

Macro Review | Q1 FY2026

Acknowledging Context

After a few quarters where earnings momentum and liquidity conditions began to align well, Q1 FY26 has underscored how delicate this alignment can be. Global trade flows have acted as a scaffolding for sector-specific fundamentals, while India's equity valuations remain elevated. Numbers suggest earnings breadth has narrowed, policy and trade frictions can stretch near-term visibility, and that discipline in portfolio construction is more valuable than chasing every passing theme. The market is undergoing a phase of re-anchoring expectations, and our approach is to focus on businesses where earnings visibility and balance-sheet resilience give us confidence, while remaining vigilant to risks that are more cyclical than structural.

Q1 FY 2026 | Earnings growth remains subdued

Beneath the headline numbers, corporate India's earnings are showing signs of moderation. Reported earnings for the NIFTY 50 at 7.1% are modest on the surface, and excluding the distortions of commodities, the core, non-cyclical component of growth is struggling to rise above 5% (Source: Bloomberg). What explains the narrowness? First, banks are digesting NIM compression and a more rational stance on unsecured credit, even as asset quality stays benign. As a result, earnings are moderating off a high base. Second, consumption defensives have long normalized price/mix tailwinds and continue to battle the input cost/growth mix, resulting in softer operating leverage. Third, discretionary IT spend remains hesitant, and deal cycles are elongated, impacting revenue conversion at the top end. Put together, the 'quality core' of earnings is under pressure even as the indices hold up. This is not a strong base for market trading at elevated multiples.

Meanwhile, the US tariff actions (since August 27, 2025) have introduced a level of uncertainty that will only be resolved after you are in receipt of this note. Friction in export-linked sectors, including textiles, gems and jewelry, chemicals, leather, and select auto parts, clouds visibility in the near term. They may well be timing risk rather than terminal one, but they nevertheless complicate the outlook over the near term.

With non-cyclical growth running close to 5% and policy acting as a stabilizer rather than a spur, the market's tolerance for a narrative premium will be under pressure. In this construct, we align with businesses that demonstrate pricing power, cash conversion, and balance-sheet strength, and avoid firms where multiple expansions have outpaced earnings certainty.

Why this matters now: This backdrop only reinforces the value of discipline. We are consciously leaning into businesses where earnings are underwritten by durable demand, pricing power, and cash flow strength, rather than those fueled by cyclicals and sentiment. Similarly, we are trimming or avoiding names where valuations have outpaced earnings visibility. In other words, we are positioning portfolios not for the best-case scenario, but for the most probable one. Under these circumstances, we value the resilience of a business as the most essential variable. This is the compass we use to navigate volatility without sacrificing the compounding core of your capital.

Q1 FY 2026 Earnings Update

A Modest start to the year

Q1 FY26 was a relatively modest quarter for India Inc., with earnings growth remaining measured. The aggregate net profit of the Nifty-500 universe rose 8% YoY, reflecting stability rather than momentum, as sectoral trends offered little by way of positive surprise. The overall sentiment and outlook suggest a recovery path in the second half of the year.

NSE500	Adj PAT, Cr		
Sector	Q1 June-25	Q1 June-26	YoY
Banks-Private	48,337	47,814	-1%
Banks-PSU	43,638	45,753	5%
Consumer	16,845	17,520	4%
Consumer Durables	2,177	2,275	5%
Healthcare	16,138	17,044	6%
Automobiles	24,859	24,653	-1%
Utilities	31,212	29,186	-6%
Capital Goods	9,967	11,429	15%
Infrastructure	5,263	5,076	-4%
Technology	31,651	33,723	7%
Pharma	12,277	13,516	10%

Source: Internal Data

Credit growth moderated to ~9-10% in Q1 FY26, compared to around 15-16% (Source: Reserve Bank of India) over the past two years, reflecting the combined impact of regulatory caution on NBFCs and unsecured retail lending. The moderation, coupled with the repo rate cut, weighed on NIMs during the quarter. Asset quality remained resilient, with GNPA and NNPA ratios at multi-year lows. The **consumer discretionary and staples** sectors reported muted topline performance amid a slowdown in urban consumption, while volatile feedstock costs further weighed on margins, resulting in tepid earnings growth. **Select Capital Goods and Industrials** firms reported a sharp uptick in order inflows and a good business cycle, while operating leverage improved across several firms. The **healthcare sector** remained resilient, supported by strong performances from hospital chains and CDMO players, alongside steady growth in domestic formulation businesses. Select **Passenger vehicles and tractors** witnessed sustained growth, whereas two-wheeler volumes softened after several quarters of expansion, reflecting the impact of a high base. However, **IT Services** remains an outlier due to continued macro uncertainty in the US and Europe, as well as disruption led by new-age technologies.

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