LTIM/SE/STAT/2024-25/65

September 13, 2024

National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex,
Bandra (E),
Mumbai - 400 051

NSE Symbol: LTIM

The BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai - 400 001

BSE Scrip Code: 540005

Dear Sir(s)/Madam,

Subject: Credit Rating

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that India Ratings & Research, a Credit Rating Agency has, *vide* its letter dated September 13, 2024 *(enclosed for reference)*, affirmed its ratings at 'IND AAA/Stable'.

The same is for your information and record.

Thanking you,

Yours faithfully,
For LTIMindtree Limited

ANGNA ANISH ARORA

Digitally signed by ANGNA ANISH ARORA
Date: 2024.09.13 17:27:31 +05'30'

Angna Arora
Company Secretary and Compliance Officer

Encl. As above

India Ratings Affirms LTIMindtree at ‘IND AAA’/Stable; Rates Additional Limits

Sep 13, 2024 | Computers - Software & Consulting

India Ratings and Research (Ind-Ra) has affirmed LTIMindtree Limited’s (LTIM) Long-Term Issuer Rating at ‘IND AAA’. The Outlook is Stable. The instrument-wise rating actions are as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Issuer Rating	-	-	-	-	IND AAA/Stable	Affirmed
Fund-based working capital limits*	-	-	-	INR1,148	IND AAA/Stable/IND A1+	Assigned
Fund-based working capital limits*	-	-	-	INR2,275	IND AAA/Stable/IND A1+	Affirmed
Proposed fund- and non-fund-based limits	-	-	-	INR287	IND AAA/Stable/IND A1+	Assigned
Non-fund-based limits*	-	-	-	INR11,120	IND AAA/Stable/IND A1+	Affirmed
Non-fund-based limits*				INR870	IND AAA/Stable/IND A1+	Assigned

* Some limits are interchangeable between fund-based and non-fund-based limits.

Analytical Approach

Analytical Approach: Ind-Ra has fully consolidated LTIM and its subsidiaries, together referred to as the group, given the strong operational and strategic linkages among them, driven by similar business lines and common promoters.

The ratings benefits from the strategic importance of LTIM to its parent, Larsen & Toubro (L&T; ‘IND AAA’/Stable; holds 68.6%).

Detailed Rationale of the Rating Action

The affirmation reflects continued growth in the consolidated revenue in FY24 while maintaining the profitability and credit metrics at comfortable levels.

List of Key Rating Drivers

Strengths

- Established market position and strong business profile
- Continued revenue growth and profitability in FY24 and 1QFY25
- Strong consolidated credit metrics

- Strong linkages with parent

Weaknesses
- High customer and geographical concentration
- Highly competitive and dynamic operating environment

Detailed Description of Key Rating Drivers

Established Market Position and Strong Business Profile: The ratings factor in LTIM's strong market position in the technology sector, supported by its significant presence in digital technology which encompasses cloud computing, artificial intelligence, machine learning and productised end-to-end solutions, among others. Additionally, the company's diversified presence is demonstrated by its varied segments namely communications, media and technology (CMT) contributing nearly 24% to LTIM's revenue in FY24 (FY23: 24%), banking, financial services and insurance (BFSI) 36% (37%), manufacturing and resources 19% (17%), retail, travel and hospitality 15% (15%), and the balance being contributed by healthcare and life science segment (FY24: 7%, FY23: 6%). Although the agency believes the company's presence in the diversified segments will ensure a wider client outreach and help it offset any negative impact of a single segment from incremental revenue from the other segment, a significant digital presence will ensure a strong momentum in revenue growth.

Continued Growth in Revenue and Profitability in FY24 and 1QFY25: The consolidated revenue grew 7% yoy to INR355.2 billion in FY24, supported by an uptick in revenue across all the segments and geographies. The revenue also grew in US dollar terms, though at a slightly moderate rate of 4% yoy to USD4.3 billion in FY24. The group's revenue profile was supported by its two largest verticals namely BFSI and CMT which grew 5% yoy and 17% yoy, respectively, and contributed about 60% to the total revenue in FY24 (FY23: 61%). The agency believes the company's merger synergies, access to larger deals and strong deal pipeline (FY24: signed USD5.6 billion total contract value; FY23: USD4.9 billion), presence in diversified segments and a solid active client base will support healthy revenue growth over the medium term. However, any impact on demand due to macro-economic uncertainties, thereby affecting the revenue for a longer time, will remain a key rating sensitivity. LTIM's EBITDA margin moderated to 18% in FY24 (FY23: 18.4%) due to an increase in the employee cost and other business expenses; nevertheless, it remained comfortable.

