

ABC Limited

BSE: XXXXXX | NSE: ABC Ltd
Ownership: Promoter Owned

Sector: Consumer Discretionary
Industry: XXXXX




Index: S&P BSE 100 / NIFTY 50
Last Update: 19 April 2020

ESG Score	Median Industry Score	Rank
74	64	15 th
	9 industry peers in the S&P BSE 100 ¹	Relative rank among companies comprising the S&P BSE 100*



Environmental

Responsible use of resources	79%	Sustainable goods and services	70%	Reporting of environmental risks and impact	75%
					

Social

Employee welfare and Stakeholder management	54%	Diversity	67%	Community well-being	83%
					

Governance

Rights of Shareholders	46%	Disclosures and transparency	83%	Responsibilities of the board	56%
					

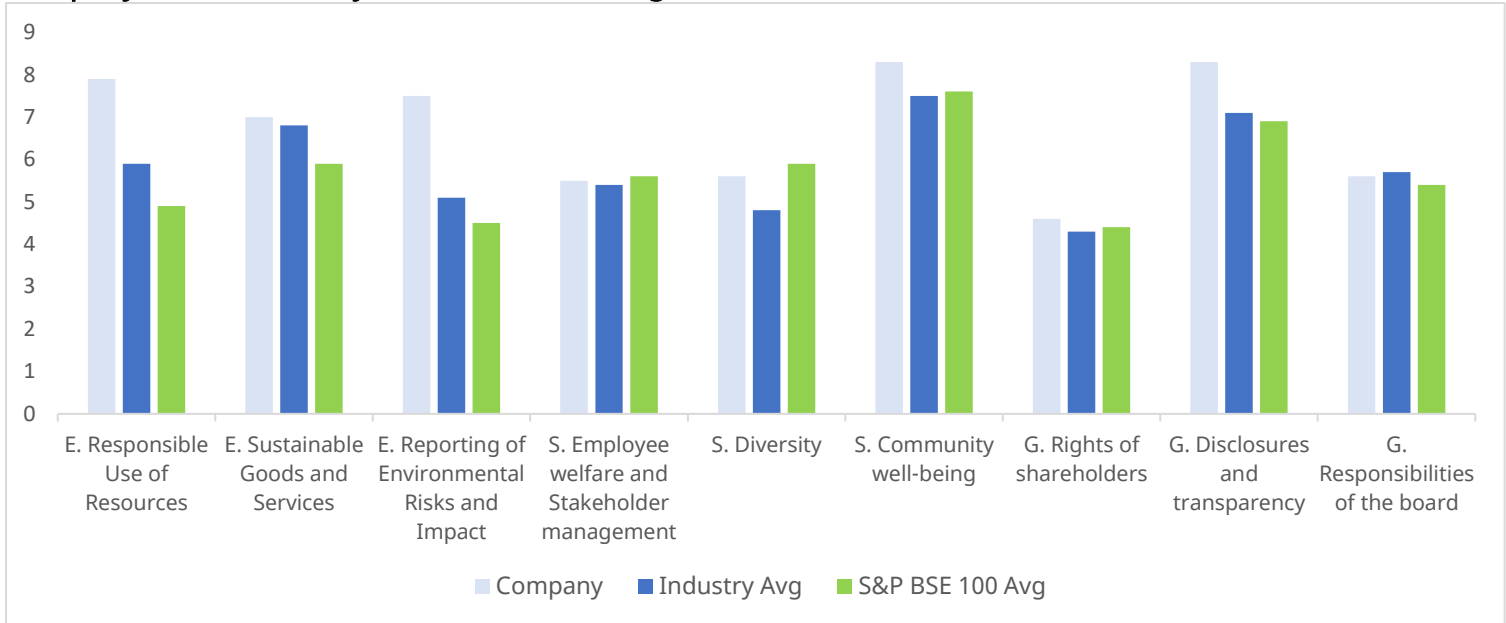
¹ As per an evaluation done by IiAS

Environmental	Social	Governance
<ul style="list-style-type: none"> • Environmental risk reporting • Impact on ecology • Reduction of carbon footprint • Usage of natural resources • Sustainable sourcing • Recycling of raw material 	<ul style="list-style-type: none"> • Employee welfare and equality • Diversity • Developing stakeholder relationships • Protection of stakeholder rights • Social inclusiveness • Customer value 	<ul style="list-style-type: none"> • Quality of shareholder meetings • Related party transactions • Disclosure of financial and non-financial information • Board and committee composition • Director remuneration • Board evaluation • Succession planning

