

# IN FULL BLOOM

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PROMOTERS IN INDIA ARE WARMING UP TO THE IDEA OF FAMILY OFFICES AS A VEHICLE FOR MORE THAN JUST WEALTH GENERATION

*V Keshavdev*

**N**ancy Ortenstone's *A place for dreaming* catches your eye as soon as you enter Amit Banka's modest office. It's an appropriate piece of art for the bustling 600-sq ft office at Solitaire Corporate Park in suburban Mumbai — this is where Banka and his 20-member team are busy dreaming of making it big, for themselves and the man behind it all, Ronnie Screwvala. As managing director of Unilazer Ventures, Banka is in charge of managing the personal wealth of Screwvala, the promoter-turned-professional manager of the Disney-owned UTV Communications, who sold his stake in Walt Disney for an estimated ₹800 crore in 2011. The 38-year-old, who earlier worked with Screwvala in UTV, quit the company last year to handle Screwvala's ₹500-crore personal kitty.

Just like Banka, 51-year-old private equity veteran Dinesh Vaswani, who previously worked with the Singapore government-owned Temasek and UK-based Englefield Capital, too, got his break after the Anil Agarwal-owned Sesa Goa acquired unlisted iron ore



mining company, Dempo Mining Corporation, from the Dempo family in a ₹1,750-crore deal in 2009. Initially, Vaswani began with the Dempo family as his big client, but today his four-member firm, Acuitas Capital, advises over 20 business families from his office at Nariman Point, the central business district in South Mumbai.

In 2010, career bankers IAS Balamurugan and Suresh Ramanujam, putting to good use their years of experience in corporate banking and wealth management, quit their jobs with ICICI Bank and Deutsche Bank, respectively, to set up Metis to act as wealth advisor to rich families in south India.

See the common thread linking these three companies? They all run family offices (FOs), which manage money for ultra high net worth families. FOs are either managed by the business family by itself and are known as single family offices (SFOs), or could be run by independent advisors for multiple families and are referred to as multi-family offices (MFOs). It's a segment of the wealth management business that is slowly coming of age in India.

### THE TIMES ARE A-CHANGING

Historically, wealth management among Indian business families, in the pre-lib era and even to a large extent today, has largely been an in-house affair. In groups such as the Birlas and Bajajs, usually each member of the promoter family would have a *munim* (accountant) managing their personal wealth. "In the early years, the treasury functions of the company and that of the family were largely managed from a common office but the accountant's fees would typically be paid by an unlisted private firm," says Gita Piramal, noted business historian and author of *Business Maharajas*. However, the

pace of wealth generation in the country over the past decade has pushed the traditional family accountant's role to the background. From FY03 till date, the benchmark Sensex has vaulted close to six times from 3,500 to the current 20,882 (October 18), while M&As and PE deals over the same period have grown exponentially. Besides, the aggregate dividends paid out by companies, too, have shown meaningful increases (*see: Growing bounty*). All of these has necessitated the need to have a more professional and disciplined approach towards wealth management.

Interestingly, of late, the need to sustain both the business legacy and wealth over future generations has become an overriding concern, especially among first-generation business groups such as GMR and Adani, which made their mark in the bull run of 2003-08. Certainly, there is anecdotal and empirical evidence that the "shirtsleeves to shirtsleeves in three generations" saying is all too true — and not just in the US. The Chinese saying *Fu bu guo san dai* — wealth doesn't last more than three generations — is of relevance in India, too, where the number of business family feuds is on the rise. According to a recent study by Barclays, India is at the top when it comes to family feuds, while the probability of feuds rising is directly proportional to an increase in income (*see: Money is all that matters*).

