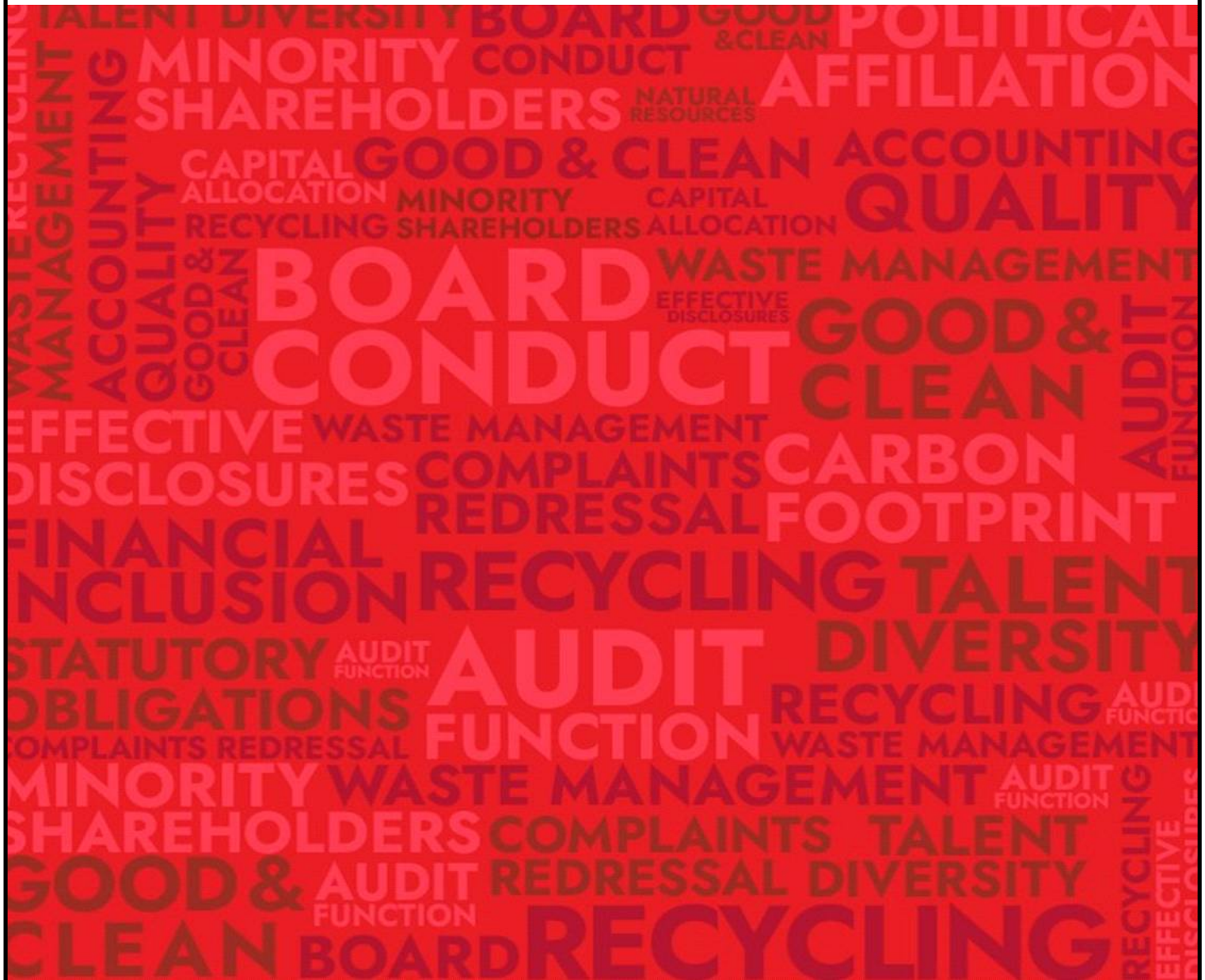


STRATEGY



July 2021



Adding ESG to Good & Clean

Research Analysts:

Vinit Powle
vinit.powle@ambit.co
Tel: +91 22 6623 3149

Nancy Gahlot
nancy.gahlot@ambit.co
Tel: +91 22 6623 3149

Nitin Bhasin
nitin.bhasin@ambit.co
Tel: +91 22 6623 3241

IN ASSOCIATION WITH



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Foreword:

Environmental, Social, and Governance (ESG) is a key focus areas for organisations across the globe. Recognizing its importance Ambit Capital Private Ltd. has partnered with Stakeholders Empowerment Services (SES) to carry out a study to evaluate top 100 NSE listed companies (excluding PSUs/PSBs) and present a first ever score on ESG disclosures by Indian companies. Unless otherwise stated, we have largely used FY20 data for our analysis purpose, while for governance parameters we have taken cut-off date of 31 Dec 20.

Stakeholders Empowerment Services (SES), a not for profit company was founded in 2012 by Mr J N Gupta, former executive director SEBI, with a mission to positively impact governance landscape of Indian listed companies. Mr Gupta is Managing Director of the Company and works pro bono along with his team. SES is one of the largest Proxy advisory company in India serving clients such as Mutual Funds, Insurance Providers, Foreign Investors including the largest asset manager in the world apart from leading banks, accounting and legal firms. SES serves its clients through its Proxy Reports, ESG reports, CGS reports and topical research report. SES is fiercely independent and conflict free and has not taken any investment from any entity and earns through subscription income alone.

THEMATIC

July 01, 2021

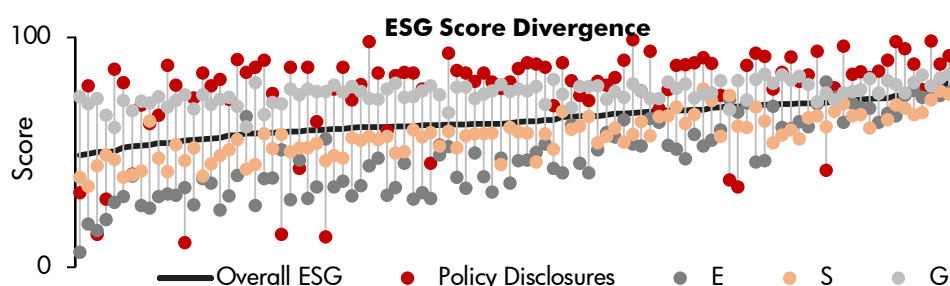
Adding ESG to Good & Clean

ESG momentum is picking up in India. But India Inc. is not necessarily close to global firms on ESG initiatives. Current disclosures may not allow effective ESG analysis. Only 53 of the top 100 companies voluntarily make globally comparable disclosures. Generally understood as anti-environment, cement and metal companies in fact do well on our framework. More regulatory push or attention has possibly forced these companies to adopt better ESG practices and disclosures. Most companies across sectors have either still not appreciated the ESG initiative or simply disclosures and hence rankings would evolve only over time. Our comprehensive bottom-up ESG framework helps pick up champions across sectors. With extensive governance checks, we have added one more arsenal along with our accounting work to find even better good and clean names. M&M, Dr. Reddy, Kansai Nerolac, Marico and L&T Infotech are a few key top scorers on our framework. Akin to accounting, we are keen to take you through our ESG framework.

Significant lag on 'E' and 'S' parameters keep overall ESG score low

Scores on governance and policies (BRR) are much better versus scores on 'E' and 'S' probably due to stringent regulatory measures over last decade. Despite operations-led environmental challenges, all cement and metal companies have resorted to globally inspired sustainability reporting and good initiatives on 'E' and hence score well on overall ESG. While consumer goods, pharma companies and financials, despite having lesser environment impact, get weaker scores due to lesser appreciation of 'E' or 'S' factors.

Companies perform well on governance and policies (BRR); lower score on E and S pulls down the overall ESG score



Source: Ambit Capital research, Company

Adding one more arsenal to our Good and Clean

Over 10 years back, we launched our proprietary forensic accounting model ([click here](#)). At that time, the quality of accounting was concerning w.r.t India Inc. Our accounting framework has been integral to our analysis to find 'Good and Clean' (G&C) names. With comprehensive governance checks introduced through this work, we have strengthened our assessment factors to identify G&C names. Info edge, Dr. Reddy's Lab, Wipro and ICICI Lombard are key names which top our governance parameters.

How we can help

Our framework has >300 questions across E/S/G. We can conduct extensive bottom-up company-specific bespoke research for clients. For interested clients, we would be more than happy to do a session on ESG with your entire team.

Top 10 performers on our framework

Company	ESG score (0 to 100)	Accounting decile
Infosys	80	D2
M & M	79	D9
Tech Mahindra	77	D4
Adani Ports	76	D3
Marico	75	D2
TATA Consumer	75	D9
TCS	74	D3
L & T Infotech	74	D5
Dr. Reddy's Lab.	73	D2
Kansai Nerolac	73	D5

Source: SES, Ambit Capital research, Company

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Research Analysts

Vinit Powle

+91 22 6623 3149
vinit.powle@ambit.co

Nitin Bhasin

+91 22 6623 3241
nitin.bhasin@ambit.co

Nancy Gahlot

+91 22 6623 3149
nancy.gahlot@ambit.co

Quick glance, but the devil is in the detail

Covid-19 has increased awareness and discussion on sustainable investing. A significant increase in the number of PRI signatories or AUMs for sustainable funds is testimony to this. Given weak disclosures on E and S, there is still some time before one gets meaningful insights into a company's E and S related activities for effective peer/cross-sector comparison. Low E and S scores for most of top 100 Indian companies (market-cap, ex PSUs) result in overall low ESG scores. Nevertheless, there are leaders across sectors that are setting an example by voluntarily adopting global ESG standards. Unlike accounting or governance norms which witnessed a string of regulatory actions over the last decade and hence could see some improvement, E & S disclosures and policies lack the required regulatory push. But companies will have to gear up as SEBI mandates a detailed disclosure format for ESG reporting from FY23 for top 1000 companies. Our comprehensive ESG framework can help separate the wheat from the chaff.

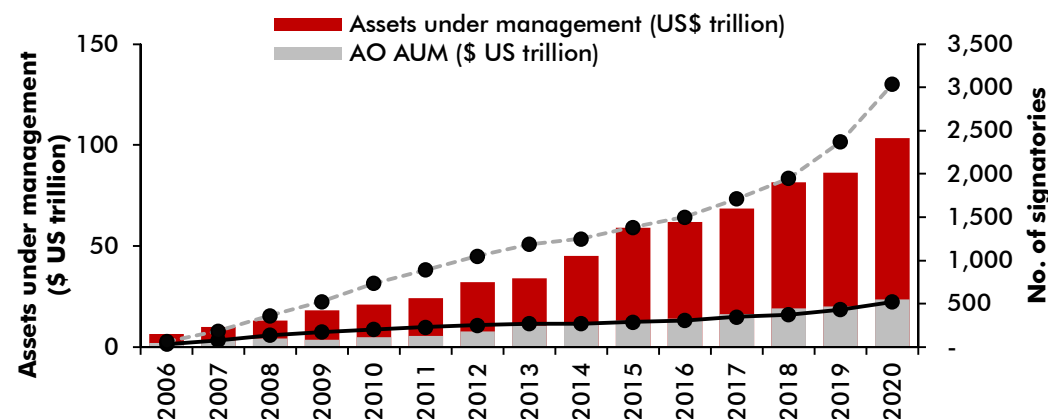
Belief systems are changing

It is difficult to comment in context of Indian companies that better ESG performance leads to better company performance and hence better shareholder returns. Whilst ESG funds have witnessed increasing flows in recent years, sharp spike in incoming funds or rising PRI signatories was seen post the Covid-19 pandemic struck the world. This probably explains why there is increasing attention to much softer aspects like E and S. This increased attention was possibly largely the reason that led ESG funds to perform better versus the broader markets in the last 1-2 years.

Sharp increase in PRI signatories post pandemic

The Principles for Responsible Investing (PRI) is the world's leading proponent of responsible investing, and helps understand investment implications of ESG factors and helps the signatories in incorporating these factors in investment/ownership decisions. PRI were developed back in 2006 but from Mar 2020 to June 2021 the number of signatories increased from 2,766 to 4,113 - a 48% jump! While developed countries like USA and UK have been interested in ESG for a long time, responsible investing is gaining momentum in India post-Covid. In India, the number of signatories increased from 5 in March 2020 to 11 in June 2021.

Exhibit 1: PRI signatories have been increasing at an increasing rate since 2016, but post- pandemic, we saw the biggest jump



Source: PRI, Ambit Capital research, Company. AO= Asset owners; Total Assets under management (AUM) include reported AUM and AUM of new signatories provided in sign-up sheet that signed up by end of March of that year. Total AUM since 2015 excludes double counting resulting from subsidiaries of PRI signatories also reporting, and external assets managed by PRI signatories. AUM for previous years include some element of double counting. Asset Owners' (AO) AUM for 2014-2020 are based on reported information (and include double counting). AO AUM for 2007-2013 are estimates calculated using 2014 AO AUM data, growth rates for 2007-2013 from the OECD pension market focus report from 2015, and signing dates of signatories to the PRI.

India: signatories to PRI

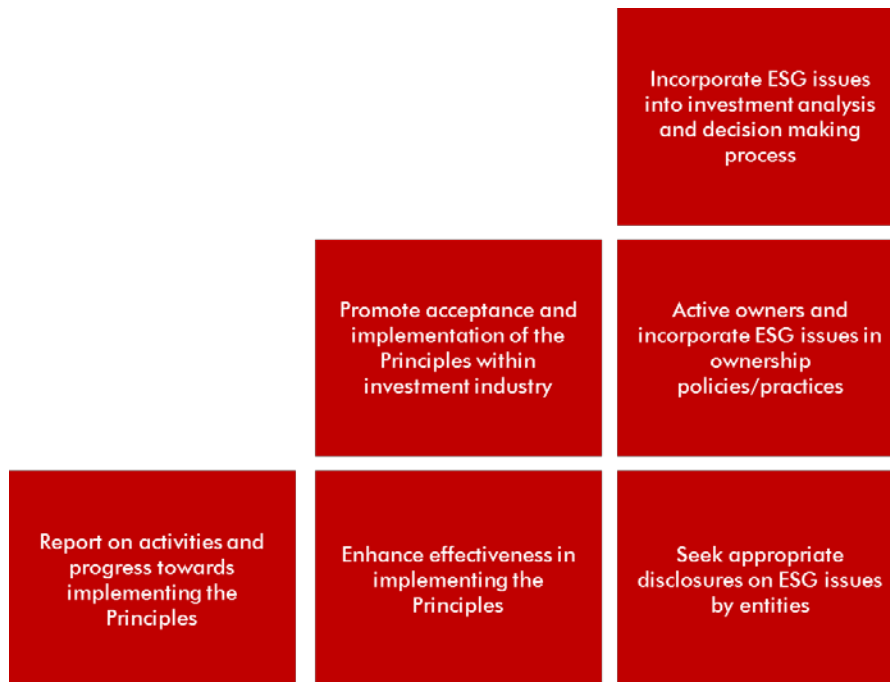
- Nippon Life Asset Management Limited
- Enam Asset Management company Private Limited
- Waterfield Advisors
- Omnivore
- True north
- UTI Asset Management Company Limited
- 3one4 Capital Advisors LLP
- Ecube Investment Advisors
- SBI Fund Management Private Limited
- Kotak Mahindra Asset Management
- Equicap Asia Management Private Limited
- Indus Environment Services Private Limited

Exhibit 2: In the last six months, the number of signatories to PRI increased by ~35%; since CY18 there has been >20% growth in terms of number of signatories

Signatories to PRI (Principles of responsible investing)	Pre- pandemic					Post- pandemic
	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Jun-21
US	221	286	349	480	663	771
UK	188	229	298	396	545	644
Brazil	26	33	37	53	73	97
India	1	2	3	3	8	12
Thailand	0	1	2	2	2	2
Vietnam	0	0	1	1	1	3
Indonesia	2	2	3	3	3	3
Total	1,501	1,714	1,951	2,372	3,038	4,113
YOY growth	18%	14%	14%	22%	28%	35%

Source: PRI, Ambit Capital research, Company.

Exhibit 3: Six principles under PRI focus on promoting ESG theme-based investing



Source: PRI, Ambit Capital research, Company.

Probably, pandemic helped ESG funds to do better; too early to comment on success

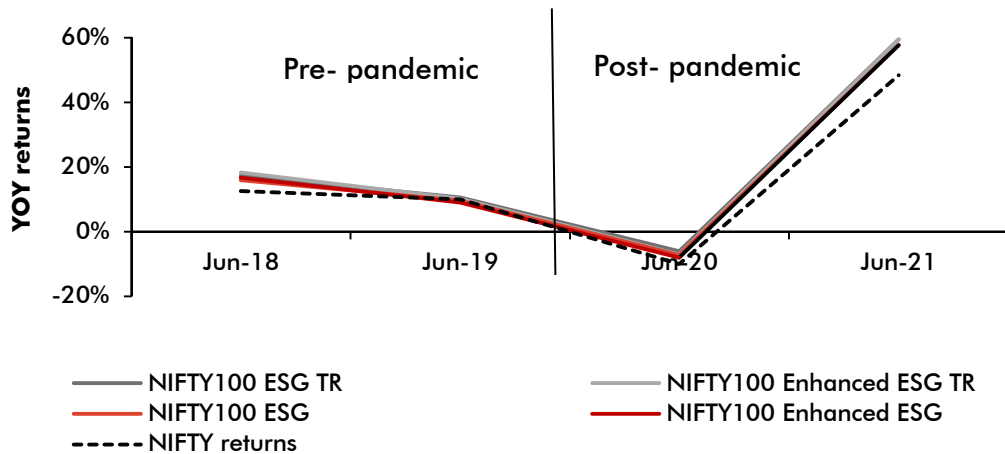
SBI Magnum Equity ESG fund was the first to be launched in India in Jan-91. Before Covid struck, India only had two ESG-based funds. After Covid, India now has seven ESG funds and one can expect more to be launched in coming years. Hence, it is too early to comment on the performance of these funds. In the US, over the last decade, S&P500 as well as S&P500 ESG index grew at a 12% CAGR, highlighting the performance of ESG fund at par with the broader market. Only after Mar-20 there was a slight outperformance by S&P500 ESG index. The performance versus broader market was slightly better in UK where the ESG index - FTSE Environment opportunities all-share index outperformed index - FTSE All world index by ~2% CAGR over the last decade. Even in India, the NIFTY100 ESG index and NIFTY100 Enhanced ESG index largely moved along with the broader markets. Only post pandemic, there was a slight outperformance by these indexes.

Exhibit 4: Most ESG funds in India have been launched post pandemic and possibly have benefitted from post-Covid attraction for ESG investing

ESG fund name	Inception Date	CAGR since inception	AUM (Rs mn)
Quant ESG Equity Fund	Nov-20	105%	155
ICICI Prudential ESG Fund	Oct-20	40%	16,657
Mirae Asset ESG Sector Leaders ETF	Nov-20	36%	1,293
Axis ESG Equity Fund	Feb-20	31%	19,036
Kotak ESG Opportunities Fund	Dec-20	27%	15,730
Quantum India ESG Equity Fund	Jul-19	24%	378
Invesco India ESG Equity Fund	Mar-21	12%	5,754
SBI Magnum Equity ESG Fund	Jan-91	11%	35,181

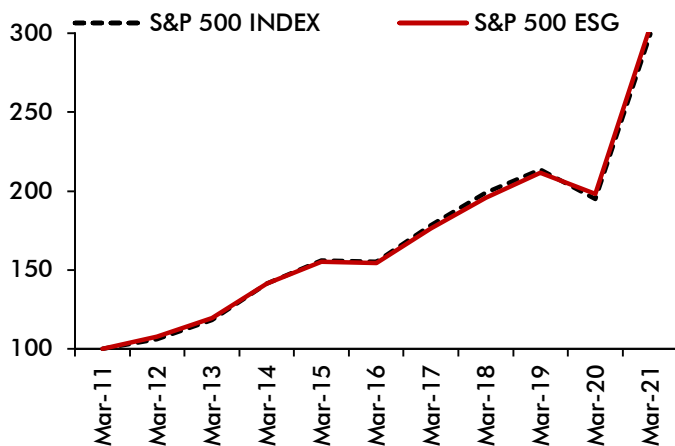
Source: Ambit Capital research, Company, Bloomberg. AUM as at 29 June 2021. Returns are calculated on CAGR basis from inception date till 9 June 2021

Exhibit 5: ESG indices in India have broadly moved along with the broader market, but only after the pandemic started they have slightly outperformed the broader market



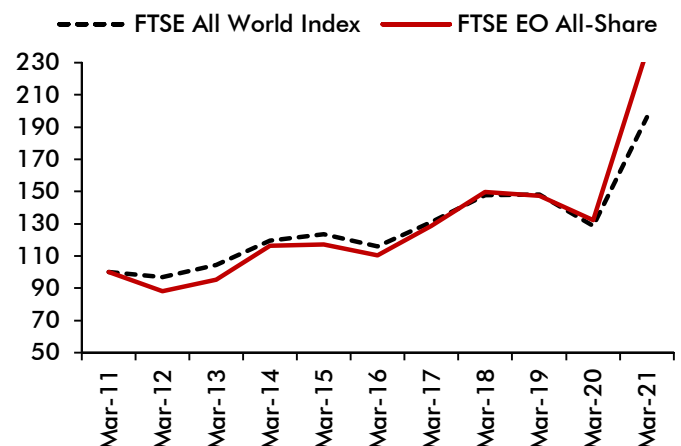
Source: Bloomberg, Ambit Capital research, Company.

Exhibit 6: S&P ESG index has moved closely with S&P500 index



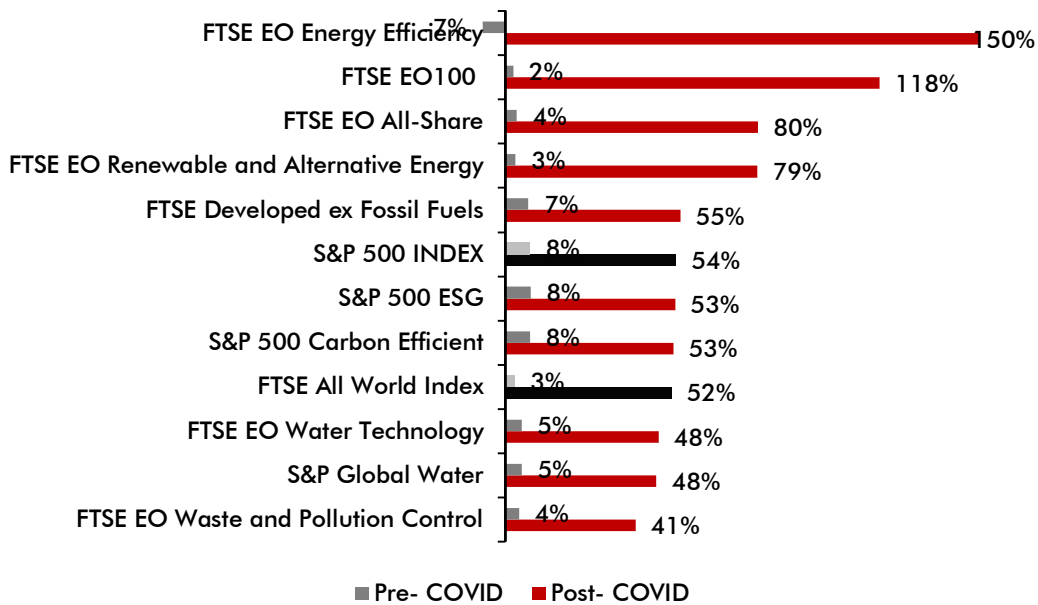
Source: Bloomberg, Ambit Capital research, Company; YOY returns adjusted to base of 100 over March 2011 to March 2021.

Exhibit 7: The FTSE environment opportunities all-share index (9% CAGR) has outperformed the FTSE all world index (7% CAGR) post the pandemic



Source: Bloomberg, Ambit Capital research, Company; YOY returns adjusted to base of 100 over March 2011 to March 2021.

Exhibit 8: Even outperformance of individual E/S/G based parameters index was particularly fuelled by the post-pandemic rally

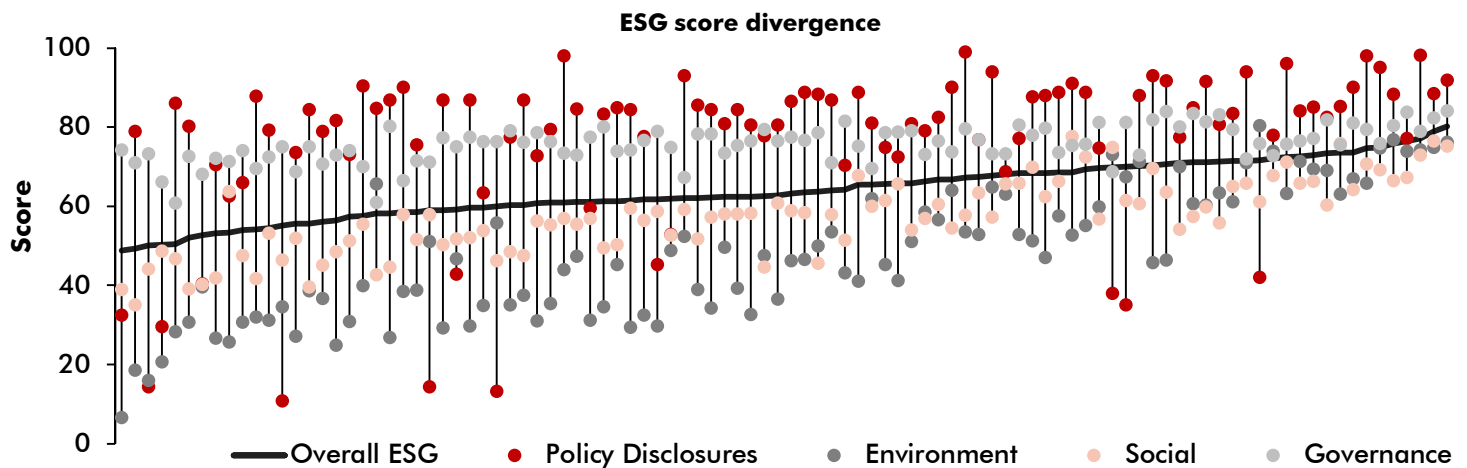


Source: Bloomberg, Ambit Capital research, Company. EO= Environment Opportunities; Pre- COVID returns are CAGR returns from 31 Mar 2011 to 31 Mar 2020. Post COVID returns are CAGR returns from 31 March 2020 to 31 March 2021

At least now, critical ESG analysis is difficult!

Whilst ESG investing has gained momentum, it seems very early to do a meaningful ESG analysis for India Inc. The disclosures are weak! Largely, we believe regulatory push is essential and hence company scores are better on governance and policy disclosures where regulatory intervention is higher. Business Responsibility Report (BRR) does not provide mandatory regulatory push to provide disclosures on E & S. Lack of scrutiny from regulators, no standard formats, low historical data and lack of uniformity of data even by the same company YoY make assessment under E and S difficult. IT, cement and metal companies do well on our ESG parameters.

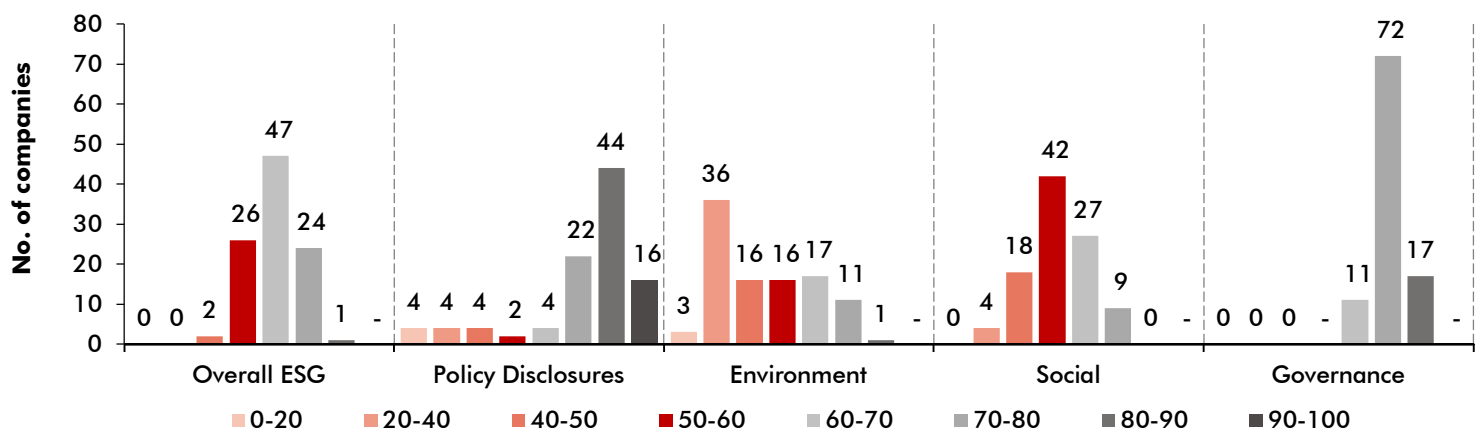
Exhibit 9: In most cases, companies perform poorly on environment and social factors while doing well on policy disclosures and governance; low scores on environment and social keep total ESG score low



Source: SES, Ambit Capital research, Company. Universe is top 100 companies (ex of PSUs) basis mcap at 31 Mar 20

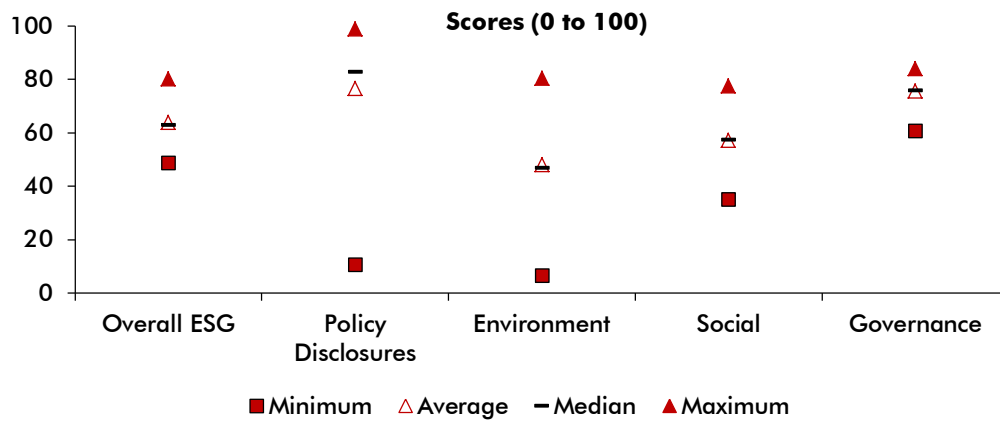
Exhibit 10: A higher number of companies perform poorly (i.e. score below 60) on environment and social aspects; ~90 of the companies do well on governance practices

Score distribution-factor wise



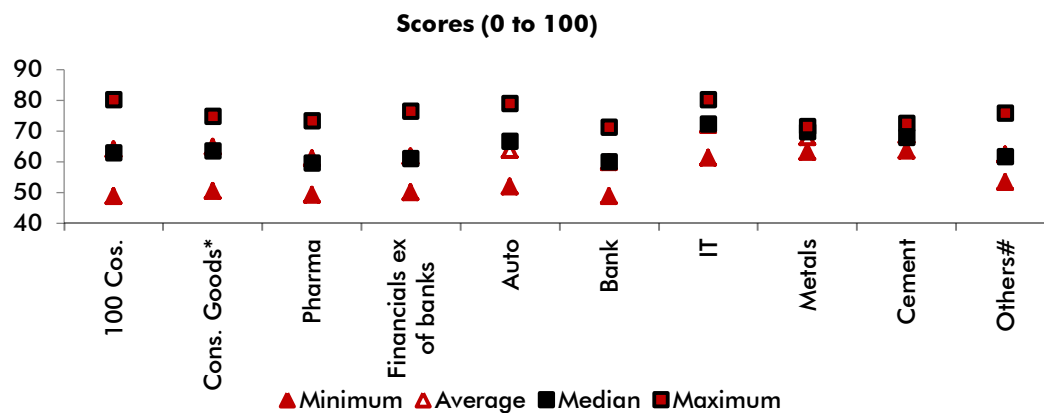
Source: SES, Ambit Capital research, Company. Universe is top 100 companies (ex of PSUs) basis mcap at 31 Mar 20

Exhibit 11: Environment and social scores are weak overall for the 100 companies; significant gap between the best and the worst indicates there is a lot to catch-up for companies on all parameters



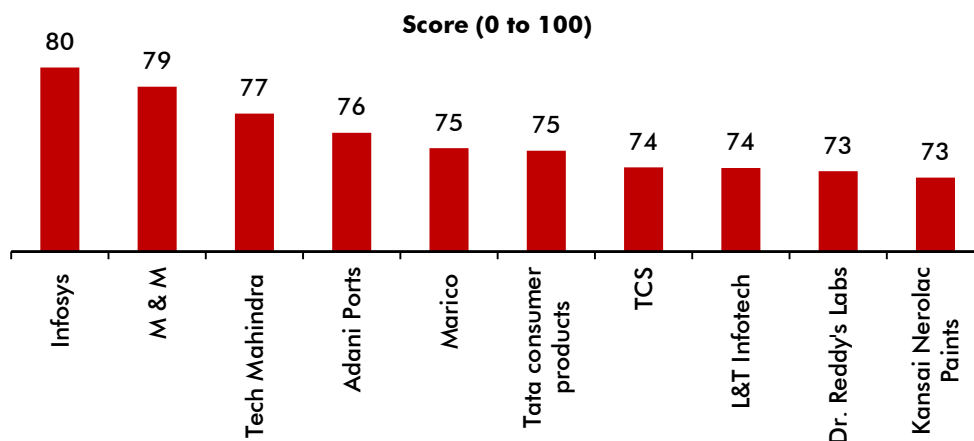
Source: SES, Ambit Capital research, Company. Universe is top 100 companies' (ex of PSUs) basis mcap at 31 Mar 2020. 0 is the worst score versus 100 is the best score

Exhibit 12: Companies from sectors like consumer goods, pharma, financials ex of banks and auto have lowest scores; IT, cement and metals companies do well



Source: SES, Ambit Capital research, Company. Universe is top 100 companies' (ex of PSUs) basis mcap at 31 Mar 2020. 0 is the worse score versus 100 is the best score. Consumer goods include FMCG, paints, consumer durables and consumer non-durables., #others include industrial manufacturing, services, oil & gas, construction, telecom, fertilisers & pesticides, power, textiles and chemicals

Exhibit 13: Top 10 ESG performers on our framework; four out of 10 are IT companies, but there are leaders setting examples in different sectors



Source: SES, Ambit Capital research, Company

Efforts towards environment protection lack true spirit

Most companies seem to have not fully appreciated environmental risks and hence it is not getting reflected in the disclosures made for different environmental parameters. However, there is a broad understanding on respecting environmental concerns. There is lack of evidence of concrete steps taken to prevent environmental damage. Probably too much focus on companies which actually cause greater harm to the environment have led these companies to adopt better and more efficient practices. Surprisingly, cement and metal companies are at the top on our framework followed by IT. Pharma, banks and financials ex of banks score low largely due to lack of disclosures.

Exhibit 14: Taking guidance from different global reporting standards, we decide weights for each sector

Parameters	Weights(range)
General disclosures	5-14%
Products/services	5-24%
Energy consumption	11-29%
Renewable energy	5-15%
Air emissions	7-21%
Water consumption	7-20%
Waste management	8-23%
Environmental incidents	10-15%

Source: SES, Ambit Capital research, Company

Exhibit 15: We try to cover most of the aspects on environment in the context of Indian companies

Particulars	Nos.
Questions	92
Parameters across questions	387
Data points	>480

Source: SES, Ambit Capital research, Company

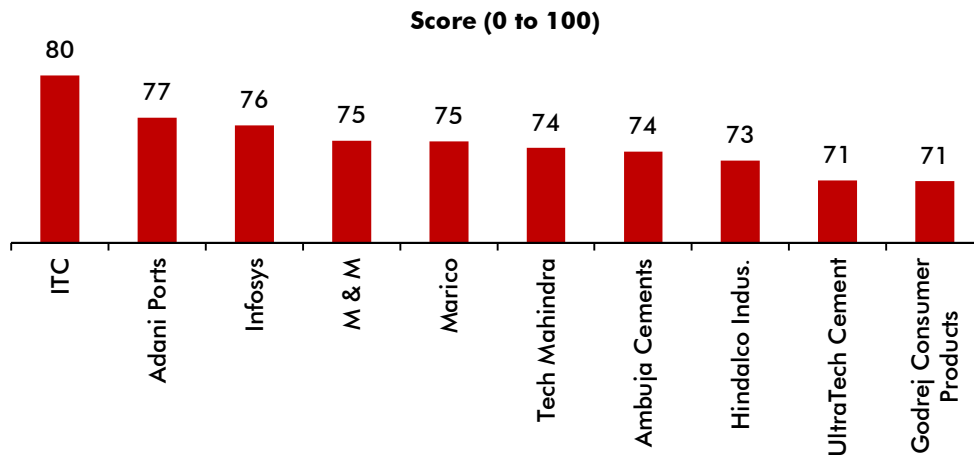
Exhibit 16: Pharma companies are weaker on most of the environment parameters; despite bearing significant environment impact due to nature of its operations, cement companies do well followed by metal companies

Median scores (0 to 100), 0 is worst , 100 is best

Sector	No. of Companies	Overall environment parameters	General disclosures	Products / Services	Energy consumption	Renewable energy	Air emissions	Water consumption	Waste management	Environmental incidents
Metals	5	67	88	50	69	58	59	66	42	100
Cement	5	64	88	56	64	58	68	56	41	100
IT	8	62	86	68	56	59	62	43	45	100
Auto	9	53	68	58	43	66	41	48	29	100
Consumer Goods	23	50	71	50	25	37	27	33	28	75
Banks	8	49	68	N.A.	80	23	70	15	29	100
Others	18	47	79	49	27	35	37	21	23	100
Pharma	15	35	63	44	22	22	15	12	25	100
Financials ex of Banks	9	35	31	N.A.	20	N.A.	N.A.	N.A.	N.A.	100
Overall universe	100	47	73	51	34	37	39	27	29	100

Source: SES, Ambit Capital research, Company. Consumer goods include FMCG, paints, consumer durables and consumer non-durables., #others include industrial manufacturing, services, oil & gas, construction, telecom, fertilisers & pesticides, power, textiles and chemicals

Exhibit 17: Top 10 performers on our environment parameters; Marico and M&M are companies from outside the leading sectors (cement, metals, IT) which actually do well



Source: SES, Ambit Capital research, Company

There is significant scope to make improvement around social aspects

CSR was probably largely understood only as a social parameter until now. Even the regulators have fixed CSR norms and made it mandatory for companies to do CSR spends. Naturally, scores of companies look better on parameters related to CSR.

Nevertheless, there is a lot of scope for improvement on other social parameters related to workforce composition, employee health/safety measures and data security/privacy. For instance, on median basis, the proportion of women employees in total workforce is only 10%. IT companies and banks have higher strength of women employees, but also have higher instances of sexual harassment. Most companies do not disclose details around third-party certifications on quality management systems or data security/privacy practices. Despite being mandatory, several companies do not disclose data on customer complaints. It is interesting to note financials ex of banks do very well on CSR activities over other sectors. Also, on social aspects cement, metals and IT companies are the top three performing sectors. Better workforce composition, community initiatives and product/service quality aspects or customer orientation lead to higher scores for these sectors.

Most companies do not disclose details around third party certifications on quality management systems or data security/privacy practices. Despite being mandatory, several companies do not disclose data on customer complaints

Exhibit 18: We decide weights for each sector taking guidance from different global reporting standards

Parameters	Weights(range)
Workforce composition	16-38%
Employee health and safety	5-20%
Community initiatives	20-24%
Customer orientation	10-20%
Data security and privacy	7-25%

Source: SES, Ambit Capital research, Company

Exhibit 19: We try to cover most of the aspects on social matters in the context of Indian companies

Particulars	Nos.
Questions	81
Parameters across questions	291
Data points	>510

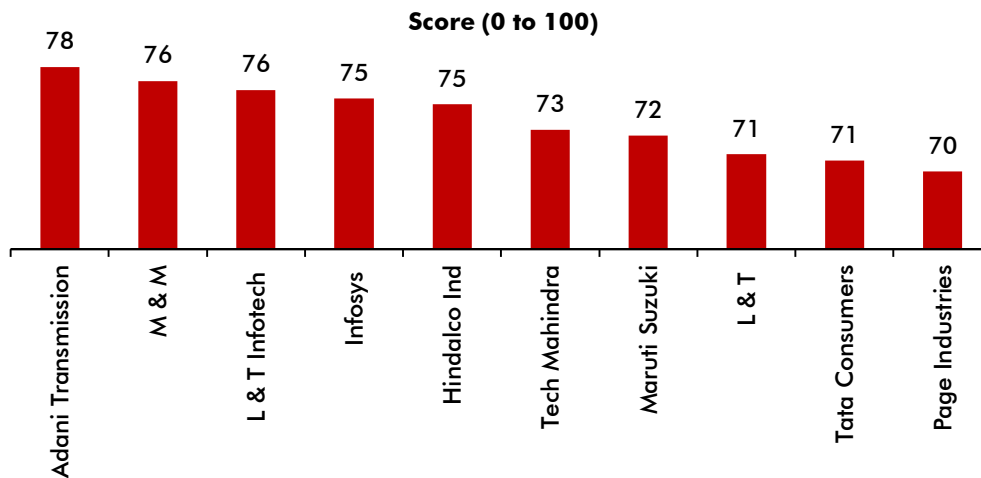
Source: SES, Ambit Capital research, Company

Exhibit 20: Companies witness higher scores on community initiatives (CSR) probably due to the fact that it is statutorily mandated; employee health/safety, data security/privacy issues need strong measures

Sector	No. of Companies	Median Scores (0 to 100), 0 is worst, 100 is best					
		Overall social parameters	Workforce composition	Employee Health & Safety	Community initiatives	Customer orientation	Data security and privacy
Cement	5	66	67	49	85	50	49
IT	8	64	63	45	80	63	75
Metals	5	61	62	56	77	64	50
Automobile	9	58	52	49	76	50	39
Consumer goods	23	57	57	46	74	56	43
Others	18	57	55	52	76	65	48
Pharma	15	52	57	44	65	67	39
Financials ex of Banks	9	52	51	25	90	58	49
Banks	8	52	31	37	72	45	51
Overall universe	100	58	57	44	76	57	47

Source: SES, Ambit Capital research, Company; Consumer goods include FMCG, paints, consumer durables and consumer non-durables., #others include industrial manufacturing, services, oil & gas, construction, telecom, fertilisers & pesticides, power, textiles and chemicals

Exhibit 21: Top 10 performers on our social parameters; two L&T and Mahindra group companies feature amongst the top 10 on social parameters



Source: SES, Ambit Capital research, Company

Governance has improved a lot over the last decade; accounting quality plays a critical role

A string of regulatory measures and actions over the last decade has significantly bought some positive changes in governance practices; hence this is reflected in the governance scores of the companies.

Auto, consumer goods and IT companies perform well on our governance parameters. Out of all parameters related to governance, companies can make some improvement related to board composition. For instance, 20% of independent director (IDs) positions are held by individuals who are associated with the company for a period of more than 10 years. In a few cases the ID does not fit into the definition of ID in its true spirit. These exceptions get effectively captured in our framework and hence have some scope for improvement. Governance analysis can be subjective and hence it is critical to know whether a particular practice by the company just ticks the box or actually holds the intent of law. We believe accounting quality checks act as a first-level filter to gauge governance culture within a firm and hence should be coupled with our governance parameters.

Auto, consumer goods and IT companies perform well on our governance parameters

Exhibit 22: Basis our own assessment of criticality of different governance aspects, we set the weights

Parameters	Weights(range)
Board structure	20
Board committees	10
Director remuneration	12
Statutory auditors	8
Audit and financial reporting	25
Stakeholder engagement	15
Others	10

Source: SES, Ambit Capital research, Company

Exhibit 23: We try to cover most governance aspects in the context of Indian companies

Particulars	Nos.
Questions	134
Parameters across questions	520
Data points	>1050

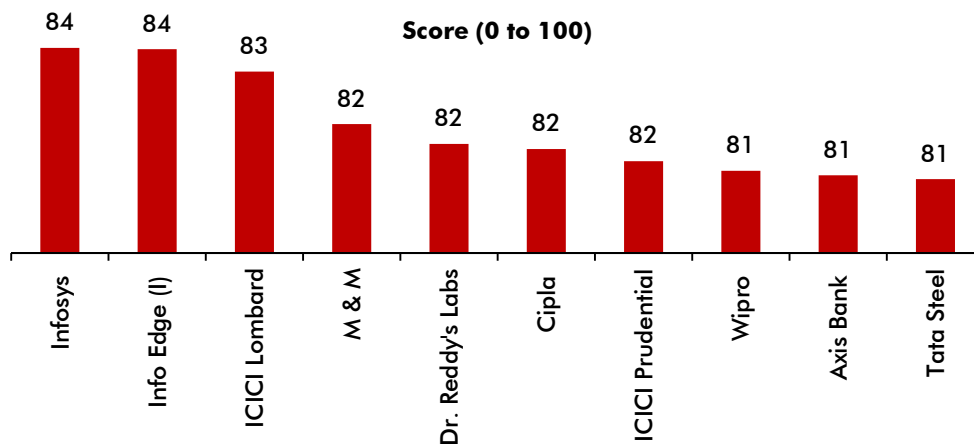
Source: SES, Ambit Capital research, Company

Exhibit 24: Interestingly, sectors like Financials ex of Banks, Pharma and Automobiles which were typically lacking on E and S parameters make their way to the top on governance; all sectors perform well on governance

Sector	Number of Companies	Median scores (0 to 100) , 0 is worst , 100 is best							
		Governance	Board Composition	Board Committees	Director Remuneration	Statutory Auditors	Audit & Financial Reporting	Stakeholders Engagement	Others
IT	8	80	63	61	71	99	95	80	80
Consumer Goods	23	77	59	61	72	100	90	77	71
Financials ex of Banks	9	77	56	57	77	99	96	81	69
Pharma	15	76	60	63	66	100	95	82	71
Automobile	9	75	61	58	71	100	95	75	72
Others	18	74	55	62	68	100	91	80	67
Cement	5	74	51	58	65	100	93	78	80
Banks	8	74	73	74	83	100	93	80	68
Metals	5	72	57	64	65	99	93	79	58
Overall Score	100	76	58	61	71	100	93	79	71

Source: SES, Ambit Capital research, Company; Consumer goods include FMCG, paints, consumer durables and consumer non-durables., #others include industrial manufacturing, services, oil & gas, construction, telecom, fertilisers & pesticides, power, textiles and chemicals

Exhibit 25: Three companies from the financials space feature in the top 10 performers list of our governance framework



Source: SES, Ambit Capital research, Company

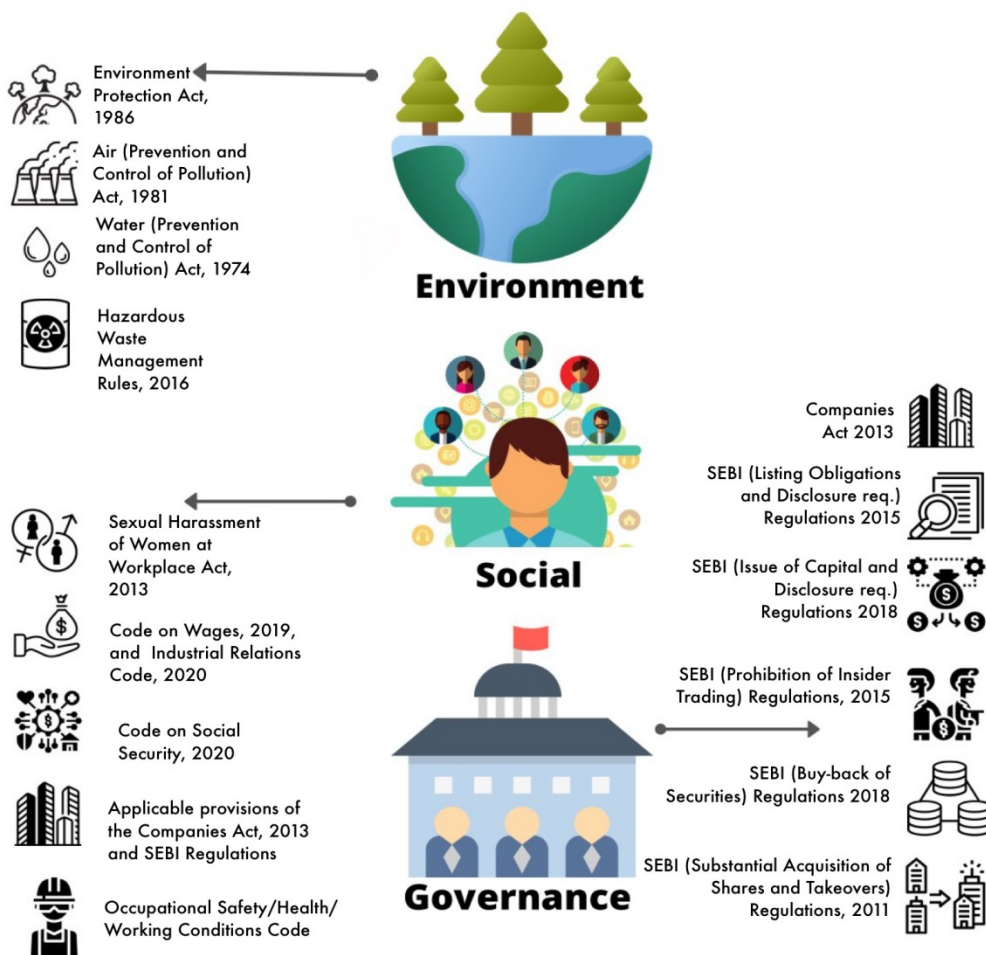
Dilly dally to lightning haste on disclosures

A few laws have possibly shaped ESG disclosures in India. Until now the term ESG was interchangeably used with CSR; however as we witness ESG gaining momentum, Indian companies will have to take serious steps to improve disclosures typically on environment and social. Interestingly, SEBI came out with a detailed format (based on global standards) for sustainability reporting and made it mandatory for top 1000 companies starting FY23. Such disclosures are extremely critical for meaningful ESG analysis.

India Inc.'s cold shoulder towards sustainability reporting until now

India Inc.'s slow pace on adoption of disclosures related to sustainable practices probably stems from its narrow understanding of issues around environment protection, employee welfare or stakeholder protection etc. Till very recently, the Business Responsibility Report (BRR) published by listed companies clearly lacked on several counts in terms of providing meaningful insights into the company's sustainability initiatives.

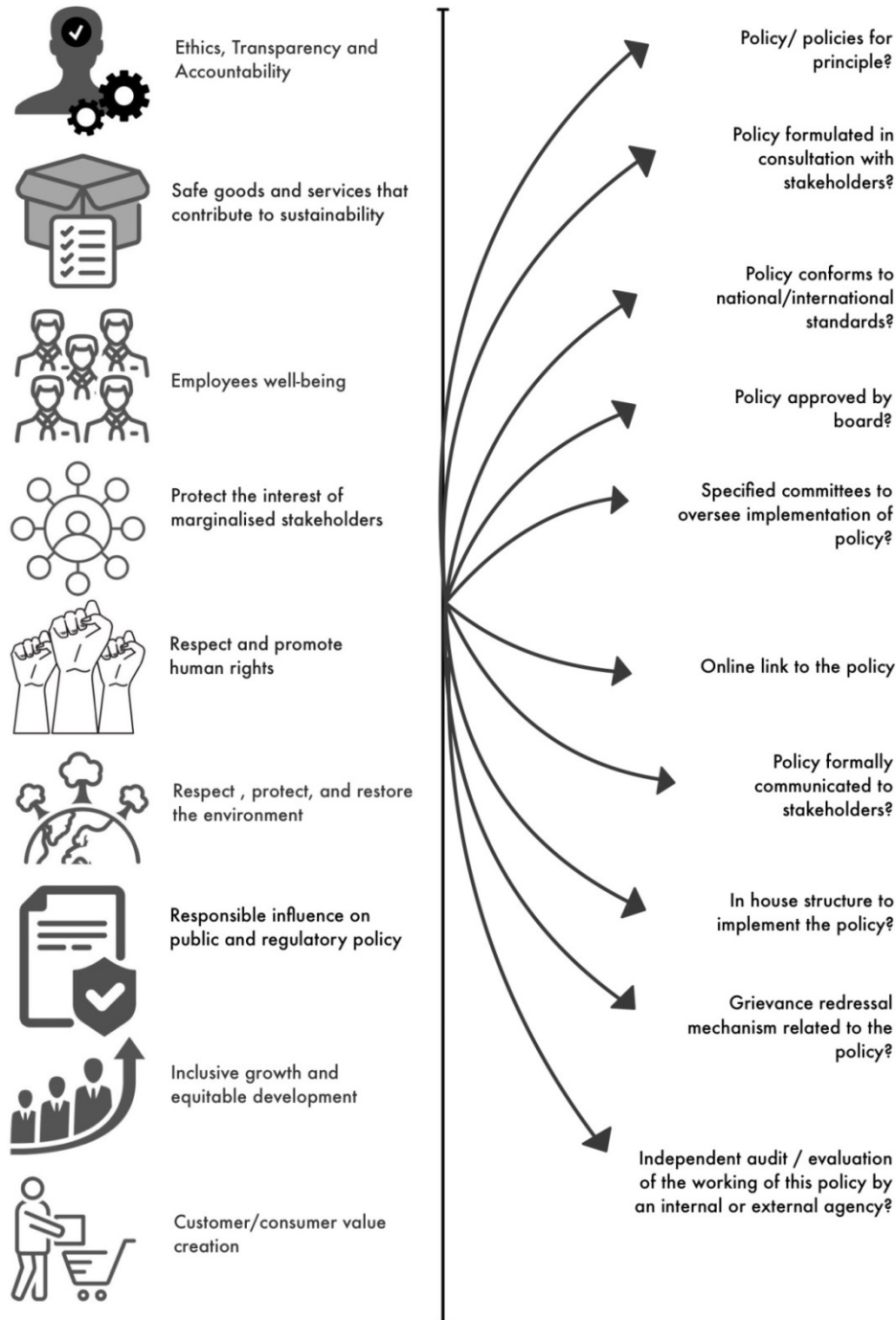
Exhibit 26: Handful of laws in India probably shaped ESG disclosures for India Inc.



Source: Ambit Capital research, Company

Current BRR disclosures intend to check a company's initiative on nine different aspects related to ESG. There are a standard set of 10 requirements for each of these nine aspects which the company needs to comply with. Essentially, there is no way to keep a check on the actual execution of these requirements.

Exhibit 27: While the intention of BRR seems right, it was more like self-compliance checklist

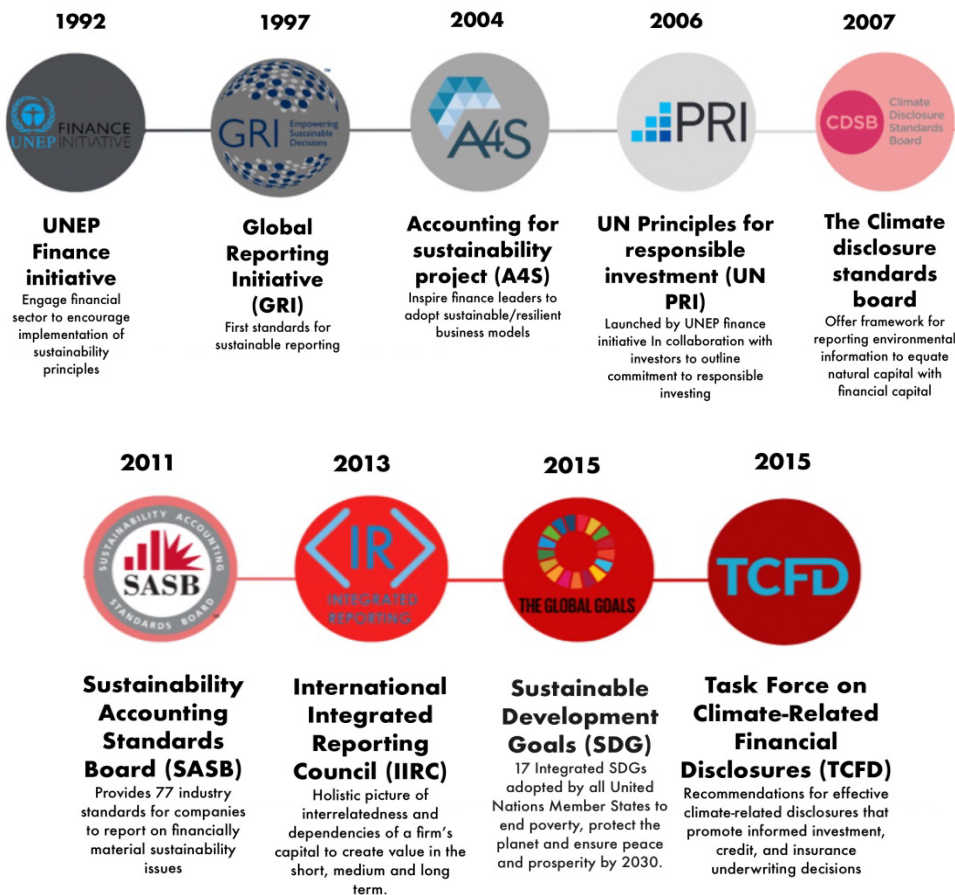


Source: Ambit Capital research, Company

Habitually, yet again taking cues from global standards

Adopting global practices is not a new thing for India. India Inc. even lagged at the time of adoption of accounting standards. Currently, the Indian accounting standards (Ind-AS) are nothing but globally adopted International Financial Reporting Standards (IFRS). Similar to lagged IFRS adoption, SEBI very recently has come out with much detailed ESG reporting format (Business Responsibility and Sustainability Reporting-BRSR) for Indian listed companies. This format is essentially developed using different global standards already in practise.

Exhibit 28: Global standards on sustainability reporting have evolved at a fast pace; currently they are much elaborate and cover a wide gamut of aspects






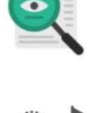












Source: Ambit Capital research, Company

At a tipping point, BRSR could be a game changer

Business Responsibility and Sustainability Reporting (BRSR) will be applicable to top 1,000 companies (basis mcap). It will be voluntary for FY22 but mandatory from FY23. This is a substantial shift from erstwhile reporting norms for ESG. Erstwhile disclosures provided no meaningful insights into a company's ESG activities. Peer or time series analysis around ESG parameters was almost impossible. Moreover, it was very difficult to validate a company's sustainability goals and performance against the same. Also, it lacked a comprehensive and explicit consideration of all ESG parameters. Addressing these challenges, BRSR explicitly requires disclosures on a wide range of parameters on E/S/G. Onus is on the company to identify ESG risks/opportunities and disclose plans to mitigate or adapt these risks along with financial implications of the same. On most parameters, details are required for the current year and the previous year.

