



INSTITUTIONAL
INVESTOR
ADVISORY SERVICES

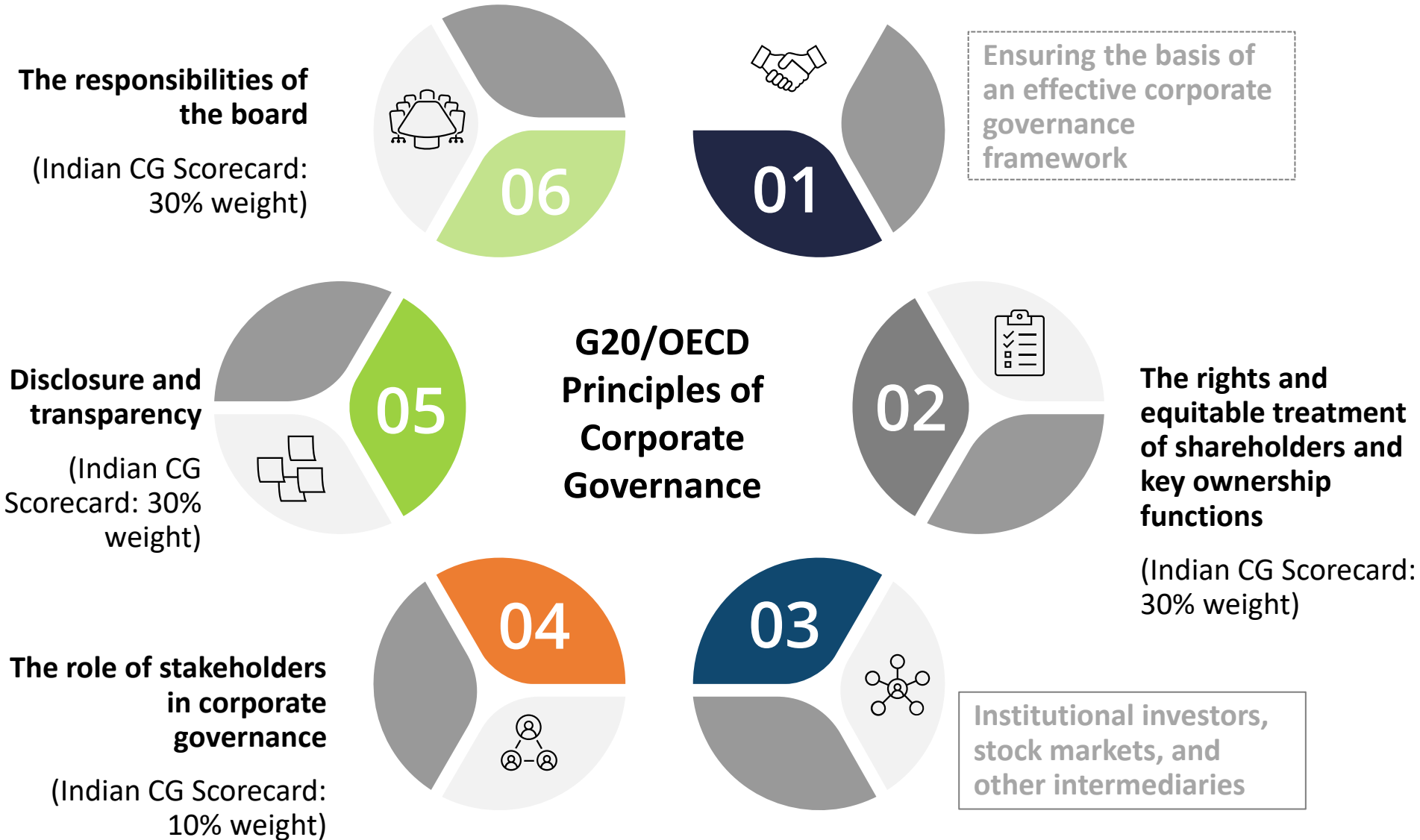
22 February 2022

Immunity through stronger boards

Indian Corporate Governance Scores 2021 for the
S&P BSE 100

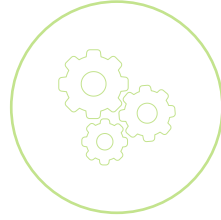
About the Indian Corporate Governance Scorecard

Evaluation framework



Supported by the
Government of Japan

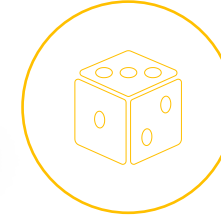
Globally accepted model and structure – based on the G20 / OECD Principles of Corporate Governance



Global benchmarks adjusted for Indian regulations and Indian context



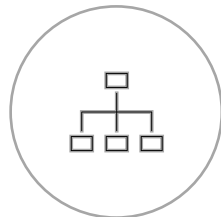
The relative positioning is more important than the absolute score



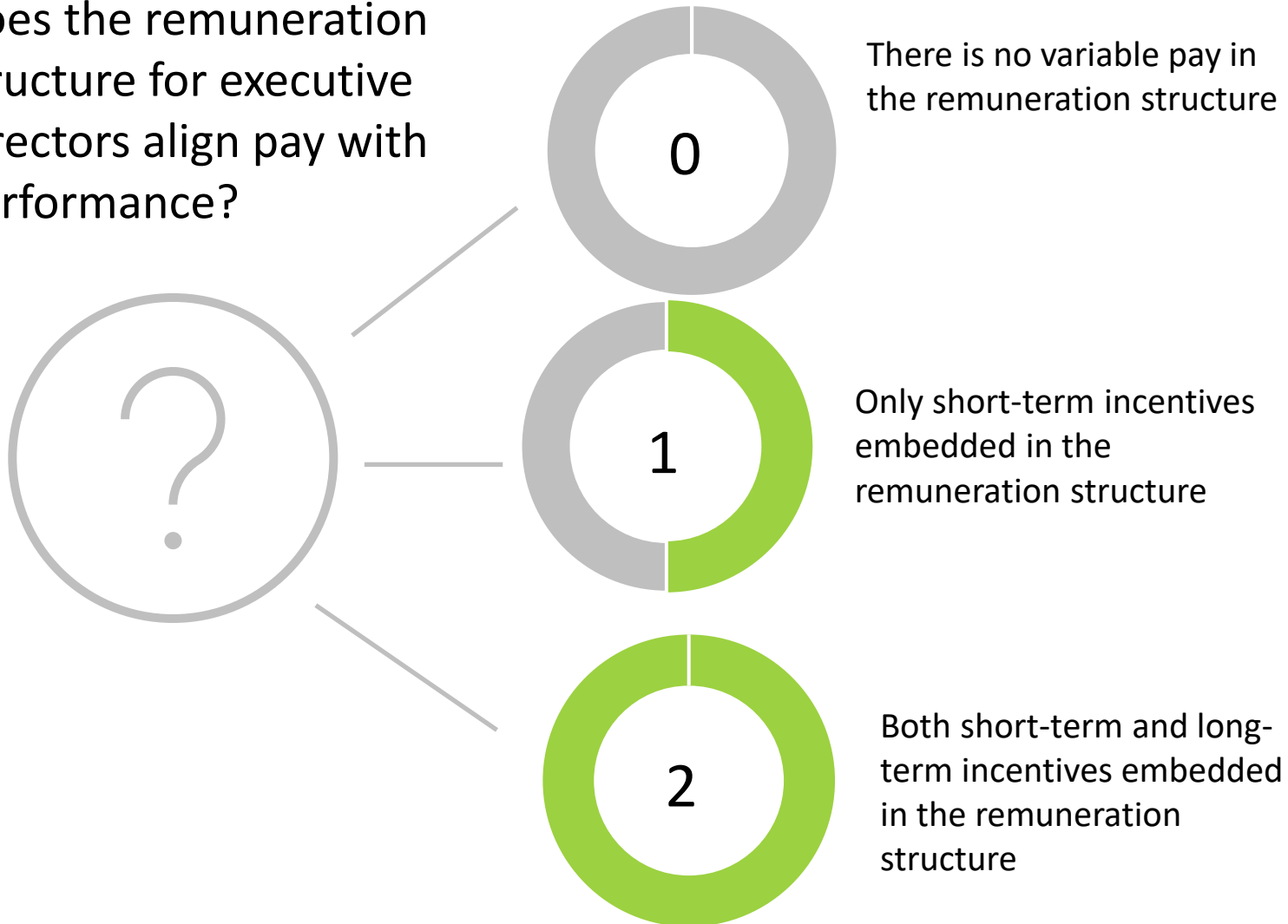
From the lens of an equity investor – and therefore uses publicly available information only



Derivative scorecards created for unlisted companies and for lenders (credit markets)



Does the remuneration structure for executive directors align pay with performance?



CATEGORY



Responsibilities of the board

GUIDING PRINCIPLE



Management incentives must be aligned to corporate goals, in a manner that balances the short-term and long-term agenda

OBSERVATION



- CEOs in India have lower variable pay components compared to their global peers
- Little disclosure on drivers of variable pay

What the scorecard assessment entails

Website disclosures

Certain questions of the scorecard assess the quality of disclosures on the website. To this extent, all website disclosures are assessed

Policy reviews

The scorecard requires an assessment of the quality of policies, including related party transaction policy, dividend policy, et al

Annual reports

A review of all disclosures made in the annual reports for the past three years



Stock exchange filings

We have a three-year look-back period for stock exchange filings

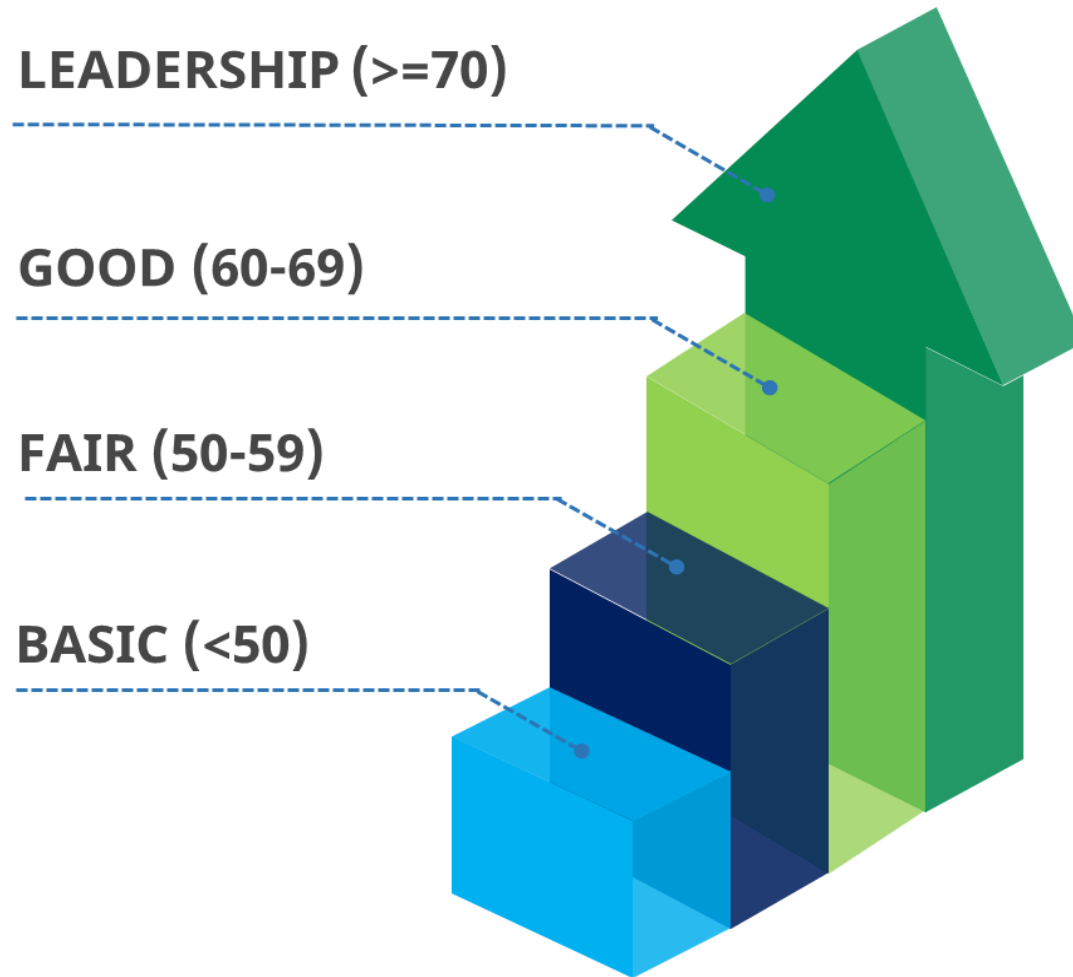
Any other publicly available information

Investor calls, media briefings and discussions on television channels by senior leadership

Substance over form overlay

The assessment will test whether policies and disclosures are being practiced – however, this is limited to contrarian actions

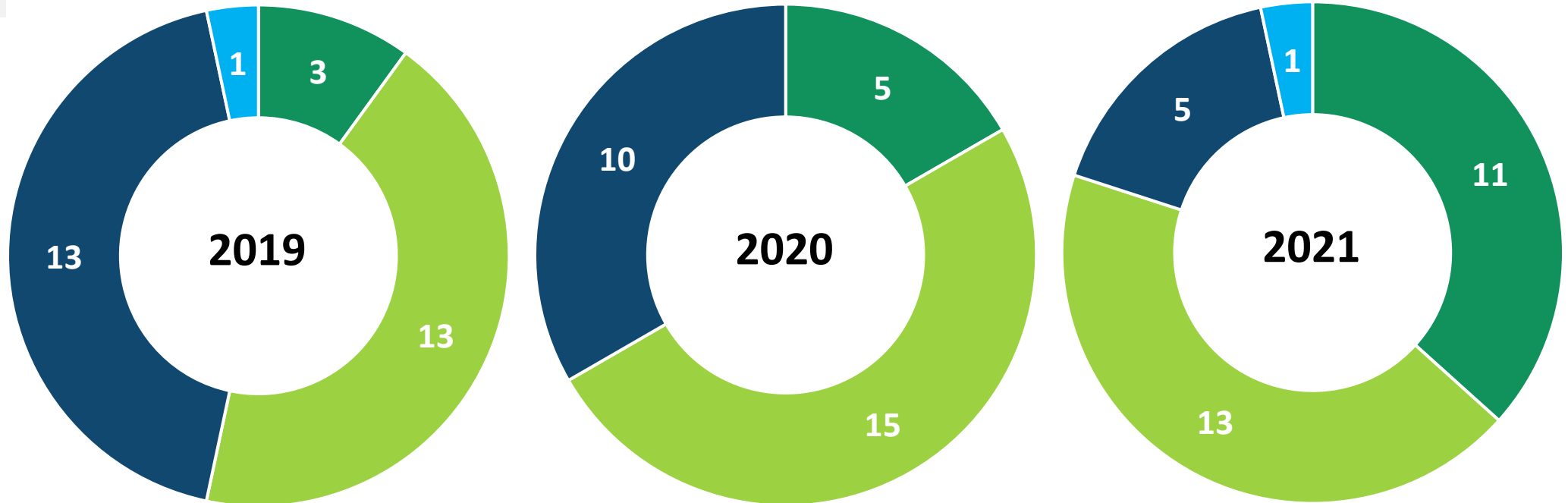
Assessment category (based on the G20/OECD Principles of Corporate Governance)	Number of questions	Max attainable score	Category weight	Company score
Rights and equitable treatment of stakeholders	19	38	30%	Score in each category multiplied by the category weight
Role of stakeholders	9	18	10%	
Disclosure and transparency	23	46	30%	
Responsibilities of the board	19	38	30%	
Total	70		100%	Based on a total of 100



