

THE **2020** EXECUTIVE & BOARD REMUNERATION REPORT



**Executive and Non Executive Director Compensation | Board
Performance and Composition | Board Independence | Gender Analysis**

Featuring substantial enhancements and additions to the 2019 edition

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Introduction

IMA India's **2020 Executive and Board Remuneration Report** presents an analysis of compensation trends amongst 16,611 executive and non-executive Directors on the Boards of **1,585 India-listed companies and 252 unlisted companies (those with revenues of Rs 100 crores or more in 2019-20)**. It covers a 5-year period, from **FY16 to FY20**, and draws representation from both **private sector and PSU firms**, distributed across the **large-cap, mid-cap, small-cap, micro-cap and unlisted** categories.

Pay data is presented for Executive and Non-Executive Chairmen, CEOs/MDs, CFOs, Whole-time Directors, Company Secretaries and Non-Executive Directors (NEDs). Detailed data-splits are offered for each type of Director, by sector, ownership (foreign versus Indian), revenue, net profit, company age, and market capitalisation – and combinations thereof. For governance-related metrics, an additional filter is presented to distinguish companies on the basis of their ESG (Environment, Sustainability, Governance) rankings.

The report includes data and analysis on :

- **Total CTC pay:** mean, medians, 10th, 25th, 75th and 90th percentile levels, and distribution by pay-range.
- **Composition of Pay:** fixed pay, variable pay, and employee stock options (ESOPs).
- **Changes in pay** in FY16, FY17, FY18, FY19 and FY20 and compounded annual change over the full period.
- **Pay vs performance:** absolute and annualised changes in pay against changes in revenue and PAT over FY15-20.
- **Highest paid** CMDs, CEOs and CFOs and executive pay ratio.
- **Gender gaps** in representation and pay.
- **Governance metrics:** Board size and composition, number of NEDs, number of IDs, share of income from ID and non-ID roles, Board independence, total Board compensation bill, and number of Board meetings held each year.

Data Sources and Definitions (1/3)

Data was collated and distilled from company annual reports, which are available in the public domain, and from filings with the Ministry of Corporate Affairs (MCA), Government of India. As a rule, **pay data is limited to individuals, both executive and non-executive, who are members of a company's Board of Directors.**

Companies report compensation data in varying forms, though there is a growing move towards uniformity. In interpreting and standardising this data, the **following definitions/assumptions have been employed:**

Designations and classifications

- Given that the roles of the **Executive Chairman and CMD** are in most cases indistinguishable, these have been combined in a single grouping.
- **Executive Directors (EDs)** are defined as executives who occupy full time Board positions but who do not fall into any of the specific categories covered in the report: Chairman/CMD, CEO, CFO, Company Secretary.
- In some cases, the reported data does not clearly distinguish between **executive and non-executive positions**. Given that whole time directors are by definition 'executives', it is assumed all CMDs, CEOs, CFOs, EDs and Company Secretaries (CSs) are executive directors.
- **Non-Executive Directors (NEDs)** are defined as those who are explicitly listed in the data as being an NED, or (if such an identifier is missing and their designation is listed simply as 'Director' or the like) whose pay composition fits the profile of a non-executive, i.e., where it comes exclusively from sitting fees and bonus/commission.
- Classifications of individuals as being a **Promoter and/or Independent Director** are done on the basis of self-reporting by the company. Where a person is not explicitly identified as a promoter, it is assumed that they are a non-promoter. With regard to 'independence', all executive positions are assumed, as per the prevailing SEBI guidelines, to be non-independent. For non-executive positions, the classification is purely on the basis of self-reporting.
- For the majority of **unlisted companies, the quality of data with regard to promoter status is found to be suspect**, and all unlisted companies are therefore excluded from the analysis with respect to such measures as promoter presence on the Board, share of promoters, etc.

