

# While SBI's faith is good, Yes Bank rescue needs an RBI push

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State Bank of India (SBI) has been involved in some of India's bank rescue missions in the past. So, when SBI chairman Rajnish Kumar said that Yes Bank won't be allowed to fail, investors took it as a sign that something was in the works. After all, Yes Bank has not been able to raise capital despite several efforts.

It didn't look like a stretch for the market to believe that the ball would finally land in Kumar's court. Surely, the state-backed behemoth can easily swallow a battered private bank.

But has it really come down to the last resort of a merger for Yes Bank?

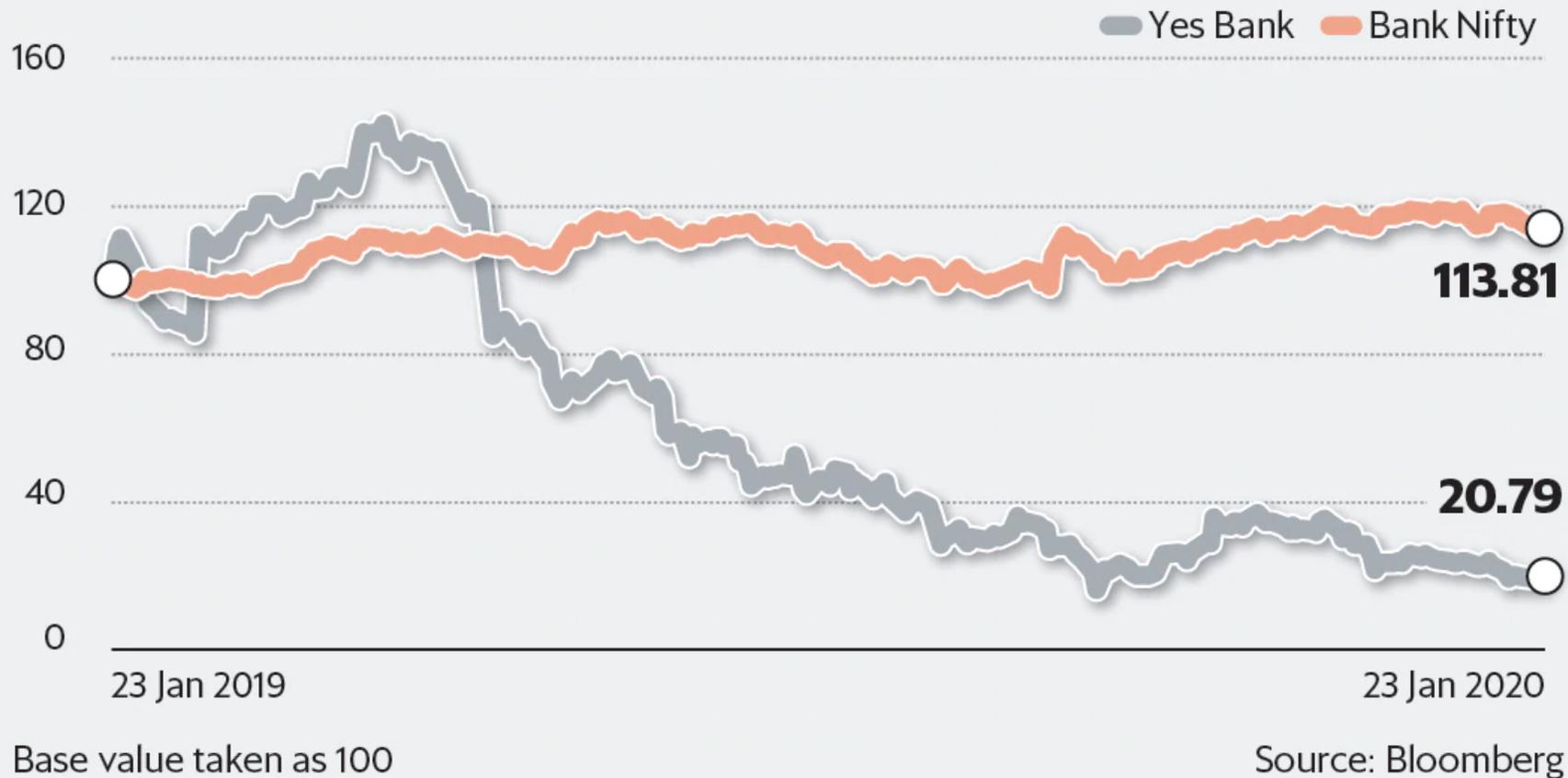
As of September, the lender's common equity Tier-I (CET1) capital adequacy ratio was 8.7%, very close to the regulatory minimum of 8%.

Analysts are expecting a fast erosion on capital, given the surge in stressed assets on the bank's books. Indeed, provisions have drained Yes Bank's capital in the past and will continue to do so. A slowing economy is not helping either.

Despite claims of marquee investors and binding agreements, Yes Bank has not been able to raise capital over the last six months.

# Aborted rescue mission

Yes Bank's valuation has eroded massively over the last one year, underperforming peers.



Source: Bloomberg

One adventure to raise capital led Yes Bank to an unknown Canadian businessman, who was said to have agreed to infuse \$1.2 billion into the bank. After analysts raised concerns over due diligence of the investor, Yes Bank's board ended up not taking the offer.

Investors are flummoxed by the inability of the bank to raise money. To be fair, a bit of the blame also lies with the regulator. Some analysts pointed out that the Reserve Bank of India (RBI) has not been proactive. "It needs a marquee investor. When a bank has to turnaround, it needs one single investor and leader. The regulator has to take this seriously and allow a large investor to step in," said a banking consultant.

Meanwhile, Yes Bank's corporate loan book has shrunk and stress has increased, which forced the bank to jack up provisions. The bank reported a net loss for the September quarter.

Time is running out and many institutional investors seem to have exited the bank.

Several exits from the board are also making investors jittery. For the remaining investors, the only hope is of a rescuer and the SBI chairman's comments were the last straw to clutch on.

To be sure, Kumar's comments, by no means, indicate that the SBI will step in to save Yes Bank from a capital abyss. The best outcome for Yes Bank is to woo a big investor that would be liked by the regulator as well. Perhaps, the Life Insurance Corp. of India (LIC) option may be considered as well, although expecting the life insurer to rescue another bank after IDBI Bank Ltd may be a stretch. If a large investor doesn't step in, taking refuge in a large balance sheet, such as that of the SBI, may be the only option.

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