



## RATING RATIONALE

05 Oct 2023

### The Jammu and Kashmir Bank Limited

**Brickwork Ratings reaffirms the rating for the Tier-II Bonds (Basel III) of Rs. 500.00 Crs. and Additional Tier-I bonds (Basel III) of Rs.1000.00 Crs. of The Jammu and Kashmir Bank Limited.**

#### Particulars:

Instruments**	Amount (₹ Cr)		Tenure	Rating#	
	Previous	Present		Previous (25 Aug 2022)	Present
Tier II bonds (under Basel III)	500.00	<b>500.00</b>	Long Term	BWR AA-/Stable/ Reaffirmed, with change in outlook	<b>BWR AA-/Stable/ Reaffirmed</b>
Additional Tier I Bonds (under Basel III)	1000.00	<b>1000.00</b>		BWR A/Stable/ Reaffirmed, with change in outlook	<b>BWR A /Stable/ Reaffirmed</b>
<b>Total</b>	1500.00	<b>1500.00</b>	<b>Rupees One Thousand Five Hundred Crores only</b>		

\*\*Details of bonds are provided in Annexure II

#Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

#### RATING ACTION

Brickwork Ratings (BWR) reaffirms the long-term ratings for the Basel III Tier II bonds at 'BWR AA- /Stable' and the Basel III Additional Tier I bonds at 'BWR A /Stable' of the Jammu and Kashmir Bank Ltd ("J&K Bank" or "the Bank"), as tabulated above.

The rating, inter alia, factors in J&K bank's strong support from the Government of Jammu and Kashmir (Govt of J&K), comfortable resource profile and adequate capitalisation. The ratings are, however, constrained by the average asset quality and earnings profile, along with the regional concentration of the bank.

While the bank's deposit franchise and position in the union territory (U.T.) of Jammu and Kashmir (J&K) remains strong, with the improvement in the economic environment in the U.T. post abrogation of Article 370. Stressed accounts related to the hospitality sector in the region are seeing improved business due to the recovery of tourism and increased levels of economic activities in the region post COVID-19 pandemic lockdown relaxation have helped in reducing the rate of incremental slippages which have supported asset quality metrics in the medium



term. The Bank's CASA ratio stood at 53.29% in Q1 FY24, which is among the highest in the Industry.

#### **KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED**

Mentioned in Annexure II. These are bonds under Basel-III regulations and subject to usual terms and conditions of issue of such bonds.

**KEY RATING DRIVERS:** BWR has principally relied on audited financials up to FY23, the unaudited financials of Q1 FY24 and publicly available information and information/clarifications provided by the bank

#### **CREDIT STRENGTHS:-**

**Strong support from Government of J&K:** The Govt. of J&K holds a 63.41 % stake in the bank. The bank benefits from the continuing support received from the Govt of J&K, considering its majority shareholding and the importance of the bank in its regions of operation in J&K and Ladakh. The Govt of J&K has consistently infused capital into the bank, including the infusion of Rs 500.00 Crs. in March 2020 and Rs 500.00 Crs. for FY22. The bank has raised Rs. 93.50 Crs in FY22 through Qualified Institutional Placement. The rating also takes comfort from the strategic importance of the bank in the Union Territories and the demonstrated capital support from the Govt. of J&K on an ongoing basis.

**Comfortable and improving resource profile:** J&K bank had a comfortable resource profile because of its stable deposit base, with over 88% of deposits from the U.T. of J&K, where the bank has a strong market penetration as of 30 June 2023. The share of the low-cost current account and savings account (CASA) deposits in total deposits was high at 53.29%, as on 30 June 2023, it was one of the highest among its peers. The Balance Sheet size has seen improvement over the years at Rs. 140,507 Crs in June 2023 compared to Rs. 128,375 Crs in June 2022 and Rs. 145,962 Crs for FY23.

