



Tech Mahindra Limited Q1 FY26 Earnings Conference Call

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MR. ATUL SONEJA – CHIEF OPERATING OFFICER,
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Moderator: Ladies and gentlemen, good day and welcome to the Tech Mahindra Limited Q1 FY '26 Earnings Conference Call.

We have with us today Mr. Mohit Joshi – Chief Executive Officer and Managing Director, Tech Mahindra, and Mr. Rohit Anand – Chief Financial Officer, Tech Mahindra.

As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mohit Joshi – MD and CEO for Tech Mahindra. Thank you and over to you, sir.

Mohit Joshi: Thank you. Good morning, good evening, and thank you all for joining us.

We are pleased to share that Q1 reflects progress aligned with our stated plans. While the environment remains dynamic and uncertain, our continued execution is building confidence that we are on the right path. For the quarter, we reported revenues of \$1,564 million, reflecting a 0.4% growth year-on-year and a 1.0% decline on a constant currency basis. The performance was driven by growth in the Communications, Retail and BFSI verticals.

The year-on-year headwinds were primarily due to our Field Service business, which we are right-sizing. We also saw spend reductions in the Automotive sector, which impacted year-on-year revenue performance. Importantly, this marks our seventh consecutive quarter of margin expansion. This is a significant milestone and speaks of the rigor of our operating model and our continued focus on cost efficiency and the quality of our revenue mix.

Let me now delve deeper into our performance:

Our Communications vertical posted a year-on-year growth of 2.5% on a reported basis, supported by stabilization and spending in our top clients.

Looking ahead, our strategy is to leverage the strength of our long-standing relationships with global communications service providers and leverage our unique capabilities in IT, networks, and the Comviva software suite.

We have a unique right to win in this vertical and are actively investing to scale our capabilities in digital platforms, API monetization and vertical-specific services to create adjacent revenue opportunities.

The Manufacturing vertical declined by 4%, impacted by softness and discretionary spend within the Automotive segment. To elevate our growth position in this vertical, we continue to engage

closely with key manufacturing clients, and our Manufacturing Experience Center, which was inaugurated in January this year, has already hosted over 60 client visits. It is becoming a true showcase of our manufacturing capability, innovative mindset, and our distinctively experienced staff.

Our BFSI vertical reported a year-on-year growth of 4.7% and continues to be one of our fastest growing verticals. The marquee Fortune 500 and Global 2000 customers in financial services and insurance have engaged with us, enabled by our key differentiation in asset and wealth management, payments and core capabilities in platforms like Guidewire and Temenos. We remain confident about our long-term potential in this vertical across all of our geographies.

Our Hi-Tech vertical declined by 3.3% on a year-on-year basis, on a reported basis. The decline was driven by ongoing restructuring in the semiconductor industry, including steep budget cuts and workforce rationalization at a key client. While these headwinds are playing out, we are strengthening our capabilities in silicon design, embedded systems and digital product engineering. Our client engagement remains strong and anticipates a gradual recovery in the second half of the year.

On a year-on-year basis:

America has declined by 5.9%, Europe grew by 11.7% and the rest of the world increased by 2.9%, with both regions aided by favorable currency tailwinds. In our client metrics, we have added 2 clients in the \$50 million bucket over last year. This clearly demonstrates our ability to scale engagements and deepen relationships within key accounts.

On large deals:

TCV for the quarter stood at \$809 million, a 44% increase year-on-year on an LTM basis. Our centralized solutions team and contract management group have yielded positive results, particularly in securing multi-tower high-value deals. Additionally, large deals over \$25 million now make up a higher proportion of the total TCV.

The deal wins are broad-based across Comms, Hi-Tech, BFSI, and other verticals. A few of our key wins include –

We were selected as a key growth partner by one of America's leading consumer wireless operators for its customer operations transformation. The designation as a growth partner unlocks the doors to all future opportunities as per the client's new sourcing strategy.

We were engaged by a leading global Hi-Tech company to help them deliver truly immersive user experience powered by their LLM platform. TechM will ensure enriched experience for more than 2 billion users while ensuring the platform remains safe and secure.

TechM was chosen as a prime partner with a leading UK-based telco for a multi-service line deal to deliver and manage applications across its fixed and mobile networks. The scope includes delivering services across application services, network services, next-gen services, engineering services, and digital enterprise applications.

We were engaged by a railroad customer in the Americas for the development and support of a portfolio of applications across multiple corporate functions of the company and across multiple technologies including SAP, Salesforce, and data analytics.

We were selected by a leading global fashion apparel brand for a multi-year strategic engagement to provide digital and data transformation and support services. The scope includes SAP Fashion, Cloud and Data and AI, digital commerce platforms with a dedicated Global Capability Center or GCC, to drive innovation, cost efficiency and business agility.

Overall, for our financial progress, we are beginning to see early results of the structural changes and the strategic choices we have made. Our deals win momentum remains strong and we expect this to strengthen, reflecting in our growth in the next quarter.

In sum, our margin trajectory is steadily strengthening, and we are confident in our ability to build revenue momentum.

One of the key differentiators in our transformation journey is our formidable team. Let me highlight some important developments on the talent front. Amol Phadke has joined us as Chief Transformation Officer and will be extending our progress with go-to-market initiatives. He brings over 25 years of experience in Technology and Business leadership in areas such as AI, cloud, software networks and IT in firms like Google, Telenor and BT.

Additionally, we have seen the internal elevation of leaders into key roles, including the Head of our Telecom business in the Americas, and the Head of our India, Middle East and Africa business.

