

Mindtree: hostile takeover bid by Larsen and Toubro

Sudhir Naib and Swati Singh

“I am sure there are enough well-wishers of the industry of Mindtree, who will not let this happen. This industry is a national resource. What happens to Mindtree today will create a historic precedent. I am sure the regulators, the government, the industry fathers and mothers, and thought leaders will come in at this moment of difficulty and make sure that corporate India does not do something which will dissuade the generations to come from doing right things the right way.” Subroto Bagchi, Co-founder-Mindtree (on March 19, 2019) ([Prasad and Mendonca, 2019](#)).

Sudhir Naib is based at the Department of Management, Bharatiya Vidya Bhavan, New Delhi, India. Swati Singh is based at the Department of MBA, Bharatiya Vidya Bhavan, New Delhi, India.

Introduction

On March 18, 2019, Larsen and Toubro (L&T) Limited, India's leading technology, engineering, construction and manufacturing conglomerate entered into a share purchase agreement (SPA) with V. G. Siddhartha (Siddhartha) and his related entities, namely, Coffee Day Trading Limited and Coffee Day Enterprises Limited to acquire 20.32 per cent stake in Mindtree, a global information technology (IT) and technology consulting company ([L&T Press Release, 2019](#)). Siddhartha was Mindtree's single-largest investor. L&T planned to purchase this stake at a price of 980 per share^[1], amounting to about INR 32.69bn. Immediately after filling the public announcement, L&T placed an order with its broker Axis Capital for on-market purchase of up to 15 per cent of the share capital of Mindtree at a price not exceeding INR 980 per share ([Laskar, 2019](#)). Pursuant to execution of the SPA, and this market order for share purchase from secondary market, it would trigger an open offer to all shareholders as per Securities and Exchange Board of India (SEBI) takeover regulations. L&T offered to purchase up to an additional 31 per cent of the outstanding shares at a price of INR 980 per share from all the public shareholders of Mindtree ([Prasad, 2019](#)). If this happened as planned, L&T would have two-third of shareholding in the IT services company.

Mindtree promoters condemned and remained unconditionally opposed to the reported L&T takeover bid and highlighted its harmful impact on the company's culture, customer relationships and employee morale. The total shareholding of promoters and promoter group was 13.32 per cent as on March 2019 ([ET Bureau, 2019a](#)). Faced by such a public dissent by Mindtree promoters, L&T dismissed the criticism of the takeover and attempted to pacify the stakeholders by justifying the move as a win-win deal for both parties ([Prasad and Mendonca, 2019](#)). As Krishnakumar Natarajan, Chairman Mindtree and its management grappled to find ways to prevent the takeover bid by L&T, they were plagued by many questions. Was it possible to stop L&T from taking control with promoters holding limited to just 13.32 per cent stake? If L&T succeeded in its plan to take control of Mindtree, should the co-founders stay in the company, which they created 20 years back or quit? L&T faced a totally different predicament if the Mindtree co-founders remained opposed to L&T

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deal or quit, how could it retain Mindtree minds and its customers in the hostile environment that had been created?

Information technology industry in India

India's IT industry contributed around 7.9 per cent to the country's GDP and employed about 4 million people in 2018. India was the largest and fastest-growing IT and IT enabled services sourcing destination across the world, contributing approximately 55 per cent market share (US\$185-190bn) global services sourcing business in 2017-2018 (Government of India, Ministry of Electronics & Information Technology, Software & Services Sector, 2019). Indian IT export was US\$126bn, while domestic revenue was US\$41bn, making a total revenue of US\$167bn in financial year (FY) 2018 ([Government of India, India Services-IT & ITES, 2019](#)).

Key players in the takeover

Larsen and Toubro –the acquirer

L&T was an 80 years old company, which was established in Mumbai before the Second World War by Henning Holck-Larsen, a chemical engineer specializing in cement technology and Soren Kristian Toubro, a civil engineer. As Shashank Shah (2019) noted in LinkedIn on October 6, 2017 "the story of L&T construction company," the two Danes arrived on Indian shores in 1934 and set up a partnership firm that came to be known as L&T. In 1948 L&T became a limited company and got listed on Bombay Stock Exchange (BSE) in 1952. Over the years the Danish leadership reduced their hands-on-involvement in the company's activities and post 1974 as expatriate managers left the company, senior Indian managers became directors ([Shah, 2019](#)).

