

LTIM/SE/STAT/2023-24/76

August 30, 2023

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

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

NSE Symbol: LTIM**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 CRISIL, a Credit Rating Agency has, vide its letter dated August 29, 2023 received today (enclosed for reference), re-affirmed its ratings on the bank facilities of the Company at 'CRISIL AAA/Stable/CRISIL A1+'.

The same is for your information and record.

Thanking you,

Yours faithfully,
For LTIMindtree Limited

**(Tridib Barat)****Company Secretary and Compliance Officer**

Encl: As above



Rating rationale

LTIMindtree Ltd

Ratings reaffirmed

Rating action

Total bank loan facilities rated	Rs 1,338.5 crore
Long-term rating	CRISIL AAA/Stable (reaffirmed)
Short-term rating	CRISIL A1+ (reaffirmed)

Refer to Annexure for facility details

1 crore = 10 million

Detailed rationale:

CRISIL Ratings has reaffirmed its 'CRISIL AAA/Stable/CRISIL A1+' ratings on the bank facilities of LTIMindtree Ltd (LTIM).

The ratings factor in substantial improvement in the scale of business, post amalgamation of the two erstwhile Larsen & Toubro (L&T; CRISIL AAA/Stable/CRISIL A1+) entities - L&T Infotech Ltd (LTI) and Mindtree Ltd (Mindtree) that was completed on November 14, 2022. While revenue in fiscal 2023 has doubled to Rs 33,183 crore because of the merger, the company continues to demonstrate healthy growth in operations, estimated at ~Rs 36,000 crore in fiscal 2024. In the first quarter of fiscal 2024, the company reported Rs 8,702 crore revenue with sustained operating margin at 19%, in line with past fiscals. The company's operations have demonstrated healthy sustenance despite the IT industry facing multiple headwinds in the recent past. The financial risk profile of LTIM has also remained strong with robust liquidity position, healthy profitability and steady return on capital employed at ~ 40%.

LTIM continues to exhibit strong financial risk profile, as indicated by near debt-free balance sheet (Rs 125 crore of financial bank debt and Rs 1,415 crore of lease liabilities as of March 2023), healthy cash generating ability and robust liquidity. Furthermore, the company benefits from the strength of the L&T brand. These rating strengths are partially offset by customer and geographical concentration in revenue and exposure to risks related to intense competition in the IT services industry in India.

Revenue is expected to grow in double-digits over the medium term, with continued healthy deal wins despite macro-economic headwinds; driven by improved cross-sell, up-sell, mining of existing large clients across end-user industries and improved ability to bid for large deals. In fiscal 2023, revenue grew 27% year-on-year to Rs 33,183 crore compared to Rs 26,109 crore in fiscal 2022 (post factoring in merger-driven numbers in fiscal 2022) because of growth across sectors. Operating margin remained healthy although it moderated to 18.4% in fiscal 2023 from 20.1% last year, owing to increased employee and one-time integration costs. Operating profitability should benefit from efficiency on account of improvement in employee utilisation and balanced offshore component.

The ratings also reflect the strategic focus of the parent, L&T, on the services business. Over the years, the contribution of the services business, both in terms of revenue and profitability, has been improving. Additionally, L&T has also been leveraging the capabilities of the services segment to augment its core business. The acquisition of Mindtree by L&T in 2019, as well as the amalgamation of Mindtree with LTI bodes well for the information technology business in general and the services business in particular.

Analytical approach:

CRISIL Ratings has combined the business and financial risk profiles of LTIM and its subsidiaries, held directly or indirectly, as all the companies have common management and are in the same line of business.

Key rating drivers and detailed description:

Strengths:

Improved scale of operations, post Mindtree's successful merger into LTIM:

Amalgamation of the two erstwhile L&T entities, LTI and Mindtree, was completed on November 14, 2022. This has led to LTIM now holding the sixth position amongst IT companies in India. Operating revenue doubled post the merger and was Rs 33,183 crore in fiscal 2023 with operating margin expected to sustain at 18-20%. The combined entity has enhanced scale, diversified technical capabilities and product offerings with presence across end-user industries, geographies, and customers.

