

# BANKING SECTOR IN INDIA

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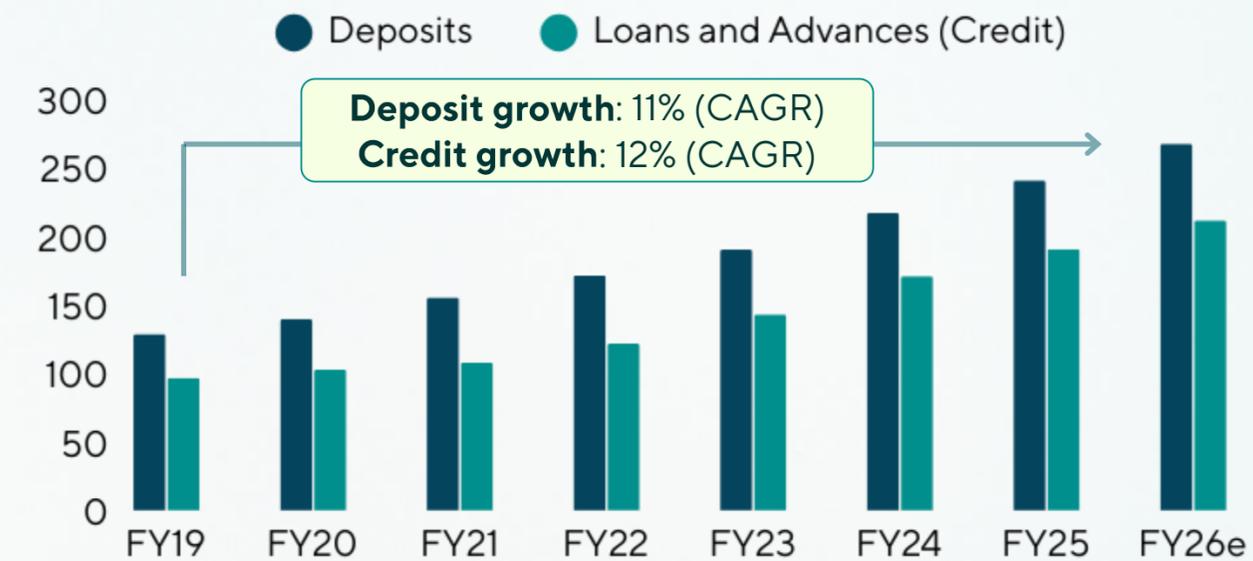
# Table of Content

Executive summary	<b>03</b>	Technology trends	<b>24</b>
An overview of banking sector in India	<b>04</b>	Opportunities & challenges	<b>28</b>
Capital adequacy and asset quality	<b>11</b>	Looking ahead	<b>32</b>
Financial performance	<b>15</b>	Appendix	<b>35</b>
Regulatory framework	<b>22</b>		

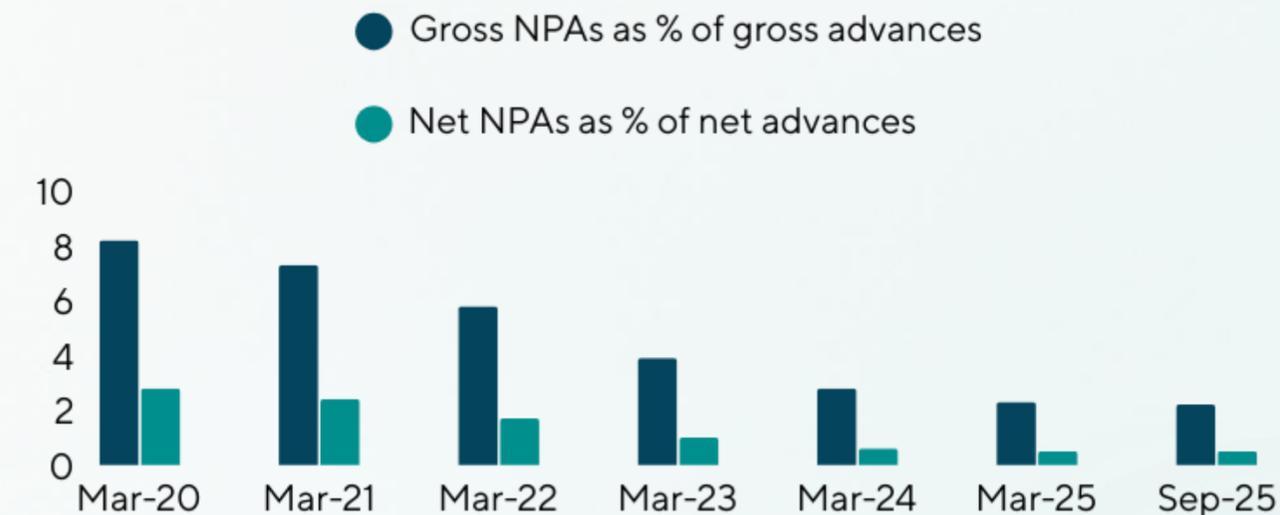
# Executive summary

<b>Resilient balance sheets:</b>	<ul style="list-style-type: none"> <li>Capital adequacy ratio (CRAR) of scheduled commercial banks (SCBs) remained strong: SCBs maintained strong capital buffers with CRAR around 17.4% as of March 2025 and around 17.2% as of September 2025. These levels are well above regulatory minima, underscoring healthy capital buffers.</li> </ul>
<b>Strong profitability</b>	<ul style="list-style-type: none"> <li>Return on Assets (RoA) at around 1.4% and Return on Equity (RoE) at around 13.5% for FY25, indicating robust earnings performance.</li> </ul>
<b>Gross NPA ratio at multi-year low</b>	<ul style="list-style-type: none"> <li>Gross NPAs of SCBs declined to around 2.3% by March 2025 and around 2.2% by September 2025, a multi-year low, reflecting strengthened asset quality.</li> </ul>
<b>Double-digit growth in deposits &amp; credit</b>	<ul style="list-style-type: none"> <li>Scheduled commercial banks (SCBs) continued to record double-digit growth in deposits and credit in FY25, though growth moderated as compared to FY24 amid cooling economic momentum.</li> </ul>
<b>Liquidity buffers remain strong</b>	<ul style="list-style-type: none"> <li>Liquidity positions remain robust, with comfortable liquidity coverage ratios and system-wide buffers. RBI stress tests show resilience even under adverse conditions.</li> <li>Liquidity conditions, including LCR and strong high-quality capital, support ongoing credit intermediation.</li> </ul>
<b>Risks</b>	<ul style="list-style-type: none"> <li>External uncertainties- geopolitical tensions, global trade disruptions, and commodity price volatility could impact funding costs and asset quality</li> </ul>
<b>Outlook (FY26-FY27)</b>	<ul style="list-style-type: none"> <li>Overall: Banking sector remains resilient, stable, and well-capitalized, positioned for steady FY26 expansion on the back of macro stability and digital inclusion.</li> <li>Credit expansion: Healthy credit growth (~11-13% CAGR) expected, led by retail, MSME, infra, and corporate lending, aided by supportive growth and RBI's CRR cuts releasing INR 3,000 billion liquidity.</li> <li>Profitability: Near-term earnings may be pressured by narrowing NIMs, but ongoing asset quality gains, fee income and diversified services should sustain profitability.</li> <li>Asset quality: NPAs likely to remain near historic lows, supported by strong capital buffers and prudent risk management; closer monitoring of unsecured portfolios remains vital. RBI projects GNPA could decline further to ~1.9% by 2027.</li> </ul>

## Bank deposits and credit trend for SCBs in INR trillion



## NPA trend for SCBs (%)



e: estimates  
Source: Reserve Bank of India

The background image features a reflective surface with several stacks of silver coins of varying heights on the left and a white model of a classical building with four columns and a pediment on the right. A teal horizontal band is overlaid across the center of the image, containing the title text.

# An overview of banking sector in India



# Market segmentation of Indian banking sector

Category	Sub-category	Ownership / regulation	Key characteristics & role
Scheduled banks	Scheduled commercial banks (SCBs)	Regulated by RBI; listed under RBI act, 1934	Core of India's banking system; dominate deposits, credit, and payments
	Public sector banks (PSBs)	Majority owned by government of India Number of banks: 12	Key financiers of infrastructure, MSMEs, agriculture, and priority sectors; improved profitability, asset quality, and capital strength post-reforms
	Private sector banks (PVBs)	Privately owned; RBI regulated Number of banks: 21	Strong presence in retail, SME, digital banking, and fee-based services; higher operational efficiency and growing market share
	Foreign banks (FBs)	Foreign ownership; RBI regulated Number of banks: around 44	Focus on corporate banking, trade finance, treasury, and wealth management; niche presence
	Small finance banks (SFBs)	RBI regulated; inclusion-focused Number of banks: 12	Serve underserved and unbanked segments; expanding retail and MSME lending with improving financial metrics
	Regional rural banks (RRBs)	Joint ownership (GOI, states, sponsor banks) Number of banks: 43 RRBs and manage over 22,000 branches	Focus on rural, agricultural, and MSME credit; improving profitability and financial inclusion
Cooperative banks	Urban cooperative banks (UCBs)	Dual regulation (RBI + state/central registrar) Number of banks: 1,534	Serve urban and semi-urban retail customers; strengthened regulation and consolidation
	Rural cooperative banks	Dual regulation Number of banks: 96,508	Backbone of agricultural and rural credit delivery
	State cooperative banks (STCBs) District central cooperative banks (DCCBs):	Around 34 at state level Around 350+ at district level	
Development financial institutions (dfis)	NABFID and similar institutions	RBI / government oversight	Provide long-term financing for infrastructure and development projects
Specialised institutions	Payments banks	RBI regulated Number of banks: around 5-6	Licensed to provide low-value payments and deposits (no lending); support digital financial inclusion



# Drivers of banking sector in India

## Macroeconomic drivers

**Resilient GDP growth:** Robust economic growth is fueling demand for credit across retail, MSME, and infrastructure segments.

**Government initiatives:** Financial inclusion programs, PSU bank consolidation, and infrastructure financing push are strengthening sector fundamentals.

## Healthy deposit and credit mobilization

Scheduled commercial banks (SCBs) continued **double-digit deposit and credit growth**, in FY25 (11.1% and 11.5%, respectively), supporting balance sheet expansion

**Funding Stability:** Low-cost CASA inflows reduced reliance on expensive borrowings, bolstering resilience amid moderated FY24 growth paces.

**Sector Impact:** Robust deposit base supports sustained lending and financial stability.

## Strong capital buffers

SCBs' capital to risk-weighted assets ratio (CRAR) remained robust at around 17% at end-March and end-September 2025, supporting risk-taking capacity and credit expansion. Capital adequacy ratios (CRAR) remained strong at 16-18.1% across public and private banks, enabling shock absorption.

**Impact:** Enhanced balance sheet strength increases confidence for credit extension and investment.

## Strengthened financial inclusion & digital ecosystem

RBI's financial inclusion index rose sharply to 67.0 in March 2025 from 43.4 in March 2017, reflecting wider access and usage of financial services across demographics – deeper inclusion supports deposit & credit growth.

**UPI dominance:** RBI-digital payments index (RBI-DPI) increased, driven by UPI and real-time payment infrastructure, contributing to deeper customer engagement and fee-based revenues.

During 2024-25, digital payments grew by 17.9% in value terms, accounting for 97.6% of India's total payments, while in volume terms, growth in digital payments was much higher at 35% Digital adoption enhances customer reach, reduces costs, and increases fee-based revenues.

