

# Proxy Advisory Report (Addendum)

## Shriram Properties Ltd

COMPANY INFORMATION	MEETING DETAILS	E-VOTING DETAILS
<b>BSE CODE:</b> 543419 <b>NSE SYMBOL:</b> SHRIRAMPPS <b>ISIN:</b> INE217L01019 <b>Listing Date:</b> 20 <sup>th</sup> December, 2021 <b>Industry:</b> Realty <b>Email:</b> <a href="mailto:cs.spl@shriramproperties.com">cs.spl@shriramproperties.com</a> <b>Phone:</b> +91 44 4001 4410 <b>Registered Office:</b> Lakshmi Neela Rite Choice Chamber, New No. 9, Bazullah Road, T. Nagar, Chennai – 600 017	<b>Meeting Type:</b> PB <b>Voting Deadline:</b> 18 <sup>th</sup> March, 2022 <b>Notice Date:</b> 14 <sup>th</sup> February, 2022 <b>Notice:</b> <a href="#">Click here</a> <b>Annual Report:</b> <a href="#">FY 2020-21</a> <b>Red Herring Prospectus:</b> <a href="#">Click here</a> <b>Report (PB):</b> <a href="#">Click here</a>	<b>e-Voting Platform:</b> <a href="#">NSDL</a> <b>Cut-off Date:</b> 11 <sup>th</sup> February, 2022 <b>Remote E-voting</b> <b>Start:</b> 17 <sup>th</sup> February, 2022 <b>Ends:</b> 18 <sup>th</sup> March, 2022

### RESEARCH ANALYST: WAHEED SHAIKH

This Addendum is issued based on email dated 7<sup>th</sup> March, 2022 received by SES from Shriram Properties Ltd. ('the Company') w.r.t to Proxy Advisory Report ('PA Report') issued by SES in relation to the ensuing Postal Ballot (PB) having E-voting deadline dated. 18<sup>th</sup> March, 2022.

**There is no change in any of SES recommendation.**

### BACKGROUND

SES as per its policy, had emailed its PA Report to the Company on 5<sup>th</sup> March, 2022 in respect of the PB of the Company.

Post release of PA Report, SES received an email from the Company on 7<sup>th</sup> March, 2022. The Company, through the email, provided its view point, which is reproduced at the last in *blue text*.

It may be noted that the email of the Company dated 7<sup>th</sup> March, 2022 (as per SES policy framed to comply with SEBI Circular dated 3<sup>rd</sup> August, 2020 [SEBI/HO/IMD/DF1/CIR/P/2020/147](#)) has already been forwarded to SES clients as it is, without any inputs from SES.

This Addendum provides appropriate responses of SES, wherever required.

### SES COMMENTS TO COMPANY'S RESPONSE

#### *Company's Views: (in Blue colour)*

#### *1. Exercise Price*

*We note that the concern has been raised in relation to "open-ended provision to determine any price as exercise price as may be decided by NRC".*

*The ESOP Plan has been approved by the shareholders vide shareholders' resolution dated September 30, 2013, and subsequently further amended pursuant to the resolutions passed by the board on November 19, 2021 and shareholders on November 20, 2021, and disclosed in the offer document of the Company during the IPO. The present ratification is on account of the requirement under Regulation 12 of Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 ("SBEB & SE Regulations"). Prior to listing of the Company, the exercise price was determined by the nomination and remuneration committee, and the options were valued based on the fair market value of the equity shares. The fair market value (pre-listing) was determined based on the current book value per share, the price at which the Company's outstanding capital stock have previously*



been issued and such other value that the Nomination and Remuneration Committee may deem appropriate. After the listing, the fair market value of the options is linked to the remit of market price provided under the SBEB & SE Regulations.

Further, please note that as per Regulation 17 of the SBEB & SE Regulations, extract of which is as below, a company is free to determine the exercise price:

*“The company granting options to its employees pursuant to an ESOS shall be free to determine the exercise price subject to conforming to the accounting policies specified in regulation 15 of these regulations.”*

*It is also pertinent to note that that the Board has approved and recommended the ESOP Plan for shareholders’ approval for granting share-based benefits with a view to retain talent and align the interest of the employees with the Company as well as to motivate them to contribute to its growth and profitability. The Company views employee stock options as instruments that would enable the employees to share the value they create for the Company in the years to come. Further, while determining the exercise price, the NRC is required to consider multiple factors which may include length of service, grade, performance, merit, key position, future potential contribution, terms of the employment, conduct of the employee, and such other factors as may be deemed appropriate after taking into consideration both the interest of the employee and the Company.*

*Accordingly, the Company reiterates that there is no non-compliance with applicable laws with respect to disclosure of exercise price.*

**SES Comment:** SES in its Report has not questioned the intention of the ESOP Scheme. However, SES would like to re-iterate that while the Company/ NRC is free to determine the exercise price, however, the same is subject to disclosure required to be made as specified in Part C of Schedule – I of SEBI SBEB & SE Regulation.

SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 states that:

*The **explanatory statement to the notice** and the resolution proposed to be passed for the schemes in general meeting shall, inter alia, contain the following information:*

*f. exercise price, SAR price, purchase price or pricing formula;*

Hence, the Company is non-compliant with the said Regulation. SES is of the opinion that the Company should have either disclosed the ‘exact exercise price’ or a ‘pricing formula’ by which an exercise price will be calculated. In absence of the above disclosure, SES is of the opinion that the shareholders may not be able to take an informed decision.

## 2. Maximum number of options to be granted under the ESOP Plan

*We note that SES is of the view that “the total number of options refers to the absolute number of options under the scheme. As 2.5% of the issued share capital is not an absolute number of options”.*

*We note that SES observation to place a cap on maximum number of options is based on its governance parameters and is not a legal requirement per se. In terms of Regulation 5, read with Part B of Schedule I of the SBEB & SE Regulation, the compensation committee has the liberty to determine the terms and conditions in relation to the aggregate number of options under the scheme. Further, the grant of ESOPs is determined by the NRC based on certain performance parameters of the employees. Hence the grant of options varies among employees and hence instead of the number of options it has been capped in percentage terms. Further note that 2.5% of the issued capital of the Company (16,96,24,024 Shares) only amounts to 42,40,600 shares, therefore the number is quantifiable.*

**SES Comment:** According to SES, Non-disclosure of exact number of options is technically non-compliant as per SEBI SBEB & SE Regulations. Please note that SES would again reiterate that while there is freedom to determine aggregate number of options under an ESOS scheme, however, it has to be disclosed in the Notice seeking shareholders’ approval.

Since, the issued capital of the Company would vary from time to time subject to further issue of capital, therefore, shareholders presently do not have information as to how much of stock options the Company intends to issue. It was in this light; the SEBI Regulation also requires the Company to disclose the same objectively in the Notice seeking approval.

Non-disclosure of the same is viewed as non-compliance by SES.



### 3. Remuneration to the Managing Director

We note that SES has noted the following in relation to the remuneration: No cap on the remuneration:

Please note that the Company has already provide complete details of the remuneration in the resolution and the explanatory statement:

*"1. Basic salary of Rs. 5 Cr (Rupees Five Crore only) per annum.*

*2. Perquisites and allowances payable as per the Company's policy and existing rules. a. Free use of Car with driver with expenses and maintenance of the same, b. Use of Telephone, mobile phone, c. Coverage under Company's Group Insurance and medical plan d. Two club membership and the annual fee paid by the Company e. Coverage under PF and Gratuity scheme*

*3. Profit linked pay/ commission as may be decided by the Nomination and Remuneration Committee from year to year.*

*Provided, however, cost of personal use of car / long-distance personal phone call shall be borne by the managerial person.*

*Provided, however, the overall remuneration shall not exceed 5% of the net profit of the Company (including the amount of remuneration paid as stated in above) or up to such ceiling as may be provided under the Act, whichever is higher and as determined by the Nomination and Remuneration Committee and the Board, in accordance with the Applicable Laws."*

*In case of inadequacy of profit the aforesaid remuneration is the standard remuneration.*

*The Company has already disclosed that the basic salary is fixed at Rs. 5 Crores, perquisites and allowances payable as per the Company's policy and existing rules and lastly profit based commission as determined by the Nomination and Remuneration Committee, if there are any profits, and that the overall remuneration cannot exceed 5% of the net profits of the Company (which is the limit prescribed under Section 197 of the Companies Act, 2013) or any other limit as provided under the Companies Act, 2013, therefore the Company has fixed an overall cap on the variable pay.*

*The proposed remuneration is for one year, i.e. April 1, 2022 to March 31, 2023. Within one year we do not see any change in the profitability of the company. Hence, the proposed remuneration becomes absolute, in the tenure.*

*The Company would like to reiterate that such a remuneration is necessary due to the following:*

*a. The significant contribution made by Mr. M Murali in developing the Company to be in Top 5 Real Estate Company in South India. b. Successful completion of the Company's Initial Public Offer, which was oversubscribed. c. The confidence reposed by the investors in the leadership of Mr. M Murali in steering the Company to the listed environment. d. The expected growth of the Company and the responsibility that will be shouldered by him as a listed Company.*

**SES Comment:** SES raised the following concern with respect to the remuneration revision of Mr. M Murali:

- Concentration of powers with respect to the CMD position;
- No absolute cap over the variable pay;
- No absolute cap over the total pay;
- Peer Comparison provided by the Company was not justifying increment in remuneration.