These appointments underscore our strong internal talent bench and reflect our ongoing commitment to building a high-performance organization. We continue to focus on leadership development, succession planning and creating a culture of accountability. Our people remain at the heart of our transformation story. During the quarter, we launched TechM Zenith, our flagship leadership development program in partnership with INSEAD.

Our AI delivered right strategy which we unveiled last quarter, has been resonating well with our clients. Our value lies in helping clients transition from proof of concept to production, from the sandbox to production systems.

The strategy is being executed on 4 foundational pillars, Transformation Delivered, Productivity Delivered, Innovation Delivered and Assurance Delivered. These pillars are also contributing

meaningfully to our AI deal wins. We now have a portfolio of 200 plus enterprise-grade AI agents across industry segments. Several of these are already in use at scale with our clients. Our agentic AI offerings also include a hybrid human and agent workforce.

TechM's AI consulting practice enables clients to validate ROI and prioritize AI use cases in a systematic and efficient manner as they evaluate their AI roadmap. TechM is well-positioned to support clients effectively, enabled by a more experienced workforce that serves as a strong enabler and key differentiator for the offering. Our 77,000 plus employees across the company trained in AI and Gen-AI, including a critical mass with advanced training and certifications.

We hosted our first-ever Innovation Day, INNOVERSE 2025, during the quarter. This is an internal platform to showcase and strengthen our innovation culture. It brought together teams to solve real-world challenges with speed, scale and creativity. It reaffirms that innovation is a core component of our DNA.

We organized TechM Synergy'25, a partner appreciation event this month in London at the legendary Arsenal Stadium. It was great to connect with over 125 plus partners and clients. This year's theme, Winning Together with AI, captured our shared ambition and showcased our AI-driven leadership. It also laid the groundwork for collaborative frameworks that will shape the future of our partnerships.

We also strengthened our ecosystem this quarter through key partnerships. Let me highlight a few notable partnerships this quarter –

A partnership with NUIX, a global leader in AI-powered investigative analytics and intelligence software to provide innovative, scalable solutions for cyber and fraud detection;

A partnership with ServiceNow to deliver next-gen broadband solutions tailored for CSPs, offering a comprehensive vertical solution stack;

The launch of a new managed service offering for Cisco multi-cloud defense, a component of Cisco's hybrid mesh firewall. The new offering provides enterprises a robust cloud security solution.

On the awards front, we are proud to share that we have been included as a constituent of the FTSE4Good Index for the ninth consecutive year. Our performance was rigorously evaluated in key areas including corporate governance, health and safety, anti-corruption, and climate change. This independent assessment is a testament to our leadership in implementing robust governance practices and upholding high ESG standards.

We were recognized as one of the Best Organizations to Work For, and as One of the Most Innovative Organizations by ETNow. These recognitions underscore the investments we have made in culture, innovation, corporate governance, and capability building.

In June, I completed my 2 years with Tech Mahindra, and I deeply value the warmth, energy, and openness that define our culture. It is what has made and what makes this journey so meaningful. We look to reclaim the essence of this culture, while driving continuous improvement across the organization.

Many of the improvements we are driving may seem small in isolation, in systems, in processes, in ways of working, and in driving focus and operating discipline. As the theory of marginal gains teaches us, consistent progress across multiple fronts will generate transformational outcomes. We are beginning to see this play out and we are confident this momentum will compound meaningfully in the quarters ahead.

With that, I now hand over to Rohit who will take you through our financial performance in more detail.

Rohit Anand:

Thank you, Mohit. Good morning, good evening, everyone, and thank you all for joining.

Let me start by walking you through the company financials for the 1st Quarter of FY '26, covering the period June 30. We ended the quarter with revenue of \$1,564 million, compared to \$1,549 million last quarter. On a reported basis, revenue grew by 1% sequentially and 0.5% on a Y-o-Y basis.

However, in constant currency terms, we recorded a sequential decline of 1.4% on a Q-o-Q basis, and a decline of 1% on a Y-o-Y basis. From an INR perspective, revenue stood at INR 13,351 crores, compared to INR 13,384 crores in the previous quarter, a decline of 0.2% on a sequential basis on account of INR appreciation against the US Dollar and 2.7% growth on a Y-o-Y basis.

Our EBIT dollars grew by 30% in USD terms and 34% in INR terms on a Y-o-Y basis. EBIT margin was at 11.1% versus 10.5% last quarter. Headwinds during the quarter on margin included the seasonality that we see in the Comviva business, the higher visa cost, and lower utilization.

These were offset by savings from Project Fortius, operational levers such as favorable offshore mix, G&A optimization including continued progress made on the integration of portfolio companies, and other levers contributing to cost efficiencies.

Our effective tax rate for the quarter came in at 30%. And as you must recall, the previous quarter we had a one-time refund which got normalized this time. We expect our tax rate as stated before to be in the range of 27% for FY26. Our profit after tax for the quarter was \$133 million, a Y-o-Y increase of 30%. In INR terms, PAT is at INR 1,141 crores with a PAT margin of 8.5%, an expansion of 200 basis points on a Y-o-Y basis.

Our return on capital employed stood at 23.8% for the quarter, reflecting a sequential improvement of 120 basis points. On a Y-o-Y basis, ROC improved by 600 basis points, driven

by enhanced profitability and disciplined capital allocation. We remain focused on sustaining capital efficiency as we work towards the stated FY27 target.

We generated \$86 million of free cash flow during the quarter, which was lower, reflecting the usual seasonality that we see in the 1st Quarter of the financial year. This was impacted by an increase in DSO, primarily driven by certain timing-related collection delays, which we see to get normalized towards the next quarter.

