

YES BANK: FINANCIAL DISTRESS¹

Riyazahmed K wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On May 15, 2022, a young analyst completed six months of training at a growing financial advisory firm in India, one of the growing financial advisory firms located in Mysore, India. The analyst was now faced with questions from crucial clients; in particular, one inquired about the investment scope of Yes Bank, an Indian private-sector bank that had been experiencing financial trouble in recent years. The client mentioned that there was a difference of opinion among their colleagues regarding the bank's financial situation, and they wanted to know its financial position as well as whether they should consider investing.

Yes Bank had experienced serious financial trouble in 2020 due to mounting non-performing assets (NPAs), and it had faced regulatory actions from the Reserve Bank of India, the central bank that regulated the Indian banking system.² Rana Kapoor, Yes Bank's founder and chairman, had also been arrested and imprisoned due to irregularities in the banking business. As of November 2022, the Central Bureau of Investigation was inspecting his fraudulent business practices. However, analysts believed Yes Bank's overall business would be promising if its internal management and financial shortcomings could be sorted out. As a remedial action, the Reserve Bank of India appointed new management to run the bank.³ Yet, for investors who saw Yes Bank's history of fast growth, doubts remained as to whether the bank had truly emerged from its financial troubles.

The analyst knew that examining Yes Bank's financials was necessary if they were to advise the client on the bank's investment potential. The analyst believed that two tools could help him estimate the bank's financial situation: the probability of financial distress model (PFD model) and the framework known as CAMELS, or the capital adequacy, asset quality, management, earnings, liquidity, and sensitivity framework.⁴ The analyst could start with examining the phases of Yes Bank's growth, its downfall, and the regulatory intervention before moving on to analyzing its financials. With this approach, the analyst could hopefully determine whether Yes Bank was a solid investment for the firm's clients.

¹ This case was written on the basis of published sources only. Consequently, the interpretation and perspectives presented are not necessarily those of the author, Yes Bank, or any of its employees.

² NPAs are debt instruments describing a borrower who has not made any previously agreed-on interest and principal repayments to the designated lender for an extended time (refer to <https://www.investopedia.com/terms/n/nonperformingasset.asp>); Udit Misra, "Explained: How Yes Bank Ran into Crisis," *The Indian Express*, March 10, 2020, <https://indianexpress.com/article/explained/how-yes-bank-ran-into-crisis-rana-kapoor-arrest-6307314/>.

³ India TV Business Desk, "Prashant Kumar Appointed as New CEO of Yes Bank," India TV News, March 14, 2020, <https://www.indiatvnews.com/business/news-prashant-kumar-yes-bank-new-ceo-appointed-q3-results-scheduled-598117>.

⁴ CAMELS is an international rating system used by regulatory banking authorities to rate financial institutions according to the six factors represented by its acronym (refer to <https://www.investopedia.com/terms/c/camelrating.asp>).

THE JOURNEY SO FAR

Kapoor founded Yes Bank in 2003, and the company made its public issue debut in 2004 after listing its shares on the leading stock exchanges in India: the National Stock Exchange and the Bombay Stock Exchange. Later, the bank saw phenomenal growth in various business segments, namely corporate banking, retail banking, treasury banking, and other banking operations. Over the next few years, Yes Bank became one of the leading private sector banks in India, garnering numerous awards and recognition (see Exhibit 1). Yes Bank's vast growth was visible in its expansion and fund procurements from 2004 to 2016.⁵ Many of its inconsistent financials came to light in 2017, and once the NPAs were found to be numerous, those financials were widely considered very alarming. In addition to commercial banking, Yes Bank effectively operated its investment banking, merchant banking, and brokerage businesses through Yes Securities, the bank's wholly owned subsidiary.⁶

DOWNFALL AND REGULATORY INTERVENTION

In 2017, Yes Bank's story began to get more complicated.⁷ The Reserve Bank of India noticed an increasing number of bad loans in Yes Bank's reports. After tracing irregularities in its business operations, the central bank asked Kapoor to step down from management. This caused widespread panic among investors and impacted the bank's credit rating as well. One of the major causes of mounting bad debts was the bank's business model of lending loans to high-risk corporate customers. In 2014, Yes Bank's financial statements reported loans worth ₹556.33 billion and deposits worth ₹741.92 billion.⁸ During 2015, global financial services firm UBS reported that Yes Bank had extended loans that exceeded its net worth in value to companies that were unlikely to repay.⁹ Further, it had extended loans to financially unstable companies that later got into serious financial distress or went bankrupt, including Dheewan Housing Finance Corporation Limited, Café Coffee Day, Essel Group, and Reliance Group.¹⁰

