

TECH MAHINDRA

RESULT UPDATE

KEY DATA

Rating	REDUCE
Sector relative	Underperformer
Price (INR)	1,468
12 month price target (INR)	1,350
52 Week High/Low	1,808/1,209
Market cap (INR bn/USD bn)	1,438/16.2
Free float (%)	54.2
Avg. daily value traded (INR mn)	2,837.0

SHAREHOLDING PATTERN

	Mar-25	Dec-24	Sep-24
Promoter	35.01%	35.01%	35.03%
FII	22.95%	24.20%	23.66%
DII	32.12%	30.74%	31.00%
Pledge	0%	0%	0%

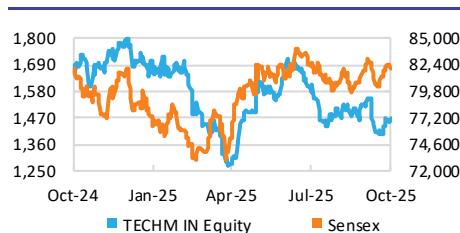
FINANCIALS

Year to March	FY25A	FY26E	FY27E	FY28E
Revenue	530	557	588	627
EBITDA	70	86	95	107
Adjusted profit	43	52	61	71
Diluted EPS (INR)	47.9	58.6	69.2	79.4
EPS growth (%)	59.4	22.4	18.0	14.8
RoAE (%)	15.7	18.9	21.5	22.9
P/E (x)	30.6	25.0	21.2	18.5
EV/EBITDA (x)	18.0	14.6	13.0	11.4
Dividend yield (%)	3.1	3.1	3.4	3.4

CHANGE IN ESTIMATES

Year to March	Revised estimates		% Revision	
	FY26E	FY27E	FY26E	FY27E
Rev (USD mn)	6,368	6,684	0.0%	-1.7%
EBIT	66.9	76.0	4.4%	1.7%
Adjusted profit	52.0	61.4	0.1%	1.2%
Diluted EPS (INR)	58.7	69.2	0.1%	1.1%

PRICE PERFORMANCE



Decent results; still a long way to go

TechM posted decent Q2FY26 results. Revenue at USD1,586mn (+1.6% CC QoQ) was better than our estimate of +0.9% CC QoQ. EBIT margin expanded 110bp QoQ to 12.1%, higher than our estimate of 11.8%. PAT came in at INR11.9bn, slightly below our estimate. TCV was strong again at USD816mn (+35% YoY).

TechM has been making steady progress towards its FY27 goals. However, margin expansion would be more difficult hereafter, given the low-growth environment, weak macro and limited levers left for expansion. We are tweaking FY26E/27E EPS marginally by +0.1%/+1.1%. We roll forward valuation to 18x (earlier 19x) average of FY27E–28E PE; retain 'REDUCE' with a TP of INR1,350 (from INR1,300).

Strong sequential growth led by Retail; strong deal-wins again

Revenue grew +1.6% QoQ/-0.3% YoY in CC—primarily led by the Retail vertical with +8.9% QoQ growth, in turn led by strong tailwind in the logistic segment. Manufacturing grew +5% QoQ with strong demand in Aero while BFSI grew+3.9% QoQ. Telecom decreased -2.0% QoQ although the largest client has stabilised its spend and delivered growth above company growth. By geography, growth was led by Americas with +2.6% QoQ followed by RoW at +1.5% while Europe declined -1.1% QoQ. Deal-wins of USD816mn, +35% YoY, broad-based wins across verticals.

Margin expansion continues; FY27 outlook unchanged

EBIT margin came in 12.1%, expansion of 110bp QoQ. Margin expansion was driven by an improvement in fixed-price project productivity, volume growth, lower SGA optimisation and Fx benefit (40bp). Headcount increased by 4,197 taking total headcount to 152.7k. Utilisation fell 70bp QoQ while attrition increased marginally to 12.8%. Management expects revenue growth in FY27 for the Industry as well as TechM to be higher than FY26 (though lower than earlier anticipated) and reiterate margin guidance of 15% by FY27E driven by productivity improvements.