Our hedge book for June 30th stood at \$1.64 billion compared to \$1.96 billion in the previous quarter. We have adopted a more prudent approach, particularly with respect to entering long-term hedges, reflecting the current volatility in the global currency market. Based on hedge accounting, our mark-to-mark loss for the quarter was \$9.3 million, out of which \$3.9 was taken to the P&L, and \$5.4 million went to reserves.

Our total deal wins for the quarter stood at \$809 million, reflecting a growth of 44% on an LTM basis. As Mohit highlighted earlier, we continue to improve our deal-win ratio, which is a testament to the trust our clients place in us and the relevance of our value proposition. More importantly, these wins are broad-based and across multiple verticals.

We have made a good progress over the past few quarters as a part of our margin improvement program. This is driven by a resolute operational strategy, focused on profitable growth and disciplined execution. As we shared during our last quarterly update, we remain on track to achieve the margin improvement in line with our stated FY27 target.

With this, I now hand it back to the operator for Q&A segment.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question comes from the line of Ankur Rudra from J.P. Morgan. Please go ahead.

Ankur Rudra: Hi, thank you for taking my question. The first question is on your demand environment you are seeing. Have you seen any signs of weakness over the course of the quarter because of trade deals or uncertainty there, number one?

Number 2 related question is, signing momentum has improved the last couple of quarters, but we haven't seen revenue momentum improve yet. Any comments in terms of when you see that improving? Thanks.

Mohit Joshi: Thanks, Ankur. Thanks for the question. So, look on the demand momentum, first of all, it's a little bit of a mixed picture, right. As we had shared previously as well, we have seen a slowdown in the Auto sector and in Manufacturing more broadly, an industry that has been impacted the most from a tariff perspective. And there we have seen a cutback in discretionary spending by our clients.

We have also seen some slowdown in the Hi-Tech vertical. This is largely because I feel that Hi-Tech clients react very quickly to downturn or to risks from a recession perspective. And we had, I would say, a client-specific issue from a semiconductor perspective, where semi-clients, this one in specific, had fairly sharp cuts, both in terms of full-time employees as well as from a discretionary spend perspective, right. Apart from that, we have not seen a significant change in demand momentum across the board.

Telco has actually stabilized, as you have seen this quarter and grown this quarter. No significant changes to report from either a BFSI perspective or elsewhere. So, that's the demand environment, weaker in manufacturing and Hi-Tech, I would say.

From a large-deal perspective, you are right that we have, over the past 3 or 4 quarters, continued to show a steady increase in our large-deal booking rates. But at the same time, we have also had to deal with tougher macro and some run-offs that we have been grappling with.

We do expect that from Q2 onwards and certainly from the second half onwards that the large-deal wins will have completed transition and will start accruing to revenue, provided that the business environment remains at the current level, right. So, you would expect them to start accruing to revenue from the current quarter onwards, given no fresh surprises.

I hope that answers your question.

Ankur Rudra:

Thank you, Mohit. It does. Just a follow-up, if I can. You know, you highlighted demand environment has been a bit mixed overall. Some of your peers have highlighted demand environment is not particularly strong, and we have seen some unexpected margin weakness in your peers as well. Do you think it's tougher for you to meet your margin and growth aspiration targets for both fiscal '26 and '27 in the light of this? It makes it tougher to achieve the same target you set in a period where the environment might have been better?

Mohit Joshi:

So, I think that's a fair question, and as we have shared, when we had originally made the plans for FY '27, the expectation was that FY '26 would see a return to normality from a growth perspective, right. We knew that FY '25 would be hit, because we had set the plans at the start of FY '25, but we expected a comeback to maybe slightly muted growth, but close to industry average growth in FY '26 and a return to standard industry growth rates in FY '27, right. That promise has not been met. Having said that, we are still holding on to our margin commitments for FY '27.

I think one of the key things is that we have been very, very, I would say, prudent or cautious in terms of our large deal sort of structure, very prudent from a contracting perspective and also prudent from a pricing perspective and not wanting to sort of win revenue at any price. I think that has stood us in good stead in this environment compared to our peers who may have been too aggressive.

Moderator: Our next question comes from the line of Sudheer GV from Kotak Mahindra AMC. Please go ahead.

Sudheer GV: Hi, Mohit. Thanks for the opportunity. The first question is on Telecom. So, you mentioned the science of stabilization and demand in Telecom. So, are you also referring to the U.S. telcos, North American telcos? Or is it just the ROW and Europe telcos, which is where you called out stabilization in the earlier quarter session?

Mohit Joshi: So, let me actually give you a more sort of granular picture from a APJ perspective, right. We have seen stabilization and steady growth from a telco perspective. From a India, Middle East and Africa perspective, you know, there is a lot more volatility that we have seen, but we have now got new leadership in place.

We have also reorganized our India, Middle East and Africa business, which historically used to be a geographically structured business, into our standard global vertical model. So, going forward, that should help in growth and relevance in that market.

From a Europe perspective, we are seeing a very significant pipeline from a consolidation perspective, right. There is consolidation in the market overall in terms of the reduction in the number of telcos. But we are also seeing a consolidation of IT services providers and BPO providers for each of our clients. So, that, I think, does present us with an opportunity in that market.

Also, from a Comviva perspective, we have made significant breakthroughs from a Comviva software suite perspective in Europe. And I think that combination of software and services in that market gives me a lot of hope from a long-term perspective. Again, because these are consolidation opportunities, and I am hopeful that we will be on the winning side of these consolidations, that should give us a boost in the future if we win these deals, right.

