YBL/CS/2022-23/069

August 26, 2022

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

BSE Limited
Corporate Relations Department
P.J. Towers, Dalal Street
Mumbai – 400 001
BSE Scrip Code: 532648

Dear Sirs,

Subject: Update on Credit Ratings by India Ratings & Research

In terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to update on:

1. The ratings release issued by India Ratings and Research (Ind-Ra) upgrading Yes Bank Limited's Long-Term Issuer Rating to 'IND A-' from 'IND BBB' and Outlook assigned as Stable. The instrument-wise rating actions are as follows:

Instrument	Rating Action / Outlook
Infrastructure Bonds	Upgraded to IND A-/ Stable from IND BBB/ Stable.
Basel III Tier 2 Bonds	Upgraded to IND BBB+/ Stable from IND BBB-/ Stable.

We request you to kindly take the same on your record. The press release from India Ratings and Research on ratings and the rationale 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: 2022.08.26 18:57:49 +05'30'

Shivanand Shettigar
Company Secretary

Encl.: as above

India Ratings & Research
A Fitch Group Company

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India Ratings Upgrades Yes Bank to 'IND A-'/Stable

Aug 25, 2022 | Banks

India Ratings and Research (Ind-Ra) has upgraded Yes Bank Ltd's Long-Term Issuer Rating to 'IND A-' from 'IND BBB'. 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 BBB+/Stable	Upgraded

*Details in Annexure

The upgrade factors in the bolstering of capital buffers through proposed equity raise of about INR89 billion, strengthening of the bank's liability profile, as reflected in an increase in the proportion of granular retail deposits, step-up of lending across segments, increased share of the non-corporate loan portfolio, and an overall improvement in the operating environment in the COVID-19 aftermath.

Yes Bank continues to gain market share on the digital payments side, which has been playing a reasonable role in the bank's attempts to mobilise current account deposits (CA) and other businesses. Furthermore, with the senior management having become relatively stable through reconstruction, the Reserve Bank of India has pulled its representatives from the bank's board, and the bank's reconstruction seems to have been completed. The bank has a sizable quantum of assets under restructuring, special mention accounts and advances supported by the emergency credit line guarantee scheme of the Government of India that need to be closely watched, though Ind-Ra expects the overall impact to be manageable. The bank's attempts to build a definitive franchise and increased traction in its efforts to monetise its payment leadership capabilities would continue to be under focus.

Key Rating Drivers

Enhancement in Capital Levels: Yes Bank has announced plans to raise equity of INR89 billion from two foreign investors; a bulk of this would happen in FY23. The balance would be in the form of convertible warrants that would entail payment in FY24. Once this transaction is consummated, the bank's common equity tier 1 (CET1) ratio on existing risk weighted assets would increase by about 4%. The bank reported CET-1 of 11.9% at end-1QFY23 (FY22: 11.6%; FY21: 11.3%). The CRAR remained fairly steady at 17.7% in 1QFY23 (FY22: 17.4%; FY21: 17.5%). The bank carried deferred tax assets of INR59 billion at end-1QFY23, which were reduced from the net worth to arrive at the CET-1; as the assets against which the provisions have been made are written off or sold, the agency believes the deferred tax assets would be utilised, leading to the release of capital. The benefits from the increase in capital levels along with the proposed fundraising could be partially offset by the higher risk weights that the bank might need to carry on security receipts (SRs) (once the asset reconstruction company (ARC) transaction is completed). The agency is of the opinion that the net capital levels would be adequate to withstand unexpected stresses too and leave medium term growth capital for the bank while maintaining adequate capital buffers.

Ind-Ra's criteria 'Rating Bank Subordinated andHybrid 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 incremental non-performance risk relative to higher rated banks.

Improvement in Deposit Profile: Yes Bank's deposits increased to INR1.971 trillion in FY22 (FYE21: INR1.633 trillion); the deposits stood at INR1.932 trillion in 1QFY23. Its current account-savings accounts increased almost 44% yoy to INR613.6 billion in FY22, while the retail term deposits increased by about 40% yoy. The overall cost of deposits also declined for the bank, and the difference between the deposits rates with larger banks declined to less than 80bp over FY20-FY22. The cost of deposits for the bank declined by more than 2% from end-FY20 levels to 5.1% in FY22. Meanwhile, for larger banks, the cost of deposits in FY22 was between 3.5%-4.25% Yes Bank's deposit profile improved 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. A rising interest rate scenario and increasing competition between banks for deposits could compel Yes Bank to raise deposit rates disproportionately compared to the larger banks. The impact of the same, however, could be partially be offset by the fact that the deposits raised during FY20-FY22 were priced for tenor and these could be repriced at slower pace.

Liquidity Indicator – Adequate: Yes Bank was able to double its deposit base to almost INR1.972 trillion in FY22 (FY21: INR 1.629 trillion). The bank's cost of deposits declined by nearly 2% from FY21 levels to about 5.6% in FY22. Yes Bank has been opening savings accounts at the rate of 0.1 million per quarter. The bank has borrowings of INR290 billion that are maturing in FY23. It would witness additional pressure on deposit mobilisation and rates in case it is unable to refinance these borrowings, especially the domestic ones. 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; while these are more or less matched in the short term, the bank carries excess foreign currency liquidity. Yes Bank has reasonable ability to mobilise deposits, especially as it offers higher rates than most mainstream banks. The quarterly average liquidity coverage ratio of the bank was 114% at end-FY22 (FY21: 114%). The likely rise in deposit rates might have only a limited impact on Yes Bank's profitability, as the bank's longer-term deposits would be repriced in FY23 and FY24 (in FY21 and early FY22, retail term deposits were raised, more so for tenor of 30-36 months).

