

# FIs Tighten Scrutiny of Directors, Vote Against Fresh Term to Underperformers

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**Mumbai:** Institutional investors are no longer rubber stamping the reappointment of directors of listed companies, they are actively voting against them over matters of performance. In the past month, at least 20 companies have seen them vote en bloc against such appointments, according to an analysis by ET. Market participants say the performance of board members is being watched closely by institutional investors and the ones who fare poorly are not getting a fresh term.

The development assumes significance amid weakness in the broader economy as fund managers say companies need strong boards to get through the current turbulence. Last week, institutional shareholders of Shriram Transport Finance blocked a resolution to reappoint private equity firm TPG Capital Asia's co-managing partner and India head Puneet Bhatia as a board member.

Institutional investors include foreign portfolio investors (FPIs), mutual funds (MFs) and insurance companies. For instance, as much as 48% of institutional investors in pharmaceutical company Lupin voted against the proposal to renew the term of chief executive officer (CEO) Vinita Gupta on August 12. However, they were unable to thwart the move.

Similarly, when Graphite India tried to give an extension to its non-executive chairman KK Bangur, 57% of institutional investors voted against the proposal. Amara Raja Batteries, Shankara Building Products and Raymond are among others where institutional investors have opposed the appointment of full-time directors.

"Fund managers have become proactive when it comes to proxy voting. Every proxy is seen closely,"

## Large Scan

Institutional investors increasingly voting against resolutions floated by promoters



**Re-appointment of board members in several cases seeing opposition from institutions**

**Public funds want only strong performers in the boards**

**MFs, FPIs and insurance companies constitute institutional investors**

**Proposals on related party transactions and royalties too under scanner**



said A Balasubramanian, CEO, Aditya Birla SL Mutual Fund. "There are inputs given by external agencies which are looked at by proxy valuation committee. Especially in companies where the business is not doing well, there are questions asked and debated."

Independent directors (IDs) are not being spared either by these public institutions. Bandhan Bank, Shriram Transport and JK Cement are among other companies that have seen opposition from institutional investors while reappointing IDs. ET analysed 30 resolutions in the past month — nine were defeated by institutional investors. The remaining were carried as the promoters, who own the biggest chunk of shares, voted in favour.

Governance experts say India is seeing a rise in shareholder activism. Further analysis showed institutional investors are also voting against proposals such as royalty payments and related party transactions.

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In the past month, minority investors have defeated at least half a dozen such proposals of companies. Retail investors too have played a crucial role in these votes.

Promoters are allowed to vote on the appointment of board members but not when it comes to issues such as related-party transactions, making it easier for minority investors to defeat them.

SKF India, Orient Cement, Oriental Infrastructure and Eurotex Industries are among the companies where minority shareholders have rejected resolutions in the past month.

For instance, 88% of public shareholders in SKF India rejected a resolution seeking approval for related-party business with AB SKF.

“The participation of minority shareholders in the AGM has increased of late and now they have realised that their voting is important for the future of the company,” said JN Gupta, founder, Stakeholder Empowerment Services. “These instances will encourage all investors to take an active role in the management of companies and it forces the management to implement best practices to maintain credibility with their shareholders.”

Domestic mutual funds voted against 2,591 resolutions in FY20 compared with 2,422 in FY19, according to Primeinfobase.com.