## Asset quality & capital strength

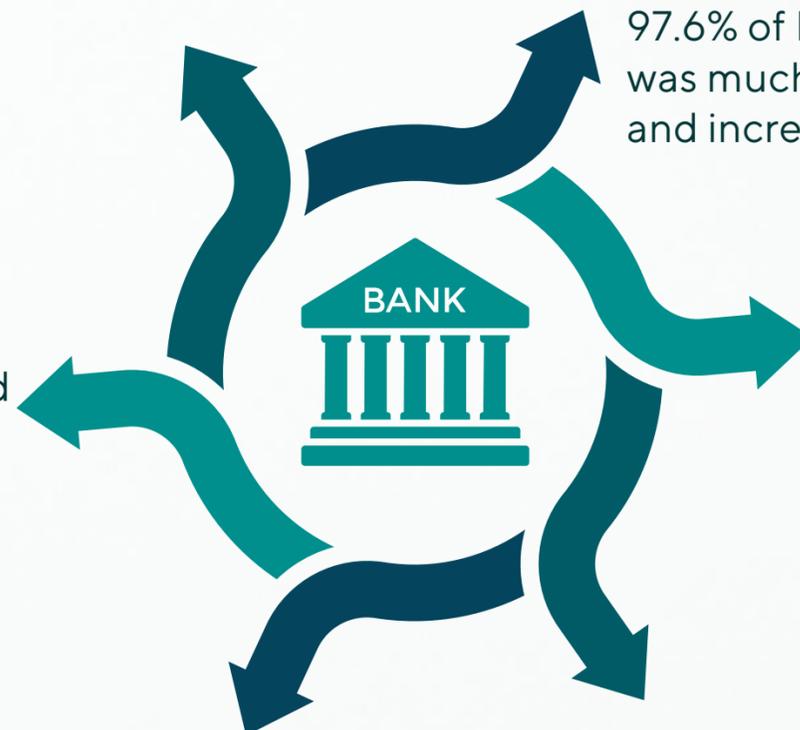
**NPA reduction:** Gross NPA ratios declined to multi-year lows, improving banks' risk profiles and unlocking capacity for fresh lending

**Capital adequacy:** Capital to Risk Weighted Assets Ratio (CRAR) improved to ~17.4% in March 2025, well above regulatory minima, providing a cushion to absorb shocks and support growth, ensuring resilience.

## Foreign & institutional flows

**Global integration:** Despite global uncertainty, India remains attractive for long-term capital inflows, especially in banking and financial services.

**Trade finance expansion:** Foreign banks and large private banks are strengthening cross-border financing capabilities.



# Impact of macroeconomic and global factors on Indian banks

Factor	Impact on Indian banks	Why it matters	Outlook (2026–27)
GDP growth	Credit demand, loan growth, fee income	Higher GDP boosts business confidence → more corporate & retail borrowing → banks expand lending and generate non-interest income (fees/transactions). Growth also improves asset quality as borrowers repay better.	Continued robust growth (projected 6.7–7.5%) supports credit growth and profitability, though export headwinds may modulate pace.
Inflation	Helps interest margin dynamics & risk perceptions	Low inflation gives RBI room to cut rates → lowers banks' cost of funds (if transmission works) → can stimulate lending & reduce default risk. But very low inflation can hurt deposit yields.	Inflation likely stable/benign; may gradually rise toward RBI's ~4% medium-term target, giving policy flexibility.
Monetary policy (RBI repo rate)	Directly affects lending/borrowing rates, NIM & liquidity	Lower policy rates reduce cost of funds for banks and borrowers → can spur credit growth & investment → potentially expand loan book. But margin compression if funding cost stays high relative to yields.	More cuts possible (to ~5.0%) as policy remains neutral/dovish if inflation remains subdued.
Global interest rate & liquidity trends	Impacts bank funding costs, asset valuations, investor flows	When global rates fall, capital may flow into ems like India seeking yield, lowering banks' funding costs. Conversely, tightening abroad can raise borrowing costs for banks with foreign liabilities.	Anticipate volatility — policy divergence (fed vs RBI) may affect capital flows and cross-border funding costs.
Exchange rate & global shocks	Affects asset quality, forex assets, and NPA provisioning	A weaker INR raises cost of foreign debt servicing (for corporate borrowers), increasing credit risk for banks. Global shocks (tariffs, geopolitical tension) can slow exports, affecting corporate credit cycles.	Continued susceptibility to global risks; banks must manage currency risk & stress test portfolios against shocks.
Global trade & tariffs	Slower export growth can reduce corporate credit demand and increase stress	Trade barriers dampen export-led sectors (manufacturing, services), reducing credit demand from corporates and stressing working-capital cycles, potentially affecting banks' asset quality.	Trade dynamics will remain a key risk; banks need diversified exposures.
Global liquidity conditions	Influences foreign capital flows & local money markets	Tight global liquidity can reduce foreign inflows and raise borrowing costs; abundant liquidity can support cheaper funding and higher asset prices, impacting banks' investment books and credit growth.	Monitoring of global liquidity essential; scenario analysis to manage funding risks.
Domestic consumption & investment (macro)	Drives retail & corporate banking growth	Strong domestic demand increases credit uptake (personal loans, mortgages, corporate working capital), raising banks' interest income and fee bases.	Domestic demand likely to remain a stabilizer even if external headwinds rise.

# Indian banking sector remains robust amid global uncertainties

Indicators	Mar-15	Mar-17	Mar-19	Mar-21	Mar-23	Mar-24	Mar-25	Sep-25
Gross NPA (%)	4.6	9.6	9.2	7.3	3.9	2.8	2.3	2.2
Net NPA (%)	2.5	5.5	3.8	2.4	1.0	0.6	0.5	0.5
RoA (%)	0.8	0.4	-0.1	0.7	1.1	1.3	1.4	1.3
CRAR (%)	13.0	13.7	14.3	16.2	17.2	16.8	17.4	17.2
LCR (%)	96.3	124.9	128.9	158.9	143.5	130.3	132.5	131.7
PCR (%)	41.7	43.5	60.5	67.4	74.1	76.2	76.3	76.0
Slippage (annualised %)	3.3	5.9	3.9	2.6	1.9	1.6	1.5	1.4

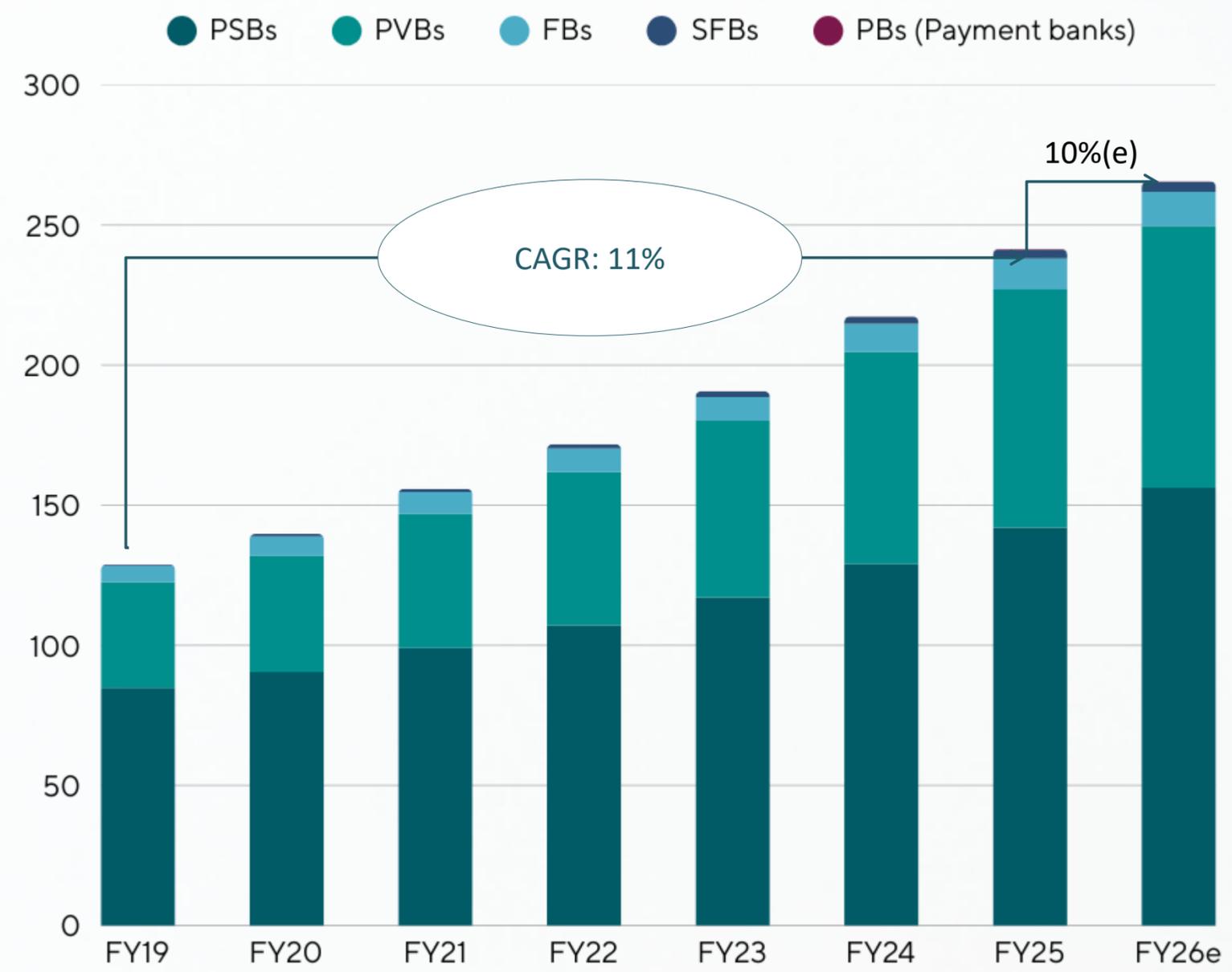
- India's domestic banking systems remain robust amid global uncertainties. Scheduled commercial banks (SCBs) demonstrate strong asset quality and capital buffers, supporting overall financial resilience.
- Key banking metrics: Gross Non-Performing Asset (GNPA) ratio for SCBs reached a multi-decadal low of 2.2% as of end-September 2025, with Net NPA at a record low of 0.5%. Capital to Risk-Weighted Assets Ratio (CRAR) stood at 17.2%, and Liquidity Coverage Ratio (LCR) at 131.7%, indicating ample buffers. Bank credit growth remained steady at 11.0% year-on-year
- Stress-testing projections suggest GNPA's may further improve to around 1.9% by March 2027 under baseline scenarios.
- Even under severe stress assumptions, most banks remain above regulatory capital requirements, affirming resilience.
- Risks and outlook: Near-term risks- geopolitical tensions, trade issues, and unsecured lending, despite resilient balance sheets and low market volatility. India's economy grows robustly via domestic demand and prudent policies, positioning banking systems as a stability anchor.



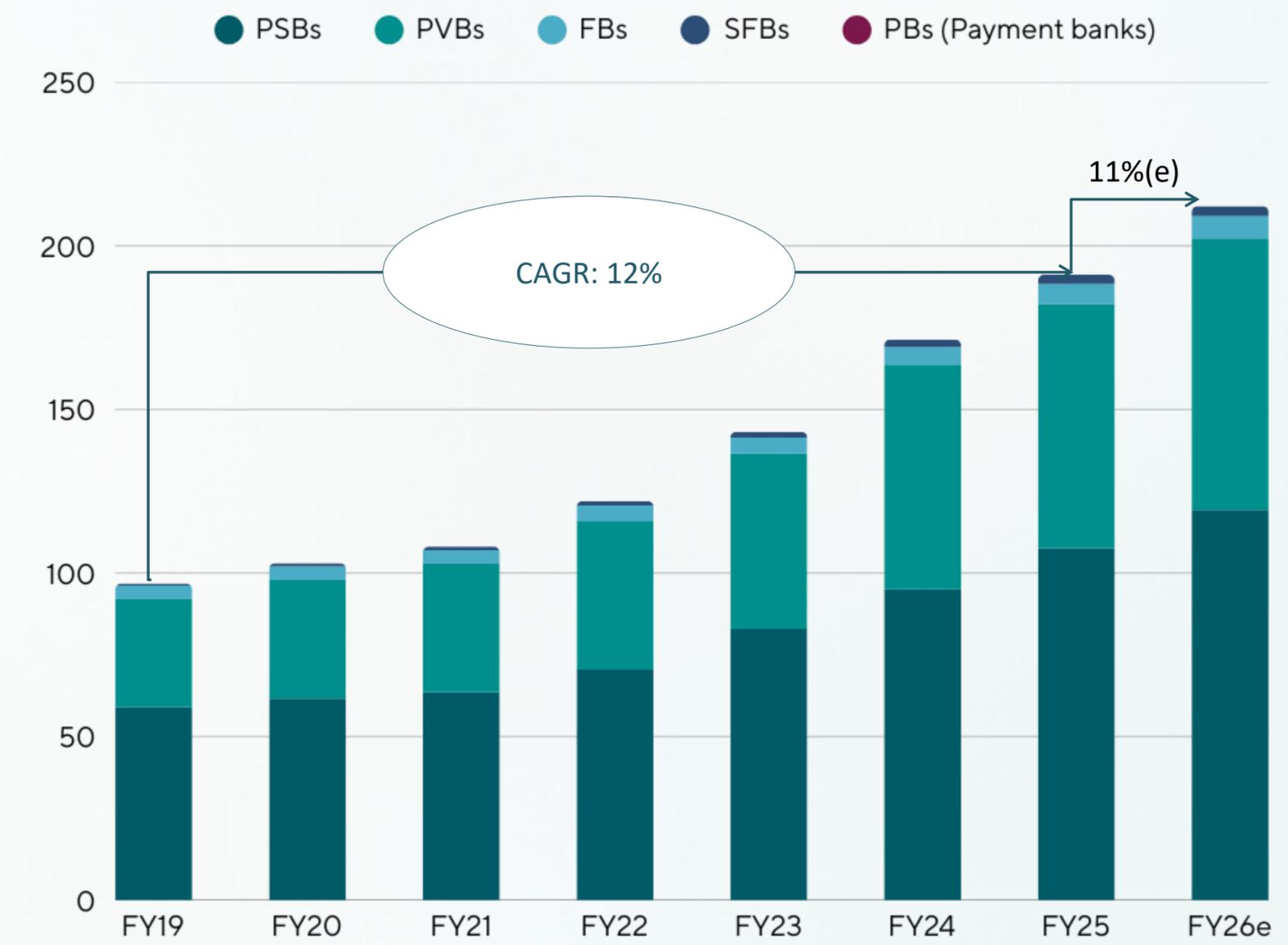
# Credit growth outpacing deposit growth in India

