IiAS INSTITUTIONAL INVESTOR ADVISORY SERVICES

THE 2024 BOARD REFRESH

vahura

apg

TABLE OF CONTENTS

INTRODUCTION

A board's composition is determined by an interplay between regulatory obligations and a company's own requirements.

In the last decade boards have changed in obvious and not-so-obvious ways. This has been a consequence of the Companies Act 2013 and SEBI (Listing Obligations and Disclosure Requirement) Regulations, increased pressure from shareholders and changes that boards themselves have driven.

The most obvious is the presence of women on boards. Just before the new Companies Act was rolled out in 2014, only one in twenty directors was a woman. This ratio is now closer to one in five. True, regulations were the catalyst for this change, but they have not been the silver bullet. More now needs to be done by the companies themselves.

While the number of directors has remained approximately the same since the new Act was rolled out, the marginal increase is accounted for by companies starting to appoint new directors on their boards prior to the Companies Act propelled change. This is discussed in detail in this document. Several other parameters – board independence, non-independent chair, over-boarded directors all point towards a greater awareness at the board level and increased expectations of boards by all stakeholders, including the investors and regulators.

While in large part, this change that we have seen has been a consequence of regulations (– term limits, independence, diversity), boards must ensure that the company's own substantive needs are met. In this context, the nomination and remuneration committees need to balance between regulations and evaluating the skills that are needed to ensure an effective board well suited to dealing with the company's opportunities and threats.

As regulations get more prescriptive, businesses become more complex and investors more demanding, building a board that is fit-for-purpose is going to be more challenging.

FOREWORD

The Great Indian Board Refresh is fast approaching. On or before 31 March 2024, thousands of independent directors will have to retire after completing two terms. It's a testimony to the dynamism of the business and technological environment that the world has changed almost beyond recognition since Companies Act 2013 released its tenure rule almost a decade ago. Since June 2014, we've seen multiple credit cycles, the rise of Environmental, Social, and Governance (ESG) obligations, an unprecedented pandemic and the staggering rise of Artificial Intelligence.

As a result of these developments, the winds in corporate India have been blowing differently. There is a pressing need for domain experts and specialists to navigate these transformations. A collaborative attitude has become non-negotiable. Advisors need to hit the ground running and fit seamlessly into larger, cross-functional groups.

These are some of the reasons why independent board members are gaining recognition as champions of cooperation and guidance. Now, with the emphasis on professionalism and credentials, we're seeing an increased acknowledgment of the pivotal role of independent directors in reinforcing strong governance and informed decision-making.

In 2019, SEBI made it mandatory for companies to disclose a skills matrix for directors. While the rule has been followed in letter, with companies listing down all or most directors as having the skills required, there is a growing commitment to follow its spirit too. Companies are asking sharper questions about the domain and industry experience of independent directors. A lot of thought is going into assessing how this expertise can complement the skills of the wider board and management.

Now, it's clear that a skill-centred approach is not just a regulatory box to check off, it's good business too. It involves meticulously evaluating the company's goals, its industry position and future strategies, and then matching it with an individual's professional journey, their industry insights and the diverse perspectives they can offer.

At Vahura Onboard, we are at a unique vantage point to observe these shifts. We've observed that companies are preferring directors with prior experience so that they enter the arena with some understanding of board dynamics.

The C-Suite is increasingly seeking out independent directors whose skills can contribute to the vision of the board and enhance the operating capabilities of the management. A premium is being placed on advisors who can hold their own while fostering a cohesive culture and upholding the value of teamwork.

More specifically, we've noticed a heightened demand for former regulators and bureaucrats, who come armed with policy insights and pose constructive challenges to operators. In addition to new-age expertise, the timeless skills are still in demand: legal acumen, IPO readiness-assessment, long-term strategy planning, and crisis management.

Independent directors are no longer expected only to make up the numbers.

They are expected to dedicate time and mindspace to the company, actively prepare and participate in decision making and issue resolution, and continuously learn and sharpen their skills. Their performance is being closely monitored by companies.

All of this is being done to unlock new levels of operating and corporate excellence. This is not to paper over the cracks in the system. There's much to be done in terms of gender and other kinds of representation. Promoter influence on independent directors is still something to think about. But the mills of change are at work. In the midst of unpredictable external shifts, companies are appreciating that value can come from seasoned professionals casting a cool, incisive eye on proceedings. The independent director has never been more critical to the scheme of things.

Shweta Rao,
Head - Vahura OnBoard
(Board Search & Advisory)

MESSAGE FROM APG

In any corporate setup, boards have a fiduciary mandate to act as effective stewards. Apart from providing management oversight and strategic guidance, they are required to uphold high standards of business integrity and serve as a constant auditor of the company's culture. Which is why at APG, we expect our investee companies to ensure that their boards are properly positioned to deliver on this mandate.

As part of our due diligence and engagement process, we ask independent directors to make themselves available for meaningful dialogue with key stakeholders. We ask non-executive directors to constructively challenge and hold management to account when necessary. We ask the relevant board committees to take stock of all material risks and ensure that these are effectively controlled and mitigated.

To meet these responsibilities and exercise their duty of care, boards need to have the right mix of individuals with diverse, but relevant expertise and backgrounds. This study focuses on aspects of board leadership, independence, gender diversity, and experience levels. There could be other factors that merit consideration, but these are probably the most critical and, equally importantly, readily measurable. APG, on behalf of clients, has therefore framed and adopted a strict framework around these issues – which, in some cases, go even beyond the current Indian regulatory requirements.

For example, we believe the roles of the CEO and board chair should be separate – despite this now being a voluntary requirement in the market. The functions require distinctly different skills and qualifications, and a combination of the roles can lead to an undesirable concentration of power in one individual. The study notes that 200 companies in NIFTY 500 continue to be led by an executive board chair – in such cases, we would generally engage and/or withhold support from the chair re-elections.

We believe all boards in India should have majority independent directors – irrespective of the independence status of the board chair. This is particularly important, given the high family ownership and control structures prevalent in the country. The increasing level of board independence identified by the study is a positive direction of travel. But more urgency is required on rotating tenured directors.

Diversity has always been a strong area of focus for our clients. There is enough empirical evidence to suggest that board diversity helps avoid insularity and has a positive correlation with company performance. Our policies for emerging markets state that we will withhold support for the incumbent members of the Nomination Committee if the board lacks at least 2 women or 20% gender diversity. As highlighted later in the study, this threshold is beyond the average women representation of 18% on Indian boards. What is particularly concerning is that, after a few good years of steady progress, diversity levels seem to have largely flatlined since 2020. This requires deep selfreflection. Rather than being driven by regulatory edicts, boards need to accept and operate on the principle that diversity is important for long-term value creation, and therefore must be embraced.

The next component addressed in the study is the board's collective experience, which informs and guides the overall decision-making prowess. Digital proficiency, cybersecurity awareness, and sustainability oversight are key areas of expertise we expect directors to now possess and bring to the table. This is important for futureproofing, as it implies that opportunities and risks associated with innovation/disruption in business models and technologies can be identified and studied. SEBI's directive to companies to disclose a board skill matrix and report on board evaluation/training have helped in this regard – as the resources and efforts being dedicated towards ensuring that critical skill sets are nurtured at the board level can now be ascertained.

In the context of succession planning, for younger generations of controlling families, the lack of technical knowhow and operational familiarity could be a severe impediment – particularly if they are appointed to the board at a very young age. However, the data in the study indicates that very few companies (2% of NIFTY 500) take this route. The large majority tend to be discerning and ensure that successors gain an on-the-ground understanding of key functions before being elevated to the board.

In the round, for the most part, the current board structures of NIFTY 500 seem to be fairly robust, at least when compared to other emerging markets. A strong regulatory push and the need to access global capital pools have played an important role in this transition. But given the size, scale, and ambitions around growth, Indian companies need to aim higher and benchmark themselves against the more developed capital markets around the world. It is in this context that the impending 2024 board refresh becomes a landmark moment for corporate India – as the next two years provide a great opportunity for companies to rethink their board composition and align with institutional and market expectations.

