



“Tech Mahindra Limited Q2 FY ‘26 Earnings
Conference Call”

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**MANAGEMENT: MR. MOHIT JOSHI – CHIEF EXECUTIVE OFFICER AND
MANAGING DIRECTOR, TECH MAHINDRA LIMITED
MR. ROHIT ANAND – CHIEF FINANCIAL OFFICER,
TECH MAHINDRA LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Tech Mahindra Limited Q2 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 this conference, please signal an operator by pressing '*' and 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, and good morning, good afternoon, and good evening, everyone. Thank you for joining us for our Earnings Call today as we walk you through our 2nd Quarter performance. You know, Rohit and I and the entire Leadership Team and our Board are in London today and very happy to speak to you. And as we stand today, exactly midway through our three-year strategy, I am happy to report consistent and steady progress towards our FY '27 goals.

The first half of our journey has been about strengthening our foundation, building resilience, and creating an organization capable of sustained performance. The second half is where we believe this foundation will turn into further decisive action and further comparative gains as per our strategic plan.

I will take a moment to share some overall perspective on TechM's enhanced industry positioning:

At the outset of our transformation journey about 18 months ago, it was my considered view that TechM possessed underlying advantages, which could be better leveraged to achieve stronger growth relative to peers, and that these advantages, coupled with improved operational discipline, would drive substantial margin expansion. Some of our enabling advantages are our well above average tenure staff, strong existing client relationships, vertical specific expertise, Mahindra Group's synergies and relative agility.

Today, a year and a half into our transformational efforts, I have stronger conviction based on evidence from our actual progress, some of which can be seen externally. Most notably, we have been delivering steady margin improvement. We have improved our large-deal wins and our pipeline quality. We have expanded our relationships with a number of large clients, and we have also added a strong list of new clients.

On top of these externally reported results, I am seeing underlying progress internally and positive leading indicators of our comparative progress. Importantly, our client teams are

fostering more partnership-oriented dialog and collaboration with clients. Our growth-oriented investments are extending our advanced solution offerings that have strong depth and breadth along with vertical specific tailoring, and I am seeing more and more evidence that industry changes and AI trends are increasingly favoring our more experienced workforce.

Let me now turn to our 2nd Quarter performance:

For the quarter, we reported revenue of US\$1,586 million, reflecting a 1.6% sequential constant currency growth and remaining largely stable on a year-on-year basis. This marks our strongest quarterly constant currency growth in the past 10 quarters. The growth has been broad-based across manufacturing, BFSI, retail, travel and logistics and healthcare.

On the margin front:

We have been focused on delivering profitable growth and have been able to consistently expand our margins every quarter since we presented our FY '27 plans. In fact, our EBIT margin in Q2 stands at 12.1%, which is significantly higher than where we were at the beginning of this journey. That is a testament to the discipline we instituted under Project Fortius to bring in operational efficiency, disciplined execution and cost optimization along with early initial progress in value-based price optimization.

Let me now delve deeper into the industry specific performance:

In the Communications vertical, we saw a year-on-year decline of 2.2%. Yet the segment remains largely stable. Our largest client has stabilized their spend and delivered growth above the company growth this quarter.

We continue to invest in key client partnerships. A key European client is set to launch their large telecom model, LTM, to bolster their service experience center. They are revolutionizing operations across network, IT and customer domains, promoting service-centricity and building a truly data-driven ecosystem, scaling AI and enhancing automation to drive meaningful outcomes. We are investing in our advanced solutions and partnering with them on this journey.

The Manufacturing vertical posted a 5.2% year-on-year growth. The Aero and Industrial segments showed good traction, buoyed by demand for smart manufacturing, predictive maintenance and digital twins.

Automotive has been broadly stable this quarter. However, we remain cautious, particularly in the Commercial segment, which continues to face headwinds, while the Passenger Vehicle segment shows early signs of stabilization.

In Banking and Financial Services, we have seen growth of 6.2% on a year-on-year basis, reflecting the focused areas we have prioritized for growth. Supporting these priorities, we have

forged partnerships, for instance, with JP Morgan Payment Systems as part of their integrator program, to co-innovate and deliver differentiated value through the deployment of next-gen payment solutions.

These alliances deepen our domain capabilities. We have a long way still in terms of client acquisition and growth in this vertical. And there will be volatility. But we have established a firm foundation to build on.

In Retail, Transport and Logistics, the business delivered a 7.2% year-on-year growth. We are witnessing strong tailwinds in the logistics domain driven by e-commerce expansion, automation and warehousing, last mile delivery optimization and seeing strong traction overall in the logistics sector.

Europe delivered a good performance of up 5.5% on a year-on-year basis. Americas has shown a decline of 2.7% on a year-on-year basis primarily due to challenging macroeconomic conditions. The ROW has declined marginally 0.5% on a year-on-year basis.

In terms of clients:

This quarter, our 20 million plus average annual revenue client bucket continues to deliver growth above the company's average with contributions from this segment surpassing \$1 billion this quarter. As you may recall, this has been one of the key focus areas in our strategic plan and our success on this front reflects the effectiveness of our sustained efforts in driving scale and value.

