YBL/CS/2023-24/090

August 24, 2023

National Stock Exchange of India Limited
Exchange Plaza, Plot no. C/1, G Block,
Bandra - Kurla Complex, Bandra (E)
Mumbai - 400 051
Tel.: 2659 8235/36 8458
NSE Symbol: YESBANK

BSE Limited
Corporate Relations Department
P.J. Towers, Dalal Street
Mumbai – 400 001
Tel.: 2272 8013/15/58/8307
BSE Scrip Code: 532648

Dear Sir/Madam,

Sub: Update on Credit Ratings

In terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to update that the **India Ratings**, has issued a rating release, upgrading the ratings and reaffirmed the outlook to stable. Instruments wise rating and outlook are as detailed below:

Instrument	**Rating Action / Outlook**
Infrastructure Bonds	**IND A /Stable** *(Upgraded from 'IND A-' and outlook reaffirmed as 'Stable')*
Basel III Tier II Bonds	**IND A /Stable** *(Upgraded from 'IND BBB+' and outlook reaffirmed as 'Stable')*

We request you to kindly take the same on your record. The press release on ratings and the rational is enclosed herewith.

The same is also being hosted on the Bank's website at www.yesbank.in

Thanking you,

Yours faithfully,

For YES BANK LIMITED
SHIVANAND RAMA SHETTIGAR
Digitally signed by SHIVANAND RAMA SHETTIGAR
Date: 2023.08.24 18:47:08 +05'30'

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India Ratings Upgrades Yes Bank to 'IND A', Outlook Stable

Aug 24, 2023 | Private Sector Bank

India Ratings and Research (Ind-Ra) has upgraded Yes Bank Ltd's Long-Term Issuer Rating to 'IND A' from 'IND A-'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type*	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Infrastructure bonds	-	-	-	INR35.8	IND A/Stable	Upgraded
Basel III Tier 2 bonds	-	-	-	INR110	IND A/Stable	Upgraded

*Details in Annexure

The rating upgrade factors in the bank's improved asset quality, negligible requirement of provisioning on legacy stressed assets, a continued improvement in deposit profile and retail assets in a competitive environment, a better post-Covid-19 environment and the enhanced business proposition of the bank. The bank's Tier 2 instruments are now equated with its long-term rating, in line with the criteria as there is more certainty about the bank's performance. The rating is constrained by the fact that the bank is developing its franchise; it aims to also grow mainstream retail products over the near-to-mid-term and to continue to see a significant improvement in its deposit profile, somewhat better than that of other banks. The impending legal proceedings on the additional tier 1 bonds would limit the growth capital of Yes Bank if the outcome of the same is adverse for the bank.

Ind-Ra's criteria 'Rating Bank Subordinated and Hybrid Securities' states that 'for banks with unsupported ratings, typically in the lower end of 'IND A' category or lower, have historically shown greater volatility in capital levels, profits, which could stem from regional and sector concentrations, together with relatively limited funding and equity franchises. The ratings of Tier II instruments of these banks may therefore be rated one notch lower than the Long-Term Issuer Ratings for their incremental non-performance risk relative to those of higher-rated banks'.

Key Rating Drivers

Capital Levels Adequate; Legal Proceedings Could impact the CET1: Yes Bank's capital to risk (weighted) assets ratio (CRAR) of 18.3%, Tier 1 capital of 13.6%, CET1 of 13.6% at end-1QFY24, along with the likely accruals and conversion of residual warrants seems adequate for the bank's growth plans (this excludes about 1.2% of CET1 that would have accrued if the existing warrants would have converted). As per Ind-Ra's assessment, the impact of the adverse outcome of the Supreme Court's ruling on the AT1 write-off at the time of the reconstruction of the bank would be that the CET1 of the bank may end up at about 10.3% from the current levels ceteris paribus while Tier 1 would remain at the same levels. This does not take into account the treatment for the interest payment on the reinstated Additional Tier if at all Ind-Ra assumes the interest discretion on AT1 would apply throughout. Also, there may not be cashflow pressure on reinstatement of AT1 because these are perpetual bonds. Given the bank's improved asset quality, provision levels, retailsation of assets and liabilities, and reasonable growth expectations, the current capital levels may be adequate even thereafter but with diminished capital buffers. Till the time the matter of AT1 write-offs is decided by the Supreme Court, the bank will continue to accrue capital. The bank carried deferred tax assets of INR89 billion at FYE23, which were reduced from the net worth to arrive at the CET-1; with the utilisation of deferred tax assets, marginal amounts of capital will be released.

Improvement in Deposit Profile: Yes Bank's deposits increased to INR2.17 trillion in FY23 (FYE22: INR1.97 trillion); the bank has also maintained its current account and savings account (CASA)at similar levels (FY23: 30.8%, FY22: 31.1%). While its saving account (SA) saw a 5% dip in FY23 over the previous year, the current account (CA) increased by almost 27%. Its cost of deposits increased to 5.2%. It may also be noted that the bank's average CA, SA per account have been declining marginally, indicating increasing granular traction and lowering concentration of deposits. In addition, the top 20 depositors declined to 12% in FY23 from 14.2% FY22. Yes Bank's deposit profile improved over the past two-three years due to the following strategies: new customer accretion, increasing transactional flows through cash management, digital payment capabilities, winning back of erstwhile depositors, and higher weightage of liability-related aspects in the performance evaluation of employees, especially for customer facing roles. In the agency's opinion, the potential increase in the bank's deposit costs would be higher than for other banks as the bank is in the process of building up its liability franchise. This may pressure net interest margin or plateau them, assuming yields are fully priced in.