- **Credit growth:** Currently growing around 11-12% year-on-year, after decelerating from over 20% in FY24 as regulatory tightening and a higher base kicked in.
- **Deposit growth:** Weaker at about 10% YoY, with structural concerns flagged around liability mobilization and credit-deposit ratios at roughly 82%

### Deposits in INR trillion



### Loans and advances (credit) in INR trillion



e: estimates  
Source: Reserve Bank of India



# Credit and deposit growth outlook

## Credit growth

- **Next 2 years (FY26–27):** ~11–13% CAGR, with upside if deposit mobilization strengthens. Downside risk emanates from any macro shock or sharper regulatory tightening.
- **Over 5 years:** ~10–12% CAGR, implying continued deepening of banking assets as a share of GDP but at a more measured pace than the immediate post-pandemic rebound.

## Deposit growth

- **Next 2 years:** ~9–11% CAGR, with competition from alternative fixed-income products keeping a lid on growth despite higher card rates.
- **Over 5 years:** Over the next five years, deposit growth of scheduled commercial banks in India is expected to average around 9–11% annually, broadly tracking nominal GDP and credit expansion while remaining below the high-teens growth seen in earlier decades. Credit-to-deposit ratios are likely to remain in the high 70s to low-80s range unless a major structural shift occurs.

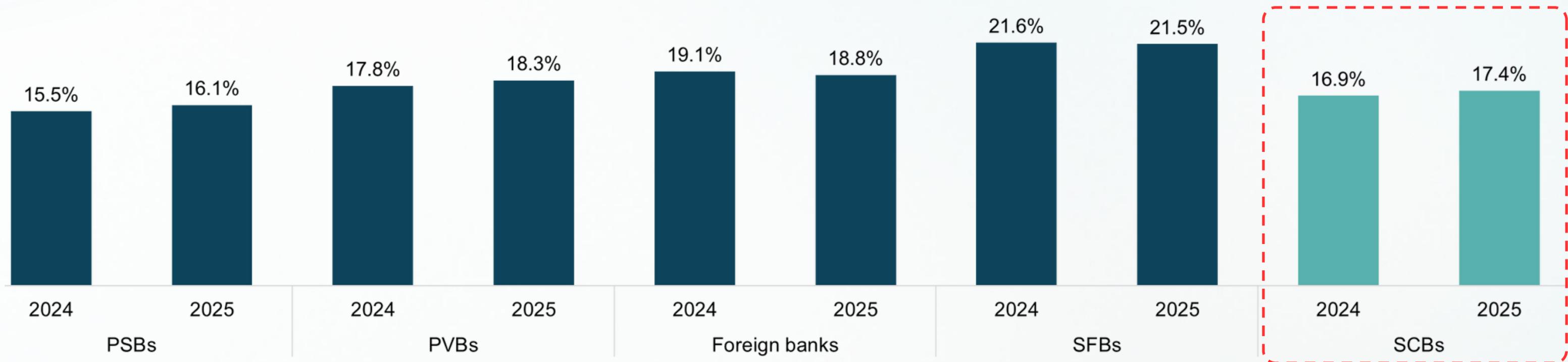
## Key drivers and sectoral pattern

- Retail, MSME and services are likely to remain the main drivers of credit, with housing, vehicle/consumer, and cash-flow-backed SME lending leading growth, while heavily regulated unsecured segments grow more modestly after recent risk-weight measures.
- Corporate credit demand should improve as government capex crowds in private investment and lower long-end yields support refinancing and fresh borrowing, particularly in infrastructure, renewables, urban real estate and select manufacturing.
- On the liability side, CASA ratios at the system level have been broadly in the high-30% range, but the mix is likely to gradually tilt further towards term deposits, pressuring funding costs and net interest margins unless banks ramp up fee income and operating efficiency.

# Capital adequacy and asset quality

# Indian banking sectors remains capitalized and ready for growth and Basel IV

Capital adequacy (CRAR) of SCBs at end-March



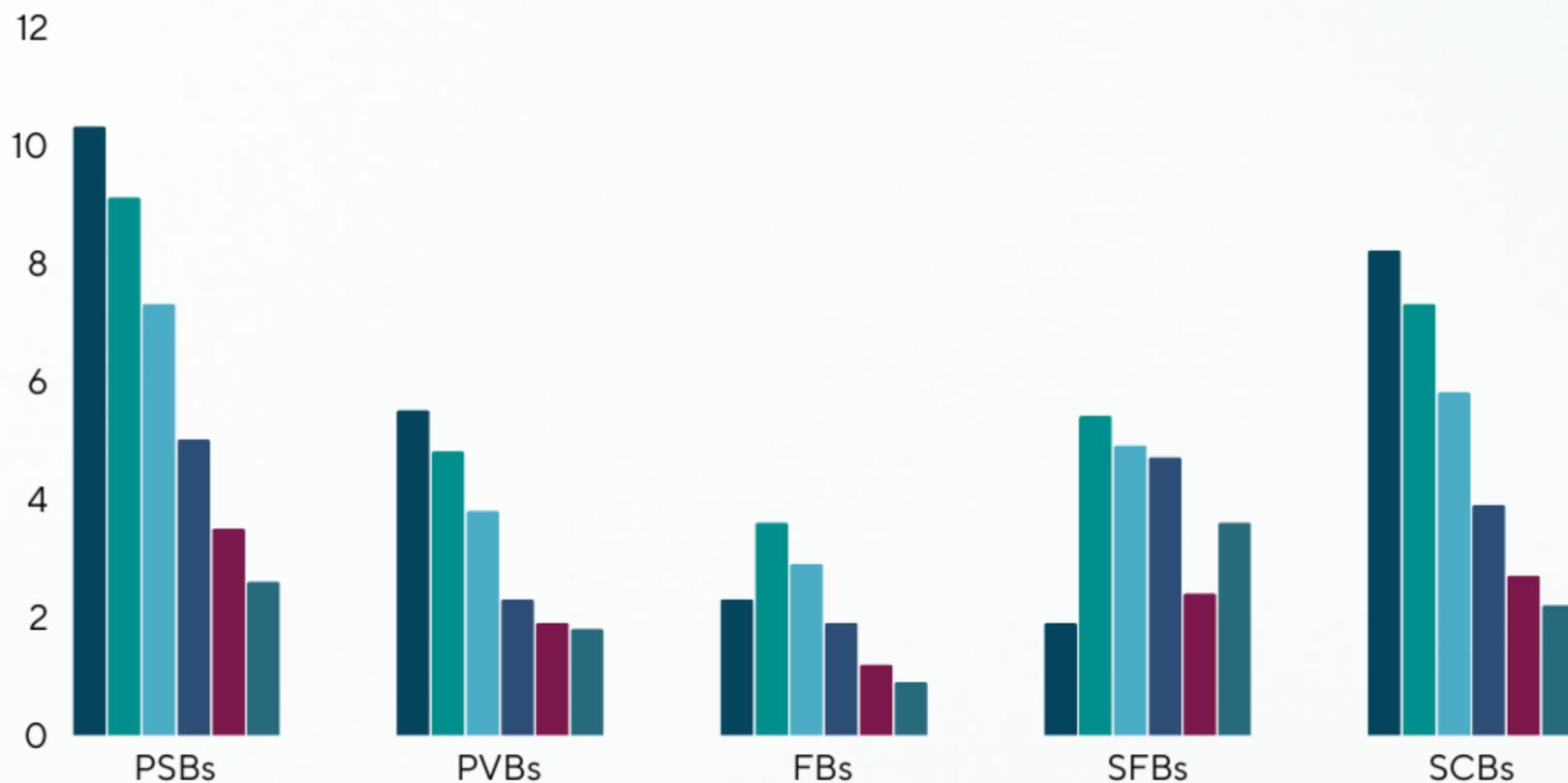
- **Capital adequacy** is the measure of a bank's ability to absorb losses from bad loans and to support its business growth.
- India's banking sector **strengthened its capital position in 2025**, with CRAR at 17.4% in March 2025 and ~17.2% in September 2025—well above the regulatory minimum of 11.5% (9% excluding capital conservation buffer) —providing a robust buffer and enhanced resilience against emerging risks.
- PSBs had a CRAR of 16.1%, while PVBs CRAR reached 18.3%, highlighting PSBs' improvement via recapitalization and PVBs' edge from conservative profiles. Private banks' CRAR has consistently remained higher than PSBs, indicating robust internal capital generation and lower slippage impact.
- **Outlook:** Overall outlook is stable/positive, with India's banking sector well-capitalized to navigate growth, shocks and Basel IV transitions without needing systemic infusions. RBI baseline projects system CRAR easing modestly to 16.8% by March 2027, supported by earnings accretion offsetting RWA growth from ~12–14% credit expansion. Potential risks include higher RWAs from unsecured retail exposure or regulatory changes (e.g., revised risk weights), but strong CET1 and profitability provide buffers.



# PSBs lead asset quality revival; Private banks stay strong

Gross non-performing assets (GNPAs) by bank group

FY20 FY21 FY22 FY23 FY24 FY25



Net non-performing assets (NNPAs) by bank group

FY20 FY21 FY22 FY23 FY24 FY25

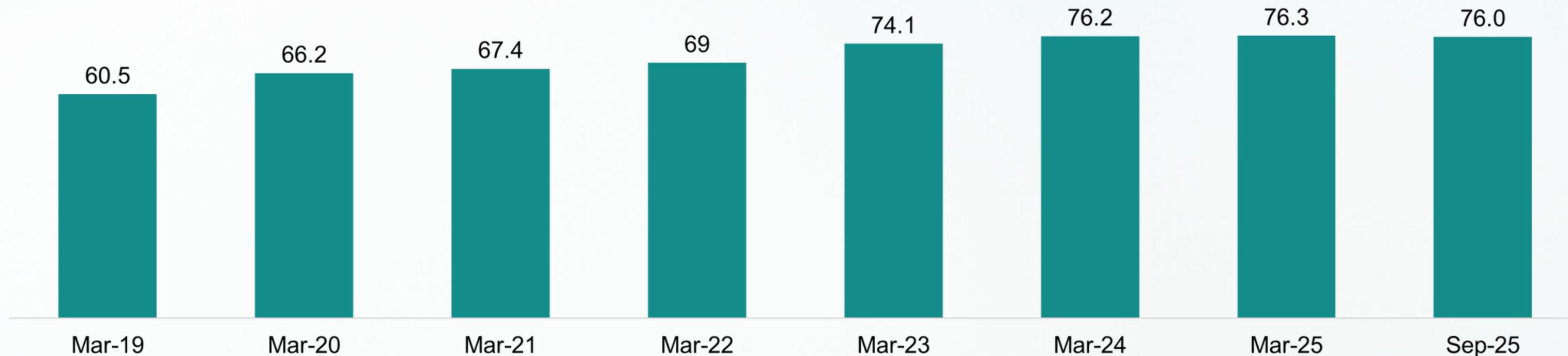


- Asset quality of Indian banks has improved markedly over FY22–FY25, with gross NPAs (GNPAs) falling to multi-year lows around 2.2% and net NPAs (NNPAs) reaching record lows near 0.5% in September 2025, driven by strong recoveries, prudent underwriting and robust provisioning.
- PSBs have led the improvement with GNPA drop to under 3% in FY25 from over 10% in FY20, a significant improvement through IBC resolutions, asset reconstruction, and forex/write-off strategies. Private banks maintain even stronger metrics, with low single-digit GNPAs and NNPA ratios, reflecting superior underwriting and quicker stress recognition.
- **Outlook:** Stable to improving into FY26–FY27, though pockets of risk in unsecured retail and SME lending warrant vigilance. RBI’s baseline projections indicate GNPA ratio declining further to ~1.9% by March 2027, with NNPA remaining below 0.5%, assuming continued economic momentum and no major shocks.



