Q1FY27 Net Profit Crosses Rs 1 Lakh Crore for the Third Consecutive Quarter

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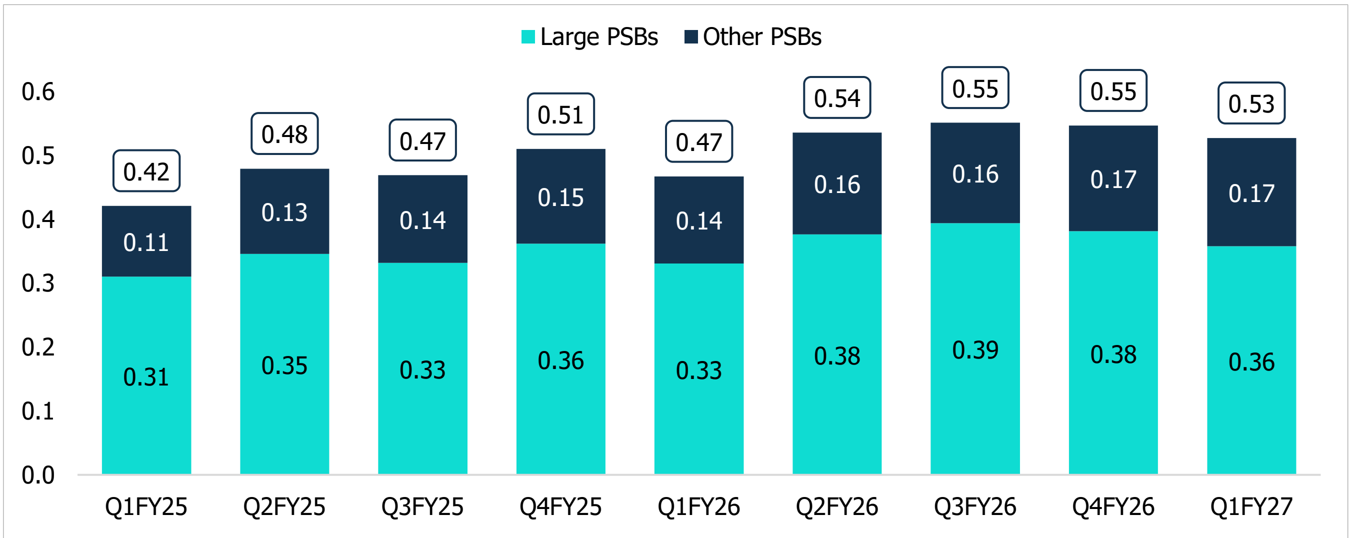
Synopsis

- **Scheduled Commercial Banks (SCBs) sustained quarterly net profits above the Rs 1 lakh crore mark in Q1FY27 for three quarters in a row,** with net profit up 14.6% y-o-y to Rs 1.05 lakh crore due to a 12.8% fall in provisions along with a modest rise in operating profits. The decline in provisions was supported by continued improvement in asset quality. Private Sector Banks (PVBs) grew 16.3%, and Public Sector Banks (PSBs) grew 12.8%, with a Rs 5,680 crore legacy settlement at one large PSB, excluding which PSB growth would have been higher at 22%.
- Meanwhile, **Return on assets (RoA) improved only marginally.** RoA of SCBs rose 2 basis points (bps) y-o-y to 1.30%, with PSBs flat at 1.06% and PVBs improving 5 bps to 1.70%. Median RoE improved 48 bps to 12.9%, with PSBs at 14.15% against 12.20% for PVBs, as PSBs continue to report higher returns to shareholders despite lower asset returns, due to higher gearing.
- **Capital ratios strengthened, aided by two regulatory changes during the quarter.** Median CET-1 improved 97 bps y-o-y to 16.4% and median CAR 61 bps to 18.2%, both comfortably above requirements. The RBI eased the conditions for including current-year profits in CET-1 and discontinued the Investment Fluctuation Reserve, moving reserves that had counted towards Tier 2 into core capital. The Tier 2 layer consequently declined across all groups by 29 bps q-o-q at SCB, with PSBs down 26 bps and PVBs down 27 bps, leaving total capital broadly unchanged while its composition improved.
- Capital raising has picked up since the quarter closed, with announced plans across four large PSBs exceeding Rs 80,000 crore for FY27 and banks citing the ECL transition rather than growth as the primary consideration. Returns are likely to remain broadly range-bound through FY27, with direction hinging on whether banks can protect margins as these supports fade.