Exhibit 29: BRSR will significantly improve the quality of ESG reporting standards

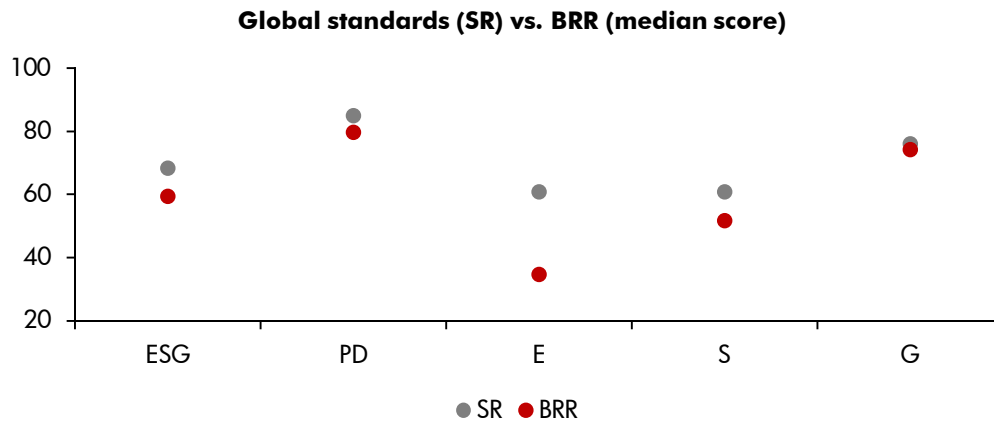
Criteria	BRR	BRSR
Standardisation	 High degree of subjectivity	 Detailed guidelines and formalisation of reporting
Comparability	 Inconsistency in qualitative and quantitative info	 Standardisation facilitates time series analysis; lacks sectoral composition
Transparency	 No checks on execution	 Explicit responsibility to disclose certain aspects
Sustainability goals	 No accountability or back tracing	 Setting goals/ targets and measuring actual performance
Global standards	 Lack comprehension and depth compared with global standards	 Benchmarked against internationally accepted disclosure frameworks
ESG opportunities and risks	 No view	 Overview of material ESG risks and opportunities and their financial implications
Environment disclosures	 Subjective disclosures/ No back testing/ Lack of quantitative data	 Extensive, including – resource usage, emissions, waste management practises
Social disclosures	 Few quantitative data points – lack comprehension	 Extensive, including- social impact assessment (SIA), CSR, consumer complaints regarding data privacy, employee diversity

Source: Ambit Capital research, Company

New disclosures will make companies feel responsible towards environment

Even today, there are ~50 companies which are making voluntary disclosures basis the global standards. If we plot the scores of companies which make such disclosures versus companies which make disclosures only under the old BRR format, we see that companies making voluntary disclosures perform very well typically on environment parameters in our framework versus companies which make no disclosures. Companies voluntary making global-level disclosures strongly convey their intent and underlying efforts on environment-related initiatives and hence come out better. Since BRSR is based on global standards, companies will have to make necessary shifts in practices and processes that have a negative impact on environment.

Exhibit 30: Companies that used international standards to report on ESG performed better on our ESG framework on a median basis



Source: SES, Ambit Capital research, Company. Universe is top 100 companies (ex of PSUs) basis mcap at 31 Mar 2020. 0 is the worst score versus 100 is the best score

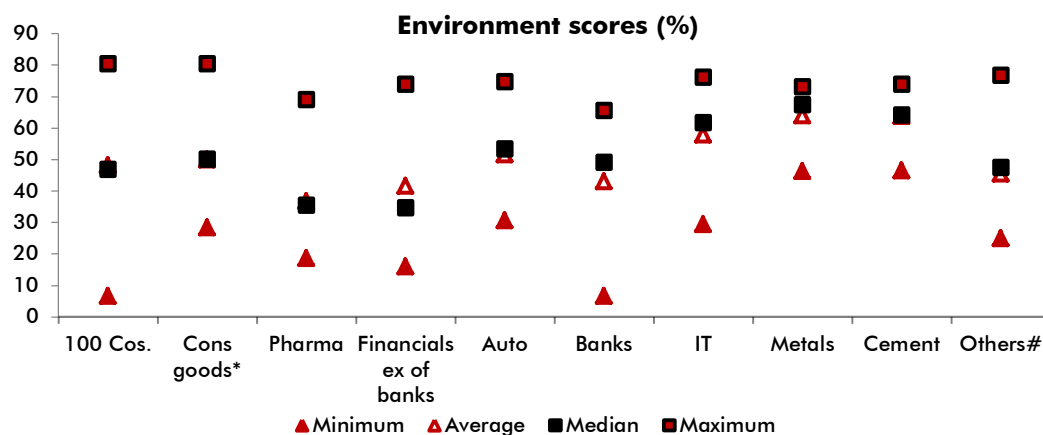
The almost non-existent 'E'

Currently, disclosures by most top 100 companies in India may not provide meaningful insights into a company's efforts towards tackling environment issues and hence render effective analysis almost impossible. There are very few that have set the benchmark and like social aspects there are many laggards who need to catch up. Opportunity is ample! Curbing pollution, conserving natural resources and increasing use of renewables are broad aspects under environment (E). Despite increasing realization of 'E' related considerations globally and in India, median score of top 100 companies of India on five out of our eight 'E' based parameters is below 50%. Weak scores are a reflection of very weak or no disclosures. But top/worse performers also could be ones who show YoY improvement or deterioration on several 'E' parameters. Surprisingly, cement and metal companies do relatively well on our framework. Pharma and financials ex of banks need to do a lot more to move up.

Probably, there is lack of enough seriousness on 'E'

We dug into the annual reports of top 100 companies in India (basis mcap) to gauge the strengths and weaknesses of Indian companies in dealing with environment parameters. Scores obtained by sample companies on environment parameters have been analysed basis the company's disclosure regarding impact of operations on the environment and steps implemented to mitigate its effect. We also analysed whether the company managed to reduce the impact on the environment and was meeting the targets set. Except cement and metal sectors, almost all other sectors there is much scope for laggards to catch up. Companies from banks, financials ex of banks and pharma have the lowest scores. IT, cement and metal companies do well.

Exhibit 31: Low scoring companies on environment are mostly penalised due to lack of disclosures and failure to reduce impact on the environment



Source: SES, Ambit Capital research, SES, Company. *Consumer goods include FMCG, paints, consumer durables and consumer non-durables., #others include industrial manufacturing, services, oil & gas, construction, telecom, fertilisers & pesticides, power, textiles and chemicals.....Universe is top 100 companies' (ex of PSUs) basis mcap at 31 Mar 2020. 0 is the worse score versus 100 is the best score

Median scores are below 50% on most of the parameters. Interestingly, the lowest scores on six out of eight parameters is '0', indicating that the companies have still not even started making some environmental-related disclosures. High median scores on general disclosures could indicate there is appreciation and acknowledgement towards environmental concerns. But, the remaining factors prove there is not enough work being done. Reported environmental incidents are very low, probably a result of either weak regulatory monitoring or exceptional care.

Top 10 companies on environment checks

Company name
ITC
Adani Ports and Special Economic Zone
Infosys
Mahindra & Mahindra
Marico
Tech Mahindra
Ambuja Cements
Hindalco Industries
UltraTech Cement
Godrej Consumer Products

Source: SES, Ambit Capital research, Company

Our environment parameters

Parameters	Weights(range)*
General disclosures	5-14%
Products/services	5-24%
Energy consumption	11-29%
Renewable energy	5-15%
Air emissions	7-21%
Water consumption	7-20%
Waste management	8-23%
Environmental incidents	10-15%

Source: SES, Ambit Capital research, Company. * weights change depending upon sector and our materiality heatmap for these parameters.

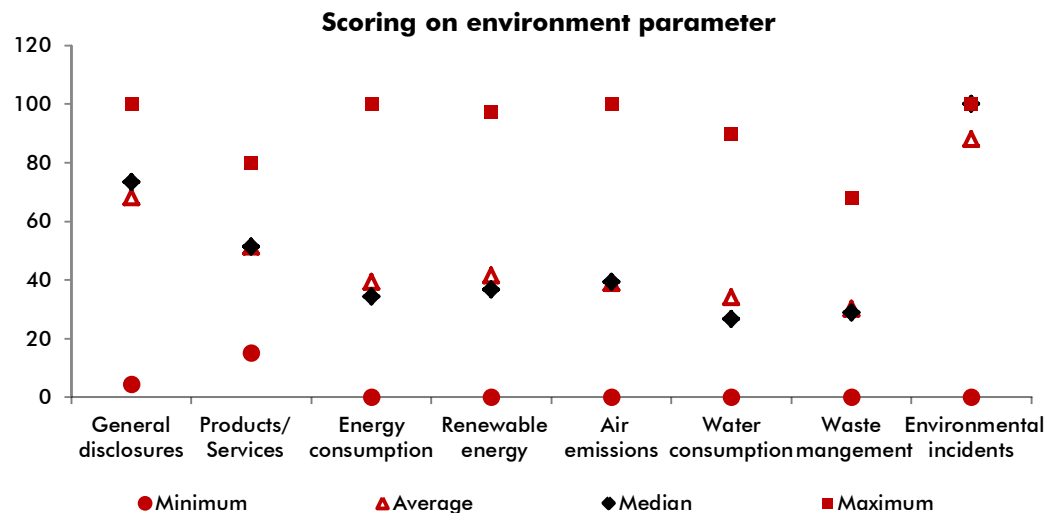
Basis of evaluation

Particulars	Nos.
Questions	92
Parameters across questions	387
Data points	>480

Source: SES, Ambit Capital research, Company

Please note that checks on E, S and G has certain inherent limitations largely due to their subjective nature and hence interpretation could always differ

Exhibit 32: Claims (acknowledging risks) are possibly high, but proofs to substantiate environmental concerns are weak



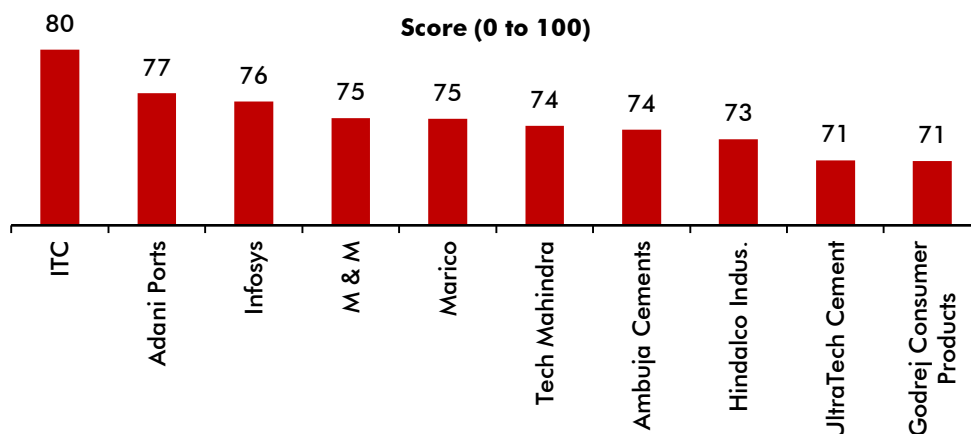
Source: SES, Ambit Capital research, SES Company; Universe is top 100 companies (ex of PSUs) basis mcap at 31 Mar 2020

Exhibit 33: Environmental sector heatmap – metals and cement are the top performing sectors, while financials ex of banks and pharma lag

Median scores (0 to 100), 0 is worst , 100 is best										
Sector	No. of Companies	Overall environment parameters	General disclosures	Products / Services	Energy consumption	Renewable energy	Air emissions	Water consumption	Waste management	Environmental incidents
Metals	5	67	88	50	69	58	59	66	42	100
Cement	5	64	88	56	64	58	68	56	41	100
IT	8	62	86	68	56	59	62	43	45	100
Auto	9	53	68	58	43	66	41	48	29	100
Consumer Goods	23	50	71	50	25	37	27	33	28	75
Banks	8	49	68	N.A.	80	23	70	15	29	100
Others	18	47	79	49	27	35	37	21	23	100
Pharma	15	35	63	44	22	22	15	12	25	100
Financials ex of Banks	9	35	31	N.A.	20	N.A.	N.A.	N.A.	N.A.	100
Overall universe	100	47	73	51	34	37	39	27	29	100

Source: SES, Ambit Capital research, Company; Consumer goods include FMCG, paints, consumer durables and consumer non-durables., #others include industrial manufacturing, services, oil & gas, construction, telecom, fertilisers & pesticides, power, textiles and chemicals

Exhibit 34: Top 10 companies basis overall environment parameters

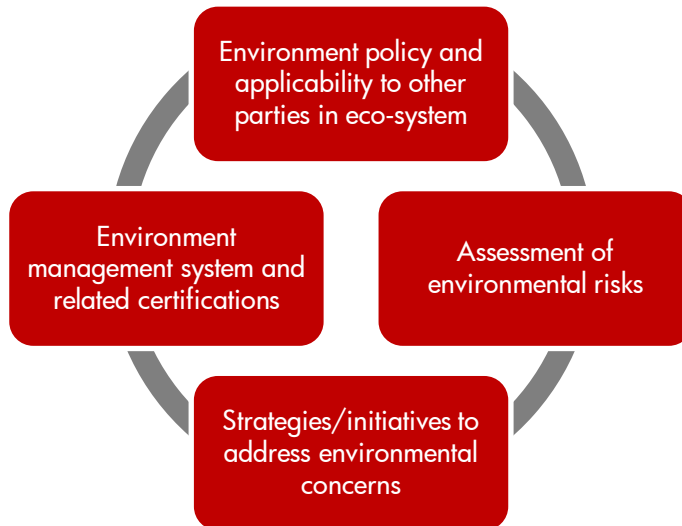


Source: SES, Ambit Capital research, Company

Eco-friendly practices are appreciated, but lack spirit!

Most companies explicitly mention having environmental policies and some also put them on their websites. Some also identify environment-related risks. There is increased realisation that companies do not function in silos or isolation and hence it makes sense to extend the applicability of these policies to the company's own eco-system; i.e. its suppliers, distributors, transporters, group companies etc. There are a fair number of companies (>60%) extending policies to other parties. However, disclosures to verify some concrete proofs to back up actual steps taken by the companies like ISO certifications, details on specific environment-related projects and bio-diversity initiatives etc. are lacking.

Exhibit 35: Key parameters to test companies

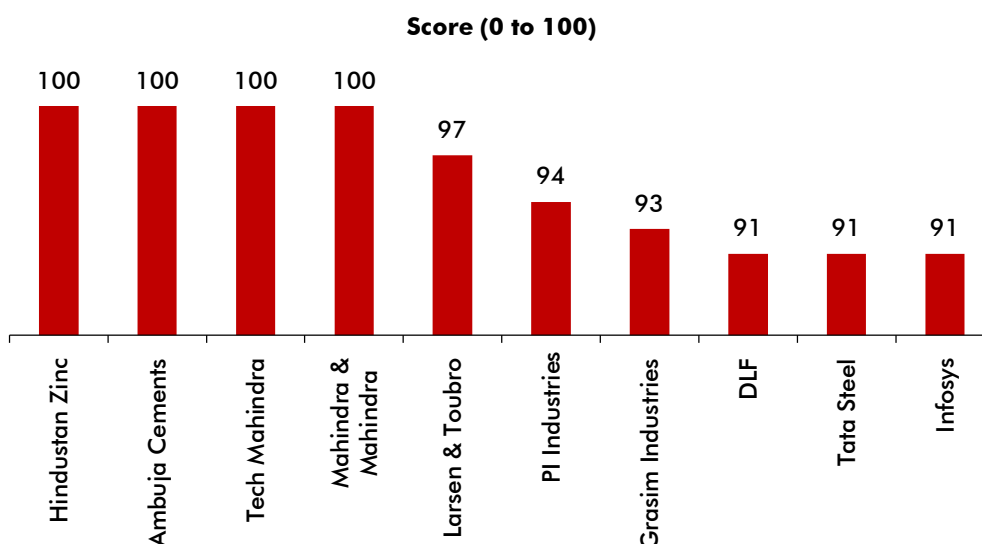


Source: SES, Ambit Capital research, Company

On general disclosures, companies do well and hence we get a median score of 73 for 100 companies. The sectors which are judged or questioned the most on environment concerns are the ones which also end up doing relatively well. Metals and cement perform relatively well versus other factors. IT sector is third best, naturally owing to better disclosures and less risk. Financials ex of banks need to improve disclosures.

The sectors which are judged or questioned the most on environment related concerns are the ones which also end up doing relatively well.

Exhibit 36: Top 10 companies basis our general disclosures parameters; cement, metal and IT companies do well largely due to comprehensive disclosures

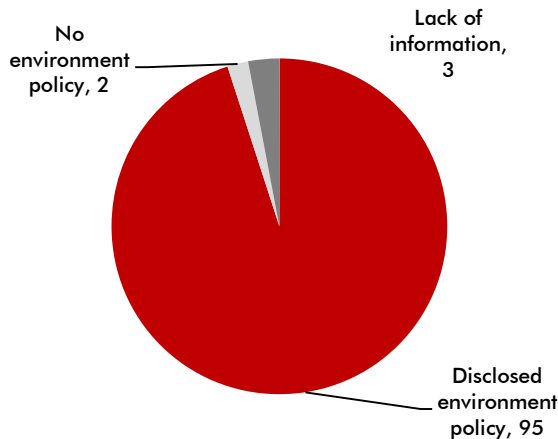


Source: SES, Ambit Capital research, Company

Most companies have environmental policies in place and have identified risks

95 companies in the sample have environment policy. Two insurance companies and three financials ex of banks did not comment or vaguely commented about having environment policy. It is critical to have an environment policy for all companies even if there may not be a direct impact as each firm has an indirect impact on the environment. For instance, financials ex of banks could be lending to companies whose operations have negative impact on the environment and insurance companies could be investing in debt securities of such companies.

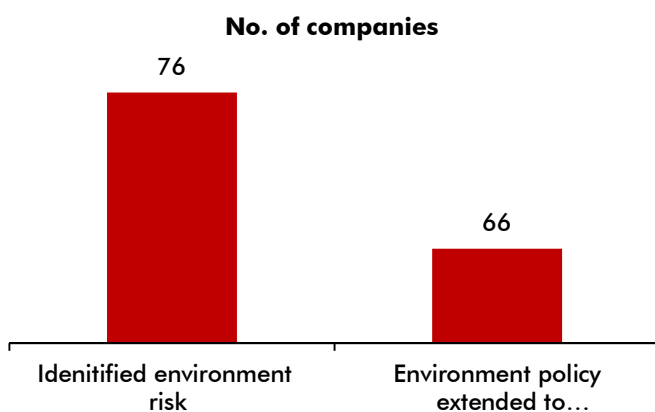
Exhibit 37: Maximum companies have disclosed that they have environment policy



Source: SES, Ambit Capital research, Company

76 companies claimed to have identified environmental risks. Also, 66 companies stated that their environment policy extends to stakeholders like suppliers, contractors, NGOs, etc. A company may have relatively higher impact in reducing negative environmental impact in cases where responsibility is not limited to the company but is also extended to various other entities or external stakeholders associated with the company. Hence this step is encouraged.

Exhibit 39: Most companies identify environment risk and ~65% also explicitly mention on extension of policy to other parties in ecosystem like vendors, distributors, transporters etc.



Source: SES, Ambit Capital research, Company

Exhibit 38: Five companies in the financial sector have not disclosed or vaguely disclosed about environment policy

Companies	Issue
HDFC Life Insurance and ICICI Prudential Life	No specific policy (due to limited applicability)
Bajaj Holdings & Investments, Bajaj Finserv, Bajaj Finance Ltd.	No specific information disclosed

Source: SES, Ambit Capital research, Company

Exhibit 40: Key examples on explicit mention of extension of policy to other players in the eco-system

Company	Good initiatives
Infosys	"...All personnel working for or on behalf of the organization are expected to mandatorily <u>adhere to the established HSE policy and procedures</u> . Vendor partners are also encouraged to follow our stated HSE requirements and ensure compliance as detailed in our agreements. <u>Audits of our suppliers</u> are also conducted to evaluate their adherence to our requirements."
Ambuja Cem	"While our Corporate Environment Policy covers operations only at Ambuja Cements Limited, our Greer Procurement policy, Climate Change policy, CSR Policy and Sustainability Policy extend our efforts to monitor and protect environment in our value chain by including the suppliers, community, distributors and transporters to minimise our environmental impact."
Tech Mahindra	"...more than 60% of the entities that the company does business with participate in the BR initiatives of the Company."

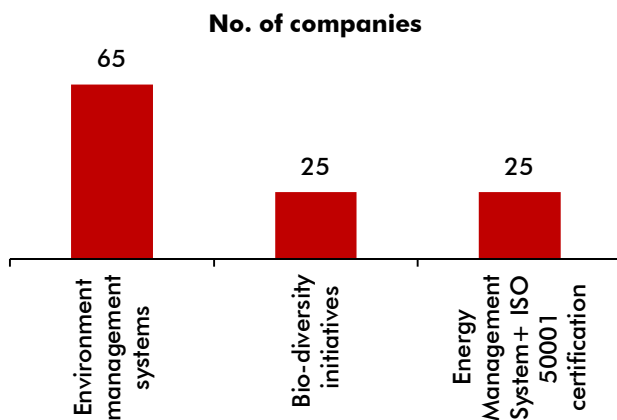
Source: SES, Ambit Capital research, Company

Claims are high, proofs are less!

Most companies claim to have environment policy and extension of the same to other players in its ecosystem. Underlying third-party or independent certifications and audits actually help substantiate whether the policies and underlying practices are actually practiced. There are two most common certifications available to know whether the company follows certain good practices around environment management system (ISO 14001) and energy management system (ISO 50001).

ISO 14001:2015 sets out the criteria for an environmental management system and can be certified too. It maps out a framework that a company or organisation can follow to set up an effective environmental management system. It can be used by any organization regardless of its activity or sector. Similarly, ISO 50001 is based on the management system model of continual improvement which can be used along with other well-known standards such as ISO 9001 or ISO 14001. This makes it easier for organizations to integrate energy management into their overall efforts to improve quality and environmental management. Another such check could be to see if the company has resolved to reduce the environmental impact through setting up projects under the CDM. It substantiates and acts as proof that the company is actually taking steps to curb the negative environment impact.

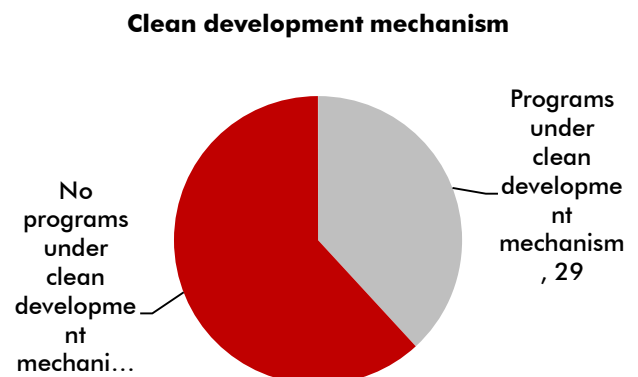
Exhibit 41: Verification of a company's claims on environmental initiatives is difficult given weak disclosures to substantiate the initiatives in the first place



Source: SES, Ambit Capital research, Company

Clean Development Mechanism ("CDM"): The CDM allows emission-reduction projects in developing countries to earn certified emission reduction (CER) credits, each equivalent to one tonne of CO₂. These CERs can be traded and sold, and used by industrialized countries to meet a part of their emission reduction targets under the Kyoto Protocol

Exhibit 42: Out of 76 companies to which clean development mechanism (CDM) is applicable, 47 do not mention about the projects



Source: SES, Ambit Capital research, Company

Exhibit 43: Key examples of disclosures under CDM, environment/energy management systems and biodiversity initiatives

Company	Area	Good initiatives
Ambuja Cements	CDM	"CDM project on Waste Heat Recovery based power generation at our unit at Rabriyawas has been registered with UNFCCC in 2015 after successful Validation by DOE. This project is designed to accrue 35000/year Certified Emission Reductions (CERs) for the next 10 years."
Hindustan Zinc	CDM	"The Company has 273.5 MW wind farms in five states across India which are registered under Clean Development Mechanism (CDM) programme by United Nations Framework Convention on Climate Change (UNFCCC) and Verified Carbon Standard programme by VEERA. These projects also registered as Gold Standard...solar project at Dariba and Debari registered under CDM and now our 12 projects are registered under CDM."
ACC	Bio-diversity initiatives	"In its journey to conserve nature and preserve biodiversity, the Company planted >1 Lakh trees at its various locations. Few initiatives, focused on a particular floral/faunal group, were also undertaken at some plant locations under the 'B-Buzz' project." "The Company is committed to bringing about a positive change on biodiversity by 2030 vis-a-vis the baseline of 2020..."
ITC	Bio-diversity initiatives	ITC has set a target of 1, 00,000 acres of bio-diversity conservation. Out of which, it has achieved target of 17,456 acres until end of FY 2019-20.
Maruti Suzuki	Environment Management System	MSIL also implemented ISO 14001 Environmental Management systems for Tier-1 Suppliers. As at end of FY 2019-20, 90% of Tier-1 suppliers had EMS.
Axis Bank	Energy Management System	"1,493 Branches with Centralised Energy Management System (CEMS) installed, up from 893 in the previous year"
Hindalco Industries	Energy Management System	"During FY 2019-20, three large units viz. Renukoot complex, Mahan Aluminium & Hirakud Power & Smelter were certified as ISO 50001 compliant."
L & T	Energy Management System	"...completed Bureau Veritas Surveillance audit of ISO 50001 Energy Management System of all 3 ASW ESP MFG. campus."

Source: SES, Ambit Capital research, Company

Efforts to curb negative product impact seem weak

Final product/service of the company could have a direct negative impact on the environment. Key to assessing this impact is to evaluate practices around sustainable sourcing, product life assessment, packaging materials etc. Most companies claim to have sustainable sourcing practices in place but very few (only 15 companies) actually justify this through some qualitative and quantitative data. Effective product life cycle assessment is done by only 26 companies (15 with respect to standards). Even for consumer goods and pharma companies, where packaging materials play an important role, the disclosures are very weak. Finance companies are not scored on any parameter of this section considering the nature of their business.

Exhibit 44: Assessing a company's final product's impact on the environment is critical; we identify key checks around it

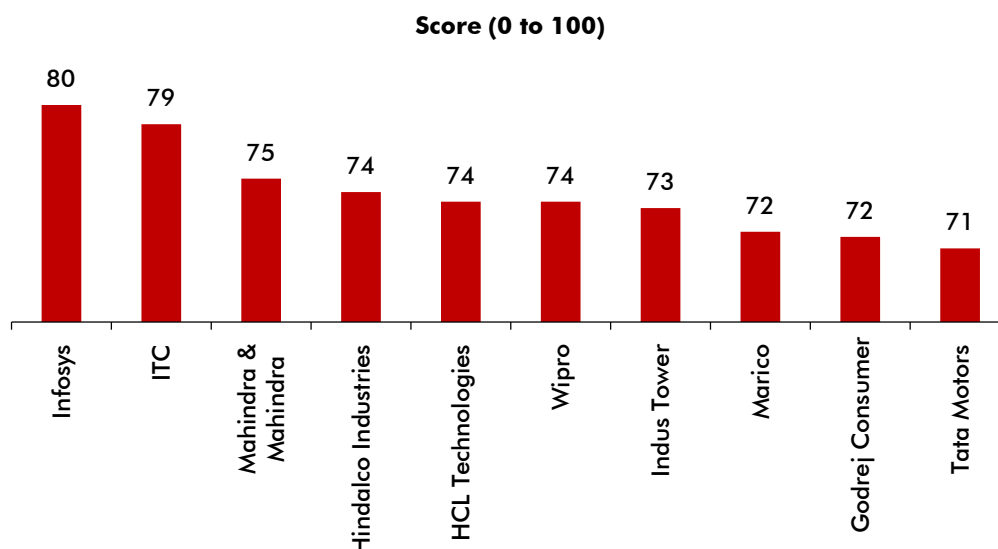


Source: SES, Ambit Capital research, Company

Overall, the disclosures are weak. The IT sector does best owing to lower risk and meaningful disclosures. IT companies have made explicit disclosures on sustainable strategies etc. Pharma is the worst due to limited disclosures on product life cycle assessment and product packaging. Also, we note that there is a serious issue around consistency of disclosures for these parameters. Even for consumer goods companies where the environmental impact could be more on account of higher involvement of packaging activity, the scores look weak.

IT had the highest score on this parameter: Infosys has disclosed information on having 'Responsible Supply Chain Policy' and a 'Supplier Code of Conduct'; even TCS has disclosed Supplier COC.

Exhibit 45: Top 10 companies basis our environmental impact from the company's product parameters; six out of 10 are from consumer goods and IT

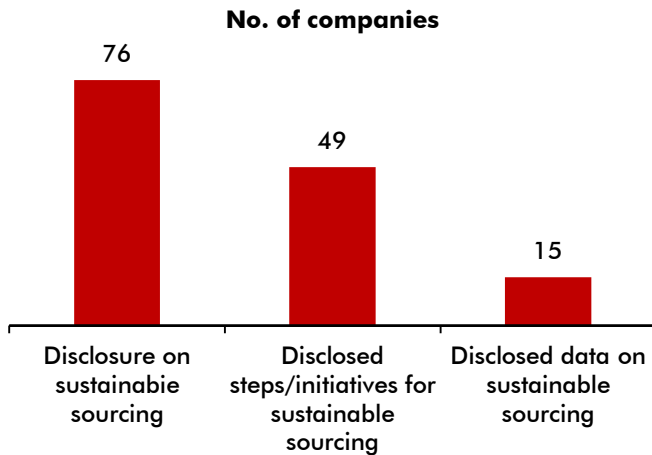


Source: SES, Ambit Capital research, Company

Sustainable sourcing is much talked about, but lacks details

While 76 companies explicitly mention having a sustainable sourcing policy, only half of the universe actually discloses detailed steps around sustainable sourcing. Less than 20% of the companies substantiate the comments on sustainable sourcing using some quantitative data.

Exhibit 46: While 76 companies have policy on sustainable sourcing, only 15 disclosed any quantitative data for the same



Source: SES, Ambit Capital research, Company

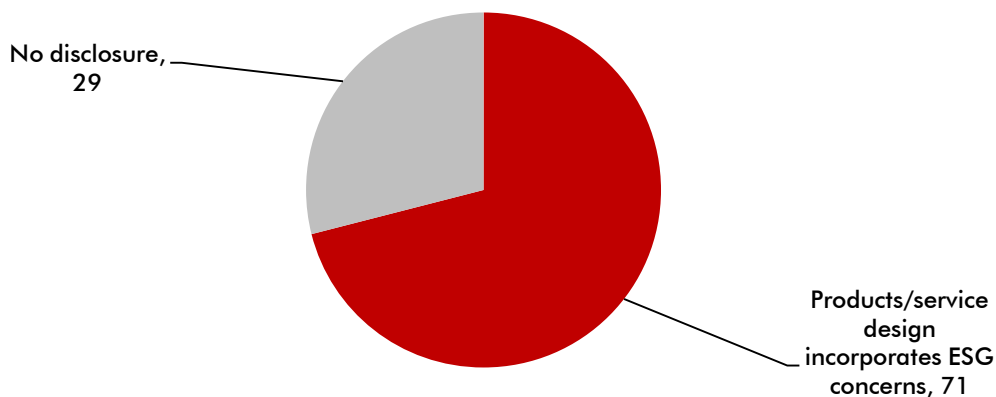
Exhibit 47: Key disclosures around sustainable sourcing by sample companies

Company	Area	Good initiatives
MRF Ltd.	Sustainable sourcing	"...most of our raw material suppliers have minimum ISO 9001 certification and around 84% of our manufactured raw materials are sourced from suppliers who have ISO 14001. Our vendors are committed to MRF Supplier Code of conduct and Green procurement policy guidelines..."
Godrej Consumer Products Ltd.	Sustainable sourcing	"We have also on-boarded an external agency to assess the sustainability performance of our suppliers on an annual basis in line with the policy... Of the over 600 suppliers we work with, at the end of the fiscal year 2019-20, we have evaluated 132 suppliers so far (accounting for 67 per cent of our procurement spends). Basis responses, composite scores were calculated for all suppliers, and the suppliers were classified into red, yellow, and green levels. The minimum threshold for vendors has been fixed at the yellow level, and targets have been provided to all the suppliers to improve their compliance to the yellow level within 1 year."

Source: SES, Ambit Capital research, Company

Almost all the companies have provided information about key activities or products/services. 71 companies claim to have incorporated ESG considerations into their product/service designs. This disclosure is required as per BRR. Nine companies have disclosed their procurement policy explicitly.

Exhibit 48: 71 companies claim to incorporate ESG concerns into their product/ service designs



Source: SES, Ambit Capital research, Company

Disclosures around any product bans/recalls w.r.t environmental aspects provide direct insights into the company's operations and hence it is essential to check for these disclosures in the annual reports.

9 companies in the sample have discussed about or disclosed policies relating to procurement (sample):

Tata Motors Ltd: [\(Weblink\)](#)

Godrej Consumer Products Ltd: [\(Weblink\)](#)

Exhibit 49: Auto companies saw a few product recalls in the past year probably owing to the fact that the sector is highly regulated in terms of carbon emissions

Company	Product recall instances
Maruti Suzuki	Two instances of recalls in the domestic market (as per AR FY20)
Tata Motors	As per various news articles published dated 14th March, 2019, UK-based Jaguar Land Rover recalled 44,000 cars due to excessive carbon dioxide emissions. Tata Motors Ltd through corporate announcement dated 18th March, 2019 confirmed and provided its clarification

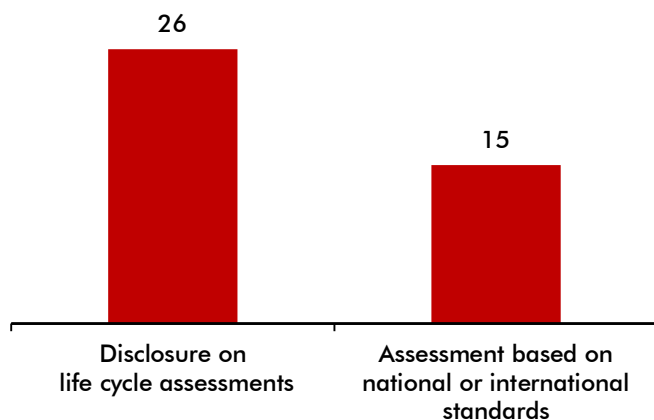
Source: SES, Ambit Capital research, Company

~75 companies don't even mention product life cycle assessment

The most scientific approach to test the impact of a product on the environment is probably through making a product life cycle assessment. The BRR principle states that businesses should assure safety and optimal resource use over the lifecycle of the product. Product Life Cycle Assessment indicates cradle to grave impact on the environment by the product, which can be quantified and compared. The most comprehensive disclosure regarding life cycle assessments was observed in metals and cement industries, where 60% (3/5) companies have made disclosures.

Life cycle assessment addresses the environmental aspects and potential environmental impacts (e.g. use of resources and the environmental consequences of releases) throughout a product's life cycle from raw material acquisition through production, use, end-of-life treatment, recycling and final disposal.

Exhibit 50: Only quarter of companies out of 100 make some statements around product lifecycle assessment; only 15% benchmark the process to some standards



Source: SES, Ambit Capital research, Company

Exhibit 51: Good examples on disclosures related to lifecycle assessment

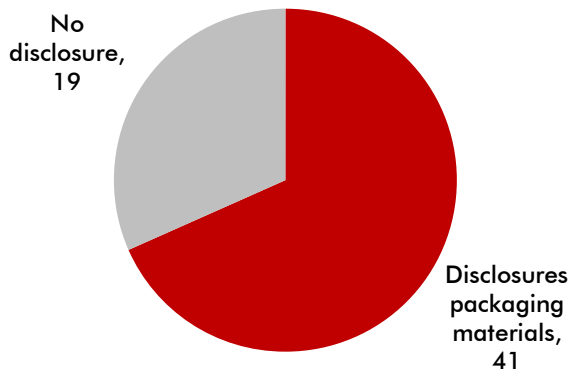
Company	Area	Good initiatives
M & M	Life cycle assessment	"We have been following the End-of-Life of Vehicles (ELV) Directive for the European M1 and N1 products as part of the compliance. The vehicles are exported and certified as per European Emission Compliance (EEC) Directive 2005/64/ EC."
Ambuja Cement	Life cycle assessment	"ACL has conducted Life Cycle Assessment and has developed the Environmental Product Declaration (EPDs) of all its PPC and Compecem products..."
ITC	Life cycle assessment	"...ITC initiated life cycle assessments (LCA) of its products and services in 2010 with an objective to evaluate the impacts and identify areas for improvement in the value chain..." "For addressing climate change impacts in the value chain, Life Cycle Assessment (LCA) studies are carried out for key products/services to evaluate their value chain footprint and identify opportunities for improvement."
Hindalco Industries	Life cycle assessment	"...the company has undertaken life cycle assessment (LCA) of multiple products to capture reliable scientific information for communicating the environmental performance of products to customers or retailers and more generally those requiring such information for environmental labelling purposes. This assessment was carried out as per ISO 14040/44 standards for one tonne of primary aluminium ingot and one tonne of aluminium cold rolled strips manufactured across Renukoot, Hirakud and Talaja units..."

Source: SES, Ambit Capital research, Company

Pharma companies need to do lot more on environment friendly packaging

Product packaging can be a critical polluter and needs equal attention. On product packaging, companies belonging to finance, IT, metals, power, pure service or companies wherein packaging is not material were not scored. Out of the 60 companies under consideration, 41 companies provided packing-related information. 18 companies (~80%) in the consumer goods industry provided information regarding packaging. Pharma companies also have high consumer end-use packaging. However, compared to the consumer goods industry, fewer disclosures were observed on packaging by pharma companies. ~50% of the pharma companies did not make disclosures or discussions on product packaging.

Exhibit 52: 41 (out of 60) companies provided information regarding packaging materials; disclosures by pharma companies are relatively weak



Source: SES, Ambit Capital research, Company

Exhibit 53: List of a few key good disclosures on packaging

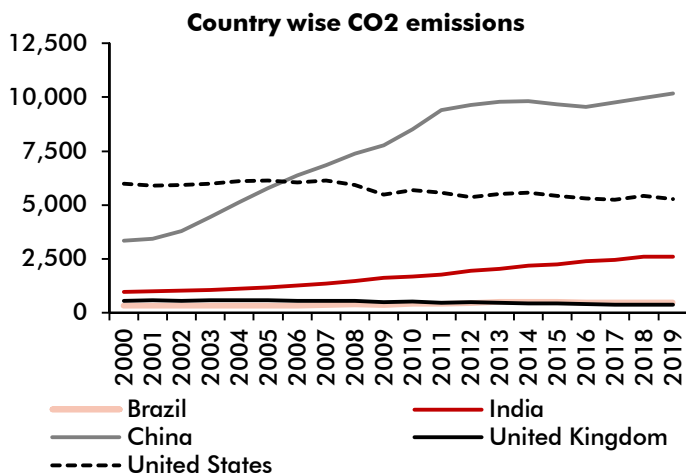
Company	Area	Good initiatives
ITC	Packaging	"BRC/ IOP Certification as per BRC Global Standard for Packaging and Packaging Materials"
Hero MotoCorp	Packaging	"Packaging improvements have led to the reduction in trips, diminishing the carbon footprint by 22.3 MT annually." "Packaging Size Optimisation: Savings to the tune of Rs. 0.63 crore (Rs. 32/vehicle) by increase in part quantity/bin"
Godrej Consumer	Packaging	"...identified sustainable packaging targets for fiscal year 2025."
Tata Consumer	Packaging	"The target is to secure 100% collection and disposal of plastic packaging by 31st December 2020 in India."
Cipla	Packaging	"Most of our product packaging – particularly secondary and tertiary packaging components – is manufactured using recycled materials such as paper and board."

Source: SES, Ambit Capital research, Company

India Inc. appears less prepared to curb Co2 emissions

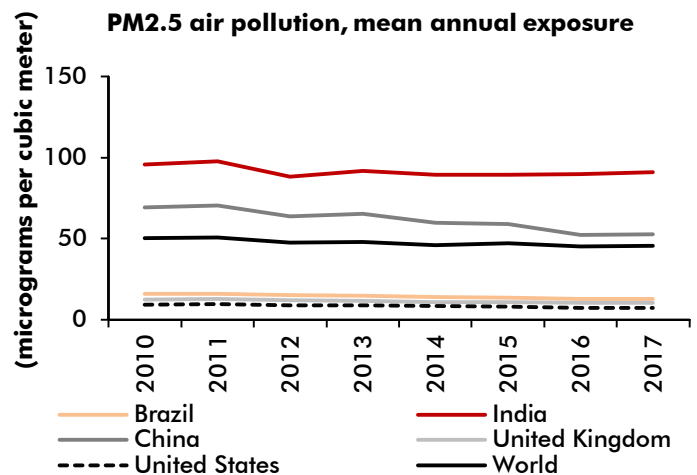
India has the distinction of releasing the largest volumes of pollutants into the air after China and USA. Majority cities with the most polluted air are in India. WHO also refer to these cities as death-traps. To give a context of this situation, we present the below charts:

Exhibit 54: CO2 emissions have only increased in India over the last 20 years



Source: Our World in Data, Ambit Capital research, Company

Exhibit 55: 100% of India's population is exposed to PM2.5 pollution levels exceeding WHO guidelines

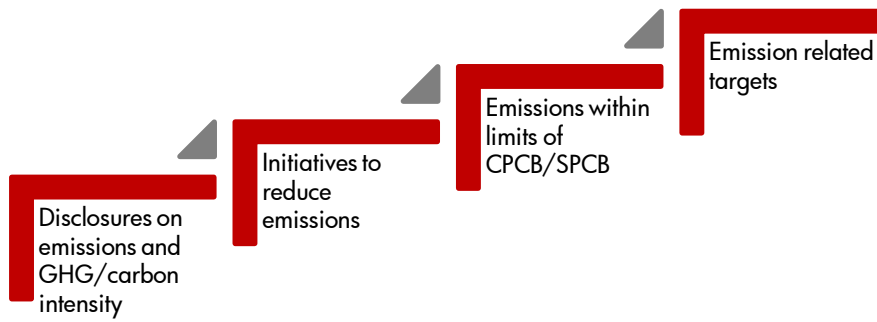


Source: Our World in Data, Ambit Capital research, Company

Amidst rising regulatory attention, we test 4 critical aspects around pollution

Government initiatives to curb air pollution look encouraging. For instance, in 2015, the government launched the National Air Quality Index. Then in 2019, India launched 'The National Clean Air Programme' with tentative national target of 20-30% reduction in PM2.5 and PM10 concentrations by 2024, considering 2017 as the base year for comparison. It will be rolled out in 102 cities that are considered to have air quality worse than the National Ambient Air Quality Standards. At present, Centre Pollution Control Board (CPCB) and State Pollution Control Board (SPCB) monitor emissions by companies and issue penalties to firms which breach their limits. With increasing seriousness around air quality, companies need to get in line else they'll have to face heavy penalties in the near future.

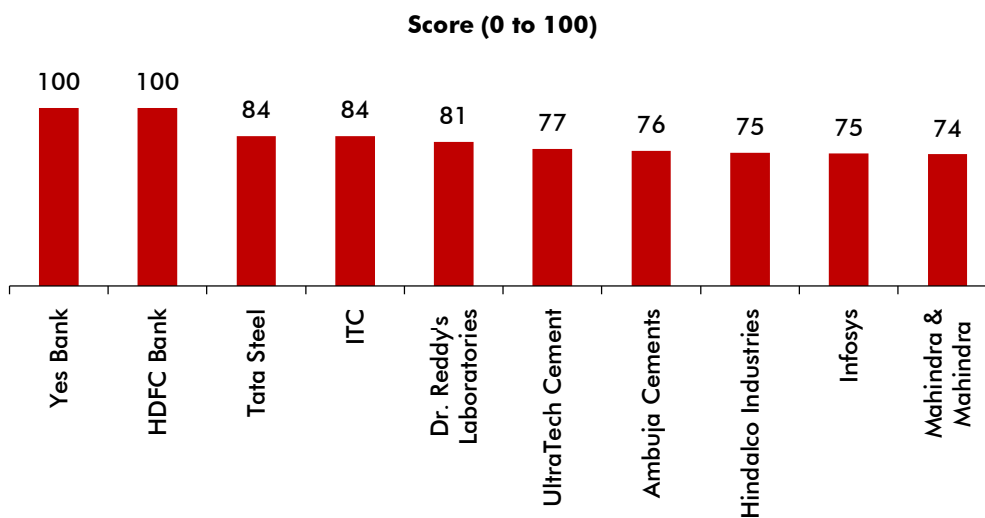
Exhibit 56: Critical areas to assess companies on air/GHG emissions



Source: SES, Ambit Capital research, Company

The median score for the top 100 companies on this parameter is 39. While certain firms in the banking sector stood out, namely Yes Bank and HDFC Bank, with a perfect score, in the non-banking universe, ITC was the top performer by virtue of being carbon neutral for the past 15 years. Pharma, on the other hand, was the worst performing sector with a score of 15. This was on account of lack of disclosures on emission data and initiatives to reduce emissions.

Exhibit 57: Top 10 performers on air emission parameters; two banks appear here; cement and metal companies do well



Source: SES, Ambit Capital research, Company

Exhibit 58: Examples of good disclosures from leading companies

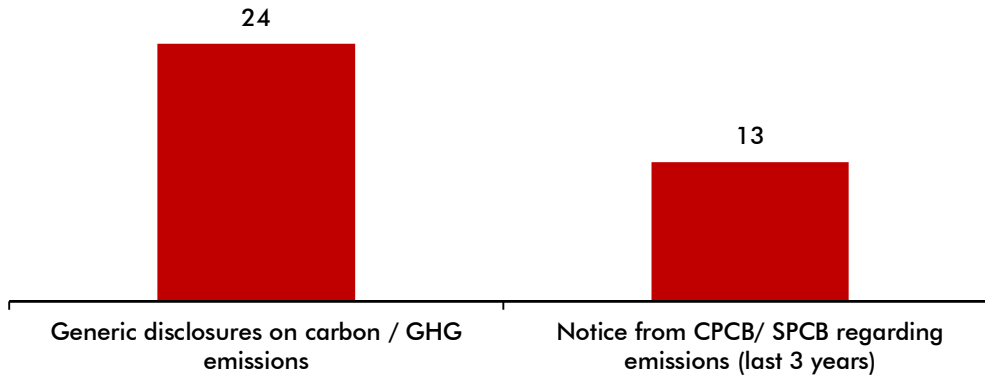
Company	Good disclosures
ITC	Carbon positive for the past 15 years - 2 times the amount of carbon dioxide emissions from ITC's operations are being sequestered through its Social and Farm Forestry initiatives.
Infosys	"Infosys turns carbon neutral 30 years ahead of 2050, the timeline set by the Paris Agreement"
Marico	Perundurai factory 'Marico first manufacturing operation to be certified as a 'carbon neutral' facility during 2020'.

Source: SES, Ambit Capital research, Company

Most cement and metal companies make detailed emission disclosures

As per the Paris Agreement, India's Nationally Determined Contributions (NDCs) have three numeric targets for 2030 - reduce emission intensity by 33% to 35% from 2005 levels, achieve an installed power capacity of 40% from non-fossil fuel sources and create an additional carbon sink of 2.5–3.0 GtCO₂e from forest and tree cover. It is crucial for companies to stick to their emission limits if these goals are to be realised. But 13/100 companies have received notices from CPCB/SPCB regarding breach of emission limits in the last 3 years. 24 companies have made generic statements on their initiatives related to carbon/GHG emissions, which highlights lack of seriousness.

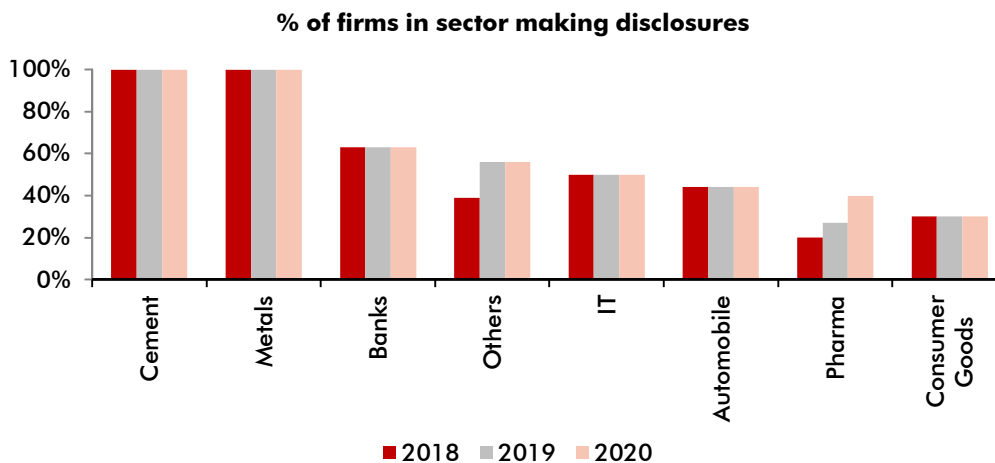
Exhibit 59: Out of the top 100 companies in India, 1/4th still don't make meaningful disclosures. 13 companies also received show cause notices / observations on certain emission limits



Source: SES, Ambit Capital research, Company

Only 46 companies made disclosures on carbon/GHG emissions in FY20, up from 40 in FY18. All companies in cement and metals made the required disclosures. Consumer goods and pharma remained the worst sectors with 7/23 and 6/15 firms disclosing, respectively. Note that banks have surpassed various other industries in the sample which have high impact on environment due to emissions such as automobile industry. Likewise, in energy, for emissions as well some companies have generally made disclosures on reduction in emissions, initiatives which saved emissions etc. but have not disclosed absolute total emission data. Also, note that there was uniformity in disclosures on emissions due to universally accepted units of measurement. All firms made disclosures in tonnes or metric tonnes of carbon dioxide (CO₂) equivalent.

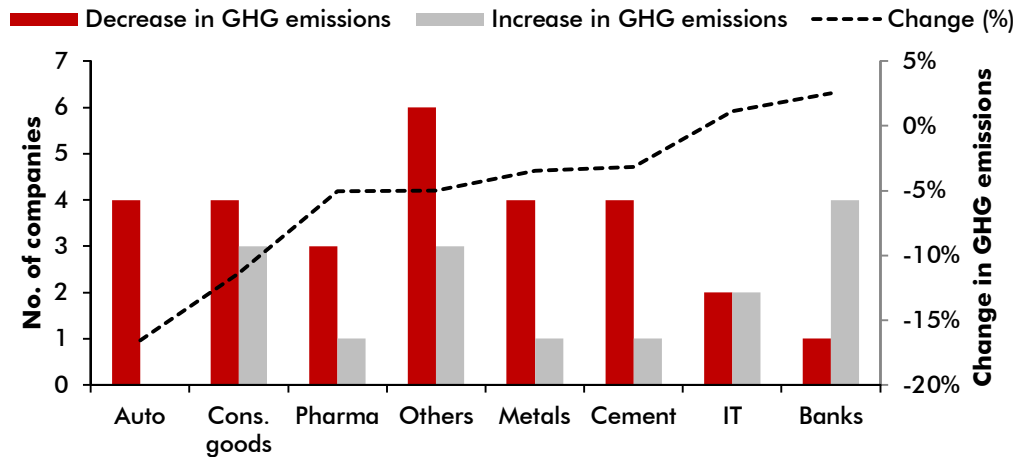
Exhibit 60: 46 companies made disclosures on carbon/GHG emissions, including all companies in the cement and metals sectors



Source: SES, Ambit Capital research, Company, Note: Excludes non-banking financial companies

28 companies saw a decrease in GHG emissions for FY20 while 15 firms saw an increase. Overall, emissions reduced by almost 5% for the companies that made the disclosures. Banks were the worst in this respect. There was an increase of 2.5% in GHG emissions by banks. Financial companies need to take more responsibility of the direct and indirect environmental damage they cause.

Exhibit 61: 28 companies reported decrease in GHG emissions for FY20 compared to 14 companies for FY19, with highest decrease in the auto sector



Source: SES, Ambit Capital research, Company, Note: Excludes non-banking financial companies

Exhibit 62: Highest % decrease in GHG emissions happened in Maruti ; there are two auto firms amongst top five

Company	Sector	Unit	FY19	FY20	%
Maruti Suzuki	Auto	tCO ₂ e	452,924	337,343	(34%)
Marico	Con Goods	tCO ₂ e	17,110	13,520	(27%)
M&M	Auto	tCO ₂	280,119	240,421	(17%)
HDFC Bank	Banks	'000 MTCO ₂ e	457	398	(15%)
Dr. Reddy's	Pharma	tCO ₂ e	540,763	474,026	(14%)

Source: SES, Ambit Capital research, Company

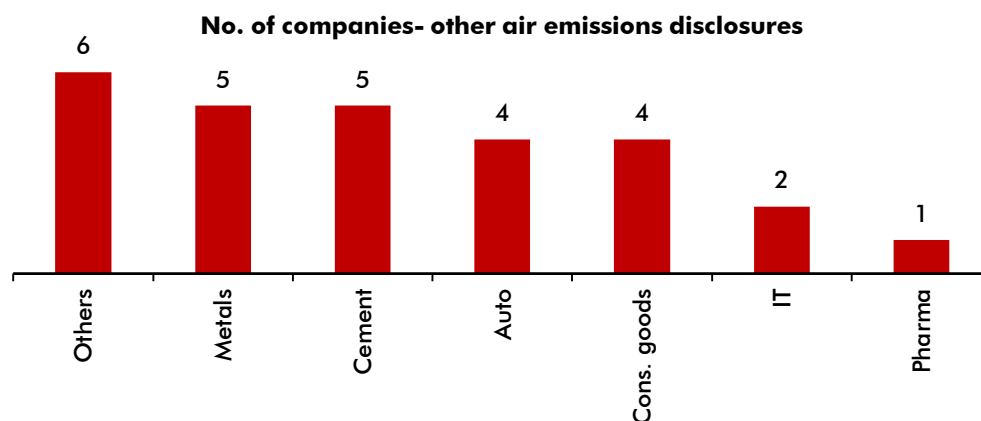
Exhibit 63: PI Industries had the highest % increase in GHG emissions- fertilisers and pesticides firms dominate the list

Company	Sector	Unit	FY19	FY20	%
PI Industries	Agri inputs	Tonne	101,672	129,013	21%
UPL	Agri inputs	tCO ₂	773,354	924,134	16%
Axis Bank	Banks	1000 tCO ₂ e	148	174	15%
Wipro	IT	tCO ₂ e	117,290	137,930	15%

Source: SES, Ambit Capital research, Company

While focus of government initiatives as well as company initiatives is CO₂, there are plenty of other harmful gases which require equal attention like Particle Pollution ("PM"), Nitrogen Dioxides ("NO₂"), Sulphur Dioxide ("SO₂"), Volatile Organic Compounds (VOCs) or Ozone depleting substances (ODS). Only 27 companies make disclosures on other air emissions. These disclosures are also dependent on the firm's operations since different sectors have different by-products. Disclosures on other emissions further lack uniformity due to this reason.

Exhibit 64: Only 27 companies in the sample have made disclosures or provided information on other air emissions, but the disclosures are not uniform across industries

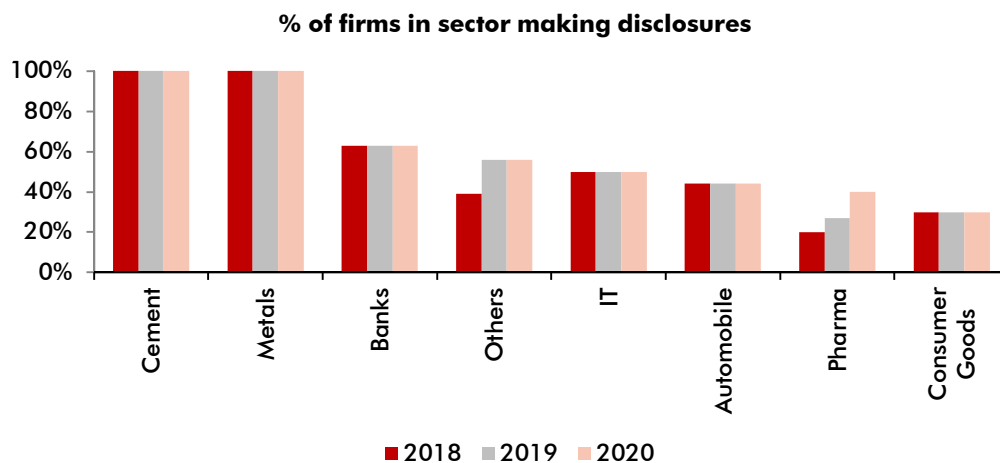


Source: SES, Ambit Capital research, Company

Auto sector witnessed rise in emission intensity; HDFC, Dr. Reddy showed significant reduction in emission intensity

Only 37 companies made disclosures on GHG emission intensity. Like in the case with energy, emission intensity states emissions as a proportion of some company-specific matrix, like revenue, number of employees, etc. Due to lack of guidance/rules regarding the disclosure format, lack of uniformity in emission intensity data makes it less comparable but intensity is a better benchmark. Cement and metals remain the top sectors in terms of disclosures on emission intensity. However, it was observed that certain firms that made disclosures on absolute emissions failed to disclose on emission intensity, while other firms only disclosed emission intensity without stating absolute emissions. This was particularly seen in IT and consumer goods sectors. 32 companies managed to provide data on both.

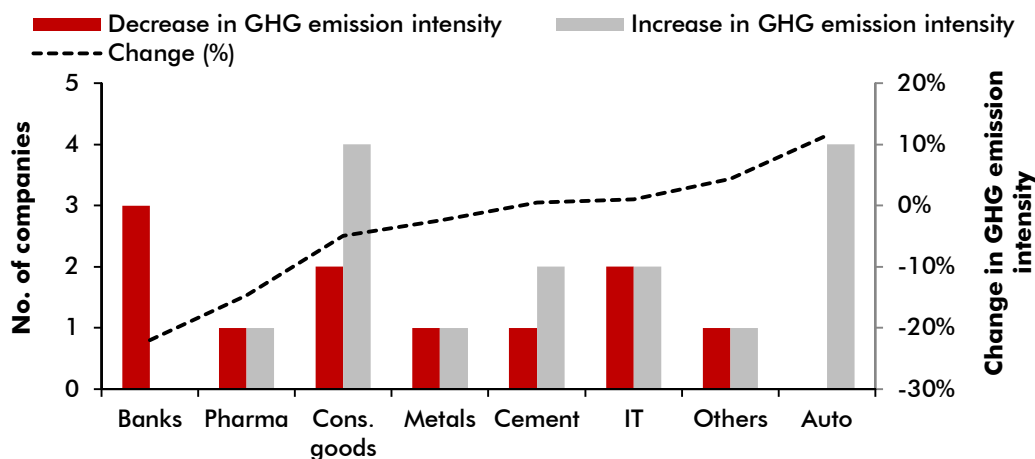
Exhibit 65: 37 companies disclosed on GHG emission intensity; cement and metals companies scored the best



Source: SES, Ambit Capital research, Company, Note: Excludes non-banking financial companies

In terms of emission intensity, the performance was relatively weak. 15 firms reported increase in GHG emissions intensity while 12 firms reported a decrease. Overall emission intensity reduced by 1.5% but the best performing sector on absolute emissions – auto – was the worst performing sector on emission intensity and reported an increase of 11.4%. Banks usually use number of employees or revenue to compute intensity and reported an improvement of almost 22%.

Exhibit 66: More than half the number of companies (15) which disclosed data around change in GHG intensity witnessed increase in GHG intensity



Source: SES, Ambit Capital research, Company, Note: Excludes non-banking financial companies

Exhibit 67: Highest % decrease in GHG intensity happened in HDFC bank in FY20

Company	Sector	Unit	FY19	FY20	%
HDFC Bank	Banks	MTCO ₂ e per crore total income	4.0	2.9	-38%
Dr. Reddy's	Pharma	tCO ₂ e/□ Mn of Revenue	3.5	2.7	-29%
Marico	Con Goods	TCO ₂ e PER UNIT CRORE REVENUE	3	2.4	-25%
Tata Consumer	Con Goods	Mt CO ₂ e/ INR Crores	3.7	3.0	-24%

Source: SES, Ambit Capital research, Company

Exhibit 68: Highest % increase in GHG intensity happened in PI industries in FY20

Company	Sector	Unit	FY19	FY20	%
PI Industries	Agri inputs	tCO ₂ e /ton of production	3.4	6.2	45%
Wipro	IT	Kg CO ₂ eq. per Sq. Mt. per annum	71.3	87.2	18%
Eicher Motors	Auto	(tCO ₂ e/Motorcycle)	0.1	0.1	18%
Maruti Suzuki	Auto	tCO ₂ e	0.3	0.3	16%
Asian Paints	Con Goods	KL/KL (Prod.)	0.4	0.4	14%

Source: SES, Ambit Capital research, Company

No clarity on guidance relating to emission reduction targets

38 companies have disclosed their air emission targets. Out of the 38 companies, 28 companies did not achieve the set target or had long-term targets. Certain firms have exemplary targets – Mahindra & Mahindra, Yes Bank, Bharti Airtel, Shree Cement Ltd and Wipro Ltd are part of the Science Based Targets initiative (SBTi). Hero MotoCorp Ltd reiterated its ambitious target of being carbon neutral by 2030, 500% water positive by 2025, and waste neutral by 2025. Mahindra as a group is committed to becoming carbon neutral by 2040. Trent Ltd plans to reduce emissions of existing stores by 5% by 2021 and build new stores with 5-10% less carbon footprint.

