Corporate Governance and the Limits of Legal Regulation: An In-Depth Analysis of Executive Compensation at Amara Raja Energy Mobility Ltd.

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Abstract

One of the primary objectives of the norms of corporate governance is to reduce the agency costs between management and shareholders. To this end, the agency theorists have argued that the executive pay should have a balance of incentives and disincentives to align their interests properly with those of the shareholders. This led to an exorbitant increase in executive pay, which is now often referred to as one of the primary reasons behind the growing inequality in the society. This has been true also for India, as it stands only second to the USA in the list of countries with highest Median Pay Gap Ratio (MPGR) or the CEO to median worker pay gap ratio. And one of the Indian companies that has regularly reported extremely high MPGRs is Amara Raja Energy and Mobility Ltd. (AREML), while still being fully compliant with the corporate governance norms. The present paper analyses the corporate governance of AREML since it was listed in 1996. It employs economic tools to understand the reasons behind the excessive executive compensation at AREML.

Keywords: *Excessive Executive Compensation, Directors, Nomination and Remuneration Committee, Agency Costs, Inequality.*

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Note: The study adhered to accepted ethical practices and standards of research integrity throughout the research process.

1. Introduction

According to French historian Francois Pierre Guillaume Guizot, there are two facets of 'civilization':

"…on one hand, an increasing production of the means of giving strength and happiness to society; on the other, a more equitable distribution, among individuals, of the strength." (Guizot et al., 1997).

To put it in different words, according to Guizot, a true civilized society is one that focuses on not only increasing the production of the means to satisfy human wants but also ensures their equitable distribution. The same has been the subject matter of economics as it deals with scarce resources and their optimum allocation in the society. Furthermore, one of the principles of economics is that society faces trade-offs between efficiency and equality. Efficiency refers to the size of economic pie whereas equality refers to the share of the economic pie that is distributed equally among the individuals. Thus, the following two kinds of forces should work together in every progressive society:

i. Increasing the size of the economic pie, and

ii. Equitable distribution of the resources so generated.

Increasing the size of economic pie has always been a challenge for a society/country as resources are limited. Therefore, enhancing productivity through investment, technological advancement and suitable laws and policy can certainly address these issues. Furthermore, if the size of the economic pie grows it definitely leads to more income availability for individuals. Once the economic production expands the subsequently the aim is equitable allocation of resources. Fair and equal distribution of income and resources ensures ample opportunity for everyone.

Therefore, for an economy to develop it becomes necessary for the primary, secondary and tertiary sector to perform well. Economic development takes place when there is a continued surge in the real income, purchasing power, which ultimately leads to improved criteria of living standards. Here, the role of public sector as well as the private sector becomes imperative in shaping the growth and development. The public sector is governed by the government whereas the private sector is controlled by individuals. While the public sector's focus is on overall development, the individuals that control the private sector are primarily driven by profit motive.

Business is one of the means through which there can be a significant change in the economic production of a country. Trade and business serve as an agent of change in society. Business includes the combination of capital, assets, technologies and lots of human resources for the production and distribution of commodities with the aim to generate profit. It is the most efficient and viable human activity in the global scenario. Hence, a better business can lead to a better economy, thus ensuring economic development. Business essentially follows certain principles and theories for their conceptual framework and models which guide decision making in organisational behaviour. Economic theories have crucial role to play in corporate governance as they illuminate on how firms should be organized, how and what rational decisions to be taken into consideration and how conflicts between different stakeholders can be managed. One of the major economic theories that has always influenced corporate governance is agency theory.

The agency theory complements above mentioned goals of private sector. At the core of this theory is the idea that the agents (managers/corporate directors) may not always act in the best interest of their principals (owners/shareholders) unless proper incentives and controls exist.

1.1. The Relevance of Agency Theory

By and large, the agency theory takes into account the glitches and resolutions regarding the conflicting interest between principals and agents with respect to delegation of task. The main purpose of agency theory in corporate governance is efficient organisation of information and risk bearing costs. In economic thought the agency theory plays a vital role in management of corporation as it is an extension of Neo-Classical school of thought. The Neo-Classical belief of maximizing utility by the individuals and maximizing profit by the firm is very much present in the Agency Theory. On the first point, the writings of agency theorists have exercised great influence from the Neo-Classical school. The idea inherent in the concept of 'efficient contracting', the principle that characterises agency theory, is that the principals need to incur agency costs to ensure that the agent's interests and their own are properly aligned. The need for incurring agency costs for achieving the objectives of efficient contracting was first outlined by Michael Jensen and William Meckling in a paper published in the Journal of Financial Economics in 1976 (Jensen & Meckling, 1976). They reached the conclusion that the manager of a firm "will choose a set of activities for the firm such that the total value of the firm is less than it would be if he were the sole owner" (Jensen & Meckling, 1976). Thus, they argue that being the principal in this agency relationship with the managers, the shareholders "can limit divergences from [their] interest by establishing appropriate incentives for the agent" (Rosen, 1990). These costs were referred to as agency costs and include the following:

a. the monitoring costs,
b. the bonding expenditures, and
c. the residual loss.

Thus, it was based on their argument that subsequent corporate governance scholars concluded that the only way to minimize agency costs within a company is by properly structuring executive compensation. It was argued that the structure of the executive's compensation should strike a balance between "incentives and insurance"; in other words, variable income and fixed income (Rosen, 1990).

However, this led to the focus of modern states in the contemporary world only on linear growth and inequality has become the norm. This linear growth with inequality is observed in manufacturing sectors, small and medium enterprise public as well as private sectors undertakings. This inequality is in terms of unequal distribution of income in terms of:

a) Wages and salaries;
b) Ownership /shareholders; and
c) Social inequality.

All forms of inequality restrict the economic mobility within the society and limits the very idea of inclusive growth of the economy. One of the most prominent reasons behind the rising income gap, as identified by the inequality scholars, is excessive executive compensation.(Piketty & Goldhammer, 2014; Stiglitz, 2015) In a paper published in 2015 by the International Monetary Fund (Dabla-Norris et al., 2015), it was found that an increase in the income of the top 20 per cent of the population has a negative impact on the GDP of the nation, while a similar increase in the income of the bottom 20 per cent can have a completely opposite effect.

It has been pointed out by inequality theorists that the executives have broadly been able to "set their own pay" while their exorbitant pay packages do not reflect an increase in productivity "as indicated by the lack of correlation between managerial pay and firm performance" (Stiglitz, 2015). Further, excessive executive compensation has been found to incentivize the managers for taking excessive risks and for providing misleading information (Stiglitz, 2009). Others have referred to the executives as 'supermanagers' who base their claim to the excessive compensation on the grounds of 'hypermeritocracy' (Piketty & Goldhammer, 2014).

