July 19, 2024

Yes Bank Limited: Ratings upgraded/reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Infrastructure Bonds	6,700.00	6,700.00	[ICRA]A (Positive); upgraded from [ICRA]A- (Positive)
Infrastructure Bonds	330.00	-	[ICRA]A (Positive); upgraded from [ICRA]A- (Positive) and withdrawn
Basel III Tier II Bonds	10,900.00	10,900.00	[ICRA]A (Positive); upgraded from [ICRA]A- (Positive)
Basel II Upper Tier II Bonds	429.10	-	[ICRA]A- (Positive); upgraded from [ICRA]BBB+ (Positive) and withdrawn
Basel III Tier I Bonds **	8,415.00	8,415.00	[ICRA]D; reaffirmed
Basel III Tier I Bonds	280.00	-	[ICRA]BB+ (Positive); upgraded from [ICRA]BB (Positive) and withdrawn
Total	**27,054.10**	**26,015.00**	

**Instrument details are provided in Annexure I; ** Written down as a part of the restructuring of liabilities*

Rationale

The ratings upgrade factors in the steady increase in Yes Bank Limited's (YBL) scale of operations, the improving mix of the loan book with the growing share of granular loans, and the continued decline in the stressed assets pool, which shall provide some stability to the earnings and capital position. The Positive outlook continues to factor in ICRA's expectation that the overall operational and financial performance will keep improving from the current levels. The ratings continue to be supported by adequate capitalisation and steady deposit growth, though the share of wholesale deposits remains high.

YBL's loan book grew by 12.1% year-on-year (YoY) to Rs. 2.28 lakh crore, which was lower than the system average of 15.3[1]% in FY2024. However, the lower growth was due to the changing composition of the loan book with the share of granular loans {retail and small and medium enterprises (SME)} increasing to ~62% of loan book by as of March 2024 from 59% as on March 31, 2023. The vulnerable book (comprising 31 to 90 days overdues and the standard restructured book) also declined to ~21% of the overall core capital as on March 31, 2024, from ~29% as on March 31, 2023, though it remains a monitorable. With the declining pool of stressed assets, YBL's gross slippage rate has also been declining, leading to lower credit costs.

However, the ratings also consider the below-average interest spreads on account of the high funding costs and drag of high share of low-yielding assets {deposits towards shortfall in priority sector lending (PSL)}, leading to a weak cost-to-income ratio and 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 its funding cost will remain key for a further improvement in its profitability. Additionally, its ability to limit slippages from the residual vulnerable book will remain key for keeping the credit costs in check, given its relatively thin operating profitability level.

The impending judgement of the Supreme Court in the matter relating to the writeback of the Additional Tier-I (AT-1) bonds, amounting to Rs. 8,415 crore, remains a key 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[2] level.

ICRA has upgraded and withdrawn the ratings assigned to the Rs. 330.00-crore infrastructure bonds, Rs. 429.10-crore Basel II Upper Tier II bonds and Rs. 280.00-crore Basel III Tier I bonds as these have been redeemed and no amount is outstanding

[1] *Excluding HDFC merger*

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

against the same. The ratings were withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings (click here for the policy).

Key rating drivers and their description

Credit strengths

Adequate capitalisation profile – The capitalisation profile was supported by the capital raise of Rs. 6,041 crore in FY2023 through a mix of preferential allotment of shares and warrants, while the warrant conversion of the residual amount of Rs. 2,845 crore was done in Q1 FY2025, supporting the bank's growth plans. YBL's Tier I capital (12.2%[3] as on March 31, 2024) remained satisfactory despite the 12% YoY growth in advances as on March 31, 2024 and around 17% growth in the overall risk-weighted assets (RWAs). Additionally, the bank has remained profitable since FY2022, which has supported its capital levels.

However, YBL's core capital profile or CET I could deteriorate in case of an adverse judgement by the 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 ~290 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, thus remaining a monitorable.

Deposit base growth satisfactory, but remains concentrated – YBL's deposit base grew by 22% YoY to Rs. 2.66 lakh crore as on March 31, 2024 from Rs. 2.18 lakh crore as on March 31, 2023, surpassing the industry average of ~14% in FY2024. The cost of interest-bearing funds differential vis-à-vis the private sector average improved to 65 bps in FY2024 (109 bps in FY2023), though the same is also attributable to the merger of a large non-banking financial company (NBFC) into a private sector bank in Q2 FY2024, which drove up the private sector average.