Data Sources and Definitions (2/3)

Pay-related issues

To ensure consistency in the pay data and remove genuine outliers, the following adjustments have been made:

- All **directors who have worked in an assignment for less than 3 months** during a particular financial year are excluded from the analysis.
- Conversely, **NEDs who have served on the Board for a full year but whose reported income falls below a minimum threshold** have been excluded as these numbers are likely to be erroneous.
- **For those who have worked more than 3 months but less than a full year** (364/365 days), the fixed component of their pay has been prorated for the full period, while the variable component has been left untouched. For example, if individual X worked for 6 months and earned Rs 2 mn as fixed pay and Rs 3 mn as variable pay, i.e., a total of Rs 5 mn, his/her 'adjusted' pay for the year would work out to Rs 7 mn (Rs 2 mn x 2 + Rs 3 mn).
- **These corrections have been made to ensure a genuine like-for-like comparison across financial years** and to remove some of the noise that would otherwise skew the CTC averages down (and the YoY changes up).
- **Increments are calculated at the individual level**, i.e., for an individual who has been in the same role at the same company for 2 or more years. For changes in pay, only the median (i.e., 50th percentile) change is reported. This is because CXO pay tends to be volatile, and means (i.e., arithmetic averages) tend to skew upwards or downwards.

Company demographics

- **Market-cap groupings** are on the basis of the most recent SEBI guidelines, which regard the 100 biggest (listed) firms by market capitalisation as 'Large-cap'; the next 150 as 'Mid-cap'; and the remainder as 'Small-cap'. However, as an aid to analysis, we have introduced an additional category ('Micro-cap') of firms who fall below the 250 biggest *small-caps*. In other words, these are companies after the 500 biggest listed companies. Given the recent market volatility, all market-cap calculations are on the basis of the average market capitalisation across four quarter-ending dates: December 2019, March 2020, June 2020 and September 2020. Unlisted firms are those that are not currently listed on any of the main Indian stock exchanges.
- Companies are classified by **ownership** as being either foreign MNC (51% or more foreign-owned), Indian MNCs (those with subsidiaries or an on-ground presence in at least one other country) or Indian domestic (those that operate primarily/solely in the Indian market, with no foreign operations).

Data Sources and Definitions (3/3)

Company demographics (contd)

- **Year of establishment:** organisations are split into three groups – those established in the pre-liberalisation (prior to 1991) period; those that have come up after the Global Financial Crisis (post 2008); and those that were established in the intervening years between these two bookends.
- **Environmental, social and governance (ESG)** compliance is an area of growing importance, especially for socially-conscious investors but also one where a fair amount of subjectivity may come into play.
 - Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls and shareholder rights.
 - Several organisations map ESG compliance, and their ranking of companies vary. To ensure fairness and transparency, we looked at three different rankings: the constituents of the S&P BSE ESG 100 Index; an NSE-SES ranking of the 'top 50' such companies in India; and a Futurescape ranking of the top 100.
 - Tallying these lists yielded a total of 123 organisations that figured on at least one (and often all three) lists. For purposes of analysis, these 123 firms – almost of which are either large- or mid-cap – are regarded as being 'ESG compliant'. The report makes comparisons between ESG-compliant and non-compliant large- and mid-caps.
- **Revenue classifications** are on the basis of FY20 revenues. However, given that **profitability** tends to be more volatile, profit-based classifications are done on the basis of average PAT over a three-year period covering FY18 to FY20.
- **Sector classifications** are done on the basis of a company main/principal areas of operations, and in accordance with IMA's proprietary, three-level classification system. To ensure that the results are statistically significant, companies are divided across these 10 main sectoral groups, and sub-sectoral classifications are not considered.

