Asset Quality Continues to Remain Benign in Q2FY26

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- The Gross Non-Performing Asset (GNPA) ratio of Scheduled Commercial Banks (SCBs) improved to 2.1% as of Q2FY26 (from 2.6% a year earlier), with GNPA declining 11.1% year-on-year (y-o-y) to Rs 4.05 lakh crore. In comparison, the Net Non-Performing Asset (NNPA) ratio remained steady at 0.5% for the third consecutive quarter (vs 0.6% in Q2FY25), with NNPAs falling 9.9% y-o-y to Rs 0.88 lakh crore. Both metrics improved due to strong recoveries and upgrades, lower incremental slippages, and portfolio clean-up through write-offs and sales to ARCs.
  - Sequentially, SCBs' GNPAs and NNPAs declined by 4.2% and 5.1% q-o-q, respectively, driven by lower incremental slippages along with recoveries and upgrades, and increased NPA resolutions through ARC sales, reflecting sustained improvement in asset quality.
- SCBs' aggregate provisioning rose marginally by 1.4% y-o-y in Q2FY26; however, the credit cost (annualised) ratio eased to 0.41% in Q2FY26 from 0.45% a year ago, reflecting stronger growth in assets compared to a rise in provisioning.
- Private sector banks (PVBs) experienced a 27.5% y-o-y increase in credit costs during Q2FY26, mainly due to extra contingency and floating provisions made by two major private banks, as well as one-time provisioning related to discontinued crop loan variants. Although the shift to an ECL-based provisioning framework is imminent and guidelines are still to be finalised, some banks have started making modest ECL-related provisions. In comparison, public sector banks (PSBs) reported a 17.7% year-on-year decline in credit costs.
- Restructured assets (across eight PSBs and PVBs) declined to 0.52% of net advances as of Q2FY26, marking a reduction of around nine basis points from the previous quarter.

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

	FY24			FY25				FY26		(bps)	
Asset Quality	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**y- o-y**	**q-o-q**
Gross NPAs											
Large PSBs	3.8	3.5	3.2	3.1	2.8	2.7	2.4	2.4	2.2	-65	-19
Other PSBs	5.4	4.6	4.3	3.9	3.9	3.5	3.1	3.0	2.7	-118	-24
PSBs	**4.2**	**3.8**	**3.5**	**3.3**	**3.1**	**2.9**	**2.6**	**2.5**	**2.3**	**-79**	**-21**
Large PVBs	1.8	1.7	1.6	1.7	1.6	1.6	1.5	1.6	1.4	-18	-15
Other PVBs	2.6	2.7	2.2	2.2	2.2	2.2	2.3	2.4	2.3	3	-12
PVBs	**2.0**	**1.9**	**1.8**	**1.8**	**1.8**	**1.8**	**1.7**	**1.8**	**1.7**	**-12**	**-14**
SCBs	**3.3**	**3.0**	**2.8**	**2.7**	**2.6**	**2.5**	**2.3**	**2.3**	**2.1**	**-52**	**-18**
Net NPAs											
Large PSBs	0.9	0.8	0.7	0.7	0.6	0.5	0.5	0.5	0.4	-14	-5
Other PSBs	1.2	1.0	0.9	0.8	0.8	0.7	0.6	0.6	0.5	-29	-6
PSBs	**1.0**	**0.8**	**0.8**	**0.7**	**0.6**	**0.6**	**0.5**	**0.5**	**0.4**	**-18**	**-5**
Large PVBs	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.4	1	-4
Other PVBs	0.8	0.8	0.7	0.7	0.7	0.7	0.6	0.7	0.6	-6	-3
PVBs	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**-1**	**-4**
SCBs	**0.8**	**0.7**	**0.6**	**0.6**	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**	**-11**	**-4**

