

Update on investment in Yes Bank Limited

7th March 2020

This update is in continuation to our communication dated 6th March 2020, appended hereto. As communicated earlier, Kotak Credit Risk Fund and Kotak Medium Term Fund has an exposure to Perpetual Basel III Compliant Additional Tier I Bonds (“Bonds”) issued by Yes Bank Limited (“YBL” or “the Bank”)

On March 06, 2020, Bonds rating have been downgraded to D by ICRA and C by India Ratings. The independent Scrip Level Valuation (SLV) Agencies i.e. CRISIL & ICRA, marked down the valuation of YBL’s Bonds to zero on March 06, 2020 as per AMFI’s matrix on “Standard haircut for sub investment grade debt securities”. Due to downgrade of rating to D, we have also reversed the accrued interest on the Bonds.

Reserve Bank of India (RBI) vide its press release dated March 6, 2020 has placed a draft scheme of reconstruction of YBL – ‘Yes Bank Ltd. Reconstruction Scheme, 2020’. RBI has invited suggestions and comments on the scheme by March 09, 2020. As per this draft scheme, the instruments (Bonds) qualifying as Additional Tier 1 capital, issued by the Yes Bank Ltd. under Basel III framework, shall stand written down permanently, in full, with effect from the Appointed date (the date on which Central Govt. will notify this scheme in the Official Gazette). This is in conformity with the extant regulations issued by Reserve Bank of India based on the Basel framework. As per this scheme, there is huge uncertainty with respect to realisable value of these Bonds

We will continue to monitor the developments closely.

Investors and distributors are requested to take note of the same

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

Update on investment in Yes Bank Limited

6th March 2020

Yes Bank Limited (“YBL” or “the Bank”) has been put under “Order of Moratorium” by Ministry of Finance, Govt. of India vide notification dated 5th March 2020 subsequent to application made by Reserve Bank of India (RBI) under section 45 of Banking Regulation Act, 1949. Further, we understand that RBI has suspended the Board of Directors of the Bank and has appointed Administrator for the Bank.

Kotak Mutual Fund currently has as exposure of Rs 61.84 crores (market value as on 5th March 2020) to Perpetual Basel III Compliant Additional Tier I Bonds (“Bonds”) of the Bank in two schemes viz. Kotak Credit Risk Fund and Kotak Medium Term Fund. These Bonds are rated as BBB-(hyb) (Negative) by ICRA and IND BBB-/Rating Watch Negative by India Ratings as on 5th March 2020.

The Bonds are valued as per the valuation provided by independent Scrip Level Valuation (SLV) Agencies i.e. CRISIL & ICRA.

The scheme wise holding of YBL’s Bonds as on March 05, 2020 is as follows:

Scheme	Market Value of YBL’s Bond as on March 05, 2020 (Rs in crores)	Interest accrued but not due (Rs in crores)	Market Value of Bonds as a % of AUM (as on March 05, 2020)
Kotak Credit Risk Fund	41.51	3.01	0.79%
Kotak Medium Term Fund	20.33	1.47	0.61%
Total	61.84	4.48	

YBL is the fourth largest private sector bank in India, as on September 30, 2019, in terms of assets. As on September 30, 2019, YBL had deposits of Rs 2,09,497 crores, advances of Rs 2,24,505 crores with shareholder’s funds of Rs 27,790 crores. The external rating of these Bonds was AA at the time of our investment.

As per GoI notification, order of moratorium is till April 03, 2020. As per RBI release, it will explore and draw up a scheme in the next few days for the bank’s reconstruction or amalgamation and with the approval of the Central Government, put the same in place well before the period of moratorium ends.

As per the Information Memorandum of these Bonds, in case there is a reconstitution or amalgamation of the bank under Sec 45 of Banking Regulation Act 1949, the bank will be deemed as non-viable and trigger for written-down / conversion of these Bonds will be activated. This does not necessarily erode the value of our Bonds and we need to wait for the restructuring plan which is likely to be announced in near term, since there is no precedence

We will continue to monitor the developments closely.

Investors and distributors are requested to take note of the same

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