ANANDRATHI

India I Equities

IT

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

18 January 2026

Tech Mahindra

Splendid show despite adverse seasonality; maintain BUY

Rating: **BUY**
Target Price (12-mnth): Rs.1,964
Share Price: Rs.1,672

Tech Mahindra ("TechM") delivered a healthy performance even in a furlough quarter, with 1.7% q/q growth in CC revenue, 100bps q/q expansion in EBIT margin to 13.1% and TCV crossing $1bn, on the back of a 5-year, $500m European telco modernisation deal (to ramp up from Q1FY27). LTM TCV stood at ~$3.5bn (~48% y/y). IT services grew by 1.3% q/q, while BPO (+2.7% q/q) benefited from seasonality in retail segment. Looking ahead, we expect telecom to drive growth owing to TechM's expertise across telco value chain spanning networks, software (Comviva) and BPS business, along with meaningful contribution from BFSI, Manufacturing and Retail. While there were apprehensions over TechM's growth prospects in the past, the company has silenced with an exceptional performance in Q3FY26 across growth, margin and TCV front. We maintain BUY rating on the stock with a TP of Rs1,964, implying FY28 expected P/E of 23.6x.

Demand tailwinds return: Demand environment is improving with a strong pipeline and growth led by targeted segments and larger sticky clients, even as conversion timing remains lumpy. Client spends are still a mix of modernisation/efficiency-led programmes, while AI work is moving from pilots to scaled, multi-year execution embedded into operating models. Europe turning from stability to growth (aided by large telco win) with signs of stability in the US alongside stabilisation of top-client spending

Europe mega-win lights up the bookings: Q3 saw a record quarterly deal bookings in five years, the highest last-12-months deal wins in five years and its largest net new deal win in Europe (+$500m over 5 years; existing leading telco client; commencing H1FY27) in communications, investments in sales and solution-based GTM + AI-enabled capabilities.

Outlook and Valuation: We have increased our FY26/27/28e revenue and EPS estimates by 0.7/2.1%, 1.1/4.8% and 1.2/1.9%, respectively with 20.0% CAGR in adj. EPS over FY26-28e. At CMP, the stock trades at FY27/28e P/E of 22.3x/20.1x. We maintain BUY rating on the stock with a TP of Rs1,964, implying ~17.5% upside from CMP.

Risks: (a) Lower-margin telecom deal to drag overall margin; (b) GenAI productivity pass-on may impact pricing (c) delay in revival of discretionary spend.

Key Financials (Y/E Mar)	FY24	FY25	FY26e	FY27e	FY28e
Sales (Rs m)	5,19,955	5,29,883	5,62,232	5,99,327	6,25,502
Net profit (Rs m)	23,578	42,515	49,130	66,526	73,696
Reported EPS (Rs)	27	48	55	75	83
PE (x)	62.9	34.9	30.2	22.3	20.1
EVEBITDA (x)	24.3	20.2	15.8	13.0	12.0
PBV (x)	5.6	5.4	5.4	5.1	4.9
RoE (%)	8.6	15.7	17.9	23.6	24.9
RoCE (%)	8.8	11.9	15.6	19.6	20.6
Dividend yield (%)	2.4	2.7	3.2	3.6	3.9
Net debt/equity (x)	-0.3	-0.3	-0.3	-0.3	-0.4

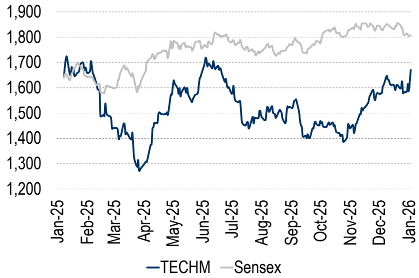
Source: Company, Anand Rathi Research

Key Data	TECHM IN / TEML.BO
52-week high / low	Rs1736 / 1209
Sensex / Nifty	83570 / 25694
Market cap	Rs1582bn
Shares outstanding	980m

