

YBL/CS/2019-20/134

December 19, 2019

National Stock Exchange of India Limited
Exchange Plaza, Plot no. C/1, G Block
Bandra - Kurla Complex, Bandra (E)
Mumbai - 400 051
NSE Symbol: YESBANK

BSE Limited
Corporate Relations Department
P.J. Towers, Dalal Street
Mumbai - 400 001
BSE Scrip Code: 532648

Dear Sirs,

Subject: Press release on Ratings by India Ratings & Research and ICRA

Please find enclosed press release issued by India Ratings & Research and ICRA on credit ratings of the Bank.

Kindly take the above on record.

The same is being hosted on the Bank's website www.yesbank.in in terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Thanking you,

For YES BANK Limited


for
Shivanand Shettigar
 **Group Company Secretary**

Encl.: as above

India Ratings Downgrades Yes Bank to 'IND A'; Places on RWN

18

DEC 2019

By Jindal Haria

India Ratings and Research (Ind-Ra) has downgraded Yes Bank Ltd's Long-Term Issuer Rating to 'IND A' from 'IND A+' and its Short-Term Issuer Rating to 'IND A1' from 'IND A1+'. The agency has simultaneously placed the ratings on Rating Watch Negative (RWN). The Outlook on the earlier rating was Negative. The instrument-wise rating actions are given below:

Instrument Type*	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Rating Watch	Rating Action
Basel III Tier 2 bonds	-	-	-	INR110	IND A/RWN	Downgraded; placed on RWN
Additional Basel III Tier 1 bonds	-	-	-	INR111	IND BBB+/RWN	Downgraded; placed on RWN
Infrastructure bonds	-	-	-	INR35.8	IND A/RWN	Downgraded; placed on RWN

*Details in annexure below

The downgrade reflects the inadequate progress as per Ind-Ra's expectations with respect to the quantum and pace of equity infusions, which is critical for providing sufficient cushion for the credit cost impact of the stressed asset pool. Although the liquidity position of the bank seemed adequate at end-September 2019, Ind-Ra believes that, in the absence of improvements on the capital side, the ability of the bank to manage its asset and liability maturities might be tested further. In Ind-Ra's opinion, the bank is likely to face balance sheet expansion challenges over the short-to-medium term as it implements new strategies, and it will also have to continue to deal with the overhang of stressed assets and resultant credit costs and the possibility that its steady state non-interest income could reduce substantially from the historical peaks under a benign case scenario; these three factors could have at least a medium-term bearing on the income profile of the bank. Some of these issues could aggravate if the bank is unable to raise adequate amount of equity in a timely manner.

In the near term, Ind-Ra expects certain standard stressed group exposures (rated BB and below) of the bank to continue to slip into the non-performing category. The need to accelerate provisions on existing GNPA's and additional slippages along with the reduced pool of performing assets would keep the profitability of the bank under pressure. The RWN reflects the dependency of the rating level on the timing and quantum of equity raise by the bank.

The bank has managed its liability structure reasonably well in a challenging year. Ind-Ra understands that the bank would focus on multiple granular income streams, assets and liabilities that would play out gradually while maintaining its core competency in corporate lending. The bank plans to focus on other competences that it has developed on the technological front to expand its partnerships in the banking business. Ind-Ra has considered an equity infusion of USD1 billion-1.2 billion into the bank in the next few weeks. However, the ratings are constrained by lower capital buffers, the relatively large portion of the book that is rated 'BB' and below, the comparatively high, albeit improving, proportion of bulk funding, and higher asset liability tenor mismatches compared with large private sector peers.

For rating AT1 instruments, the agency considers the discretionary component, coupon omission risk, and write-down/conversion risk as the key parameters. The agency has recognised the unique going concern loss absorption features of these bonds and differentiated them from the bank's senior debt (one notch in this case). Ind-Ra envisages coupon deferrals and principal write-down risk as a modest possibility in view of Yes Bank's adequate revenue reserve buffers.

KEY RATING DRIVERS

Delays in Capital Raising; Uncertainty regarding Quantum: Yes Bank had initially planned to raise capital of over USD1.2 billion in FY20. Although the bank has announced plans of raising USD2.0 billion of equity during the year, clarity is awaited on the potential investors, quantum and the timelines. Furthermore, the various approvals that the bank and/or the investors may require could extend the timeline of the proposed equity infusion. At end-September 2019, the CET1 adjusted for provision divergence was about 8.5% against the published figure of 8.7%. In addition to the CET1 being lower than most private sector banks (the

median of about 12% for private banks rated 'IND A+' and above), it is accompanied by lower provisions on large corporate exposures and stressed book that is almost 1.5x its GNPA's (at end-September 2019, adjusted for divergence on FY19 numbers, the portion of the loan book rated 'BB' and below amounted to INR300 billion and gross NPAs amounted to INR200 billion).

Furthermore, the bank's exposure concentration (top 20 exposures to the total equity) increased to 2.5x in FY19 (lower denominator effect) from 2.16x in FY18, while the next highest concentration in the private banking pack rated 'IND A+' and above was 1.54x. Typically, banks with higher concentrations would also maintain higher capital buffers or should have significant capital raising ability.