It has been further observed that there is a positive correlation between the size, performance and age of the company and its levels of executive compensation (Sánchez-Marín et al., 2022). Also, it has been found that percentage of shares owned by directors and ownership concentration lead to an increase in executive compensation (Sánchez-Marín et al., 2022). Further, excessive compensation, short-term approach and longer tenures have also been found to be connected to long-term debt levels and low credit line limits (Chemla et al., 2025).

2. The Gradual Increase of MGPR in India

The growth in pay disparity is often measured in MPGR (median pay gap ratio), or CEO to median employee pay gap ratio (i.e., the wage gap between Chief Executive Officers (CEOs) and the median employee of the company). The trend in the US over the years has been aptly presented in a paper published Mishel and Schieder (2017). Using the stock-options-realised measure, they found that MPGR was around 20:1 in 1965 and 58:1 in 1989. They further noted that the ratio ballooned to astronomical levels and reached its peak in the year 2000 when it was recorded at 376:1, before declining to 312:1 in 2017.

In India, certain listed companies report such high MPGRs that are beyond any logic or justification. The company with the highest MPGR in FY2023 was Bharat Rasayan Ltd. Its CEO was granted a remuneration that was 41,695 times that of the median employee.

Considering the fact that there are over 1900 listed companies in the National Stock Exchange, to conduct a comprehensive study of the reasons responsible for high MPGRs, the authors have adopted the following parameters to zero down on the ideal sample company:

i. should have been listed for at least 5 years;

ii. should have at least 1000 employees; and

iii. should be listed in NIFTY500.

On the basis of the above parameters, the company that reported the highest MPGR in FY2023 is Amara Raja Energy Mobility Ltd. (AREML). In FY2023, the company reported MPGR of 1:1872.45 in FY2023; meaning that its CEO earned more than 1800 times that of the median employee's wages. The chart below is a testament of the fact that income inequality within the company has always been astronomically high.

FY	Ratio b/w Median Emp Rem & MD Rem
FY2015	1:2316.75
FY2016	1:2448.41
FY2017	1:2082.77
FY2018	1:2003.64
FY2019	1:1885.99
FY2020	1:2106.03
FY2021	1:1951.50
FY2022	1:1412.82
FY2023	1:1872.45

Table 1: Ratio b/w Median Emp Rem & MD Rem

Source: Annual Reports (FY 2015 to 2023) from Amara Raja Energy & Mobility Limited (1996-2023).

The paper seeks to present an economic analysis of the corporate governance structure of AREML to assess the reasons behind the high pay disparity within the company. It will be contrasted against the laws on corporate governance that are supposed to act as a safeguard against excessive executive compensation. Based on its findings, the paper will end with suggestions for improvements in corporate governance laws for fixing the issue of high MPGRs.

3. A Case Study of AREML

In the FY2022-23, out of all the companies listed in India, Amara Raja Energy & Mobility Ltd. (formerly known as Amara Raja Batteries Ltd. and hereafter referred to as AREML) had the widest gap between the CEO's remuneration and median employee's salary ("Fat CEO Salaries Come under the Gaze of Shareholders and Boards," 2023). According to the annual report of the company for the financial year 2022-23, the CEO's pay was found to be 1,872.45 times that of the median employee's remuneration in the company. This pay-gap ratio was more than twice than that recorded in the company with the second highest pay-gap, i.e. Amber Enterprises India Ltd., where the pay-gap ratio was 1:917.

The annual increase in the CEO's pay at AREML in FY2023 was 38.50 per cent. At the same time, the median remuneration of employees in the same period increased by a mere 4.48 per cent. Moreover, it is worth noting that in 2021 the company featured in the Forbes 500 Best Employers List (" Amara Raja Group enters Forbes 500 best employers list", 2021). It is to be noted that the total number of permanent employees in the company in the same year was 7,993. The researchers have analysed all annual reports of the company available on Bombay Stock Exchange's website, i.e. annual reports from FY1996-97 to FY2022-2023.

3.1. Company Profile: The Before Times

AREML is a family-run business. It is otherwise known as the manufacturer and owner of the famous brand 'Amaron Batteries'. The company was incorporated on 13th February, 1985 as a private company. The first three subscribers of shares in the capital of the company were Mr. Radhakrishna Naidu Bollinaemi, Mr. Abbaiaah Prabhu Naidu Manaru and Mr. Ramesh Yelawarthy. It was subsequently converted into a public company on 6th September, 1990. The company came out with a public issue in 1991 and its shares got listed on four stock exchanges, The Stock Exchange, Mumbai (BSE), National Stock Exchange (NSE), Hyderabad Stock Exchange Ltd. (HSE) and Calcutta Stock Exchange Association Ltd. (CSE). On 27th September 2023, the company changed its name from Amara Raja Batteries Ltd. to Amara Raja Energy & Mobility Ltd.

The promoter group, represented by RN Galla Family Pvt. Ltd., holds 28.06 per cent shares in the company. In 2017, RN Galla Family Pvt. Ltd. was incorporated and all the promoters shares in Amara Raja Batteries Ltd. were transferred to this company. All directors in RN Galla Family Pvt. Ltd. are from the Galla family itself.

RN Galla Family Pvt. Ltd. derives its name from Mr. Ramachandra N. Galla, who is famously referred to as the founder-chairperson of the Amara Raja Batteries (*Amara Raja Energy & Mobility Limited*, n.d.; Bureau, 2021). It may be of interest to note, however, that Mr. Ramachandra Galla's name does not appear amongst the names of the three individuals who were the initial subscribers of shares in the capital at the time of the incorporation of the company. Also, annual report for FY1996-97 mentions that Mr. Ramachandra Galla was employed by the company on 1st September, 1990. Prior to that, he was working as Sr. Engineer at Seargent & Lundy Power Consultants, USA. Also, it is worth mentioning that until 1997, he was working as the Managing Director in the company while the Chairman was Mr. U.V. Warlu. It is only from FY1997-98 onwards that Mr. Ramachandra Galla has been designated as the Chairman-cum-Managing Director of the company. At the same time, it can also be noted that his son, Mr. Jayadev Galla, was employed for the first time on 9th December, 1991 by the company. Before that, he was working as International Sales Administrator at GNB Technologies, USA.

3.2. The Board of Directors

According to the Annual Report FY2022-23 of the company, the Board of Directors consists of the following individuals:

Sl. No.	Name of Director	Position
1.	Mr. Jayadev Galla	CMD & CEO (Executive Director)
2.	Mr. Harshavardhana Gourineni	Executive Director
3.	Mr. Vikramadithya Gourineni	Executive Director
4.	Mr. Annush Ramaswamy	Independent Director (Non-Executive)
5.	Ms. Bhairavi Tushar Jani	Independent Director (Non-Executive)
6.	Mr. N. Sri Vishnu Raju	Independent Director (Non-Executive)
7.	Mr. T.R. Narayanaswamy	Independent Director (Non-Executive)

Table 2: List of Directors in AREML

Source: Annual Report of FY2022-23 of AREML from Amara Raja Energy & Mobility Limited (1996-2023).

