KEY HIGHLIGHTS:

- **Credit Growth**: ICRA expects credit growth of 15.1–15.9% in FY27, supported by healthy retail demand and improving corporate credit offtake.
- **Liquidity**: ~USD133b FCNR(B) inflows supported deposit growth and eased CD ratios; liquidity remains comfortable.
- **Asset Quality**: GNPA is estimated at 1.7–1.8% by Mar'27, with localized stress in MSME and unsecured segments.
- **Profitability**: NIM recovery is expected in 2HFY27; credit costs remain benign at 0.4%/0.8% for PSBs/PVBs.
- **Outlook**: Sector outlook remains stable with FY27 RoA/RoE of 1.27–1.34%/13.8–14.6%. ECL transition and rate hikes remain key monitorables.

ICRA webinar on the Indian banking sector: FY27 credit growth to remain healthy at 15.1–15.9%

Asset quality comfortable; rate hikes to support margin recovery in 2HFY27

ICRA hosted a webinar to discuss the banking sector's growth, asset quality, and profitability outlook for FY27. The webinar was presented by Mr. Ashish Modani (Group Head & Senior VP, ICRA), Mr. Sachin Sachdeva (VP, Financial Sector Ratings, ICRA), and Mr. Sohil Mehta (AVP, ICRA). ICRA maintained its stable outlook for the banking sector, supported by healthy credit growth, comfortable asset quality, and improving margin prospects. Following are the key insights from the session.

FCNR(B) inflows support deposit growth; liquidity conditions remain comfortable

- Banking system credit growth accelerated to 21.4% YoY as of Sep'26, while deposit growth increased sharply to 20.6% YoY, supported by FCNR(B) inflows. The CD ratio moderated from its recent peak of ~82.1% to ~80.6%, following the sharp improvement in systemic liquidity.
- Banks mobilized ~USD133b through FCNR(B) deposits, accounting for ~93% of the total ~USD144b mobilized under FCNR(B), OFCR, and ECB facilities. A significant portion of inflows was concentrated in longer-tenor deposits, supporting banks' asset-liability management.
- System liquidity has subsequently normalized as funds were absorbed through RBI operations, currency withdrawals, and SLR investments. Sustaining granular domestic deposit growth remains a key monitorable once the available liquidity is deployed.

Credit growth to remain healthy at 15.1–15.9% in FY27

- ICRA expects banking system credit growth of 15.1–15.9% in FY27, translating into incremental credit of INR32.3–33.8t and outstanding credit of INR245.2–246.7t.
- Retail remains the primary growth driver, while industrial credit has witnessed a healthy pickup, contributing ~40% to incremental credit during 5MFY27. Rising corporate bond yields, with the 10-year G-Sec yield now rising beyond 7.4%, are expected to support the shift toward bank borrowings.
- Incremental FCNR(B) liquidity is likely to be deployed across Retail, MSME, and Corporate segments, while banks are expected to maintain a cautious stance on unsecured lending.
- However, elevated geopolitical uncertainties, inflationary pressures, and the narrowing differential between bank lending rates and bond yields could moderate credit demand. Sustainability of corporate credit growth and healthy domestic deposit mobilization remain key monitorables.

Asset quality to remain comfortable; GNPA estimated at 1.7–1.8%

- ICRA expects the banking sector's GNPA ratio to remain comfortable at 1.7–1.8% by Mar'27, compared with 1.7% in Jun'26. PSBs' GNPA ratio is expected to improve to 1.8% from 1.9%, while private banks may witness a marginal increase to 1.5% from 1.4%. Fresh NPA generation rates are expected to remain contained at ~0.8% for PSBs and ~1.6% for private banks in FY27.

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- Asset quality stress remains concentrated in unsecured retail and select MSME portfolios, with limited spillover to the broader banking system. Rising borrowing costs, inflationary pressures, and localized drought conditions could weigh on borrower repayment capacity.
- MSMEs remain vulnerable to higher input costs and stretched working capital cycles. While previous ECLGS support helped contain delinquencies, stress could emerge in select borrower segments as liquidity support moderates.
- Monsoon-related stress is expected to remain geographically concentrated rather than broad-based. **ICRA expects NBFCs to witness an incremental credit cost impact of ~20–30bp over FY27–FY28 from geopolitical and monsoon-related disruptions, with a more pronounced impact likely in 4QFY27.**

NIMs likely to recover in 2HFY27; profitability to remain healthy

- NIMs remained under pressure through FY26 and 1QFY27, with margins at ~2.5% for PSBs and ~3.5% for private banks. However, the reversal in the interest rate cycle is expected to support asset yields and drive a gradual NIM recovery during 2HFY27.
- Credit costs are expected to remain benign at ~0.4% for PSBs and ~0.8% for private banks in FY27, remaining significantly below historical levels. ICRA expects sector RoA of 1.27–1.34% and RoE of 13.8–14.5% in FY27, supported by healthy core operating profitability and manageable provisioning requirements.

