

# 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

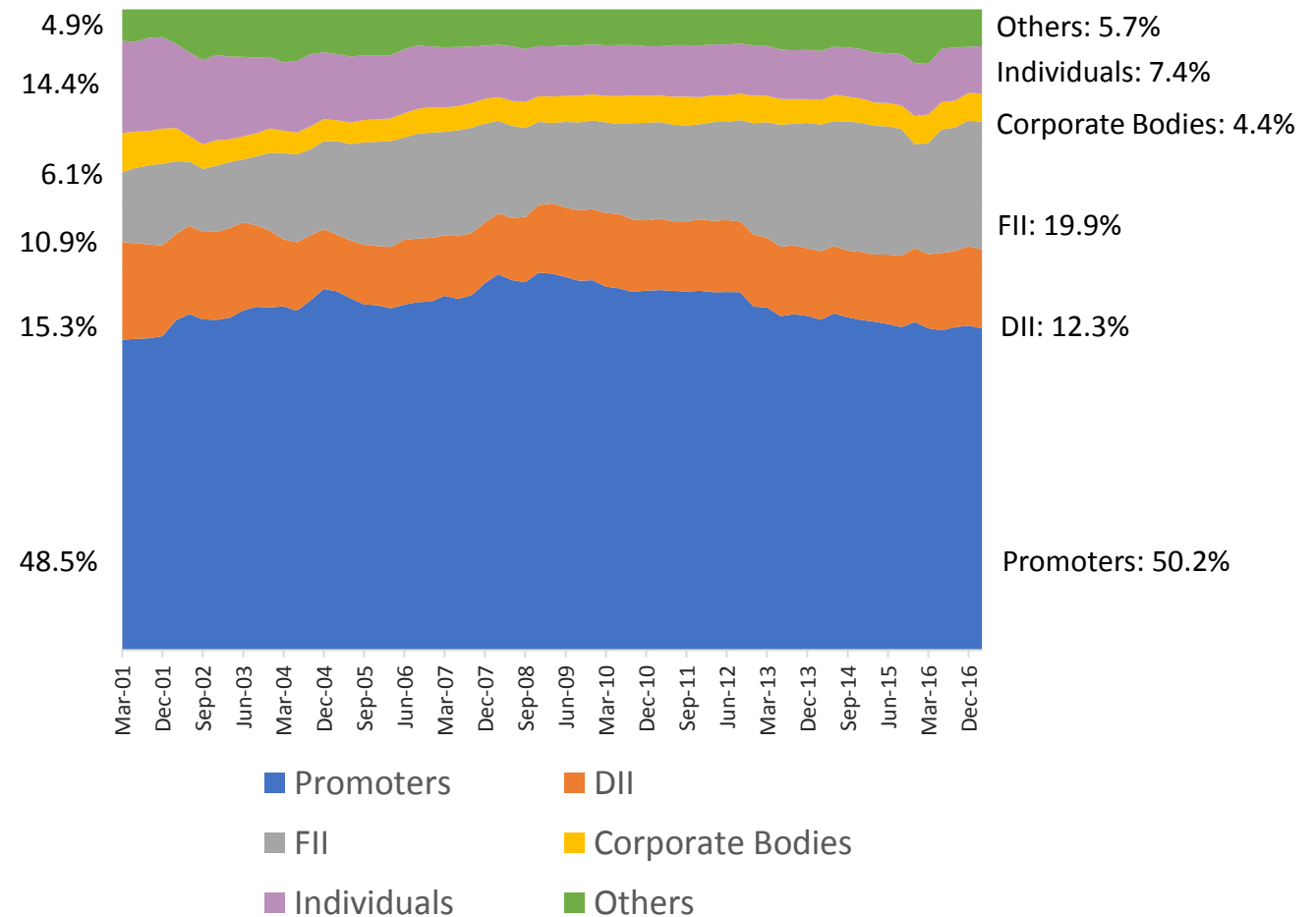
2.2 tn

USD Market Cap  
for listed Indian  
companies

87%

Market Cap to  
GDP ratio for  
FY2017

Institutional ownership in Indian equities is increasing



# Laws, Regulators, and Administrators in India

## Laws

### Companies Act 2013

Applicable to listed and unlisted companies

Regulator: Ministry of Corporate Affairs (MCA)

