March 26, 2025

Jharkhand Rajya Gramin Bank: Rating upgraded to [ICRA]A- (Stable); outlook revised to Stable

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Perpetual debt programme (Tier I bonds)	300.00	300.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Positive) and outlook revised to Stable from Positive
Total	**300.00**	**300.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating upgrade factors in the improvement in Jharkhand Rajya Gramin Bank's (JRGB) capital profile and profitability metrics despite the creation of sizeable provisions for pension liability in FY2025 on account of the Supreme Court's order allowing higher pension payouts to pensioners. The pension liabilities are expected to have been largely provided for in FY2025 and the bank's internal capital generation is expected to keep improving accordingly in FY2026. This will help it grow the loan book while maintaining sufficient cushions over the regulatory capital requirements.

ICRA notes that JRGB's operations remain focused on rural credit in Jharkhand, limiting its overall scale and growth prospects while keeping the geographical and sectoral concentration of the loan book high. The significant contribution of crop and agricultural loans to total advances also poses asset quality risk due to agro-climatic conditions as well as the political appeasement of farmers via farm loan waiver announcements, especially during election years. ICRA notes that the headline asset quality indicators have improved over the last few years with a reduction in the fresh non-performing advances (NPA) generation rate and steady recoveries and upgrades. However, given the seasonality in agricultural advances, the level of overdue loans (special mention account (SMA)[1] 0, 1 and 2) remains elevated. Further, the lag in the recognition of NPAs for agricultural loans over two crop cycles delays the recognition of stressed assets. JRGB's ability to keep its slippages under control and reduce its overdue loan book will remain monitorable from the asset quality as well as profitability perspective.

The rating continues to consider the bank's parentage, with the Government of India (GoI) holding a 50% stake, the Government of Jharkhand (GoJ) holding 15% and State Bank of India {SBI; rated [ICRA]AAA (Stable) for Tier II bonds} holding 35%. Further, JRGB is incorporated under the Regional Rural Banks Act, 1976 (RRB Act), under which the combined holding of the GoI and the sponsor bank (SBI) is to be maintained at 51%, thereby ensuring sizeable direct or indirect sovereign ownership at all times. Moreover, regional rural banks (RRBs) remain strategically important to the GoI and state governments for meeting the credit demands of the agriculture sector.

The rating also considers JRGB's deposit profile, which remains highly granular, given its rural presence as well as the significant share of current account and savings account (CASA) in total deposits, translating into a competitive cost of funds. Hence, despite the lower credit-to-deposit (CD) ratio, the bank's profitability is supported by its competitive cost of funds. However, given the sizeable holding of Government securities, its overall profitability remains vulnerable to mark-to-market losses in the bond portfolio.

The Stable outlook on the rating factors in ICRA's assessment that JRGB will maintain a steady credit profile while sustaining the improvement in its earnings profile. Moreover, ICRA is of the view that the bank is better placed to grow as well as absorb

[1] SMA is defined as a special mention account (SMA), which is an account exhibiting signs of incipient stress resulting in the borrower defaulting in the timely servicing of their debt obligations though the account has not yet been classified as an NPA as per the extant RBI guidelines; SMA-1 accounts are overdue by 31-60 days while SMA-2 accounts are overdue by 61-90 days

asset quality shocks while improving the capital cushions over the regulatory levels.

Key rating drivers and their description

Credit strengths

Strong parentage and constitution under RRB Act – JRGB is incorporated under the RRB Act and is jointly owned by the GoI, the GoJ and SBI. Legislative amendments introduced to the RRB Act in 2015 prevent the dilution of the combined holding of the GoI and the sponsor bank below 51%, thereby ensuring sizeable direct or indirect sovereign ownership in JRGB. Furthermore, under the Act, the GoI appoints the Chairman and two directors on the board while the state government is represented by two nominee directors. SBI is also represented by two nominee directors. Additionally, the board has representatives from National Bank for Agriculture and Rural Development (NABARD) and the Reserve Bank of India (RBI).

NABARD closely monitors the operational and financial performance of RRBs and extends supervisory support on a periodic basis. In addition, JRGB is monitored by SBI, which is its sponsor bank. Nevertheless, any change in the sponsor bank, under a scheme of amalgamation of RRBs, will remain monitorable. Further, given the requirement of maintaining the requisite shareholding pattern, capital infusions must be supported by all the shareholders.