The Americas, as you know, historically has been a challenge for us because we did see a sharp reduction in spend from our largest clients. We feel that that level of spend has now stabilized, and we should be looking back, we should be coming back to growth in that market. But again, as of now, I would just say that we are seeing a level of stabilization. So, that is a sort of broader global region by region picture for you.

Sudheer GV: Thanks, Mohit. Very insightful. The second question is on U.S. geography. Surprisingly, you have seen a decent growth of around 2.6% sequentially in U.S. contrast to the trade-related tensions and the declines supported by some of your peers. So, what is driving, on a sequential basis, what has driven this growth in a U.S. market?

Mohit Joshi: Sorry, you can just give me one minute as I pull out the earlier number. So, look, I think the growth in the Americas has largely been driven by our strong performance in the telco and the communications vertical. I think the more relevant number is really the year-on-year number,

right. And year-on-year, the slowdown that we have seen in Manufacturing has really impacted us in that market, even though the quarter-on-quarter is showing a positive, largely driven by strength in the communications business in the region.

Sudheer GV:

And your commentary came to suggest that the momentum will only strengthen going ahead, both on growth and deal wins. So, what gives you that confidence despite the fact that macro is still a bit on the shaky ground, and we have not necessarily reached a conclusion on the direct trend?

Mohit Joshi:

So, if you look at the expectations that we have set for ourselves for FY '27, we have said that we will be higher than our peer group average in terms of growth and that we will hit a certain margin target. I do feel that all the work that has happened, which is why I spoke about the changes that we have done, the micro improvements that we have driven in the company, all of these, right. Whether it's focus on key clients, focus on, okay, must have accounts, the focus from a service line perspective, the vertical alignment that we have driven within our geographies, the new talent that we have added, right. I think all of this gives us significant additional strength. And we are saying, we always knew that we had headroom for growth in our top clients. We have now started to realize the promise of that headroom for growth. And I feel that puts us in a good position from a future perspective. So, it is a combination. It is not just one thing. It is not one silver bullet. It is a combination of all the things that we have done over the past year and a half that I think are now starting to bear fruit.

Sudheer Jeevi:

Thanks, Mohit. All the very best for the future.

Moderator:

Our next question comes from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah:

Thanks for the opportunity and congrats on good execution, especially on margins. Just, Mohit, in terms of the earlier reply, you said this year we may be at industry average growth. So, if I just do the math, it looks like for closure to around 2% to 3% growth in a constant currency. 1% to 2% kind of a growth, we may require 2% to 3% compounded Q-on-Q growth in the next 3 quarters. So, are we believing this kind of a momentum may start immediately or it is based on some hope and converting pipeline into deal wins and it could be back-ended growth?

Mohit Joshi:

No, it is not based on hope, Sandeep. So, look, I think what we said, what I said was that we will be higher than our peers' average from a FY '27 perspective, right. So, if you, you know, as you will doubtless remember the three-year plan that we shared, the first year was really the first year of the turnaround. The second year is the year when we would start to bridge that historical growth gap that we have had with our peers. And the third year was when we would beat the average, right.

So, this is very much a year of bridging the growth gap with our peers rather than overtaking our peers in this year. Obviously, we hope we can do it, but that is certainly not what we have promised or committed.

Sandeep Shah:

So, Mohit, do you expect this year could be a positive growth or a flattish growth? I agree, we don't give guidance. But are we aspiring to have a positive growth?

Mohit Joshi:

Well, I think like what we had said at the start of the year, Sandeep, is that we expect FY '26 will be better than FY '25 and that is the extent of the commitment we had given, right. As you understand, this is an extremely volatile situation. The consensus estimates for the whole peer group have seen a huge, huge divergence from the time when we had met even last quarter, right. So, it is very hard in this volatility to give an exact number, but we do expect it to be better than FY '25 from a Tech Mahindra perspective.

Sandeep Shah:

And last question. In terms of margin improvement further going ahead, what are the levers we are banking upon? And is it fair to assume we may also give a wage hike for FY '26 in the coming quarters? So, just wanted to understand the target of achieving a 15% margin is more dependent in terms of revenue growth pick up or still we have levers to cut the flab and improve the margins.

Rohit Anand:

Yes, Sandeep, this is Rohit. I think two things, right. First, maybe I will address the wage increases. As you know, we just did the wage increase last quarter for the organization. So, the cycle is going to be more January calendar year next year, last quarter of the financial year. And it is subject to how the market pans out in this next 6 to 9 months, right. It is subject to that. So, I think we have some time to make that decision.

In terms of margin, as we said, this refers to the growth correlation, right, to your question. I think growth has more articulated well that a historical gap to peers in organic growth was more than 4%-5%, right. And we have narrowed that in F'25. We will continue to narrow that in F'26 and then exceed the peer average in F'27. So, our plan on margin is based on that growth theory, right, growth plans, right, that we have articulated. So, in that context, we are pretty well grounded.

Now if the growth situation turns out worse than that based on the macro, then of course there will be a re-look at that plan. But if that assumption comes through, which is very realistic given where we are, I think we should be able to get to our margin guidance, right, for F'27.

In terms of levers, as I mentioned before, right, from our perspective, the levers are similar. Last quarter, we had given a walk. Over the last 12 months, when we improved margin, a lot of improvements had gone in subcontracting costs. A lot of improvement gone on continuously offshoring fixed-tariff programs that we improved and further integration that we started a portfolio company. We also tightened our governance on contractual reviews that we had

mentioned on new as well as existing deals, right. So, those are all part of the improvements that we have given.

