
asset 360NE
panorama
January 2026

Key Insights:

Banking sector asset quality continues to improve, but pockets of stress remain

- The banking sector's GNPA ratio declined marginally to 2.2% in Sep'25 from 2.3% in Mar'25
- Asset quality outlook has improved, with the Mar'27 GNPA ratio projected to be lower than earlier estimates
- Despite broad asset quality improvement, PSBs remain stressed in credit cards and PVBs in vehicle/auto loans
- MSME sector shows improved asset quality, with tariff-exposed sectors demonstrating resilience
- Microfinance credit shrinks amid asset quality concerns, though asset quality shows signs of improvement
- Unsecured credit remains a concern, with small-ticket fintech-originated loans showing higher impairment
- Overall, financial sector balance sheets remain healthy, supporting a recovery in credit growth
- The MSME sector leads the rebound in credit growth, supported by NBFCs and vehicle loans

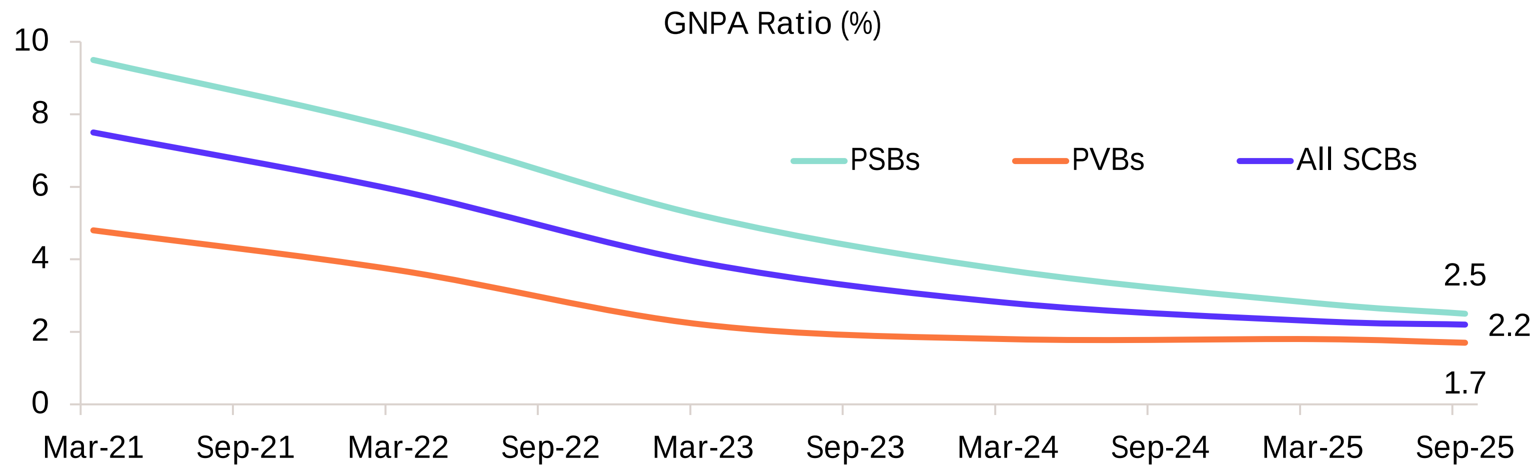
Midcaps lead earnings growth and upgrades; DII flows support the market amid heavy supply

- Midcap earnings growth improved steadily over the past year, while smallcap growth moderated in H1FY26
- Midcaps recorded marginal FY26 earnings upgrades post the Sep results, while smallcaps saw downgrades
- Metals, PSU banks, Real Estate and Auto sectors witness earnings upgrades for FY27
- Nifty earnings estimates have typically been revised downward as the end of each fiscal year approaches
- The FY26/27E earnings trajectory is now normalising, unlike the unusual resilience seen during FY22-24
- Consensus expects earnings growth to improve to 15% in FY27 from 9% in FY26
- Robust DII flows have supported equity markets in the face of FII selling and heavy supply

Financial Stability

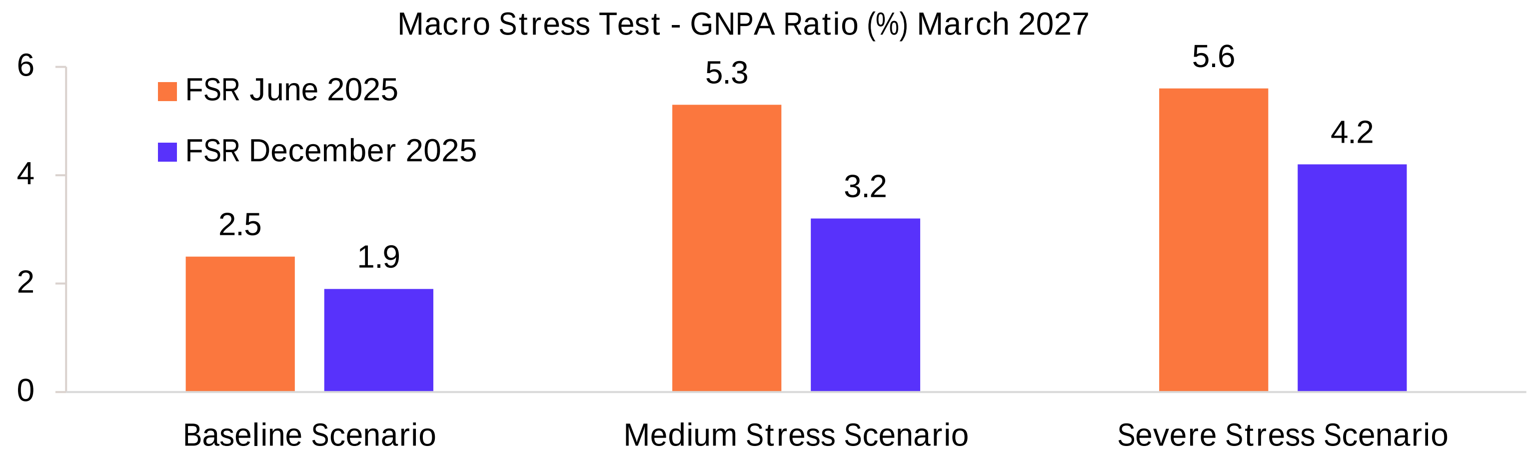
Banking sector asset quality continues to improve, led by PSBs

Asset quality outlook has improved, with the Mar'27 GNPA ratio projected to be lower than earlier estimates



The banking sector's GNPA ratio declined marginally to 2.2% in Sep'25 from 2.3% in Mar'25

Public sector **banks'** (PSBs) GNPA ratio declined to 2.5% from 2.8%, while private sector **banks'** (PVBs) GNPA ratio declined to 1.7% from 1.8% over the same period



