Bank Profits Rise 20% to Rs 1.16 Lakh Crore in Q2FY27

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Synopsis

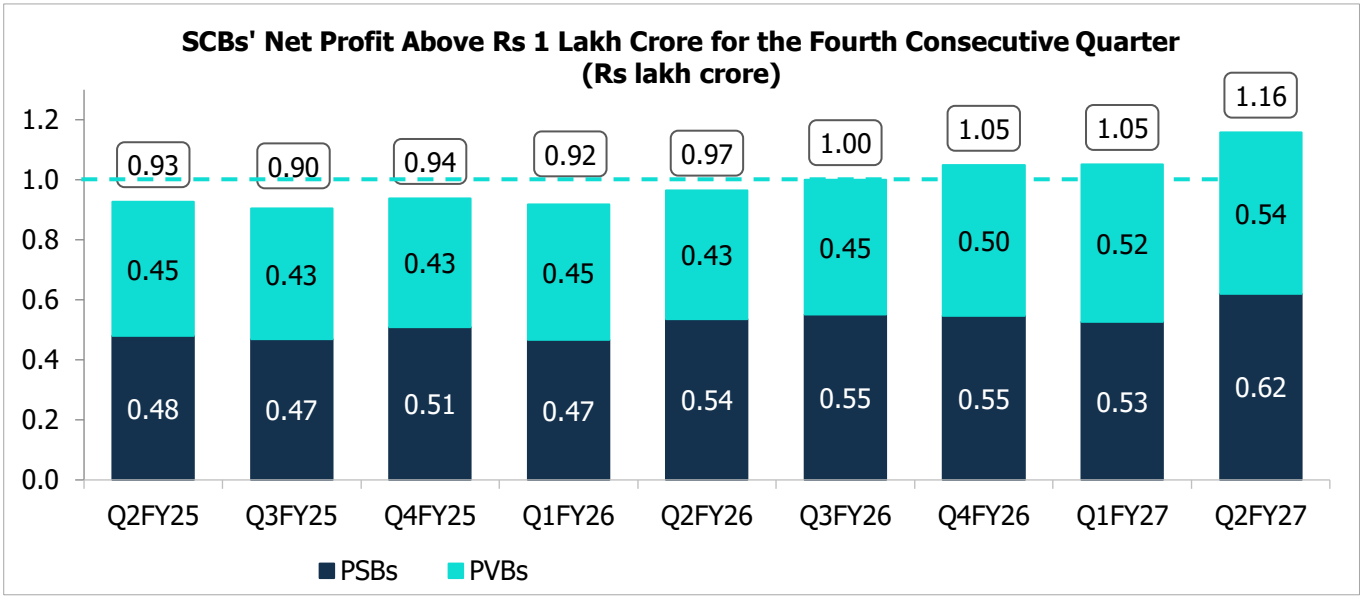
- Net profit of scheduled commercial banks (SCBs) rose 20% y-o-y to Rs 1.16 lakh crore in Q2FY27, led by higher net interest income. Strong loan growth and a weak base a year ago also helped.
- Stake-sale and NSE IPO gains at large public sector banks (PSBs) added about Rs 10,000 crore to the profit in Q2FY27. Excluding one-time items in both years, profit grew about 16% y-o-y and was also lower than in Q1FY27.
- Return on assets (RoA) rose 7 bps y-o-y to 1.39%, the highest since Q2FY25, mostly because of one-time gains. Excluding one-time items, it was broadly unchanged from a year ago.
- Median return on equity (RoE) rose 79 bps y-o-y to 13.6%. Other private banks gained the most, as lower provisions lifted their profit.
- Median Common Equity Tier 1 (CET-1) ratio rose 87 bps y-o-y to 15.8%, though it eased from Q1FY27 in the usual second-quarter dip. Every bank is well above the regulatory requirement.
- Profit growth is likely to moderate in H2FY27. One-time gains are likely to fade, treasury income may stay weak, and banks are likely to build provisions ahead of the move to expected credit loss (ECL) rules.

