



IiAS VOTING GUIDELINES

2019-20



VOTING GUIDELINES

The Voting Guidelines outlined in this report form the bedrock of Institutional Investor Advisory Services' (IiAS) voting recommendations on shareholder resolutions. These guidelines have been developed based on the requirements of Indian regulations, best practices in corporate governance (both in India, and globally), and feedback from market participants. The voting guidelines also factor in data from ADRIAN (www.iiasadrian.com) and comPAYre (www.iiascompayre.com), IiAS' proprietary cloud-based tools that capture data on shareholder voting analytics and executive remuneration respectively.

This is the sixth edition of the guidelines – we first published our guidelines in 2013. Our voting guidelines are revised annually, based on changing regulations, and market feedback from investors, companies, and other participants.

To provide clarity, this publication includes reference to relevant regulations, the type of resolution (ordinary or special), meeting at which these are voted on (Annual General Meeting, Extra-ordinary General Meeting, Postal ballot), and risks related to specific resolutions. This year, we have also added data pertaining to investor engagement in the past three years for critical resolutions.

SUMMARY OF CHANGES IN THE 2019-20 VOTING GUIDELINES

Auditor (Re)Appointments: The criteria for auditor evaluation has been augmented to check for the nature, track record and experience of the audit firm and partner(s). IiAS will now check for audit fees and how the quantum/growth in such fees stack up with peers, company size and performance. For removal of auditors, IiAS may not support the proposal if the latest audit reports (annual/quarterly) contain adverse remarks (qualification/matter of emphasis) or if IiAS has reason to believe that the removal will undermine the integrity of the audit review.

Director (Re)Appointments: Attendance through alternate directors will no longer be considered. Guidelines for evaluating reputation risk of directors have been defined. Independence checks have been tightened to prevent former executives coming on the board while their previous supervisors continue to remain a director. In the case of director removal, IiAS will generally support the removal of executive directors if these have been presented by the controlling shareholders.

Remuneration of directors: Criteria for remuneration proposals of executives getting paid from two sources have been detailed. IiAS will not support deeply discounted stock options being granted to select executives. The pay assessment framework for non-executive directors has been expanded.

Charter documents: Specific clauses in the charter documents which have a potential for misuse and are detrimental for shareholders have been listed out. IiAS will not support the adoption of charter documents which contain such clauses.

Issuance of debt securities: All debt instruments (debentures, fixed deposits and redeemable preference shares) have now been clubbed under one category. IiAS will consider risk for shareholders in investing in such securities before recommending.

Related Party Transactions: Provisions for analysing royalty payments and 'office of profit' proposals have been included.

As a general principle, wherever resolutions are clubbed, IiAS will continue to evaluate each component separately. IiAS will vote FOR if all parts of the clubbed resolution meet IiAS' Voting Guidelines.

These guidelines help investors in framing their own philosophy of voting on shareholder resolutions. For companies, these guidelines help draft shareholder resolutions that pre-empt questions. Ultimately it is for investors, companies, regulators and other market participants to decide how to make the most of this document. But they must remember the philosophical underpinnings behind our guidelines: equitable treatment of all shareholders.

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ABOUT THE DOCUMENT

This publication lists 28 types of resolutions on which shareholders are routinely asked to vote, the relevant regulations, the disclosures that IiAS will review, and how IiAS will typically recommend voting on these.

ABBREVIATIONS

Given below is the set of abbreviations which will be used throughout the document.

Act/ Companies Act: Companies Act, 2013, and all amendments thereof

AGM: Annual General Meeting

EGM: Extraordinary General Meeting

FPO: Follow-on Public Offer

Ind AS: Indian Accounting Standards

IPO: Initial Public Offer

MCA: Ministry of Corporate Affairs

NCLT: National Company Law Tribunal

NCM: National Company Law Tribunal Convened Meeting

PB: Postal Ballot

RPT: Related Party Transaction

SEBI: Securities and Exchange Board of India

SEBI (LODR): SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, and all amendments thereof

SEBI (ICDR): SEBI (Issue of Capital And Disclosure Requirements) Regulations, 2018, and all amendments thereof

A LOOKBACK AT THE YEAR

Between January-December 2018, IiAS analysed 6,372 resolutions in the following categories:

IiAS Voting Recommendations

CATEGORY	ABSTAIN	AGAINST	FOR	TOTAL
Adoption of Accounts	793		2	795
Alterations to Charter Documents		28	158	186
Audit		31	797	828
Borrowing		17	308	325
Capital Reduction			20	20
Director Appointments	3	353	1,645	2,001
Dividend	5		598	603
ESOPS		114	98	212
General	1	37	83	121
Issue of Securities		10	193	203
Related party transactions		50	137	187
Remuneration and Compensation		92	674	766
Restrictions on Power of Board		36	89	125
2018	802	768	4,802	6,372
2017	691	446	4,532	5,669
2016	672	690	4,065	5,427

This year, many companies put up resolutions for the continuation of the directors aged more than 75 years on the board. Given the presence of vintage i.e. those on the board for more than 10 years, independent directors in India Inc., the maximum AGAINST recommendations were recorded for this resolution category. Executive pay continued to remain in focus and, as earlier, IiAS recommended voting against remuneration excesses. Stock option schemes have also come in the limelight. Last year, IiAS changed its voting policy on stock option schemes to recommend voting against schemes where the exercise price is at a deep discount to market price. Consequently, for the first time, the number of AGAINST recommendations on option schemes exceeded the number of FOR recommendations. This is also reflected in voting outcomes – during the year, several resolutions for stock options schemes were defeated by shareholders.

Further, as highlighted throughout the remaining document, each category of resolution has seen the voting abstention ratios decline over the past three years – indicating greater investor participation and engagement.

THE VOTING RECOMMENDATION PROCESS

IiAS is an advisory firm dedicated to providing participants in the Indian market with independent opinion, research and data on corporate governance issues as well as voting recommendations on shareholder issues. IiAS is a SEBI-registered research entity (proxy advisory registration number: INH000000024).

This section summarizes the process followed to finalize IiAS' voting recommendations. Our voting advisory reports recommend how investors should vote on shareholder resolutions – the advisory reports are non-binding and do not carry any buy, sell, or price recommendation.

IiAS Recommendation Process Flow



The process is initiated when a company issues a shareholder notice (Annual General Meeting, Extra-ordinary General Meeting, Postal Ballot or NCLT-Convened Meeting). The analyst examines the agenda items and reviews publicly available information including the annual report, stock-exchange filings, and other information that is relevant to reach a voting recommendation. It may include market information, if it is considered relevant. The analyst will prepare the report and decide on the recommendations based on the IiAS Voting Guidelines and the internal IiAS Operating Manual. When needed, the analyst may seek clarifications from the company (read [IiAS Policy on Communication with Investors, Companies and Media](#)) on the resolutions.

Primary Inputs for IiAS Reports



The final voting recommendations on shareholder resolutions are decided through a committee-based process. The Review and Oversight Committee (ROC) oversees the voting recommendations published by IiAS on shareholder resolutions (read [IiAS Policy on Review and Oversight Committee](#)).

As part of the process, IiAS voting recommendations are sent to the company before they are published and sent to investors. During this period, if the company provides additional information that was not considered while finalizing the recommendation, the committee is reconvened, and the recommendations reviewed. IiAS will typically disclose the additional information provided by the company in its voting advisory report.

In cases the ROC decides to deviate from the stated Voting Guidelines, such differences are explained in the voting advisory report.

The voting recommendations are published in a report format, with details of the meeting, particulars about the company, its past performance, and an analysis of the resolutions being presented. Our voting recommendation reports are easy to read: we publish a summary rationale for each resolution and the detailed analysis, which includes the regulatory landscape supporting the resolution and the IiAS Voting Guidelines on the specific issue. Our voting recommendation reports are usually sent to subscribers at least 12 days before the shareholder meeting to ensure that investors' governance teams have sufficient time to come to an agreement regarding their vote.

Voting

Several institutions now use IiAS' Voting Management System (VMS) to conduct internal committees and to vote on shareholder resolutions. IiAS VMS is a cloud based secured service that helps investors track shareholder meetings, Shareholders using IiAS VMS can receive meeting notifications and agendas, conduct internal meetings, vote directly or through their custodians. The platform helps in recording, keeping and filing disclosures in line with Indian regulatory requirements. It also provides information on how shareholders have voted on resolutions presented by the company in the past, giving users a broader perspective of other investors' view on the company and its resolutions.

In case you are interested in knowing more about IiAS' voting platform or are interested in a demonstration, please contact us on +91 (0)22 6123 5515 or write to us at solutions@iias.in.



ADRIAN is a cloud based analytical tool that captures shareholder meetings and voting data for over 780 companies, representing almost 95% of our market-cap.

ADRIAN provides packaged data that can be used to track investor reactions and market trends. This allows users to gain insights on how investors view specific issues and gain greater predictability regarding how they might vote on similar shareholder resolutions.

ADRIAN's data repository includes:

- Notices and explanatory statements.
- Voting outcomes.
- Investor/Mutual fund/Select FII and category wise voting data.
- Rationale provided by institutional investors (mutual funds) while voting on resolutions.
- IiAS voting recommendations.

Key features of **ADRIAN**:

- **Unique:** Only source of searchable investor voting data.
- **Simple:** Easy to use and intuitive.
- **Powerful:** Multiple search and analytical capabilities.
- **Cloud-based:** Synced with the cloud.
- **Always new:** Constant updates. Constant upgrades.
 - Already has notices and outcomes of 5900+ shareholder meetings and 35000+ resolutions.
- **Comprehensive:** Over 780 companies, representing over 90% of our market- cap.
- **Flexible:** Resolutions are tagged by section number under the Companies Act and by category i.e. company name, investor name, resolution type (remuneration, director appointments, related party transactions etc.).
- **Voting patterns:** Data on how promoters, institutional investors and retail investor vote.

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ARE YOU AN NRC MEMBER?

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1. ADOPTION OF ACCOUNTS

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
✓ High Medium Low	AGM	Sections 129(2) and 134	-	Ordinary

IiAS GUIDELINES

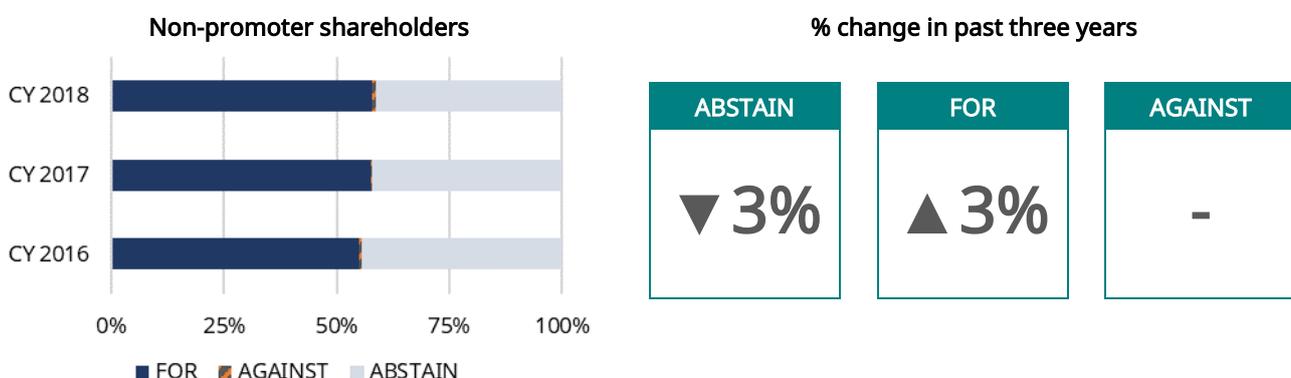
IiAS believes that a comprehensive review of the financials of a company is a critical exercise which often requires first-hand information and proper due diligence. Given the limited time between receipt of the audited accounts/annual report and the shareholder meeting, IiAS does not make a voting recommendation on this resolution but provides some commentary on key financial parameters. If the company has material subsidiaries, the analysis will focus on the consolidated financials.

IiAS will highlight the observations, comments, or qualifications made in the statutory audit report and the secretarial audit report. We also raise concerns, wherever relevant, on specific issues that need to be addressed by the company – these could be pertaining to cyber security issues, quantum of losses on account of frauds, or any other non-financial information. Refer to [ANNEXURE A](#) (sample accounts page).

SUMMARY NOTES

KEY RISKS	HIGHLIGHTS	RELATED RESEARCH
<ul style="list-style-type: none"> • Auditor Qualifications • High Contingent Liabilities • Opaque Related Party Transaction • Change in Accounting Policies • High Leverage • Window Dressing 	IiAS does not provide voting recommendation on adoption of accounts.	<ul style="list-style-type: none"> • Giving IT its due in the boardroom (Nov 2017)

PAST VOTING PATTERN



Source: IiAS Adrian; Past voting patterns are based on aggregate number of votes cast.

2. AUDITOR (RE)APPOINTMENT

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
✓ High Medium Low	AGM EGM (removal)	Section 139: Appointment Section 140: Removal Section 142: Remuneration Section 144: Non-audit services Section 148: Cost auditors	Regulation 36 Schedule V	Ordinary Special (removal)

REGULATORY SNAPSHOT

Auditor Rotation

The Act mandates rotation of individual auditors every five years and of the audit firm after a maximum period of ten years i.e. (after two terms of five years each) for listed companies. A cooling-off period of five years is required, to be considered eligible for re-appointment. The Act gave companies a three-year period to comply, which expired in FY17.

Auditor Services

Section 144 of the Companies Act, explicitly prohibits Statutory Auditors from undertaking any assignment other than the statutory audit. But network firms of the statutory auditor may be allowed to undertake other professional assignments, including providing advisory and consulting services.