Concurrent Credit Migration in Certain Exposures: Some of the bank's corporate exposure spread over multiple sectors has witnessed rapid credit migration over the last few quarters. In the agency's opinion, the attempts made by some of these borrowers towards resolutions could take longer than expected to yield results, and a large part of the credit overhang will persist. Ind-Ra continues to factor in the bank's largely unseasoned loan book on account of high loan growth during FY17-FY18; repayments on some of its corporate exposures are contingent on liquidity events. GNPA's and loan accounts rated 'BB' and below are about 20% (end-September 2019) of its total book. Some of the exposures are on the bank's investment book and could attract mark-downs (some of them are marked down by over 20%) and might be covered as provisions on investments.

In Ind-Ra's assessment, in FY21, the base case adjusted credit costs (expected provisions and investment markdowns to average assets) might continue to be elevated especially if the liquidity events in the stressed groups are delayed substantially/do not pan out.

Business Model Could Evolve; Settle at Lower Non-Interest Income Levels: Yes Bank will continue to focus on resolutions of corporate stressed assets, non-corporate segments and transaction banking (mainly in the corporate segment) in the medium term to generate current account float and granular fee income streams. The bank has broadly maintained yield on its advances as it continues to reprice its loans. The annualised non-interest income of the bank stood at 1.5% of the total assets at end-1HFY20. Ind-Ra believes the overall market for structured deals, which typically yield higher fee income, will sustain only at lower levels; non-interest income (of which fee income is a part) as a percentage of total assets could stabilise at 1%-1.5% against the peak of 2.1% in FY17. This, of course, assumes significant capital infusion and resumption of corporate disbursements at a pace comparable to the bank's peers and the proportion of non-corporate assets being at 50% in the medium term. The bank's medium-term return on assets target of 1% could pose a challenge.

The bank also plans to add 12%-15% of current employee strength at 'feet-on-street' levels for generating granular assets and liabilities. Most banks, especially private banks, have used this strategy and have seen reasonable success in achieving their objectives over time. However, transaction banking has also become a competitive field, at least in the case of private banks. Although Yes Bank has a niche position with the corporate segment, its ability to capitalise on its relationships to generate transaction and cash flow banking is yet to be seen. The bank has articulated a return on assets of 1.5% in the long term; however, Ind-Ra expects it to be lower in the short-to-medium term as the resolutions get delayed or the forms of resolution get diluted further.

Liquidity Indicator - Adequate: The concentration of Yes Bank's current account deposits is higher than that of its peers, while that of its overall deposit profile is comparable. It has replaced most of its certificate of deposits and medium-term notes (partially) with deposits and borrowings in a tight liquidity scenario and additionally witnessed 13% yoy growth in deposits in FY19. Meanwhile, the proportion of retail term deposits increased to about 31% at end-1HFY20 from 20.8% at end-FY17 and 25.7% at end-1QFY20. The bank's asset-liability profile has deteriorated marginally; its short-term asset funding gap (excess of liabilities over assets) increased to about 8% in 1HFY20 (FY19: 7%, FY18: 0.4%). Also, it witnessed a decline in current account and savings account deposits (each category decreased by about INR50 billion in the last four quarters). The bank's liquidity coverage ratio was 114% at end-September 1HFY20 as against the regulatory requirement of 100%.

RATING SENSITIVITIES

The RWN indicates that the rating will be either affirmed or downgraded. The RWN would be resolved depending on the quantum and the timing of equity infusion. Ind-Ra expects to receive clarity on this issue by next month.

COMPANY PROFILE

Yes Bank is a new generation private bank headquartered in Mumbai. It was incorporated in 2004 and has grown to become a full service commercial bank. The bank reached an asset size of INR3,711.6 billion at end-June 2019, with a net profit of INR17.2 billion in FY19. At FYE19, the bank had network of more than 1,100 branches and more than 1,700 ATMs (including bunch note acceptors) spread across the country.

FINANCIAL SUMMARY

Particular	FY19	FY18
Total assets (INR billion)	3,808.26	3,124.46
Total equity (INR billion)	269.04	257.58
Net income (INR billion)	17.20	42.25
Return on assets (%)	0.5	1.6
CET1 (%)	8.4	9.7
Capital adequacy ratio (%)	16.5	18.4

RATING HISTORY

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook			
	Rating Type	Rated Limits (billion)	Rating	31 August 2019	8 May 2019	2 November 2018	19 February 2018
Issuer rating	Long-term/Short-term	-	IND A/RWN/IND A1/RWN	IND A+/Negative/IND A1+	IND AA-/Negative/IND A1+	IND AA+/Negative/IND A1+	IND AA+/Stable/IND A1+
Basel III Tier 2 Bonds	Long-term	INR110	IND A/RWN	IND A+/Negative	IND AA-/Negative	IND AA+/Negative	IND AA+/Stable
Additional Tier-1 Basel III Bonds	Long-term	INR111	IND BBB+/RWN	IND A-/Negative	IND A+/Negative	IND AA/Negative	IND AA/Stable
Infrastructure bonds	Long-term	INR35.8	IND A/RWN	IND A+/Negative	IND AA-/Negative	IND AA+/Negative	IND AA+/Stable

