YES BANK CRISIS

The man who said 'yes' to a chosen few

Weak compliance and poor governance led to failure as it lent to those who couldn't repay

SACHIN P MAMPATTA
Mumbai, 8 March

When Rana Kapoor, bespectacled and casually attired, arrived for Enforcement Directorate (ED) questioning at the agency's Ballard Estate office in Mumbai on Saturday, he seemed a far cry from the hard-driving executive that made YES Bank one of India's largest banking players since it began operations in 2003.

Kapoor had worked with Rabo India Finance at the time, and was slated to only be a co-promoter director; not head the bank. The bank had appointed Korn Ferry, an executive search firm, to find its first chief. Discussions within the promoter group finally resulted in the decision that Rana Kapoor should become managing director and chief executive officer. Ashok Kapur, the other co-founder, was to be chairman. Kapoor put in his papers at Rabo, which began its own search for a new chief executive. His beginnings at Bank of America and other foreign bank stints, including one at ANZ Grindlays' Investment Bank, and his US education had raised questions as to why he would let go of a comfortable post at a foreign bank for something new. He answered in two words: "entrepreneurial joy".

This joy had him working at his office as torrential rain swept Mumbai in July 2005. He cleared his desk of pending papers ahead of a board meeting. Ultimately, the board meeting itself was postponed as two key board members couldn't join amid the chaos in the city, which happened around the time the company was listed.

The listing itself could scarcely have gone better. The first trade for the stock was for fifty shares at a price of ₹65. This was a 44 per cent gain over the issue price. Subsequent gains saw it enter the National Stock Exchange's Nifty 50 index, a benchmark comprised some of India' largest and well-known companies, and then in the 30-stock BSE Sensex. The bank was worth over ₹80,000 crore as recently as September 2017.

YES Bank co-founder Rana Kapoor after being arrested by the Enforcement Directorate. Experts said Kapoor's aggressive lending practices didn't help in building confidence in the bank PHOTO:KAMLESH PEDNEKAR

The lender had grown at breakneck speed in the intervening years, helped perhaps by Rana Kapoor's reputation as a banker, willing to aggressively write checks. He reportedly had successfully got his money back from some promoters even when other banks struggled, but it did not always work. Ultimately, it proved too much with the Reserve Bank (RBI) reportedly growing unhappy with the bank's practices.

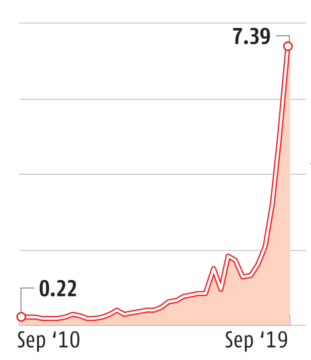
Its market capitalisation plummeted to ₹4,132 crore on the BSE after news of the government's decision to supersede the bank's board and impose a moratorium. Depositors began lining up to withdraw cash. They had been told that they can't take out more than ₹50,000 until the bank's issues are resolved.

Analysts have pointed out that the bank had lent out too much money to industrialists who didn't seem to be in a position to give it back. And it didn't have enough capital to cover these advances either. The ED arrested Kapoor on Sunday morning, alleging that the Kapoor family has taken kickbacks from companies that the bank lent money to.

The recent quarters had been a desperate attempt to get additional funding by the new CEO, Ravneet Gill, who came from Deutsche Bank after Kapoor was sacked by the RBI. Names of multiple investors had done the rounds, but nothing materialised. Kapoor's aggressive lending practices didn't help in building confidence in the bank.

MONEY GONE BAD

Gross NPAs (in %)



Source: Capitaline, *Business Standard*

Advances had grown in double-digits for the longest time. It only began to show signs of slowing down in 2019. The last quarter for which the data is available shows that advances shrunk 6.1 per cent year on year as the bank grew increasingly tight-fisted.

Quarterly net profit had been falling since a year before, with losses in every quarter from September 2018. The gross non-performing assets ratio, or bad loans as a percentage of total loans given out, rose from 1.6 per cent then to 7.4 per cent in September 2019.