2021 Assessments

Scores continue to improve despite COVID-19

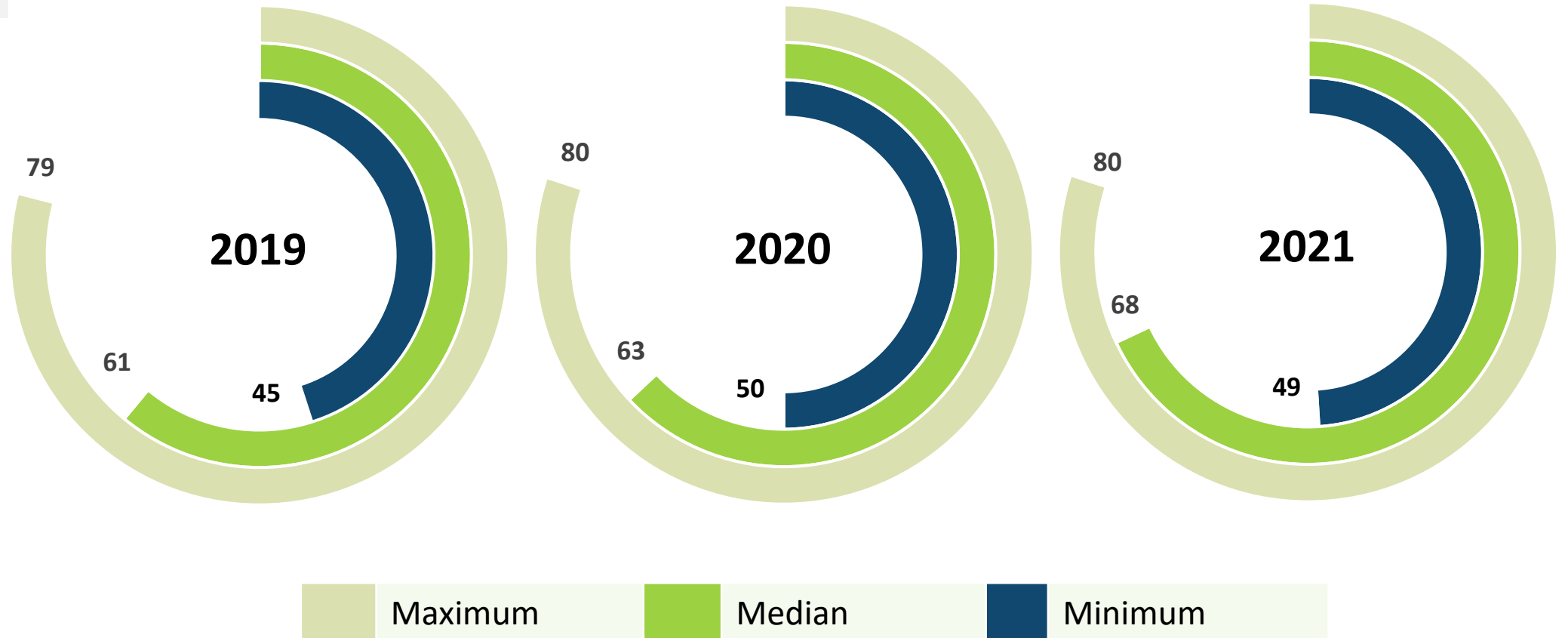
SENSEX



<div></div>	Leadership	<div></div>	Good	<div></div>	Fair	<div></div>	Basic
	Scores: ≥ 70		Scores: 60 - 69		Scores: 50-59		Scores: <50

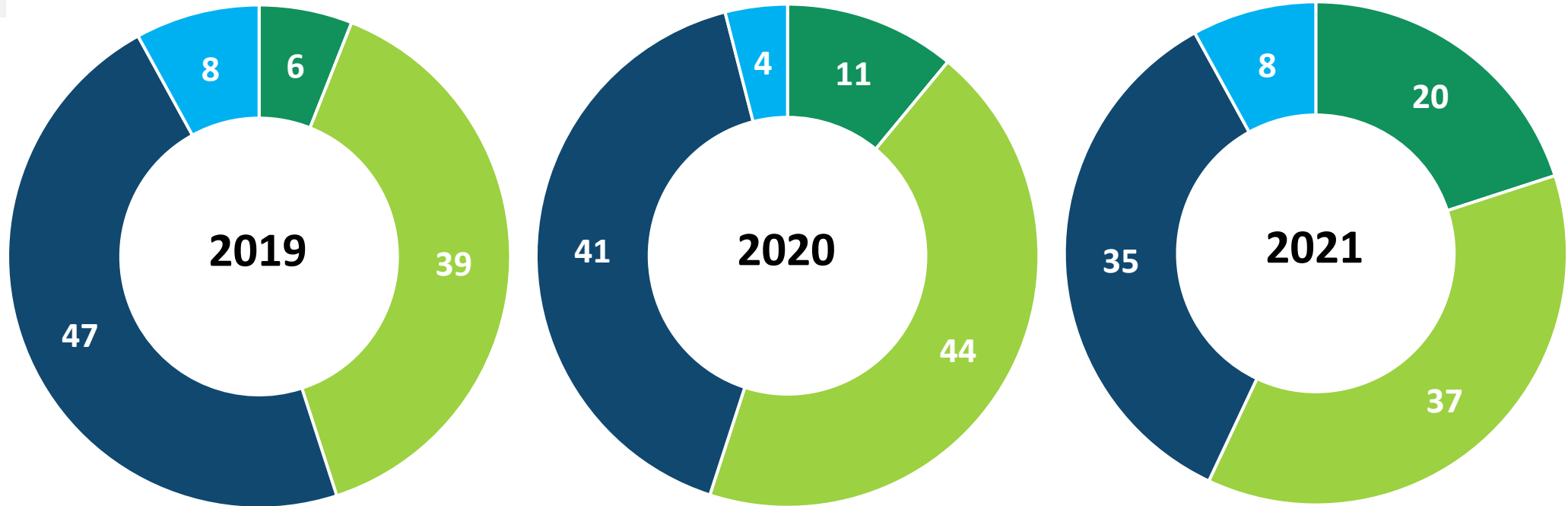
Scores continue to improve despite COVID-19

SENSEX



Scores continue to improve despite COVID-19

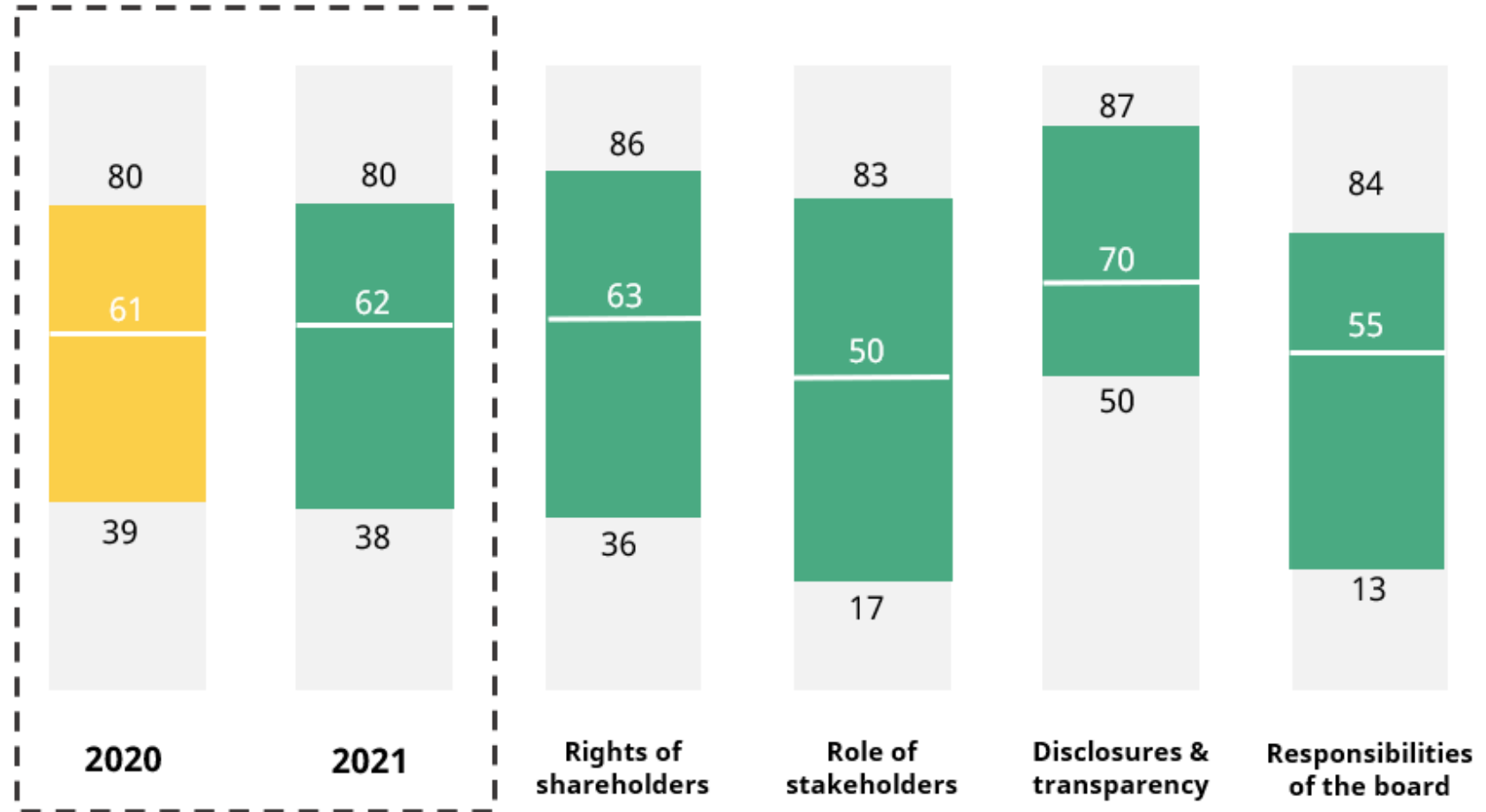
BSE 100



	Leadership	Good	Fair	Basic
	Scores: ≥ 70	Scores: 60 - 69	Scores: 50-59	Scores: <50

