Banks Maintain Steady Asset Quality in Q4FY26

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Synopsis

- Asset quality of SCBs improved further in Q4FY26, with the GNPA ratio declining to a multi-year low of 1.8% and the NNPA ratio remaining stable at 0.4% for the last two quarters. The improvement was driven by sustained recoveries, upgrades, calibrated write-offs, and lower incremental stress formation. Sequentially, GNPA levels remained moderate despite a marginal rise in slippages due to seasonal stress recognition in the agri and MSME portfolios during Q4. While the West Asia conflict remained a monitorable risk for select borrower segments, its impact on overall asset quality remained limited during the quarter.
- Credit costs moderated further in Q4FY26, with the annualised credit cost of SCBs declining to 0.33%, reflecting lower provisioning requirements and improving asset quality trends. The moderation was supported by lower stress formation, steady recoveries, and improving collection efficiencies across both PSBs and PVBs. Additionally, the quarter also saw select banks continue to maintain higher prudential and standard asset provisions, driven by management overlays, preparatory buffers for the upcoming Expected Credit Loss (ECL) framework, and contingent provisioning for potential stress arising from the West Asia conflict and related sectoral exposures. While current books show no immediate stress, the real impact of West Asian geopolitical tensions is likely to be visible in Q2FY27 or H2FY27. Recent government schemes (CGSMFI 2.0 and ECLGS 5.0) could help cushion potential stress in the vulnerable loan segments.
- Outstanding Security Receipts (SRs) remained broadly stable during the quarter, while the SRs-to-gross advances ratio moderated further, indicating continued resolution and recovery of legacy stressed assets across the banking sector.
- Going forward, asset quality is expected to remain broadly stable, though some stress may persist in select unsecured, MSME, and export-linked segments amid geopolitical tensions and related macroeconomic risks. However, strong provision buffers, prudent underwriting, and healthier corporate balance sheets are expected to support sector resilience. Consequently, SCB GNPA ratios are likely to remain broadly range-bound at around 1.9%–2.0% in FY27.

Asset Quality Remains Stable in Q4FY26

Figure 1: SCBs – Gross NPAs and Net NPAs Ratio Trend (%)

	FY24	FY25				FY26				(bps)	
Asset Quality	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**y-o-y**	**q-o-q**
GNPA Ratio											
Large PSBs	3.2	3.1	2.8	2.7	2.4	2.4	2.2	2.0	1.8	-60	-18
Other PSBs	4.3	4.1	3.9	3.5	3.1	3.0	2.7	2.5	2.3	-82	-27
PSBs	**3.5**	**3.3**	**3.1**	**2.9**	**2.6**	**2.5**	**2.3**	**2.1**	**1.9**	**-66**	**-20**
Large PVBs	1.6	1.7	1.6	1.6	1.5	1.6	1.4	1.4	1.3	-20	-12
Other PVBs	2.2	2.2	2.2	2.2	2.3	2.4	2.3	2.1	1.8	-42	-22
PVBs	**1.8**	**1.8**	**1.8**	**1.8**	**1.7**	**1.8**	**1.7**	**1.6**	**1.4**	**-26**	**-15**
SCBs	**2.8**	**2.7**	**2.6**	**2.5**	**2.3**	**2.3**	**2.1**	**1.9**	**1.8**	**-51**	**-18**
NNPA Ratio											
Large PSBs	0.7	0.7	0.6	0.5	0.5	0.5	0.4	0.4	0.4	-12	-3
Other PSBs	0.9	0.8	0.8	0.7	0.6	0.6	0.5	0.5	0.4	-16	-3
PSBs	**0.8**	**0.7**	**0.6**	**0.6**	**0.5**	**0.5**	**0.4**	**0.4**	**0.4**	**-13**	**-3**
Large PVBs	0.4	0.4	0.4	0.4	0.4	0.5	0.4	0.4	0.4	-4	-5
Other PVBs	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.5	0.5	-13	-8
PVBs	**0.4**	**0.5**	0.5	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.4**	**-7**	**-6**
SCBs	**0.6**	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**	**0.5**	**0.4**	**0.4**	**-10**	**-4**

Source: Ace Equity, CareEdge Calculations, Note: Includes 14 PSBs (5 Large, 9 Others) and 15 PVBs (3 Large, 12 Others)

- Asset quality of SCBs improved further in Q4FY26, with the GNPA stock declining 10.7% y-o-y to Rs 3.70 lakh crore and the GNPA ratio moderating to a multi-year low of 1.8%, compared to 2.3% in Q4FY25 and 1.9% in Q3FY26. The improvement was driven by contained fresh slippages, continued recoveries and upgrades, calibrated write-offs, and ongoing resolution of legacy stressed assets. PSBs continued to outperform PVBs, with the GNPA ratio declining 66 bps y-o-y, supported by lower stress formation and recoveries from legacy accounts.

