Eye on the future

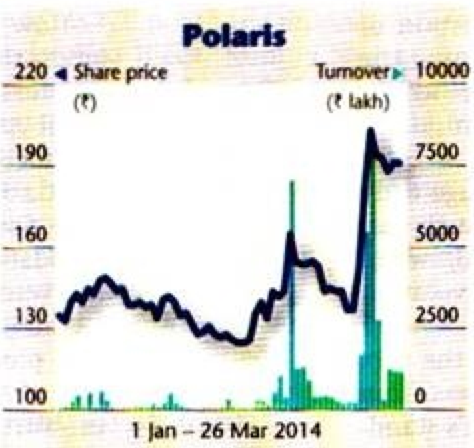
Polaris' demerger will position it to create value in the future

For shareholders of Polaris Financial Technologies, a Chennai-based, mid-size software company, it was a dream come true. In a span of just three trading sessions during the last fortnight of March, the company's ₹5 paid-up shares rose by more than 50 per cent, moving from ₹137 on 14 March 2014 to cross ₹200 on 20 March. What was even more interesting was that this rise was accompanied by a spurt in volumes. From ₹2.18 crore on 14 March on the BSE, volumes rose by nearly eight times to a little under ₹17 crore on 18 March and, then, went up to ₹54 crore on 20 March. Even when the shares met with profit taking on the subsequent day, volumes were close to ₹83 crore (*see graph*).

The sudden spurt followed the company's announcement of a vertical split of its two divisions in the company. One of the few Indian companies to have developed its own products, Polaris owns a large set of intellectual properties for a comprehensive product suite, Intellect Global Universal Banking (GUB) M180. Besides its own software products, the company also offers regular software services, as offered by most other Indian companies. On 18 March, the management announced that its product division, which accounts for one-fourth of the company's total revenues of ₹1,854 crore, will be demerged into a separate company, known as Intellect Design Arena Ltd.

This 3,000-strong division will have four distinct businesses: global universal banking; risk and treasury management; global transaction banking; and insurance. The services division will be retained by Polaris Financial Technologies.

The rationale behind the developments was that product division requires higher investments for product development, besides requiring a different mindset for sales and distribution. Segregating the two divisions under independent CEOs would thus allow both companies to pursue growth independently. Both the entities would, however, continue to remain under the common Polaris holding company, which has been renamed Polaris Banyan Holding Pvt Ltd.



52 wk hi: ₹207 (20/3/14) / low: ₹96 (14/05/13)
Market cap: ₹1,883 crore

The existing shareholders of Polaris will get one share in the new entity, Design Arena Ltd, for every share held in the undivided Polaris. Shareholders of Intellect have also been given the option to exchange their shares in the new company for non-convertible debentures of ₹42 each, with a coupon of 7.75 per cent, redeemable at par after 90 days.

Polaris 4.0

Dubbing this exercise as Polaris 4.0, Arun Jain, executive chairman, Polaris, said that this was a win-win for all stakeholders, customers, employees and investors alike. From an investor perspective, the shareholder gets an additional share of Intellect, a new horizon business. Also, expanded leadership capacity, greater customer-centricity and sharper focus, which will drive higher value in each of the businesses. Focus will continue to remain on specialisation and acquiring deeper domain knowledge in the chosen sector of BFSI. It was towards this that he created a design centre to engage customers at Chennai.

Jain also felt the move was necessary to set the agenda for the next decade and more. There has been a knowledge shift with many Indian companies adapting to change. Explaining that every decade about 40 per cent of the companies go belly-up, Polaris, which has been in existence for 25 years, would like to have a clearly defined map for the future.

The exercise will also help the company strengthen its geographic presence globally. Jiten Goyal, CEO, services business, will be based in London, while Manish Maakan, CEO, product division, will continue as chief executive officer, Intellect Global Transaction Banking (iGTB). The heads of Intellect Global Universal Banking and Intellect Risk & Treasury business will operate out of Singapore and Mumbai respectively.

Even as the company embarks on its demerger exercise, which is subject to the usual statutory clearances, analysts are bullish. Prabhudas Lilladhar, in its latest report, says the spin-off as a separate entity could unlock the share's value for the investors. The report also points out that the current structure is simpler for the management, if they decide to exit completely (sell out) from either of the businesses.

Earlier, there were rumours that Mahindra Tech and Larsen & Toubro were eyeing the company or one of its divisions. However, nothing has materialised as yet. One investment banker feels that it will be a matter of time before Jain decides to rope in a strategic partner. However, a hostile takeover will be difficult, despite the low promoter holding of 30 per cent, he adds. The emotional bonding amongst the employees is strong and the relationship between management and employees is like a large happy family.

Currently, the share price discount the trailing EPS by 15.3 times. This is obviously lower than the EPS of top Tier IT companies like TCS, HCL, or Wipro.

• DAKSESH PARIKH