# Rajasthan Marudhara Gramin Bank

April 21, 2025

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Tier-I Bonds | 500.00 | CARE A- (RWD) | Placed on Rating Watch with Developing Implications |

Details of instruments/facilities in Annexure-1.

#The rated Tier-I perpetual debt instrument (PDI) has specific features, including a lock-in clause, where the servicing of the bonds (coupon and repayment) is linked to the bank meeting regulatory norms on capitalisation and reported profitability and coupon on bonds is not cumulative. In case the bank does not meet the regulatory norm, servicing of 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. Delays in the payment of interest/principal (as the case may be) following the invocation of the lock-in clause, would constitute as an event of default per CARE Ratings Limited's definition of default, and as such these instruments may exhibit a somewhat sharper migration of rating compared to conventional subordinated debt instruments.

## Rationale and key rating drivers

Rating assigned to the Tier-I perpetual debt instruments issue of Rajasthan Marudhara Gramin Bank (RMGB) are placed on 'Rating watch with Developing Implications' as Government of India (GOI) vide its Gazette Notification announced amalgamation of RMGB and Baroda Rajasthan Kshetriya Gramin Bank (BRKGB) sponsored by Bank of Baroda (BOB) into a single Regional Rural Bank (RRB), which shall be called 'Rajasthan Gramin Bank' (RGB) with effect from May 01, 2025. The head office will be situated in Jaipur with the State Bank of India being the sponsor bank for the amalgamated entity.

The rating continues to favourably factor in RMGB's parentage, with 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% per it's constitution as a Regional Rural Bank (RRB), and strong managerial, operational and technology support from SBI as the sponsor bank.

However, the rating is constrained by high geographical concentration due to its mandate to operate in a specific region, exposure to relatively riskier segments like agriculture and economically weaker borrowers, weakening asset quality parameters, modest capitalisation parameters and low profitability.

BRKGB is a Regional Rural Bank (RRB) based in Ajmer (Rajasthan), India and is sponsored by Bank of Baroda (rated CARE AAA; Stable), with GOI holding 50%, the sponsor bank – BOB holding 35% and GOR holding 15% per it's constitution as a Regional Rural Bank (RRB). As on March 31, 2024, the bank is spread across 21 districts with 875 branches in Rajasthan, having the largest network of branches amongst the RRBs in Rajasthan. The bank's net advances stood at ₹24,120 crore and deposits stood at ₹28,940 crore as on March 31, 2024 and it reported Capital Adequacy Ratio (CAR) of 14.58%, Gross NPA ratio of 1.30% and Net NPA ratio of 0.33% as on March 31, 2024.

CARE Ratings Limited (CARE Ratings) will continue to monitor the developments in this regard and take appropriate rating action upon the consummation of the amalgamation process.

## Rating sensitivities: Factors likely to lead to rating actions

**Positive factors – Factors that could, individually or collectively, lead to positive rating action/upgrade:**

- Improvement in asset quality with gross non-performing assets (GNPAs) less than 3% on a sustained basis
- Improvement in profitability with return on total assets (ROTA) exceeding 1.5% on a sustained basis
- Significant increase in size of operations accompanied by healthy capitalisation

**Negative factors – Factors that could, individually or collectively, lead to negative rating action/downgrade:**

- Material dilution in expected support from SBI
- Deterioration in capitalisation levels (Capital Adequacy Ratio [CAR]) remaining below 9.5%
- Decline in profitability on a consistent basis

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

- Weakening in asset quality with GNPA ratio over 6% on a sustained basis

**Analytical approach:** Standalone
CARE Ratings has considered the standalone business and financial profiles of RMGB while factoring benefits arising due to the ownership of GOI and SBI and support from the sponsor bank (SBI).

**Outlook:** Not applicable

**Detailed description of key rating drivers:**

**Key strengths**
**Shareholding by GOI, SBI, and GOR**
RMGB is an RRB with operations in Rajasthan. Majority shareholding is by GOI at 50%, with the sponsor bank - SBI holding 35%, and GOR holding the remaining 15%.

According to The Regional Rural Banks (Amendment) Act, 2015, RRBs can raise equity capital from sources other than the GOI, sponsor bank, and state government, provided that the combined shareholding of the GOI and the sponsor bank remains above 51%. The Act also mandates that RRBs have two nominee directors for each shareholder holding over 10% of shares. Consequently, RMGB has two nominee directors from SBI, two from GOR, and two from GOI, with one position currently vacant. The National Bank for Agricultural and Rural Development (NABARD) and the Reserve Bank of India (RBI) each have one nominee director on the board. The rating considers expected capital support from the GOI and SBI when needed.

**Managerial, operational and technology support from SBI**
As the sponsor bank, SBI oversees RMGB's operational and financial performance and extends supervisory support. The Board is chaired by Mukesh Bhartia, who has been deputed by SBI. SBI has also assigned senior personnel to manage key functions at RMGB and has provided operational, technological, and systems support.

