

The Jammu and Kashmir Bank

Peace, Prosperity and Profits

CLSA INDIA FORUM - 2005

Agenda

- ❖ Introduction
- ❖ Business and Financial Performance
- ❖ Context : Changing Conditions
- ❖ Economics of Peace: Bounty for the Bank
- ❖ J&K Bank : Three year revitalisation phase

Profile

- Incorporated in 1938 as a limited liability company
- Governed by the Companies Act and Banking Regulation Act of India
- Regulated by the Reserve Bank of India and SEBI
- Listed on National stock exchange (NSE) and Bombay stock exchange (BSE)
- 53 per cent owned by the Government of J & K
- Rated “P1 +” by Standard and Poor-CRISIL: highest degree of safety
- Four decades of uninterrupted profitability and dividends

One of a Kind

- Private sector bank despite government holding 53 per cent of equity
- Sole banker and lender of last resort to the government of J & K
 - Plan and non-plan funds, taxes and non-tax revenues routed through the bank
 - Salaries of government officials disbursed by the bank
- Limited applicability of national economic and financial legislations
- Only private sector bank designated as agent of RBI for banking business
- Carries out banking business of the central government
- Collects taxes pertaining to central board of direct taxes in J & K

Differentia specifica

- J&K Bank operates in a “closed” economy, where:
 - Leakages from its banking network are limited
 - Lending is akin to creation of high powered money
- The more it lends within the state, more incomes are generated and low cost saving deposits are mobilized for itself
- **The net result is a virtuous cycle of lending and saving**
 - liquidity remains within the bank’s system, which given that yields are better means:
 - Better margins
 - Higher profitability

Infrastructure : Global Standards

- The fastest growing Bank with 504 branches across the country
- 98 per cent of the business computerized
- Anywhere Banking, Tele-banking and SWIFT facilities available
- Internet Banking, SMS and Mobile Banking provided
- ATMs connected globally to all MasterCard Networked ATMs.
- Mobile ATM Service available - first of its kind in Northern India
- J&K Bank Global Access Debit Cards Cirrus and Maestro enabled
- Own Credit Card
- Live on RTGS System of RBI

Financial Services Portfolio

- Insurance joint venture with MetLife International .
- Distributor of :
 - Life Insurance products of MetLife (India) Pvt. Ltd. and
 - Non-Life Insurance products of Bajaj Allianz General Insurance Co. Ltd.
- Providing Depository Services
- Offering Stock Broking Services.
- Collection Agent for utility services provided by State and private sector.

Financials : Dynamic Growth

Particulars (Amount in Bn.)	FY-96	FY-97	FY-98	FY-99	FY-00	FY-01	FY-02	FY-03	FY-04	FY-05
Business Turnover	42.59	53.52	70.41	93.95	129.40	159.31	193.35	226.86	279.46	331.62
Deposits	28.95	36.58	48.83	64.44	94.22	111.68	129.11	146.75	186.61	216.45
Advances	13.64	16.94	21.58	29.51	35.18	47.63	64.24	80.11	92.85	115.17
Foreign Exchange	5.05	7.16	8.11	16.55	17.64	24.02	29.54	36.66	46.37	59.65
Investment	10.68	15.93	20.61	29.51	42.54	54.25	57.53	67.38	84.51	90.89
Total Income	3.48	4.29	5.88	7.37	9.90	11.57	16.11	17.15	18.23	16.31
Gross Profit	0.98	0.99	1.62	1.72	2.32	2.73	4.61	5.54	6.28	3.56
Net Profit	0.18	0.25	0.51	0.86	1.20	1.68	2.60	3.38	4.06	1.15
Net Worth	1.41	1.77	2.75	4.28	5.28	7.00	9.37	12.42	15.94	16.65
Reserves	1.34	1.70	2.45	3.81	4.80	6.51	8.89	11.94	15.46	16.17
Capital	0.07	0.07	0.30	0.48	0.48	0.48	0.48	0.48	0.48	0.49
Capital Adq. Ratio (%)	13	15.88	20.48	24.48	18.82	17.44	15.46	16.48	16.88	15.15
NP A's (%)	-	6.02	4.57	3.79	3.22	2.45	1.88	1.58	1.48	1.41
Productivity per Employee (Mn.)	7.70	9.60	12.40	15.00	20.60	24.60	29.80	31.90	39.40	48.25
Profit per Employee (thousands)	33	45	89	137	191	259	400	475	574	167
No. of Branches/ Offices	360	364	370	389	404	426	441	454	475	500
No. of Computerized Branches	18	48	70	84	150	205	242	300	360	423
Staff Cost / Total Income (%)	14	12.64	10	11.54	9.07	8.28	11.17	9.24	9.24	10.96

