Proxy Advisory Guidelines
PA Season FY 2025-26

Stakeholders Empowerment Services (SES)

To ensure that the voting recommendations made by SES are consistent, fair, transparent, independent, and conflict-free, SES has developed a Proxy Advisory Policy containing general principles and guidelines to be considered while analyzing resolutions, put to vote at shareholders' meetings. This document contains the guidelines to be followed by SES analysts while making Proxy Advisory Reports and serves as guidance to analysts on the report's format and contents.

Stakeholders Empowerment Services | Private & Confidential

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Updated by: Krupa Hegde & Shambhavi Jha

CONTENTS

ABOUT SES PROXY ADVISORY GUIDELINES

SES' Proxy Advisory (PA) Reports are primarily aimed to identify governance issues to facilitate meaningful shareholder engagement at general body meetings of listed Companies as also aide investors in their voting decisions. Through its PA reports, SES offers voting recommendations and detailed analysis for resolutions proposed in the general meetings, thereby equipping shareholders to engage in meaningful discussion with the Company on key strategic and governance issues.

Although our voting recommendations are made on a case by case basis, however, to ensure that voting recommendations are consistent, fair, transparent, Independent, and free from any conflict, SES has developed a Proxy Advisory Policy containing the general principles and guidelines to be considered while analysing resolutions that are put to vote at the shareholders' meetings. SES may, however, deviate from the policy based on various factors that arise while analysing a Company and its governance practices. The reasons for such deviations, if any, will be well explained in the PA Reports.

In our Policy, we have ensured that compliance with all applicable (and relevant) laws/regulations are considered while making voting recommendations. SES takes non-compliance with any law (including but not limited to the (SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015 ('Listing Regulations'), the Companies Act, 2013 ('the Act') or any other applicable legislation, very seriously and considers it to be an indicator of poor Corporate Governance. Accordingly, our recommendations for Companies that are non-compliant in any manner, will reflect such concerns.

SES is of the opinion that in addition to compliance with the law in letter, Companies should imbibe good Corporate Governance in spirit. We have researched Corporate Governance guidelines and regulations in various jurisdictions around the world, analysed their relevance in the Indian markets and developed a set of principles that guide our Proxy Advisory mechanism. Our guidelines adequately address issues such as board structure and performance, Directors' Independence, auditor's responsibility and accountability, executive remuneration, related party transactions and other governance issues. SES policy is not set in stone and continues to evolve, with changing regulatory landscape as also experience gained by SES, therefore the annual policy undergoes changes appropriate to incorporate new developments, without waiting for annual exercise. However, SES ensures that all changes are properly documented.

In order to keep all stakeholders updated with policy changes, effective 1st January, 2021, SES has been circulating through email, interim material changes made to its Proxy Advisory Guidelines to all its clients as also to the concerned persons of the Companies (under SES coverage) as per the email address available in SES database created on the basis of information contained in last AGM notice.

SES POLICY ADVISORY COMMITTEE

SES has constituted an independent and empowered Advisory Committee, comprising of erudite and eminent personalities in the field of Corporate Governance, to provide unbiased and objective perspective, and shape SES policy guidelines. The collective wisdom and independence of the Committee has enhanced the content and robustness of SES policy while the diversity of the Committee has enabled us to consider various viewpoints and interests of all stakeholders while formulating the policy. The composition of the Committee for the FY 2024-25 is as follows:

Member	Role	Brief Description
Dr. V R Narasimhan	Chairman	Former Chief Regulatory Officer at NSE
Mr. Sandip Bhagat	Member	Partner at S&R Associates, Advocates
Ms. Geetika Anand	Member	Company Secretary & Compliance Officer at Hindalco Industries Limited
Mr. J N Gupta	Invitee	Managing Director, SES

Disclosure: All the Committee members provide advice to SES on a *pro-bono basis* and have no day to day responsibility at SES. The Advisors may have personal investments and hold directorships in listed Companies. While directorships are in public knowledge, investments are not known publicly. However, such investments and positions neither affect SES policy nor impacts any of SES analysis. It is made abundantly clear that SES reports are not shared with advisory board members neither individually nor collectively. SES' policy and guidelines are generic in nature and SES is entirely responsible for adherence to the guidelines. In case SES does not follow/adhere to its own policies in respect of its advisory reports, responsibility for such failure solely rests with SES and cannot be attributed to any member of the Advisory Committee. It is also certified that there has been no and there will be no financial transaction or compensation of any type between SES and Independent Advisors.

CORPORATE ENGAGEMENT POLICY

Our Proxy Advisory Reports and recommendations are based solely on independent research conducted by us, using authentic and reliable publicly available information. We do not rely on any information available in public domain which is not authenticated by the concerned company or any regulatory or government agency. In rare cases, we may rely on public information which is not authenticated by the concerned company, however, in all such cases, we give full opportunity to the company to explain their position. We encourage companies to provide comprehensive and clear disclosure about the relevant issues for consideration by shareholders in a holistic manner without any asymmetry among the recipients regarding the timing and content of such disclosures. SES as a policy, right from its inception has been following practice of sharing its final report with concerned companies simultaneously upon its release to SES' clients. **SES in accordance with SEBI directive does not share any draft report with the companies.** However, SES gives full opportunity and equal space to the concerned company post release of SES' Report.

In case, after release of SES' Report, the concerned company provides any additional input by written communication, which is not in public domain, SES in such cases will not take that information in account for the purpose of its recommendation unless the concerns are solely related to guidelines set by SES. However, following its policy of transparency, information so disclosed will be reproduced in *verbatim* in SES' addendum to be issued, enabling investors to take a note of the same. SES would advise the Company to share such additional information to shareholders / public at large by way of communication through Stock Exchanges.

Post the release of the report, in case the Company poses a question on any of the issues raised by SES in the report, SES will make best efforts to respond to such queries.

In case the Company responds to PA Report, highlighting any factual error, in such case, in line with SEBI Circular dated 3rd August, 2020 (weblink), such email communication of the Company would be forwarded to all the SES Clients 'as it is' (unless the Company's response contains any offensive or objectionable content in which case SES reserves the right to omit or suitably edit the response with due disclosure of such omission/edition) within 24 hours from the date of such receipt.

Appropriate SES Comments/ reply to such Company's response would be provided through an Addendum which shall be issued as soon as possible. In case of any material revision to SES PA Report, addendum shall be issued within 3 working days from the date of such receipt.

The Addendum to the report would contain details of interactions with the company and explain the nature of all revisions (if any) - including changes to our recommendations (if any) and notify all the recipients of the original report. It may be noted that only responses, queries or notifications **made over email** will be considered by SES, although interaction may take place through audio or video call. SES reserves the right to keep a record and save a digital copy of such interactions for the purposes of audit trail.

Further, the right to make such changes in the reports lies solely with SES and will be decided on a case-to-case basis. SES will generally **NOT** change its recommendation, if the Company provides new disclosures (which are not available to the shareholders at large) to fill the shortcoming of disclosures raised in SES report **only** to SES

unless when the concerns are solely related to guidelines set by SES and the information so provided addresses the concerns raised. Nevertheless, such new disclosure will be mentioned in the addendum. In case such disclosures are provided to **public at large**, SES will take these additional disclosures in account and relook at recommendations afresh. SES believes that the notice and initial communication by the Company (to the shareholders) should be self-sufficient for the shareholders to make an informed decision without any input from SES or any other advisor. SES will endeavour to publish its reports well in advance of shareholder voting deadlines/ meetings ensuring that stakeholders have sufficient time to review our analysis including any revisions and make a voting decision well before the deadline/meeting.

SES will adhere to the following policy during the **black-out period.**

Black-out period is observed from the date of announcement of the Notice of the shareholders' meeting by the Company to the date of release of a report by SES. During this period, SES shall avoid any communication with the Company or its officers, unless SES requires some important clarification without which the content of the PA Report may not indicate a true and fair analysis.

SES may, in case it requires clarifications from a Company over an issue, reach out to the concerned company over email. Any such interaction will be adequately recorded for maintaining an audit trail, and the details of the interaction, (if any), will be disclosed to the stakeholders[1] in the report.

Additionally, prior to releasing its Report, SES may wherever require, seek clarification from the Company regarding any disclosure made in the public domain. Companies will generally be given two working days to respond or such suitable timeline (based on the issue) as may be mentioned in the communication with the Company. In case the Company does not respond, SES reserves the right of forming its own opinion without any further attempts to elicit response.

Upon receiving the Company's comments, SES will publish the comments verbatim in the report (unless the Company's response contains any offensive or objectionable content in which case SES reserves the right to omit or suitably edit the response with due disclosure of such omission/edition). SES endeavours that entire communication be done over email. Record of such interactions will be maintained for an audit trail and disclosed in our Report to the Stakeholders. In extreme cases, SES may interact with the Company over phone to seek clarifications; however, SES would consider only those communication which are sent/clarified on the mail. No other channel of communication will be encouraged for the interaction. SES does not encourage meeting company representatives prior to the release of the report. However, in exceptional case(s), if the company representative(s) meets us, the same will be recorded in our report. All our terms and conditions relating to the meeting will be followed i.e. transparency, audit trail and no confidentiality conditions. Only matters that are in public domain and general governance best practices would be discussed in such a meeting.

Apart from the interactions listed above, no other contact will be established with the Company during the black-out period.

SES as a policy, does not share its report with the concerned company prior to issuing the same to all the Stakeholders. This is primarily done to avoid any perceived influence and transparency. Once released to Stakeholders, the report is shared simultaneously with the concerned company with full opportunity to them to express their opinion.

Further, outside the black-out period, SES may meet/discuss with any company to provide clarifications on the reports, guidelines or to learn more about specific aspects of the Company.

It may be noted that SES never charges any fee or claim remuneration for any such interaction from the Company. SES also provides its report free of cost to the concerned companies at the time of its release to its clients. **SES does not provide consultation services to listed companies and avoids all "off the record" discussions with companies whether about pending proxy proposals or otherwise.**

[1] ***Stakeholder****: A Stakeholder refers to a person or an entity that subscribe for Proxy Advisory Services of SES.*

DEFINITIONS

SES has formulated the below set of definitions to incorporate broader governance aspects in addition to what is stipulated in the law. SES requests that these Policy Guidelines be read keeping in regard the below mentioned definitions for better clarity and context.

1. **Excessive Remuneration:** Remuneration paid or proposed will be considered to be excessive if it is disproportionate as per SES benchmarks when compared with the overall board remuneration and size and performance of the Company.

2. **Skewed Remuneration:** Remuneration practices of a Company will be considered to be skewed by SES if it is inclined towards a particular director or set of directors and no compelling justification has been provided for such differential treatment towards such director.

   For instance, remuneration payments to promoter directors are significantly higher than the payments made to non-promoter directors on the board merely on account of their position as promoters of the Company.

3. **Objective Dividend Distribution Policy:** Dividend Distribution Policy that defines a quantified range within which the prospective dividend of a Company will fall.

4. **Omnibus Approval for Related Party Transactions ('RPTs'):**

   While deciding on the appropriate method of approval, SES is of the view that, if even one of the following parameters cannot be provided by the Company, it must seek omnibus approval of shareholders.

   SES will consider the below parameters to determine whether a transaction is eligible for a Specific transaction approval. If the below parameters are not met/disclosed, SES would deem such approvals as omnibus in nature:

   1. Specific details including nature, objective, duration and other requisite details of the underlying transactions have been disclosed
   2. Specific details of entities/ party(ies) involved
   3. Value of transaction disclosed/ where value cannot be determined, individual monetary caps to the RPT have been disclosed

   In a nut shell, it must be between specific parties, fixed duration or agreed project, value of the contract or agreement under which value can be determined, specific underlying project or contract.

5. **<u>Promoter Directors and Affiliate Promoter Directors:</u>**

   Wherever possible, SES would differentiate between Promoter Directors forming part of the Promoter Group (as defined under SEBI ICDR) & Affiliate Promoter Directors (A term coined by SES to indicate affiliation of such directors towards the Promoter Group).

   Thus, SES in its reports, may classify non-independent directors who are not part of the "Promoter Group" as defined under SEBI ICDR, as either "Promoters" or "Affiliate Promoter Directors", as applicable, if any of the following conditions are satisfied:

Affiliate Promoter Directors		Promoter Directors	
A.	Holds any whole-time position, whether on the Board or otherwise, in the 'Group Company' except in its subsidiary company	A.	Promoters or Person belonging to Promoter Group
B.	Holds directorship (other than independent Directorship) or any other senior management position in any of the Group Company except in its subsidiary company	B.	Relative of any Promoter/ Promoter Group member (as per the definition of "Relative" under the Companies Act, 2013 as well as SES)

C.	Nominee of Promoter/ Promoter Group	C.	Holds financial interest in the Promoter/ Promoter Group Entity

Provided that, in case of an Affiliate Promoter Director, if the person has resigned or ceased to hold the underlying position in the group company as on date of the report, then, he/ she shall not be considered to be an Affiliated Promoter Director anymore.

For the purpose of remuneration analysis, the classification of Directors into Promoter category would be conducted strictly as per the definition of "Promoter Group" as defined under SEBI ICDR Regulations.

6. **Group Company:** Group Companies shall comprise of the subsidiary companies, associate companies, joint venture companies and companies that are under the control of the Promoter/ Ultimate Holding / Promoter Company / Promoter Directors. Additionally, associate companies having common promoters will also be considered as part of the Group for this purpose.

7. **Promoter Control Quotient:** Promoter Control Quotient is the degree of promoter control on the board as compared to their unencumbered ownership in the Company. The same is computed as a ratio of the percentage of promoter directors on the board (excluding independent directors) to the percentage of unencumbered ownership in the Company.

8. **Relative:** Save as the relationships covered under the provisions of Companies Act, 2013 or any other relevant law, SES, adopting broader governance measures, will consider the following relationships within the ambit of "relative":

   Uncle, aunt, cousin, nephew, niece, grandparents, grandchildren, in-laws, fiancé or fiancée and other individuals who share the same residential address.

9. **Significant Shareholder:** SES considers any shareholder holding more than 5% in the Company and occupying a Board or KMP position, either directly or through a nominee, as a significant shareholder. In the absence of a Board seat, SES will evaluate the significance of such shareholding in the context of the overall promoter holding to assess the potential control influence. Where there are no identifiable promoters, a shareholding of over 20% will be treated as significant by SES.

SES PROXY ADVISORY PRINCIPLES

SES gives overarching importance to major governance issues related to Fairness, Transparency, Adequacy and Quality of Disclosures, Related Party issues and Impact on minority shareholders/ equitable treatment of all shareholders, while examining the matters placed before shareholders for their consideration (in addition to checking on legal compliance and ethical issues). In these guidelines, we have highlighted parameters that help us determine whether any proposal will pass the litmus test or not, and this analysis will lead us to our recommendation of **AGAINST** or **FOR**.

If a company does not provide the e-Voting facility, we recommend voting **AGAINST** all the Resolutions in the Notice of that general meeting, however, we still do the analysis of the Resolutions (on merits) based on our guidelines.

PRINCIPLE 1 – FINANCIAL STATEMENTS

SES' analysis of the resolutions for the adoption of financial statements will be aimed at enabling shareholders to engage in meaningful discussions with the management during the AGM while approving the resolution. The focus of SES' analysis will be on integrity of Financial Statements, Related Party Transactions, significant shift in key financial ratios, deviations from Accounting Standards, if any, Applicable Financial Reporting Framework, analysis of Auditors' Report including qualifications and adequacy of Board's responses thereto, CARO observations, Key Audit Matters, etc. SES may highlight major governance and accounting issues in the Auditors' Report and financial statements (if any). SES may also discuss audit qualifications (if any) and evaluate boards' response or the management explanation to such audit qualifications. Unless there are concerns identified by SES about the integrity of the financial statements or reports, and such other concerns raised by the Auditors in their report, SES will not recommend voting against such resolution.

SES will also analyse mandated disclosures made by companies in respect of subsidiaries' financials on website, selected financial ratios and comments on any significant deviation. SES will critically analyse the sufficiency of explanations given, whether the compliance is in letter or spirit.

PRINCIPLE 2 - DIVIDEND

SES is of the opinion that in a public limited listed company payment of a dividend or conserving cash is a strategic decision best taken by the Board of the company keeping in view, the long-term goals of the Company. In the normal course, SES will recommend voting **FOR** the resolution. An exception may be made for cases where concerns over the Company's ability to pay the proposed dividend are observed especially if the Company neither has cash nor the ability to pay such dividend(s) or significantly contradicts Company's dividend policy and no reason for such deviation is provided. SES may also relate decision on dividend to other corporate actions which might appear to be in conflict with resolution on dividend.

SES will support proposals seeking payment of final dividend, in case major concerns are identified in the standalone financial statements of the Company.

PRINCIPLE 3 – AUDITORS

Auditors are the first level of protection for all stakeholders in general and for non-participative shareholders in particular. The Auditors owe a fiduciary duty to the shareholders especially the public shareholders. The Auditor's role is crucial in ensuring the integrity and transparency of the financial statements. Accordingly, SES is of the opinion that the Auditors should be independent, well-qualified, objective, unbiased and free from conflict of interests. Therefore, while analysing resolution(s) for the appointment of statutory Auditors, SES will consider factors such as compliance with law, association/ affiliations with the Company/ promoters/ directors or management, tenure of association, proposed fee, Basis of recommendation along with credentials disclosed, and non-audit engagements with the company that may prevent the Auditors from carrying out their duty in objective & independent manner.

In exceptional cases, **based on analysis of Financial statements**, if SES finds that Auditors did not fulfill their role/ responsibility properly, SES will not support re-appointment of same auditor.

In case SES finds that Auditors have not done their duty, SES would make an observation in its report highlighting Audit failure and request shareholders to take appropriate action to protect their interests. In case SES finds that Auditors have failed on continuous basis in protecting interest of shareholders SES may report the same to concerned regulators at its option.

While, perfectly legal, yet SES will highlight cases where immediately after first term of an Auditor is over, the company, rather than giving a second term to a new auditor, appoints the auditor who was auditor just before appointment of the outgoing auditor.

PRINCIPLE 4 – BOARD COMPOSITION

SES is of the opinion that ideally, the board of directors of a Listed Company must comprise of 7 – 12 directors, depending upon the size and complexities of the business operations. The Board should be independent, qualified and diversified, have a record of efficient and effective performance, and have capable members with an in-depth experience and expertise in diverse fields. Ideally, Boards should have a majority of independent directors and have a Non-Executive, preferably an independent Director as its Chairman. The Board must also comprise of woman director(s) who are independent of the management. Therefore, SES' recommendations on the appointment of directors are aimed towards the formation of reasonably independent, diverse and effective board. While analysing proposals for appointment/re-appointment of directors, SES would also consider past performance of directors in respect of meetings attended by them, their time commitments considering their number of directorships, committee chairmanships and memberships, any non-compliance, frauds and regulatory actions against the Director and such other information disclosed in Board's report etc. While SES may not be in a position to evaluate suitability of the proposed appointee, however it will evaluate the proposal keeping in mind education, experience, age and other relevant factor while framing recommendation.

SES in its reports will also mention other issues related to the Board which is not specific to the appointment of a Director. Such issues include conditions affecting the independence of the Independent Directors due to long tenure/association or outstanding ESOPs, high remuneration to Promoter Directors, the pecuniary relationship of the Directors and such other concerns which may affect the governance of the Company and affect the shareholders' value. SES will also take into account performance (attendance) of directors as member of various committees.

Promoter/Affiliate Promoter classification:

While certain directors may not be classified as Promoter Directors by the Company in its Annual Report, SES believes that director's relationship with the Promoter Company / Promoter Family could potentially lead to, the director acting under influence of the Promoters and may act in interest of promoter. While it is impossible for SES to forecast behaviour pattern of any appointee, yet SES feels that such relationship needs to be highlighted in the PA Report.

Thus, SES in its report may classify such non-independent directors as Promoter/ Affiliate Promoter directors, if the conditions stated herein are satisfied.

PRINCIPLE 5 – DIRECTORS' INDEPENDENCE

SES examines directors' relationship/ association (including tenure) with the Company, its promoters, its other directors, its senior management or its holding company, its subsidiaries and associates, to determine if there are relationships which may potentially affect the independence/ independent decision making of such directors due to conflicts of interest. SES will also raise concern if any independent director (ID) of the Company, is a partner or proprietor of any Consultancy / Tax / Law Firm that provides services to the Company. SES strongly feels that ideally an Independent Director of the Company must not have any pecuniary relationship with the Company, except for Directors' remuneration. SES will not support appointment of persons as Independent

Directors who receive pecuniary benefits in an individual capacity on account of providing specialised services to the Company/Group. With regards to the tenure of IDs, any ID who had been associated with the Company / Group Company for a tenure of > 10 years, would be reckoned non-independent by SES.

PRINCIPLE 6 – BOARD COMMITTEES

SES is of the opinion that the Board Committees are vital constituents in the governance structure of a Company. Every Board Committee (including the Audit Committee, Nomination & Remuneration Committee) should comprise of competent and qualified people with relevant experience and be sufficiently independent of the management, promoters and other related parties. Additionally, such committees should be empowered and have a well-defined role/mandate. As a good governance practice, the Company should have a rotation policy for members of the Committees fit for such role, especially Audit Committee Chairperson, and its members. However, as of now SES does not analyse this in its PA Reports.

Since, the Committees of the Board, especially Audit and NRC generally comprises of higher percentage of Independent Directors than the Board, therefore, recommendations made by such committees is expected to be conflict free and independent. In case, the board has not accepted any recommendation of any committee of the board, such instance would be scrutinised by SES closely.

PRINCIPLE 7 – DIRECTORS' REMUNERATION

SES is of the opinion that the Companies should have remuneration policy that not only attracts and retains competent directors/executives but also motivates them to enhance the Company's long-term stakeholders' value. SES looks at the structure of the remuneration package, quality of disclosures, link between performance and remuneration, and overall compensation relative to peers while recommending voting action on directors'/executive remuneration. SES emphasizes that remuneration should be aligned with the performance of the individual as well as the performance of the Company. It must include performance related variable component of remuneration. Special focus is placed on skewness/ biases in remuneration practice(s). Ownership should not be a criterion for higher remuneration.

PRINCIPLE 8 – SHARE BASED BENEFITS

ESOPs are a useful tool for retaining employees and aligning their interests with that of the shareholders' interests. SES will evaluate the terms of such schemes and the quality of disclosures made by the Company while making voting recommendations. SES will analyse schemes for their objective and will be critical of any such scheme which aims to reward only selected few. SES will analyse any amendments in ESOPs, considering the fairness and impact of the proposed amendment. Proposals seeking absolute discretion to the Board to modify, alter, vary the ESOP scheme is not viewed as a good governance practice by SES. SES expects the Companies to make objective disclosure, so that the shareholders could take an informed decision. SES will also examine whether the vesting conditions are linked to indicators reflective of performance of the Company or not.

