Yes Bank Ltd.

Issue Snapshot:
Issue Open: July 15 – July 17, 2020

Price Band: Rs. 12 - 13 (Discount of Rs 1 for the eligible employees of the bank)

Issue Size: 11,538,461,538 eq shares
(Including Employee reservation of 166,666,667 shares)

Issue Size: Rs. 15000 crs (including employee reservation of 200 cr)

Net issue Size: Rs 14800 crs

Reservation for:

QIB	upto 50% eq sh
Non Institutional	atleast 15% eq sh
Retail	atleast 35% eq sh
Employee Reservation	upto 166,666,667 eq shares

Face Value: Rs 2

Book value: Rs 17.29 (March 31, 2020)

Bid size: - 1000 equity shares and in multiples thereof

100% Book built Offer

Capital Structure:

Pre Issue Equity:	Rs. 2510.0 cr
Post issue Equity:	Rs. 4817.8 cr

Listed on : BSE & NSE

Book Running Lead Manager: Kotak Mahindra Capital Company Ltd, SBI Capital Markets Ltd, Axis Capital Ltd, Citigroup Global Markets India Private Ltd, DSP Merrill Lynch Ltd, HSBC Securities and Capital Markets (India) Private Ltd, ICICI Securities Ltd, YES Securities (India) Ltd

Registrar to Offer: KFIN Technologies Private Ltd

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	0	0
Public & Employee	100.0	100.0
Total	100.0	100.0

Source for this Note: RHP
* = assuming pricing at higher end of band

Background & Operations:

Yes Bank is a new generation private sector bank in India incorporated as a public limited company in November 2003 and obtained certificate of commencement of business in 2004. A Banking License was granted by RBI under Section 22(1) of the Banking Regulation Act in May 2004 to commence banking operations in India. In March 2020, the Government of India notified the "YES Bank Limited Reconstruction Scheme 2020". Since the implementation of the Reconstruction Scheme, Yes has formulated new strategic objectives which aim at augmenting deposit base and liquidity buffers, optimizing operating costs, building stronger governance and underwriting framework and focusing on stressed assets resolution over the next six to twelve months. Amidst the challenging environment, it continue to develop its young and dynamic talent pool as investment in human capital is the key to its long term sustainable success.

As one of India's new generation private sector bank, YES presence covers all 28 states and eight union territories in India and one representative office in Abu Dhabi as of March 31, 2020. It is a full-service commercial bank specialising in merchant banking, digital banking, brokerage business, asset management and investment banking. As of March 31, 2020, the Bank has a network of 1,135 branches and 1,423 ATMs. Its branches increased to 1,135 as of March 31, 2020 from 631 as of March 31, 3015 to 1,000 as of March 31, 2017. Its extensive network of branches includes 250 hub branches, 850 spoke branches, and with approximately 85% of its branches with more than three years vintage. YES branches are geographically extensive with 386, 236, 298 and 215 in metro, urban, semi-urban and rural locations respectively.

YES provides a knowledge-based approach to banking that adds value for its customers by allowing them to Capitalize on its knowledge in specific business sectors as well as across products. This approach, enabled further by the use of efficient technology-based solutions, strengthens its relationships with customers by allowing it to develop those existing relationships to cross-sell its full range of product and service offerings, with increasing thrust on transaction banking and payments. It aims to develop a scalable platform as it focus on retail and SME advances. Its strategic initiatives in the enhancement of SME capabilities include financing vendors of corporates, tie ups with trade and industry relationships and expanding its liability business through branches and CRM based sourcing. As of March 31, 2020, it had 50 dedicated SME branches in SME hubs and intends to increase its customer base in corporate banking, medium enterprises banking, SME banking and retail banking business segments through a focused customer relationship management approach.

Total assets of YES decreased from Rs.3,124,496.54 million as of March 31, 2018 to Rs.2,578,321.64 million as of March 31, 2020 at a CAGR of (9.16)%. Its total deposits has decreased from Rs.2,006,886.04 million as of March 31, 2018 to Rs.1,053,111.68 million as of March 31, 2020 at a CAGR of (27.96)%. CASA deposits for the bank decreased from Rs.731,740.32 million as of March 31, 2018 to Rs.280,461.00 million as of March 31, 2020 at a CAGR of (38.09)%. Its advances decreased from Rs.2,035,188.25 million as of March 31, 2018 to Rs.1,714,330.90 million as of March 31, 2020 at a CAGR of (8.22)%. As at March 31, 2020, the total advances made by Wholesale Banking and Business & Retail Banking divisions amounted to Rs.1,091,664.23 million and Rs.622,768.72 million, respectively, which represent 63.68% and 36.32% of its total advances respectively. YES net profit decreased from Rs.42,332.2 million for the fiscal year 2018 to a net loss of Rs.164,325.80 million for the fiscal year 2020 due to heightened slippages during fiscal year 2020 and consequent provisioning. The Bank's number of branches has increased from 1,100 as of March 31, 2018 to 1,135 as of March 31, 2020. The Bank has focused on pro-actively recognizing bad loans as it continues to account for loan slippages in fiscal year 2020. Additionally, the Bank has decided to increase its coverage ratio on its NPA loans beyond the RBI requirements with a provision coverage ratio on advances at 73.77%.

Objects of Issue:
YES Bank intends to utilize the Net Proceeds towards ensuring adequate capital to support its growth and expansion, including enhancing its solvency and capital adequacy ratio.

Competitive Strengths

Simplified organisation structure backed by marquee institutions and experienced leadership team: Pursuant to the Reconstruction Scheme, SBI, together with Housing Development Finance Corporation Limited, ICICI Bank Limited, Axis Bank Limited, Kotak Mahindra Bank Limited, The Federal Bank Limited, Bandhan Bank Limited and IDFC First Bank Limited, invested Rs.100,000 million in the Bank at a price of Rs.10 per equity share of the Bank (Rs.2 face value with a premium of Rs.8). Accordingly, it has a unique combination of public-private ownership model within the Indian financial services space. Its strong relationship with its shareholders has also strengthened its Bank's strategic position. In addition, it benefit from a strong professional management team. Its management team has a demonstrated track record of achieving improved financial results and has solidified its institutional customer relationships. Its current management team has developed strengths in key areas of banking like retail lending, corporates, SME, branch banking, transaction banking, digital banking and remains focused on delivering on the Bank's newly-adopted business strategies. In addition, it has also streamlined its organisation structure which will enable YES to expand its business units and drive efficiencies. In April 2020, it completed a reorganisation where multiple corporate products and relationship units have been aggregated into the Wholesale Banking unit which will be asset-light, liability-led and transaction heavy.

Differentiated technology platform leading to digital leadership: YES information technology (IT) strategy is divided into two parts: the first being "Run the Bank", which focuses on initiatives aimed at ensuring efficient and effective operations, and the second strategy entitled "Build the Bank", which focuses on technologies that could further enhance its business. As a new generation bank, YES has been able to invest in latest technology infrastructure and applications to enhance customer experience across all service delivery channels, including digital banking. It has undertaken several IT and digital initiatives that are expected to contribute to its business in the near future, including its Aadhar Enabled Payment System, Immediate Payment Service and Unified Payments Interface. These initiatives include upgrading its core banking system to ensure that the information technology infrastructure can meet the growing demand. It is leveraging technology and digitization, including the use of data analytics, to enhance customer experience and deepen engagement while increasing productivity and efficiency.

YES has strong technology backbone and unparalleled digital capabilities with focussed strategy and early mover advantage. Its objectives are to deepen existing relationships, improve operational efficiency, identify new customers, explore new business lines and provide superior customer service. Its digital banking comprises applications for payments, customised banking solutions, mobile and mobility, process digitisation and future technology.

Well-established granular banking platform with a strong focus on retail and SME advances: YES has experienced a strong growth in its retail and SME advances over the last three years despite a reduction in corporate loan book. This has also been evidenced by an increased in the percentage of total retail and SME advances out of its total advances. The composition of retail banking in total advances increased to approximately 24% as at March 31, 2020 compared to approximately 17% as at March 31, 2019 and approximately 12% as of March 31, 2018. Similarly, the composition of SME advances increased to approximately 13% compared to approximately 10% as at March 31, 2019 and approximately 10% as of March 31, 2018. It maintains a low risk portfolio with large proportion of cash flow-based financing with adequate collateral. There is low unsecured exposure of approximately 15% in retail advances and 1% in SME advances. It continues to focus on its high profit contribution from the retail franchise, which will remain a key strategic focus area for the Bank. SME capabilities has been strategically enhanced in three aspects: (i) supply chain banking, (ii) knowledge banking; and (iii) branch banking and CRM. The supply chain banking aspect focuses on financing vendors of corporates by building strong corporate relationships, utilising technology and analytics to automate limit enhancement, and progressing towards leadership in electrical and electronic goods segment. Knowledge banking is further enhanced by building stronger tie ups with trade and industry associations which provides YES with access to sector specialists with vast industry knowledge and building strong working relationships with leading domestic and international institutions.

