Asset Quality Improvement Continues for 20 Consecutive Quarters in Q1FY27

August 19, 2026 | BFSI Research

Synopsis

- **Asset quality across SCBs continued to improve for 20 consecutive quarters in Q1FY27**, with GNPA declining to 1.71% and NNPA remaining at a historic low of 0.40%. PSBs continued to lead the improvement, while PVBs remained broadly stable. The decline in NNPA stock, along with contained fresh slippages and strong provision coverage, indicates that new stress remains manageable even as recoveries moderate and the pool of legacy NPAs shrinks.
- **Divergent Trend in Slippages.** Fresh slippages remained 8.5% lower y-o-y for PSBs. In comparison, PVBs saw a 15.4% q-o-q increase compared with a 13.4% q-o-q increase in the corresponding quarter last year, largely reflecting seasonal movement in vehicle finance. However, PVB slippage remained substantially lower at 22.1% y-o-y. Management commentary from major lenders was broadly constructive, with banks attributing some sequential movements to normal seasonality rather than deteriorating underlying asset quality.
- **Credit costs remained contained**, with annualised SCB credit costs declining to 0.31%, supported by lower provisioning needs. PSBs stood at 0.27%, while PVBs moderated to 0.39%. Select banks continued to maintain prudential and standard-asset provisions, including management overlays, ECL transition buffers and contingent provisions against potential stress from West Asia-related exposures. While no material stress is visible currently, the impact of geopolitical and trade disruptions remains a key monitorable.
- **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, **overall asset quality remains a key strength for the banking sector in FY27**. The pace of improvement may moderate as legacy clean-up benefits diminish, while PVB slippages, unsecured retail, vehicle finance, and vulnerable MSME borrowers remain key areas to monitor. However, strong provision buffers, continued recoveries despite moderation and healthier borrower balance sheets should help keep system-wide asset quality broadly stable through FY27. Consequently, SCB GNPA ratios are likely to remain broadly range-bound at around 1.8%–2.0% in FY27.

Asset Quality Remains Strong, While Fresh Stress Stays Contained in Q1FY27

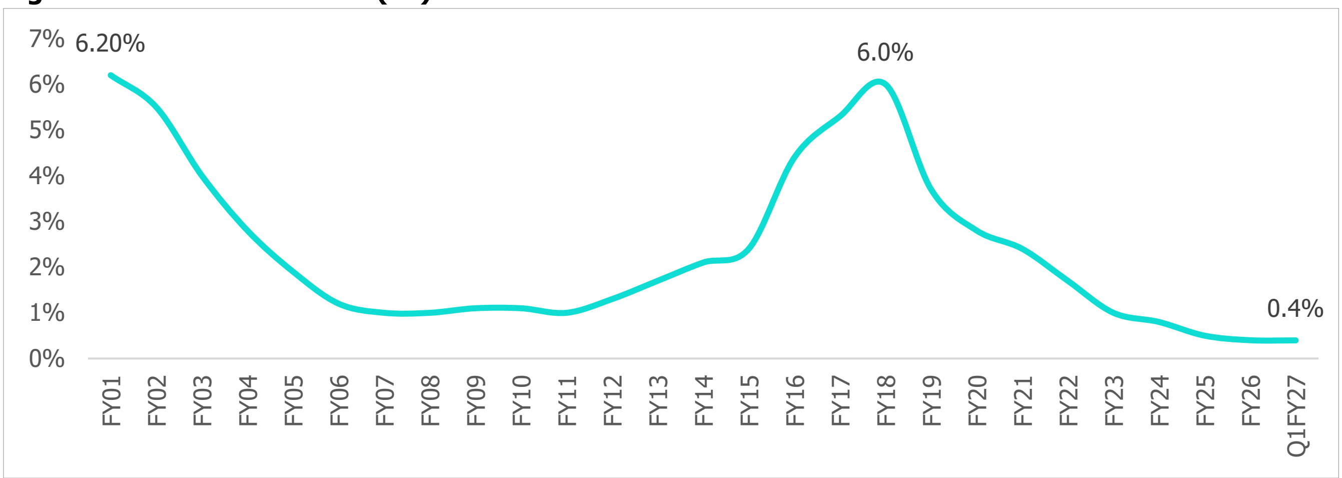
Figure 1: SCBs – Gross NPAs and Net NPAs Ratio Trend (%)

