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From YES BANK To NO BANK



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Extracts from 'Pandemonium: The Great Indian Banking Tragedy'

<https://www.amazon.in/dp/819464335X/>

Bharat Patel, former chairman, Procter & Gamble India, a part of the first board of the bank, was instrumental in choosing the name Yes Bank from the shortlisted five names. The other four were Gateway Bank, Octra Bank, Mint Bank and My Bank.

In 2004, the RBI granted a licence for the bank; in 2008 after Kapur's death, Kapoor got the licence to run it his way. He changed the name from Yes Bank to My Bank and, by the end of his tenure, it became No Bank for him.

The bank retracted his performance bonus of Rs1.44 crore, clawing back 100 per cent of the performance bonus paid to Kapoor for 2015 and 2016. It had not paid any bonus



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Kapoor was arrested by the ED on 8 March 2020, a day after the CBI Economic Offences Wing registered an FIR against him in Delhi, for alleged money laundering.

Among many other allegations, the ED has found that in April–June 2018 Yes Bank invested Rs3,700 crore in the short-term debentures of Dewan Housing Finance Corporation Ltd (DHFL) whose promoter Kapil Wadhawan paid a Rs600 crore kickback to the Kapoor family in the form of loan given to DOIT Urban Ventures (India) Pvt Ltd. Kapoor's three daughters own this company through MCPL.

'It was also apprehended that Mr. Rana Kapoor had similarly misused his official position in several other transactions and had obtained illegal kickbacks directly or indirectly...'

The CBI on 25 June 2020 filed a chargesheet against Kapoor, his daughter Roshni and DHFL promoters Kapil and Dheeraj Wadhawan, alleging that the Kapoors and Wadhawans conspired with each other to siphon off public money and benefit themselves.

Kapoor, his wife, and three daughters held 168 bank accounts – 69 of them with HSBC, 79 with HDFC Bank, eight with DCB Bank Ltd, five with Yes Bank, four with Axis Bank, and one each with Central Bank of India, IDBI Bank and PNB.

The ED attached the 168 accounts which had `59.4 crore in the form of deposits. It also attached 15 mutual fund accounts and 58 paintings of Aslam Shaik and one each of Arpana Caur and M.F. Husain.

The London-based Shaik's paintings are known for the 'kinetic energy of his bold strokes and daring impasto work.' That mirrors Kapoor's life and career.

Yes Bank's Second Life

Yes Bank has a new lease of life after Kapoor. What has that been like?

Typically, a bank gives the RBI a list of names to pick from for the CEO's post. The regulator's primary focus is on the so-called fit and proper criteria. This means, unless



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Two names were sent to RBI for approval for the top post – Gill and Rajat Monga, the senior group president of Yes Bank, and believed to be Kapoor's Man Friday. Actually, Monga had been sidelined by Kapoor when he started objecting to many loan proposals Kapoor was pushing for approval. However, he was an insider and arguably, close to Kapoor.

Naturally, the RBI chose Gill. Gill (and probably a few others) did have rounds of discussions with senior RBI officials before meeting Kapoor at his Samudra Mahal residence, along with a Korn Ferry executive. Half a dozen directors of Yes Bank board interviewed Gill in the first week of January 2019. They wanted to know how he would run the bank differently.

Could the regulator pick the MD unilaterally? Yes, it could. In the past, on rare occasions, it has chosen the MDs for banks. At least on two occasions, the RBI has chosen the boss of one private bank, Tamilnad Mercantile Bank Ltd: M. Jesudasan (1992–96) and S. Krishnamurthy (1997–2002). Both of them were RBI executives.

Even after Gill was appointed, Kapoor wanted to remain associated with the bank as an adviser, occupying his room on the 9th floor at Nehru Centre, Dr Annie Besant Road, Worli, Mumbai. He suggested the new CEO be given another room.

As an adviser, he wanted to inspire the confidence of the prospective investors. The Board for Financial Supervision, a committee of the central board of directors at RBI, put its foot down. Kapoor was politely told that as a promoter his wholehearted support to the new management would inspire sufficient confidence; he would not need to be an adviser!

Gill Takes Over

When Gill took over in March 2019, the so-called CET1 or Common Equity Tier 1 ratio of Yes Bank – a measure of the ratio of a bank's capital against its assets – was just 8.4



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Gill also reportedly found massive under-provisioning of bad assets. Just three stressed exposures – ADAG Group, Essel Group and DHFL – could have wiped out the bank's entire net worth of `26,000 crore. Yet, not a paisa was provisioned against any of them.

Yes Bank had the single-largest exposure to Cox & Kings Ltd, after taking over Axis Bank's exposure to the tours and travels agency, which went bankrupt. After SBI, it was the second-largest lender to the now-defunct Jet Airways. Its exposure to IL&FS was around Rs2,500 crore.

Apart from this, there was a string of real estate developers to which Yes Bank had lent – Omkar Realtors & Developers Ltd, Radius Developers Ltd, Sahana Builders & Developers Pvt Ltd, Suman Developers Pvt Ltd, Skill Infrastructure Ltd... You name it.

Every bad loan that surfaced in the Indian financial system seemed to have a link with the bank. Yes Bank had probably lent to every Indian company that went belly up between 2018 and 2019.

There have been many stories about the relationship between Yes Bank and Indiabulls Housing Finance Ltd as well. But as a borrower, Indiabulls had an impeccable record, not missing a single instalment for its Rs6,000 crore loan.

According to a board member, on 16 May 2019, two-and-a-half months after taking over, Gill made a presentation to the board on all stressed assets. A month later, he got the board approval for preferential allotment to private equity funds.

