



**Nippon India Mutual Fund**

Wealth sets you free

(Formerly Reliance Mutual Fund)

**YES BANK LIMITED**

## Background

We wish to highlight the following developments with respect to Yes Bank Limited, all of which have happened on 05/03/2020. We have tried to put it in sequence.

- 1) Non-payment of interest and Non-Exercise of Call on Basel II Additional Tier 1 Bonds due on 5<sup>th</sup> March, 2020**  
In a letter dated January 30, 2020, the bank had informed that it has decided to exercise Call Option for redemption of 10.25% Unsecured Non-Convertible BASEL II Tier I Subordinated Perpetual Bonds, subject to approval from RBI. **The bank did not exercise the call option. The bank has also not paid the annual interest on the said bonds for the period ending March 05, 2020 pending RBI approval.**

- 2) Moratorium recommended by the Reserve Bank of India owing to weak financial position of the bank**  
As per RBI Press Release - The financial position of Yes Bank Ltd. (the bank) has undergone a steady decline largely due to inability of the bank to raise capital to address potential loan losses and resultant downgrades, triggering invocation of bond covenants by investors, and withdrawal of deposits. The bank has also experienced serious governance issues and practices in the recent years which have led to steady decline of the bank. The Reserve Bank has been in constant engagement with the bank's management to find ways to strengthen its balance sheet and liquidity. Since a bank and market led revival is a preferred option over a regulatory restructuring, the Reserve Bank made all efforts to facilitate such a process and gave adequate opportunity to the bank's management to draw up a credible revival plan, which did not materialize. In the meantime, the bank was facing regular outflow of liquidity.

**After taking into consideration these developments, the Reserve Bank came to the conclusion that in the absence of a credible revival plan, and in public interest and the interest of the bank's depositors, it had no alternative but to apply to the Central Government for imposing a moratorium under section 45 of the Banking Regulation Act, 1949. Accordingly, the Central Government has imposed moratorium effective 5<sup>th</sup> March, 2020.**

- 3) Moratorium implemented by the Central Government; restrictions placed on payment of over 50,000 per depositor**  
In exercise of the powers conferred by **45 (2) of the Banking Regulation Act, 1949**, the Central Government, after considering an application made by the Reserve Bank of India made an order for moratorium in respect of the Yes Bank Limited, for the period from 18:00 hrs on March 5, 2020 up to and inclusive of April 3, 2020 and hereby stays the commencement or continuance of all actions and proceedings against that banking company during the period of moratorium. RBI has assured the depositors that their interest will be fully protected and will explore and draw up a scheme under Banking Regulation Act in the few days for banks reconstruction or amalgamation with the approval of Government.
- 4) Supersession of the Board of Directors and appointment of administrator**  
The Reserve Bank, in consultation with Central Government, has **superseded the Board of Directors of Yes Bank Ltd.** for a period of 30 days owing to serious deterioration in the financial position of the Bank. The same has been done to restore depositors' confidence in the bank, including by putting in place **a scheme for reconstruction or amalgamation.** Shri Prashant Kumar, ex-DMD and CFO of State Bank of India has been appointed as the administrator.

**5) Restrictions placed on grant of loans and making investments**

The Reserve Bank of India, in exercise of the powers vested under Section 35A of the Banking Regulation Act, 1949 has further restricted grant or renewal of any loan or advance, incur any liability and agree to disburse any payment in discharge of its liabilities & obligations, except to the extent expressly provided as per the RBI.

**6) Press Release by SBI:**

In a late evening Press Release, SBI has confirmed that its board has granted an in-principal approval to explore investment opportunity in Yes Bank.

**Implications under Sec 45:**

The steps initiated by the Government at the request of RBI have been undertaken in exercise of powers under Section 45 of the Banking Regulations Act, 1949.

One of the provisions under this Act is “the reduction of the interest or rights which the members, depositors and other creditors may have in or against the bank before its reconstruction or amalgamation to the extent as the RBI considers necessary in public interest or in the interest of the members, depositors and other creditors or for the maintenance of the business of the bank.”

The RBI shall submit this scheme for sanction of the Government, which may sanction it with or without modifications.

**Additional Tier 1 (AT1) Bonds Information Memorandum:**

As per the IM, in case the authorities decide to reconstitute the bank or amalgamate the bank under Sec 45 of Banking Resolution act 1949, the bank will be deemed as non – viable or approaching non – viability and the trigger for write down / conversion of the Additional Tier 1 bonds will be activated.