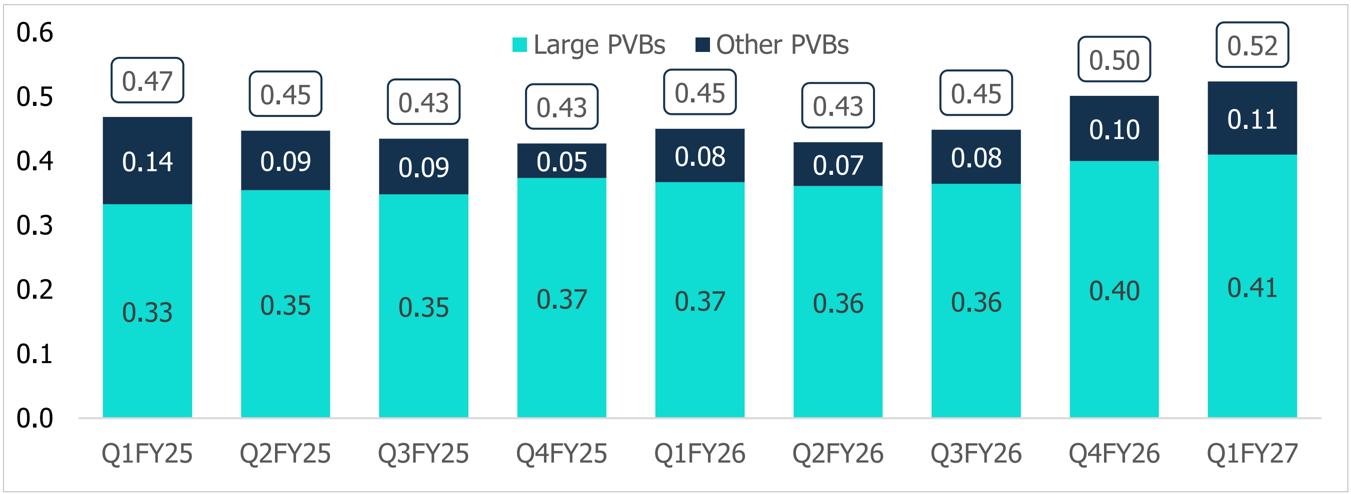
Reported Earnings Improve Faster Than the Underlying Business

Figure 1: PSBs' Net Profit Trend (Rs Lakh, Cr)



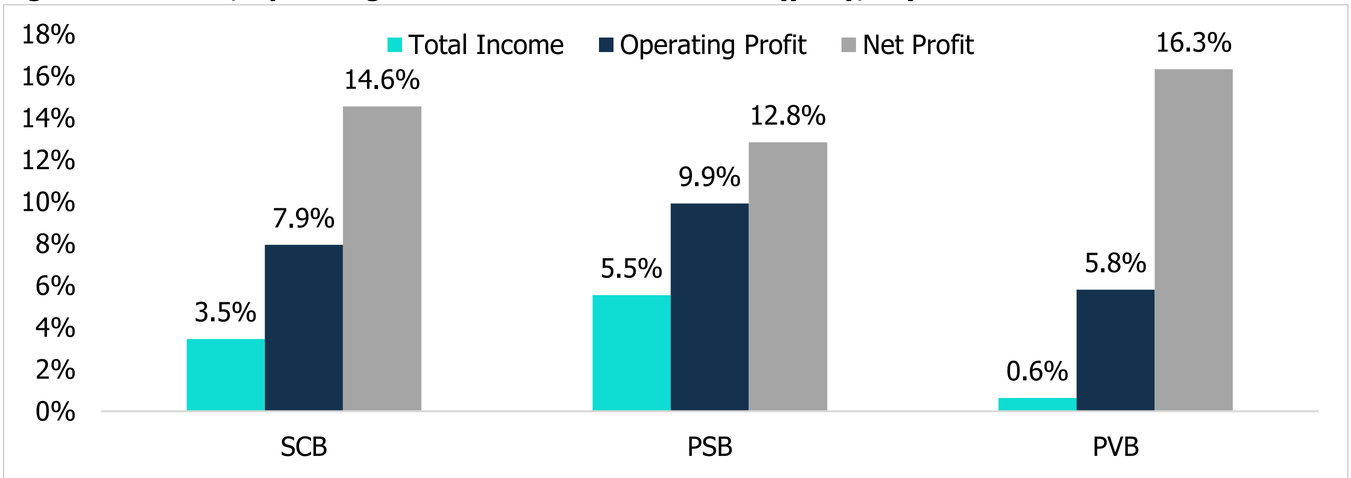
Source: Ace Equity, CareEdge Calculations; Note: Includes 14 PSBs (5 Large + 9 Others).