**Adequate capitalisation levels:** The CRAR was up 215 bps in FY23 vis-a-vis FY22 on account of internal accruals, Qualified Institutional Placements (QIP) of Rs. 93.50 Crs. in the form of equity capital and the Tier-II Bond issue of Rs. 1,021 Crs. in FY23. As of 30 June 2023 the bank had a total CRAR of 14.83%, Tier I ratio of 11.87% and CET-1 ratio of 10.63% which are well above the regulatory requirements. As of 31 March 2023, the bank had a total CRAR of 15.38%, Tier I ratio of 12.34% and CET-1 ratio of 11.05% and as of 30 June 2022 the bank had a total CRAR of 13.02%, Tier I ratio of 11.55% and CET-1 ratio of 10.19%.

#### **CREDIT WEAKNESS:-**

**Moderate, but improving asset quality:** The Gross NPAs improved from 8.67% in March 2022 to 6.04% in March 2023. It further improved to 5.77% in Q1FY24 against 9.09% in Q1FY23. The NPA levels of the Bank have shown a gradual improvement over the past fiscals but continue to remain a key monitorable. The fresh NPAs were lower at Rs. 283 Crs in Q1FY24 and Rs.995 Crs. in Q4FY23 against Rs.1,010 Crs. in Q4FY22. The bank's SMA 2 book is at 3.03%



of the gross advances in Q1 FY24. Furthermore, the bank's standard restructured advances which were at Rs.2438 Crs. in FY23 decreased to Rs.2194 Crs in Q1FY24. The bank is focussing on improving the asset quality.

**Regional concentration and challenging operating environment:** J&K bank has 69.83% of its advances, and 88.16% of its deposits from J&K, indicating a regional concentration in the bank's business operations. However the bank is focusing on diversification of its credit portfolio and expanding geographically. Additionally, owing to the regional concentration of the bank, natural calamities and socio-political disturbances make the operating environment challenging for the bank. However, the bank has managed these challenges through taking corrective timely measures and with adequate support from the government and regulatory bodies.

#### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

To arrive at its ratings, BWR has applied a standalone approach, and its rating methodology is as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

Basel III-compliant bonds are subject to the guidelines/regulations of the Reserve Bank of India (RBI) and as detailed in the term sheet of the respective issues. BWR considers them as highly complex instruments in terms of published criteria. BWR has rated Basel III instruments; however, restrictions by the regulator on coupon servicing on any of the outstanding bonds due to the non-meeting of regulatory guidelines would be a key rating sensitivity.

#### **RATING SENSITIVITIES**

The Jammu and Kashmir bank's ability to grow profitably and improve the asset quality while maintaining deposits and capitalisation will be key rating sensitivity factors.

**Positive:** Maintaining and strengthening the capital adequacy levels from the current levels of 14% and a substantial improvement in net profits.

**Negative:** Substantial deterioration in asset quality by 0.5 - 1.0% in the near to medium term and its impact on the net profits and capital adequacy level.

#### **LIQUIDITY INDICATORS: ADEQUATE**

As of 30 June 2023, Cash & Balances with RBI are Rs. 6,828 Crs, Balances with Banks and Money at Call & Short Notice are Rs. 129 Crs and Investments Available For Sale of Rs. 8,242 Crs seem adequate to repay the maturing debt.

Total Borrowings were Rs. 4389 Crs for Q1FY24.

LCR as on 30 June 2023 was 181.98% based on the daily average of Q1 FY24 as against the minimum regulatory requirement of 100%.

#### **ABOUT THE BANK**

The Jammu & Kashmir Bank, headquartered in Srinagar, was founded in 1938 and commenced operations in 1939. It is the first state-owned bank by the Government of Jammu & Kashmir, with a shareholding of 63.41% as of 30 June 2023.

The bank received the Scheduled Bank status in 1971 and was declared an ‘A Class’ bank by the RBI in 1976. The bank benefits from the systemic support received from the Govt of J&K, considering the importance of the bank in its regions of operation in J&K and Ladakh, for creating an unchallenged market position and market penetration in those territories. As of 30 June 2023, the bank had 1,001 branches and 1,414 ATMs. The bank’s Managing Director and Chief Executive Officer (MD & CEO) Mr. Baldev Prakash is supported by a team of 8 directors. As of 30 June 2023, the bank had a total asset size of Rs.140,507 Crs. and business of Rs.205,773 Crs. The gross advances were at Rs.84,475 Crs, with 37% retail loans, 28% corporate loans, 11% trade loans, 11% agriculture loans, 11% SME and 2% other products.

