ED probes Kapoor's role in ₹30K-cr NPAs

SHRIMI CHOUDHARY & SUBRATA PANDA
New Delhi/Mumbai, 11 March

The special court under the Prevention of Money Laundering Act (PMLA) granted an extension to the Enforcement Directorate (ED) to keep Rana Kapoor under custody till March 16.

The ED had sought extension of Kapoor's custody to probe his role in YES Bank's bad debts of ₹30,000 crore. It will also look into whether the monies were "siphoned and laundered" to the 78 entities controlled by the bank's co-founder.

"It has been noticed that more than ₹30,000 crore was given as loans by YES Bank to several companies/entities during the tenure of Kapoor in YES Bank which have converted into bad debts. Kapoor is required to be interrogated to ascertain if, in the guise of these loans, the monies have been siphoned and laundered," the ED said in its remand application to court.

The ED added that it was probing loans of over ₹20,000 crore from the point of view of irregularities, quid pro quo and diversion.

Investigation has revealed that about 78 companies owned by Kapoor's family members were being controlled and managed by Kapoor. The ED said, "Documents related to these companies/firms are to be obtained," and added that Kapoor would be confronted to ascertain siphoning off of funds from YES Bank to these companies. The ED named Kapoor, his wife Bindu and three daughters — Roshini, Radha and Raakhe — as accused in the matter.

Giving detailed analysis of each transaction, the probe agency said that prima facie there appears to be a generation of proceeds of crime to the tune of thousands of crores by the accused in this case.

"The said monies have been acquired, concealed and projected by the accused persons to claim the same as untainted," the application said. Earlier, the ED had quoted ₹4,300 crore as proceeds of the crime while seeking custodial interrogation of Kapoor in the same court on March 8.

This was an initial estimate based on the material in the shape of a statement and seizures made during the searches in the case, said an ED official, adding that Kapoor was suspected to have entered into such deals through a complex web of companies. Of YES Bank's total loans of about ₹2.25 trillion, around ₹42,000 crore may have turned non-performing assets, the official estimated.

While seeking Kapoor's further custody, the ED said it was required because Kapoor is not co-operating with the investigation authorities and has not yet provided the required information regarding proceeds of the crime. "Sustained interrogation is required to unearth the trail of funds, and if further custody is not granted, it may hamper the ongoing probe," it said.

It further said that Kapoor is being required to confront other persons whose statements will be recorded in the next few days. "He is also required to trace the end use of the huge amount of monies which appears to have been laundered," ED noted. The ED expects Kapoor to reveal crucial facts which are in his exclusive domain, as he was the key person, deeply and directly involved and in-charge of affairs of the bank.

Kapoor's counsel argued that his client cannot be held responsible for the mess created by the new management (under former MD and CEO Ravneet Gill). Kapoor claimed that the bank's market capitalisation reduced to ₹5,000 crore from ₹93,000 crore after his resignation.

According to ED officials, the central agency is also probing role of the YES Bank co-founder in connection with the disbursal of loans to some corporate entities and subsequently alleged kickbacks reportedly received in his wife's accounts.

The ED has found that YES Bank had bought debentures of Dewan Housing Finance worth ₹3,700 crore while the latter gave a loan to a company owned by Kapoor's daughters of ₹600 crore.

Both the transactions were suspicious as the company owned by Kapoor's daughters did not have sufficient businesses or assets. Also, the mortgage shown for the loan was only a property worth around ₹40 crore. The property mortgaged was an agricultural land shown as residential land with its worth inflated, the ED said.

YES Bank founder Rana Kapoor's daughter Roshini (*left*) and wife Bindu at Enforcement Directorate office in Mumbai on Wednesday PHOTOS: KAMLESH PEDNEKAR

Realty assets under ED lens

SHRIMI CHOUDHARY
New Delhi, 11 March

The Enforcement Directorate (ED) has identified assets and properties valued at thousands of crores belonging to YES Bank Co-Founder Rana Kapoor and his family enterprises in India and abroad. It is assessing these assets and is likely to seek provisional attachment in coming weeks.