Figure 2: PVBs' Net Profit Trend (Rs Lakh, Cr)



Source: Ace Equity, CareEdge Calculations; Note: Includes 16 PVBs (3 Large + 13 Others). Note: Q1FY26 figures include one-off gains reported by a large private sector bank due to the partial stake sale of its subsidiary.

Figure 3: Income, Operating Profit and Net Profit Growth (y-o-y, %)



Source: Ace Equity, Bank filings. Note: Includes 14 PSBs (5 Large + 9 Other) and 16 PVBs (3 Large + 13 Others).

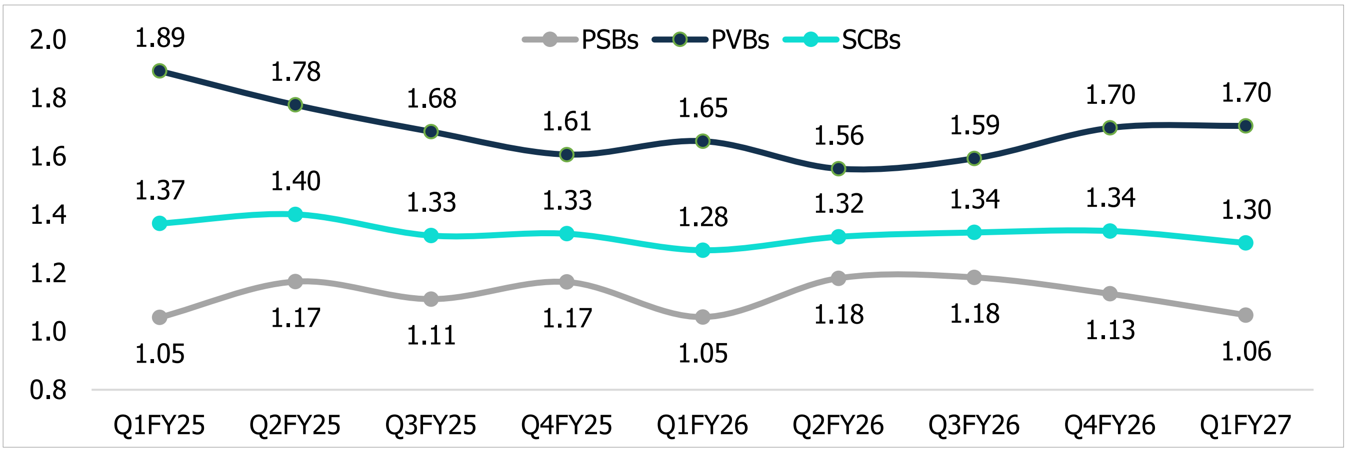
- Net profit of SCBs grew 14.6% y-o-y to Rs 1.05 lakh crore in Q1FY27, the third consecutive quarter above the Rs 1 lakh crore mark, well ahead of total income growth of 3.5% and operating profit growth of 7.9%. Income growth was held back by a 12.6% decline in other income as treasury gains moderated from an elevated base, partly offset by growth in fee income across retail and transaction banking. Profitability was instead supported by interest expenses growing 3.3% and supporting NII growth of 11.6%, alongside contained operating expenses and a 12.8% decline in provisions on lower fresh slippages and continued recoveries from written-off accounts.
    - PSB net profit grew 12.8% y-o-y, restrained by the settlement of an old legal claim at one large PSB, the full cost of which was charged during the quarter. Excluding this, growth stood at around 22.0%. Profitability was further supported by a lower effective tax rate in Q1FY27, following migration to the new corporate tax regime. However, one PSB absorbed a one-time deferred tax remeasurement charge of Rs 1,237 crore on transition.
    - PVB net profit grew 16.3% y-o-y, with the improvement concentrated among smaller banks. Other PVBs reported growth of 37.5%, as stress in microfinance and unsecured retail portfolios continued to recede,

allowing provisioning to moderate from an elevated base. The y-o-y comparison for PVBs also reflects one-off gains reported by a large PVB in Q1FY26.

- Sequentially, SCBs' net profit remained broadly flat at 0.3% q-o-q, with PVBs growing 4.5% and PSBs declining 3.6%, largely reflecting the legal settlement by one large PSB. Treasury income recovered as bond yields softened towards the end of June, while employee expenses rose 10% q-o-q.
- Going forward, provisions also have limited room to decline further, with several banks already operating well within their credit cost guidance. Earnings growth through FY27 will therefore depend more on income, particularly on banks' ability to protect margins.

