

May 17, 2019

Q4FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

Rating	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Target Price	BUY 80		BUY 76	
NII (Rs. m)	39,013	44,924	37,972	43,718
% Chng.	2.7	2.8		
Op. Profit (Rs. m)	18,380	22,039	16,341	18,413
% Chng.	12.5	19.7		
EPS (Rs.)	10.7	14.5	11.5	15.0
% Chng.	(6.8)	(3.3)		

Key Financials

	FY18	FY19	FY20E	FY21E
NII (Rs m)	28,708	33,839	39,013	44,924
Op. Profit (Rs m)	13,819	17,179	18,380	22,039
PAT (Rs m)	2,026	4,649	5,954	8,078
EPS (Rs.)	3.8	8.3	10.7	14.5
Gr. (%)	(111.6)	122.2	28.1	35.7
DPS (Rs.)	-	0.5	0.8	0.8
Yield (%)	-	0.9	1.3	1.3
NIM (%)	3.6	3.8	3.8	3.9
RoAE (%)	3.4	7.3	8.6	10.7
RoAA (%)	0.2	0.5	0.5	0.7
P/BV (x)	0.6	0.5	0.5	0.4
P/ABV (x)	1.1	1.1	0.8	0.6
PE (x)	14.8	6.7	5.2	3.8
CAR (%)	11.4	12.5	11.4	10.8

Key Data

JKBK.BO | JKBK IN

52-W High / Low	Rs.66 / Rs.35
Sensex / Nifty	37,931 / 11,407
Market Cap	Rs.31bn / \$ 442m
Shares Outstanding	557m
3M Avg. Daily Value	Rs.130.47m

Shareholding Pattern (%)

Promoter's	59.23
Foreign	15.75
Domestic Institution	7.93
Public & Others	17.09
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(10.6)	40.2	7.2
Relative	(7.4)	31.0	(0.6)

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Healthy core performance

Quick Pointers:

- Notable margin improvement, while PNB MetLife stake sale aided Other Income
- Trimming corporate book; low exposure to recently downgraded groups; RBI cited divergence-in-provisions made

JKBK's earnings of Rs2.1bn (PL:Rs1.5bn) were better than expectations as bank recorded higher Other Income pertaining to stake sale in PNB MetLife. Adjusting for stake sale, PPOP grew 56% despite spike in employee cost coming from wage provisions. Loan growth was driven by retail segment (34%YoY) and J&K State. Bank reported NIM of 4.05% (+14bps/+86bps QoQ/YoY) as improved yields offset higher funding costs. Credit cost (calculated) was moderately high at 2.7% (2.4% in 4Q18) as a) bank recognized 3 IL&FS accounts of 4 as NPA, b) divergence in provisions cited by RBI. Bank's restructured book which had been a concern declined 12% QoQ. Valuation of 0.6x on Mar-21 ABV is reasonable given healthy loan growth & margins outlook, robust liability franchise (CASA:51%), controlled asset quality and waning capital concerns. Retain BUY with revised TP of Rs80 (from Rs76) based on 0.9x Mar-21 ABV.

- Strong core income:** Bank reported NII growth of 42% YoY which has been improving from last few quarters on back of lower interest reversals, interest booking on impaired assets and better loan growth towards high margin segments. Other income saw impact of stake sale in PNB MetLife (~Rs1.85bn), adjusting for which OI growth was still strong at 27% YoY. Adjusted core PPOP growth of 56% YoY had impact of gratuity provisions. We expect C/I to hover around 58-60% for FY20E/21E as bank plans on opening 300 ultra-branches in unpenetrated regions of J&K State in next 18 months.
- Loan growth in mid-teens:** Overall gross loan growth of 15% YoY was driven by 23%YoY growth in J&K state. We note that overall corporate loan book de-grew by 3%YoY as bank step back from consortium lending and is focusing on retail & SME segment. Share of corporate contracted from 51% in FY18 to 43%. Reported NIM improved from 3.2% in 4Q18 to 4.05%. Bank will continue to grow the J&K state book at 20-25%YoY with focus towards Agri/Horticulture/Personal loans/state govt employee related loans which should hold margins.
- Asset quality saw improvement:** GNPA came at 9% (9.9% in 3Q19) as bank reported high write offs – a trend visible in 4Q18 also. Bank reported slippages of Rs9.1bn in the quarter with Rs6.4bn emerging from J&K State. Provisions stood at Rs3.8bn on account of divergence, write offs. Bank holds 81% PCR on NCLT 1 & 2 list. Thereby, calculated credit cost slightly inched up to 2.7%. Also, as bank continues to provide high write offs in 4Qs, going ahead, expect sizeable interest write back and recoveries. Bank's restructured book which had been a concern moved favorably recording a decline of 12% QoQ

