

## Weak performance; subdued RoA to impact valuation

J&K Bank reported a weak set of numbers wherein muted topline coupled with higher provision and tax dented earnings. On the back of muted advances and margins, NII growth was flattish at ₹ 904 crore vs. ₹ 902 crore in Q1FY20. NIMs were down ~34 bps YoY to 3.56% on account of lower yields. Other income was down 35% YoY to ₹ 120 crore, due to sluggish fee income growth. Decline in other income was partially offset by stable opex, thus leading to 20% YoY decline in operating profit to ₹ 331 crore. Higher provision and tax outgo marred PAT at ₹ 6.5 crore, down 70% YoY.

Credit growth remained muted with advances at ₹ 65170 crore, down 4% YoY, corporate book de-grew ~18% YoY to ₹ 23461 crore. J&K book grew 10.3% YoY to ₹ 44277 crore while ROI book was down 14.1% YoY to ₹ 26615 crore. Deposit traction remained healthy at 12.1% YoY to ₹ 99691 crore, mainly driven by growth of 22.1% in savings deposit partially offset by decelerated in term deposits at 4.1%. CASA continued to remain strong with ~357 bps YoY improvement in CASA ratio at 53.57%.

Amid uncertainty, credit cost continued to remain higher at ₹ 266 crore, of which Covid provision was at ₹ 147 crore (outstanding provision at ~45 bps of advances). PCR stood at 80.93% against 66.61% in Q1FY20. GNPA ratio came in at 10.73% vs. 8.48% in Q1FY20 with absolute GNPA at ₹ 7607 crore. On the back of standstill asset classification, NNPA ratio improved 131 bps to 3.05%. Apart from this, the bank is mulling raising ₹ 4500 crore in a bid to fuel growth and improve its capital adequacy.

## Growth to remain gradual; MSME exposure remains vulnerable

Strong liability franchise with CASA above 50% is expected to continue to remain core strength of the bank. However, moderate growth in advances is seen keeping credit deposit lower impacting traction NII. On asset quality, the bank has exposure to small business, MSME (contributing ~50% of advances) that remains vulnerable. However, restructuring mechanism announced by RBI, PCR at 80% provide comfort. The management expects ₹ 2000-3000 crore of advances to get restructured. Credit cost is expected to stay elevated that is seen impacting earnings. We estimate PAT, ABV for FY21E, FY22E at ₹ 181 crore, ₹ 331 crore and 63, 73 respectively.

## Valuation & Outlook

General slowdown and cautious approach would keep business growth moderate in the near term. Moderate growth in advances coupled with pressure on yields is expected to lead to a weak operational performance. Higher PCR at ~80% provides comfort but credit cost is expected to remain elevated keeping return ratios subdued. Divestment of non-core assets, including stake in PNB MetLife (expected to fetch ~₹ 360 crore) is under way to shore up capital. Further, raising via fresh issuance will shore up capital adequacy but at the current price will lead to substantial dilution for existing shareholders. We value the bank at ~0.25x FY22E ABV and arrive at a target price of ₹ 18/share. We upgrade the stock to **HOLD** recommendation.

### Key Financial Summary

₹crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY19-22E)
NII	2871	3384	3286	3658	3979	6%
PPP	1382	1718	1254	1423	1610	-2%
PAT	203	465	-629	181	331	-11%
ABV (₹)	60.5	72.3	68.8	63.2	72.7	
P/E	4.9	2.1	-1.6	7.0	3.8	
P/ABV	0.3	0.2	0.3	0.3	0.2	
RoA	0.2	0.5	-0.6	0.2	0.3	
RoE	3.4	7.0	-8.9	2.5	4.5	

Source: Company, ICICI Direct Research



### Particulars

Particulars	Amount
Market Capitalisation	₹1288 crore
GNPA (Q1FY21)	₹7607 crore
NNPA (Q1FY21)	₹1986 crore
NIM (Q1FY21)	3.56%
52 week H/L	41 / 11
Net worth	₹6999 C crore
Face value	₹1
D II Holding (%)	9.7
F II Holding (%)	2.3