RBI macro stress tests project the March 2027 GNPA ratio at 1.9% (baseline scenario) in the Dec'25 Financial Stability Report (FSR), significantly lower than the 2.5% projected in the Jun'25 FSR

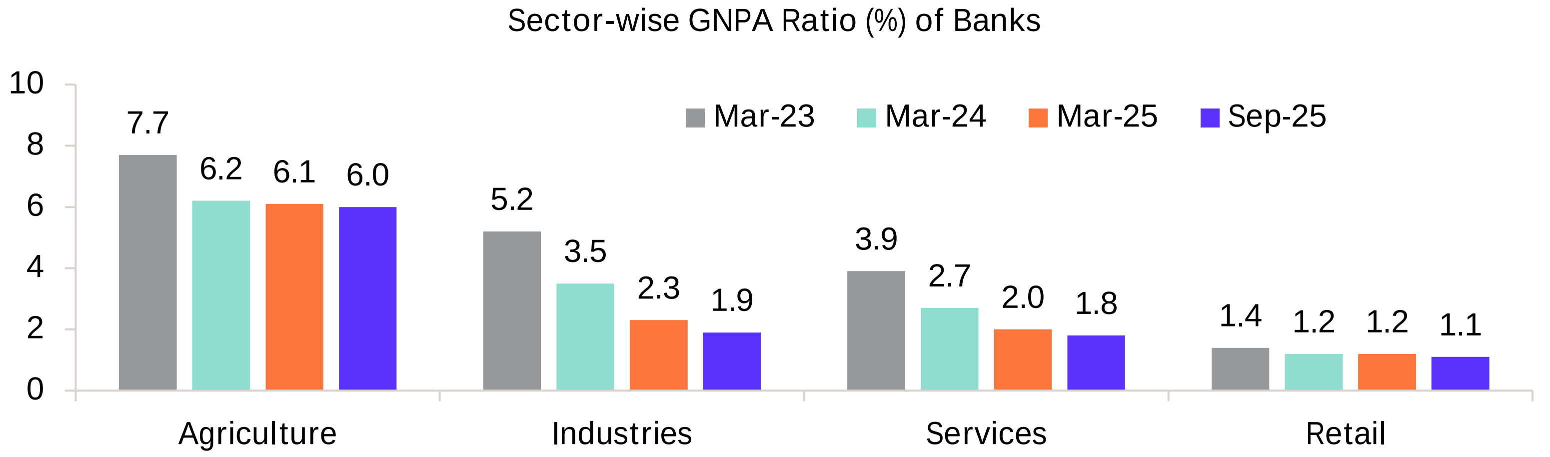
Similarly, the projected GNPA ratios under medium and severe-stress scenarios are also lower in the latest stress tests

Source: RBI, 360 ONE Asset Research

Note: The GNPA ratio, measured as gross non-performing assets as a percentage of gross advances, is an indicator of asset quality

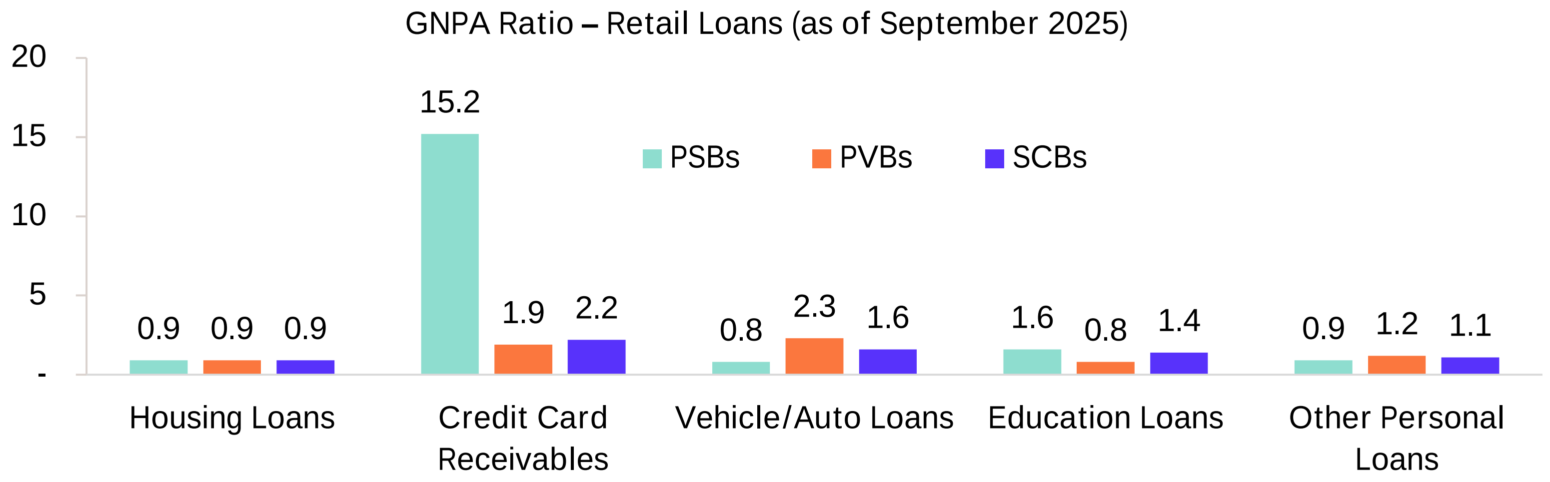
Broad-based improvement in asset quality across sectors

PSBs continue to face elevated stress in their credit card portfolios, while PVBs face higher stress in vehicle/auto loans



The GNPA ratio shows an improvement in asset quality across all sectors

However, the agriculture sector continues to exhibit a significantly higher GNPA ratio at 6.0%



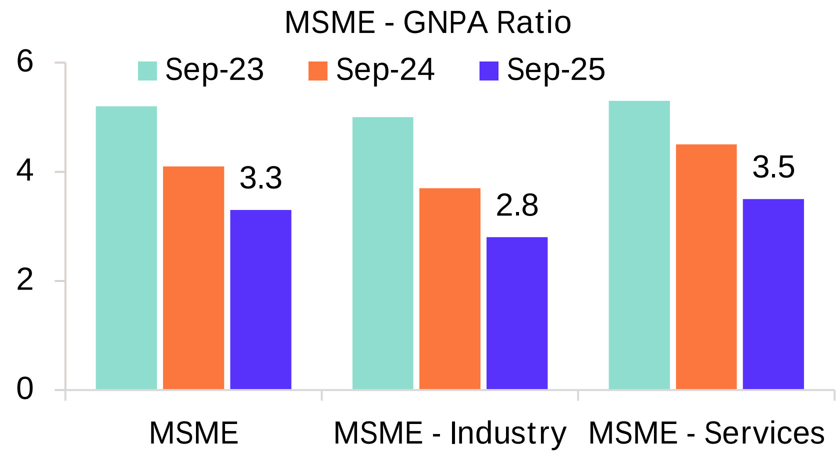
Within the retail loans category, PSBs' credit card receivables face elevated stress