RoA Improves Marginally as Asset Growth Absorbs the Earnings Gain

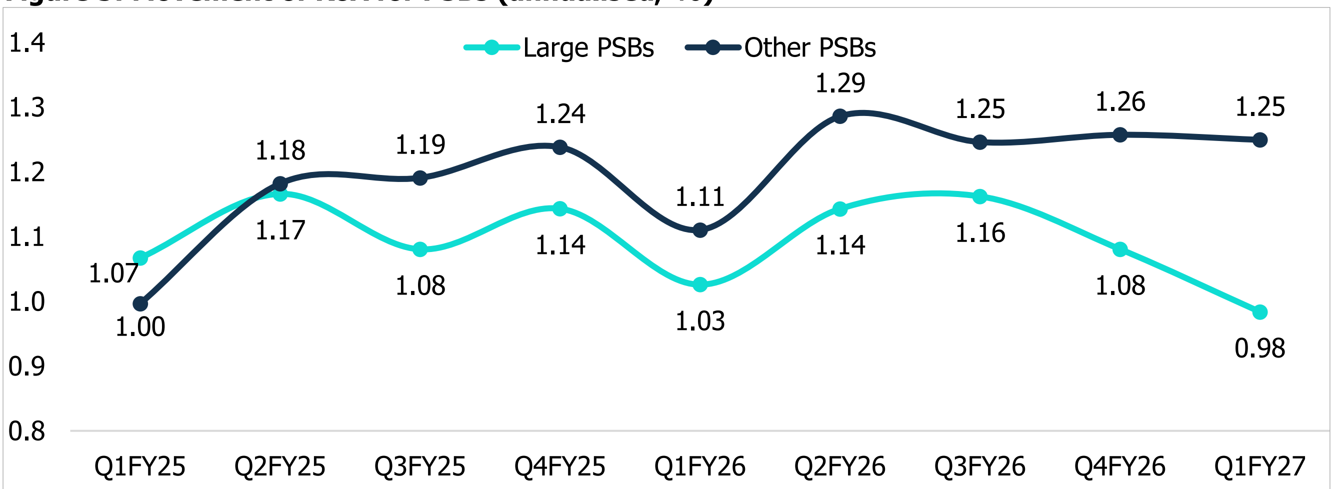
Figure 4: Movement of RoA for SCBs (annualised, %)



Source: Ace Equity, Bank filings. Note: Includes 14 PSBs (5 Large + 9 Other) and 16 PVBs (3 Large + 13 Others).

- RoA of SCBs improved 2 bps y-o-y to 1.30% in Q1FY27, a modest gain relative to net profit growth of 14.6%, as balance sheet growth of 12.4% absorbed most of the earnings improvement. Yields on advances remained the principal constraint, with the repo rate unchanged since December 2025, leaving much of the loan book unable to reprice. As a result, NII grew roughly in line with the loan book and did not significantly improve returns. Lower operating and credit costs helped profitability, but the decline in other income partly offset this benefit.

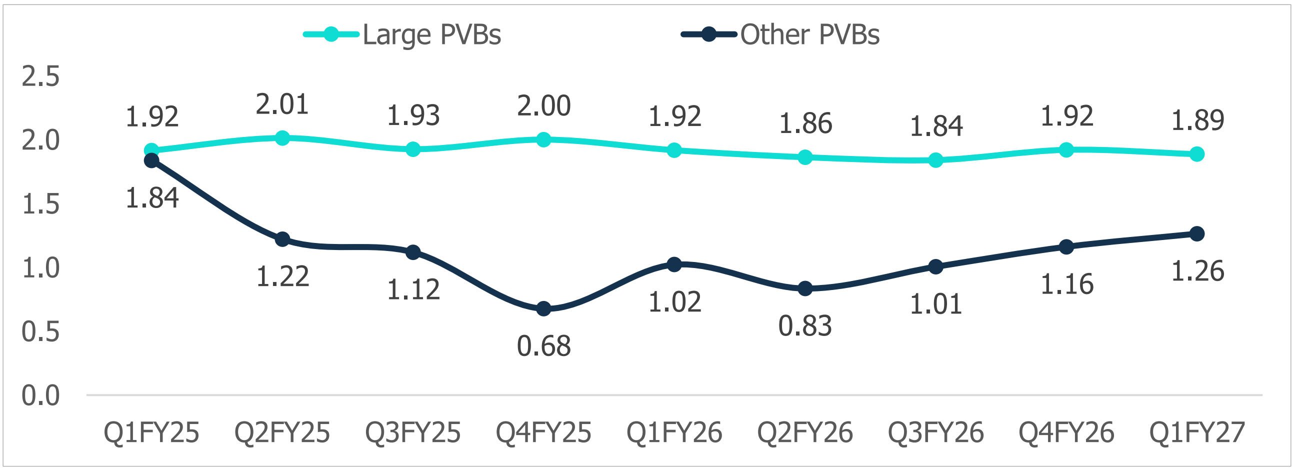
Figure 5: Movement of RoA for PSBs (annualised, %)



