Stakeholders Empowerment Services

Proxy Advisory
Corporate Governance Scores & Research
ESG Scores & Research
Stakeholders' Education

Proxy Advisory Report

Hero MotoCorp Ltd

COMPANY INFORMATION	MEETING DETAILS	E-VOTING DETAILS
BSE CODE: 500182 **NSE SYMBOL**: HEROMOTOCO **ISIN**: INE158A01026 **Industry**: Automobile (2/3 Wheelers) **Email:** secretarialho@heromotocorp.com **Phone**: 011 - 4604 4220 **Registered Office:** The Grand Plaza, Plot no. 2, Nelson Mandela Road, Vasant Kunj Phase –II, New Delhi-110070	**Meeting Type:** AGM **Meeting Date:** 4th August, 2021 at 4:30 PM **Venue:** Video Conferencing (VC) / Other Audio-Visual Means (OAVM) **Notice Date:** 1st July, 2021 **Notice:** Click here **Annual Report:** FY 2020-21 **SES PA Report (Last AGM):** Report	**e-Voting Platform**: NSDL **Cutoff Date:** 28th July, 2021 **E-voting Start**: 31st July, 2021 **E-voting Ends**: 3rd August, 2021

TABLE 1 - AGENDA ITEMS AND RECOMMENDATIONS

S. No.	Resolution	Type	SES Observation#	Rec.	Rationale
1	Adoption of financial statements.	O	LC	FOR	*Unqualified Statements*
2	Declaration of dividend.	O	LC	FOR	*Sufficient Funds*
3	Re-appointment of Mr. Pradeep Dinodia as a director liable to retire by rotation.	O	LC	FOR	*No governance concern*
4	Ratification of remuneration of Cost Auditors for financial year 2021-22.	O	LC	FOR	*No major governance concern*
5	Appointment of Air Chief Marshal B S Dhanoa (Retd.) as an Independent Director of the Company.	O	LC	FOR	*No governance concern*
6	Re-appointment of Dr. Pawan Munjal as a Whole-time Director of the Company.	S	LC | GC	AGAINST	*Concentration of power. Skewed Remuneration*
7	To approve terms and conditions and payment of remuneration of Dr. Pawan Munjal as the Whole-time Director of the Company.	O	LC | GC	AGAINST	*Concentration of power. Skewed Remuneration*
8	To approve extension of benefits of Employee Incentive Scheme - 2014 to the eligible employees of the subsidiary companies.	S	NC | GC	AGAINST	*Non-disclosure of Exercise Price*

O - Ordinary Resolution; S - Special Resolution, Rec. - Recommendation
 # LC - Legally Compliant, NC -Legally Non-Compliant, FC - Fairness Concern, TC - Disclosures & Transparency Concern, GC - Governance Concern

RESEARCH ANALYST: RAJORSHI PALIT

CONFLICT DISCLOSURE: SES - NO CONFLICT | ANALYST - NO CONFLICT

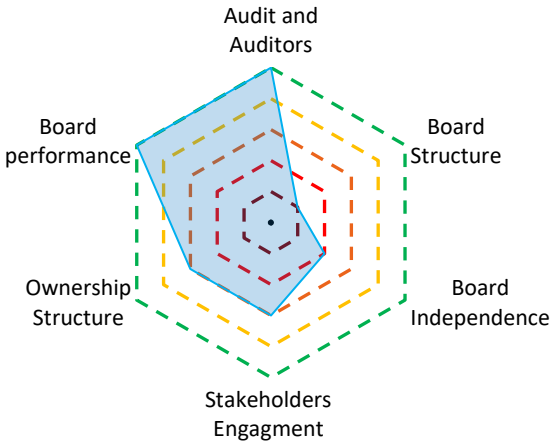
INTERACTION WITH THE COMPANY - NO INTERACTION

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SES GOVERNANCE RADAR

SES Governance Radar depicts the strength of a company's governance practices and standards. This Radar attempts to summarize a company's governance practices on the basis of 30 key governance parameters created by SES which are based on best practices.

*(**Note**: The farther the distance of each vertex of the blue shaded hexagon from the centre, the better the performance on such parameter. For more information on the SES Governance Radar - Click Here)*



RADAR MISSES

- One director holds more than 5 listed directorships.
- Chairman and Managing Director positions is held by same person (Read more).
- No lead ID designated by the Company.
- Almost 32% of public shareholders dissented to resolution [#3] of AGM 2020 (Read more).
- DDP disclosed by the Company is not objective.

KEY ISSUES

- The remuneration practice of the Company is skewed in the favour of Promoter ED (Read more).
- The Company has not disclosed exercise price or formula of ESOP scheme as required by the law (Read more).

KEY OBSERVATION

- The Company has not disclosed the Annual Return for FY 2020-21 (Read more).

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COMPANY BACKGROUND

COMPANY OVERVIEW

Hero MotoCorp Limited is engaged in the manufacturing and selling of motorised two-wheelers, spare parts and related services.

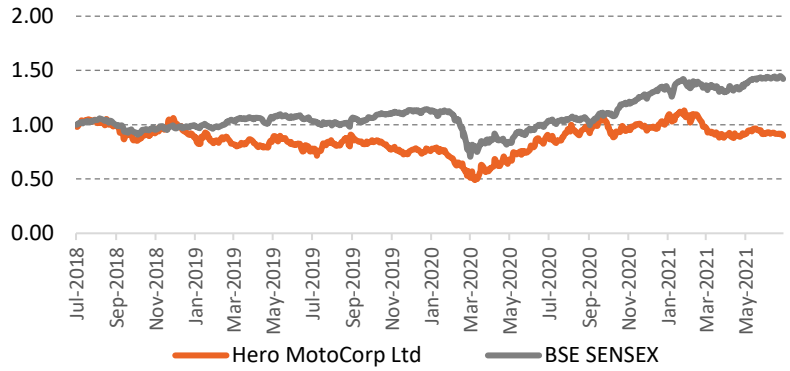
MARKET DATA (*As on 20th July, 2021*)

Price ₹	2,887.15
52 Weeks High/Low	3,628.55/2,622.50
M Cap (₹ Cr.)	57,682.34

Source: BSE

Benchmark Index (Dec 2020) (*Read more*)	
Index	Nifty 50
Index Rank	44/50

Stock Price Trend (Normalised)



Source: Capitaline

NUMBER OF SUBSIDIARIES, ASSOCIATE COMPANIES AND JOINT VENTURES (AS ON 31ST MARCH, 2021)

SUBSIDIARIES	ASSOCIATES	JOINT VENTURES
6	2	0

Source: Board's Report

FINANCIAL INDICATORS (CONSOLIDATED)

(In ₹ Crores)	2019	2020	2021
Net Worth	13,236.52	14,546.88	**15,559.61**
Total Assets	18,504.36	19,674.07	**23,096.09**
Total Debt	311.50	212.17	**342.03**
Loan & Advances	85.20	91.43	**92.41**
Trade Receivables	2,745.11	1,511.91	**2,274.68**
Operating Revenue	33,972.23	29,255.32	**30,959.19**
Total Revenue	34,658.96	29,985.88	**31,517.09**
Operating Profit	5,018.43	4,060.92	**4,099.51**
Net Profit	3,466.35	3,659.41	**2,936.05**
OPM (%)	14.77	13.88	**13.24**
NPM (%)	10.00	12.20	**9.32**
EPS (₹)	172.44	182.15	**146.04**
Face Value (₹)	2.00	2.00	**2.00**
P/E Ratio#			**19.77**
P/B Ratio#			**3.71**

PEER COMPARISON (2021)

Bajaj Auto Ltd	TVS Motor Company Ltd
27,273.44	4,214.51
33,601.71	21,992.69
0.00	11,930.74
37.52	11,156.20
2,716.85	1,035.97
27,741.08	19,420.82
29,017.54	19,468.04
4,924.68	2,237.83
4,857.02	607.50
17.75	11.52
16.74	3.12
167.90	12.51
10.00	1.00
23.13	48.07
4.12	6.78

