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# Index



# Aligning Object Clauses with Strategic Goals: Industry-Wise Insights

In an Initial Public Offering (IPO), the object clause serves as a window into a company's strategic priorities. This section of the Draft Red Herring Prospectus (DRHP) reveals how a company intends to allocate the proceeds from its public offering, and it holds particular significance for both the company and potential investors. For investors, understanding the alignment between object clauses and strategic priorities is key to assessing the long-term viability and growth potential of IPO-bound companies.

However, the emphasis on specific use cases—such as capital expenditure (CapEx), research and development (R&D), working capital, and debt repayment—varies considerably across industries. Understanding these distinctions is essential for aligning the object clause with broader strategic goals and investor expectations.

By examining the object clauses across industries such as Manufacturing, Technology, Pharmaceuticals, Retail, Real Estate, and Infrastructure, we can observe clear trends that highlight the differing operational needs and growth objectives within each sector.

**Key Observations: Object Clause Allocation Across Industries**

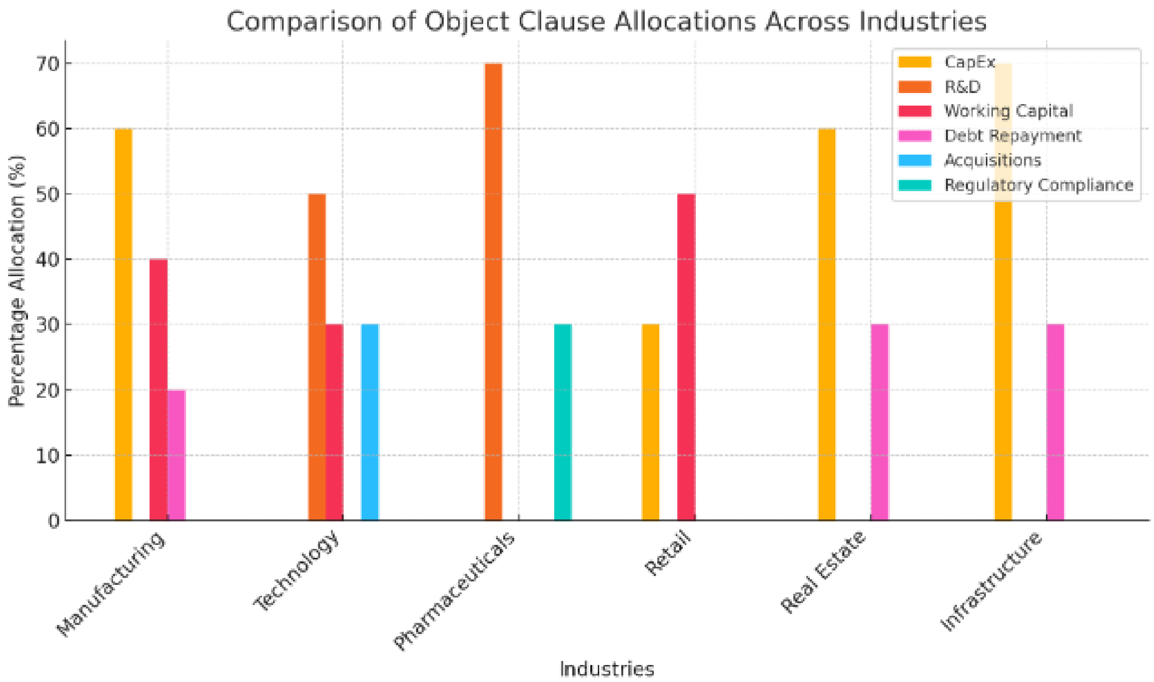
To understand how allocation of objects clauses is done it is necessary to study objects clause of recent IPOs. In this regard examination is done of recent IPOs, to identify emerging patterns in investment strategies and evaluate how effectively companies align their object clauses with their growth ambitions.

The IPOs chosen for this analysis are taken from diverse sectors to enhance our understanding of capital market trends, investor confidence, and sector growth opportunities. This analysis focuses on IPOs launched between July 16, 2024, and September 19, 2024, providing insights into current market dynamics shaped by recent economic conditions and regulatory changes. The selected IPOs, ranging from ₹1,500 million to ₹75,000 million, represent a diverse array of companies, from small to large enterprises. A comparative analysis of the object clauses in various industries reveals unique approaches to how proceeds are used, based on industry-specific operational demands.

The table below presents a breakdown of common object clause allocations across industries:

| Industry | CapEx | R&D | Working Capital | Debt Repayment | Acquisitions | Regulatory Compliance |
|---|---|---|---|---|---|---|
| Manufacturing | 50%-60% | - | 30%-40% | 10%-20% | - | - |
| Technology | - | 40%-50% | 20%-30% | - | 20%-30% | - |
| Pharmaceuticals | - | 60%-70% | - | - | - | 20%-30% |
| Retail | 20%-30% | - | 40%-50% | - | - | - |
| Real Estate | 50%-60% | - | - | 20%-30% | - | - |
| Infrastructure | 60%-70% | - | - | 20%-30% | - | - |

The following graph visually compares how different industries allocate their IPO proceeds, highlighting the diverse strategic priorities across sectors.




This data illustrates the distinct strategic priorities of each sector. To further contextualize these insights, let's explore how each industry aligns its object clauses with its long-term goals and operational needs.

**Manufacturing: Capital-Intensive Growth**

Manufacturing companies are capital-intensive by nature, and their object clauses frequently emphasize Capital Expenditure (CapEx). With 50%-60% of IPO proceeds typically directed towards expanding production capacity or upgrading existing infrastructure, CapEx is crucial for maintaining competitiveness and meeting rising demand.

- **Strategic Goal**: The focus on CapEx ensures operational scalability, enabling manufacturing companies to increase production volumes and achieve cost-efficiency through automation and technology upgrades.
- **Working Capital**: Additionally, around 30%-40% of proceeds are allocated to working capital, which ensures smooth operations by funding raw material purchases and managing cash flow through demand fluctuations.

