

FIRST LIGHT

17 July 2025

RESEARCH

TECH MAHINDRA | TARGET: Rs 1,662 | +3% | HOLD

FY27 margin guidance maintained despite revenue challenges

SUMMARY

TECH MAHINDRA

- 1QFY26 revenue and EBIT margin were below our estimates. TCV was good. Lack of revenue conversion - client specific issues and runoffs
- 15% EBIT margin of FY27 held despite demand environment not being as strong as was expected when guidance was given in early FY25
- Pare revenue estimates but assume 15% EBIT margin by FY27. Retain PE multiple and rating. QoQ revenue growth pickup expected from 2Q

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HOLD

TP: Rs 1,662 | ▲ 3%

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| IT Services

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Below estimate quarter: 1QFY26 revenue in CC terms declined by 1.4% QoQ against our estimate of flat growth. EBIT margin at 11.1% (up 50bps QoQ) came below our estimate of 11.5%. Disappointing on both fronts. However, the net new TCV of US\$809mn came at the higher end of quarterly guidance of US\$600-800mn.

Mismatch between TCV and revenue growth should end in 2Q: Tech M has been showing reasonably strong new TCV in the last few quarters, but the revenue growth has been weak. It says that is because of runoffs in certain projects, client specific issues, weakness in the manufacturing vertical. It stated that revenue growth should pick up QoQ from 2QFY26 for the rest of the year if macro does not deteriorate further.

Uncertainty remains: It indicated that the tariff related uncertainty is like what it saw three months back and that there was no great improvement from that time.

Margin guidance held on to: On its FY27 targets of (1) better than peer revenue growth and (2) 15% EBIT margin, it stated that when the plan was highlighted at the beginning of FY25 it was expecting a better FY26 from a revenue growth perspective but that has not played out. Despite that it is sticking to guidance of 15% EBIT margin by FY27.

Employee structure will only change slowly: While it stated that its employee structure is 'diamond' shaped (a fat middle), it would move slowly towards a pyramid shape. But it stated that it will be difficult for it to copy the structure of its peers in the immediate future.

Pare estimates but retain Hold: We pare revenue estimates for FY26-FY28 but hold on to the FY27 EBIT margin estimate of 15%. The reduction in EPS for FY27 and FY28 translate into a reduction in Target price. We hold on to our Target PE multiple of 19.2x (10% discount to that of TCS) and retain our HOLD rating.

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Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	TECHM IN/Rs 1,608
Market cap	US\$ 16.6bn
Free float	65%
3M ADV	US\$ 39.3mn
52wk high/low	Rs 1,808/Rs 1,209
Promoter/FPI/DII	35%/23%/32%

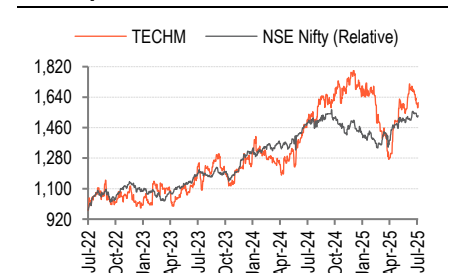
Source: NSE | Price as of 16 Jul 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	529,883	556,372	606,952
EBITDA (Rs mn)	69,911	87,886	112,221
Adj. net profit (Rs mn)	42,818	55,604	73,775
Adj. EPS (Rs)	47.8	63.7	84.2
Consensus EPS (Rs)	47.8	60.7	74.6
Adj. ROAE (%)	15.8	20.0	25.8
Adj. P/E (x)	33.6	25.2	19.1
EV/EBITDA (x)	19.4	15.4	12.0
Adj. EPS growth (%)	80.6	33.2	32.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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BUY – Expected return >+15%

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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