

Rajasthan Marudhara Gramin Bank

January 08, 2021

Ratings

Facilities/Instrument	Amount (Rs. crore)	Ratings ¹	Rating Action
Tier I Perpetual Debt Instrument (PDI)	500.00 (Rupees Five Hundred Crore only)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed

Details of Instruments/Facilities in Annexure – 1

The rated Tier I Perpetual Debt Instrument (PDI) have specific features including a lock-in clause, whereby the servicing of the bonds (coupon and repayment) is linked to the bank meeting the regulatory norms on capitalisation and reported profitability and the coupon on the bonds is not cumulative. In case the bank does not meet the regulatory norm, the servicing of the bonds would be subject to approval from Reserve Bank of India (RBI).

The rating factors in the additional risk arising due to the existence of the lock in clause in hybrid instruments. Any delay in payment of interest/principal (as the case may be) following the invocation of the lock-in-clause, would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of rating compared to conventional subordinated debt instruments.

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed Tier I Perpetual Debt Instrument (PDI) issue of Rajasthan Marudhara Gramin Bank (RMGB) factors in its constitution as a Regional Rural Bank (RRB) with majority shareholding held by Government of India (GOI) holding 50%, the sponsor bank – State Bank of India (SBI; rated 'CARE AAA; Stable') holding 35% and Government of Rajasthan (GOR) holding 15% and managerial, operational and technology support from SBI. The rating also factors in the bank's robust deposit franchise, moderate asset quality, adequate capitalisation parameters and liquidity profile. The rating remains constrained on account of high geographical concentration resulting due to its mandate of operating in a specific region and exposure to relatively riskier segments like agriculture and allied sectors and economically weaker borrowers and significant amount of the pension liability which has to be provisioned in five years starting FY19 (refers to period from April 01 to March 31).

Continued support from the sponsor bank (SBI) in terms of operations and management, capital support from the majority shareholders (GOI and SBI), capitalization levels, asset quality and profitability are the key rating sensitivities.

Rating Sensitivities

Positive Factors

- Improvement in NPAs with Gross NPAs less than 3% on a sustained basis
- Improvement in the profitability with Return on Total Assets (ROTA) exceeding 1% on a sustained basis
- Increase in size of operations

Negative Factors

- Material dilution in shareholding from major shareholders and moderation in expected support from SBI
- Deterioration in capitalization levels
- Deterioration in profitability on a consistent basis
- Deterioration in asset quality with Gross NPA Ratio over 7.5%

Covid-19 impact

The bank has provided moratorium to all standard accounts in accordance with the Covid-19 Regulatory Package-Asset Classification and Provisioning prescribed by RBI. The bank has made provisioning of 5% provision on standard assets to the tune of Rs.4.26 crore at the end of the quarter ending March, 2020 and 5% provision during the quarter ending June, 2020 and the total provision of Rs.10.52 crore for Covid-19 till date in line with RBI guidelines. Around 80% of the bank's advances were towards agriculture as a result, the impact of Covid-19 on the bank is likely to be low.

Detailed description of key rating drivers

Key rating strengths

Shareholding by GOI, SBI and GOR

RMGB is a regional rural bank with operations in the state of Rajasthan and majority of the shareholding is by Government of India (50%) while State Bank of India (SBI; rated 'CARE AAA; Stable') which is the sponsor bank for the RRB holds 35% shareholding in RMGB while the remaining 15% shareholding is held by Government of Rajasthan (GOR). As per The Regional

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Rural Banks (Amendment) Act, 2015, RRBs can raise equity capital from sources other than GOI, sponsor bank and state government; provided that the shareholding of GOI and the sponsor bank remains above fifty-one percent. In line with the regulations, the majority shareholding of RMGB would be held by GOI and SBI together. The ratings factor in expected capital support from GOI and SBI is in case of requirement and is a key rating sensitivity.

Managerial, operational and technology support from SBI

SBI being the sponsor bank, the operational and management training and control of RMGB is done by SBI. In addition, RRBs are under the supervision of National Bank for Agriculture and Rural Development (NABARD; rated 'CARE AAA; Stable) which has a Board for Supervision for RRBs to provide directions and guidance on matters related to supervision and inspection.

The management of RMGB is headed by its Board of Directors having seven members out of which three are nominees of SBI, two nominees of GOR, one nominee of Reserve Bank of India (RBI), one nominee of NABARD. The Board of Directors is headed by Mr. Gyanendra Kumar Jain (Chairman) who has been deputed by SBI. In addition, SBI has deputed senior personnel to look after key functions at RMGB.