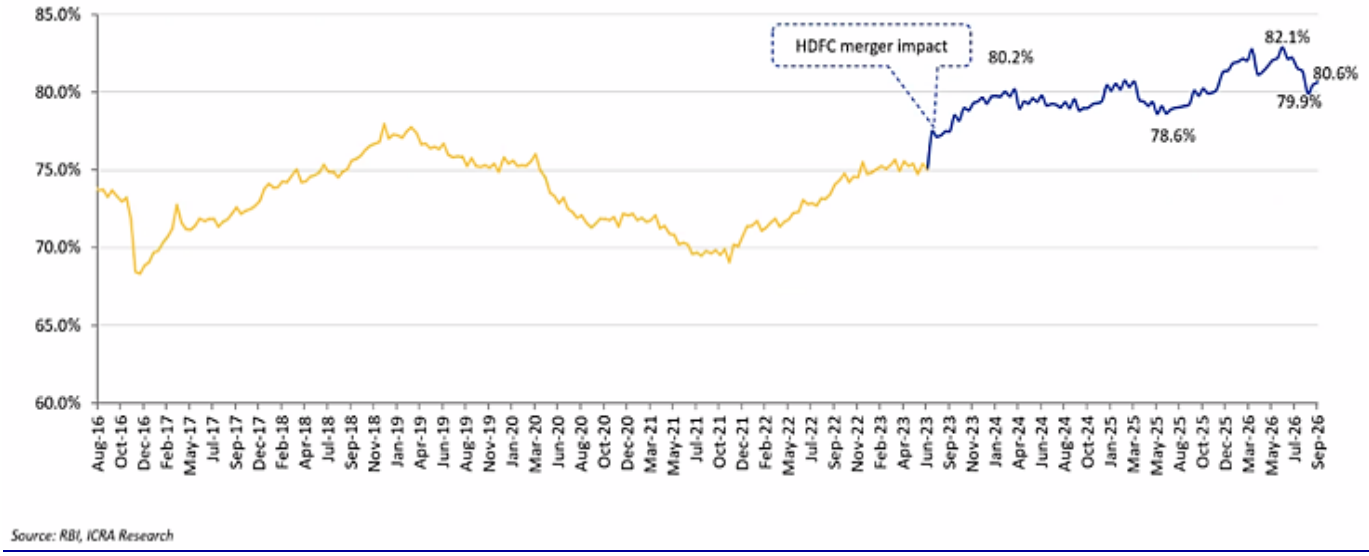
Regulatory developments and key sector monitorable

- **ECL transition:** ICRA indicated that higher stage-wise credit flows could necessitate additional **provisions under the proposed ECL framework, with an estimated one-time impact of ~150bp on banks' CRAR.** The availability of a regulatory glide path could help smoothen the transition, **while steady-state provisioning impact can be 10-15bp.**
- **Bancassurance regulations:** Proposed IRDAI changes to insurance distribution commissions are expected to adversely affect fee income. **Bancassurance income contributes ~2% of PAT for PSBs, ~5% for private banks, and ~6–7% for NBFCs. Higher business volumes and alternative fee streams could partially offset the impact.**
- **Gold loans**: ICRA has not observed meaningful evidence of evergreening in banks' gold loan portfolios. Banks typically maintain LTVs of ~60–65%, compared with ~65–70% for NBFCs. **Growth is expected to remain healthy, supported by increasing borrower participation and gold tonnage.**

Outlook for FY27 – Stable

ICRA maintained its stable outlook for the banking sector, supported by healthy credit growth, comfortable asset quality, and a gradual recovery in NIMs. The GNPA/NNPA ratios are expected at 1.7–1.8%/0.4–0.5% by Mar'27, while Tier-1 capital is projected at 15.4–16.0%, suggesting limited incremental capital requirements. Despite emerging risks in select retail and MSME portfolios, benign credit costs and improving operating efficiencies are expected to sustain healthy profitability, with sector RoA/RoE estimated at 1.27–1.34%/13.8–14.6% in FY27.