### Banking Regulation Act 1949

Applicable to all Scheduled Commercial Banks

Regulator: Reserve Bank of India

### SEBI LODR 2015

Applicable only to listed companies and banks

Regulator: Securities and Exchange Board of India (SEBI)

## Administrators

### Company Secretaries

Responsible for ensuring regulatory compliance

Oversight: Institute of Company Secretaries of India

### Auditors

Audit financial statements, report on related party transactions

Oversight: Institute of Chartered Accountants of India (ICAI)

# India ranks well on protecting minority investors

## World Bank's Doing Business Report: Protecting Minority Investors



4

Rank in  
DB2018

13

Rank in  
DB2017

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

80.0

Distance to Frontier  
in DB2018

76.6

Distance to Frontier  
in DB2017

60.0

Distance to Frontier  
in DB2015

56.7

Distance to Frontier  
in DB2010

*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

2010



2012

Mutual Funds to publish their votes on resolutions

- E-voting
- Mutual Funds to disclose voting rationale

2014



2016

Pension regulator compels pension funds to vote

- IRDA publishes draft for a Stewardship Code

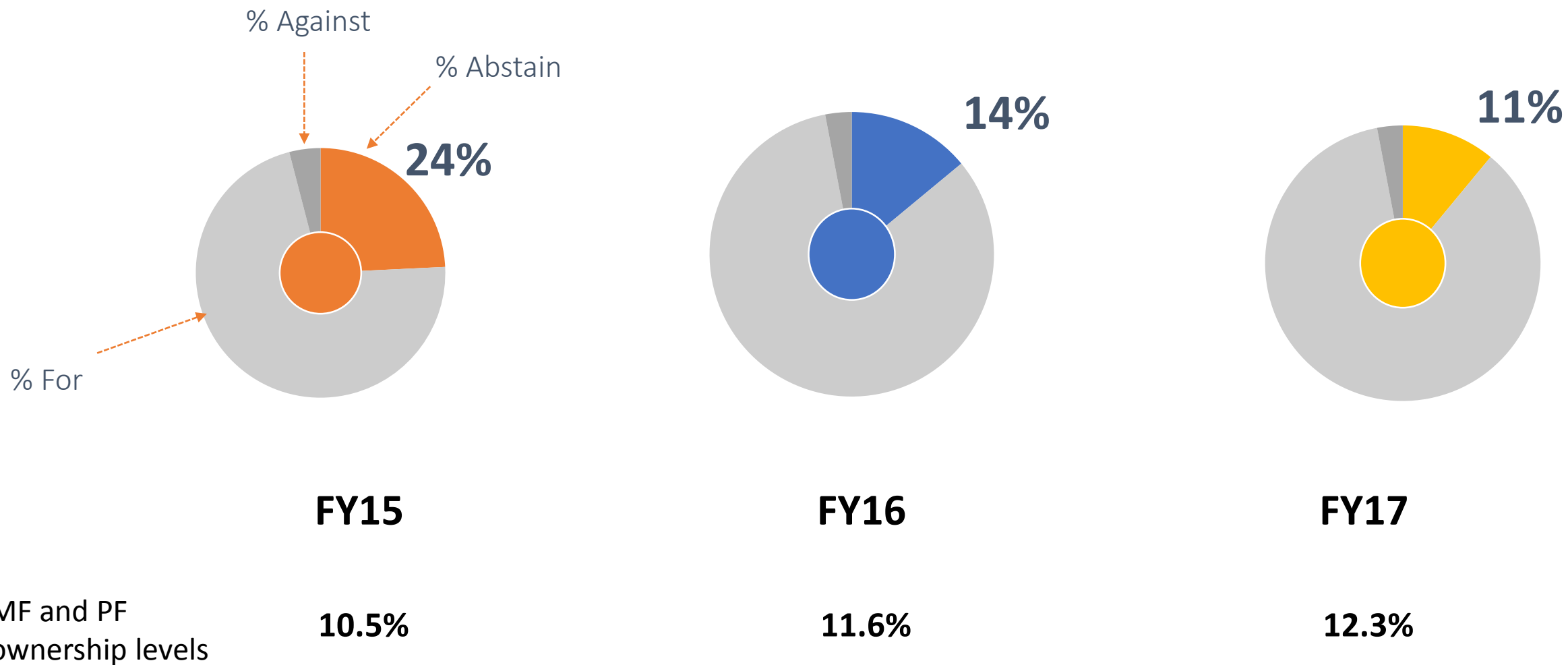
2017



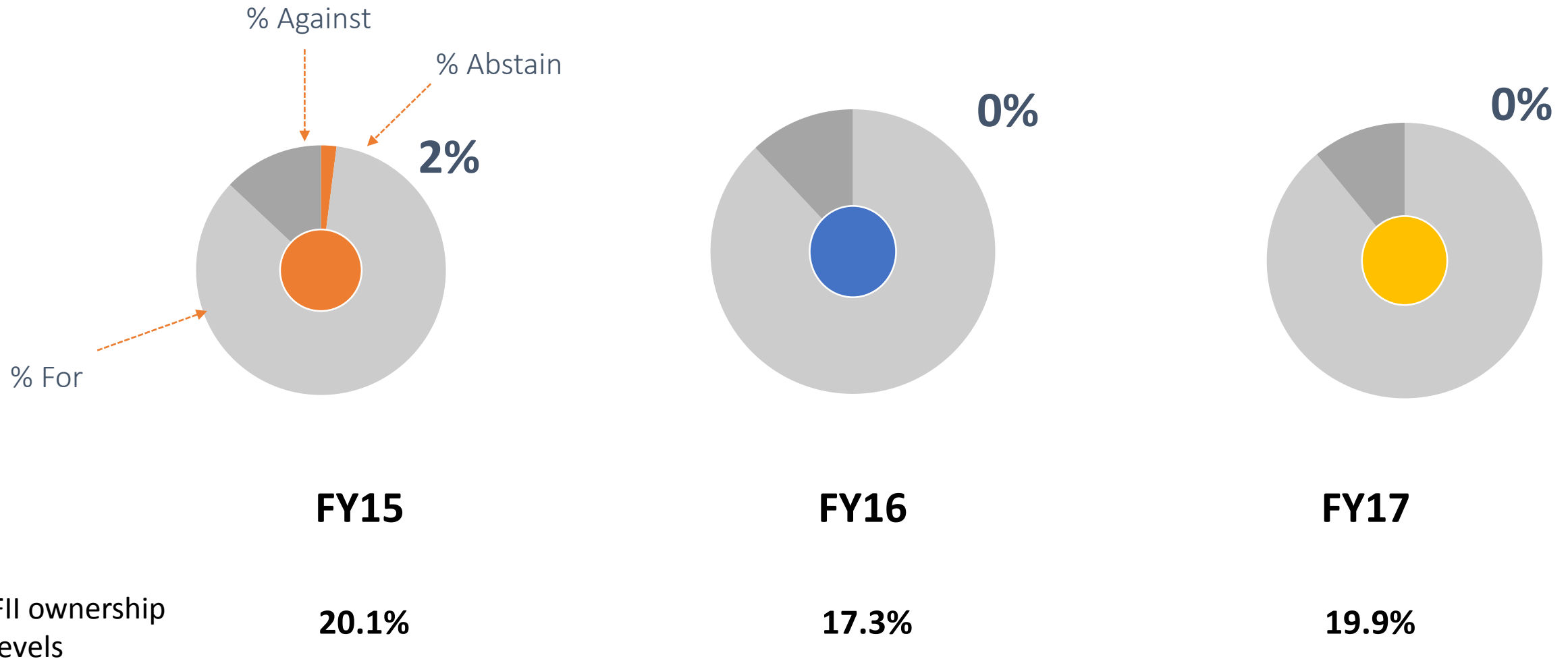
2018

Kotak Corporate Governance Committee requires Stakeholders Relationship Committee meet investors at least once a year