The Bank has well-built diversified loan book within retail advances. The Bank's granular portfolio of retail advances consists of niche segments: vehicle loans, mortgage-backed loans, consumer loans, business equipment and others. More than two-thirds of commercial vehicle loans are extended to large fleet operators.

Diverse and scalable revenue streams: YES offers a wide range of products that generate interest and non-interest income. It provides diversified solutions to the financial and banking needs of its customers, with a focus on cross-selling multiple products to them such as deepening its corporate relationships by cross selling of cash management and transaction banking products and selling of retail asset products, including credit cards, to its retail liability customers. Its combination of diverse product offerings and a relationship-driven approach has enabled it to structure solutions to meet its customers' needs, resulting in sustained revenue generation. YES's execution capabilities are reflected in the growth of its business across various business streams since the inception of the Bank but has been impacted due to frequent changes in management, legacy asset quality issues which led to stakeholder concerns on liquidity and capital inadequacy.

Strong governance and underwriting framework: YES has simplified organization structure and an independent risk management function covering enterprise risk management, credit risk, market risk and operational risk that contributes to preserving its asset quality among other risk objectives. Its risk management function is overseen by the Risk Monitoring Committee, an independent board-level sub-committee that strives to put in place specific policies, frameworks and systems for effectively managing the various risks. These policies and procedures are constantly reviewed and updated. It has a dedicated independent risk management department that comprises various units responsible for evaluating and underwriting credit; formulating independent ratings and reviewing monitoring and reporting of all risk control parameters and recommending appropriate corrective actions where necessary; and ensuring compliance with internal policies and regulatory guidelines. It continues to pro-actively recognize its NPAs to make its overdue loan recognition robust. It has also established a separate vertical for stressed asset resolution with specialized skill set. As at March 31, 2020, the team comprises 34 members. With a separate vertical set up, the management will be able to focus in unlocking the value from the stressed assets pool.

Knowledge-based approach to banking enabling cross-selling: YES utilize a knowledge-based approach to banking that differentiates it from its competitors and enables it to provide its customers with well-informed, customized and risk-mitigated solutions. The Bank is increasing its thrust in liabilities with a focus on Transaction Banking. It delivers sector-focused advice, products and services using teams of professionals with sector-specific knowledge such as in sectors like pharmaceuticals, media and entertainment among others, which has helped to develop and continue to grow corporate banking franchise. This approach also solidifies YES's relationships with its customers, by allowing it to develop those existing relationships to cross- sell its full range of product and service offerings.

Wide Pan India Presence: YES's pan-India network has grown from 1,100 branches as at March 31, 2018 to 1,135 branches as at March 31, 2020 across 28 states and eight union territories. As at March 31, 2020, it has 215 branches in the rural areas, 298 branches in the semi-urban areas, 236 branches in the urban areas and 386 branches in the metro areas. Approximately 85% of its branches are with more than three years vintage. Since commencing operations in 2004, its physical network of branches has grown significantly. It has a balanced mix of branches in rural, metro, semi-urban and urban areas. It also operate through an extensive nationwide network of 250 hub branches, 850 spoke branches, more than 500,000 business correspondents as on March 31, 2020, that provides a strong sales platform, which enables YES to cross-sell its products and deliver high-quality and convenient services. It provides internet and mobile banking services that offer 24-hour access to customer accounts and the ability to remotely conduct routine banking transactions, such as online bill payment and application for lines of credit.

Award-winning quality of service with customer centric approach: YES aims to regularly monitor current processes, benchmark them against its competitors and incorporate best practices. It also seeks to disseminate knowledge across its workforce and to introduce robust mechanisms for process improvement. The process management function seeks to facilitate the ease of execution of transactions through the automation of manual processes and is also responsible for ensuring the effectiveness of training for its employees. In April 2020, the Bank made extensive customer contacts across all sales and services roles to regain the confidence of its customers. It has been recognized as winner of the "Most Customer Centric Bank" in the medium-size banks category and runner up for "Best Technology Bank of the Year" and "Best use of Data & Analytics" in the medium size banks category at the Indian Banks' Association Banking Technology Awards 2017-2018, and "Best Bank in India for SME" at the Asiamoney best bank awards: India, in 2019.

Business Strategy:

Liability Led Business Model: As part of YES's growth strategy, its transaction banking group has been identified as a key area of growth. It will continue to invest resources to diversify its corporate, business banking and retail banking portfolio, with a focus on the retail and SME business segments. It has adopted a liability-led acquisition strategy in metro and urban areas and an asset-led operating model in semi urban and rural areas. While its CASA ratio reduced from 32.1% to 26.63% from December 31, 2019 to March 31, 2020 due to the substantial withdrawal of deposits during the fiscal year 2020, it is committed to increasing the volume of its CASA and granular term deposits. Key elements of this strategy are the identification of current account corporate customers for preferred cash flow lending and working capital lending, and offering them a range of customized products, including wealth products targeted at their owners, promoters and directors, salary accounts and cash management and liquidity management solutions.

Sustainable and diversified revenue generation: YES intends to increase its customer base in its Corporate Banking, Medium Enterprises Banking, SME Banking and Retail Banking business segments through a focused customer relationship management approach. The strategy is to ensure sustainable and diversified revenue generation by granularizing the business. As part of its corporate strategy, it continue to invest in the transaction banking group, with the aim to improve revenue generation through the use of digital platforms. In order to further develop its retail liabilities business, it incorporated YES Securities (India) Limited in March 2013 which provides brokerage, investment banking and other services. The brokerage business complements its retail offering and wealth management proposition. It has also launched a full suite of retail asset products, including secured business loans, cars loans, super bike loans, commercial vehicle loans, construction equipment loans, loans against securities, gold loans, personal loans, home loans and credit cards. YES will also seek to enhance its corporate flows and cross sell through transaction banking by essentially adding value across corporate's value chain through customized products or solutions to the suppliers or employees or trade partners, as well as the distributors or buyers or retailers to finally the individual customers of the large corporates. It will continue to actively manage its portfolio of loan as it seeks to diversify and rebalance its portfolio for less corporate loans in favour of more retail loans.

Focus on cost optimization: YES will continue to focus on effective cost management through manpower optimization, process improvements such as digitization of credit sanction process and investment reviews, and centralization of credit monitoring and analytics led cost monitoring. It will also review the consolidation, relocation and reformatting of its branch network. It target minimum 5% fixed cost savings in the fiscal year 2021.

Enhancing brand value and strengthening corporate governance: The YES Bank brand value has been impacted due to all the events which has unfolded in the fiscal year 2020. However, the new Board and management intend to rebuild its brand and focus on improving customer sentiment by engaging in various activities such as advertising across print media, radio, television and the internet, domestically and abroad. As part of its brand value, it continues to focus on initiatives that will enable it to strengthen its corporate governance. A good governance structure, access to capital and due consideration for a broader economic and business environment are essential to the execution of this strategy. It is committed to a high standard of corporate governance for the long-term sustainability of its business. YES has adopted a framework of policies and adopt the best practices that reflect its commitment to accountability, transparency and protection of stakeholders' interests. Its internal policies and procedures ensure that its activities and operations comply with existing regulatory requirements, and it regularly monitor, evaluate and audit the processes to ensure that they remain robust to meet the challenges of its activities and operations.

Leverage digital capabilities to scale business: YES is committed to technological leadership and the development of innovative and high quality products in order to meet both the growing demands of its customers and with regard to increasingly stringent regulatory requirements. It adopt the use of data analytics to further cross-sell and upsell various products across the corporate and retail segments. As a new generation bank, it has deployed technology that will help to gain a competitive advantage over its competitors and achieve high standards of customer service. YES's digitalization strategy focuses on initiatives aimed at ensuring efficient and effective operations, and transformative technologies that could further enhance its business. In addition, it intends to continue to develop technology-based solutions in conjunction with robust processes and controls through centralized operations and investment in risk management.

Strengthen risk management framework: YES is actively focused on evaluating its enterprise, credit, market and operational risks and it intends to optimize its capital needs for growth to achieve high returns on capital and explore various fundraising opportunities (including, but not limited to, preferential offerings or rights issue) while managing and mitigating risks appropriately. It has adopted transformative technologies to augment its risk management framework by designing robust systems and processes, utilizing digital innovations. Itwill continue its investments to fortify the resilience and reliability of IT and information security systems to enable seamless customer services and mitigate various aspects of cyber related threats and risks. This will facilitate in continuing to offer a vast array of digital products and services to customers and promote safe, secure and convenient banking. The risk underwriting and risk oversight functions have been separately delegated to the Chief Risk Officer ("CRO") and Chief Credit Officer ("CCO"). The CRO would report directly to the Risk Monitoring Committee of the Board. It has also established a separate vertical for stressed asset resolution with specialized skill set, which will seek to unlock the value from the stressed assets pool.