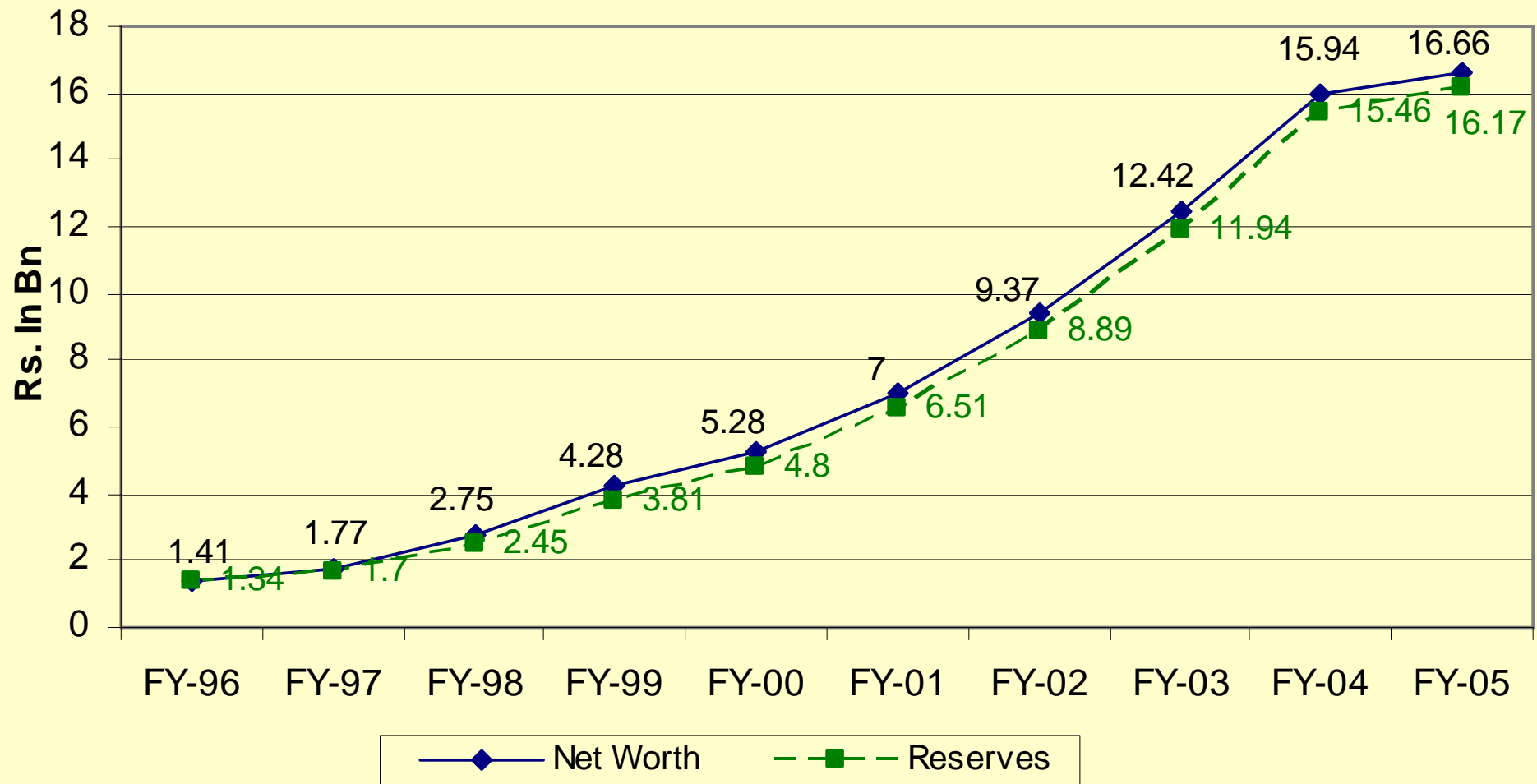
Financial Results: Latest Results

Particulars	Q2	Q2	% Change	Q1	Q2	% Change	Half Year	Half Year	
Rs. In Bn.	2004-2005	2005-2006		2005-06	2005-2006		30.09.2004	30.09.2005	% Change
Interest Earned	3.8614	4.1679	7.94%	4.2780	4.1679	-2.57%	7.7532	8.4459	8.93%
Interest Expended	2.3167	2.5323	9.31%	2.7730	2.5323	-8.68%	4.7867	5.3053	10.83%
Net Interest Income	1.5447	1.6356	5.88%	1.5050	1.6356	8.68%	2.9665	3.1406	5.87%
Other Income	0.0166	0.2671	1509.04%	0.2246	0.2671	18.92%	0.4662	0.4912	5.36%
Net Income	1.5613	1.9027	21.87%	1.7296	1.9027	10.01%	3.4327	3.6318	5.80%
Operating Expenses	0.7869	0.8348	6.09%	0.7672	0.8348	8.81%	1.5052	1.6020	6.43%
Operating Profit	0.7744	1.0679	37.90%	0.9624	1.0679	10.96%	1.9275	2.0298	5.31%
Provisions & Contingencies	1.3147	0.2983	-77.31%	0.3111	0.2983	-4.11%	1.7319	0.6094	-64.81%
PBT	-0.5403	0.7696	244.90%	0.6513	0.7696	18.16%	0.1956	1.4204	626.18%
Tax Provision	-0.0400	0.2199	682.75%	0.1669	0.2199	31.76%	0.2230	0.3862	73.18%
Net Profit	-0.5003	0.5497	209.89%	0.4844	0.5497	13.48%	-0.0274	1.0342	3893.80%
Share Capital	0.4825	0.4849	0.50%	0.4849	0.4849	0.00%	0.4825	0.4849	0.50%
EPS (Amt. In Rs.)	-10.37	11.34	1190.39%	9.99	11.34	13.48%	-0.06	21.33	35833.33%
Book Value (Amt. In Rs.)	328.04	364.87	11.23%	353.53	364.87	3.21%	328.04	364.87	11.23%
Capital Adequacy Ratio							16.56%	13.60%	-17.87%
Tier - I (%)							13.00%	12.13%	-6.69%
Tier - II (%)							3.56%	1.47%	-58.71%

