

HOLD

TP: Rs 1,662 | ▲ 3%

TECH MAHINDRA

| IT Services

| 17 July 2025

FY27 margin guidance maintained despite revenue challenges

- 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

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%

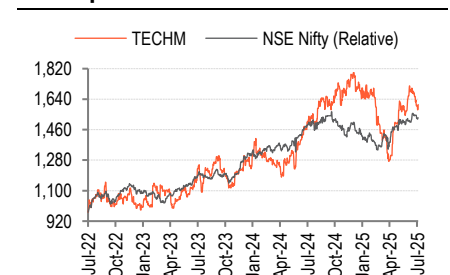
Source: NSE | Price as of 16 Jul 2025

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



Key Points from the quarter and the earnings call

- Revenues stood at US\$1,564mn, reflecting a decline of 1.4% QoQ (against our estimate of flat growth) and 1% YoY in CC terms
 - Performance was driven by growth in communications, retail, and BFSI verticals
 - YoY headwinds were primarily due to rightsizing in the field service business
 - Spend reductions in the automotive sector impacted YoY revenue performance
- The EBIT margin was 11.1% vs 10.5% in the previous quarter. 7th consecutive quarter of margin expansion. But this was lower than our estimate of 11.5%
 - Margin headwinds during the quarter included seasonality in Comviva business, higher visa costs, and lower utilization
 - Margin headwinds were offset by Project Fortius savings, favorable offshore mix, G&A optimization including integration synergies from portfolio companies
- PAT margin was 8.5%, expanding 200 bps YoY
- The communications vertical posted 2.5% YoY growth on a reported basis, supported by stabilization and spending in top clients
 - Investments underway in digital platforms, API monetization, and vertical-specific services to create adjacent revenue opportunities
- Manufacturing vertical declined 4% YoY due to softness in discretionary spend in the automotive segment
- BFSI vertical reported 4.7% YoY growth (continues to be one of the fastest-growing verticals)
 - Engagement from Fortune 500 and Global 2000 customers in financial services and insurance. These engagements enabled by differentiation in asset and wealth management, payments, and platforms like Guidewire and Temenos
 - Confidence expressed in long-term BFSI potential across all geographies
- Hi-tech vertical declined 3.3% YoY on a reported basis, driven by restructuring in semiconductor industry, budget cuts, and workforce rationalization at a key client
 - Client engagement in hi-tech remains strong with anticipated gradual recovery in 2H
- Retail, Logistics and Transport increased 3.8% YoY; Healthcare and Lifesciences declined 5.2% YoY
- America declined 5.9% YoY; Europe grew 11.7% YoY; RoW increased 2.9% YoY
 - Europe and rest of the world growth aided by favorable currency tailwinds
- Two clients added in the US\$50mn revenue bucket over the past year

- Total deal win for the quarter was US\$809mn
 - Large deals over US\$25mn now make up a higher proportion of total TCV
 - Deal wins are broad-based across communications, hi-tech, BFSI, and other verticals
- Strong deal win momentum expected to support growth in the next quarter
- DSO stood at 95. Increase by 2 days YoY and 7 days QoQ due to timing-related collection delays, expected to normalize in the next quarter

Demand Environment

- The demand environment is mixed, with slowdown seen in auto and broader manufacturing sectors due to tariff impacts. Clients in manufacturing have reduced discretionary spending
- Slowdown observed in the hi-tech vertical, driven by recession risk sensitivity and sharp budget cuts by a specific semiconductor client
- No significant change in demand momentum in other verticals, including telecom and BFSI. Telecom has stabilized and shown growth in the current quarter
- Uncertainty in manufacturing and auto vertical persists due to tariff-related issues. The company's auto exposure is significantly larger in the US than in Europe. European auto exposure primarily through Pininfarina. No significant clarity yet on how the tariff situation will evolve. American manufacturers more dependent on Canada and Mexico than Europe
- Revenue impact from large deals (which have shown steady increase over the past 3 to 4 quarters) has been delayed due to macro challenges and run-offs
- Large deal wins are expected to start contributing to revenue from 2Q onwards, assuming a stable business environment
- FY27 expected to deliver higher-than-peer average growth and margin targets. FY26 is positioned as a year to bridge (not exceed) historical growth gap with peers. FY26 expected to show better performance than FY25, despite macroeconomic volatility
- Confidence in FY27 targets growth and margin remains intact despite macroeconomic uncertainty. Confidence supported by internal changes including focus on key clients, must-have accounts, and service lines, vertical alignment within geographies and addition of new talent

Other Points

- Company has avoided aggressive pricing to win revenue
- India, Middle East, and Africa region showed volatility but new leadership and reorganization into a global vertical model expected to improve growth and relevance

- Europe showing strong consolidation trends among telcos and IT/BPO service providers
- Americas experienced historically has seen spend reductions from large telco clients but spend has now stabilized
- Recent wage hike was implemented last 4QFY25; next cycle likely in January next year
- Workforce Pyramid & Experience Profile
 - Current Position: Tech Mahindra's average experience is higher than peers. This is seen as a strength by the management, especially for complex AI use cases, which require deeper domain understanding
 - Fresher Hiring: 6,000+ freshers hired last year as part of a gradual pyramid reshaping. A dramatic reshaping is not expected in FY27 — it will be a multi-year effort. The goal is to reach a midpoint between current structure and peer benchmarks
- Sequential Reduction in 'Other Expenses': Partially driven by year-end normalization. Spend typically peaks in 4Q and corrects in 1Q. Some return of costs expected in Q2 due to seasonality
- IT margins appear lower sequentially: Comviva business included under IT segment so Comviva seasonality impacts sequential margin. IT revenue decline also impacted utilization. Lower utilization directly pressures margin
- Key Verticals driving growth:
 - Telco: Largest vertical for the company. It was on a decline last year, but has started FY26 positively. Expected to contribute to growth going forward.
 - BFSI: Long-term strategic focus area. Management remains optimistic about its potential, though growth may take time.
 - Retail (especially in the Americas): Seeing strong performance, notable wins, and good client conversions.
- Manufacturing: Described as challenging, with no strong near-term growth expectations
- Reduction primarily in support staff functions, not in sales. No plans to reduce sales headcount; focus remains on growing sales capability
- The BPO business sees natural volatility with frequent ramp-ups and ramp-downs. Contract durations in BPO tend to be shorter and often outcome based. The recent people addition align with planned expansions, not structural changes
- No fixed offshore target; shifts based on client engagement models. Some increase in onsite presence expected as new deals ramp up
- Auto Sector Exposure: Primarily exposed to OEMs in the U.S. market.

- Hi-Tech Sector Update: A previously delayed BPM deal in the hi-tech vertical is now returning to the pipeline. Revenue recognition is expected in 2Q
- Long-term subcontracting expense is guided to stay between 8–10%.
- Management expects sequential revenue growth to begin from 2QFY26, driven by conversion of already-won deals
- Growth improvement strategy driven by three key levers:
 - Deepening focus on top accounts: "Turbocharge" program targets peak and prime clients; Top accounts showing faster-than-company-average growth; Significant headroom for expansion with Fortune 500 / Global 2000 clients
 - Acquisition of "must-have" accounts: Added 15 new Global 2000 / Fortune 500 accounts this quarter; Establishing early-stage relationships with long-term growth potential
 - Winning profitable large deals: Continued increase in net-new large deal volumes; Revenue contribution expected from current quarter onward
- Margin improvement plan grounded in expected organic growth recovery and cost initiatives
 - If growth assumptions worsen due to macro factors, margin targets may be changed
 - Primary margin levers include reduction in subcontracting cost, increased offshoring, and tighter governance
 - Productivity improvements via "Fortius" cited as major margin drivers
 - The integration of portfolio companies continues, with completed front-end and delivery integration. Support and functional integration underway, expected to yield additional margin benefits through FY27

We have an underweight stance on Indian IT services.

We reinitiated coverage on the Indian IT Services with an Underweight stance through a report on 1 January 2025 (**Slow is the (new/old) normal**), and reiterated that view with an update on 12th March 2025 (**FY26 unlikely to be better than FY25**). We also put out a recent update (**Uncertainty stays and 'eating the tariff' may impact even FY27**) where we indicate we believe the tariff decisions of 7 July 2025 on 14 countries, post the 90-day pause, prolongs the current phase of uncertainty.

Consequently, we see Tier-1 growth to remain at low single digit level for FY26 and 'eating the tariff' may lead to adverse impact on FY27

While both earnings and PE multiples have corrected since 1 Jan 2025, we believe the industry's structural organic revenue growth from here on will be lower than the ~7% CAGR seen during FY15-FY20, possibly ~5% CAGR over FY25-FY30 in constant currency (CC) terms.

