

Modest miss; margin roll-up continues in succession

Information Technology ▶ Result Update ▶ July 17, 2025

CMP (Rs): 1,608 | TP (Rs): 1,600

TechM's 1Q operating performance was slightly below expectations. Revenue grew 1.0% QoQ to USD1.56bn (down 1.4% CC), marginally missing estimates. With EBITM expanding by 60bps QoQ to 11.1%, TechM logged the 7th quarter of margin expansion, on disciplined execution and benefits accruing from Project Fortius, albeit a tad lower than estimated. Deal intake stayed strong for a 3rd straight quarter, with TCV of USD809mn driving 44% growth in deal intake on TTM basis. Revenue conversion was hit by a challenging macro environment, right-sizing field service business, reduced spending in Auto, and certain client run-offs leading to a slower start in FY26. However, the mgmt expects growth to improve Q2 onward, and certainly from H2, backed by deal wins and pipeline. The mgmt reiterated its 15% EBITM target for FY27, albeit suggesting risk from the prolonged period of an uncertain and tough macro environment. We cut FY26E-28E EPS by 2.4%-0.1%, factoring in the Q1 performance. Given the rich valuations, we retain **REDUCE** on TechM with TP of Rs1,600 at 20x Jun-27E EPS.

Results Summary

Revenue increased 1% QoQ (down 1.4% CC) to USD1.56bn, below our expectation of a 0.3% CC decline. Revenue for the IT Services and BPS segments was up 0.7% and 2.9% QoQ, respectively. Manufacturing (4.1% QoQ in USD terms), Communications (2.8%), Hi-Tech (1.4%), and HLS (0.8%) led the growth, whereas RTL (down 1.1%) and BFSI (down 0.5%) declined in Q1. Among geographies, Americas and Europe grew 2.7% and 3.3% QoQ in USD terms, while RoW declined 4.4%. EBITM expanded by 60bps QoQ as headwinds from the Comviva seasonality, higher visa costs, and lower utilization were offset by benefits from the offshore shift, G&A optimization including progress made on integration of portfolio companies, and savings from Project Fortius. Net-new deal wins improved sequentially to USD809mn. Total headcount declined 0.1% QoQ to 148,517, largely owing to fall in IT headcount. LTM attrition inched up to 12.6% (vs 11.8% in Q4).

What we liked: strong deal intake, margin expansion. **What we did not like:** weak cash conversion (46% OCF/EBITDA), sequential softness in the BFSI and Retail verticals.

Earnings Call KTAs

1) Despite a tough macro backdrop and focus on profitable growth, the company sees steady improvement in large-deal momentum. With most run-offs behind, revenue conversion is expected to strengthen from Q2, supported by robust deal intake and the so far delayed large BPS deals now starting to contribute. 2) Hi-Tech was impacted by ongoing restructuring in the semiconductor industry, including steep budget cuts and workforce rationalization at a key client; gradual recovery is expected in H2FY26. 3) Communications is showing signs of stability, particularly in the APJ region, while India, the Middle East, and Africa have faced some volatility; however, new leadership has been appointed to drive improved performance in these markets. Europe is seeing a strong pipeline owing to consolidation opportunities and expansion of the Comviva suite. In the Americas, spending at key clients is showing signs of stabilization....(contd)...

Target Price – 12M	Jun-26
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(0.5)

Stock Data	TECHM IN
52-week High (Rs)	1,808
52-week Low (Rs)	1,209
Shares outstanding (mn)	979.2
Market-cap (Rs bn)	1,574
Market-cap (USD mn)	18,320
Net-debt, FY26E (Rs mn)	(89,859.7)
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	3,412.8
ADTV-3M (USD mn)	39.7
Free float (%)	64.8
Nifty-50	25,212.1
INR/USD	85.9

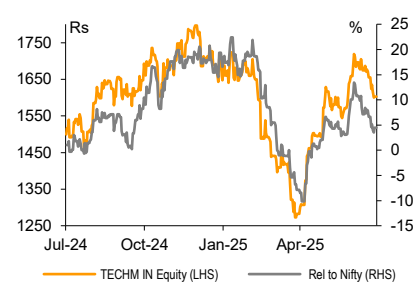
Shareholding, Mar-25

Promoters (%)	35.0
FPIs/MFs (%)	23.0/32.1

Price Performance

(%)	1M	3M	12M
Absolute	(5.1)	22.9	6.0
Rel. to Nifty	(6.1)	14.2	3.5

1-Year share price trend (Rs)



