



# FOR SIGHTS

## INDIA INC POSTS ENCOURAGING Q3 FY26 PERFORMANCE

India Inc delivered an encouraging performance in Q3 FY26, with net sales rising 11.4% following 10% growth in the previous quarter. Festive-season-led consumption boost, GST rate rationalisation, previous income tax reductions, and RBI rate cuts boded well for the overall business activity in Q3. Though net sales grew at a healthy pace, the growth in operating profit moderated to 12% in Q3 FY26 from 15.7% in the previous quarter, weighed by rising expenditure of the companies.

E-Bus Adoption to Reach 13% by FY28



PSBs Earnings Outperform PVBs in Q3FY26



Evolving Trade Relations to Strengthen India's Leather Industry



# NOTE FROM SACHIN GUPTA

Chief Rating Officer & Executive Director



## Corporate Performance and the Middle East Crisis

The December quarter (Q3) performance suggests India Inc. is entering a gradual recovery after prolonged subdued growth. Most sectors showed improvement, signalling a cautious but broad-based revival. Core industries such as cement reported stable demand and stronger margins, while consumption-led segments like automobiles and consumer durables posted encouraging results.

That said, after a year of global and domestic challenges, including higher US tariffs, rapid technological change, and weak private capital expenditure, policy measures played a supportive role. GST cuts, income tax relief, and enhanced RBI liquidity lifted consumer confidence, leading to a visible rise in demand across the economy during the quarter. However, the positive momentum now faces a serious challenge. The escalating conflict in the Middle East over the past ten days has significantly altered the economic landscape and introduced new risks for the Indian economy. One of the most noticeable impacts has been the rapid surge in crude oil prices. Brent crude has risen by almost 60 percent since tensions in West Asia escalated. India is especially at risk because about 80 percent of its crude oil needs are imported. Additionally, nearly half of these imports go through the Strait of Hormuz, now a key conflict zone. Any interruption in this vital shipping lane could greatly disrupt India's energy supply and increase import expenses.

Higher crude prices will likely widen India's CAD and increase pressure on government finances.

Oil marketing companies may face rising losses if retail prices are not adjusted fully to reflect global price movements. Historically, every \$10 increase in crude oil prices has significantly raised India's annual import bill by \$12 to \$15 billion, making sustained price increases a major macroeconomic concern.

The fertiliser sector represents another potential area of vulnerability. If disruptions in the Strait of Hormuz affect LNG supply from Qatar, India's fertiliser production could face challenges. More than 60 percent of India's urea production relies on imported LNG as a feedstock. While existing inventories may prevent an immediate impact on food security, the government will likely need to import LNG at higher spot prices. This would inevitably raise the fertiliser subsidy burden and place additional pressure on public finances.

Remittances may also be affected. India receives roughly \$50 billion annually in remittances from the Middle East, accounting for about 38 percent of total inflows. During periods of regional instability, expatriate workers may choose to retain their savings rather than remit funds to their home countries. Even a 20 percent reduction in remittances from the region could meaningfully widen the current account deficit by around 40 percent from the current levels. Further, it will dampen household consumption in remittance-dependent states.

Trade is another area where the effects could be felt. The Middle East is an important export market for India, particularly for products such as rice, dry fruits, spices, textiles, and gems and jewellery. Logistical disruptions caused by the conflict could reduce export volumes. Even if goods continue to move through alternative routes, the rise in freight charges and insurance premiums would increase exporters' costs and squeeze margins.

In summary, while Indian corporates appeared to be on the cusp of recovery during the December quarter, the emerging crisis in the Middle East has introduced fresh uncertainties. Rising energy costs, fiscal pressures, weaker remittance flows, and potential trade disruptions could all influence corporate performance in the coming quarters. The resilience of India's economic fundamentals will now be tested against an increasingly volatile geopolitical environment.



# NOTE FROM RAJANI SINHA

Chief Economist

## Energy Turmoil Clouds India's Outlook

The ongoing war in West Asia has severely disrupted the global energy market, with a sharp rise in global crude oil and gas prices. The global supply disruption has cast a shadow on India's macroeconomic outlook, which was otherwise looking good with the GDP growth for FY26 estimated at a healthy 7.6%. Around 40% of India's crude oil imports and more than 50% of its gas imports pass through the Strait of Hormuz. Hence, the closure of this route will impact India through multiple channels, even though India's relatively stable macro parameters, with healthy growth and low inflation, will provide some cushion to bear the blow.

Global oil markets have grown increasingly volatile, with Brent Crude prices fluctuating between \$80 and \$120 per barrel in recent days. Since India imports nearly 5.5 to 6 million barrels of crude oil per day, a \$10 rise in crude prices could add nearly \$20 billion to India's annual oil import costs, potentially widening the current account deficit and exerting pressure on the rupee. The conflict could also affect India's current account balance through lower remittance inflows from Gulf countries. Gulf nations account for over one third of India's total annual remittances of around \$135 billion in FY25. Furthermore, shipping disruptions could also hurt India's exports to the Gulf region. Exports to GCC countries, Iran, and Iraq were around \$64 billion in FY25, which is around 15% of India's total goods exports. If the conflict persists with the annual average crude oil price remaining above \$100 per barrel, it could push India's current account deficit above 2.2% of GDP in FY27, from an estimated around 1% for FY26.

In terms of inflation, the direct effect on consumers could remain limited as Oil marketing companies (OMCs) are likely to absorb the rise in crude oil prices. However, indirect pressures may emerge through higher input costs across sectors. However, if disruptions persist and average crude prices remain above \$90 per barrel for an extended period, part of the higher cost may be passed



on to the consumers. CPI inflation could rise above 5% in FY27 if annual average crude prices remain close to or exceed \$100 per barrel.

Higher oil prices could also pose challenges for the government's fiscal planning. Managing retail fuel prices during periods of elevated energy costs could require fuel tax adjustments or increased subsidies. Beyond fuel, the fertiliser subsidy burden could also increase, given the sharp rise in gas prices and the disruption of fertiliser imports from Gulf countries.

Financial markets have been jittery amid the ongoing conflict. With fear of the current account deficit widening and capital inflows further dwindling, the Indian rupee has seen sharp weakness. Overall, with the prolonged West Asia crisis and high energy prices, India's GDP growth could slip below 7% in FY27. The most critical aspect will be how long the crisis lingers, as that will strongly influence the magnitude of the impact.



