

RELIGARE ENTERPRISES LTD.

Given the recent media reports on the open offer by Burman family and the subsequent stiff resistance by management of Religare Enterprises Limited (REL) to the acquisition, it merited investigation on reasons thereof.

Also, independent directors of REL wrote to SEBI claiming irregularities in entities controlled by the Burmans and raising concerns over Burmans being fit to take over the control of REL.

A reading of Annual reports of REL and its key subsidiaries shows the large, vested interest that Dr. Rashmi Saluja, the Executive Chair of REL, has due to excessive remuneration as well as regulatory breaches and non-disclosures by REL.

In past 3-4 years, total valuation of options of REL and of Care Health Insurance Limited (CARE), a subsidiary of REL, issued to Dr. Saluja is **over Rs. 480 crores**. This is in addition to compensation paid at REL.

The Red Flags

- **Detailed investigations by IRDAI and SEBI needed on remuneration, conflicts of interest, etc for the following reasons:**
 - ESOPs of CARE issued to non-executive chairperson Dr. Saluja despite IRDAI's rejection.
 - No REL shareholder approval for grant of CARE ESOPs to Dr. Saluja.
 - No disclosure of CARE ESOPs in REL annual report as part of Dr. Saluja's compensation.
- REL - total of 1.05 crore options of REL have been granted to Dr. Saluja since her appointment in February 2020 as Executive Chairperson of REL. Valued at greater than **Rs. 230 crores today**.
- CARE - shareholders of REL are bearing the cost of excessive grants of stock options of CARE, valued at **over Rs. 250 crores**, where Dr. Saluja is a Non-Executive Chairperson.

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CG ALERT

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CARE Options

ESOPs of CARE of 2.27 crores in number, valued at over Rs.250 crores, were given to Dr. Saluja, in January 2022:

- in contravention of IRDAI regulations which contemplate issuance of stock options only to Chief Executive Officers, Whole-time Directors and Managing Directors.
- were issued without waiting for outcome of IRDAI approval sought for such issue.
- despite IRDAI rejecting the issue of ESOPs to Dr. Saluja as it was in breach of the regulatory limit of profit-related commission that can be paid upto Rs. 10 lakhs per annum to Non-Executive Directors of private sector insurers.
- IRDAI also pointed that the remuneration of Dr. Saluja post the ESOP issue would not be in line with remuneration of other NEDs of CARE.
- issued at deep discount with exercise price of Rs. 45.32 per share of CARE. It is worth noting that the company has mentioned Rs. 45.62 per share as the estimated fair value of the shares of CARE while in the same year, rights issue of CARE shares was at a price of Rs. 110 per share.
- the options of CARE granted to Dr. Saluja is ~2.50% of the share capital of CARE. This is a significant holding concealed from shareholders of REL.
- the reclassification of Dr. Saluja from Independent Director of REL to Executive Director and consequent issue of ESOPs of subsidiary CARE to her as an employee of REL can be seen as a clear mechanism to reward herself by flouting regulations and keeping shareholders of REL in dark.

REL Shareholder Approval and Disclosures

- CARE has mentioned the 22,711,327 options were re-granted on June 13, 2022, pertains to REL employees. No disclosure of allotment of CARE's ESOPs to Dr. Saluja was made in REL's annual report. This is in breach of Regulation 34(3) and Schedule V of the SEBI LODR Regulations.

- Also, over one year (September 2021 to September 2022), Dr. Saluja's compensation as an 'employee of REL' underwent a material increase through the grant of 22,711,327 CARE options. However, **no shareholder approval from REL shareholders were sought for such a material change in her remuneration.**
- The resolution of REL approving the remuneration dated September 23, 2022, is void on grounds of failure to disclose material facts regarding CARE options issued to Dr. Saluja and accordingly her remuneration through the allotment of CARE Options ought to be clawed back as per the provisions of the Companies Act.
- Frequent resolutions have been tabled seeking shareholders' approval to grant ESOPs and revise her remuneration within a very short span of time of 3 years.
- It is worth noting that shareholders of REL had rejected the proposal to issue ESOPs of the company more than 1% of paid-up share capital in the AGM of 2020.
- ESOPs of REL issued to Dr. Saluja have been issued at a discount and exercise price (EP) of these ESOPs are much lower than the EP of ESOPs issued to other KMPs as well as the average stock price of REL.
- Dr. Saluja also reserves a seat as a member of the Nomination and Remuneration Committee (NRC) which is tasked with setting of managerial remuneration.
- REL Board consists of 1 Executive and 5 Independent Directors (ID). However, for some of these Independent Directors there are Related Party Transactions (RPTs) which took place between the company and the entities they control / have significant influence on thereby raising serious concerns on their true independence.

