

Independent Director Compensation in India

For several years now, compensation for Independent Directors has been a topic of discussion. In India, the compensation for Non-Executive Directors is regulated and more so for Independent Directors. SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, categorically disallow grant of equity-based compensation to Independent Directors¹. The compensation for Non-Executive Directors, including the Independent Directors is governed under Section 197 of Companies Act – 2013. As per Section 197(1)(ii), the remuneration payable to directors who are neither managing directors nor whole-time directors shall not exceed: (A) one percent of the net profits² of the company, if there is a managing or whole-time director or manager; (B) three percent of net profit in any other case. These aforesaid percentages shall not include the fee paid for attending the meetings of the Board and Committees of the Board.

In the absence of or inadequate net profits, there are limits prescribed in Schedule V of the Companies Act – 2013. In March 2021, the Schedule V was amended³ to allow companies to remunerate directors other than managerial persons i.e., Non-Executive Directors, including the Independent Directors within specified limits. The remuneration in excess of these limits can be paid with an approval from the shareholders through a special resolution.

SL. No.	Where the effective capital (in rupees) is:	Limit of yearly remuneration payable shall not exceed (in rupees) in case of other director:
(i)	Negative or less than 5 crores	12 lakhs
(ii)	5 crores or above but less than 100 crores	17 lakhs
(iii)	100 crores and above but less than 250 crores	24 lakhs
(iv)	250 crores and above	24 lakhs plus 0.01% of the effective capital in excess of Rs. 250 Crores

The regulators in financial services have imposed specific limits as well. Reserve Bank of India, in a circular issued in April 2021⁴, said that in addition to sitting fees and expenses related to attending meetings of the board and its committees as per extant statutory norms / practices, the bank may provide for payment of compensation to NEDs in the form of a fixed remuneration commensurate with an individual director's responsibilities and demands on time and which are considered sufficient to attract qualified competent individuals. However, such fixed remuneration for an NED, other than the Chair of the board, shall not exceed ₹20 lakh per annum. Similarly, Insurance Regulatory and Development Authority of India (Remuneration of Non-Executive Directors of Insurers) Guidelines, 2023⁵, specified that total remuneration for a Non-executive Directors should not exceed ₹20 lakh per annum. In our view, the jury is still out on whether these limits are too low to get the right skills on the Board.

¹https://www.sebi.gov.in/legal/regulations/aug-2021/securities-and-exchange-board-of-india-share-based-employee-benefits-and-sweat-equity-regulations-2021_51889.html

²Net Profits to be calculated as per Section 198 of Companies Act - 2013

³https://www.mca.gov.in/Ministry/pdf/AmendmentNotification_19032021.pdf

⁴<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/24CORPORATE68CA91B159A2408DB3EBC479471DD2B4.PDF>

⁵<https://irdai.gov.in/web/guest/document-detail?documentId=3562210>

This article gives an overview of Non-Executive Independent Director compensation in the Top 200 companies in India excluding the public sector organizations. Given the additional regulatory limits, we have also excluded the banking and insurance companies from the analysis. The analysis is basis FY'22 Data reported by companies in the annual filings. The analysis is based on three different parameters i.e., grouping by market capitalization, total income⁶ and by Industry. Data for only those independent directors has been considered who served for the full financial year.

Analysis Based on Market Capitalization

Median Non-Executive Independent Director (NEID) Compensation by Market Capitalization

Market Cap Range Compensation Numbers in ₹	Sitting Fees per NEID	Commission per NEID	Total Compensation per NEID	Total Sitting Fees All NEIDs	Total Commission All NEIDs	Total Compensation All NEIDs
Less than INR 31,000 Cr.	900,833	1,212,000	2,437,000	3,695,000	5,550,000	10,150,000
31,000 to 46,000 Cr.	975,000	2,075,000	3,720,000	3,850,000	8,993,244	12,770,000
46,000 to 95,000 Cr.	723,333	2,766,667	3,950,000	3,630,000	9,250,000	14,800,000
Above 95,000 Cr.	867,643	3,616,667	4,923,905	4,235,000	18,750,000	23,808,500

Average Non-Executive Independent Director (NEID) Compensation by Market Capitalization

Market Cap Range Compensation Numbers in ₹	Sitting Fees per NEID	Commission per NEID	Total Compensation per NEID	Total Sitting Fees All NEIDs	Total Commission All NEIDs	Total Compensation All NEIDs
Less than INR 31,000 Cr.	971,370	1,827,341	2,798,711	4,304,851	7,816,134	12,120,986
31,000 to 46,000 Cr.	1,090,640	3,021,237	4,111,877	4,435,000	12,303,645	16,738,645
46,000 to 95,000 Cr.	883,251	3,656,919	4,540,170	3,860,676	16,711,367	20,572,043
Above 95,000 Cr.	969,789	6,115,099	7,084,888	4,883,342	33,561,245	38,444,587

Non-Executive Independent Director (NEID) Compensation Correlation with Market Capitalization

Correlation with Market Capitalization	Sitting Fees per NEID	Commission per NEID	Total Compensation per NEID	Total Sitting Fees All NEIDs	Total Commission All NEIDs	Total Compensation All NEIDs
R – Value	0.06	0.62	0.63	0.19	0.70	0.52
R – Square	0.00	0.38	0.40	0.04	0.49	0.72

