

## RATING RATIONALE

23-Dec-2019

### *Yes Bank Limited, Mumbai*

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

#### Particulars:

Instruments	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (August, 2019)	Present
Lower Tier II Bonds	300	300	Long Term	BWR AA- (Negative)	BWR A (Negative) Downgrade
Lower Tier II Bonds	260	260	Long Term	BWR AA- (Negative)	BWR A (Negative) Downgrade
Innovative Perpetual Debt Instrument	230 (raised ₹ 225 Cr)	230 (raised ₹ 225 Cr)	Long Term	BWR A+ (Negative)	BWR A- (Negative) Downgrade
Upper Tier II Bonds	450 (raised ₹ 440 Cr)	450 (raised ₹ 440 Cr)	Long Term	BWR A+ (Negative)	BWR A- (Negative) Downgrade
Hybrid Tier I Bonds	90 (raised ₹ 82 Cr)	90 (raised ₹ 82 Cr)	Long Term	BWR A+ (Negative)	BWR A- (Negative) Downgrade
<b>Total</b>	<b>1330</b>	<b>1330</b>	<b>Rupees One Thousand Three Hundred Thirty Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Bank Loan facilities/NCD is provided in Annexure-I&II

#### RATING ACTION / OUTLOOK

Brickwork Ratings downgrades the rating of various bond issues of Yes Bank, as tabulated above. Brickwork Ratings (BWR) has relied upon the Bank financials upto September 30, 2019, publicly available information, and information and clarification provided by the Banks management.

The Rating downgrade necessarily factors in the Bank's higher levels of slippages to NPA in Q1 (Rs.6230 Cr) and Q2 (Rs.5950 Cr) of FY20 and its expectation to continue at similar high levels for the ensuing two quarters of FY20, bank's substantial exposure to sensitive sectors, groups and accounts, the uncertainties over raising adequate capital and maintain the capital adequacy ratios above the minimum regulatory requirement as of March 31, 2020 are the other key constraints. The outlook to continue as negative considering the risk of continuing 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 assist credit growth.

## KEY RATING DRIVERS

- **Credit Risks:**

High levels of slippages have led to an increase in Gross NPA from 5.01% in Q1FY20 to 7.39% in Q2FY20, PCR is maintained at 43.1%. Resolutions have been slower during H1FY20. The Bank's Gross NPA has increased from Rs. 7883 Cr in FY19 to Rs. 17135 Cr in H1FY20, resulting in a net increase of ~ Rs.5000 Crore in each of the first two quarters of FY20. The Bank has substantial exposure to corporate book, though the Bank is making its efforts to increase the retail book. Going forward, BWR expects the slippages for the ensuing two quarters of FY20 to continue at elevated levels.

For FY19, the Bank had made Provisions of Rs.5778 Cr and earned a Net profit of Rs.1720 Cr. The increasing asset quality deterioration has led to higher provisions and lower profitability. For H1FY20 too, the Bank has made provisions of Rs.3120 Cr. The net profits for H1FY20 would have been Rs.222 Cr, excluding the one time deferred tax asset impact amounting to Rs.708 Cr arising due to the change in the corporate tax regime. Post the H1FY20 results, the Bank has revised its credit cost guidance for FY20 and increased it to 250 bps.

As per the regulators' risk based assessment report, the Bank had reported nil divergence of NPA for FY18, after previous few years of divergence. However, the Bank has reported divergence of NPA for FY19. The Bank's management clarifies it as a subjective matter of reclassification and has already recognised an amount of Rs.1259 Cr as NPA in the quarter ending 30-Sep-2019. The net incremental Gross NPA amounts to Rs.2018 Cr and additional provisioning of Rs.632 Cr.