- Board approval to raise capital:** Bank plans to grow its loan book at 20-25%YoY in J&K state (constitutes 56% of gross advances) and requires capital to support the same. Recently, bank has received board approval to raise Rs16bn in tranches via AT1/Tier II bond route. This, if routed via AT1, would increase Tier I capital to 12.7% - currently at 10.6%. Further, bank plans to sell non-core assets including residual stake in PNB MetLife.

Exhibit 1: Uptick in provisions offset by one-off

(Rs m)	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)
Interest Income	20,699	15,917	30.0	20,027	3.4
Interest Expended	11,386	9,359	21.7	11,211	1.6
Net interest income (NII)	9,313	6,558	42.0	8,816	5.6
Treasury income	2,190	226	868.3	108	NA
Other income	4,036	1,723	134.3	1,635	146.8
Total income	13,348	8,280	61.2	10,451	27.7
Operating expenses	7,342	5,616	30.7	6,202	18.4
-Staff expenses	4,956	3,479	42.5	4,078	21.5
-Other expenses	2,386	2,137	11.7	2,124	12.3
Operating profit	6,006	2,665	125.4	4,249	41.3
Core operating profit	3,816	2,438	56.5	4,141	(7.9)
Total provisions	3,780	2,511	50.5	2,528	49.5
Profit before tax	2,227	154	1,350.5	1,721	29.4
Tax	79	(131)	(160.1)	684	(88.5)
Profit after tax	2,148	284	656.1	1,038	107.0
Balance sheet (Rs mn)					
Deposits	8,96,389	8,00,065	12.0	8,62,103	4.0
Advances	6,62,715	5,69,128	16.4	6,50,268	1.9
Profitability ratios (%)					
Yield on Advances	9.4	7.8	154 bps	9.2	15 bps
Cost of Funds	6.4	4.8	160 bps	5.0	137 bps
NIM	4.1	3.2	86 bps	3.9	14 bps
RoaA	0.2	0.1	8 bps	0.4	(22) bps
RoaE	13.2	1.9	1,133 bps	6.3	690 bps
Asset Quality (%)					
Gross NPL (Rs mn)	62,214	60,067	3.6	68,597	(9.3)
Net NPL (Rs mn)	32,396	27,911	16.1	30,492	6.2
Gross NPL ratio	9.0	10.0	(99) bps	9.9	(97) bps
Net NPL ratio	4.9	4.9	(1) bps	4.7	20 bps
Coverage ratio (calc)	47.9	53.5	(561) bps	56.3	(840) bps
Business & Other Ratios (%)					
Low-cost deposit mix	50.7	50.9	(19) bps	48.9	184 bps
Cost-income ratio	55.0	67.8	(1,281) bps	59.3	(434) bps
Non int. inc / total income	30.2	20.8	943 bps	15.6	1,459 bps
Credit deposit ratio	73.9	71.1	280 bps	75.4	(150) bps
CAR	12.5	11.4	104 bps	11.6	83 bps
Tier-I	10.6	9.2	136 bps	9.8	77 bps

Source: Company, PL

Better repricing of loans, favorable loan mix along with healthy growth in loan book resulted in 42%YoY NII growth

Other income stood out; led by treasury gains on one-off pertaining to stake sale in PNB MetLife (~Rs1.9bn)

Employee expense had impact of gratuity provisions

Bank used higher other income to provide for higher provisions. Provisions stood at 64% (including TWO)

