PPOP Growth Picks Up in Q1FY27, with PSBs Outpacing PVBs

August 03, 2026 | BFSI Research

Synopsis

- Pre-provision operating profit (PPOP) of select Scheduled Commercial Banks (SCBs) grew 7.7% year-on-year (y-o-y) and 5.1% sequentially in Q1FY27. Net interest income carried the increase, but it grew mainly on balance sheet expansion rather than on margins.
    - Public Sector Banks (PSBs) grew PPOP at more than twice the pace of Private Sector Banks (PVBs) on y-o-y growth. The advantage came from outside the loan book. PSBs hold much larger investment portfolios, and as securities matured, they were reinvested at higher yields, lifting overall asset yields even as loan yields fell. PVBs, with more of the balance sheet in advances, had no equivalent offset and saw margins compress.
    - Treasury remained a drag, though a brief retracement in bond yields towards the close of the quarter allowed some banks to realise gains that had not been anticipated at the outset.
- The composition of non-interest income has been recast over the past year. Fee-based income now accounts for close to three-fourths of other income, against roughly half a year ago, while treasury has receded to a modest share.
- Operating expense growth was contained at 3.9% y-o-y and near-flat sequentially, leading to a sequential improvement in the cost-to-income ratio. The restraint looks temporary, with banks committed to branch expansion, specialist hiring and technology spending through the year.
- Net profit grew at roughly three times the pace of PPOP, as provisions fell 10%. That gap cannot persist. Asset quality has improved, but not uniformly; several banks have declined to lower credit cost guidance despite running below it, and the move to expected credit loss (ECL) provisioning will absorb part of the cushion.
- PPOP growth is expected to slow down from current levels. Future margin improvement will depend on whether lower funding costs also benefit the larger private banks. With treasury income remaining weak and provision costs nearing their floor, future earnings growth will rely primarily on stronger fee income and continued cost discipline.

Operating Profits Gather Pace, Led by PSBs

Figure 1: PPOP Growth Led by PSBs (Rs Lakh Crore)

Group	Q1FY27	Q1FY27 y-o-y (%)	Q1FY27 q-o-q (%)
PVBs	0.77	5.3	6.1
PSBs	0.35	13.6	2.9
SCBs	**1.11**	**7.7**	**5.1**

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 20 SCBs (11 PVBs and 9 PSBs).
Note: The aggregate growth figures for Q1FY26 have been adjusted for one-off gains reported by a large private sector bank due to the partial stake sale of its subsidiary.

- PPOP growth accelerated in Q1FY27; meanwhile, the gap between the two bank groups widened. PSBs grew at more than twice the pace of PVBs.
- The gap runs through all three parts of operating profit. PSB net interest income rose 12.0% against 9.6% at PVBs. PSB operating costs grew just 1.6%, while PVB costs rose 5.2%. Other income fell at both, with treasury the main drag, down about two-thirds at PVBs against just under half at PSBs.

- Within both groups, the smaller banks grew faster. Other PSBs grew 15.7% against 10.3% for Large PSBs, and Other PVBs grew 9.4% against 4.2% for Large PVBs. These banks had cut high-cost bulk deposits earlier in the cycle, so their funding costs began easing sooner.
- Sequentially, SCB PPOP rose 5.1%, the strongest of the past four quarters. The order reverses on this basis, with PVBs up 6.1% against 2.9% for PSBs. PVB operating costs fell 0.6% during the quarter while PSB costs rose 3.6%. Treasury income also recovered from a low Q4FY26 base, rising 77% for SCBs.
- Banks are no longer chasing loan growth alone. Several have shifted their mix towards secured lending, mortgages, gold loans, and better-rated corporates, and away from unsecured cards and microfinance. One PSB grew advances 27% but held guidance at 18% and now tracks profitability branch by branch. A mid-sized private bank said its strong first quarter reflects front-loading and should not be read across FY27. The move to secured lending should steady margins but will limit headline loan growth.

Figure 2: Cost-to-Income Ratio (%)

	FY26				FY27	y-o-y	q-o-q
Group	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**(%)**	**(%)**
PVBs	41.3	45.6	46.0	45.5	43.9	6.3	-3.5
PSBs	50.2	49.1	50.3	47.2	47.4	-5.6	0.3
SCBs	**44.0**	**46.7**	**47.4**	**46.0**	**45.0**	**2.3**	**-2.2**

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 20 SCBs (11 PVBs and 9 PSBs)
Note: The aggregate growth figures for Q1FY26 have been considered after adjusting for one-off gains reported by a large private sector bank due to the partial stake sale of its subsidiary.

