

July 28, 2025

Margin trajectory on track; revenue recovery to be gradual...

About the stock: Tech Mahindra (TechM) has over 1.48 lakh+ employees across 90 countries serving 1000+ clients in the Communication, BFSI, Manufacturing, Hi-tech, Healthcare & Retail sectors.

Q1FY26 Performance: TechM in Q1FY26 reported a revenue of US\$1,564 mn, up 1% QoQ/0.4% YoY (down 1.4% QoQ CC /1% YoY CC). EBIT margin was up ~ 60 bps QoQ/~260 bps YoY. PAT stood at ₹1,141 crore, down 2.2% QoQ/ up 34% YoY.

Investment Rationale

- Gradual revenue recovery ahead amidst macro uncertainty:** TechM reported reasonably steady Q1FY26 performance with revenues slightly below expectations, but still faring better than some larger peers amid a challenging macro. Some softness was seen in select verticals (Auto within Manufacturing, in Hi-Tech due to client specific issue in a semiconductor client and Healthcare), while the Communications segment has stabilized, with signs of recovery in Europe and Americas. Management commentary suggests optimism around long-term potential of BFSI and a pick-up in Hi-Tech from H2 reflecting signs of a gradual recovery in revenues. Accordingly, **we expect US\$ revenue to grow at CAGR of 4.7% over FY25-27E.**
- Deal wins support revenue recovery outlook:** While Q1FY26 revenue performance was weak in CC terms (-1.4% QoQ/-1% YoY), deal wins were robust, with **TCV at US\$809 mn (up 51.5% YoY)**, signalling strong client confidence. With large deals expected to complete transition and ramp up execution from Q2 onwards, **management expects revenue to pick up from Q2 and that FY26 should see an improvement over FY25**, offering near-term growth visibility and recovery.
- Margin trajectory improving with structural levers in play:** EBIT margin improved by ~60 bps QoQ/~260 bps YoY to 11.1%, marking the 7th consecutive quarter of expansion, driven by Project Fortius, G&A optimization, & offshoring initiatives. Despite headwinds from absence of Comviva seasonality, higher visa costs & lower utilization, **the company remains on track to achieve its FY27 margin target of 15%, with sustained focus on fixed-price productivity, better deal governance, integration synergies & better margins in new deals.** However, amidst uncertain macro environment, **we bake in EBIT margins of 12.5%/ 14.2% for FY26E/ FY27E.**

Rating and Target Price

- While near-term macros remain volatile, TechM's diversified exposure and improving segmental mix and healthy TCV position it well for a gradual revenue recovery. Note, TechM is on track to achieve its FY27 EBIT margin goal of 15%
- We maintain our **BUY rating, valuing it at 24x P/E on FY27E EPS, with target price of ₹1,750 (vs ₹1,730 earlier).**

Key Financial Summary

(₹ crore)	FY23	FY24	FY25	5 Years			2 years CAGR (FY25-27E)
				CAGR (FY20-25)	FY26E	FY27E	
Net sales	53,290	51,996	52,988	7.5	55,072	59,722	6.2
EBIT	6,072	3,147	5,138	4.8	6,876	8,481	28.5
EBIT Margin (%)	11.4	6.1	9.7		12.5	14.2	
Net Profit	4,831	2,358	4,252	2.2	5,260	6,494	23.6
EPS (₹)	54.8	26.7	48.0		59.4	73.4	
P/E	26.7	54.8	30.4		24.6	19.9	
RoNW (%)	17.3	8.8	15.5		18.7	21.0	
RoCE (%)	20.5	12.6	18.6		23.0	25.4	

Source: Company, ICICI Direct Research

Tech Mahindra

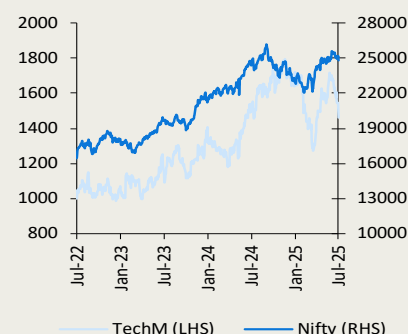
Particulars

Particulars	Amount
Market Cap (₹ Crore)	1,29,510
Total Debt (₹ Crore)	471
Cash & Inv. (₹ Crore)	7,435
EV (₹ Crore)	1,22,547
52 week H/L	1807/ 1209
Equity capital	442
Face value (₹)	5

Shareholding pattern

	Sep-24	Dec-24	Mar-25	Jun-25
Promoters	35	35	35	35
FII	24	24	23	23
DII	31	31	32	32
Public	10	10	10	10

Price Chart



Key risks

- Slower TCV to revenue conversion
- Lower than expected margin expansion;

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Performance highlights and outlook