### Key Highlights

- Covid provisioning for quarter at ₹ 147 crore
- Credit growth was down 4% YoY to ₹ 65170 crore due to nationwide lockdown
- Bank seeks to raise ₹ 4500 crore of capital for business growth
- Upgrade from SELL to HOLD with revised target price of ₹ 18 (earlier ₹ 12)

### Research Analyst

Kajal Gandhi  
kajal.gandhi@icicisecurities.com

Vishal Narnolia  
vishal.narnolia@icicisecurities.com

Yash Batra  
yash.batra@icicisecurities.com

### Exhibit 1: Variance Analysis

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
NII	904	902	0.2	987	-8.4	Muted credit growth coupled with contraction in margins YoY led to weak NII growth
Other Income	120	184	-35.1	121	-1.1	NIMs were down 34 bps YoY on account of lower yields
Net Total Income	1,024	1,086	-5.7	1,108	-7.6	
Staff cost	508	464	9.6	490	3.8	
Other Operating Expenses	185	212	-12.4	236	-21.6	
PPP	330.2	410.9	-19.6	382.1	-13.6	
Provision	266.4	293.2	-9.2	620.5	-57.1	Covid provisioning for the quarter stood at ₹147 crore
PBT	63.9	117.6	-45.7	-238.4	-126.8	
Tax Outgo	57.4	95.8	-40.1	55.8	2.9	
PAT	6.5	21.9	-70.3	-294.1	-102.2	Higher tax rate and muted topline dented PAT

### Key Metrics

GNPA	7,607.3	6,030.8	26.1	7,671.6	-0.8	Slippages were down 93% YoY to ₹37 crore on account of standstill asset classification
NNPA	1,986.0	2,962.3	-33.0	2,243.8	-11.5	
Advances	65,170	67,949	-4.1	64,399	1.2	Nationwide lockdown led to muted credit traction
Deposits	99,691	88,963	12.1	97,788	1.9	CASA ratio improved 357 bps YoY to 53.57%

Source: Company, ICICI Direct Research

### Exhibit 2: Change in Estimates

	FY21E			FY22E		
(₹Crore)	Old	New	% Change	Old	New	% Change
Net Interest Income	2,629	3,658	39.1	2460	3,979	61.7
Pre Provision Profit	373	1,423	281.7	-71.9	1,610	-2,339.6
NIM (%)	2.9	4.1	116 bps	2.513	4.0	154 bps
PAT	-4	181	-4,759.2	-340	331	-197.4
ABV (₹)	60.1	63.2	5.1	50.05	72.7	45.3

Source: Company, ICICI Direct Research

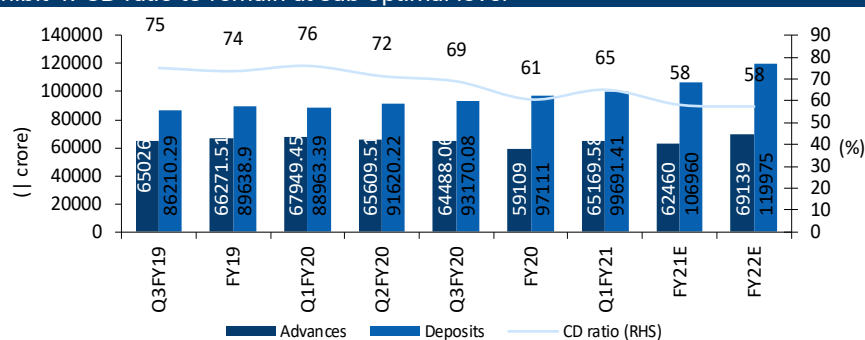
### Exhibit 3: Assumptions

	Current				Earlier	
	FY19	FY20	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	16.4	-10.8	5.7	10.7	7.0	6.9
Deposit Growth (%)	12.0	8.3	10.1	12.2	12.1	14.4
CASA ratio (%)	50.7	52.4	52.1	51.9	52.2	50.9
NIM Calculated (%)	4.0	3.7	4.1	4.0	2.9	2.5
Cost to income ratio (%)	59.1	68.2	66.2	64.9	88.9	102.2
GNPA (₹crore)	6,221.3	7,758.2	8,195.4	8,618.9	8,074.3	8,496.8
NNPA (₹crore)	3,072.8	3,226.4	2,701.8	2,193.6	3,645.3	4,034.1
Slippage ratio (%)	2.3	3.2	1.9	1.7	0.5	0.6
Credit cost (%)	1.5	3.6	1.8	1.6	0.5	0.6

