

# FACTORS THAT AFFECTED THE DOWNFALL OF YESBANK AND PROBABLE STEPS TO RESTRUCTURE THE BANK

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## ABSTRACT

Yes Bank was India's 5th largest bank started in the year 2003, and got its banking license in 2004. It was founded by Rana Kapoor and Ashok Kapur. Rana Kapoor aggressive risk taker pushed Yes Bank to success but was ultimately doomed as aggressive loan to distress companies, increased the Yes Bank NPA's. RBI took over control of Yes Bank and placed Yes Bank in moratorium for a period of 30 days. This case studies the factors that affected the downfall of the Yes Bank and Steps taken by RBI to restructure Yes Bank. It also tries to identifies the impact of NPA on Profitability of the Bank.

## Keywords:

*Yes Bank, Bad Loan, NPA, Rana Kapoor, RBI, Moratorium, Loan-Deposit Ratio, SBI.*

**JEL Classification Code - G21, G28, G34**

## INTRODUCTION -

Financial institutions is the backbone of the Indian economy. Banking plays an vital role in the economic growth. In the recent years, many of the banks profitability has reduced significantly leading to becoming absolute leading to merger of two or banks into one entity. Indian Banking system has 20 public sector banks and 22 private sector banks along with 44 foreign banks, 44 regional rural banks, 1542 urban cooperative banks and 94,384 rural cooperative banks. The most important functions of bank is to safeguarding the savings of the people in form of deposits and extending loans to the public.

Yes Bank which was launched on 21<sup>st</sup> January, 2004 was fifth largest bank in India with headquarter in Mumbai. Yes Bank was listed on Stock Exchange on June, 2015. Yes Bank was ranked no. 1 in the year 2008 for Emerging Markets Sustainable Bank of the year. Yes Bank was also ranked no.1 bank in Business Today - KPMG Best Banks Annual Survey, 2008.

## **ABOUT YES BANK -**

Yes Bank was founded by two brothers Rana Kapoor and Anil Kapur in the year 2003 and got banking licence in the year 2004. Since launch, Yes Bank started to give loan aggressively even to financial stressed companies and individuals at high interest rate and the founder Rana Kapoor was known as Risk Taker. In 2008, Co-founder Anil Kapur was killed in 26/11 attack in Mumbai and that was a major setback for Yes Bank but, Rana Kapoor stood firm and continued to take risk and giving loans to financially stressed companies at high interest rate. Yes Bank has 1050 branches and 1724 ATM's spread across India.

## **THE COLLAPSE -**

In the year 2015, UBS, a global financial services firm, in a report flagged the rapid rise in Yes Bank's loan book to stressed companies and individuals, Yes Bank was not pleased with the report of UBS and registered a complaint in SEBI against UBS.

After 14 years, In 2018, Rana Kapoor was approved and re-appointed by Yes Bank shareholders as managing directors and CEO for 3 years, After the news, Yes Bank Shares reached all time high. But due to Rana Kapoor's risk taking nature, RBI intervened and cut short Rana Kapoor tenure till January 2019. After RBI, the next day Yes Bank shares dipped 30% resulted in \$3.1 billion loss in market capital of Yes Bank.

Rana Kapoor along with Board Directors requested RBI to grant more time, which RBI refused and appoints Advisory firm 'Korn Ferry' to help finding new CEO by February 2019. Following the RBI directives on removal of Rana Kapoor from MD and CEO of the Yes Bank, Chairmen of Yes Bank Board 'Ashok Chawla' resigned and Vasant Gujarathi and Rentala Chandrashekhkar stepped down from Independent Directors of Yes Bank. Following the resignations and RBI's order on Yes Bank, Moody's downgrades Yes Bank ratings, further reducing the shareholder confidence on Yes Bank and resulted in further loss of market share.

On January, 2019, Rana Kapoor stepped down from the post of MD and CEO of Yes Bank. Ravneet Gill was appointed new MD and CEO of Yes Bank. During the April Board Meeting approved for fund-raising of \$ 1 billion in one or more installment. But it became very difficult as the bank reported a quarter loss of Rs 1,507 Crores.

