PSBs Take the Lead, Yet Sector Profit Growth Remains Muted in Q2FY26

November 27, 2025 | BFSI Research

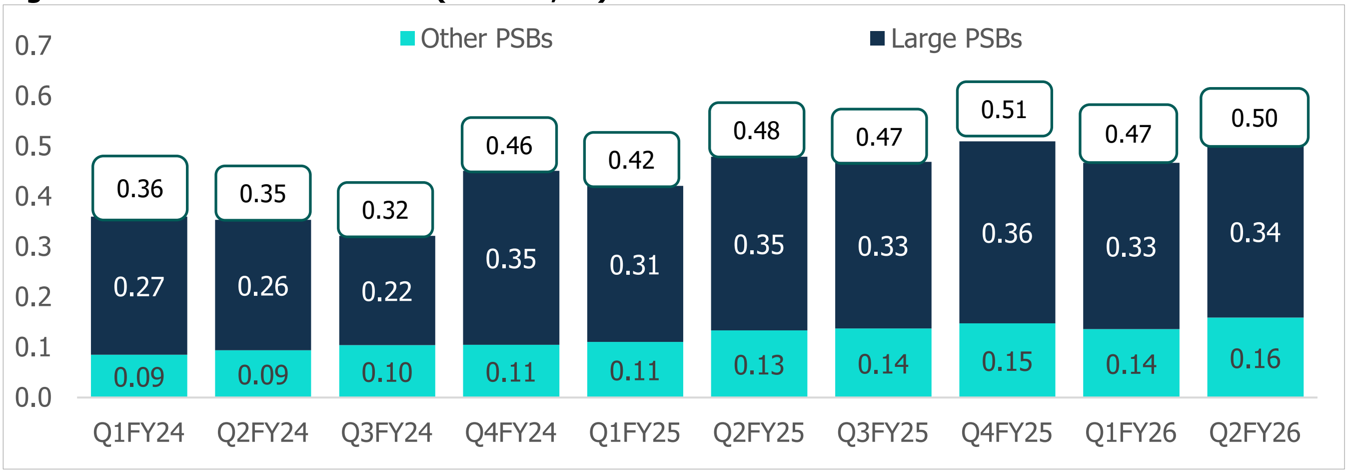
Note: The Net Profit analysis for the quarter reflects a broad-based performance across Scheduled commercial banks. However, the aggregate growth figures have been adjusted for one-off gains and certain regulatory provisions reported by a large public sector bank and a large private sector bank, respectively, due to stake sales and regulatory inspections.

Synopsis

- The net profit of Scheduled Commercial Banks (SCBs) grew marginally by 1.4% year-on-year (y-o-y) and 2.5% sequentially to Rs 0.94 lakh crore in Q2FY26, supported by growth in other income, primarily fee incomes, which offset the margin compression. It was further buttressed by reduced provisions and controlled operating expenses.
    - The net profit of PSBs recorded a y-o-y growth rate of 4.7%, as compared to a decline of 2.1% y-o-y for Private Sector Banks (PVBs), reaching Rs 0.50 lakh crore and Rs 0.44 lakh crore, respectively, in Q2FY26. The rise in PSB profits is mainly attributed to fee income and treasury gains, alongside credit growth in the retail and MSME segments, and normalised operating expenses. Additionally, if we include the stake sale impact, net profit for large PSBs would grow by 8.9% y-o-y.
    - In Contrast, the decrease in profits for PVBs is attributed to slower corporate loan demand, flat growth in interest income, continued stress in the microfinance and unsecured segments and increased provisions for PVBs. Furthermore, if we include a one-off regulatory provision, net profit for PVBs would have declined by an additional 4.0% y-o-y.
- Return on Assets (RoA, annualised) of SCBs reached 1.29% in Q2FY26, declining by 11 bps y-o-y, attributed to margin pressures due to rate cuts.
    - Meanwhile, RoA for SCBs rose sequentially by one bp, driven by PSBs, attributed to slightly increased margins in the current quarter, business growth and overall improvement in the asset quality.
- SCBs remained adequately capitalised with their median Capital Adequacy Ratio (CAR) increasing by around 60 bps y-o-y to 17.1% in Q2FY26. This increase was supported by strong internal capital generation, capital raising by a few banks, and favourable risk-weighted assets (RWA) as banks moderated high-RWA corporate exposures.
    - Meanwhile, the median CAR of both PSBs and PVBs increased by 54 bps and 52 bps y-o-y to 17.2% and 16.8%, respectively.
- PSBs' and PVBs median Common Equity Tier-1 (CET-1) ratio improved by 128 and 92 bps y-o-y to 15.0% and 15.3% respectively, supported by strengthening the capital base, while growth in risk-weighted assets remained moderate.
    - For H1FY26, banks have raised capital, large PSBs mobilised over Rs 45,000 crore via QIPs and Basel-III, while private banks raised over Rs 15,000 crore (mainly Tier-II Bonds). Additionally, as per CareEdge Ratings (ECL Implementation: Limited Impact on Banks' Capital), the impact of shifting to ECL models is estimated to be ~60 to 70 bps of capital adequacy for the sector, which the banks would be able to absorb easily over the period of four years allowed by the regulations.