Source: Capitaline | # Share price as on 20th July, 2021 | Kindly Click here to view list of abbreviations and formulas used in above table

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CASH FLOWS

	2019	2020	2021
Cash flows from operating activities	1,032.27	5,518.13	**4,110.45**
Cash flows from investing activities	1,297.63	-2,819.14	**-2,289.32**
Cash flows from financing activities	-2,252.39	-2,601.80	**-1,851.82**
Net changes	77.51	97.19	**-30.69**

Source: Capitaline

CREDIT RATING OF DEBT SECURITIES

Issuer	Instrument	Previous Rating	Current Rating
CRISIL	Long Term Banking Facilities	AAA Stable	AAA Stable
CRISIL	Short Term Banking Facilities	A1+	A1+
CRISIL	Commercial Papers	A1+	A1+
CRISIL	Non-Convertible Debentures	AAA Stable	AAA Stable
ICRA Limited	Long Term Banking Facilities	AAA Stable	AAA Stable
ICRA Limited	Short Term Banking Facilities	A1+	A1+
ICRA Limited	Commercial Papers	AAA Stable	AAA Stable
ICRA Limited	Non-Convertible Debentures	AAA Stable	AAA Stable

Source: BSE/Annual Report

COMPANY'S ESG PROFILE (FY 2019-20)

SES ESG SNAPSHOT (AS PER SES PROPRIETARY MODEL)

OVERALL ESG	
SCORE	GRADE
68	B

Note: Scoring is out of 100 | Based on FY 2019-20 For Scoring explanation - Click here

CATEGORIES	SCORE	GRADE
POLICY DISCLOSURES	94	A+
ENVIRONMENT	65	B
SOCIAL	57	B-
GOVERNANCE	73	B+

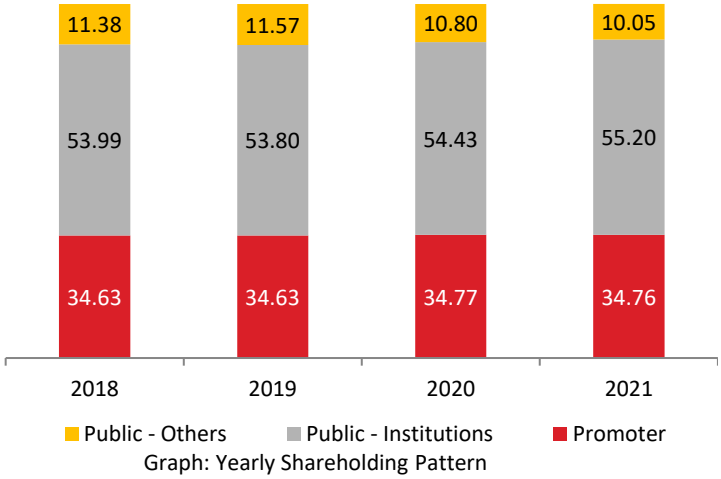


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OWNERSHIP STRUCTURE

SHAREHOLDING PATTERN (%) (JUNE)



Graph: Yearly Shareholding Pattern

Source: *Capitaline*

DISCUSSION (1st July, 2020 to 30th June, 2021)

Shares at the start of period: 19,97,41,042

- 48,847 equity shares issued under ESOP scheme

Shares at the end of period: 19,97,89,889

CHANGE IN SHAREHOLDING:

CATEGORY	% CHANGES	REASONS
Promoter	(-) 0.01%	*ESOP Scheme*
Public Institution	(+) 0.77%	
Public Others	(-) 0.75%	

Pledge: The Promoters have not pledged or encumbered any part of their shareholding.

MAJOR PUBLIC SHAREHOLDERS (JUN' 21)

LIC	7.42%
LIC P & Gs Fund	2.77%
WGI Emerging Markets Fund, LLC	2.19%
SBI-ETF Nifty 50	1.56%
Government Pension Fund Global	1.40%

MAJOR PROMOTER SHAREHOLDERS (JUN' 21)

Bahadur Chand Investments Pvt Ltd	20.04%
Pawan Munjal, Renu Munjal and Suman Kant Munjal (on Behalf of Brijmohan Lal Om Parkash, Partnership Firm)	13.98%

PROMOTER OWNERSHIP VS THEIR BOARD POSITIONS

% Promoter Directors as per SES, (Excluding IDs)	50%
Ratio of Promoter Directors Compared to Promoter unencumbered Ownership (50%/34.76%)	**1.44:1**

INSTITUTION SHAREHOLDING VS FREE FLOAT

Particulars	JUN' 20	JUN' 21
Total Shares	19.97	19.98
Promoter Shares	6.94	6.94
Non-Promoter Non-Public	-	-
Free Float (FF)	13.03	13.03
Public Institution	10.87	11.03
Institution vs FF	83.44%	84.6%
SES Institutional Grade	A	A

No. of shares in Crore

Institutional Holding	GRADE*
More than 75%	A
>50% to 75%	B
>25% to 50%	C
0% to 25%	D

**Percentage is proportion of Public Institutional shareholding vs Free float. Free Float is total shareholding reduced by Promoter and Non-Promoter Non-Public shareholding.*

Explanation*: Generally, it is expected that a higher Institutional shareholding would result in better Corporate Governance Practices due to stewardship activities of investors. To analyse the entry and exit of Institutional shareholders in a Company and to capture such triggers, SES has come up with Institutional grading criteria as given in the table. The grading criteria provides a higher grade in case the percentage of Institutional shareholding vs free float is higher and vice versa.*

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BOARD OF DIRECTORS

BOARD PROFILE

Director	Rec.	Age	M/W	Expertise	Classification		[1]Tenure (Association) in Year	Attendance for last year		[2]Directorship			Committee Membership				FY 2020-21 Pay (₹Lakh)
					Company	SES		Board	AGM	TD	PD	LD	Overall [3]Member (Chair)	Company AC	Company NRC	Company RMC	
EXECUTIVE DIRECTORS																	
Pawan Munjal	✓	66	M	IEX	CMDP	CMDP	35 (42)	5/5	Yes	7	3	1	0(0)		M		8,693.00
Vikram S. Kasbekar		66	M	IEX	ED(R)	ED(R)	5 (16)	5/5	Yes	2	2	1	0(0)				654.00
NON-EXECUTIVE NON-INDEPENDENT DIRECTORS																	
Suman Kant Munjal		68	M	IEX	NEDP(R)	NEDP(R)	11 (35)	5/5	Yes	15	4	1	1(0)				23.00
Pradeep Dinodia	✓	67	M	FIN	NED(R)	NED(R)	20	5/5	Yes	4	4	3	**8(5)**	M	M	C	109.00
INDEPENDENT DIRECTORS																	
M Damodaran		74	M	ADM	ID	**NID**	**13**	5/5	Yes	10	9	**6**	**8(4)**	C	M	M	101.00
Jagmohan Singh Raju**		66	M	ACD	ID	ID	3	5/5	Yes	1	1	1	1(0)		C		66.00
Tina Trikha		46	W	MGT	ID	ID	2	5/5	Yes	3	2	2	2(0)	M			56.00
Air Chief Marshal B. S. Dhanoa (Retd.)	✓	63	M	MGT	ID	ID	1	2/2	NA	1	1	1	1(0)	M		M	24.00

BOARD SUMMARY

CRITERIA	Age		Women		ID Classification		ID		Attendance		Time Commitments		
	ED	NED	WD/Board	WID/ID	Company	SES	Tenure	Association	Board	AGM	LD	Member	Chair
	>70	>75					>10 years		<50%	No	>7	>10	>5
No. of Directors	0/2	0/6	1/8	1/4	4/8	3/8	1/4	1/4	0/8	0/8	0/8	0/8	0/8
Percentage	0%	0%	13%	25%	50%	38%	25%	25%	0%	0%	0%	0%	0%

Items deserving attention due to governance or contentious issues.