Audit fees

As per SEBI (LODR), notice to shareholders for auditor (re)appointment should include an explanatory note regarding details of the fees proposed, basis of recommendation for appointment and the details / credentials of the statutory auditor. Additionally, the total fees paid to the audit network firms for all rendered services at a consolidated level will be disclosed in the annual report.

IiAS GUIDELINES

IiAS policy on auditor (re)appointment is guided by the same principles as laid down in the regulations. Fundamentally, IiAS believes that auditor tenure of over 10 consecutive years blunts the objectivity of the audit process and the independence of the auditor, as they may take ownership over interpretation of policy.

Best practice

We encourage audit committees to assess audit quality by using tangible metrics while (re)appointing auditors or ratifying their audit appointments (refer our framework on [audit quality indicators](#)). SEBI has opined that this issue falls under the purview of ICAI/NFRA; and these institutions will examine and implement as it deems fit.

IiAS will recommend voting FOR on the (re)appointment of statutory auditor unless:

- Tenure of audit firm/network is more than 10 years
- The size of the audit firm is small relative to the size of the company
- The firm/partner(s) do not have experience of auditing companies in the same industry or of similar size or complexity
- The firm/partner(s) have a poor track record/reputation
- There is an affiliation/association of the new firm/partner(s) with the rotated firm
- There is an affiliation/association of the audit firm/partner(s) with the promoter group
- There is no peer review conducted for the audit firm

Other factors which IiAS will consider include:

- Tenure of audit partner (must not exceed five years)
- Quantum, growth and nature of audit fees
- Consulting services provided by network partners of the audit firm

Reappointment of vintage auditors in companies that are spin-offs of a larger company: for such companies, IiAS construes tenure to include the period during which when the company was being audited as a division of a larger company (prior to the spin-off into a separate company). Accordingly, IiAS will consider the aggregate tenure of auditors, which will include that with the parent company.

Auditor (Re)appointment in Public Sector Units (PSU) and Public Sector Banks (PSB)

The appointment of auditors in PSUs directly vests with the Comptroller and Auditor-General of India (CAG). PSBs appoint auditors selected from a list prepared by the CAG and approved by the Reserve Bank of India (RBI) and are required to appoint multiple auditors depending on the PSB's size. In PSUs/PSBs, shareholder approval is only required to approve the remuneration of the statutory auditors. This denies shareholders the opportunity to voice their opinion on the suitability of the chosen audit firms. Although these auditors are periodically rotated, shareholder approval must be sought for appointment with adequate disclosures on size/experience of the firm and its partners.

Resignation and removal of auditors

Auditor resignation has been a cause of concern for investors, especially when the resignations take place just before the completion of accounts. In line with the SEBI (LODR), we believe auditors must clearly articulate their reasons for resigning. While voting upon the appointment of auditors to fill the casual vacancy caused by such resignations, IiAS will raise concerns if the reasons for auditor resignation are not sufficiently well articulated.

The same disclosure requirements apply for auditor removal. If the board proposes the removal of the auditors, IiAS expects a detailed rationale for the move. While such proposals will be decided on a case-to-case basis, IiAS may not support the removal if the latest audit reports (annual/quarterly) contain adverse remarks (qualification/matter of emphasis) or if IiAS has reason to believe that the removal will undermine the integrity of the audit review.

Payment/Ratification of Remuneration to Cost Auditor

Under the Act, remuneration of cost auditors must be ratified by shareholders via an ordinary resolution. In IiAS' observation, remuneration to cost auditors is usually commensurate with the size and complexity of the business. Therefore, IiAS generally recommends voting FOR such resolutions.

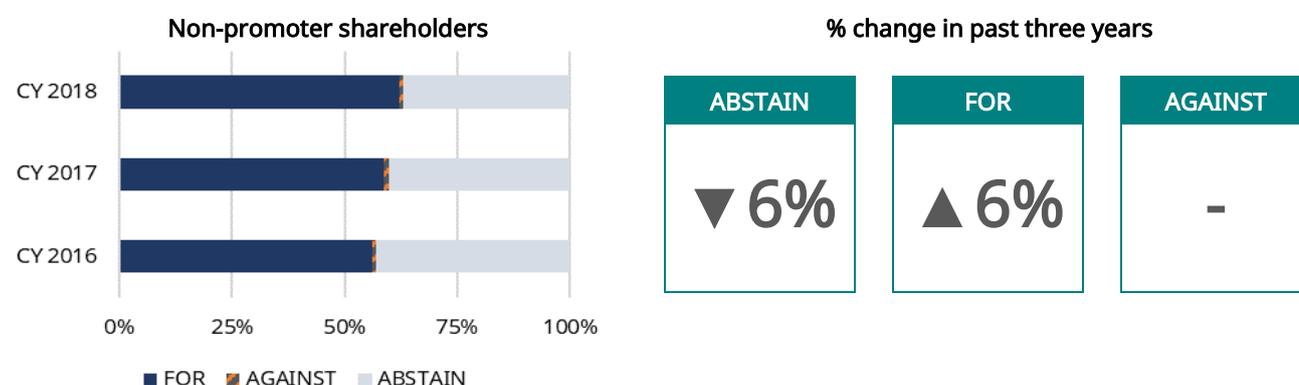
Audit committee composition

IiAS believes the membership of promoters and executive directors presents possible conflict of interest. To that extent, IiAS does not support their membership in these committees and may raise this concern in its discussion on board and board committee compositions.

SUMMARY NOTES

KEY RISKS	HIGHLIGHTS	RELATED RESEARCH
<ul style="list-style-type: none"> • Audit Partner Tenure • Track record and experience of audit firm and partner • Auditor proximity to the board/company/promoters • High auditor fees 	<p>The objectivity of the auditor determines the quality of the audit process.</p>	<ul style="list-style-type: none"> • Auditors: Signing Out (Jun 2018) • Auditing the Auditors: Audit Quality Indicators (Mar 2017) • Bank Audits: Auditor Remuneration (May 2014)

PAST VOTING PATTERN*



Source: IiAS Adrian; Past voting patterns are based on aggregate number of votes cast.

* Indicates voting data for all auditor related resolutions, including remuneration for cost auditors

3. DIVIDEND DECLARATION

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
High Medium ✓ Low	AGM	Section 123, Secretarial Standard -3	Regulation 43A	Ordinary

REGULATORY SNAPSHOT

In July 2016, SEBI mandated the top 500 listed companies based on market capitalization to formulate a dividend distribution policy. This policy should be disclosed in the respective companies' annual reports and on their websites. This requirement has been further mandated by the Companies Act under the Secretarial Standard - 3 on Dividend made effective from 1 January 2018.

In May 2016, Department of Investment and Public Asset Management released guidelines on Capital Restructuring of Central Public-Sector Enterprises which required every Central Public Sector Enterprises to pay 30% of profit after tax or 5% of networth, whichever is higher, as dividend to shareholders. PSEs are required to justify dividend pay-out if it is lower than the specified limit.

iias GUIDELINES

iias will generally recommend voting FOR the proposed dividend pay-out (whether on equity or preference shares).

iias may advise shareholders to request a higher dividend if:

- Growth in dividend is not commensurate with the improvement in financial performance
- Growth in dividend is not commensurate with growth in royalty payments and/or managerial compensation
- The dividend pay-out is consistently lower than industry average
- The company has a large cash balance and has not communicated its use of cash surplus to shareholders

iias may, in rare instances, caution investors and recommend voting AGAINST a high dividend pay-out which may impact the long-term interests of shareholders. Such instances may include:

- The company's profitability is poor, or the company is routinely reporting losses
- The company has defaulted on any of its loan obligations
- Operating cash flows are weak
- For banks or financial institutions: If the capital adequacy is hovering at the regulatory threshold

iias will flag off the cases where the company does not have an articulated dividend policy.

As per Ind AS, the liability for final dividend on equity shares is recognized as liability in the period in which dividend is approved by the shareholders. However, iias will continue to look at proposed dividend vis-à-vis the applicable year's PAT to analyse the pay-out for the year.

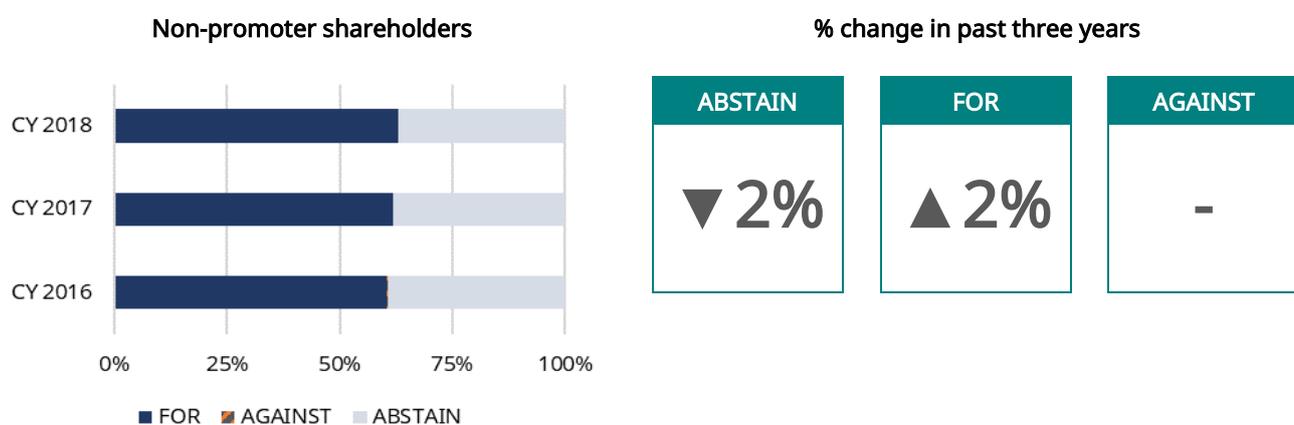
Practices that companies can follow:

- Specify a Target Pay-out Ratio/Range:** Companies must specify a target pay-out ratio (or pay-out range).
- Utilization of cash balances:** Companies with surplus funds need to clearly communicate their strategy for cash retention.
- Disclosures on policy deviation:** In case the company needs to deviate from its stated policy, it must provide the rationale for the deviations, along with the expected timelines within which the company proposes to revert to the stated policy.
- Approval Process:** Shareholders must be given an opportunity to express their opinion on the dividend policy. This can be achieved through a consultation process or through a shareholder vote in the company's general meetings. At the very least, the dividend policy must be approved by the company's board.

SUMMARY NOTES

KEY RISKS	HIGHLIGHTS	RELATED RESEARCH
<p>For low dividend</p> <ul style="list-style-type: none"> High cash and equivalents Low pay-out ratios compared to peers <p>For high dividend</p> <ul style="list-style-type: none"> Inadequate profits Large contingent liabilities 	<p>IiAS does not favour cash hoarding and encourages companies to articulate a dividend policy.</p>	<ul style="list-style-type: none"> 75 companies can distribute almost Rs.1.1 trillion more (Apr 2019) Dividends: SEBI mandates a policy (Oct 2016)

PAST VOTING PATTERN



Source: IiAS Adrian; Past voting patterns are based on aggregate number of votes cast.

4. APPOINTMENT/RE-APPOINTMENT OF INDEPENDENT DIRECTORS

5. APPOINTMENT/RE-APPOINTMENT OF NON-INDEPENDENT DIRECTORS

6. APPROVE NOT FILLING CASUAL VACANCY ON THE BOARD

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
✓ High Medium Low	AGM, EGM, PB	Sections 149, 152 and 161	Chapter IV, Regulations 17 and 25	Ordinary: Appointment Special: Reappointment

REGULATORY SNAPSHOT

Non-executive directors do not occupy any full-time position in the company. In general, they can be grouped under the following categories:

- Independent Directors
- Non-executive Non-Independent Directors
 - Promoter/Promoter Group/Relative
 - Former senior executives, with less than three years cooling-off period
 - Person with significant association that include those who:
 - Provide professional services to the company, or to an affiliate
 - Are counterparties (customer, supplier, creditor, banker, advisor or consultant) in material transactions – both commercial and non-commercial
 - Have a substantial stake (>2%) in the company
- Nominee directors

A board must have an adequate number of independent directors. One-third of the board must comprise of independent directors if the Chairperson is independent. If the Chairperson is an executive director or part of the promoter group, half of the board of directors must be independent. Additionally, the board of the top 500 and top 1000 companies should have at least one independent woman director by 1 April 2019 and 1 April 2020 respectively.

As per the Act, an independent director is permitted to be appointed for two consecutive terms of up to five years each. A mandatory cooling-off period of three years is necessary after ceasing as an independent director prior to any further (re)appointment. The provisions of the Act are applicable prospectively.

Also, with effect from 1 April 2019, shareholder approval through a special resolution should be obtained to appoint or continue the appointment of any non-executive director (including independent directors) who has attained 75 years of age and the explanatory note annexed to the notice proposing the appointment/continuation should provide justification for the same.