Asset Quality	FY25 Q1	FY25 Q2	FY25 Q3	FY25 Q4	FY26 Q1	FY26 Q2	FY26 Q3	FY26 Q4	FY27 Q1	(bps) y-o-y	(bps) q-o-q
Gross NPAs											
Large PSBs	3.06	2.81	2.66	2.42	2.36	2.17	2.00	1.82	1.76	-60	-6
Other PSBs	4.07	3.92	3.47	3.10	2.97	2.73	2.54	2.28	2.16	-81	-12
PSBs	**3.33**	**3.11**	**2.88**	**2.61**	**2.53**	**2.32**	**2.15**	**1.95**	**1.87**	**-66**	**-8**
Large PVBs	1.66	1.60	1.63	1.47	1.57	1.43	1.40	1.27	1.29	-28	2
Other PVBs	2.32	2.35	2.33	2.37	2.51	2.38	2.17	1.93	1.84	-66	-9
PVBs	**1.85**	**1.82**	**1.84**	**1.73**	**1.84**	**1.70**	**1.62**	**1.46**	**1.45**	**-39**	**-1**
SCBs	**2.75**	**2.61**	**2.48**	**2.27**	**2.26**	**2.08**	**1.94**	**1.76**	**1.71**	**-55**	**-5**
Net NPAs											
Large PSBs	0.67	0.57	0.55	0.49	0.48	0.43	0.40	0.37	0.37	-11	0
Other PSBs	0.78	0.78	0.68	0.58	0.55	0.49	0.45	0.42	0.40	-15	-2
PSBs	**0.70**	**0.63**	**0.59**	**0.51**	**0.50**	**0.45**	**0.41**	**0.39**	**0.38**	**-12**	**-1**
Large PVBs	0.40	0.41	0.44	0.41	0.46	0.42	0.42	0.37	0.40	-6	3
Other PVBs	0.70	0.69	0.65	0.62	0.66	0.63	0.57	0.48	0.53	-13	5
PVBs	**0.49**	0.49	**0.50**	**0.47**	**0.52**	**0.48**	**0.46**	**0.41**	**0.43**	**-9**	**2**
SCBs	**0.61**	**0.57**	**0.55**	**0.50**	**0.51**	**0.46**	**0.43**	**0.39**	**0.40**	**-11**	**1**

Source: Ace Equity, CareEdge Calculations. Note: Includes 14 PSBs (5 Large, 9 Others) and 16 PVBs (3 Large, 13 Others)

- Asset quality of SCBs improved further in Q1FY27, with the GNPA stock declining 11.5% y-o-y to Rs 3.69 lakh crore and the GNPA ratio moderating to a multi-year low of 1.71%, compared to 2.26% in Q1FY26 and 1.76% in Q4FY26. The improvement was driven by contained fresh slippages; recoveries/upgrades and write-offs continue to offset additions to bad loans; and ongoing resolution of legacy stressed assets.
- PVBs continue to maintain better headline asset quality vis-à-vis PSBs. However, PSBs continued to outperform PVBs, with the GNPA ratio declining 66 bps y-o-y and 8 bps q-o-q, supported by lower stress formation and recoveries from legacy accounts. Within large PVBs, GNPA deteriorated marginally by 2 bps to 1.29%, reflecting quarterly movements in fresh slippages and recoveries rather than a broad deterioration.

