

## What potential merger of Mindtree and L&T Infotech means

It was always going to be 'when', not 'if'. There has long been talk of a merger of [Mindtree](#) and [L&T Infotech \(LTI\)](#), both tech firms owned by engineering and construction major Larsen & Toubro (L&T), but the timing has taken many, including company insiders, by surprise.

People working at the firms told Moneycontrol that while they have been collaborating on projects, they didn't think a merger would happen so soon and thought it was at least a year or two away.

However, Bloomberg reported on April 18 that the boards of both firms will meet as early as next week to consider a potential merger, a move that will catapult the combined entity to the top league of IT firms. The position, according to industry experts, will help it tap into larger market opportunities, drive down cost and minimise risk.

"On many projects where there is a common client between Mindtree and LTI, we have been asked to collaborate and work together. One of the firms will be assigned as the primary client engagement partner, with the other firm playing a supporting role. The revenue share is also split evenly for such projects. So there has been an effort to work more cohesively instead of competing for projects," a senior executive working at one of these firms said.

Ever since L&T acquired Mindtree back in 2019 in a hostile takeover, it was expected that it would eventually be merged with LTI a few years later. The merger talks come at an opportune time. Since the pandemic, demand for technology services has increased and Indian IT firms are riding this wave, registering strong double-digit growth.

Mindtree said it will not comment on speculation, and LTI did not respond to queries for comment on the possible merger.

Nevertheless, this is a huge opportunity that L&T would want to tap into.

### Combined entity

Let us take a look at the scale of both Mindtree and LTI.

Both companies 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.

LTI commands a market cap of Rs 1.03 lakh crore and Mindtree Rs 65,285 crore. Their combined revenue is expected to be around \$3.5 billion. This would put them in the top six league of Indian IT firms, right after Tech Mahindra, which registered \$5 billion in revenue in FY21.

"This will probably get them into a very different market positioning, employee brand value," a former IT executive who did not want to be named told Moneycontrol.

Mindtree's portfolio has strong capabilities and clientele in verticals that are complementary to LTI.

### 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”.

Chatterjee in an interaction with Moneycontrol said that both the companies have been working together for the last two years. “I think one of the reasons why L&T looked at Mindtree was the capabilities and the industries and skills were fairly complementary,” he said.

“We have been working in terms of creating synergies, but that has always been on deal to deal basis. Wherever we feel that there is a place for both of us, and (work) in a collaborative fashion, we can actually meet that particular situation,” he added.

Three, the companies together can manage risk better. An IT executive said on condition of anonymity that Mindtree’s exposure to its single largest client, Microsoft, is about 30 percent. “The concentration risk becomes easier to manage between the two companies,” he added.

The companies can also rationalise the cost of operations and sales since they can cross-sell capabilities across the organisations. “So people shouldn’t see this to be a very risky proposition,” the executive said.

But there are still concerns.

### **Challenges**

While both companies command a premium, it is not clear if the markets would react the same to the combined entity.

There is also the big question of who would lead the firm. 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.

The former IT executive cited earlier said that 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.

On the other hand, the new entity would have a desirable combination with Jalona based in the US, which is a key market, and the COO running the operations from India. However, it is not clear how this will play out or if they will look at a third option of hiring an external leader to lead the merged entity. A co-CEO structure hasn’t worked too well for firms such as Wipro and SAP in the past, as this tends to lead to delays in decision-making and adds complexity.

While experts suggested that the merger might not see large-scale churn, there could still be changes at the top management level as a few areas could overlap. There is also the question of L&T Technology Services, a third tech firm owned by the conglomerate. While it has operated as a separate listed entity so far, it is not clear if this will continue to be the case.