In addition, we added 57 must-have accounts in Fiscal Year 2025, plus we secured an additional 21 accounts in the first two quarters of the current fiscal year. Of these, 17 have already generated over \$1 million in revenue each, demonstrating both the scale and speed derived from our early growth efforts.

In terms of an AI update:

We are honored to have been recognized by the Government of India as a key player in the prestigious India AI mission, aligning with the country's objectives to bolster leadership in AI, foster technological self-reliance, and ensure the ethical and responsible use of AI.

As part of this mission, we are partnering to develop an indigenous sovereign large language model with 1 trillion parameters, a significant technical milestone that places it amongst the largest AI models under development globally. This vision aligns seamlessly with the commitment to unlock transformation, drive productivity, accelerate innovation and ensure assurance through our AI delivered right strategy.

I am proud to announce that we launched TechM Orion, our next generation agentic AI platform built on Nvidia accelerated computing that enables intelligent, autonomous execution of complex business workflows. TechM Orion enables global enterprises to deploy AI solutions faster, whether in assisted or fully autonomous environments, while maintaining control and transparency throughout the AI lifecycle. Our solution integrates AI agents across platforms, simplifies orchestration and enables scalability with our embedded assurance guardrails.

Tech Mahindra also unveiled TechM Orion Marketplace, an agentic AI marketplace that offers a robust ecosystem of intelligent, autonomous, and action-oriented AI agents that collaborate, evolve, adapt, and scale.

It is always good to get recognition from the industry analysts, and Tech Mahindra has been recognized as the leader in the Gartner Emerging Market Quadrant for Gen AI Consulting and Implementation Services. We are especially proud to be recognized as number one globally on the future potential axis which underscores the trust in our ability to shape what's next in AI.

In terms of GCCs:

As we extend on our strengths in global capability center services, Tech Mahindra is uniquely positioned to offer an integrated value proposition to global enterprises. Our deep technology expertise and digital transformation capabilities are complemented by broader strengths within the Mahindra ecosystem from world class infrastructure through Mahindra Lifespaces and Origins to renewable energy solutions from Mahindra Susten and financial and advisory support via Mahindra Finance.

This combination enables us to offer customers a seamless end-to-end pathway to establish and scale their GCC operations in India with speed, reliability and sustainability, it is this blend of technological depth and ecosystem advance that truly differentiates Tech Mahindra and positions us as a partner of choice for global organizations.

In terms of deal wins:

This quarter we closed a net new total deal revenue of US\$816 million, representing a 57% increase on a last 12 months' basis. The deals span key verticals including communications, manufacturing, BFSI, retail, transport and logistics, reflecting the broad-based nature of these wins.

We partnered with a leading US-based telecom operator to advance its network testing and certification automation and optimization initiatives under its long-term transformation vision. This engagement focuses on accelerating network testing and certification through a homegrown automation platform, leveraging our delivery excellence and agility to deliver greater efficiency, scalability and innovation across operations.

We were selected by a global logistics leader as a strategic partner with a multi-year framework agreement to drive AI-led efficiency and transition to a productized IT organization, effectively transitioning from manual high-touch operations to an AI-driven, automated and self-service-enabled global desk.

We were selected by a leading European telecom operator as a strategic partner to accelerate its enterprise-wide autonomous operations journey. Through this engagement, Tech Mahindra will consolidate and transform the customer's ecosystem, delivering an AI and automation-led landscape that accelerates the realization of their vision for autonomous operations.

We were selected by a leading life and health insurer in the Asia-Pacific region for a multi-year application management services engagement. This will result in modernizing core and digital platforms through AI-led automation and cloud-first transformation to enhance operational efficiency and stability.

Finally, we were selected by a leading semiconductor equipment manufacturer to spearhead the enterprise application transformation across SAP data and analytics, AI and application development and maintenance services, again, advancing automation, resilience and scalability across core business platforms.

Furthermore, as you would recall, one of the key pillars of our three-year transformation roadmap is a renewed focus on our brand. In this regard, I am pleased to share that on October 24, as Tech Mahindra marks 39 years of innovation and impact, we will unveil our refresh brand, a powerful evolution that honors our heritage and redefines our vision for the future.

This refresh is enabled by our ambition to make the Tech Mahindra brand as progressive and contemporary as the transformation we deliver for our clients. In a world reshaped by rapid technological change, our identity must reflect who we are today, agile, bold, collaborative, and discerning.

Beyond a strikingly modern visual identity that brings our entrepreneurial spirit to life and ensures a consistent expression across every touchpoint, this comprehensive refresh establishes a unified brand platform, defines a thoughtful approach to integrating our portfolio companies, and strengthens our position as a globally preferred employer through a renewed employee value proposition. This refresh honors our present while shaping our future, supporting our growth ambitions and reaffirming Tech Mahindra's position as a trusted partner in digital transformation worldwide.

In terms of recognition:

We are thrilled to share that Tech Mahindra has won '5 Gold Medals at the Brandon Hall HCM Excellence Awards 2025'. These awards recognize our achievement across talent, management, human resources, learning and development and diversity, equity, inclusion, and belonging. This

recognition reinforces our commitment to building a high-performing culture with a strong focus on learning and development, inclusivity, and process-oriented excellence.