Manufacturing firms clearly aim to optimize their operational efficiency through infrastructure improvements, positioning themselves for long-term growth.

**Technology: Innovation-Driven Growth**

For technology companies, research and development is the lifeblood of innovation, and object clauses reflect this emphasis. With 40%-50% of proceeds often allocated to R&D, tech firms prioritize the development of new products, platforms, and technologies to stay ahead of rapidly evolving market trends.

- **Strategic Goal**: Innovation is central to maintaining market leadership. Whether it's advancements in AI, cloud computing, or cybersecurity, these firms channel their resources into staying on the cutting edge.
- **Acquisitions**: Many tech companies also allocate 20%-30% of proceeds for strategic acquisitions, often targeting smaller companies with specialized technologies or intellectual property that can complement their existing portfolio.

This focus on innovation and market consolidation makes technology firms particularly appealing to investors who prioritize long-term growth and product development.

**Pharmaceuticals: Long-Term R&D Commitments**

The pharmaceutical sector, similar to technology, heavily relies on research and development for its long-term success. With up to 70% of IPO proceeds dedicated to research, drug discovery, and clinical trials, pharmaceutical companies allocate substantial resources to the development of new therapies.

- **Strategic Goal**: Pharmaceuticals operate with extended timelines for revenue realization, as drug development and regulatory approvals are resource-intensive processes. This emphasis on R&D reflects the industry's long-term focus on breakthrough products.
- **Regulatory Compliance**: A significant portion of funds is also earmarked for navigating the regulatory landscape, ensuring that new drugs receive the necessary approvals in global markets.

Pharmaceutical companies' commitment to R&D underscores the strategic importance of innovation and compliance in an industry with high barriers to entry.

**Retail: Operational Agility and Brand Expansion**

In contrast, retail companies focus heavily on **working capital**, often directing 40%-50% of proceeds toward ensuring liquidity for inventory management, especially during high-demand periods such as holidays or promotional sales.

- **Strategic Goal**: The emphasis on working capital ensures that retail firms can meet consumer demand and manage supply chains efficiently, while also investing in new product launches.
- **Brand Expansion**: Around 20%-30% of IPO funds are typically allocated to marketing and brand expansion efforts, allowing retailers to capture more market share and expand into new regions.

For retail companies, maintaining liquidity and leveraging their brand are key to sustaining operational flexibility and scaling efficiently.

**Real Estate and Infrastructure: Capital and Debt Management**

Both **Real Estate** and **Infrastructure** sectors are highly capital-intensive, and their object clauses largely emphasize **CapEx** and **debt repayment**.

- **CapEx**: In both industries, 60%-70% of IPO proceeds are often directed towards developing new projects—whether it's residential or commercial real estate in the case of property developers, or large-scale public utility projects in the case of infrastructure firms.
- **Debt Repayment**: An additional 20%-30% of proceeds are allocated to repaying existing debt, which is common in industries that rely on leveraged financing for large-scale developments.

These sectors focus on long-term project completion and financial health, using IPO proceeds to fund expansion while reducing debt burdens.

This can be summarized in the table below, which outlines the key areas of focus, allocation of IPO proceeds, and strategic goals for each sector.

| | **Allocation** | **Strategic Goal** |
|---|---|---|
| **Sector** | **Manufacturing** | |
| **Primary focus** | **Capital Expenditure (CapEx)** – 50%-60% directed towards expanding production capacity or upgrading infrastructure | Operational scalability, cost-efficiency through automation and tech upgrades |
| **Secondary focus** | **Working Capital** – 30%-40% for raw material purchases, cash flow management | Maintain smooth operations during demand fluctuations |
| **Sector** | **Technology** | |

| | | |
|---|---|---|
| **Primary focus** | **Research & Development (R&D)** – 40%-50% allocated to product development, platforms, and new technology innovations | Maintain market leadership through innovation |
| **Secondary focus** | **Acquisitions** – 20%-30% for acquiring specialized technologies or IP | Expand market reach and complement existing product portfolio |
| **Sector** | **Pharmaceuticals** | |
| **Primary focus** | **Research & Development (R&D)** – Up to 70% dedicated to drug discovery, clinical trials, and product development | Long-term R&D for breakthrough drugs, focus on revenue realization |
| **Secondary focus** | **Regulatory Compliance** – Funds allocated for obtaining regulatory approvals in global markets | Ensure compliance and timely market entry for new therapies |
| **Sector** | **Retail** | |
| **Primary focus** | **Working Capital** – 40%-50% to ensure liquidity for inventory management and to handle demand fluctuations | Meet consumer demand, supply chain management, product launches |
| **Secondary focus** | **Brand Expansion** – 20%-30% for marketing and expanding brand reach | Capture more market share and expand into new regions |
| **Sector** | **Real Estate & Infrastructure** | |
| **Primary focus** | **Capital Expenditure (CapEx)** – 60%-70% allocated for project development (real estate or public utility projects) | Project completion and expansion |
| **Secondary focus** | **Debt Repayment** – 20%-30% for repaying existing debt burdens | Improve financial health and reduce debt burden through repayments |

## Conclusion

In conclusion, a company's object clause is more than just a formal declaration; it reflects strategic intentions that can shape its trajectory post-IPO. Industries like Manufacturing and Infrastructure focus heavily on capital expenditure to ensure scalability, while technology and pharmaceutical sectors emphasize innovation and research for long-term growth. Retail firms, in contrast, prioritize liquidity and brand expansion to maintain agility in competitive markets. For investors, understanding how a company allocates its IPO proceeds is essential for assessing its operational priorities and growth potential. By aligning object clauses with sector-specific strategic goals, both companies and investors can navigate the IPO process with clearer expectations of future performance and stability.

This article is published in Taxmann. The link to the same is as follows

https://www.taxmann.com/research/company-and-sebi/top-story/105010000000024606/aligning-object-clauses-with-strategic-goals-industry-wise-insights-experts-opinion

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# Officer in Default – When is he liable for penalty?

