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Royalty payments: At last, the dog wags its tail

After years of the tail wagging the dog, we are seeing signs of the dog wagging its tail. Put differently, after a few years of seeing royalty payments outpace sales and profits, performance of MNCs is catching up with their royalty pay-outs. Several MNCs have outperformed their relevant indices making royalty payments less egregious. Even so, royalty payments continue to remain high, and are depressing margins – in FY17, 31 MNCs paid an aggregate of Rs.77.78 bn, which accounted for almost 20% of their pre-royalty pre-tax profits. Shareholders should be wary that the large quantum of liquid funds with these MNCs does not flow to controlling shareholders as royalty but gets distributed equally to all shareholders.

Multi-national corporations (MNCs) based in India benefit from having a globally-recognized brand and access to technology. That the NIFTY MNC index has tended to outperform most others, shows that investors value the benefits of having a global parent. To that extent, royalty is a legitimate expense. The most tangible measurement of this benefit is, however, if the MNCs outperform the other companies of their relevant industry indices – in revenues, profits, or both. While this benefit was not visible in the past, the pace of growth in pre-royalty pre-tax profits (PR-PBT) is now closer to that of royalty. The narrowing of this gap reflects on the MNC's increased absorption capacity for royalty payments.

Exhibit 1: Growth in aggregate royalty vis-à-vis pre-royalty pre-tax profits of 31 MNCs

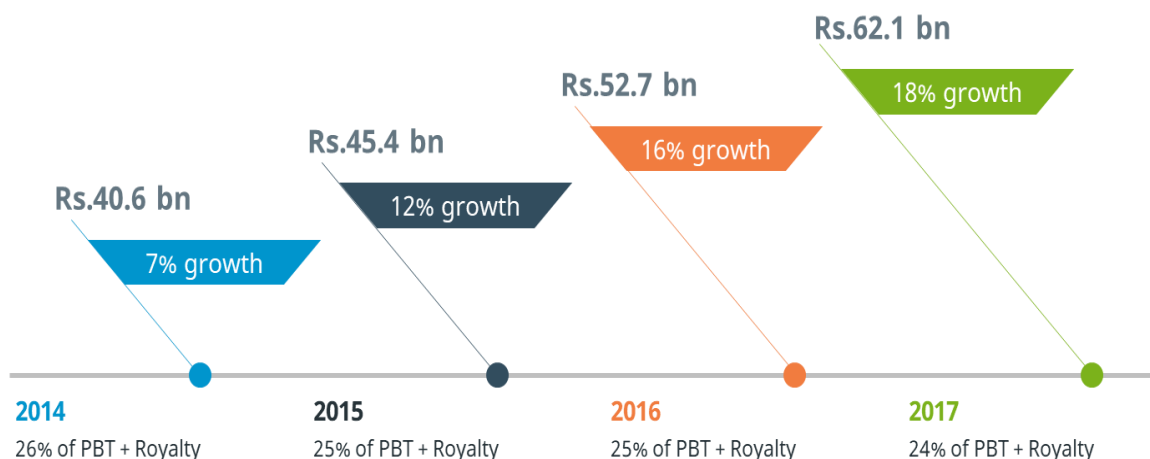
Year	YoY growth in pre-royalty pre-tax profits	YoY growth in royalty	Difference
2016-17	15.1%	15.8%	-0.7%
2015-16	9.9%	12.9%	-3.0%
2014-15	18.5%	11.8%	6.7%
2013-14	1.8%	7.2%	-5.4%
2012-13	17.0%	28.7%	-11.6%

Source: Company filings, IiAS Analysis

In IiAS' study of 31 MNCs¹, the royalty paid by these MNCs aggregated to Rs.77.78 bn in FY17, double of the Rs. 38.58 bn paid in FY12. Of the aggregate royalty paid by the 31 MNCs, five companies - Maruti Suzuki India Limited (MSIL), Hindustan Unilever Limited (HUL), ABB Limited (ABB), Nestlé India Limited (Nestlé), and Colgate-Palmolive (India) Limited (Colgate-Palmolive) - accounted for over 70% of the royalty payments over the past five years. Their FY17 share of royalty (at 80% of the aggregate royalty paid by the 31 MNCs) is higher than their share of profits: these five companies accounted for 65% of the 31 MNCs' aggregate pre-royalty pre-tax profits.

¹ MNCs (more than 25% foreign shareholding, and where the foreign parent is in control) forming part of the S&P BSE 500 index, having aggregate royalty payments in excess of Rs.60 mn, and having paid royalty in at least three of the last five years.

Exhibit 2: Aggregate royalty spends for the top 5 royalty paying companies - MSIL, HUL, ABB, Nestlé and Colgate-Palmolive - over the past 4 years.



All the five companies listed above have outperformed their industry indices in revenues and / or profits. Nevertheless, the rapid increase in royalty has raised concerns from investors. For example, after significant push back from investors, on 25 January 2018, Maruti’s board discussed and approved a revision in the method of calculating royalty which would result in lower royalty payments for new model agreements starting with the Ignis².

A strong brand or technology has not always helped the Indian arm of MNCs. 3 of the 31 MNCs – GE Power India Limited, GE T&D India Limited and Schneider Electric Infrastructure Limited - have not outperformed their industry indices, raising concerns regarding the nature and validity of their royalty payments. IiAS recommends that shareholders ask these companies if there is any legitimate benefit from the royalty that is being paid.

Although the profits and overall performance of the MNCs are now beginning to justify the high royalty payouts, the increasing pace of royalty has depressed margins. While these MNCs have reported robust profit before tax margins – and in several cases they are higher than domestic peers – IiAS contends that shareholders would have benefited from a higher EPS if the pace of royalty was contained. In this study, IiAS has identified 16 of the 31 companies where the five-year CAGR of royalty has outpaced the five-year CAGR of pre-tax profits.

Exhibit 3: Companies that have not outperformed their industry indices

Company Name	Sector	5-year CAGR of Net Sales		Average PBT Margin	
		For Company	For Sector	For Company	For Sector
GE Power India Ltd.	SP Industrials	-3.79%	0.03%	5.97%	6.38%
GE T&D India Ltd.	SP Industrials	-0.42%		2.65%	
Schneider Electric Infrastructure Ltd.	SP Industrials	-1.28%		-5.39%	

Source: ACE Equity, IiAS Analysis

² This would be implemented after approval by the Board of Suzuki Motor Corporation.

Exhibit 4: List of companies where royalty growth has outpaced PBT growth

Name of the company	5-year CAGR Royalty	5-year CAGR PBT Growth
ACC Ltd.	8.6%	-12.1%
Akzo Nobel India Ltd.	26.0%	6.8%
Ambuja Cements Ltd.	8.9%	-4.7%
BASF India Ltd.	7.5%	-160.8%
Bata India Ltd.	14.1%	-6.1%
Colgate-Palmolive (India) Ltd.	9.1%	7.7%
GE Power India Ltd.	-7.4%	-35.2%
GE T&D India Ltd.	10.2%	-182.6%
Grindwell Norton Ltd.	18.9%	3.0%
Hindustan Unilever Ltd.	27.4%	13.0%
Monsanto India Ltd.	37.9%	21.4%
Nestlé India Ltd.	7.0%	0.8%
Schaeffler India Ltd.	9.1%	2.7%
Schneider Electric Infrastructure Ltd.	28.6%	-221.2%
SKF India Ltd.	37.8%	3.7%
Wabco India Ltd.	64.0%	6.8%

Source: Company filings, IiAS Analysis

As most companies in India, MNCs too have large cash surpluses on their balance sheet. In IiAS' report on dividends, 92 companies were identified that had excess cash surplus aggregating Rs. 340 bn. This list of companies includes 12 MNCs identified in the current study as paying a large quantum of royalty to its parent. These 12 companies had aggregate cash balances of Rs.21.7 bn on 31 March 2017. Shareholders of such MNCs must be wary that the incremental cash does not flow out of the company in the form of royalty but is returned in equal proportion to all shareholders – either through a buyback or as dividends.

Exhibit 5: List of 12 MNCs with surplus cash balances

Sr.No.	Company Name	FY17 Royalty (Rs. Mn)	Royalty as a % of pre-royalty pre-tax profits	Surplus cash estimated by IiAS (Rs. Mn)
1	Nestle India Ltd.	3,617.9	20.1%	5202.9
2	Bosch Ltd.	1,639.0	7.3%	4042.0
3	3M India Ltd.	1,249.3	25.3%	2980.2
4	GlaxoSmithKline Consumer Healthcare Ltd.	1,466.8	12.7%	1769.1
5	Kansai Nerolac Paints Ltd.	162.2	2.1%	1578.5
6	Monsanto India Ltd.	78.4	4.7%	1381.8
7	Bata India Ltd.	270.2	10.4%	1228.5
8	Schaeffler India Ltd.	398.3	11.8%	1008.1
9	Wabco India Ltd.	79.9	21.0%	737.4
10	Timken India Ltd.	213.3	13.4%	705.8
11	Gulf Oil Lubricants India Ltd.	200.6	9.8%	578.9
12	Colgate-Palmolive (India) Ltd.	1,859.6	17.9%	482.2

Source: Company filings, IiAS Analysis, ACE Equity

Note: The surplus cash in the list is the lower of: a) CFO - 75% (Average Capex) - FY17 dividend > 0 b) Cash and equivalents - CL - Qualitative Adjustments) > 0. For a detailed analysis refer to our [Dividend Report](#).

In October 2017, the Kotak committee recommended that royalty pay-outs exceeding 5% of annual turnover may require approval from majority of public shareholders. This sub-limit of 5% would be considered under the ambit of the 10% materiality threshold when determining related party transactions. Further, the committee encouraged all companies to make better disclosures with regards to the value derived from these royalty payments. IiAS believes the 5% threshold set by the Kotak Committee is high: only three of the 31 MNCs we analysed breach this threshold of 5% of net sales. The three companies are: ABB India Limited (7.6%), Maruti Suzuki India Limited (5.8%) and 3M India Limited (5.3%).

The increased focus on royalty payments being made by multinationals to their parent companies has resulted in them becoming a little more cautious. IiAS continues to believe that royalty payments are a legitimate expense. However, shareholders need to be informed about the course that royalty expenses will follow. We continue to push companies to improve their disclosures with regards to royalty payments and provide shareholders information about both the quantum, duration of the royalty contracts and most important of all the basis for the payment.

Annexure A: List of MNCs

Company Name	Royalty Paid (Rs. Bn)	Net Sales (Rs. Bn)	Profits (Rs. Bn)	Royalty as a % of pre-royalty pre-tax profits	Royalty as a % of Net sales
3M India Ltd.	1.2	23.6	2.4	25.3%	5.3%
ABB India Ltd.	6.5	86.5	3.8	53.20%	7.60%
ACC Ltd.	1.1	111.6	6	11.80%	1.00%
Akzo Nobel India Ltd.	0.8	28.2	2.5	18.10%	2.70%
Ambuja Cements Ltd.	0.9	92.7	9.7	6.40%	1.00%
BASF India Ltd.	0.4	50.8	-0.1	140.00%	0.90%
Bata India Ltd.	0.3	24.7	1.6	10.40%	1.10%
Bosch Ltd.	1.6	101.8	17.4	7.30%	1.60%
Castrol India Ltd.	1.0	33.7	6.7	7.80%	3.10%
Colgate-Palmolive (India) Ltd.	1.9	39.8	5.8	17.90%	4.70%
Cummins India Ltd.	0.5	50.8	7.3	5.30%	1.00%
GE Power India Ltd.	0.3	19.9	0	49.60%	1.40%
GE T&D India Ltd.	0.9	40.5	-0.9	456.90%	2.30%
Gillette India Ltd.	0.1	17.3	2.5	3.00%	0.70%
GlaxoSmithKline Consumer Healthcare Ltd.	1.5	39.9	6.6	12.70%	3.70%
Grindwell Norton Ltd.	0.2	12.4	1.2	9.60%	1.50%
Gulf Oil Lubricants India Ltd.	0.2	11.3	1.2	9.80%	1.80%
Heidelberg Cement India Ltd.	0.2	17.2	0.8	13.00%	1.00%
Hindustan Unilever Ltd.	10.4	318.9	44.9	14.00%	3.30%
Johnson Controls - Hitachi Air Conditioning India Ltd.	0.5	19.7	0.8	27.70%	2.30%
Kansai Nerolac Paints Ltd.	0.2	40	5.1	2.10%	0.40%
Maruti Suzuki India Ltd.	39.7	680.3	73.4	28.50%	5.80%
Monsanto India Ltd.	0.1	6.4	1.5	4.70%	1.20%
Nestlé India Ltd.	3.6	91.6	9.3	20.10%	3.90%
Procter & Gamble Hygiene & Health Care Ltd.	1.0	23.2	4.3	12.90%	4.30%
Schaeffler India Ltd.	0.4	17.9	1.9	11.80%	2.20%
Schneider Electric Infrastructure Ltd.	0.2	12.6	-1.6	-16.40%	1.80%
SKF India Ltd.	0.7	26.3	2.4	15.40%	2.60%
Timken India Ltd.	0.2	10.6	1	13.40%	2.00%
Wabco India Ltd.	0.8	20.7	2.1	21.00%	3.90%
Whirlpool of India Ltd.	0.4	39.4	3.1	7.70%	1.00%

Annexure B: Company Profiles

Notes:

- For the company profiles, the median used as a benchmark is the median data of the 31 MNCs covered in our analysis.
- In 2017, IiAS wrote to the 31 MNCs to confirm the data used in our report and urged the companies to respond if they had any comments or feedback. Based on the feedback we have adjusted the figures for Nestlé and Bosch.