**Our View:**

YES Bank Limited, is the 4<sup>th</sup> largest private sector bank in India with a total asset book of more than Rs 3.45 lakh crores and a deposit base of more than Rs 2 lakh crores (as on 30/09/2019). As such the bank has huge systemic importance and the RBI and the Central Government would have considered all options before deciding on the moratorium under Sec 45 of BR Act 1949.

**The mere imposition of Moratorium does not necessarily / automatically lead to erosion of value in our investments in Additional Tier 1 bonds issued by the bank.** Given the numerous press reports as well as the Press release by SBI, which talks about a potential equity participation into Yes bank, it is apparent that the authorities are seized of the wider implications of continuing with a prolonged period of uncertainty, and **we would expect clarity to emerge on the same in the immediate future.**

Having said that, the seriousness of invocation under Sec 45 can't be ignored. Read with the provisions in the Information Memorandum (IM), it exposes these bonds to the risk of a write off / conversion, depending on the final scheme of reconstitution / restructuring as decided by the RBI.

**In light of all the above facts, the degree of uncertainty around the performance of these Additional Tier 1 bonds going forward will be hugely dependent both on the kind of decisions taken by the RBI and the Government as well as the timing of these decisions. As such, there is huge uncertainty w.r.t to realisable value of these bonds, pending clarity.**



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## Key Actions

The perpetual bonds of Yes Bank Limited held by schemes of Nippon India Mutual Fund (NIMF) are rated investment grade. The valuation agencies though have further marked down the securities from Rs. 73.7922 (Avg. price) as on 4<sup>th</sup> March 2020 to Rs.47.4997 (Avg. price) on 5<sup>th</sup> March 2020 in light of the recent developments.

Taking into account the above-mentioned developments, the Valuation Committee of NIMF has decided to deviate from the Valuations provided by Independent Valuation Agencies., As a prudent measures & in order to protect the value of existing unitholders of the schemes of NIMF, we have taken the following two immediate actions:

1. Perpetual bonds of Yes Bank Limited in the schemes of NIMF have been marked down to zero. The valuation adjustment reflects the uncertainties around the realisable values but does not in any manner indicate any reduction or write off of amount repayable by Yes Bank Limited or eventually realisable by the schemes holding these instruments. The AMC will continuously monitor the developments in Yes Bank Limited, take appropriate steps in the best interest of its unitholders, and adjust valuations in line with incoming information and developments.
2. Fresh inflows in the scheme have been limited to INR 2.00 lacs per day per scheme per investor, till further notice. This limit is imposed only on the new applications, switch-ins, Systematic transfer plans, systematic investment plans received after the cut off time on March 5, 2020.

We will review this decision on regular basis & take appropriate actions as clarity emerges on this matter. A limit on new applications, switch-ins, Systematic transfer plans, systematic investment plans will help ensure that once clarity emerges, the interest of existing unitholders has not been significantly diluted in the interim through additional purchase activity while limiting the inconvenience to retail unitholders.

We continue to remain engaged with Yes Bank Limited & closely monitor the developments in this matter.

## Credit Ratings as on 5<sup>th</sup> March 2020:

	ICRA	India Ratings	CARE	Brickworks
Lower Tier Bonds	A- (Negative)	A- (Negative)	A- (Negative)	A- (Negative)
Additional Tier I	BBB- (Negative)	BBB-(Negative)	BBB- (Negative)	A- (Negative)
CDs	A2+			



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## Scheme wise holdings as on 5<sup>th</sup> March 2020