# Mutual Funds and Pension Funds increase voting participation



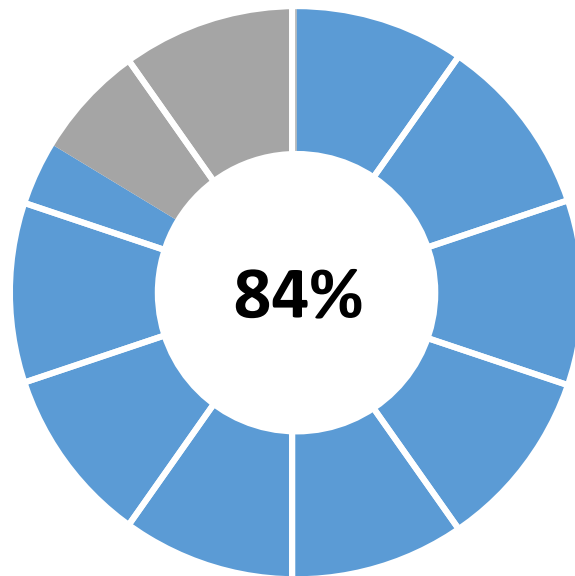
# FII voting participation has remained high





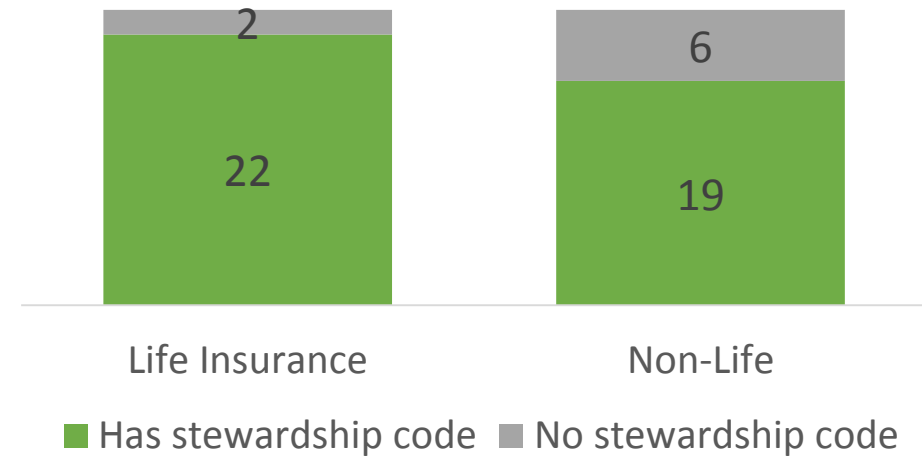
# Adoption of stewardship codes by insurers

Since regulations came in to force, **84%** of insurance companies have adopted a stewardship code

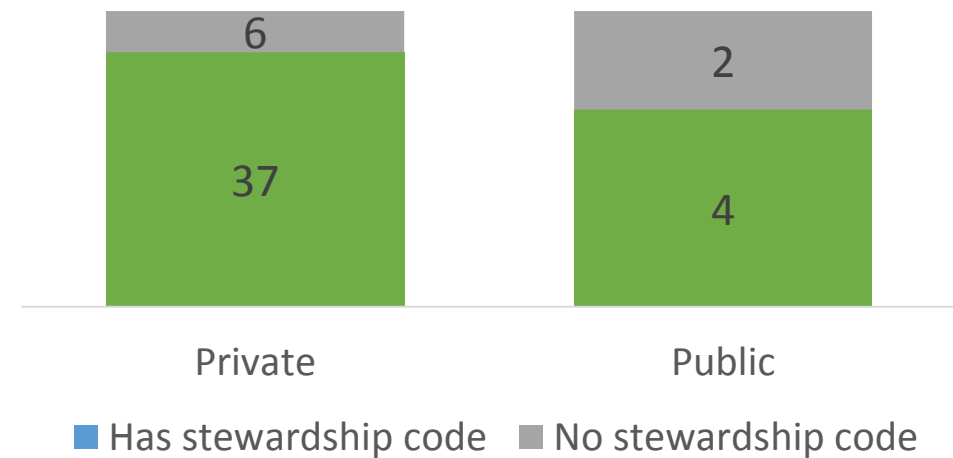


For their investee companies, most insurance companies tend to have an active engagement threshold between 1% to 5% of either their AUM or equity holding