3M India Limited

Industry:	Diversified
Promoter:	3M Company

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Support services/ Corporate management fee	0.96
Royalty fee	0.29
Total	1.25

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	18.40	21.40	23.63
PBT	1.64	3.03	3.69

Key Highlights:

Chart 1: Royalty compared to Median

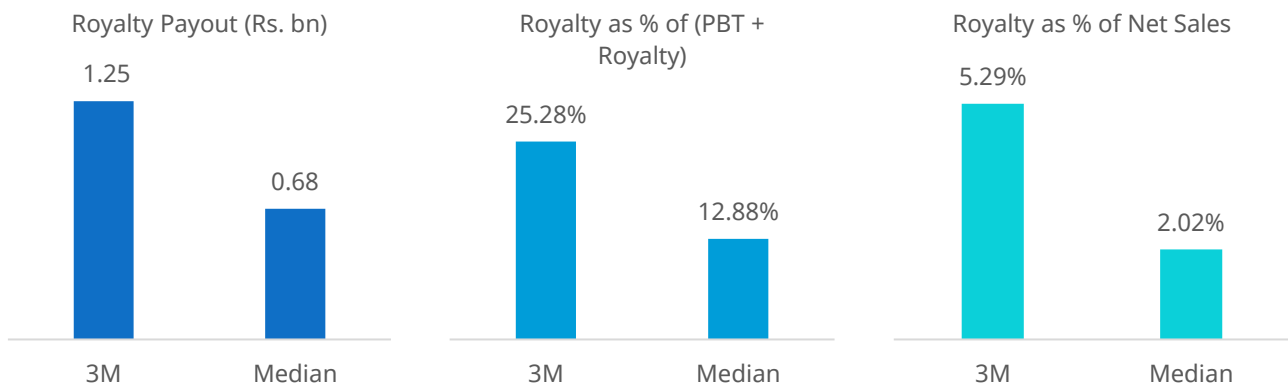


Chart 2: Royalty vs Net Sales and PBT (Normalised)

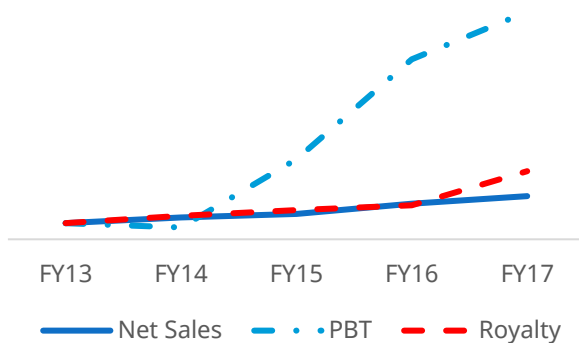


Chart 3: Royalty vs Dividend (Rs. bn)

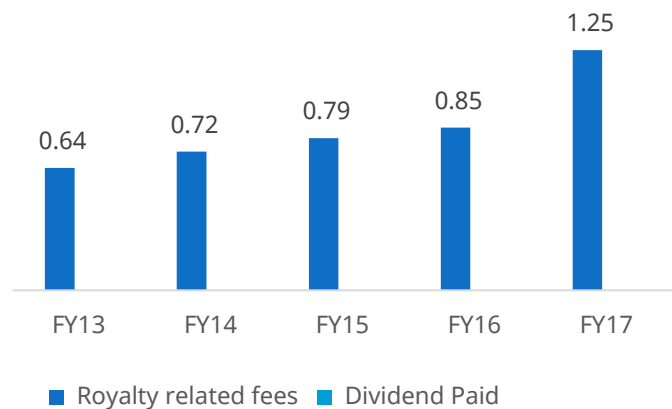


ABB India Ltd

Industry:	Heavy Electrical Equipment
Promoter:	ABB Limited

CY16 Royalty Details

Nature of transaction	Amount (Rs.bn)
Royalty, technology and trademark fees	3.59
Expenditure on information technology, management and other services	2.82
Amortised technological know-how fees	0.13
Total	6.54

Financials (Rs. bn)

	CY14	CY15	CY16
Net Sales	77.33	81.40	86.48
PBT	3.55	4.75	5.76

Key Highlights:

Chart 1: Royalty compared to Median

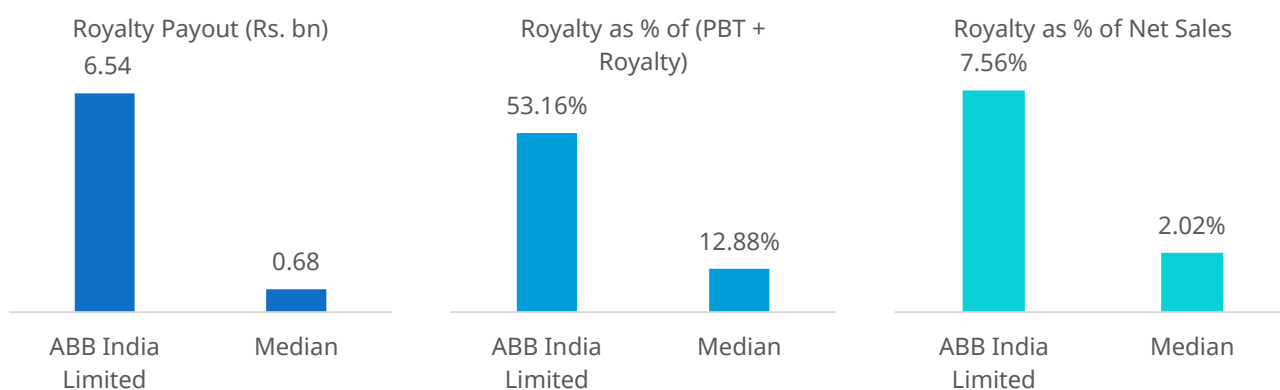


Chart 2: Royalty vs Net Sales and PBT (Normalised)

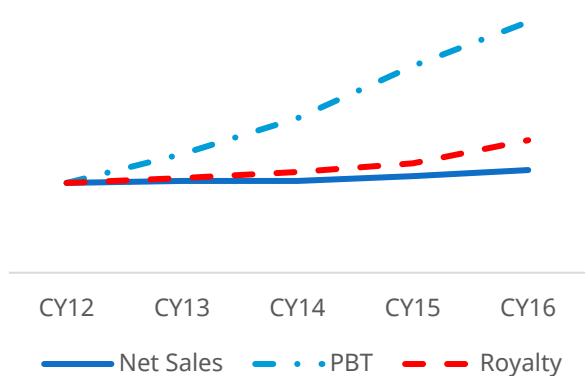
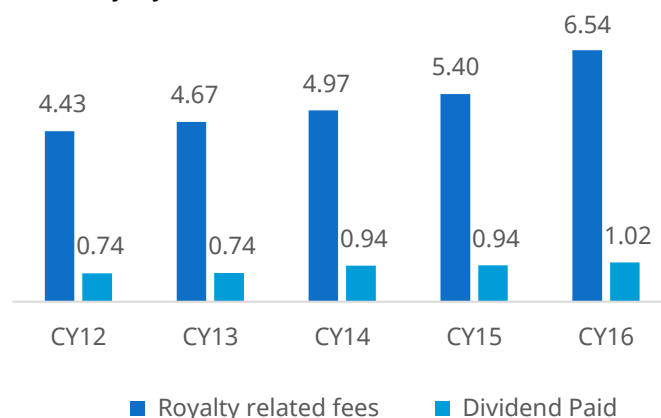


Chart 3: Royalty vs Dividend (Rs. bn)



ACC Limited

Industry:	Cement & Cement Products
Promoter:	Holcim Limited

CY16 Royalty Details

Nature of transaction	Amount (Rs.bn)
Technology and Know-how fees	1.08
Total	1.08

Financials (Rs. bn)

	CY14	CY15	CY16
Net Sales	117.38	117.97	117.58
PBT	11.35	7.84	8.09

Key Highlights:

Chart 1: Royalty compared to Median

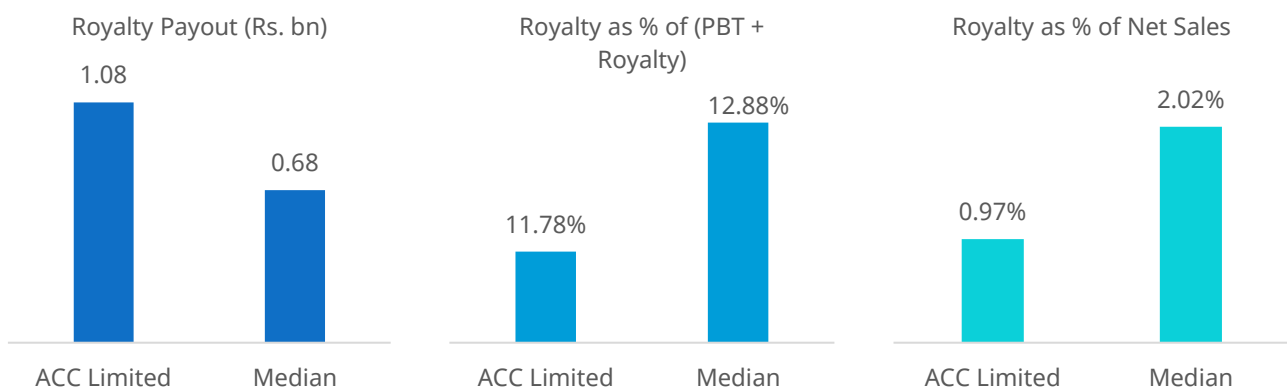


Chart 2: Royalty vs Net Sales and PBT (Normalised)

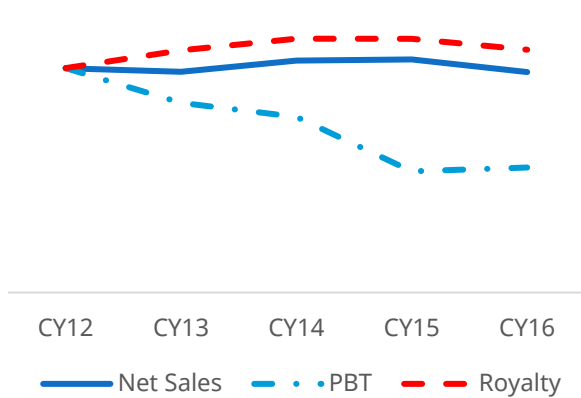
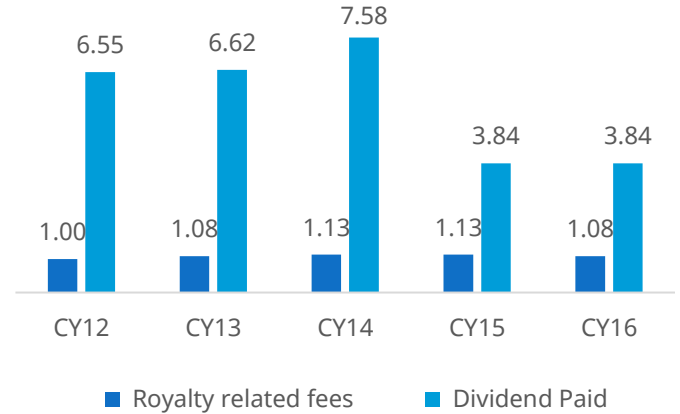


Chart 3: Royalty vs Dividend (Rs. bn)



Akzo Nobel Limited

Industry:	Furniture, Furnishings, Paints
Promoter:	Akzo Nobel NV

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Royalty and technical services	0.76
Total	0.76

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	24.70	26.40	28.25
PBT	2.75	3.14	3.42

Key Highlights

Chart 1: Royalty compared to Median

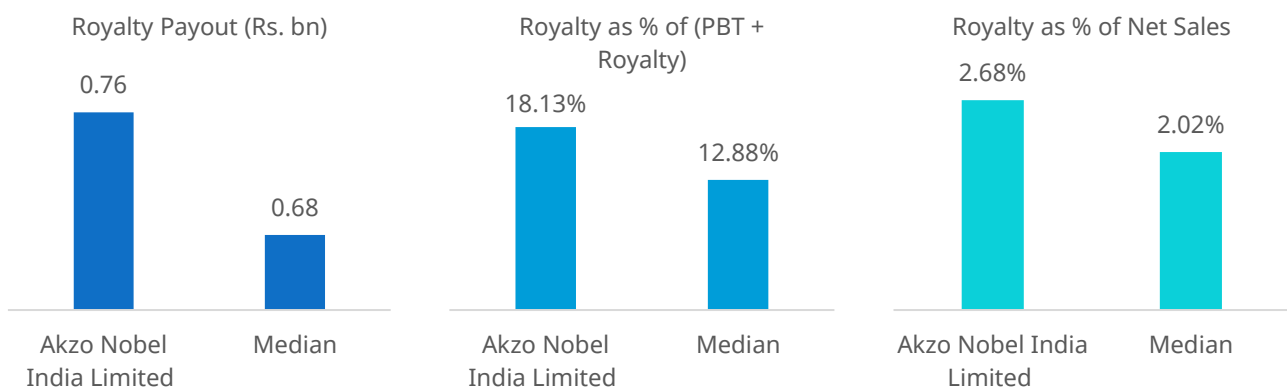


Chart 2: Royalty vs Net Sales and PBT (Normalised)

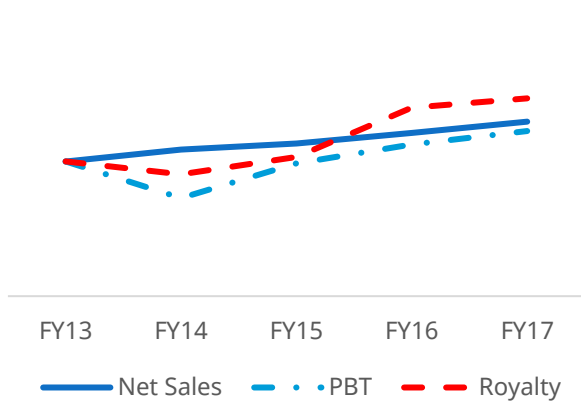
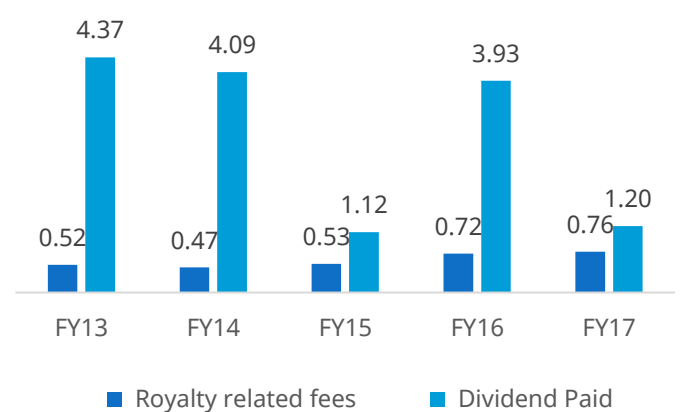


Chart 3: Royalty vs Dividend (Rs.bn)



Ambuja Cements Limited

Industry:	Cement and Cement Products
Promoter:	Holcim Limited

CY16 Royalty Details

Nature of transaction	Amount (Rs.bn)
Technology & Know How fees	0.91
Total	0.91

Financials (Rs. bn)

	CY14	CY15	CY16
Net Sales	99.80	94.61	92.68
PBT	17.83	11.72	13.37

Key Highlights:

Chart 1: Royalty compared to Median

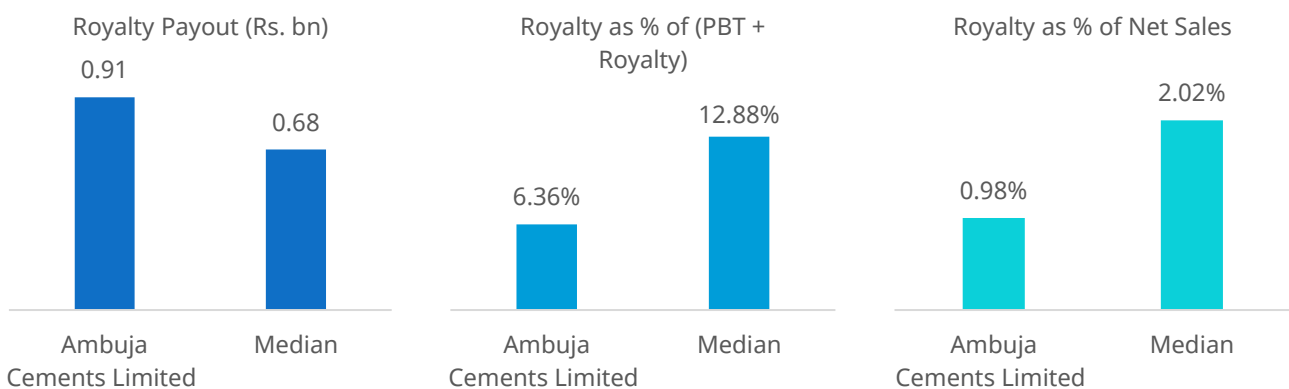


Chart 2: Royalty vs Net Sales and PBT (Normalised)

