

## Q3FY26: SETTING THE DIRECTION FOR EARNING GROWTH

**Q3FY26 earnings season unfolded against a relatively more stable macro and policy backdrop, marked by a confluence of supportive domestic factors and lingering global uncertainties. The quarter was shaped by (1) festive-led demand recovery across discretionary and consumption-linked sectors, (2) improved liquidity conditions driven by system-level liquidity infusion and expectations of monetary easing, (3) softer inflation with moderation in commodity prices, especially crude oil and steel (excluding precious and base metals) and key industrial inputs, and (4) Surge in IPO pipeline, alongside a divergence in equity flows with DIs providing support amid intermittent FI volatility. Against this backdrop, earnings improvement is expected to be selective rather than broad-based. BFSI, FMCG, and Consumer Discretionary (notably autos) are likely to report relatively stronger performance, driven by improved demand traction, stable asset quality, and operating leverage benefits. IT Services and Real Estate may see moderate growth, constrained by cautious client spending and project execution timelines. Meanwhile, certain pockets of the pharmaceutical sector could face pressure due to pricing challenges, regulatory issues, and a high base in specific markets. We forecast Nifty to deliver Revenue/EBITDA/PAT growth of 11.8%/9.7%/3.7% YoY, respectively, for the quarter.**

**Indian Economy on the Verge of Cyclical Recovery; however, Global Challenges Likely to Persist:** Despite external risks, India's domestic growth trajectory remains intact, with key macroeconomic factors supporting a stronger FY26 compared to FY25. Both the RBI and the government are providing support by front-loading all pro-growth fiscal and monetary measures to the Indian economy. These

developments collectively indicate that our economy is at an inflexion point and will gain benefits in the second half and onwards. All these factors indicate an even better FY27 vs FY26. As we enter CY26, Indian equity markets are transitioning from consolidation to one increasingly driven by earnings visibility, valuation comfort, fiscal discipline, and growth sustainability. However, a key overhang for markets over the past year has been India-US trade and tariff-related uncertainty, which temporarily weighed on export-oriented sectors and foreign investor sentiment. Nonetheless, recent developments indicate progress toward resolution and normalization, reducing tail risks and improving visibility for India's external trade outlook.

Risk-reward dynamics are gradually turning favourable for midcap and smallcap stocks, supported by improving earnings visibility, easing domestic liquidity conditions, and a relatively stable macro backdrop. However, the recovery is expected to be slow and incremental through CY26, rather than a sharp, broad-based re-rating, as earnings delivery remains uneven across sectors.

We believe the market needs to navigate the next few months of earnings outcomes and macro cues before a more durable growth trend can emerge. In the interim, Q3FY26 results are likely to reinforce a phase of consolidation, with selective stock- and sector-specific opportunities rather than a broad market up move. Market breadth is therefore expected to remain narrow in the near term, favouring companies with strong balance sheets, visible earnings momentum, and pricing power. Overall, while downside risks appear increasingly contained, a clear directional shift in market growth is likely only once earnings momentum broadens and sustains, potentially setting the stage for a healthier expansion in the latter part of CY26.

**Key Highlights for Q3FY26:**

**A Quarter to look forward to for Financials:** We expect banks under our coverage to deliver ~12.4% YoY credit growth, in line with industry growth. We believe management optimism around growth continuing and improving further would dominate the discussion in Q3. While the impact of the latest 25bps rate cut would be visible, we expect steady NIM trends, with margins finding support from the CRR cut and TD repricing. The asset quality outlook appears to be turning favourable gradually, especially in the unsecured portfolios. Overall, for NBFCs under our coverage, we expect disbursement momentum to improve, driven by GST rate rationalisation, rural demand buoyancy, and festive demand. This is likely to drive AUM growth of 20%/5% YoY/QoQ for our coverage universe NBFCs.

**Demand Resilient, though Pricing Weak Sequentially in Cement:** Cement demand in Q3FY26 is expected to record 11% YoY growth for our coverage universe, driven by stronger infrastructure activity and affordable housing demand. Rural demand is likely to outperform urban markets, supported by above-average monsoon conditions and wage growth, while sustained infrastructure spending continues to underpin overall volumes.

**Volume-led Growth and Margin Expansion Drive Earnings Momentum in the Auto sector:** The Auto sector is expected to report a healthy earnings trajectory in Q3, supported by the GST rate cut, stable commodity inflation, and favourable regulatory norms. Revenue/EBITDA/PAT for OEMs under coverage are expected to grow by ~26%/30%/28% YoY, driven by high single-digit industry volume growth across 2Ws/PVs/CVs and mid-teens growth in the tractor segment. Auto Ancillaries are also expected to post healthy YoY growth, with Revenue/EBITDA rising ~17%/21%, aided by volume growth in key segments, premiumisation, and the GST cut.

**IT Sector to report Moderate Growth, Recovery ahead:** The IT Services sector is anticipated to report moderate growth in Q3FY26, primarily due to a lack of improvement in demand, steady deal pipeline, and some uncertainties in macroeconomic conditions such as trump tariffs and trade war. Industries such as BFSI, Hi-tech, and healthcare services are likely to continue their sequential growth, while Manufacturing, Retail, and other verticals are expected show moderate growth. We believe that steady growth in these verticals and deal ramp-up will continue to offset some amount of seasonality headwinds at the broader level in this quarter.