Yes Bank tried to restore shareholder confidence by announcing that a risk assessment report conducted by the RBI did not find any divergence in the recognition of the bad debt but after allegations from Whistleblower, a fresh audit was initiated by RBI and found that Yes Bank under-reported bad loans of Rs 3,277 Crores.

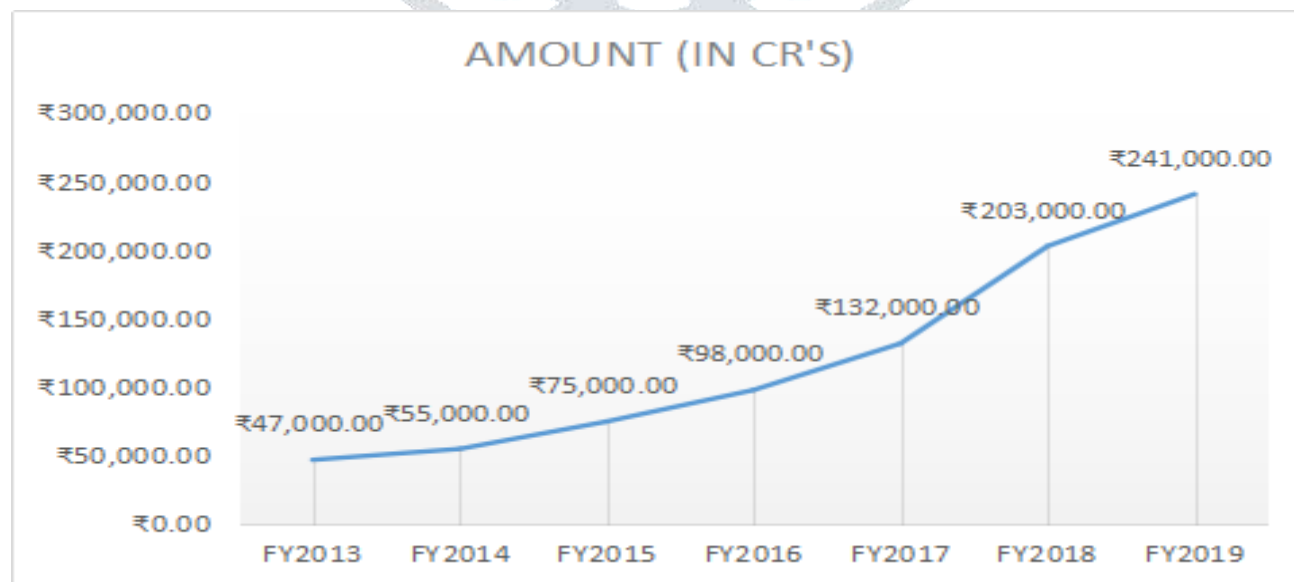
In January 2020, Rana Kapoor and family sold all their stakes at Yes Bank in Open Market and make final exit from the bank. In another audit by RBI, it was found that NPA of the bank was Rs 32,877 Crores and bank was placed under Moratorium for 30 days and Prashant Kumar was appointed as administrator of Yes Bank.

**LOANS -**

During 2014-2019, Yes Bank aggressively extended loans and advances to 334%. Maximum of the loans and advances were extended to NBFC, Real Estate and Constructions firms, three of the most volatile sector of the Indian economy. In September, 2019, NPA of Yes Bank was highest among the banks i,e 7.39%. In September 2019, Loan book of Yes Bank showed a loan and advances of Rs 2.25 Trillion.

