

## India Ratings Downgrades Yes Bank to 'IND BB-'; Maintains RWN

# 06

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By [Jindal Haria](#)

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

\*Details in annexure

### KEY RATING DRIVERS

The rating action is based on the gazetted notification issued by the finance ministry (banking division) on 5 March 2020 where, through an order of moratorium, it has stayed the commencement or continuance of all actions and proceedings against Yes Bank till 3 April 2020. The bank cannot make a payment of above INR50,000 to any of its depositors till the duration of moratorium, with some exceptions. The agency also takes cognizance of the Reserve Bank of India (RBI) circular, dated 5 March 2020, titled 'Yes Bank Ltd. Placed under Moratorium' where it refers to the aforementioned orders and also mentions that a scheme could be drawn up before the end of moratorium for the bank's reconstruction or amalgamation with the approval of central government. The RBI has appointed Mr. Prashant Kumar, ex-DMD and CFO of State Bank of India ([IND AAA/Stable](#)) as the administrator for Yes Bank after the super-session of its board of directors.

The agency also refers to the draft reconstruction scheme for Yes Bank issued by the RBI today. The scheme incorporates State Bank of India's plan to infuse substantial equity into Yes Bank to hold up to 49% shares in the latter. In addition, the plan, while suggesting for a full write-down /conversion of AT1 investments / bonds, also proposes that all other liabilities including deposits would be honoured. The Finance Minister today mentioned publicly that the depositor interest would be protected and the depositors would not be taking haircuts.

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 four notches in this case). In Ind-Ra's opinion, the possibility of exploring principal write-down in AT1 instruments in the bank's resolution remains high. However, the coupon deferral as well as principal write-down is part of the terms and conditions of Basel III standard term sheets; coupon deferral is at the discretion of the issuer, while the discretion applies to AT1 principal write-down / conversion under certain conditions.

While Basel III Tier 2 instruments are senior to Basel III AT1 instruments, there is a possibility, however remote, that loss absorption may be explored if the point of non-viability is invoked. As per Ind-Ra's criteria 'Rating Bank Subordinated and Hybrid Securities', the ratings of Tier 2 instruments are notched down by at least one notch from the Long-Term Issuer Rating if the latter is in the 'IND BBB' category or lower.

Liquidity Indicator – Poor: The liquidity indicator for the bank is stretched on account of the above restrictions. Ind-Ra is also attempting to understand the quantum and the outcomes of covenant breaches that could have occurred on the bank's foreign borrowings.

### RATING SENSITIVITIES

The resolution plan that is being readied for the bank and the ability of the bank to maintain reasonable liability profile to continue its business 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 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. The bank is now placed under the moratorium by the finance ministry and RBI.

### 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/Rating Watch/Outlook					
	Rating Type	Rated Limits (billion)	Rating	12 February 2020	28 January 2020	31 August 2019	8 May 2019	2 November 2018	19 February 2018
Issuer rating	Long-term/Short-term	-	IND BB-/RWN	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 B+/RWN	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 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-/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
Additional Tier-1 Basel III bonds	INE528G08394	18 October 2017	9.0	Perpetual	INR54.15	IND C
Additional Tier-1 Basel III bonds	INE528G08352	23 December 2016	9.5	Perpetual	INR30	IND C
Total utilised					INR84.15	
Total unutilised					INR26.85	
Infrastructure bonds	INE528G08360	29 December 2016	7.62	29 December 2023	INR3.3	IND BB-/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 B+/RWN
Basel III Tier 2 Bonds	INE528G08386	3 October 2017	7.8	1 October 2027	INR15	IND B+/RWN
Basel III Tier 2 Bonds	INE528G08402	22 February 2018	8.73	22 February 2028	INR30	IND B+/RWN
Basel III Tier 2 Bonds	INE528G08410	14 September 2018	9.12	15 September 2028	INR30.42	IND B+/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

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

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