Figure 2: PSBs: Recoveries, Upgrades, Write-Offs and Fresh Slippages (Rs. lakh Cr.)

PSBs	Q4FY25	Q3FY26	Q4FY26	y-o-y (%)	q-o-q (%)
Recoveries & Upgrades	0.15	0.12	0.13	-14.9	5.7
Write-Offs	0.17	0.09	0.12	-31.1	28.4
Fresh Slippages	0.25	0.17	0.22	-8.7	28.5

Source: Bank Presentations, CareEdge Calculations, 14 PSBs (5 Large PSBs + 9 Other PSBs)

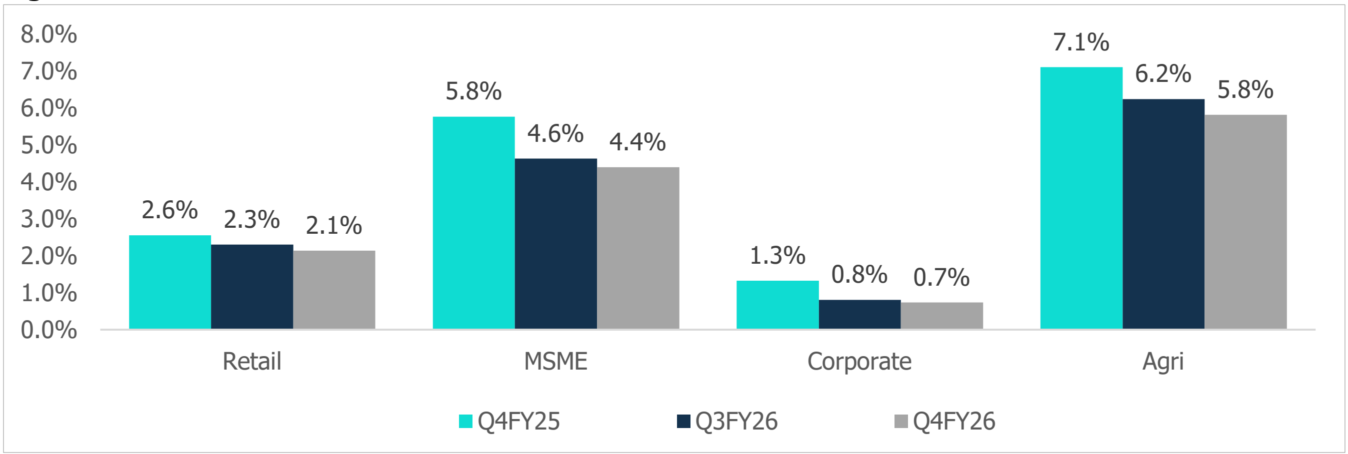
Figure 3: PVBs: Recoveries, Upgrades, Write-Offs and Fresh Slippages (Rs lakh Cr.)

PVBs	Q4FY25	Q3FY26	Q4FY26	y-o-y (%)	q-o-q (%)
Recoveries & Upgrades	0.17	0.14	0.15	-9.8	7.6
Write-Offs	0.18	0.16	0.16	-12.5	-2.7
Fresh Slippages	0.32	0.31	0.24	-23.2	-21.8

Source: Banks Presentation, CareEdge Calculations, Note 15 PVBs for recoveries, upgrades, write-offs, and slippages.

