

## Jammu and Kashmir Bank Limited

August 13, 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>	Placed under Credit Watch with Negative Implications

*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 have been placed 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 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/restructures 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 of the operations 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) has long track record of more than 81 years and has been the only state government owned bank where the government of J&K has 59.23% shareholding as on June 30, 2019. Government of J&K had infused equity in the bank as required. It is only private sector bank designated as RBI's agent for banking business, and carries out the general banking business of the state government, besides collecting taxes for CBDT

**Comfortable resource profile marked by strong CASA deposit base:** As on March 31, 2019, total borrowed funds of the bank stood at Rs.92,263 crores (PY:Rs. 81,635 crores) with deposits accounting for 97% and borrowings accounting for 3%. The deposits grew by 12% y-o-y to Rs. 89,639 crore as on March 31, 2019.

Over the years, the bank has developed a strong deposit base in the state of J&K which helps it maintain a robust Current Account and Savings Account (CASA) ratio. The bank's proportion of CASA deposits stood at 50.70% as on March 31, 2019 (50.89% as on March 31, 2018). As on June 30, 2019, CASA proportion was 50.20%.

**Adequate liquidity profile:** 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.

**Moderate capitalization level:** The bank's capitalization remains above regulatory requirement. As on March 31, 2019, the bank reported Capital Adequacy Ratio (CAR) of 12.46% and Tier-I capital of 10.60% and CET 1 capital of 9.13% against regulatory minimum requirement (including CCB) of 10.875%, 8.875% and 7.375% respectively which will further increase by 0.625% each by Mar-2020. As on June 30, 2019, total CAR, Tier I CAR and CET 1 (as per BASEL III) declined to 11.76%, 10.14% and 8.73% respectively on account of weak profitability and increase in Risk Weighted Assets, however still above the regulatory requirements. Bank's ability to raise capital in timely manner to maintain capitalization profile will be critical for its credit profile.

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

**Continuing business growth in FY19, with improvement in profitability:** During FY19, the bank's total asset base registered growth of 13.2% y-o-y to Rs.1,00,801 crore with deposits registering y-o-y growth of 12% and net advances registering a growth of 16.4%. During FY19, JKB saw improvement in NIM to 3.56% as against 3.36% in FY18. Also, with reduction in provisions and one-time other income through sale of share of PNB Metlife India insurance Company limited has resulted in net profits of Rs.465 crores in FY19 as against Rs.203 crore during FY18. Consequently, the Return on total asset (ROTA) of the bank improved to 0.49% during FY19 as against 0.24% in FY18.

During Q1FY20, the bank reported net profit of Rs.22 crore, moderated by higher tax expenses as the bank reported PBT of Rs.118 crores on total income of Rs.2,256 crores. However, the overall profitability profile of the bank remains moderate and susceptible to asset quality issues.

#### Key Rating Weaknesses

**Moderate asset quality:** There has been marginal improvement in asset quality ratios during FY19 and Q1FY20 with growth in advances and write-off of non-performing loans and moderate recoveries. However, the asset quality of the Bank remains stressed with GNPA and NNPA of 8.97% and 4.89% as on Mar-19 (as against 9.96% and 4.90% respectively as on Mar-18). During FY19, total slippages amounted to Rs. 2965 (Rs.3105 crore in FY18) resulting in slippage ratio of 5.46% during FY19.

As on June 30, 2019, Gross NPA ratio and Net NPA ratio stood at of 8.48% and 4.36% respectively. 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.

**Medium-sized bank with regional concentration:** JKB is a moderate-sized bank compared with other private sector banks with total assets of Rs. 1,00,801 crore as on March 31, 2019 (Rs. 89,067 crore as on March 31, 2018). Majority of the business of the bank is concentrated in the state of J&K. Of total deposits approximately 88% of deposit was from the J&K state and out of the total advances approximately 56% were from the J&K state.

**Allegation of malpractices and corporate governance issue:** Following complaints / reports of alleged malpractices in recruitment process and corporate governance issue in the bank, Government of Jammu and Kashmir ordered investigation in the matter and Anti-Corruption Bureau is investigating the same, bank's premises were scrutinized under the process. Coinciding with the event, on June 08, 2019, Jammu and Kashmir bank announced the cessation of Mr. Parvez Ahmad Nengroo as the chairman and managing director of the bank. Mr. R.K Chhibber (earlier designated as executive president) was appointed as interim chairman and managing director of the bank for a period of 3 months w.e.f June 10, 2019.

**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](#)

#### 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.

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. As per section 85 of the Bill, the central government may establish one or more Advisory Committee 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 committee(s) so appointed under sub-section (1) of section 85 of the Bill, shall submit their reports within six months to the Lieutenant Governor of Union territory of Jammu and Kashmir, who shall act on the recommendations of such committees within a period of 30 days from the date of receiving such reports.

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	89,067	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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Lower Tier II	December 30, 2009	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-; 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.

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### 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

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is 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.

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.

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