It is to be noted that all three executive directors of the company come from the Galla family. The following chart gives a clearer understanding of the relationship between the three executive directors:

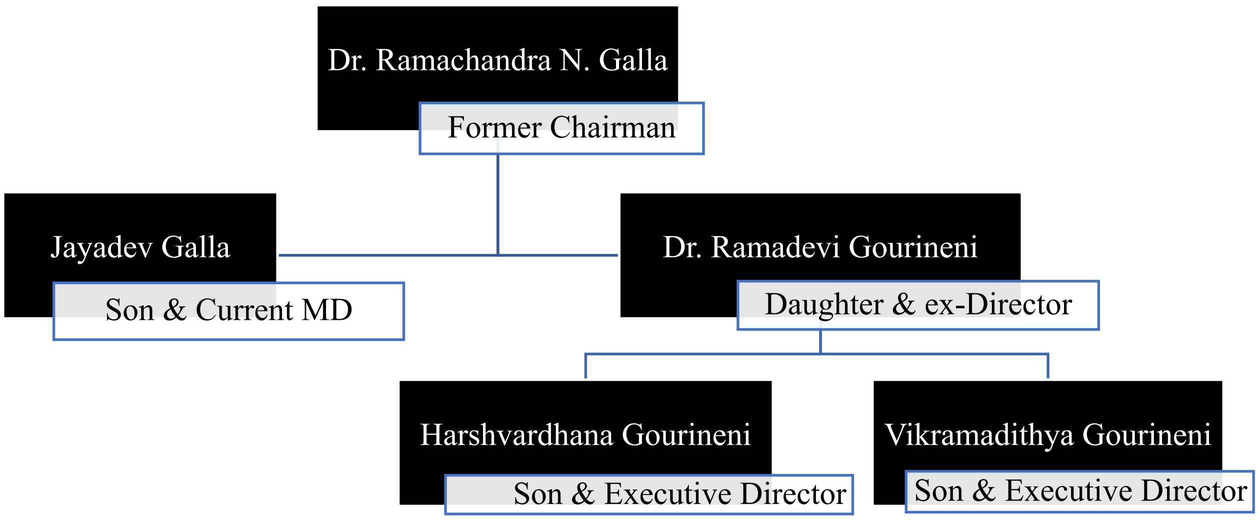

Figure 1: Family tree of AREML's Promoters

Source: Authors' own construction from Public documents of AREML available at Ministry of Corporate Affairs' website.

Mr. Jayadev Galla, the current managing director and chairman, has been working at the company since 9th December, 1991. He was working as an executive director until 2003 when he was made the managing director of the company. He has been serving the company as its managing director ever since. Mr. Jayadev Galla took the helm of the Amara Raja Batteries Ltd. from his father, Dr. Ramachandra N. Galla, on 14th August 2021, when he was made the Chairman of the company.

The last three entries in the list of directors have been designated as independent directors. The independent directors have a significant role to play in the fixation of remuneration of the executive directors as they constitute two-thirds of the Nomination and Remuneration Committee (NRC) in the company and, also, hold the chairpersonship of NRC. According to the annual report for FY2022-23 of the company, all four independent directors are a part of the NRC, with Mr. N. Sri Vishnu Raju as its Chairperson.

3.2.1. Remuneration of Executive Directors

There have been only five executive directors in Amara Raja Energy & Mobility Ltd. since 1996. The details of their remuneration have been represented in the table below.

FY	**RNGalla (1995-2021)**	**J Galla (1995-present)**	**R Bhamidipati (2012-13)**	**H Gourineni (2021 – present)**	**V Gourineni (2021 – present)**
FY1996	70,73,997	23,57,999			
FY1997	1,11,50,331	1,11,50,331			
FY1998	2,22,40,091	2,22,40,091			
FY1999	2,99,30,935	2,99,30,935			
FY2000	1,29,51,455	1,29,51,455			
FY2001	1,30,64,500	1,30,64,500			
FY2002	1,37,43,106	1,37,43,106			
FY2003	65,20,369	65,20,369			
FY2004	24,00,000	24,09,360			
FY2005	75,48,176	75,48,175			
FY2006	1,56,67,877	2,04,36,362			

FY2007	2,32,20,000	3,87,00,000			
FY2008	4,75,10,000	7,91,70,000			
FY2009	4,01,00,000	6,30,70,000			
FY2010	8,30,40,000	13,84,00,000			
FY2011	7,20,80,000	12,01,30,000			
FY2012	10,41,80,000	17,36,30,000			
FY2013	14,08,80,000	23,48,00,000	2,40,20,000		
FY2014	17,59,90,000	29,33,20,000	2,08,30,000		
FY2015	20,15,90,000	33,59,70,000			
FY2016	23,55,50,000	39,25,90,000			
FY2017	22,83,88,000	38,06,47,000			
FY2018	23,32,00,000	38,86,00,000			
FY2019	23,82,00,000	39,69,00,000			
FY2020	27,26,00,000	45,43,00,000			
FY2021	28,41,00,000	47,35,00,000			
FY2022		38,00,00,000		15,26,00,000	15,26,00,000
FY2023		52,63,00,000		26,32,00,000	26,32,00,000

Table 3: Year-wise remuneration of executive directors of AREML

Source: Annual Reports (FY 1996 to 2023) from Amara Raja Energy & Mobility Limited (1996-2023).

Mr. Ramachandra N. Galla became a Non-Executive Chairperson w.e.f. 1st September 2005. Subsequently, his commission was reduced to 3 per cent of net profits. The company got the approval from the Central Government for paying its NEDs up to 4 per cent of net profits, out of which only 1 per cent was being paid to all the other NEDs.

It can be observed from the above table that since 1996, there has been cumulatively only five executive directors in the company, out of which four are from the Galla family itself. Only Mr. Ravi Bhamidipati does not have any direct ties with the Galla family. Having a direct relationship with the Galla family seems to be of high relevance also in the quantum of remuneration of executive directors. The lowest remuneration, amongst all the executive directors, was drawn by Mr. Bhamidipati. His tenure, as an executive director, was also the shortest, i.e. of less than one year.

