Chapter 4: CEO Compensation in the Sensex Companies

In this chapter, I describe CEO compensation and its contracting practices in the Sensex companies, based on their disclosure in their 2013-14 annual reports. The index has thirty companies: twenty-four from the private sector and six from the public sector. These companies represent many Indian business groups, foreign multinationals, professionally run independent entities, and central public sector undertakings. Their business spans many industries: mining, metal, banking, mortgage, automobile, fast moving consumer good, capital good, petroleum and natural gas, power generation, pharmaceutical, information technology, telecom, hotel, hospitality, printing, packing, and cigarette.

4.1 Compensation Contracting Practices in the Sensex Companies

I describe the compensation contracting practices of private and public sector firms separately.

4.1.1 Compensation Practices in Private Sector Firms

The BSE S&P Sensex index has twenty-four private sector companies. These companies appointed their CEO for five-year tenure or less. They can terminate the appointment by giving a written notice of six months or less or a short-notice pay in lieu thereof. They rarely enter into a severance agreement with their CEO for a separation pay, such as golden handshake. In twenty of these twenty-four companies, the CEO held office for the entire financial year 2013-14. Out of the remaining four companies, the change in CEO was due to the CEO’s superannuation (Tata Steel), promotion (Hindustan Unilever), demise (Tata Motors), and for undisclosed reason
The office of the CEO was vacant at the end of the year at Tata Motors.

A majority of the private sector Sensex companies have a Nomination and Remuneration Committee. Hindalco and Sun Pharmaceutical did not have one, and Cipla did not disclose whether it had one. The number of meetings the committee had ranged from a low of one to a high of seven; the average being 3.9 meetings during 2013-14.

These companies made limited disclosure about performance evaluation (metrics used, performance targets), the use of compensation consultant, etc. Maruti Suzuki is the only company that disclosed the performance metric its remuneration committee used to determine incentive compensation for its CEO.

**Hindalco Ltd:** The company does not have a Remuneration Committee since the Board has only two executive directors: CEO and Deputy CEO. Therefore, the Board of Directors set and the shareholders approve the CEO compensation. The company has a three-month notice period for ending the appointment of its CEO, without any severance fee. Hindalco did not declare its CEO compensation policy and philosophy. It did not describe the performance metric and targets used in evaluating the performance of the CEO. Therefore, the linkage between CEO pay and firm performance is not clear. The annual report is also silent on the breakup of salary, allowances, perquisites, and retirement benefits, the use of pay consultants, the benchmarking of CEO compensation with industry practices, etc.

**Tata Steel Ltd:** The company appoints its CEO on a five-year service contract, which can be ended by giving either a six-month notice or a six months’

17 Sesa Sterlite Limited was renamed as Vedanta Limited on April 22, 2015.
salary; there are no severance fees. The board’s Remuneration Committee held four meetings during the financial year 2013-14. The committee considers labor market demand and industry practices to fix a CEO’s pay package. The package includes salary, allowances, perquisites, and commission for achieving performance targets. The committee recommends to the Board the annual increase in CEO pay and the rate of commission as a percentage of net profit. The board and the shareholders approve the total CEO compensation at Tata Steel. The company did not report how its remuneration committee evaluated the CEO’s performance, whether it used pay consultants, and which metrics in addition to net profit it used in setting performance targets for the CEO.

**Sesa Sterlite Ltd:** The company appoints its CEO for a three-year duration and can terminate the appointment by giving a six-month notice without any severance fees. Its board has a Remuneration Committee to evaluate the CEO’s performance, determine his total compensation within the overall limit imposed by the company’s shareholders, and recommend the compensation to the Board for approval. The committee met twice during the financial year 2013-14. However, the company did not disclose how its remuneration committee evaluated the CEO’s performance and determined the various components of CEO compensation. The annual report is also silent on the breakup of salary and perquisites, the use of pay consultants, the benchmarking of CEO compensation with industry practices, etc. Consequently, we do not know which performance metrics the remuneration committee used to evaluate performance and how it linked pay to firm performance.

**Maruti Suzuki Ltd:** During the financial year 2013-14, the Board used three growth related performance criteria to award performance-linked bonus to the CEO. These criteria are (i) the growth in sales and profits from the previous year; (ii)
budgeted versus actual growth; and (iii) growth in market share of its products relative to its rivals. The Board has a Nomination and Remuneration Committee. The company made limited disclosures about CEO remuneration policy and process. Except for the names of its members, the company did not report anything about its Nomination and Remuneration Committee. Therefore, we do not know the committee’s responsibilities, the number of its meetings, and its activities during the year. Further, the company did not disclose the appointment period, notice period for termination of services, and the separation pay for its CEO.

**Tata Motors Ltd:** Tata Motor appoints its CEO for a five-year period at a time or until retirement at the age of 65 years, whichever is earlier. The appointment can be terminated by giving a six months’ notice or salary in lieu thereof. There are no separate severance fees. During the financial year 2013-14, the company merged the Nomination Committee and the Remuneration Committee into the Nomination and Remuneration Committee. The Remuneration Committee met twice, while the Nomination Committee and the Nomination and Remuneration Committee each had one meeting. With regard to the CEO’s compensation, the committee formulates the compensation policy, recommends the level and structure of CEO compensation, defines and reviews performance criteria, and evaluates the performance against targets. While designing the compensation package, it balances fixed with variable components and aligns pay with short- and long-term performance objectives.

**Mahindra & Mahindra Ltd:** The company appoints its CEO for a five-year period. It can terminate the appointment by giving a six months’ written notice. The company did not disclose whether severance fees are payable to the CEO. Its Governance, Nomination, and Remuneration Committee met five times during 2013-14. With regard to CEO pay, the committee reviews the current trend in compensation
in the market and the industry, formulates & recommends the compensation policy, defines & reviews performance criteria, and evaluates performance against targets.

