Yes Bank Limited

Instrument	Amount (in Rs crore)	Rating Action
		September 2014
Lower Tier II Debt Programme	2,765.50	[ICRA]AA+ (stable) (upgraded from [ICRA]AA (stable))
Upper Tier II Debt Programme	1,936.70	ICRA]AA (stable) (upgraded from [ICRA]AA- (stable))
Hybrid Tier I Debt Programme	461.00	[ICRA]AA (stable) (upgraded from [ICRA]AA- (stable))
Basel III compliant Tier I Bonds	300.00	[ICRA]A+(hyb) (stable) (upgraded from [ICRA]A(hyb) (stable)
CD Programme	10,000.00	[ICRA]A1+ reaffirmed
Short Term Fixed Deposit Program	NA	[ICRA]A1+ reaffirmed

ICRA has upgraded the long term rating assigned to the Rs 2,765.5 crore long term Lower Tier II Bonds of Yes Bank Limited to [ICRA]AA+ (stable) from [ICRA]AA (stable). ICRA has also upgraded the rating assigned to Rs 1936.70 crores of Upper Tier II Bonds and Rs 461 crores of Innovative Perpetual Debt Instruments (Tier I Debt Instruments) to [ICRA]AA (stable) from [ICRA]AA- (stable). The one notch lower rating assigned to the Upper Tier II bonds and Hybrid Tier I bonds as compared with that assigned to the Lower Tier II bonds reflect the specific features of these instruments wherein the debt servicing is additionally linked to meeting the regulatory norms on capitalization and reported profitability. ICRA has also upgraded the rating for Rs 300 crores of Basel III compliant Tier I Bonds to [ICRA]A+(hyb) (stable) from [ICRA]A(hyb) (stable). The letters "hyb" in parenthesis suffixed to a rating symbol stand for "hybrid", indicating that the rated instrument is a hybrid subordinated instrument with equity-like loss-absorption features; such features may translate into higher levels of rating transition and loss-severity vis-à-vis conventional debt instruments. Rating of [ICRA]A1+ (pronounced ICRA A one plus) has been reaffirmed to the Rs. 10,000 crore Certificates of Deposit Programme and the Short Term Fixed Deposit Programme.

The rating upgrades factor in Yes Bank's continued robust operating performance with its ability to maintain robust asset quality indicators through cycles, ability to generate high levels of fee income and moderate but improving CASA base with increasing granularity in deposits. The ratings also factor in the recent equity mobilisations by the bank that further strengthens its capitalisation profile. The credit strengths are partially offset by the relatively high share of Corporate deposits funding (though declining steadily). The key rating sensitivities pertain to protecting the asset quality of the bank and successful scale up of the retail banking operations.

The growth in customer assets (advances + credit substitutes) for YBL moderated to 15.4% in FY14 as compared to 30.9% in FY13, mainly on account of slow growth of 4.9% in credit substitutes, which had seen very high growth in the past couple of years. Also, the net advances grew at a lower level of 18.4% YoY after recording a 23.7% growth in FY13. The bank's customer assets stood at 71,309 crores as on Jun-14 (YoY of 16.4%) with net advances being Rs 58,989 crores and credit substitutes of Rs 12,320 crores. The bank continues to hold a well diversified portfolio across various sectors. The proportion of corporate and institutional clients in the overall credit portfolio was at 68.7% as on June 30, 2014. The bank is looking at growing its retail and SME assets going forward. However, on account of current relatively lower share of retails loans, the share of corporate portfolio is expected to remain high in near term.

Overall asset quality indicators of the bank remained under control, though some increase was seen in FY14. The Gross NPA and Net NPA of the bank as on Jun-14 was 0.33% and 0.07% with restructured assets being very low at 0.19%. The bank has sold assets to ARCs during FY14 worth Rs 189 crore. Ability of the bank to maintain the asset quality would remain a key rating sensitivity.

Yes Bank was the first bank to raise saving account rates by 200 bps to 6% (7% for savings deposits more than Rs. 1 lakh) post deregulation by the Reserve Bank of India on October 25, 2011. This coupled with continuous expansion in branch network enabled the bank record significant improvement in CASA base to 22.3% as on Jun-14 from 11.0% as on Sep-11. Going ahead, the management is looking at further improving its low cost CASA base by ~0.5% to 1% every quarter. At the same time, the granularity of the deposit have improved with the share of bulk deposits (> Rs 25 crore) for Yes Bank gradually reducing to 26.1% as on Jun-14 compared to 38.6% as on Mar-13.