"Core lending drove bank earnings this quarter. Operating profit grew 13-15% y-o-y in both bank groups, so provisions explain the gap in their profit growth. Other private banks are catching up as credit costs ease. Their return on assets now trails the large private banks by about 50 bps, half the gap a year ago. Large private banks expect margins to improve after Q3FY27 as they lend out the FCNR(B) deposits. Higher provisions ahead of the ECL rules may lower returns." - Vineet Jain, Senior Director, CareEdge Ratings

Net Profit	RoA	Median RoE	Median CET-1	Median CAR
Rs 1.16 lakh crore	**1.39%**	**13.6%**	**15.8%**	**17.9%**
+20.0% y-o-y	+7 bps y-o-y	+79 bps y-o-y	+87 bps y-o-y	+71 bps y-o-y

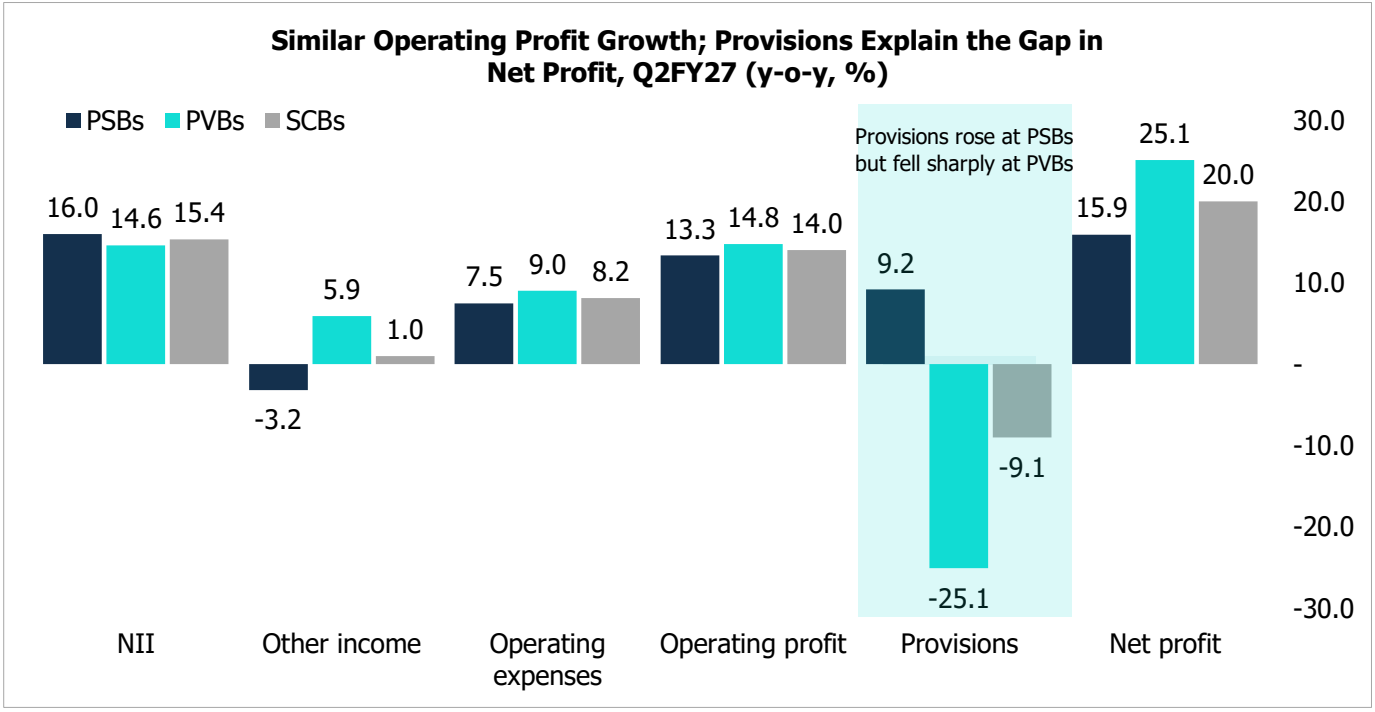
Bank Net Profit Rises 20% to Rs 1.16 Lakh Crore as Net Interest Income Grows 15.4%

SCBs' net profit rose 20.0% y-o-y to Rs 1.16 lakh crore in Q2FY27, staying above Rs 1 lakh crore for the fourth consecutive quarter. The growth came mainly from higher net interest income (NII), as bank credit grew about 19%. In Q1FY27, by contrast, a 12.8% fall in provisions was a key driver of profit growth. Treasury income fell sharply as bond yields rose during the quarter. Part of the 20% growth also reflects a weak base, as profit had grown only 4.2% y-o-y in Q2FY26.