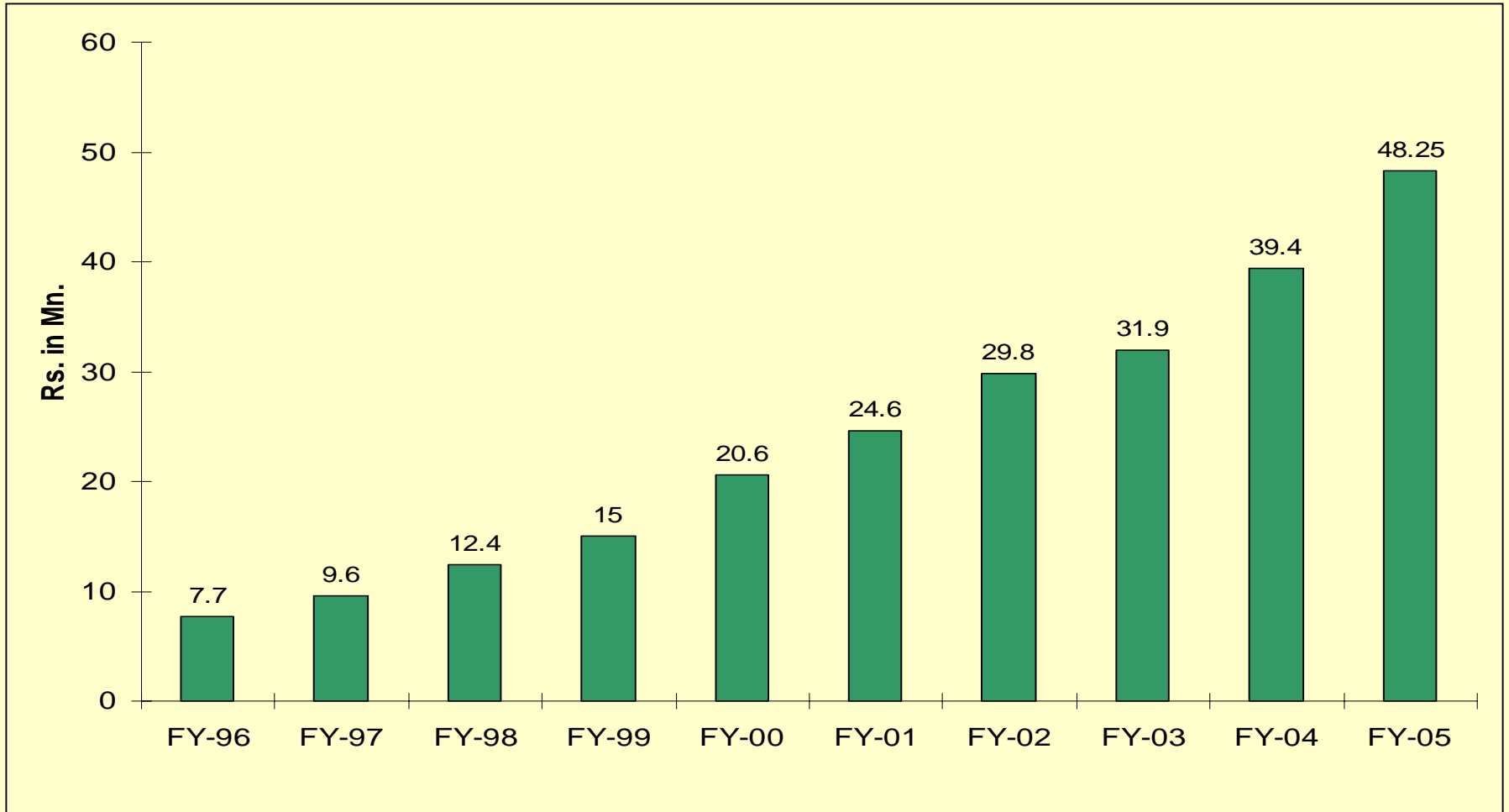
Shareholding Pattern:

S.No.	Particulars as on 30.09.2005	%age of Shareholding
1	Govt. of Jammu & Kashmir	53.17
2	Foreign Institutional Investors	27.79
3	Resident Individuals	14.32
4	Indian Mutual Funds	1.71
5	Insurance Companies	1.27
6	Bodies Corporate	1.26
7	Non-Resident Indians	0.40
8	Banks	0.03
9	Transit / Clearing Members	0.03
10	Trusts	0.02