The Bank plans to raise USD 2 billion of capital for FY20. As per regulatory requirement as of 31-March 2020, the CRAR and CET-1 ratios including capital conservation buffer needs to be at 11.5% and 8% respectively. With the concerns on increasing asset quality

deterioration requiring higher provisioning is reducing the profitability on one side and is impacting the risk weighted assets portfolio on the other side, raising of adequate capital by March 2020 shall remain a key rating sensitivity

- **Credit Strengths:**

The Bank has Rs.4.34 lac crores business as of 30-Sep-2019 is one of the major private sector banks, has CASA of 30.8%. The Retail Advances are at ~20% in H1FY20 from ~14% in H1FY19

Mr Ravneet Gill is the Managing Director & Chief Executive Officer of the Bank since March 2019. The Bank has appointed experienced industry personnel in the senior management, Mr. Rajeev Uberoi as Head- Corporate Governance, Mr Anurag Adlakha as the Chief Financial Officer, Ms Anitha Pai as the Chief Operating Officer and Ms. Jasneet Bachal as the Chief Marketing Officer.

## **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

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.

## **RATING SENSITIVITIES**

The rating sensitivities factor in the performance of the Bank, apart from the strong board and management, capital infusion, stake of the key shareholders, and internal controls and systems of the Bank to reflect upon the corporate governance

**Positive:** Substantial capital infusion, increase in the loan portfolio and profitability, reduction in the delinquency shall be the positives to improve the ratings and / or the outlook of the company

**Negative:** Shortfall in raising adequate capital impacting the CET-1 ratios of the Bank as of 31-Mar-2020 and substantial deterioration in the asset quality impacting the profitability shall be the negatives that will impact the ratings and/ or the outlook of the Company.

## LIQUIDITY INDICATORS : ADEQUATE

The Bank has adequate liquidity with an average daily LCR of 113.8% as of 30-Sep-2019, against the regulatory LCR requirement of 100%. The Bank has cash and cash equivalents of ~ Rs.30,000 Crores and investments of Rs.67340 Cr as of 30-Sep-2019. The Bank's Basel III Leverage ratio of 8.36% is also well above the regulatory requirement of 4.5%.

## KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

The lower tier II bonds can be serviced through the profits generated from the current year or from the accumulated reserves and surplus. However the coupon servicing on Upper Tier II Bonds may be of concern in the case of non-compliance with regulatory capital adequacy requirements. As of Sep 30, 2019 the bank of CRAR of 16.3% and CET-1 ratio of 8.7%.

## BANK's PROFILE

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. The Bank with 1120 branches, 1456 ATMs across the nation has an employee headcount of 21,136 as of 31-Mar-2019. It has increased its headcount mainly in the retail/branch banking.

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.

## KEY FINANCIAL INDICATORS

Yes Bank - Result type	Audited	Audited	Audited	Unaudited	Unaudited
<b>KEY Parameters - Rs Cr</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>H1FY19</b>	<b>H1FY20</b>
Total Deposits	142,874	200,738	227,610	222,838	209,497
<i>Deposit Growth (in %)</i>	<i>27.89%</i>	<i>40.50%</i>	<i>13.39%</i>		<i>-5.99%</i>
Total Advances	132,263	203,534	241,500	239,628	224,505
<i>Loans Growth</i>	<i>34.68%</i>	<i>53.89%</i>	<i>18.65%</i>		<i>-6.31%</i>
<b>Total Business</b>	<b>275,137</b>	<b>404,272</b>	<b>469,110</b>	<b>462,466</b>	<b>434,002</b>
<b><i>Business Growth</i></b>	<b><i>31.06%</i></b>	<b><i>46.93%</i></b>	<b><i>16.04%</i></b>		<b><i>-6.15%</i></b>
CASA Ratio %	36.3%	36.5%	33.1%	33.8%	30.8%
<b>Profitability Ratios (%)</b>					
RoE	21.5%	17.7%	6.5%	16.3%	-3.50%
RoA	1.8%	1.6%	0.5%	1.3%	-0.30%
NIM	3.4%	3.5%	3.2%	3.3%	2.7%