Deposit profile characterised by high share of CASA and granularity – JRGB had 445 branches as on March 31, 2024 spread across the rural and semi-urban regions of Jharkhand. The rating also factors in the bank's deposit profile, which remains inherently granular, given its presence in rural areas, as well as the high share of CASA, which stood at ~67% of total deposits as on December 31, 2024. The steady and strong CASA base, coupled with the granular term deposit base, has helped the bank maintain a competitive cost of interest-bearing funds (4.41% in 9M FY2025). This was driven by the steady CASA deposit growth and the limited need to mobilise term deposits, given JRGB's low CD ratio. As internal accruals improve and with increasing focus on credit growth, incremental deposit mobilisation through term deposits may reduce the share of CASA deposits and push up the cost of funds.

Improved outlook on profitability – The bank's operating profitability declined to 2.66% (annualised) of average total assets (ATA) in 9M FY2025 from 2.93% in FY2024 because of lower net interest margin (NIM) and higher operating expenses (opex). The NIM declined to 3.96% (annualised) of ATA in 9M FY2025 from 4.13% in FY2024 (in line with the industry trend; average NIM of all SBI-sponsored RRBs declined by 29 basis points (bps) on a year-on-year (YoY) basis to 3.87% in Q3 FY2025). The opex increased due to higher salaries. However, the core operating profitability was supported by higher non-interest income, which was largely driven by the sale of priority sector lending certificates. The total provisions for FY2025 are expected to decline compared to the last fiscal, despite the high provision for pension liability. This helped the bank witness an improvement in its profitability with a return on assets (RoA) of 1.06% (annualised) in 9M FY2025 compared to 0.86% in FY2024 and 0.76% in FY2023. Going forward, in the absence of any one-off items, JRGB is expected to further improve its net profitability metrics, although this will be subject to its performance on the asset quality front.

Credit challenges

Asset quality remains monitorable – JRGB witnessed an improvement in its headline asset quality indicators with the gross NPA (GNPA) and net NPA (NNPA) improving to 3.39% and 0.55%, respectively, as on December 31, 2024 from 3.69% and 0.90%, respectively, as on March 31, 2024 (4.80% and 1.19%, respectively, as on March 31, 2023). However, the overdue loan book (SMA 1 and 2) remained high in relation to the capital. Slippages from this pool could remain elevated in the near term, leading to higher credit costs and lower profitability. Further, there could be a lag in the recognition of stressed accounts as NPAs for agricultural loans over two crop cycles, which may result in sudden asset quality pressure, given the high share of agricultural advances in the overall loan portfolio. Nevertheless, as the bank was able to provide for a major part of the pension liabilities, ICRA expects it to be in a better position to absorb credit losses in case of the weak performance of the overdue loan book in FY2026.

Growth in advances remains constrained, given limited capital buffers – JRGB's capitalisation profile appears to be comfortable with a CET I and CRAR of 11.09% and 12.26%, respectively, as on December 31, 2024 against the regulatory requirement of 9%[2]. This was on account of the increase in internal capital generation. However, JRGB's CRAR of 10.95% as on March 31, 2024 was lower than the RRB average of 14.2%. The bank's cumulative pension liability increased in FY2025 owing to wage revisions, though this is expected to have been largely provided for in the current fiscal. Thus, internal capital generation is likely to improve further from FY2026, which will also support the growth and overall capitalisation profile. Given the geographical limitations, the overall growth is likely to remain range-bound and growth-led capital consumption could be lower than capital accretion. The cushions above the regulatory levels could build up gradually, although this would remain contingent on the asset quality.

High geographical concentration and vulnerability to agro-climatic risks – RRBs were set up with the primary focus of meeting the credit demand of the agriculture sector, with a district-defined role for each RRB. As RRBs operate within a limited number of districts or a single state, the overall scale and growth prospects remain limited, resulting in the high geographical concentration of the loan book. JRGB's loan book is concentrated towards agricultural advances (constituting ~69% of gross advances as on December 31, 2024). High exposure to the agriculture sector, coupled with the marginal profile of the borrowers, exposes the bank to agro-climatic risks, which could severely impact collections and lead to the deterioration of its asset quality metrics. Asset quality risk also arises from the political appeasement of farmers via farm loan waiver announcements, especially during election years. Further, the NPA recognition of agricultural loans is based on crop cycles (single or two crops in a year), which can result in delays in stress recognition. JRGB saw a significant build-up in overdue loans in its agricultural loan book in 9M FY2025 and its ability to arrest slippages will be critical for its asset quality and profitability, going forward.