Glossary of Terms

Statistical definitions/explanations

- **Mean:** a simple arithmetic average of values.
- **Median:** a level representing the ‘midpoint’ of the sample – exactly 50% of respondents will lie below this level, and 50% above. This is different from the ‘mean’, which is a simple average, and prone to being skewed by very high or very low values.
- **Percentiles:** a measure of how companies are distributed along a particular scale. Each percentile value measures the percentage of respondents *below* that level. For instance, the 10th percentile value for compensation means that 10% of firms pay their employees less than that value, while 90% will pay more than that value. The opposite holds for the 90th percentile.

Specific definitions

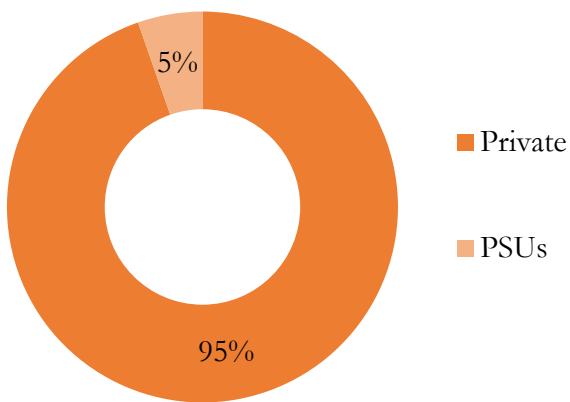
- **Fixed pay:** includes basic salary, perks and benefits, sitting fees, retirement benefits etc.
- **Variable pay:** includes performance-based pay and bonuses over and above the gross fixed salary, as well as the value of ESOPs exercised in a particular year and any other (unclassified) payments made to executive and non-executive directors.
- **Employee Stock Options (ESOPs):** includes stock options exercised by specified employees of a company during the course of the year.

Company Demographics (1/4)

