

CORPORATE GOVERNANCE THROUGH COVID-19

CORPORATE GOVERNANCE SCORES 2020

BASED ON THE
INDIAN CORPORATE GOVERNANCE
SCORECARD FRAMEWORK DEVELOPED BY
IFC-BSE-IIAS

MARCH 2021

PREVIOUS PUBLICATIONS.



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FOREWORD.



Welcome to the fifth report on the Indian Corporate Governance Scores.

The scores are based on the Indian Corporate Governance Scorecard, developed jointly by the BSE Limited, the International Finance Corporation (IFC) and Institutional Investor Advisory Services India Limited (IiAS).

Indian markets have seen steady increase in institutional ownership. From 21.6% in March 2001 to 25.7% after the financial crisis in March 2008, to 34.6% by September 2020. Foreign Institutional Investors (FII's), who own 20.6% are the largest owners, after the promoters. Indian markets have seen renewed interest from this category: FIIs invested a net amount of ~ Rs. 1.7 tn. in 2020 in the Indian market, a sharp increase over the ~Rs. 1.0 tn. invested by FIIs in 2019. The amount represents one of the highest inflows in emerging markets economies in the year. With the increased holding by institutional investors, the expectations of behavior from corporate India have also changed. Large institutions expect companies to align themselves with globally accepted governance and disclosure norms. Importantly they have the heft to do so.

The Indian Corporate Governance Scorecard (scorecard), while preserving the Indian context, sets expectations of best practices in line with global practices: it is based on the G20/OECD principles of corporate governance, the benchmark for such frameworks. The aim of the scorecard is to provide investors, companies, and other internal and external stakeholders with a mechanism to make a fair assessment of governance practices and make informed decisions. The scorecard is not limited to compliance with local regulations; it enables companies to quantifiably assess their governance practices and undertake reforms, where necessary. The scorecard proposes to raise awareness of good governance practices and standards and provides practical guidance on the steps to be followed to align with global best practices.

The first scorecard report was issued in December 2016, when we announced the scores of top 30 companies listed on BSE by market capitalization. In the second edition, 100 companies were scored; and we expanded our coverage to encompass 150 companies in 2018 and 2019 (constituents of the S&P BSE 100 index and 50 companies that listed between April 2015 and March 2017).

I applaud the effort made by IiAS this year to evaluate 100 companies using its own resources, constituting the S&P BSE 100 index and assess the progress on the scorecard based on last year's score. For the last three years they had run a pilot and evaluated 50 companies that listed between 2015-2017. The conclusion was that companies that had been listed for longer tended to, on average, have more robust governance practices and higher scores. This was explained by a few factors including that till the businesses were privately held, they were shielded from wider investor scrutiny and that their peer sets were narrow. This pilot helped establish that listing and higher institutional holding help strengthen governance practices. As some of these companies are now listed for six years, this pilot assessment has been discontinued.

We were happy to note that several best practice requirements, covered by the scoring methodology, are now part of regulations. From 2020, regulations compelled the top 500 companies to begin disclosing director-wise board skills. This gives investors a sense of skill gaps on the board. This year, we saw all companies conduct their meetings virtually and links shared on the website – something that was viewed as a best practice. Another regulatory change that will kick in from 1 April 2022 is the separation of CEO and Chairperson roles, leading to better demarcation of responsibilities. That the Chairperson and the CEO cannot be related to each other is likely to enhance the board oversight on management. It has been five years since we first published our scorecard methodology, all this is a pointer that we will be revisiting our methodology during the year.

In India at least eight different asset management companies have introduced ESG focused investment schemes of which five were launched in 2020. The aggregate assets under management (AUM) of these ESG funds was over Rs. 90.0 bn on 17 February 2021. While this number is small in comparison to the size of the assets under management by such AMCs, the increased interest in ESG factors is forcing companies to think deeply not just about sustainability and social factors, but also about governance, one of the core pillars of any ESG framework. This is in line with international trend in ESG as well as the integrated new approach undertaken by IFC, a global leader in standard setting and advising companies in addition to being the largest private sector investor in emerging markets that has incorporated a systemic E&S risk assessment into its investment decisions for more than 20 years. As investors ourselves we understand the need to look beyond G and focus on ESG.

We are extremely pleased with what we have been able to achieve since we started this journey in 2016, through the strong partnership established with BSE, IFC and IiAS over the last five years. Despite the challenges facing corporate India due to Covid19, it is encouraging to see that companies have remained resilient with the scores getting better each year. India's quick adoption of the virtual AGM platform, along with changes in regulations and practices, have set a new bar for Indian companies. This is a testimony that the efforts put by IFC, BSE and IiAS have made an impact on the Indian corporate governance landscape.

We encourage companies and investors to utilize this framework and ensure that their governance practices are aligned with the best in the country, if not the world.

Kate Lazarus

Senior ESG Advisory Lead, Asia Pacific
IFC

MESSAGE.



When BSE-IFC-IiAS first launched the Indian Corporate Governance Scorecard in 2015-16, India was witnessing a rising class of responsible and aware investors. Empowered by changing regulations, they were starting to ask the right questions of managements and vocalizing their opinions by casting their votes. To boost stakeholder confidence, companies needed to upgrade their corporate governance framework to ensure it is in line with international and local best practices.

The Scorecard was launched to assist with this transition. The Scorecard provides a standardized and objective evaluation framework to be used by companies, regulators, and other stakeholders to assess companies' corporate governance practices. Importantly the benchmarks embedded in the Scorecard, for the most, remain independent of regulatory requirements – helping market participants approach governance as a principle-driven, and not compliance, exercise.

It is heartening to see that the better governed companies showcase their awards in their annual report. This should encourage the other companies to strive to improve their scores and the well governed companies to better themselves. I also strongly believe that the benchmarks provide great insights to insights regarding companies they have invested in and the area's they should engage with their investee companies.

I am encouraged to see the progress made and am happy to see that IiAS is continuing with this Scorecard. The Scorecard is even more relevant today than when it was first launched as companies have internalized the need for a strong and robust governance framework. Significantly, the Scorecard provides a review of best practices in corporate governance in the Indian markets, that companies now strive towards.

AshishKumar Chauhan
Managing Director and CEO
The BSE Limited

INTRODUCTION.

It is a fact that companies operated in a pre-COVID time (pre-April 2020), but they reported and conducted their shareholder meetings when the pandemic was in full force. Consequently, COVID has cast a long shadow on their governance structures, conduct and reporting.

The Covid-19 pandemic tested governance structures and perhaps the expectation was that governance improvement will take a backseat when the very survival of business is key. Businesses were floating in uncharted waters, navigating through financial and operational challenges, while also addressing the needs of their people, customers, and suppliers.

Even so, our analysis shows that corporate India embraced the additional regulatory structures imposed due to the Covid-19 crisis, resulting in median scores of the S&P BSE SENSEX constituents (SENSEX companies) increasing to 63 from 61 last year. Even in the wider BSE 100 universe of companies, median scores of companies increased to 61 from 58. Of the BSE 100 companies, eleven companies were in the 'LEADERSHIP' category, against six in 2019. 44 companies were in the 'GOOD' category, up from 39 last year. Governance practices improved despite the Covid-19 pandemic, primarily due to better shareholder engagement practices and improved disclosures, some of which were driven by regulatory flexibility.

The IMF estimates that the global [economy shrunk by 4.4% in 2020](#) and described the decline as the worst since the Great Depression of the 1930s. With most of the world currently experiencing a recession, challenges around demand pick-up and widespread unemployment loom large. While the worst may be behind us, the worries are far from over. With the worst impacted sectors in the pandemic including Travel, Hospitality and Retail not showing any palpable signs of recovery, it would be fair to say we are still not out of the woods. With cases peaking in some countries, moderating in a few and returning in others, the uncertainty is pushing businesses to reinvent themselves by accelerating digital transformation, establishing variable cost structures, and implementing agile operations.

The pandemic has outlined the need for companies to focus on all stakeholders: external and internal. Health and safety of employees were high priority issues. Companies were required to show solidarity with the communities they operate within, either through increased contributions towards CSR activities or through separate relief efforts. Suppliers and vendors, largely medium and small-scale organizations, worked closely with companies to mitigate the risk of supply chain disruptions. With employees being furloughed or laid-off, questions on remuneration to key personnel remaining largely unchanged, or not being reduced in line with profitability emerged as a bone of contention. The companies which emerged successfully out of the pandemic, were the ones who had robust ESG practices firmly in place and were nimble enough to adapt to the rapidly changing environment in the early days of the pandemic.

Notwithstanding, 2020 can also be viewed as a landmark year for Corporate Governance. While, lockdown and social distancing norms challenged the physical format of shareholder meetings, Corporate India embraced technology to hold virtual AGMs this year. The pandemic not only challenged the board on complex decisions around capital allocation, fund raising and strategic plans but also required boards to actively deliberate on decisions which are straightforward in the normal course, such as dividends. The pandemic also gave businesses opportunity to effectively communicate with its stakeholders, the overall impact of COVID-19 on its operations, the steps taken to deal with the crises.

Reference Notes:

- For evaluation framework: Refer Annexure A
- For methodology: Refer Annexure B
- For list of companies covered under study: Refer Annexure C
- For detailed questionnaire: Refer Annexure D

SENSEX TRENDS.

The 30 constituents of the S&P BSE SENSEX (SENSEX)¹ account for ~48% of total market capitalization. At an aggregate level, SENSEX companies have improved their overall governance practices from last year. The number of companies in the LEADERSHIP category has increased to five from three². The median score of the SENSEX companies increased to 63 against the previous year's median score of 61. The highest score was higher at 80 against previous year's 79. Three companies have moved from the Fair category to the Good category.

Exhibit 1: Scorecard categories

Grade	Score Range
LEADERSHIP	>=70
GOOD	60 – 69
FAIR	50 – 59
BASIC	<50

Exhibit 2: Percentage of SENSEX companies in each category

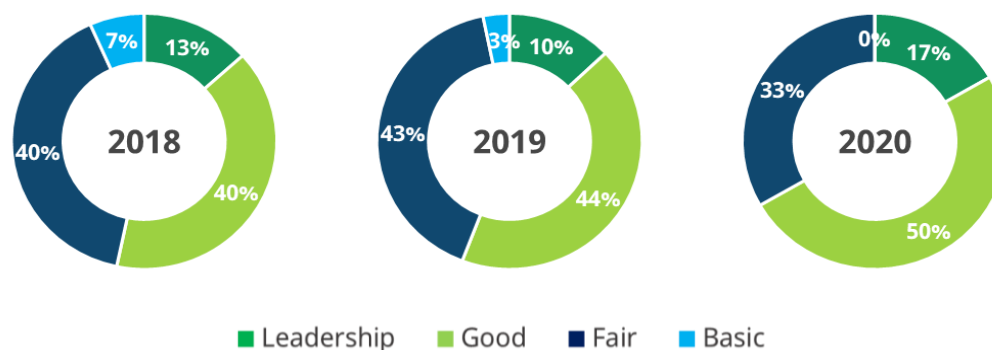
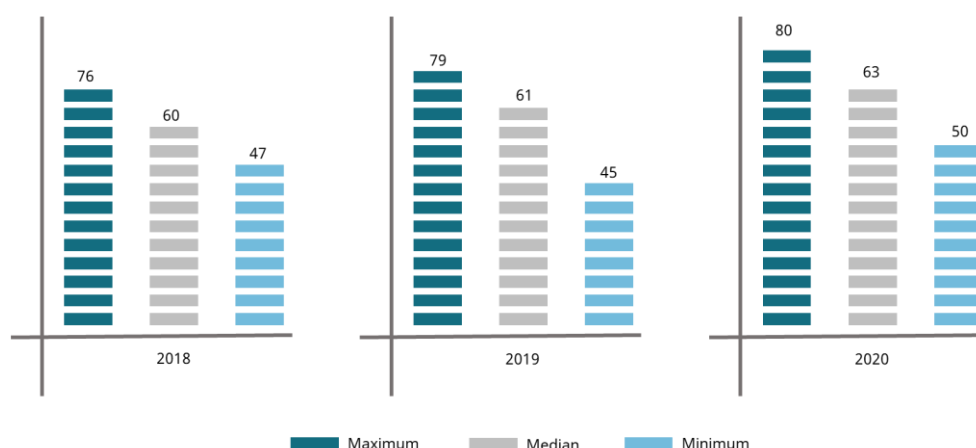


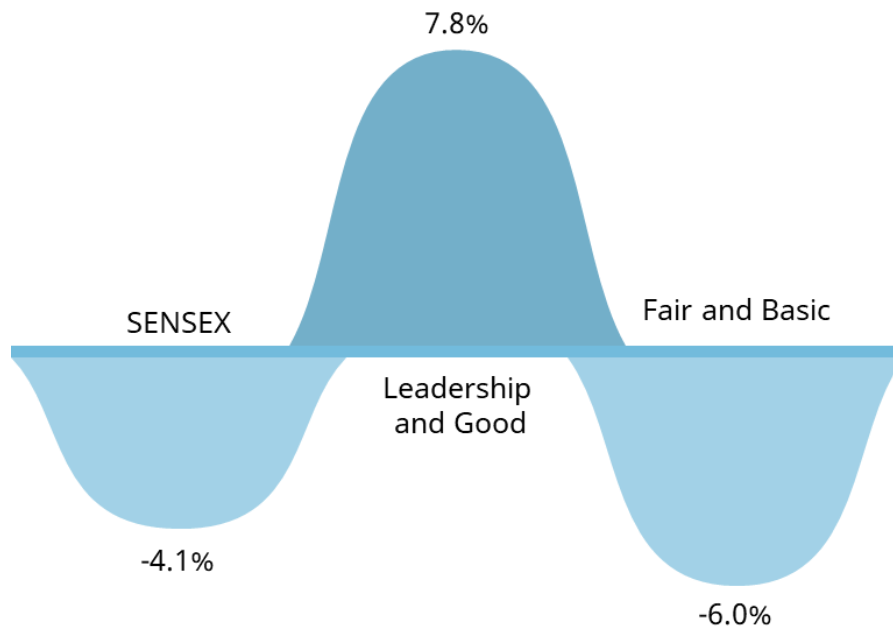
Exhibit 3: Median, maximum and minimum scores for SENSEX companies



¹ On 30 September 2020

² There has been a change in the SENSEX composition. Wipro Limited, which was in the 'LEADERSHIP' category in 2019 (and remains so in 2020), has moved out of the SENSEX, while Dr. Reddy Laboratories Limited, which is now in the LEADERSHIP category was included in the SENSEX in 2020.

Exhibit 4: Median stock price CAGR performance³ over three years for SENSEX companies evaluated in the 2017 study



Stock price performance analyzed from 1 November 2017 to 30 October 2020

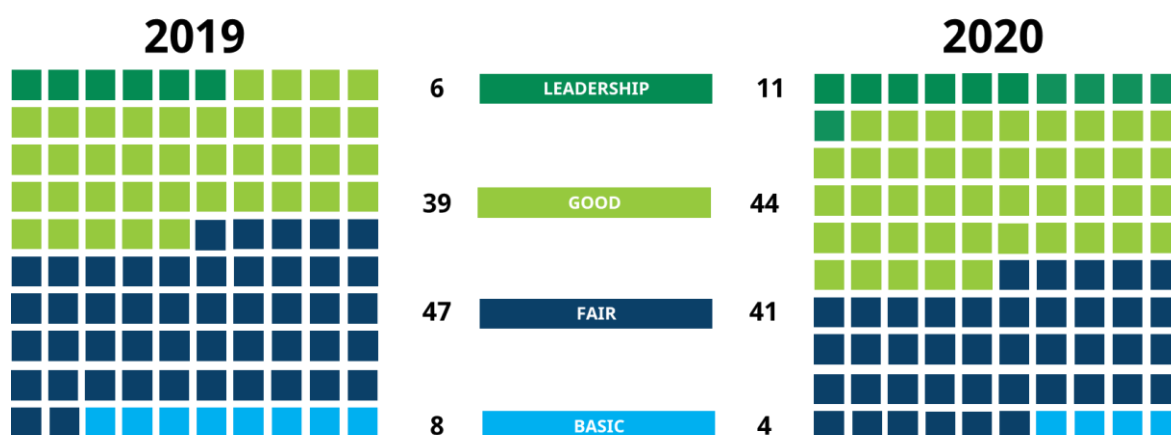
Better governance practices result in better returns for shareholders. Over the years, companies in the Leadership and Good category have outperformed their peers. This year is no exception, with companies that had a score of 60 or more (in the Leadership and Good categories) three years ago, returning 7.8% in stock price performance (on a CAGR basis), while the companies in the Fair and Basic underperformed the SENSEX returns, with a - 6.0% CAGR return over the three-year period. While there may be deviations in individual stocks, at a portfolio level the assessments shows that markets reward better governed companies.

³ Stock Price performance is calculated based on prices as on 1st November of the respective year. Price Performance for SENSEX is the median for the portfolio of stocks comprising the index and is not weighted by market capitalization.

BSE 100 TRENDS.

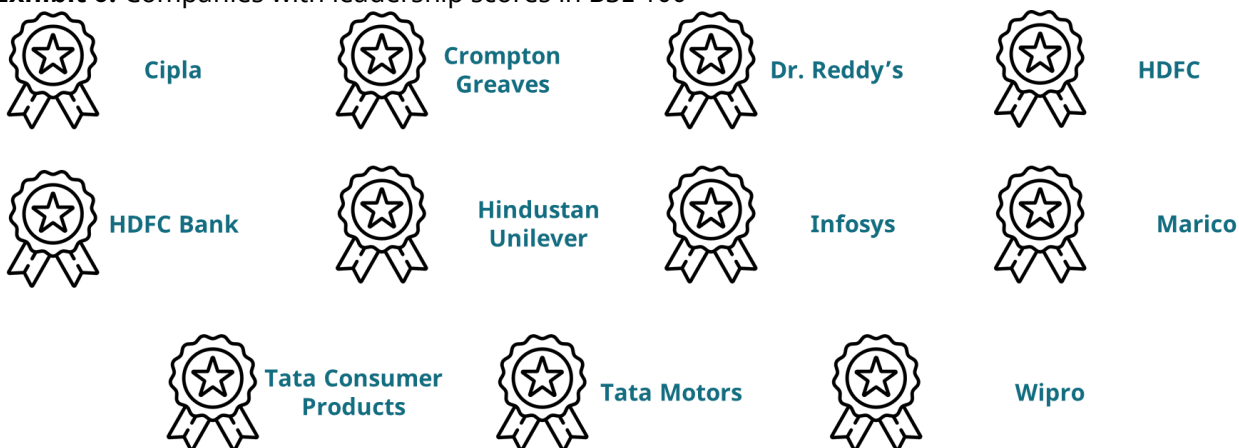
The S&P BSE 100 (BSE 100)⁴ index comprises almost 71% of BSE's market capitalization. Therefore, the results of the BSE 100 companies can be considered a surrogate of the overall governance standards of Indian listed companies.

Exhibit 5: Distribution of governance scores for the BSE 100 companies



This year saw the median score of BSE 100 companies increase to 61 from 58. This trend was led by two factors - an increase of companies in the 'LEADERSHIP' Category (11 in 2020 vs. 6 in 2019) and 'GOOD' category (44 in 2020 vs. 39 in 2019) and a decrease in companies in the 'BASIC' category (4 in 2020 vs. 9 in 2019). Further, the highest score of BSE 100 companies increased to 80 (from 79 in 2019). However, we did see the lowest score decrease to 39 from 44 in 2019.

Exhibit 6: Companies with leadership scores in BSE 100^{5 6 7}



⁴ On 30 September 2020

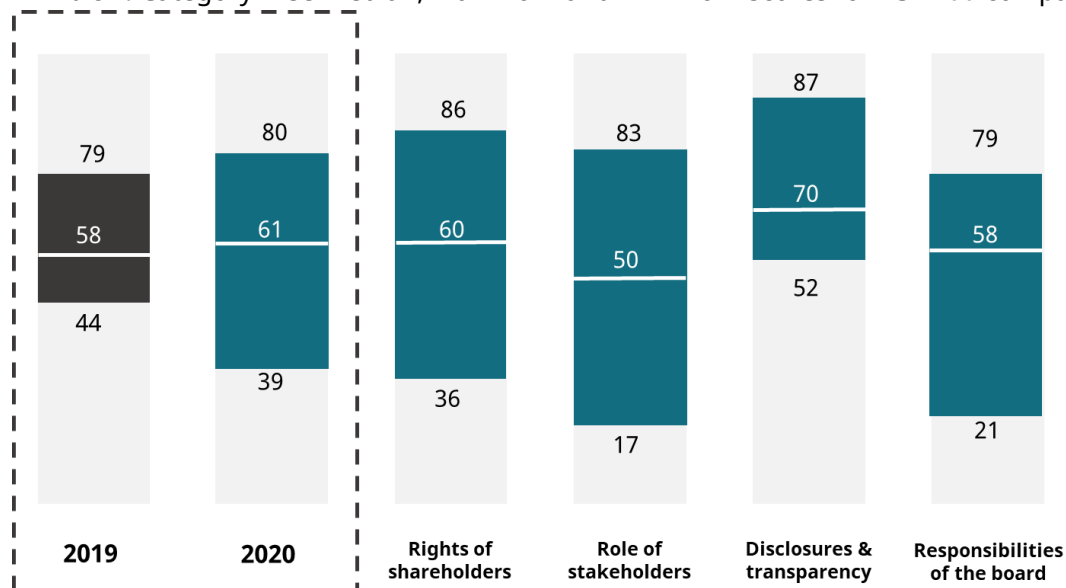
⁵ IiAS as a proxy advisor provides various services including voting advisory, publishing reports on corporate governance and related matters. These services are subscribed to by some of these companies, for which IiAS has received remuneration in the past twelve months.