While some old business houses such as the Burmans and the Godrejs have put in place a formal structure such as a family council to carry on their legacy, the Birlas and Bajajs have seen their businesses splintering into various factions. The most talked-about break-up in recent years was, of course, that of the Reliance group, where Mukesh and Anil Ambani split up the business following the

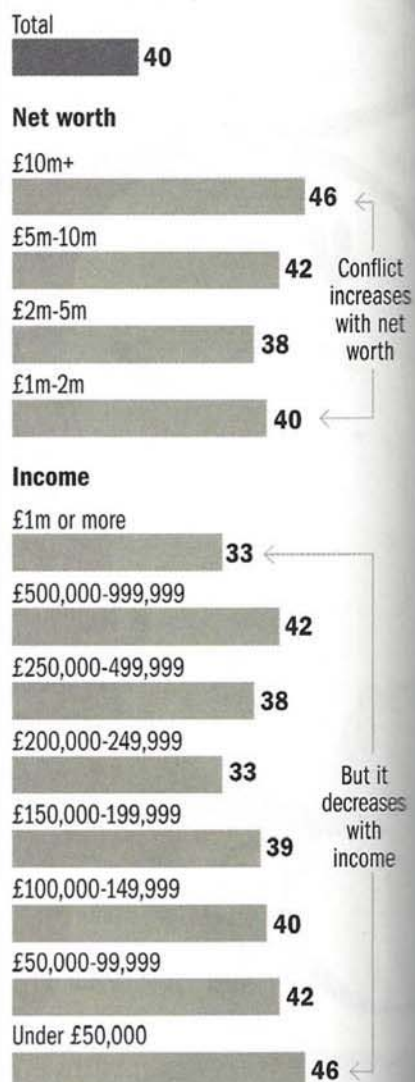
## Money is all that matters

Indian families feud the most

	In %
India	61
Singapore	53
Hong Kong	51
Japan	47
Saudi Arabia	38
UK	37
US	36
Switzerland	28

### Rising wealth leads to rising conflicts

% agree\*



Source: Barclays Wealth Insights

## Growing bounty

Dividends across leading Indian business houses have seen a sharp increase over the past decade

Dividend in ₹ cr	MUKESH AMBANI	TATAS	AZIM PREMJI	VEDANTA	M&M	HERO	ADITYA BIRLA	ADAG	SUNIL MITTAL	DLF	ADANI
FY13	2,634	2,764	1,725	1,310	1,168	1,227	901	514	380	356	354
FY03	703	1,035	23	34	199	375	240	98	0	1	7
Diff.	1,931	1,728	1,701	1,276	969	852	661	416	380	355	348
Times (x)	4	3	74	39	6	3	4	5	NA	254	54

death of their father and group founder, Dhirubhai Ambani.

This realisation dawned upon the 63-year-old Grandhi Mallikarjuna Rao in 1999 when he attended a programme on family businesses. After attending the conclave, he gave up his initial plan of dividing the assets equally between his sons, Raju and Kiran, and son-in-law, Srinivas Bommidala. Instead,

what followed was an extensive exercise where PM Kumar, a close friend and family advisor, and Peter Leach, a London-based family business expert, were asked to draft a family constitution, which each family member agreed to adhere to. Leach, when contacted, declined to participate in this story, citing client confidentiality. The other interesting move was

to separate ownership and control of family wealth from business wealth. The family corpus is now held in an investment company called GMR Holding. The holding has been split among four non-voting trusts for the four factions of the family. A separate voting trust with a representative each from the four trusts will take business decisions. The voting trust will have power but no economic benefit. The constitution also deals with succession issues. The group patriarch plans to retire at 70, but the process of selecting and appointing a successor will begin five years prior.

Similarly, the Adanis, too, have a detailed succession plan and an FO, Adani Advisory, headed by Ameet Desai, to manage the family's personal wealth. While Desai declined to participate in this article, in an earlier interaction with *Outlook Business*, group founder Gautam Adani's wife, Priti, had said, "All the family interests are held in a trust. We have four boys in the family and ultimately each of them will be heading a vertical."