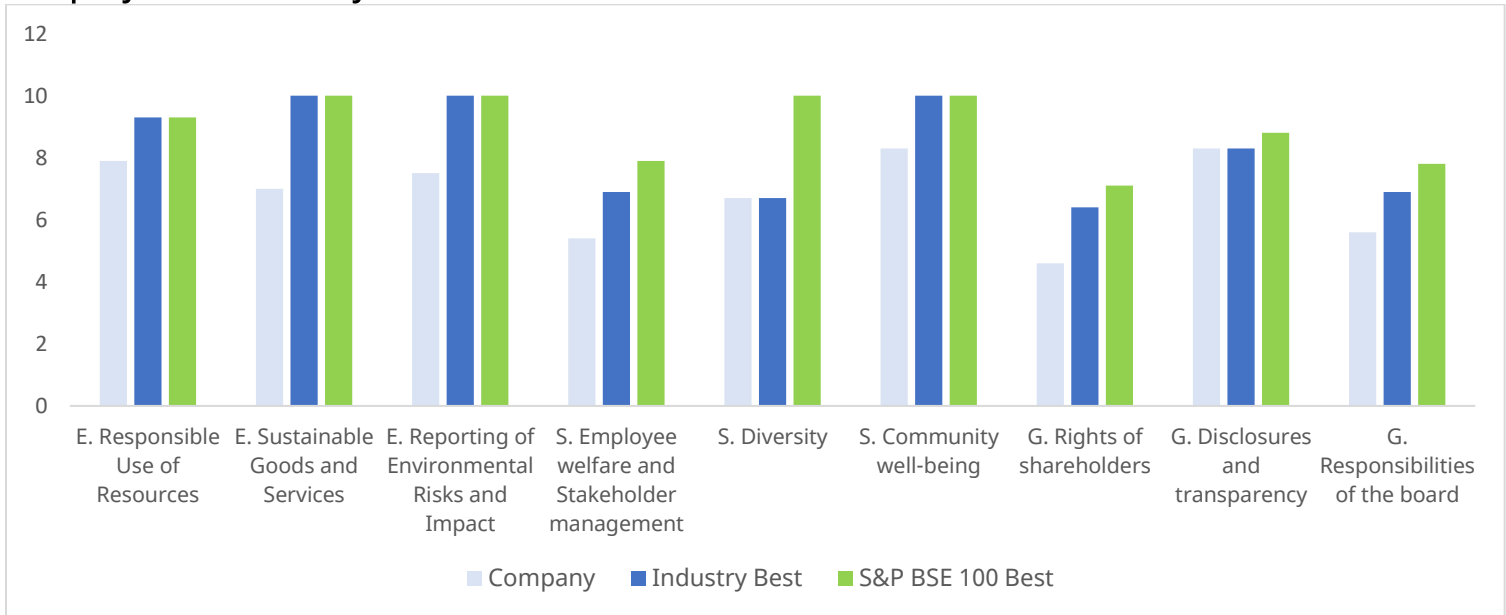
Industry and Index Benchmark

	Key themes	ABC Ltd's Score	Industry avg	S&P BSE 100 avg	Industry best	S&P BSE 100 best
E	Responsible use of resources	79%	59%	49%	93%	93%
	Sustainable goods and services	70%	68%	59%	100%	100%
	Reporting of environmental risks and impact	75%	51%	45%	100%	100%
	Total	75%	58%	50%	98%	98%
S	Employee welfare and Stakeholder management	54%	54%	56%	69%	79%
	Diversity	67%	48%	59%	67%	100%
	Community well-being	83%	75%	76%	100%	100%
	Total	58%	56%	58%	65%	83%
G	Rights of shareholders	46%	43%	44%	64%	71%
	Disclosures and transparency	83%	71%	69%	83%	88%
	Responsibilities of the board	56%	57%	54%	69%	78%
	Total	64%	59%	57%	73%	74%

