

Mindtree-LTI merger an excellent proposition, IT services will make up for 40% of L&T's market cap in 2-3 years: AM Naik

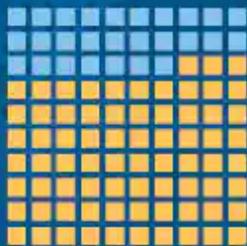
AM Naik, group chairman of conglomerate **Larsen & Toubro** said the merger between its two software units **L&T Infotech** and **Mindtree** is an excellent proposition and value accretive for shareholders, as the combined entity will create economies of scale and help it go after larger outsourcing contracts. Naik expects IT services to contribute at least 40 percent to the engineering behemoth's market capitalisation over the next 2-3 years.

L&T on May 6 finally **announced** the long-speculated merger of its two software companies, with "LTIMindtree." as the name of the combined entity. Seventy three fully paid up equity shares of Rs 1 each of LTI will be issued and allotted for every 100 fully paid up equity shares of Rs 10 each held in Mindtree, with the merger expected to be completed in 10-11 months. Larsen & Toubro Limited will hold 68.73 percent of LTI after the merger. The company will set up a committee to smoothen the process of merger and integration.

LTIMindtree

While Mindtree CEO Debashis Chatterjee will lead the combined entity, L&T Infotech CEO Sanjay Jalona, who earned the moniker of Mr Consistent, for leading a stellar turnaround of LTI, will move on. Naik and L&T's CEO SN Subrahmanyam told reporters that both companies will continue to operate as separate entities till the time the merger is completed, with no immediate changes in business unit heads. The revenue for the combined entity is expected to cross \$3.5 billion in the coming year, putting it in the top six league of Indian IT firms, right after Tech Mahindra, which registered \$5 billion in revenue in FY21.

L&T INFOTECH- MINDTREE MERGER



Mindtree shareholders to get **73 shares** of L&T Infotech for **100 held**

Combined entity will be named **LTIMindtree**

Merger expected to be completed within **9-12 months**



L&T will own **68.73% stake** in combined entity



The current employee strength of both companies exceeds 80,000, but Naik assured that this would not impact employees.

"If we want to service all the customers we need to increase manpower by 15% to 20%. In some cases we have gotten deal enquiries for \$50-100 million. We're sure that deal sizes for merger entities will be big. We have a minimum overlap between both companies, we rarely approach the same customer. Ninety percent of our customer base is separate. The company will not lose sight of its business targets and achieve them," said Naik when asked if the integration will derail the growth momentum and cause employee churn.

Why now?

While a merger between the two entities was always on the cards, Naik said the time seemed opportune now as both entities had a stable leadership, scale and steady growth, three years after L&T acquired Mindtree, in what was the first hostile takeover of a software services provider.

ABOUT LTIMINDTREE

THE COMBINED ENTITY

Metric	Value
Total Employees	81,719
Total Revenue	\$3.51 Bn
Profit	\$530 Mn

The infographic also includes social media icons for Facebook, Twitter, Instagram, Telegram, LinkedIn, and YouTube, and the 'moneycontrol' logo.

"Bad publicity during the acquisition made many think if the integration would happen properly. We have increased the valuation of Mindtree in the past three years by 5x. It is a case study on how a company's valuation can be grown. It was not a hostile takeover, we were approached by one of the shareholders," Naik said, referring to the late VG Siddhartha, the promoter of Cafe Coffee Day and investor in Mindtree, who died by suicide in the face of mounting debt. Naik further said that questions on when the merger was becoming more pronounced in the last year, forcing the company to act at last.

At the same time, Subrahmanyam said, "We needed fresh leadership, then Covid happened. Now things seem to be in order and both companies have come of certain size. This will give us a chance to compete with big players and go for bigger deals," he said. They further clarified that engineering services firm L&T Technology Services will continue to operate as a separate entity.

Combined entity

Mindtree and LTI have seen significant growth over the last two years under respective CEOs, Debashis Chatterjee and Sanjay Jalona.

From Rs 700 in August 2019 to about Rs 4,000 as of April 2022, the Mindtree stock has generated returns of over 465 percent since Chatterjee took charge as CEO. LTI on its part has been a consistent performer over the past two years. Its stock price skyrocketed to about Rs 6,000 in April 2022 from Rs 1,400 in the beginning of April 2020.

Why will the consolidation work?

Experts point out three reasons why the consolidation would work.

One is the complementary portfolios of verticals and geographies. Legal firm Nishith Desai Associates in a report said that LTI has a strong presence in banking, financial services and insurance (BFSI), followed by the manufacturing sector, whereas for Mindtree, hi-tech and media, and retail and consumer packaged goods are strong contributors.

"Since the two operate in different areas with a minimum client overlap, the acquisition will help L&T add clients to its IT services portfolio, enhance the digital capabilities and presence in infrastructure management space," the report said.

Two, the companies can cross-sell and upsell products, which executives had already alluded to earlier. In a 2020 media interaction, Mindtree CEO Chatterjee said that given the minimal overlap, or large deals, "we can actually work on a model where you can imbibe strengths of both the companies and go for cross-selling and upselling".

The companies can also rationalise the cost of operations and sales since they can cross-sell capabilities across the organisations.

Why Chatterjee?

Before taking over the reins of Mindtree, Chatterjee was responsible for delivery of technology services across all industry segments at Cognizant, a much larger portfolio compared to Jalona, who was executive vice-president and global head of the high-tech, manufacturing and engineering services business at Infosys.

Further, Nachiket Deshpande, COO and whole-time director, LTI, used to report to Chatterjee at Cognizant, and hence the equation of CEO and COO would work well.