Industry

Indian Banking Industry The RBI, the central banking and monetary authority of India, is the central regulatory and supervisory authority for Indian banks and non-banking finance companies. The budget of the Government presented on July 5, 2019 provided RBI with the authority to regulate housing finance companies. A variety of financial intermediaries in the public and private sectors participate in India's financial sector, including the following:

- commercial banks;
- small finance banks and payment banks;
- long-term lending institutions;
- non-banking financial companies, including housing finance companies;
- other specialized financial institutions and state-level financial institutions;
- insurance companies; and
- mutual funds.

Until the 1980s, the Indian financial system was strictly controlled. Interest rates were administered by the Government. Formal and informal parameters governed asset allocation and strict controls limited entry into and expansion within the financial sector. Bank profitability was low, NPAs were comparatively high, capital adequacy was diminished and operational flexibility was hindered. The Government's economic reform program, which began in 1991, encompassed the financial sector. The first phase of the reform process began with implementation of the recommendations of the Committee on the Financial System, known as the Narasimham Committee I. Following that, reports were submitted in 1997 and 1998 by other committees, such as the second Committee on Banking Sector Reform, known as the Narasimham Committee II, and the Tarapore Committee on Capital Account Convertibility. This, in turn, led to the second phase of reforms relating to capital adequacy requirements, asset classification and provisioning, risk management and merger policies. The deregulation of interest rates, the emergence of a liberalized domestic capital market, and the entry of new private sector banks have progressively intensified the competition among banks. Banks in India may be categorized as scheduled banks and non-scheduled banks, where the former are banks that are included in the second schedule to the RBI Act 1934, as amended. These banks comprise scheduled commercial banks and scheduled cooperative banks. Scheduled commercial banks ("SCBs") may further be classified as, chiefly, public sector banks, private sector banks, foreign banks, small finance banks and regional rural banks. The focus of commercial banks in India has traditionally been on meeting the short-term financing needs of industry, trade, and agriculture sectors. In recent years, they have also focused on increasing long-term financing to sectors like infrastructure.

Key Banking Industry Trends in India

Retail Banking

The retail credit market in India has undergone a significant transformation over the last decade and has experienced rapid growth due to consumer credit becoming cheaper and more widely available, and a more acceptable avenue of funding for consumers. The market has changed dramatically owing to the following factors:

- increased focus by banks and financial institutions on consumer credit, resulting in a market shift
- towards regulated players from unregulated money lenders or financiers;
- increasing desire by consumers to acquire assets such as cars, goods, and houses on credit;
- fast emerging middle class and growing number of households in a bank's target segment;
- improved terms of credit; legislative changes that offer greater protection to lenders against fraud and potential default,
- increasing the incentive to lend; and
- growing number of households in a bank's target segment

In fiscal year 2020, 56.6% of growth in bank credit was on account of retail banking (personal loans, including priority sector housing), driven largely by the housing sector credit growth of 15.4% year-on-year ("y-o-y"). During the same period, credit for vehicle loans grew by 9.1% while credit for education contracted by 3.3%. In fiscal year 2019, 33.1% of growth in bank credit was on account of retail banking (personal loans, including priority sector housing), driven largely by the housing sector credit growth of 19.0% y-o-y. During the same period, credit for vehicle loans grew by 6.5% while credit for education contracted by 2.5%. (Source: RBI, Data on Sectoral Deployment of Bank Credit.)

Commercial Banking Trends

Credit

In fiscal year 2020, overall commercial banking credit growth was weighed by slowing growth across sectors, with services leading the growth at 7.4% y-o-y, followed by agriculture and allied activities at 4.2% and industry at just 0.7%. Growth in credit for services was driven largely by credit to NBFCs, growing at 25.9% y-o-y followed by credit for trade at 4.6%. Within the industry sector, y-o-y credit growth for micro & small and large industries was 1.7% and 0.6% respectively. However, credit for medium industries contracted marginally by 0.7% y-o-y. Bank credit to industry witnessed muted growth in fiscal year 2020, mainly due to contraction in credit to metal, gems and jewellery, engineering, textile, food processing and infrastructure sub-sectors. (Source: RBI, Data on Sectoral Deployment of Bank Credit) In fiscal year 2020, SCBs' total credit growth moderated to 6.4%, driven largely by PVBs at 9.3% and PSBs at 4.2%

Deposits

As of March 31, 2020 the credit-deposit ratio for all scheduled commercial banks in total was 76.0% as compared to 78.2% as on March 31, 2019. In fiscal year 2020, aggregate deposits of SCBs increased by 9.5%. Deposit growth in both public and private sector banks exceeded their credit growth; although for fiscal year 2020, deposit growth for public sector banks was marginally slower at 8.2% as against 10.4% for private sector banks. In fiscal year 2019, SCBs' total deposits increased by 9.4% while total credit increased by 13.1%. (Source: RBI, Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks)

Inflation

Inflation, as measured by the CPI, rose in fiscal year 2020, averaging at 4.8% against an average of 3.4% for fiscal year 2019. In the first half of fiscal year 2020, CPI averaged ~3.3%, largely due to benign food inflation, still recovering from deflationary pressures from the latter half of the previous fiscal year. Subsequent recovery and further inflation in food prices, primarily due to unfavourable base effects and adverse supply shocks, drove the rise in CPI, averaging at 6.3% for the second half of fiscal year 2020. (Source: RBI, Monetary Policy Reports, October 2019 and April 2020.)

In the Governor's statement on May 22, 2020, the RBI noted that inflation outlook had become complicated by the release of partial information on the CPI by the National Statistical Office, obscuring a comprehensive assessment of the price situation. However, among the incomplete data, food inflation, having eased from its January 2020 peak for the second successive month in March, reversed and surged to 8.6% in April as supply disruptions exceeded demand compression, with prices of vegetables, pulses, edible oils, milk and cereals emerging as pressure points.

The RBI's MPC, in its meetings from May 20 to 22, 2020 assessed that while the inflation outlook was uncertain, supply shock to food prices in April may persist over succeeding months, depending upon the state of lockdown and the time taken to restore supply chains after relaxation. However, it also noted, as per the global demand-supply balance at the time, that international crude oil prices, metals and industrial raw material prices were likely to remain soft, helping ease input costs for domestic firms. Even as much was to depend on the shape of the recovery after the COVID-19 pandemic, the MPC was of the view that headline inflation may remain firm in the first half of fiscal year 2021 but would ease in the second half, aided also by favourable base effects. It also expected inflation to fall below target (of 4%, +/- 2%), by the third and fourth quarters of the fiscal year 2021, providing a directional forward guidance on inflation rather than in terms of levels. (Source: RBI, Governor Statement, May 22, 2020)

RBI's Monetary Policy

The monetary policies of the RBI play a major role in managing India's inflation. These policies are largely steered by the Monetary Policy Framework Agreement entered into on February 20, 2015 between the Government of India and the RBI. The key agenda for the RBI was to: (i) entrench a durable process to deflate consumer price index inflation; (ii) improve transmission of the policy rate to bank lending rates by ensuring appropriate liquidity management which is aligned with the monetary policy stance; and (iii) dampen the volatility of the weighted average call rate and other money market rates around the repo rate.

The RBI has constantly relied on adjustments of the repo rate to meet its policy agenda. Due to a steady fall in CPI inflation in the first half of fiscal year 2018, the RBI had cut the policy rate by 25 bps in August 2017. Subsequently in fiscal year 2019, to reduce the staggered impact of HRA raises by state governments and the rise in minimum support prices ("MSP") for food grain crops, the repo rate was first raised by 25 bps in June 2018, maintaining the neutral stance of the previous two bi-monthly reviews. Subsequently, in August 2018 the repo rate was further raised by 25 bps due to concerns over inflationary pressures emanating from volatile crude oil prices and input price pressures in the manufacturing sector. In the following months of fiscal year 2019, the RBI adopted a stance of calibrated tightening so as to tackle inflationary pressures from international crude oil prices as well as deflationary risks from falling food prices. In its sixth bi-monthly policy for fiscal year 2019 announced in February, the RBI cut the repo rate by 25 bps, reverting to a neutral stance as inflationary pressures eased resulting in a shift in RBI's focus towards likely headwinds for growth and improving uptake in credit (Source: RBI, Annual Report 2018-19; Monetary Policy Reports - 2019 April and October.).