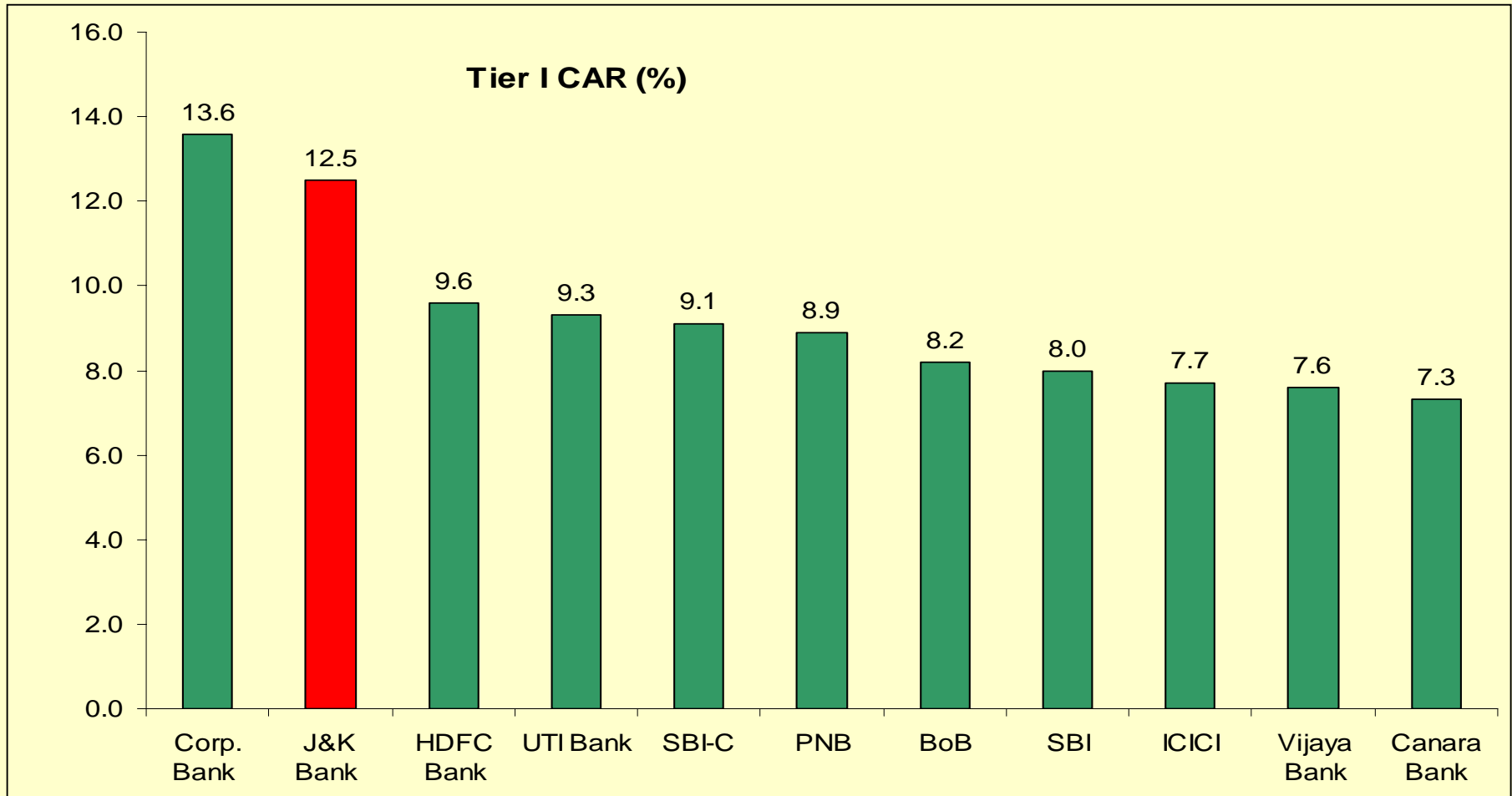
Reserves & Net Worth: Exponential Growth