The largest component in the remuneration of all executive directors at Amara Raja has been "commission", which is paid as a percentage of profits before tax. The managing director has been paid commission at the rate of 5 per cent since the beginning of the data. Also, Mr. Jayadev Galla has been constantly paid commission at the rate of 5 per cent even prior to his becoming the managing director of the company, i.e. 1st August 2003. Even after stepping down from the position of executive director on 1st September 2005, Mr. Ramachandra Galla was receiving commission at the rate of 3 per cent. It is pertinent to note that even at that time the law required that in case there is an executive director on the Board, none of the non-executive directors (NED) individually or, if there are more than one such NED, to all of them together, should be paid a commission of more than 1 per cent, according to S. 309(4) of the Companies Act (1956). To do this, consent from the Central Government was taken time and again until 2021, when Mr. Ramachandra Galla finally retired from the company. The two grandsons of Mr. Ramachandra Galla, i.e. Harshavardhana Galla and Vikramadithya Galla, are receiving commission at the rate of 2 per cent. The lowest commission to be paid to any executive director since the listing of the company has been Mr. Ravi Bhamidipati, who received it at the rate of 1 per cent of profits before tax.

What is also very interesting to note is that between FY1996-97 (after listing of Amara Raja) to FY2004-05, both Mr. Ramachandra Galla and Mr. Jayadev Galla have either received the same amount or almost the same amount as remuneration. This happened irrespective of the differences between the amount being paid to them under different components such as salary, housing rent, and perquisites. It continued until FY2005-06, when Mr. Ramachandra Galla was made a non-executive chairperson. A similar trend can again be witnessed in the amount of the remuneration being paid to the Gourineni brothers.

The fact that the structure of the managing director's remuneration, or that of most of the other executive directors', has not changed much over the years signifies how little impact the evolution of corporate governance norms has been able to make in this regard on the company. It could be possible that in Amara Raja, irrespective of the composition of the NRC, most of the executive directors (the ones who have come from the promoter Galla family) have been able to wrestle out from the company whatever compensation they have so desired. This casts a dark shadow over the efficiency of the independence of the NRC at the company.

3.3. Executive vs Employee Compensation

With respect to the mandate of disclosures under the laws regarding employee compensation, the requirements have changed over the years. Thus, the comparison between executive and employee remuneration for Amara Raja has been presented through three different tables below. However, for a comprehensive understanding of the trend regarding employees share in the wages paid by the company, all three of them are equally important.

3.3.1. FY1995-96 to FY2001-02

Between FY1995-96 and FY2001-02, the company disclosed the highest employee remuneration (apart from the executive directors') as well as the number of employees who were earning above a certain limit. However, the company has not disclosed the total number of employees that it employed for each of those financial years. The data regarding the period has been provided for in Table 4:

FY	**MD Remuneration (₹)**	**Highest Employee Remuneration (₹)**	**No. of employees earning above 3lakh (until 1998); 6lakh (until 2000); 12lakh (until 2001); 24 lakh (until 2002)**	**Ratio b/w MD & Highest Emp Rem**
FY1996	70,73,997			-
FY1997	1,11,50,331	3,43,000	2	1:32
FY1998	2,22,40,091	5,78,245	11	1:28
FY1999	2,99,30,935	6,48,509	1	1:46
FY2000	1,29,51,455	8,62,620	4	1:15
FY2001	1,30,64,500	-	0	-
FY2002	1,37,43,106	-	0	-

Table 4: MD and Highest Employee Remuneration between FY1995-96 and 2001-02

Source: Annual Reports (FY 1996 to 2002) from Amara Raja Energy & Mobility Limited (1996-2023).

Table A shows that between FY1995-96 and FY2001-02, while the managing director was being paid exorbitantly, the employees were not being paid even a fraction of that. Except for 1995-96, the MD has charged the company more than a crore each year, while the employee only second to him did not make more than 9 lakhs. For the last two years under study, there were no employees, apart from the executive directors who earned more than 12 lakhs or 24 lakhs, respectively.

The trend depicted by the MD Remuneration and highest employee remuneration is presented with the help of the chart below. From the data available, it can be seen that the rate of increase of the pay of the highest employee was steady and rose by approximately 100 per cent. On the contrary, the MD's pay saw a rise of about 200 per cent in the same period before falling back to almost the same levels.

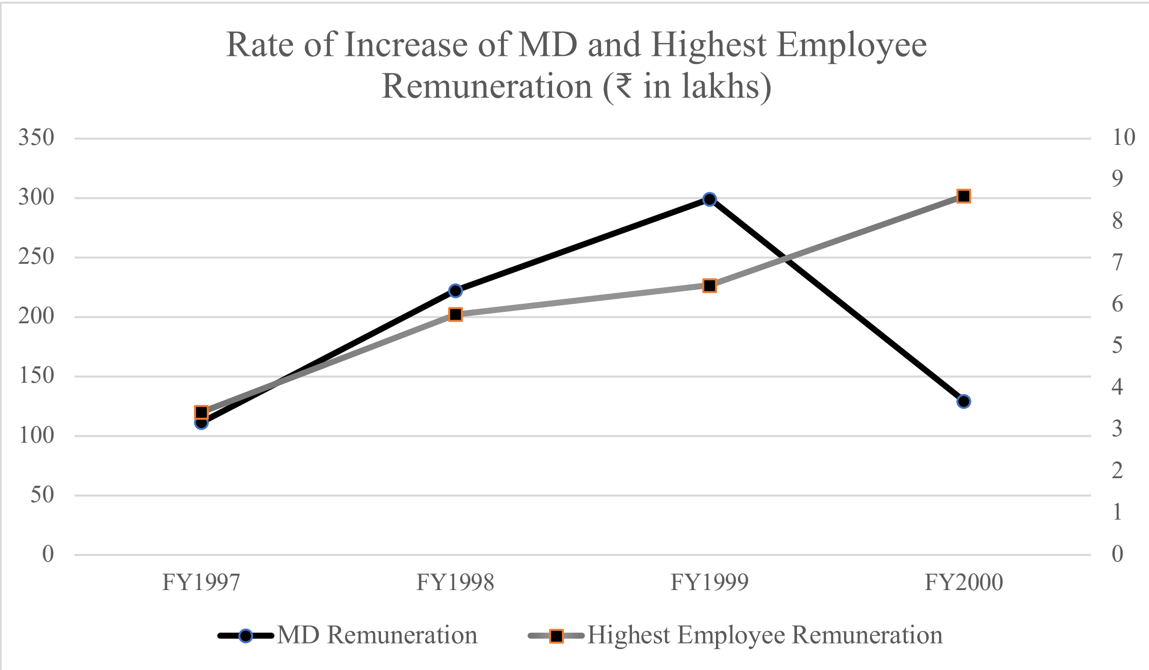

Figure 2: Rate of Increase of MD and Highest Employee Remuneration in AREML FY1995-96 to FY2001-02

Source: Compiled by the authors from data in Amara Raja Energy & Mobility Limited (1996-2023).

Between FY2000-01 to FY2014-15 (except for FY2001-02 to FY2003-04), the company disclosed the number of employees it employed in the given period as well as the total expense on employee remuneration. From the available data, average employee remuneration and ratio of the same with MD remuneration has been calculated. The said data has been presented herein under Table 5.

