Not Just a Family Matter

As the descendants of its founder gradually cede control, Amarchand prepares for a more competitive future.

By Anthony Lin

There's a picture of Dubai's giant Burj Khalifa skyscraper on the cover of the PowerPoint presentation that Cyril and Shardul Shroff use to explain the far-reaching reorganization that they've planned for their law firm, Amarchand & Mangaldas & Suresh A. Shroff & Co.

Not that the Shroffs, who are brothers and Amarchand's co–managing partners, have any plans for a big Middle East push. It's just that the world's tallest building, rising dramatically out of the desert, was the image that the men decided best captured what they hope to accomplish. "In the Indian legal profession, we want to tower like the Burj," says Shardul.

There is a fair argument that they already do. From around 30 lawyers 15 years ago, Amarchand has grown to 550 lawyers today, making it one of the largest firms in Asia and more than twice the size of Indian archrival AZB & Partners. The firm enjoys close ties with the country's biggest conglomerates, including Tata Group of Companies and Reliance Industries Limited, and regularly leads on India's highest-profile transactions. The firm is currently advising mining giant Vedanta Resources plc on the $14 billion restructuring and merger of its largest subsidiaries. For international law firms looking to refer India work, Amarchand is almost always on the list. "They are one of our go-to firms," says Rajiv Gupta, the Singapore-based head of the India practice for Latham & Watkins. "They're definitely top-quality, and they're very focused on maintaining that."

NAINA REDHU

"We want to be the national firm," says Amarchand's Shardul Shroff.

"There is a certain appeal to continuing the legacy that has been in your family for 100 years," says Cyril Shroff of Amarchand.

RITAM BANERJEE

Now Amarchand is planning to almost double in size, to 1,000 lawyers in the next five years, with revenues, currently around $100 million, doubling as well. Two new domestic offices have already opened in 2012, with a third planned for later this year. On top of that, Amarchand has set a goal of having its first overseas office by 2017.

The vagueness of that last goal—the firm hasn't even decided where to plant its flag yet—is telling, though, and compared to the big cross-border combinations that other Asian firms have been exploring lately, Amarchand's plans don't seem all that aggressive. There is no Swiss verein deal with a big British or Aussie firm in the works, no challenge to the global legal supremacy of New York or London. Instead, Amarchand is focusing on growth at home and staying independent, citing as its model that paragon of legal industry conservatism: Slaughter and May. Amarchand has actually recruited the British firm's former Asia head to serve on its management committee.

Amarchand's plans reflect in part the idiosyncrasies of the Indian market, compared to those of other rising Asian economies. The volume of transactions is still much lower in India, as are fees. Indian firms also face a different competitive landscape than other Asian firms; foreign firms are still not permitted to have offices in India or practice Indian law. Moreover, liberalization actually seems less imminent today than it did only a few years ago.

Then there is also the fact that Amarchand isn't just a firm to its leaders; it's their birthright.

THE SHROFFS ARE CALLING THE LATEST REORganization plan—developed with the help of The Boston Consulting Group—Amarchand 3.0. A dozen years ago, when the Shroffs realized their growing firm would need more nonfamily equity partners, another BCG–led restructuring was dubbed Amarchand 2.0. Amarchand 1.0, however, dates back to 1917, when Cyril and Shardul's grandfather founded the firm in Mumbai. The brothers took over the firm in 1994 from their late father Suresh, a bust of whom is found in each of the firm's offices.

The brothers' succession coincided with the liberalization of the Indian economy. Deregulation and the country's opening to foreign investment created a boom in legal work. Amarchand quickly emerged as one of the top players. While Cyril carried on in Mumbai, Shardul led the expansion in Delhi, making the firm a leader in India's political as well as its financial capital. Amarchand is now a full-service firm that serves a client base that is roughly 60 percent Indian banks and corporations and 40 percent multinationals and global financial institutions. Though Mumbai and Delhi are by far the largest offices, the firm also has offices in Bangalore, Kolkota, and Hyderabad. New this year will be Ahmedabad, Pune, and Chennai.

It also remains very much a family affair. The brothers' mother, Bharati, sits on the management committee with them, and Cyril and Shardul's respective wives, Vandana and Pallavi, are senior partners at the firm. Three of their children and one son-in-law, now in their twenties and thirties, work at the firm, with a daughter and daughter-in-law preparing to join. It's expected that they will someday take the reins.

"There is a certain appeal to continuing the legacy that has been in your family for 100 years," says Cyril. "And the next generation is willing to pick up that legacy and run with it."