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

PSBs and private sector banks (PVBs) grew operating profit at a similar pace, and the gap in their net profit growth came from provisions. PSBs' net profit rose 15.9% y-o-y. FCNR(B) inflows helped them replace costlier bulk deposits, but provisions rose as some banks began setting aside money ahead of ECL. PVBs' net profit rose 25.1% y-o-y, as provisions fell sharply at other PVBs after stress in microfinance and unsecured loans eased. The PVB figure is also helped by a weak base, as their profit had fallen 4.0% y-o-y in Q2FY26.



Source: Bank filings, Ace Equity, CareEdge Ratings Calculations. Note: Includes 14 PSBs and 16 PVBs. Operating profit = NII + other income – operating expenses.

One-Time Items Add About Rs 10,000 Crore; Net Profit Up 15.7% y-o-y Excluding Them

One-time items affected all three quarters compared in this report. In Q2FY27, large PSBs booked gains from a stake sale in an asset management subsidiary and from the NSE IPO. Q1FY27 carried a legal settlement charge at a large PSB, and Q2FY26 had stake-sale gains at two PSBs and a one-time provision at a large PVB. Excluding these items, net profit rose 15.7% y-o-y and fell 4.5% q-o-q, so the entire sequential rise in reported profit came from one-time items.

One-Time Items (Rs crore)

Quarter	Item	Bank group	Amount (Rs crore)
Q2FY27	Stake sale in asset management subsidiary	Large PSB	+7,288
	Gains from NSE IPO	Two large PSBs	+2,735
Q1FY27	Legal settlement charge	Large PSB	−5,680
Q2FY26	Stake-sale gains	Large PSB; Other PSB	+4,593; +1,699
	One-time standard asset provision	Large PVB	−1,231

Source: Bank filings, CareEdge Ratings Calculations. Note: Amounts are before tax and are removed in full from net profit to arrive at figures excluding one-time items.

Net Profit Growth and RoA, Reported and Excluding One-Time Items, Q2FY27

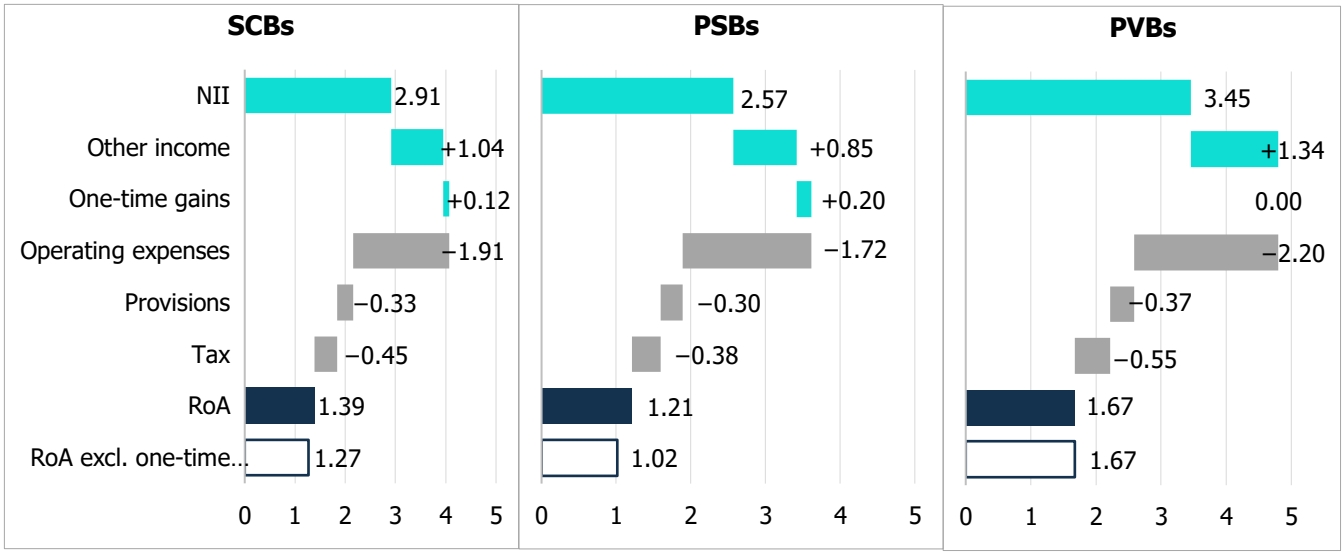
		Net profit growth, y-o-y (%)	Net profit growth, q-o-q (%)	RoA (%)	RoA change, y-o-y (bps)
SCBs	Reported	20.0	10.2	1.39	+7
	Excluding one-time items	15.7	−4.5	1.27	+1
PSBs	Reported	15.9	17.8	1.21	+3
	Excluding one-time items	10.2	−10.8	1.02	−3
PVBs	Reported	25.1	2.6	1.67	+11
	Excluding one-time items	21.6	2.6	1.67	+7