# Improving PCR strengthens banking sector buffers

Provision coverage ratio of SCBs (%)



- Scheduled commercial banks' (SCB) PCR stayed stable at 76.3% (Mar'25), with PSBs rising to 78.5% and PVBs at 72.6%.
- Above-75% PCR signals strong buffers amid improving asset quality, strong provisioning and loss absorption buffers in Indian banks.
- **Near-Term Outlook:** PCR to remain high and broadly stable, supported by strong capital, benign slippages, and continued recoveries and write-offs consistent with a matured NPA cycle.
- **Mild normalization risk:** If credit growth re-accelerates or sectoral stress emerges, banks may re-align provisioning, but strong CRAR cushions any drawdowns, keeping system PCR within a comfortable band.



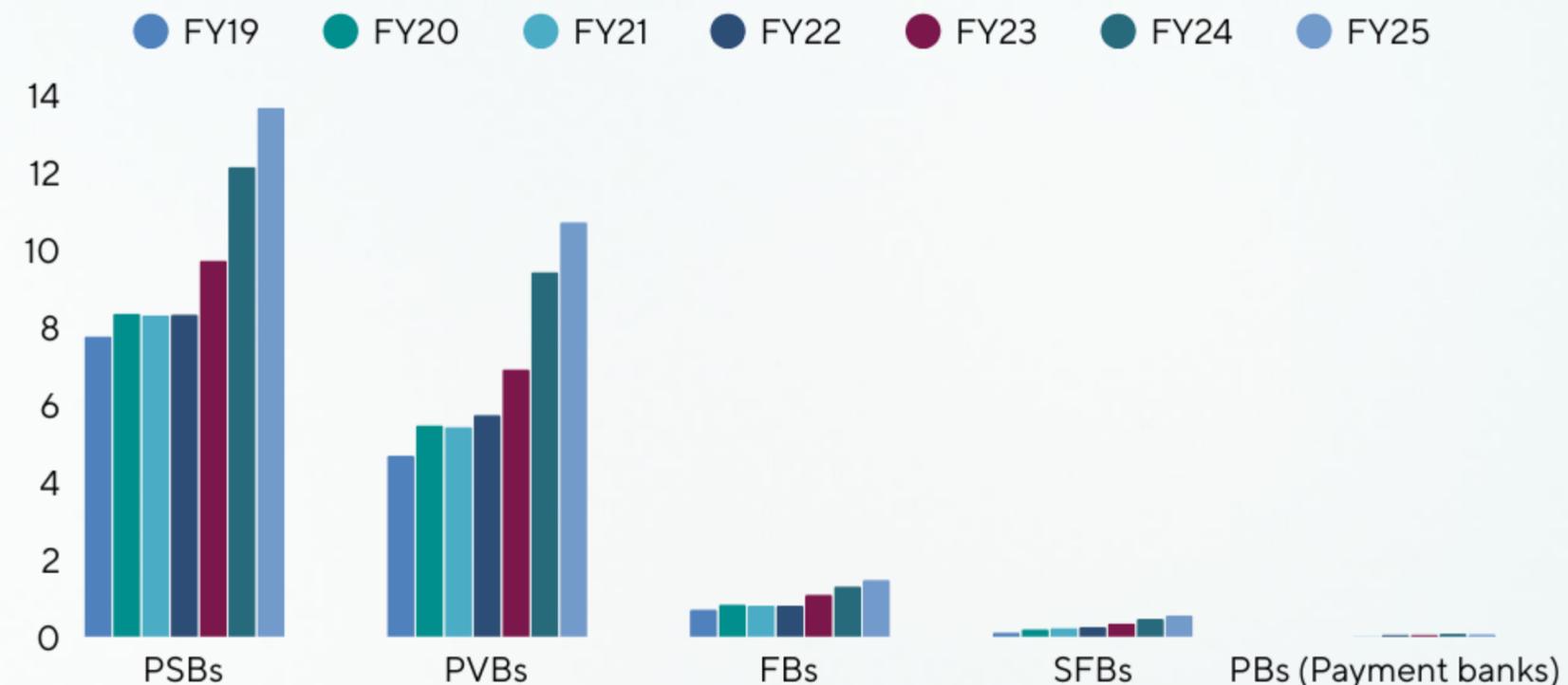
# Financial performance

# Total income growth sustained by credit expansion, funding stability, and asset quality

Total income in INR trillion



Total income by bank group in INR trillion

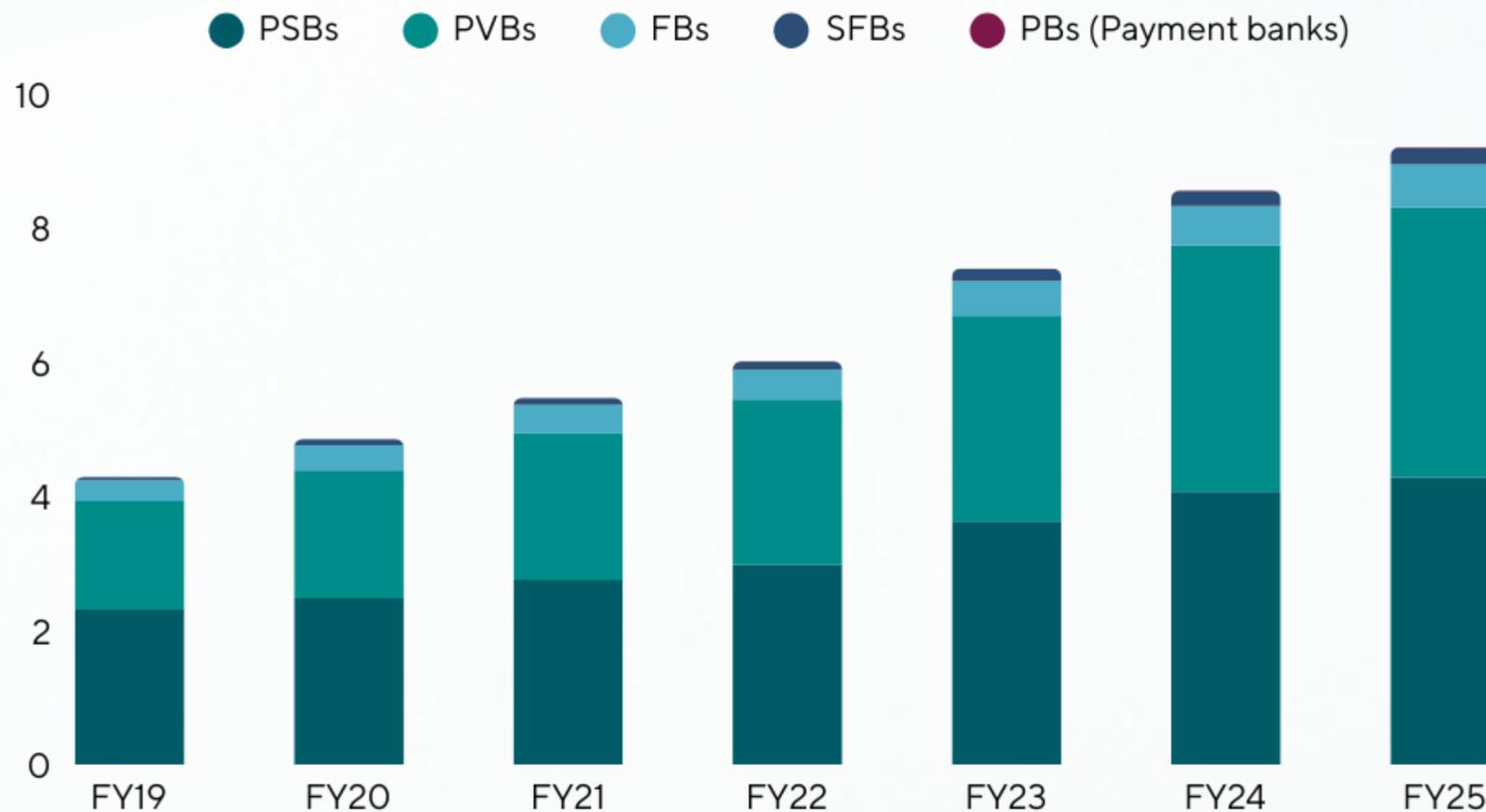


- Strong credit expansion and steady loan yields were the primary drivers of total income, supported by healthy balance sheets and ample liquidity that kept funding conditions favorable
- With GNPA ratios at multi-year lows and provisioning discipline intact, banks converted pre-provision operating profit into net income more efficiently, reinforcing total income growth sustainability
- **Funding stability:** Stable deposit flows and comfortable liquidity conditions helped contain cost of funds, supporting net interest generation without aggressive repricing
- **FY26-FY27 outlook:** Expect total income growth of 11-14% in FY26 and FY27, fueled by projected GDP expansion and RBI's pro-growth policies like CRR cuts injecting liquidity. Continued credit-deposit balance and digital innovations should bolster non-interest income, though moderating inflation risks could pressure margins. Vigilance on small finance banks' asset quality remains key.