Scores by assessment categories

BSE 100



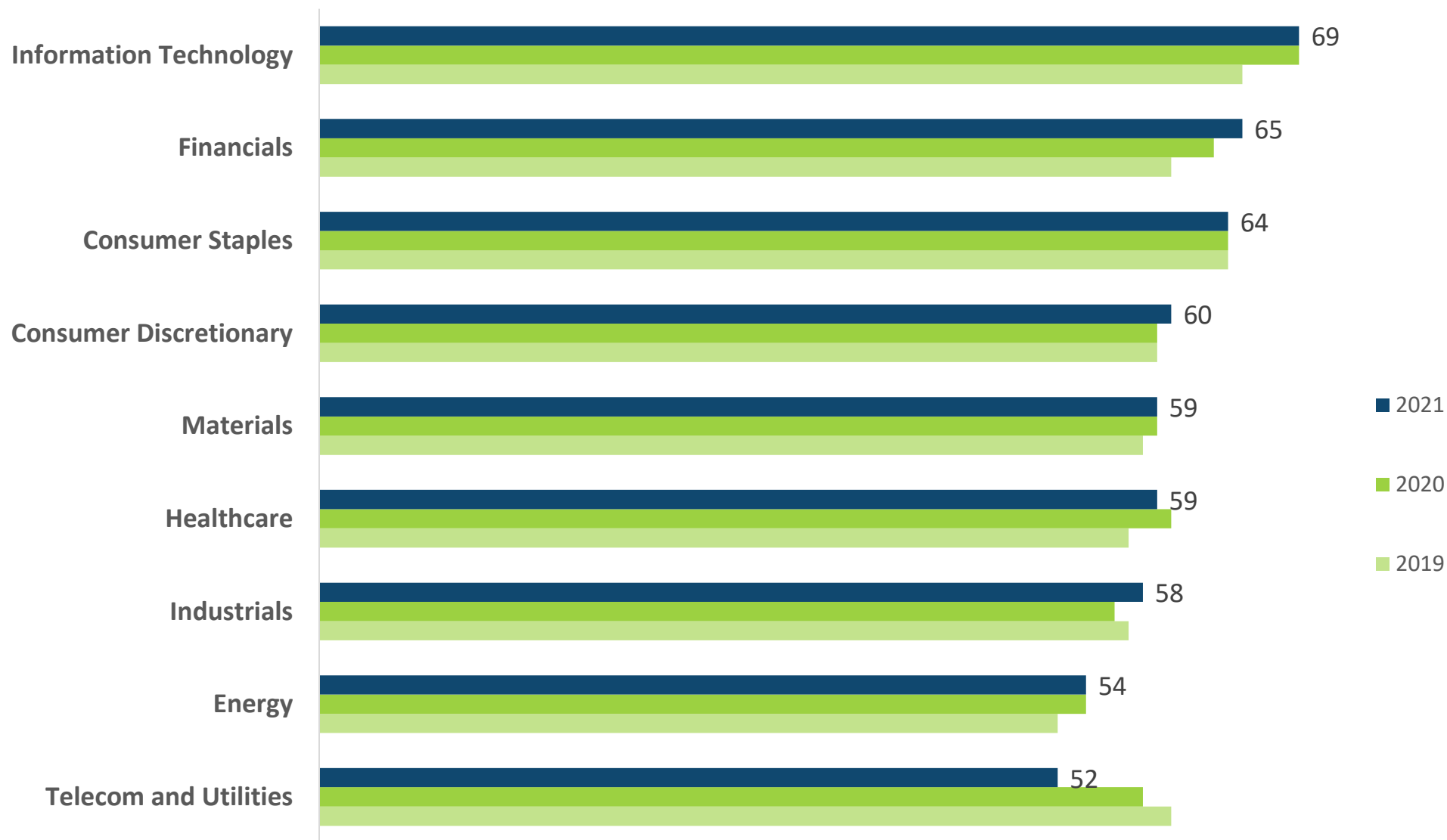
Scores by assessment categories

BSE 100



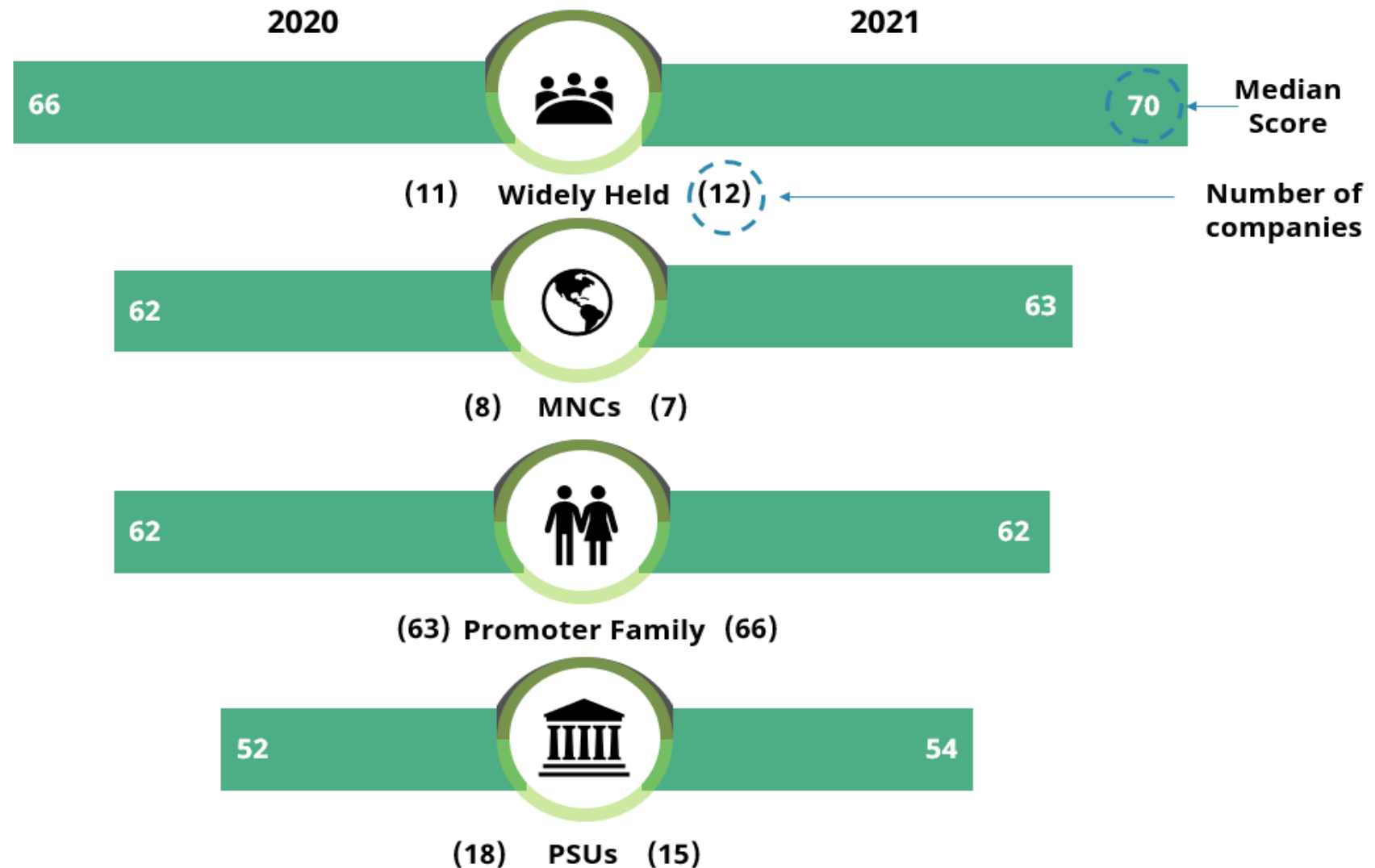
Sectoral medians are changing slowly

BSE 100

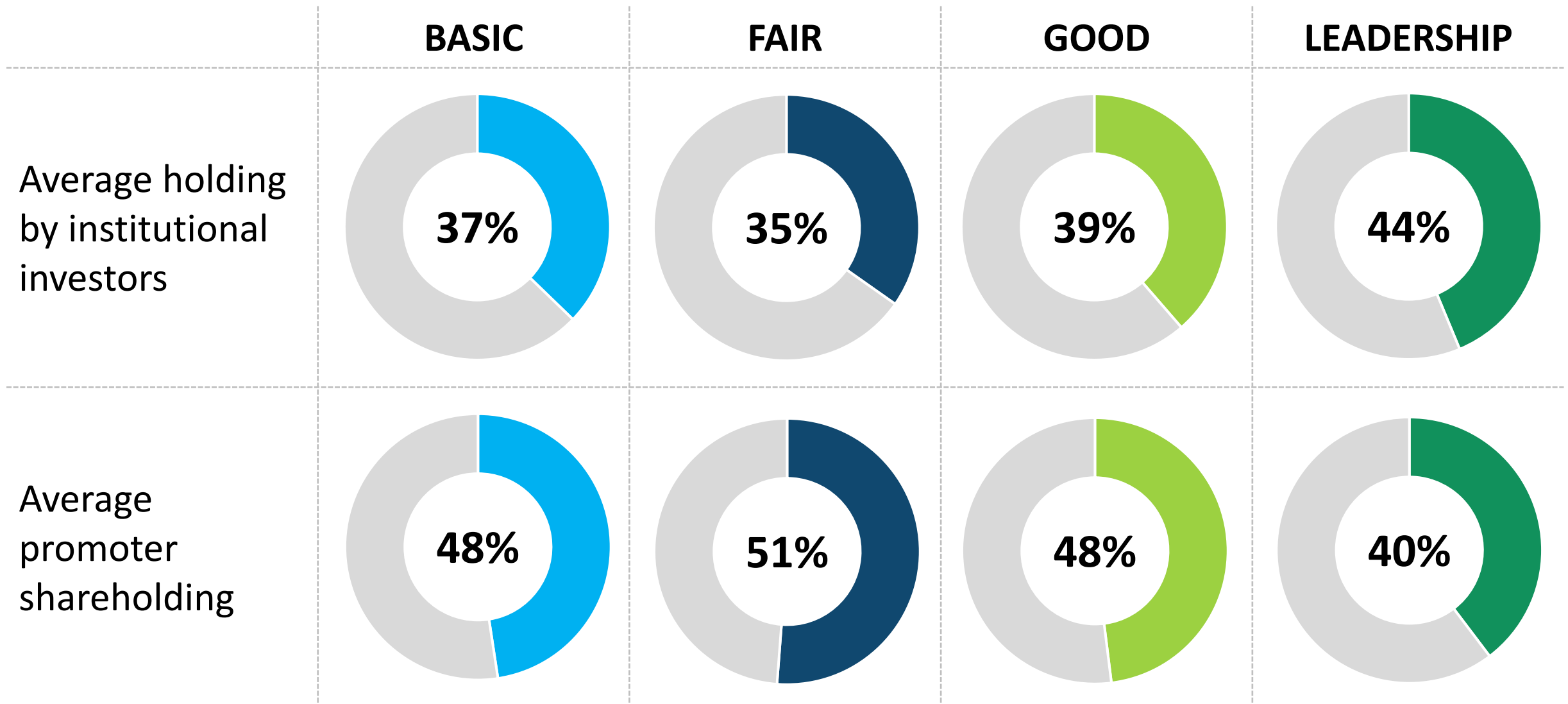


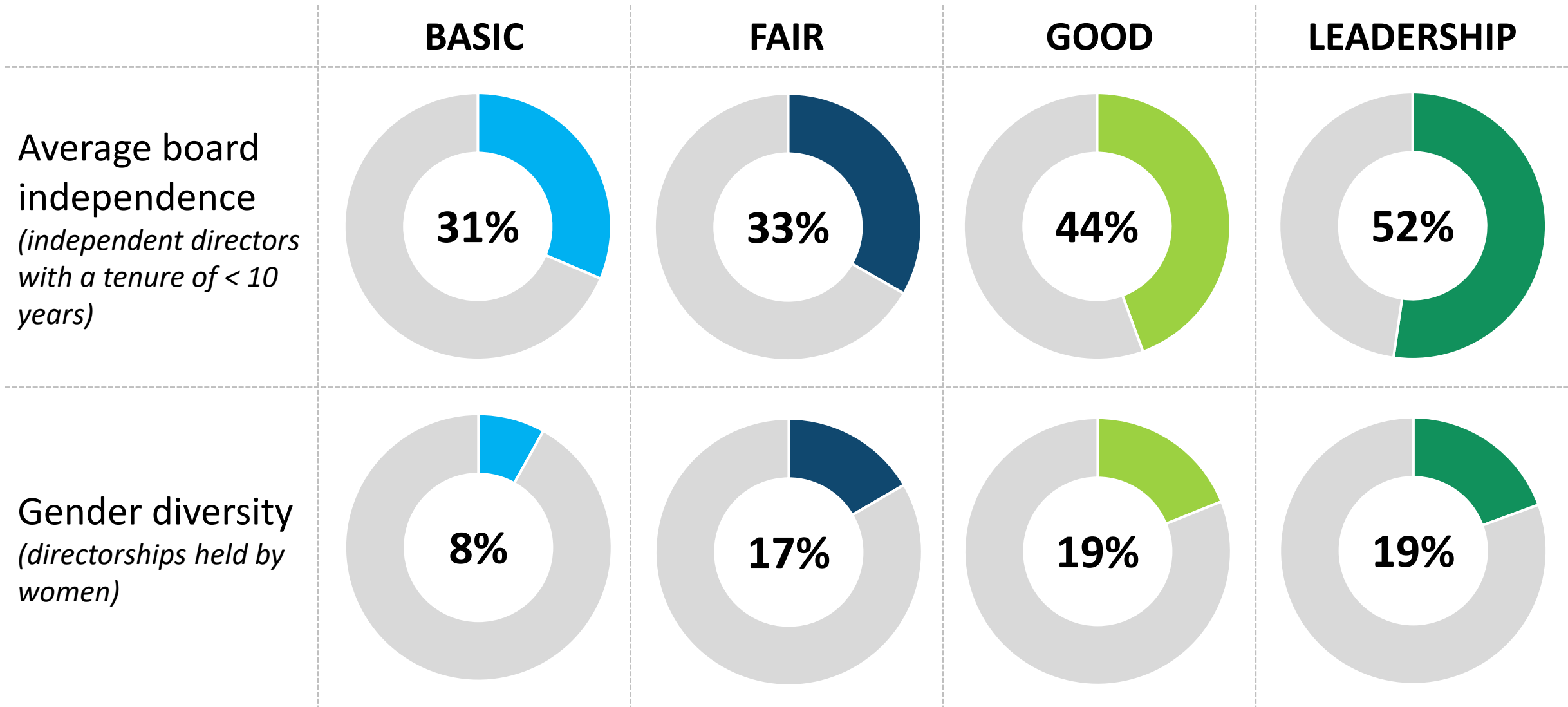
Ownership wise median scores

BSE 100

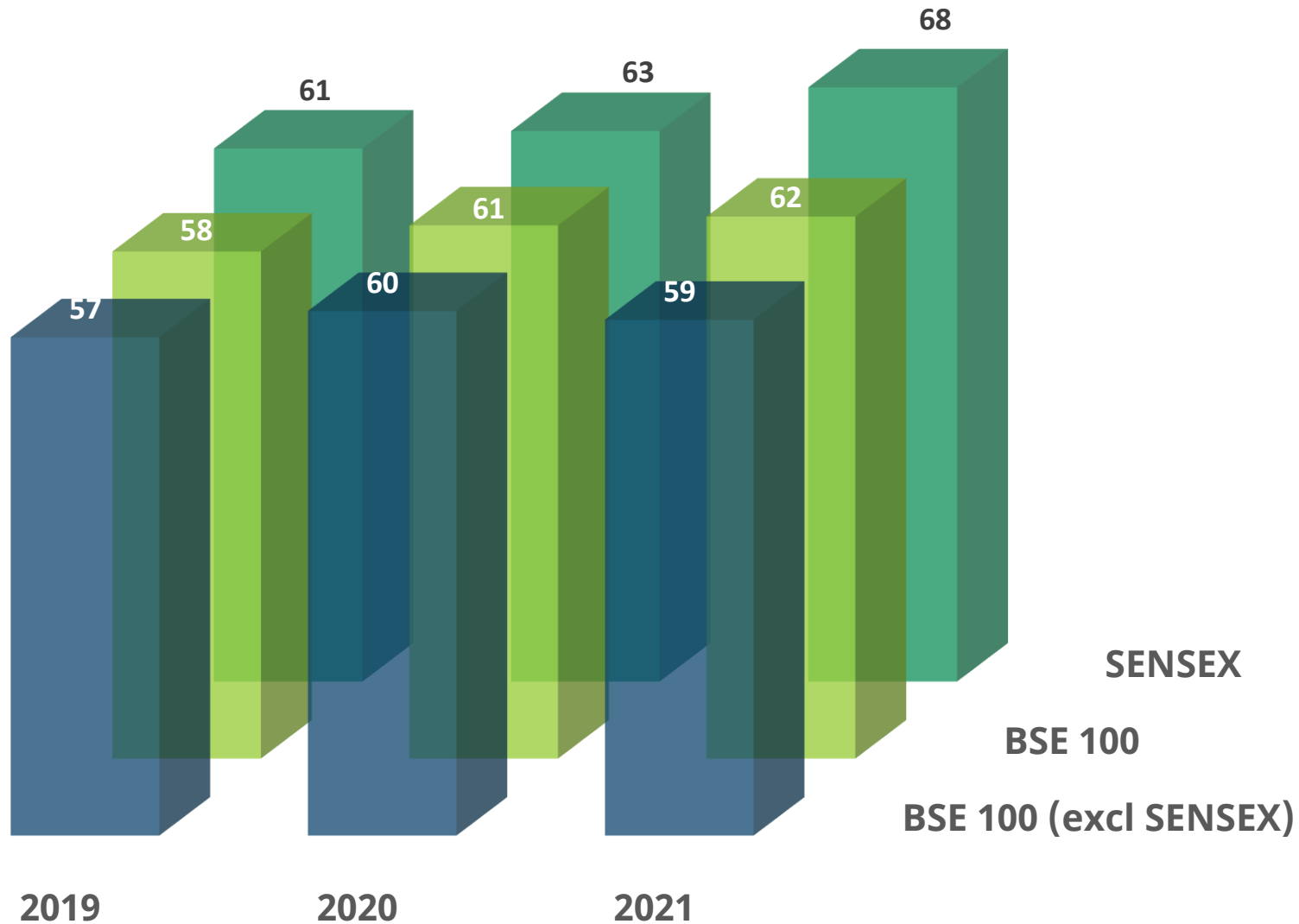


Institutional investors demand strong governance practices

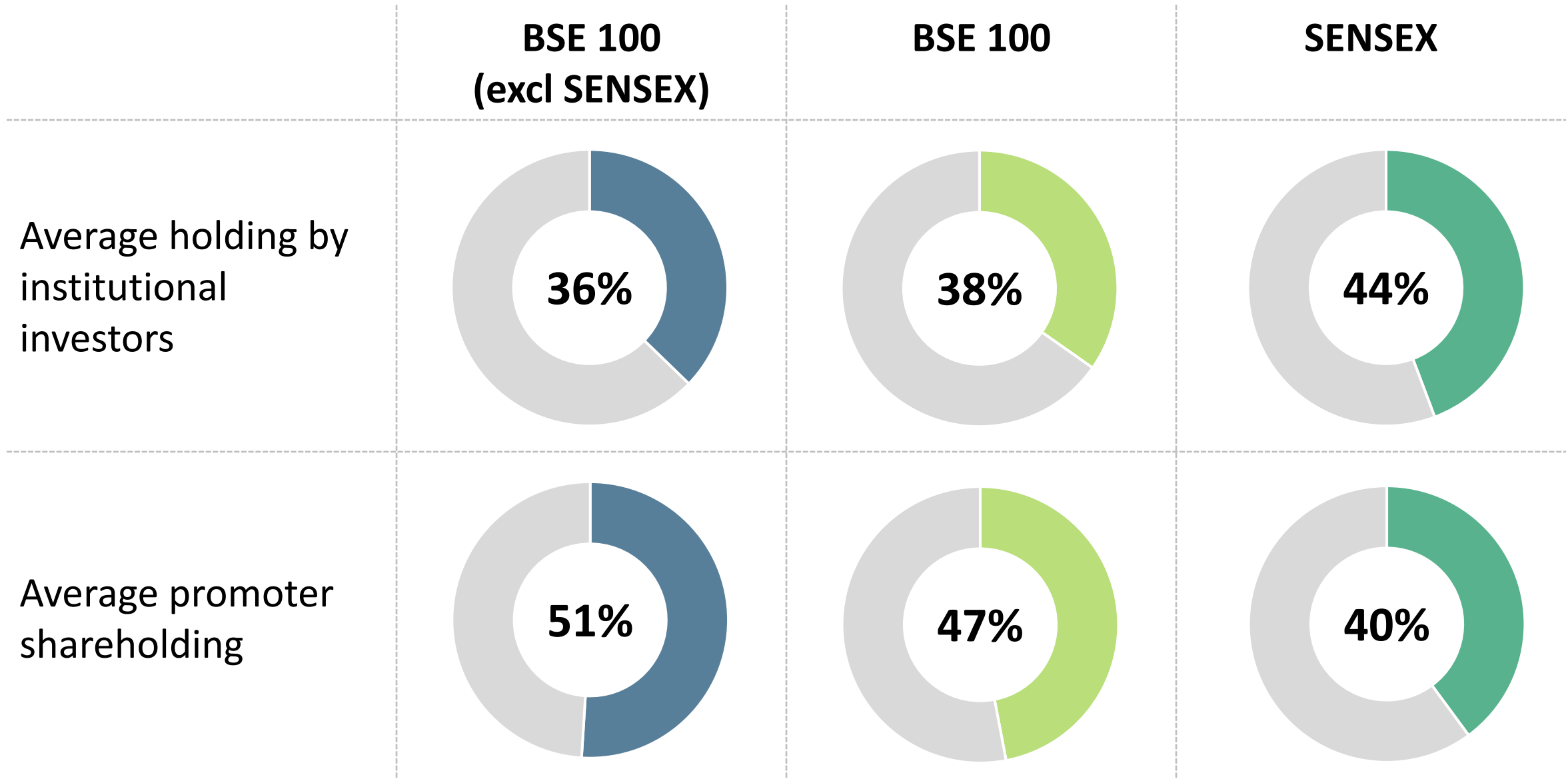


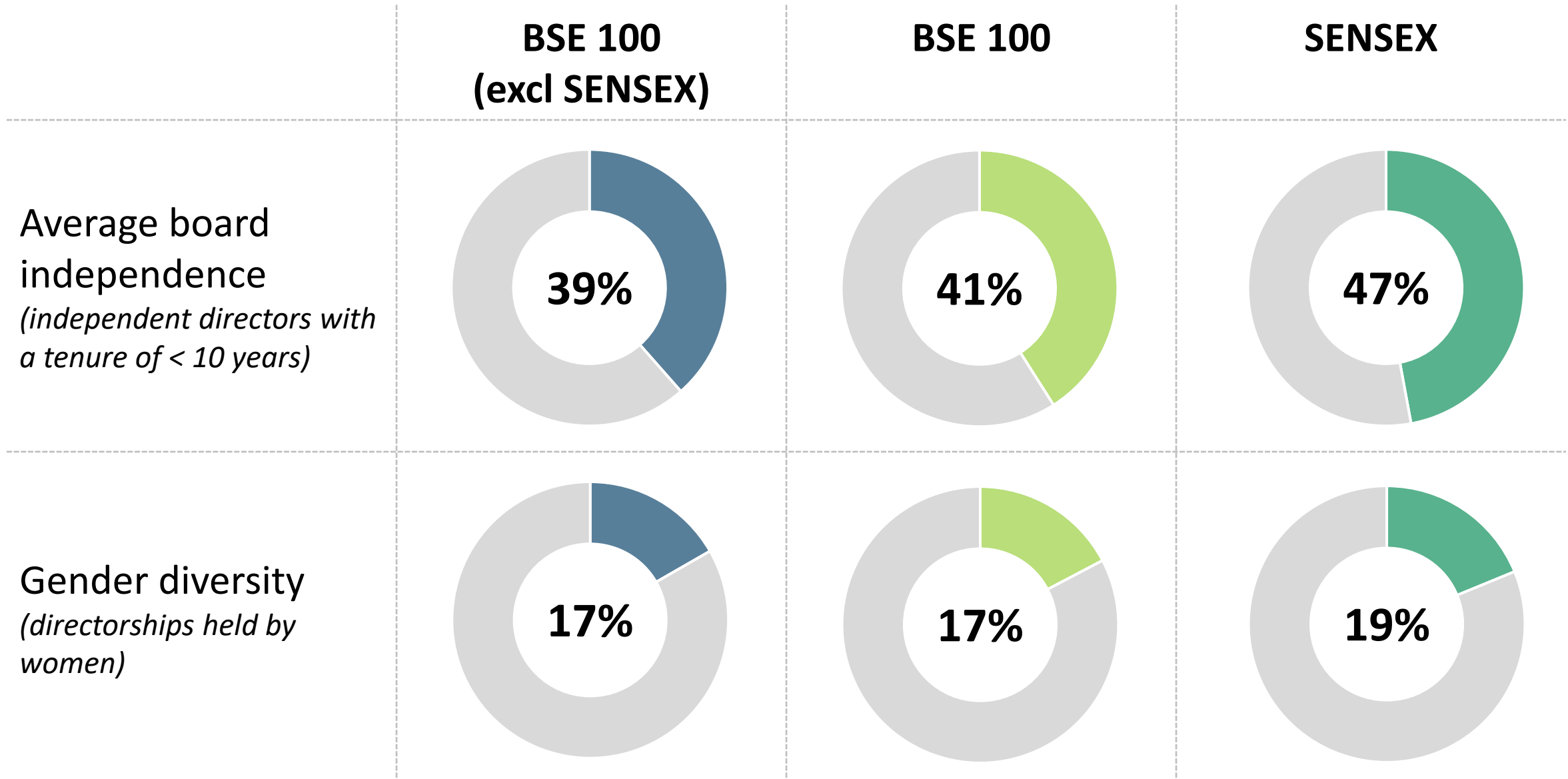


SENSEX vs. BSE 100



SENSEX vs. BSE 100





Companies with leadership scores in 2021



Cipla

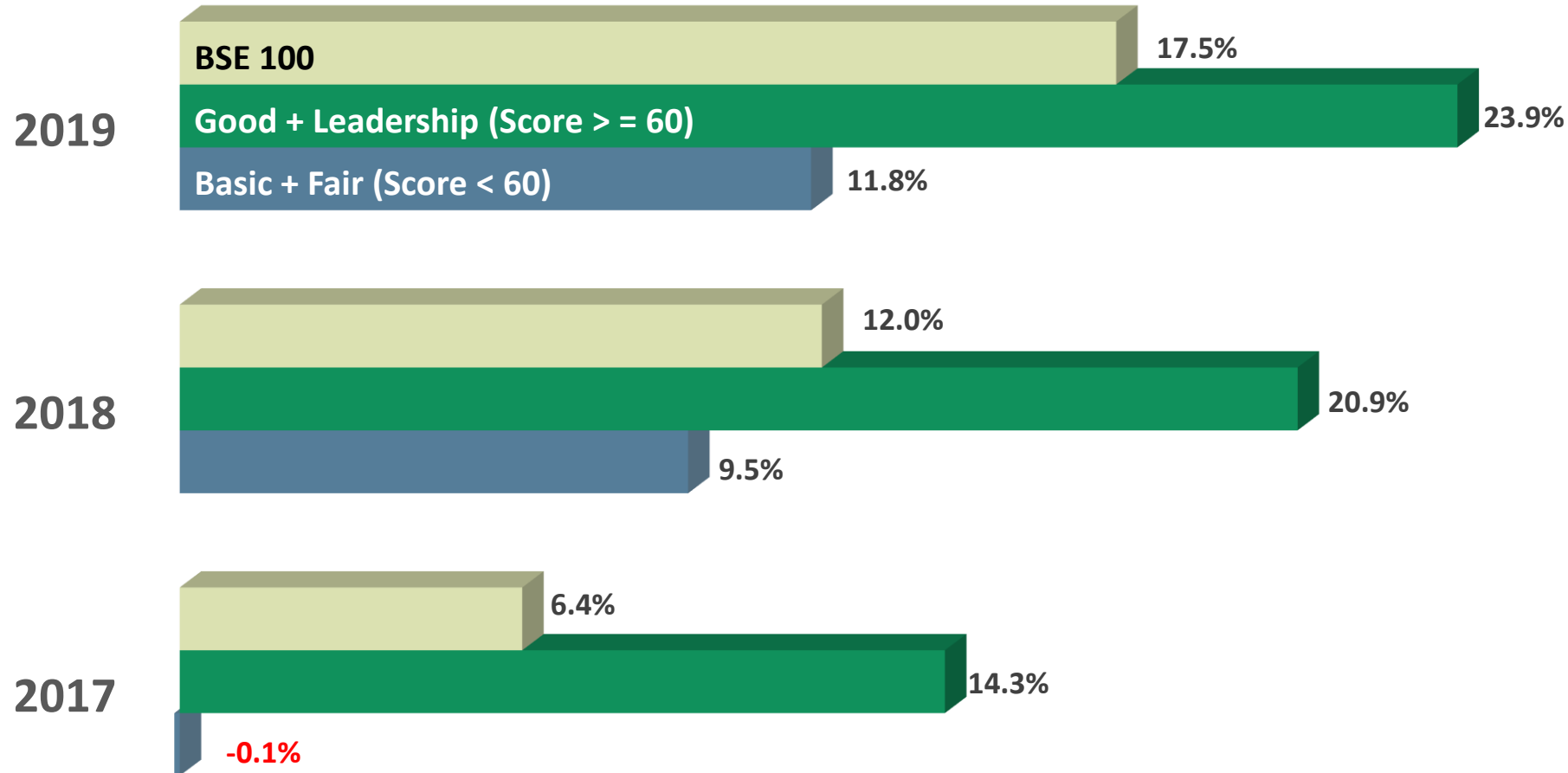
