FIRST LIGHT

04 August 2026

RESEARCH

BOB ECONOMICS RESEARCH | MONTHLY ECONOMIC BUFFET

Economic Round-up: Jul 2026

PERSISTENT SYSTEMS | TARGET: Rs 3,310 | -41% | SELL

1Q strong but has issues. Nagarro M&A too big a bite?

ESCORTS KUBOTA | TARGET: Rs 2,869 | -8% | SELL

Steady show; exports below par, no respite; retain SELL

AUTOMOBILES

Monsoon recovery not a dampener, July surprises positively

SUMMARY

INDIA ECONOMICS: MONTHLY ECONOMIC BUFFET

The West Asia conflict remained a focal point, keeping the global market on the edge. This was on the back of the exchange of military hostilities between the US and Iran, with attacks even spreading across the Gulf towards the Red Sea and the Mediterranean facility. However, recently there have been been news reports that the strikes have been paused after 2 weeks and a peace deal has been proposed which is contingent on reopening of the Strait of Hormuz as well as bringing an end to Iran's nuclear programme as part of the deal.

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PERSISTENT SYSTEMS

- 1QFY27 revenue grows 4.1% QoQ CC, driven by Hitech vertical/Top 5 accounts. Working capital deteriorates - OCF/PAT at ~24%
- Medium term worry - how PSYS will digest oversized (~23x size of the previous largest M&A, in revenue) lower quality Nagarro
- M&A risks and ~34xPE keeps us cautious. We stick to conservative Target PE multiple of 16.9x and maintain SELL

Click here **for the full report.**

BOBCAPS Research
research@bobcaps.in

ESCORTS KUBOTA

- Steady growth in key markets North (22%) and Central (~15%) drives domestic volume up ~23% leading to ~36bps market share gain
- Gross margins compress ~358bps YoY due to cost inflation impacts of ~500bps; further ~1.5-2% cost impact expected in Q2FY27
- Retain FY27E/FY28E/FY29E EBITDA/EPS to factor growth offsetting cost Value at 20x P/E multiple; revise TP to Rs 2,869 (Rs 2,786). SELL

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AUTOMOBILES

- OEMs continue positive volume growth momentum despite monsoon, entry level spurt boost PVs (37%); Premium segment spurts 2W (29%)
- Infrastructure spending and freight activity levels remain healthy as utilization sustains driving CV growth (~33% YoY)
- Improving monsoon and faster Kharif sowing sustain rural demand, supporting tractor growth (~20% YoY); 3W growth persistent (31% YoY)

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MONTHLY ECONOMIC BUFFET

03 August 2026

Economic Round-up: Jul 2026

Jahnavi Prabhakar
Economist

The West Asia conflict remained a focal point, keeping the global market on the edge. This was on the back of the exchange of military hostilities between the US and Iran, with attacks even spreading across the Gulf towards the Red Sea and the Mediterranean facility. However, recently there have been been news reports that the strikes have been paused after 2 weeks and a peace deal has been proposed which is contingent on reopening of the Strait of Hormuz as well as bringing an end to Iran's nuclear programme as part of the deal.

The talks currently are underway with Saudi Arabia and Oman's counterparts. As a result, crude price moderated, surrounded by optimism around the ongoing talks. On the macro front, major global central banks kept policy rates unchanged with a hawkish hold. On the domestic front, the focus would shift towards the RBI which is also expected to maintain the status quo. The recent news of Bloomberg deferring the inclusion of Indian bonds in the Global aggregate bond index could put some pressure on the rupee and even push yields higher, given the delay in inflows. On the positive side, RBI has reported that US$ 40.8bn was mobilised through FCNR (B), OFCBs and ECBs route, till 31 Jul'26, out of which US$ 36.7bn was mobilised through FCNR (B) deposits. This is expected to push inflows and support the rupee. On the rural front, the recent deluge has resulted in surplus rains in Jul'26 against a deficit noted in Jun'26. However, IMD has projected below normal rain in Aug'26 which needs to be tracked as moderate risks of El Nino persist.