Source: Company, ICICI Direct Research

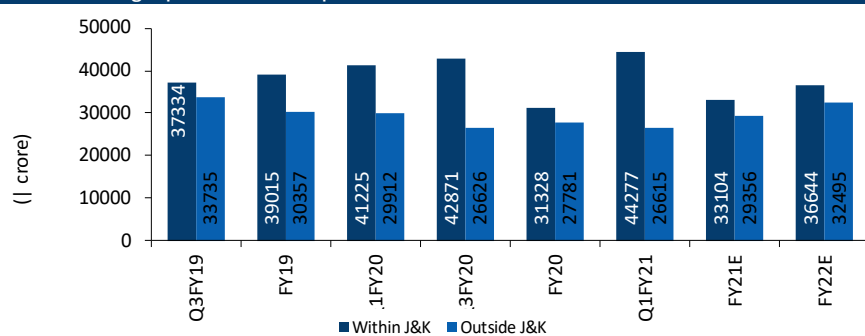
## Story in Charts

**Exhibit 4: CD ratio to remain at sub optimal level**



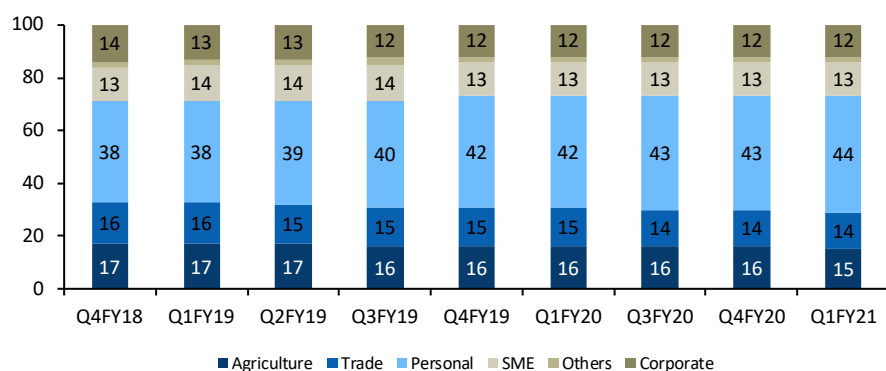
Source: Company, ICICI Direct Research

**Exhibit 5: Geographical break-up of credit**



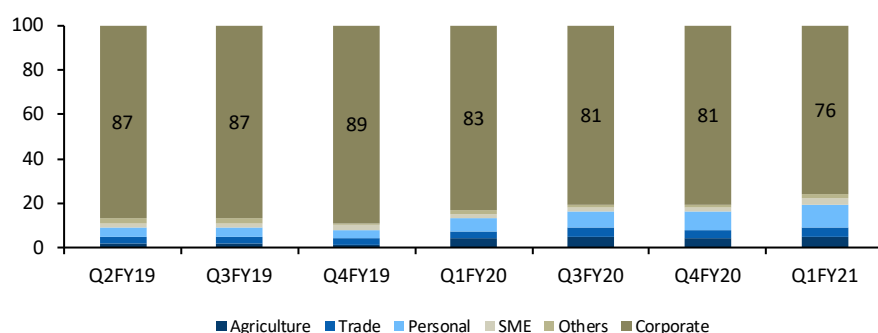
Source: Company, ICICI Direct Research

**Exhibit 6: Sectoral break-up of credit within J&K state**



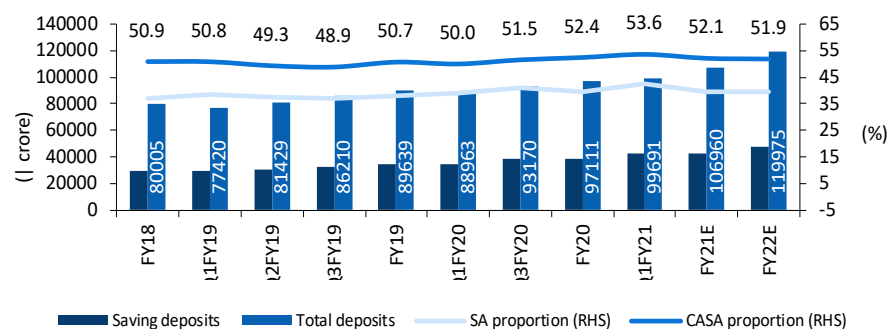
Source: Company, ICICI Direct Research

**Exhibit 7: Sectoral breakup of credit outside J&K state**



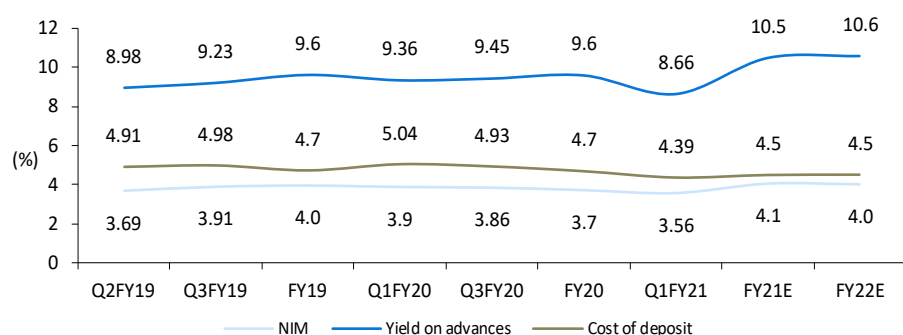
Source: Company, ICICI Direct Research

**Exhibit 8: CASA ratio to remain healthy**



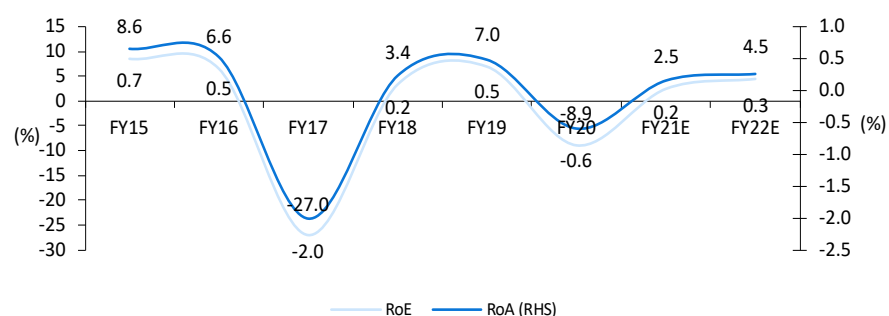
Source: Company, ICICI Direct Research

**Exhibit 9: Margins to gradually improve**



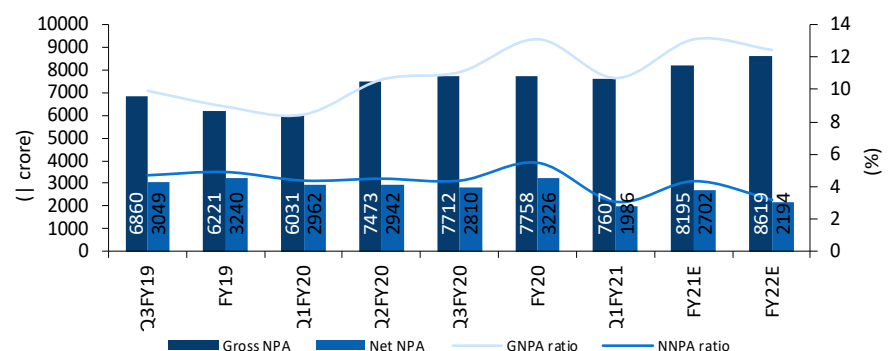
Source: Company, ICICI Direct Research

**Exhibit 10: Return ratios to remain subdued**



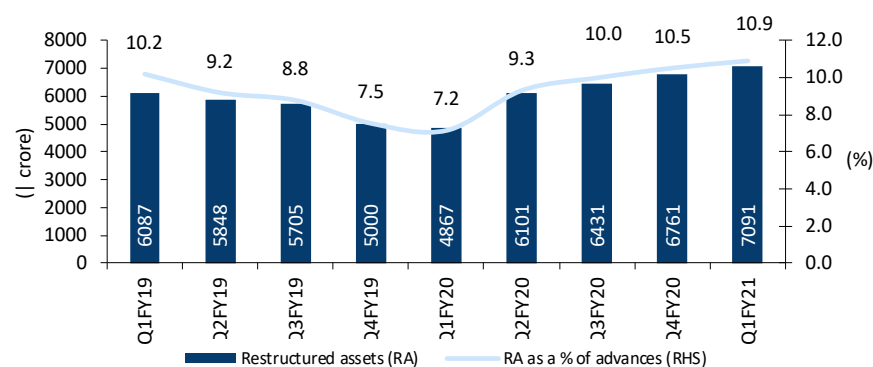
