INSTITUTIONAL INVESTOR ADVISORY SERVICES

CORPORATE GOVERNANCE SCORES

Immunity Through Strong Boards

Based on the Indian Corporate Governance Scorecard Framework developed by IFC-BSE-IiAS

February 2022

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FOREWORD

Welcome to the sixth report on the Indian Corporate Governance Scorecard. This scorecard developed by Institutional Investor Advisory Services India Limited (IiAS) with support from International Finance Corporation (IFC) and Bombay Stock Exchange (BSE) is built around the G20/OECD Principles of Corporate Governance, which are the globally accepted benchmark for corporate governance.

The Scorecard provides an assessment framework which evaluates the corporate governance practices adopted by companies listed at BSE – it is independent of regulatory requirements and thus provides a principle-driven rather than a compliance-driven outlook to market participants. The Scorecard report is intended to provide market participants including companies, investors, regulators, lenders, internal and external stakeholders including policy makers with key information to help them in their decisions not only regarding capital markets but also for many critical areas for economic development of the country.

The first scorecard report published in December 2016 gave an overview of the governance practices of the 30 companies comprising the S&P BSE SENSEX. The 2017 report covered the governance practices of 100 companies comprising the S&P BSE 100 index, which was then further expanded to encompass 150 companies in 2018 and 2019 (constituents of the S&P BSE 100 index and 50 companies that listed between April 2015 and March 2017). The 2020 report focused on the S&P BSE 100 companies which were evaluated independently by IiAS. The 2021 report takes the study forward for the S&P BSE 100 companies – it is heartening to note that governance practices and standards have improved even against the backdrop of the pandemic.

In 2021, the continued volatility due to the Covid-19 pandemic has exposed companies to unique circumstances and risks. This report shows that most companies have continued to improve governance practices even through the pandemic years.

Several best practices have now been embedded into everyday practices by corporate India, while some others have been embedded into regulations. Given this, IiAS has revised the evaluation mechanism and the scoring thresholds, which will be implemented soon. This will ensure that the scorecard continues to be relevant in a dynamic environment and remains aligned with global best practices. We encourage companies and investors to utilize this framework to assess and improve their governance practices.

The investing world is moving from G to ESG. While ESG investing was considered a nascent theme in India over the past few years, this is fast changing. A number of ESG-focused funds have been launched in India recently. SEBI has introduced the Business Responsibility and Sustainability Reporting (BRSR) guidelines which will be applicable for the top 1000 listed companies on a voluntary basis from 1 April 2022 and on a mandatory basis from 1 April 2023. This means that the companies will have to ensure environmental and social factors are taken care of in addition to their core business strategy – sustainability will be an integral part of the corporation. Well governed companies with stronger boards will be better placed to align their strategy to encompass environmental and social factors.

Ashish Chauhan
Managing Director and CEO
BSE Ltd

INTRODUCTION

2020 and 2021 headlines were dominated by the pandemic – the world learnt that continued waves of the pandemic are difficult to predict and the new normal must incorporate the impact of such ambiguity. However, the situation does not seem to have dented corporate India's confidence. Indeed, the slew of IPOs that launched in the midst of the pandemic and the capital expenditure lined up for the next few years signal that corporate India has taken the resulting uncertainty in its stride. Notwithstanding, concerns on the pandemic's financial and social impact continue to weigh heavily on managements and boards: these are unlikely to dissipate soon.

With the acceptance of this uncertainty, it is perhaps no surprise that corporate India has kept a steady focus on improving its governance practices. While the median scores of the S&P BSE 100 companies increased marginally to 62 in 2021 from 61 in 2020, these improvements build on the increase from a median score of 58 in 2019. What is more impressive is that 20 companies were in the 'LEADERSHIP' category, against 11 in 2020 and six in 2019: with 57 companies across the 'LEADERSHIP' and 'GOOD' categories in 2021, against 55 in 2020.

With growing awareness of investor expectations around governance, companies will need to pay heed to governance structures even more closely. There were several instances of investor activism in 2021: Invesco, a shareholder in Zee Entertainment Enterprises Limited (ZEE), asked for an overhaul of the board in the light of several governance issues. In Dish TV India Limited, Yes Bank, which owns a large stake (a consequence of calling in the collateral against a loan), asked for the removal of several directors, on similar grounds. Apart from such direct instances of activism, we see increased willingness by institutions to vote against resolutions that go against the grain of good governance. For instance, in FY21, 53% of ESOP resolutions and 13% of related party transaction resolutions had greater than 25% of institutions voting AGAINST them. SEBI's push requiring mutual funds to vote on all resolutions (starting 1 April 2022) will likely set the stage for larger pushback on contentious resolutions.

The need for boards to focus on all stakeholders has never been as acute as it is now. The impact of the pandemic on the workforce has been well reported. Fundamental changes in workforce behaviour, with several employees wishing to continue in a hybrid or remote-only workforce setting, forced companies to rethink existing paradigms. While employee health and safety became the subject of intense focus, attrition at levels never seen before, forced companies to rethink policies and remuneration. Headcount reductions or employee pay cuts were pushed as a tonic to manage the pandemic's impact: however, promoter CEO pay showed egregious increases in many instances, causing investor backlash.

Supply chain disruptions continued even as the impact of the pandemic abated. Indeed, the impact of the disruptions are still being felt across the manufacturing industry – shortages of critical components and difficulties in transportations and logistics are crimping growth in several industries. As Indian and global investors begin to focus on ESG issues, boards will need to push ESG improvements across their value chain.

Perhaps not surprisingly, our analysis this year points to a strong correlation between the quality of the board and the increase in governance scores over the past year. While this has been the case in most years, the difference has never been as stark as it is now. The median score for the S&P BSE Sensex companies, with strong, largely independent and diverse boards, has surged to 68 from 63 in 2020. The median scores for the rest of the S&P BSE 100 (excluding Sensex companies) dropped marginally to 59 in 2021 from 60 in 2020. Our analysis showing a strong correlation of the governance scores with stock price performance and lower volatility also holds - well-governed companies with higher governance scores outperform those with lower scores and exhibit lower volatility. The outcome is clear: in the midst of the pandemic related uncertainty, companies with stronger boards will thrive, prosper and create the largest shareholder value. Thoughtful, forward-looking boards with independent thinking, diversity of thought and agility are the ones that will propel their companies ahead of the rest.

SENSEX TRENDS

The 30 constituents of the S&P BSE SENSEX (SENSEX) accounted for ~44% of total market capitalization on 30 September 2021. The number of companies in the LEADERSHIP category has more than doubled to eleven in 2021 from five in 2020. In the 2021 study, 80% of the SENSEX companies have scored 60 and above (Leadership and Good category) compared to 67% and 54% in the 2020 and 2019 study respectively – evidence that the corporate governance practices of the larger Indian companies are improving. The median score of the SENSEX companies increased to 68 against the previous year's median score of 63: SENSEX companies have improved their overall governance practices each year, which is a consistent trend we have seen over the last four years. The highest score by a SENSEX company at 80 is the same as that of the previous year.

Exhibit 1: Scorecard categories

Grade	Score Range
LEADERSHIP	>=70
GOOD	60 – 69
FAIR	50 – 59
BASIC	<50

Exhibit 2: Category-wise SENSEX companies

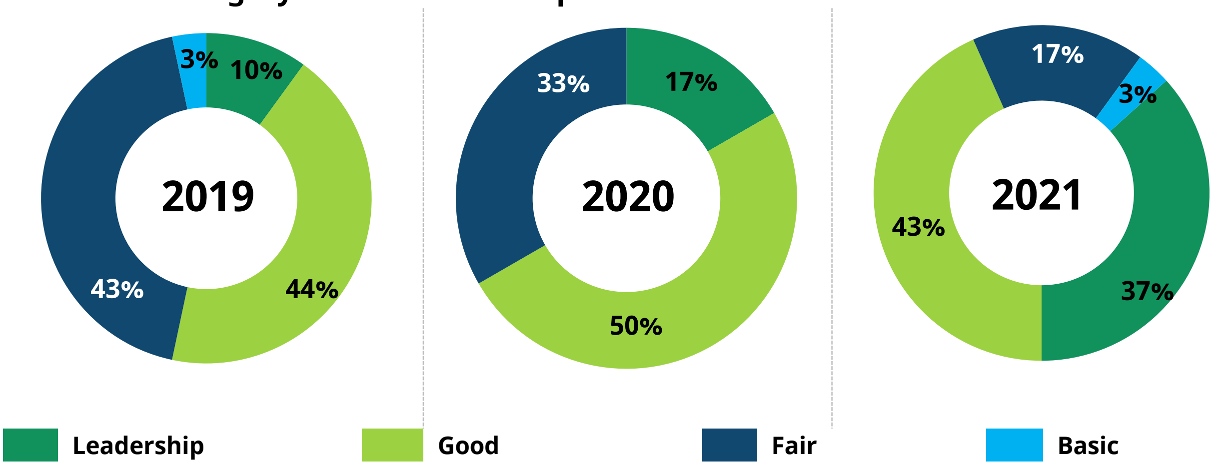


Exhibit 3: Minimum, Maximum and Median scores of SENSEX companies

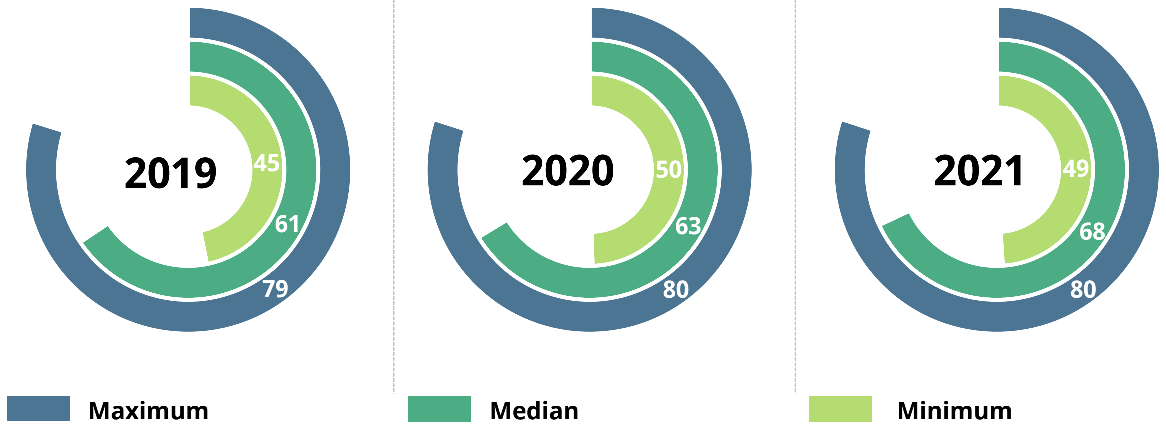
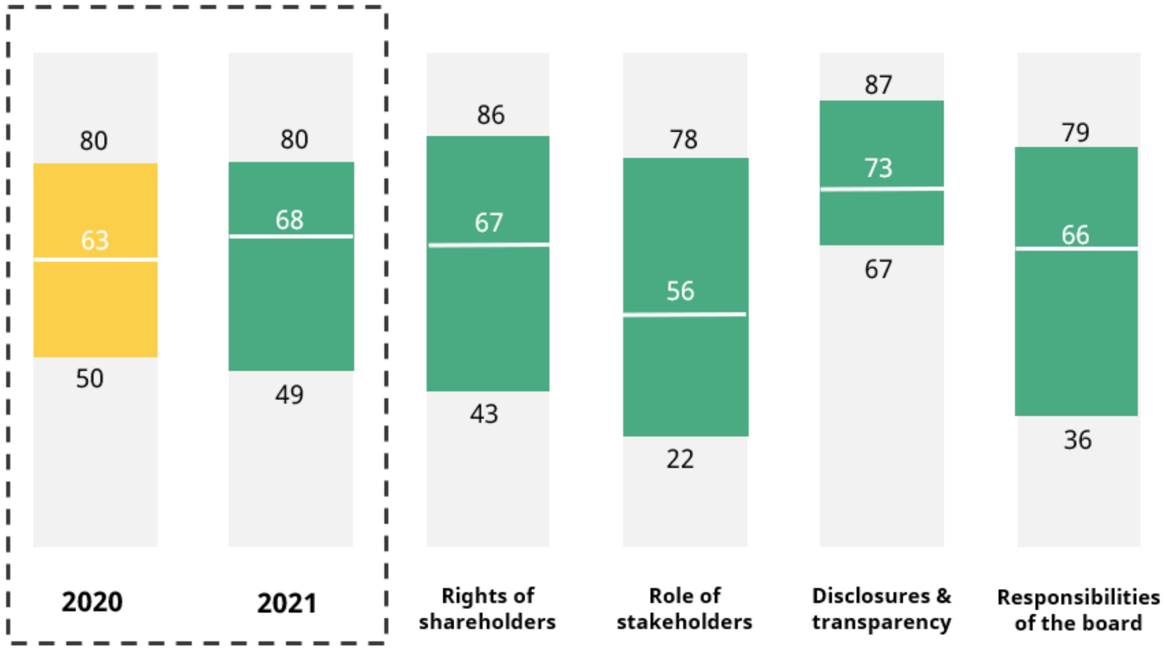


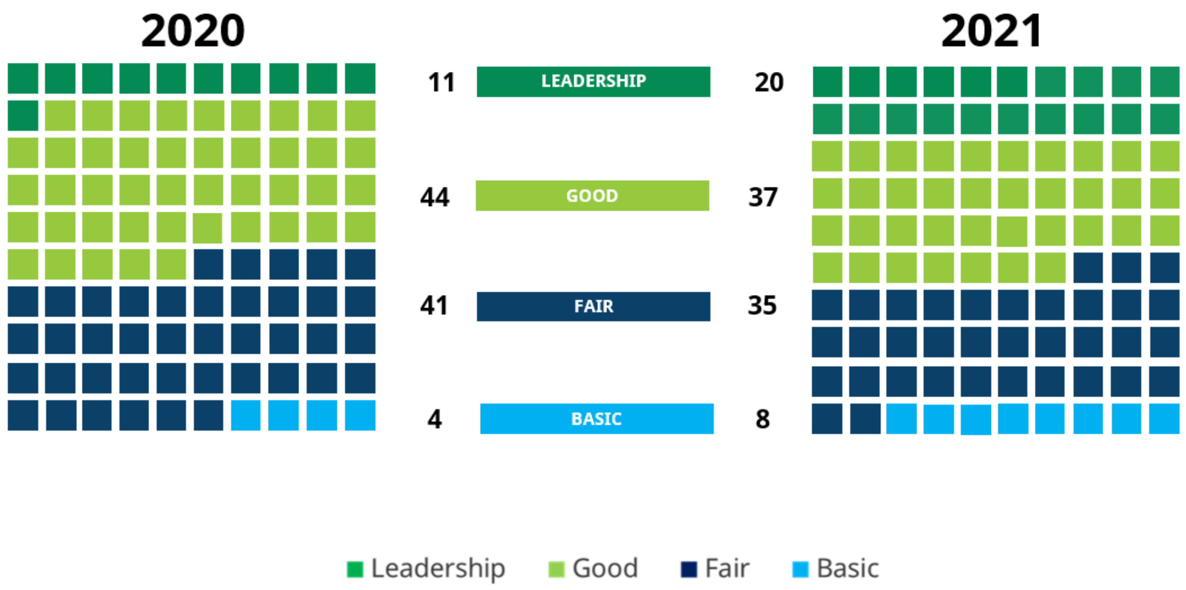
Exhibit 4: Category wise median, maximum and minimum scores for SENSEX companies



BSE 100 TRENDS

The analysis of the S&P BSE 100 (BSE 100)[1] companies is summarized below. The components of the BSE 100 index comprise almost 67% of BSE's market capitalization. Therefore, the results of the BSE 100 companies can be considered a proxy of the overall governance standards of Indian listed companies.

Exhibit 5: Distribution of governance scores for the BSE 100 companies



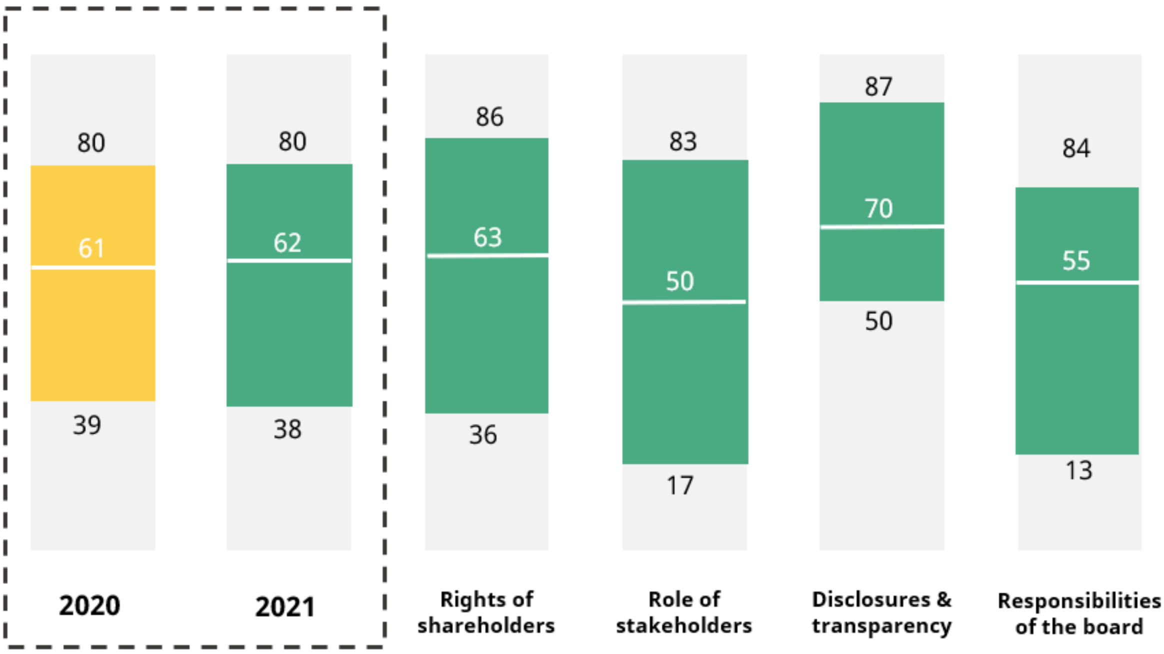
This year saw the median score of BSE 100 companies increase marginally to 62 from 61. There was an increase of companies in the 'LEADERSHIP' Category (20 in 2021 vs. 11 in 2020). Eight companies moved to the 'LEADERSHIP' category in 2021 from the 'GOOD' category in 2020. Companies in the 'BASIC' category increased (eight in 2021 vs. four in 2020) led by a fall in governance scores of PSUs. The highest score of BSE 100 companies remained at 80, same as the previous year. The lowest score decreased marginally to 38, from 39 in 2020.

[1] *On 30 September 2021*

Exhibit 6: Heat map displaying relative performance of BSE 100 companies across categories

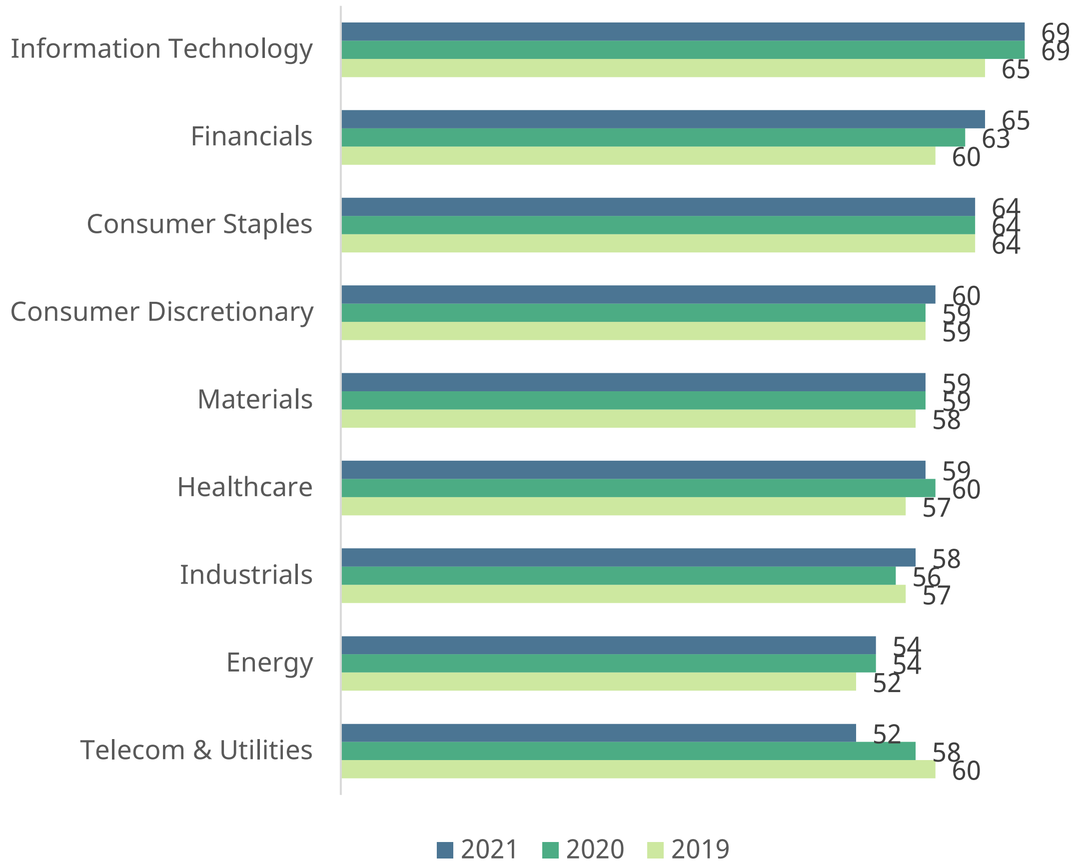
The heat map shows how companies have fared across categories. As can be seen clearly, companies that score well do not necessarily excel in every category. Governance practices need to be well-balanced and have a holistic approach, for stakeholders to build trust.

Exhibit 7: Category wise median, maximum and minimum scores for BSE 100 companies



The exhibit shows the maximum, median and minimum percentage scores in each governance category for 2021 and on an overall basis for the past two years. The median score for BSE 100 companies has increased to 62 in 2021 from 61 in 2020. Companies continue to score well in the category of disclosures and transparency driven by regulatory requirements. This year, the median score for the category of responsibilities of the board has decreased to 55 from 58 last year and the band has widened – from 13 at the lower end to 84 at the highest. The change was largely driven by a fall in independent representation on the board of PSUs and aggregate executive pay not aligning with company performance.

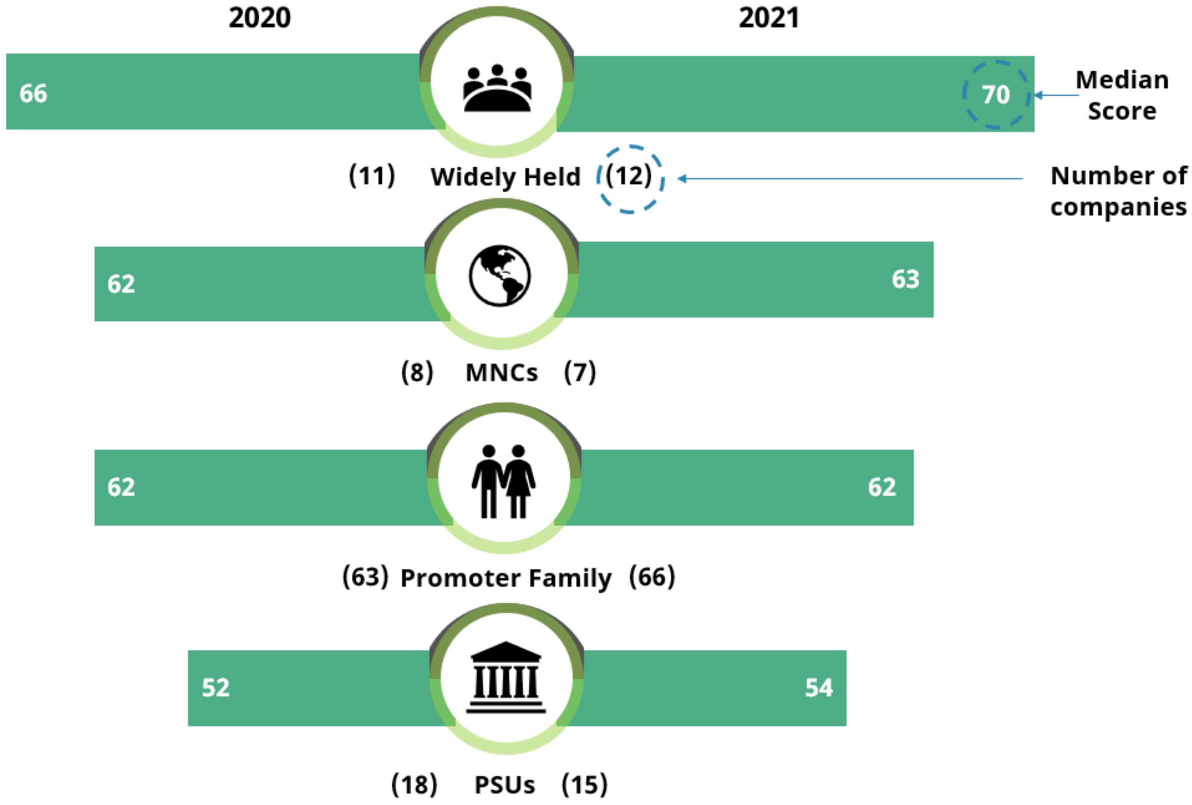
Exhibit 8: Industry wise median scores for BSE 100 companies



Based on industry classification, the financials, consumer discretionary and industrials sectors have shown an improvement in their governance scores. The telecom and utilities industry has shown a decline in median scores to 52 in 2021 from 58 in 2020, largely on account of underperforming PSUs and new additions in the BSE 100.