**Bajaj Auto Ltd:** The company appoints its CEO for a five-year period. It did not disclose the notice period for and the severance fee payable upon termination of the appointment. Its Remuneration and Nomination Committee met thrice during the financial year 2013-14. With regard to CEO compensation, the committee formulates the remuneration policy and reviews the pay package.

**Hero MotoCorp Ltd:** The company appoints its CEO for a five-year period at a time. It can terminate the appointment without any notice period and severance fee. Its Remuneration and Compensation Committee met once during the financial year 2013-14. With regard to CEO compensation, the committee tracks the best practices in the industry and formulates the compensation package based on these best practices.

**Hindustan Unilever Ltd:** It appoints its CEO for a five-year duration. The severance pay and notice period for termination of the CEO’s appointment is as per its employment policy for its management employee; however, it did not disclose what these are. The board’s Remuneration Committee held five meetings during 2013-14. It is responsible for evaluating the CEO’s performance and fixing his total compensation. The company has adopted a market-based reward and compensation philosophy. The committee consistently applies this policy to fix a market-based, competitive CEO compensation and strongly link it to company’s performance. The compensation comprises of salary, performance-linked incentives, allowances and perquisites, stock options, and retirement benefits. The company did not report how the remuneration committee evaluated the CEO’s performance and determined the various parts of the CEO compensation. The annual report is also silent on the use of
pay consultants, the benchmarking of CEO compensation with industry practices, etc. Consequently, we do not know which performance metrics the remuneration committee used to evaluate performance and how it linked pay to firm performance.

**ITC Ltd:** The company did not have a service contract with its CEO. The terms and conditions of the appointment of the CEO are covered by resolutions of the board and the shareholders read with the service rules of the company. The rule provides for ending the contract by giving a one-month notice without any severance fee. The Board’s Remuneration Committee met five times during the financial year 2013-14. It designs CEO compensation policy, administers Employee Stock Option Scheme of the company, and recommends CEO compensation to the board. The compensation policy considers labor market demand and competitive practices while determining CEO compensation. It provides for an annual performance bonus up to 200% of the consolidated salary of the CEO. The bonus is linked to the company’s overall performance and various other performance metrics. The company does not disclose what performance criteria it used to award bonus, whether it benchmarks CEO compensation and hires compensation consultants.

**Cipla Ltd:** The CEO’s position is contractual and the appointment is for a five-year period. The company can terminate the appointment by giving a six-month notice or six months’ basic salary in lieu thereof. There is a provision for severance fees in the CEO’s employment contract; however, Cipla did not disclose the magnitude and condition for the payment of severance fees. The company also did not disclose any information related to its Nomination and Remuneration Committee. Therefore, we do not know whether it has a written charter, how many times it met, and what activities it performed during the year. During the year, the company granted stock options that were deeply in-the-money, but it did not include their fair
value in the total compensation. It used intrinsic value method to account for their cost and included the intrinsic value of Rs 21.65 crore as an expense for the year. Had it used fair value accounting, the expense would have been slightly higher at Rs 24.44 crore.

**Dr. Reddy’s Ltd:** The CEO’s position is contractual and the appointment is for a five-year period. The company can terminate it without severance fees. Its Nomination, Governance, and Compensation Committee held three meetings during the financial year 2013-14. The committee has a written charter, which provides clarity about responsibilities. Its mandate includes review CEO compensation framework and processes for motivating and rewarding performance, establish annual key performance areas and targets for its CEO, evaluate his achievements against the key performance area targets, recommend annual increment and bonus / commission for the CEO, administer the company’s employee stock option schemes, etc. The committee determined CEO compensation based on industry benchmark.

**Sun Pharmaceutical Industries Ltd:** The CEO’s position is contractual and the appointment is for a five-year period. The company can terminate the appointment by giving a 30-day notice without any severance fees. During the year, its Board did not have a Remuneration Committee. The company did not disclose the reasons for the same.

**Larsen & Tubro Ltd:** The CEO’s position is contractual. The company can terminate the appointment by giving six-month notice without any severance pay. Its Nomination and Remuneration Committee met seven times during the financial year 2013-14. It has the responsibility to recommend the appointment and removal of the CEO, evaluate the performance of the CEO, and design and recommend to the board the firm’s compensation policy. The committee sets CEO compensation that is
competitive in the market for talented CEOs. The company made limited disclosures with respect to CEO compensation. It did not disclose what constitutes perquisite and retirement benefits and how the value of these two components were determined. It did not disclose how it evaluated performance of the CEO, how it determined his commission, and how many stock options did it grant to the CEO.

**Tata Power Ltd:** The company appoints the CEO for five-year period and can terminate the appointment by giving a six-month written notice or six-month’s compensation, without any separate severance pay. Its Nomination and Remuneration Committee met thrice during 2013-14. The committee’s mandate is to review and recommend CEO compensation policy. It must use an optimal mix of fixed and variable pay, clearly link pay to performance, and motivate the CEO to achieve short- and long-term performance goals. The committee evaluated the CEO’s performance using profit and other pre-determined performance criteria and recommended commission for the CEO to the board. As per shareholders’ approval, the CEO can receive a maximum basic salary of Rs. 6.5 lakh per month, commission as determined by the board; he can receive incentive pay at the discretion of the board but restricted to an upper limit of 200% of basic salary.

**Reliance Industries Ltd:** The company appoints the CEO for a five-year period and can terminate the appointment by giving a three months’ notice without any severance fee. During the financial year, the company dissolved its Remuneration Committee and Employee Stock Options Committee and transferred their terms of reference to the Human Resources Nomination and Remuneration Committee constituted on December 20, 2013. Each of the three committees met only once during the year. With regard to CEO compensation, the newly constitute committee has the mandate to formulate & recommend to board the compensation policy, define
Bharti Airtel Ltd: Its Remuneration Committee held five meetings during 2013-14. The committee designs compensation policy, administers Employee Stock Option Scheme, and recommends CEO compensation to the Board. CEO compensation has both fixed and variable components. Paid on a monthly basis, the fixed component comprises of salary, allowances including contribution to retirement fund, and perquisites. The variable component consists entirely of performance-linked incentives. The Remuneration Committee sets performance targets based on the balance scorecard at the beginning of the financial year. Once the financial year is complete, the committee evaluates the performance against these targets and recommends performance-linked incentives for the CEO to the Board. Based on the committee’s recommendations, the Board awards bonus and fixes CEO compensation within the limits approved by Bharti Airtel shareholders.