The policy rate corridor was constant through the fiscal year 2019 by maintaining the marginal standing facility ("MSF") rate 25 bps above the reverse repo rate to ensure alignment of the weighted average call rate with the policy repo rate. In the first bi-monthly monetary policy statement for fiscal year 2020 announced in April 2019, the RBI maintained the neutral stance but reduced the repo rate from 6.25% to 6.0%, on account of slowing global growth and benign domestic inflation. In the second meeting held in June 2019, the RBI maintained the stance but further cut the repo rate by 25 bps to 5.75%, based on signs of further weakening growth, widening output gap and lower-than-target inflation expectations. In the third meeting held in August 2019, the RBI change its stance to accommodative and cut the repo rate by 35 bps to 5.40% on signs of accentuation of the slowdown in domestic activity amidst deteriorating global growth and escalating trade tensions. In the fourth meeting for fiscal year 2020 held in October 2019, the RBI cut the repo rate by another 25 bps, aiming to use the monetary policy as a tool to address growth concerns along with a commitment to an accommodative stance as long as necessary to revive growth, while ensuring that inflation remained within the target. In the fifth and sixth meetings of the RBI's monetary policy committee, it chose to maintain status quo, deciding to continue with an accommodative stance as long as necessary to revive growth. Towards the end of the fiscal year, in light of the COVID-19 outbreak, the RBI held off-cycle meetings of the MPC on March 24 to 27, announcing a series of measures, including a cut to the repo rate by 75 bps and widening of the policy rate corridor from 50 bps to 65 bps. On April 17, 2020 the RBI cut the reverse repo rate to 3.75%, thereby further widening the policy rate corridor to 90 bps. In another off-cycle series of meetings from May 20 to May 22, 2020, by advancing its first bi-monthly meeting for fiscal year 2021, the MPC announced a 40 basis point cut to the repo rate to 4.00%. Consequently, the reverse repo rate and MSF rate also were reduced to 3.35% and 4.25% respectively, maintaining the policy rate corridor at 90 bps

Asset Quality

SCBs' GNPA ratio remained unchanged at 9.3% between March 2019 and September 2019, though the level of GNPAs increased marginally by 0.2% during the same period. However, SCBs' net non-performing assets ("NNPA") ratio declined in September 2019, reflecting increased provisioning. The aggregate provision coverage ratio ("PCR") of all SCBs increased to 61.5% in September 2019 from 60.5% in March 2019. PCRs of both PSBs and PVBs increased in September 2019. Following the recapitalization of PSBs by the government, SCBs' capital to risk-weighted assets ratio ("CRAR") improved to 15.1% in September 2019 from 14.3% in March 2019. While gross NPA was largely unchanged across all bank groups, as of September 2019, the gross and net NPA ratio for public sector banks stood higher at 12.7% and 5.1%, respectively. Private sector banks recorded lower gross and net NPA ratios as 3.9% and 1.6% in September 2019, respectively. The share of large borrowers in SCBs' total loan portfolios and their share in GNPAs was at 51.8% and 79.3%, respectively, in September 2019; these were lower compared to 53% and 82.2%, respectively in March 2019. Bank-wise distribution of asset quality showed that, while 24 banks had GNPA ratios under 5%, 4 banks had GNPA ratios higher than 20% in September 2019. Amongst sectors, gross NPA ratio for Industries was 17.3% as of September 2019, followed by agriculture and allied activities at 10.1%, services at 6.3% and retail loans at 1.8%. For September 2019, slippage ratio (new accretion to gross NPA in a quarter in proportion to standard advances at the beginning) was led by agriculture at 5.05%, followed by industry at 3.79%, services at 4.12% and retail loans at 1.99%. Within the Industry sector, sub-sectors engineering, food processing, textiles and rubber and plastic had relatively higher slippage ratios. (Source: RBI Financial Stability Report, December 2019)

Income and Profitability

During the first half of fiscal year 2020, year-on-year growth in net interest income ("NII") slowed down to 13% in September 2019 as compared to 16.5% in March 2019, one possible reason being higher growth in deposits as compared to credit. However, due to higher growth in other operating income, particularly profitson securities trading in PSBs, SCBs were able to maintain better earnings growth (before provisions and taxes). PSBs' profitability ratios were muted because of weak credit growth, as well as slow resolution of NPAs. PVBs' profitability ratios also declined, whereas foreign banks showed better profitability. Following the corporate tax rate cut in September 2019, a few banks decided to exercise the option of the lower tax rate available under Section 115BAA of the Income Tax Act, 1961. Hence, profit after tax ("PAT") across different banks is strictly not comparable for Q2:2019-20 and H1:2019-20 financial results. Concurrently, certain banks have re-measured their accumulated deferred tax assets as on March 31, 2019, based on the lower rate prescribed and the resultant impact has been taken through the profit and loss account ("P&L").

Comparing the performance in H1:2019-20 across various categories of SCBs using Profit before Tax ("PBT"), shows that RoA for PVBs has improved from 1.7% (1.2% based on PAT) as at end-September 2018 to 1.8% (1.0% based on PAT) as at end-September 2019 as opposed to a decrease in RoA based on PAT. For PSBs, RoA based on PBT improved from -1.0% (-0.7% based on PAT) as at end-September 2018 to 0% (- 0.1% based on PAT) as at end-September 2019. (Source: RBI, Financial Stability Report, December 2019)

During fiscal year 2019, SCBs recorded a loss 27.9% lower than losses for fiscal year 2018 (Source: RBI, Report on Trend and Progress of Banking in India, 2018-19. Reduction in provisions and contingencies has largely contributed to this reduction in losses. While private sector banks and foreign banks both reported net profits, public sector banks incurred losses. Return on assets for the scheduled commercial banks improved but remained negative at -0.09% against -0.15% in fiscal year 2018 and return on equity for the scheduled commercial banks improved to -1.85% in fiscal year 2019 against -2.81% in fiscal year 2018. (Source: Report on Trend and Progress of Banking in India 2018-19)

Recent Developments in the Banking Sector and Expected Domestic Reforms

Implementation of the Basel III Capital Regulations

The RBI has issued guidelines based on the Basel III reforms on capital regulation to the extent applicable to banks operating in India. These guidelines require, inter alia, higher levels of Tier I capital and common equity, capital conservation buffers, maintenance of a minimum prescribed leverage ratio on a quarterly basis, higher deductions from common equity and Tier I capital for investments in subsidiaries and changes in the structure of non-equity instruments eligible for inclusion in Tier I and Tier II capital. The RBI Basel III Capital Regulations have been implemented in India in phases since April 1, 2013, and are more stringent than the requirements prescribed by earlier RBI guidelines. The Basel III Guidelines were expected to be fully implemented as at 31 March 2019; on January 10, 2019 RBI decided to defer the implementation of the last tranche of capital conservation buffer to March 31, 2020. Accordingly, minimum capital conservation ratios as applicable from March 31, 2018 (1.875%) will also apply from March 31, 2019 till the CCB attains the level of 2.50% on March 31, 2020. Further, the pre-specified trigger for loss absorption through conversion / write-down of Additional Tier 1 instruments (PNCPS and PDI) shall remain at 5.50% of RWAs and will rise to 6.125% of RWAs on March 31, 2020.

However, on March 27, 2020, the RBI announced that the implementation of the last tranche of 0.625% of CCB stands deferred from March 31, 2020 to September 30, 2020. Accordingly, minimum capital conservation ratios of 'Capital Conservation Buffer Framework' from the July 2015 circular on 'Basel III Capital Regulations', as applicable from March 31, 2018, will also apply for a further period of six months from March 31, 2020 till the CCB attains the level of 2.5% on September 30, 2020 (Source: RBI – RBI Notification 2020, March 27 - Basel III Capital Regulations - Review of transitional arrangements). Under, Master Circular on Basel III Capital Regulations dated July 1, 2015 ("Master

Circular on Basel III"), a bank is required to maintain a minimum total Capital to Risk Asset Ratio ("CRAR") of 9% and Tier 1 CRAR of 7%. In addition to the total CRAR, the capital conservation buffer will be required to be maintained at 2.50% in the form of common equity tier 1, by March 31, 2019.

Additionally, on June 9, 2014, the RBI released guidelines for LCR as part of the Basel III framework on liquidity standards, which will require minimum LCRs starting at 60% as of January 1, 2015, increasing in equal annual steps to 100% by January 1, 2019. (Source: RBI Circular DBOD.BP.BC.No.120 / 21.04.098/2013-14 dated June 9, 2014)

On April 17, 2020, to ease the liquidity position at the level of individual institutions, the RBI decided to bring down the LCR requirement for Scheduled Commercial Banks from 100% to 80% with immediate effect. The requirement was to be gradually restored back in two phases:

- 90% by October 1, 2020
- 100% by April 1, 2021

Further, Additional Tier I non-equity capital instruments under Basel III are expected to provide additional features such as full coupon discretion and principal loss absorption when the common equity ratio of a bank falls below 6.125% of its risk-weighted assets. In the case of Tier II non-equity capital instruments, the distinction between Upper Tier II and Lower Tier II instruments under Basel II is removed and a single class of Tier II instrument eligibility criteria has been prescribed. Additionally, under Basel III, loss absorption features have been included in the event of occurrence of the "Point of Non-Viability" trigger. The RBI has also fixed the base at the nominal amount of capital instruments outstanding on January 1, 2013, and their recognition will be capped at 90.00% from April 1, 2013, with the cap reducing by 10.00% points in each subsequent year.