[1] *Figures in bracket indicate total association of the Director with the Company/ Group*

[2] *Directorship as per MCA website as on 14th July, 2021*

[3] *Committee memberships include committee chairmanships (Includes only Audit Committee and SRC) (As on 31st March, 2021)*

Note: Directorships, committee membership and committee chairmanship include such positions in Hero MotoCorp Ltd

Expertise IEX- Industry Expert, **FIN**-Finance, **MGT**-Management, **ACD-** Academics, **ADM-** Administration

Kindly Click here to view list of abbreviations.

BOARD CHANGES (Since 1st April, 2020)

Director	Company Classification	Appointment Date	Cessation Date	Association (Years)	Age (Years)	Pay (₹ Lakh)	Remark
APPOINTMENTS							**Shareholders' Approval**
B S Dhanoa	ID	1st Oct, 2020	-	1	63	24.00	Ensuing AGM
EXITS							**Reason for cessation**
Paul B Edgerley	ID	4th May, 2011	4th May, 2021	10	65	68.00	Completion of Term

The Company has stated on page 93 of Annual Report FY 2020-21 that *"The Company also has a consultancy service agreement with Prof. Jagmohan Singh Raju for providing consultancy and advisory services to the marketing and sales functions of the Company**."*

The Company has not disclosed whether it had received any service from Mr. Jagmohan Singh Raju during FY 2020-21 or it has made any payment for services pursuant to the said consultancy service agreement.

The Company has stated that "*Non-Executive Directors do not have any other pecuniary relationship with the Company except as stated above.*"

SES is of the opinion that ideally, the Company should not have any pecuniary relationship with the Independent Director (ID). In case the Company intends to avail expert services of an ID, one should be appointed as Non-independent director.

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Chairman and Managing Director ('CMD'): Mr. Pawan Munjal is the Chairman and Managing Director of the Company. SEBI Listing Regulations (effective 1st April, 2022) mandates that Chairperson for top 500 Listed Entities (other than professionally managed entities) shall be a Non-Executive director.

Rationale: *Corporate democracy and management structure envisage three layers, at the top is General Body of shareholders, which guides and approves proposal of the Board, second in line is the Board, which is directed by General body, AoA and MoA and which sets agenda for Management. The Board is headed by Chairman. The Management which is at the bottom of pyramid is headed by Executive Director(s), who are responsible for day to day management and operational issues. Combining the position of ED and Chairman blurs the demarcation between Board and Management. Therefore, keeping in view the spirit behind the aforesaid amendment, SES is of the opinion that the Company should segregate the position of Chairman and Executive Director. SES is of the opinion, good governance demands initiating right practices even before the same are translated into law.*

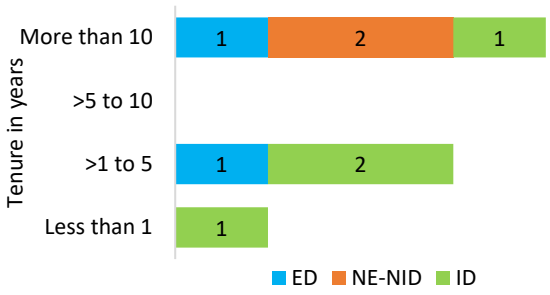
SES View: Governance Concern- Although, presently there is no legal bar on the Chairman of the Company from holding Executive position. SES is of the view that, in light of law applicable in future, as a good governance practice the Company should have separated position of chairman from executive position. Good governance measures must not wait for effective date and must be embraced immediately.

Board Independence: Mr. M Damodaran has been classified as NID, since he has been associated with the Company for more than 10 years.

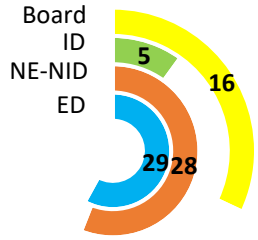
Rationale: *Although, compliant under the law, however, SES as a policy does not consider any director associated with the Company/ Group for more than 10 years to be Independent due to his/their prolonged association.*

TENURE OF DIRECTORS

Directors Tenure with the Company - Distribution



Average Association in Group (In Years)



BOARD POWER QUOTIENT

0	1	0	0	0	0
EX-BUREAUCRATS	EX- REGULATORS	RETIRED JUDGES	FORMER BANKERS	POLITICALLY EXPOSED PERSONS (PEP)	RETIRED HEADS OF PUBLIC FINANCIAL INST

BOARD POWER QUOTIENT - 33.33%*

Ex-Regulators: ***Mr. M Damodaran*** *has served as Chairman, Securities and Exchange Board of India (SEBI), Chairman, Unit Trust of India (UTI), Chairman, Industrial Development Bank of India (IDBI) and Chief Secretary, Government of Tripura.*

Air Chief Marshal B. S. Dhanoa (Retd.) *served as the 25th Chief of the Indian Air Force (IAF) from January 1, 2017 to September 30, 2019.*

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BOARD DIVERSITY

Skills/Expertise/Competence	Existing Directors	Proposed Appointee	Skill/Board
Finance	1		1/8
Management	1	1	2/8
Academics	1		1/8
Administration	1		1/8
Industry Expert	3		3/8



Board Diversity: The Board consists of directors having experience in diverse fields which *inter alia* include Finance, Management, Academics and Industry Experts. The directors are duly qualified with majority of board comprising of Graduates and Professionals.

The Company has a Woman Independent Directors viz. Ms. Trina Trikha.

Law: SEBI Listing Regulations- Top 1,000 Companies (by market capitalization) to have an Independent woman director by 1st April, 2020.

The Company is compliant with the requirement of Independent woman director.

BOARD COMPOSITION

Criteria	Company's data	Nifty 50 Benchmark [1]
No. of Director liable to retire by rotation out of total NID	3/4	-
Inter-se relation of Board members	Yes*	-
Youngest/Eldest director(years)	46/74	-
Average Age of Board(years)	65	62.9
Board Size	8	10.7
% of IDs on Board (LR - 50%)	50%	56.2%
Women Director (%) & Number	13% (1)	19.7% (2.1)
Avg. Time Commitment of the Board (Listed Directorship)	2 LD	2.5 LD
No. of Nominee director(s)	0	-

The Company has 4 Non-Independent Directors out of which 3 are liable to retire by rotation.

Hence, the Company is compliant with Section 152 of the Companies Act 2013.

***Inter-se relation of Board members**- Dr. Pawan Munjal and Mr. Suman Kant Munjal are brothers.

[1] *Benchmarks are computed by SES, using FY 2019-20 average data. Please click here to know more.*

BOARD REGULATORY / GOVERNANCE POSITION

REGULATORY PARAMETERS

All directors elected by the shareholders	Special Resolution for NEDs above 75 years	Special Resolution EDs above 70 years	No Board Interlock situation
Separate meetings of IDs on 15th Jun 2020 and 3rd Feb 2021	No Director Disqualified	No Regulatory Action against the Directors	No Regulatory Action against the Company

Complied Not Complied NA

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GOVERNANCE PARAMETERS (AS PER SES)

No ID holds shares worth > 5 Cr	No, ID has pecuniary relationship	1 ID has >10 years association	No Ex-executive / Ex-Promoter as ID
Director on the Board of Competitors	No Lead ID	Chairman not Independent	Chairman and MD position held by the same person

Positive Negative

BOARD COMMITTEE CONSTITUTION

Committees	No. of members		Chairman's Classification			Overall Independence		
	LR	Company	LR	Company	SES	LR	Company	SES
Audit	3	4	ID	ID	NID	67%	75%	50%
Stakeholders' Relationship	3	3	NED	NED	NED	1 ID	2 ID	1 ID
Nomination & Remuneration	3	4	ID	ID	ID	50%	50%	25%
CSR	3	4	-	EDP	EDP	1 ID	2 ID	2 ID
Risk Management	*	3	-	NED	NED	-	67%	33%

*Kindly Click here to view details of abbreviations used in this table. | *Legal Requirement: Pursuant to amendments in SEBI LODR w.e.f. 5th May 2021, RMC shall have minimum 3 members with majority being Board of Directors, including at least one independent director.*

BOARD COMMITTEE PERFORMANCE

Committees	Number of Meetings			Attendance < 75%
	LR	SES Benchmark	Held	
AC	4	8#	6	-
SRC	1	2	2	-
NRC	1	2	5	-
CSR	-	1	2	-
RMC	1	1	4	-

#*Audit Committee: 4 times for review of quarterly results and 4 times for review of other matters. | Note: Pursuant to amendments in SEBI LODR w.e.f. 5th May 2021, 2 meetings of RMC shall be held in a financial year.* ***Kindly Click here to view details of abbreviations used in this table.***

The Company has conducted the committee meetings as per Legal Requirement. Further, all the directors have attended 100% of the meetings.

