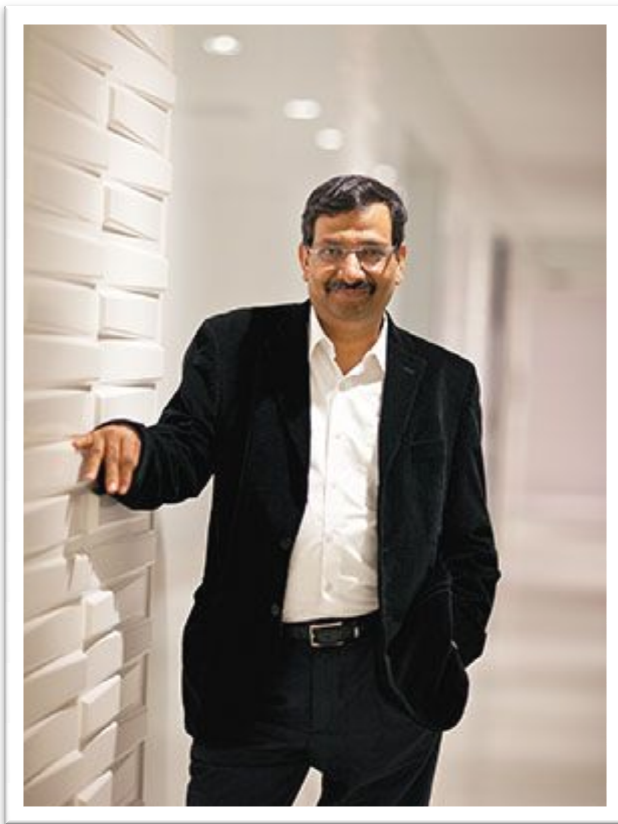


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Will Business Restructuring Fuel Polaris Financial Technology's Growth?

by [N.S. Ramnath](#)



Arun Jain is bifurcating Polaris to make it a billion-dollar business.

Arun Jain hasn't always had the best of luck. In December 2002, the founder and CEO of mid-tier software company Polaris (then Polaris Software Labs, and now Polaris Financial Technologies) cooled his heels for a few days in an Indonesian jail when a visit to a client turned sour. More recently, India's stock market regulator Sebi pulled him up for an insider trading case involving a transaction that dated back to 2000—a case that Jain thought was long settled.

When his company hits the front pages, it's usually as the target of yet another acquisition by yet another MNC—a prospect Jain doesn't exactly relish. His close colleagues describe him as very committed, very hands-on and emotionally attached to the company he founded 20 years ago. On the stock market, the company trades at 5-6 times earnings,

compared to, say, its peer MindTree, which is about the same size and not exactly a star, which trades at 15 times. Jain doesn't relish this either.

Jain has now decided that the sum of the parts is greater than the whole, and is restructuring his company into two—one to sell products and the other services. Over the years it has developed a suite of software products that it licenses to the banking, finance and the insurance sector—competing with IT products companies such as Temenos and Oracle (Flexcube). IT services remains its biggest revenue earner, for which it competes with other Indian offshore players, including TCS and Infosys.

This is his biggest internal restructuring exercise after he took over Orbitech, the software arm of Citigroup, 11 years ago. Products account for a fifth of his Rs 2,000-crore-plus revenues, and he has appointed three CEOs to focus on global transactions, core banking and insurance. There's, of course, another CEO to head the services business. These changes, he hopes, will make each of his three product divisions at least \$100 million each in size. Together with services, which he expects to grow to \$500 million, Jain expects to shift to the billion-dollar league. In the IT business, you start mattering only when you cross a billion dollars in revenues.

Jain's moves are being watched not only by Polaris shareholders, but a host of others in the mid-tier IT industry, which is facing tough times. "On the one hand, some of the largest providers such as Tata Consultancy or Cognizant are growing and, on the other, only select specialist companies—such as KPIT Cummins or Persistent—are growing. Also, in parallel, Indian outfits of MNCs like Accenture and IBM or top US tech firms' captives are expanding their bases in India. Squeezed from both sides, it has been a big struggle for many undifferentiated, sub-scale companies," says Sudin Apte, CEO & research director of Offshore Insights.

If Jain succeeds it would not just be a story of one man overcoming a jinx that has haunted him for a decade, but also how good strategy can help a company surmount the constraints posed by the seemingly immutable laws of industry structure—scale begets scale. The question, of course, is: Can he pull it off?

