"Tech Mahindra Limited

Q2 FY27 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
MR. ATUL SONEJA – CHIEF OPERATING OFFICER – TECH MAHINDRA LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Tech Mahindra Limited Q2 FY27 Earnings Conference Call. We have with us today Mr. Mohit Joshi, Managing Director and Chief Executive Officer; Mr. Rohit Anand, Chief Financial Officer; and Mr. Atul Soneja, Chief Operating Officer.

As a reminder, all participant 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 star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mohit Joshi for his opening remarks. Thank you, and over to you, sir.

Mohit Joshi: Thank you, and thank you all for joining us, and welcome to our Q2 FY27 earnings call. I just wanted to begin by highlighting a significant milestone in Tech Mahindra's journey as we celebrate our 40th anniversary this quarter, a very proud moment for associates, customers, shareholders, and partners.

Over four decades, we have built deep client relationships, developed expertise across industries, and adapted through successive waves of technology change. From our roots in telecommunications, we have grown into a global technology company offering AI-powered technology consulting and digital solutions to global enterprises across industries.

Through all this change, the entrepreneurial spirit that shaped Tech Mahindra has endured. It drives us to pursue new opportunities, build for the long term, and keep learning at our heart. We believe that technology must create meaningful value for our clients and communities. Today, that spirit finds its clearest expression in our promise to help clients scale at speed. As we mark this milestone, I'm also pleased to announce that our Board of Directors has recommended a bonus share issue in a ratio of 1:1 for our shareholders.

Turning to our quarterly performance, we delivered a very strong quarter with broad-based growth across the business. Revenues were US$1.693 billion, representing 6.8% year-on-year growth on a reported basis and 7.2% growth in constant currency. Positive momentum across our verticals and the ramp-up of large deals supported this performance, and we are now winning share based on our talent investment and their focus. We have above-industry-tenured staff focused on delivering business outcome-oriented solutions to our clients. Operating margins for the quarter stood at 14.8%.

From a vertical perspective, in Communications, revenues grew 9.5% year-on-year, supported by the ramp-up of the Orange large deal and new strategic engagements. We continue to see opportunities across AI-led operational transformation, fiber and network modernization, and B2B platform modernization. We also believe the next wave of cost transformation will be driven more by technology-led transformation beyond merely AI benefits and labor arbitrage, which plays to Tech Mahindra's strengths and deep telecom expertise.

In this quarter, we launched Zero-Gravity Telco Architecture, our North Star framework, enabling telecom operators to reduce enterprise gravity by addressing the architectural

constraints that limit safe AI agent deployment, supporting their transition to AI-native operations. This is a timely and differentiated capability, especially in light of widespread and heightened concerns about security and reliability of AI agents.

The BFSI business grew 4.6% year-on-year. We remain focused on deepening our presence in payments and wealth management, modernizing client platforms, and strengthening our insurance capabilities. During the quarter, we were recognized as a global leader in the ISG Guidewire Services Ecosystem 2026 study for the first time, reflecting the progress we have made in insurance.

Manufacturing grew 7% year-on-year. Aerospace saw good traction, supported by engineering demand and industrial opportunities centered on AI-led efficiency, supply chain visibility, and system consolidation. Hi-Tech grew 6.7% year-on-year, supported by new deal wins. AI-led product engineering and platform modernization are driving demand. At the same time, cost optimization and consolidation initiatives continue to support a healthy pipeline.

Retail, Travel and Logistics grew 9.2% year-on-year, supported by new client wins and the ramp-up of consolidation and transformation engagements in the Americas. We continue to see opportunities to expand our share within existing accounts and help clients strengthen the infrastructure, data, and platforms needed for AI adoption.

Healthcare grew 6.2% year-on-year. Our focus remains on expanding our presence across providers and life sciences, with vendor consolidation and AI-led transformation as key areas of opportunity. We are building on our AI solutions portfolio and ecosystem partnerships to support clients in areas such as post-market surveillance and regulatory compliance.

Coming to the progress we made under TechM Helix, our AI initiative, this quarter, we strengthened the platforms, partnerships, and industry capabilities that underpin all of our AI offerings. Our Helix investments are translating into strategic engagements across industries and geographies, with many moving beyond pilots towards larger-scale implementation within core business processes.

During the quarter, we secured AI engagements across professional services, healthcare, insurance, communications, consumer health, and technology. Let me share examples to illustrate how clients are approaching AI as part of broader business transformation. A European professional services firm, for instance, selected us to embed AI and agentic AI across more than 40 customer-facing platforms and products and modernize software engineering, displacing a longstanding incumbent.

Secondly, a US healthcare technology leader engaged us to deploy a multi-agent AI solution across its post-market surveillance complaints lifecycle, accelerating triage while preserving traceability, regulatory governance, and expert oversight. And thirdly, an APAC communication and media provider selected us to transform customer experience operations, embedding AI agents across voice and digital interactions, agent assistance, quality, and knowledge management.

For us, the opportunity being enabled by our latest offerings is not simply to deliver existing work more efficiently, but to take on a wider scope of responsibility and help clients achieve better outcomes. Helix brings together our industry knowledge, engineering expertise, and enterprise integration capabilities to support this shift.

I will now share three examples of how Helix is bringing together our industry knowledge, engineering expertise, and enterprise integration capabilities to deliver changes. Our work with AWS demonstrates this in practice. We launched an Agentic Process Transformation Center of Excellence whose first solution, Collections Guru, is already deployed at Target Group. It delivers approximately 40% efficiency gain in arrears management, a measurable improvement in a live business process.

Secondly, our Zero-Gravity Telco Architecture is gaining traction. A Tier 1 UK operator is progressing a proof of value trial. Two European mobile network operators are evaluating adoption, and a leading Asian operator is deploying pilots.