Depositors, interestingly, may have acted presciently — total deposits of the bank shrank for the first time in September 2019. The bank has delayed announcing its December 2019 quarter numbers, which doesn't portend well.

Kapoor's shares were sold after lender-invoked pledges got triggered. He was reduced to holding only 900 shares worth ₹60,000, according to a November 2019 news report. He had, in a September 2018 social media post, said he would never sell his shares, comparing them to diamonds he would pass on to future generations. Ultimately, he was out of the bank as both the head and significant shareholder.

There were other issues, too, in YES Bank's journey. This included a dispute with the late co-founder Ashok Kapur's wife Madhu Kapur over board representation, which turned bitter. The Bombay High Court had ultimately ruled in her favour. There were rumours of a truce between the two promoter families but the stock price didn't show any traction. This was even as the RBI was also reportedly unhappy with the way that divergences were handled at the bank, and declined to let Rana Kapoor continue as its head.

Early advertisements for the institution showed a banker saying "yes" to an entrepreneur looking for funds. *Business Standard* had also asked Rana Kapoor before operations began, why his venture was called YES Bank. "It's positive and has a reliable and trustworthy feel to it," he had said.

Investors and the depositors lining up outside outlets may now feel otherwise.

YES Bank clients' SBI Cards applications hang in balance

Regulators, bankers in a huddle to resolve issue

SAMIE MODAK
Mumbai, 8 March

The fate of applications worth nearly ₹1,500 crore in the SBI Cards and Payment Services' initial public offering (IPO) hangs in the balance as many corporate and individual investors have bid in the share sale through YES Bank, which is placed under moratorium by the Reserve Bank (RBI).

While investors have adequate funds in their YES Bank accounts, the moratorium would mean their funds will not be able to move from their account to that of the issuer company. The country's second-largest credit card company's ₹10,300-crore IPO closed on Thursday, hours before the RBI imposed the curbs.

Sources say investment bankers handling the SBI Cards IPO have raised this issue with the Securities and Exchange Board of India (Sebi).

"In light of what has happened, we have asked the regulator whether applications backed by YES Bank accounts should be considered for allotment," said an investment banker. Officials representing SBI Cards, investment banks handling the IPO, Sebi, and RBI are likely to meet on Monday to find a solution to the problem.

Sources say two options are on the table. The first includes seeking RBI's approval to allow usual fund transfer as the application amount for the IPO has already been set aside under the so-called ASBA process before the moratorium was announced.

ASBA or Applications Supported by Blocked Amount is the facility under which the money remains blocked in the account till the time the allotment is finalised.

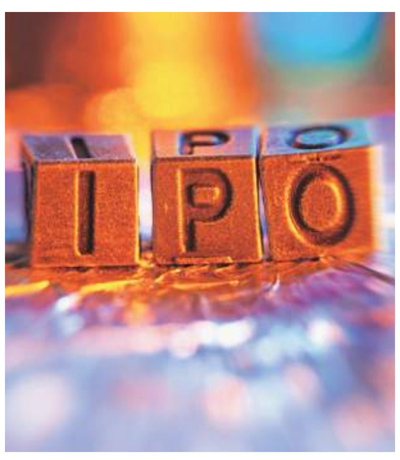
According to the people in the know, the second option is that allotment process takes place normally but YES Bank clients, who get an allotment, are asked to pay through alternative banks.

Market players say it is unlikely that the RBI would approve of the first method and the second method also could pace operational difficulties.

"The second option looks more viable. However, bankers will have to ensure that the IPO process doesn't get prolonged. One tweak could be that the shares are kept in a separate account till the time these investors pay, so that the listing process doesn't get delayed. However, here the risk is if the shares list at a discount, these investors may not pay," said a person privy to the discussions.

The legal implications of these two options are being vetted, says an investment banker. Shares of SBI Cards are likely to list on March 16. The allotment could be finalised on Wednesday and the payment process is expected to complete by Thursday and a day later, shares would reflect in individual demat accounts. Sebi has brought down the time gap between closing of an IPO and listing of the securities to just six working days.

