YES BANK CRISIS

MFs to approach Sebi on lock-in

Nifty, Bank Nifty funds will have to sell stock after index exclusion

JASH KRIPLANI
Mumbai, 15 March

IN LIMBO

YES Bank lock-in could lock up ₹3,400 cr of non-promoter funds
■ Current value* ■ 75% locked in

Investor category	Stake (%)	₹ crore Current value*	₹ crore 75% locked in
Retail	43.66	2,840	2,130
FPIs	15.17	986	740
Mutual funds	5.09	492	369
HNIs	4.3	280	210

Value for other categories based on current share price and December 31 holdings
Source: Exchanges, MF data as of February 29, 2020 from RupeeVest

Worried over the 75 per cent three-year lock-in for YES Bank shareholders, mutual funds (MFs), along with stock exchanges, will approach the Securities and Exchange Board of India (Sebi) on how the impact of government's notification can be mitigated on index funds and exchange-traded funds (ETFs).

From March 27, YES Bank will be excluded from both the Nifty and Bank Nifty indices. Index funds and ETFs need to exit from the bank shares once the lender is excluded from indices. According to the data from RupeeVest, MFs' equity exposure to YES Bank stood at ₹492 crore as of February 29, with 62 per cent of the exposure held in various index and ETFs, which track underlying index. As many as 50 index and ETFs held YES Bank into their schemes as of February 29.

"Some of the exposed schemes are large in size with assets of between ₹40,000 crore and ₹60,000 crore. For them, the issue can be much larger. We will be taking up the matter with Sebi," said senior executive of a fund house.

"We are in talks with exchanges and industry body Association of Mutual Funds in India. Both will seek clarity from the Sebi on this issue," said an industry official, part of the industry body's committee on ETFs and index funds.

On Friday, the government notified the YES Bank scheme. In section 8 of the gazetted notification, it has been stated that there shall be a lock-in period of three years from the commencement of scheme to extent of 75 per cent. Industry participants are worried, as this means both existing and investors coming in with fresh capital will not be able to sell more than 25 per cent of holdings for at least three years.

Lock-in is also expected to hurt investors' faith, who bought bank's shares on Thursday or Friday. Institutional investors that lent shares in stock lending and borrowing mechanism might not be able to get back all shares, hedged positions or cash-future arbitrage strategies can face losses.

To be sure, an index or ETF needs to have 95 per cent of assets replicated in-line with the underlying index. "However, typically index and ETFs use remaining 5 per cent room for cash holdings to deal with any redemption pressures. Also, holding YES Bank shares for three years, after it is out of indices, can lead to huge tracking error," a fund manager said, requesting anonymity.

While YES Bank is being excluded from Nifty and Bank Nifty, new stocks are being added to these indices. "Bank Nifty-linked funds could find it difficult to have enough room to include Bandhan Bank, which is a YES Bank replacement, while still holding YES Bank shares partially. Similarly, Shree Cement is replacing YES Bank in Nifty," said a fund manager. According to industry sources, MFs and exchanges can propose to Sebi that index rebalancing date be deferred from March 27 to another month so that government can clarify the issue in meantime.

Further, industry participants pay creation of segregated portfolio to hold YES Bank exposure separately and giving separate units of the schemes to unitholders can be a workable solution.

"However, Sebi will have to allow exemptions for such an exercise as under current regulatory framework, side-pocket can only be created in a debt scheme when there is a rating downgrade to below-investment grade," said chief executive officer of a fund house.

Over ₹2,100 crore of retail money could be locked

Apart from MFs, other existing shareholders stand to see a significant share of their funds getting stuck in YES Bank, if the current government notification is not amended or clarified.

Retail investors (individuals up to ₹2 lakh of investment) hold ₹2,839 crore worth of shares in YES Bank; calculated based on current share price and shareholding as of December 31, 2019.

While it is difficult to gauge the impact on retail investors as the provision is applicable to only investors holding more than 100 shares, 75 per cent of retail investment getting locked-in could amount to ₹2,129 crore worth of shares. Overall, more than 1.6 million public shareholders have investments in bank, as of December 31, 2019.