The accompanying Zero-Gravity Index benchmarks AI readiness and guides investment priorities, while collaboration with hyperscalers, NVIDIA, and TM Forum supports adoption. Potential benefits include reductions of 50% to 80% in time to market, 15% to 30% in technical debt, and 25% to 50% in architectural costs.

Thirdly, we launched a Consumer Agentic Experience Studio, an immersive center showcasing end-to-end solutions across the consumer industry value chain. Since its launch, it has hosted more than 20 customers and multiple partners and begun generating business in its first quarter of operations. The studio has also helped us deepen our partnerships with Google, SAP, and Blue Yonder, strengthening our cloud, AI, digital supply chain, and enterprise transformation capabilities.

Our broad partnerships complement these investments with the integration and security needed for enterprise deployment. They also help us develop capabilities that can be applied across client engagements and enhanced over time. Here are four examples of additional work with partnerships. With ServiceNow, we have announced an expanded multiyear partnership to help enterprises move from AI pilots to production scale deployments.

With Cisco, we announced an AI-driven Security Service Edge offering to reduce security complexity, improve visibility and control, and help enterprises manage and secure AI agents as they scale cloud and hybrid work and AI adoption. Our partnership with SpaceX.ai combines industry expertise, engineering excellence, and AI innovation to help organizations transform software development into a competitive advantage by bringing together SpaceX's AI-native platform and Tech Mahindra's deep domain knowledge, engineering scale, and transformation expertise.

This partnership reinforces our AI Delivered Right strategy. Finally, we continue to invest in technologies with a longer horizon. Makers Lab, which marked its 12th anniversary this quarter, remains an important part of this effort. In quantum technologies, we partnered with IHub

Quantum Technology Foundation to develop middleware for India's indigenous 20-qubit trapped-ion quantum computer.

Completion is expected by December 2026, with commercialization activities expected thereafter. We also won the first prize and I'm really proud of this at the 5th Quantum Hackathon organized by possibly the world's leading quantum institute, the National Quantum Computing Centre, working alongside talented university participants to tackle a network optimization challenge using quantum computing.

Coming to deal wins, our total deal wins for the quarter were US$1.023 billion. Wins were broad-based across verticals and geographies. For instance, we were selected by a leading Canadian insurer as a strategic partner for an integrated applications management services engagement, spanning core insurance applications, vulnerability management, environment services, release engineering, and run operations. The engagement will strengthen platform modernization, improve operational efficiency, strengthen security, and enhance observability.

We were selected by a leading digital network business to deliver a transformative mainframe-as-a-service program supporting critical communications infrastructure. Leveraging Tech Mahindra's strengths in infrastructure transformation, managed services, automation, and telecom domain expertise, the engagement will help deliver reliable connectivity services across the UK.

We were also selected by a leading Australian telecom operator as their strategic managed services partner for a 5-year engagement spanning application management, development, testing, and AI engineering services. This was obviously enabled by our proven experience in AI engineering services and managing mission-critical technology environments.

I will close where it begins, with our talented staff. None of what I have described happens without them. We were recognized this quarter at the Brandon Hall HCM Excellence Awards and the Stevie Awards for Great Employers. These recognitions are important, but what matters most is the work behind them. A company building for the future must invest not only in technology capabilities, but also in creating meaningful opportunities for people to learn, contribute, and grow.

I wanted to close with our Global Chess League, Season 4 in Bangalore, which delivered 9 days of world-class chess and a truly global audience.

Chess brings together imagination, discipline, patience, and adaptability. It rewards the ability to look beyond immediate moves while responding thoughtfully to a changing position. As Tech Mahindra completes 40 years, those qualities offer a fitting perspective on the journey ahead. We will continue to build on our strengths, learn and adapt while staying focused on the commitments we make.

Also on the GCL piece, I just want to mention that through our GCL app, we have also transformed how audiences connect with the sport while bringing together leading partners, including SBI, AMD, Google Cloud, and many others.

And with that, I will hand you over to Atul, who will take you through our operational transformation and AI progress for the quarter.

Atul Soneja: Thank you, Mohit, and hello, everyone, and thanks for joining in. AI is reshaping the economics of technology services. The market is rapidly moving from AI experimentation to enterprise-scale adoption.

Our focus at Tech Mahindra is to help clients translate AI investments into measurable business outcomes through improved productivity, accelerated innovation, and sustainable value creation while embedding AI into a structurally more efficient delivery mode.

With Helix, our AI journey is moving decisively from capability building to scaled execution. Helix is becoming the agent for AI-led transformation across TechM, connecting innovation to execution, productivity, and growth.

Our strategy is to build an AI growth engine under Helix, which has two complementary dimensions, AI tool chain for every service line, which is around embedding AI into how we design, engineer, modernize, deliver, and operate technology services. And second is around AI transformation for every vertical, which is around applying AI to reimagine industry-specific business processes, operating models, and customer experiences.

Let me just give you a few concrete examples. An example of AI tool chain is when a Tier 1 telco operator in Europe expanded its partnership to build a private cloud platform using platform engineering and AI-first operations. The strategic relevance is that AI becomes embedded in the operating fabric of clients' infrastructure, creating a scalable foundation for productivity gains, automation, and long-term business value rather than a standalone technology initiative.

An example of our cross-service AI foundation tool chain is TechM Orion and the Orion Marketplace, which leverages TechM's AI IP and reusable agent capabilities, enabling service lines to accelerate AI adoption from a common platform rather than building solutions independently.

Let's now consider the AI transformation for every vertical. For Telecom, we established a zero-gravity architecture which enables a diagnostic framework to help telcos overcome legacy complexity and move towards autonomous operations. We partnered with FICO in banking domain for AI-powered decisioning.

