Stewardship in India

ACGA Asian Business Dialogue on Corporate Governance – November 2017
Indian equity markets

4000 + traded companies across stock exchanges

8.6 bn USD invested in India by FPIs/FII in FY2017

2.2 tn USD Market Cap for listed Indian companies

87% Market Cap to GDP ratio for FY2017

Promoters: 50.2%
DII: 12.3%
FII: 19.9%
Corporate Bodies: 4.4%
Individuals: 7.4%
Others: 5.7%

Source: Edelweiss, data covers March 2001 to March 2017
## Laws, Regulators, and Administrators in India

<table>
<thead>
<tr>
<th>Laws</th>
<th>Administrators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Companies Act 2013</strong></td>
<td><strong>Company Secretaries</strong></td>
</tr>
<tr>
<td>Applicable to listed and unlisted companies</td>
<td>Responsible for ensuring regulatory compliance</td>
</tr>
<tr>
<td>Regulator: Ministry of Corporate Affairs (MCA)</td>
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</table>

| **Banking Regulation Act 1949** | **Auditors** |
| Applicable to all Scheduled Commercial Banks | Audit financial statements, report on related party transactions |
| Regulator: Reserve Bank of India | | |

| **SEBI LODR 2015** | |
| Applicable only to listed companies and banks | Oversight: Institute of Company Secretaries of India |
| Regulator: Securities and Exchange Board of India (SEBI) | | |

<table>
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<th><strong>Regulators and Oversight Bodies</strong></th>
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<tr>
<td><strong>Company Secretaries</strong></td>
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India ranks well on protecting minority investors

World Bank’s Doing Business Report: Protecting Minority Investors

Rank in DB2018: 4
Rank in DB2017: 13

Improvement in global ranking on the back of reforms introduced by SEBI and Ministry of Corporate Affairs

Distance to Frontier in DB2018: 80.0
Distance to Frontier in DB2017: 76.6
Distance to Frontier in DB2015: 60.0
Distance to Frontier in DB2010: 56.7

The distance to frontier score helps assess the absolute level of regulatory performance over time. An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier. For example, a score of 75 means an economy was 25 percentage points away from the frontier constructed from the best performances across all economies and across time.
Regulations compel better corporate behaviour

- One woman director on every board is mandatory
- Mandatory auditor rotation after 10 years
- Mandatory Independent Director rotation after 10 years
- 2% of three year average profits to be spent on CSR
- Related Party Transactions require approval by majority of minority shareholders
- Mandatory Dividend Distribution Policy
Stewardship sponsored by Indian regulators

- Mutual Funds to publish their voting policy
- E-voting
- Mutual Funds to disclose voting rationale
- IRDA publishes draft for a Stewardship Code

2010: Mutual Funds to publish their voting policy
2012: Mutual Funds to publish their votes on resolutions
2014: Pension regulator compels pension funds to vote
2016:
2017: IRDA publishes draft for a Stewardship Code
2018: Kotak Corporate Governance Committee requires Stakeholders Relationship Committee meet investors at least once a year
Mutual Funds and Pension Funds increase voting participation

% For
% Against
% Abstain

FY15

MF and PF ownership levels 10.5%

FY16

11.6%

FY17

12.3%

Source: IiAS ADRIAN www.iiasadrian.com; Data covers companies under IiAS coverage; Data based on total number of votes cast
FII voting participation has remained high

**Source:** IiAS ADRIAN [www.iiasadrian.com](http://www.iiasadrian.com); Data covers companies under IiAS coverage; Data based on total number of votes cast

- **FY15**
  - % For: 20.1%
  - % Against: 2%
  - % Abstain: 0%

- **FY16**
  - % For: 17.3%
  - % Against: 0%
  - % Abstain: 0%

- **FY17**
  - % For: 19.9%
  - % Against: 0%
  - % Abstain: 0%
Adoption of stewardship codes by insurers

Since regulations came into force, 84% of insurance companies have adopted a stewardship code.

For their investee companies, most insurance companies tend to have an active engagement threshold between 1% to 5% of either their AUM or equity holding.
Infosys: Investors push for conflict resolution

Narayana Murthy

Publicly raises concerns over severance pay to former CFO, Vishal Sikka’s pay revision in 2016, UB Pravin Rao’s pay revision in 2017, and whistleblower allegations on Panaya acquisition.

Vishal Sikka

Resigns in August 2017 citing continued unfounded pressure from Narayana Murthy. The board’s response to the resignation was almost accusatory.

Mutual Funds

Several mutual funds sign a joint letter to the board asking for Nandan Nilekani to return to the Infosys board.

Nandan Nilekani

Returns to Infosys as Non-Executive Chairperson – the leadership instability finds resolution within a week. Three board members, including the Chairperson, resign.
### Florintree and Unifi Capital: Green Shoots of Activism

<table>
<thead>
<tr>
<th>September 2017</th>
<th>July 2017</th>
</tr>
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<tbody>
<tr>
<td><strong>Florintree Advisors</strong>&lt;br&gt;Alternate asset management company</td>
<td><strong>Unifi Capital</strong>&lt;br&gt;16-year old portfolio management company with over Rs. 25.0 bn of AUM</td>
</tr>
<tr>
<td><strong>PTC India Limited</strong>&lt;br&gt;Proposal to get appointed as Non-Executive Non-Independent director</td>
<td><strong>Alembic Limited</strong>&lt;br&gt;Proposal to get appointed as a small shareholder director</td>
</tr>
<tr>
<td><strong>Matthew Cyriac</strong>&lt;br&gt;Partner at Florintree Advisors and Former Partner, Blackstone Advisors</td>
<td><strong>Murali Rajagopalachari</strong>&lt;br&gt;Vice-President at Unifi Capital and part of Research team</td>
</tr>
<tr>
<td><strong>Resolution defeated</strong></td>
<td><strong>Board Rejected</strong></td>
</tr>
<tr>
<td><strong>Shareholder</strong>&lt;br&gt;Sought board seat on</td>
<td><strong>Candidate</strong>&lt;br&gt;Outcome</td>
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Development of a Governance Scorecard

Scoring the S&P BSE SENSEX’s 30 companies in 2016

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

Total score = 100

- 70 questions, answers based on publicly-available information
- Based on the G20/OECD Principles of Corporate Governance

Leadership | Good | Fair | Basic

- Total score

Supported by the Government of Japan
markets ∩ governance