Good progress—but only back to where it started

TechM has successfully managed to take margins closer to its 15% target. However, we note that at 12% margin levels—it is still below its 5Y/10Y average margins of 13.4%/13.8%, before Mohit joined as the CEO. All along, its revenue growth remains below peers. Thus, in absolute sense, TechM has only come back to where it started. While we like the progress it is making under Mohit's leadership, in making its business fundamentally strong and sustainable, we believe it would be a much longer road to that destination than the Street expects. Given valuations are comparable with TCS/Infosys, we find risk-reward unfavourable; retain 'REDUCE'.

Financials

Year to March	Q2FY26	Q2FY25	% Change	Q1FY26	% Change
Net Revenue	139,949	133,132	5.1	133,512	4.8
EBITDA	21,680	17,502	23.9	19,352	12.0
Adjusted Profit	11,945	12,501	(4.4)	11,406	4.7
Diluted EPS (INR)	13.5	14.1	(4.5)	12.9	4.7

Financial Statements

Income Statement (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Total operating income	529,883	556,617	588,191	627,157
Gross profit	175,268	195,342	210,119	225,762
Employee costs	0	0	0	0
Other expenses	0	0	0	0
EBITDA	69,911	85,821	95,422	106,602
Depreciation	18,529	18,969	19,423	19,450
Less: Interest expense	3,217	2,453	1,805	1,805
Add: Other income	10,930	6,185	7,418	8,539
Profit before tax	56,532	71,688	83,271	95,546
Prov for tax	14,002	19,587	21,651	24,842
Less: Other adjustment	0	0	0	0
Reported profit	42,515	52,047	61,421	70,504
Less: Excp.item (net)	0	0	0	0
Adjusted profit	42,515	52,047	61,421	70,504
Diluted shares o/s	887	887	887	887
Adjusted diluted EPS	48	59	69	79
DPS (INR)	45.1	45.1	50.1	50.1
Tax rate (%)	24.8	27.3	26.0	26.0

Important Ratios (%)

Year to March	FY25A	FY26E	FY27E	FY28E
Cost of revenues (%)	66.9	64.9	64.3	64.0
SG&A expenses (%)	19.9	19.7	19.5	19.0
Depreciation (%)	3.5	3.4	3.3	3.1
EBIT margin (%)	9.7	12.0	12.9	13.9
Net profit margin (%)	8.0	9.4	10.4	11.2
Rev Growth (% YoY)	1.9	5.0	5.7	6.6
EBIT growth (% YoY)	63.3	30.1	13.7	14.7
Adj. profit growth (%)	59.4	22.4	18.0	14.8

Assumptions (%)

Year to March	FY25A	FY26E	FY27E	FY28E
GDP (YoY %)	6.0	6.2	6.2	6.2
Repo rate (%)	6.0	5.0	5.0	5.0
USD/INR (average)	84.6	87.4	88.0	88.0
USD revenue (USD mn)	6,263.9	6,368.1	6,684.0	7,126.8
YoY growth (%)	(0.2)	1.7	5.0	6.6
CC YoY growth (%)	0.4	1.2	5.0	6.6
Tax rate (%)	24.8	27.3	26.0	26.0
Capex (INR mn)	18,188.0	21,895.4	19,623.1	19,650.3

Valuation Metrics

Year to March	FY25A	FY26E	FY27E	FY28E
Diluted P/E (x)	30.6	25.0	21.2	18.5
Price/BV (x)	4.8	4.7	4.4	4.1
EV/EBITDA (x)	18.0	14.6	13.0	11.4
Dividend yield (%)	3.1	3.1	3.4	3.4

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Share capital	4,424	4,427	4,427	4,427
Reserves	269,191	272,684	289,732	315,864
Shareholders funds	273,615	277,111	294,159	320,291
Minority interest	4,302	4,489	4,489	4,489
Borrowings	0	0	0	0
Trade payables	70,905	73,980	77,107	80,753
Other liabs & prov	0	0	0	0
Total liabilities	444,945	470,879	495,604	530,689
Net block	140,021	142,947	143,147	143,347
Intangible assets	0	0	0	0
Capital WIP	0	0	0	0
Total fixed assets	140,021	142,947	143,147	143,347
Non current inv	31,821	30,824	30,824	30,824
Cash/cash equivalent	45,422	50,657	62,800	81,056
Sundry debtors	115,470	129,651	136,788	146,371
Loans & advances	9,605	9,063	9,561	10,231
Other assets	42,849	46,546	49,055	52,424
Total assets	444,945	470,879	495,604	530,689

