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Growth recovery key for sustained margin expansion

About the stock: Tech Mahindra (TechM) has over 1.50 lakh+ employees across 90 countries serving 1000+ clients in the Communication, BFSI, Manufacturing, Hi-tech, Healthcare & Retail sectors.

Q2FY26 Performance: TechM in Q2FY26 reported a revenue of US\$1,586 up 1.4% QoQ/down 0.2% YoY (up 1.6% QoQ CC/down 0.3% YoY CC). EBIT margin was up ~100 bps QoQ/~250 bps YoY to 12.1%. PAT stood at ₹1,194 crore, up 4.7% QoQ/down 4.4% YoY.

Investment Rationale

- **Broad-based revenue momentum:** TechM reported its strongest constant-currency growth in ten quarters (+1.6% QoQ), driven by broad-based growth across retail & logistics (+9% QoQ), manufacturing (+5.2% QoQ), BFSI (+3.8%) and healthcare (+2.2%). Geo wise, growth in Americas (+2.6% QoQ) and RoW (+1.4% QoQ) offsets temporary client specific softness in Europe (-1% QOQ), while top clients continue to stabilize. Management expects FY27 to be better than FY26 with H2FY26 seeing uptick from the strong deal wins (TCV US\$ 816mn, +35% YoY - vs. an average of USD 650 mn for the last eight quarters.) and strategic account additions which support a positive growth trajectory. IT reiterated potential acceleration in FY27, albeit at a slower pace than what was expected earlier owing to the macro-overhang. Accordingly, **we expect US\$ revenue to grow at CAGR of 4% over FY25-27E vs 4.6% earlier.**
- **Margin expansion & operational efficiency:** EBIT margins improved ~100 bps QoQ to 12.1% due to productivity gains in fixed-price contracts, volume growth, and SG&A optimization with a 40-bps benefit from currency. Management targets 15% EBIT by FY27, with future expansion expected to be driven more by gross margin improvement than cost cuts. Despite challenges like rising subcontracting costs and lower utilization, operational efficiency remains a key lever supporting the margin expansion trajectory. **We bake in EBIT margins of 12.3%/ 14.1% for FY26E/ FY27E.**
- **Next-gen AI & digital transformation push:** TechM is accelerating its transformation with the launch of **TechM Orion**, an agentic AI platform enabling autonomous business workflows, and the **Orion Marketplace** for intelligent AI agents. Participation in **India's sovereign LLM development** initiative positions TechM as a key player in generative AI. These initiatives enhance client stickiness, accelerate AI-led solutions adoption, & create new revenue streams, reinforcing TechM's long-term growth potential in next-gen technologies.

Rating and Target Price

- We maintain our **BUY** rating, with target price of **₹1,680 (vs ₹1,750 earlier)**; valuing it at a lower multiple of **23x P/E on FY27E EPS**, owing to macro led overhang and modest growth recovery than earlier which may slow down the margin recovery path ahead.

Key Financial Summary

(₹ crore)	FY23	FY24	FY25	5 Years CAGR (FY20-25)	FY26E	FY27E	2 years CAGR (FY25-27E)
Net sales	53,290	51,996	52,988	7.5	55,757	59,995	6.4
EBIT	6,072	3,147	5,138	4.8	6,841	8,459	28.3
EBIT Margin (%)	11.4	6.1	9.7		12.3	14.1	
Net Profit	4,831	2,358	4,252	2.2	5,012	6,442	23.1
EPS (₹)	54.8	26.7	48.0		56.6	72.8	
P/E	26.5	54.4	30.2		25.6	19.9	
RoNW (%)	17.3	8.8	15.5		17.8	20.9	
RoCE (%)	20.5	12.6	18.6		22.1	25.2	

Source: Company, ICICI Direct Research

Tech Mahindra

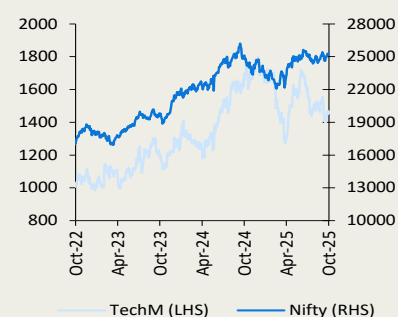
Particulars

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

- Lower than expected revenue growth;
- Slowing down of margin expansion trajectory