But one family leading a 30-lawyer firm is one thing; family control of a 550- or 1,000-lawyer firm is another. The growth of the firm has been such that even relatively young partners can recall joining a small firm where everyone, Shroff or secretary, knew each other. It's an environment that many of them say has bred considerable loyalty. "If you look at the lawyers who have left, really very few have them have left to go to another competing firm in India," notes Reeba Chacko, a partner in Amarchand's Bangalore office. "More have left because they want to pursue academics, do something completely different, or relocate outside India."

Still, defections to rivals do occur—in April, Bangalore partner Ganesh Prasad headed to Khaitan & Co—and the firm's rapid growth means that many of its rising lawyers will not feel quite as bonded to the firm as their predecessors had. To head that off, the successive reorganizations have aimed in large part at institutionalizing the firm, while preserving the family's ability to set its overall direction.

The Shroff family members currently hold a 75 percent stake in Amarchand, with 20 equity partners holding the rest. Until Amarchand 3.0, three of the seven seats of the management committee were held by family members, with nonfamily equity partners taking the other seats on a rotating basis. With the latest reorganization, two nonfamily, nonpartner members have joined the committee from the outside: ex–Slaughter and May Hong Kong partner George Goulding and former BCG India country head James Abraham, who led work on Amarchand 2.0.

Goulding, who retired from his firm last October, never worked on India matters as a lawyer. Instead, he got to know

> **Even with the Shroff family's equity share set to shrink to 40 percent, they'll retain a veto over key issues, like mergers.**

Amarchand and the Shroffs through a group he helped launch at Slaughter and May in 2005 to exchange knowledge among Asian firms that wanted to remain independent. "I happened to mention to Cyril last year that I was retiring," Goulding says. "Within half an hour, he and Shardul called me back and asked if I would help them with this."

Abraham and Goulding will be part-time at the firm but have full voting rights on the management committee, where Goulding says they will act as a third component with the family and nonfamily partners. Beyond that, he says, he will advise on a range of issues, including the mentorship of younger lawyers, Amarchand's cooperation with international firms, and fostering a strong sense of firm culture.

The marquee change wrought by Amarchand 3.0, though, is that in order to accommodate the expanded partnership of a 1,000-lawyer firm, the Shroffs have decided to move into a minority position for the first time. Over the next five years, the family expects its stake to contract to around 40 percent. In the past, Amarchand could be thought of as a family firm that hired professionals to help out, says Gunjan Shah, a Delhi partner and member of the management committee. "Now, it's really a joint venture between the founder family and the professionals."

The family's share is still very substantial, though, and the Shroffs will retain a veto over a number of key issues, including mergers. They say that centralization of strategy and decision making has been absolutely critical to the firm's success to date, and will remain so for the foreseeable future. In India, it is common to speak of promoter-driven businesses, meaning those that are guided by a core group of strong, entrepreneurial personalities. Such promoters are frequently families. The Tata family and the brothers Mukesh and Anil Ambani who run Reliance Group are among many examples in India's corporate world; the Shroffs see themselves as the prime example in the legal profession. (Khaitan & Co is another leading Indian firm with a strong family core.) Cyril says Amarchand pulled ahead of Mumbai rivals in the early 1990s because of the family's promoter role. "[Other firms] didn't have a strong entrepreneur willing to take disproportionate risk," he says. "No one was investing or putting up their own capital."

That experience is also why Cyril says he's not worried about rising competition from smaller, cheaper firms, some started by ex-Amarchand lawyers. "Somebody from my firm with a couple of years' experience behind them and with our name on their CV can go start a firm and work at one-tenth my cost," says Cyril. "Some clients like that but we don't think it's a scalable model. If they can't scale up more than 10 or 15 [lawyers], no one will take them seriously for larger transactions."

Achieving scale is difficult for Indian firms because of the regulatory environment they face. Partnerships are technically limited to 20 equity partners, though the bigger firms have gotten around that by setting up multiple partnerships. Amarchand has five such partnerships and plans for one more, theoretically allowing for 120 equity partners, although it currently only has 25 equity holders, including equity partners and family members, and 35 nonequity partners. Amarchand 3.0 calls for roughly doubling both figures in five years, both via internal promotion and lateral recruitment. But limited liability partnerships are still not permitted, so all equity partners are personally liable for any debts or judgments against the firm. Lawyers are also barred from advertising and many forms of marketing; Amarchand does not even have a public Web site. Bank lending for law firms barely exists.

That means that the sort of growth seen as routine at international firms is difficult for Indian firms. "The expansionist approach you see in global firms has severe limitations in the context of India," says Shardul. "That you can grow in the Indian context is in some sense a miracle."

