

Study of Regulatory Role and Investors' Protection During the Banking Sector Crisis of 2020 in the Indian Economy: Case of Yes Bank

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EXECUTIVE SUMMARY

The case provides an opportunity to evaluate the accuracy of business performance and financial position of Yes Bank, the situation of window dressing in financial statement, and the regulatory role to ensure the investors' protection of Yes Bank, as well as analyzes the role of promoters and different regulators for influencing the retail investors' interest during study period. The major findings of the case indicate that regulators, auditors, independent directors, and rating agencies did not play their effective and active role in preventing unlawful and unethical activities like window dressing regarding business performance and financial position in the financial statements of Yes Bank by promoters and financial manipulators. Retail investors lost their wealth more as compared to other investors. However, RBIs played a critical and remarkable role to avoid complete failure through restructuring of Yes Bank.

INTRODUCTION

Yes Bank is a 7th largest Indian private sector bank which provide the 'Full Service Commercial 'Bank' such as consumer loans, commercial loans MSMEs loans, rural and agri loans. Wealth management, Insurance, technology driven digital offerings, Yes Pay Wallet and various programmes like Yes Premea, Yes First, etc. It has its a wholly owned subsidiary namely Yes Securities that operates its investment banking, merchant banking and brokerage businesses. It's headquartered is in Mumbai, and a Representative Office in Abu Dhabi. In present the Bank is making digital investments and maintaining the highest

governance and risk management standards. The Bank is also targeting on identifying emerging rural markets to increase value growth and drive profitability and selective opportunities in the infrastructure lending.

Along with his two colleagues Mr Ashok Kapur and Mr Harkirat Singh, Rana Kapoor applied for a license to start YES Bank in India in 2003. The licence was received in 2004 and the initial public offering (IPO) of Yes Bank was bought in June 2005 and the size of the issue was ₹ 315 crore with offer price ₹ 38- ₹45. In 2003, Mr Harkirat Singh quit yes bank due to appointment of Mr Ashok Kapur as non-executive chairman without his consent while Mr Ashok Kapur who held nearly 12 per cent in the bank was killed in 2008 during the 26/11 terror attack. In this way, Mr Rana Kapoor became the lone founder member inescapable at YES Bank since November 2008 and he became aggressive lender and 'lender of the last resort' by offering loans to corporate in their requirements as well as charging and offering higher interest than other banks.

On July 31, 2018, YES Bank share price was at peak with ₹368 due to Mr Rana Kapoor's marketing penetration strategies and market campaign like 'India bole Yes'. But, even than its non-performing asset (NPA) were mounting due to bad loans account like Kingfisher Airlines, Vijay Mallya and Decan Chronicles. Due to news, 'not letting Rana Kapoor continue in his current post beyond January 31, 2019' there was a decline of 29,92% in the share price of yes bank in a single day while the yes bank's management talking to legal advice on this RBI and Central Government decision. Afterwards, the truth of Yes bank started to come in public domain as bad news.

However, from November 2019, a lot of problems like recession, unemployment, Covid-19 and other economic indicators were reported negatively aggressively and share market was falling continuously and the market price of yes bank share is also falling. There was a series of failures of the Non-Banking Financial Companies (NBFCs) namely Dewan Housing Finance Ltd. (DHFL)& IL&FS etc.and the crisis in Indian banks such as PNB bank and PMC Bank during banking sector crisis 2020 was in the news. The case of Yes bank was different than others that involve corporate fraud instead of mismanagement and performance issue, the restructuring of Yes Bank come into force on March 13, 2020 as an effective rescue measure taken by Reserve bank of India (RBI).

First Bad News on Yes Bank and Regulatory Role

The First Negative Report on Yes Bank was published by UBS International financial services in 2015 regarding the asset quality of YES Bank's books. Further it is very interesting that Rana Kapoor quickly filed a complaint against the international firm with the capital market regulator. He tried to manage the bad news by saying that the findings of the USB firm's research are biased and impractical. Due to inefficiency and inactive role of regulatory, he remained successful.

Investors' Protection, Global Research Firm and Regulatory Role

The role of regulatory bodies and global research firm can be judged by the analysis of the impact of bad news:

- i. How much is Yes Bank worth? Re 1, say Macquarie,
- ii. JP Morgan cuts YES Bank target to Re 1 after stake sale report, March 5, 2020 / 06:47 PM

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