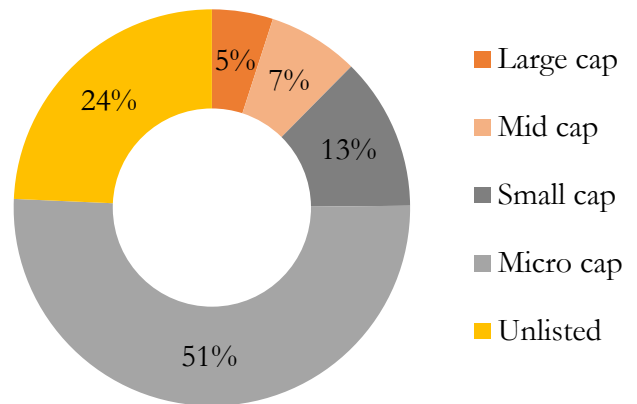
Number of companies covered: 1,837

Total number of unique Director positions studied (FY20): 16,611

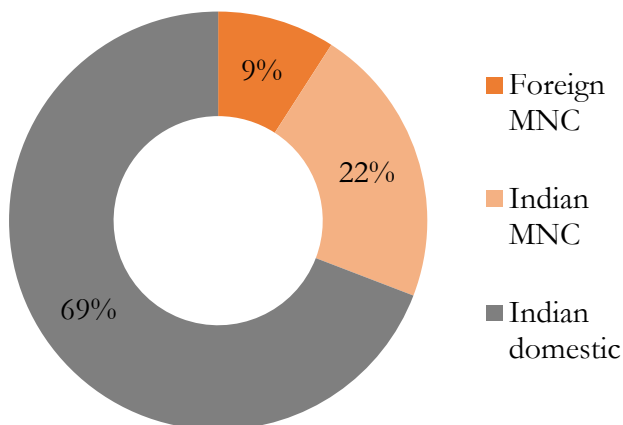
Private sector vs PSU



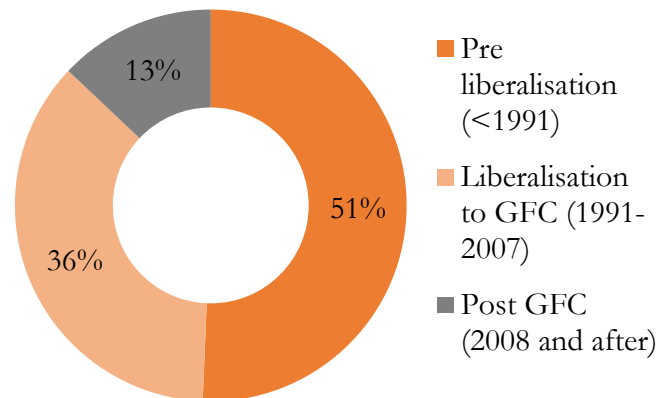
Market Cap (FY20)



Ownership

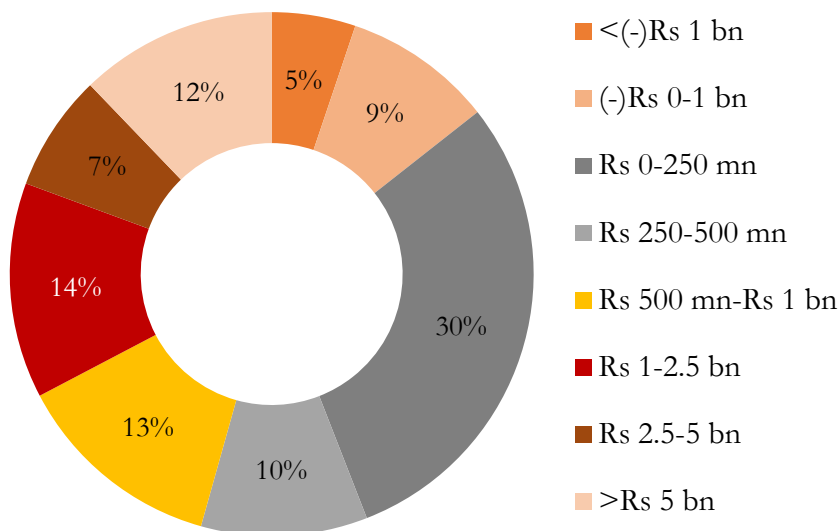


Year of Establishment

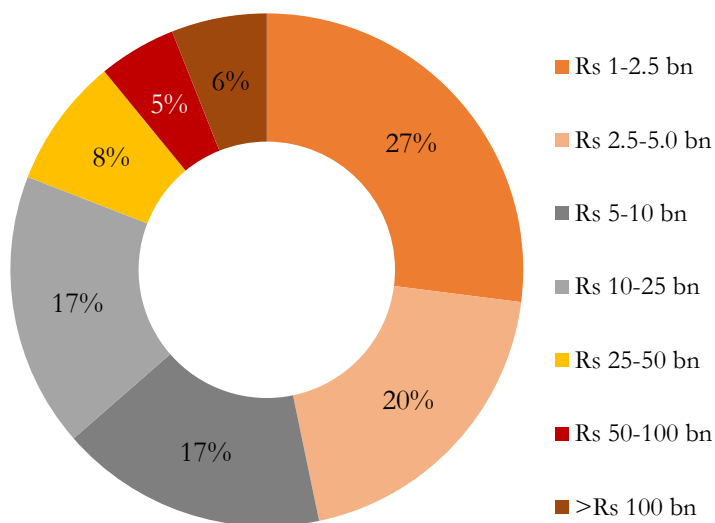


Company Demographics (2/4)

PAT (FY18-20 avg.)