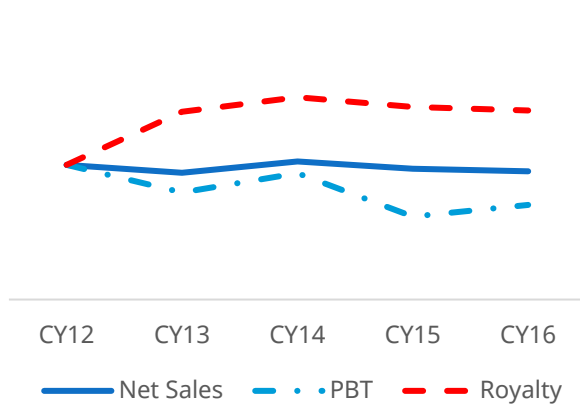
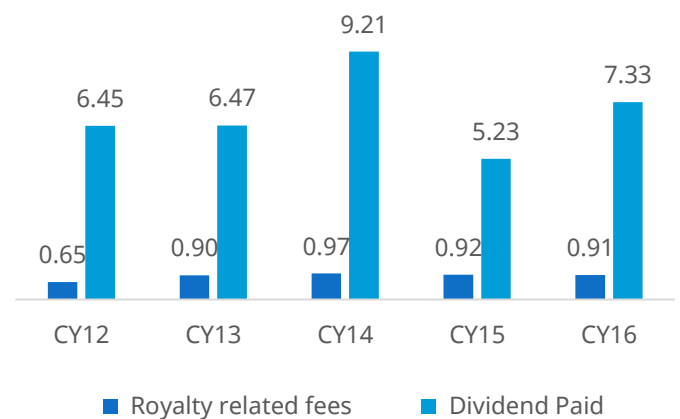


Chart 3: Royalty vs Dividend (Rs. bn)



BASF India Limited

Industry:	Speciality Chemicals
Promoter:	BASF SE

FY17 Royalty Details

Nature of transaction	Amount (Rs. bn)
Royalty and technical Fees	0.44
Total	0.44

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	44.70	47.47	50.85
PBT	(0.66)	(0.30)	(0.12)

Key Highlights:

Chart 1: Royalty compared to Median

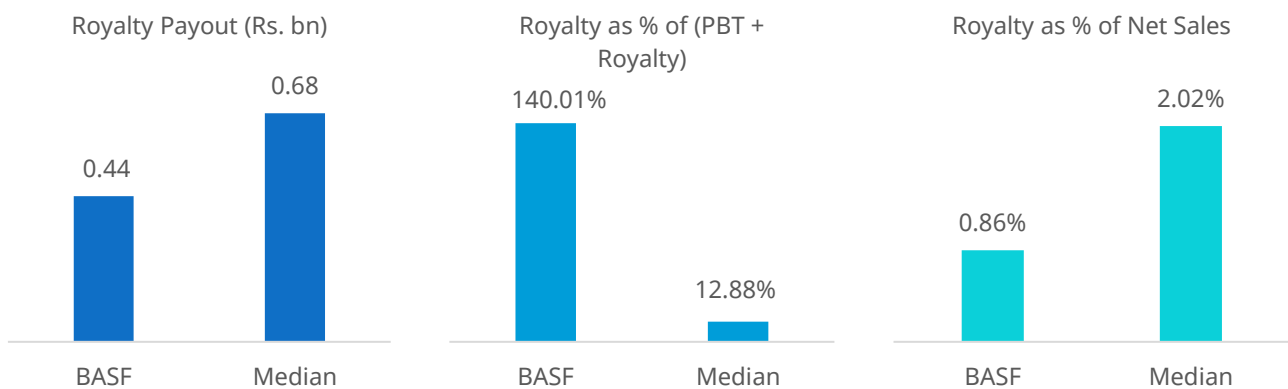


Chart 2: Royalty vs Net Sales and PBT (Normalised)

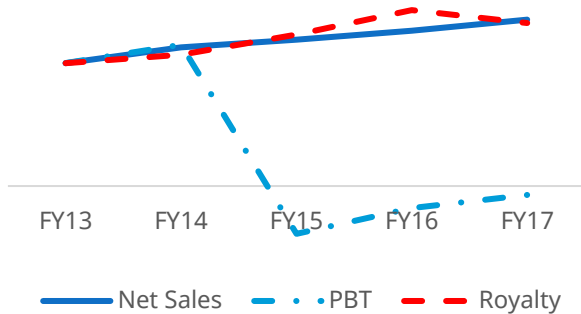
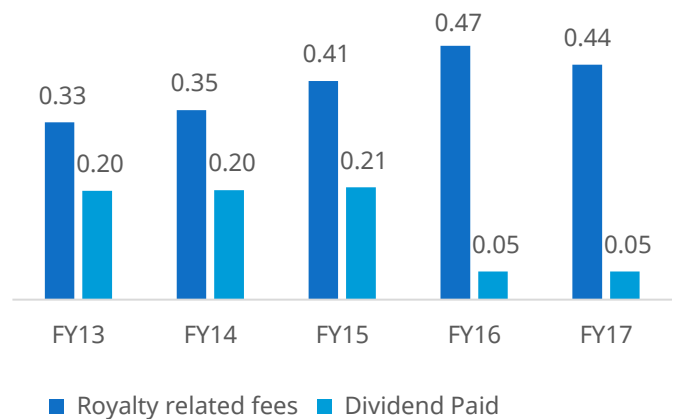


Chart 3: Royalty vs Dividend (Rs. bn)



Bata India Limited

Industry:	Footwear
Promoter:	Bata (BN) BV

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Technical Collaboration Fee (Global Footwear Services Pte Ltd)	0.23
Royalty (Bata Brands S.a.r.l., Bata Brands SA)	0.04
Total	0.27

Financials (Rs. bn)

	15 months ended 31 Mar'15	FY16	FY17
Net Sales	26.94	24.15	24.67
PBT	3.28	2.97	2.34

Key Highlights:

Chart 1: Royalty compared to Median

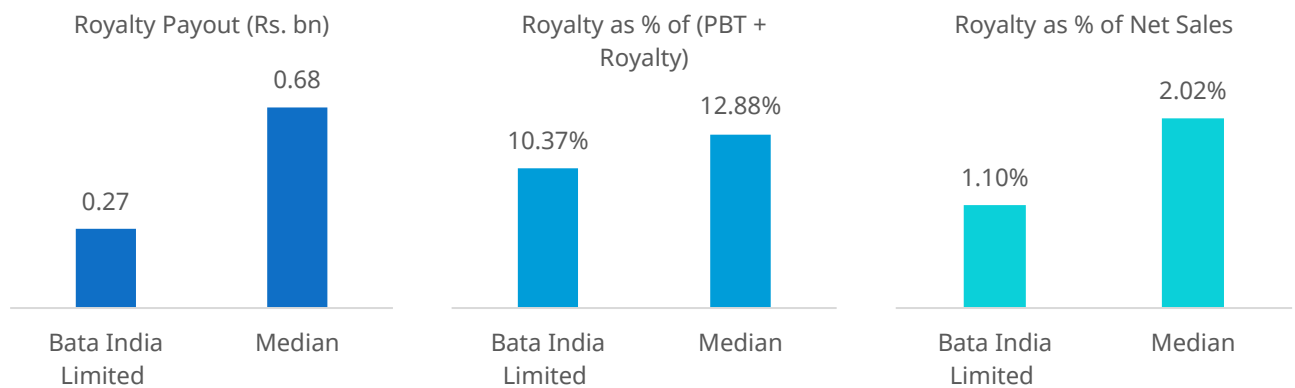


Chart 2: Royalty vs Net Sales and PBT (Normalised)

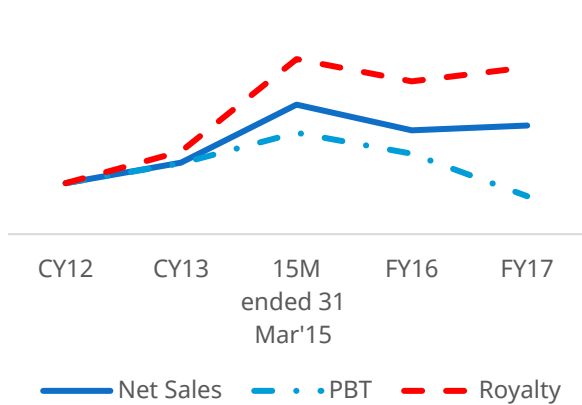
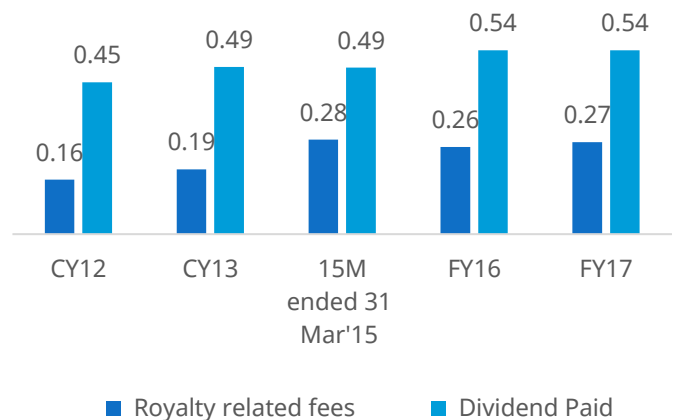


Chart 3: Royalty vs Dividend (Rs. bn)



Bosch Limited

Industry:	Auto Parts & Equipment
Promoter:	Robert Bosch GmbH

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Royalty and technical service fee	1.64
Total	1.64

Financials (Rs. bn)

	15 Months ended 31 Mar'15	FY16	FY17
Net Sales	117.41	92.73	101.76
PBT	19.56	20.82	20.90

* Professional, consultancy and other charges have been excluded after confirmation from the company.

Key Highlights:

Chart 1: Royalty compared to Median

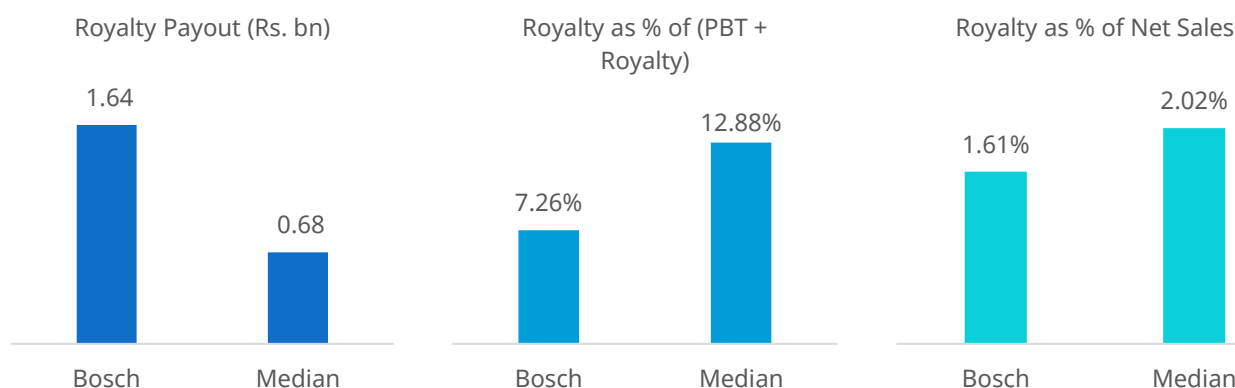


Chart 2: Royalty vs Net Sales and PBT (Normalised)

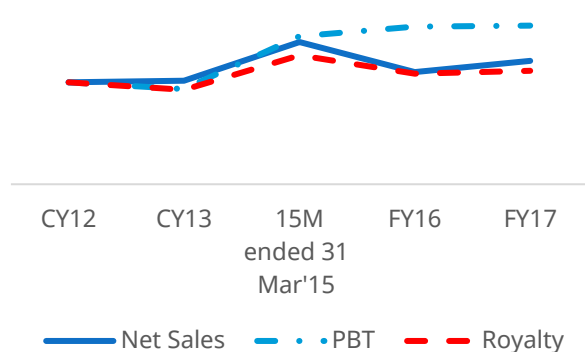
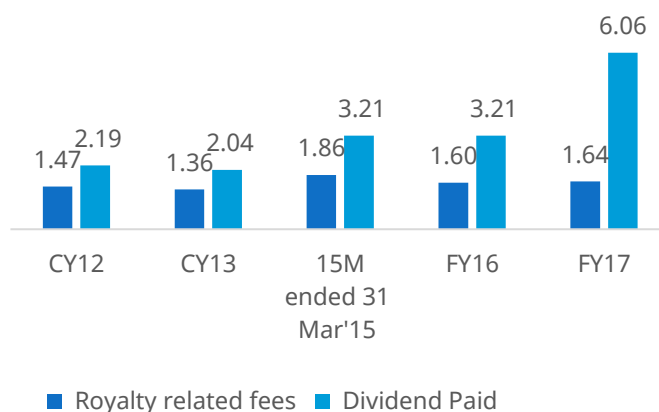


Chart 3: Royalty vs Dividend (Rs. bn)



Note: In our earlier reports, for Bosch we have been considering 'Royalty and technical service fee - Robert Bosch GmbH, Germany' and 'Professional, consultancy and other charges - Robert Bosch GmbH, Germany' as royalty. Bosch has clarified that 'Professional, consultancy and other charges paid to Robert Bosch GmbH, Germany' are reimbursements for services and not royalty. We have excluded it from royalty calculation. The difference in royalty figures in the previous years when compared to old reports is significant as the quantum of these reimbursements is large.