During 1QFY25, the revenue from operations stood at INR91 billion (4QFY24: INR89 billion; 1QFY24: INR87 billion) with an EBITDA margin of 17.6% (17.3%; 18.8%). The revenue grew 3% qoq in 1QFY25, backed by growth in the CMT segment. Ind-Ra believes the system integration post the merger of Mindtree Limited with Larsen & Toubro Infotech Limited and the resultant synergy benefits, along with the strong market position of the company will help it to maintain the margins going ahead in line with FY24, which will also remain a key rating monitorable for the agency. Furthermore, by FYE27, the group targets an margin improvement of around 200bp, driven by merger-related cost synergies such as selling, general and administrative cost leverage, real-estate consolidation and an improvement in efficiency.

Strong Consolidated Credit Metrics: The group has robust credit metrics with a net cash position due to the minimal external bank debt levels of INR0.4 billion (INR20.7 billion including lease liabilities) against the strong cash and equivalents of INR95.7 billion at FYE24. The gross coverage (operating EBITDA/gross interest expense) was strong at about 28.8x in FY24 (FY23: 40.6x) and the gross adjusted leverage (gross adjusted debt/EBITDA) remained stable at 0.3x. During 1QFY25, the external bank debt levels stood at INR0.4 billion (INR23 billion including lease liabilities) against cash and equivalents of INR92 billion. The credit metrics are likely to remain strong over the medium term on the back of strong operating profits and low debt requirements. The agency has not factored into any major acquisition/share buyback, resulting in any long-term debt loading/significant drain in liquidity in its assessment and the same will remain a key monitorable.

Strong Linkages with Parent: L&T held a 68.60% stake in LTIM at end-June 2024 and is focused on expanding its IT and technology segment, which has a high growth potential, is asset light and provides high returns. The focus can be substantiated by a) L&T's spending of about INR100 billion, representing around 4% of its total assets in acquiring about 60% stake in e-Mindtree during FY20; b) the merger of e-LTI and e-Mindtree to reap the benefit of cross selling/upselling and cost synergies, and c) a significant contribution of IT and technology segment to the overall revenue and EBITDA of L&T. Moreover, LTIM's contribution of about 16% and 24% to L&T's overall revenue and EBITDA, respectively, in FY24, is considered sizeable and accordingly, Ind-Ra believes LTIM is a strategically important investment for L&T.

Ind-Ra considers the operational linkages between LTIM and L&T to be moderate. Both the companies have a common chairman and five of the 11 directors of LTIM also hold directorship positions in other L&T entities. LTIM's treasury operations are in line with the L&T group's treasury philosophy. Apart from the improved ability of the group to bid for larger project post the merger, the agency believes LTIM can leverage on its strong parentage in securing large deals, which will further strengthen its business profile.

High Customer and Geographical Concentration: LTIM has higher customer concentration than that faced by other tier I peers as its top five and top 10 customers contributed about 27.3% and 34.4% to the consolidated revenue in FY24, respectively. Nevertheless, customer concentration has moderated post the merger led by its increased scale and limited client overlap between e-Mindtree (FY22: top five customers accounted for 35.9% of revenue; top 10: 44.8%) and e-LTI (28.0%, 40.1%). Furthermore, comfort can be drawn from strong stickiness and healthy credit profile of its customers, which is further substantiated by comfortable trade receivable days calculated in INR terms (FY24: 59; FY23: 62).

LTIM has a high geographic concentration with North America and Europe contributing 73.2% and 15.0% to the consolidated revenue in FY24, respectively. Macro-economic uncertainties affecting North America and Europe, leading to any moderation in the revenue of LTIM, will remain a key rating monitorable.

Highly Competitive and Dynamic Operating Environment: LTIM faces intense competition from tier-1 IT players and well-established tier-2 players, which may impact its pricing/bargaining power with customers. Although the industry-wide attrition rate has moderated lately, Ind-Ra believes the demand for the right talent will remain strong over the medium-to-long term amid the rapidly changing technological environment. LTIM's ability to evolve and innovate in the dynamic environment while maintaining the cost-efficient structure over the long run is critical for maintaining its market position.