Source: Ace Equity, Bank filings. Note: 14 PSBs (5 Large + 9 Others)

- PSBs' RoA remained flat at 1.06%, with Other PSBs improving 14 bps on lower credit costs and continued recoveries. In contrast, Large PSBs declined 4 bps, largely reflecting the legal settlement, which accounted for around 8 bps at the group level.
- PVBs' RoA improved 5 bps to 1.70%, with the gain concentrated in other PVBs at 24 bps, driven by improved asset quality and supported by fresh equity infusions. Large PVBs declined 3 bps, with a higher share of repo-linked lending limiting their ability to protect yields during the quarter.

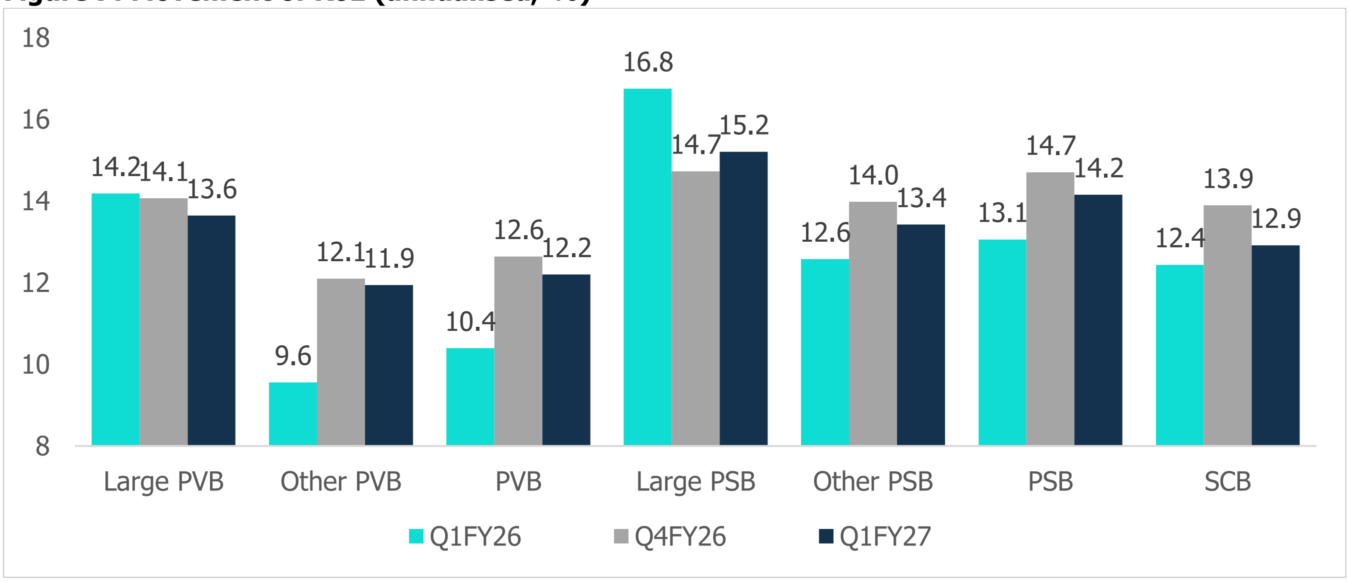
Figure 6: Movement of RoA for PVBs (annualised, %)



Source: Ace Equity, Bank filings. Note: 16 PVBs (3 Large + 13 Others)

- On the funding side, the RBI's concessional swap window for foreign currency deposits has drawn close to USD 52.3 billion as of 13 August 2026, which should provide some relief.

Smaller Banks Drive the Improvement in Returns
Figure 7: Movement of RoE (annualised, %)

