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The Last Minute: More challenges ahead

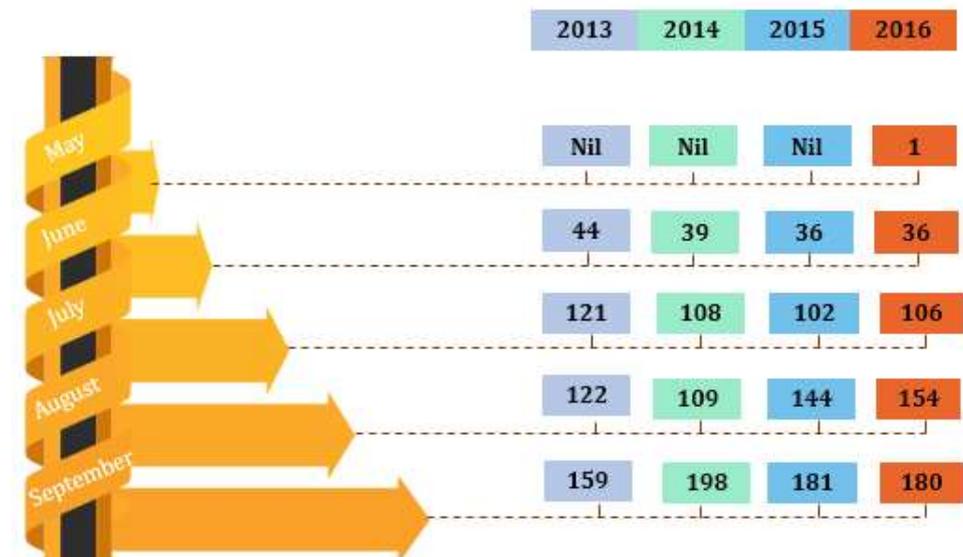
Companies with weak financial performance continue to wait till the last minute to hold their AGMs. In FY16 too, companies holding their AGMs in September have had the lowest median return on equity. With IND AS requirements and mandatory auditor rotation catching up simultaneously with corporate India, meeting deadlines will become challenging.

This is the fourth year that we are publishing our report titled ‘The Last Minute’: we published the first one in 2013, not knowing whether the correlation we saw on performance and AGM dates would continue. Four years later, corporate India continues to remain predictable.

2016 AGM season

In FY16, 477 of the S&P BSE 500 companies reported a March year-ending, a creeping increase from 454 companies two years ago. Companies chose to disband their different year ends, and align themselves with the requirements of the Companies Act 2013 on this. Almost 70% of the companies held their AGMs in August 2016 and September 2016, and 38% of the companies held AGMs in September 2016 alone, continuing the trend of September being the busiest for both corporate India and investors.

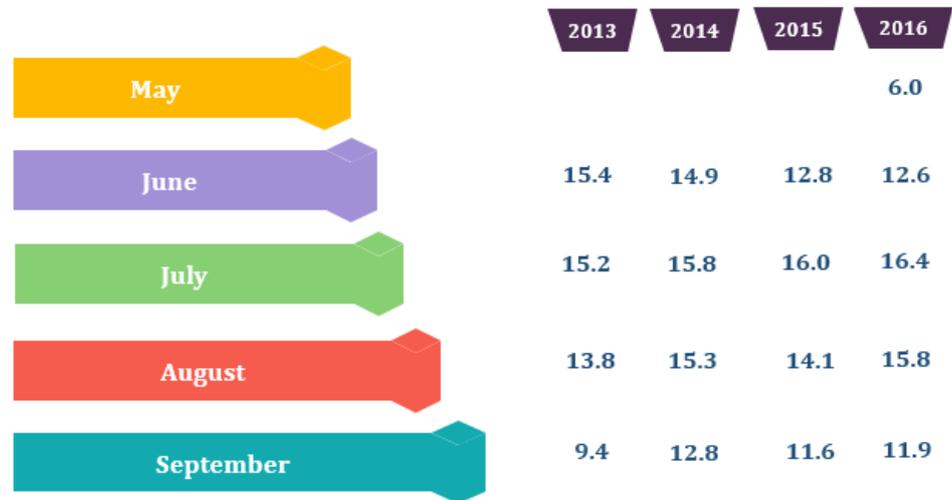
Chart 1: Monthwise AGM count



The increased disclosure requirement under Companies Act 2013 has neither affected the accounting nor the auditing timelines, and subsequently the AGM scheduling has paralleled previous years'. Companies that, in the past, held AGMs before September, did so this year as well.