⁶ HDFC Investments Limited, a subsidiary of HDFC, is one of the shareholders of IiAS.

⁷ Tata Investment Corporation Limited (TICL), Tata Consumer Products Limited and Tata Motors Limited are part of the Tata group. TICL is one of IiAS' several shareholders.

Six companies, Crompton Greaves, Dr Reddy's, HDFC Bank, Marico, Tata Consumer and Tata Motors, join Cipla, HDFC, HUL and Infosys in the 'LEADERSHIP' category in this review cycle.

Exhibit 7: Category wise median, maximum and minimum scores for BSE 100 companies



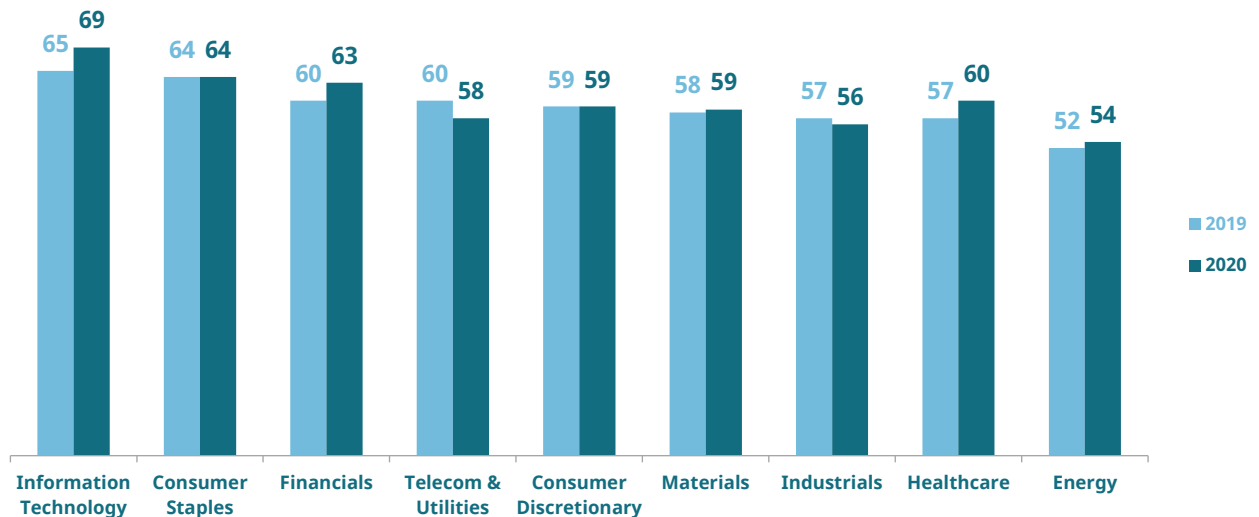
The exhibit shows the maximum, median and minimum percentage scores in each governance category for 2020 and on an overall basis for the past two years. The median score for BSE 100 companies has increased to 61 from 58, yet the band of overall scores has once again widened: from 39 to 80 in 2020 against 44 to 79 in 2019. Because Indian regulators use disclosure as a form of enforcement, companies generally score well in the category of transparency and disclosure. Over last year, the highest increase in median scores was in the category of rights of shareholders – to 60 from 53 last year. The primary reason for this change can be attributed to regulators' response to COVID-19: companies were mandated to have virtual AGMs, a significant shift from the earlier format of only physical meetings. The role of the board continues to remain an area of focus; median scores in the category of board responsibilities remained at 58 from last year, while highest score decreased to 79 in 2020 from 84 in 2020 due to independence representation on the board falling from above regulatory thresholds to minimum regulatory levels.

Exhibit 8: Heat map displaying relative performance of BSE 100 companies across categories



An inference from the heat map is that different companies excel in different parameters – the companies with the highest overall scores do not necessarily perform well across all parameters. Similarly, companies with lower scores are not necessarily laggards in all parameters. Thus, companies’ intent on improving their corporate governance standards must have a well-balanced approach which takes a holistic view on their corporate governance framework.

Exhibit 9: Industry wise median scores for BSE 100 companies



Based on industry wise classification, information technology, financials and healthcare have shown an improvement in their governance scores driven by better disclosures and the shift to virtual AGMs. For Telecom/Utilities the median score has decreased due to the subdued performance of Public Sector Units (PSUs) (~57% of the industry comprises of PSUs).

From an ownership structure perspective, the rank ordering has changed marginally from last year, with median scores for widely held companies surpassing those of MNCs. Yet, both these categories do not drive overall scores. Because promoter-controlled companies account for 63% of BSE 100, median scores for the index traditionally hover around the median scores for this ownership set. As has been past trends, scores of PSUs tend to be significantly lower and because these constitute 18% of BSE 100, their impact tends to pull down median scores for the index. The underperformance of PSUs is driven largely by weak board composition, many of which fail to meet regulatory standards. PSUs tend to be the exception to every rule – in some instances not complying with regulations and others, having built-in exceptions into the regulations themselves.

Exhibit 10: Ownership wise median scores for BSE 100 companies

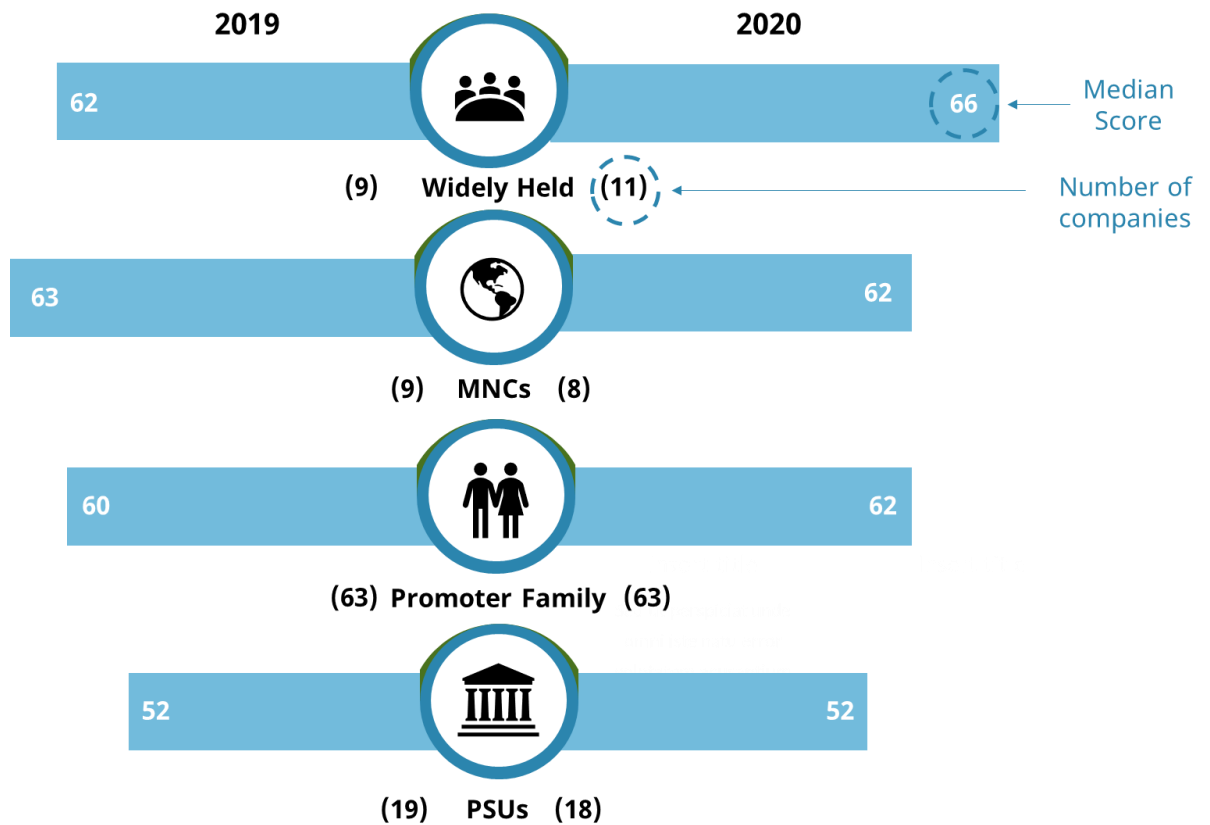
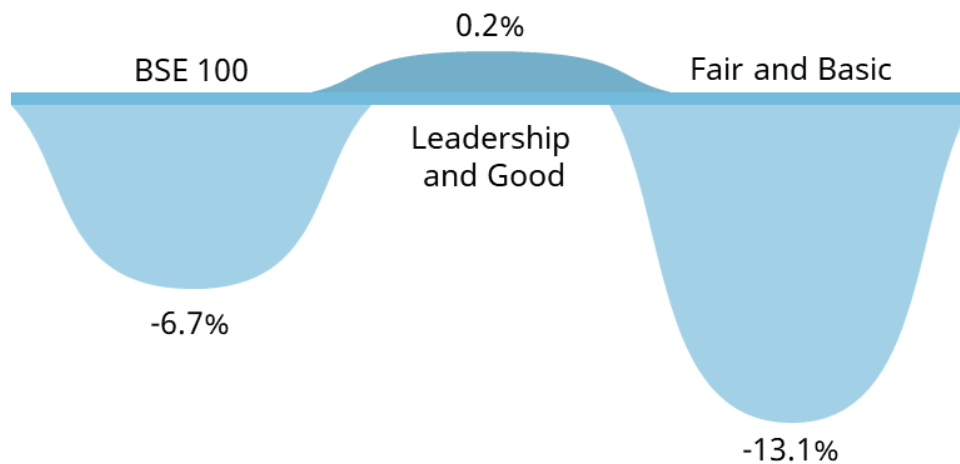
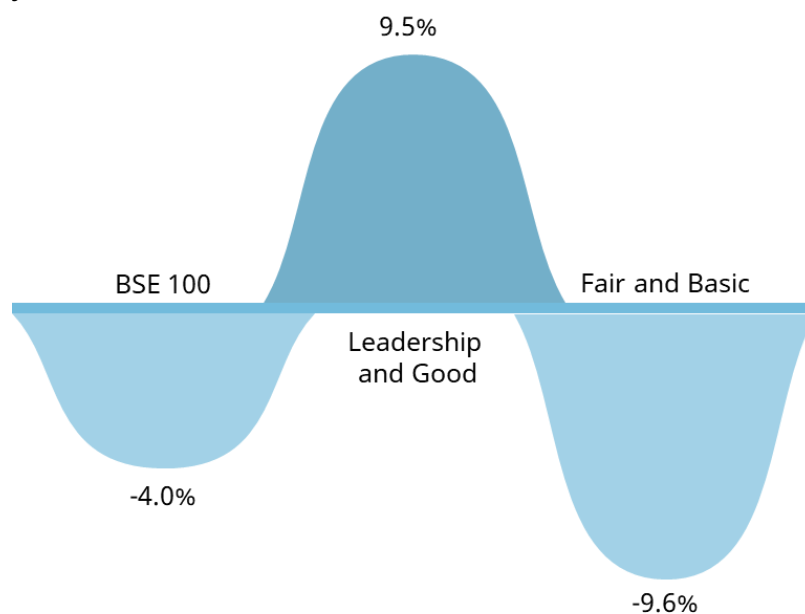


Exhibit 11: Median stock price CAGR return performance³ over three years for BSE 100 companies in the 2017 study



Stock price performance analyzed from 1 November 2017 to 30 October 2020

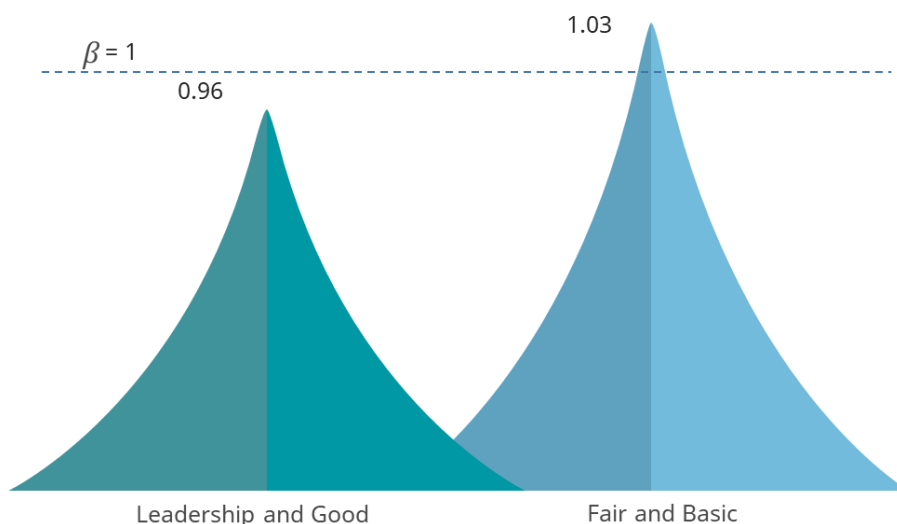
Exhibit 12: Median stock price CAGR return performance³ over three years for BSE 100 companies in the 2018 study



Stock price performance analyzed from 1 November 2018 to 30 October 2020

Well-governed companies (those with a score of 60 or more), at a portfolio level, continue to report a better price performance compared to other relatively less-well governed companies (those with a score lower than 60). To this extent, we conclude that our analysis is predictive in nature – the price performance of companies that performed well on governance in our 2017 and 2018 study has been assessed. The only caveat is that the results above are from a portfolio perspective – there may be exceptions for individual scrips.

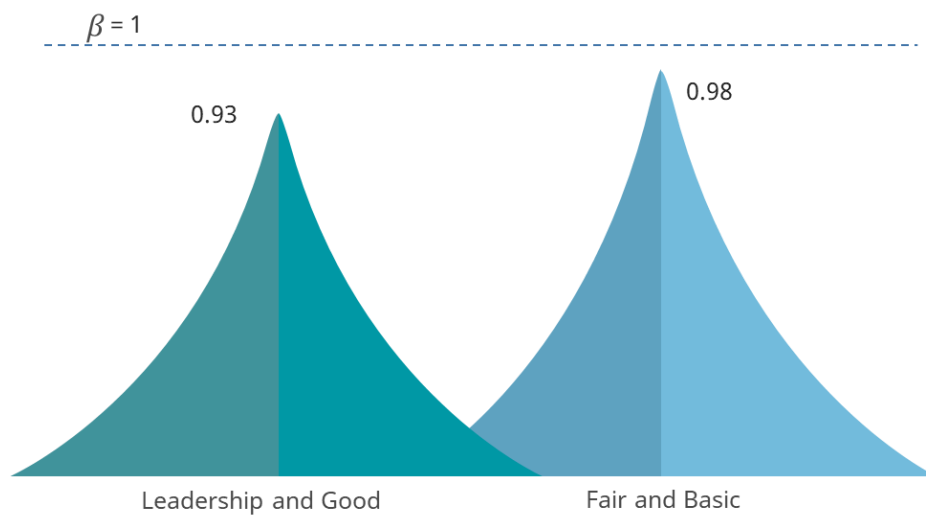
Exhibit 13: Median Stock Beta⁸ for BSE 100 companies in the 2017 study



Note: Stock beta performance analyzed from 1 November 2017 to 30 October 2020

⁸ Beta is calculated on daily stock price return with the BSE 100 index as the benchmark

Exhibit 14: Median Stock Beta⁹ for BSE 100 companies in the 2018 study



Note: Stock beta performance analyzed from 1 November 2018 to 30 October 2020

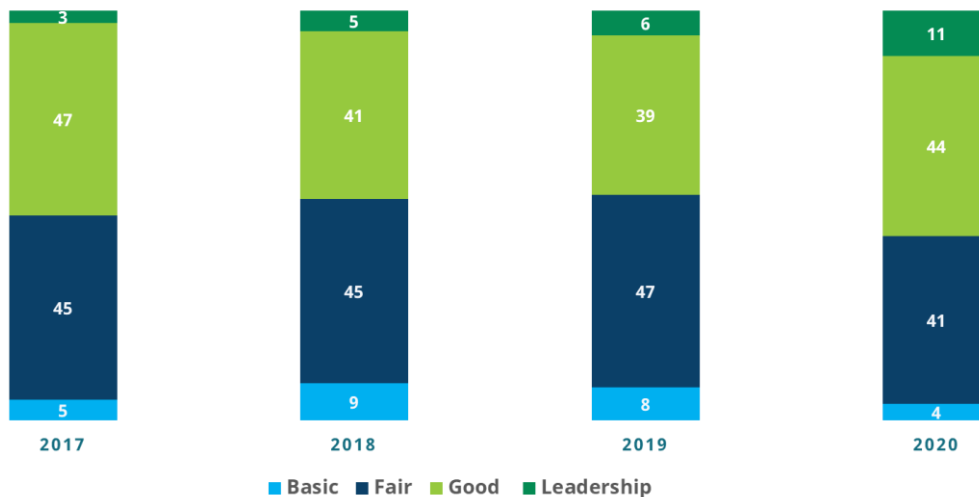
Beta is a measure of a stock's volatility in relation to a broad market index: higher the Beta, more volatile the stock. As highlighted in our earlier studies we continue to witness that companies in the 'LEADERSHIP' and 'GOOD' categories exhibit lower stock beta, as compared to the companies in the 'FAIR' and 'BASIC' categories. Despite market volatility witnessed over the last 12 months, we continue to find that the stock prices of well-governed companies (those with a score of 60 or more) as identified in the 2017 and 2018 study have been more stable and therefore less risky. Once again, this analysis is at a broad portfolio level – the performance of individual stocks may vary.

⁹ Beta is calculated on daily stock price return with the BSE 100 index as the benchmark

EVOLUTION OF GOVERNANCE SCORES.

We commenced the analysis of the governance framework of S&P BSE 100 companies from our 2017 study. A trend analysis shows that governance practices for the S&P BSE 100 evolved over the past four years.

Exhibit 15: Annual category-wise distribution of governance scores for the BSE 100 companies



When we began evaluating the Governance practices of BSE 100 companies, only 3 companies were in the 'Leadership' category (with a score of 70 or more). But this has increased in a steadfast manner, with 11 companies being classified in the category in our 2020 study. 2020 is the first year in which 55 (more than 50%) of the BSE 100 companies had scores of over 60 (Good and Leadership category).

Consistency of top companies in terms of governance scores has been another driver which has pushed the median score of the S&P BSE 100 higher in recent years. Wipro and Infosys have consistently made our 'Leadership' category since our first study in 2017. While HUL and HDFC have been in our 'Leadership' category since 2018. Companies like Marico and HDFC Bank have consistently featured in the top ten companies with respect to our governance scores. Tata Motors, Cipla and Dr. Reddy's joined the list in 2019, and moved into the Leadership category in 2020.