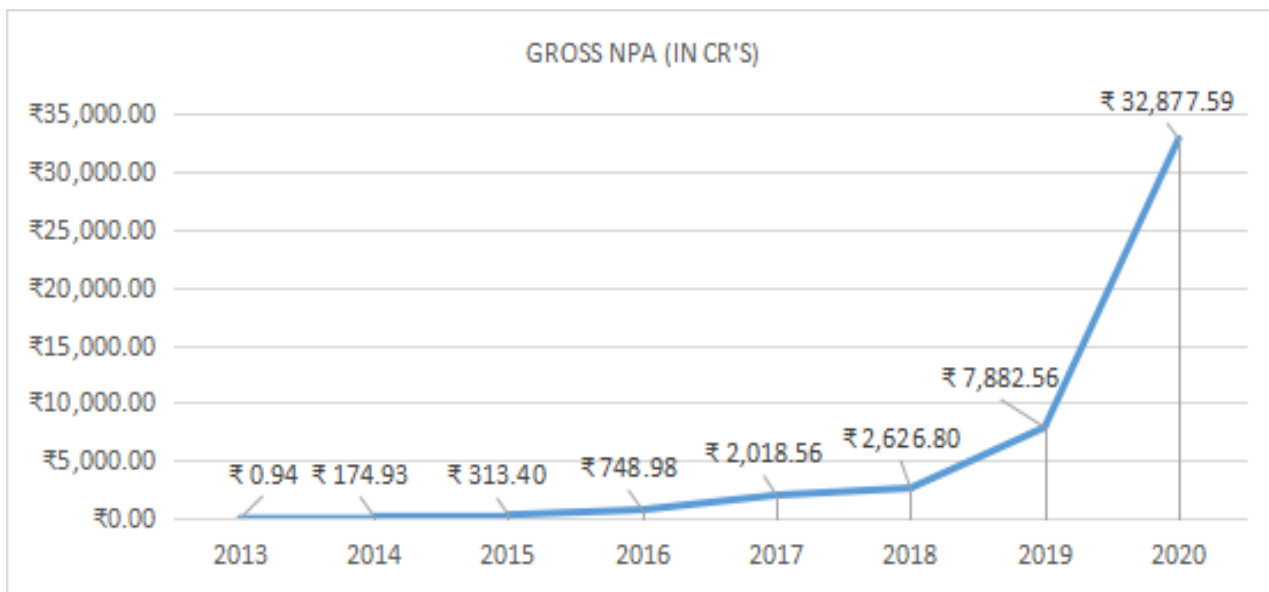
Loan book of yes Bank shows an increase of Loans and advances of the Yes Bank from Rs 47,000 Crores in 2013 to Rs 2,41,000 in 2019. The increase is because of the Rana Kapoor risk taking nature and giving loans to financially stressed companies and individuals at higher interest rate.

Year	Amount (in Cr's)
FY2013	₹ 47,000.00
FY2014	₹ 55,000.00
FY2015	₹ 75,000.00
FY2016	₹ 98,000.00
FY2017	₹ 1,32,000.00
FY2018	₹ 2,03,000.00
FY2019	₹ 2,41,000.00