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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 America (49.8% of mix) and ROW (24.8% of the mix) grew by 2.6% and 1.4% while Europe (25.4% of mix) de-grew by 1%.
- **Segment performance:** Segment wise on a QoQ basis, Retail transport & logistics (8.5% of the mix), Manufacturing (18% of the mix), BFSI, (16.8% of the mix) and Healthcare & Lifesciences (7.3% of the mix), grew by 9%, 5.2%, 3.8% and 2.2% while Others (3.5% of the mix), Communications (32.7% of the mix) and Hi-Tech & Media (13% of the mix) declined by 9.1%, 2% and 0.4% respectively.
 - **Communication:** Management highlighted that the largest client has largely stabilised and delivered growth above company growth this quarter Europe is seeing a client specific issue and is expected to be a temporary issue. Comviva is doing well and is set to report second growth year.
 - **Manufacturing:** The segment saw **aerospace and industrial** led growth which have shown good traction buoyed by demand for smart manufacturing, protective maintenance, and digital twins while the **auto sub-segment**, is seeing early signs of stabilisation in Passenger Vehicle segment with some headwinds still persistent in the Commercial Vehicle.
- **Margin performance:** EBIT margin was up ~ 100 bps QoQ/~250 bps YoY to 12.1% on the back of ongoing focus on operating efficiency such as fixed price project productivity, volume growth and savings from SG&A optimization with a 40-bps benefit from currency. PAT stood at ₹1,194 crore, up 4.7% QoQ/ down 4.4% YoY. Decline in PAT on YoY basis is due to absence of one-off w.r.t land sale done in Q2 last year.
- **Outlook:** While management acknowledged its slower-than-expected recovery in demand due to the uncertain macros and believes further revenue and margin gains will be more challenging, it remains optimistic of H2 to be better than H1 (albeit growing at a gradual rate rather than a sharp recovery) and FY27 to be better year than FY26. On the margins front, they remain committed to reaching 15% EBIT margin by FY27 with continued focus on profitable growth and operational rigor.
- **TCV Performance:** TCV for the quarter stood at US\$816 mn (vs. an average of US\$ 750 mn for the last four quarters), up 0.9% QoQ/ 35.3% YoY. **Management targets US\$ 1 bn+ quarterly TCV run-rate (from US\$ 800 mn currently) to meet its growth targets.**
- **AI/GenAI:** While customers continue to expect productivity gains, these expectations are now at more realistic levels.
- **Launch of AI initiatives:** TechM during the quarter launched **TechM Orion and Orion Marketplace**. TechM Orion is an agentic AI platform built on NVIDIA accelerated computing and is designed to help enterprises deploy and manage autonomous AI solutions for business workflows. **It has deployed 300+ AI agents.**
- **H1B impact:** The management highlighted sub 1% global workforce on H1B visas and less than 30% US workforce dependent on H1B. Thus, we don't expect any material impact from H1B visa for TechM.
- **Headcount & Attrition:** The total headcount increased by 4,197 employees to 1,52,714. The attrition rate at 12.8%, was up ~20 bps QoQ.

Quarter Performance

	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Comments
Revenue (₹ crore)	13,995	13,313	5.1	13,351	4.8	Revenue declined by 1.4% QoQ and 1% YoY in CC terms.
Employee expenses	9,916	9,596	3.3	9,524	4.1	
Gross Margin	4,079	3,718	9.7	3,828	6.6	
Gross margin (%)	29.1	27.9	122 bps	28.7	48 bps	
SG&A expenses	1,911	1,967	(2.9)	1,892	1.0	
EBITDA	2,168	1,750	23.9	1,935	12.0	
EBITDA Margin (%)	15.5	13	236 bps	14.5	100 bps	
Dep. & amort.	468.7	469.8	(0.2)	458.1	2.3	
EBIT	1,699	1,280	32.7	1,477	15.0	
EBIT Margin (%)	12.1	10	252 bps	11.1	108 bps	EBIT margin was up ~ 100 bps QoQ/~250 bps YoY to 12.1% on the back of ongoing focus on operating efficiency such as fixed price project productivity, volume growth and savings from SG&A optimization with a 40 bps benefit from currency.
Other income (less int.)	(37)	433	(108.6)	141	(126.5)	
PBT	1,662	1,713	(3.0)	1,618	2.7	
Tax paid	458	456	0.4	489	(6.5)	
PAT	1,194	1,250	(4.4)	1,141	4.7	Decline in PAT on YoY basis is due to absence of one off w.r.t land sale done in Q2 last year.
Adjusted PAT	1,194	1,250	(4.4)	1,141	4.7	