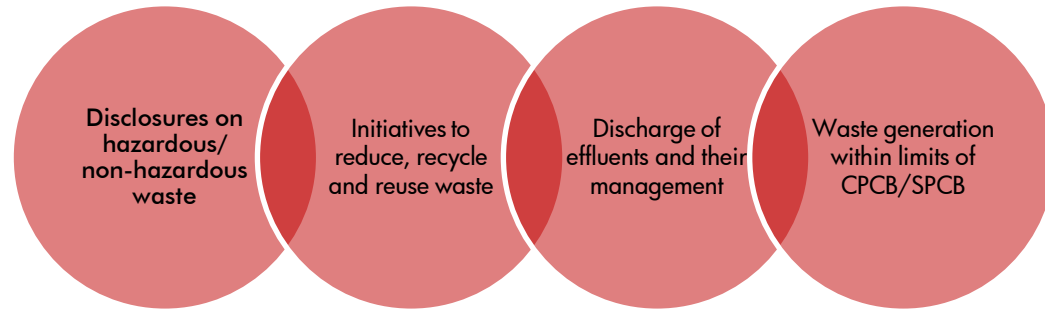
Exhibit 69: Only 38 companies in the sample have discussed about targets relating to reduction in carbon/GHG emissions or becoming 'carbon neutral'


Source: SES, Ambit Capital research, Company

Waste management is least discussed

The ESG model looks at waste and effluent management from the following dimensions: disclosures on hazardous/non-hazardous waste, initiatives to reduce, recycle and reuse waste, discharge of effluents and their management, and waste generation within limits of CPCB/SPCB. Considering the nature of operations of IT, finance and pure services companies, scoring has not been not done on effluents (but companies were scored on waste generation and intensity).

Exhibit 70: Key parameters related to assessment of waste management

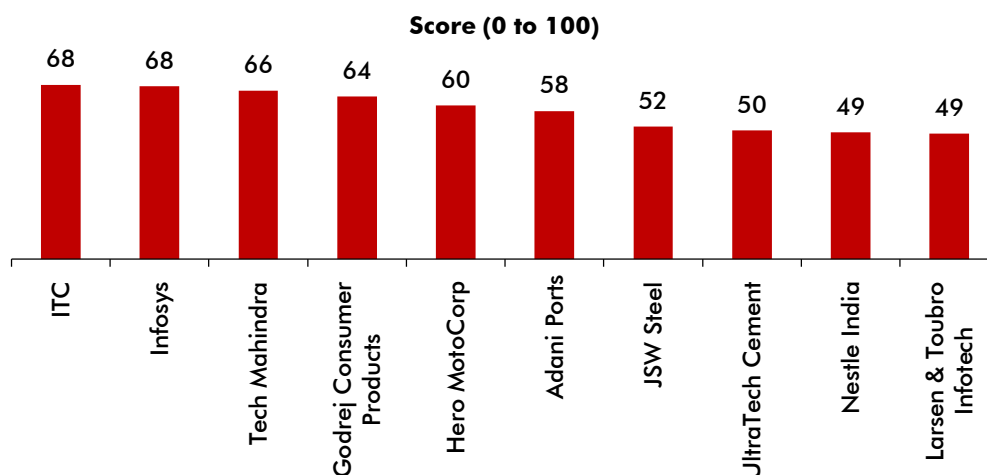


Source: Company, Ambit Capital research, SES

Disclosures suggest very less attention to waste management practices

The median score for the top 100 companies on this parameter is 29. This indicates that majority of the companies lacked in making adequate disclosures and failed to meet the criteria on waste-related parameters. High scoring companies are the ones which have either disclosed information and posted positive performance or ones which have not disclosed data but have already achieved objectives such as being zero liquid discharge or zero waste to landfill etc. Top performing companies also have scored below 70. Three IT companies feature in the top 10 due mainly due to e-waste management initiatives.. Also note that in last 3 years, 11 companies have received show-cause notices/observations from CPCB/ SPCB regarding waste.

Exhibit 71: Top 10 performers on waste management parameters



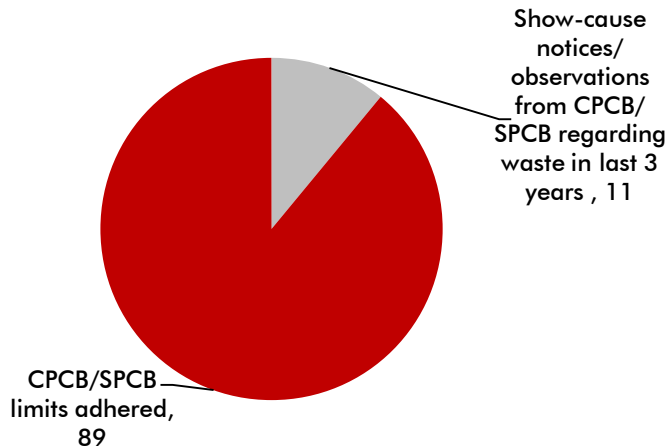
Source: SES, Company, Ambit Capital research

Exhibit 72: A few good disclosures on waste management

Company	Best initiatives
Hindalco Indus	Achieved Zero Liquid Discharge (ZLD) for 11 of our 15 manufacturing plants
ITC	"Since 2010-11, the waste paper-based pulp and paper mill at Kovai has not discharged any treated effluent outside its premises"
M & M	14 facilities have been certified as Zero Waste to Landfill
Ultratech	2.11 times plastic positive
Nestle India	All eight factories are "zero waste to landfill", which implies that either all generated waste is either reused, recycled or co-processed.

Source: SES, Ambit Capital research, Company

Exhibit 73: 11 companies have received show cause notices / observations from CPCB/SPCB limits regarding waste in last 3 years



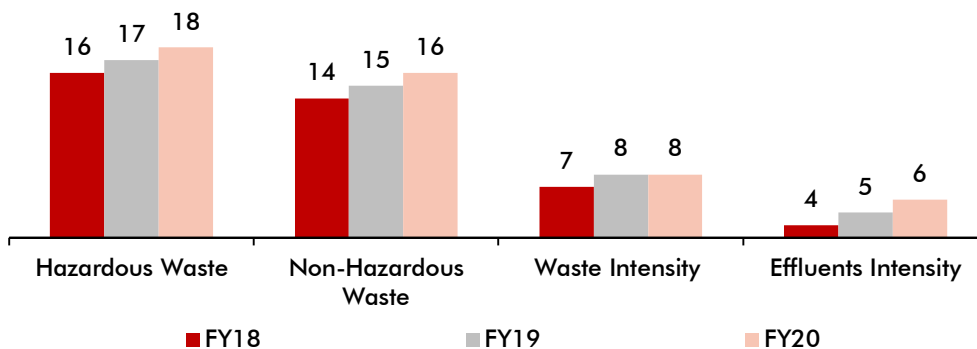
Source: SES, Company, Ambit Capital research

Less than 10 companies make meaningful disclosures on waste management

For FY20, only 19 companies have made disclosures on data relating to total waste or hazardous or non-hazardous waste data through which total waste data could be ascertained. Lack of uniformity of reporting is worrying. Some companies made disclosures on waste disposal data while others disclosed data on waste recycled or waste sent to authorised recyclers. Disclosures are even weaker on waste intensity. Waste intensity compares waste generated with company-specific parameters like production units, revenue, number of employees, etc. Only eight companies made disclosures on the same in FY20. Similarly, on effluent intensity, only six companies made the required disclosures.

Exhibit 74: Very few companies have made disclosures on total waste; these disclosures lack uniformity

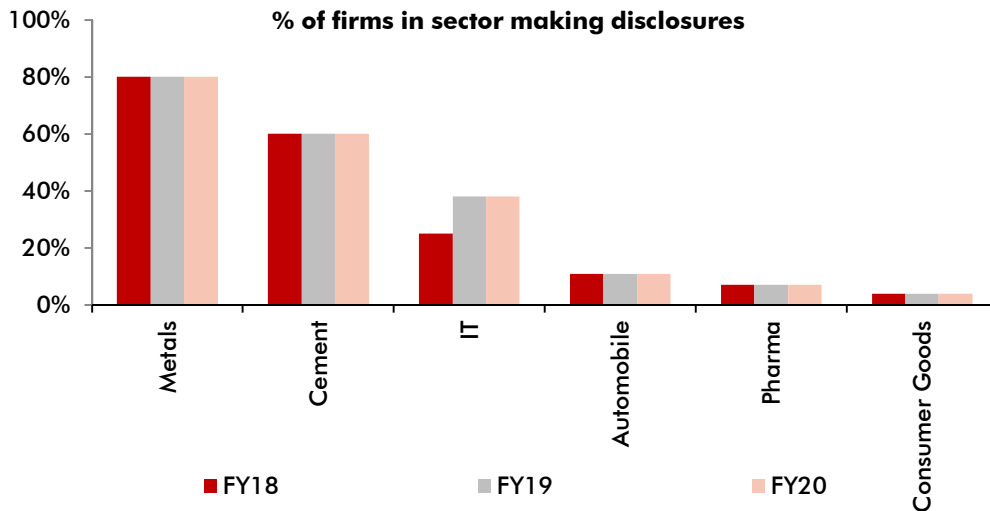
No. of companies making disclosures



Source: Ambit Capital research, Company, SES

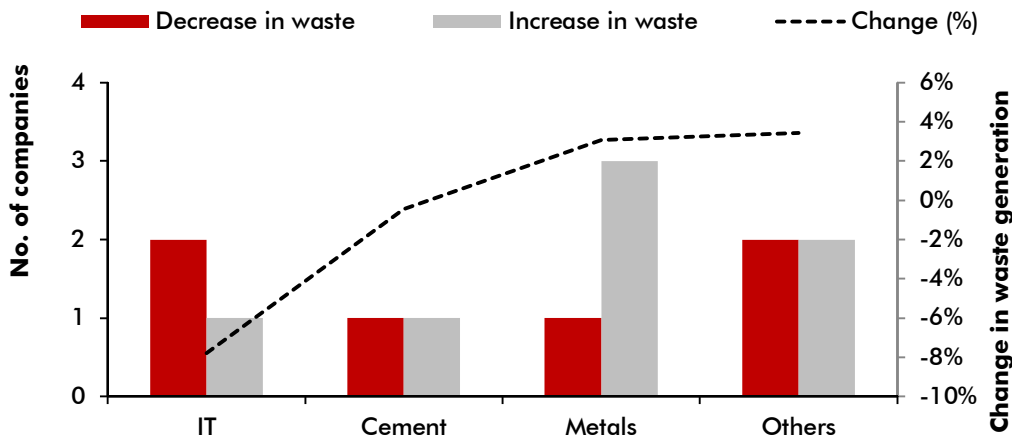
The highest number of disclosures on total waste was made by metals and cement sectors, which remain the top performing companies on all major environment-related parameters. The IT industry despite being in non-manufacturing or processing has made comparatively better disclosures. The least disclosures were observed in auto, pharma and consumer goods. Further, on waste and effluent generation, six companies saw a decrease in their total waste, while seven companies saw an increase (of the companies that actually made the disclosures). IT was the top performing sector in this respect. Metals was the worst performing sector with three companies (of the 4 that made disclosures) seeing an increase in total waste. Since very few companies have provided intensity-related data, no meaningful industry-wise performance comparisons could be performed.

Exhibit 75: 19 companies made disclosures on total waste generated. Consumer goods, pharma and auto sectors were the worst on disclosures



Source: Ambit Capital research, Company, SES

Exhibit 76: IT was the top performing sector on waste generation as it reduced its waste by 7% (for the three companies in sample that made disclosures)



Source: Ambit Capital research, Company, SES

Exhibit 77: Adani ports had the maximum reduction in total waste over FY19 to FY20

Company	Sector	Unit	FY19	FY20	%
Adani Ports	Services	MT	5,718	2,610	-54%
Tech Mahindra	IT	Kgs	841,299	611,096	-27%
Larsen & Toubro Infotech	IT	Tons	125	95	-24%
Grasim Industries	Cement	MT	2,325,052	2,114,310	-9%
ITC	Consumer Goods	Tonnes	781,229	711,116	-9%

Source: Ambit Capital research, Company, SES

Exhibit 78: UPL had the maximum increase in total waste over FY19 to FY20

Company	Sector	Unit	FY19	FY20	%
UPL	Fertilisers & Pesticides	Tonnes	94,219	151,414	61%
DLF	Construction	Tonnes	8,737	13,483	54%
Infosys	IT	Tons	10,335	13,220	28%
Vedanta Ltd	Metals	MT	14,273,131	15,544,259	9%
Ambuja Cements	Cement	Tonnes	383,711	414,933	8%

Source: Ambit Capital research, Company, SES

Exhibit 79: Asian Paints disclosed highest reduction in waste intensity

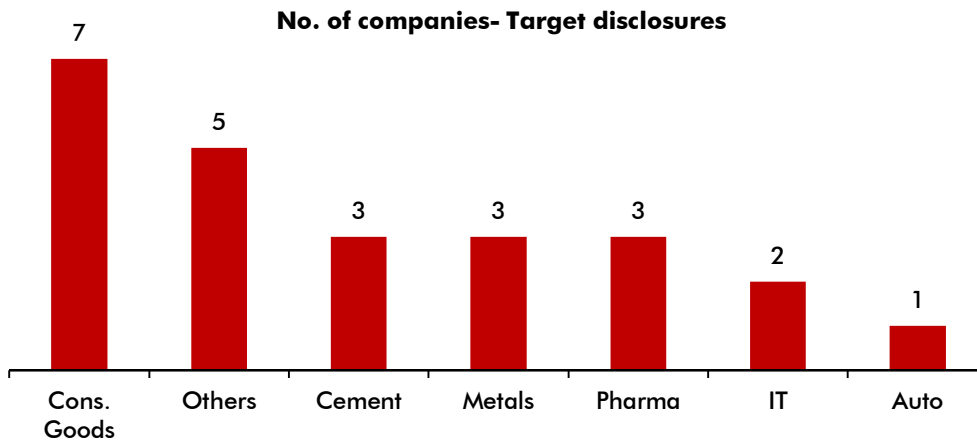
Company	Sector	Unit	FY19	FY20	% change
Asian Paints	Con. Goods	Kg/KL	1.44	1.35	-6%
Pidilite Industries	Chemicals	KG/MT of production	30.3	28.7	-5%
Kansai Nerolac	Con. Goods	Kg/KL of FG	2.71	2.70	0.4%

Source: Ambit Capital research, Company, SES

Only 24 companies setting targets to reduce waste; Dr.Reddy's sets a good example

24 companies in the sample have discussed targets relating to effluents, waste water or waste. Generally, the targets were to become zero liquid/effluent discharge, zero waste disposal, etc. Some companies have set exemplary targets like Dr. Reddy's which has targeted reduction in specific hazardous waste generation by 40% till 2020 compared to 2010. Adani Ports and Special Economic Zone plans Zero Waste to Landfill across all sites by 2025; Page has set the same target by FY22.

Exhibit 80: 24 companies in the sample have discussed about targets to relating to effluents, waste water or waste

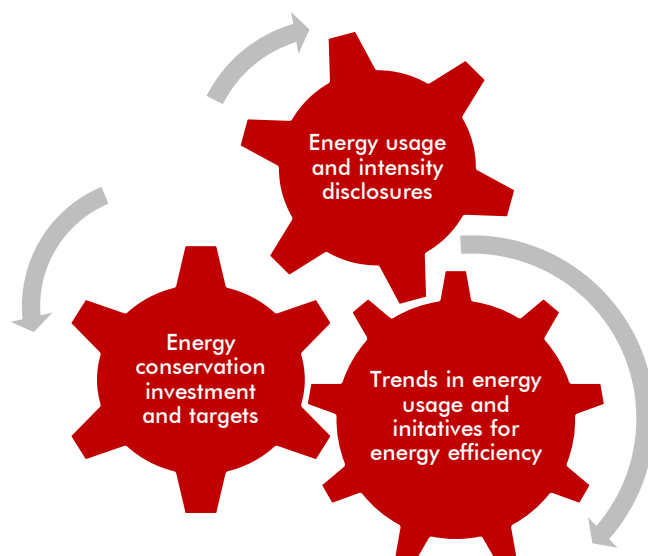


Source: Ambit Capital research, Company, SES

Energy consumption disclosures though important are seriously lacking

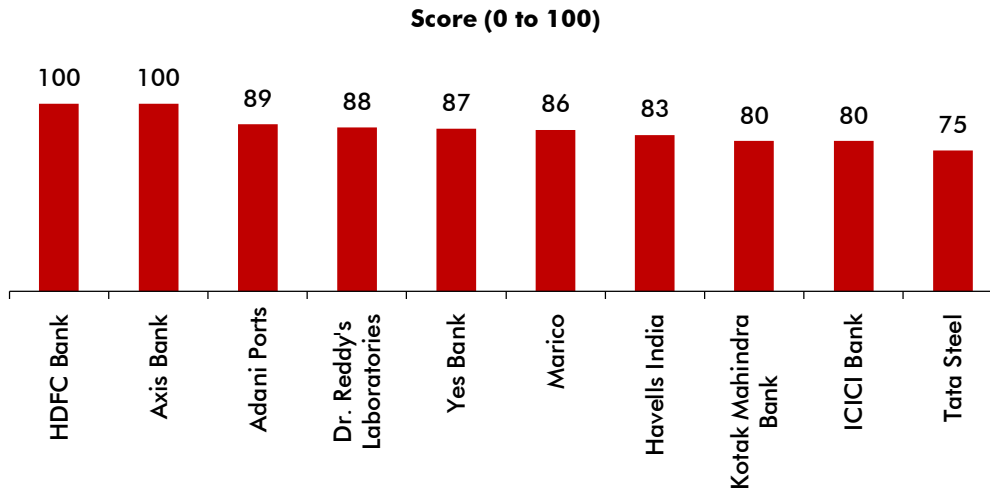
We look at energy consumption from different dimensions - disclosures on absolute energy usage, disclosures on energy intensity, trends in usage of energy/energy intensity, steps to reduce energy consumption, investment in energy-efficient equipment and energy efficiency targets. Section 134 of the Companies Act, 2013 mandates disclosure of information related to energy consumption and conservation. Despite this, the median score on this parameter is merely 34. The best as well as the worst performers see a dominance of financial firms, with 5 banks in 10 top performers and 3 financial firms in the worst 10 performers. Financial firms cannot hide behind a curtain anymore stating lack of applicability for lack of disclosures!

Exhibit 81: Key checks on parameters around energy consumption



Source: SES, Ambit Capital research, Company

Exhibit 82: Top 10 performers on energy consumption parameters

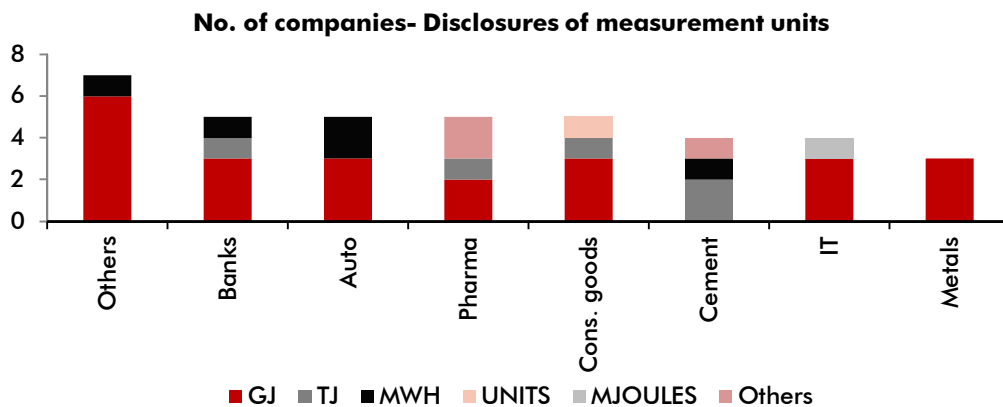


Source: SES, Ambit Capital research, Company

Lack of uniformity is prime hurdle in making fair assessment on energy consumption

In addition to lack of disclosures, companies make generic disclosures on the parameter as a mere box ticking exercise. This practice was particularly prevalent under Business Responsibility Reporting (BRR). It is yet to be seen if Business Responsibility and Sustainability Reporting (BRSR) will be the step-up from BRR. Lack of uniformity is particularly seen in quantitative disclosures since there are no clear guidelines on the units of measurement to be used. While for absolute energy usage, GJ (gigajoules) is used by majority of firms in India (23/38), disclosures are even less comparable in terms of energy intensity.

Exhibit 83: Barring metals, there is astonishing lack of uniformity in energy measurement units used for the 38/100 companies for which disclosures are available



Source: SES, Ambit Capital research, Company; No scoring was done based on measurement unit's disclosures, highlighted for information

Exhibit 84: Generic disclosures on energy consumption/usage do not serve the purpose or help a meaningful analysis. Firms across have a lot to learn from industry-wise best practices

Company	Best practice
M & M, Ultratech Cem.	Signed EP100 (relating to Energy Efficiency – improving energy productivity).
M & M	Conducted energy audits of 40 suppliers
JSW Steel	Set up Energy Management Centre equipped with a supervisory control and data acquisition (SCADA) system that gathers all plant site energy information by remote Programmable Logic Controllers (PLCs) and field instruments.
UPL	Dedicated energy cell to focus on exploring new cutting-edge technologies and up taking them to enhance energy efficiency

Source: SES, Ambit Capital research, Company

Auto companies tackled their total energy usage but banks and IT firms couldn't

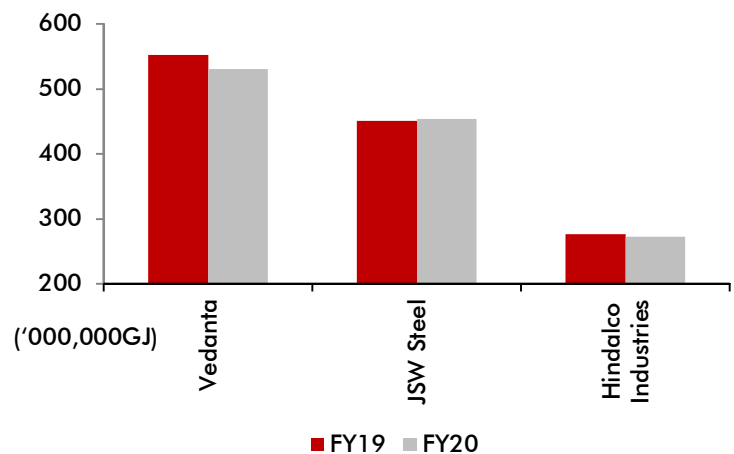
One way to deal with the issue of energy usage is to keep a check on energy usage itself. Higher energy usage, especially when the energy is coming from a non-renewable source like thermal power plants, increases greenhouse gas emissions - which in turn leads to issues like global warming and ozone depletion. However, a few firms actually make disclosures on their energy usage. In FY20, barely 38 firms made the required disclosures. While some companies haven't disclosed data on absolute energy consumption, they have quoted % reduction in energy usage! It is logical to assume that these firms chose not to disclose absolute data due to their high energy usage. Financials ex of banks haven't made any disclosure in this respect due to the nature of their business. Such companies as a good practice could have made disclosures on energy consumption data used at their offices or premises of their business operations.

Exhibit 85: Only 38 companies have made disclosures on energy consumption for FY20; highest disclosures in cement sector (4/5)



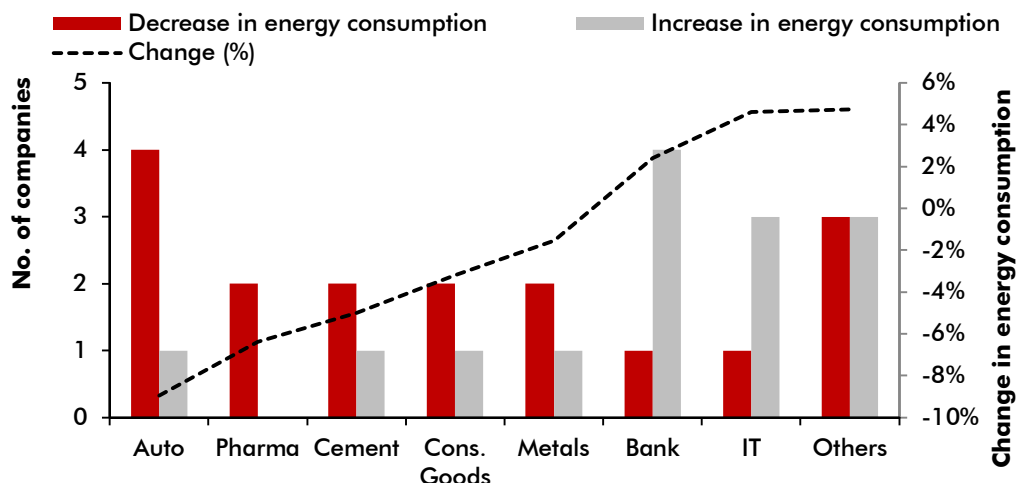
Source: SES, Ambit Capital research, Company

Exhibit 86: Metals companies top the list of highest absolute energy consumptions, majorly due to nature of operations



Source: SES, Ambit Capital research, Company

Exhibit 87: Out of the 38 companies that made disclosures in FY20, 14 companies saw an increase in energy usage. Particularly banks and IT firms have seen increase in energy usage



Source: SES, Ambit Capital research, Company

Exhibit 88: Highest % reduction in energy consumption happened in Maruti for FY20...

Company	Sector	Unit	FY19	FY20	%
Maruti Suzuki	Auto	GJ	8,166,126	6,395,615	-22%
ACC	Cement	TJ	97,767	81,166	-17%
Adani Ports	Services	GJ	586,672	508,110	-13%
M & M	Auto	GJ	1,819,118	1,580,683	-13%
Eicher Motors	Auto	GJ	556,780	485,000	-13%

Source: SES, Ambit Capital research, Company

Exhibit 89: ...while the highest % increase in energy consumption happened in UPL for FY20

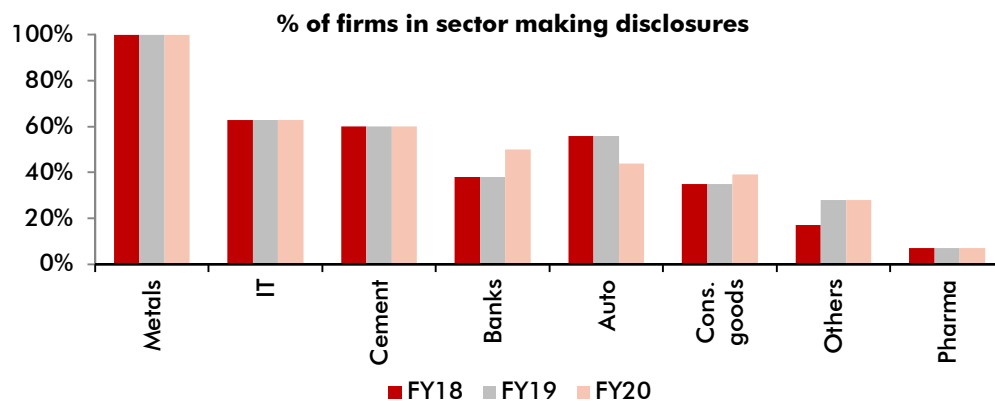
Company	Sector	Unit	FY19	FY20	%
UPL	Agri-inputs	GJ	7,525,632	9,418,232	25%
Page Industries	Textiles	GJ	67,344	83,428	24%
DLF	Construction	MWH	348,753	419,617	20%
Axis Bank	Bank	TJ	724	840	16%
L & T Infotech	IT	GJ	116,783	132,610	14%

Source: SES, Ambit Capital research, Company

All auto companies witnessed increase in energy intensity; all metal companies make detailed disclosures

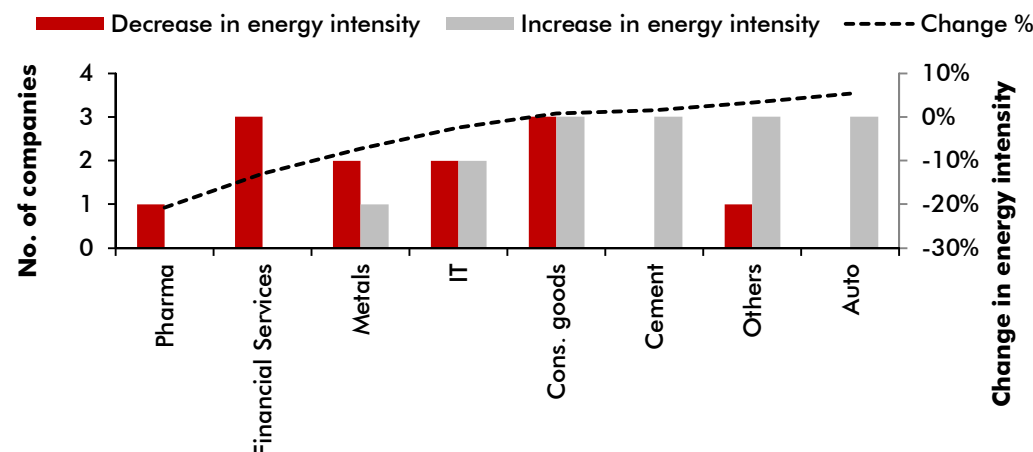
Energy intensity disclosures link energy usage to production or size of the company in question and hence serve as a better benchmark to comment on energy efficiency. Only 36 companies provided disclosures in this regard, with best disclosures in metals (100%) and worst in pharma (7%). Importance of using energy intensity is highlighted by the fact that while 4 auto companies reported a reduction in energy usage in FY20, they observed an increase in energy intensity for the year (3/4 firms reported on energy intensity). Lack of uniformity in disclosures is a bigger problem for energy intensity disclosures since there are a variety of things a company can link energy usage to - production, plant-wise production, revenue, number of employees etc. Therefore, no holistic sample comparison is possible merely based on a company's disclosures.

Exhibit 90: Only 36 companies disclosed on energy intensity. Metals had the best disclosures and pharma had the worst



Source: SES, Ambit Capital research, Company

Exhibit 91: 15 companies (55%) witnessed an increase in energy intensity in FY20. In fact, all 4 companies in auto reported a reduction in energy consumption but an increase in energy intensity!



Source: SES, Ambit Capital research, Company

Exhibit 92: HDFC Bank had the highest % decrease in energy intensity for FY20

Company	Sector	Unit	FY19	FY20	%
HDFC Bank	Bank	GJ / per employee	23	17	-26%
Dr. Reddy's Labs	Pharma	GJ/ Revenue – Rs. Mn	30	24	-21%
Adani Ports	Services	GJ / Revenue – Rs. Crore	76	67	-12%
TCS	IT	KWH/FTE/MONTH	145	128	-12%
ICICI Bank	Bank	Per Capita Energy Consumption (MWh)	2	2	-10%

Source: SES, Ambit Capital research, Company

Exhibit 93: Page Industries had the highest % increase in energy intensity for FY20

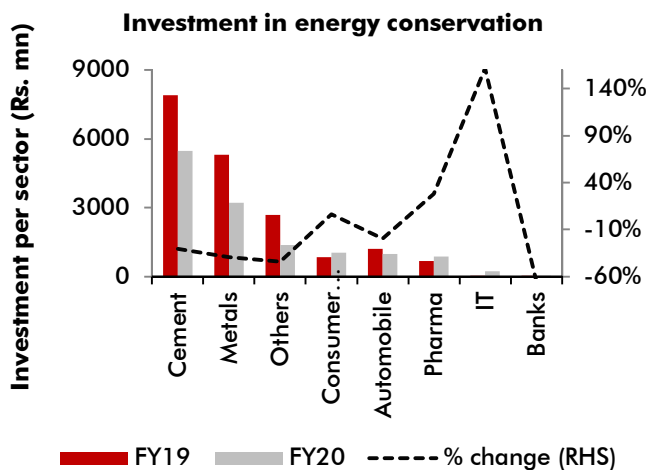
Company	Sector	Unit	FY19	FY20	%
Page Industries	Textiles	GJ/ Revenue	2	3	20%
Pidilite Industries	Chemicals	GJ/ MT of production	0	0	19%
Eicher Motors	Automobile	GJ/Motorcycle	1	1	9%
Maruti Suzuki	Automobile	GJ/vehicle manufactured	5	5	6%
Asian Paints	Cons Goods	Kwh/KL	72	77	6%

Source: SES, Ambit Capital research, Company

Barring cement and metals, investments in energy conservation looks weak

While reducing energy usage may work as a short-term solution, in the long term firms have to transition to renewable energy sources. Adoption of clean energy and energy-efficient equipment requires hefty installation costs. Long-term benefits of such investments could offset the initial costs incurred, but only a few firms have made strides in this direction so far. Only 58 firms (excluding financials ex of banks) have disclosed data on capital investments made for energy conservation. The highest investments and as well as number of disclosures were made by cement and metals sectors. IT did poorly despite energy being a topic of concern for the sector.

Exhibit 94: While over FY19-20, only IT, consumer goods and pharma increased capital expenditure on energy conservation, in absolute terms metals and cement are at the top



Source: SES, Ambit Capital research, Company. *No scoring was done for finance companies considering their nature of business.

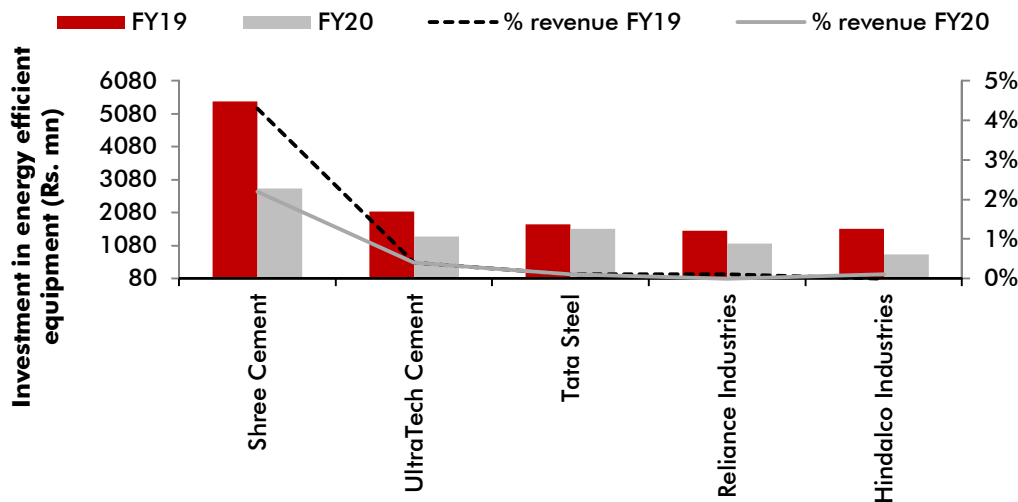
Exhibit 95: However, investments made in energy efficiency and related disclosures are bleak in sectors barring cement and metals



Source: SES, Ambit Capital research, Company

Disclosures are in the fact secondary problem. The top 5 companies when it comes to capital investment in energy efficient systems spend merely 0.1-4% of their revenue on such initiatives! Probably at this rate, if 100 companies in India are transitioning to energy saving technology, achieving India's target 40% of installed power generation capacity from non-fossil fuel sources seems difficult

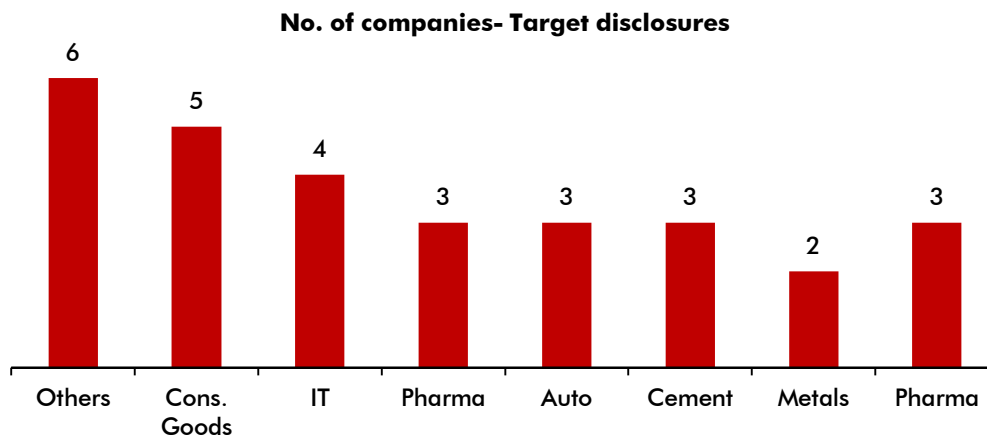
Exhibit 96: Even for the company with maximum absolute investment in energy-efficient systems (Shree Cement), investment as a % of revenue was merely 4%/2% of revenue in FY19/20



Source: SES, Ambit Capital research, Company

Companies have set short-term and long-term targets to achieve energy efficiency. For example, Adani Ports & Special Economic Zone in FY16 set a target to reduce energy intensity by 40% by FY21; ITC in FY13 set a target to reduce energy intensity by 50% by FY22, and Wipro targeted a cumulative reduction of 7.8% in Energy Performance index (EPI) over 5 years. Overall, 26 companies have discussed their energy-related targets but 16 out of these haven't achieved them yet.

Exhibit 97: 26 companies in the sample have discussed their targets to reduce its energy consumption or improve energy efficiency

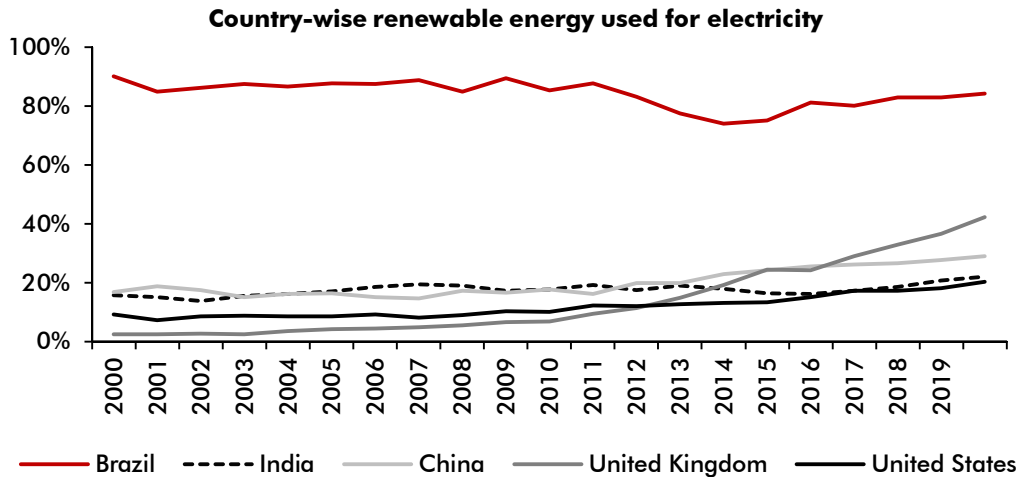


Source: SES, Ambit Capital research, Company

Renewable energy is witnessing increasing regulatory intervention

India has pledged under the Paris Accord on Climate Change that by 2030 40% of installed power generation capacity would be based on clean sources.

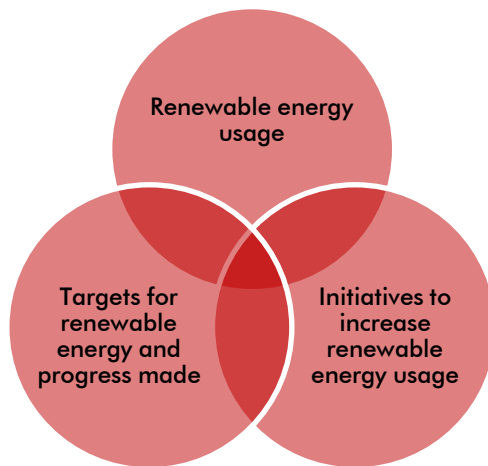
Exhibit 98: Till recently, 22% of India's electricity came from renewables; progress on increasing the share of renewables has not been very encouraging



Source: Our world in data, Ambit Capital research, Company

Under our model, we look at renewable energy initiatives of firms from 3 dimensions: renewable energy usage data, initiatives to increase renewable energy usage and targets and progress towards the same.

Exhibit 99: Key dimensions to evaluate renewable energy parameter

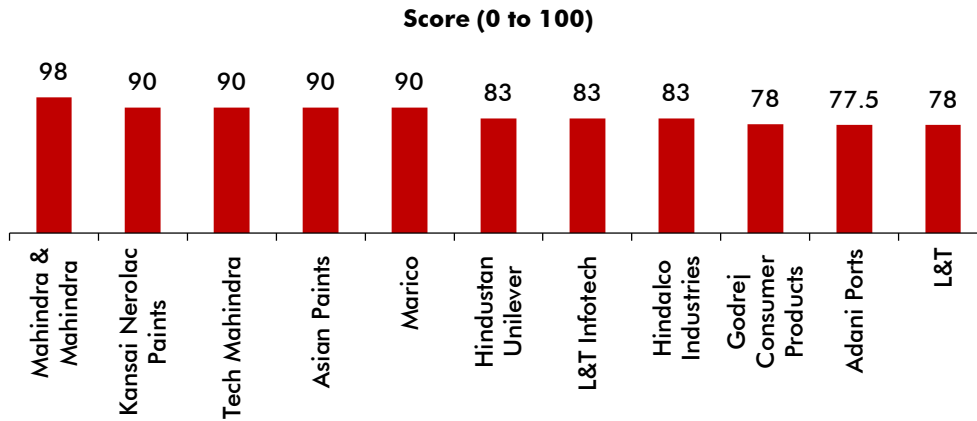


Source: SES, Ambit Capital research, Company

The median score for the renewable energy parameter for the top 100 firms is merely 37. Top performing companies like Mahindra & Mahindra went out of their way and undertook initiatives like being a signatory to RE100 in addition to increasing usage of renewable energy and improving their disclosures. Low scoring companies didn't disclose the required information.

RE100 is a collaborative initiative of influential businesses committed to 100% renewable electricity, working to increase corporate demand for - and delivery of - renewable energy.

Exhibit 100: Top 10 performers on renewable energy parameters

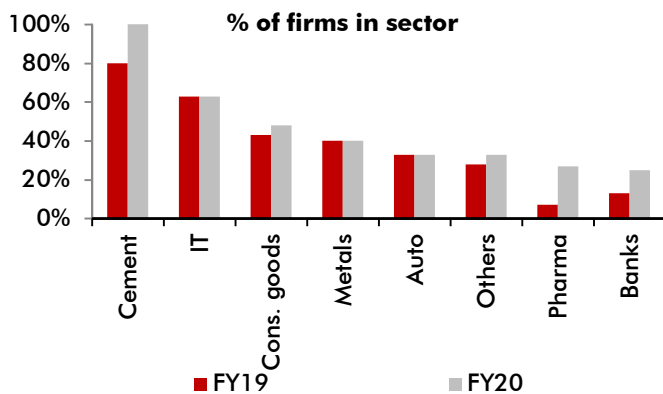


Source: SES, Ambit Capital research, Company, SES

Consumer goods, IT and cement companies making adequate disclosures on renewable energy

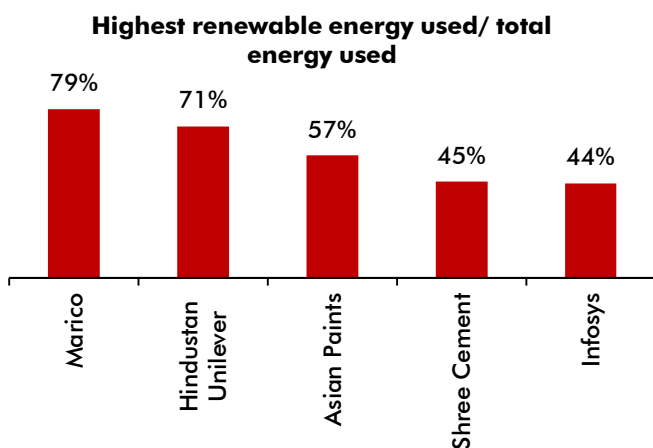
Only 38 companies made adequate disclosures on the share of renewable energy in their total energy mix. The highest disclosures were observed in the cement sector, followed by IT and consumer goods. Pharma and banks lagged.

Exhibit 101: 38 companies in the sample have made disclosures on renewable energy share (%) in total energy consumption; all companies in the cement sector made disclosures



Source: SES, Ambit Capital research, Company

Exhibit 103: Marico had the highest share of renewable energy to total energy used



Source: SES, Ambit Capital research, Company

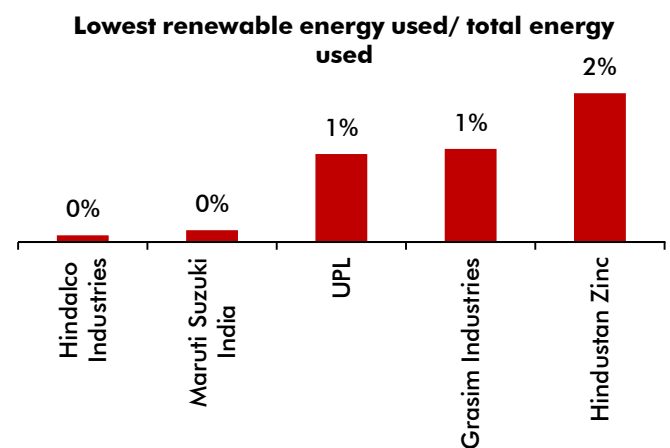
Exhibit 102: 6 companies didn't provide adequate energy disclosures

Company

Bandhan Bank
GlaxoSmithKline Pharmaceuticals
Indraprastha Gas
InterGlobe Aviation
Oracle Financial Services Software
Rajesh Exports

Source: SES, Ambit Capital research, Company

Exhibit 104: Hindalco had the lowest share of renewable energy to total energy used



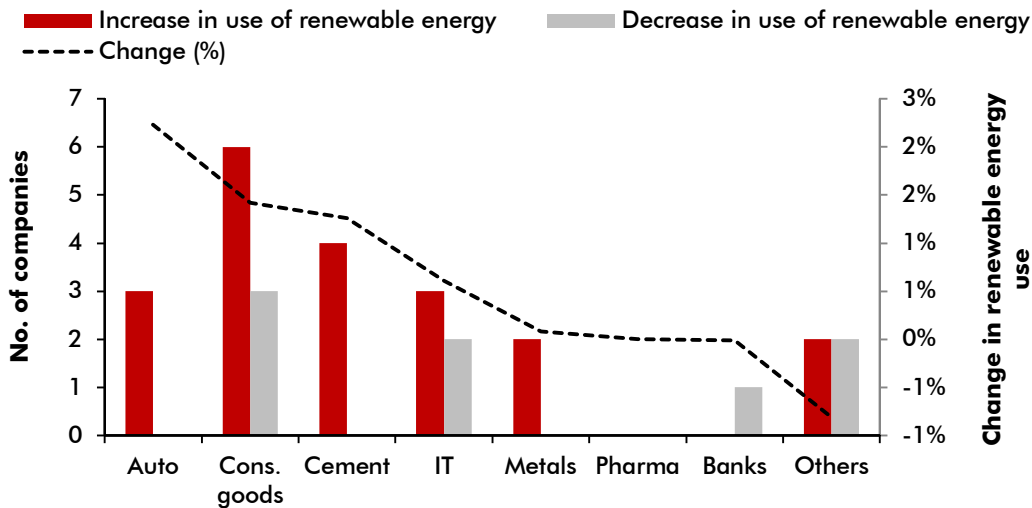
Source: SES, Ambit Capital research, Company

Exhibit 105: List of best initiatives

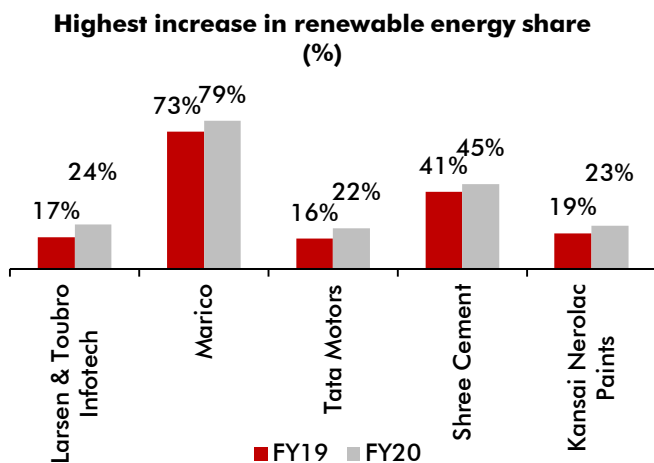
Company	Good initiatives
Marico	"The thermal energy requirement at three of our manufacturing operations are derived from 100% renewable source"
HUL	"...usage of biofuel in Amla, modification of thermic fluid heater in Bhuj, increase in usage of biomass briquettes, and addition of solar power in Nashik and Chiplun have increased our share of renewable energy at our sites..."
Asian Paints	Approach – To maximise renewable capacity

Source: SES, Ambit Capital research, Company

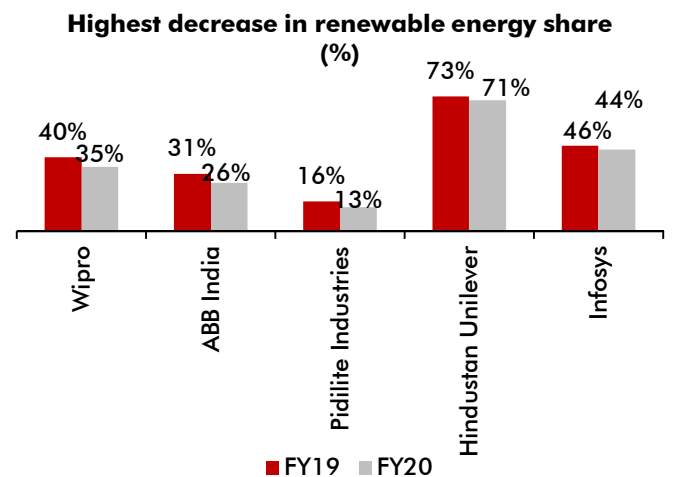
Over FY19-20, 20 companies increased the use of renewable energy and 8 companies saw a decrease. The auto sector saw the highest % increase in renewable energy use (2.2%). In banks, only one company made disclosures and it witnessed a decline in the use of renewable energy. This reiterates the importance of disclosure for the financial sector. Also, note that there is lack of disclosures on renewable energy intensity. Since such disclosures help compare energy usage with a company-related parameter like revenue, they are important to conduct meaningful analysis around renewables.

Exhibit 106: Maximum increase in renewable energy use was observed in the auto sector, followed by consumer goods; banks have lagged


Source: SES, Ambit Capital research, Company

Exhibit 107: L&T Infotech posted the highest increase in share of renewable energy to total energy used in FY19 to FY20
Exhibit 108: Two IT companies saw decrease in share of renewable energy to total energy used in FY19 to FY20


Source: SES, Ambit Capital research, Company

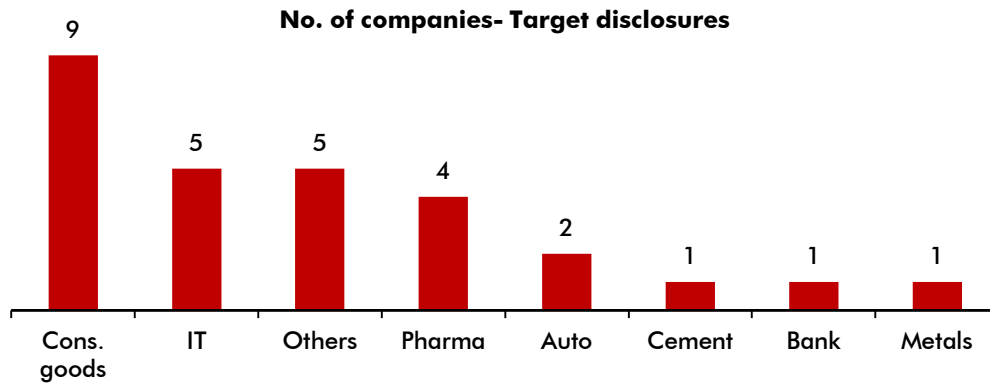


Source: SES, Ambit Capital research, Company

M&M and Tata Motors have relatively clear targets

Only 28 companies disclosed their targets regarding renewables. 22 of these 28 haven't yet achieved these targets either because the targets were long-term or multi-year, in which case it is hard to assess their progress. Some companies have made exemplary targets. For example, Tata Motors Ltd and Mahindra & Mahindra Ltd are signatory to RE100 - a collaborative, global initiative of influential businesses committed to 100% renewable electricity. Asian Paints Ltd stated, "We achieved a renewable energy footprint of 57.38% in FY2019-20, far exceeding the 36% goal set for the year 2020 during FY2015-16."

Exhibit 109: 28 companies in the sample have discussed targets to increase renewable energy or renewable share in total energy mix

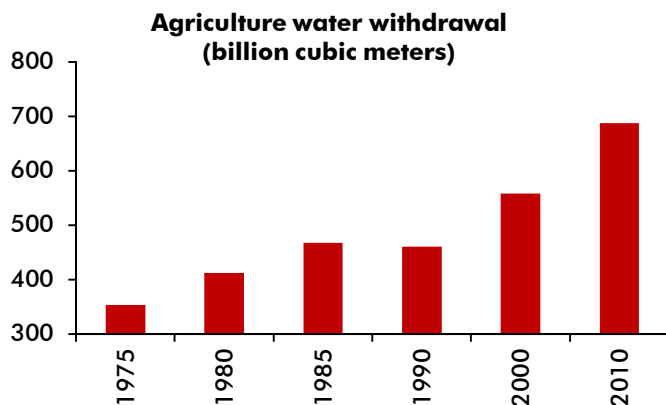


Source: SES, Ambit Capital research, Company

Water usage needs much attention

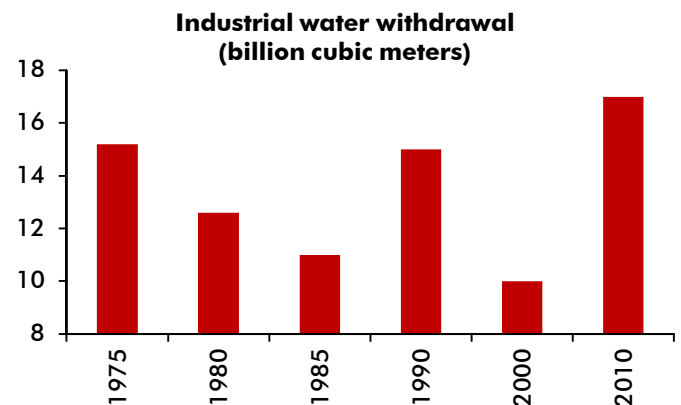
One of the 17 sustainable development goals is to achieve universal and equitable access to safe and affordable drinking water for all and to substantially increase water-use efficiency across all sectors by 2030. India in particular is a water-stressed country since the per capita water availability as of 2011 was assessed at 1545 cubic meters by the Ministry of Water Resources, River Development and Ganga Rejuvenation (below 1700 cubic meters per capita is classified as water-stressed). Given the geographical differences across the country, there are constant battles between states over water usage. Hence, the availability of water for industrial use has become a cause of concern.

Exhibit 110: India tops the list of countries in agriculture water drawdowns, and the intensity is only rising



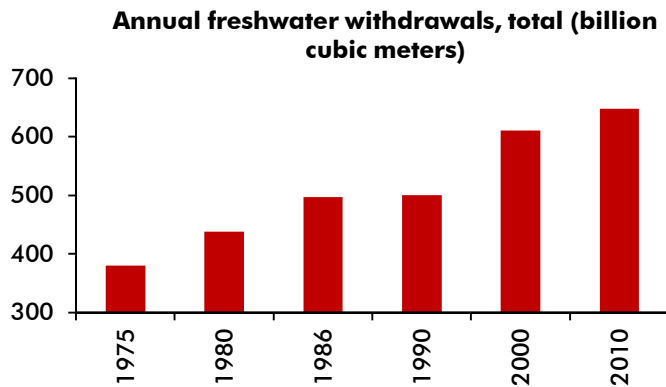
Source: Ambit Capital research, Company

Exhibit 111: In terms of industrial water withdrawals, India is 4th, behind only USA, China and France



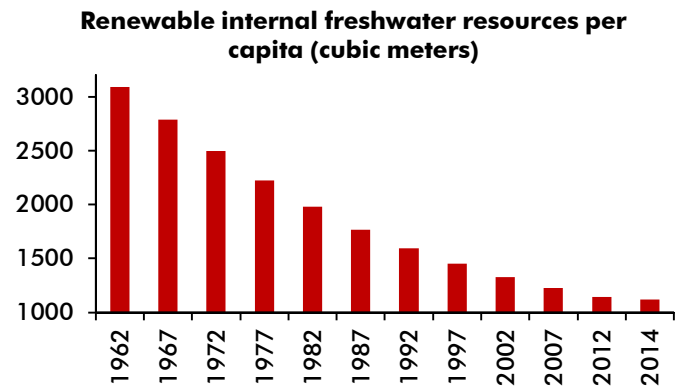
Source: Ambit Capital research, Company

Exhibit 112: While total freshwater withdrawals have nearly doubled since the 1970s...



Source: Our world in data, Ambit Capital research, Company

Exhibit 113: ... renewable freshwater resources have been depleting



Source: Our world in data, Ambit Capital research, Company

Our model looks at the water consumption parameter from the following dimensions: disclosures on water consumption and intensity, initiatives to reduce, recycle and reuse water, rainwater harvesting system and water conservation targets.

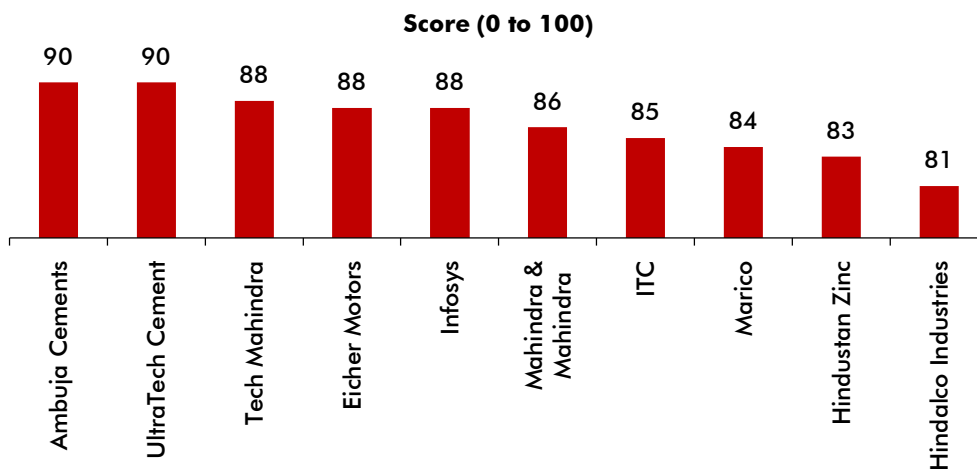
Exhibit 114: Key dimensions of the water consumption parameter



Source: SES, Ambit Capital research, Company

Water-related disclosures are much worse than energy or emission-related disclosures. The median score for the 100 companies is merely 27. Top performing companies on this parameter are majorly from three sectors - metals, cement and auto.

Exhibit 115: Top 10 performers on water consumption

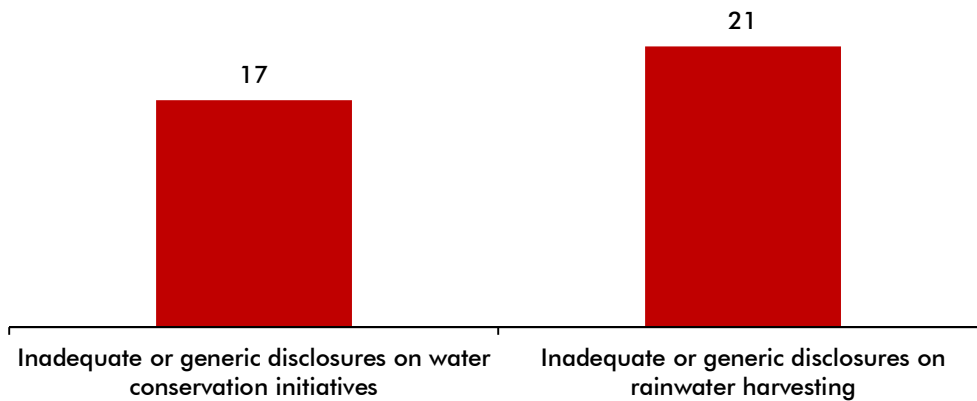


Source: SES, Ambit Capital research, Company

Disclosures to verify efforts to conserve water are less

17 companies didn't provide adequate disclosures on water conservation initiatives and 21 companies did not disclose anything on rainwater harvesting. A substantial number of companies actually made the disclosures; however, as we note further in the section, the disclosures to analyse efficiency in usage are weak.

