

## Q3FY26 Earnings Indicate a Rise in Operating Leverage with Strong Growth at Portfolio Level

We've witnessed ~3% and ~5.5% fall in Nifty 50 and Nifty Smallcap 250 index respectively in Jan'26 month, the companies below Top 500 saw ~7-9% median fall. Minor selling pressure resulted in sharp corrections without any underlying fundamental reason. ARDEKO Portfolio has outperformed both Nifty 50 and the BSE 500 on Sales and PAT growth front on YoY as well as a TTM basis. On a TTM basis, ARDEKO delivered ~46% PAT growth, compared with 13.1% for the Nifty 50 and 17.3% for the BSE 500. While the non-BFSI segment has led earnings growth on a TTM basis, Q3 results indicate that the BFSI sector has been the primary growth driver within the ARDEKO portfolio and the Nifty 50. Notably, over 30% of the ARDEKO Portfolio is allocated to cyclically dislocated companies.

**TABLE 1: ARDEKO PORTFOLIO GREW FASTER ON BOTH TOPLINE AND BOTTOMLINE FRONTS**

Particulars	Sales Growth (%)		PAT Growth (%)	
	YoY	TTM	YoY	TTM
ARDEKO	13.6%	10.6%	16.7%	46.0%
Nifty 50	10.4%	7.8%	7.2%	13.1%
BSE 500	10.4%	7.8%	13.8%	17.3%

**GST 2.0 and AI Opportunities Dominated the Discussion Themes this Earnings Season:** The latest earnings season was shaped by three widely discussed themes: GST 2.0, AI opportunities and its business impact, and the Impact of Labour Code. The early influence of GST changes was particularly evident across sectors including automobiles, consumer staples, insurance, and logistics.

**TABLE 2: KEY TRENDS AND OBSERVATIONS FROM SELECT SECTORS DURING THIS EARNINGS SEASON**

Sector	Key Observations
Automobiles	All segments (2W, PV, CV, Tractors) reported double-digit volume growth in 3Q, supported by festive demand and GST rate cut. <b>Demand has sustained beyond the festive period into Jan-Feb.</b> Tractor segment aided by favourable rural sentiment and normal rainfall. Margin pressure expected from rising commodity costs, though strong demand conditions provide near-term pricing power to OEMs
Capital Goods & Infrastructure	Sector is entering revenue recognition phase after two years of strong order inflows. <b>Mid-cap order books are at 3-4x trailing revenue with execution picking up.</b> Raw material cost pressures have eased. Demand visibility extends to FY28 across renewables, grid modernisation (smart meters), and data centre construction. Limited near-term threat from Chinese competition.
Chemicals	<b>Prolonged destocking and pricing pressure cycle continues, with export-facing agrochemical companies facing the sharpest headwinds.</b> Overall earnings trajectory is improving but remains mixed across the sector.
Consumer	<b>Improving FMCG volume growth on sequential basis with rural outperforming urban for third consecutive quarter.</b> Food categories outpaced non-food aided by GST rationalisation. Staples margins healthy on benign input costs. Jewellery retail benefited from festive demand and ~60% YoY surge in gold prices. QSR saw modest improvement aided by festive shift — delivery channels resilient, dine-in traffic gradually improving; Apparel soft due to festive calendar shift and delayed winter. Footwear showing early signs of recovery in the mass segment.