Infosys Ltd: Its Management Development and Compensation Committee held four meetings during 2013-14. The committee determines and approves the CEO compensation within the parameters set by the shareholders. Every six months, it evaluates the performance of the CEO, using a “detailed performance-related matrix.”

Wipro Ltd: The CEO’s position is contractual and the company can terminate the appointment by giving six-month notice without any severance pay. The company’s Board Governance, Nomination, and Compensation Committee met four times during 2013-14. It has the mandate to review and recommend CEO compensation to the board. To determine CEO compensation, it uses relative performance evaluation, in addition to industry benchmarks and macro-economic review of CEO compensation. While the company makes stock options and restricted
stocks grants, it did not disclose whether it granted them to the CEO during the financial year. It also did not disclose what constitutes allowances and other annual compensation and how the value of these two components were determined. It did not disclose what performance metrics it used to evaluate the performance of the CEO and how it constructed the peer group for the relative performance evaluation of the CEO.

**Tata Consultancy Services Ltd:** The CEO’s position is contractual. The company can terminate the appointment by giving six-month notice or salary in lieu thereof, without any severance pay. Its Remuneration Committee held one meeting during 2013-14. It has the mandate to approve the company’s CEO compensation policy, fixed compensation, annual increment, and variable performance-based incentive. Fixed compensation includes salary, benefits, perquisites, and allowances. However, the company did not disclose the benefits, perquisites, and allowances the CEO received during the year.

**HDFC Ltd:** The company appoints its CEO for a period of five years. The incumbent CEO’s tenure expires on 13-11-2015. The company has a Nomination and Compensation Committee with a mandate to review its compensation policy, link pay to performance, determine the level and mix of compensation, recommend increase in compensation, and administer stock option grants. The committee held three meetings during 2013-14.

**ICICI Bank Ltd:** The Board Governance, Remuneration, and Nomination Committee held five meetings during 2013-14. Its mandate is to design compensation policy, align the policy with qualitative and quantitative performance and prudent risk taking, define key performance indicators, evaluate the CEO’s performance against these indicators, as well as recommend to board the bonus, perquisites, increments in
salary and allowances, and stock option grant for the CEO. To align compensation with prudent risk taking, the committee links pay to a desired funding profile and asset quality. It does not provide a guaranteed bonus and limits the variable pay to a pre-determined threshold percentage of fixed pay. If the variable component exceeds the threshold, the excess bonus is deferred and paid over a period. To link pay to performance, the committee sets the variable component (as a percentage of total pay) higher for the CEO than at lower level. Further, any deferred bonus is subject to malus and any bonus already paid is subject to claw-back provisions.

**HDFC Bank Ltd:** Its Compensation Committee held seven meetings during 2013-14. It has a mandate to review the bank’s compensation policy, review compensation level vis-à-vis other banks, and make stock option grants. The company values perquisites as per Income Tax Rules, 1962, where applicable, and or at actual cost, otherwise. For gratuity, it contributes annually to funds managed by insurance companies. It uses the services of an independent external actuary to determine the liability for future gratuity benefits. The company uses intrinsic value method, not fair value method, for accounting of stock option grants to employees and executives. Consequently, it did not include any amount for its stock option grants in the employee benefit expenses, thereby understating the expenses by Rs. 561.3 crore. It amortizes the excess of prevailing market price of its equity share stock over option’s exercise price, over the vesting period of the stock option. It has not disclosed any other details of its stock option grant to the CEO.

**Axis Bank Ltd:** The company’s Human Resources and Remuneration Committee met five times during the financial year 2013-14. It has the mandate to review and recommend to the board the bank’s overall compensation philosophy and policy, set performance targets for the CEO, evaluate the CEO’s performance vis-à-
vis the targets, and recommend the CEO’s compensation level and mix based on industry practices to encourage value creation and competitiveness. It has aligned its CEO compensation policy with the RBI guidelines. For accounting of stock option grants to employees and executives, the company uses the intrinsic value method, not the fair value method. At the time of grant, it recognizes the excess of the prevailing market price of its equity share over the option’s exercise price as deferred compensation. This deferred compensation is amortized over the vesting period of the stock option. Consequently, the company did not include any amount for its stock option grants in the employee benefit expenses, thereby understating the expense by Rs. 103.5 crore. Therefore, the total CEO compensation does not include the fair value of options granted to the CEO during the financial year.

4.1.2 Compensation Practices in Public Sector Firms

The CPSEs are under administrative control of their respective administrative department / ministry of the Government of India. The President of India through the administrative department / ministry appoints their CEO, fixes their tenure, and terminates the appointment without any severance pay or notice. Public sector CEOs retire at the age of 60 years. As fixed compensation and increments in these firms are determined by the government policies, their remuneration committee had a limited role to play. The DPE norms entrust the committee to decide the incentive or performance related pay pool and the policy for its distribution within the government- prescribed limits.

These public sector companies made limited disclosures with respect to CEO compensation. For example, they did not disclose what constitutes benefits and how
benefits are valued. They did not disclose how they evaluated performance of the CEO and determined his performance-linked incentives.

**State Bank of India Ltd:** The CEO of State Bank of India is appointed by the President of India through the Ministry of Finance, the Government of India. The bank’s board reorganized the Remuneration Committee on 31-1-2014 to evaluate the performance of the whole-time directors and recommend payment of incentives for the financial year. The annual report did not provide any other information, such as how many times the committee met during the year and what functions it carried out.