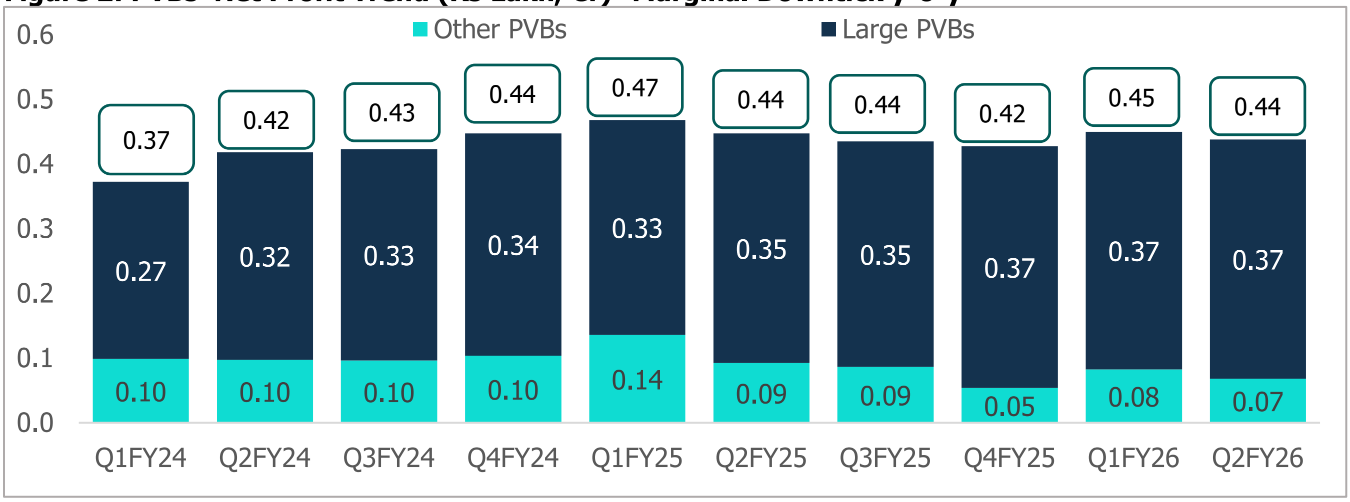
PSBs Lead the way for the last Five Quarters in Net Profits