**Introduction.**

Section 2 clause 60 of Companies Act, 2013 ['the Act'] defines the term 'Officer in Default ['OID']'[i]. Certain sections of the Act hold an OID responsible for non-compliances viz. sub-section (7) of section 135 of the Act[ii], sub-section (11) of section 90[iii] of the Act etc., Recently it is seen that adjudicating authorities have been penalizing OID for certain non-compliances. In this article we shall have a look at the adjudication orders passed by Registrar of Companies ['ROC'] where penalties were levied on OID to understand as to who were considered as officers in default and why?

**Landmark ROC orders.**

Adjudication orders passed by different ROCs help us to understand the views taken by different ROC while determining the person who is OID. Following are some of such orders.

(1) **Smith N Smith Chemicals Limited:** In this order dated 5th September 2023, passed by ROC Delhi, the company had failed to spend the CSR amount and also had failed to report the same in the board's report. The company argued that, the executive director was the only person responsible for CSR compliance and therefore only he should be penalized and other non-executive directors should not be penalized as they were not involved in day-to-day activity and were unaware of said non-compliance. ROC Delhi held that, "*it is a trite principle of law that in case the law casts an obligation upon any person/body, the liability in case of default in complying with such obligation would also squarely lie with such person/body.*"

The ROC Delhi further held that, "*it is clear that section 135 of the Act and rules made thereunder casts an onus on the Board to comply with the provisions. The Board here refers to all the directors of the company, whether executive or otherwise.*" With respect to use of definition of OID as per section 2(60), the ROC stated that, *"section 2 begins with the words, "unless the context requires otherwise". Thus, the principle of ascertaining the officer-in default on the basis of section 2(60) would only hold good if the concerned provision does not identify the officer-in-default. Once such officer is identifiable under the relevant provision, the general definition of section 2(60) would no longer hold the sway.'"*

**(2) M/s. Madras Fertilizers limited**

In this order dated 29th November 2022 passed by Regional Director Southern Region, the order passed by ROC Chennai was challenged. The company during the conduct of annual general meeting, had distributed SBI cards as free gifts which was non-compliance of SS-2 which prohibits distribution of free gifts at general meetings. ROC Chennai had penalized managing director and whole-time director along with the company for this non-compliance. However, the Regional Director while setting aside ROC Chennai's order, said that, as per section 205 of the Act ensuring compliance of secretarial standards is the duty of the company secretary and since the company had a full-time company secretary, it was his responsibility to ensure the same. Hence the Regional Director ordered that the penalty imposed against managing director and whole-time director of the company is set aside and ordered the ROC Chennai to take action against CS of the company.

**(3) Go Digit Life Insurance Limited**

In this order dated 21st June 2024 passed by ROC Pune, the company had delayed in filing of form BEN-2 under sub-section (4) section 90 of the Act. The company submitted before the ROC Pune that the board of the company through a resolution had appointed the company secretary as OID for the purpose of sub-section (4) section 90 of the Act and therefore, only the company secretary is liable for penalty. ROC accepted the company's contention that, since it was responsibility of the CS to ensure compliance of sub-section (4) of section 90, she is the OID and liable for penalty under sub-section (11) of section 90 of the Act[1].

**Learnings from analysis.**

It is a general understanding that, whenever the section says penalty be imposed on OID, all the persons included in definition as per section 2(60) are to be penalized. However, analysis of above orders show that this is not the case.

Whether all individuals enumerated under sub-section (60) of section 2 of the Act should be penalized or not shall depend on the which section of the Act is violated.

While determining the actual OID, one should try to understand, that on whom does the section cast responsibility to comply and that person only shall be considered as OID for non-compliance of that section. For example, section 134 of the Act[2] says that, board of directors should attach a report to financial statements. That means, if the board's report is not attached, then full board of directors shall be considered as OID as it was responsibility of board as a whole.

It is also sometimes seen that companies themselves designate a person as an OID for compliance with particular section. This was also seen recently in the ROC adjudication order in the matter of Go Digit Life Insurance limited. In this case the company itself has determined the person responsible for compliance with section 90 of the Act by passing a board resolution in this regard and intimating the same to ROC. When company itself has determined the responsible person, there is no need to identify OID separately.

So, if no is determined by company specifically for the purpose of compliance with a particular section of the Act, then reference can be made to definition of OID under section 2(60).

**Conclusion**

Even though the Act provides definition of OID, it is not appropriate to apply this definition for imposing penalty under all sections. Only that person who is responsible for that particular non-compliance should be identified and should be penalized, for the reason that, all other persons were no responsible for that compliance and hence were not guilty of its non-compliance. It is advisable for the companies to designate a specific person who shall be responsible for ensuring all compliances and who shall be treated as OID in case of any non-compliance. Generally managing director or executive director or company secretary may be such person.

This article is published in Taxmann. The link to the same is as follows: -

https://www.taxmann.com/research/company-and-sebi/top-story/105010000000024597/officer-in-default-%E2%80%93-when-is-he-liable-for-penalty-experts-opinion

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[i] "(60) "officer who is in default", for the purpose of any provision in this Act which enacts that an officer of the company who is in default shall be liable to any penalty or punishment by way of imprisonment, fine or otherwise, means any of the following officers of a company, namely: —

(i) whole-time director;

(ii) key managerial personnel;

(iii) where there is no key managerial personnel, such director or directors as specified by the Board in this behalf and who has or have given his or their consent in writing to the Board to such specification, or all the directors, if no director is so specified;

(iv) any person who, under the immediate authority of the Board or any key managerial personnel, is charged with any responsibility including maintenance, filing or distribution of accounts or records, authorises, actively participates in, knowingly permits, or knowingly fails to take active steps to prevent, any default;

(v) any person in accordance with whose advice, directions or instructions the Board of Directors of the company is accustomed to act, other than a person who gives advice to the Board in a professional capacity;

(vi) every director, in respect of a contravention of any of the provisions of this Act, who is aware of such contravention by virtue of the receipt by him of any proceedings of the Board or participation in such proceedings without objecting to the same, or where such contravention had taken place with his consent or connivance;

(vii) in respect of the issue or transfer of any shares of a company, the share transfer agents, registrars and merchant bankers to the issue or transfer;".