Net Interest Income (NII)	5797	7737	9809	4637	4467
Non Interest Income	4157	5224	4590	3168	2219
Operating Profit	5838	7748	8135	4821	3417
Prov.& Cont.excl.tax	793	1554	5778	1566	3120
PAT	3330	4225	1720	2225	-486
Cost to Income Ratio	41.4%	40.2%	43.5%	38.2%	48.9%
<b>Asset Liability Profile (%)</b>					
Loans/Deposit Ratio	92.6%	101.4%	106.1%	107.5%	107.2%
Gross NPAs to Advances	1.5%	1.3%	3.2%	1.6%	7.4%
Net NPAs to Advances	0.8%	0.6%	1.9%	0.8%	4.4%
Restructured Portfolio as a % of Gross Advances	0.4%	0.3%	0.1%	0.1%	0.1%
Gross NPA% + Restructured (Stressed Advances)	1.9%	1.4%	3.3%	1.7%	7.5%
Provision Coverage Ratio	46.9%	50.0%	43.1%	47.8%	43.1%
<b>CRAR</b>	17.0%	18.4%	16.5%	17.0%	16.3%
<i>Tier I</i>	13.3%	13.2%	11.3%	11.9%	11.5%
<i>CET -I</i>	11.4%	9.7%	8.4%	9.0%	8.7%
<i>AT-I</i>	1.9%	3.5%	2.9%	2.9%	2.8%
<i>Tier II</i>	3.7%	5.2%	5.2%	5.0%	4.8%

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY -nil**

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]**

S No	Instrument	Current Rating			Rating History				
		Type	Amount (₹ Crs)	Rating	05 Aug 2019	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- (Negative) Downgrade	BWR A+ (Negative) Downgrade	BWR AA- (Negative) Downgrade	BWR AA+ (Credit Watch with Developing Implications)	BWR AA+ (Stable) Reaffirmed	BWR AA+ (Stable) Reaffirmed
2	Upper Tier II	Long Term	450 (raised ₹ 440 Cr)	BWR A- (Negative) Downgrade	BWR A+ (BWR A Plus) (Outlook: Negative) Downgrade	BWR AA- (Negative) Downgrade	BWR AA+ (Credit Watch with Developing Implications)	BWR AA+ (Stable) Reaffirmed	BWR AA+ (Stable) Reaffirmed

3	Hybrid Tier I	Long Term	90 (raised ₹ 82 Cr)	BWR A- (Negative) Downgrade	BWR A + (Negative) Downgrade	BWR AA- (Negative) Downgrade	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 A (Negative) Downgrade	BWR AA- (Negative) Downgrade	BWR AA (Negative) Downgrade	BWR AA+ (Credit Watch with Developing Implications)	BWR AA+ (Stable) Reaffirmed	BWR AA+ (Stable) Reaffirmed
5	Lower Tier II	Long Term	260	BWR A (Negative) Downgrade	BWR AA- (Negative) Downgrade	BWR AA (Negative) Downgrade	BWR AA+ (Credit Watch with Developing Implications)	BWR AA+ (Stable) Reaffirmed	BWR AA+ (Stable) Reaffirmed
Total			1330	INR One Thousand Three Hundred Thirty Crores Only					

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

## COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Bank & Financial Institutions](#)
- [Basel III Compliant Instruments](#)

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**YES BANK LIMITED  
ANNEXURE I  
INSTRUMENT DETAILS**

<b>Instrument</b>	<b>Issue Date</b>	<b>Amount Rs. Crs.</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>ISIN Particulars</b>
Lower Tier II Bonds	22-Jan-2010	300	9.65%	22-Jan-2020	INE528G08147
Lower Tier II Bonds	30-Sep-2009	260	9.65%	30-Apr-2020	INE528G08139
Innovative Perpetual Debt Instrument	21-Aug-2010	230	9.90%	Perpetual	INE528G09079
Upper Tier II Bonds	14-Aug-2010	450	9.65%	14-Aug-2025	INE528G08154
Hybrid Tier I Bonds	05-Mar-2010	90	10.25%	Call option after 10 years	INE528G09061

**Total Rupees One Thousand Three Hundred Thirty Crores Only**

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