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



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

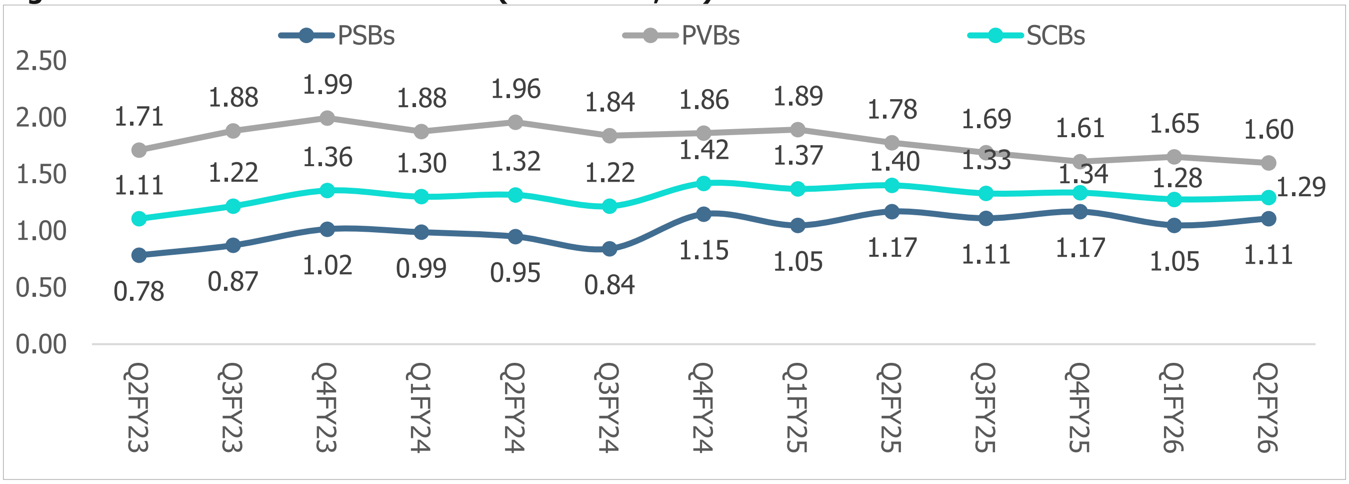
Figure 2: PVBs' Net Profit Trend (Rs Lakh, Cr)- Marginal Downtick y-o-y



Source: Ace Equity, CareEdge Calculations; Note: Includes 16 PVBs (3 Large + 13 Others)

- Net profit for SCBs grew marginally at 1.4% y-o-y to Rs 0.94 lakh crore in the quarter, owing to growth in other income, primarily fee income, which offset the margin compression, and was further buttressed by reduced provisions and controlled opex.
    - PSBs continued to record an increase of 4.7% y-o-y to Rs 0.50 lakh crore. PSBs' profitability was buoyed by gains in fee income, and a few banks benefited from the income tax refunds. Additionally, PSBs' relatively lower Credit-to-Deposit (CD) ratios (around 78% compared to 90% for PVBs) have provided them with greater lending headroom, and the overall improvement in asset quality has supported this growth. Furthermore, if we include the impact of the stake sale, the net profit for large PSBs would grow by 8.9% y-o-y.
    - In contrast, PVBs saw a decline of 2.1% y-o-y to Rs 0.43 lakh crore in Q2FY26, majorly attributable to stress in unsecured and the microfinance segments, lower credit growth and increased provisioning. Additionally, if we include the one-off regulatory provision for one PVB due to discontinued loan products, net profits for PVBs would have declined by an additional 4.0% y-o-y.