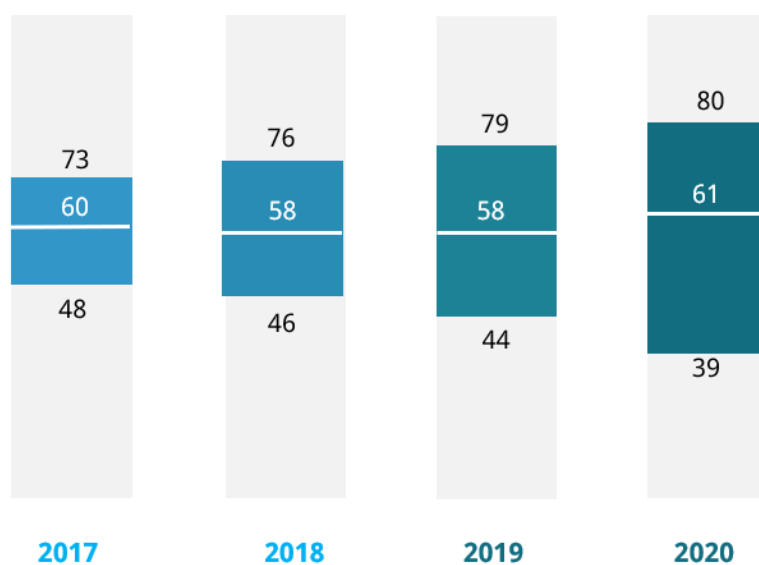
Exhibit 16: Companies with highest scores in BSE 100 to have featured at least twice in our studies

Companies	2017	2018	2019	2020
Bharti Airtel				
Cipla				
Crompton Greaves GE				
Dr. Reddy's				
HDFC				
HDFC Bank				
HUL				
Infosys				
Mahindra Finance				
Marico				
Tata Motors				
Wipro				

'GOOD' category 'LEADERSHIP' category

The exhibit below shows the maximum, median and minimum percentage scores on an overall basis since 2017. The median score for BSE 100 companies has increased to 61 in 2020 from 60 in 2017 while deteriorating to 58 in 2018 and 2019, however the band of overall scores has consistently widened: from 39 to 80 in 2020 against 48 to 73 in 2019.

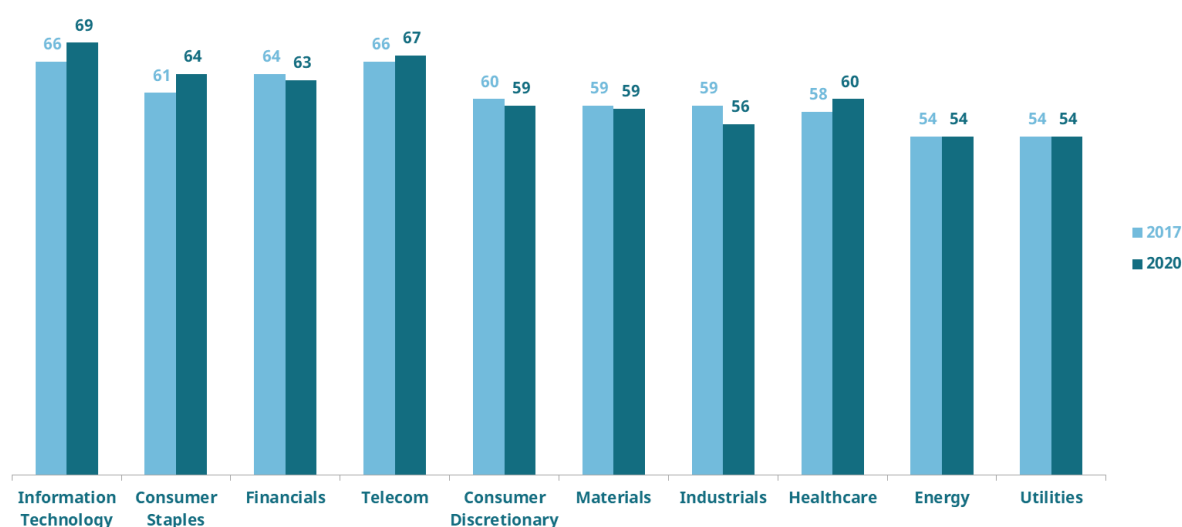
Exhibit 17: Annual median, maximum and minimum scores for BSE 100 companies



Essentially, the well governed companies are only improving on their governance practices, while those in the 'Basic' category have become increasingly vulnerable to external and internal shocks.

Based on industry classification, information technology, consumer staples and healthcare have shown an improvement in their governance over the past four years,. Companies, especially in the services sectors, have seen an uptick in score driven by stronger stakeholder management. Industries such as energy, utilities and industrials have shown a decrease in scores, owing to the subdued performance with respect to governance practices of PSUs (~ 42-47% of these industries have comprised of PSUs over the four years).

Exhibit 18: Industry wide median scores for BSE 100 companies



From an ownership structure perspective, the rank ordering has remained stable over the four period, with widely held companies and MNCs faring better in terms of scores. Promoter controlled entities accounted for 61% of the BSE index in 2017, in 2020 they form 63% of the index. Thus, the median score of the index tends to be anchored around the median score of promoter-controlled entities.

Exhibit 19: Annual ownership wise median scores for BSE 100 companies



Scores of PSUs have remained lower than the median scores of other ownership structures during the four years of our assessment. PSUs accounted for 21% of the BSE index in 2017, in 2020 they account for 18% of the BSE 100. Their deteriorating board compositions over the past few years have brought their median score down to 52 in 2020 from 54 in 2017.

GOVERNANCE THEMES.

A. BOARD EFFECTIVENESS

- Board evaluation
- Board skills
- Board composition
- Gender mix
- Succession planning
- Separation of roles

The board of directors are the focal point in a company's corporate governance structure. The board is responsible for directing the overall strategy of the company and providing oversight to management, which are important elements of their fiduciary duty towards all stakeholders. To carry out their responsibilities effectively, a board requires a certain level of independence, diversity in terms of gender and a synergetic combination of skills.

The median scores, out of a maximum score of 100, in the category of 'Responsibilities of the board' have remained at 58, unchanged from 2019. Even so, at the lower end, the scores have dipped in this category to 21, while the highest score has also been lower – 79 in 2020 compared to 84 in 2019. This is reflective of the stress that COVID-19 has put on boards, which has tested their mettle. At the lower end, the driver for deteriorating scores in this category has been the performance of PSUs.

Board effectiveness will improve if either there is sufficient push-back from investors, or the board genuinely self-reflects through a strong board evaluation process. Indian regulations have required boards to conduct an evaluation of the board and board committee functioning since 2014. While disclosure around the process of board evaluation has been made mandatory, companies have been reticent in disclosing the results of the board evaluation. In 2020, it was only 6 of the BSE 100 companies. Investors demand the disclosure of board evaluation results not in the context of learning individual scores of directors, but to assess what are gaps in the board composition that have been identified, and to understand the board's core agenda. Disclosing such assessments by itself is a form of enforcement, one that Indian boards continue to shy away from.

Exhibit 20: Disclosure of a board improvement plan



For boards to be effective, they must comprise directors that bring together a set of skills that are relevant and aligned to the business' strategic direction. In keeping with this, SEBI mandated that companies disclose the [skill composition of their boards](#) – in the FY19 annual reports, the disclosure was for the board and in the FY20 annual reports, the disclosure requirement was granular, at director level. Beyond the traditional domain skills of accounting, taxation, legal and the like, IiAS' assessment focusses on two main issues – does the board have non-executive directors that understand the core business of the company, and does the board have IT skills. The first focus – on understanding the core business – emanates from lessons of global failures. Boards need to have directors that can challenge management's assumptions while taking critical business decisions. The second focus on IT skills, which has been the key driver of business during the COVID-19 crisis. The increased focus on business process continuity and disaster recovery management are a given. As businesses increase their footprint in the digital world, [focus on digital governance](#), along with assessments of cyber risks are added to the risk management agenda. Although most boards in India do have non-executive directors that understand the core business, only 37% of BSE 100 companies have adequate skill sets and have embraced technology as a core skill on the board.

Exhibit 21: Directors with domain knowledge

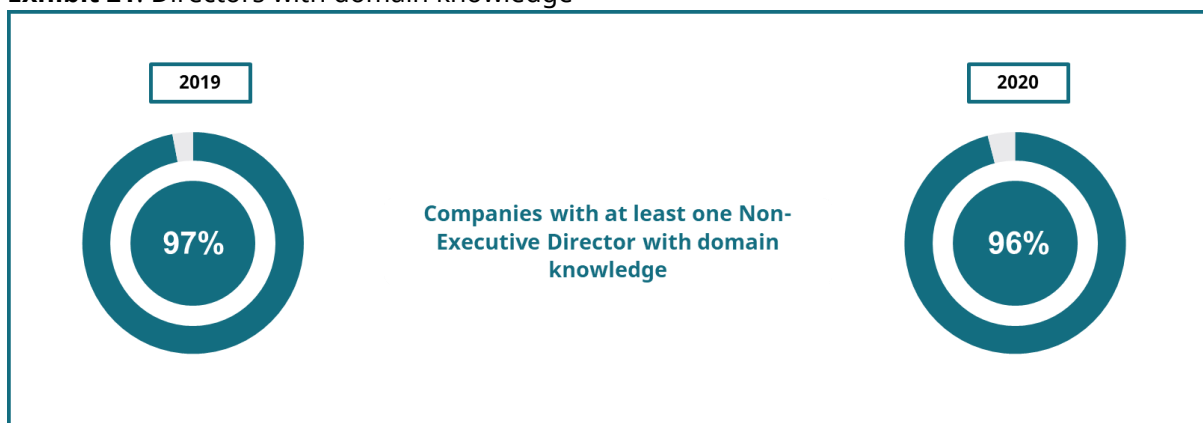
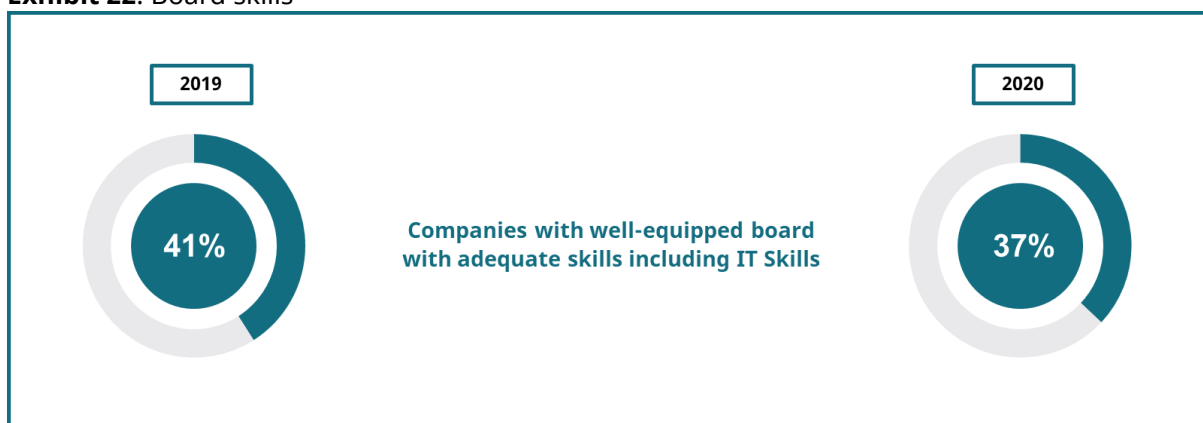


Exhibit 22: Board skills



For those on the outside, it is difficult to assess whether the skills required on the board are sufficient for the business current and future path. That is for boards to decide. Yet, the current disclosures on director skills suggest that boards of Indian companies continue to resist an honest evaluation and to be held accountable. Boards would do well to remember that the skill matrix is essentially the evaluation of the board as a team, listing at a broad level the contribution of each team player. High-performance teams comprise a mix of skills– and so it is true of high-performance boards as well.

Meeting compliance requirements is a strong suit. From a board composition perspective, boards have sufficient independent directors, as these are defined under regulations. The gap to complete compliance of all BSE 100 companies, and the marginal deterioration to 91 companies in 2020 from 95 companies is largely attributable to the board composition of PSUs. PSUs' independent directors are appointed by the relevant government ministry: in 2020, the government appears to have had reduced focus on this agenda. An IiAS study on 45 PSUs, [published in November 2020](#), found that 30 of these were not compliant with regulations on board independence.

Exhibit 23: Adequate independent representation



Leaving aside the compliance violations of PSUs, corporate India continues to leverage the arbitrage that regulations provide of adding another 10 years runway from 1 April 2014 to independent directors' tenure. IiAS considers tenured 'independent' directors (over 10 years on the same board from the date of appointment) as non-independent. Aside from the proximity to the controlling shareholder that could well-have been built, we believe tenured directors take 'ownership of decisions' and are reluctant to revisit or reverse these in changed circumstances. Therefore, having a fresh pair of eyes on the business is critical for the board to maintain its objectivity.

Despite the staggered refreshment of the board, most boards continue to have tenured independent directors. While global best practices require the board to comprise at least 50% of the board, only 25 of the BSE 100 companies would meet this criterion, if tenured independent directors were classified as non-independent.

One of the drivers of board effectiveness is diversity. Having different points of views, from a group of experts, will likely result in well-rounded board deliberation and decision making. Regulators have been chipping away at addressing this issue, beginning with mandated gender diversity, and then asking companies to make disclosures on board skills.

To promote gender diversity on boards, SEBI began by asking boards to have at least one-woman director on its board in 2014 and strengthened that requirement for the top 1000 companies to have at least one independent woman director on the board from 1 April 2020. Companies have been largely compliant with this regulation: for the BSE 100, 96% of the companies had an independent woman director on their board in our 2020 study compared to 97% in our 2019 study – the gap to 100% compliance is explained by PSUs' board compositions.

While companies have fulfilled the mandated regulation of having one independent woman director on the board; the conversation must shift to having a specific percentage of the board being comprised of women directors, which will likely establish the impact of gender diversity. In a separate study done by IiAS, [28% of the NIFTY 500 boards comprise more than 20% women on 30 March 2020, against just 11% on 31 March 2017.](#) Median board size in India has ranged between 9 and 10 members over the past five years – therefore, to achieve the global target of 30% women on boards, Indian companies will require 3 women on every board.

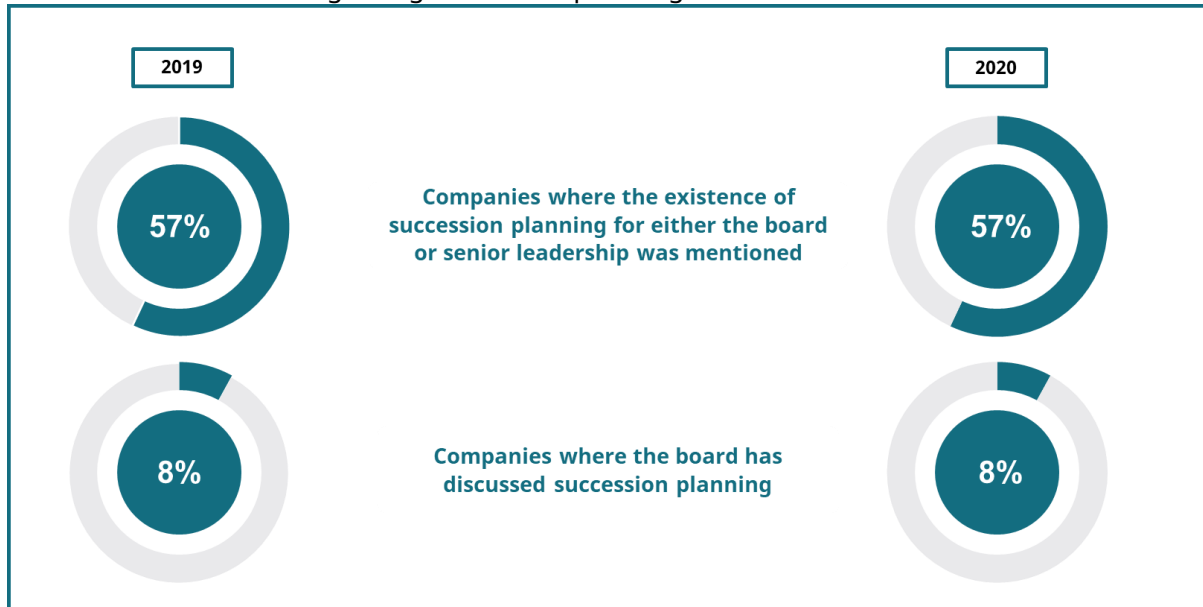
Exhibit 24: Independent women directors on boards



While the quality of board deliberations and decisions is not an easy assessment, one of the issues that boards must focus on is succession planning. While this is reasonably obvious for Indian companies given that 2/3rd of these are controlled by families, the issue on succession planning has come to the fore in the banking sector much more over the past few months. Succession planning is a sensitive agenda for most boards, but some Indian families have begun addressing this – albeit not overtly. Several corporate families have created family constitutions, but the nature and terms of such constitution have not been disclosed to investors.

From a board perspective, succession planning should not be narrowly evaluated as a leadership planning, because it does not address succession of the promoter and board members themselves. In the BSE 100 companies, just a little over half the companies seem to have a succession plan for the board. Even so, disclosures on the plan are limited, an aspect that irks asset managers. Investments made in a company are as much an investment in the promoter and the management team – to this extent, investors want to understand whether the board is focused on leadership continuity planning. This is an aspect that Indian boards would do well to improve upon.

Exhibit 25: Disclosures regarding succession planning



To improve board oversight, SEBI regulations from 1 April 2022 require that the roles of the Chairperson and CEO to be split. Almost 2/3rd of BSE 100 companies have already separated these roles, although PSUs continue to maintain a Chairman and Managing Director (CMD) position. While separating the two roles is an accepted practice, the key change mandated by regulations in India is that the Chairperson and CEO cannot be related to each other. For a largely family-run corporate India, this will mean making hard choices. Only 15 of the BSE 100 companies had independent directors as Chairpersons in 2020.

Exhibit 26: Separation of chairperson and CEO



Overall median scores of corporate India will improve only if board effectiveness is strengthened. SEBI has been focused on this, and its recent proposals on revising the definition of independent directors, strengthening the disclosure requirements on (re)appointments and resignations, and the role of board committees are sending the right signals. It is time for boards to pick up on these, strengthen their self-evaluation processes and shift gears.

B. SHAREHOLDER MANAGEMENT

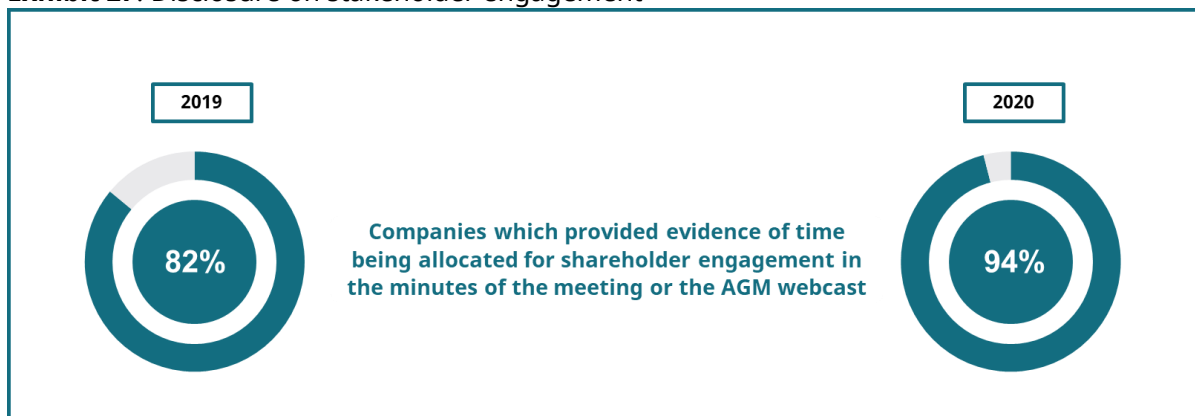
- Stakeholder engagement
- Board attendance of AGMs
- Dividend policy disclosures
- Voting on resolutions

India is one of the rare Asian markets to move completely to a virtual AGM format in 2020, as the COVID-19 lockdowns coincided with the AGM season. Most Asian markets – and several European markets too - continued to rely on a hybrid format of meetings (virtual presence accompanied by physical meetings). Even with virtual presence, some markets did not allow for a two-way interaction, making those logging in as mere spectators to the unfolding events¹⁰. The difference for India was that a two-way communication was mandatory as part of its virtual AGM format.

Corporate India was eager to move on and tackle the challenges at hand, and not delay holding the AGM (which related to the performance of the previous year). Depositories leveraged existing available large event-based platforms to host virtual AGMs for companies, while some technology companies developed their own solutions. The virtual AGM format is now extended till 31 December 2021, which we hope will increase the shareholder participation, which has been traditionally less than 1% of the shareholder base.

With the regulatory push towards virtual AGMs, webcasts and transcripts of AGMs were much more easily available than previously. Out of the BSE 100 companies, number of companies which provided evidence of time being allocated to address shareholder concerns or questions either in the minutes of their AGM meeting or in their AGM webcast increased to 94 in our 2020 study up from 82 in our 2019 study.

