The Corporate Governance Landscape in India
Agenda

- Increase in Investor Engagement
- Regulatory Push for Corporate Governance
- Corporate Governance Trends in India
- Conclusions of the IFC-BSE-IIAS Governance Study
Agenda

1. INCREASE IN INVESTOR ENGAGEMENT
2. REGULATORY PUSH FOR CORPORATE GOVERNANCE
3. CORPORATE GOVERNANCE TRENDS IN INDIA
4. CONCLUSIONS OF THE IFC-BSE-IIAS GOVERNANCE STUDY
The Indian equity markets

- USD 2.2 tn: Market capitalization on the BSE as on 23 April 2019
- 41.4 mn: Registered investors with BSE on 23 April 2019
- 4,074: Actively traded listed companies on BSE on 23 April 2019
- 9,042: Foreign portfolio investors in Dec 2017
- USD 251.5 bn: Cumulative Net Investments by FPIs in Dec 2017
- 77%: Market Cap / GDP ratio in 2018

The environment has changed: 105 resolutions defeated since 2014

**Director (Re)Appointments**
- Advanced Enzymes
- PTC India
- KPIT Technologies
- Z F Steering (India) Ltd.
- Bharat Electronics
- J&K Bank
- MCX
- Ricoh India (5)
- Finolex Cables (2)
- Sintex Industries
- PVR

**ESOPs / SARs**
- Karur Vysya Bank Ltd.
- Hinduja Global (2)
- UPL Ltd. (2)
- I D F C Ltd.
- MCX
- Karnataka Bank Ltd.
- Dr. Reddy’s Laboratories Ltd. (2)
- ITC Limited (2)
- Teamlease Services (2)

**Related Party Transactions**
- Atul Auto Limited
- Raymond Limited
- Dishman Pharma
- Repco Home Finance Ltd. (2)
- Finolex Cables Ltd.
- Kolte Patil Developers Ltd

**Director Remuneration**
- Apollo Tyres Limited
- JBF Industries Limited
- Gammon India Limited
- McLeod Russel
- Tata Motors Limited (3)
- Advances Enzymes (2)
- Escorts Limited

**Debt and Equity Raise**
- Repco Home Finance (Debt)
- ZEEL (Debt)
- Suzlon Energy (Equity)
- HDIL (Equity)

**Others**
- D S Kulkarni Developers Limited
- Aarti Drugs Limited
- Gayatri Projects Limited
- MCX

*Note: Figures in brackets indicate number of resolutions defeated, in case of multiple defeated resolutions.*

**Source:** IIAS ADRIAN; Data covers companies under IIAS coverage
Investors are getting vocal: promoter have to push through several resolutions

155 resolutions in FY18 and FY19 have had more than 20% of the investors voting against

- HDFC Limited: 22% voted against a director reappointment (Jul 2018)
- Shriram Transport Finance: 43% voted against a director reappointment (Jul 2018)
- J M Financial: 35% voted against related party transactions (Jul 2018)
- IDFC Limited: 30% voted against commission to non-exec directors (Jul 2018)
- Apollo Tyres: 29% voted against a director appointment (Sep 2018)
- Tech Mahindra: 23% voted against ESOPs (Jul 2018)

Source: IiAS ADRIAN; Data covers companies under IiAS coverage
Three reasons why the environment has changed

1. INCREASED INSTITUTIONAL OWNERSHIP

2. INCREASED VOTING PARTICIPATION

3. VOTING ADVISORY (- PROXY FIRMS) HAVE BROUGHT CHANGE
Institutional ownership in Indian equities is increasing

Source: Edelweiss, data covers March 2008 to March 2019
Increased voting participation

Mutual and Pension Funds

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>% For</th>
<th>% Against</th>
<th>% Abstain</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY15</td>
<td>24%</td>
<td>14%</td>
<td>11%</td>
</tr>
<tr>
<td>FY16</td>
<td>14%</td>
<td>11%</td>
<td>13%</td>
</tr>
<tr>
<td>FY17</td>
<td>11%</td>
<td>13%</td>
<td>12%</td>
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<tr>
<td>FY18</td>
<td>13%</td>
<td>12%</td>
<td>11%</td>
</tr>
<tr>
<td>FY19</td>
<td>12%</td>
<td>11%</td>
<td>13%</td>
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FIIs