Among other investor categories, foreign portfolio investors hold ₹986-crore investments in the bank, while high net-worth investors (HNIs) hold ₹280 crore worth of shares. A 75 per cent lock-in on investment would amount to ₹209 crore for HNIs. Similarly, the lock-in for FIIs could be ₹739 crore worth of investments.

YES Bank plans to cut slippages to 5% in FY21

ABHIJIT LELE
Mumbai, 15 March

After adding ₹23,000 crore to its gross non-performing assets (NPAs) in the December quarter, ailing YES Bank now says it hopes to contain this slippage to around ₹8,500 crore in the coming financial year (which begins April 1).

Its standard advances after subtracting net NPAs were about ₹1.75 trillion at end-December. Advances were ₹1.86 trillion and net NPAs at ₹11,114 crore.

The slippage ratio (standard advances becoming NPAs) will be brought to 5 per cent in 2020-21, from 11.98 per cent in the December quarter, according to a presentation for analysts. The vulnerable portfolio, loans that have high chance to slip into NPAs, is ₹13,911 crore at end of December 2019. These are special mention accounts (SMA) categorised in terms of duration. In the case of SMA -1, the overdue period is between 31 and 60 days. An overdue between 61 to 90 days will make an asset SMA -2.

Gross NPAs at end-December were ₹40,709 crore, up from ₹5,159 crore a year before (and ₹17,134 crore at end-September 2019). With the huge provisioning for bad loans, the bank posted a loss of ₹18,564 crore in the December quarter.

Provisioning for NPAs and write-offs rose about 10-fold to ₹22,238 crore in that quarter, from ₹2,214 crore in the earlier one. It had provided ₹507 crore on this account in the December quarter of 2018-19.

The Provision Coverage Ratio (PCR) increased to 72.7 per cent for the December quarter, from 43.1 per cent in the September quarter. The higher PCR would enhance the ability to offload these assets from the balance sheet, to further release capital, YES Bank stated in the presentation.

While determining NPAs and related provisioning requirements for October-December, it considered slippage in NPAs after this date till that of the publication of financial results (March 2020), it said. This change resulted in recognition of additional loans of ₹5,150 crore as NPAs and related provisioning requirement of ₹772 crore for the quarter.

IDFC First to invest ₹250 cr in YES Bank

IDFC First Bank on Sunday said it would make an equity investment of ₹250 crore in beleaguered YES Bank, to acquire 250 million equity shares.

"...duly authorised committee of the Board of Directors of IDFC FIRST Bank had at its meeting held on March 14 accorded approval for an equity investment of up to ₹250 crore comprising up to 250 million equity shares at a price of ₹10 each and face value of ₹2 each, under the proposed Scheme of Reconstruction of YES Bank under the Banking Regulation Act, 1949, subject to regulatory and government approval(s), if any," the bank said in a BSE filing.

The Centre on Saturday notified the YES Bank Reconstruction Scheme, 2020, a day after the Cabinet approved a reconstruction plan proposed by the Reserve Bank of India for bailing it out. PTI

Outstanding term loan is zero: IHFL

Indiabulls Housing Finance (IHFL) on Sunday said the company as well as its promoters did not have any outstanding term loan from YES Bank. The company was clarifying on "some rumours" in social media in this regard.

"Outstanding terms loans from YES Bank to IHFL are zero," it said.

It also said that the outstanding term loans from YES Bank to the promoter of Indiabulls Housing Finance or any of his promoter companies / family members companies are Zero. In a separate filing, Karnataka Bank also rejected some news reports that had raised doubts on the safety of some banks using an "absurd and flawed so called m-cap to deposit ratio". PTI

Fresh blows to investors of crisis-hit bank

Auditors cast doubts on bank's ability to remain a going concern, investors holding more than 100 shares barred from selling stock

HAMSINI KARTHIK
Mumbai, 15 March

NEWS ANALYSIS

It was an unprecedented weekend, filled with many disappointments, for investors of YES Bank.

As the first blow to shareholders, both retail and institutional, the reconstruction scheme has imposed a three-year lock-in for 75 per cent of shares held by all those with more than 100 shares.