Tech Mahindra: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	519,956	529,883	549,416	588,478	627,315
EBITDA	49,645	69,911	86,465	105,067	114,961
Adj. PAT	28,160	42,788	53,481	68,374	75,574
Adj. EPS (Rs)	31.9	48.4	60.4	77.3	85.4
EBITDA margin (%)	9.5	13.2	15.7	17.9	18.3
EBITDA growth (%)	(38.2)	40.8	23.7	21.5	9.4
Adj. EPS growth (%)	(44.6)	51.6	25.0	27.8	10.5
RoE (%)	10.3	15.8	19.1	23.3	24.3
RoIC (%)	12.7	21.6	28.6	37.0	41.6
P/E (x)	60.2	33.5	26.6	20.8	18.8
EV/EBITDA (x)	27.3	19.4	15.7	12.9	11.8
P/B (x)	5.3	5.2	5.0	4.7	4.4
FCFF yield (%)	4.2	3.9	4.3	5.4	5.8

Source: Company, Emkay Research

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...(contd)... 4) BFSI remains one of the fastest growing verticals, with the company continuing to be optimistic about the vertical's long-term potential across all geographies. 5) Manufacturing grew 4% QoQ in Q1, on the back of growth in Aero; however, the outlook remains challenging, impacted by the weakness in auto and the tariff uncertainties. The company continues to monitor its higher exposure to US auto OEMs, which may be affected by tariffs. 6) From the contracting and pricing perspective, the management has been prudent for large deals and is not focusing on 'revenue at any cost'. 7) The company is focusing on three areas for driving tangible outcomes: i) scaling large clients through a 'Turbocharge program' – aiming at large accounts growing faster than the company average; ii) adding must-have accounts (added 15 new such accounts in Q1); iii) zeroing in on profitable large deals. 8) Going forward, it expects to drive margin via a) reduced subcontracting costs, b) greater shift to offshore delivery, c) integration-driven performance improvement in portfolio companies, and d) increased productivity in FPP. 9) The company anticipates outperforming in FY26 vs FY25, supported by the deal ramp-up. 10) The company has strengthened its senior leadership team with several appointments, including Amol Phadke as Chief Transformation Officer, and internal promotions for heads of telecom business in Americas and the India/Middle East/Africa businesses. 11) The company added 250 freshers in Q1.

Update on AI/Gen AI

1) The AI Delivered Right strategy has gained strong customer traction since its launch last quarter, having driven multiple deal-wins and recognition across its four core pillars – productivity delivered, transformation delivered, innovation delivered, and assurance delivered. 2) The company built >200 enterprise-grade AI agents across various industry segments, with several in use at scale with clients now. 3) TechM's Advanced AI Consulting Practice and partner ecosystem are accelerating agentic AI adoption, enabling clients to validate ROI and prioritize use cases efficiently. 4) The management considers autonomous networks and network optimization using AI as significant opportunities in the telecom sector. 5) More than 77k employees have been trained in AI and Gen AI, with several having received advance training and certifications.

Exhibit 1: Quarterly snapshot

(Rs mn)	Q1FY26	Q4FY25	QoQ (%)	Q1FY25	YoY (%)
Revenue (USD mn)	1,564	1,549	1.0	1,559	0.4
Net sales	133,512	133,840	-0.2	130,055	2.7
Total Income	133,512	133,840	-0.2	130,055	
Operating expenses	114,160	115,166		114,410	
EBITDA	19,352	18,674	3.6	15,645	23.7
- Margin (%)	14.5	14.0	50	12.0	250
Depreciation	4,581	4,621		4,622	
EBIT	14,771	14,053	5.1	11,023	34.0
- Margin (%)	11.1	10.5	60	8.5	260
Interest	(778)	(853)		(715)	
Other income	2,183	1,727		1,447	
Pre-tax profit	16,176	14,927	8.4	11,755	37.6
Tax provided	4,893	3,223		3,133	
Profit after tax	11,283	11,704	-3.6	8,622	30.9
MI	123	236		(107)	
Reported Profit After tax	11,406	11,667	-2.2	8,515	34.0
Emkay - Net Profit	11,406	11,940	-4.5	8,515	34.0
EPS (Rs)	12.9	13.5	-4.5	9.6	33.8