Family offices serve a very critical need for business families, believes Piramal. "It's a Western concept that is inclusive and transparent to all family members. A formal structure can help nip animosity in the bud as it provides a platform

“The primary idea of an FO is to make profits and generate wealth. A common resource pool results in better leverage with an investment banker

—GITA PIRAMAL, BUSINESS HISTORIAN



PHOTOGRAPHS : SOUMIK KAR

SHAN H	MURUGAPPA CHETTIAR	AJAY PIRAMAL	BAJAJ	HINDUJA	DABUR	DR REDDY'S	GODREJ	TORRENT	ZEE	TVS IYENGAR	RPG ENTERPRISES	RAJAN RAHEJA
\$	343	302	403	369	261	255	243	198	192	244	152	136
	58	40	150	126	40	38	58	17	23	88	7	14
\$	285	262	252	244	221	217	184	181	169	157	145	122
	6	8	3	3	7	7	4	12	8	3	22	10

Source: Ace Equity. Note: Houses ranked on the basis of market cap as on October 18. Dividend includes payouts of unlisted firms wherever available

for discussion for all family members instead of having independent conversations. You have one common platform that addresses all issues and concerns because of regular formal meetings.”

That is also the reason why Shrinvas Dempo, the biggest controlling shareholder of the Dempo group, is considering setting up an FO. The Dempos of Goa are one of oldest business families in India, with interests in mining and ship-building. While Shrinivas, who has two daughters, is the majority shareholder, minority shareholders in the business include his uncles. “We Indians are a very emotional lot and, hence, there is a need to segregate emotionality and professionalism. This is where a family constitution acts as a bedrock,” says the 44-year-old.

Unlike in the West, where FOs can be legal entities, in India they are still largely an informal coming together of the different factions of a family. “Merely having transparency doesn’t mean emotions are removed,” cautions Piramal. So, while the best FOs serve the bigger cause of ensuring cohesion in a business family, they often serve more as a platform for leveraging a common pool of wealth. “The primary idea of an FO is to make profits and generate wealth, whether a family feuds or not. And having a

common resource pool (largely out of dividends) may result in better leverage with an investment banker,” she adds. Not surprisingly, a UBS-Campden survey of FOs shows that managing investment-related risks remains top priority for most of them (*see: Safety first*).

While the really big business houses prefer to manage their own funds through SFOs, small business houses or entrepreneurs who do not have a very large kitty to manage tend to farm out the task to independent MFOs.

### ALL IN THE FAMILY

Currently, the number of SFOs in the country is still minuscule compared with the West. Besides those already mentioned, NR Narayana Murthy, Azim Premji and Gajendra Patni’s sons, Amit and Arihant, are some of some the recent entrants in the SFO space. But in keeping with their entrepreneurial streak, all of these SFOs act as quasi-venture capital funds looking to ride the early stage investment cycle for start-ups. Earlier this year, sharing his views on Catamaran, NRN was quoted as saying, “Taking money from others is easy, but if you don’t do a good job with it, it would be very difficult. Therefore, my wife and also my son suggested that whatever you want to do, do it with your own money.”

Now, take the case of Unilazer Ventures, which made its first investment in the agri space with INI Farms; in the consumer space with Lenskart; in the housing business with Micro Housing Finance Corporation; and in a data analytics company, Himex, besides a clutch of angel investments. Says Banka, “Running an FO offers much more flexibility than investing in funds,

### Safety first

Managing risk is top priority at FOs

■ Yes ■ No ■ Planned in the next 12 months

#### INVESTMENT RELATED RISKS



#### BANKING/COUNTERPARTY RISK



#### FAMILY DATA AND CONFIDENTIALITY



#### RISK TO TANGIBLE ASSETS (PROPERTY, ART ETC)



#### FAMILY REPUTATION



#### POLITICAL/COUNTRY RISK



#### PERSONAL SECURITY



Source: The UBS-Campden Wealth Asia-Pacific Family Office Survey 2013



which have pre-defined investment objectives. We have studied over 10 sectors over the past year-and-a-half and have shortlisted some businesses where we believe we can invest with a five- to 10-year perspective.” Just like Unilazer, the FOs of NRN and Premji, too, have invested in a clutch of companies operating in the healthcare, technology, consumer and education space. The preference towards these sectors is also evident in the UBS-Campden survey, with most FOs looking to invest in healthcare.