Asset Quality Pressure Could Still Make Presence Felt: Some of Yes Bank's larger exposures are to COVID-19-impacted segments such as hospitality and real estate; in addition, it also has exposure to a large telecom company that continues to be under stress. Many of these assets have cashflows but remain in the SMA category as the cash flows might not be adequate for clearing overdue payments. All these factors, combined with potential slippages from the restructured assets (at INR64 billion at end-1QFY23), SMA assets (SMA1 and SMA2 assets of about INR65 billion) and loans supported by ECLGS (about INR68 billion disbursed) indicate the presence of higher-than-industry slippage risks. Under Ind-Ra's stress scenarios, the slippages could be material but significantly lower than the bank's past experiences. The bank is looking to partner with an ARC to enhance focus on the resolutions. Once the ARC and equity transactions are executed, the bank would be able to faces the aforementioned risks with a stronger balance sheet.

Assets worth about INR480 billion would be offloaded to the ARC and the bank would get SRs in return. The assets consist of existing corporate gross non-performing assets, gross non-performing investments and technically written off assets. The assets had a carrying value of about INR82 billion at end-FY22, while the bid value of JC Flowers' base bid value is about INR112 billion. The bank is likely to carry higher risk weight on these SRs. Over 1QFY21-1QFY23, the bank witnessed slippages of INR190 billion, recoveries and upgrades of about INR117 billion, and write-offs of about INR134 billion. The bank expects to continue the pace of recoveries and upgrades during FY23-FY24; this would offer protection against stress case slippages, if such a situation arises.

Pace of Recoveries Might Continue to Impact Profitability: Yes Bank's operating buffers are lower than those of most mainstream banks, with the pre-provision operating profit to average advances standing at 1.7% in FY22 (FY21: 3%). The agency expects the pre-provision operating profit to average advances to be around 2% in the near term. The bank's return on assets ROA was around 0.4% at end-FY22 (FY21: negative return on assets) and it remained stable at 1QFYE23. The profitability in FY22 was driven by income of INR14 billion through recoveries from written -off assets (included in recoveries and upgrades of INR62 billion over FY22, excluding restructured assets) and profits of about INR13.5 billion from sale of investments. Given the lower buffers, the bank's profitability in FY23 would be highly dependent on recoveries and credit costs (FY22: 0.4%; FY21: 4.2%).

The bank has adjusted the provision cover (excluding technically written off assets) of 75% on gross non-performing assets and gross non-performing investments (totalling about INR320 billion). In case these assets are not resolved by FY25 (in either loan form or SR form – the pace of provisions might not change), some of them could attract material provisions until then. As the bank expands into more mainstream asset classes in retail and faces lower margins in the competitive well-rated corporate market, and deposit costs inch up over the near-to-medium term (competition and overall interest rate curves), the net interest margins could be under pressure. However, in the near term, if the current and savings accounts growth exceeds the overall deposit growth (as has been the track record of the last two years), it could help the bank offset some of these pressures. In addition, the bank could see an improvement in operational efficiencies, which could aid profitability.

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, while building stronger capital and operating buffers and continued material traction in recoveries could lead to a positive rating action.

Negative: Material deterioration in the asset quality from the existing levels, owing to the impact of COVID-19 or otherwise, and impairment in the funding profile could lead to a negative rating action. Inability to raise capital as planned, sizeable drop in the provision cover or CET-1 falling below 10%, 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 has 1,122 branches and 1,244 automated teller and cash recycling machines.

FINANCIAL SUMMARY

Particulars (INR billion)	FY22	FY21
Total assets	3,182.2	2,735.4

Total equity	337.4	331.96
Net income	10.7	-34.6
Return on assets (%)	0.4	-1.3
CET-1 (%)	11.6	11.2
Source: YES Bank		

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/Rating Watch/Outlook								
	Rating Type	Rated Limits (billion)	Rating	26 August 2021	27 August 2020	18 March 2020	6 March 2020	12 February-2020	28 January 2020	18 December 2019	31 August 2019	8 May 2019
Issuer rating	Long-term/Short-term	-	IND A-/Stable	IND BBB / Stable	IND BBB / Stable	IND BB-/RWE	IND BB-/RWN	IND A-/RWN	IND A/RWN	IND A/RWN/IND A1/RWN	IND A+/Negative/IND A1+	IND AA-/Negative/IND A1+
Basel III Tier 2 Bonds	Long-term	INR110	IND BBB+/Stable	IND BBB-/Stable	IND BBB-/Stable	IND B+/RWE	IND B+/RWN	IND A-/RWN	IND A/RWN	IND A/RWN	IND A+/Negative	IND AA-/Negative
Infrastructure bonds	Long-term	INR35.8	IND A-/Stable	IND BBB/Stable	IND BBB/Stable	IND BB-/RWE	IND BB-/RWN	IND A-/RWN	IND A/RWN	IND A/RWN	IND A+/Negative	IND AA-/Negative

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 BBB+/Stable
Basel III Tier 2 Bonds	INE528G08386	3 October 2017	7.8	1 October 2027	INR15	IND BBB+/Stable
Basel III Tier 2 Bonds	INE528G08402	22 February 2018	8.73	22 February 2028	INR30	IND BBB+/Stable
Basel III Tier 2 Bonds	INE528G08410	14 September 2018	9.12	15 September 2028	INR30.42	IND BBB+/Stable
Total utilised					**INR100.42**	
Total unutilised					**INR9.58**	

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.

Contact

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Rating Bank Subordinated and Hybrid Securities

Financial Institutions Rating Criteria