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

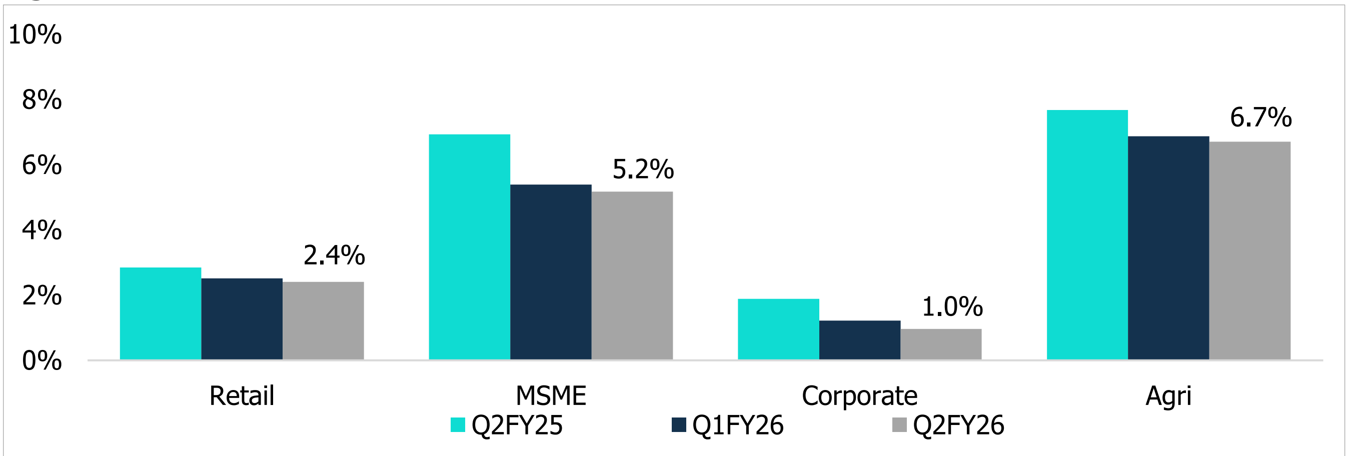
The overall stress level of SCBs was down y-o-y in Q2FY26, with declines in both GNPA and the restructured book. The GNPA stock of SCBs improved by 11.1% y-o-y to Rs 4.01 lakh crore, supported by sustained recoveries, upgradations, prudent write-offs and higher sales to ARCs during the quarter, particularly among private banks. While PVBs witnessed a marginal 2.6% y-o-y rise in GNPAs owing to higher slippages and pressure in the microfinance segment in a few private banks, the broader trend points to continued strengthening of the banking sector's asset quality.

- GNPAs of PSBs declined by 16.3% y-o-y to Rs 2.74 lakh crore in Q2FY26. With the legacy stressed asset pool largely reduced and incremental recoveries moderated, total write-offs and recoveries declined 24.6% y-o-y to Rs 0.25 lakh crore. Fresh slippage also eased, falling 22.5% y-o-y to Rs 0.19 lakh crore, indicating an improving portfolio quality.
- GNPAs of PVBs inched up by 2.6% y-o-y to Rs 1.26 lakh crore as of Q2FY26, with slippages rising marginally to Rs 0.30 lakh crore from Rs 0.28 lakh crore in Q2FY25. The increase was primarily driven by elevated slippages in the microfinance and unsecured retail/EEB segments at select banks, particularly within the other PVBs category, where stress remained high during the quarter. However, elevated slippages reported earlier in the MFI portfolios of a few PVBs have begun to stabilise.

The NNPAs of SCBs decreased by 9.9% y-o-y to Rs 0.88 lakh crores as of Q2FY26, compared with Rs 0.97 lakh crores a year ago. NNPAs of PSBs improved by 19.1% y-o-y to Rs 0.52 lakh crore as of Q2FY26, while NNPAs of PVBs increased by 8.1% y-o-y to Rs 0.35 lakh crore, driven by stress in microfinance and unsecured segments.

Sequentially, SCBs' GNPAs declined by 4.2% in Q2FY26, driven by broad-based improvement. PSBs reported a 4.4% q-o-q reduction in GNPAs, while PVBs saw a 3.8% decline during the quarter. This reduction was driven by lower fresh slippages, strong recoveries, and prudent write-offs. Fresh slippages across SCBs fell by 20.4% q-o-q, underscoring the sustained strengthening in asset quality, supported by resolution efforts, better credit discipline across segments and sales to ARCs.

