

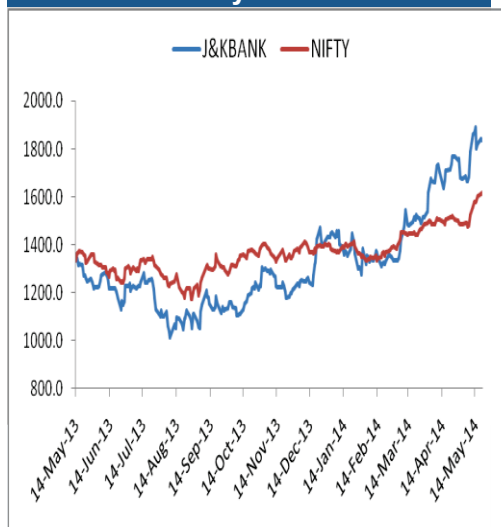
Result update	NEUTRAL
CMP	1827
Target Price	1920
Previous Target Price	1525
Upside	5
Change from Previous	26

Market Data	
BSE Code	532209
NSE Symbol	J&KBANK
52wk Range H/L	1995/995
Mkt Capital (Rs Cr)	8909
Average Daily Volume	79 cr
Nifty	7275

Stock Performance	1M	1yr	YTD
Absolute	7.3	38.0	38.0
Rel.to Nifty	0.6	16.7	16.7

Share Holding Pattern-%	Current	4QFY13	3QFY1
Promoters	53.2	53.2	53.2
FII	28.0	28.2	27.1
DII	4.8	4.5	4.3
Others	14.0	14.1	15.4

J&k Bank Vs Nifty



At the current price of Rs.1827, bank is trading at 1.27 times of FY15E book value which is almost higher side of our valuation band. We believe bank would trade 1.3 times of FY15E book value on our bull case scenario. We assume loan and deposits growth of 20% and 10% for FY15 and FY16 with credit cost at current year level. Our bull case scenario means either bank would do better than base case assumption or expand valuation multiple on the back of improving sentiments and initial sign of stabilizing economy. Fundamentally bull case means margin would expand materially in FY15 and FY16 given drop in deposits rates with strong demand in loan. Although recent price appreciation is the result of multiple expansion on the back of political front and initial sign of improving economy rather than fundament.

Profit growth was flat due to lower non interest income

J&K Bank's profit was flat at 0.2% YoY to Rs.251 cr which was due to lower other income. Last quarter bank booked onetime gain of Rs.72 cr against Met life stake sale which boosted overall contribution in other income. Operating profit was slightly up by 8.7% YoY resulted operating profit de-growth of 10.5% YoY. But lower provisions made by bank on the back of limited delinquencies provided some cushion at PBT level. Lower profit compressed return of assets and consequently ROE shrink by 300 bps to 17.5%.

NII growth on the back of margin and CD ratio expansion

During quarter bank's NII grew by 10.7% YoY to Rs.701 cr which was due to margin expansion of 6 bps on yearly basis along with inflated CD ratio and higher than industry average loan growth. NIM expansion came largely due to declined cost of fund while yield on loan and investment declined at yearly on yearly basis. Other income was decreased to Rs.111 cr versus Rs.209 cr in last quarter which was due to onetime gain of Rs.72 cr from stake sell of Met life. Further insurance income declined by 44% YoY to Rs.9 cr from 16 cr due to part stake sale in last quarter. Commission and exchange income lower to Rs.43 cr versus Rs.44 cr and miscellaneous income declined to Rs.38 cr against Rs.65 cr last quarter. Lower non-interest income dragged overall revenue de-growth to 3.6% YoY to Rs.812 cr.

Financials

	Rs, Cr				
	2011	2012	2013	2014	2015E
NII	1544	1838	2316	2684	3160
Total Income	1908	2172	2800	3075	3550
PPP	1149	1370	1811	1900	2201
Net Profit	615	803	1055	1182	1370
EPS	126.9	165.7	217.6	243.9	282.7

(Source: Company/Eastwind)

Comfortable operating cost but pre provisioning profit declined

Operating cost was up by 8.7% which was led by other expenses. Depreciation cost which is part of other expenses was up by 70% YoY due to branch addition. During year bank added 91 branches taking total branch net work to 791 including extension counter. Employee cost declined by 2% YoY due to numbers of employee came down to 9371 from 9400 in 4QFY13. Cost income ratio was up to 40.7% from 36.1% in last quarter due to lower non interest income. Operating leverage remained flat at 1.7% in both quarterly and yearly basis. Overall cost structure has not gone up besides depreciation but bank gained incremental benefit for the addition of branch as per branch loan has increased by Rs 2 cr to Rs.59 cr in year on year basis. Operating profit was down by 10.5% YoY to Rs.481 cr due to lower non interest income.