PRINCIPLE 9 – RELATED PARTY TRANSACTIONS

A Related Party Transaction (RPT) is a mutual transfer of resources, services or obligations between a reporting entity and a related party. SES as a policy does not view RPT *per se* bad unless it is an abusive and unfair transaction. SES will evaluate the quality of disclosures made by the Company along with justification, while making voting recommendations, without passing a value judgment on the transaction, unless *prima facie*, the transaction looks unfair or abusive. If disclosures made by the company explain the need for the transaction and appears to be at arm's length and fair in the interests of the Company and other shareholders, SES would recommend **FOR**. Having said that, RPTs with Promoters of the Company shall invite additional scrutiny by SES. Approvals for RPT for perpetuity or without placing any absolute cap on the transaction amount is not viewed as a good governance practice by SES. SES will also examine closely all-encompassing resolution and recommend

based on merit. Terms like "Arm's Length" & "Ordinary Course" would not be accepted at face value unless the resolution provides information as to how transactions confirm to the same.

SES will also closely scrutinize shareholder proposals for RPTs which are sought for more than 1 year, in order to test if these approvals are of an **"omnibus"** nature or not. SES will examine a transaction (if classified as specific by the Company) as to whether it meets the parameters identified by SES or not.

PRINCIPLE 10 – CORPORATE ACTIONS

SES is of the opinion that corporate actions are entirely the prerogative of management and expects that the management must share its perspective on all corporate actions with shareholders in a transparent manner. SES evaluates such proposals on a case-by-case basis. SES expects companies to provide a specific and detailed rationale for such proposals. While SES may analyse the merit/ adequacy of the rationale, check compliance of the disclosures with regulatory requirements, transparency regarding the resolution and analyse governance issues (if any) in the proposal, SES will place special emphasis on related party issues (if any). SES, in cases of sale of asset/ business/ mergers, will consider the disclosures provided in the Valuation Report and Fairness Opinion with regard to the monetary value of such assets/business and the manner of computing the Valuation. In normal course, SES will recommend voting **FOR** the resolution, unless specific issues are identified. However, SES may not support resolutions that effectively provide unlimited authority to the Board to act at its discretion, as it dilutes the authority of the shareholders of the Company.

PRINCIPLE 11 – SUSTAINABILITY AND THE ROLE OF BOARD

SES is of the view that, along with a focus on financial and operational performance, a responsible and sustainable approach towards governance, environment and community is vital for the long-term growth and viability of a Company.

Securities and Exchange Board of India (SEBI) has updated its sustainability reporting requirements to keep pace with the increasing prominence of ESG (Environmental, Social, and Governance) investing. SES will closely monitor whether the companies comply with the applicable reporting requirements.

As the ESG phenomenon is evolving in the Indian corporate environment, SES plans to gradually incorporate ESG parameters into its Proxy Advisory Policy.

SES POLICY ON PUBLIC SECTOR UNDERTAKINGS (PSUs) WITH NON - COMPLIANT BOARD

SES has observed that many of the PSUs do not comply with the applicable requirements of the Companies Act, 2013 and provision of the SEBI Listing Regulations in entirety. The Board, Audit Committee and Nomination and Remuneration committee of various PSU Companies does not have required number of Independent Directors (including woman independent director) and hence, are non-compliant with the law. SES, in such cases recommends that shareholders vote AGAINST all the resolutions seeking appointment/re-appointment of Executive/Non-Executive Non-Independent Directors.

Further, it is observed that some PSU Companies appoint IDs but for an uncertain term or such term as desired by the Government of India i.e. the promoter of the Company. In such cases, SES recommends shareholders to vote AGAINST such resolutions as such a condition not only vitiates Independence of the Directors and is neither in compliance with the letter of law nor with the spirit of law.

SES understands that recommending a negative vote against these resolutions if successful, can result in disruption of operations. The objective of SES is to bring about improved governance and not to disrupt operations. SES wishes to achieve good governance through engagement by shareholders and without disruption as SES is the view that a lot of value could be lost due to disruption. SES recommends AGAINST in such cases not on the basis of the merit of Directors but due to non-compliance and/ or inadequate disclosures by the Company. SES is of the opinion that a non-compliant board raises a question mark over board oversight mechanism and the Independence of decision-making of the board. In case of PSUs a negative vote by minority shareholders will not disrupt operations as a vote of majority shareholders (Promoters) would certainly re-elect these Directors, therefore SES recommendations only aims to strongly convey the dissatisfaction of public shareholders. SES is of the view that PSUs should set a higher benchmark with respect to corporate governance practices for other Companies to follow them.

PRINCIPLE 1: APPROVAL OF FINANCIAL STATEMENTS

SES is of the opinion that analysis of adoption of financial statements is an integral part of financial analysis. Therefore, detailed analysis of financial statements is not within the scope of SES' work and is also not core competence of SES. SES' analysis will be aimed at enabling shareholders to engage in meaningful discussions with the management over the Company's financial statements. Unless there are concerns about the integrity of the financial statements or reports or serious governance issues, SES in normal course will not recommend voting **AGAINST** such resolutions.

Further, SES would also check whether the Company has placed the financial statements of its subsidiaries on its website or not, as required under the law. In absence of such information, SES will not support adoption of consolidated financial statements. SES will also examine CARO, 2020 compliance and analyse data.

KEY CONSIDERATIONS

1. Whether Financial Statements have been disclosed as per legal requirements?
2. Separate Financial Statements of the subsidiaries of the Company available on the website of the Company.
3. Whether Financial Statements of all subsidiaries are included in the Consolidated Financial Statements?
4. Audit qualifications (if any)
    a. Whether any qualifications raised by the Auditors. If yes, whether any clarifications/comments made by the Management/ Board on the same.
    b. What governance/fairness issues do the qualifications highlight?
    c. Where the impact of the qualifications which cannot be precisely quantifiable, whether estimates on such qualifications have been provided by the management? What is the review of the Auditor on the same?
    d. Whether the audit qualifications have been repetitively raised by the auditors?
5. Whether any comments made by the auditors in the standalone or consolidated audit report, the annexure to the Auditors' Report and notes to financial statements?
6. Auditors' comment on the Going Concern Status of the Company & its Material Subsidiaries (if any)
7. Whether significant portion of standalone financial statements is not audited by the Principal Auditors? Whether the Company has provided any adequate justification for the same?
8. SES may look at the consolidation principles used by the auditor to determine whether any material unaudited financial statements have been used for consolidation. If yes, whether the Principal Auditor has carried out additional audit procedures?
9. Whether material portion of financial statements have not been audited by the Principal Auditor? If yes, whether the Principal Auditor has carried out additional audit procedures?
10. Any material variations in accounting policies from the accounting standards (if disclosed in Audit Report)
11. Any structural shifts in key financial indicators? If yes, whether disclosures are made by the management to explain the shift if the variation is >25%?
12. Whether there has been any material re-statements in the financial statements? Whether the Company has provided adequate explanations for the same?
13. Exceptional write-offs by the Company for which the management has not provided satisfactory explanation.
14. Exceptional spending by the Company and proper disclosure on the timing/need of such spends by the Company.
15. Related Party Transactions including loans, receivables and royalty payments and the trends observed therein *vis-à-vis* requirement of Listing Regulations and Companies Act, 2013.

16. Contingent liabilities and impact of contingent liabilities, material legal cases by and against the Company, on the Company (not applicable in case of Banks and NBFCs). Money raised from Banks/ Financial Institutions were utilized for the stated purpose.
17. Whether the Company has proposed adoption of the Standalone and Consolidated Financial Statements under a single resolution?
18. When substantial concerns are identified in the Consolidated Financial Statements; however, no concerns are identified in the Standalone Financial Statements of the Company and the Company has proposed a clubbed resolution for adoption of financial statements.
19. Audit Process
    a. Audit Committee's independence/ composition and comments (if any) on the Auditors' report/ financial statements.
    b. Auditors' independence
20. Other issues that SES may highlight
    a. Any material issue related to accounting practices, disclosures and transparency
    b. While normally SES will not do any comparative analysis with any company, however, in case any governance issue is found, to highlight the same SES may carry out competitor analysis. The underlying objective will be to bring to shareholders' notice relevant information.
21. Cause for concerns in the performance of the Company such as continuous losses, entire additional borrowings utilised in investments, etc.
22. Whether any default in payment of statutory dues/ dividend dues/ interest payment/principal repayment obligations?
23. Size of Contingent Liabilities when compared with the Net Worth of the Company
24. Whether Internal Control Systems & Internal Audit Functions are adequate and efficient?
25. Whether financial statements disclosed are complete or abridged?
26. CARO Observations reported by the Auditors of the Company.
27. Whether the financial statements are signed by the relevant authorities?
28. Whether any item in the financial statement has been incorrectly classified? What is the consequential impact?
29. Current Position of Net Worth, Borrowings, Contingent Liabilities, Loans and advances or any other item of Balance Sheet & Profit & Loss statement, if appears to be material and raises questions in mind of SES Analysts.

PRINCIPLE 2: DECLARATION OF DIVIDEND

SES is of the opinion that the option of paying dividend or conserving cash is a strategic decision, which is best taken by the Board of Directors of the Company, keeping in view the growth plans and long-term goals of the Company.

SES is of the opinion that the Board is best positioned to understand future plans of the Company and requirement of funds, therefore, is in the best position to decide the amount of profits (cash) to be retained for future use and the amount of profits to be distributed as dividend. Therefore, SES would normally recommend voting FOR the resolution declaring dividend (as the intrinsic shareholders' value is the same), unless strong reasons are found (like Company has defaulted in servicing its debt obligations for more than a year or material qualifications are identified in the financial statements of the Company). However, SES does expect companies to have consistent dividend payouts (based on a publicly disclosed objective policy) and explain any deviations from the historical dividend payout policy to the shareholders.

However, SES will not support the proposals seeking payment of final dividend in case major concerns are identified in the standalone financial statements of the Company.

SEBI vide Regulation 43A to the Listing Regulations, has mandated disclosure of Dividend Distribution Policy on website and Annual Report for Top 1,000 Companies by market capitalization (as on 31st March of every financial year), SES is of the opinion that as a good governance policy, all the Listed Companies should disclose their dividend policy which ideally should be objective in nature (Read Definition). If the Company has not provided dividend policy in its Annual Report and Website where it is mandated to do so, SES will highlight the same in its report.

KEY CONSIDERATIONS

1. Whether any major concerns are identified in the standalone financial statements of the Company?
2. Whether the Dividend Distribution Policy is disclosed by the Company? Whether the same is based on objective criteria and whether the dividend payout is as per its stated policy or not?
3. Consistency of dividend payment
    a. Does the Company have a stated Dividend Distribution Policy, including a proposed dividend payout ratio? If yes, is the dividend payment consistent with the stated policy; if not, has the Company explained the deviation to the shareholders?
    b. If there is no stated dividend policy, has the dividend payout been consistent in the last 3 years? If not, has the Company explained the deviation?
4. Capacity to pay the dividend to be questioned in following cases:
    a. The Company's Current Ratio < 1 and Debt Equity Ratio > 2 (not in case of capital-intensive projects or financial institutions or if adequate justification given, where case by case analysis will be done)
    b. Is the Company making losses and/or the Company has high Debt Equity Ratio + low Debt Coverage Ratio but paying/increasing dividend?
    c. Does the Company have sufficient cash flow from operations and/or sufficient cash & cash equivalents to pay the proposed dividends?
    d. Has the Company defaulted on any of its debt obligations/ undergone restructuring and has still declared dividend?
    e. Is the Company required to conserve resources to fund large upcoming capital expenditure?
    f. High dividend associated with high promoters' equity, with high payout ratio with high leverage-borrowing especially in cases where capital expenditure is high
    g. Preferential offer to promoters and also, high dividend proposed by the Company
5. Low dividend

a. Is the Company consistently making large profits and has large cash balance but its dividend payout ratio is consistently very low?
b. Has the Company decreased the dividend payout to an exceptionally low level (or eliminated dividend payout altogether) without sufficient explanation?
c. Has the growth in dividend been consistent with the growth in royalty payments and/or executive remuneration? In such a case, we highlight this point in the discussion on dividend page.
d. Is low dividend after a buyback?

6. Whether dividend is being proposed for benefit of select classes of shareholders?
7. In case dividend is being paid only to non-promoter shareholders, SES would examine shareholding pattern as also look for infighting issues as also hidden promoter shareholding.

PRINCIPLE 3: AUDITORS' APPOINTMENT

Auditors play crucial role in ensuring the integrity and transparency of the financial statements, which is necessary for protecting shareholders' value. Auditors have a duty towards all stakeholders, to bring to their notice; instances of non-compliance, any accounting practice which is in deviation from the Accounting Standards already set or any other aspect of the financial statements which could adversely affect the interest of various stakeholders. Stakeholders rely on the auditors to do a thorough audit of the Company's financial statements to ensure that the information provided is complete, accurate, fair, and is true representation of the Company's financial position.

SES is of the opinion that keeping in view the important role played by the Auditors, an independent Auditor effectively strengthens the hands of board in discharging its duty towards shareholders and reducing risks. Accordingly, we believe that the Auditors should be independent and free from any conflict of interests. SES expects that the Company disclose, the proposed fee payable to the Statutory Auditors and in case of a new auditor, material changes in the fee payable to the new auditor from that paid to the outgoing auditor be explained, if any. SES will also consider the basis of recommendation and Credentials of the proposed Auditor provided by the Company for appointment of the statutory auditor(s) proposed to be appointed.

In cases where the existing Auditor has resigned, SES will pay attention to the disclosure made by the Company, and detailed reasons for resignation of auditor as given by the said auditor as required under clause 7(B) of Part A of Schedule III to the SEBI LODR. Rather than believing every word written by the Auditors in their resignation letter or reasons advanced by the Company, SES will examine the issue holistically and conduct its own analysis.

SES will keep in mind provisions of the Companies Act, 2013, SEBI & RBI Regulations and other applicable provisions in the matter regarding tenure and independence of Auditors.

KEY CONSIDERATIONS

1. Tenure of Auditors
   - 1.1. Has the Auditors' tenure (tenure includes tenure of firm with common partners/same umbrella or Branch or Internal audit assignment) exceeded 10 years/ will exceed 10 years at the completion of proposed term?
   - 1.2. Whether Auditor proposed for a term other than 5 years? In case of companies other than banks/ NBFC, as per RBI requirements
   - 1.3. Has the audit partner(s) tenure exceeded 3 years?
   - 1.4. Basis of recommendation/ Credentials provided in the Notice.
   - 1.5. Disclosure of proposed fee and any material change in case of new appointment. In case of material change, whether change is due to change in the size of the Company or any corporate actions undertaken or any corporate restructuring undertaken or any other reason?
   - 1.6. Whether previous auditor not re-appointed for 5 years despite being eligible to the same.
   - 1.7. Whether change in auditor is as a result of completion of tenure/ casual vacancy?
2. Name of the Auditors up for appointment/ re-appointment disclosed?
3. Other factors:
   - 3.1. Proportion of the Non-Audit Fee to the Total remuneration paid (Audit and Audit Related) to the Auditors.
   - 3.2. Does the non-audit fee constitute more than 75% of the total audit fees paid to the Statutory Auditors in previous year? Has the non-audit fee been higher than 50% in 2 of the last 3 years?
     (Note: SES may make allowances for fees for one-time transactions and due diligence work related to merger, acquisition or disposal provided that their provision of such services does not persist.)
4. Do the Auditors have any financial interest in or association with the Company which may lead to conflict of interest situations?
5. SES will endeavor to check whether the Auditors are/were associated with the Company/ Directors?
6. Whether Audit Committee is compliant at the time of recommending appointment of Auditors?

7. Whether significant portion of financial statements have been audited by the Principal Auditors?
8. Have material unaudited financial statements been used by the Company for consolidation (definition of material same as that in the Listing Regulations)?
9. Has there been any recent material restatement of financial statements, including those resulting in the reporting of material weaknesses in internal controls?
10. Auditors not appointed on the recommendation of the Audit Committee/ The Company has not disclosed whether the Auditors are appointed on the recommendations of the Audit Committee
11. Statutory Certificates/ prescribed condition for appointment of Auditors not disclosed in the Notice/ Annual Report
12. Whether the Notes to Financial Statements provides adequate breakup of the Audit Fees paid when discussing items of expenditure incurred as required under Schedule III of the Companies Act, 2013.
13. Whether the company has adopted accounting policies in its preparation of financial statements overstating the financial performance of the Company and the auditor has failed to highlight the same in their report. (e.g.: Contingent liabilities recognized through footnotes only; low estimates of Bad Debts, etc.)
14. Whether any regulatory orders have been passed against the auditor suspending/ debarring their eligibility to provide services or for some other disciplinary actions?
15. Are Joint Auditors being appointed through a single resolution? Any concern identified in either or both of the Auditors?
16. Is division of remuneration between the Joint Auditors of the Company, if applicable, fair and commensurate to their respective scope of audit?
17. When proposing appointment of a joint auditor whether consent has been obtained of the existing auditors?
18. Whether Audit remuneration is excessively low (when compared with company size and peer companies)
19. Whether Statutory Auditors and Branch Auditors are being proposed in the same resolution?
20. Whether general meeting held for appointing auditor is AGM, EGM or Postal Ballot?
21. Whether auditor appointment is proposed through Special Notice?
22. Whether material concerns raised by SES in previous reports have been addressed by the Auditors?
23. Whether a single director has been authorised to fix the remuneration of the Auditors?
24. Whether the existing auditors are being removed to align with the Group Auditors?

SECRETARIAL AUDITORS - KEY CONSIDERATIONS

1. Whether the appointment of Secretarial Auditors is compliant with the applicable laws?
2. Check the considerations for Statutory Auditors as far as they are applicable for Secretarial Auditors.
3. Whether the Secretarial Auditors have failed to highlight any non-compliance incurred by the Company during the previous year?
4. In case of change of auditors, what was the fee paid to the previous auditors?

FIRMS UNDER COMMOM MANAGEMENT/ TIE-UPS

SES will examine the audit network to which the auditor is affiliated, to assess whether the auditor's association with that network gives rise to any compliance or governance concerns.

AUDITORS' REMUNERATION CLASSIFICATION

1. Statutory Audit
2. Audit Related
   - 2.1. Tax audit / Audit of tax accounts
   - 2.2. IFRS Audit
   - 2.3. Statutory reporting for consolidated financial statements / Group reporting
   - 2.4. Audit of interim financial statements
   - 2.5. Certifications under SOX Audit (Sarbanes-Oxley Act of 2002 - Applicable to all Companies that are under jurisdiction of U.S. Securities and Exchange Commission (the "SEC"))

2.6. Limited review
2.7. Statutory certifications (certifications required to be done by the Auditor under any law)
2.8. Any representation before an authority

3. Non-Audit
3.1. Management Consultancy
3.2. Certifications other than those covered under clause 2.7 above.
3.3. Advice concerning tax matters
3.4. Company Law matters
3.5. Taxation matters
3.6. Other Services

Note: Reimbursements for out of pocket expenses shall be ignored for calculating the remuneration for Statutory Auditors.

APPOINTMENT OF AUDITORS AT PSU

Since, the Auditors at PSUs are appointed by CAG, a constitutional body appointed under Article 148 of the Constitution of India, SES will generally not have issues, provided that the disclosures made by the Company are adequate and SES does not discover shortcomings of audit process.

Further, in case of PSUs, SES notes inconsistency in practices; while some PSUs seek shareholder approval for auditor remuneration, while others do not, thus, reflecting a lack of clarity around the applicable approval mechanism. Hence, owing to said factor and that there exists no fairness issues in remuneration payments of CAG appointed Auditors, SES will highlight these gaps in PSU governance but not recommend AGAINST solely due to this regard. However, SES will adopt a stricter voting policy stance in the near future for PSUs, but in a gradual manner.

APPOINTMENT OF AUDITORS AT BANKS/NBFCs

Auditor appointments at Banks/NBFCs are governed by the RBI Guidelines dated April 27, 2021 (Weblink), on the appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) for Commercial Banks (excluding RRBs), UCBs, and NBFCs.

Inconsistency identified in the Legal Provisions (Banks):

Currently, banks are following two different approaches for the appointment of statutory auditors due to inconsistencies in the legal provisions prescribed by the Reserve Bank of India (RBI). According to RBI Circular, shareholders are required to approve auditors for a continuous term of three years. However, the RBI itself grants approval for auditors on an annual basis, subject to yearly assessment. This creates a regulatory conflict: when shareholders approve auditors for a three-year term, they are effectively approving a tenure beyond what the RBI has actually approved. On the other hand, if shareholders approve auditors for only one year, it leads to non-compliance with the RBI's requirement for a continuous three-year shareholder approval.

This contradiction presents both compliance and governance challenges. In response to this ambiguity, SES has decided to recommend voting against auditor appointment resolutions, whether proposed for one year or three years. This stance is intended to highlight the inconsistency and prompt the regulator to provide greater clarity in the legal framework governing such appointments.

Legal requirement of cooling-off and joint auditors:

Legally, the Auditor of the bank must serve a cooling off period of at least 6 years, in line with RBI norms. SES will also check whether the entity has appointed the minimum number of joint auditors as per the asset size of the Company as required in terms of the RBI Circular.

Particulars	Term	Cooling off period
Companies	5 years	5 years

Banks	3 years	6 years

Note: The below conditions are additional parameters to be analyzed in case of Banks/NBFCs. General Parameters that are to be checked in case of statutory auditor proposals of other companies, are to be checked for Banks/NBFCs as well. Further, please ensure that general conditions with regard to Joint Auditor positions are to be checked in case of Banks/NBFCs as well.

KEY CONSIDERATIONS

1. Whether the Banks have complied with the guidelines/circulars issued by RBI from time to time?
2. Tenure of the audit firm (tenure includes tenure of firm with common partners/ same network)
3. Appointment of new Auditor/Joint auditors for a term other than 3 years
4. Appointment of Auditors in a general meeting other than AGM
5. Appointment of less than 2 audit firms for entities with asset size of ₹ 15,000 crores and above
6. Whether Joint Auditors are proposed through a single resolution? Whether concern identified in either of the Auditors?

ADDITIONAL RECOMMENDATION GUIDELINES FOR INSURANCE COMPANIES

The Insurance Companies shall comply with the provisions of Companies Act, 2013, Guidelines for Corporate Governance for insurers in India, IRDAI (Corporate Governance for Insurers) Regulations, 2024 and other applicable legal requirements while appointing Statutory Auditors and fixing their remuneration. Additionally, Insurance Companies should also ensure compliance with the Master Circular issued by IRDAI on May 22, 2024.

Insurance Companies are mandatorily required to have a minimum of **two auditors** as joint statutory auditors. Further, the auditors shall be appointed for a term of four years. An audit firm which completes the tenure of four years at the first instance in respect of an insurer may be appointed again as statutory auditors of that Insurer for another term after a cooling-off period of three years.

Note: The below conditions are additional parameters to be analyzed in case of Insurance Companies. General Parameters that are to be checked in case of statutory auditor proposals of other companies, are to be checked for Insurance Companies as well. Further, please ensure that general conditions with regard to Joint Auditor positions are to be checked in case of Insurance Companies as well.