According to L&T's annual report for FY 2018, it was a US\$18bn diversified conglomerate with operations across ten segments—infrastructure, thermal power generation, power transmission and distribution, hydrocarbon, heavy engineering, electrical and automation, realty, IT and technology services, financial services and development projects ([Larsen & Toubro, 2019a](#)). In 2012, one of L&T's most iconic leaders Anil Manibhai Naik became its Group Executive Chairman, and under him, the consolidated gross revenues rose from INR 70.66bn in FY 2000 to INR 1.02tn in FY 2016 ([Larsen & Toubro, 2019b](#)). Naik, who joined L&T in 1965, was credited with having thwarted two hostile takeover attempts, the first by Reliance Industries in 1989 and the second by Aditya Birla Group in early 2000s ([PTI, 2019a](#)). L&T ring fenced itself by creating L&T Employee Welfare Foundation Private Ltd in May 2004 ([FE Online, 2019](#)), whose holding in L&T was 12.47 per cent in FY 2019 ([Larsen & Toubro Shareholding, 2019](#)). In July 2017, S.N. Subrahmanyam became Chief Executive Officer (CEO) of L&T after Naik's retirement. Upon the board's request Naik continued as the Non-Executive Chairman of the company ([Pillay, 2019](#)). L&T had earlier attempted to acquire Satyam Computer Services in the year 2009, but the bid was thwarted by Tech Mahindra ([TNN, 2019](#)). In January 2019, SEBI denied permission to L&T for an INR 90bn share buyback program as it was found not to be in compliance with the Companies Act, 2013 and SEBI regulations, which stipulated that total debt owed by a company would not be more than twice the paid-up capital and free reserves after the buyback ([Sonavane, 2019](#)). L&T decided to make an aggressive attempt to acquire Mindtree. The purchase would give L&T the desired scale in IT industry where it already had presence through L&T Infotech (LTI) and L&T Technology Services.

Larsen and Toubro Infotech Limited

L&T was attempting the takeover of Mindtree directly but it was LTI whose business was similar to that of Mindtree. It was believed that L&T would merge LTI and Mindtree in the

near future. As stated in the LTI – company history, it was founded in 1997 as a wholly owned subsidiary of L&T and its name was changed to LTI Ltd during 2001-2002. Subsequently, it rebranded itself as “LTI” in May 2017. It had a global presence, which included 23 software development centers and 44 sales offices (Business Standard, 2019). LTI closed FY 2019 with a revenue of US\$1.35bn, a growth of 20.9 year on year per cent, with about 28,000 employees (Thomson Reuters Street Events, 2019; LTI, 2019).

Mindtree-the target

Mindtree Consulting Private Limited was founded in August 1999 (Business Standard, 2019). It was initially funded by venture capital firms Walden International and Sivan Securities and later by Capital Group and Franklin Templeton in 2001. Mindtree became a public company in February 2007 and changed its name to Mindtree Limited in 2008 (ET Markets, 2019a) and announced a new brand identity and logo in 2012 (Phadnis, 2019a). In an era where enterprises were sharply focused on using digital technologies, Mindtree positioned itself based on its heritage of being “born digital,” a consulting led firm and building successful long-term relationships with its clients (Mindtree, 2019b).

Mindtree achieved an annual revenue of over US\$1bn for FY 2019 (Variyar, 2019), a target it had set for itself to reach by 2012 (Sengupta and Nandakumar, 2019). Rostow Ramanan, CEO and Managing Director (MD) of Mindtree had stated that “over the course of two decades our strategy of being expertize-led and backed by a unique culture continues to help us attract world-class people and create customer successes... Our ability to consistently grow significantly faster than the sector is a reflection of the investments we have made to align with technology trends disrupting our industry. We are well-poised to continue delivering industry leading returns for all our stakeholder, the best is yet to come” (ETMarkets.com, 2019b).

In March 2019, Mindtree had over 20,000 “Mindtree minds” (of which 95 per cent were software professionals) from 70 nationalities of which 31 per cent were women employees. The company also had 576 robots, offices spread across 17 countries and 349 clients with the top client accounting for about 20 per cent of its business. The revenue per cent by geography was: USA (73.6), Europe (18.5), India (3.7) and Rest of World (4.2) (Mindtree Ltd, 2019). In the year 2019, ISG a leading global technology research and advisory firm in its ISG Provider Lens Quadrant Report 2019 named Mindtree as a *Rising Star for its MWATCH™* integration platform in the service operation and delivery quadrant in the USA (See Exhibit 1 or Financials FY 2019 of LTI, Mindtree and L&T).

Mindtree taking roots

Bengaluru, a southern Indian metropolitan city had often been referred to as the silicon valley of India. Leading global leaders in digital services and consulting – Infosys (established in 1981) and Wipro (entry in IT in 1982) were head-quartered there (NDTV, 2019). Mindtree was set up by 10 IT professionals who came from Wipro Ltd, Cambridge Technology Partners Inc. and Lucent Technologies. It was their collective vision and ambition to establish a new kind of software company (Khanna and Sood, 2019).