According to estimates by the UK-based Campden Research, the current number of viable, genuine FOs in India is low: 15-25 SFOs and 5-15 MFOs. “The minimum level of wealth required to make an Indian

“Running a family office offers much more flexibility than investing in funds, which have pre-defined investment objectives

—AMIT BANKA, MANAGING DIRECTOR, UNILAZER VENTURES

FO viable is around \$150 million assets under management (AUM) for SFOs and \$2.5-3 billion for MFOs, which are very close to numbers our studies have found elsewhere in Asia as well as Europe. It is important to stress that, while many successful families may attempt to justify establishing FOs with less funds, experience shows that it requires more for the FO to be sustainable,” points out Dominic Samuelson, CEO, Campden Wealth. The running cost of a SFO

could vary depending on the size of the family, size of the AUM, the portfolio mix, reporting frequency, the services offered, location of the FO, and the number of full-time staff hired. “SFOs are most effective when ultra high net worth households have the means to create and maintain them, while also requiring multiple services, such as personal and lifestyle (concierge) services. If the family is looking primarily or exclusively for asset and investment management, an

MFO is a suitable option, as long as it is created with like-minded families of comparable wealth and alignment of investment interests," Samuelson adds. This is precisely the reason why the likes of Acuitas Capital and Metis are now slowly taking centre stage.

### BIG VS BOUTIQUE

Typically, as the name suggests, an MFO works with several families, but the biggest distinction that separates MFOs from bank- and brokerage-run wealth management firms is the 'real' interest of clients. "A typical wealth manager today sells a product and his interests are not aligned with those of the client but of the institution that is selling the product. As an MFO, I act as a gatekeeper. For every 25 products that are pitched to me, I might just invest in one, and that is the big difference between

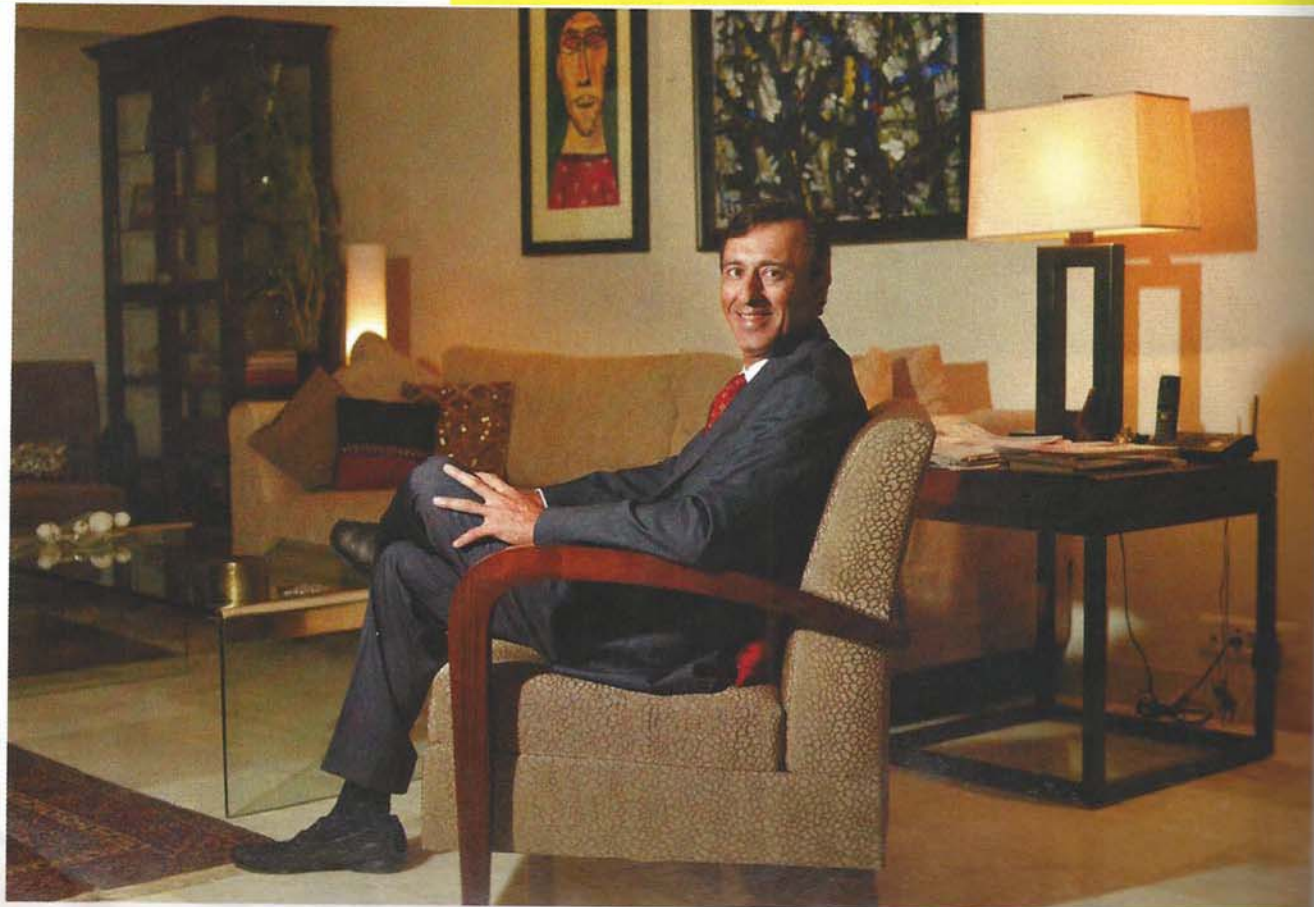
the bankers and us," says Vaswani. The other differentiating factor, as Balamurugan puts it, is structuring the right advice or managing the risk profile of a businessman. "If I have a client who is in a commodity business and understands that business very well, I will stop him from allocating any part of his personal wealth in that particular asset class since he already has a substantial exposure there by way of his business. This subtlety in advice is unlikely from a conventional banker," he adds. Vaswani concurs, pointing out that much before the National Spot Exchange crisis had broken out, Acuitas had