**Bharat Heavy Electricals Ltd:** The CEO of the company is appointed by the President of India through the Department of Heavy Industry, Ministry of Heavy Industries & Public Enterprises, the Government of India. The company has a Remuneration Committee, which met once during the financial year 2013-14. It has the following mandate: review incentives, benefits, stock options, pensions, etc.; finalize policies on perquisites and benefits; approve salary, “certain” perquisites, and performance-linked incentives; etc. The company made limited disclosures with respect to CEO compensation. It did not disclose what constitutes benefits and how it has been valued. It did not disclose how it evaluated performance of the CEO and how it determined his performance-linked incentives.

**Coal India Ltd:** The Board of Directors reconstituted the Remuneration Committee on 20-05-13. However, the committee did not meet during the year.

**NTPC Ltd:** The President of India through the Ministry of Power, the Government of India, appoints the CEO of NTPC. The company has a Remuneration Committee, which met twice during the financial year 2013-14. It is empowered to
decide the incentive pool and the policy for its distribution within the government-prescribed limits. The company did not grant stock options during the financial year.

**GAIL Ltd:** The company’s Remuneration Committee met once during the financial year 2013-14 and has the mandate to decide performance related pay (incentive) pool as per the DPE guidelines and the policy for its distribution within the government-prescribed limits. No stock options were granted during the year.

**ONGC Ltd:** The Remuneration Committee at ONGC met once during 2013-14 and has the mandate to decide the incentive pool as per the guidelines of the Department of Public Enterprise and the policy for its distribution within the government-prescribed limits.

### 4.2 Structure of CEO Compensation in the S&P BSE Sensex Companies

In these companies, total CEO compensation typically comprised of fixed and variable components. The fixed component usually included salary, allowance, perquisite, and retirement benefit (such as provident fund, gratuity, and leave encashment). The variable component included annual performance-linked incentive / bonus / commission. Grant of restricted stocks or performance shares was uncommon in these companies. Few companies granted stock options, but did not include the fair value of the grant in their reported total CEO compensation.

#### 4.2.1 CEO Compensation Structure in the Private Sector Companies

Private sector companies exhibited a significant variation in the level of CEO compensation during 2013-14. The discussion in the remainder of this paragraph is based on the CEOs who were in office for the entire financial year 2013-14. Total compensation ranged from a low of Rs 16 lakh (S.D. Shibulal, Infosys) to a high of Rs 37.88 crore (Pawan Munjal, Hero MotoCorp). The summary statistics for total
CEO compensation (in Rupees crore) were: average 10.54, standard deviation 8.84, lower quartile 4.36, median 7.18, and upper quartile 14.48. Total CEO compensation was below the lower quartile at Infosys, Sun Pharmaceuticals, Maruti Suzuki, Axis Bank, and Bharti Airtel. It was between the lower quartile and the median at Tata Power, Mahindra & Mahindra, ICICI Bank, HDFC Bank, and Wipro. It exceeded the median but was below the upper quartile at HDFC, DRL, ITC, Larsen & Toubro, and Hindalco. It exceeded the upper quartile at Reliance Industries, Bajaj Auto, Tata Consultancy, Cipla, and Hero MotoCorp.

Private sector companies also exhibited a difference in the variable component of CEO compensation. Sesa Sterlite did not report any performance-linked bonus in its CEO’s total compensation. Tata Motors did not award any bonus / commission due to inadequacy of profits. In the remaining twenty-two private sector Sensex companies, total CEO compensation included the variable performance-linked bonus or commission. The discussion in the remainder of this paragraph is based on the CEOs who were in office for the entire financial year 2013-14. The variable pay as a percentage of total CEO compensation ranged between 16% (Dilip Sanghvi, Sun Pharmaceutical) and 91% (G.V. Prasad, Dr. Reddy’s) and had the following summary statistics: average 49%, standard deviation 22%, lower quartile 30%, median 47%, and upper quartile 59%. It was below the lower quartile at Sun Pharmaceuticals, Axis Bank, Bharti Airtel, HDFC Bank, and Maruti Suzuki. It was between the lower quartile and the median at ICICI Bank, Wipro, Cipla, Infosys, and Mahindra & Mahindra. It exceeded the median but was below the upper quartile at Hindalco, ITC, Larsen & Toubro, HDFC, and Bajaj Auto. It exceeded the upper quartile at Reliance Industries, Tata Power, Hero MotoCorp, Tata Consultancy, and DRL.
Hindalco was the only company that granted restricted stock to its CEO during the financial year 2013-14. Stock options grants to the CEOs were reported by eight private sector Sensex companies: ICICI Bank, HDFC Bank, Bharti Airtel, ITC, Cipla, Hindalco, Sesa Sterlite, and Hindustan Unilever. However, these companies did not include the fair value of the option grants in the reported total CEO compensation. The remaining sixteen companies either did not grant stock options to their CEO or did not disclose making any stock options grant to their CEO.

The structure of CEO compensation in these companies based on the disclosure in the Corporate Governance Report section of their annual report, 2013-14 are described below:

**Hindalco Ltd:** D. Bhattacharya was the Managing Director and CEO of Hindalco throughout 2013-14. In this financial year, he earned a total compensation of Rs 14.30 crore including Rs 6.75 crore for performance bonus linked to achievement of targets (47% of total compensation is variable). On 9/10/2013, he received 17,97,030 stock options that will vest staggeringly, 25% each year over four years. In addition, he received 8,27,482 restricted stocks, which will vest entirely at the end of three years. He is not entitled to any severance fee.

