



Proxy Advisory Guidelines

PA Season 2026-27

Stakeholders Empowerment Services (SES) Private & Confidential

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.

Last Updated:
15th May, 2026

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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 market 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 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, annual policy changes and interim material changes made to its Proxy Advisory Guidelines to all its clients and also to the concerned persons of the Companies (under SES coverage) on the email address available in SES database created on the basis of information contained in latest general meeting notice.

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 stakeholders¹ 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 one working day 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) meet 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 convey an understanding on what is meant by below terminologies from a governance standpoint. The Policy Guidelines should 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 remuneration of other directors on the Board, size and performance of the Company, remuneration paid to directors at comparable peer companies, age and experience of the Director and median remuneration of employees.
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 select directors.

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 controlling position in 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 for non-specific transactions, 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 should qualify for Omnibus approval. If the below parameters are not met/disclosed, then SES would require such RPTs to be proposed for Omnibus approval:

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

In a nut shell, a specific transaction will be a transaction which must be between specific parties, for a specific value, or where even based with a specific timeline and for a specific underlying project or contract.

5. **Promoter Directors and Affiliate Promoter Directors:**

The term "Affiliate Promoter Director" has been introduced by SES to denote directors who exhibit an affiliation or alignment with the promoters.

SES has, in certain instances, identified directors who exercise controlling powers but are not classified by the company as promoters, as well as individuals who are affiliated with or connected to promoters but are not designated as promoter nominees. To address such gaps, SES has established the following parameters to assess whether a director should be classified as a Promoter or an Affiliate Promoter.

Accordingly, in its reports, SES may classify certain non-independent directors as Promoters or Affiliate Promoter Directors, even if the company has not formally designated them as Promoters or Promoter Nominees, where one or more of the following conditions are met:

Affiliate Promoter Directors	Promoter Directors
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A.	Holds any employee or executive position in the 'Group Company' except subsidiaries of the listed company	A.	Promoters or Person belonging to Promoter Group as per SEBI ICDR Definition (Link)
B.	Holds executive directorship in any of the Group Company except subsidiaries of the listed 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.	Is Non-Executive Director (other than Independent Director) at any of the Group Company except subsidiaries of the listed company	C.	Holds over 50% voting rights, directly or indirectly, in the Company or at Promoter Level
D.	Nominee of Promoter/Promoter Group	D.	Although Voting Rights under point C. above is less than 50% but at least 25%, however, overall rights when combined with board representation, management rights, or other veto rights, exercises control over the company or at Promoter Level

For the purpose of remuneration analysis, Affiliate Promoter Directors shall be evaluated in line with remuneration parameters applicable to professional (non-promoter) directors, unless specific circumstances warrant otherwise.

5. **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.
6. **Promoter Control Quotient:** Promoter Control Quotient is the degree of promoter control on the non-independent 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 (including Promoter / Affiliate Promoter Directors as per SES and excluding independent directors) to the percentage of their unencumbered ownership in the Company.
7. **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.
8. **Significant Shareholder:** SES considers voting rights of more than 5% in the Company and holding rights in relation with Board or Senior Management representation, either directly or through a nominee, as a significant shareholder. In the absence of Board or Management representation, SES will evaluate the quantum of such shareholding in the context of the overall promoter holding to assess the potential control. In general cases, voting rights of over 10% 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 factors that will be considered when analysing proposals.

If such cases directly/indirectly do not pass the litmus test, then our recommendation will be **AGAINST**. In other cases which pass the litmus test, we will recommend the shareholders to vote **FOR** the resolution.

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 analyse the resolutions on merit, 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 the integrity of Financial Statements, Related Party Transactions, significant shift in Key Financial Ratios and explanations that address core reasons for such shift, deviations from Accounting Standards, compliance with applicable financial reporting framework, analysis of Auditors' Report and their comments, CARO observations, Key Audit Matters, Emphasis of Matters and other crucial points. SES will endeavour to highlight major governance and accounting issues in the Auditors' Report and Financial Statements. SES may also discuss audit qualifications and evaluate board's response or the management explanation to such audit qualifications.

SES will also check whether the Company has uploaded the subsidiaries' financials on website. If material issues are identified at the Subsidiary Level, then SES will endeavour to analyse the same.

Unless there are concerns identified by SES about the integrity of the financial statements or reports, or there are 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 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 recommend **AGAINST** 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 / Management / Significant Shareholders, 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 and independent manner.

In exceptional cases, **based on analysis of Financial Statements**, if SES finds that Auditors did not fulfill their role/responsibility properly, SES would recommend to vote **AGAINST** on the re-appointment of the 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.

With SEBI LODR mandating shareholder approval for Secretarial Auditors, SES while analysing such proposals check the compliance with regulations and analyse the eligibility, independence, suitability, credibility and remuneration terms of the Secretarial Auditor proposed.

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 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 Chairperson. 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 chairpersonships 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 factors 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:

SES analyses the control that a Promoter has on the Board by comparing the percentage of promoter/promoter connected directors on the Board as against the percentage of unencumbered promoter ownership. Apart from the Directors classified as Promoter or Promoter nominees, SES may identify Directors who have controlling powers or directors who are affiliated to or associated with the Promoters. Such affiliated or associated directors are classified as Affiliate Promoter Directors by SES. Such directors identified by SES are considered while assessing promoter control on the Board.

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 in the [definitions](#) section 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 / JVs, 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 believes that ideally an Independent Director of the Company must not have any pecuniary relationship with the Company, except for Directors’ remuneration. SES will recommend against 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 as 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. Board Committees 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 will analyse the merit / adequacy of the rationale, check compliance of the disclosures with regulatory requirements, transparency regarding the resolution and 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 recommend voting **AGAINST** 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 (PSU)

SES has observed that many of the PSUs do not comply with the applicable requirements of the Companies Act, 2013 and SEBI Regulations in entirety. SES has always believed 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.

In some cases, SES adopts a relaxed approach in case of PSUs, where non-compliances has no material impact on governance or operations. However, where compliance requirements have governance implications, SES treats PSUs and non-PSUs at par. SES has not extended leniency merely because law provided exemption, instead assessed matters based on logic and fairness. SES intends to place greater emphasis on the implications of the governance concern and accordingly, will recommend AGAINST where such concerns are likely to have a negative impact on the Company's governance.

Revised Update: SES has revisited its policy on the timing of seeking shareholders' approval for the appointment of Directors. Under SEBI LODR, listed entities are expected to obtain shareholders' approval for Director/Manager appointments within a reasonable timeframe, and not defer the same until the next AGM, as Directors who do not meet shareholder expectations should not continue on the Board for an extended period without shareholder approval. At the same time, an exception has been recognized for government companies, which are permitted to seek shareholders' approval at the next general meeting following the appointment. While SES has historically expected public sector companies to align with the general timeline applicable to other listed entities, a reassessment indicates that Director appointments in such companies typically undergo screening at the ministry level, thereby mitigating concerns relating to merit or suitability. In light of this, SES will generally support resolutions in cases where the applicable statutory timelines are adhered to and the Director meets SES criteria. However, SES will continue to encourage public sector companies to follow the broader practice of obtaining shareholders' approval at the earliest opportunity, as a matter of stronger governance.

SES notes that Corporate Laws (Amendment) Bill, 2026, inter alia, proposes to mandate shareholder approval for director appointments within the earlier of 3 months or next general meeting. LODR prescribes the same requirement, however, exempts public sector companies in this regard. Hence, if the proposed amendment becomes mandatory without any exemption for public sector companies, then, the amended requirements shall prevail.

On the other hand, where PSU Boards, Audit Committees, or Nomination and Remuneration Committees do not have the required number of Independent Directors (including Woman Independent Directors) and remain non-compliant with the law, SES will not support resolutions seeking appointment or re-appointment of Executive or Non-Executive Non-Independent Directors. SES believes that maintaining a strong independence quotient is essential to ensure fair, objective, and balanced decision-making. Holding the Board Chair and NRC accountable in such cases conveys the seriousness of the issue and helps ensure that the concern is addressed with appropriate urgency and impact. A non-compliant board raises serious questions around the robustness of oversight and the independence of Board decision-making.

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. SES will not support such resolutions as such a condition not only vitiates Independence of the Directors but also is not in compliance with the letter of law nor with the spirit.

The concern is not in regards to the competence of the individuals appointed, but with the governance framework within which such appointments are made.

SES understands that recommending a 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 seeks 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.

Hence, SES follows a balanced approach wherein governance and practical situations are both given regard to. Notwithstanding the revised approach in some cases, concerns will still be clearly highlighted for investors who views such concerns with high importance.

In conclusion, SES believes 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. 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/reports or serious governance issues, SES, in normal course, will not recommend a negative vote on such resolutions.

SES would also check whether the Company has placed the financial statements of its subsidiaries on its website, as required under the law. Further, the Companies must include financials of all subsidiaries, associate and joint venture companies in its consolidation.

SES will also examine CARO Observations and analyse its implications.

KEY CONSIDERATIONS – FINANCIAL STATEMENTS

1. Financial Statements and Mandatory Annexures have been disclosed as per legal requirements.
2. Separate financial statements of the subsidiaries available on the Website of the Company.
3. Whether financial statements of all subsidiaries are Consolidated?
4. Whether financial statements are signed by the relevant authorities?
5. Whether adoption of Standalone and Consolidated Financial Statements proposed under a single resolution?
6. Whether financial statements disclosed are complete or abridged?
7. Material portion of standalone financial statements is unaudited or not audited by the Principal Auditors.
8. Material portion of consolidated financial statements is unaudited or not audited by the Principal Auditors.
9. Whether the size of Contingent Liabilities is high when compared with the Net Worth?
10. Whether Net Worth is deteriorating? If yes, then whether adequate justification given?
11. Whether the Company has granted material unsecured loans?
12. Whether any default in payment of statutory dues/ dividend dues/ interest payment/principal repayment obligations?
13. Whether any material re-statements in the financial statements? Adequate explanations given?
14. Where qualifications / adverse remarks are raised by auditors:
 - a. Clarifications / Comments made by the Management / Board on the same.
 - b. Governance / Fairness issues highlighted as a result of the qualifications.
 - c. Where possible, where the Management has quantified the impact of qualifications?
 - d. Where the impact of the qualifications cannot be precisely quantifiable, whether estimates on such qualifications have been provided by the management? What is the view of the Auditor on the same?
 - e. Whether the audit qualifications have been repetitively raised by the auditors?
15. Material comments made by the auditors in the annexure to the Auditors' Report and Notes to financial statements.
16. Auditors' comment on the Going Concern Status of the Company & its Material Subsidiaries (if any)
17. Qualifications raised on the Internal Control Systems / Internal Audit Functions. Response made by the Management.
18. Whether Statement on Impact of Audit Qualifications is disclosed on Stock Exchange / in Annual Report?
19. Any material variations in accounting policies from the accounting standards (if disclosed in Audit Report)