While, a relative cap of 5% of Net Profits has been provided in the Notice, there is no absolute cap placed.

Further, SES as a policy raises concern if the Company has not placed an absolute cap on the variable pay and also on the total remuneration.

The email of the Company does not in any way address the concerns raised by SES in the report.

Shareholders may take note of the email of the Company and take an informed decision.



---

**COMPANY'S EMAIL DATED 7<sup>TH</sup> MARCH, 2022**

---

*Dear Sirs*

*Greetings.*

*We thank you for your mail, seeking our views.*

*We are submitting our views / response to your observations in our Postal Ballot Resolutions.*

*We request you to consider the same.*

*Regards,*

XXXXXXX

Please find the [Link](#) for the detailed views/ response provided by the Company.



**Disclaimer****Sources**

Only publicly available data has been used while making the report. Our data sources include Notice of Shareholders' Meeting, BSE, NSE, SEBI, Capitaline, MCA, Moneycontrol, Businessweek, Reuters, Annual Reports, IPO Documents and Company Website.

**Analyst Certification**

The Analyst(s) involved in development of this Report certify that no part of the Research Analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the Research Analyst(s) in this Report. The concerned Research Analyst(s) and Director(s) do not have any pecuniary relationship with the Reported Company, except that they may be holding miniscule shares in the Company which does not impact their independence in respect of this Report.

SES may be a shareholder in the Company holding equity shares as disclosed on its [website](#). The objective of SES' investment is solely to obtain Shareholders' communications from the Company as a shareholder.

**CAUTIONARY STATEMENT**

The recommendations made by SES are based on publicly available information and conform to SES's stated Proxy-Advisory Guidelines. SES opinion is based on SES's interpretation of law and governance benchmarks, which may differ from opinion/ benchmarks of other analysts or practitioners. Further, SES analysis is recommendatory in nature and reflects how SES would have voted if it was a shareholder. Therefore, SES expects that the clients will evaluate the effect of their vote on their investments independently and diligently and will vote accordingly. Subscribers may also carry out an impact analysis of their votes and keep the same as an addendum for their records. In our opinion, Institutional investors are positioned significantly differently from other shareholders due to their ability to engage the board and the management to bring out desired result. As a firm, it is our endeavour to improve the level of corporate governance while not causing any disruption in company's proceedings and therefore we respect the independence of investors to choose alternate methods to achieve similar results.

**Disclaimer**

While SES has made every effort, and has exercised due skill, care and diligence in compiling this report based on publicly available information, it neither guarantees its accuracy, completeness or usefulness, nor assumes any liability whatsoever for any consequence from its use. This report does not have any approval, express or implied, from any authority, nor is it required to have such approval. The users are strongly advised to exercise due diligence while using this report.

This report in no manner constitutes an offer, solicitation or advice to buy or sell securities, nor solicits votes or proxies on behalf of any party. SES, which is a not-for-profit Initiative or its staff, has no financial interest in the companies covered in this report except what is disclosed on its website. The report is released in India and SES has ensured that it is in accordance with Indian laws. Person resident outside India shall ensure that laws in their country are not violated while using this report; SES shall not be responsible for any such violation.

All disputes shall be subject to jurisdiction of High Court of Bombay, Mumbai.

**Concern terminology**

**NC – Compliance Concern:** The Company has not met statutory compliance requirements

**FC – Fairness Concern:** The Company has proposed steps which may lead to undue advantage to a particular class of shareholders and can have adverse impact on non-controlling shareholders including minority shareholders

**GC – Governance Concern:** SES questions the governance practices of the Company. The Company may have complied with the statutory requirements in letter. However, SES finds governance issues as per its standards.

**TC - Disclosures & Transparency Concern:** The Company has not made adequate disclosures necessary for shareholders to make an informed decision. The Company has intentionally or unintentionally kept the shareholders in dark.

**Company Information**

Stakeholders Empowerment Services

SEBI Reg. No. INH000000016

This Report or any portion hereof may not be reprinted, sold, reproduced or redistributed without the written consent of Stakeholders Empowerment Services

**Contact Information****Stakeholders Empowerment Services**

109, Shyam Baba House,  
Upper Govind Nagar,  
Malad East,  
Mumbai – 400097  
Tel +91 22 4022 0322

[research@sesgovernance.com](mailto:research@sesgovernance.com)[info@sesgovernance.com](mailto:info@sesgovernance.com)[www.sesgovernance.com](http://www.sesgovernance.com)