Multiple speed breakers post FY25 drive our Underweight stance

Trump policies raise uncertainty: The tariffs, the higher fiscal deficit from the 'one big, beautiful bill' (OBBA), the crackdown on illegal immigration, DOGE, etc all point to uncertainty in the coming days which may delay decision making

Higher for longer interest rate environment: One of the reasons for optimism around the Indian IT Services sector in late 2024 had been the view that the US would achieve a soft landing in 2025 and that Fed Funds rate would be gradually lowered from the peak of 5.25-5.5%, driven by lower inflation. This, the market felt, was the apt environment for a broader pick up in discretionary spending beyond that of North American BFSI sector, especially after two muted years when the constant refrain from vendors for the weak growth was of 'macro uncertainty'.

Lately, based on inflation prints and fears of a higher fiscal deficit, US 10-year yields have remained firm. There are fears that sustained high interest rates could reduce IT outsourcing demand, particularly in sectors like BFSI and Telecom, and dampen US demand in areas like housing, autos and retail.

Covid-induced pull forward of demand requires a multi-year unwind. We think there were excesses during the compressed transformation phase which are yet to be fully unwound.

Gen AI and GCCs are going to disrupt growth: We also believe that AI/Gen AI will lead to compression of revenue for the industry in the next 24-36 months as companies self-cannibalize to hold on to their existing clients. We also believe that the rapid growth of the GCCs is a threat to outsourcing. While there seems to be collaboration between the outsourcers and their clients in setting up these GCCs, there will be growth discontinuity when the business is insourced at some point.

Massive hyper scaler AI capex should accentuate re-alignment in IT spend:

Software players, including hyper scalers, are increasing capex on AI-related data centres. This will drive higher pricing, forcing enterprises to allocate more IT spend to

cloud/SaaS and move it away from the those who have lower bargaining power – the global IT services players.

Higher competition: Indian Tier-1 companies now face higher competition from Accenture (especially as it loses business due to DOGE), Tier-2 players, and Cognizant, likely slowing their growth compared to FY15-FY20. This is besides the fact that by FY25, Tier-1 revenue will reach US\$ 85bn, double that in FY15. Due to the higher base now, growth may not be as rapid.

Weak TCV: The weaker TCV for most players in FY25 (YoY) and lack of any mega deal announcements in recent quarters points to a brewing growth problem for FY26. Many of the large companies like TCS, INFO and HCLT will also grapple with large contributions to incremental revenue by a set of large clients in FY25 or the need to set off large pass-through items.

How we are valuing companies: We are using PE methodology and using TCS as our industry benchmark. The target PE used for TCS now is 21.3x, which is the average PE multiple of TCS over the last 10 years less 0.5SD. Through our choice of the benchmark Target PE multiple, we seek to capture the probability of downside risks to consensus growth expectations for FY26/FY27, especially due to Trump 2.0 proposals.

Tier- 2 valuation reflects growth gap with Tier-1

The Tier-2 set have been taking away market share from the Tier-1 set due to better execution and due to their smaller size. And unlike in the past cycles, they have performed better than the Tier-1 largely due to better management teams.

However, the current PE premium to Tier-1s is excessive as we believe that to deliver on the high consensus revenue growth expectations, they may be taking on more cost take-out projects which are likely to impact their margins adversely.

Fig 1 – Quarterly results: Comparison of actuals with estimates

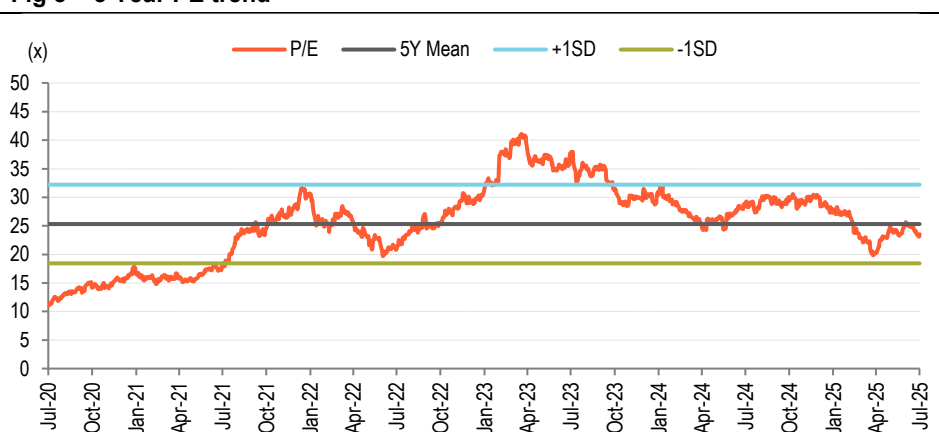
Y/E March (Rs mn)	1QFY25	4QFY25	1QFY26	YoY (%)	QoQ (%)	1QFY26E	Dev (%)
Net Sales (USD mn)	1,559	1,549	1,564	0.4	1.0	1,588	(1.5)
Net Sales	130,055	133,840	133,512	2.7	(0.2)	137,320	(2.8)
Direct Cost	95,532	94,800	95,236	(0.3)	0.5	94,800	0.5
Gross Margin	34,523	39,040	38,276	10.9	(2.0)	42,520	(10.0)
% of Sales	26.5	29.2	28.7			31.0	
SG&A	18,878	20,366	18,924	0.2	(7.1)	22,026	(14.1)
% of Sales	14.5	15.2	14.2			16.0	
EBITDA	15,645	18,674	19,352	23.7	3.6	20,495	(5.6)
EBITDA Margin (%)	12.0	14.0	14.5			14.9	
Depreciation & Amortisation	4,622	4,621	4,581	(0.9)	(0.9)	4,688	(2.3)
EBIT	11,023	14,053	14,771	34.0	5.1	15,807	(6.6)
EBIT Margin (%)	8.5	10.5	11.1			11.5	
Interest	715	853	778	8.8	(8.8)	56	1,289.3
Other Income	1,447	1,727	2,183	50.9	26.4	1,596	36.8
Amortisation of goodwill	0	273	0			0	
PBT	11,755	14,654	16,176	37.6	10.4	17,347	(6.7)
Exceptional Item (as Reported)	26	(12)	5			0	
Provision for Tax	3,133	3,223	4,893	56.2	51.8	4,510	8.5
Effective Tax Rate	26.7	22.0	30.2			26.0	
Minority share in Profit / Loss	(133)	248	118	(188.7)	(52.4)	248	(52.4)
PAT (Reported)	8,515	11,667	11,406	34.0	(2.2)	13,084	(12.8)
NPM (%)	6.5	8.7	8.5			9.5	

Source: Company, BOBCAPS Research

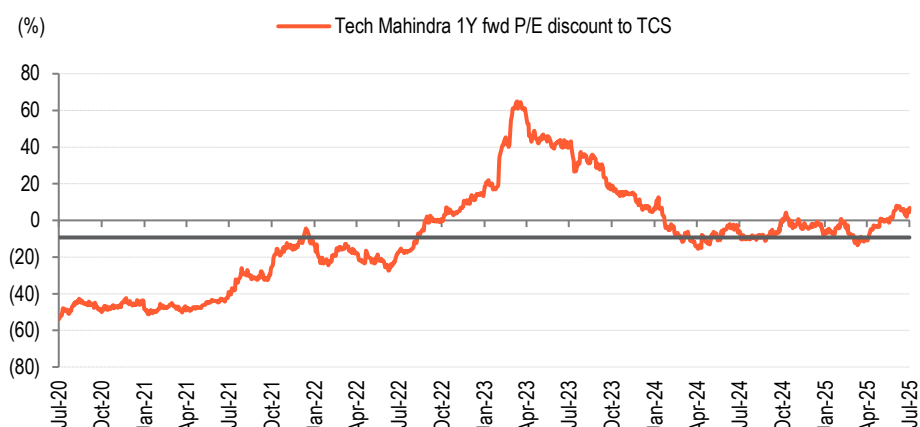
Fig 2 – Revised Estimates

	New			Old			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
INR/USD	86.6	89.3	91.1	87.3	89.3	91.1	(0.8)	-	-
USD Revenue (USD mn)	6,424	6,800	7,317	6,517	6,976	7,477	(1.4)	(2.5)	(2.1)
USD Revenue Growth (%)	2.6	5.9	7.6	4.0	7.0	7.2			
Revenue (Rsmn)	556.4	607.0	666.3	568.7	622.6	680.8	(2.2)	(2.5)	(2.1)
EBIT (Rsmn)	68.8	91.6	103.7	73.9	93.3	108.2	(6.9)	(1.7)	(4.1)
EBIT Margin (%)	12.4	15.1	15.6	13.0	15.0	15.9			
PAT (Rsmn)	56.5	74.7	83.6	61.1	76.2	87.7	(7.5)	(1.9)	(4.7)
EPS (Rs)	63.7	84.2	94.2	68.9	85.8	98.8	(7.5)	(1.9)	(4.7)