SBI also provides operational, technology and systems support to RMGB. RMGB follows the rating / grading model for loans and advances as per the guidelines followed by SBI. RMGB has implemented its Risk Focused Internal Audit Report System as suggested by SBI.

The audit committee of the bank consists of one SBI nominated-director as chairman and nominee directors of NABARD, RBI and GOI. The chief manager, deputed from SBI as Chief Vigilance Officer, is handling the vigilance administration of the bank.

Adequate capitalization parameters

The capitalisation levels of RMGB were moderate and the bank reported capital adequacy ratio (CAR) (under Basel I) of 9.62% (Tier I CAR: 8.37%) as on September 30, 2020 as compared to CAR of 9.70% (Tier I CAR: 8.45%) as on March 31, 2020 which was above the minimum regulatory requirement of 9.00% for RRBs. The bank plans to maintain CAR in excess of 9.5% on an ongoing basis.

The recent regulations allow RRBs to raise Perpetual Debt Instruments (PDI) – Tier I Bonds which would be considered as capital in computation of CAR. In case the bank is unable raise capital by way of PDI, CARE expects GOI, GOR and SBI to infuse capital in case of requirement towards maintaining capitalisation levels.

Robust CASA deposit base

RMGB being a RRB has a strong regional presence and has built a robust deposit base. Its 701 branches spread across the entire state has helped in garnering a healthy deposit base. The bank also has a stable Current Account Savings Account (CASA) deposit base that grew at a 5 year CAGR of 24.40% till FY20. The CASA deposits constituted 50.06% of the total deposits as on March 31, 2020 (P.Y.: 51.53%) and 50.31% as on September 30, 2020.

Strong growth in deposits and advances

The total business (advances + deposits) of RMGB stood at Rs.20,455 crore as on March 31, 2020 as compared to Rs.18,668 crore as on March 31, 2019. The total business (advances + deposits) of RMGB stood at Rs.21,447 crore as on September 30, 2020. The deposits of RMGB increased by 11.72% to Rs.12,500 in FY20. Further, the deposits of RMGB increased by 5.48% to Rs.13,185 in H1FY21. Advances of RMGB increased by 6.37% in FY20 to Rs.7955 due to which the net interest income was up by 5.49%. Further, Advances of RMGB increased by 3.85% in H1FY21 to Rs.8,262 .

As mandated by the RRB Act, majority of the advances of RMGB constituted lending to the agriculture and allied activities segment (largely comprising exposure by way of Kisan Credit Cards (KCC)), 81% of the advances made in the current year are to the agricultural sector. The advances made to the agriculture and allied activities have seen a decline and the bank is now focusing on MSME segment in major area of operations such as Udaipur and Jodhpur to Real Estate and Hotel Industry while restricting the advances to Marble industry.

As on September 30, 2020, advances stood at Rs.8,262 crore constituting 80.59% of agriculture and related activities and 13.68% Personal loans.

Key Rating Weakness

Moderate profitability and impact on account of pension liability

Interest income increased by 9.79% from Rs.1,041 crore for FY19 to Rs.1,143 crore for FY20. Total income increased by 8.85% to Rs.1,315 crore during FY20 supported by increase in interest income as well as increase in non-interest income.

Operating expense grew by 28.4% from Rs.481 crore in FY19 to Rs.618 corers in FY20. The increase in the operating expenses is due to significant provisions maintained for pension and gratuity resulting in high rise in employee related expenses. As result, the Profit After Tax (PAT) for FY20 decreased to Rs.4.62 crore while for the same period in the previous year the net profit was Rs.62.61 crore.

The bank had a total pension liability of around Rs.1,071 crore as per Hon'able Supreme Court judgement in FY19 and the bank had made provisioning of Rs.138 crore till the end of FY19. As per the actuarial valuation conducted, the total pension

liability for the bank stood at Rs.868 crore as on March 31, 2020 against which the bank has made provisioning of Rs.210 crore during FY20 taking the cumulative provision to Rs.348 crore which accounts to 40% of bank's total pension liability till the end of FY20. During H1FY21, the bank has made additional provisioning of Rs.121 crore and the pending pension liability stood at Rs.356 crore (considering Rs.43 crore of recovery from employees).

