

India Ratings Revises Rating Watch on Yes Bank to Evolving; Withdraws AT1 Bonds' Rating

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India Ratings and Research (Ind-Ra) has revised the rating watch on Yes Bank Ltd's Long-Term Issuer Rating of 'IND BB-' to Rating Watch Evolving (RWE) from Rating Watch Negative (RWN). 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 B+/RWE	Rating Watch revised to Evolving from Negative
Additional Basel III Tier 1 (AT1) bonds#	-	-	-	INR111	WD	Withdrawn
Infrastructure bonds	-	-	-	INR35.8	IND BB-/RWE	Rating Watch revised to Evolving from Negative

*Details in annexure

Given that Basel III AT1 bonds have been written off/extinguished, agency withdraws its ratings on the same.

KEY RATING DRIVERS

The revision of the rating watch to evolving follows the systemic support Yes Bank has received recently in terms of both equity and liquidity from the new set of investors and the regulator for its reconstruction. It also considers the pressure that could show up on the liabilities once the regulator-imposed moratorium is lifted.

Ind-Ra downgraded the bank's ratings and maintained them on RWN on 6 March 2020; in the agency's opinion, the temporary regulator-imposed moratorium resulted in the bank not being able to follow through with settlement and transaction requests. Subsequently, the bank declared its 3QFY20 results. Its gross non-performing assets (NPAs) increased to 18.87% in 3QFY20 from 7.39% in 2QFY20 while its net NPAs grew to 5.97% from 4.35%. This implies the additional recognition of INR230 billion as non-performing till the time of publishing the 3QFY20 results and not just end-December 2019. Including this, the total stressed book including non-fund limits to the same accounts is about INR490 billion. The bank has significantly ramped up its provision cover on gross NPAs (3QFY20: 72.7%; 2QFY20: 43.05%); the credit cost incurred in 3QFY20 was INR223 billion (80% of the bank's net-worth at end-September 2019). In its communication to the markets, Yes Bank has indicated that as a prudent measure, it has provided a substantially higher amount than required under the Reserve Bank of India's (RBI) norms and non-performing assets recognition and provisions cover FY20 till the time of publishing the 3QFY20 results and not just end-December 2019. So, the bank may see limited credit costs over the next couple of quarters.

The unprecedented levels of provisions resulted in CET1 declining to 0.6% in 3QFY20 from 8.5% in 2QFY20 (adjusted for the divergences). Based on the reconstruction plan that was notified on 13 March 2020, the State Bank of India (**IND AAA/Stable**), along with a group of private banks, was to infuse INR100 billion into Yes Bank. Also, the AT1 bonds of INR84.15 billion have been fully written down and extinguished, adding to the net worth of the bank. The bank's CET1 now stands at 7.6%, marginally higher than the minimum requirement of 7.375% before 31 March 20 but lower than 8% required on and after 31 March 2020. The bank also plans to raise further capital in subsequent stages.

Liquidity Indicator – Stretched: Yes Bank also saw a substantial outflow of deposits; there was a 21% qoq reduction in deposits in 3QFY20 to INR1.66 trillion. The bank managed the same by increasing borrowings and selling assets to generate liquidity. Its liquidity coverage ratio and statutory liquidity ratio were both below the regulatory requirements.

The Finance Ministry and the RBI subsequently, through press conferences and public statements, have assured liquidity and other forms of support as and when required for the reconstruction to be successful. Ind-Ra expects that the reconstructed bank could face deposit withdrawals as soon as the moratorium is lifted and the liquidity support commitments that various investors and the RBI have committed may need to materialise. The scheme of reconstruction also states that all the deposits would be honoured.

On an operational basis, the bank's pre-provision operating profit was nil in 3QFY20 (2QFY20: INR14.5 billion). For the bank to be profitable again, it needs to gain confidence of both the depositors and the borrowers. While its ability to manage both asset and liability sides for growth could be tested in the near term, based on the systemic support that the bank has been provided with, Ind-Ra expects the bank to begin to build its business again.

RATING SENSITIVITIES

The success of the resolution plan over a reasonable timeframe in the agency's opinion and the ability of the bank to maintain reasonable liability profile to run its business profitably could lead to the resolution of the RWN.

COMPANY PROFILE

Yes Bank is a private bank headquartered in Mumbai. It was incorporated in 2004 and has grown to become a full service commercial bank. The bank had an asset size of INR2,909.8 billion at end-December 2019, with a net loss of INR190.47 billion for 9MFY20.

FINANCIAL SUMMARY

Particulars	9MFY20	FY19
Total assets (INR billion)	2,909.8	3,808.26
Total equity (INR billion)	92.2	269.04
Net income (INR billion)	-190.47	17.20
Return on assets (%)	-7.6	0.5
CET1 (%)	0.61	8.4
Capital adequacy ratio (%)	4.1	16.5
Source: YES Bank		

Note: The CET1 increased subsequently to 7.6% and total CRAR to 13.6% as on date mainly on account of equity infusion of INR 100 billion and write-off of AT1 bonds of about INR84.15 billion.

RATING HISTORY

Instrument Type	Current Rating/Rating Watch			Historical Rating/Rating Watch/Outlook						
	Rating Type	Rated Limits (billion)	Rating	6 March 2020	12 February 2020	18 December 2019	31 August 2019	8 May 2019	2 November 2018	19 February 2018
Issuer rating	Long-term/Short-term	-	IND BB-/RWE	IND BB-/RWN	IND A-/RWN	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 B+/RWE	IND B+/RWN	IND A-/RWN	IND A/RWN	IND A+/Negative	IND AA-/Negative	IND AA+/Negative	IND AA+/Stable
AT1 Basel III Bonds	Long-term	INR111	WD	IND C	IND BBB-/RWN	IND BBB+/RWN	IND A-/Negative	IND A+/Negative	IND AA/Negative	IND AA/Stable
Infrastructure bonds	Long-term	INR35.8	IND BB-/RWE	IND BB-/RWN	IND A-/RWN	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/Rating Watch
AT1 Basel III bonds	INE528G08394	18 October 2017	9.0	Perpetual	INR54.15	WD
AT1 Basel III bonds	INE528G08352	23 December 2016	9.5	Perpetual	INR30	WD
Total unutilised					INR26.85	WD
Infrastructure bonds	INE528G08360	29 December 2016	7.62	29 December 2023	INR3.3	IND BB-/RWE
Total utilised					INR3.3	
Total unutilised					INR32.5	
Basel III Tier 2 Bonds	INE528G08378	29 September 2017	7.8	29 September 2027	INR25	IND B+/RWE
Basel III Tier 2 Bonds	INE528G08386	3 October 2017	7.8	1 October 2027	INR15	IND B+/RWE
Basel III Tier 2 Bonds	INE528G08402	22 February 2018	8.73	22 February 2028	INR30	IND B+/RWE
Basel III Tier 2 Bonds	INE528G08410	14 September 2018	9.12	15 September 2028	INR30.42	IND B+/RWE
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>.

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Applicable Criteria

[Financial Institutions Rating Criteria](#)
[Rating Bank Subordinated and Hybrid Securities](#)

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