

# Top firms see cessation of independent directors

## Over 130 directors step down as grandfathering period ends

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More than 130 independent directors in nearly 75 companies have stepped down from their posts after the 10-year 'grandfathering period' ended on March 31.

Notable firms like Reliance Industries, Adani Power, Larsen & Toubro, Asian Paints, Avenue Supermarts, and Marico have announced the departure of independent directors in the past week.

Under the Companies Act 2013, an independent director can serve a maximum of two terms of five years each. Independent directors who had already served the maximum when the amendment of the Act came into effect were given an additional 10 years to relinquish their positions. This additional period of 10 years is referred to as the grandfathering period.

Industry insiders said many companies have already onboarded new independent directors or are in the process of doing so.

"If any company is short on the minimum requirement of an independent director, they will have to fill the position within three months and seek shareholder approval. A number of companies will induct new independent directors onto their boards. This may also bring fresh individuals as many individuals have registered as directors by qualifying the exams and requirements," said Shriram Subramanian of InGovern Research Services — a proxy advisory firm.



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## BOARD REJIG

- Independent directors who were on the board for 10 years or more have ceased to be on the board
- The grandfathering period or relaxation given ended with FY24
- Companies which do not have minimum number of required independent directors will have to fill positions within three months
- Experts say board refresh may give opportunity to first-time directors

While the grandfathering period was a generous 10 years, India Inc appeared to have acted slowly when it came to replacing old-timers.

At the end of FY21, there were 235 companies with at least one independent director having served more than 10 years. The count fell to 213 at the end of FY22 and 198 at the end of FY23. The latest figure couldn't be ascertained immediately.

Data provided by Prime Infobase around mid-March

showed the number of independent directors who had served 10 years or more among the top 500 NSE-listed companies stood at 476.

Governance experts believe inducting new independent directors isn't as straightforward an exercise as it used to be.

"The complexities of the business environment have increased significantly in the last decade or so, and regulations are also getting more complex and tighter. In this context, incoming directors, especially those who are new to boards, will need to get familiar with the sector in which the company operates, the risks associated with the relevant sector, as well as regulations relevant to that sector; this would be in addition to having a broad understanding of directors' responsibilities under the Companies Act, the accounting (especially Ind AS) landscape and the evolving and increasingly onerous LODR regulations," said Ketan Dalal, managing director of Katalyst Advisors.

Notwithstanding the complexities, the move to induct new directors is seen as a chance to improve governance and board composition.

"2024 is the year in which corporate India has an opportunity to rethink its board structures. As tenured independent directors are required to cease their positions, boards must use the vacancies to build greater diversity and board independence," reads a recent study by Institutional Investor Advisory Services (IIAS) on India Inc board composition.