Figure 2: Sector-wise GNPA of PSBs as a % of Total Advances

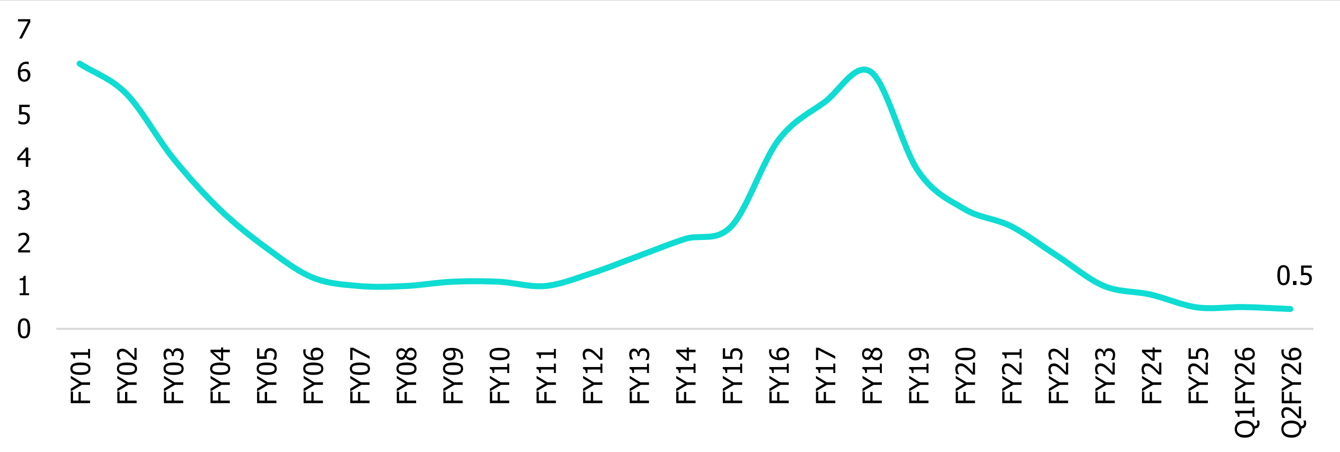


Source: CareEdge Calculations, Note includes 12 PSBs (5 Large, 7 Others)

By Q2FY26, sectoral GNPAs as a percentage of total advances for PSBs continued to decline across all segments, reflecting a broad-based improvement in asset quality. This positive trend was supported by significant reductions in fresh slippages and sustained write-offs, as well as tighter underwriting norms in retail lending.

Within the retail segment, NPAs were primarily driven by stress in unsecured personal loans, education loans, and credit card receivables. The banking system's increasing tilt toward retail lending has been fuelled by greater access to personal credit and a moderation in corporate borrowing, as large corporates deleverage and tap alternative financing avenues. In contrast, agricultural NPAs remained elevated due to structural and politically sensitive recovery challenges that continue to constrain asset quality in the segment.

Figure 3: SCBs Sustain Record-Low NNPA Levels for Three Straight Quarters in Q2FY26 (%)



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

As of March 31, 2018, the NNPA ratio stood at 6%, but has since declined sharply to 0.5% as of Q2FY26, the lowest level in the post-AQR period and stable for the past three consecutive quarters. This sustained improvement reflects the combined impact of large-scale write-offs, steady recoveries from legacy NPAs, stronger provisioning buffers, sales to ARCs and timely resolutions under the IBC framework. While overall asset quality remains robust, the pace of fresh recoveries has stabilised in recent quarters, as the stock of legacy stressed assets continues to shrink.

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

PSBs	Q2FY25	Q1FY26	Q2FY26	y-o-y (%)	q-o-q (%)
Recoveries & Upgrades	0.17	0.15	0.15	-10.4	-2.5
Write-Offs	0.17	0.13	0.10	-38.8	-18.3
Fresh Slippages	0.24	0.24	0.19	-22.5	-24.1

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

Figure 5: PVBs: Recoveries, Upgrades, Write-Offs and Fresh Slippages (Rs Lakh - Cr.)

PVBs	Q2FY25	Q1FY26	Q2FY26	y-o-y (%)	q-o-q (%)
Recoveries & Upgrades	0.13	0.13	0.17	32.1	29.1
Write-Offs	0.11	0.14	0.16	39.3	10.9
Fresh Slippages	0.28	0.36	0.30	5.1	-18.0

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

The slippage ratio of PSBs has remained below that of PVBs, supported by a combination of structural and cyclical factors. Lending growth has been concentrated in lower-risk retail segments, particularly mortgages, while the expansion in unsecured retail credit has been cautious. Furthermore, the clean-up of legacy stressed assets has advanced, thereby reducing the pool of vulnerable exposures and strengthening overall portfolio quality. Additionally, in Q2FY26, PVBs reported a 32.1% y-o-y increase in recoveries, driven partly by one-off items from a large PVB, along with a 39.3% y-o-y rise from technically written-off accounts. Excluding the impact of the one-off item, recoveries would have grown by 11.7%.