KEY CONSIDERATIONS

1. Whether the Insurers have complied with the guidelines/circulars issued by IRDAI from time to time?
2. Number of Insurers audited by the Auditor; What is their line of business?
3. Whether aggregate of fees paid for the additional work in a financial year exceeds the statutory audit fees?
4. Whether fees paid for other work entrusted to the auditor or other firms whose name or trade mark or brand is used by the firm or any of its partners is specifically disclosed in the Notes to Accounts?

RATIFICATION OF REMUNERATION OF COST AUDITOR

Cost Auditors play a crucial role in ensuring the integrity and transparency of the Cost Accounts of the Company.

The Cost Auditors are appointed by the Board on the recommendation of the Audit Committee. SES will check the Independence and composition of the Audit Committee with regards to the resolution. Further, SES will check if the Company has made proper disclosures with regards to name/audit fee of the cost auditor.

SES Dilemma on Low Cost Audit Fee Proposals

SES is of the view that in order to get independent and quality reports from professionals, their remuneration must be fair and commensurate with the scope of their work.

Background:

During the course of past Proxy Advisory seasons, SES had observed that remunerations proposed to Cost Auditors across various sectors continued to be significantly lower than the minimum suggested as per the Institute of Cost Accountants of India ('ICAI - CMA') guidelines. Further, the Companies were not disclosing the quantum of turnover that was subject to Cost Audit. In absence of the scope of cost audit, stakeholders had no basis to determine whether the proposed remuneration was fair or not, while analyzing proposals relating to annual ratification of remuneration for cost audits.

In November 2012, MCA had raised concern relating to quality of the Cost Audit Report and indicated low audit fee to be a potential cause for the same. In 2018, the Institute of Cost Accountants of India ('ICAI - CMA') issued a recommendatory guideline suggesting minimum fees that ought to be paid for the professional assignments done by the Cost Accountants.

Initial SES Stance:

Considering above issues and the recommendation made by the ICAI - CMA, SES commenced to highlight concerns in its reports from 2018 with regard to resolutions proposing approval for cost audit remuneration which were significantly lesser than ICAI - CMA benchmarks and where scope of turnover subject to cost audit was not disclosed. SES consistently raised concerns addressing the above issues, however, it did not recommend against such resolutions until the year 2022. SES had also stated that, in future, SES might give adverse recommendations in such cases.

Subsequent Change in SES Stance:

In 2022, after continuously highlighting concerns over the low remuneration of cost audits and lack of transparency over scope of such audits for past four years, since no proper justifications were forthcoming from Companies in their notices, SES commenced with negative recommendations against proposals for ratification of Cost Audit fees that were significantly lower than minimum fee suggested by ICAI-CMA.

SES experience in Proxy Season 2022:

In response to negative recommendations made by SES, many Companies responded that the Cost Auditors were shortlisted after inviting quotations from eligible professionals and the final remunerations were actually determined basis the quotations that were received, which happened to be significantly lower than the minimum fee suggested by ICAI-CMA.

The Companies further indicated that the quotes received by them represented a more proper reflection of the scope involved than what was suggested by the ICAI-CMA.

Companies also indicated that due to advancement in technology, Cost Audit was now conducted through ERP and other automation tools, with Cost Audit teams comprising of fewer members.

Thus, a lot of companies were of the opinion that their proposals for cost audit fees were very much commensurate with the work involved and the size of teams in the present business environment.

SES Dilemma:

Based on the feedback received from Companies in the proxy season for FY 2021-22, SES acknowledges the ground realities and understands issues faced by the companies in the sense that the cost audit fees are driven low as a result of reduction in scope of work due to advancement in software and auditing systems and further, due to cost auditors themselves putting forward lower quotations, in order to undercut potential rivals.

Conclusion:

Although SES observed concerns with regard to lower cost audit remunerations and lack of transparency over scope of such audits, SES is constrained to change its stance basis the feedback received from companies across multiple sectors. Henceforth, SES would only continue to highlight concerns on lack of transparency over the scope of cost audits, but will refrain from making adverse recommendations based on low cost audit fees proposed.

Thus, SES will no longer be recommending AGAINST proposals for ratification of cost audit fees which are significantly lower than the minimum suggested fee by ICAI-CMA.

SES is of the view that the ICAI-CMA should have a thorough relook on the need / applicability of cost audits w.r.t. most products across all sectors and release an updated recommendation guideline for minimum suggested fees considering present business environment and scope of work involved while conducting Cost Audit. SES feels that even the need for cost audit must be examined afresh as India is no longer a controlled economy and, except a few products, there are no cost control or pricing controls operative.

KEY CONSIDERATIONS

1. SES will consider following to be provided by the Company while analysis the resolution for Cost Auditor:
   a) Name of the Cost Auditor(s)
   b) Audit fees to be paid to each Auditor
   c) Approval sought for Cost Audit or only maintenance of Cost Records
2. Compliance of the Audit committee of the Company.
3. Approval sought for ratification of remuneration of Cost Auditor for the previous year.
4. Whether 1 or more Cost Auditors are proposed through a single resolution? Whether concern identified in either of the Auditors? Whether their remunerations proposals are clubbed in disclosures?

APPOINTMENT OF BRANCH AUDITORS

As per Section 143(8) of the Companies Act, 2013, accounts of the branch offices have to be audited either by the Statutory Auditors or by Branch Auditors appointed under Section 139 of the Companies Act, 2013. Further, in case of appointment of Branch Auditor for a foreign branch, the provisions shall be governed by the legislation of that country, therefore, SES will not raise any concern in such cases.

SES would recommend voting AGAINST the appointment of the Branch Auditor if the Company does not disclose the name of the Branch Auditor in the resolution. However, in case of a Bank, as the same is regulated by RBI, therefore, SES may not raise any concern.

SES will analyze the resolution regarding appointment of Branch Auditors on the basis of disclosures i.e. name of the Auditor, tenure of the Auditors, term of appointment of such auditors etc.

If SES is able to find the association of Branch Auditor with the Company, then the recommendation will be based as per SES policy applicable for Statutory Auditors. If SES is not able to find such association, then SES will recommend FOR the resolution given that Company has provided proper disclosures and is appointing the Branch Auditors as per the terms of Section 139 of the Companies Act, 2013.

KEY CONSIDERATIONS

1. Name(s) of the Branch Auditor(s)
2. Term of appointment not disclosed

REMOVAL OF AUDITORS

Considering the critical role played by auditors in maintaining the integrity of the financial reporting process, SES is of the opinion that any resolution proposing to remove auditors should be backed by adequate rationale and disclosure. Further, the procedure laid down in the Companies Act, 2013 in this regard should be strictly adhered. The Company should also ensure that approval from Central Government is in place prior to seeking approval from shareholders for removal of auditors. SES would analyze the disclosure and recommend vote on the proposal on a case-by-case basis.

Further, reduction in audit fee by the Company forcing the Statutory Auditors to resign would be viewed as an instance of removal of auditors. SES would raise concern in such cases.

PRINCIPLE 4-6: DIRECTORS' APPOINTMENT

Directors are custodians of stakeholders' interests. They help shape a Company's strategy and steer the Company forward.

Competent and Diversified Structure:

SES is of the opinion that to drive the performance of the Company and create shareholders' value, boards should be majorly independent, competent with proper leadership, have a record of positive performance, and have members with varied/considerable knowledge and experience. Ideally, boards should have a majority of Independent Directors (including at least one Independent Woman Director). SES would insist that the Board of the Company must be chaired by a Non-Executive Director, preferably an Independent Director.

SES supports board diversity (including gender diversity). Therefore, our recommendations on Directors' appointment are geared towards formation of an independent, diverse and well performing board. Further, SEBI (LODR) Regulations, 2015 requires a chart or a matrix setting out the skills/expertise/competence of the board of directors to be disclosed in the Corporate Governance section of the Annual Report.

Must Be Backed by Proper Authority:

Companies must ensure that all director appointments are supported by appropriate authority and follow due process, including timely approvals from the Nomination and Remuneration Committee (NRC), the Board, and shareholders. As per SEBI (LODR) Regulations, shareholder approval is required within three months from the date of appointment or re-appointment by the Board.

While an exception exists for Central Public Sector Enterprises (CPSEs), SES does not view this exemption as a best practice. Although SES will not flag non-compliance for PSUs relying on this carve-out, it will continue to recommend voting against such director appointments on governance grounds if shareholder approval is not obtained within the three-month period. SES believes that PSUs, being listed entities, should uphold the same standards of corporate governance as private sector companies. Differential treatment undermines shareholder rights and weakens the governance framework expected of all public companies.

Permanent Board Positions:

SES believes that directors should not have permanent seats on the Board unless the appointment is proposed through a court or regulatory order. While Section 152(6) of the Companies Act, 2013 ensures board refreshment through retirement by rotation provisions, SEBI LODR Regulation 17(1D) requires the Non-Retiring Directors to come for shareholders' approval once in every five years.

SES will monitor whether the resolution clearly discloses the nature of the office of the Director to be retiring or not. Further, if the position is non-retiring, then the explanatory statement should mention that the continuity of the appointment will be subject to regulation 17(1D). Additionally, Companies should ensure that compliances with regard to retirement by rotation provisions as stipulated under Section 152(6) of the Companies Act, 2013 are complied with while appointing Directors under regulation 17(1D).

Executive Chairperson or Chairperson related to ED/ MD/ CEO:

SEBI had, on the recommendation of Kotak Committee on Corporate Governance introduced provision relating to separation of powers (that is to segregate the role of Chairperson and EDs and any relationship thereto) in the Listing Regulations. However, owing unsatisfactory level of compliance achieved, pandemic situation, etc, SEBI has made such provision 'voluntary'.

Notwithstanding the above relaxation by SEBI, given the mission of SES in advocating good corporate governance, SES would continue to raise concern wherever the Board is Chaired by an ED, or where the Board chair is related to EDs/MD/CEO, since SES is of the opinion that such position/arrangement may lead to concentration of power.

Attendance of Directors in Board & Committee Meetings:

One of the primary indicators of performance of Directors is their attendance in Board & Committee Meetings. In this regard, the following Table provides the criteria for assessing performance of the Directors based on their attendance in the Board meetings and Committees thereof. SES expects NEDs (other than IDs) to attend at least 50% of the Board meetings, only in such case SES would consider a favourable voting recommendation.

Further, the benchmark for IDs and EDs has been set at 75% which is comparatively higher than that of NID NEDs. SES is of the opinion that the presence of IDs in the Board meetings is vital as it ensures that it is not only board structure which complies with independence norms, the quorum at the Board meetings should also meets the independence norm. It is only then that the agenda items are discussed and passed in the presence of sufficient number of IDs. Additionally, presence of EDs in the Board meetings is also vital, as they are the link between executive management of the Company with the Board and are required to present to the Board performance of the Company and the future projections/ plans as far as the operations of the Company are concerned.

Attendance Criteria for Directors for Board and NRC Committee Meetings:

Minimum attendance for ED & ID in Board Meetings and Chairpersons of NRC		
Criteria No	**Attendance during the FY**	**Recommendation**
1	75% and above	**FOR**
2	50% to 75%	**FOR** if avg. attendance for previous 2 FY (excluding current FY) is 75% or more (*'grace included*'*)
	Less than 50% but reason for absence provided	
3	Less than 50% and reason for absence **not** provided	**AGAINST**

Minimum attendance for NED NID in Board Meetings and Members of NRC		
Criteria No	**Attendance during the FY**	**Recommendation**
1	50% and above	**FOR**
2	40% to 50%	**FOR** if avg. attendance for previous 2 FY (excluding current FY) is 75% or more (*'grace included*'*)
	Less than 40% and reason for absence provided	
3	Less than 40% and reason for absence **not** provided	**AGAINST**

***Explanation for 'Grace Included':** The Analyst may give an additional grace meeting to the director, in case where the attendance is marginally short in AGMs and other Committee meetings.

Note: Only full-year attendance data should be considered for analysis; partial-year attendance must be excluded.

Attendance Criteria for Directors in Audit Committee ("AC") Meetings: At least 75% (Members and Chairperson) in a financial year. However, if the 75% threshold is not met solely due to absence from one AC meeting, then, SES will require the Director to have maintained at least 75% attendance over a course of the last eight AC meetings. If less than eight AC meetings have been held since the Director's appointment to the Committee, then SES will consider such data to be insufficient to make an assessment on the performance of the Director.

SES is of the view that since the Audit Committee plays a very critical role in the governance process, only those Directors who are able to devote sufficient time, must be members of such a committee. Thus, as per SES criteria, any Director who is unable to attend sufficient Audit Committee meetings, must step down from such committee and make way for another Director or provide compelling reasons for absence. Only in case of cogent reasons, SES may grant relaxation.

Attendance Performance at SRC, RMC, CSR: SES will analyse the attendance performance during the financial year. If attendance in a given year is found to be unsatisfactory, SES will extend its review to cover the Director's attendance over the past three financial years. Over this period, Directors are expected to have attended at least

50% of the respective committee meetings. Adequate justification should be provided for absenteeism in the Explanatory Statement and Annual Report.

Presence of Chairpersons of AC, NRC & SRC at AGM: The Chairpersons of AC, NRC & SRC shall be present at AGM. In case of their absence, any member from the respective committees should be authorised to be present at the AGM on their behalf and disclosure regarding the same should be made in the Annual Report. Further, reason for absence should be provided in the Explanatory Statement and Annual Report.

Directors with advanced age: SES has spelt out its view regarding appointments / re-appointments of directors with advanced age. Kindly click here to view the same.

Regulatory Orders passed or Legal Actions taken against any Director or any Company wherein the Director holds directorship:

SES conducts thorough analyses of regulatory orders issued or legal actions taken against companies or directors holding directorship/management positions. This examination aims to uncover governance issues linked to the involved directors and evaluate the potential impact on their roles with the same company and also with other companies.

In instances involving interim orders or legal actions or appealed orders, SES ensures that shareholders are appropriately informed by highlighting relevant observations, without issuing voting recommendations solely on the basis of such interim measures. A voting recommendation is made after a thorough assessment of the case, guided by specific criteria to evaluate whether any director should be held accountable.

1. **Accessibility of information:** Whether the information leading to the regulatory order was readily available in the public domain or emerged through regulatory/court actions or warnings?
2. **Director's Actions:** Whether the director questioned the irregularities or concerns preceding the regulatory order? This insight may not be readily available to SES unless formally announced.
3. **Board commonalities:** Whether there are directors common to the boards of both, the company in question and the company subject to the regulatory order?
4. **Director tenure:** Whether the director was serving on the board at the time the issues prompting the regulatory order arose?
5. **Nature of issues:** SES distinguishes between material concerns and procedural issues addressed by the regulatory order.
6. **Issue rectification:** Whether the concerns are addressed within six months of the regulatory order's issuance? If not, whether the Company has been taking adequate steps towards effective recovery?
7. **Director Expertise:** Does the Director possess the qualifications or expertise relevant to the areas where the regulator/court identified deficiencies or fraud and was still not able to detect the gap?

SES clarifies that it does not seek to assume the role of a regulator or court; rather, its objective is to assess the gravity of the situation and determine whether the director's appointment warrants a red flag.

Wilful Defaulter: If any person has been declared wilful defaulter as per definition of RBI, in that case SES would recommend the shareholders vote AGAINST the appointment of such person as Director regardless of any other factor howsoever compelling.

Further, if a person who is proposed for appointment as Director has also been a Director at a Company which has been declared as a wilful defaulter by RBI, then such appointments will be scrutinised by SES on a case to case basis to identify any involvement of the said person in the defaults incurred.

NON-EXECUTIVE DIRECTORS

Non-Executive Directors (NEDs) i.e. Independent NEDs and Non-Independent NEDs (except chairperson) of a Company do not participate in the day-to-day management of the Company. Their participation is limited to discussions in the Board meetings and Committee meetings. At times, they may be assigned some specific tasks

which do not conflict with their roles. SES will monitor the remuneration paid to the NEDs for the specific tasks, the parameters for which has been discussed later in the Policy. (Read More)

Certain Independent Directors are classified Non-Independent by SES either due to their association with the promoter group or because they have been associated with the Company either in employment role or as former promoter or are related party.

SES, as a policy, does not support transition in roles from ID to NID unless a cooling-off period is served. Further, click here to read SES view on transition of IDs to NID. (Read more)

INDEPENDENT DIRECTORS

Independent Non-Executive Directors ("ID") are those directors, who apart from receiving directors' remuneration, do not have any material pecuniary relationship with the Company, its promoters, its directors, its senior management or its holding company, its subsidiaries and associates, which may affect independence of such Directors. SES is of the opinion that any such pecuniary relationships other than directors' remuneration, may make it difficult for a Director to put shareholders' interests above personal or related party interests. Therefore, SES discourages any pecuniary relationship, other than directors' remuneration of the IDs with the Company. Ideally, IDs must not have any relationship (whether pecuniary or otherwise) with the Company other than that as a Board member of the Company.

Any connection with the Company, directly or indirectly?

SES will also endeavor to check if there exists any relationship between the Company or any of its Group Companies on one hand and persons related to IDs or entities wherein the IDs are interested on the other hand; however, the same shall be subject to data availability in public domain.

SES will also examine relationship of the proposed ID with the outgoing and existing IDs. SES may take a lenient view if a cooling-off period has passed since cessation of association.

Association of IDs:

The law provides that a term of an ID must not exceed 5 years. Further, IDs can be appointed for a maximum of 2 terms, post that they need to serve a cooling off period of 3 years, before being eligible for appointment as ID on the Board of the same Company. This means that a person cannot be appointed as ID on the Board for more than 10 years. (in two terms)

However, SES, as a policy, considers group association as continuing association of the person proposed to be appointed as Independent Director unless 3 years has passed since cessation of association at the group level.

Past Employees as ID:

Appointment of past employees (including from a Group Company) as ID can lead to conflict of interest issues. Without questioning their integrity, SES believes that such individuals may still be influenced by their previous associations without them realizing it and also, may not always be objective in their judgment, given past experiences.

Hence, SES will generally not support such proposals unless a minimum cooling off period of 10 years has passed since cessation of association with the Company/Group, and the proposed person has held credible, relevant positions which is comparable to the proposed ID role, at a listed or prominent entity in the recent period. However, if the nature or duration of previous employment position indicates that the independence may be affected, SES may not allow the ID position.

Implications of appointment of Non-Independent Directors on the Board Independence:

SES is of the opinion that the Board of Companies should have at least 1/3rd or 50% of the Board Members as Independent Directors, as required under law, including an Independent Woman Director. Therefore, SES will

analyze the appointment/re-appointment of Non-Independent Directors on the basis of its impact on the Board Composition.

Reasons for resignation: In case, any Independent director resigns from the Company, SES will also examine the reasons provided for such resignation.

Prior Approval of Shareholders: SES will not support re-appointment of ID if the same is approved by the Board, without seeking prior shareholders' approval by way of a special resolution. (Please see SES Proxy Note by clicking here)

Pecuniary Relationship: Parameters to analyse pecuniary relationship has been discussed in the remuneration section. (Read More)

Concluding Views: SES is of the view that that the position of IDs should be truly independent in spirit and not just in letter. Merely sticking to a tick box approach to ID independence would undermine the intent behind the creation of ID position on the board.

KEY CONSIDERATIONS

Office of Director:

- Whether the office of director is retiring or non-retiring?
- Whether a continuing executive (a Non-Board Position) of the Company is appointed as a Non-Executive Director, without relinquishing executive position as an employee?

Time Commitment:

- Full-time positions of directors including whole-time directorships, employment in parent Company or otherwise or partner in any Firm / LLP. Whether companies engaged in similar business?
- Time commitment in terms of other directorships
- Ideally, a director should not be a member of more than 3 Audit Committees, especially if the director is the Chairperson of one or more of the Committees
- Ideally, a director should limit his committee memberships to 6, including a maximum of 3 committee chairpersonships
- Age of the Director / Average Age of the Board members to ascertain succession planning
- Whether Alternate Director appointed?
- Meetings attended during the year
- Whether full-time positions are held at companies where either of the Companies hold substantial stake in another?
- Whether the Board/AC/NRC/SRC Chairpersons attended the last AGM of the Company? Any authorized representatives appointed?

Board & Committee Compositions:

- Whether the Board is compliant with regard to requirements pertaining to IDs/Woman ID/ Overall Strength/NEDs/Retiring Directors?
- Chairperson of the Board of listed companies must ideally be an ID
- Diversity of the Board in terms of education, expertise and gender as per the chart / matrix provided under the SEBI Listing Regulations
- Whether Board Composition is compliant/ will be compliant post appointment?
- Whether NRC is compliant?
- Mandatory board committees are in place? Whether the Committee Compositions are compliant?
- Whether majority board is comprised of NEDs?
- List of core skills/expertise/competencies identified by the board of directors as required by the Company for it to function effectively and those actually available with the board.

- Is a non-retiring not approved by shareholders for over 5 years?

Transparency:

- Whether the explanatory statement is supported with requisite disclosures? The explanatory statement should serve the purpose of enabling the shareholders to understand the meaning, scope and implications of the resolution. (Reference: FSN E-Commerce)
- Whether the NRC policy disclosed?
- Whether the adequate details regarding Board Remuneration paid during the year has been provided in the Annual Report?
- Whether attendance details of the Director has been disclosed in the explanatory statement for the year?

Director Conduct:

- Whether material failures of governance, stewardship, risk oversight and fiduciary responsibilities are observed during the year? (for re-appointments)
- Any regulatory orders passed against the Director? Whether Director disqualified under law?
- Other Directorships? Includes any defaulting/ fraudulent Company?
- Reasons of resignation provided by the resigning Director
- Details provided by MCA, whether the proposed director is by any chance, disqualified under the Law.
- Verify the certificate obtained by the Company from a company secretary in practice that none of the directors have been debarred or disqualified from being appointed or continuing as directors of companies by the Board/ MCA or any such statutory authority.
- Whether criminal charge sheet has been filed against the Director?
- Whether Board remuneration is skewed in favor of any particular director(s) without adequate justification?
- Whether the remuneration drawn is excessive considering remuneration parameters?
- Whether the Director is a party to an agreement with respect to which SES has raised governance concerns and the agreement continues to be in existence?

Conflict of Interests:

- Director is also on the Board of a direct competitor Company?
- Remuneration received for additional services.
- Transactions with entities where Directors are interested.

Procedural?

- Whether appointment backed by proper authority with timely approval?
- Whether prior approval obtained prior to breaching the age threshold?

Board Chairperson:

- Whether Board Chairperson is/ related to Executive Director/CEO?
- Dual Position of Board & AC Chairperson; AC & NRC Chairperson
- Any material/ persistent non-compliances during the year?
- Whether the Board has requisite number of Directors?
- Whether the Board Composition is compliant?
- Whether the procedure of retirement by rotation done at AGM is compliant?
- Whether the Board has minimum 50% NEDs?
- Whether the Board has requisite number of Independent Directors?
- Whether the Board has independent woman director?
- Whether the Board has requisite number of retiring directors?
- Whether the Board Chairperson has engaged with shareholders post significant shareholder dissent against a resolution proposed in general meeting?