Further, the pre-specified trigger for loss absorption through conversion / write-down of Additional Tier 1 instruments (Perpetual Non-Cumulative Preference Shares or Perpetual Debt Instruments) shall remain at 5.5% of RWAs and will rise to 6.125% of RWAs on September 30, 2020 (Source: RBI – RBI Notification 2020, March 27 - Basel III Capital Regulations - Review of transitional arrangements).

Leverage Ratio Framework

In June 2019, as a part of the "Leverage Ratio Framework", the RBI announced that the minimum leverage ratio would be 4% for Domestic Systemically Important Banks ("**DSIBs**") and 3.5% for other banks. Both the capital measure and the exposure measure along with leverage ratio are to be disclosed on a quarter-end basis. However, banks must meet the minimum leverage ratio requirement at all times. These guidelines were effective from the quarter commencing October 1, 2019 (Source: RBI – RBI Notification 2019, June 28 - Basel III Capital Regulations - Implementation of Leverage ratio).

The Institute of Chartered Accountants of India has issued Ind-AS (a revised set of accounting standards) which converges with the Indian accounting standards with International Financial Reporting Standards. The Ministry of Corporate Affairs has confirmed the Ind-AS for adoption. According to a circular issued by the RBI on February 11, 2016, banking companies were required to prepare their financial statements under Ind-AS from April 1, 2018 and the monetary policy statement announced on April 5, 2018 deferred the implementation timeline by another year as necessary legislative amendments were still under the consideration of the Government. The RBI on March 22, 2019 further deferred Ind-AS implementation, as the requisite legislative amendments are still under consideration by the Government. The Bank may be required to begin preparing financial statements in accordance with Ind-AS in the future once regulatory authorities notify the Bank that the implementation of Ind-AS will be mandatory for banking institutions. While the Bank has been discussing, including with the RBI, the possible impact of Ind-AS on its financial reporting, the nature and extent of such impact is still uncertain.

External Benchmark Based Lending

In October 2017, the RBI had constituted an internal study group to study the extant marginal cost of funds based lending rate ("MCLR") system. The study group observed that internal benchmark lending rates such as Prime Lending Rate ("PLR"), Benchmark Prime Lending Rate ("BPLR"), base rate and MCLR had not delivered effective transmission of monetary policy and therefore, recommended a switchover to an external benchmark in a time-bound manner (Source: RBI's Statement on Developmental and Regulatory Policies, December 05, 2018). As a step in this direction, on December 5, 2018 in the fifth bi-monthly Monetary Policy Statement for fiscal year 2019, the RBI announced that all new floating rate personal or retail loans and floating rate loans by banks to micro and small enterprises shall be linked to external benchmarks. Banks were also free to offer such external benchmark linked loans to other types of borrowers as well. Further, to ensure transparency banks must adopt a uniform external benchmark within a loan category. Based on further consultations with stakeholders, the original list of benchmark rates for this purpose announced in December 2018 were later in changed on September 4, 2019 (Source: External Benchmark Based Lending – Medium Enterprises, September 04, 2019), to the following:

- The RBI policy repo rate;
- Government of India 3-Months Treasury Bill yield published by the Financial Benchmarks India

- Private Ltd. (“**FBIL**”);
- Government of India 6-Months Treasury Bill yield published by the FBIL; and
- any other benchmark market interest rate published by the FBIL.

In the same notification, the RBI also announced the linking of all new floating rate personal or retail loans (housing, auto, etc.) and floating rate loans to Micro and Small Enterprises extended by banks with effect from October 1, 2019 to external benchmarks. Further, the spread over such benchmark rate must be decided by banks at the inception of the loan and the credit risk premium component of the spread must change only upon any substantial change in borrower’s credit assessment. Other components of spread, including operating cost could be altered once in three years. Interest rates under external benchmark shall be reset at least once in three months. On February 26, 2020 the RBI, based on its observation that monetary policy transmission had improved in sectors wherein external benchmarks were introduced, expanded this system to include new floating rate loans extended by banks to Medium Enterprises as well, from April 1, 2020 (Source: External Benchmark Based Lending – Medium Enterprises, February 26, 2020).

Financial Holding Company (“FHC”)

In June 2010, the RBI set up a working group to examine the different holding company structures prevalent internationally in the financial sector and to examine the feasibility of introducing an FHC structure in India. FHCs are companies that own or control one or more banks or NBFCs. Currently, banks in India are organized under a bank-subsidiary model (“BSM”), in which the bank is the parent of all the subsidiaries of the group. In May 2011, the RBI released the working group’s recommendations that included, among others, that the FHC model should be pursued as a preferred model for the financial sector in India and that the RBI should be designated as the regulator for FHCs. The recommendations have currently not been implemented. (Source: RBI Report of the Working Group on Introduction of Financial Holding Company Structure in India and Press Release available at http://www.rbi.org.in as of January 10, 2013)

Outlook

COVID-19 has adversely impacted near term growth outlook globally as well as with respect to India, with the RBI, stating that combined impact of demand compression and supply disruption will depress economic activity in the first half of the fiscal year 2021. However, assuming a phased restoration of economic activity, especially in the second half, and considering favourable base effects, the RBI expects a combination of fiscal, monetary and administrative measures currently undertaken to create conditions for a gradual revival in activity in the second half of 2020-21. (Source: RBI, Governor statement, May 22, 2020) The RBI, in its seventh bi-monthly Monetary Policy Statement, 2019-20 however had noted that the macroeconomic fundamentals of the Indian economy were sound and, in fact, stronger than what they were in the aftermath of the global financial crisis – as the fiscal deficit and the current account deficit were now much lower; inflation conditions relatively benign; and financial volatility measured by change in stock prices from recent peaks and average daily change in the exchange rate of the rupee distinctly lower.

Key Concerns:

Any increase in YES’s portfolio of NPAs or NPIs, RBI-mandated provisioning requirements or restructured advances could materially and adversely affect the business: For the fiscal years 2018, 2019 and 2020, the Bank’s gross non-performing assets (“Gross NPAs”) represented 1.28%, 3.22% and 16.80% of the Bank’s total gross advances, respectively, and NPAs (net of provisions) (“Net NPAs”) represented 0.64%, 1.86% and 5.03% of the Bank’s net advances, respectively. If there is any deterioration in the quality of security or further ageing of the assets after being classified as non-performing, an increase in provisions will be required. Any such increase in provisions may adversely impact YES’s financial performance. In addition, the ongoing COVID-19 pandemic has negatively impacted the global economy and led to significant volatility in the global markets and this volatility may persist for some time. The effect of the COVID-19 pandemic on market conditions has impacted its customer base and, as a result, there is a greater likelihood that more of the Bank’s customers could become delinquent in respect of their loan repayments or other obligations to the Bank, which, in turn, could result in a higher level of NPAs in its corporate and retail loan portfolio, allowances for impairment losses and write-offs. NPAs of YES may increase in the future and any significant increase in NPAs may have a material adverse effect on the financial condition and results of operations.

Any increase in NPI could adversely affect YES’s business and future financial performance. The rise in gross non-performing investments during the fiscal year ending March 31, 2020 was largely on account of slippage of investments in the bonds of two stressed corporate groups which were further impacted by the macroeconomic slowdown in the infrastructure industry and liquidity constraints in the NBFC industry.Separately, the RBI pursuant to its circulars dated March 27, 2020, April 17, 2020 and May 23, 2020, to mitigate the burden of debt servicing brought about by disruptions on account of COVID-19 pandemic and to ensure the continuity of viable businesses, has directed banks to maintain status quo with regard to the classification of accounts of the borrowers as they existed on February 29, 2020 and provide a moratorium from March 1, 2020 until August 31, 2020. Any of these factors could have a material adverse effect on Bank's results of operations and financial condition, including its revenues, costs structure, liquidity, cash flows, asset quality and growth.

Non-compliance with the RBI's observations may have a material adverse effect on the reputation, business, financial condition and results of operation: YES is subject to periodic inspections by the RBI under the Banking Regulation Act, based on which the RBI may point out deficiencies in its operations and take necessary action. The last RBI inspection was for fiscal year 2019. In the past, certain observations were made by the RBI during the course of such inspections, and while it endeavours to comply with all regulatory provisions applicable to it and to address any deficiencies identified by the RBI, in the event it is not able to comply with the observations made by the RBI pursuant to such inspections, it could be subject to supervisory actions and penalties which may have a material adverse effect on the Bank's reputation, business, financial condition and results of operations.