- **Revenue Performance:** TechM reported revenue of US\$1,564 mn up 1% QoQ/0.4% YoY (down 1.4% QoQ /1% YoY in CC terms). In rupee terms, the revenue stood at ₹13,351 crore, down 0.2% QoQ/up 2.7% YoY.
- **Geography performance:** Geography wise on a QoQ basis Europe (26% of mix) and America (49.2% of mix) grew by 3.4% and 2.7% while ROW (24.8% of the mix) de-grew by 4.4%.
- **Segment performance:** Segment wise on a QoQ basis, Manufacturing (17% of the mix), Communications (33.2% of the mix), Hi-Tech & Media (13.2% of the mix), Healthcare & Lifesciences (7.3% of the mix) grew by 4%, 2.8%, 1.4% and 0.2% while Others (4.5% of the mix), Retail transport & logistics (8.1% of the mix) and BFSI (16.7% of the mix) declined by 13.4%, 09% and 0.5% respectively.
 - **BFSI:** The segment reported a QoQ decline of 0.5%, though on a YoY basis it delivered decent 4.7% growth and continues to be the fastest growing vertical for TechM. **Management remains confident of its long-term potential across geographies.**
 - **Hi-Tech:** The segment saw **client specific headwinds** from a semiconductor client undertaking restructuring efforts leading to reduction in employees and discretionary spend. **Management expects a recovery in H2.** Notably, a BPM deal in hi-tech which had slipped in last quarter is expected to come back in Q2.
 - **Communication:** Management indicated that the **telecom business has stabilized**, showing steady growth. While some volatility persists in markets like India and South Africa, Europe is seeing a healthy pipeline, particularly around consolidation-driven deals. Comviva has made notable progress in the European region. In the Americas, operations have stabilized, with recovery expected to gain traction in the coming quarters.
 - **Manufacturing** The segment continued to face headwinds, especially in the auto sub-segment, with overall manufacturing impacted by tariff-related pressures and clients holding back on discretionary spending. **The near-term outlook remains uncertain, and the longer-term impact of tariffs is likely to be a structural drag on growth.**
- **Margin performance:** EBIT margin was up ~ 60 bps QoQ/~260 bps YoY to 11.1% on the back of Project Fortius, G&A optimisation & offshoring partly offset by headwinds from absence of Comviva seasonality, higher visa costs and lower utilisation. PAT stood at ₹1,141 crore, down 2.2% QoQ/ up 34% YoY.
- **Outlook:** As per the management, the revenue growth is anticipated to pick up from Q2 as large deal transitions move into the execution phase. While the broader outlook remains cautious given ongoing macro uncertainties, management maintains that FY26 should see an improvement over FY25. The long-term EBIT margin aspiration of 15% by FY27 remains unchanged.
- **Margin Levers:** Margin levers continue to be subcontracting, offshoring, fixed-price productivity improvements, better governance on contractual reviews on new and existing deals, integration of portfolio companies and better margins in new deals.
- **TCV Performance:** TCV for the quarter stood at US\$809 mn, up 1.4% QoQ/ 51.5% YoY. **The management expects this TCV to ramp up Q2 onwards, assuming stable macros going ahead.**
- **Headcount & Attrition:** The total headcount decreased by 214 employees (3rd straight quarter of decline) at 1,48,517. The attrition rate at 12.6%, was up ~60 bps QoQ. BPO headcount has seen an increase of 642 employees QoQ to 60,278 partly on account of BPO seasonality and partly in anticipation of ramp up of previously won deals.

Quarter Performance

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
Revenue (₹ crore)	13,351	13,006	2.7	13,384	(0.2)	Revenue declined by 1.4% QoQ and 1% YoY in CC terms.
Employee expenses	9,524	9,553	(0.3)	9,480	0.5	
Gross Margin	3,828	3,452	10.9	3,904	(2.0)	
Gross margin (%)	28.7	26.5	212 bps	29.2	-50 bps	
SG&A expenses	1,892	1,888	0.2	2,037	(7.1)	
EBITDA	1,935	1,565	23.7	1,867	3.6	
EBITDA Margin (%)	14.5	12	248 bps	14.0	54 bps	
Dep. & amort.	458.1	462.2	(0.9)	462.1	(0.9)	
EBIT	1,477	1,102	34.0	1,405	5.1	
EBIT Margin (%)	11.1	8	259 bps	10.5	56 bps	EBIT margin was up ~ 60 bps QoQ/~260 bps YoY on the back of Project Fortius, G&A optimisation & offshoring partly offset by headwinds from absence of Comviva seasonality, higher visa costs and lower utilisation.
Other income (less int.)	141	73	91.9	87	60.8	
PBT	1,618	1,176	37.6	1,493	8.4	
Tax paid	489	313	56.2	322	51.8	
PAT	1,141	851	34.0	1,167	(2.2)	
Adjusted PAT	1,141	851	34.0	1,167	(2.2)	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Net sales	51,996	52,988	55,072	59,722
Growth (%)	(2)	2	4	8
COGS (empl. exp.)	39,115	38,085	39,003	42,044
Gross profit	12,881	14,904	16,069	17,678
S,G&A expenses	7,916	7,912	7,400	7,286
Total Operating Exp.	47,031	45,997	46,403	49,330
EBITDA	4,965	6,991	8,669	10,392
Growth (%)	(38)	41	24	20
Depreciation	1,817	1,853	1,793	1,911
Interest	392	322	318	280
Other Income	917	855	723	629
PBT	3,672	5,672	7,281	8,830
Total Tax	828	1,400	2,002	2,296
Exceptional item	-	-	-	-
PAT	2,358	4,252	5,260	6,494
Growth (%)	(51)	80	24	23
EPS (₹)	26.7	48.0	59.4	73.4