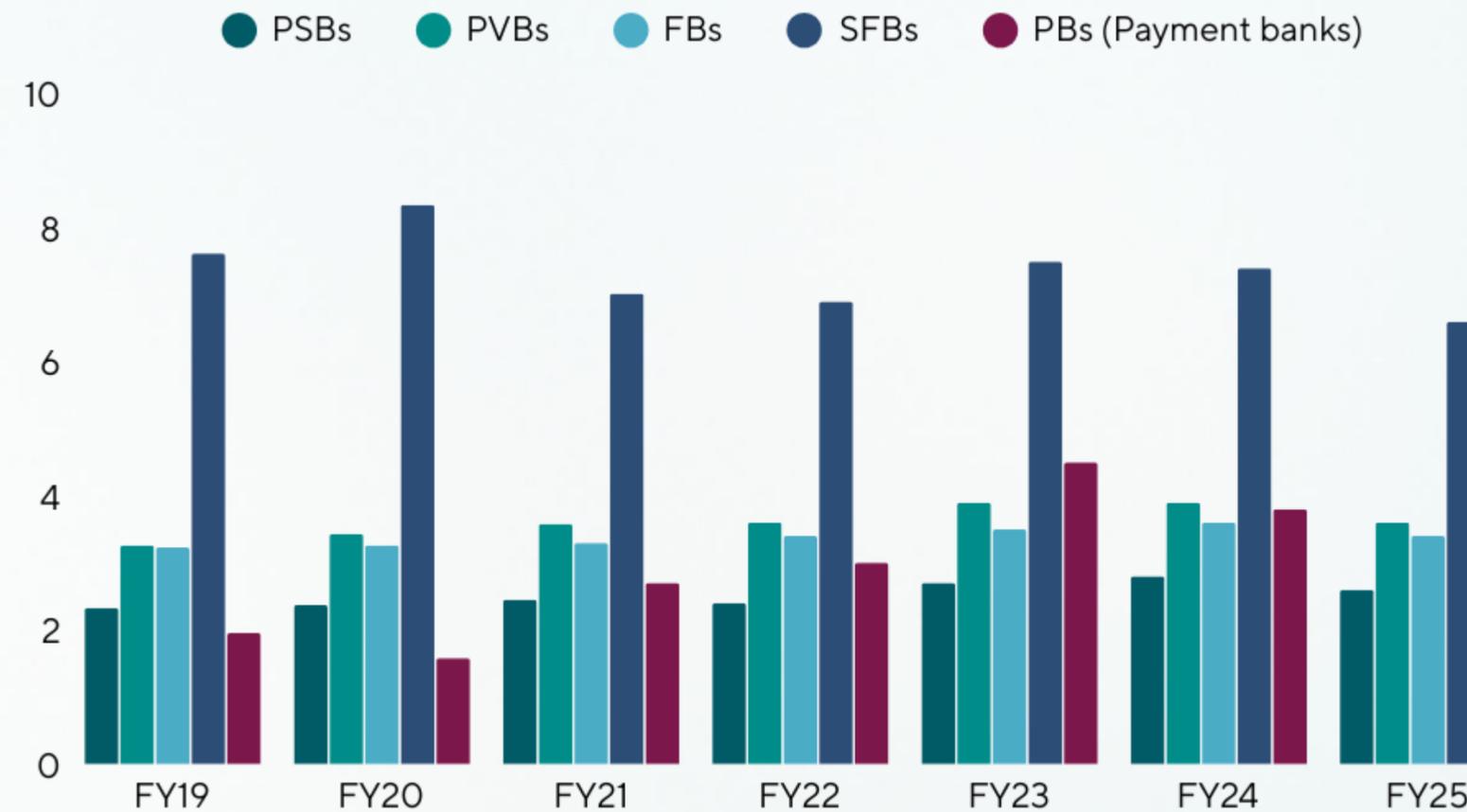


# Margins under strain, efficiency gains key to stability

Net interest income in INR trillion

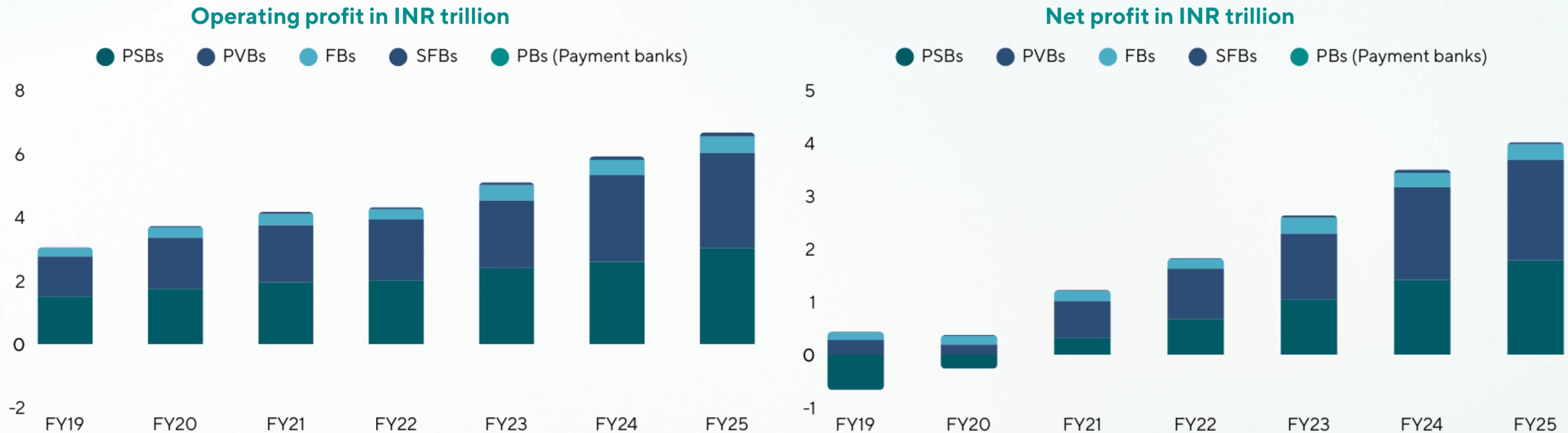


Net interest margin (%)



- In FY25, SCBs witnessed a contraction in net interest margins (NIM) reflecting a classic post-rate-hike squeeze: lending yields fell quickly on policy cuts, while sticky deposit costs and competitive pressures lingered, dragging margins by ~20 bps despite robust credit growth. Net interest income growth decelerated sharply to ~7.5% YoY in FY25 versus double digits earlier.
- **FY26 outlook:** System-wide NIMs may dip another 10–15 bps in FY26 as deposit repricing lags and credit growth outpaces deposits. PSBs could see margins bottom out with modest recovery if funding costs ease, while private banks face gradual but limited improvement.
- **Medium term outlook (FY27 and beyond):** With RBI’s 100–125 bps cuts fully absorbed and liquidity normalizing, NIMs are expected to settle at a “new normal” in the low-3% range. PSBs may converge closer to private bank levels but still trail slightly. Non-interest income and efficiency gains will be key to offset margin compression.

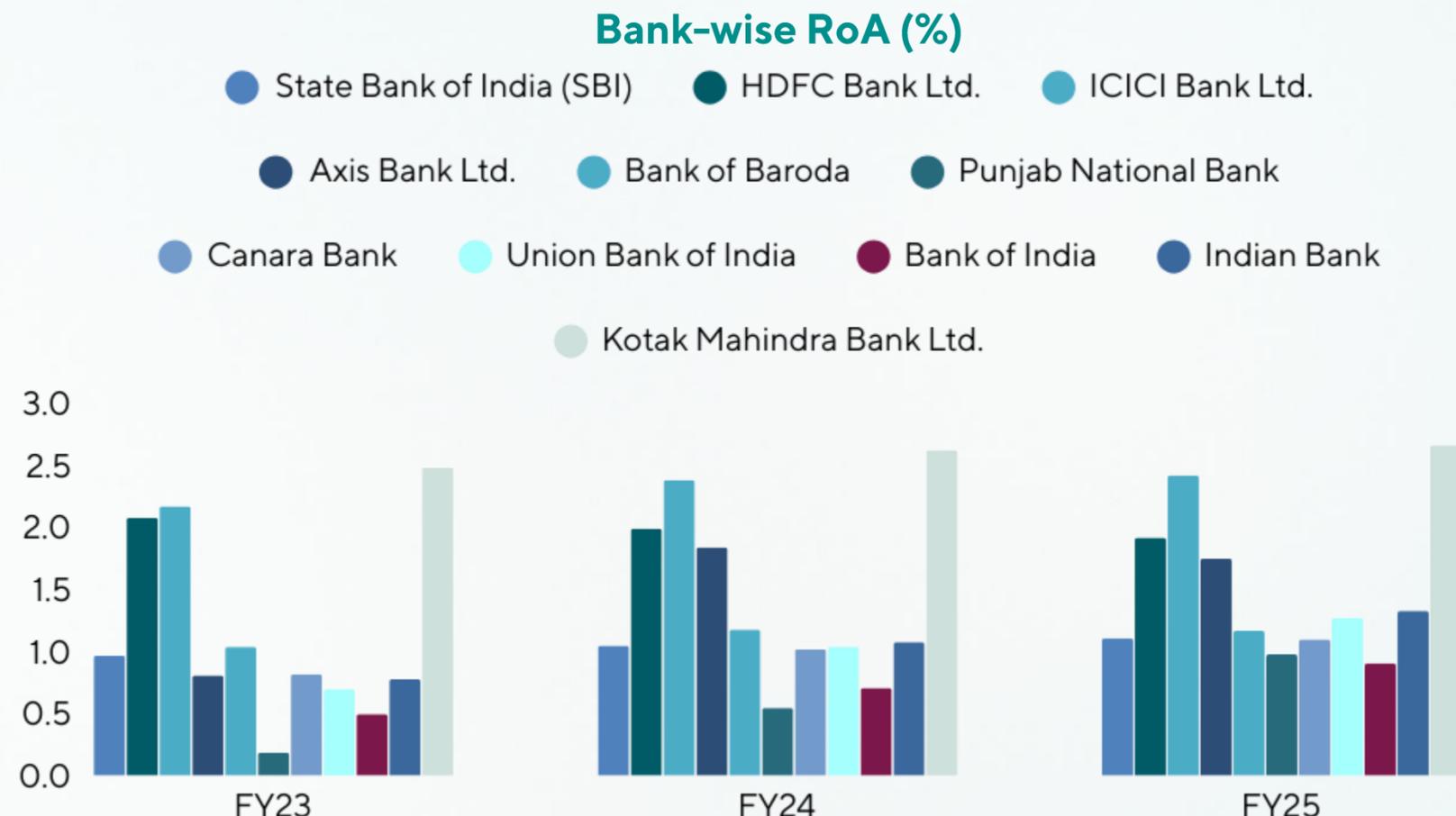
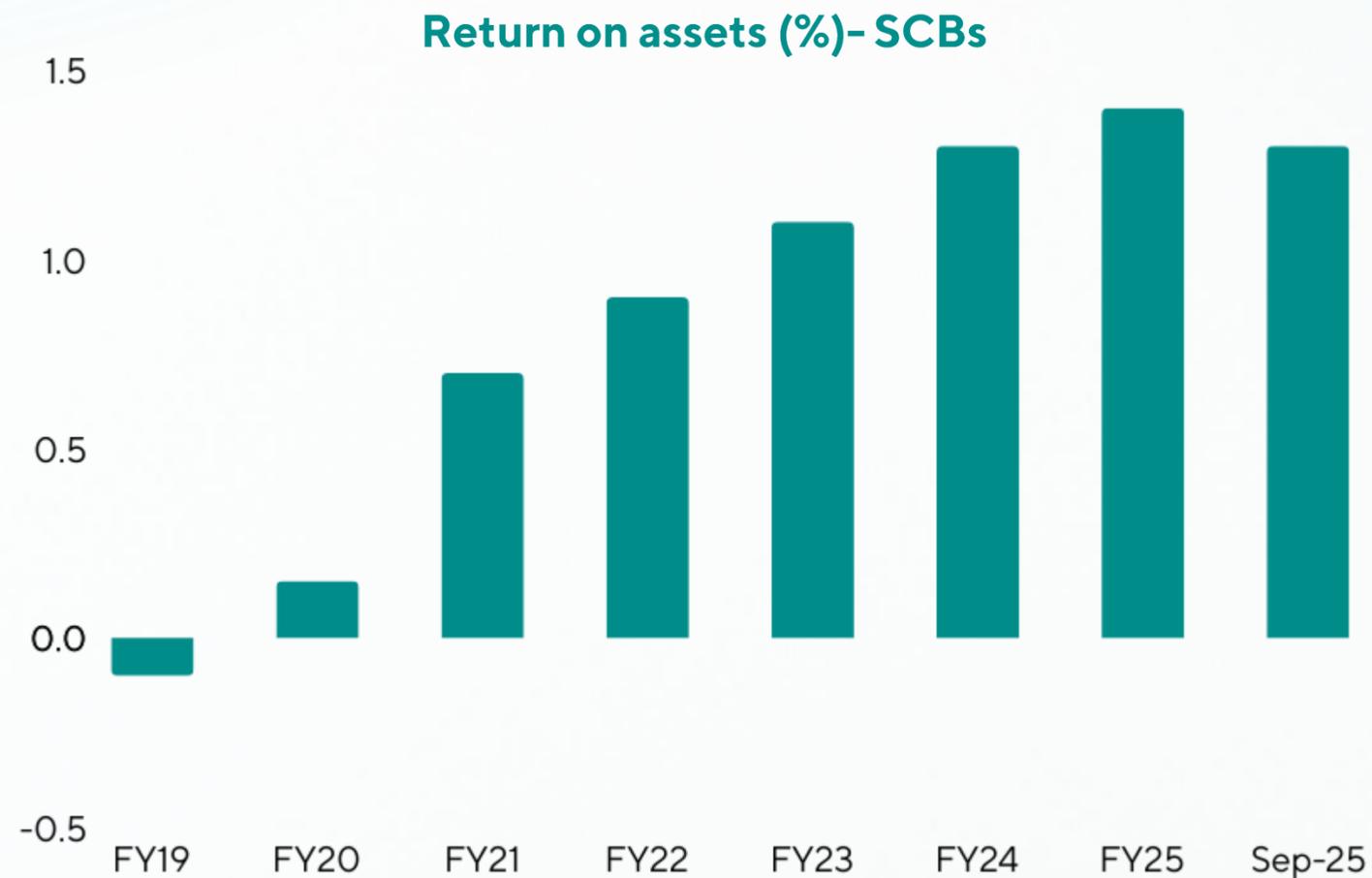
# SCBs' operating profits remain resilient despite a normalizing net interest margins



- SCBs' operating profits in 2025 remained strong, driven by credit growth and fee income, though NIM compression and rising staff/tech costs curbed leverage—especially for retail-focused banks investing in digital and compliance. Lower credit costs (~78 bps in FY26) and GNPA at ~2.1% supported profitability, while volatile treasury gains intermittently aided PSBs during favorable yield movements.
- **FY26 outlook:** Operating profit growth to moderate as margin and funding pressures offset credit demand. GDP-linked expansion, RBI liquidity, and digital adoption should sustain RoA near 1.3%, though inflation risks need monitoring.
- **Medium term outlook (FY27 and beyond):** Profitability is expected to strengthen, supported by recovering credit demand, stabilizing funding costs, and firmer NIMs. Ongoing asset quality gains will enhance net interest income and reduce provisioning volatility, reinforcing operating earnings.
- From a **credit rating standpoint**, the sector outlook is broadly stable, with neutral views across private and public banks. Strong capital buffers (CRAR ~17%) and manageable asset-quality risks support stability, even amid elevated loan-deposit ratios.