- Net NPAs of SCBs declined 8.2% y-o-y to Rs 0.82 lakh crore in Q4FY26. PSBs led the improvement, with NNPA stock declining 12.4% y-o-y to Rs 0.50 lakh crore, supported by resolution of legacy stressed accounts and lower fresh stress formation. PVBs also reported a modest improvement, with NNPA stock declining 2.3% y-o-y to Rs 0.32 lakh crore, aided by moderation in unsecured retail stress. Sequentially, SCBs reported a broad-based 3.7% decline in GNPA stock in Q4FY26. Although SCBs' fresh slippages increased marginally by 6.7% on a q-o-q basis, particularly in PSBs, largely due to seasonal renewal-related stress in the agri and MSME portfolios, which typically sees higher recognition in Q4. However, slippages remained lower than recoveries and resolution flows, resulting in continued improvement in overall asset quality.

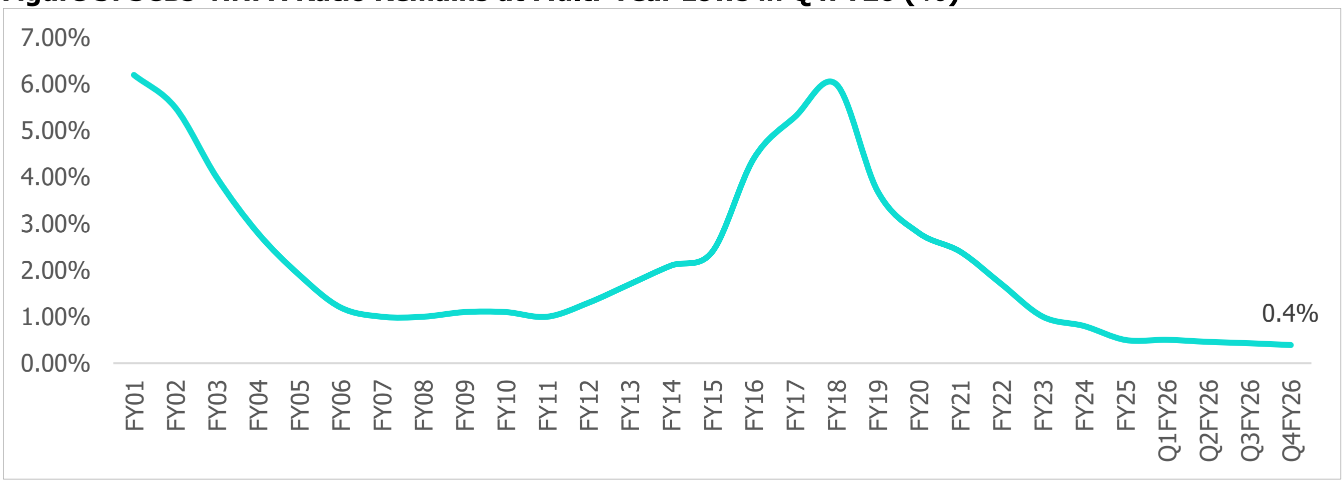
Figure 4: Sector-wise GNPA of PSBs as a % of Total Advances



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

- By Q4FY26, PSBs reported a broad-based improvement in sectoral asset quality, with GNPA ratios declining across retail, MSME, corporate, and agriculture segments. The improvement was driven by sustained recoveries, lower incremental stress, prudent underwriting, and continued resolution of legacy stressed accounts. Despite global geopolitical uncertainties, including tensions in the Middle East, domestic asset quality trends remained resilient, supported by stable corporate balance sheets and relatively healthy performance across secured retail and corporate portfolios.

Figure 5: SCBs' NNPA Ratio Remains at Multi-Year Lows in Q4FY26 (%)



Source: RBI, CareEdge Calculation, 29 SCBs (14 PSBs + 15 PVBs)

- The NNPA ratio has declined from 6.0% on March 31, 2018, to a historic low of 0.4% in Q3FY26, and has remained at this level over the past five quarters. The sustained moderation reflects continued recoveries from legacy stressed assets, strong provisioning buffers, calibrated write-offs, and ongoing resolution efforts, including ARC sales. While recoveries have normalised due to the significantly lower stock of legacy NPAs, overall asset quality trends remained resilient in Q4FY26.