EXCESSIVE TIME COMMITMENTS:

Director	Listed Directorship	Committee Membership	Committee Chairmanship
Legal Requirement	**7**	**10**	**5**
SES Limit	**<=5**	**<=6**	**<=3**
Pradeep Dinodia	-	8	5
M Damodaran	**6**	**8**	**4**

Reasonable time commitments of Directors is a good governance practice as they can devote sufficient time to the affairs of the Company.

As per SES, the time commitments of Mr. Pradeep Dinodia and Mr. M. Damodaran appears to be stretched as per SES benchmarks given in the table.

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REMUNERATION ANALYSIS

EXECUTIVE DIRECTORS' REMUNERATION ANALYSIS

In ₹ Crore	PF/ NP	2019		2020		2021			Nifty 50 Benchmarks[1]	
		Fixed Pay	Total Pay	Fixed Pay	Total Pay	Fixed Pay	Total Pay	RMER	ED Pay	RMER
Pawan Munjal	PF	28.66	80.41	37.84	84.59	**48.98**	**86.93**	**826.00x**	18.3	290.9x
Vikram S Kasbekar	NP	6.13	6.19	6.70	6.70	**6.54**	**6.54**	**62.00x**	10.3	148.7x

Note: Fixed pay includes basic pay, perquisites & allowances. Kindly Click here to view details of abbreviations used in this table. | [1] Benchmarks are computed by SES, using FY 2019-20 average data. Please click here to know more.

Variable Component: Major portion of remuneration of Mr. Pawan Munjal consist of variable component. Whereas remuneration for FY 2020-21 paid to Mr. Vikram S. Kasbekar does not have variable component in nature of commission. However, since the Company has provided ESOPs to Mr. Kasbekar, no concern is being raised in this regard.

Skewed Remuneration: The remuneration of Mr. Pawan Munjal (Promoter) ED is 13+ times the remuneration of Mr. Vikram S Kasbekar (Non-Promoter ED). Further, the remuneration to Promoter ED is ~87% of the total board remuneration. This indicates remuneration is skewed in favour of promoter Executive Director. SES is unable to understand such disproportionate distribution of the remuneration between the Non-Promoter ED and Promoter EDs.

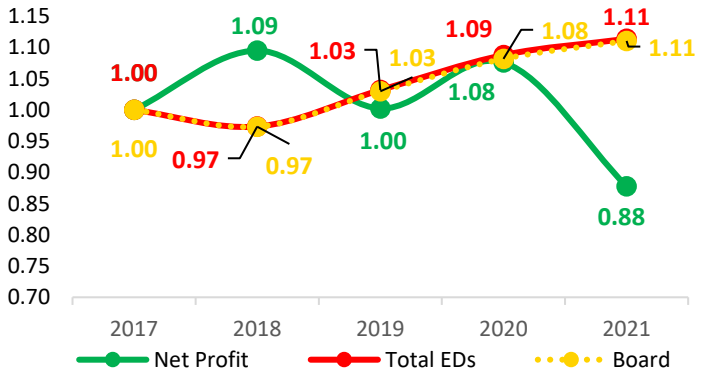
Shareholders should seek clarification from the Company with respect to fairness of its remuneration policy.

EXECUTIVE REMUNERATION - PEER COMPARISON VS RELEVANT NIFTY INDEX (MEAN)

	Pawan Munjal	Rajivnayan Rahulkumar Bajaj	Benchmarks[1]
Company Name	Hero MotoCorp Ltd	Bajaj Auto Ltd	Nifty 50 Index
Promoter Family	Yes	Yes	Promoter ED
Director's Remuneration (Rem)	86.93	40.57	18.3
Total Board Remuneration	97.94	66.06	37.4
Standalone Net Profit	2,964.2	4,554.59	6,658
Rem as % to total Board Remuneration	88.76%	61.41%	36.0%
Rem as % to Profit	2.93%	0.89%	0.9%

[1] Benchmarks are computed by SES, using FY 2019-20 average data. Please click here to know more.

TOTAL EDs REMUNERATION VS STANDALONE PAT (NORMALISED)



DISCUSSION

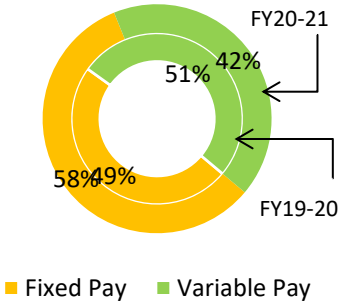
- The net profits of the Company have moved in narrow range between 2017 to 2020. However, the profits significantly decreased in 2021.
- The ED Pay and Board Remuneration has remained in line with the profits from 2017 to 2020. However, the remuneration in 2021 has marginally increased despite the company registering lower profits.

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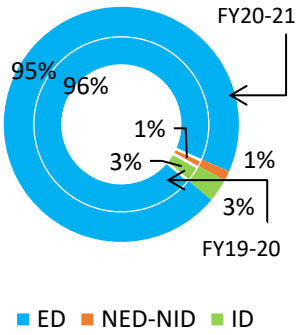
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DIRECTORS REMUNERATION COMPARISON

ED'S PAY DISTRIBUTION



BOARD PAY DISTRIBUTION



FY 2020-21			
BOARD REMUNERATION			
Category (As per Company)	**No. of Directors**	**Rs. ₹ in crores**	**%**
ED	**2**	**93.47**	**95.44**
-P	1	86.93	88.76
-NP	1	6.54	6.68
NED-NID	**2**	**1.32**	**1.35**
-P	1	0.23	0.23
-NP	1	1.09	1.11
ID	**5**	**3.15**	**3.22**
TOTAL	**9**	**97.94**	**100.00**

Note: *Remuneration paid to all directors (including those ceased) during FY 2020-21 have been considered.*

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MAJOR DISCLOSURES

☑	Statement on Compliance with applicable Secretarial Standards	☐	Form No. MGT 7 for FY 2020-21 not disclosed [1]
*	Related Party Transactions as per Form No. AOC.2	☑	Chart or Matrix of setting out the skills/ expertise/ competence of the board of directors
*	Secretarial Audit Report of Indian Unlisted Material Subsidiary, if any	☑	Details of establishment of Vigil Mechanism
*	Comments on qualifications made by Statutory Auditors/ Secretarial Auditor	☑	Constitution of Risk Management Committee (If applicable)
☑	Constitution of Sexual harassment Committee/ Internal Complaints Committee	☑	Succession Planning
☑	Review and monitoring of Cyber Security		

DISCLOSURE OF MAJOR POLICIES

☑	Whistle Blower Policy	☑	CSR Policy
☑	Material subsidiary policy disclosed.	☑	Related Party Policy
☑	Policy/Code of Conduct on insider trading disclosed	☑	Dividend Distribution Policy
☑	Policy on remuneration of Directors, KMP and other employees	☑	BRR or Sustainability Report or Integrated Reporting

☑ *- Disclosed ;* ☐ *- Not disclosed;* * *- Not applicable*

[1] **Annual Return as per Form No. MGT 7:** The Company has mentioned in Page #74 of Annual Report 2020-21 that ***"The annual return is available under the 'Investors' section of the Company's website, www.heromotocorp.com and can be viewed at the following link: https://www.heromotocorp.com/en-in/investor-downloads.html."***

However, it may be noted that SES could not locate the same for FY 2020-21 on the link provided in the Annual Report. The Company has disclosed for FY 2019-20. Therefore, SES considers this an omission on part of the Company for disclosure of Annual Return of the Company for FY 2020-21 on its website. (Kindly click here for SES view on disclosure of MGT-7)

PAST VOTING RESULTS

Past Year Data Observation: The table below depicts Resolutions in which more than 20% Against votes were cast by public shareholders who participated in voting.

