

March 06, 2020

Yes Bank Limited: Ratings downgraded

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]D(hyb); downgraded from [ICRA]A- (hyb) (Negative)
Basel II Compliant Lower Tier II Bond Programme	2,230.60	2,230.60	[ICRA]D; downgraded from [ICRA]A- (Negative)
Basel II Compliant Upper Tier II Bond Programme	1,344.10	1,344.10	[ICRA]D; downgraded from [ICRA]BBB+ (Negative)
Basel II Compliant Tier I Bond Programme	307.00	307.00	[ICRA]D; downgraded from [ICRA]BBB+ (Negative)
Infrastructure Bond Programme	7,030.00	7,030.00	[[ICRA]D; downgraded from [ICRA]A- (Negative)
Basel III Compliant Additional Tier I Bond Programme	10,800.00	10,800.00	[ICRA] D (hyb); downgraded from [ICRA]BBB- (hyb) (Negative)
Short-term Fixed Deposit Programme	NA	NA	[ICRA]D; downgraded from [ICRA]A2+
Certificates of Deposit Programme	20,000.00	20,000.00	[ICRA]D; downgraded from [ICRA]A2+
Basel II Compliant Lower Tier II Bond Programme	300.00	-	[ICRA]D; downgraded from [ICRA]A- (Negative) and withdrawn
Total	52,911.70	52,611.70	

Material Event

The ratings downgrade factors in the moratorium placed on the bank by the central government, whereby the bank's payments to its depositors and creditors is now restricted. The Reserve Bank of India (RBI) in consultation with central government has also superseded the board of the bank due to deterioration in bank's financial position. In its press release, the RBI has mentioned that it will explore and draw up a scheme for bank's reconstitution or amalgamation with approval of central government within the moratorium period of 30 days.

Additionally, the bank had not paid the coupon on the Basel II Tier I bond due on March 5, 2020, which was subject to the bank meeting the regulatory capital adequacy ratio (CAR). The coupon payment on these bonds also required prior approval of Reserve Bank of India (RBI) in case such payment of coupon results in an increase in net loss. The bank in its last results for H1FY2020 had declared a CAR of 16.30% and net loss of Rs 486 crore, however it had deferred its Q3FY2020 results.

In ICRA's view, restricted payments during the moratorium period severely constrains the ability of the bank to service its liabilities in a timely manner. The terms of proposed reconstitution or amalgamation of the bank will remain the key determinants of the future rating actions on the above instruments.

The worsening in credit profile of its large borrowers led to sharp increase in its level of stressed assets in relation to its core capital. Further, the limited resolution on these stressed assets till date and the bank's inability to raise sufficient capital in a timely manner has further weakened its financial profile.

The Basel III – Tier II bonds are expected to absorb losses once the point of non-viability (PONV) trigger is invoked. Additionally, the Basel III – Tier 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 PONV 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 loss severity vis-à-vis conventional debt instruments.

The Basel II Upper Tier II Bonds and Basel II Tier I Bonds have specific features wherein the debt servicing is linked to the bank meeting the regulatory norms on capitalisation and 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%. The coupon if missed on Basel II Tier I bonds, is non-cumulative, while that on Upper Tier II bond is cumulative, if not paid.

The servicing of Basel II Lower Tier II bonds and infrastructure bonds are not subject to any capital ratios and profitability. However, the bank has an upcoming coupon payment on Basel II lower Tier II bonds in March 2020 and unless the restrictions are removed, bank may be constrained to timely service these bonds.

ICRA has withdrawn the ratings for Rs. 300 crore Basel II Compliant Lower Tier II Bond Programme as the amount has been redeemed.

Key rating drivers and their description

Credit challenges

Ability to service liabilities in a timely manner constrained by moratorium imposed on bank – The central government on March 5, 2020 has imposed moratorium on the bank till April 3, 2020, whereby it is restricted to pay up to Rs 50,000 to a depositor or any creditor during this period. This will adversely impact the ability of the bank to timely service the liability on its deposits and bonds falling due during the moratorium period.

Additionally, the RBI has proposed the bank's reconstruction or amalgamation with prior approval of central government, the terms of which could be critical for the timely servicing to bond holders.

Significantly high GNPA's and standard BB and below rated exposures, which are likely to increase further in the near term; no material resolutions/recoveries in stressed accounts – The BB and below rated exposures increased to Rs. 31,400 crore (10.1% of gross exposures) from ~Rs. 23,000 crore (7.1%) as on March 31, 2019, partly on account of the downgrade in some of the exposures to stressed groups. ICRA notes that the standard BB and below rated exposures and the NPAs can increase further in the near term, given the limited resolution in these accounts and exposure to a telecom account, which has incrementally turned vulnerable. The NNPA's and net BB and below rated exposures, which are sizeable in relation to the core equity capital.

Delays in capital raising amid increase in stressed exposures – In November 2019, the bank had disclosed interest from investors to raise USD 2 billion, which was upsized from USD 1.2 billion announced earlier in October 2019. However, the same has not yet materialised. On February 12, 2020, the bank announced that it has received a non-binding expression of interest for capital infusion from new investors, which is subject to certain conditions and the receipt of regulatory approvals. The ability to secure these approvals and the quantum, timing and conditions of the proposed capital infusion will be key monitorables. The bank had earlier raised equity capital of Rs. 1,930 crore in Q2 FY2020, and 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).