Background

- The Board of REL made a press release on 25th September 2023 confirming the intent of 3 companies of Burman group (M.B. Finmart Private Limited, Puran Associates Private Limited, VIC Enterprises Private Limited and Milky Investment and Trading Company) to acquire control in Religare Enterprises Limited (for a 26% stake) in accordance with the provisions of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 ("SEBI SAST") by way of issue of the open offer at a price of Rs. 235 per share.
- REL was founded and controlled till 2018 by brothers Malvinder and Shivinder Singh of Ranbaxy and Fortis, till they were sentenced to jail time for siphoning off funds from their companies, which led to them losing control of REL. Currently the single-largest shareholder of the company with Rs 7,415 crore market-capitalisation is the Burman family.
- Currently, the Burman family holds 21.54 per cent stake in REL.
- The aggregate holding is expected to increase to 26.81% post planned additional stake buy of 5.27% at maximum price of Rs. 235 per share. Since their holding will go beyond 25%, the open offer is being made for additional 26%.
- The Board welcomed it as a "positive step reflective of the strong business platform on which the Company stands".
- However, soon after that the Board of Religare in its move to resist the open offer claimed that the price was too low (REL was trading at Rs. 275 at the time of offer).
- This was followed by the Independent Directors of Religare filing allegations of fraud and other breaches against the Burmans with regulators Securities and Exchange Board of India (Sebi), Insurance Regulatory and Development Authority of India (IRDAI) and Reserve Bank of India (RBI). The claim of Religare board is that Burmans don't qualify for the criteria of fit and proper acquirer and are in material breach of regulatory obligations, which might harm the firm.
- The managerial resistance to give up on power of a promoter less company raises some serious governance concerns which we dig further.
- Religare board stands in contradiction of claiming the open offer of Rs. 235 per share to be low while at the same time the Chair, Rashmi Saluja exercised options and sold shares of REL in September 2023.

Chronology of events at CARE

On further investigation, we note the following chronology of events that raise governance issues in CARE (a subsidiary of REL):

Date	Event	Commentary
26-02-2020	Dr. Saluja was redesignated from Independent Chair to Executive Chairperson of REL post RBI approval on Feb 26, 2020.	
28-12-2021	EGM called for CARE shareholders	Resolution 1: Alteration of AoA to increase the ESOP pool from 12.5% of share capital to 15% of the share capital
		Resolution 2: Extending the benefit of ESOP scheme to the employees of the holding company
		Resolution 3: Approval for grant of ESOP to Non-Executive Chair Rashmi Saluja in excess of 1% of paid-up capital
28-12-2021	EGM notice mentions approval of ESOP issue to Dr. Saluja is subject to IRDAI approval	
31-12-2021	Application letter to IRDAI seeking approval to grant ESOP to NED Chair submitted by the company	
17-01-2022	ESOP grant letter issued by CARE to Dr. Saluja without waiting for approval by IRDAI	

Date	Event	Commentary
10-05-2022	IRDAI rejected the grant of ESOP to Dr. Saluja	<p>Reasons include:</p> <p>a) The Guidelines issued by the IRDAI dated August 5, 2016, on Remuneration of Non-executive Directors and Managing Director/ Chief Executive Officer/ Whole-time Directors of Insurers permit payment of “only profit-related commission to the tune of INR 10 lakhs per annum for the Non-Executive Directors of private sector insurers” and</p> <p>b) Her roles and responsibilities as a Non-Executive Chairperson are largely similar to those of a Non-Executive Director, therefore the remuneration payable to her should be commensurate with that of other Non-Executive Directors.</p>
19-09-2022	AGM of CARE	<p>Resolution 7: Modification to resolution number 3 passed by shareholders in EGM held in Dec 2021.</p> <p>The company mentions that the ESOPs being issued to Dr. Saluja is in her capacity as employee of REL and not in her capacity as NED Chair of CARE and hence IRDAI approval is not needed.</p> <p>Reference was also made to Clause 3.2 of Shareholder's Agreement dated Feb 06, 2020 in between Kedaara Capital Fund II LLP and Trishikhar Ventures LLP, REL and CARE which allowed for additional dilution of 2.5% of share capital from ESOP pool for REL employees.</p>