That's where the Shroffs as promoters come in. The family puts up just about all the money for the firm's capital expenses. They own Amarchand's office building in Delhi and the several floors that the firm occupies in a Mumbai high-rise. It is only because of the family's backing, says Cyril, that Amarchand can open three new offices in the space of a few months this year.

"Who else can do that?" he says.

PERHAPS, MOST SIGNIFICANTLY, THE SHROFFS pour themselves into the firm.

Cyril, who recently advised Citigroup Inc. on its $1.9 billion sale of its stake in India's Housing Development Finance Corporation Limited, and Shardul, who is leading the firm's work on the Vedanta deal, are often described as the country's leading corporate lawyers. Pallavi has become one of India's top litigators and international arbitration specialists; she recently represented Coal India Limited in a successful cartel case before the Competition Commission of India against eight multinational and domestic explosives manufacturers.

Very few lawyers have left Amarchand to go to a competitor, says Bangalore partner Reeba Chacko.

Kirti Hariharan, a former Amarchand partner who trained under Cyril and is now deputy general counsel for Barings Private Equity Asia in Singapore, says his mentor is sought out by India's top business leaders because he combines keen intellect with a firm grasp of commercial realities. "He's a very practical lawyer," says Hariharan, who says he recently turned to Cyril for help on a tricky regulatory issue. "He's really focused on getting the deal done, not just trying to show off how much he knows."

But the Shroffs also bring to the table what Cyril calls "relationship capital." Companies such as ICICI Bank Limited and the World Bank–backed International Finance Corporation, which were clients in his father's time, are still clients. "The firm may have been small then, but some of our relationships go back a very long way," he says.

A former partner now at another Indian firm says that the outsize contribution the Shroffs make to Amarchand's capital, practice, and client relationships can inspire a strange mix of gratitude and frustration among rising lawyers in the firm. "There is recognition that Amarchand wouldn't be where it was without the efforts of Cyril and Shardul," says the ex-partner. "When you are there, you realize there are all these great clients and deals that someone is bringing into the firm, and you realize it's not you."

The frustration, he adds, comes with the realization that it may never be you. "When Mukesh Ambani's son grows up and takes over the business, he's not going to call you, no matter how good you are," says the ex-partner. "He's going to call Cyril's son because they just saw each other over the weekend at some social gathering."

An international firm partner who covers India out of Hong Kong says he has heard similar thoughts from other Amarchand lawyers. "They say it's great place to train and learn, but then you plateau out," he says.

But Shardul says there is ample opportunity for partners to build their own client relationships. He notes that there are newer industries, like India's burgeoning information technology sector, to which he and Cyril have scant ties. The cities where Amarchand is launching new offices—Ahmedabad, Pune, and Chennai—are centers for emerging industries like IT, pharmaceuticals, and outsourcing. "There is a finite number of relationships that one person can manage," says Shardul. "If somebody has been a schoolmate with someone who's in IT and is starting a company, he will have that relationship. Cyril or I certainly wouldn't have those relationships, because we are now in our fifties."

This past spring, Goulding launched a mentoring program at Amarchand designed in part to ensure that younger lawyers in particular feel empowered to seek new business. "This will take some behavioral change on both sides," he says, adding that the Shroffs need to encourage more lawyers to get involved in client relationship activities. One step in that direction will be the creation of industry-specific practice groups. The new practice heads had not been announced at press time, but Cyril says the idea is aimed at allowing partners to better position themselves as industry specialists, which many already are, and get out from under the shadow of the larger corporate practice.

Only because of the family's backing, says Cyril Shroff, has the firm been able to open three new offices this year.

Much of Amarchand 3.0 aims at including more nonfamily lawyers in decision making or at least rendering those decisions as transparent as possible. A new performance evaluation process sets out clear metrics, including revenue generation but also cooperation with other lawyers and offices, by which all the firm's lawyers, Shroffs and non-Shroffs alike, will be judged. Such evaluations, of course, play a major role in determining compensation at the firm. Though Amarchand adopted a lockstep for its equity partners in 2008, they must still pass periodic performance "gateways" to advance. Goulding says the greater transparency will combat perceptions that certain lawyers may be favored over others.

Even the grooming of the next generation of Shroffs is being handled through a formal process, with Cyril mentoring Shardul's children and vice versa. Shardul stresses that the younger Shroffs will have to prove themselves. "Let's say there are 1,000 people who won't be managed by a Shroff, and there is an extraordinary leader who comes from elsewhere in the firm," he says. "What choice do you think people will make? What choice do you think the family will make, given the capital we've sunk into the firm?"