Exhibit 116: 17 companies provided inadequate disclosures on water conservation initiatives and 21 on rainwater harvesting



Source: SES, Ambit Capital research, Company

Certain companies have undertaken good initiatives like committing to being water positive.

Exhibit 117: List of best initiatives

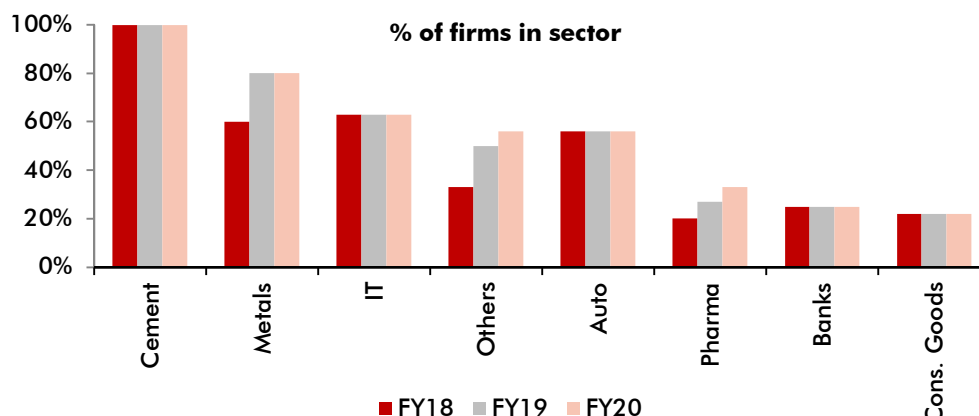
Company	Best initiatives
Eicher Motors Ltd, Hero Motocorp Ltd, Mahindra & Mahindra Ltd, Ambuja Cement Ltd, Ultratech Cement Ltd, Havells India Ltd, ITC Ltd, Hindustan Zinc Ltd	Water positive companies
Bosch Ltd.	"The Company's locations are working continuously to reduce and optimize water consumption. Water balance is established by carrying out water audits."
Hero MotoCorp Ltd.	"Our facilities in Neemrana, Rajasthan have jointly gone through water footprint assurance-cum-verification and achieved 'Water Positivity Index - 21.14 which effectively means we are giving back water to Mother Nature 21 times more than our actual consumption."
Tata Motors Ltd.	"34 suppliers reduced freshwater consumption"

Source: SES, Ambit Capital research, Company

Water positive companies: initiative whereby rather than simply replacing the water that is being taken from the environment, companies create more water than they are using.

41 companies made disclosures on water consumption and total water withdrawn from various sources in FY20. Best disclosures were in cement (100%) and metals (80%), much like disclosures on energy and emissions. Lowest disclosures were in consumer goods, banks and pharma. Disclosures were more or less uniform. Except one company (disclosed MLD - millions of litre per day or megalitres per day), all the companies in the sample have provided disclosures in cubic meter of water (m3) or kilolitres (KL) wherein m3 is 1,000 KL.

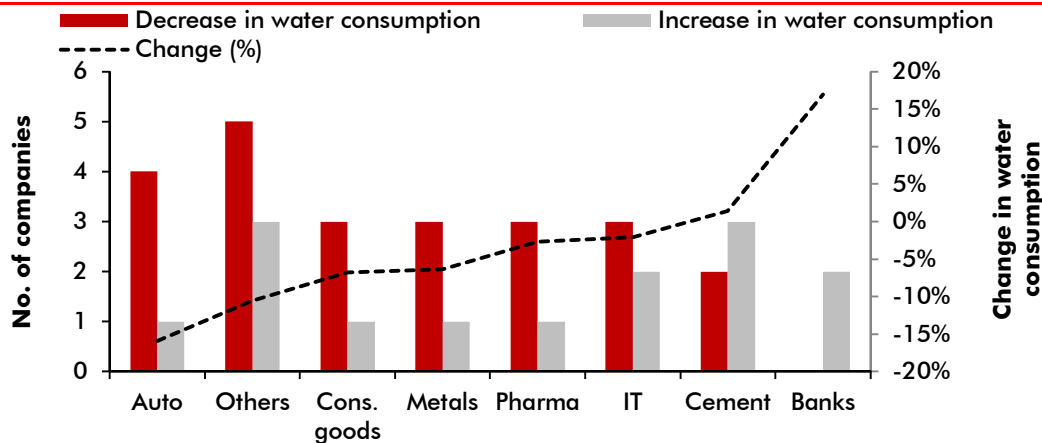
Exhibit 118: 41 companies made disclosures on water consumption. Lowest disclosures were observed in consumer goods, banks and pharma



Source: SES, Ambit Capital research, Company

Performance on water consumption improved by almost 2% for the companies that made the disclosures. 23 companies decreased their water consumption while 15 companies increased it. The worst performance was by banks, much like the performance of the sector on energy and emissions. The auto sector was the best performer with 4 companies reporting a decrease in water consumption.

Exhibit 119: 23 companies reported decrease in water consumption for FY20, with the highest decrease being by the automobile sector



Source: SES, Ambit Capital research, Company

Exhibit 120: ABB India saw the highest decrease in water consumption in FY20

Company	Sector	Unit	FY19	FY20	%
ABB India	Industrials	mn m3	0.7	0.2	-75%
Mahindra & Mahindra	Auto	mn m3	1.4	0.7	-53%
Eicher Motors	Auto	KL	307,422	220,943	-28%
DLF	Construction	KL	3,540,000	2,717,309	-23%
UPL	Agri-inputs	KL	4,340,717	3,699,393	-15%

Source: SES, Ambit Capital research, Company

Exhibit 121: L&T saw the maximum increase in water consumption in FY20

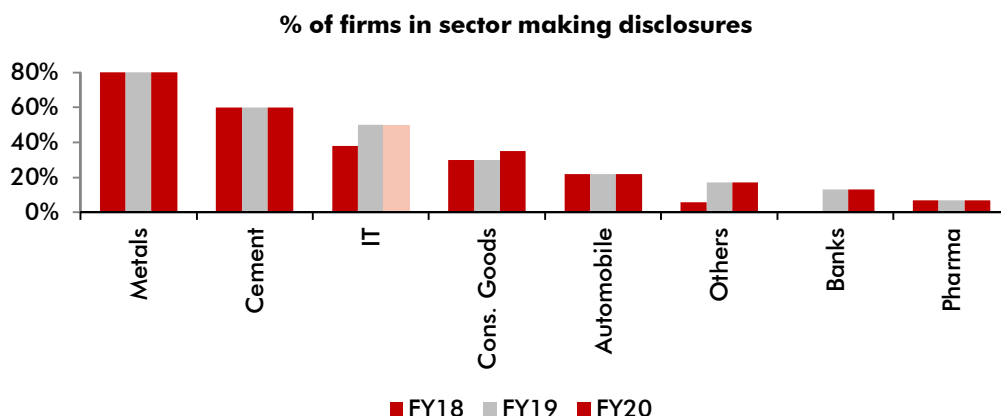
Company	Sector	Unit	FY19	FY20	%
Larsen & Toubro	Construction	m3	1,07,30,075	2,43,03,18	127%
PI Industries	Agri inputs	mn Litres	631	80	28%
Tata Motors	Auto	m3	17,87,737	21,39,46	20%
Kotak Mahindra Bank	Bank	KL	88368	1,02,25	16%

Source: SES, Ambit Capital research, Company

L&T witnessed the highest increase in water usage intensity, while Dr. Reddy witnessed a significant decrease

Water intensity compares water consumption levels with company-specific metrics like revenue, number of employees, profits, etc. Disclosures on water intensity are even more rare. Only 26 companies disclosed information on water intensity, with the lowest being in pharma. Since companies have disclosed intensity linked to production, plant-wise production, energy generated, revenue, number of employees etc as per nature of their businesses, there is no uniformity in water intensity disclosures.

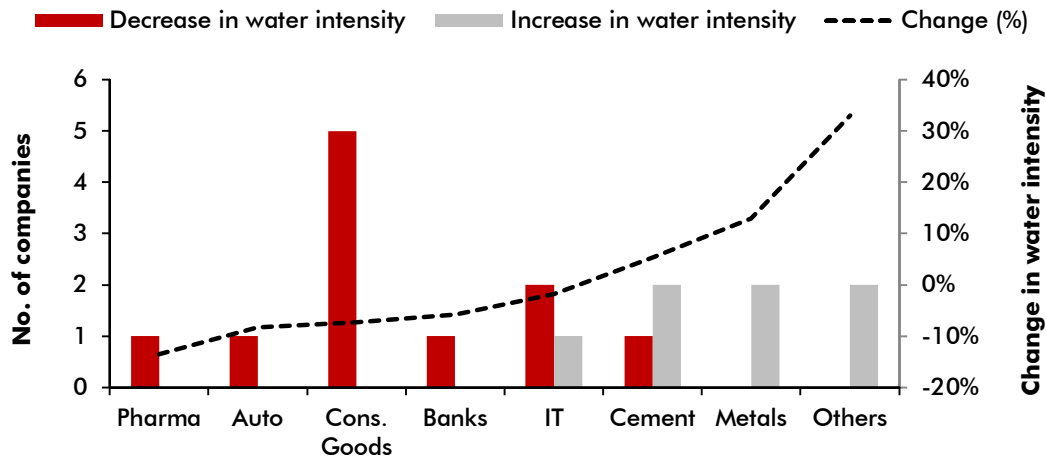
Exhibit 122: Only 26 companies disclosed information on water intensity. The lowest disclosures were observed in the pharma sector



Source: SES, Ambit Capital research, Company

Water intensity on average decreased by around 15% for the companies that made disclosures on the parameter. 11 companies reported a decline in water intensity and 7 companies reported an increase. Despite being the top sectors on water disclosures, cement and metals faced an increase in water intensity in FY20.

Exhibit 123: Only 11 companies reported decrease in water intensity in FY20



Source: SES, Ambit Capital research, Company

Exhibit 124: Highest fall in water intensity at Dr. Reddy's Laboratories in FY20

Company	Sector	Unit	FY19	FY20	%
Dr. Reddy's Laboratories	Pharma	KL/□ Mn of Revenue	11.2	9.7	-14%
Kansai Nerolac Paints	Consumer Goods	KL/KL of FG	1.6	1.4	-11%
Infosys	IT	Per Capita/Month	1.3	1.2	-9%
Eicher Motors	Automobile	KL/Motorcycle	0.4	0.3	-8%
Tata Consumer Products	Consumer Goods	litres/ton of product	304	279	-8%

Source: SES, Ambit Capital research, Company

Exhibit 125: Highest increase in water intensity at L&T in FY20

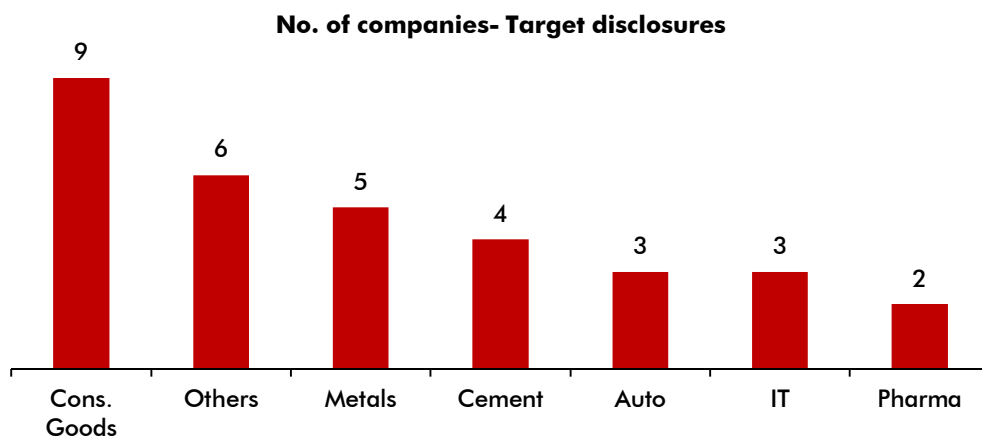
Company	Sector	Unit	FY19	FY20	%
Larsen & Toubro	Construction	m3/employee	9.4	36.5	290%
Vedanta Ltd	Metals	m3/MT	0.4	0.4	17%
Shree Cement	Cement	m3/MT of cement produced	0.1	0.1	13%
Wipro	IT	KL per sq. mt.	1.0	1.0	9%
JSW Steel	Metals	KL/tonne	3.8	4.1	8%

Source: SES, Ambit Capital research, Company

Several companies did not achieve the water reduction target

32 companies discussed their targets to reduce water consumption and intensity. Out of the 32 companies, 20 did not achieve the set target or had long-term and multi-year targets for which performance cannot be ascertained. Some examples – ACC disclosed the target to reduce specific freshwater withdrawal in cement operations by 30% by 2030; Infosys plans to reduce per capita freshwater consumption by 2%.

Exhibit 126: 32 companies set targets to reduce water consumption



Source: SES, Ambit Capital research, Company

Environmental incidents are fewer

Under this section, we analyse threat to company operations from two dimensions:

- Change in regulatory environment – industry-wide or sector-specific.
- Environmental incidents.

Auto industry had to adapt its products to new regulations of BSVI

In the past three years, there was one major regulatory change in the auto industry – the transition from Bharat Stage (“BS”) IV to BS VI emission standards. This necessitated the sector to invest more to upgrade their systems to comply with BS-VI.

Exhibit 127: Some extracts of company statements highlighting challenges faced by the company or industry in transitioning from Bharat Stage (“BS”) IV to BS VI emission standards

Company	Comments
Bajaj Auto	“It is difficult to anticipate the state of BS VI readiness of our competitors. If some, or most, of them have a large stock of unsold BS IV vehicles in the second half of FY2020, they will perforce have to dump these in the market before the advent of 1 April 2020. That could trigger an unwarranted price war, to the detriment of all. We cannot claim that such a scenario will definitely play out; equally we cannot ignore a distinct risk overhang on that account.” – AR 2018-19 “The entire range of motorcycles and commercial vehicles had to be redesigned to employ sophisticated electronic controls including fuel injection to meet these emission norms. The production plants and dealer network also needed to be upgraded to achieve this transition.” – AR 2019-20
Eicher Motors	“Operating profit margin was impacted by a 15% decline in sales volume and increase in input costs mainly due to regulatory changes, consequently it reduced from 26.6% in 2018-19 to 19.7% in 2019-20 on a consolidated basis.” – AR 2019-20
Hero MotoCorp	“Increase in overall cost of ownership (BSVI related price hikes other safety and insurance costs) impacted demand for automobiles” – AR 2019-20
Mahindra & Mahindra	“FY20 was a very challenging year for the Indian auto industry. On one front, the industry was focused on achieving smooth and efficient transition from BS4 to BS6. On the other front, the industry was faced with very challenging market scenario.” “From 1 April, 2020, India has switched over to BS6 emission norms. With BS6 implementation, the emission of Petrol and Diesel vehicles is at par and hence, the concern over cleanliness of diesel emission should go away. However, there is a cost differential involved in meeting BS6 emission for Petrol and Diesel vehicles, with Diesel being higher. This differential results in pricing pressure on the diesel fueled vehicles.” – AR 2019-20
Maruti Suzuki India	“While making transition to BS-VI regulation, the Company decided to discontinue the diesel offering, as it may not remain an economically attractive choice for customers. Moreover, upcoming regulations in diesel vehicles seem to increase cost further, leaving no economic advantage to customers. We also note that prices of both diesel and petrol fuel have now come much closer. However, if for some reason, the demand of diesel vehicles continues, the Company may have the flexibility to bring back diesel technology (1.5 litre) in its products.” – AR 2019-20
Tata Motors	“The change in emission standards may also increase the cost of Bharat Stage VI vehicles and impact Company’s profitability.”

Source: SES, Company, Ambit Capital research

A handful of examples of environment mishaps!

Environmental incidents pose a threat to a company operations as well as its reputation. Environmental incidents include those affecting the environment caused by business operations through products, processes, inputs used etc. Under this parameter we look at environmental incidents involving the company in the past three years. Data on environmental incidents was sourced from disclosures by the companies concerned in their Annual or Sustainability Report or disclosure on the stock exchange or news articles.

Exhibit 128: Some environment incidents - Extracts from annual reports, new websites and Indian environment portal

Company	Environment incidents
Vedanta	“On 9 April 2018, Tamil Nadu Pollution Control Board (TNPCB) rejected Vedanta Ltd’s application for renewal of the operating license for its 1200 tonne per day copper plant at Thoothukudi in southern India. On 28 May 2018, after mass protests against Sterlite’s pollution ended in police firings killing 13 protestors, the Government of Tamil Nadu conveyed its decision to permanently shutdown the industry...”
Sun Pharmaceutical Industries	“The Southern Bench of the National Green Tribunal has appointed a joint committee to inspect Sun Pharmaceuticals’ facility near the Vedanthangal Bird Sanctuary and to find out whether it is following proper pollution control mechanisms... ...to investigate whether the unit was unauthorisedly discharging any untreated trade effluents into the nearby agricultural fields or other waterbodies... ...The order came on an application that claimed that the manufacturing plant is close to the ‘core zone’ of the Vedanthangal Bird Sanctuary, and alleged that the unit was operating without environment clearance.”
Grasim Industries	“During the year under review, the National Green Tribunal (NGT) had imposed a penalty of Rs. 1 Crore relating to a Chemical Unit acquired by the Company from Kanoria Chemicals Limited in 2011. The Company paid interim compensation of Rs. 1 Crore to Central Pollution Control Board. Basis report of National Environmental Engineering Research Institute (NEERI), the Company had filed an appeal before Supreme Court and the Court has granted a stay on NGT proceedings.” – AR 2019-20
Piramal Enterprises	“M/s. Piramal Enterprises Limited’s pharmaceutical unit manufactures 62 products. The industry was inspected on three different occasions by the teams constituted as per the directives of the NGT. During the inspection of Rolling Task Force team, it was observed that in the cooling tower, water was contaminated, and all the rain water collection pits were not lined up.”

Source: SES, Ambit Capital research, Company

Banks have some scope for improvement

Direct pollution may not be a cause of concern for banks but they have a massive indirect impact on the environment. The indirect impact occurs as they lend and invest in companies that may contribute directly towards environment degradation. With increased globalisation and free flow of capital across borders, the role of banks in strengthening and supporting domestic firms to be environment-positive is greater than ever. The median score of banks on this indirect environmental impact is 44. The maximum score (68) is about 10 times the minimum score (6), which highlights that disclosures regarding indirect environmental impact are weak, not uniform and there is scope for improvement.

We look at indirect environment impact in two ways:

- Climate risk assessment in financing.
- Responsible lending/ sustainable financing.

Exhibit 129: Indirect environment impact assessment framework



Source: SES, Ambit Capital research, Company

Most accept climate risk as a risk but then what?

On climate risk assessment in financing, except Bandhan Bank and IDBI Bank, all other banks have considered 'Climate Risk' as a material risk and accordingly made disclosures. Banks didn't do well on disclosures on strategy and monitoring of risk. While "recognising" a risk is the first step where banks did well, they failed to make disclosures on actual impact assessment parameters. None of the banks have specifically disclosed the significant concentrations of credit exposure to carbon-related assets. No bank has disclosed total loans or % of their total loans to sectors such as Energy/Oil & Gas, Materials/Basic Materials, Industrials, and Utilities. Also, no bank has classified lending in various sectors based on severity of climate risk.

Green bonds were issued by only two banks under our review- Yes Bank and Axis Bank. These are meant to provide finance to renewable energy and clean mobility, hydro energy urban mass transport, green buildings, and solar and wind power projects among other areas.

Exhibit 130: List of best initiatives

Company	Best initiatives
Yes Bank	Provided disclosures as per Task Force on Climate-related Financial Disclosures (TCFD) recommendation in its Sustainability Reports
Yes Bank and Axis Bank	Disclosed issue of Green bonds which provide finance to renewable energy and clean mobility, hydro energy urban mass transport, green buildings, solar and wind power projects among other areas.

Source: SES, Ambit Capital research, Company

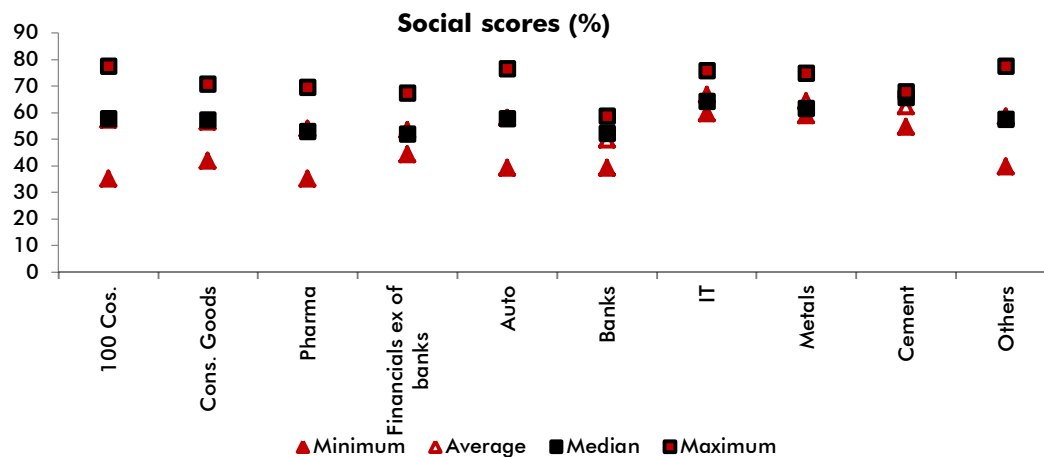
So much to do, so little done!

Social was largely understood only as corporate social responsibility (CSR). Recently, there have been increasing discussions on measures around employee welfare, equal opportunity employers, customer orientation initiatives, data security breaches etc. Barring CSR, which probably got more attention due to statutory mandate, parameters clearly need uplift. For instance, there are just 10% women employees on median basis across 100 companies. IT companies and banks with highest number of women employees also have a higher number of sexual harassment complaints. While most companies claim product quality-related management systems and policies, ~40 companies do not actually mention any details like third-party certifications or disclose policies. 57 companies give no information on customer complaints despite being a regulatory mandate. Only 22 companies disclose data security/privacy certifications; nonetheless, there are a few setting examples for the rest.

Too much on the plate!

IT, metals and cement companies have relatively higher scores on account of better disclosures, higher number of social initiatives and more consideration towards social responsibility. Within every sector, there are companies that do extremely well on all our parameters, while there are also companies that need to take several steps. As BRSR comes in from next year, we could expect some improvement in scores. Pharma, auto and banks have companies with lowest scores. We took a dig in annual reports of the top 100 companies in India (basis mcap) to gauge the strengths and weaknesses of Indian companies when it comes to dealing with social matters. It largely encompasses gauging the company's understanding of responsibility and action in promoting welfare of employees, customers and society at large.

Exhibit 131: Significant gap in score and low median scores across sectors reflect there is much for companies to catch up on social parameters



Source: SES, Ambit Capital research, Company. *Consumer goods include FMCG, paints, consumer durables and consumer non-durables., #others include industrial manufacturing, services, oil & gas, construction, telecom, fertilisers & pesticides, power, textiles and chemicals.....Universe is top 100 companies' (ex of PSUs) basis mcap at 31 Mar 2020. 0 is the worse score versus 100 is the best score

CSR spending is a statutory obligation in India. In the last two years, companies have increasingly complied with this aspect and hence the scores across sectors appear better. Workforce composition can improve a lot. India Inc. can appoint a significant number of women employees to make the gender proportion in workforce more balanced. Disclosures around customer orientation, product/service quality and safety or data privacy/security need uplift. There could be disclosures on quality or cyber security-related certification, and independent assessments which can let investors understand the seriousness of company towards the matter.

Top 10 companies on Social checks

Company name
Adani Transmission
M & M
L & T InfoTech
Infosys
Hindalco Industries
Tech Mahindra
Maruti Suzuki
L & T
Tata Consumers
Page Industries

Source: Ambit Capital research, Company, SES

Our social parameters

Parameters	Weights (range)*
Workforce composition	16-38%
Employee health and safety	5-20%
Community initiatives	20-24%
Customer orientation	10-20%
Data security and privacy	7-25%

Source: SES, Ambit Capital research, Company.

* Weights change depending upon sector and our materiality heatmap for these parameters.

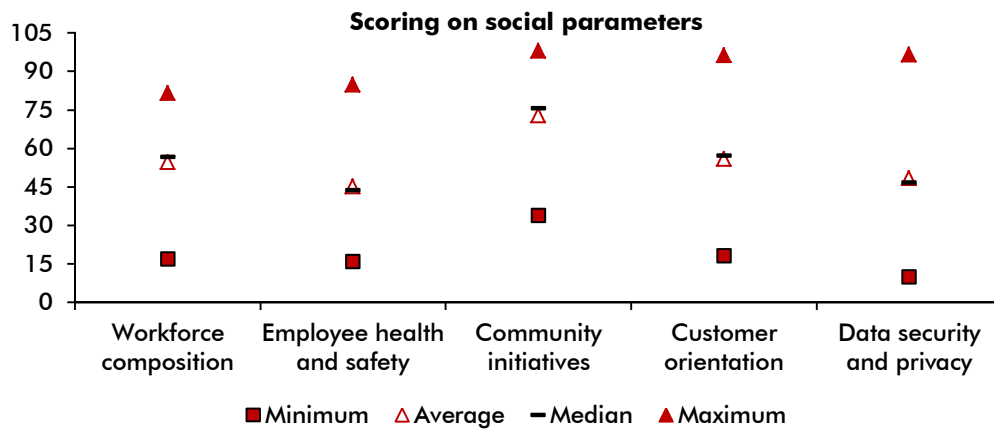
Basis of evaluation

Particulars	Nos.
Questions	81
Parameters across questions	291
Data points	>510

Source: SES, Ambit Capital research, Company

Please note that checks on E, S and G has certain inherent limitations largely due to their subjective nature and hence interpretation could always differ

Exhibit 132: Barring community initiatives to some extent, very low scores across other social parameters under our analysis reflect weak social initiatives by Indian companies



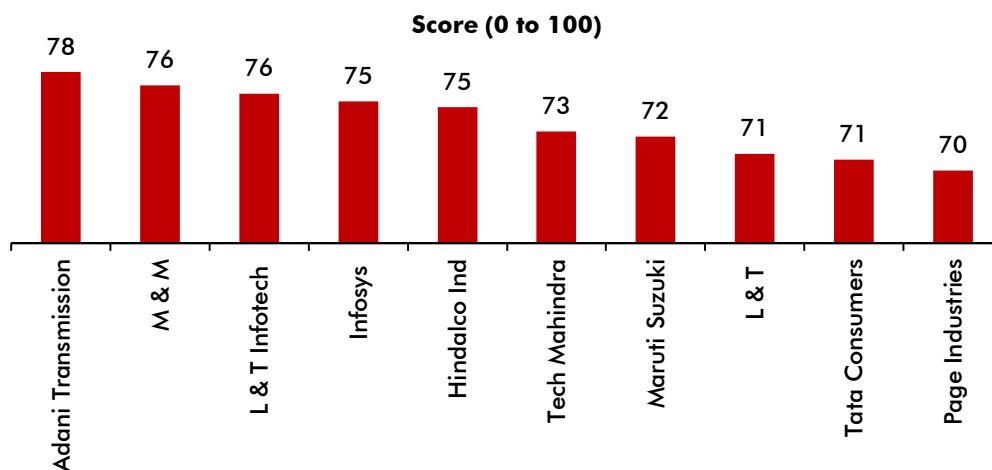
Source: SES, Ambit Capital research, Company. Universe is top 100 companies (ex of PSUs) basis mcap at 31 Mar 2020

Exhibit 133: Most sectors do well on community initiatives; pharma and financial companies lag the most w.r.t scores on social parameters; most sectors have performed worst on employee health/safety and data security/privacy parameters

Sector	No. of Companies	Median Scores (0 to 100), 0 is worst, 100 is best					
		Overall social parameters	Workforce composition	Employee Health & Safety	Community initiatives	Customer orientation	Data security and privacy
Cement	5	66	67	49	85	50	49
IT	8	64	63	45	80	63	75
Metals	5	61	62	56	77	64	50
Automobile	9	58	52	49	76	50	39
Consumer goods	23	57	57	46	74	56	43
Others	18	57	55	52	76	65	48
Pharma	15	52	57	44	65	67	39
Financials ex of Banks	9	52	51	25	90	58	49
Banks	8	52	31	37	72	45	51
Overall universe	100	58	57	44	76	57	47

Source: SES, Ambit Capital research, Company. Universe is top 100 companies (ex of PSUs) basis m. cap at 31 Mar 2020; Consumer goods include FMCG, paints, consumer durables and consumer non-durables., #others include industrial manufacturing, services, oil & gas, construction, telecom, fertilisers & pesticides, power, textiles and chemicals

Exhibit 134: Top 10 performers on overall social parameters

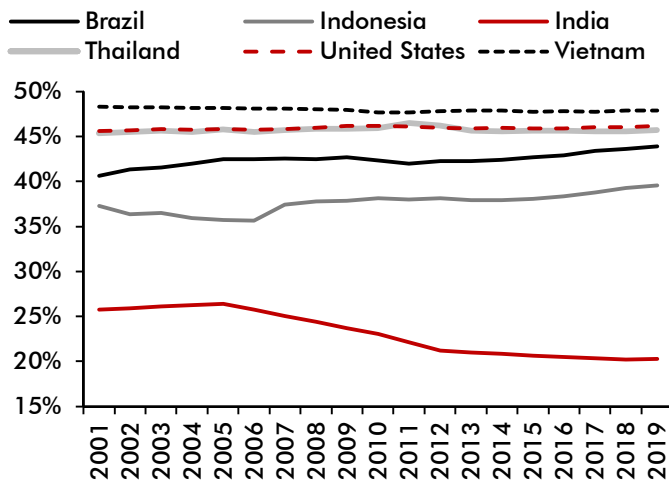


Source: SES, Ambit Capital research, Company

Employee initiatives – Lot of scope for improvement

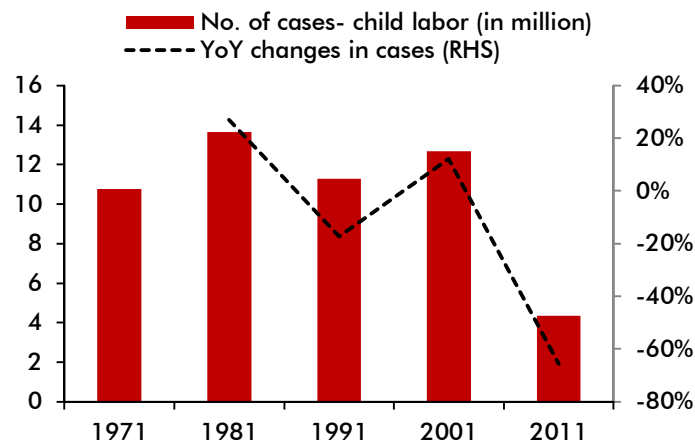
A better workforce composition in the context of Indian Inc. can be better understood as an equal or best opportunity employer. India Inc. largely reflects the situation at the country level, thereby highlighting there is much scope to improve. Bank and IT companies are the largest employers in terms of number of employees and also have a higher proportion of women employees. Excluding the IT sector as a whole, most sectors have a women employee proportion of <10%, highlighting that there is a lot of scope to improve gender equality. Proportion of disabled employees too is very low, at <0.5%. Most employers (60-70% of top 100 companies) do not disclose data on attrition rate or trainings. A higher number of consumer goods, pharma and IT companies make disclosures on trainings imparted to employees.

Exhibit 135: Women labour force participation (%) has been lowest for India vs. US and key developing nations; it has only decreased over the last two decades



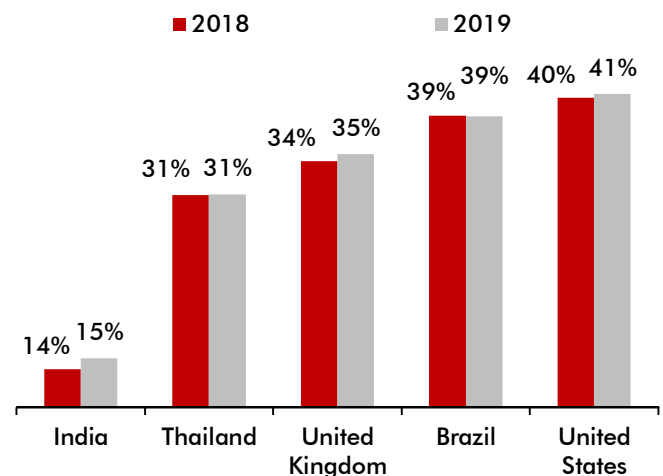
Source: Ambit Capital research, World Bank

Exhibit 137: Number of child labour cases has gone down drastically in 2011, but we believe it could be higher than reported...



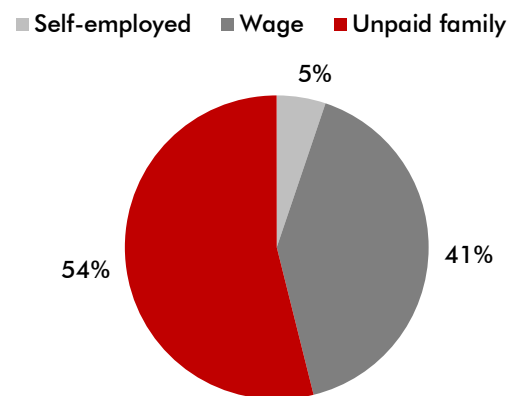
Source: Ambit Capital research, Ministry of Women and Child development

Exhibit 136: India has lower participation of women in top management (%) vs key developed and developing nations



Source: Ambit Capital research, World Bank

Exhibit 138:as world bank data (2012) suggests >50% of India's child labour is occupied in unpaid family activities which probably go unreported



Source: Ambit Capital research, World Bank

Exhibit 139: Data suggests significant dearth of opportunities for disabled individuals; moreover, formal sectors appear even more reluctant to provide work to disabled individuals

Data source	Remarks
Population Census 2011	There are 2.68 crores (2.2%) persons with disabilities in India. However National Center for Promotion of Employment for Disabled People (NCPEDP) predicts it to be in range of 5 to 15% of population. Of these, only 26% constitute working population. Average employment rate of people with disabilities is just 0.3% in pvt sector and 0.5% in public sector
WHO report	87% of persons with disabilities in India worked in informal sector
World Bank report 'People with disabilities in India' - 2007	Suggests employment rate of disabled people has actually fallen from 43% in 1991 to 38% in 2002
The International Labour Organization (ILO), 2011 report 'Persons with Disability and the India Labour Market' : Challenges and Opportunities	73.6% of the disabled in India are still outside the labor force. Of these , those with mental disability, disabled women and those in rural areas are the worst neglected

Source: Ambit Capital research, SES, NCPEDP

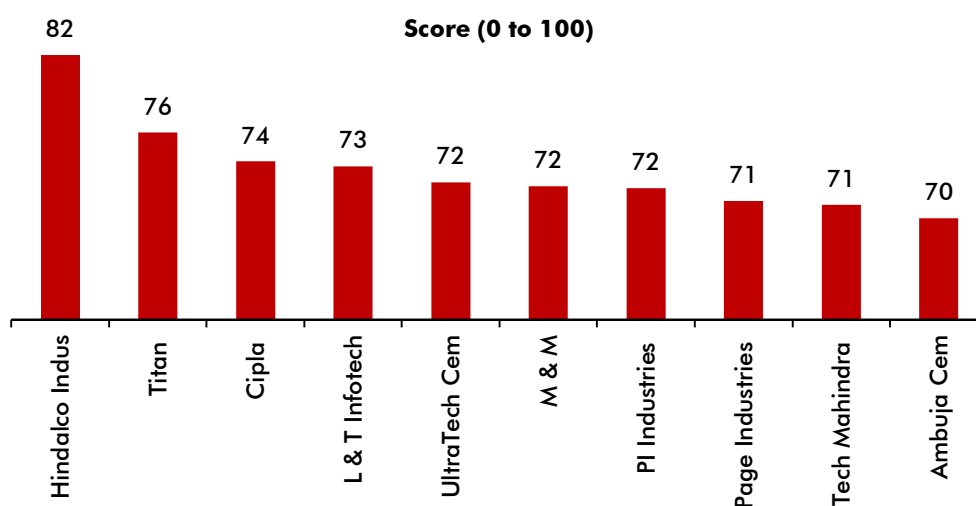
There is much scope to develop positive workforce sentiment

The Covid-19 pandemic and employee unrest (e.g. permanent lay-offs, salary reduction, long hours at work, work from home policies etc.) have put the spotlight on "Social" or S-pillar. Social aspect was otherwise overshadowed by environment and governance issues. The employee experience in terms with diversity, inclusion, retention, promotion, purpose of work etc. have now gained more attention as many companies are eager to transform their workforce approaches and include these aspects that go beyond mere profit/loss statements, but are truly impactful. Nonetheless, we observe that even the top 100 companies in India need to do some work in terms of promotion of equal opportunities at work, gender inclusion, etc. Cement, IT and metal companies are the top scorers on workforce composition.

Workforce composition: Key parameters

- Opportunities to women
- Opportunities to disabled individuals
- Attrition rate
- Employee career development initiatives
- Complaints regarding discriminatory employment

Exhibit 140: Top 10 performers on our workforce composition parameters



Source: Ambit Capital research, Company, SES

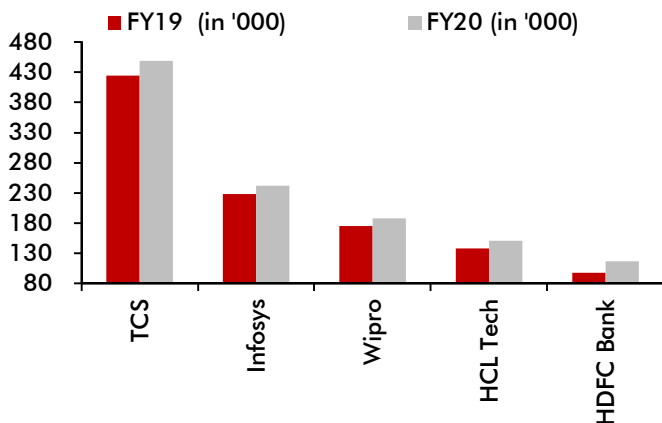
Out of the top 100 companies in India, a median IT sector company has the highest number of permanent employees followed by banks and automobiles. Consumer goods companies stack lower in terms of employee strength.

Exhibit 141: The maximum number of employees is employed by service providing sectors, i.e. IT and banks; a median consumer goods company employs lowest number of employees

Sectors	No. of companies	Median no. of employees*		Average no. of employees*	
		FY19	FY20	FY19	FY20
IT	8	120,894	128,412	138,600	147,926
Banks	8	37,148	44,892	48,279	56,316
Automobile	9	15,892	15,945	19,062	17,642
Pharma	15	13,442	13,884	12,226	12,441
Metals	5	12,599	13,159	16,951	16,538
Finance – Non Banking	9	8,444	8,996	9,866	10,927
Cement	5	6,717	6,643	11,863	12,722
Others	18	5,117	4,161	9,420	9,440
Consumer Goods	23	3,546	3,600	6,096	6,493

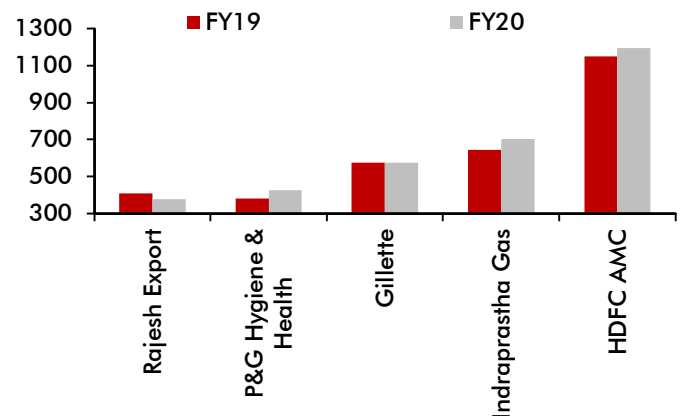
Source: SES, Ambit Capital research, Company. *median and average number of permanent employees for sector are calculated basis the number of permanent employees per company in that sector; Consumer goods include FMCG, paints, consumer durables and consumer non-durables., #others include industrial manufacturing, services, oil & gas, construction, telecom, fertilisers & pesticides, power, textiles and chemicals

Exhibit 142: Four out of top five employers in terms of highest number of permanent employees are from IT



Source: SES, Ambit Capital research, Company

Exhibit 143: Bottom five companies of the top 100 in terms of number of permanent employees have less than 1000 employees



Source: SES, Ambit Capital research, Company

Proportion of women or disabled employees can increase a lot

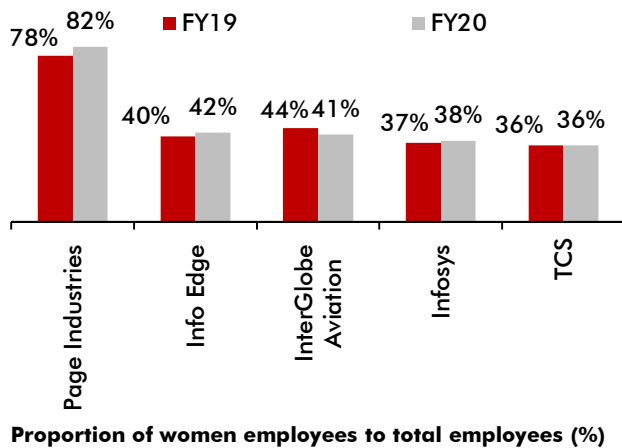
In terms of the higher proportion of women employees to total employees, the findings are not surprising. The sectors employing higher number of employees are only the ones that also employ a higher proportion of women employees. Finance (ex-banks) is one sector where a median company does not have a very high number of employees versus say a median bank; however 25% of its total workforce is made up of women.

Exhibit 144: There is much scope for increasing strength of women employees across all sectors

Sector	No. of women employees (median)*		Women employees as % of total employees*	
	FY19	FY20	FY19	FY20
IT	33,127	36,676	33.4%	33.3%
Finance – Non-Banking	1,069	814	19.4%	25.6%
Banks	7,397	8,021	20.7%	19.7%
Metals	744	908	8.4%	9.4%
Consumer Goods	199	241	7.6%	8.6%
Pharma	866	741	7.5%	6.7%
Others	345	278	6.5%	6.6%
Automobile	454	480	3.7%	3.9%
Cement	262	266	1.8%	2.2%

Source: SES, Ambit Capital research, Company. *median number of permanent women employees for sector is calculated basis the number of permanent employees per company in that sector; Consumer goods include FMCG, paints, consumer durables and consumer non-durables., #others include industrial manufacturing, services, oil & gas, construction, telecom, fertilisers & pesticides, power, textiles and chemicals

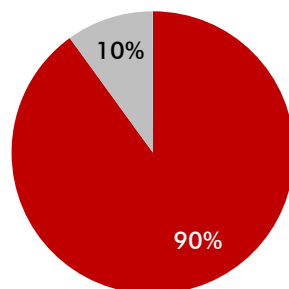
Exhibit 145: Page Industries is clearly ahead in terms of % of women employees to total employees, followed by three companies from the IT sector



Source: SES, Ambit Capital research, Company

Exhibit 147: 90% of companies disclose statements claiming to be equal opportunity employers; suggests they are willing to offer more employment opportunities to women

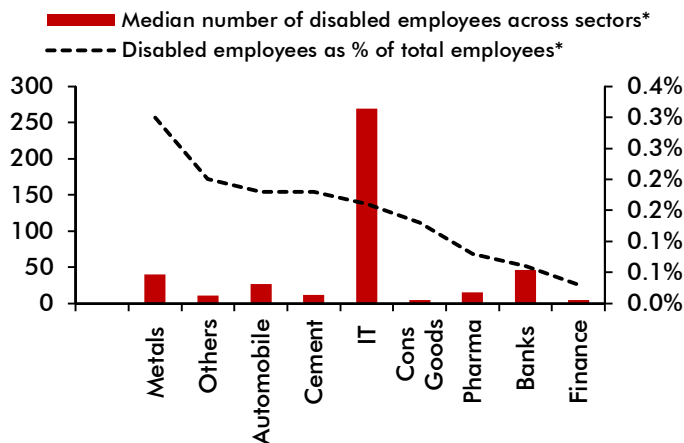
- Disclosed statement on being equal opportunity employer
- No disclosure of statement on being equal opportunity employer



Source: SES, Ambit Capital research, Company

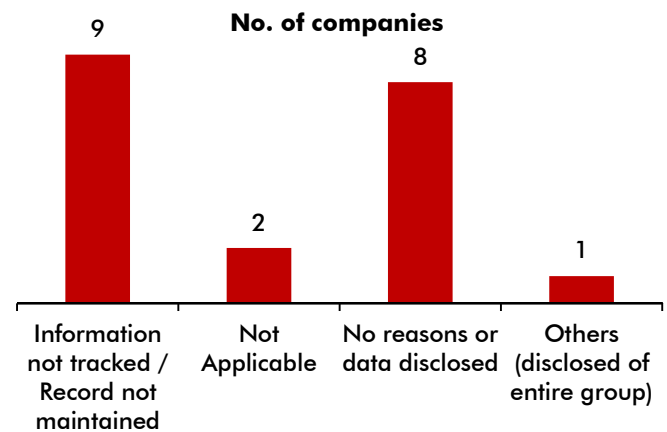
Continuing the discussion on equal opportunity employment, the number of disabled individuals employed by the top 100 companies in India is very low. This mirrors the finding from the data related to employment of disabled individuals at the country level which we mentioned in an earlier section of this note.

Exhibit 148: Proportion of disabled employees to total employees is less than even 0.3% across sectors



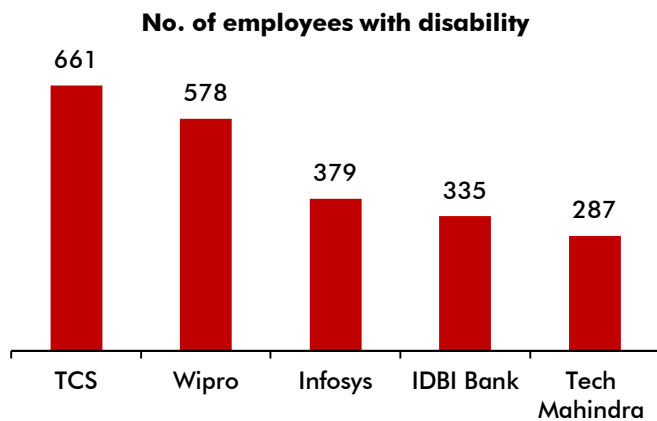
Source: SES, Ambit Capital research, Company. *Data available for 80 companies; Consumer goods include FMCG, paints, consumer durables and consumer non-durables, #others include industrial manufacturing, services, oil & gas, construction, telecom, fertilisers & pesticides, power, textiles and chemicals

Exhibit 150: 20 companies do not even disclose data related to employment of disabled employees citing several reasons



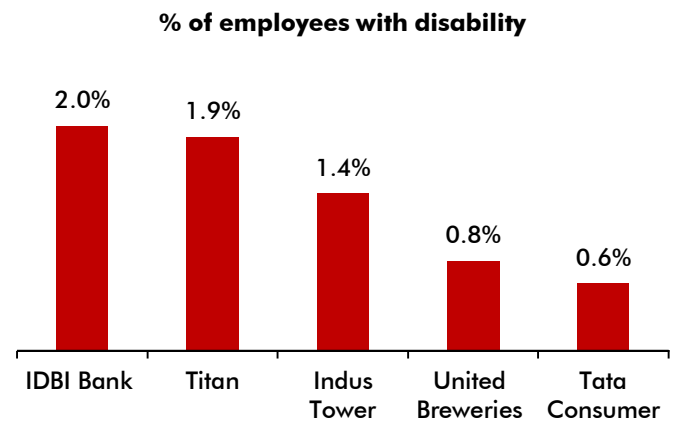
Source: SES, Ambit Capital research, Company

Exhibit 151: In terms of highest number of disabled employees, four large IT companies are at the forefront



Source: SES, Ambit Capital research, Company

Exhibit 152: In terms of higher share of disabled employees to total employees, Titan and Tata consumer are among top five



Source: SES, Ambit Capital research, Company

Most of the companies make explicit statements in the annual reports about NIL complaints related to human rights, child/ forced/ involuntary labour and discriminatory employment. This could be viewed as a positive.

Exhibit 153: Most of the companies made explicit statements about 'Nil' complaints related to human rights, child/ forced/ involuntary labour and discriminatory employment

No of companies		
Issue	Disclosures	Complaints
Human rights	87	Nil (83 companies)
Child/forced/involuntary labour	100	Nil
Discriminatory employment	94	Nil

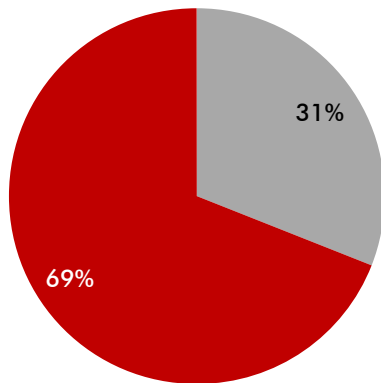
Source: SES, Ambit Capital research, Company

Cipla was only company which reported one complaint regarding discriminatory employment in FY19

Titan, Hindalco, Maruti have lower attrition rate than rest of the universe

Attrition rate is another important criterion which potentially reflects the degree of employee's favourability towards his employer. A high attrition rate could imply weak connect between employer and employees. It could point out that the employer's actions or policies are not necessarily inclined towards promoting employee welfare.

Exhibit 154: Most employers refrain from even disclosing attrition rates in their annual/sustainability reports



■ Disclosure on attrition rate ■ No disclosure on attrition rate

Source: SES, Ambit Capital research, Company. FY20 annual reports

Exhibit 155: Titan had the lowest attrition rate, while Yes Bank had the highest attrition rate

Company	Attrition rate FY20
Titan	2%
Hindalco Indus.	3%
Maruti Suzuki	3%
Yes Bank	37%
Median of universe (ex of above four)##	9.90%

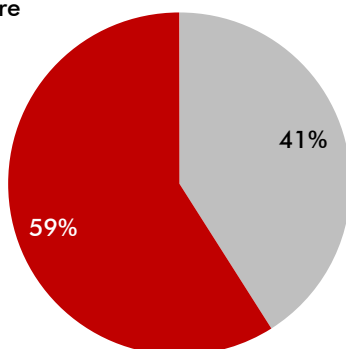
Source: SES, Ambit Capital research, Company. FY20 annual reports. ## Universe is 31 companies which have provided the data w.r.t. attrition rate.

Employee career development initiative can be scaled up; most consumer goods, pharma and IT companies do well

Disclosures pertaining to training of employees only highlight the low level of seriousness of Indian employers in promoting the career development aspirations of employees.

Exhibit 156: ~60% of the companies make no disclosures on trainings imparted to employees

■ Disclosure on % of employees who were given training on skill upgradations
■ No disclosure



Source: SES, Ambit Capital research, Company

Exhibit 157: Only ~60% of IT and consumer goods companies make disclosures on employee training; the rest make almost no disclosures

Sector	Companies making disclosures	Total companies
Consumer goods	14	23
Pharma	6	15
IT	5	8
Rest	19	54

Source: SES, Ambit Capital research, Company

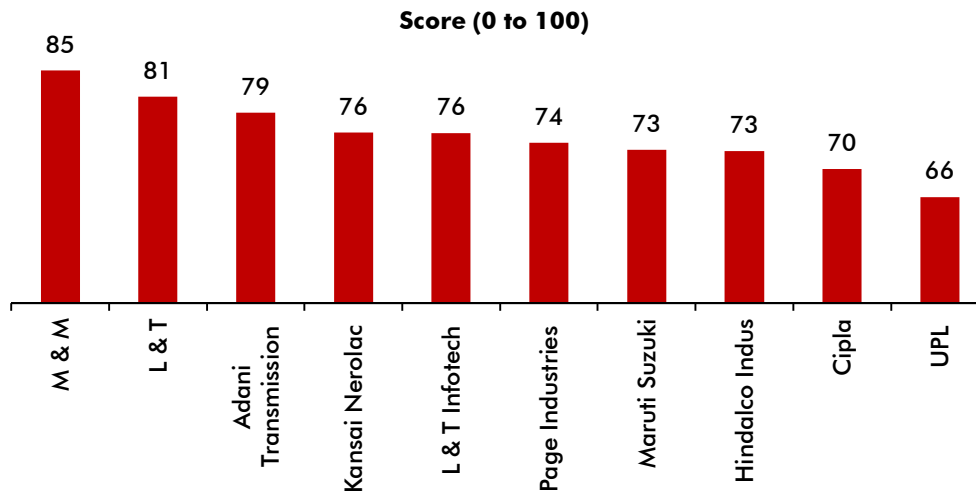
Employee health/safety measures need strengthening

Health and safety measures are probably and primarily understood by Indian companies as taking steps to avoid fatalities or accidents at the workplace. Further, there is mention about training initiatives undertaken by companies to promote skill development of employees or training to explain safety measures. The companies mention initiatives taken to avoid sexual harassment at the workplace. Companies get penalised largely owing to lack of disclosures. Several companies claim to have safety policies, but fewer actually disclose it. Only 37 companies out of 100 actually disclose certification details around health and safety management systems. 56 companies do not mention anything on maternity benefits. Fatalities are largely seen in labour-intensive sectors like construction.

Health and safety of employees: Key parameters

- Health and safety practices
- Training on safety and skills
- Health of workers
- Anti-sexual harassment practices

Exhibit 158: Top 10 companies basis our health/safety parameters

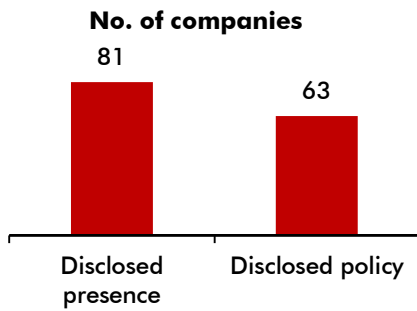


Source: SES, Ambit Capital research, Company

Appreciation of safety issues is not backed with concrete steps

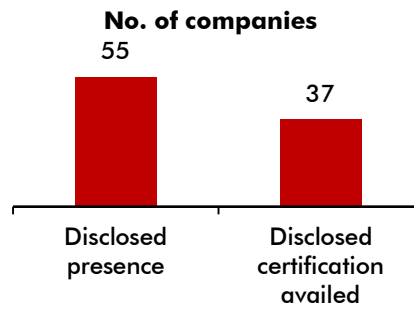
With regards to health and safety measures, we note that ~60% of companies do not talk about even the most important health matter for working women, i.e. maternity policy. While 55 companies claim having a health and management system, only 37 companies actually substantiate their health and management systems through some certifications. While 81 companies mention that they have a health and safety policy, 37 companies do not disclose the policy.

Exhibit 159: ~40% of companies do not disclose health and safety policy



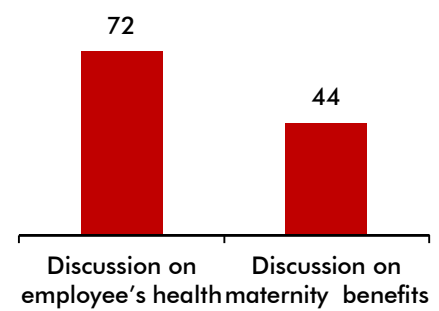
Source: SES, Ambit Capital research, Company

Exhibit 160: ~65% of companies do not substantiate health and safety management systems through certifications



Source: SES, Ambit Capital research, Company

Exhibit 161: ~60% of companies do not talk about maternity benefits



Source: SES, Ambit Capital research, Company

Fatalities at workplace are more common in labour-intensive sectors

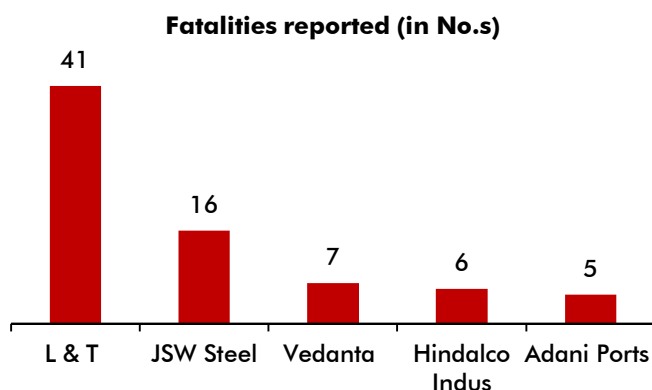
Labour-intensive sectors are naturally prone to accidents and hence fatalities. Majority of the fatalities reported in FY20 pertain to E&C, metals and cement sectors. Banks or finance companies generally do not make any disclosures pertaining to fatalities or accidents.

Exhibit 162: Labour-intensive sectors like construction and metals have higher fatalities; Adani Port had five fatalities in FY20 owing to work-related incidents

Sector	Total companies	No. of companies that do disclosures	Total fatalities (in No.s)		Fatalities per 1000 employees	
			FY19	FY20	FY19	FY20
Services	3	1	1	5	0.8	3.9
Construction	2	2	23	41	0.5	0.9
Metals	5	5	28	34	0.3	0.4
Power	2	2	3	2	0.5	0.3
Cement	5	3	16	10	0.3	0.3
Consumer Goods	23	5	1	4	0.0	0.2
IT	8	2	-	1	-	0.0
Fertilisers & Pesticides	2	1	3	-	0.6	-
Automobile	9	5	4	-	0.0	-
Pharma	15	3	-	-	-	-
Textiles	1	1	-	-	-	-

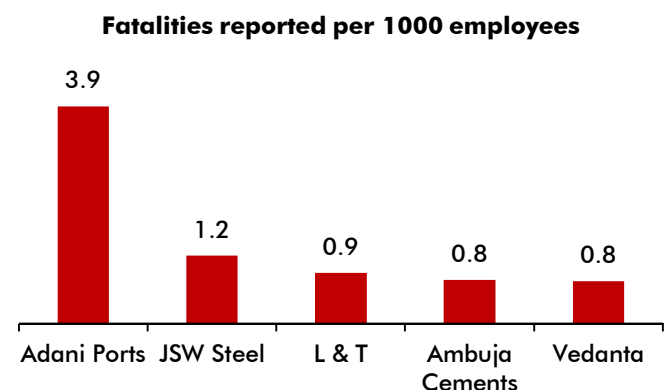
Source: SES, Ambit Capital research, Company

Exhibit 163: L & T alone accounted for 41 fatalities in the E & C sector; JSW Steel has a higher share among metals & mining companies



Source: SES, Ambit Capital research, Company

Exhibit 164: In terms of number of fatalities per 1000 employees, Adani Ports and Adani Power were at the top

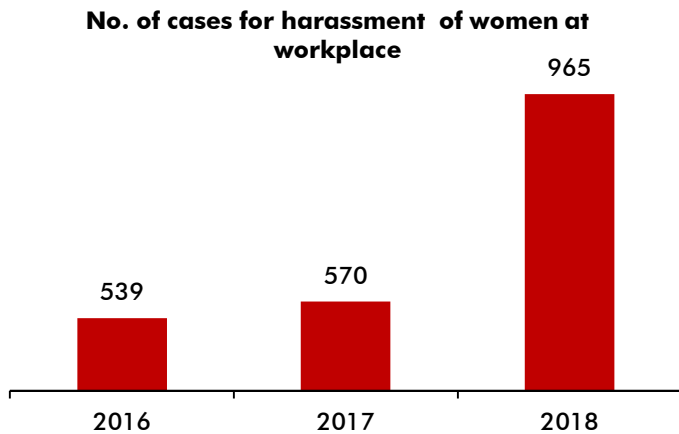


Source: SES, Ambit Capital research, Company

Instances of sexual harassments are higher in sectors where the number of women employees is higher, i.e. IT and banks

There has been a rising number of complaints related to sexual harassment at the workplace since FY17. These cases could be over and above those that get reported within the disciplinary mechanism around sexual harassments set up at the company level. The sluggishness in disposing of such cases also gets reflected through data that shows a significant proportion of cases pending investigation or a significant proportion of cases pending at the courts.