Ashok Soota, the Vice-Chairman of Wipro’s IT services business had successfully steered the transition of Wipro from manufacturing of PCs and minicomputers in the 1980s to providing software services (Babu, 2019). In February 1999, he informed Azim Premji, Chairman Wipro about his decision to leave the company to start something new. Soota began hunting for seed capital to start his own business. Unknown to him, Subroto Bagchi, once the Chief Executive, Wipro Global R&D who quit in 1998 to join Lucent Technologies was also toying with idea of a high-end software consultancy. The two men were brought together by a partner at a venture capital firm in the USA, Walden International in March

1999 (Landler, 2019). Later, eight other friends came on board: Ashok Soota was to be the chairman of the company (Khanna and Sood, 2019).

With US\$8m from Walden and an Indian venture firm Sivan Securities (later renamed as Global Technology Ventures (GTV) – promoted by Siddhartha, founder Café Coffee Day), and US\$1.4m put together by Soota and other co-founders, Mindtree was launched on 18 August 1999. The company started operations in Bengaluru from a small office space provided by their first investor Siddhartha. At the same time, a small office was set up in Somerset, NJ in the USA (Mindtree Consulting, 2019).

Putting teams together

The vision of Mindtree founders was to build a company with two areas of specialization – enterprise and technology. On the enterprise side, it planned to provide e-business consulting and implementation, while on the technology side, it wanted to provide product realization services in the networking domain (Mindtree Consulting, 2019).

N. R. Narayana Murthy, Chairman of Infosys, India's flagship software company, said, “by inserting themselves (Mindtree) at a higher level in the value chain, they are creating a mindset in the company. The question is whether they will have credibility. Where do they get the experience to do higher-level work for clients?” (Landler, 2019).

The formative years: 1999-2003

The first major client breakthroughs for Mindtree in the USA came from Lucent, Avis and Franklin Templeton Investments. In India, their first customer was Fabmart and then came Hindustan Lever, Unilever's India subsidiary. Ramesh Krishnamurthy of Hindustan Lever had said, “the names behind Mindtree were associated with unimpeachable integrity and so he would go for it” (Mindtree Consulting, 2019). From the start, Mindtree behaved differently. The founders pledged to donate 3 per cent of after-tax profits on issues related to education, livelihood generation and supporting development of people who were differently-abled (Landler, 2019). The company's different take on philanthropy was a part of a broader business strategy, which they hoped would help them attract a certain kind of employee and a certain kind of customer.

Funding

In 2001, Mindtree prepared for the next level of growth and geographic expansion for which it needed a second round of funding. Mindtree founders settled on the lead investors-Capital Group and the co-investors that included Franklin Templeton. It raised close to US \$15m (Khanna & Sood, 2019). After having raised over US\$24m, Mindtree went public in March 2007 (Khanna & Sood, 2019). The IPO was oversubscribed more than 100 times (PTI, 2019b). Mindtree's total shareholder return over the period of March 2007 (from IPO) to March 2018 was 15.7 per cent per annum (ETMarkets, 2019).

Shared values and culture

Mindtree at its inception was a milieu of talent from a host of different entities, each capable and sought after in their own respective areas of expertise. The challenge was, therefore, to bring fusion amongst the overly capable people with different pasts and different styles. The consulting people's style was that of authority and confidence, while software development people were understated and deferential. Professor Jukka Laitamakki of Fordham University, NY and professor Vipin Chandra of Massachusetts Institute of Technology (MIT) visited Mindtree office in Bengaluru. During discussions, they were asked how Mindtree could “manage culture.” Laitamakki responded “you do not manage culture. You focus on building values and insist that people who work in Mindtree share those values. You leave

culture alone as long as you have shared values.” When he asked, “so what are your values? The room was silent ([Mindtree Consulting, 2019](#)).

The inability of the people in the room to recall the individual values deeply concerned Ashok Soota the Chairman of Mindtree (the six values that were articulated while conceptualizing Mindtree were as follows: lower total cost of ownership for customers, teamwork, learning, shared wealth creation, social sensitivity and integrity). Soota saw the need to go back to Mindtree minds to seek their inputs on what the value system of the organization should be. He felt that being a company with less than 500 employees, all were founders in some sense and everyone must be made a part of the value creation process, only then values would get internalized. After several rounds of discussion in the next few months, a new set of values were articulated: caring, learning, achieving, sharing and social sensitivity (acronym CLASS). Each value was expanded to convey its meaning and in-turn required certain behavior from each Mindtree mind. It was believed that if people lived the values, the culture would take care of itself ([Mindtree Consulting, 2019](#)).

In August 2003, KPMG assessed Mindtree to be Level 5 of people capability maturity model (PCMM) after a detailed survey of 40 per cent of all employees globally. PCMM was a testament to its people-oriented processes. Fordham University of New York did Mindtree’s third annual employee perception survey in 2003, 90 per cent of Mindtree minds across the world said it was a great place to work ([Mindtree Consulting, 2019](#)).