Source: Company, ICICI Direct Research

**Exhibit 11: Stressed asset to be watched**



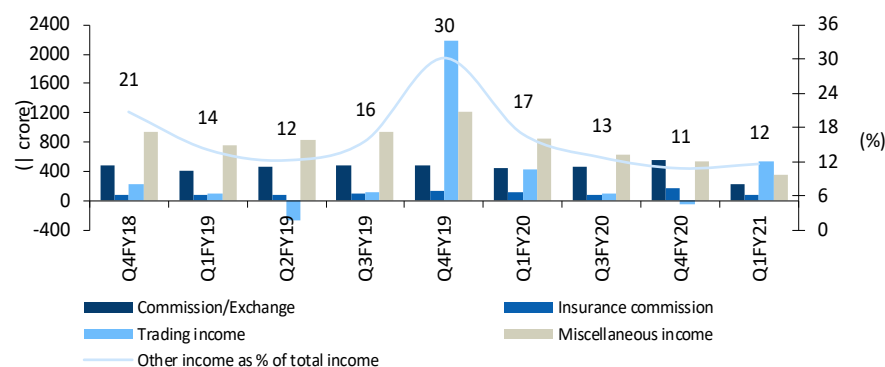
Source: Company, ICICI Direct Research

**Exhibit 12: Restructured assets trend**



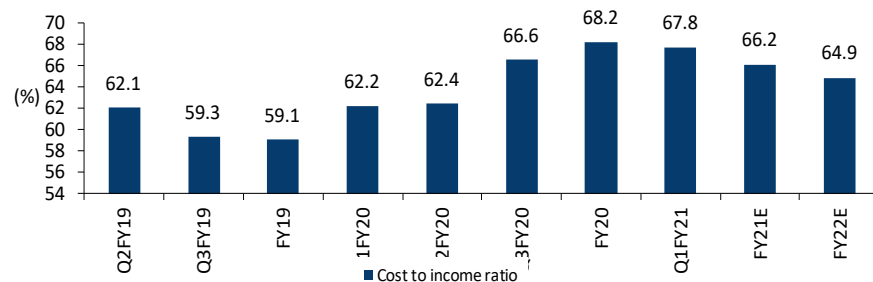
Source: Company, ICICI Direct Research

**Exhibit 13: Commission/exchange & miscellaneous income aid other income growth**



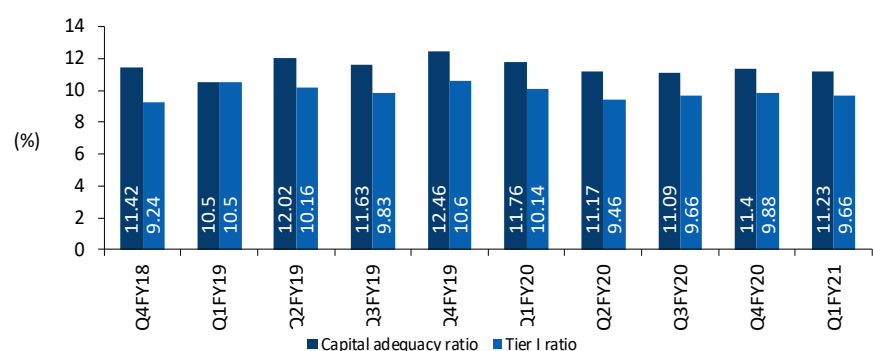
Source: Company, ICICI Direct Research

**Exhibit 14: Gradual improvement in CI ratio**



Source: Company, ICICI Direct Research

**Exhibit 15: Capital raising to remain dilutive**

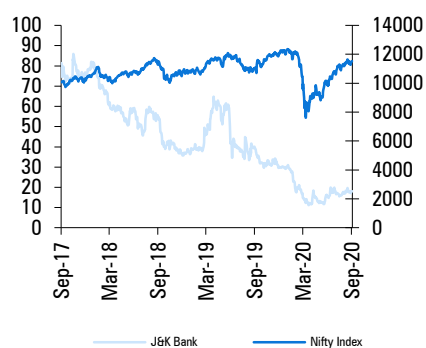


Source: Company, ICICI Direct Research

**Exhibit 16: Shareholding Pattern**

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	59.20	59.20	59.20	68.18	68.18
FII	15.50	15.00	14.40	10.40	2.26
DII	7.80	7.40	7.40	5.00	9.68
Others	17.50	18.40	19.00	16.42	19.88

Source: Company, ICICI Direct Research

**Exhibit 17: Price Chart**


Source: Company, ICICI Direct Research