# INDIA INC POSTS ENCOURAGING Q3 FY26 PERFORMANCE

India Inc delivered an encouraging performance in Q3 FY26, with net sales rising 11.4% following 10% growth in the previous quarter. Festive-season-led consumption boost, GST rate rationalisation, previous income tax reductions, and RBI rate cuts boded well for the overall business activity in Q3. Though net sales grew at a healthy pace, the growth in operating profit moderated to 12% in Q3 FY26 from 15.7% in the previous quarter, weighed by rising expenditure of the companies. The overall expenditure of the companies analysed increased by 11.2% in Q3, up from 8.7% in the previous quarter. This increase comes amid rising employee costs, service, and raw material costs. Additionally, increased outlay towards provisioning for the New Labour Codes under 'Exceptional Items' has also weighed on the net profitability.

The following report presents an analysis of the corporate performance of listed non-financial companies. Section (A) of the report examines the aggregate quarterly performance of 1,396 companies whereas Section (B) presents a snapshot of the sectoral performance of select 18 sectors (See Annexure 1 for details).

## A. Corporate Performance in Q3 FY26 - Aggregate Analysis

Net sales recorded double-digit growth for the second consecutive quarter, rising 11.4% in Q3 FY26 after growing by 10% in the previous quarter. An acceleration in net sales growth across sectors such as automobiles, IT, non-ferrous metals,

pharmaceuticals & drugs, capital goods and FMCG supported the overall performance. The improving demand scenario, aided by the festive season, GST rate rationalisation, past RBI rate cuts and earlier announced income tax reliefs, has been the key positive for the consumption-driven sectors like FMCG and automobiles.

While net sales grew, operating profit showed some moderation, largely due to increased expenditure (up 11.2% in Q3 FY26 Vs 8.7% in Q2 FY26). This increase was driven by higher costs across multiple components, including services, raw materials, and employee expenses. In Q3 FY26, employee costs increased by 12.1% (Vs 8.6% in Q2 FY26) while the cost of services and raw materials increased by 11.4% (Vs 8.1% in Q2 FY26). Global industrial metal prices showed some strengthening in Q3, with the Bloomberg industrial metals sub-index rising by around 4.5% (y-o-y). Amid the rising expenditures, operating profit growth, though encouraging, slowed to 12% in Q3 FY26 from 15.7% in the previous quarter. A further moderation was witnessed in the profit after tax, which came under pressure due to increased outlay towards provisioning for the New Labour Codes under 'Exceptional Items'.

Amid moderation in profitability growth due to rising expenditure, the operating profit margin was seen at 19% in Q3 FY26, marginally lower compared with 19.5% in the previous quarter. The interest coverage ratio (ICR) improved to 8.4 in Q3 FY26 from 8.1 in the previous two quarters, and above the average of 7.9 seen over the last eight quarters.

## B. Corporate Performance in Q3 FY26 - Sectoral Analysis

We conducted a detailed analysis of the financial performance of 18 select sectors in Q3 FY26 (refer to Annexure I). Of the 18 sectors analysed, 4

sectors witnessed a strong growth in net sales (above 16%) as well as operating profits (above 20%). These sectors include – non-ferrous metals, automobiles & ancillaries, retailing and capital goods. Healthy net sales growth in consumer-oriented sectors such as automobiles & ancillaries (19.6% in Q3 FY26 Vs 13.6% in Q2 FY26) and retailing (40.6% Vs 39.3%) reflects improvement in overall demand conditions in the economy. Several measures aimed at boosting consumption, such as GST rate rationalisation, previously announced income tax cuts, and RBI rate cuts, are expected to have aided the performance of the consumer-oriented sectors.

Among the commodity-driven sectors, the non-ferrous metals sector recorded net sales growth of 19.5% in Q3 FY26, accelerating from 10% in the previous quarter. Increased realisations amid higher metal prices are expected to have supported the net sales growth in this sector. The net sales growth in the crude oil sector remained subdued at 2.2% in Q3 FY26, compared with 0.4% in Q2, impacted by muted crude oil prices in this period.

### Way Forward

The Indian corporates have demonstrated an encouraging performance in the third quarter of FY26 despite a volatile external environment. The domestic fundamentals remain positive, with the consumption scenario showing signs of improvement, buoyed by several policy measures implemented over the last year. On the investment front, the Centre has maintained its emphasis on capex-led growth. Furthermore, signs of revival in private investments also remain positive. Overall, while the domestic fundamentals are seen to be steady, the emerging external headwinds remain a monitorable. The external conditions remain highly volatile amid the heightened geopolitical tensions. The ongoing war in West Asia has raised significant concerns about its implications for global energy trade, posing risks to the broader global and domestic economic outlook. Going ahead, the duration of the conflict and its eventual impact remain a key monitorable.

### Annexure 1: Performance of Select Sectors in Q3 FY26

Sectors	Net Sales	Total Expenditure	Operating Profit	Operating Profit Margin	Interest Coverage Ratio
	YoY, %	YoY, %	YoY, %	%	
Automobile & Ancillaries	19.6	19.2	21.6	16.5	8.8
Capital Goods	22.8	21.2	29.0	20.4	17.2
Cement	13.9	15.3	-12.3	16.8	9.2
Chemicals	7.9	8.1	9.7	15.9	8.7
Crude Oil	2.2	1.4	10.9	12.5	11.0
FMCG	9.6	9.4	8.6	22.6	29.0
Hospitality	13.6	14.3	11.8	28.2	11.8
Infrastructure	5.0	3.1	8.2	27.2	4.3
Iron & Steel	9.6	7.6	27.8	15.2	4.9
IT	10.0	10.1	8.6	23.9	32.3
Logistics	8.3	2.9	27.5	27.9	17.4
Media & Entertainment	3.1	6.1	-6.8	25.7	41.2
Non - Ferrous Metals	19.5	19.3	20.5	22.8	11.5
Pharmaceuticals & Drugs	13.0	12.2	13.7	27.3	22.3
Retailing	40.6	42.0	28.6	10.1	13.8
Telecom	16.1	21.9	12.1	53.3	6.1
Textile	0.2	1.0	-4.6	12.4	6.5
White Goods	5.3	5.3	10.3	7.7	11.8

Source: Ace Equity and CareEdge

## Q3 GDP GROWTH AT 7.8% AS PER THE NEW SERIES

GDP growth for Q3 FY26 was healthy at 7.8%, following high growth of 8.4% in Q2 FY26, as per the revised GDP series. According to the Second Advance Estimate, the full-year growth for FY26 has been revised higher to 7.6% from the earlier estimate of 7.4%. This follows a high growth of 7.1% in FY25. The growth in FY26 was supported by strong momentum in the manufacturing and services sectors. On the expenditure side, private consumption improved while investments remained healthy. Several factors, such as GST rate rationalisation, income tax cuts, policy rate cuts by the RBI and benign inflation, supported the encouraging growth momentum. However, external headwinds stemming from a volatile global backdrop capped the upside in the growth momentum. Exports growth slowed to 5.6% from 10.2% in Q2, as the 50% tariff on Indian exports to the US weighed on merchandise exports and the benefits from earlier frontloading of US imports faded.

