

Sky High To Rock Bottom: A Case of Yes Bank

¹AKSHITA CHAUHAN

Research Scholar, Apeejay Styta University,
Gurugram, Haryana

²Dr. NIDHI JAIN

Assistant Professor, School of Management Sciences,
Apeejay Styta University, Gurugram, Haryana

Ch.Id:-ASU/NSP/EB/ SBP /2022/Ch-03

doi: <https://doi.org/10.52458/9789391842536.nsp2022.eb.asu.c3>

Yes Bank was founded by Rana Kapur and Ashok Kapur and it obtained the certificate of commencement of business in 2004 with the focus of consumer centric, high quality and service provider bank in India. The headquarter of Yes bank is in Mumbai. Ashok kapur, the non-executive chairman of Yes bank has been killed by the terrorist in the Mumbai attack. Yes bank deals in retail, MSME and corporate banking with its two wholly owned subsidiaries' Yes securities and Yes assets management (India) Limited.

WHAT WENT WRONG IN YES BANK?

In 2008, the executive chairman of Yes bank Mr. Ashok kapur died in the terrorist attack 26/11 in Mumbai. This has changed the functioning of YES bank by 360 degrees. For some additional commission Mr. Rana Kapur gave loan to those company which are either going to be bankrupt or fundamentally weak. Addition to this, Yes bank provide corporate loan in more capacity to the customers. With the time, those company become bankrupt and the NPA of Yes bank increases. Some of those companies are Anil Ambani group of companies, café coffee day, essel group, the zee group, Dewan housing finance corporation Ltd (DHLF) and infrastructure leasing and financial services (IL&FS). The amount of loan is more than its net worth which were unlikely to be recovered and lending went into the state of crisis. In 2018, IL&FS collapsed and Yes bank practically have no way to recover the loan. The stressed assets are underreported in the balance sheet of the bank. In January 2019, RBI appoint Ravneet Gill at the post of chief executive officer of Yes Bank and he disclosed many under reported stressed assets of the bank. On 2019, the Yes bank reported Rs.7882.56 crore of NPA. After this the NPA of Yes bank started rising.

WHAT IS CORPORATE LOAN?

When an existing business needs to generate funds, they apply for corporate loan. Corporate loan can either be secured loan or unsecured loan. Secured loan is those against which collateral security is generated. In case of non-payment of loan, the lender can seize the assets to claim the unpaid loan amount. On the other hand, unsecured loan is those against which no collateral security is generated and for unsecured loan high credit rating is needed.

WITH THE HELP OF AN EXAMPLE:

Bank have a deposit of Rs.100000 and the deposit is divided into corporate loan of RS.10000 for 10 loan. The interest charged is 10% and if 2 loan are defaulted then the loss of Rs.20000 incurred. On the Rs.100000 depositors have to pay interest of 5% i.e., Rs.5000. After the loss of 20000, the loan amount remaining is Rs.80000 bank is earning 10% i.e., 8000. For the profit $8000 - 25000 = -17000$ (loss). This default loss is balanced by the bank through provisions but when the amount of provision is not sufficient to clear the loss then it is converted into non-performing assets.

Table 3.1: NPA of Yes Bank

Year	Net NPA	Net NPA%	Gross NPA	Gross NPA%
2018	1312.75	1	2626.8	1
2019	4484.85	2	7882.56	3
2020	8623.78	5.03	32877.59	17
2021	9813.36	5.88	28609.53	15
2022	1720.84	4.53	2797.6	14

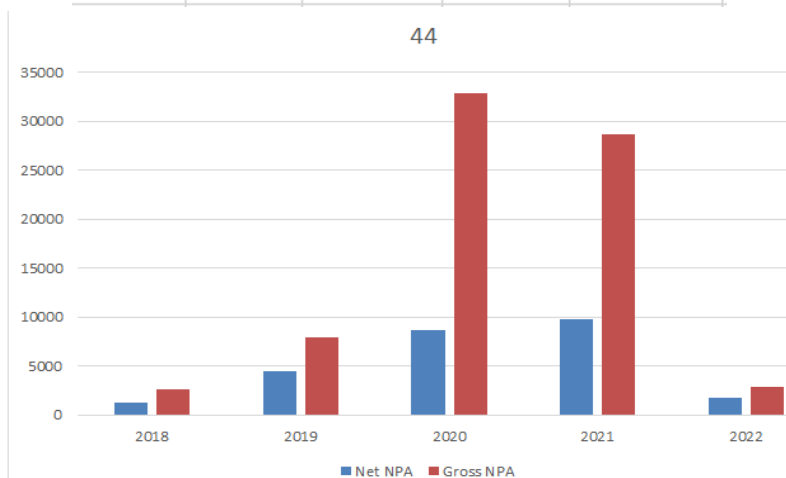


Figure 3.1: Net and Gross NPA of Yes Bank

Source: The Economics Times

As a result, the gross NPA of Yes bank in 2018 is 2626.80 crore and the net NPA is 1312.75 crore. On 2019, the net NPA rises to 4484.85 crore and gross NPA 7882.56 crore. This amount rises at the high rate in 2020 and the gross NPA reported is 32877.59 crore and net NPA 8623.78 crore. In 2021, the net NPA is 9813.36 crore and gross NPA is 28609.53 crore and in 2022, the amount start settling with net NPA of 1720.84 crore and 2797.60 crore of gross NPA.

On 10th January 2020 the independent director and chairman of audit committee Uttam Prakash Aggarwal resigned for his post stating that corporate governance and management practices in Yes bank are deteriorated.

ROLE OF RBI:

Government of India and RBI intervened to save the yes bank from this financial crisis. RBI directed the SBI to lead a consortium. SBI and SBI consortium invested in YES bank. On 5th march 2020 RBI suspended the board of the yes bank and appointed Prashant Kumar as a CEO OF yes bank. When Prashant Kumar joined yes bank the bank have a good amount of NPA and to reduce them either they can keep the provisioning or raise the funds. But for provisioning the bank must have accumulated earnings but yes bank do not have some. Now yes bank can either take more debt or raise equity. Yes bank work on raising equity but this flops as no big investors are ready to invest in the bank because of NPA in balance sheet. For tackle the situation Mr. Prashant Kumar came up with a plan of sell the bad loans to assets reconstructing company. The bad loan of 51000 crore is sell through bids and the bid was won y J.C. FLOWERS & CO. By the end of June yes bank transfer all the bad loan to the assets reconstruction company and become the zero NPA bank.

Through the reconstruction scheme, RBI acquire the necessary control on the management of Yes bank for the public interest. SBI shows the willingness to invest in the Yes bank and become the part of reconstruction scheme. The investors investing in Yes bank are State Bank of India, Axis Bank, HDFC, ICICI bank, Kotak Mahindra bank limited, the federal bank limited and Bandhan bank limited.

QUESTIONS:

1. What factors leads to Yes bank crisis?
2. Brief explain the reconstruction scheme?
3. Role of RBI in the recovery of Yes bank?