- Whether material failures of governance, stewardship, risk oversight and fiduciary responsibilities are observed during the year? (for re-appointments)
- In cases of Significant Public Shareholders' dissent (> 20% Against by Public shareholders) against a resolution, whether any engagement conducted to identify and understand shareholder concerns?
- Whether the company has adopted aggressive accounting policies in its preparation of financial statements. (eg: Contingent liabilities recognized through footnotes only; low estimates of Bad Debts, etc.)
- Whether the Company has formed mandatory committees?
- Whether the Annual Reports contains mandatory disclosures?
- Whether the BRSR reporting is compliant?

Role of Audit Committee

- Committee Composition compliant?
- Adequate meetings held during the year?
- Any weakness in internal controls?
- Auditor Appointment has not exceeded 10 years
- Audit Remuneration Fair; Proportion of Non-Audit Fee not excessive; Whether Audit remuneration is excessively low, when compared with company size and other companies in the same industry.
- Financial statements restated due to material irregularities
- Late filing of financial statements for non-technical reasons (persisting or repetitive)
- Material accounting fraud has occurred
- When there is a disagreement with the auditors of the Company and the auditors resign or are dismissed, whether compelling reasons are provided for their exit
- Inadequate RPT disclosures in the explanatory statement/ Annual Report
- Audit Qualifications/ Comments adequately discussed
- Disagreements between the audit committee/management and the auditors and the auditors resign or are dismissed (e.g., the company receives an adverse opinion on its financial statements from the auditor)
- Material Governance Concerns in the financial statements of the Company
- Dual roles as Board & AC Chairperson or AC & NRC Chairperson?
- Whether AC Chair attended last AGM?

Role of NRC:

- Whether Board & KMP Composition compliant?
- Committee Composition compliant?
- Director with poor attendance record has been proposed for re-appointment
- Adequate meetings held during the year
- Remuneration practices are fair? Whether remuneration skewed or excessive?
- Whether remuneration skewed in favour of a Director? Whether any NRC Member is related to the said Director?
- ESOP terms are fair and justified
- Dual roles as Board & NRC Chairperson or AC & NRC Chairperson?
- Whether Director covered under regulation 17(1D) is proposed for shareholders' approval once in every 5 years?
- Whether remuneration policy is uploaded on website?
- Whether NRC Chair attended last AGM?

Remuneration:

- Amount of remuneration vis-à-vis the financial performance of the Company (turnover/ profits/ growth)
- Remuneration of director of the peer Companies

- Variable pay and its linkage with the performance of the Company
- Remuneration paid to the director vis-à-vis other directors within the Board
- Remuneration paid for additional services provided to the board
- Past skewness in board remuneration
- Remuneration derived from Group Companies
- Absolute Cap on remuneration

Parameters in case of appointment related to Independent Directors:

- Aggregate tenure of the individual with the Company and that with the Group Companies
- Past employment with the Company/ Group Company/ Promoter Company? Whether considerable period lapsed since cessation of employment? Whether Director has held prominent positions at other companies in the recent period? Whether the Director was associated with the Company/Group for a long period?
- Previous association with the Company/ Group Company/ Promoter Company; requisite cooling off has been served?
- Transition from NED to ID? Whether proposed ID was a Group NED?
- Any relationship/ affiliation with Promoters/ Members of Promoter Group?
- Any relationship/ affiliation with Auditors of the Company (both financial and non-financial auditors)?
- Pecuniary relationship with the Director/ entities/ firms where directors are interested
- Director in Competitor Company or at a Company engaged in similar operations?
- Pre-fixed or pre-determined remuneration? Whether the quantum is nominal?
- Liable to retire by rotation
- Definite term of proposed appointment disclosed
- Board affirmation that Director is independent
- Special Resolution proposed?
- Approval obtained from the date of appointment?
- Terms and Conditions of the Independent Directors disclosed on the website
- No. of equity shares of the Company held by the individual; Market value of shareholding; Face Value of shareholding
- No. of Stock Options held by the Director in his previous capacity
- Reasons of resignation provided by the ID who resigned
- Whether ID appointed for a small tenure?
- Whether ID appointed as a result of change in control/management?
- Whether ID receives benefit in an individual capacity?
- Whether ID holds or held any non-independent directorships at group level?
- Relationship between proposed ID and existing/outgoing Directors, directly or indirectly?
- Relationship between proposed ID and significant shareholders of the Company?
- Whether performance evaluation report disclosed?
- Does remuneration highlight any governance issues?
- Is timely approval sought for re-appointment, viz., prior but not so early as to preclude a thorough assessment of performance and independence?
- Is approval not sought for extension of remainder term?
- In case a Firm where the proposed ID is a partner is involved with the Company for providing Legal / Professional / Consultation services, SES recommendation would be based on the following parameters:
    - Average remuneration paid to the Firm is significantly higher than the ID remuneration (see past 3 years data at least)
    - Whether the fees determined on arm's length basis?
    - The ID Firm appears to be engaged as a retainer
    - ID Firm provides services as retainer to the majority of the Companies, where such partner is an ID.

Approval Timelines:

- Whether the Non-Retiring Director has been proposed for shareholders' approval at least once in every 5 years?
- Whether the approval will lead to appointment for perpetuity?
- Whether director is proposed on non-retiring basis, however, with a finite term of period not exceeding 5 years?
- Whether Special Resolution proposed for Directors above 75 years of age? Whether shareholders' prior approval obtained?
- Whether shareholders' approval for re-appointment in the below cases obtained **prior to completion of** existing term:
    - Re-appointment of ID
    - Re-appointment of ED with age more than 70 years
    - Re-appointment of NED with age more than 75 years

  In other cases, whether shareholders' approval sought within 3 months from the date of appointment/ re-appointment?
- Whether the person proposed was earlier rejected by the shareholders at a general meeting and prior approval of shareholders not obtained now?

In case of (re)appointment of Promoter Directors in Companies where SES suspects such companies to have conducted their operations in a manner prejudicial to the interest of its shareholders.

While, this may be highly subjective, however, certain parameters on which such analysis could be made are:

- Peer Companies in the same industries have done comparatively better.
- Substantial shares of Promoters being pledged.
- The Company has defaulted on its Borrowings;
- Bankers have been restructuring the debt package without any use.
- The Company has a negative Net-Worth;
- The Company has been incurring huge losses and Statutory Auditors have raised concerns such as going concern, adverse remark, on the financial statements;
- Debt-levels of the Company are rising, which is not in consonance with its performance and profitability.
- Company has acknowledged major fraud in its financial statements;
- Auditors have reported siphoning off of funds by management/ promoters;
- Such other conditions that SES may feel appropriate.

EXECUTIVE DIRECTORS

SES will broadly consider five criteria i.e. time commitments, remuneration, board composition, attendance, and directors' evaluation as appended in the Report, for analyzing resolutions related to appointment of an Executive Director.

Further, SES is of the opinion that Eds above 70 years of the age cannot be appointed by the Board, without prior approval by shareholders. Therefore, such direct appointments by the Board would be considered non-compliant.

KEY CONSIDERATIONS

1. Disclosure in Explanatory statement
   - Profile and Experience of the candidate
   - Age of the ED
   - Term of appointment
   - Time Commitment
   - Other Listed Directorships. Committee Memberships/ Chairpersonships
   - Past performance in terms of attendance
   - Rotation or Non-rotational basis
   - Notice period & severance pay
   - Fixed vs Variable Pay
2. Whether NRC Compliant?
3. Whether Material failures of governance, stewardship, risk oversight and fiduciary responsibilities observed?
4. Whether remuneration details adequately disclosed?
5. Whether Director is a member of NRC?
6. Other Directorships. Whether any defaulting/ fraudulent company?
7. Whether any regulatory order/ criminal charge sheet filed against the Company?
8. Whether Director disqualified under any law?
9. Shareholders' prior approval obtained for Director who has attained 70 years of age?
10. In general cases, approval obtained within 3 months of appointment/ re-appointment?
11. Shareholders' approval obtained from the date of appointment as ED and not a later date?
12. Whether consideration received for other services exceed the remuneration received as ED?
13. In case the age of ED is above 70 years, is there any other ED on the Board who is younger (say 40-50 years of age), indicating succession policy.
14. Meetings attended during the year.
15. Whether Board is compliant/ will remain compliant post ED appointment?
16. Other full-time positions held? Whether overall time commitments are reasonable?
17. Whether ED also designated as Board Chairperson?
18. In case of two MD positions, whether unanimous approval of the Board obtained?
19. Whether NED proportion will fall below 50% post ED appointment?
20. Is approval sought for a small tenure?
21. Whether approval sought for only partial term?
22. Whether ED was holding any previous position?
23. For CEO/CFO:
    - Material non-compliances with any regulation (CEO Only)
    - Financial statements had to be restated due to material irregularities
    - Regular Late filing of financial statements
    - Material accounting fraud has occurred at the Company

GENERAL RECOMMENDATION GUIDELINES – BOARD COMPOSITION

SES believes that companies should ensure full compliance with Board composition requirements, including independence, presence of key managerial personnel, an optimal mix of executive and non-executive directors, gender diversity, and director rotation.

Non-compliances should be addressed holistically. For instance, if the Board lacks both an Independent Director and a Woman Independent Director, or an Executive Director and a Retiring Director, appointments should be made to address all gaps simultaneously—e.g., by appointing a Woman Independent Director and a Retiring Executive Director. If a company faces genuine constraints, such as pending regulatory approvals or difficulty in identifying suitable candidates, the reasons should be clearly disclosed in the shareholder notice.

SES will assess the role played by the Nomination and Remuneration Committee ("NRC") in resolving Board composition issues. However, SES will not issue a negative recommendation if the shortfall is due to casual vacancy and the legal timeframe to fill it has not expired.

SES will **not** hold the NRC responsible in cases where board compliance related provisions are governed by operation of law. In such instances, SES will restrict the accountability to the Board Chairperson to be primarily responsible for ensuring overall compliance and will assess their role accordingly.

Companies in regulated sectors such as banking, insurance, and others must also comply with the relevant sectoral mandates or regulatory directives.

Further, companies are expected to promptly update the composition of their Board and committees on their official website following the resolution of any vacancies.

Until now, SES has taken a lenient view in cases where the Board did not comprise the minimum two-thirds of directors liable to retire by rotation, provided the company's Articles allowed for non-retiring directors to be classified as retiring in such circumstances. However, going forward, SES will no longer extend such relaxation. SES believes that these provisions in the Articles should be invoked only in exceptional cases. For regular Board appointments, SES expects the Board and the NRC to remain mindful of and adhere strictly to the applicable compliance requirements.

SES will also take into account whether the concerned Director has served as the Board Chairperson, NRC Chairperson, or NRC member for a sufficient duration to have had an opportunity to address the non-compliances.

Deemed Retiring Directors: SES, as a matter of policy, does not support perpetual appointments. However, this concern does not apply in cases where appointments are made for a specific purpose, provided the purpose raises no fairness concerns and falls under government or regulatory oversight. Accordingly, when evaluating whether a company meets the minimum requirement for retiring directors, SES will treat special-purpose directors, such as nominees of financial institutions registered with or regulated by the RBI under a lending arrangement, nominees of the government (except in PSUs), or nominees appointed by a court, regulator, tribunal, or debenture trustee, as retiring in nature. This is because their tenure is inherently linked to the continuation of the underlying purpose for which they were appointed and will cease once the underlying objective is attained.

BOARD CHAIRPERSON – GENERAL RECOMMENDATION GUIDELINES

SES will not support the re-appointment or continuation of the Board Chairperson if there are material non-compliances within the company. These non-compliances may pertain to issues such as improper Board or Committee compositions, failure to comply with provisions related to retirement by rotation, inadequate disclosures in the Board's Report, insufficient or misleading remuneration disclosures in the Annual Report, or lapses in Business Responsibility and Sustainability Reporting (BRSR), particularly where the individual responsible for such reporting does not hold a position subject to shareholder approval. SES emphasizes that this list is not exhaustive and reserves the right to evaluate other compliance or significant governance lapses.

In making its assessment, SES will also consider whether the Chairperson has held the role for a reasonable period, allowing sufficient time to exercise effective oversight over these matters.

SES will continue to not support the appointment or continuation of a Board Chairperson who simultaneously serves as an Executive Director, is related to an Executive Director or the CEO, or simultaneously holds the position of Chairperson of the Audit Committee or the Nomination and Remuneration Committee.

ALTERNATE DIRECTORS

SES is of the opinion that directors have a fiduciary duty to devote sufficient time for Company's affairs. If a director is unable to do so, he/she should give up his/her directorship. Generally, prior to era of virtual meetings, companies used to appoint alternate directors for foreign directors because of time constraints and travel involved in attending the meetings. However, since the regulations now allow attendance at board meetings through videoconferencing, this is no longer a valid reason. Therefore, SES may generally recommend voting AGAINST the appointment of alternate directors unless the Company provides strong justification for doing so.

Additionally, the Companies Act, 2013 (Section 165) now includes Alternate Directorships for counting the maximum number of directorships which was not included in the Companies Act, 1956 with an objective to limit the number of directorships, so that Directors can devote time.

Since, the Companies (Amendment) Act, 2017 also prohibits appointment of a director to act as alternate in the same Company, therefore, SES will also raise compliance issue.

DIRECTOR APPOINTMENTS IN CASE OF BANKS

RBI has issued guidelines with regard to Board and Committee compositions across commercial banking companies via circular dated 26th April, 2021. In addition to the governance standards developed, SES will examine whether the board appointments are in line with the RBI instructions or not.

KEY CONSIDERATIONS

1. Whether appointment is in accordance with the requirements stipulated in RBI Circular issued with regard to 'Corporate Governance in Banks'? (weblink)
2. Whether the Board has minimum 2 Whole Time Directors?
3. Other Parameters that are applicable in general appointments

DIRECTOR APPOINTMENTS IN CASE OF INSURANCE COMPANIES

The IRDAI (Corporate Governance for Insurers) Regulations, 2024 were notified on 21st March, 2024. The Authority has outlined the terms, governance responsibilities of the Board in the management of insurers under the Regulations. IRDAI has also issued Guidelines on Remuneration of Directors and Key Managerial Persons of Insurers, dated 30th June, 2023 (weblink) to ensure effective governance of remuneration and alignment of remuneration with prudent risk taking.

Further, Master Circular has been issued on Corporate Governance for Insurers, 2024 on 22nd May, 2024 and the Insurers are given time up to **30th June, 2024** to ensure compliance with its provisions.

Additionally, SES will also examine whether the already existing governance standards for appointment and remuneration of directors. IRDAI guidelines suggests that ideally, the Chair of the Board should be a Non-Executive Board member and should not serve as the Chair of any Board committee.

KEY CONSIDERATION

1. Whether proposed appointment/remuneration is in accordance with the regulations/guidelines/circulars issued by IRDAI from time to time?
2. Other Parameters that are applicable in general appointments

SHAREHOLDERS' DIRECTORS (ONLY IN CASE OF BANKS)

Under section 9(3)(i) of the Bank Nationalisation Act 1970, public shareholders of Nationalised Banks (other than Private Sector Banks), have a right to elect a director for every 16% of the shareholdings or fraction thereof. SES generally recommends "**FOR"** on such resolutions seeking approval for conducting an election among all the nominees received from the small shareholders, who meet the specified Fit & Proper criteria. However, SES is of the opinion that the Banks must disclose full profile containing education/ experience etc. of all the candidates in the Newspaper notice which is published after the full process of finalising the candidates contesting election, by the banks. SES would analyse the candidature based on the Master Direction of RBI on 'Fit and Proper' Criteria for Elected Directors on the Boards of PSBs) Directions, 2019. Click here to view the direction.

KEY CONSIDERATIONS

1. Whether name and profile of the candidate disclosed?
2. Whether the profile is updated? Is the same compliant with SEBI LODR requirements?
3. Details of the valid nominations received for contesting the election. Eg: Number, name(s) and profile
4. Whether the shareholders' director meets the criteria of fit and proper candidate as per the RBI Guidelines which *inter-alia* includes the following:
   (i) Age: 35 to 67 years as on the cut-off date for nominations.
   (ii) Educational Qualifications: At least a Graduate.
   (iii) Experience and field of expertise
   (iv) No Disqualifications
   (v) Tenure: 3 years, subject to a maximum of 6 years
   (vi) Professional Restrictions
   (vii) Track record and integrity

PRINCIPLE 7: DIRECTORS' REMUNERATION

SES is of the opinion that remuneration is an important tool to motivate and engage the human resources, management and the Board of the Company. While recognizing that fixing remuneration is prerogative of the Board, however, SES believes that Remuneration should not only be commensurate with the efforts but should be aligned with the performance of the Company also. Further, remuneration should be such that it channelizes the energy of employees/directors on long term value creation for all stakeholders of the Company and discourages excessive/unnecessary risk taking. In a nutshell, remuneration should be fair, reasonable and commensurate with qualification experience and efforts and tied with long term value creation for company **including ESG factors**.

While, the performance of Executive Directors is reflected in the profits earned by the Company, the same cannot be a strict benchmark for measuring performance of NEDs. SES is of the opinion that performance of NEDs (including IDs) can be evaluated by assessing various non-financial parameters. These include achievement of the strategic goals, adoption of good corporate governance practices and the likes. However, the exact contribution by any director should be explained by the Company.

SES would analyze remuneration paid to directors including remuneration paid to them at Group level and listed holding company, if any, in its analysis. If the listed holding company, do not have any operations of its own, then, the Company should adequately justify the rationale behind the payment of remuneration for his role at the said company. In absence of compelling reasons, SES may not support such payments.

If the Director is a Foreign National or a Person Resident in India and is paid remuneration in foreign currency, then a *prima facie* comparison may suggest that the quantum of remuneration is on the higher side. In such cases, the Companies should justify the significant difference between the remuneration paid to the Foreign Director and to the Domestic Directors.

EXECUTIVE DIRECTOR'S REMUNERATION (NOT APPLICABLE TO PSUs)

Remuneration Structure: The remuneration for executive directors of the Company should ideally comprise of fixed and variable performance-based pay, with greater percentage allocated to performance-based pay.

SES will raise compliance concern if the remuneration terms are not adequately disclosed; merely stating the maximum permissible legal limits will not be considered to meet compliance requirements disclosure.

The Company should give a proper break-up of the remuneration terms. If material remuneration terms such as salary, variable pay, share based component, annual increments and minimum remuneration are left up to NRC discretion, then SES may not support such proposals unless past is fair and reasonable in these respective aspects.

Performance criteria: As a good governance practice, the Company should enlist a performance criteria, objective in nature, for the executive remuneration and incentivize the directors to continue with the Company. To align remuneration with long term performance of the Company, such performance criteria should be on a multi-year basis.

Remuneration Skewness: SES will analyze the past remuneration paid to the Executive Directors and in case of asymmetry in their remuneration, SES will not support the director's remuneration proposal which either maintains or increases skewness.

Excessive Pay: If the proposed remuneration is not commensurate with the Company's performance or if appears to be excessive considering the industry benchmarks, SES will not support the director's remuneration proposal.

Absolute Cap on Executive Remuneration:

Executive remuneration proposals must clearly specify an absolute cap on the remuneration payable. In the absence of such a cap, or if there are no defined limits on fixed and variable components, SES will not support the proposal unless historical remuneration has been demonstrably fair and reasonable. Lenient view will not be taken in cases where past data is unavailable or not comparable. SES will apply a stricter stance in cases involving promoter or significant shareholder directors, or where any director has previously received skewed/excessive remuneration or share-based benefits. Requirement of absolute cap will also be expected for share based component of the remuneration.

Overall Board/ED Remuneration Approvals over legal limits:

Companies Act, 2013 and SEBI LODR Regulations, 2015 require special resolution to be passed by shareholders if the Company seeks to make payment to overall executive directors beyond legally specified limits.

When seeking approval for overall board or overall executive payments beyond legal specified limits, the Companies should ideally seek annual approval of shareholders post analyzing the performance of the year. Although multi-year approvals are legally allowed, however, SES, as a governance measure, will require approvals with limited time frame for payments to overall board/executive payments beyond legally permissible limits. Further, SES would expect the Company to seek specific resolution by the shareholders with adequate details of the directors whose remuneration draws the significant portion of the overall ED pay, the rationale behind the same and for how long will the overall approval be valid. SES will not support long/perpetual approvals.

Further, if the breach of the overall limit is solely attributable to the remuneration of a single director, SES may consider supporting such proposals provided that the approval is valid only for the duration of the said director's remuneration approval, rationale behind the remuneration payment, requisite disclosures are made and it is explicitly stated that separate shareholder approval will be sought if the overall executive/board remuneration increases for any other reason.

Minimum Remuneration:

When seeking approval for payment of minimum remuneration in case of inadequate/no profits, the Companies should ensure that approval is obtained for maximum 3 years and is also supported with disclosures as stipulated under Schedule V to the Companies Act, 2013.

If overall executive/board remuneration approval is sought during loss or inadequacy of profits, then, the tenure of such approvals should not exceed 3 years and be supported with adequate disclosures.

In above cases, the rationale for inadequate profits/ loss and steps taken for recovery should be clearly specified.

Discretion to revise the remuneration terms upto Legal Limits

Remuneration proposals with an absolute or relative cap but simultaneously also with discretion to NRC/Board to revise the terms upto legally permissible limits render such caps to be redundant. While placing provisions to make alteration facilitates administrative convenience, the same doesn't align with good transparency and governance measures, as a shareholder will not know whether to rely on the stated caps, assuming discretion will be used only for procedural adjustments, or anticipate pay-outs up to the legal ceiling?

This concern is greater when approvals are taken through Special Resolutions, as they allow the Board/NRC to go beyond normal legal limits, increasing the risk of excessive pay-outs despite shareholder approval.

In general course, SES will assess past payment practices to evaluate the credibility of proposed caps. However, SES will adopt a stricter stance for promoter directors, directors who are also significant shareholders or professional directors who have taken excessive payments in the past. Further, SES will not rely on past data and ask for an absolute cap, even for ESOPs, in cases where past data is insufficient, unavailable or not comparable.

If a resolution seeks to authorize the Board/NRC to vary the terms approved by shareholders without requiring further shareholder approval and without placing any limits on the extent of such variation, SES will not support such unfettered discretion.

As a good transparency measure, any such enabling provision should explicitly state that only procedural or administrative changes may be made under this authority, and that any material variation will be undertaken only with prior shareholder approval.

KEY CONSIDERATIONS

1. Is the remuneration given to the director excessive?
    a. 3 years' remuneration Annual Growth Rate is excessive as compared to:
        i. 3 years' growth in net profits and
        ii. the 3 years' growth in shareholders' return.

