Yes Bank Ltd

Yes Bank – the Indian tiger that bit off more than it could chew

Private lender's outsized risk appetite ultimately proved a major vulnerability

Yes Bank's shares have fallen more than 80 per cent over the past year © Manjunath Kiran/AFP/Getty

Amy Kazmin in New Delhi and **Benjamin Parkin** in Mumbai YESTERDAY

Of all the private banks set up during India's go-go-years early in the new millennium, Yes Bank was the most ambitious and aggressive.

Founded by two career banking professionals who married sisters, Yes Bank had a reputation for taking risks spurned by India's more conservative private lenders.

Initially the scale of its ambitions — as embodied by flamboyant managing director Rana Kapoor — made it a darling among foreign investors, who provided Yes with a tide of growth capital as they looked to bet big on India's economic ascent.

Mr Kapoor's grip on the young lender tightened after his co-founder, Ashok Kapur, was killed in the 2008 Mumbai terror attacks.

"A lot of investors thought [Kapoor] was a tiger — he is going out to hunt — and people liked it," recalled one fund manager. "It was an environment where people put a premium on aggression."

But as India's economy deteriorated in recent years, Yes Bank's outsized risk appetite proved a major vulnerability. As some of its biggest customers — including Anil Ambani's now bankrupt Reliance Communications — fell into severe financial trouble, Yes Bank, with $47.5bn in assets, struggled in recent months to raise up to $2bn in fresh capital to shore up its own fragile balance sheet.

With the bank's depositors and corporate bondholders increasingly edgy, time ran out. In a dramatic intervention close to midnight on Thursday, the Reserve Bank of India seized control.

On Friday, the RBI published a draft restructuring plan that will see the State Bank of India — the country's largest public sector bank — invest up to $1.3bn for a 49 per cent stake in Yes Bank, India's fourth-largest private lender, in an attempt to shore it up.

Early on Sunday morning, Mr Kapoor — who was forced by the RBI to step down as the bank's chief in Jan 2019 — was arrested by agents from the Enforcement Directorate, the government agency responsible for investigating financial crimes such as money-laundering and fraud.

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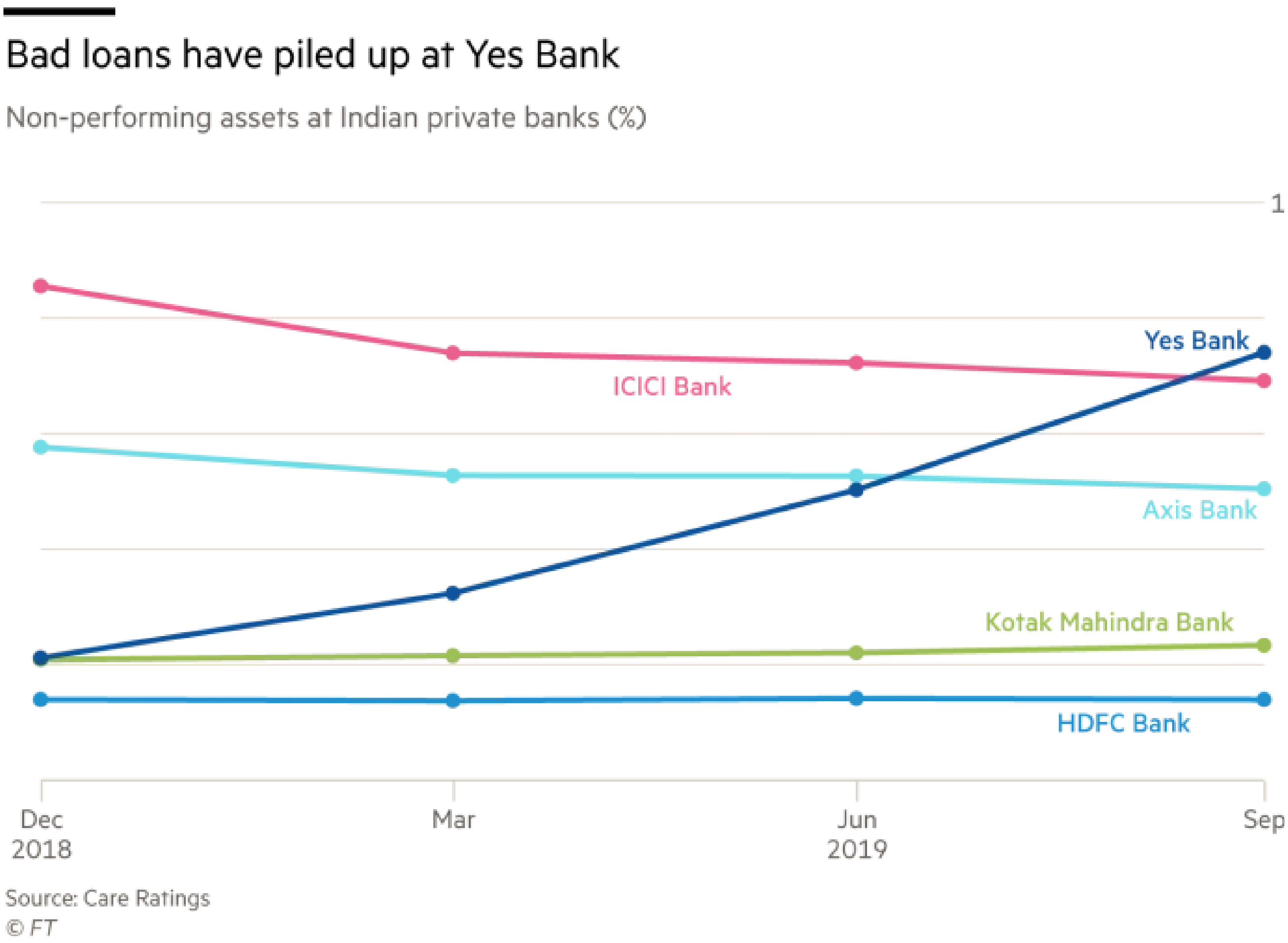
"This is the most widely-anticipated bank collapse of this century," said Saurabh Mukherjea, founder and chief investment officer of Marcellus Investment Managers. "Everyone who invests in the Indian market knew this was an inevitability . . . the shambolic state of the bank was evident."