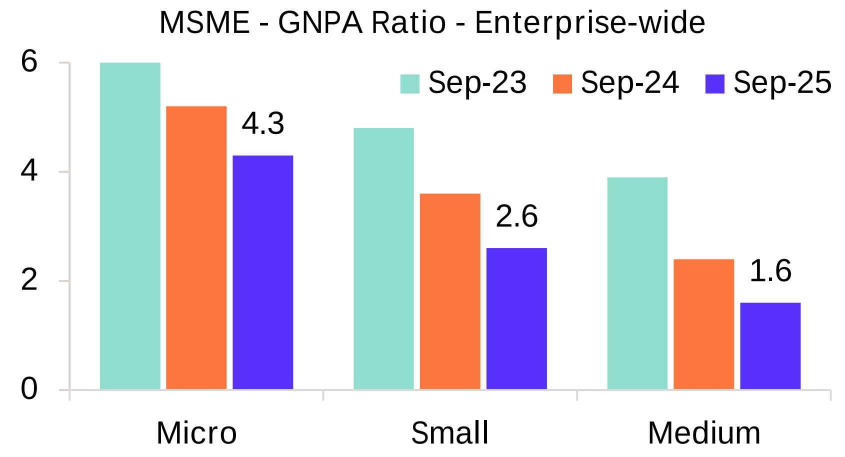
Meanwhile, for PVBs, the GNPA ratio for auto loans is on an uptrend

Source: RBI, 360 ONE Asset Research

MSME sector also reports continuous improvement in asset quality

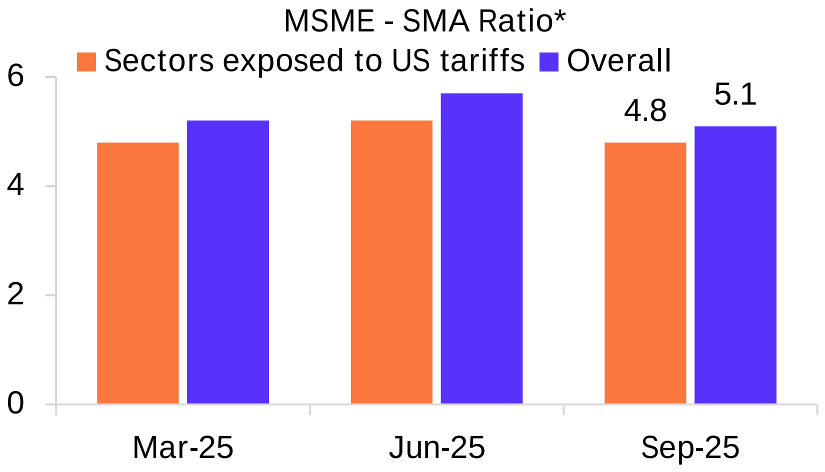
Sectors exposed to US tariffs have not reported increased stress so far, although their GNPA ratios remain elevated

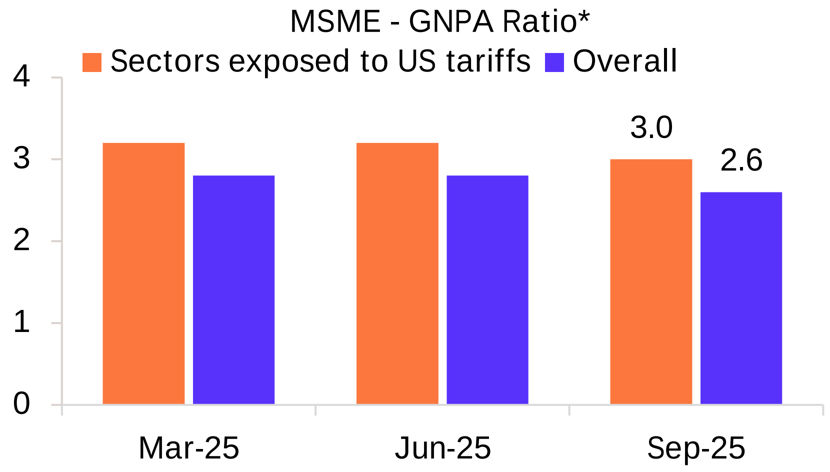




MSME sector reported further improvement in asset quality with the GNPA ratio declining from 5.2% in Sep’23 to 3.3% in Sep’25

The improvement is seen across segemnts, even though the default rate for micro enterprises remained elevated





Sectors exposed to US tariffs account for 12.6% of total MSME credit, with textile advances comprising 44% of this exposed credit

MSME sectors exposed to US tariffs have shown resilience, with SMA ratios remaining stable

Although GNPA ratios are higher than the overall segment, there has been no increase so far following the tariff implementation

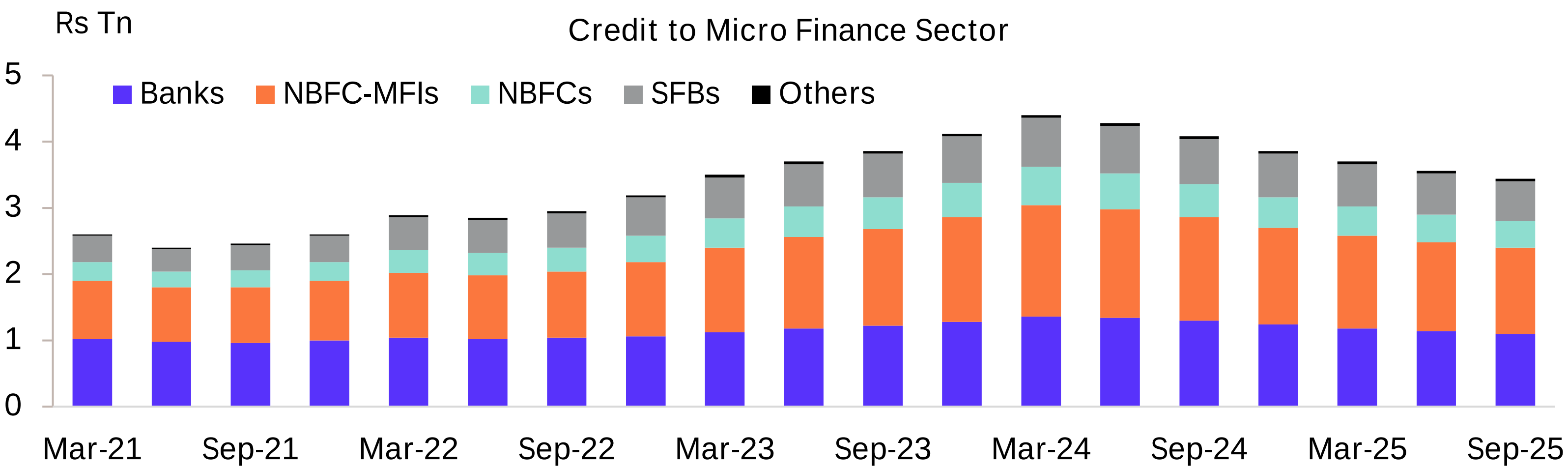
Special Mention Accounts (SMAs) are loan accounts showing early signs of repayment stress, flagged by lenders as a warning before they become Non-Performing Assets