The properties overseas include two luxury hotels — one in New York (worth over $20 million) and one in London (£30 million) — two residential apartments in London valued at £15 million each, and a yacht stationed in the UK, said a senior ED official.

In India, Kapoor's six bungalows in Delhi's upscale localities, including Jor Bagh, Hauz Khas, and Kautilya Marg, were also identified. One of these properties was bought from fugitive offender Vijay Mallya, said an official in the know. Six flats and land in Mumbai and suburban areas have also been identified.

According to sources, the federal agency suspects these properties were purchased from kickbacks that Kapoor and his family allegedly received from corporates whose loans were being disbursed by the bank on Kapoor's instructions. So far, the agency has seized close to 50 artworks and paintings from his residence at Samudra Mahal in Mumbai during searches. The agency had searched the premises of Kapoor on Saturday and Sunday.

Before seizing the assets, the federal agency will issue a provisional attachment order of proceeds of crime under the Prevention of Money Laundering Act, which will be valid for 18 days until the sessions court confirms it and allows the enforcement agency to make a final confiscation on the ground that the said assets were created out of the process of money laundering.

Kapoor and his family (wife and three daughters) are facing money laundering charges for allegedly creating shell firms and using them to divert loans sanctioned to various corporates and receiving kickbacks during his tenure as managing director and chief executive officer of YES Bank. The ED and the Central Bureau of Investigation had filed the case against them on March 7.

'There was enough time to save bank'

Former RBI governor Raghuram Rajan (*pictured*) on Wednesday said there was a lot of time to put together a plan for YES Bank which had given "enough" notice about the problems it was facing.

"YES Bank had given us enough notice that it has been in difficulty... so there was enough time to put together a plan. I hope what we have got is best available (plan), but I don't want to second guess, because I don't know the details," Rajan said in an interview to *CNBC-TV18*.

Rajan asserted he has been saying for a long time now that there is a need to clean up the financial sector quickly. "Unwillingness to clean up has prolonged state of malaise in Indian economy... Clean up has to be undertaken on an emergency basis, otherwise sense of confidence which is needed in our NBFC, private banks and even in our state-owned banks that would be missing, that means financial sector cannot contribute to the growth," he said. PTI

₹4,000-cr Voda loan to be sold

DEV CHATTERJEE
Mumbai, 11 March

YES Bank is planning to sell its ₹4,000-crore exposure to Vodafone Idea to asset reconstruction companies or to other institutions and use the proceeds to shore up its liquidity, said a source close to the development.

The Vodafone Idea loan is touted as a major risk by analysts for YES Bank after the telecom major was asked to pay ₹54,000 crore of AGR (adjusted gross revenue) dues. Apart from Vodafone Idea, the stressed pool at the bank is largely made up of Essel Group, Reliance Anil Dhirubhai Ambani Group (ADAG), DHFL and commercial real estate book.

Apart from Vodafone Idea, other good corporate loans are also on the block at a discount, said the source.

While some loans such as DHFL may not find any takers as they are already in the middle of investigations, Vodafone Idea is likely to get a buyer owing to the good standing of its promoters and future prospects. The telecom firm's loans were downgraded in February this year to BB minus by CARE Ratings with negative implications.

"The fact that the company paid part of its AGR dues to the government shows that it is serious about its intentions. If the government provides moratorium on AGR payments, the loan will not become stressed," said the source. Indian banks have a total exposure of ₹1.2 trillion to the company.

The Reserve Bank of India (RBI) has already reminded banks of the need to make additional provisioning for 'standard' telecom loans and specific exposures in the sector with a high probability of being declared non-performing assets (NPAs) in their books down the line.