Castrol India Limited

Industry:	Oil Marketing & Distribution
Promoter:	BP PLC

CY16 Royalty Details

Nature of transaction	Amount (Rs.bn)
Royalty	1.04
Total	1.04

Financials (Rs. bn)

	CY14	CY15	CY16
Net Sales	33.92	32.98	33.70
PBT	7.26	9.51	10.46

Key Highlights:

Chart 1: Royalty compared to Median

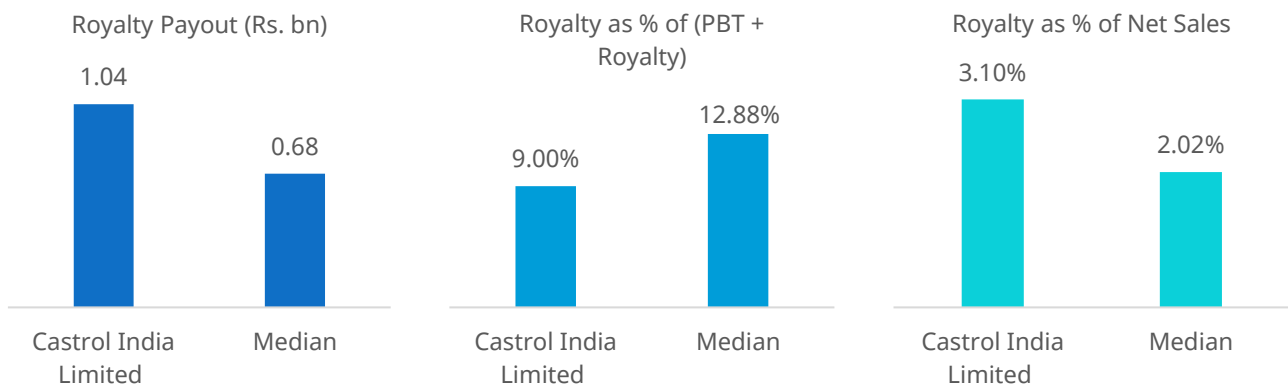


Chart 2: Royalty vs Net Sales and PBT (Normalised)

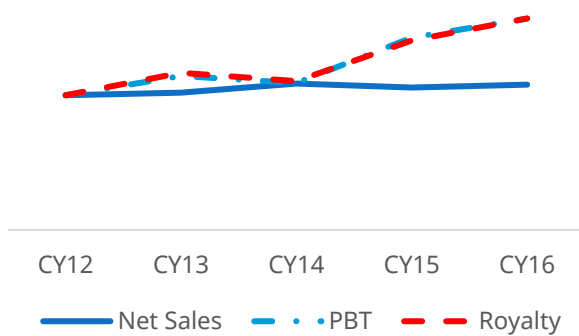
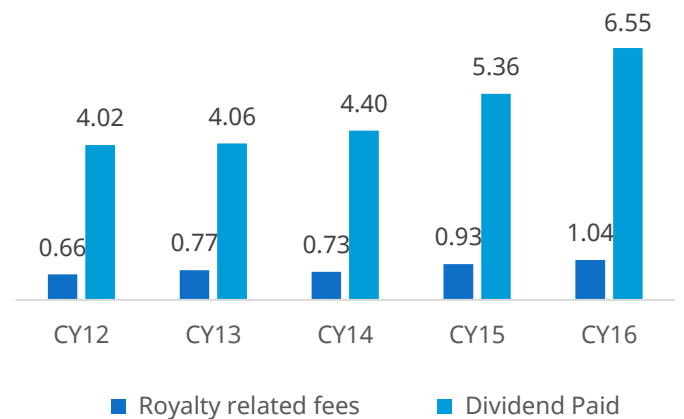


Chart 3: Royalty vs Dividend (Rs. bn)



Colgate Palmolive (India) Limited

Industry:	Personal Products
Promoter:	Colgate-Palmolive Company

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Royalty	1.86
Total	1.86

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	39.82	38.68	39.82
PBT	7.80	8.35	8.51

Key Highlights:

Chart 1: Royalty compared to Median

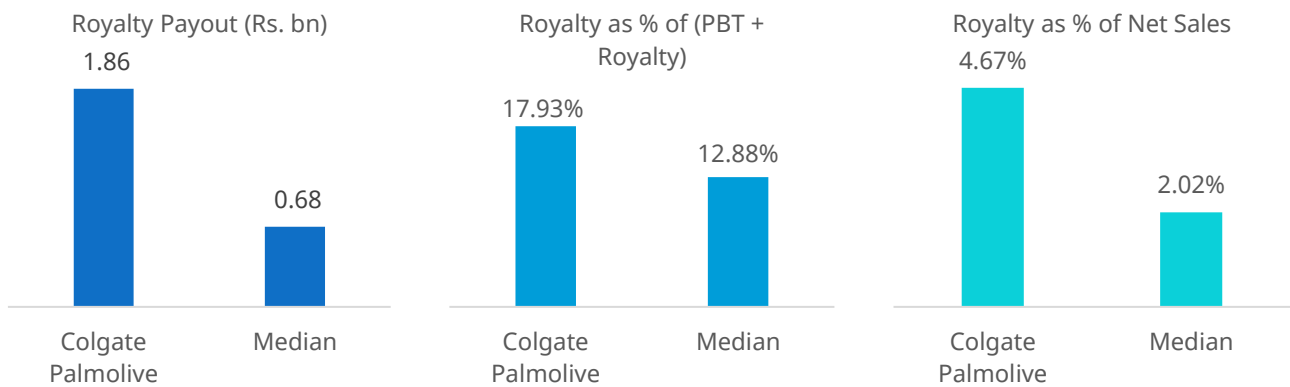


Chart 2: Royalty vs Net Sales and PBT (Normalised)

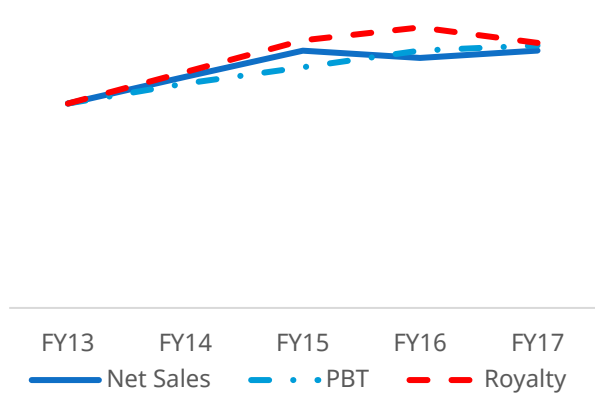
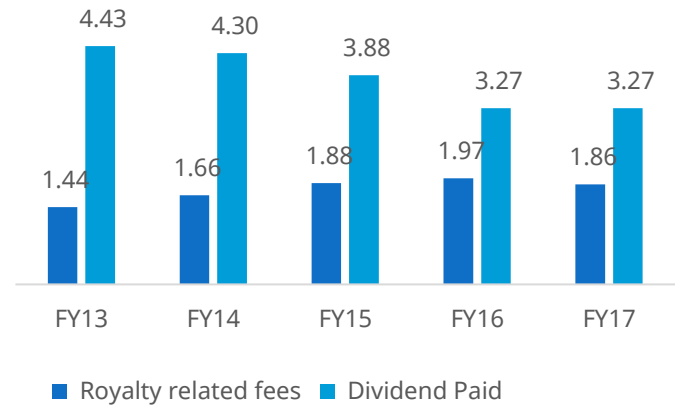


Chart 3: Royalty vs Dividend (Rs. bn)



Cummins India Limited

Industry:	Industrial Machinery
Promoter:	Cummins Inc

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Transfer of Technology, Royalty	0.51
Total	0.51

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	44.06	47.09	50.77
PBT	9.37	9.10	9.08

Key Highlights:

Chart 1: Royalty compared to Median

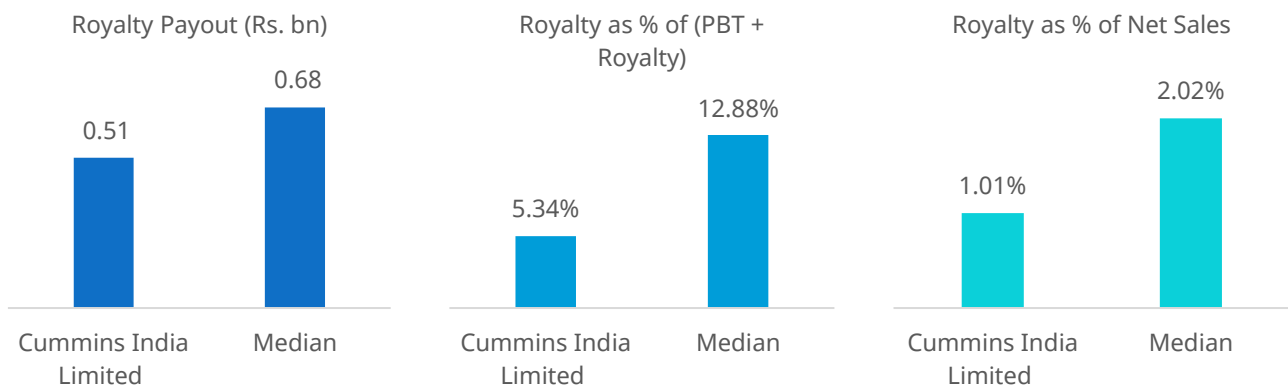


Chart 2: Royalty vs Net Sales and PBT (Normalised)

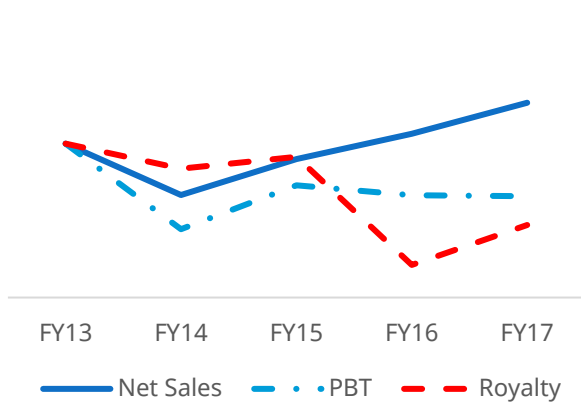
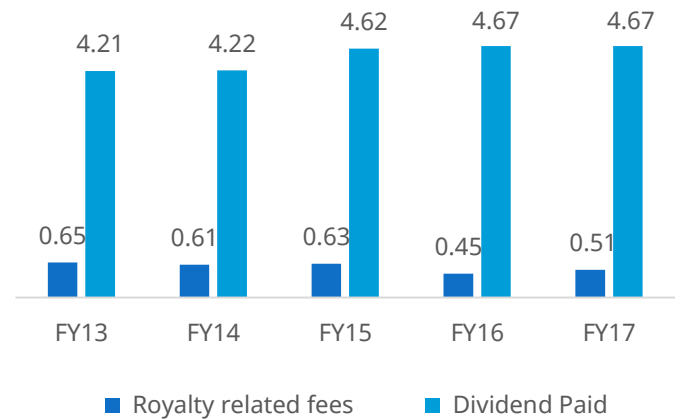


Chart 3: Royalty vs Dividend (Rs. bn)



GE Power India Limited

Industry:	Heavy Electrical Equipment
Promoter:	General Electric Company, USA (Since 2 November 2015)

General Electric acquired the Energy business of ALSTOM

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Royalty, Technology Know-how Fees	0.28
Total	0.28

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	21.24	17.10	19.93
PBT	2.66	(0.94)	0.29

Key Highlights:

Chart 1: Royalty compared to Median

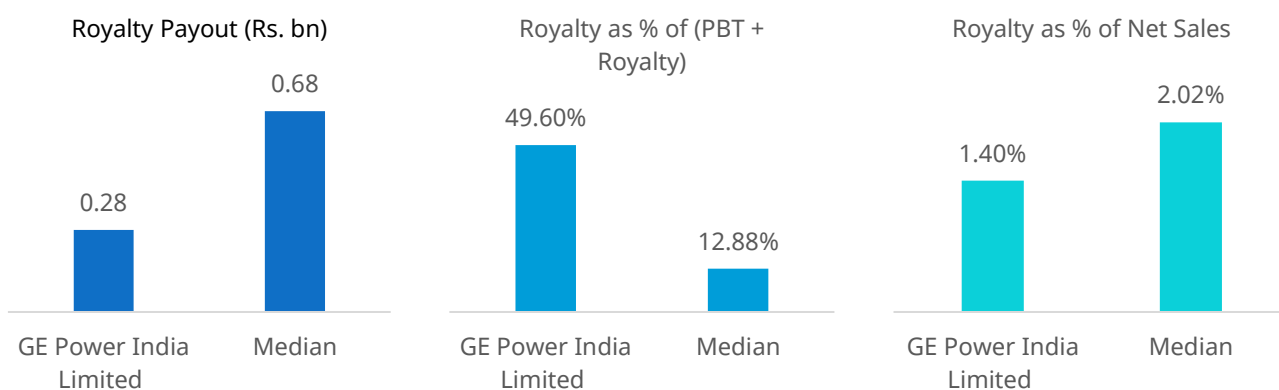


Chart 2: Royalty vs Net Sales and PBT (Normalised)

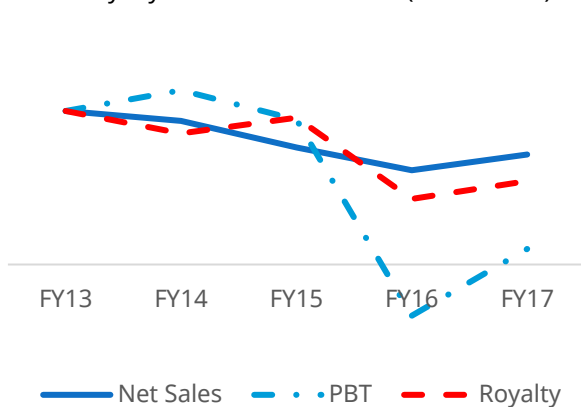
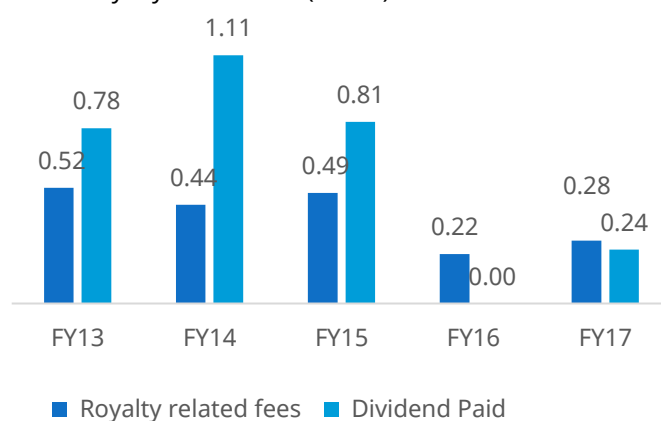


Chart 3: Royalty vs Dividend (Rs. bn)



GE T&D India Limited

Industry:	Electric Utilities
Promoter:	General Electric Company, USA (Since 2 November 2015)

General Electric acquired the Energy business of ALSTOM

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Technology Licence Fee and Others	0.68
Trade Mark Fees	0.26
Total	0.94

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	37.11	33.03	40.52
PBT	1.70	0.56	(0.73)

Key Highlights:

