

Event Update

February 9, 2024.

The Reserve Bank of India ("RBI") has recently issued direction against Paytm Payments Bank Ltd (Paytm Bank) under Section 35A of the Banking Regulation Act, 1949 to halt all basic payment services, including those processed through various platforms and digital avenues, from February 29, 2024. Paytm Bank is an associate company of One97 Communications Limited ("One97") which own and operate the Paytm platform.

One97 offer loans in partnership with Banks and NBFCs to its large network of merchants and consumers using the Paytm application. One97 *interalia* originates personal loans (including postpaid loans which are akin to BNPL) and merchant advances financed by lending partners (Banks & NBFCs). While One97 is not rated by Care Ratings, many of the lending partners of One97 are rated by Care Ratings and this update is in that context.

The Personal Loans are normally small ticket short term loans while merchant advances are short / medium term loan (6-24 months) with daily repayment requirements. The repayment of these loans is generally routed through nodal accounts of One 97, which is currently maintained with Paytm Bank. RBI has directed Paytm Bank to shut all nodal accounts, including that of One97, on or before February 29, 2024.

The lending partners also have direct access to the borrowers for repayment in some cases and dependency on One97 in other cases. As per One97, less than 15% of the personal loans (excluding postpaid loans) & merchant loans repayments are set up though Paytm Bank and they are working with NPCI & others to ensure that transition of digital payments to other banks is seamless. The change in bank & change in VPA (virtual payment account) for UPI, if necessary, is expected this month and the lending partners will be required to make necessary arrangement to align to the same.

We also understand that pursuant to RBI's November 2023 circular that cautioned on high growth in unsecured lending and increased the risk weights on such loans, several lending partners of One97 have reduced their exposure in this segment.

In CARE Ratings portfolio of such lending partners, the exposure to loans originated by One97, ranges from less than 1% to around 15%. As an outcome of this development, we expect a reduction in such exposures.

Based on discussions with the lending partners, we understand that the collection patterns of these loans have not yet shown any material deterioration. CARE will continue to engage with our rated clients to understand the impact on the asset quality in the coming days. Also, we understand that no fresh exposure under arrangement with One97 will be taken by lending partners till this issue is settled.

RBI Governor has indicated that RBI is likely to issue FAQ on payment banks. CARE Ratings is monitoring the developments and will continue to evaluate any impact of this development on our rated clients.

Contact us

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