### By insurer category



### By sector



# 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.

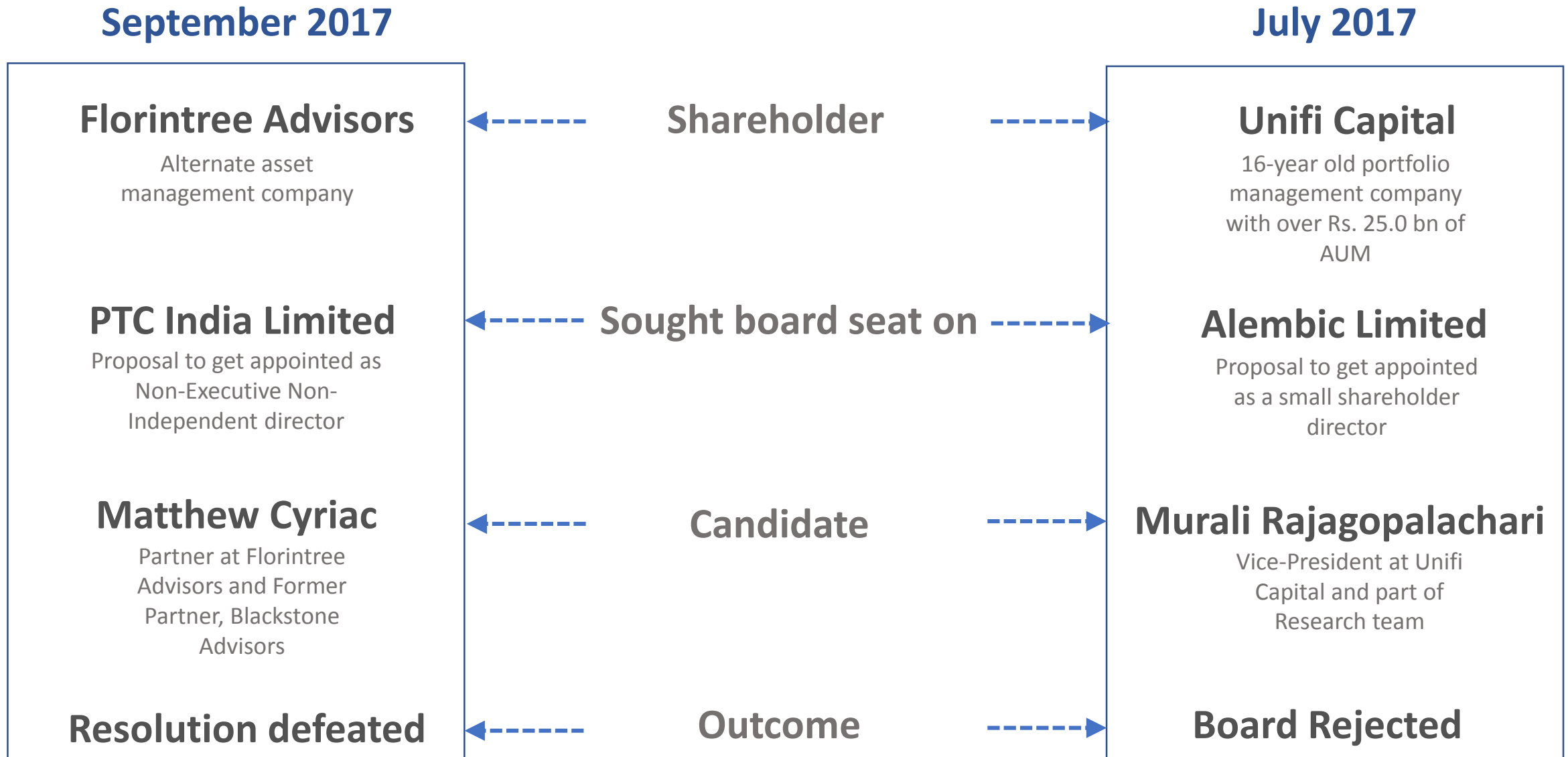
**Mutual Funds**

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

**Nandan Nilekani**

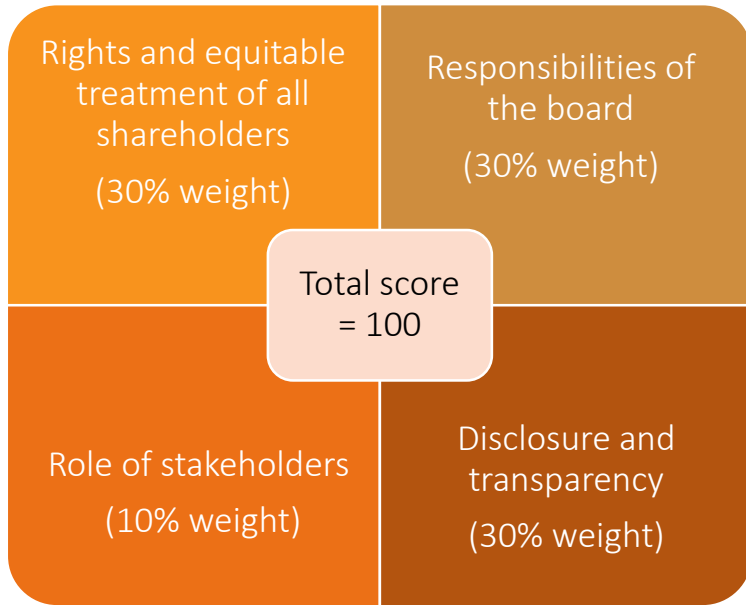
Returns to Infosys as Non-Executive Chairperson – the leadership instability finds resolution within a week. Three board members, including the Chairperson, resign.