Exhibit 27: Disclosure on stakeholder engagement

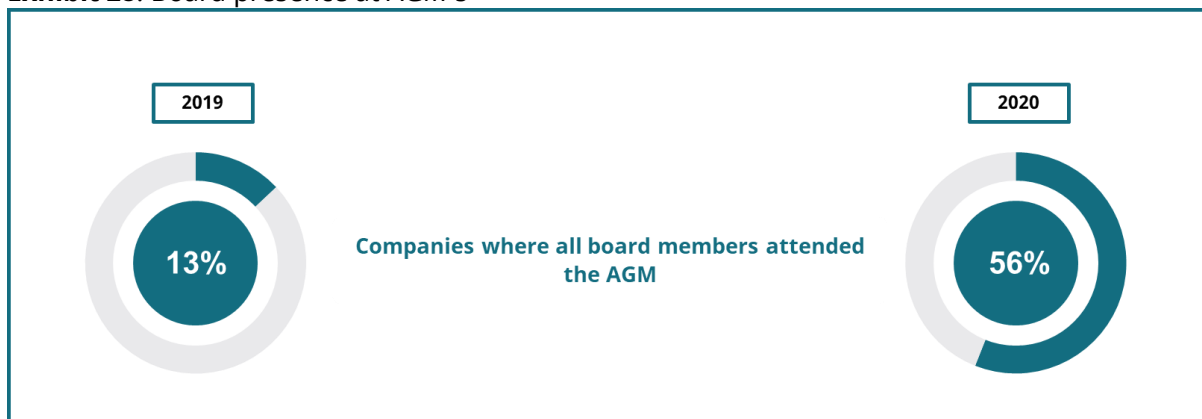


¹⁰ Source: *The Future of Annual General Meetings – ICGN Viewpoint*; September 2020

This year, IiAS tightened its evaluation criteria to address whether shareholder participation was free or came with process-driven restrictions. In several companies, shareholder questions were limited to financial statements and the proposed resolutions – a free-flow discussion on the business was not encouraged. Even where there were no restrictions, the virtual format allowed only for a Q&A method, where questions were collated, and responses were given comprehensively towards the close of the AGM. Following this format favours the board over the shareholders and limits the engagement with shareholders to a question-and-answer session, not a conversation. We expect companies to use the AGM as an opportunity to have a conversation with its shareholders, as much as shareholders participating in the AGM need to ask meaningful questions regarding the company’s performance and plans.

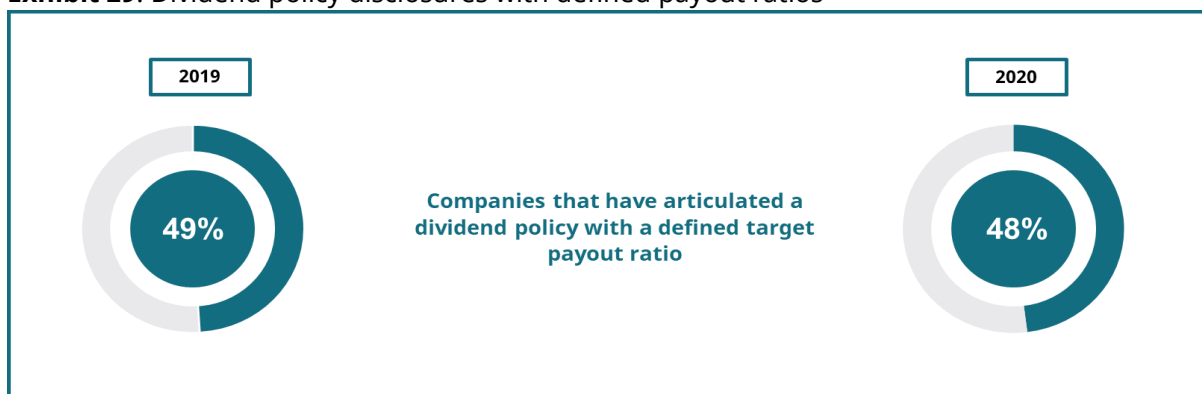
Adoption of virtual AGMs also saw enhanced disclosures on attendance of directors and perhaps more directors attending the AGM. In the 2020 study, 56 companies had disclosures indicating all directors attended the AGM in comparison to 13 companies in our 2019 study.

Exhibit 28: Board presence at AGM’s



In 2016, SEBI mandated the top 500 listed companies to formulate a dividend distribution policy. This regulation was driven by the cash hoarding on balance sheets, and it compelled boards to rethink their capital allocation. While all companies have a dividend policy, just about half of the BSE 100 companies have specified a range for the dividend payout ratio, which provides clearer guidance to investors on dividend expectation. IiAS annually publishes an estimate of excess cash on the [balance sheets of corporate India](#), asking such companies to step up dividend – however, considering the uncertainties brought on by the COVID-19 pandemic, [IiAS changed its recommendations and asked boards to focus on cash conservation](#).

Exhibit 29: Dividend policy disclosures with defined payout ratios



As investors expand their focus to a more holistic approach to investing, their patience with board members in letting things slide is becoming thinner. 2020 saw a lot more push back from investors where promoters showed opportunistic behavior, where board compositions were lacking (more so in [state-owned enterprises](#)) and where they believed board members were not sufficiently engaged.

Exhibit 30: Shareholder voting on resolutions



The most interesting trend of the 2020 voting pattern is that investors are open to the idea that corporations can function without the promoters; they are happy to let promoters who have been responsible for the corporates continuous poor performance to be voted out. The idea that a promoter is a promoter for life, has run into its best before date. This increased accountability – of independent directors and promoters – we hope, will drive better governance standards across all companies.

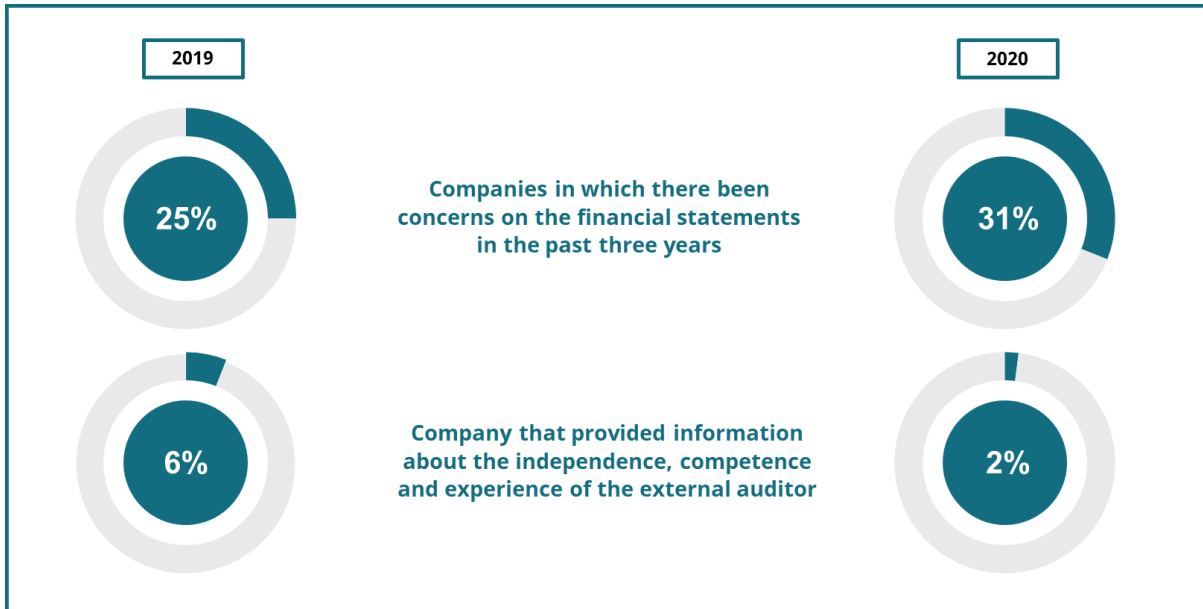
C. AUDIT QUALITY

- Financial reporting
- Auditor experience

Auditors faced several challenges due to the Covid-19 pandemic such as impediments to physical inventory verification, estimation uncertainties and challenges of working-from home. [The Institute of Chartered Accountants of India \(ICAI\) issued an advisory](#) on conducting audits highlighting mitigating factors that auditors could undertake to ensure quality of audit is not compromised.

We witnessed an increase in the number of audit reports where auditors have highlighted an Emphasis of Matter (EOM). While some of these EOMs pertain to uncertainties and management's assessment of impact of Covid-19 on the company's financial statements, there has also been an increase in the number of company specific issues that the auditors have highlighted. This indicates a strengthening of audit quality measures.

Exhibit 31: Financial statements related disclosures



The number of companies in which auditors have raised concerns on the financial statements has increased in BSE 100 companies from 25% in 2019 to 31% this year. This excludes the EOMs issued simply due to Covid-19 related limitations in conducting the audit. The increase in the number of companies with audit comments perhaps indicates an improvement in audit quality and auditors finally asserting themselves. Notwithstanding, audit quality remains a concern.¹¹.

¹¹ For more on audit quality, please see IiAS' Research, "If the market knows, why doesn't the auditor?" available here: <https://bit.ly/2LfWnod>

Considered a best practice, audit committees must periodically test for auditor independence and audit quality. More so because auditors are no longer reappointed annually – they have five-year terms. Indian companies take two approaches to selecting auditors: either they only appoint one of the Big Four audit firms, or they select audit firms well-known to them. Selecting a Big Four audit firm essentially assumes that no more explanation is required. While this may have been true a few years ago, recent events – in India and globally - suggest otherwise. Even when audit committees select the Big Four, they must consider making disclosures regarding the basis of auditor selection. Auditor independence must also be tested on an annual basis, and this disclosure must be made so that investors have clarity regarding the objectivity of the audit process. Of the BSE 100, less than 10% publish even a marginal description of the audit firm – the basis of selection and a conversation on auditor independence are a rarity.

The audit industry was, until recently, self-regulated through the Institute of Chartered Accountants of India (ICAI). Recently, an audit regulator has been established – the National Financial Regulatory Authority (NFRA). The NFRA is responsible for recommending accounting and auditing policies and standards, undertaking investigations and imposing sanctions against defaulting audit firms to protect the interests of investors, creditors and others associated with the companies. Moving forward, we expect the establishment of an audit regulator to make a material difference to the audit quality for corporate India.

D. EXECUTIVE REMUNERATION

- CEO compensation
- Pay versus performance; fixed versus variable

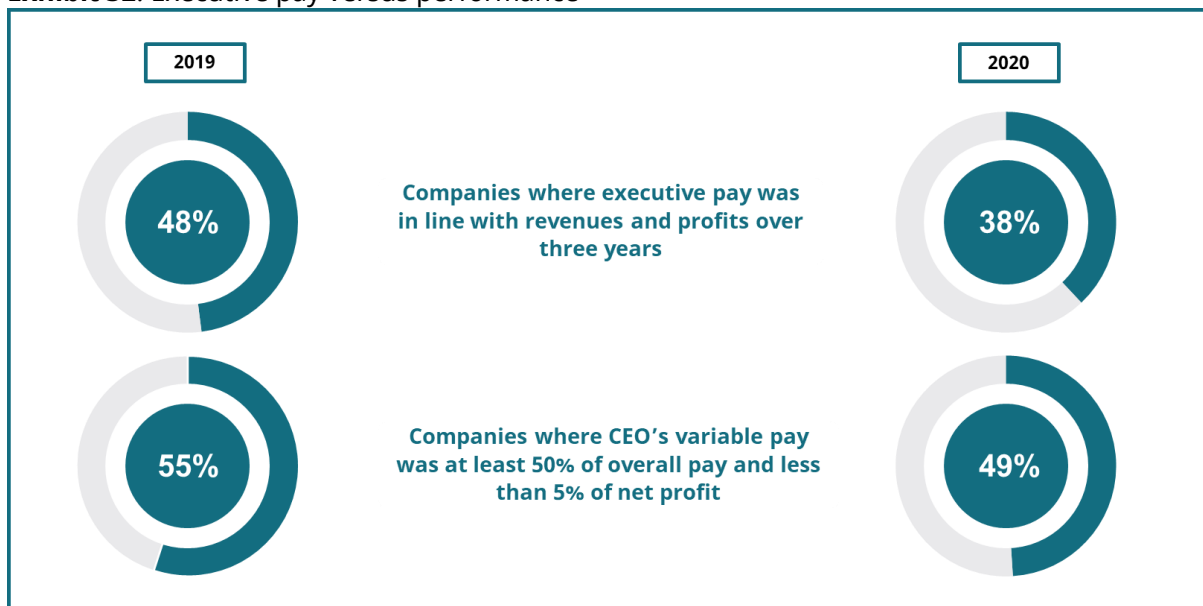
Executive pay has become a centrepiece of the corporate governance discussion: executive remuneration must be scrupulous and fair, leaving no room for unjustifiable dissemination of profits.

Corporate executives are responsible for steering the business and making decisions directly impacting the company. Therefore, their compensation structures should align their interest with that of the shareholders and promote the creation of long-term stakeholder value. There should be a clear focus on the structure of executive compensation rather than a focus on absolute pay. While the Indian Corporate Governance Scorecard rewards companies where the structure of executive remuneration comprises 2/3rd variable pay, Indian companies average at 50% variable pay. In the Indian context, performance metrics used to determine variable pay are rarely disclosed.

In 2020, the CEO compensation was in line with both revenue and profitability over three years in 38 of the BSE 100 companies, a decrease from the 48 companies in 2019. While companies' supply chains and operations were severely impacted towards the end of FY20, thereby putting pressure on revenues and profitability, executive compensations have not declined in line.

Although some of the business leaders have taken pay cuts for FY21, we do not see that across all companies. The pandemic has brought into focus the need to link pay to performance – there needs to be a higher component of variable pay in executive remuneration structures, with clearly disclosed benchmarks that drive remuneration decisions.

Exhibit 32: Executive pay versus performance



Indian regulations allow the grant of stock options at a discount to market price, so long as the exercise price is not below face value. However, institutional investors typically do not support stock options being granted at a significant discount to market price. The inherent assumption of a stock option scheme is that there could be possible downside risks – and that employees may not be rewarded in case of adverse stock price movements. However, the downside risk is protected when options are issued at a significant discount to market price.

Companies tend to view stock options as deferred compensation, and therefore, grant these at a discount to market price. However, investors look for an alignment of interest between their incentives and those of the employees. While both sides have a legitimate point of view, Indian companies are seeing the most push-back from investors on their stock-option schemes. Over 20% of the stock option resolutions presented by companies in 2020 had over 10% against votes by investors, the maximum across all categories of resolutions. However, 33 companies out of 54 companies which grant stock options, granted them at discount to market price, up from 31 out of 53 companies¹². Companies need to align their stock options plan based on investors' expectations while ensuring that it remains a strong incentive mechanism for employees.

With stock prices crashing because of the impact of COVID-19, it is important to note that companies did not attempt to reprice stock options. Despite the uncertainty around COVID-19 and the lack of visibility on company performance (and consequently the stock price), companies deterred from taking the easy way out.

Exhibit 33: Pricing of ESOPs'



¹² Source: IiAS Research

E. STAKEHOLDER ENGAGEMENT

- Relationship with creditors and suppliers
- Conflict of interest and other disclosures
- Related party transactions
- Corporate Social Responsibility

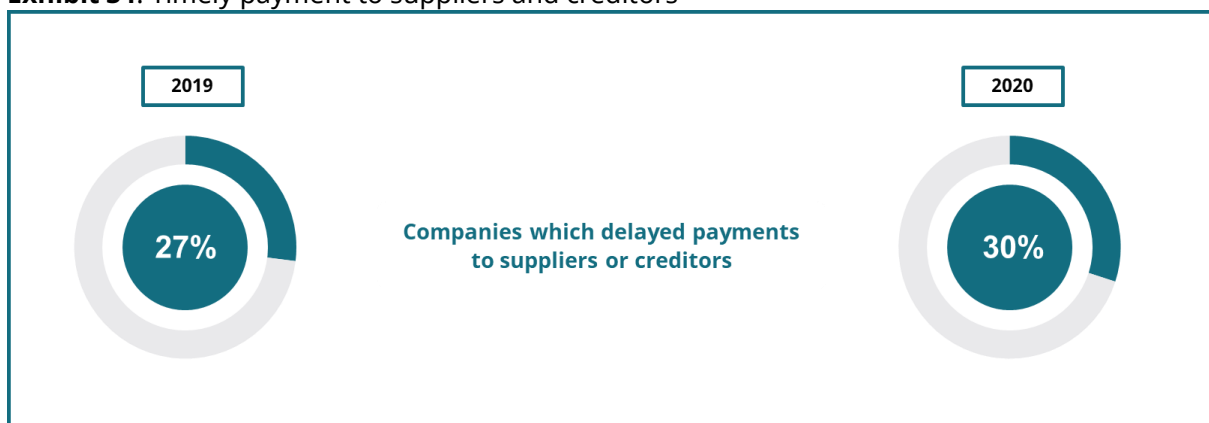
The pandemic has centrally questioned whether shareholder primacy trumps corporate citizenship. It is now indisputable that corporations have a larger responsibility towards society, which they cannot dismiss by citing their 2% CSR spend. ESG considerations will likely become board level issues, as more and more companies peg these factors into executive compensation, against only financial performance metrics.

The G20/OECD Principles of Corporate Governance includes the *role of stakeholders in corporate governance* as one of its key principles. And to India's credit, the Companies Act, 2013, has accorded primacy to stakeholders and not shareholders. This should encourage active co-operation between corporations and stakeholders. To ensure sustainable value, companies must include all stakeholders including investors, employees, creditors, customers, suppliers, and community in their corporate governance agenda. Companies must clearly communicate the rules of engagement for dealing with various stakeholders.

Companies must commit to protect the rights of lenders, creditors, and suppliers by ensuring timely repayment of financial obligations. While we understand that COVID-19 has caused liquidity stress on companies, we have seen companies delaying payment to suppliers even in our previous studies. Our 2020 study suggests that 30% of BSE 100 companies continue to delay payments to suppliers and creditors, similar to 27% of companies in our 2019 study.

The SME segment has been the worst hit in the COVID-19 crisis. For large corporates with high credit ratings and available drawing power with banks, to delay payments only makes the liquidity stress more acute. While anecdotal evidence suggests that companies have stretched supplier credit to reduce the working capital cycle gap, the extent of this pressure will be available only once the FY21 financial statements are published.

Exhibit 34: Timely payment to suppliers and creditors



One of the core tenets of the G20/OECD Principles of Corporate Governance states that the governance framework must facilitate disclosure and minimization of conflicts of interest. Effective internal control systems monitor the disclosures of potential conflicts of interests of all stakeholders thereby ensuring that corporate actions are taken with complete transparency and in the best interests of the company. Our 2020 study concludes that 56% of the BSE 100 companies have a robust mechanism for employees to disclose their conflict of interest (compared to 49% in 2019 study). We expect boards to set accountability of management to ensure effective implementation of such conflict-of-interest policies.

Unethical and illegal practices not only violate the rights of stakeholders but also put the company’s reputation at risk and increase the probability of future financial liabilities. While bribery/corruption in any form is prohibited by law, companies must publish an ethics policy and clearly articulate their stance on corruption and bribery. Our study concludes that 60% of BSE 100 companies have an ethics policy / code of conduct which articulates their stance on corruption and bribery.

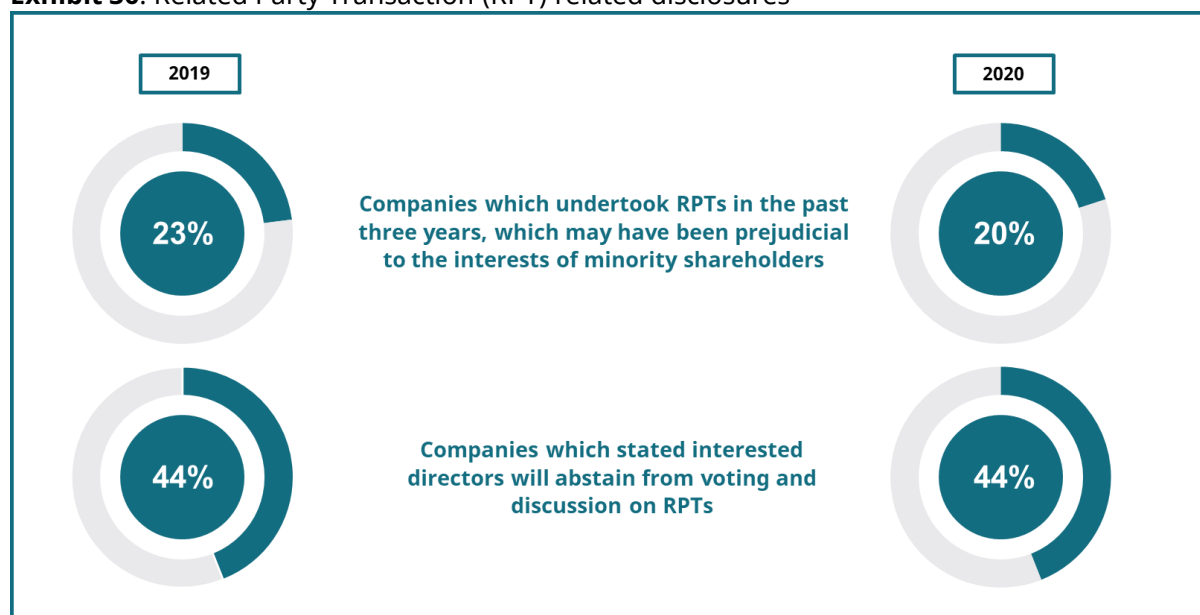
Exhibit 35: Disclosure of policies



Financial leakages through the related party transaction route have ebbed after regulations compelled these to be put to a majority of minority shareholder vote. Regulations have mandated companies to have publish a related party transaction policy, and regulations prohibit interested directors from voting. In line with best practices, several companies have mandated that interested directors not just abstain from voting, but also from the discussion. These requirements, along with several related party transactions getting defeated in the past, have acted as a deterrent to some extent.

