YES BANK

YBL/CS/2024-25/86

August 23, 2024

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 **India Ratings** has issued a ratings release. Instrument wise rating actions have been detailed below:

Instrument	Existing Rating & Outlook	Action
Infrastructure Bonds	IND A / Stable	**Rating Affirmed at IND A / Outlook revised to Positive**
Basel III Upper Tier II Bonds	IND A / Stable	**Rating Affirmed at IND A / Outlook revised to Positive**

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: 2024.08.23 21:58:39 +05'30'

Shivanand R. Shettigar
Company Secretary

Encl: As above

India Ratings & Research
A Fitch Group Company

India Ratings Revises Outlook on Yes Bank to Positive; Affirms ‘IND A’

Aug 23, 2024 | Private Sector Bank

India Ratings and Research (Ind-Ra) has revised Outlook on Yes Bank Limited (YBL) and its debt instruments to Positive from Stable while affirming the rating at ‘IND A’. The instrument-wise rating actions are as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating Assigned along with Outlook/Watch	Rating Action
Issuer rating	-	-	-	-	IND A/Positive	Affirmed; Outlook revised to Positive
Infrastructure bonds*	-	-	-	INR32.5 (reduced from INR35.8)	IND A/Positive	Affirmed; Outlook revised to Positive
Basel III Tier 2 bonds*	-	-	-	INR110	IND A/Positive	Affirmed; Outlook revised to Positive

*Details in Annexure

Analytical Approach

Ind-Ra continues to fully consolidate Yes Bank’s wholly owned subsidiary, Yes Securities (India) Ltd., to arrive at the ratings.

Detailed Rationale of the Rating Action

The Outlook revision reflects a continued improvement in the bank’s deposit profile in a competitive environment, improving asset quality metrics amid benign credit environment and increasing granularity in the asset profile with rising share of small and medium enterprise (SME) and retail portfolio, while maintaining moderate capital ratios. The rating continues to reflect thank bank's modest profitability mainly constrained by lower net interest margins (NIMs) and high cost-to-income ratio.

List of Key Rating Drivers

Strengths

- Continuous improvement in deposit profile amid competitive environment
- Improving asset quality metrics amid benign credit environment
- Continued traction towards granular asset profile mix

Weaknesses

- Profitability likely to remain modest in near-to-medium term
- Moderate capitalisation with low internal capital generation

Detailed Description of Key Rating Drivers

Continued Improvement in Deposit Profile Amid Competitive Environment: Yes Bank's deposits continued to increase to INR2.65 trillion in 1QFY25 (FY24: INR2.6 trillion, FY23: INR2.2 trillion, FYE22: INR1.97 trillion) with an improvement in market share of deposits to 1.3% in FY24 (FY23: 1.1%, FY22: 1.1%, FY21: 1.0%). The bank's current account and savings account (CASA) ratio also remained stable at 30.9% in FY24 (FY23: 30.8%, FY22: 31.1%). The bank's current account ratio was high at 15.5% in FY24 (FY23: 15.4%, FY22: 13.4%) in comparison to its peer banks. Its cost of deposits stood at 6.1% in 1QFY25 (FY24: 6.1%, FY23: 5.2%), which is broadly in line with peer banks with a similar market share. Furthermore, the bank's increasing granular traction and reducing concentration of deposits, has led to a continuous decline in the share of top 20 depositors to 11.5% in FY24 (FY23: 12%, FY22: 14.2%, FY21: 17.5%). Yes Bank's deposit profile has improved over the last two-to-three years due to 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. Ind-Ra expects the bank to maintain its deposit profile in the near-to-medium term.

Improving Asset Quality Metrics Amid Benign Credit Environment: Yes Bank, like most other bank, witnessed a significant improvement in its asset quality and recoveries as impact of COVID-19 waned off and the overall macro-economic situation along with the operating environment for banks improved. The agency notes that the bank also sold a large part of its non-performing asset portfolio to J.C. Flowers Asset Reconstruction Private Limited's in FY22 and as per the sale transaction, the bank received security receipts (SRs) of INR49.8 billion). The net non-performing asset plus net carrying value of SRs at end-1QFY25 was about 0.9% (FY24: 1.1%, FY23: 2.4%). The bank saw sizable recoveries in the SRs in FY24, which led SR gains of around INR6.5 billion. Ind-Ra expects significant recoveries in SRs in FY25 as well. In addition, the bank has seen a significant reduction in its special mention account (SMA) portfolio, restructured portfolio and stress corporate exposure in its top corporate exposures list. Its standard restructured assets declined to INR36.4 billion (1.6% of advances) in 1QFY25 from INR46.8 billion in 1QFY24 even as its SMA 2 assets declined by about 30% yoy to about INR18.1 billion (0.8% of advances). The bank witnessed upgrades and recoveries of about INR29.8 billion in FY24 and expects the same to continue in FY25 as well.

Continued Traction Towards Granular Asset Mix: With the substantial reduction in the legacy portfolio, the bank saw sustained growth momentum in more granular retail and SME portfolio, the share of which in the total loan portfolio has grown consistently to 61.6% in FY24 (FY23: 59.2%, FY22: 49.4%, FY21: 42.2%). The agency expects the bank to maintain the current asset mix over the medium term as the corporate portfolio which was declining over the past few years is also likely to start showing growth from FY25. The portfolio performance of the bank remains to be seen over the medium-to-long term as it goes through different cycles or sufficient seasoning is seen in the portfolio.