20. Any structural shifts in key financial indicators? If yes, whether disclosures made to explain shift if the variation is >25%?
21. Exceptional write-offs by the Company? If yes, whether satisfactory explanation provided?
22. Exceptional spending by the Company without proper disclosure on the timing/need of such spends.
23. Related Party Transactions including loans, receivables and royalty payments and the trends observed therein *vis-à-vis* requirement of LODR and Companies Act, 2013.
24. Material legal cases by and against the Company (not applicable in case of Banks and NBFCs).
25. Significant Regulatory Orders by and against the Company.
26. Money raised from Banks/ Financial Institutions were utilized for the stated purpose.
27. Financial Reporting and Audit Process:
 - a. Audit Committee's independence, composition and comments (if any) on the Auditors' report/ financial statements.
 - b. Auditors' independence
28. Any material issue related to accounting practices, disclosures and transparency?
29. Generally, SES will not perform any comparative analysis with any Peer Company. However, in case any governance issues are found, then, SES may carry out competitor analysis to analyse the case. The underlying objective will be to bring relevant information to shareholders' notice.
30. Whether Internal Control Systems & Internal Audit Functions are adequate and efficient?
31. CARO Observations reported by the Auditors.
32. Whether any item in the financial statement has been incorrectly classified? What is the consequential impact?
33. Current Position of Net Worth, Borrowings, Contingent Liabilities, Loans and Advances or any other item which appears material and raises questions in mind of SES Analysts.
34. Cause for concerns in the performance of the Company such as continuous losses, entire additional borrowings utilised in investments, etc.
35. If no Key Audit Matters are identified, it should be specifically mentioned that there are no Key Audit Matters. If they are identified but not reported, reasons for the same should be disclosed.
36. Whether material concerns are highlighted in Emphasis of Matter?

PRINCIPLE 2: DECLARATION OF DIVIDEND

SES is of the view that the decision to declare dividends or conserve cash is a strategic matter and is best determined by the Board of Directors, taking into account the Company's growth plans, funding requirements, and long-term objectives. The Board is best placed to assess the Company's future plans and capital needs and, accordingly, to determine the appropriate balance between retention of profits for future use and distribution of profits by way of dividend.

Accordingly, SES would ordinarily recommend voting FOR on resolutions relating to declaration of dividend, as the intrinsic value to shareholders remains unchanged. However, SES may not support such resolutions where strong concerns are identified, including but not limited to prolonged defaults in servicing debt obligations or the presence of material qualifications in the Company's financial statements.

SES expects companies to have consistent dividend pay-outs based on a publicly disclosed objective policy and explain any deviations from the historical dividend pay-out policy to the shareholders.

SES will not support 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. SES believes that, as a matter of good governance, all listed companies should disclose a clear dividend policy that sets out objective parameters serving as the basis for the Board's dividend decisions. (Read [Definition](#)) If the Company has not provided dividend policy in its Annual Report and on Website where it is mandated to do so, SES will highlight the same in its report.

KEY CONSIDERATIONS - DIVIDEND

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?
3. Whether the dividend payout is as per its stated policy or not? If not, has the Company explained the reasons for deviation?
4. 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 reasons for deviation?
5. 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?
 - c. Whether the Company has high Debt Equity Ratio + low Debt Coverage Ratio but paying/increasing dividend?
 - d. Does the Company have sufficient cash flow from operations and/or sufficient cash & cash equivalents to pay the proposed dividend?
 - e. Has the Company defaulted on any of its debt obligations/ undergone restructuring and has still declared dividend?
 - f. Is the Company required to conserve resources to fund large upcoming capital expenditure?
 - g. High dividend pay-outs in companies having significant promoter shareholding, coupled with elevated pay-out ratios and substantial leverage or borrowings, raise concerns, particularly where capital expenditure requirements are high.
 - h. Preferential offer to promoters and also, high dividend proposed by the Company.

6. Low dividend
 - a. Is the Company consistently making large profits and has large cash balance but its dividend pay-out 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?
 - d. Is low dividend after a buy-back?
7. Whether dividend is being proposed for benefit of select classes of shareholders?
8. In case dividend is being paid only to non-promoter shareholders, SES would examine shareholding pattern, look for infighting issues and 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. Statutory 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 stakeholders. Stakeholders rely on the statutory 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.

An Independent Auditor effectively strengthens the hands of the board in discharging its duty towards shareholders and reducing risks. Accordingly, SES believes that the Auditors should be independent and free from any conflict of interests. Hence, any pecuniary or other arrangement, at Company or Group level, with the Company, Directors or Promoters, should be avoided and if exists, should be backed with compelling justification on how the same does not impact independence.

SES expects the Companies to disclose the fee payable to the Statutory Auditors and material changes in remuneration payments should be explained with justification.

In cases where the existing Auditor has resigned, SES will pay attention to the disclosures made by the Company, and assess the reasons for resignation given by the said auditor as required under clause 7(B) of Part A of Schedule III to the SEBI LODR. SES will examine the issue holistically and form an opinion.

SEBI LODR now has stipulated provisions for Secretarial Auditor appointments and remuneration. SES will analyse whether such proposals are compliant with the legal requirements or not. Given that the framework is relatively nascent, SES may adopt a pragmatic approach in cases involving technical or procedural gaps that do not have a material governance impact. Refer [weblink](#) to understand the detailed SES approach.

When the existing Secretarial Auditors are being re-appointed, SES will examine whether such Secretarial Auditors have failed to highlight any material non-compliance by the Company during the previous year in the Secretarial Audit/Compliance Report (if signed by the Secretarial Auditor) for the year.

Any material shift in remuneration payments made or proposed to the Secretarial Auditors should be explained with reasons. For this, SES will compare the remuneration paid to the outgoing auditors with that proposed for new auditors. To make this assessment, disclosure of the previous auditors' remuneration is essential. SES will not support proposals where the said information will not be available.

The Companies should ensure compliance with the provisions of the Companies Act, 2013, SEBI Regulations, Sectoral Laws and other applicable laws.

KEY CONSIDERATIONS – AUDITORS (GENERAL)

1. Details of the Auditors, basis of recommendation and credentials provided in the Notice.
2. Is the tenure compliant? Any previous positions in the Company?
3. Has the tenure of audit partner exceeded 3 years?
4. Auditor has undergone Peer Review.
5. Proposed fee, comparison with past payments and reasons for material shift.
6. Is the audit remuneration fair?
7. Previous auditor not re-appointed despite being eligible.
8. Reasons for resignation of previous auditors.
9. Proportion of the Non-Audit Fee. Nature of Other Services.
10. Connection or affiliation between the Auditors and the Company/ Directors/Promoters.
11. Connection or affiliation between the Proposed and the Outgoing Auditors.
12. Whether Audit Committee is compliant?
13. Whether significant portion of financial statements have been audited by the Principal Auditors?

14. Whether material unaudited financial statements been used for consolidation?
15. Material restatement of financial statements and reasons for the same.
16. 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
17. Statutory Certificates/ prescribed condition for appointment of Auditors not disclosed in the Notice/ Annual Report
18. Whether the Notes to the Financial Statements provides adequate breakup of the Audit Fees paid.
19. If the company has adopted accounting policies overstating the financial performance of the Company, then has the auditor highlighted the same in their report?
20. Regulatory or disciplinary orders passed against the auditors.
21. Are Joint Auditors being appointed through a single resolution? Are remuneration disclosures combined?
22. Division of remuneration between the Joint Auditors fair and commensurate to their respective scope and complexity of work.
23. When proposing joint auditor, whether consent obtained of the existing auditors?
24. Are Statutory Auditors and Branch Auditors are being proposed in the same resolution?
25. Whether Audit remuneration is excessively low (when compared with company size and peer companies)
26. Whether Statutory Auditors and Branch Auditors are being proposed in the same resolution?
27. Auditor proposed at general meeting other than AGM?
28. Auditor appointment is proposed through Special Notice.
29. Auditor's view on material concerns raised by SES on financial statements
30. Whether a single director has been authorised to fix the remuneration of the Auditors?
31. Whether the existing auditors are being removed to align with the Group Auditors?

ADDITIONAL CONSIDERATIONS - SECRETARIAL AUDITORS

1. Whether the appointment of Secretarial Auditors is compliant with the applicable laws?
2. Parameters for Statutory Auditors as far as they are applicable for Secretarial Auditors.
3. Whether the Secretarial Auditors have failed to highlight any material non-compliance by the Company?
4. Fee paid to the existing auditors.
5. In case of change of auditors, what was the fee paid to the previous auditors? Any material shift observed in the remuneration payments?
6. Other services provided by the Secretarial Auditors.
7. Auditor proposed at general meeting other than AGM?
8. Auditor has undergone Peer Review.

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 had decided to recommend voting against auditor appointment resolutions, whether proposed for one year or three

years. This stance intended to highlight the inconsistency identified and the need for greater clarity in the legal framework governing such appointments.

Now that SES has highlighted this issue for a considerable period, SES will no longer raise compliance issues if the auditors are proposed for 3 years as the same would be in line with the spirit of the present RBI requirement. However, SES will raise compliance issue if auditors are proposed for 1 year term.

Legal requirement of cooling-off and joint auditors:

Legally, the Auditor of the Bank/NBFC 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 in terms of the RBI Circular.

Particulars	Term	Cooling off period
Companies	5 years	5 years
Banks, NBFCs	3 years	6 years

ADDITIONAL KEY CONSIDERATIONS – BANKS, NBFC

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? Whether their remuneration clubbed?

APPOINTMENT OF AUDITORS AT 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.

ADDITIONAL KEY CONSIDERATIONS – INSURANCE COMPANY AUDITORS

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; their line of business
3. Fees paid for the additional work in a financial year
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?

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 in 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 since 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 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.

If separate Branch Auditors are proposed, then such appointment shall have to be compliant with the provisions of Section 139. Hence, provisions applicable to a Statutory Auditor shall be mutatis mutandis applicable to a Branch Auditor. However, 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 generally not raise concern in such cases.

SES may not support the proposals for the appointment of the Branch Auditor if the Company does not disclose the name of the Branch Auditor in the resolution or if an office for a period other than 5 years is proposed. However, in case of a Bank, as the same is regulated by RBI, SES may not raise 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, 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 any 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.

ADDITIONAL KEY CONSIDERATIONS – BRANCH AUDITORS

1. Details of the Branch Auditor
2. Compliance with Section 139 of Companies Act, 2013
3. Term of appointment not disclosed
4. Whether any previous association with the Company, Promoters, Directors?