The growth in current and savings account (CASA) and retail term deposits has been healthy, although the share of wholesale deposits remained high at 47% of the overall deposits as on March 31, 2024 (48% as on March 31, 2023). The share of the top 20 depositors in total deposits stood steady at 11% as on March 31, 2024 vis-à-vis 12% as on March 31, 2023, remaining 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

Asset quality remains monitorable – The annualised fresh non-performing advances (NPA) generation rate[4] reduced to 2.6% in FY2024 (2.8% in FY2023, 3.7% in FY2022 and 7.4% in FY2021). Further, recoveries and upgrades remained meaningfully high in FY2024. This, along with the sale of stressed assets to an asset reconstruction company (ARC), supported the headline asset quality metrics. The gross NPAs (GNPAs) and net NPAs (NNPAs) decreased to 1.7% and 0.6%, respectively, as on March 31, 2024, from 2.1% and 0.8%, respectively, as on March 31, 2023. Additionally, the net non-performing investments (NPIs) and net security receipts declined to 0.3% of total assets as on March 31, 2024 from 0.9% as on March 31, 2023.

YBL's vulnerable book remains high, though it has been on an improving trajectory. The net restructured book stood at 1.7% of standard advances as on March 31, 2024 (2.3% as on March 31, 2023), while the 31-90 days overdue book declined to 1.6% as on March 31, 2024 (2.4% as on March 31, 2023). These exposures remain a potential source of incremental stress for the bank in the near term. While YBL continues to guide towards lower slippages going forward, its ability to keep incremental slippages in check will remain a near-to-medium-term monitorable. With the steady improvement in capital accretion and the absolute decline in net stressed assets, the solvency profile improved to 7.5% as on March 31, 2024 from 15.4% as on March 31, 2023, though it remains high. The bank's ability to further reduce the solvency level would remain a monitorable.

Improving profitability, although return metrics likely to remain muted – YBL's standard loan book grew by 12.3% to Rs. 2.26 lakh crore as on March 31, 2024, supporting an improvement in the net interest income. However, the annualised net interest margin declined to 2.13% of the average total assets (ATA) in FY2024 (2.35% in FY2023, 2.20% in FY2022) on account of higher

[3] *CET I of 13.2% including conversion of warrants (post conversion of warrants in Q1 FY2025, leading to inflows of ~Rs. 2,845 crore)*
[4] *Fresh NPA generation = Gross fresh slippages/Opening standard advances*

cost of funds as well as the high share of low-yielding assets consisting of deposits towards the shortfall in PSL. Improved cross-selling and traction in third-party sales and remittance fees, supported by higher disbursements in the retail segments, led to an increase in other income to 1.30% of ATA in FY2024 (1.04% in FY2023, 1.01% in FY2022).

The overall operating expenditure remained high at 2.58% of ATA in FY2024 (2.57% in FY2023, 2.31% in FY2022) due to the costs incurred towards franchise expansion and the changing asset mix with the increasing share of granular assets. As a result, the core operating profitability (before treasury gains/losses) remained suboptimal at 0.83% of ATA in FY2024 (0.93% in FY2023, 0.89% in FY2022) and was lower than the private sector average of 2.84% for FY2024 (2.87% for FY2023). Credit costs were largely controlled due to significant recoveries and upgrades, given the high provision cover on the sizeable pool of stressed assets. Consequently, the net credit cost (annualised) was much lower at 0.50% of ATA in 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 and operating costs will be key for increasing its operating profitability as well as its ability to absorb asset quality shocks and achieve a better return on assets in future.

Environmental and social risks

While banks like YBL do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the entities or businesses, to which banks and financial institutions have an exposure, face business disruptions because of physical climate adversities or if such businesses face climate transition risks because of technological, regulatory or customer behaviour changes, the same could translate into credit risks for banks. However, such risk is not material for YBL as it benefits from adequate portfolio diversification. Further, the lending is typically short-to-medium term, allowing it to adapt and take incremental exposure to businesses that face relatively fewer downside environmental risks.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for banks as material lapses could be detrimental to their reputation and invite regulatory censure as seen in the case of other banks in the recent past. YBL has not faced any material lapse over the years. Customer preferences are increasingly shifting towards digital banking, which provides an opportunity to reduce the operating costs. YBL has been making the requisite investments to enhance its digital interface with its customers. While it contributes to promoting financial inclusion by lending to the underserved segments, its lending practices remain prudent as reflected in the healthy asset quality numbers in this segment compared with its peers.