Likewise, Yes Bank had around 25 per cent of its loans extended to non-banking financial companies, real estate companies, and companies in the construction sector, all of which were significantly affected by India's poor economic performance between 2017 and 2019. By the end of 2019, Kapoor had sold his whole stake in Yes Bank for ₹1.42 billion. By that time, the value of outstanding loans had grown to ₹2.41 trillion. In the process of increasing sales, the quality of loans seriously deteriorated, and Yes Bank's gross NPAs were estimated at ₹400 billion. While gross NPAs were around 19 per cent of advances, net NPAs were estimated at 6 per cent of total loans.¹¹

The Reserve Bank of India intervened in Yes Bank's operations by superseding the board of directors and imposing a moratorium of 30 days for withdrawals by depositors and payment to creditors.¹² This created fear among depositors, and they started withdrawing their money, which led to a bank run. However, the

⁵ Yes Bank, "Annual Reports," accessed May 5, 2022, <https://www.yesbank.in/about-us/investors-relation/financial-information/annual-reports>.

⁶ Yes Bank, "Investor Relations," accessed May 5, 2022, <https://www.yesbank.in/about-us/investor-relations>.

⁷ Pooja Dilip Pawar, "An Analysis of the Yes Bank Crisis," iPleaders, March 31, 2021, <https://blog.ipleaders.in/analysis-yes-bank-crisis/>.

⁸ ₹ = INR = Indian rupee; US\$1 = ₹77.58 as of May 2022.

⁹ Remya Nair, "Fears of Crisis at Yes Bank over Dodgy Loan Book Were Raised as Far Back as 2015," *The Print*, March 6, 2020, <https://theprint.in/economy/fears-of-crisis-at-yes-bank-over-dodgy-loan-book-were-raised-as-far-back-as-2015/376956/>.

¹⁰ "What is [the] Yes Bank Crisis?," *Business Standard*, accessed on May 5, 2022, <https://www.business-standard.com/about/what-is-yes-bank-crisis>

¹¹ Anup Roy, "Rana Kapoor Sells Entire Yes Bank Stake; Holds Shares Worth Rs 57,600," *Business Standard*, November 20, 2019, https://www.business-standard.com/article/finance/rana-kapoor-sells-entire-yes-bank-stake-holds-shares-worth-rs-57-600-119112000323_1.html.

¹² Reserve Bank of India (RBI), "Yes Bank Ltd. Placed under Moratorium," press release, March 5, 2020, https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=49476.

reserve bank once again intervened and capped withdrawals at ₹50,000 per customer. Later, Indian Finance Minister Nirmala Sitharaman informed parliament that the State Bank of India, one of the country's leading public sector banks, would take a 49 per cent stake of Yes Bank as part of a reconstruction scheme. However, the State Bank of India strongly denied any possibility of a merger.¹³

STOCK PERFORMANCE

The financial and operational weaknesses of a business were reflected in its share prices, and Yes Bank's stock was highly volatile in 2017 before falling during 2018 and 2019 and reaching its nadir (the worst moment of a particular situation) in 2020; it never experienced substantial gains again (see Exhibit 2). From its all-time peak of around ₹350 in 2018 to its low of ₹16.15 in March 2020, the share had lost approximately 95 per cent of its value in three years and would descend further still. As of May 2022, it was trading at around ₹13. During the same period (2018–2020), the Nifty Bank, an index of the banking stocks listed on the National Stock Exchange, appreciated by 15 per cent. Likewise, between May 2021 and May 2022, Nifty Bank increased by 12 per cent, while Yes Bank's stock experienced no significant shift.¹⁴

OVERCOMING FINANCIAL TROUBLE

As of May 2022, Yes Bank's shares were trading at a very low price.¹⁵ Consequently, it was possible that they would provide a wonderful investment opportunity if the bank exhibited solid future financials and business performance. However, the analyst felt that this was primarily dependent on the bank's ability to overcome its ongoing financial distress. The new management appointed by the Reserve Bank of India had shown progress in managing financial issues, but it remained unclear if the bank was out of financial trouble.