Crompton



- In alphabetical order, not in the order of scores
- Kotak Mahindra Bank, ICICI Prudential Life Insurance Company Limited and HDFC through its subsidiary HDFC Investments are shareholders of IIAS
- Tata Investment Corporation Limited of the Tata group is one of IIAS' several shareholders.
- IIAS as a proxy advisor provides various services including voting advisory, publishing reports on corporate governance and related matters. These services are subscribed to by some of these companies, for which IIAS has received remuneration in the past twelve months.

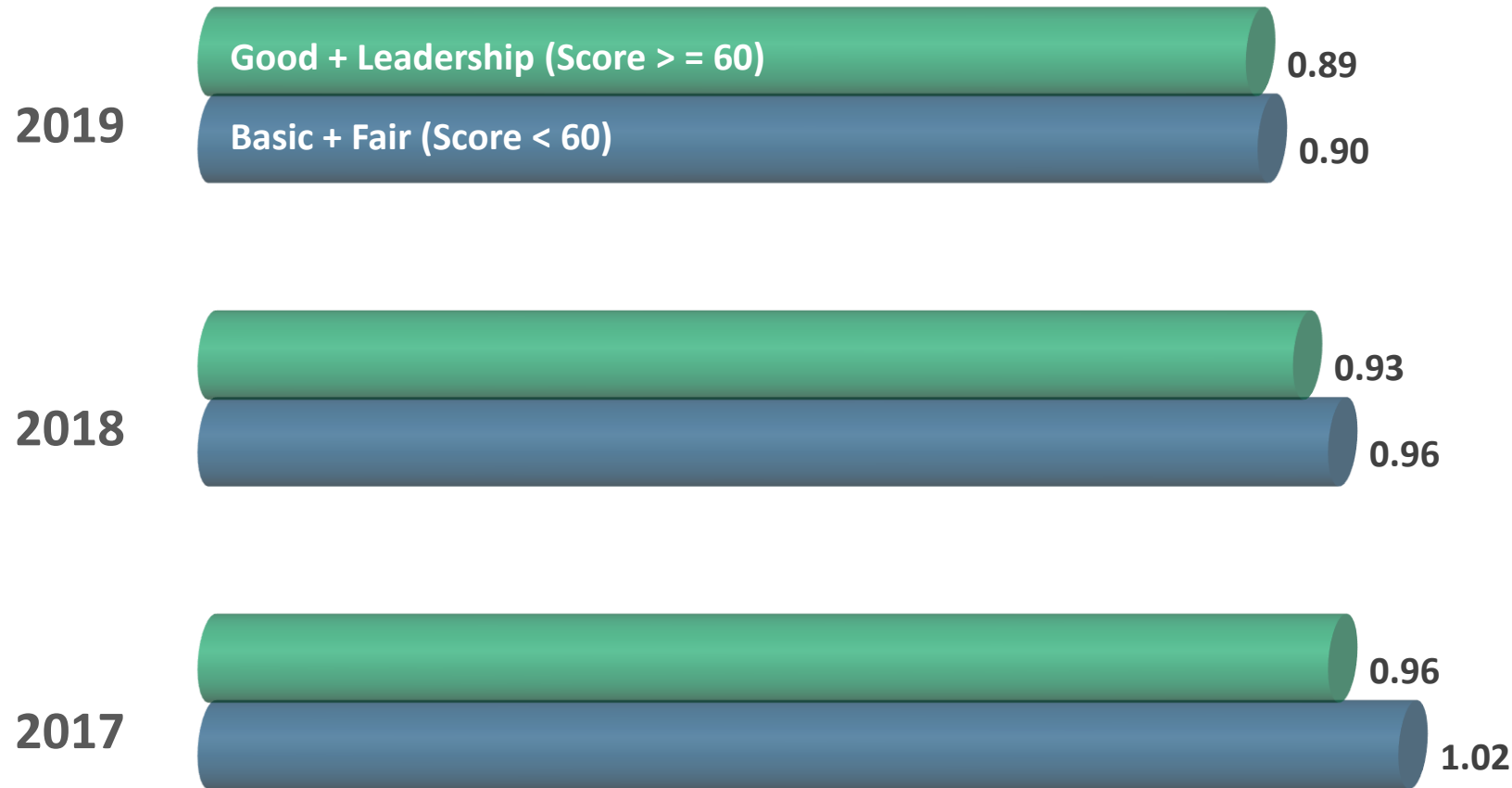
Do markets value governance?