Bagchi said that at Mindtree, the visibility of a leader who draws attention to self is discouraged. In Mindtree’s many public spaces, like the cafeteria or work areas, one cannot determine by looking around the room who is the leader. Further, “no one addresses anyone as “sir” or “madam.” We decided everyone will be called a Mindtree Mind. We all are a Mindtree first, a role next, a title thereafter [. . .] No separate toilets for top management in any Mindtree office, no private dining areas except for visiting customers, the Chairman, the CEO and the chief operating officer (COO) share one open space of a room. No separate parking slots,” said Bagchi. Further, he added, “when Mindtree minds visit a washroom in any Mindtree campus, they see a small sign, which reads’, a human being cleans after me. Let me be considerate.” This culture of consideration and respect was best exemplified in a tradition kept alive for 20 years. “Mindtree has lower attrition of 12-13 per cent in an industry where upwards of 20 per cent is par for course. This, in turn, has a direct impact on customer satisfaction.” Said [Bagchi \(2019\)](#).

Ups and downs and co-founders leaving

Over the years, Mindtree too saw its share of ups and downs. During the financial crisis of 2008, the senior management, led by the founders, agreed to take salary cuts. While the salaries of senior management were cut by 20-25 per cent, mid-level managers agreed to a 10 per cent cut. However, Mindtree overcame these external environment threats as there was an excellent rapport between the founding team and the key investors, the two Vice-Chairman’s (VCs) in Walden Software and Siddhartha ([Khanna and Sood, 2019](#)). In 2009, Mindtree acquired the R&D unit of Kyocera Wireless India for US\$8m in an attempt to foray into making mobile handsets. Mindtree had no experience in managing a product business but Soota was hoping it would help add US\$100m in revenue before 2014. In 2010, the company terminated the products business to focus only on services. Besides, the money that was sunk in the project, the company’s reputation took a major beating ([Jayashankar, 2019](#)). In March 2011, Soota left Mindtree to set up a new company *Happiest Minds Technologies* and subsequently sold his shares to Siddhartha, whose ownership increased to 20.32 per cent ([ET Bureau, 2019b](#)). According to co-founder Janakiraman, “Ashok was our godfather. He anchored the team. He was the first to have a 360-degree appraisal for leaders and brought best-in-class human resource processes.” To ensure continuity in the organization, Soota had laid the foundation for succession planning, identifying shadow leaders and who they would shadow ([Phadnis, 2019a](#)). Soota’s exit was followed by a

number of co-founders leaving the company. Subroto Bagchi, who was Executive Chairman of Mindtree from 2012 to 2016, having completed his tenure, joined Odisha Skill Development Authority, a government body, as chairman in May 2016 ([Mindtree, 2019c](#)).

Mechanics of Mindtree acquisition

Mindtree and V. G. Siddhartha

The Mindtree story was closely tied with Siddhartha promoter of Coffee Day Group. Siddhartha, along with his two group companies – GTV and Coffee Day Resorts was the single-largest shareholder in the company has increased stake to 20.41 per cent in 2018. In end of December 2018, BSE data showed, Siddhartha held 3.33 per cent stake and Coffee Day Enterprises and Coffee Day Trading carried a combined 17.08 per cent stake in Mindtree ([Kapoor, 2019](#)).

In March 2018, Siddhartha discontinued from his position of non-executive director of Mindtree, it was said that he wanted to focus more on his coffee business. However, Siddhartha's action triggered speculation that he was looking to sell his stake. Siddhartha had informed the Mindtree founders in September 2018, about his proposed exit. The Mindtree founders heard him out but opposed any deal with a peer such as LTI. Instead, they suggested selling blocks in the secondary market or to a clutch of private equity (PE) investors with no board seat or rights ([Barman et al., 2019](#)). L&T was regarded by the founders with suspicion and as inimical to the company's culture. A friendly PE was the safer choice, they felt ([Barman et al., 2019](#)). According to Ramanan, CEO and MD Mindtree "hostile takeover do not make any sense in our industry. It is a highly people-oriented business and I am not worried about it right now. The media speculation on it has spiked right now based on what you are hearing. The situation on the ground has not changed" ([Kurian and Phadnis, 2019](#)).

In an interview in January 2019, to the question, "are you dismissing any possibility of a hostile takeover? How is your relationship with Siddhartha now?" Natarajan, Executive Chairman, Mindtree had replied, "our relationship with Siddhartha is very cordial. He also believes that he is the creator of the company. While, as founders of the company, we have a lot more emotional attachment with it, Siddhartha also has an equal level of commitment because in a way, he has also grown with Mindtree. We are confident Siddhartha will not do anything to disrupt the company" ([Mohapatra, 2019d](#)).