Source: Bank filings, CareEdge Ratings Calculations.

Banks' Return on Assets Rises 7 bps y-o-y to 1.39%; Up 1 bp Excluding One-Time Items

SCBs' RoA rose to 1.39% in Q2FY27, the highest since Q2FY25, though almost all of the y-o-y gain came from one-time items. NII and lower costs and provisions relative to assets supported RoA, while lower treasury income held it back. The fall in the cost ratio reflects faster asset growth, as operating expenses still rose 8.2% y-o-y. Banks mobilised about USD 133 billion under the RBI's FCNR(B) swap window between June 8 and August 31, 2026, which enlarged balance sheets before the funds could be fully lent out.

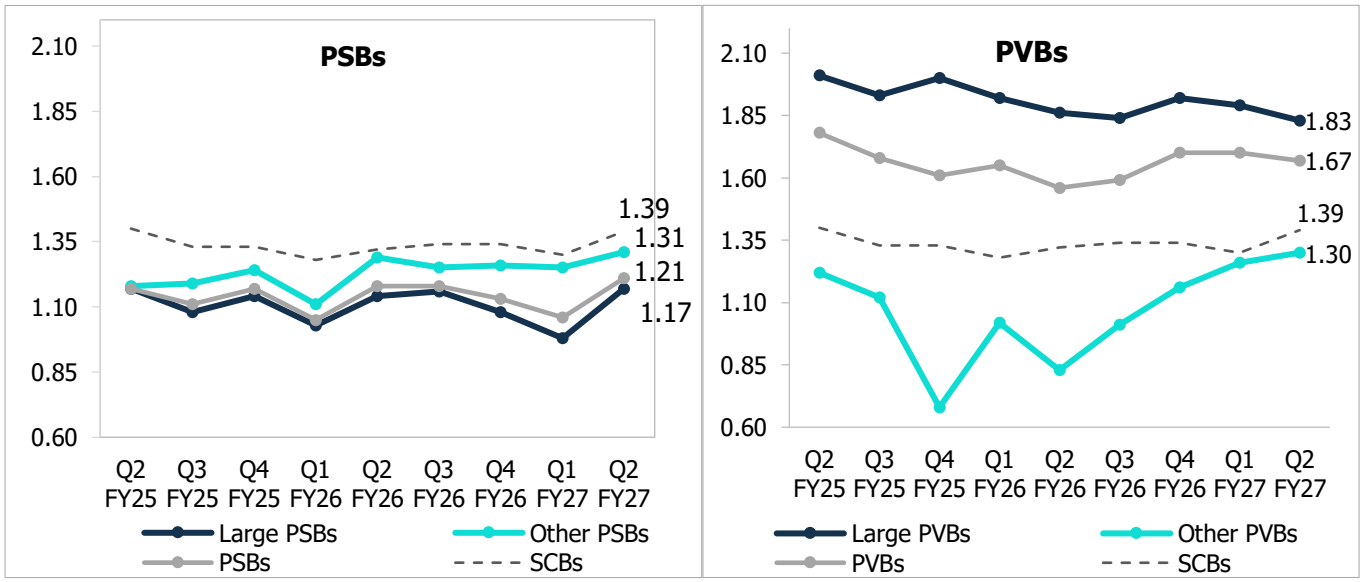
RoA Build-up by Bank Group, Q2FY27 (% of average total assets)



Source: Bank filings, Ace Equity, CareEdge Ratings Calculations. Note: Items as a share of annualised average total assets; expenses, provisions and tax reduce RoA. One-time gains include the stake-sale gain and NSE IPO gains, removed in full; other income excludes the NSE IPO gains

The FCNR(B) inflows affected the two groups differently. PSBs used them to replace costlier bulk deposits, which lifted their NII as a share of assets. Large PVBs had not yet lent out much of these funds, which weighed on their margin, and their RoA slipped 4 bps y-o-y. Excluding one-time items, large PSBs' RoA also fell, mainly because of lower treasury income. Other PVBs were the main gainers. Their RoA rose 47 bps y-o-y as credit costs eased, and the gap with large PVBs narrowed to about 50 bps from about 100 bps a year ago.

