

# A proxy on your house

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India is embroiled in a different sort of proxy fight. ITC, the \$50 billion conglomerate behind WelcomHotels and Gold Flake cigarettes, alleges that Institutional Investor Advisory Services defamed it by knocking the board and the chairman's pay package, according to a lawsuit reviewed by Reuters Breakingviews.

Such ballot issues regularly attract scrutiny. IiAS, which advises shareholders on how to vote, published notes on the company's succession plan and its proposed compensation arrangement for Yogesh Deveshwar, the non-executive chairman who previously ran ITC for more than two decades. The proxy advisory firm noted his aggregate salary would be higher than most chief executives and full-time directors of S&P BSE 500 companies.

In the end, 85 percent of votes were cast in favour of the chairman's pay compared with nearly 100 percent for the CEO's. That wasn't enough to satisfy the company, however. According to the court documents, ITC is now seeking a massive 10 billion rupees (\$155 million) in damages on the basis that the proxy firm's claims about the board structure and its committees, as well as Deveshwar's pay, damaged its reputation. Both sides declined to comment.

By the nature of their work, proxy advisory firms always frustrate someone. In the United States, Institutional Shareholder Services is in the middle of a fight between pushy hedge fund manager Bill Ackman and his push for board seats at Automatic Data Processing. The two sides have been trading barbs about what ISS was told, ahead of the shareholder vote on Tuesday.

In India, the influence of proxy firms is still growing in a tough environment. Tycoon-backed companies regularly try to stifle criticism. In 2012, Videocon Industries took a credit rating agency to court over a downgrade. Two years ago, Yes Bank protested to the securities regulator after UBS concluded it was vulnerable to a large corporate default. Even if such complaints fail, they can be fatal for smaller outfits.

ITC's is the first high-profile attack on a proxy firm in the country. If it prevails in court, it could have a chilling effect on this nascent industry. But the lawsuit also provides fresh evidence of how the balance of power is shifting. Institutional ownership is rising and investors are becoming more vocal. They're even starting to block large deals. A victory for IiAS would be a big step forward for scrutinizers of corporate governance.

## Context News

Indian hotels-to-tobacco conglomerate ITC filed a defamation case against independent proxy firm Institutional Investor Advisory Services seeking damages of 10 billion rupees, or about \$155 million, according to the lawsuit.

The allegations filed against the proxy firm in August in the Calcutta high court relate to two reports published in July recommending that shareholders vote against the proposed pay package of Yogesh Deveshwar, ITC's non-executive chairman, who was previously chairman and chief executive for more than two decades.

Shareholders subsequently voted in favour of his compensation.

The owners of IiAS include Fitch, Axis Bank, ICICI Prudential, Kotak Bank and Tata Investment.

ITC and IiAS both declined to comment on the case.

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