The cooperation between the brothers on mentoring the next generation, as well on the creation of a joint managing partners' office to coordinate strategy, cuts against persistent rumors that the two brothers don't get along, or are feuding. "We have different personalities," says Shardul, who is the more outspoken of the two. "But it's uncanny, you put us in different rooms and ask each of us what we think about something, we may go about it in a different manner, but we'll reach the same conclusion."

They have certainly reached the same conclusion on the need for Amarchand to focus on the Indian market and stay independent. A major goal of Amarchand 3.0 is to bolster the firm for the eventual opening of the Indian market to foreign competition.

It won't happen soon. Three years ago, the Indian government seemed ready to go ahead with liberalization; back then, Clifford Chance entered into an alliance with AZB in anticipation of a closer integration when the market opened. But the effort foundered amid objection from Indian lawyers—including the Shroffs, who stated their opposition in newspaper and television interviews. Despite persistent lobbying by the British government in particular, there now appears to be zero momentum for a market opening; early last year, AZB and Clifford Chance ended their deal. The one saving grace for foreign firms is that, in February, the Madras High Court ruled that foreign lawyers were not violating Indian law when they visited the country to meet with clients or attend seminars.

"I still think it will happen," says Cyril of liberalization. He says he supports an eventual opening of the market if the regulatory burden on Indian firms, including the limits on partnership size and the ban on advertising, is eased. "But it may take another five years," he adds.

Even if foreign firms could come in today, they would likely blanch at the economics of Indian practice. Rates are low, with the biggest capital markets deals typically handled at flat fees of perhaps $250,000. That's roughly a quarter of the going rate for Hong Kong initial public offerings, which international firms also often bitterly describe as loss leaders. Shardul says the firm's long-term client relationships give it some pricing power, but not much. "I can have the best relationship with a client, but if I don't price myself properly, I will still lose the deal," he says. "It's price plus relationship."

Indian firms still manage to make money because their costs are much lower than those of international firms. "You cannot have a dollar expense-side and a rupee income-side," Cyril jokes. Associate salaries start at under $30,000, and nonequity partners generally earn in the low six figures. Cyril says the profits per equity partner at Amarchand are roughly in the high six figures, comparable to the PPP of firms in the bottom half of The Am Law 100.

The challenge of making money in India may be one reason that international firms have shown more interest in China, which also has fewer restrictions on international firms. Cyril points out as well that India is still at least a decade behind China in terms of economic development. "The Chinese business opportunity is much bigger right now," says Cyril. "The investment in infrastructure, the level of M&A activity, and the size and complexity of capital markets activity is all much greater in China." Indeed, according to figures from Dealogic, the volume of equity capital markets activity in China—not *—Continued on page 65*

Continued from page 27— even including Hong Kong—totaled $90 billion last year. In India, the comparable figure was $9.8 billion. Likewise, China saw almost $193 billion in mergers and acquisitions activity in 2011, over four times India's $45 billion.

Those figures do reflect a slowdown in India that started last year. A wave of corporate scandals undermined investor confidence last year and foreign multinationals are now fretting over a plan by India's Ministry of Finance to retroactively tax cross-border M&A activity involving Indian assets all the way back to 1962. The country's Sensex stock index plummeted 25 percent last year and, in April, the International Monetary Fund lowered its 2012 GDP growth projections for India to 6.9 from 7 percent, already down from over 8 percent a year ago.

Cyril says Amarchand had a good year due to countercyclical practices like litigation, but he foresees some continuing slowness due to political paralysis leading up to the next Indian general election in 2014. As a result, some expansion envisioned by Amarchand 3.0 could be delayed by a year. A return to robust growth after the election, though, could make up for the current slack, Cyril predicts.

When that happens, Cyril thinks the push by foreign firms will begin again in earnest. India is still too big a potential market to ignore. The Swiss verein structures that many firms are adopting or considering in markets like Australia and Singapore suggest one way that foreign firms could overcome the economics of Indian practice, and there will be no shortage of Indian firms eager to sign up with international firms. In fact, Cyril thinks it's one of the few ways Indian firms will be able to scale up, given the Indian regulatory environment. "Either our model will work, or a model where you're owned by an international firm," he says. "The Indian promoter-less model cannot work because it has no scalability."

As their firm nears its hundredth birthday, neither brother can imagine Amarchand merely becoming the India branch of some global behemoth headquartered thousands of miles away. The alternative, then, is to become an even more towering firm at home.

"We want to be the national firm," says Shardul, "but in a dignified way, not struggling for our existence. We will dilute ourselves until there is enough wealth distributed across the firm that we can withstand the forces that will attack. And they will attack—India is going to be a very big market." ■