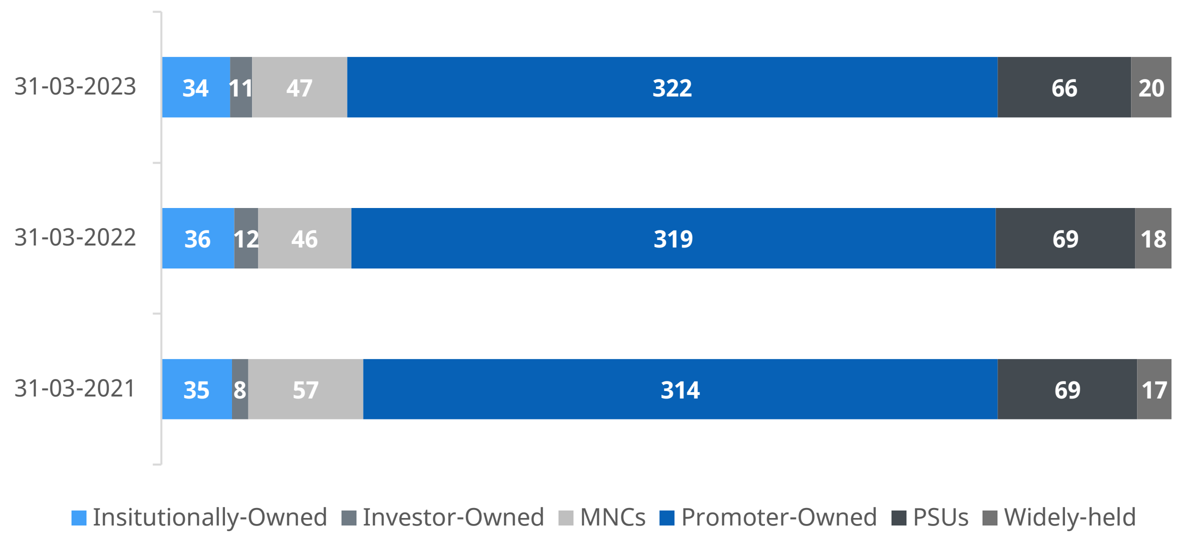
Debanik Basu
Lead – Emerging Markets, Responsible Investment & Governance
APG Asset Management Asia

SCOPE OF THE STUDY

This is the third study that IiAS has published on board composition and structure of the NIFTY 500 companies. The current study covers companies in the NIFTY 500 between 31 March 2021 and 2023, with a focus on the most recent period. The NIFTY 500 accounts for over 95% of total market capitalization and is, therefore, reflective of the boarder market makeup on board independence and structure.

The NIFTY 500 companies have shown largely a similar ownership structure over the three years, with promoter or family-controlled[1] companies accounting for more than 60% of the index constituents. A new breed of investor– mainly private equity-owned companies - have entered the index as compared to earlier periods. In 16 of the index companies on 31 March 2023[2], these investors have categorized themselves as promoters. For newly listed start-ups, private equity investors are classified as public shareholders and the companies are considered widely-held – but the pre-IPO investors continue to remain embedded in the board and are active in the functioning of the company. The number of MNCs in the NIFTY 500 have declined to 47 on 31 March 2023, from 57 on 31 March 2021. These have been replaced largely by promoter-controlled entities, reflecting the growing strength of domestic businesses.

Exhibit 1: NIFTY 500 index composition over the past three years

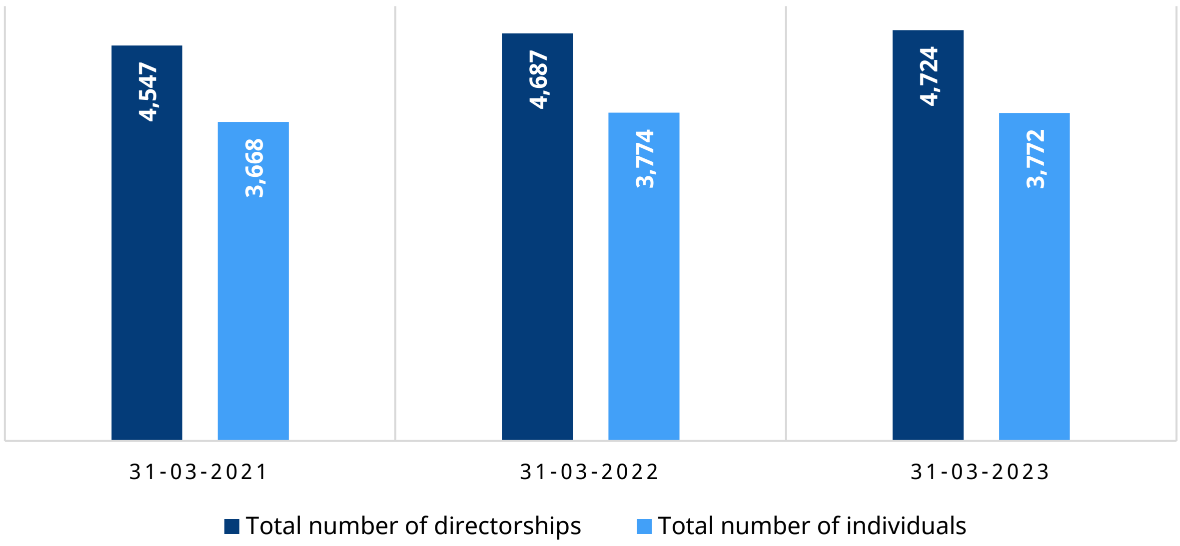


Source: www.nseindia.com; IiAS Research

The NIFTY 500 companies had more than 4,724 directorships that were filled by 3,772 individuals on 31 March 2023.

[1] Used interchangeable in this report
[2] Five on these are owned by investors in conjunction with Indian promoters, and have therefore been classified as promoter-owned in Exhibit 1

Exhibit 2: Directors and directorships held across the NIFTY 500 companies



Source: PRIME database; IiAS research

Our study analyses the board structures of these NIFTY 500 companies.

We have reviewed the readiness of Corporate India to meet the board independence requirements required under regulations from 2024. The grandfathering of previous tenures of Independent Directors comes to an end in 2024, and companies will now be required to refresh their boards.

The data carried in this study is for 31 March 2023– to this extent, some of the companies will be within a curing period to fill compliance gaps. Nevertheless, this does not take away from the broader trend of corporate India's board structures and independence.

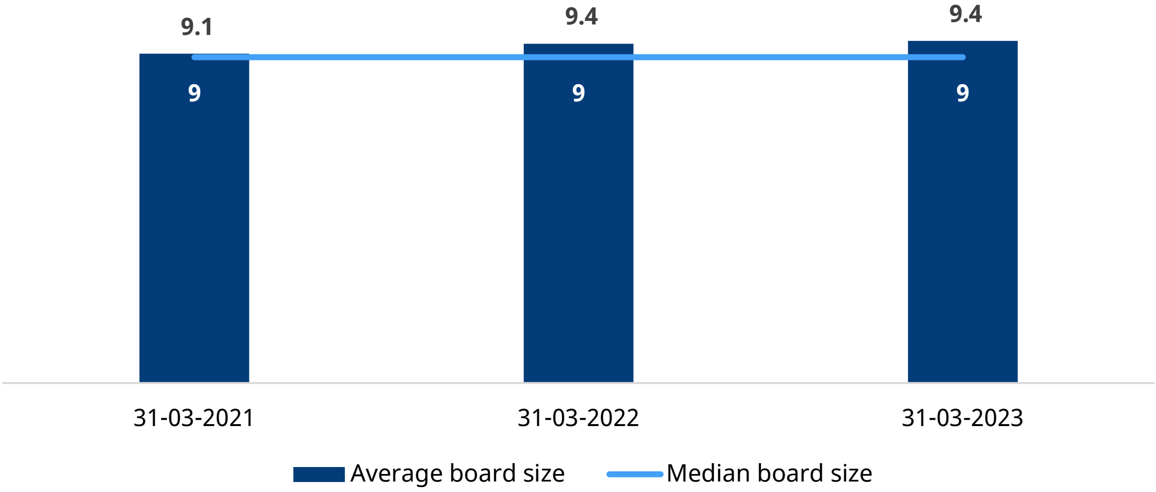
Quick notes – for the purpose of this study:

1. Promoters includes promoter representatives. Promoter representatives are typically representatives of parent companies.
2. Public Sector Undertakings (PSUs) include public sector banks.
3. Companies controlled jointly by a promoter family and an investor or an MNC have been classified as promoter-owned companies throughout this report. There were 12 such companies on 31 March 2023.
4. Tenured independent directors refers to those that have had a board tenure of 10 years or more – from the date of their first appointment.

BOARD SIZE

NIFTY 500 companies have had a board size between 9 and 10 over the past several years. In the three years of this study, board sizes have marginally increased, as companies prepare themselves for a planned board refreshment.