Productivity per Employee

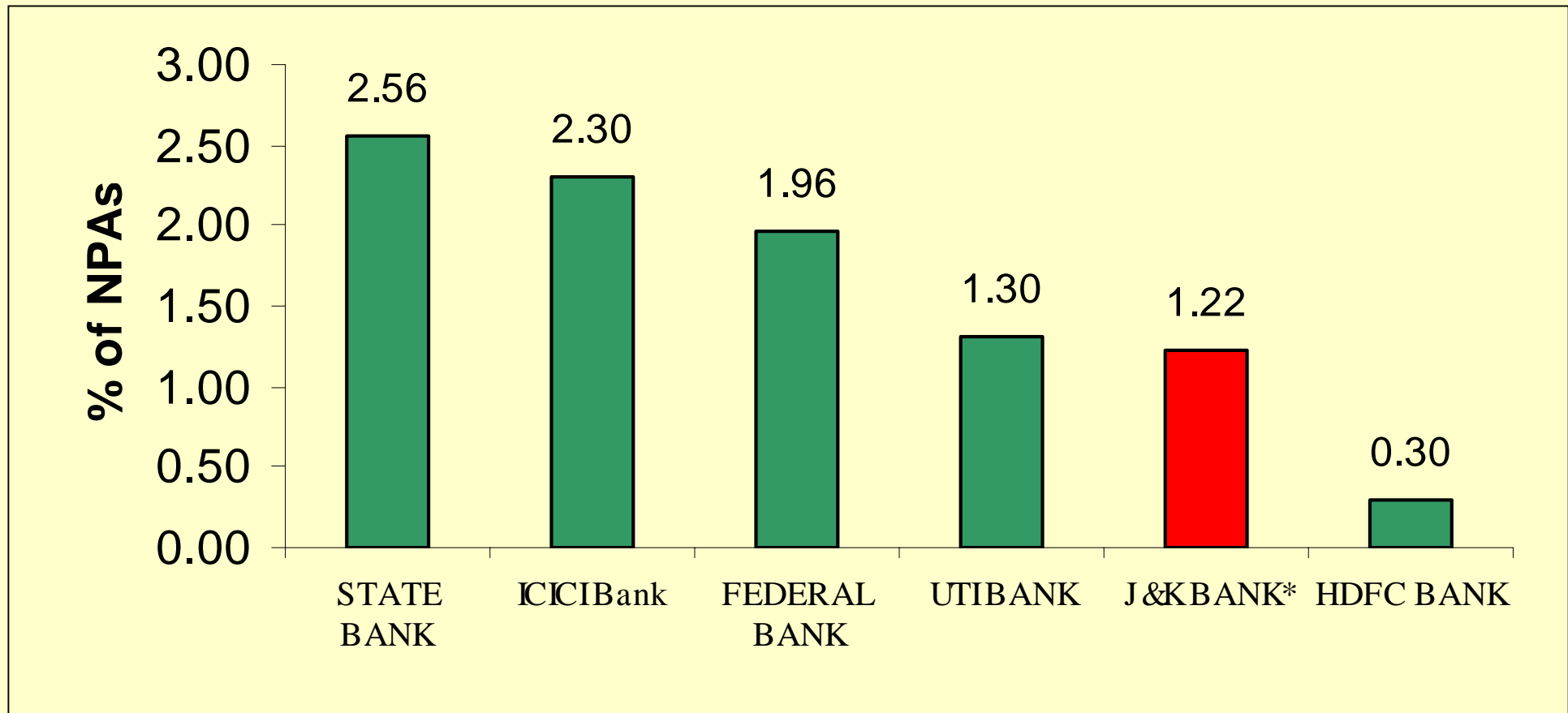


Capital Adequacy : Most Comfortable



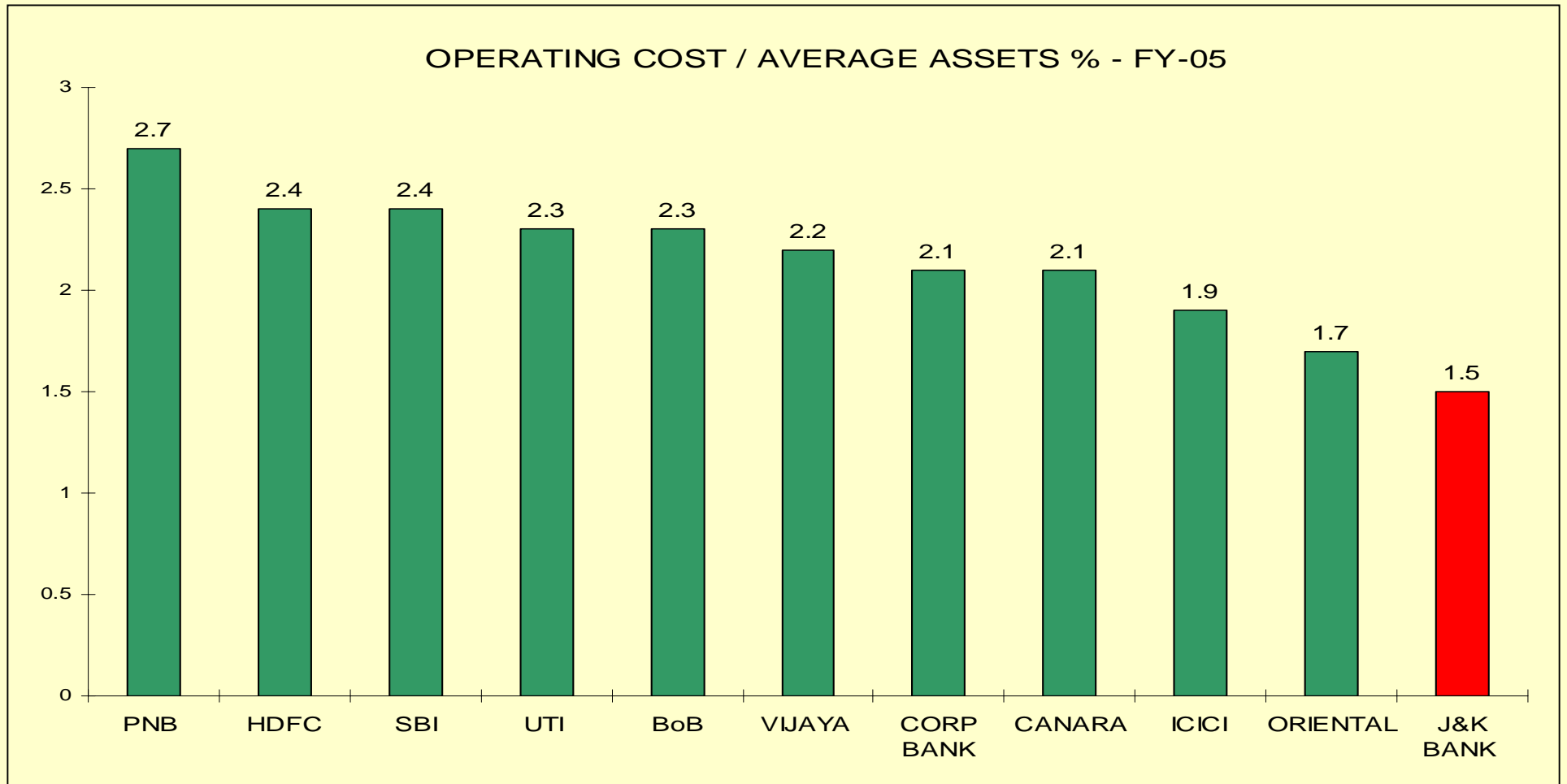
As on 31st March 2005

Asset Quality (net NPA) : Among the Best

