

Macro Review | Q3 FY2026

Acknowledging Context

The preceding twelve months were a trying environment for investment-related macros. India's nominal-GDP growth touched decade lows, urban consumption remained hesitant, tariff disruptions introduced a layer of uncertainty across multiple sectors, while progress in AI capabilities raised questions about the terminal value of several elements of the Technology stack. In such an environment, even fundamentally sound businesses face unreceptive market conditions. These are conditions that test a conviction-driven approach, and we have held ours.

The months since Q3 FY 2026 have produced a cluster of developments that, taken together, represent a meaningful shift in India's enabling environment. The Union Budget for FY 2027 arrived with genuine demand intent, while GST rationalization provided an additional fillip to consumption demand within the quarter itself. The India-US interim trade framework removed a tariff overhang that had distorted capital allocation and suppressed earnings visibility across export-linked sectors for the better part of a year. And the RBI, having delivered 125 basis points of cumulative easing through 2025, chose to pause, the transmission now diffusing through deposit rates, credit costs, and better borrowing conditions.

Over all, while Unifi AMC's investment thesis remains unchanged, the operating conditions have changed. India's GDP is expanding ahead of consensus, and at an absolute quantum. Private consumption is finding its footing after an extended period of demand hesitancy. The credit cycle is transmitting at a better pace into the real economy. Macro turns of this kind tend to accumulate quietly and reveal themselves in earnings over the quarters that follow.

India, State of the Economy

GDP: A Strong Quarter, and a Revised Framework: India's real GDP growth for Q3 FY 2026 (Oct-Dec 2025) came in at 7.8% and a meaningful improvement from 6.2% in the corresponding quarter of the previous year (Source: Ministry of Statistics and Programme Implementation (MoSPI)). The full-year estimate for FY 2026 has now been revised upward to 7.6% under the newly released national accounts series with base year 2022-23, which provides a more contemporary and structurally accurate picture of the economy, capturing GST data, digital transaction flows, and a spectrum of other economic activity that the previous series underweighted.

The composition of Q3-FY2026's growth is particularly encouraging. Manufacturing GVA expanded in double digits for the fifth consecutive quarter; a run of industrial momentum that speaks of structural capacity additions and not merely cyclical demand. Services GVA growth accelerated to 9.5%, a seven-quarter high, anchored by financial and professional services (Source: Ministry of Statistics and Programme Implementation (MoSPI)). Agricultural output, while growing at a more measured pace of 3.1% for the full year, benefited from above-normal monsoons and healthy reservoir levels. These are headline numbers that describe an economy that is broadening its growth base.

For monetary policy, the implications point toward a structural improvement in transmission rather than further rate action. With real GDP growing above 7.5% and inflation running near 2%, India is in a good configuration: the real policy rate is now significantly positive, giving the RBI meaningful room to respond to encourage demand without sacrificing fiscal prudence. For private final consumption, the triple tailwind of rate cuts, GST reforms, and a recovering rural economy creates a more compelling demand outlook than India has seen in several years.

Private investment is a closely watched variable. The budget's capex thrust, combined with improving corporate cash flows and declining borrowing costs, presents the right conditions for the private investment cycle to re-engage. Historical patterns suggest a lag of two to four quarters between monetary easing and a material uptick in private capex. A development that would raise the quality and sustainability of growth beyond where it stands today.

The significance of these numbers runs deeper than the headline rate. In aggregate, India's GDP trajectory in a complex global environment is good. As the Chief Economic Adviser noted, India is on course to cross the $4 trillion GDP mark in FY 2027, making it the world's third-largest economy by nominal GDP. That structural trajectory and the earnings ecosystem it creates remain the central investment thesis for patient, bottom-up investors.

The quarter also reflected a degree of caution from global investors, with foreign portfolio investment (FPI) flows remaining volatile and skewed toward net outflows. After brief inflows in October, FPIs turned consistent sellers through November and December, reflecting global risk-off sentiment, elevated US yields, and concerns around valuations. This resulted in intermittent capital outflows and added to market volatility, even as domestic institutional flows provided stability.

A Brief on Artificial Intelligence

We are selective about the trends on which we generally offer a view. Most narratives that animate markets in the short run do not materially alter the earnings trajectory of the businesses we own. Artificial Intelligence is the exception, not because the narrative is loud, but because the underlying capital deployment is of scale [At c.1%+ of US GDP], but because our portfolio exposure to the Technology stack demands a considered response.

The dominant narrative in 2026 has been that AI is on the cusp of rendering categories of white-collar work obsolete and fundamentally restructuring labour markets at a pace that policy cannot absorb. It is our opinion that this will seek to displace a certain quantum of highly vintaged, low-value-added activity that has seen limited productivity initiatives over the past many years.

Q3 FY 2026 Earnings Update

The Broader Market |Q3 FY 2026 delivered a measurably better earnings season than the first two quarters of the year. Aggregate earnings across the NSE-500 universe rose approximately 14% YoY, the strongest result in eight quarters, and a meaningful departure from the single-digit growth and persistent estimate revisions that had characterised much of FY 2025 and the first half of FY 2026. Excluding financials, the growth rate was stronger still, at approximately 16%.

The sectoral composition of the beat was broad-based rather than concentrated. Capital goods companies continued to report strong order inflows and improving execution, with operating leverage increasingly visible in earnings. Healthcare held its footing — hospital ARPOBs rising, CDMO pipelines building, and domestic formulations growing steadily. Pharma companies with exposure to regulated markets benefited from a more stable US pricing environment. In automobiles, the festive season was a genuine demand catalyst — volumes, realizations, and dealer inventory levels all moved in the right direction. EMS and consumer electronics players continued to benefit from structural demand tailwinds and import substitution. Even within financials, where headline growth was muted, asset quality remained broadly benign, and the worst of the NIM compression now appears to be behind the sector.

The picture was not uniformly positive. Certain large-cap technology services companies continued to report subdued revenue growth amid elongated deal cycles and cautious discretionary IT spending. Cement sector earnings disappointed on margin pressure while consolidation in retail-facing businesses reported weaker-than-expected volumes.

BSE 500	Adj PAT Cr		
Sector	Q3 25	Q3 26	YoY %
Automobiles	22,347	21,958	-2%
Banks-Private	49,550	51,596	4%
Banks-PSU	47,142	53,831	14%
Capital Goods	11,867	14,659	24%
Cement	5,536	4,412	-20%
Consumer	15,440	17,320	10%
EMS/ Durables	2,017	2,761	37%
Pharma & Healthcare	16,332	18,233	12%
Technology	33,626	36,539	9%
Utilities	25,378	24,553	-3%

Source: Internal Data

Overall, the growth is distributed rather than concentrated. A broad earnings delivery of this kind is, a more reliable signal than one carried by a handful of outperformers, and the more instructive number to hold in mind as FY 2027 approaches.

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