August 01, 2023

Yes Bank Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Infrastructure Bonds	7,030.00	7,030.00	[ICRA]A- (Positive); reaffirmed
Basel II Lower Tier II Bonds	459.70	-	[ICRA]A- (Positive); reaffirmed and withdrawn
Basel III Tier II Bonds	10,900.00	10,900.00	[ICRA]A- (Positive); reaffirmed
Basel II Upper Tier II Bonds	429.10	429.10$	[ICRA]BBB+ (Positive); reaffirmed
Basel III Tier I Bonds **	8,415.00	8,415.00	[ICRA]D; reaffirmed
Basel III Tier I Bonds	280.00	280.00	[ICRA]BB (Positive); reaffirmed
Total	**27,513.80**	**27,054.10**	

**Instrument details are provided in Annexure I; ** Was written down as a part of the restructuring of liabilities; $ Redeemed, to be withdrawn*

Rationale

The ratings reaffirmation factors in Yes Bank Limited's (YBL) steady progress in ramping up its deposit base, increased provisions on stressed assets and its adequate capital position subsequent to the capital raise in FY2023. This shall continue to support the bank's growth and its overall operational and financial performance will keep improving from the current levels over the medium term, thereby driving the Positive outlook on the ratings.

However, the ratings consider the below-average interest spreads on account of the high funding costs and the weak cost-to-income ratio, which continues to weigh on the operating profitability and return metrics. While deposit growth has been appreciable, the share of corporate/wholesale deposits remains relatively high. Going forward, YBL's ability to continue to scale up its loan book, granularise its deposit franchise further and improve the funding cost will remain key for an improvement in its profitability.

The bank's net vulnerable book (comprising 31 to 90 days overdues and the standard restructured book) remained elevated at ~24% of the overall core capital as on June 30, 2023, though it has declined from the higher level of 44% as on March 31, 2022. The ability to limit slippages from the residual vulnerable book will remain key for keeping the credit costs in check, given YBL's relatively thin operating profitability level. Furthermore, the impending judgement of the Honourable Supreme Court in the matter relating to the writeback of the Additional Tier-I (AT-1) bonds amounting to Rs. 8,415 crore will remain a near-term monitorable as any writeback, in part or full, could result in the relative weakening of the reported core capital cushions as well as the solvency[1] level. This remains a key monitorable.

ICRA has reaffirmed and withdrawn the rating assigned to the Rs. 459.70-crore Basel II Lower Tier II bonds as these have been redeemed and no amount is outstanding against the same. The rating was withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings (click here for the policy).

[1] *Solvency = Net stressed assets / Core capital; net stressed assets include net non-performing advances (NPAs), net non-performing investments (NPIs) and net security receipts (SRs)*

Key rating drivers and their description

Credit strengths

Current capital position remains adequate – The capital profile is supported by the capital raise of Rs. 6,041 crore in FY2023 through a mix of preferential allotment of shares and warrants, while the residual amount of Rs. 2,854 crore could flow in upon the conversion of the warrants in FY2024/FY2025, supporting the bank's growth plans. YBL's Tier I capital (13.6% as on June 30, 2023) remained satisfactory despite the 7% YoY growth in advances as on June 30, 2023. It was supported by the moderation in the risk-weighted density of the assets, which kept the overall risk-weighted assets (RWA) growth limited at 6% during this period. Additionally, YBL turned profitable during FY2022-Q1 FY2024, which supported its capital levels.

However, YBL's core capital profile or CET I could deteriorate in case of an adverse judgement by the Honourable Supreme Court in the matter relating to the write-off of its AT-1 bonds. The complete writeback of these bonds could adversely impact the CET I by ~310 basis points (bps), while the Tier I level is likely to remain unaffected. This could also result in the weakening of the core capital cushions as well as the solvency profile and remains a monitorable.

Deposit base growth satisfactory, but remains concentrated – YBL's deposit base grew by 14% YoY to Rs. 2.19 lakh crore as on June 30, 2023 from Rs. 1.93 lakh crore as on June 30, 2022. The cost of interest-bearing funds differential vis-à-vis the private sector average improved to 109 bps in FY2023 (120 bps in FY2022), but remains high.

The growth in current and savings account (CASA) and retail term deposits has been healthy, although the share of wholesale term deposits remained high at 58% of the overall term deposits as on June 30, 2023. Despite the moderation in the share of the top 20 depositors in total deposits to ~12% as on March 31, 2023 from ~14% as on March 31, 2022, it remains higher than some peer banks. Given its aim to grow in the secured retail lending segment, YBL's ability to continue increasing its deposit franchise, while narrowing the cost differential, will be key for supporting an improvement in its scale and profitability.