## Financial summary

Exhibit 18: Profit and loss statement				
₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Interest Earned	7676	7903	8490	9351
Interest Expended	4292	4617	4832	5372
Net Interest Income	3384	3286	3658	3979
growth (%)	18	-3	11	9
Non Interest Income	813	658	548	610
Fees and advisory	227	229	243	279
Treasury Income /sale of Invt.	194	167	174	190
Other income	392	262	131	141
Net Income	4197	3944	4206	4589
Employee cost	1646	1798	1963	2144
Other operating Exp.	832	891	819	835
Operating Income	1718	1254	1423	1610
Provisions	1058	2179	1175	1157
PBT	660	-925	248	454
Taxes & Exceptional Item	195	-296	67	122
Net Profit	465	-629	181	331
growth (%)	129	NA	NA	83
EPS	8	-11	3	5

Source: Company, ICICI Direct Research

Exhibit 19: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Valuation				
No. of Equity Shares	55.7	55.7	71.4	71.4
EPS (₹)	8.3	-11.3	2.5	4.6
BV (₹)	127.5	126.7	101.1	103.5
ABV (₹)	72.3	68.8	63.2	72.7
P/E	2.1	-1.6	7.0	3.8
P/BV	0.1	0.1	0.2	0.2
P/ABV	0.2	0.3	0.3	0.2
Yields & Margins (%)				