Source: RBI, 360 ONE Asset Research

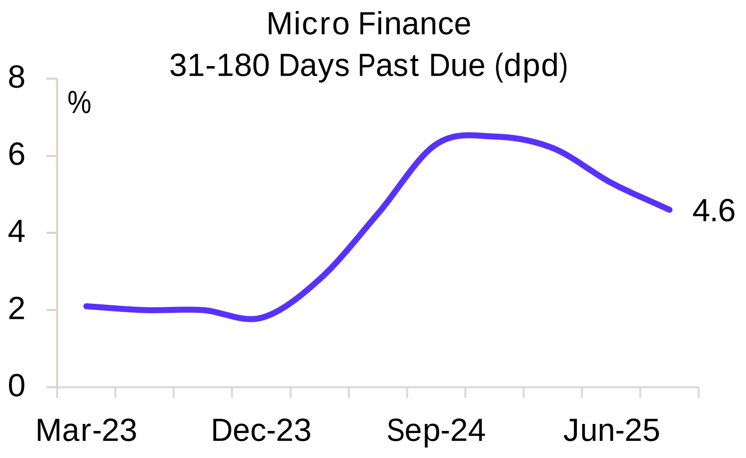
Note: *Survey of select banks; and RBI staff estimates. Data are approximate.

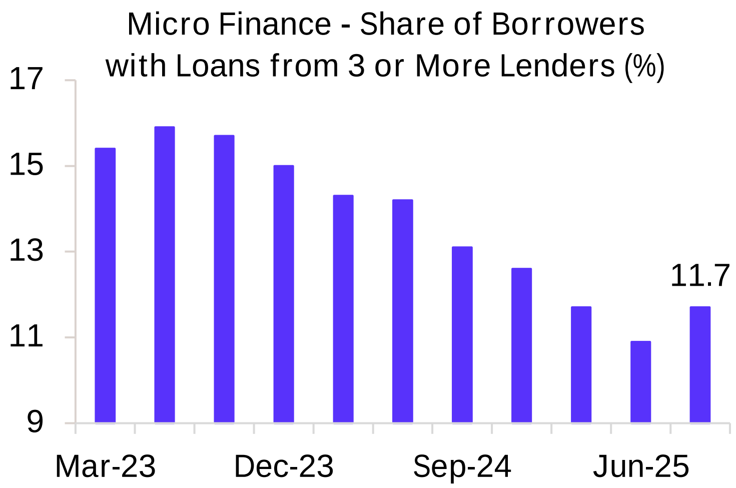
Credit to microfinance sector declining on asset quality concerns

Asset quality shows improvement, though some stress persists



Credit to the microfinance sector declined for the sixth consecutive quarter in Sep'25 because of asset quality concerns





Microfinance sector asset quality is showing signs of improvement, with the share of stressed assets declining over three successive quarters

Borrower indebtedness, measured by the share of borrowers availing loans from three or more lenders, rose marginally in Sep'25 after declining consistently over the last two years

Source: RBI, 360 ONE Asset Research

Note: Data are approximate

Asset quality of unsecured credit remains a concern

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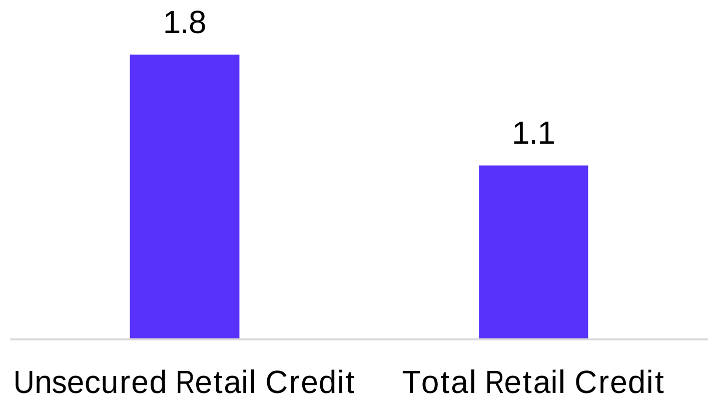
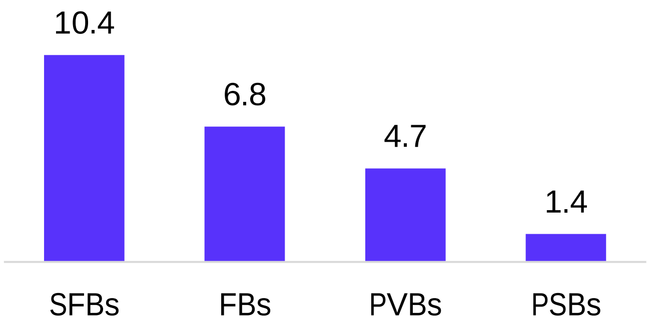
Small-ticket loans exhibit higher impairment, particularly those originated by fintech firms

GNPA Ratio - **Bank Retail Credit (Sep'25)**



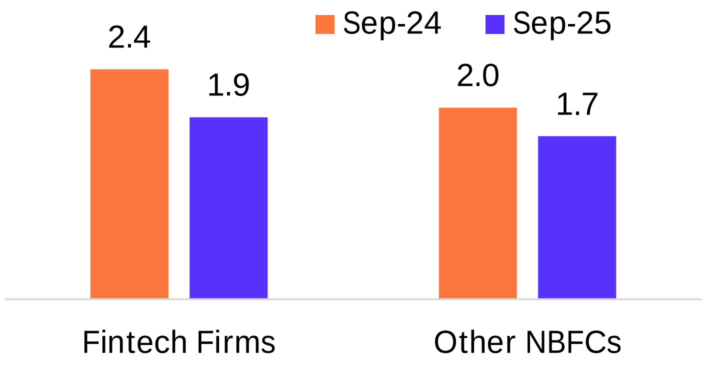
Unsecured Retail Bank Lending
- **Slippage Ratio Annualised (Sep'25)**