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Profit before Tax	3,672	5,672	7,281	8,830
Add: Depreciation	1,817	1,853	1,793	1,911
(Inc)/dec in Current Assets	1,596	(929)	(633)	(1,423)
Inc/(dec) in CL and Provisions	(297)	663	480	1,071
Taxes paid	(1,247)	(1,474)	(2,002)	(2,296)
CF from operating activities	6,376	5,786	6,514	7,744
(Inc)/dec in Investments	(599)	38	-	-
(Inc)/dec in Fixed Assets	(738)	(483)	(838)	(909)
Others	153	191	723	629
CF from investing activities	(1,314)	(23)	(115)	(280)
Issue/(Buy back) of Equity	24	9	-	-
Inc/(dec) in loan funds	(69)	(1,075)	-	-
Dividend paid & dividend tax	(3,917)	(3,842)	(4,471)	(3,732)
Inc/(dec) in debentures	-	-	-	-
Finance charges	(351)	(264)	(318)	(280)
CF from financing activities	(4,767)	(5,799)	(5,139)	(4,362)
Net Cash flow	296	(37)	1,260	3,103
Cash by acquisition	-	-	-	-
Opening Cash	4,255	4,736	4,542	5,802
Cash carried to B/S	4,736	4,542	5,802	8,905

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Liabilities				
Equity Capital	441	442	442	442
Reserve and Surplus	26,228	26,919	27,708	30,470
Total Shareholders funds	26,669	27,362	28,151	30,913
Minority Interest	477	430	451	495
Total Debt	1,531	471	471	471
Other long term liabilities	3,558	4,029	4,029	4,029
Total Liabilities	32,236	32,292	33,102	35,908
Assets				
Net Block	3,518	3,899	3,294	2,641
Capital WIP	101	21	21	21
Investments	3,238	3,182	3,184	3,188
Deferred tax assets	1,440	1,857	1,857	1,857
Goodwill on consolidation	7,511	7,699	7,699	7,699
Debtors	11,402	11,547	12,001	13,014
Loans and Advances	-	-	-	-
Other non-current assets	4,064	4,667	4,663	4,663
Cash	4,736	4,542	5,802	8,905
Other current assets	4,472	4,658	4,841	5,250
Total Current Assets	23,426	23,679	25,577	30,102
Trade payables	3,785	4,411	4,584	4,971
Current liabilities	6,266	6,515	6,771	7,343
Provisions	1,137	1,277	1,327	1,439
Total Current Liabilities	11,188	12,203	12,682	13,753
Net Current Assets	12,238	11,477	12,894	16,348
Application of Funds	32,236	32,292	33,102	35,908

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Per share data (₹)				
EPS	26.7	48.0	59.4	73.4
BV	300.7	308.5	317.3	348.5
DPS	40	45	50	42
Cash Per Share	53.4	51.2	65.4	100.4
Operating Ratios (%)				
EBIT Margin	6.1	9.7	12.5	14.2
PAT Margin	4.5	8.0	9.6	10.9
Return Ratios (%)				
RoE	8.8	15.5	18.7	21.0
RoCE	12.6	18.6	23.0	25.4
RoIC	12.8	20.7	28.2	35.2
Valuation Ratios (x)				
P/E	54.8	30.4	24.6	19.9
EV / EBITDA	24.9	17.5	14.0	11.4
EV / Net Sales	2.4	2.3	2.2	2.0
Market Cap / Sales	2.5	2.4	2.4	2.2
Price to Book Value	4.9	4.7	4.6	4.2
Solvency Ratios				
Debt/EBITDA	0.3	0.1	0.1	0.0
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	1.4	1.3	1.3	1.3
Quick Ratio	1.4	1.3	1.3	1.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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