FIRMS UNDER COMMON 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 results in 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. ESG Audit / Assurance
- 3.7. Other Services

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

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 disclosures and recommend vote on the proposal on a case-by-case basis.

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

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 to ensure that the proposal is backed by proper authority. SES will check if the Company has made proper disclosures with regards to name/audit fee of the cost auditor. Material changes in cost audit remuneration should be explained with reasons.

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:

SES believes that fair and commensurate remuneration is essential to ensure the independence and quality of professional reports. Over multiple proxy seasons, SES observed that cost audit fees across sectors were often significantly lower than the minimum recommended fee by the Institute of Cost Accountants of India (ICAI-CMA). It was also observed that companies were failing to disclose the turnover subject to cost audit. This lack of disclosure limited shareholders' ability to assess whether the proposed remuneration was reasonable. Notably, the Ministry of Corporate Affairs (MCA) had, as early as 2012, flagged concerns regarding the quality of cost audit reports and identified low audit fees as a potential cause. ICAI-CMA subsequently issued recommendatory minimum fee guidelines in 2018.

In response, SES began highlighting these concerns in its reports from 2018 onwards but did not issue adverse recommendations until 2022. After four years of repeated observations without adequate justification from companies, SES commenced issuing negative recommendations against proposals for ratification of cost audit fees that were materially below ICAI-CMA benchmarks.

During Proxy Season 2022, several companies responded that cost auditors were appointed through a competitive quotation process, with final fees reflecting market-driven bids that were lower than ICAI-CMA recommendations. Companies also cited advancements in ERP systems and automation, resulting in reduced audit scope and smaller audit teams, and argued that the proposed remuneration was commensurate with the work involved in the current business environment.

Based on the feedback received from companies, SES took note of the prevailing ground realities and observed that cost audit fees have been lower due to reduced scope of work arising from advancements in software and audit systems, as well as competitive pricing by cost auditors themselves, who often submit lower quotations to undercut peers.

Conclusion:

SES revised its stance based on the feedback received from companies. Although, SES continues to highlight concerns around low cost audit fees and insufficient disclosure of audit scope, but no longer issues adverse recommendations on such proposals.

SES is of the view that ICAI-CMA should undertake a comprehensive review of the present scope of work involved in cost audits for various products and sectors, and issue updated recommendatory guidelines on minimum fees that adequately reflect the current business environment, technological advancements, and the actual scope of work involved in conducting cost audits.

KEY CONSIDERATIONS – COST AUDITORS

1. Name of the Cost Auditor(s), Basis of Recommendation
2. Audit fees to be paid; any material shift in payment.
3. Approval sought for Cost Audit or only maintenance of Cost Records
4. Compliance of the Audit committee of the Company.
5. Approval sought for ratification of remuneration of Cost Auditor for the previous year.
6. 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? Whether the remuneration distribution is fair?

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 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. SES will analyse the chart/matrix to assess the diversity on the Board.

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. If any appointment is also subject to the approval of any Sectoral Regulator or Government Authority, then the same should also be complied with.

As per SEBI (LODR) Regulations, shareholder approval is required within three months from the date of appointment or re-appointment by the Board or next general meeting, whichever is earlier.

While an exception exists for Central Public Sector Enterprises (CPSEs), SES does not view this exemption as a good practice. 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. However, for reasons discussed [above](#), moving forward, SES will not vote negatively on such appointments provided the statutory timelines are met, but will highlight observation on governance grounds, if shareholder approval is not obtained within the three-months period.

SES notes that Corporate Laws (Amendment) Bill, 2026, inter alia, proposes to mandate shareholder approval for director appointments within the earlier of 3 months or next general meeting. LODR prescribes the same requirement, however, exempts public sector companies in this regard. Hence, if the proposed amendment becomes mandatory without any exemption for public sector companies, then, the amended requirements shall prevail.

Permanent Board Positions:

SES believes that directors should not have permanent seats on the Board. 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 compliance with retirement by rotation provisions stipulated under Section 152(6) of the Companies Act, 2013 while appointing Directors under regulation 17(1D).

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

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 LODR Regulations. However, owing to unsatisfactory level of compliance achieved, pandemic situation, etc., SEBI later made such provision 'voluntary'.

Notwithstanding the above relaxation by SEBI, given the mission of advocating good corporate governance, SES continued to raise concern wherever the Board would be chaired by an ED, or where the Board Chair was related to EDs/MD/CEO, since SES believes that such position/arrangement has a potential to result in concentration of powers.

However, SES' experience indicates that there are also companies that have demonstrated that such roles have had no negative implications on their governance which is exhibited through consistent growth, fair remuneration practices and absence of unfair practices. In such cases, SES believes that the structure may not be viewed negatively. While SES continues to maintain that separation of these leadership roles represents best governance practice, it may, considering the above factors, adopt a relaxed view and permit such combined positions.

Thus, moving forward, SES will recommend AGAINST combined positions of ED/MD/CEO and Board Chairperson only when governance issues are identified with such leadership such as unfair extraction of benefits through remuneration or related party transactions, negative performance or other similar reasons. In other cases with no governance or other issues identified, SES may take a relaxed view.

Attendance of Directors in Board & Committee Meetings:

One of the primary indicators of performance of Directors is their attendance in Board and Committee Meetings. In this regard, SES has established a criteria for assessing performance of the Directors based on their attendance in the Board and Committee meetings.

SES is of the opinion that the presence of IDs in the Board and Committee meetings is vital as it ensures that it is not only the board structure but also the quorum at the Board meetings that meets the independence norms. 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 and the Board, and are required to present to the Board, performance of the Company and the future projections/plans.

Board meetings also serve as an essential platform for Non-Independent Non-Executive Directors ("NEDs") to provide strategic inputs and guidance. SES had historically applied a relatively relaxed attendance threshold for NEDs. In the current business environment, NEDs bear fiduciary responsibilities comparable to other directors and play an active role in board deliberations and outcomes. Accordingly, SES will no longer apply a diluted attendance threshold for Non-Independent NEDs.

SES further notes that the Audit, Nomination & Remuneration, and Risk Management Committees play critical roles in the Company's governance framework. While attendance at the meetings of all Board Committees is important for effective governance, SES is of the view that the Audit, Nomination & Remuneration, and Risk Management Committees assume heightened significance in the present business environment as these committees are central to financial oversight, leadership and remuneration decisions, and identification and mitigation of risks. Hence, attendance at AC, NRC and RMC will be accorded greater importance.

Thus, as per SES, any Director who is unable to devote sufficient time at these committee meetings, must step down from such committee or provide cogent and compelling reasons for their absence. Relaxation, if any, will be considered only in exceptional cases where justified by credible reasons.

Under the revised approach, SES will not take a relaxed view solely on the basis of satisfactory attendance in the most recent year. Greater weight will be placed on attendance trends over recent years.

Attendance Performance at SRC, CSR and Sector Specific Committees: Attendance at these committees will continue to be monitored and analysed. Adequate justification should be provided for absenteeism in the Explanatory Statement and Annual Report. SES will take a negative stance when material negative implications arise as a result of the failure of the Director to effectively perform their roles at such committees.

Presence of Board Chairperson at AGM: The Board Chairperson should be present at AGM to attend to shareholder queries.

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 Explanatory Statement and Annual Report. Further, reasons for absence should be provided in the Explanatory Statement and Annual Report.

Attendance Disclosure Expectations from Companies:

For resolutions relating to re-appointment, continuation, change in designation, remuneration, or modification of remuneration terms, companies should provide clear and complete board and committee attendance details in the explanatory statement.

Attendance for the latest completed financial year should be disclosed. Additionally, where a substantial portion of the current financial year has elapsed, attendance for the ongoing period should also be included to provide a more current view.

While the SEBI LODR Regulations, 2015 and Secretarial Standards on General Meetings (SS-2) prescribe requirements on attendance disclosures, companies should ensure that such disclosures reflect not just technical compliance, but also the underlying intent of transparency and informed decision-making by shareholders.

Further, reasons for absence from meetings should also form part of the disclosures.

Under the revised approach, SES will not take a relaxed view solely on the basis of satisfactory attendance in the most recent year. Greater weight will be placed on attendance trends over recent years. Further, apart from AC and NRC, attendance at RMC will also be accorded greater importance.

Attendance at other committees will continue to be monitored and analysed. SES will take a negative stance when material negative implications arise due to a failure to effectively discharge responsibilities in such other committees.

Directors with advanced age: Shareholder approval should be obtained by way of Special Resolution for appointment or continuation of an ED aged 70 years or above, and NED aged 75 years or above. Such approval should be sought at the time of appointment or re-appointment and if attained during an ongoing term, then any time prior to the attainment of such age along with a specific justification for appointing/continuing such person.

SES has spelt out its view regarding appointments / re-appointments of directors with advanced age. Kindly [click here](#) to view the same. Pursuant to amendments to the SEBI LODR effective from December 2024, this requirement has been explicitly clarified for Non-Executive Directors.

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, directors or managerial persons. This examination aims to uncover governance issues linked to the concerned entities / persons and evaluate whether the persons responsible have effectively played their duties in relation with the issues identified.

In instances involving interim or appealed orders, SES ensures that shareholders are appropriately informed, by highlighting relevant observations in the Reports, without issuing voting recommendations solely on the basis of

such interim actions. 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. **Director/KMP Presence:** Whether the person was serving on the board / in the Company at the time, the issues prompting the regulatory order arose?
2. **Nature of issues:** Whether the order deals with material concerns or procedural issues?
3. **Accessibility of information:** Whether the information leading to the concern was readily available in the public domain or emerged through regulatory/court actions or warnings?
4. **Actions taken:** Whether the person questioned the irregularities or concerns preceding the order? This insight may not be readily available to SES, unless formally announced or clarified.
5. **Expertise:** Does the person 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?
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. **Board commonalities (only if default at group level):** Whether the person held a position in the concerned group company? If not, whether the person is a part of a board / management which had directors / managers of the company subject to the regulatory order?

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 person'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 not support 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 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](#))

Independent Directors are classified Non-Independent by SES if they fail to meet the independence parameters developed by SES.

SES, as a policy, does not support transition in roles from ID (even Group 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, directors, management, group companies, which may affect independence of such Directors. SES is of the opinion that any such pecuniary relationships / arrangements 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.

Any connection with the Company, directly or indirectly?

SES will endeavor to check if there exists any relationship between the Company / any of its Group Companies / Directors / Promoters on one hand and IDs or 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 Directors, directly or through any firm or company. SES may take a lenient view if a reasonable 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 through maximum two consecutive terms.