JPMorgan said the recovery process of the bank could get a boost if the lender were able to show recoveries from its stressed pool, especially ADAG where exposure is around $1.8-2 billion.

"We believe that while collateral for YES' exposures in some of the groups (Essel/ADAG) is reasonably strong, liquidating these could be a problem in case of the insolvency of these entities," the global bank said.

During the first nine months of the current financial year, Vodafone Idea reported total operating income of ₹34,076 crore, and profit before interest, lease, depreciation and tax of ₹11,405 crore and net loss of ₹62,234 crore.

The losses widened on account of provision made for the Supreme Court's ruling on payment of AGR dues to DoT, reversal of deferred tax assets and assets impairment. The increase in tariff is expected to increase the average revenue per user levels of the company from the current ₹109 going forward.

LENDER'S EXPOSURE

₹31,400 CR
BB rating and below

₹6,000 CR
Real estate book

₹4,000 CR
Vodafone Idea

₹41,000 CR
Total known stressed loans

₹5,000 CR
Unknown accounts

₹46,000 CR
Total stressed loans

Source: JPMorgan

Reliance Group said its debt from YES Bank is fully secured and it had 'nil direct or indirect exposure to Rana Kapoor, wife or daughters'

PE firms want to invest at ₹10/share

JC Flowers, Cerberus and Tilden Park Capital ask SBI to prepare a clean-up plan

HAMSINI KARTHIK & SURAJEET DAS GUPTA
Mumbai/New Delhi, 11 March

As State Bank of India (SBI) advances talks with interested buyers to co-invest in YES Bank, it is learnt that global private equity (PE) investors have laid out two important conditions before they seal the deal.

JC Flowers, Cerberus Capital and Tilden Park Capital, which have been negotiating with YES Bank since mid-January, and Blackstone, which recently evinced interest in the bank, insist that SBI should have a plan to clean up the troubled lender's assets and liabilities. "The PE investors have asked SBI to ensure that both additional tier-1 (AT-1) bonds and tier-2 bonds be written down," said a person aware of the development.

These investors are apprehensive to take on any past bondholder dues after pumping in money into the bank, said the person cited above. The Reserve Bank of India's (RBI's) draft reconstruction scheme presented on March 6 mentions the writing off of AT-1 bonds, though it is silent on the treatment of tier-2 bonds. Normal circumstances do not permit writing off tier-2 bonds. "However, when the RBI invokes powers under section 45 of Banking Regulation Act, it gives a lot a leeway," said Ananth Narayan, professor, Bharatiya Vidya Bhavan's SPJIMR.

It is also learnt that the PE investors have asked SBI to identify the quantum of potential stressed loans in the bank and transfer them to an asset reconstruction company (ARC). "We know that these assets won't fetch much even if bought by an ARC, but the objective is to clean up the book," said another person.

The funds have stated their willingness to invest in YES Bank, even if it should suffer an unprecedented loss in the December quarter due to these write-offs. "Investors are seeking comfort that no fresh asset quality trouble emerges after they have put in money into the bank," said one of the sources. It is also learnt that if SBI consents to these conditions, the PE investors are willing to deposit a token advance of $500 million into an escrow account, and would be willing to make a further investment of up to $1-1.2 billion in YES Bank.

JC Flowers did not wish to participate in the story, while an email sent to Tilden Park Capital remained unanswered till the time of going to press. Blackstone did not want to comment on the development.

In terms of pricing, these investors are looking at a level similar to the offer made to SBI. "Since they would participate with SBI in the capital infusion, they want to be treated on a par with SBI in terms of pricing also," said a banker with direct knowledge of the negotiations.

While the pricing is still under consideration, the banker believes that regulatory dispensations may be granted when a rescue plan of this magnitude is being put together.

