Troubled bank's borrowers may soon face funds crunch

RAGHU MOHAN
Mumbai, 9 March

A wide swathe of YES Bank's borrowers may soon face a serious credit crunch. A reappraisal of their credit worthiness is on the cards, and with not many safe harbours to drop anchor in, it will be tough sailing ahead.

A substantial portion of YES Bank's corporate loans are "bilateral transactions", and fall outside the pale of consortium lending.

In FY19, it had recorded growth of 18.7 per cent in advances to ₹241,500 crore, primarily due to an increase in term loans. Corporate banking accounted for 65.6 per cent of this portfolio, with retail and business banking (micro-medium and small enterprises) accounting for the rest.

The reason for the bank opting for bilateral deals was that it gave the freedom to "tailor" solutions to borrowers.

"These charmed borrowers have two options. Either they can hope the reappraisal will be in their favour, or they shift the relationship to other banks," said a senior corporate banker. These borrowers may also lead to a second round of defaults — to non-bank counterparties and vendors.

The Reserve Bank of India (RBI) had done with mandatory consortium banking in 1997, and waived in multiple banking. The idea was to usher in competition and better loan pricing. Borrowers could shop around for loans bilaterally from banks, and if their stars were good, avail of a "bespoke" structure and pricing of it.

To many in India Inc, YES Bank had been the lender of last resort. It's erstwhile promoter, Rana Kapoor, dished out loans to those who had been turned away by other lenders. And bilateral loan transaction presented the bank an opportunity to cherry-pick collateral as it went about structuring transactions few other lenders would have touched. At another level, it also ring fenced the borrowers credit history from leaking out.

The RBI's Central Repository of Information on Large Credits, and the asset quality reviews upset YES Bank's style-sheet, but it still could engineer deals, the dubious nature of which finally led to its meltdown.

The bank's charmed circle of borrowers will now be in more than a spot of bother.

State Bank of India's (SBI's) entry into the bank as an equity holder, and a new management team is seen as leading to a relook at the credits extended by the bank so far. Ravneet Gill as managing director and chief executive officer, had cleaned up the bank's Augean stables to a large extent. But a lot many legacy relationships from Kapoor's stint as its helmsman continue to be on the bank's books.

Given the "structured", nature of many of these loans with a question on their credit worthiness to boot, a buy-in from new lenders is not going to be easy. It would also entail that the new management at YES Bank releases the underlying collateral in favour of a new lender. If there has been substantial erosion in the loan account, this can prove to be difficult. In many instances, loans which were under stress were shown as "current" in the books of the bank through creative deal-making; and routing funds through many layers.

If all these were not bad enough, the situation can prove tricky even looked at from the bank's liabilities side.

Of its total deposits of ₹227,610 crore in FY19, the share of current and savings accounts ratio accounted was 33 per cent. What is to be watched out for is whether depositors — be it retail CASA and term-deposits which includes wholesale as well — will withdraw these balances once the moratorium period ends.

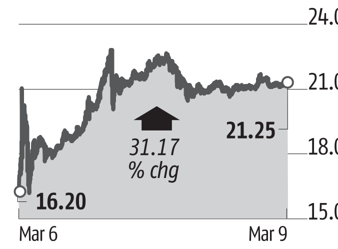
This could lead to a situation where in the entire book of the bank goes out of balance, and even genuine borrowers face a credit crunch as both existing and fresh limits may not be ably serviced.

It's been a long journey for YES Bank. Its first Annual Report referred to a bank being a "public trust institution"; that "it is our endeavour to institutionalise world-class and transparent systems, processes and practices. We are also committed to pursuing the highest levels of professional integrity".

IN CHOPPY WATERS

- In FY19, corporate banking accounted for 65.6% of the bank's advances due to an increase in term loans
- A good portion of the corporate loans are "bilateral", and structured
- These borrowers may now be reappraised, and not considered credit-worthy
- Shopping around for fresh lenders will also be tough
- The bank's liabilities profile may also change
- Of its total deposits of ₹227,610 crore in FY19, the share of current and savings accounts ratio was 33%
- Depositors may withdraw funds once the moratorium ends

SHARES ZOOM



Priyanka in a spot over sale of Rajiv's portrait to Kapoor

The bank's founder tells ED he was threatened and forced to buy the art piece

SHRIMI CHOUDHARY & ARCHIS MOHAN
New Delhi, 9 March

In a fresh twist to the YES Bank money laundering probe, the Enforcement Directorate (ED) has come into possession of text messages between the bank's co-founder Rana Kapoor and Congress leader Milind Deora in connection with a portrait of the late Prime Minister Rajiv Gandhi. Kapoor bought the portrait from Priyanka Gandhi Vadra for ₹2 crore in 2010, an ED official said.