Figure 6: Restructured Portfolio of Select SCBs (Rs. lakh Cr.) – Shows Reduction

PSBs	Dec 31, 2024	Dec 31, 2025	y-o-y (%)	PVBs	Dec 31, 2024	Dec 31, 2025	y-o-y (%)
CBI	0.05	0.04	0.0	City Union	0.01	0.01	-25.8
UBI	0.09	0.08	-10.5	Axis	0.01	0.01	-20.8
PNB	0.07	0.06	-14.5	Federal	0.01	0.01	-24.1
BoI	0.06	0.04	-29.8	Karnataka	0.01	0.00	-100.0
IB	0.05	0.04	-27.2	DCB	0.01	0.01	-25.5
BoM	0.02	0.02	-12.6	South Indian	0.01	0.01	-39.1
UCO	0.02	0.01	-16.7	KVB	0.01	0.01	-25.0
				ICICI	0.02	0.01	-28.8
Total	**0.31**	**0.29**	**-5.1**	**Total**	**0.09**	**0.06**	**-35.1**
% of Net Advances	**0.39**	**0.32**		**% of Net Advances**	**0.28**	**0.15**	

Source: Bank Presentations, CareEdge Calculations, Note: Includes 8 PVBs and 7 PSBs

- The outstanding restructured loan portfolio continued to moderate in Q4FY26, reflecting improving borrower performance, healthy repayments, and limited formation of new stress. Across seven select PSBs, the restructured book declined 5.1% y-o-y to Rs 0.29 lakh crore, while for eight select PVBs, it fell 35.1% y-o-y to Rs 0.06 lakh crore. Consequently, the restructured portfolio as a percentage of net advances moderated further for both PSBs and PVBs.

Consolidated Security Receipts

Figure 7: SRs Portfolio (Cr.)

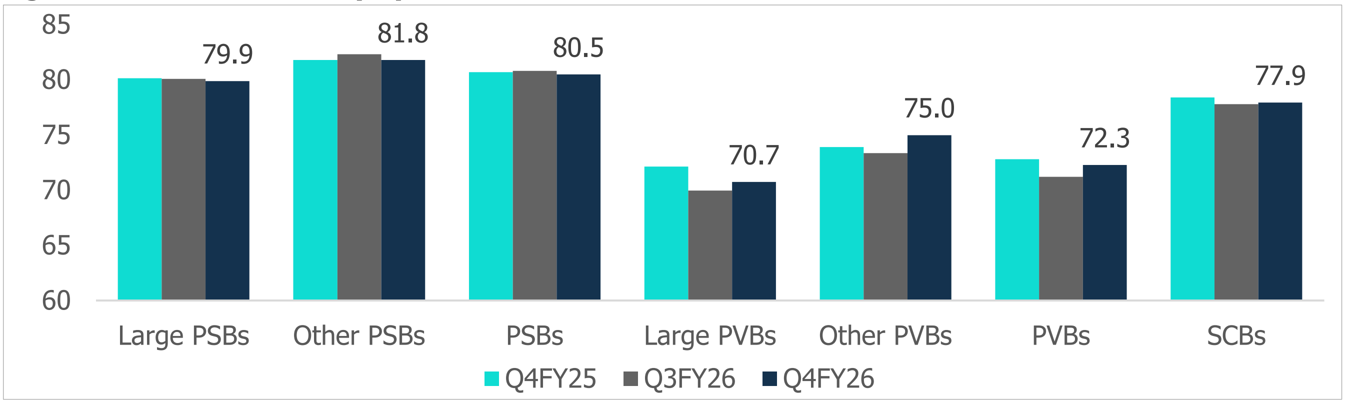
PSBs	Q4FY25	Q2FY26	Q3FY26	Q4FY26	PVBs	Q4FY25	Q2FY26	Q3FY26	Q4FY26
Canara	1,997	1944	1944	1723	**Axis**	1,340	1,328	1,301	1,290
UBI	870	829	829	914	**Federal**	5	5	4	4
PNB	1,720	2,291	2,291	2336	**KMB**	1,233	1,176	1,420	1,316
BoI	398	404	404	449	**SIB**	190	119	119	119
Indian Bank	-	485	485	487	**RBL**	128	125	121	-
CBI	665	777	777	756	**HDFC**	1,083	1,073	1,070	1,058
IoB	421	424	424	329	**ICICI**	1,049	795	795	732
UCO	49	348	348	345	**Bandhan**	202	138	473	472
BOB	490	453	406	476	**City Union**	33	28	29	29
IDBI	4,273	4,114	4,114	4,097	**IndusInd**	2,001	1,867	1,484	1,419
J&K	214	226	226	226	**KVB**	250	3	280	280
P&S	400	400	400	399					
Total	**11,497**	**12,694**	**12,647**	**12,537**	**Total**	**7,515**	**6,657**	**7,097**	**6,720**
% of Gross Adv	**0.17**	**0.20**	**0.17**	**0.16**	**% of Gross Adv**	**0.12**	**0.11**	**0.10**	**0.09**