But, for boards that are focussed only on compliance, there are enough regulatory loopholes in the related party transaction regulations that continue to allow financial leakages. In recent instances, companies have taken decisions that are squarely in the promoters' interest at the cost of minority shareholders – and such decisions have skirted the need for shareholder approval. PSUs form an exception to a different degree. Transactions between government-owned entities need neither shareholder approval nor are they required to be disclosed separately in the annual reports. PSUs account for 11 of the 20 companies we raise concern over with request to related party transactions.

Exhibit 36: Related Party Transaction (RPT) related disclosures

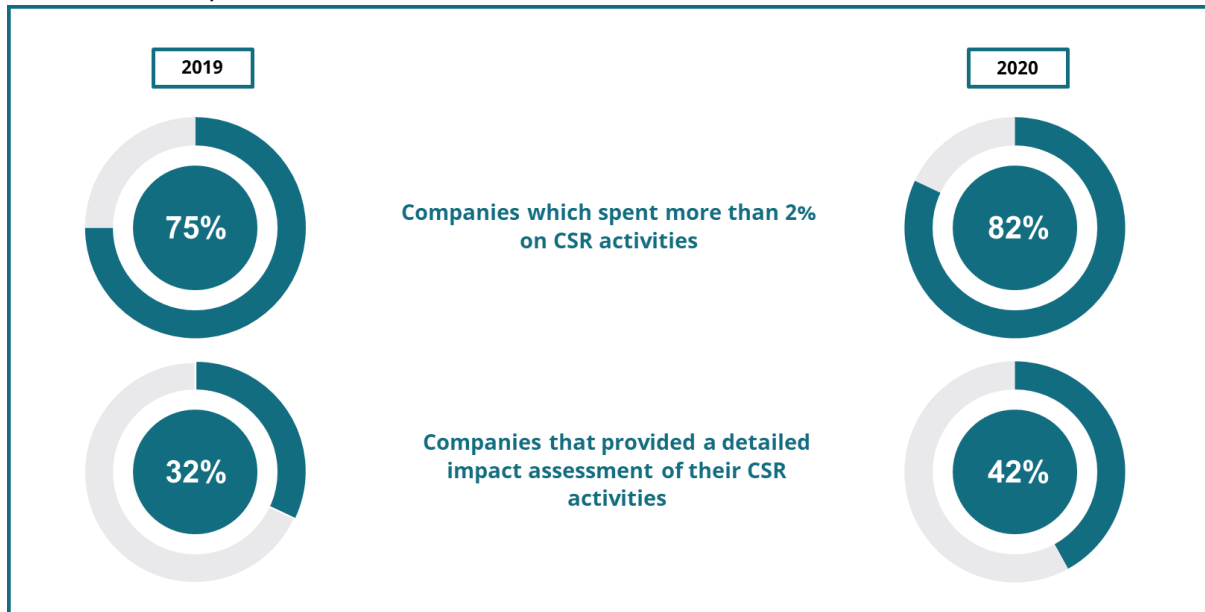


Corporate Social Responsibility (CSR) is a practice that reflects the responsibilities of companies to reflect their impact on society. For companies, the priority should be to create a positive impact on society while creating long-term value for every stakeholder involved.

FY20 saw corporate India increasing their CSR spends. 82 of the BSE 100 companies met the regulatory requirement of spending 2% or more of three-year average net profits in FY20 compared to 75 in FY19. IiAS' [study on CSR spends](#) showed that BSE 100 companies spent 2.24% of three-year average profits on CSR in FY20, compared to 2.05% in FY19. Total CSR spend of BSE 100 companies increased by 20.3% to Rs. 102.7 bn in FY20, up from Rs. 85.3 bn in FY19. The segments that companies focused on while budgeting their CSR spend were education (Rs. 22.1 bn), hunger, healthcare, and poverty (Rs. 20.1 bn), rural development (Rs. 11.9 bn) and Covid-19 relief (Rs. 10.9 bn).

An equally important question is how strategically CSR spends are being allocated and what impact it creates for beneficiaries. Impact assessments of CSR initiatives articulate how such initiatives have benefitted the targeted stakeholders, through qualitative as well as quantitative data. We find that 42 of the BSE 100 companies have provided a detailed impact assessment of their CSR spends in our FY20 study up from 32 in our FY19 study, which is a positive step.

Exhibit 37: Companies and CSR



This year has seen companies stepping up their spends as well as aligning their CSR strategy to their spends. While Covid-19's impact was visible from the end of fiscal 2020, going by company's annual reports and public disclosures, Covid-19 will dominate CSR spends in FY21. The CSR Amendment Rules, 2021 now require companies with three-year average CSR obligations exceeding Rs. 100.0 mn to employ an independent agency to assess CSR impact for projects over Rs. 10 mn. We expect these regulatory changes to increase the quality and amount of impact assessments on large CSR projects.

CONCLUSION.

For the stakeholders, the lessons of COVID-19 will last longer than the pandemic. Indian boards have straddled a series of moral hazards in 2020 – with financial decisions sometimes being at cross purposes with humanitarian choices. Boards and management have had to take decisions based on nebulous and changing conditions, amidst a high degree of uncertainty. Technology became the key driver of business, with business continuity planning systems being tested all across. Boards began to understand the significance of digital governance. After its initial hesitation, as it absorbed the enormity of the COVID-crisis, the Ministry of Corporate Affairs finally allowed shareholder meetings to go completely virtual. This move to the virtual platform changed the governance landscape for corporate India. Scores of all companies improved on account of this regulatory shift, which is a strong baseline driver for median scores of BSE 100 companies improving to 61 from 58 last year.

The COVID-19 crisis was as much an economic problem as a humanitarian one. The most interesting outcome of the pandemic was how some businesses were able to maneuver their facilities, and supply and distribution chains, for pandemic products including making medical equipment. This reflects how agile organizations are more resilient. With continuing environmental uncertainties that this pandemic is a pointer to, added to the climate change agenda, the world will be tested in situations that are yet to be imagined.

Board effectiveness needs to improve. Languishing at a median score of 58, the category of responsibilities of the board reflects the slow pace at which boards are changing. While the debate over the independence of independent directors is a global one, investors in Indian companies have been showing their impatience through their voting on shareholder resolutions. Yet, to a large extent, boards continue to tie themselves to legal rights and responsibilities, sometimes missing the forest for the trees. The repercussions of such behavior only push regulators to become far more prescriptive.

Our 2020 study continues to show that well-governed companies (those with a score of 60 or more) outperform the rest of the pack. The price performance of companies identified as having 'Leadership' or 'Good' governance practices in our earlier studies was better than those with 'Fair' or 'Basic' governance practices. This was true for both the SENSEX as well as the BSE 100 companies. Better governance leads to better returns.

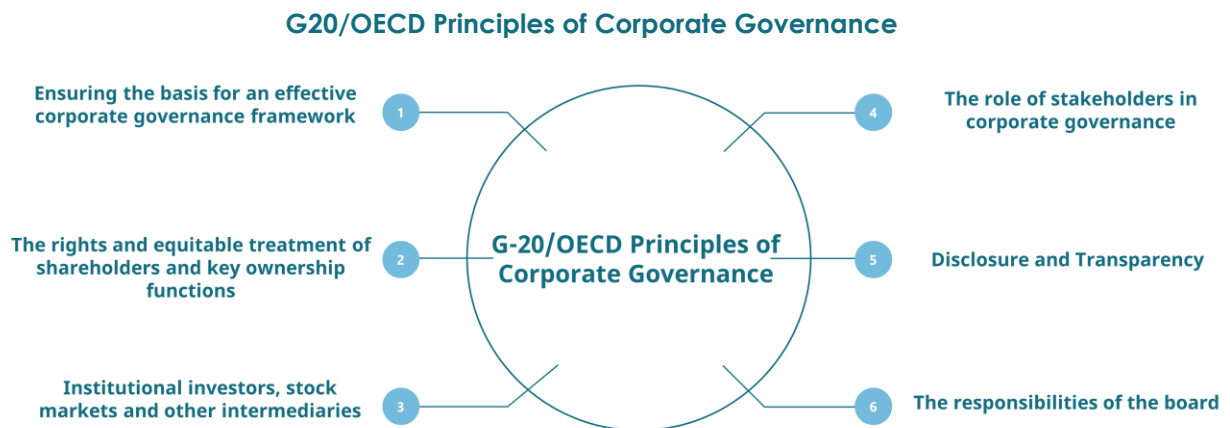
The analysis holds true for stock Beta too; stock Beta signifies the volatility in stock price movement. While the markets were more volatile in 2020 as compared to past periods, well-governed companies (those with a score of 60 or more) tend to, at a portfolio level, be less volatile than the residual pool of companies. This assessment too is based on the 100 companies we scored three years ago.

As this report is being written, the Indian financial markets, flushed with liquidity, are trading at all-time highs. Given the exuberance surrounding the market, companies irrespective of their quality of governance are trading at high valuations. However, when the tables turn, and markets begin to show signs of tapering, it is the companies with strong corporate governance framework that will fare better than their poorly governed counterparts.

ANNEXURE A.

EVALUATION FRAMEWORK.

The evaluation framework is built around the G20/OECD Principles of Corporate Governance (G20/OECD Principles)¹³, which are the globally accepted benchmark for corporate governance. While applying the G20/OECD Principles, consideration was given to issues relevant in the Indian context and the regulatory framework prescribed by Indian regulators and oversight bodies.



The principles capture the essential elements of corporate governance:

- **Principle I:** Ensuring the basis for an effective corporate governance framework:
The corporate governance framework must help promote transparent and fair markets, and the efficient allocation of resources.
- **Principle II:** The rights and equitable treatment of shareholders and key ownership functions:
The corporate governance framework must identify basic shareholder rights and provide equitable treatment of all shareholders.
- **Principle III:** Institutional investors, stock markets and other intermediaries:
The corporate governance framework must disclose and minimize conflicts of interest of market participants.
- **Principle IV:** The role of stakeholders in corporate governance:
The corporate governance framework must encourage active co-operation between companies and their stakeholders.
- **Principle V:** Disclosure and transparency:
The corporate governance framework must facilitate disclosure of material information to aid in informed decision-making.
- **Principle VI:** The responsibilities of the board:
The corporate governance framework must ensure effective supervision by the board and enhance the board accountability to stakeholders

¹³ <http://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf>

The G20/OECD Principles of Corporate Governance:



have been adopted as one of the Financial Stability Board's (FSB) Key Standards for Sound Financial Systems serving FSB, G20 and OECD members



have been used by the World Bank Group in more than 60 country reviews worldwide



serve as the basis for the Guidelines on corporate governance of banks issued by the Basel Committee on Banking Supervision

The scorecard requires the evaluation to be conducted only on publicly available data. Sources of information will primarily include official company documents on the company website and stock exchange filings. For a few specific questions, the verification sources may even include regulatory orders and media reports.

The questions in the Scorecard have been grouped into four categories – each category corresponding to one of the principles recognised in the G20/OECD Principles as a measure of good corporate governance:

Rights and equitable treatment of shareholders	Role of stakeholders in corporate governance	Disclosures and transparency	Responsibilities of the board
<ul style="list-style-type: none"> • Quality of shareholder meetings • Related party transactions • Investor grievance policies • Conflicts of interest 	<ul style="list-style-type: none"> • Business responsibility initiatives • Supplier management • Employee welfare • Investor engagement • Whistle-blower policy 	<ul style="list-style-type: none"> • Ownership structure • Financials • Company filings • Risk Management • Audit integrity • Dividend payouts and policies 	<ul style="list-style-type: none"> • Board and committee composition • Training for directors • Board evaluation • Director remuneration • Succession planning

The Scorecard has been developed considering four of the six G20/OECD Principles (Principle II, IV, V, and VI), which focus directly on the company's governance practices. G20/OECD Principles I and III have been kept outside the purview of the model as they deal with the overall regulatory environment and the role of market participants in corporate governance – factors which are not in the control of the company.

The underlying principles behind the Scorecard are listed as follows:

- The Scorecard must be able to provide a true and fair assessment of governance practices.
- The Scorecard should reflect globally recognized good governance practices.
- The Scorecard should factor in the Indian construct. However, to the extent possible, it should be universally applicable even for companies outside the Indian markets.
- The Scorecard should be constructive and encourage companies to adopt better practices beyond minimum compliance.
- The Scorecard should be reliable and have appropriate checks and balances to ensure credibility of the assessments.

CAVEAT

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.

To ensure that the Scorecard is easily comprehensible and applied consistently, detailed scoring keys and guidance notes have been developed for each question.

FAQs

Questions	Responses
What type of companies can be evaluated by the scorecard?	The metrics used in the scorecard can be universally applied to all companies. However, given that the scorecard relies only on publicly available data, external assessments will be relevant mostly for listed companies.
Is the scorecard applicable to small/recently listed companies?	The scorecard takes the view that listing on the stock exchanges casts a public obligation to adopt good corporate governance practices. Thus, the fact that companies may be only recently listed or may be small in size are not legitimate reasons to lower the measurement thresholds of the governance scorecard.
Who fills in the scorecard?	The scorecard can be used by all market participants to evaluate companies. While filling up the questionnaire, the assessor needs to refer to the guidance notes included as part of the scoring model. However, this score can only be used by participants for internal evaluation – it cannot be used publicly unless validated.
When can the company use the score publicly?	The company can only use the score publicly if it has been validated by a task-force comprising corporate governance experts appointed by an authorized body.

ANNEXURE B.

METHODOLOGY.

The scorecard comprises a total of 70 questions. These questions are divided into four categories corresponding to the respective G20/OECD principles. Each category has a different number of questions that address the relevant issues related to the specific G20/OECD principle. 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 in the Indian corporate governance framework.

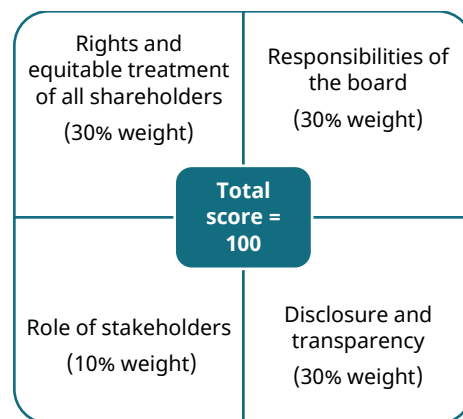
It was determined that the quality of corporate governance practices referred to in each question should be recognised on three levels:

- **2 points:** If the company follows global best practices for that element of corporate governance
- **1 point:** If the company follows reasonable practices or meets the Indian standard for that element of corporate governance
- **0 point:** If the company needs to improve in that element of corporate governance

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 (%)
Rights and Equitable Treatment of shareholders	19	38	30
Role of stakeholders	9	18	10
Disclosure and Transparency	23	46	30
Responsibilities of Board	19	38	30
TOTAL	70		100

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

- Add the scores for all responses under a category and divide it by the maximum attainable score for the category. This may need to account for questions which are not applicable for the company.
- Multiply the ratio so obtained by the total category weight to give a weighted score for that category.
- Sum all weighted scores across all four categories. The final score will be rounded off to the nearest integer.

$$\text{Category Score} = \frac{\text{Aggregate score of all questions under category}}{\text{(Number of applicable questions in category x 2)}} \times \text{Category Weight}$$

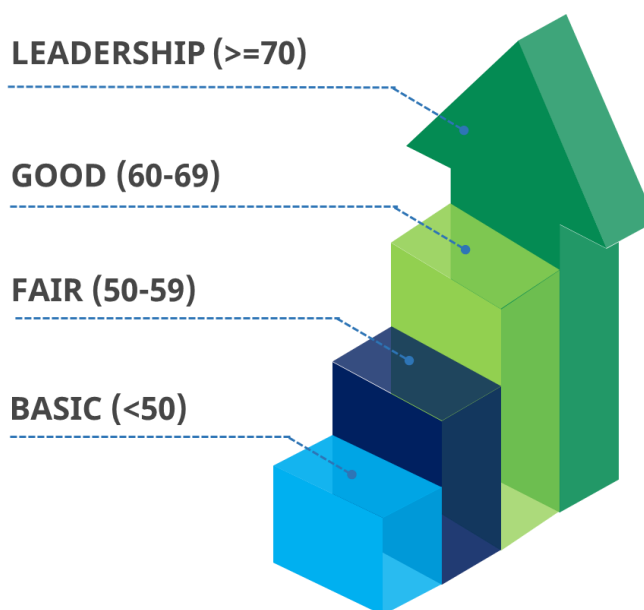
$$\text{Total Score} = \text{Category Score}_1 + \text{Category Score}_2 + \text{Category Score}_3 + \text{Category Score}_4$$

SCORING EXAMPLE

Category	Total score (A)	Maximum attainable score (B)	Category weight (%) (C)	Weighted score (A/B)*C
Rights and equitable treatment of shareholders	30	38	30	24
Role of stakeholders	12	18	10	7
Disclosure and transparency	38	46	30	25
Responsibilities of board	28	38	30	22
FINAL SCORE				77*

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

Based on the final score, companies will be grouped into the following buckets:



ANNEXURE C.

LIST OF COMPANIES.

The list of BSE 100 (on 30 September 2019) companies⁵ covered under the study is given below:

S. No	BSE Code	Company
1	500410	ACC Ltd.
2	532921	Adani Ports and Special Economic Zone
3	500425	Ambuja Cements Ltd.
4	508869	Apollo Hospitals Enterprise Ltd.
5	500477	Ashok Leyland Ltd.
6	500820	Asian Paints Ltd.
7	524804	Aurobindo Pharma Ltd.
8	540376	Avenue Supermarts Ltd.
9	532215	Axis Bank Ltd. ¹⁴
10	532977	Bajaj Auto Ltd.
11	500034	Bajaj Finance Ltd.
12	532978	Bajaj Finserv Ltd.
13	500490	Bajaj Holdings and Investment Ltd.
14	532134	Bank of Baroda
15	509480	Berger Paints India Ltd.
16	500493	Bharat Forge Ltd.
17	500547	Bharat Petroleum Corp Ltd.
18	532454	Bharti Airtel Ltd.
19	534816	Bharti Infratel Ltd.
20	532523	Biocon Ltd.
21	500530	Bosch Ltd.
22	500825	Britannia Industries Ltd.
23	500087	Cipla Ltd.
24	533278	Coal India Ltd.
25	500830	Colgate-Palmolive India Ltd.
26	531344	Container Corporation of India
27	539876	Crompton Greaves Consumer Electricals Ltd.
28	500096	Dabur India Ltd.
29	532488	Divi's Laboratories Ltd.
30	532868	DLF Ltd.
31	500124	Dr Reddy's Laboratories Ltd.
32	505200	Eicher Motors Ltd.
33	500086	Exide Industries Ltd.
34	532155	Gail India Ltd.
35	532424	Godrej Consumer Products Ltd.
36	500300	Grasim Industries Ltd.
37	517354	Havells India Ltd.
38	532281	HCL Technologies Ltd.