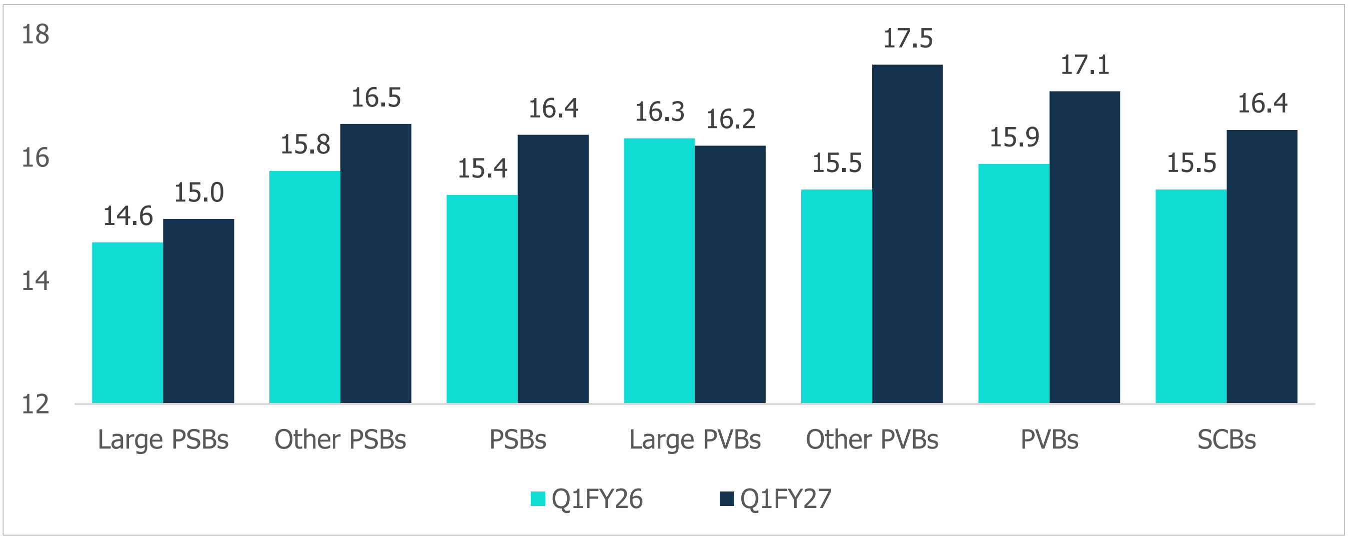


Source: Ace Equity, Bank filings; Note: Includes 14 PSBs (5 Large + 9 Others) and 16 PVBs (3 Large + 13 Others). Group figures are medians.

- Median RoE of SCBs improved 48 bps y-o-y to 12.9% in Q1FY27, with PSBs at 14.15% and PVBs at 12.20%. The improvement was broad-based, with 22 of the 30 banks reporting higher RoE than a year earlier, and the banks earning above 15% rising to eight from six. 10 banks continued to earn below 10%, unchanged from Q1FY26, indicating that the recovery in returns has not yet extended to the entire sector.
- PSBs continue to report the higher RoE despite earning considerably less on their assets, at 1.06% against 1.70% for PVBs, reflecting a lower equity base relative to assets of 7.6% compared with 12.9% for PVBs.
- Within the groups, other PSBs improved 85 bps and other PVBs 238 bps, while large PSBs declined 154 bps, the sharpest fall across groups and largely reflecting the legal settlement, and large PVBs declined 54 bps. The PSB lead over PVBs has consequently narrowed to around 195 bps from around 270 bps in Q1FY26.
- Sequentially, SCB median RoE declined 98 bps, except Large PSBs, which improved 48 bps.
- Going forward, pressure on RoE is more likely to come from the capital side than from earnings. Continued credit growth and planned capital raises across several banks will support balance sheet expansion. Still, higher equity levels and lower leverage are likely to result in some near-term dilution in returns.

Core Capital Rebuilds Sharply After Two Quarters of Decline

Figure 8: CET-1 Ratio Median (%): Banks Stand Much Above the Required Level



Source: Banks Presentations and Ace Equity Calculations; Note: 14 PSBs (5 Large + 9 others) and 16 PVBs (3 Large + 13 Others) were used for the median calculation.