Source: Company, BOBCAPS Research

Fig 3 – 5 Year PE trend

Source: Bloomberg, BOBCAPS Research

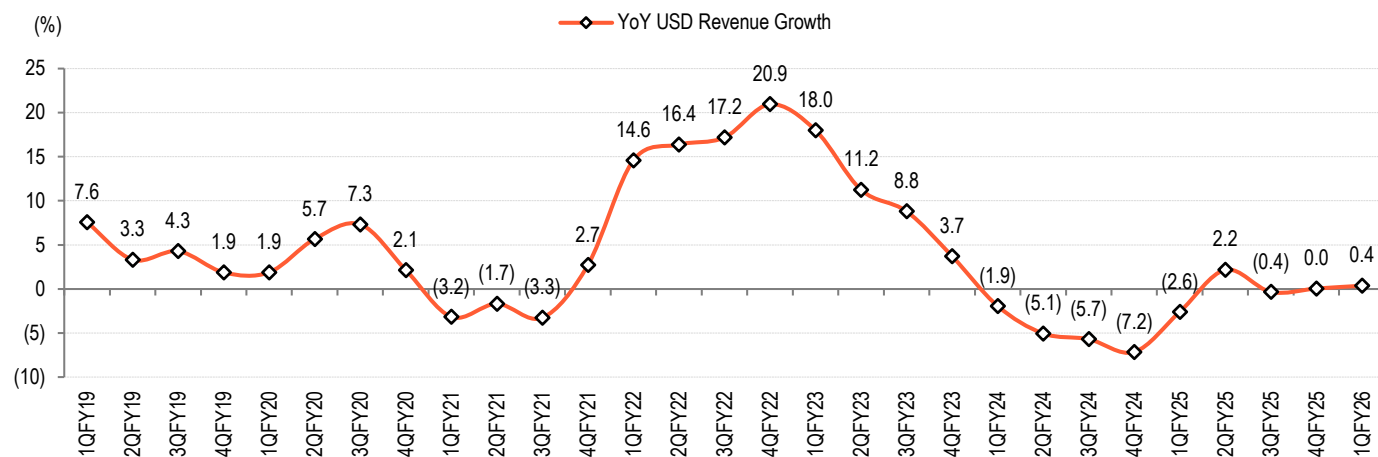
Fig 4 – Premium/ Discount to TCS

Source: Bloomberg, BOBCAPS Research

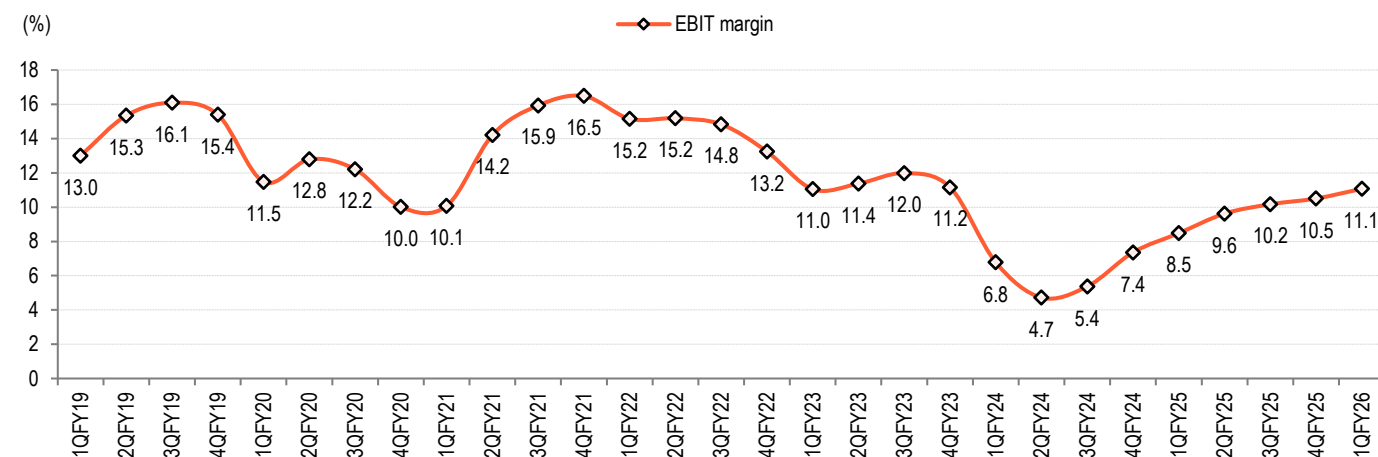
Fig 5 – P&L at a glance

(Rs mn)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Average INR/USD	54.4	60.7	61.3	65.6	67.0	64.5	69.9	71.0	74.1	74.4	80.6	82.8	84.6	86.6	89.3	91.1
Net Sales (US\$m)	2,633	3,098	3,664	4,037	4,351	4,771	4,971	5,182	5,111	5,998	6,607	6,277	6,264	6,424	6,800	7,317
-Growth (%)		17.7	18.3	10.2	7.8	9.6	4.2	4.3	(1.4)	17.3	10.1	(5.0)	(0.2)	2.6	5.9	7.6
Net Sales	143,320	188,313	224,779	264,941	291,408	307,730	347,421	368,677	378,551	446,460	532,902	519,955	529,883	556,372	606,952	666,284
-Growth (%)		31.4	19.4	17.9	10.0	5.6	12.9	6.1	2.7	17.9	19.4	-2.4	1.9	5.0	9.1	9.8
Cost of Sales & Services	90,007	117,001	150,734	183,316	205,661	215,299	233,590	259,743	258,555	309,719	381,197	391,146	380,848	389,902	411,844	460,906
Gross Profit	53,313	71,312	74,045	81,625	85,747	92,431	113,831	108,934	119,996	136,741	151,705	128,809	149,035	166,470	195,108	205,378
% of sales	37.2	37.9	32.9	30.8	29.4	30.0	32.8	29.5	31.7	30.6	28.5	24.8	28.1	29.9	32.1	30.8
SG&A	22,682	29,476	32,901	38,289	43,904	45,261	50,463	51,673	51,525	56,540	71,418	79,163	79,124	78,584	82,887	79,259
% of sales	15.8	15.7	14.6	14.5	15.1	14.7	14.5	14.0	13.6	12.7	13.4	15.2	14.9	14.1	13.7	11.9
EBITDA	30,631	41,836	41,144	43,336	41,843	47,170	63,368	57,261	68,471	80,201	80,287	49,646	69,911	87,886	112,221	126,119
% of sales	21.4	22.2	18.3	16.4	14.4	15.3	18.2	15.5	18.1	18.0	15.1	9.5	13.2	15.8	18.5	18.9
Depreciation	3896	5,221	6,079	7,620	9,781	10,849	11,292	14,458	14,577	15,204	19,567	18,171	18,529	19,045	20,582	22,374
% of sales	2.7	2.8	2.7	2.9	3.4	3.5	3.3	3.9	3.9	3.4	3.7	3.5	3.5	3.4	3.4	3.4
EBIT	26735	36,615	35,065	35,716	32,062	36,321	52,076	42,803	53,894	64,997	60,720	31,475	51,382	68,841	91,638	103,745
% of sales	18.7	19.4	15.6	13.5	11.0	11.8	15.0	11.6	14.2	14.6	11.4	6.1	9.7	12.4	15.1	15.6
Amortisation of goodwill	0	0	0	0	0	0	0	2,175	0	0	2,370	4,582	0	0	0	0
Interest expenses	922	797	297	871	1,286	1,624	1,332	1,919	1,740	1,626	3,256	3,922	3,217	3,112	3,112	3,112
Other income (net)	2,121	1,130	1,006	5,322	7,776	14,093	5,342	11,924	7,871	11,123	9,650	9,169	8,554	11,801	13,182	13,244
Share of profit from associate							(655)	(55)								
PBT	27,934	36,948	35,774	40,167	38,552	48,790	55,431	50,578	60,025	74,494	64,744	32,140	56,719	77,530	101,709	113,877
-PBT margin (%)	19.5	19.6	15.9	15.2	13.2	15.9	16.0	13.7	15.9	16.7	12.1	6.2	10.7	13.9	16.8	17.1
Provision for tax	6,479	7,524	9,472	8,600	10,021	10,925	12,544	11,604	15,999	18,220	15,885	8,276	14,002	21,458	27,461	30,747
Effective tax rate (%)	23.2	20.4	26.5	21.4	26.0	22.4	22.6	22.9	26.7	24.5	24.5	25.7	24.7	27.7	27.0	27.0
Minority Interest	301	336	310	412	389	(136)	88	1,356	750	(640)	(257)	(390)	(15)	472	472	472
Net profit	20,756	29,122	26,062	31,160	28,136	38,001	43,194	40,166	44,272	55,637	48,531	23,511	42,451	56,545	74,719	83,602
-Growth (%)	263.3	54.9	(13.2)	18.7	(9.8)	35.1	13.1	(6.2)	7.3	31.5	(15.2)	(51.2)	81.6	29.9	32.7	12.0
-Net profit margin (%)	14.5	15.5	11.6	11.8	9.7	12.3	12.4	10.9	11.7	12.5	9.1	4.5	8.0	10.2	12.3	12.5