ANNEXURE

Issue name/Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
Additional Tier-1 Basel III bonds	INE528G08394	18 October 2017	9.0	Perpetual	INR54.15	IND BBB+RWN
Additional Tier-1 Basel III bonds	INE528G08352	23 December 2016	9.5	Perpetual	INR30	IND BBB+/RWN
Total utilised					INR84.15	
Total unutilised					INR26.85	
Infrastructure bonds	INE528G08360	29 December 2016	7.62	29 December 2023	INR3.3	IND A/RWN
Total utilised					INR3.3	
Total unutilised					INR32.5	
Basel III Tier 2 Bonds	INE528G08378	29 September 2017	7.8	29 September 2027	INR25	IND A/RWN
Basel III Tier 2 Bonds	INE528G08386	3 October 2017	7.8	1 October 2027	INR15	IND A/RWN
Basel III Tier 2 Bonds	INE528G08402	22 February 2018	8.73	22 February 2028	INR30	IND A/RWN
Basel III Tier 2 Bonds	INE528G08410	14 September 2018	9.12	15 September 2028	INR30.42	IND A/RWN
Total utilised					INR100.42	
Total unutilised					INR9.58	

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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Applicable Criteria

[Financial Institutions Rating Criteria](#)
[Rating of Bank Legacy Hybrids and Sub-Debt](#)

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December 19, 2019

Yes Bank Limited: Ratings downgraded; Outlook remains Negative

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Basel III Compliant Tier II Bond Programme	10,900.00	10,900.00	[ICRA]A (hyb) (Negative); Downgraded from [ICRA]A+ (hyb) (Negative)
Basel II Compliant Lower Tier II Bond Programme	2,530.60	2,530.60	[ICRA]A (Negative); Downgraded from [ICRA]A+ (Negative)
Basel II Compliant Upper Tier II Bond Programme	1,344.10	1,344.10	[ICRA]A- (Negative); Downgraded from [ICRA]A (Negative)
Basel II Compliant Tier I Bond Programme	307.00	307.00	[ICRA]A- (Negative); Downgraded from [ICRA]A (Negative)
Infrastructure Bond Programme	7,030.00	7,030.00	[ICRA]A (Negative); Downgraded from [ICRA]A+ (Negative)
Basel III Compliant Additional Tier I Bond Programme	10,800.00	10,800.00	[ICRA]BBB (hyb) (Negative); Downgraded from [ICRA]BBB+ (hyb) (Negative)
Short-term Fixed Deposit Programme	NA	NA	[ICRA]A1; Downgraded from [ICRA]A1+
Certificates of Deposit Programme	20,000.00	20,000.00	[ICRA]A1; Downgraded from [ICRA]A1+
Total	52,911.70	52,911.70	

Rationale

The rating downgrade considers the continued uncertainty regarding the timing and quantum of capital raise by Yes Bank Limited (YBL). The level of investor interest amid the correction in the stock price and the receipt of regulatory approvals also remain key monitorables.

ICRA had earlier issued a press release on November 13, 2019 ([click](#) here for the previous rationale), whereby it had noted the binding term sheet received by YBL for an equity infusion of USD 1.2 billion from an investor. The said binding offer was valid till November 30, 2019 and was extended till December 31, 2019. The bank subsequently announced that it has received interest from investors for a capital raise of up to USD 2 billion.

ICRA had also highlighted that even if the bank accepted the said offer, it would need to reduce its share of stressed loans and prevent slippages from its standard BB and below rated exposures, given their sizeable quantum in relation to the core capital. In the ongoing quarter, in the absence of any material recoveries and considering the expected slippages from the BB and below rated loan book, ICRA expects the reported non-performing advances (NPAs) to increase further.

The bank's solvency profile remains weak with net NPA/CET of 36% as on September 30, 2019 (27% as on June 30, 2019) apart from the stressed exposures in the investment book. With the delay in capital raise and a likely increase in NPAs, the capital and solvency profile are expected to weaken further. Hence, the need to raise capital is immediate.

Given the decline in deposit base in Q2FY2020, the level of deposits would remain a key monitorable. With no capital raise in the ongoing quarter, ICRA also expects that the bank will need to step up its credit provisions amid declining

advances to keep its net NPA% under check. While such an increase in credit provisions will partially erode the capital levels, a reduction in the loan book could also drive a reduction in the risk-weighted assets (RWAs) and provide support to the capital ratios. The bank's CET-I of 8.7% as on September 30, 2019, though higher than the RBI threshold of 7.375% as on March 31, 2019 and 8.0% for March 31, 2020, remains weak.

The ratings continue to factor in YBL's position as the fourth largest private sector bank, in terms of total assets as on March 31, 2019 and a wide branch network. These strengths are offset by the deterioration in its asset quality, increase in the stressed portfolio, weakened capital cushion, the relatively high though steadily declining share of wholesale liabilities as well as the relatively high exposure to the corporate sector.