Depositors at a branch in Kolkata on Tuesday PHOTO: PTI

THE RESCUE PLAN

- The PE firms offered to invest $1 billion-plus together at ₹10 a share, on a par with SBI
- Ask for write-down of AT-1 bonds and tier-2 bonds
- Suggest bundling stressed assets of ₹ 90,000 cr be sold to ARCs
- SBI also in talks with domestic funds, banks to raise short-term debt

CUSTOMERS CAN MAKE ₹2-LAKH LOAN PAYMENTS VIA OTHER BANK ACCOUNTS

YES Bank on Wednesday said its inward real-time gross settlement (RTGS) services have been enabled to allow customers to make payments towards their credit card dues and loan obligations from other bank accounts.

The announcement comes a day after its customers were allowed inward IMPS and NEFT services for the same purposes.

RTGS is used for payments of over ₹2 lakh, while payments below that can be made using NEFT. Besides, loan and credit cards payments can also be done through IMPS from other accounts. PTI

Bailout may renew fund pressure on NBFIs: Fitch

ABHIJIT LELE
Mumbai, 11 March

Rating agency Fitch on Wednesday said non-bank financial institutions (NBFIs) in India could face renewed pressure on funding and liquidity following the bailout of ailing private sector lender YES Bank.

The Reserve Bank of India (RBI) hammered out a restructuring package — by roping in State Bank of India and imposing a moratorium on withdrawals — to salvage the private bank. This could compound the credit squeeze across the country's financial system, adding to the economic uncertainty, Fitch said.

The move comes even as the impact of coronavirus is beginning to be felt in India, raising further risks to economic growth and NBFI asset quality. Rising asset quality and funding risks will place pressure on ratings if conditions worsen.

The NBFI sector's direct exposures to YES Bank should be modest, as the bank's difficulties have been known for some time, and companies have had time to pare back exposure.

YES Bank's advances to NBFIs were roughly 1-2 per cent of the sector's total bank funding. Also, the sector's asset exposures to the bank would similarly be moderate.

Cabinet may take up bank revival plan tomorrow

SOMESH JHA
New Delhi, 11 March

The Reserve Bank of India's (RBI's) revival plan for YES Bank will need the central government's approval, which may come in by Friday, according to a government official. The draft 'YES Bank Ltd Reconstruction Scheme, 2020' will be put up for the approval of the Union Cabinet, chaired by Prime Minister Narendra Modi, when it meets on Friday, the official said.

The RBI had made the draft reconstruction scheme public on Friday, a day after it took over the board of the troubled lender and imposed restrictions on lending and withdrawal activities. The RBI had invited comments from State Bank of India (SBI), which is expected to hold 49 per cent stake in YES Bank, and other stakeholders by Monday.

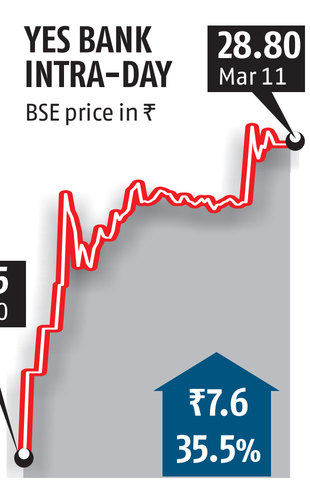
RBI Governor Shaktikanta Das had met SBI Chairman Rajnish Kumar on Friday to discuss the way forward.

After examining comments on the draft scheme, the RBI may modify the provisions and send it for the approval of the central government. According to the Banking Regulation Act, 1949, the Centre can approve the scheme without any modifications or with some changes "as it may consider necessary".

The scheme will come into force from the date as specified by the central government and there may be "different dates for different provisions of the scheme", according to the law.

The copies of the scheme will be laid before both the Houses of Parliament after the central government's approval.

The RBI has imposed several restrictions on YES Bank, including a curb on fresh lending and on withdrawals by customers above ₹50,000. The regulator had appointed former SBI chief financial officer Prashant Kumar as the administrator of the bank for the time being. Kumar had said that the moratorium is expected to be lifted by the end of the current week.