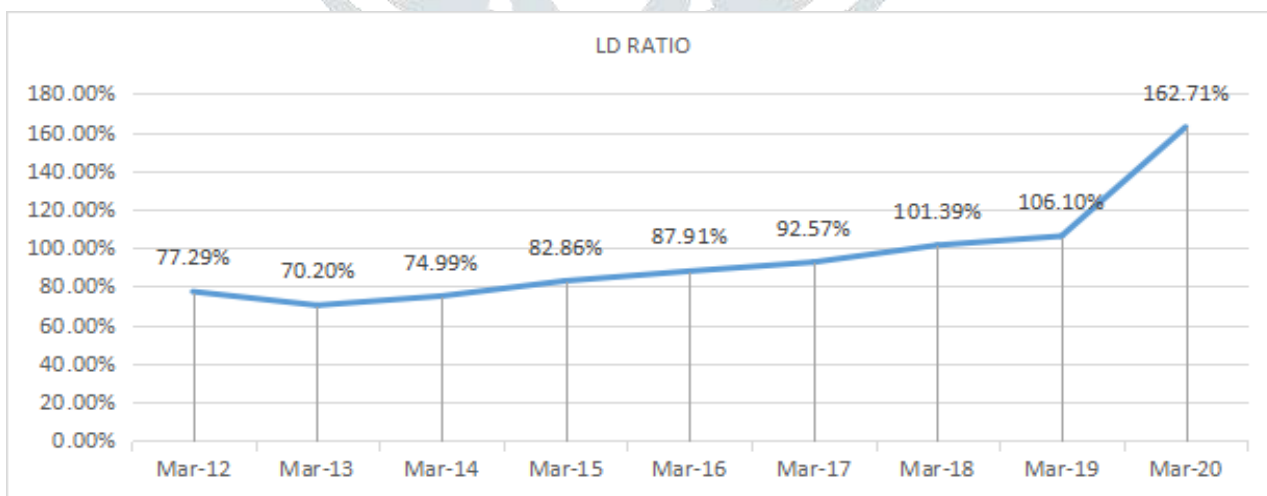
**NON PERFORMING ASSETS (NPA) -**

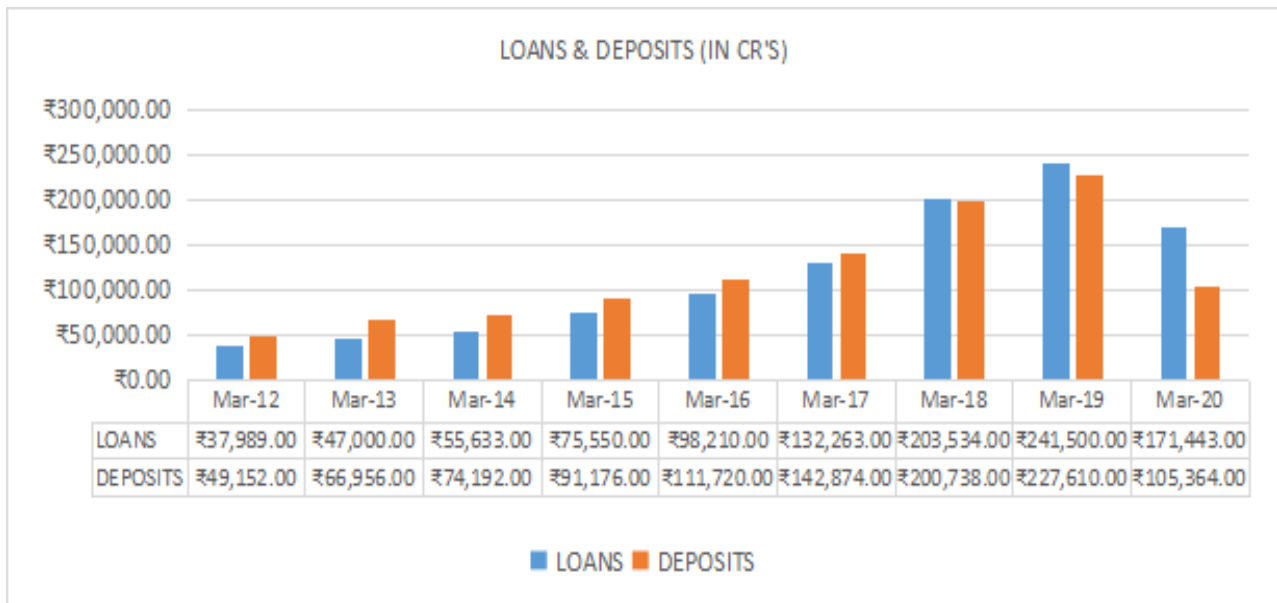
Non Performing Assets of the Yes Bank rose from Rs. 94 Lakhs in 2013 to Rs. 32,877.59 Crores in 2020. The increase was due to aggressively lending loans to financially stressed companies who were unable to repay their loans and turning it into Non Performing Asset