Exhibit 1: CD ratio improves to 80.6% from its recent peak of 82.1% due to FCNR (B) led liquidity



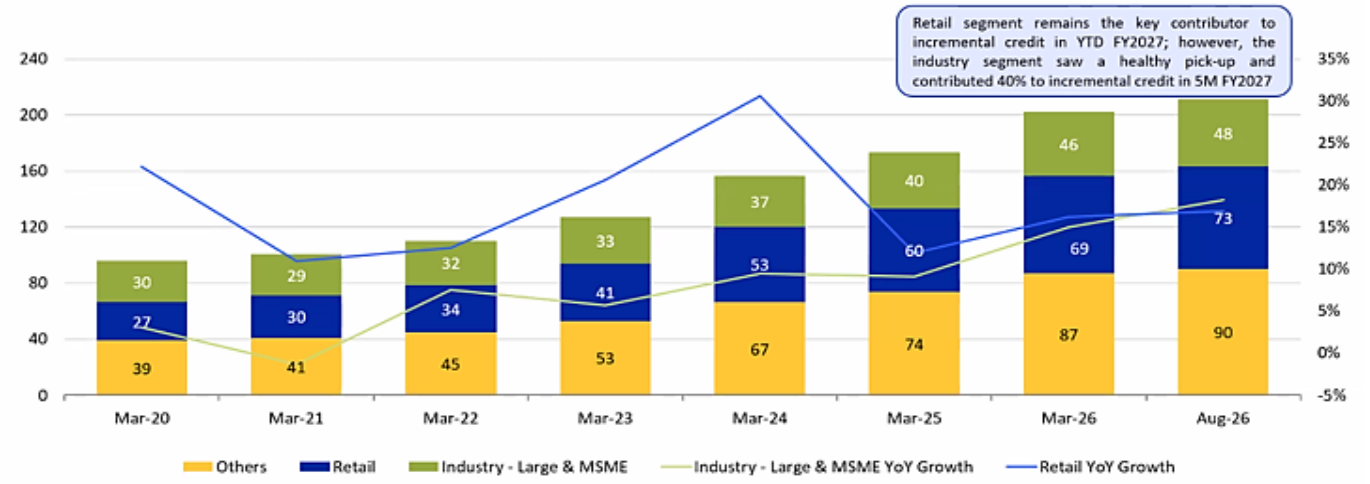
Source: ICRA, MOFSL

Exhibit 2: Credit growth accelerated to 21.4% YoY in Sep'26



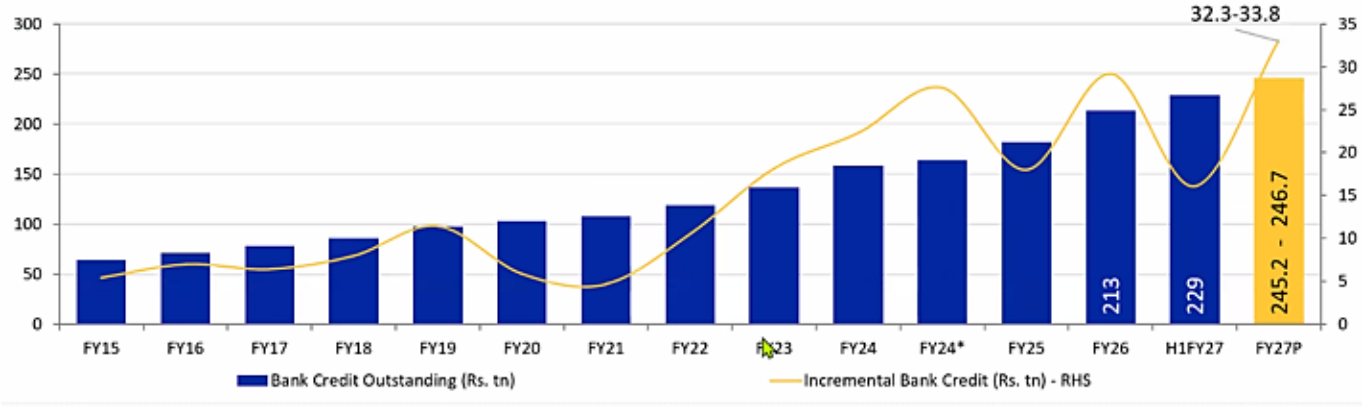
Source: ICRA, MOFSL

Exhibit 3: Trend in non-food bank credit and key constituents



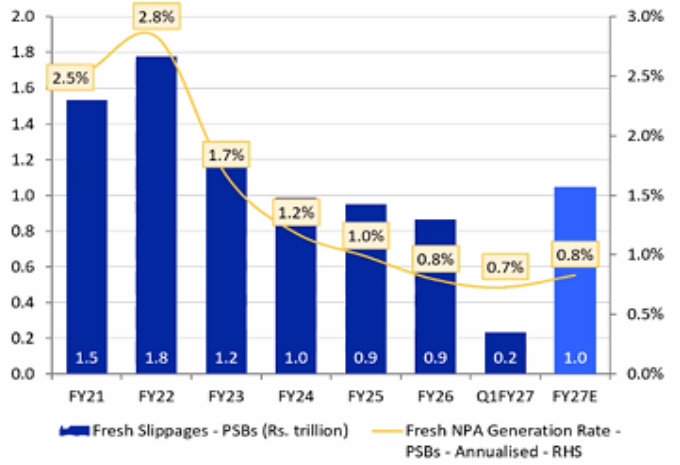
Source: ICRA, MOFSL

Exhibit 4: Credit growth to remain healthy at ~15.5% in FY27



