Jammu & Kashmir Bank Limited

September 18, 2023

Facilities/Instruments#	Amount (₹ crore)	Rating[1]	Rating Action
Tier-II bonds (Basel III)	360.00	CARE A+; Positive	Reaffirmed and outlook revised from Stable
Tier-II bonds (Basel III)	1021.00	CARE A+; Positive	Reaffirmed and outlook revised from Stable
Tier-II bonds (Basel III) (Proposed)	1119.00	CARE A+; Positive	Reaffirmed and outlook revised from Stable

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. The 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 (CET-I) capital of the bank should be considered the most appropriate way to prevent the bank from turning non-viable. In CARE Ratings Limited's (CARE Ratings') opinion, the parameters considered to assess whether a bank will reach the PONV are similar to the parameters considered to assess the rating of the Tier-II instruments even under Basel-II. CARE Ratings has rated the Tier-II bonds under Basel-III after factoring in the additional feature of the PONV.

Rationale and key rating drivers

The rating assigned to the debt instrument of Jammu & Kashmir Bank Limited (JKB) factors in the majority ownership by the Government of the Union Territories of Jammu & Kashmir and Ladakh (UTJKL; 63% of the shareholding as on June 30, 2023) and the expected support from the Government of UTJKL considering the bank's dominant position and strategic importance for the socio-economic development of UTJKL.

The ratings further factor in JKB's strong resource profile characterised by the relatively higher proportion of current account savings account (CASA) deposits and the continued improvement in profitability over the past two years with increase in advances and reduction in credit costs.

The ratings continue to remain constrained by the limited geographical diversification, the moderate size of operations and moderate capitalisation levels and asset quality parameters.

While the bank has seen improvement in capitalisation levels on account of capital infusion in the recent past and improvement in profitability, it remains moderate and timely infusion of capital is critical to support growth. The bank's asset quality parameters have improved over the last three years with improvement in recoveries and upgradation.

Rating sensitivities: Factors likely to lead to rating actions.

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

- Significant improvement in the capitalisation levels on a sustained basis
- Improved profitability on a sustained basis with scale up of business without impacting asset quality

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

- Dilution in support from Government of UTJKL
- Deterioration in asset quality profile with gross non-performing assets (GNPA) ratio of over 6.5%
- Deterioration in capital adequacy levels with a decline in cushion by over 2.5% over the minimum regulatory requirement

Analytical approach: Standalone

CARE Ratings has considered the standalone business and financial profile of JKB and has factored in the ownership and support from Government of the UTJKL

Outlook: Positive

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

The positive outlook is on account of CARE Ratings' expectations of continued improvement in the financial performance, asset quality and operating metrics due to change in management, improvement in systems and processes while maintaining comfortable capital cushions.

Detailed description of the key rating drivers

Key strengths

Long track record of operations and majority ownership by the Government of UTJKL along with dominant presence and strategic position in UTJKL

JKB is a mid-sized, private sector scheduled commercial bank, with the Government of UTJKL holding 63% of the stake as on June 30, 2023. The bank has a long and established track record of more than 80 years and holds a dominant position in the UTJKL with a significant market share in terms of total business in the geography of J&K. The bank had 1,001 branches out of which 833 are in UTJKL. JKB is the only private sector bank that has been designated as the Reserve Bank of India's (RBI) agent for the banking business for the Government of UTJKL.

The bank has improved upon its systems and processes along with upgradation in its core banking system with adoption of technology. The management team of the bank is headed by Mr. Baldev Prakash (Managing Director and CEO) who has been deputed from the State Bank of India (SBI) in December, 2021.

Given the systemic importance of the bank to the economy of the UTJKL, the government has demonstrated continuous need-based support to the bank. The bank has received equity capital of ₹1,000 crore from Government of UTJKL over the last three years. CARE Ratings expects the bank receive continued capital and management support considering the position of the bank in the J&K regional economy.

The bank's gross advances stood at ₹86,156 crore as on March 31, 2023, of which agricultural advances constituted 11% whereas MSME and Services sector constituted 16% and 34% of the total loan portfolio respectively. The remaining portfolio constituted of retail loans at 39% of total advances as on March 31, 2023. Around 88% of retail loans of the bank are concentrated within UTJKL while around 77% of corporate loans were in rest of India.