    In this case, excessive increase would refer to benefit to director(s) disproportionate to shareholder returns. The analyst should take into account the base salary and compare it with the Company's size.
    b. Remuneration as a percentage of net profits is excessive compared to peer companies.
    c. Remuneration is more than 3 times the average executive directors' remuneration at the company (excluding the director being analyzed)
    d. In comparison to growth in remuneration of employees.
2. Whether absolute cap placed on the variable pay/ overall remuneration? Whether adequate justification provided?
3. Whether remuneration is more than the legally specified limits? Whether absolute cap placed on the variable pay/ overall remuneration? Whether Special Resolution sought?
4. Whether NRC Compliant?
5. Does the Company have an independent remuneration committee (without any ED as member) to oversee the executive remuneration process?
6. Does the Board have absolute unfettered discretion to change terms of appointment / remuneration without shareholder approval?
7. Does the remuneration paid to executive directors include performance-based pay?
8. Remuneration received from group companies, has this been included in the remuneration disclosures of the Company. Further, whether the remuneration to be received from group companies are disclosed in the explanatory statement to the Notice at the time of seeking shareholders' approval?
9. Remuneration has increased in a year in which the company has made losses, defaulted on debt obligations, underwent a CDR or defaulted in payment of statutory dues (not applicable in case the Company has appointed as New Director for turnaround).
10. Attendance of director in Board/ Board Committee meetings
11. Whether his appointment would have been recommended AGAINST by SES by virtue of their position? Whether SES would have recommended Against if his/ her appointment would have been proposed for approval? Whether the Director has failed in performing his duties?
12. Whether any ED remuneration appears to be underpaid, which leads to skewness? In such cases, the terms of remuneration will not be considered unfair merely on account of the said basis, however, SES will highlight concerns regarding certain executive directors being underpaid.
13. Whether remuneration received in other capacity?
14. Remuneration package structure
    a. Are all the components of the remuneration package defined and capped?
    b. Has the Company disclosed performance criteria for payment of variable pay?
    c. Is the increase in remuneration excessive as per SES? Whether adequate justification provided? Whether existing remuneration already excessive? Whether Company is incurring losses?

d. Is the minimum remuneration payable to the director aligned with the requirements of the Companies Act 2013? If not, does it include any component other than basic pay, allowances or perquisites?
e. Has the Company disclosed the notice period and severance pay?
f. Does the director receive guaranteed bonus/commission?
g. Commission / bonus distribution skewed in favour of some executive directors
h. Does any Director receive remuneration from any of the group Companies?

15. Whether the Company has disclosed all the elements of remuneration package such as salary, benefits, bonuses, stock options details, pensions, performance criteria, service contracts, notice period, severance fees, etc., not disclosed in CG report?
16. 2 or more Director's receive exact/near same remuneration consistently (SES is of the view that in such cases the remuneration may not be linked to the performance and experience of the individual)
17. The Company seeks approval for minimum remuneration for a period of more than 3 years. Whether requisite disclosures are made?
18. Remuneration payable to Promoter Executive Directors is higher than:
    a) ₹ 5 crores or 2.5% of the Net Profits (u/s 198) in case of 1 Promoter ED, whichever is higher; or
    b) 5% of the Net Profits (u/s 198) in case of more than 1 Promoter ED.
19. Whether the terms of remuneration include provision for 'Clawback & Malus' clause? Especially, when the company had a material restatement? Also, whether the restatement was due to fraud?
20. Whether Company has defaulted on any of its debt obligations or has undergone a CDR?
21. Whether approval not sought for only partial term and remuneration drawn during that period?
22. Whether the Director is a Foreign National or a Person Resident Outside India and the remuneration is paid in foreign currency? Whether there is significant difference between remuneration paid to the said director vs. the domestic directors? Whether the Company has addressed and justified the difference?
23. Where approval is sought for overall executive pay via special resolution on account of payments being above legal limits, whether annual approval sought or multi-year?
24. Whether Director/Manager receiving ESOPs related to Promoter or is a Significant Shareholder?

Note: Skewness and reasonableness of the remuneration shall be analysed based on the following parameters:

- Amount of remuneration
- Various components of the remuneration package
- Remuneration paid to the Directors of the peer Company(ies).
- Size and operations of the Company.
- Remuneration paid to other Executive Director(s) of the Company.
- Fixed pay vs Variable pay proposed to be paid.
- Remuneration paid to the director in the past.
- Whether unfettered power sought by the resolution?
- Increase in the remuneration vis-à-vis performance of the Company.
- What NRC has said about the role and contribution of the director for the Company.
- Remuneration Policy of the Company.
- Remuneration paid to the Director vis-à-vis the ceiling under the law.
- Growth in remuneration of employees when compared with median pay, % increase in median pay, % increase in director remuneration, etc. Also, compare with SES benchmarks.

The remuneration paid to the director will be analyzed on case to case basis, based on the above factors and based on the benchmarks research out of Nifty 500 Companies for previous financial year as set from time to time.

NON-EXECUTIVE DIRECTORS' COMMISSION

SES is of the opinion that commission payable to non-executive directors (both IDs and NEDs) should have an absolute cap in terms of percentage or upto a fixed amount (i.e., overall or otherwise) and the Company should clearly disclose an objective performance criteria and performance benchmarks which will be used to determine the actual commission to be paid to the non-executive directors within the cap set. **Perpetual approval** sought for payment of commission will be voted AGAINST by SES unless the Company has provided absolute cap on the amount of commission payable.

Any remuneration paid to any single Promoter NED constituting more than 50% of the entire NED remuneration put together during a financial year, would be recommended AGAINST vote, unless compelling reasons for such payment is provided by the Company. Further, in case such payment (more than 50% of total) is proposed to Professional NED, SES would evaluate the proposal on a case-to-case basis.

SES would also consider remuneration drawn by the NEDs from the Group Companies, including Listed Holding Company.

REMUNERATION TO NON-INDEPENDENT NON-EXECUTIVE DIRECTORS

If the Company proposes to pay remuneration to any non-executive director for any additional service provided by the director to the Company, SES will make recommendations on a case-by-case basis after analyzing the provisions of the Companies Act, 2013 as well as the terms of payment of such remuneration. The below parameters will also apply to analyze the fees paid to an entity where the NED is interested.

Parameters which SES will analyze, inter alia, include:

1. Whether the fees being paid is a one-time and event-based payment or is it recurring?
2. Adequacy of Qualification/Expertise of the Director vis-à-vis service provided by the director to the Company and the time commitments of the director as disclosed by the Company
3. Quantum of the remuneration paid to the director for the service and the fairness of the remuneration. Whether the amount exceeds the 50% of the overall remuneration paid to all NEDs?
4. Whether the amount charged is determined on arm's length basis?
5. Whether the services rendered by such director is of executive nature, i.e., disguised NED vs ED?
6. Will the total remuneration of the board, if such payments to NEDs were included in Board remuneration, breach ceiling of maximum remuneration payable under Companies Act, 2013?
7. Whether the remuneration is received at the Group Level as well?
8. Whether the disclosures made are adequate and complete?

However, if such remuneration is paid to a Promoter NED, SES will not support such proposal, unless compelling reasons are provided. SES is of the opinion that professional service taken from promoter NEDs will lead to conflict of interests. SES is of the view that the Company should seek professional services from Independent professionals other than from promoters to avoid conflict of interests.

Even if the Company feels that the promoter is an industry veteran and no better professional is available to provide such services, the Company should provide objective and adequate justification, the selection process for the same and the basis of arriving at the proposed fees. SES will also question as to why promoter is not taking up ED's role? Whether it is due to restriction of law or maximum number of ED/MD positions held by the director?

Remuneration payment made to a Single NED exceeds 50% of the total remuneration paid to all NEDs:

SES will also raise concern if the annual remuneration paid to the Promoter NED is more than 50% of the total remuneration paid to all NEDs put together during a particular financial year, unless compelling reasons are provided. Further, when the annual remuneration paid to the Non-Promoter NEDs is more than 50% of the total remuneration paid to all NEDS put together during a particular financial year, SES will evaluate the proposal on a case-to-case basis.

REMUNERATION TO INDEPENDENT DIRECTORS

SES is of the opinion that post commencement of the Companies Act, 2013, the onus cast by the law on Independent Directors (IDs) has increased manifold. Therefore, every Company must adequately remunerate their IDs, not only to retain the best brains available, but also to ensure parity between responsibility shouldered by IDs and remuneration paid to them.

A. Remuneration linked with performance:

SES is of the view that the remuneration to IDs must be linked with their performance. Since the IDs are not directly engaged in the day-to-day affairs of the Company, therefore, it may be difficult to link the performance of the ID with the profits earned by the Company during a particular year. Having said that, SES strongly believes that the Board is responsible for attaining the overall strategic goals of the Company and ensure adoption of good governance practices. Therefore, any lapse in the setting the strategic goals or poor governance practices in the Company, may raise question over the performance of the IDs. In the longer run, such lapse may invariably impact the profits of the Company over a period of time.

Therefore, SES is of the opinion that the remuneration paid to IDs must be based on Board related assignments and their individual performance. The rationale behind arriving at the payment of commission should be explained clearly in the explanatory statement.

In view of this, any pre-determined or pre-fixed payment to Independent Director not linked with his/her performance, in the opinion of SES, may vitiate independence of the ID. Hence, SES will generally not recommend in favor of pre-determined or pre-fixed remuneration payment to IDs unless the quantum of payment is reasonable and fair.

While, SES principally recommends that the remuneration of IDs must not be fixed, however, this logic may not work in case of Chairpersons and Directors of Banks. SES understands that RBI approves payment for Chairperson and Directors of Banks which at times may be fixed and contrary to the intent behind the remuneration provisions under the Companies Act, 2013. However, SES would not recommend an AGAINST vote based on such fixed remuneration only in case of Banks.

B. Conflict of Interest

Further, in case the Company proposes to remunerate an independent director for any professional services (apart from board related service) provided by the director to the Company, SES is of the opinion that such payment may lead to conflict of interest situation, therefore, shall evaluate it based on the below parameters developed by SES.

Pecuniary/Other Benefits received in an individual capacity:

SES will monitor pecuniary benefits received by an Independent Director in an individual capacity on account of providing specialised services to the Company/ Group Company. Companies should make adequate disclosures regarding the qualifications and experience of the Director that made him eligible to render the professional service. One-time and event-based payments will be analyzed on the basis of the quantum of the payment, qualification/expertise of the Director, whether the payment is determined on arm's length basis and the justification provided for the transaction. Payments on retainership basis will be recommended "Against" by SES, irrespective of the quantum.

Pecuniary/Other Benefits received by an entity where the ID is interested:

In cases where the Independent Director has any relationship with the Company/Group Company through an entity where such Independent Director is interested, then SES shall test the independence of the ID on various parameters referred as '**Significant relationship**' on a case to case basis, which will *inter-alia* include:

- Nature of association of the Firm where ID is a partner with the Company (on a retainer basis or otherwise);
- Is the quantum of fees decided on arm's length basis?

- Professional fee payable to Firm where ID is a partner vis-à-vis ID's remuneration during that Financial Year;
- Relationship of the Firm where ID is a partner/ entity where ID is interested with other Companies where such ID is a director

Based on the materiality of the relationship and possible conflict of interest, SES would categorise the ID as NID in the Report.

C. Shareholding Value

SES would also not support the appointment of IDs who are holding shares having market value in excess of **₹ 20 crores** and/or having face value in excess of ₹ 50 Lakhs.

Additionally, SES will categorise the Independent Director as Non-independent Director if any of the above 3 conditions are breached. SES will also explain reasons for such classification in its Report.

KEY CONSIDERATIONS

1. Remuneration component comprises of commission which is related to the performance of the Company as well as of the Director.
2. Absolute cap over the overall remuneration payable to NEDs.
3. Whether approval is sought for a definite or perpetual term?
4. Is the remuneration criteria objective in nature?
5. Is the remuneration given to the director excessive/ disproportionate/skewed?
6. Remuneration paid to other NEDs on the Board.
7. Responsibilities of the director as disclosed by the Company including holding office of chairperson of the Board / Committees.
8. Remuneration of directors of peer Company(ies).
9. Whether the director is paid additional remuneration for services, provided by him in Professional capacity? Whether the payment is made for a one-time event or on a retainer basis? Whether quantum decided on arm's length basis?
10. Is the remuneration paid to a single NED exceeding 50% of the total NED remuneration?
11. Is the remuneration paid to a single NED exceeding 25% of the average remuneration of ED?
12. Whether the Commission proposed in Fixed/ Guaranteed in nature? Whether the same exceeds 15% of average remuneration of ED?
13. Remuneration is paid in accordance with the provisions of the Companies Act?
14. Whether the Company has adequate profits to make the payment? Whether the Company has complied with the provisions of Schedule V? Whether approval sought for maximum 3 years and supported with requisite disclosures?
15. Whether Commission paid to individual directors is disclosed in the Annual Report?
16. Whether Commission proposed for select Directors only?
17. Whether NRC Compliant?
18. Whether NED Remuneration disclosed in Corporate Governance Report of the Company? Further, whether remuneration received from the group companies disclosed? Whether any discrepancies identified in the remuneration disclosures made by the Company?
19. Whether approval sought for payment of remuneration to ID designated as NID by SES?
20. Skewness and reasonableness of the remuneration shall be analyzed based on the following parameters:
    - Amount of remuneration
    - Remuneration paid to the Directors of the peer Company(ies).
    - Size and operations of the Company (consider revenue and profits of the Company)
    - Remuneration paid to Director(s) having full-time position of the Company.
    - Remuneration paid to the director in the past.
    - Whether unfettered power sought by the resolution?

- Remuneration Policy of the Company. Is the remuneration in line with the Company's Policy?
- Remuneration paid to the Director vis-à-vis the ceiling under the law.
- Whether remuneration is received at the Group Level?

The remuneration paid to the director will be analyzed on case to case basis, based on the above parameters.

WAIVER OF EXCESS REMUNERATION

SES would analyze such proposal(s) on the basis of justification(s) provided by the Company and make recommendations on a case to case basis. If the excess remuneration includes any variable pay and total remuneration is not within Schedule V of the Companies Act, 2013 (enhanced limit after passing special resolution) or proper disclosure is not made, SES will recommend voting AGAINST the resolution. The law has done away with the provision relating to approval of such excess remuneration from the Central Government. Companies would require only shareholders' approval for the same. Hence, SES' role has become critical. One of the parameters to be examined is how such remuneration became excessive? Are the Company's losses or declined profits the only reason for the proposed waiver of excess remuneration? Or are there other parameters affecting the same?

KEY CONSIDERATIONS

1. Quantum of waiver of remuneration sought.
2. Whether the director is Promoter or Professional.
3. Whether the payment made was as per the terms of appointment of the said director?
4. Original remuneration approved by the shareholders contained absolute cap.
5. Whether the director was paid a guaranteed commission/ bonus?
6. Did the remuneration paid contain any substantial fixed and guaranteed bonus?
7. Whether the waiver was disapproved by the Central Government in the past? Whether the Company has not disclosed the reason for such disapproval?
8. Reasons stated by the MCA for disapproving the waiver.
9. Fairness of the Remuneration practice and Policy at the Company.
10. Whether SES had originally determined unfairness in proposed remuneration?

PRINCIPLE 8 – SHARE BASED BENEFITS

Share Based Benefits are useful for retaining employees and aligning their interests with shareholders' interests. SES will evaluate the terms of the scheme (including exercise price, vesting period, maximum no. of options per employee, dilution to existing shareholders, route of issue, maximum potential benefit to a single employee) and the quality of disclosures made while making voting recommendations. SES will analyze any amendment(s) in the Schemes taking into account the fairness and impact of the proposed amendment. SES expects that the Company make an objective based disclosure in the Notice proposing implementation of the scheme. Similar parameters would be used to evaluate ESPS, SARs and other schemes intending to provide equity-based benefits to the employees.

SES expects the Company to objectively disclose exercise price such that shareholders are able to estimate per option benefit generated to employees. Schemes where complete unfettered power is granted to NRC / Board with respect to exercise price is not viewed as transparent disclosure. Hence, SES would raise concern in these regards on the Scheme or any subsequent modifications that may be proposed to such Scheme, unless the Company rectifies the concern.

In cases stock options / RSUs are proposed to be offered at deep discount, then, SES would evaluate the scheme based on various factors including concentration of allotment, past practice, maximum per employee benefit, employee coverage, maximum potential benefit to a single employee, vesting conditions, etc. SES as a policy does not disapprove deep discount ESOPs per-se.

When the Scheme is proposed for modifications, SES will analyze and gives its opinion on the modifications *per-se*. However, SES will further analyze the scheme holistically and its recommendation will also consider whether there exist any other compliance concerns in the Scheme. In case any compliance issues persist, then SES will not support such resolutions unless the concerns are addressed.

APPROVAL OF ESOP SCHEME / RATIFICATION OF PRE-IPO SCHEME

SES will look at the disclosures made by the Company to judge compliance with the SEBI (Share based employee benefit) Regulation, 2014, potential dilution to shareholders due to the scheme and the fairness of the exercise price.

SWEAT EQUITY - GENERAL RECOMMENDATION GUIDELINES

SES believes that Sweat Equity should be granted only in recognition of exceptional or unique contributions, and not for services rendered in the ordinary course of employment. Accordingly, the explanatory statement accompanying the resolution should clearly outline the specific, distinctive contributions made by the grantee that warrant the grant of Sweat Equity. Furthermore, the valuation report used to determine the fair value of the Company's shares, as well as the assessed value of the Know-How, IPR, or other value additions provided by the grantee, should be transparently disclosed to shareholders for their informed consideration.

KEY CONSIDERATIONS

1. What is the percentage of outstanding ESOPs from all existing and proposed schemes?
2. Whether the scheme provides discretion to the board to accelerate vesting? In what instances?
3. What are the instances when granted options, vested and/or unvested, be lapsed? Are they fair?
4. Are the employees given adequate time to exercise options/units in exceptional events?
5. Whether disclosures made by the Company are in accordance with the SEBI SBEB & SE Regulations?
6. Whether the exercise price is disclosed (either as a band or as a % discount of market price etc.); whether the range of discount is reasonable?
7. Whether the route of issue (i.e. Trust or direct) is disclosed?
8. Whether the Company has mentioned that it can follow any route, viz., either Trust or Direct?
9. Is removing option of issuance through trust, a fair decision?

10. Has the Company clubbed resolution for scheme approval for the company and group companies?
11. Whether the information on Compensation Committee is available? Is the said committee compliant?
12. Whether the Company has granted Stock Options pursuant to a pre-IPO scheme without ratification?
13. Whether the Company is seeking approval to grant more than 1% stock options to a single employee without disclosing details of the employee and rationale behind it?
14. Whether the maximum number of stock options/units proposed for a single employee is reflective of the Company's intent? Whether the said limit is linked to legal limit or entire pool? Whether the estimated perquisite value calculated on the said basis suggests that the same may be excessive?
15. Whether the ESOPs are being granted to Founders of the Company who are not classified as Promoters? SES shall give due consideration to the governance factors while analysing the proposal.
16. Whether Vesting Conditions are linked to parameters not reflective of performance as per SES?
17. Law requires separate shareholder approval for specific actions, such as re-pricing of options or granting more than 1% of the issued capital to a single employee. Does the scheme provide the Board with the discretion to undertake such actions without obtaining prior approval from shareholders?
18. Whether the units to shares exchange ratio is reasonable?
19. How will the Scheme be adjusted in the event of Corporate Actions? Whether the same is fair?
20. Whether the applicability of re-pricing / modification is clearly explained?
21. Are varied nature of share based benefits are clubbed under the single scheme? Are mandatory disclosures clearly segregated?
22. Whether proper approvals obtained from transfer of options/units from old scheme to new scheme?
23. Is the Vesting Period very long?
24. Whether NEDs are given options?
25. Is modification to scheme proposed prior to ratification of the scheme?
26. Whether compelling justification provided for Sweat Equity? Whether the Valuation Reports are disclosed?

APPROVAL FOR GRANT OF BENEFITS TO EMPLOYEES OF HOLDING, SUBSIDIARY & ASSOCIATE COMPANIES

SEBI (Share Based Employee Benefits & Sweat Equity) Regulations, 2021 require separate approval by way of Special Resolution to be obtained for grant of benefits to employees of Holding or Subsidiary Companies. Although, law does not explicitly mention requirement of separate approval for grant of benefits to employees of associate companies, however, SES is of the view that spirit of law would require separate approval in case of associate companies as well. SES will recommend 'Against' in case separate approval is not proposed.

Subject to no concerns having been identified in the original scheme proposed, SES recommendation on the approval sought for grant of benefits to employees of Holding, Subsidiary, Associate and other Group Companies will be determined as below.

BASIS FOR RECOMMENDATION FOR GRANT OF BENEFITS TO EMPLOYEES OF HOLDING, SUBSIDIARY AND ASSOCIATE COMPANY:

Group Entity	Recommendation	Exception
Subsidiary Company	FOR*	-
Holding Company	AGAINST	Cost reimbursed (unless at market value) or Compelling Justification provided
Associate Company	AGAINST	
Joint Venture Company	AGAINST	
Other Group Company	AGAINST	

** Subject to no concerns identified in the original scheme proposed*

KEY CONSIDERATIONS

1. Whether concerns are identified against the Original scheme?

2. Whether the Company has provided compelling justification, in the opinion of SES, for the extension of its ESOP scheme to its Holding/ Associate/Joint Venture?
3. Whether the Holding/ Subsidiary/ Associate Company will reimburse the cost incurred by the Company?

ESOP REPRICING

Shareholders have substantial risk in owning stocks, and SES is of the opinion that the employees who receive stock options should be similarly positioned to align their interests with shareholder interests. SES is of the opinion that the safety net provided by re-pricing of stock options may incentivize management to take unjustifiable risks. Additionally, a predictable pattern of option re-pricing by the Company alters the option's value because such options will practically never expire out of the money.

However, an employee friendly measure would be to increase the vesting period with adequate justification, so that employees get an opportunity to exercise benefits when the Company gets back on track with improved performance. Further, if the re-pricing is structured in such a manner that ensures that both employees' and shareholders' rights are upheld, then SES may take a lenient view.

SES may recommend to vote in favor of the proposals to re-price ESOPs in case the Company's stock declined dramatically due to macroeconomic or industry trends rather than Company specific issues and adequate justification is provided by the Company. SES will compare the stock performance vis-a-vis broad and sectoral benchmarks to determine if the cause of fall in the share price was Company specific or not.

The explanatory statement should clearly specify whether the re-pricing will be applicable for only future grants or to both, future grants and past grants which are pending to be exercised.

KEY CONSIDERATIONS

1. Performance of the share price vis-à-vis the performance of the Company.
2. Performance of the Sectoral Index and broad Markets.
3. Whether share price declined due to macro-economic factors [or Demerger] despite the performance of the Company remaining steady?
4. What is the Justification provided by the Company for re-pricing?
5. Adequate disclosure for Objective exercise price (revised)
6. Number of re-pricings done in the last 5 years
7. Quantum of options vesting with the Executive Directors
8. Whether a moratorium period is provided?
9. Will other terms of ESOP (except the option price) remain unchanged?
10. What is the number of options already vested covered under re-pricing?
11. Whether Vesting Conditions & Vesting Period will not be changed?
12. Whether compelling disclosures made on sustainable performance improvement?