# RoA strengthens, outlook moderates amid NIM compression



- Return on assets (RoA) improved to 1.4% in FY25, up from 1.3% in FY24, marking one of the strongest profitability levels observed in over a decade supported by strong credit growth and cleaner balance sheets.
- Private sector banks (PVBs) continue to post structurally higher RoA on stronger core profitability and fee income. Public sector banks (PSBs) have seen the sharpest turnaround, with RoA improving to about 1.1% in FY25 from 0.96% in FY24, driven by lower NPAs, better recoveries and improved operating efficiency.
- **FY26 outlook:** RoA is expected to ease to 1.1–1.3% in FY26, driven by NIM compression as lending rates adjust faster than deposits.
- **Medium term outlook (FY27 and beyond):** As the rate cycle stabilizes and deposit costs peak out, NIMs are expected to stabilize or recover marginally, supporting a gentle improvement in RoA from FY27, provided credit quality remains contained.

# Liquidity coverage ratio comfortably above the regulatory requirement

Liquidity coverage ratio (%)- SCBs



- **Liquidity coverage ratio (LCR)** of Indian banks are comfortably above regulatory minima and have remained structurally high through FY22–FY25, reflecting large buffers of High-Quality Liquid Assets (HQLA). Average liquidity coverage ratio (LCR) of scheduled commercial banks (SCBs) is about 131.7%, well above the 100% regulatory requirement, alongside strong capital ratios (CRAR 17.2%).
- **Liquidity position:** System liquidity shifted to a INR 2.5 trillion surplus by mid-2025, aided by CRR cuts and RBI operations. Banks hold strong Level-1 HQLA, with many maintaining LCRs well above 200%, especially PSBs and top private banks.
- **Risk management:** Despite a high credit deposit (CD) ratio (~82%), banks balanced portfolios and market borrowings to meet SLR/LCR norms. Regulatory focus on stress testing reinforced conservative liquidity profiles, curbing yield-driven risk taking.
- **Outlook:** Liquidity surplus and strong HQLA buffers should keep system LCR in the 120–140% range over the next 1–2 years. Revised LCR norms from April 2026 may prompt balance-sheet re-optimization, but high LCRs, strong capitalization, and improved asset quality ensure liquidity risk remains low barring extreme shocks.

# Financial performance of Indian banking sector – SCBs

Items	Values						
	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Total Liabilities/Assets (INR trillion)	166.0	180.1	195.8	216.7	243.2	280.8	312.2
Deposits (INR trillion)	128.9	139.8	155.8	171.8	190.7	217.4	241.5
Borrowings (INR trillion)	17.1	17.0	14.7	16.6	19.6	25.4	27.2
Loans and advances (INR trillion)	96.8	103.0	108.1	122.0	143.2	171.4	191.2
Investments (INR trillion)	43.2	46.9	54.2	57.8	64.4	72.7	79.4
Profitability							
Net profit (INR trillion)	-0.23	0.11	1.22	1.82	2.63	3.50	4.01
Return on asset (RoA) (%)	-0.09	0.15	0.7	0.9	1.2	1.3	1.4
Return on equity (RoE) (%)	-1.9	0.8	7.7	9.9	12.3	13.6	13.5
Net interest margin (NIM) (%)	2.7	2.8	2.9	3.4	3.7	3.3	3.1
Capital adequacy							
Capital to risk weighted assets ratio (CRAR) (%)	14.3	14.8	16.3	16.8	17.2	16.9	17.4
Tier I capital (as percentage of total capital) (INR trillion)	85.5	85.5	86.8	87.4	86.8	87.8	89.1
CRAR (tier I) (%)	12.2	12.6	14.1	14.7	15.0	14.8	15.5
Asset Quality							
Gross NPAs (INR trillion)	9.4	9.0	8.4	7.4	5.7	4.8	4.3
Net NPAs (INR trillion)	3.6	2.9	2.6	2.0	1.4	1.1	1.0
Gross NPA ratio (Gross NPAs as percentage of gross advances) (%)	9.1	8.2	7.3	5.8	3.9	2.7	2.2
Net NPA ratio (Net NPAs as percentage of net advances) (%)	3.7	2.8	2.4	1.7	0.9	0.6	0.5
Provision coverage ratio (%)	60.5	66.2	67.4	69.0	74.9	76.2	76.3
Slippage ratio (%)	4.0	3.8	2.8	2.7	1.8	1.5	1.4
Gross bank credit (based on fortnightly Section-42 return)	95.3	101.0	106.4	118.9	136.8	164.3	182.4
Credit-deposit ratio (%)	75.1	73.7	69.4	71	75.1	78.8	79.2

Source: Reserve Bank of India



# Regulatory framework

# Regulatory and policy framework

Key regulatory & policy developments	Key reforms	Impact
Banking laws (amendment) act, 2025	<ul style="list-style-type: none"> <li>• Depositor empowerment: Multiple nominees allowed for deposits/lockers, easing succession.</li> <li>• Governance reforms: Stricter oversight norms, transparency thresholds, and improved audit standards for PSBs.</li> <li>• Investor protection: Framework for unclaimed funds and better disclosure practices.</li> <li>• Procedural efficiency: Streamlined reporting aligned with modern accounting</li> </ul>	<ul style="list-style-type: none"> <li>• Improves legal clarity, governance standards, audit independence, and depositor confidence - especially for smaller banks and cooperative segments.</li> </ul>
RBI's regulatory reset - strategic reorientation	<ul style="list-style-type: none"> <li>• Simplification &amp; consolidation: Legacy circulars cleaned up; master directions and sector-specific rules consolidated to reduce friction and ambiguity.</li> <li>• Recalibration of macro prudential caution: Prior risk-weight add-ons eased (e.g., NBFC exposures rolled back from 125% to 100%) as system resilience improved.</li> <li>• Credit enablers: Clarified project finance norms (construction-phase provisioning, DCCO treatment); eased M&amp;A financing under guardrails.</li> <li>• Growth-era stance: Priority on unlocking bank balance sheets, modernizing licensing, and restoring confidence in credit-led growth.</li> </ul>	<ul style="list-style-type: none"> <li>• Lower compliance drag: Banks spend less time interpreting rules and more time deploying capital.</li> <li>• Better risk-based pricing: Clearer norms on project finance and NBFC linkages sharpen underwriting discipline.</li> <li>• Competition &amp; consolidation: Eased M&amp;A financing supports scale and specialization—within prudential guardrails.</li> </ul>
Liquidity and monetary regulatory measures	<ul style="list-style-type: none"> <li>• RBI cut the repo rate by 25 bps to 5.25% in December 2025, following four cuts from 6.5%, alongside INR 1 trillion OMO purchases and a USD 5 billion USD/INR swap for durable liquidity infusion of around INR 1.45 trillion</li> </ul>	<ul style="list-style-type: none"> <li>• Helps banks sustain liquidity buffers in volatile markets. Further, it improves management of short-term funding risks without tightening credit unduly.</li> </ul>
Prudential & risk-management regulations	<ul style="list-style-type: none"> <li>• RBI has proposed caps on banks' capital market and acquisition exposures relative to Tier-1 capital to ensure risk control while permitting corporate financing activities.</li> <li>• Discussions are ongoing on expected credit loss (ECL) provisioning and revised Basel III capital norms planned for phased implementation by 2027-2031</li> </ul>	<ul style="list-style-type: none"> <li>• Aligns Indian prudential norms with international best practices, enhancing loss absorption. Strengthens systemic risk buffers for greater stability.</li> <li>• Balances risk appetite with credit demand, especially in emerging asset classes.</li> </ul>
Emerging risk and innovation frameworks	<ul style="list-style-type: none"> <li>• Regulatory sandbox: Shift toward theme-neutral, continuous sandboxing for fintech experimentation and faster iteration cycles. Payments &amp; UPI enhancements: Proposals to raise limits and expand rails while balancing fraud controls and user protection.</li> </ul>	<ul style="list-style-type: none"> <li>• Creates structured pathways for innovation while embedding risk controls. Enhances regulation of digital credit, consumer protection, and emerging tech risks.</li> </ul>

# Technology trends



# Technology trends in India's banking industry

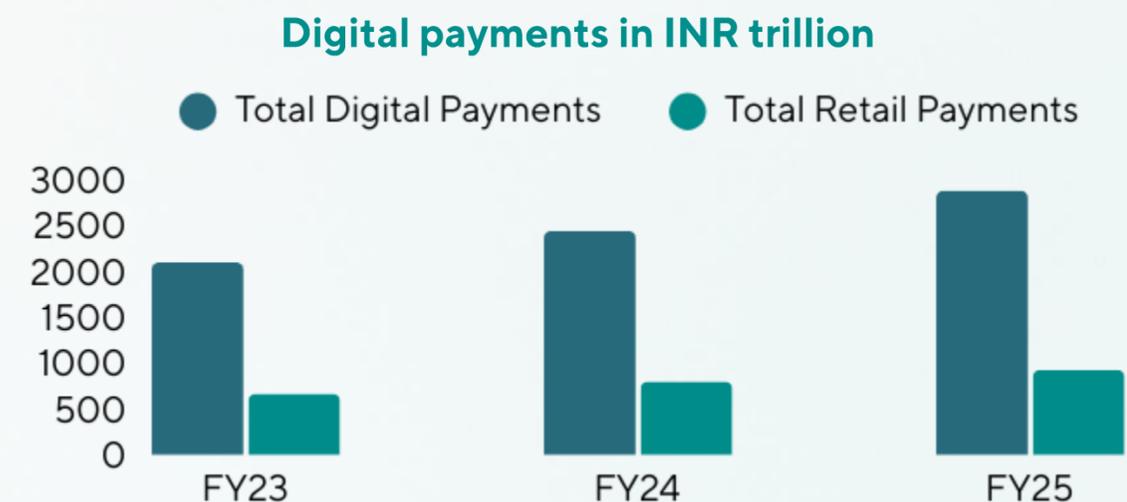
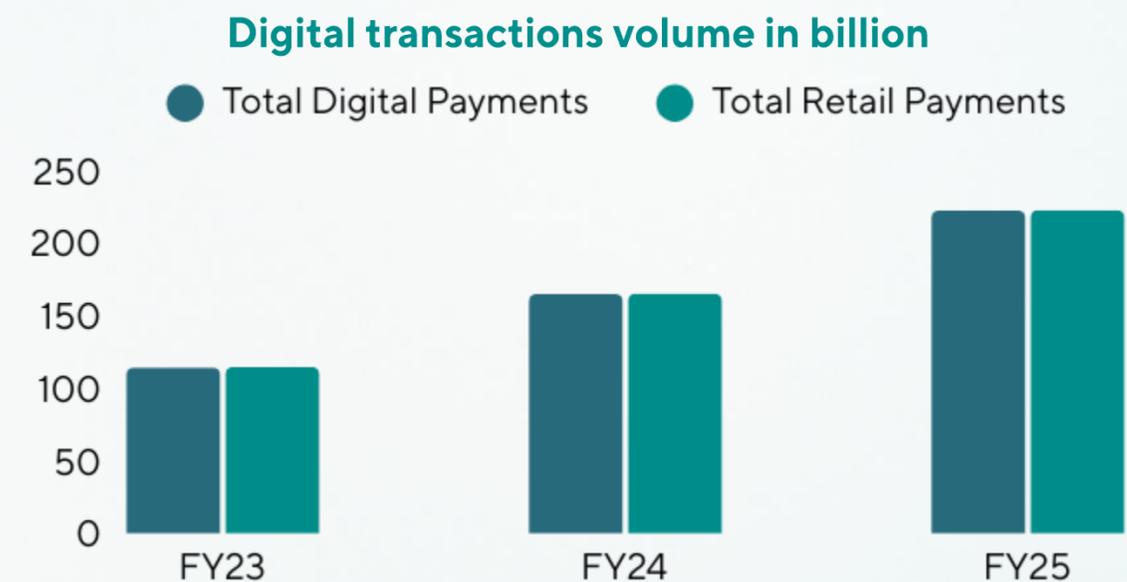
Trend	Impact
 <b>AI &amp; GenAI personalization</b>	Enhances customer trust, improves engagement, and reduces risk of fraud
 <b>Mobile-first Banking &amp; UPI</b>	Expands financial inclusion, reduces cash dependency, and boosts transaction volumes
 <b>Cloud-based Platforms</b>	Improves operational efficiency, enables rapid deployment of new services
 <b>Open finance &amp; APIs</b>	Encourages innovation, competition, and customer-centric services
 <b>Block chain &amp; cybersecurity</b>	Strengthens trust, reduces fraud, and improves transparency
 <b>Super-app ecosystems</b>	Creates one-stop financial platforms, increasing convenience and customer stickiness
 <b>Digital lending platforms (retail, MSME, co-lending)</b>	Democratizes access to credit, especially for underserved MSMEs and retail borrowers
 <b>Robotic process automation</b>	Cover automation in back-office operations: reconciliation, compliance checks, loan processing. It reduces cost-to-income ratio and improves efficiency.
 <b>Data privacy, consent &amp; account aggregator (AA) architecture</b>	Empowers customers with control over data, ensuring trust and regulatory alignment.