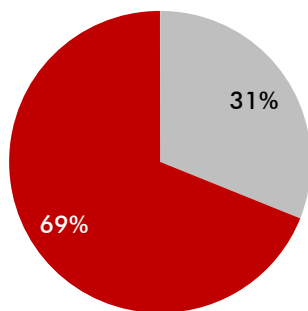
Exhibit 165: As per data by Ministry of Women and Child development, the number of harassment cases at the workplace is rising



Source: Ambit Capital research, Ministry of Women and Child development, SES

Exhibit 167: 1/3rd of total sexual harassment cases are pending investigation, highlighting sluggishness in dealing with such issues by authorities

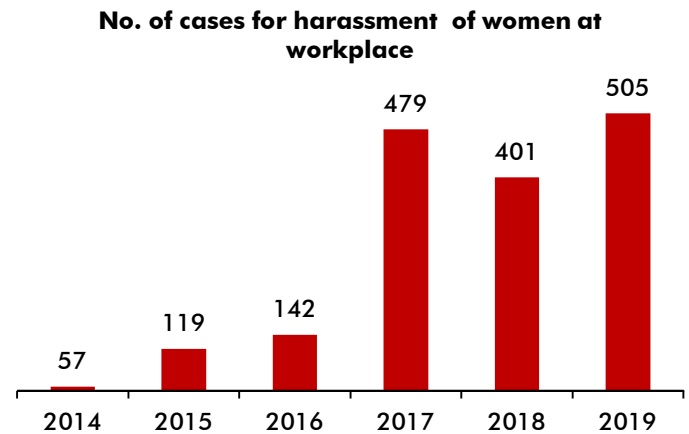
■ Cases pending investigation ■ Cases under investigation



Source: Ambit Capital research, Ministry of Women and Child development, SES

Most companies make disclosures around anti-sexual harassment measures. 91 companies claim to have an anti-sexual harassment policy, but only 33 companies actually disclose the policy. All 100 companies claim to have internal complaints committees, but only seven companies actually give details about the composition of the committee. The sectors with the highest number of women employees, i.e. IT and banks, have a higher number of sexual harassment complaints.

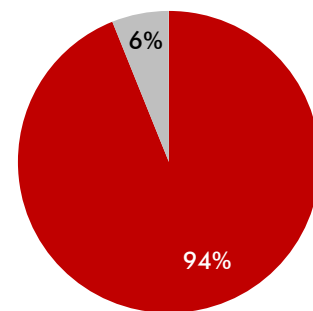
Exhibit 166: As per data by National Crime Bureau, instances of harassment against women at workplace significantly increased from 2017



Source: Ambit Capital research, National Crime Bureau, SES

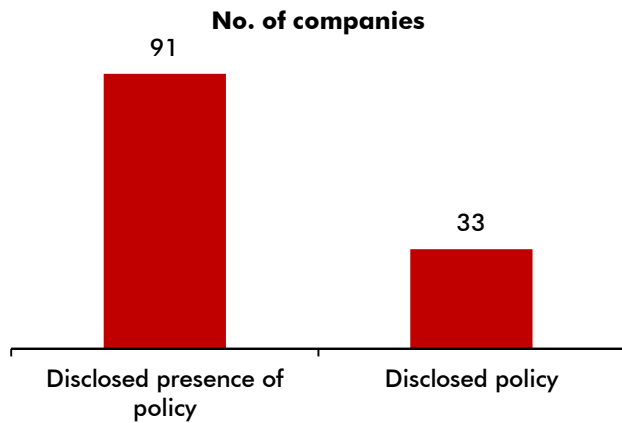
Exhibit 168: Moreover, ~95% of the total cases under litigation are awaiting closure

■ Cases pending in court ■ Cases completed



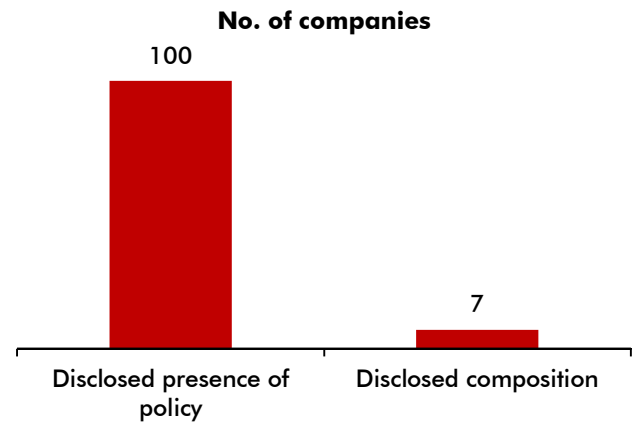
Source: Ambit Capital research, Ministry of Women and Child development, SES

Exhibit 169: 91 companies claim to have anti-sexual harassment policy; but only 33 companies disclose the policy



Source: SES, Ambit Capital research, Company

Exhibit 170: All 100 companies claim to have internal complaints committee against sexual harassment, but only seven companies disclosed the composition of the committee



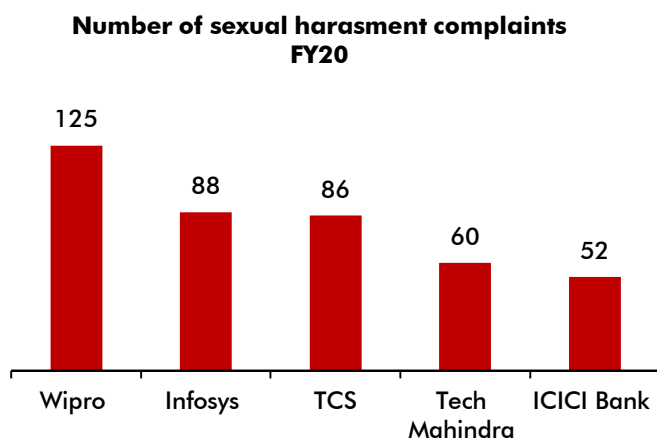
Source: SES, Ambit Capital research, Company

Exhibit 171: Companies from IT and bank which have a higher proportion of women employees have also witnessed higher instances of sexual harassments in FY20

Industry	Total complaints	Average complaints per Company	Median complaints per Company
Total	904	9	2
IT	383	48	35
Banks	199	25	20
Consumer Goods	66	3	1
Finance – Non-Banking	56	6	1
Others	52	3	0
Metals	51	10	5
Pharma	47	3	2
Automobile	26	3	2
Cement	12	2	2

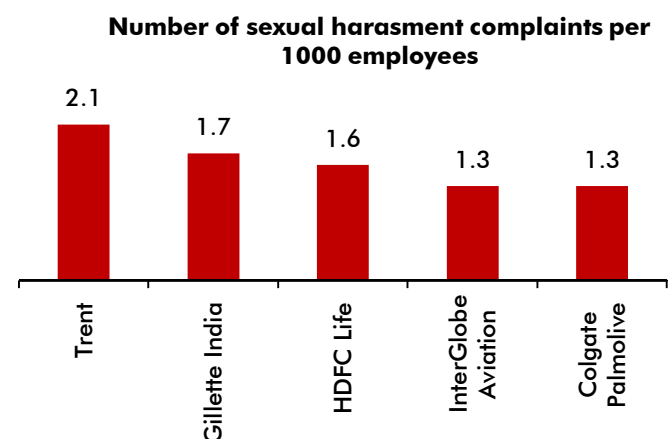
Source: SES, Ambit Capital research, Company

Exhibit 172: Four leading IT companies have the highest number of sexual harassment complaints followed by ICICI Bank



Source: SES, Ambit Capital research, Company

Exhibit 173: Trent and Gillette top in terms of higher number of sexual harassment complaints per 1000 permanent employees

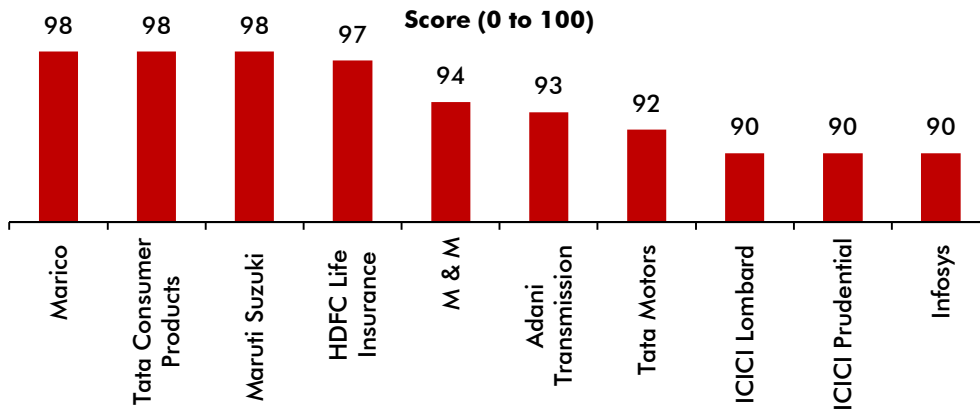


Source: SES, Ambit Capital research, Company

CSR spends witnessed encouraging trends

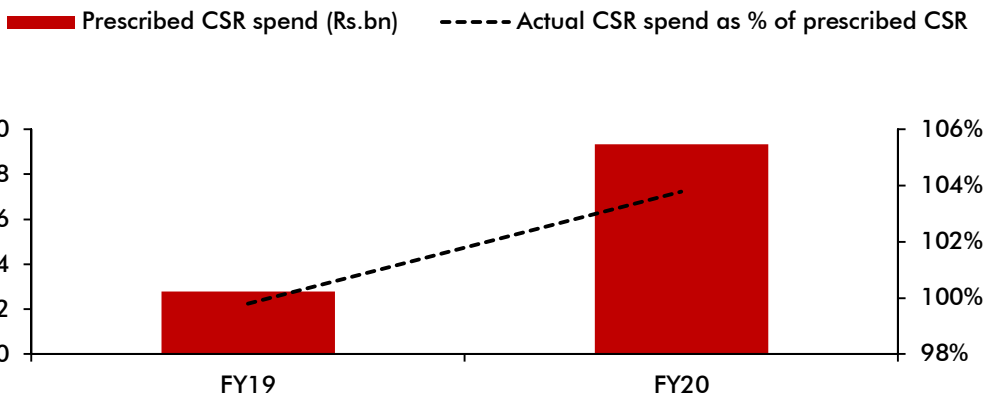
Across all the social parameters, community initiatives are an area in which most companies do well. Stringent provisions around CSR ensured in recent years that the prescribed amount for CSR also actually gets paid. W.e.f. Jan 21, companies cannot merely provide reasons for not spending the prescribed CSR expenditure, they need to actually spend the amount or park the required money in a dedicated bank account. Further, only 12 out of 100 companies have donated some money to political parties in FY20. Our checks around community initiatives include companies' corporate social responsibility spending, disclosures related to initiatives taken by company to improve communities and financial inclusion for banks.

Exhibit 174: Top 10 companies basis our community initiatives parameters



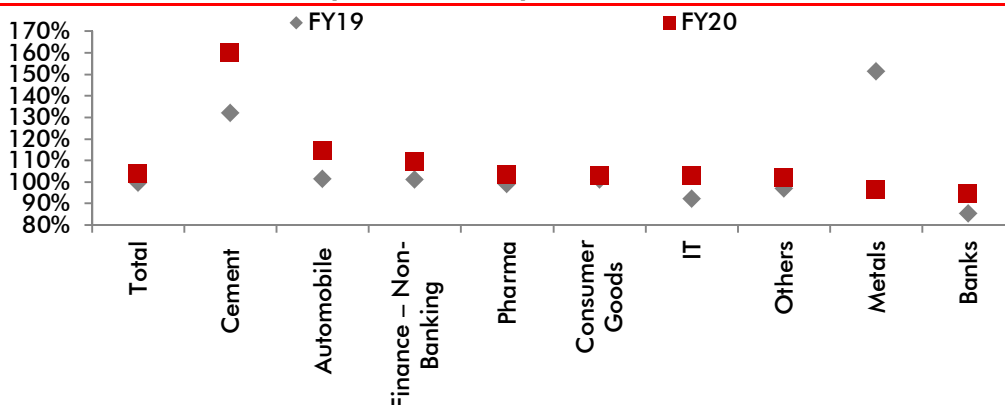
Source: SES, Ambit Capital research, Company

Exhibit 175: Actual spend on CSR was almost equal to 100% of prescribed CSR amount for both FY19 and FY20, highlighting real compliance



Source: Ambit Capital research, SES, Company, Universe for these companies is top 100 companies basis their market cap as at Dec-20

Exhibit 176: In most industries excluding metals, CSR spend increased in FY20 vs FY19. In FY20, banks and metals spent below the prescribed CSR amount



Source: SES, Ambit Capital research, Company

CSR checks include -

- Company's corporate social responsibility (CSR) spending
- CSR initiatives taken by company
- Financial inclusion by banks
- All 100 companies disclose CSR policy
- 99 companies give details about programmes/initiatives/projects related to CSR
- 93 companies disclose steps taken to ensure CSR success

Exhibit 177: The top five companies with highest CSR spends; Vedanta has consistently spent more than four times the prescribed CSR amount

Company	Industry	FY19		FY20	
		Amount (Rs.mn)	%	Amount	%
United Spirits	Consumer Goods	121	117%	168	501%
Vedanta	Metals	517	398%	526	405%
Ambuja Cem	Cement	534	210%	626	234%
MRF	Automobile	263	62%	663	213%
Ultratech Cem	Cement	749	123%	125	196%

Source: SES, Ambit Capital research, Company

Exhibit 178: Bottom five companies with lowest CSR spends; Rajesh Exports and Motherson Sumi spent less than 10% of the prescribed amount in FY20

Company	Industry	FY19		FY20	
		Amount	%	Amount	%
Rajesh Exports	Consumer Goods	0.5	5%	0.2	2%
Motherson Sumi	Automobile	130	62%	154	7%
Yes Bank	Bank	537	56%	405	49%
Lupin	Pharma	379	58%	342	62%
Hindustan Zinc	Metals	1,302	64%	1,316	62%

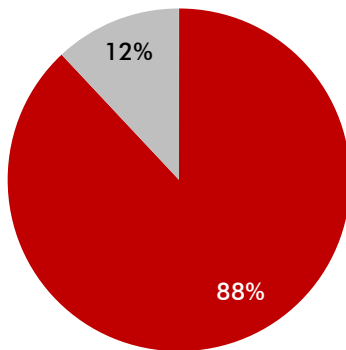
Source: SES, Ambit Capital research, Company

Most companies do not make political contributions

Except 12 companies most had not made any political contributions. L&T, UPL and Bharti Airtel topped the list in terms of highest amount of political contribution.

Exhibit 179: Only 12 companies made political contributions out of 100 companies in FY20

- Companies with no political donations
- Companies with political donations



Source: SES, Ambit Capital research, Company

Exhibit 180: List of 12 companies which made political donations and the corresponding amount

Company (Rs mn)	FY19	FY20
L&T	350	500
UPL	180	400
Bharti Airtel	412	273
Torrent Pharma	250	250
Aurobindo	501	210
Bajaj Finance	-	200
Divi's Lab	40	200
Cipla	90	150
Cadila	220	140
Jubilant	30	55
Tech Mahindra	0	15
Grasim	*	*

Source: SES, Ambit Capital research, Company; * Exact amount not known

Customer is not necessarily the king always

In the past, several companies have faced the brunt of product or service quality issues. The extent of damage must have been limited or eventually controlled. Nonetheless, such cases are not less common.

Product quality and customer orientation checks include -

- Company's initiatives to improve customer relations
- Redressal mechanism of customer complaints and grievances
- Maintaining product/service quality and safety
- Check on product quality/safety incidents

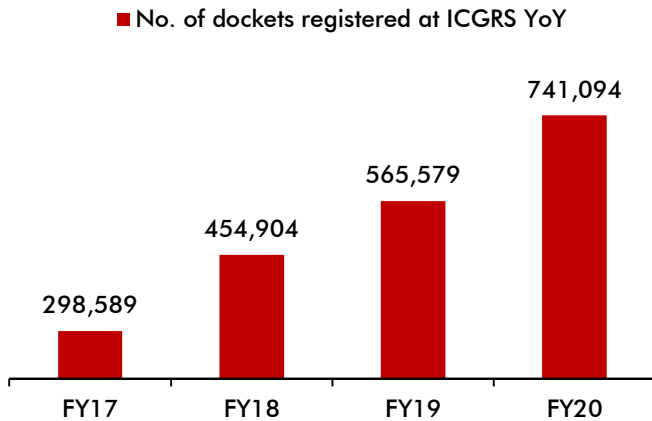
Exhibit 181: A few key case studies of companies which suffered product or service quality issues

Company	Year	Issue	Aftermath
Bridgestone and Ford	2000	Bridgestone's Firestone Tire and Rubber Company installed on Ford SUVs and pickup trucks were linked to 271 deaths and more than 800 injuries in the U.S. alone.	Firestone recalled 6.5 million tires, while Ford recalled and replaced 13 million. Ford also faced \$600 million in lawsuits. The Firestone brand survived the scandal but its 100-year relationship with Ford was severed.
Cadbury	2003	Customers in Mumbai complained about finding worms in Cadbury Dairy Milk chocolates. The Maharashtra Food and Drug Administration seized the stocks manufactured at Cadbury's Pune plant.	The heat of negative publicity melted Cadbury's sales by 30%. By investing up to Rs15crore (Rs150mn) on imported machinery, Cadbury's revamped the packaging of Dairy Milk. The metallic poly-flow was costlier by 10-15% but Cadbury didn't hike the pack price. Under Project Vishwas, it engaged with over 1,90,000 retailers that sold its products. The company proactively underscored Cadbury's health conscious identity, and invited people to come and see its factories.
Coca-cola and Pepsi	2003-2006	Coca-Cola and Pepsi were banned across several Indian states after an environmental pressure group said that they found pesticides in drinks produced by the Indian arms of the companies.	Coke, after failing to gain a reprieve despite hectic lobbying with the government, had to divest 49% stake in Indian operations in 2004 in favour of resident Indians. The plan of Coke and Pepsi to launch regional products and variants also backfired.
Pfizer	2005-2009	FDA forced the company to pull Bextra, an arthritis painkiller, off the market because of possible heart risks and "life-threatening" skin reactions. At the time, Bextra was one of Pfizer's best-selling products, with annual sales of \$1.3 billion in 2004. In 2009, Pfizer settled civil and criminal allegations that it had illegally marketed Bextra.	Between lost sales, fines, settlement and other costs, Pfizer took a hit of at least \$3.3bn on the Bextra recall. Till 2015, shares in Pfizer trailed the S&P 500 by about 50ppt.
Takata	2008	Faulty air-bag inflators made by now-bankrupt Takata were used by virtually every major automaker on the planet. The issue: The inflators can explode and eject a shrapnel-like material that has been linked to at least 20 deaths.	Globally, 100 million inflators are under recall. Regulators say it could take until 2023 to recall and fix every vehicle with a faulty Takata air bag. In 2016, Takata estimated total recall costs of \$24 billion.
Toyota	2010	The car giant was forced to recall 8.1 million vehicles because of the potential for gas pedals to get stuck in floor mats as well as other concerns. The government said that unintended acceleration in Toyota vehicles may have been involved in the deaths of 89 people over the past decade.	In 2010, Toyota pegged costs related to the recall at \$2bn. Toyota's stock has been a market laggard since the recalls began.
Kellogg's	2010	Four popular cereals were found to have a strange 'smell' from the packaging boxes, which was due to a compound leakage.	The company had to recall the products
Tata Motors	2010	Tata Motors recalled 1.4 lakh Nano cars to replace self-starter motor free of cost.	The company claimed that the recall was to make the car "even more robust" and refused to comment on any safety issues.
General Motors	2014	Faulty ignition switches that could shut down the engine without warning, thus disabling power steering, brakes and air bags, were linked to at least 124 deaths and more than twice as many injuries.	The defect impelled GM to recall 30.4 million cars worldwide. The recall cost \$4.1bn in 2014. GM stock lost about 15% in 2014 – a year in which the broader stock market gained more than 11%. And it wasn't exactly an opportunity to buy low. Shares have essentially been dead money ever since.
Volkswagen	2015	Volkswagen was caught cheating on diesel emissions tests. Known as "Diesel-gate," it emerged that the company had for years employed software that allowed its turbocharged diesel engines to cut their emissions to meet regulatory standards when being tested. Under real-world conditions, the engines emitted pollutants up to 40 times above levels allowed under U.S. standards.	VW recalled 11 million cars around the world and was forced to set aside more than \$18bn to cover recall costs. Shares in VW, which trade over the counter in the U.S., tumbled on the news and took two years to recover.
Nestle	2015	The national food safety regulator had banned the sale of Maggi noodles due to presence of lead in the product and directed Nestle to withdraw the product.	From commanding 80% share of India's noodles market, Maggi went down to zero in just a month. The Maggi ban had resulted in a 17% year-on-year drop in annual revenues in 2015
Starbucks	2015	32 ingredients of this coffee-chain were ruled out in India on assessment of risk/safety.	The company, however, continued to sell the rejected products at some of its outlets.
Haldirams'	2015	FDA said the products were found to contain high levels of pesticides, mold and bacteria.	The products of the company were refused for imports 86 times
Samsung	2016	Samsung was forced to discontinue and recall the pricey gadget after some of them started bursting into flames. The U.S. Consumer Products Safety Commission received 96 reports of overheating batteries and fires within the first two months of its August 2016 launch.	Samsung was forced to recall 2.5 million of the devices, which were some of the priciest smartphones on the market.
Sanofi	2016	Sanofi India decided to recall some batches of Combiflam tablets after the Central Drugs Standard Control Organisation (CDSCO) discovered that some batches of Combiflam tablets had delayed disintegration time which means time taken for breakdown of a tablet in the human body was unnecessarily high.	Sanofi had to recall some batches of the tablet.
Dr. Reddys' Labs	2019	Labelling issues were found in infusion bags.	The company recalled such products.
Sun Pharma	2014-2020	The U.S. drug regulator barred India's largest pharmaceutical company's Halol, Gujarat, and facility from getting any fresh approvals for exporting to the American market with regard to issues in injections.	Shares of Sun Pharma fell as much as 7.7 percent due to this issue.

Source: Ambit Capital research, Company

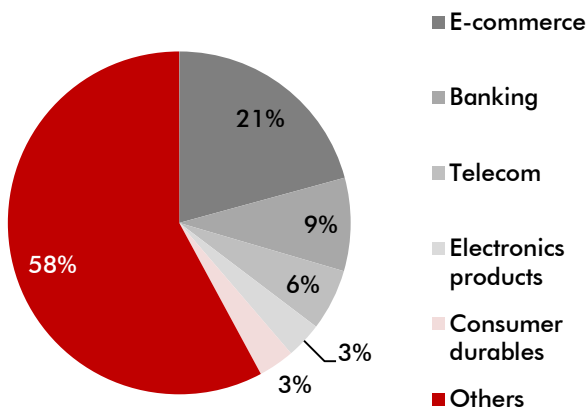
Data from the National Consumer Helpline Portal or Integrated Consumer Grievance Resolution system (ICGRS) of the Ministry of Consumer Affairs, Food and Public Distribution highlights rising awareness amongst consumers on product safety/quality or service quality issues. Companies will have to adopt effective practices to address these challenges.

Exhibit 182: Since FY17, the number of consumer complaints on ICGRS has been continuously rising



Source: Ambit Capital research, National consumer helpline

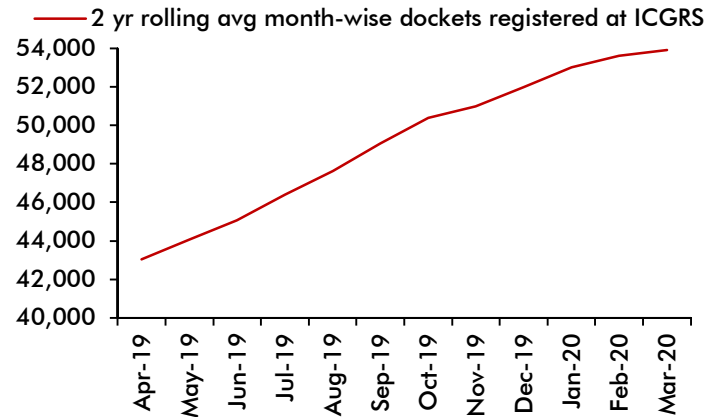
Exhibit 184: Complaints related to e-commerce, banking and telecom sectors made up ~35% of FY20 complaints



Source: Ambit Capital research, SES, National consumer helpline

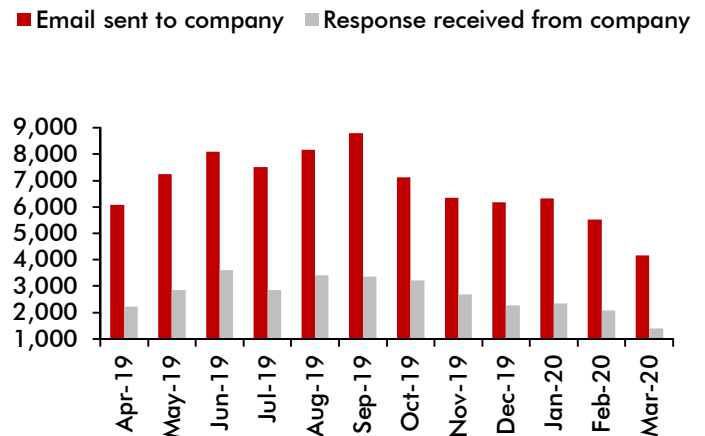
Detailed disclosures are required on practices followed by the companies w.r.t. quality management systems and certifications. This will allow better assessment. Despite current reporting format (BRR) providing for disclosure of % of customer complaints pending at the year-end, 57 companies did not make the required disclosures. Banks lead in disclosing information related to customer complaints and redressal of the same. 50 companies make very generic or no disclosures on requirements related to making customer surveys.

Exhibit 183: In FY20, ICGRS saw continuous month on month rise in grievance registrations



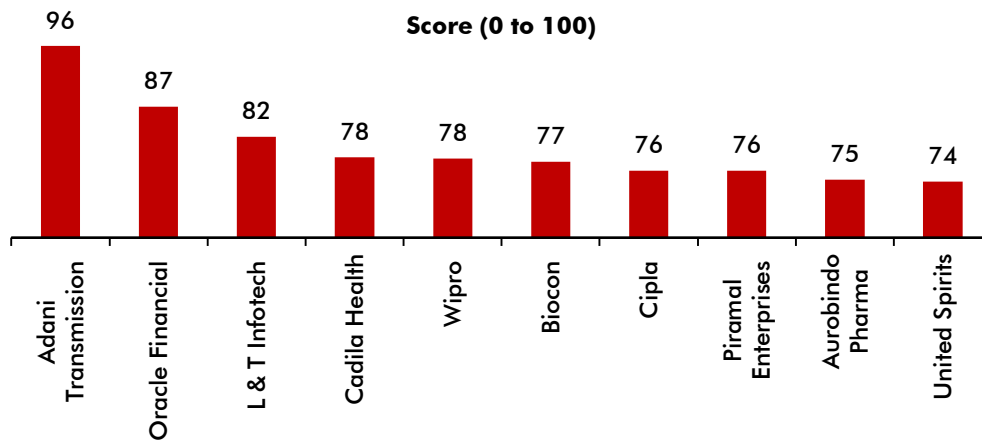
Source: Ambit Capital research, National Consumer helpline

Exhibit 185: Sluggish responses from companies to whom consumer complaints were notified by National Consumer Helpline



Source: Ambit Capital research, National consumer helpline

Exhibit 186: Top 10 companies on product/service quality and customer orientation parameters

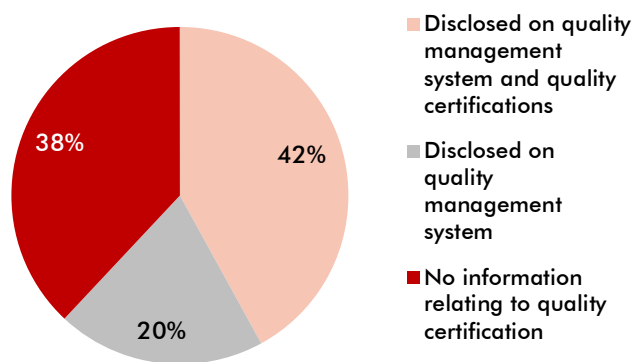


Source: SES, Ambit Capital research, Company

More companies need to disclose details on quality-related policies and certifications

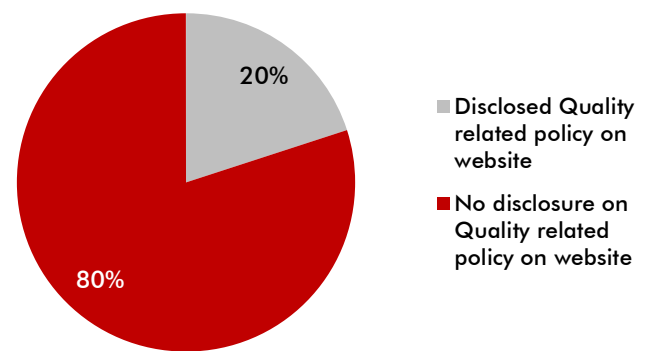
While companies claim to have quality management systems and quality-related policies, verification of such claims is difficult given that there are no specific details around third-party or independent certifications. 80 companies do not disclose quality-related policies on their website. Possibly due to higher regulations around pollution control, emissions, safety etc., there is a higher number of product ban/recall instances in the auto and pharma sectors.

Exhibit 187: 38 companies do not provide details about quality-related certifications or quality management systems



Source: SES, Ambit Capital research, Company

Exhibit 188: Only 20 companies disclose about quality-related policies on their websites



Source: SES, Ambit Capital research, Company

Exhibit 189: Nine companies belonging to the auto and pharma sectors witnessed cases of product recall/ban in the last three years

Company	Sector
M & M	Auto
Maruti Suzuki	Auto
Tata Motors	Auto
Dr. Reddy's Lab	Pharma
GSK Pharma	Pharma
IPCA Lab	Pharma
Lupin	Pharma
Sun Pharma	Pharma
Torrent Pharma	Pharma

Source: SES, Ambit Capital research, Company

Banks do relatively very well in addressing customer complaints

As per the BRR format, companies are required to disclose the percentage of customer complaints cases that are pending at the end of financial year. Only 43 companies disclosed number of complaints pending at FY20-end. 57 companies did not make disclosures as per the requirement. Ideally, the companies should also disclose the number of complaints received during the year because that helps understand the enormity of customer servicing-related issues.

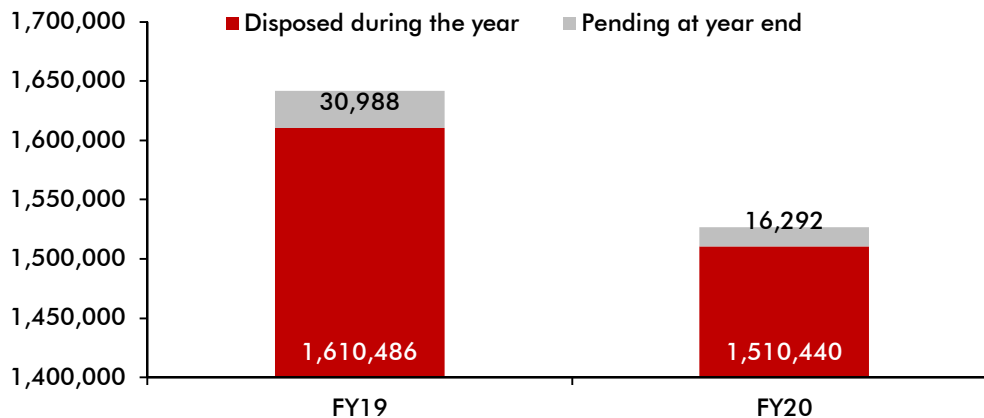
Exhibit 190: 57 companies do not make disclosures related to pending customer complaints at the end of year

Year	Number of companies making disclosures	
	Received during the year	Pending at the year end
FY19	28	39
FY20	31	43

Source: SES, Ambit Capital research, Company

Interestingly, 93% of the total customer complaints were reported by eight banks. The remaining 7% were made by 23 companies. Banks are at the forefront w.r.t. disclosures on customer complaints.

Exhibit 191: Total complaints have reduced during FY20; the proportion of complaints remaining outstanding at the year-end is 1-2% for FY19 and FY20



Source: SES, Ambit Capital research, Company

Banks seem to have a practice of effectively disclosing the number of complaints. Accordingly, we note maximum complaints were received by banks in FY19 and FY20. Most probably, the higher load of complaints also led to higher pending complaints for disposal at the end of the year.

Exhibit 192: Kotak Bank received the highest number of consumer complaints both in FY19 and FY20 followed by HDFC Bank and ICICI Bank...

Company	FY19	FY20
Kotak Bank	406,998	417,114
HDFC Bank	398,367	382,235
ICICI Bank	264,726	234,812
Axis Bank	299,289	200,484
Yes Bank	110,301	111,764

Source: SES, Ambit Capital research, Company

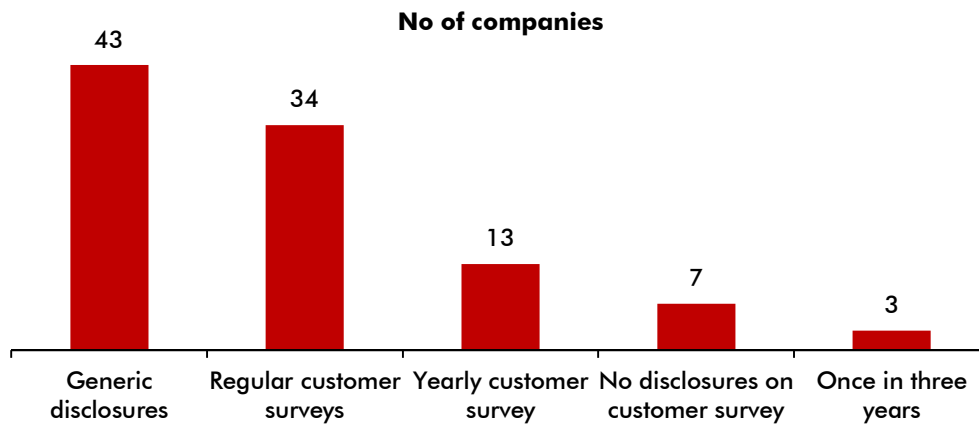
Exhibit 193: ...however most of the banks did a fair job in disposing of the complaints received

Company	Pending complaints as % of complaints received	
	FY19	FY20
Kotak Bank	2.1%	1.0%
ICICI Bank	3.3%	1.7%
Yes Bank	3.0%	2.3%
HDFC Bank	1.9%	0.7%
Axis Bank	0.4%	0.5%

Source: SES, Ambit Capital research, Company

43 companies make very generic disclosures on customer surveys. They do not specify the period of survey; but they disclose the fact that they conduct consumer surveys and consumer satisfaction trends. Seven companies did not provide any specific information in this regard.

Exhibit 194: 50% of the companies do not make enough disclosures on frequency of customer surveys about customer satisfaction trends

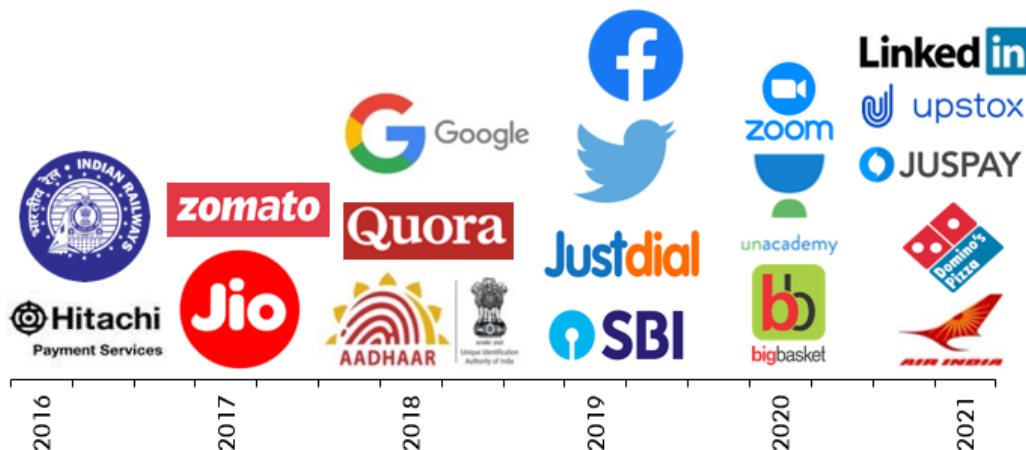


Source: SES, Ambit Capital research, Company

India Inc. probably needs strong laws to enhance IT security disclosures

With sustainable investments surging, discussions around the risk of privacy and data breaches are increasing. Indian companies may not have effective data management protocols in place. At a time when cyber-attacks and data breaches are happening more frequently than ever, ensuring effective data management safeguards are in place is crucial to a company's performance. Globally, fund managers are reviewing how the companies safeguard against an attack or fraud.

Exhibit 195: Data breach issues were frequent in the last five years and even prominent players were impacted



Source: SES, Ambit Capital research, Company

Cyber security checks include -

- Cyber/Data security practices of the company
- Cyber/Data privacy or security breach

Exhibit 196: Some key cases pertaining to data breach in the last five years; in most cases, companies had to adopt significant measures to avoid such incidents in the future

Company	Year	Issue	Steps taken
Hitachi payment services- Debit card data breach	2016	One of the biggest cyber security breaches that compromised 3.2 million cards. The National Payments Corporation of India (NPCI) had said over 600 customers had reported losses of at least Rs1.3cr due to the breach.	As soon as the breach was discovered, Hitachi payment services informed the RBI, NPCI, banks and card schemes. The extent of the compromise was limited and any further misuse wasn't recorded by the firm.
Jio	2017	A database containing information on over 120 a million Reliance Jio customers was leaked	Jio informed law enforcement agencies about the reported breach and said it will "follow through to ensure strict action is taken".
Zomato	2017	Zomato suffered a security breach with over 17 million user records stolen from the food-tech company's database. The stolen information had email addresses and hashed passwords of customers.	Zomato attributed human error for the breach and claimed payment related information was safe as it is stored separately in a highly secure PCI Data Security Standard (DSS) compliant vault. The company tightened its security systems afterwards.
Google	2018	Over five million user's data was compromised.	Due to these data breaches, consumers called for greater consumer protection in online media and Google moved the Google+ social media shut down date to 2 April 2019, with legacy Google+ API's being shut down on 7 March 2019.
Quora	2018	Data of over 100 million of Quora users was breached	The site notified affected users and logged them out. They also made security improvements.
Aadhar	2018	In the first six months of 2018, almost one billion records were compromised in the Aadhaar breach incident, including name, address and other personally identified information.	Government comment - upright denial: "We refute the reports in a certain section of media sourced from ZDNet which quote a person purportedly claiming to be a security researcher that a state-owned utility company has vulnerability which can be used to access huge amount of Aadhaar data, including banking details."
Facebook	2019	Data breach exposed 530 million users	Facebook said, "malicious actors" had scraped the data by exploiting vulnerability in a now-defunct feature on the platform that allowed users to find each other by phone number. Facebook didn't notify users individually.
Twitter	2019	Around a thousand Twitter users fell for the scam and the cyber criminals successfully reached out to 350 million users with the help of Twitter's internal system. Twitter users sent almost \$120,000 worth of bitcoin.	Since the attack, they've significantly limited access to internal tools and systems to ensure ongoing account security while they complete the investigation. Twitter is also investing in increased security protocols, techniques and mechanisms.
Justdial	2019	Data of more than 100 million users made publicly available, including their names, email IDs, mobile numbers, gender, date of birth and addresses.	JustDial revamped its website and hence the newer version of the site remained protected from the breach.
SBI	2019	Three million text messages sent to customers divulged. The vulnerability was revealed to originate from 'SBI Quick' - a free service that provided customers with their account balance and recent transactions over SMS.	State Bank of India denied reports that its servers have been compromised and assured that all its customer data continue to remain safe and secure.
Zoom	2020	Over 500,000 Zoom accounts sold on hacker forums, the dark web	Zoom responded that it had hired "multiple intelligence firms" to investigate the credential stuffing incident and that it is "implementing additional technology solutions."
Unacademy	2020	Data breach that compromised the accounts of 22 million users. Cybersecurity firm Cyble revealed that usernames, emails addresses and passwords were put up for sale on the dark web.	The CEO assured no passwords were exposed in this event stating "we follow stringent encryption methods using the PBKDF2 algorithm with a SHA256 hash, making it highly implausible for anyone to access the learner passwords. We also follow an OTP-based login system that provides an additional layer of security to our learners".
BigBasket	2020	Part of a database containing the personal information of close to 20 million users was available with a price tag of 3 million rupees (\$40,000)	BigBasket acknowledged the breach and filed a police complaint against the hackers. It has however assured that the only data that could have been leaked were the phone numbers, addresses, and not credit or debit card details.
Upstox	2021	Breach of know-your-customer (KYC) data.	Upstox told customers it would reset their passwords and take other precautions. Upstox apologised to customers for the inconvenience, and sought to reassure them it had reported the incident to the relevant authorities, enhanced security and boosted its bug bounty program to encourage ethical hackers to stress-test its systems.
Juspay	2021	Details of close to 35 million customer accounts, including masked card data and card fingerprints, were taken from a server using an un-recycled access key. The user data is up for sale on the dark web for around \$5000.	The firm claimed- "Our threat response system immediately detected the breach and we were able to terminate the attack. The compromised data does not contain any transaction or order information."
Domino's pizza	2021	180 million Domino's India pizza orders were up for sale on the dark web.	Jubilant FoodWorks said that it had experienced an information security incident, but denied that its customers' financial information was compromised, as it does not store credit card details.
Air India	2021	This incident affected around 4,500,000 data subjects in the world.	Air India said it took a number of steps. These include securing the compromised servers, engaging external data security specialists, notifying the credit card issuers and resetting the passwords of Air India frequent flyer programmes.
Linkedin	2021	Data of over 500 million LinkedIn users was scraped from the platform and posted online for sale.	LinkedIn suffered a data breach in 2012 as well. LinkedIn apologized immediately after the data breach, and asked its users to immediately change their passwords. The Federal Bureau of Investigation assisted the LinkedIn Corporation in investigating the theft. For the earlier theft, on October 5, 2016, Russian hacker Yevgeniy Nikulin was detained by the Czech police in Prague.

Source: Ambit Capital research, Company, SES

ESG investors are becoming increasingly focused on data privacy issues under the ESG framework. Data privacy is considered a human rights issue, falling under the 'S' of ESG. Privacy is a fundamental human right, according to international norms established by the United Nations, the US and EU constitutions. Currently it is also getting due attention from Indian regulatory authorities. As companies have become more reliant on personal data collection, processing and distribution, they have faced increased scrutiny from users and regulators, higher reputational risks, litigations and regulatory risks.

Exhibit 197: Post data breach incidents in key cases like Marriott, Facebook and Equifax- commentary of managements of these companies reflect their seriousness and commitment towards addressing data security/privacy issues

Company	Breach date	Commentary date	Comments
Marriott Int.	Nov-18 and Mar-20	Dec-19	"But I also think that when you think about the security — the data incidents, I think there, it's important for all companies to be making sure that they're doing every single thing they can every day relative to preserving their systems and their system's security as well as the data for their consumers and associates. And obviously, we are spending a tremendous amount of investment and time on that effort. If you think about kind of where we are in that process, while the review of the incident is over, we've obviously still got some lawsuits out there, about 100 class action lawsuits that are finding their way through the court system. They've all been consolidated, but they are finding their way through the court system. And then number two, as you remember, there was a fine, a notice of an intent to fine us roughly \$125 million that we took a P&L hit for. We've responded strongly with our views of that fine, and we'll have to see where that turns out" "It is no secret that our company has struggled in recent years due to repeated scandals and data breaches. These controversies have affected not just shareholders' bottom line, but also communities, individuals and even governments. As shareholders, we were quite concerned to read when Facebook stock, "plunged as much as 20% after a month of scandal and criticism that finally hit the company where it hurts: growth" as reported by Time in July 2018 "
Facebook	Sep-18	May-20	"And you also know, you think back the last couple of years of USIS 2018, they were — that business was obviously struggling following the data security breach, was in the penalty box with some customers during 2018 that came out in 2019, particularly in the second half. So we're starting to see some real momentum from the NPIs and commercial activity by USIS with their customers, and as I mentioned, competitive wins or share gains, we've seen a handful of those, which is encouraging"
Equifax	Jun-17	Sep-20	

Source: Ambit Capital research, Company, SES

As the pandemic hit, 2020 was the year in which India and the world went more digital than ever before. Recently, the Indian government took certain steps on data security and privacy. They recognised the need to emphasize data privacy in connection to individual rights and w.r.t. proposed 'Personal Data Protection Bill, 2019' (PDP Bill). The PDP bill was proposed in 2019 to bring about a comprehensive overhaul of India's current data protection regime which is currently governed by 'The Information Technology Act, 2000'

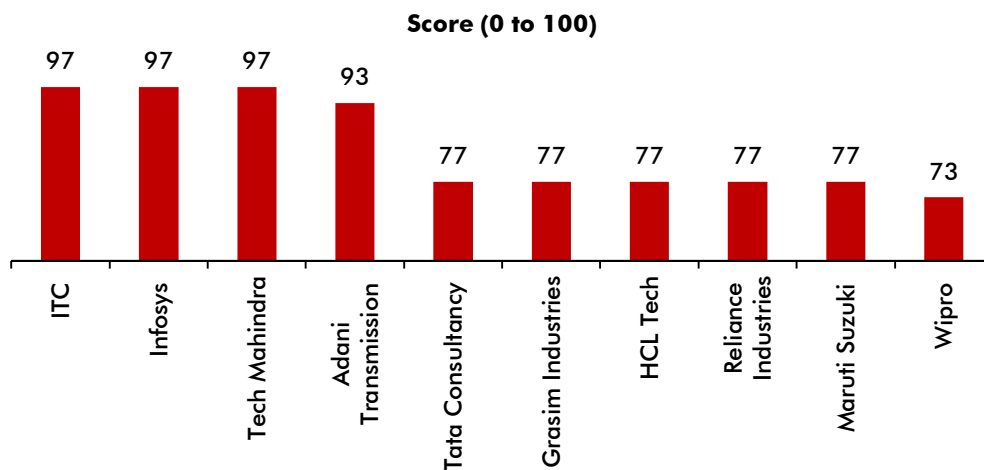
Exhibit 198: Indian government and regulators seem to be taking several steps to empower data security and privacy laws

Proposed law	Details
Privacy law - PDP Bill	The current draft of PDP Bill prescribes compliance requirements for all forms of personal data, broadens the rights given to individuals, introduces a central data protection regulator, as well as institutes data localization for certain forms of sensitive data.
Proposed non-personal data framework	The Ministry of Electronics and Information Technology, Government of India constituted a committee ("NPD Committee") to explore the governance of non-personal data ("NPD"). The terms of reference of the NPD Committee were to: (a) study various issues relating to non-personal data; and (b) to make specific suggestions for considerations of the Central Government on the regulation of non-personal data. Currently, processing NPD is not regulated under law. Eventually, there is possibility of including scope of NPD into PDP bill
Data empowerment and protection architecture - Fintech	In August 2020, NITI Aayog (a policy think tank run by the Government of India) released a draft framework on the Data Empowerment and Protection Architecture ("DEPA") in consultation with a few industry regulators, banks and fintech players. Through DEPA, NITI Aayog aims to institute a mechanism for secure consent-based data sharing in the fintech sector, which they believe will be "a historic step towards empowering individuals with control over their personal data". Eventually it could also be applicable for all sectors like health and telecom
A Policy for the management and sharing of health data	A National Digital Health Mission ("NDHM") was announced by the Central Government and the Ministry of Health and Family Welfare ("MOHFW") published a blueprint in late 2019 recommending the creation of a National Digital Health Ecosystem ("Ecosystem") which allows for interoperability of digital health systems at the patient, hospital, and ancillary healthcare provider level. On December 14, 2020 the MOHFW approved ¹¹ a Health Data Management Policy ("HDM Policy") largely based on the PDP Bill to govern data in the Ecosystem
Data implications in the impending E-commerce policy	A draft of the new e-commerce policy has reportedly been in the works and proposes to set up an e-commerce regulator with wide-ranging powers over e-commerce entities and platforms. The draft contained wide-ranging proposals on sharing source codes, algorithms and other data with the Government, use of non-personal data of consumers, anti-piracy, cross border data flows, etc. As per more recent media reports, the Central Government is in the 'final stages' of drafting India's e-commerce policy and may set up an 'investigation body' to look into violations by e-commerce entities

Source: Ambit Capital research, SES

The lag in adoption of strong IT security laws has probably shaped weak disclosures. SEBI (LODR), 2015 had mandated the risk management committee of the top 100 companies (top 500 companies w.e.f. 01 Apr 19) to monitor and review the risk management plan and such other functions which also shall specifically cover cyber security. Still 20 of the top 100 companies do not explicitly mention risk committee (RC) function include cyber security and 29 companies have not disclosed data security/privacy policy. Comparative analysis is very difficult. 88 companies provide no information on complaints regarding data breach and some 78 companies do not substantiate strong IT security practices through quoting relevant certifications etc. 56 companies have not provided detailed information on steps or initiatives taken to ensure a safe IT security system.

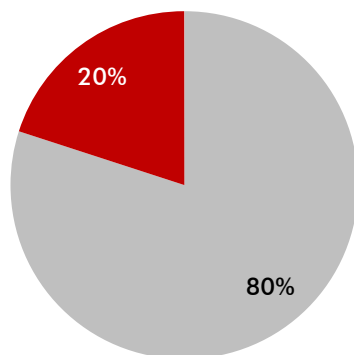
Exhibit 199: Top 10 performers on data security and privacy parameters



Source: SES, Ambit Capital research, Company

Exhibit 200: 20 out of 100 companies do not explicitly mention risk committee (RC) functions including cyber security

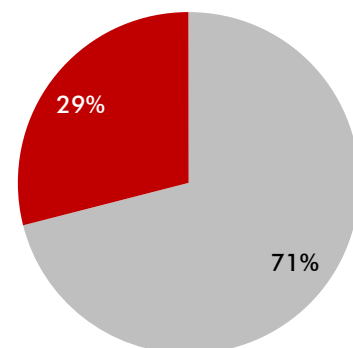
- RC functions includes cyber Security
- RC functions doesn't include cyber security



Source: SES, Ambit Capital research, Company

Exhibit 201: 29 companies have not disclosed their data security/privacy policies

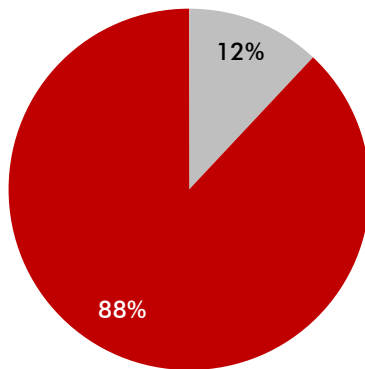
- Formulated and disclosed about data security / privacy policy
- No disclosure about data security / privacy policy



Source: SES, Ambit Capital research, Company

Exhibit 202: Only 12 companies have provided data on number of incidents or complaints regarding data security or privacy breach

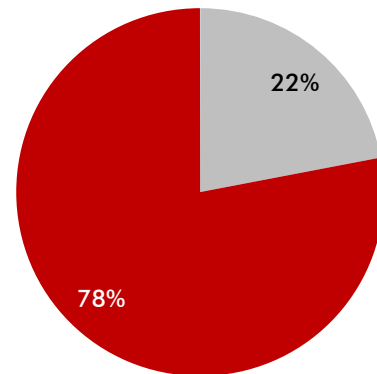
- Information on data security / privacy breach
- No information on data security / privacy breach



Source: SES, Ambit Capital research, Company

Exhibit 203: Only 22 companies have disclosed or discussed IT/cyber security-related certifications

- IT / cyber security related certifications
- No IT / cyber security related certifications



Source: SES, Ambit Capital research, Company

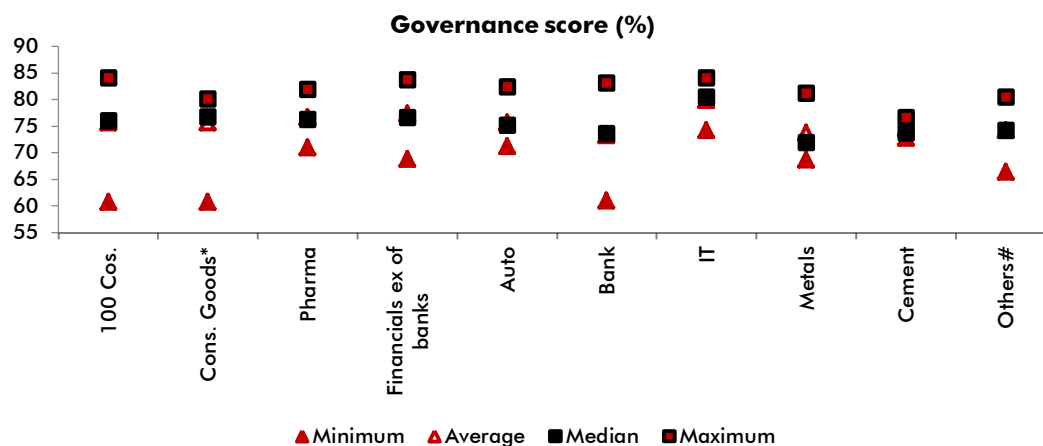
Governance quality has improved, ensuring the minimum

Unlike E & S where companies are penalised, most companies score well on our governance parameters. India Inc. has had several blow-ups related to accounting and governance matters over the last decade. This pushed regulators to take stringent actions and even tweak existing laws to address gaps. Of all the governance parameters, board composition can see some improvement. Proportion of independent directors on the board is just meeting the minimum statutory requirement. Similarly, there is much scope to increase the strength of women directors on the board. Chairperson position is occupied by promoters on 60 companies. Nonetheless, subjectivity still exists in governance analysis. Our accounting quality checks can act as a first-level filter to gauge governance of a firm. IT, consumer goods, pharma, auto companies and banks do very well on our governance filters. Interestingly, sectors which appear at the top on E & S parameters (primarily environment disclosures) like cement and metals perform relatively weak.

Governance practices have improved over last decade

Most sectors do well on our governance-related parameters. Barring parameters on board committees to some extent, companies do well across all other parameters. No adverse comments from auditors or instances of fraud or restatements led to higher scores on financial reporting and audit quality parameters. Metal and cement companies are marginally weaker contrary to these sectors performing well on E and S parameters. IT companies lead in governance along with E and S.

Exhibit 204: Excluding banks, most sectors perform well on governance parameters; most sectors have median score of >70%; narrow gap between minimum, median and maximum scores indicate most companies within a particular sector do uniformly well!



Source: SES, Ambit Capital research, Company. *Consumer goods include FMCG, paints, consumer durables and consumer non-durables., #others include industrial manufacturing, services, oil & gas, construction, telecom, fertilisers & pesticides, power, textiles and chemicals. Universe is top 100 companies' (ex of PSUs) basis mcap at 31 Dec 2020. 0 is the worse score versus 100 is the best score

Top 10 performers on Governance checks

Company name
Infosys
Info Edge (India)
ICICI Lombard
M & M
Dr. Reddy's Laboratories
Cipla
ICICI Prudential
Wipro
Axis Bank
Tata Steel

Source: Ambit Capital research, Company

Our governance parameters

Parameters	Weights (range)*
Board composition	20%
Board committees	10%
Director remuneration	12%
Statutory auditors	8%
Audit and financial reporting	25%
Stakeholders engagement	15%
Others	10%

Source: Ambit Capital research, Company.* weights change depending upon sector and our materiality heatmap for these parameters.

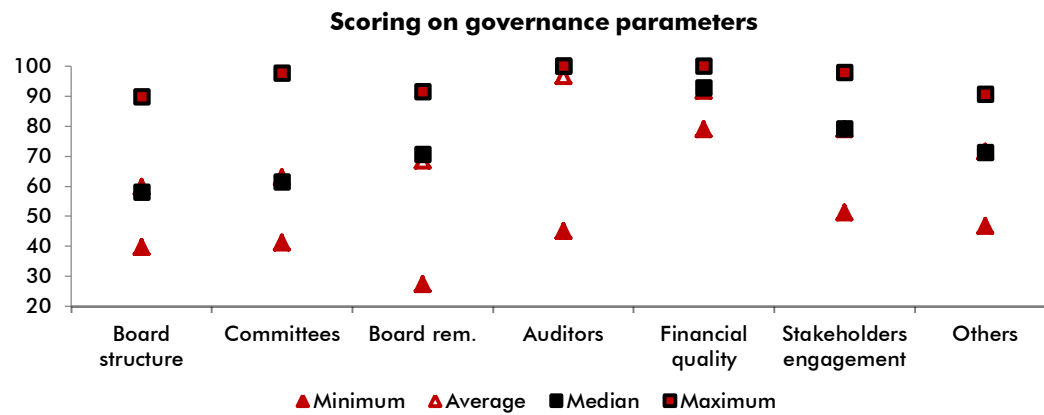
Basis of evaluation

Particulars	Nos.
Questions	134
Parameters across questions	520
Data points	>1050

Source: Ambit Capital research, Company

Please note that checks on E, S and G has certain inherent limitations largely due to their subjective nature and hence interpretation could always differ

Exhibit 205: Stringent regulations in the last 10 years over accounting and auditors have led to companies doing well on those parameters; board composition, committees and remuneration show some scope for improvement



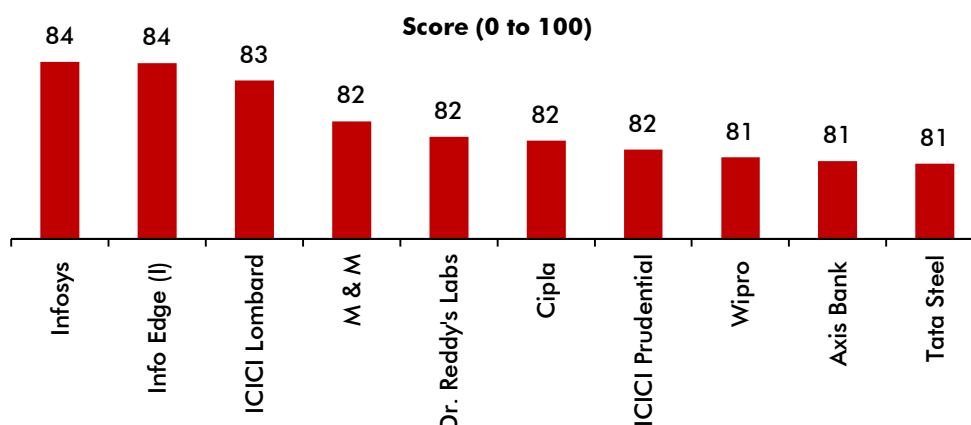
Source: SES, Ambit Capital research, Company. Universe is top 100 companies (ex of PSUs) basis mcap at 31 Dec 2020

Exhibit 206: Board composition and committees have scope for improvement, particularly cement and financials (ex-banks) sectors

Sector	Number of Companies	Median scores (0 to 100) , 0 is worst , 100 is best							
		Governance	Board Composition	Board Committees	Director Remuneration	Statutory Auditors	Audit & Financial Reporting	Stakeholders Engagement	Others
IT	8	80	63	61	71	99	95	80	80
Consumer Goods	23	77	59	61	72	100	90	77	71
Financials ex of Banks	9	77	56	57	77	99	96	81	69
Pharma	15	76	60	63	66	100	95	82	71
Automobile	9	75	61	58	71	100	95	75	72
Others	18	74	55	62	68	100	91	80	67
Cement	5	74	51	58	65	100	93	78	80
Banks	8	74	73	74	83	100	93	80	68
Metals	5	72	57	64	65	99	93	79	58
Overall Score	100	76	58	61	71	100	93	79	71

Source: SES, Ambit Capital research, Company. Universe is top 100 companies (ex of PSUs) basis mcap at 31 Dec 2020; *Consumer goods include FMCG, paints, consumer durables and consumer non-durables., #others include industrial manufacturing, services, oil & gas, construction, telecom, fertilisers & pesticides, power, textiles and chemicals. Universe is top 100 companies' (ex of PSUs) basis mcap at 31 Dec 2020. 0 is the worse score versus 100 is the best score

Exhibit 207: Top 10 companies on our governance parameters



Source: Ambit Capital research, Company

Significant changes over last decade improved governance

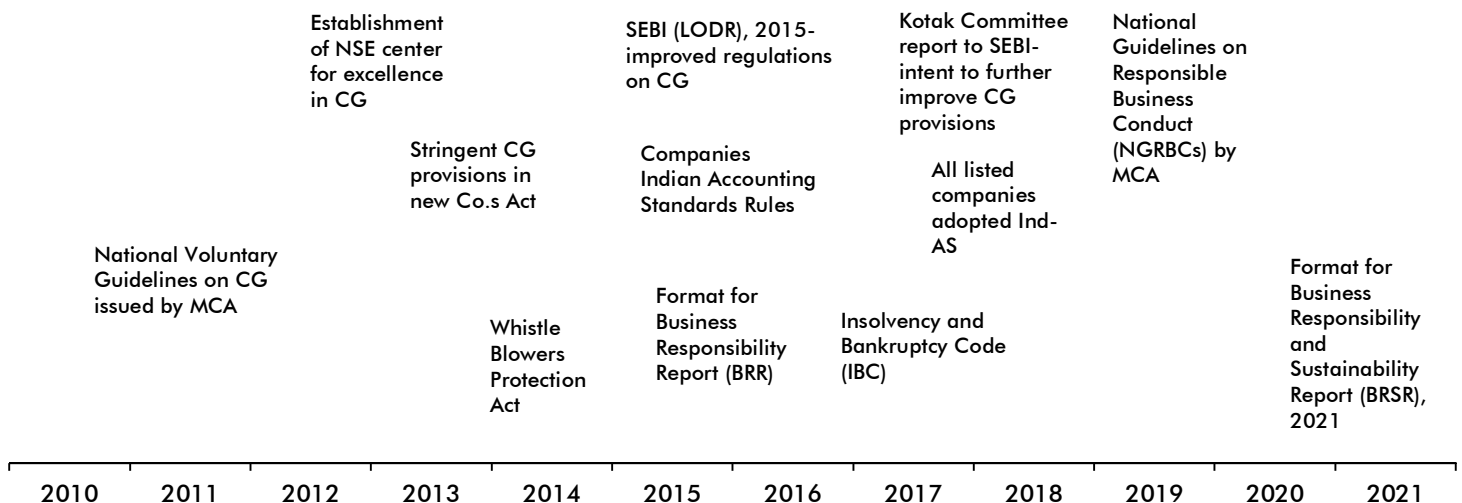
Over the last decade, there were several instances of accounting or governance related blow-ups. This essentially pushed regulators to make relevant tweaks in the law and also take stringent measures around governance and financial reporting standards.