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (USD mn)	1,564	1,571	1,566	-0.4%	-0.1%	Revenue growth was a tad weaker than expected.
Sales	133,512	134,515	133,998	-0.7%	-0.4%	
EBIT	14,771	15,239	14,740	-3.1%	0.2%	EBITM came slightly below our expectations.
EBIT margin	11.1%	11.3%	11.0%	-30 bps	10 bps	
Profit	11,406	11,923	11,658	-4.3%	-2.2%	Profit missed expectations due to the operating performance miss and higher ETR.

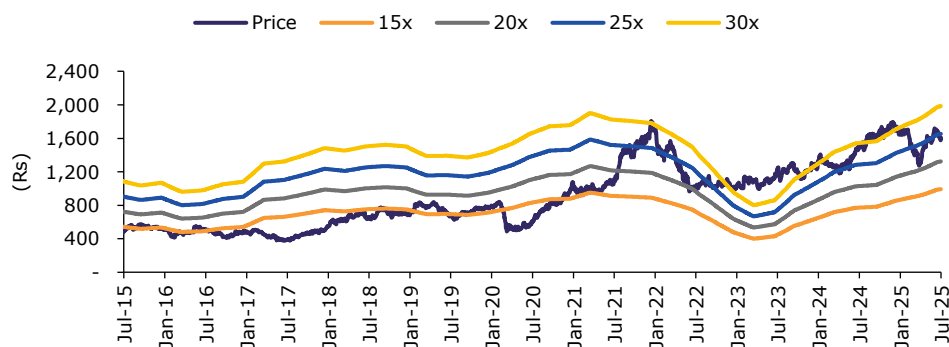
Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY26E			FY27E			FY28E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenues (USD mn)	6,378	6,373	-0.1%	6,729	6,725	-0.1%	7,134	7,129	-0.1%
YoY growth	1.8%	1.7%		5.5%	5.5%		6.0%	6.0%	
Revenue	550,310	549,416	-0.2%	588,814	588,478	-0.1%	627,750	627,315	-0.1%
EBIT	68,909	67,407	-2.2%	85,213	85,152	-0.1%	94,327	94,248	-0.1%
EBITM (%)	12.5	12.3		14.5	14.5		15.0	15.0	
Net Profit	54,780	53,481	-2.4%	68,443	68,374	-0.1%	75,659	75,574	-0.1%
EPS (Rs)	61.9	60.4	-2.4%	77.4	77.3	-0.1%	85.5	85.4	-0.1%

Source: Company, Emkay Research

Exhibit 4: TechM – One-year forward PER



Source: Company, Emkay Research

Tech Mahindra: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	519,956	529,883	549,416	588,478	627,315
Revenue growth (%)	(2.4)	1.9	3.7	7.1	6.6
EBITDA	49,645	69,911	86,465	105,067	114,961
EBITDA growth (%)	(38.2)	40.8	23.7	21.5	9.4
Depreciation & Amortization	18,171	18,529	19,058	19,915	20,714
EBIT	31,474	51,382	67,407	85,152	94,248
EBIT growth (%)	(48.2)	63.3	31.2	26.3	10.7
Other operating income	-	-	-	-	-
Other income	9,169	8,554	7,943	9,196	9,603
Financial expense	3,922	3,217	2,794	2,809	2,713
PBT	36,721	56,719	72,556	91,539	101,138
Extraordinary items	(4,582)	(273)	0	0	0
Taxes	8,276	14,002	18,988	22,885	25,285
Minority interest	(285)	71	(87)	(280)	(280)
Income from JV/Associates	-	-	-	-	-
Reported PAT	23,578	42,515	53,481	68,374	75,574
PAT growth (%)	(51.2)	80.3	25.8	27.8	10.5
Adjusted PAT	28,160	42,788	53,481	68,374	75,574
Diluted EPS (Rs)	31.9	48.4	60.4	77.3	85.4
Diluted EPS growth (%)	(44.6)	51.6	25.0	27.8	10.5
DPS (Rs)	40.0	45.0	46.5	59.0	65.0
Dividend payout (%)	149.7	93.6	76.9	76.3	76.1
EBITDA margin (%)	9.5	13.2	15.7	17.9	18.3
EBIT margin (%)	6.1	9.7	12.3	14.5	15.0
Effective tax rate (%)	22.5	24.7	26.2	25.0	25.0
NOPLAT (pre-IndAS)	24,381	38,697	49,766	63,864	70,686
Shares outstanding (mn)	883	885	885	885	885

