May 2021

INDIAN BOARDS: STRUCTURE AND BREADTH

INTRODUCTION

"The only safe ship in a storm is leadership"

Faye Wattleton

Boards provide leadership and create value for shareholders.

The existing volatile and uncertain corporate climate demands a board that is capable of overcoming challenges in an effective and timely manner. Conversely, it needs not to interfere, just for the sake of interfering, when the ship is sailing smoothly – this, in itself, is an art. A board comprising of a group of experienced, diverse and skilled directors is better equipped to deal with various situations to develop and implement long-term strategies and protect the rights of stakeholders.

In this study we have analysed the board composition, structure, and board oversight over a period of three years. We last conducted such a study in 2015 where we impressed upon the need of companies to institute balanced boards with the aim of achieving strategic objectives, efficiency, and diversity.

A first look at the data suggests that the more things change the more they stay the same.

Even today, boards continue to have tenured independent directors, thereby compromising the independence of the board. Gender diversity across boards and an enhanced representation of women in executive positions continues to require further attention.

Board composition is difficult to change; independent directors now have a tenure of five years, and most get re-appointed for a further five-year term. Further, regulations 'grandfathered' independent director tenure till 2014, suggesting that the pace of change will be slow.

The regulators continue to do their part and tighten regulations for incorporating sound corporate governance practices. However, the companies too need to work towards instituting balanced and more efficient boards with greater clarity on the role, skill mix and more effective checks and balances. But ultimately effective governance rests with the board who determine its composition and structure. In the long run, this benefits not just the company, but all its stakeholders as well as the society in which the company operates.

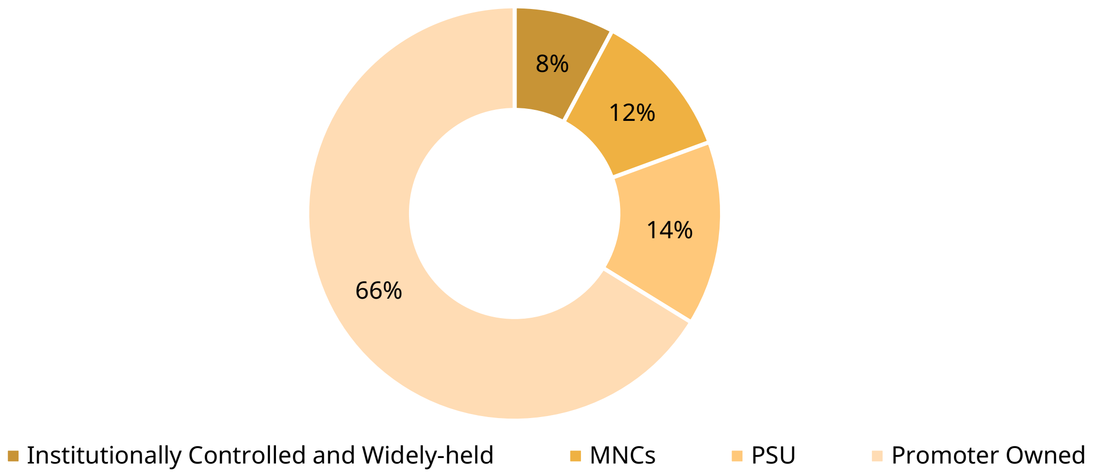
SCOPE OF THE STUDY

In this study[1], IiAS has evaluated the board composition of NIFTY 500[2] companies as on 31 December 2020. These 500 companies account for ~96% of the total market capitalization of the NSE. As on this date these companies had 4,559 directors.

One can argue that some of the directorship gaps cited in this study may be transitory: companies have six months to comply. But rather than look at this as point-in-time data, which it is, we need to put greater focus on the trends.

For the purpose of this study, we have classified companies in four categories: Promoter or family owned, and have used these terms interchangeably (eg AV Birla, Adani, Mahindra's, Tata), Public Sector Undertakings (PSUs), where the shares are held by the government or listed subsidiaries of PSU's (eg ONGC, NTPC, Petronet LNG, State Bank of India). Multi-National Corporations (MNCs) refers to subsidiaries of foreign companies (Hindustan Unilever, Nestle), while 'institutionally controlled and widely-held' refers to both companies that are, as the label suggests institutionally owned and professionally managed and their subsidiaries (eg. ICICI Bank Limited-ICICI Pru Life Insurance or L&T and L&T Infotech).

Exhibit 1: NIFTY 500 Composition by ownership on 31 December 2020



Source: IiAS Research, PRIME Database Group

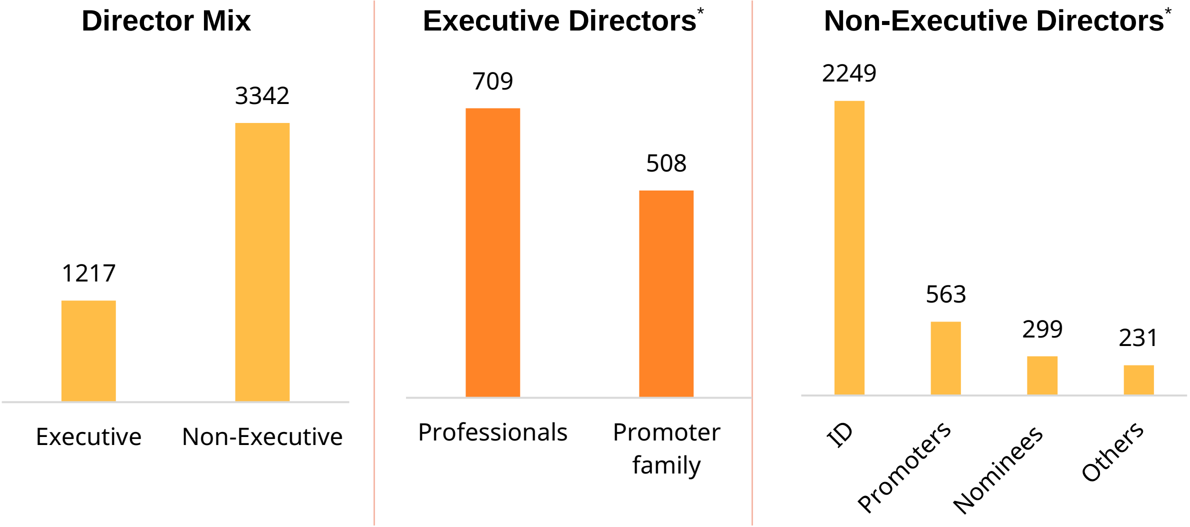
NOTE: Unless otherwise specified 2018 refers to 31 December 2018. Similarly, 2019 refers to 31 December 2019 and 2020 refers to 31 December 2020.

NOTE: SEBI LODR refers to SEBI's Listing Obligations and Disclosure Requirements of 2015 introduced to enable transparency and fair disclosures by all listed entities in India.

[1] *This is the second study. The first study was published 'Board effectiveness: Through the looking glass' was published in December 2015. Link: http://iias.in/ArticleBlog.aspx?title=Board-effectiveness-through-the-looking-glass.aspx*
[2] *Index constituents as on 31 December 2018, 31 December 2019 and 31 December 2020.*

A summary of the data set is provided as Exhibit 2 below.

Exhibit 2: Nature of directorships of NIFTY 500 companies on 31 December 2020



Source: IiAS Research, PRIME Database Group
Promoters include Promoter family and Promoter Representatives.
IiAS classifies nominee directors of the Reserve Bank of India as Independent Directors (ID).
Nominees include representatives of parent companies/organizations, financial institutions, and regulatory bodies on the board.
Others include Non-Executive Directors having past or current ties with the company or the group.

INDEX COMPOSITION

The composition of the NIFTY 500 has changed over the past few years. The decrease in number of PSUs and promoter-controlled companies has made way for an increase in the number of MNCs, and institutionally controlled and widely held companies. Despite this change in mix, promoter-controlled companies continue to dominate the index, accounting for two out of three companies.

Exhibit 3: Trends in the NIFTY 500 index composition over three years

Composition	31 Dec 2018	31 Dec 2019	31 Dec 2020
Institutionally Controlled & widely held	34	37	39
MNCs	46	53	58
PSU	78	72	72
Promoter Owned	342	338	331
Total	**500**	**500**	**500**

Source: IiAS Research, Prime Database Group

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GLOBAL STACK UP: S&P 500 vs NIFTY 500

Because Indian companies are predominantly owned and controlled by promoter families, Independent Directors comprise about 50% of the board composition, following regulatory requirements. However, for US-based companies, the nature and structure of companies is different, with a larger set being owned institutionally and managed professionally. Therefore, board composition for the S&P 500 shows that Independent Directors comprise about 85% of the board.

India is still behind on gender diversity, with women forming 17% of all board directorships of NIFTY 500. While regulations have compelled board to have at least one-woman Independent Director, we believe the conversation needs to now shift quickly to looking at women directors as a share of the overall board composition.

Median ages of directors for both S&P 500 and NIFTY 500 are in the same range, suggesting that both experience and maturity are universal prerequisites to becoming a board member.

Exhibit 4: S&P 500 v NIFTY 500

Particulars	S&P 500	NIFTY 500
Average age of ID (years)	63	64
Average director tenure (years)	7.9	8.2
Average board size	10.7	9.1
IDs as a %	85%	49%
Board Composition		
Women as a % of all directors	28%	17%
Boards with at least one-woman director	100%	95%
Independent Chairperson	34%	22%
Average age of Independent Directors		
Youngest average board age	51.3	40.6
Oldest average board age	83.8	79.3
% of companies with average board age by range		
59 and younger	16%	41%
60-63	46%	38%
64 and older	37%	21%

Source: Spencer Stuart Board Index Report, Prime Database
S&P 500 data is based on proxy year 24 May 2019, through 20 May 2020.
NIFTY 500 data is as on 31 December 2020.

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NIFTY 50 vs NIFTY 500

Although the statistics for NIFTY 50 and NIFTY 500 boards are almost similar, the quality of board members differ significantly. This is, at best, reflected in the ages of directors: NIFTY 50 companies have 74% of their directors above the age of 60 years, compared to 59% for NIFTY 500.

Perhaps the most striking feature is that only 12% of the NIFTY 50 companies have independent chairpersons, far lower than the 22% of the NIFTY 500, which itself is a low number. This speaks to the shake-up in the boards that might be seen as SEBI has reiterated its timeline regarding the separation of the chairman and the CEO role.

