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Years of Unwavering Credibility

Indian Banking Sector

Credit growth remains buoyant; geopolitical uncertainties cast shadow

MARCH 2026

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Agenda

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1 **Credit Growth Remains Buoyant Amid Rising Risks**

2 **Trend in Advances – PSBs & PVBs**

3 **Asset Quality Trends**

4 **Profitability Trends**

5 **Capital Position and Requirements**

6 **ICRA's Outlook, Banking Sector Coverage and Sector Aggregates**

Highlights

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ICRA expects growth to stay robust with retail and MSMEs as the key growth drivers. The impact of the West Asia conflict remains monitorable.

ICRA expects the return indicators to remain steady in FY2027, supported by a likely improvement in NIMs, enhanced operating efficiency, and contained credit costs.

Credit growth picked up towards the end of H1 FY2026 and remained strong thereafter, supported by goods and services tax (GST) rationalisation and liquidity infusion through cash reserve ratio (CRR) cuts. Additionally, the shift in the reporting date to the 15th and month-end from alternate Fridays had inflated the reported credit offtake in Q3 FY2026. Accordingly, incremental credit growth in 9M FY2026 rose sharply to Rs. 20.3 trillion from Rs. 11.6 trillion in 9M FY2025; on a comparable basis (pre-reporting change), incremental credit stood at Rs. 12.4 trillion in 8M FY2026 versus Rs. 10.5 trillion in 8M FY2025. ICRA expects growth to stay robust with retail and micro, small and medium enterprises (MSMEs) as the key growth drivers. Factoring in the reporting date change, ICRA has raised its FY2026 credit offtake estimate to Rs. 25.0-26.0 trillion {13.7-14.3% year-on-year (YoY)} from Rs. 19.5-21.0 trillion (10.7-11.5%) earlier, while FY2027 credit expansion is estimated at Rs. 23.5-25.0 trillion (11.3-12.0%). The estimated credit growth in FY2027 would be higher than FY2026 in the absence of changes in the reporting fortnight w.e.f. December 15, 2025.

However, the ongoing West Asia conflict has introduced uncertainties, particularly for MSMEs, due to potential oil shocks, supply chain disruptions, and inflationary pressure. Moreover, the cost of funds is expected to stay high amid uncertainties, which would further delay the anticipated recovery in net interest margins (NIMs) and put pressure on the profitability. Prolonged disruptions may affect borrower cash flows as well, posing asset quality risks. ICRA also remains watchful of the lag in deposit growth, declining liquidity coverage ratios (LCRs), and MSME asset quality. Nevertheless, return indicators are expected to remain steady in FY2027, supported by a likely improvement in NIMs, enhanced operating efficiency, and contained credit costs.

- The YoY credit growth was healthy at 15.2% as on February 28, 2026 compared to the 11.0% growth as on February 23, 2025 (10.9% as on March 21, 2025) while the YoY deposit growth stood at 13.0% as on the same date (10.3% year ago as well as on March 21, 2025).
- The headline asset quality metrics improved further with the gross non-performing advances (GNPAs) and net NPAs (NNPAs) at 1.9% and 0.4%, respectively, as on December 31, 2025 (2.2% and 0.5%, respectively, as on March 31, 2025).
- Profitability remained healthy on the back of benign credit costs and healthy treasury income, with the annualised return on assets (RoA) at 1.3% in 9M FY2026 (1.3% in FY2025).
- The solvency (NNPAs/core equity capital) level stood at 3.5% as on December 31, 2025 (3.8% as on March 31, 2025).

Key takeaways

Stable outlook reflects ICRA's expectation of comfortable asset quality, capital position and earnings

Credit growth expected to stay healthy in FY2027, though geopolitical concerns remain	▪ ICRA's revised credit growth estimate for FY2026 stands at 13.7-14.3% (earlier estimate of 10.7-11.5%) with growth picking up in H2 FY2026 ▪ Trend expected to continue in FY2027 with estimated credit growth of 11.3-12.0%; it would be higher in FY2027 than FY2026 in the absence of changes in the reporting fortnight w.e.f. December 15, 2025 ▪ Impact of ongoing West Asia conflict remains monitorable
Asset quality to continue to be comfortable despite uptick in slippages	▪ Absolute GNPAs and NNPAs expected to witness YoY uptick; however, with healthy credit growth, GNPA and NNPA percentages to remain steady ▪ Slippages likely to be granular, unlike bulky corporate slippages in the past
Manageable credit costs to support profitability	▪ NIMs improvement to get delayed and reflect later in FY2027, with deposits getting further repriced downwards ▪ Treasury income supported RoA in 9M FY2026 amid pressure on NIMs ▪ Credit provisions to stay steady and benign, which would help keep RoA/return on equity (RoE) at heathy levels
Incremental improvement in capital and solvency position to remain limited	▪ Limited regulatory or growth-led fresh capital requirements for most banks in Q4 FY2026 and FY2027 ▪ Capital cushions to remain healthy as expected accruals would be sufficient to meet growth requirements ▪ Transition to expected credit loss (ECL) norms remains monitorable; however, banks are likely to have built up capital cushions by the time ECL is implemented

Analytical Contact Details

Name	Designation	Email	Contact Number
Karthik Srinivasan	Senior Vice-President and Group Head	karthiks@icraindia.com	022 – 6114 3444
Anil Gupta	Senior Vice-President and Co-Group Head	anilg@icraindia.com	0124 – 4545 314
Sachin Sachdeva	Vice-President and Sector Head	sachin.sachdeva@icraindia.com	0124 – 4545 307
Sohil Mehta	Assistant Vice President	sohil.mehta@icraindia.com	022 – 6114 3449

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Sai Krishna	Head - Research Sales and Investor Connect	sai.krishna1@icraindia.com	9840774883
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – East	vinita.baid@icraindia.com	033-65216801
Shivam Bhatia	Head Business Development – Corporate Sector – North & South	shivam.bhatia@icraindia.com	0124-4545803
Sanket Kulkarni	Head Business Development – Corporate Sector – West	sanket.kulkarni@icraindia.com	022-6169 3365
Naznin Prodhani	Head - Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

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Thank You!

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