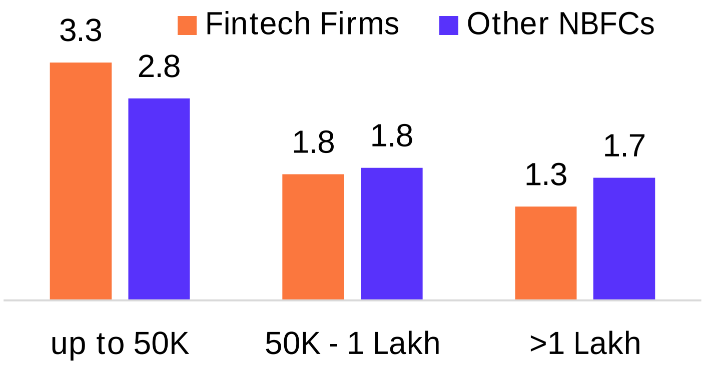
The GNPA ratio for unsecured retail credit is higher at 1.8%, compared with 1.1% for overall retail advances

Slippages in unsecured retail credit remain elevated for small finance banks, foreign banks and private sector banks

Unsecured Personal Loans -
91-180 Days Past Due



Unsecured Personal Loans -
91-180 Days Past Due (Sep'25)



Fintech firms now account for 8.9% of total NBFC consumer segment loans

Impairment (91–180 days past due) in fintech firms' personal loan portfolios has declined over the past year, as credit has expanded rapidly

However, the impairment remains higher for smaller (i.e., less than Rs 50,000) ticket-size loans

Source: RBI, 360 ONE Asset Research

Note: SFB – Small Finance Banks, FBs – Foreign Banks; Fintech firms are NBFCs which have digital lending as their core strategic focus

Healthy financial sector balance sheets to support credit growth

Credit growth is showing signs of recovery, enabled by monetary and regulatory policy easing

Rs Bn	Outstanding (as of Nov 28, 2025)	Financial Year to Date (till November 28, 2025)			
		2025-26		2024-25	
		Δ	YoY (%)	Δ	YoY (%)
Total Credit	1,94,475	12,401	11.4%	10,486	10.6%
Industry	42,194	2,338	9.6%	1,688	8.3%
Micro & Small	9,523	1,538	24.6%	314	10.2%
Medium	3,971	339	15.7%	367	20.0%
Large	28,700	461	4.6%	1,007	6.4%
Services	53,596	2,661	11.7%	2,512	12.8%
Trade	12,308	462	14.2%	537	14.4%
NBFCs	17,235	884	9.5%	516	7.5%
Retail Credit	64,864	5,147	12.8%	4,056	13.4%
Housing	31,953	1,849	9.9%	1,900	12.2%
Personal Loans & LAP	16,262	910	8.9%	660	11.2%
Vehicle Loans	6,805	577	12.4%	322	10.3%
Agri & Allied Activities	24,171	1,300	8.7%	1,522	15.3%

Overall, financial sector balance sheets remain healthy, with only limited pockets of stress

These robust balance sheets provide a strong foundation for a recovery in credit growth

Bank credit growth now appears to have bottomed out, aided by monetary and regulatory easing by the RBI

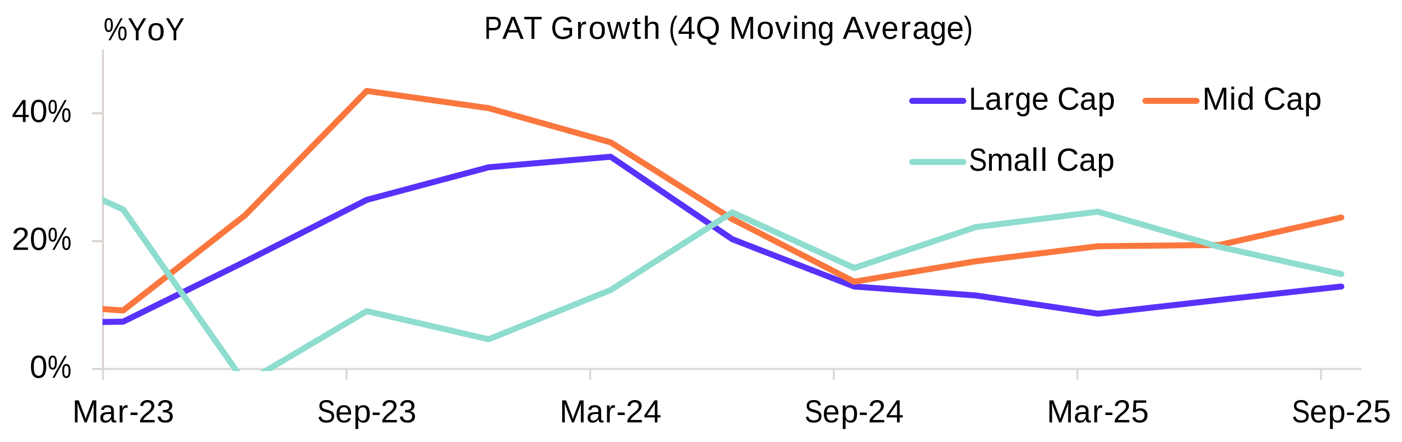
The MSME sector has led the rebound in credit growth over the past year, supported by NBFCs and vehicle loans

Source: RBI, 360 ONE Asset Research

Equity Markets – Key Trends

Mid-caps post healthy earnings growth, while small-cap growth moderates

Midcaps record marginal FY26 earnings upgrades post the Sep results, while smallcaps witness downgrades