# Digital and operational metrics

- **Digital transactions:** UPI dominates, processing over INR 24 trillion monthly as of June 2025. In FY25, digital payments grew by 17.9% in value terms, accounting for 97.6% of India's total payments
- **ATM/micro-ATM network:** Total ATMs declined moderately during FY25: From 253,417 at end of March 2024 to 251,057 by end of March 2025 primarily due to a drop in off-site ATMs despite gains in on-site units. This trend reflects reduced customer reliance on cash withdrawals, driven by surging digital payments like UPI that have diminished the need for ATM transactions.

Number of ATMs*	On-site ATMs		Off-site ATMs		Total ATMs	
	March 2024	March 2025	March 2024	March 2025	March 2024	March 2025
Public Sector Banks	77,033	79,865	57,661	53,679	1,34,694	1,33,544
Private Sector Banks	45,438	47,713	34,446	29,404	79,884	77,117
Foreign Banks	603	587	566	406	1,169	993
Small Finance Banks	3,042	3,158	26	29	3,068	3,187
Payments Banks	0	0	0	0	0	0
<b>SCBs</b>	<b>1,26,116</b>	<b>1,31,323</b>	<b>92,699</b>	<b>83,518</b>	<b>2,18,815</b>	<b>2,14,841</b>
White Label ATMs	0	0	34,602	36,216	34,602	36,216
Total	1,26,116	1,31,323	1,27,301	1,19,734	2,53,417	2,51,057



Sources: Reserve Bank of India; NPCI.

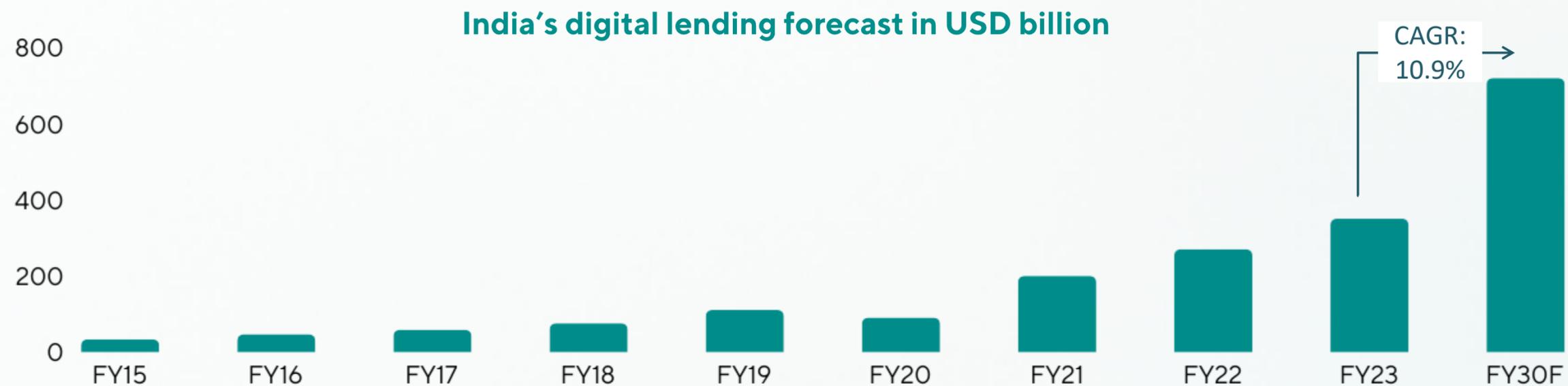
# India's digital lending is projected to exceed USD 720 billion by 2030

## Digital lending market overview

- India stands as the world's largest market for Android-based mobile lending apps, capturing around 82% of all online lenders globally.
- At a CAGR of ~11%, the digital consumer lending segment is projected to exceed USD 720 billion by 2030.
- Overall, the digital lending market has grown rapidly—from USD 270 billion in 2022 to USD 350 billion in 2023—and is forecasted to surpass USD 350 billion by 2025.
- By 2030, digital lending is expected to dominate 60% of India's fintech market, underscoring its pivotal role in the country's financial ecosystem.

## Economic impact

- Financial inclusion: Expands access to underserved populations, MSMEs, and rural households.
- Consumption growth: Fuels retail spending, housing demand, and e-commerce.
- MSME empowerment: Provides working capital and growth finance to small businesses.
- Job creation: Supports entrepreneurship and startup ecosystems.
- Fintech dominance: Consumer lending is becoming the backbone of India's fintech ecosystem, with startups leading innovation.
- Policy impact: Regulatory clarity will be crucial to balance growth with consumer protection.



Digital lending is reshaping credit distribution models. Banks, fintechs and NBFCs are jointly driving the next phase of credit growth

# Opportunities & Challenges



# Emerging opportunities

## Deposit franchise strengthening

High-quality, low-cost deposits remain the strategic fulcrum. Banks that blend trust, digital user experience, and localized acquisition can outpace peers on funding stability and cost of funds

## Targeted growth lending

Calibrated expansion in secured retail, SME supply-chain finance, and cash-flow-underwritten products can drive RoA without over-reliance on unsecured credit.

## Green finance

Project and transition finance, EV ecosystems, and sustainable infrastructure are opening new risk-weighted return opportunities and fee pools as climate-aligned capital deepens.

## Financial inclusion and rural scale

Deeper penetration via digital rails and partnerships expands deposits and credit origination, compounding data advantages for underwriting and collections.

## GIFT City and cross-border banking

Offshore booking, treasury, trade finance, and wealth management through GIFT City enable fee growth and global integration, leveraging regulatory tailwinds.

## Super-app partnerships

Embedding banking into commerce, mobility, and payments boosts engagement and cuts acquisition costs, following global super-app models tailored to India's UPI-rich ecosystem.

**India's banking sector accelerates growth through digital adoption, AI risk tools, and fintech partnerships embedding finance in daily life. Digital channels drive acquisition; AI cuts costs and boosts margins. Banks collaborate against neobanks amid cyber/fraud risks and NBFC competition.**



# Strategic priorities and investment opportunities for banks



## DIGITAL TRANSFORMATION & ECOSYSTEM PARTNERSHIPS

- Invest in AI-driven personalization, cloud-native cores, and embedded finance
- Collaborate with fintechs and super-apps to lower acquisition costs and expand reach



## STRENGTHENING COMPLIANCE & RISK MANAGEMENT

- Adopt RegTech for real-time monitoring and reporting
- Maintain strong capital buffers (CAR ~16–17%) and liquidity coverage ratios above regulatory thresholds



## DIVERSIFYING FUNDING & INCOME SOURCES

- Expand fee-based businesses (wealth, insurance, payments) to offset NIM compression
- Diversify funding sources beyond CASA to ensure stability



## CYBERSECURITY & TRUST BUILDING

- Invest in advanced cyber defense systems
- Build customer trust through transparency, resilience, and secure digital experiences



## RESILIENCE AGAINST GLOBAL SHOCKS

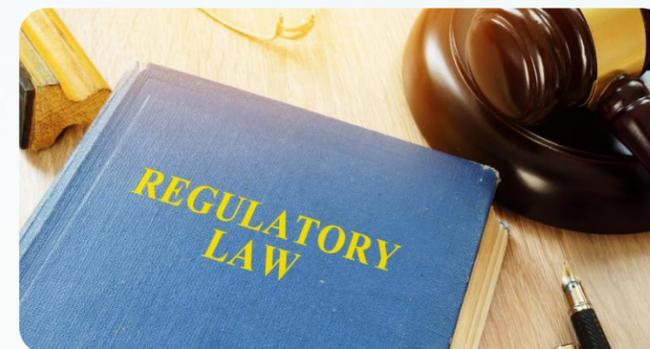
- Maintain high provision coverage (~80–85%) to absorb stress
- Strengthen treasury and risk management to mitigate external volatility

# Challenges ahead (competition, regulatory tightening, global shocks)



## INTENSIFYING COMPETITION

- Private banks, FinTech, and big-tech platforms expanding aggressively in retail, SME, and payments
- Customer expectations for seamless digital experiences raise the bar for incumbents



## REGULATORY TIGHTENING

- RBI strengthening supervision with Basel III/IV compliance, PCA refinements, and stricter digital lending norms
- Cybersecurity and consumer protection frameworks increasing compliance costs



## GLOBAL SHOCKS

- Private banks, FinTech, and big-tech platforms expanding aggressively in retail, SME, and payments
- Customer expectations for seamless digital experiences raise the bar for incumbents



## MARGIN PRESSURE

- Rising deposit costs compressing net interest margins (NIMs ~3.1% in FY25)
- CASA moderation as savers shift to higher-yield instruments



## CYBERSECURITY RISKS

- India contributes nearly half of the global digital transactions, increasing vulnerability to fraud and data breaches

A photograph of a paved road with a yellow dashed center line and white edge lines, curving through a dense forest. The scene is overlaid with a semi-transparent teal band. The text "Looking ahead" is centered in white on this band.

# Looking ahead

# The banking sector broadly stay firm on key metrics with minor near-term disruptions



## Profitability outlook

Moderation in profitability is expected due to continued net interest margin compression and slight increases in credit costs, potentially pulling down overall RoA in the 1.1%–1.3% range. RoE may also moderate slightly.



## Credit growth & business size

Credit growth is anticipated to stay firm (mid-teens percentage range), driven by retail, MSME, and services demand, supporting loan book expansion across banks.



## Competitive dynamics

Digital banking, fintech partnerships, and enhanced data analytics are expected to improve cross-sell and fee income, bolstering profitability. Mid-sized and private banks are expected to gain incremental market share from traditional PSBs



## Macro & risks

Interest rate cycles, economic slowdowns, or rising credit costs remain key risk factors that could influence margins and risk provisioning over the medium term.



## Capital raising

PSBs likely to continue tapping markets for growth capital, while private banks rely on retained earnings and selective issuance.



## Sector resilience

Funding strength and liquidity stability will remain the backbone of profitability and solvency through FY26 and beyond

Digital transformation: Continued expansion of fintech partnerships, UPI-based payments, and AI-driven lending will reshape customer engagement.

- **Credit growth stay firm:** Restoration of risk weights for NBFC lending (effective FY26) should support credit demand in services and retail segments.
- PSL guideline changes (FY26) will expand credit access to renewable energy, weaker sections, and UCBs, diversifying loan portfolios.

- **Liquidity & interest rate environment:** RBI's easing cycle (repo cut) signals a supportive stance for growth.
- Liquidity volatility may persist, but RBI's toolkit provides confidence in systemic stability.

- **Asset quality & capital buffers:** GNPA ratios expected to remain contained within stress test projections.
- CRAR expected to stay above 16%, ensuring strong solvency and supporting stable credit ratings.



- **Risks:** Global macro shocks, persistent liquidity tightness, or sharper-than-expected asset quality deterioration.