Free Cash Flow (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Reported profit	42,530	52,101	61,621	70,704
Add: Depreciation	18,529	18,969	19,423	19,450
Interest (net of tax)	0	0	0	0
Others	0	0	0	0
Less: Changes in WC	(1,673)	5,500	(5,447)	(8,541)
Operating cash flow	59,386	76,570	75,597	81,614
Less: Capex	(18,188)	(21,895)	(19,623)	(19,650)
Free cash flow	41,198	54,675	55,974	61,963

Key Ratios

Year to March	FY25A	FY26E	FY27E	FY28E
RoE (%)	15.7	18.9	21.5	22.9
RoCE (%)	17.1	19.0	21.3	22.7
Div Payout Ratio(%)	94.0	76.8	72.4	63.0
Working cap/Sales (%)	18.3	20.0	20.1	20.5
Receivable days	79	80	83	82
Asset Turnover Ratio	0.6	0.6	0.6	0.6
Current Ratio	3.0	3.2	3.3	3.6
Net debt/equity (x)	(0.2)	(0.2)	(0.2)	(0.2)

Valuation Drivers

Year to March	FY25A	FY26E	FY27E	FY28E
EPS growth (%)	59.4	22.4	18.0	14.8
RoE (%)	15.7	18.9	21.5	22.9
EBITDA growth (%)	40.8	22.8	11.2	11.7
Payout ratio (%)	94.0	76.8	72.4	63.0

Q2FY26 conference call: Key highlights

- Revenue grew 1.6% QoQ in CC, marking the fastest sequential CC growth in the last ten quarters.
- EBIT margin came in at 12.1%, up 108bp QoQ/254bp YoY. Margin expansion must have been driven by an improvement in fixed-price project productivity, volume growth, SG&A optimisation and FX benefit of 40bp.
- Deal-wins of USD816mn, up 35% YoY, are broad-based across verticals.
- **Key clients:** Average annual revenue from the USD20mnplus client bucket continues to grow above the company average, with contributions from this segment crossing USD1bn this quarter.
- **Verticals (% YoY):** Communication inched down 2% YoY; the largest client has stabilised spend and continues to grow faster than the segment. Manufacturing clocked 5.2% growth YoY. Aerospace sees strong demand while Automotive remains stable. BFSI increased 6.2% YoY. The company has established a strong foundation to build ahead. Retail reported 7.2% YoY growth. It is seeing strong tailwinds in the logistics segment.
- **AI/GenAI:** Customer expectations on GenAI benefits have come to realistic levels. TechM launched Orion Agentic AI platform. Selected as a key player in the India AI mission, TechM is partnering to develop an indigenous sovereign LLM with 1 trillion parameters, a significant technical milestone that places it among the largest AI models under development globally.
- **Geography (% YoY):** Europe reported 5.5% YoY growth, Americas declined 2.7% YoY and RoW declined 0.5% YoY.
- **Outlook:** Management expects revenue growth in FY27 for the industry as well as TechM to be higher than FY26.

Exhibit 1: Financial snapshot (INR mn)