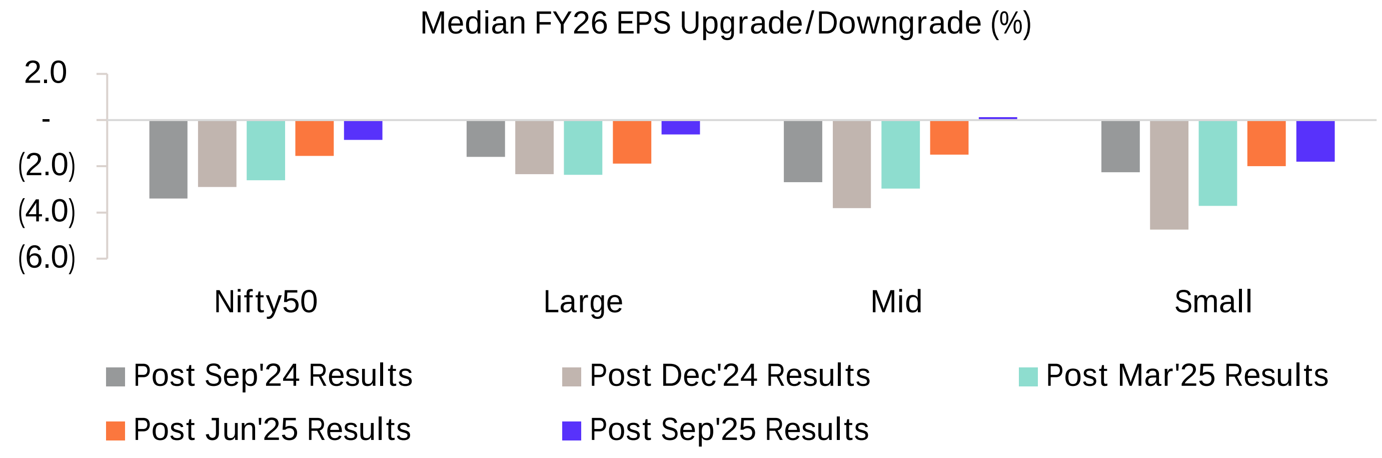


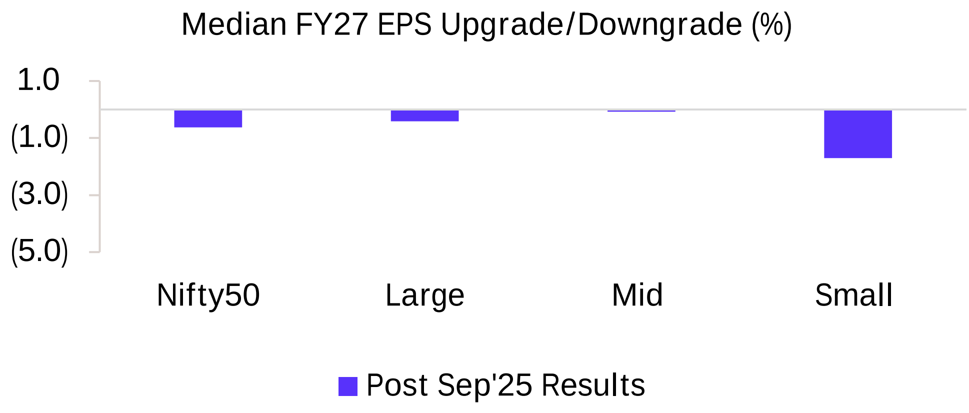
Midcaps have reported continuous improvement in earnings growth over the past year, while small-cap earnings growth has moderated in H1FY26

Large-cap earnings growth has remained broadly stable

Earnings downgrades continue at a slower pace, with midcaps witnessing upgrades for FY26 post the September quarter results

Weakness in small-cap earnings is also reflected in sharper earnings downgrades

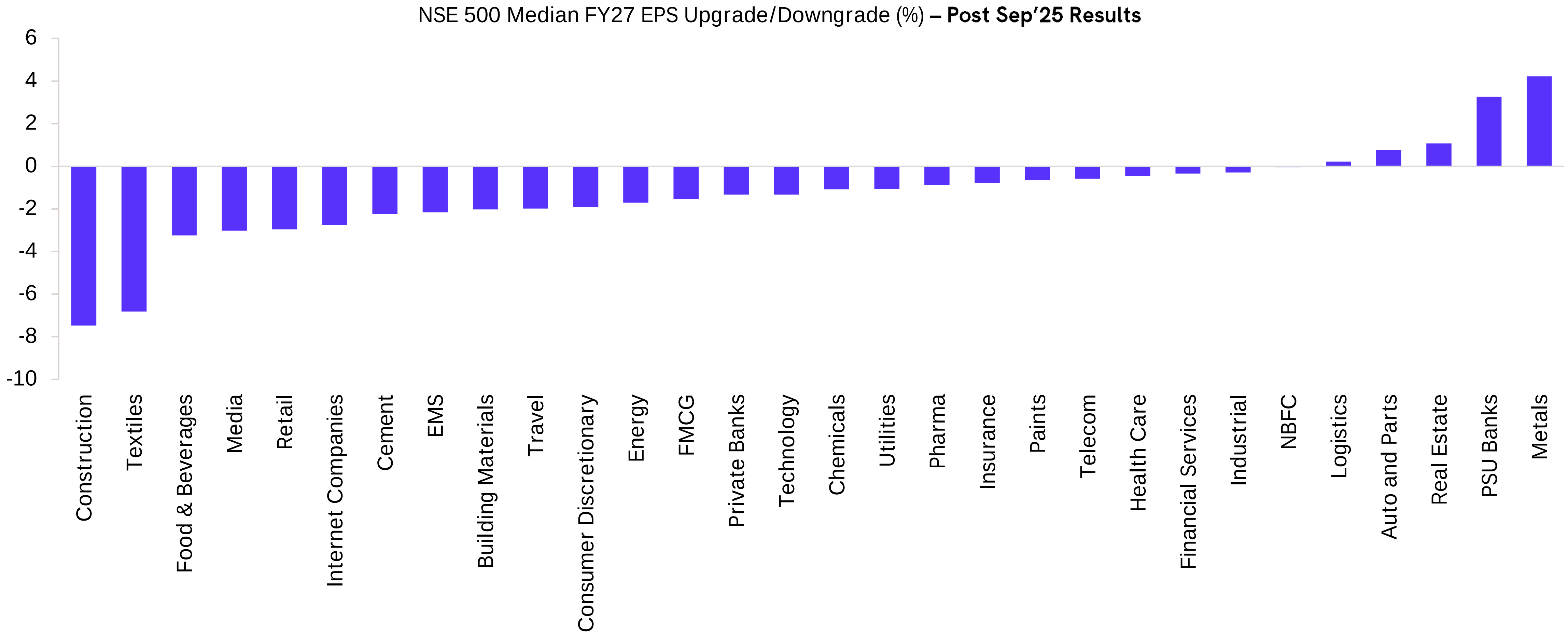




Source: ACE Equity, IIFL Capital – Institutional Equities, 360 ONE Asset Research

Metals, PSU banks, Real Estate and Auto sectors witness upgrades

Construction, Textiles, Food & Beverages, Media, and Retail witness sharper downgrades