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

Cooling-off post break in ID Term:

Companies and the Shareholders should note that post an existing ID leaves the Board and intends to rejoin as ID, legally cooling-off period of 3 years will be required irrespective of whether the ID has completed one term or two terms or did not even complete the first term.

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 association.

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, 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. The Company should disclose the nature of and period for which the previous employment position was held.

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 applicable) as Independent Directors, including an Independent Woman Director. Therefore, SES will analyze the impact of the appointment/re-appointment of Non-Independent Directors on the Board Composition compliance.

Prior Approval of Shareholders for ID re-appointment: SES has consistently advocated that re-appointment of IDs should be undertaken only after obtaining prior approval of shareholders by way of a special resolution, and notes that several companies have aligned with this approach. However, as the law does not expressly use the term “prior”, instances are also observed where companies seek approval after the re-appointment. SES believes that interpretations should be guided by the spirit of the law rather than a narrow reading of its wording; nevertheless, given the absence of clear legal prescription and the limited governance impact where shareholder approval is obtained within the prescribed timelines (i.e., within three months or at the next general meeting), SES will flag the concern but will not recommend AGAINST solely in this regard provided approvals are obtained within the general statutory timeline and no other issues are identified.

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

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

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

Explanation: ‘Significant Relationship’ refers to the relationship of the Law Firm or any other Consulting Firm with the Company which may potentially vitiate the independence of the Director as detailed under Non-Executive Director Heading above.

KEY CONSIDERATIONS – DIRECTORS (GENERAL)

Procedural:

- Whether appointment backed by proper authority with timely approval?
- Compliance with retirement by rotation provisions.
- Whether shareholder approval excluded for a portion of a period served on the Board?

Approval Timelines:

- Whether the Director placed for periodic re-approval in line with legal timeline?
- 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
 - Re-proposing Director who was previously rejected by shareholders
 - Specific Sector such as MIB, RBI, IRDAI or other as applicable mandates prior approval
 - Other cases, as applicable
- In other cases, whether shareholders’ approval sought within the legal timeline?

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.
- 1. Whether the NRC policy disclosed?
- 2. Whether adequate details regarding remuneration paid during the year has been provided in the Annual Report?
- 3. Whether attendance details for the recent period for board and committee positions has been disclosed in the explanatory statement? At a minimum, details regarding at least 3 FYs should be available, including the latest complete FY.
- 4. Specific Justification for continuation beyond defined age limit?
- 5. Specific Justification for re-proposing director despite past rejection by shareholders. Whether the Company has engaged with the shareholders to understand concerns and whether those concerns are addressed?
- 6. Justification for appointment:
 - a. when the Director comes with limited years of professional experience or
 - b. where past experience has been at entities with regard to which limited information is available in public domain or
 - c. where the board size appears to be enlarged beyond a reasonable limit only to accommodate related parties?

Office of Director:

- Whether the office of director is retiring or non-retiring?
- Whether a continuing executive is appointed as a NED?

- Combined Position with potential for concentration of powers.
- Whether the approval will lead to appointment for perpetuity?
- Whether the Director held/holds an Office of Profit Position? Whether shareholder approval was sought for the same?
- Whether the Director was an ID previously?
- If pursuant to a right, the same should be compliant with shareholding threshold set for eligibility?
- Impact of appointment on Board Composition.

Time Commitment:

- Full-time positions held by the appointee. Whether such companies belong to the same group? Whether such companies are engaged in similar business? Whether the Company directly holds stake in such other Company?
- Details regarding 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
- Meetings attended during the year; whether Alternate Director appointed?
- 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?
- Proper disclosure of other directorships and committee positions held therein with name of such other entities.

Attendance:

- Attendance disclosed for latest complete financial year? If considerable period of FY elapsed, whether attendance disclosed for such period?
- Whether committee attendance is adequate and satisfactory?
- Whether reasons for absence disclosed and justified?
- Whether Director attended last AGM? Whether the Director was legally mandated to attend AGM? If absent, whether authorized representative was appointed?
- Whether Board Chairperson attended previous AGMs?

Director Conduct:

- Whether the Director has played his duty effectively in the previous/existing term? (for re-appointments)
- Whether material failures of governance, stewardship, risk oversight and fiduciary responsibilities are observed during the year? (for re-appointments)
- Any regulatory/court/government orders passed against the Director?
- Whether Director disqualified under law? MCA Details will be checked.
- Other Directorship includes any defaulting / fraudulent Company?
- Reasons of resignation provided by the director for other recent resignations?
- 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 other statutory authority.
- Whether FIR / criminal charge sheet has been filed against the Director?
- Whether the Director has accepted, drawn or approved disproportionately skewed or excessive remuneration without adequate justification?

- Whether the Director is a party to an agreement with respect to which SES has identified governance concerns?

Conflict of Interests:

- Director is also on the Board of a competitor company / company operating in similar areas?
- Remuneration received for additional services.
- Transactions with entities (company/firms) where appointee is interested/connected.

Remuneration:

- Amount of remuneration vis-à-vis the financial performance of the Company (turnover/ profits/ growth)
- Remuneration at comparable peer companies
- Remuneration paid to the director vis-à-vis other directors within the Board
- Variable pay and its linkage with the performance of the Company. Performance Parameters set.
- Absolute Cap on remuneration, both Cash and ESOP based.
- Skewness in board remuneration.
- Remuneration derived from Group Companies
- Remuneration paid for additional services provided to the board. Basis of pay determination.
- Proper break-up of the remuneration proposed and paid.
- Remuneration during loss/inadequacy of profits. Whether approval for maximum 3 years? Whether disclosures for future improvement in operations and performance are objective and measurable in nature?
- Whether approvals are clubbed?

In case of (re)appointment of Promoter Directors in Companies.

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 are 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 analysis may highlight.

KEY CONSIDERATIONS – INDEPENDENT DIRECTORS**Parameters in case of appointment related to Independent Directors:**

- Aggregate tenure of the individual with the Company and that with the Group Companies.
- Previous association with the Company, Group Company, Promoter Company; requisite cooling off has been served?
- 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 for a long period? Nature of previous role.
- Any relationship / affiliation with Promoters/ Members of Promoter Group?
- Any relationship / affiliation with Auditors of the Company (both financial and non-financial auditors)?
- Relationship / connection between proposed ID and existing/outgoing Directors, directly or indirectly?

- Relationship / connection between proposed ID and significant shareholders of the Company?
- Transition from NED to ID? Whether proposed ID was or is a Group NED/ED?
- Whether proposal allows continuation post cessation as ID?
- Pecuniary relationship with the appointee or entities/firms where appointee is interested.
- Director in Competitor Company or at a Company engaged in similar operations.
- Pre-fixed or pre-determined remuneration? Whether the quantum is reasonable?
- Whether 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; Market value of shareholding; Face Value of shareholding.
- Whether ID holds stock options received from any previous position?
- 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?
- 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 sought for extension of remainder term?
- Whether position connected to a special right?
- 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?
 - 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.

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 and a specific justification for such continuation.

KEY CONSIDERATIONS – EXECUTIVE DIRECTORS

1. Disclosure in Explanatory statement:
 - Profile and Experience of the candidate
 - Age of the ED
 - Terms of appointment
 - Time Commitments
 - Other Listed Directorships. Committee Memberships/ Chairpersonships with Names of Entities
 - Past performance in terms of attendance

- Rotation or Non-rotational basis
 - Notice period & severance pay
 - Fixed Pay, Variable Pay and Share Based Benefits.
2. Whether NRC Compliant?
 3. Whether Board Approval obtained at Board Meeting or through Circular Resolution?
 4. Whether material failures of governance, stewardship, risk oversight and fiduciary responsibilities observed?
 5. Whether remuneration details adequately disclosed?
 6. Whether Director is a member of NRC?
 7. Other Directorships. Whether any defaulting / fraudulent company?
 8. Whether any regulatory order /criminal charge sheet filed against the Company?
 9. Whether Director disqualified under any law?
 10. Shareholder approval obtained within legal timeline? Prior shareholder approval obtained for Director who has attained 70 years of age?
 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 or related to Board Chairperson?
 18. In case of two MD positions, whether unanimous approval of the Board obtained?
 19. Impact of appointment on Board Composition.
 20. Is approval sought for a small tenure?
 21. Whether approval sought for only partial term?
 22. Whether ED was holding any office of profit position? Whether shareholder sought for the same?
 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 and KMP 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, respectively. 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 Board Chairperson and Nomination and Remuneration Committee (“NRC”) in resolving Board composition and KMP issues. However, 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 limit the accountability to the Board Chairperson to be responsible for ensuring overall compliance and will assess their role accordingly.

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.

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 website following any new appointments or vacancies.

Where the Board does not comprise of at least two-thirds of directors liable to retire by rotation, SES will not adopt a lenient view merely because the Company’s Articles provide that non-retiring directors shall become liable to retire in the event of non-compliance. Such provisions, intended to address exceptional or inadvertent situations, cannot be relied upon to substitute for compliance where non-compliance arises from deliberate or structured proposals.

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

KEY CONSIDERATIONS – BOARD & COMMITTEE COMPOSITION**Board & Committee Compositions:**

- Impact of appointment on Board Composition.
- Whether the Board is compliant with regard to requirements pertaining to IDs/Woman ID/ Overall Strength/NEDs/Retiring Directors/Executive?
- Chairperson of the Board 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.
- 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.
- 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?

BOARD CHAIRPERSON – GENERAL RECOMMENDATION GUIDELINES

SES does not support the re-appointment/continuation of a Board Chairperson if there are material non-compliances within the Company. These material non-compliances may pertain to issues arising as a result of improper Board or Committee compositions, failure to comply with provisions related to retirement by rotation, inadequate disclosures in the Board's Report, lapses in Business Responsibility and Sustainability Reporting (BRSR) or insufficient or misleading remuneration disclosures in the Annual Report. SES emphasizes that this list is not exhaustive and reserves the right to evaluate other significant compliance or 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 may take a relaxed view if holding only those persons/committee members who are specifically entrusted with the concerned issues accountable will effectively convey the concern to shareholders and prompt necessary corrective action.

Notwithstanding the above, SES will continue to not support Board Chairperson positions in cases where the non-compliance relates to issues where any specific committee/person is not specifically mandated to address the relevant issue. For instance, longest retiring director not placed for shareholders' approval at AGM.

SES has, for a considerable period, not been supportive of structures that have a potential to result in concentration of powers in the hands of a single individual. SES believes that leadership positions at the Board, Audit Committee and Nomination and Remuneration Committee levels are of critical importance and, therefore, should ideally be held separately to preserve independence and objectivity. However, SES' experience indicates that there are also companies that have demonstrated that such roles have had no negative implications which is exhibited through consistent growth, fair remuneration practices and absence of governance or unfair practices. In such cases, SES believes that the structure may not be viewed negatively. While SES continues to maintain that separation of these leadership roles represents best governance practice, it may, considering the above factors, adopt a relaxed view and permit such combined positions.