Based on the data available so far, the implied GDP growth for Q4 is estimated at 7.3%. Growth for H1 FY26 as per the new series stands at 7.6% (Vs 8.0% in the previous series), while H2 growth is expected to average around 7.6%. Additionally, contrary to expectations, the GDP deflator rose in Q3, possibly

reflecting the double deflation observed in the manufacturing sector. Nominal GDP growth in Q3 came in at 8.9%, up from 8.5% in Q2.

Apart from the base revision from 2011-12 to 2022-23, the new series also includes several enhancements to address shortcomings of the previous data – these include better capturing of the informal sector, technology-driven data collection, and integration of new data sources to plug existing data gaps, etc.

### GVA - By Industry

GVA growth came at 7.8% in Q3 Vs 8.6% in Q2. The growth in Q3 was largely supported by a strong performance in the manufacturing sector, which grew by 13.3% in Q3 FY26. The manufacturing sector has recorded a high average growth of 11.9% for the last five quarters as per the new series. This is much higher than the old series as per which the manufacturing growth averaged 6.3% in the previous four quarters. As anticipated, construction growth moderated sharply (to 6.6% in Q3 vs 8.7% in Q2), reflecting the sharp contraction in government capital expenditure in Q3. Furthermore, the mining sector growth has moderated (to 4.7% in Q3 Vs 6.1% in Q2).

Within services, growth improved in trade, hotels, transport, communication and broadcasting (11% in Q3 FY26 Vs 10.4% in Q2 FY26), as well as in financial, real estate and professional services (11.2% Vs 9.9%). In line with our expectations, growth in public administration has moderated amid the Centre's subdued revenue expenditure. Surprisingly, moderation in agricultural growth continued for the second successive quarter despite a good monsoon.

**GDP - By Expenditure**

Private consumption remained robust, rising by 8.7% in Q3 Vs 8% in Q2, supported by GST cuts, policy rate reductions and strong festive demand. Private consumption has held up well, averaging at 8.6% in the last three quarters. Investment growth eased to 7.8% in Q3 from 8.4% in Q2 but remained healthy despite a contraction in the Centre’s capex. This could be attributed to an uptick in private sector and

household capex. On the external front, export growth slowed significantly to 5.6% from 10.2% in Q2, as the 50% tariff on Indian exports to the US weighed on merchandise exports and the benefits from earlier frontloading of US imports faded. Services exports also witnessed some moderation in Q3, weighing on the overall export growth. Import growth was seen at 8.6% in Q3 Vs 5.9% in Q2 amid higher gold imports as prices of precious metals increased significantly.

GDP: By Expenditure	2023-24				2024-25				2025-26		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Private Final Consumption (PFCE)	6.4	5.3	5.4	6.0	6.1	5.6	6.0	5.6	9.2	8.0	8.7
Government Final Consumption (GFCE)	-0.1	-0.9	0.9	2.5	7.5	7.0	7.6	3.6	5.8	6.6	4.7
Gross Fixed Capital Formation (GFCF)	8.0	8.8	6.2	6.1	6.5	6.6	6.3	6.2	4.9	8.4	7.8
Exports	-2.5	-2.0	0.9	6.4	7.3	3.1	10.5	5.4	6.6	10.2	5.6
Imports	4.3	1.9	0.1	-9.7	8.3	4.6	2.9	5.5	7.4	5.9	8.6
<b>GDP</b>	<b>6.6</b>	<b>7.6</b>	<b>7.1</b>	<b>7.5</b>	<b>7.5</b>	<b>6.6</b>	<b>7.4</b>	<b>7.0</b>	<b>6.7</b>	<b>8.4</b>	<b>7.8</b>

Source: MOSPI, CareEdge

**Nominal GDP & its Fiscal Implications**

A key aspect of the GDP data, as per the new series, is the downward revision in nominal GDP for FY26 to Rs 345.5 trillion from the Union budget’s revised estimate of Rs 357.1 trillion. This could push the FY26 fiscal deficit-to-GDP ratio to 4.5%, slightly higher than the earlier estimate of 4.4%. Furthermore, with the budgeted 10% growth in nominal GDP, the fiscal deficit for FY27 comes in at 4.5%, higher than the budgeted 4.3%. We believe nominal GDP for FY27 could exceed the government’s budgeted 10% growth.

**Way Forward**

Going forward, we project FY27 growth at 7.2%. On the domestic front, the favourable impact of the GST rate rationalisation and past RBI rate cuts is expected to remain supportive of consumption. On the investment front, the Centre’s continued emphasis on capex-led growth and some signs of revival in private capex are positives. On the external front, the recently announced trade deals with partners such as the US, the EU, Australia, and the UK are favourable developments for India’s export performance. However, the external economic conditions remain volatile. It will be critical to monitor the evolving geopolitical situation and shifts in trade policy. Furthermore, the increased probability of an El Niño in 2026 remains a key watchout, as it poses risks for agriculture and the inflation outlook.

# NON-LIFE INSURANCE INDUSTRY POISED FOR UPWARD GROWTH TRAJECTORY

## India's Non-Life Insurance Industry: Structural Growth with Near-Term Normalisation

India's non-life insurance industry has entered a phase of structural expansion, underpinned by steady macroeconomic momentum, regulatory reforms, and rising risk awareness among households and businesses. Over FY19-FY25, gross domestic premiums nearly doubled from Rs 1.69 lakh crore to Rs 3.07 lakh crore, translating into a CAGR of ~10.4%, broadly in line with nominal GDP growth. While FY25 growth moderated to 6.2% from 12.8% in FY24 due to a high base, weaker crop performance, softer commercial activity, and the implementation of the 1/n premium recognition rule (which deferred premium recognition on long-duration policies), the medium-term growth trajectory remains intact. Premium growth is expected to normalise at a sustainable 8-11% over FY26-FY28, supported by economic expansion, rising insurance penetration, and regulatory tailwinds.