IiAS GUIDELINES

Given their role of enhancing and protecting the interests of public shareholders, IiAS has adopted an eligibility criteria for the (re)appointment of independent directors:

Eligibility

In assessing the 'independence' of independent directors, IiAS focuses on the spirit of the regulation. Therefore, IiAS may recommend voting AGAINST director (re)appointments even if these are compliant with regulations. IiAS will not treat the following directors as independent:

- i. Directors who have cross linkages with each other across multiple boards (board interlock)
- ii. Those who do not satisfy the eligibility criteria laid down in Section 149(6) of the Act and Regulation (16)(1)(b) of the SEBI (LODR)
- iii. Directors who have been on the board for more than 10 consecutive years. IiAS makes two important distinctions:
 - a. Unlike the Act, which computes tenure beginning 1 April 2014, IiAS will compute tenure on a retrospective basis
 - b. IiAS will apply the 'visa rule' and consider independent directors seeking reappointment as non-independent if they complete a 10-year tenure within six months of the date of their next reappointment

-
- iv. Directors who have been on the board of the parent/holding/subsidiary for more than 10 consecutive years
 - v. Former executive/non-executive directors who have not had a cooling-off period (complete detachment from the board, company, and promoter group) for at least three years
 - vi. Former executives who are on the board along with their previous supervisors, independent of whether these executives have completed a three-year cooling period
 - vii. Directors who are simultaneously on the board of a large number/percentage of group companies, with a prolonged tenure of >10 years in any of these companies
 - viii. Representatives of large shareholders (holding >2% stake) or lenders, even if they are not appointed on the board as a nominee. However, former employees of such shareholders who continue to remain on the board (even after they move on from their employment) may be considered independent. Similarly, directors who were earlier on the board as nominees may be considered independent once the investor has sold its stake. Retired IAS officers /civil servants will also be considered as independent on the board of Public Sector Enterprises.

Attendance

IiAS believes that the attendance level of directors in board/committee/shareholder meetings is a critical indicator of the directors' commitment levels towards the company. IiAS expects 100% attendance, but for directors coming up for re-appointment, accepts a minimum attendance level of 75% in the just concluded year. In case the attendance is below this threshold, IiAS reviews the attendance over the immediately preceding three-year period (participation through telephonic means or video conferencing is counted while looking at overall attendance) and will recommend voting FOR the re-appointment only if the attendance is above this 75% threshold.

In cases where promoters or their representatives are actively engaged with the business, but may not necessarily hold executive positions, IiAS may consider making an exception and continue to vote FOR their reappointments even if the attendance levels are below the 75% threshold. This will also be applicable for the sole or dominant 'promoter' representative on the board. For global heads/CEOs of MNCs, who are appointed in a non-executive capacity in the Indian listed entity, IiAS may make an exception to the attendance threshold if it believes that the presence of the global representative reflects on the company's importance within the group and its ability to access global resources.

IiAS will not factor in attendance by alternate directors. IiAS expects the elected director to attend either via telecon or video conferencing.

Number of board memberships

IiAS believes that the current regulatory caps on board memberships create adequate safeguards to prevent 'over-boarding' of directors. These caps are as follows:

- An individual can be a director in a maximum of 20 companies, including private limited companies
- An individual can be a director in a maximum of 10 public companies
- An individual can be present as an independent director in a maximum of 7 listed companies
- An individual, who is a whole time director in any listed company, can be present as an independent director in a maximum of 3 listed companies

Approve not filling casual vacancy on board

This resolution usually comes up when a vacancy is created on the board due to the retirement/demise of a director, and the company proposes not to fill up the vacancy. If the company is compliant with the board composition norms (including the independent thresholds), IiAS will generally recommend voting FOR not filling the vacancy caused due to retirement of a director; where it is not, IiAS will recommend that the company use the vacancy caused by the retirement of a director to induct additional independent directors to comply with Regulations.

When assessing board composition, IiAS will evaluate director independence along the lines of its stated criteria.

Alternate:

To provide shareholders with a greater say in electing their representative directors on the board, countries such as the United States, Italy, Russia, and China have started following the cumulative voting process. Cumulative voting allows shareholders to cast all their votes for a single nominee when the company has multiple openings on its board. This way, they can get their preferred candidates elected even if they only make up a small share of the population. Section 163 of the Act allows Indian companies to adopt cumulative voting, but it is a non-mandatory provision. Regulations do not permit for a director appointed through this process to be removed from office during their tenure.

Chairperson Emeritus

For individuals appointed as Chairperson Emeritus, we do not encourage them to be a part of the board or any committee. We expect them to hold an advisory role and not have any day-to-day association with the company.

To summarize:

IiAS will recommend voting FOR the (re)appointment of directors UNLESS:

- IiAS eligibility criteria on independence is not satisfied (for independent directors)
- the director is not eligible to retire by rotation (for non-executive non-independent directors)
- the director has attended less than 75% of the board meetings (on average) in the preceding three years; or
- number of directorships exceeds the prescribed limit under regulations
- the director carries a reputation risk or has been associated with transactions that IiAS considers to be prejudicial towards minority shareholders
- director lacks adequate experience
- the company has not provided any profile of the director nor is it possible to comprehensively gather the director's experience and qualifications from publicly available information

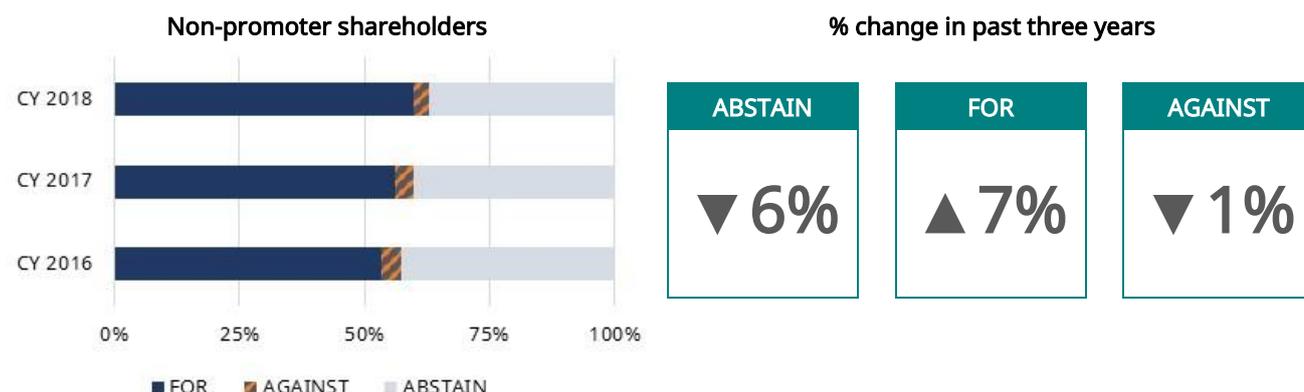
SUMMARY NOTES

KEY RISKS
<ul style="list-style-type: none"> • Prolonged association with promoters and/or company (for independent directors) • Poor attendance levels • Director carries reputation risk • Inexperienced family members appointed on the board

HIGHLIGHTS
IiAS expects directors to abide by the spirit of the regulations, not merely the letter.

RELATED RESEARCH
<ul style="list-style-type: none"> • Sun Pharma: What investors should ask of its board (Jan 2019) • Board seats: a right or a privilege (Oct 2018) • Board Evaluation in India: Disclosures and Practices (Feb 2018)

PAST VOTING PATTERN*



Source: IiAS Adrian; Past voting patterns are based on aggregate number of votes cast.

* Indicates voting data for all board (re)appointment and related resolutions

7. REMOVAL OF DIRECTOR

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
✓ High Medium Low	EGM	Section 169	Chapter IV, Regulation 25(6)	Ordinary, Special

REGULATORY SNAPSHOT

Section 169 of Companies Act 2013 states that a director can be removed by passing an ordinary resolution at a general meeting. For directors who were (re)appointed through a special resolution, a special resolution will be required for their removal. The resolution may be proposed by the company or by the shareholders.

For shareholders to propose the removal of a director, they must collectively own 10% and call for an EGM by giving a special notice under Section 100 of Companies Act 2013. Following this notice, the company is required to host the EGM within 45 days of receiving such a notice from shareholders.

IiAS GUIDELINES

If a resolution to remove a director is proposed by the company, we expect the board to clearly articulate its rationale. The rationale must link the director removal with the long-term interest of the company. Further the director, whose removal is being proposed, must have the opportunity to present her arguments, if any, in favour of remaining on the board. This will allow shareholders to have a balanced view and make a more discerning voting decision.

In other circumstances, where shareholders recommend the removal of a director, IiAS recommends that they present clarity on the rationale for such a decision and provide the management an opportunity to explain their point of view ([Fortis India EGM](#)).

IiAS believes that the removal of independent directors by controlling shareholders may set the wrong precedent. Independent directors are responsible for protecting the interest of non-promoter shareholders, among their fiduciary responsibilities. To that extent, allowing controlling shareholders to remove independent directors undermines the integrity of the board composition: it may encourage independent directors to remain beholden to the controlling shareholders.

IiAS will recommend voting on director removal on a case-to-case basis. We may recommend voting **FOR** resolutions to remove directors, if these are supported by the board of directors and there is adequate disclosure on the rationale for the removal and its long-term implications for the company. We may also support the removal of executive directors if these have been presented by the controlling shareholders – because we believe the support of the controlling shareholder is necessary for the executive director and the board to function seamlessly.

We are likely to recommend voting **AGAINST** resolutions presented by controlling shareholders to remove independent directors, unless there are circumstances that may result in board dysfunction or have materially negative implications for the company.

SUMMARY NOTES

KEY RISKS	HIGHLIGHTS	RELATED RESEARCH
<ul style="list-style-type: none"> Directors who raise dissenting voices against management may be removed. 	<p>Need to engage with company to understand the reasons for the removal.</p>	<ul style="list-style-type: none"> Fortis India EGM (May 2018) Removal of Independent Directors: A Sword of Damocles (Nov 2016)

8. CHANGE IN BOARD SIZE

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
High ✓ Medium Low	AGM, EGM, PB	Section 149(1)	-	Special

REGULATORY SNAPSHOT

Section 149(1) of the Act states that the board of every public company must comprise at least three and have a maximum of 15 directors. However, a company may appoint more than 15 directors after passing a special resolution. SEBI has accepted the recommendation of the Kotak Committee, which stipulates that the board of top 1000 companies and top 2000 companies must have at least six directors effective 1 April 2019 and 1 April 2020 respectively.

IiAS GUIDELINES

IiAS believes that, given the nature and quantum of work involved, three directors may not be optimal. Our guidelines are therefore aligned to the Kotak Committee threshold of at least six directors. On the other hand, consensus on many critical issues may be difficult to achieve if board size exceeds 15 members. IiAS will, therefore, generally recommend voting AGAINST resolutions regarding increase in board size to over 15 members, particularly if there are a disproportionate number of promoter family members on the board.

SUMMARY NOTES

KEY RISKS	HIGHLIGHTS	RELATED RESEARCH
<ul style="list-style-type: none"> Board size may be increased to accommodate family members. 	A large board size will make consensus building difficult	-

9. REMUNERATION OF EXECUTIVE DIRECTORS

10. PAY IN CASE OF INADEQUATE PROFITS

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
✓ High Medium Low	AGM, EGM, Postal Ballot	Section 196: Appointment Section 197: Remuneration Schedule V: Pay in case of inadequate profits	-	Ordinary, Special

IiAS GUIDELINES

The level and composition of executive remuneration should be appropriately structured to attract and incentivize the top management. At the same time, measures need to be taken to ensure that there is a fair and equitable distribution of the wealth of the company. The role of NRCs is to strike the right balance while deciding executive pay.

IiAS uses its propriety tool “comPAYre” while making recommendations on executive remuneration.

IiAS expects companies to align the remuneration levels with the financial performance of the company. IiAS will use the following indicators to assess remuneration proposals:

- Size, turnover and profitability
- Market capitalisation and price performance
- Disclosures and clarity on pay structure
- Alignment of pay with company performance
- Peer comparison
- Overall promoter/family remuneration
- Pay fairness (as compared to median employee remuneration)

IiAS recognizes that remuneration for professionals is vetted and approved by the promoter(s). Because of this principal-agent relationship, IiAS generally makes a distinction in its voting recommendations on remuneration for promoters vis-à-vis professional executives.

Remuneration for promoter directors

As per regulations, shareholder approval is required if overall pay of all the executive promoter directors exceeds 5% of the net profit or if remuneration of a single promoter executive director exceeds Rs.50 mn or 2.5% of the net profit, whichever is higher. Non-promoter directors can be paid as per the limits under the Companies Act 2013.

In case the proposed remuneration is paid to relatives of directors/promoters, it should be commensurate with their qualification and experience in the assigned role. In case there are two or more promoter directors on the board, IiAS may take into consideration the aggregate remuneration drawn by them in previous years while making its voting recommendation.

Stock Options

IiAS expects companies to make a full disclosure of ESOPs (including the fair value of the grant) granted to its executive directors / key managerial personnel from all sources / companies within the group. IiAS will include the expected/actual fair value of stock options in the overall pay calculations. IiAS does not support stock options being granted at a deep discount to market price (on date of grant) to senior executives.

Remuneration from multiple companies

It is sometimes observed that executives receive remuneration from more than one company. IiAS will consider the business linkages (parent-subsidary / group companies, integrated businesses or supply chains) between the entities and the total remuneration (across all sources) while recommending on such proposals. The following criteria may be used:

A. Remuneration being received from multiple listed entities

- **For promoter executives:** Given their ownership over the group and level of accountability, IiAS recognizes the need for promoters to hold executive positions in two listed entities. IiAS' recommendation on the remuneration proposals from each of the entities will be based on whether the final pay (both at an individual company level and aggregate group level) fits in with the general IiAS criteria on executive remuneration – which includes a best fit comparison with size, performance, and peers.
- **For non-promoter executives:** IiAS does not encourage such directors to hold executive positions in more than one listed entity. IiAS will recommend voting FOR such proposals only if there are strong business linkages between the entities and the total remuneration is in line with IiAS criteria on executive remuneration.

B. Remuneration being received from unlisted subsidiaries/holding companies

Remuneration from unlisted subsidiaries/holding companies are not approved by shareholders. In many cases, the amounts being paid from such entities are also difficult to trace. As a result, IiAS does not encourage this practice. In the absence of clarity and past track record on the remuneration from other sources, IiAS may consider voting AGAINST the resolution.

