

India Ratings Assigns Yes Bank's Tier 2 Bonds 'IND AA+'; Outlook Stable

27

By [Udit Kariwala](#)

India Ratings and Research (Ind-Ra) has rated Yes Bank Ltd's Basel III Tier 2 bonds as follows:

SEP 2017

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Proposed Basel III Tier 2 bonds	-	-	-	INR40	IND AA+/Stable	Assigned

The rating factors in the bank's ability to manage its credit risk, reasonably large and expanding franchise, sufficient levels of capitalisation post equity infusion and improved profitability buffers. The bank's robust fee income profile from the corporate segment helps it support its operating profitability. However, the rating also factors in Yes Bank's proportion of bulk funding being relatively high than that of better rated peers. Although the former's concentration on the deposits side has been improving, depositor concentration remains higher than its larger peers'. Additionally, the bank has an asset-liability tenor gap, on account of a lower though improving share of the current account and saving account deposit ratio than larger peers'.

The Stable Outlook reflects Ind-Ra's expectation that any deterioration in Yes Bank's asset quality would be adequately absorbed by its operating profits without any impairment in its Tier 1 capitalisation (June 2017: Tier 1 ratio: 13.8%). The agency also expects the bank to maintain above-average core capitalisation on an ongoing basis, in line with its higher rated private sector peers'.

KEY RATING DRIVERS

Strong Pre-provision Operating Profit: Yes Bank's pre-provision profitability has been consistently improving. The pre-provision operating profit/average assets ratio increased to 3.07% in FY17 from 2.85% in FY16 (FY15: 2.65%). 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. In Ind-Ra's view, 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 its overall margins.

Asset Quality Maintained: Yes Bank's reported gross NPLs improved to 0.97% in 1QFY18 from 1.52% in 4QFY17, primarily on account of a recovery of close to INR5.5 billion because of the resolution of one of the large corporate

accounts. The bank's credit costs have been under control (FY17: 58bp, average FY13-FY17: 39bp). This is underpinned by the bank's lower concentration in stressed sectors, proactive intervention and higher agility in resolving contentious exposure, backed by its limited presence as a consortium lender, compared to peers'. In Ind-Ra's view, the banking system's mid-corporate segment borrowers could remain stressed, considering their high dependence on large corporates carrying stretched working capital cycles. This is stemming from building-up of non-productive assets, resulting in slippages in this segment.

Ind-Ra expects the bank's credit cost to remain in the range of 75bp-80bp in FY18, factoring in the limited impact of the accelerated provisioning (at least 50% on identifies accounts by FYE18) on the accounts identified under the Insolvency and Bankruptcy Code for reference to the National Company Law Tribunal. Furthermore, the bank's reasonable pre-provision profitability provides a cushion to absorb spike in the credit costs under Ind-Ra's stress scenarios.

Moderate Funding Profile: Bulk deposits contributed around 38.2% to Yes Bank's total funding at end-June 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 and saving account deposits would be a key monitorable. Yes Bank's proportion of bulk deposits to total deposits has shown an improvement over the last couple of years, highlighting the bank's focus to reduce its liability concentration by increasing branch presence (June 2018: 1,020; June 2017: 900). Yes Bank's funding gap (cumulative one-year mismatch as a percentage of average assets) has shown improvement, but continues to be higher than a few large peers'.

RATING SENSITIVITIES

Positive: An increase in 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 INR2.22 trillion at end-June 2017, with 1QFY18 clocking a net profit of INR9.6 billion. At 1QFYE18, the bank had 1,796 ATMs spread across the country.

FINANCIAL SUMMARY

Particular	FY17	FY16
Total assets (INR million)	2,150,599	1,652,634
Total equity (INR million)	220,541	137,866
Net income (INR million)	33,301	25,394
Return on assets (%)	1.8	1.7
CET1 (%)	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	27 December 2016
Issuer ratings	Long-term/Short-term	-	IND AA+/Stable/IND A1+	IND AA+/Stable/IND A1+
Basel III Tier 2 Bonds	Long-term	INR40	IND AA+/Stable	-
Additional Tier 1 Basel III Bonds*	Long-term	INR36	IND AA/Stable	IND AA/Stable
Infrastructure bonds*	Long-term	INR3.3	IND AA+/Stable	IND AA+/Stable

*Details in annexure

ANNEXURE

Issue name/ Type	ISIN no.	Date of Issuance	Coupon rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
Additional Tier 1 Basel III Bonds	INE528G08352	23 December 2016	9.50	Perpetual	INR36	IND AA/Stable
Infrastructure bonds	INE528G08360	29 December 2016	7.62	29 December 2023	INR3.3	IND AA+/Stable

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 six branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad and Kolkata. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

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

DISCLAIMER

ALL CREDIT RATINGS ASSIGNED BY INDIA RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.INDIARATINGS.CO.IN/RATING-DEFINITIONS](https://www.indiaratings.co.in/rating-definitions). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE WWW.INDIARATINGS.CO.IN. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. INDIA RATINGS' CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

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

Chetan Dhawan

Analyst

+91 22 40001763

Committee Chairperson

Prakash Agarwal

Director and Co-Head Financial Institutions

+91 22 40001753

Media Relation

Mihir Mukherjee

Manager Corporate Communications and Investor Relations

+91 22 40356121