We have also been awarded the 'HYSEA Sustainable Development Award 2025', reaffirming TechM's innovative and meaningful initiatives in the category of environment protection.

This quarter has delivered a broad-based performance with good deal momentum, continued margin expansion, and steady contribution across our key focus areas. The progress we have made demonstrates the strength of our strategy and the resilience of our organization.

With that, I hand over to Rohit Anand for the detailed overview of our Q2 financials.

Rohit Anand:

Thank you, Mohit. Morning, afternoon, evening to everyone joining us from different parts of the world.

As Mohit rightly mentioned, we are now at the mid-way point of our strategic plan, a journey that has been both rewarding and challenging. What we have achieved so far is a result of the team focus, discipline and shared objectives towards our strategic goals for FY'27.

Let me share our financial performance for the 2nd Quarter of the Fiscal 2026:

Our revenue stood at US\$1,586 million, an increase of 1.4% Q-o-Q, and a decline of 0.2% Y-o-Y on a reported basis.

On a constant currency basis, revenue grew by 1.6% Q-o-Q, and a decline of 0.3% Y-o-Y. The growth this quarter was broad-based, driven by performance in manufacturing, retail, BFSI, travel and logistics.

From an INR perspective, revenue was at INR 13,995 crores compared to INR 13,351 crores in the previous quarter, a growth of 4.8% on a sequential basis and 5.1% on a Y-o-Y basis, aided by the INR depreciation.

Our operating margins increased by 108 basis point to 12.1%, marking the 8th consecutive quarter of margin expansion. This consistent improvement reflects our ongoing focus on operating efficiency, cost optimization and value-driven execution.

Margin expansion this quarter was primarily driven by improvement in fixed-price project productivity, volume growth and savings from SG&A optimization. Additionally, we benefit from a currency tailfall of approximately 40 basis points.

Other income declined to \$4.6 million this quarter on account of losses on foreign exchange.

As of September 30th, our hedge book stood at \$1.33 billion compared to \$1.64 billion in the previous quarter. Based on hedge accounting, the mark-to-market loss for the quarter was \$32.2 million, out of which \$7 million was taken to the P&L and the loss of \$26 million went to the reserves.

Our effective tax rate for the quarter stood at 27.6% in line with expectations. The normalized ETR for the full year is close to 27%.

Our PAT for the quarter is \$135 million, an increase of 28.2% Y-o-Y outside of exceptional item of land sale during Q2 F'25. In INR terms, PAT was at INR 1,194 crores with margin rate of 8.5%.

Our return on capital employed stands at 24.4% this quarter. This demonstrates the significant progress we have made in improving financial efficiency and return since the beginning of the plan. Our year-till-date free cash flow to PAT ratio stands at 120.8%. During the quarter, free cash flow was \$237 million, driven by strong collection efficiency and continued improvement in our working capital management.

While our DSO decreased by one day on a quarter-to-quarter basis, the reduction appears modest compared to the higher collection flows, which was largely offset by FX impact, muting the overall benefit of the reported DSO.

The total deal wins for the quarter stood at \$816 million, reflecting a growth of 57% on LTM-to-LTM basis versus last year. The deal wins have been broad based across multiple verticals, and the improved deal win rate underscores the trusts our clients are placing in us.

The Board has also recommended a dividend of Rs. 15 per share, reaffirming our commitment to the laid-out capital allocation policy of returning 85% and above of free cash flow back to shareholders.

As we move ahead, we remain focused on sustaining our operating rigor, strengthening cash flow generation, and driving profitable growth. Our continued execution discipline positions us well to deliver long-term value to all stakeholders.

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

Moderator:

Thank you very much. We will now begin the question-and-answer session. Our first question comes from the line of Sudheer Guntupalli from Kotak Mahindra Asset Management Company. Please go ahead.

Sudheer Guntupalli:

Hi, Mohit and team. Congratulations on the good set of numbers. A couple of questions. Firstly, if we look at the margin expansion from the trough, the last 7-8 quarters witnessed almost 750 basis points of EBIT margin expansion, nearly 2/3rd of the heavy lifting you were envisaging at

the beginning. So, my question really is, if we hit our margin goal of 15% earlier than what we had stated, will you let that flow through the P&L or would you use that flexibility to sort of make some incremental investments on top of what you had already budgeted for in your strategy roadmap?

Mohit Joshi:

Sudheer, thanks for that. I think we had shared our margin goals, as you mentioned, at the start of the journey. And when we had planned the journey, we had envisaged a certain set of investments that we were going to be making in our solutions, in our capabilities, in terms of our talent. And that to some degree is already baked in. What we had not baked in at the start was obviously the very slow macro environment that we are seeing. For now, candidly, while we will wait for another quarter or two to see how it goes, we really don't see dramatic growth coming back next year. So, I do feel that I am personally a little bit skeptical about whether we will have that much of flexibility to have that much of sort of abnormal profit to invest back in the business. But obviously, as the business continues to perform, we will always calibrate between the investments needed in the business and the margins that are due back to the investors in terms of our commitment.

