India Ratings & Research
A Fitch Group Company

India Ratings Affirms Yes Bank at 'IND AA+'/Stable; Rates New Tier 2 Bonds

19

FEB 2018

By Udit Kariwala

India Ratings and Research (Ind-Ra) has affirmed Yes Bank Ltd's Long-Term Issuer Rating at 'IND AA+' with a Stable Outlook and Short-Term Issuer Rating at 'IND A1+'. The instrument-wise rating actions are given below:

Instrument Type*	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Additional Tier-1 Basel III Bonds	-	-	-	INR111	IND AA/Stable	Affirmed
Basel III Tier 2 Bonds	-	-	-	INR40	IND AA+/Stable	Affirmed
Basel III Tier 2 Bonds	-	-	-	INR30	IND AA+/Stable	Assigned
Infrastructure Bonds	-	-	-	INR35.8	IND AA+/Stable	Affirmed

*Details of the instruments are in the annexure.

The affirmation of the Long-Term Issuer Rating factors in Yes Bank's ability to manage its credit costs, reasonably large and expanding franchise, sufficient levels of capitalisation and adequate profitability buffers. The bank's fee income profile from the corporate segment helps it support its operating profitability. The rating also factors in Yes Bank's higher proportion of bulk funding and asset liability tenor mismatches than larger private sectors peers'. The bank is expanding its liability franchise, which should help in reducing depositor concentration as well as reduce tenor mismatches as it builds its granular deposits. Yes Bank's core equity tier 1 ratio stood at 10.7% at end-December 2017 (September 2017: 11.4%) on account of high capital consumption given large loan growth during 1QFY18-3QFY18. The agency believes capital consumption could be high in FY19 as well, as the banking industry could migrate to Indian Accounting Standards (Ind-AS) 109.

The bank has reported volatility in slippages the over the last few quarters, as it accounted for the Reserve Bank of India's assessment of stressed accounts in FY16 and FY17. Ind-Ra understands the bank has been internalising some of the discussions and feedback from the regulators to minimise divergences in the assessment of stressed loan portfolio. Yes Bank's ability to curtail divergences and maintain its overall asset quality and capital buffers would be key monitorables.

The Stable Outlook reflects Ind-Ra's expectation that credit costs would be adequately absorbed by its operating profits without impacting its equity. The agency expects the bank to maintain above average core capitalisation with sufficient cushion above the regulatory requirement on an ongoing basis, in line with its higher rated private sector peers'.

KEY RATING DRIVERS

Reasonable Managed Asset Quality: Yes Bank's gross non-performing ratio declined marginally to 1.72% in 3QFY18 from 1.82% as of 2QFY18, primarily on account of large loan growth in 3QFY18 (46.5% yoy). In 2QFY18, the bank's gross non-performing ratio increased significantly to 1.82% in 2QFY18 (1QFY18: 0.97%), primarily on account of a large divergence of INR63.6 billion (4.3% of gross advances in 2QFY18) identified under the Reserve Bank of India's annual asset quality review exercise for the bank. The total impaired assets (net non-performing assets + standard restructured assets + 5/25 + SDR outstanding + S4A + security receipts outstanding) to net worth ratio increased to 16.9% at end-December 2017 (8.6% at end-December 2016); nevertheless, Ind-Ra believes Yes Bank's pre-provision profitability and capitalisation provide adequate buffers to absorb the elevated levels of stress. Ind-Ra continues to expect the credit cost to remain in the range of 75-80bp in FY18.

Yes Bank has a meaningful exposure in the mid-corporate segment. In Ind-Ra's view, borrowers in the mid-corporate segment could remain stressed, considering their high dependence on large corporates carrying stretched working capital cycles, stemming from building-up of non-productive assets resulting in slippages in this segment.

Strong Pre-provision Operating Profit: Yes Bank's pre-provision operating profit/average assets ratio increased to 3.07% in FY17 (FY16: 2.85%). Ind-Ra expects the bank to maintain the ratio at the FY17 level in the medium term. Incrementally, the bank's focus is to increase the granularity of its loan portfolio by venturing into the retail segment, eventually translating into higher yields. Growth in the retail asset segment would come at lower incremental retail margins than for its large peers', highlighting their pricing power. Nevertheless, the expansion in the retail segment should result in an improvement in the bank's overall margins.