From an ownership perspective, promoter-controlled companies account for 66% of the BSE 100 index and therefore influence the median score of the index significantly. Widely held companies and MNCs have improved upon their median scores from previous years. This year, the median score of PSUs have increased to 54 from 52. This is because the BSE 100 index has undergone a change due to which the number of PSUs have decreased to 15 in 2021 against 18 in 2020. Poorly governed PSUs have dropped off the BSE 100 index, a trend which has been consistent over the past five years. Lack of adequate disclosures and poor independent representation on the board continue to plague PSUs. They have continued to underperform their peers in the overall scorecard.

Exhibit 9: Ownership wise median scores for BSE 100 companies



COMPANIES WITH 'LEADERSHIP' SCORES[2] [3] [4] [5] [6]

The list of companies above is in alphabetical order and not in the order of scores

[2] *IiAS as a proxy advisor provides various services including voting advisory, publishing reports on corporate governance and related matters. These services are subscribed to by some of these companies, for which IiAS has received remuneration in the past twelve months.*

[3] *HDFC Investments Limited, a subsidiary of HDFC, is one of IiAS' several shareholders.*

[4] *Tata Investment Corporation Limited (TICL), Tata Consumer Products Limited, Tata Motors Limited, Tata Power Limited Tata Steel Limited, and Titan Company Limited are all part of the Tata group. TICL is one of IiAS' several shareholders.*

[5] *ICICI Prudential Life Insurance Company Limited holds equity shares in IiAS. ICICI Lombard General Insurance Limited is a fellow subsidiary of ICICI Prudential Life Insurance Company Limited.*

[6] *Kotak Mahindra Bank Ltd is one of IiAS' several shareholders.*

HOW THE SCORE CATEGORIES DIFFER

There are clear trend lines across the four different score categories. Institutional investments in the LEADERSHIP companies tends to be higher than the rest, which also means that promoter shareholding tends to be lower. This balance of shareholding between promoters and institutional investors allows institutional investors to have a greater say and set expectations of these companies. To match these expectations, companies in the LEADERSHIP category also tend to have more independent and more diverse boards. Companies with stronger boards have been able to forge ahead on their governance journey in 2021, despite the limitations of COVID-19.

Exhibit 10: Shareholding of companies across score categories

	Average holding by institutional investors	Average promoter shareholding
LEADERSHIP	44%	40%
GOOD	39%	48%
FAIR	35%	51%
BASIC	37%	48%

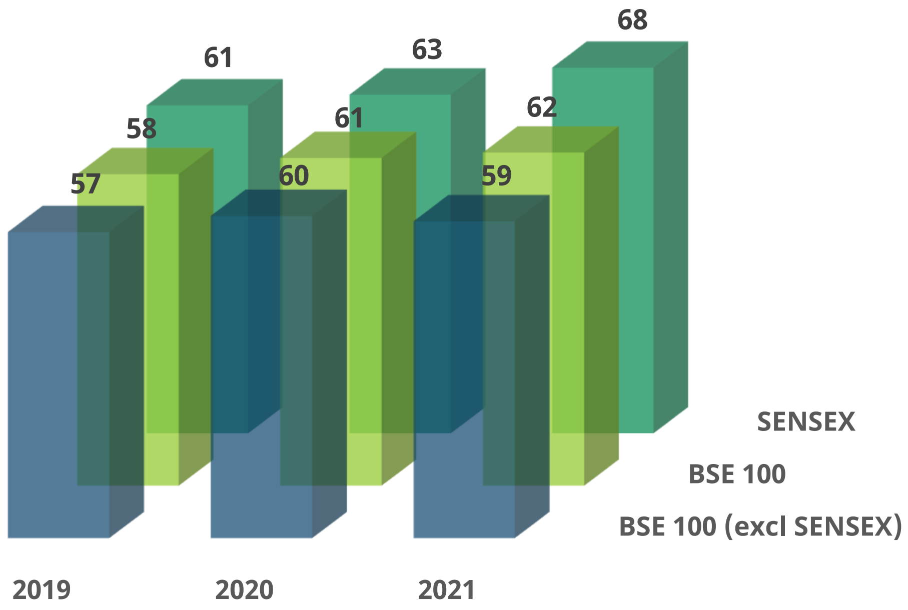
Exhibit 11: Board structures of companies across score categories

	Average board independence (Independent directors with a tenure of <10 years)	**Gender diversity** (directorships held by women)
LEADERSHIP	52%	19%
GOOD	44%	19%
FAIR	33%	17%
BASIC	31%	8%

SENSEX VS. BSE 100

The median scores of SENSEX companies in 2021 was 68, vis-à-vis the BSE 100 median scores at 62. This is a high differential and seen for the first time in the past three years. The 2021 gains on the scores appear to be driven largely by the SENSEX companies, which was not as much the case earlier.

Exhibit 12: Median scores of SENSEX vs. BSE 100



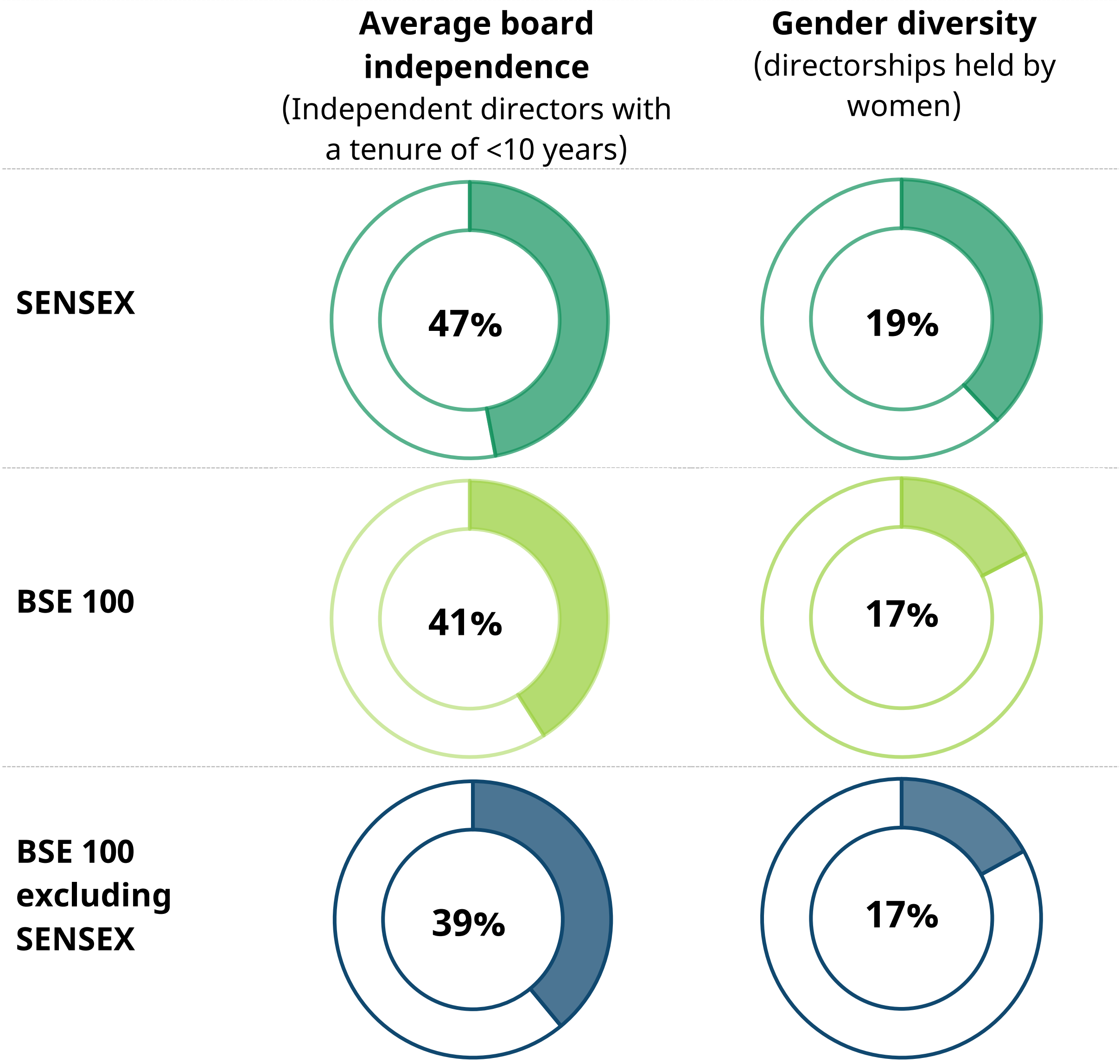
Investors have had a role to play in enhancing the corporate governance practices of companies. Institutional investors, both global and domestic, have increased their expectations of companies with respect to their governance practices. Stewardship codes and responsibilities have had a material impact on how these investors have engaged with companies and voted on shareholder proposals. Lower promoter equity effectively means that companies are vulnerable to shareholder vote and therefore ensuring strong governance structures becomes critical.

Exhibit 13: Shareholding pattern - SENSEX vs. BSE 100

	Average holding by institutional investors	Average promoter shareholding
SENSEX	44%	40%
BSE 100	38%	47%
BSE 100 excluding SENSEX	36%	51%

Over the past two years, as companies struggled to navigate out of the pandemic, it is the stronger boards that were able to steer the company well out of the crisis. SENSEX companies have outpaced the progress made by the S&P BSE 100 companies, which is reflected in their more independent and diverse boards.

Exhibit 14: Board composition of SENSEX vs. BSE 100



Note: data on 30 October 2021
Source: PRIME Database, IiAS research

Over the years, the changes in the main indices have trailed the quality of governance in companies. Companies that have entered the main indices – SENSEX and BSE 100 – have had better median scores that those that have exited the index. This establishes the base argument that markets factor in the quality of governance practice, which eventually finds its way into the indices as well.

Exhibit 15: Changes in the BSE 100 composition in our 2020 and 2021 studies [7]

Year	Script Code	Company Name
Entry	512599	Adani Enterprises Ltd.
	541450	Adani Green Energy Ltd.
	540611	AU Small Finance Bank Ltd.
	541153	Bandhan Bank Ltd.
	511243	Cholamandalam Investment and Finance Company Ltd.
	540716	ICICI Lombard General Insurance Company Ltd.
	523642	PI Industries Ltd.
	500420	Torrent Pharmaceuticals Ltd.
Exit	532134	Bank Of Baroda
	500530	Bosch Ltd.
	500086	Exide Industries Ltd.
	500253	LIC Housing Finance Ltd.
	532720	Mahindra & Mahindra Financial Services Ltd.
	526371	NMDC Ltd.
	540065	RBL Bank Ltd.
	532343	TVS Motor Company Ltd.

[7] *ICICI Prudential Life Insurance Company Limited holds equity shares in IiAS. ICICI Lombard General Insurance Limited is a fellow subsidiary of ICICI Prudential Life Insurance Company Limited.*

Exhibit 16: Changes in the BSE 100 composition in our 2019 and 2020 studies[8] [9]

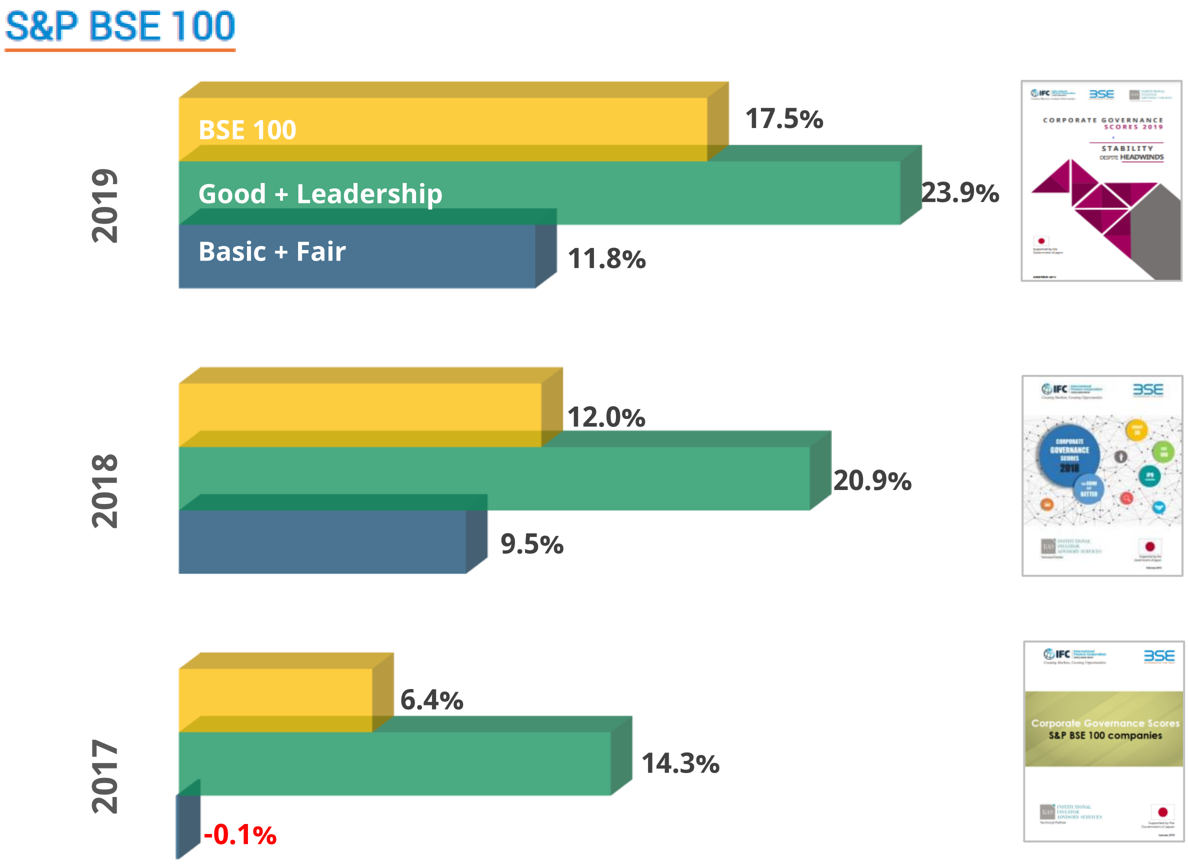
Year	Script Code	Company Name
Entry	509480	Berger Paints India Ltd.
	532868	DLF Ltd.
	540133	ICICI Prudential Life Insurance Company Ltd.
	532514	Indraprastha Gas Ltd.
	532777	Info Edge (India) Ltd.
	539448	Interglobe Aviation Ltd.
	533155	Jubilant Foodworks Ltd.
	532810	Power Finance Corporation Ltd.
	540719	SBI Life Insurance Company Ltd.
Exit	500103	Bharat Heavy Electricals Ltd
	532321	Cadila Healthcare Ltd
	500480	Cummins India Ltd
	532922	Edelweiss Financial Services Ltd
	532296	Glenmark Pharmaceuticals Ltd
	535789	Indiabulls Housing Finance Limited
	532461	Punjab National Bank
	500770	Tata Chemicals Ltd
	532648	Yes Bank Ltd

[8] *ICICI Prudential Life Insurance Company Limited holds equity shares in IiAS. ICICI Lombard General Insurance Limited is a fellow subsidiary of ICICI Prudential Life Insurance Company Limited.*
[9] *Yes Bank holds equity shares in IiAS*

DO MARKETS VALUE GOVERNANCE?

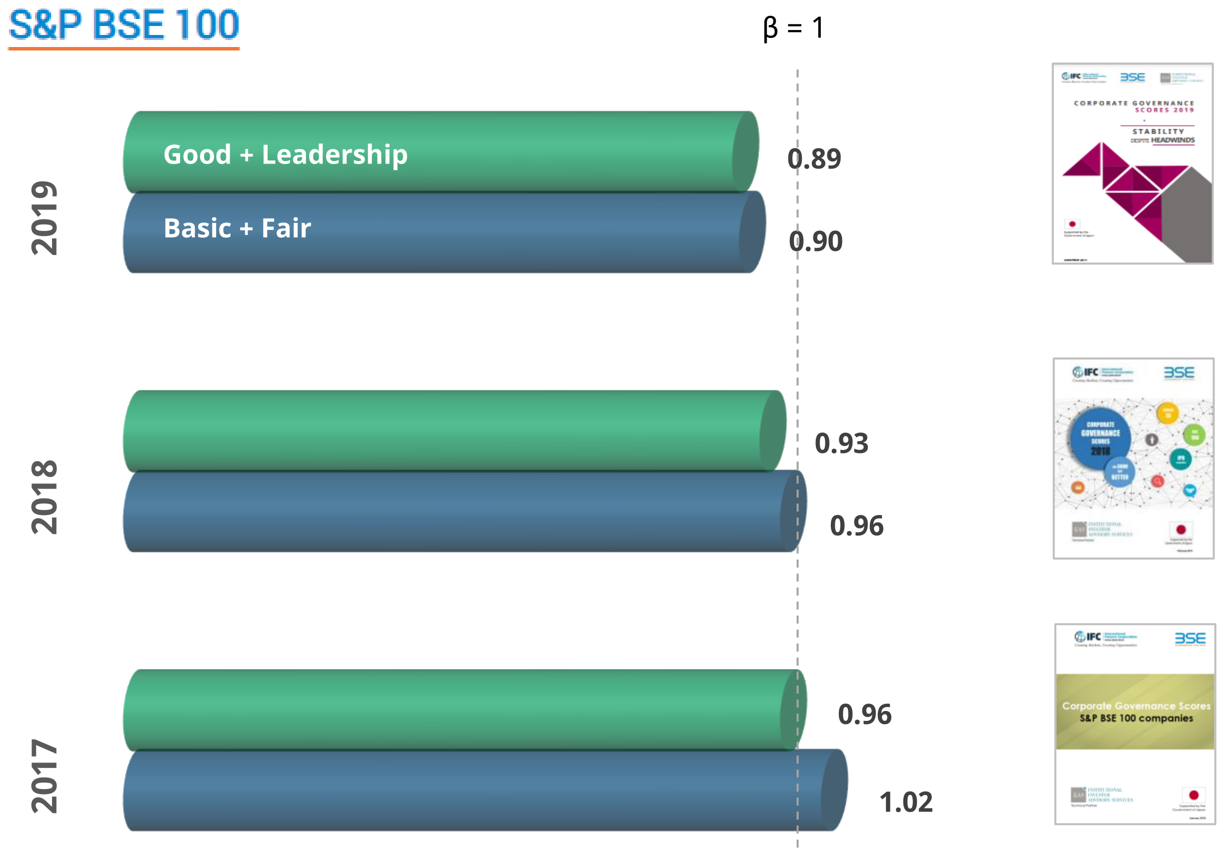
Our analysis shows that markets do value governance. At a portfolio level, companies that are well governed (those with a score of 60 and more) tend to show better price performance and lower stock beta over a period of time than those that are not so well-governed (score of less than 60). This has been tested for the companies we scored in 2017, 2018 and 2019. While there may be exceptions (some well-governed companies not delivering strong price performance and vice-versa), at a portfolio level the conclusions have been consistent: markets reward companies that are well-governed. The assessments hold true for BSE 100, and for the smaller subset of SENSEX companies.

Exhibit 17: Median stock price CAGR of BSE 100 companies based on their governance scores



2017: Stock price performance analyzed from 1 November 2017 to 29 October 2021
2018: Stock price performance analyzed from 1 November 2018 to 29 October 2021
2019: Stock price performance analyzed from 1 November 2019 to 29 October 2021

Exhibit 18: Median stock Beta[10] of BSE 100 companies based on their governance scores (lower is better)



2017: Stock Beta performance analyzed from 1 November 2017 to 29 October 2021
2018: Stock Beta performance analyzed from 1 November 2018 to 29 October 2021
2019: Stock Beta performance analyzed from 1 November 2019 to 29 October 2021

[10] *Beta is calculated on daily stock price return with the BSE 100 index as the benchmark*

GOVERNANCE THEMES

BOARD EFFECTIVENESS

The board of directors are the focal point in a company's corporate governance structure. To carry out their responsibilities effectively, a board requires a certain level of independence and diversity.

Past data shows that the scores of companies and overall median scores tend to be most correlated to the category scores for 'Responsibilities of the board', as compared to the scores of the remaining three categories – a reflection of the belief that corporate governance practices are driven by the board.

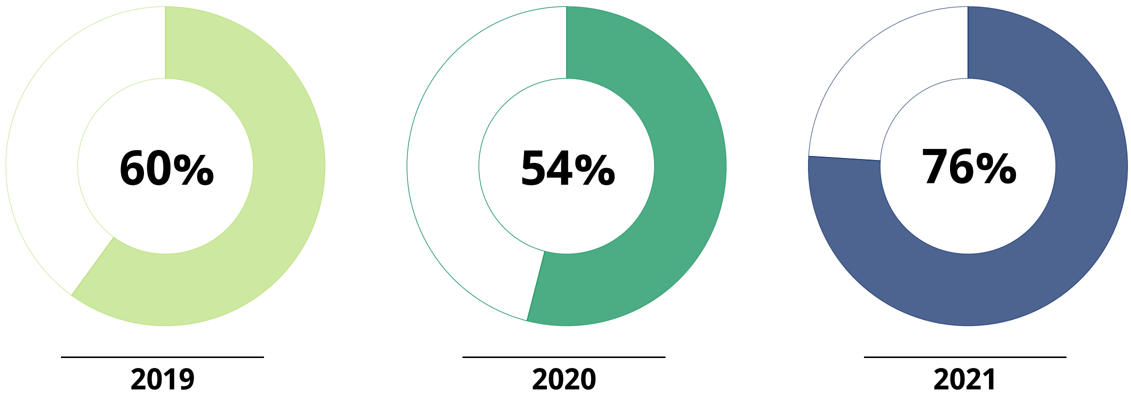
The median scores, out of a maximum score of 100, in the category of 'Responsibilities of the board' were lower at 55 in 2021 from 58 in both 2020 and 2019. At the lower end, the scores have dipped in this category to 13 in 2021 from 21 in 2020, while the highest score in 2021 has gone back to its 2019 levels of 84, up from 79 in 2020.

There are two main drivers for the lower median scores in 2021 for this category – one, executive remuneration and two, PSU performance. Some CEOs have increased their pay at a time when employees took pay cuts, there were layoffs, and overall corporate performance was weak. PSUs board compliance deteriorated further as several of these companies did not have even meet the minimum compliance requirements.

Board engagement levels

Boards have been more engaged in 2021 than ever before. We use board meeting attendance as a yardstick to determine the involvement of directors: board attendance has increased significantly in 2021, higher than pre-COVID levels. One of the positive outcomes of COVID-19 is that it has compelled boards to embrace technology and virtual meetings. COVID-19 compelled boards to meet more often to discuss its impact – both in terms of business and people. The consistent push-back from investors on director reappointments where attendance levels have been low, is possibly another reason for better discipline in attending board meetings.