The overall capital adequacy of the bank under Basel III (including Q1 FY 2015 PAT) stood at 18.0% (Tier I at 12.6%) as on June 30, 2014 compared to 14.4% (Tier I at 9.8%) as on Mar-14. Following the equity capital raising through QIP of USD 500 mn (Rs 2,942 crore) in Jun-14 at Rs 550 per share, the Core Equity Capital of Yes Bank now compares well with most other large private sector banks. The bank had aggressively shored up its Tier II capital under Basel II upto 2012, but the Tier II capital under Basel III will keep reducing due to the grandfathering effect on non Basel III compliant instruments. With NPA levels amongst the lowest in the industry and fresh equity infusion, the capitalisation position of the bank is comfortable.

The calculated Net Interest Margin* in FY14 improved marginally to 2.61% as compared to 2.57% in FY13. Yes bank was one of the first to Increase its base rate by 25 bps to 10.75% from August 01, 2013 and pass on the increased cost of funds to its customers. Going ahead, the bank is expected to see an improvement in NIMs in Q2FY15 as the effect of capital raising comes in. The non interest based income for the bank remains robust with fee based income to average total assets of 1.40% in FY14 and 1.43% in Q1FY15. Non-interest income continues to account about a third of the total operating income with financial advisory continuing as a significant contributor.

The bank has continuously expanded its network with the total number of branches reaching 572 as on Jun-14 from 356 as on Mar-12. The total number of ATMs as on Jun-14 was 1,170 compared to 606 as on Mar-12. With the expansion in branch network, operation expenses have increased in FY14 to 1.68% of average total assets as compared to 1.55% in FY13. The operating expenses for the bank is expected to remain elevated which will also depend on the growth levels achieved by the bank along with increase in network.

The profitability for the bank has been improving, helped by better NIMs and non-interest based income, despite increase in opex and credit cost in FY13 and FY14. The RoA has been consistently maintained at more than 1.5% over the past few years. The return on average equity has been steadily improving since FY10, when the bank saw a major equity infusion, and was close to 25% for FY14. However, post equity infusion in Jun-14, the ROE has moderated to ~20%.

Bank Profile

YBL is a new private sector bank set up in 2004. On the back of consistent growth in Net Interest Income and Fee Income, YBL reported Net Profit of Rs 1,618 crore on a Total Income of Rs. 11,703 crore for the year ended March 31, 2014 as compared with Rs. 1,301 crore and Rs 9,551 crore respectively for the year ended March 31, 2013. The total assets of the Bank stood at Rs 109,016 crore as on March 31, 2014 compared to Rs. 99,104 crore as on March 31, 2013. The reported Gross NPA% and Net NPA % stood at 0.31% and 0.05% respectively as on March 31, 2014 as compared to 0.20% and 0.01% respectively as on March 31, 2013. The regulatory Capital Adequacy Ratio (Basel III) of the Bank stood at 14.4% (Tier I: 9.8%) as on Mar 31, 2014.

Recent Results

During the quarter year ending June 30, 2014, YBL reported net profit of Rs. 439 crore on a total income of Rs. 3,070 crore compared to a net profit of Rs 401 crore in Q1FY14. CASA ratio of the bank stood at 22.3% as on June 30, 2014. The reported Gross NPA% and Net NPA % stood at 0.33% and 0.07% respectively as on June 30, 2014. The total Capital adequacy and Tier I capital (including profit for the quarter) stood at 18.0% and 12.6%.

September 2014

* As per ICRA computation

For further details please contact:
Analyst Contacts:
Mr Karthik Srinivasan (Tel. No. +91 22 6179 6365)
karthiks@icraindia.com

Relationship Contacts:
Mr. L. Shivakumar (Tel. No. +91-22- 6179 6393)
shivakumar@icraindia.com

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: **9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: **9821086490** Email: shivakumar@icraindia.com 1802, 18th Floor, Tower 3, Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone, Mumbai 400013, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: **9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Bangalore** **Mr. Jayanta Chatterjee** Mobile: **9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: **989986490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: **989986490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 99, CTS 3909, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: **9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	