- The cost-to-income ratio worsened for SCBs over the year but improved for PSBs, who now run only three percentage points above private banks, the narrowest gap in the current series
- Both the SCB and PVB readings are affected by the one-off gain in the Q1FY26 base, which inflated income and held the ratio down that quarter. Excluding it, the SCB ratio was 45.9% in Q1FY26, so it improved by close to a percentage point over the year rather than worsening. PVBs were flat on the same basis, against an apparent rise of over six per cent.
- The ratio depends on whether income grows faster than costs. PSB net total income rose 7.6% y-o-y while operating expenses rose just 1.6%, which is why their ratio fell almost three percentage points. At PVBs, both lines grew 5.2% on an adjusted basis, leaving the ratio unchanged. On figures, PVB income fell 1.0% while costs rose 5.2%, which produced the apparent slip.
- Sequentially, the SCB ratio improved to 45.0% from 46.0%, a second straight quarter of improvement. PVBs gained most, down to 43.9% from 45.5%, helped by a 0.6% fall in operating expenses during the quarter. PSBs were broadly flat as costs rose 3.6% against income growth of 3.2%. The spread within private banks remains wide, with Large PVBs at 40.2% against 54.1% for the smaller ones.
- The cost restraint this quarter is a pause rather than a trend. Branches opened over the past five years are now maturing at the larger private banks, which should lift productivity. But banks are adding new branches at pace. One PSB is also adding a thousand credit officers in October. Costs should rise through FY27, and this quarter's improvement owes more to income growth than to lasting cost control.

Total Income (Rs. Lakh, Cr.)

Figure 3: Interest Income

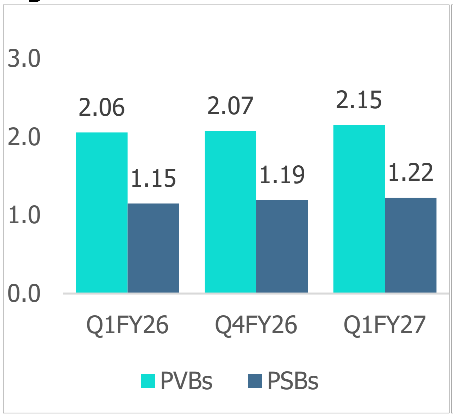


Figure 4: Non-Interest Income

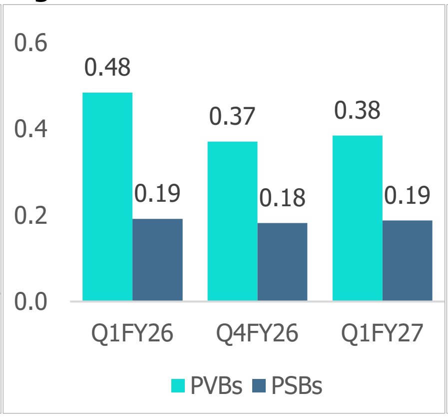
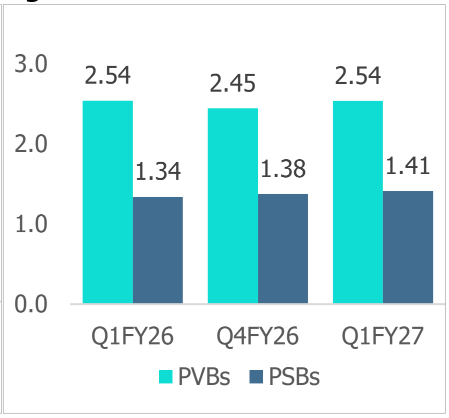


Figure 5: Total Income



Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 20 SCBs (11 PVBs and 9 PSBs)

- Interest income kept growing through the year while non-interest income contracted, and the two almost cancelled out. That is why total income barely moved. The contraction is overstated by the one-off gain in the Q1FY26 base; excluding it, non-interest income fell 3.6% rather than 15.2%, and total income grew 3.9% rather than 1.7%.
- PSBs grew faster than PVBs on both lines. Interest income rose 6.5% at PSBs against 4.6% at PVBs y-o-y, helped by stronger credit growth. The gap on non-interest income was wider still, as treasury earnings fell by about two-thirds at PVBs against just under half at PSBs.
- Sequentially, income recovered across the board, with interest income and non-interest income each rising a little over 3%. The pickup in non-interest income came off a low Q4FY26 base and was led by treasury