Sources say nearly ₹1,500 crore worth of applications are impacted by the crisis at YES Bank. Also, 6,000 retail investors have used PhonePe UPI for payments. The digital payment application had suffered an outage as its banking partner is YES Bank. However, PhonePe is said to have restored its services.



AT STAKE

About ₹1,500 crore of applications worth ₹2 trillion are said to have come through YES Bank

	No. of applications	Bids amt (₹ cr)
QIB	289	104,992
HNI	12,260	62,597
Retail	3,082,306	8,032
Employee	57,872	598
Shareholder	582,328	24,976
Total	**3,735,055**	**201,195**

QIB: Qualified institutional buyer, HNI: High-net-worth individual Source: Investment bankers

Retail investors bought shares as institutions exited en masse

DEV CHATTERJEE
Mumbai, 8 March

As YES Bank's financial metrics started showing signs of stress over the past year, large institutional shareholders and the promoter of the bank sold their shares. But it was the retail shareholders who were left holding the can with over 50 per cent stake in the bank, statistics collated by *Business Standard* shows.

While promoter Rana Kapoor's shares were sold either by him or because lenders exited plegded shares, the other promoter family — the Gogias — remained invested. In November, Kapoor sold his residual shares worth ₹142 crore and was holding only 900 shares. This was within weeks of Kapoor tweeting that the bank shares are like diamonds and he will never sell his diamonds. His shares stake in the bank fell after institutions invoked the pledge on his stake.

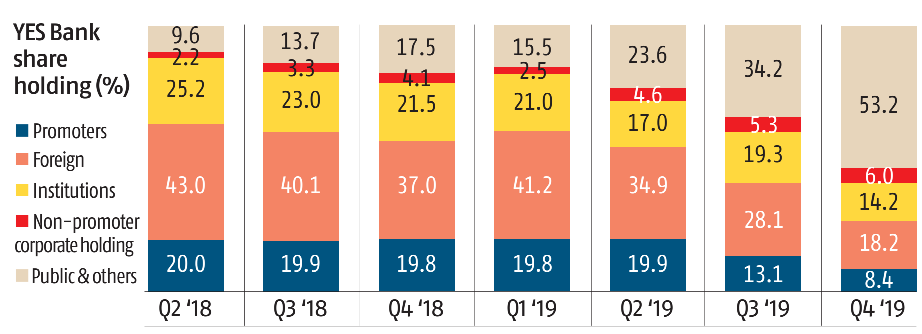
While the foreign institutions reduced their stake from 43 per cent in June 2018 to 18.24 per cent, public shareholding went up from 9.58 per cent to 53.24 per cent. The local institutions also reduced stake from 25 per cent in June 2018 to 14.21 per cent by December quarter last year (*see chart*).

"There was a continuous flow of wrong news from unnamed sources that marquee investors are lining up to buy YES Bank shares. This kept retail investors interested in the stock," said an analyst with a foreign brokerage.

Shriram Subramanian, founder and CEO of proxy advisory firm Ingovern, said several red flags were ignored by the retail investors with rating firms downgrading the bank's instruments. "Retail investors should have been more careful considering that the promoter himself was exiting," he said.

For the retail investors, the news is not so good as State Bank of India-led bailout is aimed at the depositors and not towards the equity investors. Soon after the RBI announced the moratorium, global bank JP Morgan pegged YES Bank shares at ₹1 a share. "We believe forced bailout investors will likely want the bank to be acquired at near zero value to account for risks associated with the stress book and likely loss of deposits. We remain underweight and cut our target price to ₹1 as we believe net worth is largely impaired," it said.

WHO HOLDS WHAT



Compiled by *BS* Research Bureau Source: Capitaline

Axis Trustee seeks clarity on AT-1 bondholders

SUBRATA PANDA
Mumbai, 8 March

Axis Trustee Services, the debenture trustees for YES Bank's additional tier-1 (AT-1) bond, has written to the Reserve Bank (RBI) seeking clarity on the fate of the AT-1 bondholders. It also asked for appropriate treatment for them in the larger interest of debt capital markets and future bankfundraising.

