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Strong Performance; healthy outlook...

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.

Q2FY27 performance: TechM reported revenue of US\$1,693mn, up 2.0% QoQ/6.8% YoY (up 2.4% QoQ/7.2% YoY in CC terms), while organic revenue grew 2.3% QoQ/7.0% YoY in CC terms. EBIT margin expanded ~40bps QoQ/~260bps YoY to 14.8%. PAT stood at ₹1,586 crore, up 8.3% QoQ/32.7% YoY.

Investment Rationale:

- **Broad-based revenue growth with improving client wallet share:** TechM reported 7.2% YoY CC revenue growth, supported by ramp-up of large deals (Orange deal) and expansion across most verticals led by Communications (33.5% of mix) and Retail, Logistics & Transport (8.7% of mix) which grew 5.8% and 9.9% QoQ. However, Manufacturing remains a near-term watchpoint as revenue declined 3.9% QoQ following accelerated execution of a large European automotive programme in the previous quarter, and management expects a further, albeit much smaller ~50 bps, sequential revenue headwind in Q3. Strength in large accounts (>US\$ 20 mn), where revenue grew 3.1% QoQ and 11.7% YoY, signals improving wallet share and supports visibility into sustained growth, reducing dependence on a single growth vertical. **Management maintained its aspiration of outperforming industry growth & delivering above peer-average revenue growth in FY27. Accordingly, we expect US\$ revenue to grow at CAGR of 6.8% over FY26-28E vs 6.3% earlier.**

- **Sustained margin expansion with clear FY27 profitability target:** EBIT margin expanded ~40bps QoQ and ~260bps YoY to 14.8%, marking the 12th consecutive quarter of improvement as volume growth and Project Fortius savings more than offset wage-hike pressure. **Management reiterated its 15% FY27 EBIT margin target and sees further margin expansion opportunity through AI-enabled productivity, automation, fixed-price project efficiencies and pyramid rationalisation.** This combination of structural cost actions and operating leverage underpins confidence in continued profitable growth over the medium term. **We bake in EBIT margins of 14.9%/15.3% for FY27E/FY28E.**

- **Strong deal momentum and AI-led growth opportunities:** Q2 deal wins were US\$1.02bn, up 25.4% YoY, with LTM TCV reaching US\$4.27bn, up 34.8% YoY. Notably, TechM has now secured over US\$1bn of wins in each of the last four quarters. Management highlighted AI engagements moving beyond pilots, supported by Project Helix, 200+ AI assets, 100+ vertical use cases and industry-specific solutions. **Management expects AI revenue reporting to commence in H2FY27.**

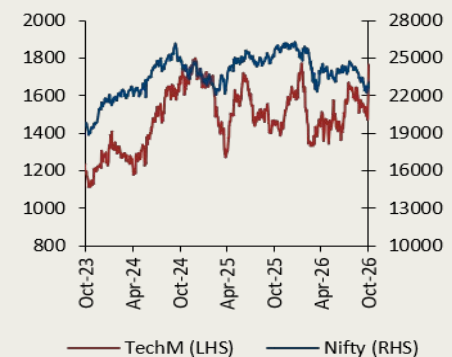
Rating and Target Price: Given the sustained outperformance (vis-à-vis larger peers) on both revenue and margins front, we maintain BUY rating with target price of ₹2,050 at 22x P/E on FY28E EPS.

Tech Mahindra**Particulars**

Particulars	Amount
Market Cap (₹ Crore)	1,56,566
Total Debt (₹ Crore)	70
Cash & Inv. (₹ Crore)	8,441
EV (₹ Crore)	1,48,194
52 week H/L	1854 / 1304
Equity capital	443
Face value (₹)	5

Shareholding pattern

	Sep-25	Dec-25	Mar-26	Jun-26
Promoter	35	35	35	35
FII	21	21	19	19
DII	35	35	37	37
Public	10	10	9	9

Price Chart**Key risks**

- Lower than expected revenue growth and margin expansion;
- Weaker margins expansion ahead given the base effect

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Key Financial Summary

(₹ crore)	FY24	FY25	FY26	5 Years CAGR (FY21-26)	FY27E	FY28E	2 years CAGR (FY26-28E)
Net sales	51,996	52,988	56,815	8.5	64,786	69,140	10.3
EBIT	3,147	5,138	7,153	6.0	9,668	10,578	21.6
EBIT Margin (%)	6.1	9.7	12.6		14.9	15.3	
Adj. Net Profit	2,358	4,252	5,083	2.8	6,877	8,194	27.0
EPS (₹)	26.7	48.0	57.3		77.7	92.7	
P/E	66.2	36.8	32.5		22.7	19.0	
RoNW (%)	8.8	15.5	17.2		21.0	22.0	
RoCE (%)	12.6	18.6	20.6		25.9	26.6	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Demand Outlook: Management reiterated its FY27 EBIT margin target of 15% and aspiration to deliver above-peer revenue growth.** Growth is expected to be supported by the ramp-up of recent large deals, deeper client mining and continued benefits from Project Fortius. AI-led productivity, automation and delivery efficiencies remain additional margin levers. However, the near-term Manufacturing headwind (~50 bps) and wage hikes remain watchpoints. Management also indicated that the focus will increasingly shift towards profitable growth, with AI investments expected to improve productivity and support scalable delivery.
- **Revenue performance:** TechM reported revenue of US\$1,693mn, up 2.0% QoQ/6.8% YoY (up 2.4% QoQ/7.2% YoY in CC terms). Organic revenue grew 2.3% QoQ/7.0% YoY in CC terms. In rupee terms, revenue stood at ₹16,180 crore, up 3.0% QoQ/15.6% YoY.

