Yes Securities (INDIA) Limited

October 12,2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial Paper	500.00 (Enhanced from 250.00)	CARE A1+ (A One Plus)	Revised from CARE A1 (A One)
Total Short Term Instruments	**500.00 (₹ Five Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in rating assigned to the commercial paper (CP) programme of Yes Securities (India) Limited (YSIL) is based on the improvement in credit profile of its parent Yes Bank Limited (YBL); (rated CARE A-; Positive for Tier II Bonds) and improvement in operating performance of YSIL. YSIL is wholly owned subsidiary of YBL (Bank). YSIL provides capital market related services including retail broking and wealth management, institutional broking, investment banking and merchant banking predominantly to clients of YBL.

The rating factors in managerial and operational linkage it shares with the parent as well as broader benefits derived from shared brand identity of the Bank and financial and managerial support from YBL.

The rating further factors in the retail broking franchise and management experience in various business segments that YSIL has presence, diversified revenue profile, albeit currently predominantly dependent on broking income, adequate margin and risk management systems and process and moderate leverage. Going forward, YSIL plans to diversify its clientele outside YBL customers; however, it is expected to remain a strategic subsidiary for the Bank for providing service to its clients as well as enabling the Bank to cross sell banking products to the clients.

The rating is constraint due to inherent business risk due to high dependence on capital markets which may lead to volatility in the income, client concentration in brokerage revenue, increasing competition in the sector, moderate size of operations and moderate profitability as YSIL reported net loss in FY20 and FY21 which has seen some improvement during FY22 (Audited) and Q1FY23(UA).

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in credit profile of the parent (Yes Bank Ltd).
- Improvement in scale of operations with TOI above Rs.300 crore along sustained improvement in profitability in all segments and overall ROTA of over 2% on sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in the credit profile of the parent (Yes Bank Ltd).
- Material changes in ownership structure or moderation in expected support from YBL.
- Inability to scale up business or deterioration in profitability on a sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Parentage of Yes Bank Limited, managerial, and operational linkage and expected financial support from the bank

YSIL is a wholly owned subsidiary of YBL providing capital market related services including retail broking and wealth management, institutional broking, investment banking and merchant banking predominantly to clients of YSIL. The bank has infused equity capital of Rs.80 crore into YSIL till date of which Rs.30 crore were in FY19. The Board of YBL has approved equity capital infusion upto Rs. 100 crores subject to regulatory approvals and YSIL is expected to receive funding support from the bank when needed.

The bank has extended the brand identity and shared the brand name of "YES" with YSIL. The Board of Directors of YSIL is headed by Mr. Prashant Kumar (Managing Director and Chief Executive Officer; MD & CEO of YBL) as the Chairman and Mr. Rajan Pental (Group Head – Branch & Retail Banking of YBL) and Mr. Sumit Gupta (Chief Risk Officer of YBL) are Directors on the Board of YSIL.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Established retail broking franchise, experienced management team and adequate risk management systems and process

YSIL offers broking services to retail customers and is also an institutional broker, both in cash equity and derivatives market segment. The company currently offers 3-in1 account where in the trading account is provided by YSIL while the demat account and the linked bank account is provided by YBL. YSIL had a customer base of around 68,000 as on March 31, 2021, which increased to around 1.39 lakh as on March 31, 2022, largely comprising YBL's customers. Company started to expand its services even to non-YBL clients from March 2022 which would help the Company to increase the client base.

The operations of YSIL are headed by Mr. Prasanth Prabhakaran (MD & CEO) who has over 25 years of experience in capital markets and has worked with institutions like HDFC Bank, Kotak Securities and IIFL. Each of the business segments has a dedicated team and is looked after by Business Heads, each of whom has an experience of more than 18 years in the respective field.

The company has risk management systems with adequate margining from clients. The company offers MTF only in selected securities to its clients and charges additional margin over and above the exchange specified Value at Risk (VaR) + Extreme Loss Margin (ELM). YSIL has defined criteria for client exposures and has not faced any major loss or bad debts in the last five years of operations.

Moderate gearing

YSIL's tangible net worth stood at Rs.101.98 crore as on March 31, 2022, as compared to Rs.95.30 crore as on March 31, 2021. Tangible net worth stood at Rs.105.5 crore as on June 30,2022. YBL is expected to infuse equity capital of Rs.100 crore in YSIL, subject to RBI approval. YSIL borrowings increased to Rs.228.58 crore leading to overall gearing of 2.24 times as on March 31, 2022, as compared to borrowing of Rs.89.03 crore with gearing of 0.93 times as on March 31, 2021. Borrowing stood at Rs.244.73 crore as on June 30,2022. Large part of the debt is related to the margin trading facility (MTF) as the company has borrowing lines from banks and NBFCs and commercial paper. The borrowings of the company are predominantly to fund its MTF book and YSIL's overall gearing is expected to increase in the near term as the Company plans to build its MTF book, which stood at Rs. 265.03 crore as on March 31, 2022, as compared to Rs.101.34 crore as on March 31, 2021. Overall gearing ratio stood at 2.24 times as on March 31,2022 as compared to 0.93 times as on March 31,2021. Gearing ratio stood at 2.32 times as on June 30, 2022. MTF book stood at Rs.383.47 crore as on August 31,2022.

YSIL would maintain overall gearing at around 4x over the medium term.

Key rating weaknesses

Diversified income profile and weak profitability parameters

YSIL has a diversified income profile with revenue from brokerage (including retail and institutional broking), fee from investment banking and merchant banking. The company also earns interest income through the MTF book.