**Tata Steel Ltd:** During the financial year 2013-14, Tata Steel had a change in Managing Director or CEO. H.M. Nerurkar retired on 31/10/2013 and was succeeded by T.V. Narendran on 1/11/2013. For the seven [five] months period, Nerurkar [Narendran] earned a total compensation of Rs 3.78 crore [4.83 crore] comprising of salary Rs 0.74 crore [0.57 crore], perquisites and allowance Rs 0.84 crore [0.26 crore], and Net Profit linked commission Rs 2.20 crore [4.00 crore]. The variable component accounted for 58% [83%] of the total compensation of Nerurkar [Narendran]. Tata Steel did not grant them any stock options during the financial year.
**Sesa Sterlite Ltd:** During the financial year 2013-14, Sesa Sterlite had a change in Managing Director and CEO. P.K. Mukherjee was the CEO until 16/8/2013. M. S. Mehta succeeded him on 17/8/2013 and was the CEO for the remainder of 2013-14. For the four [seven] and a half month period, Mukherjee [Mehta] earned a total compensation of Rs 3.59 crore [2.02 crore], comprising of salary and perquisites Rs 2.93 crore [1.95 crore] and retirement benefits Rs 0.66 crore [0.07 crore]. The entire CEO compensation was fixed in nature. During the financial year 2013-14, the parent company of Sesa Sterlite, Vedanta Resources granted Mukherjee [Mehta] 57,000 [97,000] stock options having a fair value of Rs 0.91 crore [1.52 crore].

**Maruti Suzuki Ltd:** K. Ayukawa was the Managing Director and CEO of Maruti Suzuki during the financial year 2013-14. During the year, he earned a total compensation of Rs. 2.87 crore, comprising of fixed compensation, salary and perquisites, of Rs 2.03 crore and a variable performance-linked bonus of Rs. 0.83 crore. The variable portion accounted for about 29% of total compensation and was determined based on three criteria: (i) the growth in sales and profits from the previous year; (ii) budgeted versus actual growth; and (iii) growth in market share of its products relative to its rivals. Maruti did not disclose stock option grants to the CEO during the year.

**Tata Motors Ltd:** Late Karl Slym held the position of the Managing Director until 25-01-2014. He vacated the office of CEO upon his demise. His remuneration consisted of salary of Rs 1.10 crore, perquisites and allowances (including leave encashment, bonus, and incentives) of Rs 11.60 crore, and retirement benefits of Rs 0.13 crore. Upon his demise, his legal heir received gratuity and social security benefits worth Rs 2.41 crore. Thus, the amount paid during the year was Rs 15.24
crore. Tata Motors did not disclose the breakup for perquisites and allowances and the valuation method it used for the perquisites. Due to inadequacy of profits during the year, it did not award any commission to the CEO. The CEO’s compensation exceeded the statutory limit and the company has sought the approval of its shareholders and the Central Government for the excess remuneration. Tata Motors did not report any stock option grants to the CEO during the year.

**Mahindra and Mahindra Ltd:** At Mahindra & Mahindra, the CMD is the CEO of the company. Anand G. Mahindra was the CEO during 2013-14. He belongs to the promoter family of the company. His total compensation was Rs 5.18 crore, comprising of salary and privilege leave encashment of Rs 1.25 crore, perquisites and allowances Rs 1.16 crore, contribution to provident fund and superannuation fund Rs 0.33 crore, and commission payable of Rs 2.44 crore. The variable compensation, commission accounted for 47% of his total compensation. He did not receive any stock option grant during the year. The company did not disclose the breakup for salary, privilege leave encashment, perquisites, as well as allowances and the valuation method it used for the perquisites. The company did not disclose stock option grants to the CEO during the year.

**Bajaj Auto Ltd:** At Bajaj Auto, its Managing Director is the CEO. Rajiv Bajaj was the CEO throughout the financial year 2013-14. He belongs to the promoter family of the company and is a non-retiring director of its board. During the year, he earned a total compensation of Rs 18.36 crore, comprising of salary, perquisites, and benefits of Rs 7.67 crore and commission of Rs 10.69 crore. The variable compensation, commission accounted for 58% of his total compensation. The company did not disclose the breakup for salary, perquisites, as well as benefits and the valuation method it used for the perquisites. The company does not pay bonus,
incentive, and pension to its directors; it did not grant the CEO any stock options during the year.

**Hero MotoCorp Ltd:** Pawan Munjal was the Managing Director and CEO of Hero MotoCorp throughout the financial year 2013-14. He belongs to the promoter family of the company. During the year, he earned a total compensation of Rs 37.88 crore, comprising of basic salary of Rs 3.46 crore, perquisites and allowances Rs 3.70 crore, contribution to provident and other funds Rs 0.93 crore, and a commission of Rs 29.80 crore calculated as 1% of Net Profit. The variable compensation, commission accounted for 79% of his total compensation. The company did not disclose the breakup for perquisites and allowance and the valuation method it used for the perquisites. The CEO did not receive any stock option grant during the year.

**Hindustan Unilever Ltd:** During the financial year 2013-14, Hindustan Unilever had a change in Managing Director or CEO: N. Paranjpe until 9/10/2013 and S. Mehta thereafter. For the six months in 2013-14, the total compensation payable to Paranjpe [Mehta] was Rs 4.56 crore [6.14 crore] comprising of salary Rs 2.15 crore [3.91 crore], bonus Rs 1.54 crore [0.76 crore], perquisites Rs 0.74 crore [1.35 crore], and retirement benefits Rs 0.14 crore [0.12 crore]. The variable component accounted for 25% [64%] of the total compensation of Paranjpe [Mehta]. Paranjpe also received 8,800 stock options on 29-07-2013 and no performance shares under ‘2012 HUL Performance Share Scheme’. The stock options will vest three years after the grant date. Within three months of their vesting, they can be exercised at an exercise price of Rs 1. Mehta received neither any stock options nor performance shares during the year.

**ITC Ltd:** At ITC Ltd, the CMD is the CEO of the company. Y.C. Deveshwar has been the CEO since January 1, 1996. During the financial year 2013-14, he earned
a total compensation of Rs. 11.28 crore, consisting of a consolidated salary of Rs 4.32 crore, perquisites and benefits of Rs 0.72 crore, and a performance bonus or commission of Rs. 6.24 crore. The variable portion represents 55% of total compensation. During the financial year, he received 2.7 lakh stock options; 30%, 30%, and 40% of the stock options will vest 12 months, 24 months, and 36 months, respectively, after the grant date. Each option gives the holder a right to buy ten equity shares of Rs 1.00 of the company; these options can be exercised within five years of vesting. The value of the stock options is not included in total compensation.