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</tr>
</thead>
<tbody>
<tr>
<td>FY15</td>
<td>2%</td>
<td>13%</td>
<td>0%</td>
</tr>
<tr>
<td>FY16</td>
<td>0%</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>FY17</td>
<td>0%</td>
<td>0%</td>
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<tr>
<td>FY18</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>FY19</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: IiAS ADRIAN www.iiasadrian.com; Data covers companies under IiAS coverage; Data based on total number of votes cast
Proxy firms (and media) provide push-back

Indian shareholders becoming more assertive: IiAS

Proxy advisory firms give a boost to shareholder activism
Proxy advisory firms give a boost to shareholder activism
Shumeet Chawla

Proxy advisory firms push for more changes in corporate boardrooms
Typically on boards of India Inc, non-independent director tend to hold on longer but serve on fewer boards than their independent counterparts
Samie Modak & Sachin P Mampatta | Mumbai
Last Updated at August 2, 2018 02:29 IST

Sales and profit at MNCs is catching up with royalty payouts, says IiAs
In FY17, 31 MNCs paid about Rs 77.8 billion, which accounted for almost 20 per cent of their pre-royalty pre-tax profits
Samie Modak
Last Updated at February 27, 2018 21:56 IST

Companies with weak performance tend to delay AGMs
Companies with weak financial performance continue to delay their annual general meeting (AGMs), proxy advisory firm Institutional Investor Advisory Services (IiAS) said in a report.

88 listed cos can pay dividends totalling Rs 27,600 cr: IiAS
SEBI’s articulated dividend policy sets the tone for more payouts: IiAS
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India ranks well on protecting minority investors

World Bank’s Doing Business Report: Protecting Minority Investors

Rank in DB 2019: 7
Rank in DB 2016: 10
Fourth generation of governance reforms in India

1997-2000
• Voluntary adoption of Corporate Governance practices

2001-2009
• Focus on accounting, auditing and disclosures – driven by the 2002 Sarbanes Oxley Act

2009-2014
• Regulatory rebound following the Satyam Computers fiasco

2014 onwards
• Empowering stakeholders
• Driving better governance through regulation

- Rahul Bajaj Committee
- Kumar Mangalam Birla Committee
- Naresh Chandra Committee
- Narayana Murthy Committee
- JJ Irani Committee
- Second Naresh Chandra Committee
- Companies Act 2013
- SEBI LODR Guidelines
- Kotak Committee
## Regulations aligning with G20/OECD Principles

<table>
<thead>
<tr>
<th>Ensuring the basis of an effective corporate governance framework</th>
<th>The rights and equitable treatment of shareholders and key ownership functions</th>
<th>Institutional investors, stock markets and other intermediaries</th>
<th>The role of stakeholders in corporate governance</th>
<th>Disclosure and Transparency</th>
<th>The responsibilities of the board</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Mix of mandatory and non-mandatory provisions</td>
<td>• Right to approve amendment to charter documents</td>
<td>• Disclosures on voting policy</td>
<td>• Mandatory CSR contribution</td>
<td>• Ownership structure</td>
<td>• Director training</td>
</tr>
<tr>
<td>• Autonomy to regulators</td>
<td>• Right to propose a resolution</td>
<td>• Disclosures on voting patterns</td>
<td>• Push towards &lt;IR&gt;</td>
<td>• Accounts and financial metrics</td>
<td>• Min. no. of independent directors</td>
</tr>
<tr>
<td>• Penal action for non-compliance</td>
<td>• Right to call a general meeting</td>
<td>• Prohibition of insider trading</td>
<td>• Detailed Whistleblower policy</td>
<td>• Key risks</td>
<td>• Appointment of lead independent director</td>
</tr>
<tr>
<td>• More stringent norms for listed companies</td>
<td>• Right to elect the board</td>
<td>• Proxy advisors and other advisors required to be registered with market regulator</td>
<td>• Mandatory POSH Policy</td>
<td>• Related party transactions</td>
<td>• Separate meeting of independent directors</td>
</tr>
<tr>
<td>• Delegation of compliance monitoring to Stock Exchanges</td>
<td>• Right to file class action suit</td>
<td>• Mandatory arms-length transfer pricing</td>
<td>• Woman director on board</td>
<td>• Board demographics</td>
<td>• Policies on tenure, age and maximum no of directorships</td>
</tr>
</tbody>
</table>

- Mandatory arms-length transfer pricing
Five regulations that are unique to India

**BOARD EVALUATION**
- Evaluation must be conducted at least once every year.
- Process and criteria for evaluation of the board and the committees must be disclosed.

