Rating Rationale

Yes Bank Limited, Mumbai

05-August-2019

Brickwork Ratings (BWR) downgrades the rating of Yes Bank Limited's Lower Tier II Bonds, from 'BWR AA' to 'BWR AA-', and of Upper Tier II Bonds, Hybrid Tier I Bonds and Innovative Perpetual Debt Instruments from 'BWR AA-' to 'BWR A+'. The Outlook to continue as Negative.

Particulars

Instruments	Issue Date	Amount rated (₹ Cr)	Amount raised (₹ Cr)	Coupon	Maturity Date	ISIN	Previous Rating* (May 2019)	Rating*
Lower Tier II	22-Jan-2010	300	300	9.65%	22-Jan-2020	INE528G08147	BWR AA (BWR Double A) (Outlook: Negative)	BWR AA- (BWR Double A Minus) (Outlook: Negative)
Lower Tier II	30-Sep-2009	260	260	9.65%	30-Apr-2020	INE528G08139	BWR AA (BWR Double A) (Outlook: Negative)	BWR AA- (BWR Double A Minus) (Outlook: Negative)
Innovative Perpetual Debt Instrument	21-Aug-2010	230	225	9.90%	Perpetual	INE528G09079	BWR AA- (BWR Double A Minus) (Outlook: Negative)	BWR A+ (BWR A Plus) (Outlook: Negative)
Upper Tier II	14-Aug-2010	450	440	9.65%	14-Aug-2025	INE528G08154	BWR AA- (BWR Double A Minus) (Outlook: Negative)	BWR A+ (BWR A Plus) (Outlook: Negative)
Hybrid Tier I	5-Mar-2010	90	82	10.25%	Call option after 10 years	INE528G09061	BWR AA- (BWR Double A Minus) (Outlook: Negative)	BWR A+ (BWR A Plus) (Outlook: Negative)

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rating: Downgrade

Brickwork Ratings downgrades the rating of Yes Bank Limited's (YBL or the 'Bank') various Bond issues, as tabulated above. The Outlook to continue as Negative.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

Brickwork Ratings have relied on Yes Bank's financial results of Q1FY20, publicly available information and other information/clarifications provided by the Bank.

The rating revision factors, higher than expected deterioration in asset quality with gross NPAs increased to 5.01% in Q1 FY20 as compared to 3.22% at the end of FY19 and the stressed assets in the portfolio remaining at elevated levels that could continue to put pressure on the asset quality. The rating is also constrained by the delay in raising capital resulting in the restricted growth in the lending portfolio.

Further, the outlook continues to remain negative considering the risk of further weakness in asset quality and to monitor the capital raising plans of the bank to provide cushion to absorb any increase in risk weighted assets and for growth of the portfolio.

However, the rating continues to derive comfort from the Bank's business size and efforts to increase the retail portfolio, and CRAR of 15.7% as of June 30, 2019, while strengthening of the Bank's Board with the appointment of Mr R Gandhi, RBI nominee director and also strengthening of the management team with appointment of Mr Rajeev Uberoi as Senior Group President Governance and Controls, and Mr Anurag Adalkha as Senior Group President & Head Financial management & Strategy.

Description of Key Rating Drivers

- **Credit Risks**
  - Higher than expected weakening of the asset quality with gross slippages to NPA of Rs.6232 Cr and reductions (recoveries/ upgradation/ write offs) of only Rs.2022 Cr. The bank has high exposure to sectors like infrastructure, financial and real estate, and also to some major groups. Any slippage to NPA from the aforesaid sectors or any of its accounts with substantial exposure is a key rating constraint.
  - The Bank's Gross NPA has increased to Rs.12,092 Cr in Q1FY20 as against gross NPA of Rs.7,883 Cr in Q4FY19 while the PCR is retained at 43.1%. The total provision and contingencies amounted to Rs.1,784 Cr as of June 30, 2019 as against Rs.3,662 Cr on March 31, 2019. Incremental provisions, if any, and impact on profitability will be a rating constraint.
  - The Bank's weakening asset quality and slippages of accounts from an investment grade rating has impacted the risk weighted asset (RWA) portfolio of the Bank. The RWA which stood at Rs.3.06 lac crores in Q4FY19 has increased to Rs.3.20 lac crores in Q1FY20, and any further increase in the RWA will require the Bank to strengthen its advances to reduce the RWA or infuse proportionate capital to maintain the capital adequacy ratios within the regulatory requirements.
  - Declining stock prices of the Bank over the last one year and especially since the beginning of FY20 could limit the Bank's ability to raise additional capital. The Bank plans to raise USD 1 billion (i.e ~Rs.7000 Cr) of capital for FY20. Infusion of capital especially in CET-I will enable Bank to maintain its regulatory capital adequacy ratios

and assist business growth. Further adequate steps need to be taken by the Bank in case of any inadvertent news limiting the Bank's capital raising ability.