Price performance of companies evaluated in earlier studies



2017: Stock price performance analyzed from 1 November 2017 to 29 October 2021
2018: Stock price performance analyzed from 1 November 2018 to 29 October 2021
2019: Stock price performance analyzed from 1 November 2019 to 29 October 2021

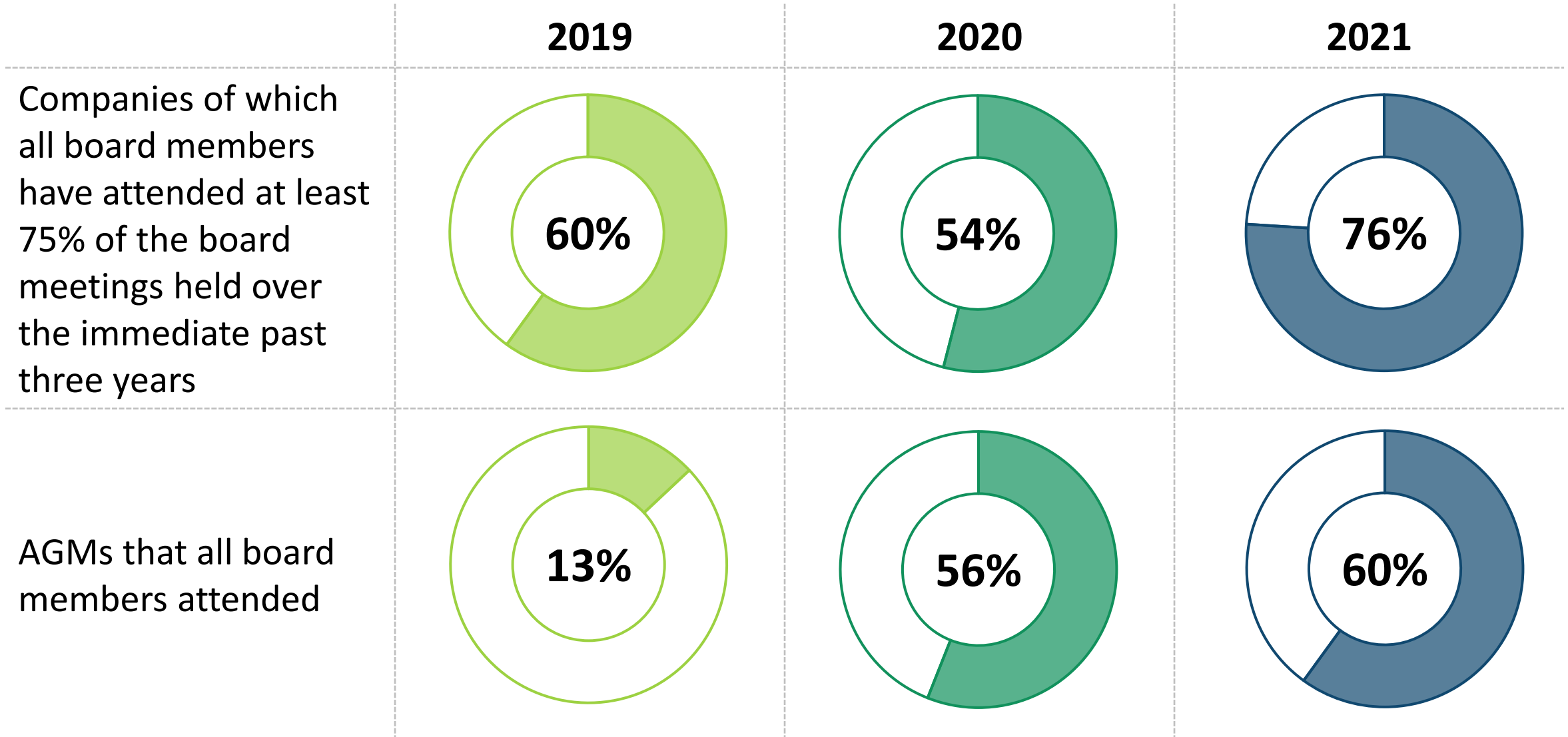
Stock Beta of companies evaluated in earlier studies



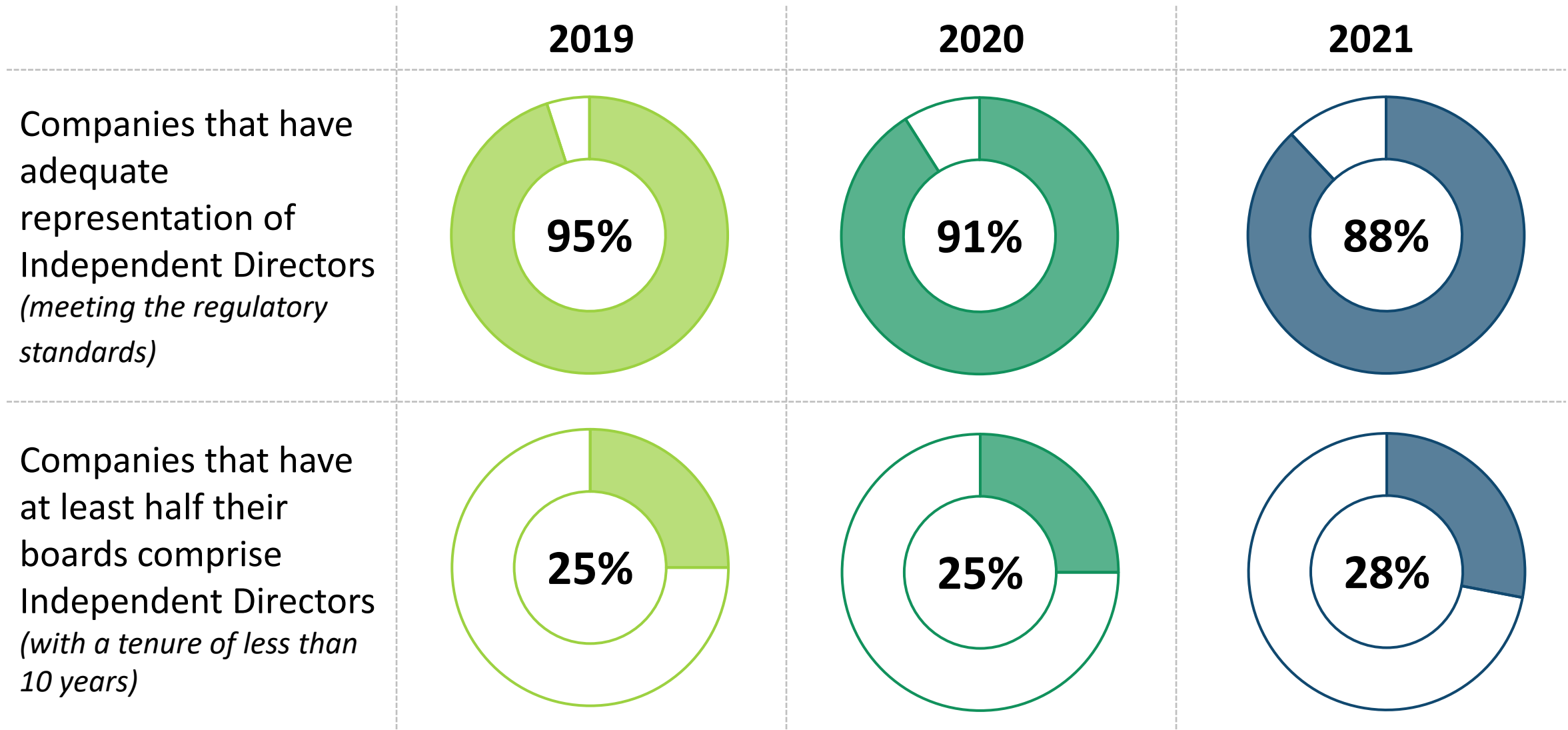
2017: Stock beta performance analyzed from 1 November 2017 to 29 October 2021
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2019: Stock beta performance analyzed from 1 November 2019 to 29 October 2021

