

In Q4FY26, Banks Sustain their Bottom Line Amid Margin Pressures

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Synopsis

- For Q4FY26, Scheduled Commercial Banks (SCBs) reported net advances growth of 15.3% year-on-year (y-o-y), supported by broad based credit growth and credit off-take outpacing deposit growth, inching the credit-to-deposit (CD) ratio to 81.4%.
- Net Interest Margin (NIM) reduced by 11 bps y-o-y to 2.87% in Q4FY26, reflecting continued pressure on lending rates, elevated deposit costs and the ongoing shift towards higher-cost term deposits.
- Asset quality of SCBs improved in Q4FY26, with the gross non-performing assets (GNPA) ratio declining to a multi-year low of 1.8% and the net NPA (NNPA) ratio remaining stable at 0.4% for the last two quarters.
- Credit costs moderated further in Q4FY26, with annualised credit cost of SCBs declining to 0.33%. The impact of the ongoing West Asian geopolitical tensions may emerge with a lag, potentially becoming visible from Q2FY27/H2FY27 onwards, particularly in vulnerable micro, small and medium enterprise (MSME), unsecured, and export-oriented segments. Policy support through schemes such as CGSMFI 2.0 and ECLGS 5.0, strong provision buffers, and healthier corporate balance sheets, is expected to support sector resilience. As a result, SCB GNPA ratios are likely to remain broadly stable in the range of 1.9–2.0% in FY27.
- SCBs sustained quarterly net profits above the ₹1 lakh crore mark in Q4FY26, with profits reaching ₹1.04 lakh crore, registering a growth of 11.8% y-o-y. Earnings growth in the quarter was primarily supported by higher interest income, stable operating expenses, and benign asset quality trends. However, gains from other income moderated compared to the previous year amid rising bond yields, partially limiting the upside in profitability.
- Return on Assets (RoA, annualised) of SCBs remained flat on y-o-y and q-o-q basis at ~1.34% in Q4FY26. While growth in interest income and fee-based income continued to support profitability in the quarter, overall improvement in RoA was constrained by moderation in treasury income amid elevated bond yields and gradual transmission of lower lending rates. Steady balance sheet expansion and a higher share of relatively lower-yielding secured retail advances also limited meaningful improvement in overall RoA in the quarter.

PSBs Continue to Outpace PVBs

Figure 1: Net Advances Growth

Net Advances	Q4FY25 y-o-y (%)	Q4FY26 y-o-y (%)	Q4FY26 q-o-q (%)
PSBs	13.1	16.3	5.2
PVBs	8.7	13.6	4.8
SCBs	11.4	15.3	5.1

Source: Ace Equity, Bank Filings, CareEdge Ratings Calculations; Note: Includes 14 PSBs (five Large, nine Others) and 16 PVBs (three large, 13 Others)

- SCBs reported 15.3% y-o-y growth in net advances in Q4FY26, reflecting sustained credit expansion in the year, supported by healthy retail loan growth, continued traction in MSME financing and a pickup in corporate lending. Corporate advances grew at a healthy pace, driven by emerging opportunities across sectors such as

electronics, food processing, automobiles and auto ancillaries, renewable energy, and semiconductors, with PSBs continuing to outperform PVBs in the quarter.

- On a sequential basis, SCBs recorded 5.1% q-o-q growth in net advances in Q4FY26, primarily driven by year-end disbursement acceleration, higher working capital utilisation, and ongoing loan disbursements in infra and housing, typically witnessed toward the close of the financial year and lower competition from the bond market.

Sustained Pressure on CASA as Deposit Mobilisation Challenges Persist

Figure 2: Movement in CASA Ratio

CASA Ratio (%)	Q4FY25	Q3FY26	Q4FY26	y-o-y (Changes in bps)	q-o-q (Changes in bps)
PSBs	36.6	36.0	35.9	-70	-10
PVBs	37.5	35.9	35.0	-250	-90
SCBs	36.9	35.9	35.6	-130	-30

Source: Ace Equity, Bank Filings, CareEdge Ratings Calculations; Note: Includes 14 PSBs and 16 PVBs

- SCBs reported a 130-bps y-o-y drop in the current account saving account (CASA) ratio to 35.6% in Q4FY26, reflecting moderation in low-cost deposit mobilisation amid a shift towards alternative investment avenues. The decline was largely driven by PVBs, which saw a consistent decline across periods, driven by deposit migration to term deposits and sustained competitive pressures, while PSBs witnessed relatively lower moderation, supported by their granular liability franchise and higher share of government-linked balances.

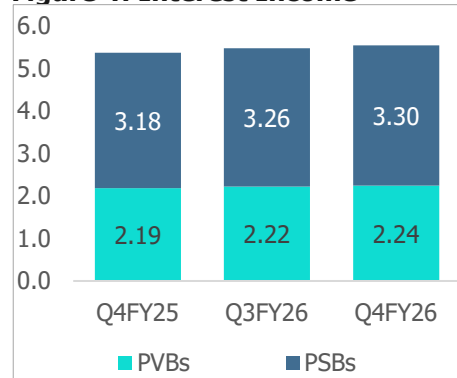
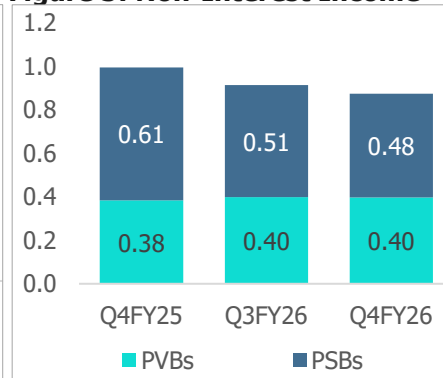
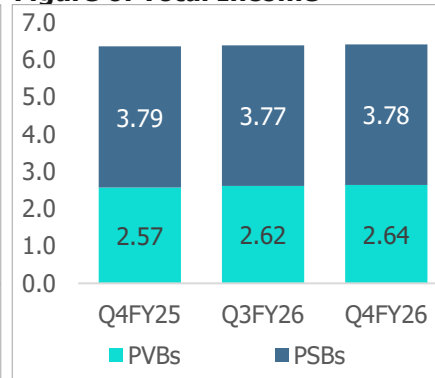
NII Expand Moderately Across the Board

Figure 3: NII Growth (Rs lakh Cr, %)

NII	Q4FY26 (Rs. Lakh Cr)	Q4FY26 y-o-y (%)	Q4FY26 q-o-q (%)
PSBs	1.20	5.4	2.0
PVBs	1.03	8.6	3.1
SCBs	2.23	6.9	2.5

Source: Ace Equity, Bank Filings, CareEdge Ratings Calculations; Note: Includes 14 PSBs (five Large, nine Others) and 16 PVBs (three large, 13 Others)

- SCBs reported 6.9% y-o-y growth in NII in Q4FY26, improving from 3.6% in the corresponding period last year. PVBs outpaced PSBs, supported by incremental lending and relatively favorable product mix. However, the pace of NII growth remained partly constrained by margin pressures arising from elevated deposit costs and the continued shift towards higher-cost term deposits, which offset a part of the benefit from healthy credit growth. Sequentially in Q4FY26, NII for SCBs saw an increase of 2.5%. Among SCBs, PVBs and PSBs reported an uptick.