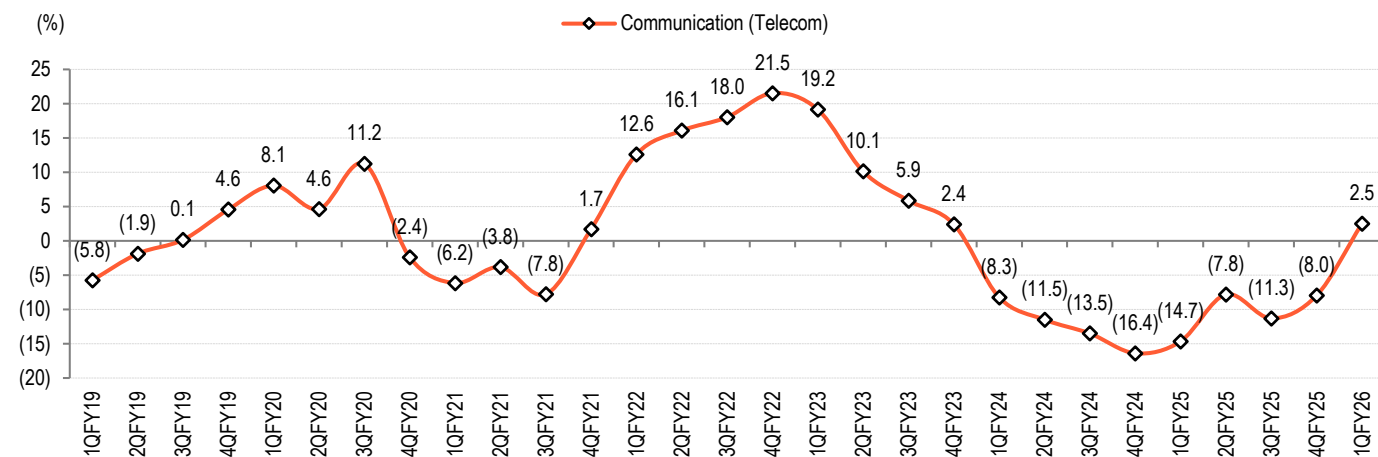
Source: Company, BOBCAPS Research

Fig 6 – YoY USD Revenue growth

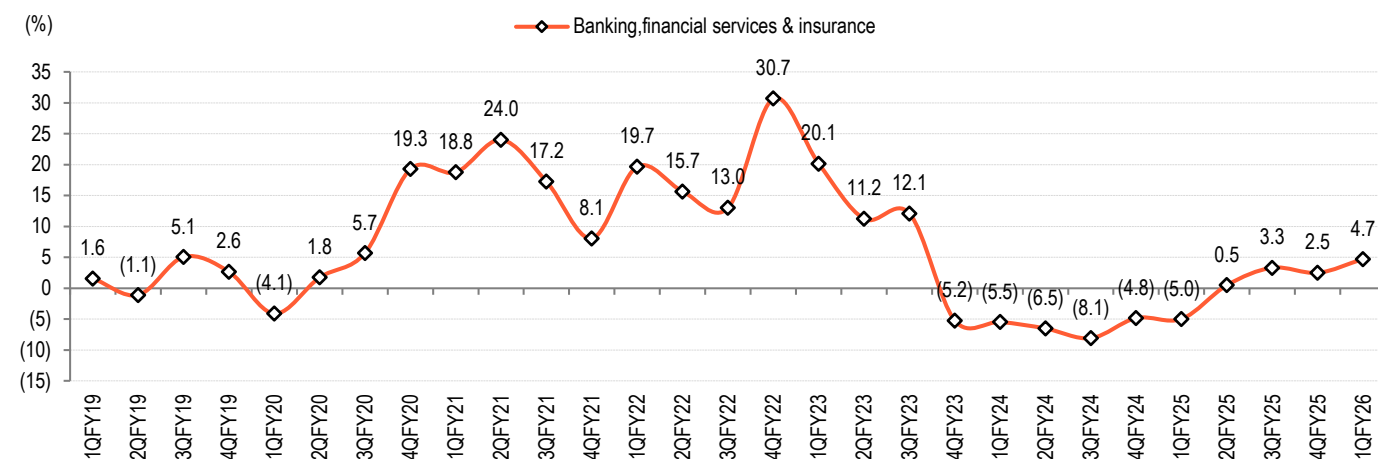
Source: Company, BOBCAPS Research

Fig 7 – EBIT Margin trend

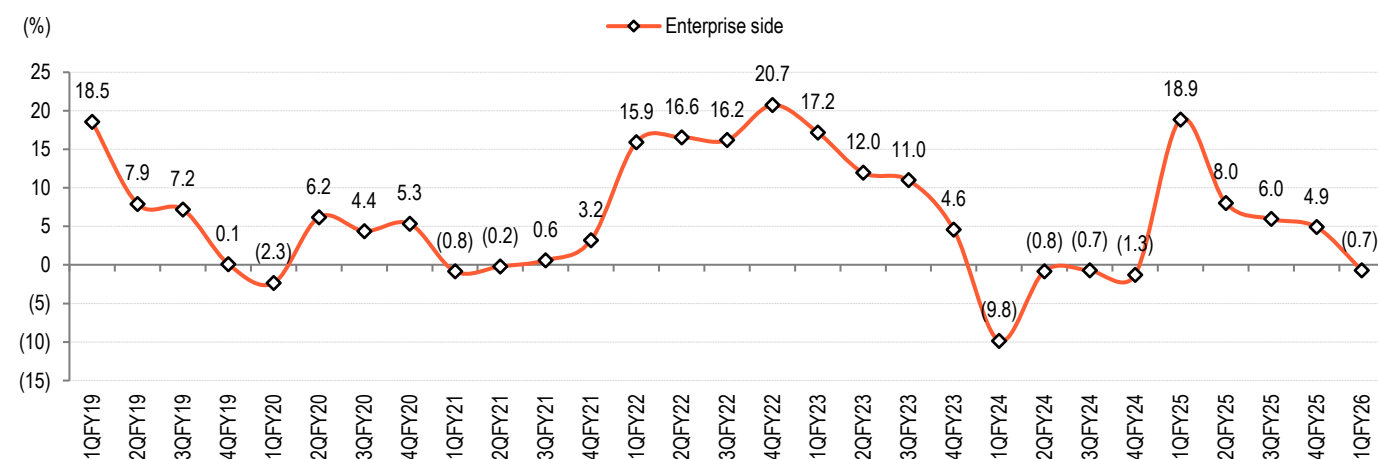
Source: Company, BOBCAPS Research

Fig 8 – Communication Growth (YoY)

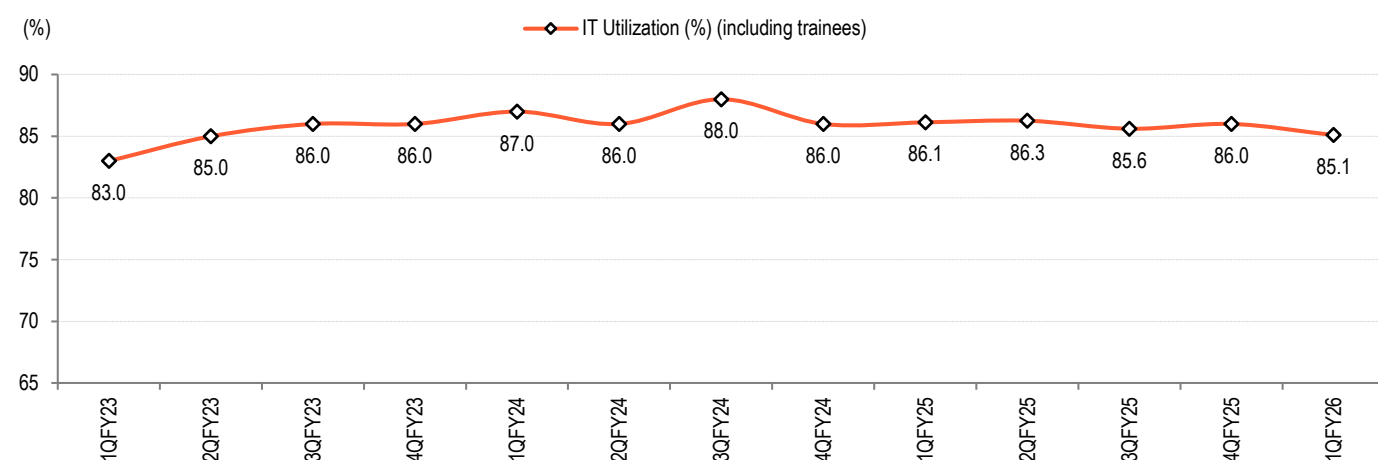
Source: Company, BOBCAPS Research

Fig 9 – BFSI Growth (YoY)