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

PSBs	Sep 30, 2024	Sep 30, 2025	y-o-y (%)	PVBs	Sep 30, 2024	Sep 30, 2025	y-o-y (%)
SBI	0.15	0.11	-23.9	Yes	0.02	0.00	-87.2
UBI	0.11	0.08	-28.4	ICICI	0.03	0.02	-37.8
PNB	0.08	0.07	-14.9	Axis	0.01	0.00	-100.0
BoI	0.07	0.04	-36.4	Federal	0.02	0.01	-26.2
Indian Bank	0.07	0.04	-39.1	Karnataka	0.01	0.00	-100.0
CBI	0.06	0.04	-22.7	DCB	0.01	0.01	1.5
BoM	0.02	0.02	9.8	South Indian	0.00	0.00	-49.4
UCO	0.02	0.02	-12.6	KVB	0.01	0.00	-25.8
Total	**0.58**	**0.43**	**-25.4**	**Total**	**0.11**	**0.05**	**-50.6**
% of Net Advances	**0.76**	**0.50**		**% of Net Advances**	**0.36**	**0.16**	

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

Overall, the outstanding restructured loan portfolio continued to decline as pandemic-related restructuring schemes tapered off, borrower repayments improved, and new stress formation remained subdued. Among eight select PSBs, the restructured portfolio contracted by 25.4% y-o-y to Rs 0.43 lakh crore as of Q2FY26, while for eight select PVBs, it fell sharply by 50.6% y-o-y to Rs 0.05 lakh crore. This reduction was driven by a combination of healthy repayments, successful resolutions, and the natural ageing out of earlier restructured accounts.

Consolidated Security Receipts – Sequential Uptick in SR Issuances

Figure 7: SRs Portfolio (Cr.)

PSBs	Q2FY25	Q4FY25	Q1FY26	Q2FY26	PVBs	Q2FY25	Q4FY25	Q1FY26	Q2FY26
Canara	976	1,997	2,057	2,025	Axis	-	1,340	1,331	1,328
UBI	875	870	776	869	Federal	-	5	5	5
PNB	3,302	1,720	1,764	1,790	Kotak Mah	917	1,233	1,203	1,176
BoI	-	398	418	435	SIB	84	190	190	119
Ind Bank	-	-	-	486	RBL	-	128	126	125
CBI	652	665	836	817	HDFC	979	1,083	1,078	1,073
IoB	-	421	424	456	ICICI	1,197	1,049	794	795
UCO	56	49	324	323	Bandhan	182	202	164.87	138
BOB	747	490	458	453	City Union	32	33	32	28
IDBI	2,829	4,273	4,256	4,276	IndusInd	2,187	2,001	1,943	1,867
Total	9,437	10,883	11,311	11,930	Total	5,578	7,265	6,865	6,654
% of Gross Adv	0.09	0.12	0.13	0.14	% of Gross Adv	0.13	0.15	0.14	0.14

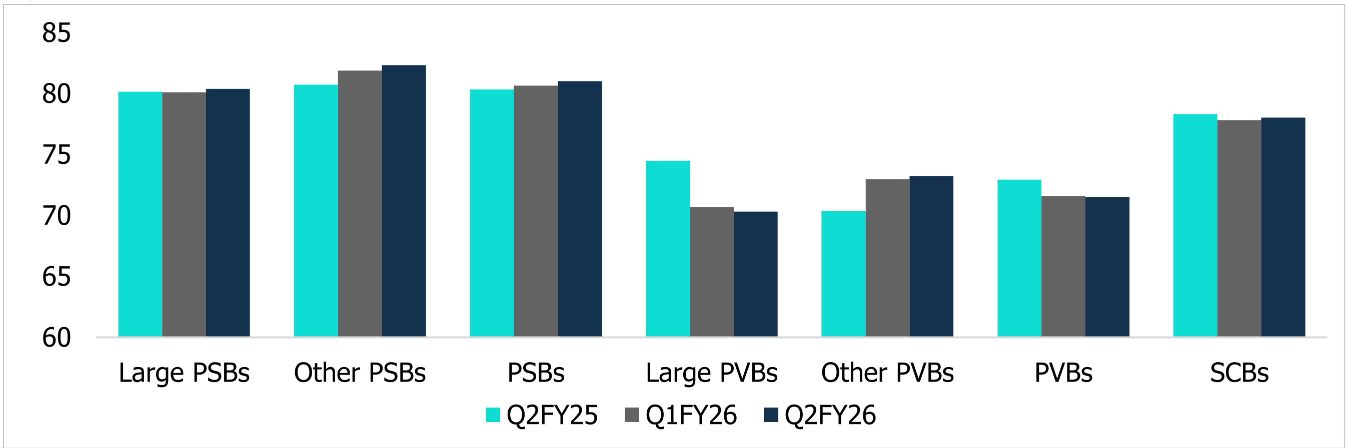
Source: Bank Presentations, CareEdge Calculations, Note: Includes 9 PVBs and 10 PSBs