Exhibit 3: Board sizes of the NIFTY 500



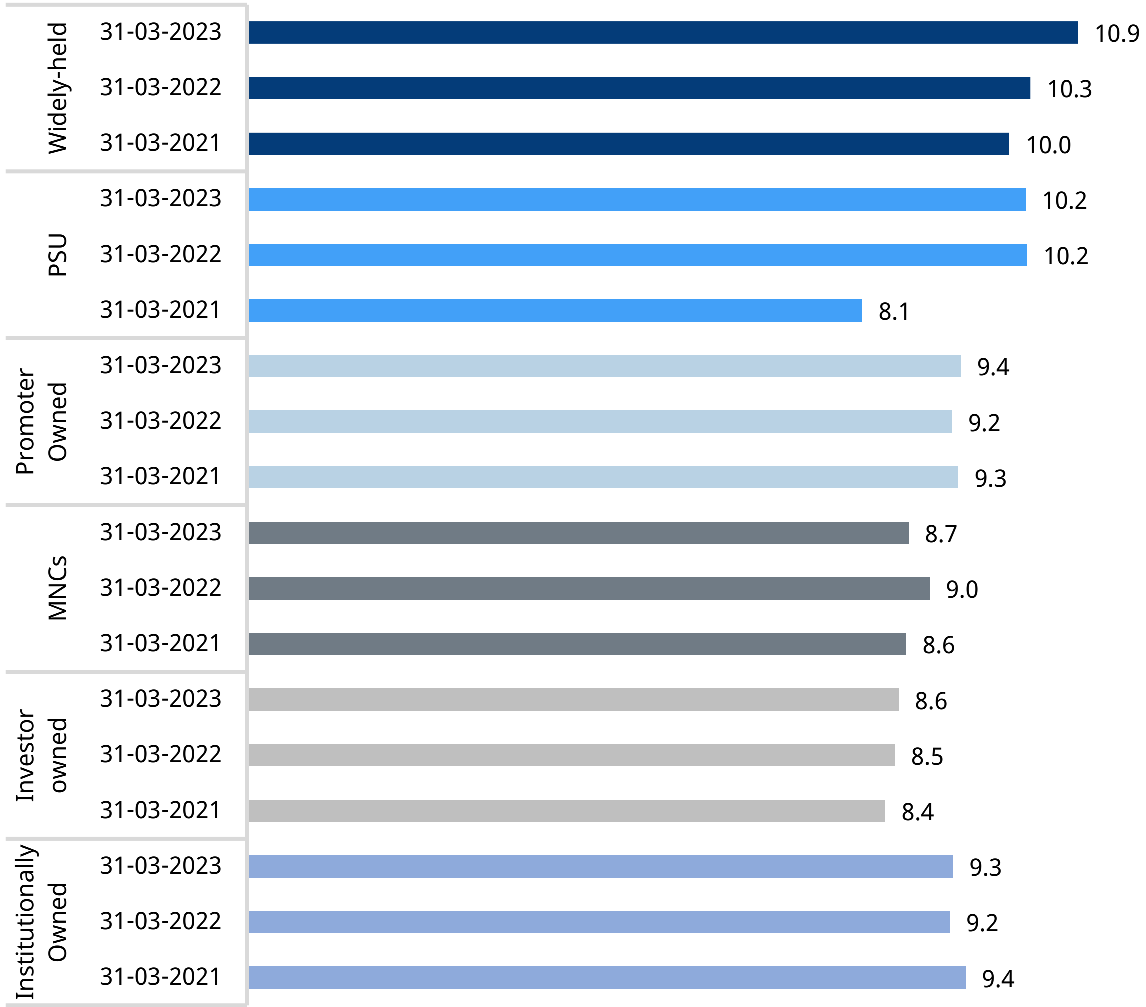
Source: PRIME database, IiAS research

SEBI (Listing Obligations and Disclosure Requirements) 2015 (SEBI LODR) mandate a minimum board size of six members for the top 2,000 listed companies. This is higher than under the Companies Act 2013, which has specified a minimum board size of three. Under the Act, companies are required to seek shareholder approval in case the board size is to exceed 15 members.

Of the NIFTY 500 on 31 March 2023, there were 18 companies with board sizes of 15 or more. Of these, 11 were promoter-owned and the board size had expanded to accommodate family members and promoter representatives. For PSUs and widely held companies, board sizes expand to accommodate a larger number of executive directors.

PSUs have shown an increase in average board size to 10.2 on 31 March 2023 from 8.1 on 31 March 2021. This increase is largely because the government attempted to fix the compliance violations with respect to board independence. Over FY22 and FY23, the government has appointed more independent directors on the boards of PSUs, yet many of these boards continue to remain non-compliant.

Exhibit 4: Average board size by ownership over three years



Source: PRIME database, IiAS research

Exhibit 5: Companies of the NIFTY 500 with a board size of 15 or more on 31 March 2023

Sr. No.	Company Symbol	Ownership	Board size	No of promoters	% of promoters
1	ESCORTS	Promoter Owned	18	8	44%
2	LT	Widely-held	18	-	-
3	YESBANK	Widely-held	18	-	-
4	MRF	Promoter Owned	17	7	41%
5	GMRINFRA	Promoter Owned	17	4	24%
6	SAIL	PSU	17	2	12%
7	EMAMILTD	Promoter Owned	16	8	50%
8	CENTURYPLY	Promoter Owned	16	7	44%
9	AARTIIND	Promoter Owned	16	5	31%
10	JKCEMENT	Promoter Owned	16	5	31%
11	PIDILITIND	Promoter Owned	16	4	25%
12	NATIONALUM	PSU	16	2	13%
13	ITC	Widely-held	16	-	-
14	MUTHOOTFIN	Promoter Owned	15	7	47%
15	DABUR	Promoter Owned	15	5	33%
16	IDBI	PSU	15	4	27%
17	APOLLOTYRE	Promoter Owned	15	2	13%
18	IOC	PSU	15	1	7%

Source: PRIME Database, IiAS Research

IiAS believes that a board size of greater than 15 makes it difficult to arrive at a consensus and operationally challenging. We also do not encourage a large number of family members on the board: we believe this may lead to group think and limit the company's ability to find and retain the right professional talent.

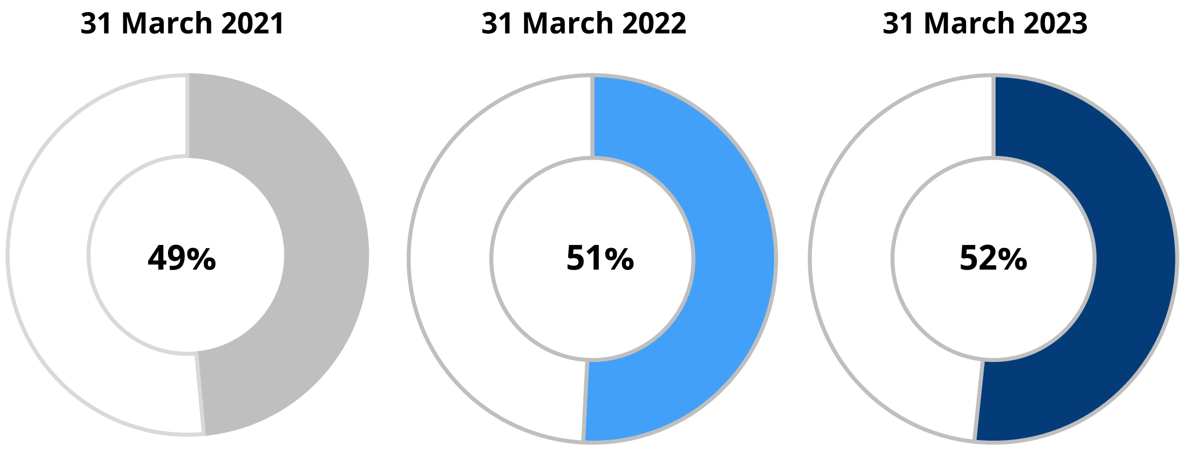
BOARD INDEPENDENCE

Board independence is a crucial element of good corporate governance. Long-term performance and growth often hinge on the effectiveness of the board. A board is truly effective when it has adequate checks and balances through a balanced mix of independent and non-independent directors.

While global best practices suggest that more than half the board must comprise Independent Directors, Indian regulations' mandate for board independence is driven by who chairs the board. If the Chairperson is an executive director, or a promoter (including promoter nominees and representatives), then the board must comprise 50% independent directors. If the board does not have a permanent chairperson, then too the board must have 50% board independence. In all other instances boards can comprise 33% independent directors.

