YBL/CS/2020-21/16

June 06, 2020

National Stock Exchange of India Limited
Exchange Plaza, Plot no. C/1, G Block
Bandra - Kurla Complex, Bandra (E)
Mumbai - 400 051
NSE Symbol: YESBANK

BSE Limited
Corporate Relations Department
P.J. Towers, Dalal Street
Mumbai – 400 001
BSE Scrip Code: 532648

Dear Sirs,

Subject: Press release on Credit Ratings by CRISIL

Please find enclosed the credit rating and rational assigned by CRISIL to debt instruments of the Bank.

Kindly take the above on record.

The same is being hosted on the Bank's website www.yesbank.in in terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Thanking you,

For YES BANK Limited

Shivanand Shettigar
Group Company Secretary

Encl.: as above

Ratings

CRISIL
An S&P Global Company

Rating Rationale

June 05, 2020 | Mumbai

YES Bank Limited

'CRISIL BBB/Stable' assigned to debt instruments

Rating Action

Rs.13941 Crore Tier II Bonds (Under Basel III)	**CRISIL BBB/Stable (Assigned)**
Rs.3780 Crore Infrastructure Bonds	**CRISIL BBB/Stable (Assigned)**
Rs.20000 Crore Certificate of Deposits	**CRISIL A2 (Reaffirmed)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has assigned its **'CRISIL BBB/Stable'** rating to the Tier II bonds (under Basel III) of Rs 13,941 crore and infrastructure bonds of Rs 3,780 crore of Yes Bank Limited (Yes Bank), and has reaffirmed its 'CRISIL A2' rating on certificates of deposit.

The ratings are underpinned by the expectation of continued extraordinary systemic support from key stakeholders and sizeable ownership by State Bank of India (SBI).

CRISIL has taken note of the Yes Bank Ltd Reconstruction Scheme, 2020, (the Scheme) that was notified by the Government of India (GoI) on March 13, 2020. The Scheme followed the imposition of a moratorium on Yes Bank by the central government on March 5, 2020, under Section 45 of the Banking Regulation Act, 1949. Pursuant to the Scheme, key stakeholders, including the Reserve Bank of India (RBI), have undertaken various measures to bolster the bank's liquidity.

The moratorium was lifted on March 18, 2020, and the bank has since been providing full-fledged banking services to customers. The Scheme involved, among other measures, equity infusion of Rs 10,000 crore by 8 entities, mainly banks led by SBI, and the reconstitution of Yes Bank's board with Mr Prashant Kumar (former Deputy Managing Director and Chief Financial Officer of SBI) taking over as Managing Director and Chief Executive Officer.

However, the ability of the bank to limit further deposit outflow, and to build a strong retail liabilities franchise and a stable and sound operating business model with strong compliance and governance framework over the medium term, needs to be demonstrated. Additionally, the bank's asset quality is weak and the impact of the shift in business model to focus on granular retail segments will need to be seen over a longer period. These will be key rating monitorables.

The nationwide lockdown declared by GoI to contain the spread of Covid-19 pandemic has impacted disbursements and collections of financial institutions. The lockdown and restrictions are now being lifted in phases. Any delay in return to normalcy will increase pressure on collections and hence asset quality. The bank has also offered a moratorium to borrowers and its collections are hence expected to be low in the near term. Additionally, any change in payment discipline of borrowers can affect delinquency levels post the moratorium. Given this, gross non-performing assets (NPAs) could rise due to weakening in most sectors. This may increase the credit cost in fiscal 2021, thereby impacting the profitability of the bank, and will be a key monitorable.

Analytical Approach

For arriving at its ratings, CRISIL has combined the business and financial risk profiles of Yes Bank and its subsidiaries, because of the majority shareholding, business and financial linkages, and shared brand. CRISIL has also factored in the expectation of extraordinary systemic support for Yes Bank.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

*** Continued extraordinary systemic support**

CRISIL's rating centrally factors in the extraordinary systemic support from key stakeholders. All the key stakeholders, including the Ministry of Finance, RBI, and SBI have reiterated in various forums that depositors' money in Yes Bank is safe and they will continue to ensure the safety of deposits through various measures, if required. This systemic support has primarily come in three forms.

First, to protect the interests of the public and depositors, RBI and GoI came together to implement the restructuring Scheme within a short time. As part of the Scheme, the RBI appointed an Administrator to oversee its implementation. Furthermore, pursuant to the Scheme, 8 entities, primarily other banks, have infused Rs 10,000 crore equity in the bank, bolstering its capital ratios, which had weakened significantly following the large loss in the third quarter of fiscal 2020 on account of higher provisions. The capital infusion along with write-down of Additional Tier I (ATI) bonds, improved the bank's Common Equity Tier I (CET1) ratio and overall capital adequacy ratio (CAR) to 6.3% and 8.5%, respectively as on March 31, 2020, from 0.6% and 4.1%, respectively, as on December 31, 2019. However, the ratios remain lower than the regulatory requirements. Nevertheless, the bank is in the process of raising additional capital in the near term. This has been factored into the rating and is a key monitorable.