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	55,757	59,995
Growth (%)	(2)	2	5	8
COGS (empl. exp.)	39,115	38,085	39,469	42,236
Gross profit	12,881	14,904	16,288	17,759
S,G&A expenses	7,916	7,912	7,610	7,379
Total Operating Exp.	47,031	45,997	47,080	49,616
EBITDA	4,965	6,991	8,677	10,379
Growth (%)	(38)	41	24	20
Depreciation	1,817	1,853	1,836	1,920
Interest	392	322	315	280
Other Income	917	855	458	580
PBT	3,672	5,672	6,985	8,759
Total Tax	828	1,400	1,947	2,277
Exceptional item	-	-	-	-
PAT	2,358	4,252	5,012	6,442
Growth (%)	(51)	80	18	29
EPS (₹)	26.7	48.0	56.6	72.8

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	6,985	8,759
Add: Depreciation	1,817	1,853	1,836	1,920
(Inc)/dec in Current Assets	1,596	(929)	(843)	(1,297)
Inc/(dec) in CL and Provisions	(297)	663	638	976
Taxes paid	(1,247)	(1,474)	(1,947)	(2,277)
CF from operating activities	6,376	5,786	6,525	7,781
(Inc)/dec in Investments	(599)	38	-	-
(Inc)/dec in Fixed Assets	(738)	(483)	(848)	(913)
Others	153	191	458	580
CF from investing activities	(1,314)	(23)	(390)	(333)
Issue/(Buy back) of Equity	24	9	-	-
Inc/(dec) in loan funds	(69)	(1,075)	-	-
Dividend paid & dividend tax	(3,917)	(3,842)	(4,260)	(3,732)
Inc/(dec) in debentures	-	-	-	-
Finance charges	(351)	(264)	(315)	(280)
CF from financing activities	(4,767)	(5,799)	(4,925)	(4,362)
Net Cash flow	296	(37)	1,210	3,087
Cash by acquisition	-	-	-	-
Opening Cash	4,255	4,736	4,542	5,752
Cash carried to B/S	4,736	4,542	5,752	8,839

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	27,671	30,381
Total Shareholders funds	26,669	27,362	28,113	30,824
Minority Interest	477	430	448	492
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	33,061	35,816
Assets				
Net Block	3,518	3,899	3,261	2,604
Capital WIP	101	21	21	21
Investments	3,238	3,182	3,174	3,178
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	12,150	13,074
Loans and Advances	-	-	-	-
Other non-current assets	4,064	4,667	4,663	4,663
Cash	4,736	4,542	5,752	8,839
Other current assets	4,472	4,658	4,901	5,274
Total Current Assets	23,426	23,679	25,736	30,118
Trade payables	3,785	4,411	4,641	4,994
Current liabilities	6,266	6,515	6,855	7,376
Provisions	1,137	1,277	1,344	1,446
Total Current Liabilities	11,188	12,203	12,840	13,816
Net Current Assets	12,238	11,477	12,895	16,302
Application of Funds	32,236	32,292	33,061	35,816

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Per share data (₹)				
EPS	26.7	48.0	56.6	72.8
BV	300.7	308.5	316.9	347.5
DPS	40	45	48	42
Cash Per Share	53.4	51.2	64.8	99.6
Operating Ratios (%)				
EBIT Margin	6.1	9.7	12.3	14.1
PAT Margin	4.5	8.0	9.0	10.7
Return Ratios (%)				
RoE	8.8	15.5	17.8	20.9
RoCE	12.6	18.6	22.1	25.2
RoIC	12.8	20.7	28.0	35.2
Valuation Ratios (x)				
P/E	54.4	30.2	25.6	19.9
EV / EBITDA	24.7	17.4	13.9	11.3
EV / Net Sales	2.4	2.3	2.2	2.0
Market Cap / Sales	2.5	2.4	2.3	2.1
Price to Book Value	4.8	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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