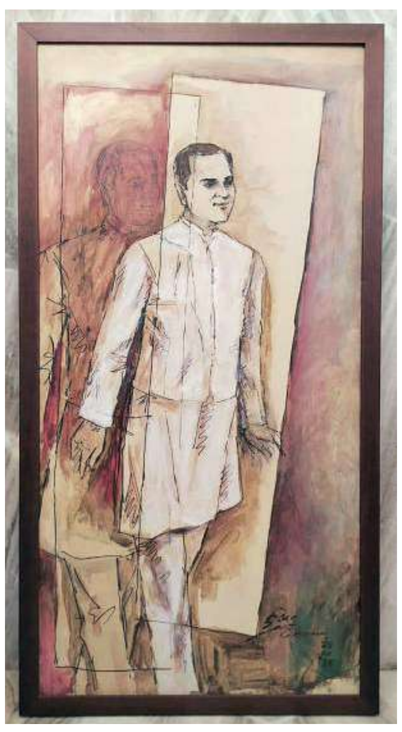
The portrait was painted by MF Husain during the centenary celebrations of the Congress party in 1985.

During his custodial interrogation, Kapoor claimed that he was threatened and forced to buy the art piece, according to an ED official. The agency said it had evidence to support the claim.

The official said the agency had the transcript of the BlackBerry messages between Deora and Kapoor on the matter. In one of the messages, Deora said to Kapoor, "Need to know when the cheque is ready....I am afraid further delays in communicating the date to Delhi will give them the impression that YES Bank is not serious. That might scuttle the transaction and won't create a good impression in their minds."

Calling Rana Kapoor "uncle", Deora wrote, "PG (Priyanka Gandhi) will be sending you a letter stating that she's agreed to sell you the painting and that I will negotiate the price with YES Bank on her behalf. After that, please write to her saying that you and I have agreed on ₹2 crore and send her the cheque immediately."

Rana Kapoor claimed that he had sent the YES Bank cheque to Priyanka Gandhi's personal secretary.



The portrait of late Prime Minister Rajiv Gandhi by MF Hussain was made during the centenary celebrations of the Congress in 1985 PHOTO: ED

A text message sent to Deora for his comments in this regard remained unanswered.

According to the ED official, the painting was the property of the Congress party, and not Priyanka Gandhi, and yet she had sold it to Kapoor.

In a letter to Kapoor sent on June 3, 2010, Priyanka Gandhi expressed her gratitude and acknowledged the payment towards the painting. "I trust you are aware of the historical value of this work, and will ensure its placement in an environment that befits its stature," she wrote.

The ED seized the painting from Kapoor's residence during its searches in the on-going money laundering probe against him and his family for an alleged kickback.

Rana Kapoor possesses over 40 paintings. While buying art, he got experts to certify their authenticity and valuation, but no such certificate was obtained in the case of the painting acquired from Priyanka Gandhi, the ED said.

The Congress on Monday said that a controversy was being drummed up over the painting to deflect attention from the serious questions about acts of omission and commission by the Narendra Modi government in handling the crisis at YES Bank.

Congress spokesperson Randeep Surjewala said, "How does an MF Husain painting of Rajivji sold 10 years ago by Priyanka ji to YES Bank owner Rana Kapoor and disclosed in her tax returns connect with the unprecedented giving of loans of ₹2 trillion in five years of the Modi government? More so, when the (Kapoor's) proximity to BJP leaders is well known?"

Sources in the Congress said, moreover, there was no evidence that the painting belonged to the party, and that the party had never declared it as part of its assets.

They also dismissed Kapoor's claim that he was forced to buy the painting, saying that a portrait of a former prime minister by an artist like MF Husain was a coveted piece for art connoisseurs and a good investment in the art market.

Kapoor's family booked by CBI

The CBI has booked YES Bank founder Rana Kapoor's wife and three daughters over allegations he received kickbacks through scam-hit DHFL's ₹600-crore loan to a family-owned company. The agency searched seven locations, including their homes in Mumbai, the agency said on Monday.

The CBI action in which seven individuals, including Kapoor, 62, his wife Bindu and daughters Roshini, Raakhe and Radha, and five firms were named as accused in its FIR came even as the Enforcement Directorate (ED) expanded its money laundering probe against the arrested banker. As the purported foreign assets of Kapoor and multi-crore loans issued by the bank to corporate houses that turned a non-performing asset came under the ED scanner, agency sources said the bank CEO, Ravneet Gill, was questioned at its office in Mumbai.