Rs Cr	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14
Total Income	629	644	685	842	747	781	734	812
Employee	138	143	164	208	176	177	188	204
Other Expenses	76	78	86	97	90	108	105	127
Operating Expenses	214	221	250	304	266	285	293	331
Total Assets	59992	61634	63796	71743	65747	69358	71370	78620
CI Ratio	34.0	34.3	36.5	36.1	35.6	36.5	39.9	40.7
Operating Leverage	1.43	1.43	1.57	1.70	1.62	1.64	1.64	1.68

Stable asset quality, slippage remained lower among peers

Provisions and contingencies were Rs.61 cr versus right back of Rs.5 cr in previous quarter. Assets quality was by and large stable at sequential basis with GNPA slightly deteriorated by 2 bps to 1.69% while net NPA remained flat at 0.22%. In absolute basis, gross NPA increased by 8% sequentially while provisions were also up by 8% which was result of net NPA up by 5% QoQ. During quarter bank made loan loss provisions of Rs.35 cr against right back of Rs. 13 cr in previous quarter. Slippage during the quarter was lower at 0.6% versus 1.4% in previous quarter. Bank reported lower slippage ratio in among peers. Total restructure book at the end was Rs.1576 cr which was 3.4 of advances against 3.3% in previous quarter. Addition to restructure book was to the tune of Rs. 240 cr which was higher than Rs.137 cr in previous quarter and Rs.60 cr last quarter. Total delinquencies (GNPA+ Restructure Book) remained flat at 5.1% to advances versus 4.9% in previous quarter. PCR without technical write off stood at 87% (with write off 90%) much above than regulatory requirement.

J&K BANK

Loan and deposits growth healthy within state

Loan growth during quarter was healthy at 18.3% which was led by 24% growth in within state followed by 14.5% growth in rest of India. Corporate loan within state increased by 17% YoY but composition of total loan to corporate within state remained flat at 15%. Corporate loan outside of India was up 17% followed by SME, personal and trade which all grew by 14%. Deposits grew by 8% YoY which was led by muted growth in all segment that is saving account, current account and term deposits which were grew by 7.7%, 6.8% and 8.3% respectively. In percentage of saving and current deposits to total deposits remained flat at 39.1%. CASA in absolute basis reported growth of 7.5% YoY. Within state deposits grew by 10.6% YoY while outside from state it registered growth lower at 3.4 which account for sluggish growth.

Margin expansion due to declined cost of fund and expansion in CD ratio with healthy loan growth

Margin at sequential basis improved by 16 bps to 4.13% due to declined lower cost of fund and expansion in CD ratio. Loan yield on calculated basis declined to 11.8% versus 12% in previous quarter while investment yield declined to 6.6% versus 7.7% in 3QFY14. Cost of fund declined by 60 bps to 6.1% from 6.6% due to stable CASA ratio and lower dependency on borrowings funds. Higher loan growth within state and expansion in CD ratio would keep margin at current level as per our view. We believe bank's margin would be remained at 4.1-4.3% in medium to long term.

Rs Cr	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14
NIM	4.1	4.1	4.3	4.3	4.0	4.1
Yield on Advances	12.5	12.2	12.1	12.4	12.0	11.8
Yield on Investments	7.4	7.2	7.8	7.1	7.7	6.6
Yield on Funds	10.2	9.6	10.6	10.1	10.3	9.6
Cost of deposits	6.6	6.2	6.5	6.2	6.6	6.0
Cost of Borrowings	10.5	6.3	12.9	8.0	8.3	6.6
Cost of fund	6.49	6.08	6.53	6.19	6.65	6.06

Source: Eastwind/Company

J&K BANK

Quarterly Result (Rs. Cr)