Shareholding Pattern (%)	Sep'25	Jun'25	Mar'25
Promoters	35.0	35.0	35.0
- *of which, Pledged*	-	-	-
Free float	65.0	65.0	65.0
- Foreign institutions	20.6	23.3	23.0
- Domestic institutions	34.6	32.1	32.1
- Public	9.8	9.6	9.9

Estimates Revision (%)	FY26e	FY27e	FY28e
Sales ($)	0.7	1.1	1.2
Adj. EBIT	4.4	5.9	2.9
Adj. PAT	2.1	4.8	1.9

Relative Price Performance



Source: Bloomberg

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Quick Glance – Financial and Valuations (Consolidated)

Fig 1 – Income Statement (Rs m)

Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
Revenues (US$ m)	6,277	6,264	6,381	6,708	7,001
Growth (%)	-5.0	-0.2	1.9	5.1	4.4
Net revenue (Rs m)	5,19,955	5,29,883	5,62,232	5,99,327	6,25,502
Employee & Direct Costs	3,87,772	3,80,848	3,95,000	4,07,140	4,19,822
Gross Profit	1,32,183	1,49,035	1,67,233	1,92,187	2,05,680
Gross Margin (%)	25.42	28.13	29.74	32.07	32.88
SG&A	74,313	79,124	77,963	83,671	87,908
EBITDA	**57,870**	**69,911**	**89,269**	**1,08,516**	**1,17,772**
EBITDA margins (%)	11.1	13.2	15.9	18.1	18.8
- Depreciation	18,171	18,529	18,742	19,426	19,915
Other income	-3,638	8,554	3,354	4,926	5,447
Interest Exp	3,922	3,217	3,422	2,995	2,396
PBT	32,139	56,719	67,736	91,020	1,00,908
Effective tax rate (%)	26	25	28	27	27
+ Associates/(Minorities)	-285	-202	100	81	33
Net Income	23,578	42,515	49,130	66,526	73,696
WANS	887	887	887	887	887
FDEPS (Rs/share)	**26.6**	**47.9**	**55.4**	**75.0**	**83.0**

Fig 2 – Balance Sheet (Rs m)

Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
Share capital	4,413	4,424	4,424	4,424	4,424
Net worth	2,66,694	2,73,615	2,74,823	2,88,635	3,04,346
Total debt (incl. Pref)	15,310	4,714	2,828	1,697	1,018
Minority interest	4,774	4,302	4,202	4,120	4,087
DTL/(Asset)	-11,651	-16,294	-16,294	-16,294	-16,294
Capital employed	**2,75,127**	**2,66,337**	**2,65,559**	**2,78,158**	**2,93,157**
Net tangible assets	34,171	38,785	41,334	44,161	47,185
Net Intangible assets	1,04,467	1,00,690	85,696	70,155	54,224
Goodwill					
CWIP (tang. & intang.)	1,011	206	206	206	206
Other Long-term Assets/(Liab.)	5,525	5,362	12,478	20,660	30,071
Investments (Financial)	40,119	37,642	30,114	24,091	19,273
Current Assets (ex Cash)	1,54,896	1,58,427	1,65,153	1,72,909	1,77,183
Cash	43,471	43,185	52,467	74,004	99,162
Current Liabilities	1,08,533	1,17,960	1,21,889	1,28,029	1,34,146
Working capital	46,363	40,467	43,264	44,880	43,037
Capital deployed	**2,75,127**	**2,66,337**	**2,65,559**	**2,78,158**	**2,93,157**

Fig 3 – Cashflow Statement (Rs m)

Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
PBT	32,139	56,719	67,736	91,020	1,00,908
+ Non-cash items	31,097	19,544	15,388	14,501	14,467
Operating profit before WC	63,236	76,263	83,123	1,05,521	1,15,376
- Incr./(decr.) in WC	-12,987	2,662	2,797	1,616	-1,843
Others including taxes	-12,459	-15,744	-25,822	-32,758	-36,656
Operating cash-flow	**63,764**	**57,857**	**54,505**	**71,146**	**80,563**
- Capex (tang. + Intang.)	7,911	5,935	6,297	6,713	7,006
Free cash-flow	**55,853**	**51,922**	**48,207**	**64,434**	**73,558**
Acquisitions	-7,488	-1,620	-	-	-
- Div. (incl. buyback & taxes)	39,170	38,418	47,922	52,714	57,986
+ Equity raised	238	90	-0	-	0
+ Debt raised	-472	-10,596	-1,886	-1,131	-679
- Fin Investments	984	-2,477	-7,528	-6,023	-4,818
- Misc. Items (CFI + CFF)	5,069	4,141	-3,354	-4,926	-5,447
Net cash-flow	**2,908**	**-286**	**9,282**	**21,536**	**25,158**

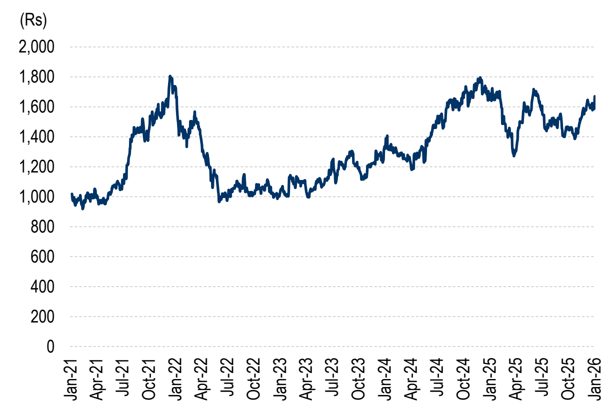
Source: Company, Anand Rathi Research

Fig 4 – Ratio Analysis

Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
P/E (x)	**62.9**	**34.9**	**30.2**	**22.3**	**20.1**
EV/EBITDA (x)	24.3	20.2	15.8	13.0	12.0
EV/sales (x)	2.72	2.66	2.50	2.31	2.18
P/B (x)	5.6	5.4	5.4	5.1	4.9
RoE (%)	**8.6**	**15.7**	**17.9**	**23.6**	**24.9**
RoCE (%) - After tax	8.8	11.9	15.6	19.6	20.6
RoIC (%) - After tax	11.6	15.9	20.8	26.9	30.0
DPS (Rs per share)	40.0	45.0	54.0	59.4	65.3
Dividend yield (%)	2.4	2.7	3.2	3.6	3.9
Dividend payout (%) - Inc. DDT	150.5	93.9	97.5	79.2	78.7
Net debt/equity (x)	-0.3	-0.3	-0.3	-0.3	-0.4
Receivables (days)	80	80	79	78	77
Inventory (days)					
Payables (days)	30	35	35	36	37
CFO:PAT%	**267**	**135**	**111**	**107**	**109**

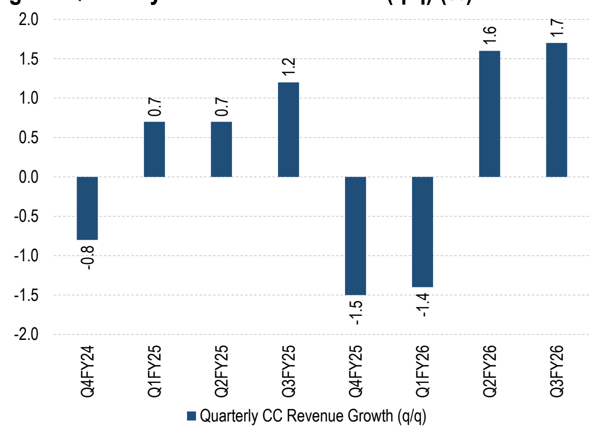
Source: Company, Anand Rathi Research

Fig 5 – Price Movement



Source: Bloomberg

Fig 6 – Quarterly CC Revenue Growth (q/q) (%)