[ii] (7) If a company is in default in complying with the provisions of sub-section (5) or sub-section (6), the company shall be liable to a penalty of twice the amount required to be transferred by the company to the Fund specified in Schedule VII or the Unspent Corporate Social Responsibility Account, as the case may be, or one crore rupees, whichever is less, and <u>every officer of the company who is in default</u> shall be liable to a penalty of one-tenth of the amount required to be transferred by the company to such Fund specified in Schedule VII, or the Unspent Corporate Social Responsibility Account, as the case may be, or two lakh rupees, whichever is less.]

iii [(11) If a company, required to maintain register under sub-section (2) and file the information under sub-section (4) or required to take necessary steps under sub-section (4A), fails to do so or denies inspection as provided therein, the company shall be liable to a penalty of one lakh rupees and in case of continuing failure, with a further penalty of five hundred rupees for each day, after the first during which such failure continues, subject to a maximum of five lakh rupees and <u>every officer of the company who is in default</u> shall be liable to a penalty of twenty-five thousand rupees and in case of continuing failure, with a further penalty of two hundred rupees for each day, after the first during which such failure continues, subject to a maximum of one lakh rupees.

# Directors' remuneration – Aligning it with shareholders expectation.

**Introduction**

Under the **Companies Act, 2013** ('the Act') and **SEBI (Listing Obligations and Disclosure Requirements) Regulations ('LODR')**, the remuneration of directors is subject to shareholder approval. Specifically, **Section 197** of the Act provides that directors remuneration shall be subject to shareholders approval. Similarly, Reg. 17(6) of LODR also requires that director remuneration is subject to approval by shareholders.

Proxy advisors play a crucial role in guiding shareholders on voting for resolutions related to director remuneration. In this article we would be highlighting areas that should be taken care of while proposing remuneration packages for whole-time and executive directors.

**A. Governance Concern**

**1. Excessive Remuneration**

Excessive remuneration is a critical governance issue, as it often reflects a lack of alignment between executive pay and company performance. When remuneration packages exceed industry standards or are not performance-linked, they can erode shareholder value and undermine confidence in the company's governance practices.

The table below outlines specific concerns related to excessive remuneration:

| Sr. No. | Concerns Raised | Description | Detailed Examples |
|---|---|---|---|
| 1 | Excessive Remuneration Relative to Industry Standards | Excessive remuneration that far exceeds industry norms creates governance concerns as it indicates a lack of oversight and fairness. This may also reflect poorly on the company's adherence to governance best practices. | In one case, the promoter directors were proposed to receive remuneration that accounted for nearly 5% of the company's EBITDA and 18% of the total wage bill. This figure was far above industry norms, raising concerns about whether the remuneration structure was a result of undue influence rather than performance-based merit. |
| 2 | Remuneration Misaligned with Company Performance | A governance concern arises when executive remuneration is significantly higher than what is appropriate for the company's performance and size, leading to potential misalignment with shareholder interests. | Directors remuneration was benchmarked against far larger and more profitable companies, despite the executive's company having posted financial losses for several consecutive years. Observers noted that such misaligned pay undermines governance, as compensation |

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| | | | should be more closely tied to actual company performance. |
| 3 | Excessive Perquisites and Stock Options | Disproportionate stock options or perquisites raise governance concerns, particularly when they are not fully justified or lack transparency. | A CEO's compensation package included stock options valued at ₹128 crores, which accounted for 2% of the company's share capital. The lack of transparency regarding the criteria for awarding these options, coupled with the significant value, raised governance concerns, especially as other employees received far lower benefits. |

**2. Lack of Transparency in Remuneration Packages**

Transparency in executive pay is vital for ensuring that shareholders can assess whether remuneration is justified. Without clear disclosures on pay structures, bonuses, and stock options, companies risk facing governance challenges and losing shareholder trust.

The table below outlines specific concerns related to Lack of Transparency in Remuneration Packages**:**

| Sr. No. | Concerns Raised | Description | Detailed Examples |
|---|---|---|---|
| 1 | Lack of Transparency in Bonus Payments | Governance and **Transparency Concerns** arise when companies do not disclose the basis for determining bonuses, raising potential conflicts of interest. | CEO received a one-time bonus of ₹25 crores without any clear disclosure on how the amount was decided. This lack of transparency led stakeholders to question whether such an extraordinary payment was necessary, as no performance criteria were provided. |
| 2 | Unjustified Increments | Lack of transparency in justifying significant pay increases undermines governance, as shareholders are unable to evaluate whether the increments are deserved. | Director's remuneration was set to increase by 240% over two years without any clear justification or performance metrics to support such a large raise. This raised concerns about governance, as the pay increase was not adequately explained to shareholders. |

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| 3 | Lack of Transparency in Stock Options | Lack of clarity on the criteria for awarding stock options can undermine governance by creating opportunities for unfair practices. | A CEO was awarded stock options worth ₹128 crores without sufficient disclosure regarding the conditions for receiving such options. The lack of transparency in this case created concerns about governance, as stakeholders could not determine whether the award was justified or fair. |
| 4 | Lack of Performance-Linked Criteria | When variable pay or commissions are not linked to individual performance, it raises governance concerns, as remuneration may be disproportionate to actual contributions. | A Managing Director's remuneration included a 1% commission on profits, but there was no maximum cap or performance-based criteria tied to individual contribution. This lack of alignment between pay and performance raised concerns about potential overcompensation and misaligned incentives. |