Liquidity Indicator – Adequate: The bank's short-term gap (excess of liability over assets in the short term) in the asset-liability maturity statement (ALM), as per the annual report, improved from 23% in FY22 to 15% in FY23. Yes Bank's share of retail deposits improved to 54% in 1QFY24 from 52% in FY23 and 50% at end 1QFY23 while the share of retail advances grew to 47% from 38% yoy – both of which are conducive to a favourable ALM. As advances and deposits see lower concentrations, the chunkiness reduces and consequently, the ALM improves. In addition, the bank maintained excess SLR of INR50 billion-150 billion through FY23. Moreover, Yes Bank saw growth of about 10% in the total deposits in FY23, marginally better than the overall banking industry. The bank's liquidity coverage ratio for 1QFY24 was 127%. Assuming a normal business scenario, Ind-Ra does not expect the bank to face challenges related to raising funds from the interbank market.

The bank has foreign loans and liabilities in its international business unit book; however, these are more or less matched in the short term. Yes Bank has a reasonable ability to mobilise deposits, especially as it offers rates higher than most mainstream banks. The quarterly average liquidity coverage ratio of the bank was 127% at end-1QFY24 (FY23:125.3%, FY22: 114%).

Asset Quality Outlook Benign: As the impact of Covid waned and the overall macro-economic situation along with the operating environment for banks improved, Yes Bank also, as most banks, saw a significant improvement in its asset quality and improved recoveries. While the bank sold a large part of its non-performing asset portfolio to JC Flowers ARC in FY22 (as per the sale transaction, the bank received security receipts of INR49.8 billion). The NNPA + net carrying value of SRs at end-1QFY24 was about 2.4%. In addition, the bank has seen significant reduction in its special mention account (SMA) portfolio, restructured portfolio and stress corporate exposure in its top corporate exposures list. The bank also has relatively higher exposures to hotels and real estate where the operating environment and economics are improving. Its standard restructured assets declined to INR46.8 billion from INR64.5 billion in four quarters even as its SMA 2 assets declined by about 60% to about INR25.9 billion yoy. The bank saw upgrades and recoveries of about INR61.20 billion in FY23 and expects the pace to continue in FY24 too. Overall, with the current levels of capital, the expected operating buffers and upgrades and recoveries, the bank's asset quality is likely to be manageable, according to the management.

Modest Profitability to Continue: Ind-Ra expects, in FY24, the yields, deposit costs and non-interest incomes, instead of credit costs, would drive the profitability. In a competitive environment, it may not be easy for the bank to maintain them as well as the transmit interest rate increases; also, some of the higher yield corporate loans may mature or get refinanced. On the other side, the costs of deposits may continue their upward trajectory, albeit at a low pace, as the competition for the same remains high while the competition for low-cost CASA deposits remains intense. The non-interest income growth is likely to be better on the back of growth in the bank's portfolio and normalised treasury operations. Ind-Ra expects the bank's credit costs to be between 1% and 1.5% and the pre-provision operating profit to advances to be around 2%.

Rating Sensitivities

Positive: A sustained increase in the franchise and scale, along with a considerable improvement in the width and depth of retail franchise, with a more granular funding and asset mix along with material improvement in low-cost deposits and asset-liability maturity gap, while building stronger capital levels, peer-comparable operating buffers and continued material traction in recoveries could lead to a positive rating action.

Negative: Material deterioration in the asset quality, an impairment in the funding profile, and a sizeable drop in the provision cover or Tier1 falling below 12%, could also lead to negative rating action.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on Yes Bank, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

Yes Bank was established in 2004 as a new-generation private sector bank, headquartered in Mumbai. It was incorporated in 2004 and has grown to become a full-service commercial bank, providing complete range of products, services and digital offerings, catering to corporate, micro, small and medium enterprises and retail customers. The bank had 1,122 branches and 1,244 automated teller and cash recycling machines at end-1QFY24.

FINANCIAL SUMMARY

Particulars (INR billion)	FY23	FY22
Total assets	3,547.9	3,182.2
Total equity	407.42	337.4
Net income	7.17	10.7
Return on assets (%)	0.2	0.4
CET-1 (%)	13.3	11.6
Source: Yes Bank		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	25 August 2022	26 August 2021	27 August 2020
Issuer rating	Long-term	-	IND A/Stable	IND A-/Stable	IND BBB/Stable	IND BBB/Stable
Basel III Tier 2 Bonds	Long-term	INR110	IND A/Sable	IND BBB+/Stable	IND BBB-/Stable	IND BBB-/Stable
Infrastructure bonds	Long-term	INR35.8	IND A/Stable	IND A-/Stable	IND BBB/Stable	IND BBB/Stable

Annexure

Issue name/Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
Infrastructure bonds	INE528G08360	29 December 2016	7.62	29 December 2023	INR3.3	IND A/Stable
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/Stable
Basel III Tier 2 Bonds	INE528G08386	3 October 2017	7.8	1 October 2027	INR15	IND A/Stable
Basel III Tier 2 Bonds	INE528G08402	22 February 2018	8.73	22 February 2028	INR30	IND A/Stable
Basel III Tier 2 Bonds	INE528G08410	14 September 2018	9.12	15 September 2028	INR30.42	IND A/Stable
Total utilised					**INR100.42**	
Total unutilised					**INR9.58**	

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator

Infrastructure Bonds	Low
Basel III Tier II	Moderate

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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APPLICABLE CRITERIA

Rating Bank Subordinated and Hybrid Securities

Financial Institutions Rating Criteria

Evaluating Corporate Governance

The Rating Process

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