In manufacturing, we partnered with Infinite Uptime to bring prescriptive intelligence into plant workflows. These examples show a progression from generic AI capability to industry-specific intellectual property, solutions, and transformation offerings. Our Zero Gravity Architecture for Telecom is an example of the above convergence.

It brings together AI-ready architecture, enterprise context, and agentic capabilities to simplify complex telco environments and enable intelligent operations across networks, customer journeys and business processes. Our Customer Agentic Experience Studio accelerates solutions across retail, consumer, travel, and logistics.

Our model strategy is evolving into a family of multimodal, purpose-built models, and Orion provides a model-agnostic enterprise AI platform that brings together these capabilities across a growing partner ecosystem. Our portfolio includes more than 200 AI assets, which we are rationalizing into reusable blueprints, platforms, and accelerators. During the quarter, we completed 25 prioritized industry and horizontal AI use cases while progressing more than 100 additional vertical use cases across communications, financial services, healthcare, manufacturing, retail, energy, insurance, travel, and logistics.

Last time, we spoke about domain-specific language models. Our focus was on establishing the foundational capability to build smarter, efficient, and specialized AI models to ensure our customers get the benefit of doing a specific task in a domain or a subdomain effectively. Since then, we have extended this capability, and we are now seeing opportunities in three separate directions. First, DSLMs are now part of AI toolchains. DSLMs enter these AI toolchains as an important component which helps us deliver these transformations, keeping them cost-effective.

Our AI toolchains built specifically for industries now have these DSLMs embedded within them. Second, from language models to agentic business processes. Our focus is no longer just on building a model that can answer industry-specific questions. We are combining DSLMs with AI agents that can understand enterprise processes, reason over domain information, and take governed actions within customer environments.

And third, from technology development to commercialization. We are connecting our domain-specific AI capabilities with our broader agentic AI platforms, industry solutions, and delivery ecosystem for repeated enterprise offerings. In short, we have progressed from building models to building domain-specific intelligence that can drive business actions. That is where we believe the long-term value creation opportunity lies.

Trust is fundamental to scaling AI. Responsible AI is embedded throughout the solution lifecycle, with red teaming, trusted data, traceability, security, and IP provenance built into how we design, deploy, and operate AI solutions. We have also established a dedicated responsible AI practice spanning across consulting, delivery, and talent enablement, which is helping us strengthen our ability to help clients move from experimentation to production with more confidence.

We are also moving decisively from co-sell to co-create, which is around combining Tech Mahindra's domain depth, engineering excellence, deep client relationships, and global delivery scale with inherent strengths of our partners to build differentiated solutions and unlock greater client value.

This is already taking shape through cloud and AI innovation with Google Cloud, AWS, and Microsoft; intelligent enterprise transformation with SAP, ServiceNow, and Salesforce; AI infrastructure and edge solutions with NVIDIA, Dell, Intel, and Qualcomm. Across these and many more partnerships, we are no longer simply taking products to market together. We are jointly creating industry solutions, talent, accelerators, and new sources of measurable business value for our clients.

The impact is visible across industries. In banking, AI-enabled service operations are supporting stronger conversion and growth. In healthcare, multi-agent workflows are addressing high-volume product safety processes while keeping specialists in the decision loop. In insurance and telecom, AIOps, self-healing operations, and embedded agents are improving responsiveness and operating efficiency. In engineering, AI-assisted development and testing are shortening cycle times and improving release readiness.

AI is not only transforming client operations, it is also redefining the economics of service delivery. Across client fixed-price and outcome-based programs, we are intensifying the use of AI to improve productivity, optimize delivery effort, and strengthen execution economics. Our focus is on systematically embedding AI into how work is delivered, enabling us to deliver more efficiently, improve margins, and scale proven practices across the account base.

Our biggest currency is our talent, which continues to scale alongside execution. More than 24,000 IT associates have been upskilled on AI productivity tools, over 4,500 have been skilled on agent platforms, and approximately 48,000 hold an AI certification.

We are now moving beyond broad-based AI enablement towards specialized client-facing capabilities through forward-deployed engineering teams. AI Velocity Cells, a new program we started to bring these capabilities closer to the client demand, has already delivered 16 client-relevant capstones in seven weeks and operating at full allocation. These teams are designed to demonstrate value quickly and industrialize successful solutions across our service lines.

As the world moves towards smaller, domain-contextual models, it is imperative that our workforce gets trained on it because of the multitudes of open models. We have curated a special internal course to ensure 200 engineers get trained in the next quarter on some deep techniques to hone models and harnesses.

Let me also address the broader economic implications of AI for our industry. AI is and will change the economics of technology services. In some areas, automation will reduce the effort required to deliver existing services and may put pressure on effort-based revenue models. But we are also seeing significant momentum in work related to consulting, modernization, data and analytics as our clients accelerate their AI journey.

All of this translates to expanding scope within existing clients, accelerating transformation demand, supporting higher volumes, winning new clients, and evolving our new commercial models. This positions us to participate more directly in the value we create for our clients rather than measure progress only in units of effort.

Let me close with our approach to AI revenue. We have established a framework across three value pools: build the enterprise, create intelligence, and run and scale with confidence. The first category, which is build the enterprise, includes consulting, AI foundations, and transformation. The second, create intelligence, covers enterprise intelligence and agentic orchestration. The third, run and scale with confidence, includes AI operations, trust and assurance, and frontier innovation.

Our principle is simple. AI revenue must be evidenced by client-funded work and reconcilable to financial records. The validation process spans sales, delivery, and finance, distinguishing direct AI revenue from AI-influenced pipeline and internal productivity benefits. We expect to introduce AI revenue reporting as part of our H2 FY27 disclosures and continue it on an ongoing basis, refining the methodology as our portfolio and the markets mature.

