Yes Bank is in a position to deal with mishaps better: Rajat Monga

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Rajat Monga's stint at Yes Bank is as old as that of the lender itself. Perhaps, few in the professional hierarchy know the bank better. As the bank readies for a change at the top, senior group president Monga tells *Joel Rebello and MC Govardhana Rangan* that things can only get better for the private-sector bank. Edited excerpts:

How have your clients been affected by what has happened in the last few months?
Between August-end, when these issues came up, and November-end, our loans grew 5% to 6%, and time deposits also grew similarly. My savings account grew 6%, and current account by 3% to 4%. Certificate of deposits fell 50% also because the pricing expectations of mutual funds went up; so we relaxed on that book. In prior quarters, we might have grown strongly like we grew 50% to 60% in the recent quarters because there was a huge opportunity as most banks were dealing with their own issues and we had just raised capital in 2017. So, we could bank the parties that were buying assets either through M&A or NCLT.

One of the concerns for investors is the vulnerability of the bank because of the change in the liquidity scenario…
There will be some natural reaction from the investors who hold the stock and there is a need for the bank to keep communicating with the depositors. If you just look at our financial construct, we are among the best three in terms of NPAs, we have one of the most profitable bank businesses, so we can also afford (to manage) the mishaps better. For depositors, we will make sure they can get their money whenever it is required; so we will keep them well stocked, in fact over stocked, in these circumstances. We will facilitate the customers to exercise their right and as long as they are getting their money when they want, the situation is as normal as it should be.

What about equity investors who have been hit by things like divergence?
We have published divergence twice in April 2017 and in October 2017 for March 2016 and March 2017. The stock reacted both times but it was back to normal a few months down the line. Divergence means the regulator has looked at my books and they are giving their opinion on compliance — not on how good or bad the loan or collateral is. Like if you restructure a loan under the allowance of change of ownership and if the change of ownership is disallowed, then the loan becomes a NPA.

If you look at the risk, a new owner has already put in equity; so it is not a problem. Like loans that are fixed deposit-backed, but they may be covered for only principal and not interest. This can be divergence but not a credit risk for me. A good part of our divergence is simple preventive management. If we know what has to be done to clearly satisfy the requirements that can be done.

If we can identify faults on time, we can fix them. We have done well to lend to the right mix of collateral. You will find us hardly on the large thermal cases…So these are the through processes which led us to where we are. We have almost negligible restructured loans.

What is it that makes you stand out in terms of recovery?
It starts with the collateral you have. If collateral is good, the chances of recovery are high. Like if we finance a cement business which needs cash flow injection. We could take the captive power plant as exclusive charge and will give top up financing against that. If things go awry, the captive power plant can be sold to a strategic holder and a PPA could be signed. The collateral determines the recovery. If you have access to better collateral, then prospects of recovery are better. Like in Fortis, our design of financing was linked to collateral (that was) the performing part of their business, though loans may have been given to not so performing part of their business. So we have NPA situation in the Fortis group but we still have strong collateral. Sometimes you have to go through an NPA to recovery.

The bank has been seen as a oneman show…Rana Kapoor. He's on his way out. What to expect when there's a change?
You might be discrediting the management. The market has a right to have an opinion, but we have to look at facts. A bank is a large

business, it cannot be a one-man show. But you also cannot deny a CEO his role. He has to take the final decision on executive matters, not board maters, not strategic matters but on executive matters he has to take the final decisions. We have a structured products team of 30 to 40 people who assess the risks and reward and recommend to the internal management. It does not stop with one man, a lot of our underwriting is approved by the board. We have a board level credit committee and about 30% to 40% of the bank's loans are approved at the board level, which is half of the corporate loans.

So there is also the board involvement and a separate risk management team. So it is not one man's job, but that man's job is definitely to lead and guide the teams to a desirable outcome. In any bank, you take away the CEO and you will have the same issues. If you take away the CEO and there is no perceived risk then I might say the CEO was not hands-on. Is that the type of management you would want? Could we have planned for a succession which was seamless? Naturally there are people in the bank who can succeed in that role but the board also wants to look outside, which takes more time.

But there is enough management bandwidth… a lot of them have been 10 to 12 years in the bank. They have been business heads for a decent period. Whoever is the new CEO will find a very smooth execution platform. But we will still have to give him the job of leadership, strategy, planning, guiding and executing, and the rest of the team will compliment.

Will the new CEO face some surprises?
Why should he? And why are those surprises not yet already there? We have gone through a process of assessment by the regulators, auditors and also monthly exercises. If something is passing all the tests, why should there be a surprise? There is enough governance that goes behind what we show. It is not someone is putting a number he likes. But that does not mean there will no NPAs in the future. Today, borrowers are passing the test of cash flows and higher diligence and that is how we are publishing our numbers and if something is not passing the test, we are calling it NPA. The new CEO may also be positively surprised because from the outside he might be thinking something else. Employees also tend to have a sentiment because we look like a younger, aggressive bank from outside. The toughest job of the new CEO will be the job of making decisions because the buck stops there unlike some other banks.

If there is a CEO from the outside what will be your role?
That's a presumption…I already have a role which will continue if there is CEO from the outside. If there is someone from inside, he will have to take more responsibility and his own responsibilities will have to be relooked at, which will lead to some rebalance inside.

The bank has gone through a lot of disruptions. But how has business been?
Business has been relatively normal. The noise has been more topical because the changes are happening at the board level. The business of the bank has been as normal as can be, given the circumstances.

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