### 3. No Absolute Cap on Remuneration Packages

Setting a clear cap on executive remuneration is a key aspect of governance. Without fixed limits on pay, there is a risk of excessive and unchecked compensation, which can lead to governance failures and potential regulatory issues. The table below outlines specific concerns related to no absolute cap on remuneration packages:

| Sr. No. | Concerns Raised | Description | Detailed Examples |
|---|---|---|---|
| 1 | No Absolute Cap on Remuneration | Governance and **Legal Concerns** arise when there is no clear maximum limit on executive pay, as this can lead to unchecked and excessive remuneration practices. | In one instance, a company sought approval for the Executive Chairman's pay to exceed ₹5 crores without setting any upper limit. This lack of a cap raised legal and governance concerns, as shareholders were unable to assess whether the remuneration was reasonable. |
| 2 | No Cap on Variable Pay | Variable pay components without fixed caps present governance risks, as they leave too much room for discretion and potential overpayment. | A company's proposal for increased in remuneration of managing director included a variable pay component with no fixed upper limit, although the total remuneration exceeded regulatory thresholds. The absence of a cap on variable pay raised concerns about excessive remuneration practices. |

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|---|---|---|---|
| 3 | Excessive Increments Without Cap | Large pay increases without an upper limit and clear justification present governance risks, as they undermine shareholder oversight. | Remuneration for two Promoter Executive Directors increased by 60% and 733%, respectively, without any fixed cap or clear justification. The lack of limits on their variable pay components heightened concerns about unchecked pay practices and weakened governance. |

**Conclusion:** Remuneration packages for whole-time and executive directors are a key area of focus for both shareholders. These packages must not only comply with the applicable legal framework but also adhere to the principles of good governance. Fixing remuneration without following a set process would lead to an inference that board of directors were arbitrary in fixing remuneration. In order to avoid this, it should be demonstrated that is ascertaining remuneration of directors of the company it was ensured that:

a. Process as prescribed by law is followed in deciding remuneration.
b. Rationale for quantum of remuneration: If adequate disclosure is provided with respect to parameters taken into consideration while deciding remuneration and as to how is the remuneration aligned with vision and goal statement of the company, then it is visible that the remuneration is based on some rationale.
c. Consistency and disclosure: following parameters for fixing remuneration consistently and continuous disclosures in this regard would help investors map performance of company and directors' remuneration.

This article is published in Taxmann. The link to the same is as follows:
https://www.taxmann.com/research/company-and-sebi/top-story/105010000000024563/directors-remuneration-%E2%80%93-aligning-it-with-shareholders-expectation-experts-opinio

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# Director's remuneration – aligning it with shareholders expectation (Part 2)

In our earlier article we have seen the governance issues pertaining remuneration to whole time directors. In this article we shall have a look at few more governance concerns relating to remuneration to whole time directors.

1. **Skewed Remuneration and Unfair Practices:**

Skewed remuneration practices occur when compensation disproportionately favours certain directors, often promoters, without clear justification or alignment with performance. Such imbalances can undermine shareholder trust and raise concerns about fairness and good governance.

The following table depicts the rationale given by the proxy advisors on their common meanings or theme are as follows:

| Sr. No. | Concern Type | Description | Examples |
|---|---|---|---|
| 1 | Skewed Remuneration Practices | The proposal to authorize the Nomination and Remuneration Committee (NRC) to pay performance-linked incentives beyond the specified limit without further shareholder approval undermines shareholder authority. | A company faced **governance concerns** over its Chairman and Managing Director's proposed remuneration, which is more than 3.5 times that of non-promoter Executive Directors. Additionally, there are concerns about the concentration of power due to holding both the Chairman and Managing Director roles, which centralizes authority in one individual. |
| 2 | Skewed Remuneration Policy Favouring Promoters | The remuneration policy is skewed in favour of the Promoter Managing Director, whose pay is significantly higher than all other Executive Directors combined, lacking any variable component for non-promoter directors. | Concerns have been raised regarding the proposed revision in the gross annual remuneration of Executive Directors. The Promoter Managing Director's pay is nearly six times the average remuneration of non-promoter executive directors, and there is no clear explanation for the remuneration revision. |

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| 3 | Multi-Year Guaranteed Bonuses and Skewed Remuneration Practices | Remuneration practices are skewed towards promoter directors, with guaranteed bonuses or commissions that are not linked to performance. | Concerns about remuneration practices include guaranteed bonuses for directors, removing the link between performance and pay. Recommendations suggest that variable pay should be performance-based, determined annually, and approved by shareholders. There are also concerns about governance issues related to the concentration of power due to the Chairman holding an executive position. |
| 4 | Unjustified Pay Increases Despite Employee Pay Cuts | The proposed remuneration lacks an absolute cap on bonuses, giving the Board discretionary power to alter remuneration terms, which undermines shareholder authority. There are concerns over a proposed salary hike for an executive despite significant pay cuts for other employees, raising questions about fairness and **governance practices**. | Concerns were raised for approval sought for a revised remuneration package for an executive, which includes a substantial pay increase despite significant pay cuts for other employees. |
| 5 | Unfair Remuneration Amid Cost-Cutting Measures | Concerns over excessive remuneration for Executive Directors during a period of cost-cutting measures like employee layoffs and pay cuts. The increases in fixed pay appear to be unfair, and the involvement of an Executive Director in the Nomination and Remuneration Committee raises further **governance concerns** about fairness and ethical conduct. | Governance concerns were raised over proposed remuneration increases for executive directors despite cost-cutting measures, such as layoffs and pay cuts, due to financial constraints. This is viewed as an example of skewed remuneration, where promoters appear to be extracting an ownership premium from the company, and raises ethical questions about the decision-making process. |