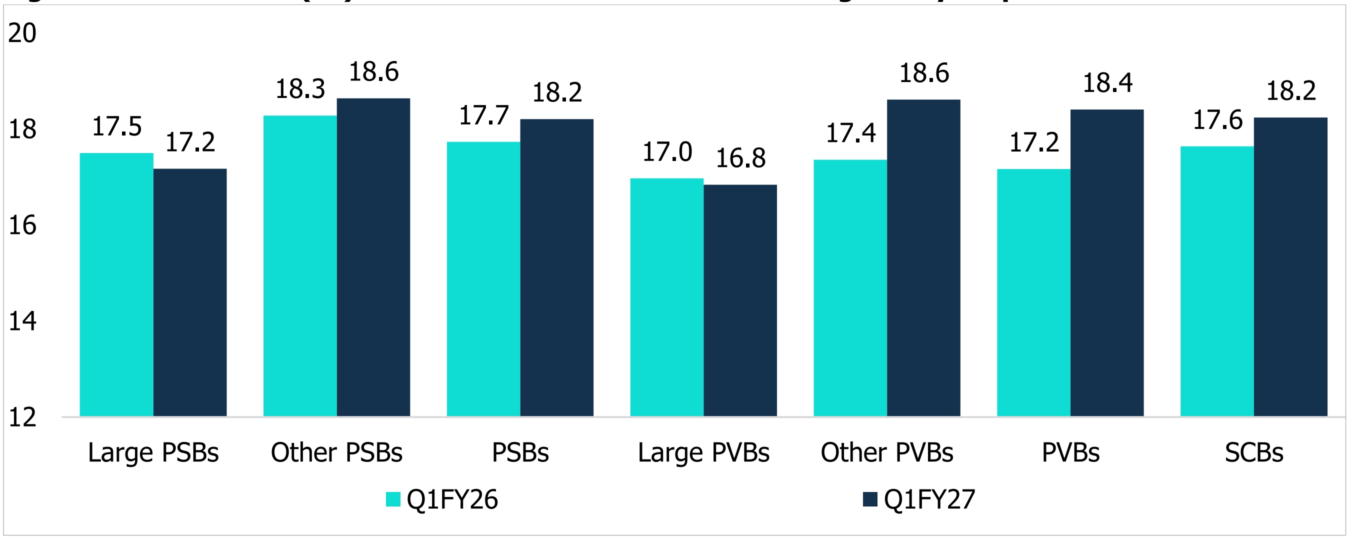
- Median CET-1 of SCBs improved 97 bps y-o-y to 16.4% in Q1FY27, with all groups remaining well above regulatory requirements. Two regulatory changes during the quarter added to core capital, alongside gains on investment portfolios. Sequentially, the median improved 52 bps, with PSBs at 86 bps and PVBs at 80 bps.
- In May 2026, the RBI eased the conditions under which banks may include current-year profits in CET-1 capital on a quarterly basis. Separately, the requirement to maintain an Investment Fluctuation Reserve was discontinued with effect from 18 May 2026, with balances transferred to Statutory Reserve, General Reserve or the Profit and Loss account, shifting reserves that previously counted towards Tier 2 into core capital. The decline in bond yields towards the end of June provided further support through revaluation reserves on the available-for-sale portfolio, which are routed directly to reserves.
- PSB median CET-1 improved 98 bps y-o-y, with both sub-groups recording gains, while PVB median CET-1 improved 118 bps. The PVB gain was concentrated in other PVBs at 202 bps, of which around 80 bps reflects a change in ownership at one bank that brought a large equity infusion during the quarter. Excluding this, the

sub-group improved around 120 bps. All three large PVBs reported lower CET-1 than a year earlier, and the sub-group declined 16 bps q-o-q.

- Credit growth continues to consume capital, although the shift towards secured lending and better-rated corporate exposure appears to have kept risk-weighted asset growth below advanced growth.
- Core capital is therefore stronger than a year earlier, which should support continued balance sheet growth through the remainder of FY27. The contribution from investment portfolio gains appears less certain, given the retracement in bond yields since the quarter closed.

Overall Capital Adequacy Remains Well Above Required Levels in Q1FY27

Figure 9: CAR Median (%): Continues to Remain Above the Regulatory Requirement



Source: Banks' Presentations and Ace Equity Calculations; Note: 14 PSBs (5 Large + 9 others) and 16 PVBs (3 Large + 13 Others) were used for the 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).

- Median CAR of SCBs improved 61 bps y-o-y to 18.2% in Q1FY27, remaining well above the regulatory requirement of 11.5%. The improvement trailed the 97 bps rise in core capital, reflecting a decline in the Tier 2 layer across all groups following the discontinuation of the Investment Fluctuation Reserve. Since the reserve moved into core capital rather than out of the system, total capital was largely unaffected while its composition improved.
- The Tier 2 layer moderated 28 bps q-o-q to 1.66%, having remained close to 1.93% through the preceding three quarters.
  - PSB median CAR improved 48 bps y-o-y to 18.2%, and PVB median CAR improved 124 bps to 18.4%. Large PSBs declined 33 bps y-o-y even as their core capital improved, indicating that the fall reflects the lower Tier 2 layer rather than weaker capital generation. Large PVBs declined 13 bps y-o-y and 34 bps q-o-q, the sharpest sequential decline across groups.
- Capital raising activity has increased since the quarter closed, with a meaningful share routed through overseas markets. Announced plans across four large PSBs exceed Rs 80,000 crore for FY27, covering Basel III Tier I and Tier II bonds, long-term infrastructure bonds and equity through qualified institutional placements. At the same time, private banks have largely taken enabling approvals without announcing amounts. With Tier 2 reduced by the regulatory change, the capital composition is likely to continue shifting toward the core.