Outstanding SRs of both PSBs and PVBs increased y-o-y in Q2FY26, and on an aggregate basis, rose 2.2% sequentially. PSBs' SRs grew 26.4% y-o-y to Rs 11,930 crore, while PVBs increased 19.3% y-o-y to Rs 6,654 crore. Sequentially, corporate SR issuances increased by 1.3%, and retail SR issuances grew by 4.2%. The increase in

SRs reflects fresh SR issuances, coupled with slower-than-expected resolutions of existing SR-backed accounts. Recoveries and write-offs were insufficient to offset new SR additions, resulting in a net increase in outstanding SRs during the quarter.

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 16 PVBs (a total of 30 SCBs)

- The PCR of SCBs decreased marginally by 0.4% y-o-y and stood at 78.0% in Q2FY26, mainly driven by large PVBs with a PCR of 70.3%
    - PSBs PCR improved by 66 bps y-o-y to 81.0% in the current quarter, as the pace of GNPA reduction outpaced the decline in accumulated provisions.
    - In contrast, PVBs' PCR declined by 144 bps y-o-y to 71.5% during the quarter, driven by shifts in their product mix and portfolio composition along with resolutions of high-provision legacy NPAs.

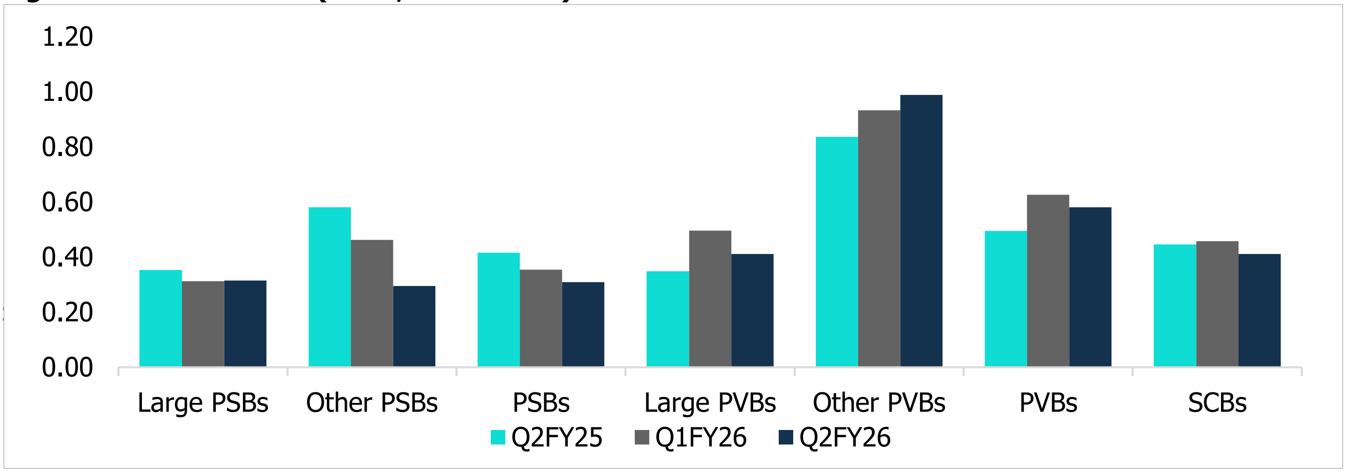
Figure 9: Credit Costs (Profit & Loss) (Rs. Lakh – Cr.)

Credit Cost	Q2FY25	Q1FY26	Q2FY26	y-o-y (%)	q-o-q (%)
Large PSBs	0.10	0.10	0.10	-1.1%	2.7%
Other PSBs	0.07	0.06	0.04	-44.3%	-35.5%
PSBs	**0.17**	**0.16**	**0.14**	**-17.7%**	**-11.0%**
Large PVBs	0.06	0.10	0.08	29.7%	-16.2%
Other PVBs	0.06	0.08	0.08	25.4%	5.1%
PVBs	**0.12**	**0.17**	**0.16**	**27.5%**	**-6.8%**
SCBs	**0.30**	**0.33**	**0.30**	**1.4%**	**-8.8%**

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

The credit cost for SCBs rose modestly by 1.4% y-o-y to Rs 0.30 lakh crore in Q2FY26. PSBs, however, recorded a 17.7% y-o-y decline in credit costs to Rs 0.14 lakh crore, supported by lower provisioning requirements across most banks. In contrast, PVBs saw a 27.5% y-o-y increase in credit costs during the quarter, primarily due to additional contingency and floating provisions created by two large private banks, as well as one-time provisioning for discontinued crop loan variants, totalling Rs 0.03 lakh crore. Excluding these one-off items, PVBs' credit costs would have stood at Rs 0.13 lakh crore, reflecting only a marginal 4.8% y-o-y rise.