Net Interest Margins	4.0	3.7	4.1	4.0
Yield on avg earning assets	9.0	9.0	9.5	9.5
Avg. cost on funds	4.9	4.8	4.6	4.6
Avg. Cost of deposits	4.7	4.7	4.5	4.5
Yield on average advances	9.6	9.6	10.5	10.6
Quality and Efficiency (%)				
Cost / Total net income	59.1	68.2	66.2	64.9
Credit/Deposit ratio	73.9	60.9	58.4	57.6
GNPA	9.0	13.1	13.1	12.5
NNPA	4.9	5.5	4.3	3.2
RoE	7.0	-8.9	2.5	4.5
ROA	0.5	-0.6	0.2	0.3

Source: Company, ICICI Direct Research

Exhibit 20: Balance sheet				
₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Capital	56	56	71	71
Reserves and Surplus	7045	7005	7142	7311
Networth	7101	7060	7213	7382
Deposits	89639	97111	106960	119975
Borrowings	2624	2626	2708	2793
Other Liab & Prov (incl sub-det)	2517	2124	2634	2895
Total	101881	108921	119516	133045
Application of Funds				
Fixed Assets	1675	1735	2121	2595
Investments	23161	25989	29302	33176
Advances	66272	59109	62460	69139
Other Assets	4913	15678	18596	20410
Cash with RBI & call money	5862	6410	7037	7725
Total	101881	108921	119516	133045