C. Remuneration from external arrangements

An executive director may receive remuneration from external arrangements including from private equity investors. Such arrangements do not result in distribution of company's profit but are likely to create a conflict of interest. Non-disclosure of such arrangements raises transparency issues in the overall remuneration structure. IiAS does not encourage this practice and expects companies and the directors to list out all such arrangements to shareholders.

Pay in case of inadequate profits

Section 197 of the Act states that shareholder approval will be required if the remuneration to any one whole-time director exceeds 5% of the net profits of the company. If there is more than one such director, approval will be required if the aggregate remuneration exceeds 10% of the net profits. Profits are considered inadequate if the remuneration exceeds the above thresholds.

IiAS will evaluate past performance and profitability before recommending voting FOR minimum remuneration. IiAS may recommend voting FOR if there is reason to believe that the executive will play an important role to help turn around the company. On the balance, the minimum remuneration must be in line with peers and must not be higher than the remuneration paid during years in which the company made adequate profits. IiAS may make a distinction in its voting recommendations on minimum remuneration for promoters vis-à-vis professional executives.

Best practice

IiAS recommends a high component of variable pay in the overall salary, which will link performance and pay. Such incentive structures must be aligned with those of comparable peers and capped at a level that is commensurate with the size, performance and complexity of the business. For promoters, where interests are aligned by virtue of equity ownership, exceptions may be made to this rule provided the overall pay is at reasonable levels.

Promoters and executive directors as members of the Nomination and Remuneration Committee (NRC)

IiAS believes the membership of promoters (holding executive positions) and executive directors in the NRC presents possible conflict of interest. Their presence by itself limits the committee's ability to be objective. To that extent, IiAS does not support their membership in the NRC and will raise this concern in our discussion on board and board committee compositions.

SUMMARY NOTES

KEY RISKS

- Higher pay than peers
- Open-ended pay structure
- Pay not linked to performance

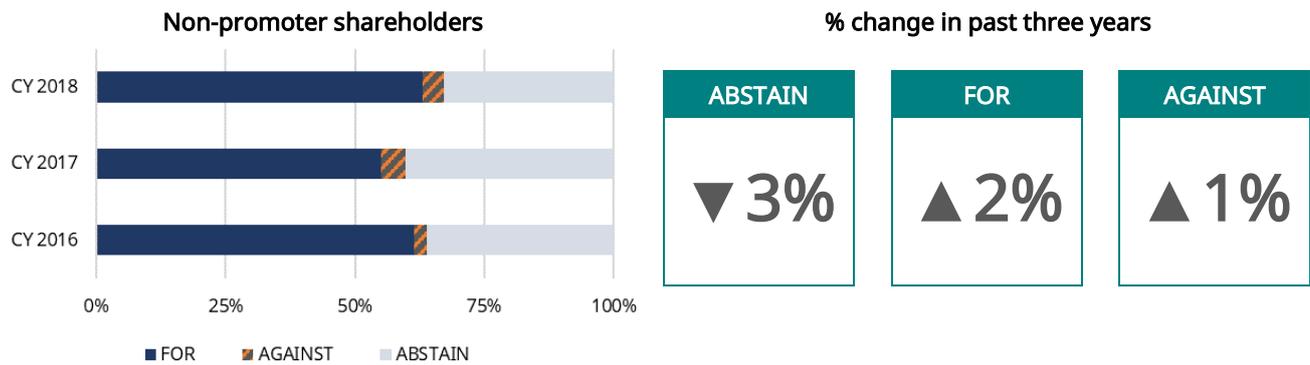
HIGHLIGHTS

IiAS encourages a high component of variable pay and a cap on the overall salary.

RELATED RESEARCH

- [CEO Remuneration: Competition to pay more](#) (Apr 2019)
- [CEO Pay: Sector Analysis](#) (May 2018)
- [CEO Pay: Unlinked to performance](#) (Mar 2018)

PAST VOTING PATTERN*



Source: IiAS Adrian; Past voting patterns are based on aggregate number of votes cast.

* Indicates voting data for all remuneration related resolutions, including for non-executive directors

SAMPLE of a ComPAYre REPORT

<Name of Director>
<Company Name>

Total Pay (Rs.mn)

90.2

Period: 01 Apr 16 to 31 Mar 17

% change

Lookback	Revenue	Profits	Mkt Cap	Pay
1 year	-1.6% ▼	12.2% ▲	21.4% ▲	9.7% ▲

Director Profile

Company	Marico Ltd.
Appointment Date	01 Apr 14
Designation	CEO & MD
Director Category	MD/CEO/Executive Chair
Date of Birth	10 Aug 67
Affiliation	Non-Promoter
Industry	Personal Products
S&P BSE Index	100, 200, 500

Pay Mix (%)



- Basic [41%]
- PF & Retirals [2%]
- Perquisites [0%]
- Commission [57%]
- LT Incentives [0%]

Historical Pay (Rs Mn)

Period Ended	31 Mar 15	31 Mar 16	31 Mar 17
Basic	52.2	79.1	37.0
PF & Retirals	1.4	1.6	1.9
Perquisites	0.0	1.5	0.0
Fixed Total	53.6	82.2	38.8
Commission	8.5	0.0	51.3
LT Incentives	7.8	0.0	0.0
Variable Total	16.2	0.0	51.3
Total Pay	69.9	82.2	90.2
Options Granted	346,600	0	0
Fair Value (Rs.)	22.0	0.0	0.0

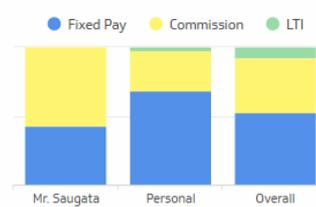
Peer Comparison

Company	Director	Designation	Affiliation	Pay Period	Revenues (Rs.bn)	Profits (Rs.bn)	Total Pay (Rs.mn)	Fixed Pay (%)
Marico Ltd.	Mr. Saugata Gupta	CEO & MD	Non-Promoter	01 Apr 16 - 31 Mar 17	60.1	8.1	90.2	<div style="width: 43%;"></div>
Colgate-Palmolive (India) Ltd.	I. Bachaalani	MD	Non-Promoter	01 Apr 16 - 31 Mar 17	40.2	5.8	106.2	<div style="width: 43%;"></div>
Emami Ltd.	R S Agarwal	Executive Chairperson	Promoter	01 Apr 16 - 31 Mar 17	25.8	3.4	58.6	<div style="width: 43%;"></div>
Emami Ltd.	S K Goenka	MD	Promoter	01 Apr 16 - 31 Mar 17	25.8	3.4	10.3	<div style="width: 43%;"></div>
Glaxosmithkline Consumer Healthc	Manoj Kumar	MD	Non-Promoter	01 Apr 16 - 31 Mar 17	42.3	6.6	58.4	<div style="width: 43%;"></div>
Godrej Consumer Products Ltd.	Vivek Gambhir	MD	Non-Promoter	01 Apr 16 - 31 Mar 17	93.4	13.1	175.9	<div style="width: 43%;"></div>
Godrej Consumer Products Ltd.	A B Godrej	Executive Chairperson	Promoter	01 Apr 16 - 31 Mar 17	93.4	13.1	137.4	<div style="width: 43%;"></div>

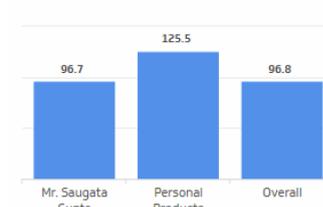
Industry Metrics



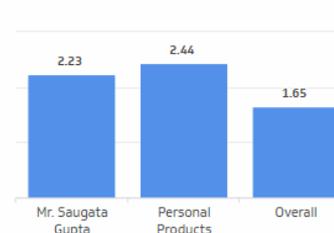
Pay Mix (%)



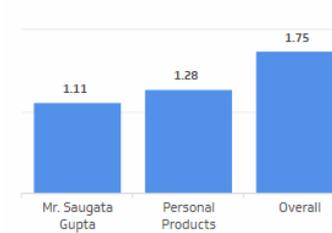
Pay vs Median Emp Salary (x)



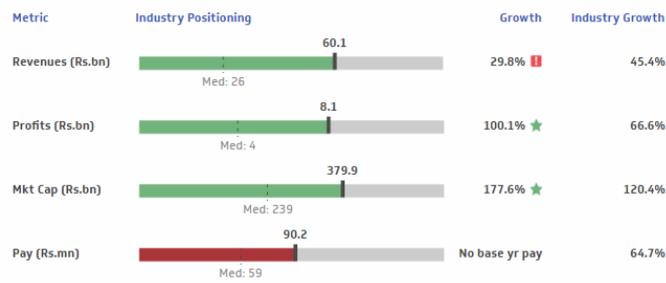
Pay vs Employee Costs (%)



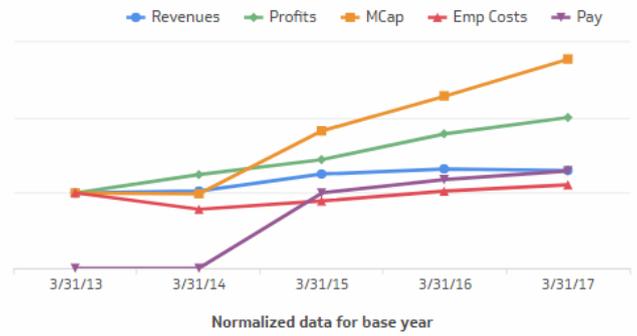
Pay vs Profits (%)



Growth trends in last five years



Pay Alignment



Compare (Choose up to 3 directors to compare)

Company:	Marico Ltd.	Godrej Consumer Products Ltd.	Colgate-Palmolive (India) Ltd.	Glaxosmithkline Consumer Healthc
Director:	Mr. Saugata Gupta	Vivek Gambhir	I. Bachaalani	Manoj Kumar
Revenues (Rs.bn)	60.1	93.4	40.2	42.3
Profits (Rs.bn)	8.1	13.1	5.8	6.6
Designation	CEO & MD	MD	MD	MD
Total Pay (Rs.mn)	90.2	175.9	106.2	58.4
Pay Period	01 Apr 16 to 31 Mar 17	01 Apr 16 to 31 Mar 17	01 Apr 16 to 31 Mar 17	01 Apr 16 to 31 Mar 17
Pay Metrics	Pay/profits(%): 1.1 Pay/median emp salary(x): 96.7	Pay/profits(%): 1.3 Pay/median emp salary(x): 380.2	Pay/profits(%): 1.8 Pay/median emp salary(x): 68.0	Pay/profits(%): 0.9 Pay/median emp salary(x): 98.0
Pay Mix				
Market Comparison (Rs.mn)	90.2 Med:20 832	175.9 Med:20 Report Data 832	106.2 Med:20 832	58.4 Med:20 832

11. REMUNERATION OF NON-EXECUTIVE DIRECTORS

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
High ✓ Medium Low	AGM, EGM, PB	Section 197	Chapter IV, Regulation 17(6)	Ordinary, Special

REGULATORY SNAPSHOT

Shareholder approval is not required for the payment of sitting fees to non-executive directors. Non-executive directors can also be paid commission / remuneration up to 1% of the net profits of the company (if there is a managing or whole-time director or manager) and 3% otherwise, by passing an ordinary resolution. These limits are permitted to be extended on obtaining approval of the shareholders by a special resolution.

As per SEBI (LODR), with effect from 1 April 2019, approval of shareholders must be obtained if annual remuneration for a single non-executive director exceeds 50% of the total remuneration to all non-executive directors.

IiAS GUIDELINES

In companies with professionals as CEO, promoter directors can have a material role to play in establishing strategic direction and governance structures – even while being appointed in a non-executive capacity. In such cases, where accountability and control can be linked to one non-executive promoter director, IiAS will consider the individual to be part of the leadership team and review the remuneration proposal from that perspective (see previous section for guidelines on executive remuneration).

For non-promoter non-executive directors: Pay structures, which make their roles appear more executive in nature or where the remuneration is higher than the senior leadership, may have material implications for the chain of command within and outside the organization. In such circumstances, IiAS will generally not support the remuneration of the director.

Best practice

The Companies Act 2013 limits the remuneration to Non-Executive Directors at 1% of the net profits. For larger companies, 1% of profits can be a large amount. IiAS recommends that companies place a cap on the amount proposed to be paid, rather than stay with the regulatory thresholds.

IiAS' voting recommendation will be based on a combination of the following factors:

- Whether an overall cap has been specified
- Remuneration paid to non-executive directors in past years
- Whether the proposed remuneration is commensurate with the size and scale of the company
- Remuneration paid to one director relative to remuneration paid to other non-executive directors
- Whether aggregate remuneration is higher than or largely in line with that of any other executive director
- Whether the nature of remuneration is fixed or variable (commission-based)
- Whether there has been a linkage of non-executive director remuneration to company performance
- Overall family remuneration (for promoter family members)

SUMMARY NOTES

KEY RISKS	HIGHLIGHTS	RELATED RESEARCH
<ul style="list-style-type: none"> • Remuneration not in line with size of the company and scale of its operations. 	<p>Past history of board compensation is a deciding parameter.</p>	<ul style="list-style-type: none"> • ITC's succession plan: Letting it go ^[a] (Jul 2017)

^[a] Disclosure: There is a civil suit filed by ITC Limited against IiAS and two of its employees, in the Calcutta High Court, alleging defamation in relation to a voting advisory and a report issued by IiAS on succession planning at ITC. The suit is being contested by IiAS and its two employees, and is presently pending before the court.