High share of wholesale liabilities and concentrated loan book with high share of corporate advances – Despite an improvement in the granularity of its deposit profile over the last 3-4 years, YBL’s share of non-retail deposits remained high (39.7% as on September 30, 2019). 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.

YBL’s exposure to the corporate sector has been declining but 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: Poor

Given the bank is constrained to repay its liabilities in timely manner, the liquidity is poor for the bank.

Rating sensitivities

Positive triggers – ICRA will monitor the terms of proposed reconstitution or amalgamation of the bank as these will remain the key drivers of the future rating actions. Removal of moratorium and restricted payments will additionally be positive factors.

Negative triggers – Not Applicable

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 September 30, 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	2,39,627	2,24,505
Total assets	3,12,446	3,80,826	3,71,647	3,46,576
% 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													
					6-Mar-20	20-Feb-20	19-Dec-19	13-Nov-19	24-Jul-19	03-May-19	FY2019			FY2018			FY2017						
											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	Short Term	20,000.00	NA	[ICRA]D	[ICRA]A2+	[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	Basel II Compliant Lower Tier II Bond Programme	Long Term	2,230.60	2,230.60	[ICRA]D	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A+(Negative)	[ICRA]A+(Negative)	[ICRA]AA-(Negative)	[ICRA]A @	[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+(positive)	[ICRA]AA+(positive)
3	Basel II Compliant Upper Tier II Bond Programme	Long Term	1,344.10	1,344.10	[ICRA]D	[ICRA]BBB+(Negative)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A+(Negative)	[ICRA]A @	[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+(positive)	[ICRA]AA+(positive)
4	Basel II Compliant Tier I Bond Programme	Long Term	307.00	307.00	[ICRA]D	[ICRA]BBB+(Negative)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A+(Negative)	[ICRA]A @	[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+(positive)	[ICRA]AA+(positive)
5	Infrastructure Bond Programme	Long Term	7,030.00	3,780.00^	[ICRA]D	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A+(Negative)	[ICRA]A+(Negative)	[ICRA]AA-(Negative)	[ICRA]A @	[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+(positive)	[ICRA]AA+(positive)
6	Basel III Compliant Tier II Bond Programme	Long Term	10,900.00	10,899.00^	[ICRA]D (hyb)	[ICRA]A-(hyb)(Negative)	[ICRA]A-(hyb)(Negative)	[ICRA]A+(hyb)(Negative)	[ICRA]A+(hyb)(Negative)	[ICRA]AA-(hyb)(Negative)	[ICRA]A @ (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)(positive)	[ICRA]AA+(hyb)(positive)
7	Basel III Compliant Additional Tier I Bond Programme	Long Term	10,800.00	8,695.00^	[ICRA]D (hyb)	[ICRA]BBB-(hyb)(Negative)	[ICRA]BBB-(hyb)(Negative)	[ICRA]BBB+(hyb)(Negative)	[ICRA]BBB+(hyb)(Negative)	[ICRA]A-(hyb)(Negative)	[ICRA]A @ (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)(positive)	[ICRA]A+(hyb)(positive)
8	Short-term Fixed Deposit Programme	Short Term	NA	NA	[ICRA]D	[ICRA]A2+	[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+

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]D
INE528G08204	Basel II Compliant Lower Tier II Bond Programme	28-Oct-11	10.20%	28-Oct-21	243	[ICRA]D
INE528G08212	Basel II Compliant Lower Tier II Bond Programme	28-Mar-12	9.90%	28-Mar-22	300	[ICRA]D
INE528G08220	Basel II Compliant Lower Tier II Bond Programme	23-Aug-12	10	23-Aug-22	300	[ICRA]D
INE528G08238	Basel II Compliant Lower Tier II Bond Programme	10-Sep-12	10	10-Sep-22	300	[ICRA]D
INE528G09129	Basel II Compliant Lower Tier II Bond Programme	16-Oct-12	10	16-Oct-22	200	[ICRA]D
INE528G08246	Basel II Compliant Lower Tier II Bond Programme	31-Oct-12	9.90%	31-Oct-22	260	[ICRA]D
INE528G08170	Basel II Compliant Lower Tier II Bond Programme	30-Sep-10	9.30%	30-Apr-20	306	[ICRA]D
INE528G08147	Basel II Compliant Lower Tier II Bond Programme	22-Jan-10	9.65%	22-Jan-20	300	[ICRA]D Withdrawn
INE528G08154	Basel II Compliant Upper Tier II Bond Programme	14-Aug-10	9.65%	14-Aug-25	440	[ICRA]D
INE528G08162	Basel II Compliant Upper Tier II Bond Programme	08-Sep-10	9.50%	08-Sep-25	200	[ICRA]D
INE528G09103	Basel II Compliant Upper Tier II Bond Programme	29-Jun-12	10.25	29-Jun-27	60	[ICRA]D
INE528G09111	Basel II Compliant Upper Tier II Bond Programme	28-Sep-12	10.15	28-Sep-27	200	[ICRA]D
INE528G08253	Basel II Compliant Upper Tier II Bond Programme	10-Nov-12	10.25%	10-Nov-27	275	[ICRA]D
INE528G09137	Basel II Compliant Upper Tier II Bond Programme	27-Dec-12	10.05	27-Dec-27	169	[ICRA]D
INE528G09061	Basel II Compliant	05-Mar-10	10.25%	N.A.	82	[ICRA]D

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

Source: YBL

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