Tech Mahindra Ltd

Retail Note | Information Technology

Tech Mahindra: From Turnaround to Sustainable Growth

DALAL & BROACHA
STOCK BROKING PVT. LTD.

Equity Research Desk

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Company Background

Tech Mahindra is one of India's leading IT services and digital transformation companies with operations across more than 90 countries. Historically known for its strong presence in the telecommunications sector, the company has significantly diversified over the last decade into Banking & Financial Services (BFSI), Manufacturing, Healthcare, Retail, Travel & Logistics, and Enterprise Technologies.

Over the past two years, under its three-year turnaround strategy, management has focused on improving operational discipline, simplifying its portfolio, strengthening client relationships, and restoring profitability. The company has now entered the growth phase of this transformation, with improving revenue momentum, expanding margins, and a stronger large-deal pipeline supporting future earnings growth.

What We Think:

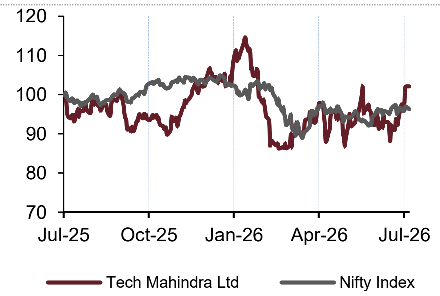
We believe Tech Mahindra is entering the next phase of its turnaround, where earnings growth will increasingly be driven by improving revenue rather than only cost optimization. The company has delivered consistent margin improvement for eleven consecutive quarters while returning to broad-based revenue growth across major industry verticals. Large deal wins, improving execution, increasing AI adoption, and disciplined cost management position the company well to outperform peers as global IT spending gradually recovers. While discretionary technology spending remains uneven, Tech Mahindra's diversified vertical mix, healthy deal pipeline, improving telecom business, and continued investments in AI provide confidence that earnings growth should continue over the medium term. We therefore maintain a constructive view on the stock.

Rating	TP (Rs)	Up/Dn (%)
BUY	**1,850**	**17**

Market data		
Current price	**Rs**	**1,577**
Market Cap (Rs.Bn)	(Rs Bn)	1,545
Market Cap (US$ Mn)	(US$ Mn)	16,020
Face Value	Rs	5
52 Weeks High/Low	Rs	1854 / 1304.1
Average Daily Volume	('000)	2,446
BSE Code		532755
Bloomberg		TECHM.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-26	Dec-25
Promoters	35	35
Public	65	65
Total	**100**	**100**

Source: Bloomberg

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Why We Think So

1. Broad-Based Revenue Recovery:

One of the biggest positives from Q1 FY27 was that Tech Mahindra's growth was broad-based rather than dependent on a handful of clients or service lines. Manufacturing continued to lead growth, supported by aerospace and automotive programs, while BFSI, Healthcare, Retail, Travel & Logistics, and Communications all reported positive year-on-year growth. Management also highlighted that every major vertical delivered growth during the quarter, indicating improving execution across the portfolio rather than isolated project wins. This is an encouraging sign that the company's turnaround is translating into sustainable business momentum rather than temporary gains.

2. Strong Deal Pipeline Supports Revenue Visibility:

Tech Mahindra reported total contract wins of US$1.08 billion during the quarter, representing a healthy 33% year-on-year increase. The pipeline remained well diversified across Manufacturing, BFSI, Healthcare and Communications, with several large transformation engagements signed during the quarter. Management expects these large deals to ramp up gradually through FY27, providing good revenue visibility despite an uncertain macroeconomic environment. The improving order book reinforces confidence that the company can sustain its growth momentum over the coming quarters.

3. AI Is Becoming a Key Growth Enabler:

Rather than positioning artificial intelligence as a separate business, Tech Mahindra is integrating AI capabilities across its existing service portfolio through initiatives such as Project Helix, Agentic Development & Modernization Services, and the Orion platform. The company is also strengthening its ecosystem through partnerships with Microsoft, Google Cloud and Telefónica Germany. As enterprises increasingly adopt AI-led modernization, automation and productivity solutions, these investments should improve Tech Mahindra's competitive positioning and enable it to participate in larger, higher-value digital transformation engagements.

4. Margin Expansion Remains on Track

Operational execution continues to improve, with EBIT margins expanding to 14.4% in Q1 FY27, marking the eleventh consecutive quarter of margin improvement. Higher utilization, operating leverage, Project Fortius initiatives and continued cost discipline were the primary drivers of profitability. Although some temporary headwinds impacted gross margins during the quarter, management believes these are transitory and remains confident of achieving operating margins above 15% by the end of FY27. This demonstrates that the improvement in profitability is increasingly being supported by structural operational efficiencies rather than one-time cost reductions.

Strong Cash Generation Strengthens Financial Position

Tech Mahindra also delivered a significant improvement in free cash flow during the quarter, supported by stronger collections and better working capital management. While management expects some normalization over the coming quarters, it reiterated that improving cash conversion remains a strategic priority. Healthy cash generation, coupled with a robust balance sheet, provides the company with sufficient financial flexibility to invest in growth initiatives, pursue strategic acquisitions and continue enhancing shareholder value.

Valuation

Tech Mahindra has successfully moved beyond the operational challenges of the past few years and is executing well on its turnaround strategy through portfolio rationalization, cost optimization and stronger delivery discipline. Recent acquisitions, including Com Tec Co IT, strengthen its engineering capabilities in the automotive sector, while continued investments in AI, automation and digital transformation enhance its ability to capture higher-value opportunities. With an improving deal pipeline, expanding margins, strong cash generation and a healthy balance sheet, the company is well positioned to benefit from the gradual recovery in global IT spending. Given the expected improvement in profitability and the stock's valuation discount to large-cap IT peers, we maintain our **BUY** rating with a **target price of ₹1,850.**

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