

The curious, and confusing, case of Yes Bank stake sale

C.P. Chandrasekhar

India's banking sector appears poised for a structural shift, entering a new era after one defined by the rise of "new" private banks such as Global Trust Bank and Yes Bank. In what could prove to be a new milestone, Japan's Sumitomo Mitsui Banking Corporation (SMBC), the country's second-largest banking group with assets valued at \$2 trillion in December 2024, is acquiring a 20 per cent stake in Yes Bank for Rs.13,482 crore by purchasing shares from the [State Bank of India \(SBI\)](#) and seven other private banks. These [banks](#) were persuaded to buy into Yes Bank's equity in 2020 as part of a government-coordinated rescue effort, undertaken when the bank was on the verge of collapse. Fearing that the failure of the bank would expose the shortcomings of its policy of banking liberalisation, the government had "arranged" that capital infusion.

It may have been the understanding among the acquiring firms that once Yes Bank has stabilised itself, they could exit. But what is noteworthy about the share sale to SMBC is that it does not involve divesting all of the Yes Bank holding of the seven banks that acquired stakes at the time of the 2020 restructuring. The acquisition by the Japanese bank gives it a 20 per cent stake in Yes Bank. The combined stake of SBI and the seven private banks prior to this sale was 33.71 per cent. That leaves SBI with a holding of 10.78 per cent and the rest with a 2.93 per cent stake. According to reports, it was SMBC that chose to restrict its purchase to 20 per cent, and the seven banks decided to divest their equivalent stake on a pro rata basis. Since the government was responsible for the earlier acquisition, there is reason to suspect that it is involved in arranging this stake sale too.

SMBC's decision seems puzzling on the surface. Twenty per cent is by no means a small, purely financial acquisition. Yet, it does not give the acquirer control over the operations of the bank. This is partly because of the policy restraints imposed on foreign ownership in joint venture banks. While the regulatory regime has placed the cap on aggregate foreign investment in joint venture banking firms at 74 per cent, the [Reserve Bank of India \(RBI\)](#) currently requires holding by a single foreign investor to be limited to 15 per cent, with additional acquisitions possible only with the central bank's permission. Obtaining such permission, however, cannot ensure majority control, because of a 26 per cent cap on ownership by a single foreign investor. If a single foreign investor's holding exceeded that level, that share must be brought down to 26 per cent in 15 years. Finally, even when shareholders held stakes above 26 per cent individually, their voting rights were capped at 26 per cent. The aim of these regulations was to ensure a diversified shareholding structure in joint venture banks.

Given that background, SMBC's 20 per cent acquisition appears unusual. If its intention is to increase its influence by raising its stake to the 26 per cent single-investor cap, it would, under Securities and Exchange Board of India regulations, be required to make an open offer to acquire an additional 25 per cent from other shareholders. That could take SMBC's stake to 51 per cent. Choosing to do so does not make sense, since voting rights are limited to 26 per cent. And it would in time have to unwind the excess shareholding.

The only way to make sense of the SMBC decision is to see it as a first step in a process that would lead to Yes Bank being folded into a wholly owned subsidiary of the Japanese bank. RBI rules do allow foreign banks to enter the [Indian banking](#) space by establishing a wholly owned subsidiary. In fact, sections of the media have reported that SMBC is likely to approach the RBI for a licence to operate a fully owned subsidiary in India. This move also seems to have been based on information of an impending change in the stance of the RBI regarding its policy with respect to foreign investment in banks. A couple of weeks after SMBC's decision to acquire a 20 per cent stake in Yes Bank was announced, RBI Governor Sanjay Malhotra revealed, in an interview to the *Times of India*, that the central bank is revisiting shareholding norms and licensing rules for foreign investment in banks. That could lead to a relaxation of the requirements or eligibility conditions that need to be met by potential foreign investors in the banking space.

This appears to have sparked interest among other foreign banks in entering the Indian banking sector. For instance, Emirates NBD Bank rumoured to be the leading contender to acquire a stake in the soon-to-be-privatised IDBI Bank recently received in-principal approval from the RBI to establish a wholly owned subsidiary in India. This suggests that the IDBI acquisition is intended to jump-start the operations of the wholly owned subsidiary. Meanwhile, other players are already poised to enter the market Singaporean DBS Group, for instance, received a licence in 2019 to operate in India through a wholly owned subsidiary.

But that is not all, the shareholding structure of private banks suggests that substantial equity stakes are being held by minority stakeholders who may not be averse to giving up their shares for a suitable price. This includes foreign financial investors who would be looking for a profitable exit. As of 2024, non-resident holding in 19 joint venture private banks varied from 8.8 per cent to 61.9 per cent, with five recording a more than 50 per cent foreign stake. That presence can easily transform into a single-investor majority and subsequent wholly owned subsidiary status, through the acquisition of shares from both domestic and foreign shareholders.

Thus, with the RBI contemplating relaxation of its foreign investment policy and rules, Indian banking seems poised for a huge increase in foreign ownership and control.

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