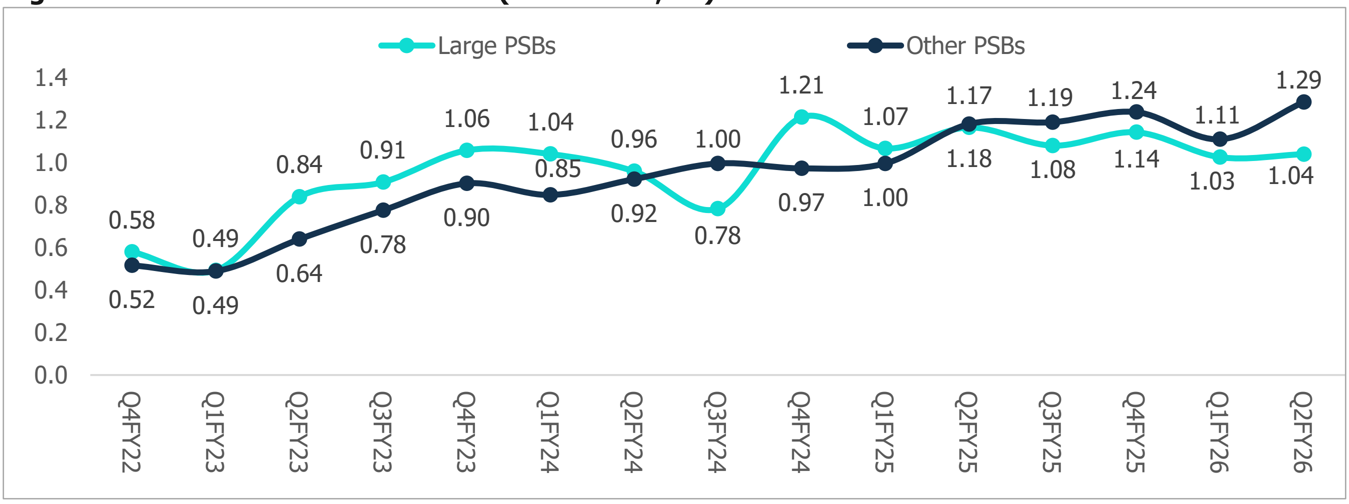
Figure 3: Movement of RoA for SCBs (annualised, %)



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

- RoA of SCBs declined by 11 bps y-o-y to 1.29% in Q2FY26, as the pace of asset growth surpassed profit growth amid margin compression. In contrast, sequentially, it witnessed a marginal one bp uptick, driven by PSBs. Meanwhile, these gains in PSB profitability have cushioned the impact of moderating PVB returns, resulting in steadier system-wide RoA.
    - PVBs' RoA slipped by 18 bps y-o-y and five bps sequentially to 1.60% in the quarter, driven by slower demand from the corporate side, flat interest income, slippages in unsecured and MFI segments, and overall increased provisions.

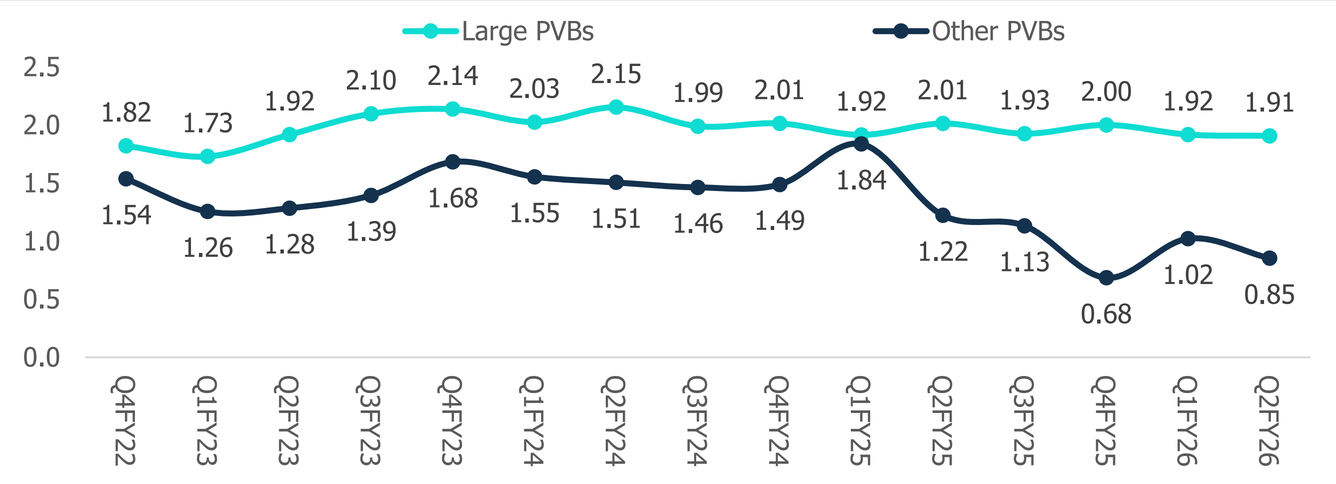
Figure 4: Movement of RoA for PSBs (annualised, %)



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

- RoA for Large PSBs declined by 13 bps on a y-o-y basis at 1.04% in Q2FY26, primarily due to margin compression from higher deposit costs and lower spreads. In contrast, RoA for Other PSBs increased by 12 bps y-o-y to reach 1.29%, mainly attributed to growth in fee-based income. Sequentially, Other PSBs witnessed an uptick of 26 bps, attributed to slightly improved margins in the current quarter, driven by changes in the portfolio mix and lower provisions.