Now, when you look forward, I would say that our improvement levers remain the same. I think one of the big portions of the improvement lever will be driving productivity actions around the fixed-price program, right. We continue to drive improvements there. And improving right now the gap on that versus the entitlement is significant. And we feel we have a lot of headroom to get better there both on improving execution and driving various levers from price to governance to improve the offshoring and productivity tools that we have lined up for ourselves. That's what we have invested, right. We clearly articulated we will invest in growth and margin actions in year one and year two. And those are the investments that we are very confident will help us expand the margin as we move forward.

The other big area of the bucket is the integration of the portfolio companies, which we started the journey last year. We did the front end and delivery integration. That's all done. I think we are now progressing on the support or the functional integration which will continue to give us improvements through now till F'27 as we complete the process.

Sandeep Shah:

And just to follow up to this as book-keeping, the sales and support staff has declined materially both on Q-on-Q and Y-o-Y. Is it also to what you said, are we rationalizing sales and support in our acquired subsidiary?

Rohit Anand:

Yes, so I think sales is relatively lesser. It is more support. I think as we look at support, the functional cost, we have clearly articulated two or three plans. We are integrating everything on SAP platform. We are centralizing support, COE structures on shared services. So, it is a functional cost out based on all those efforts that we are driving, which is yielding a reduction there. There is less so much in sales. Sales is more driven by performance management that will continue to drive, but not like a significant net reduction.

Mohit Joshi:

If I can just expand on that a little bit, right. See, the way the company was structured historically is you had sales and delivery, you had almost like 14 different teams, right. So, you had sales teams and they used to run their own delivery organizations. Now we have one consolidated delivery organization under the Chief Operating Officer. And the sales teams are organized by vertical. So, that dramatically, because you have one centralized global delivery organization, that dramatically reduces the need to have complex orchestration.

So, that is, I would say, the biggest single lever that we have used to cut down on your sales support base. We are absolutely very focused on sales. So, there is no intention of reducing sales headcount. Indeed, if you have seen over the past couple of quarters, with the senior level hires that we have announced in the markets, it is very much to drive revenue momentum and sales momentum and greater thought leadership closer to our customers.

- Moderator:** Our next question comes from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.
- Vibhor Singhal:** Hi. Thanks for taking my question. Mohit, just to delve a bit deeper into the uncertainty that you mentioned about, especially in the manufacturing and the auto vertical, I mean, we have seen this uncertainty impacting us. The 9th July deadline has come and gone by. Now we are looking at the August 1st deadline. So, in your recent conversation with the client, have you seen a further deterioration of the overall environment in the uncertainty increasing and clients who are holding back their spends? Or do you believe it is pretty much the same as we were when we spoke in April?
- Mohit Joshi:** Yes, so I think, look, candidly, nobody knows from one day to the other how the tariff impacts may play out. I think there are a couple of things from our perspective that are important. One is that our manufacturing, specifically our auto exposure, is much larger in the U.S. market, as opposed to the European market. So, we are shielded to that degree.
- Our significant auto exposure in Europe is only through Pininfarina, which is a specialist manufacturer there. I would say that there hasn't really been any sort of clarity. Obviously, with more time, clients have developed their own plans maybe in more detail. I think the picture around the USMCA for sure is clearer. And a lot of the American manufacturers, for instance, are much more dependent on Canada and Mexico than they are on European manufacturing. So, to that degree, I would say the picture is improved, but it is still not very clear. I would say it is not a whole lot clearer than it was in April.
- Vibhor Singhal:** Yes, sure. I think that's the commentary that we are hearing from other guys as well. Just a couple of quick clarifications. Our headcount in BPO continues to increase. I think this quarter also we saw a Q-on-Q increase in the headcount. Any color on that that you can provide? I think we have all been hearing about a lot of GenAI impacting the BPO business. But this headcount addition signals otherwise. So, any color that you can give on how we are looking at the BPO business and do we expect that to continue to basically grow in light of the, even despite the impact of the GenAI rollouts?
- Mohit Joshi:** So, I think a couple of things. One is the BPO business has a degree of seasonality to it, right? So, it is partly that and partly it is to plan for expected ramp ups because of deal wins. I would just caution though that in BPO, you know, ramp ups and ramp downs are quite reasonable because we contract the ratio, sometimes are smaller, sometimes a lot of the programs are linked to fixed outcomes that we have to deliver. So, I really won't read too much into it, but the current headcount additions largely have to do partly with seasonality and partly to meet expected ramp ups in the current quarter.
- Vibhor Singhal:** And this is the last question from my side. The offshore percentage is quite, I mean, has increased very smartly. Over the last one year, we increased by 33 basis points to around 17.5 now. Do

you think we are getting closer to maybe getting that as a ceiling and there will be very little room to expand it further or do you think there is still some juice left on that metric?

Mohit Joshi: Well, I would really ask Atul who is our Chief Operating Officer to weigh in on this--

Atul Soneja: Thanks, Mohit. So, I think we have made some progress in terms of moving projects offshore wherever it makes sense for us along with our clients buying into it. So, I think we don't have a fixed percentage that we want to go towards. It is obviously aligned towards what kind of engagement we are doing with our customers. And as we start ramping up towards some of the deal wins that Mohit was alluding to earlier, we might see a temporary shift of some of the on-site numbers going up as well. But I think on a progressive basis, you will see that we are continuously hovering around the same mark and improving from where we are.

