

India Ratings Downgrades Yes Bank to 'IND A-'; Maintains on RWN

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India Ratings and Research (Ind-Ra) has downgraded Yes Bank Ltd's Long-Term Issuer Rating to 'IND A-' from 'IND A', while maintaining it on 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 A-/RWN	Downgraded; Maintained on RWN
Additional Basel III Tier 1 (AT1) bonds	-	-	-	INR111	IND BBB-/RWN	Downgraded; Maintained on RWN
Infrastructure bonds	-	-	-	INR35.8	IND A-/RWN	Downgraded; Maintained on RWN

*Details in annexure below

The downgrade reflects the continued delay and inconclusive quantum of the anticipated equity infusion in Yes Bank. Ind-Ra believes this could adversely impact the bank's franchise and potentially create challenges on asset and liability side. The agency notes that the bank has sizable foreign currency liabilities and institutional deposits. This rating action is a follow up of the rating rationale published by the agency on 28 January 2020, where the agency had stated that the rating would be reviewed in February 2020.

Ind-Ra is of the view that the required capital infusion is critical for providing sufficient cushion to the possible credit cost impact from the stressed asset pool on regulatory capital requirement in the short- and medium-term, as well as for the bank's ability to continue to serve its customers adequately.

Although the liquidity position of the bank seemed adequate at end-September 2019 (liquidity coverage ratio of 114%), Ind-Ra believes that, in the absence of any swift capital raise, the bank's ability to manage its asset and liability maturities could get tested further.

The bank continues to remain in discussions with various potential investors. However, Ind-Ra believes raising sizeable capital in the very near term could be challenging and could require various regulatory and other approvals. The rating could be reviewed towards February-end 2020.

For rating AT1 instruments, the agency considers the discretionary component, coupon omission risk, and write-down/conversion risk as the key parameters. The agency has recognised the unique going concern loss absorption features of these bonds and differentiated them from the bank's senior debt (by three notches in this case). Ind-Ra envisages coupon deferrals and principal write-down risk as a modest possibility in view of Yes Bank's revenue reserve buffers.

KEY RATING DRIVERS

Delays in Capital Raising; Uncertainty regarding Quantum and Timing: Yes Bank had initially planned to raise capital of over USD1.2 billion in FY20. Although the bank had announced plans of raising USD2 billion of equity during the year, the bank's board has rejected the binding term sheets of USD1.2 billion offered by Canadian investor SPGP Group/Erwin Singh Braich. Additionally, the decision to consider the binding term sheet of USD500 million by Citax Investment Group is yet to be favourably finalised by the board. Furthermore, the various approvals that the bank and/or the investors may require could extend the timeline of the proposed equity infusion.

At end-September 2019, the CET1 adjusted for provision divergence was about 8.5% against the published figure of 8.7%. In addition to the CET1 being lower than most private sector banks (the median of about 12% for private banks rated 'IND A+' and above), it is accompanied by lower provisions on large corporate exposures and stressed book that is almost 1.5x its GNPA's (at end-September 2019, adjusted for divergence on FY19 numbers, the portion of the loan book rated 'BB' and below amounted to INR300 billion and gross NPAs amounted to INR200 billion).

Furthermore, the bank's exposure concentration (top 20 exposures to the total equity) decreased to 2.3x in 1HFY20 from 2.5x in FY19 (2.16x in FY18), while the next highest concentration in the private banking pack rated 'IND A+' and above was 1.54x. Typically, banks with higher concentrations will also maintain higher capital buffers or should have significant capital raising ability.

Concurrent Credit Migration in Certain Exposures: Some of the bank's corporate exposure spread over multiple sectors has witnessed rapid credit migration over the last few quarters. In the agency's opinion, the attempts made by some of these borrowers towards resolutions could take longer than expected to yield results, and a large part of the credit overhang will persist. Ind-Ra continues to factor in the bank's largely unseasoned loan book on account of high loan growth during FY17-FY18; repayments on some of its corporate exposures are contingent on liquidity events. GNPA's and loan accounts rated 'BB' and below are about 20% (end-September 2019) of its total book. Some of the exposures are on the bank's investment book and could attract mark-downs (some of them are marked down by over 20%) and might be covered as provisions on investments.