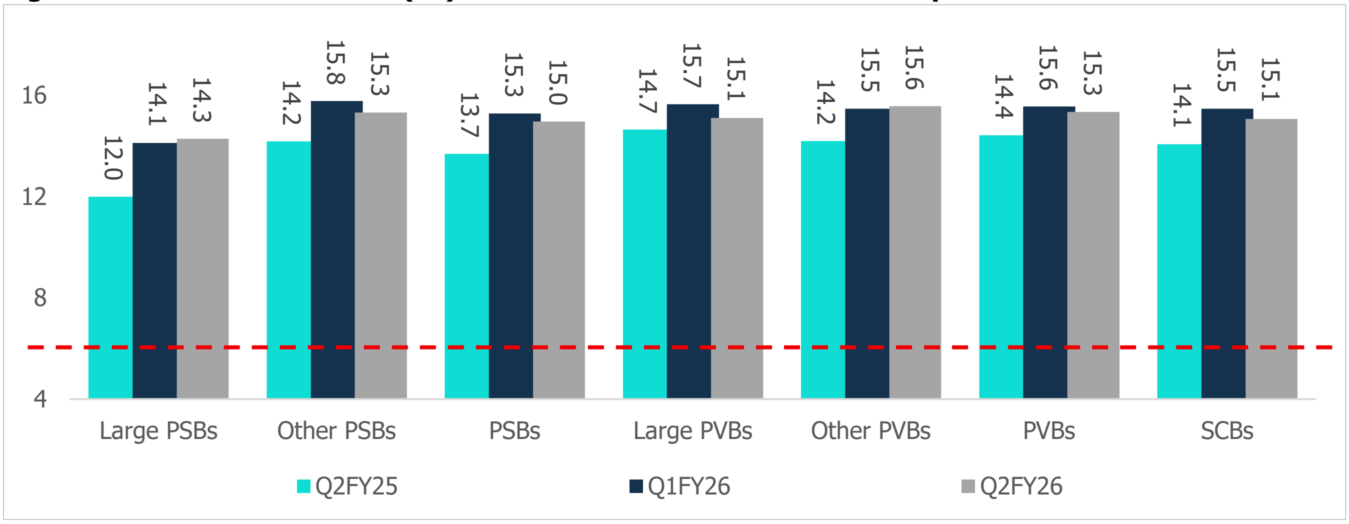
Figure 5: Movement of RoA for PVBs (annualised, %)



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

RoA for Large PVBs declined marginally by one bp q-o-q to reach 1.91% in the quarter, attributed to margin compression. Meanwhile, Sequentially, RoA for other PVBs decreased by 17 bps q-o-q to 0.85% in Q2FY26 due to slower corporate loan demand impacting asset mix, and elevated opex. The decline was further amplified by one PVB reporting losses for a second consecutive quarter, alongside higher credit costs in unsecured and MFI portfolios.