Exhibit 19: Companies of which all board members have attended at least 75% of the board meetings held over the immediate past three years

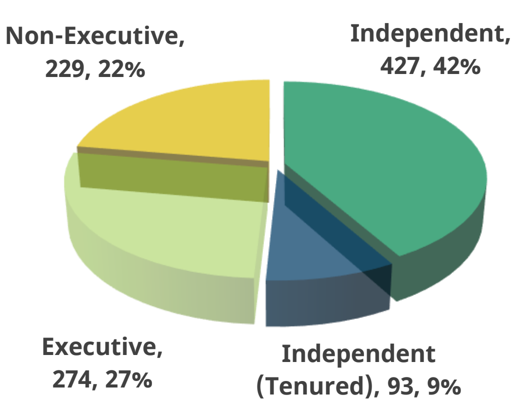


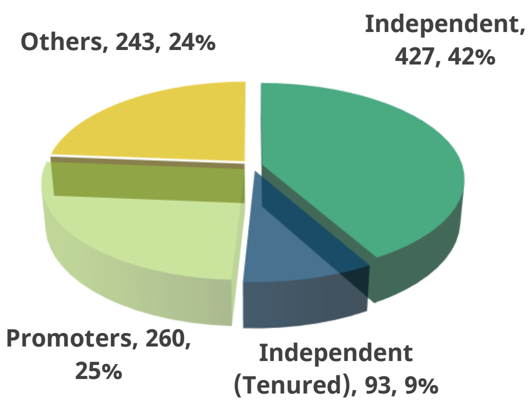
Companies often explained away the low attendance with busy schedules, or constraints around time zones and travel. But all of this seems to have sorted itself out. Board meeting attendance is likely to improve further if companies set a board meeting calendar at the beginning of every year and maintain the discipline to follow through.

Board independence

Even as boards have been more engaged in 2021, the board composition itself has been changing[11]. The grandfathering of the independent directors' previous tenure will be complete in 2024, and gearing up to that deadline, boards have been refreshing their slate of directors – trying to balance stability and institutional memory with the need for different and objective thinking. Of the 1,023 directorships of the S&P BSE 100, 51% of the directors are independent directors[12] – just 9% being tenured Independent Directors (with a tenure exceeding 10 years).

Exhibit 20: Board composition of the S&P BSE 100 companies on 30 October 2021





- *IiAS classified Independent Directors with a tenure of more than 10 years as non-independent. These have been shown separately as tenured Independent Directors.*

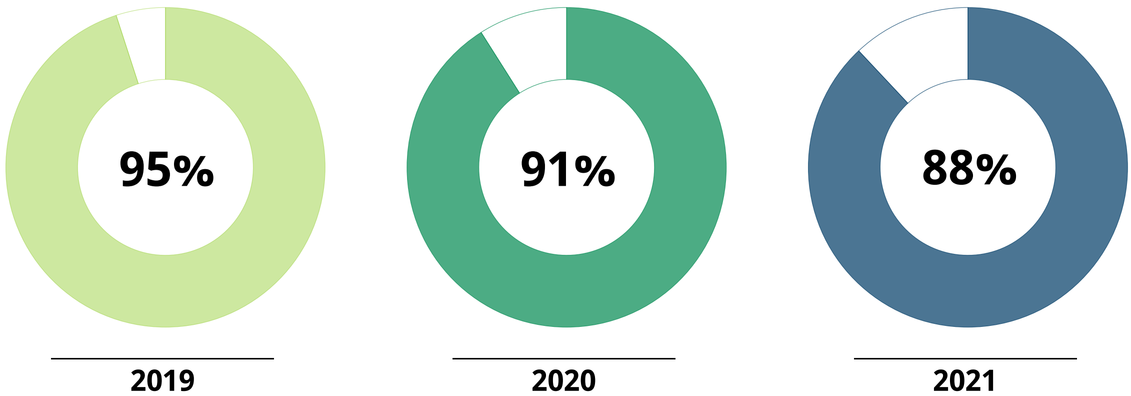
- *Promoters include those part of the promoter family, and nominees of controlling shareholders.*
- *Others include professionals that are executive directors, non-executive directors, and nominees of investors, lenders, and other stakeholders*

[11] *Related research: Indian Boards; Structure and Breadth - https://bit.ly/3Lafz3N*

[12] *Source: PRIME Database, IiAS research*

Most PSUs continue to remain non-compliant with even the minimum regulatory standards. A few PSU boards have less than the minimum number of independent directors, with a few not even having an independent director. This has been a concern over the past several years, but regulatory enforcement on PSUs has been weak. For a large part of the regulatory requirements on corporate governance, the government has created an exception for PSUs in the regulation itself. However, in the case of board composition norms, the rules apply uniformly, but PSUs do not meet the prescribed standards.

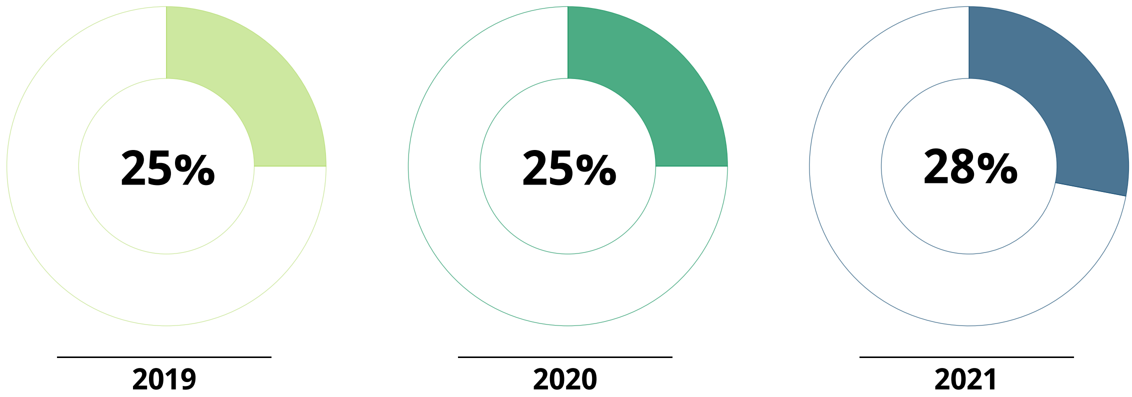
Exhibit 21: Companies that have adequate representation of Independent Directors



The companies above meet the regulatory standards of board composition set for India. The data includes Independent Directors that have had a tenure of over 10 years on the board.

While global best practices are that independent directors must comprise at least half the board, Indian regulations determine the board composition based on the Chairperson – if the Chairperson is an executive director or a promoter, then at least half the board must comprise Independent Directors, otherwise, the threshold drops to a third. Board composition tends to remain more compliance-driven. Because promoters or their nominees tend to chair boards, half the board comprises independent directors in the regulatory sense. However, if tenured Independent Directors (with a board tenure of over 10 years) were considered non-independent, then only 28% of the BSE 100 companies in 2021 had half their boards comprise Independent Directors.

Exhibit 22: Companies that have at least half their boards comprise Independent Directors (with a tenure of less than 10 years)



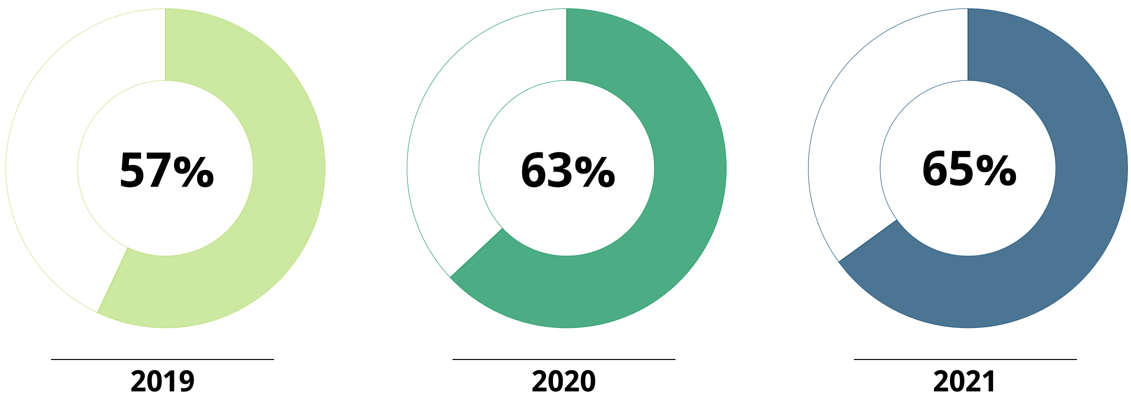
For the purpose of the data above, tenured Independent Directors (tenure of over 10 years) have been considered as non-independent.

Separating the roles of the Chairperson and CEO

The Indian Corporate Governance Scorecard assesses for the separation of the CEO and Chairperson roles because these are two distinct responsibilities. The separation is critical more so given the promoter-owned nature of corporate India. This view was validated by the 2017 Kotak Committee that recommended the separation of the role of Chairperson and CEO of listed companies. This was done with an intention to separate the power centres and ensure a more balanced governance structure, creating an objective layer of supervision over management, which is line with global practice. Going a step ahead, SEBI had brought in a nuance to the accepted practice – that while the roles are separated, the Chairperson and CEO cannot be related to each other. With a two-year lead time to its implementation from 1 April 2022, investors expected boards to begin announcing a transition plan, but very few companies did so. An IiAS study based on board compositions on 30 October 2021[13] showed that of the S&P BSE 100 companies, 43 companies had yet to meet the standards of the imminent regulation. However, on 15 February 2022, SEBI announced the requirement of separation of roles of Chairperson and CEO would be on a voluntary basis rather than a mandatory basis.

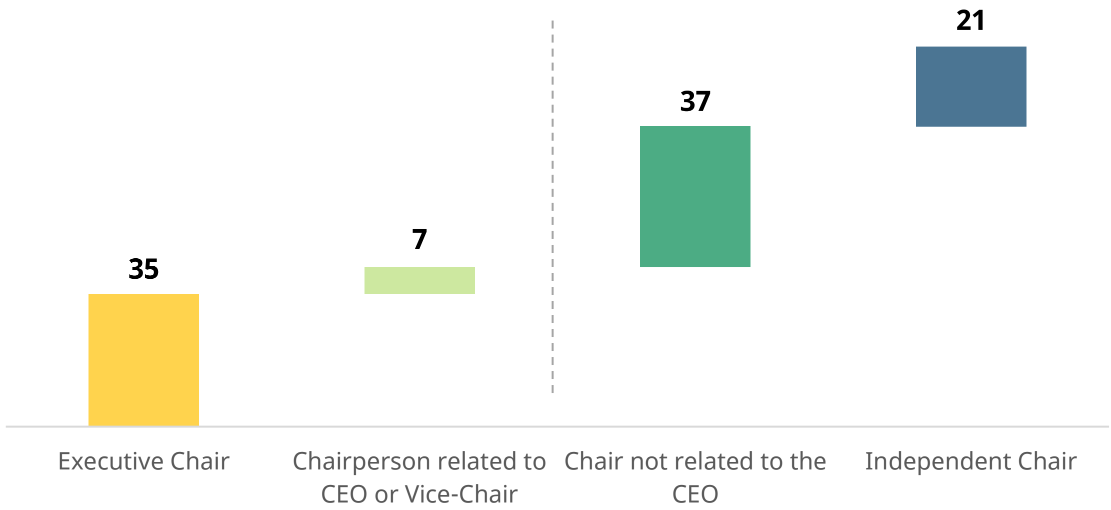
[13] *Related research: How prepared is corporate India for the separation of Chairperson and CEO roles - https://bit.ly/3rp6uMH*

Exhibit 23: Boards that have separated the roles of Chairperson and CEO



The data above does not assess for the relationship between the Chairperson and CEO; it merely assesses if the roles have been separated. In case of Executive Chairpersons, even with another Managing Director, IiAS does not consider the roles to have been separated.

Exhibit 24: The Chairpersons of S&P BSE 100 companies on 30 October 2021



Independent Chairpersons include those with a tenure in excess of 10 years on the board.

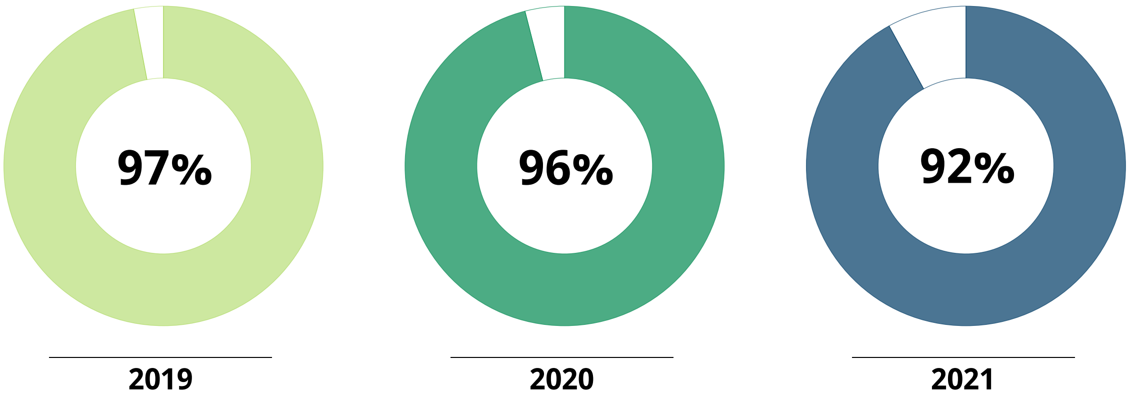
Board diversity

Board diversity is critical for board effectiveness. Having a heterogenous mix of individuals at the helm will avoid group think and support a more robust decision-making process.

Indian regulations have pushed for two aspects here. First requiring that the boards of the top 1000 companies have at least one-woman Independent Director and second asking companies to publish the skills that each director possesses[14]. Except for PSUs, companies have met this regulation.

[14] *Related research: Corporate India; Women on Boards 2020 - https://bit.ly/3sapWw0*

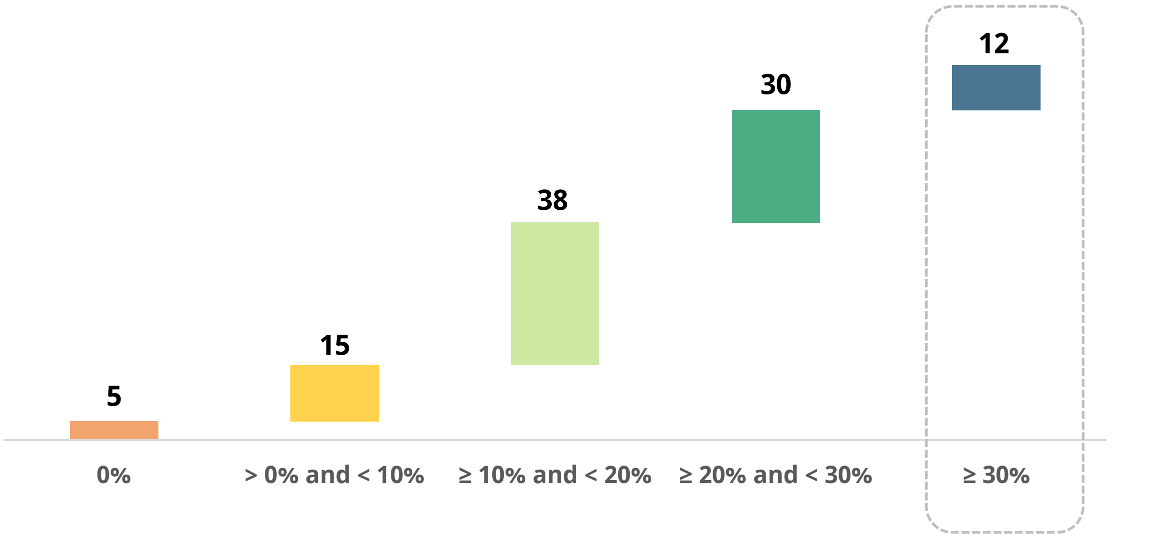
Exhibit 25: Companies with at least one Independent Woman Director



Gender diversity is the easiest form of measurable diversity[15]. Women held about 17% of board seats in the S&P BSE 100, of which about 12% were held as Independent Directors[12]. While Corporate India has used the regulatory push to increase the number of women on boards, the count has stagnated over the past 18 months.

The conversation for gender diversity needs to change – it is no longer about having one woman on the board, but it must be seen as a share of the board size. In India, board sizes range between 9 and 10 members (median) and having one woman on the board automatically means 10% of the board. For the full effect of gender diversity, it is believed that women must comprise at least 30% of the board. Of the S&P BSE 100, just 12 companies have women that comprise 30% or more of the board[12].

Exhibit 26: Women as a part of board composition



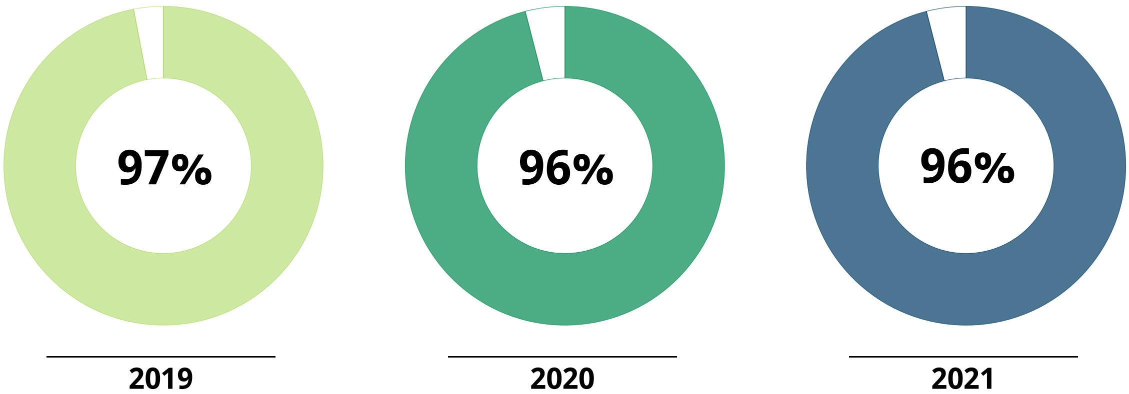
For a robust board construction, skill diversity is an important aspect. In asking companies to disclose director-level skills, SEBI is pushing boards to focus on thinking about the skills of the board as a team of individuals[16]. To comply, several companies

[15] *Assumes gender to be binary*
[16] *Related research: Board Skills in India; 2020-21 practices - https://bit.ly/3L9tZ4e*

have disclosed a laundry-list of skills of each director, extolling their experience. But what boards need to do is have a cohesive plan on where the company is going and what skills the board will need to take it there[17].

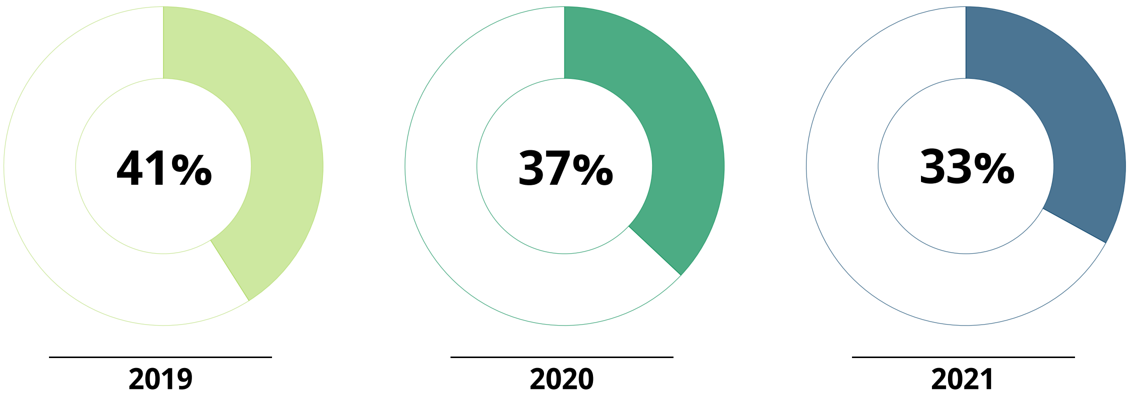
Lessons from corporate failure show that boards need at least one non-executive director that understands the business. India does well on this, but in several boards, non-executive promoters bring that competence. It is time that boards now have at least one Independent Director who understands the company's core business – this will help boards have an objective understanding of the business challenges and improve the robustness of board deliberations.

Exhibit 27: Boards with non-executive directors that have knowledge of the company's core business domain



One of the important aspects of modern business is the use of technology – which is core to managing and increasing scale. However, boards continue to remain reticent in bringing technology skills to the board[18]. While this is changing with SEBI mandating cyber security as part of the Risk Management Committee charter, the progress has been slow.

Exhibit 28: Boards with diversified and comprehensive set of skills

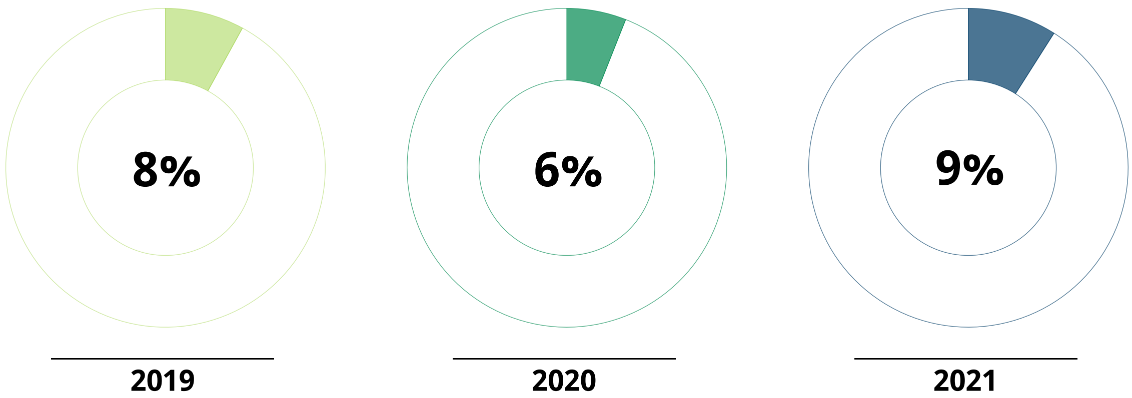


[17] *Related research: Checking the box on skill diversity - https://bit.ly/3rpKrWc*
[18] *Related research: Boards' focus on digital governance is long overdue - https://bit.ly/3GubtzY*

Board evaluation

For boards to have an objective assessment of how they stack up, regulations in India have mandated that boards undertake an annual evaluation exercise. By itself, this requirement set performance standards for directors, which boards took some time to adjust to. Disclosure of the board evaluation exercise is a common practice in the Western markets but is yet to be accepted culturally in India[19]. From walking on eggshells to doing a robust assessment, most Indian boards are somewhere in between. Having said so, Boards almost unanimously shy away from disclosing the results of the board evaluation exercise.

Exhibit 29: Boards that disclosed the outcome of the board evaluation



Individual performance appraisals for employees are confidential and directors feel no different about the board evaluation process. But the disclosures that investors want to see are not individual specific. Investors want to understand what is on the board's agenda as a whole, and the steps it proposes to take over the next 12 to 24 months to address these. This is part of the fiduciary responsibility towards investors that boards need to address.

Succession planning

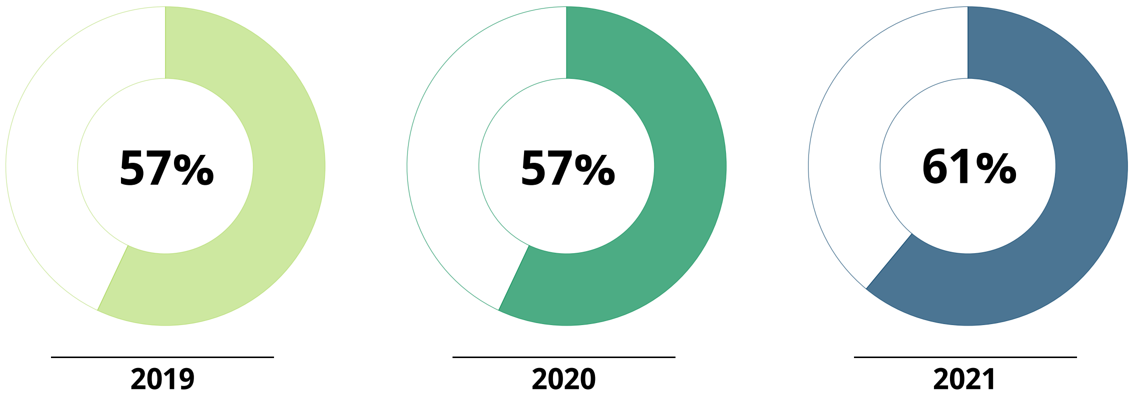
Because of the family-controlled nature of Corporate India, succession planning is a critical issue. Boards seem reticent to discuss the issue and leave the decision-making largely to the family patriarch (or matriarch). Boards also seem to accept that succession will be hereditary, subliminally refueling the perspective that the company belongs to the promoter while the residual shareholders merely exist in isolation. Therefore, boards are quick to get the next generation, irrespective of their age and experience, onto the board – with a view that they will be trained by being on the board. Professionals, however, need to earn their stripes to get a board seat.