**KEY FINANCIAL INDICATORS: Standalone**

Key Financial Indicators	Units	FY22	FY23	June 2023
Result Type		(A)	(A)	(UA)
Total Business	Rs in Crs	185,111	204,322	205,773
Net Interest Income	Rs in Crs	3,911	4,745	1,283
Net Profits	Rs in Crs	502	1,197	326
Gross NPA	%	8.67	6.04	5.77
Net NPA	%	2.49	1.62	1.39
PCR	%	84.26	86.20	87.55
CET-1 ratio	%	10.35	11.05	10.63
Tier I ratio	%	11.73	12.34	11.87
Total CRAR	%	13.23	15.38	14.83

A - Audited  
 UA - Unaudited

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY:** None

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal & suspended]**

Sl. No.	Name of Instrument	Current Rating			Rating History for the past 3 years			
		Type	Amount in Crs.	Rating	2022		2021	2020
					25 Aug 22	28 Jul 22	09 Jul 21	09 Jul 20
1	Tier II Bonds (under Basel III)	Long Term	500.00	BWR AA-/ Stable (Reaffirmed)	BWR AA-/ Stable (Reaffirmed)	BWR AA-/ Negative (Reaffirmed)	BWR AA-/ Negative (Reaffirmed)	BWR AA-/ Negative (Reaffirmed)
			0.00	-	-	Withdrawn <sup>^</sup>	BWR AA-/ Negative (Reaffirmed)	BWR AA-/ Negative (Reaffirmed)
2	Tier II Bonds (under Basel III)	Long Term	0.00	-	-	Withdrawn due to full redemption <sup>#</sup>	BWR AA-/ Negative (Reaffirmed)	BWR AA-/ Negative (Reaffirmed)
			0.00	-	-	Withdrawn <sup>^</sup>	BWR AA-/ Negative (Reaffirmed)	BWR AA-/ Negative (Reaffirmed)
3	Additional Tier I bonds (under Basel III)	Long Term	1000.00	BWR A/ Stable (Reaffirmed)	BWR A/ Stable (Reaffirmed)	BWR A/ Negative (Reaffirmed)	BWR A/ Negative (Reaffirmed)	BWR A/ Negative (Reaffirmed)
<b>Total</b>			<b>1500.00</b>	<b>Rupees One Thousand Five Hundred Crores only</b>				

#Rs.500.00 Crs. Basel III Tier II bond is fully repaid on 24 June 2022 due to maturity.

<sup>^</sup>Withdrawn at the request of the bank. The bank informed that no amount has been raised under the said bonds using BWR ratings and the bank does not intend to utilise the said unutilized portion of Rs. 500.00 Crs. from each tranche.

**COMPLEXITY LEVELS OF THE INSTRUMENTS**

Non Convertible Debentures - **Highly Complex**

**For more information, visit**

[www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Banks & Financial Institutions](#)
- [Capital Instruments Issued by Banks & Financial Institutions](#)

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**The Jammu and Kashmir Bank Limited**

**ANNEXURE I**

**Details of Bank Loan Facilities rated by BWR: Not Applicable**

**ANNEXURE II**

**INSTRUMENT (NCD/Bonds/CP/FDs) DETAILS :**

Sl. No.	Instrument	Issue Date	Amount (Rs Crs)	Coupon Rate (%)	Maturity Date	ISIN
1	Tier II Bonds (under Basel III)	28-Dec-17	500.00	9.25%	27-Dec-24	INE168A08046
2	Additional Tier I Bonds (Basel III)	14-Jun-18	1000.00	10.50%	Perpetual	INE168A08061
	<b>TOTAL NCD</b>		<b>1500.00</b>	<b>Rupees One Thousand Five Hundred Crores only</b>		

**ANNEXURE- III**

**List of Entities Consolidated : Not Applicable**

BWR has followed a standalone approach and aforesaid details are shared for reference.



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