

WHAT IS YES BANK CRISIS?



YES Bank Crisis

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On March 5, 2020, the Reserve Bank of India (RBI) imposed a 30-day moratorium on YES Bank, superseded the private-sector lender's board, and appointed Prashant Kumar, who was serving as chief financial officer and deputy managing director at State Bank of India (SBI), as an administrator. Under the terms of the moratorium, deposit withdrawals were capped at Rs 50,000 per person. The central bank proposed a reconstruction scheme under which SBI might take a maximum of 49% stake in the restructured capital of the bank. Analysts believed the new management of YES Bank, headed by former Deutsche Bank India head Ravneet Gill, who joined the bank in early 2019, could turn around the ship. Gill,

however, has struggled to do so.

A brief history of YES Bank

YES Bank Ltd runs three units – YES Asset Management Services, YES Capital and YES Bank. Once the country's fifth-largest private lender by market capitalisation, YES Bank had been founded by Rana Kapoor and Ashok Kapoor in 2004. In the year 2005, the bank forayed into retail banking with the launch of International Gold and Silver debit card in partnership with MasterCard International. In June 2005, YES Bank came out with a public issue and its shares were listed on the stock exchanges. The bank was ranked number 1 bank in the Business Today-KPMG Best Banks Annual Survey 2008. YES Bank was the first institution globally to receive funding through IFC's Managed Co-Lending Portfolio Programme and the first Indian bank to raise loan under IFC's A/B loan facility. On September 2014, YES Bank announced it had received a ratings upgrade from credit rating agency ICRA and CARE for its various long-term debt programmes. On December 18, 2017, YES Bank made its entry in the 30-share S&P BSE Sensex. A few months later, YES Bank announced the listing of the bank's debut \$600-million bond issue under its maiden \$1 billion MTN programme on Global Securities Market (GSM) – India's first capital-raising platform for international investors in any currency located at the Gujarat International Finance Tec-City (GIFT City) IFSC.

In December 2017, the bank's branch network stood at 1,050 and its ATM network at 1,724.

What has led to a crisis at YES Bank?

The bank's loan book on March 31, 2014, was Rs 55,633 crore, and its deposits were Rs 74,192 crore. Since then, the loan book has grown to nearly four times as much, at Rs 2.25 trillion as on September 30, 2019. While deposit growth failed to keep pace and increased at less than three times to Rs 2.10 trillion. The bank's asset quality also worsened and it came under regulator RBI's scanner. YES Bank has a substantial exposure to several troubled borrowers, including the Anil Ambani-led Reliance group, DHFL and IL&FS. The tipping point came when one of the bank's independent directors Uttam Prakash Agarwal, resigned from the board in January 2020 citing governance issues.

Here are several reasons behind the crisis at the new-age private-sector bank

1. NPAs: YES Bank ran into trouble following the central bank's asset quality reviews in 2017 and 2018, which led to a sharp increase in its impaired loans ratio and uncovered significant governance lapses that led to a complete change of management. The bank subsequently struggled to address its capitalisation issues. YES Bank suffered a dramatic doubling in its gross NPAs between April and September 2019 to Rs 17,134 crore.

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2. NBFC crisis: The crisis in India's shadow-banking space started with the unravelling of Infrastructure Leasing & Financial Services (IL&FS) and then extended to Dewan Housing Finance Limited (DHFL). YES Bank's total exposure to IL&FS and DHFL was 11.5 per cent as of September 2019. In April 2019, the bank had classified about Rs 10,000 crore of its exposures, representing 4.1 per cent of its total loans under watch list, as potential non-performing loans over the next 12 months.

3. Governance issue: YES Bank faced several governance issues that led to its decline. On January 10, independent director Uttam Prakash Agarwal quit citing deteriorating corporate governance standards and compliance failure at the lender. In 2018-19, the bank under-reported NPAs to the tune of Rs 3,277 crore, prompting RBI to dispatch R Gandhi, one of its former deputy governors, to the board of the bank. Rana Kapoor, who was instrumental in building YES Bank from scratch, was asked to step down as chief executive in January 2019.

4. Excessive withdrawals: YES Bank's financial condition dissuaded many depositors from keeping funds in the bank over a longer term. The bank showed a steady withdrawal of deposits, which burdened its balance sheet and added to its woes. The bank had a deposit book of Rs 2.09 trillion at the end of September 2019.

What action has RBI taken against YES Bank?

— RBI has taken over the YES Bank management

— The central has imposed a moratorium on the lender

— RBI announced a draft 'Scheme of Reconstruction' that entails SBI investing capital to acquire a 49% stake in the restructured private lender.

Why was a moratorium imposed on YES Bank?

The banking regulator, while recommending a moratorium, cited a steady decline in YES Bank's financial position, mainly due to the lender's inability to raise adequate capital to make provisions for potential non-performing assets. This failing resulted in downgrades by credit rating agencies, which in turn made capital raising even more difficult. This apart, there were serious lapses in corporate governance at the bank.

How does a moratorium work?

A moratorium is a temporary suspension of activity until future events warrant lifting of the suspension or related issues have been resolved.

In case of YES Bank, RBI has imposed a month-long moratorium which is scheduled to end on April 3.

Hence, a customer can withdraw a maximum of Rs 50,000 during this period from their savings or current or any other deposit accounts. In case a depositor has more than one deposit account with YES Bank, then the moratorium will apply cumulatively on all their accounts. There's a small relief to depositors in cases of emergencies. RBI has said that one could withdraw up to Rs 5 lakh for medical emergencies, higher education expenses, payments towards marriage, other ceremonies and "unavoidable emergencies".

What next for YES Bank?

The RBI has a draft reconstruction plan for YES Bank which proposes that depositors' funds would be protected. The employees would also have the same service conditions, including remuneration, at least for one year. However, in the case of key managerial personnel, the new board would be empowered to take a call.

The SBI, which has received a board approval to invest in YES Bank, will pick up to a 49% stake, according to the scheme, at a price that is not less than Rs 10 for each share having a face value of Rs 2.


SBI also cannot reduce its holding below 26% before the completion of three years from the date of infusion of the capital.

Who is Rana Kapoor and what's the case against him?


Rana Kapoor is a co-founder and former managing director & chief executive of YES Bank. Born in 1957 in Delhi, Kapoor started his professional journey as a junior banker in Bank of America's

Barakhamba branch in New Delhi. He worked with BoA for 16 years. In 1998, Rana Kapoor joined his brother-in-law Ashok Kapur and Harkirat Singh to form Rabo India Finance. Kapur, Kapoor and Singh sold their equity in the venture in 2003 and got the licence to set up a private sector bank (YES Bank). Kapoor was well-networked in the corporate sector and he found his niche in companies that were finding it difficult to get financing from other existing lenders. In September 2018, he was asked to step down as the chairman of YES Bank and was replaced by Ravneet Gill.


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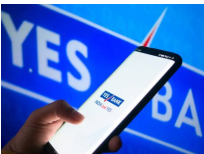
YES Bank eyes own asset reconstruction company, invites Eols from investors

In April, the RBI formed a 6-member panel headed by Sudarshan Sen, former ED, to carry out a comprehensive review of the working ... | August 11, 2021, Wednesday
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YES Bank case: Rana Kapoor's Rs 127-crore London flat attached by ED

It claimed that the agency obtained "information from a reliable source that Kapoor was trying to alienate this property in ... | September 25, 2020, Friday
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YES Bank senior leadership team to have 30% of CTC as variable pay

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YES Bank case: Wadhawans' bail plea turned down, sent to judicial custody

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