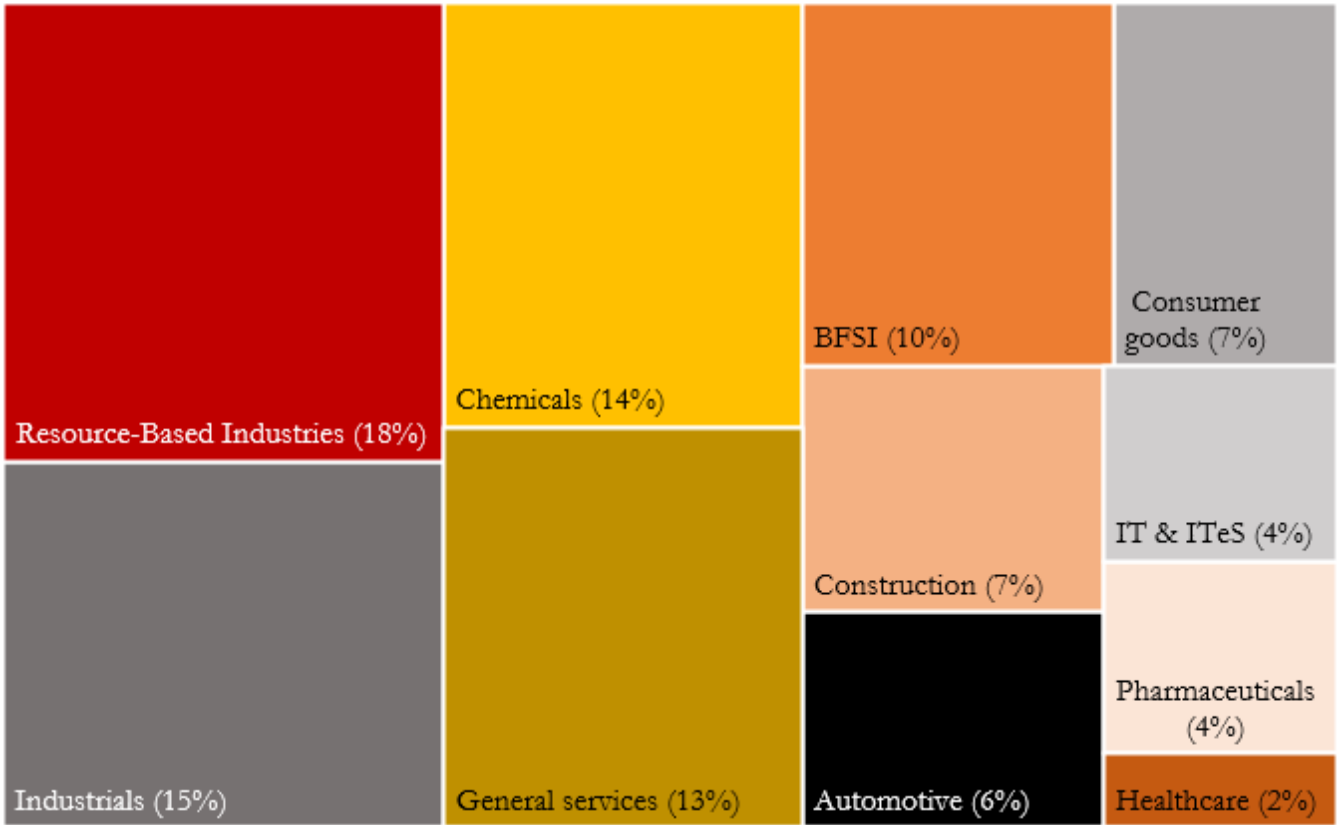


Revenue (FY20)

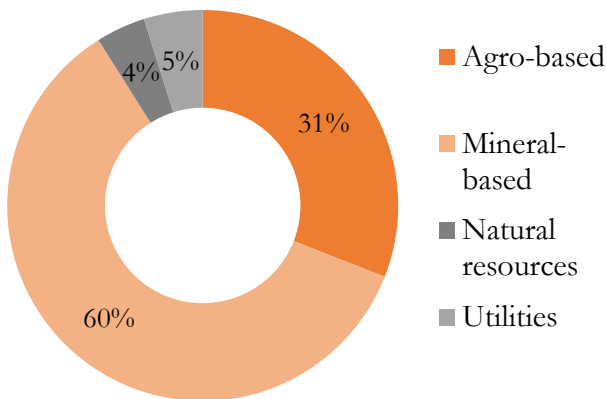


Company Demographics (3/4)