Sudheer Guntupalli:

Thanks, Mohit. So, my second question is, unlike most of our services peers, we are also participating in the AI LLM layer. So, when you take a panoramic view of our portfolio and assess how AI may augment/impact different service lines, how do you characterize the delta due to AI at the overall company level, deflationary, expansionary, or initially deflationary and then expansionary?

Mohit Joshi:

Yes, so I feel that in the long run, my view, and thankfully, this is a view that has become more common over the past couple of months, is that while there is productivity expectation from customers, I think customers' expectations are becoming more realistic over time. When this AI journey first started out, you would have thought that by now, 100% of the code would have written itself. I think customers' expectations about productivity are now higher than they were with, let's say, pure automation and pure simplification. But it is in the same sort of ballpark. Nobody's expecting, and if people are giving it, I know how they're giving it, 80% productivity over the next five years. I feel that those expectations have been set back to a more realistic level. I feel there is the understanding that to really get the benefit of AI, you need to be able to simplify, to modernize, to build a common and consistent data stack, which would again be a tailwind for the industry. And I feel there's an emerging differentiation that is coming from the tooling and the capabilities of an organization, and also from the market recognition.

For the first time, we see industry analysts starting to rate vendors based on AI capabilities. And the other work that we have been doing, as you mentioned, in terms of building large language models and building out our capabilities is really one of the few SIs to have the research capability to innovate at the frontier in terms of building out frontier models. I feel all of these should be very helpful for us.

At this point of time, I just want to make a mention of our TechM Orion platform. We see that enterprise-grade agents are available to our clients to solve complex problems. And what Orion does is that this allows you to do either autonomous or assisted flows for the operations. We have grown our agent base now to 300-plus agents, and these are now able to solve not just simpler problems, but actually fairly complex IT problems and also complex business problems like KYC. So, to give a slightly longer answer to your question, market expectations of productivity are settling down. Client expectations about the investments that they need to make in their underlying technology to get the benefit of AI are happening. We are being recognized by the markets and by the investors and the industry analysts for the investments that we have made in AI. And we have now built, I believe, a world-class platform that allows us to give a solid foundation to the efforts and for clients to recognize that AI is not just a black box, or AI productivity is being delivered through a platform. I think the final piece that we will be unveiling hopefully soon is a new commercial model, which is a new commercial model of how AI plus services will be delivered to our clients. And I think once that is done, I feel that we will have all the pieces of the puzzle that will hopefully allow us to grow faster.

Sudheer Guntupalli: Thanks, Mohit. All the very best.

Mohit Joshi: Thank you, Sudheer.

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

Surendra Goyal: Hi. Good evening. A few questions on margins for you. Firstly, the gross margin improved by around 40-50 basis points sequentially, which would be almost entirely currency-led, would you just help us reconcile that in terms of percentage?

Rohit Anand: Not really, Surendra, because the currency benefit happens at a G&A level also, right? The INR costs get converted at a lower rate, right, to USD. That benefit is split. So, it's not really truly FX-driven. There are improvements happened also on operating efficiency as we looked at various aspects as well. And when you look at Project Fortius overall, right, our actions are driven across the board, not just on the gross margins, but also on the G&A, SG&A level, on various areas that we have been deployed. For example, portfolio companies, we said that's a big focus for us to rationalize economies of scale when we put them together, right, from an integration perspective. That predominantly flows through at a G&A line item, but some impact also happens as a gross margin. So, impacts like those are split across the line-item level. So, you are going to look at collectively and FX and G&A split equally between both.

Surendra Goyal: Okay. And secondly, if I look at the last two quarters, your gross margins have remained constant while the entire margin improvement is driven by SG&A, which is down 150 basis points of the percentage of revenue. And this is the lowest level since you guys took over. So, firstly, SG&A, should we expect more reductions going forward? Like what will drive the margins from here?