Some promoter families are consciously managing internal succession. Family constitutions are being carved out, and whether the company will be run by family, or it remains just an owner (and not manager) is being debated. While several of these family

[19] *Related research: Board evaluation in India 2020-21 - https://bit.ly/3AVooKp*

constitutions have been drawn up, there is little disclosure for investors. That a family constitution has been drawn up itself remains shrouded in secrecy and spreads only through word-of-mouth. Because stakeholders invest in the promoters as much as they do in the company, boards must consider it part of their responsibility to address succession planning in an organized manner.

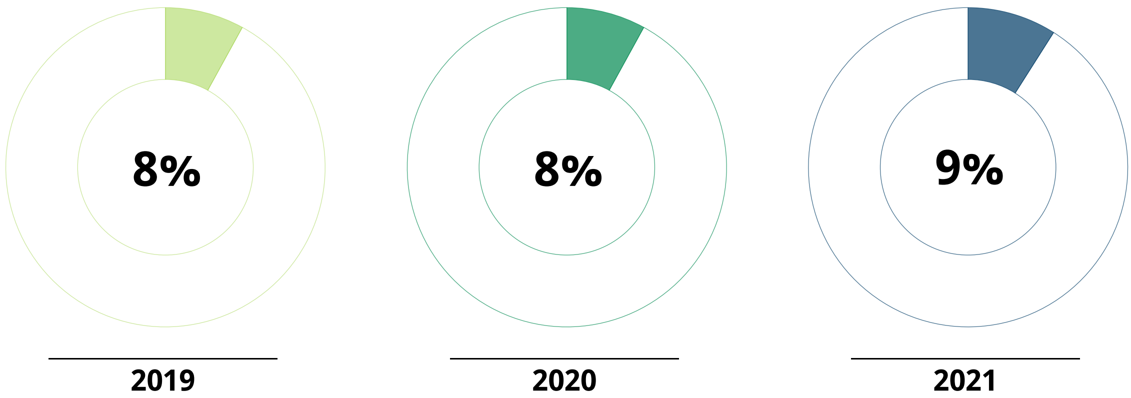
Exhibit 30: Companies that have a succession plan for either the board of directors or the senior leadership



The data shows a marginal increase in the mention of succession planning in company disclosures – but most of this is related to senior leadership. Most companies have talent management programmes to create a leadership pipeline.

The critical issue remains of finding a successor at the 'promoter or promoter family level'. If boards truly believe that the promoter is irreplaceable, it may also mean that institution-building is weak[20]. The Nomination and Remuneration Committees, to this extent, need to be involved more centrally in determining the skills that the successor will need and then identifying individuals that may fit the bill. This reluctance to address the issue head-on or get involved in what is clearly seen as an internal family issue, might mean that the company itself is split, to accommodate the siblings.

Exhibit 31: Boards that have discussed succession planning



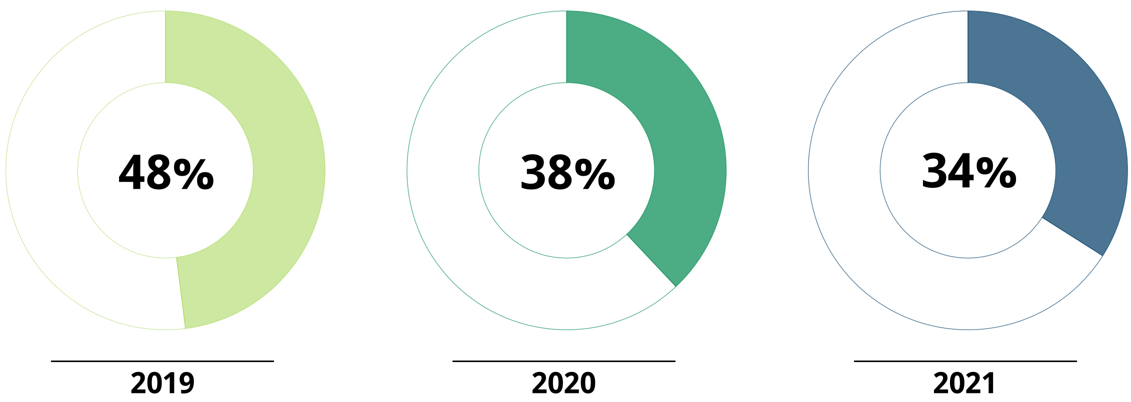
[20] *Related research: Investors must rethink their equation with promoters - https://bit.ly/3GtpZIz*

Executive remuneration

CEO compensation has outpaced revenue and profit growth for a while now. In the past, it was generally accepted that promoters were a cut above and therefore their remuneration was benchmarked differently. But as markets and business get more institutionalized, this is slowly changing.

COVID-19 has accelerated this shift as it tested the character of promoters. Several corporate leaders stood in solidarity, forgoing their remuneration and ensuring that their employees were put ahead of themselves. But corporate India is a contradiction at several levels, as it is here too: several promoters that put themselves ahead of their employees and increased their compensation despite the stress faced by their employees, and the business by itself[21]. This behaviour was accentuated given the labour exodus, the forced furloughs, pay cuts implemented across corporate India. It is this behaviour that has driven down medians for the 'Responsibilities of the Board' score category.

Exhibit 32: Companies where executive pay has been aligned to company performance over the past three years



This feudalistic behaviour has affected employee loyalty and employee morale – and is possibly one of the many factors that has led to 'The Great Resignation.' Investors too are venting their frustration through their voting patterns – the 2021 proxy season in India saw several resolutions for executive remuneration being defeated, and several more that passed only because the promoters voted their shares.

Promoters' wealth is invested in the company's performance, and therefore, taking a high salary suggests that promoters are looking to separate their roles as owners and managers. Yet, boards seem to set little accountability – promoter pay increases are almost a fait accompli. The Nomination and Remuneration Committee often tend to comprise friends and family, and sometimes the promoters themselves, which is a likely factor in giving performance requirements a very light touch.

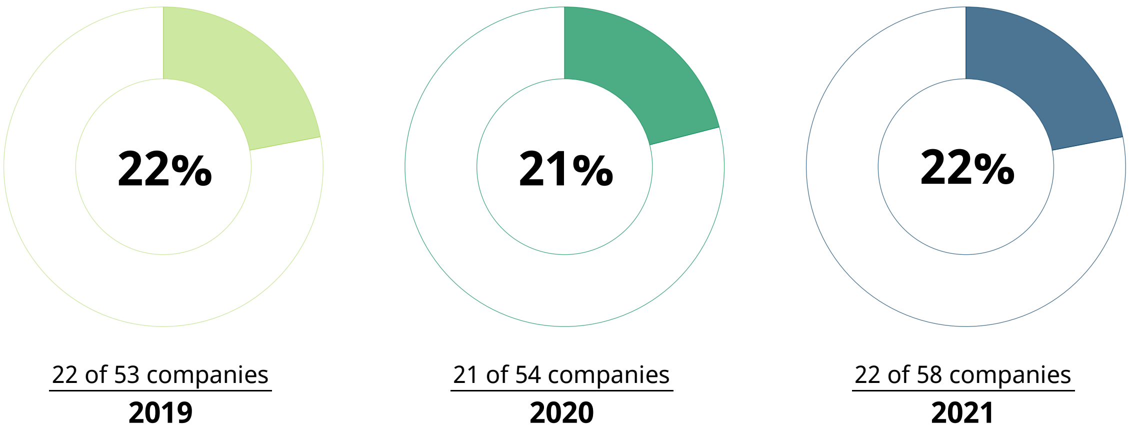
[21] *Related research: Promoter CEO – a company's most important asset - https://bit.ly/3J243pj*

It is time that SEBI and the Ministry of Corporate Affairs list executive remuneration as a related party transaction and put it to a majority of minority vote.

For professionals, a large proportion of the remuneration tends to be driven by stock options. Stock options were initially used by the financial and information services sectors, but now the manufacturing sector too has adopted stock options as a component of remuneration. This is a good practice – adding stock options to the remuneration structure balances the short-term and long-term incentives for employees, especially executive directors.

Of the BSE 100, 58 companies have stock options schemes and have granted stock options in the past year. Companies tend to grant stock options at deep discounts to market price, usually because promoters do not want to get diluted, or to save employees from large investment amounts in case the stock price it too high. The third reason could be to conserve cash. Investors seek alignment of interests in stock options schemes: therefore, investors want stock option grants at deep discounts to carry performance-based vesting. Of the 58 companies that had stock option schemes, only 22 of these had plans that aligned the interest of employees and shareholders.

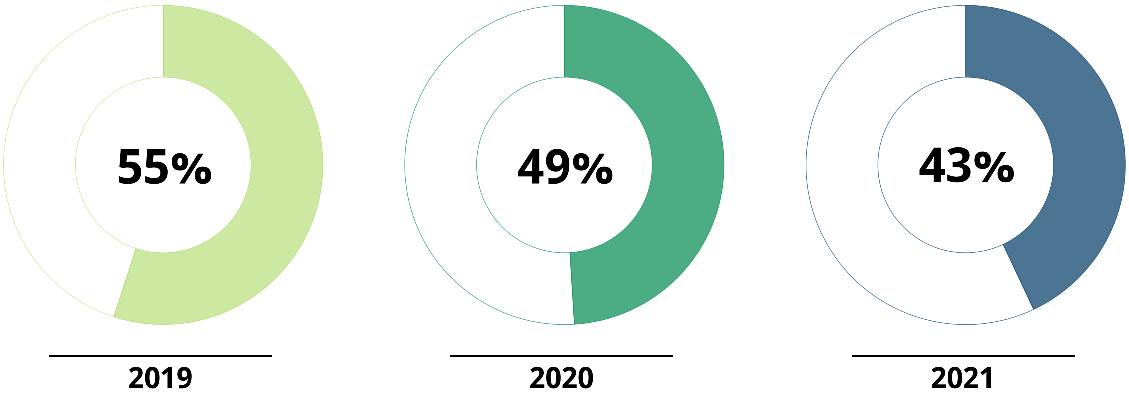
Exhibit 33: Companies with stock options were granted at market price



Boards strive to create relevant incentive structures for executive directors, yet they shy away from pushing performance through remuneration structures. In India, variable pay usually comprises about 50% of aggregate pay, while globally it can range from 67% to 90%[22]. Even when setting variable pay, most boards tend to focus on annual performance incentives, rather than the long-term incentive – which could result in the leadership focus only on the short-termism. Boards need to set measurable long-term and short-term targets to align executive pay with company performance and must disclose these while seeking shareholder approval. This process will push boards to think clearly about the company' priorities and bring clarity to investors as well.

[22] *Related research: CEO salaries – clarity that investors seek - https://bit.ly/3J2TFxQ*

Exhibit 34: Companies where executive pay structures have at least 50% variable pay and aggregate pay is less than 5% of profits



Conflict of interest and related party transactions

Managing and disclosing conflict of interest is critical to building stakeholder trust. About half the companies have a publicly disclosed conflict of interest policy, but in most instances, these policies apply only to employees. Including stakeholders into the ambit of disclosing and addressing conflicts of interest is critical for a more robust approach.

Exhibit 35: Companies that have a publicly disclosed conflict-of-interest policy

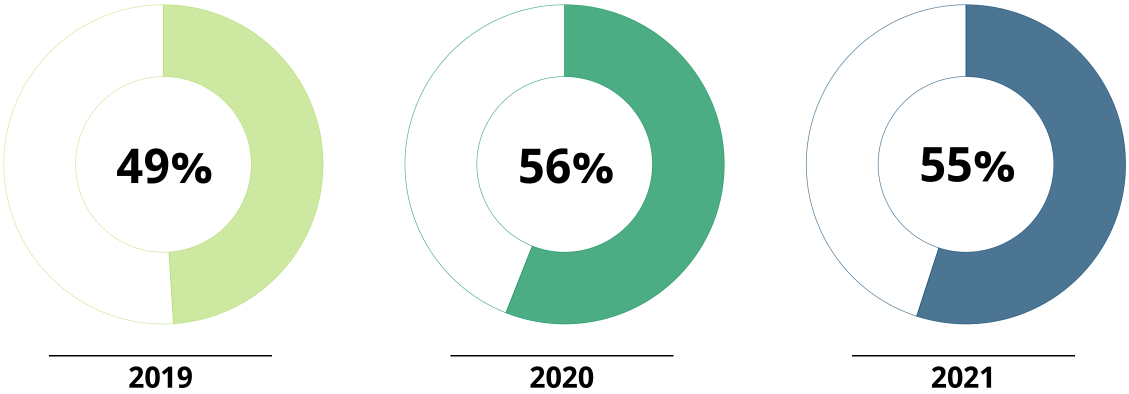
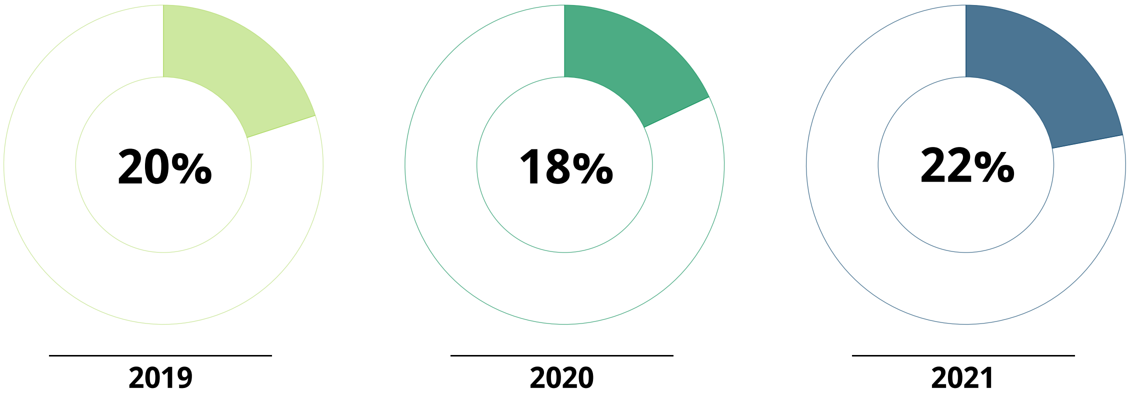
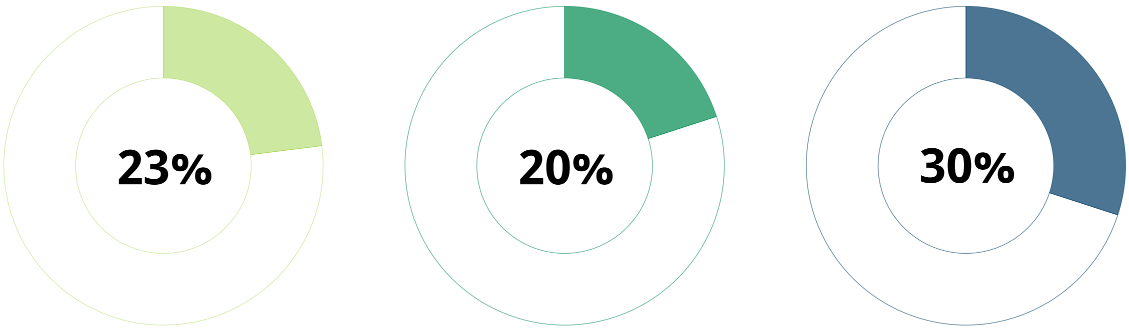


Exhibit 36: Companies with conflict-of-interest policies that encompass all stakeholders (not limited to employees)



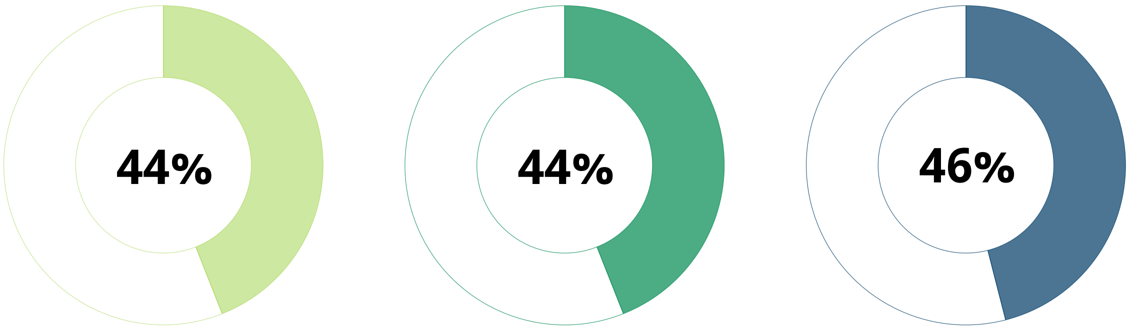
Conflict of interest can take several forms, but the most critical manifestation of this is related party transactions. Most related party transactions in India are operational – for example, Indian subsidiaries of MNCs buying and selling components or products from an entity belonging to the global parent. But in even in these circumstances, investors raise concern if there are fellow subsidiaries, or promoter-owned companies that are in the similar line of business, creating a conflict-of-interest for the promoters. This issue has been the main reason for the push back on shareholder resolutions in 2021.

Exhibit 37: Companies that undertook material related party transactions in the past three years that were prejudicial to the interest of minority shareholders



23 of 41 companies	20 of 39 companies	30 of 40 companies
2019	**2020**	**2021**

Exhibit 38: Companies with policies on related party transactions that prohibit interested directors from participating in discussion and voting on the transaction



2019	2020	2021

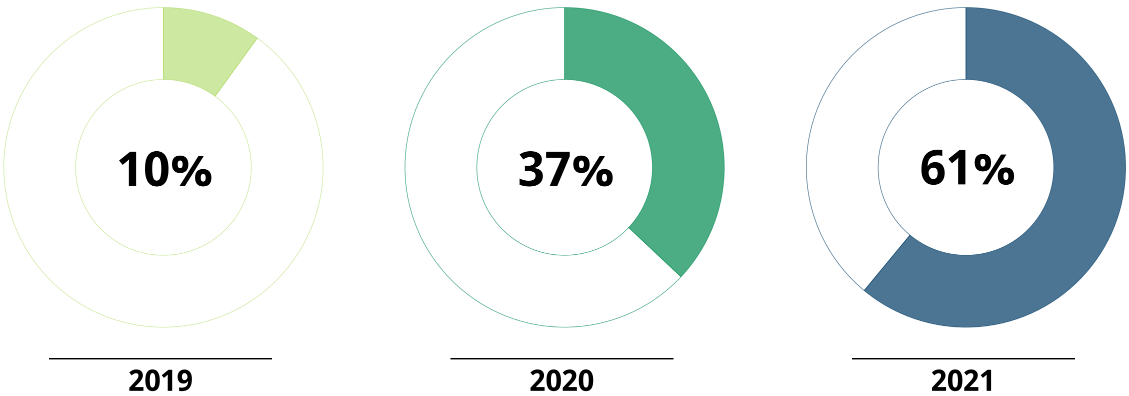
MANAGING SHAREHOLDERS

Managing AGMs

India is one of the rare Asian markets to move completely to a virtual AGM format in 2020, which continued through 2021 for almost all listed companies, while other markets continued to favour the hybrid model (physical and virtual presence).

With the regulatory push towards virtual AGMs, webcasts and transcripts of AGMs were much more easily available than previously. Out of the BSE 100 companies, the number of companies which provided evidence of time being allocated to address shareholder concerns and questions either in the minutes of their AGM meeting or in their AGM webcast increased to 61 in our 2021 study up from 37 in our 2020 study.

Exhibit 39: AGMs minutes or webcast that disclosed the questions asked by investors and the board's response to these

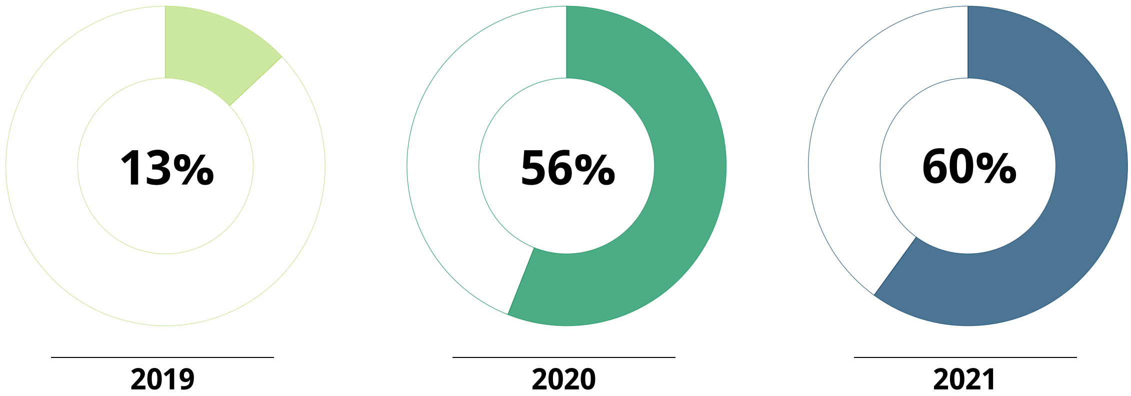


In several companies, shareholder questions were limited to financial statements and the proposed resolutions – a free-flow discussion on the business was not encouraged. Even where there were no restrictions, the virtual format allowed only for a Q&A method, where questions were collated, and responses were given comprehensively towards the close of the AGM[23]. Following this format favours the board over the shareholders and limits the engagement with shareholders to a question-and-answer session, not a conversation. We expect companies to use the AGM as an opportunity to have a conversation with its shareholders, as much as shareholders participating in the AGM need to ask meaningful questions regarding the company's performance and plans.

Adoption of virtual AGMs also saw enhanced disclosures on attendance of directors and perhaps more directors attending the AGM. All board members attended the AGM in 60 of the BSE 100 companies, up from 56 in 2020 and 13 in 2019.

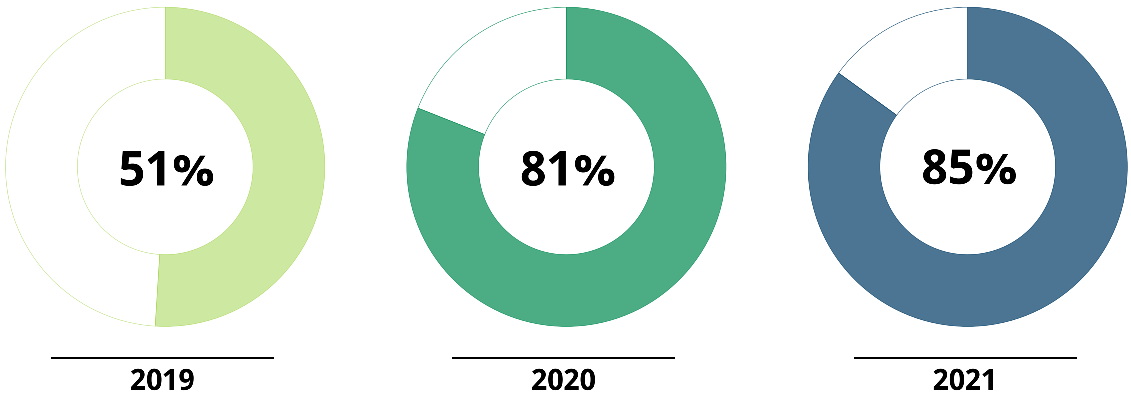
[23] *Related research: An investor's guide to shareholder meetings in India - https://bit.ly/3urgZkO*

Exhibit 40: AGMs that all board members attended



One of the aspects of AGMs is that shareholders are allowed to ask questions to the auditor on the company's financial statements. Regulations mandate that auditors attend the AGM, and 85 of the BSE 100 companies made disclosures to that effect. But AGMs in India are managed by the Chairperson and allowing auditors to directly answer shareholder questions is a rarity.