Year to March	Q2FY26	Q1FY26	QoQ (%)	Q2FY25	YoY (%)	FY25	FY26E	FY27E
Total revenues	139,949	133,512	4.8	133,132	5.1	529,883	556,617	588,191
Cost of Revenue	90,727	88,097	3.0	90,242	0.5	354,615	361,275	378,072
Gross profit	49,222	45,415	8.4	42,890	14.8	175,268	195,342	210,119
Selling & General Admin Expenses	27,542	26,063	5.7	25,388	8.5	105,357	109,521	114,697
EBITDA	21,680	19,352	12.0	17,502	23.9	69,911	85,821	95,422
Depreciation	4,687	4,581	2.3	4,698	(0.2)	18,529	18,969	19,423
EBIT	16,993	14,771	15.0	12,804	32.7	51,382	66,851	75,999
Interest Expenses	772	778	(0.8)	890	(13.3)	3,217	2,453	1,805
Other income	400	1,886	(78.8)	6,228	(93.6)	10,930	6,185	7,418
Forex gain/ (loss)	(28)	302	(109.3)	(1,007)	(97.2)	(2,563)	1,104	1,660
PBT	16,593	16,181	2.5	17,135	(3.2)	56,532	71,688	83,271
Provision for taxation	4,576	4,893	(6.5)	4,560	0.4	14,002	19,587	21,651
Minority interest	(72)	118	(161.0)	(74)	(2.7)	(15)	(54)	(200)
Reported Profit	11,945	11,406	4.7	12,501	(4.4)	42,515	52,047	61,421
Adjusted profit	11,945	11,406	4.7	12,501	(4.4)	42,515	52,047	61,421
Diluted EPS (INR)	13.5	12.9	4.7	14.1	(4.5)	47.9	58.7	69.2
as % of net revenues								
Gross profit	35.2	34.0		32.2		33.1	35.1	35.7
Selling & General Admin Expenses	19.7	19.5		19.1		19.9	19.7	19.5
EBITDA	15.5	14.5		13.1		13.2	15.4	16.2
Adjusted net profit	8.5	8.5		9.4		8.0	9.4	10.4
Reported net profit	8.5	8.5		9.4		8.0	9.4	10.4
Tax rate	27.6	30.2		26.6		24.8	27.3	26.0

Source: Company, Nuvama Research

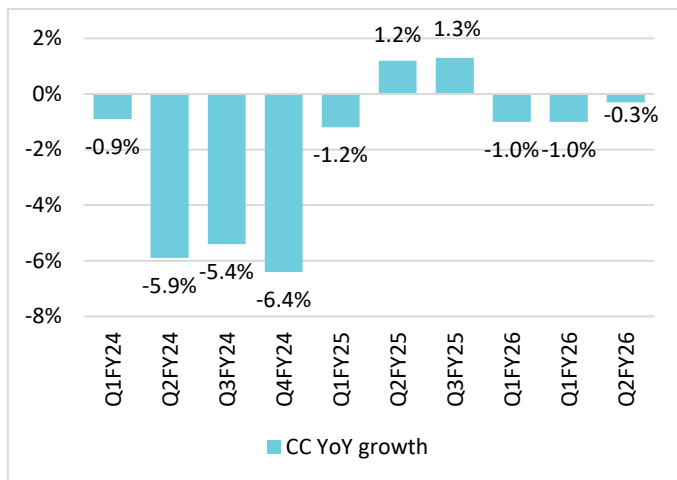
Exhibit 2: Revenue growth (YoY) by vertical, geography and client mix

Segmental YoY growth %	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26
Verticals										
Telecom	-13.1%	-17.0%	-18.7%	-21.3%	-9.9%	-1.7%	-5.7%	2.5%	2.5%	-2.2%
Manufacturing	7.3%	3.8%	8.3%	4.9%	6.4%	0.6%	-7.2%	-4.1%	-4.1%	4.9%
Technology, media	40.7%	34.0%	25.6%	24.4%	-3.5%	2.4%	3.5%	-3.3%	-3.3%	-8.5%
BFSI	-9.0%	-10.1%	-12.3%	-8.3%	-1.3%	4.6%	8.3%	4.7%	4.7%	6.2%
Retail, transport & logistics	-11.7%	-9.3%	-9.9%	-10.6%	4.8%	4.7%	-0.5%	3.8%	3.8%	7.0%
Healthcare & Life sciences	NA	NA	NA	NA	6.1%	4.4%	1.9%	-5.1%	-5.1%	-1.4%
Others	NA	NA	NA	NA	-5.4%	29.6%	30.7%	2.4%	2.4%	-12.9%
Geographies										
Americas	1.6%	-0.4%	-1.6%	-5.0%	-0.7%	-2.0%	-2.3%	-5.9%	-5.9%	-2.7%
Europe	-5.4%	-8.6%	-8.2%	-11.2%	-7.3%	3.9%	-1.0%	11.7%	11.7%	5.6%
Rest of world	-5.5%	-10.8%	-11.3%	-7.6%	-2.0%	9.6%	4.6%	2.9%	2.9%	-0.5%
Client mix										
Top 5	-20.6%	-15.1%	-15.6%	-13.8%	-11.3%	-9.0%	-8.8%	0.9%	0.9%	2.7%
Top 10	-11.7%	-8.5%	-8.6%	-7.6%	-9.5%	-5.9%	-7.9%	0.8%	0.8%	-2.5%
Top 20	-6.7%	-7.4%	-9.1%	-10.0%	-4.1%	1.2%	-1.8%	1.8%	1.8%	-4.1%