Faced with questions from crucial clients of the financial advisory firm, the analyst needed to determine the potential of investing in the bank, deciding that applying both a CAMELS analysis (see Exhibit 3 and Exhibit 4) and the PFD model to the reported statements would reveal Yes Bank's true financial position. The CAMELS framework could be employed to investigate the financial situation of a banking entity by ranking its performance in each of the framework categories between one and five; an overall ranking of less than two indicated good performance. Likewise, the PFD model could be used to estimate the possibility of a bank's going bankrupt within 12 months by using a logit regression model.¹⁶ The analyst hoped that the possibility of a turnaround in the financials could be determined and the clients could be advised regarding Yes Bank's investment potential.

¹³ Divyesh Singh and Sharat Kumar, "RBI Caps Withdrawals from Yes Bank to Rs 50,000: Panicked Depositors Line Up Outside ATMs, Police Issue Alert," India Today, March 6, 2020, <https://www.indiatoday.in/business/story/rbi-caps-withdrawals-from-yes-bank-to-rs-50-000-panicked-depositors-line-up-outside-atms-police-issue-alert-1652883-2020-03-05>.

¹⁴ "Security Wise Archives (Equities)," *National Stock Exchange*, accessed on May 5 2022, https://www1.nseindia.com/products/content/equities/equities/eq_security.htm.

¹⁵ "Yes Bank Ltd.," Money Control, accessed on May 5 2022, <https://www.moneycontrol.com/india/stockpricequote/banks-private-sector/yesbank/YB>.

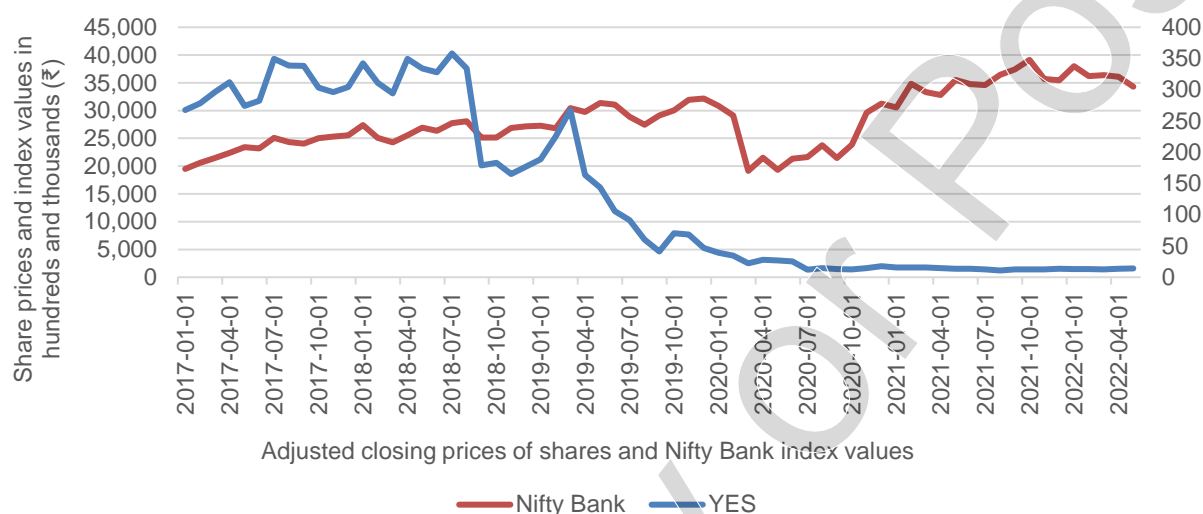
¹⁶ "Guru Focus," New Calculation: The Probability of Financial Distress," *NASDAQ*, December 5, 2017, <https://www.nasdaq.com/articles/new-calculation-probability-financial-distress-2017-12-05>.