To conclude, our ambition goes beyond participating in the AI opportunity. It is to establish Tech Mahindra as a differentiated, AI-led transformation partner, delivering measurable business outcomes for clients, driving structural improvements in productivity, and creating a foundation for sustained, profitable growth.

Project Helix is the engine of this transformation, bringing together AI toolchains across every service line and AI-led transformation across every industry vertical. This is what AI Delivered Right means for Tech Mahindra. Turning AI from a technology opportunity into a scalable business advantage to our clients, our people, and our shareholders.

Thank you, and with this, I hand over to Rohit for detailed financial performance commentary.

Rohit Anand: Thanks, Atul. Good evening, everyone, and thank you all for joining. We delivered another strong quarter with broad-based growth across verticals and geographies, 12th consecutive quarter of margin expansion, and new deal wins exceeding $1 billion

Reported revenue stood at US$1,693 million, up 2% Q-o-Q and 6.8% Y-o-Y on a reported basis. On a constant currency basis, revenue grew 2.4% Q-o-Q and 7.2% Y-o-Y. Organic revenue grew 2.3% Q-o-Q and 7% Y-o-Y in constant currency. Revenue in INR terms stood at INR16,180 crores, up 3% Q-o-Q and up 15.6% on a Y-o-Y basis.

Communications business grew 6% Q-o-Q, supported by ramp-up of large deals and strategic new engagements. Retail, Transport and Logistics grew 9.6%, driven by scale-up of new deals and growth in existing accounts. Technology, Media and Entertainment grew 2.8% Q-o-Q, followed by Healthcare and Life Sciences at 1.4%.

BFSI grew at 0.4% Q-o-Q and 1% Q-o-Q in constant currency. Manufacturing revenue declined 3.9% sequentially against a higher prior-quarter base following the accelerated execution of a large European automotive program in the prior quarter, which I'd mentioned last time. A sequential revenue headwind associated with the program is expected in Q3 as well, though to a much smaller extent.

Our total deal wins for the quarter stand at US$1,023 million. On a last-12-month basis, deal wins stand at US$4,270 million, up 34.8% Y-o-Y. The momentum in the deal wins was broad-based across verticals, across geographies through Comms, BFSI, Manufacturing, and Retail, Logistics and Transport verticals.

EBIT for the quarter stood at US$250 million with an EBIT margin of 14.8%, up 40 basis points on a Q-o-Q basis and 260 basis points on a Y-o-Y basis. The margin improvement was driven by strong volume growth and Project Fortius savings, partially offset by the wage hikes. In rupee terms, operating profit stood at INR2,387 crores, up 40.5% Y-o-Y, aided by INR depreciation.

Effective tax rate for the quarter came in at 29.9% due to a one-time tax adjustment related to prior periods tax matters. Excluding this one-time item, our tax rate was 26.6%. Profit after tax for the quarter was US$166 million, representing a 23.2% increase Y-o-Y. In INR terms, profit after tax stood at INR1,586 crores with a PAT margin of 9.8% and expansion of 130 basis points on a Y-o-Y basis.

We generated US$135 million of free cash flow during the quarter. Although the cash flow this quarter was impacted by ramp-up of the new rebadged deals, which will normalize the next quarter. We reiterate our stance to maintain 90% to 100% free cash flow to PAT on a full-year basis. DSO stands at 88 days, up four days Q-o-Q, but down six days on a Y-o-Y basis.

I will now share highlights of our progress in making AI-era investments. We continue to strengthen TechM Helix through strategic investments in industry solutions, engineering capabilities, and our people. Zero-Gravity telco architecture and Consumer Agentic Experience Studio are part of this effort to make AI more relevant to clients' business needs.

We established the Toronto Innovation Hub to bring together client co-creation and AI innovation. Additionally, we launched the Engineering Experience Center to help organizations move faster from concept to commercialization of their products. This builds on our investment in Manufacturing Experience Center, Communication Experience Center, and Retail CPG Experience Center, with each center focusing on distinct technology and transformation needs for the industries we serve.

We are also investing in AI models built for specific industries and sovereign requirements. Our focus is on solutions that understand clients' business context, give them greater control over their data, and make AI more practical and cost-effective to deploy. We launched Indus-Terra, a 30-billion-parameter model built with NVIDIA and AWS, a part of IndiaAI Mission.

A key part of our AI investment is in deploying our workforce to support AI-led delivery. We introduced an AI-driven, skill-led model linking career progression to capability, domain proficiency, and AI fluency.

Our hedge book as of September end stands at $0.4 billion. Under hedge accounting guideline, the mark-to-market movement was US$13.83 million, of which $8.7 million was recorded in the P&L and $5 million reflected in reserves. Our hedge book stands at less than 12 months in line with the changed hedging guidelines.

Our return to capital employed stood at 31.2% for the quarter, reflecting a sequential improvement of 290 basis points. On a Y-o-Y basis, the ROCE improved by 680 basis points. The board has declared an interim dividend of INR15 per share, reaffirming our commitment to the laid-out capital allocation policy of returning 85% and above of free cash flow back to shareholders.

To sum up, our Q2 performance reflects the execution of our strategy and the continued trust of our clients amid an evolving macroeconomic environment. We will continue to invest in capabilities that address clients' needs and application across engagements while maintaining

financial discipline, support, sustained profitable growth. We reiterate that we remain on track to achieve our full-year FY27 EBIT margin target of 15%.

As we mark our 40th anniversary and we recognize the strength built over this journey, enduring client relationships, deep industry expertise, and the ability to adapt through successive waves of change, our task now is to build on this strength and translate them into consistent business performance while building a stronger business for the 3 years ahead.