- The current CET-I ratio of 8.0% as of June 30, 2019 is in line with the regulatory requirement of 8.0% (including the capital conservation buffer of 2.5%) as of March 31, 2020 and the overall CRAR is comfortable at 15.7% as of June 30, 2019 against the regulatory requirement of 11.5% (including the capital conservation buffer of 2.5%) as of March 31, 2020.

- **Credit Strengths**
  - The Bank has increased its business in the retail banking from 16.7% in Q4FY19 to 18.3% in Q1FY20 and decreased its business of corporate banking from 65.6% in Q4FY19 to 63.9% in Q1FY20, in line with Bank's plans to increase the retail book.
  - The appointment of RBI nominee as a Director on the Bank's Board strengthens the existing Board and provides additional support to further improve the Bank's internal controls and systems. Further the Bank has appointed two management leaders in the verticals of compliance and finance, to ensure better transparency & disclosure and strengthen financials of the Bank.

Liquidity

- As per ALM statement of the Bank as of June 30, 2019 there is cumulative mismatch of 2.5% in the bucket over 3 months and upto 6 months and of 8.4% in the bucket over 6 months and upto 1 year. Further cumulative mismatch is of less than 2.5% in the bucket over 3 years.
- Daily avg. LCR has improved to 117.3% as of June 30, 2019 from 110.9% of March 31, 2019.
- Basel III Leverage ratio of 7.5% is well above the regulatory requirement of 4.5%.

Key Rating Sensitivities

- The Bank's exposure to certain groups with large limits have slipped from an investment grade to speculative grade and thereby increased the provision cost and risk weighted assets portfolio. Any further deterioration in the asset quality impacting the provisions and capital adequacy remain as key rating sensitivities. Continuing to generate net profits and strengthen its capital through funds infusion are other monitorable.

Rating Outlook: Negative

BWR believes the **Yes Bank Ltd.'s** net profits may be impacted in the near term due to any inadvertent increase in provisions arising from further weakening of asset quality over the next few quarters and thereby its impact on the capital adequacy ratios, esp the CET-I. The outlook may be revised to 'Stable' in the event of a reduction in provisions as a result of improvements in asset quality, thereby generating better net profits and strengthen the capital adequacy ratios. The rating could be downgraded if the asset quality weakens further or if the provisions/write-offs in the NPAs are higher than expected. The rating could also be downgraded if capital position deteriorates further due to inability to raise sufficient capital.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Basel III compliant bonds are subject to guidelines/regulations of the Reserve Bank of India (RBI) and as detailed in term sheet of respective issues. BWR considers them as Highly Complex instruments in terms of published criteria. BWR has not rated any of the Basel III instruments, however any restrictions by the regulator on coupon servicing on any of the outstanding bonds due to non meeting of regulatory guidelines shall be a key rating sensitivity.

For details on the Bank's performance upto FY19 please refer to our rating rationale dated 09-May-2019 or click on the following link
https://www.brickworkratings.com/Admin/PressRelease/Yes-Bank-NCD-9May2019%20(1).pdf

About the Company

Background: Yes Bank, founded in 2004 and headquartered at Mumbai has been one of the fastest growing private banks in India, with pan-India presence covering 53 Metro, 29 states and 7 Union Territories. As of March 31, 2019, the Bank has a network of 1,120 branches and 1,456 ATM network (including Bunch Note Acceptors).

Management

Mr. Brahm Dutt is the Non-Executive Part-time Chairman of the Bank and has been on the Board of Yes Bank since July 2013 as an Independent Director. Mr Ravneet Gill is the Managing Director and Chief Executive Officer of Yes Bank since March 01, 2019.

Two Board of Directors associated with the Bank for a long period have resigned during Q1FY20, Mr Ajai Kumar resigned to pursue academic pursuits while Lt. Gen. (Dr.) Mukesh Sabharwal resigned on personal grounds. However, the Bank has Mr R Gandhi, RBI nominee as a Non executive Non Independent Director which strengthens the Bank's Board.