EXHIBIT 1: YES BANK'S GROWTH PHASES

YEAR	Particulars
2005	Yes Bank receives the Corporate Dossier Award from <i>The Economic Times</i> .
2006	Yes Bank receives India's Best Bank Award from <i>Financial Express</i> .
2007	To offer insurance products on a massive scale, Yes Bank enters into a joint venture with the Agricultural Insurance Company of India Ltd, a nationalized insurance company owned by the Indian Ministry of Finance.
2008	Yes Bank receives a Sustainable Banking Award in Washington and an Emerging Markets Sustainable Bank of the Year Award (Asia/Pacific) in London, both conferred by International Finance Corporation. Further, it is recognized as the best bank by <i>Business Today</i> -KPMG's Best Banks Survey.
2009	Yes Bank opens 50 new branches and 18 automated teller machines.
2010	Yes Bank opens 64 new branches.
2011	Yes Bank reveals its vision to build the best quality bank in the world in India by 2020. In pursuit of this vision, it announces plans to open 750 new branches and 3,000 automated teller machines, and it also intends to hire 12,000 employees. It plans for deposits to reach ₹1,000 billion and loans to reach ₹1,500 billion by the end 2015. This is one of the bank's most aggressive growth phases.
2013	Yes Bank procures US\$255 million through a dual currency, multi-tenor syndicated foreign currency loan. It also raises dual-tranche US\$150 million from the International Finance Corporation in Washington for the tenors of two and seven years.
2014	Yes Bank raises US\$34 million through a long-term senior loan agreement with a six-year tenor. In partnership with Transfast, a leading international money transfer company, it announces the launch of online money transfer services running on the core platform of the National Payments Corporation of India. Further, the bank raises a US\$200 million unsecured loan facility from the Asian Development Bank.
2015	Yes Bank issues India's first-ever Green Infrastructure Bonds to raise ₹10 billion. Its so-called greenshoe option, worth ₹5 billion-plus, enjoys strong demand from leading investors, including insurance companies, pension and provident funds, foreign portfolio investors, new pension schemes, and mutual funds, resulting in a total subscription of ₹10 billion. The board of directors approves an increase in foreign institutional investors and foreign portfolio investors from 49 per cent of share capital to 75 per cent. The bank also procures ₹15 billion tier II bonds compliant with Basel III.
2016	Yes Bank receives approval from the Securities and Exchange Board of India to sponsor a mutual fund and set up an asset management company and a trustee company. It also acquires five lakh equity shares of Institutional Investor Advisory Services from the Bombay Stock Exchange, which is 5.006 per cent of the firm's paid-up capital.
2017	Yes Bank issues additional perpetual subordinated unsecured non-convertible tier I bonds for ₹30 billion, also Basel III compliant. The bank further issues a greenshoe option to retain oversubscription to the extent of an additional ₹300 billion. It is also entering into the 30-company S&P BSE Sensex, the major market index of the Bombay Stock Exchange, which includes the top 30 companies in different sectors of the economy.

Note: ₹ = INR = Indian rupee; US\$1 = ₹77.58 as of May 2022. Basel III is an international regulatory accord that introduced a set of reforms designed to mitigate risk within the international banking sector (refer to <https://www.investopedia.com/terms/b/basel-iii.asp>).

Source: Author's preparation based on information from "Yes Bank Ltd – Company History," *Business Standard*, accessed May 5, 2022, <https://www.business-standard.com/company/yes-bank-25267/information/company-history>.

EXHIBIT 2: SHARE PRICES OF YES BANK VERSUS NIFTY BANK INDEX (2017–2022)

Note: ₹ = INR = Indian rupee; US\$1 = ₹77.58 as of May 2022.

Source: Author's calculations based on January 2017–May 2022 data retrieved from "Nifty Bank (^NSEBANK)," Yahoo Finance, accessed May 7, 2022, <https://finance.yahoo.com/quote/%5ENSEBANK/history?period1>.