Market structure continues to tilt decisively, private players now command ~65% of industry premiums (up from ~44% in FY15), driven by sharper underwriting, faster product launches, and deeper distribution reach. Standalone Health Insurers (SAHIs) remain the fastest-growing cohort, delivering a ~29% CAGR over the past decade and steadily gaining share in both retail and group health. In contrast, public sector insurers' share has declined to ~35%, reflecting their disproportionate exposure to low-margin, government-mandated business such as crop insurance. Despite recent growth, India's non-life insurance penetration remains structurally low at ~1.0%

of GDP, compared with a global average of ~4.3%, while insurance density is only ~\$25 per capita, compared with ~\$555 globally, highlighting a long runway for expansion.

Health and motor insurance together account for ~71% of industry premiums and will remain the principal growth engines. Health insurance premiums expanded from Rs 0.44 lakh crore in FY19 to Rs 1.20 lakh crore in FY25 (CAGR ~18%), although growth slowed to 2.8% in FY25 after an exceptionally strong FY24. Rising medical inflation, tighter underwriting, and the impact of the 1/n rule contributed to this moderation. Over the medium term, health insurance (including personal accident) is expected to reach Rs 1.40 lakh crore by FY27, supported by higher healthcare costs, growing employer coverage, rising awareness post-pandemic, and GST rationalisation that improves affordability. Within health, group policies have emerged as the key growth driver, with group premiums rising from Rs 0.20 lakh crore in FY19 to Rs 0.61 lakh crore in FY25 and accounting for ~51% of the segment.

Motor insurance growth moderated to ~7.9% in FY25, with the segment's share declining to ~32% of industry premiums as health outpaced motor and the one-time boost from long-term TP bundling faded. Structurally, the motor portfolio has shifted towards third-party business, which now contributes ~58% of premiums, reflecting regulatory pricing and long-tailed liabilities. Motor premiums are projected to cross ~Rs 1.06-1.17 lakh crore by FY27, aided by improving vehicle sales, rising EV penetration, deeper digital adoption (instant issuance and cashless claims), and the potential for an upward revision in TP tariffs. Fire and crop insurance are expected to grow steadily, with fire premiums projected to reach ~Rs 0.26 lakh crore in FY26 and crop premiums to cross ~Rs 0.31 lakh crore, albeit with volatility driven by monsoon outcomes and state participation under PMFBY.

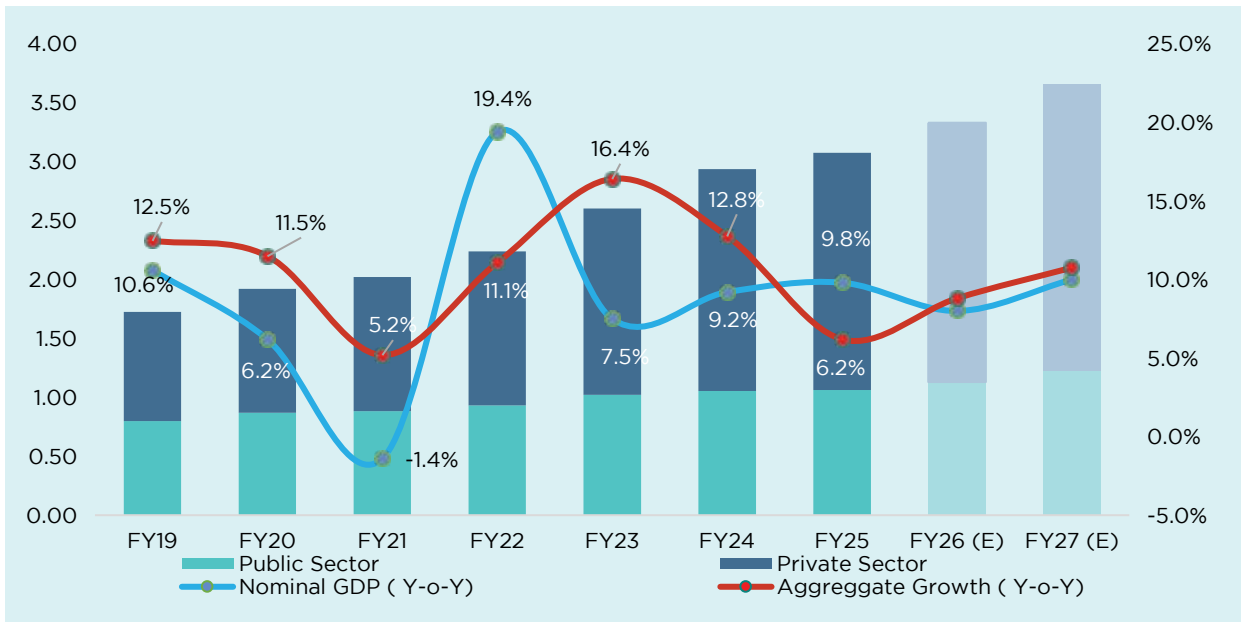
Underwriting profitability remains the sector's key structural challenge. The industry's combined ratio has remained above 100% since FY19, reaching 110.4% in FY25, implying persistent underwriting losses of Rs 0.30 lakh crore. Loss ratios have normalised post-pandemic, particularly in health and motor, supported by tighter pricing and better risk selection. The aggregate loss ratio is expected to ease marginally to ~78-82% in FY26. Cost efficiency has improved materially, with operating expenses as a share of net earned premium declining from ~27% in FY19 to ~16.6% in FY25, reflecting scale benefits and digitisation. However, distribution costs have risen structurally, with the net commission ratio climbing to ~24.9% in FY25 due to higher agent payouts, a retail-heavy mix, and lower reinsurance commissions, constraining underwriting margins.

Investment income continues to cushion underwriting losses, with industry investment income at Rs 0.41 lakh crore in FY25. Yields improved marginally to 9.2% in FY25; however, with the policy rate easing to 5.25%, incremental yields are likely to moderate over the medium term, particularly for insurers with shorter-duration portfolios. Profitability rebounded in FY25, with the net earnings ratio improving to 5.6% and RoTA to 2.1%, supported

by a better business mix and stable investment income.

Regulatory reforms remain a structural tailwind. Higher FDI limits (up to 100%), the rollout of Bima Sugam, liberalised distribution architecture, faster product approvals under the "Use and File" regime, and the transition toward risk-based capital are expected to strengthen capital availability, competition, and policyholder protection. Distribution is becoming increasingly omnichannel: brokers account for ~37% of premiums and ~45% of commissions, while bancassurance and digital channels are gaining traction, particularly in retail health and motor. Key risks persist, underinsurance beyond health and motor, aggressive pricing to gain market share, rising fraud (notably in health and motor), and capital adequacy pressures at public sector insurers. Even so, supported by favourable demographics, digitisation, product innovation, and an enabling regulatory environment, India's non-life insurance industry remains on a structurally growth path. Medium-term premium growth of 8-11%, led by health and supported by motor, underscores a steady upward trajectory, with underwriting discipline and cost control remaining the critical differentiators for sustainable profitability.