Company Score v Industry and S&P BSE 100 Avg Score



Company Score v Industry and S&P BSE 100 Best



Company Score

Company	Environmental	Social	Governance	Total	Positive Screen	Negative Screen	Total
ABC Ltd	75%	58%	64%	68	6	0	74

Industry Peers*

Symbol	ESG	Positive Screen	Negative Screen	Total
ABC Ltd	68	6	0	74
PEER1	73	9	0	82
PEER2	70	10	0	79
PEER3	53	3	0	56
PEER4	52	2	0	54

Group/Sector Peers*

Symbol	ESG	Positive Screen	Negative Screen	Total
ABC Ltd	68	6	0	74
PEER1	66	9	0	75
PEER2	67	6	0	73
PEER3	69	4	0	73
PEER4	67	3	0	70

Engagement Areas

Environmental

- While the company has taken measures for carbon footprint reduction, they should also measure and disclose the actual year on year reduction or increase in carbon footprint.
- The remuneration policy of a company should integrate the company's economic, environmental and social objectives to provide tangible incentives that result in greater accountability.
- The company has stated that local sourcing is encouraged. For more clarity, the company should provide the percentage of components or materials locally sourced.

Social

- The number of women employees employed by the company currently forms 4% of the total workforce. The company should endeavor to employ a higher percentage of women employees.
- The company must ensure that the Stakeholders Relationship Committee (SRC) comprises at least 2/3rd independent directors and meets at least four times in a year to ensure that the company is committed towards developing stakeholder relationships.
- The company's whistleblower policy does not allow for anonymous complaints to be submitted: it must allow whistleblower complaints to be submitted anonymously, for stakeholders to report issues without the fear of reprisals.
- The company's Code of Conduct should be updated to state explicitly that the company is against any form of corruption or bribery.
- The company must establish and disclose strong policies, internal controls and an effective infrastructure setup to protect confidential stakeholder data.
- The company should provide more granular disclosures on consumer engagement practices carried out.

Governance

- The company should separate the role of Chairperson and Managing Director. Further the company should appoint an Independent Chairperson.
- The company must provide details on whether a succession planning framework is in place. Further, the company must disclose its succession planning policy including the applicability of the policy, criteria for appointing successors and steps taken for the development of a leadership pipeline.
- The company should disclose more granular details on all non-financial parameters.
- While the company's RPT policy meets regulatory requirements, it must consider having material related party transactions reviewed and validated periodically by statutory (or other external) auditors.
- The company must disclose the process followed for appointing new directors on board.
- The company must provide details on training and orientation modules (programs conducted, participation) for all directors (including non-independent directors), with the number of hours of training for each.
- The company held its last AGM in August 2020: going forward, it must endeavour to hold its AGM within four months of the reporting year end.
- Given the current business scenario and the increase in cyber security risks, the company should appoint a director having knowledge and experience in dealing with cyber security threats.
- All directors must strive to attend all the board meetings held during the year.
- While the internal auditor reports directly to the Audit Committee, the company must consider adopting and subsequently disclosing an internal audit charter.

Positive Screen

- The company should become a signatory to UNGC and should endeavour to follow the integrated form of reporting.
- The company currently follows the core GRI reporting framework. The company should consider migrating to the comprehensive GRI reporting framework.

- The subsidiaries of the company should also participate in the BR initiatives of the company.
- Currently the company carries out an annual assessment of its BR performance. As a good corporate governance practice, ideally the company should assess its BR performance more than once a year.

ANNEXURE B: METHODOLOGY

The scorecard comprises a total of 112 questions. These questions are divided into positive screen, negative screen and three broad categories namely: Environmental, Social and Governance categories

Environmental: The environmental category covers questions related to the subject company’s use of resources and steps taken to control emissions and reduce its carbon footprint. Here we also evaluate whether the subject company has assessed the impact of its business operations on the environment and its strategy to reduce this impact.

Social: The social category includes questions which evaluate the company’s relationship with all its stakeholders and whether the company contributes in a meaningful way to the community in which it operates.

Governance: The governance category covers questions which evaluate whether the discloses all material information, follows sound corporate governance practices and ensures that rights of all its stakeholders are protected.