Source: Bank Presentations, CareEdge Calculations, Note: Includes 11 PVBs and 12 PSBs

- Outstanding Security Receipts (SRs) of both PSBs and PVBs remained broadly stable in Q4FY26. SR holdings of select PSBs stood at Rs 0.13 lakh crore, while PVBs reported Rs 0.07 lakh crore. The SRs-to-gross advances ratio moderated further for both PSBs and PVBs, supported by recoveries, redemptions, and lower incremental transfers of stressed assets to ARCs, indicating continued improvement in overall asset quality.

Provision Coverage Ratio (PCR)

Figure 8: SCBs PCR Trend (%)



Source: Ace Equity, Note – PCR calculation (Provisions = GNPAs-NPAs), (PCR= Provisions/ GNPAs) Includes 14 PSBs and 15 PVBs (a total of 29 SCBs)

- The PCR of SCBs remained broadly stable at 77.9% in Q4FY26, reflecting continued strengthening in provisioning buffers despite improving asset quality. PSBs maintained a strong PCR of 80.5%, supported by sustained provisioning and lower incremental stress, while PVBs' PCR improved sequentially to 72.3%, aided by recoveries and resolution of legacy stressed assets. Overall, stable PCR levels across banks indicate continued balance sheet resilience and prudent provisioning practices.

Figure 9: Credit Costs (Profit & Loss) (Rs. Lakh – Cr.)

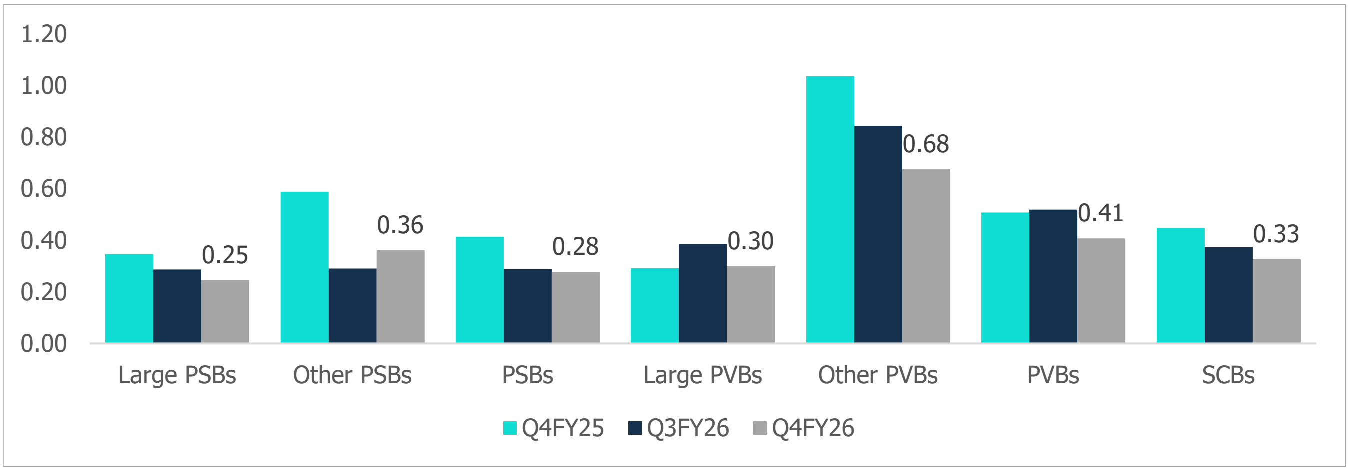
Credit Cost	Q4FY25	Q3FY26	Q4FY26	y-o-y (%)	q-o-q (%)
Large PSBs	0.10	0.10	0.09	**-21.1**	-10.9
Other PSBs	0.07	0.04	0.05	**-32.3**	30.0
PSBs	**0.18**	**0.13**	**0.13**	**-25.5**	0.3
Large PVBs	0.05	0.08	0.06	14.4	-18.5
Other PVBs	0.08	0.07	0.06	**-28.5**	-16.8
PVBs	**0.13**	**0.15**	**0.12**	**-11.0**	-17.7
SCBs	**0.31**	**0.28**	**0.25**	**-19.3**	-9.1