Cipla Ltd: Subhanu Saxena became the Managing Director and CEO of Cipla Ltd from 16-7-2013. For this eight and a half months period during the financial year 2013-14, he earned Rs 21.69 crore by way of a salary of Rs 2.03 crore, perquisites and allowance Rs 7.70 crore, retirement benefits Rs 0.24 crore, signing bonus Rs 2.70 crore, and a bonus of Rs 9.02 crore. The variable component, bonus accounted for 42% of the total compensation. The above-mentioned amount for retirement benefit for the CEO excludes the amount for leave encashment and contribution to the approved group gratuity fund. As these two are based on actuarial estimates for the company as a whole, the portion for the CEO cannot be reasonably identified. Cipla granted the CEO 10 lakh stock options under its ESOS 2013-A plan. The stock options have a staggered vesting schedule. They will vest on 8th April as follows: 40% in 2015 and 20% each in 2016, 2017 and 2018. The CEO can exercise them within five years of their vesting, at an exercise price of Rs 2 per equity share. As the exercise price is much below the market price of Rs. 415.02 of each equity share on the grant date, these options are deeply in-the-money. The company reports a fair value of Rs 405.08 per option. Therefore, the stock option grant to the CEO appears to
have the fair value of Rs 40.05 crore. However, the fair value is not included in total CEO compensation reported by Cipla.

**DRL Ltd:** G.V. Prasad was the Co-chairman, Managing Director, and CEO of DRL Ltd during the financial year 2013-14. He earned a total compensation of Rs 10.95 crore, comprising of salary of Rs 0.63 crore, perquisites Rs 0.32 crore, and net profit based commission of Rs 10 crore. The variable compensation comprises solely of commission and accounts for 91% of his total compensation. Perquisites include medical reimbursement, leave travel assistance, personal accident insurance, chauffeur-driven car, landline telephone at residence, mobile phone, and contribution to provident fund and superannuation schemes as per company’s policy for its employees. DRL did not disclose whether these are valued at cost to company or as per Income Tax rules. It also did not disclose stock option grants to the CEO during the year.

**Sun Pharmaceutical Industries Ltd:** Dilip S. Shangvi was the Managing Director and CEO of Sun Pharmaceutical during the financial year 2013-14. He is the promoter of the company. Sanghvi earned a total compensation of Rs 2.74 crore, comprising of salary of Rs 1.92 crore, perquisites and benefits Rs 0.43 crore, and bonus of Rs 0.38 crore. The variable compensation, bonus accounts for 16% of his total compensation. Salary includes special allowance. Perquisites and benefits include house rent allowance, medical reimbursement, leave travel assistance, contribution to provident fund, and other perquisites payable to directors as per the company’s policy; but they exclude the amounts for earned-leave encashment and gratuity that the CEO is entitled at the end of his tenure. The company did not disclose what the amounts for each perquisite and benefit are, and whether it valued them at cost to company or as per Income Tax rules. As the CEO compensation
exceeded the limit specified in the Companies Act, 1956, the company has sought the approval for the excess from its shareholder and the Central Government. The company did not disclose stock option grants to the CEO during the year.

**Larsen & Tubro Ltd:** K. Venkataramanan was the Managing Director and CEO of Larsen & Tubro (“L&T”) during the financial year 2013-14. During the year, the CEO earned a total compensation of Rs 13.12 crore, comprising of salary of Rs 1.82 crore, perquisites Rs 1.61 crore, retirement benefits Rs 2.44 and a commission of Rs 7.23 crore. The variable component, commission was 55% of total compensation and was computed as a percentage of net profit. The company made limited disclosures about its CEO compensation. It did not disclose what constitutes perquisite and retirement benefits and how their values were determined. It did not disclose how it evaluated performance of the CEO and how it determined his commission. It did not disclose whether any stock option was granted to the CEO during the year.

**Tata Power Ltd:** Anil Sardana was the Managing Director and CEO of Tata Power throughout 2013-14. During the financial year, he received a total compensation of Rs 4.40 crore, which comprised of salary of Rs 0.72 crore, perquisites Rs 0.99 crore, retirement benefits Rs 0.19 crore, and commission for the previous financial year (2012-13) of Rs 2.50 crore. Tata Power also reported that the CEO earned a commission of Rs 5.70 crore for 2013-14. Deducting the commission for the previous year from total compensation received and adding the commission for the current fiscal year suggests that total CEO compensation was Rs 7.60 crore for the fiscal year 2013-14. The variable component, commission accounted for 75% of the total compensation. The company did not disclose stock option grants to the CEO during the year.
Reliance Industries Ltd: At Reliance Industries, the CMD is the CEO. Mukesh D. Ambani was the CEO during the financial year 2013-14. He belongs to the promoter family of the company. His total compensation was Rs 15 crore, comprising of salary of Rs 4.16 crore, perquisites and allowances Rs 0.60 crore, retirement benefits Rs 0.82, and commission payable of Rs 9.42 crore. The variable compensation, commission accounted for 63% of his total compensation. The total compensation was much below the shareholder-approved amount of Rs 38.86 crore. The company did not disclose what constitutes of perquisites, allowances, and retirement benefits and how their values were determined. Mukesh Ambani did not receive any stock option grant during the year.

Bharti Airtel Ltd: G. Vittal was the Managing Director or CEO of Bharti Airtel during the financial year 2013-14. He earned a total compensation of Rs 4.25 crore, which comprised of salary and allowances Rs 3.25 crore, performance-linked incentives Rs 0.99 crore, and perquisites Rs 40,160. The variable portion accounts for 23% of total compensation. The salary and allowances include company’s contribution to the Provident Fund, but do not include the actuarial value of gratuity and leave encashment. Perquisites are valued as per the provisions of the Income Tax Act, 1961. The CEO received 150,000 stock options during the year on 1/05/2013. Stock options vest over a three-year period after the grant date. The options can be exercised at an exercise price of Rs 5.00 within seven year from the vesting date. The company reported that during the financial year, the CEO exercised stock options valued Rs. 1.50 crore. His total compensation mentioned above, excludes the value of the options exercised and the value of options granted during the year.