**Movement in Gross Domestic Premiums (Rs lakh crore)**



Source: IRDAI, CareEdge Calculations, Note: Public Sector Includes Specialised Insurers, Private Sector Includes SAHIs.

# E-BUS ADOPTION TO REACH 13% BY FY28

Electric buses (E-buses) accounted for ~4% of India's annual bus registrations in FY25 and 9MFY26 with 4,237 and 3,903 e-bus registrations, respectively. The segment grew ~16% in FY25 and ~31% YoY in 9MFY26 (on a low base), supported by central government incentives, enabling infrastructure, and the evolving Gross Cost Contract (GCC) framework. The broader bus industry is on track to surpass pre-COVID volumes by the end of FY26.

Previously, e-bus penetration was expected to reach ~15% by FY27<sup>1</sup> factoring in timely deliveries from existing order books, however, delays by State Transport Undertakings (STUs) in allocating depots or ensuring adequate charging infrastructure led to deliveries falling behind schedule. Consequently, e-bus penetration is now forecasted to reach ~13% by FY28.

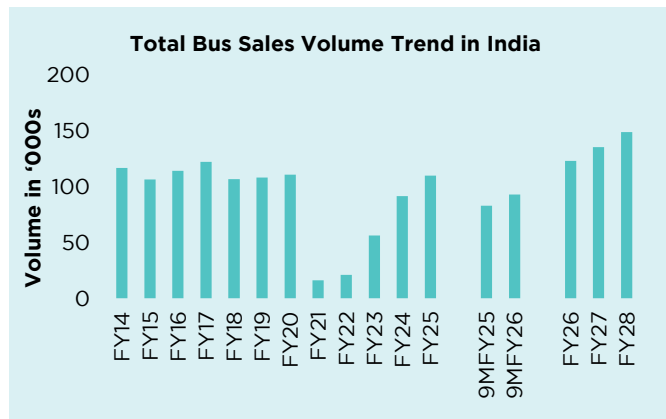
STUs' shift from outright purchase to GCC (OPEX) with private operators procuring, operating, and maintaining buses on a per km fee basis is expected to catalyse e-bus penetration. Standardised service level agreements (SLAs), tariff/wage indexation, termination and lender protections, Payment Security Mechanisms (PSMs), escrowed/ring-fenced cash flows, performance guarantees, and Debt Service Reserve Accounts (DSRA) enhance bankability. However, establishing a track record of timely

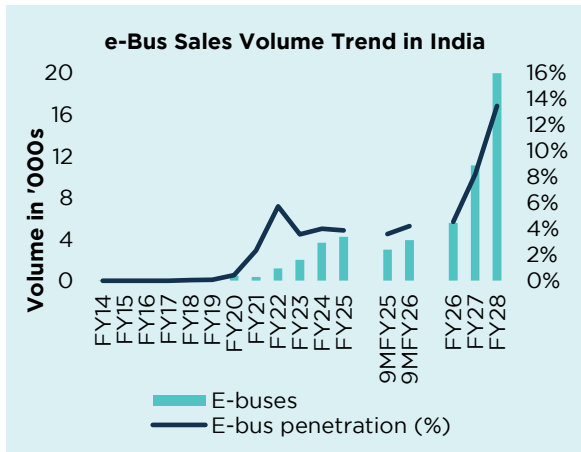
<sup>1</sup> Electrifying Public Transport: Electric Bus Adoption to Reach 15% by FY27

payment by STUs will remain a key monitorable. Total Cost of Ownership (TCO) for AC e-buses is ~15-20%, lower than that of AC diesel buses over 12 years, reinforcing their long-term attractiveness.

The government's push for green mobility is gaining significant momentum through key initiatives like PM e-Bus Sewa and PM e-Drive. This is supported by a robust order book, highlighted by the recent finalisation of the procurement of 10,900 e-buses through Convergence Energy Services Limited (CESL). That said, the additional deployment of 4,000 e-buses announced in the Union Budget 2026-27, along with the opening of a fresh CESL tender for 6,230 e-buses, are expected to augur well for e-bus adoption. Furthermore, falling battery/vehicle costs and expanding charging/depot infrastructure will aid sales of e-buses. Annual e-bus sales are expected to inch up gradually from a penetration level of ~4% in FY25 to reach 5,550 units in FY26 (5% penetration), 11,100 units in FY27 (8%) and ~20,000 units by FY28 (~13% of total bus sales).

## Gradual Transition to Cleaner Fuels in India's Bus Industry





Source: Vahan Dashboard

The e-bus segment posted robust growth, approximately 16% in FY25 and 31% in 9MFY26 on a year-over-year basis, albeit on a low base, supported by central government incentives, enabling infrastructure, and favourable contracting terms under the GCC model.

**Potential for e-Bus Deployment**

India’s unmet need for efficient, sustainable public transit—amid rising concerns about urban air quality and congestion—creates substantial headroom for deploying e-buses. Government initiatives such as the Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME) schemes, PM e Bus Sewa, and the recent Union Budget announcement supporting the deployment of ~4,000 additional e-buses are accelerating adoption through demand incentives, viability gap support, and ecosystem development, including charging and depot infrastructure.

As of February 04, 2026, e-bus registrations are concentrated in large urban centres, driven by high ridership demand and the urgency to control elevated pollution levels. Delhi leads with ~4,244 registrations, followed by Maharashtra (~4,038) and Karnataka (~2,309). While adoption is currently skewed towards major metros, deployments in Tier II and Tier III cities under PM e-Bus Sewa are expected to grow. India’s e-bus penetration remains well below global levels, at ~8 e-buses per million people, compared with a global average of ~94 per million. Given India’s large urban population, high reliance on buses, and intensifying environmental pressures, e-bus deployment is a high-impact lever for decarbonising mobility. While adoption is concentrated in a few states, programmatic expansion to non-metro markets is likely to make e-buses a mainstream component of public transport over the next decade.

**Sizeable e Bus Manufacturing Capabilities & Growing Order Book**

Market leadership is shifting towards a handful of OEMs. Players like Olectra, JBM, PMI, and Switch Mobility collectively account for ~47% and ~76% of the market in FY25 and 9MFY26, respectively. Domestic manufacturing capacity has scaled meaningfully, with a combined installed capacity of approximately 32,000 e-buses per annum for the 4 leading players. Demand visibility is reinforced by an aggregate order book of ~31,000 e-buses with these 4 players, largely under STU/GCC arrangements with private fleet operators. 12-24-month execution timelines provide near-term visibility, supporting a steady ramp-up in capacity utilisation.