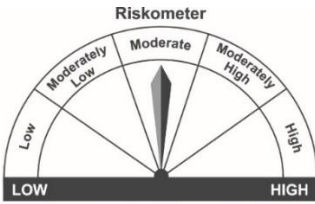
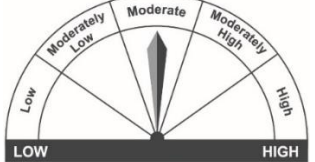
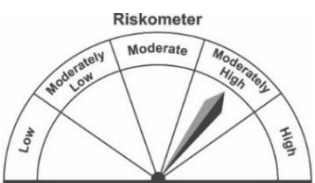
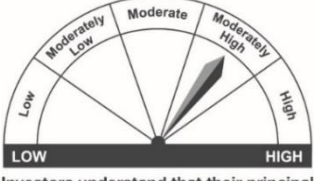
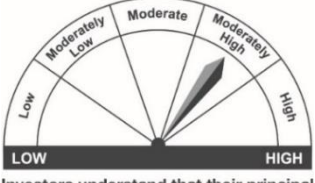
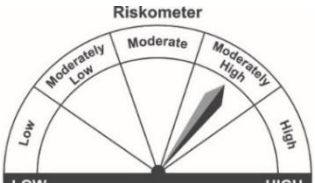
Scheme Name	Issuer Name	Issuer ISIN	Price at which security is valued	Price provided by valuation agencies	Impact in Rs Crores	Percentage impact on Net Assets*
Nippon India Hybrid Bond Fund	YES Bank Limited	INE528G08352	0.0000	47.5004	14.25	1.23%
Nippon India Hybrid Bond Fund	YES Bank Limited	INE528G08394	0.0000	47.4990	51.92	4.47%
Nippon India Credit Risk Fund	YES Bank Limited	INE528G08352	0.0000	47.5004	42.66	0.93%
Nippon India Credit Risk Fund	YES Bank Limited	INE528G08394	0.0000	47.4990	308.74	6.72%
Nippon India Equity Hybrid Fund	YES Bank Limited	INE528G08352	0.0000	47.5004	29.93	0.44%
Nippon India Equity Hybrid Fund	YES Bank Limited	INE528G08394	0.0000	47.4990	387.26	5.63%
Nippon India Strategic Debt Fund	YES Bank Limited	INE528G08352	0.0000	47.5004	15.20	0.86%
Nippon India Strategic Debt Fund	YES Bank Limited	INE528G08394	0.0000	47.4990	270.74	15.38%
Nippon India Retirement Fund - Wealth Creation	YES Bank Limited	INE528G08394	0.0000	47.4990	23.75	1.49%
Nippon India Equity Savings Fund	YES Bank Limited	INE528G08394	0.0000	47.4990	35.10	5.48%

\*on 4<sup>th</sup> March 2020 net assets





## Product Labels

<p><b>Nippon India Strategic Debt Fund</b> (An open ended medium term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 to 4 years)</p>	<p><b>This product is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>Income over medium term</li> <li>Investment predominantly in debt and money market instruments with portfolio Macaulay Duration of 3 - 4 yrs</li> </ul> <p><b>*Investors should consult their financial advisors if in doubt about whether the product is suitable for them.</b></p>	 <p>Investors understand that their principal will be at Moderate risk Riskometer</p>
<p><b>Nippon India Credit Risk Fund</b> (An open ended debt scheme predominantly investing in AA and below rated corporate bonds (excluding AA+ rated corporate bonds))</p>	<p><b>This product is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>Income over medium term</li> <li>Investment predominantly in AA and below rated corporate bonds</li> </ul> <p><b>*Investors should consult their financial advisors if in doubt about whether the product is suitable for them.</b></p>	 <p>Investors understand that their principal will be at Moderate risk Riskometer</p>
<p><b>Nippon India Hybrid Bond Fund</b> (An open ended hybrid scheme investing predominantly in debt instruments)</p>	<p><b>This product is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>Regular income and capital growth over long term</li> <li>Investment in debt &amp; money market instruments and equities and equity related securities</li> </ul> <p><b>*Investors should consult their financial advisors if in doubt about whether the product is suitable for them.</b></p>	 <p>Investors understand that their principal will be at Moderately High risk Riskometer</p>
<p><b>Nippon India Equity Hybrid Fund</b> (An open ended hybrid scheme investing predominantly in equity and equity related instruments)</p>	<p><b>This product is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>long term capital growth</li> <li>Investment in equity and equity related instruments and fixed income instrument</li> </ul> <p><b>*Investors should consult their financial advisors if in doubt about whether the product is suitable for them.</b></p>	 <p>Investors understand that their principal will be at Moderately High risk Riskometer</p>
<p><b>Nippon India Equity Savings Fund</b> (An open ended scheme investing in equity, arbitrage and debt)</p>	<p><b>This product is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>Income and Capital Appreciation over long term</li> <li>Investment predominantly in arbitrage opportunities between cash &amp; derivative market and in unhedged equity</li> </ul> <p><b>*Investors should consult their financial advisors if in doubt about whether the product is suitable for them.</b></p>	 <p>Investors understand that their principal will be at Moderately High risk Riskometer</p>
<p><b>Nippon India Retirement Fund - Wealth Creation</b> (An open ended retirement solution oriented scheme having a lock-in of 5 years or till retirement age (whichever is earlier))</p>	<p><b>This product is suitable for investors who are seeking*:</b></p> <ul style="list-style-type: none"> <li>Long term growth and capital appreciation</li> <li>Investing primarily in Equity and equity related instruments and balance in fixed income securities so as to help the investor in achieving the retirement goals.</li> </ul> <p><b>*Investors should consult their financial advisors if in doubt about whether the product is suitable for them.</b></p>	 <p>Investors understand that their principal will be at Moderately High risk Riskometer</p>