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Reconstruction Scheme: YES Bank Crisis Case

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Abstract: *It was 5th March 2020; Reserve Bank of India (RBI) superseded Yes Bank's Board of Directors and placed it under a 30-day moratorium as the financial position of the bank had seriously deteriorated. The withdrawal of cash by people having accounts in Yes bank was restricted at ₹50000 By RBI under the terms of moratorium which created a panic among the customers of Yes Bank as well as the public as this was leading to lack of their confidence in Indian banking system. But the involvement of RBI into the case was somewhere able to store their confidence back. To administer the case, Prashant Kumar who was deputy managing director and chief financial officer of State Bank of India (SBI) was appointed as an administrator at that time. The present case study intends to investigate what factors led to the collapse of Yes bank in 2020; what was the revival plan of Yes Bank; and how RBI helped Yes Bank to resume its operations via Reconstruction Scheme.*

Keywords: Yes Bank; RBI; India,

ABOUT YES BANK

Yes Bank, headquartered in Mumbai, was incorporated by Rana Kapoor and Ashok Kapur in 2004 as a high quality, customer centric and service driven bank. Sadly, Ashok Kapur died in terrorist attack in Mumbai in 2008. Since its inception, Yes bank deals in merchant banking, investment banking and brokerage business and mutual fund business with two of its wholly owned subsidiaries namely Yes Securities and Yes Asset Management (India) Limited and provide a complete range of products and services, technology driven digital offerings, caters to corporate, MSME and retail customers and grew into a 'Full Service Commercial Bank'. Yes bank has Pan-India presence. It was recognized among the top and fastest growing banks and was ranked 4rth amongst the top 10 private sector banks in India in 2019. Yes Bank also received several nation and international honors for businesses including Transaction banking, corporate investment banking and sustainable banking. Yes Bank was the first and only Indian Bank which was included in the Dow Jones Sustainability Index in 2015.

Yes Bank follows the 5C's engagement model (Culture, Career, Communication, Care and Connect). Its core values are to create an intentional *Culture*, support *Career* development, encourage honest and open *Communication*, show *Care* as an organization and strengthen *Connect* with employees and community.

Bank's mission is to establish a high quality service-driven customer-centric private Indian bank to cater to the 'future businesses of India'. Bank's vision is to build the finest quality large bank of the world in India.

WHAT WENT WRONG?

It feels like nothing can go wrong when everything is going good, but that's not the case. And the same happened with the Yes bank. As soon as Yes Bank attained success at its peak and overwhelming response and confidence from its customers, investors, companies and credit rating agencies and government, something unexpected happened. In 2015, UBS, a global financial service company reported that Yes bank has provided loans to various companies including Dewan Housing Finance Corporation (DHFL), the Zee group, Reliance group, Infrastructure Leasing & Financial Services (IL&FS) more than its net worth that were unlikely to be recovered as the sectors or corporates to which it was lending went in the state of crisis and has also raised the first red flag about Yes bank's asset quality, however, it still continued to provide loans to several big corporates. Yes bank's total exposure to shadow lenders (IL&FS and DHFL) was around 11.5% as of September 2019. A series of defaults at IL&FS created a domino effect.

The Non-performing assets (NPA) of the bank started rising. As a result, gross NPA of Yes bank suffered a drastic doubling to ₹17134 crores over the period of April-September 2019 due to which the bank was unable to raise capital as the recovery was very difficult. The bank did not make enough provisions in its profits even though it was facing bad loans. As compared to other banks, Yes bank's provisions were the lowest. Thus, the profitability of the bank suffered and return on assets reduced thereby leading to the fall in the share price of the bank. In 2018-2019, the credit-deposit ratio of the bank crossed 100% which means that the bank was lending more than what it received.

Due to its inability to raise capital, Yes bank suffered a steady decline in the financial position. Because of the decline in financial position of the bank, customers and investors started redeeming their bonds and withdrawing deposits further leading to liquidity issues for the bank. Moreover, Yes bank breached the RBI's minimum requirement of statutory liquidity ratio (SLR).