In closing, I would like to thank our shareholders, who have been an integral part of this journey. As Mohit shared earlier, the board has recommended 1:1 bonus share issue, allowing us to mark the anniversary milestone with them for their continued trust and support. Our commitment to our shareholders remain to build long-term value through disciplined execution and sustained financial performance.

We can now open it up for question-and-answer.

Moderator: Thank you so much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question comes from the line of Kumar Rakesh with BNP Paribas. Please go ahead.

Kumar Rakesh: Hi. Good evening. And thank you for taking my question. Mohit, my first question was more about your service capabilities. You share the numbers by vertical and geography, and that is clear to see that you are gaining share and there is a solid execution which is happening across those two slices of your revenue.

But on service offering, we don't get to see a lot that what has transformed, especially in the last couple of years and you have launched multiple new platforms, such as TechM Orion. How that is helping you in gain more share? More importantly, where do you see that you have the momentum and strong offering to continue this strong growth? Which are those pockets still left for you to continue to capture?

Mohit Joshi: Sure. Thanks, Rakesh. Look, I think as is evidenced by our numbers this quarter, we had pretty strong performance across, as you've seen. So, first from a vertical perspective, right, the fastest-growing for us on a year-on-year basis was retail, which grew at about 9.5% Y-o-Y. But even the slowest that we had was BFSI, which grew at 5.4% CC Y-o-Y, right? So really the growth was within a band fairly high pretty much across the board.

And the reason I'm mentioning verticals, even though you asked about service lines, is because the story from a service line perspective also is quite similar. We had very significant growth, as you can imagine, in our digital enterprise applications.

So this is the ServiceNow, Salesforce, SAP, Oracle portfolio of our business. And this business grew at almost 13% year-on-year, right? While even businesses which were relatively slower in this quarter, like, for instance, our BPS business, still had a very healthy 6.5% year-on-year growth. So there you have sort of the two ends of the spectrum. BPS, as you know, has traditionally been our fastest-growing business for many years.

The point I'm trying to make is that across our service lines as well, ADMS, digital core services, which is infrastructure, cloud, security, network services; BPS; engineering services; and our package applications business. Probably the one business which has been relatively weaker compared to the others has been our experience design and our consulting businesses. But we're very much in growth mode in these businesses. And as you know, for our BORN business, we shifted the focus of that business from mid-market more to our largest enterprise clients. So that transition is still very much in place.

But for our vertical businesses, for our service lines as well, growth has been strong across the board. From our perspective, we see digital enterprise applications business continuing to be a strong driver for our growth now and in the future. And we also see opportunities in engineering, in BPS, in our digital core services business, which has done well.

Traditionally, ADMS, while it has grown very well this quarter, 7.6% year-on-year, that business is actually seeing the productivity expectations on large contract renewals. So maybe that will be a little bit muted. But overall, we remain optimistic about all of our service lines. The trick is to have a differentiated AI toolchain for each and every single service line, and that is what we're very focused on doing.

On the vertical side, we're focused on making sure that we have the industry transformation roadmaps. I think a combination of both of them, the AI toolchain and the industry roadmaps, will lead to above-industry-average growth rate across the verticals and the service lines.

Kumar Rakesh: Thanks a lot, Mohit, for quantifying the flavor on that. My second question was maybe around margin. So earlier we have spoken about that our margin expansion journey would be more driven by gross margin. Now after several quarters of head-count reduction, in this quarter, we have now started seeing an increase in head count, which is great to see from growth perspective, but also, it indicates that your utilization possibly at some stage will start peaking.

So, is it that your gross margin expansion potential is near to the peak where it could potentially have led to, or you still see there is more expansion potential on the gross margin side?

Mohit Joshi: Okay. So, I'll just start, and then I'll pass it on to Rohit and maybe Atul, if they want to add right. So, look, I think the thing is that for this quarter, obviously, we had, as a result of the significant large deal with Orange, we had an employee transfer as well in certain geographies. And so, I would not read too much into a movement in a single quarter.

As far as the margin expansion opportunity is concerned and the linkage to growth, look, while our utilization for this quarter has been high, the reality is that we do expect, as a result of the specific AI toolchain, we're building for each and every single service line, to be able to release head count across our fixed-price projects and gives us an opportunity to continue to grow while releasing head count from fixed-price projects to enable growth.

We don't believe for a moment that the gross margin opportunities in the business have been fully tapped out, and we continue to work diligently to make sure that we can continue to expand margins while we obviously prioritize on growth.

Rohit Anand: I think, Mohit, you covered well. So nothing more to add, Rakesh. All I would say is that, if you remember, when we started this journey, we had a huge gap in the structure that we have with years of experience, which, over a time, has become an advantage from an AI context perspective. So from a margin perspective, we've really not tapped into that.

As we go forward, that opportunity of rationalizing towards the right equilibrium still exists versus the industry peers, right? While we continue to take advantage of that skill gap that we have. So I think we do see opportunities on gross margin that will continue not just for the second half, but the next three years as well, as we make our journey ahead.

Kumar Rakesh: Great. That's very reassuring. Thanks a lot, Mohit and Rohit.

Mohit Joshi: Thank you, Rakesh.

Moderator: Thank you. Our next question comes from the line of Sudheer Guntupalli with Kotak Mahindra AMC. Please go ahead.

Sudheer Guntupalli: Hi, Mohit and team. Congrats on a great set of numbers. My first question: some of the AI coding tools like Claude Code have been seeing stagnation in their ARR, at least for three-odd months now. Do you think that the peak of the deflation impact on services business is already behind if we were to take this ARR trajectory as some proxy for AI deflation? What are you incrementally seeing in your client conversations?

Mohit Joshi: Well, look, I think I don't want to comment on what Anthropic specifically is seeing in the Claude Code ARR expansion. But I do want to make the point which we've been making throughout, right? Is that this whole deflation debate is completely warped, in the sense that the opportunity for us is not really to deliver only existing work more efficiently. That has always been the case, right?