Year	Type	Agenda Item No.	Brief description of Resolution	Public Against / Public Polled	Promoter Against / Promoter Polled	Approved/ Rejected
2020	**AGM**	**3**	To appoint a Director in place of Mr. Suman Kant Munjal (DIN: 00002803) who retires by rotation and being eligible, offers himself for re-appointment.	31.59		Approved

****SES had recommended FOR this resolution.***

SES view: Investors have shown significant dissent. The Company should take note of dissent by shareholders and engage to find out what are the reasons for dissent and take steps to reduce chances of such dissent.

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CORPORATE SOCIAL RESPONSIBILITY (CSR)

Particulars (in ₹ Crores)	2018 - 19	2019 - 20	2020 - 21
Average Net Profit for last three years	4,686.13	4,827.43	4,852.77
Prescribed CSR Expenditure (2% of average net profit)	93.72	96.55	97.06
Actual CSR expenditure	101.95	130.61	99.73*
Expenditure Performance (Actual/ Prescribed)	108.78%	135.28%	102.75%

The Company has spent the prescribed amount on CSR activities in past three years.

**Includes an amount of ₹ 31.38 crore (Contribution to PM Cares Fund) from FY 2019-20 set-off for succeeding years*

INVESTOR COMPLAINTS

Quarter Ending	Pending at the Beginning	Received during the Quarter	Disposed off	Unresolved at the end of the Quarter
Jun 2021	18	158	172	4
March 2021	1	178	161	18
Dec 2020	3	75	77	1
Sep 2020	2	74	73	3

Source: NSE

STAKEHOLDERS ENGAGEMENT

Criteria	Response*
No. of Investors presentation during year	ND
No. Investors conference call during the year	4 (Link)
Call transcripts disclosed	Yes

Although, SES could locate the call transcripts in Company's website, the Investor Presentation for FY 2020-21 could not be located.

*** Figures indicates announcements which could be located by SES**

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RESOLUTION ANALYSIS

RESOLUTION 1: ADOPTION OF FINANCIAL STATEMENTS

To receive, consider and adopt the audited standalone financial statements of the Company for the financial year ended March 31, 2021 together with the reports of the Directors' and Auditors' thereon and the audited consolidated financial statements of the Company for the financial year ended March 31, 2021.	**FOR**

SES RATIONALE

Unqualified Statements. No governance concern identified.

SES ANALYSIS

Note: Detailed analysis of the accounts is not within the scope of SES' activities. SES accepts the Report of the Directors and the Auditors to be true and fair representation of the company's financial position. The analysis below is aimed at enabling shareholders to engage in discussions with the Board/ Management during the AGM.

AUDITORS INFORMATION

Name of Statutory auditor	B S R & Co. LLP
Auditor's Network	KPMG
Auditor Tenure (Year)	4 years
Term	1st Term
Audit Partner	Manish Gupta
Partner tenure (Year)	2 years
Shareholders' approval	34th AGM held in 14th July, 2017 for 1st term of 5 years till the conclusion of 39th AGM
Resignation/Removal of Auditors during FY 2020-21	No

AUDIT QUALIFICATIONS & KEY AUDIT MATTERS

Audit Qualifications- The Auditors have not made any qualifications in their Report for FY 2020-21.

Key Audit Matters- Detailed disclosure on key audit matters is available on Page #138 of the Annual Report for Standalone Financial Statements and on Page #210 of the Annual Report for Consolidated Financial Statements.

ACCOUNTING POLICIES

The standalone and consolidated financial statements have been prepared in accordance with Indian Accounting Standards (Ind AS) as per the Companies (Indian Accounting Standards) Rules, 2015 notified under section 133 of Companies Act, 2013, (the 'Act') and other relevant provisions of the Act.

FINANCIAL INDICATORS (AS PER COMPANY)

	Mar' 20	Mar' 21	Shift	Company Discussion
Debtors Turnover (Times)	16.30	19.15	17.48%	*Debtor turnover ratio increased from 16.30 times in FY 2019-20 to 19.15 times in FY 2020-21 mainly on account of increased topline and lower average debtors compared to previous year*
Inventory Turnover (Times)	22.52	19.15	-14.96%	*Inventory turnover ratio has marginally fallen from 22.52 times in FY 2019-20 to 19.15 times in FY 2020-21 because of increase in average inventory level in comparison to cost of goods sold.*
Current Ratio (Times)	0.90	0.78	-13.33%	*Overall the trade receivables, inventory and trade payables of the Company has increased owing to the BS VI pricing premium. As the company operates on a negative working capital has resulted in a fall in current ratio from 0.90 in FY 2019-20 to 0.78 in FY 2020-21*
Operating Profit Margin (%)	10.89	10.85	-0.37%	*Operating margin for the year is similar to those of previous year, marginally falling by 0.3% on account of negative operating leverage*

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Net Profit Margin (%)	12.27	9.45	-22.98%	*Net profit margin decreased by 282 bps (9.45% Vs 12.27 % FY 2019-20). Lower net profit margin is mainly attributable due to net exceptional income in previous year and lower effective tax rate due to cumulative effect of changes in tax rates*
Operating Profit Margin (%)	26.92	20.21	-24.92%	*Return on net worth decreased by 6.7% (20.2% Vs 26.9% FY 2019-20). Lower return on net worth is mainly attributable due to net exceptional income of 677 crore in previous year*

Source: Company's Annual Reports

Law: *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 therefor in Management Discussion and Analysis.*

The Company has mentioned the Key Financial Ratios on Page #51 Annual Report and discussed the reason for shift in ratios.

CONTINGENT LIABILITIES (CONSOLIDATED)

(All figures in ₹ Crore)	Mar' 20	Mar' 21
Total contingent liabilities	75.66	87.75
Net worth of the Company	14,546.88	15,559.61
Contingent liabilities as a percentage of net worth	0.52%	0.56%

Source: Company's Annual Reports

Major portion of contingent liabilities is constituted by provisions for legal proceedings.

RELATED PARTY TRANSACTIONS (CONSOLIDATED)

The related party transactions for FY 2020-21 are not material. The Company has stated that *"During FY 2020-21, your Company has not entered into any contract/arrangement/transaction with related parties which could be considered 'material' in accordance with its Policy on Materiality of Related Party Transactions."*

STANDALONE VS CONSOLIDATED FINANCIAL STATEMENTS

There is no significant difference between standalone and consolidated financial statements.

CLUBBED RESOLUTION

SES is of the opinion that the Standalone Financial Statements and Consolidated Financial Statements are two independent matters, and the Company should propose them in different resolutions. SES does not consider, bunching of separate matters in a single resolution as a good governance practice, as it deprives the shareholders of the option of making different voting decisions on these separate matters. For example, in case a shareholder does not want to vote in favour of the Consolidated financial but is in favour of the Standalone Financial results, shareholder does not have the choice to vote in favour for the Standalone and against the Consolidated Financial statements. Though, not legally required, but as a good governance practice the Company should provide opportunity to the shareholders to vote for such resolutions independently

SES VIEW

The Auditors have not made any qualifications with respect to the standalone and consolidated financial statements of the Company. No concern identified.