Second, systemic support has come in to bolster the bank's liquidity. Key stakeholders are expected to continue to provide liquidity support. Yes Bank has also raised certificates of deposit from various banks which helped it support deposit withdrawals. Refinance from financial institutions is also available if needed. Furthermore, Yes Bank can raise funds through securitisation and inter-bank participation certificates. CRISIL believes Yes Bank will be able to tap these sources if there is further withdrawal of a large quantum of deposits.

Third, SBI, the largest bank in India, is taking the lead in supporting Yes Bank in various forms. Over 60% (Rs 6,050 crore) of the equity infusion of Rs 10,000 crore has come from SBI, making it the single largest stakeholder in Yes Bank with a shareholding of 48.21%. SBI is also an investor in Yes Bank's certificates of deposit. Two directors on the board of Yes Bank are from the SBI. Furthermore, SBI has publicly articulated that for the next three years, it will not sell any of its stake in Yes Bank. The rating on Yes Bank reflects this articulated stance of SBI and any change in this will be a key rating sensitivity factor.

Weaknesses:

*** Modest resource profile - ability to limit further deposit outflow and to build a retail liabilities franchise over the medium term needs to be demonstrated**

Yes Bank has witnessed a steady outflow of deposits in the past few quarters given the challenges faced and the adverse news reports about the bank. Just between December 31, 2019, and March 5, 2020, the deposit base shrunk by around Rs 28,000 crore. Furthermore, after the moratorium, the bank saw deposit withdrawals of around Rs 30,000 crore between March 18 and March 31, 2020. As on March 31, 2020, deposits stood at Rs 105,364 crore.

The deposit base has stabilised post March 31, 2020, with the bank's increased efforts to restrict deposit outflow and bring in new depositors. Total deposits as on May 02, 2020 stood at Rs 102,717 crore. Building back the liability franchise is the top priority of the management and the bank has taken various steps and initiatives in this regard. The bank has initiated a new campaign with 'Safety First' tagline and has moved away from the interest rate campaigns with the overall strategy focussed on acquiring new customers, retaining existing clients, and winning back lost customers. It has been in touch with existing depositors to address concerns, and key stakeholders have provided public assurances regarding the safety of deposits in Yes Bank.

However, deposits tend to be highly confidence-sensitive. Given the recent events, it remains to be seen if there will be any further deposit withdrawal in the near future. Nevertheless, liquidity support measures mitigate the risk.

The extent of any further withdrawal will be a key monitorable. The ability of the bank to not only limit the decline in deposits, but also build a retail liabilities franchise thereon on a steady state basis will be a critical determinant in building a stable business model.

*** Weak asset quality, impacting profitability**

The bank witnessed a sharp increase in slippages in the second half of fiscal 2020, largely stemming from challenges in the corporate loan book. This led to a significant increase in gross NPAs to 16.8% as on March 31, 2020, from 7.4% as on September 30, 2019 (3.2% as on March 31, 2019). While it declined from 18.9% as on December 31, 2019, this was primarily due to write-offs.

As a result and because of the associated provisioning cost, Yes Bank reported a large loss of Rs 22,715 crore (excluding the extraordinary profit from the write down of Tier-I bonds) for fiscal 2020.

The Special Mention Account -1 (SMA-1) and SMA-2 portfolio totalled around Rs 11,100 crore as on March 31, 2020, which was almost 6.4% of net advances. Any further material slippage, particularly given the challenging macroeconomic environment amid the Covid-19 outbreak, can potentially impact the bank's earnings, and thereby, its capital position.

The bank plans to focus on granular retail asset segments. Over the medium term, the share of the retail portfolio is targeted to increase to around two-thirds of the portfolio. However, given the intense competition, ability to scale up this book while maintaining asset quality and profitability needs to be seen. Build-up of a sound operating model and strengthening of governance and compliance framework will also be critical for the long-term success of the bank and will be key rating monitorables.

<u>Liquidity Adequate</u>

Liquidity coverage ratio was 40.0% as on March 31, 2020, against the then regulatory requirement of 100%. Nevertheless, the regulator and SBI, the largest shareholder, continues to support the bank with liquidity in various forms.

Outlook: Stable
CRISIL believes Yes Bank will continue to receive extraordinary systemic support over the medium term.

Rating Sensitivity factors
Upward factors:
* Stability in deposit base, with no material reduction from current levels
* Improvement in asset quality and profitability

Downward factors:
* Any change in expectation of systemic support from key stakeholders, including RBI, or material decline in SBI's ownership
* Significant contraction in deposit base over a prolonged period
* Capital adequacy ratios remaining below minimum regulatory requirements over an extended period of time
* Any adverse observations by investigative agencies or regulators

About the Bank
Set up in 2004, Yes Bank is a private sector bank with total assets of Rs 2,57,827 crore, total advances of Rs 1,71,443 crore, and a network of 1,135 branches as on March 31, 2020.

