

BANKING ON BAILOUTS - AN ANALYSIS ON YES BANK CRISIS

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ABSTRACT

Indian banking systems have seen many scams and frauds in the banking industry in past years. Banking system of every country is highly dependent on savings of the people. In recent times it is witnessed that negligence of banker's results in scams and frauds. In early period of this year RBI has cautioned and warned many banks about their increase in frauds which may result in big scams. A set of banks have significantly lost their trust from customers, which pose a million-dollar question affecting the creditability of banks. This paper aims to study the recent scams in YES Bank and analyze the causes and impact of crisis aroused. The objective of the study is to explore the results and solutions given by the RBI in order to save the public savings and creditability.

Keywords: Banking on Bailouts, Banking Scams in India, Yes bank scam

INTRODUCTION

The proper banking system may be identified as one of the indicators of growing economy. India has stayed stable and maintained its stability even during global recessions and has immense potential to cope up with developments in various sectors. Banks are important sources of funding for Indian companies. Banking system collapses had begun in early 2007 which brought the major financial crisis. At that time, the banks were clogged with high end NPAs. The

steadfast banking system contains the set of weaknesses which were left unaddressed, leading to yawning of black shacks and blemish the aura of banking sector. Though there are a series of changes in policies, rejuvenations with control by government, there had been a steady increase in frauds and scams in banks that were reported. Reflection of the pain of borrowers and banking system can be seen in mounting bank frauds and increase in NPAs, arising out of inefficiencies in banking mechanisms. The NBFCs, HFCs, Cooperative Banks, Public and Private Sector Banks are becoming flimsy, incomplete and prone to calamities.

Punjab cooperative banks, IL&FS, Jet Airways, Vodafone... the list is getting updated with another fall out of a vital bank - YES Bank. YES bank was in the verge of Collapse in March 2020. During the last 4 years, there has been huge financial delinquencies recorded by public sector banks which includes: Rs.11,500 crore in Punjab National Bank - Nirav Modi, Rs.1,875 crore by ICICI - Videocon, group borrowings from various PSUs amounting to Rs.57,000 crores, the great legend of NBFCs is IL & FS, Rs.9,432 crores by Mr.Vijay Malaya in 13 banks where SBI was a major lender of Rs.1600 crores in 2018. YES Bank is one of the fourth largest Private Sector bank since 2004. The bank was engaged with lending of loans on high-risk that could not raise funds to develop their business. There was a steady growth till 2017 even after the death of one of the founders Mr.Ashok Kapoor in 2008 Bombay terrorist attack. YES bank had deposits of Rs.2 lakh Crore and its assets amounting to Rs.3.5 lakh Crore. There are about 18000 employees and about 1100 branches along with 1300 ATM facilities. After 2017, the light of YES bank was getting diminished by valuation of NPA amounting to Rs.1 Lakh Crore.



The steady line over the past years started to decline because of inability to bring out the capital to recover the losses of NPA, which resulted in subsequent downgrade, initiating the bond agreements by investors, taking back of deposits which lead to losses and insufficient profits in past 4 quarters. They also experienced serious Governance issues which lead the bank to the stage of decline.

WHY AND HOW COLLAPSE HAPPENED?

YES, bank started to decline almost immediately after reaching peak of its business. The peak level of business made the CEO of the bank to lend more advances to the major players of corporate world. They are Deewan Housing Finance Ltd, Anil Ambani group and ZEE group. It led the YES Bank fall into the trap of crisis and laid the foundation for increasing debts unrecovered. YES, bank reported a loss of Rs.18,564crore in Dec 2019. Some of other defaulters to whom the bank lend advances includes IL&FS, Anil Ambani group, CG Power, Cox & Kings, Café Coffee Day, Essel group, Essar Power, Vardaraj Cement, Radius Developers, and Mantri Group. Over the period, these companies were facing hardship in running the business and many of these companies were fighting for their life in NCLT under the recently introduced Insolvency and Bankruptcy Code. The following data explains the scenario which leads to the current crisis of the bank:

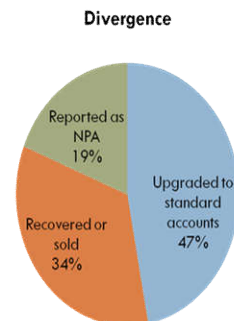
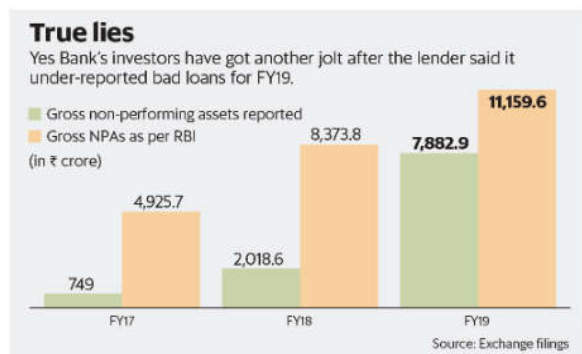
- Ever-growing bad loans and Deteriorating asset quality - NPAs of the bank reported as Rs.40,000 crore in Dec 2019 where about 19% of advances were blocked in these bad loans and NNPA stood at 6% of the loans.
- Capital Adequacy ratio fell to 4.2% from 16.3 %
- Deposits were taken back by the investors where deposits stood Rs.1.37 lakh on March 5th 2020.
- Wide damage from IL & FS crisis laid the foundation of NPA, in which about 11.5% of exposures of YES bank was locked with top two big corporate borrowers.