¹⁴ Axis Bank is a shareholder in IiAS

S. No	BSE Code	Company
39	500180	HDFC Bank Ltd. ¹⁵
40	540777	HDFC Life Insurance Company Ltd. ¹⁵
41	500182	Hero MotoCorp Ltd.
42	500440	Hindalco Industries Ltd.
43	500104	Hindustan Petroleum Corporation Ltd.
44	500696	Hindustan Unilever Ltd.
45	500010	Housing Development Finance Corporation Ltd. ⁶
46	532174	ICICI Bank Ltd. ¹⁶
47	540133	ICICI Prudential Life Insurance Company Ltd. ¹⁶
48	530965	Indian Oil Corporation Ltd.
49	532514	Indraprastha Gas Ltd.
50	532187	IndusInd Bank Ltd.
51	532777	Info Edge (India) Ltd.
52	500209	Infosys Ltd.
53	539448	Interglobe Aviation Ltd.
54	500875	ITC Ltd. ¹⁷
55	500228	JSW Steel Ltd.
56	533155	Jubilant FoodWorks Ltd.
57	500247	Kotak Mahindra Bank Ltd. ¹⁸
58	500510	Larsen & Toubro Ltd.
59	500253	LIC Housing Finance Ltd.
60	500257	Lupin Ltd.
61	532720	Mahindra & Mahindra Financial Services Ltd.
62	500520	Mahindra & Mahindra Ltd.
63	531642	Marico Ltd.
64	532500	Maruti Suzuki India Ltd.
65	517334	Motherson Sumi Systems Ltd.
66	500290	MRF Ltd.
67	500790	Nestle India Ltd.
68	526371	NMDC Ltd.
69	532555	NTPC Ltd.
70	500312	Oil & Natural Gas Corporation Ltd.
71	532827	Page Industries Ltd.
72	532522	Petronet LNG Ltd.
73	500331	Pidilite Industries Ltd.
74	500302	Piramal Enterprises Ltd.
75	532810	Power Finance Corporation Ltd.
76	532898	Power Grid Corporation of India Ltd.
77	540065	RBL Bank Ltd. ¹⁹
78	532955	REC Ltd.

¹⁵ HDFC Investments Limited, part of HDFC Bank Limited and HDFC Life Insurance Limited's promoter group, holds equity in IiAS.

¹⁶ ICICI Prudential Life Insurance Company Limited, a subsidiary of ICICI Bank Limited, holds equity shares in IiAS

¹⁷ There is a civil suit filed by ITC Limited against IiAS and two of its employees, in the Calcutta High Court, alleging defamation in relation to a voting advisory and a report issued by IiAS on succession planning at ITC. The suit is being contested by IiAS and its two employees, and is presently pending before the court

¹⁸ Kotak Mahindra Bank Limited holds equity shares in IiAS

¹⁹ RBL Bank is one of IiAS' several shareholders

S. No	BSE Code	Company
79	500325	Reliance Industries Ltd.
80	540719	SBI Life Insurance Company Ltd.
81	500387	Shree Cement Ltd.
82	511218	Shriram Transport Finance Co Ltd.
83	500550	Siemens India Ltd.
84	500112	State Bank of India
85	524715	Sun Pharmaceutical Industries Ltd.
86	532540	Tata Consultancy Services Ltd. ²⁰
87	500800	Tata Consumer Products Ltd. ²⁰
88	500570	Tata Motors Ltd. ²⁰
89	500400	Tata Power Co Ltd. ²⁰
90	500470	Tata Steel Ltd. ²⁰
91	532755	Tech Mahindra Ltd.
92	500469	The Federal Bank Ltd.
93	500114	Titan Co Ltd. ²⁰
94	532343	TVS Motors Ltd.
95	532538	UltraTech Cement Ltd. ²¹
96	512070	UPL Ltd.
97	500295	Vedanta Ltd.
98	500575	Voltas Ltd. ²⁰
99	507685	Wipro Ltd.
100	505537	Zee Entertainment Enterprises Ltd.

²⁰ Tata Investment Corporation Limited, Tata Consultancy Services Limited, Tata Consumer Products Limited, Tata Motors Limited, Tata Power Co Limited, Tata Steel Limited, Titan Co Limited and Voltas Limited are a part of the Tata group. Tata Investment Corporation Limited holds equity shares in IiAS.

²¹ Aditya Birla Sun Life AMC Limited is a shareholder of IiAS. Aditya Birla Sun Life AMC Limited and UltraTech Cement Limited are both part of the Aditya Birla group.

ANNEXURE D.

CG SCORECARD QUESTIONNAIRE.

Category I: Rights and equitable treatment of shareholders [Questions: 19; Weightage: 30%]

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
1	Has the company taken steps to ensure that the basic rights of shareholders are clear and unequivocal?	<p>Assessors need to check for additional steps taken by the company to help shareholders exercise their franchise.</p> <p>Possible steps that may be taken by companies to go beyond the regulatory directives include:</p> <ul style="list-style-type: none"> • listing out all shareholder rights in company documents, OR • conducting shareholder education programs on their rights, OR • disclosing the process to be followed by shareholders while exercising their rights, OR <p>The list is only indicative of possible scenarios and is not meant to be exhaustive. Any good practice adopted by the company, beyond regulatory measures, to ensure easy facilitation of shareholder rights must be considered while scoring on this question.</p>	There is evidence of violation of existing law	No specific steps taken by the company beyond compliance with the law	Company has taken steps to educate shareholders on their basic rights or has implemented measures to facilitate the exercise of shareholder rights
2	Did the previous AGM allow sufficient time for shareholder engagement?	<p>The assessors must look for minutes/proceedings or AGM webcast on the company website and check if there is any evidence of shareholder discussion and participation.</p> <p>A company will score maximum points on this question if the issues/queries raised by shareholders in the AGM and the management responses to each of those issues/queries have</p>	There is no evidence of time provided	There was evidence of time being allocated for shareholder engagement in the minutes or the AGM webcast	There was evidence of time being allocated for shareholder engagement in the minutes or the AGM webcast and the details of shareholder

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		been listed out in the minutes or the AGM proceedings are available through the webcast.			engagement/queries were provided
3	Can a minority shareholder, with less than 10% stake, propose an agenda item in a shareholder meeting?	<p>Companies Act 2013 requires the right to be provided to shareholders only if they collectively have more than 10% voting rights. The assessor needs to check if the company has specified a lower threshold in any of its publicly available documents.</p> <p>If no evidence is found in any of the publicly available documents, the threshold will be deemed to be fixed at 10% and no points will be awarded.</p> <p>Since, in the Indian context, all shareholders can propose a candidate on the board, resolutions pertaining to director appointments will not be considered for this question.</p>	No, shareholders, in aggregate, need to hold at least 10% stake to propose agenda items		Yes, the company has taken steps to ensure that even shareholders who hold less than 10% stake (in aggregate) can propose any agenda item
4	Was there any evidence of combining multiple matters or issues in a single resolution?	<p>While it is not possible to list out all possible scenarios where resolutions are clubbed together, the following list may be used as a guiding reference by the assessor:</p> <ul style="list-style-type: none"> • Appointment and remuneration resolutions being combined in a single resolution • Appointments of several directors/auditors being combined in one single resolution instead of separate ones for each director • Equity and debt raising resolutions being combined in a single resolution • Mortgage and borrowing resolutions being combined in a single resolution <p>The list is only indicative of possible scenarios and is not meant to be exhaustive. The assessors may need to use their own judgement to determine if the company has clubbed critical issues under one resolution.</p>	Yes, there is evidence of multiple resolutions being clubbed together	Yes, only one resolution was clubbed	No, all matters were presented to shareholders through separate resolutions

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		A look back period of one year will be considered for this question.			
5	Was shareholder participation facilitated for all shareholders at the previous AGM in the past one year?	<p>The assessors must first check if the meeting notice lists out the process for shareholders to submit their questions in advance to the company.</p> <p>A company will score maximum points in this question if it provides video/tele-conferencing facilities for shareholders to dial in and raise their issues/queries to the board. Evidence of such facilities must be present in the meeting notice, meeting minutes/webcast or in the scrutinizers report filed with the stock exchanges after the meeting.</p>	No evidence of facilities/opportunities being provided	Yes, shareholders could submit questions in writing before the meeting	Yes, there is evidence of facilities being provided for shareholder participation through video-conferencing or tele-conferencing
6	Did the company provide proxy and e-voting facility for all shareholder meetings in the past one year?	<p>The assessors need to check if the process for appointing proxies and authorized representatives is clearly stated in the shareholder meeting notice (not applicable for Postal Ballots). The proxy nomination form must be attached with the notice or uploaded separately on the website.</p> <p>Further, the company must provide shareholder the opportunity to vote electronically through the depository platforms. The e-voting instructions must be clearly articulated in the meeting notice.</p> <p>A look back period of one year will be considered for this question.</p>	Such facilities were not provided for all AGMs, EGMs and Postal Ballots	Such facilities were provided for all AGMs, EGMs and Postal Ballots, but not provided for Court Convened Meetings	Such facilities were provided for all shareholder meetings
7	Did all board members attend the previous AGM?	<p>The attendance details of directors must be recorded in the minutes or outcome of the AGM. If the minutes/outcome are not available (and there is no other documented evidence for director attendance), companies will not score any points on this question.</p> <p>A company will score maximum points on this question only if all the directors (board members as on the date of the AGM) attended the AGM.</p>	Either the Chairperson of the board, or the CEO, or the Chairperson of Audit Committee did not attend the meeting	The Chairperson of the board, the CEO and the Chairperson of the Audit Committee attended, but not all board members	The entire board attended

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		Note: The annual report of the company only states the director attendance at the previous AGM and not the latest AGM. For example, the FY16 annual report will list out attendance details for the FY15 AGM. Hence the attendance data in the annual report will not be considered.			
8	Did the external auditors attend and participate in the previous AGM?	<p>The attendance details of auditors must be recorded in the minutes or outcome of the AGM. If the minutes/outcome are not available (and there is no other documented evidence for auditor attendance), companies will not score any points on this question.</p> <p>A company will score maximum points on this question only if the auditors attended the AGM and presented their views on the financials/accounting practices or to specific queries raised by shareholders.</p>	There is no evidence of auditor attendance at the AGM	Yes, the auditors attended the AGM	The auditors attended and provided their views on the financials and the accounting practices adopted by the company
9	Within how many months of the fiscal year end was the last AGM held?	<p>The timeline for the AGM may be computed as:</p> <p style="text-align: center;">$T = \text{Date of AGM} - \text{FYE}$</p> <p>FYE = 31 March, for companies with a March year-end FYE = 31 Dec, for companies with a Dec year-end FYE = 30 Sep, for companies with a Sep year-end FYE = 30 Jun, for companies with a Jun year-end</p> <p>IF, $T < 4$ months, score 2 IF, $4 \text{ months} < T < 6$ months, score 1 IF, $T > 6$ months, score 0</p> <p>The date of the AGM is to be checked from the shareholder meeting notice or from the AGM outcome documents.</p>	More than six months after the fiscal year end	Within four-six months of the fiscal year end	Within four months of the fiscal year end
10	Were any preferential warrants issued to the	The assessors need to check for board meeting outcomes, stock exchange filings and resolutions proposed in shareholder meetings to assess if preferential warrants were	Yes, preferential warrants were issued	Yes, but preferential warrants were issued	No preferential warrants were issued

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
	controlling shareholders in the past one year?	<p>granted to the controlling shareholders.</p> <p>A company will score maximum points on this section if it has not issued any preferential warrants to the controlling shareholders in the past one year.</p> <p>If, however, these warrants were issued pursuant to a debt restructuring scheme, the assessors will need to take that into account before scoring.</p> <p>A look back period of one year will be considered for this question.</p>		pursuant to a debt restructuring scheme	
11	Do the charter documents of the company give additional rights to certain shareholders?	<p>Based on the details available, the assessors need to classify the additional rights, if any, into three buckets:</p> <ul style="list-style-type: none"> • Board nomination rights: Right to appoint nominees (up to two directors) on the board • Transaction related right: These include right of first refusal and tag-along rights • Control related rights: These include the right to veto board decisions, right to appoint Chairperson, right to appoint multiple (>2) board members, and the right to decide remuneration of key executives (in addition to what is approved by other shareholders) <p>The assessor also needs to check for clauses which allow the controlling shareholder to exercise disproportionate voting power (in any form).</p> <p>Notwithstanding, if rights are given to lenders/creditors pursuant to a debt restructuring scheme or is included as enabling provision in case of defaults, the assessors must take that into consideration before scoring.</p>	The latest charter documents are not available, or they give control related rights to certain non-controlling shareholders or give disproportionate voting power (in any form) to the controlling shareholders	The latest charter documents are available and certain non-controlling shareholders only get board-nomination rights or transaction related rights	The latest charter documents do not have any clauses which give additional rights (in any form) to any non-controlling shareholder or give disproportionate voting power (in any form) to the controlling shareholders

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
12	Does the company have a policy requiring all related party transactions (RPTs) to be dealt only by independent non-conflicted board members?	<p>Details for this question are generally available in the company's code of conduct, related party transaction policy or in the charter documents. If there is no evidence available, the company will not score any points on this question.</p> <p>To score maximum points on this section, the company must clearly state that all interested directors will abstain from both discussing and voting on concerned issues.</p>	No, or the policy is not disclosed	Yes, but the decision on whether the director must abstain is left to the discretion of the Chairperson or the board	Yes, there is a policy for abstention from the decision-making process (including discussions)
13	Does the company have in place a system, including policies and procedures, to facilitate disclosures of conflicts of interest by stakeholders?	<p>The assessor must check for the possible areas of conflict:</p> <ul style="list-style-type: none"> • Board cross linkages • Executive directors in Nomination and Remuneration Committee • Controlling shareholders/executive directors in the Audit Committee • Association (directly/indirectly) with competitors • Association with key suppliers/vendors • RPTs with entities associated with directors and senior executives <p>The list is only indicative and the assessors may need to use their own judgement while scrutinizing structures which may result in a conflict of interest.</p>	No, or the policies are not disclosed	Yes, the policies clearly list out the process for stakeholders to disclose their conflicts of interest but does not cover suppliers and vendors	Yes, the policy clearly lists out the process for all stakeholders to disclose their conflicts of interest
14	Did the company undertake any related party transaction in the past three years, which may have been prejudicial to the interests of minority shareholders?	<p>Prejudicial transactions will include any RPT which:</p> <ul style="list-style-type: none"> • Is not at arm's length pricing, or • Is not on commercial terms, or • Amounts to more than 10% of revenues, but is not fully disclosed (nature, frequency, materiality, quantum and pricing terms) to stakeholders, or • Is not managed as per the RPT policy <p>To score points on this question, a company must disclose its RPTs publicly. Evidence of such transactions may be obtained through media reports, shareholder meeting notices, annual report, investor transcripts, and minutes of meetings.</p>	Yes, the company had related party transactions which could be prejudicial to the interests of minority shareholders		No, the company did not have any related party transactions which could be prejudicial to the interests of minority shareholders

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		<p>If any of the RPT resolutions in the past three years were defeated or were voted against by a majority of minority shareholders, the assessors will need to take that into consideration while scoring.</p> <p>If there is no clear evidence, the company will score maximum points on this section.</p>			
15	Does the company pay out disproportionately high royalty to its group entities?	<p>Royalty payouts include payments for transfer of technology, and usage of trademark/brand name.</p> <p>For this question, only royalty payouts to the promoter group will be considered (payments made to government entities or royalty paid on account of franchisee agreements will be excluded).</p> <p>Royalty pay-outs will be considered disproportionate as per the profit threshold or royalty growth threshold:</p> <p>Profit threshold: Royalty must be less than 20% of net profits in each of the past three fiscal years Growth threshold: Growth in royalty must be less than growth in profits in the past three fiscal years. For example, if an assessment is being conducted anytime in FY17, the following formula is to be used:</p> $G_{\text{Roy/Profits}} = \frac{(\text{FY16 value} - \text{FY14 value})}{\text{FY14 value}}$ <p>A company will score maximum points only if the profits threshold is met and $G_{\text{Profits}} > G_{\text{Roy}}$.</p>	Yes, the royalty payout is high compared to net profits and growth in profitability	Yes, the royalty payout is either high compared to net profits or growth in profitability	No, the royalty payouts were not disproportionate

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
16	In the past, has the company (or its subsidiaries) provided financial assistance to promoter entities which had to be written off or unlikely to be recovered?	<p>The assessors need to check for loans given or investments made in promoter entities (specified in the related party transactions section of the annual report).</p> <p>The company will score maximum points in this question if no such financial assistance had to be written-off or provided for in the financial statements in any of the past three years.</p> <p>This question will not be applicable for companies which have not extended any financial assistance in the past three years and there have been no instances of write-offs during this period.</p>	Yes, some loans/investments have been written off or classified as doubtful		No loans/investments have been written off or classified as doubtful
17	Has the company been transparent while undertaking any M&A, restructuring, or slump sale?	<p>This question covers only those actions for which shareholder approval was required. The company needs to publicly disclose the independent fairness opinion and valuation reports on the transaction before presenting it to shareholders for their vote. If the transaction is with a third party (which is not a related party), and company has confirmed that the consideration is based on a negotiated price, one point may be given even if no fairness opinion/valuation report is provided.</p> <p>Apart from valuation, if the company has not provided critical strategic details on the restructuring, the assessors will need to take a closer look and use their subjective opinion to decide on the scoring based on the transparency levels.</p>	No, there have been instances where the fairness opinion was not disclosed for a transaction	Yes, but only to a limited extent - it has always disclosed the fairness opinion, but has not disclosed the independent valuation report for some transactions	Yes, the company has always conducted and publicly disclosed the fairness opinion and the independent valuation report
18	Does the company have a policy to publicly disclose the reasons for pledging of shares by the controlling shareholders?	<p>Indian companies generally disclose the quantum of shares pledged by the promoters. But for greater clarity, they also need to provide a rationale for pledging.</p> <p>A company will score maximum points on this question if the reasons for creation of fresh pledges in the past twelve months are publicly available.</p>	No, the reasons for pledging are not disclosed publicly		Yes, the company has provided reasons for pledging of shares by the controlling shareholders

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
19	Is there evidence of structures or mechanisms that have the potential to violate minority shareholder rights?	<p>The assessors will need to check for:</p> <ul style="list-style-type: none"> • Pyramidal holding structures, which results in disproportionate voting power of the promoter • Opaque holding structures where the ultimate beneficial ownership cannot be fully ascertained • Cross holdings between the company and entities of its promoter group • Companies which have many inactive or nonfunctional subsidiaries/Joint Ventures/associate companies • Companies which have established many subsidiaries/Joint Ventures/associate companies with promoter entities with no clear rationale <p>The list is only indicative and the assessors may need to use their own judgement while scrutinizing structures which could violate minority shareholders' rights.</p>	Yes, there is evidence of a structure/mechanism that could violate minority shareholders' rights		No, there is no evidence of any structure/mechanism that could violate minority shareholders' rights

Category II: Role of stakeholders [Questions: 9; Weightage: 10%]

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
20	Is the company committed towards developing stakeholder relationships?	<p>The assessor must check for the latest composition of the SRC. The review will consider any new appointments and resignations from the SRC after the last annual report.</p> <p>If the SRC composition in the company website lists the name of any director who, as per stock exchange filings, has resigned from the board, the committee composition will adjust accordingly (by excluding such directors).</p> <p>The meeting frequency will be reviewed based on the number of SRC meetings in the previous fiscal year (as stated in the annual report).</p> <p>To score maximum points on this question, the company must provide at least two of the following references to their stakeholder engagement process in the company documents:</p> <ul style="list-style-type: none"> • Stakeholder rights • Stakeholder grievance redressal • Stakeholder communication 	There is no Stakeholders' Relationship Committee, or it meets less than 4 times a year	The committee meets at least 4 times a year, but has less than 2/3 independent directors	The committee meets at least 4 times a year, has at least 2/3 independent directors, and there is mention of importance of stakeholders in company documents
21	Does the company have publicly disclosed policies and/or mechanisms to address the health, safety, and welfare of employees?	<p>To measure the robustness of the policies, the assessor needs to check if:</p> <ul style="list-style-type: none"> • There is a stated commitment by the company to adopt measures and processes that focus on the prevention of occupation-related injuries, accidents and illnesses • The company provides health, safety and sexual harassment trainings to its employees • The safety and health policies cover the company's suppliers and vendors • The sexual harassment policy lists out details on the reporting, redressal and enquiry process 	The policies are not publicly disclosed and the company has not provided information on the number of employee accidents and sexual harassment incidents	The policies are publicly disclosed or the company has provided information on the number of employee accidents and sexual harassment incidents	The company has provided information on the number of employee accidents and sexual harassment incidents and has publicly disclosed its health, safety and sexual harassment policies