Total Income (Rs. Lakh, Cr.)
Figure 4: Interest Income

Figure 5: Non-Interest Income

Figure 6: Total Income


Source: Ace Equity, Bank Filings, CareEdge Ratings Calculations; Note: Includes 30 SCBs (16 PVBs and 14 PSBs)

- SCBs' total income grew marginally by 0.8% y-o-y to ₹6.42 lakh crore in Q4FY26, lower than the previous year's growth of 11.0%. This slower growth was primarily driven by losses by treasury business due to adverse rate movements in government securities.
- Interest income of SCBs grew modestly by 3.2% y-o-y, supported by broad based growth across segments. PSBs reported a 0.5% decline in total income growth in Q4FY26 while on a sequential basis, total income remained largely flat, primarily due to treasury losses and continued pressure on margins.
 - Interest income for PSBs increased by 3.6% y-o-y alongside credit growth of 16.3% y-o-y coming from Retail, Agriculture, and MSME (RAM) segments, while other income benefited from recoveries in written-off accounts.
- PVBs' total income rose by 2.8% y-o-y in Q4FY26, marginally outpacing PSBs, aided by advances growth of 13.6%. However, income growth remained relatively moderate due to higher competition and a higher mix of granular secured retail lending, alongside weakness in treasury income.

Figure 7: NIM Trend (%): NIM Compression Persists Across Banks

	FY24	FY25				FY26				y-o-y (bps)	q-o-q (bps)
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
PSBs	2.84	2.75	2.72	2.68	2.62	2.49	2.51	2.54	2.49	-13	-5
PVBs	3.77	3.75	3.73	3.68	3.58	3.54	3.51	3.56	3.50	-8	-6
SCBs	3.19	3.14	3.11	3.06	2.98	2.89	2.89	2.92	2.87	-11	-5
q-o-q (bps)	2	-5	-3	-5	-8	-9	0	3	-5		

Source: Ace Equity, Bank Filings, CareEdge Ratings Calculations; Note: Includes 14 PSBs and 16 PVBs

- NIMs across SCBs have remained under pressure in the last eight quarters, with margins largely declining almost every quarter, except for a slight improvement in Q3FY26.
- NIMs of SCBs declined by 11 bps y-o-y and 5 bps q-o-q to 2.87% in Q4FY26, reflecting continued pressure from elevated deposit costs. Although margins for a few PSBs and PVBs showed some stability in the quarter, the overall trend across banks remained weak, as margins declined in Q1FY26 and remained broadly similar through subsequent quarters, indicating persistent pressure on margins.

Figure 8: Fee-Based Income as percentage of Total assets (annualised)

Fee-Based Income as a percentage of Total Assets	Q4FY25	Q3FY26	Q4FY26
PVBs	0.03	0.03	0.02
PSBs	0.13	0.11	0.13
SCBs	0.06	0.05	0.01

Source: Ace Equity, Bank Filings, CareEdge Ratings Calculations; Note: Includes 30 SCBs (16 PVBs and 14 PSBs)

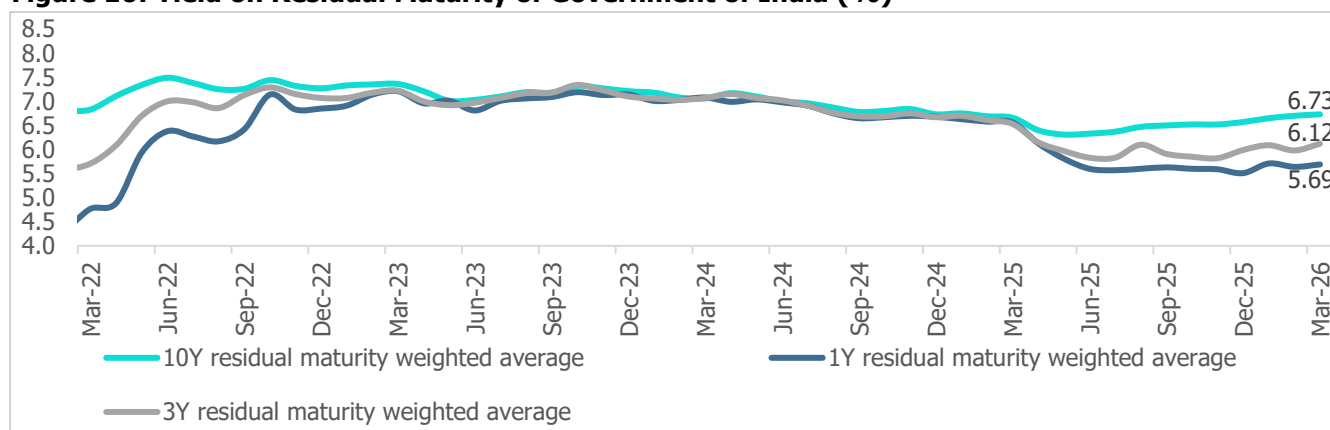
- Fee-based income remained a key support for PPOP growth in Q4FY26. As a percentage of total assets (annualised), fee-based income for PSBs improved q-o-q reflecting continued improvement in business momentum, transaction-led income generation, and recovery in core banking operations. Meanwhile, PVBs witnessed slight moderation indicating rising competition. At the aggregate SCB level, fee-based income as a percentage of total assets also moderated in the quarter.

Figure 9: Treasury Income as a percentage of Total assets (annualised)

Treasury Income as a percentage of Total Assets	Q4FY25	Q3FY26	Q4FY26
PVBs	0.06	0.24	0.08
PSBs	0.32	0.12	0.00
SCBs	0.25	0.19	0.03

Source: Ace Equity, Bank Filings, CareEdge Ratings Calculations; Note: Includes 30 SCBs (16 PVBs and 14 PSBs)

- The treasury income of select SCBs, as a percentage of total assets, witnessed a decrease of 16 bps sequentially, primarily driven by mark-to-market (MTM) losses on government securities as bond yields increased.
- Despite adverse yield environment, select PSBs continued to expand their overall investment books, with SLR and non-SLR investments increasing by 5% and 2% q-o-q, respectively.
- Increase in investment across categories reflects a calibrated deployment of surplus liquidity, partly driven by the drawdown of cash balances, as banks balanced accrual income generation, liquidity management, and regulatory requirements despite an adverse MTM environment. Accordingly, held-to-maturity (HTM), available for sale (AFS), and held-for-trading (HFT) portfolios for select PSBs increased by 13%, 21%, and 14% q-o-q, respectively.
- Increase in HTM investments reflects banks' preference for earnings stability and lower sensitivity to MTM volatility. At the same time, rise in HFT and AFS books suggests selective positioning to benefit from short-term trading opportunities and higher accrual yields.

Figure 10: Yield on Residual Maturity of Government of India (%)

Source: CMIE; Note: Includes the Monthly weighted average 10-year residual maturity period.

- Yield on the 10-year Government of India bond hardened to 6.73% as of March 2026 from 6.57% in December 2025, reflecting renewed upward pressure on market interest rates. The rise in yields led to a corresponding decline in bond prices, resulting in MTM losses on banks' treasury portfolios and consequently weighing on treasury income in the quarter. Increase has been relatively sharper at the shorter end of the yield curve, leading to a flattening of the curve and compression in term spreads. In contrast, banks' weighted-average lending rates (WALRs) on outstanding loans adjusted more gradually, reflecting slower transmission dynamics inherent in loan repricing. This rise in G-Sec yields, particularly as the 10-year benchmark moves closer to 7.00%, would continue to pressure banks through elevated MTM losses, weaker treasury performance, higher funding costs, and potential pressure on investment book valuations.