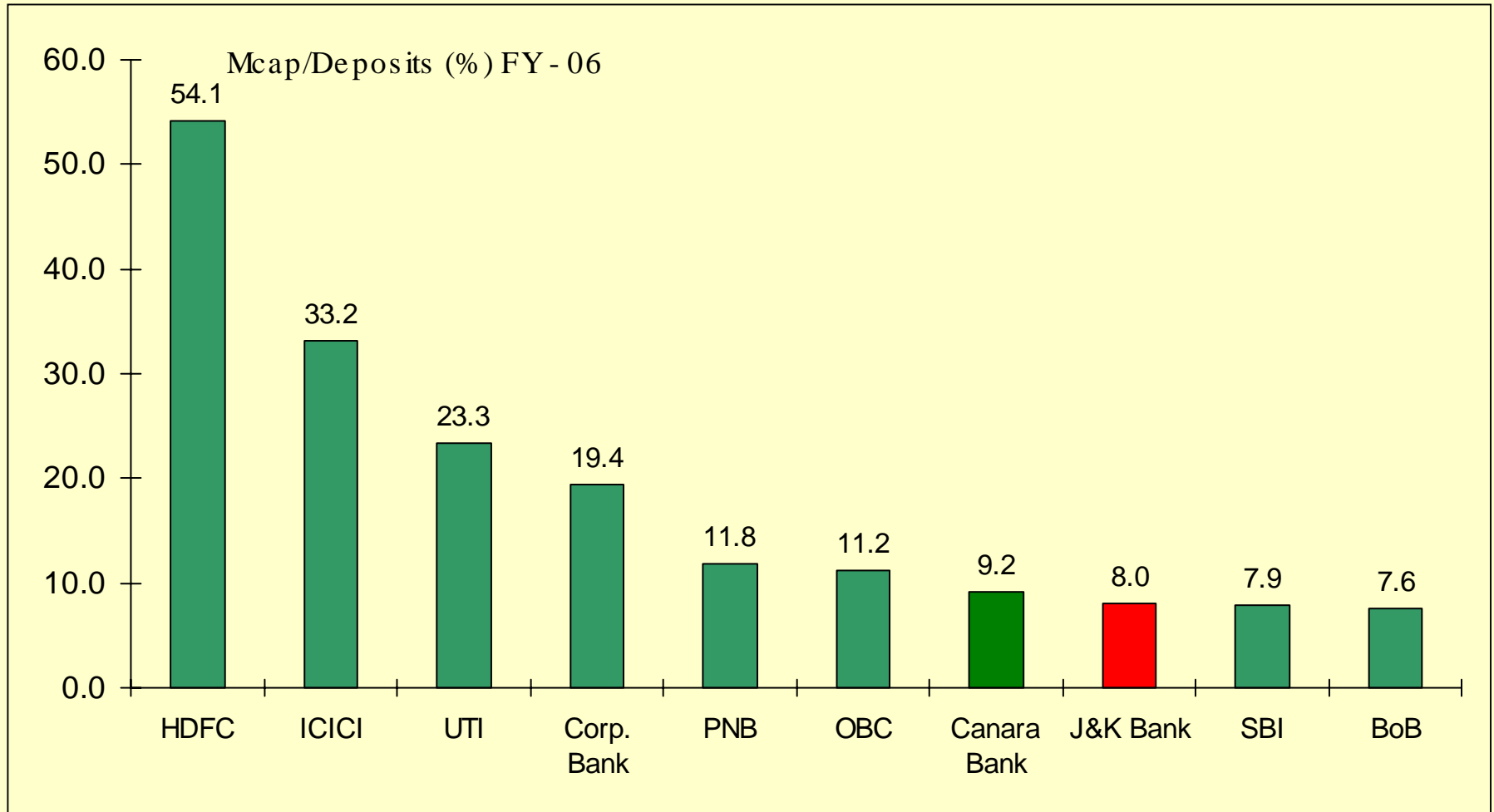


* AS ON 30TH JUNE, 2005

Operating Costs : The Lowest



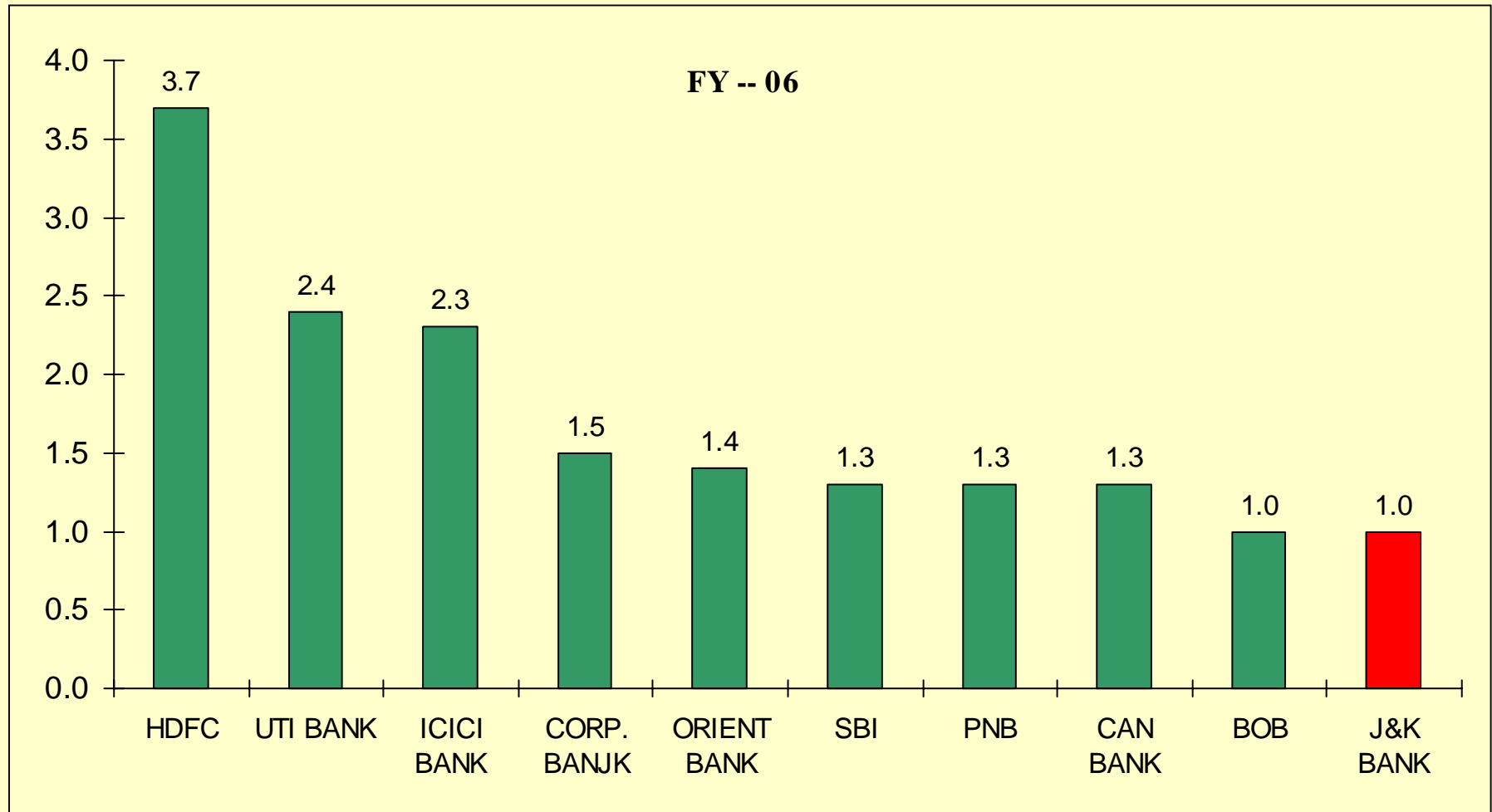
Relative Valuation Matrix : Most Attractive



