

# Asset quality of banks may come under stress: Icra

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Mumbai, April 22

**ASSET QUALITY OF** scheduled commercial banks could come under pressure in the current financial year, particularly in the MSME and retail segments, as geopolitical uncertainties continue to weigh on the economy, rating agency ICRA said on Wednesday.

Since banks were not getting any demand from the corporate segment, they turned towards lending to segments such as MSME and retail, which were the incremental drivers of credit in FY26.

"If anything happens on the MSME front, or if there is any second order impact on the retail unsecured book, then there could be some asset quality pressures," Sachin Sachdeva, vice-president and sector head at ICRA, said.

The agency has revised India's real GDP growth forecast for FY27 to around 6.5%, down from its earlier estimate of 7.1%, factoring in an average crude oil price of \$85 per barrel. Elevated oil prices amid

ongoing geopolitical tensions are expected to dampen consumption and investment, posing downside risks to growth.

ICRA expects banks' slippage rate to inch up to around 1.5%. "While private sector banks continue to report higher slippage rates than public sector banks owing to their greater exposure to unsecured retail and MSME portfolios,

the overall asset quality is projected to remain manageable," Sachdeva added. The rating agency expects the gross non-performing asset (GNPA) ratio to stay

benign at 2.0-2.1% in FY27. However, if the conflict-induced pressure persists for a longer period, then as per ICRA's estimate, every 50 basis points (bps) increase in the fresh NPA generation rate would reduce the return on average assets (RoA) by 9-10bps and the return on equity (RoE) by 95-100bps.

The agency expects RoA and RoE to remain at 1.2-1.3% and 12.3-13.2%, respectively, in FY27—levels considered adequate to support credit growth.

