

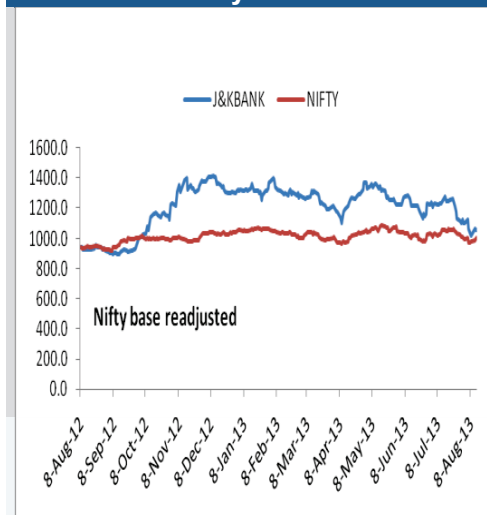
Result update	BUY
CMP	1088
Target Price	1230
Previous Target Price	1420
Upside	13
Change from Previous	15

Market Data	
BSE Code	532209
NSE Symbol	J&KBANK
52wk Range H/L	1473/881
Mkt Capital (Rs Cr)	5274
Average Daily Volume	66.6
Nifty	5508

Stock Performance			
	1M	1yr	YTD
Absolute	-14.9	17.8	20.3
Rel.to Nifty	-6.2	14.3	15.5

Share Holding Pattern-%			
	Current	4QFY13	3QFY1
Promoters	53.2	53.2	53.2
FII	24.8	24.5	24.3
DII	5.0	4.9	4.9
Others	17.1	17.4	17.7

J&k Bank Vs Nifty



J&K bank is well poised in most of operating parameters like loan growth of 18.2%, deposits growth of 10.3%, PCR of 91%, NIM (annualised) of 4.3%, CI ratio of 35.3%, stable GNPA. Bank's management guided loan growth of 20-22% in FY14 and deposits growth of 17-18%. Accordingly we model loan growth of 20% and deposits growth of 17% for FY14E. Increased share of restructure asset on sequential basis was disappointed. At current price of Rs.1090 stock is trading at 0.9 times of one year forward book of Rs.1232 and 3.9 times of one year forward earnings of Rs.278. Our fair valuation assumption for the bank is Rs.1230 which is one times of FY14E and 4.5 times of one year forward expected earnings.

Strong growth in NII led by advances growth

J&K Bank reported net profit of 25% YoY led higher NII growth, lower provisions and higher than industry average loan growth. During quarter, bank reported NII growth of 22% YoY to Rs.655 cr led by loan growth of 18.2% YoY and high yield margin within J&K Bank. Contrary to other banks, J&K bank reported 1% YoY declined in other income to Rs.92 cr of which commission and exchange income reported Rs.41 cr versus Rs.44 cr in 1QFY13, treasury income reported 4% YoY declined to Rs.19.5 cr as against Rs.20.2 cr in 1QFY13. Total income grew by 19% YoY to Rs.747 cr from Rs.629 cr.

Sequentially declined in CI ratio supported operating profit growth

Operating profit registered growth of 16% YoY to Rs.481 cr of which employee cost and other operating expenses increased by 27% and 19% YoY respectively. Cost income declined by 50 bps sequentially to 35.6%. Overall operating expenses increased by 24% YoY to Rs.266 cr.

Profit increased on account of higher NII growth, declined CI ratio and lower

Higher NII growth, declined cost income in sequential basis and lower provisions on account of stable asset quality led net profit growth of 25% YoY to Rs.308 cr. Consequently ROA and ROE improved to 1.89% and 24.5% from 1.68% and 23.4% on YoY basis respectively.

Financials

	Rs, Cr				
	2011	2012	2013	2014E	2015E
NII	1544	1838	2316	2761	3366
Total Income	1908	2172	2800	3488	4093
PPP	1149	1370	1811	2232	2619
Net Profit	615	803	1055	1348	1584
EPS	126.9	165.7	217.6	278.0	326.7

(Source: Company/Eastwind)

Strong asset quality but disappointed in addition of fresh restructure assets

During quarter bank's provision decreased by 28% YoY and 80% QoQ to Rs.36 cr led by strong asset quality. In absolute term GNPA increased by 3% on sequential basis to Rs.665 cr whereas net NPA increased by 2% QoQ to Rs.55 cr. In percentage term GNPA and net NPA stood at 1.7% and 0.1% from 1.6% and 0.1% in 4QFY13 respectively. During quarter bank made non performing provisions of Rs.13 cr as against Rs.106 cr in 4QFY13. Provisions coverage ratio was strong at 94% (without technical write off 91.4%), much ahead of regulatory requirement of 70%. During quarter bank reported fresh restructure of Rs.221 cr versus Rs.60.2 cr in 4QFY13 taking outstanding restructure amount to Rs.1688 cr (4.3% of net advances) from Rs.1490 cr in FY13 (3.8% of net advances).

Strong traction in loan and deposits growth within J&K state

On business growth parameters, loan grew by 18% YoY led J&K state advance grew by 25% and rest of India advances grew by 13%. Deposits grew by 10% YoY of which J&K state grew by 14% and rest of India advances grew by 4% YoY. Demand and saving deposits registered growth of 14.6% and 14.7% YoY respectively. Term deposits reported muted growth of 7.6% YoY. Overall CASA improved by 153 bps YoY to 40.2%.