- Rohit Anand:** So, margins will be driven by both. But I think the improvement from a weightage standpoint, you will see more coming through in the gross margin versus the SG&A as you look at the next six quarter journey. And contribution from SG&A would be range bound, right? We still have a lot of integration still to go on portfolio companies that are still to integrate with us. So, those efforts will continue. There are other specific initiatives going on, on areas which are in the G&A line item on productivity and efficiency standpoint. But predominantly, if you look at the benefit, I mentioned that also in our discussions earlier in our meetings and earnings calls that a big part of our margin driver from a gross margin standpoint continues to be the improvement on the fixed price projects. I think that's 55% to 60% of our portfolio. And we continue to drive productivity actions there. And that's what's going to contribute as we move forward in terms of contribution from here to the 15% target.
- Surendra Goyal:** Sure. And very quickly on H-1B visas, could you share details of what percentage of your US workforce is on H-1B? And do you see any margin implications going forward due to the regulation changes and any localization that you may need to do? Thank you.
- Mohit Joshi:** So, look, Surendra, this is Mohit here. Under 1% of our global workforce is on H-1Bs. And our visa dependence in the US is under 30%. Obviously, we are working on a multi-pronged strategy to make sure that even though our exposure is relatively low, that we are well prepared. That strategy really takes three shapes. The first is obviously to identify and firewall our key and core talent in the US. Because essentially, a lot of the onsite piece hangs off this core workforce, which I would assume would be about 25% of our workforce. So, that's the first piece. The second piece is to work even further on a US offer to the employees, whether it's in terms of savings or healthcare plans or training or learning to diversify further the sources that we use for US recruitment. And the third piece is to strengthen our existing capabilities. As you know, we have a large capability to deliver from the Americas locally, whether it's from Canada, Mexico, or Brazil. So, how do we look about strengthening these operations in case some of the work could be done from there? So, we feel that this combination of three strategies, making sure that our core is protected, making sure that we are improving our US offer and our ability to hire much more locally, and finally, looking at near shore options. I think the three together would be useful. It's very hard to actually give a handle on where the impact of H-1Bs will land. Because as of now, as you know, there is no impact for one year. It's very hard to forecast how many H-1Bs we may need one year later, or what the prevailing wage rates may be, or what the compensation levels may be, and depending on which part of the country we may need them. So, it's hard to make that assessment just now. But we are thinking sort of medium and long term about this solution. And I do feel that it is a manageable problem for us. As you are also aware, for us, our US revenue exposure is only about 45% of our overall revenues. And our H-1B dependence is less than a third. So, we do feel that this is a manageable problem.
- Rohit Anand:** And from our perspective, this year, we don't see anything. Next year, as Mohit mentioned, a multitude of action going on to further reduce the dependency, as he mentioned, less than one

third. And over the period of time, the team has demonstrated actions to bring it down year-on-year. So, we are fairly confident that we will be able to drive that as well in the future.

Surendra Goyal: Sure. Thank you. Thanks a lot.

Mohit Joshi: Thank you, Surendra.

Moderator: Thank you. Our next question comes from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Hi. Good evening. Congrats on a good quarter. I think, as you mentioned, we are in the midpoint of our strategy plan. And if we look at where we are today in the context of just the client 6 to 10 and 10 to 20, that seems to have been a meaningful advent for us at the moment. Just want your thoughts on what are the pain points in the portfolio that sort of hurting growth and what needs to change. And apart from that, I think even this time from a communications perspective, when we had assumed stability, it's been a little softer. And you also mentioned some vendor consolidation deals in Europe which could sort of aid growth. Any update there? And finally, on manufacturing, the growth there was a surprise. So, how do you see things sort of evolving there as well? And finally, from a margin perspective, considering we are at the midpoint of the journey, do you think it gets harder from here in terms of incremental expansion or there are things that are already laid out, and it should go as per plan?

Mohit Joshi: So, Nitin, I will answer your questions. But the first question you had on the headwinds, I really couldn't follow that. Maybe the first question you had, I missed.

Nitin Padmanabhan: So, what I was asking was if I look at the client 6 to 10 and 10 to 20, it's been a meaningful headwind. And for the quarter itself, it has not been really showing signs of sort of improving. So, just your thoughts on what the headwinds are from a portfolio perspective, which we need to sort of fix to really get growth acceleration in with the deals that we already have.

Mohit Joshi: Sure. So, first of all, I think if I zoom out a little bit and you look at the clients where we have over \$20 million of revenue, because at the end of the day, these are the clients that give us the vast majority of our revenue. This is where the focus has been. And within these clients, we have been able to show a steadily improving trajectory of growth, which is very different from the growth we had earlier. If you go back just a couple of years, you will see a lot of our growth was coming from sub \$20 million clients. So, I feel that the focus is yielding efforts. Obviously, within any sort of client bucket, you may have one client where sort of spend just goes dramatically off a cliff or a major project comes to an end in a particular quarter. And so that has an impact. But I don't feel that any client relationships are unhealthy or damaged in that sense or there is anything structurally wrong. Last quarter, for instance, you will remember, we had mentioned that a semiconductor client of ours, pretty obvious, was scaling down its operations in a very significant way. It was a very big client of ours and so we had a massive ramp down

of our teams. So, things like that may happen. But overall, I am quite comfortable that for our \$20 million plus clients, where we have focused efforts, the portfolio overall is doing well and has continued to do well over the past couple of quarters. In terms of your question on communications, yes, the overall communications portfolio is down this quarter. But again, if I break that up into the various regions, I think we have done well from an Asia-Pacific and India-Middle East and Africa perspective. Our U.S. business also has done well, which includes our largest customer. Our U.S. business has grown. In Europe, we had a challenge where, again, I don't want to talk about any client-specific issues, but Europe, the problem was localized within Europe. And again, I do feel it's a temporary piece. I expect to get back to stability and growth in the overall comms portfolio in the second half of the year, obviously accounting for things like furloughs within Q3. Our Comviva business, which is again part of our Telco portfolio, continues to do very well and should have a second record year of growth this year also. As far as the manufacturing business is concerned, as we mentioned, our aerospace business has done very well, driven by a couple of significant client acquisitions over the past one year. So, that has been a big growth driver for us. Our auto business, like we said, we are seeing some stabilization in the passenger segment but see some concerns from a commercial vehicle segment. And we also saw some strength in Pininfarina in the quarter. That has also helped because that's also counted as automotive. So, that hopefully answers the questions you had about the growth piece, the top clients, the manufacturing and the comms business. As far as the margin piece is concerned, I will ask Rohit to add to that, but look, when we started the journey, we had a very comprehensive plan that was prepared based on the levers that we saw and Atul has been leading this under our Project Fortius initiative, which is about the levers that we see, and where we needed to work on our talent, where we needed to work on automation and productivity, and where we needed to work on pricing. That is all work in progress, but like any plan that was based on certain assumptions, and obviously we have some assumptions about at least modest growth next year. As long as that is on track, I think we should be fine. Clearly, it always gets harder the closer you get to your targets, but it is something that, as you mentioned, we had a comprehensive plan when we started.