The company has an enhanced and established market position in key end-user industries and benefits from sound operating efficiency. It earned 37% of its revenue from the banking, financial services and insurance (BFSI) sector, 24% from high-tech, media and entertainment sectors, 17% from manufacturing and resources sector, 15% from retail, fast-moving consumer goods (FMCG), travel, transport and hospitality, and the remaining 7% from health, life sciences and public services diversified.

Healthy deal pipeline and increasing number of active clients provides strong growth visibility over the medium term. The number of active clients has increased from 261 as on December 31, 2017, to 728 as on March 31, 2023. With the company growing faster in digital areas and with the addition of clients, dependence on the top 5, 10 and 20 clients have been reducing gradually over the past 4-5 years – further benefiting the business risk profile.

The company has also exhibited healthy operating profitability level of more than 18% over the years, which has led to robust return on capital employed in excess of 40%.

Strong financial risk profile

The strong financial risk profile is reflected in sizeable networth of over Rs 15,000 crore as on March 31, 2023, healthy cash accrual, near debt-free balance sheet and robust liquidity (Rs 8,355.2 crore as on March 31, 2023). The company does not expect to undertake any large, debt-funded capital expenditure or acquisition over the medium term. All capacity expansions of Rs 150-200 crore is expected to be incurred through internal accrual. With ample cash surplus and minimum reliance on debt, the capital structure is expected to remain healthy in the absence of gearing over the medium term.

Strategic importance to the parent, L&T

The IT services business has become increasingly critical to the L&T group in recent years. As against the earlier stance of focusing on infrastructure and capital-intensive segments, the L&T group is now focusing on the services business, which includes financial and IT services. The revision in strategy is also a fallout of the lower-than-envisaged performance of the infrastructure business and sustained growth in the services business, which are asset-light, have healthy growth potential and offer high return on capital employed.

Over the years, the contribution of the services business, both in terms of revenue and profitability, has been improving. Additionally, L&T has also been leveraging the capabilities of the services segment to augment its core business. The acquisition of Mindtree by L&T in 2019, the initiation of the strategic initiative called L&T Nxt in the same year (taken over by Mindtree in July 2021), as well as amalgamation of Mindtree with LTI bodes well for the information technology business in general and the services business in particular.

Being an L&T group company, LTIM also benefits from the strong brand and domain expertise available within the group, resulting in better penetration and acceptability in the market. Treasury operations are supported by L&T Treasury, and critical treasury decisions are taken by the treasury committee, which consists of members from the parent and LTIM. The parent and LTIM have five common board members.

Weaknesses

Customer and geographical concentration in revenue

North America contributed 71.9% to the revenue in fiscal 2023. Any regulatory changes in the region could have a significant impact on operations. Protectionist measures adopted by the US may also pose a business challenge for the company as well as its peers. However, this is an inherent feature of most major companies in the IT services industry as a significant portion of the revenue originates from the US.

Exposure to intense competition in the IT industry

The business environment for the IT industry continues to be challenging. IT players in India will need to consistently scale up their operations, primarily on account of intense competition among themselves and from multinational corporations that are expanding their offshore operations in India. The other challenges include maintaining an efficient cost structure, ensuring effective labour retention and utilisation and remaining responsive to the dynamic nature of the industry. With digital services gaining traction, more and more companies are intensifying their focus on the digital technology space, resulting in increased competitive intensity. Given the increasing competition and pricing pressure, the ability to provide differentiated services will remain critical to maintain a competitive advantage.

Liquidity: Superior

Liquidity is robust, driven by expected cash accrual of more than Rs 4,000 crore annually over the medium term leading to further accretion to cash surplus which stood in excess of Rs 8,300 crore as on March 31, 2023. The company has remained near debt-free and is expected to remain so in the absence of any major debt-funded expansion plans over the medium term. The cash accrual

will more than sufficiently cover the incremental working capital requirement and small ticket acquisitions.

Outlook: Stable

CRISIL Ratings believes LTIM will maintain its healthy business risk profile over the medium term, supported by steady revenue growth and sound operating efficiency and the strength of the L&T brand.

