

Moody's upgrades Yes Bank's rating to Ba3 from B2; changes outlook to stable

Rating Action | 7 min read

04 Aug 2022 Moody's Investors Service



Singapore, August 04, 2022 -- Moody's Investors Service has upgraded Yes Bank Limited's long-term foreign currency issuer rating and long-term foreign and local currency bank deposit ratings to Ba3 from B2 and the bank's Baseline Credit Assessment (BCA) and Adjusted BCA to b1 from b3.

Moody's has also changed the outlook on Yes Bank's ratings where applicable to stable from positive.

For a detailed list of the affected ratings for both Yes Bank Limited and Yes Bank, IFSC Banking Unit Branch, please refer to the end of this press release.

RATINGS RATIONALE

The upgrade of Yes Bank's BCA and ratings reflects the bank's planned equity capital raise, which will support its credit profile and strengthen its resilience against potential asset quality risks arising from headwinds such as higher inflation and tighter global financial conditions. The stable rating outlook reflects Moody's expectation that the bank's credit profile will improve at a gradual pace because it will take time for the bank to establish its competitive strengths.

On 29 July 2022, the bank announced that it will be raising equity capital of around INR89 billion (\$1.1 billion) from funds affiliated with The Carlyle Group and Advent International, with each investor potentially acquiring up to a 10% stake in the bank. The capital raise comprises two parts: (1) INR51 billion (\$640 million) in equity shares and (2) INR38 billion (\$475 million) through equity share warrants that will be exercisable only after 1 April 2023. The transaction is pending approvals from shareholders, the regulator and competition commission in India.

Moody's estimates that the first part of the capital raise will result in an increase of 2.2 percentage points in the bank's consolidated Common Equity Tier 1 (CET1) ratio from 11.9% as of the end of June 2022, after including profit for the June quarter. The second part of the capital raise will add another 1.6 percentage points.

Yes Bank's reported nonperforming loan (NPL) ratio declined moderately to 13.4% as of the end of June 2022 from 16.8% as of the end of March 2020, while its loan loss coverage increased to 82% from 78% over the same period. However, the

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Return on tangible assets (ROTA) improved to 0.3% in the financial year ended March 2022 (FY2021), its first year of profits since FY2019 when it entered the central bank-led reconstruction scheme, because of lower credit costs. Moody's expects Yes Bank's ROTA to rise gradually over the next 12-18 months as it restarts loan growth and the burden of credit costs eases.

Funding and liquidity also improved as the bank grew its deposits and reduced its reliance on market funds. Its daily average liquidity coverage ratio also improved to 116% as of 30 June 2022 from 40% as of 31 March 2020.

Yes Bank's issuer and deposit ratings benefit from one notch of rating uplift, based on Moody's expectation of a moderate probability of support from the Government of India (Baa3 stable). The support assumption is in line with the support expected for other private-sector banks in India.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Moody's also considers the bank's improvements in governance under its environmental, social, and governance (ESG) framework, which is one of the key drivers of today's rating action.

The changes made to the bank's board and management team, the focus on identifying and resolving legacy problem assets, the lowering of risk appetite, and the multiple equity capital raises since the central-led reconstruction scheme in March 2020 have led to a more prudent financial strategy and strengthened risk management. Nevertheless, Moody's expects the bank to increase its risk appetite to improve profitability, which continues to pose risks to its financial strategy and risk management.

As a result, Moody's has revised the Governance Issuer Profile Score of Yes Bank to G-3 (moderately negative) from G-4 (highly negative), and the Credit Impact Score to CIS-3 (moderately negative) from CIS-4 (highly negative).

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given the stable outlook, Yes Bank's ratings are unlikely to be upgraded over the next 12-18 months. Nevertheless, Moody's could upgrade the ratings and BCA if the bank establishes a credible and sustainable strategy to improve profitability, without compromising its asset quality and capital.

Moody's could downgrade Yes Bank's ratings if there is a significant deterioration in the bank's asset quality, leading to the erosion of its profitability and capital, or the turnaround of the bank fails because of an aggressive financial strategy and risk management. Specifically, a decline in the total common equity to risk weighted assets below 6% and net income/tangible assets below 0.5% will exert negative pressure on the BCA. Any weakening in Yes Bank's funding and liquidity will also be negative.



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YES BANK IS HEADQUARTERED IN MUMBAI AND REPORTED CONSOLIDATED ASSETS OF INRS,103 billion (\$40.1 billion) as of 30 June 2022.

LIST OF AFFECTED RATINGS

..Issuer: Yes Bank Limited

.... Adjusted Baseline Credit Assessment, Upgraded to b1 from b3

.... Baseline Credit Assessment, Upgraded to b1 from b3

.... Long-Term Counterparty Risk Assessment, Upgraded to Ba3(cr) from B2(cr)

.... Long-Term Counterparty Risk Rating (Local and Foreign Currency), Upgraded to Ba3 from B2

.... Long-Term Issuer Rating (Foreign Currency), Upgraded to Ba3 from B2, Outlook changed to Stable from Positive

....Senior Unsecured Medium-Term Note Program (Foreign Currency), Upgraded to (P)Ba3 from (P)B2

....Long-Term Deposit Rating (Local and Foreign Currency), Upgraded to Ba3 from B2, Outlook changed to Stable from Positive

.... Short-Term Counterparty Risk Assessment, Affirmed NP(cr)

.... Short-Term Counterparty Risk Rating (Local and Foreign Currency), Affirmed NP

.... Short-Term Deposit Rating (Local and Foreign Currency), Affirmed NP

....Outlook, Changed To Stable From Positive

..Issuer: Yes Bank, IFSC Banking Unit Branch

.... Long-Term Counterparty Risk Assessment, Upgraded to Ba3(cr) from B2(cr)

.... Long-Term Counterparty Risk Rating (Local and Foreign Currency), Upgraded to Ba3 from B2

....Senior Unsecured Medium-Term Note Program (Foreign Currency), Upgraded to (P)Ba3 from (P)B2

....Senior Unsecured Regular Bond/Debenture (Foreign Currency), Upgraded to Ba3 from B2, Outlook changed to Stable from Positive

.... Short-Term Counterparty Risk Assessment, Affirmed NP(cr)

.... Short-Term Counterparty Risk Rating (Local and Foreign Currency), Affirmed NP

....Outlook, Changed To Stable From Positive

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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