THE REJIG

Jain likes to explain the ongoing changes at Polaris by drawing three intersecting circles—one each for strategy, structure and skill sets. And then, he draws one more circle in the middle touching all the three—and that's the customer. It's on this theoretical framework that a lot of real work has been done during the last several months at Polaris.

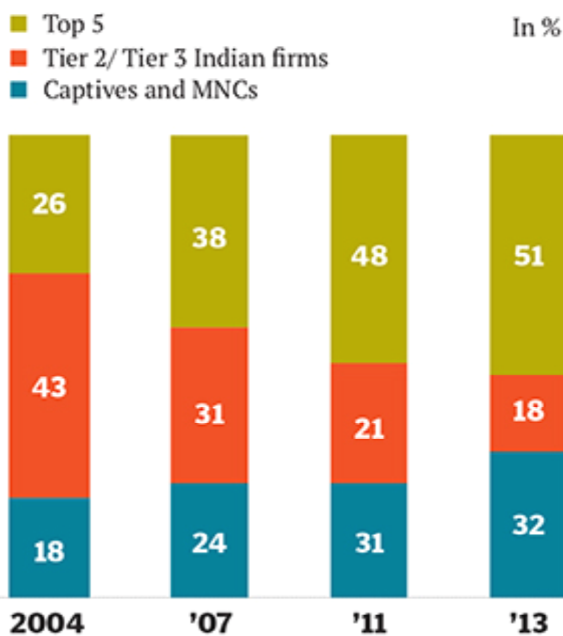
Over the last couple of years, when Jain was meeting his clients—all of them in financial services—he saw them falling into three broad categories, not only in terms of how long they have been around and to what extent they have been using technology but also in terms of what they expected from their tech vendors. The first set of clients had a long history, both as institutions and users of technology, and was based in the developed countries. The second set of businesses was huge too, but came up in the emerging markets in the last 20-30 years. And finally there were small banks in the emerging markets.

Polaris had, over the years, built—partly by acquisitions—product lines that would cater to all the three. And these products were growing faster than the company average, reaching some degree of scale. They were contributing 20-25 percent of revenues.

But the company also had a much larger services business—and that was how it was being perceived, as a commodity player in services. Software products and software services are different animals. Building products and intellectual property (IP) typically demanded significant investments upfront, a different approach to marketing, and often very different skill sets.

The Big Squeeze

Share of Top 5 companies in India's IT export grows as mid-sized firms get squeezed



Source: Offshore Insights Research

They were riskier, but also rewarded better. Services, on the other hand, were mostly about managing scale—the ability to attract and retain a large number of engineers who can deliver what the customer wants. Managing scale is not easy (as the plight of even the big IT services companies show), but services are different from products.

More recently, Jain was also getting interested in 'design thinking'—an increasingly popular concept that borrows best practices and principles from designers (such as aesthetics, usability, prototyping, simplifying, experimenting and so on) and uses them in management and business to design better solutions. During his interactions with clients he found that they were also talking the same language. Jain was convinced that he needed to align his business with that kind of thinking.

"We approached BCG [Boston Consulting Group] to validate our own thinking, and they came with their recommendations." Jain formed a task force to put some of the

recommendations to work. The result is the new structure—with five CEOs to take care of individual segments (including a joint CEO for its core banking, treasury and capital management products). The next big task for Jain is the third triangle—skill sets. The top 200 executives of Polaris recently went through a Caliper Test, a comprehensive personality test used by businesses to identify the right people for the right job, and to figure out the gaps in the system. Over the next few months, there will be more alignments, more hiring.

At the end of the restructuring Jain hopes Polaris will be a company in which there is less ambiguity about roles, goals and performance metrics. Employees will have more clarity on which stream—products or services—they would want to pursue. Analysts and investors will be able to value Polaris in a more granular way—with a clear idea of the growth, profitability, and risks in two different businesses. The CEOs—now more empowered—can pursue growth in their independent businesses, and drive Polaris to bigger scale and better profitability. And, hopefully—and as a result—higher valuation.

THE CHALLENGES

It's a good strategy—on paper—says one of the senior executives from a rival firm. "But Arun Jain has always tried to do things by the book. He couldn't have possibly done anything different about the Orbitech merger, given the incompatibility of the two companies. He tried to

professionalise management by bringing in Arup Gupta from TCS. But, nothing turned out to be as good as they were planned. The plan again is good. But we have to see how well it turns out this time,” he said.