Global central banks: Recent commentaries by monetary policymaker globally suggest that they will continue to track inflation risks amidst the ongoing tensions in the Middle East. Major Central Banks had decided to keep the policy rates on hold in their last meeting. However, there is a growing likelihood of tightening in the near term especially by US Fed and ECB. Given that the US Fed has recently delivered a hawkish hold with 3-dissenters voting for a rate hike. ECB continued with the hawkish rhetoric given the recent commentary by the ECB chief wherein she reiterated the upside risk to inflation and this was further supported by Eurozone inflation which ticked up in Jul'26 and thereby strengthened prospects of rate hike in Sep'25. On the domestic front, RBI is expected to maintain status quo and retain its stance in the upcoming policy meeting. Though, we see this could be the right opportunity for the central bank to prepare markets for a future hike. Growth and inflation forecasts will also be left unchanged. Members will also remain watchful regarding inflation, given volatility in international oil prices and weak monsoon. A clear picture on sowing will also be available by Sep'26.

RESULT REVIEW

SELL
TP: Rs 3,310 | ∀ 41%

PERSISTENT SYSTEMS | IT Services | 04 August 2026

1Q strong but has issues. Nagarro M&A too big a bite?

- **1QFY27 revenue grows 4.1% QoQ CC, driven by Hitech vertical/Top 5 accounts. Working capital deteriorates - OCF/PAT at ~24%**
- **Medium term worry - how PSYS will digest oversized (~23x size of the previous largest M&A, in revenue) lower quality Nagarro**
- **M&A risks and ~34xPE keeps us cautious. We stick to conservative Target PE multiple of 16.9x and maintain SELL**

Girish Pai
Research Analyst
Lopa Notaria, CFA
Research Associate
research@bobcaps.in

Revenue ahead of expectation but has issues: PSYS saw revenue growth of 4.1% QoQ CC, ahead of our estimate of 3.0%. Growth QoQ was narrow (Hitech and top 5 clients drove incremental growth) and was working capital intensive (OCF/PAT - ~24%). One of the key issues we see across various firms reporting 1QFY27 results has been deterioration in working capital (likely due to clients' capital commitments to AI). Total TCV at US$1.15bn (up 91% QoQ and 120% YoY) was the highest ever, driven by US$650mn large deal with a software player.

Organic growth will have to be increasingly driven by large deals. At its current size we believe the deals which will move the revenue needle will be ones that are in the ACV range of US$100-200mn. These in our view will have to be deals won against competition from Tier-1 players and which will likely require substantial productivity pass back and may be margin dilutive to some extent during the contract lives. The US$650mn won from a software player seems to be an internal spend on possibly a bunch of mature products that has been moved out along with the respective teams.

Execution risk increases as business scales on M&A: We believe that unlike the tuck-in acquisitions PSYS has successfully handled in the past, Nagarro is much larger (~23x Data Glove, which we believe was the largest acquisition by revenue thus far) and harder to execute especially as it pertains to Europe where laws are not as business friendly as in the US. We also see big revenue deflation risk due to Nagarro's T&M heavy revenue (68%). We also think that cross sell may not be as effective as it may seem on paper as we believe most of Nagarro's horizontal skills are 'retro'. PSYS's AI platform skill (SASVA) is the only big differentiator. Our concerns are captured in our post transaction note (Big Deal, Bigger Risks)

Valuation: We have raised our EPS estimates for FY27-FY29 by 2-6% largely on expectation of better margins. We maintain the Target PE at 16.9x (20% premium to benchmark) and the stock rating continues to be SELL. At 34x, 12m forward multiple believe the current valuation is excessive and the street is being over optimistic about its earnings prospects in the long term.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	PSYS IN/Rs 5,575
Market cap	US$ 9.2bn
Free float	69%
3M ADV	US$ 41.0mn
52wk high/low	Rs 6,599/Rs 4,245
Promoter/FPI/DII	30%/21%/30%