Exhibit 41: Companies that disclosed that statutory auditors attended the AGM



Dividends

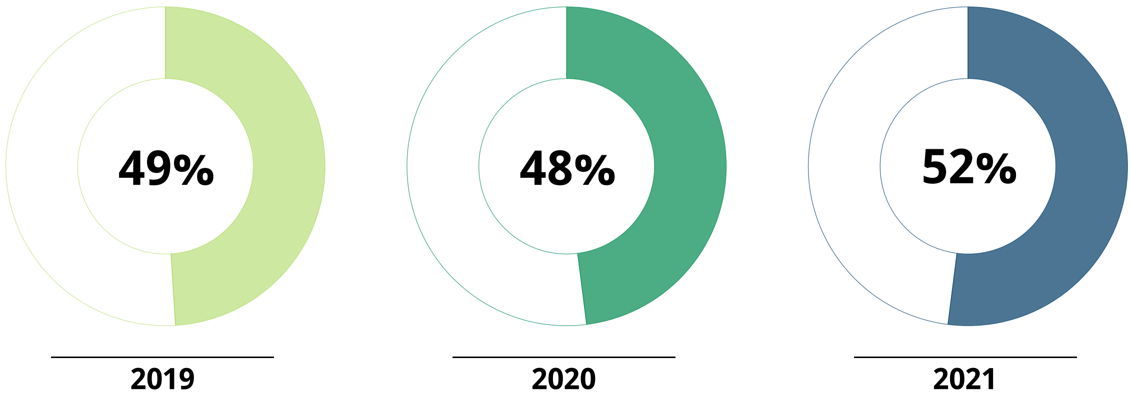
One strategy of keeping shareholders happy is to increase dividend. While COVID-19 was at its peak, most companies wisely chose cash conservation instead of payout dividends – keeping money aside for unforeseen shocks. This, however, was not true for MNCs. Several MNCs paid out higher dividends, and while this benefited all shareholders, it was the controlling global parent that benefited the most from such largess[24].

Even so, having a thoughtful capital allocation policy provides clear guidance to shareholders: in 2021, 52 of the BSE 100 companies published a dividend policy that articulated a target payout ratio. In India, the dividend payout ratio is regulated by RBI for banks and NBFCs, and the Department of Public Enterprises has defined the considerations that determine the dividend payout ratio for PSUs. Even so, these are

[24] *Related research: MNCs and royalty – me before you? - https://bit.ly/34AMH3T*

regulatory caps and floors – boards need to step out of the regulatory shadow and define their capital allocation philosophy.

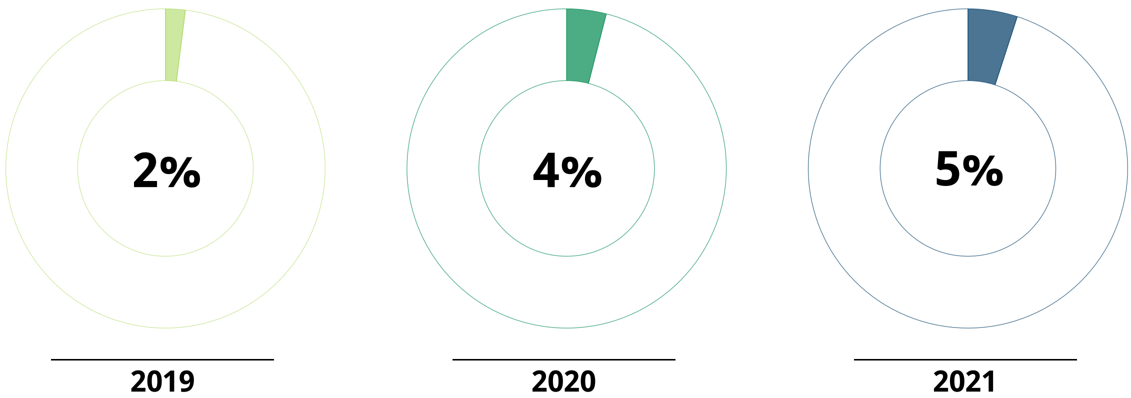
Exhibit 42: Dividend policies that articulate a targeted payout ratio



Push-back from investors

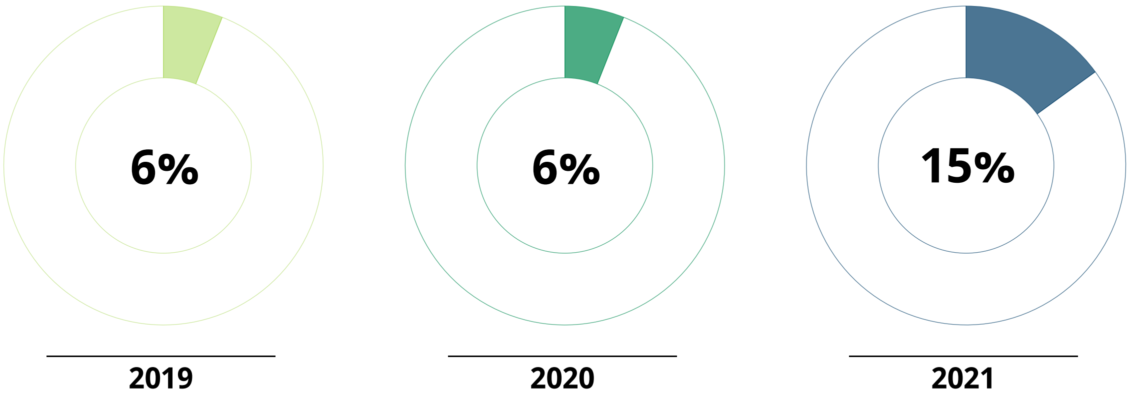
Investors have been increasingly vocalizing their disappointment at some aspects of corporate behaviour[25]. The push back on shareholder resolutions has increased, especially in areas of executive remuneration, related party transactions, and board appointments. We have already discussed the issues on executive remuneration earlier. Although most related party transactions tend to be operational in nature, this year saw a spate of transactions with promoter-owned companies that investors did not support. The push-back on board appointments too has been higher, reflecting that investors are now holding the board accountable.

Exhibit 43: Companies that had their shareholder proposals rejected by investors



[25] *Related research: How shareholders voted in NIFTY 500 companies in 2020-21 - https://bit.ly/3sbu0fs*

Exhibit 44: Companies that had their shareholder proposals carried by the promoter vote – majority of minority votes did not support the resolution



AUDIT QUALITY

Since the first jolt of the COVID-19 crisis in 2020, auditors have recovered and were better prepared to complete audits in time. As a result, delays in holding AGMs were minimal. Financial statements too carried less qualifications and other audit comments, as both, companies and auditors absorbed the uncertainties of COVID-19.

Exhibit 45: Financial statements of companies in which auditors did not raise any concerns in the past three years

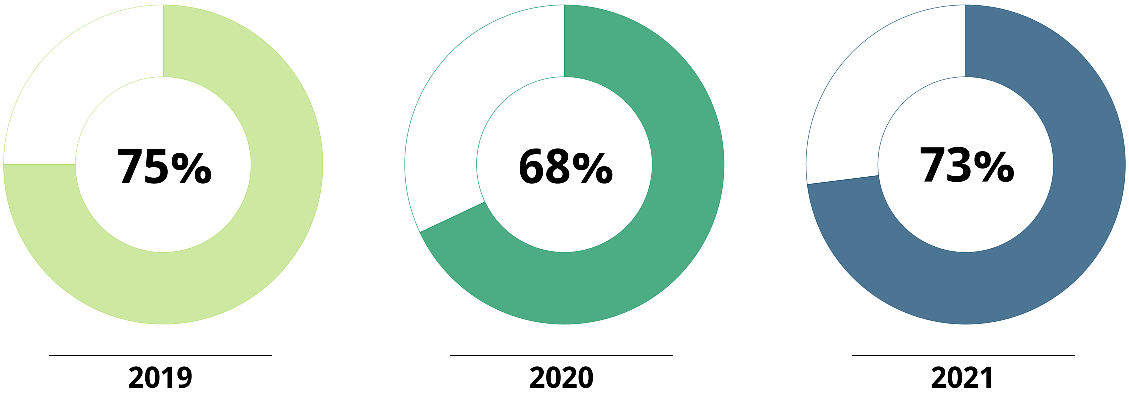
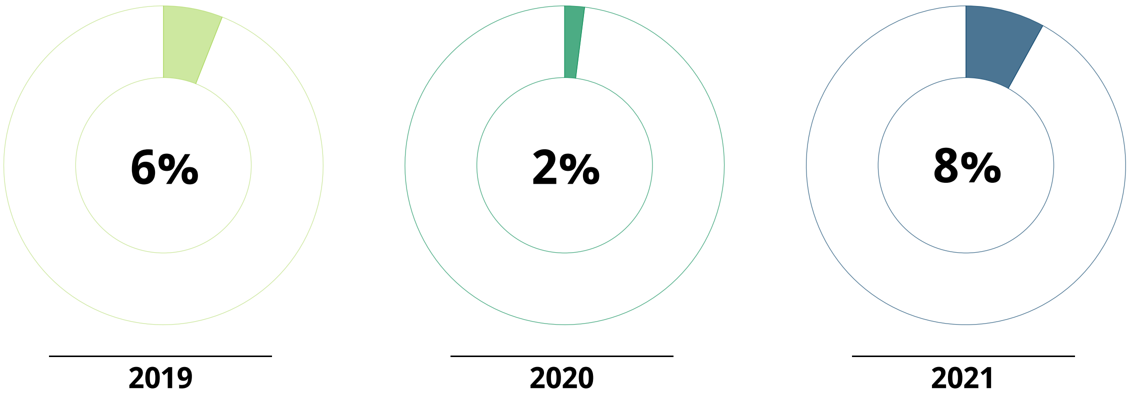


Exhibit 46: Boards that provided information about the independence, competence and experience of the statutory auditors



Considered a best practice, audit committees must periodically test for auditor independence and audit quality. More so because auditors are no longer reappointed annually – they have five-year terms in case of companies and three-years in case of banks and NBFCs. Indian companies take two approaches to selecting auditors: either they only appoint one of the Big Four audit firms, or they select audit firms well-known to them. Selecting a Big Four audit firm essentially assumes that nothing else need be said. While this may have been true a few years ago, recent events – in India and globally - suggest otherwise. Even when audit committees select the Big Four, they must consider making disclosures regarding the basis of auditor selection. Auditor independence must also be tested on an annual basis, and this disclosure must be made so that investors have clarity regarding the objectivity of the audit process. Of the BSE 100, less than 10% publish even a marginal description of the audit firm – the basis of selection and a conversation on auditor independence are a rarity.

Audit quality continues to remain a concern[26]. In 2021, RBI published regulations that mandated joint auditors for banks and NBFCs of a certain size and mandatory rotation of audit firms streamlined at three years[27]. This regulation gave little time for audits to be completed, as a result several banks and NBFCs had to either change their auditors or appoint joint auditors mid-year. To ensure auditor independence, the regulation also limited the number of bank and NFBC audits that an audit firm can undertake and prohibited them from taking up audits of group companies. But creating a process around auditor appointment is unlikely to solve for audit quality, better enforcement of audit quality standards is.

The audit industry was, until recently, self-regulated through the Institute of Chartered Accountants of India (ICAI). An audit regulator has been established – the National Financial Regulatory Authority (NFRA). The NFRA is responsible for recommending accounting and auditing policies and standards, undertaking investigations and imposing sanctions against defaulting audit firms to protect the interests of investors, creditors and others associated with the companies.

The NFRA is mired in controversy and has become a political hot-button. Notwithstanding, some of its review reports have made their mark in the audit industry. Moving forward, we expect the establishment of an audit regulator to make a material difference to the audit quality for corporate India.

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[26] *Related research – CIO dialogue on auditors - https://bit.ly/3Ba3ZBf*
[27] *Related research: RBI on auditor appointments – the slip between the cup and the lip - https://bit.ly/35Um5Mh*

STAKEHOLDER MANAGEMENT

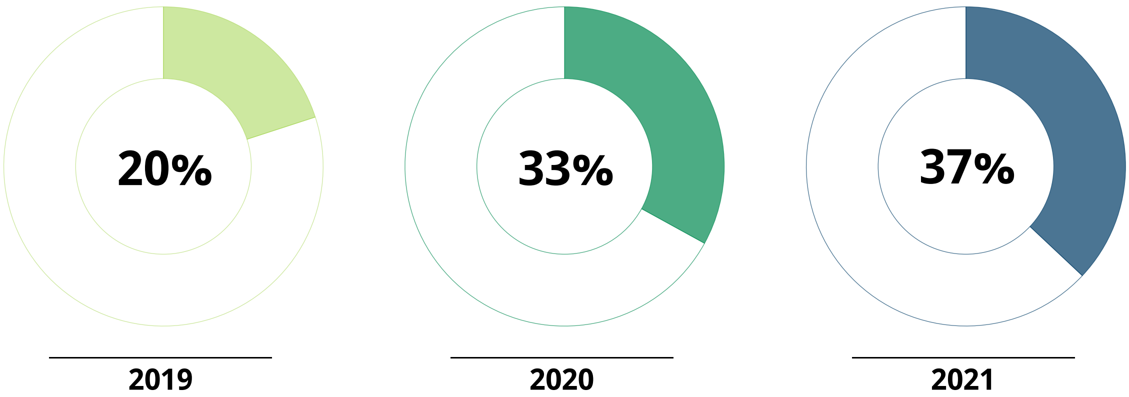
The pandemic has centrally questioned whether shareholder primacy trumps corporate citizenship. It is now indisputable that corporations have a larger responsibility towards society, which they cannot dismiss by citing their 2% CSR spend. ESG[28] considerations are now board level issues.

The G20/OECD Principles of Corporate Governance includes the *role of stakeholders in corporate governance* as one of its key principles. The Companies Act, 2013 too, has accorded primacy to stakeholders and not shareholders. To ensure sustainable value, companies must include all stakeholders including investors, employees, creditors, customers, suppliers, and community in their corporate governance agenda.

Treatment of suppliers

During the pandemic, larger companies focused on managing liquidity. In doing so, they delayed payments to their suppliers. Companies have delayed payments to suppliers in the past, but during COVID-19, support to the SME sector, which was worst hit, was expected. This would have been the least that highly rated companies could have done. But in 2021, of the BSE 100, the number of companies delaying payments to suppliers increased to 37 from 33. While India did not face the level of supply chain bottlenecks seen in many other geographies, delaying payments to suppliers impacts the suppliers' working capital and cost of borrowing: with supply chains getting more integrated with the manufacturing, this will be sub-optimal for large corporates eventually.

Exhibit 47: Companies that delayed payments to suppliers



[28] *Related research: An everyday guide to ESG - https://www.iiasadvisory.com/download-file*

CSR spends

Corporate Social Responsibility is embedded in corporate culture to a large extent. But having it imposed through regulations caused backlash in the early years. Even so, companies have strived and met the 2% CSR target for the most part. PSUs have waned and waxed on their ability to meet the target spends, some of it driven by the lack of absorption capacity of the large spends by the social sector eco-system.

Despite the challenges of keeping projects on track during COVID-19, corporate India has done well in terms of CSR spends, adding COVID-19 support to employees and the community as part of its expenses. Disclosures on impact assessments of their CSR effort has been understandably lower in 2021, as companies focused on the more immediate issues.

Exhibit 48: Companies spent at least 2% of their past three-year average profits on CSR

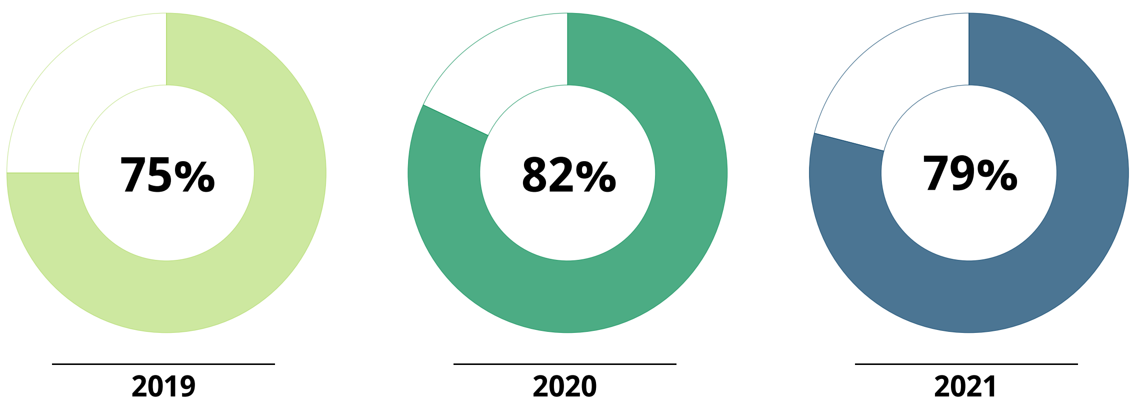
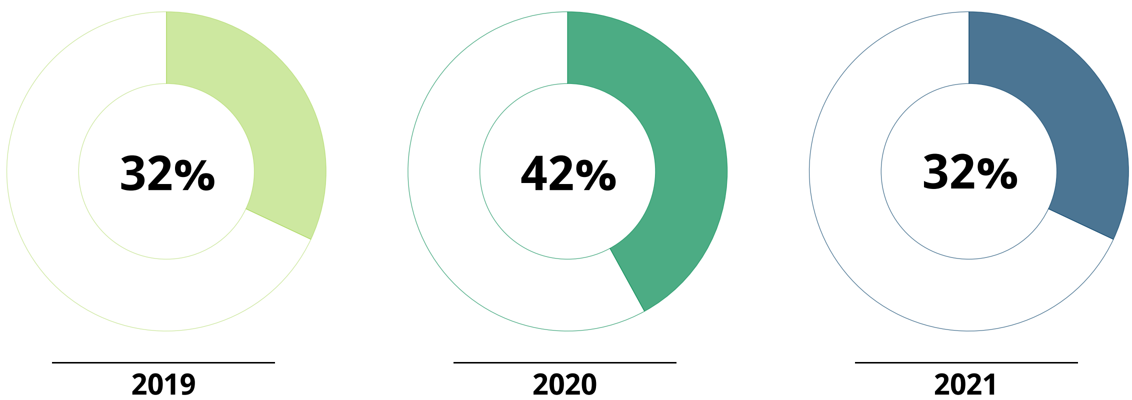


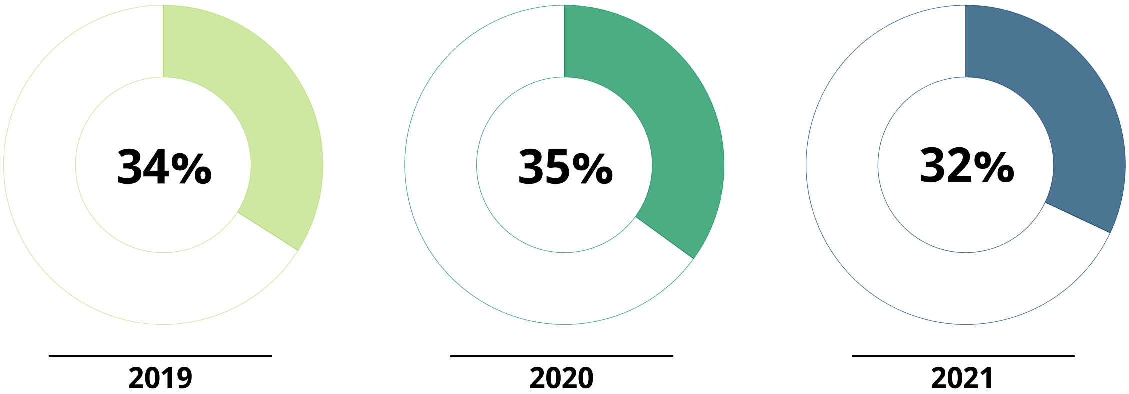
Exhibit 49: Companies that have undertaken an impact assessment of their CSR spends and disclosed the results



Whistle-blower mechanisms

The recent spate of whistle blowers globally has demonstrated that they can effect change by stepping up. To this effect, having a strong whistle blower policy will ensure that the board becomes aware of errant and illegal behaviour. While corporate policies and codes of conduct spell out what is expected off employees and stakeholders there will always be pockets of bad behaviour. Under such circumstances, having a strong whistle-blower policy allows stakeholders – employees, suppliers, customers – to raise concerns in a confidential manner, without risking retribution. In India, the audit committee is tasked with handling whistle blower complaints. Several companies have decided not to support anonymous complaints, which we believe limits the ability of employees from reporting complaints. Whistle-blower complaints must also cover all stakeholders and not be limited to employees. Suppliers, customers, and other channel partners may want to raise concern over some of the company's practices or deviant behaviour in some pockets.

Exhibit 50: Companies with whistle-blower policies that extend to all stakeholders, including employees, customers, and suppliers

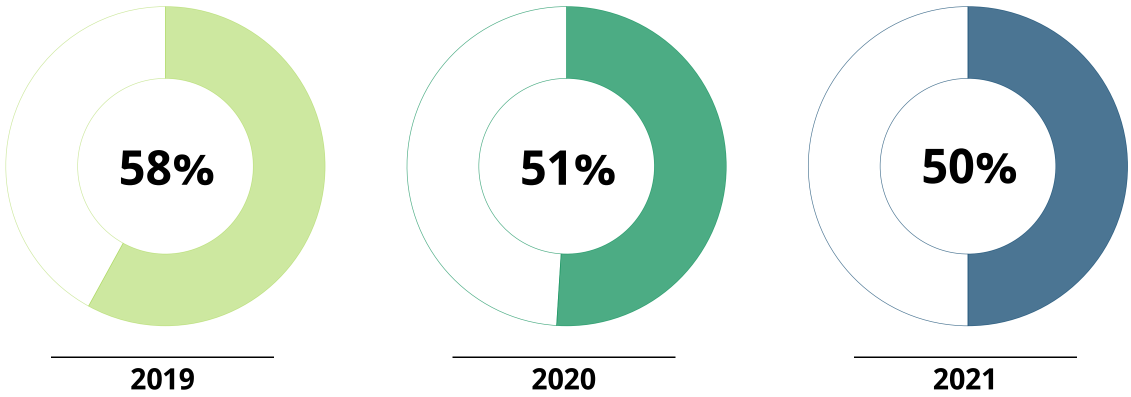


Health and safety of employees

Board members across some of the larger group often comment on how board meetings begin with a discussion over health and safety of employees – in terms of accidents, fatalities, and measures that the company has taken to prevent these. For the manufacturing sector this is crucial. For the services sector too, health and safety can take several forms over and above physical safety – mental health concerns, prevention of sexual harassment, and others. To this extent, having structured policies and making the required disclosures is necessary – it sets the tone on expectations of behaviour.

Most Indian companies have a policy on prevention of sexual harassment in the workplace (POSH) since it is a mandatory requirement. Further, many do have and practice health and safety policies for employees: however, of the BSE 100 companies, half do not publicly disclose these policies. This prevents stakeholders from understanding the seriousness with which companies approach employees' health and safety. At the same time, it prevents stakeholders from accessing the policy if they have been victims of employee misconduct.

Exhibit 51: Companies with publicly disclosed health and safety, and POSH policies



Companies consider human capital as one of their critical assets. While these companies extol what they have done for employees in their annual reports and sustainability reports, having their policies and relevant disclosures available will allow stakeholders to measure the success of their effort.

CONCLUSION

COVID-19 has changed corporate India. It has made the eco-system more demanding of companies. The Great Resignation is a telling sign of how COVID-19 has impacted the average worker: most question whether they want to continue with long hours, long commutes, and high work pressures. Employee health and safety is no longer limited to its physical manifestations: mental health has become a central topic. All of this has made companies think more deeply about their human capital; redefining how the office of the future will look is now becoming a global discussion.

Corporate India's reaction to COVID-19 was a contradiction of sorts. It went the extra mile in supporting employees through the pandemic – ensuring flexible working, better medical support, including managing mental health. For that matter, corporate India protected the country by bolstering the healthcare system and providing protective gear. Yet, the support to employees and other stakeholders has been narrowly focused. Although some business leaders took pay cuts in solidarity with affected stakeholders and citizens, there were more instances where executive remuneration increased despite furlough, lay-offs and pay cuts. For the BSE 100, stretching payments to suppliers continued through the pandemic, increasing the burden on the already stressed small and medium enterprises (SME) sector. This is sub-optimal – the financial stress on SMEs will come home to roost as supply chains become increasingly integrated.

COVID-19 has compelled regulators and boards to embrace technology and the virtual way of doing things – albeit hesitatingly. In doing so, however, several aspects of the company's functioning have improved. Even as boards met more often to navigate companies through the pandemic, attendance levels of directors increased significantly. Board meeting attendance is the only measurable proxy for director engagement, and to this extent we believe boards were significantly more engaged this year. Board members made an effort to attend AGMs as well, and with the virtual platform, video recordings and replays of the discussions were easier for shareholders to access. We expect the adoption of virtual working will be more enduring once the COVID-19 constraints are removed.

COVID-19 has tested corporate agility. Companies with stronger boards have been better able to navigate this crisis. The SENSEX companies have showed a remarkable improvement in median scores – their boards tend to be less tenured, more independent, and have more gender diversity than the rest of BSE 100 companies. This likely helped these companies build fresh thinking and have more comprehensive board deliberations. Higher institutional shareholding also created greater expectations on corporate behaviour, thus compelling companies to continually strengthen their governance practices.