ICRA will continue to monitor the capital raising, liquidity/funding profile and asset quality position of the bank. Continued weakening of these parameters will remain negative rating triggers. Conversely, a sizeable capital raise by the bank leading to improved solvency, stability, deposit base and asset quality will be a positive rating trigger.

The rating for the Basel III Compliant AT-I Bonds is three notches lower than the rating for the Basel III Compliant Tier II Bonds of YBL as these instruments have the following loss-absorption features that make them riskier.

- The coupon payments are non-cumulative and discretionary, and the bank has full discretion at all times to cancel the coupon payments. The cancellation of discretionary payments shall not be an event of default.
- Coupons can be paid out of the current year's profits. However, if the current year's profit is not sufficient or if the payment of the coupon is likely to result in a loss, the coupon payment can be made through the reserves and surpluses created through the appropriation of profits (including statutory reserves) ¹. However, the coupon payment is subject to the bank meeting the minimum regulatory requirements for common equity tier I (CET-I), Tier I and total capital ratios (including capital conservation buffer, CCB) at all times as prescribed by the Reserve Bank of India (RBI) under Basel III regulations.

These AT-I bonds are expected to absorb losses through a write-down mechanism at the objective pre-specified trigger point fixed at the bank's CET-I ratio as prescribed by the RBI, 5.5% till March 2020, and thereafter 6.125% of the total RWAs of the bank or when the point of non-viability trigger is breached in the RBI's opinion.

The letters 'hyb' in parenthesis suffixed to a rating symbol stand for hybrid, indicating that the rated instrument is a hybrid subordinated instrument with equity-like loss-absorption features; such features may translate into higher levels of rating transition and loss severity vis-à-vis conventional debt instruments.

The one notch lower rating assigned to the Basel II Upper Tier II Bonds and Basel II Compliant Tier I Bond Programme compared with the rating for the bank's Tier II Bonds reflects the specific features of these instruments wherein the debt servicing is additionally linked to meeting the regulatory norms on capitalisation and reported profitability. As per the regulatory norms for hybrid debt capital instruments, approval from the RBI is required for debt servicing (including principal repayments) 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% without CCB.

¹ YBL's reserves, which can be used for coupon servicing in a year of loss, stood at ~5.0% of RWAs as on September 30, 2019 compared to 5.3% as on March 31, 2019. The decline was on account of an increase in RWAs, even though the absolute amount of reserves increased

Key rating drivers and their description

Credit strengths

Focus on improving the share of granular loan book, going forward – YBL reported a YoY decline of 6% in advances in Q2 FY2020 to Rs. 2,24,505 crore as on September 30, 2019 with the corporate book declining by 15% YoY. The slowdown in corporate advances was due to the limited capital cushion and the management's focus on growing the retail book. As a result, while the loan book remains dominated by corporate advances, its share reduced to 61.9% of the total advances as on September 30, 2019 (63.9% as on June 30, 2019 and 65.6% as on March 31, 2019). Retail loans, however, continued to grow, albeit on a small base with a growth of 30% YoY in Q2 FY2020 (share of 19.8% as on September 30, 2019 compared to 18.3% as on June 30, 2019 and 16.7% as on March 31, 2019). Within the loan book, small and micro enterprises (SMEs) grew 10% YoY (share of 10.8% as on September 30, 2019 compared to 10.1% as on June 30, 2019 and 9.9% as on March 31, 2019) while loans to medium enterprises declined by 15% YoY (share of 7.5% as on September 30, 2019 compared to 7.7% as on June 30, 2019 and 7.8% as on March 31, 2019).

Given the current capital cushion, ICRA expects the bank's credit to the corporate segment to continue to decline and to depend on its ability to raise growth capital. ICRA notes YBL's strategy to increase the share of retail advances and improve the granularity of the loan book. As a result, the growth in corporate advances is expected to remain low, going forward. As per the guidance given by the management, the share of retail and SME is expected to increase to 50% over the medium to long term (from 38.1% as on September 30, 2019) with corporate being 50% (higher than the sector average of ~40%).

Credit challenges

Significantly high GNPA's and BB and below rated exposures; ability to resolve and reduce will drive profitability and capitalisation – The bank's reported asset quality deteriorated further in Q2 FY2020 with gross and net NPA of 7.4% and 4.4%, respectively (5.0% and 2.9%, respectively as on June 30, 2019 and 3.2% and 1.9%, respectively, as on March 31, 2019). The slippages in Q2 FY2020 were both from the BB and below rated exposures (Rs. 3730 crore) and from the investment grade book (Rs. 2220 crore). Despite the slippages in Q2 FY2020 from the BB and below rated exposures, these exposures increased further to Rs. 31,400 crore (10.1% of gross exposures) from Rs. 29,470 crore (9.4% of gross exposures) as on June 30, 2019 and ~Rs. 23,000 crore (7.1%) as on March 31, 2019 partly on account of a downgrade in some of the exposures to stressed groups.