Market Cap as on 4th July, 2005

Relative Valuation Matrix :

Most Attractive



Closing Market Price – 4th July, 2005

Context : Changing Conditions

➤ Socio-Political situation:

➤ Domestic changes:

- Democratically elected sub-national government
- Local body election after 32 years
- Same party in power at the Centre and the State after 24 years
- First time a coalition government at the state level

➤ International peace process:

- Srinagar-Muzaffarabad road opened after 52 years
- Visa requirement within the greater Jammu and Kashmir abolished
- Full diplomatic relations between India and Pakistan restored

Context : Economic Dimension

➤ Restoration of Normal economic and financial relations:

- Taxes are being paid

 - State's own tax revenue has increased Rs 700 crore to Rs 1600 crore

- Non-tax and user charges are being levied

 - Power recoveries have gone up from Rs 280 crore to Rs 700 crore

➤ Catalysing peace through economic reconstruction

- Special Development plan

- Prime Minister's Reconstruction Plan, in addition to:

 - Routine spending plans

Peace through Economic Reconstruction : Contours

- **Prime Minister's Reconstruction Plan:**
 - Timeframe : 2005-06 to 2008-09
 - Size : Rs 24,000 crore
 - Focus areas: Power, Roads, Hospitals and Tourist Infrastructure
- **Asian Development Bank's Multi-sectoral Investment Plan**
 - Timeframe : 2005-06 to 2009-10
 - Size : Rs 2,000 crore
 - Focus areas : Rural connectivity, Urban Infrastructure
- **Japanese Bank of Industrial Cooperation:**
 - Timeframe : 2007-08 to 2010-11
 - Size : Rs 3,500 crore
 - Focus areas : Water supply and Urban sanitation

Staggering Numbers

- Prime Minister's Reconstruction Plan: Rs 24,000 crore
- Asian Development Bank's Multi-sectoral Investment: Rs 2,000 crore
- Japanese Bank of Industrial Cooperation: Rs 3,700 crore
 - In addition to this,
- Normal spending plans: Rs 4,500 crore p.a
- **Three year autonomous expenditure of: Rs 34,000+**
- All this money will be managed by and will pass through the banking channels of the Jammu and Kashmir Bank
- And this is not all.....

Private Investment :Picking Up

➤ Quantity:

- Investment in the SME sector till July 2005 : Rs 3,500 crore
- Proposals in the pipeline: Rs 12,000 crore
- The flow of funds is in the range of : Rs 50,000 crore

➤ Quality:

- Top notch Indian corporates:
 - Bharti
 - Reliance (ADA) Infocomm
 - Mahindra and Mahindra
 - Lupen Laboratories
 - Essar telecom

It is raining investments...

➤ ... and the bounty benefits the J&K Bank

➤ J&K Bank will be a major beneficiary of the improving business climate because of its:

➤ Virtual monopoly in the State economy and business

➤ Complete monopoly over the financial operations of the Government

➤ Unmatched distribution network of over 300 branches

➤ Larger than life Brand presence

Economics of Peace :

Direct Impact-I

A. Pure growth effect

- Increased level of economic activity due to improved socio-political situation
- As a result, bank's business opportunity set widens

For example:

- Tourist inflow in 2005 has already crossed 1989 levels:
 - Income multiplier of tourism sector is 1.66
 - Private sector investments in tourist infrastructure
 - Credit to tourism industry has picked up

Economics of Peace :

Direct Impact - II

B. Normalcy plus economic reconstruction

- Economic growth accelerates due to reconstruction of economy through :

- * **autonomous investments in physical infrastructure**

- * **Induced investment in production activity**

Example:

Acceleration of Economic growth:

- | | |
|------------------------------------|---------------|
| ➤ State SDP growth : | 13.5 per cent |
| ➤ Commercial Agricultural growth : | 9.7 per cent |
| ➤ SMEs projected at : | 16.3 per cent |

Economics of Peace :

Direct Impact - III

C. Per capita Income levels rise;

- savings rate increases;
- financial savings increase proportionally
- **Capacity for servicing personal loans will increase**

D. With such a massive investment dose:

- inflation likely to increase
- real rate of interest will decline...
- making mortgages more attractive

Bottomline impact : Retail lending increases

Economics of Peace :

Second order Impact

C. Crowding in of investment:

- public investment in infrastructure will induces private investment with backward and forward linkages
- Credit demand for financing SME's and ancilliarities associated with infrastructural projects picks up
- Credit demand for induced demand : financing private sector projects

Bottomline impact : SME lending will increase

Economics of Peace: Tertiary Benefits Impact

- Size of state budget will increase by 50 to 70 per cent annually
 - The **free float of funds will rise proportionally** as all expenditures will flow through J&K Bank reducing the costs of deposits further
- As a collection agent, Bank's commission income will rise as tax and non-tax revenues are buoyant
 - For example, Power receipts are up from Rs 290 crore in 2004-05 to Rs 600 crore in 05/06.
 - Correspondingly **J&K bank fee income from power bill collection increases from Rs 15 crore to Rs 30 crore:**

National Environment

Overall Stability and Growth

- A. Financial services - growing in size and complexity
- B. Banking sector - Back to core business
- C. Economy - Demand led growth
- D. Monetary policy - No surprises in store
- E. Asset Pricing: no more repricing of assets plus end of the disintermediation-related price cuts.

Carving a niche nationally

- The low cost regional deposits, will allow the bank to:
 - Continue to lending to corporates and SMEs nationally at aggressive rates
 - focus more on high end financial products
 - Under-serviced specialised areas like Commodity financing
 - For the bank the focus will be :
 - Corporate and SME lending outside J&K
 - Retail and priority sector lending in J&K

Beyond the Economy: Bank's new business initiatives

➤ To meet the growing needs of the economy, in tune with the competitive banking environment, Bank is taking the following new initiatives:

- Innovative financial products
- Monetizing the Bank's branch network
- Third party product distribution
- Investment banking
- Offshore banking

New financial products

- Mismatch between sources of growth and credit supply
- High growth and yield areas, e.g commodity financing, under serviced in terms of credit
 - Horticulture continues to be financed informally
 - Artisan economy not financed
- Size of horticulture business - Rs.12 to 15 Bn
 - Current exposure is Rs.1.5 Bn
- Size of Artisan business - Rs. 4 to 6 Bn.
 - Current exposure is Rs. 0.6 Bn
- Need for customized financial products to tap these high yielding markets not just in the state but also outside

Monetising the distribution net

- Normalization bringing in competition;
 - Private Sector Banks marking their presence in the valley
- These banks can't match the distribution muscle of J&K Bank which has a 307 - strong branch network in the State
- Brand equity of the Bank is also a barrier to entry.
- To disincentives expansions of competitors and earn non-interest income, J&K Bank is working out alliances with;
 - Mutual Funds
 - Pension Funds and others

Third party product distribution

- The extensive branch network will be used as a distribution channel for financial products of all financial service providers.
- The bank will charge a fee and or a commission for ;
 - Services rendered
 - Infrastructure provided
- This strategy will;
 - Beef-up the non-interest income of the Bank
 - Reduce volatility of incomes and profits
 - Make hard assets sweat more
 - Improve business per branch per person

Investment banking

- J&K Bank has a captive client in the State Govt.
- State Govt. is investing 240Bn in power alone for which it requires;
 - Investment advisory
 - Loans syndications
- The bank will help take corporations like Power Development Corporation public, thereby creating India's first largest utility company
- Such services will be delivered at a fee
- J&K Bank's core competence viz-a-viz competition is extensive domain and geographical knowledge.

Off-shore banking

- By virtue of its special Constitutional position under Article 370, not all laws pertaining to financial services apply to the J&K State
- While the rest of India is on route to liberalize the earlier restrictive financial sector regime, J&K State and companies registered there have no such legacies to clear.
- J&K can be used as a model to try out further liberalized financial regime.
- In this context J&K Bank will explore the possibility of setting up an Offshore Banking Facility which will be of its first kind in the sub-continent.
- This facility would not disrupt the capital account convertibility of the country yet would provide an attractive avenue for global financial flows to take advantage of financial arbitrage and liberal financial regulations.

Addressing financial depth

- J&K bank is a Corporate with a Community
- It has a geographical region to itself which lacks financial depth
- bank will bring about a financial deepening of the regional economy by monetising trade and replacing channels of informal finance
- **By creating a new financial architecture in the state**
- Consolidation of existing financial institutions by engineering a series of M&As

Organizational restructuring

- With a view to meet the growing needs of the Bank in tune with the changing and competitive banking environment, bank is taking the following new initiatives:
 - Engaging the services of a Brand Strategist to frame its brand strategy
 - Re-designing its visual brand image and give it a very distinctive and contemporary bank personality.
 - Engaging the services of consultants for framing its Vision and Business Plan.
 - Redrawing the organization structure with a view to make it efficient, effective, excellent and value driven.

To sum up

1. Financials: Been good, getting better.
2. Business: Repositioning to capitalize on the (expenditure led) economic boom
3. Structural: Consolidating on the strong base
4. Infrastructure: Monetising the distribution network
5. Brand: Brand with a heritage becoming an inspirational brand

Thank You