EXHIBIT 3: YES BANK'S INCOME STATEMENT (IN ₹ MILLIONS)

	2017	2018	2019	2020	2021
INCOME					
Interest Earned	164,250.00	202,685.90	296,238.00	260,520.20	200,392.80
Other Income	42,178.00	52,931.50	46,754.80	119,561.00	34,361.10
Total	206,428.00	255,617.40	342,992.80	380,081.20	234,753.90
EXPENDITURE					
Interest Expended	106,265.30	125,294.30	198,112.90	192,580.60	126,109.30
Payments to/Provisions for Employees	18,402.40	22,346.60	25,381.10	26,913.20	25,172.50
Operating Expenses & Administrative Expenses	7,073.00	8,489.50	8,638.80	8,663.50	7,565.30
Depreciation	1,726.10	2,323.60	3,054.50	3,419.30	3,600.30
Other Expenses, Provisions, & Contingencies	22,426.60	35,118.10	84,315.40	356,886.40	119,924.20
Provision for Tax	18,395.50	22,439.20	23,009.70	13,379.10	—
Deferred Tax	-1,259.70	-2,726.00	-16,612.30	-57,435.30	-12,728.50
Total	206,428.00	255,617.40	342,992.80	380,081.20	234,753.90

EXHIBIT 3 (CONTINUED)

	2017	2018	2019	2020	2021
PROFIT & LOSS					
Net Profit	33,398.90	42,332.20	17,092.70	-164,325.80	-34,889.30
Net Profit after Minority Interest & P/L Asso. Co.	33,398.90	42,332.20	17,092.70	-164,325.80	-34,889.30
Extraordinary Items	0.1	-8.2	0.1	3.3	-34.6
Adjusted Net Profit	33,398.80	42,340.40	17,092.60	-164,329.10	-34,854.70
Equity Dividend (%)	120	135	100	0	0
Dividend per Share	12	2.7	2	0	0
Dividend per Share Adj.	2.4	2.7	2	0	0

Note: P/L = profit and loss; Assoc. Co. = associated companies; Adj. = adjusted; ₹ = INR = Indian rupee; US\$1 = ₹77.58 as of May 2022.

Source: "Income statement," Capitaline, accessed May 1, 2022, <https://awsone.capitaline.com/index.html#/Company/Condensed/condensed?section=ProfitLoss>. Capitaline is a subscription-based database.

EXHIBIT 4: BALANCE SHEET OF YES BANK (IN ₹MILLIONS)

	2017	2018	2019	2020	2021
SOURCES OF FUNDS					
Capital	4,564.90	4,605.90	4,630.10	25,100.90	50,109.80
Reserves Total	215,831.40	252,919.10	264,244.00	191,848.70	281,273.10
Deposits	1,428,574.40	2,006,886.00	2,275,579.00	1,053,111.70	1,628,459.30
Borrowings	386,066.70	748,935.80	1,084,241.10	1,137,905.00	639,490.80
Other Liabilities & Provisions	115,559.40	111,149.60	179,901.90	170,355.30	136,601.30
TOTAL LIABILITIES	2,150,596.80	3,124,496.40	3,808,596.10	2,578,321.60	2,735,934.30
APPLICATION OF FUNDS					
Cash & Balances with RBI	69,520.70	114,257.50	107,977.40	59,436.50	68,127.90
Balances with Banks & Money at Call	126,025.90	133,280.70	161,871.90	24,867.00	225,124.60
Investments	499,818.00	682,934.40	893,285.30	437,478.00	431,146.50
Advances	1,322,626.80	2,035,188.30	2,413,971.90	1,714,330.90	1,668,048.60
Fixed Assets	6,867.90	8,373.00	8,298.90	10,233.80	21,583.80
Other Assets	125,737.60	150,462.80	223,190.70	331,975.30	321,903.00
TOTAL ASSETS	2,150,596.90	3,124,496.70	3,808,596.10	2,578,321.50	2,735,934.40
Contingent Liability	3,793,981.60	5,815,359.80	6,538,632.50	4,582,061.50	4,592,624.90
Bills for Collection	13,900.00	19,355.60	50,592.40	51,201.90	22,140.50

Note: RBI = Reserve Bank of India. ₹ = INR = Indian rupee; US\$1 = ₹77.58 as of May 2022.

Source: "Balance sheet," Capitaline, accessed May 1, 2022, <https://awsone.capitaline.com/index.html#/Company/Condensed/condensed?section=balancesheet>. Capitaline is a subscription-based database.