The second blow crushed the hopes of additional tier-1 (AT-1) bondholders, whose exposure to YES Bank was ₹8,415 crore. The bank's administrator indicated these instruments had been fully written down and were extinguished.

The bondholders were confident these would be converted into shares even if they should take an 80 per cent haircut.

While the matter is being litigated, the AT-1 bonds, meanwhile, become valueless.

The biggest blow came in the form of its disastrous December quarter (Q3) results. While the net loss of ₹18,564 crore on the back of the ₹24,766 crore provisioning cost was something investors saw coming, the magnitude of these numbers took them by surprise.

It doesn't stop at that. Deposits have shrunk by 21 per cent since Q2 to ₹1.65 trillion, hinting at a likely rundown. While on expected lines the loan book has reduced to ₹1.86 trillion, down 17 per cent sequentially.

The worst, though, is the subsequent impairment to its capital position. Common equity tier-1 (CET-1) fell to 0.6 per cent in Q3, way below the statutory mark of 7.375 per cent, while ₹86 crore of penalty was levied in Q3 for breaching the minimum statutory liquidity ratio and liquidity coverage ratio.

"These conditions, along with other matters as stated in the said note, indicate that a material uncertainty exists and it may cast significant doubts on the bank's ability to continue as a going concern," stated the bank's auditors in their Q3 report.

These numbers are even worse than Lakshmi Vilas Bank's, another small-sized, capital-starved bank.

Save for State Bank of India (SBI) and a clutch of private lenders agreeing to infuse ₹10,000 crore into the reconstructed bank, bringing the CET-1 and capital adequacy ratio numbers to 7.6 per cent and 13.6 per cent, respectively, would have been next to impossible.

While ₹29,594 crore of provisioning or ₹40,709 crore of gross non-performing assets (NPA), including gross slippages (loans turned bad) of ₹24,587 crore, isn't a small number, analysts say it might not entirely capture the extent of asset quality mess in the bank. Brokerages such as UBS, JP Morgan, and Macquarie were factoring in ₹60,000 crore of stressed loans, while YES Bank itself in the past had classified ₹30,000 crore as stressed. To that extent, ₹40,709 crore of NPAs in Q3 seems a smaller number.

HOW ASSET QUALITY WORSENED

(%)

	Q2	Q3
Gross NPA	**7.39**	**18.87**
Retail	1.03	1.36
MSME	1.29	1.63
Corporate	**11.07**	**29.3**
Net NPA	4.35	5.97
PCR	43.05	72.70
Slippages*	**2.58**	**11.98**

*Not annualised; Slippages guidance at 5% for FY21
Source: Investor presentation

"Perhaps the capital constraint was a barrier to recognise the full extent of pain," said an analyst with a foreign brokerage. While the provisioning coverage ratio improved from 43.1 per cent in Q2 to 72.7 per cent in Q3, analysts were expecting a higher number. "To that extent, investors need to brace themselves for another round of capital infusion, elevated NPAs and probable losses," the analyst added.

"The bank will need further capital infusion to grow, strip off assets to release capital and mop liquidity to meet liabilities," analysts at Emkay Global Financial noted.

The auditors also said the assumption of YES Bank being a going concern was dependent on the degree of success of the final reconstruction scheme, the amount of capital infused into it, and its ability to stabilise deposit balances after withdrawal of the moratorium.

For investors, while the fresh infusion of capital is positive for now, the Q3 results have added to their woes. What the bank would do to prevent a further meltdown in deposits and lower costs, whether after the Q3 clean-up it remains attractive to foreign investors for another round of capital raise, and how the new management revives YES Bank's business are some unanswered questions.

TMB to seek shareholders' approval for IPO again

T E NARASIMHAN
Chennai, 15 March

Ninety-nine-year old Tamilnad Mercantile Bank (TMB) is to again seek shareholders' approval to become a public listed entity. It had done so in 2016, too, at its 93rd annual general meeting (AGM). However, the shareholders, largely from the Nadar community, rejected the proposal for an Initial Public Offer (IPO) of equity by a majority.