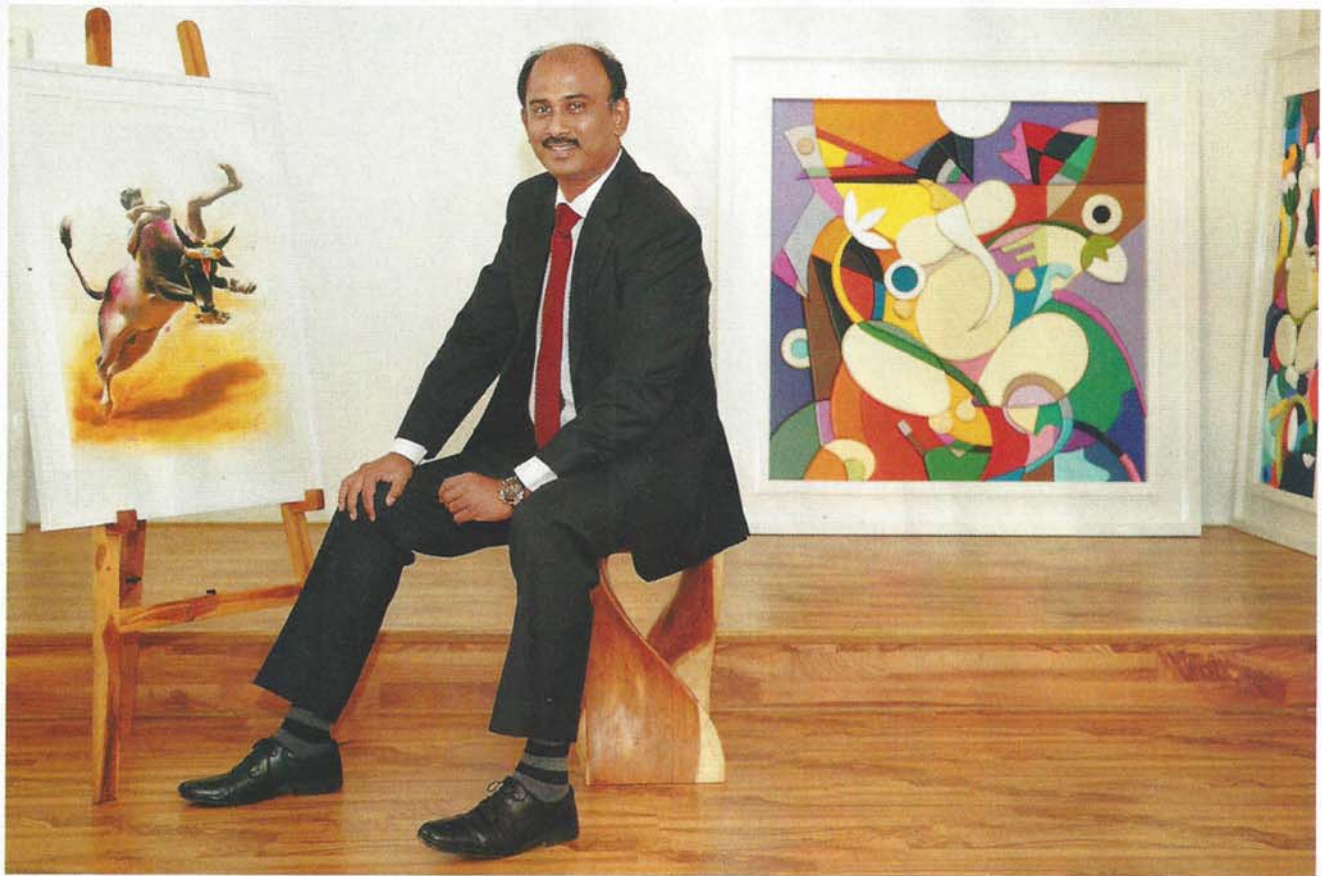
put out a five-page note on the shortcomings of the contracts being hawked as '100% risk-free'. "I am not claiming that we sensed that it was a fraud, but the point is that we very well understood the risks of investing in the product, and that is what risk assessment is all about," he points out.