On March 5, 2020, the central government imposed a moratorium on Yes Bank, based on RBI's assessment of lack of a credible revival plan by the bank, and in the interest of the public and depositors. During the moratorium that was initially slated to last till April 3, 2020, Yes Bank could not, without written permission from RBI, pay any depositor or creditor a sum exceeding Rs 50,000. The bank was also restricted from lending. Pursuant to the regulatory requirements for hybrid debt capital instruments, approval from the RBI is required for debt servicing (including principal repayments) in the event that the Bank reports a loss and is not liable to service the debt if its breaches the minimum regulatory capitalisation conditions. The coupon payment with respect to Bank's Basel II Tier I bonds amounting to '�'8.4 crores was due on March 5, 2020. While the Bank had submitted an application for the payment of interest on January 5, 2020, the RBI did not permit the payment of interest.

Following equity infusion of Rs 10,000 crore by 8 financial institutions under the Scheme, and with write down of Basel III ATI bonds aggregating Rs 8,415 crore (the first such instance in India), the capital position of the bank has improved significantly. As on March 31, 2020, post the capital infusion, the CET1 ratio is 6.3% compared with 0.6% as on December 31, 2019, while the overall CAR is 8.5% compared with 4.1%. However, this is lower than the regulatory requirement. As on date, the bank is offering full-fledged banking services to its customer.

The bank had a loss of Rs 22,715 crore and total income of Rs 10,247 crore in fiscal 2020, against a profit of Rs 1,720 crore and total income of Rs 14,399 crore in fiscal 2019.

Key Financial Indicators (Standalone)

As on/for the year ended M4ar 31,	Unit	2019	2020
Total assets	Rs crore	380826	257827
Net Advances	Rs crore	241500	171443
Deposits	Rs crore	227610	105364
Total income (net of interest expense)*	Rs crore	14399	10247
Profit after tax*	Rs crore	1720	-22715
Gross NPAs	%	3.2	16.8
Net NPAs	%	1.9	5.0
Provision coverage ratio (PCR)	%	43.1	73.8
Tier I capital adequacy ratio	%	11.3	6.5
Overall capital adequacy ratio	%	16.5	8.5
Return on assets (annualised)	%	0.5	-7.1

**Excluding extraordinary income through write down of tier 1 bonds*

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of	Coupon	Maturity date	Issue size	Rating assigned

		allotment	rate (%)		(Rs Crore)	with outlook
INE528G08360	Infrastructure Bonds	29/Dec/16	7.62%	29/Dec/23	330	CRISIL BBB/Stable
INE528G08345	Infrastructure Bonds	30/Sep/16	8.00%	30/Sep/26	2,135	CRISIL BBB/Stable
INE528G08295	Infrastructure Bonds	05/Aug/15	8.95%	05/Aug/25	315	CRISIL BBB/Stable
INE528G08279	Infrastructure Bonds	24/Feb/15	8.85%	24/Feb/25	1,000	CRISIL BBB/Stable
INE528G08287	Basel III Compliant Tier II Bonds	29/Jun/15	9.15%	30/Jun/25	554	CRISIL BBB/Stable
INE528G08303	Basel III Compliant Tier II Bonds	31/Dec/15	8.90%	31/Dec/25	1,500	CRISIL BBB/Stable
INE528G08311	Basel III Compliant Tier II Bonds	15/Jan/16	9.00%	15/Jan/26	800	CRISIL BBB/Stable
INE528G08329	Basel III Compliant Tier II Bonds	20/Jan/16	9.05%	20/Jan/26	500	CRISIL BBB/Stable
INE528G08337	Basel III Compliant Tier II Bonds	31/Mar/16	9.00%	31/Mar/26	545	CRISIL BBB/Stable
INE528G08378	Basel III Compliant Tier II Bonds	29/Sep/17	7.80%	29/Sep/27	2,500	CRISIL BBB/Stable
INE528G08386	Basel III Compliant Tier II Bonds	03/Oct/17	7.80%	01/Oct/27	1,500	CRISIL BBB/Stable
INE528G08402	Basel III Compliant Tier II Bonds	22/Feb/18	8.73%	22/Feb/28	3,000	CRISIL BBB/Stable
INE528G08410	Basel III Compliant Tier II Bonds	14/Sep/18	9.12%	15/Sep/28	3,042	CRISIL BBB/Stable
NA	Certificate of Deposits Programme	NA	NA	7-365 Days	20,000	CRISIL A2

Annexure - List of entities consolidated

Entity consolidated	Extent of consolidation	Rationale for consolidation
YES SECURITIES (India) Ltd	Full	Subsidiary
YES Asset Management (India) Ltd	Full	Subsidiary
YES Trustee Ltd	Full	Subsidiary

Annexure - Rating History for last 3 Years

	Current			2020 (History)		2019		2018		2017		Start of 2017
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Certificate of Deposits	ST	20000.00	CRISIL A2	19-03-20	CRISIL A2		--		--		--	--
Infrastructure Bonds	LT	3780.00 05-06-20	CRISIL BBB/Stable		--		--		--		--	--
Tier II Bonds (Under Basel III)	LT	13941.00 05-06-20	CRISIL BBB/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Links to related criteria
[Rating Criteria for Finance Companies]()
[CRISILs Criteria for Consolidation]()
[CRISILs Criteria for rating short term debt]()

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