Figure 10: 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 eased by four bps y-o-y to 0.41% in Q2FY26. Among bank groups, PSBs recorded an 11-bps y-o-y decline to 0.31%, supported by lower provisioning requirements and healthier recoveries. In contrast, PVBs saw an 8-bps y-o-y increase, primarily due to one-off contingency provisions recorded during the quarter. Sequentially, NNPAs of both PSBs and PVBs declined marginally by four bps and five bps, respectively.

Conclusion

As of Q2FY26, credit offtake grew 11.7% y-o-y, outpacing deposit growth at 9.7%. However, some pickup is anticipated in H2FY26 compared to H1FY26; overall credit growth is expected to remain moderate. Asset quality stays resilient, supported by healthy recoveries and contained slippages, with the SCB GNPA ratio projected to stay in the 2.3%–2.4% range by end-FY26. Stress in unsecured personal loans and MFIs is offset by corporate deleveraging and a steady decline in GNPA. The multi-year clean-up of stressed assets, backed by regulatory reforms strengthening creditor rights, has reinforced the banking system's stability. Credit costs appear to have peaked, remaining stable to lower for PSBs due to improved asset quality, while PVBs saw higher provisions but benefited from lower slippages and steady recoveries. However, risks remain. Continued weakness in low-ticket unsecured loans, potential spillovers from U.S. tariff actions, global growth softness, and evolving regulatory interventions could weigh on both credit growth and asset quality in the coming quarters.

Annexure

Figure 1(a): Gross NPAs and Net NPAs (In Rs lakh crores)

	FY24			FY25				FY26		%	
Asset Quality	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**y- o-y**	**q-o-q**
					Gross NPAs						
Large PSBs	2.55	2.44	2.34	2.27	2.16	2.12	1.98	1.96	1.87	-13.4	-4.3
Other PSBs	1.36	1.21	1.18	1.13	1.11	1.03	0.96	0.91	0.87	-21.8	-4.5
PSBs	**3.91**	**3.65**	**3.52**	**3.40**	**3.27**	**3.14**	**2.94**	**2.87**	**2.75**	**-16.3**	**-4.4**
Large PVBs	0.78	0.76	0.74	0.78	0.76	0.80	0.73	0.80	0.75	-1.8	-5.1
Other PVBs	0.46	0.48	0.42	0.43	0.46	0.47	0.47	0.52	0.51	10.0	-1.8
PVBs	**1.24**	**1.24**	**1.16**	**1.21**	**1.22**	**1.26**	**1.21**	**1.31**	**1.26**	**2.6**	**-3.8**
SCBs	**5.15**	**4.89**	**4.68**	**4.62**	**4.50**	**4.41**	**4.16**	**4.18**	**4.01**	**-11.1**	**-4.2**
					Net NPAs						
Large PSBs	0.57	0.53	0.49	0.48	0.43	0.43	0.39	0.39	0.37	-14.5	-5.8
Other PSBs	0.29	0.26	0.25	0.21	0.21	0.20	0.17	0.17	0.15	-28.3	-6.8
PSBs	**0.86**	**0.79**	**0.74**	**0.69**	**0.64**	**0.63**	**0.60**	**0.56**	**0.52**	**-19.1**	**-6.1**
Large PVBs	0.17	0.17	0.17	0.19	0.20	0.21	0.20	0.23	0.22	14.2	-4.0
Other PVBs	0.14	0.15	0.13	0.13	0.13	0.13	0.13	0.14	0.14	-0.7	-2.8
PVBs	**0.31**	**0.31**	**0.31**	**0.32**	**0.33**	**0.35**	**0.33**	**0.37**	**0.36**	**8.1**	**-3.5**
SCBs	**1.17**	**1.11**	**1.05**	**1.02**	**0.97**	**0.97**	**0.90**	**0.93**	**0.88**	**-9.9**	**-5.1**

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

Note: Analysis based on 30 scheduled commercial banks (14 PSBs and 16 PVBs). Prior period numbers would not be 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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