RMGB follows the rating and grading model for loans and advances per SBI's guidelines and implemented the Risk Focused Internal Audit Report System recommended by SBI. The bank's audit committee includes nominee directors from SBI, NABARD, RBI, and GOR. The General Manager Vigilance, deputed from SBI, oversees the bank's vigilance administration. In addition, RRBs are supervised by NABARD, which has a Board for Supervision to provide guidance on supervision and inspection matters.

**Robust deposit profile with strong CASA deposit base**
As an RRB, RMGB has established a strong regional presence and built a robust deposit base. The depositor base is granular with over 99% of deposits of less than ₹3 crore as on September 30, 2024. The bank operates 718 branches across 15 districts in Rajasthan, which has contributed to its healthy deposit base.

RMGB's deposits have shown consistent growth, rising from ₹9,875 crore on March 31, 2018, to ₹19,237 crore on September 30, 2024. The bank also maintains a stable current account savings account (CASA) deposit base, which accounted for 51.96% of total deposits as on September 30, 2024 (compared to 53.54% as on September 30, 2023). The low-cost, granular term deposit base, and high share of CASA deposits help the bank control its cost of funds and maintain its net interest margin (NIM).

**Stable growth in advances with diversification of loan portfolio**
RMGB's advances grew by 10.85% in FY24, reaching ₹11,524 crore as on March 31, 2024, which was moderate compared to the overall banking sector. According to RBI regulations, RRBs must allocate at least 75% of their advances to the priority sector lending portfolio and RMGB priority sector lending (PSL) stood at 76% as on March 31, 2024. Majority advances portfolio constitute agricultural loans including Kissan Credit Card (KCC) and other allied activities.

Given that agriculture and allied activities constitute a significant portion of the loan portfolio, the bank has been diversifying into the retail lending segment, which has grown at a compounded annual growth rate (CAGR) of 40% in the last five years (FY20 to FY24). As against this, agriculture lending has grown at a CAGR of 4% in the same period resulting in the proportion of agricultural advances to gross advances declining from 82% as on March 31, 2020 to ~60% as on September 30, 2024 (March 31, 2024: 62%). In the same period, the retail lending portfolio increased from 13% of gross advances as on March 31, 2020 to 34% as on September 30, 2024 (March 31, 2024: 32%). Retail advances largely include housing loans (49% of retail) and vehicle loans (17% of retail). Proportion of MSME advances was ~7% of gross advances. The bank expects to focus on retail and SME lending

in the near term while maintaining its PSL targets. While the bank's advances portfolio is in Rajasthan, it is spread across all districts it has presence in.

## Key weaknesses

### Moderate asset quality

RMGB's asset quality continues to remain moderate with GNPA ratio of 4.49% as on September 30, 2024, compared to 4.29% as on March 31, 2024. The bank has been making higher provisions for NPA resulting in decline in net NPA (NNPA) ratio to 1.37% as on September 30, 2024 from 2.20% as on March 31, 2023. RBGB's provision coverage ratio (PCR) stood at ~70% as on September 30, 2024 compared to ~69% as on March 31, 2024. The bank's NNPA to net worth ratio improved to 15.68% as on September 30, 2024, compared to 15.33% as on March 31, 2024.

As against higher slippages of 5.6% during FY23, the bank has witnessed lower slippages and stable recovery in FY24 with a slippage ratio of 2.67%. The bank's net stressed assets to net worth stood at ~18% as on September 30, 2024, compared to ~31% as on March 31, 2023.

As most of the advances are given to agriculture and related activities, RMGB's asset quality has high dependence on vagaries of nature. However, the bank has been diversifying its loan book from agriculture to personal and SME loans which will help maintain a better asset quality.

The bank's ability to control the slippages going forward and consequently improve asset quality will remain a key rating monitorable.

### Modest profitability impacted by provision for pension liabilities

In FY24, RMGB's net interest income (NII) increased by 10% to ₹768 crore, compared to ₹698 crore for FY23 supported by increase in yield on advances by ~29 bps against increase in cost of deposits by ~45 bps considering an increasing interest rate scenario and the bank focusing on retail growth. The bank's net interest margin (NIM) for FY24 stood at 3.59%, compared to 3.69% for FY23. The bank's non-interest income witnessed growth of 7% in FY24 to ₹252 crore from ₹235 crore in FY23. The bank also earned an income of ₹82 crore (PY: ₹90 crore) on sale of priority sector lending certificates.

Operating expenses remained under control in FY24 and grew by 6% against 10% NII growth, resulting in the bank's Pre-provisioning operating profit (PPOP) increasing by 16%. RMGB increased its provisioning on NPAs to increase the coverage, however, credit cost to total assets remained at ~0.84% for FY24 (PY: 0.90%).

The bank reported profit after tax (PAT) of ₹129 crore for FY24, compared to PAT of ₹100 crore for FY23 translating into ROTA of 0.60% for FY24 compared to 0.53% for FY23. As on March 31, 2024, the bank has completely provided for pension liability including additional provision done based on the re-valuation of pension liability done in March 2024 by the bank.

