

The Fall of Yes Bank

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EXECUTIVE SUMMARY

This case study focuses on a major challenge faced by Yes Bank as a result of increasing NPAs, a 30-day moratorium imposed by the RBI on its operations, and withdrawal limits of Rs. 50,000 from their accounts. This situation downgraded the value of the bank and built a bad image among its customers. Yes Bank was the UPI companion for almost 20 apps, according to the National Payments Corporation of India (NPCI). However, as a result of its failure, Yes Bank has suspended most of its UPI accounts. Now the government is trying to fix the problem and looking into what went wrong at Yes Bank. Altman's Z-Score, developed by American professor Edward Altman in 1968, is a numerical measurement that can be used to predict the chances of bankruptcy, and after calculating the z-score, it is possible to conclude that Yes Bank is still safe from going bankrupt.

INTRODUCTION

Rana Kapoor, co-founder of Yes Bank, was arrested on Saturday, March 7, 2020, two days after the collapse of the Yes bank. The Directorate of Enforcement arrested him on suspicion of money laundering and for the disbursement of 4300 crores in loans to corporate entities that had allegedly turned NPAs. According to an Indian Express report, nearly Rs 34,000 crores was sanctioned by Yes Bank against 44 companies, including its top ten defaulters by Rana Kapoor.

These defaulters include the Anil Ambani Group, Essel, Dewan Housing Finance Limited, Cox & King, Radius Developer Omkar Group, and others. The names of the companies and the respective loans given to these defaulters are given in the below table no. 1.

Table 1. Companies and loan amounts

| Company | Loan Amount (Rs. In Crores) |
|-----------------------------|-----------------------------|
| Reliance (ADAG) | 12800 |
| Essel | 8400 |
| DHFL | 4375 |
| ILFS | 2500 |
| Jet airways | 1100 |
| Kerkar Groups | 1000 |
| Omkar Realtors & Developers | 2710 |
| Radius Developers | 1200 |
| CG Power | 500 |

Source: Economic Times

Some other big defaulters include Jet Airways, Cox & Kings and Go Travels, Bharat Infra, McLeod Russell Assam Tea, and many more. The list of companies to whom Yes Bank gave loans, such as infrastructure, real estate, and the financial sector, and their bad loan-paying capacity reflect the bank's vulnerability to the most stressed banks. Even Ranveet Gill (Yes Bank's reappointed MD and CEO) confirmed that the bank had granted a large amount of loans to many corporate entities that were experiencing stress and liquidity problems.

Yes Bank flourished in the market until 2017, but its NPA hoarded due to bad loans. This fiasco leads to uprising NPA's. According to the RBI, YES Bank's NPAs were seven times the true reported amount in their reporting account books in 2020. After this news, the stock market plummets drastically. To prevent the further downfall of Yes Bank, the RBI joined Yes Bank and its management. Still, the bank has been distressed by the NPA problem.

YES BANK FAILURE

The NPA problem is directed to vast trouble because companies such as Jet Airways, Cox & King, CCD, Essel, DHFL, and others had no strategy for repaying their outstanding amounts to the bank and were not secure in their reserves. The amount owed by Yes Bank increased from INR 55,000 crores in FY14 to INR 2.41 trillion during FY19.

Yes Bank was put on moratorium by the regulatory body and India's Central Bank, RBI, on March 5, 2020. As per these guidelines, the people who have an account at Yes Bank were allowed to withdraw only INR 50,000, and this was persistent until April 3, 2020. The government imposes a 30-day moratorium on its operations and limits withdrawals to 50,000 from their accounts, except for emergencies such as medical expenses, higher education expenses, and marriage outlays. This crisis devaluated the value of the bank and created a bad image among customers. Several fintech firms, such as Phone Pay and Bharat Pay, which exclusively relied on Yes Bank for their UPI-based dealings, were caught off guard, with millions of their consumers witnessing disruptions in their services during the period of the moratorium. Let's have a look at the table of gross NPA, net NPA, and return on assets, which is given below in table no. 2.

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