⁶Total Consolidated Revenue Plus Other Income for FY'22 and Market Capitalization as on 31 March, 2022

Analysis Based on Total Income

Median Non-Executive Independent Director (NEID) Compensation by Total Income

Total Income Range Compensation Numbers in ₹	Sitting Fees per NEID	Commission per NEID	Total Compensation per NEID	Total Sitting Fees All NEIDs	Total Commission All NEIDs	Total Compensation All NEIDs
Less than INR 5,400 Cr.	1,047,500	1,500,000	2,649,375	3,695,000	6,000,000	11,102,500
5,400 to 11,400 Cr.	820,893	2,265,000	2,866,250	3,790,000	9,400,000	14,410,000
11,400 to 27,400 Cr.	740,000	2,580,000	3,840,000	3,630,000	10,000,000	15,455,000
Above 27,400 Cr.	816,000	4,275,000	5,451,000	3,917,500	21,850,000	28,055,000

Average Non-Executive Independent Director (NEID) Compensation by Total Income

Total Income Range Compensation Numbers in ₹	Sitting Fees per NEID	Commission per NEID	Total Compensation per NEID	Total Sitting Fees All NEIDs	Total Commission All NEIDs	Total Compensation All NEIDs
Less than INR 5,400 Cr.	1,092,775	2,344,429	3,437,205	4,431,974	9,026,223	13,458,197
5,400 to 11,400 Cr.	844,727	2,479,865	3,324,593	4,054,114	11,255,215	15,309,330
11,400 to 27,400 Cr.	984,735	3,264,190	4,248,925	4,157,432	15,151,014	19,308,447
Above 27,400 Cr.	995,483	6,521,776	7,517,259	4,848,158	34,918,876	39,767,034

Non-Executive Independent Director (NEID) Compensation Correlation with Total Income

Correlation with Total Income	Sitting Fees per NEID	Commission per NEID	Total Compensation per NEID	Total Sitting Fees All NEIDs	Total Commission All NEIDs	Total Compensation All NEIDs
R – Value	0.12	0.52	0.55	0.28	0.63	0.66
R – Square	0.02	0.27	0.30	0.08	0.39	0.43

Analysis Based on Industry

Median Non-Executive Independent Director (NEID) Compensation by Industry

Analysis by Industry Compensation Numbers in ₹	Sitting Fees per NEID	Commission per NEID	Total Compensation per NEID	Total Sitting Fees All NEIDs	Total Commission All NEIDs	Total Compensation All NEIDs
Consumer	920,000	1,826,250	2,994,167	4,550,000	7,870,000	13,414,000
Financial Services	1,425,000	1,940,000	3,600,000	6,950,000	8,750,000	15,643,500
Healthcare	1,275,000	2,750,000	4,287,500	5,680,000	11,250,000	17,700,000
Information Technology	320,500	8,330,000	8,425,000	1,825,000	33,625,552	35,382,727
Manufacturing & Infra.	711,667	2,540,000	3,357,500	2,985,000	10,600,000	14,000,000
Other Services	1,082,500	2,156,250	2,752,500	4,462,500	9,125,000	10,112,500

Average Non-Executive Independent Director (NEID) Compensation by Industry

Analysis by Industry Compensation Numbers in ₹	Sitting Fees per NEID	Commission per NEID	Total Compensation per NEID	Total Sitting Fees All NEIDs	Total Commission All NEIDs	Total Compensation All NEIDs
Consumer	1,028,976	2,524,372	3,553,347	4,795,000	12,129,652	16,924,652
Financial Services	1,447,833	2,537,505	3,985,339	6,599,375	11,188,563	17,787,938
Healthcare	1,266,102	3,601,168	4,867,270	5,378,947	18,536,763	23,915,710
Information Technology	383,537	10,169,315	10,552,853	1,780,362	50,186,509	51,966,871
Manufacturing & Infra.	812,871	3,391,372	4,204,242	3,676,033	16,640,774	20,316,807
Other Services	1,230,750	3,156,076	4,386,826	4,778,000	11,389,130	16,167,130

The sitting fees in Information Technology industry is on the lower side as some companies follow a fixed fees model which has been included in commissions. However, on total compensation, the Information Technology is significantly higher vis-à-vis other industries.

Sitting Fees Trends

Per Meeting / Per Director

Sitting Fees Numbers in ₹	Market Cap (INR Cr.)	Board Meeting	Audit Committee	Nomination & Remuneration Committee	Risk Management Committee	CSR	Shareholder Relationship Committee
25 th Percentile	31,014	50,000	37,500	25,000	25,000	25,000	25,000
Median	45,767	75,000	50,000	50,000	30,000	35,000	40,000
Average	110,018	72,108	61,190	53,095	48,214	48,313	50,536
75 th Percentile	94,483	100,000	100,000	80,000	75,000	75,000	76,250

The responsibilities of Independent Directors have gone up considerably in the last few years. With scrutiny over company decisions across multiple functional areas ranging from M&A, Capital Raise to monitoring the performance of KMPs, the time involvement from directors has also gone up significantly. In addition to this, it is becoming challenging to get directors with right skills due to limited talent pool. It hence important that directors are rewarded appropriately for the value they bring to the table.

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