Source: Company, Nuvama Research

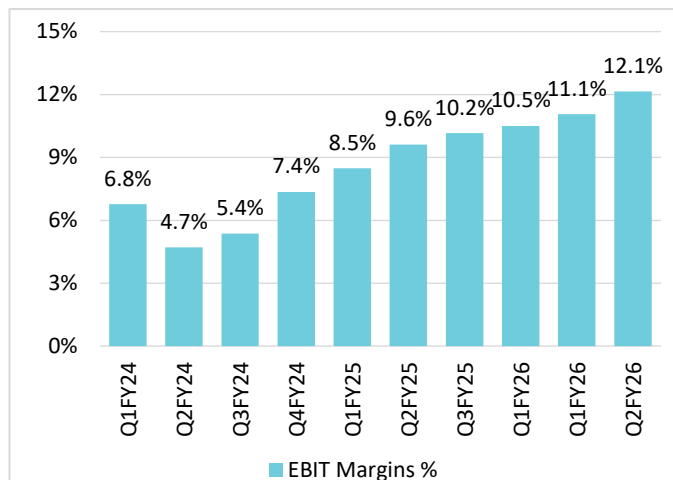
Key charts

Exhibit 3: Revenue growth (CC YoY)



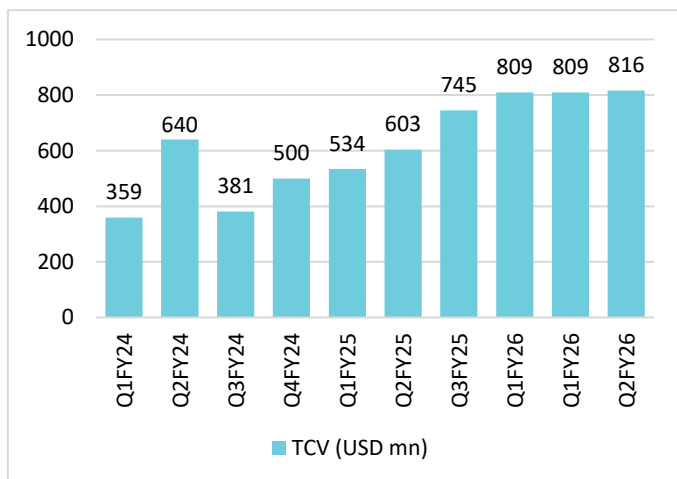
Source: Company, Nuvama Research

Exhibit 4: EBIT margin



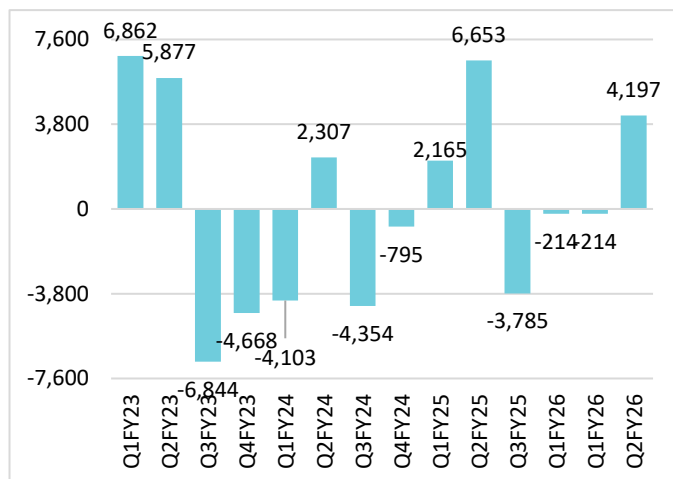
Source: Company, Nuvama Research

Exhibit 5: TCV (USD mn)