Rohit Anand:

I will just add on to that point, Mohit, that as you rightly mentioned, the team led by Atul and his office are consistently re-evaluating their plans based on the macro environment. When we started last year, which we had mentioned, our plan was based on year-1 being very modest, year-2 on growth getting better, and year-3 getting towards the industry average. Now, we all know that is not the way it panned out, right? We are in year-2 midpoint, and the growth still continues to be similar to what we saw last year, and the view for next year is definitely not industry average as of now, unless things change quite dramatically. Hence, we also revise our plans, actions, intensity on some cases, doubling down on others. So, we constantly keep on re-looking at that and of course, as Mohit mentioned, as we keep on getting closer to the number, the intensity of improvement and the effort has to go up for that outcome that we need to get to. But we are well prepared. There is enough strength behind this and the might that we have to get there. So, we are quite committed to that plan of increasing margins every quarter and getting towards that target.

- Nitin Padmanabhan:** Perfect. That is very helpful. I think one you missed is on the vendor consolidation opportunities in Europe for cost, which you had mentioned last quarter?
- Mohit Joshi:** Yes. So, vendor consolidation opportunities, I think it is going well. Some initiatives are coming closer to our decision, and we are watching this carefully. As you can imagine, some decisions have been deferred by little while and some are sort of mid-process. But hopefully, over the next couple of quarters, we should come back to the portal net. We continue to be very confident about our deep telecom strengths and as you know, we have been buttressing those strengths, specifically in Europe, with the addition of Amol Phadke, most recently, who was the CTO for Telenor. So, we continue to be working on that. I think we have an exceptionally strong team in the region. And hopefully, we should have more to report in the coming quarters.
- Nitin Padmanabhan:** Thank you so much, Mohit and Rohit. All the very best.
- Mohit Joshi:** Thank you, Nitin.
- Moderator:** Thank you. Our next question comes from the line of Rod Bourgeois from DeepDive Equity Research. Please go ahead.
- Rod Bourgeois:** My question is a big picture one. At the midpoint of your 3-year transformation effort, I wanted to see if you can just comment on how you feel about your execution and progress, not just on the outcome metrics and the results that we can see externally, but also if you could share your perspective on how you are progressing on your input metrics and some of the foundational capabilities that you have been investing in over the last year and a half. Thank you.
- Mohit Joshi:** Thank you, Rod. Look, I think it is a good question because we often go back and reflect on the fundamentals of the FY '27 transformation. And when we laid out the vision for FY '27, we had a plan for revenue, a plan for margins, and a plan for the organization. And if you think about it, the plan for revenue was really about focus. It was really about focusing on our top segments, our top service lines, our top clients, and focusing on, for instance, must-have acquisitions within the clients that met our qualification criteria. So, if I look at it from a focus perspective, we have managed to, I believe, strengthen and increase our dominance within Telco and manufacturing and make good strides as are reflected in the results this quarter of the progress that we made in healthcare and retail and financial services. The new client acquisition that we have had also, the 50-plus clients that we have added, over 16-17 of them have scaled up to over a million dollars in revenues. So, I feel that the focus from a client perspective and from a vertical perspective is working well. From a service line perspective, we have identified service lines like Data and AI, like Cloud, like Engineering that we wanted to focus on, and I believe that these service lines are seeing above-average growth. So, I believe the focus element of our strategy is paying off. The margin or the productivity part of our plan was really about operational rigor. How do we drive greater operational rigor in business? How do we drive, whether it is the metrics in terms of fixed price profitability or it is in terms of the usage of our

tools internally or whether it is in terms of looking at talent from a pyramid perspective? I believe that the operational rigor that we have given to our business, apart from the improved numbers, has also given us much greater visibility of the business on a day-to-day basis. So, there is much greater confidence when we report to you in terms of either our margin expansion plan or our revenue visibility.

