MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Yes Bank's ratings; changes outlook to negative

27 Nov 2018

Singapore, November 27, 2018 -- Moody's Investors Service has today downgraded Yes Bank Limited's (Yes Bank) foreign currency issuer rating to Ba1 from Baa3.

Moody's has also downgraded the bank's foreign and local currency bank deposit ratings to Ba1/NP from Baa3/Prime-3 and foreign currency senior unsecured MTN program rating to (P)Ba1 from (P)Baa3.

And, Moody's has downgraded Yes Bank's baseline credit assessment (BCA) and adjusted BCA to ba2 from ba1.

At the same time, Moody's has affirmed the bank's counterparty risk assessment (CR Assessment) of Baa3(cr)/P-3(cr) and domestic and foreign currency counterparty risk rating (CRR) of Baa3/P-3.

For the bank's IFSC Banking Unit Branch, Moody's has also downgraded the foreign currency senior unsecured MTN program rating to (P)Ba1 from (P)Baa3 and senior unsecured debt rating to Ba1 from Baa3. At the same time, Moody's has affirmed the IFSC Bank Unit Branch's CR Assessment of Baa3(cr)/ P-3(cr), and domestic and foreign currency CRR of Baa3/P-3.

The outlook, where applicable, has been changed to negative from stable.

RATINGS RATIONALE

RATIONALE FOR DOWNGRADE OF DEPOSIT, ISSUER, SENIOR UNSECURED MTN PROGRAM AND SENIOR UNSECURRED DEBT RATINGS

The rating action considers the resignation of various members of the bank's Board of Directors -- which, when seen in conjunction with the Reserve Bank of India's (RBI) directive in September 2018 to restrict the term of the bank's MD&CEO as well as founder, Mr. Rana Kapoor, till 31 January, 2019 -- have raised Moody's concerns over corporate governance.

In Moody's opinion, although the bank's reported credit fundamentals remain stable, the developments surrounding the transition in leadership as well as the governance issues are credit negative because they complicate management's effective implementation of the bank's long-term strategy. Furthermore, these developments could constrain the bank's ability to raise new capital.

As a result, Moody's has incorporated a negative adjustment for corporate behavior in Yes Bank's standalone credit profile, which then led to the downgrade of its BCA and adjusted BCA to ba2 from ba1 and in turn the downgrade in its ratings.

Although Yes Bank's capitalization is adequate, the bank would need to raise capital from the market to continue to grow its balance sheet more rapidly than the Indian banking system. If Yes Bank experiences difficulty in raising external capital, this will impede the bank's ability to grow its loan book.

In addition, while its current asset quality metrics are superior to those of its Indian peers, its aggressive growth strategy poses asset risks. In particular, Moody's has noted significant divergence in the bank's reported asset quality metrics compared with the RBI's assessment of asset quality in the two fiscal years ended March 2017 and 2016. While the results of the RBI's risk-based supervision report for fiscal 2018 are not known as yet, nevertheless, any adverse findings from its assessment will be credit negative.

Despite these developments, Moody's notes that the bank's funding and liquidity positions have remained fairly stable. Nevertheless, its funding profile is relatively weaker compared to other public sector banks in India, as measured by its low current and savings account deposit ratio and the dominance of corporate deposits.

At the same time, Moody's has maintained its assumption of a moderate probability of government support for deposits and senior unsecured debt reflecting the bank's modest, but rapidly growing franchise, and its relative importance to India's banking system.

RATIONALE FOR AFFIRMATION OF CR ASSESSMENT AND CRR

The affirmation of the bank and its IFSC Banking Unit Branch's CR Assessment at Baa3(cr)/P-3(cr) and local and foreign currency CRR of Baa3/P-3 takes into account the bank's adjusted BCA of ba2 and 1 notch of government support.

Yes Bank's CR Assessment, prior to government support, is positioned one notch above the Adjusted BCA of ba2 and, therefore, above senior unsecured and deposit ratings, reflecting our view that its probability of default is lower than that of senior unsecured debt and deposits. We believe senior obligations represented by the CR Assessment will be more likely preserved to limit contagion, minimize losses and avoid disruption of critical functions. Yes Bank's CR Assessment benefits from a further 1 notch uplift from government support.

CRRs are opinions of the ability of entities to honor the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honored. We consider India a jurisdiction with a non-operational resolution (non-ORR) regime. For non-ORR countries, the starting point for the CRR is one notch above the bank's adjusted BCA, to which we then typically add the same notches of government support uplift as applied to the CR Assessment.

RATIONALE FOR NEGATIVE OUTLOOK

The negative outlook takes into account the uncertainty relating to the bank's asset quality and profitability performance and in particular any adverse findings from the RBI's risk-based supervision report or the so-called divergence report. In addition, any negative developments in the bank's funding and liquidity profile or ability to raise new capital to a level comparable with other similarly rated peers in India will exert pressure on its BCA, adjusted BCA and ratings.

WHAT COULD MOVE THE RATING UP

Given the negative outlook, the bank's ratings are unlikely to be upgraded during the outlook horizon.

Nevertheless, the rating outlook could return to stable if (1) Yes Bank maintains its current asset-quality ratios and there is no adverse impact from the RBI's risk-based supervision exercise; (2) the bank manages to raise new equity capital and bring its capital ratios in-line with similarly rated peers in India; and (3) the bank's funding profile remains stable without weakening its net interest margin.

WHAT COULD MOVE THE RATING DOWN

Yes Bank's ratings could be downgraded if (1) there is a sustained deterioration in impaired loans or loan-loss reserves, or if the rate of new NPL formation is significantly higher than previously experienced; (2) the bank's capital ratios decline due to its inability to raise new capital; and (3) there are any regulatory actions by the RBI, including adverse findings from the risk-based supervision report and/or any regulatory restrictions or fines.

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Yes Bank Limited is headquartered in Mumbai, and reported total assets of INR3.7 trillion ($51.3 billion) at 30 September 2018.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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