Source: Company

Key Earnings & Concall Takeaways

Earnings Snippets

- TechM delivered a robust performance in Q3FY26 with overall revenue coming in at $1.61bn (up 1.7% q/q in CC terms), driven by a broad-based growth across Communication (~33% of revenue; up 2.8% q/q), Manufacturing (~18% of revenue; up 2.6%), High-tech (~13% of revenue; up 2.3%), Retail (~9% of revenue; up +3.9%), and Healthcare (~7% of revenue; up 2.9% y/y).
- The management reiterated its aspiration to grow faster than the peer average in FY27 and progress towards a 15% EBIT margin by FY27, aided by leadership strength, growth concentrated in large sticky accounts and a larger large-deal book.
- EBIT margin rose by 100bps q/q (up 290bps y/y) to 13.1%, driven by operating discipline, pricing discipline and revenue mix.
- **Margin Bridge:** While currency helped marginally, volume contributed ~20-30bps. Major chunk of margin improvement came from Project Fortius operational levers (delivery/pricing/utilisation and fixed-price automation/AI with internal redeployment).
- Gross margin expanded 120bps q/q due to improved fixed-price productivity and volume growth.
- Acknowledging that earlier margin improvement was more SG&A-led, the management expects the forward trajectory to be more gross-margin driven, with Fortius expected to remain a key driver.
- The company saw $30m one-time provisioning as per the new wage code notification.
- Wage hikes are being evaluated considering the new labour code.
- With net decline of 3,098 (down 2% q/q), headcount was tied to productivity improvement in fixed-price work (~50% of revenue), which freed up talent and TechM redeployed it rather than hire or backfill. Also, improved internal software infrastructure is giving better bench visibility and enabling faster redeployment.

Bookings

- Net new TCV came in at $1.09bn (up 47.1% y/y), while LTM net new TCV grew by 47.7% y/y.
- Whilst deal pipeline remains strong, deal wins are inherently lumpy. $20mn+ clients continue to outpace the company average and is now a key revenue-quality/scale driver.
- The company acknowledged having large clients is strategically important to reduce reliance on higher-risk mid-market deals to meet targets, while supporting profitability and allowing cross-selling multiple service lines.

Demand Commentary

- TechM sees improving technology spend environment, similar to peer commentary. However, it cautioned that FY27 visibility still has some inherent uncertainty.
- **Communications (~33% of revenue; up 2.8% q/q):** US communication is stabilising with top client spending steadying, while

Europe is expected to shift from stability to growth aided by large European telco win and its ramp. These don't come from broad step-up in sector spend, but by share gains via vendor consolidation.

- For Communications, as Europe has a longer tail of partners, it has more consolidation headroom. While the US is already consolidated, budgets are marginally loosening vs. 18-months ago, and Asia offers opportunities of scale including consolidation wins.
- **BFSI (~16% of revenue; down 6.3%):** Underlying BFSI demand remains favourable, anchored in transformation, experience, data analytics, cybersecurity, and AI adoption, despite near-term softness due to higher-than-normal furloughs in specific pockets (e.g. Canada) and an annual productivity step-down on a large multi-year contract, which will return to a steadier trajectory in the next quarter.
- The company sees BFSI deal momentum across APAC + Japan, Europe and the Americas.
- **Manufacturing (~18% of revenue; up 2.6%):** Demand remains constructive, with strong traction in US aerospace/industrial and Europe supported by a large auto client ramp, while US auto is still cautious but expected to improve over the medium-term.
- The company sees near-term volatility as some European auto ramps/deliveries will not recur in the next quarter. However, it expects US auto to start showing growth over the next few quarters.
- **Hi-tech (~13% of revenue; up 2.3%):** Demand remains volatile, with clients under cost pressure leading to muted discretionary IT spending. However, sequential momentum is driven by engineering services, particularly in semiconductors. Hi-tech can deliver q/q improvement but spending environment will remain soft till cost pressures persists.
- **Retail, Travel and Logistics (~9% of revenue; up 3.9%):** Continued performance, aided by strong traction in logistics. The vertical saw above-normal seasonality in retail BPS.
- **HLS (~7% of revenue; up 2.9%):** Healthcare demand came from platform and infrastructure modernisation spend rather than discretionary.
- **Americas (~51% of revenue; up 3.1% q/q)** saw stabilising demand backdrop rather than a broad deterioration. Europe (~26% of revenue; up 2.3%) has long tail of partners with opportunities for vendor consolidation-led wins.
- **RoW (~24% of revenue; down 2.2% q/q and 4.1% y/y):** Impacted by furloughs and productivity gains pass-on. However, identified priority markets within the RoW grew by 12.9% y/y (ANZ, Japan, Singapore and Indonesia), as the company shifts mix towards better growth markets.

