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Yes Bank failure to honour sudden spike in withdrawals led to bailout

BY SALONI SHUKLA, ET BUREAU | UPDATED: MAR 16, 2020, 07.39 AM IST

MUMBAI: Sudden withdrawals totaling about a quarter of Yes Bank's deposits and the lender's inability to honour these requests forced the regulator to hasten the State Bank of India-led bailout, with the government-owned financier giving ₹6,500 crore of emergency funding to the private bank, two people aware of the developments told ET.

This precarious position of Yes Bank's finances also prompted the Reserve Bank of India (RBI) to direct the writing down of Additional Tier 1 (AT1) bonds and put a cap on the exit timelines for primary shareholders.

Yes Bank has witnessed a silent mini-run on its deposit base since October last year, losing nearly ₹72,000 crore in deposits. It lost deposits of more than ₹40,000 crore between October and December, with the liabilities franchise lowering to ₹1.65 lakh crore at the end of December from ₹2.09 lakh crore at the end of September. It further lost another ₹30,000 crore during the January-March period, with the bank breaching the minimum requirements of the cash reserve ratio and statutory liquidity. Its deposits now total ₹1.37 lakh crore.

"The bank has already taken an inter-bank loan from SBI to pay a part of the deposits that left the

bank recently; the RBI moratorium was inevitable in such a situation," a person in the know said. "There have been discussions on using such loans to pay up liabilities that come up once the moratorium lifts, but none of the other banks has been forthcoming."

As per the revival plan, Yes Bank is set to get nearly ₹30,000 crore in certificates of deposits from other banks to meet the anticipated outflow of deposits. Yes Bank has so far received commitments exceeding ₹10,000 crore, which should ease the near-term burden. The RBI has also urged states not to transfer deposits away from Yes Bank. But the bank will clearly need more capital to stem the deposit flow.

"What happens when the deposits go out? The bank will have to correspondingly run down its asset book or depend on other creditors who will not be so forthcoming," said Siddharth Purohit, analyst, SMC institutional equities.

"The biggest challenges remain in paying these depositors back, stemming the flow, maintaining long-term loans and getting healthy capital to build regulatory buffers." The bank also announced a complete write-down of its AT1 bonds worth ₹8,415 crore as its capital adequacy slipped to 4.2% versus 16.4% a year ago. Its common equity tier 1 or the CET ratio came in at 0.6% against a regulatory minimum of 7.375%.

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