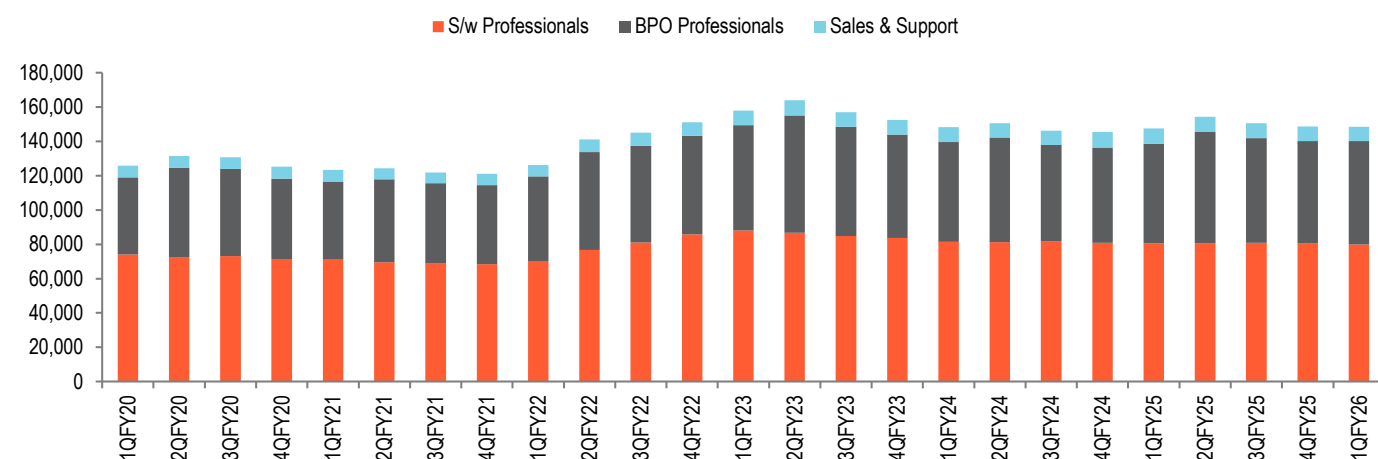
Source: Company, BOBCAPS Research

Fig 10 – Enterprise side Growth (YoY)

