Jammu & Kashmir Bank Limited

March 09, 2022

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Tier II Bonds (Basel III) #	1,000.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned
Total Long-term Instruments	**1,000.00 (Rs. One thousand crore only)**		

Details of instruments/facilities in Annexure-1

 # Tier II Bonds under Basel III are characterised by a 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer a loss of principal. PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in financial losses and raising the Common Equity Tier I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable. In CARE Ratings Ltd's opinion, the parameters considered to assess whether a bank will reach the PONV are similar to the parameters considered to assess rating of Tier II instruments even under Basel II. CARE Ratings Ltd has rated the Tier II Bonds under Basel III after factoring in the additional feature of PONV.

Detailed Rationale & Key Rating Drivers

The rating assigned to the debt instrument of Jammu & Kashmir Bank Limited (JKB) factors in the majority ownership by Government of Union Territories of Jammu & Kashmir and Ladakh (UTJKL) (70% of shareholding as on December 31, 2021), JKB's long track of operations with dominant position in the UTJKL and its strong resource profile characterised by relatively higher proportion of current account savings account (CASA) deposits. The rating is, however, constrained by limited geographical diversification with moderate size of operations, moderate earnings profile and moderate asset quality parameters. The rating also takes note of the moderate capital adequacy levels. Total capital adequacy ratio (CAR) and Tier I CAR stood at 12.38% and 10.97%, respectively, as on December 31, 2021, as against regulatory requirement of 11.50% and 9.50%, respectively, providing limited cushion. Timely infusion of the capital is critical to support the growth.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improved profitability on a sustained basis.
- Strong improvement in the capital adequacy levels.

Negative factors - Factors that could lead to negative rating action/downgrade:

- Change in the support from government of UTJKL.
- Deterioration in the asset quality profile.

Detailed description of the key rating drivers

Key Rating Strengths

Long-track record of operations with majority ownership by UT of Jammu and Kashmir

JKB is a mid-sized, private sector scheduled commercial bank, with UTJKL holding 70% of the stake as on December 31, 2021. The bank has a long and an established track record of more than 80 years. It is the only private sector bank that has been designated as RBI's agent for banking business for the Government of UT of Jammu & Kashmir and Ladakh.

JKB holds a dominant position in the UTJKL with market share of 63% in terms of business, given the systemic importance of the bank to the economy of UTJKL, the government has demonstrated continuous need-based support to the bank, which has helped the bank maintain adequate CAR levels.

Dominant presence in UT of JK and UT of Ladakh

JKB is the leading bank in the union territories of Jammu & Kashmir and Ladakh and holds a dominant position in the region with a market share of 64% in terms of advances, 63% in terms of deposits and 40% in terms of branches as on December 31, 2021. UTJKL has 2,016 bank branches, against which JKB bank has 811 branches in the UTJKL.

Strong deposit base with relatively high proportion of CASA

Owing to JKB's strong market position in the state of J&K, its deposit mobilisation capability within the state remains strong. The bank has a strong resource profile as depicted by the significant proportion of low-cost steady CASA deposits, which improved from 53% as on March 31, 2020, to 57% as on March 31, 2021 (56% as on December 31, 2021). It is to be noted that in the past five years, CASA proportion stood in the range of 52% to 57%.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The total deposits increased by 11% to Rs.108,061 crore as on March 31, 2021 (December 31, 2021: Rs.109,298 crore) as compared with the corresponding date of the previous year. The proportion of retail deposits (as a percentage of term deposits) improved to 80% as on March 31, 2021, as against 73% as on March 31, 2020 (83% as on December 31, 2021).

Key Rating Weaknesses
Moderate asset quality
The bank has faced challenges with asset quality in the past; however, with write-offs and recovery efforts, the asset quality of the bank has improved. Despite improvement in the asset quality indicators during FY21 (refers to the period April 1 to March 31) and 9MFY22, it continues to be moderate with gross non-performing assets (GNPA) and net non-performing assets (NNPA) at 9.67% and 2.95%, respectively, as on March 31, 2021, as against 10.97% and 3.48%, respectively, as on March 31, 2020. The improvement in the GNPA levels during the year (FY21) can be attributed higher write-offs. With increase in the recoveries supported by the improvement in the macro-economic scenario, the bank reported GNPA of 8.93% as on December 31, 2021.

The bank has restructured advances aggregating to Rs.3,188 crore, of which around 36% of the restructured portfolio is on account of Covid-19 Resolution Framework 1 & 2, and remaining restructured portfolio is due to Flood and Political Unrest at different times in the past. The total gross stressed assets (Standard restructured asset + Security receipts outstanding + GNPA) of the bank stood at 10.97% as on December 31, 2021, as against 10.66% as on March 31, 2021. The bank has also disbursed emergency credit line guarantee scheme (ECLGS) aggregating to Rs.2,162 crore (2.97% of the portfolio).

Moderate capital adequacy levels
As on March 31, 2021, the bank reported total CAR of 12.20%, Tier 1 CAR of 10.28% and CET 1 of 8.82% as against 11.40%, 9.88% and 8.42%, respectively as on March 31, 2020. The improvement is majorly on account of the profit made during FY21.
During 9MFY22, the government of UT of Jammu & Kashmir infused Rs.500 crore, and the bank raised Rs.150 crore by way of Employee Stock Purchase Scheme. The total CAR improved and stood at 12.38%, with Tier-I capital and CET 1 stood at 10.97% and 9.58%, respectively, as on December 31, 2021, against regulatory minimum requirement (including capital conservation buffer (CCB) of 11.50%, 9.50% and 8.00%, respectively. The bank has received continuous support in terms of capital from the government, however, the bank's ability to raise capital in a timely manner to maintain capitalisation profile will be critical for its credit profile and growth.