RoA by Bank Group: Other PVBs Narrow the Gap With Large PVBs (%, annualised)



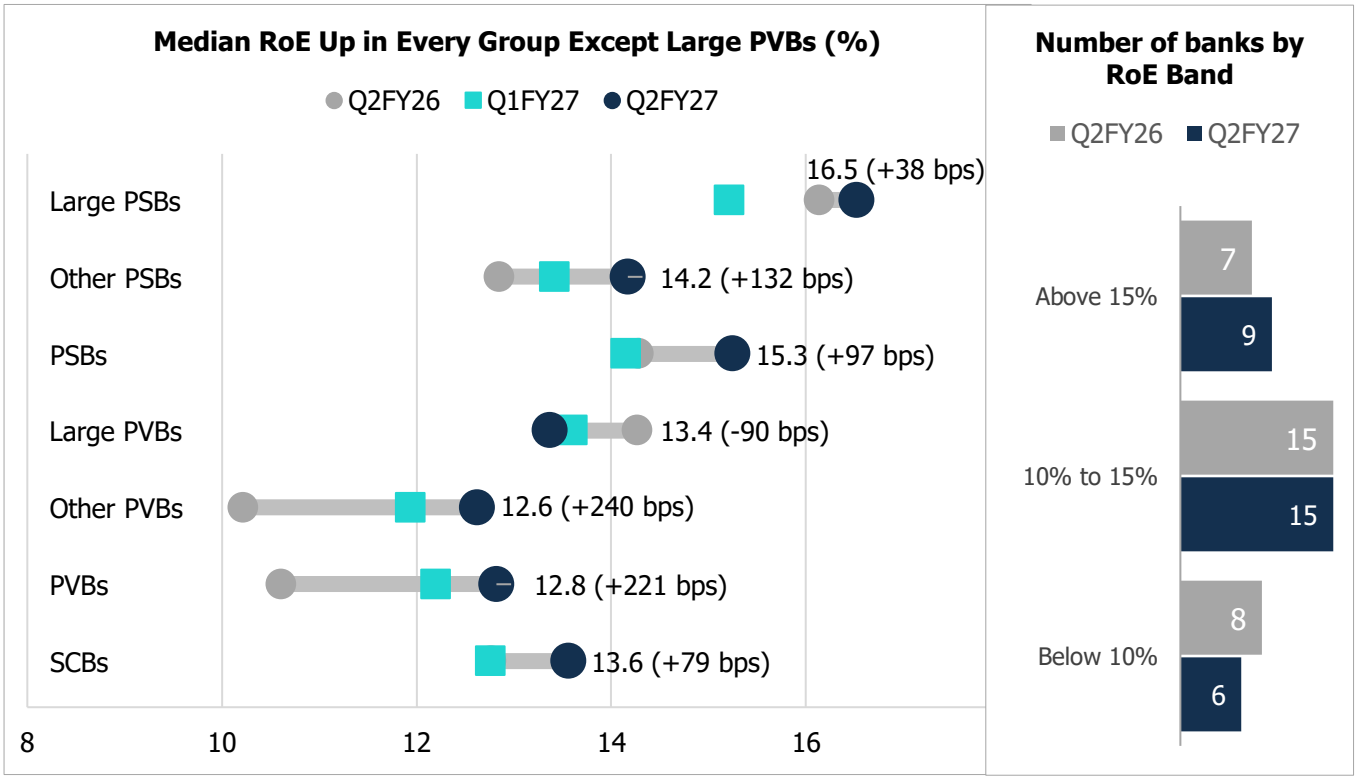
Source: Bank filings, Ace Equity, CareEdge Ratings Calculations. Note: RoA = annualised net profit/average of opening and closing total assets. Other PVBs' RoA in Q4FY25 reflects a loss at one bank.