**AUDITOR ROTATION**
- Maximum tenure of an audit firm curtailed to two consecutive terms of five years each
- Audit partner rotation every five years
- Auditors are barred from providing non-audit services

**CORPORATE SOCIAL RESPONSIBILITY**
- At least 2% of average profit of the past three years to be spent in CSR.

**WOMAN DIRECTOR**
- Every board must have at least one woman director

**DIVIDEND POLICY**
- Top 500 companies must disclose their dividend policy

Comparison of Indian regulations with those in USA, UK, Singapore, and Australia
Kotak Committee: Key themes

**Board effectiveness**
- Ensure skill, knowledge and gender diversity
- Enhance board independence
- Ensure director participation
- Strengthen committee functioning

**Monitoring of group entities/transactions**
- Increase oversight on subsidiaries
- Perform secretarial audit for subsidiaries
- Allow negative votes for related parties
- Introduce thresholds for royalty payouts and director remuneration

**Disclosures and transparency**
- Expand nature and types of disclosures
- Ensure searchable and standardized formats
- Disclose key changes in financial indicators
- Disclose long-term and medium-term strategy
- Improve disclosures in valuation reports

**Audit quality**
- Determine impact of audit qualifications
- Enhance quarterly disclosures
- Expand scope of internal controls
- Disclose auditor credentials/fees at time of appointment and reasons for resignation
- Disclose auditor credentials/fees at time of appointment and reasons for resignation

**Investor participation**
- Revise AGM timelines
- Share webcasts of AGMs
- Encourage institutional investor to adopt stewardship code
- Remove voting rights for treasury stock
- Disclose board’s view on all resolutions
Stewardship sponsored by Indian regulators

- E-voting
- Mutual Funds to disclose voting rationale

IRDA publishes draft for a Stewardship Code

Mutual Funds to publish their voting policy

Pension regulator compels pension funds to vote

2010

2012

2014

2016

2017

2018

Mutual Funds to publish their votes on resolutions

PFRDA asks pension funds to adopt a Stewardship code
INCREASE IN INVESTOR ENGAGEMENT

REGULATORY PUSH FOR CORPORATE GOVERNANCE

CORPORATE GOVERNANCE TRENDS IN INDIA

CONCLUSIONS OF THE IFC-BSE-IIAS GOVERNANCE STUDY
15% Women Representation on boards, on average

19% Companies with Independent Chairpersons on their board

8.2 Years Average director tenure

52% directors in each of the NIFTY 500 companies, on average, are Independent

Source: Prime Database, IiAS Research
Sample size: NIFTY 500 index and Board composition as on 31 Mar 2019
The average tenure of Independent directors on the board has been steadily declining after the regulations of Companies Act, 2013 kicked in.

Source: Prime Database, IiAS Research
Sample size: NIFTY 500 index
Tenure caps for independent directors across markets

- **12 to 15 years**: No independence
  - Belgium, France, Poland, Spain, Luxembourg
  - Denmark, Greece, Slovak Republic, Slovenia

- **8 to 10 years**: No independence
  - Estonia, India, Latvia, Portugal
  - Israel

- **8 to 10 years**: Explain
  - Indonesia, United Kingdom
  - Hong Kong, Ireland, Italy, Singapore

- **5 to 7 years**: No independence
  - Argentina, Turkey
  - Russia

- **5 to 7 years**: Explain
  - China, Iceland

Source: OECD Corporate Governance Factbook 2017
Board Trends: Board size

Source: Prime Database, IiAS Research
Sample size: NIFTY 500 index
Supported by the Companies Act, 2013 regulation mandating at least one woman director on the board, the proportion of women on boards has increased over the last few years.

Source: Prime Database, IiAS Research
Sample size: NIFTY 500 index
Cash Hoarding: Rs. 1.08 trillion in excess cash

75 of the BSE 500 companies can return Rs.1.08 trillion to their shareholders (in incremental dividends or buybacks)