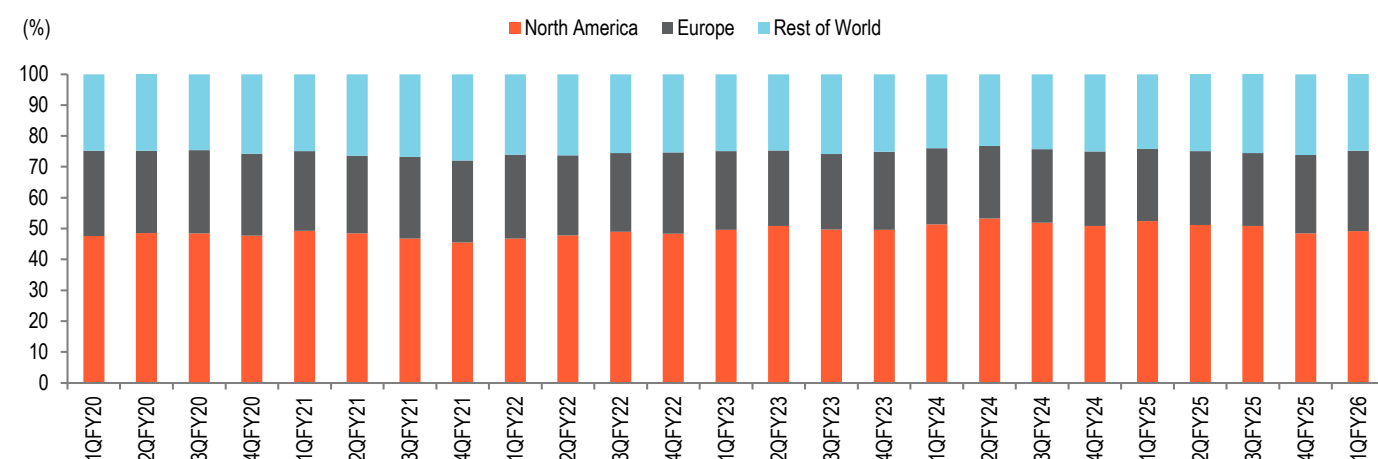
Source: Company, BOBCAPS Research

Fig 11 – Utilization trend

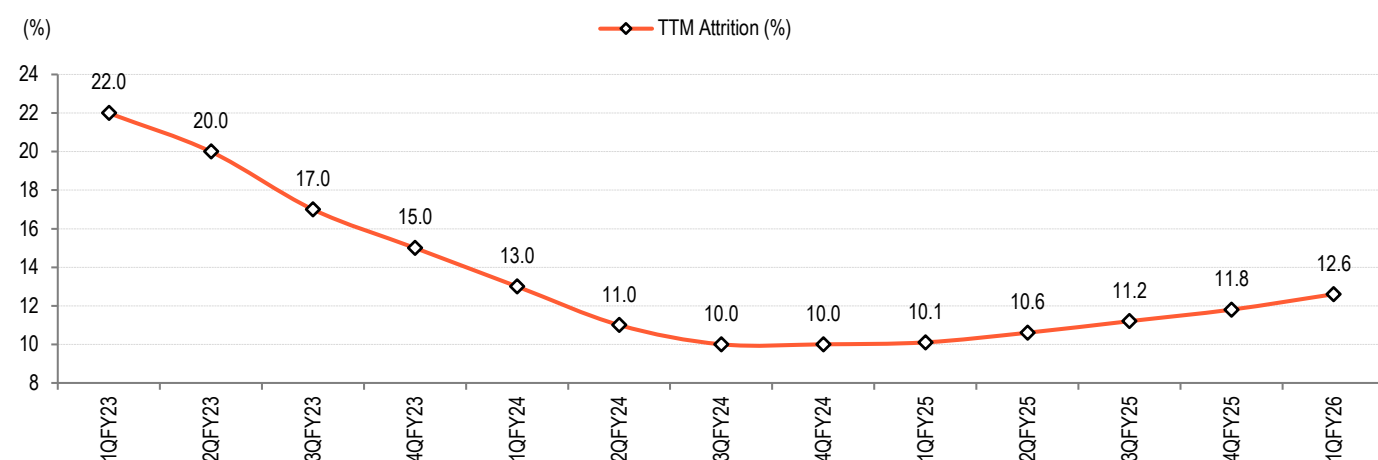
Source: Company, BOBCAPS Research

Fig 12 – Total Headcount trend QoQ

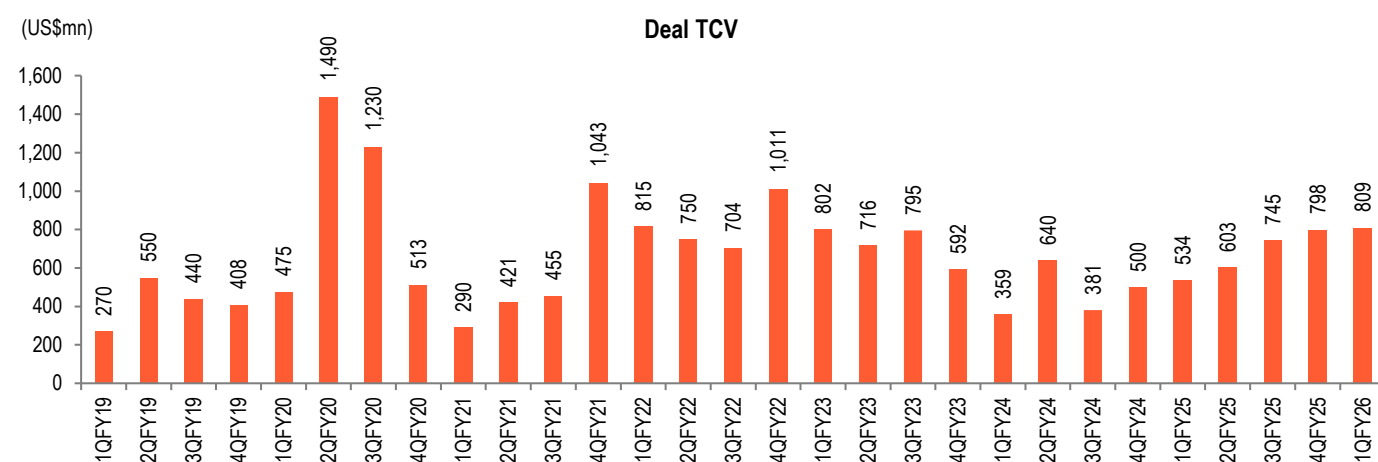
Source: Company, BOBCAPS Research

Fig 13 – Revenue contribution in terms of Geographies

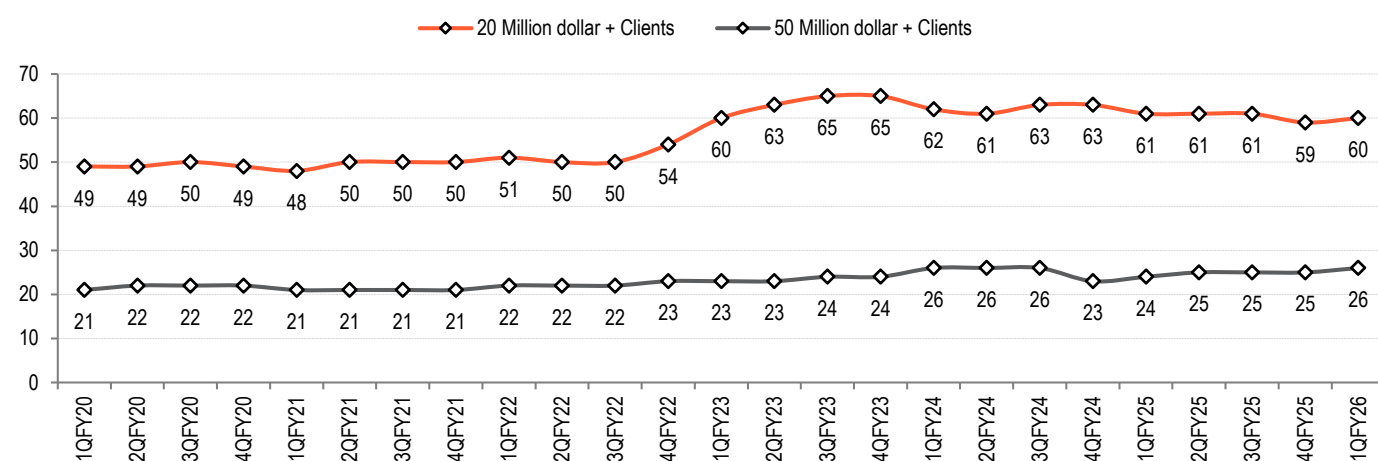
Source: Company, BOBCAPS Research

Fig 14 – Attrition Rate trend QoQ

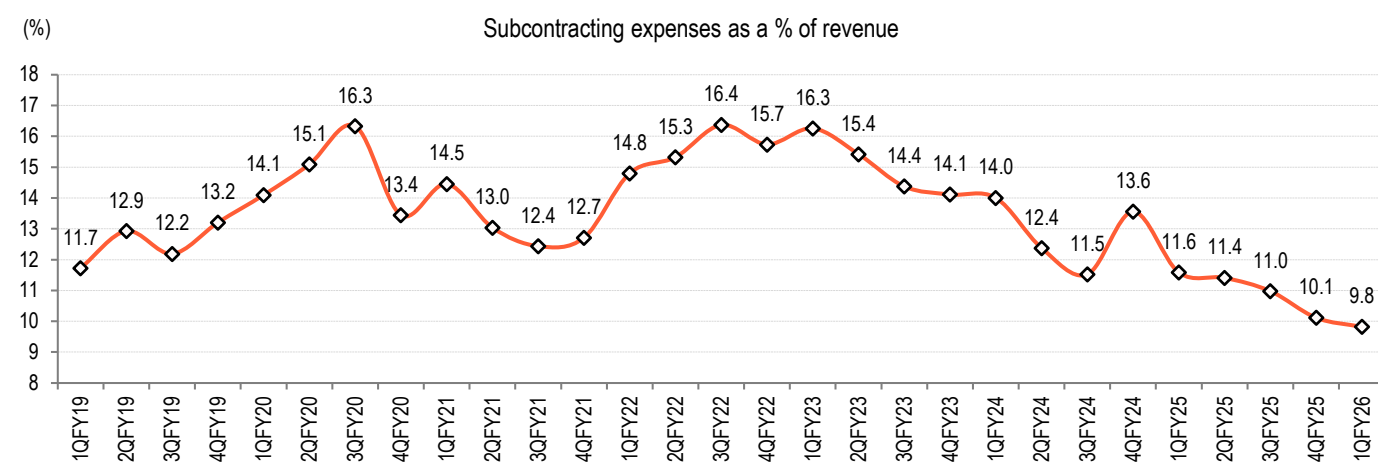
Source: Company, BOBCAPS Research

Fig 15 – Net new deal wins (TCV) trend QoQ

Source: Company, BOBCAPS Research

Fig 16 – Number of clients: >US\$20mn and >US\$50mn bucket

Source: Company, BOBCAPS Researchs

Fig 17 – Subcontracting costs as % of revenue

Source: Company, BOBCAPS Research

Fig 18 – Quarterly Snapshot

(Rs mn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
INR/USD	77.7	80.0	82.3	82.3	82.2	82.7	83.3	83.1	83.4	83.8	84.7	86.5	85.3
USD Revenue (USD mn)	1633	1638	1668	1668	1601	1555	1573	1548	1559	1589	1567	1549	1564
INR Revenue	127,079	131,295	137,346	137,182	131,590	128,639	131,013	128,713	130,055	133,132	132,856	133,840	133,512
Gross Margin	35,917	36,681	39,409	39,698	33,785	28,887	31,365	34,772	34,523	37,175	38,297	39,040	38,276
SGA	17,116	16,840	17,969	19,493	20,405	18,164	19,900	20,694	18,878	19,673	20,207	20,366	18,924
EBITDA	18,801	19,841	21,440	20,205	13,380	10,723	11,465	14,078	15,645	17,502	18,090	18,674	19,352
Depreciation	4,767	4,917	4,981	4,902	4,466	4,657	4,434	4,614	4,622	4,698	4,588	4,621	4,581
EBIT	14,034	14,924	16,459	15,303	8,914	6,066	7,031	9,464	11,023	12,804	13,502	14,053	14,771
Other income (net)	1,221	2,902	2,472	3,055	1,917	2,642	875	3,735	1,447	5,215	165	1,727	2,183
PBT	14,855	16,639	17,712	15,248	9,712	6,153	6,789	9,591	11,781	17,135	12,974	14,642	16,181
Tax	3,380	3,647	4,859	3,999	2,676	1,100	1,551	2,949	3,133	4,560	3,086	3,223	4,893
Minority Share in profit/Loss	(159)	(138)	113	(73)	(111)	(114)	(133)	(32)	(133)	(74)	(56)	248	118
Exceptional Item	3	(153)	(90)	(50)	78	(85)	48	64	26	6	66	(12)	5
PAT	11,316	12,854	12,966	11,176	6,925	4,939	5,105	6,610	8,515	12,501	9,832	11,667	11,406
YoY Growth (%)													
USD Revenue	18.0	11.2	8.8	3.7	(1.9)	(5.1)	(5.7)	(7.2)	(2.6)	2.2	(0.4)	0.0	0.4
INR Revenue	24.6	20.7	19.9	13.2	3.5	(2.0)	(4.6)	(6.2)	(1.2)	3.5	1.4	4.0	2.7
Gross Profit	11.2	6.4	14.5	11.6	(5.9)	(21.2)	(20.4)	(12.4)	2.2	28.7	22.1	12.3	10.9
EBITDA	0.2	(0.6)	4.1	(3.3)	(28.8)	(46.0)	(46.5)	(30.3)	16.9	63.2	57.8	32.6	23.7
EBIT	(9.2)	(9.7)	(3.1)	(4.6)	(36.5)	(59.4)	(57.3)	(38.2)	23.7	111.1	92.0	48.5	34.0
Net Profit	(16.4)	(4.0)	(5.3)	(25.8)	(38.8)	(61.6)	(60.6)	(40.9)	23.0	153.1	92.6	76.5	34.0
QoQ Growth (%)													
USD Revenue	1.5	0.3	1.8	0.0	(4.0)	(2.8)	1.1	(1.6)	0.7	1.9	(1.3)	(1.2)	1.0
INR Revenue	4.9	3.3	4.6	(0.1)	(4.1)	(2.2)	1.8	(1.8)	1.0	2.4	(0.2)	0.7	(0.2)
EBITDA	(10.0)	5.5	8.1	(5.8)	(33.8)	(19.9)	6.9	22.8	11.1	11.9	3.4	3.2	3.6
EBIT	(12.5)	6.3	10.3	(7.0)	(41.7)	(31.9)	15.9	34.6	16.5	16.2	5.4	4.1	5.1
Net Profit	(24.8)	13.6	0.9	(13.8)	(38.0)	(28.7)	3.4	29.5	28.8	46.8	(21.4)	18.7	(2.2)
Margins (%)													
Gross Margin	28.3	27.9	28.7	28.9	25.7	22.5	23.9	27.0	26.5	27.9	28.8	29.2	28.7
EBITDA	14.8	15.1	15.6	14.7	10.2	8.3	8.8	10.9	12.0	13.1	13.6	14.0	14.5
EBIT	11.0	11.4	12.0	11.2	6.8	4.7	5.4	7.4	8.5	9.6	10.2	10.5	11.1
PAT	8.9	9.8	9.4	8.1	5.3	3.8	3.9	5.1	6.5	9.4	7.4	8.7	8.5
SGA	13.5	12.8	13.1	14.2	15.5	14.1	15.2	16.1	14.5	14.8	15.2	15.2	14.2