Figure 11: Cost-to-Income Ratio Improves y-o-y, Aided by PSBs

	FY24	FY25				FY26				Y-o-Y	Q-o-Q
Group	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	(bps)	(bps)
PVBs	45.5	46.5	46.3	46.3	47.9	50.3	47.2	47.7	47.7	-20	0
PSBs	52.3	49.3	48.1	51.2	51.1	49.0	50.9	49.5	50.6	-50	110
SCBs	49.2	48.0	47.3	48.9	49.7	49.6	49.2	48.7	49.3	-40	60

Source: Ace Equity, Bank Filings, CareEdge Ratings Calculations; Note: Includes 30 SCBs (16 PVBs and 14 PSBs)

- Despite pressure on NIMs and treasury income, the cost-to-income (CTI) ratio of SCBs improved marginally in Q4FY26. The improvement was primarily supported by relatively stable operating expenses alongside growth in core operating income in the quarter. Moderation in opex was partly aided by a favourable base, as the corresponding quarter last year witnessed elevated employee-related provisioning for select PVBs. The sequential uptick in PSBs is attributed to rise in other opex for certain other PSBs.
 - Total operating expenses for PVBs grew by 6.6% on a y-o-y basis in Q4FY26, with this rise driven mainly by an 10.0% increase in other opex, majorly due to branch expansion. This is higher than the 2.0% increase in total operating expenses in the same period last year, attributed to rising tech investments and higher business acquisition costs. In contrast, PSBs witnessed a 5.0% y-o-y decline in total opex, led primarily by a reduction in employee expenses.

- While operating costs have normalised compared to the previous quarter, banks may witness upward pressure on employee expenses going into FY27 due to the expected commencement of industry-wide wage settlement negotiations, which could result in incremental provisioning towards salary revisions.

Operating Expenses (Rs. Lakh Cr.)

Figure 12: Employee Expenses

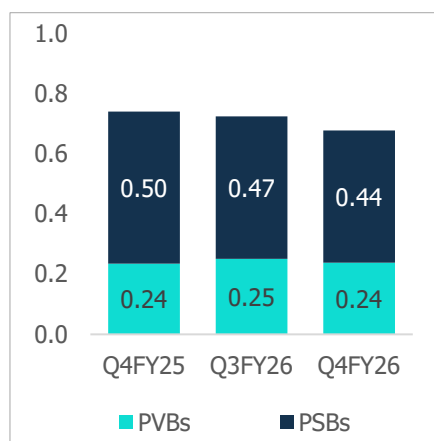
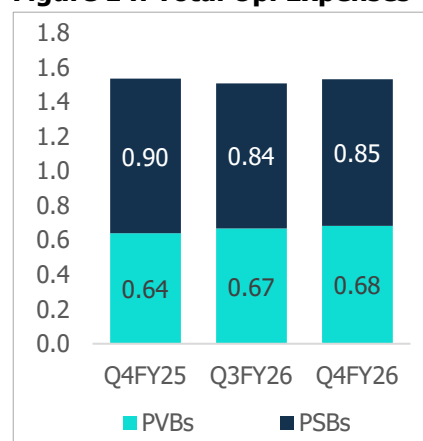


Figure 13: Other Op. Expenses



Figure 14: Total Op. Expenses



Source: Ace Equity, Bank Filings, CareEdge Ratings Calculations; Note: Includes 30 SCBs (16 PVBs and 14 PSBs)

- Total operating expenses for SCBs remained flat y-o-y to ₹1.53 lakh crore in Q4FY26, driven by an 8.4% decline in employee expenses. This decline was primarily driven by normalisation of prior-period wage-related provisioning and selective hiring. Select PSBs have increasingly adopted contractual hiring for specialist and technology-focused roles, which may have helped contain long-term employee-related liabilities.
- PSBs continue to invest in technology and digital capabilities, despite at a measured pace, while simultaneously expanding branch networks and physical touchpoints to strengthen financial inclusion and improve customer reach. Operating expenses are expected to remain elevated over the near term as banks continue to scale investments in data analytics, generative AI capabilities, digital infrastructure, and broader technology transformation initiatives, as indicated in recent management commentary and earnings calls.
 - Employee expenses for PVBs increased marginally by 0.9% y-o-y in Q4FY26, compared to a relatively 3.0% increase in Q4FY25. The rise was primarily driven by higher variable pay payouts and continued investments in technology and digital capabilities through incremental hiring.
 - Other expenses of SCBs are up by 7.5% in the quarter, where PSBs grew at 5.1%, and PVBs were up 10.0% y-o-y. Increase in PVBs' other expenses was largely attributable to one private-sector bank, where operating expenses were impacted by the recognition of losses related to a fraud incident, alongside ongoing investments in digital infrastructure and business and branch expansion initiatives. (For select banks, the total number of branches for SCBs rose by 21% y-o-y to 1,06,657 from 88,350 over a year ago).

PVBs are increasingly using digital platforms, automation, and AI to improve efficiency. Looking ahead, banks are still in early stages of AI adoption and are identifying ways to improve efficiency, especially in customer service, loan processing, and internal operations. As technology spending increases, employee costs are likely to decline as a share of total expenses.

Asset Quality Remains Stable in Q4FY26

Figure 15: SCBs – Gross NPAs and Net NPAs Ratio Trend (%)

Asset Quality	FY24	FY25				FY26				(bps)	
	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 Ratings Calculations, Note: Includes 14 PSBs (five Large, nine Others) and 16 PVBs (three Large, 13 Others)

- Asset quality of SCBs improved further in Q4FY26, with the GNPA stock declining 10.7% y-o-y to ₹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. 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 16: 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 Ratings Calculations, 14 PSBs (five Large PSBs + nine Other PSBs)

Figure 17: PVBs: Recoveries, Upgrades, Write-Offs and Fresh Slippages (Rs lakh Cr.)