Exhibit 5: NIFTY 50 v NIFTY 500

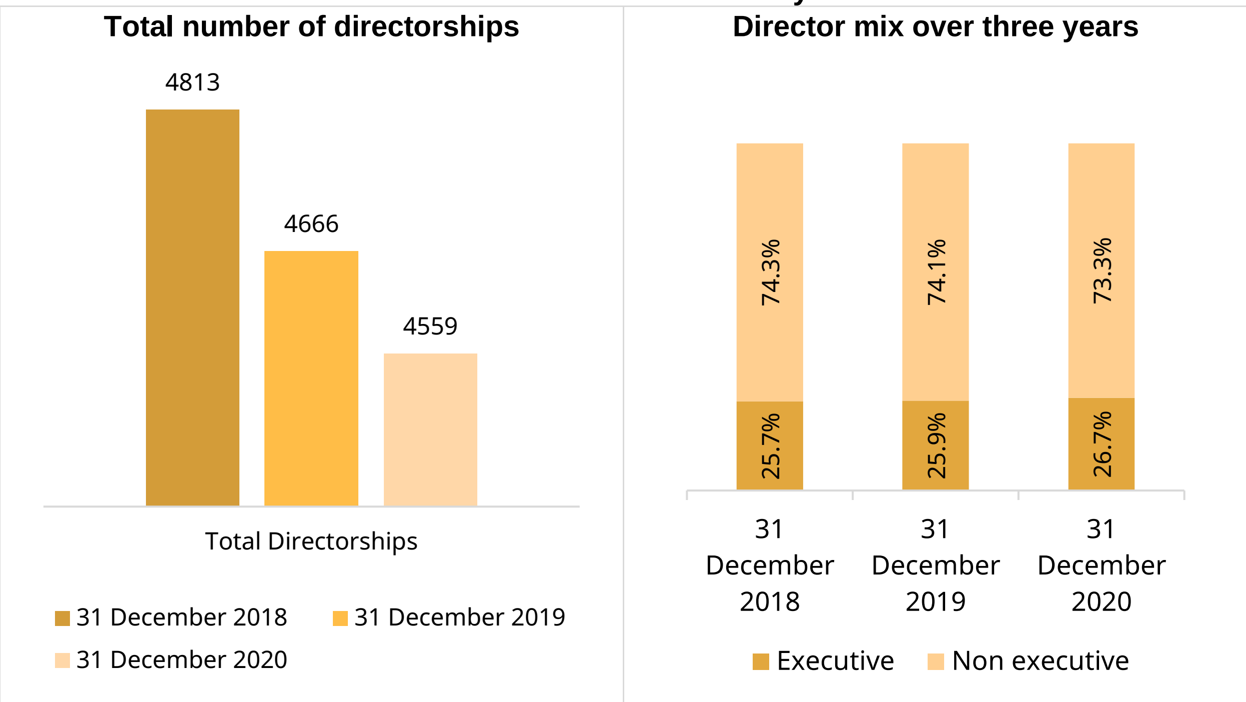
Particulars	NIFTY 50	NIFTY 500
Average age of ID (years)	65	64
Average director tenure (years)	7.9	8.2
Average board size	10.6	9.1
IDs as a %	50%	49%
Board Composition		
Women as a % of all directors	17%	17%
Boards with at least one-woman director	96%	95%
Independent Chairperson	12%	22%
Average age of Independent Directors		
Youngest average board age	55.0	40.6
Oldest average board age	76.7	79.3
% of companies with average board age by range		
59 and younger	26%	41%
60-63	32%	38%
64 and older	42%	21%

Source: Prime Database

DATA TRENDS

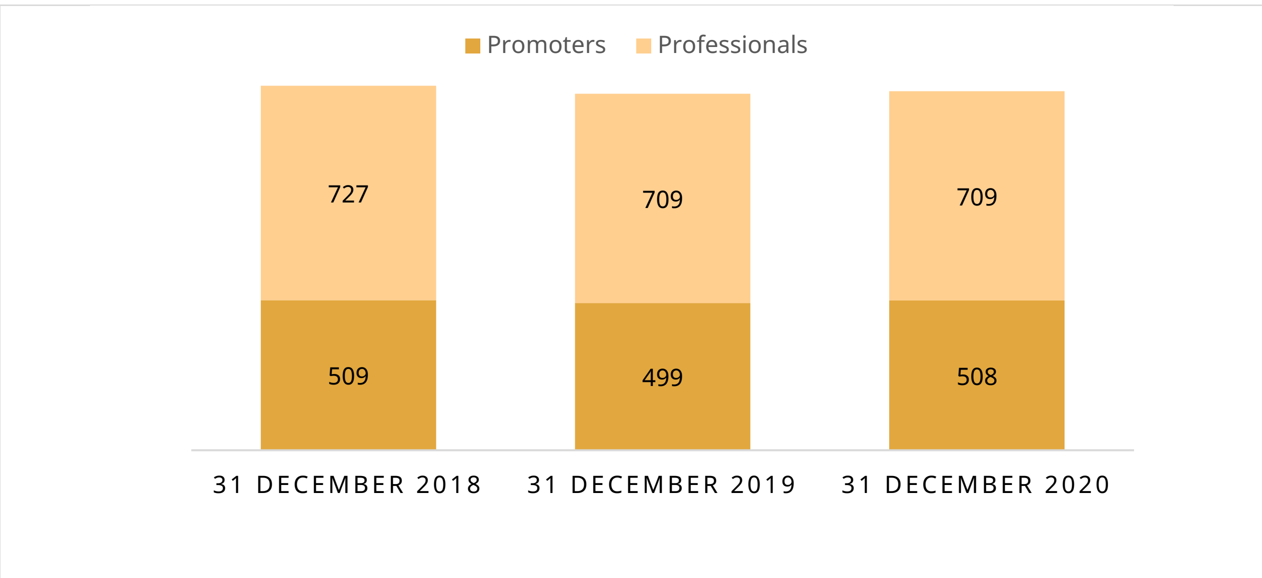
IiAS has reviewed the board data for the past three years (on 31 December 2018, 2019 and 2020). The number of directors has declined by 6% over this period, with 235 fewer non-executive directors, and 20 fewer executive directors. This directly translates into a smaller board size. The average board size which was 9.6 in 2018 has shrunk to 9.1 by 2020.

Exhibit 6: Data trends over three years



Source: IiAS Research, PRIME Database Group

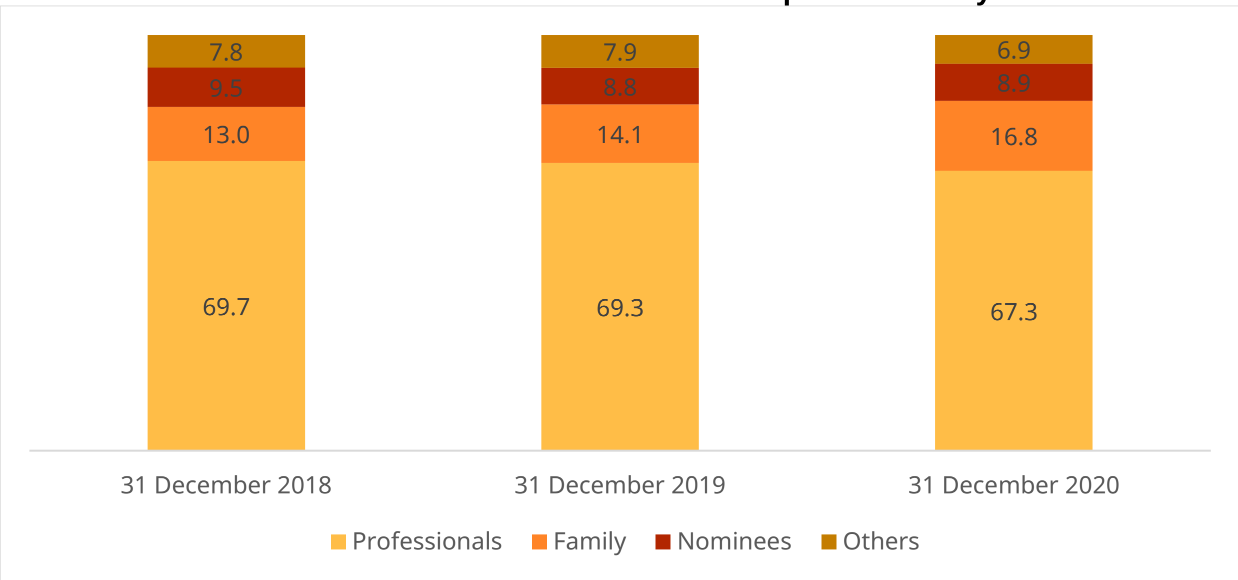
Exhibit 7: Trend in Executive Directorships over three years



Source: IiAS Research, PRIME Database Group

Executive directorships (Exhibit 7) have not witnessed any major change in the mix over the past three years. Professionals continue to account for a large share of the overall executive roles.

Exhibit 8: Trend in Non-Executive Directorships over three years



Source: IiAS Research, PRIME Database Group
Promoters include Promoter family and Promoter Representatives
IiAS classifies nominee directors of the Reserve Bank of India as Independent Directors (ID)
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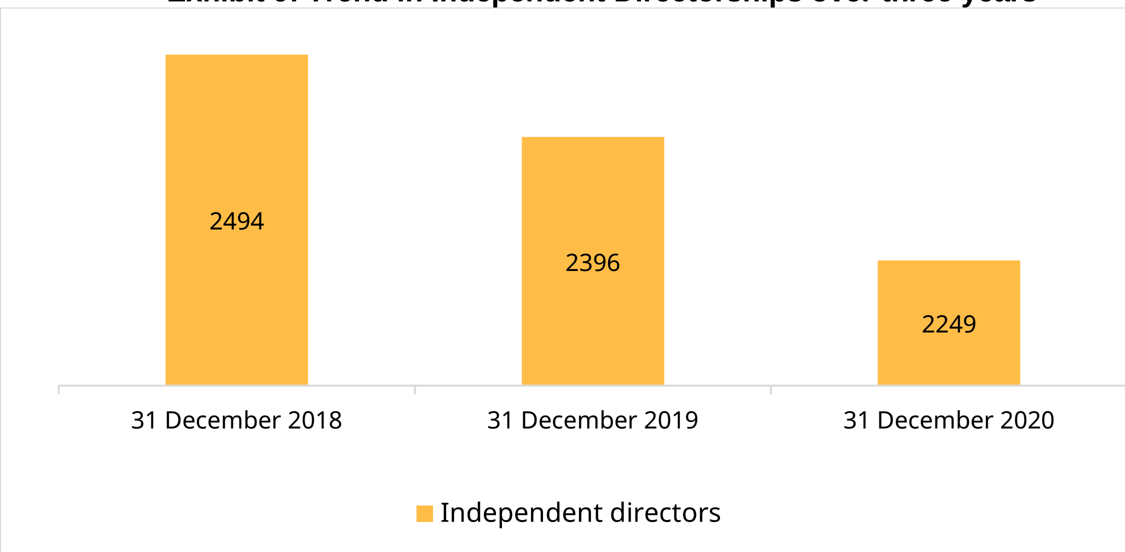
Exhibit 9: Trend in Independent Directorships over three years



Source: IiAS Research, PRIME Database Group

The total number of Independent directors (IDs) have decreased in 2020 as compared to 2019 and 2018 (Exhibit 9). This reduction can mainly be attributed to the reduction in the number of IDs in PSU companies. There were 72 PSU companies as a part of the NIFTY 500 in both 2019 and 2020. Yet the PSUs forming part of NIFTY 500 had 133 fewer IDs in 2020 compared to the earlier year[3]. This large number of PSUs also explains the presence of the large number of nominee directors.

