HOW INDIA INC SAILED THROUGH FY21

An analysis of Nifty 50 firms' annual reports reveals interesting details about one of the worst years in corporate history.

As the impact of covid's second wave is yet to be fully revealed, the response measures taken by some of India's top firms last fiscal in the face of an unprecedented crisis can offer some important cues.

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Weakened by the economic and social cost of the pandemic, India Inc fell into a never-before-seen crisis in fiscal 2021. In many ways, it was a unique year in the annals of corporate history.

It is a year that stakeholders would inevitably look back at in order to assess a company's leadership; its record of transparency; its ability to maintain trust in uncertain times. As with any crisis, some performed well, while others hobbled along. And the hits and misses are all laid out in some detail in the annual reports of Nifty50 firms, which have started tumbling out over the last couple of months.

The 50 largest firms by market capitalization not only represent the best-managed firms in India, but they also offer a window into the wider convulsions that rippled through India Inc. How these top firms reacted to the crisis of FY21 offers important pointers about the yet-to-be-fully-revealed impact of the second wave of covid-19 and even the potential impact of a third wave.

For instance, a *Mint* analysis based on annual report data compiled by Prime Database shows that some chief executives received a pay hike of as much as 90% even in a pandemic year; meanwhile, expense on ordinary employees is falling in some firms well into FY22; workplace sexual harassment complaints understandably plummeted in FY21; and the pandemic's role in creating a bifurcated corporate world is clearly recorded in the balance sheets.

The FY21 annual reports are also insightful for another reason. It was the first year wherein some firms moved beyond mere financial reporting towards what's termed as "integrated reporting", which brings together information about an organization's strategy, performance and prospects. "This (new reporting standard) elaborates on the value that companies are able to generate in an integrated way for their employees, suppliers, customers and (the) society at large," said Sandip Khetan, partner and national leader, Financial Accounting Advisory Services (FAAS), EY India.

Since investor communication cannot remain limited to past performance, organizations are now starting to focus on communicating their wider agenda, including their take on social responsibility and sustainability. In some ways, the pandemic has also contributed to this shift, Khetan said.

> The 50 largest companies by market capitalization offer a glimpse into the wider convulsions that rippled through corporate India's boardrooms last year

Mint analyses the signals and subtle cues that lay buried within the annual communication of India's most valued firms in the sections below.

PAY AND PERKS

Even as firms struggled to sustain business operations, most of India's biggest firms kept the salaries of their top executives largely intact in the year ending March 2021. A *Mint* analysis shows that the median pay of India Inc's top honchos fell by a modest 0.35%—in effect, a status quo scenario. Executive pay had risen by 2.37% in the preceding fiscal. The analysis considers the single highest remuneration paid by 44 Nifty firms irrespective of the precise designation, which may range from the chairman and chief executive officer to executive director.

Among this set of 44 firms, the profile of the top boss who did endure a steep pay cut makes for interesting reading. For instance, C.P. Gurnani, managing director and chief executive officer of Tech Mahindra, received ₹14.41 crore as remuneration in FY21—a precipitous 50% drop compared to his FY20 payout. Meanwhile, information technology firms have been on a roll. Over the past year, Tech Mahindra's stock has shot up by 68%.

The payout pressure on some other executives is less surprising. Satish Pai, managing director of Hindalco Industries, drew ₹17 crore in FY21 (a 43% pay cut). The ongoing metals rally is a relatively recent phenomenon. Other top executives who were at the receiving end include those helming HDFC Life Insurance, Maruti Suzuki, Eicher Motors, Bajaj Finance, Hindustan Unilever, Nestlé India and HCL Technologies. Do these trends offer some insight into how India's best firms are managed, which could be of use even beyond the pandemic? After all, despite immense revenue pressures, only a few publicly listed firms decided to axe the remuneration of their best-paid employee (9 in the preceding analysis of 44 firms).

In recent months, executive pay has emerged as a major point of concern for shareholders. In August, shareholders rejected a proposal for the reappointment Siddhartha Lal as managing director of Eicher Motors. The reason: the proposal included a substantial pay hike. More recently, shareholders of Zee Entertainment Enterprises Limited have tried to elbow out the firm's chief executive officer and managing director Punit Goenka due to "corporate governance concerns". Disclosures show that Punit Goenka's remuneration increased by 46% in FY21, while employees got no raises during the year.

That was in fact the norm by and large in FY21. Out of the 44 firms in *Mint's* sample, the top-most executive's pay witnessed an uptick in nearly half (19 firms). SN Subrahmanyan, chief executive officer and managing director of L&T, got the highest increment—90%. He drew ₹28.50 crore in FY21. That rate of increment was followed by Sajjan Jindal, chairman and managing director of JSW Steel, whose pay rose by 83% to ₹73.38 crore.

Variable pay was the only component in an executive's salary that got majorly impacted by the pandemic, according to global professional services firm Aon. The pandemic's overall impact on executives has been far less than that of the 2008 global financial crisis, said Nitin Sethi, partner and chief executive officer of Aon's performance and rewards business in India.

The impact on ordinary employees—the rank and file—is another story altogether. And this differential impact has persisted well into FY22. According to a recent India Ratings analysis, among 2,036 corporate entities that the agency studied, roughly half recorded a quarterly negative growth in labour costs in the first quarter of FY22, compared to the fourth quarter of FY21.