# Florintree and Unifi Capital: Green Shoots of Activism



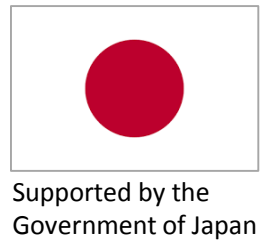
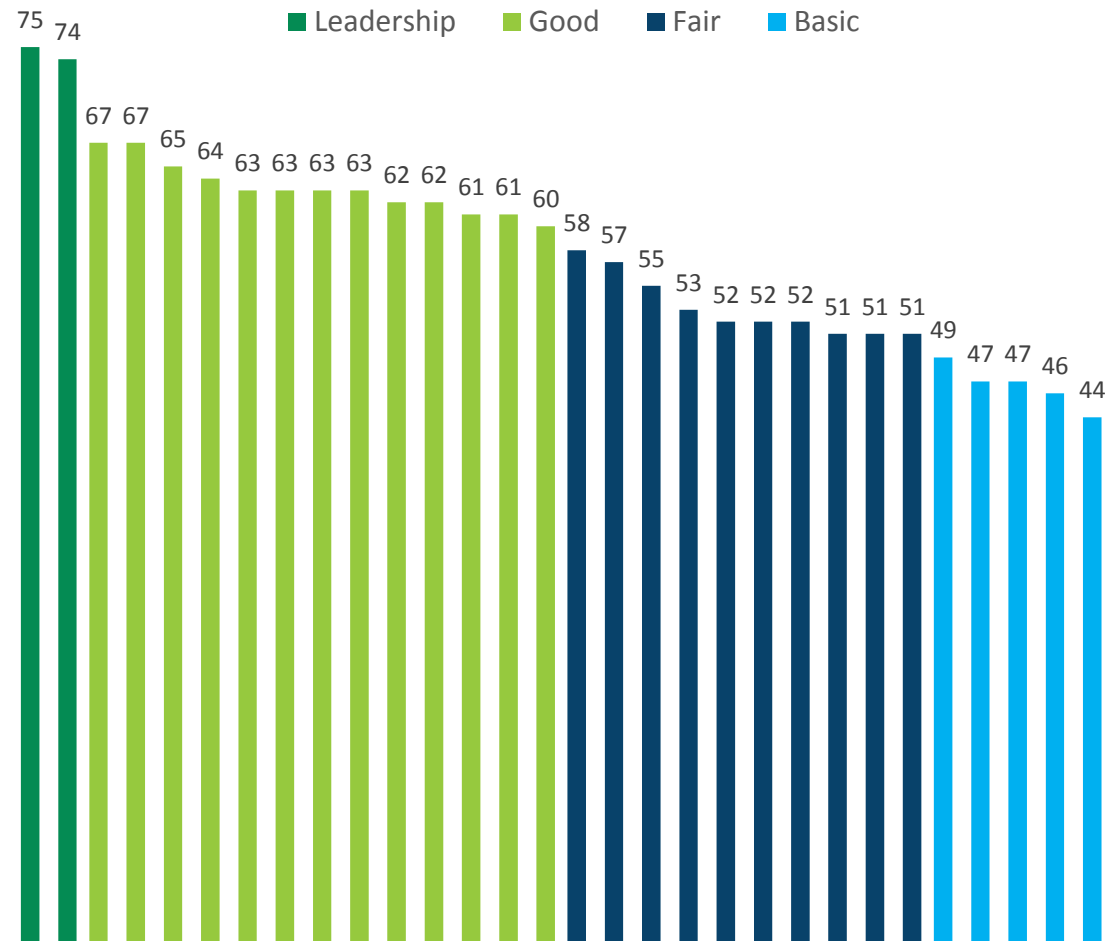
# Development of a Governance Scorecard

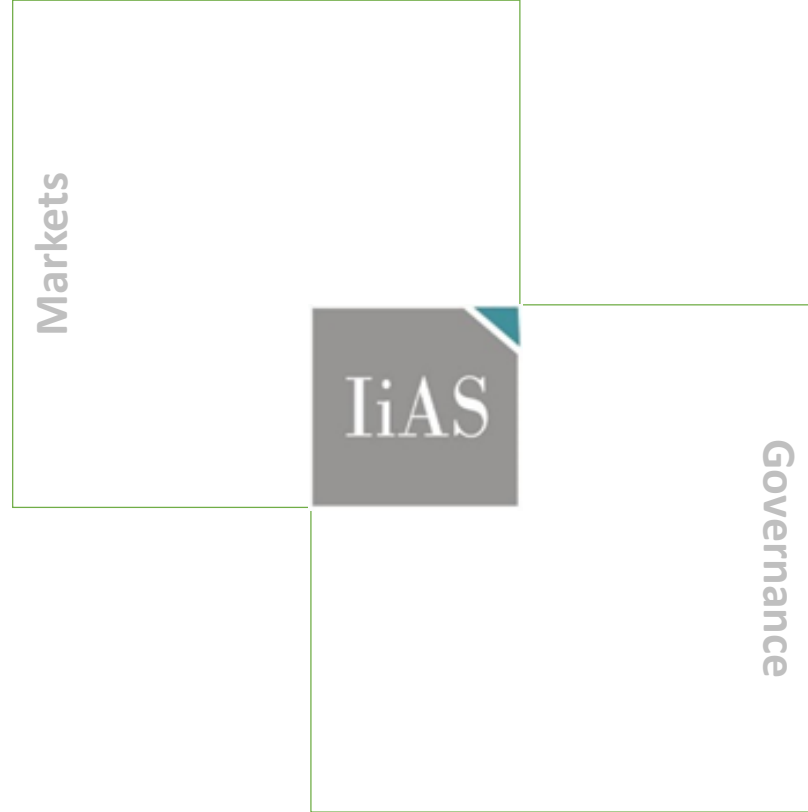
## Scoring Matrix



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

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





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