The high slippages reported by YBL in Q2 FY2020 resulted in continued high credit provisioning for Q2 FY2020. Despite the utilisation of Rs. 700 crore out of the contingency provision of Rs. 2,100 crore created in Q4 FY2019, the bank's provisions at 1.5% of ATA remained higher than its core operating profits in Q2 FY2020 (credit provisions of 1.9% in Q1 FY2020 and 0.6% in Q2 FY2019). Supported by treasury gains of Rs. 220 crore (Rs. 450 crore treasury gains in Q1 FY2020), YBL reported a marginal profit before tax of Rs. 122 crore. Because of reduction in corporate tax rates, the bank has a one-time deferred tax asset (DTA) write-down of Rs. 710 crore during Q2 FY2020, due to which the bank reported a net loss of Rs. 600 crore (net loss of 0.67%) compared to net profit of Rs. 114 crore (0.12% of ATA) in Q1 FY2020. Overall during H1 FY2020, the bank reported core operating profits of Rs. 2,748 crore (1.51% of ATA), credit provisions of Rs. 3,120 crore (1.72% of ATA) excluding the floating provisions of Rs. 2,100 crore created during Q4 FY2019, which were utilised in H1 FY2020 and a PBT of Rs. 297 crore (0.16% of ATA).

With the increase in the stressed book and delay in resolutions, management has increased the credit cost guidance to ~250 bps of advances in FY2020 from the earlier guidance of 125 bps (100 bps consumed in H1 FY2020 in addition to the complete consumption of contingency provisions). The actual credit provisioning will be driven by resolutions in the stressed book.

The NNPA and net BB and below rated exposures are sizeable in relation to core equity capital and the bank's capitalisation would be driven by the extent of resolution and recovery in the existing stressed advances. Further, the ability to reduce the stressed book will be a key monitorable.

Weakened solvency profile; immediate need to raise capital – With the high credit growth witnessed by the bank in FY2018 and H1 FY2019, its capital consumption has been higher than its internal accruals. Further, with YBL reporting a loss in Q4 FY2019, its capital cushion deteriorated. Moreover, the capitalisation was adversely impacted in H1 FY2020 due to the net loss reported by the bank and the increase in RWAs, given the regulatory requirement of an increase in risk weights for unrated exposures to 150% from 100%, apart from the higher capital requirements because of rating downgrades of exposures.

However, the equity raising of Rs. 1,930 crore in Q2 FY2020 and the reduction in RWAs resulted into an improvement in the overall capitalisation. YBL's overall capital adequacy under Basel III stood at 16.3% with CET-I of 8.7% as on September 30, 2019 (15.7% and 8.0%, respectively, as on June 30, 2019, 16.5% and 8.4%, respectively, as on March 31, 2019). While the CET-I of 8.7% as on September 30, 2019 was higher than the RBI threshold of 7.375% as on March 31, 2019², the need to raise capital is immediate, considering CET-I requirement of 8.0% for March 31, 2020 and the sizeable stressed exposure in relation to the equity capital.

YBL had received a binding offer for an infusion of USD 1.2 billion in October 2019 (equivalent to 2.7% of RWAs as on September 30, 2019). Subsequently in November 2019, the bank had disclosed interests from investors to raise USD 2 billion. The level of interest from investors amid a correction in the stock price and the receipt of regulatory approvals remain key monitorables. The uncertainty regarding the timing and quantum of capital has increased. With the delay in capital raising and an expected increase in NPAs, YBL's solvency profile is expected to deteriorate further.

Even if the bank receives equity it will need to reduce its share of stressed loans and prevent slippages from its standard BB and below rated book, given the sizeable quantum of stressed assets. This would remain critical for its earnings as well as solvency profile and will remain a key rating sensitivity.

High share of wholesale liabilities, ability to maintain deposit base remains a monitorable – Despite an improvement in the granularity of its deposit profile over the last 3-4 years, YBL's share of non-retail deposits remains high (39.7% as on September 30, 2019). As a result, the cost of interest-bearing funds is higher compared to the private banks' average (6.5% in FY2019 compared to the private banks' average of 5.4%). Going forward, YBL's ability to improve its funding profile further with a continued reduction in its reliance on non-retail deposits will be a key rating sensitivity. Management has guided towards reduced cost of interest-bearing funds, which will be critical for profitability in the backdrop of lower corporate fee income.

The bank's total deposit base reduced to Rs. 2,09,497 crore as on September 30, 2019 from Rs. 2,27,610 crore as on March 31, 2019. While the CASA and retail term deposits (TDs) were higher at 60.3% of the total deposits as on September 30, 2019 (58.2% as on June 30, 2019 and 47.9% as on March 31, 2015). YBL's ability to retain its deposit base will remain a key monitorable for liquidity even as reducing the CASA deposit base will remain a negative for its cost of funds and profitability.