Sequentially, SCBs' reported RoA rose 9 bps, but it fell 10 bps excluding one-time items. Higher provisions and operating expenses at some large PSBs, including one-time staff and technology costs, drove the decline.

Banks' Median Return on Equity Rises 79 bps y-o-y to 13.6%; Other PVBs Gain the Most

SCBs' median RoE rose 79 bps y-o-y to 13.56%, as profit grew faster than net worth. Excluding one-time items, the rise was smaller, at 38 bps y-o-y. More banks had RoE above 15%, and fewer had RoE below 10%. Other PVBs gained the most, with their median RoE up 240 bps y-o-y, though it still trails PSBs. Several of these banks raised fresh equity over the past year, and it may take time for this capital to earn returns. PSBs earn a higher RoE than PVBs, as they hold less capital for every rupee of assets. Large PVBs were the only group where the median fell, because of a decline at the largest bank in the group.

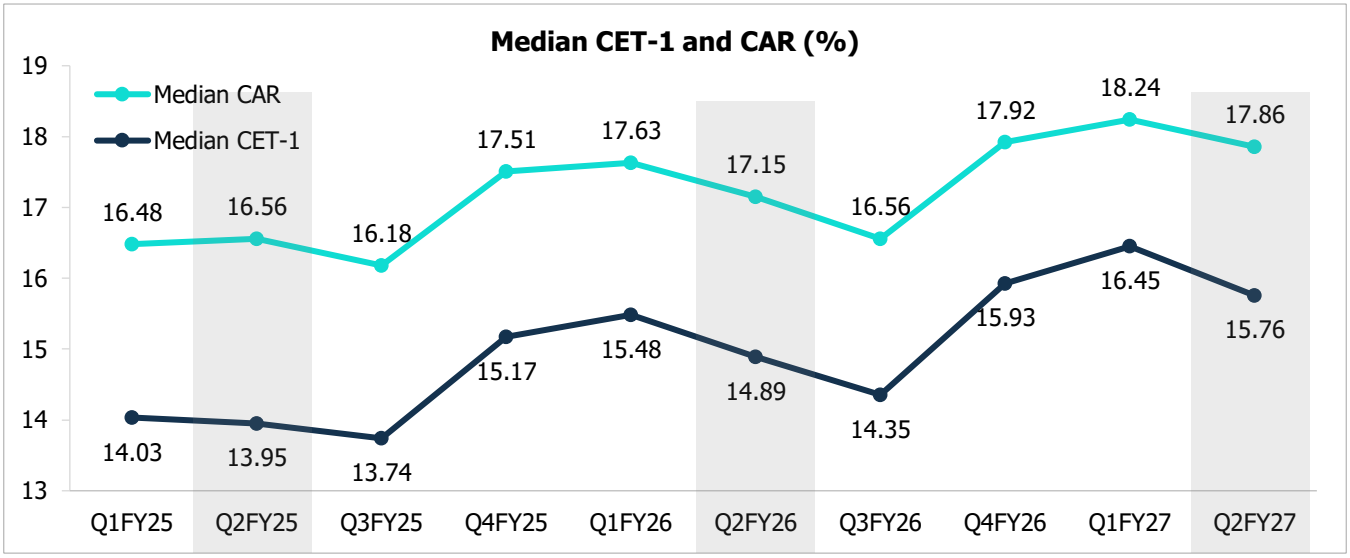
Median RoE by Bank Group (%) and Number of Banks by RoE Band



Source: Bank filings, Ace Equity, CareEdge Ratings Calculations. Note: RoE = annualised net profit / average net worth (capital + reserves + share warrants and ESOPs outstanding); median of banks in each group.