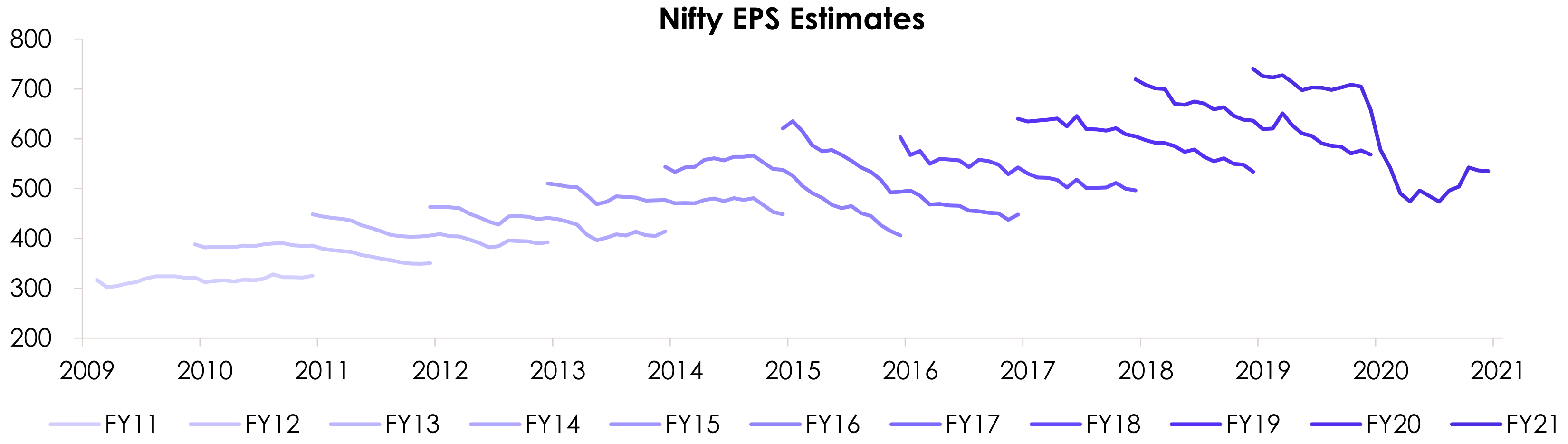


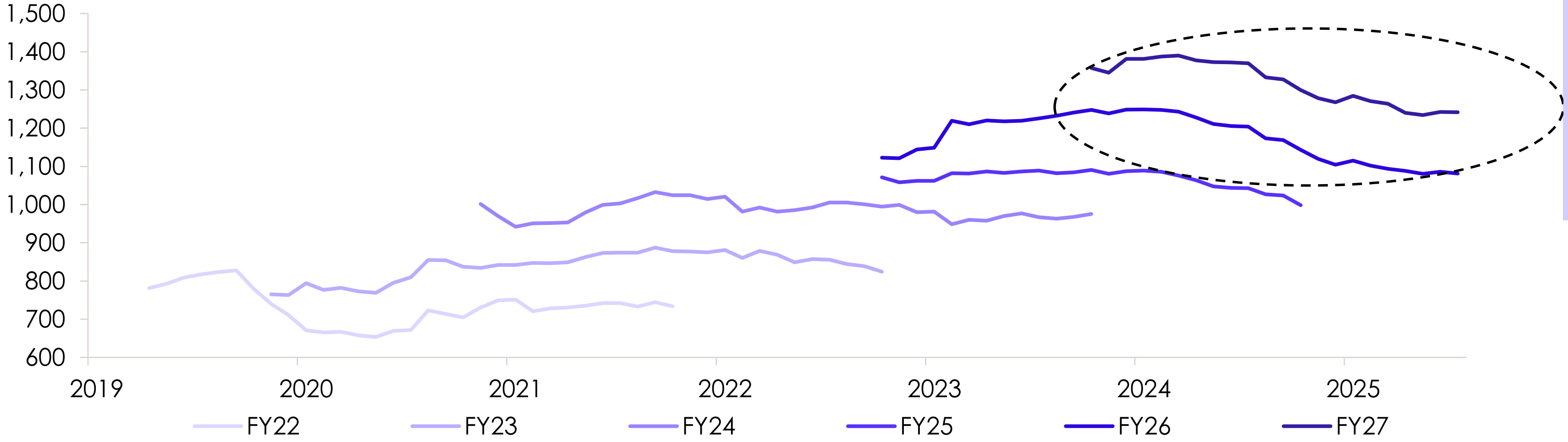
Source: IIFL Capital – Institutional Equities, 360 ONE Asset Research

The data/statistics are given to explain general market trends and it should not be construed as any research report/research recommendation of 360 ONE MF. Fund may or may not have any future position in mentioned sectors.

Earnings downgrades are the norm, not the exception

FY26/27 estimates returning to the historical pattern after an unusual FY22-24





Since FY12, Nifty earnings estimates have typically been revised downward as the end of each fiscal year approaches

However, FY22 and FY24 saw minimal cuts, while FY23 witnessed upgrades

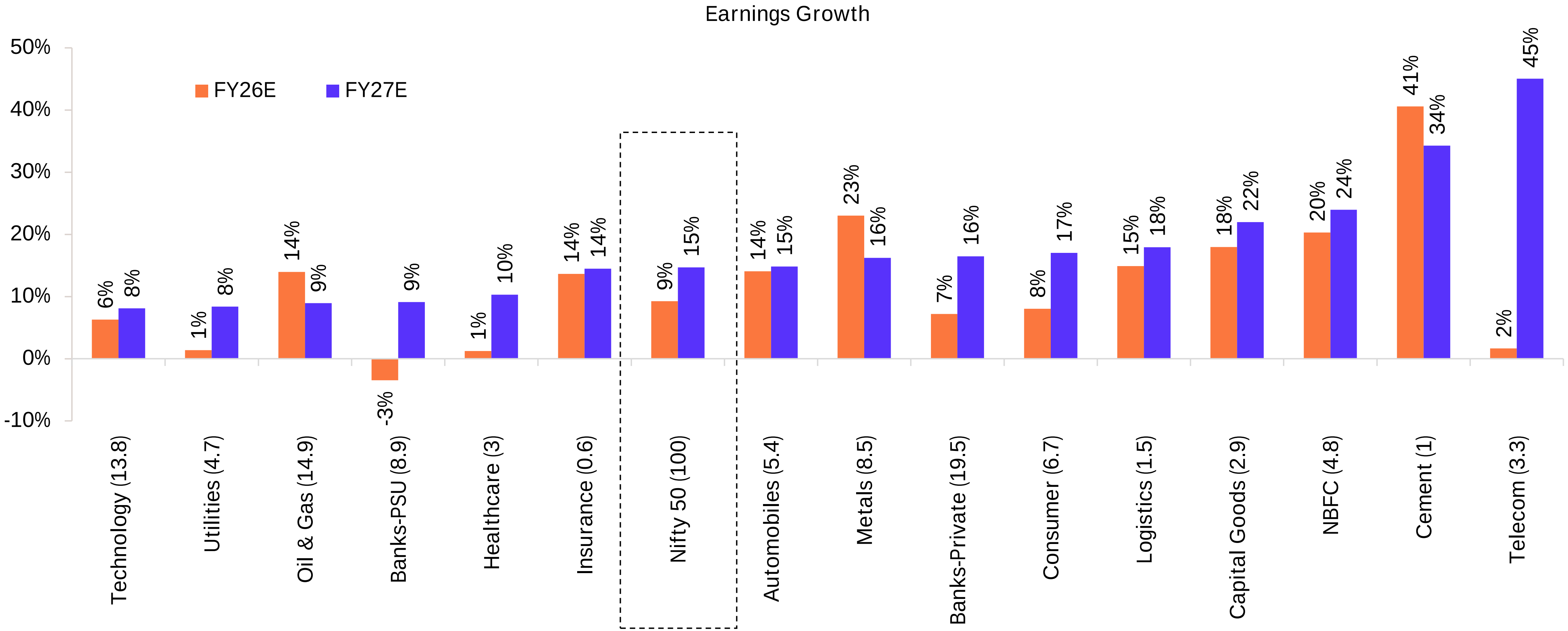
Earnings downgrades resumed in FY25, and the earlier optimism around FY26 and FY27 EPS growth is losing momentum