RBI's draft reconstruction scheme for YES Bank suggested a permanent write-down of these bonds outstanding as of March 5. According to the draft, the write-down is "in conformity with the extant regulations issued by the RBI based on the Basel framework".

"We submit that such write-down of the AT-1 bonds, if given effect to, will be an arbitrary and discriminatory decision. While the Basel-III framework does legally permit write-off of the AT-1 bonds or conversion of such instruments into equity, such power ought not to be exercised in a manner in which preference is given to the common equity holders at the cost of retail as well as other investors who have directly or through mutual fund schemes and regulated financial institutions subscribed to the bonds," Axis Trustee said.

STATSGURU

Mapping mergers

THE ANNOUNCEMENT of swap ratios for the combination of 10 public sector banks (PSBs) into four has put the spotlight on such unions, and how they have fared before. Analysts would be keenly watching as to how the entities deal with the integration in a challenging business environment.

Each of the 10 banks participating in the process has more bad loans than it did five years ago (*chart 1*), though much of it is to do with better disclosures. The slowing economy has reduced credit offtake (*chart 2*). Bad loan ratios are expected to largely worsen for the anchor banks, though net non-performing assets show a decline for some (*chart 3*). This also holds true for capital adequacy. The anchor banks will see their capital cushion decline in at least two instances, show analyst estimates (*chart 4*).

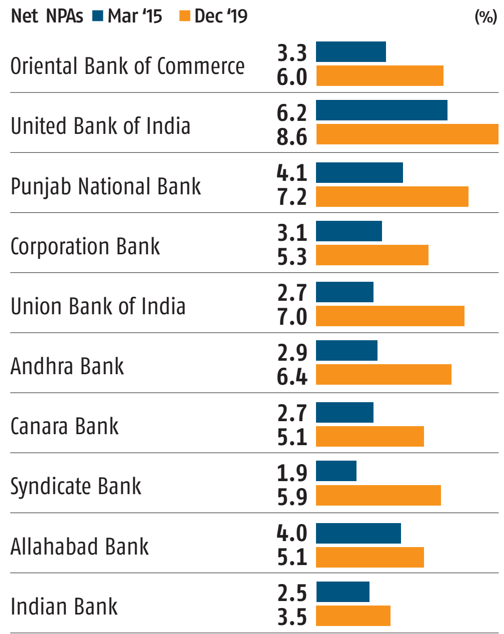
However, this is not unique to the latest exercise. Previous attempts of bringing together PSBs may have helped the weaker ones, but tended to weigh on the anchor banks. The State Bank of India saw its net non-performing assets go up after its 2017 merger with its associate banks and the Bharatiya Mahila Bank. This was also true for Bank of Baroda's 2019 merger with Dena Bank and Vijaya Bank (*chart 5*). The capital adequacy ratio also declined in both instances (*chart 6*).

The latest set of mergers is likely to take time to iron out the kinks, suggest analysts. The Reserve Bank of India in December 2019 noted that private sector banks accounted for 69 per cent of incremental loans in 2018-19. They also had a similar share in deposits. It remains to be seen if bigger PSBs would be able to protect market share.

SACHIN P MAMPATTA

1: STRUGGLING WITH BAD LOANS

Net NPAs ■ Mar '15 ■ Dec '19 (%)