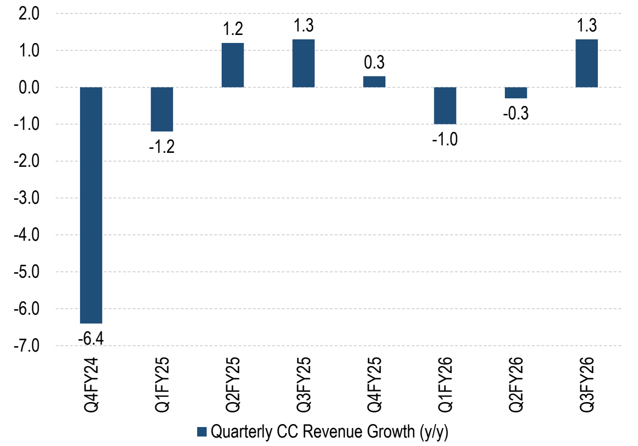
Commentary on AI

- The company saw client programmes shifting from pilots to scaled, multi-year initiatives.
- Partnership with Google is intended to accelerate enterprise adoption of Gemini Enterprise, leveraging Gemini 2.5 multimodal models to scale AI adoption.

BPS Business

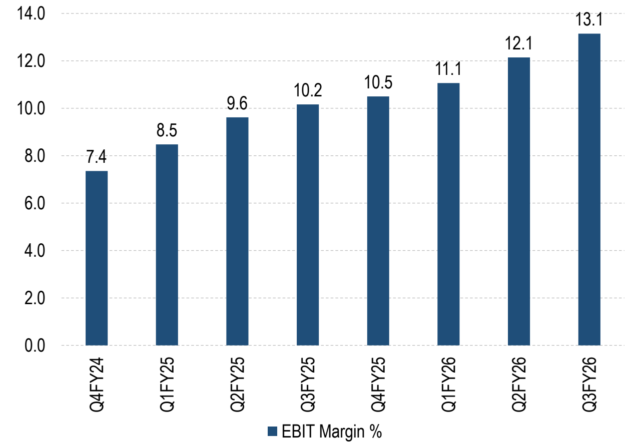
- BPS grew faster than IT Services (2.7% q/q vs 1.3% q/q).
- The company sees BPS growth as sustainable as long as offerings move up the value chain (solution-led) and expand differentiated capabilities alongside stronger IT-BPS cross-sell.
- The company pivoted its BPS practice to mitigate AI-led disrupting of the BPS by AI/automation infusion (including AgenticAI and model-building work), helping it to compete effectively with pure-play BPOs.
- BPS margin trajectory improved after integration of previously dilutive units and the company expects margin to continue improving.
- The company highlighted its Saffronic BPS capability around short digital movies/animation that is bringing clients globally.