Rating sensitivity factors

Downside scenario

- Significant decline in revenue and sustained fall in the operating margin to below 14%, adversely impacting cash flow
- Sizeable debt-funded acquisition, leading to material weakening of the debt protection metrics and liquidity
- Change in the strategic focus of the parent, L&T, towards the service-based business

About the company

LTIM, headquartered in Mumbai, was incorporated in December 1996. The company is a subsidiary of L&T. It provides IT services, including application, development, maintenance, enterprise solutions, infrastructure management services, testing, analytics, artificial intelligence (AI) and cognitive and other services. In January 2014, the company transferred its product engineering services division to a group company, Larsen & Toubro Technology Services ('CRISIL AAA/Stable/CRISIL A1+').

LTIM has offshore delivery centres in Mumbai, Pune, Bengaluru, and Chennai; global development centres in the US, Canada, Europe, South Africa, the Middle East and Singapore; as well as various sales offices.

On a consolidated basis, the company reported operating income of Rs 8,702 crore in the three months ended June 30, 2023 (Rs 7,644 crore in the corresponding period of the previous fiscal), with net profit of Rs 1,152 crore (Rs 1,106 crore in the corresponding period of the previous fiscal).

Key ESG highlights:

The environment, social, and governance (ESG) profile of LTIM supports its already strong credit risk profile.

The IT sector has a low impact on the environment because of the inherent nature of digital services, core operations as well as products. The sector has a social impact because of its large workforce. LTIM has focused on mitigating its environmental and social impact.

- LTIM has laid out its ESG vision and strategy with a focus on achieving net zero by 2040. Projects were taken up to improve energy efficiency in existing buildings as well as through retrofits
- In fiscal 2023, 52.07% of LTIM's energy requirement has been met by renewable sources

- The company has 40% women in the workforce and aims to have 15% women in leadership by 2030. The company is also recognised as one of the Top Employers and Great Place to Work
- It has a strong governance structure with 50% of its board comprising independent directors and extensive disclosures

There is growing importance of ESG amongst investors and lenders. LTIM's commitment to ESG principles will play a key role in enhancing stakeholder confidence, given its high share of market borrowings in its overall debt and access to both domestic and foreign capital markets.

Key financial indicators (consolidated)

Particulars	Units	2023	2022
Operating income	Rs crore	33,183	26,109
Profit after tax (PAT)	Rs crore	4410	3950
PAT margin	%	13.3	15.1
Adjusted gearing	Time	0.01	0.01
Interest coverage	Time	44.3	48.7

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Bank guarantee	NA	NA	NA	22	NA	CRISIL A1+
NA	Bank guarantee	NA	NA	NA	175	NA	CRISIL A1+
NA	Bank guarantee	NA	NA	NA	25	NA	CRISIL A1+
NA	Bank guarantee	NA	NA	NA	100	NA	CRISIL A1+
NA	Bank guarantee	NA	NA	NA	150	NA	CRISIL A1+
NA	Bank guarantee	NA	NA	NA	75	NA	CRISIL A1+
NA	Bank guarantee	NA	NA	NA	40	NA	CRISIL A1+

NA	Bank guarantee*	NA	NA	NA	150	NA	CRISIL AAA/Stable
NA	Cash credit/Overdraft facility	NA	NA	NA	10	NA	CRISIL AAA/Stable
NA	Export finance limit	NA	NA	NA	25	NA	CRISIL A1+
NA	Foreign exchange forward	NA	NA	NA	375	NA	CRISIL A1+
NA	Overdraft facility	NA	NA	NA	5	NA	CRISIL AAA/Stable
NA	Overdraft facility	NA	NA	NA	65	NA	CRISIL AAA/Stable
NA	Packing credit	NA	NA	NA	2.5	NA	CRISIL AAA/Stable
NA	Working capital demand loan	NA	NA	NA	20	NA	CRISIL A1+
NA	Working capital facility	NA	NA	NA	20	NA	CRISIL A1+
NA	Working capital facility#	NA	NA	NA	79	NA	CRISIL A1+

* - Partially fungible with fund-based facility (overdraft/packing credit) to the extent of Rs 70 crore