Because over 60% of listed companies within the NIFTY 500 are family-owned, promoters tend to be board chairs. Therefore, the average board independence of the NIFTY 500 companies tends to be at about 50%.

Exhibit 6: Independent Directors of the NIFTY 500 over the three years



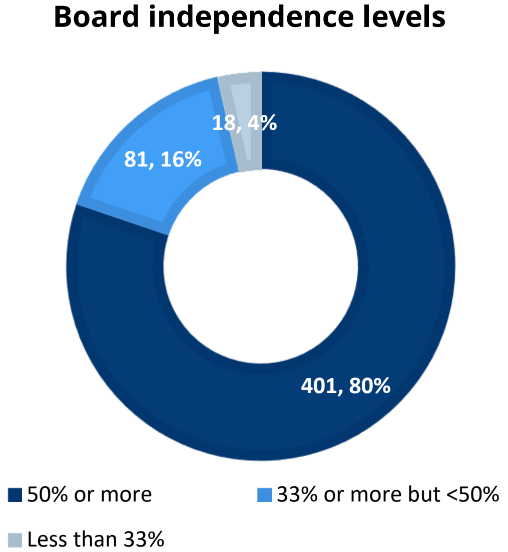
Note: the data above includes tenured independent directors

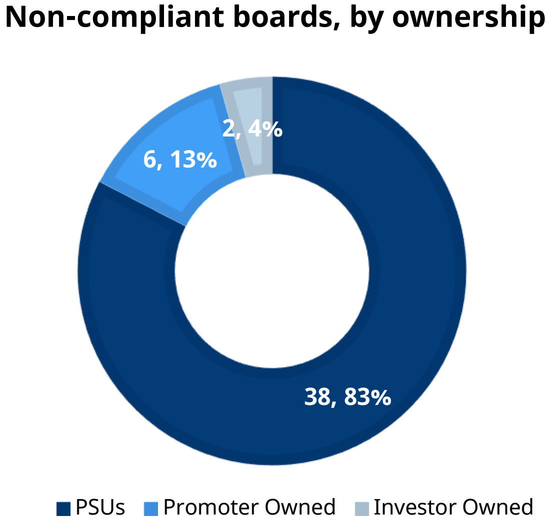
401 of the NIFTY 500 companies had 50% or more board independence on 31 March 2023. While most listed companies comply with the regulatory requirements on board composition, 46 of the NIFTY 500 on 31 March 2023 were not compliant with board composition norms; of these, 38 companies were PSUs.

The Government being the controlling shareholder in PSUs, directs all board appointments, including selecting the independent directors whose names are put to the general body to vote. All director appointments are made by the administrative Ministry of the Government, and these are seldom timely. Despite the government's effort to fill independent vacancies, 38 of the 66 PSUs comprising the NIFTY 500 on 31

March 2023 are not complaint with regulations. For PSUs where boards are compliant with regulations, there is a drift towards making political appointments to the positions of Independent Director. We believe PSU boards and their Nomination and Remuneration Committees need to have greater autonomy in establishing independent mechanisms for identifying and selecting independent directors.

Exhibit 7: Board independence and compliance of NIFTY 500 boards on 31 March 2023





Note: of the 81 companies with board independence levels of 33% or more but less than 50%, 28 are not compliant with regulations. These 28 companies needed to have board independence levels at 50% or more.
Source: PRIME Database, IiAS research

OVERBOARDING OF NIFTY 500 INDEPENDENT DIRECTORS

Global investors, and some domestic investors, are raising concerns on the over-boarding of Independent Directors. Indian regulations allow individuals to hold upto 20 board positions, of which a maximum of 10 can be in public limited companies. Of these 10, Indian regulations allow individuals to hold upto 7 board memberships as Independent Directors in listed companies. For executive directors of listed companies, board memberships have been capped at three in the position of Independent Directors. The benchmarks globally are much lower.

While these are indeed concerns, the issue is still limited. Of the 1,854 individuals that held board seats as Independent Directors, only 26 (1.4%) of these held five or more board seats in aggregate on 31 March 2023. Of these, 15 were men and 11 were women.

Exhibit 8: Independent Directors that held more than five board seats in NIFTY 500 companies on 31 March 2023

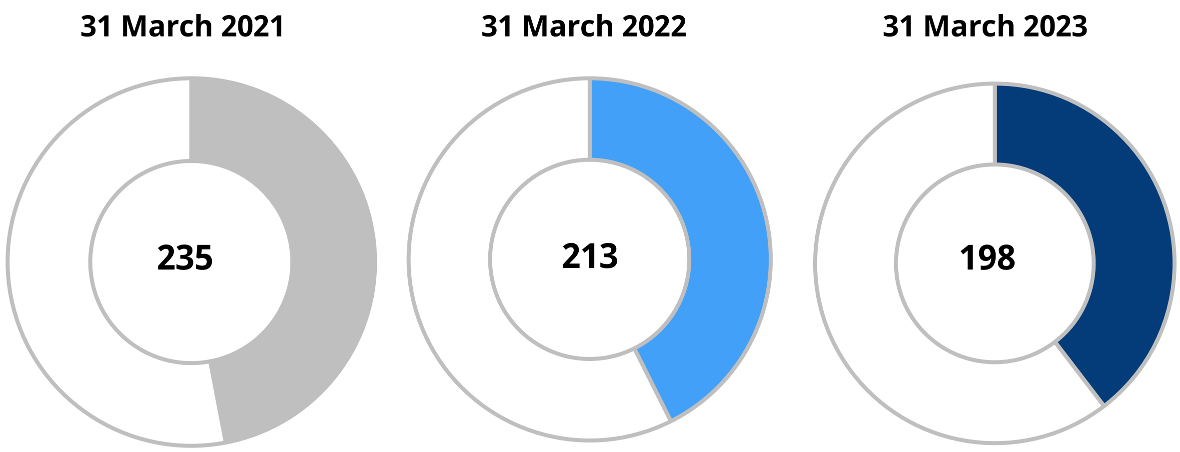
Name of the Independent Director	Boards as ID	Other boards	Total boards
Ms. Vijayalakshmi Rajaram Iyer	6	-	6
Ms. Anita Krishnan Ramachandran	5	-	5
Ms. Padmini Bhalchandra Khare Kaicker	5	-	5
Ms. Pallavi Shardul Shroff	5	-	5
Ms. Radhika Vijay Haribhakti	5	-	5
Ms. Sonu Halan Bhasin	5	-	5
Ms. Sudha Pillai	5	-	5
Ms. Vibha Paul Rishi	5	-	5
Ms. Shikha Sanjaya Sharma	4	1	5
Ms. Nisaba Adi Godrej	3	2	5
Ms. Tanya Arvind Dubash	2	3	5
Haigreve Pradip Kumar Khaitan	7	-	7
Pradip Panalal Shah	7	-	7
Vikram Singh Mehta	7	-	7
Anami Narayan Prema Roy	6	-	6
Sanjay Khatau Asher	6	-	6
Berjis Minoo Desai	5	1	6
Adil Siraj Zainul	5	-	5
Arun Kumar Adhikari	5	-	5
Ashok Upendra Sinha	5	-	5
Vegulaparanan Kasi Viswanathan	5	-	5
Vivek Mehra	5	-	5
Prathivadibhayankara Rajagopalan Ramesh	4	1	5
Vimal Ranjeet Bhandari	4	1	5
Bhaskar Puttige Bhat	2	3	5
Keki Minoo Mistry	2	3	5

Notes: ID = Independent Director; total boards includes only those that are part of the NIFTY 500 on 31 March 2023. It is possible that some directors may be members of non-NIFTY 500 boards, which may not be captured in the table above.
Source: PRIME Database, IiAS research

THE BOARD REFRESH OF 2024

The Companies Act 2013 allows for two terms of a maximum of five years each for independent directors. Therefore, the maximum continuous term for independent directors would aggregate 10 years. However, the regulations grandfathered the previous board tenures – therefore, for independent directors already on the board, they could continue as independent directors for 10 years from 2014, the year in which the Companies Act 2013 came into effect[3]. These 10 years come to an end in 2024, and companies will be required to refresh their boards with a new set of independent directors.

Exhibit 9: Boards of the NIFTY 500 with independent directors having a board tenure of 10 years or more



Source: PRIME Database, IiAS research

On 31 March 2023, there are 198 companies of the NIFTY 500 that had 375 tenured Independent Directors. Of these 14 directors have had a board tenure of 30 years or more.