Credit challenges

Stressed book moderates, but asset quality remains monitorable – The annualised fresh non-performing advances (NPA) generation rate[2] reduced to 2.8% in Q1 FY2024 (2.8% in FY2023, 3.7% in FY2022 and 7.4% in FY2021). Further, recoveries and upgrades remained meaningfully high in FY2023 and Q1 FY2024. This, along with the sale of stressed assets to the asset reconstruction company (ARC), supported the headline asset quality metrics. Gross NPAs (GNPA) and net NPAs (NNPA) decreased to 2.0% and 1.0%, respectively, as on June 30, 2023, from 13.5% and 4.2%, respectively, as on June 30, 2022. With the steady improvement in capital accretion and the absolute decline in the net stressed assets, the solvency profile witnessed a relative improvement to 14.4% as on June 30, 2023 from 31.8% as on June 30, 2022.

Further, YBL's vulnerable book has improved with the net restructured book declining to 2.1% of standard advances as on June 30, 2023 (3.2% as on June 30, 2022), while the overdue book declined to 2.0% (4.2% as on June 30, 2022). These exposures remain a potential source of incremental stress for the bank in the near term. While YBL is guiding towards lower slippages going forward, the ability to keep incremental slippages in check will remain a near-to-medium-term monitorable.

Improving profitability, although return metrics likely to remain muted – YBL's standard loan book grew 10.9% to Rs. 1.98 lakh crore as on June 30, 2023, supporting an improvement in the net interest income. The annualised net interest margin remained rangebound at 2.25% of the average total assets (ATA) in Q1 FY2024 (2.35% in FY2023, 2.20% in FY2022). Improved cross-selling and traction in third-party sales and remittance fees, supported by higher disbursements in the retail segments, led to an improvement in other income to 1.10% of ATA in Q1 FY2024 (1.16% in FY2023, 1.01% in FY2022).

However, the overall operating expenditure remained high at 2.61% of ATA in Q1 FY2024 (2.57% in FY2023, 2.31% in FY2022) due to the costs incurred towards the expansion of the franchise. As a result, the core operating profitability (before treasury gains/losses) remained suboptimal at 0.74% of ATA in Q1 FY2024 (0.93% in FY2023, 0.89% in FY2022) and was lower than the private sector average of 2.35% for FY2023 (1.74% for FY2022). Credit costs were largely controlled due to high recoveries and

[2] *Fresh NPA generation: Gross fresh slippages/Opening standard advances*

upgrades, given the high provision cover on the sizeable pool of stressed assets. Consequently, the net credit cost (annualised) was much lower at 0.41% of ATA in Q1 FY2024 (0.66% in FY2023, 0.50% in FY2022) and has been supporting the bottom line despite the suboptimal operating profitability. YBL's ability to improve the scale of operations while reducing the funding costs will be key for improving its operating profitability and its ability to absorb asset quality shocks and achieve a better return on assets in future.

Liquidity position: Adequate

With steady deposit accretion and growth in advances, YBL's overall liquidity position has improved over the last year. The bank's average liquidity coverage ratio (LCR) stood at ~127% for Q1 FY2024 and remained above the regulatory requirement of 100% for all the quarters of FY2023. Further, the net stable funding ratio (NSFR) stood at 111% as on June 30, 2023, and remained above the regulatory requirement of 100%. The cumulative gaps in all the <1-year maturity buckets remain manageable as per the structural liquidity statement as on March 31, 2023. Moreover, the statutory liquidity ratio (SLR) holding above the regulatory ask can be utilised to meet its liquidity requirements. YBL has access to liquidity support from the Reserve Bank of India (RBI) under the liquidity adjustment facility apart from the marginal standing facility in case of urgent requirement.

Rating sensitivities

Positive factors – ICRA could upgrade the long-term ratings upon the conclusion of the planned equity raise. Further, YBL's ability to consistently maintain a CET I above 12% and a solvency ratio better than 25%, reduce the stressed exposures meaningfully and improve the profitability will be a positive factor.

Negative factors – A higher-than-expected deterioration in the asset quality or erosion of the CET I to less than 10.5% will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Banks and Financial Institutions Policy on Withdrawal of Credit Ratings ICRA's Rating Methodology on Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of YBL. YBL has one subsidiary, as mentioned in Annexure II. No material capital requirement is envisaged for this subsidiary.