DHFL and RKW Developers and their then directors Kapil Wadhawan and Dheeraj Wadhawan, respectively, also figure as accused. DoIt Urban Ventures controlled by the Kapoor family, RAB Enterprises (India), in which Bindu Rana Kapoor was director, and Morgan Credits, in which Rana Kapoor's daughters were directors were named as accused.

While 10 teams of the CBI were involved in its search operations spread across swanky south Mumbai neighbourhood, the agency issued Look Out Circular against all the seven accused — Kapoors and Wadhawans — named in the FIR. PTI

YES Bank founder Rana Kapoor's wife Bindu (*left*) and daughter Roshini at the Enforcement Directorate office in Mumbai on Monday. According to *PTI*, the ED had got an LOC issued on the basis of which Roshini was on Sunday stopped from leaving for London at Mumbai airport PHOTO: KAMLESH PEDNEKAR

Axis Trustee moves high court against AT-1 bond cancellation

KEY BONDHOLDERS (₹ cr)

Nippon MF	2,483
Indiabulls	662
Franklin MF	590
Retail holders	466
UTI MF	405
Barclays Bank	372
Chanakya	302
Reliance Nippon Life	244
Bajaj Allianz Life Insurance	240
Kotak MF	130
HDFC Life	105
L&T	100
Reliance Industries	100
Others	2,216

Total Axis Trustee exposure 8,415
Source: Petition

HAMSINI KARTHIK
Mumbai, 9 March

Axis Trustee, representing bondholders of YES Bank's additional tier-1 (AT-1) capital bonds worth ₹8,400 crore, filed a writ petition in the Bombay High Court on Monday seeking remedy against the Reserve Bank's (RBI's) decision to cancel the bonds as part of reconstruction plan.

The central government, represented by the department of financial services and YES Bank, and the RBI have been included in the petition. The petition was reviewed by *Business Standard* and it was the first to report on March 7 that AT-1 bondholders may seek legal remedy against RBI's move.

The main contention of Axis Trustee is that when YES Bank is treated as a going concern, AT-1 bonds issued by the bank cannot stand extinguished and ought to remain as active instruments. The petition also puts forth that AT-1 bonds cannot be treated inferior or subordinate to equity and that this is contradiction to global best practices where AT-1 bonds are treated superior to equity.

According to Axis Trustee, this point was mentioned in the information memorandum of YES Bank, while issuing these instruments. "A complete write-down of AT-1 bonds while retaining the value for equity holders is against the principles of justice and prevalent best practices."

The petition says information memorandum issued by the bank at the time of raising bonds mentioned that value of these bonds could be reduced to zero, only at the time of liquidation, which isn't the case yet with YES Bank.

The petition states that under Basel-III norms and global practices, AT-1 bonds can be written off only when the value of equity of YES Bank is completely eroded. The petition will be heard on March 11.

THE COMPASS

Partnering other investors crucial for SBI

Unless quick remedy is stitched up, there's looming threat of YES Bank being forced into SBI's books

HAMSINI KARTHIK

The State Bank of India (SBI) stock on Monday is not far from its 22-month lows. While the reasons for this are the same, concerns are a lot bigger now. The only difference is that, earlier, when SBI had to absorb its smaller associates, the lender knew exactly what it was looking at and had an idea of the pain ahead.

With YES Bank, neither is the case. While SBI's shareholders, including foreign portfolio investors, insurance companies, and mutual funds (who hold roughly 36 per cent), know the bank is putting all its might to restrict investment to 49 per cent in the reconstructed YES Bank and that this money will strictly be classified investments, what irks them (and rightly so) is the worst-case scenario of SBI having to be more than just an investor in the struggling private lender.

SBI's stock, which is down by about 15 per cent since last Thursday when probability of YES Bank bail-out first surfaced, also indicates the Street isn't convinced of the lender's 'investment' philosophy.

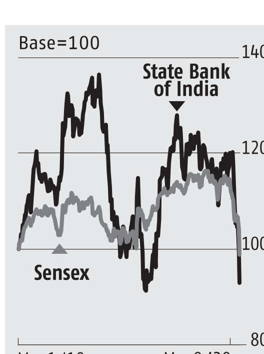
For instance, analysts at Centrum Research project that even if YES Bank turns out to be a ₹11,760-crore investment, risk weighted assets, based on December quarter numbers, will increase by only 1.5 per cent, as investment will be weighted 250 per cent and hence, impact on SBI common equity tier-1 (CET-1) may not exceed 15 basis points.