As highlighted in our report Investors' signal that regulators must enforce board composition norms for PSEs, PSUs have not been complying with board composition norms for a while now. IiAS believes that an independent and robust board is essential to improve the efficiency and productivity of PSUs.

The other reason for the decrease in IDs has been churn in the companies forming part of NIFTY 500 over this period. The outgoing companies in the NIFTY 500 in 2020 when compared to 2019 had 208 IDs on their boards while the incoming companies had 188 ID, whereas when compared to 2018, the outgoing companies in 2020 had 395 IDs on their boards while the incoming companies had 331 IDs.

The increase in promoter directorships (563 for 2020 versus 486 for 2019 and 464 for 2018) is explained mainly by the composition change in the NIFTY 500. The incoming companies for 2020 had 75 promoter and promoter representatives on the board whereas the outgoing companies for 2019 had 48 promoters and promoter representatives on their boards. Similarly, the incoming companies for 2020 had 125 promoter and promoter representatives on the board whereas the outgoing companies for 2019 had 73 promoters and promoter representatives on their boards.

[3] In 2018 there were 78 PSUs included as a part of NIFTY 500 and those that remained in the NIFTY 500 in 2020 had 173 fewer IDs.

BOARD STRUCTURE AND INDEPENDENCE

The boards play a crucial role providing both oversight on the business and in promoting robust governance practices. Long-term performance and growth often hinge on the effectiveness of the board. A board is truly effective when it has adequate checks and balances through a balanced mix of independent and non-independent directors.

Regulations (refer Exhibit 10) require that a listed public company's board having a non-executive Chairperson, should have at least 33% of the total number of directors as independent directors. Where the chairperson is a promoter or an executive director 50% of the total number of directors should be independent directors.

The expectation is that the presence of an adequate number of independent directors on the board will ensure that the discussion is more broad-based, with multiple perspectives, and that decisions taken are unbiased and interests of all the stakeholders, including minority shareholders have been taken into account.

Exhibit 10: Board composition requirements for listed companies

Companies Act 2013 Section 149(4): Every listed public company shall have at least one-third of the total number of directors as independent directors. SEBI LODR Regulation 17(1): Where the chairperson of the Board of Directors is a non-executive director, at least one-third of the Board of Directors shall comprise of independent directors and where the listed entity does not have a regular non-executive chairperson, at least half of the Board of Directors shall comprise of independent directors. Provided that where the regular non-executive chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the level of Board of Director or at one level below the Board of Directors, at least half of the Board of Directors of the listed entity shall consist of independent directors. Regulation 17(2): The Board of directors of the top 1000 listed entities shall have at least one independent woman director by April 1, 2020.*

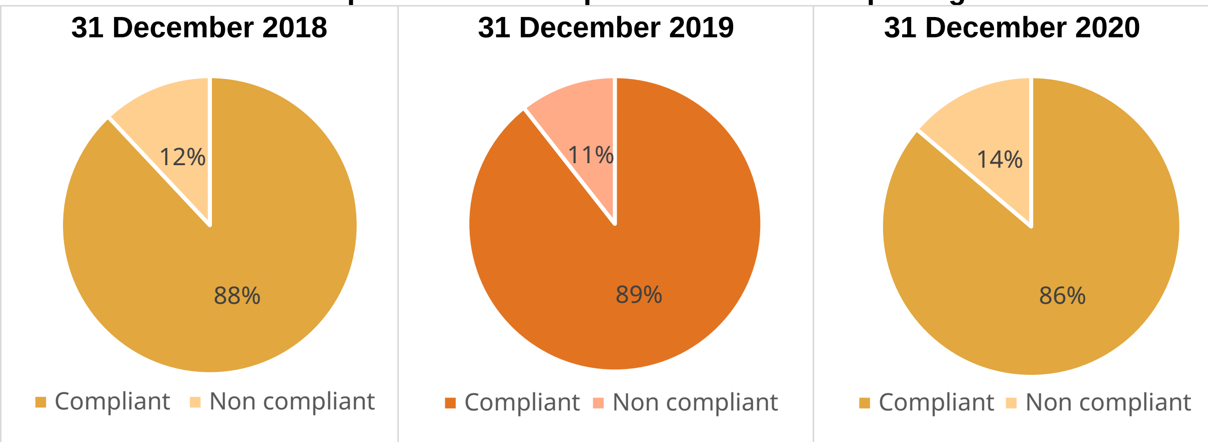
*The board composition requirements with regards to presence of independent women directors on board has been addressed separately under the section 'Women in Boardrooms'

One consequence of the absence of an adequate number of independent directors on a board means companies are non-compliant with board composition norms as per regulations.

On 31 December 2020, 14% (70 companies) were non-compliant with board composition norms (Exhibit 11). Out of these 70 companies, 55 companies were PSUs. Board independence has long been a problem for PSUs. For 2020, PSUs in the NIFTY 500 companies, needed to appoint around 141 independent directors to their board to be in compliance with the listing guidelines.

The Government being the controlling shareholder in PSUs, directs all board appointments, including selecting the independent directors whose names are put to the general body to vote. All director appointments are made by the administrative Ministry of the Government, and these are seldom timely. PSU boards and their NRC's need to have greater autonomy in establishing independent mechanisms for identifying and selecting independent directors.

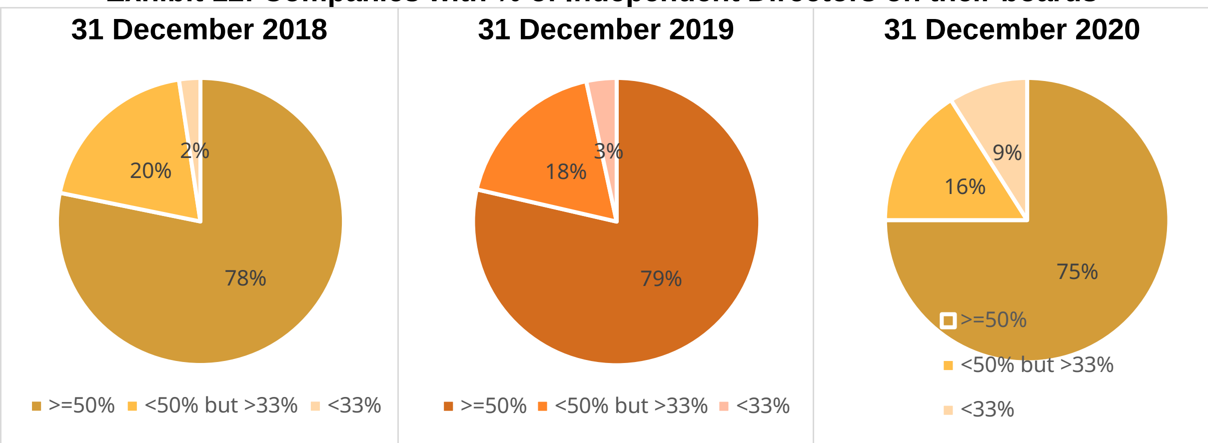
Exhibit 11: Compliance with independence norms as per regulations



Source: IiAS Research, PRIME Database Group

In 2020, 375 companies out of the NIFTY 500 had boards comprising Independent Directors to be 50% or more of the board strength. Out of these companies 296 had a Chairperson who was an Executive Director and/or promoter director.

Exhibit 12: Companies with % of Independent Directors on their boards



Source: IiAS Research, PRIME Database Group

When it comes to tenured directors, for 2020, 245 companies out of the NIFTY 500 companies had at least one tenured independent director on their board. For 2020, out of the NIFTY 500 companies, four companies had IDs with tenure greater than 40 years and 19 companies had IDs with tenure greater than 30 years on their boards (Exhibit 15). Even so, the number of tenured directors in 2020 is lower than 2018 levels.

Companies have used the regulation requiring shareholder validation of directorship beyond the age of 75 years to retire tenured directors and refresh the board. This was one more avenue that allowed for board refreshment in a staggered manner: in 2024, all boards of listed companies will have Independent Directors with an aggregate tenure of 10 years or less.

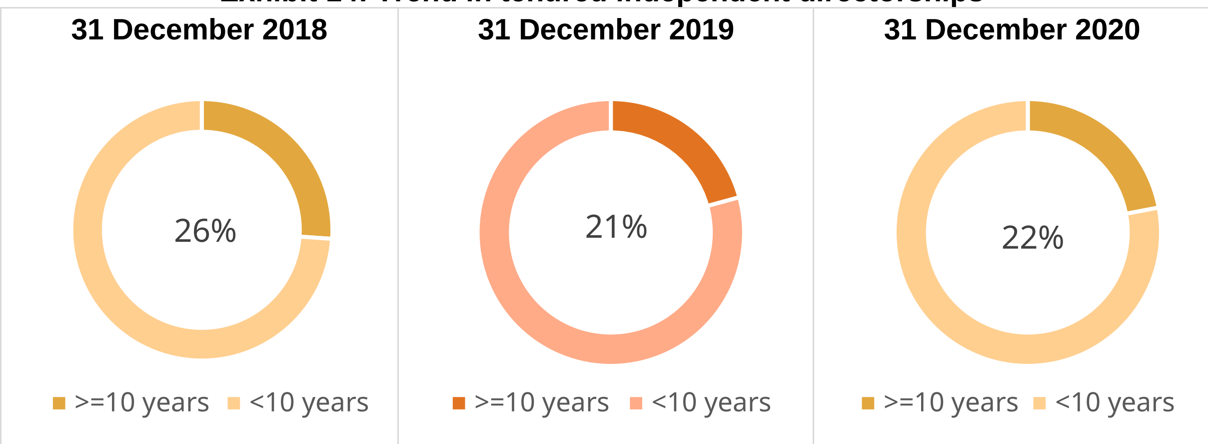
IiAS believes that an independent director's ability to express independent and unbiased views is inversely correlated to tenure. A longer association leads to increased familiarity and ownership over decisions, which may consequently limit the director's ability to radically change course whenever required. Indian regulations define independence as a period of not more than 10 years – but, in beginning the clock from 1 April 2014, it has provided corporate India with a decade to refresh their boards.