The promoters had a 13.37 per cent stake in Mindtree while public shareholding was 86.68 per cent. (See [Exhibit 2](#) for details of shareholding on March 31, 2019). Over the years, the promoter's shareholding had fallen and Institutions shareholding had increased ([Exhibit 3](#)) ([Kurian and Phadnis, 2019](#)).

Mindtree's search for a white knight

The Mindtree management's search for a benign buyer for Siddhartha's stake did not make any headway after discussions with American PE company KKR, Baring Private Equity and Canada's Fair Fax Holdings. The newspaper reports pointed to L&T as a potential buyer ([Barman et al., 2019](#)).

Naik, L&T Group Executive Chairman in an interview with a television channel on January 28, 2019 said that L&T was looking at acquiring a stack in Mindtree but it was one of the many options the firm was evaluating as an acquisition target. Sensing the threat by late January 2019, Mindtree founders intensified their search for a white knight. Natarajan met bankers, PE funds and corporate in Mumbai. Investment bank Avendus was brought in as an adviser to plan the defense. Several approaches were said to have been made to leading family offices, and Avendus resumed discussions with Baring, KKR and Chryscapital ([Arakali, 2019](#)).

Mindtree was an attractive buy “\$1bn revenue insight and approximately 50 per cent of revenue coming from digital services are the most attractive elements of Mindtree,” wrote Ray Wang, principal analyst and founder of constellation research, which advised businesses on their technology strategies. “Mindtree is growing at twice the industry’s growth rate and the company’s revenues from digital services are growing at twice its overall revenues. Services vendors are looking to accelerate revenue from digital offerings as the traditional segments are shrinking and are highly commoditized. While most vendors average between 25 and 35 per cent for the proportion of revenue from digital services, Mindtree’s 50 per cent stands out,” said Wang ([Arakali, 2019](#)).

Larsen and Toubro’s hostile takeover bid

On Sunday evening, March 17, 2019, Siddhartha texted Mindtree’s Executive Chairman Natarajan in Bengaluru about his deal with L&T Ltd. An agitated Natarajan, who knew that the company risked an ownership change, spoke to Subroto Bagchi. Bagchi tweeted at 8.37 pm, “an imminent threat of a hostile takeover of Mindtree has made me resign from the government to be able to go, save the company. I must protect the Tree from people who have arrived with bulldozers and saw chains to cut it down so that in its place, they can build a shopping mall” ([BusinessToday.In, 2019](#)). Seven minutes later, he tweeted again, “Mindtree has not been designed as an ‘asset’ to be bought and sold. It is a national resource. It has a unique culture that humanizes the idea of business. It sets the standards of corporate governance. I need to be there in its time of difficulty. Hence, the hard decision to return” ([BusinessToday.In, 2019](#)).

On Monday, March 18, 2019, L&T entered into a SPA with V. G. Siddhartha and his related entities, namely, Coffee Day Trading Limited and Coffee Day Enterprises Limited to acquire 20.32 per cent stake in Mindtree, L&T would purchase this stake at a price of INR 980 per share, amounting to about INR 32.69bn. Immediately after filling the public announcement, L&T placed an order with its broker, Axis Bank for on-market purchase of up to 15 per cent of the share capital of Mindtree at a price not exceeding INR 980 per share ([L&T Press Release, 2019](#)). Pursuant to execution of the SPA, and this market order for share purchase from secondary market, it would trigger an open offer for acquisition of equity shares from shareholders of Mindtree as per SEBI takeover regulations. According to SEBI norms, when the acquirer holds 25 per cent stake in the target company, it has to mandatorily make an open offer for shareholders ([Mohapatra, 2019c](#)). L&T offered to purchase up to an additional 31 per cent of the outstanding shares at a price of INR 980 per share from all the public shareholders of Mindtree ([Mendonca, 2019](#)).

In a joint company statement issued on March 18, 2019, the Mindtree co-founders, stated, “the hostile takeover bid of Mindtree by L&T is a grave threat to the unique organization we have collectively built over 20 years. We have a differentiated corporate with 20,000 Mindtree minds around the world. A hostile takeover by L&T, unprecedented in our industry, could undo all of the progress we have made and immediately set our organization back. We do not see any strategic advantage in the transaction and strongly believe that the transaction will be value destructive for all shareholders. Our collective success depends on building and nurturing relationships with our clients and partners. This unexplainable transaction will bring disruption to those relationships [...] We believe that culture needs to be carefully created and nurtured over time cannot be bought and sold like any asset [...]” (ET Bureau, 2019). L&T top management hurriedly called a press conference on March 19, 2019 and maintained that the company’s bid to acquire a controlling stake in Mindtree should not be seen as hostile attempt but a business decision taken in the best interests of its shareholders. It reiterated that Mindtree would be run as an independent listed entity, at least in the short to medium run. “We are not planning integration, but I cannot say what will happen in the future. Things keep changing with time,” said S. N. Subrahmanyam, CEO and MD of L&T ([Mohapatra and Majumdar, 2019](#)).