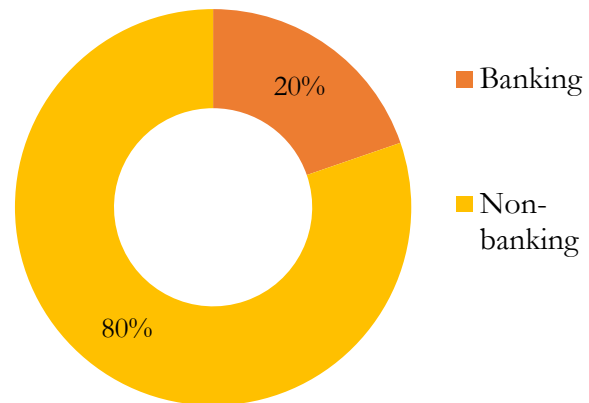
Sectors



Resource-based industries – sub-sectors

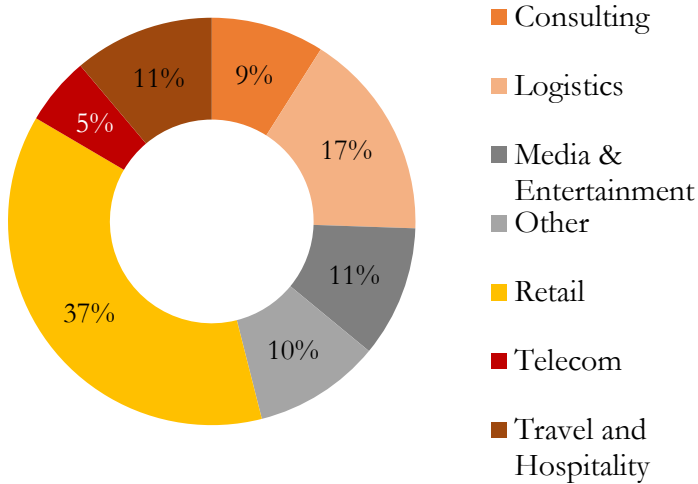


BFSI – sub-sectors

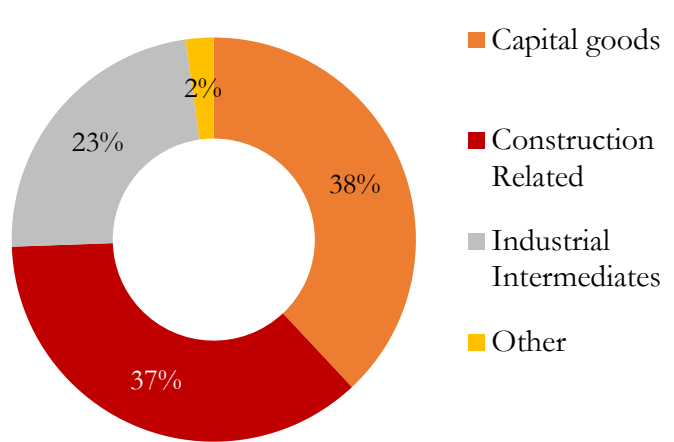


Company Demographics (4/4)