In H1FY25, the bank's profitability saw impact with lower growth in NII at 2% (y-o-y), due to higher interest expenses as the bank has seen increase in its borrowing from refinance agencies. Supported by non-interest income, the total income of the bank grew by 11% (y-o-y) in H1FY25.

The bank made incremental provisioning for pension liability in line with the order of Honourable Supreme Court of India in October 2024, where banks were asked to cover employees retiring prior to April 1993 for providing retirement benefits. As a result, the bank assessed pension liability at ~₹140 crore and made provision of ₹29 crore (20% of the estimated liability) in Q2FY25. The bank will have to make the remaining provision of ₹111 crore in H2FY25. Incremental provisioning for pension liability resulted in higher operating cost impacting the bank's operating profitability for H1FY25. The PPOP declined by 20% (y-o-y) to ₹180 crore for H1FY25, compared to ₹225 crore for H1FY24. The bank made lower provisioning in the year, which reported its PAT decline by 38% to ₹39 crore for H1FY25 from ₹63 crore for H1FY24. ROTA for H1FY25 stood at 0.35% (annualised). While the bank has been able to absorb pension cost by generating adequate NII in the last six years and generating operating profit, the incremental provisioning in FY25 will impact operating and net profitability for the year.

### Moderate capitalisation parameters

RMGB's capitalisation levels remained moderate and the bank reported CAR (under Basel I) of 10.11% (Tier-I CAR: 8.77%) as on September 30, 2024, compared to CAR of 10.32% (Tier-I CAR of 8.99%) as on March 31, 2023, which was above the minimum regulatory requirement (CAR) of 9.00% for RRBs. RMGB's Tier-II capital consists of general provisions and reserves as RRBs are not allowed to issue Tier-II instruments. Reduction in CAR was considering decline in profit in H1FY25.

Significant provisioning required due to deterioration in asset quality is likely to have an impact on the bank's capitalisation levels and its ability to maintain capitalisation levels above 9.5% will continue to be the key rating sensitivity.

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 to raise capital by way of PDI, CARE Ratings expects GOI, GOR, and SBI to infuse capital in case of requirement towards maintaining capitalisation levels to support advances growth as internal capital generation is lower due to weak profitability.

**Liquidity**: Adequate

The bank's liquidity profile is supported by its strong retail and CASA depositor base. The asset liability maturity (ALM) profile as on September 30, 2024, had no negative cumulative mismatches per ALM statement in time buckets up to one year. Average liquidity coverage ratio (LCR) for the quarter ended September 30, 2024, was at ~103%, against prescribed minimum requirement of 100%. Comfort can be drawn from excess statutory liquidity ratio (SLR) maintained by RMGB at ~10% of net demand and time liabilities as on September 30, 2024. The bank has the option to refinance PSL loans largely from agencies including NABARD and NHB, among others.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

**Applicable criteria**

Definition of Default
Factoring Linkages Government Support
Factoring Linkages Parent Sub JV Group
Rating Outlook and Rating Watch
Banks
Financial Ratios - Financial Sector
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 | Other bank |

RMGB is an RRB based in Jodhpur (Rajasthan), India, and is sponsored by SBI (rated 'CARE AAA; Stable'). The erstwhile Marudhara Gramin Bank and Mewar Aanchalik Gramin Bank were amalgamated on April 01, 2014, and a new entity, Rajasthan Marudhara Gramin Bank, was formed with SBI as its sponsor bank. As on September 30, 2023, the bank has its presence through 716 branches spread in 15 districts of Rajasthan, including Jalore, Pali, Sirohi, Jodhpur, Jaipur, Nagaur, Dausa, Jaisalmer, Barmer, Bikaner, Sriganganagar, Hanumangarh, Udaipur, Rajsamand, and Pratapgarh. These districts cover ~50% of the state's total population. Per RBI regulation, 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. Deposits accepted by RRBs are covered by the DICGC scheme. RMGB's operations 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, and personal lending segment loan in bank's area of operation.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | September 30, 2024 (UA) |
|---|---|---|---|
| Total operating income | 1,634 | 1,944 | 1,020 |
| PAT | 100 | 129 | 39 |
| Total Assets | 20,063 | 22,716 | 23,696 |
| Net NPA (%) | 2.20 | 1.35 | 1.37 |
| ROTA (%) | 0.53 | 0.60 | 0.35^ |

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 I Bonds (Proposed) | - | - | - | - | 500.00 | CARE A-(RWD) |

## 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 2025-2026 | 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 |
| 1 | Bonds-Tier I Bonds | LT | 500.00 | CARE A-(RWD) | - | 1)CARE A-; Stable (03-Jan-25) | 1)CARE A-; Stable (04-Jan-24) | 1)CARE A-; Stable (05-Jan-23) |

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 I Bonds | Highly Complex |

**Annexure-5: Lender details**

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|---|
| To view 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.

**Contact us**

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**About us:**

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