**CareEdge Ratings’ View**

Currently, e-bus penetration in India remains low, but there has been steady momentum over the past three years, reflecting greater policy thrust, cost economics, and deeper execution. Deployments are now expanding into Tier II and Tier III markets. Government support through incentives, enabling charging infrastructure, and favourable GCC/standardised OPEX frameworks is expected to continue, strengthening operator confidence—especially as STUs increasingly tender capacity under these models. With an expanding ecosystem, annual e-bus sales are envisaged to reach around 20,000 units in FY28, increasing penetration to around 13%,” said Arti Roy, Associate Director, CareEdge Ratings.

“E-bus procurement for public road transport is shifting decisively towards the GCC (OPEX) model, with private operators assuming technology, maintenance, and battery risks while STUs pay indexed per-kilometre charges. Improved contract terms have materially strengthened bankability and lowered financing costs. The transition is reinforced by PM e Bus Sewa and PM e Drive, alongside the recent Union Budget announcement for ~4,000 additional e buses and continued support for charging and depot infrastructure. With domestic manufacturing capacity of the leading 4 players ~32,000+ e-buses annually and an order book of ~31,000 units, it provides 12–24 months of execution visibility, supporting higher penetration. Sustained growth momentum, however, hinges on timely STU disbursements, depot/charging infrastructure readiness.

# PSBs EARNINGS OUTPERFORM PVBs IN Q3FY26



## Credit Growth and Advances Momentum

SCBs witnessed a net advance growth of 13.4% year-on-year (y-o-y) in Q3FY26, supported by seasonal festival demand and the impact of GST rate cuts on durable goods and housing finance. Within the system, PSBs continued to outpace PVBs, driven by broad-based credit uptake across housing, MSME and corporate segments. Sequential loan growth also remained steady, underscoring sustained credit momentum. In contrast, deposit mobilisation lagged credit off-take, growing 10.0% y-o-y, which, coupled with subdued CASA accretion, placed pressure on low-cost funding. This deposit dynamic slightly moderated the funding base but reflected a broader shift of depositors towards higher-yield products as interest rate transmission progressed.

## Earnings and Profitability

SCBs delivered record quarterly profits in Q3FY26, with aggregate net profits surpassing the ₹1.0 lakh crore mark for the first time, signalling a historic earnings milestone for the industry. PSBs played a central role in driving this outcome, outperforming PVBs by registering more robust profit growth. The report attributes PSBs' earnings strength to higher treasury gains, primarily concentrated in a few large PSBs, favourable base effects, improved recoveries from technically written-off accounts and broad-based credit growth. Meanwhile, PVBs experienced

relatively muted profit growth, constrained by weaker momentum in non-interest income and near-flat net interest income (NII). However, PVBs continued to outperform PSBs in fee income, growing at a double-digit y-o-y rate.

## Net Interest Income and Margins

SCBs' net interest income (NII) increased modestly, rising 4.9% y-o-y in Q3FY26, with PSBs and PVBs posting similar growth rates on both a y-o-y and sequential basis. Interest income rose 3.1% y-o-y, while interest expenses increased 1.9%, reflecting the ongoing repricing dynamics as lending yields adjusted faster than deposit costs.

Despite this growth, overall Net Interest Margins (NIMs) declined by 14 basis points (bps) y-o-y to 2.92%, driven by compressed spreads amid competitive pricing and a quicker transmission of lending rate cuts relative to deposit repricing. However, sequentially, NIMs improved marginally by 3 bps. Both PSBs and PVBs recorded y-o-y declines in NIMs, although PVBs posted a slightly higher sequential uptick.

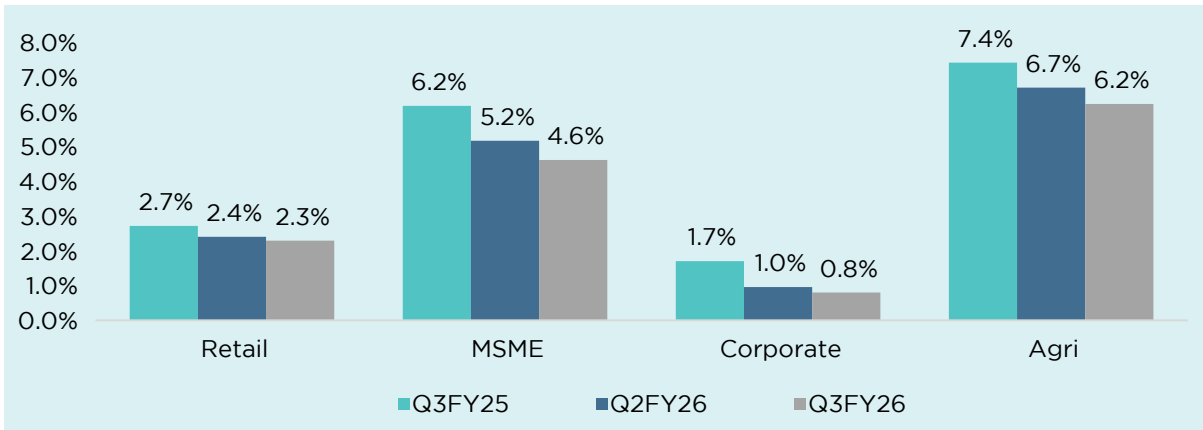
## Non-Interest Income Composition

Non-interest income remained driven by fee-based activities, while mark-to-market (MTM) gains normalised due to rising government bond yields. Fee income maintained a stable contribution to total revenues, emphasising the structural role of fee-led earnings, while treasury income contributed cyclical revenue. PSBs saw their treasury income rise modestly as a percentage of total assets, assisted by base effects, while PVBs reported smaller MTM gains.

## Cost Efficiency and Operating Expenses

The cost-to-income (CTI) ratio for SCBs improved modestly, reaching 48.7% in Q3FY26, supported by controlled operating expenses at PSBs. Nonetheless, elevated employee costs due to the implementation of

**Sector-wise GNPA of PSBs as a % of Total Advances**



CareEdge Calculations, Note includes 11 PSBs (5 Large, 6 Others)

new labour code norms and increased investments in digital transformation, branch expansion, and priority-sector lending certificates exerted upward pressure on overall operating costs. PVBs experienced higher employee opex growth, which constrained CTI improvements.