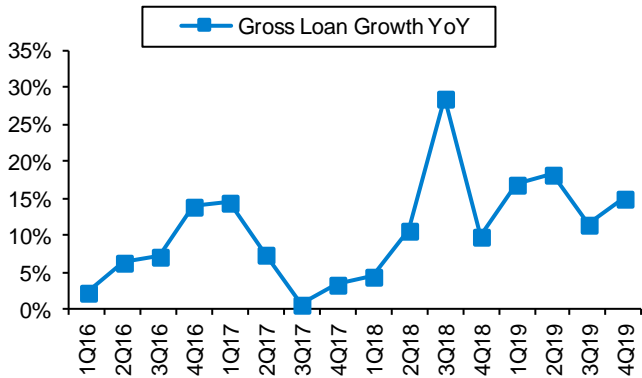
Advance growth were in line, led by 34%YoY growth in non-corporate book

Higher funding cost were shadowed by improvement in yields, NIM rose above 4%

Huge write off (~Rs14.2bn) in spite of higher slippages (~Rs9.1bn) helped in achieving lower GNPA%

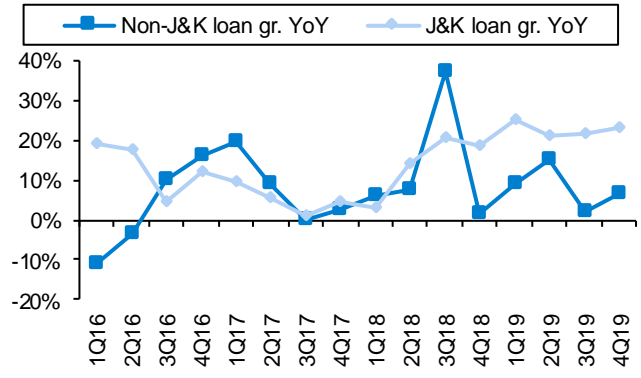
Bank adequately placed on capital front, further board approval to raise 16bn would improve Tier I to 12.7%

Exhibit 2: Loan growth largely driven by retail credit...