Previously been fined by the regulators due to non-compliance with the guidelines relating to the recognition of NPAs: The RBI assesses regulatory compliance by the banks with prudential standards on income recognition, asset classification and provisioning ("IRACP") as part of its supervisory processes. As a part of such review, the RBI identified divergences in YES's asset classification and provisioning for the fiscal years ended March 31, 2016, 2017 and 2019. In connection with the divergences in asset classification for fiscal year ended March 31, 2016, the RBI issued a show cause notice to it on July 6, 2017, followed by a supplementary notice on August 24, 2017, with respect to violations of various regulations issued by RBI, including for delayed reporting of the information security incident involving its ATMs and non-compliance with directions issued by RBI on the IRACP. Based on Bank's replies and oral submissions at personal hearings before RBI, the RBI had on October 23, 2017 imposed a monetary penalty of Rs.60.00 million on it. Any such divergences identified by the RBI in its future review process, may lead to fines and an increased level of NPAs and provisions in the subsequent fiscal year. This may in turn adverselyimpact its business, financial conditions and results of operations and may also materially adversely affect the trading price of the Equity Shares.

Non-compliance with the RBI's regulation on exposure to its counterparties may subject YES to adverse actions by the RBI which may affect its business and operations: YES is required to adhere to certain exposure norms as a bank's exposure to its counterparties which result in concentration of its assets to a single counterparty or a group of connected counterparties. The RBI has, on June 3, 2019, amended the existing December 1, 2016's guidelines on large exposures framework to align the exposure norms for Indian banks with the Basel Committee on Banking Supervision standards. Pursuant to the framework, the sum of all exposure values of a bank to a counterparty or a group of connected counterparties is defined as a "Large Exposure" ("LE"), if it is equal to or more than 10% of the bank's eligible capital base (i.e., Tier I capital) and the bank is required to report their LE to the RBI and Department of Banking Supervision, Central Office. Any breach of the LE limits shall be under exceptional conditions beyond the control of the bank and the breach is required to be reported to the RBI (Department of Banking Supervision, Central Office) immediately and promptly rectified. The Bank continues to keep the RBI informed on the status of the breaches and the detailed course of action towards regularizing these breaches. There can be no assurance that it will not be subject to adverse actions by the RBI which may affect the business, financial condition, results of operations and prospects.

YES is in breach of certain restrictive covenants contained in its financing arrangements and if the lenders choose to exercise their rights for any such breach, it may have an adverse effect on its business, cash flows, financial condition and results of operations: Some of YES's agreements contain covenants that may be onerous and commercially restrictive in nature. Further, some of its borrowing agreements also requires to obtain prior written consent for certain acts such as amendments to constitutional documents or to create any security except in the normal course of business. The terms of its outstanding debt require to comply with various covenants and conditions, such as maintaining certain financial ratios which are tested periodically. In addition, pursuant to the terms of certain of its financing agreements, a decline in its external credit ratings over a prescribed period had permitted the lenders under certain of the facility agreements to declare the amounts outstanding to be due and payable prior to its stated maturity. Accordingly, it has voluntarily prepaid U.S.$1,180 million of such borrowings during fiscal year 2020 before such mandatory prepayment event has occurred. YES has also received correspondence from the bondholder under its debt instrument to waive the existing breach and a definitive letter of waiver will be delivered in due course. There can be no assurance that it will be able to obtain waivers from other lenders for its existing breaches or the lenders under the facilities will not declare the amounts outstanding under the relevant facility agreements and the debt instrument to be due and payable prior to its stated maturity, which may result in further damage to its liquidity position. Its lenders could seek to modify the terms of the existing financing arrangements in ways that are commercially adverse to it. There is also no assurance that it will be in compliance with its financial covenants in the future.

Currently involved and in the future may be involved in legal proceedings, which may materially and adversely affect the Bank: YES is, and may in the future be, a party to various legal proceedings incidental to its business and operations. It cannot be assured existing and prospective investors that these legal proceedings will be decided in its favor. Such litigation could divert management time and attention, and consume financial resources in their defense or prosecution. In addition, should any new developments arise, such as changes in Indian law or rulings against it by the regulators, appellate courts or tribunals, it may need to make provisions in its financial statements, which could increase bank's expenses and current liabilities. If it fails to successfully defend its claims or if its provisions prove to be inadequate, its business, financial condition, reputation and results of operations could be adversely affected.

Currently in breach of certain statutory requirements as to its financial ratios and may continue to be in breach of the same: As at March 31, 2020, the Bank has breached the regulatory requirement of maintaining the minimum CET I ratio as per the requirements of the RBI. The Bank's CET I ratio as at March 31, 2020 was 6.3% as compared to the minimum requirement of 7.375%. This continuing breach is primarily on account of the increase in the provision for advances during the year ended March 31, 2020 as the Bank has decided, on a prudent basis, to enhance its PCR on its NPA /NPI over and above RBI required provisioning. The Bank also breached the minimum SLR and LCR requirements of the RBI during the year ended March 31, 2020. Accordingly, while the Bank is not in breach of the regulatory minimum LCR and SLR requirements, there can be no assurance that it will not breach the regulatory minimum LCR and SLR requirements in future or upon repayment of the special liquidity facility by RBI.

The Bank's off-balance sheet liabilities could adversely affect the financial condition: As of March 31, 2020, the Bank had total contingent liabilities of Rs.4,585,260.89 million, amounting to an equivalent credit exposure of Rs.581,722.99 million. Its off-balance sheet liabilities consist of, among other things, liability on account of forward exchange and derivative contracts, guarantees and documentary credits given by it. In case of derivative contracts, the notional principal amounts are significantly greater than the actual profit and loss, mark-to-market impact on YES. If any of these contingent liabilities materialise, its business, financial condition and results of operations may be materially and adversely affected.

YES is subject to capital adequacy norms and is required to maintain a CRAR at the minimum level required by the RBI for domestic banks: According to the terms and conditions of YES's banking license, the RBI requires to maintain a minimum CRAR of 10.875% (including capital conservation buffer). In addition, the RBI issued the RBI Basel III Capital Regulations on May 2, 2012 pursuant to the Bank for International Settlement's Basel III international regulatory framework and was implemented on April 1, 2013. The RBI Basel III Capital Regulations require, among other things, higher levels of Tier I capital and common equity, capital conservation buffers, maintenance of a minimum prescribed leverage ratio on a quarterly basis, higher deductions from common equity and Tier I capital for investments in subsidiaries and changes in the structure of non-equity instruments eligible for inclusion in Tier I capital. The RBI Basel III Capital Regulations also set out elements of regulatory capital and the scope of the capital adequacy framework, including disclosure requirements of components of capital and risk coverage.

Further, continued compliance requirements with Basel III or other capital adequacy requirements imposed by the RBI may result in the incurrence of substantial compliance and monitoring costs. Moreover, if the Basel Committee releases additional or more stringent guidance on capital adequacy norms which are given the effect of law in India in the future, YES may be forced to raise or maintain additional capital in a manner which could materially adversely affect the business, financial condition and results of operations. There can be no assurance that it will be able to comply with such requirements or that any breach of applicable laws and regulations will not have a material adverse effect on its business, financial condition and results of operations.

Any decrease in the value of the collateral securing advances to borrowers or inability to foreclose on collateral in the event of default may result in a failure to recover the expected value of the collateral: As of March 31, 2020, 75.89% of YES advances were secured by tangible assets, including advances secured by fixed deposits and book debts and 0.16% of its advances were secured by Bank/Government Guarantees; in addition, for 2.20% of its advances, security creation was in progress as of the same date. In certain cases, it obtain security by way of a first or second charge on fixed assets, such as real property, moveable assets, and financial assets, such as marketable securities, corporate guarantees and personal guarantees. In addition, project advances or long-term advances to corporate customers are secured by a charge on fixed assets and other security. The value of the collateral securing its loans may significantly fluctuate or decline due to factors beyond control. Any decrease in the realizable value of collateral at the time of recovery will have an adverse impact on the amounts it recover. There can be no assurance that Bank will be able to realise its collateral fully or at all and it may be compelled to restructure its loans. Ability to realise the value of its collateral may also be exacerbated due to the impact of COVID-19. A failure to recover the expected value of collateral security could expose YES to a potential loss and could have a material adverse effect on its business, financial condition, results of operations and cash flow.

The level of restructured advances in portfolio may increase and the failure of such restructured advances to perform as expected could affect the business, financial condition and results of operations: YES's standard assets include total outstanding standard restructured advances. Its total outstanding standard restructured advances, including the former SDR, S4A and 5:25 schemes, amounted to Rs.1,716.80 million, or 0.09% of gross advances, as of March 31, 2020 and Rs.3,376.49 million, Rs.2,079.87 million or 0.16%, 0.08% as of March 31, 2018, 2019 respectively. The quality of its long-term project finance loan portfolio could be adversely impacted by several factors. Economic and project implementation challenges, in India and overseas, could result in additions to restructured advances and it may not be able to control or reduce the level of restructured advances in its project and corporate finance portfolio. The RBI has, through the Revised Framework, pursuant to which existing guidelines and schemes for debt resolution such as revitalising distressed assets, CDR, flexible structuring of existing long-term project loans, SDR, change in ownership outside SDR, and S4A has been withdrawn. In addition, the guidelines/framework for joint lenders' forum has also been discontinued. The combination of changes in regulations regarding restructured advances, provisioning, and any substantial increase in the level of restructured assets and the failure of these structured advances to perform as expected could adversely affect the business and future financial performance.