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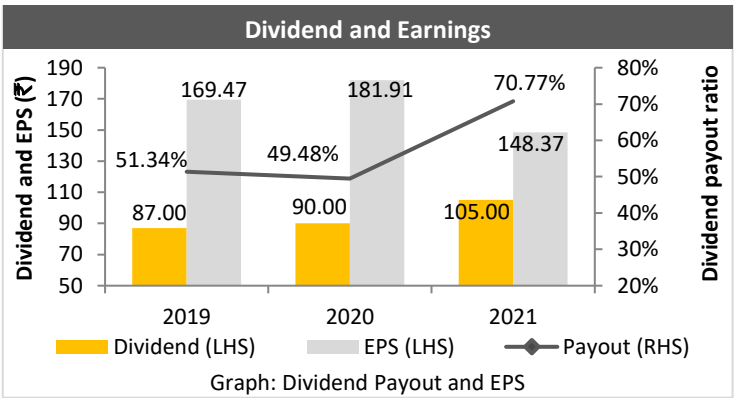
RESOLUTION 2: CONFIRMATION AND DECLARATION OF DIVIDEND

To confirm payment of interim dividend of ₹ 70/- per equity share and to declare a final dividend of ₹ 35/-per equity share for the financial year 2020-21.	**FOR**

SES RATIONALE

Sufficient funds. No governance concern identified.

SES ANALYSIS



Graph: Dividend Payout and EPS

SES View on Proposed Dividend

- Interim dividend paid: ₹ 70 per Equity Share.
- Proposed final dividend: ₹ 35 per Equity Share.
- The dividend for the year i.e. ₹ 105/- per Equity Share

The Company has sufficient resources to pay the final dividend. No concern has been identified.

DISCLOSURE OF DIVIDEND DISTRIBUTION POLICY

Has the Company disclosed the Dividend Distribution Policy('DDP')?	Yes
Is the DDP objective and enables the shareholder to estimate the likely dividend?	No
Has the Company paid dividend in line with its DDP?	NA

SES VIEW ON DIVIDEND DISTRIBUTION POLICY

The Company has disclosed its Dividend Distribution Policy on its website as per Regulation 43A of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015. The policy disclosed is in technical compliance with the SEBI directive, without in any way helping the investor. The policy states theory and parameters that are used for deciding payment of dividend without ascribing any value to threshold for payment or non-payment of dividend. SES understand that idea of market Regulator SEBI behind mandating Dividend Policy disclosure was to provide a tool in the hand of investor to estimate likely dividend based on available and disclosed financial performance and to question the management in case policy is not followed. In present form, the investor neither can estimate dividend nor can question. Any decision of Board will be compliant with the policy. This is one more example of investors being failed by Board of a Company despite Regulator's best intention.

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RESOLUTION 3: REAPPOINTMENT OF NON-EXECUTIVE DIRECTOR

To appoint a Director in place of Mr. Pradeep Dinodia who retires by rotation and being eligible, offers himself for re-appointment.	**FOR**

SES RATIONALE

Compliant with law. No major governance concern identified.

SES ANALYSIS

DIRECTOR'S PROFILE

Pradeep Dinodia

Age: 67 years

Full time positions: None

Education: B. Eco, LLB, CA

Functional Area: Finance

Past Experience (As per Annual Report): *"He is a Fellow Member of The Institute of Chartered Accountants of India and Chairman and Managing Partner in the Delhi-based Chartered Accountancy firm M/s. S.R. Dinodia & Co. LLP. He is the Chairman of Shriram Pistons & Rings Limited and Non-Executive Independent Director in Hero FinCorp Limited and DCM Shriram Limited. He has co-authored a book, "Transfer Pricing Demystified".*

Committee positions in the Company: AC(M), SRC(C), NRC(M), CSRC(M), RMC(C)

Retirement by rotation: Retiring

Director Category (As per SES): Non-Promoter

Date of original Appointment: 31st March, 2001

Total Association (Including Group): 20 years

Proposed approval: Re-appointment as a director liable to retire by rotation.

DIRECTORS' TIME COMMITMENTS

Name	Full time role/ executive position	Directorships			Total Committee	
		Total	In listed entities	As ID in listed entities	Member	Chairman
Statutory Limit	2	20	7	7#/3*	10	5
SES Limit	1**	20	5	5#/3*	6	3
Pradeep Dinodia	0	4	3	1	**8**	5

Note: Committee memberships include Committee chairmanships (includes only Audit Committee and Stakeholders Relationship Committee), Total Directorships include Directorships in Public as well Private Companies | **2 full-time positions, in case of subsidiary and related business# *If Director is Non-Executive Director across all listed entities. | * If Director is Executive Director in any listed entity*

DIRECTORS' PERFORMANCE

Attendance Record	Last 3 AGMs	BM Last year	BM during 2 FYs (Prior to FY2021)	AC	SRC	NRC	RM	CSRC
SES Benchmark		At least 50%	At least 50%	At least 50%	-	At least 50%	-	-
Pradeep Dinodia	3/3	100% (5/5)	100% (9/9)	100% (6/6)	100% (2/2)	100% (5/5)	100% (4/4)	100% (2/2)

SES VIEW

The Company is seeking shareholders' approval for reappointment of Mr. Pradeep Dinodia as a director liable to retire by rotation.

Shareholders may note that Mr. Dinodia is member in 8 Audit/Stakeholder committees out of which he is Chairman in 5 of them. As per SES his time commitments are stretched. However, no major concern is being raised in this regard.

There is no concern with respect to his profile and past attendance performance.

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RESOLUTION 4: PAYMENT TO COST AUDITORS

Ratification of remuneration of Cost Auditors for financial year 2021-22.	**FOR**

SES RATIONALE

Compliant with law. No major concern identified.

SES ANALYSIS

COMPANY'S JUSTIFICATION

Based on the recommendation of Audit Committee, the Board at its meeting held on May 6, 2021 has approved the appointment of ***M/s. R J Goel & Co., Cost Accountants (Firm Registration No. 000026) as Cost Auditors for the financial year 2021-22 at a remuneration of 3,00,000/- (Rupees Three Lakh only) plus applicable taxes and reimbursement of out of pocket expenses.***

SES VIEW

The Board is seeking ratification of remuneration of ₹ 3 lakhs payable to the Cost Auditor viz. M/s. R J Goel & Co., Cost Accountants for Financial Year 2021-22. Shareholders may note that:

- Disclosure of the Audit Fee proposed to the Cost Auditor alone, becomes irrelevant if shareholders are unable to compare it with the scope of Cost Audit;
- In the present case, the Company has not disclosed portion of the turnover that is subject to Cost Audit, therefore, SES is assuming that the entire turnover of the Company is subject to cost audit.
- In Nov 2012, MCA raised concern relating to quality of the Cost Audit Report and indicated low audit fee may be a cause therefor (Weblink)
- The Institute of Cost Accountants of India ('ICAI') in the year 2019, had suggested minimum professional fees to be paid to the Cost Auditors based on turnover (Weblink);
- A comparison of the suggested Audit fee vs the actual fee paid/ payable is as follows:

Turnover as per Latest Financial Statements (₹ in crores)	Minimum Cost Auditor Fee suggested (in ₹ lacs)	Remuneration proposed to be ratified (in ₹ lacs)
₹ 30,800.62	₹ 30+	₹ 3 + Out of Pocket Expenses

- In the instant case, the Cost Audit fee proposed is significantly less than the fee suggested by the ICAI based on turnover of the Company and the Company has not provided any justification in the Notice.
- According to SES, Shareholders of the Company will not be able to know whether the Cost Audit remuneration is commensurate with the scope of Cost Audit since the Company has not disclosed portion of the turnover that is subject to Cost Audit.

Absence of any justification relating to the amount of Cost Audit fee paid / payable, shareholders may not be able to take an informed decision regarding the adequacy / appropriateness of the fee.

SES is of the view that in order to get independent and good quality opinion/ report from professionals, their remuneration must be fair. However, no major concern is being raised.