Liquidity position: Strong

The strong liquidity profile is driven by the excess statutory liquidity ratio (SLR) maintained by the bank, which was 23% of the net demand and time liabilities (NDTL) as on January 25, 2025 (regulatory requirement: 18%) because of the lower CD ratio.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the bank is able to maintain its profitability metrics with an RoA of more than 1.5% while keeping the CRAR more than 4% above the regulatory level on a sustained basis. An improvement in the scale of operations and business risk profile will also be a positive factor.

Negative factors – Deterioration in the asset quality, leading to the weakening in the profitability, with RoA of less than 0.5%, or weakening of the CRAR to less than 1% from the regulatory level on a sustained basis could exert pressure on the rating.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	[ICRA's Rating Methodology for Banks and Financial Institutions]()
Parent/Group support	JRGB was incorporated under the Regional Rural Banks Act, 1976 and is jointly owned by the GoI, the GoJ and SBI. RRBs remain strategically important to the GoI and state governments, with sizeable direct or indirect sovereign ownership. ICRA expects JRGB to receive financial support from its co-owners, if required.
Consolidation/Standalone	To arrive at the rating, ICRA has considered the standalone financials of JRGB. JRGB does not have any subsidiaries.

[2] RRBs need to maintain a minimum Tier I capital of 7.0%, and within the overall Tier I capital, perpetual debt instruments (PDIs) are restricted to 1.5%. In case the bank meets the CET of 5.5% and the Tier I of 7.0% with PDIs, the additional PDI over 1.5% is eligible for the calculation of the overall CRAR. Further, RRBs are not allowed to issue Tier II instruments and the current Tier II capital consists of standard assets provisioning. Accordingly, even in a scenario where an RRB is able to raise sizeable PDIs, its ability to meet the overall CRAR will continue to be driven by its ability to meet the minimum CET of 5.5%

About the company

Jharkhand Rajya Gramin Bank (JRGB) was established on April 01, 2019 when the erstwhile Jharkhand Gramin Bank (sponsored by Bank of India) and Vananchal Gramin Bank (sponsored by SBI) were amalgamated into one entity. SBI (rated [ICRA]AAA (Stable) for Tier II bonds) is the sponsor bank of JRGB with a 35% stake. JRGB's head office is in Ranchi and its area of operations is the combined area of operations of the two erstwhile constituent banks. It has a network of 445 branches including 1 service branch and 8 regional offices across Jharkhand.

JRGB reported a profit after tax (PAT) of Rs. 112 crore in 9M FY2025 (Rs. 116 crore in FY2024) on a total asset base of Rs. 14,298 crore as on December 31, 2024 (Rs. 14,164 crore as on March 31, 2024), translating into an RoA of 1.06% (0.86% in FY2024).

Key financial indicators

Jharkhand Rajya Gramin Bank	FY2023	FY2024	9M FY2025
Total income^	577	647	526
Profit after tax	94	116	112
Total assets	12,766	14,164	14,298
CET I	9.77%	9.74%	11.09%
CRAR	11.31%	10.95%	12.26%
PAT/ATA	0.76%	0.86%	1.06%
Gross NPA	4.80%	3.69%	3.39%
Net NPA	1.19%	0.90%	0.55%

Source: JRGB, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore
^Total income = Net interest income + Non-interest income (excluding trading gains)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years					
	Type	Amount rated (Rs. Crore)	Date & Rating in FY2025	FY2024		FY2023		FY2022	
			March 26, 2025	Date	Rating	Date	Rating	Date	Rating
Perpetual debt – Tier I bonds	Long term	300	[ICRA]A- (Stable)	March 21, 2024	[ICRA]BBB+ (Positive)	March 14, 2023	[ICRA]BBB+ (Stable)	March 16, 2022	[ICRA]BBB (Positive)

Complexity level of the rated instrument

Instrument	Complexity indicator
Perpetual debt programme (Tier I bonds)	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance/ Sanction	Coupon rate	Maturity date	Amount rated (Rs. crore)	Current rating and outlook
-	**Perpetual debt – Tier I bonds**	Yet to be issued	-	-	300.00	[ICRA]A- (Stable)

Source: ICRA Research

Key features of the instrument

The rated Tier I bonds have specific features, whereby the debt servicing is linked to the bank meeting the regulatory norms for capitalisation and reported profitability. As per the regulatory norms for these debt capital instruments, approval from the RBI is required for debt servicing (including principal repayments) in case the bank reports a loss and it is not liable to service the debt if it breaches the minimum regulatory capitalisation norms, i.e. CRAR of 9.0%. The coupon, if not paid, is non-cumulative.

Annexure II: List of entities considered for consolidated analysis

Not applicable

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