Infosys Ltd: S.D. Shibulal was the Managing Director and CEO of Infosys during the financial year 2013-14. He belongs to the promoter group of the company.
Being one of the founders of Infosys, he draws a meagre compensation, like his predecessors. His total compensation was a quite small, Rs. 0.16 crore, and it consisted of fixed compensation of Rs 0.09 crore (basic salary Rs. 0.06 crore, perquisites and allowances Rs 0.02 crore, retirement benefits Rs. 0.01 crore) and a variable bonus of Rs. 0.07 crore. The variable portion accounted for about 44% of total compensation. Infosys did not disclose any stock option grants to Shibulal during the year.

**Wipro Ltd:** T. K. Kurien was the Executive Director and CEO of Wipro throughout 2013-14. During the financial year, he earned a total compensation of Rs 6.57 crore, comprising of salary of Rs 1.35 crore, allowances Rs 1.32 crore, other annual compensation Rs 1.13 crore, deferred benefits Rs 0.40 crore and incentives of Rs. 2.37 crore. The variable component accounted for 36% of total compensation. The company did not disclose what constitutes allowances and other annual compensation and how the value of these two components were determined. In addition, it did not disclose what performance metrics it used to evaluate his performance. While Wipro grants stock options and restricted stocks, it did not disclose any such grants made to him during the financial year.

**Tata Consultancy Services Ltd:** N. Chandrasekaran was the Managing Director and CEO of Tata Consultancy Services throughout 2013-14. During the year, he earned a total compensation of Rs 18.69 crore, comprising of salary of Rs 1.31 crore, benefits, perquisites, & allowances Rs 2.38 crore, and performance-linked commission / incentives of Rs. 15 crore. The variable component accounted for 80% of the total compensation. Total CEO compensation does not include the provisions for earned-leave encashment, gratuity, and health insurance premium. The company did not disclose the details of benefits, perquisites, and allowances the CEO received
during the year. The company does not have employee stock options plan. Therefore, the CEO did not receive any stock options during the financial year 2013-14.

**HDFC Ltd:** Keki Mistry was the Vice Chairman and CEO of HDFC through 2013-14. During the year, he earned a total compensation of Rs 7.78 crore, comprising of salary of Rs 1.61 crore, allowances, perquisites, and retirement benefits Rs 1.72 crore, and a commission of Rs. 4.46 crore (about 57% of total compensation). Perquisites and allowances include the use of company’s chauffeur-driven car, telephones, house rent and maintenance allowances, leave travel allowance, etc. Retirement benefits include the company’s contribution to provident fund, superannuation fund, post-retirement pension scheme, post-retirement medical benefits, etc. No stock option grants were made to him during the year. The board of directors has recommended an award of stock options to him, and the matter will be put up for shareholder approval at the forthcoming annual general meeting.

**ICICI Bank Ltd:** Ms. Chanda Kochar was the Managing Director and CEO of ICICI Bank during the financial year 2013-14. During the year, she earned a total compensation of Rs. 5.23 crore, comprising of a basic salary of Rs 1.75 crore, allowances and perquisites Rs 1.57 crore, contribution to provident fund Rs 0.21 crore and contribution to gratuity Rs 0.15 crore, and a variable performance-linked bonus of Rs. 1.55 crore. The variable portion accounts for about 30% of total compensation. Once the variable bonus is approved by the RBI, 60% of the bonus will be paid immediately and the balance 40% will be deferred, to be paid equally over three years. The salary and allowances are well within the shareholder-approved range of Rs. 1.62–3.12 crore and Rs 1.20–2.16 crore, respectively. She also received 290,000 stock options whose intrinsic value is not included in the above-mentioned total
compensation. Each option grants the right to buy one ICICI Bank share with a face value Rs 10 at an exercise price of Rs. 1,299.55 The options will vest over three years as follows: 30%, 30%, and 40% of the options will vest at the end of 12, 24, and 36 months, respectively, from the grant date. These options can be exercised within ten years from the grant date.

To align compensation with prudent risk taking, ICICI Bank links CEO pay to a desired funding profile and asset quality. Further, it does not provide a guaranteed bonus, but limits the variable component of total pay to a pre-determined threshold percentage of fixed pay. If the variable component exceeds the threshold, a part of the bonus is deferred and paid over a period. To link pay to performance, the committee sets the variable component (as a percentage of total pay) higher for the CEO than at lower level. Further, any deferred bonus is subject to malus and any bonus already paid is subject to claw-back provisions, consistent with the RBI guidelines (2012).

**HDFC Bank Ltd:** Aditya Puri was the Managing Director and CEO of HDFC Bank throughout 2013-14. During the year, he earned a basic salary of Rs 2.38 crore, allowances and perquisites Rs 1.53 crore, contribution to provident fund Rs 0.29 crore and superannuation fund Rs 0.36 crore (15% of basic salary), and a variable performance-linked bonus of Rs. 1.51 crore. Together, these amount to Rs 6.07 crore, of which the variable portion represents 25%. He is also entitled to a gratuity of 15 days basic salary for each completed year of service. The RBI has approved his compensation. The bank granted its CEO 8 lakh stock options during the year. It did not disclose any other detail about the stock option grant. Further, it did not provide any detail how it adhered to the RBI guidelines (2012) on CEO compensation.