On core management, two leaders have been appointed by the Bank since the last review, In July 2019, the Bank has appointed two top management leaders, Mr Rajeev Uberoi as Senior Group President Governance and Controls, and Mr Anurag Adalkha as Senior Group President & Head Financial management & Strategy. Mr Rajeev has a vast experience of 37 years from financial sector in managing risk, compliance, legal and regulatory functions.. Mr Anurag is a Chartered Accountant and has been CFO of various financial institutions. Both of them will further strengthen Bank's management team. This is in line with the Bank's efforts to improve its corporate governance through increased transparency and disclosures. The effectiveness of managing the internal systems and control, adhere prudently to the regulatory guidelines issued from time to time remains to be seen over a period of time.

Financials

As of June 30, 2019, the Bank's business has decreased by 1.47% to Rs.462,202 Cr (Q4FY19: Rs.469,110 Cr). Deposits decreased marginally to Rs.225,902 Cr (Q4FY19: Rs.227,610 Cr) and Advances decreased to Rs.236,300 Cr (Q4FY19: Rs.241,500 Cr). Share of advances from retail business has increased from 16.7% to 18.3%. The retail asset book including MSME of Rs.85,304 Cr is led by advances from Vehicle Loan group of 41%, followed by Mortgage Loan group of 27%, Consumer Loan group of 17%, Business Equipment loan group of 11% and Self Help and Joint Liability group of 4%. The Bank's CASA of Rs.68,134 Cr is 30.2% of Total deposits and retail term deposits of Rs.63,300 Cr is 28% of total deposits.

The Bank's total income (Net Interest Income + Non Interest Income) has increased to Rs.3554 Cr (Q4FY19: Rs.3038 Cr). There has been an interest reversal of Rs.223 Cr impacting the Net Interest Income however the increase in non interest income supported by treasury gains have improved the Total income. The Operating profits of the Bank for the quarter have been better at Rs.1959 Cr. The Bank has made provisions of Rs.1784 Cr and generated net profits of Rs.114 Cr, after a loss of Rs.1507 Cr in Q4FY20.

The Bank's asset quality continues to remain stressed with exposure to sectors like infrastructure, financial, and real estate, apart from exposures to some groups. During Q1FY20, Gross NPA have increased substantially to Rs.12,092 Cr (Q4FY19: Rs.7,883 Cr) and Net NPA increased to Rs.6883 Cr (Q4FY19: Rs.4485 Cr). During Q1FY20, gross slippages to NPA amounted to Rs.6232 Cr while reductions (recoveries/ upgradation/ write offs) amounted to Rs.2022 Cr. The Bank's Provision Coverage ratio is maintained at 43.1%. The Bank's total provisions and contingencies stood at Rs.1,784 Cr (Q4FY19: Rs.3662 Cr). The Bank's credit cost for Q1FY20 is 32 bps and has provided a guidance of 125 bps for FY20.

Capital adequacy ratio of the Bank is comfortable with CRAR of 15.7% and Tier I of 10.7% . The Bank's CET-I ratio of 8% is in line with the regulatory requirement as of March 31, 2020. Increase in the Risk weighted assets if any needs to be supported with proportionate capital infusion in the CET-I . The Bank's plans to raise funds in the near future will strengthen the capital adequacy ratios and boost business growth.

Yes Bank - Result type	Audited	Audited	Audited		Unaudited	Unaudited
KEY Parameters - Rs Cr	**2017**	**2018**	**2019**		**Q1FY19**	**Q1FY20**
Total Deposits	142,874	200,738	227,610		213,395	225,902
Deposit Growth (in %)		40.50%	*13.39%*			*5.86%*
Total Advances	132,263	203,534	241,500		214,720	236,300
Loans Growth		53.89%	*18.65%*			*10.05%*
Total Business	275,137	404,272	469,110		428,115	462,202