KEY CONSIDERATION – BOARD CHAIRPERSON**Board Chairperson:**

- Whether position combined with other roles? Any governance issues arising as a result of such concentration of powers?
- Any material/persistent non-compliances during the year?
- Whether the Board Composition is compliant?
- Whether the procedure of retirement by rotation done at AGM is compliant?
- Whether the Board has requisite number of retiring directors?
- 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 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?
- Whether the company has adopted aggressive accounting policies in its preparation of financial statements?
- Whether the Company has formed mandatory committees?
- Whether the Annual Reports/Notices contains mandatory disclosures?
- Whether the BRSR reporting is compliant?

KEY CONSIDERATION - AUDIT COMMITTEE**Role of Audit Committee**

- Committee Composition compliant?
- Adequate meetings held during the year?
- Audit Qualifications/ Comments adequately discussed in the Annual Report
- Any accounting fraud?
- Any governance concerns in the financial statements of the Company?
- Any weakness in internal controls?
- Statutory Auditor appointment is compliant and no governance issues identified.
- Whether the audit remuneration is fair; proportion of Non-Audit fee not excessive?
- Financial statements restated due to material irregularities.
- Late filing of financial statements for non-technical reasons (persisting or repetitive)
- When there is a disagreement with the auditors of the Company and the auditors resign or are dismissed, whether clear reasons are provided for their exit.
- Concentration of Powers in the hands of a Single Individual?
- Whether AC Chairperson attended last AGM?
- Inadequate RPT disclosures in the explanatory statement/Annual Report.

KEY CONSIDERATION - NOMINATION & REMUNERATION COMMITTEE**Role of NRC:**

- Whether Board & KMP composition compliant?
- Committee Composition compliant?
- Whether delay in filling of any Board/KMP/SMP vacancy?
- 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 any NRC Member is related a Director who receives unfair remuneration?
- ESOP terms are fair and justified, where NRC is the designated committee.
- Concentration of Powers in the hands of single individual?
- Whether remuneration policy is uploaded on website?
- Whether NRC Chairperson attended last AGM?
- Whether NEDs/IDs are remunerated fairly for their contribution?

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.

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

DIRECTOR APPOINTMENTS IN CASE OF BANKS

RBI has issued guidelines with regard to Management, Board and Committee compositions and remuneration across commercial banking companies via master circular dated 28th November, 2025. ([Link](#)) In addition to the governance standards developed for general companies which are discussed above, SES will examine whether the appointment and remuneration practices are in line with the RBI instructions or not.

ADDITIONAL KEY CONSIDERATIONS - BANKS

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?

DIRECTOR APPOINTMENTS IN CASE OF NBFC

RBI has issued guidelines with regard to Management, Board and Committee compositions and remuneration for Non-Banking Financial Companies (NBFCs) via circular dated 28th November, 2025. ([Link](#)) In addition to the governance standards developed for general companies which are discussed above, SES will examine whether the appointment and remuneration practices are in line with the RBI instructions or not.

Apart from the General Parameters applicable to all Companies, below specific parameters shall be monitored:

1. Prior approval of RBI for any change in the management, which would result in change in more than 30% of the directors, excluding independent directors. (Not applicable for retirement by rotation)
2. KMP of an NBFC shall not hold any office (including directorships) in any other NBFC-ML or NBFC-UL (except subsidiary).
3. ID shall not be on the Board of more than 3 NBFCs (NBFCs-ML or NBFCs-UL) at the same time.

RBI DIRECTIONS IN CASE OF SMALL FINANCE BANKS

RBI has issued guidelines with regard to Management, Board and Committee compositions and remuneration for Small Finance Banks via circular dated 28th November, 2025. ([Link](#)) In addition to the governance standards developed for general companies which are discussed earlier in the Policy, SES will examine whether the appointment and remuneration practices are in line with the RBI instructions or not.

RBI DIRECTIONS IN CASE OF PAYMENTS BANKS

RBI has issued guidelines with regard to Management, Board and Committee compositions and remuneration for Payments Banks via circular dated 28th November, 2025. ([Link](#)) In addition to the governance standards developed for general companies which are discussed earlier in the Policy, SES will examine whether the appointment and remuneration practices are in line with the RBI instructions or not.

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 roles and the responsibilities of the Board and 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 shall 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.

ADDITIONAL KEY CONSIDERATION – INSURANCE COMPANIES

1. Whether proposed appointment/remuneration is in accordance with the regulations/guidelines/circulars issued by IRDAI from time to time?
2. Whether prior approval of IRDAI is sought where applicable?

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 in favour of 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 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 revised RBI Guidelines on 'Fit and Proper' Criteria issued in November 2025 for Elected Directors. [Click here](#) to view the direction.

KEY CONSIDERATIONS - SHAREHOLDERS' DIRECTOR

1. Whether name and profile of the candidate disclosed?
2. Details of the valid nominations received for contesting the election. Eg: Number, name(s) and profile.
3. 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, the management and the board of the Company. While recognizing that fixing remuneration is prerogative of the Board, SES believes that remuneration should not only be commensurate with the efforts but also be aligned with the performance of the Company. 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 the qualification, experience, efforts of the individual 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 parameters which may 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 adequate disclosures or 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 explain the basis of arriving at the remuneration for the directors based in foreign locations and why the payments should be considered fair despite the apparent difference.

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.

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.

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 recommend AGAINST the director's remuneration proposal which either maintains or increases skewness. SES understands there could be reasons for the difference in payment, however, the same should be explained by the Company.

Excessive Pay: If the proposed remuneration is not commensurate with the Company's performance or if it appears to be excessive considering the remuneration of other directors on the Board, size and performance of the Company, remuneration paid to directors at comparable peer companies, age and experience of the Director or median remuneration of employees, then SES will not support the 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 such as pre-listing practice or change in financial position. SES will apply a stricter stance in cases involving directors who are promoters or significant shareholders, 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.

Share Based Payments:

Where a director is eligible for share-based payments, remuneration proposals should include clear and sufficient details to enable shareholders to assess the benefits proposed for the approval period. This should cover the cap on grants, pricing, vesting schedule and conditions, performance parameters, exercise period and any other key terms relevant to the awards.

Overall Board/ED Remuneration Approvals over legal limits:

Companies Act, 2013 and SEBI LODR Regulations, 2015 require shareholder approval by way of special resolution where any single director or overall board or executive remuneration exceeds the prescribed limits. When seeking approval for beyond legal limits for more than 1 ED, companies should ideally obtain shareholder approval annually, based on a review of performance for the relevant year.

SES, as a governance practice, will require approvals to be valid for a limited time frame. Further, companies should disclose details regarding the reasons for breaching the prescribed limits (whether driven by performance outcomes or increase in remuneration of any select director), the period for which the approval will remain valid, an absolute cap on the potential payments and why such payments beyond legal limits are fair and justified. SES will not support open-ended and long/perpetual approvals for remuneration beyond legal limits.

If the limits are getting breached primarily as a result of pay of any select director(s), then analysis will be based on whether concerns are identified in relation with the remuneration terms of such select director(s).

Remuneration in case of loss/inadequacy of profits:

When seeking approval for payment of minimum remuneration in case of inadequate/no profits, 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 reasons for inadequate profits/ loss, steps taken for improvement and expected increase in productivity and profits in measurable terms, should be clearly specified. SES will not support proposals if requisite disclosures are not made.

Discretion to revise the remuneration terms up to 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 shareholder approval.

Sector Specific Guidelines:

Government Companies should ensure that the guidelines issued by the Department of Public Enterprises are followed. RBI and IRDAI has issued remuneration guidelines for the Board and the Management in the entities regulated by them. Companies should ensure compliance with the same.

Any other company regulated by any sectoral or ministry directions, should ensure compliance with the same.

KEY CONSIDERATIONS – EXECUTIVE REMUNERATION

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 remuneration paid to executive directors include performance-based pay?
7. Whether the remuneration paid from group companies, disclosed in the remuneration disclosures of the Company.
8. Whether the remuneration payable from group companies 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 the Director has failed in performing his duties?
12. Whether any ED remuneration appears to be underpaid, which leads to skewness?
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 and share based benefits?
 - 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 favor 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., in CG report?
16. 2 or more Director's receive exact/near same remuneration consistently.
17. Approval for minimum remuneration sought for more than 3 years? Whether requisite disclosures are made?
18. Remuneration payable to Promoter Executive Directors exceed Companies Act or SEBI LODR limits.
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?
25. Does the Board have absolute unfettered discretion to change terms of appointment / remuneration without shareholder approval?

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

- Amount of remuneration
- Fixed pay vs Variable pay proposed to be paid
- Various component of the remuneration package
- Size and operations of the Company
- Age and Experience of the Director
- Proposed Role and Responsibilities of the Director
- Remuneration paid to other executive directors of the Company
- Remuneration paid to the Directors of the Peer Companies
- 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 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 carried out by SES for previous financial year as set from time to time.

NON-EXECUTIVE DIRECTORS' COMMISSION (GENERAL)

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. SES will not be supportive of **perpetual approvals** for payment of commission. However, a relaxed view may be taken where an absolute and a reasonable cap is placed on the amount of commission payable.

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

Specific justification should be provided where the annual remuneration paid to a single NED exceeds 50% of the total remuneration paid to all NEDs put together during a particular financial year. SES will require compelling reasons when the Director is a Promoter or a Significant Shareholder.

Group remuneration: If the NED receives remuneration from any of the group companies, then the same should be disclosed in the Notice and the Annual Report of the Company.

Director Profile: Secretarial Standards 2 mandates director profile to be disclosed when seeking approval for remuneration.

Remuneration in case of loss/inadequacy of profits:

When seeking approval for payment of minimum remuneration in case of inadequate/no profits, 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 any NED or overall NED 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 reasons for inadequate profits/ loss, steps taken for improvement and expected increase in productivity and profits in measurable terms, should be clearly specified. SES will not support proposals if requisite disclosures are not made.

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 applicable provisions of law as well as the terms of payment of such remuneration.

SES will analyze the payments made to a NED or to an entity where the NED is interested on the basis of its developed parameters.

1. Whether the fees being paid for 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 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?

Where such remuneration is paid to a Promoter NED, compelling reasons should be provided. SES is of the opinion that professional service taken from promoter NEDs may lead to conflict of interests. SES is of the view that ideally the Company should seek professional services from independent professionals rather than 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? Or any other reason?