SBI's CET-1 stood at 10.18 per cent in the third quarter and the bank has stated it will maintain its capital adequacy ratio at least 0.5 per cent higher than regulatory level. But here's the catch. Will ₹11,760 crore of capital be adequate to absorb YES Bank's questionable asset quality? Assuming 60 per cent of YES Bank's loan book is susceptible to stress, analysts at ICICI Securities estimate further provisioning burden of around ₹24,750 crore. SBI's infusion will only partly solve the problem.

How successful SBI emerges in partnering other investors is the crucial piece of the puzzle. Also, Suresh Ganapathy of Macquarie sounds off that if the intention of placing YES Bank under moratorium was to preserve the interests of its deposit holders, whether SBI classifies YES Bank as investment is questionable.

"Had SBI merged YES Bank into itself, retail depositors would be happy to stay put with SBI. We are not sure that merely a restructuring scheme with several banks participating can solve the problem," he points out.

For SBI, the size of hole that YES Bank can drill into its financials will depend on how fast it can convince other investors to join hands. Unless there is a quick remedy, it doesn't take away the looming threat of YES Bank being forced into SBI's books.



Compiled by BS Research Bureau

Paying loan instalments? Shift ECS mandate to a nationalised bank

SANJAY KUMAR SINGH

Coming soon after the Punjab and Maharashtra Co-operative (PMC) Bank scam, the events at YES Bank have left deposit holders a shaken lot. However, they should take heart from the fact that the regulator has acted very rapidly in this case, so their troubles may end soon. But they, too, need to take a few steps to contain the adverse fallout of this development.

The Reserve Bank of India (RBI) superseded the board of YES Bank and imposed a month-long moratorium on it. The moratorium period will last from March 5, 2020, until April 3, 2020, during which each depositor will be allowed to withdraw a maximum of ₹50,000, even if he holds multiple accounts. The good news is that the central bank has already come up with a restructuring plan for the bank. State Bank of India will infuse ₹2,450 crore in lieu of a 49 per cent stake.

Customers, who had their entire liquid money parked in a YES Bank savings account, are the ones who will experience hardship. Bank account holders are asking whether they need to make changes to the way they manage their accounts. The solution, say financial advisors, is to maintain at least two accounts. "The norm we are witnessing is that withdrawal restrictions are placed as soon as a bank gets into trouble. If you have a second account, you can use money from it till the troubled bank stabilises," says Arvind Rao, chartered accountant, Securities and Exchange Board of India-registered investment adviser and founder, Arvind Rao & Associates. He adds that one of the two accounts should be with a nationalised bank. "Since the government has at least a 51 per cent shareholding in public-sector banks, it is unlikely to allow the situation to deteriorate to the extent where a moratorium has to be imposed," adds Rao.

YOUR MONEY

If your mutual fund systematic investment plans (SIP) were linked to a YES Bank savings account, you need to act. "Payments should go through for SIPs of less than ₹50,000. But if your SIPs are for a larger amount, you should give the electronic clearance service (ECS) mandate for another bank account," says Kaustubh Belapurkar, director-manager research, Morningstar Investment Adviser India.

Credit card dues and equated monthly instalments (EMIs) of loans could also pose a problem. "Delay or non-payment of credit card bills or loan EMIs will attract penalties from your lender. Your credit score could also come down significantly, which could impact your future loan applications," says Naveen Kukreja, chief executive officer and co-founder, Paisabazaar.com. Again, the answer lies in transferring your ECS mandate to another bank at the earliest.

The hit to your credit score may not be big if you act fast. Says Parijat Garg, a credit scoring expert: "A 10-15-day delay in repayment of home loan EMI will at the most affect your credit score by 10-30 basis points."

Insurance companies offer multiple channels for payment of premiums. "Customers can pay their premiums using any one of the channels like debit or credit card, internet banking, wallets, etc," says Sanjeev Chopra, chief financial officer and executive director, IFFCO-Tokio General Insurance. He adds that during the moratorium period, his company will check with customers whether they would like to receive their claims payment in another bank's account.

Life insurance covers come with a grace period. "Your risk cover will continue until the end of the grace period, which is 15 days for monthly mode policies and 30 days for other modes," says a spokesperson at Bharti AXA Life Insurance.

The insurer will waive the interest applicable on delayed payments. It has also requested the regulator to allow extension of the grace period to YES Bank customers.

IF YOU HAVEN'T SOLD YES STOCK, THEN HOLD ON

- The YES Bank stock has oscillated between a 52-week low of ₹5.65 and a high of ₹286. It closed at ₹21.25 on Monday
- The stock is down 92.6 per cent from its 52-week high
- An investor who has been holding the stock for a while and has not sold it yet should continue to do so as most of the news has already got factored in
- A reconstruction plan is in place, so things are moving from a zone of uncertainty to certainty
- Those with high-risk appetite may enter the stock with at least a two-year horizon