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RESOLUTION 5: APPOINTMENT OF INDEPENDENT DIRECTOR

Appointment of Air Chief Marshal B S Dhanoa (Retd.) as an Independent Director of the Company.	**FOR**

SES RATIONALE

Compliant with law. No governance concern identified.

SES ANALYSIS

DIRECTOR'S PROFILE

Air Chief Marshal B S Dhanoa (Retd.)

Age: 63 years

Full time positions: None

Education: M. Sc. (Defence Studies)

Functional Area: Management

Past Experience (As per Annual Report): *"He has an illustrious career with Indian Air Force and has served at various ranks. He served as the Air Officer Commanding-in Chief of South Western Air Command before taking over as the Vice Chief of Air Staff (VCAS) in May 2015. He served as the 25th Chief of the Indian Air Force (IAF) from January 1, 2017 to September 30, 2019 and led the IAF when it executed air strikes over Balakot in Pakistan in February 2019. He has been awarded with the Param Vishisht Seva Medal in 2016, Ati Vishisht Seva Medal in 2015, Yudh Seva Medal 1999 and Vayu Sena Medal in 1999."*

Committee positions in the Company: AC(M), RMC(M)

Date of original Appointment: 1st October, 2020

Total Association (Including Group): 9 months

Proposed approval: Appointment as an Independent Director of the Company, for a period of 5 years, not liable to retire by rotation

DIRECTORS' INDEPENDENCE

Name	Current tenure/ association	Directorships at group companies	Relationships with the Company	Shareholding / ESOPs	Remuneration (₹ Lakhs)	Current SES Classification
Air Chief Marshal B S Dhanoa (Retd)	9 months	None	None	0	24	**INDEPENDENT**

DIRECTORS' TIME COMMITMENTS

Name	Full time role/ executive position	Directorships			Total Committee	
		Total	In listed entities	As ID in listed entities	Member	Chairman
Statutory Limit	2	20	7	7#/3*	10	5
SES Limit	1**	20	5	5#/3*	6	3
Air Chief Marshal B S Dhanoa (Retd)	0	1	1	1	1	0

Note: Committee memberships include Committee chairmanships (includes only Audit Committee and Stakeholders Relationship Committee), Total Directorships include Directorships in Public as well Private Companies | **2 full-time positions, in case of subsidiary and related business *# If Director is Non-Executive Director across all listed entities. | * If Director is Executive Director in any listed entity*

DIRECTORS' PERFORMANCE

Attendance Record	BM Last year	AC	RM
SES Benchmark	At least 75%	At least 75%	-
Air Chief Marshal B S Dhanoa (Retd)	100% (2/2)	100% (2/2)	100% (1/1)

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SES VIEW

The Company is seeking shareholders' approval for appointment of Air Chief Marshal B S Dhanoa (Retd.) as an Independent director, not liable to retire by rotation, for a period of 5 years w.e.f 1st October 2020 to 30th September 2025.

Additional Expertise / Skills added to the Board IQ	
Director Name	**Additional Expertise / Skills**
Air Chief Marshal B S Dhanoa (Retd.)	Management

Air Chief Marshal B S Dhanoa (Retd.) has served in various posts in Air force including Air Officer Commanding-in Chief of South Western Air Command, Vice Chief of Air Staff and 25th Chief of the Indian Air Force (IAF). Considering his rich experience, his presence on the Board may be an additional advantage for the Company.

There is no concern with respect to his time commitments and independence.

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RESOLUTION 6 & 7: REAPPOINTMENT OF EXECUTIVE DIRECTOR

#6: Re- appointment of Dr. Pawan Munjal as a Whole-time Director of the Company	**AGAINST**
#7: To approve terms and conditions and payment of remuneration of Dr. Pawan Munjal as the Whole-time Director of the Company.	**AGAINST**

SES RATIONALE

#6 & #7: Compliant with law. Governance Concern: Holds position of Chairman & MD. Skewed Remuneration.

SES ANALYSIS

DIRECTOR'S PROFILE

Pawan Munjal

Age: 66 years

Full time positions: CMD & CEO of Hero MotoCorp Ltd

Education: B. Tech

Functional Area: Industry Expert

Past Experience: "*He is the Chairman & CEO of Hero MotoCorp, the world's largest manufacturer of motorcycles and scooters. Dr. Munjal sits on the Boards of various companies in addition to holding executive positions at key Indian industry bodies - Confederation of Indian Industry (CII) and Society of Indian Automobile Manufacturers (SIAM).*

Committee positions in the Company: NRC(M),CSRC(C)

Retirement by rotation: Non Retiring

Director Category (SES): Promoter

Date of original Appointment: 1st April, 1986

Total Association (Including Group): 42 years

Proposed approval: Reappointment as an Executive Director of the Company

PAST REMUNERATION OF THE DIRECTOR

In ₹ Crore	FY 18/19		FY 19/20		FY 20/21	
Executive Director	Fixed Pay	Total Pay	Fixed Pay	Total Pay	Fixed Pay	Total Pay
Pawan Munjal	28.66	80.41	37.84	84.59	**48.98**	**86.93**

DIRECTORS' TIME COMMITMENTS

Name	Full time role/ executive position	Directorships			Total Committee	
		Total	In listed entities	As ID in listed entities	Member	Chairman
Statutory Limit	2	20	7	7#/3*	10	5
SES Limit	1**	20	5	5#/3*	6	3
Pawan Munjal	1	7	1	0	0	0

Note: Committee memberships include Committee chairmanships (includes only Audit Committee and Stakeholders Relationship Committee), Total Directorships include Directorships in Public as well Private Companies | **2 full-time positions, in case of subsidiary and related business *# If Director is Non-Executive Director across all listed entities. | * If Director is Executive Director in any listed entity*

DIRECTORS' PERFORMANCE

Attendance Record	Last 3 AGMs	BM Last year	BM during 2 FYs (Prior to FY2021)	NRC	CSRC
SES Benchmark		At least 75%	At least 75%	At least 75%	-
Pawan Munjal	3/3	100% (5/5)	100% (9/9)	100% (3/3)	100% (2/2)

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REMUNERATION PACKAGE OF PAWAN MUNJAL WEF 1ST OCTOBER 2021

Component	Proposed Remuneration	Comments
Basic Pay	Proposed Salary: ₹ 1.84 crores per month Annual increment: *The annual increase, if any, in salary effective April 1, 2022 to be decided by the Board of Directors on the recommendations of the Nomination and Remuneration Committee of the Board.*	Increase in remuneration: 145% from the previous remuneration
Perquisites/ Allowances*	All perquisites/allowances clearly defined: Yes Total perquisites/allowances: Not Disclosed	Cap placed on perquisites/allowances: Yes, for various components
Variable Pay	Not exceeding 1% of net profits	Performance criteria disclosed: Yes Cap placed on variable pay: No absolute cap
Notice Period Severance Pay	None None	
Minimum Remuneration	*Entitled to minimum remuneration by way of basic salary, perquisites, allowances within limits prescribed under Section II, Part II of Schedule V to the Companies Act, 2013, as amended from time to time.*	Includes variable pay: No

A special allowance of 75% of Basic Salary is proposed to be paid to Dr. Pawan Munjal

SES VIEW ON PROPOSED REMUNERATION: The Company has not provided an absolute cap on the variable pay proposed to Dr. Pawan Munjal. Further, a sizeable 75% of the basic salary is proposed to be paid to him as special allowance. The Company has not disclosed the terms of allowance. SES is raising concern in this regard.

SES VIEW

#6 & #7: The Company is seeking shareholders' approval for the reappointment of Dr. Pawan Munjal as a Whole-time Director designated as 'Chairman & CEO' (or such other designation as may be decided by the Board and /or Nomination and Remuneration Committee (NRC) from time to time) for a term of 5 (five) years from the expiry of his present term of office, viz. with effect from October 1, 2021 till September 30, 2026.