Additionally, Reserve Bank of India (RBI) noticed that Yes bank was facing serious corporate governance issues and deteriorated management practices and weak regulatory compliance in the recent years apart from incorrect asset clarification and risky credit decision. Past actions of Yes bank's management reflected their incompetent and insensitive nature. On 10^{th} January 2020, independent director and chairman of the audit committee Uttam Prakash Agarwal resigned from the office stating that corporate governance standards and management practices of the Yes bank have deteriorated. Yes bank was struggling to fill its top management positions.

ROLE OF RBI: THE RECONSTRUCTION SCHEME

This necessitated RBI to take immediate action to take over Yes bank management in the interest of public, particularly the depositors of bank and thus placed Yes bank under a 30-day moratorium pegged at ₹50000 on 5 March 2020 and in the meantime as per the section 45 of the Banking Regulation Act, 1949, RBI drafted a scheme of reconstruction or amalgamation of the Yes Bank. RBI used moral suasion as the instrument of qualitative control on SBI to acquire the Yes bank. State Bank of India expressed its willingness to invest in Yes Bank Ltd. and to be a part of reconstruction scheme.

It was on 5th March 2020 that Yes bank was placed under the moratorium and then the RBI superseded the Board and appointed an administrator. Post that on 6th March 2020, RBI placed the draft scheme for the reconstruction of the Yes bank in the public domain and invited objections and suggestions from the stakeholders. On 13 March 2020, Union cabinet approved the Yes Bank Limited Reconstruction Scheme, 2020 proposed by RBI that will be led by SBI. The main aim of the scheme was to safeguard the interest of the depositors, provide stability to Yes bank and ensure the stable financial environment banking system.

The investors investing into YES Bank Limited included State Bank of India (SBI), ICICI bank limited, Axis bank limited, Housing Development Finance Corporation Limited (HDFC), Kotak Mahindra bank limited, The Federal bank limited, IDFC First bank limited and Bandhan bank limited, RK Damani, Rakesh Jhunjhunwala and the Azim Premji Trust. Stake of SBI in Yes Bank was 49%, ICICI and HDFC about 6% each, Axis bank nearly 3-6%, Kotak Mahindra, RK Damani, Jhunjhunwala and the Premji trust about 3% each. SBI invested up to 49% of the equity with a lock-in period of 3 years for up to only 26% of the 49% SBI invested. For other investors, there was a lock-in period of 3 years for 75% of their investment and the remaining 25% was not subject to any lock-in.

The authorised share capital of the reconstructed Yes bank has been increased from ₹1100 crore to ₹6200 crore and the number of equity shares has been altered from 450 crore equity share of ₹2 each to 3000 crore equity shares of ₹2 each.

The term and remuneration of the employees was kept same but the board could discontinue the services of the managerial personnel at their discretion. There was no change in the office and branch network of the restructured bank but the bank itself could close down any of the existing branches or open up new offices or branches. All the contracts, bonds, deeds and agreements remained effective in the same manner. The rights and liabilities of the stakeholders of the reconstructed bank remained the same. Prashant Kumar was appointed as the new MD and CEO of the company.

After the notification of the reconstruction scheme, moratorium was lifted within 3 days and a new board was constituted within 7 days wherein at least two directors from SBI became the part of the new board. The administrator so appointed vacated the office within the 7 days of notification. The reconstructed bank was further required to furnish the information regarding implementation of the Reconstruction scheme from time to time to RBI.

KEY DILEMMA IN THE CASE

Key dilemmas faced: What should be the revival plan for the Yes Bank? What should be done in the general interest of the public specially the stakeholders of the Yes bank? What should be the stake of each investor in the reconstructed bank? What amount of money should the customers of Yes bank be allowed to withdraw under moratorium?

DISCUSSION QUESTIONS

Q1. What led to the Yes Bank crisis?

Q2. Briefly discuss the reconstruction scheme of Yes Bank announced by RBI?

Q3. What according to you is the reason for government to intervene in the Yes Bank crisis case?

Q4. What could be the aftermaths of Yes bank crisis?

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