About the company

YBL is a private sector bank that was set up in 2004. It is the sixth largest private bank, in terms of total assets, with a 1.5% market share in net advances as on March 31, 2023. The bank had a network of 1,212 branches as on June 30, 2023 as well as an international branch in Gift City, Gujarat (India). YBL's regulatory capital adequacy ratio (Basel III) stood at 18.3%[3] (CET I and Tier I of 13.6%) as of June 30, 2023.

A moratorium was placed on YBL by the Central Government on March 5, 2020, whereby payments to its depositors and creditors were restricted. The moratorium was removed w.e.f. March 18, 2020 and the Government approved a reconstruction scheme for the bank, based on which it received equity of Rs. 10,000 crore from State Bank of India (SBI) and other domestic financial institutions. Apart from the equity infusion, YBL's board was reconstituted with a new Managing Director (MD) and Chief Executive Officer (CEO) from SBI. In July 2020, the bank concluded a follow-on public offer (FPO) of Rs. 15,000 crore. Consequently, SBI's shareholding declined to 30% from 48% (following the reconstruction scheme) as of March 31, 2022. In July

[3] *Including warrant application money of Rs. 948 crore*

2022, the shareholders approved the appointment of a new board, that effectively replaces the one that was constituted as a part of the reconstruction scheme, while also approving the extension in the tenure of the MD & CEO, subject to RBI approval.

Key financial indicators (standalone)

	FY2022	FY2023	Q1 FY2023	Q1 FY2024
Net interest income	6,498	7,918	1,850	2,000
Profit before tax	1,436	963	415	458
Profit after tax	1,066	717	311	343
Net advances (Rs. lakh crore)	1.81	2.03	1.86	2.00
Total assets (Rs. lakh crore)	3.18	3.55	3.18	3.56
CET I	11.60%	13.26%	11.72%	13.60%
Tier I	11.60%	13.26%	11.72%	13.60%
CRAR	17.43%	17.92%	17.52%	18.30%
Net interest margin / ATA	2.20%	2.35%	2.32%	2.25%
PAT / ATA	0.36%	0.21%	0.39%	0.39%
Return on net worth	3.16%	1.93%	3.66%	3.35%
Gross NPAs	13.93%	2.13%	13.45%	2.01%
Net NPAs	4.53%	0.82%	4.17%	1.05%
Provision coverage excl. technical write-offs	70.67%	62.27%	82.30%	48.42%
Net NPA / Core equity capital	30.52%	5.10%	28.58%	6.26%

Source: Yes Bank Limited, ICRA Research; Amount in Rs. crore; Total assets and net worth exclude revaluation reserves
All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Jul 21, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Aug 01, 2023	Aug 04, 2022	Sep 09, 2021	Sep 11, 2020	Jun 23, 2020
1	**Basel II Lower Tier II Bonds**	Long term	459.70	-	**[ICRA]A- (Positive); withdrawn**	**[ICRA]A- (Positive)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BB+&**
2	**Basel II Upper Tier II Bonds$**	Long term	429.10	-	**[ICRA]BBB+ (Positive)**	**[ICRA]BBB+ (Positive)**	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Stable)**	**[ICRA]D**
3	**Infrastructure Bonds**	Long term	7,030.00	3,780.00^	**[ICRA]A- (Positive)**	**[ICRA]A- (Positive)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BB+&**
4	**Basel III Tier II Bonds**	Long term	10,900.00	10,899.00^	**[ICRA]A- (Positive)**	**[ICRA]A- (Positive)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB-(hyb) (Stable)**	**[ICRA]BB (hyb)&**
5	**Basel III Tier I Bonds**	Long term	8,415.00	8,415.00	**[ICRA]D**	**[ICRA]D**	**[ICRA]D**	**[ICRA]D (hyb)**	**[ICRA]D (hyb)**
6	**Basel III Tier I Bonds**	Long term	280.00	280.00	**[ICRA]BB (Positive)**	**[ICRA]BB (Positive)**	**[ICRA]C**	**[ICRA]C (hyb)**	**[ICRA]D (hyb)**

