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For Gautam Singhania is an honourable man

Gautam Singhania's recent message to shareholders is an attempt to disassociate himself from the transaction that allows the company to sell premium real-estate in Mumbai at throw-away rates to promoters – including Gautam Singhania himself. In doing so, IiAS contends that he abdicates responsibility for actions that were undertaken by the company – with the consent of the board – during his reign as the company's Chairperson and Managing Director. Does Raymond Limited deserve a leader who is unwilling to take responsibility?

The transactions relating to the signing of the contentious tripartite agreement were undertaken in November 2007. The decision to sign these agreements were made in two board meetings – held on 23 June 2006 and 20 July 2007. During this phase, Gautam Singhania was the company's Chairperson and Managing Director. He was also a party to the agreements. Given his recent disassociation with the transaction (see Annex 1), IiAS encourages shareholders to ask him the following questions – all of which are associated with his reign over the company:

1. If Gautam Singhania is dedicated towards 'best in class corporate governance', why were disclosures of the tripartite agreement not timely?

During 2006-2008, when the board approved the tripartite agreements and these were signed by the company, annual reports were silent on the transaction. Disclosures on related party transactions during these years stated, *"There are no materially significant related party transactions made by the company with its promoters, directors or managements, their subsidiaries or relatives, etc. that may have potential conflict with the interests of the company at large."* It is only in the 2013-14 annual report that the company first specifically mentions the capital-work-in progress towards JK House in the fixed asset schedule: by 31 March 2014, the company had already spent Rs.1.5 bn on the redevelopment. Even then, the company did not disclose that it proposed to sell the residential piece of the property to the promoters at Rs.9,200 per square foot of carpet area.

The 2016-17 annual report, despite a disclosure regarding the tripartite agreement, does not mention the price of the transaction. – The company continues to maintain that *"All transactions entered with Related Parties for the year under review were on arm's length basis and in the ordinary course of business and that the provisions of Section 188 of the Companies Act, 2013 and the Rules made thereunder are not attracted."*

2. When did Gautam Singhania change his mind about the transaction?

JK House was demolished and rebuilt when Gautam Singhania was the company's Chairperson and Managing Director. Therefore, the building structure, its plans, and its associated costs – aggregating Rs.2.7 bn or over Rs.11,000 per square foot – had his explicit or tacit approval. The entire effort from demolition to rebuilding and getting an occupancy certificate took about 10 years. If Gautam Singhania changed his mind during this time, it would have been prudent for him and the board to therefore change course. In not doing so, it is unclear if Gautam Singhania changed his mind then, or now – after the public push back. Shareholders must also ask if there are any more transactions undertaken by the company – with the blessings of the board – that Gautam Singhania is unlikely to endorse in the future.

3. Does the board support Gautam Singhania's position? If so, why is the transaction being brought to shareholders for a vote?

Regulations require audit committees to first approve related party transactions before they are put to shareholders for a vote. In this case, the audit committee and the board, based on legal advice, have deferred the decision to shareholders. But, Gautam Singhania has been clear in their view that the transaction is not in the interest of the company. If the board agrees with this view, why did it not quash the transaction before bringing it to shareholders. Assuming there were legal implications and therefore, the board decided to put the transaction to a shareholder vote, the board could have provided explicit guidance to shareholders in the notice itself, to reject the transaction.

4. Why is Vijaypat Singhania, who has exercised his right to acquire the property, still on the board and part of the audit committee?

Gautam Singhania contends that, in the interest of the company and the minority shareholders, the transaction should be defeated – and it is in this context that he has not exercised his right to the property. However, his father, Vijaypat Singhania has exercised his rights to the property. Extending the logic, Vijaypat Singhania, therefore, is not acting in the company's interests. Yet, Vijaypat Singhania not only continues to be a board member, but also a member of the audit committee.

5. What is the company's conflict of interest policy and how did the Chairperson ensure it was enforced at the time of signing the 2007 tripartite agreement, or even now?

Gautam Singhania's claim of abstention from discussions over the tripartite agreement may be true in fact but misleading in its implication.

At the time of approving the tripartite agreement and signing the agreement, Vijaypat Singhania was a member of the audit committee, and Gautam Singhania was the Chairperson and Managing Director – both being beneficiaries of the transaction. This structure continues even today. The nomination and remuneration committee, which is responsible for appointment and removal of directors, has had, and continues to have, a strong overlap with the audit committee. In that context, can shareholders expect the board to be able to separate the interests of the company and the Singhania family?