Fig 7 – Quarterly CC Revenue Growth (y/y) (%)



Source: Company, Anand Rathi Research

Fig 8 – EBIT Margin (%)



Source: Company, Anand Rathi Research

Quarterly Snapshot

Fig 9 – Quarterly Performance (Rs m)

Y/E Mar	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q/Q %	Y/Y %
Revenue ($ m)	**1,548**	**1,559**	**1,589**	**1,568**	**1,549**	**1,564**	**1,586**	**1,610**	**1.5**	**2.7**
y/y growth (%)	-7.2	-2.6	2.2	-0.3	0.0	0.3	-0.2	2.7		
Revenue (Rs m)	128,713	130,055	133,132	132,856	133,840	133,512	139,949	143,932	2.8	8.3
Effec. exchange rate	83.1	83.4	83.8	84.8	86.4	85.4	88.2	89.4	1.3	5.5
Net New TCV ($ m)	**500**	**534**	**603**	**745**	**798**	**809**	**816**	**1,096**	**34.3**	**47.1**
Net New TCV (LTM)	1,880	2,055	2,018	2,382	2,680	2,955	3,168	3,519	11.1	47.7
Employees (EoP)	145,455	147,620	154,273	150,488	148,731	148,517	152,714	149,616	-2.0	-0.6
Rev. prod. ($ '000/employee)	**10.6**	**10.6**	**10.5**	**10.3**	**10.4**	**10.5**	**10.5**	**10.7**	**1.1**	**3.5**
CoR (excl. D&A)	(93,941)	(95,532)	(95,957)	(94,559)	(94,800)	(95,236)	(99,159)	(100,276)	1.1	6.0
As % of revenue	-73	-73	-72	-71	-71	-71	-71	-70	118 bps	151 bps
SG&A	(20,694)	(18,878)	(19,673)	(20,207)	(20,366)	(18,924)	(19,110)	(20,000)	4.7	-1.0
As % of revenue.	-16	-15	-15	-15	-15	-14	-14	-14	-24 bps	131 bps
EBITDA	**14,078**	**15,645**	**17,502**	**18,090**	**18,674**	**19,352**	**21,680**	**23,656**	**9.1**	**30.8**
EBITDA margin (%)	10.9	12.0	13.1	13.6	14.0	14.5	15.5	16.4	94 bps	282 bps
EBIT	**9,464**	**11,023**	**12,804**	**13,502**	**14,053**	**14,771**	**16,993**	**18,919**	**11.3**	**40.1**
EBIT margin (%)	7.4	8.5	9.6	10.2	10.5	11.1	12.1	13.1	100 bps	298 bps
Other income (excl. forex)	4,136	1,512	1,014	1,079	2,111	1,886	1,495	941	-37.1	-12.8
Non-recurring / Forex	(401)	(65)	(1,013)	(914)	(384)	297	(1,095)	(1,158)	5.8	26.7
Interest expenses	(585)	(715)	(890)	(759)	(853)	(778)	(772)	(936)	21.2	23.3
PBT	9,527	11,755	17,129	12,908	14,927	16,176	16,621	15,042	-9.5	16.5
PBT margin (%)	7.4	9.0	12.9	9.7	11.2	12.1	11.9	10.5	-143 bps	73 bps
Taxes	(2,949)	(3,133)	(4,560)	(3,086)	(3,223)	(4,893)	(4,576)	(3,865)	-15.5	25.2
ETR (%)	-31	-27	-27	-24	-22	-30	-28	-26	184 bps	-179 bps
Minority interest/Income from associates	32	(107)	(68)	10	(37)	123	(100)	43	-143.0	330.0
Net income	**6,610**	**8,515**	**12,501**	**9,832**	**11,667**	**11,406**	**11,945**	**11,220**	**-6.1**	**14.1**
Net margin (%)	5.1	6.5	9.4	7.4	8.7	8.5	8.5	7.8	-74 bps	39 bps
EPS (Rs)	7.5	9.6	14.1	11.1	13.2	12.9	13.5	12.6	-6.1	14.1