Figure 2: SCBs' NNPA Ratio (%)



Source: RBI, CareEdge Calculation, 30 SCBs (14 PSBs + 16 PVBs)

- The SCB NNPA ratio has improved sharply from 6.0% in March 2018 to 0.4% in Q1FY27 and has remained around this historic low for the past six quarters. The sustained improvement reflects the resolution of legacy stressed accounts, steady recoveries, adequate provisioning and calibrated write-offs, including sales to ARCs. With the stock of legacy NPAs now significantly lower, recoveries have moderated. However, contained fresh slippages and continued resolution kept asset quality resilient in Q1FY27.

PSBs Continue to Drive Sector Improvement

- By Q1FY27, select PSBs continued to lead the improvement in asset quality, with GNPA ratios declining across retail, MSME, corporate and agriculture portfolios. Retail GNPA remained stable at 2.1% in Q1FY27, compared with 2.1% in Q4FY26 and 2.5% in Q1FY26, while MSME GNPA moderated to 4.1% from 4.4% in Q4FY26 and 5.4% in Q1FY26. Corporate GNPA declined to 0.6% from 0.7% in Q4FY26 and 1.2% in Q1FY26, while agriculture GNPA moderated to 5.7% from 5.8% and 6.9%, respectively. The improvement was supported by sustained recoveries, lower fresh stress, prudent underwriting and resolution of legacy stressed accounts. While MSME remains a key area to monitor, PSBs have relatively greater exposure to smaller-ticket borrowers, limiting the impact of stress compared with PVBs, which have a larger share of higher-ticket MSME exposures. Despite global geopolitical uncertainties, including tensions in the Middle East, domestic asset quality remains resilient, supported by healthy corporate balance sheets and the continued strength of secured portfolios.

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

PSBs	Q1FY26	Q4FY26	Q1FY27	y-o-y (%)	q-o-q (%)
Recoveries & Upgrades	0.15	0.13	0.14	-11.9	4.3
Write-Offs	0.13	0.12	0.10	-20.6	-16.4
Fresh Slippages	0.24	0.22	0.22	-8.5	-0.3

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

PVB Slippages Rise Sequentially but Remain Manageable

Figure 4: PVBs: Recoveries, Upgrades, Write-Offs and Fresh Slippages (Rs lakh Cr.)

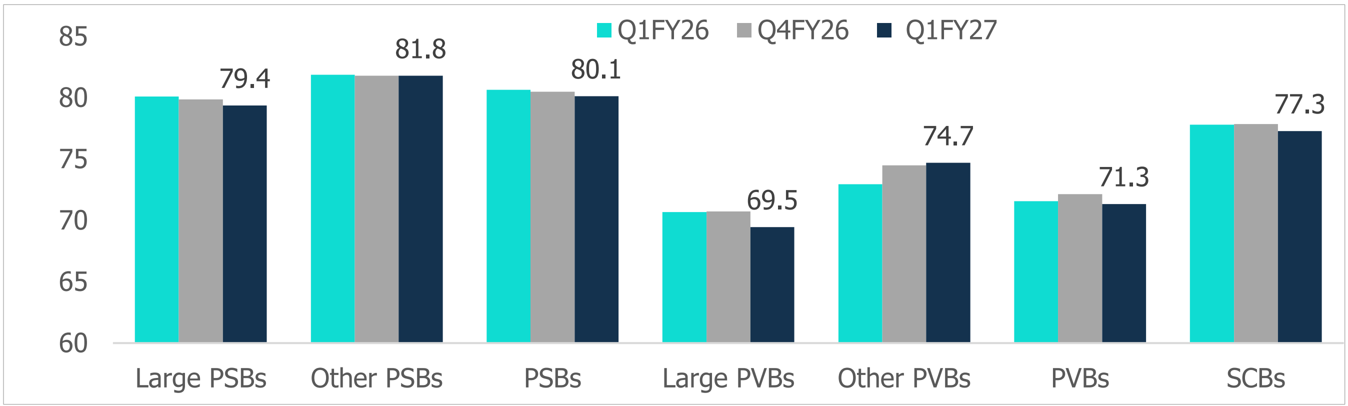
PVBs	Q1FY26	Q4FY26	Q1FY27	y-o-y (%)	q-o-q (%)
Recoveries & Upgrades	0.14	0.15	0.13	-7.9	-16.8
Write-Offs	0.16	0.16	0.12	-23.3	-22.9
Fresh Slippages	0.36	0.24	0.28	-22.1	15.4

