

Institutional shareholders voting against top brass' resolutions in AGMs

Voting by institutional shareholders

	CY20	CY19	CY18	CY17	CY16
No. of resolutions, where voting details were available	10,450	13,108	10,338	10,424	9,925
No. of resolutions voted against (by more than 20%)	596	982	700	594	607
Of which no. of resolutions which did not get passed	13	29	22	13	10
And no. of resolutions which got passed	583	953	678	581	597

Source: PRIME Database

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THERE HAS BEEN an upward trend in the number of company resolutions being voted against by institutional shareholders at annual general meetings (AGMs), as greater investor awareness and differences with management on key decisions lead to increased shareholder activism.

Institutional investors have voted against resolutions of as many as 63 companies since the start of the AGM season in July this year, and this is expected to climb further in the coming months.

The resolutions that didn't find favour with shareholders range from the adoption of financial statements, pay hikes to the top brass, payment of commissions to independent directors, allotment of employee stock option plans (ESOPs) and even acquisitions. However, the highest number of rejections was for re-appointment of directors, especially as non-executive and non-independent. The reasons for not supporting the resolutions ranged from governance issues, proposing pay-hikes during difficult times and ESOPs being provided till the end of a director's tenure.

"Investors are becoming increasingly aware of their rights and also of the issues in companies, and they are not blindly voting for management-recommended proposals. Further, the regulators such as Sebi and IRDA are also pushing investors to act in the interest of the unit-holders and policyholders," Shriram Subramanian, founder and managing director of InGovern Research Services, a Bengaluru-based proxy advisory firm, said. "Dissent to the proposals should not be seen as a confrontation between the management and institutional shareholders, but should be looked up as a suggestion or recommendation for better governance," Subramanian added.

However, a majority of these resolutions are passed based on the promoters'

shareholding in the company. According to law, 50% of the total voting is required for ordinary resolutions to sail through and that for special resolutions is 75%.

Earlier this month, institutional shareholders, including foreign institutional investors and mutual funds, rejected Eicher Motors proposal to reappoint its MD Siddhartha Lal with a pay hike.

However, the Eicher Motors' board reappointed Lal as the MD for five years after revising his remuneration structure that was rejected. The primary concern with investors was not Lal's reappointment or the proposed compensation, but the lack of clarity regarding the enabling provision that allowed payment of up to 3% of profits, the company informed bourses, adding that the board would go back to shareholders for approval. Eicher would share details of Lal's remuneration by postal later.

In the case of Lupin, a resolution to grant 6 million stock options to employees was defeated, with 79% of the institutions voting against it. According to industry analysts, shareholders were of the opinion that the pandemic period was the time to cut costs.

Institutional shareholders also voted against resolutions of Hero MotoCorp, Titan Company, J B Chemicals & Pharmaceuticals, Wockhardt, Lupin, J S W Energy, Indus Towers, KEC International and Oracle Financial Services Software, among others.

"As investors come to accept the linkage between good governance practices and better share price performance, we are seeing a steady increase in institutional voting and an increase in investors voting against on resolutions. It's a signal from investors that governance needs to be uppermost on the boards' agenda, together with performance," Amit Tandon, founder and managing director at proxy advisory firm Institutional Investor Advisory Services India Ltd (IIAS), said.