Further, approval is being sought for re-designation of Dr. Pawan Munjal in terms of Regulation 17(1B) of SEBI LODR (as may be required and decided by the Board of Directors and /or the NRC.) and continuation of his directorship on account of attaining 70 years age during the proposed term (as per Companies Act, 2013).

Shareholders' may note that:

- There is no concern with respect to Dr. Munjal's profile, time commitments and past attendance.
- However, SES is raising concern on the ground of concentration of power due to holding position of Chairman and Managing Director by same person viz. Mr. Munjal (Read more).
- Further, although the Company is taking approval for re-designation of Dr. Munjal as per Reg 17(1B), SES fails to understand that why does the Company intend to appoint Dr. Munjal as Executive Chairman for 6 months, when the Company will have to re-designate on or before 1st April 2022 [effective date of 17(1B)].

> ***With effect from April 1, 2022, the top 500 listed entities shall ensure that the Chairperson of the board of such listed entity shall –***
> ***(a) be a non-executive director;***
> *(b) not be related to the Managing Director or the Chief Executive Officer as per the definition of the term "relative" defined under the Companies Act, 2013*

- SES also raises concern on the view of observations mentioned in "SES View on Proposed Remuneration"
- Further, as per SES, the remuneration practice is skewed in favour of Promoters (Read more).

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- The median remuneration of employees of the Company during the financial year was ₹ 10.52 lakhs.
- Median salary of employees in current year has decreased by 6.47% in comparison to the previous year. The number of permanent employees has increased from 8,599 in 2020 to 8,793 in 2021.
- It is observed that despite the degrowth in median remuneration of the employees, Mr. Munjal's pay has increased ₹ 2.34 crores compared to 2020. This indicates that his remuneration is disproportionate when compared to employees in the Company.

In view of the above, SES is raising concern on the resolution.

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RESOLUTION 8: APPROVAL OF ESOP SCHEME

To approve extension of benefits of Employee Incentive Scheme - 2014 to the eligible employees of the subsidiary companies.	**AGAINST**

SES RATIONALE

Non-Compliance: Non-disclosure of exercise price **Governance Concern:** Excessive maximum options per employee.

SES ANALYSIS

ESOP DISCLOSURES

Disclosure requirement	Yes/ No	Disclosure
Total Options/RSUs	Yes	Not exceeding 49,90,000 equity shares of the Company of the face value of Rs. 2 each. The total ESOPs/ RSUs including ESOP Scheme of 2012 (20,00,000) shall collectively not exceed, at all times, 2.5% of the issued and paid-up equity share capital of the Company.
Employee eligibility	Yes	*All permanent employees working in India or out of India and Directors (whether Managing/ Whole-time Director or not) (except for those who either by themselves or through their relatives or through any body corporate hold directly or indirectly more than 10 % of the issued and subscribed share capital of the Company) of the Company and its Holding Company or Subsidiaries (excluding promoters and employees belonging to Promoter Companies) and further excluding Independent Director as may be decided by the Nomination and Remuneration Committee ('NRC'), from time to time would be entitled to Options and/or RSUs under the Employee Incentive Scheme 2014.*
Vesting period	Yes	***The options and/or RSUs granted under the Scheme would not vest earlier than one year from the grant date in accordance with the SEBI Guidelines*** *or such other period or manner as may be determined by the NRC from time to time on the grant date subject to the conditions as stated in the scheme or prescribed by NRC.*
Exercise period	Yes	***The exercise period means such time period after Vesting within which the Grantee should exercise the vested Options and/ or vested RSUs in pursuance of the Employee Incentive Scheme 2014.***
Exercise price	Yes	***The exercise price per Option and/or RSUs may be decided by the NRC at the time of grant. The NRC, if decide unanimously at their meeting, has the power to vary the aforesaid Exercise Price among the different categories/levels of the employees.***
Appraisal process	Yes	*The appraisal process for determining the eligibility of the Employees will be specified by the NRC, and will be based on criteria such as role/level of the Employee, past performance record, future potential of the Employee, balance number of years of service until normal retirement age and/or such other criteria that may be determined by the NRC at its sole discretion.*
Max options/employee	Yes	***no employee shall be granted, in any fiscal year of the Company, Options and/or RSUs to purchase more than or equalling to 1 (one) % of the issued and paid up share capital as on the date of grant (excluding outstanding Options and/or RSUs and conversions) unless approval of members in the general meeting by way of separate resolution has been obtained.***
Conformity with accounting policies	Yes	*The Company shall conform to the accounting policies specified in the SEBI Guidelines, and/or such other guidelines or accounting standards as may be applicable, from time to time.*
Valuation methodology	Yes	*The Company shall follow the fair value method for computing the compensation cost for the Options and/or RSUs. The Nomination and Remuneration Committee shall decide the pricing model to be followed subject to compliance with applicable laws and regulations framed therein, from time to time.*
Transferability of options	Yes	*The Option and/or RSUs granted to an employee will not be transferable or assignable to any person except in the event of death of the grantee and the Option and/or RSUs shall be exercisable, during such employee's lifetime, only by him or by his Beneficiary in accordance with the Employees*

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		Incentive Scheme 2014. The Option and/or RSUs granted shall not be pledged, hypothecated, mortgaged or otherwise alienated in any manner, at any time.
Dilution		The number of Outstanding Options/RSU as of 31st March 2021 is 2,78,386. The dilution caused due to the outstanding options is 0.14%.
Route of issue	Yes	*The Scheme shall be administered by the Company and not through a trust.*

SCHEME ADMINISTRATION

Criteria	Yes/No	Comments
Compensation committee independence	Yes	The NRC does not have adequate independence as per SES
Accelerated vesting	No	
Discretion to board to modify scheme	No	

SES VIEW

The Company is seeking shareholders' approval for extension of Employee Incentive Scheme 2014 to eligible employees of subsidiary companies. SES has following observations relating to the scheme-

Possible Drafting Error

SES has observed that there is a material difference in terms of ESOP 2014 disclosures as per SEBI 2015 Circular in Page #79 of the Annual Report and the scheme mentioned in Notice.

Terms as per Notice	Terms as per Annual Report
The exercise period means such time period after Vesting within which the Grantee should exercise the vested Options and/ or vested RSUs in pursuance of the Employee Incentive Scheme 2014.	*The Options and/or RSUs granted to a grantee **shall be capable of being exercised within a period of not exceeding seven years from the date of Grant** of the respective options and/or RSUs or such other period as may be determined by the Nomination and Remuneration Committee from time to time*

SES is of the view that the Company must align the disclosures in the Notice with that of the Annual Report.

For the sake of analysis, SES shall consider the disclosures made in the Annual Report.

Non-Disclosure of Exercise Price:

- The Exercise Price would be determined by NRC, provided that it is not less than face value of equity shares as on the date of grant. SES is of the opinion that the disclosure is not a material addition, since the Company cannot issue shares at a discount to face value in the first place, as per law.
- Further, it may be noted that the Company has not provided a fixed exercise price or a pricing formula as required under Regulation 6(2) of SEBI SBEB Regulations, 2014 read with SEBI Circular (CIR/CFD/POLICY CELL/2/2015) dated 16th June 2015. The aforesaid regulation is mentioned hereunder-

> *"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;*

According to SES, such power defeats the purpose of shareholders' approval and is against the principles of good corporate governance.

Maximum Options to Employee

- It is also observed that the Company has set the cap for maximum options to less than 1% of the issued Capital at the time of grant of options. Assuming the issued Capital as on 20th July 2021, an employee is entitled to 19,97,898 options, constituting ~40% of the ESOP issue. Assuming that the option is exercised at face value of 2 per share as on 20th July 2021 (market price), the

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employee will derive an economic benefit of ₹ 576.42 crores. SES is of the view that vesting of such a massive economic benefit to any employee may be prejudicial to other employees within the organisation.

- SES understands that it may not be the intention of the Company to grant significant portion to single individual and allotment will be made in a rational manner. However, if one goes by the disclosure a theoretical possibility cannot be ruled out.

In view of the above, SES is raising concern.

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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.

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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

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