Figure 6: NIM Movement (%)

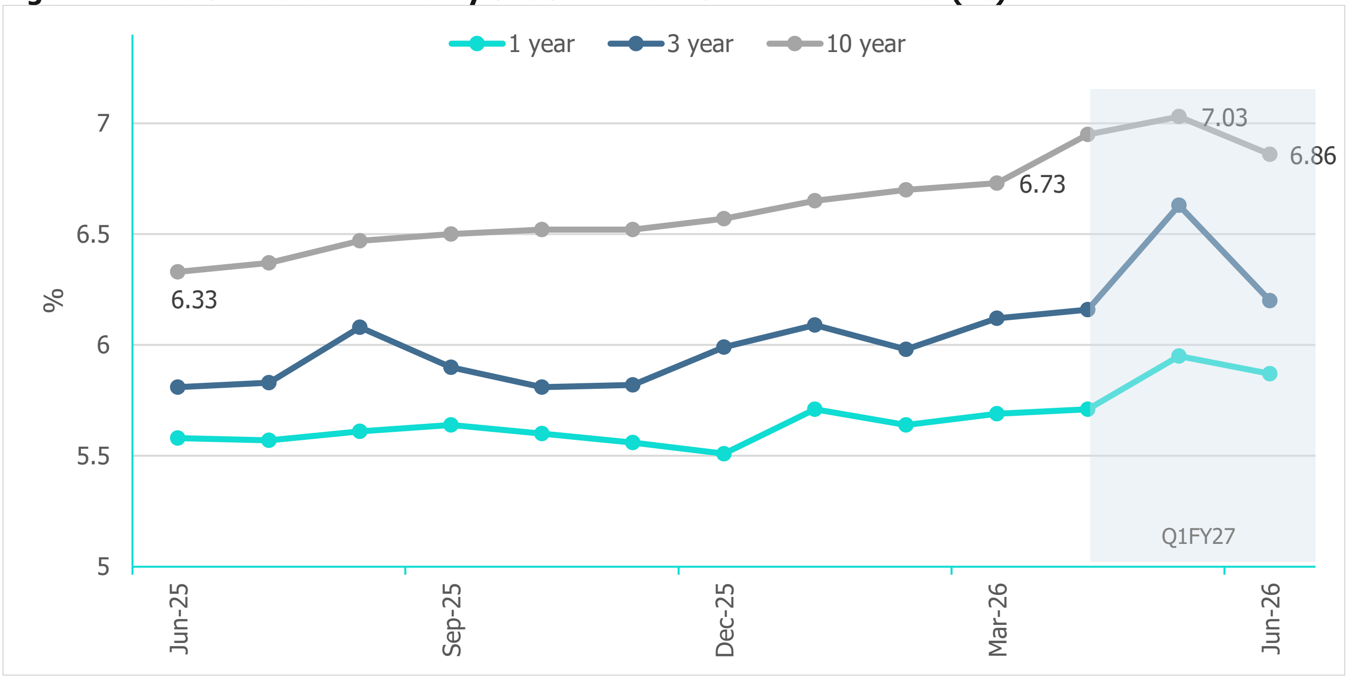
	Q1FY27 (%)	y-o-y (bps)	q-o-q (bps)
PSBs	**2.67**	5	2
PVBs	**3.39**	-9	-4
SCBs	**3.12**	**-4**	**-2**

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 20 SCBs (11 PVBs and 9 PSBs)

- Margins moved in opposite directions over the year. PSB NIM improved while PVB NIM declined, leaving the SCB aggregate marginally lower.
- The pressure came from the asset side. Repo-linked loans repriced quickly as earlier policy cuts passed through, while deposits reprice only on maturity. Lending yields therefore fell faster than funding costs at both groups, and spreads narrowed by about 22 bps at PSBs and 16 bps at PVBs.
- PSB margins still held up, and the reason sits outside the loan book. PSBs carry much larger investment portfolios, and as securities matured, they were reinvested at higher yields. That supported their overall asset yield even as loan yields fell. PVBs, with more of the balance sheet in advances, had no such support.
- Sequentially, the pattern was the same but milder, with PSBs gaining and PVBs losing a few basis points. Deposit costs are still falling, down 31 bps at PSBs and 45 bps at PVBs over the year, but the sequential decline has narrowed to single digits. Most of the repricing benefit has now been taken.