IiAS has not supported the re-appointment of tenured directors. IiAS classifies Independent directors with over 10 years on a company's board as non-independent and recommends voting against their re-appointment. However, as per regulations, such directors continue to be classified as independent. The argument that companies make for having tenured directors is the quality of their contribution to board deliberations and their institutional memory – indeed, these are valid justifications for having these board members continue. In such circumstances, IiAS recommends that companies classify such tenured Independent directors (with an association in excess of 10 years) as Non-Executive Non-Independent Directors.

Exhibit 13: Regulation 17(1A) of SEBI LODR on age threshold for non-executive directors

No listed entity shall appoint a person or continue the directorship of any person as a non - executive director who has attained the age of seventy-five years unless a special resolution is passed to that effect, in which case the explanatory statement annexed to the notice for such motion shall indicate the justification for appointing such a person.

Exhibit 14: Trend in tenured independent directorships



Source: IiAS Research, PRIME Database Group

Exhibit 15: Companies with IDs having tenure of over 30 years on 31 December 2020

Company Name	Director Name	Tenure
Pfizer Ltd.	Rajendra Shah	55
BASF India Ltd.	Rajendra Shah	53
JK Tyre & Industries Ltd.	Arvind Mewar	46
TTK Prestige Ltd.	Vandana Walvekar	46
Alkyl Amines Chemicals Ltd.	Shyam Ghia	40
Alkyl Amines Chemicals Ltd.	Dilip Piramal	40
Vardhman Textiles Ltd.	Praful Shah	40
KSB LTD.	Dara Damania	39
Elgi Equipments Ltd.	Narayan Nambiar	38
Procter & Gamble Health Ltd.	Suresh Talwar	37
Bajaj Electricals Ltd.	Harsh Vardhan Goenka	36
Sudarshan Chemical Industries Ltd.	Dara Damania	36
Godfrey Phillips India Ltd.	Lalit Bhasin	35
Polyplex Corp. Ltd.	Brij Soni	35
Bajaj Finance Ltd.	Dipak Kumar Poddar	34
Bajaj Finance Ltd.	Ranjan Sanghi	34
Bharat Forge Ltd.	Shobhan Thakore	34
V.I.P.Industries Ltd.	Dipak Kumar Poddar	33
Alkyl Amines Chemicals Ltd.	Shobhan Thakore	32
Godfrey Phillips India Ltd.	Anup Kothari	32
JK Tyre & Industries Ltd.	Bakul Jain	32
Phillips Carbon Black Ltd.	Om Malhotra	32
Aarti Industries Ltd.	Ramdas Gandhi	31
Garware Technical Fibres Ltd.	Ramesh Telang	31
Nilkamal Ltd.	Mahendra Doshi	30

Source: IiAS Research, PRIME Database Group

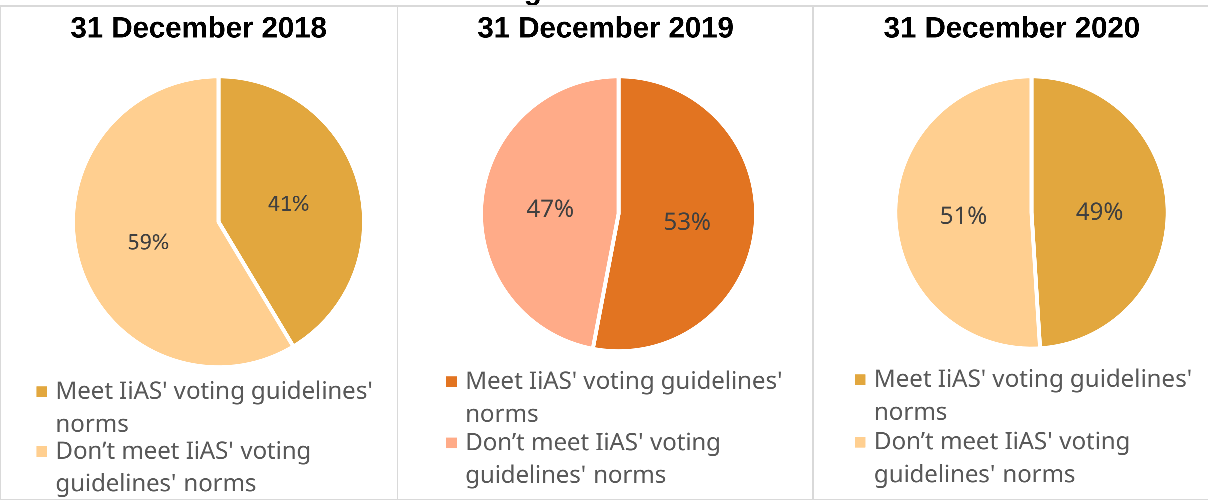
Exhibit 16: Trend in tenured IDs (having tenure of 10 years or more) on boards

Tenure of IDs	2018	2019	2020
>40 years	8	5	4
40-30 years	27	18	21
20-30 years	74	52	52
>=10-20 years	542	422	418
Total	**651**	**497**	**495**

Source: IiAS Research, PRIME Database Group

If IiAS were to classify all tenured Independent Directors (with a tenure in excess of 10 years) as non-independent, several companies, while being legally compliant, would not meet regulatory thought on board independence.

Exhibit 17: Companies which meet independence norms as per IiAS' voting guidelines[4]



Source: IiAS Research, PRIME Database Group

Out of the NIFTY 500 companies, in 2020, there are 256 companies (Exhibit 17) that do not meet independence norms as per IiAS' voting guidelines. Of these 256 companies, 169 companies are promoter owned companies. Promoter-owned companies must make way for new independent directors on their boards who are likely to bring a fresh perspective and direction to the board discussions. Alternatively, as mentioned earlier, if the company is of the opinion that they could benefit from the experience and skills of a tenured Independent Director, they must appoint the director as a Non-Independent Non-Executive Director rather than an Independent Director.

Exhibit 18: Companies that do not meet regulatory requirements through on board independence on 31 December 2020

Composition	As per Regulations	As per IiAS' classification
Institutionally Controlled & widely held	5	10
MNCs	1	22
PSU	55	55
Promoter Owned	9	169
Total	**70**	**256**

Note: for the purpose of this discussion, IiAS has classified all tenured independent directors as non-independent and assessed board composition accordingly.
Source: IiAS Research, PRIME Database Group

[4] IiAS voting guidelines

BOARD SIZE

Regulations (Refer Exhibit 19) require the board of public companies to comprise minimum 3 directors and maximum 15 directors. The size of the board may be increased by seeking shareholder approval.

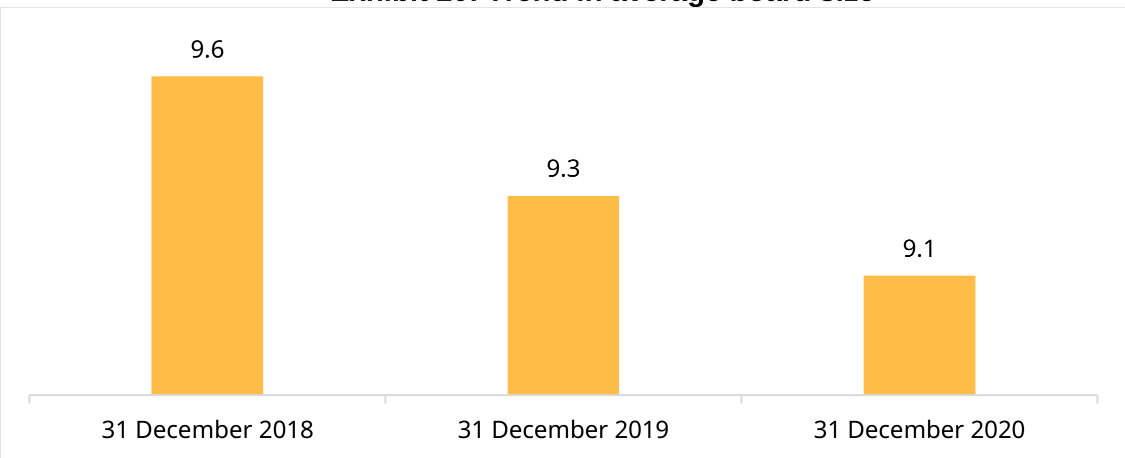
Exhibit 19: Board size of public companies

Companies Act Section 149 (1): Every company shall have a Board of Directors consisting of individuals as directors and shall have – (a) a minimum number of three directors in the case of a public company, two directors in the case of a private company, and one director in the case of a One Person Company; and (b) a maximum of fifteen directors. SEBI LODR Regulation 17(1) (c): The Board of Directors of the top 2000 listed entities shall comprise of not less than six directors (with effect from 1 April 2020)

A board's size does not necessarily determine its effectiveness. On one hand large boards may be more diverse and benefit from varied perspectives. However, at the same time they may not be able to achieve consensus on issues expediently. In some situations, the board size may increase when companies insist on having numerous promoter family members on board or persons with a similar background (- for example retired bureaucrats on PSU Boards). This may lead to groupthink and limit the advantage of diverse perspectives that is offered by larger boards.