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

- Net NPAs of SCBs declined 9.4% y-o-y to Rs 0.84 lakh crore in Q1FY27, led by PSBs, where NNPA fell 10.6% to Rs 0.50 lakh crore, supported by resolution of older stressed accounts and contained fresh stress. PVBs also saw NNPA decline 7.6% to Rs 0.34 lakh crore, aided by stable trends in unsecured retail asset quality reported by major lenders, which further support this trend. Although fresh slippages increased 7.9% q-o-q, mainly due to a seasonal rise in PVB slippages, particularly in commercial vehicle and tractor finance, they remained lower y-o-y. PSB slippages were broadly unchanged sequentially, while recoveries and write-offs moderated. Overall, asset quality remains comfortable, with the seasonal rise in slippages largely in line with expectations.

Strong Provision Buffers Enhance Resilience

Figure 5: SCBs PCR Trend (%)



Source: Ace Equity. Note – PCR calculation (Provisions = GNPAs-NPAs), (PCR= Provisions/ GNPAs) Includes 14 PSBs and 16 PVBs (a total of 30 SCBs)

- PCR remained strong at 77.3% despite a marginal moderation from last year, supported by adequate provisioning and resolution of stressed assets. PSBs maintained a significantly higher PCR at 80.1%, while PVBs stood at 71.3%. Overall, the strong PCR provides comfort on the banking system's ability to absorb any emerging stress. At the same time, the upcoming ECL framework should further encourage banks to maintain adequate provisions against potential deterioration in loan quality.

Figure 6: Credit Costs (Profit & Loss) (Rs. Lakh – Cr.)

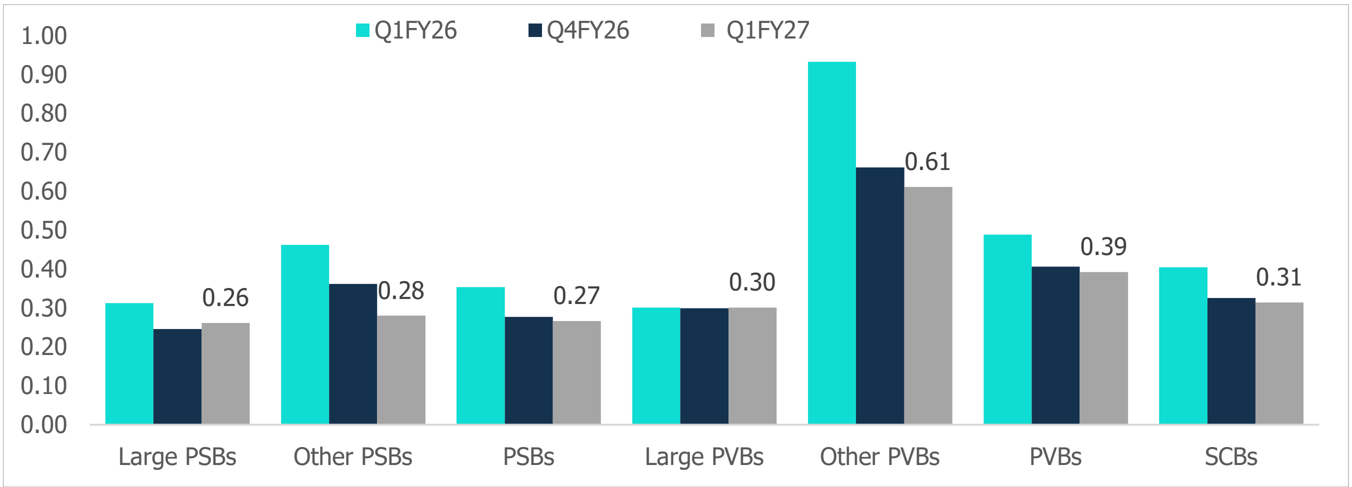
Credit Cost	Q1FY26	Q4FY26	Q1FY27	y-o-y (%)	q-o-q (%)
Large PSBs	0.10	0.09	0.09	-5.8%	9.7%
Other PSBs	0.07	0.05	0.04	-33.0%	-20.3%
PSBs	**0.18**	**0.13**	**0.13**	**-15.6%**	**-0.9%**
Large PVBs	0.05	0.06	0.06	13.5%	5.1%
Other PVBs	0.08	0.06	0.05	-27.2%	-4.5%
PVBs	**0.13**	**0.12**	**0.12**	**-9.6%**	**0.5%**
SCBs	**0.31**	**0.25**	**0.25**	**-12.8%**	**-0.3%**