COMPENSATION COMMITTEE CHAIRPERSON/ NRC CHAIRPERSON

A Compensation Committee is constituted for administration and superintendence of the Employee Benefit Schemes. The Companies may create a Compensation Committee constituting of Board Members or may designate the NRC as the Compensation Committee. Since it is the duty of the Compensation Committee to formulate the terms and conditions of the schemes, SES will recommend 'Against' the Compensation Committee Chairperson in case the conditions of the scheme or variations proposed thereon are unfair to the interests of Company/Employees as per SES.

KEY CONSIDERATIONS

1. Whether ESOP Scheme of the Company is unfair in nature?
2. Whether terms of repricing proposed, if any, are unfair in nature?
3. Whether vesting of in-the-money options is accelerated?

4. Whether the NRC has the discretion to accelerate the vesting of options?

PRINCIPLE 9: RELATED PARTY TRANSACTIONS (RPTs)

SES agrees that RPTs are areas of Board oversight and SES as an outsider may not be in a position to question the business prudence of such transactions. At the same time, since RPT due to their very nature carry an inherent conflict of interest, therefore, SES will evaluate the quality of disclosures made by the Company, while making voting recommendations, without passing a value judgment on the transaction, unless *prima facie*, the transaction looks unfair or inadequate justification is provided. SES analysis will be aimed at the disclosure aspects of RPT in the notice of AGM/EGM/PB as well as independence of Audit Committee.

SES will analyse if there exists concerns on the impact of RPT on shareholders' value, fairness issue of the proposal, disclosure aspects of RPT or if the resolution allows the Company to carry on RPTs for perpetuity. In a nutshell, SES shall look for abusive nature of transaction or lack of disclosure/ rational to oppose RPTs. The Company should ideally elaborate the benefits / advantages that it would derive from such RPT and also, why a related party best fits as its counterparty.

Shareholders' approval in case of payment of Royalty or fee for technical know-how or brand usage fee will be scrutinised by SES on a case to case basis. SES will examine as to how royalty is essential for operations of the Company. Further only in cases where it appears to SES, that the payment of such fee in the past has resulted in enhanced turnover or profitability, SES will support such resolution, therefore, SES analysis will be based on case-to-case basis.

Basis of Pricing: SES believes that disclosure regarding the basis of pricing for an RPT is a material disclosure for shareholders to arrive at an informed decision. Hence, the same should form part of the disclosures unless the transactions are of a nature where pricing cannot be determined. SES will expect better disclosures on basis of pricing, but in a gradual manner.

If the Company refers to market rates for determining the consideration value, the explanatory statement shall clearly specify that the transactions chosen for comparison are comparable with the RPT in consideration and commercial or other adjustments made, if any, are fair and justified. If the Company has relied upon a valuation report for the purpose of pricing, then, the methodologies adopted by the Valuers should be clearly specified in the explanatory statement. If a bidding process was resorted to, then adequate context should be given on the bidding process conducted which gives assurance that the bidding performed was fair and led to fair price discovery. Further, if there exists adequate regulatory/ ministry scrutiny over an RPT that ensures fair price discovery, then, the explanatory statement should give information in that regard.

In a nut shell, what led the Audit Committee and the Board to decide that the pricing is fair should be communicated to the shareholders as well. If not elaborated, then at least in a concise yet meaningful manner.

Mere mention of dictionary meaning of arm's length pricing or stating that past RPTs have been relied upon will not be considered to be a fair pricing disclosure by SES.

Prior Approval: Listing Regulations, 2015 require all RPTs to have prior approval of Audit Committee, either singularly or through an omnibus approval which will be valid only for a period of 1 year.

The material RPTs and those exceeding ₹ 1,000 crores in value must be approved by the non-related shareholders (by ordinary resolution).

Disclosure and Transparency: In February 2025, SEBI announced that the listed entities will be required to comply with the Industry Standards on 'Minimum information to be provided for Review of the Audit Committee and Shareholders for approval of an RPT' (RPT Industry Standards). The RPT Industry Standards have been formulated by the Industry Standards Forum (ISF), comprising representatives from three industry associations: Associated Chambers of Commerce and Industry of India (ASSOCHAM), Confederation of Indian Industry (CII), and Federation of Indian Chambers of Commerce and Industry (FICCI) in consultation with SEBI. The RPT Standards are stated to be effective from 1st July, 2025. SES will also monitor compliance with the same.

Further, SES would evaluate disclosure based on best practices, apart from Legal requirements.

Omnibus Approval for RPTs: SES will evaluate the RPT proposed on the basis of parameters developed (refer 'Definitions') to determine whether the transaction is eligible for omnibus approval.

KEY CONSIDERATIONS

1. Disclosure in the resolution/ explanatory statement of the notice of general meeting.
   a) Name of the Related Party
   b) Name of the Director or Key Managerial Personnel who is related, if any
   c) Nature of Relationship (if not adequately disclosed, a compliance issue)
   d) Nature, Duration of the contract and particulars of the contract or arrangements.
   e) Details of comparative advantage gained from RPT vis-à-vis transaction from any other unrelated party.
   f) The material terms of the contract or arrangement including the monetary value, if any
   g) Any advance paid or received for the contract or arrangement, if any
   h) The manner of determining the pricing and other commercial terms, included as part of contract (Valuation Report/ Fairness Report)
   i) Any other information relevant or important for the members to take a decision on the proposed resolution
   j) Impact of transaction on the Company's financials (as per Company Disclosures)
   k) Reason for entering into transaction including justification for the same
2. Whether the Company has made disclosures as required under SEBI Circular dated 22nd November, 2021?
3. Whether RPT is proposed to be entered with Promoter Entity? Whether basis of pricing disclosed?
4. Whether the RPT deals with payment of Royalty / Brand usage fee?
5. Whether omnibus approval sought exceeds 1 year (15 months if sought in AGM)?
6. Audit qualifications (if any) related to the entity with which transaction is taking place
   a. Analyse qualifications raised by the Auditors and the clarifications/comments made by the management/board on the same.
   b. SES may present its opinion on the qualifications to highlight governance/fairness issues related to the qualification.
   c. Any negative news / qualification by the Auditors on the Financial Statements of the counterparty.
7. Audit Process
   a. Audit Committee's independence and comments (if any) on auditor's report/accounts.
   b. Auditors' independence
8. Whether Audit Committee was compliant at the time of granting of approval to the RPT?
9. Whether disclosure made regarding approval/ omnibus approval of Audit committee on RPT?
10. Whether RPT approval sought for perpetuity?
11. Whether the Company has disclosed (in the Notice/Board's report/RPT policy) if the RPT is in Ordinary course of business and at arm's length basis?
12. Whether the RPT is in Ordinary course of business and at arm's length basis as per SES?
13. Whether 2 or more RPTs are clubbed in a single resolution and concern has been identified with respect to any 1 or more RPTs?
14. Conflict of interest issues.
    a. Net worth of the entity with which transaction is taking place is less than the monetary value of the transaction especially if full consideration is not received upfront or post transaction there would be business dealing (USL case)
    b. The Company has not disclosed some relevant information which can help shareholders in decision making process, SES will conduct case by case analysis.
    c. Independence of audit committee/ Auditors according to SES classification
    d. Suitability of the entity with whom the transaction is taking place. For instance, technical expertise, price advantage, experience, market share, etc.

e. Prior transactions with the entity for last 3 years.

15. Whether the Company has disclosed RPT Policy? Review of the Policy on Related Party Transaction at least once in 3 years.
16. Review the disclosures of transactions of the Company with any person or entity belonging to the promoter/promoter group which hold(s) 10% or more shareholding in the listed entity.
17. Whether the omnibus approval for the same RPT sought for multiple years although in different resolutions but proposed in the same notice or across notices issued within a span of 6 months?
18. Whether there has been a significant shift in the proposed limit of RPT as compared to the limit proposed at the time of previous approval? Whether the Company has provided adequate justification for the same?
19. Whether the related parties involved, including the Company, has the financial capacity to sustain the RPT?
20. In case the RPT pertains to loans/guarantees, are the requisite disclosures made such as contributions of counter-party, rate of interest to be received, basis of rate of interest?
21. Whether the material modification limit clearly defined?
22. Whether prior approval of AC and Shareholders sought?
23. Whether the quantum of RPT clearly defined?
24. Whether royalty linked to relevant turnover?
25. If RPT is linked to Convertible Securities, are the terms of conversion adequately addressed?

PRINCIPLE 10.1 – INTERCORPORATE LOANS/ GUARANTEES/ INVESTMENTS

SES is of the opinion that making investments/ guarantees/ loans is a business decision best taken by the Board. However, SES believes that such decisions must be rational and in the interest of the Company. The decision must be taken after considering financial health of the Company and its ability to service loans. In case of guarantees, what is the benefit accruing to the company must be clearly enumerated. For such proposals, SES will analyze the disclosures to determine the need for the proposal and examine transparency of disclosures and fairness of the proposed transaction. SES will evaluate all proposals for inter-corporate loans/ guarantees and/or investments on a case-by-case basis. Transactions with related parties (especially promoter-controlled companies) will attract additional scrutiny.

As per Section 186 of the Companies Act, 2013, the scope for investment and loan is not only limited to inter corporate loans and investment but is also extended to include to any person. Furthermore, cases of intercorporate loans/guarantees/investments between promoter companies for personal use and where promoters have pledged their shareholding would attract additional scrutiny.

Generally, SES is not supportive of umbrella approvals for granting of loans/ guarantees/ investments, however, carve outs may be drawn for NBFCs, Core Investment Companies, Companies engaged in real estate / Infra and those engaged in Venture Capital on a case-to-case basis.

However, SES may allow enabling proposals if such approvals are sought for a limited frame and the explanatory statements adequately disclose the manner in which the existing limits are utilised and how much of the same is given to related entities, whether there have been defaults in existing grants and whether the Company can sustain the proposed quantum. SES will not support such blanket approvals if governance issues are identified.

Further, when blanket approval is sought under Section 185 of the Companies Act, 2013 for loans/guarantees to entities wherein the Directors of the Company are interested, then SES will not support the proposals unless the Companies make disclosures regarding the particulars of the loans/ guarantees to be provided.

In case the resolution is connected to a transaction, the value of which has been arrived at basis a valuation report, then SES will require the valuation report or adequate explanation on the basis of arriving at the proposed valuation.

KEY CONSIDERATIONS

1. Examine and evaluate ability of company to sustain such transaction. Examination will include quantum of proposed transaction *vis-à-vis* current financial health of the Company such as Debt-Equity ratio, current ratio and cash flow, fixed assets etc., (to judge whether the Company has the financial capacity to give the loan/guarantee or make investment)?
2. Whether the financial statements of the recipient company provided?
3. The details of the recipient of the investment / guarantee / security / Loan.
4. The specific amount of the proposed transactions.
5. Financial health of the recipient (to judge whether the recipient would be able to repay the amount)?
6. How is the Company going to fund the proposed transactions?
7. Is the amount proposed disproportionate to the size of the Company?
8. Management's rationale for entering into the said transaction
9. If the loan is being made to an unlisted Company, are other shareholders making a pro-rata contribution to the proposed transaction? If not, whether the Company has operational control over the recipient entity or whether the Company is adequately compensated for the obligations undertaken? Whether the other shareholders are widely held public investors or government?
10. Objective and Benefits of such transactions.
11. Has the Company written-off any transaction with the entity?
12. Financial health of the Company post- transaction/ Impact of transaction on Company's financials such as Debt Equity/ interest coverage ratio, profit etc.

13. Quantum of the outstanding Loans/ investments/ guarantees vis-à-vis the size and operations of the Company, prior to and post the proposed loans/ guarantees.
14. Whether the Company has defaulted on any of its existing debt obligations?
15. Whether the Company has undergone a debt restructuring in the last 2 years?
16. Whether the Company is a sick company?
17. Disclosure regarding Audit Committee approval for the proposed inter-corporate loans.
18. Whether the entity to which the Company intends to provide loans/ guarantees/ investments is beyond 2 layers of subsidiary (if investment Company)?
19. Whether the approval sought is omnibus in nature?
20. Whether disclosures as required under the Act not made (terms, name(s) of recipient, rate of interest, repayments terms, tenure of loan, whether obligations will be shared proportionately in case of partly owned entities, any consideration charged for loan/guarantees, details of security)?
21. Whether disclosures made regarding particulars as required under section 185 along with the purpose in the Notice (Not in case of NBFCs)?
22. Information related to particulars of loans given, investment made, or guarantee given or security provided and the purpose of its utilization by the recipient disclosed in the financial statement/ Director's Report.
23. CRAR post the transactions in case of NBFC
24. Whether the approval is sought for financing an acquisition undertaken via a group company? Whether valuation disclosures for the said acquisition are made?
25. Whether the resolution is connected to a transaction, the value of which has been arrived at basis a valuation report? If yes, whether the Company has disclosed the valuation report or has provided adequate explanation on the basis of arriving at the proposed valuation?

PRINCIPLE 10.2 – SCHEME OF ARRANGEMENT/ AMALGAMATION

SES will review and evaluate the merits and drawbacks of the proposal on a case by case basis. Our recommendations will focus on the fairness and transparency of the proposed scheme. Although, SES is not a Valuation Expert, however, wherever possible SES would undertake a fair valuation ('**SES Fair valuation'**) in order to ascertain whether the exchange ratio is unfair or abusive. Therefore, SES recommendation would generally be based on SES fair valuation undertaken and also disclosure made by the Company.

SES as a policy will recommend voting AGAINST the scheme of arrangement if the Company has not provided e-voting in the TCM (no concern if it is provided in the Postal Ballot). A comprehensive checklist has been annexed as Schedule II to this Policy Guideline. Read about SES policy on e-voting here.

SCHEME OF ARRANGEMENT - KEY CONSIDERATIONS

1. Disclosures
   - 1.1. What is objective, how is it beneficial and Why now?
   - 1.2. Has the Company disclosed the process it followed to approve the scheme?
   - 1.3. Has the Company obtained an independent valuation report and a fairness report?
   - 1.4. Has the Company disclosed a certificate from the Company's auditor stating that the accounting treatment proposed in the scheme conforms to the prescribed accounting standards?
   - 1.5. Has the Company disclosed the impact that the scheme will have on the shareholding pattern of the Company?
   - 1.6. Audit committee approval; Independent Directors' approval
2. Strategic rationale for the scheme
3. Valuation of the deal
   - 3.1. Has the Company disclosed valuation report and fairness opinion report?
   - 3.2. Independence, Fairness & transparency of the valuation process
   - 3.3. Independent fairness opinion and valuation opinion to the satisfaction of SES
   - 3.4. Payment terms for the consideration and source of funds
   - 3.5. Does the Valuation Report disclose 'Share Exchange Ratio' without disclosing the value / financial statements of the business / asset?
   - 3.6. Does the Valuation Report state the manner of computation of the value assigned to the assets transferred under the scheme?
4. Financial impact of the deal
   - 4.1. Impact on leverage ratios
   - 4.2. Impact on liquidity ratios
   - 4.3. Impact on top and bottom line
   - 4.4. Balance Sheet Size (Asset & Liability), Turnover, Profit and Loss
5. Conflicts of interest
   - 5.1. Is any class of shareholders benefitted more at the cost of others, directly or indirectly? Extra scrutiny in cases where promoter entity is involved.
   - 5.2. Are there any potential conflicts which may lead the directors to vote for the scheme?
6. Impact on minority shareholders
   - 6.1. Potential dilution to minority shareholders
   - 6.2. Is the Scheme fair to the shareholders?
7. Are there any governance/ fairness issues in the deal?
8. Is the scheme unfair to the shareholders of other company with which deal is being made?
9. In case of allotment of shares only to a select group of shareholders or shareholders of unlisted companies pursuant to such schemes, has the Company followed the pricing provisions of Chapter VII of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009?
10. Would the proposed scheme lead to a change in control at the Company?

11. Has the Company disclosed key financials of all the entities involved in the transaction?
12. Have the requirements of SEBI Circulars and NCLT Rules on Scheme on Arrangements as provided under 'Schedule II', been complied with?
13. Has the Company made adequate disclosure relating to financial details of its Wholly Owned Subsidiary, while merging the same within itself.
14. In cases of demerger
    14.1. Whether the proposed demerger is a measure aimed at isolation of business risk and parent company shareholder protection or at unlocking value to benefit a group of shareholders disproportionately?
    14.2. Whether the demerger is resulting in formation of an unlisted company?
    14.3. Fairness of exit options, if any, given to shareholders of the Company
15. Whether E-voting is provided either in TCM & PB?
16. Whether SES Fair valuation is in line with the proposed share exchange ratio of the scheme / value assigned to the businesses involved?
17. Has the Company disclosed the No Objection Report?
18. Whether disclosures required as per SEBI Circular dated 3rd Nov, 2020 (weblink) made in the Notice?
19. Is any significant new shareholder getting created? If yes, are there any special rights?
20. Whether the scheme involves exchange of shares in lieu of convertible securities? How are the convertible securities treated in the valuation?

PRINCIPLE 10.3 – CORPORATE ACTIONS

A. STOCK SPLIT

In general, SES will recommend voting FOR a stock split if it meets regulatory requirements and if the historical share price is in a range where a stock split would enhance liquidity.

KEY CONSIDERATIONS

1. Company's justification for the stock split
2. Trends in the historical pre-split stock price
3. Whether the stock is currently quoting below par?

B. SHARE BUY-BACK

A share buyback plan is often used by the Company to increase the company's stock price, to distribute excess cash to shareholders, or to offset dilution of earnings caused by the exercise of stock options.

SES would do an objective analysis and present the correct picture to the shareholders including potential dilution/potential increase in Promoters shareholding and recommend based on other governance issues and regulatory disclosures as well. The Notice should clearly indicate the number of shares to be tendered by the Promoters under the buyback scheme.

SES may not support the buy-back proposal if there is a disproportionate increase in the promoter shareholding or buy back is being used to consolidate the Promoter shareholding. However, there would be no issues if the Company is transparent about its intention at the time of seeking approval from shareholders.

SES will also analyse the Capital Structure of the Company in terms of the its post buy back debt equity ratio, etc. on both standalone and consolidated basis.

KEY CONSIDERATIONS

1. Company's justification/ objective for the buyback (Check Compliance with SEBI & Companies Act, 2013)
2. Is the size of the buyback 25% (as per amendment in SEBI buy-back regulation or less of the aggregate of paid-up capital and free reserves of the company?
3. Disclosure required under the SEBI Buyback Regulations.
4. Exact or minimum number of shares to be tendered by the Promoters in the buyback disclosed.
5. Is the ratio of the aggregate of secured and unsecured debts owed by the company after buyback more than twice the paid-up capital and its free reserves?
6. Has the Company made another buyback in the preceding one year?
7. Has the Company issued any securities in the last 6 months (except bonus issue, ESOP, conversion of warrants, preference shares or debentures)
8. Shareholding pattern of the Company
    a. Increase in promoter shareholding
    b. % of public shareholding will it decrease more than 25%?
9. Financial position of the Company
    a. Impact on the debt-equity ratio
    b. Company's profitability and cash position

C. CAPITAL REDUCTION

SES in normal course of business would recommend voting FOR proposals for capital reduction unless specific governance issues are identified, and the Company has not defaulted in repayment of deposits. Is the capital reduction uniform to all shareholders or it differentiates between same class of shareholders?

D. DEBT RESTRUCTURING

SES in normal course of business would recommend voting FOR proposals for recapitalization plans as per RBI norms unless specific governance issues are identified.

E. VARIATION IN TERMS OF USE OF IPO/ FPO/OTHER ISSUE PROCEEDS

SES will analyze such resolutions on a case by case basis. SES expects the Company to disclose a strong justification for such proposals including how the change in use of IPO/FPO/Other Issue proceeds will benefit the shareholders of the Company. The explanatory statement should also explain the rationale for the change to the original terms.

Further, in case the Company is seeking approval for extending the timeline over which the funds raised will be utilized, then SES will analyze the justification provided by the Company and make a recommendation on a case by case basis. SES will not support the proposal for extension of timeline if approval is sought by way of Ordinary Resolution.

While the law mandates shareholder approval for any variation in the use of proceeds raised through modes involving a prospectus such as IPOs, FPOs, Rights Issues, SES believes that, in the interest of enhanced transparency and governance, similar approval should also be sought for other fund raising modes such as Preferential Issues and QIPs.

F. INCREASE IN BORROWING LIMITS

The Companies Act, 2013 allows companies to borrow up to a limit of aggregate of its paid-up share capital, free reserves and securities premium account. However, the company may intend to increase its borrowing limits (including its non-fund-based limits) for various purposes, which may or may not be strategic in nature. SES in normal course would recommend voting FOR proposals for increasing borrowing limits unless specific governance issues are identified. Highly leveraged companies and companies increasing their borrowings by over 50% would attract additional scrutiny. Analysis will focus on existing limits, unutilized limits, capability to sustain increased borrowings, objective for fresh borrowing and impact on financials. The resolution for additional borrowings shall be analyzed based on sustainability, urgency of such funds, overall debt equity mix, past repayment records, rate of interest, etc., especially in cases where amount proposed to be borrowed is significant when compared with the size and operations of the Company.

If the increase in borrowing limits is pursuant to a CDR package, SES would generally recommend voting FOR the resolution unless specific governance issues are identified.

G. ISSUE OF DEBENTURES

Non-Convertible Debentures: Rule 14 of the Companies (Prospectus and Allotment of Securities) Rules, 2014 provide that a company which intends to make a private placement of its Non-Convertible Debentures ('NCD'), shall, obtain approval of its shareholders by means of a special resolution. It shall be sufficient if the company passes a special resolution only once in a year for all the offers or invitations for such non-convertible debentures during the year.

Generally, Companies as an enabling provision seek approval for issuance of NCDs from shareholders by providing generic reasons. In such cases, SES would analyze the resolution on a case to case basis and if the amount so proposed to be borrowed by way of NCDs is substantial considering the size and operations of the Company, then, SES would not support issuance of such NCDs. However, if the Company provides specific reasons in support of issuance of NCDs, then, SES may not raise any concern.

Convertible Debentures: If a Company is issuing Convertible Debentures, then the terms of conversion should be clearly explained in the Notice.

KEY CONSIDERATIONS

1. Compare current borrowings versus existing and proposed borrowing limits.
2. The Company has high cash balance and the Company is debt free and has not disclosed any usage.
3. Portion of the existing borrowing limits that is unutilized.
4. Is the Borrowing limit clearly specified?
5. Disclosure on the broad purposes for the proposed increase and whether the purpose is aligned with business objectives of the company. If not, whether the management has disclosed reasons for the strategic shift.
   a. Details of the proposed utilization of funds
   b. Terms of the proposed borrowings (short term/ long term)
6. Has the Company defaulted on any of its current debt obligation? Has the company undergone a debt restructuring? Is the Company a sick company?
7. Whether the amount borrowed by Banks/ Financial Institutions in the past, been utilized for the purpose for which it was raised.
8. Potential increase in debt equity ratio and comparison of the ratio with peers.
9. Are there large loans to related parties other than 100% subsidiaries? Have they increased recently?
10. Amount of borrowing is not consistent in the resolution and explanatory statement of the Notice i.e. amount of borrowing proposed differs.
11. Impact on cash flow and capability to sustain and service the borrowing.
12. Proposed NCD with the Asset size of the Company.
13. Latest obtained credit rating updated on the website of the Company?
14. Net Worth of the Company. Losses made in the last 2 financial years?
15. Issue of NCDs proposed without providing any specific reasons?
16. Borrowings of Banks/ NBFCs and HFC are to be evaluated based on RBI/ Basel norms
17. Is issuance of NCD within the existing borrowing limits?