**Asset Quality: GNPA and NNPA**

Asset quality continued its positive trajectory in Q3FY26, with the Gross Non-Performing Assets (GNPA) ratio for SCBs improving to 1.9% due to steady recoveries, upgrades, lower slippages and continued sales to asset reconstruction companies. Net NPAs remained at historic lows. PSBs significantly reduced their gross NPAs by 16.2%, reflecting broad-based improvement, while PVBs recorded a modest contraction. Fresh slippages largely held in check, inching up 1.0% y-o-y but remaining contained. Recoveries and write-offs moderated y-o-y as the legacy stressed-asset pool continued to shrink, supported by calibrated write-offs and improved performance on live accounts.

Net NPAs for SCBs declined 11.2% y-o-y to ₹0.86 lakh crore, with PSBs driving the improvement through stronger provisioning and recoveries. In contrast, PVB net NPAs edged slightly higher due to sectoral stress in select retail and microfinance segments.

**Restructured Portfolio and Security Receipts**

The outstanding restructured loan portfolio continued to contract, reflecting healthier borrower performance and limited new stress. For eight select PSBs, restructured loans declined 32.4% y-o-y to ₹0.28 lakh crore, while an eight-bank sample of PVBs saw a 19.3% reduction. This secular moderation underscores strengthening credit quality across the system as pandemic-era relief schemes phase out. Security receipts (SRs) outstanding rose for

both PSBs and PVBs, increasing 56.6% y-o-y. PSBs recorded a significant 90.1% y-o-y increase in SRs, while PVBs saw a 20.0% rise, illustrating continued management of legacy stressed assets via structured resolution vehicles.

**Capital Ratios and Regulatory Buffers**

Capital adequacy across SCBs remained comfortably above regulatory benchmarks in Q3FY26. The median Common Equity Tier-1 (CET-1) ratio stood at 14.5%, reflecting stronger capital positions, supported by retained earnings and moderate risk-weighted asset growth. Although capital ratios can soften sequentially in interim quarters, the systemic cushion remains robust, underscoring banks' preparedness to absorb future shocks.

**Credit Costs and Provisioning**

Credit costs for SCBs increased 14.9% y-o-y to ₹0.28 lakh crore, driven by higher prudential provisions at PSBs and elevated provisioning by large private banks following supervisory directives. The annualised credit cost for SCBs edged up marginally. At the same time, PSBs experienced a y-o-y rise, and PVBs saw a modest contraction in provision intensity after adjusting for extraordinary standard asset provisioning.

**Sector Outlook**

PSBs sustained their earnings momentum for the sixth consecutive quarter, with net profit growing consistently. The sector's improved profitability was supported by credit expansion, higher non-interest income and gains from recoveries and treasury activities. While PVBs maintained strengths in fee income and operational efficiencies, their profit growth remained comparatively subdued in Q3FY26.



# OMCs' GRMs TO MODERATE AFTER A \$7-9/BBL RECOVERY IN 9MFY26

Indian Oil Marketing Companies (OMCs) experienced volatile Gross Refining Margins (GRMs) over the past three years. GRMs dropped from USD 10-12/bbl in FY24 to USD 2-4/bbl in Q1FY26 due to narrower Russian crude discounts and weaker product cracks. Margins rebounded to USD 9-13/bbl by Q3FY26, outperforming Singapore benchmarks, driven by agile inventory management, lower crude prices, and renewed Russian discounts. Looking ahead, GRMs are expected to moderate as Russian crude dependence unwinds, while marketing margins should conversely improve.

India's reliance on Russian crude peaked at ~36% of total imports in FY24 but declined to ~30% by Q3FY26. The strategic advantage of discounted Russian crude—formerly USD 8-10/bbl in FY24—narrowed to USD 3-4/bbl in FY25. Following the February 2026 India-US trade agreement, which reduced US tariffs on Indian goods from 50% to 18% in exchange for India reducing Russian crude imports, Indian refiners will increasingly pivot toward Middle Eastern, US, and Venezuelan grades.

Brent crude stayed well below FY23-FY24 highs, averaging ~\$62/bbl in December 2025, supporting Indian OMCs by strengthening refining margins without retail price hikes. Prices softened through CY25 due to weak Chinese demand, rising U.S. output, and lower geopolitical premiums, touching \$62.20/bbl in December before rebounding to \$66.45/bbl in

February 2026 amid U.S.-Iran tensions. Going forward, crude is expected to remain range-bound below \$70/bbl, providing a favourable backdrop for OMCs.

Following a Q1FY26 dip, Indian GRMs recovered sharply and decoupled from the Singapore benchmark, driven by optimal utilization and the availability of Russian Urals crude priced USD 3-6/bbl below Brent; however, the anticipated shift away from Russian supplies is expected to raise India's weighted average sourcing costs by USD 1.5-2.0/bbl, directly compressing the GRM premium historically enjoyed by Indian refiners. At the same time, Marketing Margins (MM) came under pressure over the past two quarters as stagnant retail pump prices, combined with a sequential rise in international product prices—and therefore higher refinery transfer pricing—squeezed margins; yet MM remained healthy versus historical averages, supported further by the government's release of LPG subsidies from November 2025, and with GRMs expected to moderate, marketing margins are likely to improve in the near term.

"The performance of the Indian downstream oil sector is currently driven by the dual engines of high GRMs and healthy Marketing Margins. As we transition into FY27, the narrative is likely to shift from high GRMs to moderate but sustainable GRMs. While GRMs are expected to moderate from their recent peak levels due to global supply pressures and realignments in crude oil sourcing, they are likely to settle at \$6-\$8/bbl, which is accretive to the historical average. However, the durability of this trend will depend on global crude prices remaining benign, though they can be susceptible to sudden geopolitical trade dynamics. With an expected moderation in GRMs and steady fuel retail prices, Marketing Margin is expected to improve going forward in the medium-term," said Hardik Shah, Director at CareEdge Ratings.



# EVOLVING TRADE RELATIONS TO STRENGTHEN INDIA'S LEATHER INDUSTRY



India's leather industry is positioned for strong and sustained export growth, supported by the combined impact of trade liberalisation, fiscal initiatives, and recent tariff adjustments. The Union Budget 2026-27, together with the implementation of the India-EU Free Trade Agreement (FTA) and reduction in U.S. import tariffs, has created a more competitive operating environment for the industry.

These policy developments are likely to enhance India's ability to capture higher-value opportunities, deepen engagement with leading global brands, and strengthen its position within international supply chains.

Elimination of EU import tariffs, currently as high as 17%, under the FTA substantially enhances the cost competitiveness of Indian leather and footwear products in the European market. This will support India's exports of around Rs. 0.21 lakh crore (USD 2.4 billion) and help Indian companies gain a larger share of the EU's leather and footwear market imports valued at approximately Rs. 8.71 lakh crore (USD 100 billion).