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	4,413	4,424	4,424	4,424	4,424
Reserves & Surplus	262,281	269,191	281,531	297,704	315,768
Net worth	266,694	273,615	285,954	302,128	320,192
Minority interests	4,774	4,302	4,302	4,302	4,302
Non-current liab. & prov.	(11,651)	(16,294)	(11,651)	(11,651)	(11,651)
Total debt	14,606	4,714	4,910	4,910	4,910
Total liabilities & equity	274,423	266,337	283,515	299,689	317,753
Net tangible fixed assets	25,577	23,805	22,265	20,990	20,245
Net intangible assets	29,063	23,831	19,154	14,350	9,403
Net ROU assets	9,605	15,186	14,175	12,868	12,177
Capital WIP	1,011	206	500	500	500
Goodwill	75,106	76,993	76,993	76,993	76,993
Investments [JV/Associates]	-	-	-	-	-
Cash & equivalents	79,732	77,243	94,770	115,128	136,399
Current assets (ex-cash)	199,746	209,108	215,678	227,637	239,527
Current Liab. & Prov.	145,417	160,035	160,019	168,777	177,492
NWC (ex-cash)	54,329	49,073	55,659	58,860	62,036
Total assets	274,423	266,337	283,515	299,689	317,753
Net debt	(65,126)	(72,529)	(89,860)	(110,218)	(131,489)
Capital employed	274,423	266,337	283,515	299,689	317,753
Invested capital	184,075	173,702	174,071	171,193	168,677
BVPS (Rs)	302.2	309.3	323.2	341.5	361.9
Net Debt/Equity (x)	(0.2)	(0.3)	(0.3)	(0.4)	(0.4)
Net Debt/EBITDA (x)	(1.3)	(1.0)	(1.0)	(1.0)	(1.1)
Interest coverage (x)	10.4	18.6	27.0	33.6	38.3
RoCE (%)	13.9	21.1	26.1	31.1	32.4

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	32,244	56,532	72,556	91,539	101,138
Others (non-cash items)	31,002	18,731	18,971	19,635	20,434
Taxes paid	(12,469)	(14,744)	(18,988)	(22,885)	(25,285)
Change in NWC	12,987	(2,662)	(1,943)	(3,200)	(3,176)
Operating cash flow	63,764	57,857	70,596	85,089	93,111
Capital expenditure	(7,377)	(4,829)	(12,124)	(12,530)	(14,330)
Acquisition of business	(7,488)	(1,620)	0	0	0
Interest & dividend income	1,531	1,910	0	0	0
Investing cash flow	(13,137)	(232)	(28,196)	(12,530)	(14,330)
Equity raised/(repaid)	238	90	-	0	0
Debt raised/(repaid)	(688)	(10,751)	196	0	0
Payment of lease liabilities	-	-	-	-	-
Interest paid	-	-	-	-	-
Dividend paid (incl tax)	(39,170)	(39,345)	(41,141)	(52,201)	(57,509)
Others	(8,052)	(7,986)	0	0	0
Financing cash flow	(47,672)	(57,992)	(40,945)	(52,201)	(57,509)
Net chg in Cash	2,955	(367)	1,455	20,358	21,272
OCF	63,764	57,857	70,596	85,089	93,111
Adj. OCF (w/o NWC chg.)	50,777	60,519	72,539	88,289	96,287
FCFF	56,387	53,028	58,472	72,559	78,781
FCFE	53,996	51,721	55,678	69,750	76,068
OCF/EBITDA (%)	128.4	82.8	81.6	81.0	81.0
FCFE/PAT (%)	229.0	121.7	104.1	102.0	100.7
FCFF/NOPLAT (%)	231.3	137.0	117.5	113.6	111.5