Yes Bank's ratio of gross non-performing loans jumped to more than 7 per cent in the quarter ended September from 3 per cent in the March quarter, well above that of its rival private-sector lenders.

But the true picture is thought to be far bleaker. Moody's said it expected more of

Yes Bank's loans, around 10 per cent of which are below investment grade, to turn sour and placed the bank's ratings under review.

Analysts say Yes Bank's problems were the result of lending and accounting practices rife in India's banking sector, though Yes probably took them to greater extremes. "The problem is systemic," said Abizer Diwanji, EY's India financial services head. "It is across all the banks we have in the system."



Like many Indian lenders — both public and private, Yes Bank made big loans against collateral that was tough to value or seize, such as virtually unenforceable "personal guarantees" by tycoons.

Yes also collected high one-time "fees" — on top of interest rates — for granting some loans, an income stream that gave it incentives to look more favourably on riskier borrowers that rivals may have spurned.

"He was willing to accept borderline dodgy credits that most banks would not accept," said one analyst, who spoke on condition of anonymity. "The one-time fee would make his numbers look good in a particular year when the loan was made, but subjected it to a huge amount of risk down the line."

Yes was also highly exposed to the real estate market, which was hit hard by prime minister Narendra Modi's 2016 demonetisation move, and troubled shadow lenders like Indiabulls and the now-bankrupt Dewan Housing Finance.

In late 2018, the RBI dismissed Mr Kapoor as the bank's chief executive after accusing the lender of deliberately under-reporting bad loans. Last year, the new management raised around $270m from investors. But it was not enough to overcome the burden of past poor lending practices in a sharply slowing economy.

Mr Modi's government hopes the effective takeover of Yes by SBI will prevent a more dramatic crisis — or even a bank run — that could undermine the banking system. But analysts say it is a bitter pill for SBI as it tries to clean up its own books and accelerate new lending.

"It's going to be a tough one for [SBI] to stomach," said Gaurav Arora, Asia-Pacific banking head at research firm Greenwich Associates. "To infuse so much at this point in time, and then to start opening through layers and layers of books — who knows what is under those books."

Analysts also warn that the intervention — particularly the restrictions on withdrawals — could stoke public doubts about the stability of other private sector banks, whose credit growth rates have recently been higher than public sector lenders still trying to clean up bad debt.

"Clearly, if you're looking at what's happening in the market, the confidence is shaken," said Amit Tandon, founder of Institutional Investor Advisory Services. "It will mean there's going to be a flight of money from the private sector banks to the public sector banks.

"People will feel that if this happens to Yes Bank today it might happen to another of these tomorrow. That has a knock-on effect. It is the private sector banks that have been lending, not the government banks."