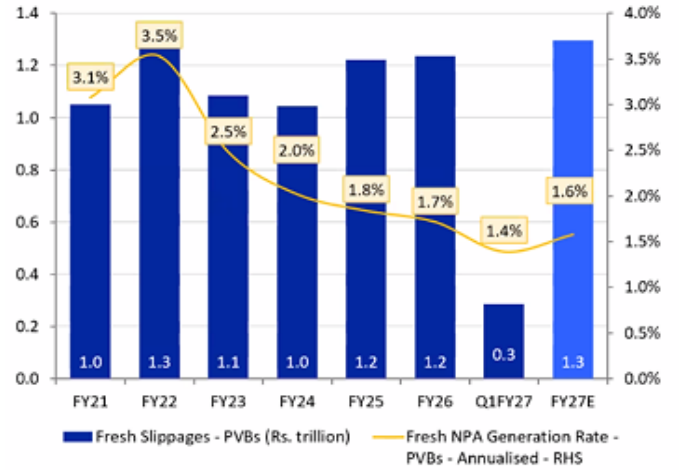
Source: ICRA, MOFSL

Exhibit 5: Fresh slippages - PSBs



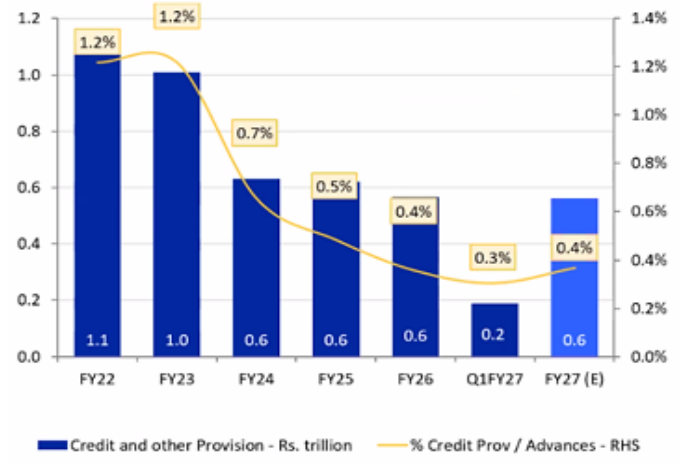
Source: ICRA, MOFSL

Exhibit 6: Fresh slippages - PVBs



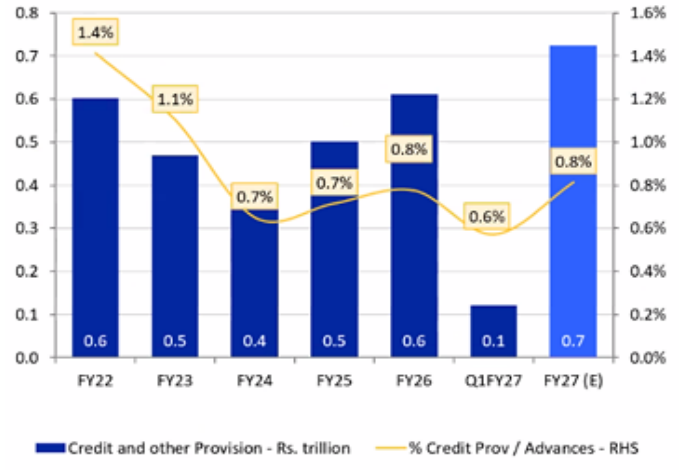
Source: ICRA, MOFSL

Exhibit 7: Credit provisions - PSBs



Source: ICRA, MOFSL

Exhibit 8: Credit provisions - PVBs



Source: ICRA, MOFSL

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