- Deterioration in financial position of YES bank has sparked the petition to redeem the bonds and taken back deposits.
- Regular flow of liquidity was affected.
- There are about serious governance issues and practices.
- The share prices volatility was one of the obvious reasons.
- YES, Bank did not follow the Norms prescribed by RBI.
- Family quarrels and negligence among the promoters.
- Exit of CEO and his shareholding.
- Socio-economic and Political Scenario played major role in decline of YES bank.

TOP 10 BORROWERS OF YES BANK

Major Borrowers	Amount Involved (Rs. In Crore)
Reliance (ADAG)	12800 crores
Essel	8400 crores
DHFL	4375 crores
ILFS	2500 crores
Jet Airways	1100 crores
Kerkar Group	1000 crores
Omkar Realtors & Developers	2710 crores
Radius Developers	1200 crores
CG Power	500 crores
Bharat Infra, McLeod Russel Assam Tea, Eveready of BM Khaitan Group	1250 crores

Source: Economic Times



YES Bank's Milestone on Crisis – PEAK to PLUNGE

Year	Milestone Incident
2003	Rana Kapoor and Ashok Kapoor Started a bank on approval of RBI as a Private sector Bank, where it should not say no to any corporates who are in need of loan. The name of the bank came as YES bank.
2008	Mr. Ashok Kapoor died in terrorist attack
After 2008 – before 2017	Mr. Kapoor lends more money as advance to big shots
2017 beginning	RBI was not satisfied with the performance of the bank.
September 2018	RBI tried to intervene in the YES Bank operations and removed Mr. Rana Kapoor, CEO and order the bank to finalize the new CEO.
October 2018	RBI refuses the request from Kapoor. YES Bank misses its profit with big margin.
November 2018	4 of the major persons like chairman, Directors resigned. A chairman, 2 independent directors & an external walk out of YES Bank. Very bad rating was given to the bank.
March 2019	New CEO was appointed, which results in increase in share price. RBI levys penalty for non-compliance procedures.
April 2019	YES Bank again faces a loss. There was a serious need of restoration of top management. Ratings were down again.
May 2019	RBI smacks penalty on YES bank for disrupting the norms.

	India Ratings & Research & ICRA gave YES bank with negative ratings. Ex-RBI guy was appointed as a director on YES Bank's board.
June 2019	RBI penalized YES Bank for PPI norms
July 2019	Kapoor took a loan in contrary to his whole stake in the bank. Shares rates gone down
August 2019	A CFO was newly appointed
Nov 2019	A Hong Kong investor was ready to invest a load of money on YES bank. Quarter Results declared a huge loss.
March 2020	RBI took control over YES bank. It instructed the stakeholders not to withdraw more than Rs.50,000. RBI issued Moratorium on bank with limited period.

RBI MORATORIUM

The financial position of YES bank has gone down steadily in past two years because of inability of the bank to raise the capital to face the losses and redeem the bonds. RBI was watching the operations and performance of YES bank and RBI penalized in between for the non-compliance procedures too. After viewing above factors RBI took the control over YES bank in 1st week of March 2020. YES bank did not conclude with any revival plan about creditability, the RBI issued Moratorium on the public interest and interest on bank depositors. RBI restricted withdrawal limit for stakeholders up to Rs.50,000 per account holder. RBI used qualitative control method as Moral Suasion which means an informal suggestion given by higher authority (RBI) to have condition in credit policy. RBI further issued with Scheme of Reconstruction and instructed SBI to invest in YES bank shares and acquire about 49% of stakes. Deputy Managing Directors and CFO-Prashant Kumar of SBI were appointed by the central bank as interim administrator.

RBI Revival Plan to Reconstruct the Yes Bank

Regarding the revival of YES bank, the following are the points were concluded by RBI to constitute a proper and flexible plan.

- The capital of YES bank has to be reconstructed with the guidelines of RBI.
- The investor bank (SBI) can purchase up to 49% of reconstructed bank.
- The investor is not allowed to dilute their holding not less than 26% of before three years.
- Apart from SBI, ICICI and Housing Development Finance Ltd, Axis bank and Kotak Mahindra Bank are ready to invest in YES bank shareholding.
- Employees of the bank remains the same and key personnel will be altered according to investor bank (SBI) involvement.

If the above reconstruction is properly embedded, YES bank will have a revival structure in its old name under the control and supervision of SBI and RBI.

CONCLUSION

YES bank was one of the new generation private banks from the 2004 to 2017 till the bank started to fix the NPA issue. RBI has imposed a temporary plan of moratorium on YES bank to protect the depositors and some restrictions in withdrawal of amount. In order to stabilize the bank, RBI tried with a revival plan for YES bank with Reconstruction Scheme 2020 which was first plan led down by the same. SBI assured the YES bank customers that their interest will be protected with the next move. If the bank moves on the right path, the trust towards banking system by public will be saved. Probably this could be a good opportunity for the RBI to review and revise the Prompt Corrective Actions and guidelines.

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