

Update on Investments in Yes Bank Limited – NCD (26th March 2020)

Recent Event

The Debt Securities of Yes bank held by Sundaram Mutual Fund in two of its schemes – Sundaram Equity Hybrid Fund & Sundaram Medium Term Bond Fund were downgraded on 06th March 2020 to “D” denoting Default by the Credit rating agencies. Sundaram Equity Hybrid Fund had investments in Basel III Additional Tier I Bonds (ISIN - INE528G08394) and Basel II Lower Tier II Bond (ISIN - INE528G08246) and Sundaram Medium Term Bond (ISIN - INE528G08394) had investments in Basel III Additional Tier I Bonds.

The rationale for downgrading on 06th March 2020 and its impact

The rating agencies have factored the recent developments in the Bank, the steps taken by Reserve Bank of India (RBI) and the information and clarification provided by the bank’s management. RBI and Government of India, on March 05, 2020 has imposed moratorium on Yes Bank under section 45 of the Banking Regulation Act, 1949. Further, Significantly high Gross NPAs and standard BB and below rated exposures, which could likely to increase further in the near term; and Delays in capital raising amid increase in stressed exposures were additional key rating drivers that led to the markdown of the securities.

Due to the rating downgrade, the price provided by the rating agencies were valued at ZERO and the same was considered for valuation from that date. Also, provision for Interest accrued has been made with no further accrual of interest.

Reconstruction Scheme and its impact

“Yes Bank Limited Reconstruction Scheme 2020” was approved by the Central Government and notified in the Official Gazette on March 13, 2020.

The Bank was deemed to be non-viable or approaching non-viability and accordingly, AT 1 Bonds would need to be fully written down permanently before undertaking any reconstruction of the Bank.

In light of the above provisions of the Basel III Circular, the Perpetual Subordinated Basel III Compliant Additional Tier I Bonds issued by the Bank for an amount of Rs. 3,000 crores on December 23, 2016 and the Perpetual Subordinated Basel III Compliant Additional Tier I Bonds issued by the Bank for an amount of Rs. 5,415 crores on October 18, 2017 have been fully written down and stand extinguished with immediate effect.

Due to the above scenario, the Basel III Additional Tier I Bonds (ISIN - INE528G08394) holdings in Sundaram Equity Hybrid Fund & Sundaram Medium Term Bond Fund were written down in the scheme along with the Interest accrued.

Scheme	ISIN	Security	Rating	Qty	Cost of investments	Accrued interest
Equity Hybrid	INE528G08394	Yes Bank Ltd - 9% - 18/10/2022	ICRA D	70	7 Cr	0.24 Cr
Medium Term Bond	INE528G08394	Yes Bank Ltd - 9% - 18/10/2022	ICRA D	20	2 Cr	0.07 Cr

Current Update

On 24th March 2020, ICRA has upgraded the rating of Basel II Lower Tier II Bond (ISIN - INE528G08246) to “BB+” from “D” whereas CARE continued to rate it at “B”.

The rationale for upgrading on 24th March 2020 and its impact

ICRA derived the comfort from removal of moratorium w.e.f. March 18, 2020, changes in shareholding and the reconstitution of its Board, equity infusion of Rs. 10,000 crore from State Bank of India (SBI) and other domestic financial institutions and the benefit from the write off of its Basel III Additional Tier 1 (AT-I) Bonds to the tune of Rs. 8,415 crore.

ICRA has upgraded the ratings before completion of the curing period as an exception, considering the reconstruction of the bank undertaken by RBI under Section 45 of the Banking Regulation Act, 1949.

General Points on Valuation

AMFI appointed valuation agencies generally provide standard haircut rates in case of downgrade to “D”, based on the matrix recommended by AMFI. The valuation adjustment would only reflect the estimated realizable price of the relevant securities on the date of valuation and does not indicate any reduction or write-off of the amount repayable by the issuers.

The valuation agencies had provided 100% haircut for the Basel II Lower Tier II Bond (ISIN - INE528G08246) from 6th March 2020 upto 25th March 2020 and revised the haircut to 50% with effect from 26th March 2020 on account of rating upgrade for the security.

SEBI circular dated 22nd March 2019 provides that AMCs may deviate from the indicative haircuts and/or the valuation price for money market and debt securities rated below investment grade provided by the valuation agencies subject to the conditions that rationale for deviation shall be disclosed to the Board of AMC and Trustees and display on its website for the information to the investors, the rationale along with information about the securities valued and such other information set out in the circular.

In compliance with the said requirement, we are providing the following rationale and information about our valuation of the security:

Rationale

1. General 90 day curing period was ignored by the rating agency.
2. Another agency, Brickwork Ratings had continued the rating as “D” for all similar bonds issued by Yes Bank. The bond held by Sundaram MF is not rated by BWR.
3. In our view, the quantity held by the scheme is very minimal and it would be difficult to sell the security in the market in the near future.
4. Though there are positive indicators, complete revival of the bank and its ability to meet its commitment could be gauged over the period of next three to six months.

In view of the above factors, it was decided to continue the 100% haircut valuation of the security. We will continue our monitoring of developments in the bank.

Prescribed information about the security as on 26th March 2020

Scheme Name	ISIN	Security	Rating	Price at which the Security was valued	Price post haircut *	Impact deviation of on scheme NAV	
						Amount (Rs. In Crore)	%
Sundaram Equity Hybrid Fund	INE528G08246	YES BANK - NCD- 9.90%- 31/10/2022	CARE B	Nil	Rs.50 per security	1.00	0.07

* assuming face value as Rs. 100 per security

Note: - Since the security is valued at ZERO, treatment of interest accrued and future accrual as specified in SEBI Circular SEBI/HO/IMD/DF4/CIR/P/2019/102 dated 24th September 2020 is also considered ZERO.

Place: Chennai
Date: 26 Mar 2020

For **Sundaram Asset Management Company Limited**
P Sundararajan
Secretary & Compliance Officer

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.