

INDIA

## Yes Bank CEO Rana Kapoor: The fall of a high-flier

Rana Kapoor once dined with the high and mighty in the country and lent money to the biggest names in business. Now he is in ED custody



(Left) PM Narendra Modi with (Right) Rana Kapoor



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Rana Kapoor, who once soared high as co-founder and managing director of Yes Bank and partied with the high and mighty in the country before the RBI forced his exit, is now in Enforcement Directorate (ED) custody.

The CBI too has been investigating the many allegations of siphoning off funds and kickbacks against him. His star properties – on Amrita Shergill Marg in Delhi, and in Malabar Hills in Mumbai – are being attached while other properties and real estate he invested in are under the scanner. His daughters have been stopped from flying abroad, and their investments are also being checked for the money trail.

It is an ignominious end to a career built over a decade when Kapoor spent millions on publicity to cover his every little action, hosted the biggest names in the country at his dinners and got at the Centre must compensate kin of all medical professionals who lost life to COVID-19 as promised



At one time, every big industrialist in trouble would approach him for loans because he was known to take more risks than his more conservative peers. And as the current investigations seem to suggest, he drove a hard deal while lending to them, often seeking a quid pro quo in return which would benefit his daughters' investments or his other interests.

For many years before his fall, Rana Kapoor ran Yes Bank as his personal fiefdom. But to start with, he was not the sole mover in the bank.

Yes Bank was founded by three partners – Harkirat Singh, former country head of Deutsche Bank in India, Ashok Kapur, former country head of ABN Amro in India, and Rana Kapoor, former corporate banking head of ANZ Grindlays in India in partnership with Rabo Bank of Netherlands (the latter had put in big capital).

One story goes that Harkirat Singh and Ashok Kapur had actually joined hands initially because they had been colleagues earlier, and later Kapur persuaded Harkirat to admit Rana Kapoor into the partnership because of the family relationship. (The late Ashok Kapur's wife Madhu is the elder sister of Bindu Kapoor, Rana Kapoor's wife).

The bank got its license in 2004, and according to some gossip, it got it largely because of Harkirat Singh's connections. However, by the time the bank was up and running, Singh was out of the picture. One story says that Singh had gone on a holiday after he was confident that the partners would get a banking licence and came back to find that Kapur and Kapoor had neatly cut him out of the picture with the help of Rabo Bank. With Rabo's help, Kapur was named Chairman, while Kapoor would be Managing Director and CEO.

Yes Bank was always aggressive in building up its business but initially it did not take undue risks. They focused on corporate business to build up size quickly. They were always ranked among the fastest growing banks in their category, but they did not initially seem to take undue risks.

Things were fine until 26/11 of 2008 when Kapur, who was dining at the Trident Hotel in Mumbai, was killed in the terrorist attack. After that, Rana Kapoor was in complete control.

Within a few years, he attempted to airbrush Kapur's role in the bank's history and also got into a fight with Madhu Kapur, who wanted her daughter Shagun Gogia to represent her family's shareholding on the board as a director. Despite a shareholder agreement, Kapoor tried to keep the Kapur family out of Yes Bank's board. It was a nasty battle that would go to courts before it was finally resolved – though not particularly amicably.

Kapoor always wanted to play with the biggest private bankers in Mumbai. Banking in India, as elsewhere in the world, is about relationships. The Mumbai financial world is a fairly tight knit and often kept the best deals from going to new players like Yes Bank.

When Yes Bank was still a small bank, Kapoor built a big SME loans portfolio, focusing on companies that bigger banks turned their nose down upon. This was a good move because the right medium sized company would eventually become big and Yes Bank would participate in its rise. But SMEs portfolios are inherently more risky also because SMEs are more vulnerable to policy shifts and

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By the time Yes Bank was a mid-sized bank, it wanted a slice of the big loans. It became so aggressive that it would give loans to groups and projects that were considered too risky by more conservative banks. Currently, its NPAs include loans given to some companies of the Anil Ambani led Reliance group, DHFL, Jet Airways, Cox and Kings, and Avantha group, among others.

To be fair to Kapoor, these names were not considered bad even till 2015. Yes Bank was hardly the only one lending to them, though his exposures were bigger and he kept lending long after the groups got into trouble.

The problems in Yes Bank's portfolio started showing up once former RBI governor Raghuram Rajan forced banks to recognise bad loans by initiating the Asset Quality Recognition (AQR) exercise. This started showing up the risky loans in every bank's portfolios.

Then suddenly, in 2016, demonetisation of high value notes was announced by Prime Minister Narendra Modi in a late evening address. Much has already been written about the economic effects of demonetisation and one does not need to go into detail about it here. Suffice it to say that the weaker corporates – whether they were SMEs or big corporations – got into serious trouble because of the sudden withdrawal of notes. The real estate sector and infra sectors were roiled but so were others.

By 2017, highly leveraged corporations were getting into serious trouble. Initially Yes Bank and several others tried to put a lid on the problem by hiding some bad loans under the carpet. However, RBI had become particularly careful about assets and it often questioned the variances between its own estimates of a private bank's NPA estimates. This happened at ICICI, Axis, Yes Bank and others. The RBI also called for changes in leadership at ICICI (because of allegations of Chanda Kochhar's conflict of interest in several loans) and Axis and Yes Bank in the hope that things would be resolved in an orderly fashion.

In the case of ICICI and Axis, the steps seem to have paid off and both banks seem in an even keel now. In the case of Yes Bank though, by the time Ravneet Gill came on board as the new CEO from Deutsche Bank, new troubles were beginning to show up.

Companies in the Anil Ambani led Reliance group and DHFL blew up. Jet had also gone belly up. Rana Kapoor had possibly managed to keep the real problems at Yes Bank hidden despite the RBI scrutiny, and some of the problems only showed up after Gill started cleaning up operations.

Mumbai financial circles say that the RBI and government had informally approached many of the good private banks to take over Yes Bank. This was a good way of avoiding panic and had worked many times in the past. But Yes Bank was too big a trouble for any one banker. Perhaps even then, the Yes Bank problem could probably have been sorted out a bit earlier – maybe almost a year earlier.

Urjit Patel, who was the RBI governor after Raghuram Rajan left, was fairly clear that Kapoor had to go. Despite multiple pleadings by the board, he stuck to his guns. Unfortunately, he reportedly quit over unhappiness with government interference in December 2018 and the next governor,

Shaktikanta Das had too many other things in his hands to concentrate on the Yes Bank issue

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