Source: Company, BOBCAPS Research

Fig 19 – Key Metrics

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
P and L (Rs mn)													
Revenue	127,079	131,295	137,346	137,182	131,590	128,639	131,013	128,713	130,055	133,132	132,856	133,840	133,512
EBITDA	18,801	19,841	21,440	20,205	13,380	10,723	11,465	14,078	15,645	17,502	18,090	18,674	19,352
PAT	11,316	12,854	12,966	11,176	6,925	4,939	5,105	6,610	8,515	12,501	9,832	11,667	11,406
Vertical Mix (%)													
Communication (Telecom)	40.4	39.7	39.8	40.1	37.8	37.0	36.5	36.1	33.1	33.4	32.5	33.2	33.8
Manufacturing	15.3	16.0	15.7	15.9	16.9	17.8	18.1	18.2	18.3	17.2	16.8	17.0	17.5
Technology, media & entertainment	9.7	10.1	10.3	10.3	10.7	11.0	10.5	10.7	13.8	14.3	14.3	13.2	13.3
Banking, financial services & insurance	16.7	16.3	15.9	15.9	16.1	16.1	15.5	16.3	15.7	15.8	16.1	16.7	16.4
Retail, transport & logistics	7.9	8.1	8.5	7.6	7.1	8.2	8.6	7.3	7.7	7.9	8.1	8.1	7.9
Healthcare and Life sciences								7.2	7.7	7.4	7.7	7.3	7.3
Others	10.0	9.8	9.9	10.2	4.0	10.0	10.8	4.0	3.8	4.0	4.6	4.5	3.9
Geographical Mix (%)													
North America	49.6	50.8	49.7	49.6	51.4	53.3	51.9	50.8	52.4	51.1	50.8	48.4	49.2
Europe	25.5	24.5	24.4	25.3	24.6	23.6	23.8	24.2	23.4	24.0	23.6	25.4	26.0
Rest of World	24.9	24.7	25.9	25.1	24.0	23.2	24.3	25.0	24.2	24.9	25.6	26.2	24.8
IT Headcount Mix (%)													
Onsite	27.2	27.3	27.5	27.3	26.9	26.6	26.1	25.2	24.6	23.7	22.7	22.1	21.4
Offshore	72.8	72.7	72.5	72.7	73.1	73.4	73.9	74.8	75.4	76.3	77.3	77.9	78.6
IT Utilization (%) (including trainees)	83.0	85.0	86.0	86.0	87.0	86.0	88.0	86.0	86.1	86.3	85.6	86.0	85.1
Clients Concentration (%)													
Top 5 Clients	21.0	19.0	18.0	17.0	17.0	17.0	16.0	16.0	15.5	15.1	14.8	16.0	15.6
Top 10 Clients	30.0	28.0	27.0	26.0	27.0	27.0	26.0	26.0	25.1	24.9	24.2	25.0	25.2
Top 20 Clients	41.0	40.0	40.0	40.0	39.0	39.0	39.0	39.0	38.4	38.6	38.0	38.0	39.0
Number of Client													
1 USD mn +	549	562	574	582	580	568	558	553	545	545	540	540	529
5 USD mn +	176	184	185	186	190	186	185	190	191	195	191	195	193
10 USD mn +	104	108	109	112	115	114	118	114	113	109	104	106	108
20 USD mn +	60	63	65	65	62	61	63	63	61	61	61	59	60
50 USD mn +	23	23	24	24	26	26	26	23	24	25	25	25	26
Employees	158,035	163,912	157,068	152,400	148,297	150,604	146,250	145,455	147,620	154,273	150,488	148,731	148,517
Net employee added	6,862	5,877	(6,844)	(4,668)	(4,103)	2,307	(4,354)	(795)	2,165	6,653	(3,785)	(1,757)	(214)
TTM Attrition (%)	22	20	17	15	13	11	10	10	10	11	11	12	13
Financial Metrics (USD mn)													
Revenue	1,633	1,638	1,668	1,668	1,601	1,555	1,573	1,548	1,559	1,589	1,567	1,549	1,564
EBITDA	239	246	260	245	163	129	138	169	188	209	213	217	226
EBIT	177	184	200	186	108	73	84	114	132	153	159	163	172
PAT	145	162	157	137	85	62	62	79	103	150	115	133	131
Per Capita (Annualised) - USD													
Revenue	41,320	39,975	42,486	43,769	43,176	41,306	43,022	42,575	42,241	41,192	41,664	41,654	42,134
EBITDA	6,042	5,991	6,626	6,441	4,388	3,437	3,766	4,653	5,082	5,414	5,661	5,831	6,081
EBIT	4,488	4,493	5,086	4,877	2,924	1,942	2,311	3,127	3,581	3,961	4,221	4,395	4,634
PAT	3,665	3,963	3,998	3,601	2,279	1,644	1,707	2,172	2,800	3,888	3,070	3,572	3,540
Per capita operating cost	36,832	35,482	37,400	38,892	40,252	39,364	40,711	39,449	38,661	37,232	37,442	37,259	37,500

Source: Company, BOBCAPS Research

Fig 20 – QoQ and YoY growth of various parameters

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
QoQ Growth (%)													
Total Company	1.5	0.3	1.9	(0.1)	(11.1)	4.9	1.1	(1.8)	0.9	1.9	(1.3)	(1.2)	1.0
By Geography (%)													
North America	4.2	2.8	(0.4)	(0.2)	(0.5)	0.7	(1.4)	(3.7)	3.9	(0.7)	(1.9)	(5.9)	2.6
Europe	(1.9)	(3.6)	1.4	3.6	(6.7)	(7.0)	2.2	0.1	(2.6)	4.5	(3.0)	6.3	3.6
Rest of World	(0.1)	(0.5)	6.8	(3.1)	(8.2)	(6.1)	5.9	1.3	(2.7)	5.0	1.4	1.2	(4.5)
By Industry (%)													
Communications, Media and Entertainment	1.0	(1.4)	2.1	0.7	(9.5)	(4.9)	(0.2)	(2.7)	(7.6)	2.7	(4.0)	1.0	2.9
Manufacturing	4.2	4.9	(0.1)	1.2	2.0	2.0	3.1	(1.0)	1.1	(4.0)	(3.7)	(0.0)	3.8
Technology	5.9	4.5	3.9	(0.0)	(0.3)	(0.1)	(3.5)	0.3	29.7	5.7	(1.6)	(8.5)	1.7
Banking, financial services & insurance	(2.6)	(2.1)	(0.7)	(0.0)	(2.8)	(3.1)	(2.3)	3.5	(3.0)	2.4	0.4	2.7	(0.8)
Retail, transport & logistics	5.5	2.9	6.9	(10.6)	(10.3)	12.2	6.1	(16.5)	5.5	5.6	0.9	(1.3)	(1.3)
Healthcare and Life sciences									7.3	(1.8)	2.1	(5.7)	0.3
Others	(0.5)	(1.7)	2.9	3.0	(62.4)	142.9	9.2	(63.5)	(4.6)	7.8	14.2	(4.2)	(13.2)
By Client classification (%)													
Top 5 Clients	(3.1)	(9.2)	(3.5)	(5.6)	(4.0)	(2.8)	(4.8)	(1.6)	(2.5)	(0.4)	(3.9)	7.2	(1.7)
Top 10 Clients	(1.8)	(6.3)	(1.8)	(3.7)	(0.3)	(2.8)	(2.6)	(1.6)	(2.8)	1.0	(4.1)	2.2	1.8
Top 20 Clients	(3.2)	(2.1)	1.8	(0.0)	(6.4)	(2.8)	1.1	(1.6)	(0.9)	2.5	(2.9)	(1.2)	3.6
YoY Growth (%)													
Total Company	18.0	11.2	8.8	3.7	(1.9)	(5.1)	(5.7)	(7.2)	(2.6)	2.2	(0.3)	0.0	0.4
By Geography(%)													
North America	25.3	18.2	10.6	6.5	1.6	(0.5)	(1.5)	(4.9)	(0.7)	(2.0)	(2.4)	(4.7)	(5.9)
Europe	10.6	5.2	4.1	(0.6)	(5.4)	(8.7)	(8.0)	(11.2)	(7.3)	4.2	(1.1)	5.0	11.7
Rest of World	12.6	4.5	10.1	2.9	(5.5)	(10.8)	(11.5)	(7.5)	(2.0)	9.6	4.9	4.8	2.9
By Industry (%)													
Communications, Media and Entertainment	19.2	10.1	5.9	2.4	(8.3)	(11.5)	(13.5)	(16.4)	(14.7)	(7.8)	(11.3)	(8.0)	2.5
Manufacturing	9.4	11.2	8.0	10.7	8.3	5.3	8.7	6.3	5.3	(0.9)	(7.5)	(6.6)	(4.1)
Technology	30.1	24.8	32.8	14.9	8.2	3.4	(3.9)	(3.6)	25.4	32.7	35.2	23.4	(3.3)
Banking, financial services & insurance	20.1	11.2	12.1	(5.2)	(5.5)	(6.5)	(8.1)	(4.8)	(5.0)	0.5	3.3	2.5	4.7
Retail, transport & logistics	21.1	15.5	8.5	3.7	(11.9)	(3.9)	(4.6)	(10.8)	4.9	(1.2)	(6.0)	11.0	3.8
Healthcare and Life sciences									NA	NA	NA	1.4	(5.1)
Others	11.3	0.9	(1.1)	3.7	(60.8)	(3.1)	2.9	(63.6)	(7.7)	(59.0)	(57.2)	12.5	2.4
By Client Classification (%)													
Top 5 Clients	12.1	(3.9)	(13.6)	(19.9)	(20.6)	(15.1)	(16.2)	(12.6)	(11.3)	(9.0)	(8.1)	0.0	0.9
Top 10 Clients	14.2	0.5	(6.5)	(13.0)	(11.8)	(8.5)	(9.2)	(7.2)	(9.5)	(5.9)	(7.3)	(3.8)	0.8
Top 20 Clients	12.0	3.5	2.7	(3.5)	(6.7)	(7.4)	(8.1)	(9.5)	(4.1)	1.2	(2.9)	(2.5)	1.8