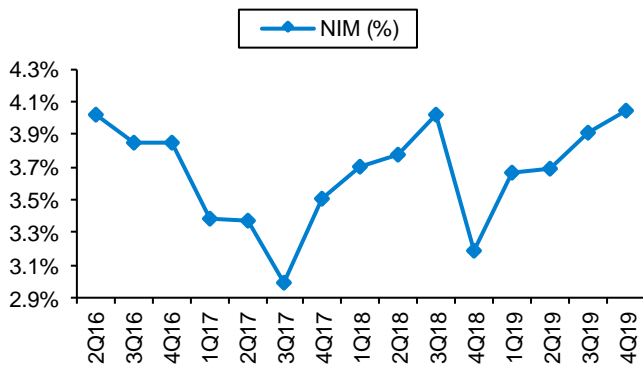
Source: Company, PL

Exhibit 3: ...and J&K loan book continues to drive growth



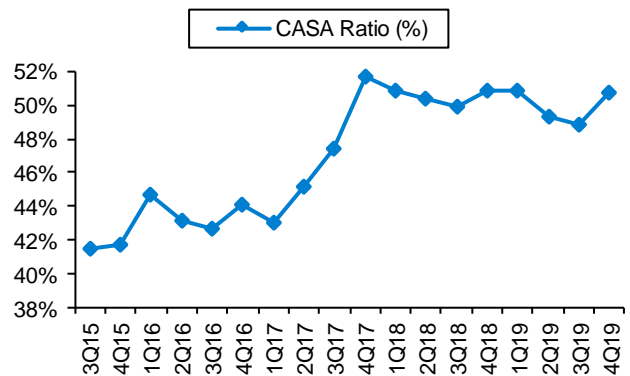
Source: Company, PL

Exhibit 4: NIMs rose above 4%



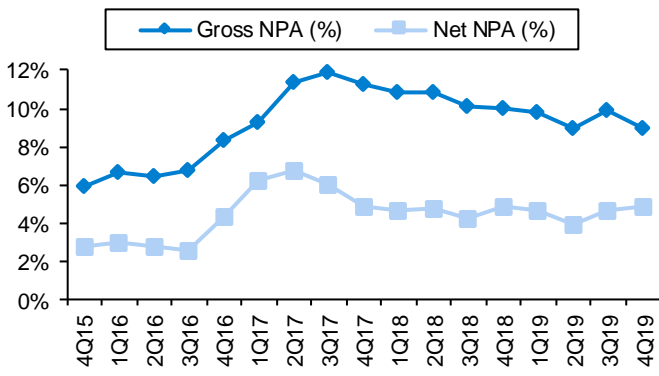
Source: Company, PL

Exhibit 5: CASA ratio saw stronger accretion in quarter



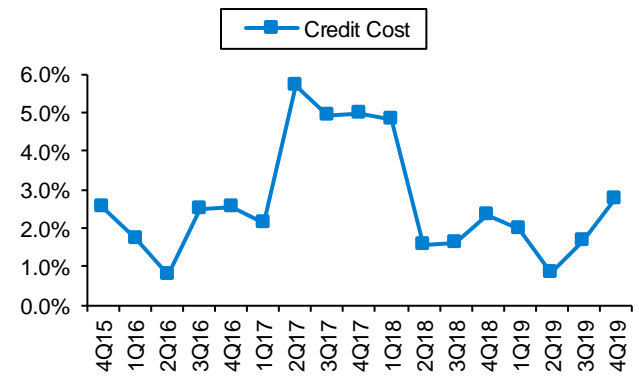
Source: Company, PL

Exhibit 6: Asset quality showing stabilizing trend



Source: Company, PL

Exhibit 7: Credit cost inched up on high write-offs



Source: Company, PL

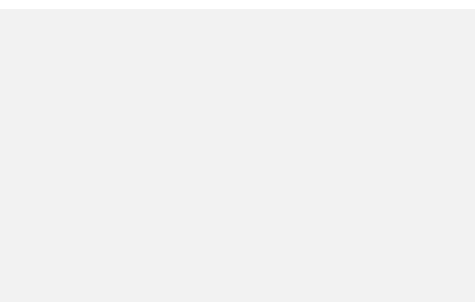


Exhibit 8: Movement in GNPA & restructured book

Stressed assets for J&K	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
Add: Additions	10,625	1,910	6,476	5,055	4,804	3,711	17,477	7,699	2,520	10,286	9,140
Less: Reductions	945	1,591	3,025	8,649	1,382	1,219	19,731	5,349	10,907	2,365	15,524
Gross NPA - Closing	56,830	57,149	60,000	56,406	59,829	62,321	60,067	62,417	60,877	68,597	62,214
Gross NPA % of loans	11.3%	11.8%	11.2%	10.8%	10.9%	10.1%	10.0%	9.8%	9.1%	10.0%	9.0%
Total Std restructured assets	32,463	32,490	55,398	55,537	57,524	56,731	46,614	41,292	39,483	37,986	32,507
Restructured during qtr.	392	102	33,537	2,231	2,515	2,542	4,066	2,908	2,453	1,967	2,972
O/s Restructuring for J&K State	24,670	21,315	44,000	45,000	45,000	47,940	41,176	42,205	43,398	42,109	40,399
Total Restructured Book	57,133	53,804	63,820	64,154	66,123	67,145	61,330	60,875	58,476	57,047	49,996
Restructured assets as % of loans	6.8%	7.2%	12.8%	13.2%	12.9%	11.6%	10.8%	10.2%	9.2%	8.8%	7.5%

Source: Company, PL

Exhibit 9: Change in estimates table

(Rs mn)	Old		Revised		%Change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net interest income	37,857	43,592	39,013	44,924	3.1	3.1
Operating profit	16,141	18,198	18,380	22,039	13.9	21.1
Net profit	6,238	8,193	5,954	8,078	(4.6)	(1.4)
EPS (Rs)	11.2	14.7	10.7	14.5	(4.6)	(1.4)
ABVPS (Rs)	72.6	91.6	69.7	92.0	(3.9)	0.4
Price target (Rs)	76		80		5.9	
Recommendation	BUY		BUY			

Source: Company, PL

Exhibit 10: Valuation Table – We revise our TP to Rs80 (from Rs76) based on 0.9x Mar-21 ABV (rolled over from Sep-20 ABV)