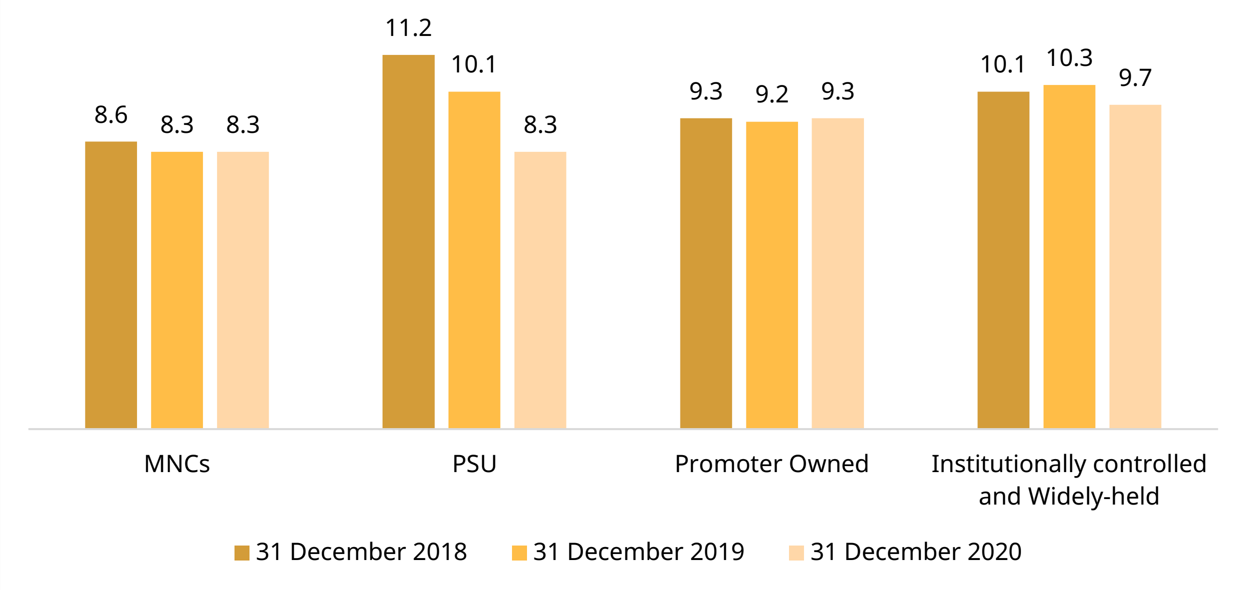
In comparison to the average board size of 9.6 directors for 2018, Corporate India is now at an average board size of 9.1 directors for 2020 (Exhibit 20). This is mainly due to the lack of Independent Directors on the boards of PSU companies on 31 December 2020.

Exhibit 20: Trend in average board size



Source: IiAS Research, PRIME Database Group

Exhibit 21: Ownership wise trend in average board size



Source: IiAS Research, PRIME Database Group

As already discussed in the section on Board Structures and Independence, the expectation is that the presence of an adequate number of independent directors on the board will ensure that the discussion is more broad-based, with multiple perspectives, and that decisions taken are unbiased and interests of all the stakeholders, including minority shareholders. There are a few instances of small board sizes among the NIFTY 500 companies. These and the largest are shown in Exhibit 22.

Exhibit 22: Companies with small and large boards on 31 December 2020

	Company Name	Company classification	Board Size	Promoter representation as % of the board size	Board compliance under regulations
Smallest	Mishra Dhatu Nigam	PSU	3	33%	No
	Indian Overseas Bank	PSU	4	25%	No*
	Indian Bank	PSU	5	20%	No*
	Housing & Urban Development Corp. Ltd	PSU	5	40%	No
	NHPC Ltd	PSU	5	20%	No
	Power Finance Corp Ltd	PSU	5	20%	No
	REC Ltd	PSU	5	40%	No
	UCO Bank	PSU	5	40%	No
Largest	Larsen & Toubro Ltd.	Institutionally controlled and widely held	19	-	Yes**
	Jagran Prakashan Ltd.	Promoter owned	18	39%	Yes**
	Aarti Industries Ltd.	Promoter owned	16	31%	Yes**
	Bajaj Auto Ltd.	Promoter owned	16	38%	Yes**
	Emami Ltd.	Promoter owned	16	50%	NA
	DLF Ltd.	Promoter owned	15	13%	Yes
	Century Plyboards (I) Ltd	Promoter owned	15	40%	Yes
	Ambuja Cements Ltd	MNC	15	33%	Yes

**Since complied **Board size approved by shareholders;* Articles allow board size to be more than 15 directors.
Source: IiAS Research, PRIME Database Group

For a business-like L&T that has several business verticals, there is a legitimate reason for a large board. However, in most instances, large board sizes are driven by having more members of the promoter family on the board.

A high promoter representation on board deprives the board of an unbiased view on company's operations. On 31 December 2020, 22 of the NIFTY 500 companies had a promoter family representation of 50% or higher (Exhibit 23).

Boards ideally should comprise of diverse individuals capable of challenging the board on issues, when required, and those who can participate in constructive discussions and take objective decisions. This is not to say these directors are not effective, but family dynamics edging into the board room, cannot be ruled out.

Exhibit 23: Companies with high promoter family representation on boards on 31 December 2020

Company Name	Board Size	Promoter Family	Promoter representation as % of the board size
Kaveri Seed Co. Ltd.	9	5	56%
Emami LTD.	16	8	50%
MRF LTD.	14	7	50%
Alkem Laboratories Ltd.	12	6	50%
Himadri Speciality Chemical Ltd.	12	6	50%
Nilkamal Ltd.	12	6	50%
Apollo Hospitals Enterprise Ltd.	10	5	50%
FDC Ltd.	10	5	50%
Fine Organic Industries Ltd.	10	5	50%
Kolte-Patil Developers Ltd.	10	5	50%
NCC Ltd.	10	5	50%
Venky's (India) Ltd.	10	5	50%
Aegis Logistics Ltd.	8	4	50%
Ajanta Pharma Ltd.	8	4	50%
Dalmia Bharat Ltd.	8	4	50%
Vinati Organics Ltd.	8	4	50%
Westlife Development Ltd.	8	4	50%
Amara Raja Batteries Ltd.	6	3	50%
Bliss GVS Pharma Ltd.	6	3	50%
D. B. Corp Ltd.	6	3	50%
Heritage Foods Ltd.	6	3	50%
KNR Constructions Ltd.	6	3	50%

Source: IiAS Research, PRIME Database Group

BOARD OVERSIGHT

A Chairperson leads a board and ensures that the board functions effectively. Chairpersons are handed the task of ensuring that board discussions are productive and fruitful.

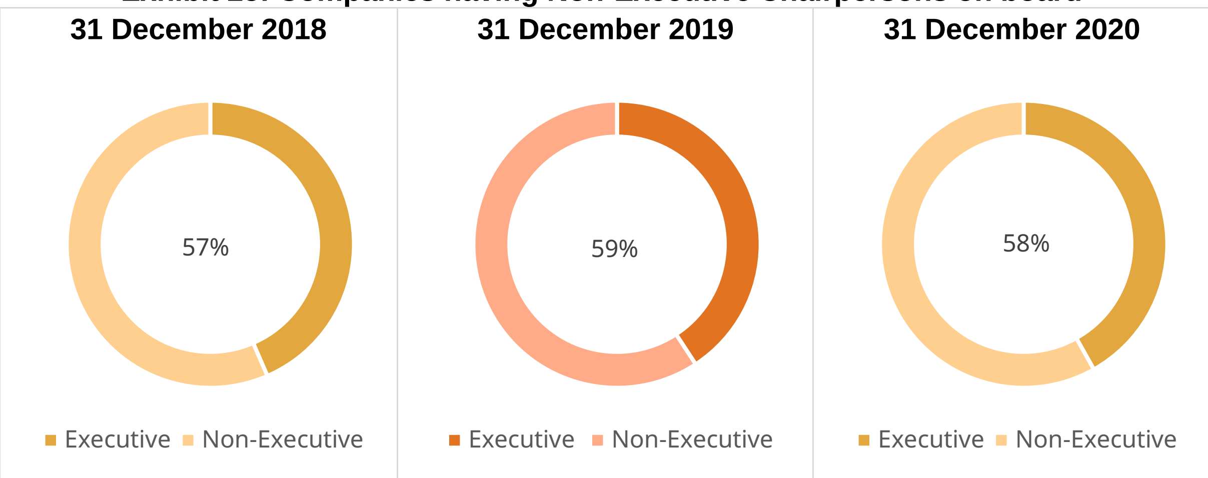
Globally as well as in India, companies are increasingly expected to appoint non-executive and independent chairpersons. As per a recent amendment to SEBI LODR (Refer Exhibit 24), companies need to separate the roles of Chairperson and Managing Director effective 1 April 2022.

Exhibit 24: Separation of roles of Chairperson and Managing Director

SEBI LODR Regulation 17(1B): With effect from [April 1, 2022] the top 500 listed entities shall ensure that the Chairperson of the board of such listed entity shall - (a) be a non-executive director (b) not be related to the Managing Director or the Chief Executive Officer as per the definition of the term “relative” defined under the Companies Act, 2013: Provided that this sub-regulation shall not be applicable to the listed entities which do not have any identifiable promoters as per the shareholding pattern filed with stock exchanges.

In 2020, 286 of the NIFTY 500 companies had Non-Executive Chairpersons, of which 249 companies had Chairpersons not related to the Managing Director or CEO of the company (Refer Exhibit: 25).

Exhibit 25: Companies having Non-Executive Chairpersons on board



Source: IiAS Research, PRIME Database Group

There is a growing trend among Indian companies to appoint a Chairperson Emeritus. This title usually goes to the company’s founders or an individual who has been in the company for a longish period and contributed significantly to its growth. The Chairperson Emeritus is not recognized in the Companies Act, but some are permanent invitees to the company’s board meeting without having the authority to vote at such meetings. 14 of the NIFTY 500 companies had a Chairperson Emeritus at the end of 2020.