The changes in the scores of SENSEX companies and BSE 100 over the years are attributable, to some extent, to the change in index composition. Our assessment shows that at a portfolio level, companies that entered the index – both SENSEX and BSE 100 – over the past three years, had better median scores than those that exited. Being included in a mainstream index has several positive implications for the company, including its ability to raise capital and its attractiveness for investors.

Markets through the pandemic have been choppy, with some months of stability. Even in these uncertain times, our assessment continues to show that well-governed companies have better price performance and lower stock Beta than the rest.

Markets do reward companies for good corporate governance practices.

ANNEXURE A
EVALUATION FRAMEWORK

The evaluation framework is built around the G20/OECD Principles of Corporate Governance (G20/OECD Principles)[29], which are the globally accepted benchmark for corporate governance. While applying the G20/OECD Principles, consideration was given to issues relevant in the Indian context and the regulatory framework prescribed by Indian regulators and oversight bodies.

G20/OECD Principles of Corporate Governance

The principles capture the essential elements of corporate governance:

- **Principle I:** Ensuring the basis for an effective corporate governance framework:
  The corporate governance framework must help promote transparent and fair markets, and the efficient allocation of resources.
- **Principle II:** The rights and equitable treatment of shareholders and key ownership functions:
  The corporate governance framework must identify basic shareholder rights and provide equitable treatment of all shareholders.
- **Principle III:** Institutional investors, stock markets and other intermediaries:
  The corporate governance framework must disclose and minimize conflicts of interest of market participants.
- **Principle IV:** The role of stakeholders in corporate governance:
  The corporate governance framework must encourage active co-operation between companies and their stakeholders.
- **Principle V:** Disclosure and transparency:
  The corporate governance framework must facilitate disclosure of material information to aid in informed decision-making.
- **Principle VI:** The responsibilities of the board:
  The corporate governance framework must ensure effective supervision by the board and enhance the board accountability to stakeholders

[29] *http://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf*

The G20/OECD Principles of Corporate Governance:

- **have been adopted as one of the Financial Stability Board's (FSB) Key Standards for Sound Financial Systems serving FSB, G20 and OECD members**
- have been used by the World Bank Group in more than 60 country reviews worldwide
- serve as the basis for the Guidelines on corporate governance of banks issued by the Basel Committee on Banking Supervision

The scorecard requires the evaluation to be conducted only on publicly available data. Sources of information will primarily include official company documents on the company website and stock exchange filings. For a few specific questions, the verification sources may even include regulatory orders and media reports.

The questions in the Scorecard have been grouped into four categories – each category corresponding to one of the principles recognised in the G20/OECD Principles as a measure of good corporate governance:

Rights and equitable treatment of shareholders	Role of stakeholders in corporate governance	Disclosures and transparency	Responsibilities of the board
• Quality of shareholder meetings	• Business responsibility initiatives	• Ownership structure	• Board and committee composition
• Related party transactions	• Supplier management	• Financials	• Training for directors
• Investor grievance policies	• Employee welfare	• Company filings	• Board evaluation
• Conflicts of interest	• Investor engagement	• Risk Management	• Director remuneration
	• Whistle-blower policy	• Audit integrity	• Succession planning
		• Dividend payouts and policies	

The Scorecard has been developed considering four of the six G20/OECD Principles (Principle II, IV, V, and VI), which focus directly on the company's governance practices. G20/OECD Principles I and III have been kept outside the purview of the model as they deal with the overall regulatory environment and the role of market participants in corporate governance – factors which are not in the control of the company.

The underlying principles behind the Scorecard are listed as follows:

- The Scorecard must be able to provide a true and fair assessment of governance practices.
- The Scorecard should reflect globally recognized good governance practices.
- The Scorecard should factor in the Indian construct. However, to the extent possible, it should be universally applicable even for companies outside the Indian markets.
- The Scorecard should be constructive and encourage companies to adopt better practices beyond minimum compliance.
- The Scorecard should be reliable and have appropriate checks and balances to ensure credibility of the assessments.

CAVEAT
As all evaluation frameworks do, the methodology of the Indian Corporate Governance Scorecard also has its own limitation. A high score on the scorecard is not an indicator of current or future financial performance, or stock price performance. The scores also do not indicate the permanency of governance practices: a company's governance practices may improve or deteriorate from the date of the scoring. The scorecard is based on publicly available information, which has its limitations and cannot predict corporate behaviour – especially during contentious or divisive situations.

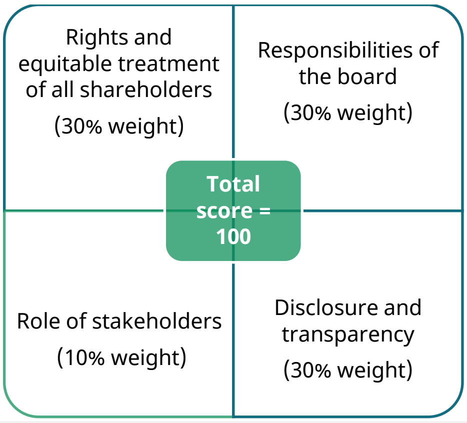
To ensure that the Scorecard is easily comprehensible and applied consistently, detailed scoring keys and guidance notes have been developed for each question.

FAQs

Questions	Responses
What type of companies can be evaluated by the scorecard?	The metrics used in the scorecard can be universally applied to all companies. However, given that the scorecard relies only on publicly available data, external assessments will be relevant mostly for listed companies.
Is the scorecard applicable to small/recently listed companies?	The scorecard takes the view that listing on the stock exchanges casts a public obligation to adopt good corporate governance practices. Thus, the fact that companies may be only recently listed or may be small in size are not legitimate reasons to lower the measurement thresholds of the governance scorecard.
Who fills in the scorecard?	The scorecard can be used by all market participants to evaluate companies. While filling up the questionnaire, the assessor needs to refer to the guidance notes included as part of the scoring model. However, this score can only be used by participants for internal evaluation – it cannot be used publicly unless validated.
When can the company use the score publicly?	The company can only use the score publicly if it has been validated by a task-force comprising corporate governance experts appointed by an authorized body.

ANNEXURE B METHODOLOGY

The scorecard comprises a total of 70 questions. These questions are divided into four categories corresponding to the respective G20/OECD principles. Each category has a different number of questions that address the relevant issues related to the specific G20/OECD principle. The weightages assigned to each category are based on the number of questions in the category and the relative importance of the questions in that category in the Indian corporate governance framework.



SCORECARD MATRIX

It was determined that the quality of corporate governance practices referred to in each question should be recognised on three levels:

- **2 points:** If the company follows global best practices for that element of corporate governance
- **1 point:** If the company follows reasonable practices or meets the Indian standard for that element of corporate governance
- **0 point:** If the company needs to improve in that element of corporate governance

Some questions do require a more limited 'yes'/'no' response. In such cases, 2 points are awarded for a positive response and zero points for a negative response. If information is not observable through publicly available relevant information, the question will not be awarded any points.

Some questions may also provide for a 'not applicable' option. If the assessors select this option, the question will be excluded while applying the scoring formula.

Each question has a detailed response key which underlines the best practice. The assessors need to strictly adhere to what is mentioned in the response key for scoring on each question.

CATEGORY WEIGHTS

Category	Number of questions	Maximum attainable score	Category weight (%)
Rights and Equitable Treatment of shareholders	19	38	30
Role of stakeholders	9	18	10
Disclosure and Transparency	23	46	30
Responsibilities of Board	19	38	30
TOTAL	**70**		**100**

To arrive at a final score for a company, the assessors need to:

a. Add the scores for all responses under a category and divide it by the maximum attainable score for the category. This may need to account for questions which are not applicable for the company.
b. Multiply the ratio so obtained by the total category weight to give a weighted score for that category.
c. Sum all weighted scores across all four categories. The final score will be rounded off to the nearest integer.

$$\textbf{Category Score} = \frac{\text{Aggregate score of all questions under category}}{\text{(Number of applicable questions in category x 2)}} \times \text{Category Weight}$$

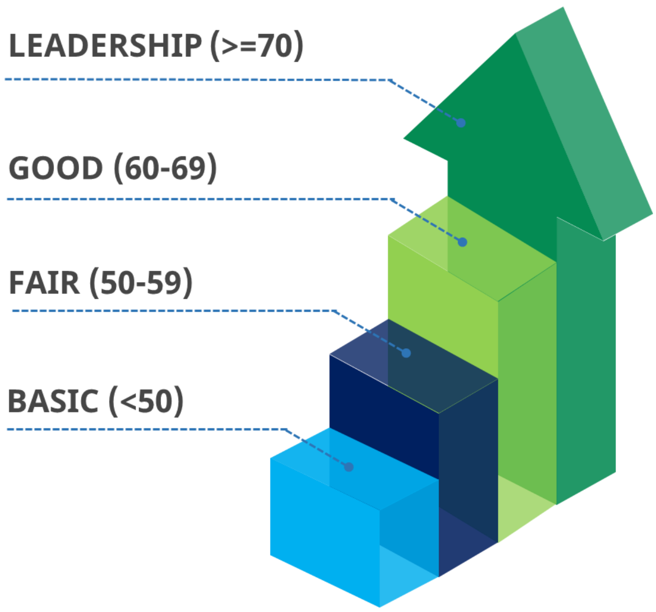
$$\textbf{Total Score} = \text{Category Score}_1 + \text{Category Score}_2 + \text{Category Score}_3 + \text{Category Score}_4$$

SCORING EXAMPLE

Category	Total score (A)	Maximum attainable score (B)	Category weight (%) (C)	Weighted score (A/B)*C
Rights and equitable treatment of shareholders	30	38	30	24
Role of stakeholders	12	18	10	7
Disclosure and transparency	38	46	30	25
Responsibilities of board	28	38	30	22
FINAL SCORE				**77***

** Rounding-off to be performed only at the final score level*

Based on the final score, companies will be grouped into the following buckets:



ANNEXURE C
LIST OF COMPANIES

The list of BSE 100 (on 30 September 2021) companies**Error! Bookmark not defined.** covered under the study is given below:

S. No	BSE Code	Company
1	500410	ACC Ltd.
2	512599	Adani Enterprises Ltd.
3	541450	Adani Green Energy Ltd.
4	532921	Adani Ports and Special Economic Zone
5	500425	Ambuja Cements Ltd.
6	508869	Apollo Hospitals Enterprise Ltd.
7	500477	Ashok Leyland Ltd.
8	500820	Asian Paints Ltd.
9	540611	AU Small Finance Bank Ltd.
10	524804	Aurobindo Pharma Ltd.
11	540376	Avenue Supermarts Ltd.
12	532215	Axis Bank Ltd.[30]
13	532977	Bajaj Auto Ltd.
14	500034	Bajaj Finance Ltd.
15	532978	Bajaj Finserv Ltd.
16	500490	Bajaj Holdings and Investment Ltd.
17	541153	Bandhan Bank Ltd.
18	509480	Berger Paints India Ltd.
19	500493	Bharat Forge Ltd.
20	500547	Bharat Petroleum Corp Ltd.
21	532454	Bharti Airtel Ltd.
22	534816	Bharti Infratel Ltd.
23	532523	Biocon Ltd.
24	500825	Britannia Industries Ltd.
25	511243	Cholamandalam Investment and Finance Company Ltd.
26	500087	Cipla Ltd.
27	533278	Coal India Ltd.
28	500830	Colgate-Palmolive India Ltd.
29	531344	Container Corporation of India
30	539876	Crompton Greaves Consumer Electricals Ltd.
31	500096	Dabur India Ltd.
32	532488	Divi's Laboratories Ltd.
33	532868	DLF Ltd.
34	500124	Dr Reddy's Laboratories Ltd.
35	505200	Eicher Motors Ltd.
36	532155	Gail India Ltd.
37	532424	Godrej Consumer Products Ltd.
38	500300	Grasim Industries Ltd.
39	517354	Havells India Ltd.

[30] *Axis Bank is a shareholder in IiAS*

S. No	BSE Code	Company
40	532281	HCL Technologies Ltd.
41	500180	HDFC Bank Ltd.[31]
42	540777	HDFC Life Insurance Company Ltd.[31]
43	500182	Hero MotoCorp Ltd.
44	500440	Hindalco Industries Ltd.
45	500104	Hindustan Petroleum Corporation Ltd.
46	500696	Hindustan Unilever Ltd.
47	500010	Housing Development Finance Corporation Ltd.[31]
48	532174	ICICI Bank Ltd.[32]
49	540716	ICICI Lombard General Insurance Company Ltd.[32]
50	540133	ICICI Prudential Life Insurance Company Ltd. [32]
51	530965	Indian Oil Corporation Ltd.
52	532514	Indraprastha Gas Ltd.
53	532187	IndusInd Bank Ltd.
54	532777	Info Edge (India) Ltd.
55	500209	Infosys Ltd.
56	539448	Interglobe Aviation Ltd.
57	500875	ITC Ltd.[33]
58	500228	JSW Steel Ltd.
59	533155	Jubilant FoodWorks Ltd.
60	500247	Kotak Mahindra Bank Ltd.[34]
61	500510	Larsen & Toubro Ltd.
62	500257	Lupin Ltd.
63	500520	Mahindra & Mahindra Ltd.
64	531642	Marico Ltd.
65	532500	Maruti Suzuki India Ltd.
66	517334	Motherson Sumi Systems Ltd.
67	500290	MRF Ltd.
68	500790	Nestle India Ltd.
69	532555	NTPC Ltd.
70	500312	Oil & Natural Gas Corporation Ltd.
71	532827	Page Industries Ltd.
72	532522	Petronet LNG Ltd.
73	523642	PI Industries Ltd.
74	500331	Pidilite Industries Ltd.
75	500302	Piramal Enterprises Ltd.
76	532810	Power Finance Corporation Ltd.
77	532898	Power Grid Corporation of India Ltd.
78	532955	REC Ltd.

[31] *HDFC Investments Limited, part of HDFC Bank Limited and HDFC Life Insurance Limited's promoter group, holds equity in IiAS.*

[32] *ICICI Prudential Life Insurance Company Limited holds equity shares in IiAS. ICICI Prudential Life Insurance Company Limited is a subsidiary of ICICI Bank Limited. ICICI Lombard General Insurance Limited is a fellow subsidiary of ICICI Prudential Life Insurance Company Limited.*

[33] *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*

[34] *Kotak Mahindra Bank Limited holds equity shares in IiAS*

S. No	BSE Code	Company
79	500325	Reliance Industries Ltd.
80	540719	SBI Life Insurance Company Ltd.
81	500387	Shree Cement Ltd.
82	511218	Shriram Transport Finance Co Ltd.
83	500550	Siemens India Ltd.
84	500112	State Bank of India
85	524715	Sun Pharmaceutical Industries Ltd.
86	532540	Tata Consultancy Services Ltd.[35]
87	500800	Tata Consumer Products Ltd.[35]
88	500570	Tata Motors Ltd.[35]
89	500400	Tata Power Co Ltd.[35]
90	500470	Tata Steel Ltd.[35]
91	532755	Tech Mahindra Ltd.
92	500469	The Federal Bank Ltd.
93	500114	Titan Co Ltd.[35]
94	500420	Torrent Pharmaceuticals Ltd.
95	532538	UltraTech Cement Ltd.[36]
96	512070	UPL Ltd.
97	500295	Vedanta Ltd.
98	500575	Voltas Ltd.[35]
99	507685	Wipro Ltd.
100	505537	Zee Entertainment Enterprises Ltd.

[35] *Tata Investment Corporation Limited, Tata Consultancy Services Limited, Tata Consumer Products Limited, Tata Motors Limited, Tata Power Co Limited, Tata Steel Limited, Titan Co Limited and Voltas Limited are a part of the Tata group. Tata Investment Corporation Limited holds equity shares in IiAS.*

[36] *Aditya Birla Sun Life AMC Limited is a shareholder of IiAS. Aditya Birla Sun Life AMC Limited and UltraTech Cement Limited are both part of the Aditya Birla group.*

ANNEXURE D
CG SCORECARD QUESTIONNAIRE

Category I: Rights and equitable treatment of shareholders [Questions: 19; Weightage: 30%]

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
1	Has the company taken steps to ensure that the basic rights of shareholders are clear and unequivocal?	Assessors need to check for additional steps taken by the company to help shareholders exercise their franchise. Possible steps that may be taken by companies to go beyond the regulatory directives include: • listing out all shareholder rights in company documents, OR • conducting shareholder education programs on their rights, OR • disclosing the process to be followed by shareholders while exercising their rights, OR The list is only indicative of possible scenarios and is not meant to be exhaustive. Any good practice adopted by the company, beyond regulatory measures, to ensure easy facilitation of shareholder rights must be considered while scoring on this question.	There is evidence of violation of existing law	No specific steps taken by the company beyond compliance with the law	Company has taken steps to educate shareholders on their basic rights or has implemented measures to facilitate the exercise of shareholder rights
2	Did the previous AGM allow sufficient time for shareholder engagement?	The assessors must look for minutes/proceedings or AGM webcast on the company website and check if there is any evidence of shareholder discussion and participation. A company will score maximum points on this question if the issues/queries raised by shareholders in the AGM and the management responses to each of those issues/queries have been listed out in the minutes or the AGM proceedings are available through the webcast.	There is no evidence of time provided	There was evidence of time being allocated for shareholder engagement in the minutes or the AGM webcast	There was evidence of time being allocated for shareholder engagement in the minutes or the AGM webcast and the details of shareholder engagement/queries were provided

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
3	Can a minority shareholder, with less than 10% stake, propose an agenda item in a shareholder meeting?	Companies Act 2013 requires the right to be provided to shareholders only if they collectively have more than 10% voting rights. The assessor needs to check if the company has specified a lower threshold in any of its publicly available documents. If no evidence is found in any of the publicly available documents, the threshold will be deemed to be fixed at 10% and no points will be awarded. Since, in the Indian context, all shareholders can propose a candidate on the board, resolutions pertaining to director appointments will not be considered for this question.	No, shareholders, in aggregate, need to hold at least 10% stake to propose agenda items		Yes, the company has taken steps to ensure that even shareholders who hold less than 10% stake (in aggregate) can propose any agenda item
4	Was there any evidence of combining multiple matters or issues in a single resolution?	While it is not possible to list out all possible scenarios where resolutions are clubbed together, the following list may be used as a guiding reference by the assessor: • Appointment and remuneration resolutions being combined in a single resolution • Appointments of several directors/auditors being combined in one single resolution instead of separate ones for each director • Equity and debt raising resolutions being combined in a single resolution • Mortgage and borrowing resolutions being combined in a single resolution The list is only indicative of possible scenarios and is not meant to be exhaustive. The assessors may need to use their own judgement to determine if the company has clubbed critical issues under one resolution. A look back period of one year will be considered for this question.	Yes, there is evidence of multiple resolutions being clubbed together	Yes, only one resolution was clubbed	No, all matters were presented to shareholders through separate resolutions
5	Was shareholder participation facilitated for all shareholders at the	The assessors must first check if the meeting notice lists out the process for shareholders to submit their questions in advance to the company.	No evidence of facilities/opportunities being provided	Yes, shareholders could submit questions in writing before the	Yes, there is evidence of facilities being provided for

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
	previous AGM in the past one year?	A company will score maximum points in this question if it provides video/tele-conferencing facilities for shareholders to dial in and raise their issues/queries to the board. Evidence of such facilities must be present in the meeting notice, meeting minutes/webcast or in the scrutinizers report filed with the stock exchanges after the meeting.		meeting and ask them in the AGM, however, these questions were limited to accounts/resolutions	shareholder participation through video-conferencing or tele-conferencing, with evidence of shareholders allowed to ask questions beyond accounts/resolutions
6	Did the company provide proxy and e-voting facility for all shareholder meetings in the past one year?	The assessors need to check if the process for appointing proxies and authorized representatives is clearly stated in the shareholder meeting notice (not applicable for Postal Ballots). The proxy nomination form must be attached with the notice or uploaded separately on the website. Further, the company must provide shareholder the opportunity to vote electronically through the depository platforms. The e-voting instructions must be clearly articulated in the meeting notice. A look back period of one year will be considered for this question.	Such facilities were not provided for all AGMs, EGMs and Postal Ballots	Such facilities were provided for all AGMs, EGMs and Postal Ballots, but not provided for Court Convened Meetings	Such facilities were provided for all shareholder meetings
7	Did all board members attend the previous AGM?	The attendance details of directors must be recorded in the minutes or outcome of the AGM. If the minutes/outcome are not available (and there is no other documented evidence for director attendance), companies will not score any points on this question. A company will score maximum points on this question only if all the directors (board members as on the date of the AGM) attended the AGM. Note: The annual report of the company only states the director attendance at the previous AGM and not the latest AGM. For example, the FY16 annual report will list out	Either the Chairperson of the board, or the CEO, or the Chairperson of Audit Committee did not attend the meeting	The Chairperson of the board, the CEO and the Chairperson of the Audit Committee attended, but not all board members	The entire board attended

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		attendance details for the FY15 AGM. Hence the attendance data in the annual report will not be considered.			
8	Did the external auditors attend and participate in the previous AGM?	The attendance details of auditors must be recorded in the minutes or outcome of the AGM. If the minutes/outcome are not available (and there is no other documented evidence for auditor attendance), companies will not score any points on this question. A company will score maximum points on this question only if the auditors attended the AGM and presented their views on the financials/accounting practices or to specific queries raised by shareholders.	There is no evidence of auditor attendance at the AGM	Yes, the auditors attended the AGM	The auditors attended and provided their views on the financials and the accounting practices adopted by the company
9	Within how many months of the fiscal year end was the last AGM held?	The timeline for the AGM may be computed as: T = Date of AGM - FYE FYE = 31 March, for companies with a March year-end FYE = 31 Dec, for companies with a Dec year-end FYE = 30 Sep, for companies with a Sep year-end FYE = 30 Jun, for companies with a Jun year-end IF, T < 4 months, score 2 IF, 4 months < T < 6 months, score 1 IF, T > 6 months, score 0 The date of the AGM is to be checked from the shareholder meeting notice or from the AGM outcome documents.	More than six months after the fiscal year end	Within four-six months of the fiscal year end	Within four months of the fiscal year end
10	Were any preferential warrants issued to the controlling shareholders in the past one year?	The assessors need to check for board meeting outcomes, stock exchange filings and resolutions proposed in shareholder meetings to assess if preferential warrants were granted to the controlling shareholders. A company will score maximum points on this section if it has not issued any preferential warrants to the controlling shareholders in the past one year.	Yes, preferential warrants were issued	Yes, but preferential warrants were issued pursuant to a debt restructuring scheme	No preferential warrants were issued

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		If, however, these warrants were issued pursuant to a debt restructuring scheme, the assessors will need to take that into account before scoring. A look back period of one year will be considered for this question.			
11	Do the charter documents of the company give additional rights to certain shareholders?	Based on the details available, the assessors need to classify the additional rights, if any, into three buckets: • Board nomination rights: Right to appoint nominees (up to two directors) on the board • Transaction related right: These include right of first refusal and tag-along rights • Control related rights: These include the right to veto board decisions, right to appoint Chairperson, right to appoint multiple (>2) board members, and the right to decide remuneration of key executives (in addition to what is approved by other shareholders) The assessor also needs to check for clauses which allow the controlling shareholder to exercise disproportionate voting power (in any form). Notwithstanding, if rights are given to lenders/creditors pursuant to a debt restructuring scheme or is included as enabling provision in case of defaults, the assessors must take that into consideration before scoring.	The latest charter documents are not available, or they give control related rights to certain non-controlling shareholders or give disproportionate voting power (in any form) to the controlling shareholders	The latest charter documents are available and certain non-controlling shareholders only get board-nomination rights or transaction related rights	The latest charter documents do not have any clauses which give additional rights (in any form) to any non-controlling shareholder or give disproportionate voting power (in any form) to the controlling shareholders
12	Does the company have a policy requiring all related party transactions (RPTs) to be dealt only by independent non-conflicted board members?	Details for this question are generally available in the company's code of conduct, related party transaction policy or in the charter documents. If there is no evidence available, the company will not score any points on this question. To score maximum points on this section, the company must clearly state that all interested directors will abstain from both discussing and voting on concerned issues.	No, or the policy is not disclosed	Yes, but the decision on whether the director must abstain is left to the discretion of the Chairperson or the board	Yes, there is a policy for abstention from the decision- making process (including discussions)