You always have had to deliver existing work, whether through automation or through rationalization and streamlining, more efficiently. Really the opportunity for us is to take a wider scope of responsibility and to help clients achieve better outcomes while the complexity of their businesses is increasing dramatically. It is true that clients have started looking at open router and other models to be able to incrementally move AI inference workloads to cheaper open-source, open-weight models.

But this is something that we had called out a couple of quarters ago, that the shift that people were expecting, that the revenue will move from services directly to the model builders who will continue to be able to scale up pricing limitlessly, we had said that is not going to happen. This is going to be like the cloud.

The model capability is like the compute and storage capability, which continues to diminish in terms of pricing power, and clients will always have the flexibility, like there's not a single enterprise client I know, a Fortune 500 company, that uses only a single cloud. And so similarly, clients will use multiple models. And unlike the cloud, they have the option of open-source model as well. And so they will use that option even if it gives them 98% or 97% of what a frontier model gives.

Sudheer Guntupalli: Fair enough, Mohit. Secondly, how do you think about growth now? Your three-year plan envisaged outperformance versus larger peers on growth. Now with 7.2%-odd year-on-year growth, you are already significantly ahead of the large-cap peers. So, ceteris paribus, how do you think of the next growth milestone? Do you foresee a likelihood of growth potentially touching double digits sometime next year, assuming a stable macro? Or is there some other growth benchmark you are gunning for?

Mohit Joshi: I think, Sudheer, it's too early for us to start making commitments about the next three-year plan before we have completely met this three-year plan. As you can see, we've made significant progress. While we hope to be higher than the average, we are actually closer to double or triple the average so far in the first half of the year. We want to absolutely make sure that we nail it for the remainder of the year, deliver the margin, deliver the growth.

But clearly, the \emphasis of the company has moved towards growth in the past three quarters, as we had always said as part of our initial roadmap. As we come closer to announcing the next three-year roadmap, we will, like we had the first time round, clearly identify the expectations in terms of growth.

But I can promise you, without giving you a number today, that the focus of the company is very much on growth because that also gives us the operating leverage to expand our margins. But we will never be in a situation where we will be either buying revenue or doing deals that create long-term damage for the institution.

Sudheer Guntupalli: Fair enough, Mohit. Just one last quick question. The second half of the year, do you expect normal seasonality, or is there any peculiar change that you notice this year?

Mohit Joshi: No, we expect normal seasonality. We continue to see some weaknesses in our European auto manufacturing business, but those are all manageable within the existing portfolio that we have. So we do not expect unreasonable seasonality or unreasonable furloughs in Q3 or Q4.

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

Mohit Joshi: Thank you, Sudheer.

Moderator: Thank you. Our next question comes from the line of Abhishek Pathak with Motilal Oswal Financial Services Limited. Please go ahead.

Abhishek Pathak: Yes. Hi. Thank you for the opportunity. And, Mohit, congrats again on a great quarter. My question was around margins. I mean, you've kind of hit it absolutely out of the park when it comes to the margin guide. Now going forward, does it make sense to leverage AI to, like you said, drive more efficiencies around gross margins, or is there a possibility of, I mean, not buying growth, but kind of sacrificing a bit of that extra margin gains to maybe move towards near double-digit growth? So internally, in terms of that trade-off between margins and growth, how is the company thinking, and how should we kind of expect the priorities to line up going forward? Thank you.

Mohit Joshi: Sure. So I think, look, one of our key focuses, and I sort of alluded to this, but I'll pull the threads together for this question. The first is we are building a differentiated AI toolchain for every single service line that we have in the company. As we build that differentiated AI toolchain, it will therefore enable us to get higher productivity, especially for our fixed-price and our managed services contracts, which will then, expand gross margin, but also allow us to grow revenue without necessarily -- so our high utilization just now doesn't mean that we cannot grow anymore, right?

So we expect that to fully play into the remainder of the year and beyond, which is differentiated AI toolchain resulting in lesser greater productivity and lesser head-count requirements, therefore feeding back into our growth as those people are released from existing fixed-price projects.

Secondly, we have now reached a stage where we are within 20 basis points of the margin aspiration that we had stated. But we had also said that as we get into the third year of the transformation roadmap the focus will very much pivot on growth, profitable growth, absolutely, but very much on growth.

And I don't anticipate this to change in our next 3-year plan either. The focus of the company will very clearly be on outgrowing our peer group and, more than our peer group, really setting our own standards in terms of growth for TechM for the future. The future is very much about growth.

Abhishek Pathak: Thanks, Mohit. And just very quickly, just double-clicking on the vertical mix a bit, looks like Comms has stabilized quite nicely, and BFSI seems to be a little bit on and off. So again, kind of from a medium-term perspective, do you do you see Comms now leading growth for us? Or do you see BFSI kind of chipping in? And what interventions, if any, do we need to make on the BFSI side if you want to kind of grow slightly ahead of the market and gain some market share in that vertical? Thank you.

Mohit Joshi: Thanks. Thanks for that question. So look, I think firstly, I just want to point out that while Comms has obviously had a very good quarter as we've ramped up on the Orange large deal, the real standout over the past year or so has been our manufacturing business, right, which has consistently grown very fast, and our Retail, Travel and Transportation business, which has grown at 10% plus over the past 4 quarters or more, right?

So we continue to see a broad-based growth. As far as the BFSI piece is concerned, we have grown at about 5.4% CC in the current quarter, but the past 2 quarters prior to this, right, we grew at upwards of 8%. And we fully expect to get back to that or higher levels of growth in the next quarter.