The company had been profitable up to FY19 and it reported PAT of Rs.5.20 crore on total income of Rs.89.87 crore for FY19 with investment banking and merchant banking contributing ~58% of total income for the year. The company's income was significantly impacted during FY20 and FY21 especially in the investment banking and merchant banking business segments post the parent YBL faced issues with its promoters and was subsequently put under moratorium in March 2020. As a result, the company reported net loss for two years.

The company has been focusing on wealth broking and MTF segments to maintain its revenue and profitability and over the last three years, brokerage contributed majority of the income constituting ~52% of total income (FY21: ~60%) while interest from MTF constituted ~22% of total income for FY22(FY21: ~15%). Investment banking revenue increased by 53% in FY22 to Rs. 16.36 crore as compared to Rs. 10.71 crore in FY21. Only broking segment reported profit in FY22.

The company reported PAT of Rs.5.26 crore for FY22 (Audited) on total income of Rs.158.53 crore as on FY22 as compared to net loss of Rs.17 crore on total income of Rs.100.96 crore for FY21. YSIL reported total income of Rs.52.17 crore with PAT of Rs.3.52 crore in Q1FY23 as compared to total income of Rs.32.93 crore with PAT of Rs.0.18 crore in Q1FY22. Income from broking is expected to constitute major proportion of income in the near term as it has scaled up its customer base tapping on YBL's clientele.

Although, the company has been working towards increasing empanelment with clients in the institutional broking segment and has a pipeline of mandates in the investment banking and merchant banking segments, these segments have longer gestation for revenue generation and making profit however management expect these divisions to break even in FY23.

Presence in inherently risky and competitive broking and investment banking business

The presence of discount brokers and intense competition among non-discount brokers affect the growth in total operating income. YSIL has steady total operating income of Rs 100.05 crore and Rs. 157.49 in FY21 and FY22 respectively. These indicates YSIL's dependence on capital market activities which is highly volatile in nature. As the substantial portion of income is from brokerage segment, YSIL expect increase in client base in FY23 hence same would be key monitorable.

Liquidity: Adequate

As on August 31, 2022, YSIL had unencumbered cash & bank balance of Rs.1.26 crore, excess margin of Rs.310.54 crore and access to unutilized bank lines of Rs.105.06 crore as against the upcoming debt repayment of Rs.290 crore (including CP of Rs.250 crore) in next one year. Further, comfort is derived from YBL's strong financial flexibility as subsidiary of YBL Bank to obtain additional funding from banks or issue additional commercial paper to repay maturing debt.

Analytical approach

YSIL has been assessed on the basis of standalone credit profile factoring parentage of Yes Bank Ltd. along with shared identity, managerial and operational linkages and expected financial support.

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Short Term Instruments
Notching by factoring linkages in rating

About the company

About the Company –Yes Bank Ltd

Background of Yes Bank Limited YBL is a new generation private sector bank incorporated in November 2003. The RBI superseded the Board of Directors of the bank and imposed a moratorium on bank from March 05, 2020. Government of India approved the 'Yes Bank Reconstruction scheme, 2020' and the scheme came into effect from March 13, 2020. As per the scheme, the moratorium was lifted from March 18, 2020, and State Bank of India (SBI) led group of financial institution invested Rs.10,000 crore. SBI is required to hold minimum 26% in bank for 3 years and other investors are required to hold 75% of their holding for 3 years. Further, the bank raised Rs.15,000 crore from institutional investors in July 2020, which has led to improvement in its capitalization levels to well above regulatory requirement. As the bank saw significant progress since the reconstruction scheme, the bank's Board under the reconstruction scheme initiated the process of forming the alternate Board which was appointed during H1FY23. In July, 2022, RBI withdrew its appointed additional directors and the directors appointed by GOI under the reconstruction scheme. As on March 31, 2022, Yes Bank Ltd has 1,122 branches, 95 BC managed banking outlets and 1,244 ATMs, CRMs and BNAs.

About the Company – Yes Securities (INDIA) Ltd

YSIL was incorporated in 2013 to cater to the clients of the bank and provide value added services in the capital market segments to clients of the bank and help the bank generate and hold deposits and fee-based income. YSIL is a wholly owned subsidiary of YBL. It is a SEBI registered Investment Advisor with in-house team which provides wealth and investment solutions distributed through YBL. YSIL is a SEBI registered broker and is a member of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) and National Commodity & Derivatives Exchange (NCDEX). The company also has a SEBI Registered Category 1 Merchant Banker & Research Analyst license. YSIL has four business segments (i) Wealth Broking and Investment Advisory, (ii) Institutional Broking, (iii) Investment Banking and (iv) Merchant Banking.

Brief Financials (Rs. crore)	FY21 (A)	FY22(A)	Q1FY23(UA)
Advisory income	10.69	16.36	5.37
Brokerage income	59.75	82.76	21.72
Other operating income	29.61	58.37	25.08
Total Income	100.05	157.49	52.17
PAT	-16.78	5.26	3.52
Total Assets	394.26	727.73	576.65
ROTA (%)	-5.44	0.94	2.16*
RONW (%)	-15.48	5.33	13.57
PAT Margin (%)	-16.77	3.32	6.75

A: Audited UA: UnAudited *Annualilsed

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper	INE066R14028	August 05,2022	8.40%	March 02,2023	50.00	CARE A1+
Commercial Paper	INE066R14036	August 25,2022	8.40%	February 23,2023	50.00	CARE A1+
Commercial Paper	INE066R14044	September 09,2022	8.25%	March 16,2023	100.00	CARE A1+
Commercial Paper	INE066R14051	September 27,2022	8.20%	December 27,2022	50.00	CARE A1+
Commercial Paper	Proposed	-	-	-	250.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial Paper-Commercial Paper (Standalone)	ST	500.00	CARE A1+	1)CARE A1 (15-Jul-22) 2)CARE A1 (06-Apr-22)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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