Any significant disruption in or unauthorized access to computer systems or those of third parties that it utilize in its operations, including those relating to cybersecurity or arising from cyber-attacks, could result in a loss or degradation of service, unauthorized disclosure of data, which could adversely impact the business: YES's reputation and ability to attract, retain and serve its consumers is dependent upon the reliable performance and security of its computer systems and those of third parties that it utilize in its operations. These systems may be subject to damage or interruption from earthquakes, adverse weather conditions, other natural disasters, terrorist attacks, power loss, telecommunications failures, and cybersecurity risks. Interruptions or malfunctions (including those due to equipment damage, power outages, computer viruses and a range of other hardware, software and network problems) in these systems, or with the internet in general, could make its service unavailable or degraded or otherwise hinder its ability to deliver streaming content. Service interruptions, errors in software or the unavailability of computer systems used in its operations could diminish the overall attractiveness of its service to existing and potential subscribers. YES's computer systems and those of third parties it uses in its operations are vulnerable to cybersecurity risks, including cyber-attacks, both from state-sponsored and individual activity, such as computer viruses, denial of service attacks, physical or electronic break-ins and similar disruptions. Any attempt by hackers to obtain data, disrupt its service, or otherwise access its systems, or those of third parties it uses, if successful, could harm its business, be expensive to remedy and damage its reputation.YES has devoted and will continue to devote significant resources to the security of its computer systems; however, it cannot guarantee that it will not experience such malfunctions, attacks or interruptions in the future. A significant or large-scale malfunction, attack or interruption of one or more of its computer or database systems could adversely affect its ability to keep its operations running efficiently.

YES may not be able to effectively manage the growth of its retail asset portfolio and maintain the quality of its retail loan portfolio: YES's net retail asset portfolio has experienced significant growth in recent years. Total retail advances grew from Rs.248,319.18 million as at March 31, 2018 to Rs.403,045.58 million as at March 31, 2019, to Rs.407,549.38 million as at March 31, 2020. For fiscal year 2020, its retail portfolio gross NPA increased to 1.23% while for the fiscal years 2018 and 2019, gross NPA stood at 0.51% and 0.42%, respectively. In addition,its current growth strategy contemplates further growth in its retail asset portfolio. Its Bank's failure to effectively manage the recent or future growth of its retail portfolio and maintain the quality of its retail loan portfolio could adversely affect its business, financial condition and results of operation. Competition in the retail segment is intense and its ability to effectively compete in this segment will depend, in part, on its ability to offer a diverse product mix and expand its distribution capabilities. Although India has a credit bureau industry and it review credit history reports whenever they are available from credit bureaus, adequate information regarding loan servicing histories, particularly in respect of individuals and small businesses, is limited. As a result, its credit risk exposure is higher compared with banks operating in more developed markets. Furthermore, retail loans may carry a higher risk for delinquency if there is an increase in unemployment, prolonged recessionary conditions or a sharp rise in interest rates. As a result, YES is exposed to higher credit risk in the retail segments as compared to banks in more developed markets. If its screening process proves to be inadequate, it may experience an increase in impaired loans and it may be required to increase its provision for defaulted loans. If it is unable to maintain the quality of its retail loan portfolio as it grow its retail business, its NPAs may increase, which could materially and adversely affect its business, financial condition and results of operation.

Rely extensively on information technology systems and the telecommunications network in India, which require significant investment and expenditure for regular maintenance, upgrades and improvements: YES's information technology systems are a critical part of its business that helps to manage, among other things, its risk management, deposit servicing and loan origination functions, as well as its increasing portfolio of products and services. It is heavily reliant on its technology systems in connection with financial controls, risk management and transaction processing. In addition, its delivery channels include ATMs, a call centre and the internet. Its offline and online business channel networks are dependent on a dense, comprehensive telecommunications network in India. While deregulation and liberalization of telecommunications laws has prompted the steady improvement in local and long-distance telephone services, telephone network coverage and accessibility is still intermittent in many parts of India. Failure by the Indian telecommunications industry to improve network coverage to meet the demands of the rapidly growing economy may affect YES's ability to expand its customer base, acquire new customers or service existing customers by limiting access to its services and products. This may materially and adversely affect the business, financial condition and results of operations.

Risk profile is linked to the Indian economy and the banking and financial markets in India: The credit risk YES is exposed to may be higher than the credit risk of banks in some developed economies. The absence of reliable information, including audited financial statements, recognised debt rating reports and credit histories relating to its present and prospective corporate borrowers or other customers, makes the assessment of credit risk, including the valuation of collateral, more difficult, especially for individuals and small businesses. In addition, the credit risk of its borrowers, particularly small and middle market companies, is higher than borrowers in more developed economies due to the evolving Indian regulatory, political, economic and industrial environment. In addition to credit risks, it also face additional risks in comparison to banks operating in developed economies. YES pursue its activities in India, a developing economy with all of the risks that come with such an economy. Although it seeks to implement policies and procedures to reduce and manage marketplace risks as well as risks within its own organisation, some risks remain inherent in doing business in a large, developing country. It cannot eliminate these marketplace and operational risks, which may lead to legal or regulatory actions, negative publicity or other developments that could reduce its profitability. In the aftermath of the financial crisis, regulatory scrutiny of these risks is increasing.

Exposed to certain NPAs concentrations with respect to the size of its corporate loans, the nature of its micro, small and medium-sized enterprises loans, and its loans to priority sectors, for example, resulting in increased risk of higher NPAs levels: Gross NPA of YES increased to Rs.328,775.88 million in fiscal year 2020 from Rs.78,825.59 million for the fiscal year 2019. As the average size of corporate loans in itsloan portfolio is substantially larger than the average size of its retail loans, any major default in corporate loan portfolio could significantly impact the overall portfolio of assets. Moreover, not only are corporate loans larger in size on average, but they also make up a larger portion of its overall loan portfolio than retail loans, meaning the potential risk is increased by large loans making up a large portion of its portfolio. Although YES is in the process of rebalancing its portfolio for less corporate loans in favor of more retail loans in order to diversify, there can be no assurance that it will complete this process in a timely manner, or at all. Until such time, it has a disproportionate amount of exposure to corporate loans. If it is unable to successfully monitor and manage its portfolio, in particular with respect to corporate loans, including during economic downturns, its asset quality, financial condition and results of operation, could be materially and adversely affected.

The recent moratorium imposed on the Bank has adversely impacted the reputation: The recent moratorium imposed on YES has adversely influenced its reputation and caused a dent in depositors' confidence. Depositors concerned with its ability to return any money they have saved with the Bank had the knee-jerk reaction to withdraw their deposits with the Bank, resulting in a decrease in its deposits. While the Reconstruction Scheme, including the aforesaid major changes to the Bank's managerial personnel, is put in place to restore confidence in the Bank, it cannot be ensured that depositors, lenders and investors will gain or regain their confidence in it and they may choose to deposit in, lend and invest in other banks instead. This could consequently adversely impact their business, financial condition, results of operation and its competitive position in the industry. There can also be no assurance that the Bank will not be subject to another moratorium in future.

May not generate enough taxable profit to offset the outstanding Deferred Tax Asset (DTA) in its accounts*:* YES has a total deferred tax asset of Rs.82,809.96 million as at March 31, 2020. Although it reported a loss of Rs.164,325.80 million for the year ended March 31, 2020, it recorded a taxable profit for the fiscal year 2020. Moreover, during the quarter ended September 30, 2019, it had elected to exercise the option permitted under section 115BAA of the Income Tax Act, 1961 as introduced by the Taxation Laws (Amendment) Ordinance, 2019. Accordingly, it recognised provision for income tax and re-measured its deferred tax assets on the basis of the rate prescribed in the Income Tax Act and recognized the effect of this change by revising the annual effective income tax rate. In addition, the Bank has a total deferred tax asset of Rs.82,809.96 million as at March 31, 2020. It continues to carry such deferred tax asset in its balance sheet. As per the requirements of AS 22 — Accounting for Taxes on Income, based on the financial projections prepared by the Bank and approved by the Board of directors, the Bank has assessed that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. However, the assumptions used in the forecasts may not pan out as projected and it may not generate enough taxable profits to realise the outstanding deferred tax asset. In the event that YES may have to write off the deferred tax asset, it may impact its profits during that period and may also result in losses.

