

## Jammu and Kashmir Bank Limited

October 03, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Lower Tier II Bonds	600 (Rupees Six Hundred crore only)	<b>CARE AA- [Double A Minus] (Under Credit Watch with Negative Implications)</b>	Continues to be on credit watch

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the lower tier II bonds of Jammu and Kashmir Bank continues to be under credit watch with negative implications following abrogation of special status granted to the state of Jammu and Kashmir (J&K) under Article 370 and Article 35A. The parliament also passed the 'Jammu Kashmir Reorganization Bill' (Bill) that proposed bifurcation of the state into two union territories (UTs) of 'Jammu and Kashmir and Ladakh. As per Section 85 of the Bill, the central government may establish one or more Advisory Committee(s) within a period of 90 days from the appointed day for the apportionment of assets, rights and liabilities of the companies and corporations constituted for the existing state of J&K between Union territory of Jammu and Kashmir and Union territory of Ladakh. The credit watch with negative implications factors in the moderate asset quality of the bank which remains under pressure due to stressed/restructured assets and could impact its profitability and capitalization going forward. CARE will closely monitor the developments and will take appropriate rating action once more clarity emerges on the implications of said developments.

The rating continues to factor in majority (59.23% shareholding as on June 30, 2019) ownership by the State Government of J&K; long track record of operations, comfortable resource profile marked by strong low-cost deposit base, adequate liquidity profile, capitalization levels and healthy growth in business during FY19 and Q1FY20. These rating strengths, however, continue to be offset by moderate scale of operations, geographical concentration mainly in the state of Jammu & Kashmir, pressure on asset quality, moderate profitability and allegations of malpractices in recruitment process and corporate governance issues in the bank.

Going forward, the continued support from government, the bank's ability to improve its asset quality and profitability and diversify operations outside the state of Jammu & Kashmir would be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### Long track record of operations with majority ownership by government of J&K

Jammu and Kashmir bank (JKB) is a mid-sized, private sector, state government owned bank with J&K government holding 59.23% of shares as on June 30, 2019. The bank has a long and an established track record of more than 80 years and holds a dominant market position in J&K. It is the only private sector bank that has been designated as RBI's agent for banking business within the state. The Govt of J&K has been regularly supporting the bank and had infused equity of Rs. 250 crore in FY17 and Rs. 282 crore in FY18.

#### Comfortable resource profile marked by strong CASA deposit base

Owing to JKB's strong market position in the state of J&K, its deposit mobilization capability within the state remains strong. As on March 31, 2019, the total borrowed funds of the bank stood at Rs.92,263 crores, up 13% Y-o-Y with deposits accounting for 97% and borrowings accounting for remaining 3%. The deposits grew by 12% Y-o-Y to Rs. 89,639 crore as on March 31, 2019. Also, the deposit base of the bank remains highly concentrated geographically with deposits from J&K accounting for 89% of total deposit as on Mar-19. Over the past few years, the bank has developed a strong deposit base in the state of J&K which helps it in maintaining robust current account and savings account (CASA) ratio that is well above its other mid-sized private/public sector peers. The bank's proportion of CASA deposits has steadily improved over the last couple of years and stood at 50.7% as on March 31, 2019.

#### Liquidity: Strong

According to ALM statement as on March 31, 2019, the bank had no negative cumulative mismatches in the buckets up to 1 year. The bank also enjoys healthy deposit rollover rate for retail term deposits which helps in maintaining comfortable liquidity profile. The bank is maintaining healthy liquidity coverage ratio of 335.40% as on Mar-19 as against regulatory requirement of 100%.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Moderate capitalization level**

The bank's capitalization remains adequate with capital metrics well above the regulatory minimum requirement. As on March 31, 2019, the bank reported CET 1, Tier 1 and total capital adequacy ratio (CAR) of 9.13%, 10.6% and 12.46% respectively as against the regulatory minimum requirement of 7.375%, 8.875% and 10.875% respectively. The statutory minimum requirements will further increase by 0.625% each by Mar-2020. The capitalization improved in FY19 over FY 18 although marginal weakness was reported in Q1FY20 on account of lower internal accruals amid lower profitability. The Govt of J&K infused capital of Rs. 250 cr in FY17 and Rs. 282 crore in FY18. In fiscal 2019, the bank had raised Additional Tier I capital (Unsecured, Subordinated, Fully Paid-Up, Non-Convertible, Basel III compliant, Perpetual Debt Instruments) of Rs.1,000 crores. The bank's ability to raise capital in timely manner to maintain capitalization profile will be critical for its credit profile.

**Continuing business growth in FY19, with improvement in profitability in FY19**

During FY19, the bank's total asset base registered growth of 13.2% y-o-y to Rs.1,00,801 crore while the bank's deposits and gross advances registered growth rates of 12% Y-o-Y and 15% Y-o-Y respectively. During FY19, JKB's margins expanded by 20bp Y-o-Y to 3.56% driven by lower cost of deposits. Also, the bank's profitability was supported by lower provisions and one-time income derived from the sale of PNB Metlife India insurance Company Limited. As a result, the bank reported net profits of Rs.465 crores in FY19 as against Rs.203 crore during FY18. Consequently, the bank's Return on total asset (ROTA) of the bank improved to 0.49% during FY19 as against 0.24% in FY18. For the quarter ended June 30, 2019, the bank reported net profit of Rs 22 crore on total income of Rs 2256 crore as against net profit of Rs 53 crore on total income of Rs 1897 crore reported for the corresponding quarter previous year. Overall, the bank's profitability metrics remain moderate and susceptible to asset quality issues.

