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## HOW THEY DID IT: RAJESH HUKKU ('74 EEE) & I-FLEX

### THE FIRST IN A SERIES

*The company had all the elements of a startup story. An idea for a product, \$400,000 in venture financing, zero revenues, one client, a threadbare office, and three passionate founders. The \$400,000 in VC money is now worth over \$400 million, and the entire company is valued at a billion dollars. Much has been written about i-flex's success as the world's #1 selling core banking software company. But this article talks about the lesser known Rajesh Hukku, the person and the early beginnings of i-flex Solutions.*

**I**t is 8am on a winter morning in Manhattan. i-flex's team is making a decision on whether to accept a key negotiating point from a high profile client. It has taken the marketing team a lot of work to get the client to negotiate. At the head of the table in the Park Avenue office of i-flex is Rajesh Hukku, the Chairman and Managing director. Rajesh listens to the animated discussion for a while and then asks a lot of questions. Finally he says firmly that he is not going to concede the point, even if he loses the contract. He argues persuasively that it would send the wrong message to the market. The meeting breaks, and the sales person, a junior



employee, is visibly disappointed. Rajesh takes him out for a smoke, and encouragingly talks to him, smoothening his frayed nerves. The sales person leaves happy.

This is pure-Rajesh. His incredibly people-oriented management style has led him to

create India's most visible technology brand, a company with an almost cult-ish loyalty, high retention rate in a industry where two years is a long time, and a brand that gets visibility far and above its size would dictate. It comes down to Rajesh's uncanny abilities to connect to and care for each and every rank and file employee in the organization, and the outside world connected to it.

i-flex's flagship product, FLEXCUBE has been ranked the top-selling core banking-software package by the British International Banking System for the past two years in a row. In FY2004, its revenues were \$185 million and profits were \$40 million. Its market share is a rich \$1 billion.

### **i-flex: The truly global company**

A look at Rajesh's calendar will boggle the mind. He logs 150,000 airmiles a year, tirelessly crisscrossing the world from his home in New Jersey where he has lived for the past eight years with his wife Smriti and two daughters, Manisha and Manasi. He is a gold or platinum member on almost every airline. This isn't surprising. i-flex has 512 customers in 105 countries, which include little islands such as Wanuatou, Malta and Cyprus, to nations such as Ireland, Iceland, Poland, UK, Germany

Japan, Russia and the US. Even the IMF is a client.

### **His Pilani Days**

Rajesh credits much of his success to the drive instilled by his parents. His parents were Professors from Kashmir lived in Jaipur where Rajesh was born, before raising him in Jodhpur. His father inspired him to rise to the top.

After graduating from high school in 1974, he left for BITS Pilani. A few weeks later, he got a call from his father in Jodhpur. "You've gotten into IIT Kanpur," he said. "Come home right away". Rajesh thought about it for a while. But he was already settled into Pilani, he loved the place, he had made new friends. Much to his father's surprise, he refused to come back to join IIT.

Rajesh loves the rivalry and constantly takes joking pot-shots at the IITs. "The engineers from lesser known institutes like IITs are all over the place" he joked at the BITS Mumbai reunion. "Its time we BITSians show them what we are made of".

A EEE graduate from BITS, he was the bronze medalist of his batch at Pilani. His name is still painted on the S-Block winner board.

Rajesh believes that his formative years in Pilani

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equipped him with the people skills that guide him today.

## The Road to Entrepreneurship

After graduating from BITS, Rajesh joined TCS in their Bombay office in 1979. TCS was a small company writing code for US companies long before IT outsourcing became fashionable. Rajesh observed that the code TCS was writing for American firms were being sold for substantially large profits. He realized that though Indians were excellent software developers, they were weak in two areas i.e. understanding the customer's businesses and managing large turnkey projects.

Rajesh's moment of truth came in late 1980s. Rajesh wrote software that integrated the work done by multiple workstations at the US stock exchange into a single box. This system was an instant hit and the company was sold to Reuters for \$150 million. TCS, which had built the product, collected a few thousand dollars. That is when Rajesh decided that someday he would build a product instead of selling his innovative skills to others for much less.

## i-flex gets started

Rajesh was getting dissatisfied with his TCS experience. He worked on projects in different fields and verticals, which did not allow him to build domain knowledge, a critical step towards a building a product. He decided to move to Citicorp Overseas Software Ltd. (COSL) in 1989 to focus on the financial market vertical.

At the time, COSL was a 500-employee Citibank subsidiary containing one product, Microbanker. But most of its revenues were from providing IT services to Citibank. Microbanker was mostly ignored by COSL. It fascinated Rajesh, because it was a core system with capabilities to run the guts of the bank. It wasn't very good, but he thought it held tremendous potential.