I believe the operational rigor has done wonders for us. But today, the most important part of the plan was the third, which is building the organization for the future. And building the organization for the future is actually where I am proudest of the achievements that we have delivered as a team. For one, I believe we have built an exceptional leadership talent bench. This is a combination of the deep technical and business skills that Tech Mahindra already had, plus the new talent additions that we have had over the past 18 months. I believe we have a world-class team. We have spoken about the investments that we plan to do from a training and learning perspective, whether it is our new Zenith program that we have launched for our leadership team in collaboration with INSEAD, or whether it is a collaboration with Mahindra University or the work that our Chief Learning Officer is doing in building out extensive AI training programs for our team. That piece is working well and as part of our plan to build the organization, we had spoken about the cultural transformation of the company that is a formal program driven by the entire leadership team, but overseen by our CHRO, Richard. We have spoken about the plan to build a better and more visible brand, and we have spoken today about the work that our CMO, Peeyush, and others are doing to build out that brand. We had spoken about improving the group relationship, and we spoke today about the fact that for GCCs, we are able to utilize a range of Mahindra Group companies as well to assist our clients. And so I feel the leadership piece, all the service line leaders, the regional presidents that we have, some of whom are new, like Sumit, and some of whom have been here for a long time, like Sahil or Harsh I feel that the leadership team is coming together very well. So, across the 3 areas of focus for us, across 3 areas of transformation for us, the focus, the operational rigor, and building the organization for the future. All 3 parts, I believe, are moving well and we will, it is like any wheel, right, hopefully, it will start to spin faster and faster in the next 6 quarters of our transformation journey.

Rod Bourgeois:

Got it. Just real quick. Is your view the same on acquisition interest and capital allocation overall?

Mohit Joshi:

Yes, so look, I think we are committed to our capital allocation policy over the next 6 quarters. We have started to think about and discuss with our Board on what shape a programmatic M&A may take in the future and how we look at identifying service lines, regions, and verticals, where we have an interest in sort of tuck-in acquisitions or transformation acquisitions. But again, nothing will change for the next 6 quarters where any acquisitions will be tuck-in only. And as we start to be more ambitious and aggressive in this regard, we will always keep in mind that we need to ensure sort of both growth and profitability for TechM. So, you will not see any 180-degree shift in this regard any time soon.

- Rod Bourgeois:** Got it. Thank you.
- Mohit Joshi:** Thanks, Rod.
- Moderator:** Thank you. Our next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.
- Sandeep Shah:** Thanks. Thanks for the opportunity and congrats on a good show. Mohit, just reply to the first question. Correct me if I am wrong in understanding. You are saying even in FY '27, the industry growth rate cannot bounce back and in that scenario, are we changing our goalpost where we also may not be able to outgrow which was our earlier target versus industry growth rate?
- Mohit Joshi:** Sorry, I either must have misspoken, or I must have misunderstood because I got another message on the same question as well. We are not saying that at all. All we are saying is compared to where we were when we started the journey, right, when we started the journey in April '24, at that time, the growth expectation for the 3-year period was very different from where we find ourselves today. So, to be clear, we fully expect FY '27 for the industry and for Tech Mahindra to be better than FY '26. But if at the start of our transformation journey, we were expecting sort of maybe not exactly COVID, but a return to standard industry growth rates, we expect slightly more muted growth now because look, we are just 6 months away from the start of FY '27, but we are not expecting next year to be the same as this year. We are expecting higher growth for the industry and for ourselves next year.
- Sandeep Shah:** Great. Thanks for that clarification. And in that journey, do you believe the current new business TCV which is improving Q-on-Q, but hovering around closure to \$750-\$850 million needs to substantially pick up or you believe this is enough for us to achieve the goalpost?
- Mohit Joshi:** So, ideally, I think Rohit had shared this calculation in one of the previous calls. Ideally, we want to get closer to the billion-dollar mark and I believe that we are slowly and steadily getting there, right? Look, when we started our journey, we were at the 400 million mark. I think we have now delivered 800 plus for 3 quarters running and we do see a very rich pipeline which we will hopefully convert and get closer to that number in the coming quarters. But again, I just want to stress that our large deals that we report are only net new revenue and go through a very rigorous process of both internal and external reviews. And so we feel it should give you sort of confidence and transparency on how much of that will go into future growth.
- Rohit Anand:** And Sandeep, this is Rohit. I think it also is a function of this is great in 5 million now, right? And the function of the deals that we get which are smaller, right, which are faster to convert, and it is a lot dependent on the discretionary environment, right. So, as discretionary environment gets better, while the deal reported might still be 800, right or in the ballpark. But if that gets better, then generally the uptake to revenues is automatically improved without their visibility, which you see. So, we will always call out if we see that portion of the business which

has muted for a while now, picking up, right. And with that pickup, it is a different answer that you might get on 800 versus a billion with a muted outcome, right, on the discretionary spend. So, that flavor, I will make sure that I keep on reiterating. As of now, I think as Mohit mentioned, if the environment stays muted and this, and if you do get to that rate, then this definitely 800 has to go up. But if discretionary picks up as we move forward, then even this number should be good for us to be in the range bound.

Sandeep Shah:

Fair enough. All the best.

Mohit Joshi:

Thanks, Sandeep.

Moderator:

Thank you. Our next question is from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja:

Thank you for the opportunity. We made very good progress on our margin journey. Just wanted to understand over the next 6 quarters, how should we be thinking about the interplay between our gross margin improvement and some of the SG&A efficiencies, given that we did see some progress with regards to our onsite offshore mix change, we have seen progress on subcontracting happen over the course of recent quarters, as well as some focus around the fixed rate engagements. Would be great to get your thoughts on that?