The bank has since not held any AGM and is now scheduled, on April 9, to hold its 94th to 97th AGMS all together, for years 2015-16 to 2018-19. This is a sequel to last month's high court order, which allowed the conduct of all the pending AGMs, subject to specified conditions.

TMB has 20,600 shareholders. A majority reportedly voted against an IPO last time, so that the door is not opened to "outsiders" (non-Nadars). Their argument is TMB was meant for Nadars and should be owned by Nadars. Its earlier name was Nadar Bank.

The community has made significant strides through an emphasis on both education and entrepreneurship. The existing top management is from the same community. It had earlier said it was educating the shareholders on the need for additional funds, for both faster growth and for the benefit of all shareholders. If share value rises (with an IPO), exit routes will be available; it is currently not easy to sell the shares, it had said.

STATSGURU

The global sell-off

LAST WEEK, stock markets around the world saw significant volatility with benchmark indices dropping to multi-year lows. The coronavirus (COVID-19) outbreak and a sharp plunge in global crude oil prices triggered the fall.

On February 20, there were about 1,000 reported coronavirus cases in 26 countries outside of China with only eight deaths. The number has now soared to over 44,000 cases with 1,440 deaths across 117 countries, according to the World Health Organization (Chart 1). Fears that the spread of COVID-19 would push the global economy into recession have led to extreme risk aversion among investors.

This, coupled with the rift between Saudi Arabia and Russia to gain market share by keeping oil prices low, has further exacerbated these worries. In just 15 trading sessions, Brent crude has declined 42 per cent (Chart 2). The slump in oil prices has been accompanied by downward revisions in global economic growth estimates due to the spread of COVID-19.

As a result, since February 20, the benchmark Nifty has dropped 17.5 per cent (Chart 3), while the rupee has weakened by 3 per cent against the US dollar (Chart 4). Volatility in the financial markets has been amplified by selling pressure from foreign investors (Chart 5).

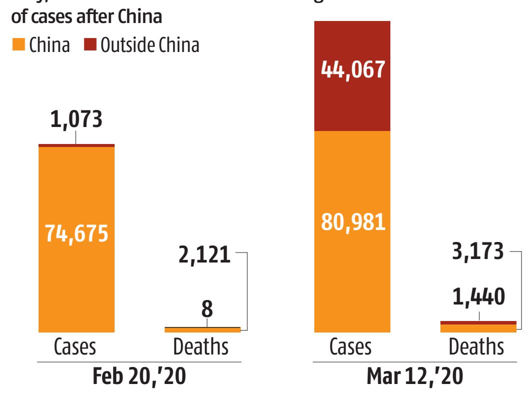
Until a month ago, the Indian markets were hovering close to their record highs, belying weakness in the economy and poor earnings growth. Many analysts had turned sceptical about the markets prospects due to lack of fundamental support. The spread of COVID-19 and oil price slump proved to be perfect storm for the market, wiping out over ₹29 trillion of Market capitalisation (Chart 6).

The fall in the Indian markets has been in line other global markets (Chart 7).

SAMIE MODAK

1: CORONAVIRUS TRAVELS OUTSIDE CHINA

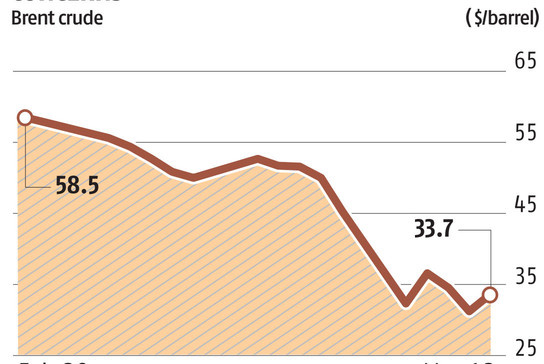
Italy, Iran and South Korea have the highest number of cases after China