FY	**Profit Before Tax (₹)**	**MD Remuneration (₹)**	**Avg Employee Remuneration (₹)**	**Total Employees**	**Ratio b/w MD &**

					Avg Emp Rem
FY2001	23,51,40,997	1,30,64,500	1,19,250	882	1:109
FY2002	24,73,47,904	1,37,43,106	-	-	-
FY2003	11,73,38,638	65,20,369	-	-	-
FY2004	1,15,19,337	24,09,360	-	-	-
FY2005	13,58,11,156	75,48,176	1,13,394	1500	1:66
FY2006	37,34,64,223	2,04,36,362	1,59,437	1300	1:128
FY2007	71,19,84,448	3,87,00,000	1,67,927	1584	1:230
FY2008	1,45,93,81,425	7,91,70,000	2,17,757	1874	1:363
FY2009	1,22,65,86,080	6,30,70,000	2,44,497	2111	1:258
FY2010	2,54,63,48,749	13,84,00,000	2,50,182	2493	1:553
FY2011	2,21,01,28,596	12,01,30,000	2,58,376	2999	1:465
FY2012	3,18,64,50,000	17,36,30,000	3,13,129	3202	1:554
FY2013	4,21,81,70,000	23,48,00,000	3,65,223	3467	1:643
FY2014	5,36,70,00,000	29,33,20,000	4,12,926	3834	1:710

Table 5: MD Remuneration, Average Employee Remuneration, and their ratio for FY2000-01 and FY2013-14

Source: Annual Reports (FY 2001 to 2014) from Amara Raja Energy & Mobility Limited (1996-2023).

In the period under study, it can be observed that the ratio between the MD remuneration and that of an average employee has steadily increased. While the MD of Amara Raja made 66 times that of an average employee in FY2004-05, in almost about a decade in FY2013-14, he was making 710 times that of an average employee. This is a testimony to the widening gap between the haves and have-nots within Amara Raja. The increasing trend has also been presented below with the help of a graph.

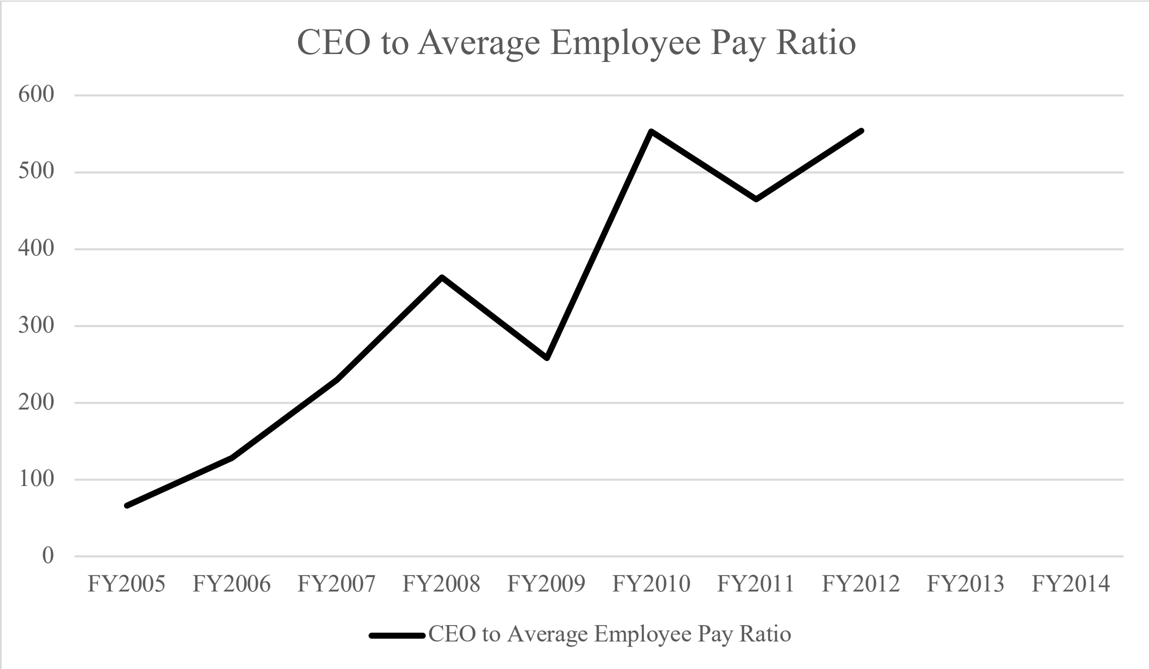

Figure 3: CEO to Average Employee Pay Ratio in AREML

Source: Annual Reports (FY 2001 to 2014) (Compiled by the authors from data in Amara Raja Energy & Mobility Limited (1996-2023)).

Another important trend that can be observed here is that there is a very strong positive relationship between the number of employees and profit before tax. The correlation coefficient for the two sets of data comes to around 0.96, which indicates positive correlation between the two variables. Thus, it can be said that an increase in the number of employees has had a positive impact on the profits of the company. Conversely, a fall in the profits would have led to a decline in the hiring of employees.

It is to be noted that in Table 5 average employee remuneration has been used, as opposed to median employee remuneration under Table C, due to lack of available data for the relevant period of study. However, the problems with using average data instead of median is duly acknowledged as it includes the salary paid to the executive directors and to other key managerial personnel. Also, there may be high disparity in the remuneration paid to workers at different levels and it will not be reflective in the average data, as it is in case of median remuneration.

3.3.2. FY2014-15 to FY2022-23

Starting from FY2014-15, in compliance of the new Companies Act 2013, Amara Raja has started publishing data regarding its median employee remuneration as well as its ratio with the MD remuneration. The same has been compiled and is presented hereinbelow under Table 6.

FY	Profit Before Tax (₹)	MD Remuneration (₹)	% Change in MD Rem	Median Employee Rem (₹)	% Change in Median Emp Comp	Total Employees	Ratio b/w Median Emp Rem & MD Rem
FY2015	6,09,90,00,000	33,59,70,000	14.54	1,45,018	8.62	4430	1:2316.75
FY2016	7,22,19,30,000	39,25,90,000	16.85	1,60,345	10.57	5617	1:2448.41
FY2017	7,02,21,00,000	38,06,47,000	(3.04)	1,82,760	13.98	6222	1:2082.77
FY2018	7,14,20,00,000	38,86,00,000	2.09	1,93,947	6.12	7051	1:2003.64
FY2019	7,30,37,00,000	39,69,00,000	2.15	2,10,446	8.52	7452	1:1885.99
FY2020	8,40,68,00,000	45,43,00,000	14.44	2,15,714	7.11	7640	1:2106.03
FY2021	8,73,33,00,000	47,35,00,000	4.24	2,42,634	8.85	7595	1:1951.50
FY2022	6,89,80,00,000	38,00,00,000	(19.73)	2,68,966	8.72	7615	1:1412.82
FY2023	9,47,57,00,000	52,63,00,000	38.50	2,81,076	4.48	7993	1:1872.45

Table 6: MD Remuneration, Median Employee Remuneration, and their ratio in FY2014-15 and FY2022-23

Source: Annual Reports (FY 2015 to 2023) from Amara Raja Energy & Mobility Limited (1996-2023).