From a BFSI perspective, look, we had set high aspirations for ourselves, and I think as President Kennedy had said, we do these things not because they're easy, but because they're hard. Obviously winning market share in BFSI, growing, shifting the revenue distribution of a large-sized company like ours is a hard thing to do.

We feel that we have all the ingredients now in place. We have made a few small changes to the team. We have brought in additional leadership, and we remain very confident about our medium to long-term opportunities in BFSI. It has been slower burn candidly than I had expected when I started, but I can assure you that clearly has a huge amount of focus within the organization.

Not because the other verticals are less important, it's because the size of the prize in BFSI is very significant. But even at this BFSI is actually on a year-on-year basis, among our slower-growing verticals, but we are still growing in line or slightly ahead of our larger peers.

Abhishek Pathak: Thanks, Mohit, and all the best.

Mohit Joshi: Thank you.

Moderator: Thank you. Our next question comes from the line of Rod B with DeepDive Equity Research. Please go ahead.

Rod B: Thank you.

Mohit Joshi: Hello, Rod.

Rod B: Yes. Hey, first on -- hey, there. First question on growth drivers. I particularly want to ask whether your growth is primarily coming from deeper wallet share within your existing strategic accounts or from clients that are improving their overall spending volume, which is enabling Tech Mahindra to maybe move up into higher spending tiers? Can you add some specificity on that?

Mohit Joshi: Sure. Thank you, Rod. So look, I think this is a very important question, because what we've said just when we started out our journey is that it is very important that we continue to win market share and we continue to grow in our largest customers, because I've always felt that when growth moves from the largest customer to the more marginal customers, that growth is more brittle.

And so therefore, as a result of our turbocharge program, we have always been focused on revenue from accounts where we get more than US$20 million in revenues, and we do report it on an annual basis. I'm happy to share that revenues from accounts with more than US$20 million in revenues continue to outpace the rest of the company. For the most recent quarter, it was 3.1% quarter-on-quarter growth from our largest clients and a shockingly high 11.7% on a year-on-year basis.

So therefore, that gives us the comfort that growth is coming in accounts where we are therefore, getting more into multi-product sales, we are winning market share, also referenced by our very high NPS for these customers. We believe that these 20 million-plus customers still have very significant headroom for growth.

And candidly, if our Top 10 accounts were the same size as the Top 10 accounts for an Infosys or for an Accenture or a TCS, the organization would be much larger, right? So the average size

of these accounts is increasing significantly ahead of the rest of the company, and we believe it's a very good marker for future growth and future success.

Rod B: That's helpful color. I want to follow-up question on quantum. You highlighted multiple quantum-related initiatives for the quarter. You've got the partnership, I think, with I-Hub Quantum Technology Foundation, and then the win at the UK National Quantum Computing Centre, the Hackathon. So, the question here is, could you share to what extent you're seeing a business upside opportunity in quantum over the next 3 to 5 years?

Mohit Joshi: Thank you, Rod. Look, I think quantum is a very, very interesting and exciting space. And if you look at what is really happening in the broader market on quantum, right? Quantum valuations are through the roof. There's a company that recently came into the market with, I think, US$30 million in revenues and has now a US$15 billion market capitalization, right?

And quantum really is a technology that plays a lot to many specific areas where our clients are interested in. For instance, for telecom, there is a huge amount of interest in using quantum for network optimization and for reducing energy consumption within grids, right? Just to give you sort of a ballpark number, something like between 1% and 2% of the entire energy consumption of the UK goes to support BT's networks, right, roughly.

So quantum is a very powerful tool over here for them to optimize the network and to reduce energy consumption. The same is true for operators really across the world, right? And so by building this quantum capability ahead of all of our peers, and for those who follow quantum, they will know that the National Quantum Computing Centre in the UK is the single most prestigious quantum research organization in the world.

And for Tech Mahindra to be number one in the annual Hackathon, I feel, and with a telco network optimization use case, I think is a remarkable statement of prowess. The most obvious use case for quantum, obviously, is post-quantum cryptography, and both from an R&D perspective, as well as from a customer research perspective, our teams continue to make significant progress over here.

While it will not be an important revenue line item for us over the next 12 months or so, beyond that, as the number of qubits per quantum computer keep increasing, we feel this will become a commercially viable technology. And really, we're talking about modernization for AI now. We'll be talking about modernization, code modernization from a quantum perspective. And all this quantum use cases getting a sort of lead onto the market at this stage, we feel, will yield tremendous results in the future.

Rod B: Thank you.

Mohit Joshi: Thank you, Rod.

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

Gaurav Rateria: Hi. Thanks for taking my questions. Congratulations on a great set of numbers. I have three questions. First one for Mohit, for any outlook on communication vertical based on the kind of pipeline and demand drivers that you're seeing.

Second question is for Rohit, on outlook from margin perspective, the key driver being fixed-price project that you have been highlighting, how much of the juice we have squeezed out from that? And at what point in time, the employee pyramid will start working as one of the key lever for margins?

And the last question is for Atul, great case studies that you explained on some of the AI tools and use cases. A lot of these billing actually get optically clubbed either in time and material and fixed-price, right? But are you seeing some real use cases of where you kind of end-to-end owning the entire transformation, and it's like a real outcome-based model, which kind of makes the entire engagement very, very non-linear? Thank you.

Mohit Joshi: Yes. Thanks. So I'll just take the first question then, Gaurav, very quickly, which is the Comms pipeline remains strong. Visibility in Comms remains strong. Obviously, there is a significant amount of client concentration that we have in this business, and so therefore, there is a degree of volatility that comes there.

But many of the deals that we spoke about this quarter, for instance, the mainframe modernization one in the UK or the Australian operator with whom we won a very large consolidation opportunity, these will start scaling up in the next few quarters and so therefore should provide the necessary momentum for our business. We continue to be actively involved in many large-deal pursuits, and we remain very confident about our ability to win this business. Rohit?