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 daily average liquidity coverage ratio (LCR) stood at 116% for Q4 FY2024 and remained above the regulatory requirement of 100% during all four quarters of the fiscal. Further, the net stable funding ratio (NSFR) stood at 122% as on March 31, 2024, and remained above the regulatory requirement of 100%. The cumulative gaps in the <1-year maturity buckets remained negative at 3% of total outflows as per the structural liquidity statement as on March 31, 2024. 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 if the bank is able to witness an improvement in its profitability, while expanding its scale, increasing the granularity of the deposit base and reducing the stressed exposures. Further, its ability to keep the solvency level below 20% and maintain its CET I above 12% would 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 ICRA's Rating Methodology for Consolidation ICRA's Policy on Withdrawal of Credit Ratings
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 sector bank, in terms of total assets, with a 1.4% market share in net advances as on March 31, 2024. It had a network of 1,234 branches as on March 31, 2024 as well as an international branch in GIFT City, Gujarat (India). YBL's CET I ratio stood at 12.2% (CRAR of 15.4%) as of March 31, 2024.

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 2022, the shareholders approved the appointment of a new board, which effectively replaced 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)

Yes Bank Limited	FY2023	FY2024
Total income	11,420	13,050
Profit after tax	717	1,251
Total assets (Rs. lakh crore)	3.55	4.05
CET I	13.26%	12.18%
CRAR	17.92%	15.36%
PAT / ATA	0.21%	0.33%
Gross NPAs	2.13%	1.73%
Net NPAs	0.82%	0.58%

Source: Yes Bank Limited, ICRA Research; Total income = Net interest income + Non-interest income (excluding trading gains)
Amount in Rs. crore unless mentioned otherwise; 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 (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jul 19, 2024	Aug 01, 2023	Aug 04, 2022	Sep 09, 2021
1	**Basel II Upper Tier II Bonds$**	Long term	429.10	**[ICRA]A- (Positive); withdrawn**	**[ICRA]BBB+ (Positive)**	**[ICRA]BBB+ (Positive)**	**[ICRA]BB+ (Stable)**
2	**Infrastructure Bonds**	Long term	6,700.00	**[ICRA]A (Positive)**	**[ICRA]A- (Positive)**	**[ICRA]A- (Positive)**	**[ICRA]BBB (Stable)**
3	**Infrastructure Bonds**	Long term	330.00	**[ICRA]A (Positive); withdrawn**	**[ICRA]A- (Positive)**	**[ICRA]A- (Positive)**	**[ICRA]BBB (Stable)**
4	**Basel III Tier II Bonds**	Long term	10,900.00	**[ICRA]A (Positive)**	**[ICRA]A- (Positive)**	**[ICRA]A- (Positive)**	**[ICRA]BBB- (Stable)**
5	**Basel III Tier I Bonds**	Long term	8,415.00	**[ICRA]D**	**[ICRA]D**	**[ICRA]D**	**[ICRA]D**
6	**Basel III Tier I Bonds**	Long term	280.00	**[ICRA]BB+ (Positive); withdrawn**	**[ICRA]BB (Positive)**	**[ICRA]BB (Positive)**	**[ICRA]C**

Source: Yes Bank Limited

Complexity level of the rated instruments

Instrument	Complexity Indicator
Infrastructure Bonds	Very Simple
Basel III Tier II Bonds	Highly Complex
Basel III Tier I Bonds	Highly Complex
Basel II Upper Tier II 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
INE528G09103	Basel II Upper Tier II Bonds	Jun 29, 2012	10.25%	Jun 29, 2027	60.10	[ICRA]A- (Positive); Withdrawn
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	
Yet to be placed	Infrastructure Bonds	-	-	-	3,250.00	
INE528G08360	Infrastructure Bonds	Dec 29, 2016	7.62%	Dec 29, 2023	330.00	[ICRA]A (Positive); Withdrawn
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); Withdrawn
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;*

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 III AT-I instrument (Rs. 8,415 crore) was written down as a part of the restructuring of liabilities.

Annexure II: List of entities considered for consolidated analysis

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

Source: Yes Bank Limited

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