The advantage with Table 6, over the previous two tables, is that it records median employee remuneration. It can be observed that the gap between the managing director's remuneration and that of a median employee has been consistently high. Although Amara Raja Energy & Mobility Ltd. featured on various news portals in 2023 for being the company with the highest pay gap between managing directors and the median employee, however the data suggests that such high pay gap is a common phenomenon for the company. Except for FY2021-22 when the MPGR was 1:1412.82, the ratio for FY2022-23 (that scored the company the top spot amongst the companies with the greatest pay disparity) was the lowest for the company since it started disclosing the MPGR. The trend of the MPGR has been presented below through the help of a graph. Though the MPGR seems to be on a declining trajectory, however, the rate of its decline is negligible for it to come down to reasonable levels in the near future.

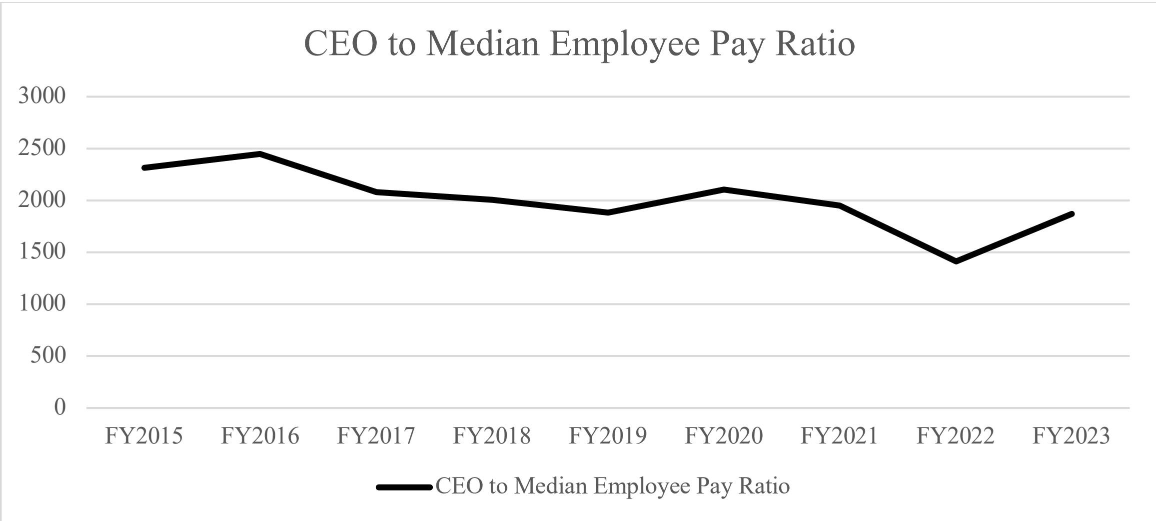

Figure 4: CEO to Median Employee Pay Ratio in AREML

Source: Annual Reports (FY 2015 to 2023) from Amara Raja Energy & Mobility Limited (1996-2023).

What is also to be noted from the data above is that there has been a steady increase in the number of employees in the company. Also, the correlation coefficient between profit before tax and number of employees for the period under study comes to about 0.72. This signifies that during FY2014-15 and FY2022-23, there was a positive correlation between the number of employees and profit before tax. However, the correlation was not as strong as it was under Table B.

3.4. Fixation of Remuneration of Mr. Jayadev Galla, the Managing Director-cum-Chairperson

Let us now analyse the procedure that the company had to undergo for the re-appointment and fixation of remuneration of Mr. Jayadev Galla as the managing director-cum-chairperson.

On 30th May 2020, a resolution is passed unanimously by the Board of Directors of Amara Raja Batteries Ltd. for re-appointing Mr. Jayadev Galla as the Vice Chairman and Managing Director of the company for a further term of five years starting from 1st September 2020. At the time, the composition of the NRC was the same as it is now except for one small difference; Mr. Annush Ramaswamy was yet to join the company. Thus, the NRC consisted of only three individuals, which amounted to half of the total strength of the Board.

In the resolution, it was specified that the appointment shall be subject to approval in the next general body meeting. The board resolution further went on to specify the responsibilities as well as the remuneration payable.

According to the said resolution, Mr. Galla is entitled to a monthly payment of ₹ 20,00,000/- (rupees twenty lakh only), along with a commission at the rate of 5 per cent of the net profits of the company. In addition to this, he is also entitled to other kinds of perquisites including housing rent allowance, medical reimbursement for self and family, leave travel concession, provident fund, leave encashment, gratuity, car, telephone, and club fee. It is to be noted that the resolution further states under Para 5 that the "aggregate of salary, commission and perquisites in any financial year shall not exceed 5% of net profits of the company." This is in tune with S. 197(1) of the Companies Act 2013, where it specifies an upper cap of 5 per cent of net profits on the remuneration to be paid to managing directors.

Mr. Galla is also entitled to receive reimbursement for all expenses that he may incur in furtherance of the company's business. However, under Para 10 of the resolution, he is "not entitled to receive any fees for attending meetings of the Board/Committee".

Thereafter, on the same day, i.e. 30th May 2020, Mr. Jayadev Galla submitted his consent letter to the Board of Directors. This was done towards the fulfilment of the requirement as specified under the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, wherein Form No. MR.1 requires such a letter of consent from the incoming managing director as one of the attachments.

In the very next annual general meeting of the company that was held on 7th August, 2020, the said board resolution was tabled before the shareholders through Special Resolution No.

8. The resolution proposed the appointment of Mr. Jayadev Galla as the Vice Chairman and Managing Director of the company. Also, it specified that the remuneration to be paid to Mr. Galla shall be as agreed upon between himself and the Board. In other words, the resolution simply proposed the appointment of Mr. Galla on the same terms and remuneration as had been agreed upon in the Board meeting held on 30th May 2020. The said resolution was passed with requisite majority. And with the passing of the said resolution in the general meeting, the procedure for the re-appointment of Mr. Jayadev Galla as the managing director of Amara Raja Batteries Ltd. was completed.

It is to be noted that Mr. Jayadev Galla was appointed as the managing director of ARBL for the first time on 1st August, 2003. Before that, he held the position of executive director in the company and had been working with the company on that position since 9th December, 1991. Prior to him taking the position, the position of managing director was held by his father, Mr. Ramchandra Galla.