Advent International Corporation of the US, under the guidance of its adviser P.J. Nayak, conducted due diligence for a possible investment. Once it was done, Nayak, former chairman of Axis Bank met Yes Bank Chairman Dutt and said the stressed asset book could be as much as `80,000 crore, one-third of the total loan book.

A bank cannot grow without capital. But for Yes Bank, it was an existential crisis. It could not survive without capital infusion as the bad loans had to be provided for.



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At the first analysts' call on 26 April 2019, he outlined his task:

Build a better revenue mix between wholesale and retail loans.

Ramp up retail liabilities to cut down the cost of money.

Strengthen governance by empowering the board on risk and HR matters and delegating authority to the respective business heads – something unheard of in Yes Bank's history.

De-risk the corporate book.

After Advent refused to invest, there was no choice but to go for a QIP or a qualified institutional placement, the fastest route to raise money. In August 2019, Yes Bank raised Rs1,930 crore at Rs83.55 a share of the face value of Rs2. The QIP opened on 8 August and closed on 14 August.

Gill also started selling off the loan portfolio to bring down the requirement for capital. The problem is, there were takers only for good loans. So, when the loan book shrank from Rs2.4-lakh crore to Rs2.05-lakh crore over 9 months, it turned even uglier.

There were other issues. Gill had taken the assignment presuming that, like all listed companies, Yes Bank would be a board-managed entity. The problem started fairly early when the board wanted to appoint Kapoor as an adviser with sweeping powers. When Gill refused to play ball, the battle lines were drawn between him and some board members.

An Obstructionist Board

Insiders mention that there were frequent run-ins with the board on matters of hiring new talent, credit, audit, staff accountability – everything, in short. That probably led to the RBI nominating R. Gandhi, former deputy governor on the board.

The way the board functioned was quite bizarre. Kapoor's stake in the bank came down to zero in October. But his nominee director (his daughter's father-in-law, Ravi Khanna)



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Jaggia and Subhash Chander Kalia.

As if an obstructionist board was not enough, the RBI and finance ministry started getting anonymous letters that made wild allegations about Gill's style of functioning and his alleged purchases of artwork at exorbitant prices.

When the third such letter reached the RBI and the ministry, apparently Monga told Gill that from the tone and language of the letters, he was sure that Kapoor himself was writing them. Monga was qualified to make this judgment since he had worked with Kapoor for over a decade. He went on to add that if the promoter of the bank was hell-bent on destroying it, nothing could save it from going under, before himself resigning.

Monga's observations were discussed at the board and the RBI was kept informed as, by that time, the bank had already sought the regulator's clearance for making Monga an executive director. Ashish Agarwal, chief risk officer of the bank, was to be promoted to the board level. But the RBI rejected this.

The regulator was extremely unhappy with the bank's risk management and credit appraisal culture. The regulator's Risk Assessment Report for three successive years from 2017 to 2019 – based on the annual inspection of the bank – was scathing on governance and the overall functioning of the board. They highlighted very poor credit discipline and compliance and too much centralisation of powers. They were also very critical of the role of the board.

A Daunting Task

Was a turnaround too daunting a task?

Gill had arrived from Deutsche Bank so it makes sense to compare the institutions. Yes Bank was 1.7 times Deutsche Bank in size. It had 22,000 employees against 12,000 of Deutsche Bank. The business mix of the banks is fairly similar – ranging from retail to wealth management, structured finance, transaction banking, investment banking and corporate banking. Deutsche Bank had the lowest net NPAs in the industry and one of



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Kong and Singapore.

More than the enormity or the complexity of the role, the real challenge for Gill was the balance sheet, which had been dressed up through creative accounting.

When he took over, Gill got two pieces of advice from the regulator:

Kapoor has lots of external business interests which he synergises through the bank and they must be stopped.

Yes Bank has a lot of veneer. Typically, under veneer there is teak, but in this case, there is a lot of rot. 'We want you to clean it up,' RBI told Gill. For any bank CEO, it was a nightmare assignment.

If insiders are to be believed, Gill kept on stumbling across clients who talked about what they had been made to do in the past. Even these issues, vexing as they were, could possibly have been addressed.

What really broke the back of the bank was Nippon Life Asset Management selling Kapoor's shares as the loan to value had spiked due to a decline in the share price and Kapoor was not able to top up the collateral.

Kapoor had pledged his shares to the Anil Ambani's ADAG Group-owned Reliance Nippon Life Asset Management and Franklin Templeton. As soon as Nippon Life Insurance Company bought ADAG out, allowing the ADAG Group company Reliance Capital Ltd to exit the mutual fund business, it took a call to sell the pledged shares as the loan to value had breached all covenants.

On 31 September and 1 October 2019, Nippon Life sold 100 million shares of Kapoor, leading to a 37 per cent drop in the bank's share price. This made the investors and the depositors anxious.

The problem was exacerbated by two contributing factors.



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The annual bargain sales of e-commerce majors Amazon and Flipkart, which were running at that time, put a lot of pressure on MTNL and BSNL telephone lines. As a result, net banking services were down for a few banks, including Yes Bank. That made Yes Bank depositors apprehensive about the state of affairs in the bank. In the next two weeks, Yes Bank saw an outflow of nearly 20 per cent of its deposit base.

This is third part of the Yes Bank Story. To Be Continued

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Hope one of your article will touch upon how promoters manipulated share prices, exited suitably and left retail holders with a penny stock. And SEBI/RBI kept mum. Thanks.

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