12. ALTERATION TO CHARTER DOCUMENTS

13. CHARGE FOR SENDING DOCUMENTS THROUGH A PARTICULAR MODE

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
High ✓ Medium Low	AGM, EGM, PB	Section 13: Change in MoA Section 14: Change in AoA Section 61: Change in capital Section 20: Charge for sending documents	Regulation 45: Name change	Special

IiAS GUIDELINES

A. Alteration to Memorandum of Association (MoA)

The MoA of a company states the:

- **Name** of company
IiAS will generally recommend voting FOR any change/alteration in the name of the company.
- **State** in which the registered office is to be situated
IiAS will generally recommend voting FOR a change in the State in which the registered office is to be situated.

To facilitate shareholder engagement with company management, IiAS encourages companies to be more accessible to its shareholders and other stakeholders. Regulations require companies to hold their general meetings in the city / town / village of the registered office. Companies, therefore, must take every effort to ensure that the registered office is situated within the local limits of the nearest city or town. IiAS may recommend voting AGAINST proposals to shift the registered office if there is reason to believe that the shifting will cause significant inconvenience to shareholders.

- The **Objects** for which the company is incorporated
IiAS will generally recommend voting FOR changes to the objects clause in the MoA.
- **Liability** of members – whether limited or unlimited
This provision is not applicable for listed companies.
- **Capital** of the company, stating the number of shares
IiAS will generally recommend voting FOR resolutions proposing to increase/decrease the authorized share capital.

B. Alteration to Articles of Association (AoA)

The Articles of Association (AoA) of a company contains regulations for management of the company, including grant of special rights to certain classes of investors.

IiAS recommendations on changes in the AoA will be made on a case-to-case basis.

- **Board nomination rights:** IiAS generally supports this for controlling shareholders and strategic investors, subject to a reasonable minimum shareholding threshold.
- **Non-rotational board seat:** IiAS generally does not support non-rotational board seats for non-executive non-independent directors or any other right which grants permanent directorship status to any individual.
- **Veto power on board decisions:** IiAS generally does not support this provision as it allows for negative control and concentration of power on a small section of the board.
- **Appointment of same individual as CEO and Chairperson:** Current regulations mandate role separation from 1 April 2020 (for companies with controlling shareholders) - IiAS believes companies must align their AoA with this provision. IiAS may start recommending against such clauses from 1 April 2020.

- **Requirement of specific individual(s) to form quorum for board or general meetings:** This provision may be used to delay or cancel key meetings. IiAS generally does not support such clauses.
- **Right to appoint risk head, internal or statutory auditors:** In order to maintain independence and objectivity of these functions, IiAS believes such appointments must be the sole prerogative of the audit committee/board and not any individual board member or shareholder.

In principle, IiAS will not approve of any clauses or changes in the AoA which provides special/overriding powers to a particular individual or group, which are susceptible to potential misuse and/or are prejudicial to the interests of minority shareholders.

IiAS expects the company to highlight the changes in the shareholder notice and make the draft AoA available on its website. IiAS will review all the clauses in the AoA (which must be publicly available) based on the above criteria before finalizing its recommendation.

Charge for sending documents through a particular mode to shareholders

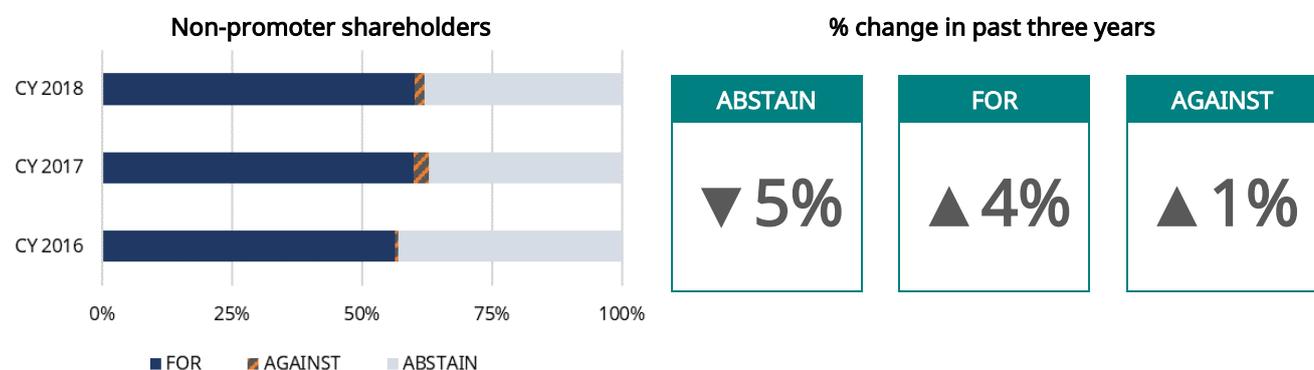
As per section 20 of the Companies Act 2013, a document may be served to a shareholder by sending it to her by post, registered post, speed post, courier, or by such electronic or other mode. The Act further mentions that if a shareholder chooses a specific mode of delivery for the desired documents – other than the delivery mode opted by the company – she will have to pay such fees as may be determined by the company in its general meeting.

This provision is either embedded as part of the AoA or put up as a separate resolution. IiAS believes charging fees would make shareholders reluctant in seeking information from the company and will generally vote AGAINST this proposal.

SUMMARY NOTES

KEY RISKS	HIGHLIGHTS	RELATED RESEARCH
<ul style="list-style-type: none"> • Individuals being named in the charter documents • Right to seek information will be charged 	IiAS will recommend voting FOR, if the impact is neutral to the interest of minority shareholders.	-

PAST VOTING PATTERN



Source: IiAS Adrian; Past voting patterns are based on aggregate number of votes cast.

14. ISSUANCE OF EQUITY SHARES

15. DELISTING OF EQUITY SHARES

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
✓ High Medium Low	AGM, EGM, PB	Section 48: Variation of rights Section 62: Issue of capital Section 63: Bonus Issues Section 27: Change in use of IPO/FPO proceeds	Chapter IV, Regulations 28 and 29	Special

REGULATORY SNAPSHOT

As per the Act, issuance of shares on a pro-rata basis to existing shareholders (rights issue) will not require shareholder approval. However, if the issuance is to any other entity, it requires approval through a special resolution. This includes both public issues (IPO/FPO) and preferential allotments. Such approvals are valid for a period of one year.

IiAS GUIDELINES

Public Issues

Public issues are monitored by SEBI as per the SEBI (ICDR) Regulations. IiAS will generally recommend voting FOR public issues.

Preferential Issue of Shares

IiAS recognizes that a public issue is typically costlier and time consuming. Preferential issues made to select investors and can be completed within shorter time-frames. A company is required to make adequate disclosures on the utilisation of funds raised through qualified institutional placement/preferential issuance.

IiAS will generally recommend voting FOR such issuances because companies need growth capital. Excessive dilution of existing shareholders by the promoter group may be a concern unless companies are undergoing a debt restructuring program. Our analysis will consider the following:

- List of allottees: promoter/non-promoter
- Type of investor: financial/strategic
- Extent of dilution
- Urgency of funds
- Debt levels and available cash
- Return on capital employed

IiAS will also recommend voting FOR preferential issues for companies in the financial services sector, as these companies need additional capital to meet Basel III guidelines, absorb credit losses, and to grow.

Preferential Issue of Warrants

In a warrants issue, 25% of the conversion price is paid up front, with an option to convert the warrants into equity shares anytime during the next 18 months. The remaining 75% is paid upon conversion. If the warrants are allowed to lapse, the initial upfront amount of 25% is forfeited by the warrant holders.

The lapse of warrants can hamper a company's fund management plans and could lead to delays or cancellations of capex plans. IiAS generally recommends voting AGAINST preferential issue of warrants to promoters.

IiAS may recommend voting FOR preferential warrants if these are:

- Made to a government-controlled entity (in case of PSUs)
- Made to technical collaborators, wherein the preferential allotment may be required to bring in technical expertise
- Made to non-promoter shareholders
- In which the exercise period is less than 18 months
- In which the upfront payment is greater than 25%

- Where the warrants are issued at a significant premium to the market price
- Company confirms that the allottee will pay the remaining amount irrespective of the market price prevailing on the date of exercise of warrants.
- Where the company's financial health is deteriorating and there is a need for urgent fund infusion
- Where the company offers the same terms of issue to both promoters and non-promoter shareholders
- Granted to an institution or listed company

Issue of Convertible Securities

Convertible securities are instruments which are convertible into equity shares of the company on a future date, at a predetermined price. As per Ind AS, the equity portion on these instruments is to be recognized as equity, while the non-convertible portion will be recognized as debt. Therefore, we will be analysing the issue based on the substance of the transaction. In case the instrument predominantly satisfies conditions of equity, then we will be treating it as an equity instrument and if the instrument predominantly satisfies conditions of debt, we will be treating the issue as a borrowing resolution.

IiAS will generally recommend voting on such issuances after analysing the following:

- Financial performance
- Leverage ratios and credit rating
- Effective interest rates
- Debt servicing capacity and past repayment history
- Amount of cash balance and marketable securities
- Post-conversion dilution

Variation of Voting Rights

As per Section 48 of the Act, the voting rights attached to any class of shares may be varied with the consent of three-fourths of holders of the shares of that class or by passing a special resolution at a separate meeting of the holders of the shares of that class and the issue of such shares is further authorised by an ordinary resolution.

IiAS believes one share should be equated with one vote and will generally recommend voting AGAINST any proposal for variation of voting rights.

Issue of Bonus Shares

A company may issue fully paid-up bonus shares to its shareholders out of its free reserves, securities premium account, or the capital redemption reserve. Bonus shares do not change the fundamentals of the company.

IiAS will generally recommend voting FOR the issuance of bonus shares.

Change in use of IPO/FPO proceeds

A company needs approval through a special resolution to change the objects for which money was raised. In addition, the company cannot use any amount raised through prospectus for buying, trading or otherwise dealing in equity shares of any other listed company. As per Section 27 of the Companies Act 2013, dissenting shareholders (shareholders who have not agreed to the proposal to vary the terms of contracts or objects) must be given an exit offer by promoters or controlling shareholders at an appropriate exit price (to be fixed after approval from SEBI). Further, as per SEBI (LODR), a company is required to make adequate disclosures on the utilisation of funds raised through qualified institutional placement/preferential issuance until fully utilised.

IiAS will recommend voting FOR such proposals based on the company's stated justification and rationale for change in proceeds.

Delisting of Shares

Delisting of shares in India is governed the SEBI (Delisting of Equity Shares) Regulations, 2009. The delisting process mandates a price-discovery mechanism (reverse book-building process) to decide on the final price. IiAS believes companies and promoters can choose to delist their shares at any point time. The legal framework provides sufficient safeguards for minority shareholders. IiAS will generally support all delisting resolutions that are compliant with these regulations.

SUMMARY NOTES

KEY RISKS

- Voting power of existing shareholders may get diluted.
- Promoter shareholding may increase significantly.
- In case of warrants, promoters get to ride the stock price

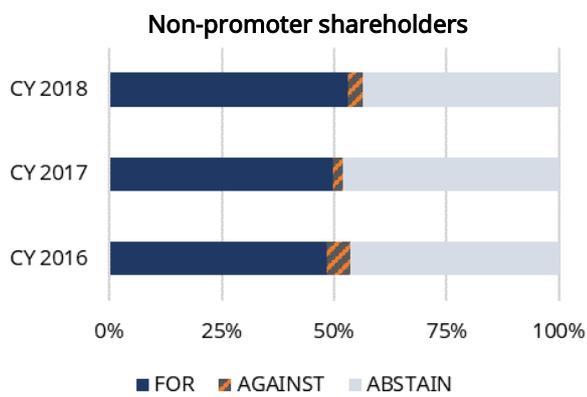
HIGHLIGHTS

IiAS generally does not favour issuance of preferential warrants.

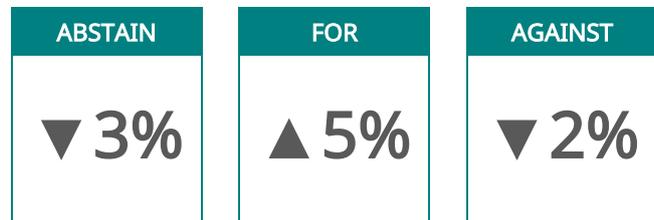
RELATED RESEARCH

- [Dual class shares will weaken governance ecosystem](#) (May 2019)
- [Capital raising by banks](#) (Jun 2018)
- [Vascon Engineering: Time to dig deeper](#) (Jun 2017)
- [PSU Banks: A Capital Question](#) (Apr 2016)

PAST VOTING PATTERN*



% change in past three years



Source: IiAS Adrian; Past voting patterns are based on aggregate number of votes cast.
* Indicates voting data for all issuance of securities related resolutions

16. ISSUANCE OF STOCK OPTIONS

17. MODIFICATION OF STOCK OPTION SCHEMES

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
✓ High Medium Low	AGM, EGM, PB	Sections 42 and 62	-	Special

IiAS GUIDELINES

IiAS will recommend voting on stock options on a case-to-case basis, depending on the following:

- **Dilution**
The conversion of ESOPs into equity shares will raise the issued capital of the company, which may dilute the interests of minority shareholders. IiAS expects the dilution to be restricted to less than 5%.
- **Exercise price**
If the exercise price is at a steep discount to the market price on date of grant, it will increase the fair value of the options. This cost will be borne by the company as an expense and amortized over the vesting period. Further, issuance of stock options at a discount to market price does not align the interests of shareholders with those of employees. Generally, IiAS may recommend voting AGAINST stock option plans where the exercise price is at a significant discount (of over 20%) to the market price on date of grant. IiAS may make an exception in cases where vesting of the stock options is performance based, and the performance indicators have been clearly disclosed.
- **Vesting/Exercise Period**
IiAS expects a staggered vesting schedule and overall vesting periods to be between one to five years. Exercise period should not stretch more than three years from date of vesting.