Another important point to note is that until 2020, under Article 21.1(e) of the Articles of Association of Amara Raja gave the Galla Family the power to nominate the managing director. However, what is more important to note is that under Article 20.6, Mr. Jayadev Galla was named as the Vice-Chairman of the Board and Mr. Ramachandra Galla was named as its Chairman. The same clause also gave the power to the Galla Family to nominate the Chairman. Because of the said clause, the father-son due enjoyed permanency on the board. However, both above-mentioned clauses were amended in 2020 to remove the names of any individual from the Articles that otherwise entitled him/her to directorship. It may be noted that the said amendment was brought into effect after the acquisition of JCI (the only other promoter group apart from the Galla family, holding equal percentage of shares) by Clarios International, Brookfield in FY2019-20.

3.4.1. Why is MD Remuneration so high in Amara Raja?

The remuneration paid to the managing director at Amara Raja has been consistently high since its listing in 1995. Also, from the annual reports of the company perused starting from FY1996-97, it can be observed that the structure of the MD remuneration has not changed much. In fact, the list of components of MD remuneration has remained the same through years. It includes:

i) Salary

ii) Housing Rent Allowance

iii) Medical Reimbursement
iv) Other Perquisites
v) Commission

Out of all the above stated components, the one that contributes a significant chunk to MD remuneration has been the 'commission'. The managing director has been paid a commission at the rate of 5 per cent of the profit before tax since the beginning of the data set. This structure of the remuneration or the percentage of commission has remained unchanged, irrespective of the independent directors who comprised the nomination and remuneration committee (NRC). However, there are also other reasons behind the fixation of remuneration at such astronomical levels for the managing director of Amara Raja.

3.5. The Problematic 'Independent' Directors

The independent directors have a significant role to play in the appointment and fixation of remuneration of the directors, including the managing director. The law mandates that all listed companies must have a nomination and remuneration committee (NRC) (Companies Act, 2013, S.178(1); SEBI LODR Regulations, 2015, Schedule II, Part D). Also, it is mandatorily required that all NRCs must have at least three independent directors, under Reg. 19 of SEBI LODR Regulations, 2015. The chairperson of the NRC must always be an independent director too. Thus, it can be observed that in the scheme of things as devised under the above-stated laws, the degree of independence of the independent directors, and that of the NRC, is of crucial importance.

To ensure the independence of the independent directors, the company laws prescribe for certain important criteria. However, the case of Amara Raja makes one wonder if those criteria are enough to maintain the independence of the independent directors.

Since FY1996-97, there have been in total eleven individuals who were appointed on the board of the Amara Raja Energy & Mobility Ltd. as independent directors. Their names and tenures are provided for in the table given below:

Sl. No.	**Name**	**Tenure as Independent Director**	**Tenure on NRC**	**Tenure on the BoD**
1.	Dr. Upendranath Nimmagadda	FY2003 – FY2006	FY2003 – FY2006	FY1997 (reappointed) – FY2006

2.	V.R. Rao (Alternate Director for Dr. Nimmagadda)	FY2003 – FY2006	FY2003 – FY2006	FY1997 – FY2006
3.	P. Lakshmana Rao	FY2003 – FY2015	FY2003 – FY2015	FY1997 (originally appointed in 1994) – FY2015
4.	Manjula Chawla (Alternate Director for John Kennedy, Mark Koczela, John Major, Jerome Okarma, Jacqueline Ertl)	FY2003 – FY2005	FY2003 – FY2008	FY1999 – FY2008
5.	John P. Kennedy (JCI)	FY2003 – FY2004	FY2003 – FY2005	FY2003 – FY2005
6.	Mark L. Koczela (JCI)	FY2005 – FY2006	FY2005 – FY2006	FY2002 – FY2006
7.	Raymond J Brown (1st nominee for JCI; then independent)	FY2013 – FY2017	-	FY2003 – FY2010; FY2013 – FY2017
8.	Ravi Bhamidipati (1st independent; then executive)	FY2005 – FY2009	FY2006 – FY2009	FY2005 – FY2009; FY2013 – FY2014
9.	Nagarjun Valluripalli	FY2005 – FY2010	FY2005 – FY2020	FY2005 – FY2020
10.	N. Sri Vishnu Raju	FY2008 – present	FY-2015 – present	FY2008 –present
11.	T.R. Narayanaswamy	FY2010 – present	FY2012 – present	FY2010 – present

12.	Bhairavi Tushar Jani	FY2015 – present	FY2020 - present	FY2015 – present
13.	Annush Ramaswamy	FY2022 – present	FY2023 – present	FY2022 - present

Table 7: Independent Directors in AREML

Source: Amara Raja Energy & Mobility Limited (1996-2023) and Ministry of Corporate Affairs (n.d.).

The company constituted its remuneration committee for the first time in FY2002-03. Before that, it was the prerogative of the board of directors to appoint the directors and to fix their remuneration. It must be noted that there were in total five members of the remuneration committee when it was constituted for the first time.

3.5.1. JCI Directors as 'Independent Directors'

On 22nd December, 1997, a share subscription and investment agreement (SSIA) were entered into between the Galla Family and Johnson Controls (Mauritius) Pvt Ltd (JCI), a subsidiary of a multi-national corporation engaged in the field of energy, i.e. Johnson Controls. According to the SSIA, the board of directors was to comprise of 9 directors; 3 nominated by the Galla Family, 3 nominated by JCI and 3 independent directors to be appointed upon mutual consent of Galla Family and JCI. So, it can be observed that the other shareholders had little to no role to play in the appointment of the directors to the board of the company because of the SSIA. Both the Galla Family and JCI held almost equal number of shares, i.e. around 26%, until the declassification of JCI as a promoter upon its acquisition by Clarios International in FY2019-2020. Thus, it should be clear that any director being appointed by JCI on the Board of Amara Raja must be one being appointed as a representative of JCI. However, it is somewhat out of place to see that even JCI's directors were considered by the company as independent directors. Also, the short tenures of JCI's directors, coupled with their inability to effect any change in the management of Amara Raja, points towards the callous approach of JCI towards the governance of Amara Raja.

Another related instance that arouses curiosity in this regard is the case of Ms. Manjula Chawla. Ms. Chawla served the Board as an alternate director for as many as five representative or nominee directors of JCI for about 9 years. She served as an independent director on behalf of Mr. John P Kennedy between FY2002-03 to FY2003-04, and then similarly for Mr. Mark Koczela during FY2004-05 – FY2005-06. In fact, she has also served as a member of the remuneration committee between FY2002-03 to FY2007-08. It is to be noted that both Mr. Kennedy and Mr. Koczela were nominee directors of JCI and were even associated with JCI. It was possible due to the uncertainty in laws at that time. The law currently prescribes that for an alternate director to be classified as 'independent'; the original director must also be independent, under First Proviso to S. 161(2) of the Companies Act, 2013.