Positive Screen: The positive screen covers questions related to local regulations and global principles and practices. Being a signatory to global principles comes with stringent reporting and disclosure requirements. Companies who adhere to these principles are expected to have detailed and robust processes in place to deliver on their ESG agenda.

Negative Screen: The negative screen measures the impact of a company's products or activities on society. A company is penalized if it engages in the manufacture or sale of products mentioned under the negative screen.

Each category is then divided into sub-categories containing a different number of questions that address the relevant issues related to that sub-category. The weightages assigned to each category are based on the number of questions in the category and the relative importance of the questions in that category.

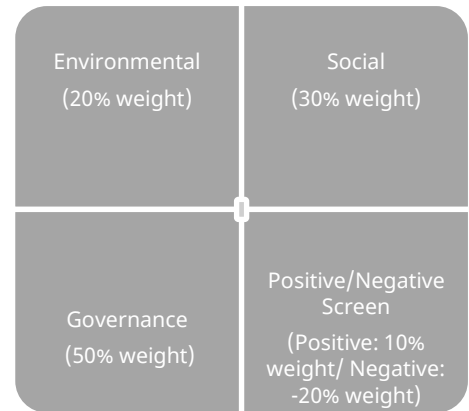
It was determined that the quality of ESG practices referred to in each question should be recognised on three levels:

- **2 points:** If the company follows global best ESG practices
- **1 point:** If the company follows reasonable ESG practices
- **0 point:** If the company needs to improve its ESG disclosures or the ESG practices carried out by it

Some questions do require a more limited ‘yes’/‘no’ response. In such cases, 2 points are awarded for a positive response and zero points for a negative response. If information is not observable through publicly available relevant information, the question will not be awarded any points.

Some questions may also provide for a “not applicable” option. If the assessors select this option, the question will be excluded while applying the scoring formula.

Each question has a detailed response key which underlines the best practice. The assessors need to strictly adhere to what is mentioned in the response key for scoring on each question.



SCORECARD MATRIX

CATEGORY WEIGHTS

Category	Number of questions	Maximum attainable score	Category weight (%)
Environment (E)	20	40	20
Social (S)	30	60	30
Governance (G)	50	100	50
Total	100		100
Positive Screen	10	20	10
Negative Screen	2	-30	-20

To arrive at a final score for a company, the assessors need to:

- Add the scores for all responses under all categories and divide it by the maximum attainable score for the categories. This may need to account for questions which are not applicable for the company. Multiply the ratio so obtained by the total number of questions. This is the adjusted score.
- Multiply the adjusted score figure by total category weight to give a weighted score for that category.
- Sum all weighted scores across Environmental, Social and Governance (ESG) categories.
- To calculate the positive screen score, add the scores for all the responses under the positive screen section, divide by the maximum attainable score and multiply by the total number of questions in the positive screen section.
- To calculate the negative screen score, deduct 20 from the score if the company produces or sells the products mentioned in (1) and deduct 10 from the score if the company produces or sells the products mentioned in (2) under the negative screen section.
- The final score will be a summation of the scores calculated under the ESG categories and the positive and negative screen sections.

$$\text{Adjusted Score} = \frac{\text{Aggregate score of all questions under ESG categories}}{\text{(Number of applicable questions in category x 2)}} \times \text{Total no. of questions}$$

$$\text{Category Score} = \text{Adjusted score} \times \text{Category Weight}$$

$$\text{Final Score} = \text{Environmental Category Score} + \text{Social Category Score} + \text{Governance Category Score} + \text{Positive Screen Score} + \text{Negative Screen Score}$$

SCORING EXAMPLE

Adjusted Score:

Category	Total number of questions	Maximum attainable score	Total score
Environmental (E)	20	40	30
Social (S)	30	60	35
Governance (G)	50	100	64
Total Score (before adjustment of not applicable questions)	100	200	129
Number of questions not applicable to the company	5	10	
Adjusted Score			68

** Rounding-off to be performed only at the final score level*

Category Score

Category	Adjusted score (A)	Category weight (%) (B)	Weighted score (A*B)
Environmental		20	14
Social	68	30	21
Governance		50	34
Total		100	68

Final Score

Category	Score
Environmental Category Score	14
Social Category Score	21
Governance Category Score	34
Total adjusted score	68
Positive Screen Score	6
Negative Screen Score	0
Final Score	74

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