- **Geography performance:**

Exhibit 1: Geography wise growth trend

Geography	% of revenue mix	QoQ \$ growth %	YoY \$ growth %
Americas	48.5	1.8	4.1
Europe	27.6	2.5	16.2
Rest of World	23.8	1.6	2.5

Source: Company, ICICI Direct Research

- **Segment performance:**

Exhibit 2: Vertical wise growth trend

Vertical	% of revenue mix	QoQ \$ growth %	YoY \$ growth %
Communications	33.5	5.8	9.4
Manufacturing	18.2	-3.8	7.1
Hi-Tech and Media	13.0	2.8	6.3
Banking, Financial services & Insurance	16.4	0.1	4.3
Retail, Transport & Logistics	8.7	9.9	9.5
Healthcare & Life Sciences	7.3	2.2	6.9
Others	2.8	-16.0	-13.9

Source: Company, ICICI Direct Research

- **Communications:** Revenue grew 5.8% QoQ and 9.4% YoY, supported by the ramp-up of the Orange large deal and new strategic engagements. Management highlighted a healthy pipeline across network modernisation, AI-led transformation and platform modernisation.
- **Manufacturing:** Revenue declined 3.8% QoQ following accelerated execution of a large European automotive programme in the previous quarter. Management expects a further sequential headwind of ~0.5% in Q3, which should normalise thereafter.
- **Margin performance:** EBIT margin expanded ~40bps QoQ/~260bps YoY to 14.8%, marking the 12th consecutive quarter of margin expansion. Improvement was driven by volume growth and Project Fortius savings, partially offset by wage hikes. PAT stood at ₹1,586 crore, up 8.3% QoQ/32.7% YoY.
- **TCV: New deal wins stood at US\$1,023mn, down 5.1% QoQ but up 25.4% YoY. LTM deal wins increased 34.8% YoY to US\$4.27bn, with deal wins exceeding US\$1bn in each of the last four quarters.** The company reported broad-based wins across Communications, BFSI, Manufacturing and Retail, Logistics & Transport. The number of clients contributing over US\$50mn in revenue increased to 33 from 26 a year ago.
- **AI and strategic developments:** TechM continued to strengthen its Project Helix AI capabilities, launched Zero Gravity Telco Architecture for AI-native telecom operations and introduced Indus Terra, a 30bn-parameter educational LLM developed with NVIDIA and AWS as part of the India AI

Mission. It also launched the Consumer Agentic Experience Studio and announced a partnership with SpaceXAI for AI-powered software engineering. **Management expects AI revenue reporting to commence in H2FY27 as client engagements move from pilots to scaled implementations.**

- **Attrition and employee addition:** Total headcount increased to 1,52,206, including 76,617 IT employees (up 1,928 QoQ), 67,520 BPS employees and 8,069 in Sales & Support. IT utilisation improved to 88.9% from 87.0% in Q1FY27, while LTM IT attrition declined to 11.7% from 11.8%.
- **Dividend and bonus issue:** The company declared an interim dividend of ₹15 per share and reiterated its policy of returning at least 85% of free cash flow to shareholders. **The Board also recommended a 1:1 bonus issue to mark the company's 40th anniversary, subject to shareholder approval.**

Exhibit 3: Quarter Performance

	Q2FY27	Q2FY26	YoY (%)	Q1FY27	QoQ (%)	Comments
Revenue (₹ crore)	16,180	13,995	15.6	15,712	3.0	Revenue inched up by up 2.4% QoQ/7.2% YoY in CC terms. Organic revenue grew 2.3% QoQ/7.0% YoY in CC terms.
Employee expenses	11,236	9,916	13.3	10,926	2.8	
Gross Margin	4,944	4,079	21.2	4,786	3.3	
Gross margin (%)	30.6	29.1	141 bps	30.5	10 bps	
SG&A expenses	2,066	1,911	8.1	2,044	1.1	
EBITDA	2,879	2,168	32.8	2,743	5.0	
EBITDA Margin (%)	17.8	15	231 bps	17.5	34 bps	
Dep. & amort.	491.4	468.7	4.8	478.6	2.7	
EBIT	2,387	1,699	40.5	2,264	5.4	
EBIT Margin (%)	14.8	12	261 bps	14.4	34 bps	EBIT margin was up ~ 40 bps QoQ/~260 bps YoY at 14.8%. Improvement was driven by volume growth and Project Fortius savings, partially offset by wage hikes.
Other income (less int.)	(91)	(37)	144.5	(218)	(58.2)	
PBT	2,296	1,662	38.1	2,046	12.2	
Tax paid	686	458	50.0	556	23.5	
PAT	1,586	1,194	32.7	1,465	8.2	