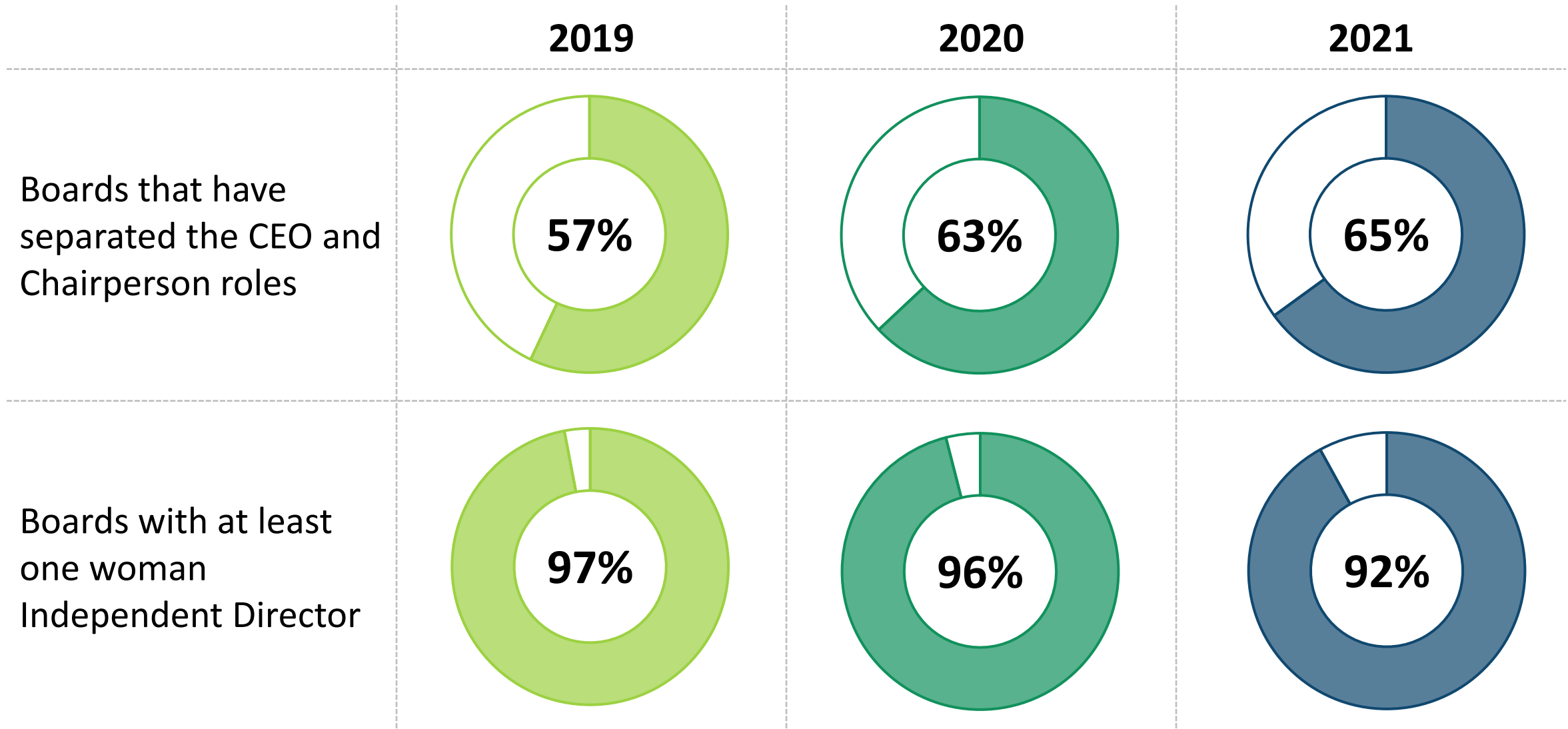
Governance Trends

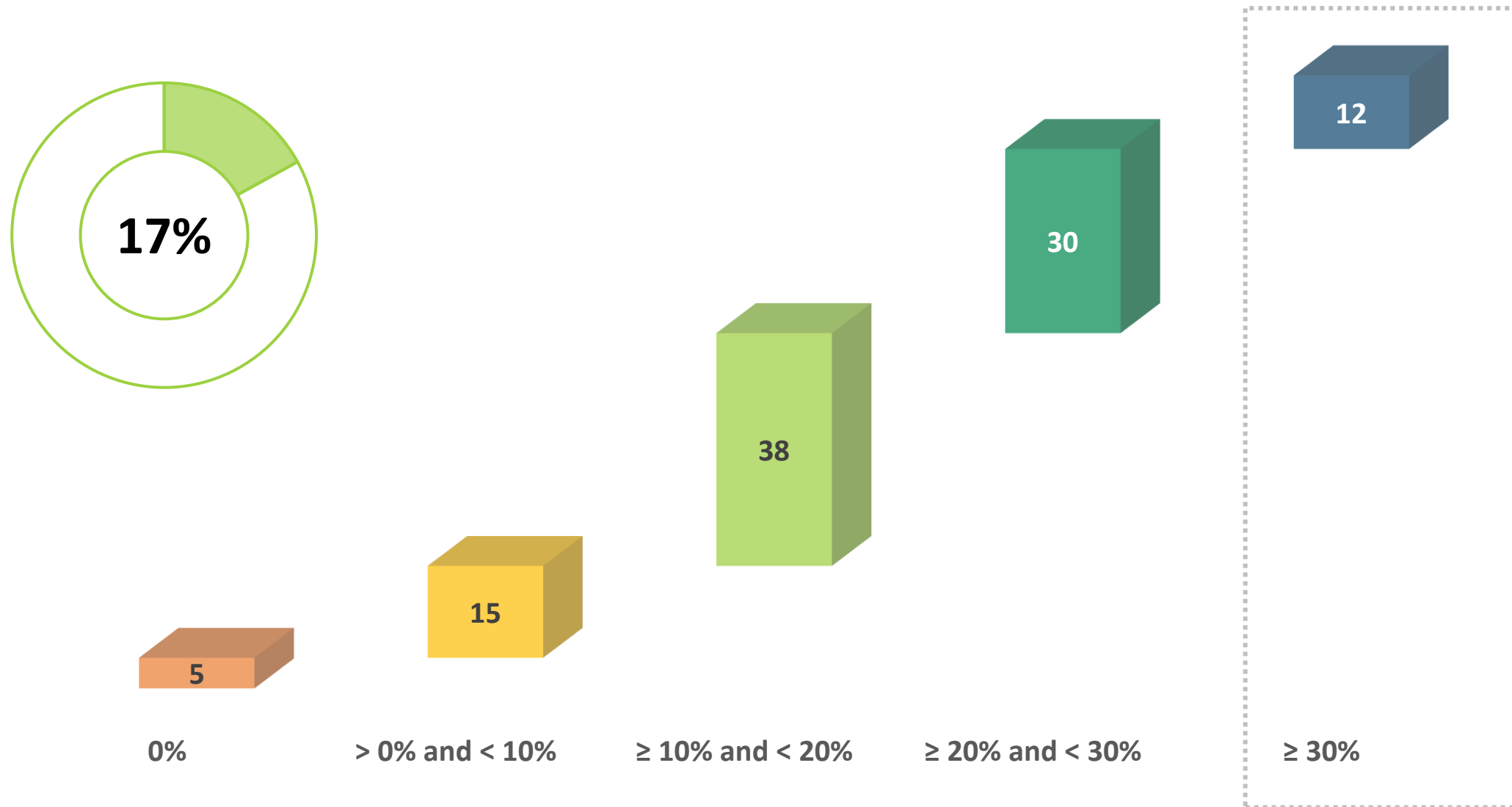
Board engagement levels

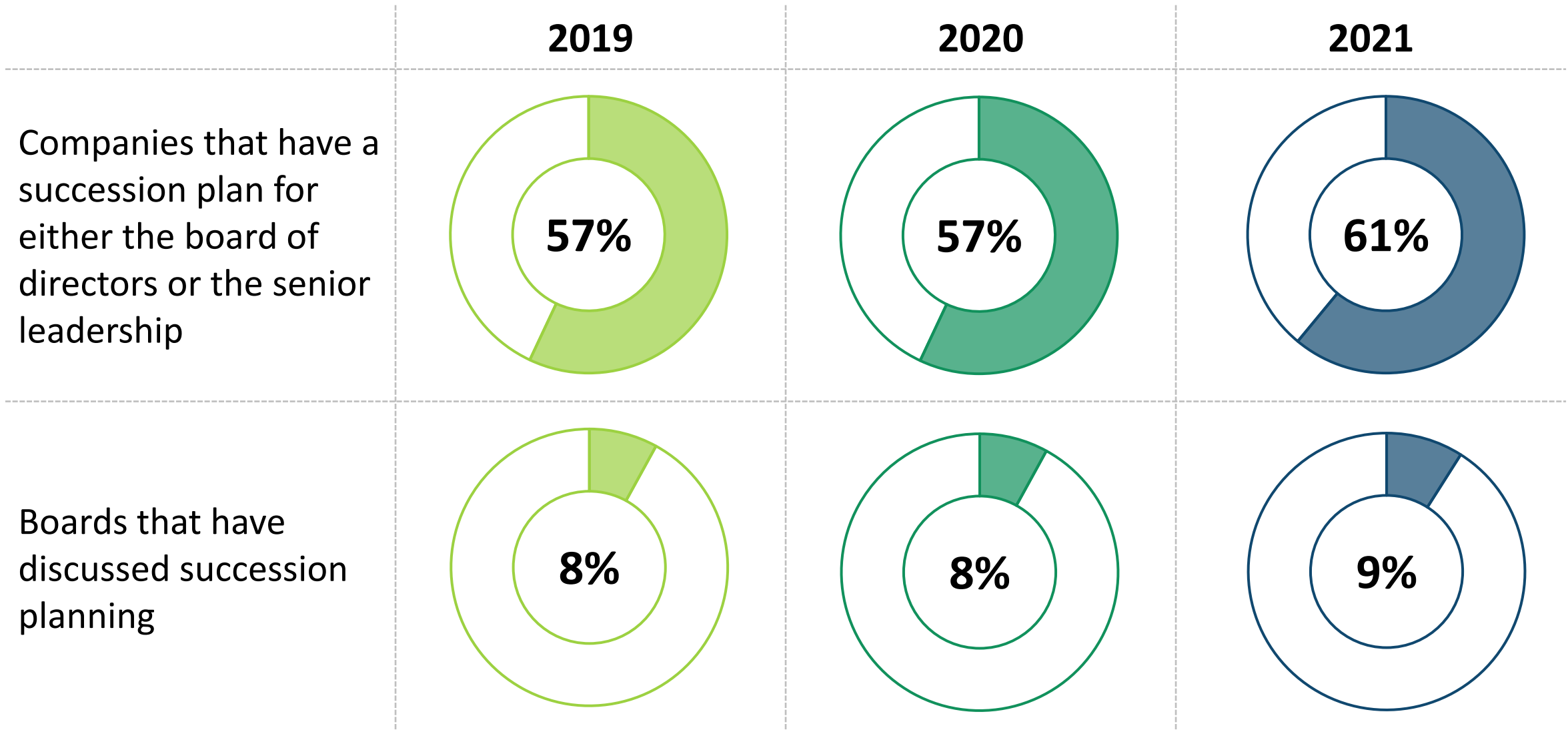


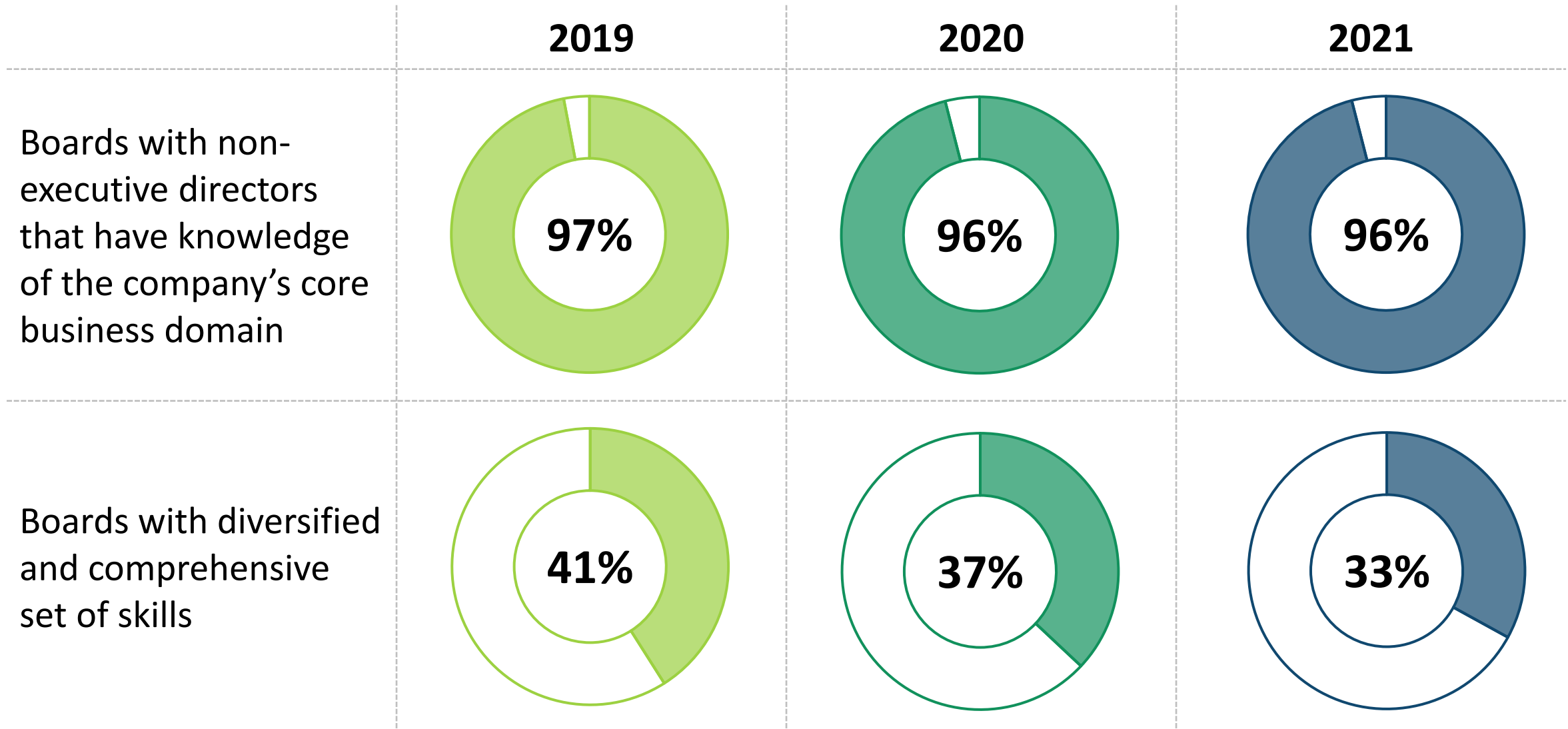
Board independence

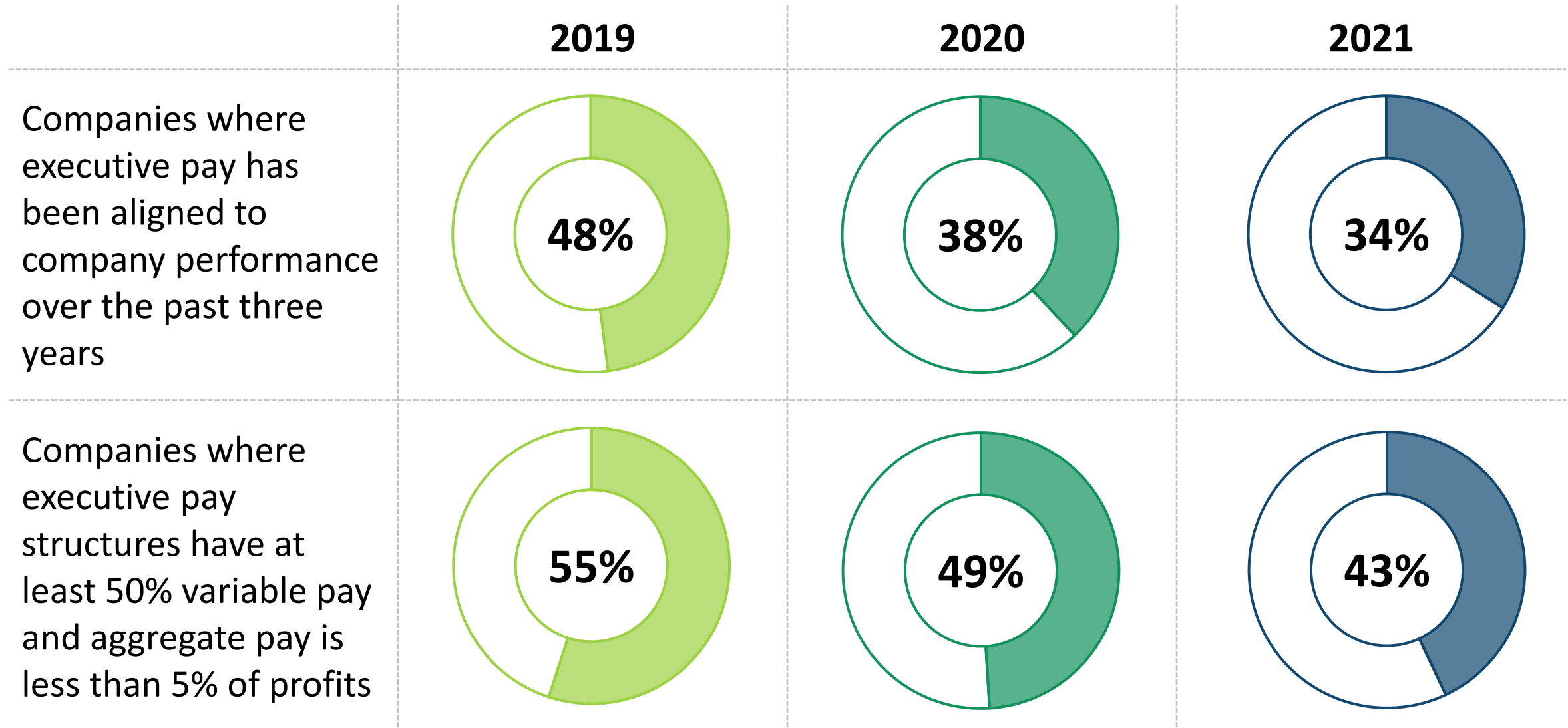






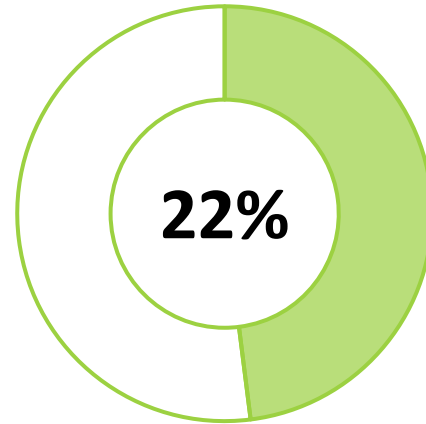






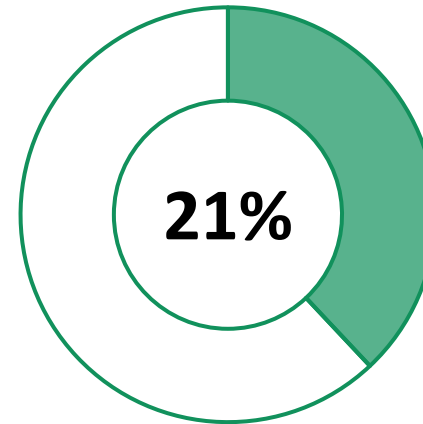
Companies with stock options were granted at market price