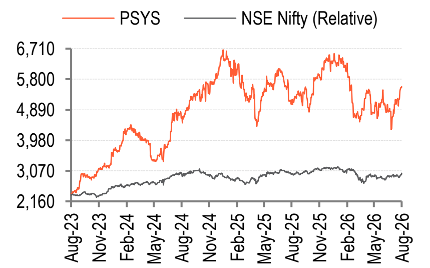
Source: NSE | Price as of 3 Aug 2026

Key financials

Y/E 31 Mar	FY26A	FY27E	FY28E
Total revenue (Rs mn)	147,485	211,987	324,442
EBITDA (Rs mn)	27,955	38,208	56,492
Adj. net profit (Rs mn)	19,542	24,358	29,096
Adj. EPS (Rs)	118.9	153.9	183.8
Consensus EPS (Rs)	118.9	147.1	175.4
Adj. ROAE (%)	27.6	28.5	28.9
Adj. P/E (x)	46.9	36.2	30.3
EV/EBITDA (x)	31.6	21.2	13.1
Adj. EPS growth (%)	31.8	29.5	19.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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SELL
TP: Rs 2,869 | ∀ 8%

ESCORTS KUBOTA | Automobiles | 04 August 2026

Steady show; exports below par, no respite; retain SELL

- **Steady growth in key markets North (22%) and Central (~15%) drives domestic volume up ~23% leading to ~36bps market share gain**
- **Gross margins compress ~358bps YoY due to cost inflation impacts of ~500bps; further ~1.5-2% cost impact expected in Q2FY27**
- **Retain FY27E/FY28E/FY29E EBITDA/EPS to factor growth offsetting cost Value at 20x P/E multiple; revise TP to Rs 2,869 (Rs 2,786). SELL**

Milind Raginwar
Research Analyst
Ayush Dugar
Research Associate
research@bobcaps.in

Volume steady aide marginal market share gains: ESCORTS Q1 revenue grew at 28.3%/8.1% YoY/QoQ to ~Rs32.1bn, driven by healthy tractor volumes growth of 20.5% YoY to ~36.9k units. Domestic tractor volumes grew 22.9% YoY, ahead of industry growth of 18.6%, resulting in a ~36bps market share gain, aided by stronger traction in North & Central markets, product refreshes and better channel execution. However, export volumes fell sharply to ~19% YoY (against industry growth) due to transportation issues and weak demand in the sub-40HP segment.

Margin under pressure despite operating leverage: RM costs surged ~35% YoY amid commodity inflation (~400bps) and minimum wage revision (~100bps). Gross margin effectively fell sharply to ~27.3% (vs ~30.9% YoY), although lower other expenses reflected ongoing cost-control initiatives. EBITDA increased ~10.3% YoY to ~Rs3.5bn, while EBITDA margin contracted ~180bps YoY to ~11.1%. ESCORTS indicated commodity inflation to remain elevated with an additional ~1.5-2% cost pressure expected in Q2FY27, while further price hikes are under evaluation.

Product launches to support growth: ESCORTS has planned launches across Farmtrac, Powertrac and Kubota brands, with new 4WD products planned in the medium term. Growth outlook was revised upward to mid-single digit growth and ESCORTS expects to outpace the industry through market share gains, supported by new products, expanding dealer network and captive financing penetration.

Maintain SELL: Intense competition, adverse regional mix, and commodity cost inflation are challenges in FY27 apart from a higher base effect. ESCORTS has also faced challenges selling Kubota tractors given the engine manufacturing woes. The exports growth is lagging far behind the industry growth. CE business revival will be handy. Effectively we retain our EBITDA/EPS for FY27E/FY28E/FY29E to domestic growth though margins will be under pressure. The new capacity benefits will be from FY29. Our 3-year EBITDA/PAT CAGR stays at 12%/8%. Limited presence in key regions like south India, cost pressure, weak exports will keep ESCORTS performance under pressure. We retain SELL. We revise our TP to Rs 2,869 (Rs 2,786) on rollover to Jun-2028 valuing at 20x stock's LT mean.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	ESCORTS IN/Rs 3,136
Market cap	US$ 4.4bn
Free float	63%
3M ADV	US$ 5.0mn
52wk high/low	Rs 4,180/Rs 2,700
Promoter/FPI/DII	37%/22%/8%