Source: Company, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Total revenue	519,955	529,883	556,372	606,952	666,284
EBITDA	49,646	69,911	87,886	112,221	126,119
Depreciation	18,171	18,529	19,045	20,582	22,374
EBIT	31,475	51,382	68,841	91,638	103,745
Net interest inc./(exp.)	(3,922)	(3,217)	(3,112)	(3,112)	(3,112)
Other inc./(exp.)	9,169	8,554	11,801	13,182	13,244
Exceptional items	(4,582)	0	0	0	0
EBT	32,140	56,719	77,530	101,709	113,877
Income taxes	8,276	14,002	21,458	27,461	30,747
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(285)	(101)	467	472	472
Reported net profit	23,579	42,818	55,604	73,775	82,658
Adjustments	0	0	0	0	0
Adjusted net profit	23,579	42,818	55,604	73,775	82,658

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	0	0	0	0	0
Other current liabilities	126,166	126,740	137,666	146,501	164,944
Provisions	0	0	0	0	0
Debt funds	1,570	160	160	160	160
Other liabilities	39,806	44,430	44,430	44,430	44,430
Equity capital	4,413	4,424	4,424	4,424	4,424
Reserves & surplus	262,281	269,191	277,003	285,268	289,125
Shareholders' fund	266,694	273,615	281,427	289,692	293,549
Total liab. and equities	434,236	444,945	463,683	480,783	503,083
Cash and cash eq.	75,149	74,350	82,536	86,014	81,036
Accounts receivables	114,011	115,470	125,425	133,474	150,277
Inventories	375	394	394	394	394
Other current assets	45,179	47,117	51,179	54,463	61,320
Investments	7,092	7,836	7,836	7,836	7,836
Net fixed assets	54,640	47,636	40,621	40,039	37,665
CWIP	1,011	206	206	206	206
Intangible assets	75,106	76,993	76,993	76,993	76,993
Deferred tax assets, net	14,396	18,573	18,573	18,573	18,573
Other assets	47,277	56,370	59,920	62,791	68,784
Total assets	434,236	444,945	463,683	480,783	503,083

Cash Flows

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operations	59,607	61,621	75,138	95,442	103,400
Capital expenditures	(7,600)	(10,899)	(12,137)	(20,000)	(20,000)
Change in investments	5,805	(8,433)	(3,550)	(2,871)	(5,993)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,795)	(19,332)	(15,687)	(22,871)	(25,993)
Equities issued/Others	13	11	0	0	0
Debt raised/repaid	(7,774)	3,686	0	0	0
Interest expenses	(3,922)	(3,217)	(3,112)	(3,112)	(3,112)
Dividends paid	(35,264)	(39,857)	(48,733)	(66,454)	(79,745)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(46,947)	(39,377)	(51,845)	(69,566)	(82,857)
Chg in cash & cash eq.	4,770	(799)	8,186	3,478	(4,978)
Closing cash & cash eq.	75,149	74,350	82,536	86,014	81,036

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	26.9	47.9	63.8	84.3	94.4
Adjusted EPS	26.5	47.8	63.7	84.2	94.2
Dividend per share	40.3	45.0	55.0	75.0	90.0
Book value per share	304.6	308.9	317.6	326.9	331.3

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	2.6	2.6	2.4	2.2	2.0
EV/EBITDA	27.4	19.4	15.4	12.0	10.6
Adjusted P/E	60.7	33.6	25.2	19.1	17.1
P/BV	5.3	5.2	5.1	4.9	4.9

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Tax burden (Net profit/PBT)	73.4	75.5	71.7	72.5	72.6
Interest burden (PBT/EBIT)	102.1	110.4	112.6	111.0	109.8
EBIT margin (EBIT/Revenue)	6.1	9.7	12.4	15.1	15.6
Asset turnover (Rev./Avg TA)	163.4	169.2	172.7	183.8	198.2
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.2	1.2
Adjusted ROAE	8.6	15.8	20.0	25.8	28.3

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Revenue	(2.4)	1.9	5.0	9.1	9.8
EBITDA	(38.2)	40.8	25.7	27.7	12.4
Adjusted EPS	(51.6)	80.6	33.2	32.1	11.9

Profitability & Return ratios (%)

EBITDA margin	9.5	13.2	15.8	18.5	18.9
EBIT margin	6.1	9.7	12.4	15.1	15.6
Adjusted profit margin	4.5	8.1	10.0	12.2	12.4
Adjusted ROAE	8.6	15.8	20.0	25.8	28.3
ROCE	7.3	12.4	15.5	20.3	22.5

Working capital days (days)

Receivables	80	80	82	80	82
Inventory	NA	NA	NA	NA	NA
Payables	NA	NA	NA	NA	NA

Ratios (x)

Gross asset turnover	9.5	11.1	13.7	15.2	17.7
Current ratio	1.9	1.9	1.9	1.9	1.8
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

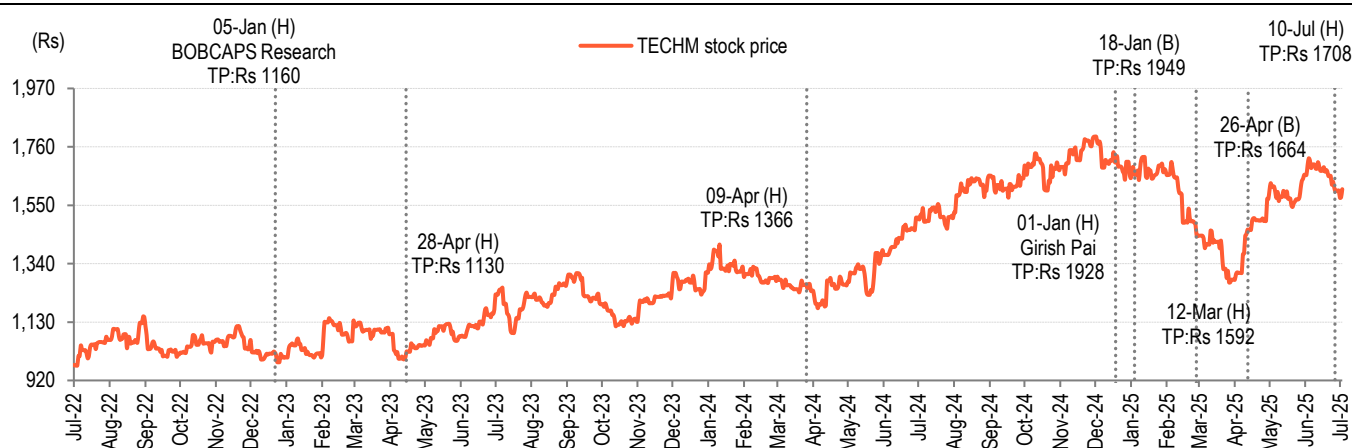
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): TECH MAHINDRA (TECHM IN)



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