Rohit Anand: Yes. So, Gaurav, on margins, I would say when you look at the business on the T&M side, as I've mentioned before, we've done a lot of progress. So when we base ourselves to best-in-class in the industry, we're quite close to that. We'll continue to improve it based on new skills, new demand. So that progress will continue, but the impact will not be meaningful.

From an FP perspective, as we've discussed, you know, we've made significant progress over the last few years. Now this year that was majority of the driver. But as we go forward, I would say still, you know, we've got enough opportunity there as we continue to drive efficiency, automation, and rationalization in terms of how we deliver those programs. So a significant opportunity still remaining.

When you look at the pyramid, as I mentioned earlier, I think when we started the journey, there was a gap of at least 3% to 4% on margin that could have been driven by pyramid rationalization, which we've not really exercised, because from a demand perspective, that pyramid's been a huge benefit for us, and we're trying to make sure that we get the right billing and the appropriate realization for that skill.

So as we go forward, definitely there's a movement that we can still drive on that in terms of margin expansion. Now the question that Mohit then articulated or the response he gave is that

opportunity is enough on margin, how we balance that to reinvest in growth, something we'll share as we discuss the long-term plan with you. Atul?

Atul Soneja: Yes. And again, very quickly on how are we looking at it from a pricing perspective. See, if you look at it, about three quarters back, we had spoken about how we had come out with a pricing mechanism which could price for both the human and agents working together and where is a human in the loop and where is a human on the loop. And that pricing model, as we are taking to our clients as an outcome-based process, I think it is being very well understood and adopted.

We have seen some early successes where clients want to use that in specific portfolios. We have seen some successes in F&A processes where the clients are looking at using our Vector Squad-based pricing to really start looking at driving outcomes which was different from a typical FP or a T&M kind of contracts. But these models and the pricing models of agent and humans working together is being adopted across multiple industry segments, right?

I mean, telco, we have a couple of use cases, in financial services as well. So the adoption is increasing. This requires maturity also in our client organizations to understand how this will work, how will the token economics work, because we are pricing the tokens as well when we are looking at agent pricing along with the human in the loop. So, yes, the adoption is increasing significantly from the pilot that was there about a couple of quarters back.

Moderator: Thank you.

Mohit Joshi: Thank you, Gaurav.

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

Sandeep Shah: Yes. Thanks for the opportunity. Mohit, just first question with some slowdown in the AI-led capex by the enterprise client, do you believe the budgets of the enterprise client can now shift towards system integration and services? Whether your discussion with the client imply these kind of a pipeline? If yes, whether that pipeline is getting converted into deal wins considering the macro issue which may keep the client slightly cautious?

Mohit Joshi: That's a very good question. A very good question. Thank you for that. Look, I'll mention a couple of things. One is, I don't think client spend on capex -- on AI capex was ever a very significant factor candidly in budgets, right? Because most enterprise clients are spending a very small fraction of their overall IT budget on tokens. Even for the largest companies, it's in the tens of millions, not the hundreds of millions of dollars. It wasn't a very significant item.

The more significant item candidly for our clients was the increase in cloud costs and the increase in the hardware costs, right, because of the chip and memory cost increases, which can partly be attributed to the large AI build-out that was happening. Now that AI build-out doesn't happen anymore, and the cost of memory and semiconductors goes down, it is possible that clients will be spending less on hardware, and so therefore, they will have more to spend on services or more broadly on technology. So I think that on an overall basis, it should be positive for the industry.

And I do feel that sort of the cost increase on tokens will not be a very material factor candidly for most client IT budgets. Whether that results in sort of a significant benefit for the industry, that is harder to gauge. I feel that clients, whether or not they deliver productivity internally, will continue to expect productivity from their partners and from their vendors.

And as you know, the competitive pressures within the industry are still very high. So that's the sort of a trade-off, right? I do feel that a lot of the cost compression, or the price compression that we've seen in the industry, has been because of competitive intensity rather than purely because of budget diversion towards AI.

Sandeep Shah: Okay. Thanks. And, Rohit, just one passing comment you made that the reversal of one-time project of 60, 70 bps has not reversed in 2Q. It may reverse in 3Q. Can you give some clarity on this?

Rohit Anand: Are you talking about the revenue impact from the European auto? That's what you are asking, Sandeep?

Sandeep Shah: Yes, Yes.

Rohit Anand: Yes. So that reduction Q-o-Q majority has happened, but there's an impact again in Q3, which will be broadly 0.5%, and that will then normalize after that.

Sandeep Shah: Okay. So this reversal is happening in two quarters.

Rohit Anand: No, it's not reversal. It's not reversal, Sandeep. It's a ramp-up that happened in Q1 and hence, a Q-o-Q decline over Q2 and Q3.

Sandeep Shah: Got it. Thank you.

Rohit Anand: Yes. Thanks.

Moderator: Thank you so much. Ladies and gentlemen, that was the last question for today due to the time constraint. I now hand the conference over to the management for the closing remarks. Thank you, and over to you team.

Mohit Joshi: Well, thank you all. Thank you all for your questions. From our perspective, another strong quarter really reinforces our belief that the investments that we have made over the last three years are delivering results across the business. We are seeing clear momentum in client engagement, AI adoption, and deal activity, while we continue to strengthen our industry-leading execution.

As we move into the second half of FY27, we remain confident about sustaining business momentum going into the December quarter. On behalf of the entire Tech Mahindra family, I would like to wish you and your families an early and very Happy Diwali. Thank you.

Moderator: Thank you so much, sir. Ladies and gentlemen, on behalf of Tech Mahindra Limited, that concludes today's call. Thank you for joining us and you may now disconnect your lines.