Source: WHO

2: OIL PRICE FALL TRIGGERS GLOBAL GROWTH CONCERNS

Brent crude

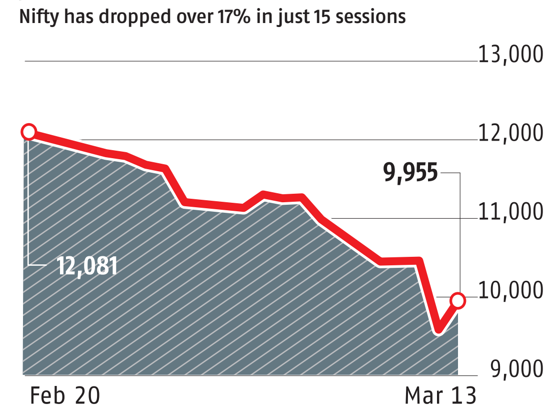


Source: Bloomberg

IMAGING: AJAY MOHANTY

3: MASSIVE STOCK SELL-OFF

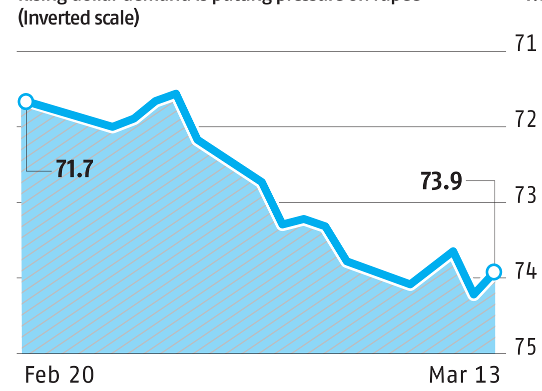
Nifty has dropped over 17% in just 15 sessions



Source: Bloomberg

4: LOSING CURRENCY

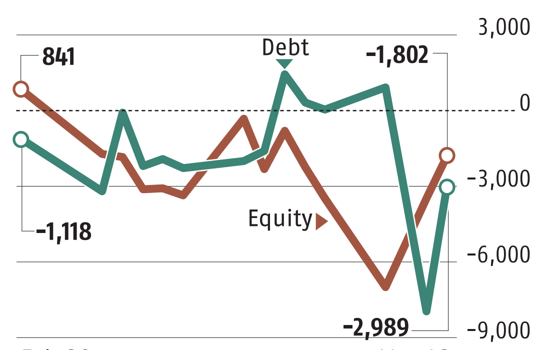
Rising dollar demand is putting pressure on rupee (Inverted scale)



Source: Bloomberg

5: FLIGHT TO SAFETY

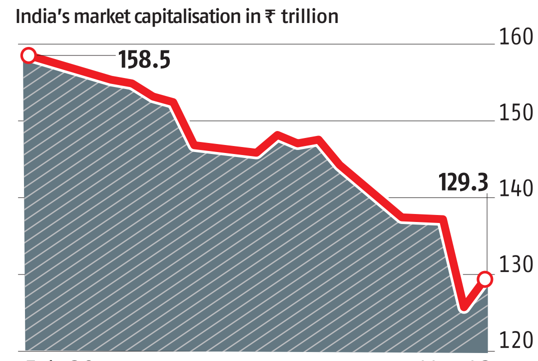
FPIs have sold in both equity and debt markets



Source: Bloomberg

6: THE VALUE DESTRUCTION

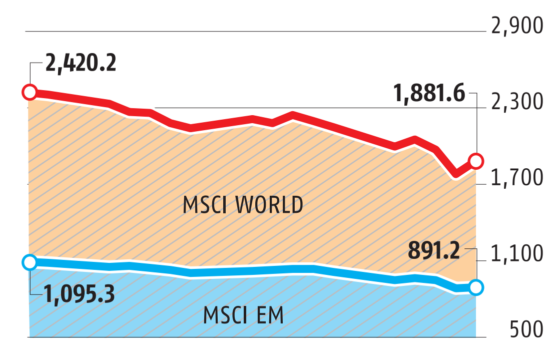
Investor wealth worth over ₹29 trillion wiped out
India's market capitalisation in ₹ trillion



Source: Bloomberg

7: INDIA IS NOT ALONE

Other markets have also seen a significant correction



Source: Bloomberg

StatsGuru is a weekly feature. Every Monday, *Business Standard* guides you through the numbers you need to know to make sense of the headlines

Compiled by BS Research Bureau