Exhibit 10: Board tenure of tenured independent directors across the NIFTY 500 companies on 31 March 2023

Board tenure	No of directorships
Tenure of 10 years or more but <20 years	286
Tenure of 20 years or more but <30 years	75
Tenure of 30 years or more but <40 years	6
Tenure greater than 40 years	8
Total number of directorships	**375**

Source: PRIME Database, IiAS Research

[3] *The Companies Act 2013 provided one year from 1 April 2014 for companies to comply with its provisions. As a result, some companies have appointed Independent Directors in 2015, whose ten-year tenure will complete in 2025.*

Exhibit 11: Independent Directors with a tenure of 30 years or more on 31 March 2023

Company Symbol	Independent Directors' Name	Tenure (years)
BASF	Rajendra Shah	55.0
TTKPRESTIG	Vandana Walvekar	48.0
VTL	Praful Shah	42.7
ALKYLAMINE	Shyam Ghia	42.5
ALKYLAMINE	Dilip Piramal	42.5
ALKYLAMINE	Shobhan Thakore	42.5
KSB	Dara Damania	41.3
ELGIEQUIP	Narayanan Nambiar	40.1
POLYPLEX	Brij Soni	37.7
GODFRYPHLP	Lalit Bhasin	37.0
GARFIBRES	Ramesh Telang	33.8
ATUL	Bansidhar Mehta	31.0
ELGIEQUIP	Balakrishnan Vijayakumar	30.2
GRAPHITE	Nandan Damani	30.1

Note: Some of the directors listed above may hold long tenures in companies that do not form part of NIFTY 500. Since our study is limited to the NIFTY 500 companies, those tenures are not captured in the table above.
Source: PRIME Database, IiAS Research

IiAS recognizes that independence and objectivity is a state-of-the-mind and board tenure will scarce determine board independence. Nevertheless, there is no denying that a longer association leads to increased familiarity and ownership over decisions, which may consequently limit the director’s ability to radically change course when required. Therefore, IiAS classifies Independent Directors with a tenure of 10 years or more (tenured Independent Directors) as non-independent directors. Companies raise concern that institutional memory rests with these tenured Independent Directors and they bring board stability – that being true, we believe that the tenured Independent Directors must be classified as non-independent and a new set of Independent Directors must be appointed to bring in a fresh perspective.

Exhibit 12: Board independence, separating tenured Independent Directors

NIFTY 500	31-03-2021	31-03-2022	31-03-2023
Boards with 50% or more independent Directors			
Regulations	352	381	401
IiAS (not including tenured IDs)	174	221	253
Boards with independent Directors (33% - <50%)			
Regulations	88	96	81
IiAS (not including tenured IDs)	172	173	159
Boards with <33% IDs			
Regulations	60	23	18
IiAS (not including tenured IDs)	154	106	88

Source: PRIME Database, IiAS Research

Companies have been refreshing their boards over the past two years. As a result, 253 of the NIFTY 500 have 50% board independence, not including tenured Independent Directors, on 31 March 2023 – up from 174 companies on 31 March 2021. This is reflected in the board changes over the past three years. From FY21 to FY23, 907 independent director appointments replaced the 807 that ceased.

Exhibit 13: Boards are steadily refreshing their independent director positions

NIFTY 500	FY21	FY22	FY23	3-year total
Director appointments	545	736	633	1,914
of which, Independent Director appointments	224	435	248	907
Director cessations	638	581	616	1,835
of which, Independent Director cessations	293	211	303	807

Source: PRIME Database, IiAS Research

GENDER DIVERSITY

A truly gender-balanced board can be achieved only through an equal number of directorships for each gender, thus making share of representation an important metric to focus on. Appreciating this, Indian regulations have played an important role in helping jump-start the gender diversity agenda for company boards.

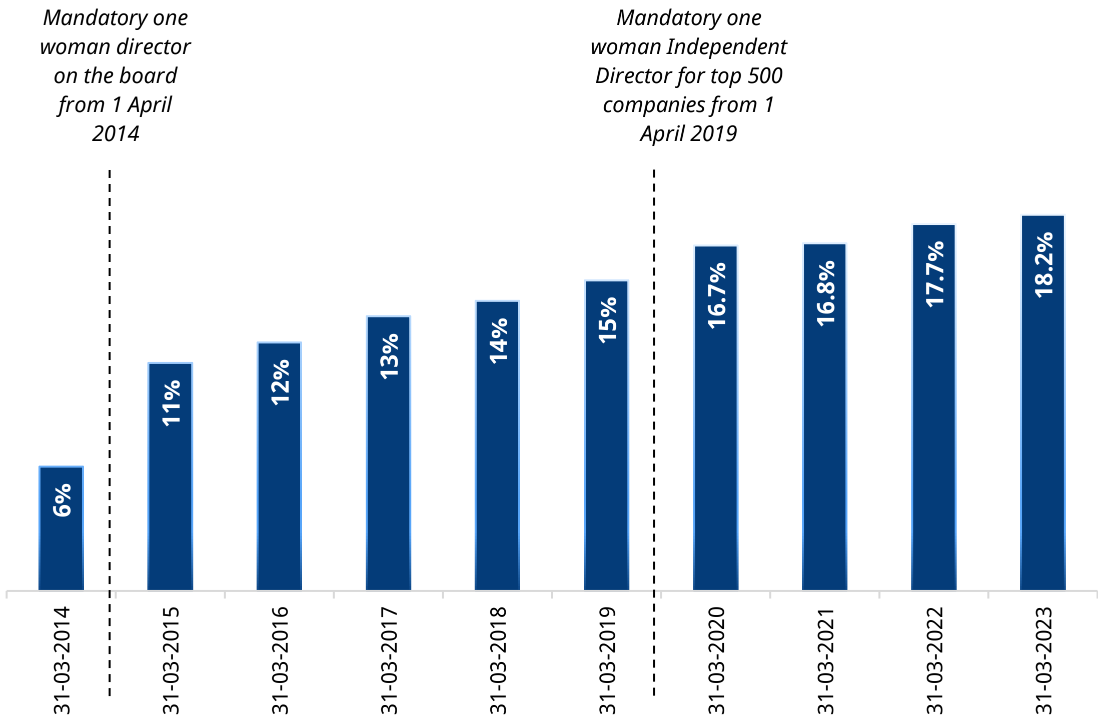
The Companies Act 2013 made it mandatory for boards to have at least one-woman director from 1 April 2014. This was soon followed by SEBI embedding this requirement into SEBI LODR. SEBI LODR subsequently made it mandatory for the top 500 companies to have one Independent Woman Director from 1 April 2019 and for the top 1,000 companies from 1 April 2020.

Since the regulation was notified from 1 April 2014, it has led to positive change. The number of women holding board directorships has doubled from the 5-6% level before the regulation was rolled out, to 11% within a year of its enactment in 2014.

Since then, this number has no doubt increased, but progress has been sluggish.

Progress on gender diversity has stagnated from the COVID years: of the NIFTY 500 women accounted for 18.2% of board seats on 31 March 2023, a marginal increase from 16.7% on 31 March 2020.