Moderate earnings profile with high cost to income
The bank reported PAT of Rs.432 crore in FY21 as against a loss of Rs.1,139 crore in FY20. The net interest margin declined to 3.33% in FY21 from 3.56% in FY20. Non-interest income as a percentage of the total assets improved to 0.63% in FY21 from 0.52% in FY20 on account of profits from the sale of investment. However, the cost to income continues to remain relatively high at 64% in FY21 (PY: 64% in FY20). The bank reported pre-provisioning operating profit (PPOP) of Rs.1,611 crore in FY21 as against Rs.1,525 crore in FY20. With reduction in the credit cost during the year, the bank reported return on total assets (ROTA) of 0.38% in FY21.
During 9MFY22, the bank reported PAT of Rs.389 crore during 9MFY22 as against PAT of Rs.116 crore in 9MFY21. The bank has incurred high operating expenses in 9MFY22 on account of increase in the employee cost. With improvement in non-interest income and reduction in the credit cost, the bank has reported ROTA of 0.43% in 9MFY22 as compared with 0.14% in 9MFY21. Overall, the bank's profitability metrics remain moderate and susceptible to asset quality issues.

Limited geographical diversification with moderate scale of operations
With total gross advances of Rs.71,917 crore and deposits of Rs.108,061 crore as on March 31, 2021, JKB is a mid-sized bank compared with other public and private sector peers. The bank's operations are regionally concentrated with 88% of bank's deposits and 79% of bank's advances emanating from J&K as on March 31, 2021. Owing to the bank's high reliance on J&K, any political unrest or administrative/business instability in the region is likely to impact bank's growth and profitability.
The bank's gross advances grew by 2.84% and stood at Rs.71,917 crore as on March 31, 2021, as against Rs.69,927 crore as on March 31, 2020 (Rs.72,892 as on December 31, 2021).

Impact of Covid-19
Under Covid-19 Resolution Framework 1&2, the bank has restructured Rs.1,149 crore as on December 31, 2021 (1.60% of advances as on December 31, 2021). Gross stressed assets of the bank stood at 10.97% as on December 31, 2021, as against 10.66% as on March 31, 2021. The bank has disbursed ECLGS loan aggregating to Rs.2,162 crore (2.97% of the portfolio).

Liquidity position: Adequate
As per the structural liquidity statement of the bank as on December 31, 2021, the bank has no negative cumulative mismatches across all its time buckets up to 1-3 years. The bank had excess statutory liquidity ratio (SLR) holdings of Rs.13,963 crore as on December 31, 2021. The liquidity coverage ratio (LCR) as on December 31, 2021, stood at 340% against the minimum regulatory requirement of 100%.

Analytical approach: Standalone

Applicable Criteria:
[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial Ratios-Financial Sector]
[CARE's Rating Methodology for Banks]
[Rating Basel III - Hybrid Capital Instruments issued by Banks]

About the Bank
JKB, a private sector scheduled commercial bank, was incorporated on October 1, 1938, and commenced business from July 4, 1939, from Srinagar, Kashmir. The bank functions as a leading bank in the Union Territories of Jammu & Kashmir (J&K) and Ladakh and is designated by the Reserve Bank of India as its exclusive agent for carrying out banking business for the Government of J&K and Ladakh. JKB is the only state government (now government of UT)-owned bank in the country, and the Government of UT of J&K (GoJK) holds around 70% stake in the bank as on December 31, 2021. JKB holds a dominant position in the state of J&K constituting majority of the credit and deposits in the state. As on December 31, 2021, it operated through a network of 955 branches (85% of the branches in the state of J&K) and 1383 ATMs. While predominantly focused in J&K, the bank has spread over 18 states and four union territories. The bank remains largely rural focused with 54% of the total branches (as on March 31, 2021) in rural areas, followed by 18% in metro, 17% in semi-urban and remaining 11% in urban locations.

Brief Financials (Rs. crore)	FY20(A)	FY21(A)	9MFY22(P)
Total operating income	8,992	8,830	6,589
PAT	(1,139)	432	389
Interest coverage (times)	1.32	1.37	1.34
Total Assets	1,07,546	1,19,054	1,23,809
Net NPA (%)	3.48	2.95	3.02
ROTA (%)	NM	0.38	0.43

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Proposed Tier II Bonds (Basel III)		-	-	Proposed	1000.00	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Bonds-Lower Tier II	LT	-	-	-	-	1)Withdrawn (13-Mar-20) 2)CARE AA- (CWN) (S03-Oct-19) 3)CARE AA- (CWN) (13-Aug-19)	1)CARE AA-; Negative (21-Sep-18)
2	Bonds-Tier II Bonds	LT	1000.00	CARE A+; Stable				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Bonds-Tier II Bonds	Simple

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mr. Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID: mradul.mishra@careedge.in

Analyst Contact 1
Name: Mr. P Sudhakar
Contact no.: 044-2850 1000
Email ID: p.sudhakar@careedge.in

Analyst Contact 2
Name: Mr. Ravi Shankar R
Contact no.: - 044-2850 1016
Email ID: ravi.s@careedge.in

Relationship Contact
Name: Ms. Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agarwal@careedge.in

About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**