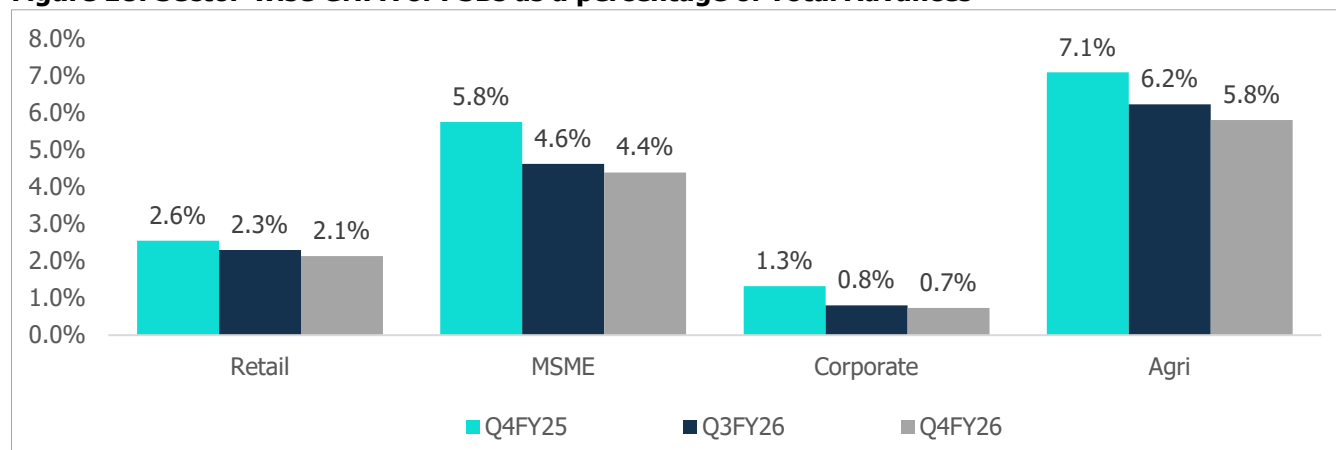
PVBs	Q4FY25	Q3FY26	Q4FY26	y-o-y (%)	q-o-q (%)
Recoveries & Upgrades	0.17	0.14	0.15	-9.8	7.6
Write-Offs	0.18	0.16	0.16	-12.5	-2.7
Fresh Slippages	0.32	0.31	0.24	-23.2	-21.8

Source: Banks Presentation, CareEdge Ratings Calculations, Note 16 PVBs for recoveries, upgrades, write-offs, and slippages.

- Net NPAs of SCBs declined 8.2% y-o-y to ₹0.82 lakh crore in Q4FY26. PSBs led the improvement, with NNPA stock declining 12.4% y-o-y to ₹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 ₹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.

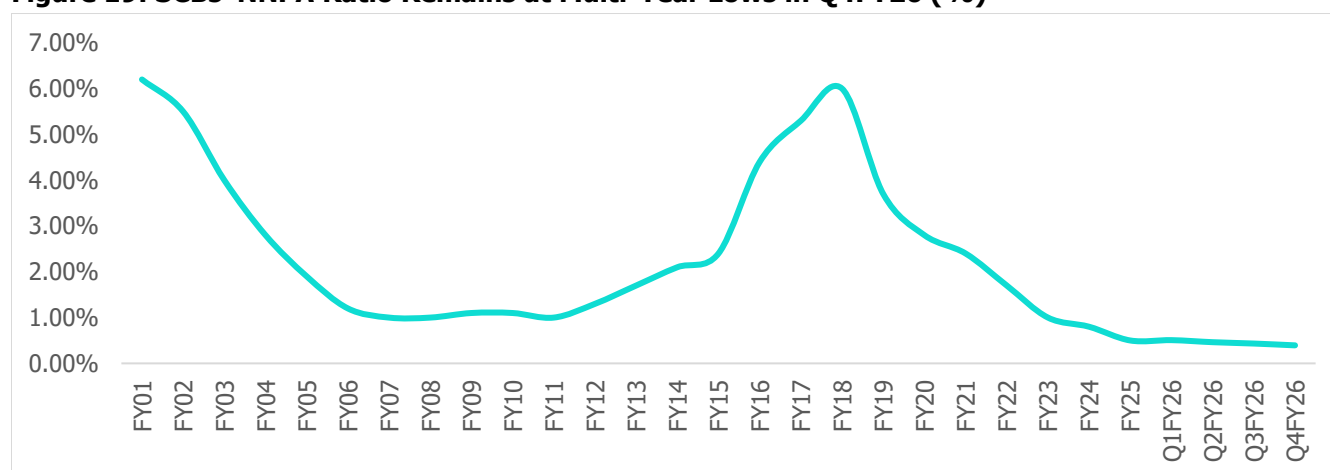
Figure 18: Sector-wise GNPA of PSBs as a percentage of Total Advances



Source: CareEdge Ratings Calculations, Note includes 11 PSBs (five Large, six Others)

- By Q4FY26, PSBs reported a broad-based improvement in sectoral asset quality, with GNPA ratios declining across retail, MSME, corporate, and agriculture segments. 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 19: SCBs' NNPA Ratio Remains at Multi-Year Lows in Q4FY26 (%)



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

- The NNPA ratio declined from 6.0% on March 31, 2018, to a historic low of 0.4% in Q4FY26, and has remained at this level in the last five quarters. Sustained moderation reflects continued recoveries from legacy stressed assets, strong provisioning buffers, calibrated write-offs, and ongoing resolution efforts, including ARC sales.

While recoveries normalised due to significantly lower stock of legacy NPAs, overall asset quality trends remained resilient in Q4FY26.

Figure 20: Restructured Portfolio of Select SCBs (Rs. lakh Cr.) – Shows Reduction

PSBs	Mar 31, 2025	Mar 31, 2026	y-o-y (%)	PVBs	Mar 31, 2025	Mar 31, 2026	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	ICICI	0.02	0.01	-28.8
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
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 Ratings Calculations, Note: Includes seven PVBs and seven PSBs

- 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 ₹0.29 lakh crore, while for eight select PVBs, it fell 35.1% y-o-y to ₹0.06 lakh crore. Consequently, the restructured portfolio as a percentage of net advances moderated further for PSBs and PVBs.

Consolidated Security Receipts

Figure 21: SRs Portfolio (Cr.)

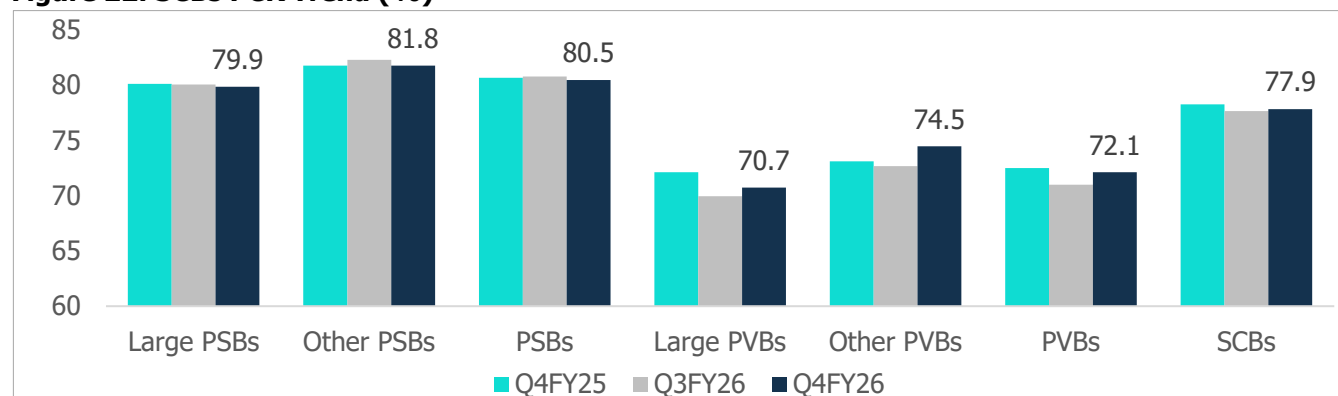
PSBs	Q4FY25	Q2FY26	Q3FY26	Q4FY26	PVBs	Q4FY25	Q2FY26	Q3FY26	Q4FY26
Canara	1,997	1944	1944	1723	Axis	1,340	1,328	1,301	1,290
UBI	870	829	829	914	Federal	5	5	4	4
PNB	1,720	2,291	2,291	2336	KMB	1,233	1,176	1,420	1,316
BoI	398	404	404	449	SIB	190	119	119	119
Indian Bank	-	485	485	487	RBL	128	125	121	-
CBI	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 Ratings Calculations, Note: Includes 11 PVBs and 12 PSBs

- Outstanding Security Receipts (SRs) of PSBs and PVBs remained broadly stable in Q4FY26. SR holdings of select PSBs stood at ₹0.13 lakh crore, while PVBs reported ₹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 22: SCBs PCR Trend (%)



Source: Ace Equity, Note – PCR calculation (Provisions = GNPA's-NPAs), (PCR= Provisions/ GNPA's) Includes 14 PSBs and 16 PVBs (a total of 29 SCBs)

- 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.