Source: Ace Equity, CareEdge Calculations, Note 14 PSBs (5 Large + 9 Others), 16 PVBs (3 Large + 13 Others)

- SCBs' credit costs remained contained at Rs 0.25 lakh crore in Q1FY27, declining 12.8% y-o-y and remaining broadly stable q-o-q, supported by lower y-o-y fresh stress and improving asset quality. PSBs led the improvement, with credit costs declining 15.6% y-o-y, while PVBs remained broadly stable.
- Within PSBs, credit costs of large banks increased 9.7% q-o-q, despite stable slippages, partly reflecting higher prudential provisions, including provisions related to profit-linked incentives and tax, and few large PSBs attributed some sequential movement in asset quality to normal seasonality rather than fresh stress. In contrast, other PSBs saw credit costs decline 20.3% q-o-q. PVB credit costs remained almost unchanged, as higher fresh slippages were largely offset by lower provisioning requirements. Some large PVBs also retained countercyclical and contingent provisions, providing an additional buffer against potential stress.

- Q1FY27 management commentary remains constructive, with lenders broadly indicating stable asset quality and adequate provisioning ahead of the transition to the ECL framework from April 2027. Banks indicated that existing provisions appear adequate, although the eventual requirement will depend on the quality and historical behaviour of individual loan pools at the time of implementation.

Preparing for ECL: The Next Phase of Risk Recognition
Figure 7: Credit Costs (In %, Annualised)



Source: Ace Equity, CareEdge Calculations. Note includes 14 PSBs (5 Large, 9 Others) and 16 PVBs (3 Large, 13 Others)

- The annualised credit cost of SCBs declined 10 bps y-o-y and 2 bps q-o-q to 0.31% in Q1FY27, reflecting lower provisioning requirements amid improving asset quality. PSBs' credit cost declined 8 bps y-o-y to 0.27% but remained broadly stable q-o-q, while PVBs moderated 10 bps y-o-y to 0.39%, despite a modest sequential increase in fresh slippages. The trend is consistent with Q1FY27 management commentary, with most lenders reporting contained credit costs and limited incremental provisioning needs.
- The moderation is positive for bank profitability as improving asset quality reduces the need for provisions. At the same time, banks are preparing for the ECL framework from April 2027, with several lenders indicating that existing provisions and additional buffers should provide adequate coverage, while some PSBs have begun front-loading ECL provisions. Under the new framework, Stage 2 loans will become more important, as loans showing an increase in credit risk would require higher provisions even before becoming NPAs. This could make the risk-return trade-off more important, particularly for higher-yielding segments.
- Overall, lower credit costs should support earnings in FY27, with credit costs expected to remain comfortable and not pose significant earnings drag. The transition to the ECL framework could, however, result in some bank-specific provisioning differences as lenders adjust to the new methodology. Key monitorables include the persistence of elevated slippages in select PVBs' retail portfolios, particularly vehicle and unsecured loans, along with any emerging stress in the MSME segment from geopolitical and trade-related disruptions. While no material stress is evident currently, weaker cash flows and higher input and logistics costs could become more relevant in H2FY27.

