PGDM & IB Batch 2019-21

Financial Services, Products, and Markets

Subject Code: DM-312/IB-315

Trimester III, End Term Examination: June 2020

The case is based on two news articles reproduced below, followed by three questions of 10 marks each. Your answers should not be restricted to the information given below in the case. Do not include any nCOVID19 perspective and avoid a negative bias in your answers.

News Article 1: The Economic Times

10th March 2020: State Bank of India (SBI) will submit its rescue plan for Yes Bank within a week to the Reserve Bank of India (RBI) that will likely entail a maximum investment of Rs 6,000 crore for a 26% stake. The plan may involve a similar amount to be invested by a group of global investors, said people aware of the matter. The RBI is also firming up plans to provide liquidity support of at least Rs 8,000-10,000 crore to stem any flight of deposits once the moratorium on Yes Bank is lifted. "RBI governor Shaktikanta Das and SBI chairman Rajnish Kumar met on Monday to firm up the plans on Yes Bank's reconstruction scheme. Liquidity support from the RBI for Yes Bank is also on the anvil," said one of the persons. "The RBI liquidity line could be against a pledge of securities of similar value. The details are being worked out." RBI-appointed administrator Prashant Kumar confirmed that Yes Bank had the support of RBI and SBI. "We have full support from the RBI as far as liquidity is concerned. There is no issue whatsoever," he said. ET reported March 9 that SBI is in talks with more than half-a-dozen investors, including Blackstone, Brookfield, Carlyle, TPG, KKR, JC Flowers, and Goldman Sachs, for a potential investment in Yes Bank. The plan is to infuse fresh equity into the bank and have three-four marquee investors along with SBI and a few domestic institutions and individuals. SBI is keen to have external investors put in as much as Rs 15,500 crore but the timeline of one week is believed to have deterred some. The RBI, which superseded the Yes Bank board and imposed a 30-day moratorium on Thursday, announced a draft reconstruction plan that entails an equity investment of up to 49% by SBI. As per RBI's draft scheme, the state-owned lender is required to hold a minimum of 26% in Yes Bank for at least three years. Analysts estimate that the maximum of Rs 10,000 crore that SBI plans to invest in Yes Bank is less than half of what it needs to stay afloat. The beleaguered bank will need at least Rs 22,000 crore, half of which will have to come from non-SBI investors. The magnitude of the provisions required by the bank has prevented investors from infusing funds in the past.

News Article 2: The Financial Express

17th March 2020: State Bank of India (SBI) chairman Rajnish Kumar on Monday said that investment in troubled private lender Yes Bank was made to provide price stability to the financial system, and not for returns. Rajnish Kumar on Monday said that investment in troubled private lender Yes Bank was made to provide price stability to the financial system, and not for returns. He was speaking on the sidelines of the SBI Card listing on Monday. He said: "investment in Yes Bank by SBI and other banks is not based on return on investment

(RoI) principles but guided by providing price stability to the financial system." Yes Bank disclosed on Saturday that the public sector lender had invested Rs 6,050 crore in Yes Bank. This investment, however, is lower than the earlier commitment of SBI to invest Rs 7,250 crore in Yes Bank. The public sector bank and seven other lenders have invested Rs 10,000 crore in Yes Bank. While <u>ICICI Bank</u> and HDFC have invested Rs 1,000 crore each in Yes Bank, <u>Axis Bank</u> has invested Rs 600 crore in the troubled private lender. Similarly, <u>Kotak Mahindra Bank</u> has invested Rs 500 crore, and Federal Bank and <u>Bandhan Bank</u> invested Rs 300 crore each. IDFC First invested Rs 250 crore. The government disclosed on Friday that investors would not be able to sell 75% of their holding in Yes Bank for three years. Yes Bank on Saturday posted its worst-ever results for a private bank, by disclosing a quarterly loss of Rs 18,564 crore. The gross non-performing loans (GNPAs) stood at 18.87% of the total loans. In absolute terms, gross NPAs remained at Rs 40,709 crore.

Millions of depositors are at stake. The media is blaming the Reserve Bank of India for this default. Put yourself in the shoes of the RBI Governor and answer the following questions:

- 1. Other than taking investments from SBI and other investors, what are the options available to save Yes Bank from failing? Provide 3 suggestions
- 2. Not very long ago, two listed companies in the BFSI sector IL&FS and DHFL did not get any bailout from the regulators or any investor leading to their failure. Both of these and Yes Bank have been accused of corporate fraud. Why is regulator wanting to save Yes Bank? What is different in Yes Bank which was absent in IL&FS and DHFL? Why do you think it is important to save Yes Bank Limited from failing?
- 3. Debt funds are typically considered safer than equity investments. A lot of debt funds had exposures to Yes Bank bonds. What can be done to protect the unitholders and avoid the contagion?