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 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 retainer basis will not be supported 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/Entity where ID is a partner or interested 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 recommend against 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 – NED/ID REMUNERATION

1. Commission is based on performance parameters that considers performance of the Company as well as that 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 Companies.
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?
19. Whether remuneration received from the group companies disclosed? Whether any discrepancies identified in the remuneration disclosures made by the Company?
20. Whether approval sought for payment of remuneration to ID designated as NID by SES?
21. 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 Companies.
 - 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 proposals on the basis of the justification 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 may not support the resolution. The law has done away with the provision relating to approval from the Central Government for payment of such excess remuneration. 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 - WAIVER OF EXCESS REMUNERATION

1. Quantum of waiver of remuneration sought.
2. Whether the director is Promoter or Professional?
3. Whether the payment made was as per the original terms of appointment?
4. Whether SES had originally identified unfairness?
5. Whether the original remuneration terms contain absolute cap?
6. Whether the remuneration contains any substantial fixed/guaranteed commission/bonus?
7. Whether the waiver was disapproved by the Central Government in the past? Whether the Company has disclosed the reason for such disapproval?
8. Reasons stated by the MCA for disapproving the waiver.
9. Fairness of the Remuneration Practice and Policy.

PRINCIPLE 8 – SHARE BASED BENEFITS

Share Based Benefits are useful for retaining employees and aligning their interests with shareholder interests. SES will evaluate the terms of the scheme including exercise price, vesting period, vesting conditions, 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 expects the Companies to make objective based disclosures in the Notice while seeking shareholder approval. If legally mandated disclosures are vague, broad and open-ended in nature, SES will not support such schemes.

For instance, exercise price should be disclosed in the form of a specific price, a specific and a reasonable range or a pre-determined pricing formula, such that shareholders are able to estimate the potential per option benefit for employees. Schemes where unfettered power is granted to NRC / Board with respect to exercise price is not viewed as transparent. Hence, SES would raise concern in such cases.

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

When a Scheme is proposed to be modified/amended, SES will analyse and provide its opinion on the proposed modifications. The modifications should be clearly disclosed along with the rationale for the variation and a specific disclosure on whether such modifications will apply to past grants pending exercise, future grants only, or both. While analysing the amendments, SES will also assess the Scheme holistically, including any original concerns that continue to persist, and whether the proposed amendments are inherently linked to or likely to aggravate such concerns. If the amendments are procedural or technical in nature and do not have any bearing on the identified concerns, SES may not raise concerns on the amendments. However, in all other cases, SES will not support the amendments unless the originally identified concerns are adequately addressed.

Similar parameters would be used to evaluate ESPs, RSUs, SARs and other schemes intending to provide equity-based benefits to the employees. Phantom Stock Options will, inter alia, be analysed on the basis of costs incurred by the Company to render benefits through these Options.

SES will, inter alia, monitor whether the disclosures made by the Company is in compliance with the SEBI (Share based employee benefit) Regulation, 2021, potential dilution to shareholders due to the scheme and the fairness of the exercise price.

Sweat Equity: 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 – SHARE BASED BENEFITS

1. Dilution as a result of the existing and the proposed scheme.
2. What is the percentage of outstanding ESOPs from all existing and proposed schemes?
3. Whether the scheme provides discretion to the board to accelerate vesting? In what instances?
4. What are the instances when granted options, vested and/or unvested, be lapsed? Are they fair?
5. Are the employees given adequate time to exercise options/units? Also, in exceptional events?
6. Whether disclosures made are in accordance with the SEBI SBEB & SE Regulations?
7. Whether the exercise price is disclosed either as a band or as a % discount of market price or as a formula; whether the range of discount is reasonable?
8. Whether a specific route of issue (i.e. Trust or Direct) is disclosed?

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 information on Compensation Committee is available? Is the committee compliant?
12. Whether options have been granted pursuant to a pre-IPO scheme without ratification?
13. Is modification to scheme proposed prior to ratification of the scheme?
14. Whether approval is sought to grant more than 1% stock options to a single employee without disclosing details of the employee and rationale behind it?
15. 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?
16. Whether the ESOPs are being granted to Founders who are not classified as Promoters? SES shall give due consideration to the governance factors while analysing the proposal.
17. Whether the ESOPs are being granted to Promoter relatives as per SES criteria?
18. Whether NEDs are given options? Rationale?
19. Whether Vesting Conditions are linked to parameters not reflective of fundamental performance of company?
20. Law requires separate shareholder approval for specific actions. Does the scheme provide the Board a discretion to undertake such actions without obtaining such separate approval from shareholders?
21. Whether the units to shares exchange ratio is reasonable?
22. How will the Scheme be adjusted in the event of Corporate Actions? Whether the same is fair?
23. Whether the applicability of re-pricing / modification is clearly explained? Whether future grants only or past grants as well?
24. Are varied nature of share based benefits clubbed under the single scheme? Are mandatory disclosures clearly segregated?
25. Whether more than one exercise price / exercise period / vesting period, etc. proposed under single scheme?
26. Whether proper approvals obtained from transfer of options/units from old scheme to new scheme?
27. More than one Exercise Price or Vesting Period or Exercise Period proposed under one common pool.
28. Is vesting period extremely long? Whether range of vesting period is reasonable?
29. Whether exercise period is extremely short?
30. Whether NRC has the discretion to change exercise period at employee level?
31. Disclosures made on the circumstances under which and the period for up to which the lock-in will be applied?
32. Whether Compensation Committee / Board has authority to make material variation without shareholder approval?
33. Whether performance parameters are objective and measurable?
34. 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 or Other Group Companies. 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 group companies will be determined as below.

BASIS FOR RECOMMENDATION FOR GRANT OF BENEFITS TO EMPLOYEES OF HOLDING, SUBSIDIARY AND ASSOCIATE COMPANY: (SUBJECT TO NO OTHER CONCERNS)

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 – EXTENSION OF SCHEME

1. Whether concerns are identified against the original scheme?
2. Whether the Company has provided compelling justification, for the extension of its ESOP scheme to its Group Companies?
3. Whether the Group 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 measurable performance targets, so that employees get an opportunity to exercise benefits when the Company gets back on track with improved performance. Further, if the re-pricing applies to only future grants, then the same should be proposed with sustainable performance improvement targets.

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 – ESOP REPRICING

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. Impact on Vesting Conditions and Vesting Period.
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 – COMPENSATION COMMITTEE

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 accelerated 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 RPTs due to their very nature carry an inherent conflict of interest, SES will evaluate the 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 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, completeness of disclosures and whether the period of contract and the period of shareholder approval is specific and reasonable. SES, in general course, will not be supportive of proposals that allows the Company to carry on RPTs for perpetuity. In a nutshell, SES shall look for abusive nature of transaction or lack of disclosure / rationale. 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 payments.

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.

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 valuation / external reports and the methodologies adopted by the Valuers should be clearly disclosed in the explanatory statement.

If a bidding process was undertaken, then adequate details should be given regarding the process which gives assurance that the bidding process 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 described 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: LODR, 2015 require all RPTs to have prior approval of Audit Committee. The material RPTs, as per revised thresholds, 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 have become effective from 1st July, 2025. SES monitors compliance with the same.

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 – RELATED PARTY TRANSACTIONS

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) Duration of Shareholder approval
 - f) Basis of Arm's Length Pricing
 - g) Details of comparative advantage gained from RPT vis-à-vis transaction from any other unrelated party.
 - h) The material terms of the contract or arrangement including the monetary value, if any
 - i) Any advance paid or received for the contract or arrangement, if any
 - j) The manner of determining the pricing and other commercial terms, included as part of contract (Valuation Report/ Fairness Report)
 - k) Any other information relevant or important for the members to take a decision on the proposed resolution
 - l) Impact of transaction on the Company's financials (as per Company Disclosures)
 - m) Reason for entering into transaction including justification for the same
2. Whether RPT is proposed to be entered with Promoter Entity? Whether basis of pricing disclosed?
3. Whether the RPT deals with payment of Royalty / Brand usage fee?
4. 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.
 - d. Qualifications raised by the Auditors of the counterparty in their Report.
5. Audit Process
 - a. Audit Committee's independence and comments (if any) on auditor's report/accounts.
 - b. Auditors' independence
6. Whether Audit Committee was compliant at the time of granting of approval to the RPT?
7. Whether disclosure made regarding approval/ omnibus approval of Audit committee on RPT?
8. Whether RPT approval sought for perpetuity?
9. Whether the Company has disclosed if the RPT is in Ordinary course of business and at arm's length basis?
10. Whether the RPT is in Ordinary course of business and at arm's length basis as per SES?
11. Whether 2 or more RPTs are clubbed in a single resolution?
12. 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
 - 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.
13. Whether the Company has disclosed RPT Policy? Review of the Policy on Related Party Transaction at least once in 3 years. Whether the material modification limit clearly defined?

14. Review the disclosures of transactions of the Company with any person or entity belonging to the promoter/promoter group which holds 10% or more shareholding in the listed entity.
15. 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?
16. Whether there has been a significant shift in the proposed limit of RPT as compared to the previous year RPT values and also, limit proposed at the time of previous approval? Whether the Company has provided adequate and specific justification for the same?
17. Whether the Company and the related parties involved, has the financial capacity to sustain the RPT?
18. 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?
19. In case of investment, is the rationale justified adequately?
20. Whether the material modification limit clearly defined?
21. Whether prior approval of AC and Shareholders sought? Whether omnibus approval sought exceeds 1 year (15 months / beyond next AGM, if sought in AGM)?
22. Whether any RPTs with a related party excluded from shareholder approval?
23. Whether all RPTs with a related party aggregated while seeking shareholder approval for such RPT?
24. Whether shareholder approval period exceeds the period approved by the Audit Committee?
25. Whether the quantum of RPT clearly defined?
26. Whether royalty linked to turnover generated by the such royalty payment?
27. If RPT is linked to Convertible Securities, are the terms of conversion adequately addressed?
28. In case of event based RPTs, timeline within which the transaction will get complete.
29. Whether the Company has made disclosures as required under ISF Format?
30. Whether the RPT is compliant with overall ISF requirements?
31. Whether the AC has reviewed the certificate from the CEO/ MD/ WTD/ Manager and CFO confirming that RPT is in the interest of the Company?

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 recipient company and its ability to service loans. In case of investments / 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.

In transactions involving financial or operational support obligations, the Company should clearly disclose the manner in which the associated obligations, risks and liabilities are proposed to be shared amongst the counterparties. Where such obligations are not shared proportionately, the Company should justify the commercial rationale and clarify whether it will receive appropriate compensation, over and above the primary transaction consideration, including any support fee or other arrangement determined on an arm's length and fair basis.