Exhibit 208: Frequent blow-ups across large, mid and small caps led to string of regulatory changes and actions



Source: Ambit Capital research, Company

Exhibit 209: Regulators were constantly upgrading and adopting new and better governance or financial reporting norms over the last decade

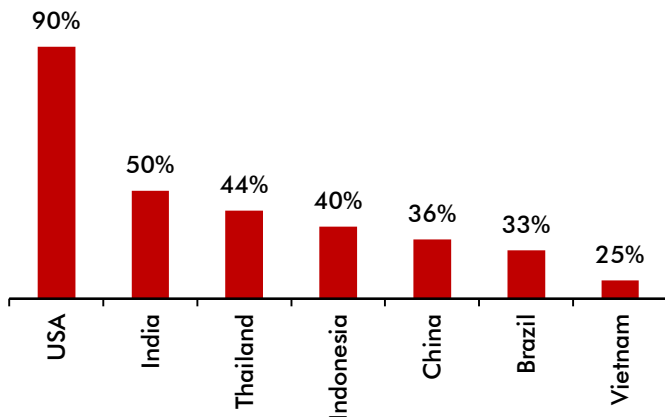


Source: Ambit Capital research, Company

India Inc.'s comparison with global peers presents a mixed set of results

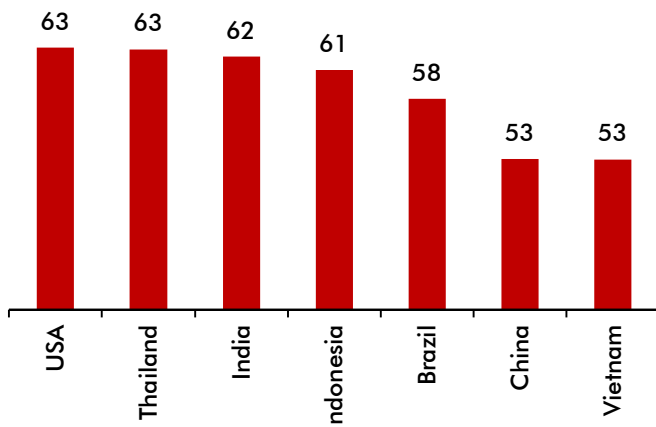
India does well in terms of number of independent directors and women directors versus developing countries but lags seriously versus US. However, in terms of board size or age of the board, it is almost at par with US.

Exhibit 210: A median Indian company just meets statutory requirement of 50% directors on board as independent directors; US is way ahead with 90% independent directors on the board



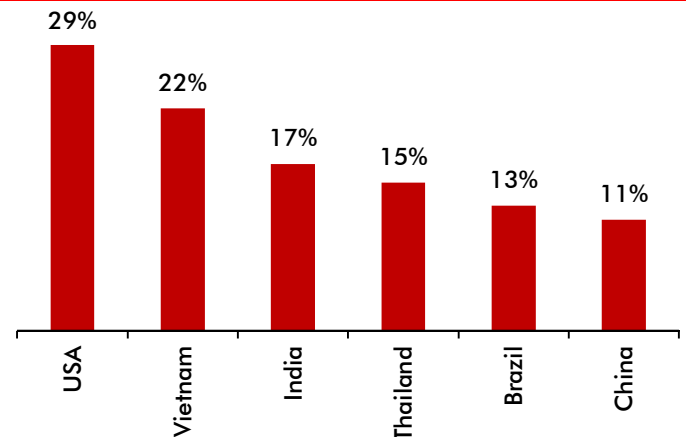
Source: Ambit Capital research, Company, Bloomberg. Median proportion of independent directors for each country are computed basis data available for set of companies for each country. For instance, for India, we look at data of 100 companies. Similarly for USA, we look at data of 437 companies, 90 for Indonesia, 9 for Vietnam, 75 for Thailand, 108 for Brazil and 1,262 for China

Exhibit 212: Median age of the board for Indian company is 62 which is comparable to most countries except China and Vietnam where the boards are relatively younger



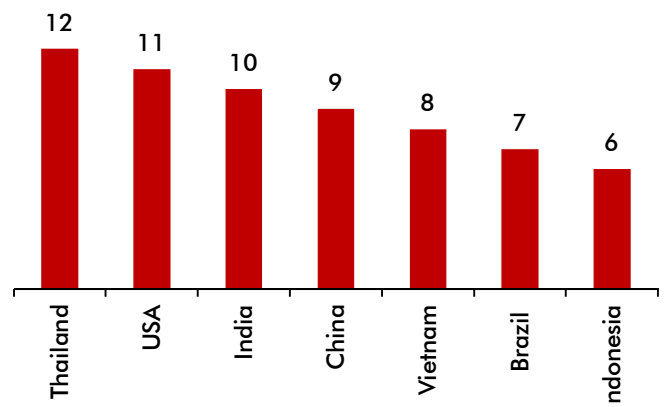
Source: Company, Ambit Capital research, Bloomberg. Median age of the board for each country is computed basis data available for set of companies for each country. For instance, for India, we look at data of 100 companies. Similarly for USA, we look at data of 490 companies, 87 for Indonesia, 6 for Vietnam, 62 for Thailand, 121 for Brazil and 1,008 for China

Exhibit 211: A median Indian company has just 17% women directors on board while US has almost 1/3rd directors as women



Source: Ambit Capital research, Company, Bloomberg. Median proportion of women directors for each country are computed basis data available for set of companies for each country. For instance, for India, we look at data of 100 companies. Similarly for USA, we look at data of 505 companies, 89 for Indonesia, 13 for Vietnam, 70 for Thailand, 128 for Brazil and 1,112 for China

Exhibit 213: Median size of the board for an Indian company is comparable to several countries



Source: Company, Ambit Capital research, Bloomberg. Median age of board of each country is computed basis data available for set of companies for each country. For instance, for India, we look at data of 100 companies. Similarly for USA, we look at data of 501 companies, 90 for Indonesia, 12 for Vietnam, 75 for Thailand, 111 for Brazil and 1,262 for China

Board composition is weaker link in 'G' parameters

Board composition has some scope for improvement. Independence of the board just meets the minimum statutory requirement. 20% of independent director positions are held by individuals who are associated with the company for a period of more than 10 years. Interestingly, in 42 companies more than 1/3rd of the board members are promoters or related to promoters. Most chairman positions of the board are occupied by promoters. The proportion of women on the board has much scope for improvement. Attendance at the AGM of board members can be improved.

50% of board consists of IDs; this only meets minimum statutory requirement

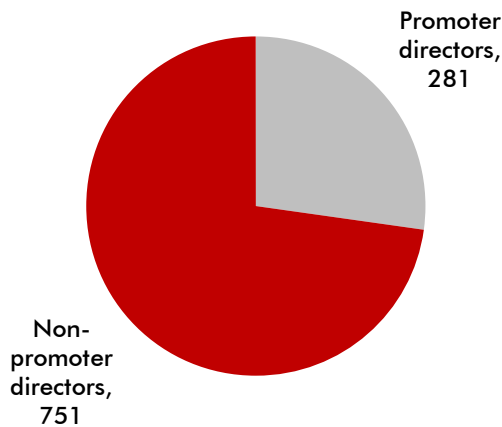
If we look at composition of EDs and NEDs, >70% of NEDs are related to promoters and ~35% of EDs are related to promoters. Overall, promoters occupy ~30% of a total of 1,032 board positions across 100 companies. 50% is occupied by independent directors and the remaining 20% could be outside professionals. This indicates that independence requirement of the board is largely met only due to the statutory obligations.

Interestingly, in 42 companies more than 1/3rd of the board members are promoters or related to promoters. Most chairman positions of the board are occupied by promoters.

>70% of NEDs are related to promoters

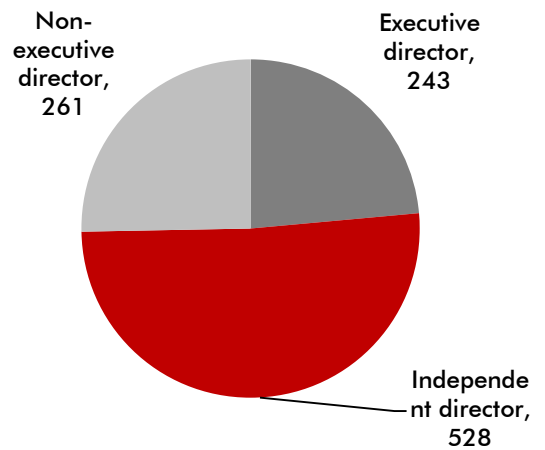
Interestingly, 20% of ID positions are held by directors who are associated with the companies for a period of more than 10 years.

Exhibit 214: Promoters occupy ~30% of total board positions (1,032) across 100 companies



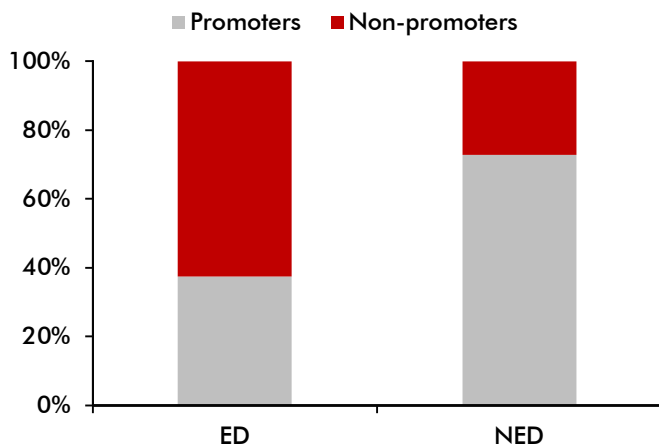
Source: SES, Ambit Capital research, Company

Exhibit 215: ~51% of board positions are occupied by independent directors, largely in line with the SEBI requirement



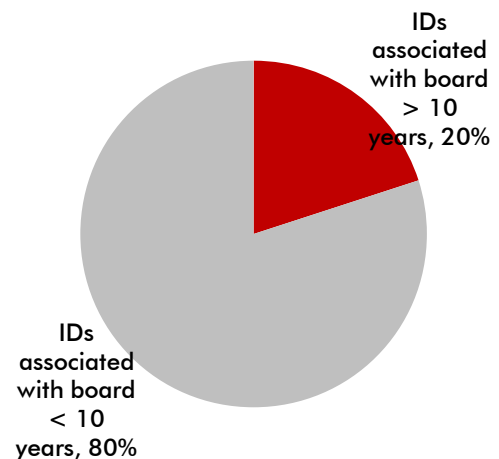
Source: SES, Ambit Capital research, Company

Exhibit 216: Promoters are willing to give executive roles to outside professionals, but majority of NED positions (ex-IDs) are still occupied by promoters



Source: SES, Ambit Capital research, Company

Exhibit 217: Interestingly, ~20% of IDs are associated with the companies for a period of more than 10 years.

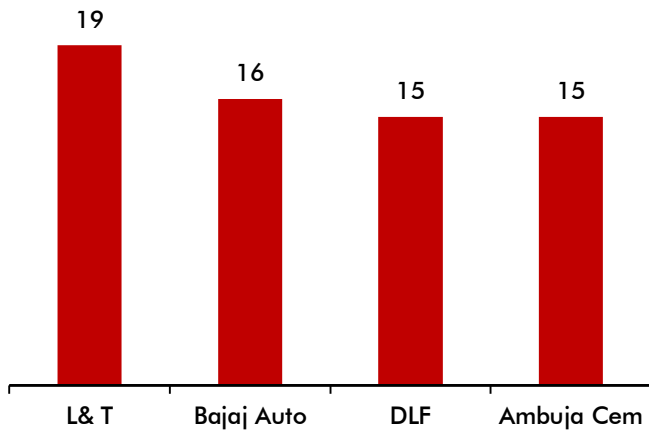


Source: Ambit Capital research, Company

High influence of promoters on board can be established in a few cases

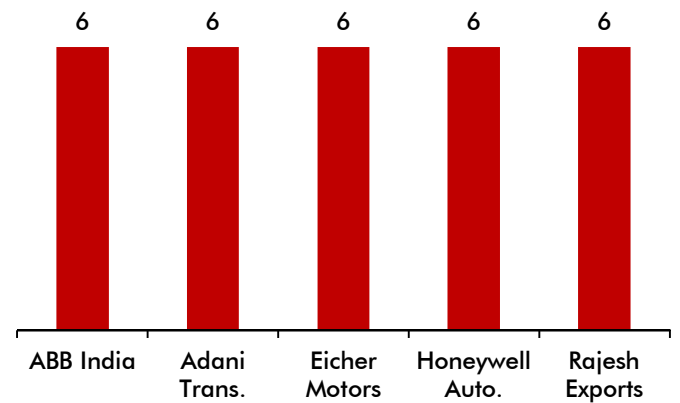
The average or median size of the board for the 100 companies under our analysis is 10. In terms of number of board members on the board, L&T leads in terms of maximum number of members, i.e. 19, followed by Bajaj Auto (16), DLF (15) and Ambuja Cements (15). The smallest boards amongst these 100 companies pertain to ABB India, Adani Transmission, Eicher Motors, Honeywell Auto and Rajesh Exports at six members each.

Exhibit 218: L&T has highest number of board members followed by Bajaj auto, DLF and Ambuja Cements...



Source: Ambit Capital research, Company

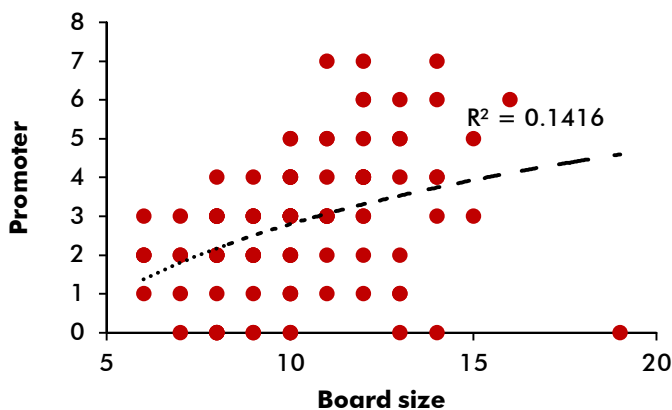
Exhibit 219: ...while six firms have lowest number of board members with six members each



Source: Ambit Capital research, Company

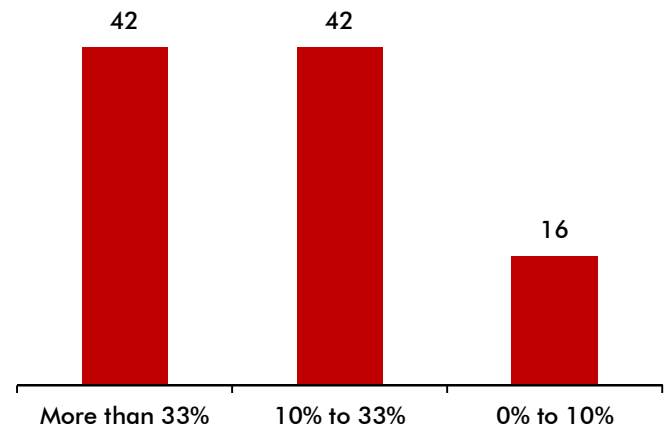
We try to plot the relationship between the size of board and proportion of promoter directors on the board. The idea was to find whether the size of the board gets generally big if companies try to fit in more promoter directors. However, we could not see such a relationship. But 42 companies have more than 1/3rd of their board members as promoters or related to promoters. 12 companies have absolutely no involvement of promoter directors on the board.

Exhibit 220: There is no substantial relationship between the number of board members and number of promoter directors



Source: SES, Ambit Capital research, Company

Exhibit 221: 42 companies still have more than 1/3rd of their board members as promoters or related to promoters



Source: SES, Ambit Capital research, Company

Number of independent directors on the board probably only meets the minimum statutory requirement

Most companies comply with the requirement of minimum number of independent directors on the board. Hindustan Zinc is the only case where the minimum requirement to have 50% independent directors on the board is not met. Hindustan Zinc is short of one ID on its board. Despite observation from secretarial/statutory auditors in their report for FY20/FY21, the company has still not complied.

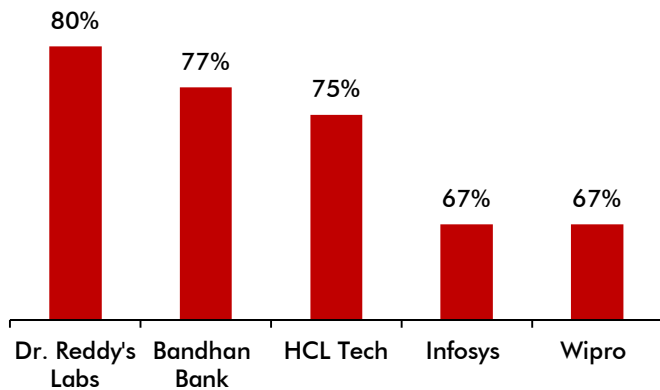
Exhibit 222: Chairperson of Hindustan Zinc is a NED related to the promoter and hence it need to have at least 50% of board members as IDs

Company	Chairperson	% ID Requirement	% IDs
Hindustan Zinc	Ms. Kiran Agarwal, NED related to promoter	50%	29%

Source: Ambit Capital research, Company

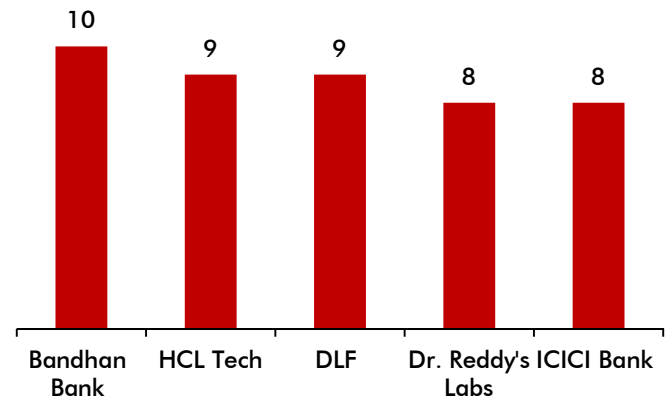
As discussed above, largely all companies only meet the statutory requirement in relation to minimum number of IDs on the board. For instance, there are only 12 companies out of 100 which have more than 60% independent directors.

Exhibit 223: Top five companies with highest proportion of independent directors on the board



Source: SES, Ambit Capital research, Company

Exhibit 224: Top five companies with highest number of independent directors on the board

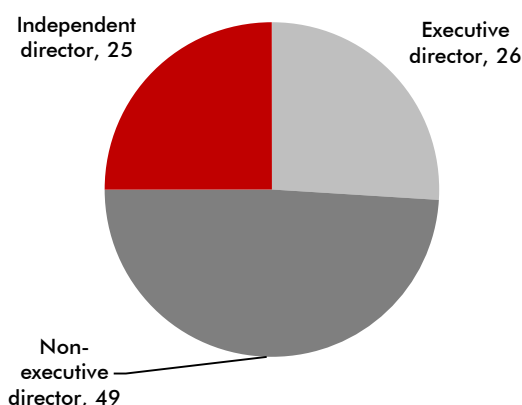


Source: Ambit Capital research, Company

Chairmanship of board is largely held by promoters

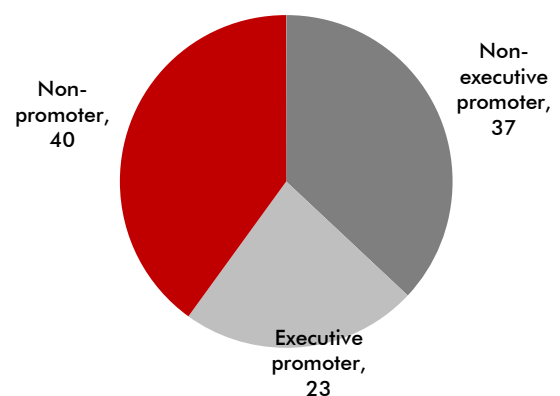
Acknowledging the important role a chairperson has to play in board meetings, SEBI made it mandatory for companies to separate the role of chairperson from MD of the company with effect from 01 Apr-21. The objective was to provide better and a more balanced governance structure enabling more effective supervision of management. Separation of the roles will reduce excessive concentration of authority in a single individual. In 26 companies, EDs held the position of chairpersons. Only in case of ITC Ltd, a professionally managed entity, an ED held the position. Therefore, 25 companies will need to change chairperson positions from ED to NED or ID to comply with the aforesaid regulations.

Exhibit 225: 25 companies currently have ED as a chairperson and hence need to appoint some NED or ID as chairperson w.e.f. 01 Apr 22; only 25 companies have IDs as chairperson



Source: Ambit Capital research, Company

Exhibit 226: In 60 companies, promoters act as chairperson of board, which reflects the upper hand of promoters in coordinating and managing meetings



Source: Ambit Capital research, Company

Strength of women on the board has scope to improve

Overall, 17% of total board positions (1,032) are held by women, i.e. 180. 40 companies have only one independent woman director. We believe companies with only one woman director (ID) are only complying with statutory obligation to have one ID women director. So, there are 99 women directors' positions which only help satisfy the statutory requirement. Hindustan Zinc has three women directors on the board, though none of them are independent. 17 companies have more than two

women directors, thereby displaying commitment to have higher women's participation on the board, i.e. beyond legal requirement. There are 12 companies which have a relatively higher number of women directors, including independent women directors. Interestingly, eight out of these 12 companies also have a higher share of promoter directors, indicating that most of the women directors tend to be from the promoter family.

Exhibit 227: 40 companies have only one woman director; probably these companies only meet the statutory requirement to have one independent woman ID

	Count			
Number of women directors	Nil	1	2	>2
Number of companies	1	40	42	17

Source: Ambit Capital research, Company

Exhibit 228: 28 companies have more than two women IDs

	Count			
Number of independent women directors	Nil	1	2	>2
Number of companies	1	71	23	5

Source: Ambit Capital research, Company

Exhibit 229: Godrej Consumer has the highest number of women directors, followed by Lupin and HDFC Life Insurance

No. of Women directors	Company
3	Abbott India, Asian Paints, Cipla, GSK Pharma, HCL Tech, Hindustan Zinc, ICICI Bank, M & M, MRF, Nestle India, Piramal Enterprises, Tech Mahindra, UltraTech Cem.
4	Colgate Palmolive, HDFC Life Insurance, Lupin
5	Godrej Consumer

Source: Ambit Capital research, Company

Exhibit 230: Godrej Consumer also has a higher number of independent women directors

No. of Independent Women directors	Company
3	Godrej Consumer, M & M, Nestle India, Tech Mahindra.
4	Colgate Palmolive

Source: Ambit Capital research, Company

Exhibit 231: Top five companies with highest proportion of women directors on the board

Company	Number of women directors	Proportion of women directors to total directors
Hindustan Zinc	3	42.9%
Lupin	4	40.0%
Godrej Consumer	5	38.5%
Nestle India	3	37.5%
Colgate Palmolive	4	36.4%

Source: Ambit Capital research, Company

Exhibit 232: Top companies with highest number of independent women directors on the board

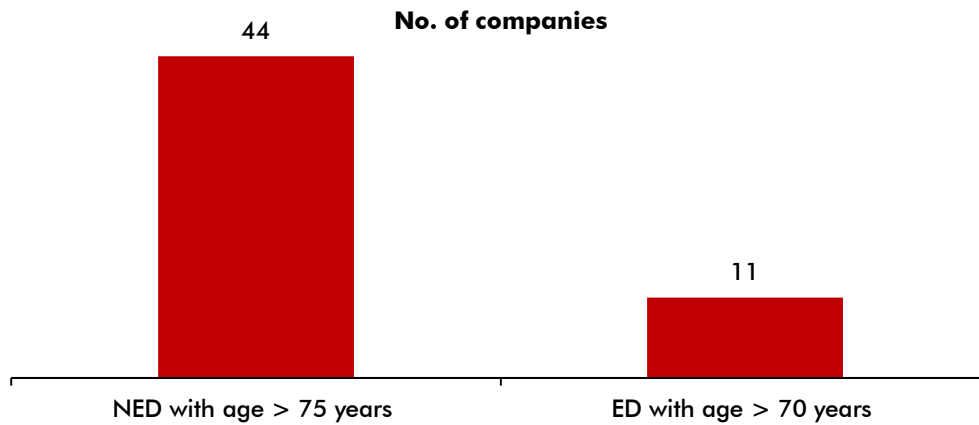
Company	Number of women independent directors	Proportion of women independent directors to total directors
Nestle India	3	37.5%
Colgate Palmolive	4	36.4%
Tech Mahindra	3	30.0%
Torrent Pharma	2	28.6%

Source: Ambit Capital research, Company

Youngest and eldest board members could probably be from promoter family

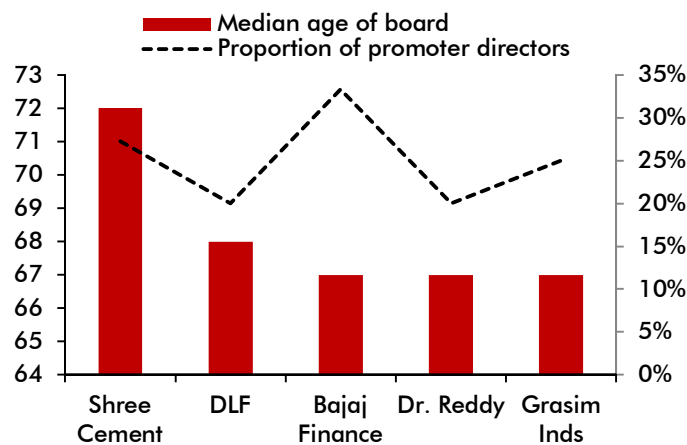
Age of the directors is another issue which is being discussed by regulators. There is an ongoing debate whether age should be the factor to step down. Some believe that in current times, it is better to have younger boards due to the changing business landscape in terms of technology, business models etc. Younger members are assumed to be relatively more dynamic and are updated with more recent and relevant skill sets. While others believe the older generation will keep up the company's skills and ethos. The median age of the board in India is 62 years. Currently, a special resolution is required to approve the appointment of ED >70 years old and NED >75 years old.

Exhibit 233: 44 companies have at least one NED >75 years old, while 11 companies have at least one ED >70 years old



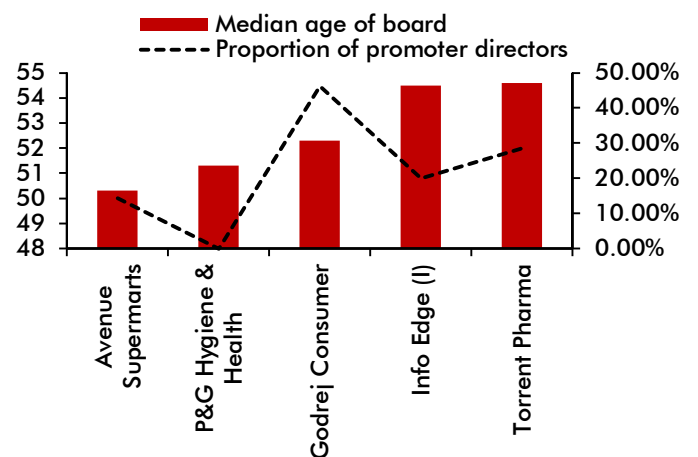
Source: SES, Ambit Capital research, Company

Exhibit 234: Top five companies with highest median board age; in all five cases, there is a considerable proportion of promoter directors on the board



Source: SES, Ambit Capital research, Company

Exhibit 235: Top five companies with lowest median board age; in three out of five cases, there is a considerable proportion of promoter directors on the board



Source: SES, Ambit Capital research, Company

Exhibit 236: Interestingly, five eldest board members (EDs) are promoters of the respective companies

Director	Company	Promoter(P)/non-promoter (NP)	Years
Rajnikant Shroff	UPL	P	87
Basudeo N. Singh	Alkem Labs	P	80
Adi Godrej	Godrej Consumer	P	79
M. Sivakumaran	Aurobindo Pharma	P	78
Madhusudana Rao Divi	Divi's Lab	P	77

Source: Ambit Capital research, Company

Exhibit 237: Similarly, youngest board members (EDs) are also promoters of the respective companies.

Director	Company	Promoter(P)/non-promoter (NP)	Years
Karan Adani	Adani Ports	P	34
P. Sarath Chandra Reddy	Aurobindo Pharma	P	36
Shamir Genomal	Page Industries	P	37
Kanwardip Singh Dhingra	Berger Paints	P	38

Source: Ambit Capital research, Company

Exhibit 238: Among the five eldest NEDs , four are independent

Director	Company	Promoter(P)/non-promoter (NP)	Years
D. V. Kapur	DLF	NP – ID	87
Yogendra P. Trivedi	Reliance Industries	NP – ID	80
Osamu Suzuki	Maruti Suzuki	P	91
R. A. Shah	Pfizer	NP-ID	89
R. L. Gaggar	Shree Cement	NP-ID	77

Source: Ambit Capital research, Company

Exhibit 239: Among the five youngest NEDs, three are promoters NEDs; as we often see IDs are more experienced and hence are elder

Director	Company	Promoter(P)/non-promoter (NP)	Years
Priya Agarwal	Vedanta	P	31
Manjri Chandak	Avenue Supermarts	P	35
Anand Piramal	Piramal Enterprises	P	36
Muthiah Murugappan	M & M	NP-ID	37
Kunal Bahl	Piramal Enterprises	NP-ID	37

Source: Ambit Capital research, Company

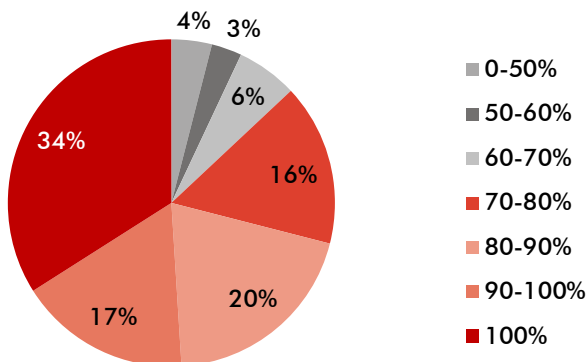
Attendance of board members at AGM needs significant improvement

Attendance of board members at the AGM or board meetings reflects their commitment towards the role they are expected to play. While attendance at the board meetings is satisfactory and have marginal scope for improvement, attendance at AGMs can be much better. As per schedule V of the LODR, 2015 every company is required to disclose the attendance of each director at the last AGM and board meetings.

Rajesh Exports has not disclosed the AGM attendance in annual report FY20

Exhibit 240: Average attendance at AGMs is low - 13 companies have attendance below 70%

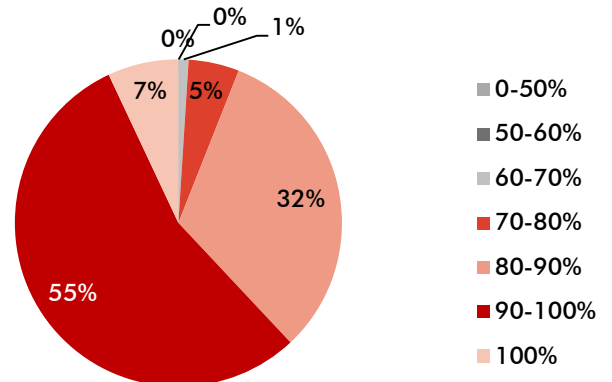
Average board attendance (AGM)



Source: Ambit Capital research, Company

Exhibit 241: Attendance at board meetings is below 80% for 7 companies. Usual reasons for low attendance include mid-year board shuffling due to resignations and deaths

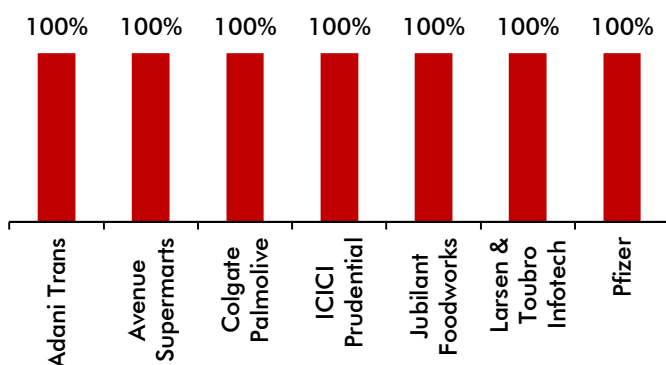
Average board attendance (board meetings)



Source: Ambit Capital research, Company

Exhibit 242: Seven companies have 100% board attendance

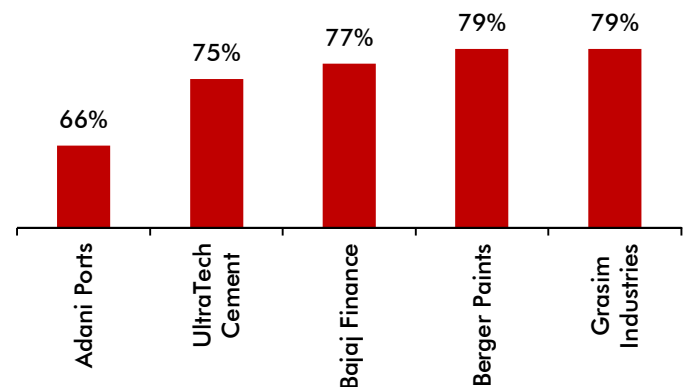
Highest board attendance



Source: SES, Ambit Capital research, Company

Exhibit 243: List of companies with relatively lower board attendance

Lowest board attendance



Source: SES, Ambit Capital research, Company

Composition of board committees is strong

Board committees are assigned specific tasks and hence play an important role. Most companies do well on parameters related to board committee with median score of the universe (100 companies) being >60. Assessment of board committees revolves around gauging independence of these committees. Secondly, it also involves gauging the degree of involvement of the members of these committees by noting the number of times these committees meet during the year or attendance of its members. It is worth noting that there is a considerable presence of independent directors on most of the committees. There are statutory limits set for minimum number or proportion of independent directors on the board. Excluding Yes Bank, all companies meet these statutory requirements or even exceed these minimum limits. There is scope for some improvement on attendance of committee meetings

Independent director's presence is high in committees; most IDs are associated for <10 years

Most companies go beyond the minimum statutory limits on having minimum number of IDs on different committees, i.e. higher number of IDs is appointed on each committee than the prescribed statutory limit, which is a good practice.

Exhibit 244: Particularly with respect to AC and NRC, the proportion of IDs is even beyond minimum statutory limits for all companies

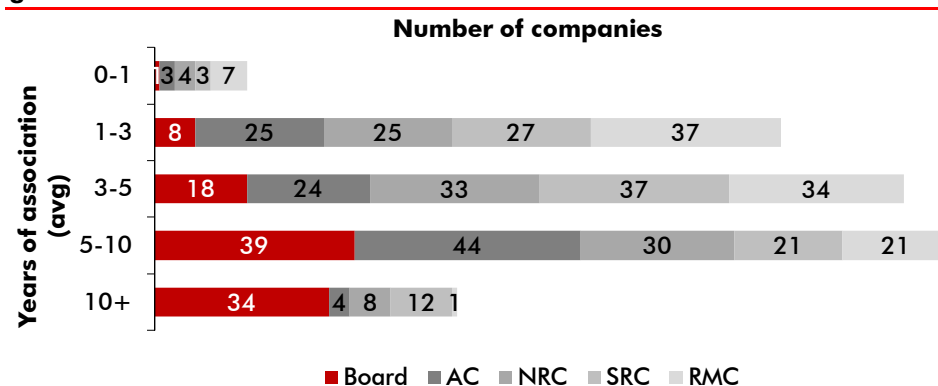
% IDs	AC	NRC	SRC	RMC	CSR
Legal requirement	2/3 rd (67%)	50%	1 ID	-	1 ID
0%	1*	1*	1*	22	1*
0-20%	-	-	-	-	-
20-40%	-	-	39	16	45
40-50%	-	-	1	10	8
50-67%	-	26	15	22	22
67%-90%	67	48	36	21	22
90-100%	32	25	8	9	2
Average (sample)	81%	73%	53%	46%	44%

Source: Ambit Capital research, Company. * Yes Bank-

Association of directors is another way of gauging the independence of the board. Longer the association, higher the probability of the independence of the board getting impaired. 73 companies have average board membership of more than five years. Surprisingly, ~50% of the companies have average AC membership of more than five years. Four companies have average AC membership of >10 years and eight companies have average NRC membership of >10 years. Since the number of companies with longer directorship or membership (i.e.>10 years) is low, we see there is not much issue. However, it will be even more encouraging to see the maximum number of companies with average membership of AC and NRC with <five years. Since only 20% of total ID positions in the top 100 companies are for more than 10 years and majority of AC/NRC are IDs, the average association of members of these committees appears <10 years.

For all companies, an ID acst as chairperson of AC and NRC

Exhibit 245: Reflecting fair independence, most companies are associated with members of most committees for a period of <10 years; ideally, for maximum number of companies, association of AC/NRC members can be less than five years as better governance



Source: Ambit Capital research, Company

Exhibit 246: MRF has longest association with its members of AC, NRC and SRC; United Spirits, Lupin and Hindustan Zinc seem to have recently changed their committee members

Association (Yrs.)	Board	AC	NRC	SRC	RMC
Average	8.3	5	4.7	5	3.5
Maximum	17.6	14.6	15.4	17.1	10.4
	Bajaj Finance	MRF	MRF	MRF	HDFC AMC
Median	7.8	4.9	4.2	4	3.5
Minimum	0.8	0.4	0.4	0.5	0.2
	Yes Bank	Hindustan Zinc	Lupin	Yes Bank	United Spirits

Source: Ambit Capital research, Company

Attendance trends show strong commitment from directors; but, there is some scope for improvement

The commitment of committee members can be gauged through the number of times they meet during the year. Higher the number of times the members meet, the better it is as it showcases higher degree of involvement of its members. The nature of the task done by one committee obviously differs from the others and hence the number of times its members should meet in a year also changes. Moreover, the law also provides for the minimum number of times the committees should meet during an year. Ideally, the AC has a larger role to play and hence should meet at least eight times in a year, i.e. four times for review of quarterly results and four times for review of other matters.

Exhibit 247: ~1/3rd of companies satisfy only the minimum statutory requirement of AC/SRC and RMC meetings; mostly, the committees meet a fair number of times

Number of meetings	AC	NRC	SRC	RMC	CSR
Legal requirement	4	1	1	1	-
Our benchmark	8~	2	2	1	1
1	-	7	29	34	19
2	-	22	13	20	30
3	-	18	9	11	22
4	34	29	43	21	18
5-7	45	21	4	8	4
8 or more	21	3	1	1	0
Refer Note	-	-	1*	5*	7*

Source: Ambit Capital research, Company. *Number of meetings conducted - information not disclosed / available

Aurobindo Pharma disclosed no info on SRC meetings

Five companies did not disclosed details around RMC

- Aurobindo Pharma
- Eicher Motors
- Titan Company
- Maruti Suzuki
- Muthoot Finance

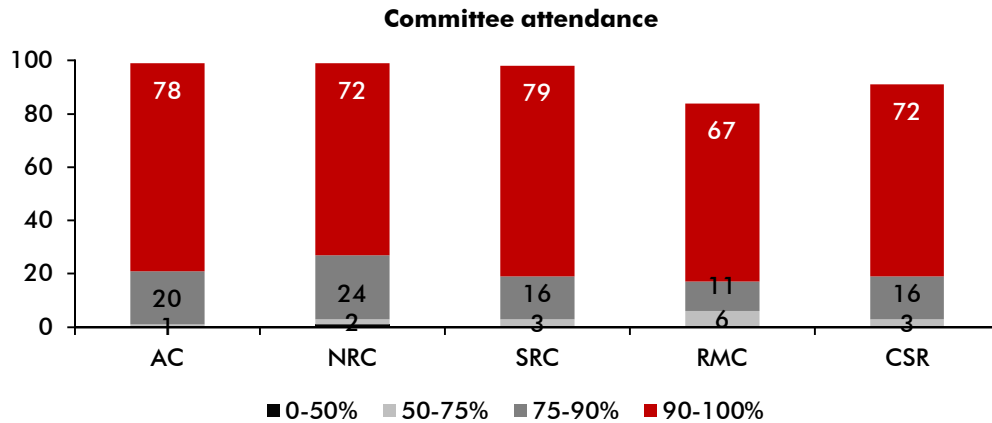
Exhibit 248: List of companies which had the highest number of committee meetings during FY20

Highest committee meetings									
AC	No. of meetings	NRC	No. of meetings	SRC	No. of meetings	RMC	No. of meetings	CSR	No. of meetings
Reliance Ind.	12	Muthoot Finance	8	ITC	18	Piramal Enterprises	7	Bajaj Auto	5
Tata Motors	11	Trent	7	Bharti Airtel	7	Larsen & Toubro	6	Bajaj Finance	5
DLF	10	DLF	6	Whirlpool	6	United Spirits	5	Info Edge	5
ICICI Pru Life	9	Vedanta	6	Indus Tower	6	HDFC Life Ins.	5	Wipro	5
ABB India	9	M&M	6	Muthoot Finance	5	Wipro	5	Multiple companies	4

Source: Ambit Capital research, Company

Attendance in meetings could be another benchmark to verify the involvement of committee members w.r.t the important responsibilities they are entrusted with.

Exhibit 249: Attendance in AC and NRC meetings has some scope to improve as it is <90 at ~1/4th of companies; companies need to disclose details on RMC and CSR

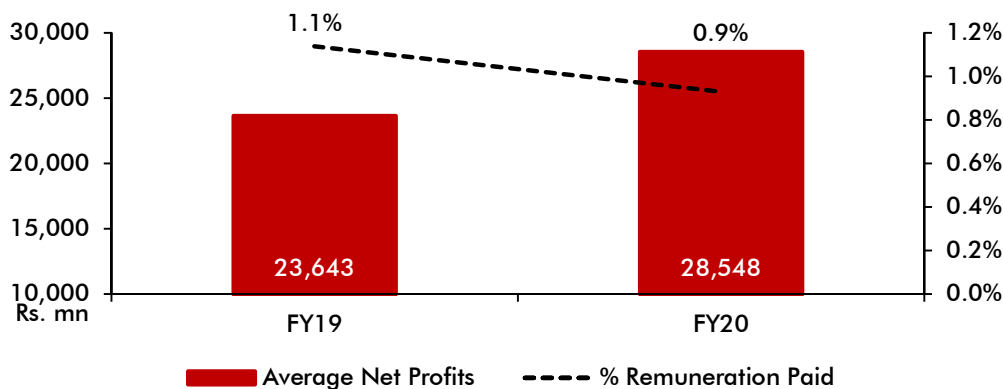


Source: Ambit Capital research, Company

No major adverse observations on skew w.r.t director's remuneration

There is a need to strike a balance between remuneration paid to the directors (EDs/NEDs/IDs) on the board. Remuneration paid to the directors should be fair to incentivize them to work for the benefit of the company. But it is also pertinent to note that directors play a fiduciary role towards other stakeholders of the company and hence it is critical for them to also work in the interest of these stakeholders. There should not be wrongful personal benefit on their part. There is a need to keep a check on the remuneration paid to the directors. On an aggregate basis, we note that total remuneration paid to directors is ~1% of total profit after tax for both FY19 and FY20. While this gives a very top-down view on director's remuneration, it is important to do the analysis at the individual company level too.

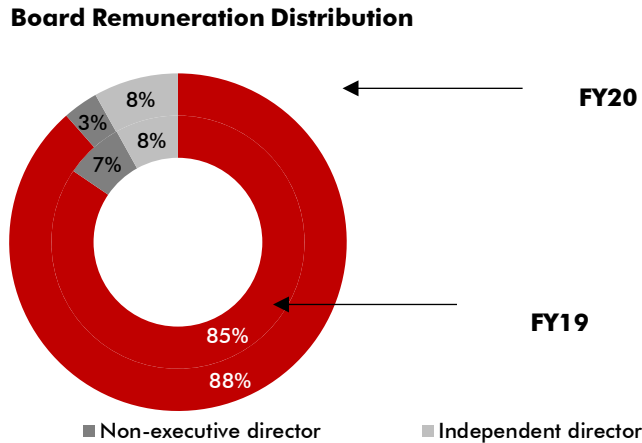
Exhibit 250: Total remuneration paid to directors at the top 100 companies has been ~1% of PAT for FY19 and FY20



Source: Company, Ambit Capital research

Probability of promoter NED getting higher remuneration is reduced through new law

EDs are obviously paid more than NEDs or IDs. Data of top 100 companies suggests that 85-90% of total remuneration paid to directors pertains to executive directors. The proportion of NED remuneration further reduced in FY20 owing to change in law. Since change in SEBI's listing regulations, wherein the NED is being paid 50% or more of the total NEDs remuneration (including IDs), shareholders' approval is required through a special resolution. This change has served as a deterrent for higher NED remuneration.

Exhibit 251: Share of NED in total remuneration decreased to ~3% in FY20


Source: Ambit Capital research, Company

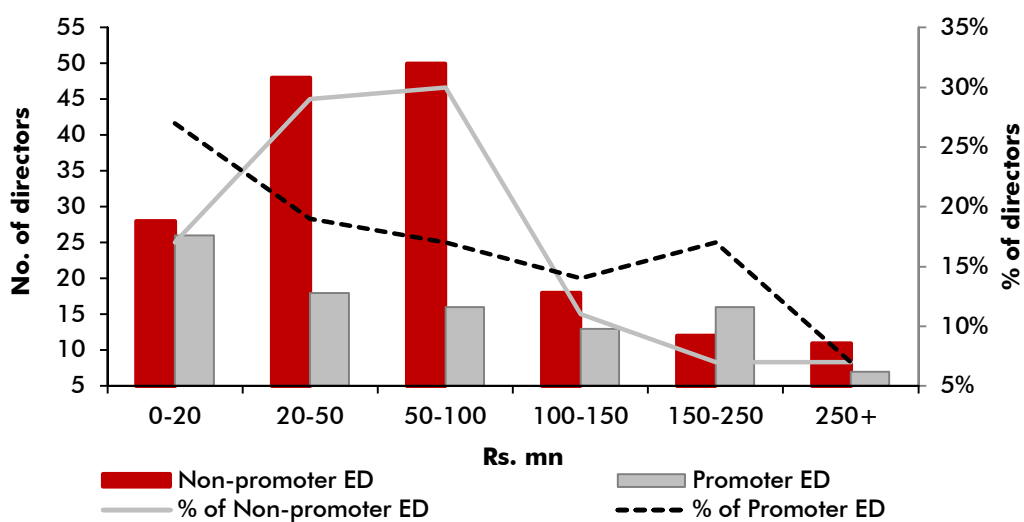
Exhibit 252: Few instances where change in NED-NID remuneration rules probably led to sharp decline in remuneration of NEDs; the change in law helps keep a check on remunerations of NEDs

Director	Company	FY19	FY20	Absolute (Rs.mn)	% change
Kumar Mangalam Birla	Ultratech Cement	156	0.3	155	-100%
Kumar Mangalam Birla	Grasim Indus.	133	0.3	133	-100%
Kumar Mangalam Birla	Hindalco Indus.	36	0.3	36	-99%

Source: Ambit Capital research, Company

Larger proportion of ED directors take home more than Rs150mn

Of the total positions (1,032) on the board of these 100 companies, there are 263 executive directors. 96 (i.e. $>1/3^{\text{rd}}$) of these 263 are promoters or related to promoters (EDP), while 167 can be construed as outside professionals (ED-NP). Data analysis w.r.t. skew in relation to remuneration paid to EDP and ED-NP highlights interesting observations.

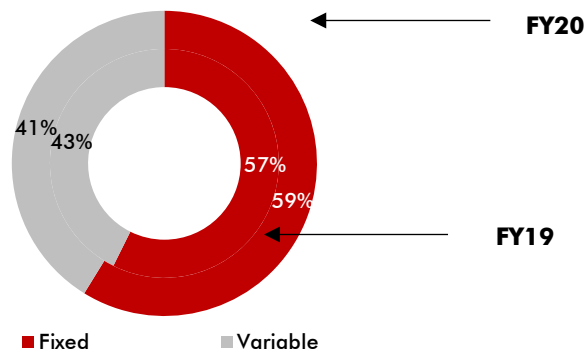
Exhibit 253: Reflecting skew in favour of promoter EDs, 24 % of EDP directors have remuneration >Rs150mn while only 14% ED-NPs receive the same amount


Source: Ambit Capital research, Company

With respect to EDs it is important to decide the balance between fixed and variable remuneration. Ideally, there must be a clear link between the performances of the executives and the performance of the company.

Exhibit 254: On an aggregate basis, ~60% of ED remuneration is fixed while 40% is variable

Executive director remuneration components



Source: Ambit Capital research, Company

Regulatory actions over last decade have reduced audit quality issues

Over the last decade, there was a series of instances where the auditors were found guilty of wrongful involvement in major accounting blow-ups in India. Currently, there is increased realisation of the fact that the statutory auditors of the company play a very crucial role in ensuring that financial information of the company is free from accounting gimmicks or manipulations. Acting on the same, the regulators have either tweaked the law to make it stricter or have taken stringent actions on defaulting auditors and companies. Probably this has led to improved score of companies on parameters around statutory auditors.

Exhibit 255: Our checks around statutory auditors largely capture auditor independence issues, past violations and potential conflicts of auditors with management



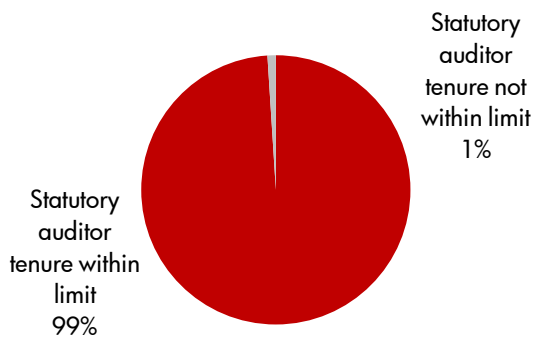
Source: Ambit Capital research, Company

All the companies (ex Rajesh Exports) score very well on our parameters related to statutory auditors. Rajesh Exports Ltd in its AGM held on Dec 31 2020 had sought shareholders' approval for the re-appointment of Statutory Auditors for a period of 1 year.

Mandatory rules on rotation of auditors promote higher score on underlying parameter

Currently, as per section 139 of the Companies Act, 2013 no listed company can appoint or re-appoint an individual as auditor of the company for more than one term of five consecutive years and an audit firm as auditor for more than two terms of five consecutive years. Nonetheless, the Ministry of Corporate Affairs (MCA) guidelines suggest that audit partner should rotate after every three years. Currently, there are 12 companies in the sample wherein the audit partner was associated for more than three years.

Exhibit 256: Only Rajesh Exports did not meet the legal requirement around mandatory rotation of auditors



Source: Ambit Capital research, Company

Exhibit 257: Basis even stricter guidance from MCA, only in case of 12 companies audit partner was associated for >3 years; 88 companies still go even beyond the minimum statutory requirement

Audit partner-yrs. of association	Company
7	ICICI Lombard
6	HUL, Abbott India and Alkem Labs
5	Berger Paints
4	Cipla, Lupin, Maruti Suzuki, MRF, Page Industries, Ultratech Cement and United Spirits

Source: Ambit Capital research, Company

Higher proportion of non-audit fees paid to auditor needs a critical analysis

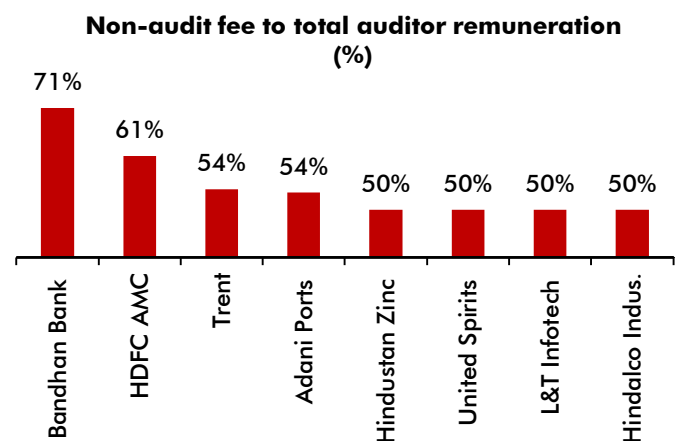
One check to test the auditor's independence is the amount of non-audit fees paid to the auditor over and above the statutory audit fees. Higher proportion of non-audit fees can be a potential threat to the auditor's independence. In the case of top 100 companies of India, only 20% of total fees on aggregate basis are paid as non-audit fees, which is not very concerning. But one needs to watch for outliers that are on the higher side.

Exhibit 258: On aggregate basis, ~20% of total audit payment to auditors is towards non-audit fees....

Fee type (Rs.mn)	FY19	FY20	% change
Audit	2,039	2,001	-1.9%
Audit-related	274	326	19.1%
Non-audit	529	634	19.8%
Total	2,842	2,960	4.2%

Source: Ambit Capital research, Company

Exhibit 259: ...but in some cases, it even exceeds 50%

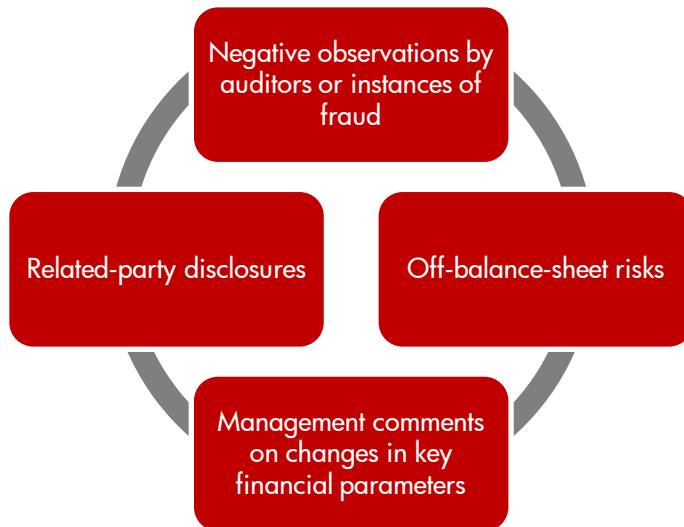


Source: SES, Ambit Capital research, Company

Regulatory changes in the last decade improved the quality of financial reporting

We extend the discussion around quality of financial reporting in India. Again, largely attributable to regulatory actions, the quality of financial disclosures have improved. All companies (ex Rajesh Exports) do well on our parameters.

Exhibit 260: Observations related to negative comments by auditor, instances of fraud, and dealings with related parties are our key parameters



Source: Ambit Capital research, Company

Scrutiny of audit reports highlights no adverse findings

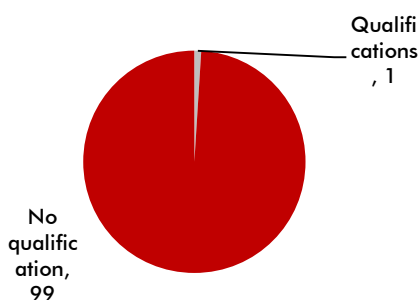
In the audit reports of the top 100 companies, only Yes Bank had adverse comments.

Exhibit 261: In the FY20 audit report of Yes Bank, the auditor raised concerns on going concern, i.e. ability to continue the business; moreover, there was some breach of capital adequacy norms

Financial year	Auditor's comment
FY20	Yes Bank has breached the regulatory requirements of the Reserve Bank of India ('RBI') regarding maintaining the minimum Common Equity Tier ('CET') 1 and Tier 1 capital ratios which indicates the position of capital adequacy of a bank.

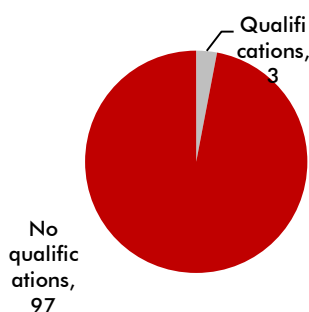
Source: Ambit Capital research, Company

Exhibit 262: Except Yes Bank, there was no other instance of adverse comments from auditor among top 100 companies



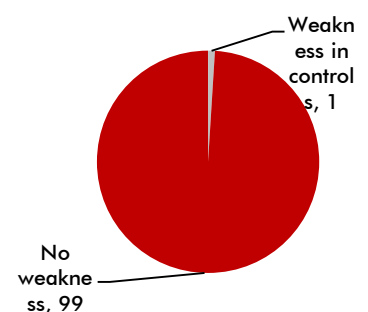
Source: Ambit Capital research, Company

Exhibit 263: Hindustan Zinc, Abbott India and UB had some negative comments in the FY20 secretarial audit report



Source: Ambit Capital research, Company

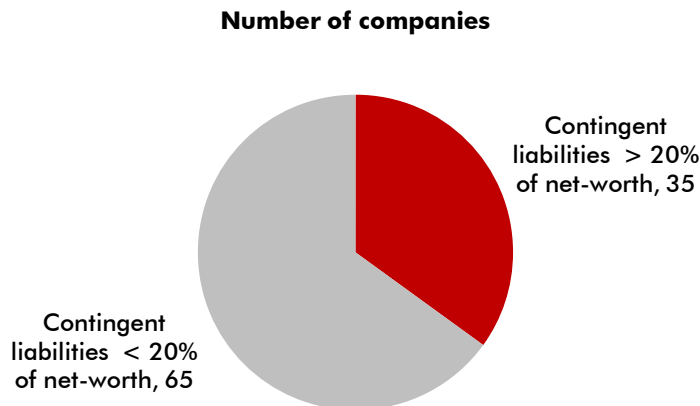
Exhibit 264: Weakness in internal control was observed in the case of United Breweries alone



Source: Ambit Capital research, Company

Contingent liabilities are the off-balance-sheet risks. We assess companies basis their exposure to these risks by making relative comparison with their net-worth.

Exhibit 265: 1/3rd of companies have contingent liabilities worth more than 20% of net-worth



Source: Ambit Capital research

Company disclosures on financial ratios can improve

SEBI (LODR) Amendment Regulations, 2018 requires disclosure of significant changes (i.e. change of 25% or more as compared to the immediately previous financial year) in key financial ratios, along with detailed explanations in MDA.