Ratification of existing schemes will be reviewed by IiAS as per the same guidelines.

Amendments to existing stock option schemes will be reviewed as per following:

- **Modification of exercise price**
IiAS is not in favour of re-pricing stock options and will generally recommend voting AGAINST unless:
 - executive directors and senior management are excluded from the new re-priced scheme
 - the reasons for the poor performance have been beyond the control of the company
 - the re-priced options follow a life-cycle like that of new stock options; i.e. they have a specified vesting, grant and exercise schedule
 - the change is driven by regulatory compliance
- **Modification of vesting period/exercise period**
The stock options issued at market price may be repriced if the exercise period of these stock options is increased. IiAS will take a case to case view on the revision in exercise period and expects the companies to provide a detailed rationale for revision in exercise period.
- **Increase in size of stock option scheme**
Some companies propose to add to the pool of stock options in the existing schemes. In such cases, IiAS will treat it as a fresh stock option plan and evaluate as per the guidelines highlighted.

Further, IiAS generally does not favour stock options schemes that propose to grant options to its listed subsidiaries or holding companies which have their own ESOP plans.

SUMMARY NOTES

KEY RISKS

- Dilution for shareholders
- Cost of the scheme
- Skewed incentive structure for employees

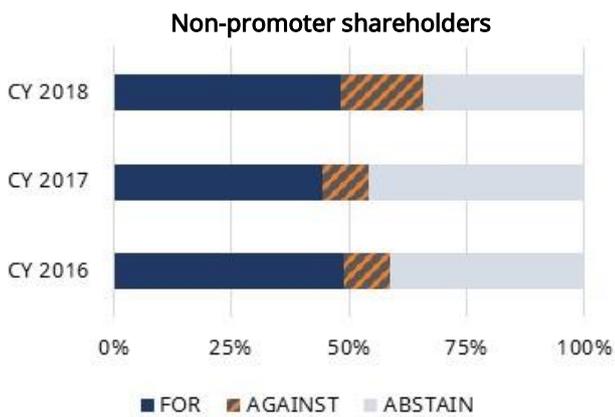
HIGHLIGHTS

IiAS will generally recommend voting FOR grant of ESOPs, subject to disclosures, low discount to market price and minimal impact on the profits.

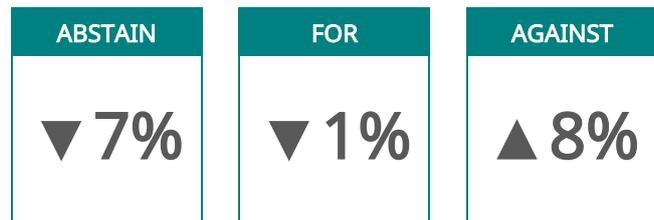
RELATED RESEARCH

- [ESOP Scheme 2018: ICRA Ltd.](#) (Aug 2018)
- [Management creates its own 'options'](#) (Sep 2016)

PAST VOTING PATTERN



% change in past three years



Source: IiAS Adrian; Past voting patterns are based on aggregate number of votes cast.

18. INCREASE IN BORROWING LIMITS

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
✓ High Medium Low	AGM, EGM, PB	Section 180(1)(c)	-	Special

REGULATORY SNAPSHOT

As per the Act, a company needs prior shareholder approval through a special resolution to raise debt more than the aggregate of its paid-up share capital and free reserves and securities premium account. Temporary loans obtained from the company's bankers in the ordinary course of business are exempt from this section: therefore, the applicability of this section (and the consequent shareholder approval) is largely limited to raising long term funds. Moreover, the regulation does not require companies to define a validity for the resolution – once approved, the borrowing limit will continue till it is breached or revised.

IiAS GUIDELINES

IiAS observes that borrowing resolutions, which are presented to shareholders for approval, are usually without any details explaining why the money is needed. While companies do need some flexibility to raise funds to manage their operations, some companies have leveraged the full scope of ambiguity by asking shareholders to approve borrowing limits that the company is unlikely to use even in the foreseeable future. Others have asked for rolling limits - a finite amount of debt, over and above the net-worth - as the company's net-worth increases, so does its borrowing limits.

Best practice

When requesting shareholders for an approval to increase borrowing limits, as a good governance practice, IiAS expects companies to disclose the following:

- borrowing limits to be absolute limits (not rolling limits linked to net-worth), and inclusive of both long-term and short-term limits (including credit limits)
- companies to present broad details of the plan and purpose of raising the debt
- details regarding current outstanding debt at both, standalone and consolidated levels
- support provided to subsidiaries or group companies (i.e. guarantee, letter of support, keep-well agreement etc) that may potentially convert to a funding requirement
- a specific time period for borrowing limits (IiAS recommends a three-year period), following which the company will reapply for another increase
- leverage philosophy – while companies are unlikely to raise the entire quantum of debt in a single instance, it is prudent for companies to disclose their thresholds of debt-protection measures / ratios
- give details of gross consolidated debt levels (including non-fund-based limits)

IiAS will generally recommend voting FOR, under the following circumstances:

- for manufacturing and services companies, where the increase in debt has been clearly explained and ties in with a case for business expansion, or where the increase in debt has no material implications for the overall credit protection measures. IiAS may consider using publicly available ratings provided by rating agencies as a measure to assess the company's level of creditworthiness
- for financial services companies, where the capital adequacy levels are within the levels stipulated by RBI's BASEL III capital regulations

IiAS may recommend voting AGAINST an increase in the borrowing limits where:

- the company has borrowed excessively in the past and/or has a poor track record in fulfilling its debt obligations
- there is no clear rationale for increasing the borrowing limit – and where, if the company raises debt to the full extent of the limit, its credit protection measures (Debt/EBITDA and/or Debt: Equity) will deteriorate significantly from current levels
- borrowing limit is a rolling limit linked to net-worth

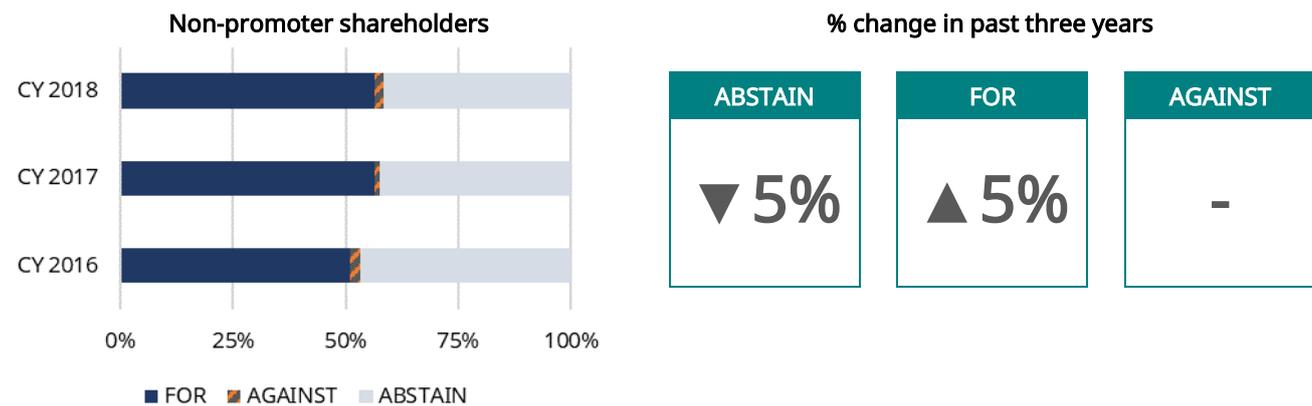
Creation of mortgages/charges on assets of company

Companies need to seek approval of shareholders by way of special resolution for creation of charge on their assets to ratify security creation on funds already borrowed in the past or for securing their future borrowings. IiAS generally recommends voting FOR all resolutions that pertain to creation of charge for securing sums already borrowed by the company (even if IiAS has recommended voting AGAINST the borrowing resolution) as the terms of borrowing, interest rates etc. for secured loans tend to be better than those for unsecured loans.

SUMMARY NOTES

KEY RISKS	HIGHLIGHTS	RELATED RESEARCH
<ul style="list-style-type: none"> Lack of clarity on usage of funds Deterioration of leverage profile 	<p>The track record of the company in servicing debt is a key voting parameter.</p>	<ul style="list-style-type: none"> Defaulting on debt - and disclosures (Aug 2017)

PAST VOTING PATTERN*



Source: IiAS Adrian; Past voting patterns are based on aggregate number of votes cast.

* Indicates voting data for all borrowing related resolutions

19. ISSUANCE OF DEBT INSTRUMENTS

20. ISSUANCE OF PREFERENCE SHARES

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
High ✓ Medium Low	AGM, EGM, PB	<ul style="list-style-type: none"> Sections 42, 62 and 71 (NCDs) Sections 73 to 76 (Fixed Deposits) Sections 42, 55 and 62 (Preference shares) 	Chapter V, Regulations 49 - 62	Special

REGULATORY SNAPSHOT

Non-convertible debentures (NCDs)

Non-convertible securities are generally debt instruments (debentures) which the company uses to augment its capital base. As per Section 42 of the Act, a company requires shareholder approval through a special resolution if such securities are offered on a private placement basis.

Fixed Deposits

Through fixed deposit programmes, companies raise debt from shareholders and the public at large. As per regulations, a company can accept or renew deposits up to 10% of aggregate of the paid-up capital, free reserve and securities premium account from its shareholders and up to 25% of aggregate of the paid-up capital, free reserve and securities premium account from the public. The company is additionally required to obtain credit rating (which must not be below the investment grade rating) from a recognised credit rating agency each year during the tenure of the deposits.

Preference Shares

As per regulations, preference shareholders do not have voting rights. They can only vote on resolutions which directly affect the rights attached to the preference shares and, any resolution for the winding up of the company or for the repayment or reduction of the share capital of the company. However, in cases where the dividend in respect of a class of preference shares has not been paid for a period of two years or more, such class of preference shareholders gets a right to vote on all resolutions placed before the company.

As per Ind AS, redeemable preference shares will be considered as borrowings while non-redeemable preference shares will be treated as equity.

IiAS GUIDELINES

IiAS will generally recommend voting FOR the issuance of non-convertible debentures as these are issued within the overall borrowing limit of the company. Refer [IiAS policy on borrowing resolutions](#).

For fixed deposits, IiAS expects that the deposit programmes carry interest which is aligned to the credit risk of the company. IiAS will support fixed deposit programmes that have credit ratings in the higher investment grade (BBB+ and above for the FD programme), since instruments with these credit ratings are expected to have a lower probability of default. IiAS may not support fixed deposit programmes if it believes retail investors carry a significant risk in investing in such programmes.

For preference shares, IiAS will generally recommend voting FOR in profit making companies with a dividend track-record. Like fixed deposits, IiAS may not support preference share issuances if it believes retail investors carry a risk in investing in such instruments. We expect companies to disclose:

- nature of preference shares (convertible or non-convertible, cumulative or non-cumulative)
- rate of dividend
- tenure
- objects of the issue

Best practice

Like any other shareholder, promoters will get voting rights on preference shares if they do not receive dividends on their preference shares for two or more years. However, IiAS expects promoters to forego the voting rights in such circumstances.

SUMMARY NOTES

KEY RISKS	HIGHLIGHTS	RELATED RESEARCH
<ul style="list-style-type: none">• Issuance to related parties may be favourable for promoters.• Risk for shareholders in investing in high risk deposit programmes.• Inability of the company to pay timely dividends.	<ul style="list-style-type: none">• IiAS generally recommends voting FOR NCD issuance.• If the credit rating is in the higher investment grade, IiAS generally recommends voting FOR fixed deposit programs.	-

21. INTER-CORPORATE TRANSACTIONS

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
✓ High Medium Low	AGM, EGM, PB	Section 185, 186	-	Special

IiAS GUIDELINES

Inter-corporate transactions can be clubbed into the following categories: loans, corporate guarantees or loan securities, and investments. IiAS voting recommendations on such cases are based on the following:

- disclosure levels: mostly about the recipient parties
- headroom available under current limits
- affiliation of recipient party with promoter group
- financial health of the company extending loans
- financial health of the recipient parties, including cases where it is a part of an approved rehabilitation proposal
- source of funds for the transactions
- aggregate amount of transaction
- urgency and need for such transactions

In the event of extending loans or guarantees, IiAS expects companies will pro-rate the transaction amount to the extent of its ownership in the entity.

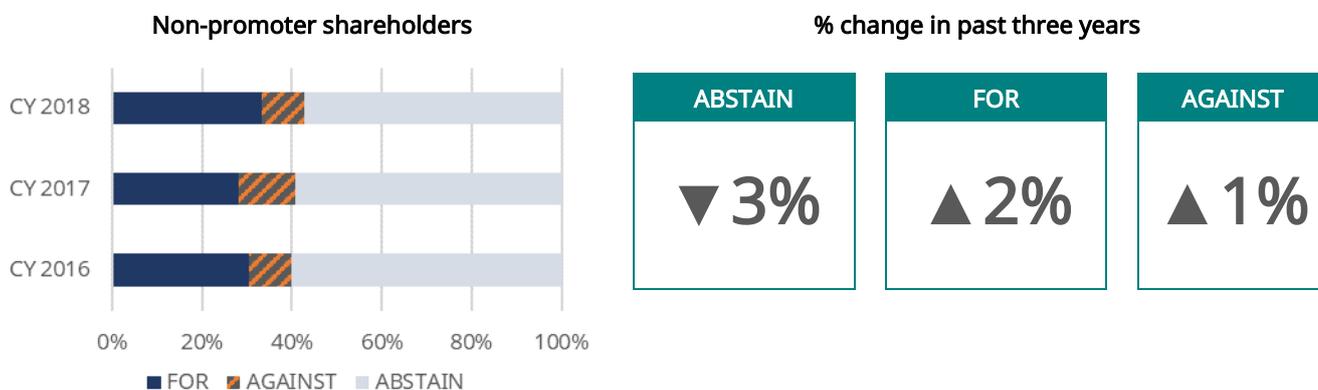
Best practice

We expect companies to make relevant disclosures on the recipient parties and the nature of their association with the company. Further, companies must have an absolute limit on inter-corporate transactions: in many instances, companies have rolling limits, i.e. limit over and above the limit calculated under the Companies Act 2013.