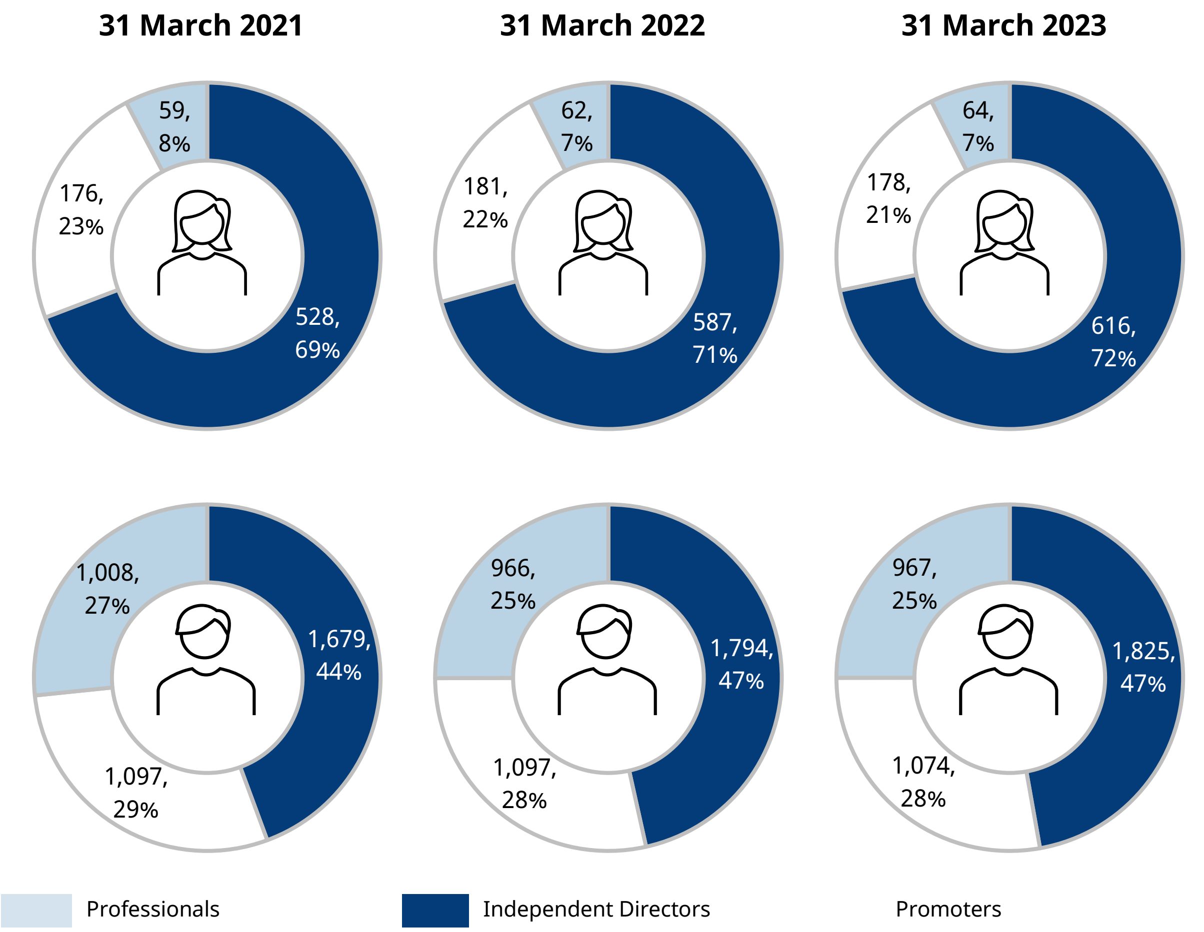
Exhibit 14: Board seats of the NIFTY 500 held by women



Source: PRIME Database, IiAS Research

Gender diversity being compelled through regulations brought on the fears that boards would check the box and appoint women of the promoter family to boards. However, this is not reflected in the numbers: over 70% of women directorships comprised Independent Directors. Of the total directorships held by women, about 21% were held by promoter family members on 31 March 2023, a third of which held executive capacities. Men from the promoter family, however, formed a higher share of directorships (held by men) at 28% on 31 March 2023.

Exhibit 15: Directorships of men and women in the NIFTY 500

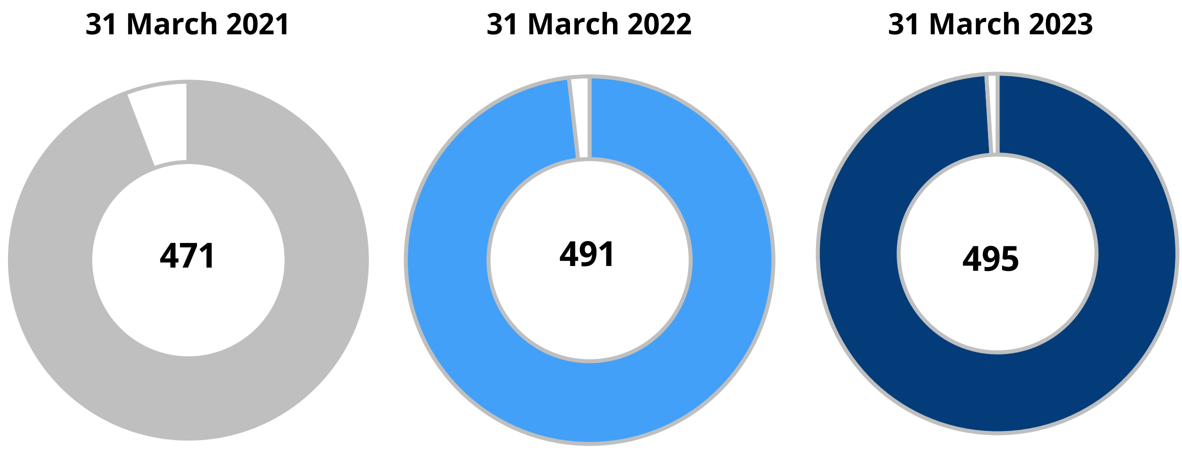


Source: PRIME Database, IiAS research

Between FY21 and FY23, 55 women were added to boards, compared to 49 for men. Even so, average directorships for women continues to remain higher at 1.4x compared to the 1.2x for men, implying a narrower pool from which they are appointed.

Despite the regulatory push to have at least one woman on every board, compliance continues to remain a challenge with PSU's trailing behind. This is despite the government ministries making an effort to improve gender diversity in PSUs boards over the past three years.

Exhibit 16: NIFTY 500 companies with at least one woman on board



Source: PRIME Database, IiAS research

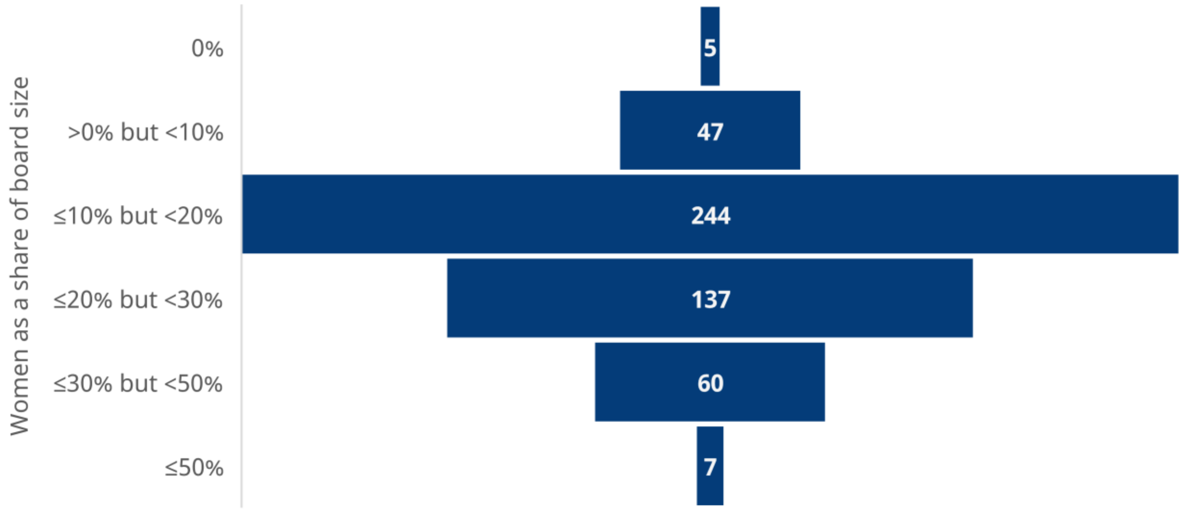
Exhibit 17: 5 companies of NIFTY 500 that had no woman director on 31 March 2023

Company Symbol	Company Name	Ownership
BDL	Bharat Dynamics Ltd.	PSU
BEML	BEML Limited	PSU
CENTRALBK	Central Bank Of India	PSU (public sector bank)
MAHABANK	Bank Of Maharashtra	PSU (public sector bank)
POWERGRID	Power Grid Corporation Of India Ltd.	PSU

Source: PRIME Database, IiAS Research

India now needs to shift the focus towards gender diversity as a function of board size. Having one woman on a board of six is different from having one woman on a board size of 15. Therefore, the focus must now be on women as a share of board size, rather than the absolute numbers.

Exhibit 18: Women directorships as a share of board size



Source: PRIME Database, IiAS research

Exhibit 19: 7 companies of NIFTY 500 where women comprised 50% or more of the board on 31 March 2023

Company Symbol	Women directors	Board size	Women %
APOLLOHOSP	6	11	55%
COLPAL	5	10	50%
JYOTHYLAB	3	6	50%
NESTLEIND	4	8	50%
SUNDRMFAST	4	8	50%
VINATIORGA	4	8	50%
ZOMATO	4	7	57%

Source: PRIME Database, IiAS research

Despite the considerable progress, corporate India with 18% board representation of women in NIFTY 500 companies, remains behind the curve. In the UK, the 30% Club that was launched in 2010 had set out an extended goal to achieve a minimum of 30% women on the FTSE-350 boards by 2020, which has been achieved. The 30% Club has several chapters across the globe today including USA, Canada, Australia, Japan and Malaysia. Others like Brazil, France, Norway, and Spain are more resolute and have set a target of 40% board representation by women.