**EBITDA moderation QoQ likely across Steel and Aluminum names:** In Q3FY26, Steel and Aluminum prices showed divergence. While Aluminum prices rallied and grew by 10%/8% YoY/QoQ, steel prices declined by 1.5%/5% YoY/QoQ. The rally in aluminium prices was driven by supply constraints and a favorable macro backdrop amidst Fed rate cuts in the US. The gains from the strong pricing momentum, however, will be offset by company-specific issues such as fire at Hindalco Novelli's Oswego operations and lower Alumina prices and volumes at NALCO, which will lead to sequential EBITDA decline for both companies. For steel companies under our coverage, margins will contract due to lower steel price realisations and higher coking coal consumption costs, partly offset by higher steel sales volumes.

**OUR TOP 9 "TRADING BUYS" Earnings Play:** IDFC First Bank, Shriram Finance Ltd, Bajaj Auto, Sansera Engineering Ltd, UltraTech cement, Navin Flourine, Coforge, Biocon, Astral, Kalpataru Projects International Ltd.

**Note:** \*Returns expectations: 5-10%. Recommendations given in this report may differ from our long-term stock recommendations, which are based on a one-year target.

## Quarterly Preview for Nifty 50 – Q3FY26

Sector	Revenue					EBITDA					PAT				
	Q3FY26E	Q2FY26	QoQ%	Q3FY25	YoY%	Q3FY26E	Q2FY26	QoQ%	Q3FY25	YoY%	Q3FY26E	Q2FY26	QoQ%	Q3FY25	YoY%
Auto & Auto Ancillary	1,11,103	96,347	15.3%	86,745	28.1%	16,658	13,764	21.0%	12,743	30.7%	12,624	11,501	9.8%	9,654	30.8%
Banks	1,20,664	1,17,116	3.0%	1,13,275	6.5%	90,400	88,211	2.5%	81,148	11.4%	57,748	59,503	-2.9%	55,023	5.0%
Consumer Disc	35,838	29,772	20.4%	29,153	22.9%	5,011	3,937	27.3%	4,237	18.3%	3,214	2,450	31.2%	2,760	16.5%
Consumer Staples	44,603	43,802	1.8%	41,219	8.2%	11,981	11,723	2.2%	11,048	8.4%	9,071	9,028	0.5%	9,620	-5.7%
Financials	17,735	16,810	5.5%	14,972	18.5%	14,077	13,317	5.7%	11,891	18.4%	7,775	7,255	7.2%	7,878	-1.3%
Healthcare	38,931	39,780	-2.1%	36,938	5.4%	9,023	9,619	-6.2%	9,817	-8.1%	6,123	6,758	-9.4%	6,895	-11.2%
Industrials	84,406	77,151	9.4%	72,631	16.2%	13,212	12,357	6.9%	11,057	19.5%	7,783	7,642	1.8%	6,019	29.3%
Insurance	28,143	25,103	12.1%	25,015	12.5%						1,906	1,660	14.8%	1,870	1.9%
IT	1,99,478	1,92,513	3.6%	1,76,636	12.9%	38,792	37,039	4.7%	35,766	8.5%	30,428	28,248	7.7%	28,262	7.7%
Materials	29,771	29,217	1.9%	25,899	14.9%	3,744	3,461	8.2%	3,165	18.3%	1,409	2,036	-30.8%	1,191	18.3%
Metals & Mining	2,09,023	2,00,086	4.5%	1,92,582	8.5%	32,250	32,438	-0.6%	30,599	5.4%	14,532	14,974	-3.0%	13,588	6.9%
Oil & Gas	2,97,165	2,87,654	3.3%	2,73,703	8.6%	64,926	63,583	2.1%	62,757	3.5%	25,343	28,013	-9.5%	26,780	-5.4%
Telecom	53,970	52,145	3.5%	45,129	19.6%	17,135	16,379	4.6%	12,892	32.9%	6,848	6,792	0.8%	7,236	-5.4%
Utilities	61,492	56,779	8.3%	56,328	9.2%	23,588	22,447	5.1%	23,248	1.5%	8,762	7,173	22.2%	9,379	-6.6%
Transport	22,695	18,555	22.3%	22,111	2.6%	5,255	580	806.8%	5,179	1.5%	1,871	-2,582	-172.4%	2,451	-23.7%
Others	6,738	5,792	16.3%	5,771	16.8%	1,918	1,702	12.7%	1,670	14.9%	1,471	1,278	15.0%	1,301	13.0%
<b>Total</b>	<b>13,61,754</b>	<b>12,88,622</b>	<b>5.7%</b>	<b>12,18,108</b>	<b>11.8%</b>	<b>3,47,971</b>	<b>3,30,555</b>	<b>5.3%</b>	<b>3,17,215</b>	<b>9.7%</b>	<b>1,96,907</b>	<b>1,91,730</b>	<b>2.7%</b>	<b>1,89,906</b>	<b>3.7%</b>
<b>Total ex Auto</b>	<b>12,50,651</b>	<b>11,92,275</b>	<b>4.9%</b>	<b>11,31,363</b>	<b>10.5%</b>	<b>3,31,313</b>	<b>3,16,791</b>	<b>4.6%</b>	<b>3,04,473</b>	<b>8.8%</b>	<b>1,84,283</b>	<b>1,80,228</b>	<b>2.2%</b>	<b>1,80,252</b>	<b>2.2%</b>
<b>Total Ex Interglobe Aviation</b>	<b>13,39,060</b>	<b>12,70,067</b>	<b>5.4%</b>	<b>11,95,997</b>	<b>12.0%</b>	<b>3,42,716</b>	<b>3,29,975</b>	<b>3.9%</b>	<b>3,12,037</b>	<b>9.8%</b>	<b>1,95,037</b>	<b>1,94,312</b>	<b>0.4%</b>	<b>1,87,456</b>	<b>4.0%</b>

Source: Axis Securities, Bloomberg, Note: Data in Cr, NC – not comparable, Adani enter, Jio Financials, Bajaj Finserv and Tata Motor PV are not included in the calculation

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