Strong deposit base with a relatively high proportion of CASA

Owing to JKB's strong market position in the UTJKL, 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 stood at 54% as on March 31, 2023, and 53% as on June 30, 2023 (March 31, 2022: 57%). Notably, in the last five years, the CASA proportion stood in the range of 52% to 57%. CARE Ratings expects the proportion of the CASA to remain at similar levels over the medium term, given the bank's dominant position in UTJKL. The total deposits increased by 6% to ₹122,038 crore as on March 31, 2023 (June 30, 2023: ₹1,21,298 crore) as against ₹114,711 crore as on March 31, 2022. The proportion of retail deposits (as a percentage of term deposits) stood at 78% as on March 31, 2023, as against 81% as on March 31, 2022.

Improved earnings profile

The bank witnessed an increase in advances which helped its interest income while a strong CASA deposit base helps the bank maintain its cost of deposits. During an increasing interest rate scenario, the bank's net interest margin (NIM) expanded to 3.46% for FY23 from 3.15% for FY22. Furthermore, the non-interest income marginally decreased by 3% from ₹781 crore in FY22 to ₹757 crore during FY23 largely because of degrowth in treasury income. The total income increased by 15% from ₹8,794 crore for FY22 to ₹10,112 crore for FY23. The bank's cost to income ratio also had moderated from a peak of 77% in FY22 to 66% in FY23; however, it continues to be high with expansion of the branches and process improvements and the induction of technology. The bank's pre-provision operating profit (PPOP) increased by 69% to ₹1,858 crore for FY23 from ₹1,099 crore for FY22. With sustained reduction in the credit cost due to reversals of provisioning done for bad debt, the bank has reported improvement in profit-after-tax (PAT) to ₹1,197 crore in FY23 as against ₹502 crore in FY22. The bank's return on total assets (ROTA) increased from 0.40% in FY22 to 0.87% in FY23.

During Q1FY24, the bank reported a PAT of ₹326 crore as against ₹166 crore during Q1FY23. It continues to incur high operating expenses in Q1FY24 with cost to income at 65% which is expected to drop further in the coming quarters to 60%. The bank's earned a ROTA of 0.92% in Q1FY24 on an annualised basis.

CARE Ratings expects JKB's earnings profile to improve over the medium term with growth in advances, gradual reduction in operating costs and lower credit costs helping the profitability of the bank.

Key weaknesses

Capitalisation levels, although improved, remain relatively moderate compared to peers
The bank has raised equity capital of ₹1,000 crore over the last three years and which along with accrued profit has helped the capitalisation of the bank. The bank's capital adequacy ratio (CAR) stood at 15.38% (Tier-I CAR: 12.34%) with Common Equity Tier I (CET I) Ratio of 11.05% as on March 31, 2023, improving from CAR of 13.23% (Tier I CAR: 11.73%) and CET I ratio of 10.35% respectively as on March 31, 2022. Further, overall CAR marginally declined to 14.83% with Tier I CAR at 11.87% as on June 30, 2023.
The bank's ability to maintain a minimum cushion of 2.5% against the minimum regulatory requirement to support advances growth remain a key rating monitorable. CARE Ratings expects the bank to receive with timely capital support from Government of UTJKL when required considering majority shareholding and strategic importance of the bank to the economy of the J&K region.

Moderate asset quality with relatively high restructured assets
The bank has faced challenges with asset quality in the past; however, with upgrades and recovery efforts, the asset quality parameters of the bank has improved over the last few years. The GNPA ratio and NNPA ratio stood at 6.04% and 1.62%, respectively, as on March 31, 2023, improved from 8.67% and 2.49%, respectively, as on March 31, 2022. Further, the GNPA and NNPA improved to 5.77% and 1.39%, respectively, as on June 30, 2023. The bank's net NPA to Net worth ratio stood at 15.74% as on March 31, 2023 (March 31, 2022: 25.30%).
However, the bank has moderately high restructured advances book aggregating to ₹2,195 crore, of which around 55% is NPA as on June 30, 2023. Of the total restructured portfolio, 40% is on account of COVID-19 Resolution Framework 1 and 2 while remaining is due to floods and political unrest in the past. The net stressed assets (Net restructured assets + security receipts + NNPA) of the bank stood at 3.11% as a proportion of total net advances as on March 31, 2023, as against 4.62% as on March 31, 2022 (March 31, 2021: 3.92%). The bank had also disbursed loans under the Emergency Credit Line Guarantee Scheme (ECLGS) which stood at 1.60% of the advances as on March 31, 2023. The bank's SMA 1 and SMA 2 exposures stood at 3% of gross advances each as on June 30, 2023.