Decline in operating profitability on account of interest reversals and moderation in fee income – Historically, the bank's non-interest income has remained robust, accounting for almost a third of its operating income. However, with the moderation in growth in corporate advances since H2 FY2019, the corporate fee income, which accounted for 37% of

² 8% CET-1 required as on March 31, 2020

the overall non-interest income in FY2019 (43% in FY2018) has declined, thereby impacting the bank's non-interest income. The non-interest income declined to 1.3% of ATA in FY2019 from 2.0% in FY2018. Further, with the degrowth in the corporate book in H1 FY2020, the corporate fee income accounted for ~4% of the non-interest income³. Given the increased focus on the retail lending segment as well as the amortisation of high-ticket fee income over the tenure of the loans instead of the earlier practice of upfront recognition, the non-interest income is expected to be lower going forward. Apart from non-interest income, the net interest margins (NIMs; computed as a percentage of ATA) were lower at 2.5% in H1 FY2020 (2.8% in FY2019 and 2.9% in FY2018) because of the impact of interest reversals on slippages and the increase in the cost of interest-bearing funds. With the lower non-interest income and lower NIMs, YBL's operating profitability declined to 1.5% of ATA in H1 FY2020 (2.3% of ATA in FY2019 and 2.7% in FY2018). The ability to arrest fresh slippages and maintain and improve low-cost CASA deposits will drive the operating profitability going ahead.

Concentrated loan book with high share of corporate advances – While YBL's exposure to the corporate sector has been declining on account of the management's focus on growing the retail book, it remained high at 61.9% as on September 30, 2019 (65.6% as on March 31, 2019 and 67.9% as on March 31, 2018) compared to the banking sector average of ~40%. The high share of corporate advances has impacted the bank's asset quality. YBL's top 10 group exposures accounted for 18.8% of the total exposures and 272% of the Tier I capital as on March 31, 2019, while the top 20 advances stood at 14.3% of the overall advances as on March 31, 2019.

Liquidity position: Adequate

YBL witnessed a decline in its deposit base in Q2 FY2020 and ICRA expects that the trend of reduction in the deposit base would have continued in Q3 FY2020. Though the bank's daily average liquidity coverage ratio (LCR) stood at 113.83% in Q2 FY2020, concerns regarding its capital and asset quality can continue to pose challenges for the bank's funding profile and the ability to manage asset liability mismatch. ICRA draws comfort from the bank's access to call money markets and the RBI's marginal standing facility mechanism, the holding of Government securities and the ability to pursue the sell-down of loan portfolios to meet urgent liquidity requirements. The bank's ability to retain and roll over deposits will remain critical for liquidity. According to the structural liquidity statement as of September 30, 2019, YBL has 1-year negative cumulative asset-liability mismatches of 9.96% of total outflows (10.8% of total outflows as on May 15, 2019 and 8.0% as on March 31, 2019).

Rating sensitivities

Positive triggers – Given the Negative outlook, the ratings are unlikely to be upgraded. ICRA could revise the outlook to Stable if the solvency profile improves with Net NPA/CET of less than 30% and capital cushions of >3% on Tier I over the regulatory levels on a sustained basis. In addition, decline in the stock of BB and below rated standard exposures will be a monitorable. These factors apart, the stabilisation of the deposit base, continued improvement in customer franchise by improving share of retail deposits and ability to internally generate capital for steady growth will also be key triggers.

Negative triggers – ICRA will downgrade the ratings if there is no progress on the capital raise proposed by the bank. Further, in a scenario of capital raise, the bank will have to reduce its share of stressed assets, given the sizeable quantum of stressed assets. The bank's inability to reduce its Net NPA/CET to less than 35% and/or a reduction in the capital ratios below the regulatory levels (including CCBs) will remain negative triggers. Moreover, a deterioration in the customer franchise leading to a decline in the retail deposit base will also be negative factors.

³ Non-interest income and operating profit exclude treasury gains

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Rating Methodology for Banks
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of YBL

About the company

YBL is a private sector bank that was set up in 2004. It is the fourth largest private sector bank in India as on March 31, 2019 in terms of assets. As on March 31, 2019, the bank had a network of 1,120 branches. It also has an international branch in GIFT City, Gujarat - India. YBL's regulatory capital adequacy ratio (Basel III) stood at 16.3% (CET-I of 8.7% and Tier I of 11.5%) as on September 30, 2019.

Key financial indicators (audited)

For the period / At the end of	FY2018	FY2019	H1 FY2019	H1 FY2020
Net interest income	7,737	9,809	4,637	4,467
Profit before tax	6,194	2,357	3,255	297
Profit after tax	4,225	1,720	2,225	(486)
Net advances	2,03,534	2,41,500	239,627	224,505
Total assets	3,12,446	3,80,826	371,647	346,576
% CET	9.7%	8.4%	9.0%	8.7%
% Tier I	13.2%	11.3%	11.9%	11.5%
% CRAR	18.4%	16.5%	17.0%	16.3%
% Net interest margin / Average total assets	2.9%	2.8%	2.71%	2.46%
% Net profit / Average total assets	1.6%	0.5%	1.30%	-0.27%
% Return on net worth	17.7%	6.5%	16.76%	-3.56%
% Gross NPAs	1.28%	3.22%	1.60%	7.39%
% Net NPAs	0.64%	1.86%	0.84%	4.35%
% Provision coverage excl. technical write-offs	50.02%	43.10%	47.80%	43.10%
% Net NPA/ Core equity	5.3%	17.5%	7.4%	35.8%