Subrahmanyam further clarified that “it was through a mutual friend that Siddhartha whom I knew a long time back came and contacted me and said S. N. Subrahmanyam, I have 21 per cent, would you like to take a look at it. We were neutral at that time because we had not thought about anything like that. However, then he kept on persuading me and pursuing [...] at one point in time, when somebody comes three-four times [...] one started looking at it.” “He then met with Mindtree management a few times and tried to convince them about the acquisition but emotions got the better of them and they did not agree to the proposition” (Thomas, 2019). A few hours later, after the press meet of L&T, the co-founders of Mindtree also held a press conference on March 19, 2019, and asked five questions from L&T, which inter-alia included “you are 18 times our size. Why cannot you build a great technology business with all your resources and capability without decimating another organization... If companies like you behave with extreme hostility to first-generation entrepreneurs what message are you giving to all start-ups in the country” (Rao, 2019b).

L&T offered to retain Krishnakumar Natarajan as the Executive Chairman of Mindtree if it acquired controlling stake in the mid-tier IT service firm. Naik also reiterated that it was not a hostile bid as the Mindtree shareholder had approached L&T first (CNBCTV18, 2019). L&T Chairman AM Naik, in an interview with CNBC-TV18, said that “the group will consider a merger if Mindtree promoters want to exit. However, there were no merger plans anytime in the near future.” Naik said that “we are not buying but investing in Mindtree. L&T is aiming to be among the top seven IT players in the country. ... We want to reduce our weight age on engineering, power and construction, it is a highly risky business and the net profit is 5 per cent. Services business whether it is technology, engineering, financial services or IT – the net profit is 15-16 per cent, three times more” (CNBCTV18, 2019). L&T justified the takeover of Mindtree as a win-win for both parties as the varied core expertise of LTI and Mindtree would have a synergistic effect. The company said that LTI did not have exposure to the travel and hospitality sector, which Mindtree had while Mindtree had not made inroads into energy and utility (Mendonca and Pramanik, 2019). In a newspaper report on May 10, 2019 it was stated that L&T management had stuck to original the plan to complete LTI merger with Mindtree by 2023 (PM and Barman, 2019).

A major puzzling question was why Siddhartha had not sold back his shares to Mindtree or friendly investors? Also, “one of the puzzling questions in this saga is why PE players who have been fairly active in the Indian IT services space (through deals involving Mphasis and Hexaware) have not stepped up and partnered with the (Mindtree) management,” said Girish Pai, head of research at Nirmal Bang in a note on March 20, 2019 (Krishnan and Mendonca, 2019).

Larsen and Toubro offer price of INR 980 per share of Mindtree

“The pricing has no bearing with respect to what we think, still it is our belief that the current offer is not good enough and undervalues the company,” said Natarajan.” What I would like to state is our 52-week high is INR 1,183 (per share), the deal has happened at INR 980,” Natarajan said. L&T stuck to this price saying they had considered all material facts before deciding against a higher offer price (Krishnan and Mendonca, 2019). The Mindtree stock had traded on an average of 16.5 times over the past five years and the offer given by L&T was at 21 times its earnings (Phadnis, 2019b).

Culture of Mindtree and Larsen and Toubro

The co-founders of Mindtree were not happy with the idea of an L&T takeover as they felt the two companies had very different cultures. Pankaj Chandra, former director, Indian Institute of Management, Bangalore and earlier independent director on the Mindtree board said, “wanting to keep Mindtree separate is an implicit recognition of Mindtree's cultural uniqueness and a prayer to the winds of time by L&T. ... One salient by-product of unique

cultures is that they allow you to build unique capabilities. Mindtree gave India the Aadhaar engine and unique intellectual property-driven solutions like Bluetooth stacks. The list is long [...] (where else would you find all founders sitting as one in a single, relatively small, open office), it is a culture of seamless invigoration and its can-do attitude. The value of curiosity, courage and responsibilities ingrained in the culture from the day a young graduate enters Mindtree Kalinga, Mindtree Global Learning Center that takes pioneering immersive learning to the next level" (Chandra, 2019).

Ray Wang, principal analyst and founder of constellation research was of the view that clashing cultures would likely not be an issue "Mindtree's argument about cultural compatibility is a nonstarter. Both LTI and Mindtree are in a similar business with similar client culture and service offerings. While there may be minor cultural differences, both operate within the overall "cultural context of India IT." Hence, cultural integration is unlikely to be a very critical challenge. Of course, the method of acquisition has a bearing on subsequent integration." Hostile takeovers "are toughest to integrate," said Phaneesh Murthy, founder Primentor (ET Contributors, 2019).