Chart 1: Royalty compared to Median

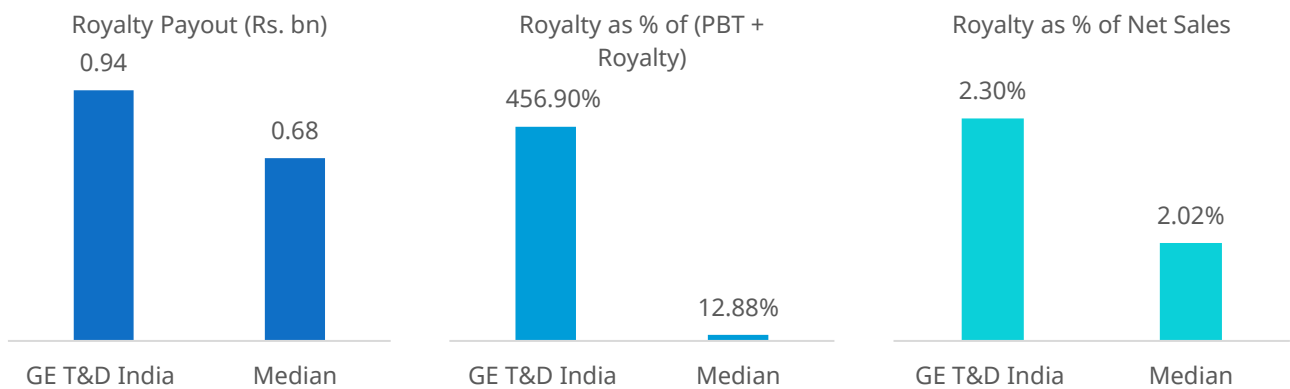


Chart 2: Royalty vs Net Sales and PBT (Normalised)

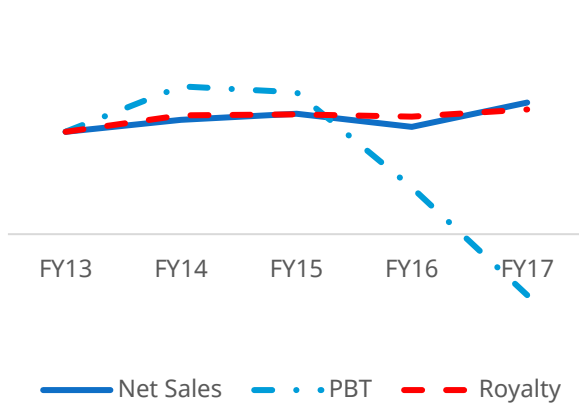
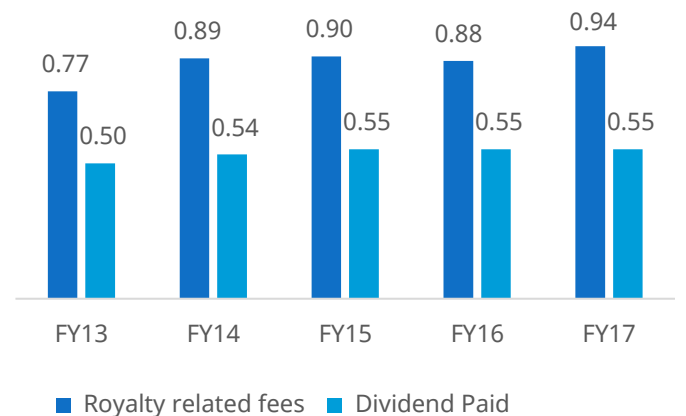


Chart 3: Royalty vs Dividend (Rs. bn)



Gillette Limited

Industry:	Personal Products
Promoter:	The Procter & Gamble Company

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Royalty	0.11
Total	0.11

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	18.72	17.55	17.33
PBT	2.46	3.04	3.04

Key Highlights:

Chart 1: Royalty compared to Median

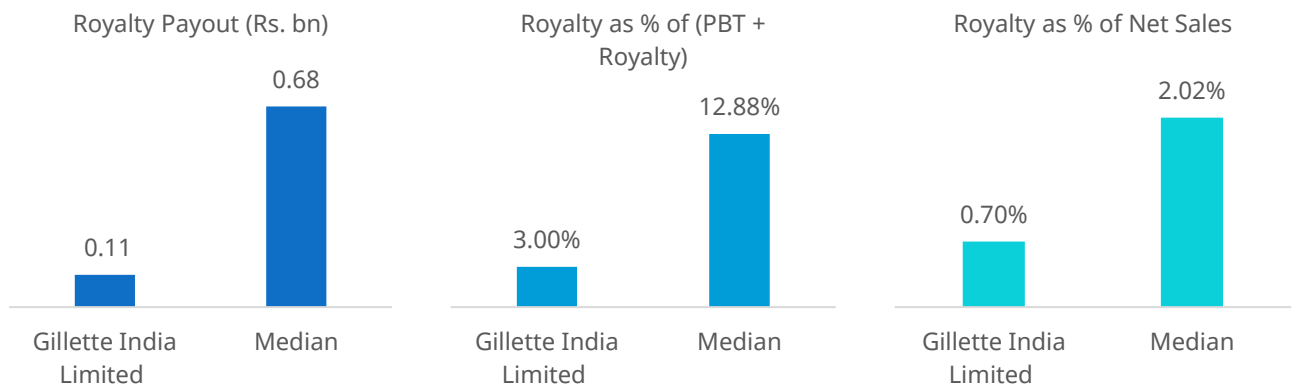


Chart 2: Royalty vs Net Sales and PBT (Normalised)

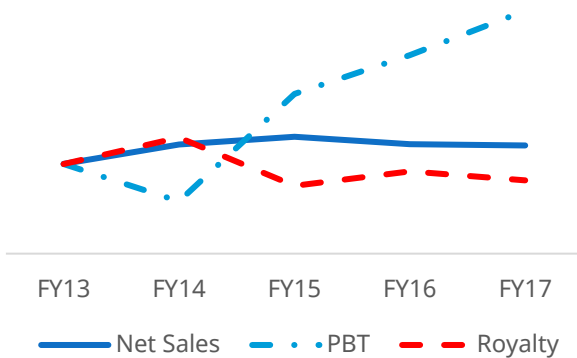
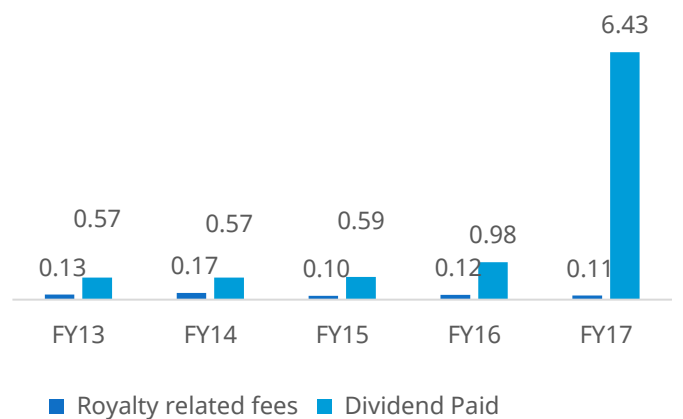


Chart 3: Royalty vs Dividend (Rs.bn)



GlaxoSmithKline Consumer Healthcare Limited

Industry:	Packaged Foods
Promoter:	GlaxoSmithKline PLC

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Royalty	1.47
Total	1.47

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	43.08	41.36	39.9
PBT	8.89	10.56	10.10

Key Highlights:

Chart 1: Royalty compared to Median

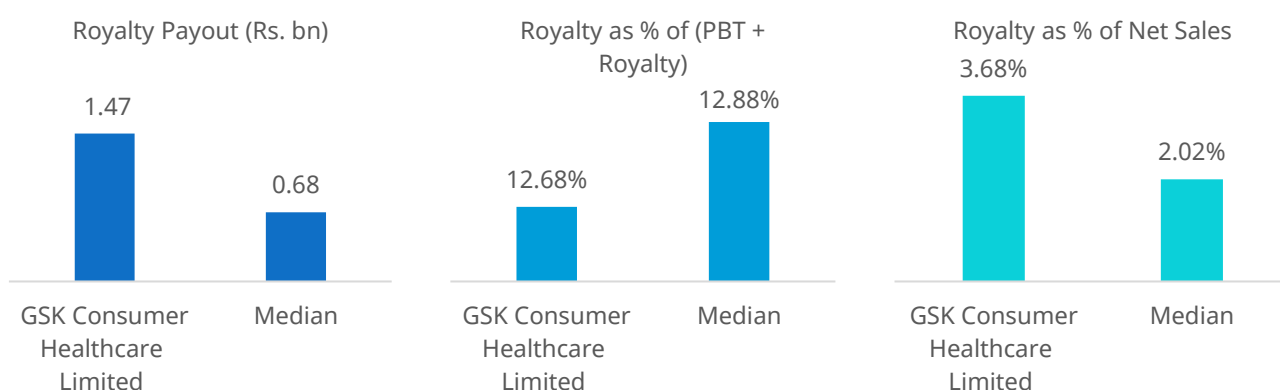


Chart 2: Royalty vs Net Sales and PBT (Normalised)

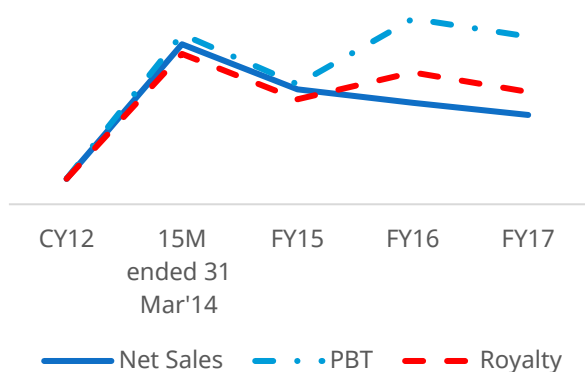
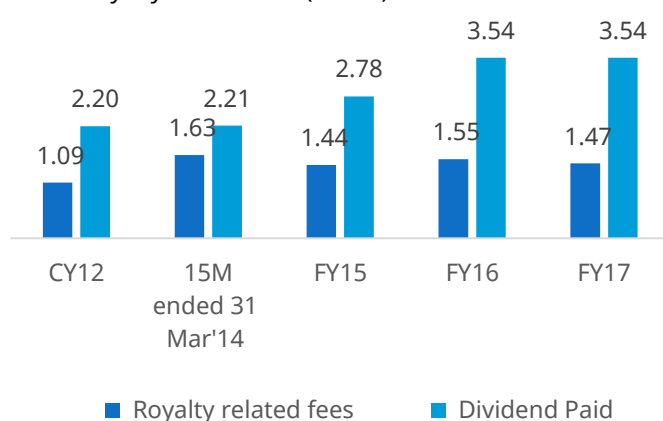


Chart 3: Royalty vs Dividend (Rs. bn)



Grindwell Norton Limited

Industry:	Other Industrial Products
Promoter:	Saint-Gobain

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Royalty, Trademark Amortisation	0.18
Total	0.18

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	11.10	11.26	12.36
PBT	1.49	1.55	1.73

Key Highlights:

Chart 1: Royalty compared to Median

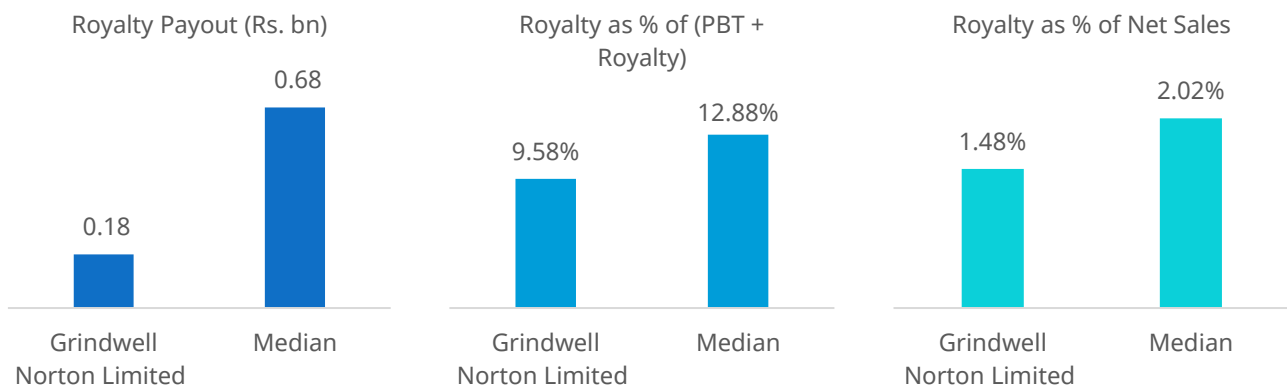


Chart 2: Royalty vs Net Sales and PBT (Normalised)

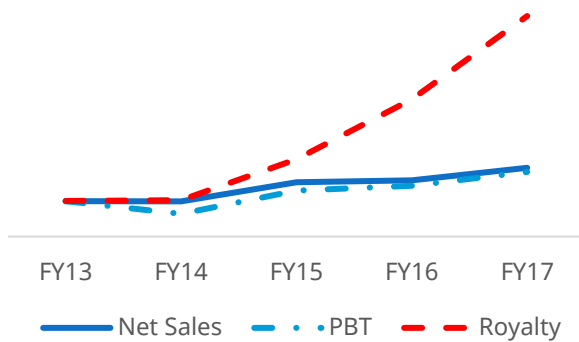
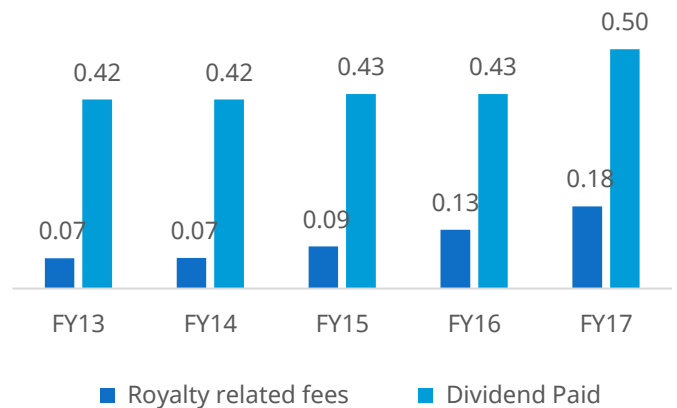


Chart 3: Royalty vs Dividend (Rs. bn)



Gulf Oil Lubricants India Limited

Industry:	Oil Marketing and Distribution
Promoter:	Gulf Oil International (Mauritius) Inc.