Business Growth		46.93%	*16.04%*			*7.96%*
CASA Ratio %	36.3%	36.5%	33.1%		35.1%	30.2%
Profitability Ratios (%)						
RoE	21.5%	17.7%	6.5%		19.4%	1.7%
RoA	1.8%	1.6%	0.5%		1.6%	0.10%
NIM	3.4%	3.5%	3.2%		3.3%	2.8%
Net Interest Income (NII)	5797	7737	9809		2219	2281
Non Interest Income	4157	5224	4590		1694	1273
Operating Profit	5838	7748	8135		2455	1959
Prov.& Cont.excl.tax	793	1554	5778		626	1784
PAT	3330	4225	1720		1260	114
Cost to Income Ratio	41.4%	40.2%	43.5%		37.3%	44.9%
Asset Liability Profile (%)						
Loans/Deposit Ratio	92.6%	101.4%	106.1%		100.6%	104.6%
Gross NPAs to Advances	1.5%	1.3%	3.2%		1.3%	5.0%
Net NPAs to Advances	0.8%	0.6%	1.9%		0.6%	2.9%
Restructured Portfolio as a % of Gross Advances	0.4%	0.1%	0.1%		0.1%	0.1%
Gross NPA% + Restructured (Stressed Advances)	1.9%	1.4%	3.3%		1.4%	5.1%
Provision Coverage Ratio	46.9%	50.0%	43.1%		55.3%	43.1%
CRAR	17.0%	18.4%	16.5%		17.3%	15.7%
Tier 1	13.3%	13.2%	11.3%		12.8%	10.7%
CET –I	11.4%	9.7%	8.4%		9.5%	8.0%
AT-I	1.9%	3.5%	2.9%		3.3%	2.7%
Tier II	3.7%	5.2%	5.2%		4.5%	5.0%
Book Value	93.74	111.8	116.2		114.1	114.3

Rating History for the last three years (including withdrawn/suspended ratings)

S No	Instrument	Current Rating			Rating History			
		Type	Amount (₹ Crs)	Rating	09 May 2019	05 Oct 2018	27 Aug 2018	02 Aug 2017
1	Innovative Perpetual Debt Instrument	Long term	230 (raised ₹ 225 Cr)	BWR A+ (BWR A Plus) (Outlook: Negative) Downgrade	BWR AA- (BWR Double A Minus) (Outlook: Negative)	BWR AA+ (Credit Watch with Developing Implications)	BWR AA+ (Outlook: Stable) Reaffirmed	BWR AA+ (Outlook: Stable) Reaffirmed

2	Upper Tier II	Long Term	450 (raised ₹ 440 Cr)	BWR A+ (BWR A Plus) (Outlook: Negative) Downgrade	BWR AA- (BWR Double A Minus) (Outlook: Negative)	BWR AA+ (Credit Watch with Developing Implications)	BWR AA+ (Outlook: Stable) Reaffirmed	BWR AA+ (Outlook: Stable) Reaffirmed
3	Hybrid Tier I	Long Term	90 (raised ₹ 82 Cr)	BWR A + (BWR A Plus) (Outlook: Negative) Downgrade	BWR AA- (BWR Double A Minus) (Outlook: Negative)	BWR AA+ (Credit Watch with Developing Implications)	BWR AA+ (Outlook: Stable) Reaffirmed	BWR AA+ (Outlook: Stable) Reaffirmed
4	Lower Tier II	Long Term	300	BWR AA- (BWR Double A Minus) (Outlook: Negative) Downgrade	BWR AA (BWR Double A) (Outlook: Negative)	BWR AA+ (Credit Watch with Developing Implications)	BWR AA+ (Outlook: Stable) Reaffirmed	BWR AA+ (Outlook: Stable) Reaffirmed
5	Lower Tier II	Long Term	260	BWR AA- (BWR Double A Minus) (Outlook: Negative) Downgrade	BWR AA (BWR Double A) (Outlook: Negative)	BWR AA+ (Credit Watch with Developing Implications)	BWR AA+ (Outlook: Stable) Reaffirmed	BWR AA+ (Outlook: Stable) Reaffirmed
	Total		1330	INR One Thousand Three Hundred Thirty Crores Only				

Hyperlink/Reference to applicable Criteria

- General Criteria
- Banks and Financial Institutions
- Approach to Financial Ratios
- Basel III Compliant Instruments
- Complexity levels of the Rated Instruments

Analytical Contacts	Investor Contacts
Rajat Bahl Chief Analytical Officer & Head - Financial Sector Ratings B :+91 22 2831 1426, +91 22 2831 1439 rajat.b@brickworkratings.com **Hemant V Sagare** Senior Manager - Ratings B :+91 80 4040 9940 Ext :333 hemant.s@brickworkratings.com	**Satish Nair** Director - Global Market Development & Investor Relations M : +91 7738875550 B : +91 22 6745 6666 satish.n@brickworkratings.com
1-860-425-2742	

For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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