Source: Company

Valuation

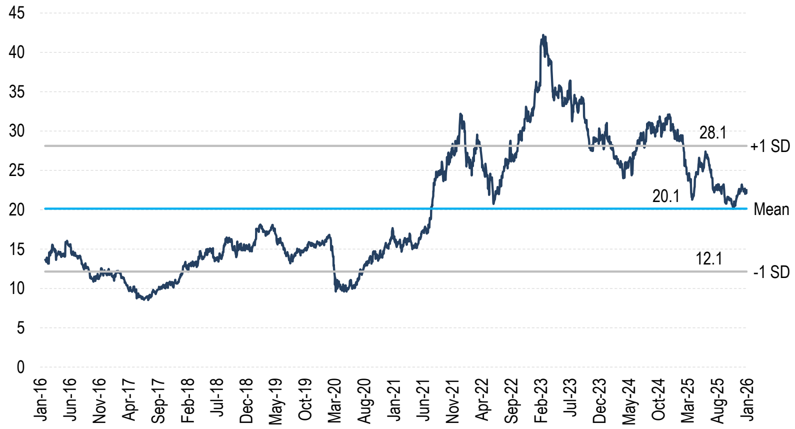
We have increased our FY26/27/28e revenue and EPS estimates by 0.7/2.1%, 1.1/4.8% and 1.2/1.9%, respectively with 20.0% CAGR in adj. EPS over FY26-28e. At CMP, the stock trades at FY27/28e P/E of 22.3x/20.1x. **We maintain BUY rating on the stock with a TP of Rs1,964, implying ~17.5% upside from CMP.**

Fig 10 – Change in Estimates

(Rs m)	FY26e			FY27e			FY28e		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue ($ m)	6,381	6,339	0.7	6,708	6,635	1.1	7,001	6,918	1.2
Revenue (Rs m)	5,62,232	5,57,695	0.8	5,99,327	5,91,423	1.3	6,25,502	6,16,702	1.4
EBITDA	89,269	86,202	3.6	1,08,516	1,03,313	5.0	1,17,772	1,14,813	2.6
EBITDA Margin (%)	15.9%	15.5%	42 bps	18.1%	17.5%	64 bps	18.8%	18.6%	21 bps
EBIT	70,527	67,560	4.4	89,090	84,092	5.9	97,857	95,109	2.9
EBIT Margin (%)	12.5%	12.1%	43 bps	14.9%	14.2%	65 bps	15.6%	15.4%	22 bps
PBT (Adj.)	70,460	69,142	1.9	91,020	86,021	5.8	1,00,908	97,778	3.2
Net PAT (Adj.)	51,154	50,102	2.1	66,526	63,504	4.8	73,696	72,294	1.9

Source: Anand Rathi Research.

Fig 11 – 1-Year Fwd. PE



Source: Bloomberg, Anand Rathi Research

Risks

- Lower-margin telecom deal may drag overall margin.
- GenAI productivity pass-on may impact pricing.
- Delay in revival of discretionary spend.

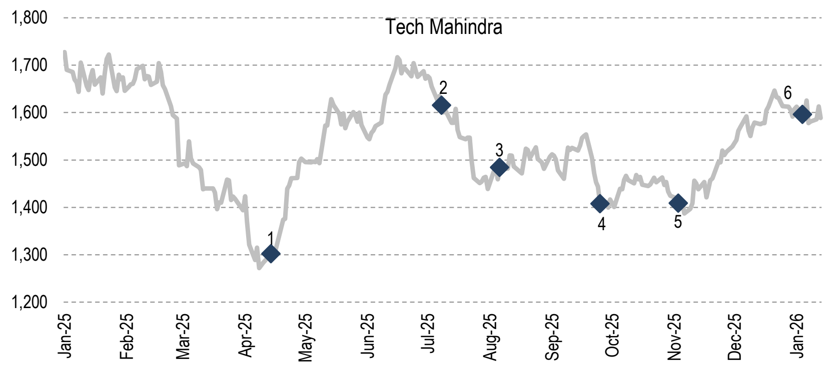
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 18 January 2026)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	15-Apr-25	Hold	1,329	1,284
2	09-Jul-25	Sell	1,557	1,634
3	07-Aug-25	Hold	1,530	1,488
4	06-Oct-25	Hold	1,523	1,398
5	04-Nov-25	Hold	1,606	1,424
6	05-Jan-26	Buy	1,859	1,599

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	Hold	Sell
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Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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