Further, SES recognises that certain counterparties may not possess the financial standing or credit profile required to extend guarantees or support obligations comparable to those of the Company. However, in such cases, there should be adequate clarity that, upon crystallisation of any liability, the counterparties remain contractually obligated to reimburse or compensate the Company for the portion attributable to them. In the absence of such safeguards, concerns may arise regarding disproportionate risk assumption by the Company without commensurate protection or benefit.

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 any person. Furthermore, cases of inter-corporate loans/guarantees/investments involving 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.

SES may also 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, 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 blanket approvals.

SES will not support blanket approvals under **Section 185** of the Companies Act, 2013 for loans/guarantees to entities wherein the Directors of the Company are interested unless adequate disclosures are made regarding the particulars of the loans/ guarantees to be provided. The particulars include, but not restricted to, details of recipient, consideration / benefits to the Company, repayment terms, tenure of loan/guarantee, whether support obligations / risk will be shared proportionately in case of partly owned entities, details of security, rationale for support and other relevant details.

Where the disclosures made by the Company adequately establishes that existing limits have been utilized in a fair manner, there is a genuine need for enhanced limit and the Company has given adequate context for the increased limit in line with above discussed aspects, SES may support the proposals.

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

KEY CONSIDERATIONS – LOAN / GUARANTEE / INVESTMENTS

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 Companies Act, 2013 not made (terms, name 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, financials of recipient entity)?
21. Whether disclosures made regarding particulars (defined under point #20) 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 value of the primary/underlying transaction has been arrived on the basis of a valuation report? If yes, whether the Company has disclosed the valuation report and has provided adequate explanation on the basis of arriving at the proposed valuation?
26. In case of a specific transaction, the timeline within which the transaction is intended to be completed?

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 the valuation analysis undertaken and the disclosures made by the Company.

SES as a policy does not support the scheme of arrangement if the Company has not provided e-voting in the TCM. A comprehensive checklist has been annexed as Schedule II to this Policy Guideline. Read about SES policy on e-voting [here](#).

KEY CONSIDERATIONS - SCHEME OF ARRANGEMENT

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?
 - 3.7. Material event undertaken after the valuation of the deal
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 the other company with which the 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 be supportive of stock split if it meets regulatory requirements and the historical share price is in a range where a stock split would enhance liquidity.

KEY CONSIDERATIONS – STOCK SPLIT

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 buy-back 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 Promoter's 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 its post buy-back debt equity ratio, etc. on both standalone and consolidated basis.

SES has taken note of the amendments introduced under the Finance Bill, 2026, including the recharacterization of buy-back proceeds from dividend income to capital gains. SES's assessment of buy-back proposals factors in the implications of the revised tax treatment, including impact across shareholder classes and overall fairness.

KEY CONSIDERATIONS – BUY-BACK

1. Company's justification / objective for the buy-back (Check Compliance with SEBI & Companies Act, 2013)
2. Is the size of the buy-back 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 Buy-back Regulations and Companies Act, 2013.
4. Exact or minimum number of shares to be tendered by the Promoters in the buy-back disclosed.
5. Is the ratio of the aggregate of secured and unsecured debts owed by the company after buy-back more than twice the paid-up capital and its free reserves?
6. Has the Company made another buy-back 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 be supportive of proposals for capital reduction unless specific governance issues are identified, and the Company has not defaulted in repayment of deposits. SES will analyse whether the capital reduction is uniform to all shareholders or does it differentiate 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. Also, analyze what happened to previously approved objects, e.g. if specific project undertaken but now objects are being changed, what happened to the abandoned projects?

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.

SES will also evaluate whether Promoters/Controlling Shareholders have fulfilled their obligation to provide an exit opportunity to dissenting shareholders in cases where less than 75% of the proceeds have been utilised towards the stated objects and more than 10% of shareholders have expressed dissent to the proposed revision.

SES has observed instances where the objects of an issue are revised multiple times. At present, there is a lack of legal clarity on whether utilisation towards revised objects should be considered while computing the 75% utilisation threshold. In such scenarios, SES will undertake a case-by-case assessment based on the merits of each proposal, while clearly highlighting the prevailing legal ambiguity for the information of shareholders.

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 support 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 support the resolution unless 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. 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 will not support such proposals unless compelling justification is provided.

Further, requirements stipulated under SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 should be complied with.

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

Further, requirements stipulated under SEBI ICDR Regulations, 2018 should be complied with.

KEY CONSIDERATIONS – BORROWINGS & DEBENTURES

1. Compare current borrowings versus existing and proposed borrowing limits.
2. Is the proposed limit significantly higher than the previous limit? Rationale disclosed?
3. The Company has high cash balance and the Company is debt free and has not disclosed any usage.
4. Portion of the existing borrowing limits that is unutilized.
5. Is the Borrowing limit clearly specified?
6. 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)
7. Has the Company defaulted on any of its current debt obligation? Has the company undergone a debt restructuring? Is the Company a sick company?
8. Whether the amount borrowed by Banks/ Financial Institutions in the past, been utilized for the purpose for which it was raised.
9. Potential increase in debt equity ratio and comparison of the ratio with peers.
10. Are there large loans to related parties other than 100% subsidiaries? Have they increased recently?
11. Amount of borrowing is not consistent in the resolution and explanatory statement of the Notice i.e. amount of borrowing proposed differs.
12. Impact on cash flow and capability to sustain and service the borrowing.
13. Proposed NCD as against the Asset Size and Net Worth of the Company?
14. Latest obtained credit rating updated on the website of the Company?
15. Net Worth of the Company. Losses made in the last 2 financial years?
16. Issue of NCDs proposed without providing any specific reasons?
17. Borrowings of Banks/ NBFCs and HFC are to be evaluated based on RBI / Basel norms.
18. 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 - CREATION OF SECURITY / MORTGAGE TO SECURE BORROWINGS

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. 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. Same analysis as discussed above for 100% owned subsidiaries. If not, vote AGAINST the resolution
 - b. If liability and risk are shared proportionally?
 - c. Impact on the Company in case of default
 - d. How the Company is secured?
 - e. 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 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 stake from a subsidiary = Sale of undertaking:

Regulation 24(5) of SEBI LODR Regulations require 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 where a Company proposes to dispose of its stake in a subsidiary and the value of such stake exceed the thresholds prescribed for an undertaking under Section 180 of the Companies Act, 2013, such transaction effectively amounts to a sale of undertaking. Accordingly, shareholder approval for such disposal should be sought by way of a special resolution under Regulation 24(5), as well as through a special resolution requiring majority approval of public shareholders under Regulation 37A.

Further, in a case where the value of a subsidiary in its entirety exceeds the section 180 limits, however, the value of the stake proposed to be sold does not breach the thresholds prescribed under Section 180, but the transaction results in the Company's voting rights falling below majority and consequent cessation of control over such subsidiary whose value exceeds such thresholds, ideally approval under Regulation 37A should also be obtained. However, considering the legal ambiguity prevailing on this issue, SES may not raise concern in this regard.

Further, where shareholder approval is sought for creation of security / charge / hypothecation over shares of a subsidiary or associate, which may potentially result in disposal upon enforcement, the above legal requirements should be considered. Accordingly, SES will sensitise companies to such regulatory implications through its Reports.

KEY CONSIDERATIONS – SALE OF UNDERTAKING/BUSINESS

1. Need and justification for sale.
2. Identification of assets being sold and its importance to the Company.
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 and the manner in which the valuation is arrived?
5. Consideration of the sale.
6. How is the transaction structured?
7. Details of the buyer – relationship with promoters (if any).
8. Material nature of the assets/ business being sold (25% of the net block or 25% of revenues).
9. Impact on turnover, profits and working capital.
10. Anticipated use of funds.
11. Conflicts of interest (Consider RPT issues as well).
12. Whether promoter / director / KMP interested in the deal?
13. Whether Audit committee has recommended the transaction?
14. Timeline of transaction completion.
15. Whether stake in a subsidiary / associate being sold? Or whether charge / security being created over such investment?

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 January, 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.

RBI, in 28th November, 2025, issued a Master Direction.

As per the directions ([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 ₹ 100 crores 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 ₹ 500 crores 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.

SES will examine such resolutions on a case to case basis and in accordance with the RBI Directions. 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 - CONVERSION OF LOAN INTO EQUITY

1. Amount of Loan.
2. Financials of the Listed Entity.
3. Objective of raising loan.
4. Duration of the Loan.
5. Rate of interest.
6. Are the terms of conversion clearly defined?
7. Pricing of the conversion as per statutory laws.
8. Parties to which equity shares shall be issues in lieu of the loan.
9. 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 with adequate disclosures regarding need of funds, rationale for the chosen route 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 analyze proposals to raise equity on a case by case basis. In normal course, SES will generally not support proposals that seek blanket approval for issuance of securities without giving adequate justification especially when the potential dilution is 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 suitable 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 fair 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; majority portion of the funding is received once the warrant is 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 be supportive of such resolutions unless any 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 general course, is not supportive of proposals for preferential issue or private placement of shares and/or convertible securities due to their dilutive effect on existing shareholders unless the Company provides adequate reasons. However, such issuances may be viewed favourably where the investor brings clear strategic, technological, or long-term business benefits, or where there are other compelling reasons that demonstrate value for the Company.

With rights issues having become more streamlined and efficient following SEBI amendments, it is important for companies to provide a clear and well-reasoned explanation when opting for preferential issuance instead of a rights issue. The rationale should demonstrate why the chosen route is in the best interest of the Company and its shareholders.

However, in cases where the price of equity shares offered under preferential issue is significantly higher than the market price of the share or than the price arrived at as per the ICDR pricing formula, then, SES may take a lenient view.

SES will also consider prevailing market conditions when assessing the feasibility of a rights issue. If external factors beyond the Company's control make a rights issue less viable and a preferential issue emerges as a more practical alternative, a lenient approach may be adopted.

When computing dilution, SES will consider the dilution caused as a result of the preferential issues made over a period of last 12 months, and if the dilution caused over such period is significant, then the Companies should explain as to why rights issue was not pursued. However, in situations involving financial distress or other circumstances where a rights issue is not practical, SES may take a more accommodating view.