Improvement in NIM on account of lower cost of deposits led by share of CASA growth

Net interest margin was improved by 10 bps QoQ to 4.3% on annualized basis led by expansion of credit deposits ratio. During quarter credit deposits ratio was improved to 67% from 61% in 4QFY13. Cost of deposits declined by 14 bps QoQ to 6.5% due to increase share of CASA from 39% in FY13 to 40% in 1QFY14. Yield on advances declined by 40 bps YoY to 12.2%.

Valuation & View

J&K bank is well poised in most of operating parameters like loan growth of 18.2%, deposits growth of 10.3%, PCR of 91%, NIM (annualised) of 4.3%, CI ratio of 35.3%, stable GNPA. Bank's management guided loan growth of 20-22% in FY14 and deposits growth of 17-18%. Accordingly we model loan growth of 20% and deposits growth of 17% for FY14E. Increased share of restructure asset on sequential basis was disappointed. At current price of Rs.1090 stock is trading at 0.9 times of one year forward book of Rs.1232 and 3.9 times of one year forward earnings of Rs.278. Our fair valuation assumption for the bank is Rs.1230 which is one times of FY14E and 4.5 times of one year forward expected earnings.

J&K BANK

P/L	2010	2011	2012	2013	2014E	2015E
Interest/discount on advances / bills	2342	2630	3394	4318	5174	6209
Income on investments	705	1066	1403	1723	2010	2353
Interest on balances with Reserve Bank of India	11	17	39	97	97	97
Others	0	0	0	0	0	0
Total Interest Income	3057	3713	4836	6137	7281	8659
Others Income	416	365	334	484	727	727
Total Income	3473	4078	5170	6621	8008	9386
Interest on deposits	1841	2069	2902	3741	4429	5182
Interest on RBI/Inter bank borrowings	83	46	41	26	91	111
Others	14	54	54	54	0	0
Interest Expended	1938	2169	2997	3821	4520	5293
NII	1119	1544	1838	2316	2761	3366
<i>NII Growth(%)</i>		37.9	19.1	26.0	19.2	21.9
Other Income	416	365	334	484	727	727
Total Income	1536	1908	2172	2800	3488	4093
Employee	366	524	521	652	741	869
Other Expenses	211	235	281	337	515	604
Operating Expenses	577	759	802	989	1256	1473
PPP(Rs Cr)	958	1149	1370	1811	2232	2619
Provisions	446	534	567	756	884	1036
Net Profit	512	615	803	1055	1348	1584
<i>Net Profit Grwoth(%)</i>		20.1	30.6	31.4	27.7	17.5
Key Balance sheet data						
Deposits	37237	44676	53347	64221	75138	87912
Deposits Growth(%)		20.0	19.4	20.4	17.0	17.0
Borrowings	1100	1105	1241	1075	1230	1500
Borrowings Growth(%)		0.4	12.3	-13.4	14.4	22.0
Loan	23057	26194	33077	39200	47040	56449
Loan Growth(%)		13.6	26.3	18.5	20.0	20.0
Investments	13956	19696	21624	25741	21383	25035
Investments Growth(%)		41.1	9.8	19.0	-16.9	17.1
Eastwind Calculation						
Yield on Advances	10.2	10.0	10.3	11.0	11.0	11.0
Yield on Investments	5.0	5.4	6.5	9.4	9.4	9.4
Yield on Funds	7.7	7.5	8.3	8.9	10.6	10.6
Cost of deposits	4.9	4.6	5.4	5.8	5.9	5.9
Cost of Borrowings	8.8	9.1	7.7	7.4	7.4	7.4
Cost of fund	5.1	4.7	5.5	5.9	5.9	5.9
Valuation						
Book Value	621	718	844	1003	1232	1508
P/BV	1.1	1.2	1.1	1.3	0.9	0.7
P/E	6.4	6.9	5.5	5.9	3.9	3.3

Source: eastwind/Company

J&K BANK

Quarterly Result (Rs. Cr)	1QFY14	4QFY13	1QFY13	% YoY Gr	% QoQ Gr
Interest/discount on advances / bills	1184	1139	1028	15.2	4.0
Income on investments	423	463	422	0.3	-8.6
Interest on balances with Reserve Bank of India	17	25	26	-35.5	-32.2
Others	0	0	0		
Total Interest Income	1624	1627	1476	10.0	-0.2
Others Income	92	209	93	-1.2	-55.9
Total Income	1716	1836	1570	9.4	-6.5
Interest Expended	969	993	941	3.1	-2.4
NII	655	634	536	22.3	3.4
Other Income	92	209	93	-1.2	-55.9
Total Income	747	842	629	18.8	-11.3
Employee	176	208	138	27.4	-15.4
Other Expenses	90	97	76	19.2	-6.5
Operating Expenses	266	304	214	24.5	-12.5
PPP(Rs Cr)	481	538	415	15.9	-10.6
Provisions	36	179	50	-28.1	-79.7
PBT	445	360	365	21.9	23.7
Tax	137	109	119	15.3	25.0
Net Profit	308	250	246	25.1	23.1
Balance Sheet Data (Rs Cr)					
Net Worth	5173	4865	4339	19.2	6.3
Deposits	58601	64221	53117	10.3	-8.8
Borrowings	758	1075	1168	-35.2	-29.5
Advances	39282	39200	33225	18.2	0.2
Investment	21734	25741	22016	-1.3	-15.6
Asset Qaulity (Rs Cr)					
GNPA	665	644	541	23.0	3.4
NNPA	56	55	48	16.3	1.8
GNPA(%)	1.7	1.6	1.6		
NNPA(%)	0.1	0.1	0.1		
PCR(%)	91.6	91.4	91.1		

Source: Eastwind/Company