Date	Event	Commentary
23-09-2023	REL's shareholders' approval sought to revise Dr. Rashmi Saluja's remuneration to include "stock options of the subsidiaries/ group companies of the Company under their respective Employee Stock Option schemes"	No mention of 22,711,327 CARE options worth more than Rs. 250 crores made to Dr. Saluja was made in the resolution.

Excessive ESOPs of REL granted to Dr. Saluja at very low Exercise Price

Company has 3 ESOP schemes:

1. Religare Employees Stock Option Scheme 2010: no options are outstanding as on March 31, 2023
2. Religare Employees Stock Option Scheme 2012: no options are outstanding as on March 31, 2023
3. Religare Employees Stock Option Plan 2019 (ESOP Schemes)

Religare Employees Stock Option Plan 2019 (ESOP Schemes)

The shareholders of the Company approved the Scheme vide their special resolution passed through postal ballot on March 29, 2019.

REL options granted to Dr. Saluja under the ESOP 2019 plan

Name	Year	No. of ESOPs granted	Exercise Price (Rs.)	Weighted Average Stock Price (Rs.)	Exercise Price for ESOP issue to other KMPs (Rs.)
Rashmi Saluja	FY 2020-21	50,00,000	24.10	50.29	39.55
Rashmi Saluja	FY 2021-22	25,00,000	94.80	137.27	159.25
Rashmi Saluja	FY 2022-23	30,00,000	129.85	149.83	129.85
Total		1,05,00,000*			

A total of 1.05 crore options of REL have been granted to Dr. Rashmi Saluja since her appointment as Executive Chairperson of REL in February 2020. These options are valued at nearly Rs. 230 crores today.

* In addition to this, as per the exchange filings, the company has approved grant of additional 45,00,000 options under the ESOP 2019 scheme to eligible employees in May 2023 and 23,00,000 options in August 2023. It is unclear as to how many additional ESOPs out of these have been granted to Dr. Saluja for FY 2023-24.

Special Resolutions frequently tabled in AGMs to seek shareholders' approval for revision of remuneration of Dr. Rashmi Saluja / grant of ESOPs to her:

Year	Date	Special Resolutions Tabled	Passed or rejected by shareholders
2019-2020	17.12.2020	Approval of revision of remuneration of Dr. Rashmi Saluja (DIN: 01715298), Executive Chairperson of the Company	Passed
2019-2020	17.12.2020	Approval of Grant of Options under Religare Enterprises Limited Employee Stock Option Plan 2019 ("REL ESOP 2019 / Scheme") to the employee(s) equivalent to or exceeding 1% of the current issued share capital of the Company	<u>Rejected</u>
2020-2021	29.09.2021	To approve revision of remuneration of Dr. Rashmi Saluja (DIN: 01715298), Executive Chairperson of the Company	Passed
2020-2021	29.09.2021	To approve the Retention Payout of Dr. Rashmi Saluja (DIN: 01715298), Executive Chairperson of the Company	Passed
2021-2022	23.09.2022	To approve revision of remuneration of Dr. Rashmi Saluja (DIN 01715298), Executive Chairperson of the Company w.e.f. April 01, 2022	Passed
2021-2022	23.09.2022	To approve payment of remuneration on re-appointment to Dr. Rashmi Saluja (DIN: 01715298) as Executive Chairperson of the Company	Passed

Details of Remuneration paid to the ED for FY 2022-23:

(Amount in Rs)

Name and Designation of the Director	Salary & Allowances	Guaranteed/ Retention Bonus	Performance Bonus	Commission	Accommodation, Car & Other Perquisite	Retiral Benefits	Total	Stock Options*
Dr. Rashmi Saluja, Executive Chairperson	5.82 Cr	1.00 Cr	-	-	1.30 Cr	-	8.12 Cr	30,00,000

* During the financial year ended March 31, 2023, Dr. Rashmi Saluja was granted 30,00,000 Stock Options on August 10, 2022 under the Religare Enterprises Limited Employees Stock Option Plan 2019 (Scheme) at an exercise price of Rs. 129.85/- per share, the vesting period of which is 3 years and exercisable as per the terms of the Scheme.