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Exhibit 26: Chairpersons Emeritus on NIFTY 500 companies on 31 December 2020

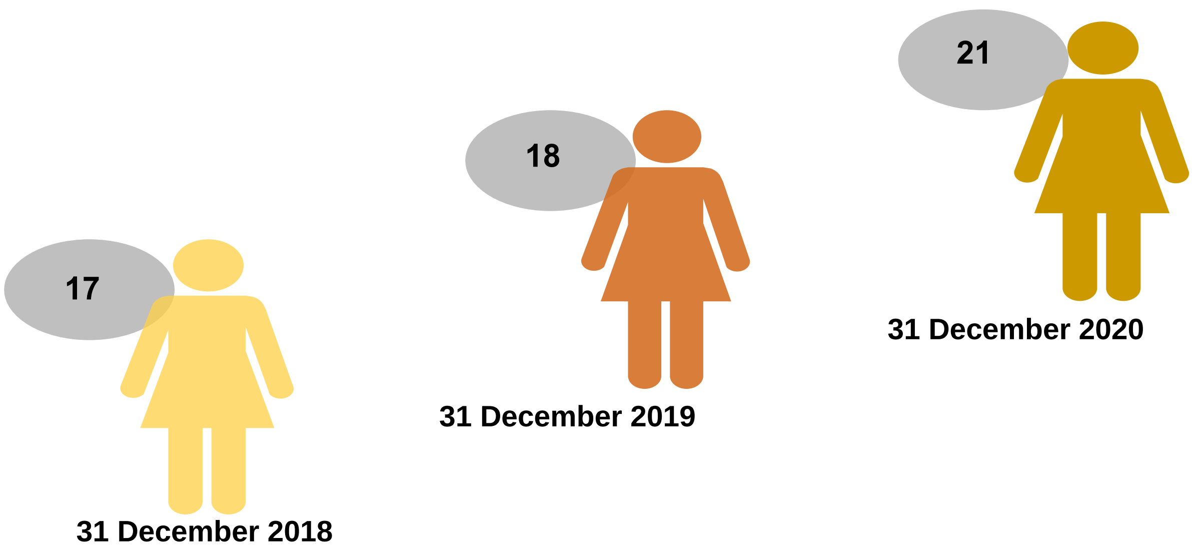
Company Name	Director Name	Classification
Bajaj Finserv Ltd	Rahul Kumar Bajaj	Promoter
Bajaj Holdings & Investment Ltd	Rahul Kumar Bajaj	Promoter
Blue Star Ltd	Suneel Advani	Promoter
DLF Ltd	Kushal P Singh	Promoter
Godrej Consumer Products Ltd	Adi Godrej *	Promoter
Jyothy Labs Ltd	M P Ramchandran	Promoter
Nilkamal Ltd	Vamanrai Parekh	Promoter
Torrent Pharmaceuticals Ltd	Sudhir Mehta	Promoter
Torrent Power Ltd	Sudhir Mehta	Promoter
V-Guard Industries Ltd	Kochouseph Chittilapilly	Promoter
Zee Entertainment Enterprises Ltd	Subhash Chandra	Promoter
Tata Motors Ltd	Ratan Tata	Promoter
Tata Chemicals Ltd	Ratan Tata	Promoter
Tata Steel Ltd	Ratan Tata	Promoter

**Chairman Emeritus and Executive Director*
Source: IiAS Research, PRIME Database Group, Tata Steel Leadership structure

With the regulation requiring separation of Chairperson and Managing Director coming into force from 1 April 2022, given their experience and value addition companies may seek to appoint their long-standing directors/promoters as Chairperson Emeritus. This could also lead to creation of two power centers leading to potential conflicts.

An area that needs attention is appointing women as Chairpersons of the board. Only 21 companies out of the NIFTY 500 companies had a female Chairperson in 2020, despite the steadfast increase in women directorships over the years.

Exhibit 27: No. of Female Chairpersons on NIFTY 500 boards



Source: IiAS Research, PRIME Database Group

Exhibit 28: Companies with Women Chairpersons on 31 December 2020

Company	Director Name	Classification
Biocon Ltd	Ms. Kiran Mazumdar Shaw	Promoter
Birlasoft Ltd	Ms. Amita Birla	Promoter
Capri Global Capital Ltd	Ms. Bhagyam Ramani	Non-Executive Director (ID)
Federal Bank Ltd	Ms. Grace Elizabeth Koshie	Non-Executive Director (NED)
Glaxosmithkline Pharmaceuticals Ltd	Ms. Renu Sud Karnad	Non-Executive Director (NED)
Godrej Consumer Products Ltd	Ms. Nisaba Adi Godrej	Promoter
HCL Technologies Ltd	Ms. Roshni Nadar Malhotra	Promoter
HDFC Bank Ltd	Ms. Shyamala Gopinath	Non-Executive Director (ID)
Heidelbergcement India Ltd	Ms. Akila Krishnakumar	Non-Executive Director (ID)
Hindustan Zinc Ltd	Ms. Kiran Agarwal	Promoter
ICICI Lombard General Insurance Co. Ltd	Ms. Lalita Gupte	Non-Executive Director (ID)
Indian Bank	Ms. Padmaja Chunduru	Executive Director
J.K.Cement Ltd	Ms. Sushila Devi Singhania	Promoter
Lupin Ltd	Ms. Manju Gupta	Promoter
Steel Authority of India Ltd	Ms. Soma Mondal	Executive Director
Shipping Corp. of India Ltd	Ms. Harjeet Kaur Joshi	Executive Director
Syngene International Ltd	Ms. Kiran Mazumdar Shaw	Promoter
Tata Communications Ltd	Ms. Renuka Ramnath	Non-Executive Director (ID)
Thermax Ltd	Ms. Meher Pheroz Pudumjee	Promoter
Trident Ltd	Ms. Pallavi Shroff	Non-Executive Director (ID)
Venky's (India) Ltd	Ms. Anuradha Desai	Promoter

ID: Independent Director, NED: Non-executive Non-independent director
Source: IiAS Research, PRIME Database Group

BOARD SKILLS AND EXPERIENCE

Each director brings a set of skills and experience to the board. Experience plays a pivotal role when it comes to tackling challenges or planning the long-term strategy of a company.

While all the NIFTY 500 companies comply with the requirement of minimum age of directors, 9 companies have directors who are aged less than 30 years and 27 companies have directors who between 30 and 35. All these are promoter-owned companies. IiAS believes that age is not a criterion for appointment. However, the lack of experience of such young directors may prove to be an impediment in the effective discharge of their duties. We encourage promoters to not look at board seats as training grounds for the next generation.

Exhibit 29: Youngest directors on NIFTY 500 companies for 31 December 2020

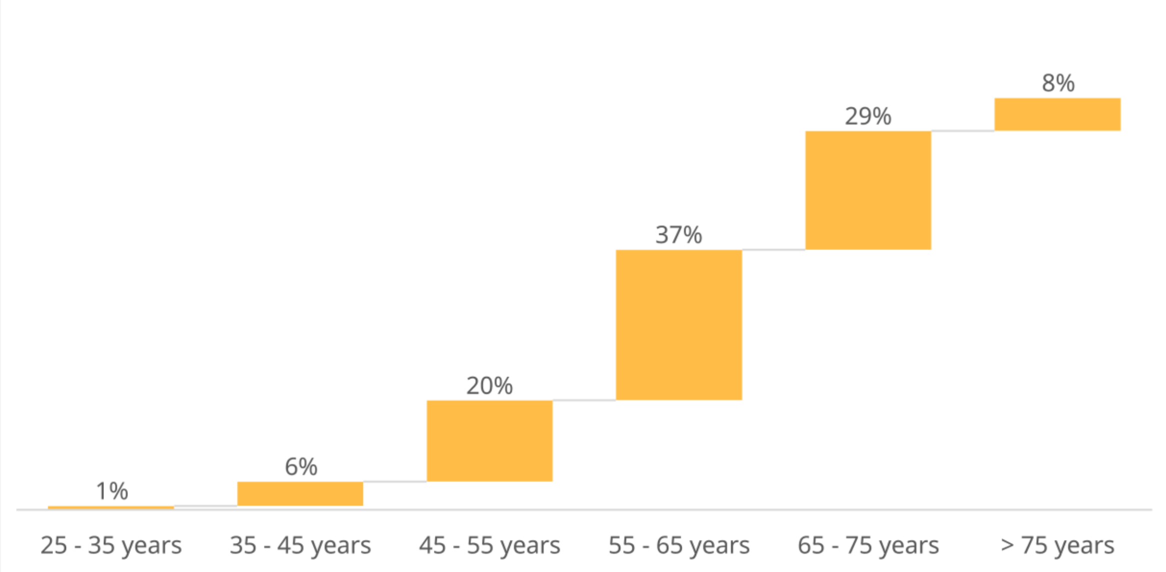
Company Name	Director Name	Classification	Age (in years)
Godfrey Phillips India Limited	Ruchir Kumar Modi	Promoter	25
EPL Ltd.	Aniket Damle	Promoter Representative	26
Adani Green Energy Ltd.	Sagar Adani	Promoter	27
Sun TV Network Ltd	Kaviya Maran	Promoter	27
Lemon Tree Hotels Ltd	Aditya Keswani	Promoter	28
Kei Industries Ltd.	Akshit Gupta	Promoter	29
Sterling & Wilson Solar Ltd.	Pallon Mistry	Promoter	29
IOL Chemicals & Pharmaceuticals Ltd.	Vikas Gupta	Promoter	29
Nilkamal Ltd.	Mihir Parekh	Promoter	29

Source: IiAS Research, PRIME Database Group

For 2020, 52% of the total directors on NIFTY 500 boards were aged 60 years and above and 19% were aged 70 years and above. Further, 12 companies still had directors aged 90 years and above on their boards (Exhibit 31). Globally boards have started disclosing a mandatory retirement age for their directors. In 2020, 70% of the US S&P 500[5] boards reported a mandatory retirement policy. Indian companies must consider introducing a mandatory retirement policy for their boards.

[5] Source: Spencer Stuart Board Index Report

Exhibit 30: Age wise grouping of directors on boards of NIFTY 500 companies on 31 December 2020



Source: IiAS Research, PRIME Database Group

Exhibit 31: Oldest directors on boards of NIFTY 500 companies on 31 December 2020

Company Name	Director Name	Classification	Age(years)
Birla Corporation Ltd	Dhruba Ghosh	Non-Executive Director	92
DLF Ltd	Dharam Kapur	Non-Executive Director	92
Emami Ltd	Yogendra Trivedi*	Non-Executive Director	92
EIH Ltd	Prithvi Raj Oberoi	Promoter	92
Gujarat Fluorochemicals Ltd	Devendra Jain	Promoter	92
Maruti Suzuki India Ltd	Osamu Suzuki	Promoter	91
Pfizer Ltd	Rajendra Shah++	Independent Director	90

Source: IiAS Research, PRIME Database Group
**Yogendra Trivedi is also on the boards of Reliance Industries Ltd and Supreme Industries Ltd.*
++Rajendra Shah is also on the boards of Atul Ltd, BASF India Ltd. and Godfrey Phillips India Ltd.

Apart from experience, another parameter adopted for assessing board composition and effectiveness is assessment of the skills possessed by the directors on company boards.