2019



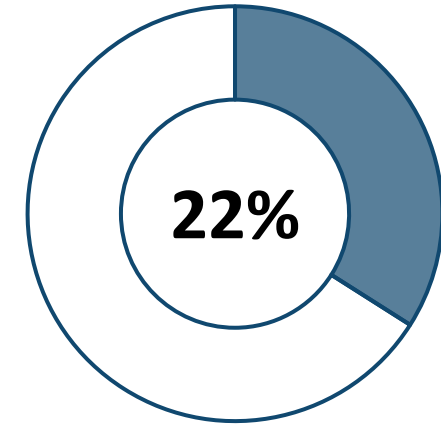
22 of 53 companies

2020



21 of 54 companies

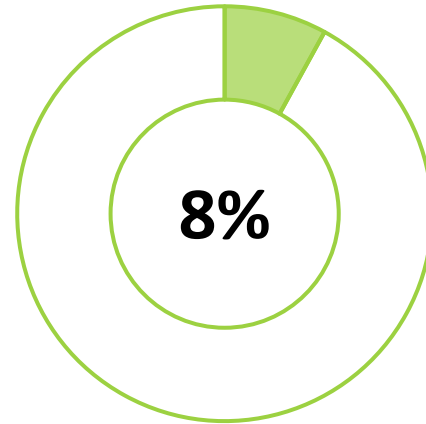
2021



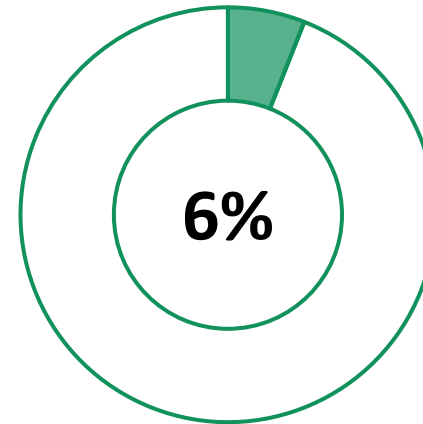
22 of 58 companies

Boards that have
disclosed the outcome
of board evaluations

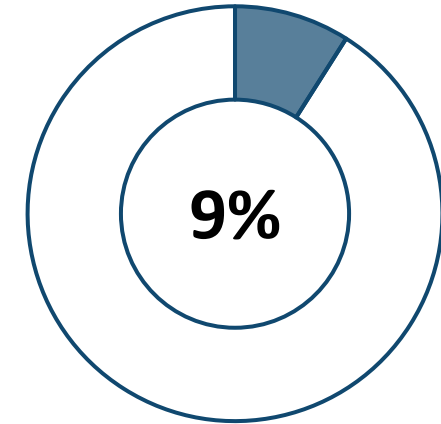
2019

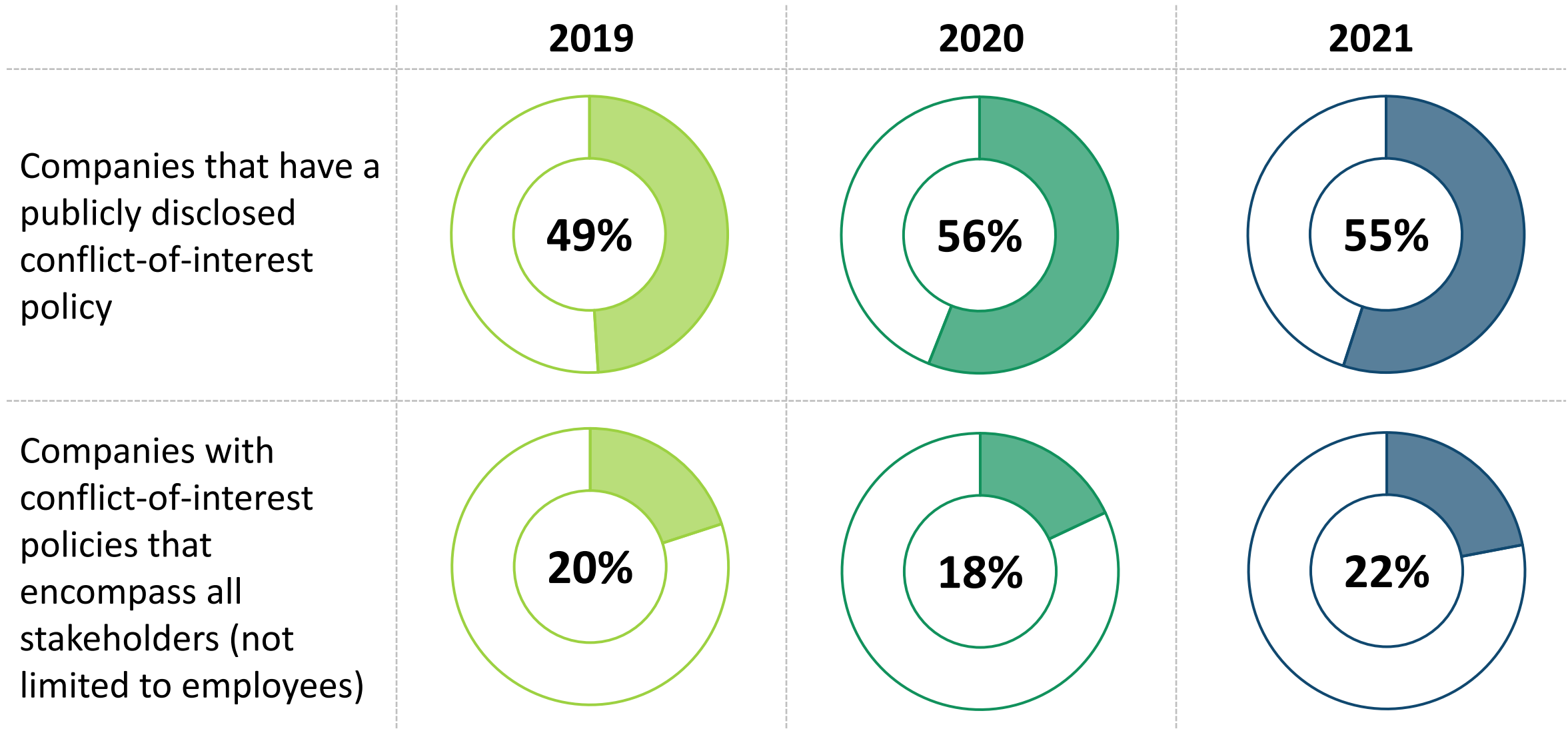


2020



2021

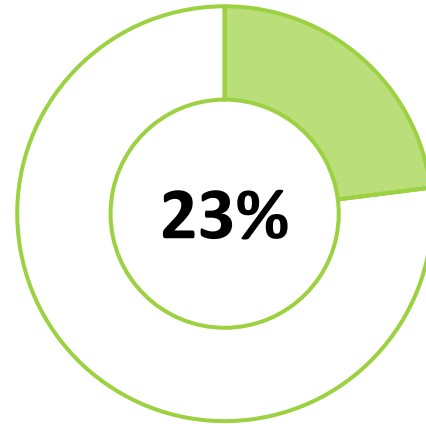




Related Party Transactions

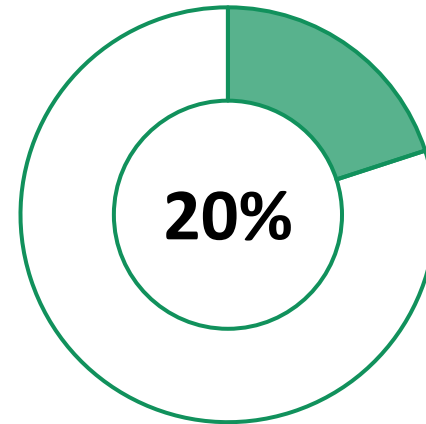
Companies that undertook RPTs in the past three years that were prejudicial to the interest of minority shareholders

2019



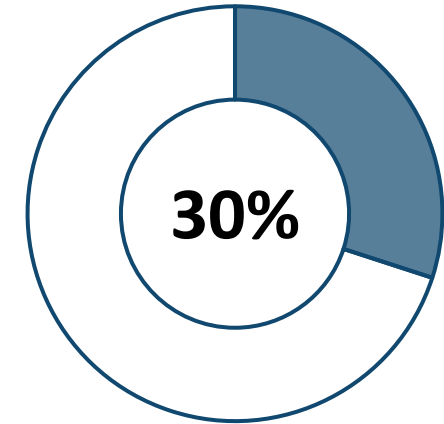
23 of 41 companies

2020



20 of 39 companies

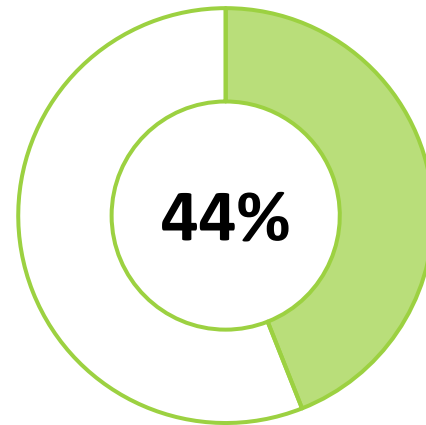
2021



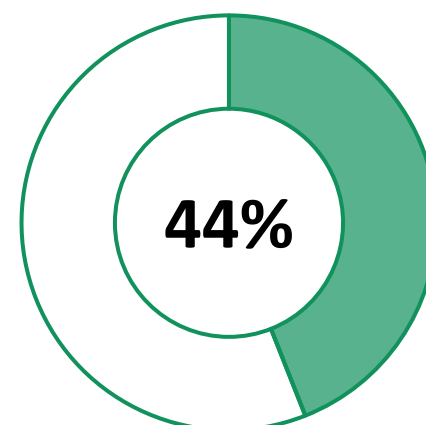
30 of 40 companies

Companies with policies on RPTs that prohibit interested directors from participating in discussion and voting on the transaction