Source: Ace Equity, CareEdge Calculations, Note 14 PSBs (5 Large + 9 Others), 15 PVBs (3 Large + 12 Others)

- Credit costs for SCBs declined 19.3% y-o-y and 9.1% q-o-q to Rs 0.25 lakh crore in Q4FY26, reflecting continued improvement in asset quality, lower fresh stress formation, and reduced provisioning requirements. PSBs' credit costs remained broadly stable, declining 25.5% y-o-y, supported by lower slippages and continued recoveries; sequentially, they remained range-bound. In comparison, PVBs reported a decline in credit costs to Rs 0.12 lakh crore in Q4FY26, down 11.0% y-o-y and 17.7% q-o-q, aided by lower incremental provisioning requirements.
- The quarter also saw select banks maintain higher prudential and standard asset provisions through management overlays and preparatory buffers for the upcoming Expected Credit Loss (ECL) framework, along with contingent provisioning against potential stress from West Asian geopolitical tensions and related sectoral

exposures. The ongoing Middle East conflict has introduced a fresh layer of uncertainty for bank credit to MSMEs, primarily through disruptions in trade flows, elongation of receivable cycles, and elevated input and logistics costs, thereby tightening working capital positions for export-oriented and supply chain-linked units. While no material stress is visible in the current portfolio, the impact of such geopolitical developments could be more meaningful in Q2FY27/H2FY27. However, recent support measures such as CGSMFI 2.0 and ECLGS 5.0 may help cushion stress in vulnerable segments and maintain asset quality levels. (Refer ECLGS 5.0 to Support Entities Affected by the West Asia Conflict).

Figure 10: Credit Costs (In %, Annualised)



Source: Ace Equity, CareEdge Calculations, Note includes 14 PSBs (5 Large, 9 Others) and 15 PVBs (3 Large, 12 Others)

- The annualised credit cost of SCBs declined 12 bps y-o-y and four bps q-o-q to 0.33% in Q4FY26, reflecting lower provisioning requirements and improving asset quality. PSBs reported a 13-bps y-o-y decline to 0.28%, while PVBs witnessed an 11-bps y-o-y moderation to 0.41%, supported by contained stress formation and improving recoveries. Overall, the sequential decline across both segments indicates easing provisioning intensity for the quarter. Meanwhile, the transition to the Expected Credit Loss (ECL) framework represents a structurally positive development for the Indian banking system, reinforcing transparency, risk sensitivity, and alignment with global prudential standards. Consequently. Going forward, Stage 2 is likely to rise in importance for banks as, under ECL norms, any shift toward higher-yielding but riskier assets could attract disproportionately higher provisions, potentially offsetting margin gains and compressing returns on total assets.

Conclusion

According to Sanjay Agarwal, Senior Director, CareEdge Ratings, "As of Q4FY26, growth of net advances across 29 SCBs remained strong at 15.3% y-o-y, outpacing deposit growth of 11.2%. Asset quality trends also remained favourable; PSBs outperformed in terms of the pace of improvement, while PVBs maintained relatively lower GNPA levels. Credit costs also moderated during the quarter, reflecting lower provisioning requirements and stable recovery trends across both PSBs and PVBs. Going forward, asset quality is expected to remain broadly stable, although a moderate uptick in stress could emerge in select unsecured lending segments. External risks, including geopolitical tensions in the Middle East, elevated crude oil prices, and potential supply chain disruptions, are exerting pressure on MSMEs and related sectors. Nevertheless, strong provision buffers, prudent underwriting standards, and healthier corporate balance sheets are expected to support the banking sector's resilience, with SCB GNPA ratios likely to remain within the broad range of 1.9%–2.0% in FY27."