PT calculation and upside	
Terminal growth	5.0%
Market risk premium	6.5%
Risk-free rate	7.5%
Adjusted beta	1.07
Cost of equity	14.4%
Fair price - P/ABV, Rs	80
Target P/ABV (x)	0.9
Target P/E (x)	5.5
Current price, Rs	56
Upside (%)	45%

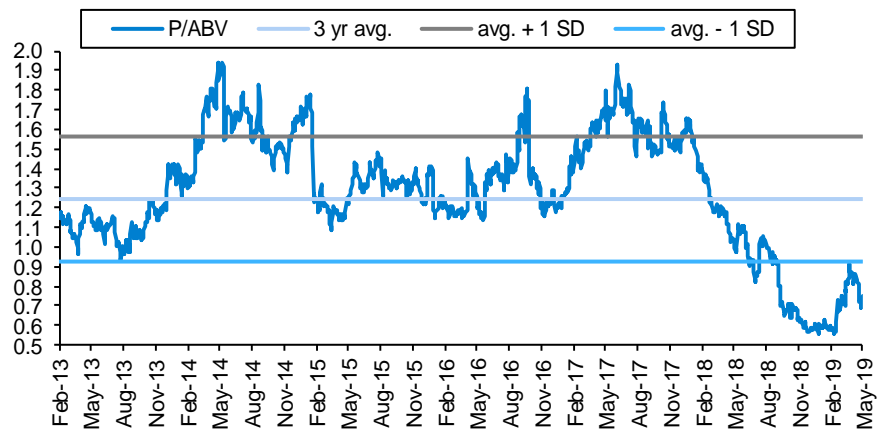
Source: Company, PL

Exhibit 11: Return ratios should gradually improve on loan growth, improving margins and lower credit cost

ROAE decomposition	2014	2015	2016	2017	2018	2019	2020E	2021E
NIM/Assets	3.6%	3.6%	3.7%	3.3%	3.6%	3.8%	3.8%	3.9%
Fees/Assets	0.4%	0.6%	0.5%	0.5%	0.6%	0.7%	0.6%	0.6%
Inv. Profits/Assets	0.1%	0.2%	0.2%	0.2%	0.1%	0.2%	0.0%	0.0%
Net revenues/Assets	4.2%	4.4%	4.4%	4.0%	4.2%	4.7%	4.5%	4.5%
Opex/Assets	-1.6%	-1.9%	-2.1%	-2.3%	-2.5%	-2.8%	-2.7%	-2.6%
Provisions/Assets	-0.2%	-1.4%	-1.3%	-3.7%	-1.6%	-1.2%	-1.0%	-0.9%
Taxes/Assets	-0.8%	-0.4%	-0.4%	-0.2%	0.1%	-0.2%	-0.2%	-0.3%
Costs/Assets	-2.6%	-3.7%	-3.9%	-6.2%	-3.9%	-4.2%	-3.9%	-3.8%
ROAA	1.6%	0.7%	0.6%	-2.2%	0.3%	0.5%	0.6%	0.7%
Equity/Assets	7.2%	8.0%	8.7%	8.1%	7.4%	7.1%	6.8%	6.5%
ROAE	22.3%	8.6%	6.6%	-28.5%	3.8%	8.1%	9.5%	11.7%