In 1992, Rajesh discovered that COSL was converting itself into an internal IT

shop, and had no interest in investing or selling Microbanker to other customers. Rajesh, along with co-founder R Ravisankar (also called Shanx) decided they would attempt to separate the company by spinning-off the product. After a number of discussions within COSL, the firm agreed. Citibank saw a lot of promise in this young group of professionals and clearly was impressed by the passion of Rajesh Hukku. As part of the deal, all employees of COSL were offered the opportunity to go to the new firm, CITIL. 150 employees accepted the offer.

Rajesh negotiated \$400,000 (Rs. 1 crore at the time) in seed funding from Citicorp Venture Capital (CVC), and named the startup CITIL. Rajesh was named CEO. Today the employees own a 20% stake in the company.

CITIL focused on selling Microbanker to banks in emerging market countries and did not get any business from Citicorp in the initial years to bootstrap itself, as COSL was doing all the work. But after a few years as CITIL started winning Citicorp business, the stage was set for a rivalry with the larger, better established COSL. COSL was eventually sold to Polaris.

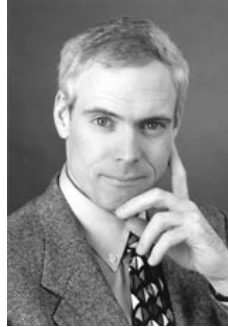


The unfair advantage

CITIL built a product that had global applications yet it didn't have the resources to brand itself. Rajesh solved this problem by focusing his energy at the less expensive Middle Eastern and African markets. He made an interesting realization that even though the economies in Africa were in shambles, the banks in Africa had money. He leveraged the Citibank name to open doors, and the small, relatively unknown banks sat up and listened. As the product generated revenues, it was gradually introduced all around the world and is firmly established today. In 2000, the company changed its name to i-flex, giving up the Citi prefix.

What is little known is that Citibank wasn't the first customer for i-flex's products, although Citibank did buy its services. It was actually the 47<sup>th</sup>, client, the culmination of a three-year sales effort spearheaded by Rajesh. Eventually Citibank was to give the company a contract to replace their legacy system in 100 countries. This system will standardize 59 systems owned by Citibank into a single FLEXCUBE system. The savings for Citibank will far outweigh the investment.

The venture capitalists benefited hugely from this deal. The \$400,000 investment by CVC is now worth more than \$400 million. It is certainly the largest return for any VC in India, and probably the largest ever for CVC. CVC currently owns 43.5% of i-flex.



Jim Collins. Photo credit: Businessweek

### His Management Style

Rajesh is a "Level 5 manager," a reference to management guru Jim Collins' depiction. He has a very democratic style of working and he relies heavily of building consensus in the boardroom. He also has a disarming sense of humor and an uncanny ability to crack a joke and connect with people. This style of functioning has given him an almost cult following in i-flex and given rise to many stories about him.

Five years ago, a newly minted MBA had just joined i-flex. The first day, he bumped into Rajesh in the elevator leaving the office. Rajesh promptly extended his hand and said, "Hi! I am Rajesh. What is your name?" The startled rookie said, "Sir my name is ----. I recently joined i-flex and it's great to work for your company". Rajesh smiled, "i-flex is not only my company. It's your company as well. We are all building this company together". The employee remembers that day vividly, and is currently part of i-flex's Singapore operations.

Rajesh's wit and deft handling of situations has many legendary stories. One story told often is when he was trying to convince a large European bank to replace its crazy quilt of back-office computer software with i-flex's product. An executive gave him the brush-off, telling him their

company's system was so complicated, only God could figure it out. Rajesh, in his inimitable style, made a deft save. "Sir, we are Indians," he said. "We are very religious, and very close to God." Hukku won the deal.

### The Branding challenge

By leveraging the Citibank name and by giving outstanding products and services to customers ignored by the larger competitors, i-flex built its marketshare. When it became big enough, it leveraged its size into building the brand. It wasn't easy. When i-flex started in 1992, there was not a single globally recognized Indian brand in any industry, and i-flex went through some tough times convincing its clients about its Made-in-India products. Rajesh still reminisces, "On many occasions, the CIO of a bank would tell me ours was the ideal product. But the CEO would not agree to buy it because he didn't want to take a risk."



All that is history. i-flex is one of the most widely dispersed Indian brands. Only recently that have the likes of Vijay

Mallaya of Kingfisher, Titan and Indian pharmaceutical companies begun to follow in his footsteps, giving their brands a global face.

The next challenge for i-flex is to crack the US market, a nation with more banks than fast food restaurants. (We're only joking,

but the US has over 8,000 different banks). The market potential is staggering. Rajesh wants to utilize brand equity as the single most effective tool for market penetration.