"The more alarming fact is that labour costs have been on a downward (trajectory) for the last few years. This is visible in the yearly wage growth data of the last three years," said Soumyajit Niyogi, associate director of credit & market research, India Ratings. "Resuscitating wages will be critical for a revival of the overall economy and (the) capex cycle, which has been languishing even before the outbreak of covid-19," he added.

DECISION-MAKING WOES

One major reason for the lack of any serious reckoning on pay disparity, as well as other broader corporate governance lapses, is the absence of independent decision making within many organizations. Independent directors on the board are supposed to temper the worst urges of India Inc, which is still saddled with a persisting legacy of family-run firms.

But of all the firms listed on the National Stock Exchange, 35 did not have even a single independent director on their board as of March 2021, according to *Mint's* analysis based on data provided by Prime Database. This is a significant jump from FY19, when 18 firms didn't have a single independent director. Nifty firms fare better. In FY21, only one Nifty firm (Coal India) did not have an independent director.

Independent directors are non-executive directors who do not have any material or pecuniary relationship with the firm.

Data show that the total number of independent directors on the boards of Nifty firms has steadily fallen—from 315 in FY19 to 272 in FY21. The number of former civil servants on the board has also declined in step—from 60 to 52 over the past three years. The appointment of civil servants on corporate boards has been a controversial subject for quite a while. At least in some cases, there might be room for potential conflict of interest. The decline over the past three years, however, may mark the beginning of an important shift.

The market regulator Securities and Exchange Board of India's (Sebi) amended rules on the appointment, removal and remuneration of independent directors is set to come into effect from 1 January 2022. Under the new rules, the appointment and removal of independent directors will require a special resolution of shareholders. The panel selecting the directors will also need to disclose the skills that are required and how a particular candidate's skill-set fits the requirement. Perhaps, details buried within future annual reports will reveal whether Sebi's latest attempt to improve corporate independence succeeds.

CHANGE FOR GOOD

While FY21 was an endless parade of bad news for corporate India, there was one nugget of good news. Sexual harassment cases reported at workplaces plummeted. The total number of harassment-related complaints recorded at 44 Nifty companies fell by 38.26% in FY21, according to anti-sexual harassment advisory complykaro.com's analysis of annual reports.

> Several organizations are now starting to focus on communicating their wider agenda, including their take on social responsibility and sustainability

The analysis showed that no company received more than 50 complaints in FY21, while five firms received 50 or more complaints in FY20. Six firms did not report any case of sexual harassment for the sixth consecutive year. These are Adani Ports and Special Economic Zone, Bajaj Finserv, Coal India, Reliance Industries, UPL and Shree Cement.

One key reason for the sudden drop in recorded cases was the industry-wide shift towards remote and hybrid models of work. But it also signals new possibilities. As firms try to train and equip their workplaces for a post#MeToo era, perhaps a greater focus on facilitating remote work could be a key cog in a rainbow of strategies that are required. This would require new organizational policies and mechanisms catered towards handling online harassment. "We've already started online e-modules and webinars to train organizations on key aspects related to the prevention of sexual harassment at the workplace (PoSH)," said Vishal Kedia, PoSH expert and founder, Complykaro Services.

In the months ahead, as India Inc slowly ambles back to offices, what comes next—for the executive, the woman employee, the activist shareholder and the independent director—will inevitably be keenly watched.

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WHAT

Despite the challenges, most of India's biggest firms kept the salaries of their top executives largely intact in the year ending March 2021. Some CEOs received a pay hike of as much as 90%.

AND

The lack of independent decision-making within firms can lead to governance issues. At least 35 companies listed on the NSE did not have a single independent director on their boards.

BUT

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TAKING STOCK

While the median pay of corporate India's top executives dropped slightly in FY21, several continued to draw a hefty salary despite revenue pressures.

Nifty median salary (in ₹ crore)

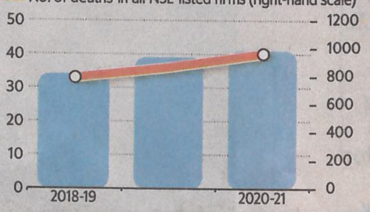
(Top 5 pay packages in Nifty companies in FY21)

Company	Name	Position	Remuneration (in ₹ crore)
Hero Motocorp	Pawan Kant Munjal	Chairperson and MD	86.9
Divi's Laboratories	Murali Krishna Prasad Divi	MD	80.8
JSW Steel	Sajjan Kumar Jindal	Chairperson and MD	73.4
Wipro	Thierry Delaporte	MD	64.4
Infosys	Salil S. Parekh	MD	49.7

Note: Only single highest remuneration paid in the year has been considered. Source: primeinfobase.com

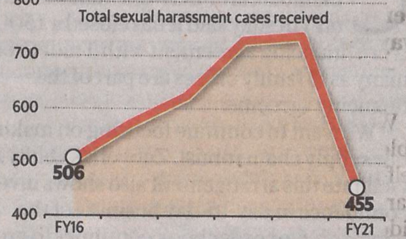
The pandemic's tell-tale footprint is visible in company annual reports even beyond the financials.

(Reported instances of death of a board member)



Source: primeinfobase.com

As work-from-home and hybrid models of work took root, the number of workplace harassment complaints received by firms have dropped.



Source: Complykaro, annual reports

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