^ Balance amount yet to be placed; & - Rating Watch with Negative Implications
Note: In compliance with the circular issued by the Securities and Exchange Board of India (SEBI) on July 16, 2021 for standardising the rating scales used by credit rating agencies, ICRA has discontinued its practice of affixing the (hyb) suffix alongside the rating symbols for hybrid instruments
$ Redeemed, to be withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Infrastructure Bonds	Very Simple
Basel II Lower Tier II Bonds	Simple
Basel III Tier II Bonds	Highly Complex
Basel II Upper Tier II Bonds	Highly Complex
Basel III Tier I Bonds	Highly 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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE528G09129	Basel II Lower Tier II Bonds	Oct 16, 2012	10.00%	Oct 16, 2022	200.00	[ICRA]A- (Positive); withdrawn
INE528G08246	Basel II Lower Tier II Bonds	Oct 31, 2012	9.90%	Oct 31, 2022	259.70	
INE528G09103	Basel II Upper Tier II Bonds$	Jun 29, 2012	10.25%	Jun 29, 2027	60.10	[ICRA]BBB+ (Positive)
INE528G09111	Basel II Upper Tier II Bonds$	Sep 28, 2012	10.15%	Sep 28, 2027	200.00	
INE528G09137	Basel II Upper Tier II Bonds$	Dec 27, 2012	10.05%	Dec 27, 2027	169.00	
INE528G08279	Infrastructure Bonds	Feb 24, 2015	8.85%	Feb 24, 2025	1,000.00	[ICRA]A- (Positive)
INE528G08295	Infrastructure Bonds	Aug 05, 2015	8.95%	Aug 05, 2025	315.00	
INE528G08345	Infrastructure Bonds	Sep 30, 2016	8.00%	Sep 30, 2026	2,135.00	
INE528G08360	Infrastructure Bonds	Dec 29, 2016	7.62%	Dec 29, 2023	330.00	
Yet to be placed	Infrastructure Bonds	-	-	-	3,250.00	
INE528G08287	Basel III Tier II Bonds	Jun 29, 2015	9.15%	Jun 30, 2025	554.00	[ICRA]A- (Positive)
INE528G08303	Basel III Tier II Bonds	Dec 31, 2015	8.90%	Dec 31, 2025	1,500.00	
INE528G08311	Basel III Tier II Bonds	Jan 15, 2016	9.00%	Jan 15, 2026	800.00	
INE528G08329	Basel III Tier II Bonds	Jan 20, 2016	9.05%	Jan 20, 2026	500.00	
INE528G08337	Basel III Tier II Bonds	Mar 31, 2016	9.00%	Mar 31, 2026	545.00	
INE528G08378	Basel III Tier II Bonds	Sep 29, 2017	7.80%	Sep 29, 2027	2,500.00	
INE528G08386	Basel III Tier II Bonds	Oct 03, 2017	7.80%	Oct 01, 2027	1,500.00	
INE528G08402	Basel III Tier II Bonds	Feb 22, 2018	8.73%	Feb 22, 2028	3,000.00	
Yet to be placed	Basel III Tier II Bonds	-	-	-	1.00	
INE528G08261	Basel III Additional Tier I Bonds	Dec 31, 2013	10.50%	Perpetual (Call: Dec 31, 2023)	280.00	[ICRA]BB (Positive)
INE528G08352	Basel III Additional Tier I Bonds	Dec 23, 2016	9.50%	NA*	3,000.00	[ICRA]D
INE528G08394	Basel III Additional Tier I Bonds	Oct 18, 2017	9.00%	NA*	5,415.00	

*Source: Yes Bank Limited; * Was written down as a part of the restructuring of liabilities; $ Redeemed, to be withdrawn*

Key features of the rated instruments

The servicing of the infrastructure bonds is not subject to any capital ratios and profitability. However, the Basel III Tier II bonds are expected to absorb losses once the point of non-viability (PONV) trigger is invoked. The rated Basel III Tier II instrument is a hybrid subordinated instrument with equity-like loss-absorption features. Such features may translate into higher loss severity vis-à-vis conventional debt instruments.

The Basel II Upper Tier II bonds have specific features wherein the debt servicing is linked to the bank meeting the profitability and regulatory norms for capitalisation. As per the regulatory norms for these instruments, approval from the RBI is required for coupon payments (including redemption) in case the bank reports a loss and is not liable to service the debt if it breaches the minimum regulatory capitalisation norms, i.e. CRAR of 9.0%. The coupon, if missed on the Basel II Upper Tier II bonds, is cumulative if not paid. ICRA has notched down the rating on these instruments, given the expected pressure on the bank's profitability in the near term.

The Basel III AT-I instrument (Rs. 8,415 crore) was written down as a part of the restructuring of liabilities. YBL continues to have Basel III AT-I bonds of Rs. 280 crore. It has stopped including this Rs. 280-crore bond in its Tier I capital, though the coupon is still contingent on regulatory approvals.

Annexure II: List of entities considered for limited consolidated analysis

Company Name	Yes Bank Ownership	Consolidation Approach
Yes Securities (India) Limited	100%	Limited consolidation

Source: Yes Bank Limited

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