SUMMARY NOTES

KEY RISKS	HIGHLIGHTS	RELATED RESEARCH
<ul style="list-style-type: none"> • Provide financial assistance to promoter group at the cost of minority investors. 	IiAS will consider the operational need of the transactions.	-

PAST VOTING PATTERN



Source: IiAS Adrian; Past voting patterns are based on aggregate number of votes cast.

22. RELATED PARTY TRANSACTIONS (RPT)

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
✓ High Medium Low	AGM, EGM, PB	Section 188	Regulation 23	Ordinary

REGULATORY SNAPSHOT

As per SEBI (LODR), all material RPTs, which includes transfer of resources (typically exceeding 10% of the annual consolidated turnover of the company), are required to be approved by shareholders through an ordinary resolution. Interested/related parties can abstain from voting or vote against such resolutions. The Companies Act 2013 defines a narrower RPT scope and specifies different materiality thresholds depending on the nature of the transaction. As per the Act, any related part transaction which is not in ordinary course of business and not at arm's length will require shareholder approval.

Transactions between Government-owned entities are excluded from shareholder approval.

Best practice

Transactions undertaken by subsidiaries which are material in nature should be brought to shareholders for approval.

IiAS GUIDELINES

IiAS will recommend voting on a case-to-case basis based on the following:

- parties to the transaction
- terms of the contract
- duration of the proposed transaction
- level/degree/nature of association with related parties
- rationale for transaction
- pricing and financial arrangements
- whether an independent opinion has been obtained on the valuation/pricing aspects
- economic benefit for all interested related parties

IiAS expects companies to either provide an upper limit to the amount of the RPT or specify the duration of the agreement. IiAS will generally recommend voting FOR transactions that are operational in nature.

IiAS will generally recommend voting AGAINST related party transactions if:

- the controlling shareholder unduly benefits from the transaction at the expense of minority shareholders
- the approval sought is for an indefinite amount for an undefined time period
- it cannot be ascertained that the transaction is at arms-length

The same principles will apply for related party transactions with promoter-controlled entities.

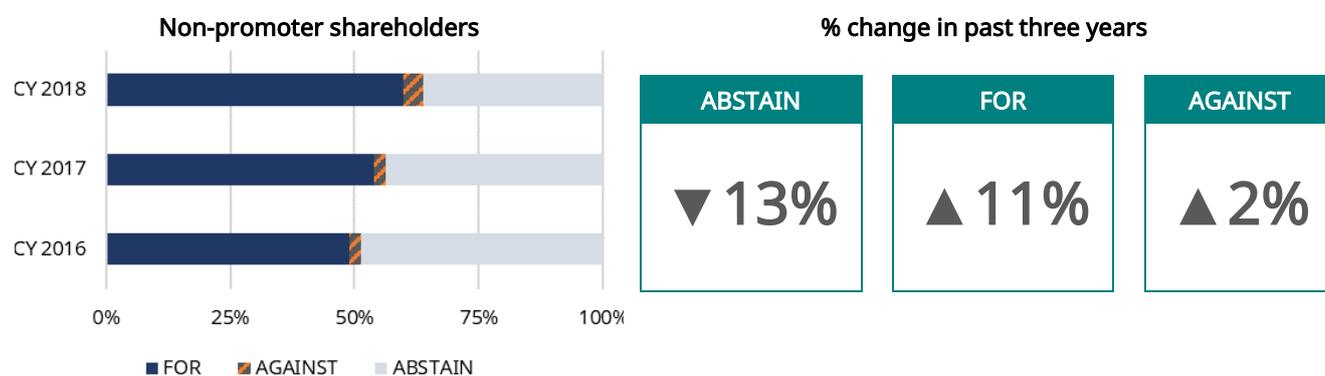
Appointments to office of profit

Office of profit positions require shareholder approval if the remuneration proposed to the related party exceeds Rs. 3.0 mn annually. IiAS' recommendation will depend on the proposed pay structure, the comparability of remuneration across peers, and the definition of the peer group based on experience, skill, and remuneration levels. If there are too many family members being inducted in similar roles across the company, IiAS may not support the appointments. Further, we expect companies to ask for shareholder approval for the office of profit position for a defined period of time – we are unlikely to support open-ended resolutions.

SUMMARY NOTES

KEY RISKS	HIGHLIGHTS	RELATED RESEARCH
<ul style="list-style-type: none"> The terms of the arrangement may be skewed in favour of related parties. Resolutions may be open ended and for an indefinite period of time. 	<ul style="list-style-type: none"> IiAS will stress on equitable treatment for all shareholders. Remuneration for office of profit, must be comparable to peers in the company / industry based on experience and skill 	<ul style="list-style-type: none"> Raymond Limited: The Complete Rip-Off (May 2017)

PAST VOTING PATTERN



Source: IiAS Adrian; Past voting patterns are based on aggregate number of votes cast.

23. ROYALTY PAYMENTS

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
✓ High Medium Low	AGM, EGM, PB	-	Regulation 23(1A)	Ordinary

REGULATORY SNAPSHOT

Under the SEBI (LODR), shareholders' approval will be required for royalty/brand payments to related parties exceeding 2% of consolidated turnover. The limit will be considered within the overall limit of 10% of the annual consolidated turnover as stated above. Companies were required to seek shareholder approval effective 1 April 2019; following the representation by industry, SEBI has postponed the implementation date to 30 June 2019.

IiAS GUIDELINES

IiAS will recommend voting on the payment of royalty based on an analysis of the following general principles:

- Should the company be paying royalty in the first place?
- Does the market see value in the brand/technology?
- How has the quantum of royalty been decided and has an independent evaluation been conducted?
- What has been the track record on royalty pay-outs and has it been aligned with performance?

As per an IiAS study, median royalty pay-outs in the Indian market amounted to 2% of sales and 12% of pre-tax pre-royalty profits in FY18. IiAS will generally recommend voting FOR royalty payments within these thresholds, provided that royalty has grown in line with performance.

SUMMARY NOTES

KEY RISKS	HIGHLIGHTS	RELATED RESEARCH
<ul style="list-style-type: none"> • The terms of the arrangement may be skewed in favour of the parent company / promoter to whom royalty is paid. 	<p>IiAS will stress on equitable treatment for all shareholders;</p> <ul style="list-style-type: none"> • Royalty payouts must be reasonable and based on the value of brand being created • The company must have a reasonable dividend payout to reward all shareholders. 	<ul style="list-style-type: none"> • Royalty payment: Establishing its legacy (Mar 2019) • Royalty payments: At last, the dog wags its tail (Feb 2018)

24. CHARITABLE CONTRIBUTIONS AND DONATIONS

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
High ✓ Medium Low	AGM, EGM, PB	Section 181	-	Ordinary

REGULATORY SNAPSHOT

Section 181 of the Act allows companies to make charitable contributions upto 5% of the average net profits for the three immediately preceding financial years. Shareholder approval via an ordinary resolution is required for contributions to exceed the 5% threshold.

IiAS GUIDELINES

Companies mandatorily spend 2% of average of three previous year profits on CSR. Over and above this, they can spend 5% without shareholder approval. This resolution in effect is seeking shareholder approval when the spend is more than 7% of the average net profits for the three immediately preceding financial years. IiAS will generally recommend voting AGAINST charitable donations beyond 5% of average net profits.

IiAS may make an exception to this policy if the profits had dipped during the year due to one-time expenses or other exceptional items. In such cases, IiAS expects the company to seek approval only for the specific year in which the profits had dipped.

IiAS expects companies to disclose the recipient charities/trusts and the association, if any, between the recipient charities and the company management/board/ members of the promoter family.

SUMMARY NOTES

KEY RISKS	HIGHLIGHTS	RELATED RESEARCH
<ul style="list-style-type: none"> Large donations being made to promoter-controlled trusts and/or politically aligned persons. 	<p>IiAS will generally vote AGAINST donations beyond the prescribed limits.</p>	<ul style="list-style-type: none"> Corporate Social Responsibility: A lot more than feel good (Mar 2019) Political Donations: A framework for corporates and boards (Mar 2019)

25. SALE OF ASSETS / SLUMP SALE

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
✓ High Medium Low	AGM, EGM, PB	Section 180(1)(a)	Regulations 24(5) and (6)	Special

REGULATORY SNAPSHOT

As per section 180(1)(a) of the Act, a company cannot sell, lease, or dispose of any of its undertaking¹, or substantially the whole of any undertaking, without getting prior approval from shareholders through a special resolution. As per Chapter IV, Regulation 24(5) of the SEBI (LODR), a company cannot dispose of shares in its material subsidiary² which would reduce its shareholding (either on its own or together with other subsidiaries) to less than 50% or cease the exercise of control over the subsidiary without passing a special resolution. Further, as per Regulation 24(6) selling, disposing and leasing of assets amounting to more than 20% of the assets of the material subsidiary on an aggregate basis during a financial year shall require prior approval of shareholders by way of special resolution.

IiAS GUIDELINES

For any sale of assets, IiAS expects the companies to make the following disclosures:

- Rationale for the sale
- Financials of the business being sold
- Critical balance sheet and P&L ratios of the business being sold
- Expected impact on sales/profits
- Use of sale proceeds
- Book value of aggregate assets to be disposed
- Market value of aggregate assets to be disposed
- Valuation report from an independent third-party
- Expected price

IiAS will do a market multiple comparison to assess the fairness of the valuation. IiAS will generally recommend voting FOR the resolution if it believes that the transaction is not detrimental to the interests of the minority shareholders.

IiAS expects companies to disclose use of the sale proceeds to shareholders. If there is no immediate need for the cash, the sale proceeds (after transaction expenses) must be distributed to shareholders.

SUMMARY NOTES

KEY RISKS	HIGHLIGHTS	RELATED RESEARCH
<ul style="list-style-type: none"> • Improper valuation of critical assets. 	IiAS will generally recommend voting FOR if all shareholders are impacted equally.	<ul style="list-style-type: none"> • Are shareholders in your latest deal equation (Apr 2019)

¹ Undertaking refers to an asset of the company in which the investment of the company exceeds 20% of its net worth as per the audited balance sheet of the preceding financial year or that has generated 20% of the total income of the company during the previous financial year. 'Substantially the whole' of any undertaking refers to 20% or more of the value of the undertaking as per the audited balance sheet of the preceding financial year.

²A material subsidiary is one whose income or net worth exceeds 10% of the consolidated income or net worth of a company in the immediately preceding accounting year.

26. RECLASSIFICATION OF PROMOTERS

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
High Medium ✓ Low	AGM, EGM, PB	-	Regulation 31A	Ordinary

REGULATORY SNAPSHOT

SEBI has revised its guidelines on promoter classification under Regulation 31A of the SEBI (LODR). The regulations mandate the board to provide its view on the reclassification. Promoters seeking reclassification are not allowed to vote on the proposal. Further, the laws stipulate multiple provisions to ensure that special rights of such individuals/groups are taken away and they are not able to exercise influence or control over the company after the reclassification.

IiAS GUIDELINES

IiAS will generally recommend voting FOR such reclassifications where:

- the company has abided by the spirit of regulatory provisions
- where the change is due to a takeover, change in company ownership, or open offer
- pursuant to a family separation the reclassified promoters are not expected to exercise any management control
- the promoter has not been director or key managerial personnel of the company for a period of at least one year

For cases where a relative of the promoter seeking to be reclassified continues to be on the board, IiAS will make its recommendation on a case-to-case basis depending on the relative's proximity to the promoter and their day-to-day involvement in the company, along with any relevant market information that may be available.

Best practice

As a good governance practice, IiAS expects companies to disclose the following:

- reasons for promoter reclassification
- confirmation that the family separation agreement has been formalized

SUMMARY NOTES

KEY RISKS	HIGHLIGHTS	RELATED RESEARCH
The reclassified promoters may exercise their votes in line with the existing promoters.	IiAS will generally recommend voting FOR such resolutions unless the promoter continues to be on the company's board or as its KMP.	-

27. BUYBACKS

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
High Medium ✓ Low	AGM, EGM, PB	Section 68	-	Special

REGULATORY SNAPSHOT

Buyback of shares in India is governed by Section 68 of the Companies Act 2013, and the SEBI (Buyback of Securities) Regulations, 2018.

As per these regulations, any company willing to buy back some of its shares from the market, needs to:

- Disclose adequate reasons for the buy-back
- Ensure that the buy-back amount is 25% or less of the aggregate of paid-up capital and free reserves of the company
- Ensure that the aggregate debt after buy-back is not more than twice the sum of company's paid-up capital and free reserves
- Complete the process within a period of six months from the date of passing of the special resolution
- Ensure that no offer of buy-back is made within a period of one year reckoned from the date of the closure of the preceding offer of buy-back
- Ensure that at least 50% of the amount earmarked for buy-back is utilized

IiAS GUIDELINES

IiAS recognizes that share buybacks provide an efficient exit mechanism for shareholders. Every shareholder has a choice: they can tender their shares through the buyback offer if they feel the price is right or they can continue to remain invested.