Moderator: Our next question comes from the line of Rod Bourgeois from DeepDive Equity Research. Please go ahead.

Rod Bourgeois: So, Mohit, it is encouraging that you guys are showing continuing steady progress on margins toward your Fiscal '27 target. So, I want to ask more about your path towards improving Tech Mahindra's growth position. Specifically, are there tangible leading indicators that suggest that your growth position is going to be on the rise? It would be great if you could specify any main leading indicator that's making you see the revenue momentum that you mentioned in your comments.

Mohit Joshi: Sure, Rod. Thank you for that. So, I would maybe, off the top of my head, point to three areas, right, which are part of our strategy and where we are seeing tangible outcomes. The first has to do with the fact that last year when we articulated our strategy, we very clearly said that we want to drive a much deeper focus on our largest clients, right.

So, we had a specific program called "Turbocharge" that looked at our peak and prime accounts. These are the accounts that really give us the bulk of our revenue. And as we had shared previous quarter, and this is a statistic that we will be sharing on an annual basis, we are seeing faster than company average growth for our top accounts, which for me is a very positive sign. Our largest clients have a significant amount of headroom for us to grow, because these are typically Fortune 500 and Global 2000 customers. And even in the most recent quarter, we have seen a significantly faster growth rate from our largest accounts than from the company average, right. So, that's the first part of the strategy which is working, largest accounts growing faster than the company average.

The second piece has to do with our focus on adding the sort of customers who we want to do business with in the future, which is the must have accounts, right. So, in the current quarter itself, for instance, we added 15 new must-have accounts. These are typically Global 2000, Fortune 500 accounts. And I feel that the addition of these clients to our roster will again enable

significant growth, because once we have permission to hunt and permission to be a partner for these customers, I believe opportunities will open up. So, this is the second part of our strategy, which is focused on the strongest players and the largest players in the industry segment.

The third part of our strategy was about making sure that we focus on profitable large deals, right? And again, as you have seen over the past couple of quarters, we have shown a steady increase in large deal volume. These are all net new large deals only. And as I said, we expect the revenue impact from these deals to kick in.

So, three things I would say, focus on top accounts, must have account acquisition, and large deals. All three levers that we'd identified in April, I believe are starting to kick in. All of this is obviously sort of undergirded by a very strong delivery organization from an IT perspective and from a BPS perspective, and the increased strength that we are building from a vertical perspective through focus and also through some of the new hires that we have made. So, the comparative capability is being buttressed by the verticalization and the industrialization of our IT services and our BPS offerings. I hope that answers your question Rod.

Rod Bourgeois: Very clear. Very helpful. Thank you.

Moderator: Thank you. Our next question comes from the line of Surendra Goyal from Citigroup. Please go ahead.

Surendra Goyal: Yes. Good evening, everyone. And Mohit, the last 5-quarter constant currency year-over-year growth, which obviously takes out the seasonality is minus 1.2%, plus 1.2%, plus 1.3%, plus 0.3%, and now minus 1%. So, deal flow has been picking up. Commentary has generally been positive. So, I am just trying to understand why is the revenue momentum not commensurate with that? Is there revenue leakage which has surprised you or anything else which you would want to call out?

Mohit Joshi: Sure. So, I think a couple of things. One is, I think if you were to look at the earnings for our peer group also, they would look reasonably similar, maybe slightly different, but reasonably similar, the trend line, because we are in a very volatile environment. I think that's the first piece.

The second piece is that we had specifically called out the first year that we will see a significant amount of volatility in our performance, given the fact that we are on a turnaround basis. So, we were shutting down certain businesses, we were de-emphasizing certain businesses, and candidly, we were dealing runoffs from the portfolio. I think this is common knowledge, as well as the deep stress in the Telco vertical. Now, fast forward to the current quarter, I believe that, as you've seen, the Telco business has stabilized, and I believe, at least in pockets, is poised for growth. We also believe that we have dealt with most of the runoffs, or indeed, the majority of the runoffs, the known runoffs. And so, pending any further surprises or any sudden cuts in discretionary spending, we should be looking at sort of steadier growth from here on onwards.

But again, this growth will only go towards narrowing the gap with the peers, and FY'27 is the year, as we promised, where we expect to be higher than the group average, right. So, three-part answer. The first part is not very different from the peers, given the macro. The second part is that the fact that we had clearly called out last year as the first year of the turnaround for us. And the third part of the answer is that, yes, we do expect improved growth this year pending, the only caveat is, no new surprises.

Surendra Goyal: Thanks, Mohit. Very clear. And just one question for Rohit. Other expenses had a meaningful reduction sequentially. So, is this some kind of a new level that we should be thinking about, or is there room for other expenses to come down further going forward?

Rohit Anand: Yes. So, there's a couple of items there. One is, there is obviously normalization from a year-end spend perspective that normalizes in one case. So, there's some seasonality around it, right, that typically towards Q2 partially will come back. So, there's some return there from a rather expensive perspective. The rest, I think, generally, I think all the actions that we are driving, right, from a project Fortius perspective are quite sustainable for us to drive improvement as we move forward. I think there will be a certain normalization as you look forward, but that is more driven to seasonality.

Surendra Goyal: Understood. And just one last clarification, Rohit. The segmental margins for IT and BPO should we be looking at that number at all? Because, like, IT looks to be down sequentially. So, is that the way you look at it, or we should ignore it?

