

Rating Action: Moody's places Yes Bank's ratings under review for downgrade

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Singapore, November 06, 2019 -- Moody's Investors Service has today placed Yes Bank Limited's foreign currency issuer rating of Ba3 under review for downgrade.

Moody's has also placed the bank's long-term foreign and local currency bank deposit ratings of Ba3, foreign currency senior unsecured MTN program rating of (P)Ba3, and Baseline Credit Assessment (BCA) and adjusted BCA of b1, long-term Counterparty Risk Assessment (CR Assessment) of Ba2(cr) and long-term domestic and foreign currency counterparty risk rating (CRR) of Ba2 under review for downgrade.

For Yes Bank, IFSC Banking Unit Branch, Moody's has placed the foreign currency senior unsecured MTN program rating of (P)Ba3, senior unsecured debt rating of Ba3, long-term CR Assessment of Ba2(cr), and long-term domestic and foreign currency CRR of Ba2 under review for downgrade.

In addition, Moody's has affirmed the bank's short-term foreign and local currency bank deposit rating of NP, short-term CR Assessment of NP(cr), and short-term domestic and foreign currency CRR of NP. For the IFSC Banking Branch, Moody's has also affirmed the short-term CR Assessment of NP(cr) and short-term domestic and foreign currency CRR of NP.

RATINGS RATIONALE

The review for downgrade is driven by two factors: (1) Yes Bank's weak financial performance in the quarter ended 30 September 2019, which was disclosed on 01 November, and (2) the announcement by the bank on 31 October 2019 that it had received a binding offer from a financial investor to invest up to \$1.2 billion via new equity capital into the bank.

Moody's says that the bank's weakening financial position can be somewhat offset by the planned capital raise. Nevertheless, Moody's notes that there are significant execution risks around the timing, price and regulatory approvals required. During the review period, Moody's will focus on the bank's ability to raise new equity capital.

An inability to raise the planned equity capital will negatively impact Yes Bank's credit profile and ratings.

The bank has publicly disclosed that the binding offer is valid until 30 November 2019.

In the quarter ended 30 September 2019, Yes Bank's asset quality substantially deteriorated, with the gross nonperforming loan (NPL) ratio rising to 7.6% at the end of the quarter from 3.2% at the end of March 2019. As of the same date, about INR314 billion of loans and investments (about 10.4% of Yes Bank's total loans and investments) were rated below investment grade under the domestic rating scale. Moody's expects about 30-40% of these loans and investments to turn into NPLs in the next few quarters.

Taking into account the reported NPLs, management's expectation of further stress from the below investment grade rated exposures and other stressed assets — such as net standard restructured loans and net security receipts — Moody's estimates that Yes Bank's total pool of stressed assets registered about 12% of loans and investments as of 30 September 2019.

Adding risk to asset quality is the increased pace of corporate downgrades from the bank's portfolio of investment grade to sub-investment grade rated companies. In addition, the ongoing liquidity pressures on Indian finance companies and the commercial real estate sector can further erode Yes Bank asset quality, given the bank's sizeable exposure to weaker companies in the sector. At the end of September 2019, Yes Bank's exposure to Indian housing finance companies and non-bank finance companies represented 6.0% of its total exposure to the property sector. As of the same date, the bank also had a 7.2% direct exposure to the commercial and residential real estate sector.

Yes Bank's loss absorbing buffers against stressed assets is weak. At 30 September 2019, on a pro forma basis, the bank's loan-loss coverage (including general provisions for standard assets) against potential stressed loans and NPLs registered about 30-35%, which was weak when compared with the loan given

default experience of Indian banks. The bank has also taken some mark to market losses on investments that were downgraded.

Aided by the new equity capital raise in August 2019, Yes Bank's capitalization has somewhat improved. The bank's common equity tier 1 (CET1) ratio improved to 8.7% at the end of September 2019 from 8.0% at the end of June 2019. The planned \$1.2 billion equity capital raise, if its materializes, will significantly improve the bank's CET1 ratio by about 270 basis points to 11.4%. However, Moody's expects that a large part of the new capital will be used for provisioning for the stressed assets.

In the review for downgrade, Moody will also focus on the developments in the bank's funding and liquidity. In particular, Yes Bank's funding and liquidity compares weakly to other rated private sector peers in India, and could come under pressure if the bank is unable to strengthen its solvency in the next few quarters.

Moody's continues to maintain a moderate probability of government support for deposits and senior unsecured debt, reflecting the bank's modest but rapidly growing franchise, and importance to India's banking system. This support assumption results in a one notch uplift to the bank's foreign currency issuer rating of Ba3 from its BCA of b1.

WHAT COULD CHANGE THE RATING UP

Given the review for downgrade, Moody's will unlikely upgrade the bank's ratings over the next 12-18 months.

Nevertheless, Moody's could change the rating outlook to stable if Yes Bank: (1) maintains its current asset quality profile or adequately provides for the stock of stressed assets, and (2) concludes a material capital raise that strengthens its loss-absorbing buffers.

WHAT COULD CHANGE THE RATING DOWN

At the end of the review period, Moody's could downgrade Yes Bank's ratings if (1) the bank is unable to execute the planned capital raise, and/ or (2) there is a further deterioration in its impaired loans or loan-loss reserves, or if the rate of NPL formation is significantly higher than previously experienced, and/or (3) the bank's funding or liquidity deteriorates.

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

Yes Bank Limited is headquartered in Mumbai and reported total assets of INR3.5 trillion at 30 September 2019.

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