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Banks	Large private banks (HDFC, ICICI, Axis, Kotak) grew 3-4% QoQ with NIMs broadly stable or expanding as funding costs moderated. <b>Gross NPAs near cycle lows. PSU banks were continuing with strong performance</b> - SBI PAT +24.5% YoY, Canara +25.6%, PNB +13.1%, supported by treasury gains and strong recoveries.
NBFCs & Financials	Affordable HFCs outperforming large HFCs on NIM expansion and growth. Vehicle financiers benefiting from rural cash flow improvement. Gold loan NBFCs (Muthoot, Manappuram) reported 50-58% YoY AUM growth driven by higher gold prices and reduced MFI credit availability. MFI AUM grew 2% QoQ – first positive quarter after six consecutive declines.
Capital Market Companies	Capital markets (BSE +173%, MCX +151% YoY PAT) and AMC's (NAM India +37%, HDFC AMC +20% YoY PAT) delivering strong earnings. Wealth management firms healthy with 360 ONE WAM reporting +20% YoY PAT. Intermediaries (CAMS, KFin, CDSL, NSDL) delivered broadly steady results.
Insurance Companies	Life insurance benefited from GST exemption tailwind with LIC (+50%), Max Life (+30%), SBI Life (+24%) leading APE growth. General insurers benefited from GST-driven premium growth though combined ratios remain a watch item.
Technology	Tier-1 companies grew 2.4% YoY in USD revenue terms, while tier-2 companies grew 1.7% QoQ CC. Industry-wide Total Contract Value (TCV) growth has now been positive for four consecutive quarters: Q3FY26 logged 9% YoY growth, following Q2's 10%. <b>The recovery is also becoming more broad-based, with improvement visible across multiple industry verticals. Multiple narratives are overshadowing the core performance as of now. Several industry leaders are citing the current "AI led disruption" as more of an execution risk than an opportunity risk.</b>
Consumer Durables	RAC segment recovering ahead of summer season with channel restocking of new BEE-rated models. Rising competitive intensity in cables and wires with Crompton's entry. Management broadly positive on sustained demand recovery.
EMS	The sector is witnessing a clear <b>strategic shift away from low-margin consumer electronics toward high-margin verticals</b> including defence, aerospace, automotive, and clean energy.
Healthcare BPO	Strong 3Q performance across Sagility, IKS Health, and Indegene. Sagility delivered strong revenue growth supported by synergies from the Broadpath integration. IKS grew 24% YoY with only 1.5% headcount increase, indicating strong productivity gains. Indegene aided by BioPharm acquisition with stable underlying organic growth. <b>Sector benefits from structural outsourcing and digital adoption tailwinds in US healthcare. The near-term US healthcare macro environment remains a watch item.</b>
Plastic Pipes	Challenging quarter amid PVC price volatility and subdued demand. Supreme Industries and Astral delivered 16-17% YoY volume growth while Prince Pipes, Finolex, and Apollo Pipes lagged or declined. Blended realisations under pressure, compressing EBITDA margins. <b>Larger organised players expected to gain share as PVC prices stabilized and restocking resumes.</b>
Logistics	Improved performance driven by festive demand, GST rate reductions, and selective yield improvements. The express segment outperformed; PTL delivered modest volume growth with stable margins. Management commentary positive on near-term demand outlook.

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Below the surface of market volatility, the economy is exhibiting signs of recovery. The noise around global AI disruption and geopolitical uncertainty have obscured a strengthening domestic demand cycle. **The most recent high-frequency data paints a picture of an economy regaining its footing after a sluggish 1HFY26.**

**TABLE 3: HIGH FREQUENCY INDICATORS INDICATE POSITIVE MOMENTUM ACROSS AUTOS, BANK CREDIT AND FEW OTHER CONSUMPTION POCKETS**

	30-Jun	15-Jul	31-Jul	15-Aug	31-Aug	15-Sep	30-Sep	15-Oct	31-Oct	15-Nov	30-Nov	15-Dec	31-Dec	15-Jan	31-Jan
Vehicle registrations (mn.units)	1.0	1.4	0.9	0.9	0.9	0.7	0.7	2.5	2.1	1.8	1.4	1.0	1.4	1.2	1.2
Bank credit growth (% YoY)	10.6	10.4	10.0	10.2	10.0	10.3	10.4	11.4	11.5	11.3	11.4	11.5	14.5	13.1	14.6
Electricity generation (mega units)	63,620.8	64,304.4	69,568.9	66,697.5	67,467.9	63,249.2	66,590.9	60,293.5	59,251.7	55,131.1	56,843.4	59,481.7	67,071.2	62,865.9	65,925.0
Domestic air traffic (person mn)	6.5	6.3	6.6	6.4	6.7	6.3	6.1	6.8	7.5	7.6	7.9	5.4	8.0	7.4	8.0
Toll collection (Unit mn)	187.8	180.9	189.7	187.2	194.7	177.7	184.7	193.9	186.7	181.5	187.9	184.9	198.8	177.6	195.8
UPI payments (Rs bn)	11,197.2	13,265.2	11,819.8	13,105.1	11,749.6	13,026.0	11,871.3	14,274.8	13,003.1	14,041.9	12,274.4	14,510.0	13,457.1	14,565.4	13,769.4
Credit Card - PoS (Rs bn)	229.1	238.5	235.0	238.2	233.6	233.8	242.4	289.7	293.5	246.0	240.0	266.6	279.5	249.8	275.8
Credit Card - E-commerce (Rs bn)	467.5	536.2	471.3	488.5	438.3	507.7	673.0	540.6	463.5	445.6	399.5	506.5	462.6	438.0	474.5