The FY26/27E earnings trajectory is now normalising, unlike the unusual resilience seen during FY22-24

Source: Ambit Research

Consensus expects earnings growth to improve in FY27

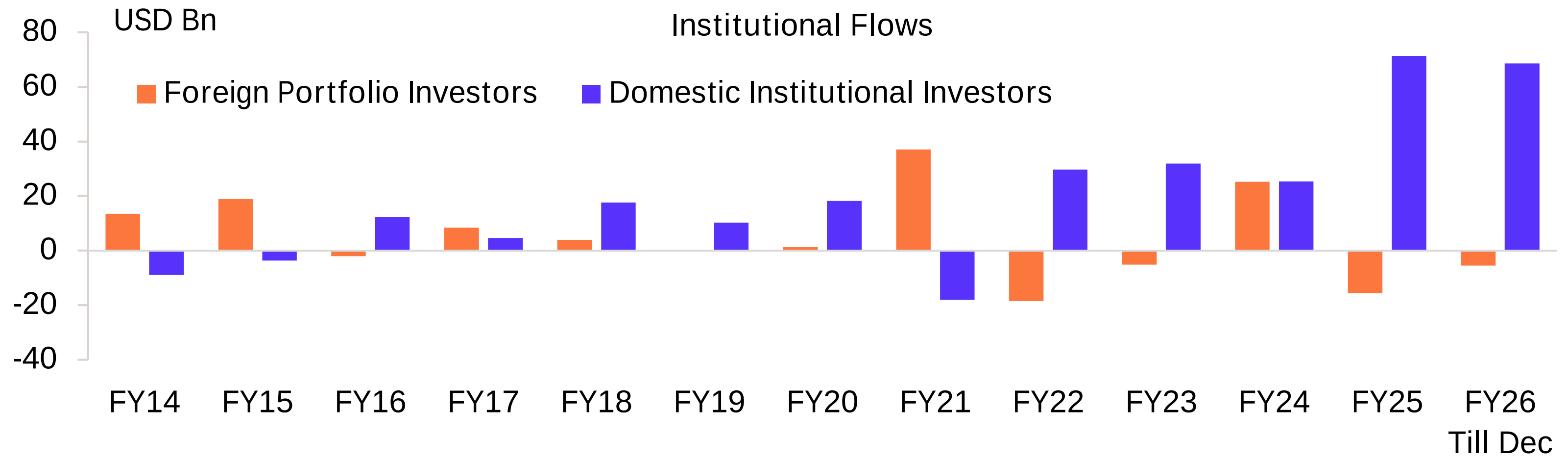
Banks, consumer and healthcare sectors are expected to report a strong recovery in earnings growth



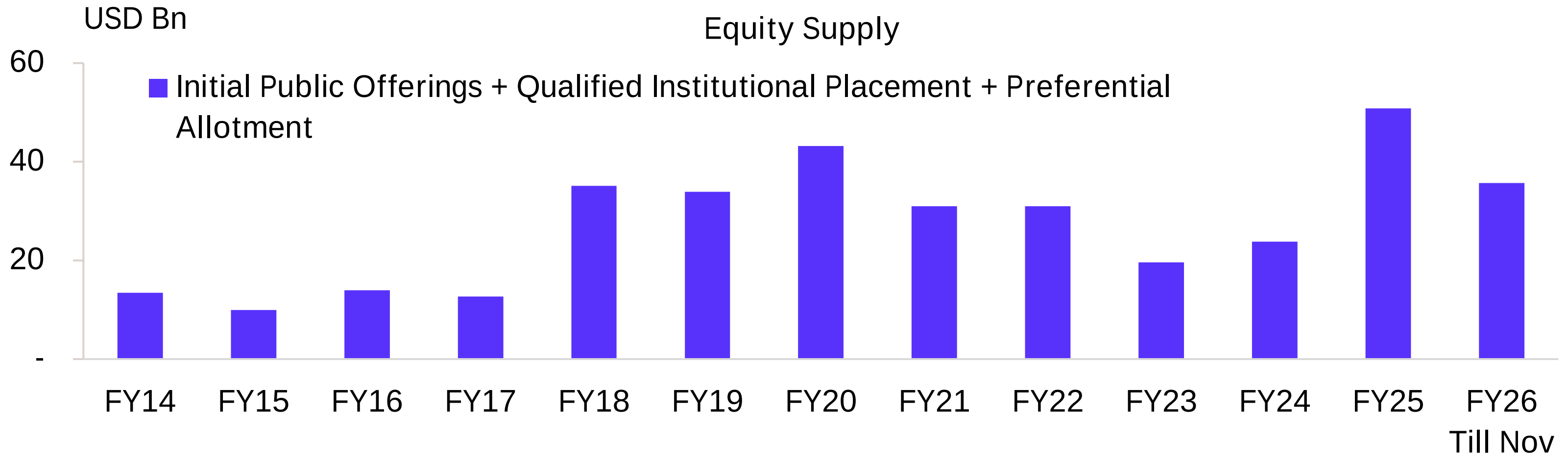
Source: Avendus Spark, 360 ONE Asset Research
Note: Figures in parentheses indicate the share of the profit pool in FY26. E – Estimates. The consumer sector includes FMCG, paints, retail and beverages. The above analysis excludes two Nifty 50 companies
The data/statistics are given to explain general market trends and it should not be construed as any research report/research recommendation of 360 ONE MF. Fund may or may not have any future position in mentioned sectors.

Robust DII Flows have supported the equity markets

Equity supply has been heavy on account of Initial Public Offerings (IPOs)



Domestic Institutional Investors (DIIs) have supported the markets even as Foreign Institutional Investors (FIIs) have been net sellers



The supply has also been heavy, largely driven by a surge in initial public offerings

Qualified Institutional Placements and Preferential Allotments have also been higher over the past two years

Source: CMIE, SEBI, 360 ONE Asset Research

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