Exhibit 266: ~1/3rd of the companies do not publish adequate commentary on major change in ratios

Details	Number of companies
Disclosed financial ratios and discussion on significant shift in financial ratios (i.e. change of 25%, in cases wherever applicable)	71
Disclosed financial ratios, however, no discussion on significant shift in financial ratios (i.e. change of 25%, in cases wherever applicable)	20
Disclosed financial ratios, however, not made adequate discussion on significant shift in financial ratios (i.e. change of 25%, in cases wherever applicable)	2*
Not disclosed financial ratios or made inadequate disclosures	7~

Source: Ambit Capital research, Company. * For instance vague statements like 'decrease in debtors turnover ratio is due to increase in average debtors as compared to previous year'

Exhibit 267: These companies make relatively weak disclosures on financial ratios

Company
ABB India
Asian Paints
DLF
MRF
Reliance Industries
Siemens

Source: Ambit Capital research, Company

There were no instances of fraud reported w.r.t. the top 100 companies in India. Minor employee/customer-related fraud has been reported by Muthoot Finance in its annual report for FY20.

Exhibit 268: Excluding Muthoot Finance where there was reporting of minor fraud, there were no instances of fraud noticed in the rest of the 99 companies

Financial year	Comment by company
FY20	During the year, frauds committed by employees and customers of the company amounted to Rs2.59cr (Mar-19- Rs3.83ce) which has been recovered/written off/provided for. Of the above, fraud by employees of the company amounted to Rs2.32ce (Mar-19- Rs33.52mn)

Source: Ambit Capital research, Company

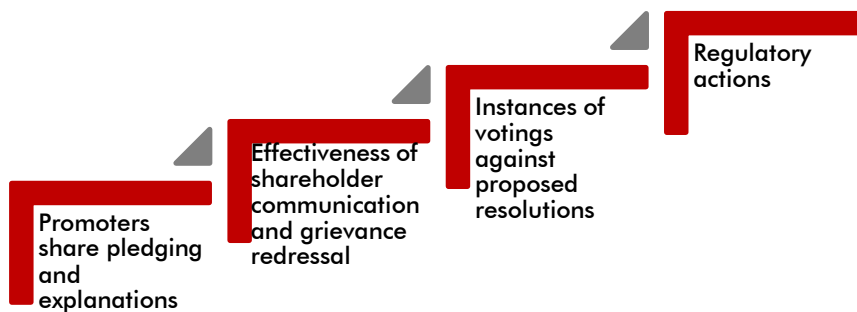
W.r.t disclosures on related-party transactions, most companies largely have fair disclosures. 67 companies in their RPT Policy have also defined the term ordinary business. No case was observed of any board member having any related-party transactions with companies other than in the normal course of business. ~9 resolutions relating to transactions were put up for shareholder approval during the period from Jan-20 to Dec-20 and all the resolutions were approved with requisite majority by respective shareholders.

Stakeholder engagement-related compliances are largely met

Engagement with stakeholders covers a wide gamut of aspects. It essentially captures how frequently and effectively the company engages with different stakeholders. Beyond regular aspects of governance generally understood by the investors, i.e. board committees, board composition etc. it is critical to understand a few other factors as they can help gauge transparency of a company's actions and communication to outsiders. Below are a few of the key parameters which come under the purview of these other aspects:

- Interaction with analysts/investors and gauging the quality of interactions
- Timely communication of important information to the public
- Effective and timely dealing of shareholder concerns
- Any instance of potential or actual violations of law
- Shares pledge and clarity w.r.t. reasons for the same

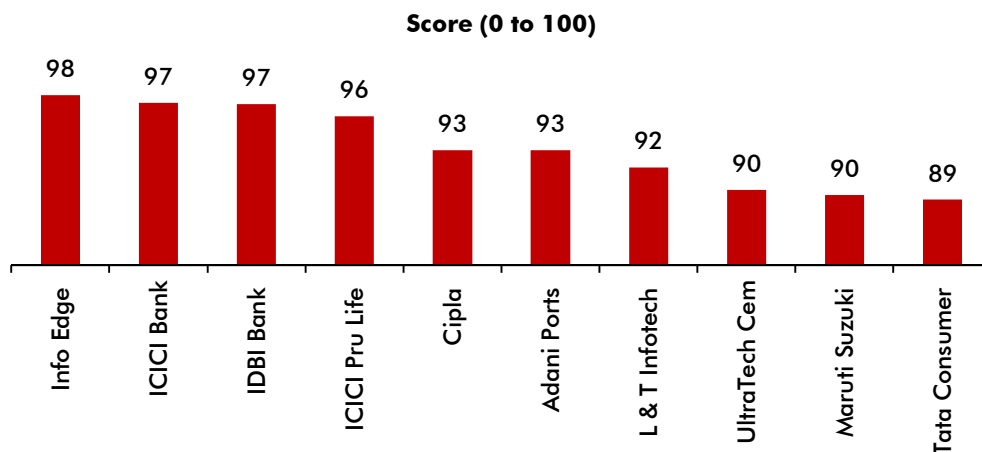
Exhibit 269: Key aspects to check a company's effectiveness w.r.t. stakeholder engagement



Source: Ambit Capital research, Company

The median score for 100 companies on this parameter is ~80 out of 100, which suggests most companies have performed very well on these parameters.

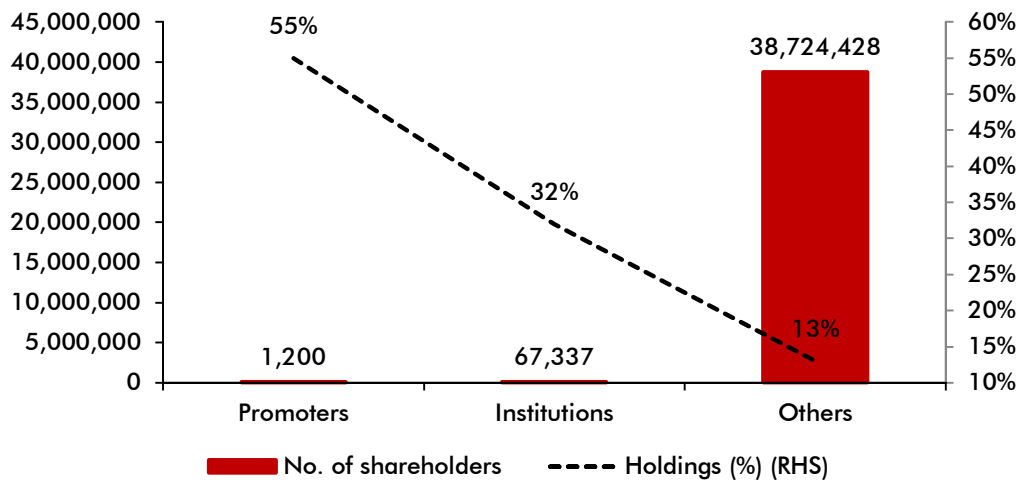
Exhibit 270: Top performers on our stakeholder engagement parameters



Source: Company, Ambit Capital research

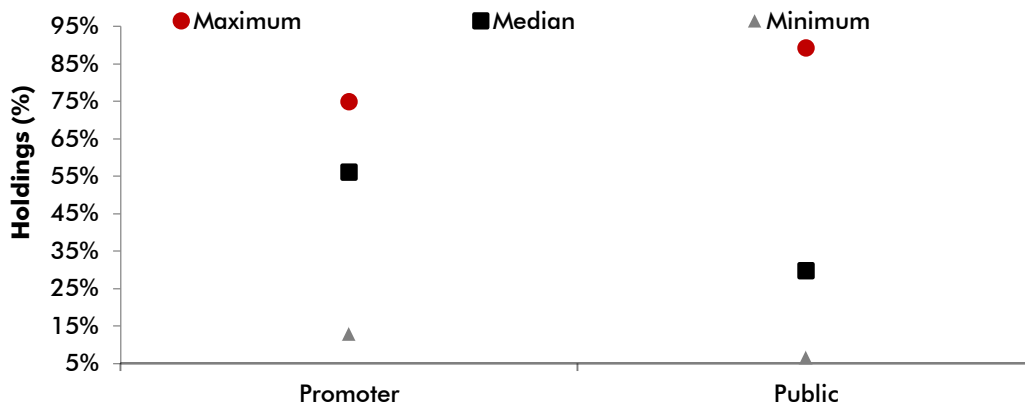
Before we dig into key observations from the analysis, we do an overview of shareholding structure of the top 100 Indian companies. The shareholding pattern suggests the significant influence of promoters on even the top 100 companies in India. In terms of number of shareholders, 99% are shareholders from the ex-promoters category while they hold only 13% of total market capitalisation

Exhibit 271: On an aggregate basis, promoters have maximum shareholding in top 100 companies in India and hence could exert higher influence; highlights need for effective communication to all stakeholders



Source: SES, Ambit Capital research, Company. Shareholding as on 31 Dec 2020. Holding of promoters excludes professionally managed companies. Number of shareholders includes duplication of names since it just aggregate

Exhibit 272: For the top 100 companies, on a median basis, too, >55% of shareholding is held by promoters while ~30% is held by ex-promoters



Source: Ambit Capital research, Company

20% of companies have shares pledged valued at ~6% of total mcap as at Dec-20

A high pledging of shares can be a point of concern for shareholders. As commonly understood, share pledging could imply potential risks from lack of capital, poor cash flow pattern and inability to meet working capital environment. Out of the top 100 companies under our analysis, there are 21 with pledged shares valuing to Rs1.7tn as at 31 Dec 20, i.e. ~6% of total market capitalisation.

Exhibit 273: Six companies have >20% of promoter holding pledged, while four companies have >20% of total shareholding pledged

No. of Companies/Holding or pledge proportion	Holding or pledge proportion		
	0-20%	20-50%	>50%
Promoter holding	1	5	15
Total shareholding pledged	17	3	1
Promoter shareholding pledged	15	5	1

Source: Ambit Capital research, Company

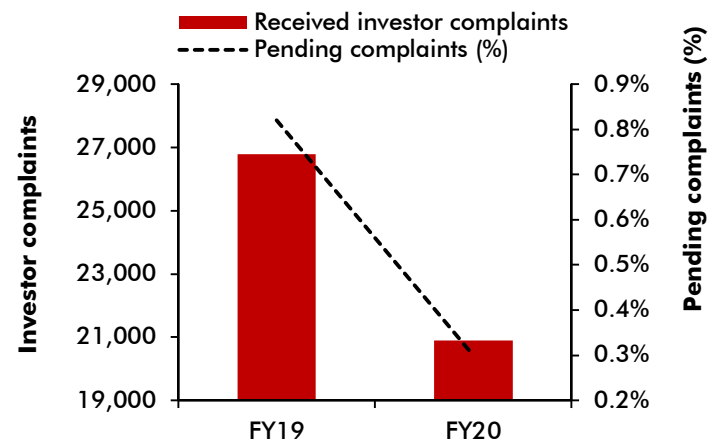
Exhibit 274: Cases where promoter pledge is >10% and total pledge >5%

Company	% Promoter shareholding	% Promoter pledge	% Total pledge	Pledge value (Rs.bn)
Vedanta	55.1%	100.0%	55.1%	330.6
Indus Towers	69.9%	40.3%	28.1%	52.7
Adani Ports	63.7%	38.2%	24.3%	453.5
Adani Transmission	74.9%	27.8%	20.8%	22.1
Hindustan Zinc	64.9%	22.8%	14.8%	678.2
JSW Steel	44.1%	22.1%	9.7%	13.4
United Breweries	57.7%	18.2%	10.5%	245.1
Asian Paints	52.8%	10.7%	5.6%	60.9

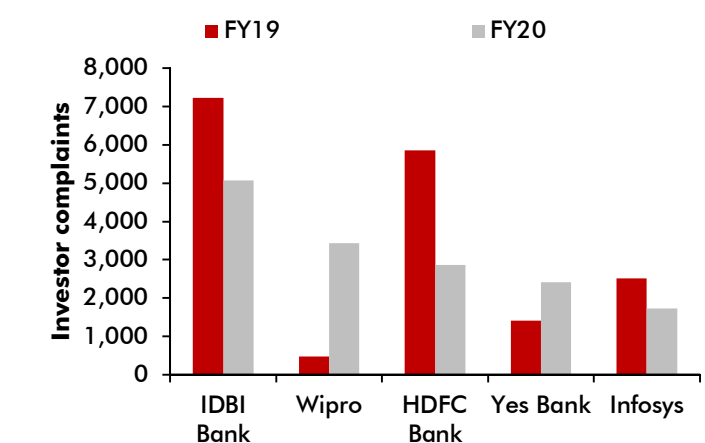
Source: SES, Ambit Capital research, Company

Investors' complaints are mostly resolved by the year-end

Another parameter to gauge a company's stakeholder engagement effectiveness is to check increase or decrease in number of investor complaints and also promptness in closing these complaints. In FY20, we observed >20% decrease in total shareholder complaints received. This was probably due to nationwide lockdown in the last 10-15 days of Mar'20 wherein no new complaints might have been registered. In 4QFY19, ~7000 complaints were registered vs ~3000 in 4QFY20.

Exhibit 275: Less than 1% of complaints were outstanding at FY19/FY20 year-end


Source: Ambit Capital research, Company

Exhibit 276: Of the top five companies with highest number of complaints received in FY20, three were banks


Source: Ambit Capital research, Company

Very rarely are proposed resolutions voted against in India

The instance of shareholders voting against a proposed resolution could potentially indicate that there is ongoing possible conflict or differences of opinion over different matters between different groups of shareholders. The lesser the number of instances of shareholders voting against the proposed resolution, the better it is. For this purpose, we looked at shareholder voting patterns for resolutions taken in general meetings for shareholders during 1 Apr'19 to 31 Dec'20.

Exhibit 277: There are very few instances of shareholders voting against proposed resolutions; only two were defeated

	Public institutions	Public Others	All shareholders
Average against votes	5.5%	2.0%	1.7%

Source: Ambit Capital research, Company

A >10% voting against the resolution could indicate that there is a much powerful contrary view to the one proposed in the resolution. On a relative basis, institutional investors more often vote against the resolution than the other public shareholders.

Exhibit 278: Instances of institutional investors voting against a proposed resolution are much higher

	10% against votes		
	Public institutions	Public others	All shareholders
No of resolutions	271	82	89

Source: Ambit Capital research, Company

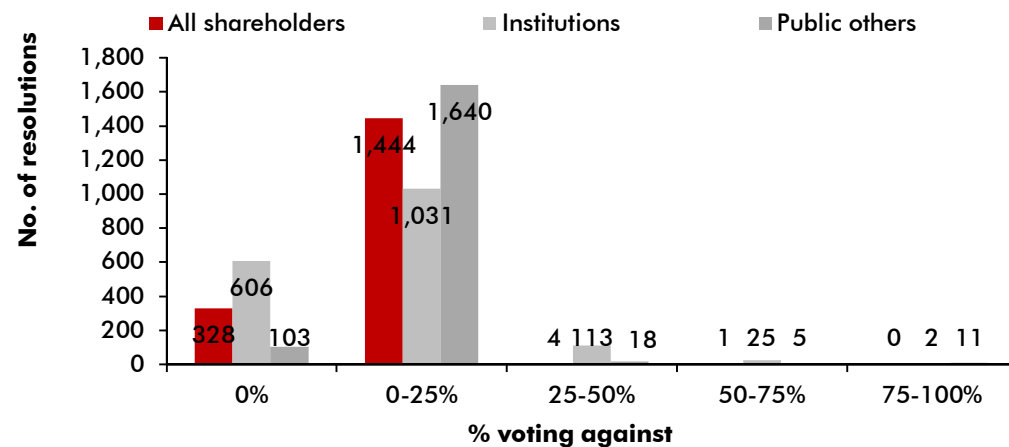
Exhibit 279: Details of only two resolutions which were defeated during 01 Apr'19 to 31 Dec'20

Company	Meeting/ resolution type	Resolution	Shareholders			
			All		Institutions	Others
			For (%)	Against (%)	Against (%)	Against (%)
Inter Globe Aviation	EGM/special	Approval for Amendments in the Articles of Association of the Company	49	51	52	99
Yes Bank	AGM/special	To approve amendments to the Employees Stock Option Scheme of the Bank, namely 'YBL ESOS - 2018'	70	30	45	1

Source: Ambit Capital research, Company

Overall, instances of a resolution getting defeated are very low as it is very rare to see the resolution getting >25% 'against' votes.

Exhibit 280: Out of a total 1,777 resolutions proposed during Apr'19 to Dec'20, only on 27 resolutions (i.e. only 1.5%) did institutions vote against by >50%; this highlights the rarity of neglecting a proposed resolution



Source: Ambit Capital research, Company

Exhibit 281: Two resolutions where institutional investors voted against by >75%

Company	Meeting/ resolution type	Resolution	Shareholders			
			All		Institutions	Others
			For (%)	Against (%)	Against (%)	Against (%)
Rajesh Exports	AGM/Ordinary	To appoint Statutory Auditors and fix their remuneration	78	22	100	0
Bajaj Holdings & Investment	PB/special	Approval to fix the Foreign Portfolio Investors' investment limit	81	19	95	0

Source: Ambit Capital research, Company

Exhibit 282: 11 resolutions where public shareholders voted by >75% against the resolution; mostly pertaining to appointment of directors

Company	Meeting/ resolution type	Resolution	Shareholders			
			All		Institutions	Others
			For (%)	Against (%)	Against (%)	Against (%)
HCL Technologies	AGM/Special	Appointment of Ms. Robin A. Abrams as an ID	93	7	20	97
Page Industries	AGM/Ordinary	Re-appointment of Mr. Ramesh Genomal as Director, who retires by rotation.	87	13	31	93
UltraTech Cement	AGM/Special	Continuation of directorship of Mrs. Rajashree Birla as a NED	86	14	53	90
UltraTech Cement	AGM/Ordinary	Reappointment of Mrs. Rajashree Birla as Director, who retires by rotation.	86	14	53	90
United Breweries	AGM/Special	Re-appointment of Mr. Madhav Bhatkuly as ID	98	2	3	88
United Breweries	AGM/Special	Re-appointment of Ms. Kiran Mazumdar Shaw as ID	81	19	0	88
United Breweries	AGM/Ordinary	Re-appointment of Mr. AK Ravi Nedungadi as Director, who retires by rotation.	85	15	27	87
United Breweries	AGM/Special	Re-appointment of Mr. Sunil Alagh as ID	87	13	24	87
Eicher Motors	AGM/Special	Appointment of Mr. S. Sandilya as an ID	90	10	25	78
Vedanta	AGM/Ordinary	To approve payment of remuneration to Mr. Srinivasan Venkatakrishnan, Whole-Time Director	85	15	49	76

Source: Ambit Capital research, Company

Accounting quality could still have a last word

Recently there has been increased focus by regulators to enhance the role of independent directors. The NRC will evaluate the balance of skills, knowledge and experience on the board. A description will be prepared on the role and capabilities required for a particular appointment. Naturally, the person recommended to the board should possess the capabilities required. Further, for identifying suitable candidates, the NRC may:

- Use services of external agencies
- Consider candidates from a wide range of backgrounds having due regard to diversity, and
- Consider the time commitment of the appointees.

Moreover, disclosures made to the shareholders should include:

- Skills and capabilities required for the appointment of the ID and how the proposed individual meets the requirement of the role
- Channels used for searching appropriate candidates. In case one of the channels is 'recommendation from a person', the category of such person (i.e. promoters, institutional shareholders, directors, etc) should be disclosed.

While the above steps will help the investors to understand the skills and capabilities of the proposed ID, it may not be so easy if the proposed person hadn't held the role of ID earlier. There are still issues like IDs being probably paid low for the important responsibility they carry

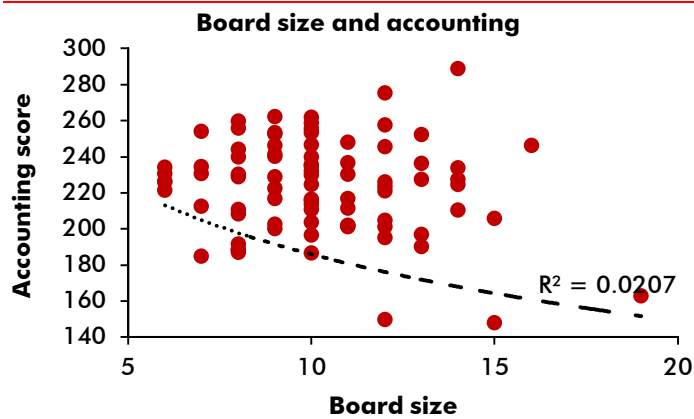
Exhibit 283: Most independent directors are paid less and hence probably there are ongoing discussions to set some rules on this

Remuneration range (Rs mn)	No. of independent directors	% of IDs
0-0.5	58	9%
0.5-2.5	264	42%
2.5-5	197	31%
5-10	70	11%
10+	42	7%
Overall	631	100%

Source: Ambit Capital research

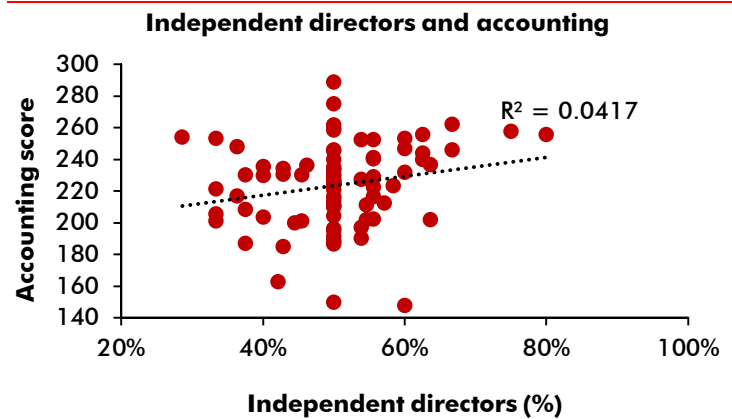
Governance culture within the company can have a serious impact on accounting quality. We try to find out if the number of members on board can have any influence on accounting quality. Possibly at times when there are several members of the promoter family on the board, the size of the board may be quite large to meet the statutory requirement of composition of the board. This can be assumed to be a negative. On the other hand, one can argue that higher the number of board members, higher the robustness of decision-making. We simply compare whether the number of board members has any bearing on accounting quality. Similarly, we try to see if there is any relationship between the independent directors and accounting quality. This is because IDs are largely known to play an oversight role w.r.t. financial reporting, audit matters, related parties etc.

Exhibit 284: There is hardly any relationship between the size of the board and accounting quality



Source: Ambit Capital research, Company

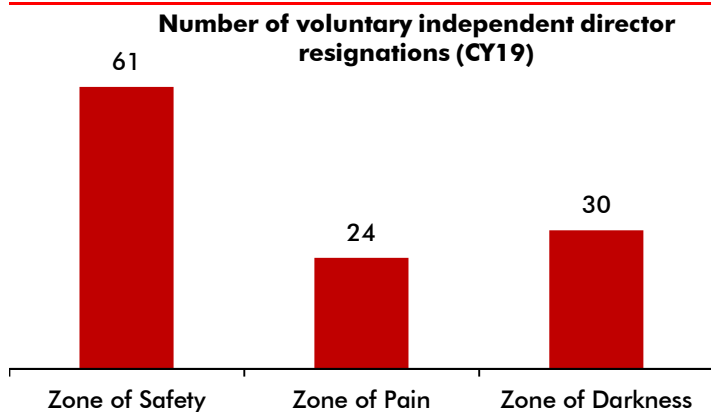
Exhibit 285: Similarly, there is no major relationship between the number of independent directors on the board and accounting quality



Source: Ambit Capital research, Company

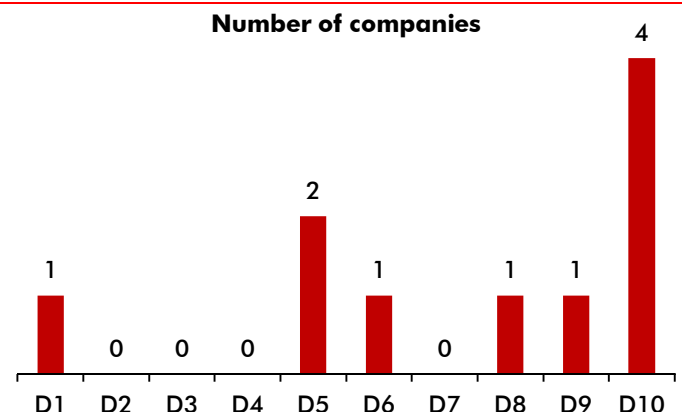
There was a strong relationship between voluntary resignations of auditors and the accounting quality of the company.

Exhibit 286: There is no meaningful relationship between, say, weak accounting quality and IDs' voluntary resignations citing vague reasons...



Source: Company, Ambit Capital research. Universe is BSE-500 companies (ex-BFSI) with market cap of more than ₹1bn at Dec'18. Accounting scores based on FY13-FY18 financials. We have considered resignations from Jan'19 to Nov'19. Universe is ex-BFSI

Exhibit 287: ...unlike the strong relationship between voluntary auditor resignation and weak accounting quality



Source: Company, Ambit Capital research. We have considered auditor resignations from 01 April 2019 to 24 July 2019. Accounting scores are based on financial statements for the year FY13-18. Universe is ex-BFSI.

Accounting quality can act as a first-level filter to gauge governance strength

So beating around the bush won't really help. We simply check the relationship between the amount of related-party advances and the chances of falling into a lower accounting quality decile. The higher the related-party advance, higher the chance that a company would have relatively weak accounting quality. On the one hand, if there are high related-party advances and the company features in 'Zone of Darkness' (i.e. D8-D10 lowest accounting quality deciles on our framework), what is the whole point in gauging the governance quality first and then sitting on this risk? [Click here](#) for our detailed accounting note.

Exhibit 288: Firms with high advances to related parties have tendency to end up in ZOD

Advances to related parties at year end (Rs.mn)	Percentage of firms with high advances to related parties that end up in D8-D10					
	FY15	FY16	FY17	FY18	FY19	FY20
Over 500	49%	47%	57%	55%	62%	57%
Over 1000	42%	47%	61%	58%	71%	81%

Source: Ambit Capital research, Company.

To test how accounting quality can act as a first-level filter of governance, we plotted the list of companies that lost >40% of share value in the last one year ending at 14 Jan'21. We noted that most of these companies were getting penalised on some or the other governance parameter; we also note that seven of these nine companies also featured in the 'Zone of Darkness' ([click here](#) for the recent note) on our accounting framework in the last few years. 'Zone of Darkness' is essentially the lower three deciles (D8-D10) on our accounting quality framework, i.e. the companies from these deciles potentially have weaker accounting quality versus the relative universe of BSE500 or Sub-BSE500.

Exhibit 289: Most of the companies were getting penalised on one or more governance parameters

Probable red flag	DB Corp	GE Power	Omaxe	Shoppers Stop	Gayatri Project	Future retail	Future Lifestyle	Future Cons.	Raymond
Promoter acting as chairman and executive director	☹	☹	☹	☹	☹	☹	☺	☺	☺
Instances of Poor attendance of the board members (<100% for > 2 directors) in the board meetings	☹	☺	☺	☹	☹	☹	☹	☹	☺
Less than required number of Independent directors	☺	☺	☺	☺	☺	☺	☹	☺	☺
Long association of Independent directors (even 1 director >10 years)	☹	☹	☺	☹	☹	☺	☺	☹	☹
Instances (>2 directors) of significant number of directorship (>5) in other companies	☹	☹	☺	☹	☹	☹	☹	☹	☹
Promoter is member or chairman of the audit committee (AC)	☹	☺	☹	☹	☹	☹	☺	☺	☺
Promoter is member or chairman of the nomination and remuneration committee (NRC)	☹	☺	☹	☹	☺	☺	☹	☹	☺
Independent directors are holding directorship in less than three listed companies (more than 1 ID with less than < 3 listed directorship)	☹	☺	☹	☹	☹	☹	☹	☹	☹
Relatively less experienced (< 3 listed company directorship) or long associated(>10 years) independent directors serving chairmanship of AC or NRC	☹	☹	☹	☹	☹	☹	☺	☹	☹
More than two auditor rotation (in less than 10 years)	☺	☹	☹	☺	☺	☺	☺	☺	☺
Any material adverse observations on Watch out investors	☹	☺	☹	☺	☹	☹	☺	☹	☹

Source: Ambit Capital research, Company, NSE-prime infobase

Exhibit 290: Seven out of nine companies featured in D8/D9/D10, i.e. in lower accounting quality deciles in the last two years

Company name	Sector-top half or bottom half?	Universe decile?						Last one year returns
		2015	2016	2017	2018	2019	2020	
DB Corp Ltd.	Top	D2	D1	D3	D3	D3	D5	-41%
Raymond Ltd.	Top	D8	D9	D9	D7	D4	D6	-49%
GE Power India Ltd.	Bottom	D6	D6	D4	D6	D8	D10	-58%
Omaxe Ltd.	Bottom	D3	D2	D3	D6	D8	D10	-48%
Shoppers Stop Ltd.	Top	D9	D7	D8	D9	D8	D10	-43%
Future Lifestyle Fashions Ltd.	Bottom	N/A	D10	D10	D10	D9	D9	-80%
Gayatri Projects Ltd.	Bottom	D10	D10	D10	D10	D10	D9	-47%
Future Retail Ltd.	Bottom	D10	D10	D10	D10	D10	D10	-78%
Future Consumer Ltd.	Bottom	D8	D9	D10	D10	D10	D10	-67%

Source: Company, Ambit Capital research, Bloomberg. Returns are calculated from 14 Jan-20 to 14 Jan-21. Accounting scores are based on financial statements for the year FY10-FY20

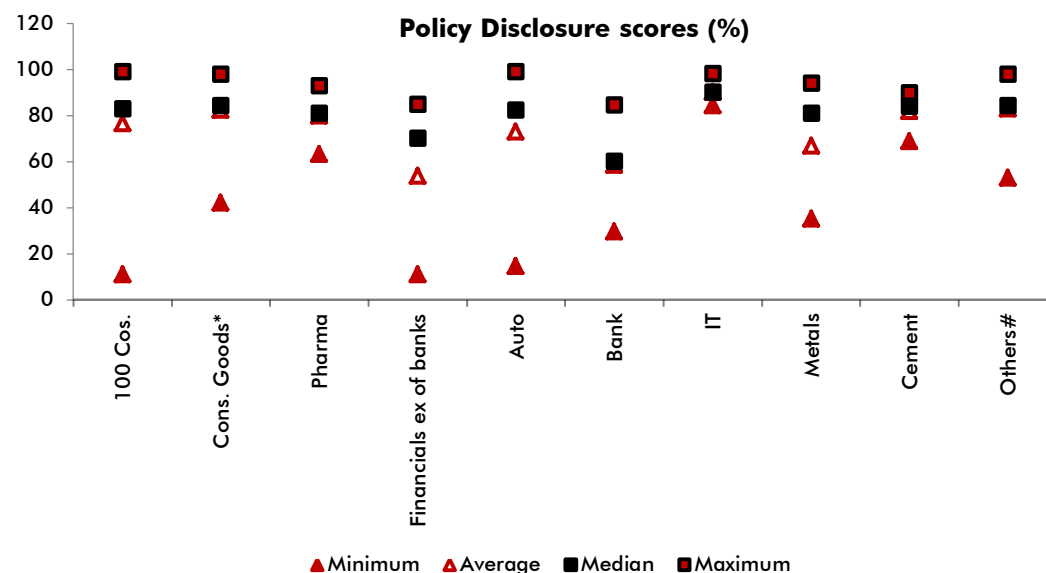
Almost all boxes have been ticked

Starting FY22, India Inc. will start disclosing matters related to E/S/G in the new Business Responsibility and Sustainability Reporting (BRSR) format which is more comprehensive. Currently, Business Responsibility Reporting (BRR) is like a self-compliance checklist. There is not much scope for quantitative and qualitative analysis. Nine principles under the BRR format capture important aspects like environment, stakeholder empowerment, employee well-being etc and almost every company meets the requirements of BRR and hence scores well on these parameters. But, as companies move towards BRSR, more effective assessment can lower scores on E and S typically. Low scores of companies on our E and S parameters are testimony to this. A few auto companies, financials ex of banks and banks have much scope to catch up with the best in the sectors. Currently, only 53 companies provide disclosures basis global standards. Most will resort to global standards going forward as BRSR becomes applicable to top 1000 companies.

Companies do well on disclosures related to policies

Business responsibility reporting (BRR) requires companies to disclose if they have formulated policies across 9 principles as specified by SEBI. Overall sample companies have scored high in policy disclosures compared to other sections/ criteria, with median score of 83. Comparatively higher scores reflect that most companies comply with the requirements. Industry-wise, IT is the top scorer with median score of 90 and banks are the worst with median score of 60. Top scoring companies have provided comparatively better disclosures with respect to policies and subscribe to various global ESG standards or principles.

Exhibit 291: IT has significantly outperformed all other sectors on policy disclosures. Highest divergence in policy disclosure scores are particularly for financials ex of banks, auto and banks



Source: SES, Ambit Capital research, Company. * Consumer goods includes FMCG, paints, consumer durables and consumer non-durables., #others include industrial manufacturing, services, oil & gas, construction, telecom, fertilisers & pesticides, power, textiles and chemicals. Universe is top 100 companies' (ex of PSUs) basis mcap at 31 Mar 2020. 0 is the worst score versus 100 being the best score

Top 10 companies on policy disclosures

Company name
Tata Motors
Tech Mahindra
Tata Consumer Products
Reliance Industries
L & T
Marico
Hero MotorCorp
Hindustan Zinc
Cipla
UPL

Source: SES, Ambit Capital research, Company

Our policy disclosure parameters

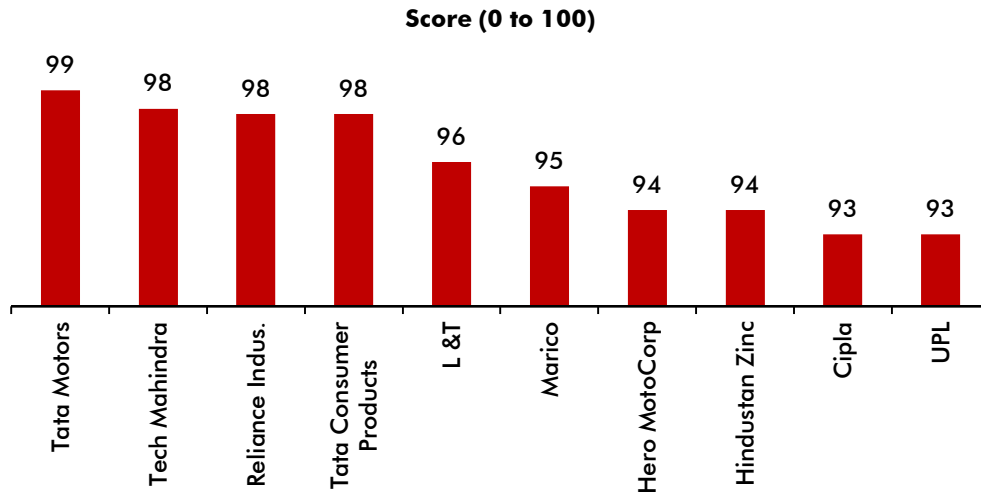
Parameters	Weights (range)*
Principle-wise BR policies	70%
Governance related to business responsibility	30%

Source: SES, Ambit Capital research, Company. * weights change depending upon sector and our materiality heatmap for these parameters.

Basis of evaluation

Particulars	Nos.
Questions	8
Parameters across questions	41
Data points	>169

Source: SES, Ambit Capital research, Company

Exhibit 292: Top 10 performers on our parameters related to policies checks


Source: SES, Ambit Capital research, Company

For certain principles such as P1, P3, P5 & P8, high rate of compliance was observed with respect to policy formulation. Higher positive responses on these principles viz. Principle 1 (Ethics), Principle 3 (Employees), Principle 5 (Human Rights) and Principle 8 (Growth and equitable development) can be attributed to the fact that some of these policies flow from various legal mandates in India and hence most companies have formal policies to comply with the law on these principles.

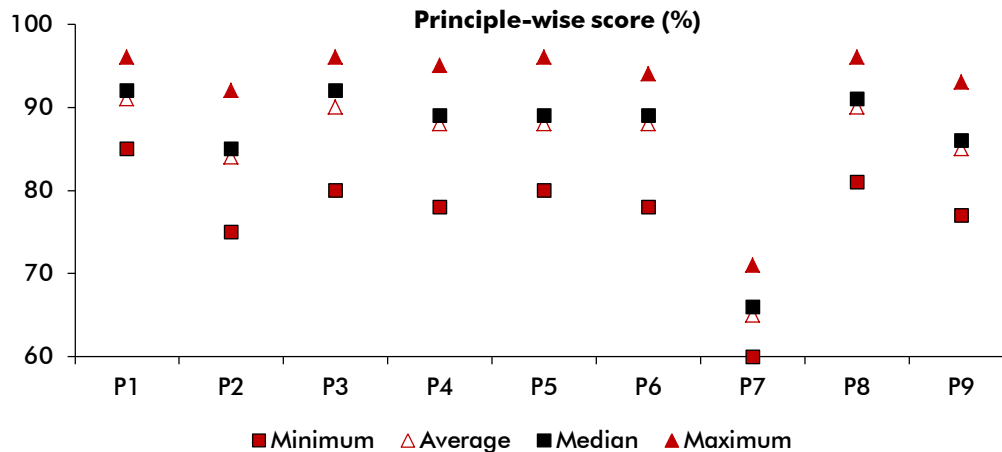
Exhibit 293: SEBI mandated nine business responsibility principles

P1: Ethics, transparency and accountability	P2: Safe goods and services that contribute to sustainability	P3: Employee well-being
P4: Protect disadvantaged, vulnerable and marginalized stakeholders	P5: Promote human rights	P6: Environment restoration
P7: Responsible influence on public/regulatory policy, if any	P8: Inclusive growth and equitable development	P9: Customer value

Source: SES, Ambit Capital research, Company

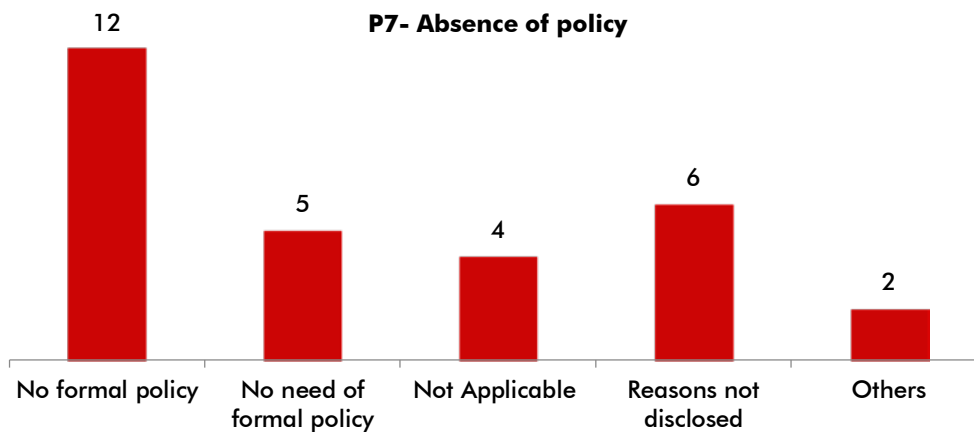
Among the nine principles, least number of sample companies responded positively for disclosures on Principle 7 (i.e. Public Advocacy). 29 companies do not have policy on Principle 7, out of which, 7 belong to the pharma sector. One of the recurring reasons for not framing a policy on principle 7 is that there is no specific/formal policy on public advocacy, however, companies have stated that they indirectly covered aspects of principle 7 under other policies or in their practices.

Exhibit 294: Most companies do well on all parameters (ex of P7) which is related to responsible influence on public/regulatory policies



Source: SES, Ambit Capital research, Company

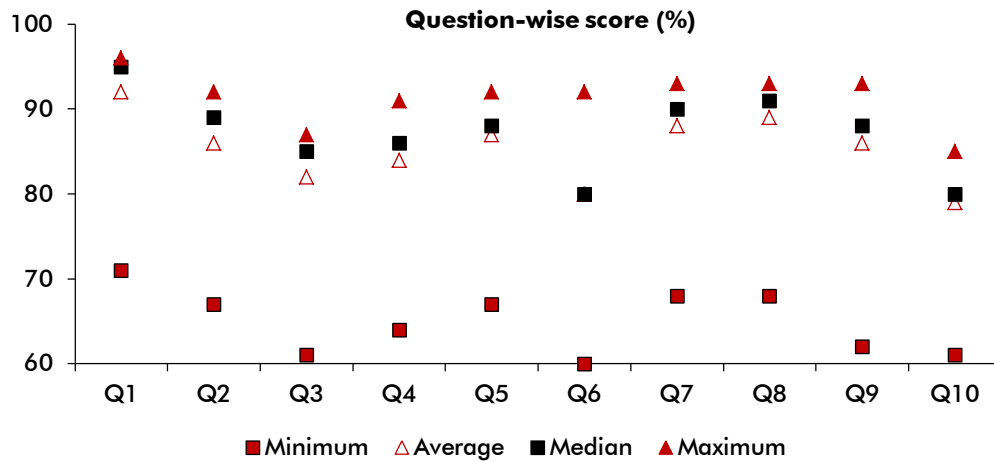
Exhibit 295: 29 companies do not have a policy on P7, i.e. responsible influence on public



Source: SES, Ambit Capital research, Company

Most sample companies responded in the affirmative to the question if they had formulated a policy on the principles of BR. However, for other questions such as if the policy conforms to national or international standard (Q3), sample companies on median basis scored 85. Similarly, for the question whether the company carried out independent audit/evaluation of the working of this policy by an internal or external agency (Q10), sample companies on median basis scored marginally lower because it is not mandatory yet and on voluntary basis it might appear to be an avoidable cost. All the minimum scores are relating to P7 (advocacy).

Exhibit 296: Companies score better on questions related to presence of policy; but questions that require more active measures like Q10 see weaker performance



Source: SES, Ambit Capital research, Company

Exhibit 297: Weak performance is observed for P7 (advocacy) for all questions

Questions		Principles (% disclosure by companies)								
		P1	P2	P3	P4	P5	P6	P7	P8	P9
Q1	Do you have a policy/ policies for principle?	96	92	96	95	96	94	71	96	93
Q2	Has the policy been formulated in consultation with the relevant stakeholders?	90	85	92	89	89	90	67	90	85
Q3	Does the policy conform to any national / international standards? If yes, specify (50 words).	86	81	87	84	85	87	61	86	82
Q4	Has the policy been approved by the Board? If yes, has it been signed by the MD / owner / CEO / appropriate Board Director?	91	82	86	90	86	89	64	90	82
Q5	Does the Company have a specified committee of the Board / Director / Official to oversee the implementation of the policy?	92	86	92	88	89	88	67	92	86
Q6	Indicate the link for the policy to be viewed online	92	75	80	82	85	78	60	92	77
Q7	Has the policy been formally communicated to all relevant internal and external stakeholders?	93	86	93	90	90	91	68	93	88
Q8	Does the Company have an in-house structure to implement the policy / policies?	93	89	92	92	91	91	68	93	90
Q9	Does the Company have a grievance redressal mechanism related to the policy / policies to address stakeholders' grievances related to the policy / policies?	93	84	92	88	90	86	62	86	91
Q10	Has the Company carried out independent audit / evaluation of the working of this policy by an internal or external agency?	85	77	85	78	80	83	61	81	80

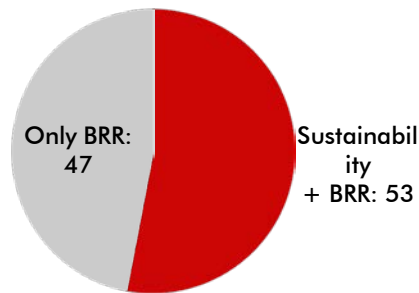
Source: SES, Ambit Capital research, Company

More companies might start adopting global standards

In February, 2017 SEBI had advised that Integrated Reporting may be adopted on a voluntary basis from FY18 by top 500 companies which are required to prepare BRR. 53 companies in the sample published Sustainability Reports in FY20. In Sustainability Reports, 40 companies provided references to Global Reporting Initiatives (GRI) and 36 companies provided references to International Integrated Reporting Council – IR Framework. Additionally, 47 companies mentioned about Sustainability Development Goals (SDGs) and 14 companies provided references to Task Force on Climate-Related Financial Disclosures (TCFD).

Exhibit 298: Only 53 companies in FY20 published sustainability reports comparable to global standards

Sustainability reporting in India

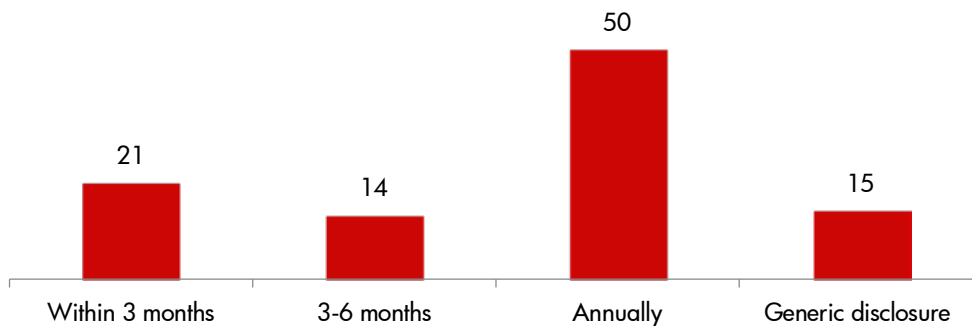


Source: SES, Ambit Capital research, Company

The law also mandates that companies disclose the frequency at which they evaluate implementation of BR policies. 85 companies from the sample have specified the period in which they assess the BR performance with 50% of the sample companies meeting annually.

Exhibit 300: Most companies review their BR policies and initiatives annually; 15 companies do not make specific disclosures on frequency of review

Frequency of review

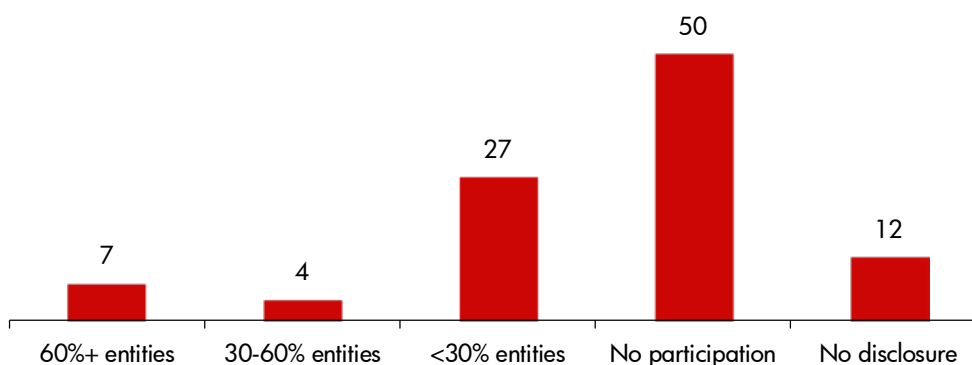


Source: SES, Ambit Capital research, Company

Only 38 companies disclosed that other entity/entities (e.g. suppliers, distributors etc.) participate in the BR initiatives of the company, of which only 7 companies mentioned that more than 60% other entities participate in their BR initiatives. 50 companies have disclosed that there is no participation (though they encourage to participate in the company's initiatives).

Exhibit 301: 50 sample companies didn't have participation from their business associates in their BR initiatives

Business associate participation



Source: SES, Ambit Capital research, Company

Case study - M&M's ESG narrative

M&M is an ESG-positive company with a score of 79 out of 100 on our framework. The firm has been publishing GRI compliant (Global Reporting Initiatives) Sustainability Report since 2007-08 and has been conducting ESG concall with analysts and investors. The firm seems committed to its initiatives and projects on environment, especially related to air emissions and energy usage – Clean Development Mechanism (CDM) project, Science Based Target (SBT) and commitment to becoming carbon neutral by 2040. On the social front, its relationship with the workforce seems satisfactory and well-managed. The firm gets some penalties on our framework due to product recalls and high consumer complaints. On governance parameters, the firm performs very well. Its board is diverse and follows all SEBI guidelines, though it could do better on the independent directors' front.

Exhibit 302: M&M scores well on most of our E/S/G parameters; good performance is noticeable particularly on environment and social factors where most companies lag

Parameter	Sub- parameter	Performance
Environment- score 75	General disclosure	😊
	Products /Service disclosures	😊
	Energy consumption	😊
	Renewable energy	😊
	Air emissions	😊
	Water consumption	😊
	Effluents & waste management	😞
	Environmental incidents	😊
Social- score 76	Workforce	😊
	Health & safety	😊
	Relation with communities	😊
	Product safety & customer orientation	😞
	Cyber security	😊
Governance- score 82	Board composition	😊
	Board committees	😊
	Director's remuneration	😊
	Statutory auditors	😊
	Audit & financial reporting	😊
	Stakeholders engagement	😊
	Others	😊

Source: SES, Ambit Capital research, Company

M&M stands out on 'E'

Mahindra & Mahindra has made disclosures and adopted environment-related projects/policies in line with international standards. The company has signed EP100 and has adopted Science Based Targets (SBT). It has appropriate certifications for its plants like ISO 14001: 2015, and is implementing ISO 50001. While the company has improved vs FY19 in terms of total consumption of energy or water and emissions of air/GHG, intensity of air/energy/water has increased. The ambitious target of increasing use of renewable energy in the energy mix of the company to 15% by FY22 seems aggressive the figure now stands at a mere 4%. On waste/effluent management, the firm has scope to improve. It doesn't have a policy on waste/effluent management and its discharge/emissions have only increased in the last few years. No disclosures have been made on waste/effluent intensity. The firm should better manage external environmental risks like transition to BS-VI as these pose a serious threat to its operations.

Exhibit 303: M&M does well on our environment parameters, typically on parameters which matter to it the most, like emissions

Categories	Weightage	Weighted scores	As % of 'E' scores
General Disclosures	7%	7	10%
Product or Services Related Disclosure	14%	11	14%
Energy Consumption	14%	10	14%
Usage of Renewable Energy	7%	7	10%
Air Emissions	21%	15	21%
Water Consumption	7%	6	8%
Effluents & Waste Management	14%	6	9%
Environmental Incidents	15%	11	15%
Total	100%	75	100%

Source: SES, Ambit Capital research, Company

There is strong appreciation of environmental risks

M&M has various policies and initiatives related to environment protection. Most importantly, the company has provided enough disclosures. For instance, while the company claims to have environment management systems in place, it also explains the various certifications obtained w.r.t. these systems.

Exhibit 304: Mahindra has made appropriate disclosures on policies related to environment and has committed to international initiatives for environment protection/management

Disclosure	Yes/No	Note
Environment Policy	✓	Approved by board and communicated to all stakeholders
Environment Policy - Extends to stakeholders	✓	Subsidiaries/Joint Ventures have their own policies which are in sync with the Company's environmental policies
Environmental Management System	✓	Certification obtained (ISO 45001: 2018 and recertification of ISO 14001: 2015); all plants are under way implementing Integrated Management System (IMS), along with adopting the updated standard ISO 45001:2018
Energy Management System	✓	Certification obtained (ISO 50001); also, signed a program EP-100 through which it is committed to double its energy productivity by 2030
Environmental Programmes	✓	Disclosed; e.g. green supply chain management policy, EP100 Cooling Challenge Mahindra Group recognized in the Limca Book of Records for the India Record of "Most trees planted"
Environmental Performance measurement	✓	Sustainability report contains detailed disclosures on all the major environmental criteria (emissions, energy, waste as well as water) with division wise break-up and justification for increase in consumption/emissions, if applicable
Strategies/initiatives to address global environmental issues	✓	Committed to Science Based Target (SBT) to restrict average global temperature rise to 2 degrees Celsius in alignment of Paris Climate Change Agreement; M&M group is committed to become Carbon Neutral by 2040
Environmental risks identification	✓	Identified for air, water, energy as well as waste management/usage; the sustainability report is assured by KPMG at present
Mitigation measures adopted for material environment risks	✓	Signatory to various initiatives, adopted programs to reduce emissions and consumption (air, water, energy, waste)
Clean Development Mechanism project	✓	PoA 9731: Energy Efficiency through Micro irrigation system – India. The Registered Program of Activities (PoA) aims at encouraging energy efficiency through installation of efficient irrigation system resulting in GHG (Green House Gas) Emission reduction & Water Conservation.
Disclosure on Bio-Diversity	✓	Signatory for India Business Biodiversity Initiative (IBBI)

Source: SES, Ambit Capital research, Company

Disclosures suggest enough steps to ensure product/safety quality

Barring disclosure of preferential procurement policy, M&M has made all disclosures related to sustainable sourcing, life cycle assessment and product packaging. The company had to recall one of its vehicles in FY20 due to a technical issue.

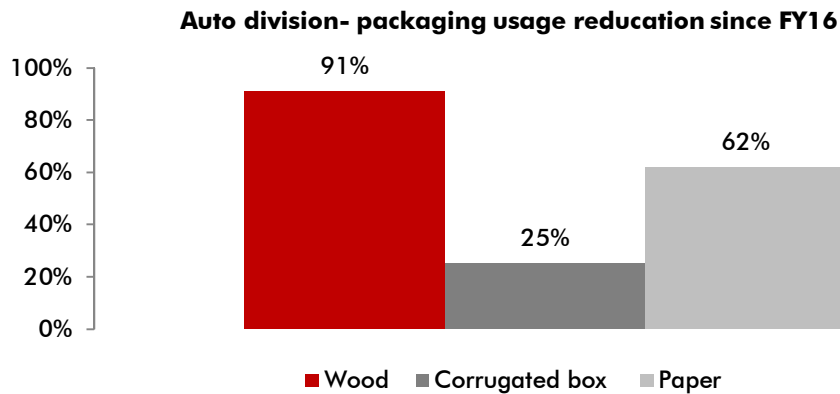
Mahindra has made appropriate disclosures on product/service, sustainable sourcing, product life cycle and packaging.

Exhibit 305: Product/ service quality disclosures are good for M&M

Disclosure	Yes/No	Note
Environmental impact on product/services		
3 key products /services	✓	Passenger vehicles (UV/MPV/Cars), light commercial vehicles and tractors
Products or services not banned/recalled in any markets	✓	-
3 products or services whose design has incorporated social or environmental concerns	✓	Disclosed
For each such product/services, has the company provided specific details and is there a reduction in respect of resource used in the sourcing/production/distribution that has been achieved	x	Company has stated that "Due to constant innovations and focus on fuel efficiency, there would be a reduction of energy use by consumers. However, tracking of such reduction is not possible as it is highly dependent on individual customers' driving habits."
Sourcing of material consumed		
Sustainable sourcing- procedures, proportion and steps taken	✓	One sourcing initiative; green supply chain management policy and a supplier code of conduct and initiatives such as Supplier Business Capability Building (SBCB), Mahindra Supplier Evaluation Standard (MSES), Mass Manufacturing Approval (MMA) & Supply Risk Mitigation & Management (SRMM).
Procurement of goods and services from /local & small producers and improvement in their capacity	✓	Engagement with suppliers is ensured through supplier meets, business reviews, multiple training sessions & two-way interactive M-SETU Platform
Improvement in the capacity and capability of local and small vendors	✓	Almost entire sourcing work is done from the country with a very small percentage of input being procured from overseas
Recycled or reused input material to total raw material (by value) used in production	x	No disclosure on %
Steps taken to ensure that everyone connected with its designers, producers, value chain members, customers and recyclers are aware of their responsibilities	✓	Yes
Company has derived benefits like product improvement, cost reduction, product development or import substitution by technology absorption	✓	Yes
Preferential procurement policy where given preference to purchase from suppliers comprising marginal/vulnerable groups	x	N/A
Product life sustainability		
Product life sustainability (policy)	✓	Follow the End-of-Life of Vehicles (ELV) Directive for the European M1 and N1 products as part of the compliance
Life Cycle Assessment of its products conducted and communicated to public domain	✓	M&M has stated that "Mahindra's perspective on the entire life cycle of products and services helps us create products which have less impact on people and the planet - right from input materials, designs, transportation, manufacturing and consumption to the end-of-life of the product."
Life Cycle Assessment (LCA) performed by independent external agency	✓	The vehicles are exported and certified as per European Emission Compliance (EEC) Directive 2005/64/EC
LCA study conducted in compliance with any national or international Standard	✓	Yes
Reclaimed products and product packaging		
Usage of reclaimed products & their packaging material or renewable materials in packaging- more than 50%	x	Moved from wooden and cardboard-based packaging to returnable packaging, making Igatpuri AD plant, the first zero wood disposal plant in M&M
Usage of any harmful component as part of its packaging material like PVC- disclosed & not used	NA	No information available
Company's packaging is recyclable	✓	Yes
Other recycling initiatives	✓	Participated in a committee formed by Society of Indian Automotive Manufacturers (SIAM) to frame processes and procedures for Product Recycling in India and initiated well documented processes to ensure compliance with EU recycling Directive 2005/64/EC which is now implemented for vehicles exported to European Union

Source: SES, Ambit Capital research, Company

Exhibit 306: M&M has taken initiatives to promote recycling and reduced usage of waste generating packaging



Source: SES, Ambit Capital research, Company

Good disclosure on energy consumption; energy intensity has increased in last two years

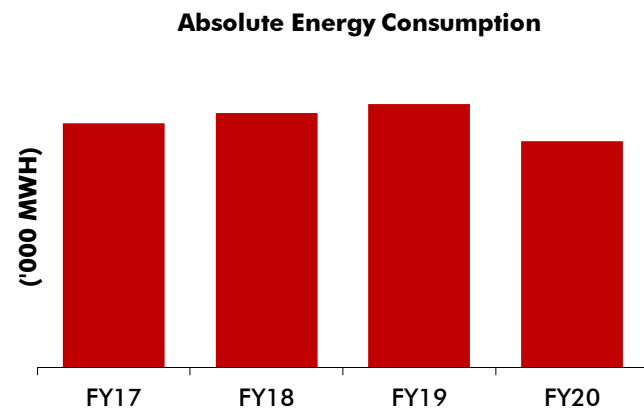
M&M's energy conservation interventions are focussed on two approaches - enhancing the energy productivity of its processes and increasing the use of energy generated through renewable sources. Its energy management policy has clearly defined targets in line with the SBT emission reduction roadmap. The firm also made capital investment in energy conservation equipment last year. However, while absolute energy consumption of the firm decreased by 14% last year, its energy intensity increased due to auto, farm, spares unit and research (see the exhibit below on energy intensity). This trend is also seen in other auto sector companies.

Exhibit 307: Mahindra has ambitious targets for energy conservation and has made capital investment for the same

Parameters	Yes/No
Policy – disclosed	✓
Target – set	✓
Data on capital investment on energy conservation equipment - disclosed	✓
Policy – objective policy disclosed	✓
Target performance – achievement	✓
Capital investment on energy conservation equipment - increased compared to last year	✓
Total Energy Consumption	
Total energy consumption for last financial year – disclosed	✓
Total energy consumption reduced in last 1 year	✓
Total energy consumption reduced for any 2 years (in last 3 years)	x
Energy Intensity	
Energy intensity for last financial year - disclosed	✓
Energy intensity reduced in last 1 year	x
Energy intensity reduced for any 2 years (in last 3 years)	x
Disclosure on Initiatives	
Steps taken for energy conservation for last financial year	✓
Steps taken for energy conservation any 2 years (in last 3 years)	✓
Steps taken for energy conservation last 3 years.	✓

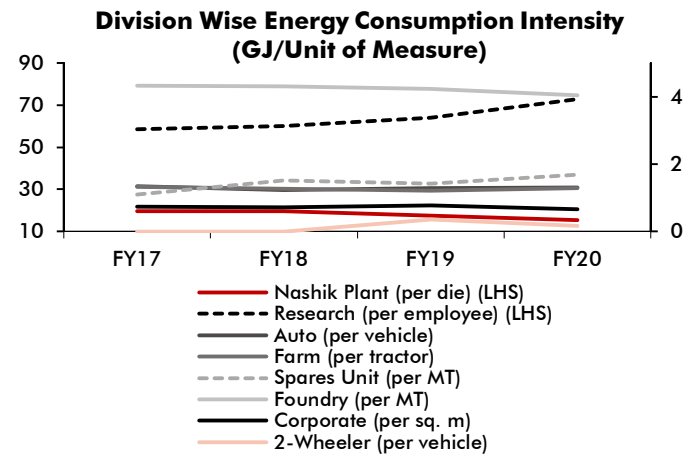
Source: SES, Ambit Capital research, Company

Exhibit 308: Absolute energy consumption decreased by 14% for M&M in FY20...



