

Japanese Stake in Yes Bank: Policy Shift by the RBI

Vinod Rai

Summary

The Reserve Bank of India (RBI) has approved the acquisition of majority stake in Yes Bank by the Sumitomo Mitsui Banking Corporation (SMBC). This is seen as a significant change in the policy stance of the RBI as there are only two earlier instances of single private investors being permitted to acquire controlling stakes in any Indian bank. The capital infusion by the Japanese lender would help Yes Bank scale its operations and tap into SMBC's client network. On the other hand, SMBC will get a strategic presence into India's financial system through a commercial banking partner.

In March 2020, the Reserve Bank of India superseded the Board of Directors of Yes Bank, citing serious deterioration in its financial parameters. Besides the fact that the regulator pointed out serious governance issues, Yes Bank was rendered incapable of raising capital, addressing potential loan losses and deposit withdrawals. The RBI also ordered a moratorium on the bank restricting withdrawals to ₹50,000 (S\$800). A reconstruction plan was formulated with the State Bank of India (SBI) and seven other banks investing in its capital. The lock-in period for these investor banks ended in March 2023 and, since then, various exit options were being discussed for these investors. It is now learnt that the RBI has granted approval for the acquisition of a 20 per cent stake in Yes Bank by the Sumitomo Mitsui Banking Corporation a wholly owned subsidiary of the Sumitomo Mitsui Banking Corporation (SMBC).

The Japanese bank is the second largest in Japan and ranked 15th globally. Its entry is not seen merely as making a capital infusion but signalling a long-term commitment. SMBC is known for strategic, long-term investments and its presence will help build and scale the Yes Bank franchise over time. SMBC's decision to invest demonstrates a high degree of confidence in Yes Bank's franchise and future prospects. The Japanese bank is expected to apply to acquire a 51-per cent stake in Yes Bank and is believed to have agreed to cap its voting rights in Yes Bank at 26 per cent, while it will hold a controlling 51-per cent stake in the Indian bank.

The proposal to the RBI will involve an element of primary capital infusion into Yes Bank, which would increase the Japanese lender's stake in India's sixth largest private bank to 26 per cent. It is then expected to roll out an Open Offer which may see the participation of private equity majors such as Advent International and Carlyle, which hold 9.2 per cent and 6.84 per cent respectively in Yes Bank. The SBI may offload its remaining 10 per cent stake in Yes Bank during the Open Offer. The Life Insurance Corporation of India also holds a 3.98 per cent stake in Yes Bank. The Open Offer is expected to take SMBC's stake in Yes Bank to 51 per cent.

SMBC has a pre-emptive participation right in any future equity raise. It means whenever the bank would raise equity, SMBC will have the right to subscribe to that capital. While Yes Bank may not need capital immediately, this arrangement will give predictability and confidence that any future requirement will be supported without market uncertainties.

Once the transaction is complete, SMBC will be entitled to have two members on Yes Bank's Board. This will help Yes Bank to re-evaluate its business strategy to align with new opportunities that the partnership will bring. With a strategic investor backing it, Yes Bank may be able to make forward-looking investments that support faster growth. This not only helps in scaling, but also strengthens the market perception and customer confidence, including among depositors. For SMBC, this investment fills a key strategic gap as it had a presence in the top and bottom layers of the India's financial system but lacked a commercial banking partner with a big branch network, deposit base and digital presence. With Yes Bank, SMBC now has an end-to-end presence in the Indian financial ecosystem. This is seen as a perfect strategic fit as it completes the value chain for the Japanese major.

The Japanese bank currently serves over a thousand large corporate clients, including many multinationals. These companies typically engage only with banks that meet certain credit ratings. With SMBC's backing, Yes Bank can now gain credibility to serve such clients and offer comprehensive solutions to them in transaction banking, trade finance or other services. This will also help Yes Bank serve its existing corporate clients better by tapping into SMBC's global expertise.

The significant policy shift in the stance of the RBI is that it typically restricts foreign bank ownership in domestic private banks to 15 per cent. However, it has made two earlier exceptions to allow higher foreign ownership in distressed banks. For example, the Indian branch of DBS Bank was permitted to acquire a 100-per cent share of Lakshmi Vilas Bank in 2018, and Fairfax Financial Holdings acquired a 51-per cent stake in Catholic Syrian Bank through its Indian subsidiary in 2017. The latter deal was the first time that the RBI allowed a bank to sell its majority stake to a single private investor.

Considering the global reputation of SMBC and its strong balance sheet, it is likely that the RBI may allow it to take management control. SMBC being permitted to hold a 51 per cent stake in the Yes Bank marks a significant change in the RBI's approach to foreign bank involvement in Indian banks. This being the third instance of foreign banks being allowed to take controlling stakes in private Indian banks, the shift in the central bank's stance signals a potential change in its policy approach. It may thus pave the way for increased foreign capital infusion and foreign participation in Indian banks. This shift in stance is being closely watched by global investors who are keen to participate in the equity capital of Indian banks.

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Mr Vinod Rai is a Distinguished Visiting Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS). He is a former Comptroller and Auditor General of India. He can be contacted at isasvr@nus.edu.sg. The author bears full responsibility for the facts cited and opinions expressed in this paper.