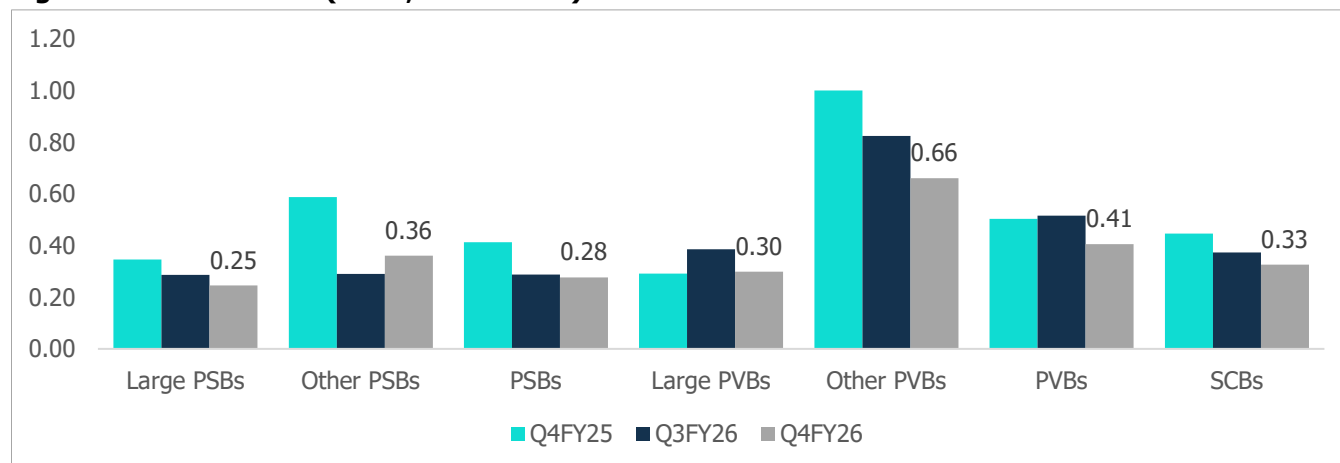
Figure 23: Credit Costs (Profit & Loss) (Rs. Lakh – Cr.)

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 Ratings Calculations, Note 14 PSBs (five Large + nine Others), 16 PVBs (three Large + 13 Others)

- Credit costs for SCBs declined 19.3% y-o-y and 9.1% q-o-q to ₹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 ₹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, and contingent provisioning against potential stress from West Asian geopolitical tensions and related sectoral exposures. The ongoing Middle East conflict introduced a fresh layer of uncertainty for bank credit to MSMEs,

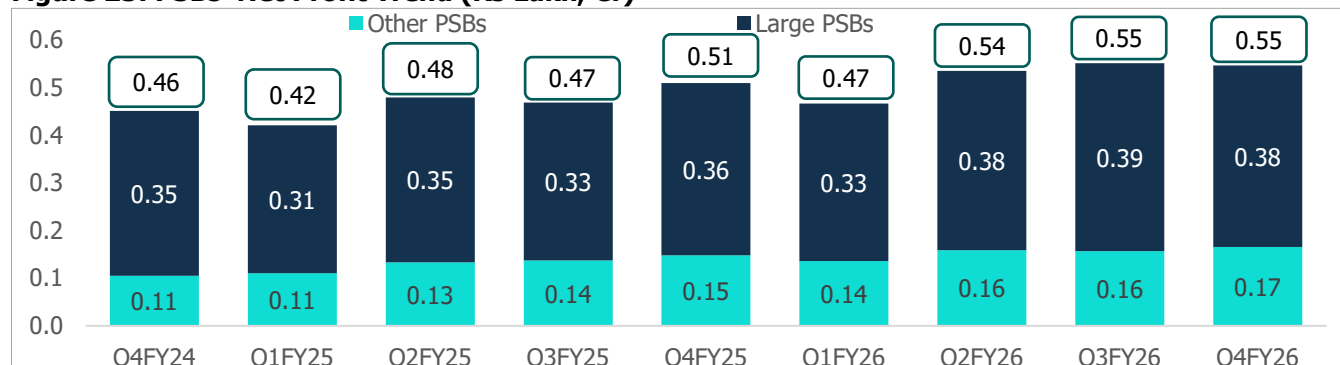
primarily through disruptions in trade flows, elongation of receivable cycles, and elevated input and logistics costs, tightening working capital positions for export-oriented and supply chain-linked units. While no material stress is visible in the current portfolio, the impact of such geopolitical 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 to [ECLGS 5.0 to Support Entities Affected by the West Asia Conflict](#)).

Figure 24: Credit Costs (In %, Annualised)


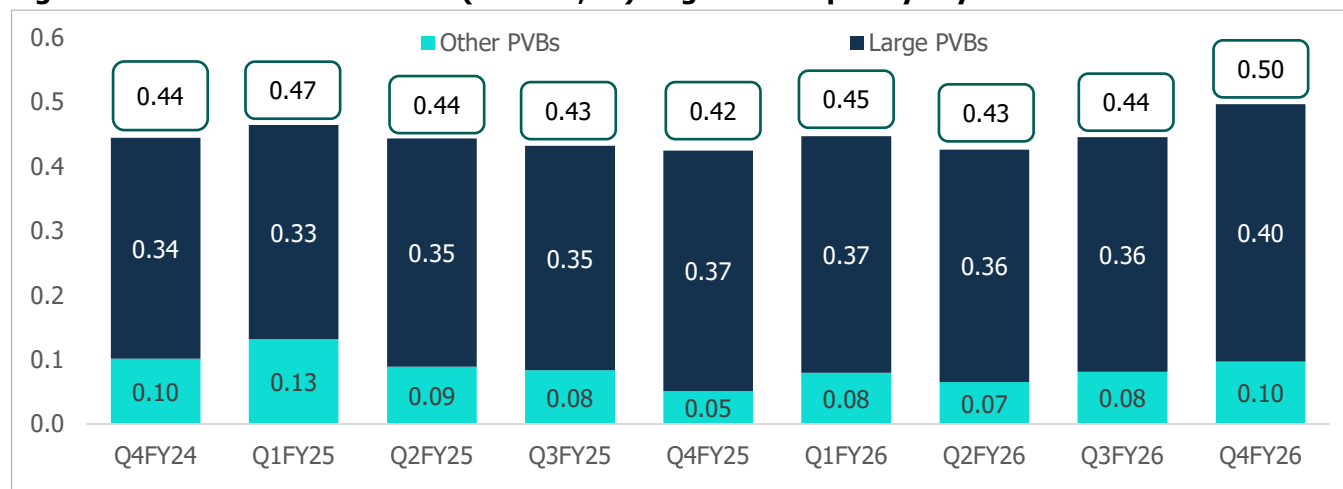
Source: Ace Equity, CareEdge Ratings Calculations, Note includes 14 PSBs (five Large, nine Others) and 16 PVBs (three Large, 13 Others)

- 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 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, shift toward higher yielding but riskier assets could attract disproportionately higher provisions, potentially offsetting margin gains and compressing returns on total assets.