Exhibit 1: The audit committee and remuneration committee on 31 March 2007 and 31 March 2008 (when the tripartite agreements were approved by the board and signed):

Board member	Audit Committee	Remuneration Committee
B V Bhargava	Member	Chairperson
B K Kedia	Chairperson	Member
Vijaypat Singhania	Member	Member
Nana Chudasama	-	Member
Late U V Rao	Member	-

Source: Annual Reports

Exhibit 2: The audit committee and the nomination and remuneration committee on 31 March 2017:

Director	Audit Committee	Remuneration Committee
Ishwar Das Agarwal	Chairperson	Chairperson
Gautam Singhania	-	Member
Vijaypat Singhania	Member	Member
Nabakur Gupta	Member	Member
Pradeep Guha	Member	Member

Source: Annual Reports

The board, and Gautam Singhania, are stuck between the rock and the hard place (see Exhibit 3). Therefore, the board has decided to defer the decision to shareholders, and Gautam Singhania is seeking to protect his personal reputation by disassociating himself from the fracas.

Exhibit 3: Extract from the 2017 AGM notice

<p>24. It is also important for the shareholders to bear in mind the consequences of any potential approval or non-approval of the above related party transactions:</p> <p>a) Any non-approval may potentially result into a dispute with the relevant counterparties, who may contend that the Company has breached the relevant Tripartite Agreement by failing to act on or fulfill its obligations under the same. Such potential disputes could be protracted and costly, and could result in financial or other liabilities on the Company. In such a situation, the Company will also be entitled to take appropriate legal defenses and remedies.</p> <p>b) Any approval of the transaction, will require the Company to offer apartments for sale to its related parties (being the Sub-Lessees), at a price which is significantly lower than the current prevailing market rate. This may result into a significant loss to the Company.</p>
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Good governance demands that the interests of the company are separated from, and put ahead of, the interests of its controlling shareholder. But, for the Chairperson of the board to disassociate himself from the decisions made by the board, is a possible first.

IiAS believes Raymond Limited (and its shareholders) deserve, at the very least, a board leadership that is accountable and takes responsibility for actions of the company. IiAS holds Gautam Singhania responsible for the related party transaction in discussion. Therefore, IiAS has recommended that shareholders vote AGAINST Gautam Singhania's reappointment as director to Raymond's board.

Annex 1: Gautam Singhania's message to shareholders

Dear All,

Over the last couple of weeks there has been a lot of negative press against Raymond with regard to a certain Resolution No.10 that has been proposed to the shareholders for the upcoming Raymond's AGM on 5th June. Also there have been lot of people who have been trying to misreport the facts. Whilst so far I have refrained from commenting, I would like to state the correct perspective and set the record right.

1) In 2007, there was a tripartite agreement between Raymond and some family members to offer apartments at JK House for sale at a substantial discount to the current prevailing market prices which would cause a major loss to the company and shareholders.

2) It has been specifically explained on various occasions to the interested parties that the company cannot act on this agreement as this is against the shareholder and company interests.

3) In spite of explaining to them the interested family members decided to initiate legal action for the specific implementation of this contract.

4) In light of them having gone to Court, I was obliged to put forward the matter to the Audit Committee and the Board. The Audit committee and Board took a considered view based on legal advise and in pursuance of best corporate governance practices and transparency that the matter should be placed before the shareholders, disclosing all relevant facts, for their considered decision making. It must be noted that as an interested party I abstained from participating in the discussions in the audit committee and the board meeting.

This matter has now been put forward to the shareholders for their decision keeping in mind the best in class corporate governance.

Needless to say, as a related party I am required to abstain from voting on this resolution. However, if I were to exercise my voting right, I would go by my conscience and most certainly vote against the resolution in interest of the shareholders and company.

It is unfortunate that certain vested interests are projecting a completely wrong perspective that the company is seeking to transfer this property to family members at low prices and trying to project this in a sensational manner which is completely wrong. In addition to this, several personal allegations are being made towards me, which are completely baseless.

I hope this will convey the right message that as Chairman and Managing Director of the company I will protect the shareholders and the company interest and will continue to take every possible steps, including legally contesting the claims on the property from related parties, based on legal advise. I hope this will set the record straight with my views on this and put all wrong speculation on this to rest.

Regards

Gautam Hari Singhania
Chairman & Managing Director

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