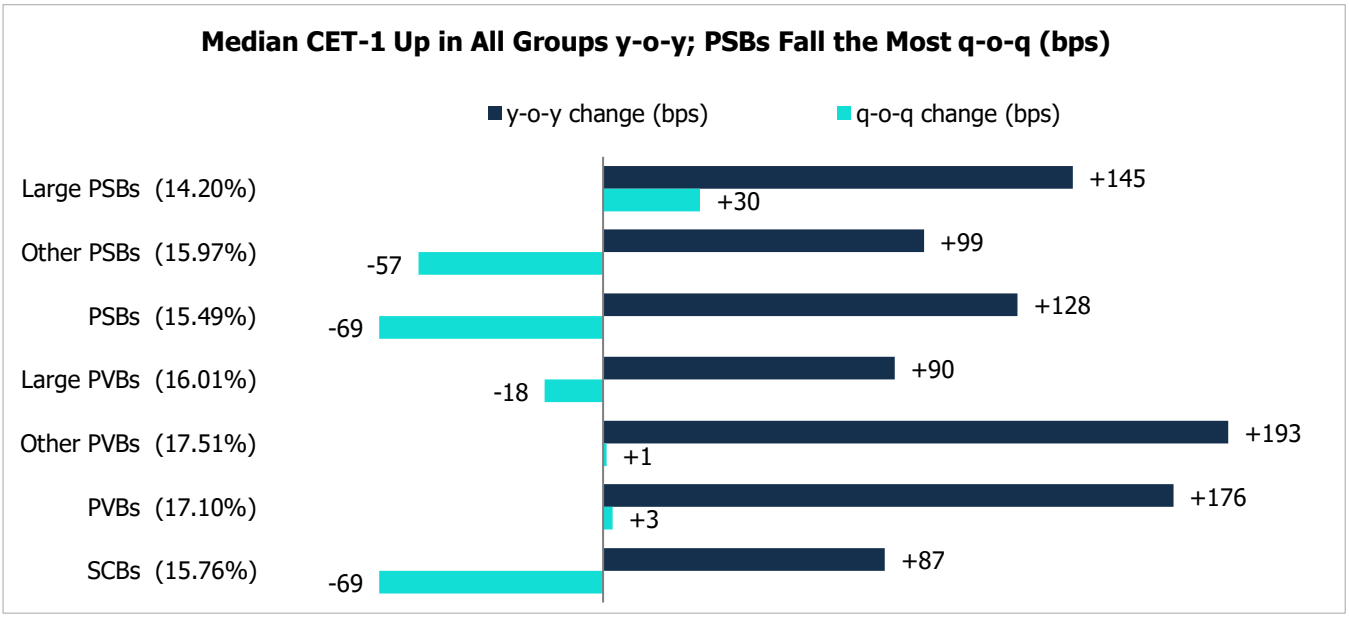
Median CET-1 Rises 87 bps y-o-y to 15.8%; Eases 69 bps q-o-q in Usual Q2 Dip

SCBs' median CET-1 rose 87 bps y-o-y to 15.76%, as banks retained profits and a few raised fresh equity. Sequentially, it fell 69 bps, with 24 banks reporting a lower ratio. This is in line with the usual pattern, in which the ratio rises around the year-end and in Q1, and falls in Q2 and Q3 as loan growth uses up capital. A similar fall was seen in Q2FY26.



Source: Bank filings, Ace Equity, CareEdge Ratings Calculations. Note: Medians across banks in the sample; CET-1 as reported by banks. The gap between the two lines reflects AT1 and Tier 2 capital; Q2 quarters are highlighted.