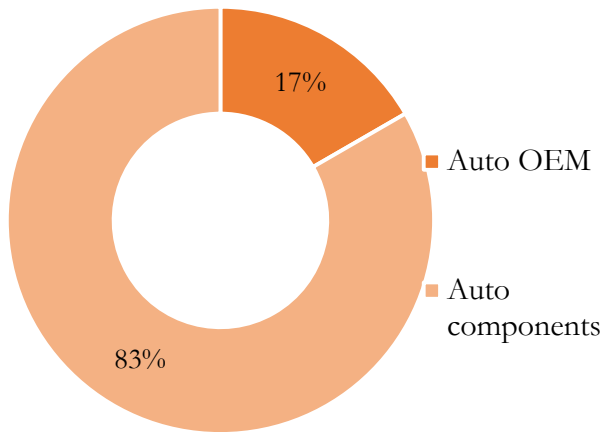
General services – sub-sectors



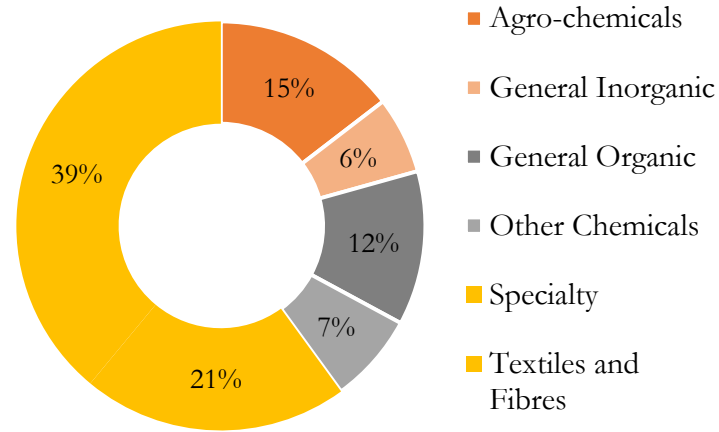
Industrial companies – sub-sectors



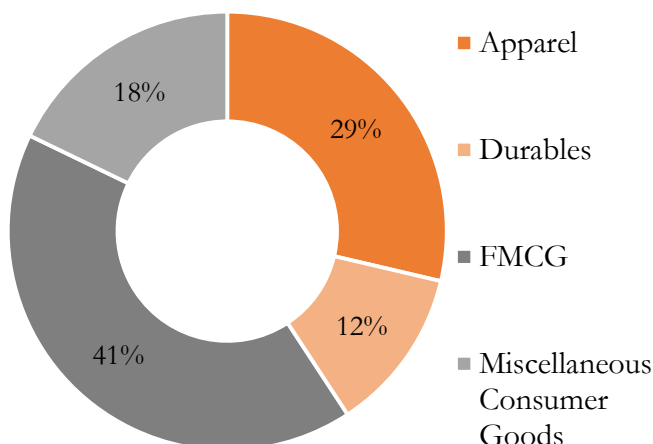
Automotives – sub-sectors



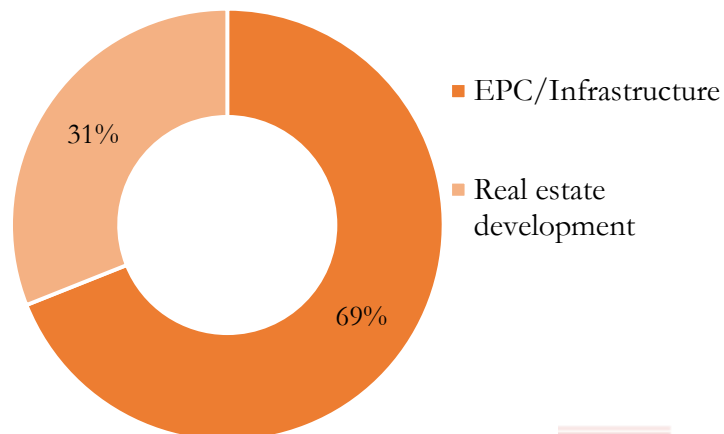
Chemicals – sub-sectors



Consumer goods – sub-sectors



Construction – sub-sectors



About IMA India

IMA India is the country's largest peer group platform for top functional executives, with more than 2,000 participating Indian and global functional heads from over 1,400 member companies.

Since 1994, we have harnessed the collective wisdom of our client base, combining this with our own comprehensive research to offer incisive country intelligence and pragmatic business solutions.

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