Liquidity

Superior: LTIM's liquidity position is supported by its strong cash levels, healthy cash generation ability and a moderate working capital cycle. The merger has provided access to a higher cash pool and boosted the liquidity of the group with cash and cash equivalent (comprising free cash and bank balances, and current investments) of INR95.7 billion at FYE24 (FYE23: INR76.7 billion), against no long-term bank debt and moderate lease payment obligations of around INR2.5 billion in FY24. Furthermore, the group's cash flow generation has been healthy and more than sufficient to meet its capex and dividend payment requirements in FY23 and FY24. Owing to the ongoing efforts by the group to enhance working capital management, the net working capital cycle shortened to 54 days in FY24 (receivable days (calculated in INR terms): 59, unbilled revenue days: 14 and payable days: 19) from 62 in FY23 (receivable days (calculated in INR terms): 62, unbilled revenue days: 18 and payable days: 17), which also supported strong cash generation during the year and is comfortable. After excluding the unbilled revenue, the net working capital cycle was comfortable at 40-50 days. Additionally, the working capital utilisation remains low as evident from all the fund-based limits remaining unutilised for the 12 months ended July 2024.

The ratings factor in Ind-Ra's expectation of LTIM's ability of the to continue to generate positive free cash flow over the medium term after factoring in an annual capex of 2.5%-3.5%, as per the past track record of the company. While the group may continue to distribute dividends and resort to some inorganic acquisitions, the majority of which are likely to be funded through the existing liquidity, the agency believes the overall credit profile will remain comfortable. Ind-Ra will continue to monitor any cash outflow for inorganic growth plans and/or higher-than-Ind-Ra-expected dividends.

Rating Sensitivities

Positive: Not applicable

Negative: Developments that could, individually or collectively, lead to a negative rating action include:
- a substantial reduction in the revenue and/or a meaningful decline in the EBITDA margins, both on a consolidated and sustainable basis
- any significant debt-funded acquisitions and/or higher-than-expected dividend pay-outs leading to the consolidated net leverage exceeding 1.0x on a sustained basis
- a decline in LTIM's strategic importance to its parent

Any Other Information

Standalone Financial Profile: On a standalone basis, LTIM's revenue was INR343 billion in FY24 (FY23: INR320 billion). It reported an EBITDA of INR61 billion in FY24 (FY23: INR59 billion). LTIM's total standalone debt, which mainly consisted of lease liabilities, amounted to INR19 billion at FYE24 (FYE23: INR14 billion). The interest servicing of INR2 billion in FY24 (FY23: INR1.4 billion) resulted in an interest coverage of nearly 30x (41x).

About the Company

Incorporated in 1996, LTIM, a subsidiary of L&T, is a technology solution provider, offering digital transformation and technology services to its clients spread across the globe. The company's services include cloud & infrastructure, consulting, customer success, data & analytics, digital engineering, among others.

In November 2022, Mindtree Limited was amalgamated into LTIMindtree Limited (erstwhile Larsen &Toubro Infotech Limited).

Key Financial Indicators

Particulars (INR billion; Consolidated)	FY24	FY23
Revenue	355.2	331.8
EBITDA	63.9	61.1
EBITDA margins (%)	18.00	18.41
Interest expense	2.2	1.5
Gross debt	20.7	15.4
Gross interest coverage (x)	28.8	40.6
Net leverage (x; the company is net cash positive)	NM	NM
Cash and equivalents	96.7	76.7
Source: LTIM, Ind-Ra NM: not material		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook	
	Rating Type	Rated Limits (million)	Rating/ Outlook	15 June 2023	17 March 2022
Issuer rating	Long-term	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Fund-based limits	Long-term/ Short-term	INR3,423	IND AAA/Stable/ IND A1+	IND AAA/Stable/ IND A1+	IND A1+
Non-fund-based limits	Long-term/ Short-term	INR11,990	IND AAA/Stable/ IND A1+	IND AAA/Stable/ IND A1+	IND A1+
Proposed fund- and non-fund-based limits	Long-term/ Short-term	INR287	IND AAA/Stable/ IND A1+	-	-

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator

Fund-based limits	Low
Non-fund-based limits	Low
Proposed fund- and non-fund-based limits	Low

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

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