In addition to the above, during the year under review, Dr. Rashmi Saluja exercised 25,00,000 stock options out of the earlier tranche of 50,00,000 stock options granted to her in the FY 2020-21 (with equal vesting over a period of 2 years and exercisable as per the terms of the Scheme) under the said Scheme. Accordingly, in addition to aforementioned remuneration, perquisite component of Rs. 33.94 Cr. arising pursuant to exercise of these stock options, has also been added in her remuneration for the FY 2022-23.

We note that, including the amount received on account of exercise of Stock Options, she received a total remuneration of Rs. 42.06 crores from REL.

In FY2022-23, apart from a remuneration as Executive Chair from Religare to the tune of Rs. 42.06 crores, she is also drawing remuneration from other group companies, including subsidiaries, which have not been disclosed in the annual report of REL.

Dr. Rashmi Saluja also serves as Chairperson-cum-Managing Director of Religare Finvest Limited and Non-Executive Chairperson of CARE and Religare Broking Limited.

Increase in remuneration paid to Dr. Saluja since 2020 (post being designated as ED and Chair):

Year	Salary & Allowances (Rs. Crores)	Guaranteed /Joining Bonus Retention Bonus (Rs. Crores)	Bonus (Rs. Crores)	Accommodation, Car & Other Perquisites (Rs. Crores)	Total (Rs. Crores)	ESOP exercised (Rs. Crores)	ESOP Granted
2019-20*	0.42	0.5	-	-	0.92	-	
2020-21	4.33	1.5	4.5	0.83	11.16	-	50,00,000 in the FY at EP of Rs. 24.10
2021-22	5.29	1	5.39	1.2	12.88	30.96	2500000 on April 14, 2022 at EP of Rs. 94.80
2022-23	5.82	1	-	1.3	8.12	33.94	3000000 on August 10, 2022 at EP of Rs. 129.85

*Dr. Saluja was redesignated from Independent Chair to Executive Chairperson post RBI approval on Feb 26, 2020. The remuneration mentioned is what was paid for period from Feb 26, 2020 to March 31, 2020.

Remuneration paid by Peers:

Name of Peer	Name of Director	Designation	Remuneration for FY 2022-23	Comments
Edelweiss Financial	Mr. Rashesh Shah	Chairman (Promoter)	Rs. 8 cr.	Not eligible for ESOP
Edelweiss Financial	Mr. Himanshu Kaji	ED (non-Promoter)	Rs. 3.25 cr.	No ESOP issued in FY 22-23
Motilal Oswal	Mr. Ajay Menon	WTD (non-Promoter)	Rs. 10.35 cr.	A significant portion of the pay (Rs. 9 crores) is variable pay, No ESOP issue during the year

Related party transaction raise concern regarding true Independence of Independent Directors of REL

Details of Related Party Transaction with IDs / KMPs:

Name of the Director	Designation	Related Entity	Role	Transaction with the company	Transaction value (Rs.)
Mr. Hamid Ahmed	Independent Director	Hamdard Laboratories India	Chief Executive Officer and Trustee	Issuance of Non - Convertible Debenture (Secured)	80 crores
Mr. Hamid Ahmed	Independent Director	Hamdard Laboratories India	Chief Executive Officer and Trustee	Redemption of Non- Convertible Debentures (Secured)	80 crores
Mr. Hamid Ahmed	Independent Director	Hamdard Laboratories India	Chief Executive Officer and Trustee	Interest on Non-Convertible Debentures	2.51 crores
Mr. Sunish Sharma	KMP	Nish Capital Investment Advisors LLP	Partner	Insurance Claims Payment - Premium Received in Advance / Cash Deposit	4.81 lakhs
Mr. Sunish Sharma	KMP	Kedaara Capital Fund II LLP	Partner	Insurance Premium Received in Advance	1 Lakhs
Dr. Vijay Shankar Madan	Independent Director	Genleap Ecosystem Private Limited	Partner	Receipt / Refund of Premium	2.83 lakhs

Note: Dr. Vijay Shankar Madan ceased to be Non-Executive & Independent Director due to his sad demise on August 23, 2022 after fighting a brave battle with Cancer.



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