Larsen and Toubro tightens grip over Mindtree

Mindtree board met on March 20, 2019, as per an earlier notified meeting to consider a share buyback proposal but did not take decision and asked for more details on the legal and commercial aspects. The corporate governance experts had earlier opined that Mindtree could not pursue a buyback plan in view of restrictions placed by Sebi regulations. "The moment an open offer is announced, the company cannot go ahead with a buyback plan at the board level," said Shriram Subramanian, MD at InGovern Research Services, a proxy advisory services firm (ET Bureau, 2019c).

Mindtree board met on March 26, 2019, and decided not to proceed with a buyback. Further, it decided to constitute the committee of independent directors in the interests of all stakeholders to provide their reasoned recommendations in respect of the unsolicited offer by L&T (Rao, 2019a).

Natarajan, Executive Chairman, Mindtree after the board meeting on March 26, 2019, sounded a conciliatory note, expressing willingness to sit on the negotiating table. "There can be a middle ground to protect the interests of our customers and shareholders. We do not have any ego (issue) with that," he said (ET Online, 2019). Mindtree board of directors met on April 17, 2019, to consider financial earnings, as well as to decide on the declaration of an interim and or special dividend.

Mindtree announced that it had crossed US\$1bn revenue for FY 2019, and declared an interim dividend of 30 per cent (INR 3 per equity share of par value of INR 10 each), which would be paid before May 10, 2019. It also decided to pay final dividend of 40 per cent (INR 4 per share) and a special dividend of 200 per cent (INR 20 per equity share) – a proposal subject to shareholders' approval at the firm's annual general meeting (AGM). The special dividend was to celebrate the two achievements, the first of exceeding US\$1bn annual revenue milestone and the second of the 20th anniversary of the company (Special Correspondent, 2019). Given the company has about 160 million shares, the special dividend at INR 20 a share alone will translate to a cash payment of about INR 3.2bn said Rostow Ramanan, CEO and MD, Mindtree (Special Correspondent, 2019). Mindtree had about INR 2.56bn as cash and cash equivalents and INR 31.42bn in reserves and surpluses. The dividend was to be paid out of this money (PM and Barman, 2019).

A large dividend would render L&T's acquisition more expensive as it would deplete Mindtree's cash, and hence, impact L&T's assessment of the company's value, which currently stood at INR 980 per share. L&T could, however, adjust the open offer price if Mindtree's dividend per share was more than 50 per cent higher than the average of the

dividend per share paid during the three financial years preceding the date of the public announcement (Katran, 2019).

According to data available at the BSE, L&T bought 32.7 million shares held by Siddhartha and Coffee Day Trading Ltd on April 30, 2019. It amounted to around 20 per cent stake of Mindtree and cost L&T about INR 32bn.

After about two months of intense battle, L&T crossed the critical stakeholding mark of 25 and 26 per cent in Mindtree on May 9 and May 16, 2019, respectively. With 26.48 per cent holding it became the single-largest shareholder in Mindtree. After reaching this threshold L&T would be able to induct its nominee on the Mindtree board, as well as be able to block future resolutions relating to capital structure, dividend and acquisitions. It would also have a say in the appointment of whole-time directors. It was reported that L&T was seeking an extraordinary general meeting of shareholders of Mindtree for board representation (Mohapatra, 2019a).

The Q4 results from January 1 to March 31, 2019, of Mindtree showed high attrition rate of 14.2 per cent, highest in six quarters. In FY 2018, the attrition rate was 12.5 per cent (Aute, 2019).

The road ahead

L&T received market regulator Sebi's approval, and the open offer for Mindtree shareholders was launched on June 17, 2019, which stayed open till June 28, 2019. The open offer was for 51.3 million shares of Mindtree (31 per cent stake) at INR 980 per share amounting to INR 50.29bn (Mohapatra, 2019b). Mindtree independent directors' committee on June 12, 2019, said L&T's open offer price of INR 980 seemed "fair and reasonable," and recommended that shareholders take independent but informed decision on tendering their shares (EquityPandit, 2019).

Major foreign portfolio investor, Nalanda Capital, which was holding on to its 10.61 per cent in Mindtree contacted other global investors such as Arohi and Amansa, urging them to hold Mindtree for better value, Mindtree would hold its AGM of shareholders on July 16, 2019 to approve annual and special dividends (Laskar, 2019). In April 2019 Mindtree had announced interim, final and special dividends of INR 3, 4 and 20, respectively, for its shareholders (ETMarkets.com, 2019a). Mindtree was faced with many questions – was it possible to stop L&T from taking control with promoters holding limited to just 13.32 per cent stake? If L&T succeeded in its plan to take control of Mindtree, should he and the co-founders stay in the company, which they created 20 years back or quit? L&T faced a totally different predicament if the Mindtree co-founders remained opposed to L&T deal or quit, how could it retain Mindtree minds and its customers in the hostile environment that had been created? Another challenge, which may crop up for L&T is if the co-promoters plan to establish a new venture, it may encourage Mindtree Minds to switch over.