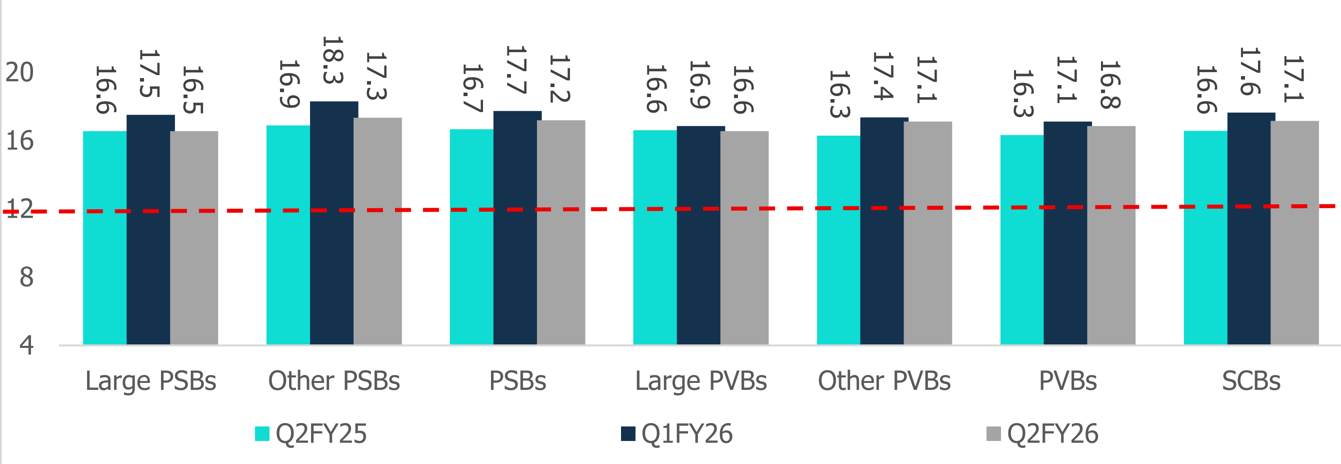
Overall, Capital Adequacy remains above the required levels in Q2FY26
Figure 6: CET-1 Ratio Median (%) – Banks Stand Much Above the Required Level



Source: Banks Presentations and Ace Equity Calculations; Note: 14 PSBs (5 Large + 9 others) and 16 PVBs (3 Large + 13 Others) were used for Median calculation. The required level does not factor in additional requirements for D-SIBs.

The median Common Equity Tier 1 (CET-1) ratio of SCBs touched 15.1% in Q2FY26, marking an increase of 100 bps y-o-y. This was due to a shift towards lower-risk portfolios. However, it decreased 40 bps sequentially, reflecting strong credit growth outpacing capital accretion, higher provisioning needs ahead of the ECL transition, and elevated RWAs due to regulatory adjustments, alongside softer internal accruals.

Figure 7: CAR Median (%): Continue to Remain Above the Required Level 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 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).

- The median CAR of SCBs increased by around 50 bps y-o-y to 17.1% in Q2FY26, remaining well above the regulatory requirement of 11.5%, driven by profitability growth for banks and capital raising.
- The median CAR for PSBs rose significantly by 54 bps y-o-y to 17.2% for Q2FY26, while for PVBs, the median CAR rose by 52 bps y-o-y to 16.8%, as a faster increase in risk-weighted assets partly offset capital growth. This expansion in capital levels was supported by rising profitability. Additionally, substantial internal accruals from earnings have bolstered reserves, while additional capital has been mobilised through bond issuances and capital infusions.
- For H1FY26, banks have raised capital, large PSBs mobilised over Rs 45,000 crore via QIPs and Basel-III Tier 1/2 bonds, while private banks raised over Rs 15,000 crore (mainly Tier-II Bonds). Additionally, as per CareEdge Ratings (ECL Implementation: Limited Impact on Banks' Capital), the impact of shifting to ECL models is estimated to be ~60 to 70 bps of capital adequacy for the sector, which the banks would be able to absorb easily over the period of four years allowed by the regulations.