- Margins should stay broadly stable from here. Banks that cut bulk deposits early have already captured most of the funding-cost relief, while several larger private banks expect theirs from Q2FY27 as high-cost liabilities are retired. Competition for both deposits and credit remains intense, which will cap any expansion.

Figure 7: Yield on Residual Maturity of Government of India Securities (%)



Source: CMIE; Note: Includes the Monthly weighted average 10-year residual maturity period.

- Bond yields moved in both directions over the quarter. The ten-year benchmark spiked above 7% at the end of March and stayed elevated through April and May before easing steadily in June. Average yields for the quarter were higher than in Q4FY26, but the benchmark closed below where it opened. The difference matters. Average yields determine the interest earned on investments, while mark-to-market gains are calculated using the yield on the last day of the quarter.

Figure 8: Treasury Income as a % of Total Assets (annualised)

Group	Q1FY26	Q4FY26	Q1FY27
PVBs	0.38	0.08	0.12
PSBs	0.33	0.06	0.16
SCBs	**0.36**	**0.08**	**0.13**

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 20 SCBs (11 PVBs and 9 PSBs)

- Treasury income stayed far below year-ago levels for both groups. Q1FY26 was an exceptional quarter, when falling yields after the rate cuts produced a windfall that has not been repeated.
- Sequentially, treasury income recovered from a low Q4FY26 base as yields eased into June. The gain reaching the P&L was only partial, because value changes on the available-for-sale book are taken directly to net worth. Banks have said as much, noting that gains mainly strengthened AFS reserves and that outsized treasury income should not be expected to continue. Some also flagged one-time income from the sale of security receipts that will not repeat.

- Treasury should remain a modest contributor. Yields are likely to stay volatile while global rate uncertainty and geopolitical risk persist, and a large share of bank investment books now sits in held-to-maturity, which limits both the damage and the benefit from any move in rates.

Figure 9: Fee-Based Income (Rs Crore)

Group	Q1FY26	Q4FY26	Q1FY27	y-o-y (%)	q-o-q (%)
PVBs	28,011	33,858	31,781	13.5	-6.1
PSBs	7,749	9,546	10,083	30.1	5.6
SCBs	**35,760**	**43,404**	**41,864**	**17.1**	**-3.6**

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 20 SCBs (11 PVBs and 9 PSBs)

- Fee income was the only part of non-interest income to grow over the year, and PSBs grew at more than twice the PVB pace.
- Growth was broad-based rather than concentrated in one product, spanning transaction banking, trade finance, forex and loan processing, and at PSBs exchange and commission income, letters of credit and bank guarantees. Card fees stayed subdued. Priority sector lending certificate income has now recurred for eight to nine quarters and looks like a regular part of the line.
- Sequentially, the picture split. PSB fee income rose while PVB fee income fell, pulling the SCB total down. Banks put this down to seasonality, as the March quarter is usually the strongest for processing fees. A high base from a large priority sector lending certificate sale and a process change during a product renewal also weighed.
- New streams should come through during FY27, including trade and forex platforms and an acquired credit card portfolio, though some PSBs describe fee improvement as still a work in progress.

Figure 10: Recovery from Technically Written-Off Accounts, PSBs (Rs Crore)

Group	Q1FY26	Q4FY26	Q1FY27	y-o-y (%)	q-o-q (%)
PSBs	5,024	6,287	4,758	-5.3	-24.3

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 9 PSBs

- Recoveries eased after two strong quarters, both against the year-ago quarter and sequentially. PSB other income this quarter therefore rested on fees rather than on recovery-led gains.
- Part of the fall is a base effect, as the previous quarter carried an unusually large single recovery following a court order. The channel is also shifting, with fewer large tribunal resolutions and more through one-time settlements, SARFAESI and Lok Adalat. That should make the line smaller but steadier, and banks expect activity to continue through FY27 on higher property auctions.

Operating Expenses (Rs. Lakh, Cr.)