- Partially fungible with non-funded lines to the extent of Rs 26 crore

Annexure - List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
LTIMindtree Canada Ltd	Full	Common management, similar line of business, business synergies, and common promoters
LTIMindtree GmbH	Full	Common management, similar line of business, business synergies, and common promoters
LTIMindtree LLC	Full	Common management, similar line of business, business synergies, and common promoters
LTIMindtree Financial Services Technologies Inc.	Full	Common management, similar line of business, business synergies, and common promoters
LTIMindtree South Africa (Proprietary) Ltd	Full	Common management, similar line of business, business synergies, and common promoters
LTIMindtree Information Technology Services (Shanghai) Co. Ltd.	Full	Common management, similar line of business, business synergies, and common promoters
LTIMindtree Spain, Sociedad Limitada	Full	Common management, similar line of business, business synergies, and common promoters
LTIMindtree S.de. RL. C.V	Full	Common management, similar line of business, business synergies, and common promoters
LTIMindtree NORGE AS	Full	Common management, similar line of business, business synergies, and common promoters

LTIMindtree UK Ltd	Full	Common management, similar line of business, business synergies, and common promoters
LTIMindtree Middle East FZ-LLC	Full	Common management, similar line of business, business synergies, and common promoters
Syncordis S.A.	Full	Wholly owned subsidiary
Syncordis Support Services S.A.	Full	Step down subsidiary
Syncordis Ltd, UK	Full	Step down subsidiary
Syncordis France, SARL	Full	Step down subsidiary
NIELSEN+ PARTNER UNTERNEHMENSBERATER GMBH	Full	Wholly owned subsidiary
Nielsen+ Partner Unternehmensberater AG	Full	Step down subsidiary
NIELSEN+ PARTNER PTE. LTD	Full	Step down subsidiary
NIELSEN & PARTNER Pty Ltd	Full	Step down subsidiary
NIELSEN & PARTNER COMPANY LTD	Full	Step down subsidiary
RULETRONICS LTD	Full	Step down subsidiary
RULETRONICS SYSTEMS INC.	Full	Wholly owned subsidiary
Lymbyc Solutions Private Ltd	Full	Step down subsidiary
Lymbyc Solutions Inc	Full	Wholly owned subsidiary
Powerupcloud Technologies Private Ltd	Full	Wholly owned subsidiary
Cuelogic Technologies Inc	Full	Step down subsidiary
Cuelogic Technologies Private Ltd	Full	Wholly owned subsidiary
Mindtree Software (Shanghai) Co., Ltd	Full	Wholly owned subsidiary

Annexure - Details of various bank facilities

Facility	Amount (Rs crore)		Rating
Bank guarantee	40	Kotak Mahindra Bank Ltd	CRISIL A1+
Bank guarantee	25	Bank of Baroda	CRISIL A1+
Bank guarantee	75	HDFC Bank Ltd	CRISIL A1+
Bank guarantee	150	Union Bank of India	CRISIL A1+
Bank guarantee	22	Citibank N. A.	CRISIL A1+
Bank guarantee	175	The Hongkong and Shanghai Banking Corporation Ltd	CRISIL A1+
Bank guarantee	100	ICICI Bank Ltd	CRISIL A1+
Bank guarantee ^{&}	150	Standard Chartered Bank Ltd	CRISIL AAA/Stable
Cash credit/ Overdraft facility	9.5	Axis Bank Ltd	CRISIL AAA/Stable

Cash credit/ Overdraft facility	0.5	Axis Bank Ltd	CRISIL AAA/Stable
Export finance limit	25	JP Morgan Chase Bank N.A.	CRISIL A1+
Foreign exchange forward	375	State Bank of India	CRISIL A1+
Overdraft facility	5	ICICI Bank Ltd	CRISIL AAA/Stable
Overdraft facility	65	HDFC Bank Ltd	CRISIL AAA/Stable
Packing credit	2.5	The Hongkong and Shanghai Banking Corporation Ltd	CRISIL AAA/Stable
Working capital demand loan	20	American Express Bank Ltd	CRISIL A1+
Working capital facility [^]	79	Citibank N. A.	CRISIL A1+
Working capital facility	20	BNP Paribas Bank	CRISIL A1+

**Partially fungible with fund-based facility (Overdraft/Packing credit) to the extent of INR 70 Crore*

#Partially fungible with non-funded lines to the extent of INR 26 Crore