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Figure 10: Movement in PSBs' CET-1

Bank	Q1FY26	Q4FY26	Q1FY27	(y-o-y, bps)
State Bank of India	12.45	13.33	13.90	145
Canara Bank	14.58	14.59	15.00	42
Bank of Baroda	15.15	13.64	14.41	-74
Indian Bank	15.74	16.40	16.51	77
Punjab National Bank	14.62	15.15	16.03	141
Union Bank of India	15.30	15.69	16.38	108
Bank of India	15.15	15.35	16.27	112
Central Bank of India	15.48	15.61	16.54	106
Indian Overseas Bank	15.78	16.94	16.88	110
Bank of Maharashtra	16.63	15.41	16.35	-28
Punjab & Sind Bank	16.02	15.92	16.56	54
UCO Bank	16.36	16.59	17.44	108
Jammu & Kashmir Bank	13.68	14.44	13.68	0
IDBI Bank	23.71	25.56	26.38	267

Source: Banks Presentations and Ace Equity Calculations; Note: 14 PSBs (5 Large + 9 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).

Figure 11: Movement in PVBs' CET-1

Bank	Q1FY26	Q4FY26	Q1Y27	(y-o-y, bps)
HDFC Bank	17.80	17.30	17.40	-40
ICICI Bank	16.31	16.35	16.19	-12
Axis Bank	14.68	14.38	14.64	-4
Kotak Mahindra Bank	21.80	21.30	22.40	60
IndusInd Bank	15.48	16.20	16.10	62
YES Bank	14.00	13.80	14.00	0
IDFC First Bank	12.80	13.73	13.33	53
RBL	14.05	12.77	32.20	1815
Federal Bank	14.69	15.93	15.89	120
South Indian Bank	18.25	18.76	18.93	68
Karnataka Bank	18.90	18.70	19.90	100
Bandhan Bank	18.60	17.30	17.50	-110
Karur Vysya Bank	16.33	17.72	17.98	165
Dhanlaxmi Bank	15.47	16.11	16.74	127
City Union Bank	22.09	20.82	20.97	-112
DCB Bank	14.20	14.26	14.90	70

Source: Banks Presentations and Ace Equity Calculations; 16 PVBs (3 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

Banks reported strong earnings in Q1FY27. Total income grew 3.5% while net profit grew 14.6%, supported by contained operating expenses and a 12.8% decline in provisions. We expect earnings growth to moderate through the remainder of FY27, as the contribution from provisions narrows with credit costs already at low levels and several banks operating well within their own guidance. Margins are likely to determine the direction from here. The concessional swap window for foreign currency deposits should provide some relief on funding until it closes at the end of August, while banks with a larger share of lending on internal benchmarks retain some ability to reprice. Beyond that, the pace of deposit mobilisation relative to credit growth remains a key monitorable, alongside the trajectory of policy rates. Overall, we expect SCB RoA to remain broadly range-bound at around 1.25% - 1.35% through FY27, with performance increasingly dependent on core income rather than on the cost lines that supported this quarter.

Capital positions strengthened during the quarter, with median CET-1 improving 97 bps y-o-y to 16.4% and median CAR 61 bps to 18.2%, both comfortably above regulatory requirements. Two regulatory changes contributed, as the RBI permitted banks to reckon current-year profits towards CET-1 every quarter and discontinued the Investment Fluctuation Reserve, moving reserves out of Tier 2 and into core capital. This was supported by significant capital raising by some other PVBs. We expect capital buffers to remain comfortable through FY27, supported by continued accruals and by announced raising plans that already exceed Rs 80,000 crore across four large PSBs, with a growing share routed through overseas markets. The ECL transition in April 2027 remains the principal factor to watch, and with disclosure still uneven, the impact on capital is likely to vary across banks. Returns to shareholders have not kept pace with the build in capital, and as PSBs continue to add capital while credit growth absorbs more of it, sustaining current RoE levels would require improvement in RoA. We therefore expect returns to remain broadly range-bound, with capital strength rather than earnings momentum defining the sector's position through FY27.

Annexure

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
	DCB Bank	Bandhan Bank	City Union Bank	Karur Vysya Bank	Dhanlaxmi Bank	Karnataka Bank	
PVBs	**Large PVBs and Other PVBs (Total 16 PVBs)**						
SCBs	**PSBs + PVBs (Total 30 Banks)**						

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