Conclusion and Outlook

According to Sanjay Agarwal, Senior Director, CareEdge Ratings, "Asset quality across SCBs remained resilient in Q1FY27, with the GNPA ratio improving further to 1.71% and NNPA remaining near a historical low of 0.40%. We expect overall asset quality to remain broadly stable through FY27, supported by a favourable base, strong credit growth, healthy provision coverage and good borrower fundamentals. However, evolving geopolitical conditions, trade disruptions and the upcoming transition to the ECL framework remain key factors to monitor. This is especially important since implementation of the ECL framework could provide idiosyncratic differences in its impact on individual banks. Overall, the SCB GNPA ratio is likely to remain range-bound in the 1.8%-2.0% range over FY27."

According to Saurabh Bhalerao, Director, CareEdge Ratings, "India's banking system has largely completed the legacy NPA clean-up cycle, and FY27 will be defined by management of fresh stress pockets and preparation for ECL transition. PSBs continued to drive sector-wide improvement through lower slippages and ongoing resolution of legacy assets. While PVBs witnessed a sequential rise in fresh slippages, particularly in vehicle finance portfolios, the increase appears largely seasonal. It does not currently indicate broad-based deterioration in underlying asset quality. With restructured books and outstanding SRs continuing to decline, the benefits from legacy asset resolution are gradually diminishing. Consequently, future asset quality performance will increasingly depend on the ability of banks to contain fresh stress, particularly in unsecured retail, vehicle finance and MSME segments."

Annexure

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

	FY25				FY26				FY27	(%)	
Asset Quality	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**y-o-y**	**q-o-q**
Gross NPAs											
Large PSBs	2.27	2.16	2.12	1.99	1.96	1.87	1.79	1.74	1.71	-12.8	-1.6
Other PSBs	1.13	1.12	1.03	0.95	0.91	0.87	0.84	0.81	0.79	-13.4	-2.8
PSBs	**3.40**	**3.28**	**3.14**	**2.94**	**2.87**	**2.75**	**2.63**	**2.55**	**2.50**	**-13.0**	**-1.9**
Large PVBs	0.78	0.77	0.80	0.74	0.80	0.75	0.76	0.73	0.77	-3.4	4.9
Other PVBs	0.44	0.46	0.47	0.48	0.52	0.51	0.47	0.43	0.43	-16.1	-1.4
PVBs	**1.22**	**1.23**	**1.27**	**1.22**	**1.31**	**1.26**	**1.23**	**1.17**	**1.20**	**-8.4**	**2.6**
SCBs	**4.62**	**4.51**	**4.41**	**4.16**	**4.18**	**4.01**	**3.86**	**3.71**	**3.69**	**-11.5**	**-0.5**
Net NPAs											
Large PSBs	0.48	0.43	0.43	0.39	0.39	0.37	0.36	0.35	0.35	-9.6	0.9
Other PSBs	0.21	0.21	0.20	0.17	0.17	0.15	0.15	0.15	0.14	-13.1	-2.8
PSBs	**0.69**	**0.64**	**0.63**	**0.57**	**0.56**	**0.52**	**0.51**	**0.50**	**0.49**	**-10.6**	**-0.2**
Large PVBs	0.19	0.20	0.21	0.21	0.23	0.22	0.23	0.21	0.23	0.6	9.5
Other PVBs	0.13	0.14	0.13	0.13	0.14	0.14	0.13	0.11	0.10	-21.5	-2.2
PVBs	**0.32**	**0.33**	**0.35**	**0.34**	**0.37**	**0.36**	**0.36**	**0.33**	**0.34**	**-7.6**	**5.5**
SCBs	**1.02**	**0.98**	**0.97**	**0.90**	**0.93**	**0.88**	**0.86**	**0.82**	**0.84**	**-9.4**	**2.1**