PSBs Retain Earnings Lead for the Seventh Straight Quarter; PVBs Cross 0.5 lakh crore Mark

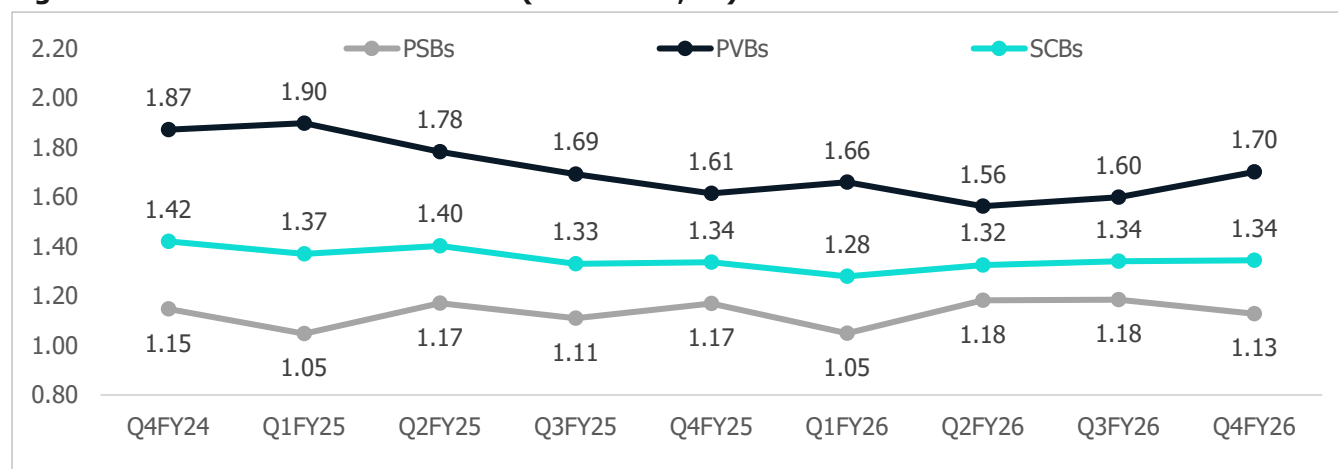
Figure 25: PSBs' Net Profit Trend (Rs Lakh, Cr)


Source: Ace Equity, CareEdge Ratings Calculations; Note: Includes 14 PSBs (five Large + nine Others).

Figure 26: PVBs' Net Profit Trend (Rs Lakh, Cr)- Significant Uptick y-o-y

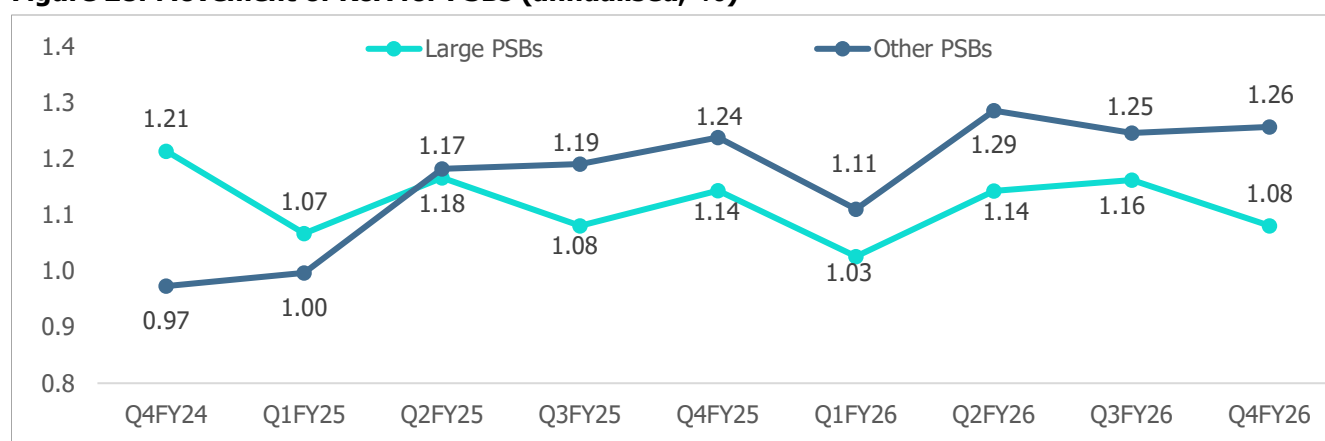
Source: Ace Equity, CareEdge Calculations; Note: Includes 16 PVBs (three Large + 13 Others)

- SCBs sustained quarterly net profits above the ₹1 lakh crore mark in Q4FY26, with profits reaching ₹1.04 lakh crore, registering a growth of 11.6% year-on-year (y-o-y) and 4.7% sequentially (q-o-q). Earnings growth in the quarter was primarily supported by higher interest income, stable operating expenses, and benign asset quality trends. However, gains from other income moderated compared to the previous year amid rising bond yields, partially limiting the upside in profitability.
 - PSBs recorded an increase of 7.2% y-o-y to ₹0.55 lakh crore. PSBs' profitability was significantly buoyed by gains in fee income and recoveries from technically written-off accounts. PSBs' relatively lower CD ratios (78.4% as of March 2026) have provided them with greater headroom for credit expansion.
 - In contrast, PVBs grew comparatively at a higher pace, growing by a robust 17.0% y-o-y primarily due to growth in interest income and continued strength in fee-based income. PVBs faced relatively lower treasury-related pressures than PSBs despite rise in bond yields, which supported their overall profitability.

Divergent Trends in RoA Amongst Bank-Groups; RoA for SCBs remain Flat**Figure 27: Movement of RoA for SCBs (annualised, %)**

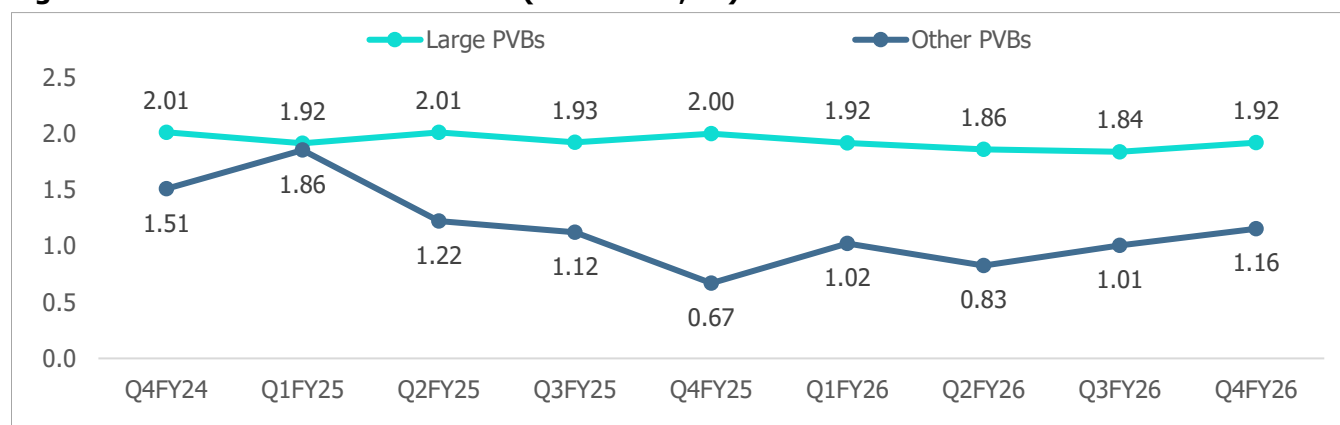
Source: Ace Equity, Bank filings, Note: Includes 14 PSBs (five Large + nine Other) and 16 PVBs (three Large + 13 Others).