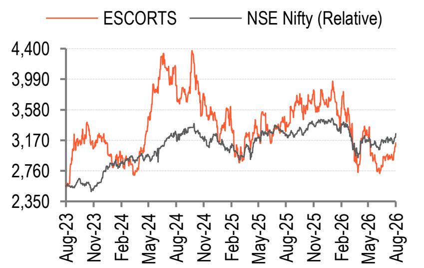
Source: NSE | Price as of 3 Aug 2026

Key financials

Y/E 31 Mar	FY26P	FY27E	FY28E
Total revenue (Rs mn)	1,15,403	1,29,550	1,52,127
EBITDA (Rs mn)	14,963	15,304	18,403
Adj. net profit (Rs mn)	13,429	13,567	15,247
Adj. EPS (Rs)	120.0	121.3	136.3
Consensus EPS (Rs)	120.0	124.1	140.9
Adj. ROAE (%)	10.9	10.4	10.5
Adj. P/E (x)	26.1	25.9	23.0
EV/EBITDA (x)	28.1	27.1	22.6
Adj. EPS growth (%)	19.2	1.0	12.4

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

AUTOMOBILES

04 August 2026

Monsoon recovery not a dampener, July surprises positively

- **OEMs continue positive volume growth momentum despite monsoon, entry level spurt boost PVs (37%); Premium segment spurts 2W (29%)**
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Milind Raginwar
Research Analyst
research@bobcaps.in

PVs pace in fast lane Passenger Vehicles (PV) marked July with strong growth as volumes across our coverage universe spiked ~37% YoY. MSIL grew by a strong ~42% YoY domestic growth, aided by small-car revival and healthy SUV demand. TMPV was the top gainer with 58% growth YoY helped by Punch face-lift in Q4FY26 and New Sierra launch in Q3FY26. MM's healthy SUV-led momentum continued with ~20% YoY growth and HMIL rebounded with ~25% YoY domestic growth as production normalized after supplier related issues in earlier month.

2Ws continue broad-based growth: 2W demand remained healthy, supported by strong domestic recovery and resilient exports. TVSL (~38% YoY) continued to outperform with strength across motorcycles, scooters and EVs. BJAUT (~31% YoY) sustained export-led growth (~42% 2W exports), HMCL (~19% YoY) witnessed healthy recovery across commuter motorcycles and scooters. EIM (~34% YoY) maintained robust momentum, supported by its core 350cc platform while >350cc shows recovery.

3Ws remain key mobility beneficiary: Passenger carrier demand and exports continued supporting the segment. MM/TVSL grew ~53%/~51% YoY, led by strong EV penetration and urban mobility demand. BJAUT (~23% YoY) also delivered healthy growth, with both domestic and export businesses contributing to volumes.

Tractors supported by improving monsoon: Tractor demand showed no signs of slowing down, supported by improved rainfall, stronger Kharif sowing and resilient rural sentiment. MM/ESCORTS domestic tractor sales grew ~20%/~22% YoY, aided by healthy wholesale and retail demand. VSTT remained weak (-9% YoY) as declining power tiller volumes more than offset stable mechanisation demand.

CV momentum remains robust: CV demand stayed strong, assisted by healthy freight movement, infrastructure activity and replacement demand. AL (~30% YoY) and VECV (~16% YoY) reported healthy growth led by trucks and LCVs, while TMCV (~38% YoY) sustained double-digit momentum, reflecting continued strength in the overall CV cycle.

Key ratings: Retain BUY on MSIL and MM; assign HOLD rating to the 2Ws pack (TVSL, EIM, BJAUT, HMCL) on fair valuations. SELL on VSTT.

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Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 (Perpetual)**
SEBI Stock Broker Registration No: **INZ000159332**
SEBI Depository Participant Registration No: **IN-DP-728-2022**
SEBI Merchant Banker Registration No: **INM000009926**
Phone: +91-22-61389300
Name of the Compliance Officer: Mr. Sameer Khobrekar
Email ID: Compliance@bobcaps.in; Phone no.: +91-22-61389358
For any queries or grievances, you may contact the Grievance Officer.
Name of the Grievance Officer: Mr. Nilesh Mehta
Email ID: head-customercare@bobcaps.in; Phone no: 92288 60945

Brand Name: **BOBCAPS**
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BUY – Expected return >+15%

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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