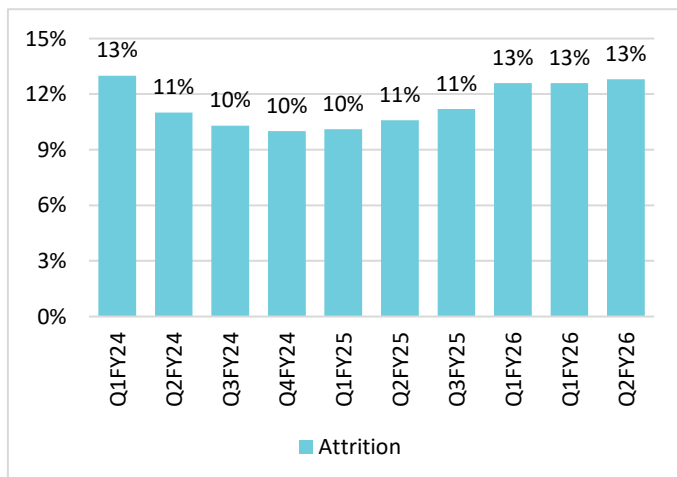
Source: Company, Nuvama Research

Exhibit 6: Net headcount addition QoQ



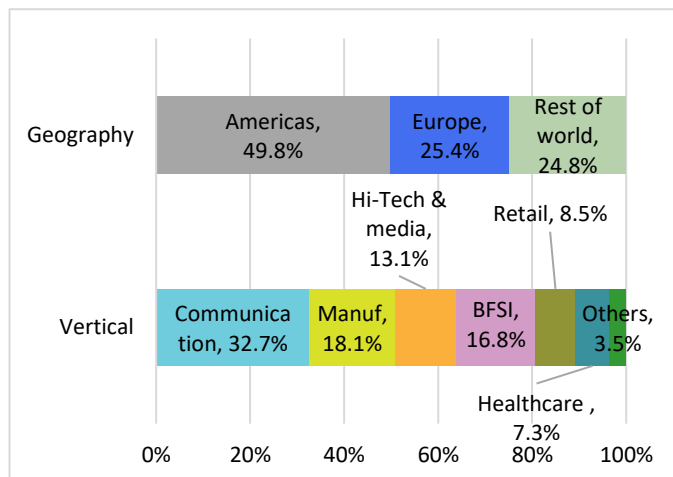
Source: Company, Nuvama Research

Exhibit 7: Attrition



Source: Company, Nuvama Research

Exhibit 8: Revenue breakdown by vertical and geography



Source: Company, Nuvama Research

Company Description

Tech Mahindra has been one of the leaders in providing end-to-end IT solutions in the telecom vertical. Its merger with Mahindra Satyam (MSAT) in 2013 made it the fifth largest Indian IT player.

The company was incorporated in 1986 as a joint venture between Mahindra & Mahindra and British Telecommunications (BT). In 2009, Tech Mahindra acquired Satyam Computer Services Limited. With a headcount of more than 157,000, Tech Mahindra is focused on leveraging next-generation technologies including 5G, Blockchain, Quantum Computing, Cybersecurity and Artificial Intelligence to enable end-to-end digital transformation for global customers.

Investment Theme

TechM revenue growth has been lagging industry growth rate. Its vertical mix is different from its peers with Telecom being the largest vertical with ~40% of revenue while most of its peers has BFSI as largest vertical. TechM is fifth-largest IT Services Company in India from revenue perspective.