Rohit Anand: No, I think you can look at it directionally, and we'll give you more nuance. But IT includes the Comviva quarter-on-quarter sequentially, right, and that flows in under that number. So, that's causing a predominant reason of decline. And then, obviously, the reduction Q-o-Q, right, on a Q-o-Q basis on revenue is flowing through there as well. So, that's causing the utilization. You can see the utilization has gone down, and these are another impact, right. All that is factored there, which is getting offsetted by all the project Fortius actions that are spread across the organization. So, that's pretty much the trend that we see in IT alone.

Surendra Goyal: Sure, sure, Rohit. Thanks a lot. Very clear.

Moderator: Thank you. Our next question comes from the line of Abhishek Kumar from JM Financial Limited. Please go ahead.

Abhishek Kumar: Yes, hi, good evening. Thanks for taking my question. The performance of Manufacturing sequentially has been very different from what was expected. And it's not just for Tech Mahindra, but some of the larger peers who have reported so far. So, just wanted to understand, is there some push or pull forward of spend the client did and the real impact of tariff and manufacturing will show up in subsequent quarters?

- Mohit Joshi:** Yes, I think that's broadly correct. I think the longer-term impact of tariffs would show up in the future. But also, if you look at the year-on-year numbers, right, if you look at our own year-on-year manufacturing, we are down 4%, even though we are up for the quarter. And I think what we sort of saw the slowdown in auto was for us made up by a ramp-up that we saw in the aerospace business. But I do believe that the longer-term drag is there for manufacturing.
- Abhishek Kumar:** Okay, quick follow-up on this, and then I have the second one. In the auto sector, you mentioned our exposure is largely to the US market. Within the US market, are we more exposed to the OEMs or to Tier 1s?
- Mohit Joshi:** Largely to the OEMs.
- Abhishek Kumar:** Okay, okay. Now, my second question is on hi-tech. Rohit, you had mentioned last quarter that one of the BPM deals in high-tech had slipped, and because of which there was a sharp decline in hi-tech. Any update on that deal? Is it back or are we still expecting it to come back later? Thank you.
- Rohit Anand:** Yes, I think it's coming back in the flow through. So, I think in Q2, you should see some of that being shown in revenues, yes.
- Abhishek Kumar:** Okay, thank you and all the best.
- Moderator:** Thank you. Our next question comes from the line of Manik Taneja from Axis Capital. Please go ahead.
- Manik Taneja:** Hi, thank you for the opportunity. The first question was with regards to the way we have seen our subcontracting expenses come off and the relative gap that we used to have compared to peers and you have on this front. Now, since you expect a lot of your new deals to essentially start ramping up, do you think we once again see some increase in subcontracting on a go-forward basis? That's question number one. The second question was with regards to the point that you've been making about winning must-have accounts as well as making further inroads into some of your existing top clients. When should we start to see some of this reflect in terms of your client metrics because we see very limited progress across client buckets over the course of the last 5 to 6 quarters?
- Rohit Anand:** So, Manik, can you repeat the second question while we understood the subcon? Can you repeat the second question? The line was a little muffled.
- Manik Taneja:** Sure, Rohit. I will just repeat that. My question was that we won almost 45 must-have accounts in FY'25. And even in the current quarter, Mohit has spoken about further gains over there. And you've also been talking about making further progress with regards to your existing top accounts. So, when should we see this percolate in terms of the progress on client metrics across

buckets? Because practically over the course of the last 5 to 6 quarters, there's been limited change there.

Rohit Anand: Yes, so maybe we'll answer the second one first and Mohit. I think if you look at the top client buckets, like we said, we have added two \$50 million clients over the past 1 year. So, I would see that as a sign of progress. Look, clearly, I think when we said this is a multi-year journey, right. These are large companies. Turning things around in terms of changing the revenue mix by vertically, by geography, by client type, it takes time. But I am enthused by the fact that we are seeing growth and stabilization on our key accounts. If you go back to the 8 quarters before that, the top client metrics had seen a significant deterioration. We have arrested it now and are seeing growth. But like any other compounding exercise, it will take time for it to show up in a meaningful way. But I am very confident that we are in the right direction. And the early metrics are very promising.

Atul Soneja: Hey, Manik, this is Atul Soneja here. If I might just answer your first part of the question with respect to the sub-con, so I think as you would have noticed, our utilization has gone down in the current quarter. And this is obviously building up a pool of talent that is being trained to get deployed for the pipeline and the wins that we have had in the past as well. And in the near term, if we have to go about getting a few more sub-cons, we would potentially do that. But directly what you will see in the long term, we will be between 8% to 10%. That is what we are guiding towards. So, I think we will continuously be in that band. But on a quarter-to-quarter basis, you might just see an increase or coming down. But year-on-year basis, you will see us following that pattern.

Manik Taneja: Sure. Thank you and all the best for the future.

Moderator: Thank you. Our next question comes from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Hi, thanks for taking my question. First question, Mohit, you said F'26 likely to be better than F'25. My first question is on Fiscal '26 commentary better than Fiscal '25. Sheer arithmetic shows that it requires you to grow revenues sequentially over the next 3 quarters. So, do you expect this to happen from 2Q onwards based on the conversion of the deals?

Mohit Joshi: Yes. Yes, we do. We do expect that we will be able to deliver that based on revenue accretion from deals won previously showing up from Q2 onwards.

Gaurav Rateria: Got it. And any key verticals that drive the growth or leads the growth?