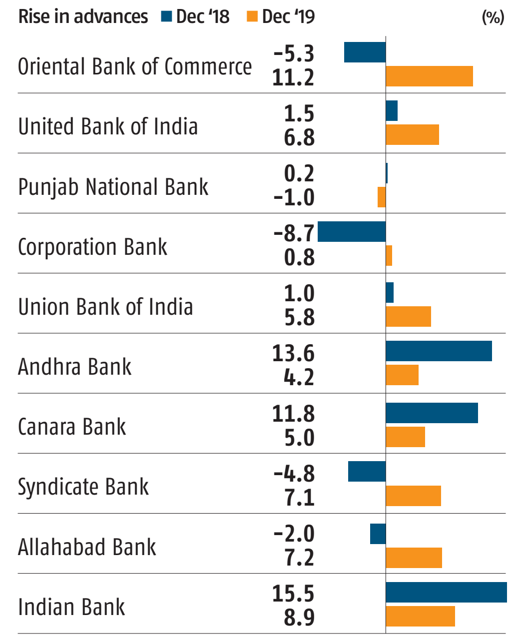


Source: Capitaline, *Business Standard* Research Bureau

ILLUSTRATION: BINAY SINHA

2: LOAN GROWTH REMAINS TEPID

Rise in advances ■ Dec '18 ■ Dec '19 (%)

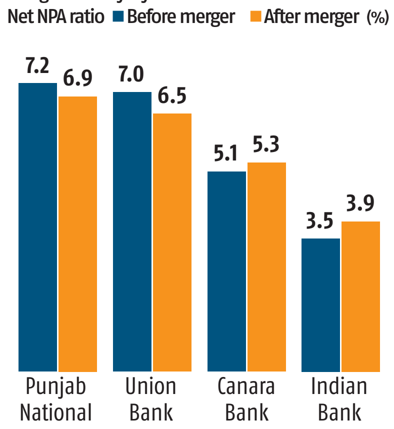


Source: Capitaline, *Business Standard* Research Bureau

3: ANCHOR BANKS FACE SOME WORRY

Merged entity by name of anchor bank

Net NPA ratio ■ Before merger ■ After merger (%)

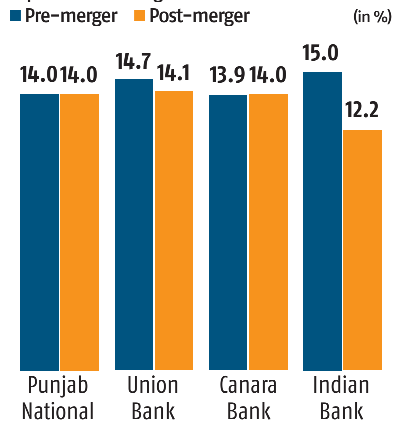


Note: As of December 2019 Source: Motilal Oswal Financial Services

4: CAPITAL ADEQUACY REMAINS KEY

Capital to risk-weighted assets ratio

■ Pre-merger ■ Post-merger (in %)

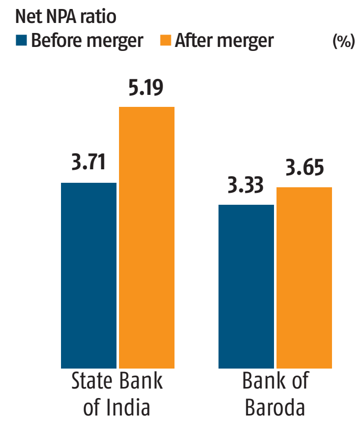


Note: As of December 2019 Source: Motilal Oswal Financial Services

5: BAD LOANS RATIOS WORSENED IN PREVIOUS MERGERS TOO

Net NPA ratio

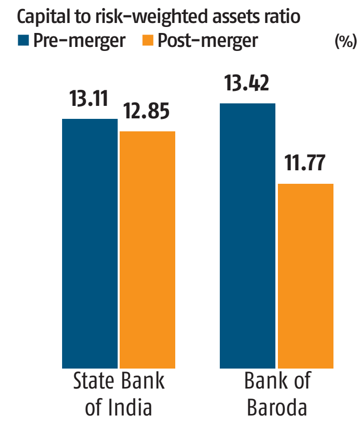
■ Before merger ■ After merger (%)



6: CAPITAL ADEQUACY WAS ALSO AFFECTED

Capital to risk-weighted assets ratio

■ Pre-merger ■ Post-merger (%)



Note: SBI numbers are as of March 31, 2017, and April 1, 2017. Bank of Baroda numbers are as of March 31, 2019, and April 1, 2019

Source: Company presentations

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

Compiled by *BS* Research Bureau