	4QFY14	3QFY14	4QFY13	% YoY Gr	% QoQ Gr	4QFY14E	Variation(%)
Interest/discount on advances / bills	1327	1266	1139	16.5	4.9	1352	-1.9
Income on investments	432	434	463	-6.6	-0.5	460	-6.1
Interest on balances with Reserve Bank of India	18	16	25	-27.9	16.2	14	28.3
Others	0	0	0			0	
Total Interest Income	1778	1716	1627	9.3	3.6	1826	-2.7
Others Income	111	87	209	-46.8	27.0	93	19.4
Total Income	1889	1803	1836	2.9	4.7	1920	-1.6
Interest Expended	1076	1069	993	8.4	0.7	1085	-0.8
NII	701	647	634	10.7	8.4	741	-5.4
Other Income	111	87	209	-46.8	27.0	93	19.4
Total Income	812	734	842	-3.6	10.7	834	-2.6
Employee	204	188	208	-1.9	8.5	192	6.0
Other Expenses	127	105	97	31.4	20.6	108	17.6
Operating Expenses	331	293	304	8.7	12.8	300	10.2
PPP(Rs Cr)	481	441	538	-10.5	9.2	534	-9.8
Provisions	61	-5	179	-66.1	-1416.7	50	22.1
PBT	421	445	360	17.1	-5.5	484	-13.1
Tax	170	124	109	55.6	37.1	145	17.2
Net Profit	251	321	250	0.2	-22.0	339	-26.1

Balance Sheet Data (Rs Cr)

Net Worth	5724	5797	4865	17.7	-1.3
Deposits	69336	63157	64221	8.0	9.8
Borrowings	1765	1150	1075	64.2	53.5
Advances	46385	43318	39200	18.3	7.1
Investment	26195	22714	25741	1.8	15.3

Asset Qaulity (Rs Cr)

GNPA	783	725	644	21.7	8.0
NNPA	102	97	55	84.5	5.3
GNPA(%)	1.69	1.67	1.64		
NNPA(%)	0.22	0.22	0.14		
PCR(%)	87	87	91		

Source: eastwind/Company

J&K BANK

P/L	2012	2013	2014	2015E	2016E
Interest/discount on advances / bills	3394	4318	5021	5715	6400
Income on investments	1403	1723	1686	1881	2069
Interest on balances with Reserve Bank of India	39	97	60	60	60
Total Interest Income	4836	6137	6767	7656	8530
Others Income	334	484	390	390	390
Total Income	5170	6621	7157	8046	8920
Interest on deposits	2902	3741	3978	4496	4946
Interest on RBI/Inter bank borrowings	41	26	50	117	129
Others	54	54	54	0	0
Interest Expended	2997	3821	4083	4496	4946
NII	1838	2316	2684	3160	3584
NII Growth(%)	19.1	26.0	15.9	17.7	13.4
Other Income	334	484	390	390	390
Total Income	2172	2800	3075	3550	3975
Employee	521	652	744	796	891
Other Expenses	281	337	431	553	619
Operating Expenses	802	989	1175	1349	1510
PPP(Rs Cr)	1370	1811	1900	2201	2464
Provisions	567	756	148	156	175
Net Profit	803	1055	1182	1370	1534
Net Profit Growth(%)	30.6	31.4	12.1	15.9	11.9
Key Balance sheet data					
Deposits	53347	64221	69336	76269	83896
Deposits Growth(%)	19.4	20.4	8.0	10.0	10.0
Borrowings	1241	1075	1765	1956	2151
Borrowings Growth(%)	12.3	-13.4	64.2	10.8	10.0
Loan	33077	39200	46385	51951	58185
Loan Growth(%)	26.3	18.5	18.3	12.0	12.0
Investments	21624	25741	26195	28943	31838
Investments Growth(%)	9.8	19.0	1.8	10.5	10.0
Eastwind Calculation					
Yield on Advances	10.3	11.0	10.8	11.0	11.0
Yield on Investments	6.5	9.4	6.4	6.5	6.5
Yield on Funds	8.3	8.9	8.8	9.5	9.5
Cost of deposits	5.4	5.8	5.9	5.9	5.9
Cost of Borrowings	7.7	7.4	7.4	6.0	6.0
Cost of fund	5.5	5.9	5.7	5.7	5.7
Valuation					
Book Value	844	1003	1181	1443	1739
P/BV	1.1	1.3	1.5	1.3	1.1
P/E	5.5	5.9	7.5	6.5	5.8

Source: eastwind/Company