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| 6 | Skewed Remuneration in case of two promoter families are controlling business | Remuneration paid to directors belonging to one promoter family is consistently more than the other promoter family. | It was observed that promoters of company were almost of same age (~70 years) and experience of approx. 40-45 years. There was a slight difference in the age and experience of the younger generation of these promoter families. There was an experience gap of few years between younger generation of both promoter families. But it was observed that the remuneration paid to one promoter family in previous two FYs is significantly lower than that paid to other promoter family. Also looking at standalone remuneration of directors leaving families aside, the remuneration of one whole time director is significantly lower than that paid to other two director. Remuneration paid to one director is 17% of remuneration paid to other two directors.<br><br>Component of fixed remuneration is significantly high when compared to net profits and there is no alignment of the same to the Company's performance. |
| 7 | Remuneration practice not in line with experience and qualification | Professional director paid less than promoter directors | Concerns were raised on role of Nomination and Remuneration committee when a professional director with much experience was paid less than the promoter directors. It was observed that professional executive director having an experience of 25 years was paid Rs 97 lakhs per annum remuneration as against Rs 67 crores per annum remuneration to promoter director who was associated with the company for 16 years.<br><br>It was suggested that Nomination and Remuneration committee should guide shareholders as to why the remuneration structure was framed in such a manner. |

2. **Concentration of Power in the hands of whole time director:** Governance concerns are raised when same individual who is chairman and managing director

are considered for re-appointment. Although this practice is not illegal, it is argued that separating these roles would maintain effective oversight by the Board and prevent potential conflicts of interest.

Concentration of power within a company's governance structure can raise significant concerns, particularly when the same individual holds multiple influential roles, such as Chairman and Managing Director. This duality can blur lines of accountability, reduce board independence, and increase the risk of conflicts of interest.

Further concerns are also raised during proposed revision of the maximum remuneration payable to its Chairman and Managing Director. Concerns were also raised stating that the combined roles conflict with regulatory framework mandating that the chairperson of top 500 listed entities should be a Non-Executive Director.

**Conclusion**

Arbitrariness in remuneration is alleged when the remuneration practices are not at parity. Appropriate justification from board of directors in ascertaining remuneration would help in understanding the rationale behind quantum of remuneration. In addition to this following due process prescribed by law, rationale as to how is the remuneration aligned with long-term goals and consistency in these parameters would help shareholders appreciate remuneration packages.

This article is published in Taxmann. The link to the same is as follows:

https://www.taxmann.com/research/company-and-sebi/top-story/105010000000024564/directors-remuneration-%E2%80%93-aligning-it-with-shareholders-expectation-part-2-experts-opinion

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# Harnessing CSR Funds for Sustainable Waste Management: A Guide for Companies

**Introduction:**

Corporate Social Responsibility (CSR) initiatives have become an integral part of a company's ethos, demonstrating its commitment to giving back to society. Among the various domains where CSR funds can be effectively utilized, waste management stands out as a critical area with immense potential for positive impact. In the face of growing environmental degradation, the need for robust waste management practices has never been more pressing.

**Companies' channelization - marching towards CSR.**

Companies can leverage their CSR funds to implement comprehensive waste management strategies that not only address the immediate issue of waste disposal but also contribute to long-term environmental sustainability. By investing in modern waste processing technologies, companies can help reduce the amount of waste that ends up in landfills, thereby minimizing land and water pollution. For instance, funding the establishment of waste-to-energy plants can convert organic waste into renewable energy, offering a dual benefit of waste reduction and energy production.

Moreover, CSR funds can be directed towards community-based waste management projects. Initiatives such as setting up recycling centers, promoting segregation at source, and conducting awareness campaigns can foster a culture of responsible waste management among local communities. These projects not only educate the public about the importance of waste segregation and recycling but also create employment opportunities, thereby contributing to social and economic development.

**Relevance - Why the need of the hour?**

Waste management is a critical issue of times today, as the global population continues to grow, leading to increased consumption and, consequently, larger amounts of waste. Improper disposal of waste not only contributes to environmental degradation, such as pollution of land, water, and air, but also accelerates climate change by releasing harmful gases like methane from landfills.

Effective waste management reduces the strain on natural resources by encouraging recycling, composting, and responsible disposal methods. By adopting sustainable waste management practices, there can be minimization of environmental impact, conservation of resources, and creation of healthier ecosystem for future generations. Now, more than ever, it is essential to prioritize this aspect to ensure long-term ecological balance.

**Swachh Bharat (Coherence)**

CSR-funded waste management projects also help companies stay compliant with environmental regulations and avoid potential legal liabilities. Governments around the world are tightening regulations related to waste disposal and environmental protection. By proactively investing in waste management, companies can ensure they meet or exceed regulatory requirements. This not only prevents fines and legal actions but also demonstrates a company's commitment to ethical practices and regulatory compliance. Furthermore, staying ahead of regulatory changes through innovative waste management solutions can position the company as an industry leader in environmental compliance.

**Impact of Waste Management:**

**Environmental Stewardship**

CSR-funded waste management projects play a crucial role in environmental stewardship. By investing in advanced waste processing technologies and sustainable practices, companies can significantly reduce pollution levels. Effective waste management helps in conserving natural resources by promoting recycling and reuse, thus reducing the need for raw material extraction. Additionally, initiatives such as waste-to-energy plants can convert waste into renewable energy, contributing to climate change mitigation by reducing greenhouse gas emissions. This proactive approach not only protects ecosystems but also ensures the sustainable use of resources for future generations.

**Community Engagement**

CSR initiatives in waste management provide an excellent platform for community engagement. Companies can collaborate closely with local communities to raise awareness about the importance of proper waste disposal and segregation. Educational campaigns, workshops, and local projects can empower community members to adopt sustainable practices, fostering a sense of collective responsibility. By involving communities in these initiatives, companies can create a collaborative environment where everyone works together towards a common goal of maintaining cleanliness and reducing environmental impact. This engagement not only improves waste management practices but also strengthens the bond between the company and the community.