Red - Negative, Orange - Watch, Blue - Neutral, Green - Positive

### READ-THROUGHS FROM MULTIPLE EARNINGS CALLS SUGGEST POSITIVE UNDERTONES IN RURAL DEMAND, CORPORATE INVESTMENTS AND HIGHER STABILITY FOR CREDIT GROWTH

Across the earnings calls that we reviewed during the quarter, a few themes are emerging with notable consistency. Rural demand commentary has moved from cautious optimism to a more positive tone, with companies in agrochemicals, tractors, two-wheelers and FMCG reporting signs of improving farm incomes, supported by a strong kharif harvest and government transfers. Corporate investment intentions also remain firm: the RBI's survey of large companies indicates that planned capital expenditure for FY27 is higher than that for FY26, pointing to continued momentum in industrial activity. Meanwhile, the banking sector's commentary suggests that asset quality is expected to remain stable over the near to medium term. The below excerpts offer a cross-sector view of how corporate India is interpreting the evolving business environment in the current times.

## Reading Between the Lines of Earnings Season

"Initially, we were a little apprehensive whether the bulk buyers would move forward because of complications relating to ITCs and cash flows. But now in January, we are much more optimistic about the future prospect, having seen the bulk buyers moving out and projecting their demand for the next many months. We are very confident at this point that this could be the start of a new replacement cycle in the CV industry."

**Ashok Leyland**

"In the long term, I think prices will be driven by consolidation. Barriers to entry in this business are rising and higher consolidation will mean higher prices over the medium to long term."

**Dalmia Bharat**

"We have more confidence in the domestic market because we see government infrastructure spending converted into actual projects and tenders. We understand the domestic market, segments, and players better, so our primary confidence remains there."

**Cummins India**

"Winning in India will always require an "and" strategy rather than an "or" strategy. At the forefront of channels of the future is quick commerce, the fastest scaling route to market and a structurally critical channel for the future. It is doubling every quarter and reshaping how consumers discover, shop and replenish... To fully capture this opportunity and lead the channel shift, we have established a dedicated quick commerce organization."

**Hindustan Unilever**

"We've seen it not only in auto, but also in the home loan product. So these are two products where we have certainly seen some amount of, if I may say, a bit of irrational pricing, but irrational pricing has never sustained. It will play itself out and bury itself in a couple of quarters on the outer side, if not earlier."

**HDFC Bank**

"We grew significantly over the last year. PSU banks have offered those rates for 15 years, yet customers still choose us for convenience and other factors."

**Muthoot Finance**

"Pricing power comes from two different sorts - there are two different streams of thought here. One is the ability to take pricing up. The second is the ability to make money at a price where no other competitors can make money at all. And we believe that it's the second pricing power that is more important than the first, especially in industries which are commodity industries, which we are."

**Delhivery**

"Like I said, when we look at microfinance growth, early days, maybe 10% to 13%, so we'll have to finalize our business plan in a few months from now. But it does look like retail will have a stronger growth momentum, probably contributing. We should be able to reach something over 30% that we want to grow to meet our medium - term goals."

**CreditAccess Grameen**

"I do not think we worry about which one is going to do better. In the automotive business, we have seen players go down and return to the top with the next model. Time is on our side. We are sure that the car the customer chooses is going to do well."

**Samvardhana Motherson International**

Against this backdrop, the macro environment appears supportive of earnings growth into FY27. Our focus remains on identifying businesses and management teams that are strengthening their competitive position and are well placed to compound shareholder value over the medium to long term.

**ARDEKO Team**