

Press Release
JKB FINANCIAL SERVICES LIMITED
November 18, 2024
Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Tern
Bank Loan Ratings	15.00	-	ACUITE A1 Assigned
Total Outstanding Quantum (Rs. Cr)	15.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Erratum: This press release publishes a rectification of typographical error in Rating Rationale and Outlook paragraph of JKB Financial Services Limited. The detailed review of the rating was communicated through press release dated August 12, 2024.

Rating Rationale

Acuite has assigned the short-term rating to ‘**ACUITE A1**’ (read as **ACUITE A one**) on the Rs.15.00 Cr. bank facility of JKB Financial Services Limited.

Rationale for rating:

The rating factors in JKBFSL strong parentage (J&K Bank held 100% as on March 31, 2024) and expectation of capital support at regular intervals. Acuite also takes cognizance of J&K Bank’s intent to continue to maintain majority ownership in JKBFSL. J&K bank has shared brand name which provides financial flexibility to JKBFSL. The rating factors in JKB Financial Services Limited experienced management and support of resourceful promoters and established position in its segment. JKBFSL has comfortable capitalization with a tangible network of Rs. 43.51 Cr. as on March 31, 2024 . The network is supported by healthy internal accruals. The rating also takes into account improvement in profitability metrics of JKBFSL. JKBFSL reported a PAT of Rs. 2.64 Cr. for FY2024 as compared to Rs. 1.21 Cr. for FY2023. The company saw an increase in volumes traded in retail client base. The improvement in financial risk profile of the company is expected to continue to improve in FY2024 on the back of a revival in the domestic capital markets. The rating is however constrained on account of JKBFSL’s susceptibility to the level of volatility in the capital markets as well as highly competitive landscape in broking business. For the past couple of years most of the broking companies have witnessed significant traction in broking volumes on account of sharp rebound and volatility in capital/ commodity markets which may not be sustainable. Going forward, continued promoters support and ability of the company to improve its operating performance are key monitorables.

About the company

Srinagar, Jammu & Kashmir based JKB Financial Services Limited (JKBFSL) was incorporated on August 27, 2008, as a wholly owned subsidiary of J&K Bank. JKB Financial Services Limited offers a wide range of financial services, including stock broking, depository services, third-party product distribution and initial public offering (IPO) facilitation. The company is a member of the National Stock Exchange (NSE), Bombay Stock Exchange (BSE), National Securities Depository Limited (NSDL), Central Depository Services (India) Limited (CDSL) and the Association of Mutual Funds in India (AMFI) enabling it to provide a comprehensive suite of broking, demat, and mutual fund services. Mr. Baldev Prakash, Mr. Mohd Muzzafar Wani, Mr. Nisar Ahmad Zargar, Ms. Nishi Sharma, Mr. Syed Rais Maqbool and Mr. Syed Aadil Bashir Andrabi are the directors of the company.

About the Group

Jammu and Kashmir Bank (J&K Bank) is a Scheduled Commercial Bank and one of the oldest private sector Bank in India, incorporated in 1938. Bank is listed on the NSE and the BSE and has its Corporate Headquarters at Srinagar. Bank functions as a leading bank in the Union Territories of Jammu & Kashmir and Ladakh and is designated by Reserve Bank of India as its exclusive agent for carrying out banking business for the Government of Jammu & Kashmir and Ladakh.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite Ratings has assessed the standalone credit risk profile of JKB Financial services and continues to factor in financial support from the parent, J&K Bank. The parent will continue to provide strong support to JKB,

considering the strategic importance of the entity and the high moral obligation on account of majority shareholding and shared name.

Key Rating Drivers

Strength

Strong Parentage Support

J&K Bank is a parent company and holds 100 percent stake in JKBFSL. Acuite also takes cognizance of J&K Bank's intent to continue to maintain majority ownership in JKBFSL. J&K bank has shared brand name which provides financial flexibility to JKBFSL.

Promoter's experience in the capital markets

The company has been engaged in capital markets for around more than a decade having presence in almost all segments such as equity capital and derivatives across the major domestic exchanges. The Company has Trading & Clearing membership of NSE & BSE and is a depository participant of NSDL & CDSL.

Established Business Model based on Diversified Revenue Streams

The company has active operations in Debt and Equity Markets, both in Cash and F&O. The major revenue contributing segments are Brokerage Income and Trading Income. As on March 31, 2024 of the total revenue, Broking Income contributing ~59.04%. Besides Brokerage revenue, the company is active in Trading in Debt and Equity Market.

With the expected buoyancy in the debt market segment, Acuite believes that JKBFSL will benefit from its relations with institutional clientele and its expertise in Debt Market.

Weakness

Susceptibility to operating performance to volume and level of activity in capital markets

The overall trading volumes of most retail brokers have been adversely affected due to stringent market regulations related to margin requirements. This impact is particularly pronounced for JKBFSL, which faces additional challenges due to its limited operational scope, primarily serving a targeted region and relying heavily on customers from its holding company. These factors, coupled with technological impairments, present significant weaknesses that could hinder the company's competitive positioning and growth potential in the broader market. The nature of business exposes the company to certain credit and market risk. The risk assumed by JKBFSL depends on the nature of the security, volatility in the price of the security and the period of the holding. The timely churning of the portfolio also becomes important. Such events could also trigger demands for accelerated payments by lenders in case of pledge-based borrowings. The company has revenue streams from broking business, which is highly volatile and cyclical business with the presence of a large number of established players who provide significant competition to the other fragmented and small players. The company's operating performance is linked to the capital markets, which are inherently volatile as they are driven by economic and political factors as well as investor sentiments. Trading volume and earnings depend heavily on the level of trading activity in the capital market.

Acuite believes that the ability to manage the trade-off between various risks such as credit risk, market risk and operational risk and the returns is critical to the maintenance of a stable credit risk profile.

Rating Sensitivity

- Changes in Credit Quality of any securities in the investment portfolio
- Changes in Regulatory environment

Liquidity Position

Adequate

JKBFSL had unencumbered cash and cash equivalents of Rs. 30.65 Cr. as on March 31, 2024.

Outlook:

Not Applicable

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY24 (Actual)	FY23 (Actual)
Total Assets	Rs. Cr.	81.89	56.48
Operating Income*	Rs. Cr.	13.27	9.42
PAT	Rs. Cr.	2.64	1.21

Net Worth	Rs. Cr.	43.51	40.88
Return on Capital Employed (RoCE)	(%)	7.55	5.79
Debt/Equity	Times	0.14	0.19
Gross NPA	(%)	NA	NA
Net NPA	(%)	NA	NA

**Total income equals to Net Interest Income plus other income.*

Status of non-cooperation with previous CRA (if applicable):

None

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
J&K Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	15.00	Simple	ACUITE A1 Assigned

***Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)**

Sr No.	Company Name
1	JKB Financial Services Limited
2	Jammu and Kashmir Bank

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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