Moderate Funding Profile: Bulk deposits contributed around 39.1% to Yes Bank's total funding at end-December 2017, significantly higher than better rated private banks'. Although Yes Bank's retail deposit franchise is improving, the cost of acquiring granular savings deposits has been high on account of the higher interest offered by it on savings deposits than by larger peers. The effect of normalising its savings deposit interest rate (aligning it to larger peers) on its current account savings account deposits would be a key monitorable. Yes Bank's proportion of bulk deposits to total deposits has improved over the last couple of years, highlighting its focus to reduce its liability concentration by increasing branch presence (December 2017 1,050; December 2016: 964). Yes Bank's funding gap (cumulative one-year mismatch as a percentage of average assets) has improved, but continues to be higher than a few large peers'.

RATING SENSITIVITIES

Positive: An increase in the franchise scale, along with a considerable improvement in the retail franchise with a more granular funding and asset mix, while building stronger capital and operating buffers, could lead to a Positive Outlook.

Negative: Significantly higher-than-expected deterioration in the asset quality, weaker-than-expected capital buffers and impairment in the funding profile could lead to a Negative Outlook.

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 INR2.65 trillion at end-December 2017, with a net profit of INR10.8 billion. At 3QFYE18, the bank had a network of 1,050 branches and 1,724 ATMs spread across the country.

FINANCIAL SUMMARY

Particulars	**FY17**	**FY16**
Total assets (INR billion)	2,150.6	1,652.6
Total equity (INR billion)	220.5	137.9
Net income (INR billion)	33.3	25.4
Return on assets (%)	1.8	1.7
Common equity tier 1 (%)	11.4	10.3
Capital adequacy ratio (%)	17.0	16.5
Source: Company, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook	
	Rating Type	Rated Limits (billion)	Rating	21 November 2017	27 December 2016
Issuer Rating	Long-term/Short-term	-	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+
Basel III Tier 2 Bonds	Long-term	INR70	IND AA+/Stable	IND AA+/Stable	-
Additional Tier-1 Basel III Bonds	Long-term	INR111	IND AA/Stable	IND AA/Stable	IND AA/Stable
Infrastructure Bonds	Long-term	INR35.8	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable

ANNEXURE

Issue name/ Type	ISIN	Date of Issuance	Coupon rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
Additional Tier-1 Basel III bonds	INE528G08394	18 October 2017	9.0	Perpetual	INR54.15	IND AA/Stable
Additional Tier-1 Basel III bonds	INE528G08352	23 December 2016	9.5	Perpetual	INR30	IND AA/Stable
Total utilised					INR84.15	
Total unutilised					INR26.85	
Infrastructure bonds	INE528G08360	29 December 2016	7.62	29 December 2023	INR3.3	IND AA+/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 AA+/Stable
Basel III Tier 2 Bonds	INE528G08386	3 October 2017	7.8	1 October 2027	INR15	IND AA+/Stable
Total utilised					INR40	
Total unutilised					INR30	

COMPLEXITY LEVEL OF INSTRUMENTS

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

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.

ABOUT INDIA RATINGS AND RESEARCH

India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies, structured finance 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.

Ind-Ra is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Financial Institutions Rating Criteria
Rating FI Subsidiaries and Holding Companies

Analyst Names

Primary Analyst
Udit Kariwala

Senior Analyst
Wockhardt Towers, Level 4, West Wing, Bandra Kurla Complex, Bandra (E), Mumbai :-400051
+91 22 40001749

Secondary Analyst
Ankit Bhembre

Analyst
+91 22 40356197

Committee Chairperson
Prakash Agarwal

Director and Head Financial Institutions
+91 22 40001753

Media Relation
Mihir Mukherjee

Manager Corporate Communications and Investor Relations
+91 22 40356121