A DEAL WITH BONDHOLDERS IS IN PROCESS: PRASHANT KUMAR

Prashant Kumar, the administrator of YES Bank, told *Reuters* a deal with some bondholders who have opposed the rescue was under discussion. He hoped a deal would be reached later on Wednesday or on Thursday, he said. REUTERS

YES Bank imbroglio puts spotlight on auditors

Firms say there are limits to audits identifying ever-greening of loans, or flagging suspect collateral securities

SUDIPTO DEY
New Delhi, 11 March

The spotlight is back on the role of auditors in flagging the ongoing crisis at YES Bank. The accounting standard regulator, the Institute of Chartered Accountants of India (ICAI), plans to review the financial statements of YES Bank for the financial year 2017-18 (FY18) and FY19, and check whether there have been any lapses on the part of the auditors.

The audit fraternity points out that one of the key challenges in undertaking audit of banks relates to reconciling divergences between the Reserve Bank of India (RBI) and the banks when it comes to recognition of non-performing assets (NPAs).

"Over the last two-three years we have been under a lot of pressure from the RBI in matters relating to divergences. As a result, whenever in doubt we approach the RBI for guidance on suspect transactions," said an auditor from one of the Big Four audit firms.

The auditors are also increasingly seeking information on a group's loan exposure, than just the company they have the audit mandate for.

An RBI assessment for FY16 pegged the NPAs of YES Bank at ₹4,925 crore as against the ₹748 crore gross NPAs reported by the bank. The divergence ballooned to ₹6,335 crore at the end of FY17.

To check instances of evergreening of loans, auditors said they have started keeping a tab on the money trail of loan payback. "We have started taking a close look at where the money is coming from," said the audit head of another Big Four firm.

However, the auditor fraternity concedes that as statutory auditors there are limits to which they could check the money trail. They also rue lack of guidance in this respect from the accounting standard regulator.

What auditors also find challenging is to ascertain intrinsic value of securities that are put forth against loans. "This is more so in an economic environment where repayment power of business is weak," said another audit professional. Statutory auditors of YES Bank have already had a rough ride over the past few years. BSR & Co, an affiliate of KPMG India, is the current auditor of YES Bank. However, the previous auditor, SR Batliboi & Co, an EY affiliate, was hauled up by the RBI on account of lapses in statutory audit. Following this, the firm was banned for one year from carrying out statutory audit assignments of commercial banks.

An audit professional who has been closely dealing with the beleaguered private bank said they have been working very closely with the RBI over the last two years while auditing its financial statements. "We have been seeking the guidance of RBI's nominee in the board whenever in doubt," he said.

Whether they like it or not, the role auditors would be under review in the coming months, said experts.

ICAI will review the bank's financial statements of the past two FYs to check whether there have been any lapses by the auditors

L&T MOVES BOMBAY HIGH COURT TO SECURE PF EXPOSURE TO BONDS

Infrastructure giant Larsen & Toubro (L&T) and L&T Officers and Supervisory Staff Provident Fund have moved the Bombay High Court (HC) to get relief on their exposures to additional tier-I (AT-1) bonds of YES Bank.

According to industry estimates, L&T has ₹100 crore of exposure to the bank's AT-1 bonds, whereas the staff PF has ₹25 crore of exposure to the bonds. L&T's 2019 annual report shows that firm had exposure to '9 per cent perpetual' of YES Bank. The AT-1 bonds are also called perpetual bonds, as there is no fixed maturity date. The matter is currently at pre-admission stage, with the next hearing date scheduled for Thursday.

Employee provident funds have ₹237 crore of exposure to YES Bank's AT-1 bonds, according to industry estimates.

An email query sent to L&T didn't elicit any response at the time of going to press. Earlier, Axis Trustee Services — which represents majority of bondholders — had moved HC to seek relief after RBI proposed full write-down of AT-1 bonds. JASH KRIPLANI