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
13	Does the company have in place a system, including policies and procedures, to facilitate disclosures of conflicts of interest by stakeholders?	The assessor must check for the possible areas of conflict: • Board cross linkages • Executive directors in Nomination and Remuneration Committee • Controlling shareholders/executive directors in the Audit Committee • Association (directly/indirectly) with competitors • Association with key suppliers/vendors • RPTs with entities associated with directors and senior executives The list is only indicative and the assessors may need to use their own judgement while scrutinizing structures which may result in a conflict of interest.	No, or the policies are not disclosed	Yes, the policies clearly list out the process for stakeholders to disclose their conflicts of interest but does not cover suppliers and vendors	Yes, the policy clearly lists out the process for all stakeholders to disclose their conflicts of interest
14	Did the company undertake any related party transaction in the past three years, which may have been prejudicial to the interests of minority shareholders?	Prejudicial transactions will include any RPT which: • Is not at arm's length pricing, or • Is not on commercial terms, or • Amounts to more than 10% of revenues, but is not fully disclosed (nature, frequency, materiality, quantum and pricing terms) to stakeholders, or • Is not managed as per the RPT policy To score points on this question, a company must disclose its RPTs publicly. Evidence of such transactions may be obtained through media reports, shareholder meeting notices, annual report, investor transcripts, and minutes of meetings. If any of the RPT resolutions in the past three years were defeated or were voted against by a majority of minority shareholders, the assessors will need to take that into consideration while scoring. If there is no clear evidence, the company will score maximum points on this section.	Yes, the company had related party transactions which could be prejudicial to the interests of minority shareholders		No, the company did not have any related party transactions which could be prejudicial to the interests of minority shareholders

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
15	Does the company pay out disproportionately high royalty to its group entities?	Royalty payouts include payments for transfer of technology, and usage of trademark/brand name. For this question, only royalty payouts to the promoter group will be considered (payments made to government entities or royalty paid on account of franchisee agreements will be excluded). Royalty pay-outs will be considered disproportionate as per the profit threshold or royalty growth threshold: Profit threshold: Royalty must be less than 20% of net profits in each of the past three fiscal years Growth threshold: Growth in royalty must be less than growth in profits in the past three fiscal years. For example, if an assessment is being conducted anytime in FY17, the following formula is to be used: $G_{Roy/Profits} = \dfrac{(\text{FY16 value - FY14 value})}{\text{FY14 value}}$ A company will score maximum points only if the profits threshold is met and $G_{Profits} > G_{Roy}$.	Yes, the royalty payout is high compared to net profits and growth in profitability	Yes, the royalty payout is either high compared to net profits or growth in profitability	No, the royalty payouts were not disproportionate
16	In the past, has the company (or its subsidiaries) provided financial assistance to promoter entities which had to be written off or unlikely to be recovered?	The assessors need to check for loans given or investments made in promoter entities (specified in the related party transactions section of the annual report). The company will score maximum points in this question if no such financial assistance had to be written-off or provided for in the financial statements in any of the past three years. This question will not be applicable for companies which have not extended any financial assistance in the past three years and there have been no instances of write-offs during this period.	Yes, some loans/investments have been written off or classified as doubtful		No loans/investments have been written off or classified as doubtful

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
17	Has the company been transparent while undertaking any M&A, restructuring, or slump sale?	This question covers only those actions for which shareholder approval was required. The company needs to publicly disclose the independent fairness opinion and valuation reports on the transaction before presenting it to shareholders for their vote. If the transaction is with a third party (which is not a related party), and company has confirmed that the consideration is based on a negotiated price, one point may be given even if no fairness opinion/valuation report is provided. Apart from valuation, if the company has not provided critical strategic details on the restructuring, the assessors will need to take a closer look and use their subjective opinion to decide on the scoring based on the transparency levels.	No, there have been instances where the fairness opinion was not disclosed for a transaction	Yes, but only to a limited extent - it has always disclosed the fairness opinion, but has not disclosed the independent valuation report for some transactions	Yes, the company has always conducted and publicly disclosed the fairness opinion and the independent valuation report
18	Does the company have a policy to publicly disclose the reasons for pledging of shares by the controlling shareholders?	Indian companies generally disclose the quantum of shares pledged by the promoters. But for greater clarity, they also need to provide a rationale for pledging. A company will score maximum points on this question if the reasons for creation of fresh pledges in the past twelve months are publicly available.	No, the reasons for pledging are not disclosed publicly		Yes, the company has provided reasons for pledging of shares by the controlling shareholders
19	Is there evidence of structures or mechanisms that have the potential to violate minority shareholder rights?	The assessors will need to check for: • Pyramidal holding structures, which results in disproportionate voting power of the promoter • Opaque holding structures where the ultimate beneficial ownership cannot be fully ascertained • Cross holdings between the company and entities of its promoter group • Companies which have many inactive or nonfunctional subsidiaries/Joint Ventures/associate companies • Companies which have established many subsidiaries/Joint Ventures/associate companies with promoter entities with no clear rationale The list is only indicative and the assessors may need to use their own judgement while scrutinizing structures which could violate minority shareholders' rights.	Yes, there is evidence of a structure/mechanism that could violate minority shareholders' rights		No, there is no evidence of any structure/mechanism that could violate minority shareholders' rights

Category II: Role of stakeholders [Questions: 9; Weightage: 10%]

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
20	Is the company committed towards developing stakeholder relationships?	The assessor must check for the latest composition of the SRC. The review will consider any new appointments and resignations from the SRC after the last annual report. If the SRC composition in the company website lists the name of any director who, as per stock exchange filings, has resigned from the board, the committee composition will adjust accordingly (by excluding such directors). The meeting frequency will be reviewed based on the number of SRC meetings in the previous fiscal year (as stated in the annual report). To score maximum points on this question, the company must provide at least two of the following references to their stakeholder engagement process in the company documents: • Stakeholder rights • Stakeholder grievance redressal • Stakeholder communication	There is no Stakeholders' Relationship Committee, or it meets less than 4 times a year	The committee meets at least 4 times a year, but has less than 2/3 independent directors	The committee meets at least 4 times a year, has at least 2/3 independent directors, and there is mention of importance of stakeholders in company documents
21	Does the company have publicly disclosed policies and/or mechanisms to address the health, safety, and welfare of employees?	To measure the robustness of the policies, the assessor needs to check if: • There is a stated commitment by the company to adopt measures and processes that focus on the prevention of occupation-related injuries, accidents and illnesses • The company provides health, safety and sexual harassment trainings to its employees • The safety and health policies cover the company's suppliers and vendors • The sexual harassment policy lists out details on the reporting, redressal and enquiry process In addition, to score maximum points, the company must report the number of employee accidents and sexual	The policies are not publicly disclosed and the company has not provided information on the number of employee accidents and sexual harassment incidents	The policies are publicly disclosed or the company has provided information on the number of employee accidents and sexual harassment incidents	The company has provided information on the number of employee accidents and sexual harassment incidents and has publicly disclosed its health, safety and sexual harassment policies

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		harassment cases each year to stakeholders – and the three-year trend should have a declining trajectory.			
22	Does the company have in place policies and practices which explain its supplier/contractor selection and management processes?	The assessor must establish if the company has clearly articulated policies for supplier/contractor management and selection. A good supplier/contractor selection policy must include: • Supplier Accountability • Code of conduct and Ethics policies for suppliers • Environmental Protection and Human Rights Policies for suppliers • Health and Safety policies for suppliers A good supplier/contractor management policy must include: • Supplier Audit • Supplier Improvement programs • Supplier trainings and education programs • Supplier Empowerment The above list is only indicative and the assessors must use their own judgement to determine if the policies are effective and meaningful.	Policies are not publicly available	Policies are publicly available either for supplier/contractor management or selection	Policies are publicly available for supplier/contractor management and selection
23	Has the company demonstrated commitment to protect the rights of its lenders, creditors, and suppliers?	The company's commitment to protect the rights of lenders, creditors and suppliers is being measured by the timeliness of repayment of financial obligations. The look-back period for this question is three years (FY16, FY15 and FY14). The assessor must check the independent auditors' report and the notes to the annual financial statements to establish whether the company has made any delayed repayments to its lenders, creditors or suppliers over the past three years. The latest credit rating report, if available, may also be referred to while scoring on this question.	The company has made delayed repayments to lenders	The company has made timely repayments to lenders, but has made delayed repayments to suppliers or to other creditors	Payments are made on time and there is no evidence of late payments to lenders, suppliers or to other creditors

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		For this question, repayments are being used as a proxy for stakeholder commitment. The assessors must take into account any liquidity constraints (which results in conversion of debt to equity) and other obvious violations (for example, media reports of running sweat shops) before scoring.			
24	Does the company demonstrate a commitment to strong ethical practices and is clearly anti-corruption and anti-bribery?	The assessor will need to establish if the company has disclosed an ethics policy/code of conduct. Ideally, the policy must cover most of the following: • Core values of the company • Ethical standards expected from employees and directors • Dealing with conflicts of interest • Dealing with third parties • Compliance with laws and regulations • Protection of assets and information management • Disciplinary action in case of failure to adhere to the ethics code In addition, the policy must clearly state that the company is against bribery and corruption in any form. The assessor may also consider if the company is a signatory to a well-known global anti-corruption framework or code of ethical conduct while scoring on this question. In case there is any known violation of the policy or instances where the company has been accused of bribery or corruption, or ethical violations, the company will not score any points.	No ethics policy evident or publicly available	Ethics policy is publicly available but it does not mention anti-corruption or anti-bribery measures	Ethics policy is publicly available on website and the policy mentions the company is against any form of corruption or bribery
25	Does the company demonstrate its commitment to being a good corporate citizen?	The assessor must evaluate if the CSR related spending disclosed by the company in its annual report is above 2% of average net profit over the last three years. If the company has experienced losses on average over the past three years and still spend on CSR, the assessor may assign maximum points for this question.	The company has not spent any amount on CSR in the past one year	The company has spent on CSR, but the CSR spend is less than 2% of average profits for the last three years	The company's CSR spend is at least 2% of average profits for the last three years
26	Does the company have processes in place to implement and measure	A company will obtain maximum points on this question if it has: • Formed a CSR committee with minimum three directors, of	The company does not have a CSR committee or the areas of CSR	The company has a CSR committee and the areas of CSR spending have	The company has a CSR committee, the areas of CSR spending have been

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
	the efficacy of its CSR programs?	which one must be independent • Disclosed areas of CSR spending • Conducted an impact assessment of its CSR programs and disclosed the results to stakeholders Impact assessment studies must include details on: • Coverage of the CSR programs • Beneficiary profile • Economic benefits for the company and for the beneficiaries (if applicable) The above list is not exhaustive and assessors must use their judgement in determining whether the impact assessment studies convey meaningful information to external stakeholders.	spending have not been disclosed	been disclosed, but the company has not disclosed details on CSR impact assessment	disclosed, and the company has disclosed details on CSR impact assessment
27	Does the company have policies and processes in place to handle investor grievances?	The assessors first need to check for an investor grievance policy. For some companies, this policy is a separate document and for others, it is part of the code of conduct or business responsibility report. While reviewing the policy, the assessors need to check if the company has: • Named the individual/team to whom the complaint needs to be addressed • Established an ombudsperson to deal with the complaints • Listed out a process to be followed by the company for handling investor complaints • Provided a grievance escalation mechanism The assessor must also consider the percentage of unresolved investor complaints at the end of each quarter before scoring on this question.	The company does not have a policy or the policy is not disclosed publicly	There is a policy for handling investor grievances, but it does not provide any grievance escalation mechanism	There is a policy for handling investor grievances, which provides details on the grievance escalation mechanism
28	Does the company have an effective whistle-blower mechanism for stakeholders to report	For a whistle-blower policy to be considered effective, the assessor must check if the policy provides details on: • Range and nature of issues covered under the policy • Procedure to report any incident, including all available	There is no disclosed mechanism or policy	There is an effective whistle-blower policy for employees, but it does	There is an effective whistle-blower policy which covers all stakeholders, including

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
	complaints and suspected or illegal activities?	reporting channels • Steps to be taken for resolving reported issues • Expected investigation timeline • Measures adopted to protect the anonymity of whistle-blowers For the whistle-blower mechanism to be considered effective, it must cover all stakeholders (including customers, vendors and suppliers). A company will score maximum points on this question only if most of the above details are available.		not cover external stakeholders	employees, customers, vendors and suppliers

Category III: Role of stakeholders [Questions: 23; Weightage: 30%]

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
29	Does the company have a policy for determining and disclosing material information?	The assessors need to check if the company has clearly articulated a policy defining parameters which determine a material event or information. To score maximum points on this question, the following items need to be disclosed in the materiality policy: • criteria for determination of materiality of events/ information • events that shall be deemed to be material automatically • timeline to disclose material information In addition, there must be no evidence of the company having made no/delayed disclosures on material events in the past three years.	There is no policy or the policy is not publicly disclosed	There is a policy for determining and disclosing material information, but there have been cases in the past three years where the disclosures have not been timely	There is a policy for determining and disclosing material information and the company has made timely disclosures in the past three years
30	Have there been any concerns on the financial statements in the past three years?	To score maximum points on this question, the independent auditors' report must have an unqualified opinion on the financial statements and there should be no emphasis of matter. Management response to the qualifications and matter of emphasis, if any, must be considered before scoring on this section. The assessors may take a subjective call, depending on the severity of the issue and the adequacy of the clarifications provided by the company. This is applicable to both standalone and consolidated financial statements.	Auditor has issued a qualified opinion or the financial statements have been restated or the auditor has resigned due to differences in accounting opinion	Auditor has raised an emphasis of matter	Auditor has issued an unqualified opinion without any matter of emphasis

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
31	Is the company transparent in disclosing financial performance on a quarterly basis in the past one year?	To score maximum points on this question, the company must have disclosed standalone and consolidated financial performance for each of the past four quarters. The immediately preceding four complete quarters will be taken into consideration while scoring on this question. For a company that has no reportable subsidiaries, the assessor must check if financial performance has been reported for the past four quarters	The company has not disclosed financial performance for all the past four quarters	The company has not disclosed either standalone or consolidated financial performance in any one of the past four quarters	The company has disclosed both standalone and consolidated quarterly financial performance for each of the past four quarters
32	Is the company transparent in disclosing segmental information?	The assessor must check the company's annual reports and quarterly financial filings for information on the company's segments. The assessors may need to use their judgement to decide if all relevant segments have been covered. Financial information on segments include segment revenues and profits. Other segmental Information will be considered comprehensive if at least two of the below points are covered in the company's segmental reporting: • Demand drivers for each segment • Risks factors for each segment • Business strategies for each segment • Key initiatives taken by the company • Capacity utilization for each segment The company may operate in a single business segment, but multiple geographical segments, in which case, the above information must be covered for the geographical segments. If the company does not have any reportable segments, and sufficient detail is available for that single segment, a maximum score may be given.	The company has not disclosed financial information on some business segments	The company has disclosed financial information on all business segments, but other segment related information is not comprehensive	The company has disclosed comprehensive information on all business segments

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
33	Is the company transparent in disclosing non-financial information?	The assessor must check the company's annual reports and for information on non-financial disclosures. Information will be considered meaningful if the below points are covered as part of the company's non-financial disclosures: • Industry growth and performance • Environmental issues • Business model: key strengths and weaknesses • Business strategy • Capacity and capacity utilization To score maximum points on this question, all the above non-financial parameters must be disclosed in sufficient detail by the company.	The company has not disclosed meaningful information on non-financial parameters	The company has provided information on some non-financial parameters, however all have not been disclosed	The company has disclosed meaningful information on all non-financial parameters
34	Does the company provide comprehensive disclosures on its foreseeable risks?	The assessor must check relevant company documents to identify if the company has developed and disclosed an effective risk management framework. To be considered detailed and score maximum points, the risk management framework must disclose both the foreseeable risks that the company is likely to experience in the course of its business as well as mitigating factors that have been implemented to manage the risks.	The company does not have a risk management framework or it is not disclosed	There is a disclosed risk management framework which outlines the risks but no mitigation measures are provided or they are generic	Both risks and mitigation measures have been clearly outlined
35	Has the company developed and disclosed a comprehensive related party transaction (RPT) policy?	A related party transaction policy is required to be disclosed under the Companies Act, 2013 and SEBI LODR regulations. To score maximum points on this question, the related party transaction policy must be publicly disclosed by the company. Further, the policy must be comprehensive, mandatorily including the following points: • Definition on ordinary course of business • Definition on materiality of transactions • Requirement of the external auditors to review material RPTs	The company does not have an RPT policy or has not disclosed it	The company has an RPT policy as required under regulations but it is not comprehensive	The company has a comprehensive RPT policy

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
36	Did the company provide timely, accessible and comprehensive information for all shareholder meetings in the past one year?	The assessor must check details for all shareholder meetings held over the last one year. To score maximum points on this question, the information for shareholder meeting must be: • Timely: the notice is made public at least 21 days prior to the meeting date (30 days for postal ballot) • Accessible: the company has put up the notice (and other relevant documents) on the stock exchanges (with a time stamp) and on the company website • Comprehensive: Sufficient information was available for shareholders to make an informed decision The assessor must judge comprehensiveness on a case by case basis by checking if the resolutions presented over the past one year were transparent and had adequate details for shareholders to exercise their judgement.	Information was neither timely nor accessible for some meetings	Information was timely and accessible for all meetings but not sufficiently comprehensive	Information was timely, comprehensive and accessible for all meetings
37	Are the detailed minutes or transcripts of the previous AGM publicly available?	Minutes will be considered reasonably detailed if they include the following: • Attendance record of each director and the external auditors • Issues discussed by shareholders The company will only score maximum points in this section if it has provided the entire meeting transcript or if the link to the meeting webcast is available on the company website.	The company has not disclosed meeting minutes within 7 days of the meeting or they are not detailed	The company has disclosed the meeting minutes and they are reasonably detailed	The entire transcript or webcast of the meeting is publicly available
38	Did the company disclose voting results for each shareholder category for all resolutions proposed in the past one year?	To score maximum points, the company must disclose the voting details of each shareholder category, as well as the reasons for rejection of invalid votes. Shareholder voting categories include 'promoters', 'institutional shareholders', and 'other shareholders'. The criteria on invalid votes will not be applicable for companies where the scrutinizer's report specifically mentions that there were no invalid votes for the resolutions.	Voting details of each shareholder category were not disclosed (within 48 hours) for some or all resolutions	Voting details of each shareholder category were disclosed for all resolutions, but the reasons for rejection of invalid votes were not disclosed	Voting details of each shareholder category were disclosed, along with the reasons for rejection of invalid votes

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
39	Is the company transparent in disclosing its shareholding pattern?	The assessors need to go check if the quarterly filings contain information on: • Promoter shareholding • Institutional shareholding (FII and DII) • Other public shareholding • Names of entities which hold more than 1% stake A one year (four quarters) lookback is to be considered for this question. A company will score maximum points on this question if it has disclosed the quarterly shareholding pattern and names of its top ten shareholders in its latest annual report.	The shareholding pattern is not disclosed on a quarterly basis or the latest annual report does not list out the top 10 shareholders	Either the quarterly shareholding pattern filings have not been made or the latest annual report does not list out the top 10 shareholders	The quarterly shareholding pattern filings have been made and the latest annual report lists out the top 10 shareholders
40	Is the shareholding of individual board members and key managerial personnel (KMP) disclosed in the latest annual report?	A company will score maximum points on this section if it has disclosed shareholding details for its board members and KMP (both the number of shares and the percentage of holding) in its latest annual report.	The shareholding has not been disclosed for the board members, nor for KMPs	Shareholding for either board members or KMPs has been disclosed	Shareholding for board members as well as KMPs has been disclosed
41	Has the company articulated a dividend policy for its shareholders?	The assessors need to scan the company website and annual reports to determine the existence of a dividend policy. To score maximum points on this question, companies need to specify a target payout/retention ratio (or any other meaningful metric). In addition, the policy must have been approved by shareholders. If there are any deviations from the policy, without any clear rationale, the assessors will need to scrutinize the matter closely before scoring.	Dividend policy is not publicly available or does not specify a target payout ratio	The policy is publicly available and specifies a target payout ratio, but the policy is not approved by shareholders	The policy is publicly available, specifies a target payout ratio and is approved by shareholders
42	Is the information on the company website comprehensive and accessible?	To test for comprehensiveness of information, the assessors need to check if the company website contains all the disclosures as required under the prescribed regulations. The links provided must be working and all documents listed must be available. In addition, they must be accurate and up-to-date.	The information is not accessible or is inaccurate	Information is accessible and accurate, but is not comprehensive	Information is accessible, accurate, and comprehensive

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
43	Does the company have a dedicated investor relations team/person whose contact details are publicly available?	To score maximum points on this question, the company must provide both an email address and a phone number of the designated person/team on its website. Generic board-line numbers will not be considered.	No details provided on any nominated team/person	The names of the individuals are disclosed, but no contact details are available	The names of the individuals are disclosed and their contact details available on the website
44	Does the company provide any information about the independence, competence and experience of the external auditor?	The company must provide a statement on its auditor selection process. Details on the process must cover the evaluation criteria for determining auditor independence. In addition, the company must provide information about the competence and experience of the auditor. If this information is not provided by the company, the assessors need to check the auditors' website and determine if it provides meaningful information. To score maximum points on this question, the company must proactively disclose all the relevant details.	The company has not disclosed any details on the auditors and such information is not publicly available	The company has not disclosed any details on the auditors, but such details are publicly available on the auditors' website	The company has disclosed the details on the competence and experience of the auditor and has also provided an evaluation criteria for determining auditor independence
45	Has the company periodically rotated its auditors (firm and partner)?	For this question, the assessor need to calculate the tenure of the audit network, which means that the aggregate tenure of audit firms within a network will considered as the total tenure of the auditor. For example, if audit firm A and audit firm B are both part of the same network and they have a tenure of 5 years and 7 years respectively, the total tenure will be computed as 12 years. When there are multiple auditors, the assessors need to consider the tenure of the auditor with the longest association. In companies, which are spin-offs from a larger company, the assessor needs to take a subjective call on whether the tenure will include when the company was being audited as a division of a larger company (prior to the spin-off into a separate company).	Audit firm tenure > 10 years	Audit firm tenure < 10 years but audit partner > 5 years	Audit firm tenure < 10 years and audit partner < 5 years

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
46	Does the latest annual report contain a statement confirming the company's compliance with the regulatory requirements on corporate governance?	To score maximum points on this question, the company must provide reasons for the non-compliance (if any) along with the steps it is taking to comply. The company will also score maximum points if it has stated that it has complied with all regulatory requirements. Despite the company's statement, if there is evidence to believe that the company may not have complied with all the laws/regulations, the assessors will need to take that into consideration before scoring.	There is no statement regarding compliance with regulatory requirements on corporate governance	There is a statement, but no reasons (or generic reasons) have been provided for non-compliance (if any), neither have the steps taken for compliance in the future been outlined	There is a statement and the detailed reasons have been provided for non-compliance (if any), along with the steps taken for compliance in future periods
47	Has the company identified its senior executives and their responsibilities?	The assessors need to check if the details have been provided for the following executives: • Chief Financial Officer • Chief Operating Officer • All other C-level executives • Business heads To score maximum points on this question, the roles and responsibilities of such individuals must be clearly outlined in the annual report/company website.	The senior executives have not been identified	The senior executives have been identified, but their roles have not been clearly stated	The senior executives have been identified and their roles have been clearly stated
48	Has the company disclosed the experience of each board member and senior executives?	The experience details must cover the following: • The areas in which the individual has relevant domain knowledge and expertise • The number of years of working experience A company will score maximum points on this question if such details are shared both for its board members and its senior executives (which include those referred to in Q47).	Neither for board members, nor for senior executives	Only for board members, but not for senior executives	For both board members and senior executives
49	Has the company clearly identified its independent directors in the annual report and on its website?	The assessors need to check if the latest annual report lists out the entire board composition, along with the names of each independent director. In addition, the company website must be updated to reflect the names of the current set of independent directors.	No, the company has not made any distinction of independent directors in the annual report		Yes, independent directors are clearly identified and disclosed in the annual report

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
50	Does the company fully disclose the process and criteria used for appointing new directors?	A company will score maximum points on this section if it has provided details on: • how candidates are identified (whether the name was proposed by the promoter, board or any other shareholder) • The criteria based on which the candidature of directors are evaluated	Neither the process nor the criteria are disclosed	Either the process or criteria are disclosed	Both the process and criteria are disclosed
51	Does the company disclose details on its training, development and orientation programs for directors?	Disclosures are considered detailed if there is information on: • who is required to undergo the program • core modules covered under the program • who conducts the program	No, there is no disclosure in the public domain	A detailed framework is not disclosed or there is no information on the training programs conducted in the previous year	A detailed framework is disclosed, along with details on the training programs for the year

Category IV: Responsibilities of the board [Questions: 19; Weightage: 30%]