**Reputation and Brand Enhancement**

Investing in waste management through CSR initiatives significantly enhances a company's reputation and brand value. Demonstrating a commitment to sustainability and environmental protection positions the company as a responsible and forward-thinking entity. Consumers, investors, and other stakeholders are increasingly prioritizing environmental responsibility, and companies that actively contribute to waste management gain a competitive edge. These efforts are often recognized and appreciated, leading to improved public perception, customer loyalty, and increased market share. A formidable reputation for sustainability can also attract top talent, as employees prefer to work for organizations that align with their values.

Effective waste management has far-reaching impacts that extend beyond environmental benefits, significantly contributing to employment generation, health, and hygiene, and boosting tourism. By investing in comprehensive waste management systems, companies and municipalities can create numerous job opportunities in waste collection, segregation, recycling, and processing. This not only helps in reducing unemployment but also fosters economic growth. Improved waste management practices lead to cleaner communities, reducing the prevalence of diseases and health issues associated with waste accumulation.

Enhanced health and hygiene standards contribute to a better quality of life for residents. Furthermore, maintaining clean and aesthetically pleasing environments can attract tourists, boosting local tourism industries and supporting the economy. Clean, waste-free destinations are more appealing to visitors, promoting positive experiences and encouraging return visits. Overall, robust waste management initiatives have a profound and positive impact on various facets of society, driving sustainable development and community well-being.

**Best Practices for Effective CSR in Waste Management:**

**Need Assessment**

Conducting thorough needs assessments is the foundation for effective CSR initiatives. Before launching any waste management projects, it is essential to identify the specific needs and challenges of the target areas. This involves collecting and analyzing data on current waste management practices, types and volumes of waste generated, and existing infrastructure. By understanding these factors, companies can prioritize areas that require immediate attention and tailor their initiatives to address the most pressing issues. Needs assessments also help in setting measurable goals and benchmarks to evaluate the impact of CSR initiatives over time, ensuring that resources are used efficiently and effectively.

**Stakeholder Engagement**

Engaging with a diverse range of stakeholders is crucial for the success of CSR-funded waste management projects. Local communities, non-governmental organizations (NGOs), waste management experts, and government authorities can provide valuable insights and support. By involving these stakeholders in the planning and implementation process, companies can ensure that their initiatives are inclusive and culturally appropriate. Collaborative efforts lead to more sustainable and accepted solutions, as they consider the perspectives and needs of those directly affected. Regular communication and feedback loops with stakeholders also help in refining and improving waste management practices continuously.

**Transparency and Accountability**

Maintaining transparency and accountability is vital for building trust and demonstrating the effectiveness of CSR initiatives. Companies should regularly report on their waste management projects, including the goals, strategies, progress, and outcomes. This can be done through annual sustainability reports, press releases, and updates on the company's website and social media platforms. Transparent reporting allows stakeholders to see the tangible impact of the initiatives and ensures that the company remains accountable for its commitments. It also provides an opportunity to highlight successes, share best practices, and identify areas for improvement.

**Sustainability**

Embedding CSR-funded waste management projects into the company's long-term sustainability strategy is essential for creating lasting impact. Short-term projects may provide immediate benefits, but long-term commitment ensures that waste management practices are continuously improved and adapted to changing circumstances. This involves integrating waste management goals into the company's core values and business operations. By doing so, companies can ensure sustained financial and organizational support for these initiatives. Long-term projects also allow for the development of innovative solutions, continuous learning, and the building of strong partnerships that contribute to the overall sustainability of the company and the communities it serves.

**Sustainable Development Goal (SDG)**

**Waste management plays a pivotal role in achieving the Sustainable Development Goals (SDGs), particularly SDG 12[i]: Responsible Consumption and Production.**

Proper waste management systems are essential for reducing environmental pollution, conserving natural resources, and mitigating climate change—core aspects of sustainable development. By minimizing waste generation through recycling, composting, and efficient disposal methods, we can significantly reduce the strain on our planet's ecosystems. Moreover, effective waste management supports clean water and sanitation (SDG 6), combats climate change (SDG 13), and promotes sustainable cities and communities (SDG 11). Addressing waste management is fundamental to creating a circular economy where resources are used efficiently, leading to a more sustainable and equitable future for all.

Corporate involvement in waste management through CSR also opens avenues for public-private partnerships, where companies collaborate with local governments and NGOs to scale up their efforts. Such collaborations can enhance the efficiency and reach of waste management programs, ensuring that even the most marginalized communities benefit from these initiatives.

**Viksit Bharat**

Systemic waste management is essential for realizing the vision of *Vikshit Bharat*—a developed and sustainable India. By establishing an efficient and organized waste management system, India can address critical environmental challenges such as pollution, resource depletion, and improper waste disposal, all of which hinder economic growth and public health. Implementing practices like recycling, composting, and energy recovery from waste can not only reduce the burden on landfills but also generate new industries, create jobs, and promote a circular economy. Moreover, proper waste management safeguards natural resources, ensuring cleaner air, water, and soil, which are the foundations for sustainable development. A well-managed waste ecosystem is integral to achieving India's larger goals of economic progress, environmental stewardship, and social well-being, thereby contributing to the nation's vision of *Vikshit Bharat*.

**Conclusion:**

In essence, by channeling CSR funds into waste management, companies can play a pivotal role in combating environmental degradation and promoting sustainable practices. This not only enhances their corporate image and fulfills their social responsibility but also paves the way for a cleaner, healthier environment for future generations.

By leveraging CSR funds for waste management, companies can contribute to a cleaner environment, engage with local communities, and enhance their reputation. By adopting the strategies and best practices outlined in this article, businesses can make a positive impact on the environment while fulfilling their CSR obligations.