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Royalty related fees	0.20
Total	0.20

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	9.68	10.11	11.31
PBT	1.16	1.53	1.85

Key Highlights:

Chart 1: Royalty compared to Median

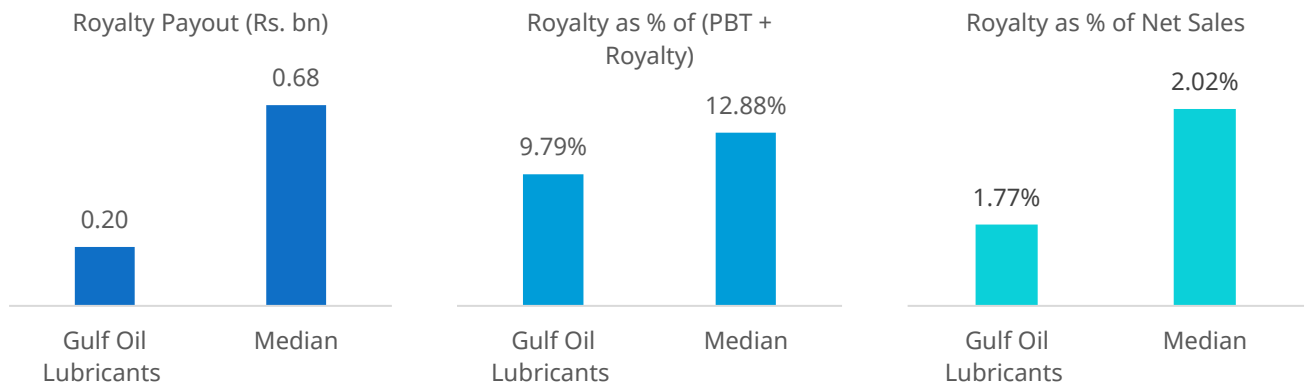


Chart 2: Royalty vs Net Sales and PBT (Normalised)

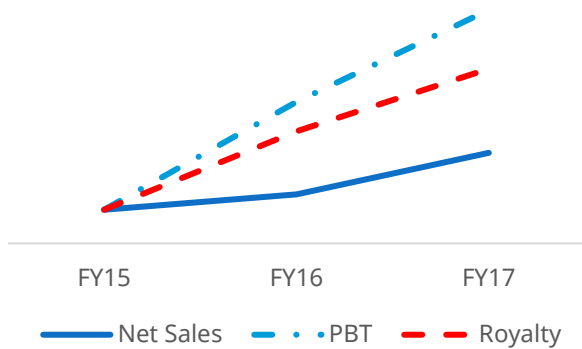
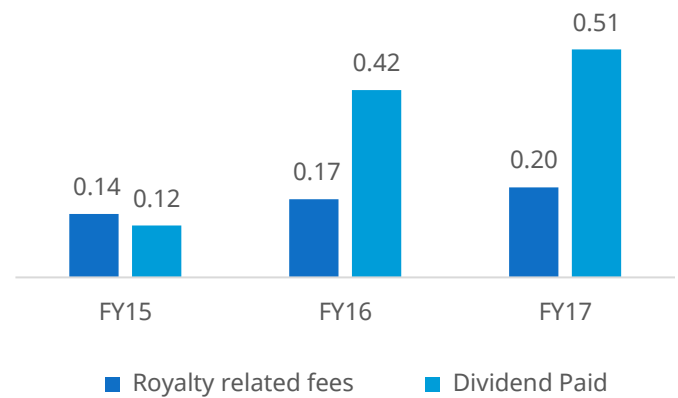


Chart 3: Royalty vs Dividend (Rs.bn)



Heidelberg Cement Limited

Industry:	Cement and Cement Products
Promoter:	Heidelberg Cement AG

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Technical Knowhow Fees	0.17
Total	0.17

Financials (Rs. bn)

	15 Months ended 31 Mar'15	FY16	FY17
Net Sales	16.35	16.48	17.18
PBT	0.96	0.45	1.14

Key Highlights:

Chart 1: Royalty compared to Median

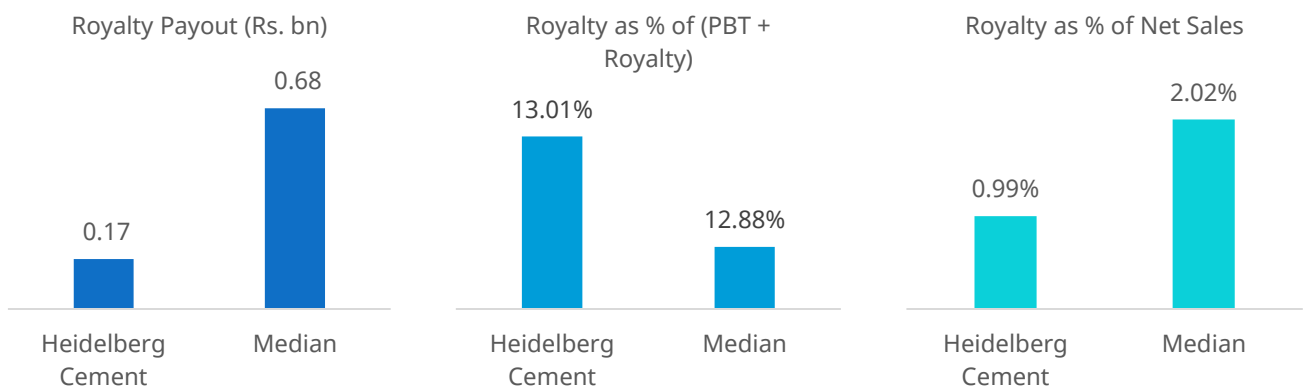


Chart 2: Royalty vs Net Sales and PBT (Normalised)

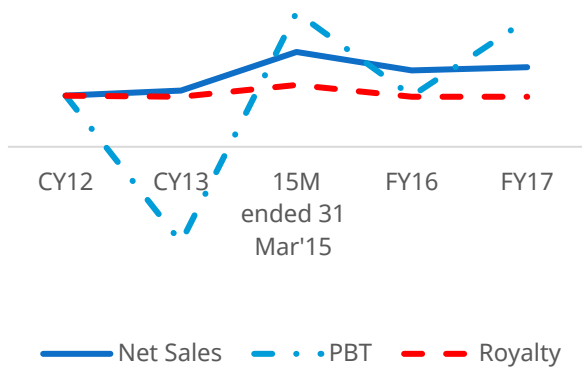
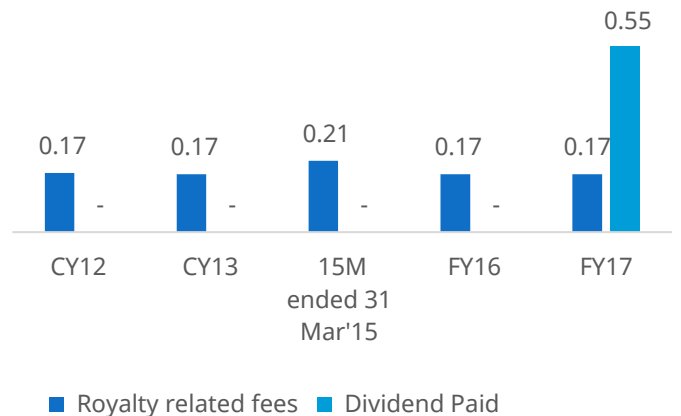


Chart 3: Royalty vs Dividend (Rs. bn)



Hindustan Unilever Limited

Industry:	FMCG
Promoter:	Unilever PLC

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Royalty fees (Parent and Subsidiaries)	10.27
Management fees	0.17
Total	10.44

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	308.06	310.61	318.90
PBT	61.87	59.46	63.96

Key Highlights:

Chart 1: Royalty compared to Median

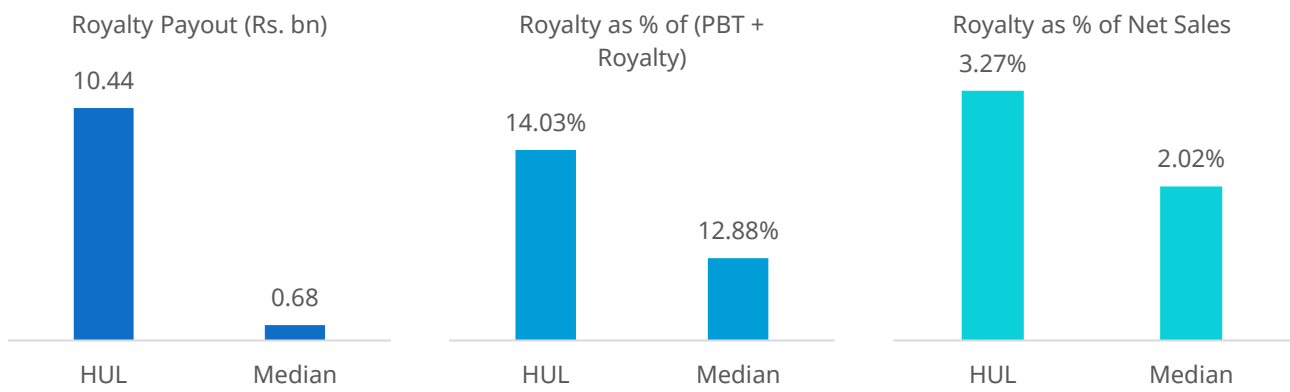


Chart 2: Royalty vs Net Sales and PBT (Normalised)

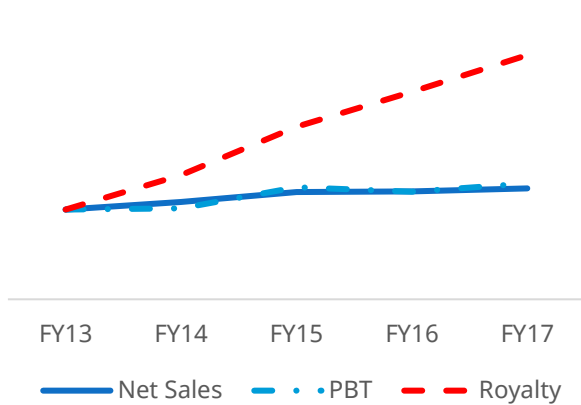
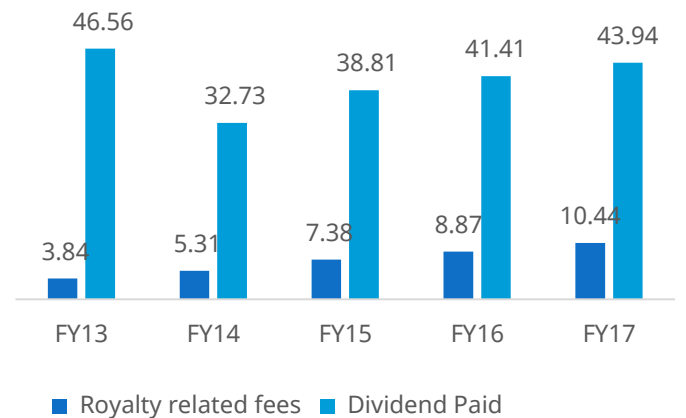


Chart 3: Royalty vs Dividend (Rs. bn)



Johnson Controls – Hitachi Air Conditioning India Ltd

Industry:	Consumer Electronics
Promoter:	Johnson Controls Inc (Since 1 October 2015)

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Royalty	0.36
Technical Know-how fees amortised	0.09
Total	0.45

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	15.73	16.41	19.72
PBT	1.01	0.69	1.18

Key Highlights:

Chart 1: Royalty compared to Median

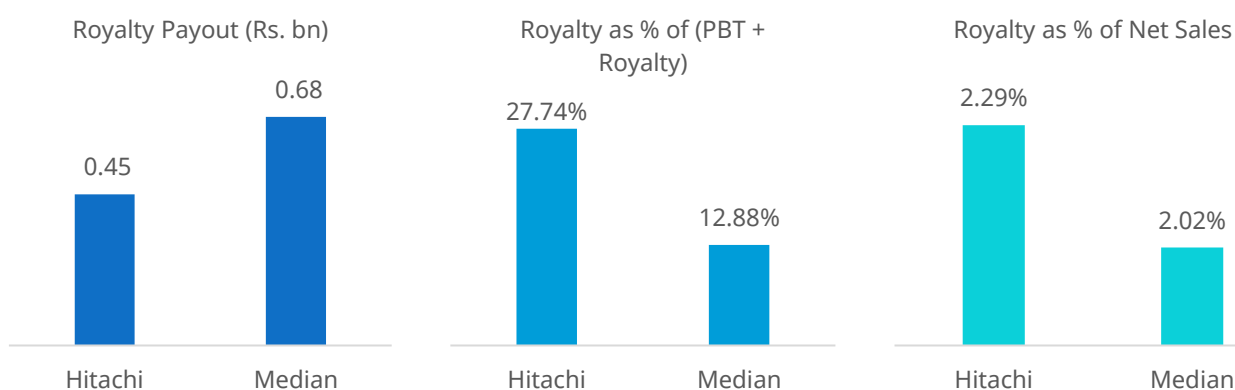


Chart 2: Royalty vs Net Sales and PBT (Normalised)

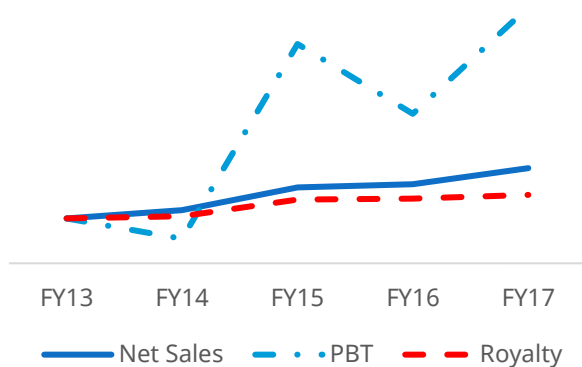
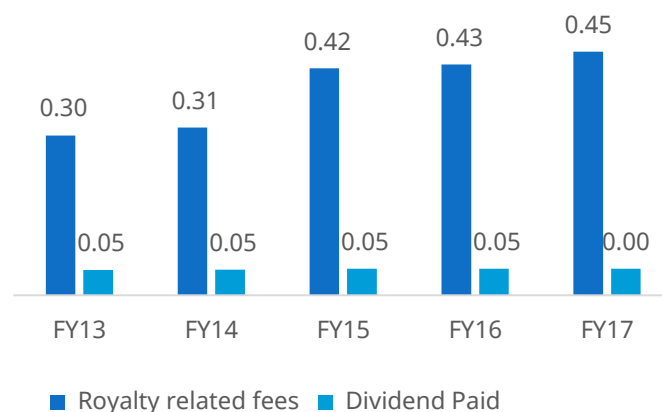


Chart 3: Royalty vs Dividend (Rs. bn)



Referred to Johnson Controls – Hitachi Air Conditioning India Limited as Hitachi

Kansai Nerolac Paints Limited

Industry:	Furniture, Furnishing, Paints
Promoter:	Kansai Paint Company Limited

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Royalty and technical fees	0.16
Total	0.16

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	35.32	37.39	39.99
PBT	3.99	10.75	7.59

Key Highlights:

Chart 1: Royalty compared to Median

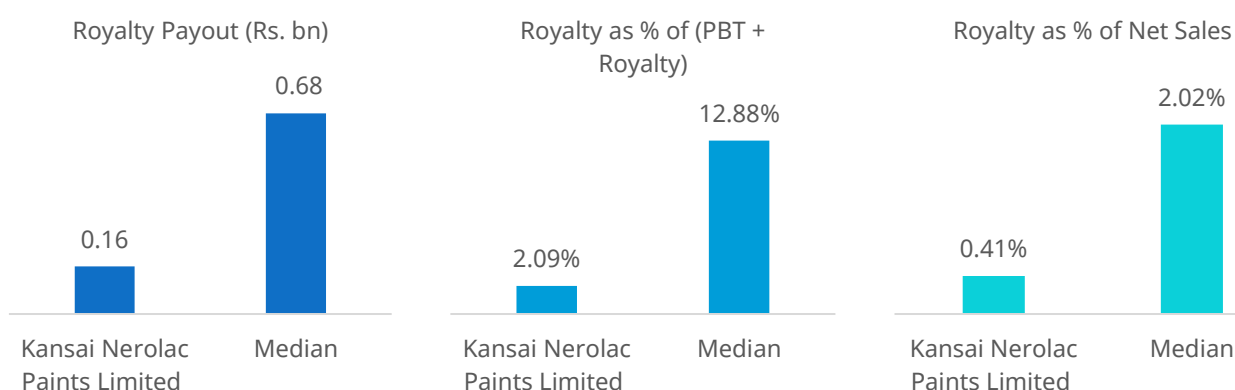


Chart 2: Royalty vs Net Sales and PBT (Normalised)

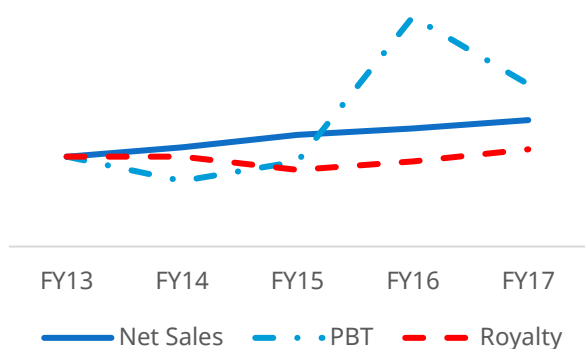
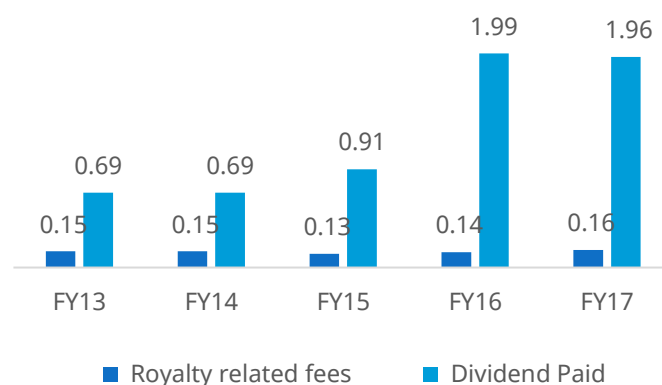


Chart 3: Royalty vs Dividend (Rs. bn)



Note: The company is shifting its manufacturing operations from Chennai to Gujarat. During FY16, the company sold land at Perungudi, Chennai for a total consideration of Rs.5.4 bn. The profit from sale is an exceptional item. This reflects in the increased profitability for FY16. Part of the proceeds from the sale are being distributed to shareholders as a special dividend. The balance will be used for funding greenfield projects and setting up a new plant at Gujarat.

Maruti Suzuki Limited

Industry:	Cars & Utility Vehicles
Promoter:	Suzuki Motor Corporation

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Running Royalty	38.48
Lump sum Royalty	
Amortised for the year	1.21
Total	39.69

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	486.06	575.38	680.35
PBT	48.68	74.44	99.41

Key Highlights:

Chart 1: Royalty compared to Median

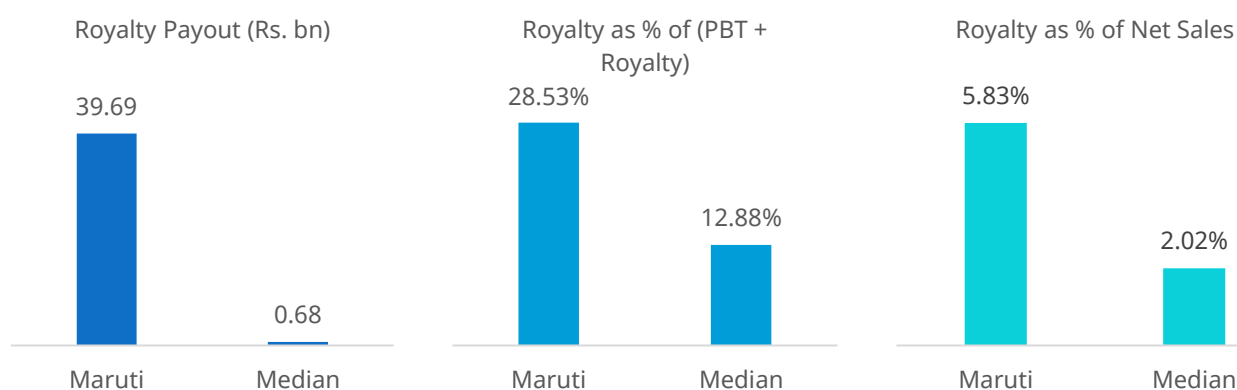


Chart 2: Royalty vs Net Sales and PBT (Normalised)

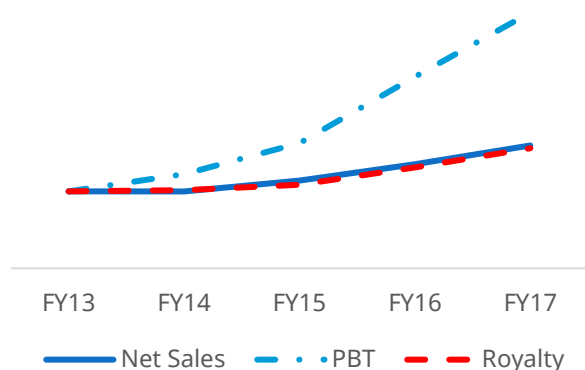
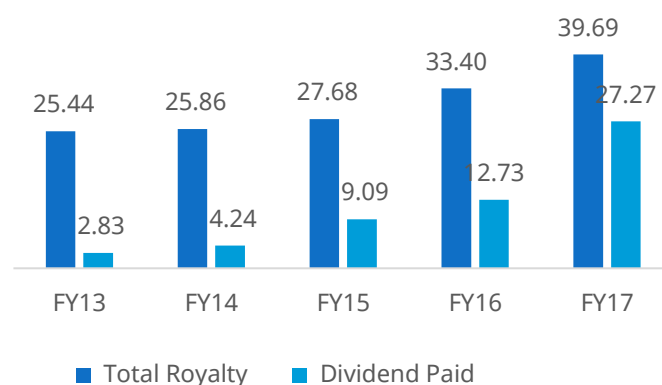


Chart 3: Royalty vs Dividend (Rs. bn)



Note: On 25 January 2018 Maruti's board discussed and approved a revision in the method of calculating royalty which would result in lower royalty payments for new model agreements starting the Ignis. This would be implemented after approval by the Board of Suzuki Motor Corporation.

Monsanto India Limited

Industry:	Agrochemicals
Promoter:	Monsanto Company

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Royalty related fees	0.08
Total	0.08

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	5.56	5.42	6.41
PBT	1.29	1.09	1.59

Key Highlights:

Chart 1: Royalty compared to Median

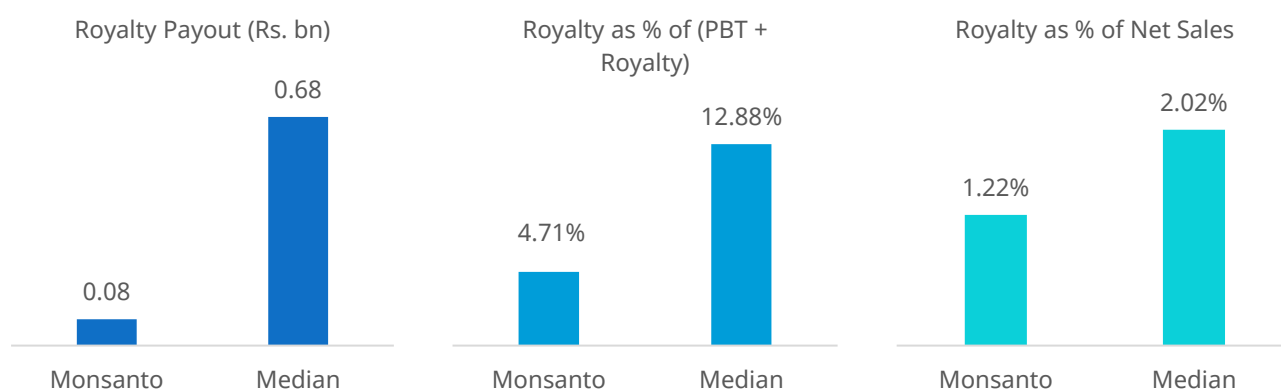


Chart 2: Royalty vs Net Sales and PBT (Normalised)

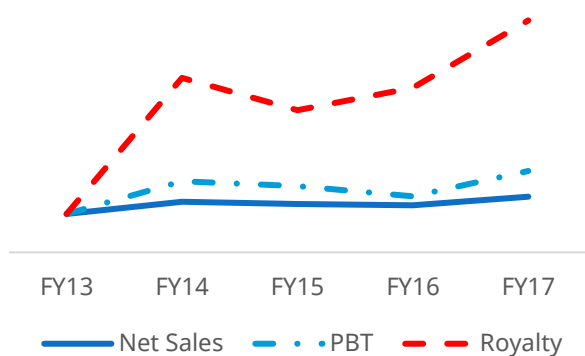
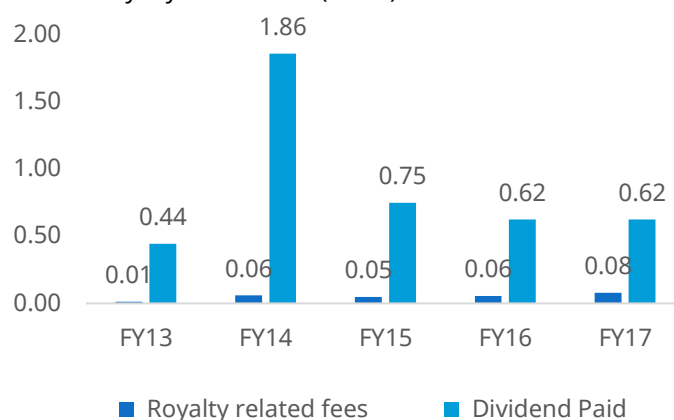


Chart 3: Royalty vs Dividend (Rs.bn)



Nestlé India Limited

Industry:	Packaged Foods
Promoter:	Nestlé S.A

CY16 Royalty Details

Nature of transaction	Amount (Rs.bn)
General license fees	3.62
Total	3.62

Financials (Rs. bn)

	CY14	CY15	CY16
Net Sales	98.06	81.23	91.59
PBT	17.74	8.14	14.42

Key Highlights:

Chart 1: Royalty compared to Median

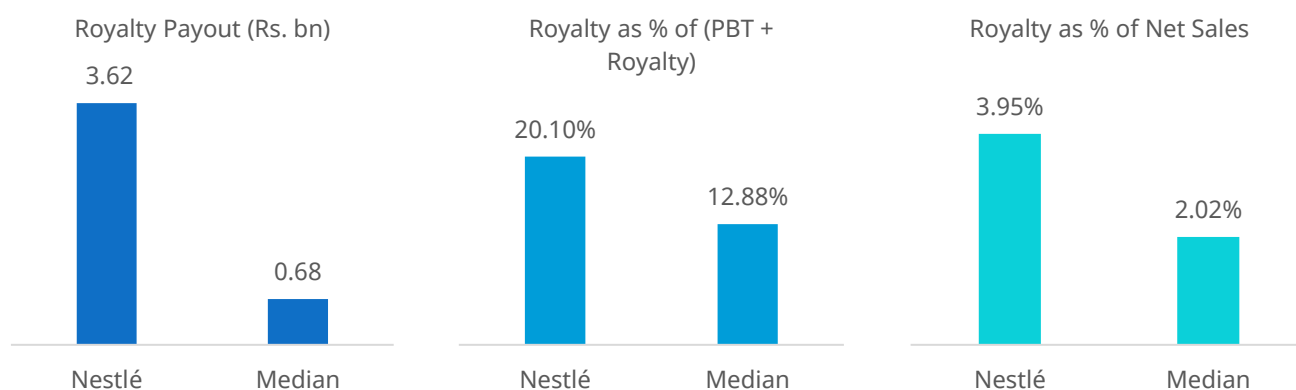


Chart 2: Royalty vs Net Sales and PBT (Normalised)

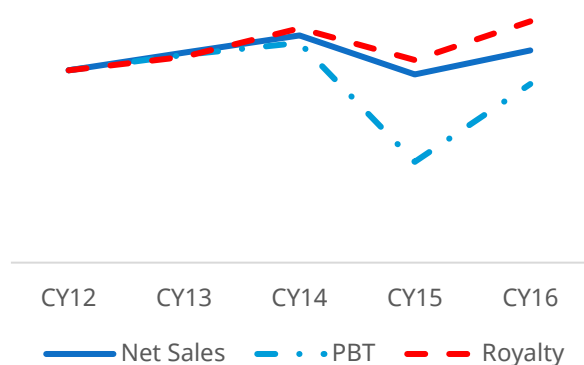
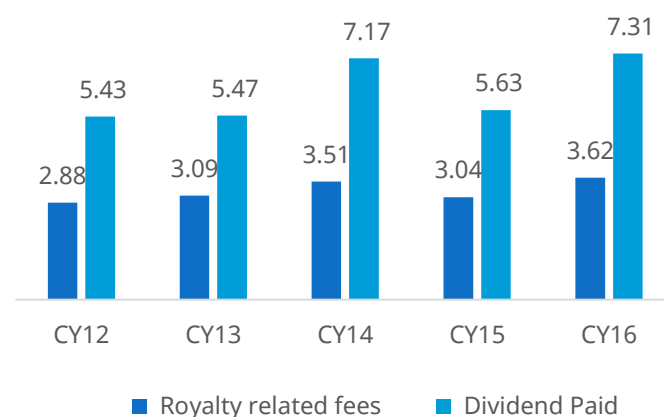


Chart 3: Royalty vs Dividend (Rs. bn)



Note: We have been including 'General license fees' and 'Information technology and management information systems' for calculation of royalty. However, Nestlé has confirmed that 'Information technology and management information systems pertains to payments to Nestlé Australia Limited and Servcom Limited and should be excluded from the royalty related fee. Accordingly, we have decided to remove it from the calculation of royalty for all the years. Hence, there will be some difference in the royalty figures in the previous years when compared to old reports.