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
52	Are all directors fully engaged in company matters and committed to corporate governance?	For each director, the average attendance needs to be computed based on the data available in the previous three annual reports. Attendance through video-conferencing/telecon is taken into consideration. Attendance of directors who have been on the board for less than three years will be excluded for this question. For example, if the assessment is being conducted in FY17, the average attendance for each director will be computed as follows: $A_{3YR} = \frac{\text{No. of meetings attended in FY14+FY15+FY16}}{\text{Total no. of meetings held in FY14+FY15+FY16}}$ A company will score maximum points only if, for all directors, $A_{3YR} = 1$. In addition, assessors must also look for statements made by the company (and its directors) about its governance practices to ascertain their commitment to corporate governance.	There are some directors with less than 75% average attendance in board meetings in the past three years	All directors have at least 75% average attendance in board meetings in the past three years	All directors have 100% attendance in board meetings in the past three years and there is evidence of commitment to corporate governance in company documents and director statements
53	Does the board meet sufficiently to exercise due diligence?	The number of board meetings need to be verified from the latest annual report. The company will score maximum points if the board has met more than four times in the previous year.	The board met less than four times in the past year	The board met four times in the past year	The board met more than four times in the past year
54	Is there separation of roles between the Chairperson and the CEO?	The most recent board membership needs to be checked by the assessors while scoring on this section. The review will consider any new appointments and resignations in the Chairperson/CEO role after the last annual report. For this question, the assessor will test for independence of the Chairperson. Merely the company's classification of the Chairperson being an independent director is not sufficient. Vintage directors – those with a tenure of over 10 years – are	The roles are not separated or the Chairperson is an executive director	The roles are separated, but the Chairperson is a non-executive non-independent director	The roles are separated and the Chairperson is independent

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		not considered independent for the purpose of this evaluation. Therefore, a Chairperson with a tenure of more than 10 years on the board will not be considered independent and the scoring will be adjusted accordingly.			
55	Does the board have sufficient skills, competence and expertise?	The assessor must check for the latest composition of the board. The review will consider any new appointments and resignations from the board after the last annual report. To score maximum points on this question, the members of the board must have at least 10 years of working experience and collective knowledge on: • Legal • Financial • Marketing • General Management • Supply chain/operational • Specific Industry Dynamics A board with at least three sets of identifiable skills will be considered to have sufficient breadth of expertise. Exceptions for directors with less than 10 years of working experience: If a director is also part of the founding group of the company, the company will not be penalized as per option 1 of the scoring key.	There is a director with less than 10 years of aggregate working experience (refer exceptions) or there is no non-executive director with prior working experience in the major industry the company operates	At least one non-executive director has prior working experience in the major industry the company operates, but there is insufficient breadth of expertise	At least one non-executive director has prior working experience in the major industry the company operates and the board has sufficient breadth of skills
56	Does the board have gender diversity?	The assessor must check for the latest composition of the board. The review will consider any new appointments and resignations from the board after the last annual report. To score maximum points on this question, the company needs to appoint professional women directors on the board who have not had affiliations with the promoter family.	There is no gender diversity	Yes, there is gender diversity, but all women directors are part of the promoter family	Yes, there is gender diversity, and not all women directors are part of the promoter family

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
57	Does the company have adequate independent representation on the board?	Independent representation is considered adequate if the board independence norms (as per Companies Act 2013 and SEBI LODR) are satisfied. Companies with an executive/promoter Chairperson must have at least 50% directors as independent and other boards must have at least 33% directors as independent. Independent representation is better-than-adequate when: • Independence norms are satisfied • More than 50% of the board is independent (after classifying vintage directors, with a tenure of more than 10 years, as non-independent) • There is a policy/ process to annually affirm the continuing independence of independent board members The assessor must check for the latest board composition. The review will consider any new appointments and resignations from the board after the last annual report.	Independent representation is below regulatory requirements	There is adequate independent representation as per regulatory requirements	There is better-than-adequate independent representation and for directors with a tenure of more than 10 years, there is a process to affirm the continuing independence of the directors
58	Do the board committees have adequate independent representation?	The size for board committees must be as per regulations and independence norms must be met (as per Companies Act 2013 and SEBI LODR). To score maximum points on this question, the assessor needs to check if the requirements for all four committees required under regulation – audit, NRC, stakeholder relationship and corporate social responsibility, are met. Further, the audit committee and the NRC must have a balanced and non-conflicted mix of directors. This would mean: • The audit committee must have more than three directors • There is no executive director in the NRC • No independent director in the audit committee and NRC has a tenure of more than 10 years on the board	Either size or independence norms for committees required under regulations are not met	Both the size and independence norms for committees required under regulations are met	Both the size and independence norms for all committees required under regulation are met and the audit committee and nomination and remuneration committee only comprise non-conflicted members

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
59	Is the audit committee effective in its composition and its meeting frequency?	While reviewing the experience of audit committee members, the assessor needs to check if: • Members have an educational background/relevant professional certification in finance or accounting; or • Members have worked as CEO, CFO or as any other senior officer with financial oversight responsibilities While the number of audit committee meetings will be listed out in the last annual report, the current composition of the audit committee must be considered while scoring on this question. The audit committee charter may either be available as a separate document or it may be embedded in the annual report of the company. An effective audit charter must include: • Roles and responsibilities of the audit committee • Powers of the audit committee • Composition of the audit committee	The audit committee met less than four times in the past year or none of the directors meet eligibility criteria for audit committee members	The audit committee met at least four times in the past year and at least one director has sufficient accounting/ financial expertise but an audit charter is not available	The audit committee has a clear charter that is publicly available, has met more than four times in the past year and all directors have sufficient accounting/ financial expertise
60	Does the company have a strong and robust internal audit framework?	To score maximum points on this question, the company needs to establish a robust internal audit function. This would mean that: • The internal audit team must report to the audit committee directly • There must be an internal audit charter publicly available, which will include most of the following details: -Accountability and scope of work -Independent and objectivity of the team -Composition of the internal audit team -Training programs imparted of the internal audit team -Management support for internal audit function The internal audit charter may either be available as a separate document or it may be embedded in the annual report of the company.	No disclosures on internal audit framework	No disclosures on internal audit framework but the internal audit function reports to the audit committee	The internal audit function reports to the audit committee directly and there are detailed disclosures on internal audit charter
61	Were all resolutions proposed by the board to	The assessor needs to check the stock exchange filings to find out how shareholders voted on all resolutions proposed by the	Some resolutions were defeated	No resolutions were defeated, but for some	All resolutions in the last one year were accepted

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
	shareholders in the past one year accepted?	board in the past one year. A company will score maximum points if: • All resolutions proposed in the past one year were passed; and • In all such resolutions, more than 50% of minority shareholders voted FOR the resolution		resolutions, majority of minority shareholders voted against	by majority of minority shareholders
62	Is there evidence to show that the company, directors or its key managerial personnel (KMP) have violated normally expected ethical/ behavioural norms?	The assessors need to go through annual reports, court rulings, regulatory orders, investigation reports to find evidence of transgressions. A web search may also be used for this purpose. A three-year lookback period (from the date of assessment) is to be considered. Only those violations that are established/proved by a statutory or regulatory authority must be considered. Based on the evidence available, the assessors then need to classify the violations (if any) into two buckets: • Administrative/Procedural: These are technical violations, for which a standard penalty is prescribed in the regulatory framework • Severe: These are more severe offences which may have a material impact on the company The assessors may need to use their judgement for classifying the offences based on materiality, frequency, quantum, level of involvement and other similar metrics. The scores will accordingly be adjusted based on the scoring key.	The company / directors / KMP have been penalized by any regulatory authority in the past three years	There have only been some procedural or administrative violations	No, neither the company nor its directors nor its KMPs have been fined or penalized by any regulatory authority in the past three years
63	Does the remuneration structure for executive directors align pay with performance?	The assessors need to check the annual reports and the appointment terms of directors to determine the variable pay mix. Short term incentives will include commission, performance bonus, and other similar instruments. Long term incentives will include stock options, restricted stock units, stock appreciation	There is no information on variable pay	The executive directors are given variable pay through short term incentives	Variable pay is given through both short term and long term incentives

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		rights, and other similar instruments. If the appointment terms include a variable pay component, but if variable pay was not paid to a director in the last three years, it will be assumed that there is no variable pay incentive for the director. The final scoring will depend on whether all executive directors have individual variable pay components. Promoter directors (who are not eligible for long-term incentives) will not be penalized for not having a long-term incentive component in their salary structure, because of legal restrictions in India.			
64	Has executive director(s) pay been aligned to company performance in the last three years?	The assessors must calculate the growth in aggregate executive directors' pay, company's profits and revenues over a three-year period. The data will be available in the latest annual report of the company. For example, if an assessment is being conducted anytime in FY17, the following formula is to be used for each of the metrics: $V_{Rev/Pr/Rem} = \frac{(\text{FY16 value - FY14 value}) * 100}{\text{FY14 value}}$ A company will score maximum points only if: $V_{Rem} < V_{Rev}$ and $V_{Rem} < V_{Pr}$ The aggregate remuneration will be considered only for directors who have been present on the board for each of the three years. If there are resignations and appointments during this period, such directors will be excluded from this analysis.	Three-year growth in aggregate pay is higher than growth in profits and growth in revenues	Either of the above two conditions are triggered	Three-year growth in aggregate pay is in line/ lower than growth in profits and growth in revenues

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
65	If the company has a stock option scheme, is the exercise price of the stock options fixed at a discount to market price?	Discounted stock options may be given in various forms: • Where the exercise price of the option is the face value of the share • Where the exercise price of the option is fixed at a specified discount to the market price of the share • Through restricted stock units and other similar instruments A company will score maximum points if all the options granted in the past one year had an exercise price which was equal to the market price on the date of grant. This question is not applicable for companies which did not grant any stock options in the past one year.	Only options granted to board members were discounted	Discount given on stock options to all employees	The stock options were issued at market price
66	Is the CEO compensation commensurate with the company's size and performance?	Variable pay includes both short term and long term incentives. The data will be available in the latest annual report of the company. For example, if an assessment is being conducted anytime in FY17, the following formulae are to be used: $R1 = \frac{(\text{FY16 short-term pay} + \text{FY16 long-term pay}) * 100}{\text{FY16 total pay}}$ $R2 = \frac{\text{FY16 total pay} * 100}{\text{FY16 profits}}$ IF, R1 > 67% and R2 < 5%, score 2 IF, R1 > 50% and R2 < 5%, score 1 IF, R1 < 50% or R2 > 5%, score 0 For loss-making companies, the assessor must consider	Variable pay is less than 50% of overall pay or overall pay of the CEO is more than 5% of net profits	None of the two above conditions are triggered	Variable pay is more than 67% of overall pay and overall pay is less than 5% of net profits

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		multiple factors including comparison with peers, correlation of pay versus the performance of the company, among others.			
67	Does the company have a succession plan for its directors and senior leadership?	The assessor must check all relevant company documents to identify if the company has developed a succession plan for its directors and senior leadership. The intent of the question is to identify if the board discusses succession planning in its meetings and if it has an internal plan to arrange a smooth transition. To score maximum points on this question, the assessor must determine if the company has disclosed the existence of a succession plan for both directors and senior management, even if granular details are not publicly disclosed.	There is no mention of succession planning in company documents	There is a succession plan either for directors or senior leadership	There is a succession plan for both directors and senior leadership
68	Are the disclosures on succession planning detailed?	The succession plan may be in presented in the form of a separate document or embedded in other company documents. The assessor needs to check if the succession plan includes details on the following: • Applicability of the policy • Development of a leadership pipeline • Criteria to be used while appointing successors A company will score maximum points on this question only if disclosures are made on all the three areas.	There is no policy, or the policy is not publicly disclosed	Only a broad framework for succession planning is disclosed	A detailed framework for succession planning is disclosed
69	Is the board evaluation policy and process in place and effective?	The assessor needs to check if the disclosures on board evaluation cover: • who is evaluated (individual directors, entire board, committees) • who evaluates (nomination committee, external consultant) • how the evaluation is conducted (criteria) A company will score maximum points on this question only if, in addition to the disclosures on all the three areas, there is an impact assessment conducted which lists out measures for board improvement.	No evaluation system in place or inadequate disclosures about board evaluation	There is a board evaluation system in place but no impact assessment is provided	A robust system for evaluation is publicly disclosed and there is an impact assessment which leads to a board improvement plan

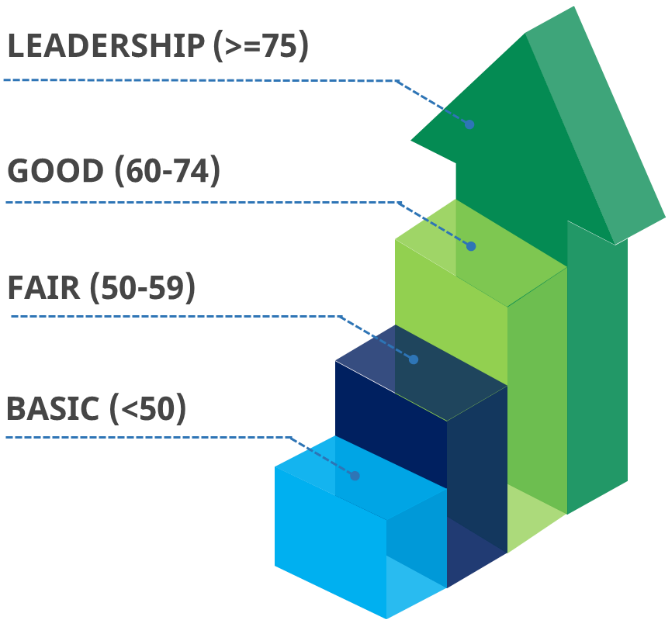
S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
70	Are board committees evaluated separately?	A company will score maximum points on this question if: • It has carried out a separate evaluation for its board committees • It has disclosed the criteria used for evaluating its committees	There is no separate evaluation of board committees	There is evidence of a review but the criteria for evaluation of committees is not disclosed	There is evidence of a review and the criteria for evaluation of committees is disclosed

ANNEXURE E

CHANGES TO THE SCORECARD

In light of the changes in regulations and evolution of governance practices in India, IiAS proposed to update the IFC-BSE-IIAS Indian Corporate Governance Scorecard: feedback was sought from market participants through a consultation paper released in November 2021. These changes were based on the feedback of companies and investors, and IiAS' own experiences of scoring listed Indian companies. We received constructive comments on some of the proposed changes, which have been incorporated into the new scorecard update. We believe that while these changes are meaningful, these do not materially change the scoring, but help sharpen the analysis and thereby create stronger differentiation across companies.

Given that Indian companies are increasingly competing on a global scale, with increased foreign investments, expectations of governance performance from Indian companies have increased. We have raised the bar for 'LEADERSHIP' performance to a score of 75 and above – with scores from 60-74 encompassed in the 'GOOD' category. There will be no changes to the 'FAIR' and 'BASIC' categories. The new scoring categories are represented below:



A summary of the questions added/modified/removed is below:

Questions added:

Question	Score: 0	Score: 1	Score: 2
Does the board have directors with permanent board seats?	The board comprises directors that do not seek periodic shareholder approval for their reappointment / directorship	The board comprises directors that do not seek periodic shareholder approval for their reappointment, but these are representatives of lenders (for companies in financial distress)	All directors are required to be re-elected at regular intervals
Has the company, directors or its key managerial personnel (KMP) fined or penalized by regulatory bodies, stock exchanges in the past 12 months?	The company/directors/KMP have been penalized by any regulatory authority in the past three years	There have only been some procedural or administrative violations	No, neither the company nor its directors nor its KMPs have been fined or penalized by any regulatory authority in the past three years
Is there adequate women representation in the workforce?	<10%; or there is no disclosure on this aspect	>10% and <30%	>30%

Questions modified/merged:

Question	Score: 0	Score: 1	Score: 2
Did all board members and the auditors attend the previous AGM?	Either the Chairperson of the board, or the CEO, or the Chairperson of Audit Committee or the auditors did not attend the AGM	All board members did not attend the AGM: however, the Chairperson of the board, the CEO, the Chairperson of the Audit Committee and the auditors attended	The entire board and auditors attended
Has the company transacted in a manner prejudicial to the interests of minority shareholders in the past three years?	Yes, the company has entered into transactions or taken actions which could be prejudicial to the interests of minority shareholders	-	No, the company did not undertake any transactions or taken actions which could be prejudicial to the interests of minority shareholders
Is the company committed towards developing stakeholder relationships?	The company does not hold investor calls on a quarterly basis or the transcript/recording is not publicly disclosed by the company	Yes, the company holds quarterly investor calls, and discloses the transcript/recording of such calls in disclosed by the company	Yes, the company holds investor calls on a quarterly basis, the transcripts or recordings of such calls are disclosed on the company website; and the SRC engages with investors on a regular basis

Question	Score: 0	Score: 1	Score: 2
Does the company have publicly disclosed policies and/or mechanisms to address the health, safety, and welfare of employees?	The policies are not publicly disclosed, and the company has not provided information on the number of employee accidents or there have been labour fatalities on account of accidents in the workplace	Either the policies are publicly disclosed, or the company has provided information on the number of employee accidents	The company has provided information on the number of employee accidents and has publicly disclosed its health and safety policies
Does the company have publicly disclosed policies and/or mechanisms to prevent sexual harassment at workplace?	The policy has not been publicly disclosed	The policy is publicly disclosed but the company has not provided information on the number of sexual harassment incidents	The policy is publicly disclosed and provided information on the number of sexual harassment incidents
Is the company transparent in disclosing non-financial information?	The company has not disclosed meaningful information on non-financial parameters	The company has not published an integrated report/sustainability report but information on some non-financial parameters has been disclosed	The company has published an integrated report/ sustainability report
Has the company articulated a dividend policy for its shareholders?	Dividend policy does not have a target payout ratio	The policy is publicly available and specifies a target payout ratio, but there have been deviations from the policy, without any clear rationale in the past three years	The policy is publicly available, specifies a target payout ratio; and there have not been any deviations from the policy in the past three years or the rationale for deviation has been clearly provided
Does the board have gender diversity?	None of the women directors are independent	At least one woman director is independent, but women comprise less than 30% of the board	At least 30% of the board comprises women, of which at least one is an independent director
Has the Nomination and Remuneration Committee defined performance metrics for executive remuneration?	No, the performance metrics have not been defined	Yes, and the performance metrics have been defined but do not include any ESG related performance targets	Yes, and the performance metrics have been defined and include ESG related performance targets
If the company has a stock option scheme, is the exercise price of the stock options fixed at a discount to market price?	Only options granted to board members were discounted, or the stock options were granted to senior leadership on more favourable terms than the rest of the employee pool	Discount given on stock options to all employees, but vesting was either fully or partly tenure based	The stock options were exercised at market price or, if these were exercisable at a discount to market price, then vesting was based on the accomplishment of pre-disclosed performance targets

Question	Score: 0	Score: 1	Score: 2
Does the company have a succession plan for its directors and senior leadership?	There is no disclosure of succession plan for directors and senior leadership	There is a succession plan for directors and senior leadership	There is a succession plan for both directors and senior leadership and a detailed framework for succession planning is disclosed, or the company has demonstrated smooth leadership succession in the past three years.

Questions removed:

Question	Score: 0	Score: 1	Score: 2
Were any preferential warrants issued to the controlling shareholders in the past one year?	Yes, preferential warrants were issued	Yes, but preferential warrants were issued pursuant to a debt restructuring scheme	No preferential warrants were issued
Did the previous AGM allow sufficient time for shareholder engagement?	There is no evidence of time provided	There was evidence of time being allocated for shareholder engagement in the minutes or the AGM webcast	There was evidence of time being allocated for shareholder engagement in the minutes or the AGM webcast and the details of shareholder engagement/queries were provided
Was shareholder participation facilitated for all shareholders at the previous AGM in the past one year?	No evidence of facilities/opportunities being provided	Yes, shareholders could submit questions in writing before the meeting	Yes, there is evidence of facilities being provided for shareholder participation through video-conferencing or tele-conferencing
Is the company transparent in disclosing financial performance on a quarterly basis in the past one year?	The company has not disclosed financial performance for all the past four quarters	The company has not disclosed either standalone or consolidated financial performance in any one of the past four quarters	The company has disclosed both standalone and consolidated quarterly financial performance for each of the past four quarters
Has the company identified its senior executives and their responsibilities?	The senior executives have not been identified	The senior executives have been identified, but their roles have not been clearly stated	The senior executives have been identified and their roles have been clearly stated
Has the company clearly identified its independent directors in the annual report and on its website?	No, the company has not made any distinction of independent directors in the annual report	-	Yes, independent directors are clearly identified and disclosed in the annual report

ANNEXURE F

MENTIONS IN ANNUAL REPORTS

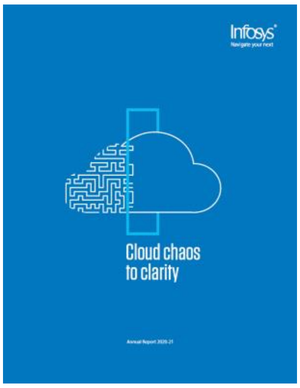
The list outlines references to the Indian Corporate Governance Scorecard made by companies in their recent annual reports.

Cipla Ltd

"For the second year in a row, the Company has qualified in 'Leadership Category' of S&P BSE 100 companies, ranked as per the Indian Corporate Governance Scores 2020, evaluated by BSE Limited, the IFC World Bank Group and Institutional Investor Advisory Services (IiAS)"

Crompton Greaves Consumer Electricals Ltd

"Crompton featured in under LEADERSHIP category of S&P BSE 100 (BSE 100) Companies evaluated on Indian Corporate Governance Scorecard by IiAS"



Infosys Ltd

"Was featured in the 'Leadership' category in a study conducted jointly by BSE, International Finance Corporation and IiAS, based on G20/OECD corporate governance principles. This makes it an unbroken run from 2017 for the company"

Marico Ltd

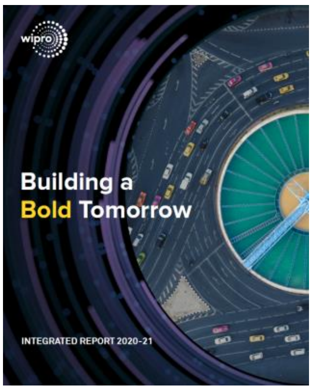
"Marico Limited recognized in the 'leadership' category as assessed by IiAS on the IFC-BSE-IiAS Indian Corporate Governance Scorecard"

Tata Consumer Products Ltd [37]

"Featured in the 'Leadership' category as assessed by IiAS on the IFC-BSE-IiAS Indian Corporate Governance Scorecard"

Tata Motors Ltd[37]

"Rated amongst the top 10 companies in BSE 100 (Companies evaluated by IiAS on the Indian Corporate Governance Scorecard) – Moved into the leadership category in 2019-20"



Wipro Ltd

"Wipro has received the award for "Leadership" category in corporate governance practices for the 4th consecutive year under corporate governance scorecard developed by BSE Limited (BSE), International Finance Corporation (IFC) and IiAS"

[37] Tata Investment Corporation Limited, Tata Consumer Products Limited and Tata Motors Limited are a part of the Tata group. Tata Investment Corporation Limited holds equity shares in IiAS.

DISCLAIMER

This evaluation has been carried out by IiAS based on the IFC-BSE-IiAS Corporate Governance Scorecard. The information contained herein is derived largely from publicly available data, but we do not represent that the information contained herein is accurate or complete and it should not be relied on as such. IiAS shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not be taken as the basis for any voting/investment decision or construed as legal opinion or advice. The user assumes the entire risk of any use made of this information and is responsible for complying with all local laws, rules, regulations, and other statutory or regulatory requirements. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. IiAS reserves the right to make modifications and alterations to this document as may be required from time to time. However, IiAS is under no obligation to update or keep the information current. Please note that this document is based on publicly available data for the financial year ended 31 March 2021 and shall be valid only for the said financial year, subject to there being no material change in the company's corporate governance practices, or there being no event that changes our assessment. Neither IiAS nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the report. The disclosures of interest statements incorporated in this document are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. All layout, design, original artwork, concepts and other Intellectual Properties, remain the sole property and copyright of IiAS and may not be used in any form or for any purpose whatsoever by any party without the express written permission of IiAS. Any use of the document is subject to Indian laws and courts exclusively situated in Mumbai, India.

CAVEAT

Even the best corporate governance frameworks do not guarantee that companies will always adhere to good corporate governance practices. This assessment is based on publicly available information and it will not be able to accurately predict the extent to which the documented practices are followed. It may also well be that a company may change its behaviour following a change in internal or external factors. Further, while it is expected that highly companies will create greater long-term stakeholder value, the evaluation results must not be used to predict future stock price or financial performance.

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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 and ESG issues as well as voting recommendations on shareholder resolutions for about 800 companies that account for over 95% of market capitalization.

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, and 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.

More recently, IiAS has extended its analysis 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 research entity (proxy advisor registration number: INH000000024).