H. CREATION OF SECURITY/ MORTGAGE OF PROPERTY TO SECURE BORROWINGS

SES will recommend voting on such proposals on a case-by-case basis. If the Company seeks blanket approval to create charge on the assets of the Company against the borrowings of not only the Company but also the borrowings by the subsidiaries or other group companies, then, SES will not support such blanket approvals unless the borrowings covered are only of wholly owned subsidiaries or those entities wherein the Company is extending security with adequate justification.

KEY CONSIDERATIONS

If the resolution is linked with a corresponding resolution seeking an increase in borrowing limits, SES will recommend voting FOR the resolution only if SES recommends voting FOR the resolution seeking an increase in borrowing limits.

1. If the resolution is a standalone resolution, SES expects the Company to disclose the following:
   a. Details of the assets being mortgaged
   b. Details of the borrowings being secured through the assets
   c. Beneficiary of the borrowings - Company or a related party? In case related party, examine how and why it is beneficial to company?
2. Borrowings for 100% owned subsidiaries
   a. Financial Performance of the subsidiary – has the subsidiary defaulted on any of its existing debt obligations, has it undergone a debt restructuring in the last two years, or does the subsidiary have a negative net worth or it has made losses in the last two financial years.
   b. Has the Company disclosed the purpose of the -borrowings being secured?
   c. Impact on the parent company in case the subsidiary defaults
   d. Size of borrowing vs. current and fixed assets of the Company (and/or subsidiary company as required)

e. Past use of funds by subsidiary - whether funds are being used by others?
f. Has the subsidiary lent it further onwards?

3. Borrowings by other related parties
   a. If liability is shared proportionally, same analysis as 100% owned subsidiaries. If not, vote AGAINST the resolution
   b. Impact on the Company in case of default
   c. How the Company is secured?
   d. What benefits the Company is getting?
4. Whether assets being used to secure borrowings of a party whose financial performance is weak or unknown or cross guarantee?
5. Whether the liability is shared proportionately amongst the borrowing party shareholders?
6. Whether authority sought for Creation of Charge is more than the borrowing limit of the company?

I. SALE OF ASSETS/ BUSINESS/ UNDERTAKING

Since sale of assets/business is a strategic decision best taken by the Board, SES in normal course of action, will recommend voting FOR such resolutions unless specific governance issues are identified. Sale to a related party will attract additional scrutiny. SES will require the Company to disclose the Valuation Report although, the same may not be required in terms of the law unless the Company has adequately explained the basis of Valuation in the Notice itself or the fairness of the transaction is established without the Valuation Report as well.

Sale of controlling stake from a subsidiary:

Regulation 24(5) of SEBI LODR Regulations requires shareholders' approval to be obtained via special resolution when a company disposes of shares in its material subsidiary resulting in reduction of its shareholding to less than or equal to 50% or disposal which results in the company ceasing to have control over the subsidiary.

Regulation 37A of SEBI LODR Regulations deals with sale, lease or disposal proposals of an undertaking outside Scheme of Arrangement wherein shareholders' approval for such sale has to be sought via special resolution. The definition of undertaking is the same as assigned under section 180 of the Companies Act, 2013. However, special resolution sought under regulation 37A can be acted upon only when the votes cast by the public shareholders in favour of the resolution exceed the votes cast by public shareholders against the resolution.

SES believes that if the Company intends to sell its controlling stake from a subsidiary and if the value of the said subsidiary triggers the limits defined for an undertaking under Section 180 of the Companies Act, 2013, then the said sale amounts to sale of undertaking as per SES and companies should seek shareholders' approval for such disposal via special resolution under regulation 24(5) and also, via special resolution with special majority under regulation 37A.

The technical concern arises from a perspective as to how the approval mechanism can be different for two actions that have similar implications on the functioning of a company, i.e., parting away with a unit at the Company level and parting away with a material subsidiary at a consolidated level.

KEY CONSIDERATIONS

1. Need and justification for sale.
2. Identification of assets being sold.
3. Fair valuation of the asset (independent fairness opinion/ ID opinion on sale) and its disclosure.
4. Does the Valuation Report disclose the monetary value of the business/ manner in which the valuation is arrived?
5. Consideration of the sale.
6. If convertible securities involved, are the terms of conversion adequately explained?
7. How is the transaction structured?
8. Details of the buyer – relationship with promoters (if any).
9. Material nature of the assets/ business being sold (25% of the net block or 25% of revenues).

10. Impact on turnover, profits and working capital.
11. Anticipated use of funds.
12. Conflicts of interest (Consider RPT issues as well).
13. Whether Audit committee has recommended the transaction?
14. What will be the source of funds of the buyer?

J. CONVERSION OF LOAN INTO EQUITY

A Company may convert debentures or debt into equity provided the Company has passed a special resolution while approving the terms of issue with full and transparent disclosures regarding material terms such as conversion terms, pricing terms, source of funds and others in the explanatory statement. It is important to provide a clear rationale explaining why the proposed debt arrangement and the resulting equity dilution is the most suitable and strategic option available for raising capital.

A Company may have to convert its debt into equity in cases of financial distress or insolvency pursuant to a resolution plan.

Conversion of debt into equity pursuant to a resolution plan:

In order to address the rising NPA issues in the Banks, the Reserve Bank of India ('RBI') had released a "framework for Revitalising Distressed Assets in the Economy" in its document dated 30th Jan, 2014. The framework outlines a corrective action plan that will incentivise early identification of problem cases, timely restructuring of accounts which are considered to be viable and taking prompt steps by banks for recovery or sale of unviable accounts.

One of the modes of the restructuring was to undertake a '**Strategic Debt Restructuring (SDR)**' by converting loan dues of the lenders to equity shares. This would require the Bank to incorporate such provisions relating to the conversion of loan into equity in the terms and conditions of the Loan Agreement, which in turn requires approval by the shareholders of the Company by way of a special resolution.

However, in view of the enactment of Insolvency and Bankruptcy Code (IBC), the RBI vide its Circular dated 7th June, 2019 (superseding the earlier Circular dated 12th February, 2018 which was struck down by the Supreme Court) has withdrawn its instructions related to Corporate Debt Restructuring Scheme, Strategic Debt Restructuring Scheme, the Joint Lenders' Forum (JLF), etc.

As per the revised Circular (weblink), all lenders must put in place a board approved policy for the resolution of the stressed assets including the timelines for resolution referred to as the Resolution Plan ('RP'). The Circular *inter-alia* includes:

- RPs involving restructuring / change in ownership in respect of 'large' accounts (i.e., accounts where the aggregate exposure of lenders is ₹ 1 billion and above), shall require **independent credit evaluation (ICE)** of the residual debt by credit rating agencies (CRAs) specifically authorised by the Reserve Bank for this purpose.
- Accounts with aggregate exposure of ₹ 5 billion and above shall require two such ICEs, others shall require one ICE.
- Pricing of Equity shares in case of conversion of debt into equity shall be lower of the following:
  - Lower of the average of the weekly high and low of the volume weighted average price market price for 26 weeks or 2 weeks preceding the 'reference date'; or
  - Book Value method calculated from the latest audited balance sheet the date of which should not precede the date of restructuring by more than 18 months
- In case the latest audited balance sheet is not available the shares are to be collectively valued at ₹ 1 per company.

Since, the existing Debt Restructuring schemes of RBI has been withdrawn, SES will examine such resolutions on a case to case basis and in accordance with the RBI Circular dated 7th June, 2019. Shareholders resolutions will

be analysed based on the various disclosures provided by the Company and the prevailing provisions under the RBI and IBC framework.

KEY CONSIDERATIONS

1. Is the Company seeking blanket approval?
2. Amount of Loan.
3. Duration of the Loan.
4. Are the terms of conversion clearly defined?
5. Pricing of the conversion as per statutory laws.
6. Parties to which equity shares shall be issues in lieu of the loan.
7. Financial Capacity of the Lender
8. Objective based disclosure in the Notice in case the Company already has a negative Net Worth regarding;
   a. A clear road-map stating how such conversion will help the Company overcoming its existing problems.
   b. Whether a Holistic revival plan been disclosed in the Notice.
   c. Justification for continuing with the Existing management to control the Company;

PRINCIPLE 10.4 – ISSUE OF SECURITIES

SES is of the opinion that proper capitalization allows a company to efficiently take advantage of business opportunities and effectively operate as a business. SES is of the opinion that such issues are best left to the judgment and discretion of the Board. However, issuing an excessive number of additional shares and/or convertible securities to investors other than existing shareholders can potentially dilute holdings of the existing shareholders. Therefore, SES is of the opinion that companies should seek shareholder approval to justify their raising funds and its use from issue of additional shares rather than seeking a blanket authority in the form of discretionary powers to issue shares or convertible securities as the Board deems fit.

ISSUE OF SECURITIES (GENERAL)

SES will look at proposals to raise equity on a case by case basis. In normal course, SES will recommend voting AGAINST proposals that seek blanket approval for issuance of securities without giving adequate justification for the same especially when the potential dilution will be high.

SES would encourage Companies to opt for Rights Issue of equity shares, with an option of renunciation. With amendments introduced by the SEBI in March 2025, the Rights Issue process has now become more streamlined with accelerated timeline, flexibility in allotment process and simplified compliance requirements.

Only in cases where rights issue is not preferred such as participation of any strategic investor or other genuine instances, would SES consider preferential issue of equity shares to be justified as preferential issues result in dilution of shareholding of the existing shareholders. Hence, the rationale behind not opting for rights issue should be properly addressed in the explanatory statement.

SES will evaluate the rationale provided by the Company, the size of the Company vis-à-vis its fund requirement. SES would expect Companies to make specific disclosure regarding their fund-raising proposals, including rationale and object of the capital raising and full details of proposed allottees in case it is a preferential offer.

Additionally, SES would raise concern in case the Company opts to raise funds by issuance of naked warrants (i.e., not attached with NCDs), unless compelling reasons are provided in support of the same or the warrants are issued at a significant premium. The premium should be determined considering a suitable pricing model that captures the fair value of the equity during the conversion period. This is because in case of warrants entire money may not be received upfront and is only received once the warrant is proposed to be converted into equity shares by the holder of the instrument.

PUBLIC ISSUES

In case of omnibus approval for follow on/ Further Public Issue (FPO), as resolution for FPOs is monitored by SEBI, SES will generally recommend voting FOR such resolutions unless any other governance issues are noticed. Further, SES expects the Company to disclose adequate rationale for raising capital and the potential change in the shareholding pattern of the Company post the issue.

PREFERENTIAL ISSUE

SES in the normal course of action will not support proposals for preferential issue and/or private placement of shares and/or convertible securities due to their dilutive effect on other shareholders unless compelling reasons/ justification for the issue has been disclosed by the Company or such investment is being made by a Strategic investor which may be positive for the Company or where the Company adequately explains as to why Rights Issue is not feasible. Given that rights issues have now become more streamlined and efficient, the Company should provide a clear and well-reasoned explanation for not opting for this route as a mode of fundraising.

The idea is that rather than an individual or an entity, the issue must be beneficial to the company.

SES generally recommends that Companies must undertake Rights Issue to raise capital, however, in cases where the price of equity shares offered to select persons under preferential issue is significantly higher than the market

price of the share or higher than the price arrived at as per the ICDR pricing formula, then, SES may take a lenient view and recommend voting in favor of the resolution.

SES will also analyze the market environment when deciding on whether Rights Issue is feasible or not. If the market situation is such, that preferential issue looks as a better and a more favorable alternative as compared to Rights Issue, then, SES may take a lenient view. However, this lenient view can be taken only when the market is affected due to factors beyond the Company's control.

SES will also consider the dilution caused as a result of the preferential issues made during a period of 12 months, and if the dilution caused over a period of 12 months is significant, then the Companies should explain as to why rights issue was not feasible. However, in case of financially distressed companies or any other apparent reason where it is clear that rights issue is not practically feasible, then, SES may take a lenient view.

KEY CONSIDERATIONS

1. Objective and justification of the issue including urgency of fund requirements.
2. All disclosures as specified in the SEBI-ICDR regulations have been made.
3. Dilution of existing shareholders' position (Post conversion dilution for convertible securities) more than 10%?
4. To examine the identity of the allottee and any change in control issues.
5. Conflicts of interest (including RPT considerations).
6. Has the allottee sold any equity shares of the issuer during the six months preceding the relevant date?
7. Whether the issue is being made to promoters or strategic investors?
8. Securities being issued – shares / convertible securities / warrants.
9. Does the resolution mention issue of bearer securities?
10. Has the Company made a buyback of equity shares 1 year before the issue of securities?
11. Whether the issue is being made to Government? Whether compelling justification provided for government funding?
12. Whether the issue is being made to Promoters?
13. Whether the issue is being made to Foreign Investors?
14. In case of Banks, SES shall also consider the present CRAR requirements along with the growth in NPAs and Advances.
15. Details of utilization of funds raised in past through preferential allotment or qualified institutions placement.
16. Is Valuation Report required as per AoA; if yes, did Board consider it?
17. Is the Preferential issue of equity shares made under a Resolution Plan by banks/ financial institution?
18. Do the open offer requirements get triggered?
19. Are the securities being issued for redemption of preference shares?
20. Has the Company given option of issue of warrants along with other securities? Are the warrants being offered at premium?
21. Does the resolution enable the Company to issue Naked Warrants?
22. Whether warrants issued at premium using fair value models such as Black Scholes/ Monte Carlo Simulation?
23. Whether dilution to public shareholders exceeds 5%? If yes, whether the acquirer has made an open offer (for promoters only)?
24. What is the source of funds of allottees?
25. What is the basis of selecting allottees?

BONUS ISSUE

SES in normal course of business will recommend FOR proposals for bonus issues unless specific issues are identified. SES may recommend voting AGAINST such resolutions if such issue is not incompliance with the law or if:

1. The Company has defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it.
2. The Company has undergone debt restructuring.
3. The Company has defaulted in respect of the payment of statutory dues.

ISSUE OF PREFERENCE SHARES

SES in normal course of business may recommend FOR proposals for issue of preference shares unless specific issues are identified. SES will specifically look into the financial position of the Company and its ability to pay regular dividends to the preference shareholders.

KEY CONSIDERATIONS

1. Objective of the issue.
2. Financial performance of the Company (ability to pay dividends to the preference shareholders).
3. Coupon rate paid on the Preference shares.
4. Whether the Company has defaulted on any debt obligation / undergone debt restructuring?
5. Company's leverage ratio compared to peers.
6. Whether the preference shares are redeemable or not. Redemption period should not exceed 20 years except in Banks?
7. Whether the Company is paying dividend on Preference shares to Promoters and not paying dividend on equity shares to other shareholders.
8. Whether there is an option to convert preference shares to equity shares?
9. Are preference shares entitled to participative dividend?
10. Whether the terms of preference shares are unfair to the equity shareholders of the Company?

ISSUE OF SHARES WITH DIFFERENTIAL VOTING RIGHTS

Differential Voting Rights ("DVR") are shares that have rights disproportionate to their economic ownership. While SEBI has developed a framework for listing of companies that have shares with Superior Voting Rights ("SR shares"), issuance of fractional rights shares by the listed companies are disallowed presently.

In case of an equity issue of shares with differential voting rights, SES will analyze the differential rights given under the said issue, along with the other considerations as specified above on a case to case basis.

ALTERATION IN MOA/ AOA

SES will evaluate proposed amendments to a company's articles of association or memorandum of associations on a case-by-case basis. SES does not support bundling of several amendments into a single proposal, unless all such modifications are being made due to a single event/change. In case several amendments are bundled into a single resolution, we will analyze each amendment individually. We will recommend voting for the proposal only if no issue is identified in any of the proposed amendment. Additionally, we will provide voting advice on each individual amendment in case the Company decides to hold individual voting for each proposed amendment.

GENERAL CONSIDERATIONS

SEBI, via an LODR amendment effective from December 2024, now mandates the AoA/ MoA to be disclosed on the website of the Company. The Companies should ensure compliance with the same.

In case the changes in AoA/ MoA have been necessitated due to a transaction/ proposal on which SES has provided a FOR recommendation, SES may be in favor of the proposed changes, even if the said changes have been bundled into a single resolution.

In case the amendments have been necessitated by a regulatory change, we may recommend voting FOR the proposed changes even if the said amendments have been bundled into a single resolution.

In case the Company does not disclose the alteration proposed to be made in the AoA/MoA, SES will recommend that shareholders vote AGAINST the resolution.

The Company should present a comparative analysis between the existing AoA/MoA and the proposed one. SES may take a lenient view when the amendments are procedural in nature.

The Companies should also ensure that the articles are compliant with all the applicable legal requirements to the Company.

CHANGE IN "OBJECTS CLAUSE"

If the proposed new business is in line with the existing businesses of the Company, SES will recommend voting FOR the resolution

If the proposed new business is not aligned with the existing businesses of the Company, SES expects the Company to provide adequate rationale for entering the new business. In such cases, SES will make recommendations based on the analysis of the Company's rationale.

SES will not make any comment on the feasibility/potential profitability of the proposed business nor will it endorse the business decision taken by the Company.

SES will analyze proposals to modify the objects clause of the Company on a case-by-case basis.

KEY CONSIDERATIONS

1. Whether the proposed new business is in line with the existing businesses of the Company?
2. Whether changes in Object clause will include matters unrelated to the current business?
3. Whether the proposal for change in objects or variation in terms of a contract have been dissented to by more than 10% shareholders and the amount to be utilized for the objects is less than 75%?

CHANGE IN AUTHORIZED CAPITAL

Having adequate capital is important to a Company's operations. Resolutions to increase authorized capital are normally enabling resolutions. In normal course of business, SES may recommend voting FOR the proposals to increase authorized capital.

KEY CONSIDERATIONS

1. Utilization of the existing authorized capital during the last two years
2. Disclosure on the specific objectives for the proposed increase in authorized capital

CHANGE IN NAME OF THE COMPANY

SES will recommend voting FOR proposals to change company names unless there is compelling evidence that the change in company name would adversely impact shareholders' value or is misleading.

KEY CONSIDERATIONS

1. Is the proposed name consistent with the Company's brand? Would the change in name result in loss/gain in brand value?
2. Do the names sound similar to other successful Companies?
3. Is the name aligned with the objects of the Company?
4. Has the Company taken a certification from the registrar of companies that the proposed name is available?
5. Has the company changed its name in last one year?
6. Is the suggested name in compliance with SEBI guidelines on the same? SEBI Circulars April 2004 (weblink) and SEBI Circular June, 2011 (weblink)

CHANGE IN QUORUM REQUIREMENTS

SES will recommend voting AGAINST proposals to reduce quorum requirements for shareholder meetings unless compelling reasons to do the same are disclosed by the Company.

CHANGE IN REGISTERED OFFICE OF THE COMPANY

SES will recommend that shareholders vote FOR resolutions proposing change in the registered office of the Company unless there are compelling reasons to believe that the said change will cause inconvenience to the shareholders of the Company. SES will look into such proposals very carefully if the registered office of the Company is being shifted to a remote location or a location which is not easily reachable.

INCREASE IN BOARD STRENGTH

Generally, SES will recommend voting FOR proposals seeking to fix the board size or designate a range for the board size provided that the board size ranges from a minimum of 6 members to a maximum of 15 members.

If the proposed board size is outside this range, SES expects that the Company would provide a rationale for the same. In such cases, SES would analyze the Company's justifications and make recommendation on a case-by-case basis.

SES will recommend voting AGAINST proposals that give the board discretion to alter the size of the board without taking further shareholder approval.

SPECIAL RIGHTS TO CERTAIN PARTIES IN AOA/AGREEMENTS

Appoint or Nominate? Except for directors exempted under Regulation 17(1C) of the SEBI LODR Regulations and nominees of Debenture Trustees, all directors on the board of a listed company must be approved by the shareholders. If the company's articles or any agreement grants shareholders or lenders the right to directly appoint (and not merely nominate) directors who are not otherwise exempt under applicable law, SES raises concerns regarding the lack of shareholder approval.

SES has consistently upheld the principle that board positions should be governed by the tenets of corporate democracy. Historically, SES has opposed clauses in the Articles of Association that grant preferential rights to certain shareholders, particularly controlling shareholders, to nominate directors ('Controlling Interest'), except

when such rights were sought by entities having no identified ultimate beneficial owners and ownership would be widely held.

The rationale has been that such provisions not only has a potential to disadvantage minority shareholders but also undermine the role of the Nomination and Remuneration Committee (NRC) in independently identifying and evaluating candidates for board positions. While even such positions are placed before the NRC, the same appears to be a namesake arrangement as the probability of NRC not recommending in favour of such appointments are rare when it knows that the articles/agreements have already approved the underlying rights.

However, SES also understands that a shareholder would want representation on the Board as against their significant skin in the game and SES is not against this representation per-se.

Hence, SES has revisited this stance and will analyse such special rights to determine whether the rights sought are fair or not; from governance standpoint while also considering the need for shareholder representation. The same includes the quantum of shareholding that will make one entitled for such rights, the Board and NRC independence as per SES, justification behind seeking special rights and other parameters that establish that the rights sought are fair and reasonable. However, SES will be cautious when analyzing such proposals and ensure that such rights do not favor any select investor at the cost of other investors.

With regard to lender nomination rights, SES may take a lenient view in case such provisions in AOA are made for an Public Institutional Investor/Lender (being Non-Promoter), since such provisions are in the nature of '**Safeguard Interest**'. However, if the Company seeks a blanket approval to cover any type of lenders such as any financing corporation, any body corporate or any person, then, SES will generally not support such proposals.

Even if SES identifies any governance issues in any of the special rights proposed and recommends AGAINST the articles or the agreements, yet, SES will not recommend against any director's proposal at the time of actual appointment merely because any investor seems to be affiliated with the said director. SES will analyze the concerned appointee on the basis of the merit of the proposal while forming its opinion. If the investor, although representing any investor, has the relevant expertise and is fit for the Board, then SES will support the appointment proposal of the nominee.

SES will generally not support proposals where shareholders seek rights to nominate any board committee members. Further, SES will not support board observer positions unless an assessment on the basis of relevant governance parameters suggests that no governance issues are identified with regard to the said position.

Other special rights will be analyzed on case-to-case basis considering the impact of the rights on the Company and its shareholders.

As per regulation 31B of SEBI LODR Regulations, any special right granted to shareholders of a listed entity shall be subject to shareholders' approval once in every 5 years. SES will also endeavour to check whether the Company is compliant with the said regulation.