Amount in Rs. crore

Source: YBL; ICRA research

All ratios are as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for three years

Sr. No.	Name of Instrument	Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2020)		Chronology of Rating History for the Past 3 Years														
					19-Dec-19	13-Nov-19	FY2019			FY2018			FY2017								
							24-Jul-19	03-May-19	28-Nov-18	16-Nov-2018	21-Sep-2018	16-August-2018	10-April-2018	19-Feb-2018	17-Nov-2017	17/13-Oct-2017	27-Sep-2017	11-Aug-2017	27-March-2017	06-Oct-2016	
1	Certificates of Deposit Programme Basel II	Short Term	20,000.00	NA	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
2	Compliant Lower Tier II Bond Programme Basel II	Long Term	2,530.60	2,530.60	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)	[ICRA]AA @	[ICRA]AA+ @	[ICRA]AA+ (stable)	[ICRA]AA+ (positive)	[ICRA]AA+ (positive)	[ICRA]AA+ (positive)	[ICRA]AA+ (positive)	[ICRA]AA+ (positive)	[ICRA]AA+ (positive)	[ICRA]AA+ (positive)	[ICRA]AA+ (positive)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)
3	Compliant Upper Tier II Bond Programme Basel II	Long Term	1,344.10	1,344.10	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]AA- @	[ICRA]AA @	[ICRA]AA (stable)	[ICRA]AA (positive)	[ICRA]AA (positive)	[ICRA]AA (positive)	[ICRA]AA (positive)	[ICRA]AA (positive)	[ICRA]AA (positive)	[ICRA]AA (positive)	[ICRA]AA (positive)	[ICRA]AA (stable)	[ICRA]AA (stable)
4	Compliant Tier I Bond Programme Infrastructure Basel III	Long Term	307.00	307.00	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]AA- @	[ICRA]AA @	[ICRA]AA (stable)	[ICRA]AA (positive)	[ICRA]AA (positive)	[ICRA]AA (positive)	[ICRA]AA (positive)	[ICRA]AA (positive)	[ICRA]AA (positive)	[ICRA]AA (positive)	[ICRA]AA (positive)	[ICRA]AA (stable)	[ICRA]AA (stable)
5	Compliant Tier II Bond Programme Basel III	Long Term	7,030.00	3,780.00^	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]AA- (Negative)	[ICRA]AA @	[ICRA]AA+ @	[ICRA]AA+ (stable)	[ICRA]AA+ (positive)	[ICRA]AA+ (positive)	[ICRA]AA+ (positive)	[ICRA]AA+ (positive)	[ICRA]AA+ (positive)	[ICRA]AA+ (positive)	[ICRA]AA+ (positive)	[ICRA]AA+ (positive)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)
6	Compliant Tier II Bond Programme Basel III	Long Term	10,900.00	10,899.00^	[ICRA]A (hyb) (Negative)	[ICRA]A+ (hyb) (Negative)	[ICRA]A+ (hyb) (Negative)	[ICRA]AA- (hyb) (Negative)	[ICRA]AA (hyb) @	[ICRA]AA+ (hyb) @	[ICRA]AA+ (hyb) (stable)	[ICRA]AA+ (hyb) (positive)	[ICRA]AA+ (hyb) (positive)	[ICRA]AA+ (hyb) (positive)	[ICRA]AA+ (hyb) (positive)	[ICRA]AA+ (hyb) (positive)	[ICRA]AA+ (hyb) (positive)	[ICRA]AA+ (hyb) (positive)	[ICRA]AA+ (hyb) (positive)	[ICRA]AA+ (hyb) (stable)	[ICRA]AA+ (hyb) (stable)
7	Compliant Additional Tier I Bond Programme	Long Term	10,800.00	8,695.00^	[ICRA]BBB (hyb) (Negative)	[ICRA]BBB+ (hyb) (Negative)	[ICRA]BBB+ (hyb) (Negative)	[ICRA]A (hyb) (Negative)	[ICRA]AA- (hyb) @	[ICRA]AA (hyb) @	[ICRA]AA (hyb) (stable)	[ICRA]AA (hyb) (positive)	[ICRA]AA (hyb) (positive)	[ICRA]AA (hyb) (positive)	[ICRA]AA (hyb) (positive)	[ICRA]AA (hyb) (positive)	[ICRA]AA (hyb) (positive)	[ICRA]AA (hyb) (positive)	[ICRA]AA (hyb) (positive)	[ICRA]AA (hyb) (stable)	[ICRA]A+ (hyb) (stable)
8	Short-term Fixed Deposit Programme	Short Term	NA	NA	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