Source: Ace Equity, CareEdge Calculations. Note: Includes 14 PSBs (5 Large, 9 Others) and 16 PVBs (3 Large, 13 Others)

Legacy Stress Continues to Decline

Figure A2: Restructured Portfolio of Select SCBs (Rs. Cr.) – Shows Reduction

PSBs	June 30, 2025	June 30, 2026	y-o-y (%)	PVBs	June 30, 2025	June 30, 2026	y-o-y (%)
IDBI	191	158	-17.3	Yes	378	229	-39.4
UBI	8,608	7,118	-17.3	City Union	584	446	-23.5
PNB	6,709	1,415	-78.9	Axis	1,148	913	-20.5
BoI	4,691	3,735	-20.4	Federal	1,330	1,027	-22.8
IB	4,555	3,430	-24.7	Karnataka	888	763	-14.1
P&S	1,211	506	-58.2	DCB	1,199	942	-21.4
BoM	2,282	2,001	-12.3	South Indian	277	175	-36.8
UCO	1,577	1,066	-32.4	KVB	506	387	-23.5
CBI	4,948	3,818	-22.8	ICICI	1,788	1,283	-28.2
Total	**34,772**	**23,246**	**-33.1**	**Total**	**8,097**	**6,165**	**-23.9**
% of Gross Advances	**0.78**	**0.44**		**% of Gross Advances**	**0.28**	**0.16**	

Source: Bank Presentations, CareEdge Calculations. Note: Includes 9 PVBs and 9 PSBs

- The outstanding restructured loan portfolio continued to moderate in Q1FY27, reflecting improving borrower performance, healthy repayments, and limited formation of new stress. Across nine select PSBs, the restructured book declined 33.1% y-o-y to Rs 0.23 lakh crore, while for nine select PVBs, it fell 23.9% 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 Witnessed Moderation

Figure A3: SRs Portfolio (Cr.)

PSBs	Q1FY26	Q3FY26	Q4FY26	Q1FY27	PVBs	Q1FY26	Q3FY26	Q4FY26	Q1FY27
Canara	2,057	1943	1723	1460	Axis	1,331	1,301	1,290	870
UBI	776	829	914	898	Federal	5	4	4	4
PNB	1,764	2,291	2335	2177	KMB	1,203	1,420	1,316	1,352
BoI	418	404	448	429	South Indian	190	119	119	72.53
IB	-	485	487	487	RBL	280	121	120	115
CBI	836	777	756	748	HDFC	1,078	1,070	1,058	1,049
IoB	424	424	329	267	ICICI	794	795	732	724
UCO	324	348	345	233	Bandhan	164	614	614	607
BOB	458	406	476	457	City Union	3,260	29	29	20
IDBI	4,256	4,114	4,097	3,543	IndusInd	1,943	1,484	1,419	1,385
J&K	214	226	226	184	KVB		280	280	268
P&S	400	400	399	218					
Total	**12,325**	**12,647**	**12,537**	**11,014**	**Total**	**10,248**	**7,238**	**6982**	**6470**
% of Gross Adv	**0.18**	**0.17**	**0.16**	**0.14**	**% of Gross Adv**	**0.16**	**0.10**	**0.09**	**0.08**

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 Q1FY27. SR holdings of select PSBs stood at Rs 0.11 lakh crore, while PVBs reported Rs 0.06 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.

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	Punjab & Sind Bank	UCO Bank	Union Bank of India
	Jammu & Kashmir Bank	IDBI 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	Karnataka Bank	
PVBs		**Large PVBs and Other PVBs (Total 16 PVBs)**					
SCBs		**PSBs + PVBs (Total 30 Banks)**					

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