

Pvt banks see asset quality rise, geopolitical risks linger

March quarter boost hides cautious undertone; lenders build buffers, stress-test portfolios

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India's top private-sector banks reported a marked improvement in asset quality in the March quarter, with no visible stress in their loan portfolios despite the Iran war.

The gross non-performing asset (GNPA) ratio either declined sequentially or remained stable, highlighting resilient credit performance across segments, largely due to lower slippages and stabilization in microfinance portfolios.

While HDFC Bank, ICICI Bank, Axis Bank, RBL Bank and Yes Bank continued to report sub-1.5% GNPA levels, others, such as IndusInd Bank and IDFC FIRST Bank, saw a moderation in stress over the previous quarter.

However, the improvement hides a cautious undertone, with lenders increasingly building buffers and stress-testing their portfolios against adverse global scenarios.

Axis Bank has taken the most explicit stance, frontloading provisions to prepare for potential shocks. During the fourth quarter, it created a one-time additional provision of ₹2,001 crore as part of a voluntary enhancement of its provisioning framework.

"Based on an assessment of evolving and unpredictable macro and geopolitical uncertainties, the bank created an additional one-time provision... This action is prudent and precautionary in nature and does not reflect deterioration in asset quality," chief financial officer (CFO) Puneet Sharma said in the earnings call on 25 April.

The bank's internal stress scenarios assume extreme conditions, including crude oil prices exceeding \$150 per barrel, inflation at 7.4%, and a 20% currency depreciation in 2026-27.

"Based on some of these test scenar-



GNPA ratios of private banks either declined sequentially or remained stable. AFP

ios, we look at which accounts could go into NPL... and based on that, this number is right. These assumptions are not based on what we see today," managing director and chief executive Amitabh Chaudhry said, adding that provisions

lios, particularly in microfinance. "Collections have stabilized, overdue buckets have reduced sharply, and fresh slippages are lower," Anand said, adding that the bank is now shifting towards a growth mindset for 2026-27 after

BANK BAND

HDFC Bank, ICICI Bank, Axis Bank, RBL Bank, Yes Bank reported sub-1.5% GNPA levels

OTHERS like IDFC FIRST Bank, IndusInd Bank saw stress moderation over the previous quarter

LOWER slippages and stabilization in microfinance portfolios added to the trend

ICRA sees overall credit costs to rise with incremental provisioning requirements

could be written back if risks subside.

Other lenders also echoed caution, but without aggressive provisioning moves.

At IndusInd Bank, managing director (MD) and chief executive officer (CEO) Rajiv Anand stated that improving trends are being seen across loan portfo-

addressing past derivative and microfinance-related issues.

Still, the bank remains watchful of geopolitical risks. "At this point in time, we are not seeing any significant impact on our portfolios... but if the crisis continues... we could have some impact on

specific industries," he said.

In a 23 April note, Fitch Ratings said that while asset quality of rated banks has improved significantly with their average impaired-loan ratio declining to 2.1% in the nine-month period ended 31 December 2025 and credit costs easing to 0.5%; above-average loan growth and rapid expansion of retail, agriculture and MSME (micro, small and medium enterprises) loans remain key risks to asset quality, especially if India's economic growth comes under pressure.

Jaideep Iyer, executive director at RBL Bank, told analysts on 25 April that the lender expected lower microfinance slippages to be reflected in the provisioning numbers.

However, on credit card slippages or fresh bad loans, Iyer said the bank said in the December quarter that it would have elevated slippages for two to three quarters, and now expects this could stretch to the first six months of 2026-27.

IDFC First Bank's asset quality improved, led by lower slippages and provisions, better recoveries and improvement in credit costs owing to stabilization in the microfinance book.

"When the microfinance crisis has gone, suddenly our credit cost has come down to 1.6-1.7% of the average loan book, which is probably the lowest we have seen in a long, long time," MD and CEO V. Vaidyanathan said in the analyst call on 25 April, adding that special mention accounts (SMA)-1 and -2, a measure of early stage delinquencies, are also showing a recovery trend. The bank expected the credit cost for 2026-27 to be in the range of 1.7-1.8% compared with 2.13% last fiscal. For the last quarter of 2025-26, its credit cost was 1.63%.

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