

Jammu & Kashmir Bank Limited (Revised)

September 16, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Tier II Bonds	1,000.00	CARE AA-; Stable	Revised from CARE A+; Positive
Tier II Bonds	1,500.00	CARE AA-; Stable	Revised from CARE A+; Positive

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 revision in rating assigned to the debt instruments of Jammu & Kashmir Bank Limited (JKB) factors in the continued improvement in the financial risk profile of the bank with improvement in the financial performance, asset quality parameters and operating metrics post the change in management, improvement in systems and processes while maintaining comfortable capital cushions. Further, the improvement in the socio-political environment in the Union Territory of Jammu & Kashmir and Ladakh (UTJKL) is expected to benefit the business environment in the region and the bank going forward.

The rating continues to factor in majority ownership by the Government of the Union Territories of Jammu & Kashmir and Ladakh (UTJKL; 59% of the shareholding as on June 30, 2024) and its expected support to JKB 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 leading to high concentration, the moderate size of operations and moderate capitalisation levels and asset quality parameters as compared to peer banks.

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.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- 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
- Significant geographical diversification of business

Negative factors

- 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

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

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: Stable

The 'Stable' outlook is on account of CARE Ratings' expectations of continued improvement in the financial performance with stable asset quality and operating metrics while maintaining comfortable capital cushions and continued support from GoUTJKL.

Detailed description of 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 59% of the stake as on June 30, 2024. 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 as on June 30, 2024 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 four years. CARE Ratings expects the bank to 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 ₹96,982 crore as on March 31, 2024, of which retail, agriculture and MSME (RAM) advances constituted 32.6% of the total loan portfolio respectively. The remaining portfolio constituted of corporate loans at 32.60% of total advances as on March 31, 2024. Around 70.7% of advances of the bank are concentrated within UTJKL.

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 51% as on March 31, 2024, and 50% as on June 30, 2024 (March 31, 2023: 54%). Notably, in the last five years, the CASA proportion stood in the range of 50% 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 10% to ₹1,34,775 crore as on March 31, 2024 (June 30, 2024: ₹1,32,573 crore) as against ₹1,22,038 crore as on March 31, 2023.

Improved earnings profile

The bank witnessed an increase in advances which helped its interest income grow, while a strong CASA deposit base helps the bank to maintain its cost of deposits. During an increasing interest rate scenario, the bank's net interest margin (NIM) expanded to 3.50% for FY24 from 3.46% for FY23. Furthermore, the non-interest income increased by 9% from ₹757 crore in FY23 to ₹825

crore during FY24. The total income increased by 19% from ₹10,112 crore for FY23 to ₹12,038 crore for FY24. The bank's cost to income ratio also had moderated from a peak of 77% in FY22 to 66% in FY23 further to 62% in FY24; 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 23% to ₹2,277 crore for FY24 from ₹1,858 crore for FY23. 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 ₹1,767 crore in FY24 as against ₹1,197 crore in FY23. The bank's return on total assets (ROTA) increased from 0.87% in FY23 to 1.19% in FY24.

During Q1FY25 the bank reported a PAT of ₹415 crore as against ₹326 crore during Q1FY24. It continues to incur high operating expenses in Q1FY25 with cost to income at 62% which is expected to drop further in the coming quarters to 60%. The bank's earned a ROTA of 1.13% 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 ₹1,118.25 over last 2 years and which along with accrued profit has helped the augmentation of CET I capital base of the bank. The bank's capital adequacy ratio (CAR) stood at 15.33% (Tier-I CAR: 13.09%) with Common Equity Tier I (CET I) Ratio of 12.02% as on March 31, 2024, improving from CAR of 15.58% (Tier I CAR: 12.02%) and CET I ratio of 11.05% respectively as on March 31, 2023. Further, overall CAR marginally declined to 15.07% with Tier I CAR at 12.81% as on June 30, 2024.

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 improvement; albeit 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 Gross NPA ratio and Net NPA ratio stood at 4.08% and 0.79%, respectively, as on March 31, 2024, improved from Gross NPA ratio of 6.04% and Net NPA ratio of 1.62%, as on March 31, 2023. Further, the Gross NPA ratio and Net NPA ratio improved to 3.91% and 0.76%, respectively, as on June 30, 2024. The bank's net NPA to Net worth ratio stood at 6.82% as on March 31, 2024 (March 31, 2023: 15.73%).

The net stressed assets (Net restructured assets + security receipts + NNPA) of the bank stood at 2.46% as a proportion of total net advances as on March 31, 2024, as against 3.11% as on March 31, 2023. The bank had also disbursed loans under the Emergency Credit Line Guarantee Scheme (ECLGS) which stood at 0.75% of the advances as on March 31, 2024. The bank's SMA 1 and SMA 2 exposures stood at 6.99% of gross advances each as on March 31, 2024.

Limited geographical diversification with moderate scale of operations

With total gross advances of ₹96,982 crore and deposits of ₹1,34,775 crore as on March 31, 2024, JKB is a mid-sized bank as compared with other public and private sector peers. The bank's operations are regionally concentrated, with 89% of the bank's deposits and 71% of its advances emanating from J&K and Ladakh as on March 31, 2024.

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, 2024, the bank has no negative cumulative mismatches across all its time buckets up to 1 week. The bank had excess SLR holdings of ₹2,996 crore as on June 30, 2024. The liquidity coverage ratio (LCR) as on June 30, 2024, stood at 114% 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

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Bank](#)

[Financial Ratios - Financial Sector](#)

[Factoring Linkages Government Support](#)

[Rating Basel III - Hybrid Capital Instruments issued by Banks](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial Services	Financial Services	Banks	Private Sector 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 59% stake in the bank as on June 30, 2024. 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, 2024, it operated through a network of 1,001 branches and 1,425 ATMs. While predominantly focused in J&K, the bank has spread over 18 states and 4 UTs. The bank remains largely rural focused, with 55% of the total branches (as on March 31, 2024) in rural areas, followed by 18% in metro, 16% in semi-urban, and the remaining 11% in urban locations.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total Income	10,112	12,038	3,188
PAT	1,197	1,767	415
Total Assets	1,45,962	1,54,928	1,54,928
Net NPA (%)	1.62	0.79	0.76

ROTA (%)	0.87	1.19	1.13*
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A: Audited UA: Unaudited; Note: these are latest available financial results

*Annualised

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Bonds-Tier II Bonds	INE168A08079	30-Mar-2022	9.50	30-Mar-2032	360.00	CARE AA-; Stable
Bonds-Tier II Bonds	INE168A08087	30-Dec-2022	9.75	30-Dec-2032	1021.00	CARE AA-; Stable
Bonds-Tier II Bonds (Proposed)	-	-	-	-	479.00	CARE AA-; Stable
Bonds-Tier II Bonds (Proposed)	-	-	-	-	640.00	CARE AA-; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Bonds-Tier II Bonds	LT	1000.00	CARE AA-; Stable	-	1)CARE A+; Positive (18-Sep-23)	1)CARE A+; Stable (20-Sep-22)	1)CARE A+; Stable (09-Mar-22)
2	Bonds-Tier II Bonds	LT	1500.00	CARE AA-; Stable	-	1)CARE A+; Positive (18-Sep-23)	1)CARE A+; Stable (27-Sep-22)	-

*LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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Disclaimer:

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