- **Credit rating view: Stable to positive outlook:**

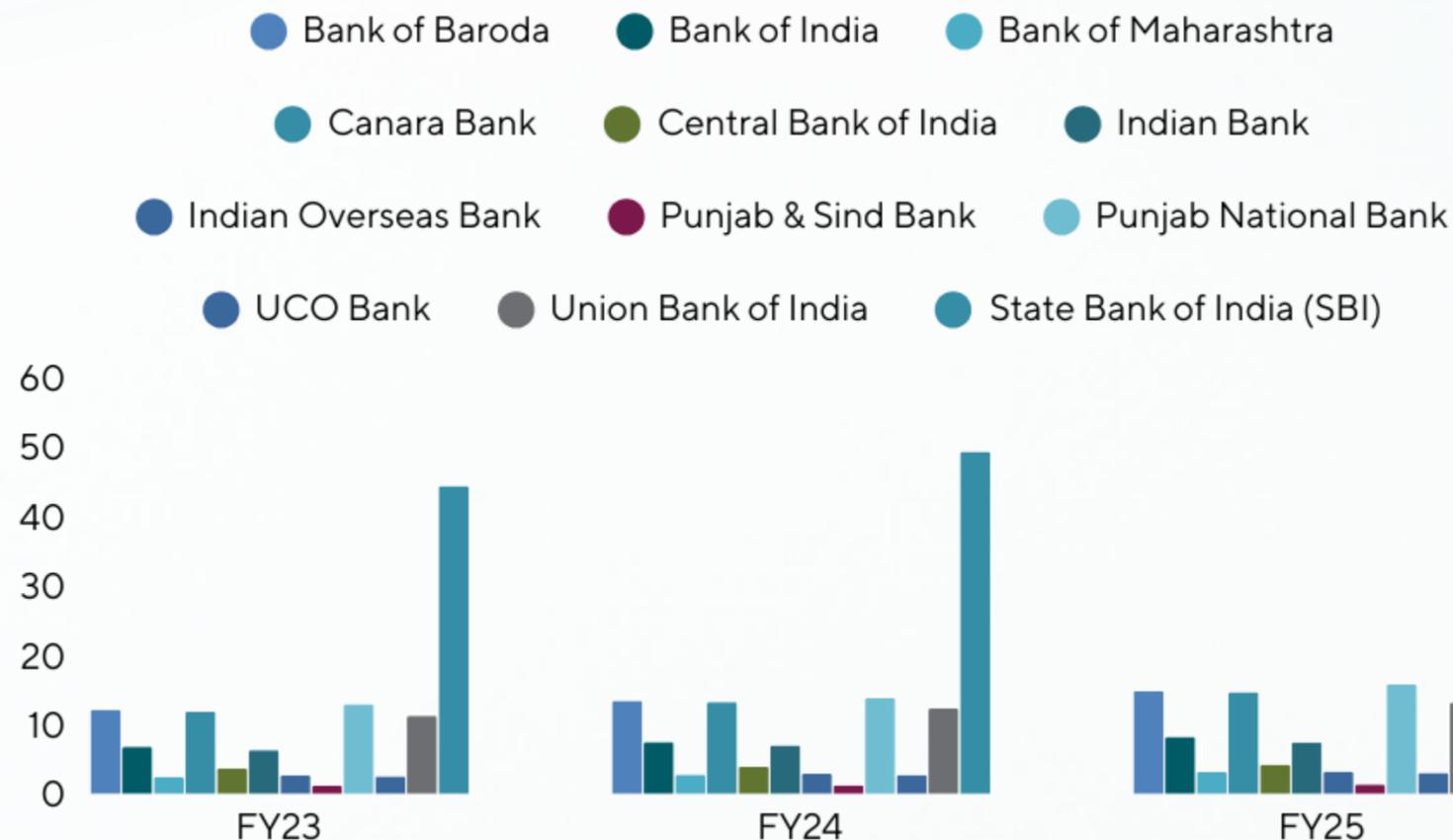
- Strong capital adequacy, profitability, and asset quality underpin resilience.
- Liquidity risks are mitigated by RBI's proactive measures.
- Regulatory reforms (risk weights, PSL) will support medium-term credit expansion.



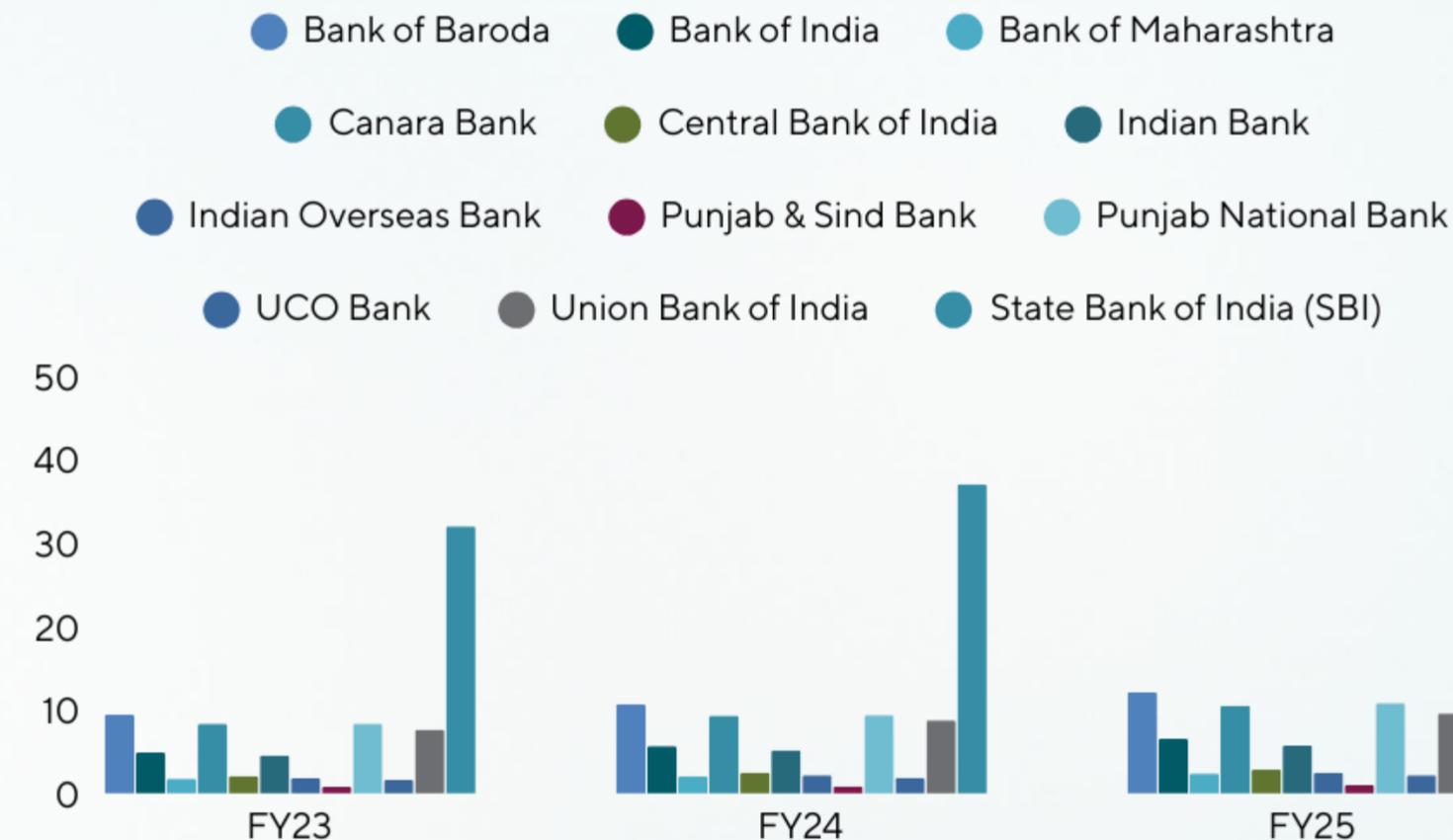
# Appendix

# Public sector banks continue to anchor deposit and credit growth within SCBs in FY25

Deposits trend- PSBs in INR trillion



Advances trend- PSBs in INR trillion



**Deposit momentum:**

- Leaders: Punjab National Bank (PNB) (14.4%), Bank of Maharashtra (13.5%), Canara Bank (11.0%), UCO Bank (11.6%), Bank of Baroda (BOB) (10.3%), Bank of India (BOI) (10.7%).
- Large anchors: SBI grows at 9.5%, aligning with system strong traction while preserving mix advantages typical of large franchises

**Advances momentum:**

- Leaders: UCO (18.2%), Central Bank (16.0%), BoM (17.9%), Punjab & Sind Bank (17.6%), IOB (15.1%), BOI (15.4%), PNB (15.3%) showing assertive credit expansion
- Scaled growth: SBI (12.4%), Canara bank (12.6%), BOB (13.5%) deliver robust yet balanced growth against deposit accretion

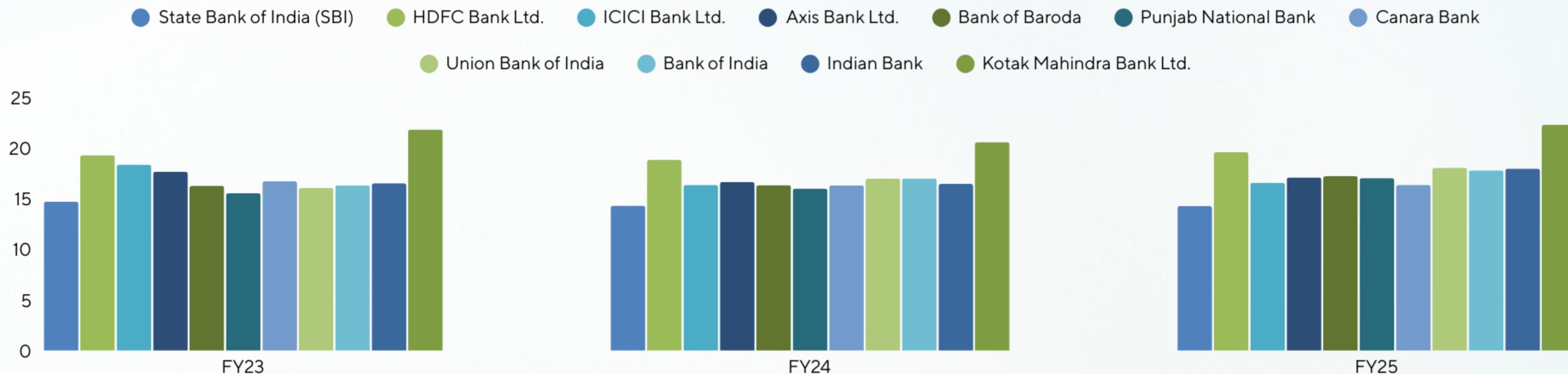
**Outlook:** PSBs deposit growth expected to remain high-single to low-double digit, broadly in line with nominal GDP growth. Credit growth for PSBs expected at 10-12%, driven by retail (housing, vehicle, gold loans) and MSME and infrastructure

Source: Indian Banks' Association (IBA)



# Capital adequacy ratio (%) by major banks

Capital adequacy ratio-Basel III [%]



Notes: Figures are as on March 31

- India's banking sector in 2025 exhibited varied Capital Adequacy Ratios (CAR) across major banks, with private sector banks generally outperforming public sector banks while all maintained levels well above the RBI's minimum of 11.5% (9% base plus 2.5% capital conservation buffer).
- Kotak Mahindra Bank and HDFC Bank continue to operate with significantly higher capital headroom, reflecting conservative balance sheet strategies and strong internal accruals. PNB, Union Bank, Bank of India, and Indian Bank recorded meaningful CAR expansion in FY25, driven by lower incremental NPAs, improved profitability and internal capital generation and selective capital raising
- Outlook remains positive with CAR expected to stay robust through 2026-27, reflecting continued internal capital generation supported by profitability and asset quality improvements. Private banks sustain higher levels; PSBs benefit from improved profitability and government support if needed.
- Looking ahead to 2027-2030, RBI's Basel III reforms, improved capital efficiency frameworks, and robust profit retention are set to enhance capital quality and sustain CAR levels, ensuring banks remain well-buffered against future risks while supporting continued growth.

# Bank-wise gross and net NPAs

Banks	Gross NPA (INR billion) (As on March 31)			Net NPA (INR billion) (As on March 31)			Net NPA as % to Net Advances		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
State Bank of India (SBI)	909	843	769	215	211	197	0.67	0.57	0.47
HDFC Bank Ltd.	180	312	352	44	81	113	0.27	0.33	0.43
ICICI Bank Ltd.	312	280	242	52	54	56	0.48	0.42	0.39
Punjab National Bank	773	563	441	226	68	43	2.72	0.73	0.40
Bank of Baroda	368	318	278	84	72	70	0.89	0.68	0.58
Axis Bank Ltd.	186	151	145	36	32	37	0.39	0.31	0.33
Canara Bank	462	406	315	143	118	74	1.73	1.27	0.70
Union Bank of India	610	431	354	129	90	60	1.70	1.03	0.63
Bank of India	377	292	217	81	68	54	1.66	1.22	0.82
Kotak Mahindra Bank Ltd.	58	53	61	12	13	13	0.37	0.34	0.31

- State Bank of India (SBI) and Bank of India (BOI) showed notable recoveries, with decreasing net NPAs strongly correlating with rising profitability and Return on Assets (ROA). The reduction in NPAs was aided by government and Reserve Bank of India interventions, improved asset recovery, and better risk management. Private Sector Banks (PVBs) generally maintained lower NPA levels than PSBs
- HDFC Bank consistently maintained one of the lowest NPA ratios among major banks, reflecting disciplined asset quality management, though with some fluctuations linked to growth. ICICI Bank experienced fluctuations but showed strong recent recovery in NPA management. Axis Bank had experienced moderate GNPA levels but showed efforts toward NPA reduction by 2025
- The consistent fall in NPA over the years points to stronger risk management, better underwriting practices, and enhanced provisioning buffers - contributing to structural improvement in asset quality

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