The kind of clients that MFOs cater to is distinctly different and that works well both for the MFO as well as the client. In the case of Metis, the number of families the MFO has engaged is more than 50, mostly medium-sized businesses. "We have some families who have signed for the long term but there

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—DINESH VASWANI, FOUNDER-MD, ACUITAS CAPITAL





RA CHANDROO

are some who just needed advice on a specific transaction or a deal," says Ramanujam. The duo zoomed in on Chennai as a base, given that it was a relatively virgin market and all the big foreign and domestic wealth managers were focused on the west and the north, especially Mumbai and Delhi, home to more than half the ultra HNIs in the country. "I am looking for clients who are focused on scaling up their businesses and don't have the time to focus on wealth management. Only in such a situation can I bring in efficiency as an advisor," adds Balamurugan.

Similarly, Vaswani signs on clients who have a long-term horizon and are not focused on short-term gains. "We enter into multi-year contracts as we are making decisions for the long term," says Vaswani, who signs on clients with a minimum net worth of ₹50 crore. In the case of Metis, the advisory

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—IAS BALAMURUGAN, CO-FOUNDER AND DIRECTOR, METIS

signs on client with running businesses and a minimum net worth of ₹100 crore, excluding their personal real estate.

For now, MFOs are slugging it out with the big players in the business, each claiming to have an edge over the others. While unbiased advice is what MFOs bring to the table, the bigger bank-sponsored managers believe they offer much more than wealth management — the ability to leverage the bank's balance sheet to offer credit to clients, and that means a lot for mid-sized businessmen.

While there are distinct advantages and disadvantages of being an independent MFO and a private

banker, the market is still too nascent to pinpoint which way the wind is blowing. As Samuelson of Campden observes, "One trend we're seeing is that Indian ultra-wealthy families have a penchant for informal FO arrangements, bringing together advisory groups while maintaining personal control over asset allocation. This is unsurprising, given the professional characteristics of successful Indian entrepreneurs: intensely private (distrustful of outsiders) and highly involved in business and wealth management decisions." If that is indeed the case, then the fight for managing wealth will get just as tough as generating it. ☺