Figure 8: Movement in PSBs' CET-1

Bank	Q2FY25	Q1FY26	Q2FY26	(y-o-y, bps)	(q-o-q, bps)
State Bank of India	9.95	11.10	12.67	272	157
Canara Bank	12.00	12.29	14.28	228	199
Bank of Baroda	12.67	14.12	14.15	148	3
Indian Bank	13.51	15.26	15.27	176	1
Punjab National Bank	11.59	14.62	14.41	282	-21
Union Bank of India	13.88	15.30	15.58	170	28
Bank of India	14.18	15.15	14.49	31	-66
Central Bank of India	14.01	15.48	14.98	97	-50
Indian Overseas Bank	14.75	15.78	15.53	78	-25
Bank of Maharashtra	13.13	16.63	14.96	183	-167
Punjab & Sind Bank	14.55	16.02	15.32	77	-70
UCO Bank	14.22	16.36	15.90	168	-46
Jammu & Kashmir Bank	11.66	13.68	13.06	140	-62
IDBI Bank	19.89	23.71	23.79	390	8

Source: Banks Presentations and Ace Equity Calculations; Note: 14 PSBs (5 Large + 9 others), Systematic 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 9: Movement in PVBs' CET-1

Bank	Q2FY25	Q1FY26	Q2FY26	(y-o-y, bps)	(q-o-q, bps)
HDFC Bank	17.30	17.80	17.90	60	10
ICICI Bank	14.65	15.65	15.11	46	-54
Axis Bank	14.12	14.68	14.43	31	-25
Kotak Mahindra Bank	21.50	22.70	20.90	-60	-180
IndusInd Bank	15.21	15.48	15.88	67	40
YES Bank	13.20	14.00	14.37	117	37
IDFC First Bank	13.84	12.80	12.27	-157	-53
RBL	14.20	14.05	13.51	-69	-54
Federal Bank	13.82	14.69	14.37	55	-32
South Indian Bank	16.63	18.25	16.79	16	-146
Karnataka Bank	15.93	18.90	19.30	337	40
Bandhan Bank	13.60	18.30	17.40	380	-90
Karur Vysya Bank	16.28	16.33	15.58	-70	-75
DCB Bank	12.10	15.47	15.04	294	-43
Dhanlaxmi Bank	21.98	22.09	20.71	-127	-138
City Union Bank	13.65	14.20	13.97	32	-23

Source: Banks Presentations and Ace Equity Calculations; 16 PVBs (3 Large + 13 Others). Systematic 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

According to Sanjay Agarwal, Senior Director, CareEdge Ratings, "In Q2FY26, SCBs reported a marginal improvement in profitability, aided partly by growth in the fee income and a few one-offs, though treasury support continued to taper in this quarter as bond yields stabilised. Core operating performance remained under pressure, with elevated deposit costs and slower CASA mobilisation keeping NII and NIM growth muted. Going forward, for H2FY26, profitability is expected to improve, supported by festive-season demand and additionally supported by credit growth, the benefit from a lower CRR requirement, and a gradual normalisation of unsecured and MFI segment slippages."

According to Saurabh Bhalerao, Associate Director, CareEdge Ratings, "PSBs have continued to outpace PVBs, supported by a low base and relatively moderate CD ratios, which offered greater lending headroom. Asset-quality stress in the microfinance and other small-ticket portfolios remained more pronounced for PVBs, although pressures showed early signs of stabilisation. Capital positions stayed strong across the system, with most banks maintaining buffers well above regulatory requirements, supported by sustained bond issuances, recent QIPs by large PSBs, and additional capital-raising plans lined up for the remainder of the fiscal year."

Annexure

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)**						

Contact

Sanjay Agarwal	Senior Director	sanjay.agarwal@careedge.in	+91 - 22 – 6754 3582 / +91-81080 07676
Saurabh Bhalerao	Associate Director – BFSI Research	saurabh.bhalerao@careedge.in	+91 - 22 - 6754 3519 / +91-90049 52514
Sarthak Hirekhan	Analyst – BFSI Research	sarthak.hirekhan@careedge.in	+91 - 22 - 6754 3630 / +91-89567 53551
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

Connect:

Locations: Ahmedabad | Andheri-Mumbai | Bengaluru | Chennai | Coimbatore | Hyderabad | Kolkata | Noida | Pune

About Us:
CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and strong position across the segments. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd (II) CARE ESG Ratings Ltd and (III) CareEdge Global IFSC Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings (Africa) Private Ltd in Mauritius, CARE Ratings South Africa (Pty) Ltd, and CARE Ratings Nepal Ltd. For more information: www.careedge.in.