Source: Company, ICICI Direct Research

Exhibit 4: Change in estimates

	FY27E			FY28E		
(₹ Crore)	Old	New	% Change	Old	New	% Change
Revenue (USD mn)	6,767	6,816	0.7	7,209	7,278	1.0
Revenue	63,461	64,786	2.1	67,045	69,140	3.1
EBIT	9,317	9,668	3.8	10,124	10,578	4.5
EBIT Margin (%)	14.7	14.9	24 bps	15.1	15.3	20 bps
PAT	6,743	6,877	2.0	7,855	8,194	4.3
Diluted EPS (₹)	76.2	77.7	2.0	88.8	92.7	4.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement			
	₹ crore		
(Year-end March)	FY26	FY27E	FY28E
Net sales	56,815	64,786	69,140
Growth (%)	7	14	7
COGS (empl. exp.)	39,869	44,990	48,053
Gross profit	16,947	19,796	21,088
S,G&A expenses	7,913	8,106	8,297
Total Operating Exp.	47,781	53,096	56,349
EBITDA	9,034	11,690	12,791
Growth (%)	29	29	9
Depreciation	1,882	2,023	2,212
Interest	337	335	260
Other Income	32	192	782
PBT	6,847	9,525	11,101
Total Tax	1,768	2,589	2,886
Exceptional item	(272)	-	-
PAT	4,811	6,877	8,194
Growth (%)	13	43	19
EPS (₹)	54.3	77.7	92.7

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement			
	₹ crore		
(Year-end March)	FY26	FY27E	FY28E
Profit before Tax	6,847	9,525	11,101
Add: Depreciation	1,882	2,023	2,212
(Inc)/dec in Current Assets	(2,942)	(2,671)	(1,459)
Inc/(dec) in CL and Provisions	1,455	2,024	1,106
Taxes paid	(1,650)	(2,589)	(2,886)
CF from operating activities	6,172	8,080	9,552
(Inc)/dec in Investments	(161)	-	-
(Inc)/dec in Fixed Assets	(546)	(726)	(774)
Others	125	566	782
CF from investing activities	(409)	(159)	8
Issue/(Buy back) of Equity	1	-	-
Inc/(dec) in loan funds	(434)	-	-
Dividend paid & dividend tax	(4,026)	(3,732)	(3,732)
Inc/(dec) in debentures	-	-	-
Finance charges	(208)	(335)	(260)
CF from financing activities	(5,131)	(4,416)	(4,342)
Net Cash flow	632	3,504	5,218
Cash by acquisition	-	-	-
Opening Cash	4,542	5,105	8,610
Cash carried to B/S	5,105	8,610	13,827

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet			
	₹ crore		
(Year-end March)	FY26	FY27E	FY28E
Liabilities			
Equity Capital	443	443	443
Reserve and Surplus	29,173	32,318	36,781
Total Shareholders funds	29,615	32,761	37,223
Minority Interest	462	517	541
Total Debt	70	70	70
Other long term liabilities	4,795	4,795	4,795
Total Liabilities	34,942	38,142	42,629
Assets			
Net Block	4,406	3,459	2,371
Capital WIP	27	27	27
Investments	3,426	3,422	3,426
Deferred tax assets	2,186	2,186	2,186
Goodwill on consolidation	8,456	8,456	8,456
Debtors	13,358	15,232	16,255
Loans and Advances	-	-	-
Other non-current assets	4,627	4,628	4,629
Cash	5,105	8,610	13,827
Other current assets	5,672	6,468	6,902
Total Current Assets	27,575	33,749	40,425
Trade payables	5,040	5,747	6,133
Current liabilities	8,179	9,327	9,954
Provisions	1,209	1,378	1,471
Total Current Liabilities	14,428	16,452	17,558
Net Current Assets	13,147	17,297	22,867
Application of Funds	34,942	38,142	42,629

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios			
(Year-end March)	FY26	FY27E	FY28E
Per share data (₹)			
EPS	54.3	77.7	92.7
BV	333.9	369.3	419.6
DPS	46	42	-
Cash Per Share	57.6	97.1	155.9
Operating Ratios (%)			
EBIT Margin	12.6	14.9	15.3
PAT Margin	8.9	10.6	11.9
Return Ratios (%)			
RoE	17.2	21.0	22.0
RoCE	20.6	25.9	26.6
RoIC	27.0	36.9	41.6
Valuation Ratios (x)			
P/E	32.5	22.7	19.0
EV / EBITDA	16.4	12.4	10.9
EV / Net Sales	2.6	2.2	2.0
Market Cap / Sales	2.8	2.4	2.3
Price to Book Value	5.3	4.8	4.2
Solvency Ratios			
Debt/EBITDA	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0
Current Ratio	1.3	1.3	1.3
Quick Ratio	1.3	1.3	1.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

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