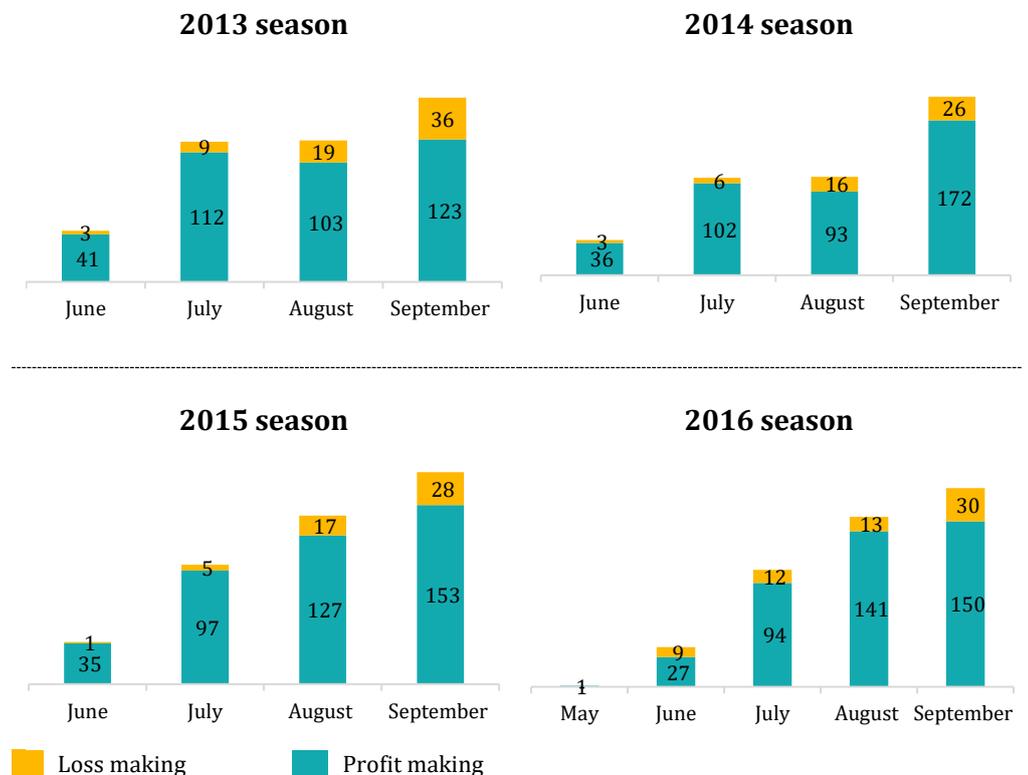
Companies holding their AGMs in September have the lowest median return on equity compared to companies that hold their AGMs in June or July or August. That companies performing better are eager to hold their AGMs is belied only by the ROE of companies holding their AGMs in June – June AGM companies have, in FY15 and FY16, had lower ROEs. This is largely attributable to how public sector banks perform – since they dominate the AGM season in June.

Chart 2: Median Return on Equity (in %)



That a large number of loss-making companies hold their AGMs in September is one of the influencing reasons for the lower median return on equity. In 2016, 64 of the 477 companies reported losses – of these, 30 companies held their AGMs in September.

Chart 3: Month-wise distribution of AGMs based on profitability



Large and complex businesses, or no time for shareholders?

“Ours is a large and complex business,” is an often-heard refrain that most companies provide as explanations. To be a part of the S&P BSE 500, companies will necessarily have size and many business complexities. Are investors to understand that as companies grow in size and stature, their systems cannot keep up?

The FY17 challenges

2016-17 will be a challenge as mandatory auditor rotation kicks in along with mandatory IND-AS reporting for most listed companies. Extrapolating the data, we expect around 50% of S&P BSE 500 companies will need to rotate their auditors in April 2017.

Conclusion

For timely communication and interaction with shareholders, companies must institute systems and processes to ensure that its annual general meetings are held shortly after the fiscal year end.

In holding AGMs towards September, companies may have already had the opportunity to announce the first quarter results of the next financial year – which may help quell possible shareholders' concerns over the previous year's performance. However, the data for the past four years shows this is seldom the case. Investors have the right to know about how the company has performed and dialogue with management. Delaying the interaction serves limited purpose.

Now that e-voting decides the outcome of the resolution well before the AGMs, companies are seeing less value in their AGMs. Perhaps also because there are more retail shareholders that engage in emotional diatribe than in asking a discerning question. While investors are responsible for the quality of questions they raise, it is equally incumbent upon companies to create value in the discussion. Detailed minutes are not a requirement in India – very few companies provide these. If they did – like Infosys, L&T and a few others do – company boards may perhaps be more focussed on making AGM discussions more valuable.

Technology offers an efficient way for this engagement: webcasts will possible create an environment for the 'right' set of investors to attend and participate. This should be the path companies must take in future.

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