According to Saurabh Bhalerao, Associate Director, CareEdge Ratings, "Asset quality across SCBs remained resilient in Q4FY26, with the sector closing the year at its strongest levels seen in over a decade (based on GNPA and NNPA trend). Healthy recoveries, continued corporate deleveraging, and the gradual rundown of legacy NPAs supported further improvement in asset quality metrics, even as credit growth outpaced deposit growth. However, some stress is visible in select MSME and export-linked segments, particularly among borrowers vulnerable to weak external demand, elevated input costs, and elongated working capital cycles. The impact of ongoing geopolitical risks, especially the West Asia conflict, along with uncertain global demand conditions, may become visible from Q2FY27/H2FY27 onwards. While there is no material stress at present, these pressures could lead to a gradual build-up of stress in vulnerable pockets. At the same time, policy support measures such as ECLGS 5.0 are likely to provide near-term relief by improving liquidity, thereby cushioning asset quality to some extent."

Annexure

Figure A1: Gross NPAs and Net NPAs (In Rs lakh crores)

	FY24	FY25				FY26				(%)	
Asset Quality	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**y-o-y**	**q-o-q**
GNPA											
Large PSBs	2.34	2.27	2.16	2.12	1.99	1.96	1.87	1.79	1.74	-12.6	-3.3
Other PSBs	1.18	1.13	1.12	1.03	0.95	0.91	0.87	0.84	0.81	-14.9	-3.3
PSBs	**3.52**	**3.40**	**3.28**	**3.14**	**2.94**	**2.87**	**2.75**	**2.63**	**2.55**	**-13.3**	**-3.3**
Large PVBs	0.74	0.78	0.77	0.80	0.74	0.80	0.75	0.76	0.73	-0.9	-3.8
Other PVBs	0.40	0.41	0.44	0.44	0.46	0.49	0.48	0.44	0.42	-9.4	-6.1
PVBs	**1.14**	**1.19**	**1.20**	**1.24**	**1.20**	**1.28**	**1.24**	**1.20**	**1.15**	**-4.2**	**-4.7**
SCBs	**4.66**	**4.59**	**4.48**	**4.38**	**4.14**	**4.16**	**3.98**	**3.84**	**3.70**	**-10.7**	**-3.7**
NNPA											
Large PSBs	0.49	0.48	0.43	0.43	0.39	0.39	0.37	0.36	0.35	-11.4	-2.3
Other PSBs	0.25	0.21	0.21	0.20	0.17	0.17	0.15	0.15	0.15	-14.9	-0.4
PSBs	**0.74**	**0.69**	**0.64**	**0.63**	**0.57**	**0.56**	**0.52**	**0.51**	**0.50**	**-12.4**	**-1.7**
Large PVBs	0.17	0.19	0.20	0.21	0.21	0.23	0.22	0.23	0.21	4.0	-6.3
Other PVBs	0.12	0.12	0.13	0.12	0.12	0.13	0.13	0.12	0.10	-13.2	-11.9
PVBs	**0.29**	**0.31**	**0.32**	**0.34**	**0.33**	**0.36**	**0.35**	**0.35**	**0.32**	**-2.3**	**-8.2**
SCBs	**1.03**	**1.00**	**0.97**	**0.96**	**0.89**	**0.92**	**0.87**	**0.85**	**0.82**	**-8.8**	**-4.4**

Source: Ace Equity, CareEdge Calculations, Note: Includes 14 PSBs (5 Large, 9 Others) and 15 PVBs (3 Large, 12 Others)

Note: Analysis based on 29 scheduled commercial banks (14 PSBs and 15 PVBs). Prior-period numbers are not comparable to earlier reports due to the reclassification of select banks.

Large PSBs	Bank of Baroda	Canara Bank	Indian Bank	Punjab National Bank	State Bank of India		
Other PSBs	Bank Of India	Bank Of Maharashtra	Central Bank of India	Indian Overseas Bank	IDBI Bank	UCO Bank	Union Bank of India
	Jammu & Kashmir Bank	Punjab & Sind Bank					
PSBs		**Large PSBs and Other PSBs (Total 14 PSBs)**					
Large PVBs	HDFC Bank	ICICI Bank	Axis Bank				
Other PVBs	Yes Bank	IDFC First Bank	RBL Bank	Kotak Mahindra Bank	IndusInd Bank	Federal Bank	South Indian Bank
	Dhanlaxmi Bank	DCB Bank	Bandhan Bank	City Union Bank	Karur Vysya Bank		
PVBs		**Large PVBs and Other PVBs (Total 15 PVBs)**					
SCBs		**PSBs + PVBs (Total 29 Banks)**					

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