[^] Balance amount yet to be placed

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE528G08196	Basel II Compliant Lower Tier II Bond Programme	25-Jul-11	10.30%	25-Jul-21	322	[ICRA]A(Negative)
INE528G08204	Basel II Compliant Lower Tier II Bond Programme	28-Oct-11	10.20%	28-Oct-21	243	[ICRA]A(Negative)
INE528G08212	Basel II Compliant Lower Tier II Bond Programme	28-Mar-12	9.90%	28-Mar-22	300	[ICRA]A(Negative)
INE528G08220	Basel II Compliant Lower Tier II Bond Programme	23-Aug-12	10	23-Aug-22	300	[ICRA]A(Negative)
INE528G08238	Basel II Compliant Lower Tier II Bond Programme	10-Sep-12	10	10-Sep-22	300	[ICRA]A(Negative)
INE528G09129	Basel II Compliant Lower Tier II Bond Programme	16-Oct-12	10	16-Oct-22	200	[ICRA]A(Negative)
INE528G08246	Basel II Compliant Lower Tier II Bond Programme	31-Oct-12	9.90%	31-Oct-22	260	[ICRA]A(Negative)
INE528G08170	Basel II Compliant Lower Tier II Bond Programme	30-Sep-10	9.30%	30-Apr-20	306	[ICRA]A(Negative)
INE528G08147	Basel II Compliant Lower Tier II Bond Programme	22-Jan-10	9.65%	22-Jan-20	300	[ICRA]A(Negative)
INE528G08154	Basel II Compliant Upper Tier II Bond Programme	14-Aug-10	9.65%	14-Aug-25	440	[ICRA]A-(Negative)
INE528G08162	Basel II Compliant Upper Tier II Bond Programme	08-Sep-10	9.50%	08-Sep-25	200	[ICRA]A-(Negative)
INE528G09103	Basel II Compliant Upper Tier II Bond Programme	29-Jun-12	10.25	29-Jun-27	60	[ICRA]A-(Negative)
INE528G09111	Basel II Compliant Upper Tier II Bond Programme	28-Sep-12	10.15	28-Sep-27	200	[ICRA]A-(Negative)
INE528G08253	Basel II Compliant Upper Tier II Bond Programme	10-Nov-12	10.25%	10-Nov-27	275	[ICRA]A-(Negative)

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE528G09137	Basel II Compliant Upper Tier II Bond Programme	27-Dec-12	10.05	27-Dec-27	169	[ICRA]A-(Negative)
INE528G09061	Basel II Compliant Tier I Bond Programme	05-Mar-10	10.25%	N.A	82	[ICRA]A-(Negative)
INE528G09079	Basel II Compliant Tier I Bond Programme	21-Aug-10	9.90%	N.A	225	[ICRA]A-(Negative)
INE528G08279	Infrastructure Bonds	24-Feb-15	8.85%	24-Feb-25	1,000	[ICRA]A (Negative)
INE528G08295	Infrastructure Bonds	05-Aug-15	8.95%	05-Aug-25	315	[ICRA]A (Negative)
INE528G08345	Infrastructure Bonds	30-Sep-16	8.00%	30-Sep-26	2,135	[ICRA]A (Negative)
INE528G08360	Infrastructure Bonds	29-Dec-16	7.62%	29-Dec-23	330	[ICRA]A (Negative)
INE528G08287	Basel III Compliant Tier II Bonds	29-Jun-15	9.15%	30-Jun-25	554	[ICRA]A (hyb) (Negative)
INE528G08303	Basel III Compliant Tier II Bonds	31-Dec-15	8.90%	31-Dec-25	1,500	[ICRA]A (hyb) (Negative)
INE528G08311	Basel III Compliant Tier II Bonds	15-Jan-16	9.00%	15-Jan-26	800	[ICRA]A (hyb) (Negative)
INE528G08329	Basel III Compliant Tier II Bonds	20-Jan-16	9.05%	20-Jan-26	500	[ICRA]A (hyb) (Negative)
INE528G08337	Basel III Compliant Tier II Bonds	31-Mar-16	9.00%	31-Mar-26	545	[ICRA]A (hyb) (Negative)
INE528G08378	Basel III Compliant Tier II Bonds	29-Sep-17	7.80%	29-Sep-27	2,500	[ICRA]A (hyb) (Negative)
INE528G08386	Basel III Compliant Tier II Bonds	03-Oct-17	7.80%	01-Oct-27	1,500	[ICRA]A (hyb) (Negative)
INE528G08402	Basel III Compliant Tier II Bonds	22-Feb-18	8.73%	22-Feb-28	3,000	[ICRA]A (hyb) (Negative)
INE528G08261	Basel III Compliant Additional Tier I Bond Programme	31-Dec-13	10.5	N.A.	280	[ICRA]BBB (hyb) (Negative)
INE528G08352	Basel III Compliant Additional Tier I Bond Programme	23-Dec-16	9.50%	N.A.	3,000	[ICRA]BBB (hyb) (Negative)
INE528G08394	Basel III Compliant Additional Tier I Bond Programme	18-Oct-17	9.00%	N.A.	5,415	[ICRA]BBB (hyb) (Negative)
-	Certificates of Deposit Programme	-	-	-	20,000	[ICRA]A1
-	Short-term Fixed Deposit Programme	-	-	-	NA	[ICRA]A1

Source: YBL

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