3.6. Long Tenures & Post-retirement benefits

Dr. Upendranath Nimmagadda, along with Mr. P. Lakshmana Rao and Ms. Manjula Chawla, were the founding members of the remuneration committee, when it was constituted for the first time in the FY2002-03. All three of them were named as the first independent directors of the company from that same financial year.

It is to be noted that, at the time of being designated as independent directors for the first time, Dr. Nimmagadda and Mr. P. Lakshamana Rao were already serving the company as non-executive directors. That makes their tenure on the board as non-executive directors exceed the then cap of continuous nine years.

Furthermore, Dr. Nimmagadda's relation with the Galla family did not end in FY2005-06 upon his retirement from the Board. In the very next financial year, i.e. FY2006-07, Dr. Nimmagadda was appointed on the Board of Amara Raja Power Systems Ltd., a company promoted by the Galla family. He served the company as a 'Director' till 30th October, 2023, as per the MCA's website. It is worth mentioning here that the data available since 2016 shows that Dr. Nimmagadda, along with his wife, were the second largest shareholders of the company after the Galla family.

This brings into question the effectiveness of Dr. Nimmagadda as an independent director in two different ways:

(i) his extremely long tenure of more than nine consecutive years; and

(ii) his position as a 'Director' and shareholder in Amara Raja Power Systems Ltd., that he acquired immediately after his cessation from the Board of Amara Raja Energy & Mobility Ltd.

The present case exemplifies the system of quid pro quo that sometimes exists between the executive directors and the independent directors. In the present case, the quid pro quo has been provided in the form of a post-retirement benefit.

Another case in point is that of Mr. Nagarjun Valluripalli. He served on the Board and as the chairperson of NRC of Amara Raja Energy & Mobility Ltd. for a continuous period of about 14 years. According to the MCA's website, Mr. Valluripalli ceased to be an independent director at the company on 5th August, 2019. And in less than one year, i.e. 27th July 2020, a Joint Venture is announced between Amara Raja and Blaze Automations, a company promoted by Mr. Valluripalli (PTI, 2020). He was appointed as a 'Director' in the new company, i.e. Amara Raja Blaze Technologies Pvt. Ltd., along with Mr. Jayadev Galla and Mr. Vikramadithya Gourineni. It is to be noted that Mr. Valluripalli has been on the Board of Blaze Automation Services Pvt. Ltd. since 1st May, 2009.

Yet another case of probable post-retirement benefit is that of Mr. Ravi Bhamidipati. He was first appointed as an independent director and served in that capacity in the NRC for three years. And in a few years after his retirement, he was appointed as one of the executive directors in Amara Raja. It is to be noted that Mr. Bhamidipati is the only person outside of the Galla family to have served on the Board of Amara Raja as an executive director.

It is important to note that the present laws on independent directors considers only the past relation, pecuniary or otherwise, with the company or its KMPs. It does not talk about the lure of the post-retirement benefits that can effectively compromise the independence of the independent directors.

When it comes to independent directors serving long tenures, Dr. Nimmagadda is not an exception. Mr. P. Lakshman Rao served on the Board of Amara Raja for as long as approximately 21 years. He served as the chairman of the NRC for the whole duration of his tenure on the NRC, i.e. 12 years. After his retirement, Mr. Nagarjun Valluripalli became the chairman of the NRC. Mr. Valluripalli himself has served on the Board of the company as an independent director and a part of the NRC for about 15 years. Similarly, Mr. N. Sri Vishnu Raju has been serving the board as an independent director for about 15 years and has been on the NRC since FY2014-15. Mr. T.R. Narayanaswamy's tenure as an independent director with Amara Raja has now exceeded 13 years and he has been on the NRC for since FY2011-12. Also, Ms. Bhairavi Tushar Jani has also been an independent director in the company for about 8 years now. Such long tenures of independent directors may hamper their independence. In this regard, it is important to be reminded of the observation of the Cadbury Committee: "[n]on-executive directors may lose something of their independent edge, if they remain on a board too long" (Cadbury, 1996).

3.7. Sole right of the Galla Family to appoint the managing director

As has been noted above, until 2020, it was the sole right of the Galla Family to appoint the managing director. Also, prior to the amendment of 2020, the Articles specified that Mr. Jayadev Galla will be the Vice-Chairperson and Mr. Ramchandra Galla will be the Chairperson of the Board. This limited the options of the Company to appoint anyone as managing director except for Mr. Jayadev Galla, effectively nullifying any scope of the NRC to negotiate with the managing director over the quantum of his remuneration.

3.8. Low Number of Executive Directors

Since 1995, the company has had only five executive directors, out of which four come from the Galla Family. This reduces competition within the company and, also, denies it the benefit of outside talent. Furthermore, it makes sure that the power within the company remains concentrated in the hands of the Galla Family, even though the percentage of its shareholding has been equal to that of JCI (until FY2019-20) and Clarios International (post-FY2019-20). It also signifies the limited role that the NRC has been able to play in the appointment of the executive directors since its inception. This highly tightened and controlled governance structure has effectively led to the determination of executive compensation as per the sole will of the Galla Family.

3.9. Linkage of Executive Remuneration with Gross Profits

As has been noted above, the largest component of executive remuneration in Amara Raja has been 'commission', which is calculated as a percentage of profits before tax. This is a much narrower approach as profits do not reflect the overall performance of the company. Irrespective of its lacunas, share prices are a much better indicator of company performance. They include a range of factors such as market perception, future potential, changes in tax rates, court proceedings, political environment, international market trends, industry trends, and profits. However, Amara Raja has not only linked its executive remuneration with gross profits, it has also regularly exceeded the limits prescribed under the company law for which it had to seek special permissions from the Central Government.

4. Conclusion & Suggestions

Amara Raja has consistently been amongst the companies with the highest pay-gap ratios. Also, the percentage increase in the overall wages of the employees is negligible in comparison to that of the percentage increase in the remuneration of the executive directors.

There are several reasons behind this abnormal and widening pay-gap within the company which need to be addressed:

i) the centralized control over the affairs of the company by the Galla Family;
ii) amendment of articles of association that further empowered the Galla Family;
iii) ineffective independent directors;
iv) long tenures of independent directors;
v) the lure of post-retirement benefits for independent directors;
vi) linkage of executive compensation with gross profits;
vii) non-serious participation of the other shareholders (excluding the Galla Family) in the affairs of the company; and
viii) low number of executive directors.

Unless these issues are remedied, the governance structure of Amara Raja will never be able to reap equitable benefits for each of its stakeholders, especially its employees. And the income inequality that it so perpetuates in the society, will only go on increasing.

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