While we see strong sustainable demand (transformational/cost-takeout deals) driving growth for the sector – TechM is likely to underperform peers, primarily due to relatively weak enterprise business and few margin levers. Inexpensive valuations and high dividend yield limit the downside potential.

Key Risks

- Delay in telecom spends can impact estimates meaningfully
- High exposure to Europe may affect growth
- Currency appreciation
- Substantial cut in US technology budgets, particularly in digital

Additional Data

Management

CEO	Mohit Joshi
CFO	Rohit Anand
COO	Atul Soneja
Other	
Auditor	B S R & Co. LLP

Holdings – Top 10*

	% Holding		% Holding
Mahindra & Mahi	25.32	Blackrock Inc	2.38
LIC	10.84	ICICI Prudentia	2.29
TML Benefit Trus	9.62	Kotak Mahindra	1.91
SBI Funds Manag	4.14	Aditya Birla Su	1.77
Vanguard group	2.89	Aditya Birla Su	1.54

*Latest public data

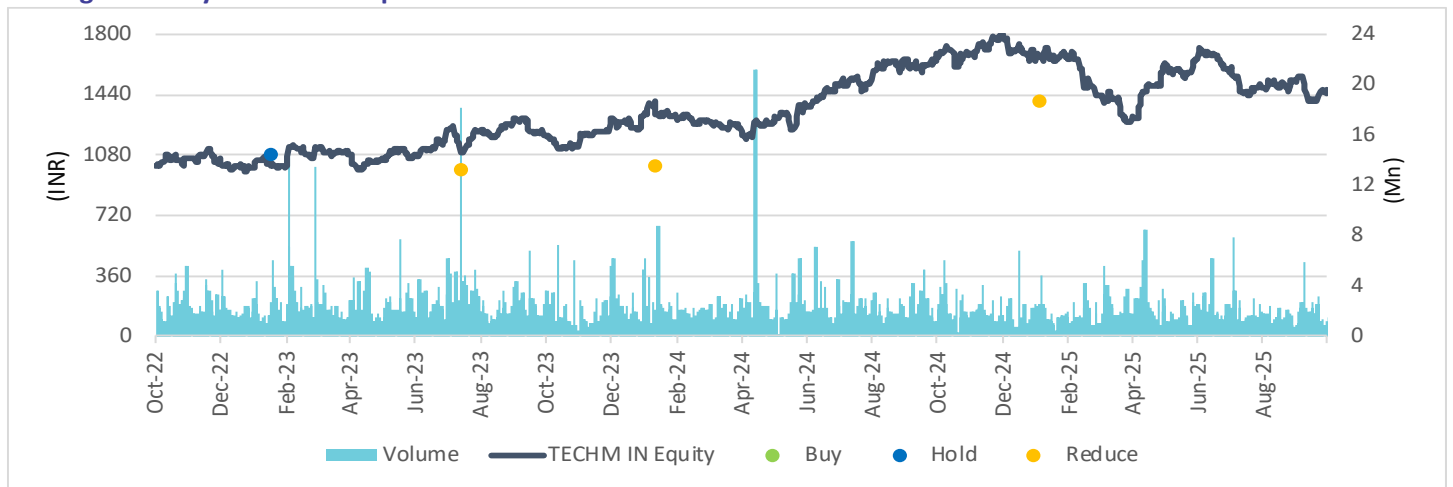
Recent Company Research

Date	Title	Price	Reco
16-Jul-25	Weak macro to constrain margin expansion; <i>Result Update</i>	1,607	Reduce
23-Apr-25	Tall ask ahead with the macro weakening; <i>Result Update</i>	1,445	Reduce
17-Jan-25	Solid quarter; tougher road starts now; <i>Result Update</i>	1,675	Reduce

Recent Sector Research

Date	Name of Co./Sector	Title
13-Oct-25	HCL Technologies	Decent results; valuations full; <i>Result Update</i>
09-Oct-25	TCS	Decent results; capital allocation in fo; <i>Result Update</i>
01-Oct-25	IT	Stable quarter amid high uncertainty ; <i>Sector Update</i>

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	205
Hold	<15% and >-5%	68
Reduce	<-5%	37

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