Rohit Anand:

Yes, sure. So, I think, as I mentioned earlier also, I think SG&A will continue to drive actions, whereas the percentage of contribution of the impact will be relatively lower. You will definitely see a leverage impact as revenue goes up next year. As a percentage, we will see the benefit because we will not add in the same proportion as we move forward. We will continue to optimize it. That should give a leverage. From a gross margin perspective, you will see the majority of the productivity come there because when you think about the big actions we have articulated in the past, we said our T&M portfolio is quite aligned with market-leading returns. We have some marginal opportunities, which we will keep on going after. But from a contribution perspective, what will contribute is the productivity in the fixed price program. So, that will be the major contributor, along with the value that we want to derive from the portfolio companies. So, today, when we started the journey, we said we will start integrating them. We started the integration both on the back end as well as middle and the front-end office. From the middle office and delivery, everything got aligned to Atul's organization. And as we move in that mid-path of the journey, now we are starting to realize value, and that will flow through also in the gross margin. So, you will see portfolio company contributions, you will see fixed price productivity that will be a majority of that, and that should flow into gross margin while you see some leverage flow through in the SG&A side.

Manik Taneja:

And the last question was in sales and support headcount. This number has been coming off through several quarters now. Any sense on how should we be thinking about this? Is there more optimization around as we consolidate some of our support functions?

- Rohit Anand:** Yes. If you think about it, portfolio integration is obviously a big part of it. As we take over the back-end operations, centralize the shared services, we have done that across functions. We are working with Biren's team in the BPS org to consolidate that for us and use the right Agentic platforms to automate the way we run the back-end operations. So, that is obviously yielding to, as we integrate, yielding to a benefit around the reduction in cost and productivity. And we are able to redeploy where we are applicable people on the billable road. So, I think that is what we are trying to drive, and that process will continue as we move forward.
- Manik Taneja:** And the last one, while Mohit will tell you the fact that we managed to scale some of your must-have accounts to contribution of greater than \$1 million plus. But if I look at your client metrics, at least with regard to the lower revenue buckets, we continue to see a very tardy process. So, when do we essentially start to see some improvement on that front?
- Rohit Anand:** Manik, it is a little bit of a mix, right? So, when Mohit said that we have improved in must-have accounts of greater than \$1 million revenue contribution has gone up to almost 17 more accounts we have added. That is the mix we want to have, right? And that is where we will grow. But at the same time, there are accounts which are greater than \$1 million, not long-term sustainable, right and there are accounts which are less than \$1 million, which are long-term not sustainable, similarly, even greater than \$1 million, which are not strategic, not sustainable that we are letting go and reducing, right. So, that action on the tail continues less than \$1 million, and even in the greater than \$1 million, where it is not the right mix for us. So, we are improving the mix of the accounts we want to have, and that is the impact that you see. What we said is the way we articulated our input metrics to look at growth which is long-term sustainable is the top accounts. And the top accounts, the way we defined, because the top 5, 10, 15, 20 buckets is too small, right? We said greater than 20 million annualized revenue customers, which is close to about 60-65 accounts for us, that should grow more than the portfolio average, and that is where the investment is happening. And that is the relationship that Mohit is talking about is very stable, and we see that progressively grow better. Maybe Mohit, you want to add?
- Mohit Joshi:** I just want to mention that, look, this is a journey where clients that are not really strategic for us, or where we don't really have a strategic position, or there isn't really a headroom for growth, it is in a geography that doesn't make sense for us, there we will be looking at sort of the tail consolidation. But equally, for our must-have accounts, they have to start somewhere, and they will obviously start in the 0 to \$1 million bucket. Those clients are very keen to scale up, right? So, you will see some additions to the 0 to \$1 million bucket, which are strategic additions, and you will see some removal from the bucket, that is the tail trimming. So, both of them will happen at the same time, right?
- Manik Taneja:** And one last clarification question. During the last quarterly call, you had mentioned that some of the deal wins that you have seen should support pick-up in growth momentum in a steadier manner through second half. Does that outlook still hold true?

- Mohit Joshi:** Yes, very much so. We are expecting that the second half of the year will reflect the improved performance, based on our strategic actions that we have taken in the first 6 quarters of the year. Obviously, you have to overlay the seasonality on that, and you have to overlay what happens in the broader economic context. But on the whole, I think we are optimistic that the second half of the year will be better than the first half, which is also good.
- Manik Taneja:** Sure. Thank you and wish you all the best.
- Mohit Joshi:** Thanks, Manik.
- Moderator:** Thank you, Ladies and gentlemen, we will take that as our last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, gentlemen.
- Mohit Joshi:** Well, thank you all. Thank you all for joining us today. And as I mentioned in the call, as we look ahead, we expect the second half of the year to reflect the improved performance driven by our ongoing operational efficiencies and improved demand visibility. At the same time, we remain mindful of the macro environment and are taking a disciplined approach to execution. As I close this call, I, on behalf of the entire Tech Mahindra family, would like to wish you and your families an early and very Happy Diwali. Thank you.
- Moderator:** Thank you. On behalf of Tech Mahindra Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.