Source: SES, Ambit Capital research, Company

Exhibit 309: ...but most measures of energy intensity show an increase for FY20



Source: SES, Ambit Capital research, Company

Active policy measures, but share of renewable energy in total energy mix is insignificant

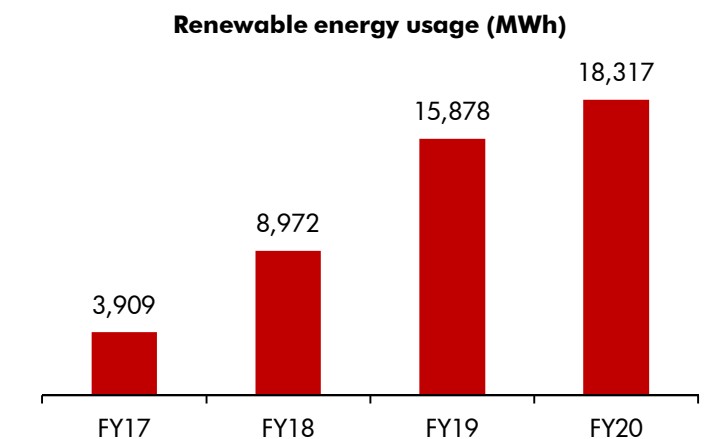
M&M is among the first in the world to have signed the EP100 Cooling Challenge and targets increasing the share of renewable energy to ~15% by FY22. Renewable energy consumption increased by 16% last year. In total though, use of renewable energy in the total energy mix increased from 2% in FY18 to 3% in FY19 to 4% in FY20. The firm will have to take aggressive steps to increase the usage of renewable energy in FY21-22 to meet its set target of 15%.

Exhibit 310: M&M targets to increase share of renewable energy to 15% by FY22, but as of FY20 this was only 4%

Parameters	Yes/No
Policy related to renewable energy - disclosed	✓
Renewable energy consumption	
Renewable energy consumption /% consumption disclosed for last financial year	✓
Renewable energy consumption /% consumption increased in last 1 year	✓
Renewable energy consumption /% consumption increased for any 2 years (in last 3 years)	✓
Target and performance	
Target – set	✓
Target Performance – achievement	✓
Specific steps taken relating to renewable energy for last financial year - disclosed	✓
Specific steps taken relating to renewable energy for any 2 years (in last 3 years) - disclosed	✓

Source: SES, Ambit Capital research, Company

Exhibit 311: M&M's renewable energy consumption increased by 15% in FY20



Source: SES, Ambit Capital research, Company

M&M has set the road to carbon neutrality by 2040

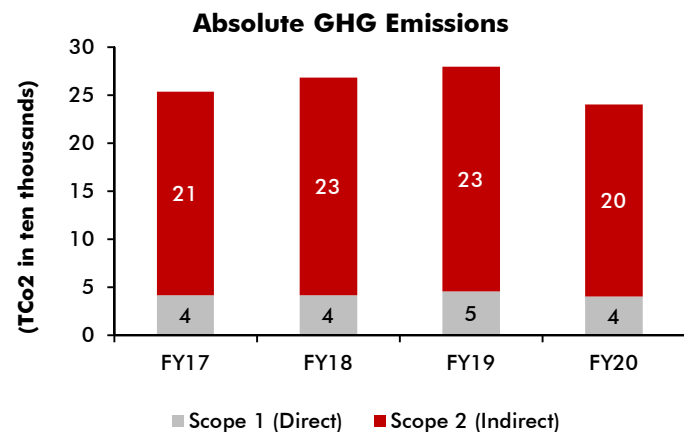
M&M doesn't have a policy on carbon/GHG emissions but has the ambitious target to become carbon neutral by 2040. The company has made disclosures on not just GHG, but also other pollutants like Sulphur Oxides (SOx) and Nitrogen Oxides (NOx) in line with revised National Ambient Air Quality Standards (NAAQS 2009). All emissions were within CPCB/SPCB limits for the last 3 years. Its Igatpuri plant is certified carbon neutral and is India's first manufacturing plant certified by Bureau Veritas. Overall, GHG emissions (Scope 1 & 2) decreased by 5.39% since FY17 and decreased by 14.17% last year. Carbon/GHG intensity, however, increased at some locations in the last 2 years.

Exhibit 312: M&M doesn't have a policy for emissions but has set specific targets; it has undertaken steps to become carbon neutral by 2040

Parameters	Yes/No
Policy on Carbon /GHG emissions - disclosed	x
Carbon/GHG emissions	
Total Carbon /GHG emissions disclosed for last year	✓
Total Carbon /GHG emissions reduced in last 1 year	✓
Total Carbon /GHG emissions reduced for any 2 years (in last 3 years)	x
Carbon/GHG emission intensity	
Carbon /GHG emissions intensity disclosed for last year	✓
Carbon /GHG emissions intensity reduced in last 1 year	x
Carbon /GHG emissions intensity reduced for any 2 years (in last 3 years).	x
Targets and performance	
Target set - to reduce GHG emissions	✓
Emissions are within limits prescribed by CPCB/SPCB for last 3 years	✓
No pending show-cause notices by CPCB/SPCB in last 3 years (relating to emissions)	✓
Steps or initiatives disclosed to reduce GHG emissions in last 1 year	✓
Steps or initiatives disclosed to reduce GHG emissions for any 2 years (in last 3 years)	✓
Steps or initiatives disclosed to reduce various other emissions in last 1 year	✓
Steps or initiatives disclosed to reduce various other emissions for any 2 years (in last 3 years)	✓
Target performance to reduce GHG emissions – achievement	✓

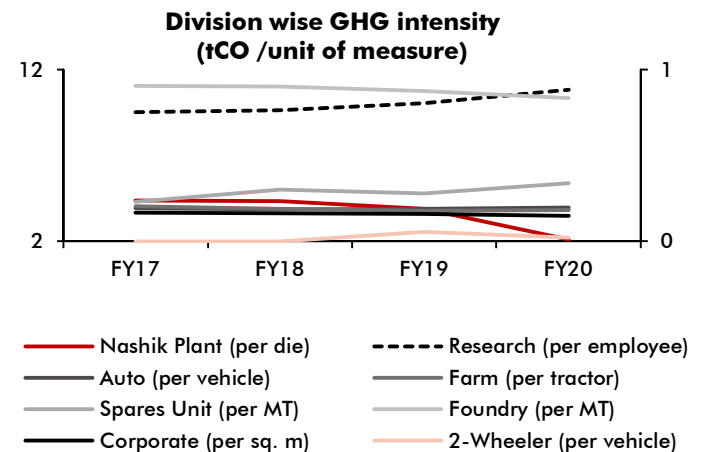
Source: SES, Ambit Capital research, Company

Exhibit 313: M&M reduced its GHG emissions by 5% since FY17...



Source: SES, Ambit Capital research, Company

Exhibit 314: ...but M&M's emission intensity has increased due to auto, farm, spare units and research in FY20



Source: SES, Ambit Capital research, Company

Has realised the importance of judicious use of water

M&M has been water positive since FY14 through its comprehensive 360° water management programme – H2Infinity. The company reduced its water consumption by 14% last year but its water intensity increased slightly. Water recharge increased from 0.12 million m3 in FY19 to 0.64 million m3 in FY20. The firm implemented ground water recharge projects at 2 more locations in FY20 (8 out of 22 locations). Igatpuri plant of M&M Ltd.'s AD achieved 243 days of operations without any supply from external sources. The plant used sustainable water conservation methods to reduce water stress in the region.

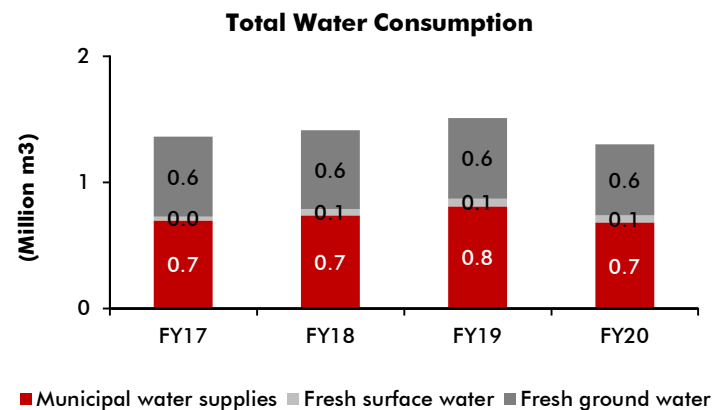
It has the target of limiting net freshwater consumption to 1.37 million m3 for FY20. It has achieved the target at 0.66 million m3 in FY20.

Exhibit 315: M&M has been water positive since FY14 and has taken initiatives to recycle and reuse water, besides focusing on reducing freshwater usage

Parameters	Yes/No
Water Consumption	
Total Water Consumption disclosed for last year	✓
Total Water Consumption reduced in last 1 year	✓
% water consumed from recycled & harvested sources – Increased in last year	✓
% water consumed from recycled & harvested sources – Increased in any 2 years (in last 3 years).	✓
Water intensity	
Total Water Intensity disclosed for last year	✓
Total Water Intensity reduced in last 1 year	✗
Target and performance	
Target - Set	✓
Target Performance – Achievement	✓
Disclosures	
Water Policy – There is a Water Policy	✓
Water Policy - Disclosed	✓
Disclosure relating to water harvesting, treatment or re-use of water consumed	✓
Data relating to amount of water re-used – Specific details provided	✓

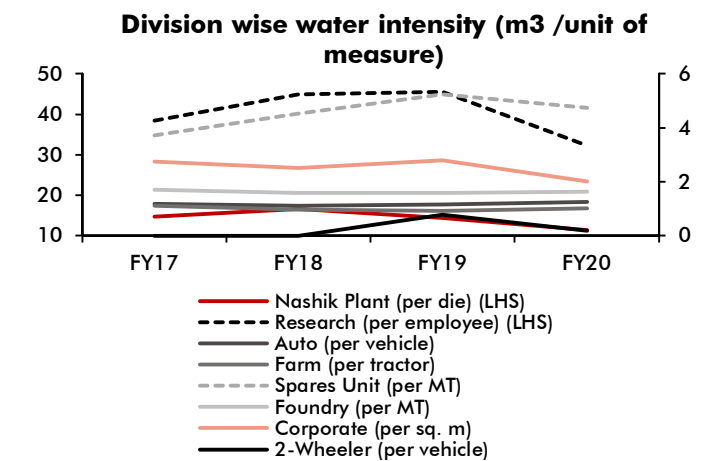
Source: SES, Ambit Capital research, Company

Exhibit 316: M&M reduced its total water consumption by 14% and freshwater consumption by 53% in FY20



Source: SES, Ambit Capital research, Company

Exhibit 317: M&M's water intensity increased for auto, farm and foundry in FY20



Source: SES, Ambit Capital research, Company

Waste management does have some scope for improvement

M&M doesn't have a waste/effluent management policy. The company has, however, made disclosures on its types of waste and waste discharges which are within CPCB/SPCB limits. No disclosures have been made on waste and effluent intensity. Note that the total solid waste and effluent emissions have increased for the firm in FY20. But M&M mentioned that more than 50% of the total waste is diverted from disposal and 14 locations across M&M are certified as ZWL (Zero Waste to Landfill).

Exhibit 318: M&M doesn't have a policy on effluents and but its effluents emissions remains within CPCB/SPCB limits

Parameters	Yes/No
Policy on waste water /effluents - disclosed	✗
Objective policy on waste water /effluents	NA
Effluents generated are within limits prescribed by CPCB/SPCB for last 3 years	✓
No pending show-cause notices by CPCB/SPCB in last 3 years (relating to Effluents)	✓
Disclosure on effluent emissions	✓
Reduction in effluent emissions	✗
Disclosure on effluent emissions intensity	✗
Reduction in effluent emissions intensity	NA
More than 50% of effluents treated before release	NA
Steps or initiatives disclosed to reduce effluents in last 3 years	✓
Target set - to reduce effluents	✗
Target performance to reduce effluents – achievement	NA

Source: SES, Ambit Capital research, Company

Exhibit 319: M&M doesn't have a waste management policy but its discharge has been within CPCB/SPCB limits

Parameters	Yes/No
Policy on waste management - disclosed	✗
Objective policy on waste management	NA
Waste generated are within limits prescribed by CPCB/SPCB for last 3 years	✓
No pending show-cause notices by CPCB/SPCB in last 3 years (relating to waste)	✓
Disclosure on total solid wastes (hazardous + non-hazardous)	✓
Reduction in solid wastes (hazardous + non-hazardous)	✗
Disclosure on total solid wastes Intensity (hazardous + non-hazardous)	✗
Reduction in solid wastes intensity (hazardous + non-hazardous)	NA
More than 50% of waste diverted from disposal out of total waste generated	✓
Steps disclosed to reduce solid wastes (hazardous /non-hazardous) in last 3 years	✓
Target set - to reduce waste /increase reuse/recycle etc	✓
Target performance to reduce waste /increase reuse/recycle etc – Achievement	✓

Source: SES, Ambit Capital research, Company

Exhibit 320: M&M's waste management initiatives

Initiative	Detail
Plastic collection drive at M&M Ltd	2,232 kg of plastic collected was handed over to Shakti Plastics, a government certified waste management company
Waste management at Mahindra Kabira Festival in November 2019	Out of a total of 646 kg of waste, 569 kg or 88% was recycled, composted, and sent to a biogas plant for conversion into energy or to a Kulhad crushing unit
Reduction in paper use	Reduction by 49% from F16 to F20 at Swaraj Division
Reduction in hazardous waste	Reduction by 35% from 110 tons in F19 to 72 tons in F20 at Rudrapur FES
Waste management at Mahindra Blues Festival in February 2020	Out of a total of 3,089 kg of waste,, 2,921 kg or 95% was sent for recycling, composting, reusing, or for co-processing in cement plants

Source: SES, Ambit Capital research, Company

COVID-19 made the transition to BS-VI a bit challenging

There were no incidents that had an impact on environment or consumers in the last 3 years. The firm didn't have to pay any fines/charges on account of non-compliance of environmental laws/regulations either. However, the transition from BS-IV to BS-VI was challenging, especially considering the market situation amid COVID-19.

Exhibit 321: The transition from BS-IV to BS-VI proved challenging for the not just the firm but the industry, especially considering the extraordinary circumstances due to COVID-19

Disclosure	Yes/No	Note
No incident relating to environmental pollution or regulatory action in last 3 years	✗	Company's products (viz. vehicles) directly leads to high amount of carbon emissions; Transition from BS-IV to BS-VI had direct impact on the business operations/functioning of the Company- there were increase in vehicle prices due meeting safety and emission norms
No incident relating to environmental or health impact on the consumers in last 3 years	✓	N/A
No significant fines and non-monetary sanctions for non-compliance with environmental laws and/or regulations	✓	N/A

Source: SES, Ambit Capital research, Company

There could be some scope of improvement on social

M&M maintains a healthy workforce and community relationship. The firm undertakes regular health and safety measures for the workforce as well as regular skill upgradation despite COVID-19 led challenges. The firm also faced issues due to mounting customer complaints, with 1/3rd of cumulative cases since 2009 pending as of FY20! On a positive note, M&M continues to maintain a healthy relationship with the community with its CSR spend exceeding the prescribed amount for past 3 financial years. It also ensures a healthy working environment for the workforce and hasn't seen any fatalities in the past 3 years.

Exhibit 322: M&M does well on social parameters related to its workforce and local community but could improve on parameters relating to external stakeholders like customers

Categories	Weightage	Weighted scores	As % of 'S' scores
Workforce	38%	27	36%
Health & safety	20%	17	22%
Relationship with local communities	24%	23	29%
Product safety & customer orientation	11%	6	7%
Cyber security	7%	4	5%
Total	100%	77	100%

Source: SES, Ambit Capital research, Company

Scope to improve on workforce composition

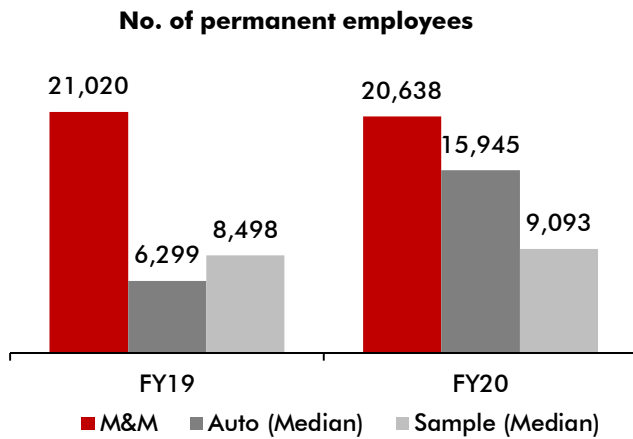
M&M (UNGC Principles on Human Rights compliant) is an equal opportunity employer and hasn't received any complaints on grounds of discrimination, human rights violation or child/forced labour. However, the firm has high male attrition rate and the firm hasn't made any comments for the same in its AR or sustainability report. In FY20, 3.6% of M&M's workforce consisted of women employees. While this figure is lower than the median for the top 100 companies (7%), it is still better than the auto sector median (3%). Percentage of employees trained (in each category, with the lowest training % in temporary/casual workers) has also fallen in FY20. This could be due to COVID-led challenges.

Exhibit 323: M&M's workforce had fewer women in FY20 compared with FY19

Parameter	Yes/No
Break-up of workforce (gender, age, disability etc) - disclosed	✓
% of permanent women employees increased last 1 year	✗
Equal opportunity employer - statement disclosed	✓
Women Employees > 10% of total workforce	✗
Employee attrition rate /employee turnover ratio - disclosed	✓
Child /forced /involuntary labour - no complaints	✓
Discriminatory employment - no complaints	✓
Disclosed % of training given to employees on safety & skill upgradation	✓
Average hours of training per employee - disclosed	✓
Wage settlement in last 3 years - no dispute	✓
Strikes in last 3 years – none	✓
Policy on Human Rights – disclosed	✓
Complaints relating to Human Rights - disclosed	✓
Complaints relating to Human Rights – no complaints	✓

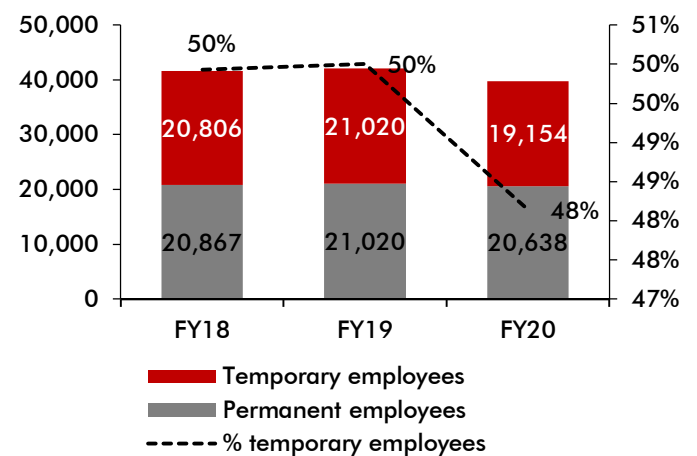
Source: SES, Ambit Capital research, Company

Exhibit 324: Total number of permanent employees in M&M is more than the sector as well as sample median



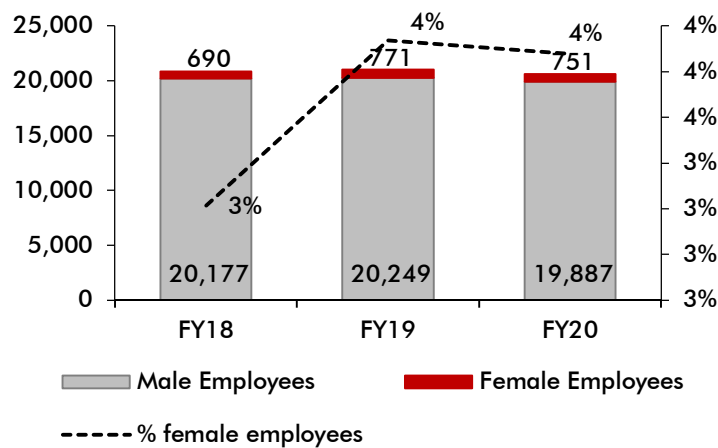
Source: SES, Ambit Capital research, Company

Exhibit 325: 48% of total employees in M&M were temporary/casual/contractual in FY20



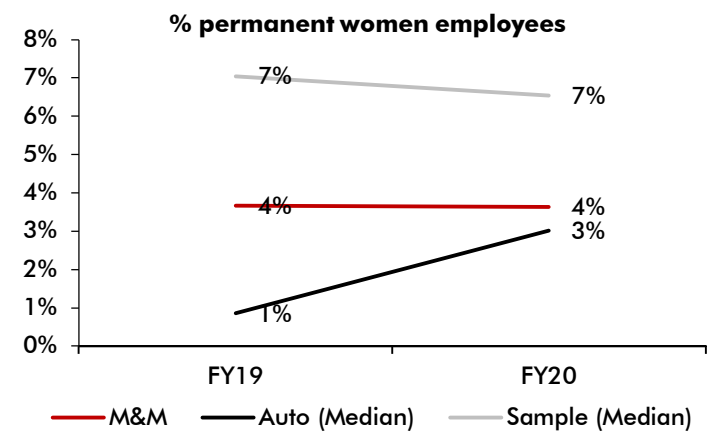
Source: SES, Ambit Capital research, Company

Exhibit 326: 3.6% employees in M&M in FY20 were women...



Source: SES, Ambit Capital research, Company

Exhibit 327: ...which is better than the % of permanent women employees to total employees in the auto sector, but not at par with the sample median, which is higher due to higher number of women employees in banks and IT



Source: SES, Ambit Capital research, Company

Exhibit 328: The number of disabled employees as a % of total employees is insignificant for M&M...

Particulars	FY18	FY19	FY20
No. of disabled employees	61	20	30
% of total employees	0.1%	0.0%	0.1%

Source: SES, Ambit Capital research, Company

Exhibit 329: ...but the numbers are similar to sector and sample median

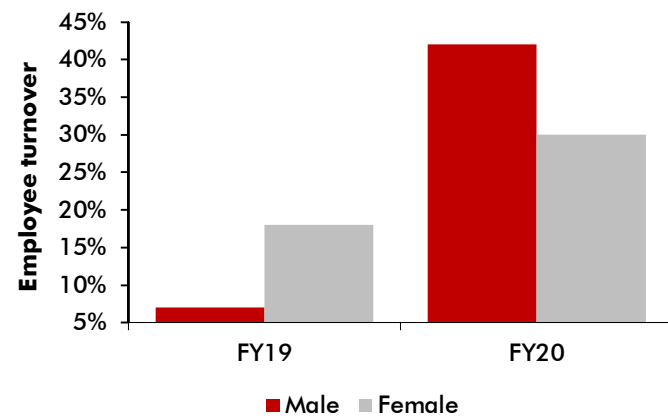
Permanent Employees with disabilities	FY20	%
M&M	30	0.1%
Auto (Median)	27	0.2%
Sample (Median)	15	0.1%

Source: SES, Ambit Capital research, Company

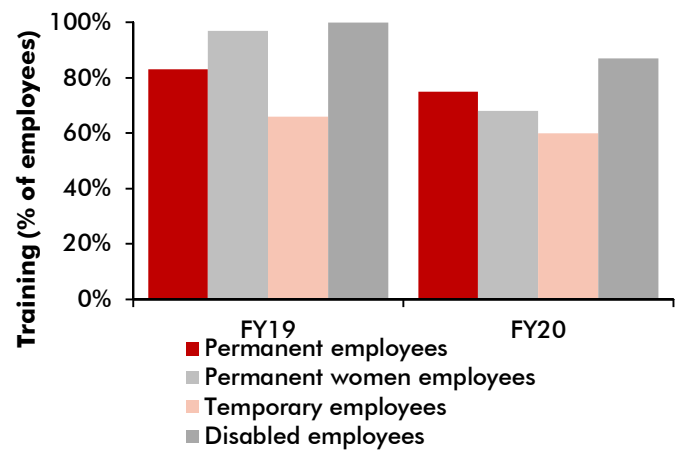
Exhibit 330: Mahindra has a proper mechanism in place to deal with complaints related to discriminatory employment, human rights, wage settlements, etc.

Particulars	Complaints received in last 3 years	Note
Child /forced /Involuntary labour	0	Adheres to UNGC Principles on Human Rights
Discriminatory Employment	0	Equal opportunity employer statement disclosed
Human Rights	0	Policy on human rights disclosed; Grievance Register has been kept at Time Office to raise concerns; adheres to UNGC Principles on Human Rights
Strikes in last 3 years	0	N/A
Wage settlement disputes	0	N/A

Source: SES, Ambit Capital research, Company

Exhibit 331: Male employee turnover ratio was high in FY20


Source: SES, Ambit Capital research, Company

Exhibit 332: Mahindra disclosed % of total employees who were trained and even gave a bifurcation in terms of their employment status and type


Source: SES, Ambit Capital research, Company

Health & safety measures are quite adequate at M&M

M&M pays extra attention to ensure safe and healthy working conditions for its workforce as all its units are OHSAS certified. As a result, it reported no fatalities in last 3 years and its Occupational Illness Frequency Rate (OIFR) was zero (at AD, FD, SD, SBU & MRV - locations). Hence, its lost time injury rate has fallen since FY18. The firm has not only disclosed its policy for POSH, but also undertaken initiatives to enhance the focus on both, physical and psychological safety at the workplace through events like Speak Up campaign.

Exhibit 333: Mahindra has appropriate policies in place and has launched initiatives like Speak Up campaign (for sexual harassment) to raise awareness about the stated policies

Disclosures	Yes/No	Note
Health/safety and fatalities		
Health & safety policy	✓	Disclosed
Health & Safety Management System (certification)	✓	All the units are OHSAS certified
Safety Trainings	✓	No fatalities and Occupational Illness Frequency Rate (OIFR) were 0 at AD, FD, SD, SBU & MRV - locations
Fatalities and injuries in last 1 year- none	✗	No fatalities in last year, but injuries did happen
Maternity leave	✓	26 week leave as per legal requirement; on adoption of child below the age of three, leave for 12 weeks
Sexual harassment at workplace		
Internal Committee on Sexual Harassment of Women	✓	Policy for Prevention of Sexual Harassment at workplace (POSH) disclosed
Sexual harassment Complaints in last 3 years	✗	2 complaints received in FY20
Training /Awareness on prevention of sexual harassment	✓	Policy for Prevention of Sexual Harassment at workplace (POSH) disclosed

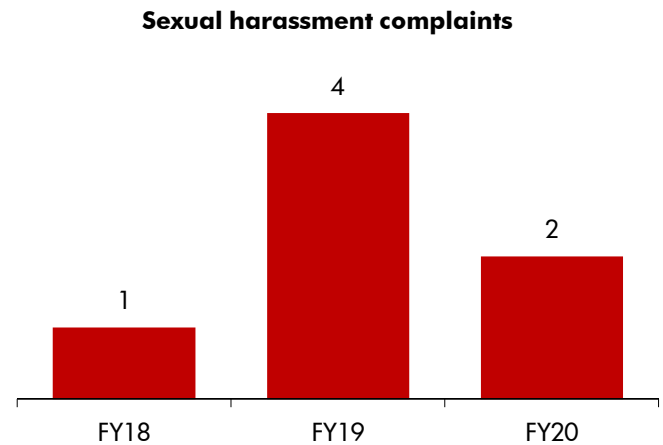
Source: SES, Ambit Capital research, Company

Exhibit 334: While there were no fatalities in FY20, the lost time injury rate (hours) increased for temporary employees



Source: SES, Ambit Capital research, Company

Exhibit 335: M&M disclosed 2 sexual harassment complaints in FY20



Source: SES, Ambit Capital research, Company

Committed to community initiatives

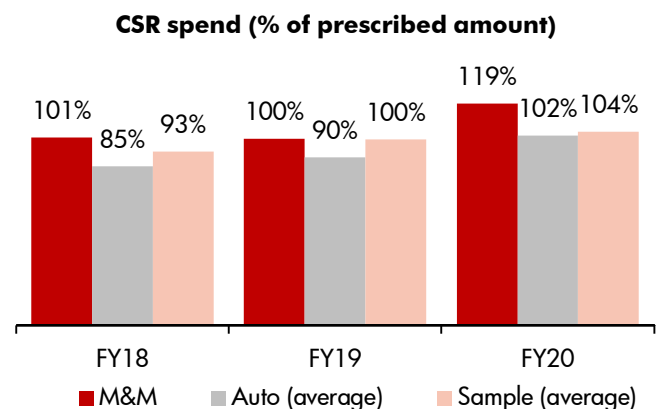
M&M has disclosed several projects and programmes through which it is supporting small/local vendors as well as contributing to development of the community it functions within. Under its Corporate Social Responsibility, M&M has been driving various projects across the country to uplift the marginalized and vulnerable community. Its CSR spend has been more than the prescribed amount in the past 3 years.

Exhibit 336: The company has made disclosures on initiatives to improve communities

Disclosures	Yes/No	Note
Community support and development		
Improvement of local/small vendors	✓	Efforts to design products and offerings to improve earning potential and encourage entrepreneurship amongst rural and semi-urban stakeholders
Mitigation of adverse effects on the local communities through operations of the Company	✓	N/A
Evaluation of community development initiatives	✓	Example: Integrated Watershed Management Project (IWMP)- implemented in 32 villages over 9,660 hectares of land and covering 4,219 households- benefiting 21,095 people
Corporate social responsibility (CSR)		
CSR spend – Compliant with statutory requirement	✓	For past 3 financial years, M&M has spent more than the prescribed CSR amount
Presence of programmes/initiatives/projects relating to CSR	✓	Several programs undertaken like The Integrated Watershed Management Project (IWMP)
Impact assessment of CSR initiative	✓	Example: 'Agroforestry Livelihood Generation Programme' at Araku Valley to generate lost green cover and generate livelihood opportunities for the tribal population
Lobbying and donations		
No political donations in last three financial years	×	Donations given to New Democratic Electoral Trust amounting to Rs. 23 crores

Source: SES, Ambit Capital research, Company

Exhibit 337: M&M spent more than the prescribed CSR amount in the last 3 years



Source: SES, Ambit Capital research, Company

Some issues under trade practices/anti-competitive behaviour

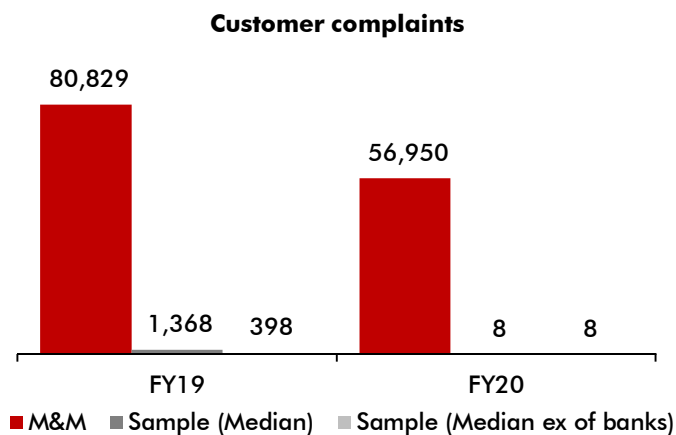
In FY20, it also had to recall one of its products due to some technical issues (XUV300). Also, the number of customer complaints is incredibly high for M&M compared with peers as well as the sample median. Almost 1/3rd of these complaints (cumulative since 2009) were pending as of FY20. Such factors pose serious threat to the efficient functioning of M&M's business operations.

Exhibit 338: Mahindra had one product recall in FY20

Disclosure	Yes/No	Note
Product quality and safety		
Quality Management System	✓	Certification obtained; Conducts assessment by external national and international experts- 'Mahindra Quality Way'
Policy on product /service quality	×	No policy formulated / disclosed
No product recall /ban	×	XUV300 vehicles recalled due to faulty suspension components
Customer orientation		
Customer satisfaction/survey	✓	Conducted and disclosed
Customer complaints- disclosures and pending complaints less than 5%	✓	Consumer complaints disclosed. In FY20, the number of complaints reduced but M&M receives higher complaints than the auto sector or sample median. 33% of cumulative cases since FY09 were pending in FY20.
No case of unfair trade practices, irresponsible advertising and/or anti-competitive behaviour	×	2014: CCI passed order against M&M imposing a penalty of Rs292cr relating to a complaint about non-availability of spare parts in the open market (order by Delhi high court in 2019- challenged in Supreme court) 2020: A U.S. regulator ruled that M&M infringed upon the IP rights of Fiat Chrysler Automobiles NV's Jeep brand, barring the sale of Mahindra ROXOR

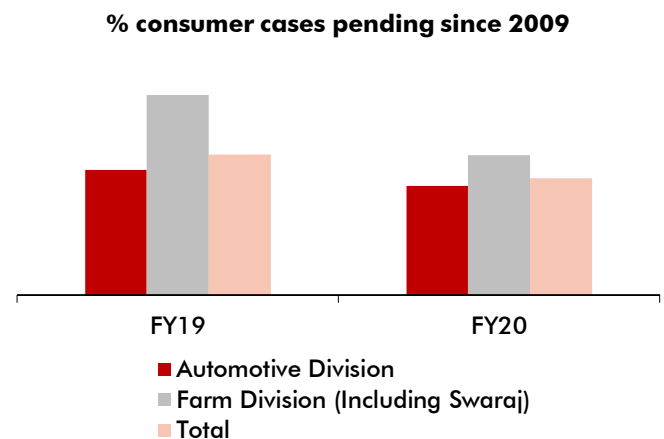
Source: SES, Ambit Capital research, Company

Exhibit 339: Consumer complaints in M&M are way above the sample median even excluding banks. The Company needs to clarify on higher complaints.



Source: SES, Ambit Capital research, Company

Exhibit 340: 33% of these total complaints are pending in FY20 (complaints cumulative since 2009)



Source: SES, Ambit Capital research, Company

Cyber security: Disclosures can improve

Though the firm has data/privacy policies in place, given the nature of operations, M&M hasn't made any disclosures on cyber security. However, considering the rising cases of data breaches across sectors, it is important for every company in every sector to make appropriate disclosures.

Exhibit 341: M&M has appropriate policies in place for cyber security but hasn't disclosed information on privacy breach

Disclosure	Yes/No
Risk Management function on Cyber Security	✓
Data Security /Privacy Policy	✓
Complaints relating to customer privacy breach- disclosed	×
No IT related incident	✓
Steps taken to ensures safe security system (IT security, firewalls, initiatives etc)	✓

Source: SES, Ambit Capital research, Company

Sets good governance standards

M&M's board of directors composition is fully compliant with SEBI guidelines and consists of experienced professionals. However, two of its independent directors come from the families of two directors who were rotated recently. Also, two other independent directors – Ms. Vishakha N. Desai - converted options granted to her under ESOPs scheme and Mr. Haigreave Khaitan- professional fees paid to Khaitan & Co., in which Mr. Haigreave Khaitan is a partner – are not exactly independent in our opinion. Hence, the percentage of independent directors may in fact be lower than the statutory requirement.

Exhibit 342: M&M does well on governance parameters

Categories	Weightage	Weighted scores	As % of 'G' scores
Board composition	20%	13	16%
Board committees	10%	8	10%
Directors' remuneration	12%	11	13%
Statutory auditors	8%	8	10%
Audit & financial reporting	25%	24	29%
Stakeholders engagement	15%	12	14%
Other governance factors	10%	7	9%
Total	100%	82	100%

Source: SES, Ambit Capital research, Company

Diverse board but are the independent directors really independent?

M&M's board is diverse and experienced and its directors are rotated periodically. However, two of its independent directors (Nisaba Godrej and Muthiah Murugappan) are from families of two independent directors who were rotated due to completion of tenure (Nadir Godrej and M.M. Murugappan). Inheriting position of IDs in the same family may not be indicative of good governance. Additionally, two of its independent directors, Ms. Vishakha N. Desai (converted options granted to her under ESOPs scheme) and Mr. Haigreave Khaitan (professional fees paid to Khaitan & Co., in which Mr. Haigreave Khaitan is a partner), might not necessarily be independent.

For Ms. Vishakha N. Desai, ESOPs were allotted before commencement of Companies Act 2013, exercise of which may be legally permissible and compliant. We believe such director(s) cannot be construed as independent.

Professional fees are paid to Khaitan & Co where Mr. Haigreave Khaitan (ID) is a partner. Even prior to him, Mr. R. K. Kulkarni (partner in M/s. Khaitan & Co) was serving on the board as an independent director. In both cases, the reason for payment of sitting fee/commission to Khaitan & Co. is unclear. Consideration is paid to the person who provides certain services. If remuneration of director is paid to his firm, then it appears that Mr. Haigreave Khaitan has provided services on behalf of his firm M/s. Khaitan & Co. and can't be considered independent in our opinion.

Exhibit 343: M&M's board is diverse and has good representation of women directors

Director	Age	Gender	Expertise	Classification		Tenure in years	Attendance for last year		Directorship			Key Committees					Pay (Rs.mn)
				Company	SES		Board	AGM	TD	PD	LD	AC	NRC	SRC	CSRC	RMC	
Executive directors																	
Anand G. Mahindra	66	M	INDT	ED (P)	ED (P)	31	6/6	Yes	8	3	2			M	M		87
Pawan Goenka	67	M	IEX	ED	ED	7 (27)	6/6	Yes	4	4	1			M	M	C	100
Anish Shah	52	M	MGT	ED	ED	0 (5)	NA	NA	5	5	5					M	NA
Rajesh Jejurikar	57	M	MGT	ED	ED	0 (20)	NA	NA	3	2	2					M	NA
Non-executive directors																	
Vijay Kumar Sharma	63	M	FIN	NED	NED	2	4/6	No	7	7	3						3
CP Gurnani	63	M	IT	NED	NED	0 (15)	NA	NA	3	2	2						NA
Independent directors																	
Haigreve Khaitan	51	M	LAW	ID	NID	1 (5)	4/4	NA	8	8	7	M	M	C		M	3
Vishakha N. Desai	72	F	MGT	ID	NID	8	4/6	No	1	1	1			M	C		5
Vikram Singh Mehta	69	M	ADM	ID	ID	8	6/6	Yes	8	7	6	M	C		M	M	5
T. N. Manoharan	65	M	FIN	ID	ID	4 (7)	6/6	Yes	2	2	2	C				M	5
Shikha Sharma	63	F	BNK	ID	ID	1	4/4	NA	5	5	5	M	M			M	3
Nisaba Godrej	43	F	MGT	ID	ID	0	NA	NA	6	5	4		M				NA
Muthiah Murugappan	38	M	MGT	ID	ID	0	NA	NA	2	1	1						NA

Source: SES, Ambit Capital research, Company;

Note: Directorship as on 31st December, 2020

Committees: AC - Audit, SRC - Stakeholders Relationship, RM - Risk Management, CSRC - Corporate Social Responsibility, NRC - Nomination and Remuneration.

Directors: C - Chairman, M - Member, P - Promoter, NP - Non-Promoter, W - Woman, ED - Executive, MD - Managing, NED - Non-Executive, ID - Independent, NID - Non-Independent, LID - Lead Independent, KMP - Key Managerial Personnel, WTD - Whole Time, N - Nominee. Others:

R - Liable to retire by rotation, LD - Listed Directorships, FT - Full Time positions, TD - Total Directorships, PD - Public directorship, ND - Not Disclosed, NA - Not Applicable, Listing Regulation - SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015, PEP - Politically Exposed Person;

Expertise: IEX-Industry Expert, FIN-Finance, MGT-Management, MKT-Marketing, HRM-Human Resource Management, BNK-Banking, INDT-Industrialist, LAW-Legal, ADN-Administration

Exhibit 344: Independent directors' proportion and board meeting and AGM attendance and time commitment have scope for improvement

Parameters	Yes/No
Independent directors (As per SES) - More than 50%	x
Chairman - independent	x
Lead independent director	x
All independent directors association <10 years	✓
Women directors - At least 2	✓
Independent woman director - At least 1	✓
ED aged more than 70 years - None	✓
NED aged more than 75 years - None	✓
Average board age between 55-65 years	✓
Board has more than 50% post-graduates /professionals	✓
Board meeting attendance more than 75%	x
All directors attended last AGM	x
No excessive time commitments (<6 LD)	x
Liable to retire by rotation - All NIDs	✓


Source: SES, Ambit Capital research, Company

Exhibit 345: Technically, 50% of the board comprises independent directors but we have concerns about the independence of certain directors

ED: 4 (31%)	NED-NID:...	ID: 7 (54%)
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Source: SES, Ambit Capital research, Company

Exhibit 346: The board has 3 women directors

	10 (77%)	3 (23%) 
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Source: SES, Ambit Capital research, Company

Exhibit 347: Mahindra's board chairperson is a promoter ED and IDs don't constitute 50% of the board as we doubt independence of Ms. Vishakha N. Desai and Mr. Haigreave Khaitan. Also, two directors have directorships in more than 5 listed entities

Criteria	Age		Women		ID Classification		ID		Attendance		Time Commitments		
	ED>70	NED>75	WD	WID	Company	SES	Tenure >10 years	Association >10 years	Board<50%	AGM (No)	TD>10	PD>10	LD>5
No. of Directors	0	0	3	3	7	5	0	0	0	2	0	0	2
% of Total	0%	0%	23%	24%	54%	38%	0%	0%	0%	15%	0%	0%	15%

Source: SES, Ambit Capital research, Company

Exhibit 348: Mahindra made rotation of directors as per SEBI guidelines

Director	Classification	Appointment date	Cessation date	Association (yrs)	Age (yrs)	Pay (Rs.mn)	Remark
Appointments							
Anish Shah	ED	01/04/20	-	5	52	-	-
Rajesh Jejurikar	ED	01/04/20	-	20	57	-	-
CP Gurnani	NED	01/04/20	-	15	63	-	-
Nisaba Godrej#	ID	08/08/20	-	0	43	-	-
Muthiah Murugappan\$	ID	08/08/20	-	0	38	-	-
Exits							Reason for cessation
M. M. Murugappan\$	ID	28/08/92	07/08/20	28	66	5	Completion of tenure
Nadir B. Godrej#	ID	28/08/92	07/08/20	28	70	4	Completion of tenure

Source: SES, Ambit Capital research, Company \$ Relatives # Relatives

Board committees comply with all statutory requirements

Board committee composition of M&M is compliant with SEBI guidelines but more independence can be brought into SRC, RMC and CSRC. During the year, all recommendations of the committees were accepted by the board. Committee attendance of only one independent director Ms. Vishakha Desai was below the recommended 75% limit.

Exhibit 349: M&M's can use more independence on its committees, especially SRC, CSRC and RMC

Parameter	Yes/No
Board classification (as per SES)	
At least 75% IDs in AC	✓
At least 50% IDs in SRC	x
At least 75% IDs in NRC	✓
At least 50% IDs in CSRC	x
At least 50% IDs in RMC	x
Committee chairperson	
Independent AC Chairman	✓
Independent SRC Chairman	x
Independent NRC Chairman	✓
Independent CSRC Chairman	x
Committee policies	
NRC Policy disclosed	✓
CSR Policy disclosed	✓
RM Policy disclosed	✓

Source: SES, Ambit Capital research, Company

Exhibit 350: Mahindra's committee composition looks strong

Committees	No. of Members		Chairman's Classification			Overall Independence			No. of Meetings			Attendance
	LR	Company	LR	Company	SES	LR	Company	SES	LR	SES	Held	< 75%
AC	3	4	ID	ID	ID	67%	100%	75%	4	8	6	-
SRC	3	4	NED	ID	NID	1 ID	2 ID	0 ID	1	2	3	Ms. Vishakha N. Desai (67%)
NRC	3	4	ID	ID	ID	50%	100%	75%	1	2	6	-
CSR	3	4	-	ID	NID	1 ID	2 ID	1 ID	-	1	3	-
RMC	-	7	-	ED	ED	-	57%	43%	1	1	2	-

Source: SES, Ambit Capital research, Company; Committees: AC-Audit, NRC-Nomination & Remuneration, SRC-Stakeholders Relationship, CSR- Corporate Social Responsibility, RMC-Risk management.

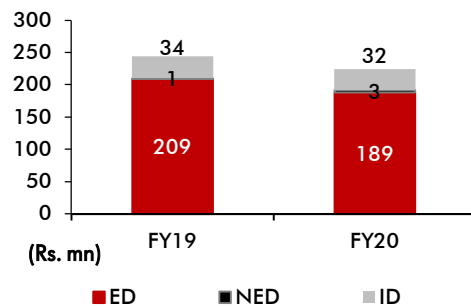
Directors' remuneration is evenly spread

The remuneration of directors at M&M isn't skewed and is linked to profit after tax of the firm (considering the proportion of variable pay of executive directors, 45-50%). M&M has disclosed performance evaluation details in its Annual Report for FY20. However, the salary drawn by promoter director Mr. Anand Mahindra is 39% of the total board remuneration. This remains below the sector standards though, and isn't a cause of concern.

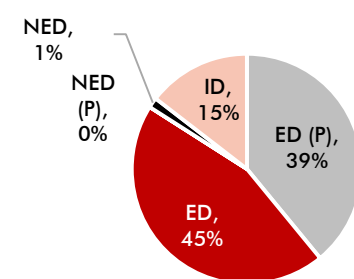
Exhibit 351: M&M's directors' remuneration isn't skewed and is linked to profit after tax

Parameter	Yes/No
Remuneration of directors - no skewness	✓
ED's remuneration- no skewness	✓
NED's remuneration - no skewness	✓
Remuneration of EDs linked with PAT of the company	✓
Objective remuneration policy disclosed	✓
Ratio of ED's remuneration to MRE < 200 times	✓
Annual board performance- process /parameters of evaluation disclosed	✓
Out of total NED remuneration, no NED is paid more than 50% of total remuneration	✓

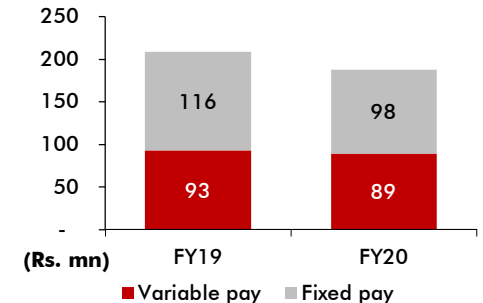
Source: SES, Ambit Capital research, Company

Exhibit 352: There is no skew in remuneration of directors on M&M's board


Source: SES, Ambit Capital research, Company

Exhibit 353: Anand Mahindra, the only promoter ED on board, earns 39% of total board remuneration (Rs87mn)


Source: SES, Ambit Capital research, Company

Exhibit 354: Remuneration of EDs is linked to PAT of the company


Source: SES, Ambit Capital research, Company

Auditors of M&M are reputed and well-known in India

The auditor for M&M has been BSR &Co. LLP for the past 3 years. The auditors and audit partners are rotated regularly at the firm.

Exhibit 355: M&M has rotated its auditors in a timely manner

Parameter	Yes/No
Audit firm association is less than 10 years	✓
Audit partner association is not more than 3 years	✓
Auditors' appointment in compliance with law	✓
No resignation of statutory auditors	✓
No exit of statutory auditors (other than resignation)	NA
Non-audit fees constitute less than 25% of total auditors' remuneration	x
No major regulatory action against statutory auditor	✓

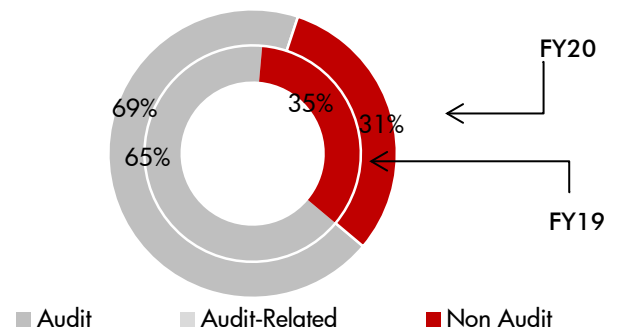
Source: SES, Ambit Capital research, Company

Exhibit 356: M&M's auditor for past 3 years has been BSR &Co. LLP

Auditor	Audit Partner
B S R & Co. LLP (KPMG) 3 years	Jamil Khatri 3 years

Source: SES, Ambit Capital research, Company

Exhibit 357: Proportion of non-audit fee reduced slightly in FY20 to 31%



Source: SES, Ambit Capital research, Company

No audit and financial reporting challenges

There has been no qualification, reservation, adverse remark or disclaimer given by M&M's auditors in their AR for FY20. A major portion of total contingent liabilities (Rs. 33,91mn) is due to tax-related reasons. Also, SEBI (LODR) Amendment Regulations, 2018, requires disclosure of significant changes (i.e. change of 25% or more as compared to the immediately previous financial year) in key financial ratios. M&M reported that the return on net worth dropped from 14.8% in FY19 to 3.7% in FY20 on the base of modest profit growth amidst challenging business environment encountered due to COVID-19.

Exhibit 358: More than 50% of M&M's contingent liabilities were related to tax disputes

Parameter	Yes/No
Statutory auditors report- No qualifications	✓
Secretarial auditors report- No qualifications	✓
Company's internal controls - No major weakness observed	✓
Tax evasion by the company - No observation /evidence	✓
Financial statements restatement - No	✓
Repayment of borrowings - No default reported	✓
Tax disputes form less than 50% of contingent liabilities	x
Fraud noticed /reported during last three years - None	✓
Disclosures on related party transactions - Adequate	✓
Related party transactions - Policy disclosed	✓
No royalty payments	✓
No material royalty payments (i.e. less than 5% of consolidated turnover)	NA
Proper break up of contingent liabilities - Disclosed	✓
Financials of subsidiaries - Disclosed on website	✓

Source: SES, Ambit Capital research, Company

Does healthy stakeholders' engagement

M&M has the required policies for stakeholders' engagement and has addressed shareholders' complaints in the last 3 years in a timely manner.

Exhibit 359: M&M's stakeholder engagement details

Criterion	Yes/No	Note
Dividend distribution policy disclosed and dividend paid in line with the same	✓	Company would endeavour to maintain a total dividend pay-out ratio in the range of 20% to 35% of the annual standalone Profits after Tax (PAT) of the Company
No significant shareholder's complaints pending in last 3 FYs	✓	29 complaints were received from shareholders in FY20, all of which have been attended/resolved to the satisfaction of the shareholders
No negative media coverage	✓	N/A
At least 4 Earnings Calls /Investor Calls	×	M&M has disclosed investor presentation and investors conference call details on stock exchange and its website but only 3/4 could be located
Financial discussion in presentation /press release	✓	Yes
No delay in filling of financial statements	✓	N/A
No resolution defeated by the shareholders in last 1 year	✓	Company received 6.09% of maximum AGAINST vote from Public shareholders for resolution no. #9 appointment of Mr. Haigreva Khaitan as an Independent Director in AGM 2019
No pledge of equity shares by promoters' group	×	Promoters have pledged or encumbered 0.25% of total available shares as per BSE website (31 Dec.,2020)
Company mapped internal & external stakeholders	✓	Yes
Future outlook in presentation /press release	✓	Yes
Company identified the disadvantaged & marginalized stakeholders	✓	Yes
No sanction or any regulatory action relating to disclosures in last 3 years (by Exchange, SEBI)	✓	N/A

Source: SES, Ambit Capital research, Company

Other governance factors

M&M has appropriate policies for whistle blower, insider trading, employees and KMPs. The company didn't disclose the number of bribery/corruption complaints received during the year.

Exhibit 360: M&M's didn't disclose complaints related to bribery and corruption

Criterion	Yes/No	Note
Code of conduct for Board of Directors & KMPs	✓	Disclosed
Code of conduct for employees	✓	Disclosed
Code of Conduct on Insider Trading	✓	Disclosed
Whistle Blower Policy	✓	17 complaints have been received through the Whistle blower Helpline out of which 10 complaints has been investigated and resolved and 7 complaints are pending
Whistle-blower can approach Chairman of the audit committee and no person denied access to the audit committee	✓	3 complaints were received by the Chairman of the Audit Committee out of which 2 complaints have been investigated and resolved and 1 complaint is pending
Investment in Research & Development	✓	Increased
ESOP adequate disclosures	✓	Disclosed
Insider Trading - No penalties imposed	✓	No cases
Training regarding Company's anti-corruption policies and information	✓	Yes
Complaints on bribery & corruption	×	Anti-Bribery and Anti-Corruption Policy disclosed but no. of complaints weren't disclosed

Source: SES, Ambit Capital research, Company

Ticks almost all boxes on policy disclosures

M&M has been publishing Global Reporting Initiative (GRI) complaint Sustainability Report since 2007-08. CSR Committee assesses the business responsibility performance twice a year. The company has also undertaken initiatives like Science Based Target (to restrict average global temperature rise to 2 degree Celsius in alignment with Paris Climate Change Agreement) and has been hosting concalls on ESG with investors and analysts. Its sustainability initiatives have been implemented at 17 of its subsidiaries. The company states that the relevant policies have evolved over a period of time by taking inputs from concerned internal stakeholders.

Exhibit 361: While there is no formal consultation with all stakeholders, the relevant policies have evolved over a period of time by taking inputs from concerned internal stakeholders

Questions	P1	P2	P3	P4	P5	P6	P7	P8	P9
1 Do you have a policy/policies for principle	✓	✓	✓	✓	✓	✓	✓	✓	✓
2 Has the policy been formulated in consultation with the relevant stakeholders?	x	x	x	x	x	x	x	x	x
3 Does the policy conform to any national /international standards? If yes, specify (50 words).	✓	✓	✓	✓	✓	✓	x	✓	✓
4 Has the policy been approved by the Board? If yes, has it been signed by the MD /owner /CEO /appropriate Board Director?	✓	✓	✓	✓	✓	✓	✓	✓	✓
5 Does the Company have a specified committee of the Board /Director / Official to oversee the implementation of the policy?	✓	✓	✓	✓	✓	✓	✓	✓	✓
6 Indicate the link for the policy to be viewed online	✓	✓	✓	✓	✓	✓	✓	✓	✓
7 Has the policy been formally communicated to all relevant internal and external stakeholders?	✓	✓	✓	✓	✓	✓	✓	✓	✓
8 Does the Company have an in-house structure to implement the policy /policies?	✓	✓	✓	✓	✓	✓	✓	✓	✓
9 Does the Company have a grievance redressal mechanism related to the policy /policies to address stakeholders' grievances related to the policy /policies?	✓	✓	✓	✓	✓	✓	✓	x	✓
10 Has the Company carried out independent audit /evaluation of the working of this policy by an internal or external agency?	✓	✓	✓	✓	✓	✓	✓	✓	✓

Source: SES, Ambit Capital research, Company

Exhibit 362: Mahindra has been complaint with international sustainability standards and has undertaken initiatives like science based targets to emphasise important of ESG

Area	Firm response
Frequency with which the Board of Directors, Committee of the Board or CEO assess the BR performance	CSR Committee of the Board assesses the BR performance twice a year. Other supporting councils/cells viz. Group Sustainability Council, Group CSR council Central Safety Council and Corporate Governance Council meet every 3 months
Sustainability Report /Integrated Report	All Sustainability Reports from 2007-08 till date are GRI compliant
Endorsement of any additional ESG principles or initiatives	Science Based Target to restrict average global temperature rise to 2 degree Celsius in alignment of Paris Climate Change Agreement Concall on Environment, Social and Corporate Governance (ESG) for analysts and investors
Extension of sustainability initiatives to other stakeholders	For FY20, Sustainability initiatives have been implemented at 17 of its subsidiaries Percentage of entities covered is more than 60% for various suppliers

Source: SES, Ambit Capital research, Company

Institutional Equities Team

Research Analysts

Name	Industry Sectors	Desk-Phone	E-mail
Nitin Bhasin - Head of Research	Strategy / Accounting / Home Building / Consumer Durables	(022) 66233241	nitin.bhasin@ambit.co
Ajit Kumar, CFA, FRM	Banking / Financial Services	(022) 66233252	ajit.kumar@ambit.co
Alok Shah, CFA	Consumer Staples	(022) 66233259	alok.shah@ambit.co
Amandeep Singh Grover	Mid-Caps / Hotels / Real Estate	(022) 66233082	amandeep.grover@ambit.co
Ankit Gor	Agri & Chemicals	(022) 66233132	ankit.gor@ambit.co
Ashish Kanodia, CFA	Consumer Discretionary	(022) 66233264	ashish.kanodia@ambit.co
Ashwin Mehta, CFA	Technology	(022) 6623 3295	ashwin.mehta@ambit.co
Basudeb Banerjee	Automobiles / Auto Ancillaries	(022) 66233141	basudeb.banerjee@ambit.co
Bhanu Gupta	Consumer Discretionary	(022) 66233264	bhanu.gupta@ambit.co
Deep Shah, CFA	Media / Telecom / Oil & Gas	(022) 66233064	deep.shah@ambit.co
Devjyot Singh, FRM	Healthcare	(022) 66233226	devjyot.singh@ambit.co
Dhruv Jain	Mid-Caps / Home Building / Consumer Durables	(022) 66233177	dhruv.jain@ambit.co
Jashandeep Chadha, CFA	Metals & Mining / Cement	(022) 66233246	jashandeep.chadha@ambit.co
Karan Khanna, CFA	Mid-Caps / Hotels / Real Estate	(022) 66233251	karan.khanna@ambit.co
Karan Kokane, CFA	Automobiles / Auto Ancillaries	(022) 66233028	karan.kokane@ambit.co
Mitesh Gohil	Banking / Financial Services	(022) 66233197	mitesh.gohil@ambit.co
Nancy Gahlot	Strategy / Forensic Accounting	(022) 66233149	nancy.gahlot@ambit.co
Nikhil Mathur, CFA	Healthcare	(022) 66233220	nikhil.mathur@ambit.co
Pankaj Agarwal, CFA	Banking / Financial Services	(022) 66233206	pankaj.agarwal@ambit.co
Satyadeep Jain, CFA	Metals & Mining / Cement	(022) 66233246	satyadeep.jain@ambit.co
Sumit Shekhar	Economy / Strategy	(022) 66233229	sumit.shekhar@ambit.co
Udit Kariwala, CFA	Banking / Financial Services	(022) 66233197	udit.kariwala@ambit.co
Vamshi Krishna Utterker	Technology	(022) 66233047	vamshikrishna.utterker@ambit.co
Varun Ginodia, CFA	E&C / Infrastructure / Aviation	(022) 66233174	varun.ginodia@ambit.co
Vinit Powle	Strategy / Forensic Accounting	(022) 66233149	vinit.powle@ambit.co
Vivekanand Subbaraman, CFA	Media / Telecom / Oil & Gas	(022) 66233261	vivekanand.s@ambit.co

Sales

Name	Regions	Desk-Phone	E-mail
Dhiraj Agarwal - MD & Head of Sales	India	(022) 66233253	dhiraj.agarwal@ambit.co
Bhavin Shah	India	(022) 66233186	bhavin.shah@ambit.co
Dharmen Shah	India / Asia	(022) 66233289	dharmen.shah@ambit.co
Abhishek Raichura	UK & Europe	(022) 66233287	abhishek.raichura@ambit.co
Pranav Verma	Asia	(022) 66233214	pranav.verma@ambit.co
Shiva Kartik	India	(022) 66233299	shiva.kartik@ambit.co

USA / Canada

Hitakshi Mehra	Americas	+1(646) 793 6751	hitakshi.mehra@ambitamerica.co
Achint Bhagat, CFA	Americas	+1(646) 793 6752	achint.bhagat@ambitamerica.co

Singapore

Srinivas Radhakrishnan	Singapore	+65 6536 0481	srinivas.radhakrishnan@ambit.co
Sundeep Parate	Singapore	+65 6536 1918	sundeep.parate@ambit.co

Production

Sajid Merchant	Production	(022) 66233247	sajid.merchant@ambit.co
Sharoz G Hussain	Production	(022) 66233183	sharoz.hussain@ambit.co
Jestin George	Editor	(022) 66233272	jestin.george@ambit.co
Richard Mugutmal	Editor	(022) 66233273	richard.mugutmal@ambit.co
Nikhil Pillai	Database	(022) 66233265	nikhil.pillai@ambit.co

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Registered Office Address: Ambit Capital Private Limited, 449, Ambit House, Senapati Bapat Marg, Lower Parel, Mumbai-400013

Compliance Officer Details: Sanjay Shah, Email id: compliance@ambit.co, Contact Number: 91 22 68601965

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