Figure 11: Employee Expenses

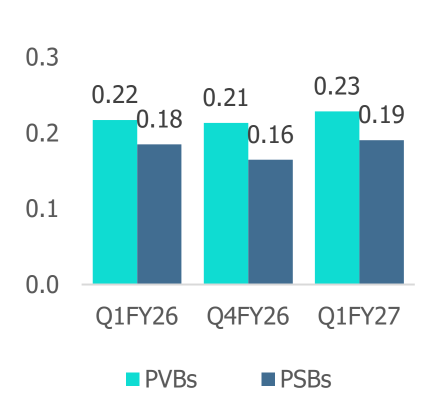


Figure 12: Other Op. Expenses

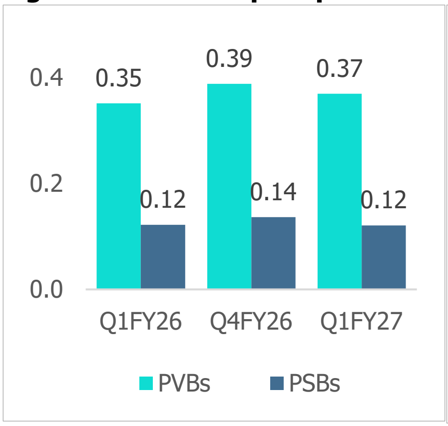
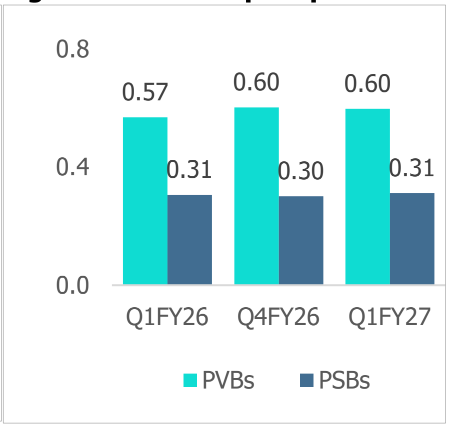


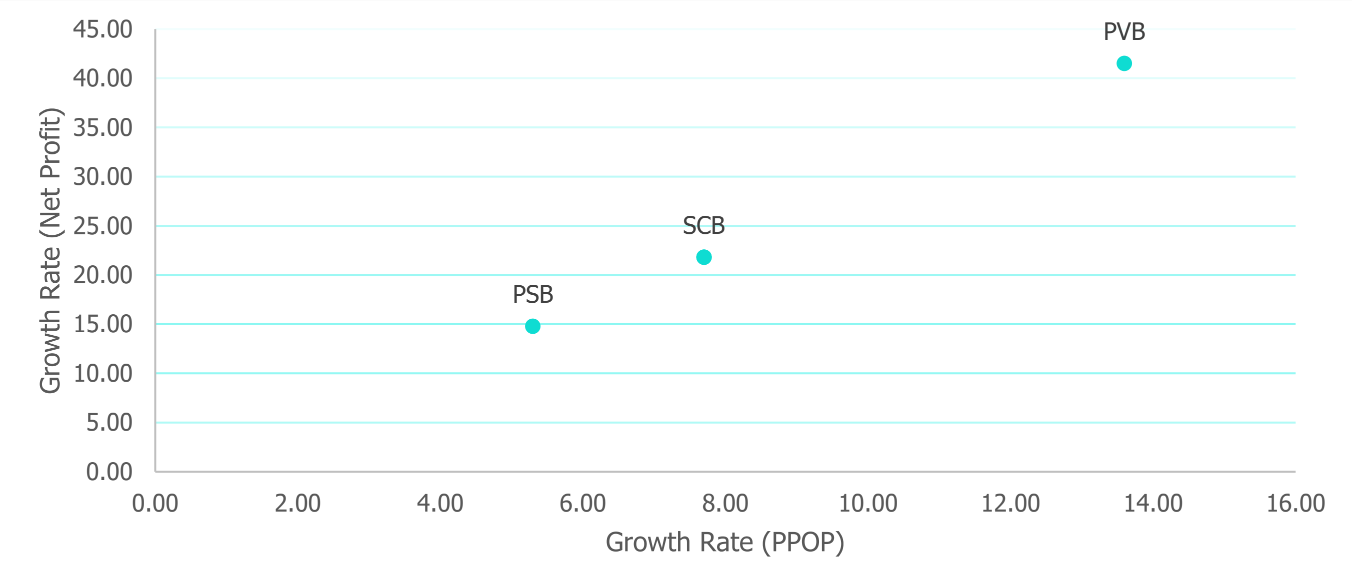
Figure 13: Total Op. Expenses



Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 20 SCBs (11 PVBs and 9 PSBs)