There are broadly three challenges. The first relates to a problem that all companies of its size face. “Scaling up remains a big issue,” says Bhavin Shah, CEO of Equirus. “As overall growth rates slow, mid-tier firms end up having to compete with large firms for deals that would otherwise be easier to come by. One or two client wins or losses can make a material difference to growth rates, as we have seen from recent history.” Both in services and in products, Polaris faces tough competition. “While it has a product suite that is focussed on a very specific niche, it operates in a crowded market where several top Indians as well as MNC services firms operate. And its services business is clearly undifferentiated,” says Apte of Offshore Insights.

One differentiation can happen by high-powered marketing—spending more on the front end, and letting go of some operating margins in favour of higher marketing expenses. Polaris would thus require investors who can understand its business pressures and opt for long-term payoffs. Ever since the merger with Orbitech, Citigroup had over 40 percent in the company, besides being its anchor client, giving as much business. Its stake has since come down to 19 percent.

Finally, there is Polaris’s ability to attract the kind of talent that would open doors to boardrooms and multi-million-dollar deals. It’s especially important at a time where clients are trying to consolidate technology vendors to just a handful. Polaris will need rainmakers to get some of those deals. Jain is only too aware of the problem. “Right now, we sell on competency. What we need is people who can give us board access.”

THE ROAD AHEAD

Even while Jain dreams of building a billion-dollar company in the next three years, there is another direction that the whole restructuring exercise might take: Selling the services business to focus mainly on products. In the past few weeks the market has been buzzing with rumours that a handful of IT services companies (including, reportedly, Tech Mahindra, L&T Infotech and Wipro) are looking to buy the services arm of Polaris. The analysts Forbes India spoke to said that Polaris’s services business could make a good target for multiple reasons. The first would be to either get into the banking services business (in the case of one set of acquirers) or to consolidate the accounts (in the case of others). The second reason is the ease of merger, because Polaris is a single vertical company. “You would just need a few senior executives for a few months to tuck in Polaris, and not endless negotiations with multiple divisions,” one of them said. Arun Jain dismissed these rumours as mere speculation even though he did not rule out divesting a part of the business or acquiring another.

Polaris Revenues (in Rs crore)

	03/2007	03/2008	03/2009	03/2010	03/2011	03/2012	03/2013
Revenues	904.3	1099.30	1377.95	1353.76	1611.71	2049.15	2258.63
Profits	79.59	73.38	129.80	153.26	202.28	220.43	194.05

In any case, there will be one player who will be key to any such transaction and that is Citigroup. Citi uses both the products and services of Polaris, and in many ways they are inter-related. Products lead to services revenues. Any deal with Polaris will have to include a roadmap on how that part is taken care of, one analyst said.

From Jain's perspective, selling off the services business would make sense. He could turn his full attention to products, which could be the next wave. Apte says: "After sale of the IT services arm, I do not think Polaris will be in the scale race. Rather, it will try to focus more on super specialisation by building high-end intellectual property (IP) and try to grow via non-linearity, where growth is not a function of head count. I guess, that will be its strategy to combat some of its top competition."

"But the success of Polaris is not only a function of having IP and products focus," he adds. "It also needs to harness a superior go-to-market strategy and product marketing; hire highly experienced, connected and polished client-facing teams; and develop an ecosystem of innovators and partners and channel and product out-reach mechanisms to reach clients. It's something not many Indian firms have been successful at and Polaris is no exception. Clearly, it is a challenge for Polaris in the days to come."

The journey is far from complete. But there is change at the personal level too. While Arun Jain and his team of about 10 members were working on the design centre—a process that took 400 days to plan—Jain said he was not wearing his cap as CEO, but of a chief architect, someone who coaches, facilitates and guides without necessarily rolling up his sleeves to get things done. During those sessions, he realised the power of coaching rather than executing. That's one learning he has now taken to his corner office too.

"I am now willing to let go of power. From being an executive CEO, I am becoming a coaching CEO," he says. More than all the strategy, this could be the key to what happens to Polaris in the next few quarters

<http://forbesindia.com/article/big-bet/will-business-restructuring-fuel-polaris-financial-technologys-growth/35653/o#ixzz372zBPbvB>