Mohit Joshi: Well, look, in this volatility, it's hard to say. Obviously, Telco is the single biggest industry vertical for us, and that did show a negative trajectory through the year. Now that we have started off the year on a positive trajectory, I am very hopeful that it will contribute to growth. Our Comviva business specifically has been doing really well and has been a growth contributor to

us. Beyond that, we have stated our long-term ambitions for growing our financial services business. Manufacturing was difficult to be candid. We had shown our ambition to grow our financial services business, and I remain optimistic about the long-term outlook there. Retail has been a business where, especially in the Americas, our team has done a wonderful job in client wins and client conversions. One of those deals with a U.S. fashion apparel manufacturer pointed out in my sort of opening comments as well. So, we feel quite positive about that. So, I would say that, certainly from my perspective, I'd be watching BFSI, Retail, and Telco very carefully.

Gaurav Rateria:

Thank you. That's very helpful. Second question on generative AI. Have you seen any specific new use cases which you could say that would be a net new spend for industry and for Tech Mahindra? And are these use cases leading to increase in the size of contracts? Any evidence of that would be helpful.

Mohit Joshi:

Yes. So, I will give you one example. From a Telco perspective, we see autonomous networks and network optimization and AI within the networks as a very powerful spend area. As you know, for one of our European clients, we have committed to getting them to L5 level from a TM Forum certification perspective. And that would mean a significant reduction in contact center volume, would mean a significant reduction in IT and overall network expense. So, that is a very powerful Telco specific use case that we have seen. From a Comviva perspective, we have been using AI to help sort of reduce, churn, and increase ARPU, again, from a Telco customer perspective. But there's no reason why the use case cannot be used for retail also. So, these are two relatively new use cases that I can think of. Besides that, you have the traditional use cases from a developer productivity perspective, from a contract management perspective, from a contact center perspective, and we continue to focus on that. I feel that our new set of offerings, which are an agentic AI platform that we should hopefully announce soon enough, with 200 plus agents already developed, that will provide a very useful platform for our Fortune 500 customers to really think about agentic AI in terms of a set of cartridges, right. So, the horizontal cartridges for F&A, for HR, for contact center, and then there'll be the vertical specific cartridges, which are maybe insurance focused, Telco focused, right. So, I think that combination of agents being available to clients to use for multiple use cases will be a great sort of powerful tool for them and a powerful revenue generator for us.

Gaurav Rateria:

Got it. Last book-keeping question for Rohit. What's the number of freshers that we onboarded in 1Q and what's the likely target for Fiscal '26? Thank you.

Rohit Anand:

Yes. I think it's 250, it's marginal, given the demand scenario that we saw. And as you know, we'd hired close to 6,000 last year, right. So, we are working through the learning development platform absorption of that pool, right, within the ecosystem. So, that's the focus right now. And as we continue to drive more visibility and progress through the macro through the year, we'll drive that action more. And I think also there's a little bit of new, and we'll update that in our AI sessions, Mohit mentioned, there's a new dynamics around how do we look at our employee base collectively from a AI perspective as well, which is an advantage for us given the experience

profile we have. So, we'll be evaluating that in a mix of AI, but generally we will hire more as we progress towards the year.

Gaurav Rateria: Thank you. All the best.

Rohit Anand: Thanks.

Moderator: Thank you. Our next question comes from the line of Ashwin Mehta from Ambit Capital Private Limited. Please go ahead.

Ashwin Mehta: Yes, thanks for the opportunity. So, Mohit, you earlier mentioned that your average experience is almost double of your peer group. So, from a pyramiding perspective, when do we start to see the movements? Because even from your annual report perspective, your less than 30-year age bracket has gone down in terms of proportions. So, one question is, when do we start to see that? And secondly, how growth dependent that is in terms of both layering of experience and secondly, the pressure induction?

Mohit Joshi: Yes, so look, I think as you know, the pyramid, we feel is a great source of strength for us, especially in this current environment where clients are looking for experience profiles. And this specifically has to do with AI, because if you're looking at complex AI use cases, if you're looking at the applicability of AI to client landscapes, it requires a deeper understanding than maybe sort of a fresher workforce, right? So, we do feel it is an asset for us. Obviously, we have to reshape the pyramid over a period of time, which is why we hired 6,000 plus fresh graduates last year. I am hopeful that when the industry comes back to some semblance of normal growth, that absorption capability will be significantly increased. But candidly, the dramatic reshaping of the pyramid is not an FY'27 exercise, there will probably be a longer-term exercise in really reshaping the pyramid. And I don't think we will ever get to where our peers are in terms of the pyramid. But I feel a halfway house between where we are now and where they are, it could be something for us to push for over the next couple of years.

Ashwin Mehta: Okay, fair enough, Mohit. And just one question in terms of receivables bump up this quarter, what was the driver of that? And is it a single segment driven or this is much more broad based?

Rohit Anand: No, it's a couple of regions that we had timing delays, which we already got through in July. So, I would say it'll get better as we move forward. And some of it is seasonality, I mean, 1Q typically every year, if you see has a 4Q versus 1Q increase, some of it is that and some was timing, which we have recovered. So, I think it'll get averaged out as we move towards Q2 from a Q1 perspective.

Ashwin Mehta: All right. Thank you and all the best.

Mohit Joshi: Thanks, Ashwin.

Moderator: Thank you. Ladies and gentlemen, we'll take that as a last question for today. I now hand the conference over to the management for closing comments.

Mohit Joshi: Well, thank you all. Thank you all for participating in our quarterly conference call. Again, like I said, we are pleased with the progress that we have made so far in our transformation journey. And I do believe that our numbers show a steadily strengthening performance and a really capable team. We look forward to reporting further on our progress in the quarters to come. Thank you.

Moderator: Thank you. On behalf of Tech Mahindra Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.