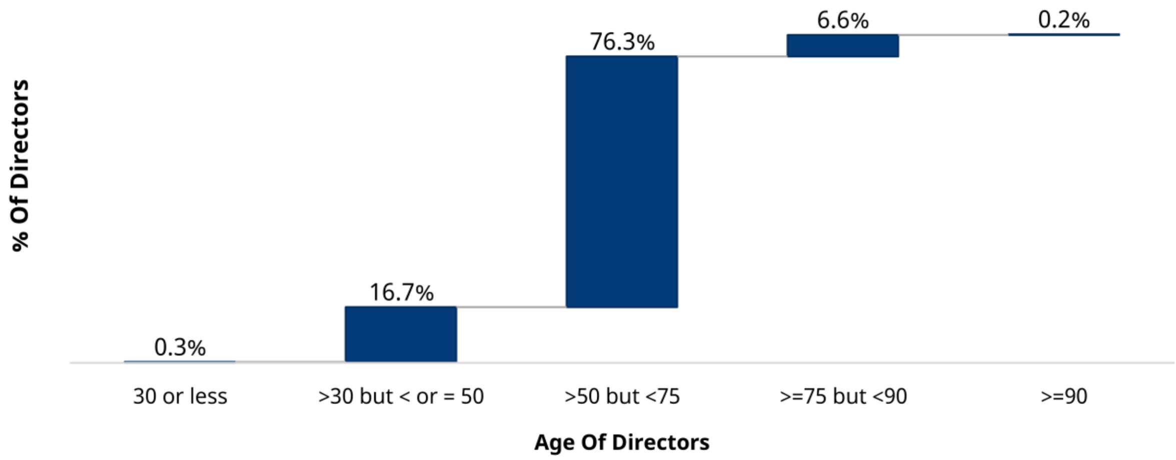
It is in this context that IiAS has repeatedly asked corporate India to accept a target of 25% by 2025, something that is achievable with the impending board churn in 2024.

BOARD EXPERIENCE

Each director brings a set of skills and experience to the board. Experience plays a pivotal role when it comes to tackling challenges or planning the long-term strategy of a company.

The average age of directors on 31 March 2023 was 60 years, largely unchanged over the past three years. Women directors tend to be younger with their average at 57.1 years on 31 March 2023, while for men the average age was 60.6 years.

Exhibit 20: Age profile of directors on NIFTY 500 companies on 31 March 2023



Notes: Age data is available for 3,725 of the 3,772 directors
Source: PRIME Database, IiAS research

Ten promoter-owned companies have directors who are aged less than 30 years, 9 of whom are part of the promoter family. IiAS believes that age is not a criterion for appointment. However, the lack of experience of such young directors may prove to be an impediment in the effective discharge of their duties. We encourage promoters to not look at board seats as training grounds for the next generation.

Most Indian companies do not have a retirement age for directors. Age related retirement policies exist largely for management, but rarely for the board. For companies in the insurance sector, IRDAI, the insurance regulator, has recently brought in regulation to set retirement age for non-executive directors at 75 years. In contrast, 70% of S&P 500 companies disclosed that they had a mandatory retirement age for directors[4].

[4] *Source: Spencer Stuart 2022 US Board Index*

Exhibit 21: Directors of the NIFTY 500 with less than 30 years of age on 31 March 2023

Company Symbol	Director's name	Category	Age
LAXMIMACH	Jaidev Jayavarthanavelu	Promoter	24.6
ABFRL	Aryaman Birla	Promoter	25.7
GRASIM	Aryaman Birla	Promoter	25.7
VARROC	Dhruv Jain	Promoter	28.0
VTL	Sagarika Jain	Promoter	28.2
FINCABLES	Zubin Billimoria	Independent Director	28.3
ABFRL	Ananyashree Birla	Promoter	28.7
ABFRL	Ananyashree Birla	Promoter	28.7
EPL	Aniket Damle	Promoter presentative	28.7
ADANIGREEN	Sagar Adani	Promoter	29.0
APLAPOLLO	Rahul Gupta	Promoter	29.1
AEGISCHEM	Amal Chandaria	Promoter	29.8

Source: PRIME Database, IiAS Research

As a result of not having an age-related mandatory retirement, 252 directors (6.8%) on NIFTY 500 boards were 75 years and older on 31 March 2023 (267 directors or 7.6% on 31 March 2021). Of these, 6 directors holding 11 directorships had crossed the age of 90 years on 31 March 2023.

Exhibit 22: Directorships held by individuals with more than 90 years of age on 31 March 2023

Company Symbol	Director's name	Category	Age
APOLLOHOSP	Prathap Reddy	Promoter	91.2
GESHIP	Kanaiyalal Sheth	Promoter	91.2
ATUL	Rajendra Shah	Non-Independent Director	91.8
BASF	Rajendra Shah	Independent Director	91.8
GODFRYPHLP	Rajendra Shah	Non-Independent Director	91.8
LUPIN	Rajendra Shah	Independent Director	91.8
PFIZER	Rajendra Shah	Independent Director	91.8
PGHH	Rajendra Shah	Independent Director	91.8
MARUTI	Osamu Suzuki	Promoter	93.2
FLUOROCHEM	Devendra Jain	Promoter	94.1
BIRLACORPN	Dhruba Ghosh	Independent Director	94.7

Source: PRIME Database, IiAS Research

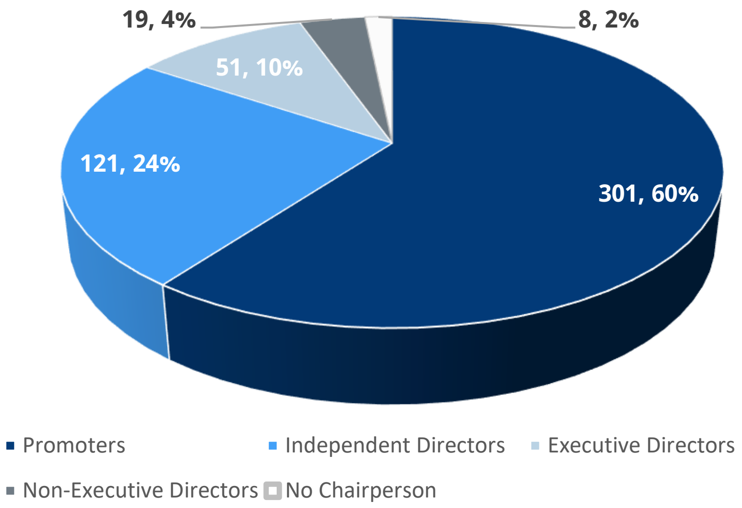
BOARD OVERSIGHT

A Chairperson leads a board and ensures that the board functions effectively. Chairpersons are handed the task of ensuring that board discussions are productive and fruitful.

Globally as well as in India, companies are increasingly expected to appoint non-executive and independent chairpersons. Although no longer mandatory, SEBI recommends voluntary separation of Chairperson and CEO roles – and ensuring that both are not members of the promoter family.

On 31 March 2023, 301 (60%) of the NIFTY 500 companies had promoters as Chairpersons, split almost equally between executive and non-executive directorships. Another 121 boards were chaired by Independent Directors, of which 39 had a board tenure in excess of 10 years.

Exhibit 23: Chairpersons of the NIFTY 500 companies on 31 March 2023



Source: PRIME Database, IiAS research

There is a growing trend among Indian companies to appoint a Chairperson Emeritus. This title usually goes to the company's founders or an individual who has been in the company for a longish period and contributed significantly to its growth. The Chairperson Emeritus is not recognized in the Companies Act, but some are permanent invitees to the company's board meeting without having the authority to vote at such meetings. In four companies of the NIFTY 500, Chairman Emeritus continued to be a board position on 31 March 2023 – of this, one director continued his executive position. This creates ambiguity with respect to the chain of command at the board levels.

As with boards, few corporates had women as Chairpersons of the board: only 25 of the NIFTY 500 companies on 31 March 2023 had women as Chairperson, which is only marginally higher than the 22 companies that had women board chairs on 31 March 2022.