The government of India, in its Union Budget 2026-27, introduced measures to strengthen India's leather and footwear industry by reducing Basic Customs Duty on key inputs, thereby lowering production costs and improving global competitiveness. It also extends export realisation timelines from six months to one year, easing working capital pressures and better aligning with European buying cycles.

After the 50% tariff hike in 2025, Indian products became uncompetitive in the U.S., prompting a shift in exports to lower-margin markets. The February 2026 tariff cut is expected to restore competitiveness, boost demand, and support margins, helping India regain U.S. leather market share. As demand stabilises, exporters may benefit from better planning, stronger pipelines, and improved capacity utilisation hubs.

"The alignment of trade liberalisation, fiscal measures, and tariff adjustments marks a key turning point for India's leather industry. Improved access to European markets, renewed competitiveness in the U.S., and lower domestic cost pressures together strengthen India's position in global trade," said Rajan Sukhija, Associate Director, CareEdge Ratings.

Puneet Kansal, Director, CareEdge Ratings, opined, "Zero duty EU access and budget-led cost efficiencies, along with the U.S. tariff reduction, strengthen demand visibility and enable Indian exporters to capture higher value opportunities and consolidate their position in global supply chains."

"The Indian leather sector is on a strong growth path, aiming for a USD 50 billion turnover by 2030, supported by rising exports and domestic demand. The industry is deepening its focus on sustainability and technology through eco-friendly tanning, zero liquid discharge systems, and waste reduction practices. Companies are also scaling value-added production, especially in footwear, to capture greater market share in the US and EU. With its emphasis on innovation, environmental compliance, and export diversification, the sector is well positioned for modernisation and long-term expansion," says Priti Agarwal, Senior Director, CareEdge Ratings.



# HEAT MAP AND PROJECTION TABLE

		Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26
PMI-M	Unit	56.3	58.1	58.2	57.6	58.4	59.1	59.3	57.7	59.2	56.6	55.0	55.4	56.9
PMI-S	Unit	59.0	58.5	58.7	58.8	60.4	60.5	62.9	60.9	58.9	59.8	58.0	58.5	58.1
GST Collections	Rs lakh crore	1.7	2.0	2.2	1.9	1.7	1.8	1.7	1.8	1.9	1.7	1.7	1.9	1.8
E-Way Bill	Crore	11.2	12.5	11.9	12.3	11.9	13.2	12.9	13.2	12.7	13.0	13.8	13.7	13.3
Air Passenger Traffic	Crore	3.5	3.6	3.6	3.5	3.4	3.2	3.3	3.2	3.5	3.8	3.6	3.9	
PV Sales	Lakh	3.9	4.1	3.6	3.7	3.5	3.7	3.6	4.0	4.7	4.4	4.2	4.6	
2-3-Wheeler Sales	Lakh	18.6	21.1	19.0	21.2	20.5	21.1	23.8	27.2	27.6	25.3	21.1	24.9	
Tractor Sales	Lakh	0.7	0.9	0.9	1.0	1.2	0.7	0.7	1.5	1.7	1.0	0.8	1.0	
IIP	y-o-y%	2.7	3.9	2.6	1.9	1.5	4.3	4.1	4.6	0.5	7.2	8.0	4.8	
Core Sector	y-o-y%	3.4	4.5	1.0	1.2	2.2	3.7	6.5	3.3	-0.1	2.1	4.7	4.0	
Power Consumption	y-o-y%	-0.8	6.7	2.2	-4.9	-1.5	2.1	4.3	3.2	-6.0	-0.8	6.1	3.9	4.9
Petroleum Consumption	y-o-y%	-5.2	-3.1	0.2	1.1	0.5	-4.4	4.8	7.0	-1.5	0.6	4.6	2.8	5.8
Outstanding Bank Credit - Total	y-o-y%	11.0	11.0	10.3	9.0	9.5	10.0	10.0	10.4	12.5	11.5	14.5	14.5	
Capital Goods Import	y-o-y%	-0.5	8.6	21.5	14.3	2.6	12.2	-1.3	10.1	8.7	13.1	13.2	5.2	
Merchandise Exports	y-o-y%	-10.8	0.8	-3.8	-1.2	-1.3	13.3	5.7	6.0	-12.5	18.7	1.3	0.6	

Indicator	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26 Forecast	FY27 Forecast
Gross Domestic Product (y-o-y%)	6.5	3.9	-5.8	9.7	7.6	9.2	6.5	7.6 #	7.2
CPI Inflation (y-o-y%)	3.4	4.8	6.2	5.5	6.7	5.4	4.6	2.1	4.3
Fiscal Deficit (As % of GDP)	3.4	4.6	9.2	6.8	6.4	5.6	4.8	4.4	4.3
Current Account Balance (As % of GDP)*	-2.1	-0.9	0.9	-1.2	-2.0	-0.7	-0.6	-1.0	-1.0
10-Year G-Sec Yield (%) (Fiscal year-end)	7.5	6.1	6.3	6.8	7.3	7.1	6.6	6.4-6.6	6.6-6.8

# As per the second advanced estimates; \*(-) Deficit / (+) Surplus; Fiscal deficit data for FY26 is revised estimate and for FY27 is budget estimate.

## About Us

CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and strong position across the segments. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd, (II) CARE ESG Ratings Ltd, and (III) CareEdge Global IFSC Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings (Africa) Private Ltd in Mauritius, CARE Ratings South Africa (Pty) Ltd, and CARE Ratings Nepal Ltd. For more information: [www.careedge.in](http://www.careedge.in).

Privacy Policy applies. For Privacy Policy please refer to [https://www.careratings.com/privacy\\_policy](https://www.careratings.com/privacy_policy)

© 2026, CARE Ratings Limited. All Rights Reserved.

This content is being published for the purpose of dissemination of information required as per applicable law and regulations and CARE Ratings Limited holds exclusive copyright over the same. Any reproduction, retransmission, modification, derivative works or use or reference to the contents, in whole, in part or in any form, is prohibited except with prior express written consent from CARE Ratings Limited.

## Corporate Office:

CARE Ratings Limited: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400022.

Phone : +91-22-6754 3456 | E-mail: [corp.comm@careedge.in](mailto:corp.comm@careedge.in) | CIN - L67190MH1993PLC071691

## Other Offices:

Ahmedabad | Andheri-Mumbai | Bengaluru | Chennai | Coimbatore | Hyderabad | Kolkata | Noida | Pune

## Media Contact

Mradul Mishra | [mradul.mishra@careedge.in](mailto:mradul.mishra@careedge.in) | +91-22-6754 3596

