	48.3	48.1	61.5	63.6	63.7

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2013	2014	2015	2016	2017	2018E	2018E	2018E
Spreads Analysis (%)								
Avg. Yield-Earning Assets	**9.9**	**9.6**	**9.9**	**9.8**	**9.3**	**8.8**	**8.8**	**8.7**
Avg. Yield on loans	11.9	11.7	11.3	10.6	9.6	10.0	9.9	9.9
Avg. Yield on Investments	7.3	6.5	7.1	7.6	8.6	7.2	7.0	7.0
Avg. Cost-Int. Bear. Liab.	**6.4**	**6.0**	**6.3**	**5.9**	**5.7**	**4.6**	**4.4**	**4.4**
Avg. Cost of Deposits	6.4	6.0	6.2	5.9	5.8	5.2	5.2	5.2
Interest Spread	**3.5**	**3.6**	**3.6**	**3.9**	**3.6**	**4.3**	**4.3**	**4.3**
Net Interest Margin	**3.7**	**3.8**	**3.7**	**3.9**	**3.5**	**3.8**	**3.7**	**3.6**
Profitability Ratios (%)								
RoE	23.6	22.3	8.6	6.6	-27.0	8.9	11.9	14.7
RoA	1.6	1.6	0.7	0.5	-2.0	0.5	0.7	0.8
RoRWA	2.6	2.5	1.0	0.7	-2.7	0.7	0.9	1.0
Int. Expense/Int.Income	62.3	60.3	62.5	60.4	62.4	57.5	58.1	58.3
Fee Income/Net Income	5.4	4.9	6.8	5.2	5.3	11.1	11.2	11.0
Non Int. Inc./Net Income	17.3	12.7	18.3	15.7	16.4	15.0	15.0	14.4
Efficiency Ratios (%)								
Cost/Income*	35.8	40.2	44.2	49.8	59.9	54.9	53.8	50.5
Empl. Cost/Op. Exps.	66.0	63.3	63.4	68.4	65.6	66.2	67.2	67.9
* ex treasury								
Asset-Liability Profile (%)								
Loans/Deposit Ratio	61.0	66.9	67.8	72.3	68.7	74.9	73.7	72.4
CASA Ratio	39.2	39.1	41.8	44.1	51.7	45.5	45.7	45.7
Investment/Deposit Ratio	40.1	37.8	34.6	29.3	29.4	22.7	23.4	24.3
G-Sec/Investment Ratio	54.6	57.0	59.1	68.5	76.7	100.8	93.3	85.6
CAR	12.8	12.7	12.6	11.8	10.8	7.8	7.5	7.4
Tier 1	10.9	11.2	11.3	10.6	8.7	7.8	7.5	7.4
Valuation								
Book Value (INR)	100	118	126	132	109	97	107	121
Change (%)	18.8	17.7	6.8	5.1	-17.8	-10.7	10.0	13.4
Price-BV (x)					**0.6**	**0.7**	**0.7**	**0.6**
Adjusted BV (INR)	100	117	109	103	79	68	81	95
Price-ABV (x)					**0.9**	**1.0**	**0.9**	**0.7**
EPS (INR)	21.8	24.4	10.5	8.6	-31.3	8.6	12.2	16.8
Change (%)	31.4	12.1	-57.0	-18.2	-492.3	-128.4	46.2	37.7
Price-Earnings (x)					**-2.2**	**8.1**	**5.7**	**4.2**
Dividend Per Share (INR)	5.0	5.0	2.1	1.8	0.0	1.8	2.4	2.4
Dividend Yield (%)					**0.0**	**2.5**	**3.5**	**3.5**

E: MOSL Estimates

Corporate profile: J&K Bank

Company description

J&K Bank (JKBK) is an old private sector bank which commenced business in July, 1939 from Srinagar, Kashmir. It is the only state government owned bank in the country with Govt of J&K holding ~53% in the bank. JKBK has a dominant position in the state of J&K constituting majority of the credit (~51%) and deposits (~77%) in the state. As on Dec-16, it operated through a network of 829 branches (with ~85% of branches in the state of J&K).

Exhibit 1: Exhibit 13: Sensex rebased

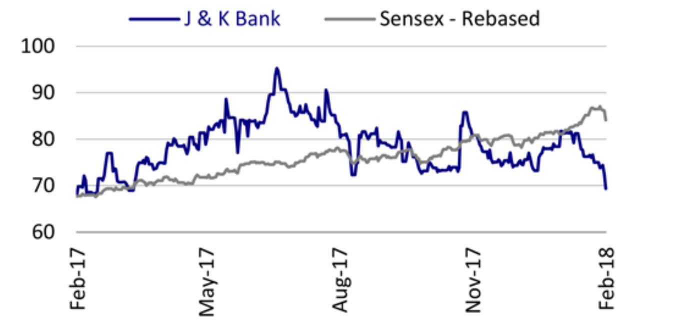


Exhibit 10: Shareholding pattern (%)

	Dec-17	Sep-17	Dec-16
Promoter	59.2	59.2	53.2
DII	7.8	7.8	9.2
FII	16.0	16.6	14.6
Others	17.0	16.3	23.1

Note: FII Includes depository receipts

Exhibit 11: Top holders

Holder Name	% Holding
East Bridge Capital Master fundLtd.	3.2
ICICI PRUDENTIAL INDIA RECOVERY FUND	3.1
Life insurance Corp. of India	2.8
ICICI PRUDENTIAL LIFE INSURANCE	1.9
UTI BANKING SECTOR FUND	1.4

Exhibit 12: Top management

Name	Designation
Parvez Ahmed	Chairman & CEO

Exhibit 13: Directors

Name	Name
Abdul Majid Mir	Mohammad Ashraf Mir
Azhar UL Amin	Mohammad Maqbool Rather
Masooda Rajpuri	
Navin Kumar Choudhary	
Rakesh Kumar Gupta	

Exhibit 14: Auditors

Name	Type
Arora Vohra & Co	Statutory
Dhar Tiku & Co	Statutory
Dharam Raj & Co	Statutory
DSMR & Associates	Secretarial Audit

Exhibit 15: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	8.6	5.8	48.3
FY19	12.2	10.6	15.0
FY20	16.8	13.8	21.5

NOTES

Explanation of Investment Rating

Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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