A global outbreak of an infectious disease such as COVID-19 or any other serious public health concerns in Asia or elsewhere could have a material adverse effect on its business, financial condition and results of operations. The outbreak of a pandemic or an infectious disease in Asia or elsewhere or any other serious public health concern, such as swine influenza, around the world could have a negative impact on economies, financial markets and business activities worldwide and which in turn could have a material adverse effect on YES's business, financial condition and results of operations. A countrywide lockdown to contain the spread of COVID-19 has been in force in India since March 24, 2020, which was further extended, with certain modifications, till July 31, 2020. While the restrictions imposed during the lockdown are slowly being liberalised, there can be no assurance that this lockdown will not be extended further or that the relaxations provided will not be withdrawn if the spread of COVID-19 is not contained. It may face delays associated with collection of payments from its clients, which are in the power infrastructure sector, due to such lockdown or economic slowdown caused by COVID-19, which may adversely affect its cashflows. There can be no assurance that the ongoing situation caused by the COVID-19 pandemic or a future outbreak of an infectious disease among humans or animals (if any) or any other serious public health concern will not have a material adverse effect on its business, financial condition and results of operations.

There is no assurance that growth will continue at a rate similar to what it has experienced in the past, or at all: While the Bank has experienced contraction in its balance sheet and business in the fiscal year ending 2020, it has experienced healthy growth rates from 2017 to 2019. Its total net income and operating profits were lower in fiscal year 2020 mainly due to significant increase in NPA and lower non-interest income driven by lower fee income. As part of YES's growth strategy, its transaction banking group has been identified as its key area of growth. t will continue to invest resources to diversify its corporate, MSME and retail banking portfolio, with a focus on the retail and MSME business segments. It aspires to gain market share in strategically-selected customer segments, knowledge sectors and geographies while improving its productivity, profitability and efficiency. YES will continue to develop products and services in order to become more competitive and develop a more balanced portfolio. Although its growth initiatives have contributed to its financial results in recent years, there can be no assurance that it will be able to continue to successfully implement this strategy. Any inability on its part to successfully diversify from a corporate bank to a diversified bank with a focus on retail driven growth may increase the risk that it may face from corporate defaults or any increases in non-performing assets (“NPAs”) as a result of such industry concentration.

There can be no assurance that the amount of deposits with the Bank will increase or even remain at comparable levels: YES’s deposit base has seen a reduction from Rs.2,275,579.03 million as at March 31, 2019 to Rs.1,053,111.68 million as at March 31, 2020. Due to the steep deposit outflow in early October 2019 on the account of a combination of events such as the significant decrease in the Bank’s stock price due to invocation of the former promoter’s pledged shares, IT glitches in its, as well as other financial institutions’ mobile banking and online banking portals which resulted in customers not being able to complete their transactions, financial distress of another cooperative bank. Also, in March 2020 on account of changes in management, the moratorium imposed on the Bank and other measures taken by the RBI. Decrease in credit rating, rising NPA level and uncertainty around capital raising leading to greater chances of breaching regulatory capital limits, there was a continuing breach in SLR and LCR during the fiscal year 2020. However, there can be no assurance that the amount of deposits with the Bank will increase or even remain at comparable levels in future.

Any downgrade of its debt ratings by international or domestic rating agencies could adversely affect the business*:* YES’s debt is rated by various domestic and international agencies. The Bank’s debt rating has recently been downgraded by various notches. There can be no assurance that the ratings for various debts of the Bank will not be further downgraded in future. Any downgrade in its credit ratings may increase interest rates for refinancing its outstanding debt, which would increase its financing costs, and adversely affect its future issuances of debt and its ability to raise new capital on a competitive basis, which may adversely affect the profitability and future growth. In addition, any downgrade in its credit ratings may constitute breach of covenant under several of its borrowing agreements, thereby triggering a prepayment clause and resulting in further damage to its liquidity position.

Financial performance may be materially and adversely affected by fluctuating interest rates*:* YES’s results of operations depend, to a great extent, on its net interest income. Net interest income (which comprises of interest earned deducted by interest expended) amounted to 59.38%, 67.73% and 65.74% (excluding gain on the write down of AT I bonds) of its total net income for the fiscal years 2018, 2019 and 2020, respectively, where total net income comprises the sum of its net interest income and other income. It could be materially and adversely impacted by a rise in generally prevailing interest rates on deposits, especially if the rise were sudden or sharp. If such a rise in interest rates were to occur, its net interest margin could be adversely affected because the interest paid by YES on its deposits could increase at a higher rate than the interest received by it on its advances and other investments. Furthermore, in the event of rising interest rates, its borrowers may not be willing to pay correspondingly higher interest rates on their borrowings and may choose to repay their advances with it if they are able to switch to more competitively priced advances offered by other banks. In the event of falling interest rates, it may face more challenges in retaining its customers if it is unable to switch to more competitive rates as compared to other banks in the market. In addition, any volatility or increase in interest rates may also adversely affect the rate of growth of certain sectors of the Indian economy. All these factors may have a material adverse effect on the business and financial condition and results of operations.

Indian banking regulation is extensive, and any change in regulations could materially affect the business*:* The banking and financial sector in India is highly regulated and extensively supervised by authorities such as the RBI. Its business could be directly affected by any changes in laws, regulations and policies for banks. It is also subject to regular financial inspection by the RBI. In the event that it is unable to meet or adhere to the guidance or requirements of the RBI, the RBI may impose strict enforcement of its observations on it, and it may be subject to monetary fines and other penalties which may have an adverse effect on its business, financial condition and results of operations.

With the material uncertainty on capital infusion and the depletion of deposits, there can be no assurance that YES will be able to continue as a going concern. In addition, the breach of the regulatory minimum capital ratio requirement may trigger PCA. It has also been in constant communication with the RBI and the RBI has not imposed any fine for the regulatory breaches yet.

Operates in a highly competitive environment and ability to grow depends on the ability to compete effectively*:* The Indian banking industry is highly competitive. It face strong competition in all its lines of business from much larger Indian and foreign commercial banks, non-banking financial companies, insurance companies, mutual funds, financial service firms and other entities operating in the Indian financial sector. It competes directly with large Government-controlled public sector banks, major private sector banks and foreign banks with branches in India. As of March 31, 2020, there were 86 scheduled commercial banks in India, including 18 public sector banks, 22 private sector banks (including the Bank) and 46 foreign banks with branches in India. It also competes with foreign banks with operations in India. These competitors include a number of large multinational banks and financial institutions as well as non-banking financial companies and housing finance companies. In addition, new entrants into the financial services industry, including companies in the financial technology sector, may further intensify competition in the business environments, especially in the digital business environment, in which it operates. As a result, YES may be forced to adapt its business to compete more effectively. There can be no assurance that it will be able to respond effectively to current or future competition or that the technological investments it make in response to such competition will be successful. Due to competitive pressures, it may be unable to successfully execute its growth strategy and offer products and services at reasonable returns and this may adversely impact its business. If it is unable to retain and attract new customers, its revenue and net profits will decline, which could materially adversely affect its financial condition.

Profit & Loss **Rs in million**

Particulars	FY20	FY19	FY18
Income			
Interest Earned	260,520.2	296,238.0	202,686.0
Other Income	119,561.0	46,754.8	52,931.5
Total	**380,081.2**	**342,992.8**	**255,617.5**
Expenditure			
Interest Expended	192,580.6	198,112.9	125,294.3
Operating Expenses	68,701.5	63,614.3	52,735.4
Provisions & Contingencies	283,124.9	64,173.0	35,255.6
Total	**544,407.0**	**325,900.1**	**213,285.3**
Net Profit for the Year	**-164,325.8**	**17,092.7**	**42,332.2**
Face Value	2.0	2.0	2.0
EPS	-56.1	7.4	18.5
Diluted EPS	-56.1	7.3	18.1

(Source: RHP)

Balance Sheet: **Rs in million**

Particulars	FY20	FY19	FY18
Capital & Liabilities			
Capital	25100.9	4630.1	4605.9
Reserves & Surplus	191848.7	264244.0	252919.1
Deposits	1053111.7	2275579.0	2006886.0
Borrowings	1137905.0	1084241.1	748935.8
Other liabilities and provisions	170355.3	179901.9	111149.6
Total	**2578321.6**	**3808596.1**	**3124496.5**
Assets			
Cash and balances with Reserve Bank of India	59436.6	107977.4	114257.5
Balance with Banks and Money at call and short notice	24867.0	161871.9	133280.7
Investments	437478.0	893285.3	682934.4
Advances	1714330.9	2413971.9	2035188.3
Fixed Assets	10233.8	8298.9	8373.0
Other Assets	331975.3	223190.7	150462.8
Total	**2578321.6**	**3808596.1**	**3124496.5**

(Source: RHP)

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HDFC securities Limited, I Think Techno Campus, Building, B, Alpha, Office Floor 8, Near Kanjurmarg Station, Kanjurmarg (East), Mumbai -400 042. Tel -022 30753400. Compliance Officer: Ms. Binkle R Oza. Ph: 022-3045 3600, Email: complianceofficer@hdfcsec.com.

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