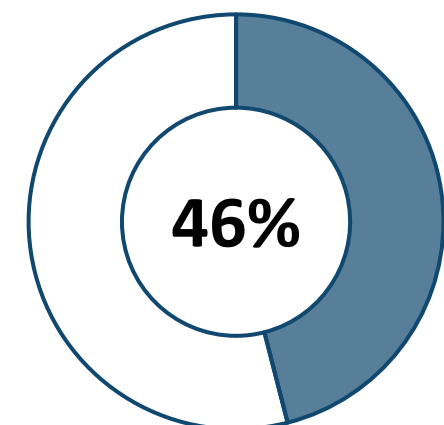
2019



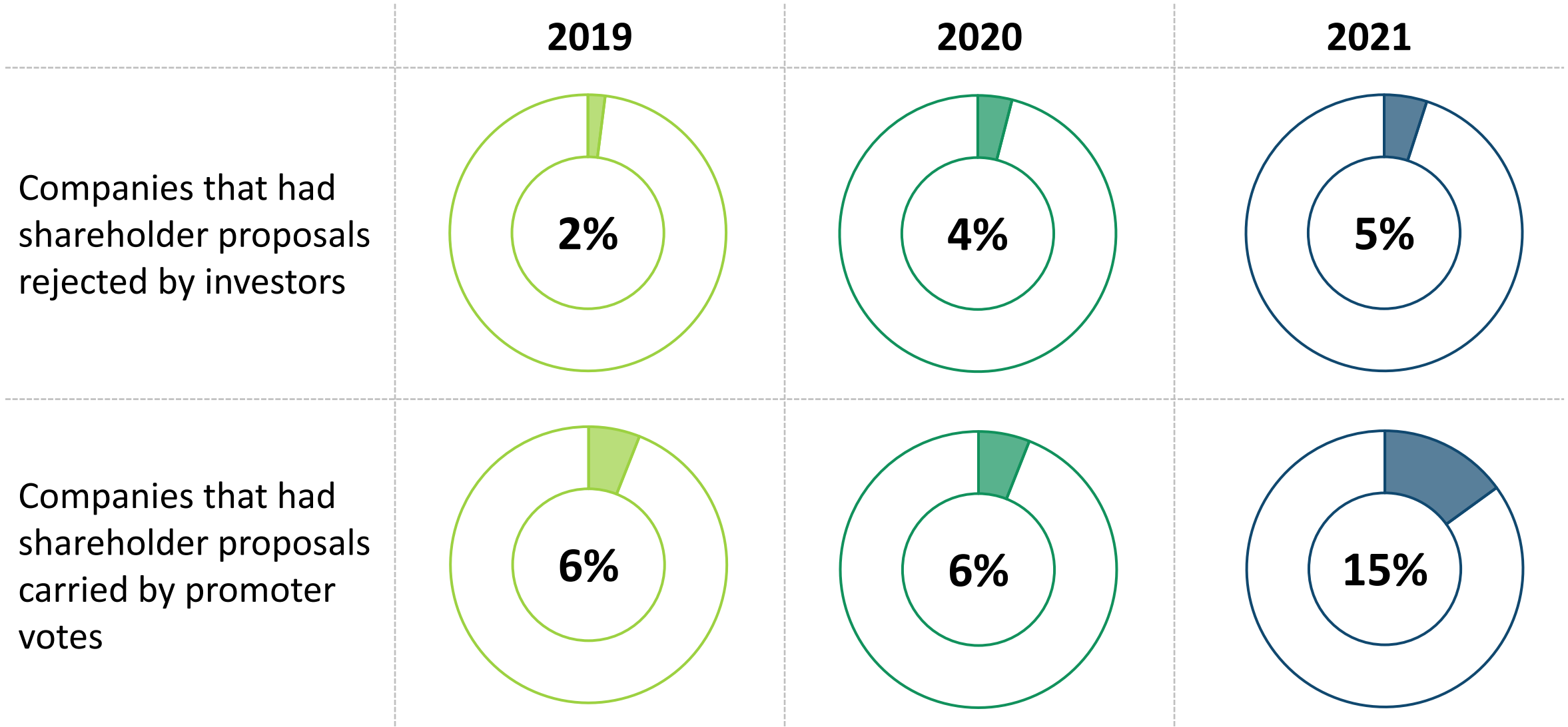
2020

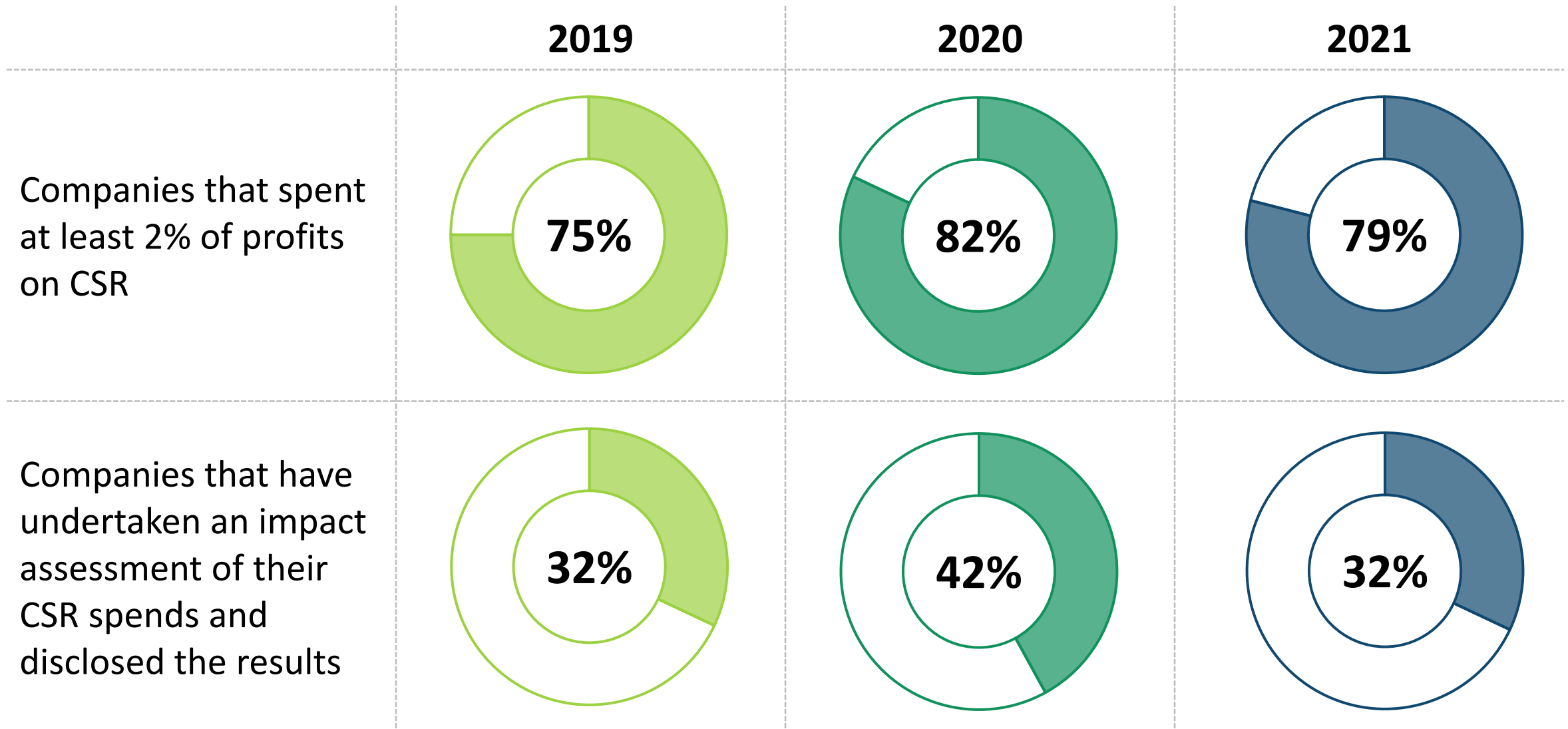


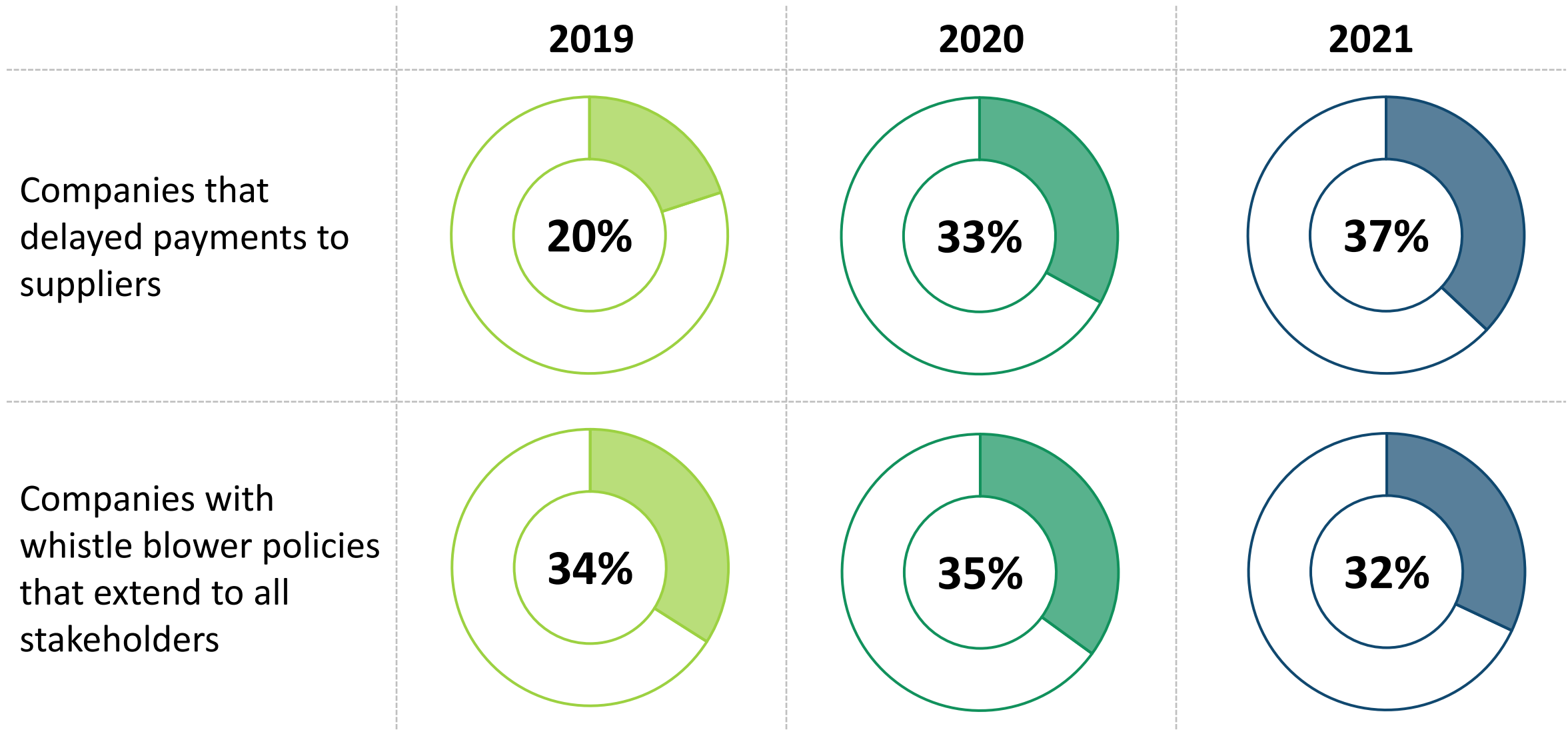
2021



Investors are getting vocal

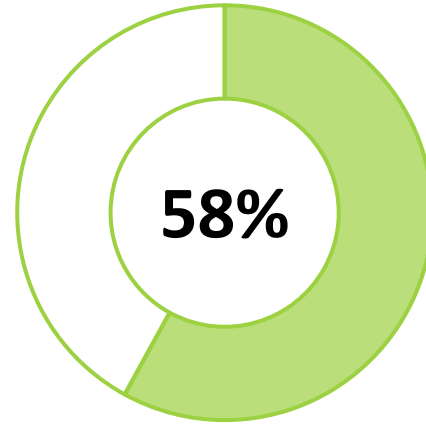




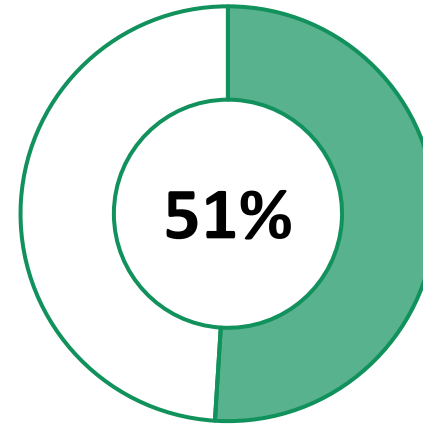


Companies with
publicly disclosed
health, safety, and
POSH policies

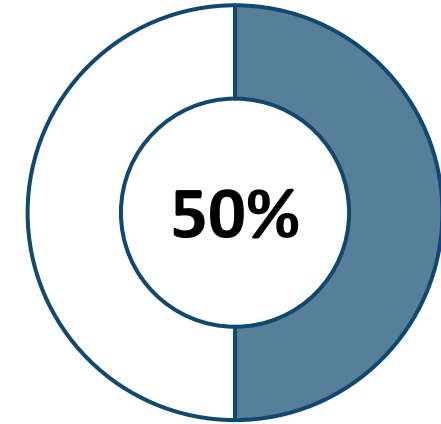
2019



2020



2021

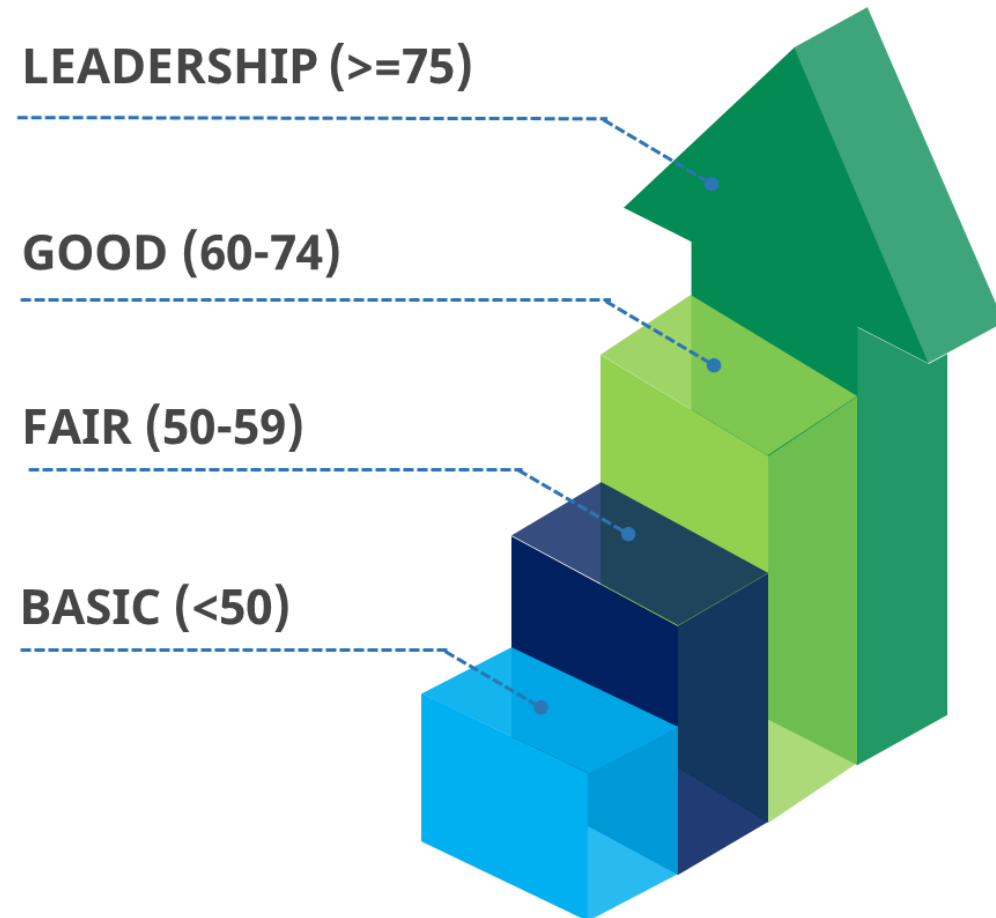


Changes to the scorecard

Effective 1 April 2022

Scorecard is being modified effective 1 April 2022

- Leadership cut off changed to 75 from the earlier 70
- Of the total of 70 questions:
 - 3 questions added
 - 6 questions removed
 - 11 questions modified
- Changes follow IiAS' November 2021 market consultation paper
 - Made to address the changes in regulations and practices

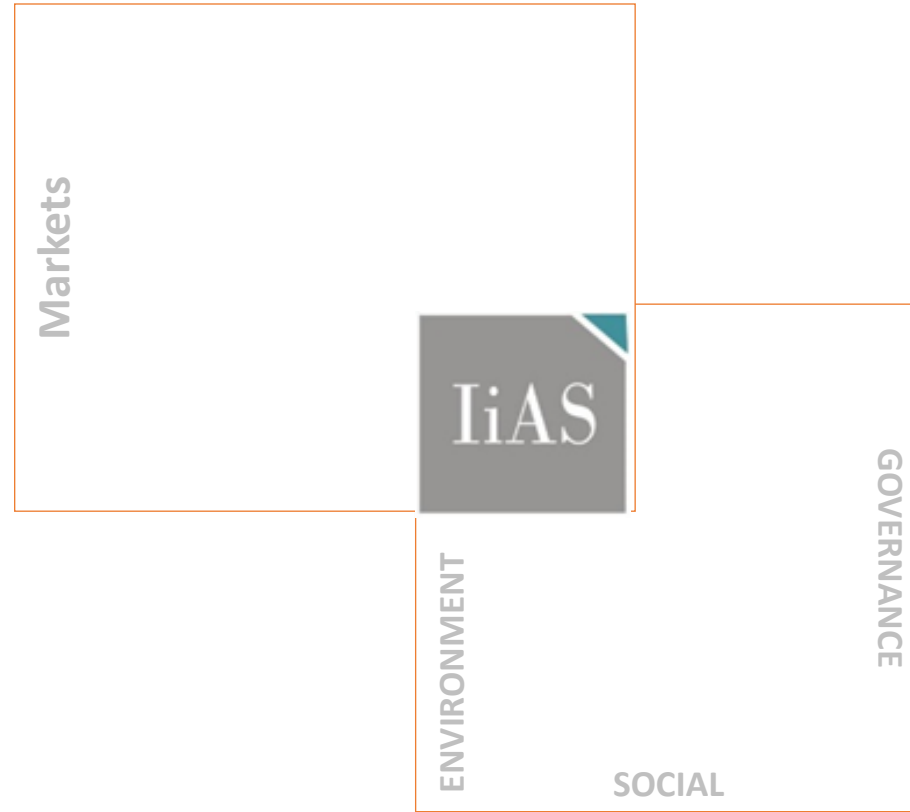


As all evaluation frameworks do, the methodology of the Indian Corporate Governance Scorecard also has its own limitation. A high score on the scorecard is not an indicator of current or future financial performance, or stock price performance. The scores also do not indicate the permanency of governance practices: a company's governance practices may improve or deteriorate from the date of the scoring. The scorecard is based on publicly available information, which has its limitations and cannot predict corporate behaviour – especially during contentious or divisive situations.

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This presentation incorporates the framework and results of the evaluation carried out by IiAS based on the IFC-BSE-IiAS Corporate Governance Scorecard.

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