

Promoters Face Stiff Resistance to Remuneration Hikes

Indian promoters are starting to see opposition from institutional investors on issues like executive remuneration increases, and reappointments and term extensions for directors and executives. High promoter stakes (average promoter holding in listed companies in India is 45%) have allowed these resolutions to go through, but it has not always been smooth sailing



HOW WIDESPREAD IS THE TREND?

As per data collated by Stakeholders Empowerment Services (SES), Hero Motocorp, Eicher Motors, Jindal Saw, Nippon Life, Accelya Solutions, La Opala which sought resolutions to increase executive remuneration saw stiff resistance, upwards of 70% from public institutions. A dissent of even 20% from institutional and retail investors must be respected rather than rejected as it reflects poorly on governance.

VOTING ANALYSIS FROM OCTOBER 2020 TO AUGUST 2021

Company	Resolution	% of total public institutions and public voting against
Hindustan Media	Remuneration to Shamit Bhartiya and Praveen Someshwar	91%
Jindal Saw	Remuneration and reappointment of Sminu Jindal	78%
Hero Motocorp	To increase remuneration of Pawan Munjal	77%
Nippon Life	Remuneration to Sudeep Sikka	76%
Accelya Solutions	Remuneration to Neela Bhattacharjee in excess of 5% of net profits	75%
Eicher Motors	Reappointment and remuneration of Siddhartha Lala	71%
La Opala	Remuneration to Nidhi Jhunjunwala	69%
HEG	Remuneration to Ravi Jhunjunwala	68%
JB Chemicals	Remuneration of Nikhil Chopra	60%
Praj Industries	Increase in remuneration of executives in excess of limits specified	60%

Source: Stakeholders Empowerment Services

WHY IS THIS HAPPENING?

As institutional investors become more aware of issues and are goaded by regulators to vote and adopt the stewardship codes, they are increasing their engagement with companies. "One should not view the votes as a confrontation between institutional investors and promoters, but as a need for better engagement and continual dialogue", said Shriram Subramanian, founder and MD, InGovern Research, a proxy advisory firm

Institutional and retail investors are showing their opposition to unfair remuneration practices

Proxy advisory firms are playing a major role in driving up shareholder activism. Especially now, in the pandemic situation, when there have been layoffs and salary reductions, resolutions proposing hikes to the top management are being met with even greater resistance, said Pranav Haldea, MD, Prime Database

WHAT DOES THIS MEAN FOR COMPANIES?

Promoters need to consider minority shareholders as equal partners. This will also ensure that the governance practices in India improves

Corporates are increasingly engaging with proxy advisory firms and institutional investors ahead of the annual general meetings

Ownership structure of corporate India is also seeing a drastic change. With future generations in business families wanting to chart their own ways, promoter holding will start declining. With Sebi having made it mandatory for a special resolution in case of appointment, re-appointment and cessation of directors, promoters may not be able to push their recommended candidates going forward, say experts

Resolutions need far greater clarity. They are drafted keeping the regulations in mind, rather than investors. If companies were to spell out the intent, it will bring clarity to investors and the companies themselves, says Amit Tandon, MD of proxy advisory IIAS