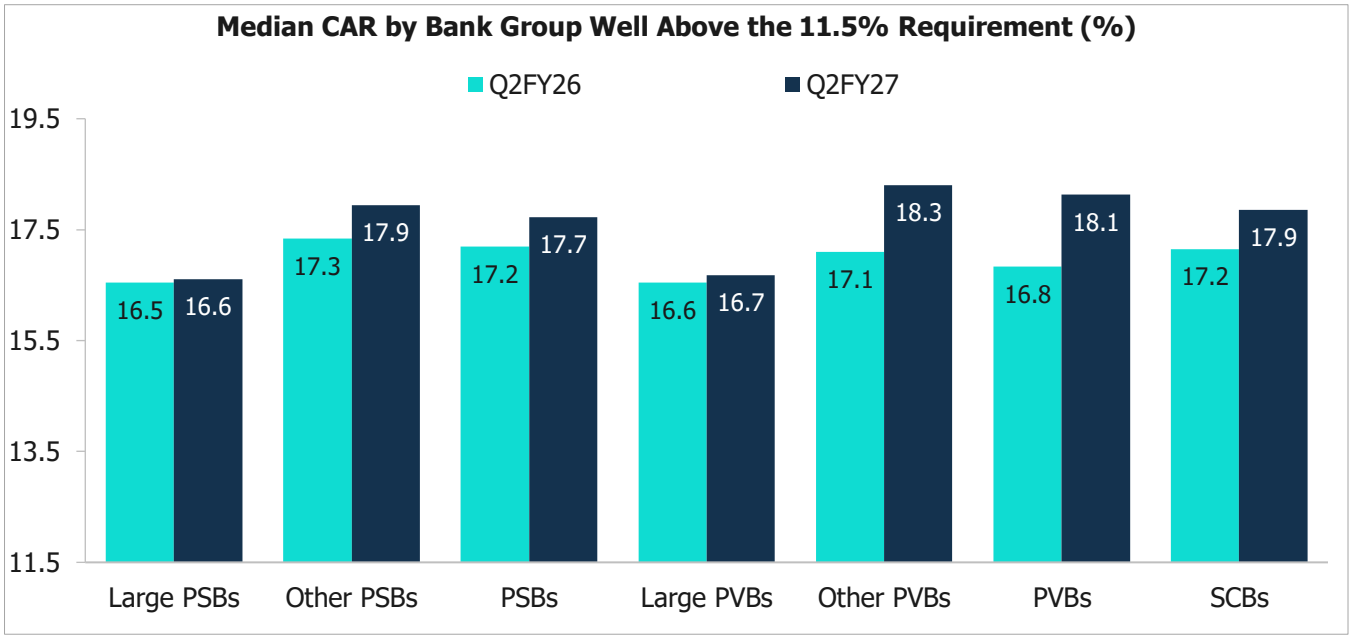
Higher bond yields also reduced gains held in banks' available-for-sale (AFS) reserves this quarter, and FCNR(B) funds lent out added to risk-weighted assets. PSBs saw the largest q-o-q fall, led by other PSBs, while the median for large PSBs rose, helped by one-time gains. Over the year, the ratio rose most at other PVBs, several of which raised fresh equity, including a large strategic investment at one bank.



Source: Bank filings, Ace Equity, CareEdge Ratings Calculations. Note: Figures in brackets are median CET-1 ratios as of September 30, 2026.

Median Capital Adequacy Ratio Rises 71 bps y-o-y to 17.9%, Well Above the 11.5% Requirement

SCBs' median capital adequacy ratio (CAR) rose 71 bps y-o-y to 17.86%, less than CET-1, as Tier 2 capital continued to shrink. Older Tier 2 bonds lose part of their capital value each year as they near maturity, and new issuance has not kept pace with balance sheet growth. All banks in the sample remain well above the 11.5% requirement. Most large banks are unlikely to need fresh equity at current growth rates, and plans to raise capital are mainly at smaller banks.



Source: Bank filings, Ace Equity, CareEdge Ratings Calculations. Note: Bars show median CAR in Q2FY26 and Q2FY27; the axis starts at the 11.5% requirement. The requirement includes the capital conservation buffer; D-SIB surcharges are additional for the banks concerned.

Bank Profit Growth Likely to Moderate in H2FY27

Profit growth is likely to moderate in H2FY27. Treasury income is likely to stay weak, as the 10-year G-sec yield rose further to 7.39% by October 19, and the one-time gains of Q2FY27 are not expected to recur.

Provisions may rise as more banks build buffers ahead of ECL from April 1, 2027. Most PSBs have guided for RoA of at least 1% for FY27, and large PVBs expect the pressure on margins from FCNR(B) deposits to continue in Q3FY27 before easing. CET-1 may come under some pressure as banks expect faster loan growth, though current buffers should allow most banks to absorb the ECL transition.

CareEdge Ratings' View

According to Saurabh Bhalerao, Director, CareEdge Ratings, "Banks remain well capitalised. Median CET-1 is about 15.8%, nearly 90 bps higher than a year ago, and the dip from the June quarter is in line with the usual second-quarter pattern. The big event ahead is the switch to expected credit loss rules on April 1, 2027. The one-time impact will be adjusted against reserves and can be phased into capital ratios until March 31, 2031. Many banks are already setting money aside for this from current profits, which will lower reported returns in the coming quarters. With today's buffers, we expect most banks to absorb the change without raising fresh equity, though smaller, fast-growing banks may continue to raise capital."

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. The PSB group includes IDBI Bank and Jammu & Kashmir Bank, which are government-controlled but classified by RBI as private sector 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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