Keywords:

Corporate strategy,
Organizational behaviour,
Mergers and acquisitions,
Regulatory policy

Note

1. The symbol represent Indian Rupee (INR) (1 INR = US\$0.01457). All currency amounts are in INR unless otherwise specified. <https://www.exchange-rates.org/Rate/USD/INR/3-18-2019>

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Exhibit 1. Financials FY 2019 (April 2019-December 2019)

Table A1			
<i>Parameter</i>	<i>LTI</i>	<i>Mindtree</i>	<i>L&T</i>
Sales	69,598	51,821	953,232
EBITDA	14,067	7,842	99,301
Margin (%)	20	15	10
PAT	11,369	5,557	48,788
Reserves	43,873	31,650	588,000
Cash + liquid investment	20,328	9,736	239,000
Gross debt	0	5	1,281,000
Net debt: equity	-0.5	-0.3	1.8

Notes: INR in million; PAT = profit after tax
Source: Created by case authors with information from [Barman et al. \(2019\)](#)

Exhibit 2. Shareholding pattern of Mindtree as on March 31, 2019

Table A11		<i>Shareholding (in %)</i>
<i>I</i>	<i>Promoter and promoter group</i>	
	a) Indian and persons acting in concert	11.99
	b) Foreign promoter company	1.38
	Total shareholding of promoter and promoter group	13.37
<i>II</i>	<i>Public shareholding</i>	
	1. Institutions	
	86) Mutual funds (includes UTI equity fund 2.37%, L&T Mutual Fund Trustee Ltd. 1.18%)	5.48
	b) Alternate investment funds	0.88
	c) Foreign portfolio investor including foreign institutional investors (FIIs) (includes Nalanda India Fund Ltd. 8.89%, Amansa Holdings Private Ltd. 4.11%, WGI Emerging Markets Smaller Companies Funds LLC 1.76%, Arohi Emerging Asia Master Fund 1.23%, Nalanda India Equity Fund 1.74%, Vanguard Total International Stock Index Fund 1.09%, Vanguard Emerging Markets Stock Index Fund 1.37%, Ontario Teacher's Pension Plan Board Managed by Arohi Asset Management Pvt. Ltd. 1.55% and Copthall Mauritius Investment Ltd 1.07)	41.69
	d) Financial institutions/banks (includes LIC 2.09)	2.36
	Subtotal institutions	50.40
<i>III</i>	<i>Central government/state government</i>	0.22
<i>IV</i>	<i>Non-institutions [includes V. G. Siddhartha (3.34), Coffee Day Trading Ltd. (6.46) and Coffee Day Enterprises amount (10.65)]</i>	36
	Total public shareholding (institutions [50.40] + non-institutions [36] + government [0.22])	86.63
	Total shareholding (promoters [13.37%] + public [86.63])	100

Note: Under regulation 31 of SEBI (listing obligation and disclosure requirements) regulations 2015; UTI = Unit Trust of India; LIC = Life Insurance Corporation of India
Source: Created by case authors from [Mindtree \(2019a\)](#)

Exhibit 3. Mindtree shareholding of promoters and public from March 31, 2008 to March 31, 2019 in (percentage)

Year	Promoter and promoter group			Public shareholding			Grand total
	Indian	Foreign	Total	Institutions (MFs/FII/Others)	Non-institutions (includes bodies corporate)	Total	
2008	30.22	5.10	35.32	3.71	60.97	64.68	100
2009	29.73	4.78	34.50	10.79	54.71	65.50	100
2010	28.15	4.32	32.47	28.58	38.95	67.53	100
2011	27.79	4.15	31.94	25.70	42.36	68.06	100
2012	16.29	3.90	20.19	29.40	50.41	79.81	100
2013	16.83	1.99	18.82	37.24	42.94	81.18	100
2014	14.61	1.96	16.57	46.09	37.34	83.43	100
2015	12.13	1.58	13.72	45.62	40.66	86.28	100
2016	12.23	1.53	13.76	48.07	37.17	86.24	100
2017	12.21	1.46	13.67	46.28	40.05	86.33	100
2018	11.99	1.38	13.37	50.40	30.00	86.63	100
2019	11.97	1.35	13.32	50.40	35.93	86.68	100

Note: MF = Mutual funds; FII = foreign institutional investors
Source: Created by case authors from Mindtree, shareholding pattern for respective years, Mindtree.com

Corresponding author

Swati Singh can be contacted at: swatisingh@bulmim.ac.in