Exhibit 24: Boards of NIFTY 500 with women as Chairpersons on 31 March 2023

Symbol	Name of the director	Category	Executive	Tenure	Ownership
TATACOMM	Renuka Ramnath	ID	No	8.3	Institutionally Owned
ICICIGI	Lalita Dileep Gupte	ID	No	6.5	
CSBBANK	Bhama Krishnamurthy	ID	No	4.6	Investor owned
GLAXO	Renu Sud Karnad	NED	No	4.0	MNCs
SCHAEFFLER	E V Sumithasri	ID	No	2.7	
BIOCON	Dr.(Ms.) Kiran Mazumdar Shaw	Promoter	Yes	44.4	Promoter Owned
GODREJCP	Nisaba Adi Godrej	Promoter	Yes	11.9	
NYKAA	Falguni Sanjay Nayar	Promoter	Yes	10.9	
GODFRYPHLP	Bina Modi	Promoter	Yes	9.0	
PPLPHARMA	Nandini Ajay Piramal	Promoter	Yes	3.1	
LUPIN	Manju Deshbandhu Gupta	Promoter	No	40.1	
SYNGENE	Dr.(Ms.) Kiran Mazumdar Shaw	Promoter	No	29.4	
THERMAX	Meher Pheroz Pudumjee	Promoter	No	22.2	
HCLTECH	Roshni Nadar Malhotra	Promoter	No	9.7	
JKCEMENT	Sushila Devi Singhania	Promoter	No	8.7	
BSOFT	Amita Chandrakant Birla	Promoter	No	4.2	
HINDZINC	Priya Agarwal Hebbar	Promoter	No	0.2	
KARURVYSYA	Dr.(Ms.) Meena Hemchandra	ID	No	0.8	
SAIL	Soma Mondal	ED	Yes	6.1	PSU
IRCTC	Rajni Hasija	ED	Yes	4.9	
ENGINERSIN	Vartika Shukla	ED	Yes	2.7	
IRFC	Shelly Verma	ED	Yes	2.6	
UCOBANK	Soma Sankara Prasad	ED	Yes	1.2	
NIACL	Neerja Kapur	ED	Yes	0.5	
TMB	Shivavel Ezhil Jothi	ID	No	3.5	Widely-held

Source: PRIME Database, IiAS Research
Notes: ID = Independent Director; ED = Executive Director; NED = Non-Executive Director

NIFTY 500 vs S&P 500

The ownership structures of Indian companies and US companies are different: over 60% of Indian companies are owned by promoter families, while US companies tend to be institutionally owned and professionally managed. It is expected that board structures will also be different. Even so, boards of NIFTY 500 are surprisingly comparable to those of S&P 500.

Exhibit 25: NIFTY 500 vs. S&P 500

	NIFTY 500	S&P 500
Average board size	9.4	10.8
Independent Directors	52%	86%
Average director tenure	7.8	7.8
Average age of independent directors	63.3	63.1
Women as a % of all directors	18%	32%
Boards with at least one woman director	99%	100%
Independent board chairs (%)	24%	36%
Independent Directors added	248	395
Directors aged 50 and younger	17%	6%
Youngest average board age	45	50
Oldest average board age	75	74

Source: Spencer Stuart 2022 US Board Index; PRIME Database; IiAS Research
Notes: NIFTY 500 data as on 31 March 2023; S&P 500 data draws on the latest proxy statements from 489 companies filed between 1 May 2021, and 30 April 2022.

Because Indian companies are predominantly owned and controlled by promoter families, Independent Directors comprise about 50% of the board composition, following regulatory requirements.

Compared to S&P 500, NIFTY 500 companies need to improve on board independence – a path that these companies are already on, and improve board diversity, both in terms of gender and skills. Indian boards, on the other hand, are marginally younger than US boards with 17% of board members below the age of 50, reflective of the difference in the demographic profile of both countries.

Board ages and tenures are comparable across both indices, suggesting that both experience and maturity are pre-requisites to becoming a board member.

CONCLUSION

2024 is the year in which corporate India has an opportunity to rethink its board structures. As tenured Independent Directors are required to cease their positions, boards must use the vacancies to build greater diversity and board independence.

Diversity on boards has been an agenda for almost all markets; for India, the regulation has built in a simple yet narrow measure of diversity – gender. Despite the improvement in women representation on boards, India lags behind several markets. Most of corporate India continues to focus on the number of women rather than thinking of diversity as a function of board size. Diversity brings in a balance in decision-making, and therefore, board must consider targeting at least 30% of the composition as women.

In the run up to 2024, tenured independent directors will exit the board and a fresh set of appointments is likely to bring better objectivity. While several companies have had a steady path to rotating their independent directors, there are several others that are likely to have to make material changes in one fell swoop. For such companies, ensuring board stability and maintaining institutional memory will be key. In such circumstances, companies may consider continuing their tenured Independent Directors in a non-executive capacity for a year or two, to handhold the new board.

Because a dominant proportion of Indian companies are controlled by families, independent directors will typically aggregate about 50% of all directorships. But composition in terms of statistics is not sufficient – boards must evaluate if they have the necessary skills required for the next decade. With changing environments, technology, geopolitical landscapes, and stakeholder expectations, boards will navigate a different world than before. To this extent, boards must find the right mix of the traditional skill sets (like finance, law, and human resources) and newer skill requirements (technology, sustainability). In doing so, we expect the average age of boards to reduce as younger people with different skill sets enter the boardroom.

Stakeholders' expectations of boards have increased manifold, as has the expectation of regulators. Directors now have greater scrutiny and accountability for governance failures. The next decade will only intensify the responsibilities for board members. Therefore, ensuring stronger oversight on the management and building strong governance structures must be focus on boards from 2024.

Disclaimer

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 and ESG issues as well as voting recommendations on shareholder resolutions for about 1020 companies. These 1000+ companies represent over 97% of the market-cap of listed companies in India.

IiAS provides bespoke research and assists institutions in their engagement with company managements and their boards. It runs two cloud-based platforms, SMART to help investors with reporting on their stewardship activities and ADRIAN, a repository of resolutions and institutional voting patterns.

IiAS together with the International Finance Corporation (IFC) and BSE Limited, supported by the Government of Japan, has developed a Corporate Governance Scorecard for India. The company specific granular scores based on an evaluation of their governance practices, together with benchmarks, can be accessed by investors and companies. IiAS has extended this framework to ESG – Environment, Social and Governance. IiAS has worked with some of India's largest hedge funds, alternate investment funds and PE Funds to guide them in their ESG assessments and integrate ESG into their investment decisions.

IiAS' shareholders include Aditya Birla Sunlife AMC Limited, Axis Bank Limited, Fitch Group Inc., HDFC Investments Limited, ICICI Prudential Life Insurance Company Limited, Kotak Mahindra Bank Limited, RBL Bank Limited, Tata Investment Corporation Limited, UTI Asset Management Company Limited, and Yes Bank.

IiAS is a SEBI registered entity (proxy advisor registration number: INH000000024).
For more information, visit www.iiasadvisory.com/.

CONTACTS

Amit Tandon
Managing Director
Email: **amit.tandon@iias.in**

Hetal Dalal
President and Chief Operating Officer
Email: **hetal.dalal@iias.in**

Rohel Deb
Group Head
Email: **rohel.deb@iias.in**

Anup Pawar
Group Head
Email: **anup.pawar@iias.in**

About APG

Every day APG is busy with something that already concerns millions of Dutch people and one day will concern millions more: pensions. APG strives to provide a good pension in a livable world for all participants, employers and pension funds. Together we work on a sustainable future in which we do not only look at prosperity, but also at well-being. Because pensions are about people, life and how we live together. So that we, our parents, and our children can enjoy a good income. Today, tomorrow, and beyond.

As the largest pension provider in the Netherlands, APG provides pensions for 4.8 million participants. APG provides board advice, asset management, pension administration, pension communication and employer services. We work for pension funds and employers in the education, government, construction, cleaning, housing corporations, sheltered employment, medical specialists and architectural firms sectors. APG manages more than 558 billion euros (August 2022) in pension assets. With approximately 3,000 employees, we work from Heerlen, Amsterdam, Brussels, New York, Hong Kong, Shanghai and Beijing. Visit www.apg.nl/en for more information.

About Vahura OnBoard

Vahura OnBoard is dedicated to non-executive board searches at Vahura. We specialize in securing ideal Independent/Woman/Nominee Directors for Indian Corporates. Vahura is a key player in Indian legal, tax, governance, and compliance domains.

Markets

IiAS

Social

Governance

Environment