In Ind-Ra's assessment, in FY21, the base case adjusted credit costs (expected provisions and investment markdowns to average assets) might continue to be elevated and further increase, especially if the liquidity events in the stressed groups are delayed substantially/do not pan out.

Liquidity Indicator - Adequate: The concentration of Yes Bank's current account deposits is higher than that of its peers, while that of its overall deposit profile is comparable. It has replaced most of its certificate of deposits and medium-term notes (partially) with deposits and borrowings in a tight liquidity scenario and additionally witnessed 13% yoy growth in deposits in FY19. Meanwhile, the proportion of retail term deposits increased to about 31% at end-1HFY20 from 20.8% at end-FY17 and 25.7% at end-1QFY20. The bank's asset-liability profile has deteriorated marginally; its short-term asset funding gap (excess of liabilities over assets) increased to about 8% in 1HFY20 (FY19: 7%, FY18: 0.4%). Also, it witnessed a decline in current account and savings account deposits (each category decreased by about INR50 billion in the last four quarters till September 2019). The bank's liquidity coverage ratio was 114% at end-September 1HFY20 as against the regulatory requirement of 100%.

RATING SENSITIVITIES

The RWN indicates that the rating will be either affirmed or downgraded. The RWN would be resolved depending on the quantum and the timing of equity infusion.

COMPANY PROFILE

Yes Bank is a new generation private bank headquartered in Mumbai. It was incorporated in 2004 and has grown to become a full service commercial bank. The bank reached an asset size of INR3,465.8 billion at end-September 2019, with a net profit of INR17.2 billion in FY19. At FYE19, the bank had network of more than 1,100 branches and more than 1,700 ATMs (including bunch note acceptors) spread across the country.

FINANCIAL SUMMARY

Particulars	FY19	FY18
Total assets (INR billion)	3,808.26	3,124.46
Total equity (INR billion)	269.04	257.58
Net income (INR billion)	17.20	42.25
Return on assets (%)	0.5	1.6
CET1 (%)	8.4	9.7
Capital adequacy ratio (%)	16.5	18.4
Source: YES Bank		

RATING HISTORY

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook				
	Rating Type	Rated Limits (billion)	Rating	28 January 2020	31 August 2019	8 May 2019	2 November 2018	19 February 2018
Issuer rating	Long-term/Short-term	-	IND A-/RWN	IND A/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 A-/RWN	IND A/RWN	IND A+/Negative	IND AA-/Negative	IND AA+/Negative	IND AA+/Stable
Additional Tier-1 Basel III Bonds	Long-term	INR111	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 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
Additional Tier-1 Basel III bonds	INE528G08394	18 October 2017	9.0	Perpetual	INR54.15	IND BBB-/RWN
Additional Tier-1 Basel III bonds	INE528G08352	23 December 2016	9.5	Perpetual	INR30	IND BBB-/RWN
Total utilised					INR84.15	
Total unutilised					INR26.85	
Infrastructure bonds	INE528G08360	29 December 2016	7.62	29 December 2023	INR3.3	IND A-/RWN

Total utilised					INR3.3	
Total unutilised					INR32.5	
Basel III Tier 2 Bonds	INE528G08378	29 September 2017	7.8	29 September 2027	INR25	IND A-/RWN
Basel III Tier 2 Bonds	INE528G08386	3 October 2017	7.8	1 October 2027	INR15	IND A-/RWN
Basel III Tier 2 Bonds	INE528G08402	22 February 2018	8.73	22 February 2028	INR30	IND A-/RWN
Basel III Tier 2 Bonds	INE528G08410	14 September 2018	9.12	15 September 2028	INR30.42	IND A-/RWN
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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