<table>
<thead>
<tr>
<th>Companies where the excess cash translates into an additional dividend yield of more than 15%</th>
<th>Companies that can distribute over 75% of their 31 March 2018 on-balance-sheet cash</th>
<th>Five companies alone can distribute over 50% of the excess cash (Rs. 566 bn)</th>
</tr>
</thead>
</table>
| • Indian Energy Exchange Limited (30%)  
• MOIL Limited (28%)  
• Multi Commodity Exchange of India Limited (20%)  
• Bharat Heavy Electricals Limited (19%)  
• Godfrey Philips India Limited (15%) | • Abbott India Limited (82%)  
• Symphony Limited (81%)  
• Dr. Lal Pathlabs Limited (79%)  
• Bajaj Consumer Care Limited (79%)  
• Godfrey Phillips India Limited (77%)  
• Honeywell Automation India Limited (77%)  
• Bata India Limited (76%)  
• Pfizer Limited (76%)  
• Hindustan Zinc Limited (75%) | • Hindustan Zinc Limited (Rs. 167.1 bn or Rs. 39.5 per share)  
• ITC Limited (Rs. 114.3 bn or Rs. 9.4 per share)  
• Wipro Limited (Rs. 109.2 bn or Rs.24.1 per share) - *Buyback of Rs.105 bn was subsequently announced by Wipro Limited  
• TCS Limited (Rs. 97.2 bn or Rs. 50.8 per share)  
• Bajaj Auto Limited (Rs. 78.6 bn or Rs. 271.8 per share) |

Source: ACE Equity, IiAS Research
Note: Analysis is based on financial statements ending 31 March 2018
Companies increased their CSR spend by 5.8% to Rs. 74.57 bn in FY18 from Rs. 70.50 bn in FY17.

The BSE 100 companies spend 1.9% of three year average profits on CSR in FY18, which is same as spent in FY17.

68 companies have complied with the Act, spending 2% of average three-year profits, compared to 59 last year.

The top 5 companies in terms of CSR spends in FY18 were Reliance Industries, ONGC, TCS, HDFC Bank and IOCL.

Companies primarily spent on Education, Hunger, Poverty & Healthcare, Rural Development and Environmental Sustainability.

78 companies conducted impact assessment of their CSR initiatives, of which 10 companies followed G4 Guidelines.

Source: ACE Equity, IiAS Research
Note: Analysis is based on financial statements ending 31 March 2018
MNCs: 16 MNCs pay royalty of over 2% of revenues

Aggregate royalty and performance of 30 MNCs in India

Source: Company Annual Reports, IiAS Research
Note: Analysis is based on financial statements ending 31 March 2018
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Indian Corporate Governance Scorecard: Evaluation Framework

Indian Corporate Governance Scorecard

- Rights and equitable treatment of all shareholders (30% weight)
- Responsibilities of the board (30% weight)
- Role of stakeholders (10% weight)
- Disclosure and transparency (30% weight)

Total score = 100

Supported by the Government of Japan
GOVERNANCE SCORE CATEGORIES.

- LEADERSHIP (>=70)
- GOOD (60-69)
- FAIR (50-59)
- BASIC (<50)
Why Governance Matters

BSE SENSEX (2016 Study)
2 Year Median Return

BSE 100 (2017 Study)
1 Year Median Return

39%
3%
30

Median return refers to the median of the share price increases of individual scrips over the stated period.
THE GOOD GET BETTER.

SENSEX BSE 100

Percentage of companies in each governance category

Median, maximum and minimum scores for SENSEX companies
THE GOOD GET BETTER.

SENSEX  BSE 100

Category wise median, maximum and minimum scores for BSE 100 companies

Distribution of governance scores for the BSE 100 companies
Relative Performance of 100 companies

Category

- Rights and equitable treatment of shareholders
- Role of stakeholders
- Disclosures and transparency
- Responsibilities of the board
- Total Score

Relative performance
Industry wise median scores for BSE 100 companies

- Financials: 61 (2018), 64 (2017)
- Consumer Discretionary: 59 (2018), 60 (2017)
- Utilities: 54 (2018), 54 (2017)
Ownership wise median scores for BSE 100 companies

- **2018**
  - MULTI-NATIONAL: 65
  - WIDELY HELD: 64
  - FAMILY OWNED: 61
  - PUBLIC SECTOR: 51

- **2017**
  - MULTI-NATIONAL: 62
  - WIDELY HELD: 65
  - FAMILY OWNED: 61
  - PUBLIC SECTOR: 54
The 50 IPO companies comprise of those that listed on BSE between April 2015 and March 2017.
Category wise median, maximum and minimum scores for IPO companies

Overall
- Median: 65
- Maximum: 84
- Minimum: 40

Rights of shareholders
- Median: 65
- Maximum: 76
- Minimum: 32

Role of stakeholders
- Median: 67
- Maximum: 41
- Minimum: 11

Disclosures & transparency
- Median: 65
- Maximum: 53
- Minimum: 36

Responsibilities of the board
- Median: 84
- Maximum: 53
- Minimum: 36
Comparative Performance