Since the decision will be made by shareholders depending on their risk-return appetite, IiAS will generally recommend voting FOR buyback proposals. In rare instances, IiAS may caution investors and recommend voting AGAINST share buy-backs if it negatively impacts the long-term interests of the company's stakeholders.

SUMMARY NOTES

KEY RISKS	HIGHLIGHTS	RELATED RESEARCH
<ul style="list-style-type: none"> • The outflow because of the buyback may impact the interest of stakeholders. 	Decision to tender lies entirely with shareholders, IiAS will generally recommend voting FOR.	SEBI's denial of L&T's buyback rekindles an old debate (Jan 2019)

28. SCHEME OF ARRANGEMENT

GOVERNANCE FOCUS	MEETING TYPE	COMPANIES ACT, 2013	SEBI (LODR), 2015	RESOLUTION TYPE
✓ High Medium Low	NCM, PB	Section 230-232	Regulations 11, and 37	PB: Ordinary (only public investors) NCM: Special

REGULATORY SNAPSHOT

Schemes of arrangement for a company refer to the following:

- Reorganization of the company's share capital
- Compromise between a company and its creditors or any class of them (corporate debt restructuring)
- Scheme for the reorganization of the company involving any merger or amalgamation

Applications for such schemes of arrangement need to be submitted to the concerned National Company Law Tribunal (NCLT) for approval. The NCLT may direct the company to convene a meeting of its shareholders and creditors and get their approval through a special resolution. The schemes also need to be submitted to the stock exchanges and SEBI for approval. If the scheme involves entities of the promoter group or envisages issuing additional shares to the promoter group, the scheme needs to be approved by majority of public/minority shareholders.

While proposing such schemes, companies need to disclose the following:

- the proposed terms of the scheme
- a report adopted by the directors of the merging companies explaining the effect of the arrangement on each class of shareholders, key managerial personnel, promoters and non-promoter shareholders
- the valuation report from an independent chartered accountant (in cases where there is a change in shareholding pattern)

IiAS GUIDELINES

Since the underlying contours and rationale of each case vary, IiAS will recommend on a case-to-case basis for such schemes of arrangement. Our analysis will generally consider the following:

- Valuation and mode of payment
- Dilution of stake and change in shareholding pattern
- Underlying rationale
- Impact on financial and leverage ratios
- Accounting treatment
- Legal and tax implications
- Impact on minority shareholders

IiAS will not support one-sided transactions between two listed companies, i.e where one set of shareholders gain at the expense of another set of shareholders. IiAS believes transactions must be fair to both parties of the merger / amalgamation.

SUMMARY NOTES

KEY RISKS	HIGHLIGHTS	RELATED RESEARCH
<ul style="list-style-type: none"> • Inequitable treatment of minority shareholders. 	IiAS will evaluate the long-term impact of such schemes before finalizing the recommendations.	<ul style="list-style-type: none"> • Ultratech Cement (Oct 2018) • Idea-Vodafone merger: Vodafone cedes ground (Mar 2017)

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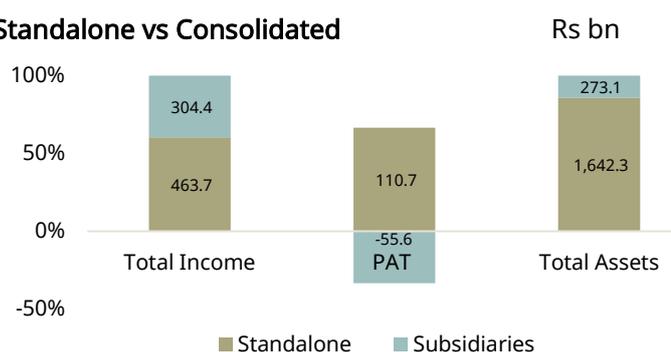
ANNEXURE A: SAMPLE ACCOUNTS PAGE (MANUFACTURING AND SERVICES)

Category: Accounts

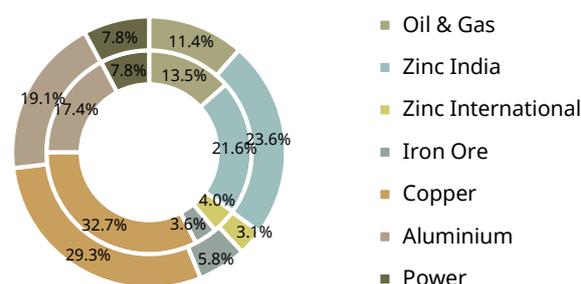
Resolution 1: Adoption of standalone and consolidated financial statements for the year ended 31 March 2019

We believe that a comprehensive review of the financials of a company is a critical exercise which often requires first-hand information and proper due diligence. We do not comment on resolutions for adoption of financial statements, given the limited time between receipt of the annual report and the shareholder meeting, but provide analysis of critical ratios.

Standalone vs Consolidated



Revenue breakup



Risk Indicators

Period ending 31 March	2017	2018	2019
CFO/EBITDA (x)	0.8	1.3	0.8
Exceptional items/Income (%)	(195.3)	(189.1)	1.2
Interest/Average Debt (%)	8.7	10.7	15.4
Cont. liabilities/Networth (%)	8.2	38.6	46.5
Receivables Days	18	14	17

Source: Company, ACE Equity

Leverage Profile



Source: Company, ACE Equity

Major Related Party Transactions (RPT) (Rs.mn)

Period ending 31 March	2018	2019	Assessment
Receivables	773.4	1,962.7	Negligible
Payables	3,849.4	726.3	8.8% of total payables

Consolidated

Corporate Social Responsibility (CSR)

Period ending 31 Mar 2019	Rs.mn	% (PAT)
Average 3-yr profits	Net loss	-
Prescribed CSR expenditure	Nil	-
Actual CSR expenditure	484.8	-

Standalone

Liquidity

Period ending 31 Mar 2019	Rs.bn
Current investments	468.9
Cash flow from operations	179.8
Cash and bank balance	141.2

Consolidated; Source: ACE Equity

Audit Integrity

Parameter	Result
Name of Auditor	SR Batliboi & Co
Audit Network	Ernst & Young
Tenure of auditor (yrs) ¹	1
Tenure of audit partner (yrs)	1

^[1] Audit network Tenure

ANNEXURE B: LEGEND IN RECOMMENDATION REPORTS

Legend

IiAS recommendations are based on [IiAS' Voting Guidelines](#), which are published on our website. The data and regulations reviewed while arriving at a recommendation are disclosed to market participants. This gives investors and companies clarity regarding the basis for our recommendations.

IiAS recommendations are non-binding in nature. Investors may have their own voting rationale which may, on aspects, differ from those of IiAS. On such occasions, investors must use these recommendations as a guiding tool. Our voting recommendations do not constitute advice to buy, sell or hold securities.

To allow for a more nuanced discussion on resolutions, IiAS recommendations may be supplemented with a risk or a transparency indicator (refer table below). This helps balance the narrative for proposals which have multiple connotations in terms of their implications for the company and its stakeholders.

Risk Indicator	Coverage	Description
G	Governance Matters	This symbol is used for resolutions which in IiAS' opinion indicate corporate governance practices that have room for improvement or are non-compliant with regulations or their intent.
I	Inequitable Treatment	This symbol is used for resolutions which in IiAS' opinion benefit the controlling shareholders (or any other class of shareholders) at the expense of the public shareholders. This also includes resolutions which may result in excessive dilution or disproportionate voting powers.
F	Financial Impact	This symbol is used for resolutions which, as per IiAS, will have a negative impact on the company's financials.
V	Valuation Divergence	This symbol is generally used for resolutions associated with corporate restructurings, which include schemes of arrangement, and slump sales, where a fair valuation cannot be ascertained or where IiAS believes the valuation is prejudicial to the interests of public shareholders.
R	Other Risks	This symbol is used for operating decisions taken by the company management and IiAS will usually recommend voting FOR such resolutions. However, they carry an element of risk which may subsequently have a negative impact on the financials. Investors are therefore advised to review the risk factors highlighted by IiAS in its analysis before voting.
Transparency Indicator	Quality of Disclosure	Description
T	Leadership	Indicates that the disclosures on the resolution are significantly superior to other similar resolutions. IiAS encourages other companies to emulate such disclosure levels.
T	Weak	Indicates lack of adequate disclosures supporting the resolution. Investors are advised to seek further clarifications from the company to make a more informed decision.

On occasions, IiAS' advisory reports may contain the following terms for specific resolutions:

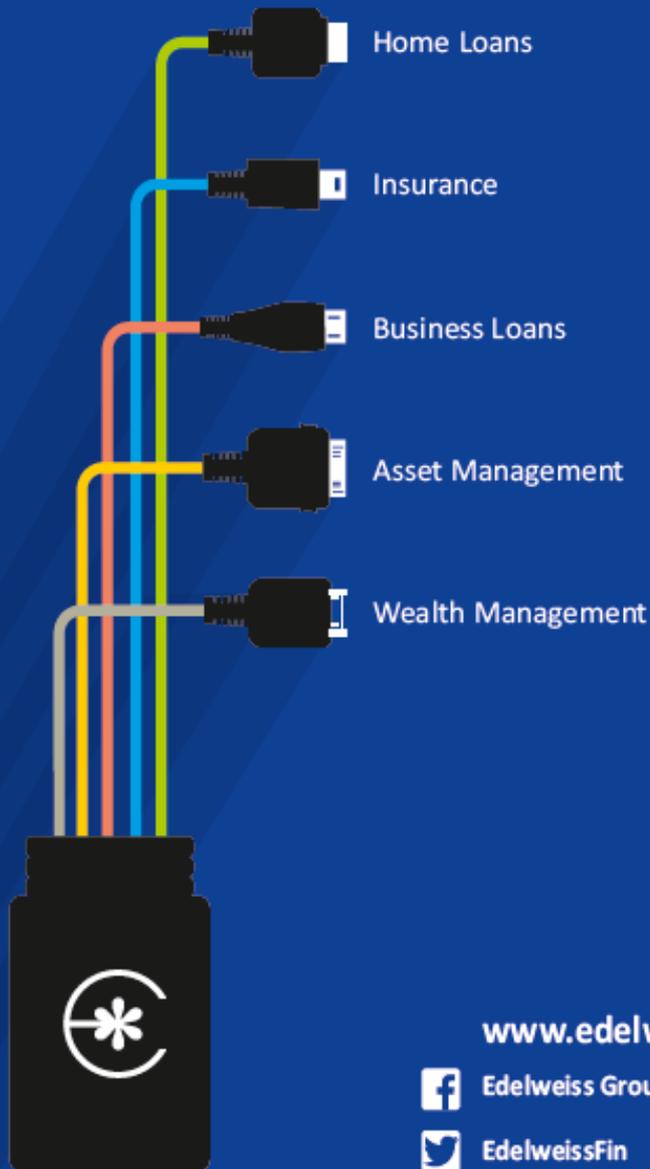
- **REVISED:** This implies that the IiAS recommendation has changed. IiAS may, on occasion, revise its voting recommendations based on incremental information. Such incremental information is usually filed by companies on the stock exchange websites. All changes are subject to a review by the Review and Oversight Committee (ROC).
- **MODIFIED:** This implies that the commentary and/or rationale for IiAS' analysis has changed, without any change in the voting recommendation. Such changes reflect minor corrections to language or text, for better communication of the voting recommendation and / or its rationale.
- **ADDENDUM/CORRIGENDUM:** This is used to highlight that the company has issued an addendum or made corrections to its initial shareholder notice and that IiAS' report has been updated to reflect the impact of the same.

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- Customer Centric Advisory of the Year, Personal Wealth Advisory - Customer Excellence Awards 2019
- Best Affordable Housing Finance Company – Edelweiss Housing Finance Limited - ET Now BFSI Awards 2018
- Dream Employer of the Year (Financial Services) - ET Now's Dream Companies to work for Awards 2018
- Product Innovator of the year (Zindagi Plus) - India Insurance Summit Awards 2018
- Golden Peacock Award for Risk Management - Golden Peacock Awards 2018

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- AGMs / EGMs (including Venue Voting)
- Postal Ballots and
- Other Meetings

thus obviating the need for shareholders to be physically present at the venue of the meeting to participate in the decision making process of companies. CDSL's e-Voting system is STQC and ISO 9001:2015 certified.

The detailed procedure for registration and voting by shareholders is available on www.evotingindia.com under the Help section.

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In case of any queries, please do contact us on helpdesk.evoting@cdslindia.com or on Toll Free 1800-22-5533 (10.00 am to 6.15 pm Monday – Friday and 10.00 am to 2.00 pm on Saturdays).

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ABOUT IiAS

Institutional Investor Advisory Services India Limited (IiAS) is an advisory firm, dedicated to providing participants in the Indian market with independent opinions, research and data on corporate governance issues as well as voting recommendations on shareholder resolutions for over 780 companies that account for about 95% of market capitalization. IiAS is a SEBI registered research entity (proxy advisor registration number: INH000000024).

IiAS has developed cloud-based applications to facilitate decision making. IiAS CompAYre enables users to search and analyse remuneration data for more than 1300 executive directors across 500+ listed companies. IiAS ADRIAN captures data on more than 35,000 shareholder resolutions, outcomes and voting rationales and allows companies to track peer-group strategies and gain insights to support decision making on corporate actions and investor engagement.

IiAS has equity participation by Aditya Birla Sunlife AMC Limited, Axis Bank Limited, Fitch Group Inc., HDFC Investment Corporation Limited, ICICI Prudential Life Insurance, Kotak Mahindra Bank Limited, RBL Bank Limited, Tata Investment Corporation Limited, UTI Asset Management Company Limited, and Yes Bank Limited. For more information, visit www.iiasadvisory.com.



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