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Total assets				
Total assets	13.6	6.9	9.7	11.3
Advances	16.4	-10.8	5.7	10.7
Deposits	12.0	8.3	10.1	12.2
Total Income	19.2	0.9	5.6	10.2
Net interest income	17.9	-2.9	11.3	8.8
Operating expenses	24.5	8.5	3.5	7.0
Operating profit	24.3	-27.0	13.4	13.1
Net profit	129.3	-235.3	-128.8	82.9
Net worth	15.3	-0.6	2.2	2.3
EPS	129.3	-235.3	-122.5	82.9

Source: Company, ICICI Direct Research

## Exhibit 22: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP (₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Bank of Baroda (BANBAR)	49	52	Hold	22,433.0	1.2	1.8	5.8	41.5	NA	NA	0.5	0.5	0.5	0.0	0.1	0.2	0.8	1.2	3.6
State Bank of India (STABAN)	296	215	Hold	1,84,204	16.2	15.3	26.1	18.3	19.3	11.3	1.5	1.3	1.2	0.4	0.3	0.5	6.8	5.7	9.1
Indian Bank (INDIBA)	65	70	Hold	7,313	-27.2	8.5	13.0	-2.4	7.6	5.0	0.5	0.4	0.4	-0.8	0.2	0.3	-11.6	3.5	5.1
Axis Bank (UTIBAN)	451	530	Buy	1,37,887	5.8	23.7	38.0	78.1	19.0	11.9	1.8	1.7	1.5	0.2	0.7	1.0	2.2	7.5	11.1
City Union Bank (CITUNI)	131	130	Hold	9,670	6.5	7.5	9.7	20.3	17.4	13.5	2.2	2.0	1.7	1.0	1.1	1.3	9.4	10.2	11.8
Development Credit Bank (DCB)	91	90	Hold	2,822	10.9	11.1	12.4	8.4	8.2	7.4	1.0	0.9	0.8	0.9	0.8	0.8	11.4	10.2	10.1
Federal Bank (FEDBAN)	56	55	Hold	11,213	7.7	7.9	12.5	7.3	7.1	4.5	0.9	0.8	0.7	0.9	0.8	1.2	11.0	10.4	14.9
HDFC Bank (HDFBAN)	1,110	1,320	Buy	6,10,579	47.9	52.1	65.4	23.2	21.3	17.0	3.6	3.3	3.1	1.9	1.7	1.9	16.4	15.7	17.5
Indusind Bank (INDBA)	532	400	Hold	36,866	63.7	33.7	52.2	8.4	15.8	10.2	1.1	1.1	1.0	1.5	0.8	1.1	13.5	6.8	9.4
Jammu & Kashmir Bank (JAMKAS)	18	18	Hold	1,288	-11.3	2.5	4.6	-1.6	NA	NA	0.3	0.3	0.2	-0.6	0.2	0.3	-8.9	2.5	4.5
Kotak Mahindra Bank (KOTMAH)	1,386	1,600	Buy	2,74,027	31.1	26.0	32.1	44.6	53.2	43.1	5.5	4.6	4.2	1.8	1.4	1.5	12.9	9.2	9.7
Bandhan Bank (BANBAN)	292	400	Hold	47,022	18.1	17.7	25.2	16.1	16.5	11.6	3.2	2.9	2.4	3.9	2.9	3.4	22.1	17.8	21.7
IDFC First (IDFBAN)	32	34	Buy	18,066	-4.6	0.7	2.1	NA	46.9	14.9	1.1	1.1	1.0	-1.3	0.2	0.7	-13.1	2.3	6.7

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



**Pankaj Pandey**

**Head – Research**

**[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)**

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

## ANALYST CERTIFICATION

I/We, Kajal Gandhi, CA, Vishal Namolia, MBA and Yash Batra, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited Sebi Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com)

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.