KEY CONSIDERATIONS – ISSUE OF SECURITIES

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).
4. To examine the identity of the allottee and any change in control issues.
5. Whether the issue is being made to Government? Whether compelling justification provided for government funding?
6. Whether the issue is being made to Promoters?
7. Whether the issue is being made to Foreign Investors?
8. What is the source of funds of allottees?
9. What is the basis of selecting allottees?
10. Whether the issue is being made to strategic investors?
11. Inadequate details regarding background of allottees.
12. Conflicts of interest (including RPT considerations).
13. Has the allottee sold any equity shares of the issuer during the six months preceding the relevant date?
14. Securities being issued – shares / convertible securities / warrants.
15. Does the resolution mention issue of bearer securities?
16. Has the Company made a buy-back of equity shares 1 year before the issue of securities?
17. In case of Banks, SES shall also consider the present CRAR requirements along with the growth in NPAs and Advances.
18. Details of utilization of funds raised in past through preferential allotment or qualified institutions placement.
19. Is Valuation Report required as per law or AoA; if yes, did Board consider it? Is the same disclosed to the shareholders?
20. Is the Preferential issue of equity shares made under a Resolution Plan by banks/ financial institution?
21. Has the open offer requirements been triggered?
22. Are the securities being issued for redemption of preference shares?
23. Has the Company given option of issue of warrants along with other securities? Are the warrants being offered at premium?
24. Does the resolution enable the Company to issue Naked Warrants?
25. Why warrants? Whether warrants issued at a meaningful premium or premium using fair value models such as Black Scholes/ Monte Carlo Simulation?
26. Whether promoter stake is reducing in the company?

BONUS ISSUE

SES, in normal course, will support proposals for bonus issues unless specific issues are identified. SES will not support proposals if they are non-compliant 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, may support proposals for issuance 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 – PREFERENCE SHARES

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? Whether redemption terms disclosed and fair?
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? Whether conversion terms disclosed and fair?
9. Are preference shares entitled to participative dividend?
10. Whether the terms of preference shares are unfair to the equity shareholders of the Company?
11. Whether disclosures as required under rule 9(3) of Companies (Share Capital and Debentures) Rules, 2014?
12. Whether authorized by articles of association?

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 amendments proposed to a company's articles of association or memorandum of association on a case-by-case basis.

GENERAL CONSIDERATIONS

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

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.

In case, the Company does not adequately disclose the alteration proposed to be made in the AoA/MoA and the rationale for the same, SES may not support the resolution.

SES does not support bundling of several amendments into a single proposal. However, SES may take a relaxed view where such bundled modifications are made due to a single event/transaction and SES has identified no issues with such event/transaction. Another instance where SES may allow clubbed changes is where all such changes are necessitated by a regulatory change.

When several amendments are bundled into a single resolution, SES will analyze each amendment individually. SES will support the proposal only if no issue is identified in any of the proposed amendment. Additionally, SES will provide voting advice on each individual amendment in case the Company decides to hold individual voting for each proposed amendment.

The Companies should also ensure that the articles are compliant with all the applicable legal requirements to the Company. SES also opines that Articles should not provide for alternate director appointments or appointment of Chairperson Emeritus positions.

SES will not support proposals where the articles comprise of special rights over which SES has identified concerns.

CHANGE IN "OBJECTS CLAUSE"

If the proposed new business is in line with the existing businesses of the Company, SES will support 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 into 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 – CHANGE IN OBJECTS

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 support 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 may support proposals to change company names unless there is compelling evidence that the change in company name would adversely impact shareholders' value or is misleading. Companies should also ensure compliance with Section 13 of Companies Act, 2013 and regulation 45 of SEBI LODR Regulations. SES will specifically monitor compliance with conditions stipulated under regulation 45.

KEY CONSIDERATIONS – CHANGE IN NAME

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 may support 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 support 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 the Company to 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 not support proposals that give the board discretion to alter the size of the board without taking further shareholder approval.

SES will also not support proposals where intent to increase board size is not driven by company needs and instead, to accommodate promoter/controlling shareholder family members into the Board.

SPECIAL RIGHTS TO CERTAIN PARTIES IN AOA/AGREEMENTS

Generally, Special Rights are offered by the Company to its Promoters, Significant Shareholders or Lenders. These rights may be incorporated in the Articles of Association (AoA) or built in the agreements entered with or amongst shareholders/lenders.

SES observes that shareholder rights broadly fall into two categories: Defensive and Participatory. Defensive rights are protective in nature and are intended to safeguard investment against potential abuse, value leakage, or self-interested actions by controlling shareholders or management. Participatory rights, on the other hand, extend beyond protection and confer certain affirmative or involvement-based powers, enabling them to participate in or influence key decisions.

The nature and scope of such rights vary based on the commercial context and the requirements of the recipient. Common forms of such rights include Nomination Rights, Pre-emptive Rights, Veto Rights, Tag Along Rights, Information Rights, among others.

Regulation 31B of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 requires that such Special Rights be subject to periodic shareholder approval, at least once every five years.

In its assessment, SES evaluates whether such rights are commensurate with the shareholding or exposure, appropriately confined to material matters without extending to routine operational decisions, fair in their impact on non-participating shareholders, and supported by a clear and reasonable rationale.

In case of re-approval, SES will also evaluate whether the exercise of such rights in the past has resulted in any negative governance implications for the Company.

Detailed approach of SES on analysing such Special Rights can be accessed here: [Link](#)

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.

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 - PROFIT SHARING AGREEMENT

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. 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 be supportive of proposals that seeks to remove articles which grant special rights/privileges to any select 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, in cases where the acquirer provides an indicative price for delisting, SES would analyze 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 – CSR/DONATIONS

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/Group 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 related party for holding office or place or profit 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 remuneration proposed. 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.

Section 188 of the Companies Act, 2013 exempts shareholder approval for related party transactions including office of profit positions entered in the ordinary course of business and on an arm's length basis; however, the law does not prescribe any clear mechanism on how to determine whether a transaction truly meets the arm's length test, effectively allowing companies to keep such arrangements outside shareholders' scrutiny based on management's assertion alone. Therefore, where an office of profit or similar connected position is claimed to be at arm's length and not placed before shareholders for approval, there should be clear and adequate disclosures explaining the basis of such determination. This should include bias free mechanisms such as external evaluation or independent certification or a detailed analysis that establishes arm's length nature of the arrangement. In the absence of transparent reasoning, the exemption sought will not be justified. Accordingly, SES will not support the appointment of such individual if proposed before shareholders for directorship or manager position.

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; which would otherwise have triggered Office of Profit limits.

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

KEY CONSIDERATIONS – OFFICE OF PROFIT POSITIONS

1. Does the Company have an independent committee which oversees the selection of a related party 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?
10. Is the basis of arriving at the remuneration terms clearly disclosed? If external certificates or evaluation sought, are they disclosed?

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 identify 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 - FEES FOR SERVICE OF DOCUMENT

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?
5. Whether approval for determination of fees sought at AGM?

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 of place of maintaining the statutory registers, unless the Company fails to specify exact place where the documents shall be maintained. SES will also not be supportive of proposals seeking an omnibus approval from the members for maintaining the Statutory Registers at such place where the Registrar and Share Transfer Agent may situate from time to time.

KEY CONSIDERATIONS - PLACE OF MAINTAINING STATUTORY REGISTERS

1. Has the Company mentioned 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 - CHAIRPERSON EMERITUS

1. Whether details of the Chairperson Emeritus adequately disclosed?
2. Whether an existing Board member proposed as Chairperson Emeritus? Whether the appointee is a Board Member or not?
3. Whether the appointment is of a specific person or is the Board authorised to appoint any person as Chairperson Emeritus?
4. Whether remuneration is disclosed or left upto Board Discretion?
5. Whether remuneration is nominal?

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 fulfil 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.

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 legitimate cases where individuals, despite being closely related to the promoters seek to be re-classified 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 promoters, then, SES may recommend in favour of the re-classification. However, it is essential that the explanatory statement clearly confirms that all outgoing promoters/promoter group members and continuing related promoters/promoter group members 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 re-classification of the promoter/promoter group shareholding unless compelling reasons are 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. However, SES may adopt a relaxed approach if the re-classifying promoters hold a minimal stake (equal to or less than 1%), resulting in negligible impact on the overall shareholding pattern, no governance issues are identified and the need for re-classification is justified.

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 2025-26, the top 500 listed entities were required to comply with the same. Further, for FY 2026-27, top 1,000 listed entities will be required to comply with the requirements.

Additionally, SEBI has also introduced disclosures and assessment or assurance for the value chain of listed entities, as per the BRSR Core. While the disclosure requirement became 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 has become 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 Company has 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 recommend **AGAINST** the re-appointment of the 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 500 listed entities, SES will also recommend against the re-appointment of the Board Chairperson and Concerned Authority, if the Company has failed to obtain or disclose the Assessment or Assurance Certificate in the Annual Report / BRSR 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 (ERPs) and is registered as a Category II ERP with SEBI as ‘Subscriber Pay’ Model, effective 25th April, 2024.

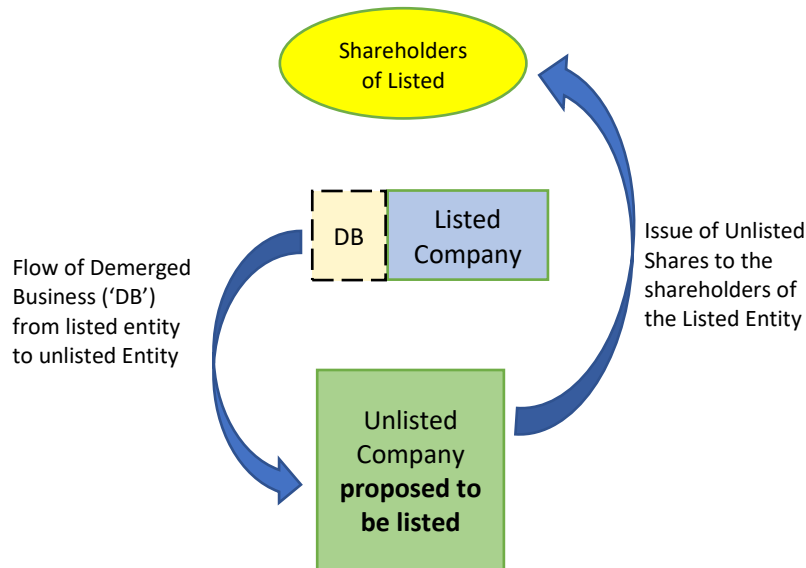
Originally, the ESG Rating Business was conducted under SES, which pioneered ESG Ratings in India since 2018-19 and published its first ESG Report in 2019. SES ESG now covers over 780+ companies, with coverage expanding based on client demand. SES has undertaken significant ESG work for both domestic 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 2026-27 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.

SEBI Circular dated 20th June, 2023 ([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 shall be computed considering such instruments be converted into equity	✓		
7	Lock-in provisions relating to shares shall be, as provided in the 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 the SEBI Master Circular	✓	✓	✓
17	Report on Complaints	✓	✓	✓
18	Approval through e-voting in all schemes	✓	✓	✓
19	Scheme to be acted upon only Public Majority obtained for specific cases mentioned in the Clause 10(b) of the SEBI Master 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 does 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:

All schemes filed with the stock exchanges are 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.