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Q3 FY26 Earnings - Growth turns broad-based, Small Caps shine!

What's the Point?

3QFY26 earnings for NIFTY 500 companies grew at 14% YoY.

Earnings growth was well distributed, with 17 out of 29 sectors delivering double-digit YoY profit growth.

All market-cap segments posted double-digit growth, large caps at 12%, mid-caps at 16% and small caps at 25% YoY.

Large-cap profit share in NIFTY 500 has declined from 78% (Q3FY23) to 74% (Q3FY26), highlighting a broadening earnings base.

After a muted FY25, corporate profitability has regained momentum, supported by broad-based performance and improving operating metrics.

3QFY26 corporate earnings concluded on a strong note with Nifty 500 companies posting a robust 14% year-on-year (YoY) profit growth. The growth was driven by metals & mining (37% YoY) and oil& gas (41% YoY).

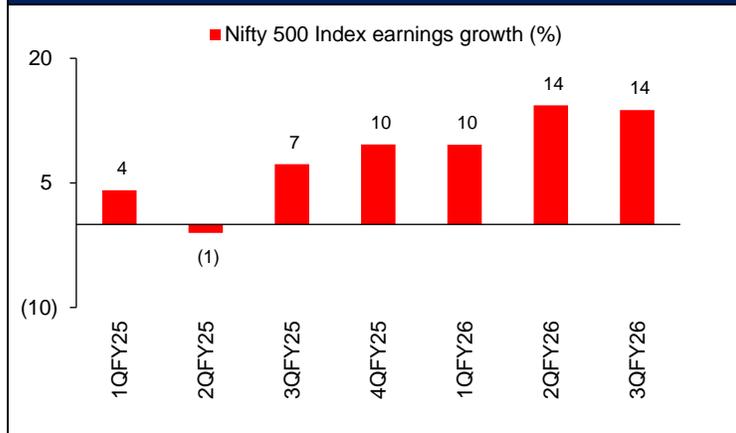
Broad-Based Earnings growth

The earnings growth was broad based, with 17 sectors (out of 29) reporting double-digit YoY earnings growth and 5 sectors reporting single digit YoY growth.

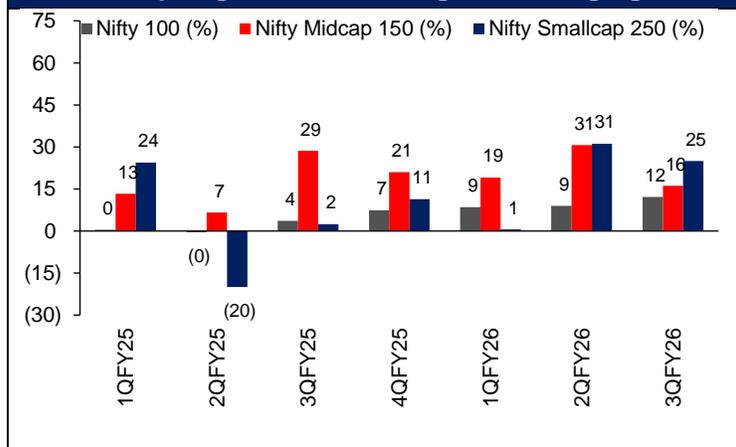
In terms of market cap segment, all three market cap segments reported double-digit earnings growth. Nifty 100 companies posted a 12% YoY profit growth in Q3 FY26, while Mid and Small-cap segments delivered a robust 16% and 25% YoY growth respectively. While small caps continued their momentum in Q3FY26, midcaps saw some moderation in growth with profit growth of NIFTY Midcap 150 index growing at 16% vs average of 25% growth in the previous 4 quarters. The surge in Mid and Small-cap earnings was fueled by strong performances from financial services, PSU banks, autos, metals and oil & gas.

Notably, the profit pool dynamics are shifting with Large-cap contribution to Nifty 500 earnings tapering over recent years, driven by the outperformance of Mid-caps and Small-caps. Profit share of Large-Caps in NIFTY 500 has declined over the last few years, (from 78% in Q3FY23 to 74% in Q3FY26), highlighting the broadening earnings base beyond the top 100 companies.

Nifty 500 Index companies saw 14% increase in Profit After Tax (PAT) on a YoY basis



Broad-Based YoY earnings growth (%) with all three market cap segments delivering double-digit growth



Source: Kotak Institutional Equities

Sectoral Snapshot

- **Automobiles:** The auto segment saw a healthy revival in demand momentum in 3QFY26, with all segments recording double-digit volume growth post a muted 1st half, supported by the festive season and the benefit of the GST rate cut.
- **Banks:** Improved credit growth and stable asset quality supported earnings; PSU banks outperformed, while private banks saw gradual normalization after margin pressures.
- **Metals & Mining:** Earnings upgrades continued in 3QFY26, aided by firm commodity prices and operating leverage; sector has been a key outperformer and a meaningful contributor to incremental profits.
- **Oil & Gas:** Strong earnings led by upstream and downstream oil and gas companies, supported by gas pricing, stable crude prices.
- **Cement:** The sector saw a strong volume growth; however, realizations were weak. Lower fuel & power costs were unable to offset the impact of weak realizations, leading to lower profitability.
- **Healthcare:** Growth remained mixed in 3QFY26, with strong domestic formulation sales offsetting weak US generic sales.
- **Telecom:** 3QFY26 was a steady quarter for telecom companies. The growth was primarily driven by higher average revenue per units (ARPU) led largely by subscriber mix improvements.
- **IT - IT services companies** reported better-than-feared earnings, with management commentary remaining constructive on discretionary spending and early AI-led demand. However, broader sector sentiment turned cautious, influenced by commentary from AI-native players highlighting faster productivity gains, shorter implementation cycles, and potential disruption across application development, testing and ERP implementations.
- **Consumer Staples -** Key government initiatives are driving the consumption recovery. Milder inflation, improved affordability after the recent GST rate rationalization, and falling interest rates are driving rural/urban consumption catalysts.
- **Utilities:** Sustained weak demand weighs on earnings due to weather related disruptions.

Conclusion: Strengthening Equity Outlook

After a muted FY25, corporate profitability has regained momentum, supported by broad-based performance and improving operating metrics. The strong showing from Mid/Small-caps highlights a broadening of the earnings base. Margin expansion, aided by benign input costs and efficiency gains, further strengthens the outlook.

NIFTY50	FY25	FY26E [^]	FY27E [^]	FY28E [^]
EPS*	1013	1071	1252	1436
Growth %	2%	6%	17%	15%

*Earnings Per Share, Sources: Bloomberg, [^] Kotak Institutional Equities

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