Source: Company, PL

Exhibit 12: One year forward P/ABV trends



Source: Company, PL



Income Statement (Rs. m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Int. Earned from Adv.	49,777	59,352	69,328	81,251
Int. Earned from invt.	14,316	15,520	18,006	19,946
Others	4	285	109	111
Total Interest Income	66,214	76,756	89,056	102,905
Interest Expenses	37,506	42,916	50,042	57,981
Net Interest Income	28,708	33,839	39,013	44,924
<i>Growth(%)</i>	<i>12.0</i>	<i>24.7</i>	<i>9.4</i>	<i>14.4</i>
Non Interest Income	4,953	8,127	6,908	7,598
Net Total Income	33,661	41,966	45,921	52,522
<i>Growth(%)</i>	<i>(0.9)</i>	<i>19.3</i>	<i>13.1</i>	<i>15.2</i>
Employee Expenses	12,869	16,462	18,108	20,281
Other Expenses	6,008	6,989	8,037	9,323
Operating Expenses	19,842	24,787	27,541	30,483
Operating Profit	13,819	17,179	18,380	22,039
<i>Growth(%)</i>	<i>6.8</i>	<i>24.3</i>	<i>7.0</i>	<i>19.9</i>
NPA Provision	12,227	10,607	9,305	9,963
Total Provisions	12,611	10,582	9,874	10,499
PBT	1,208	6,597	8,506	11,540
Tax Provision	(818)	1,949	2,552	3,462
<i>Effective tax rate (%)</i>	<i>(67.7)</i>	<i>29.5</i>	<i>30.0</i>	<i>30.0</i>
PAT	2,026	4,649	5,954	8,078
<i>Growth(%)</i>	<i>(112.4)</i>	<i>129.5</i>	<i>28.1</i>	<i>35.7</i>

Balance Sheet (Rs. m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Face value	1	1	1	1
No. of equity shares	557	557	557	557
Equity	557	557	557	557
Networth	61,612	66,261	71,711	79,285
<i>Growth(%)</i>	<i>8.5</i>	<i>7.5</i>	<i>8.2</i>	<i>10.6</i>
Adj. Networth to NNPA's	27,911	32,396	26,665	21,865
Deposits	800,065	896,389	1,021,883	1,164,947
<i>Growth(%)</i>	<i>10.4</i>	<i>12.0</i>	<i>14.0</i>	<i>14.0</i>
CASA Deposits	407,146	454,426	520,849	597,618
<i>% of total deposits</i>	<i>50.9</i>	<i>50.7</i>	<i>51.0</i>	<i>51.3</i>
Total Liabilities	896,876	1,014,063	1,154,339	1,309,867
Net Advances	569,127	662,715	768,750	891,749
<i>Growth(%)</i>	<i>14.2</i>	<i>16.4</i>	<i>16.0</i>	<i>16.0</i>
Investments	188,800	231,605	263,699	288,691
Total Assets	896,876	1,014,063	1,154,339	1,309,867
<i>Growth (%)</i>	<i>9.4</i>	<i>13.1</i>	<i>13.8</i>	<i>13.5</i>

Asset Quality

Y/e Mar	FY18	FY19	FY20E	FY21E
Gross NPAs (Rs m)	60,067	62,214	58,332	56,528
Net NPAs (Rs m)	27,911	32,396	26,665	21,865
<i>Gr. NPAs to Gross Adv.(%)</i>	<i>10.0</i>	<i>9.0</i>	<i>7.3</i>	<i>6.1</i>
<i>Net NPAs to Net Adv. (%)</i>	<i>4.9</i>	<i>4.9</i>	<i>3.5</i>	<i>2.5</i>
<i>NPA Coverage %</i>	<i>53.5</i>	<i>47.9</i>	<i>54.3</i>	<i>61.3</i>

Profitability (%)

Y/e Mar	FY18	FY19	FY20E	FY21E
NIM	3.6	3.8	3.8	3.9
RoAA	0.2	0.5	0.5	0.7
RoAE	3.4	7.3	8.6	10.7
Tier I	9.2	10.6	10.5	10.0
CRAR	11.4	12.5	11.4	10.8