**LOAN - DEPOSIT RATIO -**

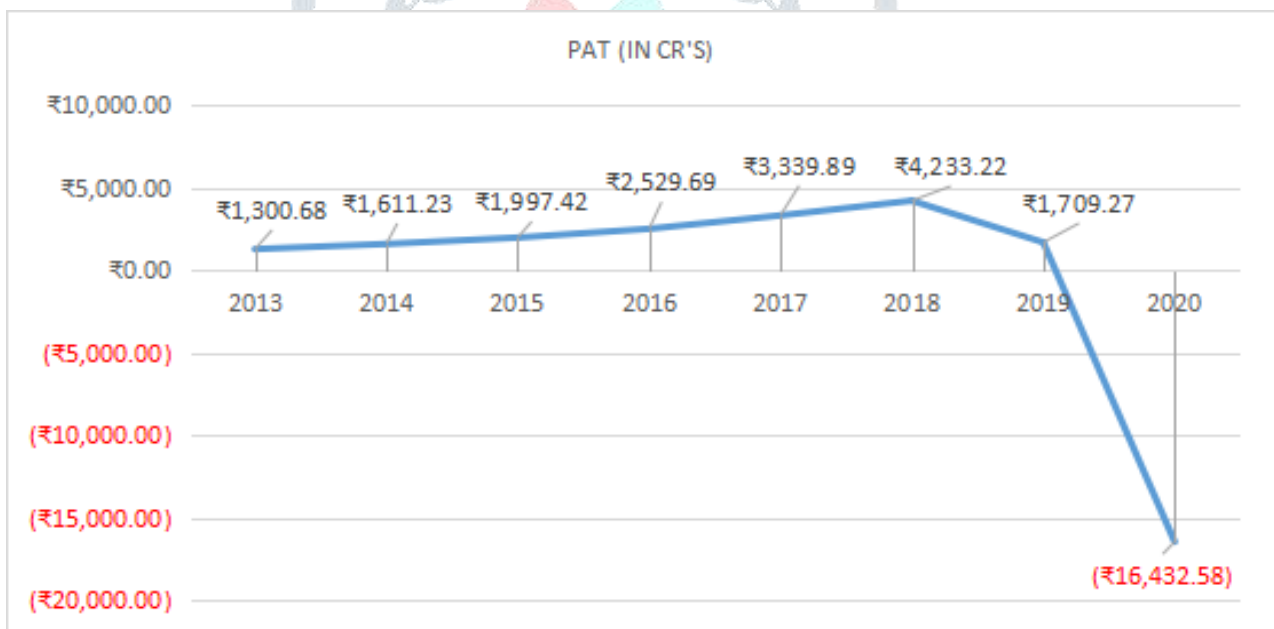
Due to aggressive increase in Loans and Advances, The LD (Loan-Deposit) Ratio of the Yes Bank is too high. The LD ratio in 2012 was 77.29% and it increased to 162.71% in 2020. The Loans extended in 2020 was 162.71% more than the total deposits received in 2020.





**NET PROFIT & LOSS -**

Due to Continuous increase in Yes Bank’s NPA and LD ratio, the Profit and Loss After Tax has dipped to loss of Rs 16,432.58 Crores. Low Deposits and High lending have also contributed in the loss.



**DEFAULTERS -**

Yes Bank has aggressively extended loans and advances to NBFC, Real Estate and Constructions firms, three of the most volatile sector of the Indian economy. Yes Bank also extended loans to financially stressed Companies which eventually defaulted their dues.

Yes Bank NPA showed increased of NPA to Rs 32,877.59 Crores, extended to -

- Reliance (Anil Ambani Group)- Rs 12,800 Crores

- ESSEL - Rs 8,400 Crores.
- DHFL - Rs 4,375 Crores.
- IL & FS - Rs 2,500 Crores
- Jet Airways - Rs 1,100 Crores.
- KERKAR Group - Rs 1,000 Crores.
- Omkar Realtors and Developers - Rs 2,710 Crores.
- Radius Developers - Rs 1,200 Crores.
- CG Powers - Rs 500 Crores.

Yes Bank was able to recover an amount of Rs 500 Crores from DHFL, and Took control over Reliance Group Headquarters.

### **RESTRUCTURE OF YES BANK -**

On March, 2020, Reserve Bank of India has put Yes Bank under Moratorium for 30 days due to high NPA and Prashant Kumar was appointed as Administrator for the Yes Bank. RBI has set a withdrawal limit of Rs 25,000 per Customer to maintain the Customer's confidence. RBI was seeking investor for Yes Bank.

State Bank of India has showed its interest in investing in Yes Bank, RBI has approved SBI request and approved to hold 49% stake-holding in Yes Bank. SBI is required to hold a minimum of 26% of share in Yes Bank for a lock-in period of three years.

Yes Bank has received a total of Rs 15,000 Crores capital, Out of that SBI Group has invested Rs 9,225 Crores i.e 34.70% share in Yes Bank, Yes Bank also received investment from US - based Investor 'Bay Tree' which holds 7.5% of the share and LIC i.e 5% share in Yes Bank.

Investments from Others institutions are also invited where ICICI Bank invested Rs 1,000 Crores, Axis Bank invested Rs 600 Crores, Federal Bank invested Rs 350 Crores.

RBI has directed SBI to nominate two directors for the Board of Directors of Yes Bank and The new directors will remain in the office for a period of one year or till new board is constituted by Yes Bank. RBI also directed that the employees of Yes Bank will continue their services in Yes Bank with same salaries.



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