- RoA of SCBs remained flat on a y-o-y and q-o-q basis in Q4FY26, as growth in interest income was largely offset by moderation in treasury income amid rising bond yields, continued pressure on margins due to elevated funding costs, and steady balance sheet expansion in the quarter. Higher contribution from relatively lower-yielding secured retail advances has also limited significant improvement in overall RoA for banks.
 - PSBs' RoA declined by four bps y-o-y in Q4FY26, due to mark-to-market losses in treasury assets, which impacted profitability.
 - In contrast, PVBs' RoA improved by nine bps y-o-y in Q4FY26, supported by relatively lower margin pressures, a higher share of higher-yielding advances and steady traction in fee-based income. Improvement was also partly aided by base effect, as profitability in Q4FY25 was impacted by fraud-related provisioning at one PVB. However, overall upside has remained limited due to one-off provisions by select PVBs in the quarter, driven by the ECL framework and uncertainties arising from the West Asia crisis.

Figure 28: Movement of RoA for PSBs (annualised, %)


Source: Ace Equity, Bank filings, Note: 14 PSBs (five Large + nine Others)

RoA for Large PSBs declined by six bps y-o-y in Q4FY26. The decline was driven by losses in the treasury portfolio. In contrast, RoA for Other PSBs improved marginally by two bps y-o-y in Q4FY26, supported by relatively better income growth and controlled opex.

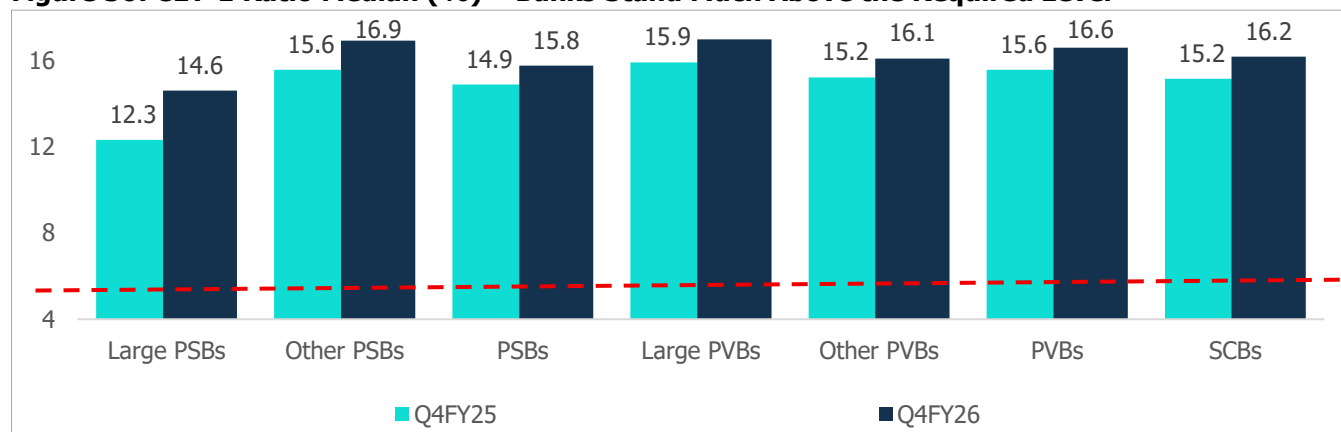
Figure 29: Movement of RoA for PVBs (annualised, %)


Source: Ace Equity, Bank filings, Note: 16 PVBs (three Large + 13 Others)

RoA for Large PVBs declined by eight bps y-o-y in Q4FY26, primarily due to largely flat growth in total income in the quarter amid continued margin pressures and moderation in non-interest income. In contrast, RoA for Other PVBs improved sharply by 49 bps y-o-y in Q4FY26, primarily supported by base effect, as a select bank had reported a loss in Q4FY25 but returned to profitability in Q4FY26.

Overall Capital Adequacy Continues to Exceed Regulatory Benchmarks in Q4FY26

Figure 30: CET-1 Ratio Median (%) – Banks Stand Much Above the Required Level

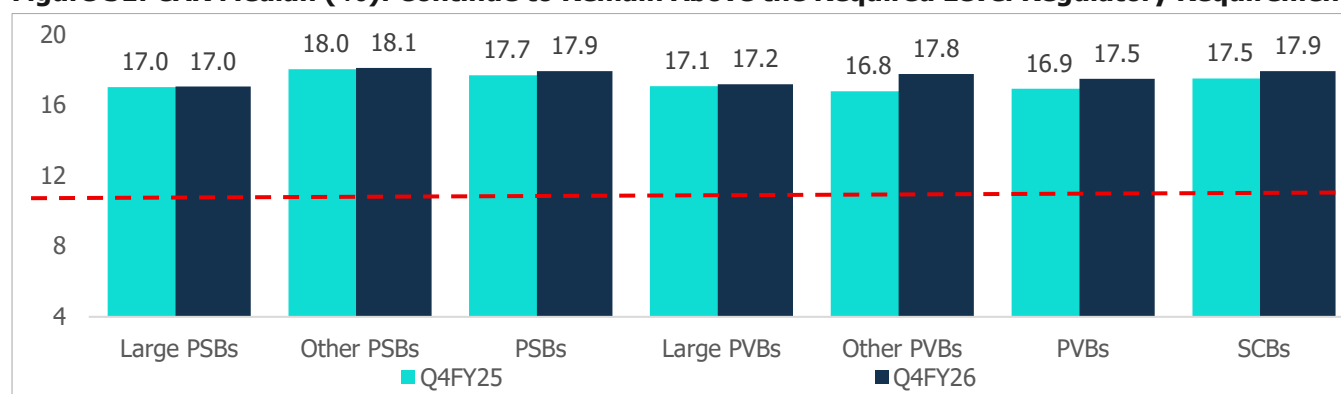


Source: Banks Presentations and Ace Equity Calculations; Note: 14 PSBs (5 Large + nine others) and 16 PVBs (3 Large + 13 Others) were used for Median calculation. The required level does not factor in additional requirements for D-SIBs.

The median Common Equity Tier 1 (CET-1) ratio of SCBs touched 16.2% in Q4FY26, marking an increase of 100 bps y-o-y. This was supported by strengthening the capital base, while the growth in risk-weighted assets remained relatively moderate and year-end accretion of retained earnings to regulatory capital.