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		In addition, to score maximum points, the company must report the number of employee accidents and sexual harassment cases each year to stakeholders – and the three-year trend should have a declining trajectory.			
22	Does the company have in place policies and practices which explain its supplier/contractor selection and management processes?	<p>The assessor must establish if the company has clearly articulated policies for supplier/contractor management and selection.</p> <p>A good supplier/contractor selection policy must include:</p> <ul style="list-style-type: none"> • Supplier Accountability • Code of conduct and Ethics policies for suppliers • Environmental Protection and Human Rights Policies for suppliers • Health and Safety policies for suppliers <p>A good supplier/contractor management policy must include:</p> <ul style="list-style-type: none"> • Supplier Audit • Supplier Improvement programs • Supplier trainings and education programs • Supplier Empowerment <p>The above list is only indicative and the assessors must use their own judgement to determine if the policies are effective and meaningful.</p>	Policies are not publicly available	Policies are publicly available either for supplier/contractor management or selection	Policies are publicly available for supplier/contractor management and selection
23	Has the company demonstrated commitment to protect the rights of its lenders, creditors, and suppliers?	<p>The company's commitment to protect the rights of lenders, creditors and suppliers is being measured by the timeliness of repayment of financial obligations.</p> <p>The look-back period for this question is three years (FY16, FY15 and FY14).</p> <p>The assessor must check the independent auditors' report and the notes to the annual financial statements to establish whether the company has made any delayed repayments to its</p>	The company has made delayed repayments to lenders	The company has made timely repayments to lenders, but has made delayed repayments to suppliers or to other creditors	Payments are made on time and there is no evidence of late payments to lenders, suppliers or to other creditors

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		<p>lenders, creditors or suppliers over the past three years. The latest credit rating report, if available, may also be referred to while scoring on this question.</p> <p>For this question, repayments are being used as a proxy for stakeholder commitment. The assessors must take into account any liquidity constraints (which results in conversion of debt to equity) and other obvious violations (for example, media reports of running sweat shops) before scoring.</p>			
24	Does the company demonstrate a commitment to strong ethical practices and is clearly anti-corruption and anti-bribery?	<p>The assessor will need to establish if the company has disclosed an ethics policy/code of conduct. Ideally, the policy must cover most of the following:</p> <ul style="list-style-type: none"> • Core values of the company • Ethical standards expected from employees and directors • Dealing with conflicts of interest • Dealing with third parties • Compliance with laws and regulations • Protection of assets and information management • Disciplinary action in case of failure to adhere to the ethics code <p>In addition, the policy must clearly state that the company is against bribery and corruption in any form. The assessor may also consider if the company is a signatory to a well-known global anti-corruption framework or code of ethical conduct while scoring on this question.</p> <p>In case there is any known violation of the policy or instances where the company has been accused of bribery or corruption, or ethical violations, the company will not score any points.</p>	No ethics policy evident or publicly available	Ethics policy is publicly available but it does not mention anti-corruption or anti-bribery measures	Ethics policy is publicly available on website and the policy mentions the company is against any form of corruption or bribery
25	Does the company demonstrate its commitment to being a good corporate citizen?	<p>The assessor must evaluate if the CSR related spending disclosed by the company in its annual report is above 2% of average net profit over the last three years.</p>	The company has not spent any amount on CSR in the past one year	The company has spent on CSR, but the CSR spend is less than 2% of	The company's CSR spend is at least 2% of average profits for the last three years

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		If the company has experienced losses on average over the past three years and still spend on CSR, the assessor may assign maximum points for this question.		average profits for the last three years	
26	Does the company have processes in place to implement and measure the efficacy of its CSR programs?	<p>A company will obtain maximum points on this question if it has:</p> <ul style="list-style-type: none"> • Formed a CSR committee with minimum three directors, of which one must be independent • Disclosed areas of CSR spending • Conducted an impact assessment of its CSR programs and disclosed the results to stakeholders <p>Impact assessment studies must include details on:</p> <ul style="list-style-type: none"> • Coverage of the CSR programs • Beneficiary profile • Economic benefits for the company and for the beneficiaries (if applicable) <p>The above list is not exhaustive and assessors must use their judgement in determining whether the impact assessment studies convey meaningful information to external stakeholders.</p>	The company does not have a CSR committee or the areas of CSR spending have not been disclosed	The company has a CSR committee and the areas of CSR spending have been disclosed, but the company has not disclosed details on CSR impact assessment	The company has a CSR committee, the areas of CSR spending have been disclosed, and the company has disclosed details on CSR impact assessment
27	Does the company have policies and processes in place to handle investor grievances?	<p>The assessors first need to check for an investor grievance policy. For some companies, this policy is a separate document and for others, it is part of the code of conduct or business responsibility report.</p> <p>While reviewing the policy, the assessors need to check if the company has:</p> <ul style="list-style-type: none"> • Named the individual/team to whom the complaint needs to be addressed • Established an ombudsperson to deal with the complaints • Listed out a process to be followed by the company for handling investor complaints • Provided a grievance escalation mechanism 	The company does not have a policy or the policy is not disclosed publicly	There is a policy for handling investor grievances, but it does not provide any grievance escalation mechanism	There is a policy for handling investor grievances, which provides details on the grievance escalation mechanism

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		The assessor must also consider the percentage of unresolved investor complaints at the end of each quarter before scoring on this question.			
28	Does the company have an effective whistle-blower mechanism for stakeholders to report complaints and suspected or illegal activities?	<p>For a whistle-blower policy to be considered effective, the assessor must check if the policy provides details on:</p> <ul style="list-style-type: none"> • Range and nature of issues covered under the policy • Procedure to report any incident, including all available reporting channels • Steps to be taken for resolving reported issues • Expected investigation timeline • Measures adopted to protect the anonymity of whistle-blowers <p>For the whistle-blower mechanism to be considered effective, it must cover all stakeholders (including customers, vendors and suppliers). A company will score maximum points on this question only if most of the above details are available.</p>	There is no disclosed mechanism or policy	There is an effective whistle-blower policy for employees, but it does not cover external stakeholders	There is an effective whistle-blower policy which covers all stakeholders, including employees, customers, vendors and suppliers

Category III: Role of stakeholders [Questions: 23; Weightage: 30%]

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
29	Does the company have a policy for determining and disclosing material information?	<p>The assessors need to check if the company has clearly articulated a policy defining parameters which determine a material event or information.</p> <p>To score maximum points on this question, the following items need to be disclosed in the materiality policy:</p> <ul style="list-style-type: none"> • criteria for determination of materiality of events/ information • events that shall be deemed to be material automatically • timeline to disclose material information <p>In addition, there must be no evidence of the company having made no/delayed disclosures on material events in the past three years.</p>	There is no policy or the policy is not publicly disclosed	There is a policy for determining and disclosing material information, but there have been cases in the past three years where the disclosures have not been timely	There is a policy for determining and disclosing material information and the company has made timely disclosures in the past three years
30	Have there been any concerns on the financial statements in the past three years?	<p>To score maximum points on this question, the independent auditors' report must have an unqualified opinion on the financial statements and there should be no emphasis of matter.</p> <p>Management response to the qualifications and matter of emphasis, if any, must be considered before scoring on this section. The assessors may take a subjective call, depending on the severity of the issue and the adequacy of the clarifications provided by the company.</p> <p>This is applicable to both standalone and consolidated financial statements.</p>	Auditor has issued a qualified opinion or the financial statements have been restated or the auditor has resigned due to differences in accounting opinion	Auditor has raised an emphasis of matter	Auditor has issued an unqualified opinion without any matter of emphasis

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
31	Is the company transparent in disclosing financial performance on a quarterly basis in the past one year?	<p>To score maximum points on this question, the company must have disclosed standalone and consolidated financial performance for each of the past four quarters. The immediately preceding four complete quarters will be taken into consideration while scoring on this question.</p> <p>For a company that has no reportable subsidiaries, the assessor must check if financial performance has been reported for the past four quarters</p>	The company has not disclosed financial performance for all the past four quarters	The company has not disclosed either standalone or consolidated financial performance in any one of the past four quarters	The company has disclosed both standalone and consolidated quarterly financial performance for each of the past four quarters
32	Is the company transparent in disclosing segmental information?	<p>The assessor must check the company's annual reports and quarterly financial filings for information on the company's segments. The assessors may need to use their judgement to decide if all relevant segments have been covered.</p> <p>Financial information on segments include segment revenues and profits.</p> <p>Other segmental Information will be considered comprehensive if at least two of the below points are covered in the company's segmental reporting:</p> <ul style="list-style-type: none"> • Demand drivers for each segment • Risks factors for each segment • Business strategies for each segment • Key initiatives taken by the company • Capacity utilization for each segment <p>The company may operate in a single business segment, but multiple geographical segments, in which case, the above information must be covered for the geographical segments.</p> <p>If the company does not have any reportable segments, and sufficient detail is available for that single segment, a maximum score may be given.</p>	The company has not disclosed financial information on some business segments	The company has disclosed financial information on all business segments, but other segment related information is not comprehensive	The company has disclosed comprehensive information on all business segments

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
33	Is the company transparent in disclosing non-financial information?	<p>The assessor must check the company's annual reports and for information on non-financial disclosures.</p> <p>Information will be considered meaningful if the below points are covered as part of the company's non-financial disclosures:</p> <ul style="list-style-type: none"> • Industry growth and performance • Environmental issues • Business model: key strengths and weaknesses • Business strategy • Capacity and capacity utilization <p>To score maximum points on this question, all the above non-financial parameters must be disclosed in sufficient detail by the company.</p>	The company has not disclosed meaningful information on non-financial parameters	The company has provided information on some non-financial parameters, however all have not been disclosed	The company has disclosed meaningful information on all non-financial parameters
34	Does the company provide comprehensive disclosures on its foreseeable risks?	<p>The assessor must check relevant company documents to identify if the company has developed and disclosed an effective risk management framework.</p> <p>To be considered detailed and score maximum points, the risk management framework must disclose both the foreseeable risks that the company is likely to experience in the course of its business as well as mitigating factors that have been implemented to manage the risks.</p>	The company does not have a risk management framework or it is not disclosed	There is a disclosed risk management framework which outlines the risks but no mitigation measures are provided or they are generic	Both risks and mitigation measures have been clearly outlined
35	Has the company developed and disclosed a comprehensive related party transaction (RPT) policy?	<p>A related party transaction policy is required to be disclosed under the Companies Act, 2013 and SEBI LODR regulations.</p> <p>To score maximum points on this question, the related party transaction policy must be publicly disclosed by the company. Further, the policy must be comprehensive, mandatorily including the following points:</p> <ul style="list-style-type: none"> • Definition on ordinary course of business • Definition on materiality of transactions • Requirement of the external auditors to review material RPTs 	The company does not have an RPT policy or has not disclosed it	The company has an RPT policy as required under regulations but it is not comprehensive	The company has a comprehensive RPT policy

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
36	Did the company provide timely, accessible and comprehensive information for all shareholder meetings in the past one year?	<p>The assessor must check details for all shareholder meetings held over the last one year.</p> <p>To score maximum points on this question, the information for shareholder meeting must be:</p> <ul style="list-style-type: none"> • Timely: the notice is made public at least 21 days prior to the meeting date (30 days for postal ballot) • Accessible: the company has put up the notice (and other relevant documents) on the stock exchanges (with a time stamp) and on the company website • Comprehensive: Sufficient information was available for shareholders to make an informed decision <p>The assessor must judge comprehensiveness on a case by case basis by checking if the resolutions presented over the past one year were transparent and had adequate details for shareholders to exercise their judgement.</p>	Information was neither timely nor accessible for some meetings	Information was timely and accessible for all meetings but not sufficiently comprehensive	Information was timely, comprehensive and accessible for all meetings
37	Are the detailed minutes or transcripts of the previous AGM publicly available?	<p>Minutes will be considered reasonably detailed if they include the following:</p> <ul style="list-style-type: none"> • Attendance record of each director and the external auditors • Issues discussed by shareholders <p>The company will only score maximum points in this section if it has provided the entire meeting transcript or if the link to the meeting webcast is available on the company website.</p>	The company has not disclosed meeting minutes within 7 days of the meeting or they are not detailed	The company has disclosed the meeting minutes and they are reasonably detailed	The entire transcript or webcast of the meeting is publicly available
38	Did the company disclose voting results for each shareholder category for all resolutions proposed in the past one year?	<p>To score maximum points, the company must disclose the voting details of each shareholder category, as well as the reasons for rejection of invalid votes.</p> <p>Shareholder voting categories include 'promoters', 'institutional shareholders', and 'other shareholders'.</p> <p>The criteria on invalid votes will not be applicable for</p>	Voting details of each shareholder category were not disclosed (within 48 hours) for some or all resolutions	Voting details of each shareholder category were disclosed for all resolutions, but the reasons for rejection of invalid votes were not disclosed	Voting details of each shareholder category were disclosed, along with the reasons for rejection of invalid votes

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		companies where the scrutinizer's report specifically mentions that there were no invalid votes for the resolutions.			
39	Is the company transparent in disclosing its shareholding pattern?	<p>The assessors need to go check if the quarterly filings contain information on:</p> <ul style="list-style-type: none"> • Promoter shareholding • Institutional shareholding (FII and DII) • Other public shareholding • Names of entities which hold more than 1% stake <p>A one year (four quarters) lookback is to be considered for this question.</p> <p>A company will score maximum points on this question if it has disclosed the quarterly shareholding pattern and names of its top ten shareholders in its latest annual report.</p>	The shareholding pattern is not disclosed on a quarterly basis or the latest annual report does not list out the top 10 shareholders	Either the quarterly shareholding pattern filings have not been made or the latest annual report does not list out the top 10 shareholders	The quarterly shareholding pattern filings have been made and the latest annual report lists out the top 10 shareholders
40	Is the shareholding of individual board members and key managerial personnel (KMP) disclosed in the latest annual report?	A company will score maximum points on this section if it has disclosed shareholding details for its board members and KMP (both the number of shares and the percentage of holding) in its latest annual report.	The shareholding has not been disclosed for the board members, nor for KMPs	Shareholding for either board members or KMPs has been disclosed	Shareholding for board members as well as KMPs has been disclosed
41	Has the company articulated a dividend policy for its shareholders?	<p>The assessors need to scan the company website and annual reports to determine the existence of a dividend policy.</p> <p>To score maximum points on this question, companies need to specify a target payout/retention ratio (or any other meaningful metric). In addition, the policy must have been approved by shareholders.</p> <p>If there are any deviations from the policy, without any clear rationale, the assessors will need to scrutinize the matter closely before scoring.</p>	Dividend policy is not publicly available or does not specify a target payout ratio	The policy is publicly available and specifies a target payout ratio, but the policy is not approved by shareholders	The policy is publicly available, specifies a target payout ratio and is approved by shareholders

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
42	Is the information on the company website comprehensive and accessible?	To test for comprehensiveness of information, the assessors need to check if the company website contains all the disclosures as required under the prescribed regulations. The links provided must be working and all documents listed must be available. In addition, they must be accurate and up-to-date.	The information is not accessible or is inaccurate	Information is accessible and accurate, but is not comprehensive	Information is accessible, accurate, and comprehensive
43	Does the company have a dedicated investor relations team/person whose contact details are publicly available?	To score maximum points on this question, the company must provide both an email address and a phone number of the designated person/team on its website. Generic board-line numbers will not be considered.	No details provided on any nominated team/person	The names of the individuals are disclosed, but no contact details are available	The names of the individuals are disclosed and their contact details available on the website
44	Does the company provide any information about the independence, competence and experience of the external auditor?	The company must provide a statement on its auditor selection process. Details on the process must cover the evaluation criteria for determining auditor independence. In addition, the company must provide information about the competence and experience of the auditor. If this information is not provided by the company, the assessors need to check the auditors' website and determine if it provides meaningful information. To score maximum points on this question, the company must proactively disclose all the relevant details.	The company has not disclosed any details on the auditors and such information is not publicly available	The company has not disclosed any details on the auditors, but such details are publicly available on the auditors' website	The company has disclosed the details on the competence and experience of the auditor and has also provided an evaluation criteria for determining auditor independence
45	Has the company periodically rotated its auditors (firm and partner)?	For this question, the assessor need to calculate the tenure of the audit network, which means that the aggregate tenure of audit firms within a network will considered as the total tenure of the auditor. For example, if audit firm A and audit firm B are both part of the same network and they have a tenure of 5 years and 7 years respectively, the total tenure will be computed as 12 years.	Audit firm tenure > 10 years	Audit firm tenure < 10 years but audit partner > 5 years	Audit firm tenure < 10 years and audit partner < 5 years

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		<p>When there are multiple auditors, the assessors need to consider the tenure of the auditor with the longest association.</p> <p>In companies, which are spin-offs from a larger company, the assessor needs to take a subjective call on whether the tenure will include when the company was being audited as a division of a larger company (prior to the spin-off into a separate company).</p>			
46	Does the latest annual report contain a statement confirming the company's compliance with the regulatory requirements on corporate governance?	<p>To score maximum points on this question, the company must provide reasons for the non-compliance (if any) along with the steps it is taking to comply.</p> <p>The company will also score maximum points if it has stated that it has complied with all regulatory requirements.</p> <p>Despite the company's statement, if there is evidence to believe that the company may not have complied with all the laws/regulations, the assessors will need to take that into consideration before scoring.</p>	There is no statement regarding compliance with regulatory requirements on corporate governance	There is a statement, but no reasons (or generic reasons) have been provided for non-compliance (if any), neither have the steps taken for compliance in the future been outlined	There is a statement and the detailed reasons have been provided for non-compliance (if any), along with the steps taken for compliance in future periods
47	Has the company identified its senior executives and their responsibilities?	<p>The assessors need to check if the details have been provided for the following executives:</p> <ul style="list-style-type: none"> • Chief Financial Officer • Chief Operating Officer • All other C-level executives • Business heads <p>To score maximum points on this question, the roles and responsibilities of such individuals must be clearly outlined in the annual report/company website.</p>	The senior executives have not been identified	The senior executives have been identified, but their roles have not been clearly stated	The senior executives have been identified and their roles have been clearly stated
48	Has the company disclosed the experience of each board member and senior executives?	<p>The experience details must cover the following:</p> <ul style="list-style-type: none"> • The areas in which the individual has relevant domain knowledge and expertise • The number of years of working experience 	Neither for board members, nor for senior executives	Only for board members, but not for senior executives	For both board members and senior executives

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		A company will score maximum points on this question if such details are shared both for its board members and its senior executives (which include those referred to in Q47).			
49	Has the company clearly identified its independent directors in the annual report and on its website?	The assessors need to check if the latest annual report lists out the entire board composition, along with the names of each independent director. In addition, the company website must be updated to reflect the names of the current set of independent directors.	No, the company has not made any distinction of independent directors in the annual report		Yes, independent directors are clearly identified and disclosed in the annual report
50	Does the company fully disclose the process and criteria used for appointing new directors?	A company will score maximum points on this section if it has provided details on: <ul style="list-style-type: none"> • how candidates are identified (whether the name was proposed by the promoter, board or any other shareholder) • The criteria based on which the candidature of directors are evaluated 	Neither the process nor the criteria are disclosed	Either the process or criteria are disclosed	Both the process and criteria are disclosed
51	Does the company disclose details on its training, development and orientation programs for directors?	Disclosures are considered detailed if there is information on: <ul style="list-style-type: none"> • who is required to undergo the program • core modules covered under the program • who conducts the program 	No, there is no disclosure in the public domain	A detailed framework is not disclosed or there is no information on the training programs conducted in the previous year	A detailed framework is disclosed, along with details on the training programs for the year

Category IV: Responsibilities of the board [Questions: 19; Weightage: 30%]

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
52	Are all directors fully engaged in company matters and committed to corporate governance?	<p>For each director, the average attendance needs to be computed based on the data available in the previous three annual reports. Attendance through video-conferencing/telecon is taken into consideration. Attendance of directors who have been on the board for less than three years will be excluded for this question.</p> <p>For example, if the assessment is being conducted in FY17, the average attendance for each director will be computed as follows:</p> $A_{3YR} = \frac{\text{No. of meetings attended in FY14+FY15+FY16}}{\text{Total no. of meetings held in FY14+FY15+FY16}}$ <p>A company will score maximum points only if, for all directors, $A_{3YR} = 1$. In addition, assessors must also look for statements made by the company (and its directors) about its governance practices to ascertain their commitment to corporate governance.</p>	There are some directors with less than 75% average attendance in board meetings in the past three years	All directors have at least 75% average attendance in board meetings in the past three years	All directors have 100% attendance in board meetings in the past three years and there is evidence of commitment to corporate governance in company documents and director statements
53	Does the board meet sufficiently to exercise due diligence?	<p>The number of board meetings need to be verified from the latest annual report.</p> <p>The company will score maximum points if the board has met more than four times in the previous year.</p>	The board met less than four times in the past year	The board met four times in the past year	The board met more than four times in the past year
54	Is there separation of roles between the Chairperson and the CEO?	<p>The most recent board membership needs to be checked by the assessors while scoring on this section. The review will consider any new appointments and resignations in the Chairperson/CEO role after the last annual report.</p> <p>For this question, the assessor will test for independence of the Chairperson. Merely the company's classification of the</p>	The roles are not separated or the Chairperson is an executive director	The roles are separated, but the Chairperson is a non-executive non-independent director	The roles are separated and the Chairperson is independent