- **IPO**: 55
- **BSE 100 (excl. SENSEX)**: 57
- **SENSEX**: 60
### Board Composition

#### Governance Themes

<table>
<thead>
<tr>
<th>Comparison</th>
<th>BSE 100</th>
<th>IPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies where at least one non-executive director has prior work experience in the industry.</td>
<td>89%</td>
<td>62%</td>
</tr>
<tr>
<td>Companies with at least one non-promoter woman director</td>
<td>88%</td>
<td>74%</td>
</tr>
<tr>
<td>Companies where Chairperson and CEO roles are separated</td>
<td>57%</td>
<td>42%</td>
</tr>
</tbody>
</table>

▲ Improvement    ▼ Deterioration    ◄► No change
<table>
<thead>
<tr>
<th>Governance Themes</th>
<th>BSE 100</th>
<th>IPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies where all directors have attended training programs</td>
<td>7% ▼</td>
<td>Nil</td>
</tr>
<tr>
<td>Companies where all directors have more than 75% attendance</td>
<td>55% ▲</td>
<td>30%</td>
</tr>
<tr>
<td>Companies where all directors attended last AGM</td>
<td>16% ▲</td>
<td>4%</td>
</tr>
<tr>
<td>Companies where the board has discussed succession planning</td>
<td>9% ▲</td>
<td>6%</td>
</tr>
<tr>
<td>Companies where a board improvement plan was disclosed</td>
<td>5% ▲</td>
<td>Nil</td>
</tr>
</tbody>
</table>

▲ Improvement  ▼ Deterioration ◄► No change
## Governance Themes

### Conflict of Interest

<table>
<thead>
<tr>
<th></th>
<th>BSE 100</th>
<th>IPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies where it is explicitly mentioned that interested directors will abstain from voting and discussion on RPTs</td>
<td>51% ▼</td>
<td>77%</td>
</tr>
<tr>
<td>Companies where there is a system to facilitate disclosures of conflicts of interest by employees</td>
<td>60% ▼</td>
<td>60%</td>
</tr>
</tbody>
</table>

▲ Improvement  ▼ Deterioration  ◄► No change
### BSE 100 vs IPO

<table>
<thead>
<tr>
<th>Category</th>
<th>BSE 100</th>
<th>IPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies where the supplier selection or management process is disclosed</td>
<td>57% ▲</td>
<td>8%</td>
</tr>
<tr>
<td>Companies where the whistle-blower policy extends to all stakeholders</td>
<td>37% ▲</td>
<td>22%</td>
</tr>
<tr>
<td>Companies where the CSR spend is at least 2% of net profits over the past three years</td>
<td>70% ▲</td>
<td>46%</td>
</tr>
<tr>
<td>Companies where the areas of CSR spending and impact assessment have been disclosed</td>
<td>21% ▲</td>
<td>4%</td>
</tr>
</tbody>
</table>

▲ Improvement  ▼ Deterioration  ◄► No change
Companies where executive pay was in line with revenues and profits over three years

BSE 100: 44% ▲
IPO: 48%

Companies with stock options which were granted at discount to market price

BSE 100: 66% ▲
IPO: 67%

▲ Improvement  ▼ Deterioration  ◄► No change
In alphabetical order

- Hindustan Unilever Limited
- Infosys
- marico
- Wipro
- Airtel
- Crompton
- HDFC
- HDFC Bank
- Mahindra Finance
- Tata Motors

Logos taken from individual company website
TOP PERFORMERS.

In alphabetical order

Logos taken from individual company website
Shaping the governance debate

- Event-based
- Thematic
- Regulatory
- Special reports
About IiAS

Board of Directors

Anil Singhvi, Founder and Non-Executive Chairperson
Chairperson, ICAN Investments

Amit Tandon, Founder and MD
Ex-MD, Fitch Ratings India and Sri Lanka

Renuka Ramnath
Founder, Multiples Alternate Asset Management Pvt Ltd

Robert Pavreya
Practising Company Secretary

Deven Sharma
Ex-President, Standard & Poor’s

Management Team

Amit Tandon
Managing Director

Hetal Dalal
Chief Operating Officer

Our Shareholders

 AXIS BANK
 HDFC
 Fitch Ratings
 ICICI Prudential
 RBL Bank
 Kotak Mahindra Bank
 Tata
 UTI
 YES Bank
 Tata Investment Corporation Limited
markets ∩ governance