PROFIT SHARING AGREEMENT WITH SHAREHOLDERS

Profit-sharing agreements between the Management of the Company and Private Equity Investors are entered to encourage the Management of the Company to meet certain targets. These agreements are often linked to the internal rate of return (IRR) that the private equity investor makes at the time of exit. Further, these agreements also come into picture when employees/ directors are rewarded for successful listing of the Company.

While, there was no regulation regarding the same until 2016, however, SEBI vide notification dated 4th January, 2017, amended Regulation 26 of the Listing Regulations and stipulated that every such agreement with the KMPs/ Directors/ Promoters of the Company and shareholders/third party, requires shareholders' approval. Law requires shareholders' approval for fresh agreements and also, subsisting agreements that continues post listing.

The Company should either disclose the agreement or the key terms of the agreement to the shareholders in the explanatory statement while seeking their approval. Further, the Companies should place the agreement before the shareholders for inspection via email or other virtual means for their perusal.

Generally, SES does not support profit-sharing agreements. SES is of the opinion that, while sharing of profits with the shareholders may encourage the Promoters, Employees or KMPs of the Company, it may also give rise to potential conflict of interest issues. Therefore, SES will analyse such resolutions in light of the beneficiaries of the agreement. SES will also examine the justification provided by the Company. SES will raise concern if the agreement appears to be benefitting only selected section of individuals of the Company at the cost of the interest of the company or at the cost of others.

Hence, in general course, SES will not support such agreements unless the terms are clearly defined and SES identifies no governance issues with regard to the agreement.

KEY CONSIDERATIONS

1. Whether the terms of the agreement are adequately disclosed?
2. Who are the Beneficiaries of the Agreement?
3. What is the amount of benefit being transferred?
4. Where the proposal is against the interest of the Company?

OTHER AGREEMENT WITH SHAREHOLDERS

Regulation 30A of SEBI LODR Regulations requires agreements which, either directly or indirectly or potentially or whose purpose and effect is to, impact the management or control of the listed entity or impose any restriction or create any liability upon the listed entity, to be disclosed to the Stock Exchanges, including disclosure of any rescission, amendment or alteration of such agreements thereto, whether or not the listed entity is a party to such agreements.

Law requires fresh agreements and also, those agreements which subsist as on the date of notification of the regulation to be disclosed to the Stock Exchanges and on the Company's website. Further, agreements which subsist as on the date of notification of the regulation are also required to be disclosed in the Annual Report for FY 2022-23 or FY 2023-24. However, law presently fails to capture agreements that subsists even after the listing of a company but were not existing at the time the said law came into force. SES believes that the Companies should comply with the above requirements with regard to the agreement and not do away with the same merely because the letter of the law misses to capture the same presently. SES will endeavour to check whether the Company is compliant with the said regulation.

CHANGES DUE TO SHAREHOLDERS' AGREEMENTS

SES will analyze such proposals on a case-by-case basis to determine if special privileges are being provided to a particular investor. SES will assess the impact of such rights on other shareholders of the Company and make its recommendations accordingly.

REMOVAL OF ARTICLES / CLAUSES DUE TO TERMINATION OF SHAREHOLDERS' AGREEMENT

SES would generally vote FOR the resolutions to remove articles that grant special rights/privileges to a strategic/institutional investor of the Company upon termination of agreement. As a policy, SES strongly advocates against such agreements.

OTHER RESOLUTIONS

FII INVESTMENT LIMITS

As per the New FEMA Rules (weblink), the FPI limits with respect to their investment in Listed Company shall be the respective sectoral limit. However, in case the Company intends to cap the FPI limits below the sectoral limit, they shall obtain approval of shareholders by way of a special resolution.

Analysis of such proposal shall be made on a case to case basis by SES.

DELISTING OF SHARES

Delisting of shares can have a significant impact on the minority shareholders of the Company. Post delisting, shares of the entity become illiquid, reducing the exit options available to minority shareholders. Therefore, SES expects Companies to provide 1) adequate rationale for delisting of shares and 2) favorable exit options to investors. SES will analyze the Company's proposal on these lines, analyze the impact of the proposal on minority shareholders and make its recommendation on a case-by-case basis. SES will examine compliance with SEBI delisting regulations not only in letter but in spirit as well. Furthermore, cases where the acquirer provides an indicative price for delisting, then, SES would analyse based on such indicative price.

In case, any listed subsidiary opts for getting delisted through a Scheme of Arrangement, the Companies shall ensure that the listed holding company and the listed subsidiary company are engaged in the 'same line of business.' If the regulator grants exemption from the requirement of operating in the same business, then SES will check whether the Company has adequately explained the reasons behind the regulator providing the said exemption for shareholders' information. SES will analyse the rationale provided by the Company in such cases and make its recommendation on a case-by-case basis.

CORPORATE SOCIAL RESPONSIBILITY / DONATIONS TO CHARITABLE FUNDS / POLITICAL PARTIES

The Companies Act, 2013 mandates that at least 2% of the average net profits of the Company, made during the three immediately preceding financial years, should be used for corporate social responsibility (CSR) activities. Further, Section 181 & 182 of the Companies Act, 2013 provides that a Company may make contributions to Charitable Funds and Political Parties.

SES strongly believes that every company should make sufficient contributions to the society through CSR spending. Such activities improve the society and the community that the Company operates in and benefit the company in the long run by providing a sustainable business environment to operate in and enhancing the Company's long-term value through increased reputation, brand image and goodwill. While, donations/ contribution, are typically provided without any consideration in return, however, in case of political donations, some degree of favour from parties may be sought through donations, both legitimately and illegitimately. Therefore, SES is of the opinion that, companies should avoid making political contributions as this may be an area of potential controversy, unless a comprehensive Policy in this regard is framed and disclosed.

Since, such contributions result in outflow of cash from the Company, excessive contributions may have a negative impact on shareholders' value. SES recommends that the Board should calibrate its contribution by balancing impact on the society with the impact on shareholders' value. Therefore, while evaluating proposals for making contributions over and above the authority of the Board, SES will analyze the potential impact on shareholders' value and make its recommendation on a case-by-case basis.

KEY CONSIDERATIONS

1. Financial position of the Company
    a. Did the Company make profits in the last three years? Have the profits grown in the last 3 years?

b. Has the Company's borrowing increased in the last three years? Has the Company's debt-equity ratio improved in the last three years?
c. Has the Company paid dividends to its shareholders in the last three years?

2. Conflict of interest issues
   a. Has the Company disclosed the exact amount of contributions it plans to make and the proposed recipients of the said contributions?
   b. Is any director/KMP interested in the recipients of the said contributions?
   c. Is the recipient entity part of the promoter group or promoter controlled?
   d. Company's Policy on making Political Contributions.

OFFICE OF PROFIT

While SES is principally not opposed to the appointment of relatives of directors/ promoters in the Company, SES does believe that such appointments may lead to conflict of interest issues/ allegations of nepotism. Therefore, SES expects the Company to institute independent processes for the selection of a relative of a director for holding office or place or profit in the Company to minimize such issues.

SES will analyse whether the proposed appointee possesses relevant qualification and experience for the position and would have been capable of being appointed regardless of association.

With regard to remuneration payments, SES will require the explanatory statements to provide information on the basis of arriving at the proposed remuneration. Further, the remuneration package should be an optimum combination of both, fixed and variable component wherein the variable component should be higher and linked to objective performance parameters. The overall remuneration should be capped with an absolute upper end.

Further, SES will also endeavour to check whether any service based contracts are entered into with the relatives of directors/ promoters in the Company on retainer basis.

Companies should ensure transparency when appointing relatives of directors/ promoters in the Company. SES will analyse the fairness and transparency of the proposed appointment and remuneration and make its recommendation on a case-by-case basis.

KEY CONSIDERATIONS

1. Does the Company have an independent committee which oversees the selection of a relative of a director for holding office or place or profit?
2. Is the director interested in the appointment part of the selection committee? If yes, did the director participate in the discussion pertaining to the said appointment?
3. Is the remuneration payable disclosed? Does the same include variable component?
4. Is the remuneration payable to the person being appointed comparable to other employees of the Company occupying similar positions/ grades?
5. Has the profile of the person being appointed disclosed?
6. Does the person appointed possess relevant qualification and experience for the position and was capable of being appointed regardless of association?
7. Has the Company clubbed resolution for past remuneration and future remuneration?
8. Is the remuneration almost same to all the persons holding/ proposed to hold such office of profit?
9. Is the profile of the office and the expected roles and responsibilities clearly defined?

FEES TO BE CHARGED FOR SERVICE OF DOCUMENT

SES is principally against the fees charged to the shareholders for service of any document by the Company in ordinary course. However, the Company may charge reasonable fee, if the member specifies any particular mode of delivery, provided such fee or method of computation is approved by the members of the Company at the AGM. Therefore, SES will raise concern on any resolution which does not specify the fee to be charged in such

cases. SES will not raise any concern if the Company proposes to charge the members fee equivalent to the actual cost incurred by the Company for such delivery.

SES believes all the documents like Annual Report, shareholding patterns, quarterly results etc. should duly be placed on the website of the Company as required under the law. At the same time, SES also understands that various documents such as Register of Members, etc. cannot be made available on the website of the Company. Therefore, SES is of the view that a reasonable fee be charged only in case if the investor requires copy of the document in print mode through a particular mode of delivery.

KEY CONSIDERATIONS

1. Does the Company charge fees for service of document by all modes?
2. Is the document available on the website?
3. Has the Company disclosed the fees to be charged/ method of calculation of such fees?
4. Are the fees charged reasonable and/or includes courier charges/printing charges only?

PLACE OF MAINTAINING STATUTORY REGISTERS

Every Company is required to maintain its Statutory Registers and annual returns at its Registered Office. However, the Companies are permitted to maintain such registers or copies of return at a place other than the Registered Office where more than 1/10th of the total number of members entered in the register of members reside, if approved by a special resolution passed at a general meeting of the company.

SES will generally not raise any concern in change place of maintaining the statutory registers, unless the Company fails to specify exact place where the documents shall be maintained. SES will also recommend voting AGAINST if the Company is seeking an omnibus approval from the members relating to maintaining the Statutory Registers at such place where the Registrar and Share Transfer Agent situate from time to time.

KEY CONSIDERATIONS

1. Does the Company mention the exact place of maintaining its Statutory Registers and Returns?
2. Is the Company seeking omnibus approval to maintain documents at such place where the Registrar and Transfer Agents situate from time to time?

APPOINTMENT OF CHAIRPERSON EMERITUS

Certain Companies designate a senior member who generally is an Ex-Director or former Chairperson of their Board as 'Chairperson Emeritus' which is a designation used to indicate respect for his contribution. However, in some cases, the person to be appointed as Chairperson Emeritus is not a director on the Board, however, he may be privy to the Board discussions. SES understands that while on one hand, his experience and knowledge will benefit the Company, since this is not a legally recognized position, there is no accountability on the person so appointed under the law. SES in such case will consider the appointment on case to case basis, based on the profile of the person who is proposed to be appointed so. Guided by SEC rules, SES will recommend approving remuneration payments to the Chairperson Emeritus, provided the amount is nominal.

KEY CONSIDERATIONS

1. Appointment of a Non-Board member without disclosing his name?
2. Appointment of a specific person at a nominal remuneration?
3. Appointment of a specific person at a remuneration as may be decided by the Board?
4. Authority to the Board to authorise them to appoint any person as Chairperson Emeritus of the Board?
5. Appointment of an existing Board member as Chairperson Emeritus?

RE-CLASSIFICATION OF PROMOTER SHAREHOLDING TO PUBLIC SHAREHOLDING

Resolutions proposing re-classification of promoter shareholding must be supported with strong rationale.

SES will closely scrutinize whether the re-classifications sought fulfill the requirements stipulated in SEBI LODR Regulations, 2015.

Conditions stipulated under Regulation 31A(3)(b) of SEBI LODR Regulations are required to be met by the promoters seeking re-classification and also, persons related to them. The related persons will comprise of both, those exiting and those continuing with the company. If the explanatory statement fails to explicitly mention that the conditions are also fulfilled by the said related persons, then, SES will not support such proposals citing transparency concern.

Further, when analysing whether the related persons have complied with the condition, SES will consider not only those defined as related persons under Regulation 31A(1)(b) of the SEBI LODR Regulations read with regulation 2(1)(pp) of SEBI ICDR Regulations but also those classified as related parties under the SES Policy. (Read More)

SES acknowledges that there may be genuine cases where individuals, despite being closely related to the promoters, wish to be reclassified as public shareholders due to their lack of involvement or interest in the management or business of the company.

In such cases, if the exiting promoters have entered into a formal separation agreement with the continuing related promoter persons, then, SES may recommend in favour of the re-classification. However, it is essential that the explanatory statement clearly confirms that all continuing related promoter persons are parties to the separation agreement. Furthermore, the agreement must either be duly registered under the Registration Act, 1908, or its material terms must be disclosed on the stock exchanges prior to the re-classification.

SES, as a policy, will not support proposals seeking partial reclassification of the promoter/promoter group shareholding unless compelling reasons provided. SES is of the view that partial re-classifications are not in line with the spirit of law as individuals/entities belonging to a common set or group of promoters will be part of public as well as promoter categories.

PRINCIPLE 11 – ESG AND THE ROLE OF BOARD

SES is of the view that, along with focus on financial and operational performance, a responsible and sustainable approach towards governance, environment and community is vital for the long term growth and viability of a Company.

ESG Frameworks introduced by SEBI:

With effect from financial year 2022-23, the erstwhile BRR reporting format was replaced by the BRSR reporting format. As ESG investing becomes more mainstream, disclosure requirements need to keep pace with this change and BRSR is a significant step towards this direction. From financial year 2022-23, the top 1,000 listed entities based on market capitalization have been mandated to submit a BRSR report in the specified format.

On July 12, 2023, SEBI introduced few additional KPIs considering the relevance to the Indian / Emerging market context. From FY 2023-24, the top 1000 listed entities (by market capitalization) are mandated to make disclosures as per the **updated** BRSR format, as part of their Annual Reports.

Further, SEBI, via above circular, introduced BRSR Core parameters which were required to be assured by listed entities through external third party. BRSR Core is a sub-set of the BRSR, consisting of a set of Key Performance Indicators (KPIs) /metrics under 9 ESG attributes. SEBI has adopted a glide path approach with regard to the applicability of the BRSR Core which is specified in the circular. SEBI, via a circular issued on March 28, 2025, decided to provide an option to undertake 'assessment' or 'assurance' for BRSR Core. For FY 2024-25, the top 250 listed entities are required to comply with the same.

Additionally, SEBI has also introduced disclosures and assessment or assurance for the value chain of listed entities, as per the BRSR Core. While the disclosures requirement shall be applicable to the top 250 listed entities (by market capitalization), on a voluntary basis from FY 2025-26, the assessment or assurance of the above shall be applicable on a voluntary basis from FY 2026-27.

As the ESG phenomenon is evolving in the Indian corporate environment, SES plans to gradually incorporate ESG parameters into its Proxy Advisory Policy. Nevertheless, SES advocates for companies to undertake the following measures to enhance their ESG efforts:

SN	SES Policy Approach with regard to Corporate Evaluation on Sustainability Issues
1	Whether the companies have any climate transition plans in place along with any specific target achievements and if Board performance is aligned with such climate action plans?
2	Whether the Company has complied with the reporting requirements as applicable?
3	Whether the Company has set any sustainability related targets / goals?
4	Whether Management's Pay at a Company is linked to the Company's sustainability goals?

SES, as a policy, will not support the re-appointment of Board Chairperson and also, the person who is responsible for BRSR reporting if the Company has failed to comply with the BRSR related reporting requirements. Further, for top 250 listed entities, SES will also not support the re-appointment of the Concerned Authority and Board Chairperson if the Company has failed to obtain or disclose the Assessment or Assurance Certificate in the Annual Report as mandated by SEBI.

SES ESG Rating Services:

SES ESG Research Private Limited (SES ESG) is a wholly owned subsidiary of Stakeholders Empowerment Services (SES), a Not-For-Profit and Independent Entity. It was established to meet SEBI Regulations for ESG Rating Providers (ERP) and is registered as a Category II ERP with SEBI as 'Subscriber Pay' Model, effective 25th April, 2024.

Originally, the ESG Rating Business was conducted under SES, which pioneered ESG Ratings in India since 2018-19 and published its first ESG Report in 2019. SES ESG now covers over 720+ companies, with coverage expanding based on client demand. SES has undertaken significant ESG work for both domestic and international clients since 2019.

SCHEDULE I

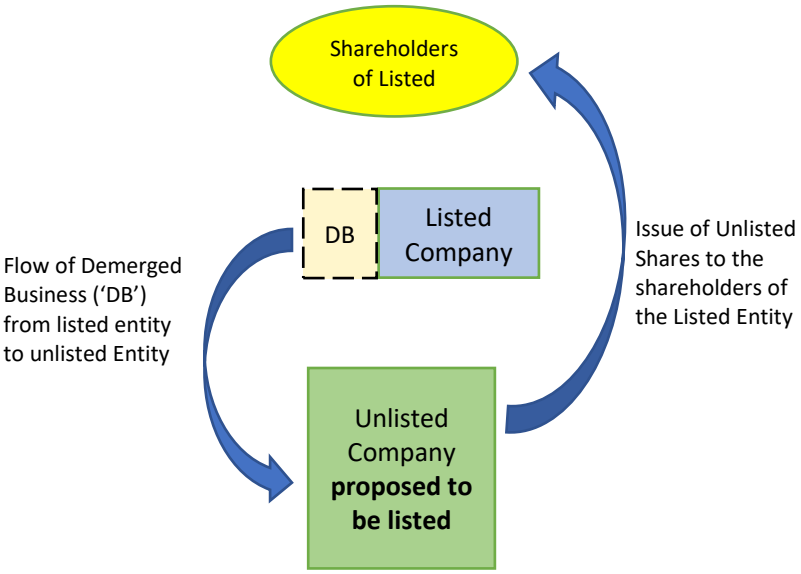
BANKS - RESOLUTIONS FOR ISSUE OF SECURITIES UNDER BASEL III NORMS

With respect to Banks proposing resolutions to raise funds during FY 2025-26 to maintain their (Capital Adequacy Ratio) CRAR / BASEL III Norms, SES shall generally analyse the resolutions on a case to case basis keeping in view the financials of the Bank and whether or not such fund raising would be within prudent limits.

Schedule II

APPROVAL OF SCHEME OF ARRANGEMENT

Case I: Entities seeking relaxation from the strict enforcement of clause (b) to sub-rule (2) of rule 19 of Securities contracts regulations Rules, 1957 (requirements for an IPO), for listing of its equity shares on a recognized Stock Exchange without making an initial public offer including cases where companies are entering into a scheme of arrangement involving a listed company as a party.



Case II: Any Scheme of Arrangement that involves an Unlisted Company, except in cases where the schemes which solely provides for merger of a wholly owned subsidiary ('WOS') or a division of WOS with the Parent Company.

Case III: All cases other than Case I and Case II. Schemes which solely provides for merger of a wholly owned subsidiary with the Parent Company are also exempt from the provision of this Checklist.

The SEBI Circular dated 10th March, 2017 (weblink) spelt out various compliance requirements to be endured by listed Companies involving in a scheme of arrangement. A broad checklist for the same is provided in the table below.

S. No.	Particulars	Scheme of Arrangement		
		Case I	Case II^	Case III
1	The Scheme shall not violate any provision of the Securities Law and requirement of Stock Exchanges.	✓	✓	✓
2	Draft scheme shall be filed with the Stock Exchange for obtaining Observation Letters, before the same is filed with the NCLT.	✓	✓	✓
3	Shares allotted by Unlisted Entity to shareholders of Listed Entity shall be pursuant to Scheme, and not otherwise	✓		
4	At least 25% of the post scheme paid up capital of Transferee Entity shall be allotted to Public Shareholders of Transferor Entity	✓		

5	Shares not to be issued/ reissue any shares not covered in the Scheme	✓		
6	No outstanding instruments that can be converted into equity; if yes, 25% public capital (Under Point 2 above) shall be computed considering such instruments be converted into equity.	✓		
7	Lock-in provisions relating to shares shall be, as provided in the 10th March, 2017 SEBI Circular	✓		
8	Draft Scheme of Arrangement	✓	✓	✓
9	Valuation Report from Registered Valuer, where there is change in shareholding pattern.	✓	✓	✓
10	Report from the Audit Committee recommending the Draft Scheme	✓	✓	✓
11	Fairness opinion by SEBI Registered Merchant banker	✓	✓	✓
12	Pre and post-amalgamation shareholding pattern of unlisted company	✓	✓	✓
13	Audited financials of last 3 years of the Unlisted Company	✓	✓	✓
14	Auditors Certificate on Accounting Treatment as prescribed	✓	✓	✓
15	Disclosure of Draft Scheme of Arrangement & Observation Letters from Stock Exchanges on the website	✓	✓	✓
16	Detailed Compliance Report as per the format specified in Annexure III of the 22nd December 2020 SEBI Master Circular	✓	✓	✓
17	Report on Complaints	✓	✓	✓
18	Approval through e-voting in all schemes	✓	✓	✓
19	Voting by Public Shareholders only in specific cases mentioned in the Clause 9(b) of the 10th March, 2017 SEBI Circular.	✓	✓	✓
20	Details of the Unlisted Entity/ies shall be included in the Explanatory Statement in the format specified for abridged prospectus as provided in Part D of Schedule VIII of the ICDR Regulations	✓	✓	
21	Pre-scheme Public shareholders of Listed Entity and QIBs of Unlisted Entity, in the merged entity shall not be less than 25%.		✓	
22	Details of director who voted in favour and against of the proposal of scheme of arrangement	✓	✓	✓
23	Inter-se Relationship between all the Companies involved in the Scheme of Arrangement	✓	✓	✓
24	Pending investigations or proceeding against the Company under the Companies Act, 2013	✓	✓	✓
25	Details of approvals, sanctions or no-objection(s), if any, from regulatory authorities required, received or pending	✓	✓	✓
26	In case of unpaid dues / fines / penalties, a Report on the Unpaid Dues	✓	✓	✓
27	Pre and post-arrangement capital structure and shareholding pattern in the explanatory statement	✓	✓	✓

Note*: The above provisions of the SEBI Circular 10th March, 2017 shall not apply to schemes which solely provides for merger of a wholly owned subsidiary or its division with the parent company.*

^Despite, fulfilling all the conditions, if the scheme does not disclose the financial details of the Wholly Owned Subsidiary, then in such cases, SES shall recommend shareholders to vote **AGAINST** the resolution.

ID Committee & Audit Committee Recommendation to Scheme and other amendments:

Furthermore, vide SEBI Circular (Weblink) dated 3rd November, 2020, all schemes filed with the stock exchanges after 17 November 2020 would be required to obtain a report from the committee of independent directors recommending the draft scheme, considering, inter alia, that the scheme is not detrimental to the shareholders of the listed entity.

In addition to the requirement of recommending scheme after taking into account valuation report, now the audit committee report is also required to comment on the following:

- Need for the merger/demerger/amalgamation/arrangement
- Rationale of the scheme;
- Synergies of business of the entities involved;
- Impact on the shareholders; and
- Cost benefit analysis.