The inclusion of the Investment Fluctuation Reserve (IFR) into CET1 capital would have a positive impact on a bank's core capital ratios, while reducing locked-in reserves. [Per CareEdge Ratings](#), CET1 ratios could likely improve by 26bps- 31bps; the overall Capital to Risk-Weighted Assets Ratio (CRAR) might see adjustments as these funds move from Tier 2 to Tier 1 capital. Without a mandated buffer, banks would need to strengthen internal risk management further to absorb MTM shocks in volatile interest-rate environments. Inclusion of quarterly profits on an ongoing basis would lead to more stable capital reporting across quarters.

Figure 31: CAR Median (%): Continue to Remain Above the Required Level Regulatory Requirement



Source: Banks Presentations and Ace Equity Calculations; Note: 14 PSBs (five Large + nine others) and 16 PVBs (three Large + 13 Others) were used for Median calculation. Systemically Important Banks must maintain a minimum CAR ratio higher than that of other banks (SBI by 60 bps, HDFC Bank by 20 bps, and ICICI Bank by 20 bps).

- The median CAR of SCBs increased by ~40 bps y-o-y to 17.9% in Q4FY26, remaining well-above the regulatory requirement of 11.5%, driven by profitability growth for banks and bond-raising.
- The median CAR for PSBs improved by 20 bps y-o-y to 17.9% in Q4FY26. At the same time, for PVBs, it increased by 60 bps y-o-y to 17.5%, primarily driven by healthy internal capital generation supported by double-digit profit growth, year-end accretion of retained earnings to reserves, and additional capital mobilisation through bond issuances.
- In FY26, banks cumulatively raised over ₹30,646 crore through bond issuances in the form of Tier-I and Tier-II capital instruments, strengthening their regulatory capital position and providing incremental support to overall CAR. A few banks have already announced plans to raise further capital through bond issuances in FY27, which is expected to support capital buffers amid continued growth in risk-weighted assets.

Figure 32: Movement in PSBs' CET-1

Bank	Q4FY25	Q3FY25	Q4FY26	(y-o-y, bps)
State Bank of India	10.81	12.07	13.33	252
Canara Bank	12.03	14.60	14.59	256
Bank of Baroda	13.78	13.10	13.64	-14
Indian Bank	15.36	14.54	16.40	104
Punjab National Bank	12.33	14.13	15.15	282
Union Bank of India	14.98	15.06	16.63	165
Bank of India	14.84	14.36	15.35	51
Central Bank of India	14.73	13.87	15.61	88
Indian Overseas Bank	17.13	13.99	16.94	-19
Bank of Maharashtra	16.86	13.95	15.41	-145
Punjab & Sind Bank	15.59	15.28	15.92	33
UCO Bank	16.03	15.41	16.59	56
Jammu & Kashmir Bank	12.95	12.77	14.44	149
IDBI Bank	23.51	23.53	25.56	205

Source: Banks Presentations and Ace Equity Calculations; Note: 14 PSBs (five Large + nine others), Systemically Important Banks must maintain a higher ratio than other banks (SBI by 60 bps, HDFC Bank by 20 bps and ICICI Bank by 20 bps).

- The improvement in CET-1 ratios across PSBs in the year was supported by capital augmentation measures including equity issuances/QIPs and one-off treasury gains. Per Exhibit 9, State Bank of India witnessed an increase in its CET-1 ratio, aided by gains from the partial monetisation of its Yes Bank stake and capital-raising initiatives. PSBs in FY26 issued ~₹45,000 crore through equity issuances and stake dilution exercises.

Figure 33: Movement in PVBs' CET-1

Bank	Q4FY25	Q3FY26	Q4FY26	(y-o-y, bps)
HDFC Bank	17.70	17.40	17.30	-40
ICICI Bank	15.94	14.71	16.35	41
Axis Bank	14.67	14.5	14.38	-29
Kotak Mahindra Bank	21.10	21.50	21.30	20
IndusInd Bank	15.10	15.74	16.20	110
YES Bank	13.50	13.90	13.80	30
IDFC First Bank	13.17	14.23	13.73	56
RBL	14.06	13.45	12.77	-129

Federal Bank	15.04	13.88	15.93	89
South Indian Bank	17.98	16.88	18.76	78
Bandhan Bank	17.90	16.50	17.30	-60
Karur Vysya Bank	17.12	15.58	17.72	60
DCB Bank	14.30	13.45	14.26	-4
Dhanlaxmi Bank	15.24	14.47	14.47	87
City Union Bank	22.70	19.18	20.82	-188
Karnataka Bank	18.40	18.40	18.70	30

Source: Banks Presentations and Ace Equity Calculations; 16 PVBs (three Large + 13 Others). Systemically Important Banks must maintain a higher ratio than other banks (SBI by 60 bps, HDFC Bank by 20 bps and ICICI Bank by 20 bps)

Conclusion

Sanjay Agarwal, Senior Director, CareEdge Ratings, says, "In Q4FY26, SCBs sustained quarterly net profits above ₹1 lakh crore, driven by interest income, stable operating performance, and continued benign asset quality. Margin pressures persisted amid elevated funding costs, while profitability was supported by steady credit growth, recoveries, and controlled credit costs. Treasury income moderated due to rising bond yields, partly offsetting earnings gains. Transition towards the proposed ECL framework is expected to strengthen provisioning practices by enabling forward-looking risk recognition. Looking ahead to FY27, the outlook remains stable, supported by strong capital buffers, comfortable asset quality, and sustained credit demand. ECLGS 5.0 is expected to provide a cushion to asset quality. However, geopolitical risks remain a key monitorable. Under a contained scenario, the impact is likely to be limited, with policy support mitigating stress. A moderate rise in crude prices may exert pressure on margins via higher inflation and funding costs, while in a severe stress scenario, tighter liquidity conditions, weaker borrower cash flows, and slower credit growth could result in higher provisioning requirements under the proposed ECL framework, as banks would be required to recognise potential future credit deterioration earlier. This may increase credit costs and moderately impact profitability and capital ratios, particularly for banks with higher exposure to vulnerable or unsecured segments."

Saurabh Bhalerao, Associate Director, CareEdge Ratings, says, "PSBs continued to outperform PVBs in Q4FY26, supported by relatively lower Credit-to-Deposit (CD) ratios, which provided headroom for credit expansion. Meanwhile, SCBs maintained strong capital buffers, aided by healthy internal accruals and bond issuances by select banks. Asset quality remained resilient, with GNPA ratios declining to multi-year lows, supported by sustained recoveries, corporate deleveraging, and the gradual rundown of legacy NPAs. However, pockets of stress persisted in select MSME and export-linked segments amid weak external demand, elevated input costs, and stretched working capital cycles."

Annexure

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

	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 (five Large, nine Others) and 16 PVBs (three Large, 13 Others)

Note: Analysis based on 30 scheduled commercial banks (14 PSBs and 16 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
	Karnataka Bank	DCB Bank	Bandhan Bank	City Union Bank	Karur Vysya Bank	Dhanlaxmi Bank	
PVBs	Large PVBs and Other PVBs (Total 16 PSBs)						
SCBs	PSBs + PVBs (Total 30 Banks)						

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