**Axis Bank Ltd:** Sikha Sharma was the Managing Director and CEO of HDFC Bank during the financial year 2013-14. During the year, she earned a basic salary of
Rs 2.12 crore, house rent allowance Rs 0.64 crore, leave travel concession Rs 0.14 crore, medical reimbursement Rs 24,532, and a variable pay of Rs 0.84 crore. The bank also contributed to provident fund and superannuation @ 12% and 10% of basic pay, respectively. Together, these amount to Rs 4.21 crore, of which the variable portion accounts for about 20%. She is also entitled to a gratuity of one-month’s basic salary for each completed year of service. The company did not disclose whether the RBI has approved her compensation. She received an undisclosed number of stock options during the year. Axis Bank granted 20.03 lakh stock options to its employees, including the CEO, during the financial year 2013-14. The options granted during the financial year carry an exercise price of Rs 1,444.80 per share. The bank has not disclosed, in the annual report for 2013-14, any details of the vesting condition, vesting period, or exercise period for these stock option grants. However, it discloses that over the years, Sharma has received 8.75 lakh stock options in various tranches. Out of 455,000 options vested, she has exercised 107,500. Therefore, 420,000 options are unvested and 347,500 options are yet to be exercised as at 31-03-2014. Axis Bank did not provide any detail how it adhered to the RBI guidelines (2012) on CEO compensation.

4.2.2 CEO Compensation Structure in the Public Sector Companies

The S&P BSE Sensex index includes six CPSEs. Since their CEO’s compensation was determined as per the central government policies, these companies exhibited a limited variation in the level and structure of CEO compensation. Total CEO compensation ranged from a low of Rs 24 lakh (State Bank of India) to a high of Rs 61 lakh (GAIL), much lower than that in private sector Sensex companies. State Bank of India and Coal India did not report any variable
compensation for their CEO. In the remaining four firms, the variable compensation ranged from a low of 21% (or Rs. 9 lakh earned by B. Prasad Rao of BHEL) to a high of 52% (or Rs 30 lakh earned by S. Vasudeva of ONGC) of total CEO compensation. These six CPSEs did not have any stock option grant or separation pay for their CEO. I describe below the structure of CEO compensation in these public sector companies based on their disclosure in the Corporate Governance Report section of their annual report, for the fiscal year 2013-14.

**State Bank of India Ltd:** As the Chairperson, Arundhati Bhattacharya was the CEO of the bank at the end of the financial year 2013-14. She was a Managing Director between 2-8-2013 and 6-10-2013 and became the Chairperson on 7-10-2013. As a Managing Director, she drew a total compensation of Rs 3 lakh comprising of basic salary Rs 2 lakh and DA Rs 1 lakh. As a Chairperson, she earned Rs 9 lakh compensation comprising of basic salary Rs 5 lakh and DA Rs 4 lakh. She did not receive any incentive during the year. Her predecessor, Pratip Chaudhuri was the Chairman from 1-4-2013 to 30-9-2013. He earned a total compensation of Rs 15 lakh, comprising of basic salary Rs 5 lakh, DA Rs 4 lakh, and incentive Rs 6 lakh. The bank did not report whether it provided any perquisite, allowances other than DA, contribution to retirement benefits, etc. to Chaudhuri and Bhattacharya during the financial year 2013-14.

**Coal India Ltd:** According to the Report on Corporate Governance included in the Annual Report for 2013-14, S. Narsing Rao was the CMD or the CEO of Coal India throughout the financial year. Being a Maharatna, Coal India is a Schedule “A” CPSE and its CEO is on the monthly basic pay scale of Rs 80,000 – 125,000. The CEO is also entitled to allowances and perquisites not exceeding 50% of salary. As the CEO, Rao earned a total compensation of Rs 28 lakh including a salary (basic pay
and DA) of Rs 18 lakh and benefits Rs 10 lakh. Since the benefits amount is about 56% of the salary and a public sector CEO is entitled to benefits not exceeding 50% of salary, about 6% of salary or 4% of total compensation or Rs 0.01 crore possibly represents annual bonus earned by the CEO during the year.

**NTPC Ltd:** The CMD, Dr. Arup Roy Choudhury was the CEO of NTPC during the financial year 2013-14. During the year, he earned a total compensation of Rs 52 lakh, comprising of salary (basic pay and DA) of Rs 21 lakh, benefits Rs 11 lakh, and performance-linked incentives of Rs 20 lakh. The variable component accounted for 21% of total compensation.

**GAIL Ltd:** During the year, B.C. Tripathi was the CMD. As the CEO of GAIL, he earned a total compensation of Rs 61 lakh, comprising of salary and allowance of Rs 27 lakh, benefits and perquisites Rs 8 lakh, contribution to provident fund Rs 5 lakh, and performance-linked incentives of Rs 20 lakh (33% of his total compensation). The above-mentioned amounts do not include earned-leave encashment, gratuity, and post-retirement benefits, as these could not be ascertained at individual level.

**ONGC Ltd:** During the year, the position of CMD was held by two persons: S. Vasudeva from 1-4-2013 to 28-2-2014 and D. K. Sarraf thereafter. As Vasudeva superannuated on 28-2-2014, he was the CEO for eleven months. During this period, he earned a total compensation of Rs 58 lakh, comprising of salary (basic pay and DA) of Rs 17 lakh, benefits and perquisites Rs 9 lakh, contribution to provident and other funds Rs 2 lakh, and performance-linked incentives of Rs 30 lakh (52% of his total compensation). Sarraf was appointed a CEO for the period between 1-3-2014 and 30-9-2017. At the end of the financial year 2013-14, he was only one month into his tenure and earned Rs 5 lakh, comprising of salary of Rs 2 lakh, benefits and
perquisites Rs 1 lakh, contribution to provident and other funds Rs 0.2 lakh, and performance-linked incentives of Rs. 2 lakh (36% of his total compensation).

**Bharat Heavy Electricals Ltd:** The CMD, B. Prasad Rao was the CEO throughout 2013-14. During the year, he earned a total compensation of Rs 44 lakh, comprising of salary (basic pay and DA) of Rs 26 lakh, benefits Rs 9 lakh, and performance-linked incentives of Rs 9 lakh. The variable component accounted for 21% of total compensation. The company made limited disclosures about its CEO compensation. It did not disclose what constitutes benefits and how it has been valued. It did not disclose how it evaluated performance of the CEO and how it determined his performance-linked incentives.