Limited geographical diversification with moderate scale of operations
With total gross advances of ₹86,156 crore and deposits of ₹1,22,038 crore as on March 31, 2023, JKB is a mid-sized bank as compared with other public and private sector peers. The bank's operations are regionally concentrated, with 88% of the bank's deposits and 70% of its advances emanating from J&K as on March 31, 2023.
Owing to the bank's high reliance on J&K region, which has been witness to disruptions like political unrest, natural calamity in the past and recent events including abrogation of Article 370 and Covid-19, it has exposure to administrative and business instability in the region which may impact the bank's growth, asset quality, and profitability.

Liquidity: Adequate
As per the structural liquidity statement of the bank as on June 30, 2023, the bank has no negative cumulative mismatches across all its time buckets up to 1 year. The bank had excess SLR holdings of ₹5,127 crore as on June 30, 2023. The liquidity coverage ratio (LCR) as on March 31, 2023, stood at 202% against the minimum regulatory requirement of 100%.

Environment, social, and governance (ESG) risks
- The bank installed a 15KW Solar Grid at Voluntary Medicare Society's Srinagar facility
- The bank invested in an environment-friendly endeavour to provide E-Rickshaws to the University of Ladakh and Kashmir University's South Campus
- The bank took the initiative to provide ambulances to Government Psychiatric Hospital Jammu
- The bank provided apheresis kits to children suffering from blood cancer and other blood dysfunctional diseases
- The bank provided 100 Wheelchairs and 100 Tricycles to the specially-abled persons in collaboration with SAKSHAM, a leading national level not-for-profit organisation

Applicable criteria
Policy on default recognition
Factoring Linkages Government Support
Rating Basel III - Hybrid Capital Instruments issued by Banks
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Bank
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Banks	Private 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 UTJKL and is designated by the RBI as its exclusive agent for carrying out the 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 the UT of J&K (GoJK) holds around 68% stake in the bank as on June 30, 2022. JKB holds a dominant position in the UT of J&K, constituting majority of the credit and deposits in the state. As on June 30, 2022, it operated through a network of 980 branches and 1,410 ATMs. While predominantly focused in J&K, the bank has spread over 18 states and four UTs. The bank remains largely rural focused, with 55% of the total branches (as on March 31, 2022) in rural areas, followed by 18% in metro, 17% in semi-urban, and the remaining 11% in urban locations.

JKB financials (₹ crore)

Brief Financials	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (UA)
Total income	8,830	8,794	10,112	2,885
PAT	432	502	1,197	326
Total Assets	1,19,054	1,29,413	1,44,498	1,39,044
Net NPA (%)	2.95	2.49	1.62	1.39
ROTA (%)	0.38	0.40	0.87	0.92*

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.
*ROTA for Q1FY24 is on an annualised basis

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bonds-Tier II Bonds	INE168A08079	30-03-2022	9.5	30-03-2032	360.00	CARE A+; Positive
Bonds-Tier II Bonds	Proposed	-	-	-	640.00	CARE A+; Positive
Bonds-Tier II Bonds	INE168A08087	15-09-2022	9.5	15-09-2025	1021.00	CARE A+; Positive
Bonds-Tier II Bonds	Proposed	-	-	-	479.00	CARE A+; Positive

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Bonds-Tier II Bonds	LT	1000.00	CARE A+; Positive	-	1)CARE A+; Stable (20-Sep-22)	1)CARE A+; Stable (09-Mar-22)	-
2	Bonds-Tier II Bonds	LT	1500.00	CARE A+; Positive	-	1)CARE A+; Stable (27-Sep-22)	-	-

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:
Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds-Tier II Bonds	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Dinesh Sharma Director **CARE Ratings Limited** Phone: +91-11-4533 3200 E-mail: dinesh.sharma@careedge.in	Sudhakar Prakasam Director **CARE Ratings Limited** Phone: +91-044-2850 1003 E-mail: p.sudhakar@careedge.in Aditya R Acharekar Associate Director **CARE Ratings Limited** Phone: +91-022-6754 3528 E-mail: aditya.acharekar@careedge.in Raghav Bansal Rating Analyst **CARE Ratings Limited** E-mail: raghav.bansal@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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