**Key Rating Weaknesses****Moderate asset quality**

During the fiscal 2019, the reported asset quality metrics marginally improved with reported gross non-performing assets (GNPA) and NNPA at 8.97% and 4.89% as on Mar-19 as against 9.96% and 4.90% respectively as on Mar-18. This was driven by strong loan book expansion (+15% Y-o-Y), write offs and moderate level of recoveries. However on an absolute basis, the bank's gross NPA stood at 6221 crore, up 3.6% Y-o-Y largely driven by bank's corporate exposure. Out of absolute quantum, 26% is from J&K state while the majority or 74% are from rest of India where bank's presence is relatively smaller and is largely through large corporate loans. Of the total gross NPA, industrial sector constituted 52%, followed by services (37%) and agriculture at 9%. As a result, the bank has steadily brought down its exposure to industry to 22% of the total loans outstanding end fiscal 2019 from 28% two years ago. On the other hand, the share of services has steadily risen to 40% end fiscal 2019 from 37% two years ago. During FY19, total slippages amounted to Rs. 2965 (Rs.3105 crore in FY18) resulting in slippage ratio of 5.5% during FY19 as against 6.5% in FY 2018..

As on June 30, 2019, the bank's reported gross and net NPA ratio improved to 8.48% and 4.36% respectively. The bank is maintaining healthy reported provision coverage (including TWO) of 66.6% as on June-19. The CARE adjusted provision coverage stood at 50.8% as on same date.

In addition to gross NPAs, bank also had gross non-performing investments of Rs.638 crore as on Jun-19, against which the bank had provision of Rs.607 crore, leading to net non-performing investment of Rs.31 crore. In view of the impending stress in bank's corporate exposure, the bank's asset quality remains a key sensitive factor.

**Medium-sized bank with regional concentration**

With total assets (excluding revaluation reserves) of Rs. 1,00,801 crores as on March 31, 2019, JKB is a mid-sized bank compared with other public and private sector peers. The bank's operations continue to be regionally concentrated with 88% of bank's deposits and 58% of bank's advances emanating from J&K end fiscal 2019. Owing to bank's high reliance on J&K, any political unrest or administrative/business instability in the state are likely to impact bank's growth and profitability.

**Allegation of malpractices and corporate governance issue**

Following complaints / reports of alleged malpractices in recruitment process and corporate governance issue in the bank, the Government of Jammu and Kashmir ordered investigation in the said matter and the Anti-Corruption Bureau is investigating the same. Subsequently, on June 08, 2019, the JKB announced cessation of Mr. Parvez Ahmad Nengroo as the chairman and managing director of the bank. Mr. Rajesh Kumar Chhibber (earlier designated as executive president) was appointed as interim chairman and managing director of the bank.

**Analytical approach:** Standalone

**Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for placing rating on credit watch](#)

[CARE's Rating Methodology for Banks](#)

[Financial Sector –Financial Ratios](#)

[Factoring Linkages in Ratings](#)

[Bank - Rating framework for Basel III instruments \(Tier I & Tier II\)](#)

**About the Company**

JKB, a private sector scheduled commercial bank, was incorporated on October 1, 1938, and commenced business from July 4, 1939, from its registered office at Residency Road Srinagar, Kashmir. JKB is the only state government-owned bank in the country, and the Government of J&K (GoJK) holds around 59.23% shareholding in the bank as on June 30, 2019. JKB holds a dominant position in the state of J&K constituting majority of the credit and deposits in the state. As on June 30, 2019, it operated through a network of 944 branches (86% of the branches in the state of J&K) and 1322 ATMs. While predominantly focused in J&K, the bank has spread over 20 states and one union territory. The bank remains largely rural focused with 54% of total branches (as on March 31, 2019) in rural areas, followed by 18% in metro, 17% in semi-urban and remaining 12% in urban locations.

On 5<sup>th</sup> and 6<sup>th</sup> August, 2019, the Parliament of India approved the resolution abrogating the special status granted to the state of Jammu and Kashmir (J&K) under Article 370. The parliament also passed the 'Jammu Kashmir Reorganization Bill' (Bill) that proposed bifurcation of the state into two union territories (UTs) of Jammu and Kashmir and Ladakh. Pursuant to the latest development, CARE is seeking more clarity on the potential changes in shareholding structure of JKBL post the implementation of changes in administrative structure of J&K. CARE will continue to closely monitor the developments and their impact on the bank's outstanding ratings and will take appropriate rating action, once CARE has clear view on implications of said developments.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total Income	7,117	8,488
PAT	203	465
Total Assets	89,688	1,00,801
Net NPA (%)	4.90	4.89
ROTA (%)	0.24	0.49

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	ISIN	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Lower Tier II	December 30, 2009	INE 168A08012	9.00%	30-Dec-2019	600.00	CARE AA- (Under Credit watch with Negative Implications)

## 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Bonds-Lower Tier II	LT	600.00	CARE AA- (Under Credit watch with Negative Implications)	1)CARE AA- (Under Credit watch with Negative Implications) (13-Aug-19)	1)CARE AA-; Negative (21-Sep-18)	1)CARE AA-; Negative (09-Oct-17)	1)CARE AA-; Negative (20-Mar-17) 2)CARE AA- (Under Credit Watch) (19-Dec-16) 3)CARE AA- (27-Oct-16)

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

### Contact us

#### Media Contact

Mradul Mishra

Contact no: +91-22-6837 4424

Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

#### Analyst Contact

Group Head Name – Ms. Gaurav Dixit

Group Head Contact no.-011-45333235/ +91-9717070079

Group Head Email ID- [gaurav.dixit@careratings.com](mailto:gaurav.dixit@careratings.com)

#### Relationship Contact

Name: Ms. Swati Agrawal

Contact no: +91-11-4533 3200 / +91-98117 45677

Email ID: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

#### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**Disclaimer**

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**