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Interest Income	17,629	18,401	20,027	20,699
Interest Expenses	9,837	10,482	11,211	11,386
Net Interest Income	7,792	7,919	8,816	9,313
<i>YoY growth (%)</i>	<i>1.6</i>	<i>11.1</i>	<i>24.2</i>	<i>21.7</i>
CEB	502	548	594	622
Treasury	-	-	-	-
Non Interest Income	1,344	1,112	1,635	4,036
Total Income	18,973	19,513	21,662	24,735
Employee Expenses	3,752	3,675	4,078	4,956
Other expenses	1,886	1,929	2,124	2,386
Operating Expenses	5,638	5,604	6,202	7,342
Operating Profit	3,498	3,427	4,249	6,006
<i>YoY growth (%)</i>	<i>(5.1)</i>	<i>(5.9)</i>	<i>11.0</i>	<i>125.4</i>
Core Operating Profits	-	-	-	-
NPA Provision	2,901	1,300	2,653	4,502
Others Provisions	2,550	1,724	2,528	3,780
Total Provisions	2,550	1,724	2,528	3,780
Profit Before Tax	947	1,703	1,721	2,227
Tax	421	765	684	79
PAT	526	938	1,038	2,148
<i>YoY growth (%)</i>	<i>74.3</i>	<i>30.9</i>	<i>43.2</i>	<i>656.1</i>
Deposits	774,196	814,292	862,103	896,389
<i>YoY growth (%)</i>	<i>7.9</i>	<i>15.7</i>	<i>17.8</i>	<i>12.0</i>
Advances	598,411	636,912	650,268	662,715
<i>YoY growth (%)</i>	<i>22.8</i>	<i>24.1</i>	<i>12.3</i>	<i>16.4</i>

Key Ratios

Y/e Mar	FY18	FY19	FY20E	FY21E
CMP (Rs)	56	56	56	56
EPS (Rs)	3.8	8.3	10.7	14.5
Book Value (Rs)	99	108	118	131
Adj. BV (70%)(Rs)	49	50	70	92
P/E (x)	14.8	6.7	5.2	3.8
P/BV (x)	0.6	0.5	0.5	0.4
P/ABV (x)	1.1	1.1	0.8	0.6
DPS (Rs)	-	0.5	0.8	0.8
<i>Dividend Payout Ratio (%)</i>	<i>-</i>	<i>6.0</i>	<i>7.0</i>	<i>5.2</i>
<i>Dividend Yield (%)</i>	<i>-</i>	<i>0.9</i>	<i>1.3</i>	<i>1.3</i>

Efficiency

Y/e Mar	FY18	FY19	FY20E	FY21E
<i>Cost-Income Ratio (%)</i>	<i>58.9</i>	<i>59.1</i>	<i>60.0</i>	<i>58.0</i>
<i>C-D Ratio (%)</i>	<i>71.1</i>	<i>73.9</i>	<i>75.2</i>	<i>76.5</i>
Business per Emp. (Rs m)	135	153	173	197
Profit per Emp. (Rs lacs)	2	5	6	8
Business per Branch (Rs m)	1,574	1,782	2,035	2,324
Profit per Branch (Rs m)	2	5	7	9

Du-Pont

Y/e Mar	FY18	FY19	FY20E	FY21E
NII	3.58	3.77	3.82	3.86
Total Income	4.19	4.68	4.50	4.51
Operating Expenses	2.47	2.76	2.70	2.62
PPoP	1.72	1.92	1.80	1.89
Total provisions	1.57	1.18	0.97	0.90
RoAA	0.25	0.52	0.58	0.69
RoAE	3.83	8.05	9.48	11.66

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jun-18	BUY	100	56
2	10-Jul-18	BUY	100	51
3	27-Jul-18	BUY	94	54
4	5-Oct-18	BUY	94	40
5	7-Jan-19	BUY	94	38
6	14-Jan-19	BUY	76	37
7	5-Apr-19	BUY	76	59

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	837	741
2	Bank of Baroda	BUY	161	114
3	Bank of India	Reduce	89	106
4	Federal Bank	BUY	112	98
5	HDFC Bank	BUY	2,700	2,293
6	HDFC Standard Life Insurance Company	BUY	465	399
7	ICICI Bank	BUY	475	401
8	ICICI Prudential Life Insurance Company	BUY	511	368
9	IDFC First Bank	BUY	55	49
10	IndusInd Bank	BUY	1,791	1,768
11	Jammu & Kashmir Bank	BUY	76	59
12	Kotak Mahindra Bank	Hold	1,385	1,387
13	Max Financial Services	BUY	629	439
14	Punjab National Bank	Hold	83	73
15	SBI Life Insurance Company	BUY	779	612
16	South Indian Bank	BUY	18	14
17	State Bank of India	BUY	427	308
18	Union Bank of India	Reduce	71	76
19	YES Bank	Reduce	190	238

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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