Profitability Likely to Remain Constrained in near to medium term: YBL reported net interest margins (NIMs) of 2.4% in 1QFY25 (FY24: 2.4%, FY23: 2.6%), which was lower than its peers'. This was mainly due to a sizable investment in low-yielding Rural Infrastructure Development Fund deposits (around 11% of total assets) amid priority sector lending shortfall over the past few years; although, the shortfall was covered in 1QFY25. This has resulted in an almost 70bp drag on NIMs, which the agency expects to continue in the medium term and Rural Infrastructure Development Fund deposits are expected to mature only gradually over the next three-to-four years. The lower NIMs, along with a change in the asset mix towards retail entailing high investment cost, led to a high cost-to-income ratio of 74.3% in 1QFY25 (FY24: 74.4%, FY23: 72.6%). The provisioning costs (provision/total assets) remained low at 0.5% in FY24 (FY23: 0.7%, FY22: 0.5%) amid benign credit environment in line with the peer banks. Overall, the bank's return on average assets stood modest at 0.5% in 1QFY25 (FY24: 0.3%, FY23: 0.2%). The agency expects Yes Bank's profitability profile to gradually improve but remain modest in the medium term owing to continued low NIMs with high cost-to-income ratio.

Moderate Capitalisation with Low Internal Capital Generation: Yes Bank's capitalisation was moderate with capital to risk (weighted) assets ratio of 16.5% in 1QFY25 (FY24: 15.4%, FY23: 17.9%), tier 1 capital of 13.3% (12.2%, 13.3%), common equity Tier 1 (CET1) of 13.3% at end-1QFY25. The bank does not expect to raise capital in FY25 but will plan for capital raise in FY26. As per Ind-Ra's assessment, Yes Bank could raise growth capital as internal generation of capital is not expected to be sufficient for the expected loan growth. The bank carried deferred tax assets of INR85 billion at FYE24, which were reduced from the net worth to arrive at the CET1. With the utilisation of deferred tax assets, marginal amounts of capital will be released. The contingent impact of the adverse outcome of the Supreme Court's ruling on the additional tier 1 write-off at the time of the reconstruction of the bank would be that the CET1 of the bank and may end up becoming substantially lower from the current levels ceteris paribus while Tier 1 would remain at the same levels. However, till the time the matter of additional tier 1 write-offs is decided by the Supreme Court, the bank will continue to accrue capital and use it for loan growth.

Liquidity

Adequate: The bank's short-term gap (excess of liability over assets in the short term) in the asset-liability maturity statement, as per the annual report, improved to 4.5% in FY24 (FY23: 15%). Yes Bank's share of retail deposits improved to 53.1% in FY24 (FY23: 52%, FY22: 48%). This, coupled with the increase in share of retail advances 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 an excess statutory liquidity requirement of INR250 billion-300 billion through FY24. Moreover, Yes Bank witnessed about 22% yoy growth in the total deposits in FY24, better than the overall banking industry. The bank's liquidity coverage ratio for 1QFY25 was 137% (regulatory minimum requirement of 100%). Assuming a normal business scenario, Ind-Ra does not expect the bank to face challenges related to raising funds from the interbank market.

Rating Sensitivities

Positive: A sustained improvement in the profitability profile, along with a continued improvement in the width and depth of retail franchise, 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 tier 1 falling below 12%, could also lead to a 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.

About the Company

Headquartered in Mumbai, Yes Bank was established in 2004 as a new-generation private sector bank. 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 1,232 branches and 1,308 automated teller and cash recycling machines at end-1QFY25.

Key Financials Indicators

Particulars (INR billion)	**FY24**	**FY23**
Total assets	4,054.9	3,547.9
Total equity	421.5	407.42
Net income	12.51	7.17
Return on assets (%)	0.3	0.2
CET-1 (%)	12.2	13.3
Source: Yes Bank, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	24 August 2023	25 August 2022	26 August 2021
Issuer rating	Long-term	-	IND A/ Positive	IND A/Stable	IND A-/Stable	IND BBB/Stable
Basel III Tier 2 bonds	Long-term	INR110	IND A/ Positive	IND A/Stable	IND BBB+/Stable	IND BBB-/Stable
Infrastructure bonds	Long-term	INR32.5	IND A/Positive	IND A/Stable	IND A-/Stable	IND BBB/Stable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Infrastructure bonds	Low
Basel III Tier 2 bonds	Moderate

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

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	WD (Paid in Full)
Total utilised					**INR0**	
Total unutilised					**INR32.5**	
Basel III Tier 2 Bonds	INE528G08378	29 September 2017	7.8	29 September 2027	INR25	IND A/Positive
Basel III Tier 2 Bonds	INE528G08386	3 October 2017	7.8	1 October 2027	INR15	IND A/Positive
Basel III Tier 2 Bonds	INE528G08402	22 February 2018	8.73	22 February 2028	INR30	IND A/Positive
Basel III Tier 2 Bonds	INE528G08410	17 September 2018	9.12	15 September 2028	INR40	IND A/Positive
Total utilised					**INR110**	
Source: Yes Bank, NSDL						

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.
Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.
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APPLICABLE CRITERIA

Rating Bank Subordinated and Hybrid Securities

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process

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