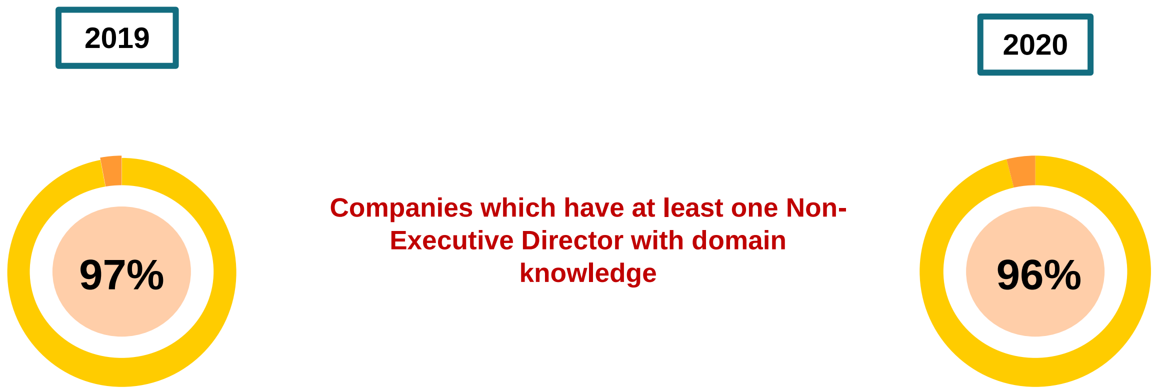
The current complex business environment requires that boards be composed of individuals possessing diverse skills to effectively guide the management of the company. Companies need to go beyond the traditional skill sets while conducting their assessment frameworks – finance, audit, marketing, business management, human resources, international markets, general administration, legal and information technology (IT). Given the increasing importance of digital and new age technology, and focus on cyber security, companies need to bring in board members having a background/experience in digital technology, who can update themselves on a regular basis and those who understand changing demographics.

Additionally, environment, social, digital, mergers and acquisition, supply chain are mainstream skills today.

Further, having directors who have run a P&L account is beneficial. They are better equipped to advise the management on strategic and operational decisions to be taken.

Another important skill is an understanding of the core business of the company. The boards must also assess whether there are non-executive directors on board that understand the core business of the company. The focus on understanding the core business emanates from lessons of global failures. Boards need to have directors that can challenge the management, if required, on critical business decisions. Most boards (96%) in the BSE 100 have non-executive directors that understand the core business.

Exhibit 32: BSE100 companies with board skills and non-executive directors having domain knowledge



Source: IiAS corporate governance study 2020; represents BSE 100 companies

SEBI has also widened its perspective and brought in skill diversity as an element of board construct. This was done with the objective of improving transparency. The regulation now requires companies to articulate the set of skills possessed by directors (Refer: Exhibit 33).

Exhibit 33: Regulatory Snapshot- Skill matrix and mapping

SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015: As per the 2018 Amendment, under Schedule V, every listed entity should disclose in its annual report, a chart or a matrix setting out the skills/expertise/competence of the board of directors, specifying: (i) list of core skills/expertise/competencies identified by the board of directors as required in the context of its business(es) and sector(s) for it to function effectively, and those actually available with the board, with effect from financial year ended March 31, 2019; and (ii) names of directors who have such skills/expertise/competence, with effect from financial year ended March 31, 2020.

However, despite this regulatory push IiAS has observed that several companies are not complying with the spirit of the regulation. Several companies disclose that all directors have all relevant skills required for the business without providing a director wise classification of skills. Not every single director can possess the entire gamut of skills. When it comes to PSUs, many companies do not disclose a skill matrix citing that the directors are appointed by the Government of India. IiAS has been nudging companies to place higher emphasis on the skill assessment framework.

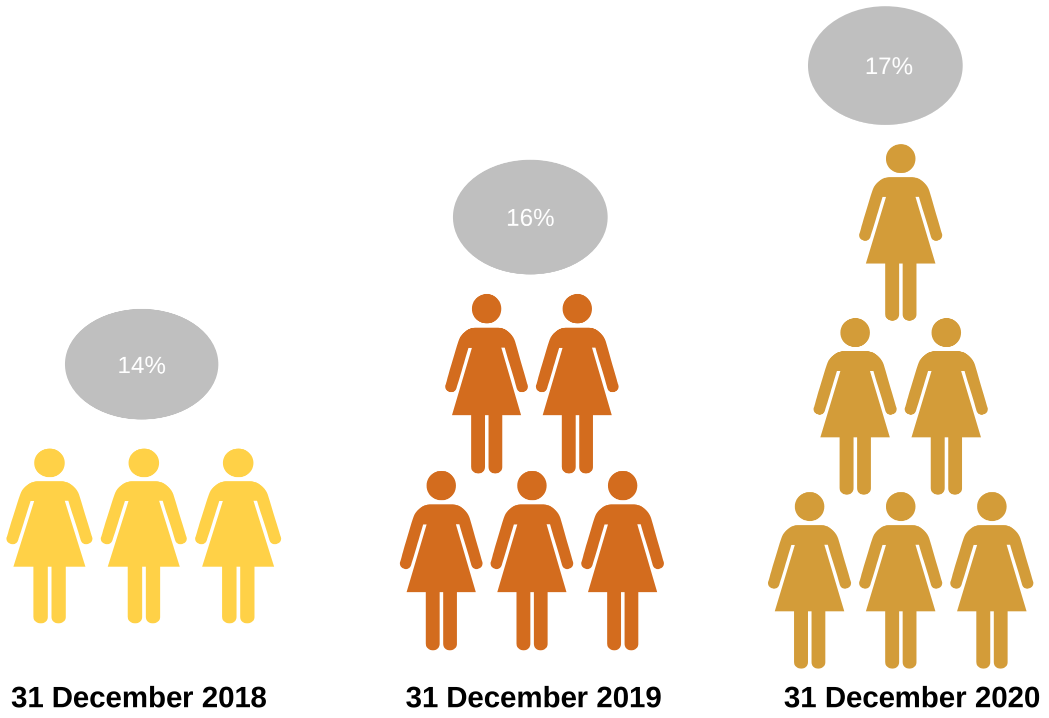
Investors are looking to better assess board diversity beyond the gender diversity angle. Attributes such as independence, qualification, skills and work experience are crucial when evaluating the board diversity. Companies need to increase the dialogue with investors and disclose sufficient information to allow a meaningful assessment of a board's skills and competencies. Disclosing the skill assessment framework is a valuable tool for assessing a board's mix of skills and experience.

WOMEN IN BOARDROOMS

Regulation has played an important role in augmenting the role of women in boardrooms. The Companies Act, 2013 made it mandatory for boards to have at least one woman director from 1 April 2014. This was soon followed by SEBI embedding this requirement into SEBI (Listing Obligations and Disclosure Requirements) 2015 Regulation (SEBI LODR). Further, on the recommendations of the Committee of Corporate Governance chaired by Uday Kotak (Kotak Committee), on 9 May 2018, SEBI mandated that the top 500 (by market capitalization) companies were required to appoint at least one woman as an Independent Director from 1 April 2019. The same requirement is applicable to the top 1000 companies from 1 April 2020.

The regulatory push has borne fruit. The number of women directorships as a percentage of total directorships has been on the rise (Refer: Exhibit 34). Highlights from IiAS' May 2020 report on 'Corporate India: Women on Boards' are given below.

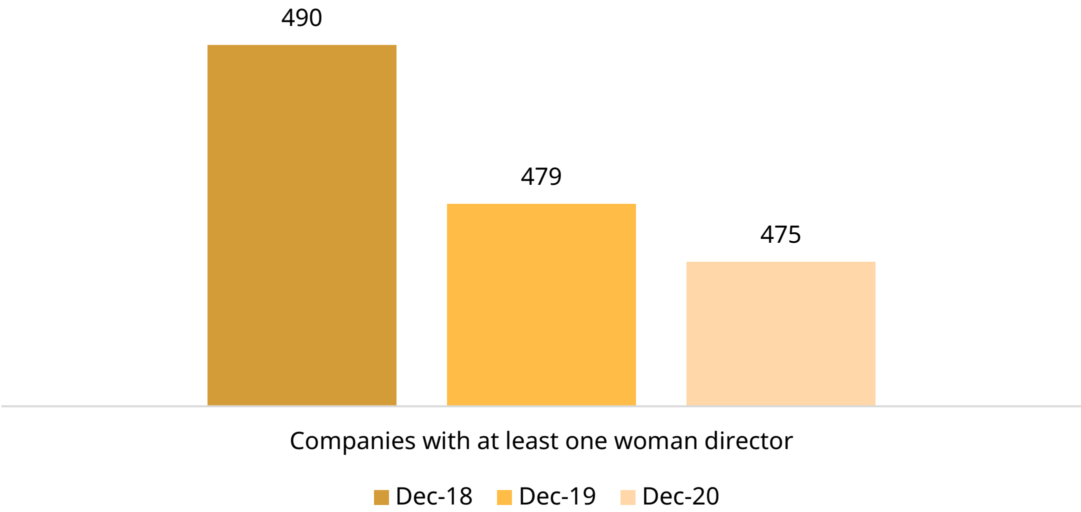
Exhibit 34: Trend in % of women directors as a % of total directors



Source: IiAS Research, PRIME Database Group

On 31 December 2020, 475 companies had at least one-woman director on the board. Of the remaining 25 companies, two are institutionally controlled (Yes Bank and LIC Housing Finance Ltd), two are promoter run (Ashoka Buildcon Ltd and Aegis Logistics Ltd) and the remaining 21 are PSUs. One can argue that some of the directorship gaps may be transitory, but that does not take away from the fact that PSUs continue to lag the gender diversity agenda. PSUs must become equal opportunity employers in a truer sense.

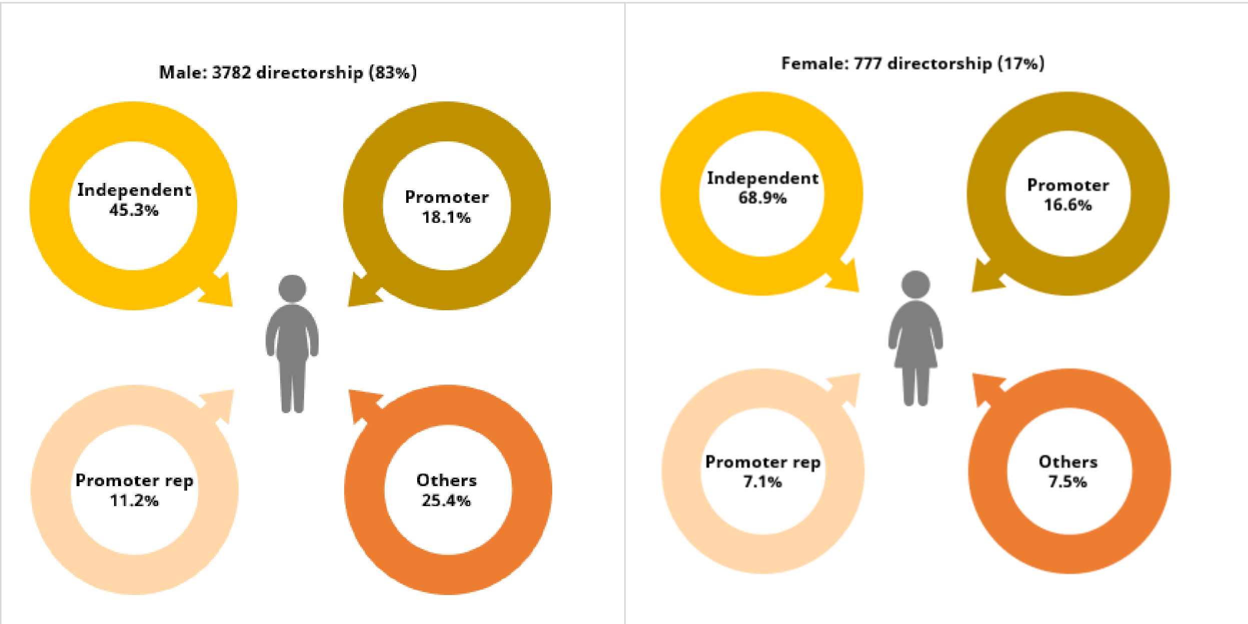
Exhibit 35: Trend in companies with at least one-woman director



Source: IiAS Research, PRIME Database Group

Share of directorships held by women in NIFTY 500 companies was ~6% in March 2014. On 31 December 2020, it stands at ~17%. More companies now have one woman on their boards, and several boards have more than one. Regulations have reinforced the focus on gender diversity in boardrooms.