This article is published in Taxmann. The link to the same is as follows:
https://www.taxmann.com/research/company-and-sebi/top-story/105010000000024614/harnessing-csr-funds-for-sustainable-waste-management-a-guide-for-companies-experts-opinion

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[i] https://www.un.org/sustainabledevelopment/sustainable-consumption-production/

# NEWS UPDATES/AMENDMENTS FOR THE MONTH OF OCTOBER 2024

| Sr. No. | News Updates/Amendments | Link & Brief Summary |
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| | **NEWS** | |
| 1 | IBC may get a voluntary group insolvency mechanism soon | https://economictimes.indiatimes.com/news/india/ibc-may-get-a-voluntary-group-insolvency-mechanism-soon/articleshow/114326783.cms<br><br>India is introducing a voluntary group insolvency framework under the Insolvency & Bankruptcy Code to streamline the resolution of interconnected entities within a corporate group. Initially, it will exclude solvent companies and multinational groups. This initiative aims to speed up resolutions, particularly in cases like Videocon and others, by allowing creditors to choose coordinated or separate processes. |
| 2 | RoCs tighten CSR enforcement; over a dozen businesses get penalty orders so far this year | https://www.livemint.com/companies/csr-textiles-maharashtra-tamil-nadu-delhi-businesses-penalty-orders-registrars-of-companies-karnataka-training-11729162873997.html<br><br>Implementation of the penalty provision, which was given effect in January 2021, has picked up pace.<br>Some firms were penalised for procedural violations related to reporting, others for delays in transferring unspent amounts not related to CSR projects to state-designated funds on time |
| 3 | Sebi brings in liquidity window facility. How would that impact investors? | https://www.businesstoday.in/personal-finance/investment/story/sebi-brings-in-liquidity-window-facility-how-would-that-impact-investors-450481-2024-10-17<br><br>Under the new mechanism, Sebi observed that issuers have the option to offer put options to investors that can be exercised on specific dates or intervals. This allows investors to redeem debt securities before their maturity date. |
| 4 | Sebi enhances position limits for trading members in index F&O contracts | https://legal.economictimes.indiatimes.com/news/regulators/sebi-enhances-position-limits-for-trading-members-in-index-fo-contracts/114260847<br><br>Markets regulator Sebi on Tuesday said the position limit for Trading Members (TMs) across client and proprietary trades in index futures and options will now be higher of Rs7,500 crore or 15 percent of total open interest (OI) in the market. |
| 5 | Only 13 of 30 National Company Law Tribunal courts work full time | https://cfo.economictimes.indiatimes.com/news/governance-risk-compliance/only-13-of-30-national-company-law-tribunal-courts-work-full-time/114232966?action=profile_completion&utm_ |

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| | | source=Mailer&utm_medium=newsletter&utm_campaign=etcfo_news_2024-10-15&dt=2024-10-15&em=aGFzdGl2b3JhQG1tamMuaW4=<br><br>Nearly a third of positions at the National Company Law Tribunal remain unfilled impacting the government's insolvency reform initiative. This shortage has led to operational inefficiencies, delaying insolvency resolutions significantly. |
| 6 | NFRA's efforts are to incorporate best global accounting, auditing standards, says chairman | https://cfo.economictimes.indiatimes.com/news/tax-legal-accounting/nfras-efforts-are-to-incorporate-best-global-accounting-auditing-standards-says-chairman/114063518?action=profile_completion&utm_source=Mailer&utm_medium=newsletter&utm_campaign=etcfo_news_2024-10-13&dt=2024-10-13&em=aGFzdGl2b3JhQG1tamMuaW4=<br><br>NFRA Chairperson Ajay Bhushan Prasad Pandey emphasized the need for India to adopt global accounting and auditing standards to nurture big homegrown firms. |
| 7 | Govt set to roll out unified Securities Markets Code; Bill at drafting stage | https://www.moneycontrol.com/news/business/economy/govt-set-to-roll-out-unified-securities-markets-code-bill-at-drafting-stage-12839956.html<br><br>The SMC will consolidate four laws into a single code, offering a simplified framework for India's securities market. Finance Minister Nirmala Sitharaman proposed the law in the budget for FY22 |
| | **Amendments/Circulars/ Consultation Papers** | |
| 1 | BSE Circular | https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20241017-2<br><br>BSE Circular on Relaxation from compliance with certain provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015–Reg.<br><br>This circular is issued in line with SEBI circular dtd Oct 3,2024 |

# VIEWS SHARED IN MEDIA BY MR. MAKARAND JOSHI ON DIFFERENT SUBJECTS- FOR THE MONTH OF OCTOBER 2024

| Sr. No. | Topic for Media Comment | Link |
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| 1. | **On Government Approval for grant of ESOPs to employees in Land Border Sharing Countries** | https://www.thehindubusinessline.com/companies/esops-to-employees-in-bordering-nations-may-take-a-hit/article68764532.ece<br><br>The ongoing deliberations regarding government approval for granting ESOPs to employees in land border-sharing countries is likely to impact a wide range of entities, especially those with a global footing, said Makarand M Joshi, Founder of MMJC and Associates.<br>Whether government approval shall be required for issuing ESOP to employees who are citizen of land border sharing countries only or non-citizens who are situated in such countries for employment or such other purposes also complicates the determination of requirement of approval. "This clarification, if not navigated proactively, can disrupt both current and future ESOPs, affecting long-term reward strategies for employees in these strategically sensitive countries," said Joshi |
| 2. | **NSE warning letter to Catabil Retail for non-compliance with guidance note on disclosure by listed entities** | https://investmentguruindia.com/newsdetail/comment-on-nse-warning-letter-to-cantabil-retail-for-non-compliance-with-guidance-note-on-disclosure-by-listed-entities-by-makarand-m-joshi-founder-mmjc-and-associates-a-corporate-compliance-firm746655<br><br>Stock exchanges had vide it's guidance note dt june 11, 2021 provides illustrative list of do's and don'ts with respect to disclosures to be made by listed entities. With this warning it is clear that the stock exchanges have started viewing instances of violation of this guidance note seriously.<br><br>Listed entities going forward need to be mindful of this guidance note while making stock exchange disclosure. |

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| | | Noncompliance of this guidance note would be considered as violation of uniform listing agreement clause 2(ii) entered with stock exchange and may lead to prosecution of section 21 read with section 23H of securities contract regulation act with a max penalty of rs 1 crore |