### The Awards

Rajesh says that the awards were missing when they needed it the most, but as they have been successful, the awards have flown fast. Rajesh has been awarded India's highest award for Innovation, the Dewang Mehta Award in 2003. Rajesh donated the entire sum of Rs. 5 lakhs to the "i-flex for child" charity program.

He was named Star of Asia by BusinessWeek. i-flex was one of the 15 survivors of the dotcom crash profiled by the Time



Magazine. Rajesh has been named one of India's top 10 movers and shakers in the IT Industry, received the Entrepreneur of the Year for the ICE category, and won the Emerging Company of the Year award from ET, amongst many others in India. And in October 2004, Forbes ranked i-flex amongst the best 100 companies 'under a billion' in Asia Pacific adding to the long list of accolades received by the firm.

### i-flex: An amazing work place

Rajesh lives and breathes i-flex. It is his mission to make i-flex the role model for innovation coming out of India. His personal mission means he is on the road 15 days in a month. 'When he is not traveling, he is applying for visas "says Head of Media Relations, Sunil Robert in London. Employee turnover till recently had been minimal, in part due to personal interactions of employees with Rajesh. He has an amazing memory and can recollect little details about his workers many years later.

But of late it has been hard to hold onto i-flex employees. Known for their technical abilities and knowledge of building products, they are targets for companies willing to pay

significantly higher wages.

It has been reported recently that SAP and Infosys, amongst others have been trying to poach

the product champions. But the company refutes this. "On the base of more than 3,000 employees, a handful of people leaving was noted and a straw case was made out of that incident", says Sunil Robert.

Employees return often, after they realize the culture at i-flex is unique, they see the lack of empowerment at other firms, and most importantly, they don't find employees at other firms with the same passion and missionary zeal as their counterparts at the firm they left. Rajesh always welcomes them back.

### Rajesh, BITSAA and relaxation

Rajesh has spoken in Mumbai and New Jersey, and is happy to show up at BITSAA events



around the globe. When he's not selling software, getting visas or inspiring students and alums, he entertains friends and

family. Rajesh is a great mimic



and fan of Raj Kapoor.

Employees say that the early days of NASSCOM were memorable evenings, with Dewang Mehta, a close friend of Rajesh, an who had the same sense of humor and idea of fun as Rajesh did, laughing, joking and partying with other leaders of India's IT industry. .

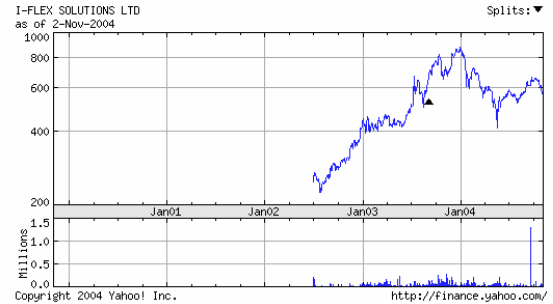
Rajesh tries to spend every free moment with his family. He is not too concerned about improving his golf game, "I don't have to learn golf because

if I become good at golf, the CEOs I work with will feel threatened. So long as I am bad at golf, they will thrash me at it but still give me their business." he jokes, half seriously.

### Miles to go

i-flex shares have risen 107% since their IPO in June 2002. But of late, while the coding giants are on a tear, i-flex is down 35% from its peak in January this year.

Rajesh dismisses this as short-term myopia, and is seldom distracted by the share price. He's building i-flex in the US and Europe, spending money on acquisitions, and broadening his product offerings and company



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into a diversified provider of banking and financial solutions for the long term.

i-flex is growing rapidly. And will hire about 1,000 professionals in the next 5 months by March 2005. In his view, this is only the beginning.

We believe him and are assured that Rajesh will be collecting his 150,000 miles next year as well.



## SECRETS OF FLEXCUBE'S SUCCESS: WHY HAS IT BEEN SO POPULAR ?

Instead of first designing a product and then trying to peddle it, Rajesh and his team spent an enormous amount of time researching the banks in their target group to understand the problems that confronted them on a day-to-day basis. As a result of that research, three fundamental design principles emerged for the FLEXCUBE suite emerged.

**Customer-centric software:** In contrast to the general ledger based software, FLEXCUBE was the first software which had a customer view at its core. This customer-centric approach allowed banks to view customers as entities.

**No requirement to change source code:** Customers were used to changing volumes of code to launch new banking products. Now without doing any such laborious changes, FLEXCUBE allows them to define new banking products on the fly by changing business rule sets.

**Scalability:** FLEXCUBE was designed to grow as the banks size and volumes grew. No other product allowed such growth and flexibility.