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	60.2	33.5	26.6	20.8	18.8
EV/CE(x)	4.7	4.8	4.6	4.3	4.1
P/B (x)	5.3	5.2	5.0	4.7	4.4
EV/Sales (x)	2.6	2.6	2.5	2.3	2.2
EV/EBITDA (x)	27.3	19.4	15.7	12.9	11.8
EV/EBIT(x)	43.0	26.3	20.1	15.9	14.4
EV/IC (x)	7.4	7.8	7.8	7.9	8.0
FCFF yield (%)	4.2	3.9	4.3	5.4	5.8
FCFE yield (%)	3.4	3.3	3.5	4.4	4.8
Dividend yield (%)	2.5	2.8	2.9	3.7	4.0
DuPont-RoE split					
Net profit margin (%)	5.4	8.1	9.7	11.6	12.0
Total asset turnover (x)	1.9	2.1	2.1	2.1	2.1
Assets/Equity (x)	1.0	1.0	0.9	0.9	1.0
RoE (%)	10.3	15.8	19.1	23.3	24.3
DuPont-RoIC					
NOPLAT margin (%)	4.7	7.3	9.1	10.9	11.3
IC turnover (x)	2.7	3.0	3.2	3.4	3.7
RoIC (%)	12.7	21.6	28.6	37.0	41.6
Operating metrics					
Core NWC days	38.1	33.8	37.0	36.5	36.1
Total NWC days	38.1	33.8	37.0	36.5	36.1
Fixed asset turnover	3.9	4.2	4.5	5.1	5.7
Opex-to-revenue (%)	90.5	86.8	84.3	82.1	81.7

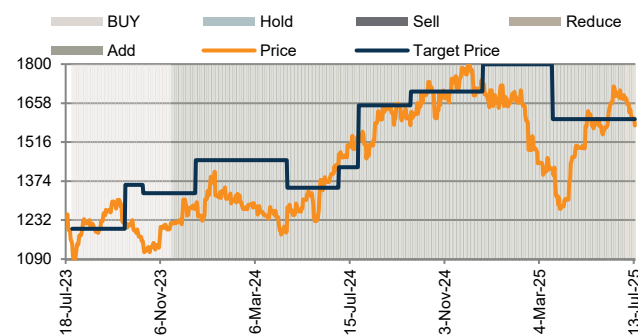
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jul-25	1,671	1,600	Reduce	Dipeshkumar Mehta
25-Apr-25	1,462	1,600	Add	Dipeshkumar Mehta
31-Mar-25	1,418	1,600	Add	Dipeshkumar Mehta
18-Jan-25	1,660	1,800	Add	Dipeshkumar Mehta
01-Jan-25	1,704	1,800	Add	Dipeshkumar Mehta
20-Oct-24	1,688	1,700	Add	Dipeshkumar Mehta
01-Oct-24	1,625	1,700	Add	Dipeshkumar Mehta
26-Jul-24	1,541	1,650	Add	Dipeshkumar Mehta
01-Jul-24	1,472	1,425	Add	Dipeshkumar Mehta
10-Jun-24	1,340	1,350	Add	Dipeshkumar Mehta
09-Jun-24	1,378	1,350	Add	Dipeshkumar Mehta
03-Jun-24	1,245	1,350	Add	Dipeshkumar Mehta
27-May-24	1,330	1,350	Add	Dipeshkumar Mehta
26-Apr-24	1,279	1,350	Add	Dipeshkumar Mehta
31-Mar-24	1,248	1,450	Add	Dipeshkumar Mehta
01-Mar-24	1,272	1,450	Add	Dipeshkumar Mehta
25-Jan-24	1,322	1,450	Add	Dipeshkumar Mehta
31-Dec-23	1,273	1,450	Add	Dipeshkumar Mehta
30-Nov-23	1,221	1,330	Add	Dipeshkumar Mehta
25-Oct-23	1,142	1,330	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

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