Exhibit 36: Gender diversity



Source: IiAS Research, PRIME Database Group

Further, when it comes to women representation as a percentage of total directors on board, it is encouraging to see ~27% companies have 20-29% of women representation on their boards (Exhibit 32). While this reflects corporate India's intent to welcome more female directors on their boards, only 5 companies had women representation of 50% or more on their board for 2020 (Exhibit 33). The conversation now needs to shift towards having a greater representation of women on boards and to incorporate more balanced boards.

Exhibit 37: Companies with women as a % of board composition

Women as % of board composition	31-Dec-18	31-Dec-19	31-Dec-20
0-9%	91	76	72
10-19%	293	246	235
20-29%	94	132	137
30-39%	19	38	43
40-49%	2	6	8
50% and above	1	2	5
Total	**500**	**500**	**500**

Source: IiAS Research, PRIME Database Group

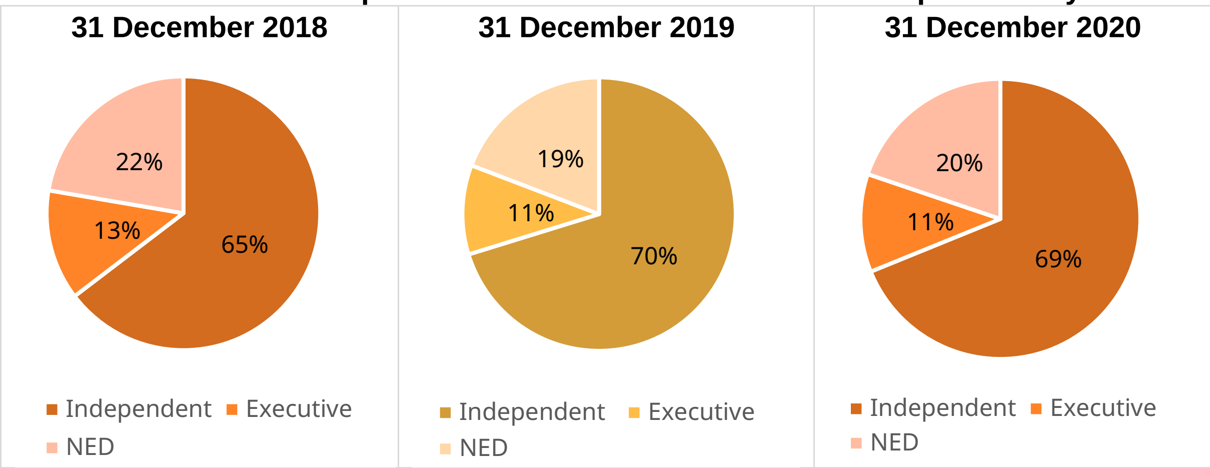
Exhibit 38: Companies with 50% or more women on board on 31 December 2020

Company Name	Total board strength	Female Directors
Apollo Hospitals Enterprise Ltd.	10	5
Vinati Organics Ltd.	8	4
Bliss GVS Pharma Ltd.	6	3
Heritage Foods Ltd.	6	3
Ingersoll-Rand (India) Ltd.	6	3

Source: IiAS Research, PRIME Database group
Note: in alphabetical order; on the board of NIFTY 500

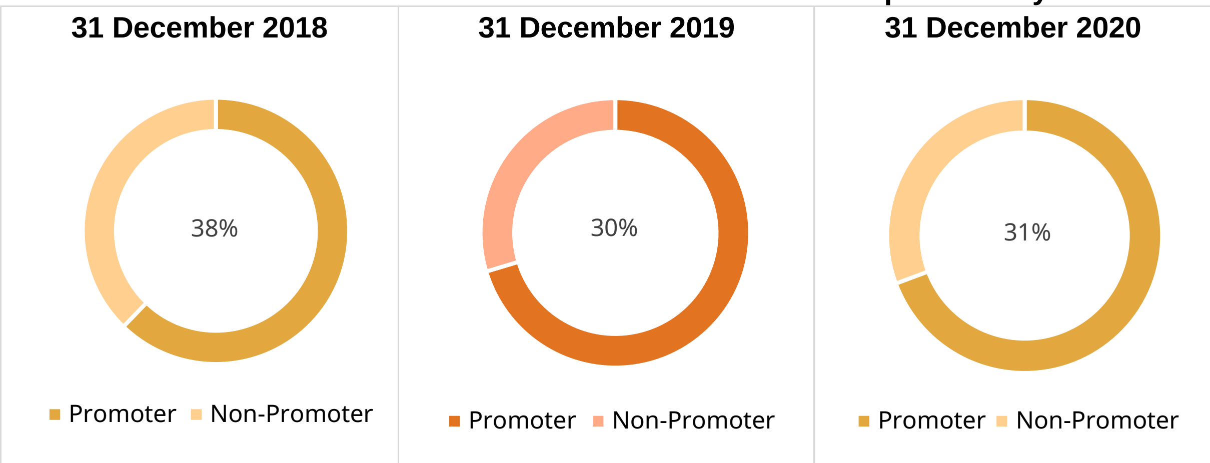
Despite 95% of the NIFTY 500 companies having at least one-woman director on board, women representation in executive positions remains low at ~11% (Refer: Exhibit 39). Out of the total female executive directors only 31% were professional EDs, the remaining 69% belonged to the promoter group or were promoter representatives (Refer: Exhibit 39). Companies need to take steps to mentor women for leadership roles and to include them in the succession planning programs. Having a woman director as an executive director could provide impetus for higher women representation on board.

Exhibit 39: Women representation in the boardroom over the past three years



Source: IiAS Research, PRIME Database Group

Exhibit 40: Professional Female EDs on boards over the past three years



Source: IiAS Research, PRIME Database Group

CONCLUSION

The board of directors are responsible for strategic decisions that drive growth. They provide oversight to management and set standards for corporate governance practices. Therefore, having an appropriate balance at the board becomes critical.

Balancing the board is a fine task. There needs to be sufficient number of executive directors, independent directors and shareholder representatives. Cross section that to say boards now need to have better diversity – in the broader construct. That includes gender, creed, colour, age, experience, skills, nationalities and can be extended to a host of other factors. While the Indian mindset has continued to focus on gender as the definition of diversity, mandating disclosures on skills has necessitated that boards now think of the mix in a broader sense.

Board composition in India is driven by regulations – depending upon the Chairperson, boards may comprise 1/3rd or half as Independent Directors. Globally though, the practice is to have at least half the board comprise Independent Directors.

While Indian boards understand that they need to refresh boards to meet the regulatory timelines, the pace of board refreshment continues to remain slow. Indeed, there is a balance that needs to be struck between board refreshment and board stability – yet, boards seem hesitant to let go of their tenured Independent Directors. In this environment, though, the Tata Group has decided that none of its listed companies will have an Independent Director with a tenure in excess of 10 years – well ahead of the 2024 regulatory deadline. Corporate India needs more of such progressive thinking.

Focussing on board skills is yet at early stages for Indian boards. For a comprehensive assessment of skills, board evaluation processes first need to be strengthened. For boards that were rarely held accountable, this is an uncomfortable space to be in. Not only do they need to clinically assess their skills, but if these are relevant to the organization at this stage of the business. But most importantly, taking a hard look at where the business is heading, and defining what skills will be required for the future will continue to challenge boards.

Investors play a crucial role in shepherding better board behaviour. Asset managers are now being compelled to focus on their stewardship responsibilities. Investors are bringing in more accountability by voting on director (re)appointments. In several instances, resolutions for director (re)appointment have been defeated, among other factors, for lack of attendance, poor company performance, lack of clarity on the director's background and / or ability to contribute.

The one area that drags overall board statistics is state-owned enterprises (PSUs). The board structure related issues are much more prominent in state-owned enterprises than in state-owned banks (PSBs). Excessive carve-outs for PSUs embedded directly into regulation justify the exceptions, but violations of regulations continue on account of poor enforcement. RBI's recent regulations on governance of scheduled commercial banks also has a carve-out for PSBs, given them an unnecessary differential status.

With increasing empowerment of investors, and the expectations of responsible investing, we expect domestic asset managers to hold boards to greater accountability. As is often the experience in other markets, directors will be compelled to directly engage with key stakeholders, including large investors, suppliers, and customers. To this extent the roles and responsibilities of directors will see a radical shift at a practical level.

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

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

IiAS together with the International Finance Corporation (IFC) and BSE Limited, supported by the Government of Japan, has developed a Corporate Governance Scorecard for India. The company specific granular scores based on an evaluation of their governance practices, together with benchmarks, can be accessed by investors and companies. IiAS has extended this framework to ESG – Environment, Social and Governance. IiAS has worked with some of India's largest hedge funds, alternate investment funds and PE Funds to guide them in their ESG assessments and integrate ESG into their investment decisions.

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For more information, visit www.iiasadvisory.com.

Office
Institutional Investor Advisory Services
Ground Floor,
DGP House, 88 - C
Old Prabhadevi Road,
Mumbai 400025

Contact
solutions@iias.in | rromil.shah@iias.in | rohel.deb@iias.in | raj.shah@iias.in
T: +91 22 61235555