

India Inc set for board refresh as grandfathering period ends soon

About 400 independent director posts at 198 companies are required to be replenished by March 2024

KHUSHBOO TIWARI
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India Inc will soon begin a search for nearly 400 new independent directors as the 10-year grandfathering period to replace the existing long-tenured directors nears its end.

Under the Companies Act, 2013, an independent director can serve a maximum of two terms of five years each. However, directors who had already served the maximum term as of the date of the Act's amendment were granted an additional 10 years – known as the grandfathering period – to step down from their positions. This period ends on March 31, 2024.

THE BIG BOARD CHURN

Longest tenures

Company	Independent director	Tenure (in years)
BASF	Rajendra Shah	55
TTK Prestige	Vandana Walvekar	48
Alkyl Amines Chemicals	Shyam Ghia	42.5
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KSB	Dara Damania	41.3

Note: Data as on March 31, 2023; Universe: Nifty 500 cos

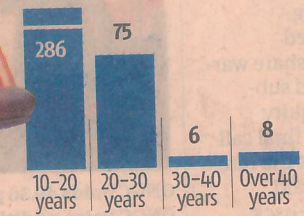
According to an analysis by corporate governance and voting advisory firm Institutional Investor Advisory Services (IiAS), nearly 40 per cent of the top 500 companies in

India could be affected by this directive. As of the end of March 2023, 375 independent directors at 198 companies had already served for over 10 years. Of these, nearly

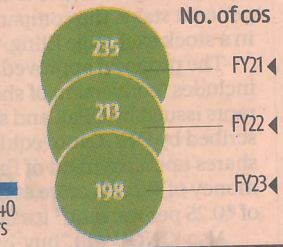


Facing the exit

Total number of ind. directors **375**



Companies with ind. directors with tenure of 10 yrs or more



Sources: PRIME Database; IiAS Research

90 have been in their roles for more than 20 years, an analysis done by IiAS on data provided by Prime Infobase showed. This data pertains to companies in the NSE500 index.

The actual number of directors required to step down could be substantially higher, considering there are over 3,500 listed companies. "2024 offers corporate India

an opportunity to reconsider its board structures. As tenured independent directors are required to vacate their positions, boards should utilise the vacancies to enhance diversity and board independence," IiAS noted in the third edition of its study on India Inc's board composition.

Sameena Jahangir, partner at Kochhar and Co, stated that the Companies Act, 2013, was implemented in phases, and Section 149 regarding the tenures of independent directors came into force on April 1, 2014.

While the 10-year grandfathering period was generous, corporate India seems to have been slow in introducing new faces as independent directors.

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age having a large number of family members on the board. We believe this could foster groupthink and hinder the company's ability to attract and retain the right professional talent," IiAS said.

However, IiAS indicates that over the last two years, companies have refreshed their boards partly to comply with the requirement of filling half the board with independent directors.

The Companies Act, 2013, also required the inclusion of a woman director on the board, effective from April 2014. Although the number of women holding board directorships doubled within a year in 2014, progress on gender diversity has plateaued in the years since the onset of the Covid-19 pandemic, the report states.

As of March 2023, women made up 18.2 per cent of board seats, compared to 16.7 per cent in March 2020.

The report also sheds light on issues with appointments at public sector units (PSUs). Of 66 PSUs, 38 were not in compliance with regulations for independent directorship.

"For compliant PSUs, there is a trend towards making political appointments to the positions of independent director. We believe PSU boards and their nomination and remuneration committees should have greater autonomy in establishing independent mechanisms for identifying and selecting independent directors," the report commented.

Lastly, the IiAS study revealed that the average age of directors was 60 years, a figure that has remained largely constant over the past three years.

India Inc...

By the end of FY21, 235 companies had at least one independent director who had served for more than 10 years. This number dropped to 213 by the end of FY22, and to 198 by the end of FY23. The most recent figure could not be confirmed immediately.

The study on board composition by IiAS has also highlighted issues with large boardrooms. The report notes that 18 companies have board sizes of 15 or more, including firms like Escorts, ITC, L&T, and Dabur. In such cases, the larger board size accommodated family members and promoter representatives, the study observed.

"A board size exceeding 15 complicates reaching a consensus and poses operational challenges. We also discour-