- Operating expense growth was contained over the year at both groups, and the aggregate was near-flat sequentially. The composition shifted, though, with employee costs rising while other operating expenses fell back
- The sequential jump in employee expenses is largely a base effect rather than fresh cost pressure. Employee expenses rose sequentially by 15.8% for PSBs and 7.1% for PVBs, reflecting the depressed Q4FY26 base following the normalisation of the labour code. Measured against the year-ago quarter, the increase for both groups is consistent with ordinary wage progression. A few banks have attributed part of the rise to higher employee benefit provisioning under Accounting Standard 15.
- The fall in other operating expenses reversed the elevated branch and technology spend of the preceding quarter and is unlikely to hold. Banks continue to guide towards substantial investment in distribution, specialist hiring, data analytics and generative-AI capabilities, with PSB managements in particular framing branch expansion and headcount additions as investments carrying a two-to-three year revenue payback through CASA accretion. Against this, several private banks have committed to containing cost growth in the mid-single digits, describing expansion as selective and restricted to locations expected to generate revenue quickly. One has placed operational efficiency and turnaround time ahead of margin as its principal lever for improving profitability. The improvement in cost-to-income this quarter therefore owes more to income growth than to durable cost compression, and with hiring and branch commitments already announced for the second half, operating expense growth should reaccelerate as FY27 progresses.

Figure 14: PPOP Growth vs Net Profit Growth by Bank Group (y-o-y, %)



Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 20 SCB (11 PVBs and 9 PSBs)

- Net profit grew at roughly three times the pace of operating profit, and the multiple was similar at both bank groups. PPOP is measured before provisions and tax, so the entire gap comes from a lower charge for provisions and tax, not from the business doing better.
- Provisions fell 10% for SCBs over the year. The decline was steeper at PSBs at 19%, against 5% at PVBs.
- The printed asset quality numbers appear to justify this. Slippages are at multi-quarter lows at several banks, credit costs have roughly halved at some PSBs, and provision coverage sits above 90% at a few of them.
- The underlying position is less settled. Provision coverage slipped at two private banks. Early-warning indicators moved the wrong way at two PSBs, where SMA-2 balances rose, and one flagged continuing MSME stress. Microfinance write-offs are still being absorbed elsewhere. Several banks are running below their own credit cost guidance yet have declined to lower it, citing geopolitical uncertainty, inflation and the monsoon.
- Provisions can only fall so far. Once they reach their floor, earnings growth must come from operating profit again, and the banks most at risk are those where profit growth ran furthest ahead of PPOP this quarter, several of which are still working through microfinance and unsecured books, where asset quality is weakest. Earnings growth should converge towards PPOP growth from here, and the strength of the operating line will decide how comfortably banks absorb it.

Conclusion

In Q1FY27, SCBs grew operating profit on the back of net interest income, though the gain was largely volume-led as lending yields repriced downward faster than deposit costs and spreads narrowed at both bank groups. Banks that cut bulk deposits early have already taken most of the funding cost benefit, while the larger private banks expect theirs from Q2FY27. Competition for deposits and loans will limit how far margins can improve. Treasury remained subdued against an exceptional year-ago base. Operating costs were contained during the quarter, which is what delivered the improvement in cost-to-income. The principal caution concerns the quality of printed earnings. The gap between profit growth and operating profit growth must also close as provisions reach their floor and expected credit loss provisioning comes in. The banks that leaned hardest on lower provisioning this quarter have the least operating strength to fall back on. Geopolitical tensions, global rate volatility and the monsoon remain the key risks.

Annexure

Group	Banks						
PSBs	Bank Of Maharashtra	UCO Bank	Central Bank of India	IDBI Bank	IOB bank	Punjab & Sind Bank	Union Bank of India
	Indian Bank	Punjab National Bank					
PVBs	HDFC Bank	ICICI Bank	Federal Bank	Kotak Mahindra Bank	RBL Bank	Yes Bank	Karur Vysya Bank
	IndusInd Bank	Bandhan Bank	South Indian Bank	Axis Bank			
SCBs	**PSBs + PVBs (Total 20 Banks)**						

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