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		<p>Chairperson being an independent director is not sufficient. Vintage directors – those with a tenure of over 10 years – are not considered independent for the purpose of this evaluation.</p> <p>Therefore, a Chairperson with a tenure of more than 10 years on the board will not be considered independent and the scoring will be adjusted accordingly.</p>			
55	Does the board have sufficient skills, competence and expertise?	<p>The assessor must check for the latest composition of the board. The review will consider any new appointments and resignations from the board after the last annual report.</p> <p>To score maximum points on this question, the members of the board must have at least 10 years of working experience and collective knowledge on:</p> <ul style="list-style-type: none"> • Legal • Financial • Marketing • General Management • Supply chain/operational • Specific Industry Dynamics <p>A board with at least three sets of identifiable skills will be considered to have sufficient breadth of expertise.</p> <p>Exceptions for directors with less than 10 years of working experience: If a director is also part of the founding group of the company, the company will not be penalized as per option 1 of the scoring key.</p>	There is a director with less than 10 years of aggregate working experience (refer exceptions) or there is no non-executive director with prior working experience in the major industry the company operates	At least one non-executive director has prior working experience in the major industry the company operates, but there is insufficient breadth of expertise	At least one non-executive director has prior working experience in the major industry the company operates and the board has sufficient breadth of skills
56	Does the board have gender diversity?	<p>The assessor must check for the latest composition of the board. The review will consider any new appointments and resignations from the board after the last annual report.</p> <p>To score maximum points on this question, the company</p>	There is no gender diversity	Yes, there is gender diversity, but all women directors are part of the promoter family	Yes, there is gender diversity, and not all women directors are part of the promoter family

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		needs to appoint professional women directors on the board who have not had affiliations with the promoter family.			
57	Does the company have adequate independent representation on the board?	<p>Independent representation is considered adequate if the board independence norms (as per Companies Act 2013 and SEBI LODR) are satisfied. Companies with an executive/promoter Chairperson must have at least 50% directors as independent and other boards must have at least 33% directors as independent.</p> <p>Independent representation is better-than-adequate when:</p> <ul style="list-style-type: none"> • Independence norms are satisfied • More than 50% of the board is independent (after classifying vintage directors, with a tenure of more than 10 years, as non-independent) • There is a policy/ process to annually affirm the continuing independence of independent board members <p>The assessor must check for the latest board composition. The review will consider any new appointments and resignations from the board after the last annual report.</p>	Independent representation is below regulatory requirements	There is adequate independent representation as per regulatory requirements	There is better-than-adequate independent representation and for directors with a tenure of more than 10 years, there is a process to affirm the continuing independence of the directors
58	Do the board committees have adequate independent representation?	<p>The size for board committees must be as per regulations and independence norms must be met (as per Companies Act 2013 and SEBI LODR).</p> <p>To score maximum points on this question, the assessor needs to check if the requirements for all four committees required under regulation – audit, NRC, stakeholder relationship and corporate social responsibility, are met. Further, the audit committee and the NRC must have a balanced and non-conflicted mix of directors. This would mean:</p> <ul style="list-style-type: none"> • The audit committee must have more than three directors • There is no executive director in the NRC 	Either size or independence norms for committees required under regulations are not met	Both the size and independence norms for committees required under regulations are met	Both the size and independence norms for all committees required under regulation are met and the audit committee and nomination and remuneration committee only comprise non-conflicted members

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		<ul style="list-style-type: none"> No independent director in the audit committee and NRC has a tenure of more than 10 years on the board 			
59	Is the audit committee effective in its composition and its meeting frequency?	<p>While reviewing the experience of audit committee members, the assessor needs to check if:</p> <ul style="list-style-type: none"> Members have an educational background/relevant professional certification in finance or accounting; or Members have worked as CEO, CFO or as any other senior officer with financial oversight responsibilities <p>While the number of audit committee meetings will be listed out in the last annual report, the current composition of the audit committee must be considered while scoring on this question.</p> <p>The audit committee charter may either be available as a separate document or it may be embedded in the annual report of the company. An effective audit charter must include:</p> <ul style="list-style-type: none"> Roles and responsibilities of the audit committee Powers of the audit committee Composition of the audit committee 	The audit committee met less than four times in the past year or none of the directors meet eligibility criteria for audit committee members	The audit committee met at least four times in the past year and at least one director has sufficient accounting/ financial expertise but an audit charter is not available	The audit committee has a clear charter that is publicly available, has met more than four times in the past year and all directors have sufficient accounting/ financial expertise
60	Does the company have a strong and robust internal audit framework?	<p>To score maximum points on this question, the company needs to establish a robust internal audit function. This would mean that:</p> <ul style="list-style-type: none"> The internal audit team must report to the audit committee directly There must be an internal audit charter publicly available, which will include most of the following details: <ul style="list-style-type: none"> -Accountability and scope of work -Independent and objectivity of the team -Composition of the internal audit team -Training programs imparted of the internal audit team -Management support for internal audit function <p>The internal audit charter may either be available as a separate</p>	No disclosures on internal audit framework	No disclosures on internal audit framework but the internal audit function reports to the audit committee	The internal audit function reports to the audit committee directly and there are detailed disclosures on internal audit charter

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		document or it may be embedded in the annual report of the company.			
61	Were all resolutions proposed by the board to shareholders in the past one year accepted?	<p>The assessor needs to check the stock exchange filings to find out how shareholders voted on all resolutions proposed by the board in the past one year.</p> <p>A company will score maximum points if:</p> <ul style="list-style-type: none"> • All resolutions proposed in the past one year were passed; and • In all such resolutions, more than 50% of minority shareholders voted FOR the resolution 	Some resolutions were defeated	No resolutions were defeated, but for some resolutions, majority of minority shareholders voted against	All resolutions in the last one year were accepted by majority of minority shareholders
62	Is there evidence to show that the company, directors or its key managerial personnel (KMP) have violated normally expected ethical/ behavioural norms?	<p>The assessors need to go through annual reports, court rulings, regulatory orders, investigation reports to find evidence of transgressions. A web search may also be used for this purpose.</p> <p>A three-year lookback period (from the date of assessment) is to be considered. Only those violations that are established/proved by a statutory or regulatory authority must be considered.</p> <p>Based on the evidence available, the assessors then need to classify the violations (if any) into two buckets:</p> <ul style="list-style-type: none"> • Administrative/Procedural: These are technical violations, for which a standard penalty is prescribed in the regulatory framework • Severe: These are more severe offences which may have a material impact on the company <p>The assessors may need to use their judgement for classifying the offences based on materiality, frequency, quantum, level of involvement and other similar metrics. The scores will accordingly be adjusted based on the scoring key.</p>	The company / directors / KMP have been penalized by any regulatory authority in the past three years	There have only been some procedural or administrative violations	No, neither the company nor its directors nor its KMPs have been fined or penalized by any regulatory authority in the past three years

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
63	Does the remuneration structure for executive directors align pay with performance?	<p>The assessors need to check the annual reports and the appointment terms of directors to determine the variable pay mix.</p> <p>Short term incentives will include commission, performance bonus, and other similar instruments. Long term incentives will include stock options, restricted stock units, stock appreciation rights, and other similar instruments.</p> <p>If the appointment terms include a variable pay component, but if variable pay was not paid to a director in the last three years, it will be assumed that there is no variable pay incentive for the director.</p> <p>The final scoring will depend on whether all executive directors have individual variable pay components. Promoter directors (who are not eligible for long-term incentives) will not be penalized for not having a long-term incentive component in their salary structure, because of legal restrictions in India.</p>	There is no information on variable pay	The executive directors are given variable pay through short term incentives	Variable pay is given through both short term and long term incentives
64	Has executive director(s) pay been aligned to company performance in the last three years?	<p>The assessors must calculate the growth in aggregate executive directors' pay, company's profits and revenues over a three-year period.</p> <p>The data will be available in the latest annual report of the company. For example, if an assessment is being conducted anytime in FY17, the following formula is to be used for each of the metrics:</p> $V_{\text{Rev/Pr/Rem}} = \frac{(\text{FY16 value} - \text{FY14 value}) * 100}{\text{FY14 value}}$ <p>A company will score maximum points only if:</p>	Three-year growth in aggregate pay is higher than growth in profits and growth in revenues	Either of the above two conditions are triggered	Three-year growth in aggregate pay is in line/ lower than growth in profits and growth in revenues

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		$V_{Rem} < V_{Rev}$ and $V_{Rem} < V_{Pr}$ The aggregate remuneration will be considered only for directors who have been present on the board for each of the three years. If there are resignations and appointments during this period, such directors will be excluded from this analysis.			
65	If the company has a stock option scheme, is the exercise price of the stock options fixed at a discount to market price?	Discounted stock options may be given in various forms: <ul style="list-style-type: none"> • Where the exercise price of the option is the face value of the share • Where the exercise price of the option is fixed at a specified discount to the market price of the share • Through restricted stock units and other similar instruments A company will score maximum points if all the options granted in the past one year had an exercise price which was equal to the market price on the date of grant. This question is not applicable for companies which did not grant any stock options in the past one year.	Only options granted to board members were discounted	Discount given on stock options to all employees	The stock options were issued at market price
66	Is the CEO compensation commensurate with the company's size and performance?	Variable pay includes both short term and long term incentives. The data will be available in the latest annual report of the company. For example, if an assessment is being conducted anytime in FY17, the following formulae are to be used: $R1 = \frac{(FY16 \text{ short-term pay} + FY16 \text{ long-term pay}) * 100}{FY16 \text{ total pay}}$ $R2 = \frac{FY16 \text{ total pay} * 100}{FY16 \text{ profits}}$	Variable pay is less than 50% of overall pay or overall pay of the CEO is more than 5% of net profits	None of the two above conditions are triggered	Variable pay is more than 67% of overall pay and overall pay is less than 5% of net profits

S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
		<p>IF, R1 > 67% and R2 < 5%, score 2 IF, R1 > 50% and R2 < 5%, score 1 IF, R1 < 50% or R2 > 5%, score 0</p> <p>For loss-making companies, the assessor must consider multiple factors including comparison with peers, correlation of pay versus the performance of the company, among others.</p>			
67	Does the company have a succession plan for its directors and senior leadership?	<p>The assessor must check all relevant company documents to identify if the company has developed a succession plan for its directors and senior leadership. The intent of the question is to identify if the board discusses succession planning in its meetings and if it has an internal plan to arrange a smooth transition. To score maximum points on this question, the assessor must determine if the company has disclosed the existence of a succession plan for both directors and senior management, even if granular details are not publicly disclosed.</p>	There is no mention of succession planning in company documents	There is a succession plan either for directors or senior leadership	There is a succession plan for both directors and senior leadership
68	Are the disclosures on succession planning detailed?	<p>The succession plan may be in presented in the form of a separate document or embedded in other company documents. The assessor needs to check if the succession plan includes details on the following:</p> <ul style="list-style-type: none"> • Applicability of the policy • Development of a leadership pipeline • Criteria to be used while appointing successors <p>A company will score maximum points on this question only if disclosures are made on all the three areas.</p>	There is no policy, or the policy is not publicly disclosed	Only a broad framework for succession planning is disclosed	A detailed framework for succession planning is disclosed

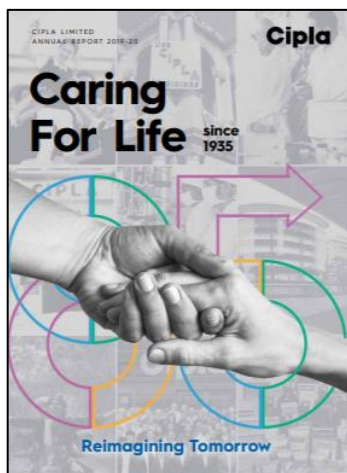
S. No.	Parameters	Response key	Governance practice needs improvement Score: 0	Governance practice is reasonable Score: 1	Governance practice is closer to global standards Score: 2
69	Is the board evaluation policy and process in place and effective?	<p>The assessor needs to check if the disclosures on board evaluation cover:</p> <ul style="list-style-type: none"> • who is evaluated (individual directors, entire board, committees) • who evaluates (nomination committee, external consultant) • how the evaluation is conducted (criteria) <p>A company will score maximum points on this question only if, in addition to the disclosures on all the three areas, there is an impact assessment conducted which lists out measures for board improvement.</p>	No evaluation system in place or inadequate disclosures about board evaluation	There is a board evaluation system in place but no impact assessment is provided	A robust system for evaluation is publicly disclosed and there is an impact assessment which leads to a board improvement plan
70	Are board committees evaluated separately?	<p>A company will score maximum points on this question if:</p> <ul style="list-style-type: none"> • It has carried out a separate evaluation for its board committees • It has disclosed the criteria used for evaluating its committees 	There is no separate evaluation of board committees	There is evidence of a review but the criteria for evaluation of committees is not disclosed	There is evidence of a review and the criteria for evaluation of committees is disclosed



LEADERSHIP
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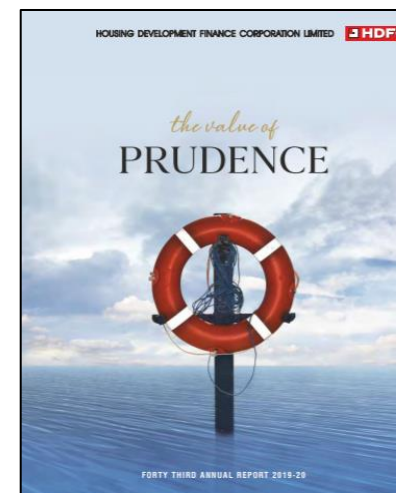


GOOD
INDIAN CORPORATE GOVERNANCE
SCORECARD

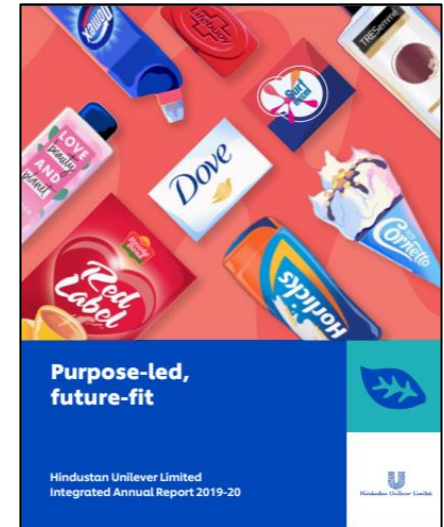


Cipla was among the top six companies in the 'Leadership' category of S&P BSE 100 companies, ranked as per the Indian Corporate Governance Scores-2019, evaluated by BSE Ltd, the IFC-World Bank Group and Institutional Investor Advisory Services (IiAS)

HDFC Limited: Felicitated for the 2nd consecutive year as the Leader in Corporate Governance at the 4th Annual Announcement of 'IFC-IiAS-BSE Governance Scores', an initiative of the BSE Limited and International Finance Corporation (IFC).



Hindustan Unilever Limited: The Company was recognized on Top 10 scores of the S&P BSE Index constituents in the 'Leadership Category' for the Corporate Governance Scorecard which is a joint initiative of the International Finance Corporation (IFC) and the Bombay Stock Exchange Limited.

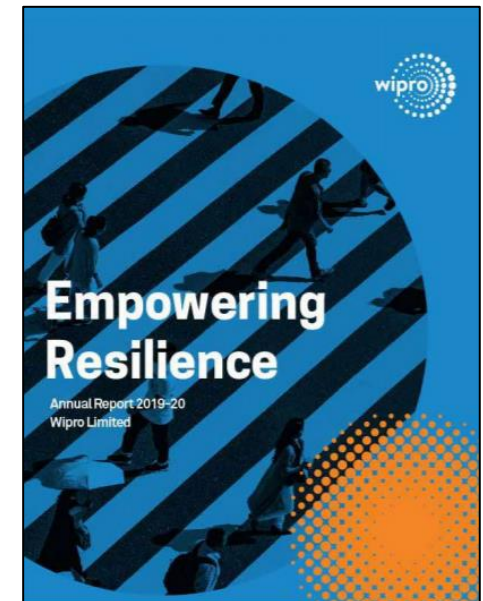


Infosys Limited: During the year, the Company was rated for the third time in a row under the leadership category in a corporate governance study conducted jointly by BSE Limited (BSE) and the International Finance Corporation (IFC), a member of the World Bank Group, and Institutional Investors Advisory Services (IiAS), based on G20 / OECD principles, which are globally accepted benchmarks for corporate governance.



Tata Power was ranked among the top 10 companies in 2019's Indian Corporate Governance Scorecard, which is developed jointly by BSE Limited, the International Finance Corporation and Institutional Investor Advisory Services India Limited (IiAS), with the financial support of the Government of Japan

Wipro has received the award for "Leadership" category in corporate governance practices for 2nd consecutive year under corporate governance scorecard developed by BSE, International Finance Corporation (IFC) and IiAS.





Marico ranked in the Top 10 BSE 100 Indian Companies for exemplary corporate governance.



Tata Motors: The Company was amongst the top 10 companies in BSE 100 companies evaluated by IiAS on the Indian Corporate Governance Scorecard in FY 2017-18 and FY 2018-19.



DISCLAIMER

This evaluation has been carried out by IiAS based on the IFC-BSE-IiAS Corporate Governance Scorecard. The information contained herein is derived largely from publicly available data, but we do not represent that the information contained herein is accurate or complete and it should not be relied on as such. IiAS shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not be taken as the basis for any voting/investment decision or construed as legal opinion or advice. The user assumes the entire risk of any use made of this information and is responsible for complying with all local laws, rules, regulations, and other statutory or regulatory requirements. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. IiAS reserves the right to make modifications and alterations to this document as may be required from time to time. However, IiAS is under no obligation to update or keep the information current. Please note that this document is valid for a period of one year from the date of the report, subject to there being no material change in the company's corporate governance practices, or there being no event that changes our assessment. Neither IiAS nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the report. The disclosures of interest statements incorporated in this document are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. All layout, design, original artwork, concepts and other Intellectual Properties, remain the sole property and copyright of IiAS and may not be used in any form or for any purpose whatsoever by any party without the express written permission of IiAS. Any use of the document is subject to Indian laws and courts exclusively situated in Mumbai, India.

CAVEAT

Even the best corporate governance frameworks do not guarantee that companies will always adhere to good corporate governance practices. This assessment is based on publicly available information and it will not be able to accurately predict the extent to which the documented practices are followed. It may also well be that a company may change its behaviour following a change in internal or external factors. Further, while it is expected that highly companies will create greater long-term stakeholder value, the evaluation results must not be used to predict future stock price or financial performance.

CONTACTS.

Amit Tandon

Managing Director

Institutional Investor Advisory Services (IIAS)

Email: amit.tandon@iias.in

Hetal Dalal

President and Chief Operating Officer

Institutional Investor Advisory Services (IIAS)

Email: hetal.dalal@iias.in

Rromil Shah

Group Manager

Email: rromil.shah@iias.in

Anup Pawar

Group Manager

Email: anup.pawar@iias.in

ABOUT IiAS.

Institutional Investor Advisory Services India Limited (IiAS) is an advisory firm, dedicated to providing participants in the Indian market with independent opinions, research and data on corporate governance and ESG issues as well as voting recommendations on shareholder resolutions for about 800 companies that account for over 95% of market capitalization.

IiAS provides bespoke research and assists institutions in their engagement with company managements and their boards. It runs two cloud-based platforms, SMART to help investors with reporting on their stewardship activities and ADRIAN, a repository of resolutions and institutional voting patterns.

IiAS together with the International Finance Corporation (IFC) and BSE Limited, supported by the Government of Japan, and developed a Corporate Governance Scorecard for India. The company specific granular scores based on an evaluation of their governance practices, together with benchmarks, can be accessed by investors and companies.

More recently, IiAS has extended its analysis to ESG – Environment, Social and Governance. IiAS has worked with some of India's largest hedge funds, alternate investment funds and PE Funds to guide them in their ESG assessments and integrate ESG into their investment decisions.

IiAS' shareholders include Aditya Birla Sunlife AMC Limited, Axis Bank Limited, Fitch Group Inc., HDFC Investments Limited, ICICI Prudential Life Insurance Company Limited, Kotak Mahindra Bank Limited, RBL Bank Limited, Tata Investment Corporation Limited, UTI Asset Management Company Limited, and Yes Bank.

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