Moderation in asset quality

The Gross NPA decreased to 6.00% when compared to 6.66% in FY19 whereas the Net NPA increased to 3.55% in FY20 from 3.27% in FY19. For H1FY21, the gross NPA decreased to 5.32% and the Net NPA also decreased to 2.77%. The bank has seen some delinquencies in the tourism related exposures during the lockdown period. However, with the gradual unlocking, the bank has seen improvement in collections from these accounts and the bank expects to keep its Gross NPA levels below 6% by end of FY21.

High geographical concentration

The bank has its branches located in 15 districts of Rajasthan which covers around 50% of the total population of the state but the presence of the bank branches cannot be extended beyond the boundaries of the state due to the restrictions as per the regulatory requirement. The bank had a total of 701 branches across 15 districts of Rajasthan with 524 branches located in rural areas as on 31st March 2020. The employee strength at the end of FY20 was 2,597. Also the bank faces immense competition from well-established PSU's as well as private sector banks.

Large exposure to Agriculture Segment with some diversification to MSME and retail lending

As per the norms, the Bank is mandated to extend at least 75% of its loans to the priority sector. The bank has lent 81% of the total advances to agriculture segment in FY20. The bank now has started to provide advances to MSME segment majorly to Hotel and Real Estate companies and is restricting its loan to marble sector companies as the industry is under severe stress.

Liquidity: Adequate

The asset liability management (ALM) profile of RMGB as on 30th September 2020 was comfortable up to one year with no negative mismatches till 6m-12m. The bank also maintained the SLR requirements over and above the mandate requirements throughout their term of operations. As on March 31, 2020 the bank maintained an SLR of around Rs.2847 crore which was above the minimum SLR requirement.

Analytical approach: CARE has considered the standalone business and financial profile of Rajasthan Marudhara Gramin Bank along with factoring in benefits on account of its ownership of GOI and SBI and support from the Sponsor bank(SBI).

Applicable Criteria

Criteria on assigning Outlook and Creditwatch to Credit Ratings

CARE Policy on Default Recognition

CARE's Rating Methodology For Banks

Bank - Rating framework for Basel III instruments (Tier I & Tier II)

Financial ratios - Financial Sector

About the Bank

Rajasthan Marudhara Gramin Bank (RMGB) is a Regional Rural Bank (RRB) based in Jodhpur (Rajasthan), India and is sponsored by State Bank of India (SBI; rated CARE AAA; Stable). The erstwhile Marudhara Gramin Bank and Mewar Aanchalik Gramin Bank, were amalgamated on 1st April 2014 and a new entity Rajasthan Marudhara Gramin Bank was formed with State Bank of India as its sponsor bank. The Bank has its presence through 701 branches spread in 15 districts of Rajasthan namely Jalore, Pali, Sirohi, Jodhpur, Jaipur, Nagaur, Dausa, Jaisalmer, Barmer, Bikaner, Sriganganagar, Hanumangarh, Udaipur, Rajsamand and Pratapgarh Districts of Rajasthan. The bank had a total staff of 2,597 employees as on March 31, 2020.

As per RBI regulation, the RRBs mandate is to lend at least 75% of their advances to the Priority Sector. As a result, RMGB lends to small and marginal farmers, micro enterprises and weaker sections of society. The bank also offers all government sponsored schemes. The deposits accepted by RRBs are covered by the DICGC scheme. The operations of RMGB are regulated by the RBI and it is supervised by NABARD while the management and operations are largely handled by the sponsor bank (SBI). The bank has varying credit portfolio with significant presence in agriculture & allied activities, SME & Personal lending segment loan in bank's area of operation.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total Income	1,208	1,315
PAT	63	5
Total Assets	12,928	14,077
Net NPA (%)	3.27	3.55
ROTA (%)	0.51	0.03

Note: A: Audited. All ratios are as per CARE Calculations

Regional Rural Banks (RRBs) were formed under the RRB Act, 1976 with the objective of providing credit and related banking facilities to small farmers, agricultural labourers, artisans, and other rural poor. In line with their mandate, the emphasis of RRBs' lending remains on the priority sector. Total Deposits of 45 RRBs increased from to Rs.4,78,547 crore with CASA of 53 in FY20 whereas Loans and Advances to Rs.2,98,256 crore in FY20 whereas profits of the RRBs increased to Rs.2,203 crore in FY20.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Tier I Perpetual Debt Instrument (PDI)	-	-	-	500.00	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Tier I Perpetual Debt Instrument (PDI)	LT	500.00	CARE A-; Stable	-	1) CARE A-; Stable (17-Mar-2020)	-	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of instrument	Complexity level
1	Tier I Perpetual Debt Instrument	Highly Complex

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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