Procter & Gamble Limited

Industry:	Personal Products
Promoter:	The Procter & Gamble Company

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Royalty	0.99
Total	0.99

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	23.32	22.75	23.20
PBT	5.01	6.36	6.72

Key Highlights:

Chart 1: Royalty compared to Median

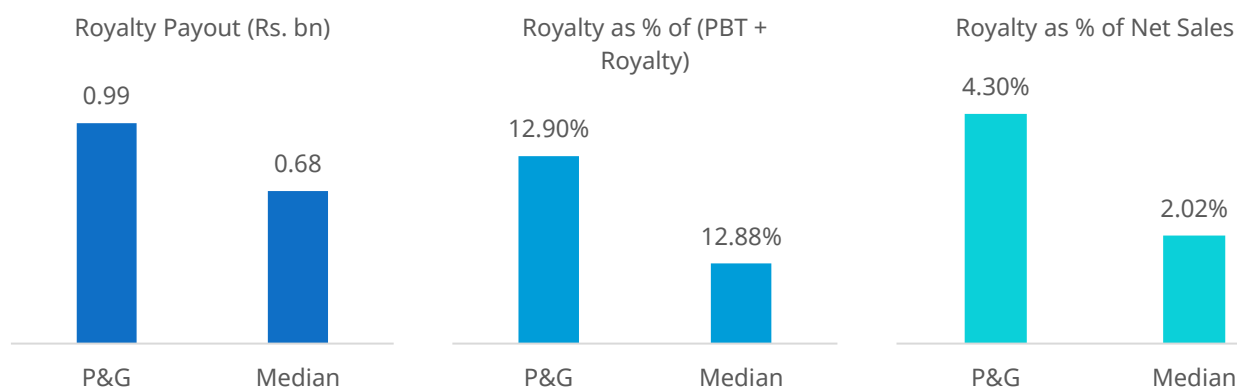


Chart 2: Royalty vs Net Sales and PBT (Normalised)

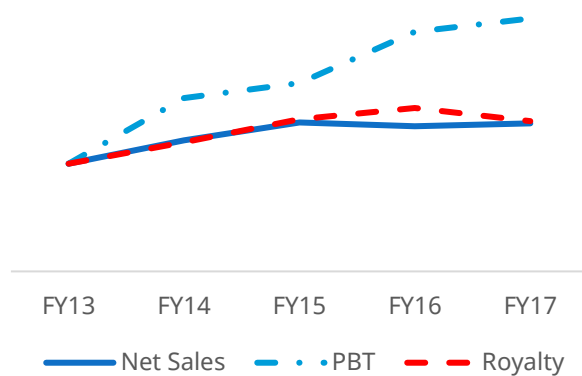
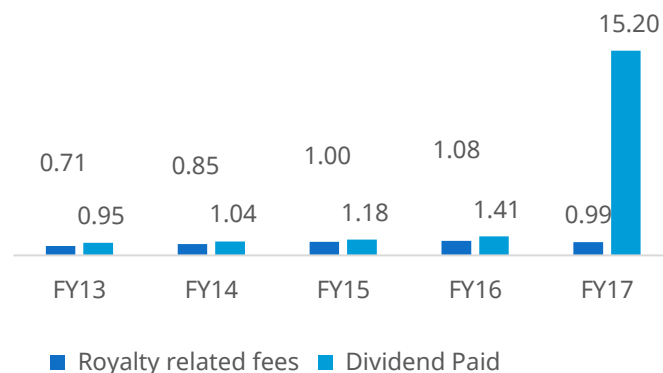


Chart 3: Royalty vs Dividend (Rs.bn)



Schaeffler India Limited

Industry:	Industrial Machinery
Promoter:	FAG Kugelfischer GmbH

CY16 Royalty Details

Nature of transaction	Amount (Rs.bn)
Fees for use of technology/trademark and capitalised technical services	0.30
Charges for SAP/R3 and connectivity	0.10
Total	0.40

Financials (Rs. bn)

	CY14	CY15	CY16
Net Sales	16.18	17.08	17.90
PBT	2.32	2.94	2.99

Key Highlights:

Chart 1: Royalty compared to Median

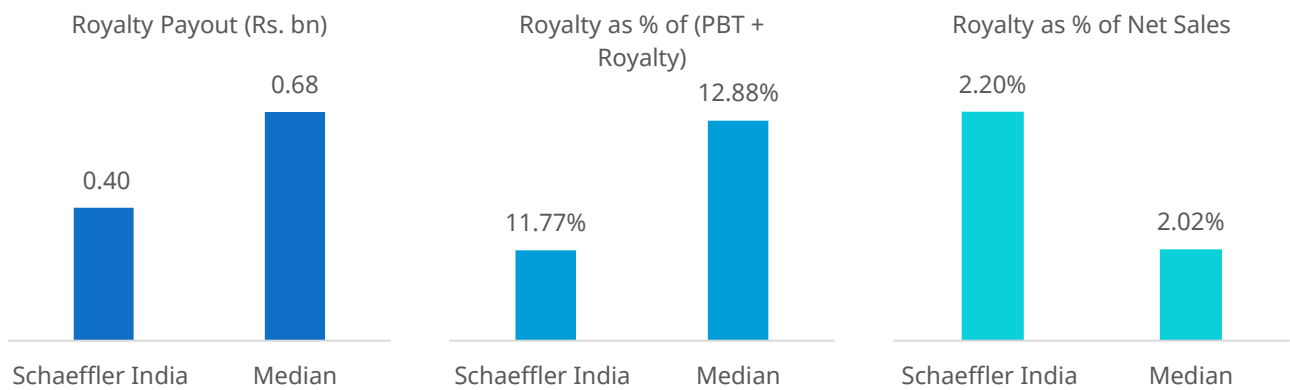


Chart 2: Royalty vs Net Sales and PBT (Normalised)

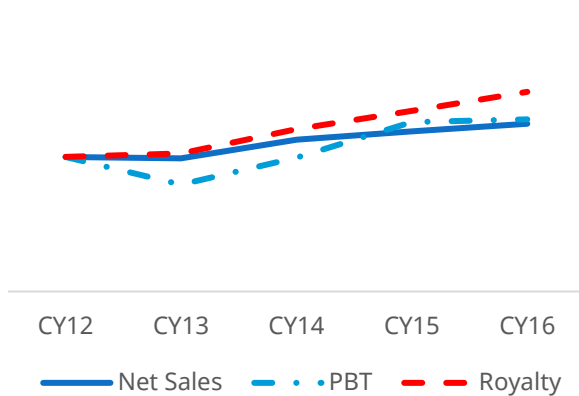
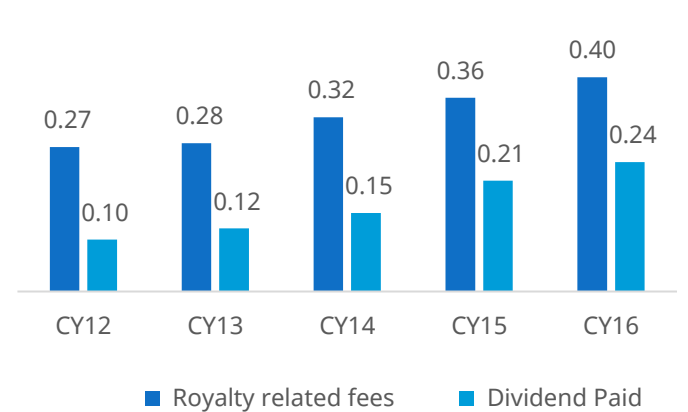


Chart 3: Royalty vs Dividend (Rs.bn)



Schneider Electric Infrastructure Limited

Industry:	Heavy Electrical Equipment
Promoter:	Schneider Electric Singapore Pte. Limited

FY17 Royalty Details

Nature of transaction	Amount (Rs. bn)
Trademark Fee	0.22
Management Support Fee	0.00
Total	0.23

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	13.10	14.03	12.65
PBT	(0.17)	(0.18)	(1.60)

Key Highlights:

Chart 1: Royalty compared to Median

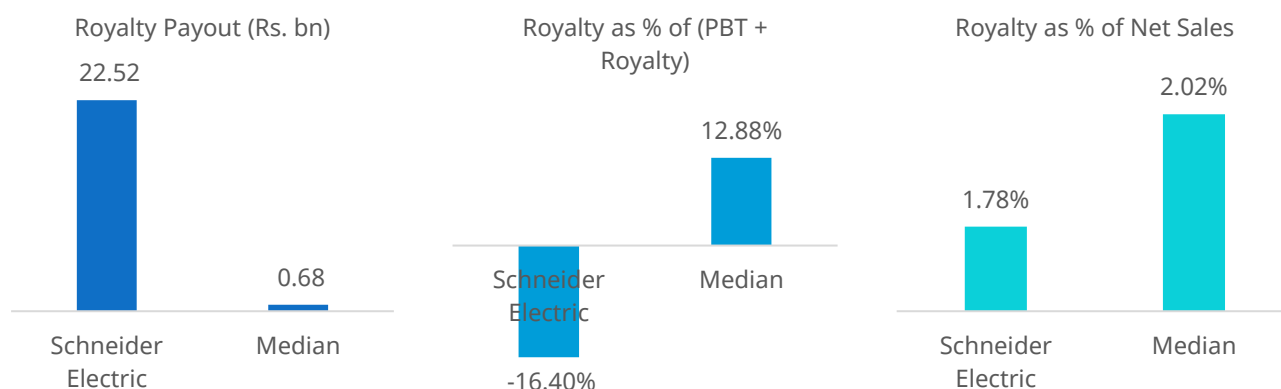


Chart 2: Royalty vs Net Sales and PBT (Normalised)

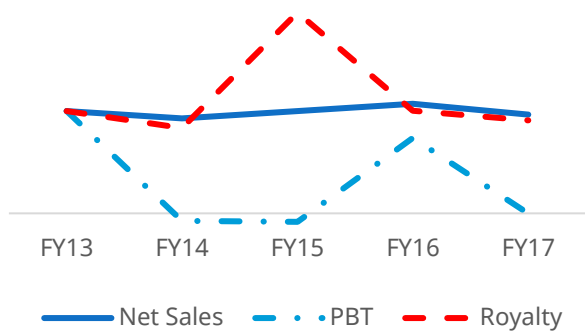
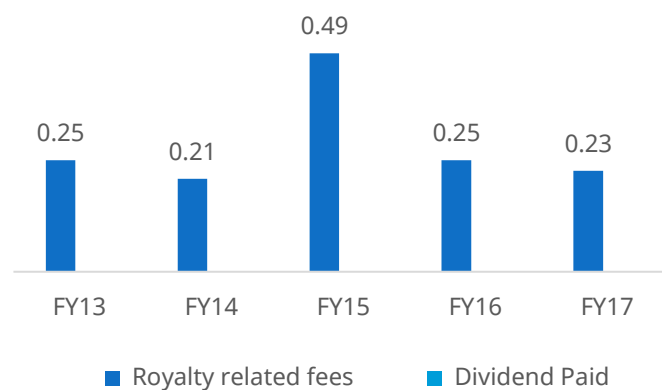


Chart 3: Royalty vs Dividend (Rs. bn)



SKF Limited

Industry:	Other Industrial Goods
Promoter:	AB SKF

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Royalty	0.41
Trade Mark Fees	0.27
Total	0.68

Financials (Rs. bn)

	CY14	15 months ended 31 Mar'16	FY17
Net Sales	23.52	29.97	26.31
PBT	3.06	3.94	3.76

Key Highlights:

Chart 1: Royalty compared to Median

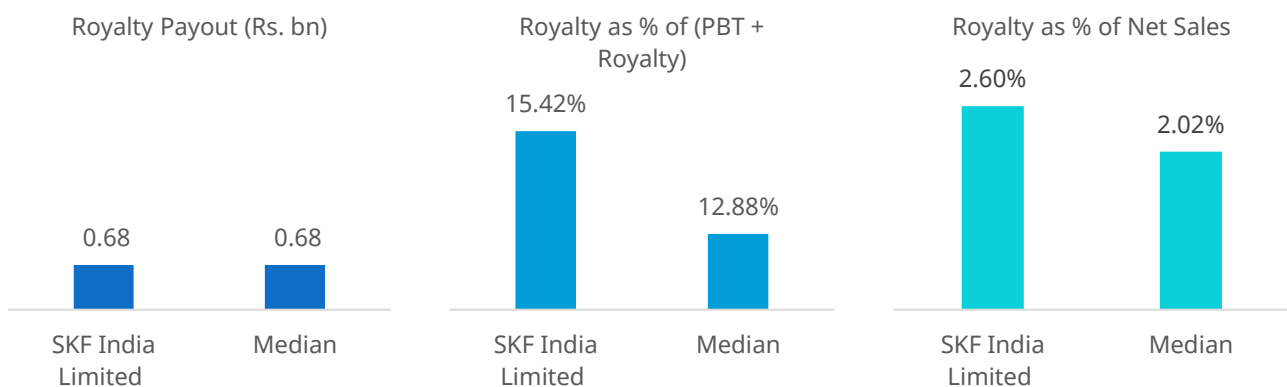


Chart 2: Royalty vs Net Sales and PBT (Normalised)

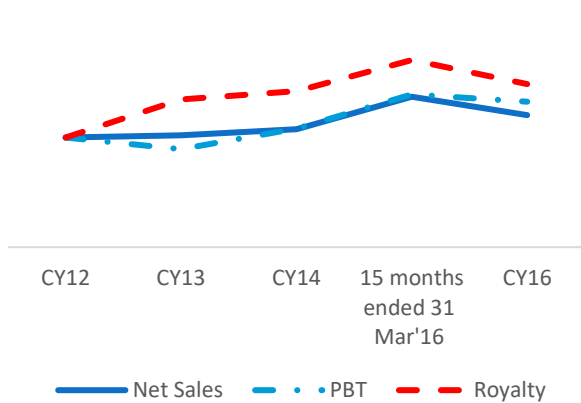
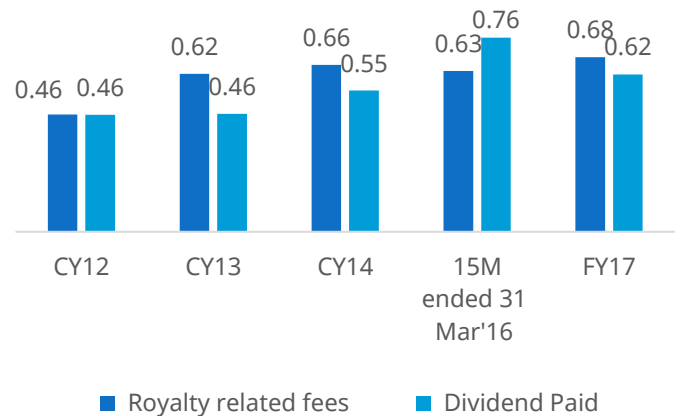


Chart 3: Royalty vs Dividend (Rs. bn)



Timken India Limited

Industry:	Industrial Machinery
Promoter:	The Timken Company

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Royalty	0.21
Total	0.21

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	9.29	10.51	10.56
PBT	1.22	1.42	1.38

Key Highlights:

Chart 1: Royalty compared to Median

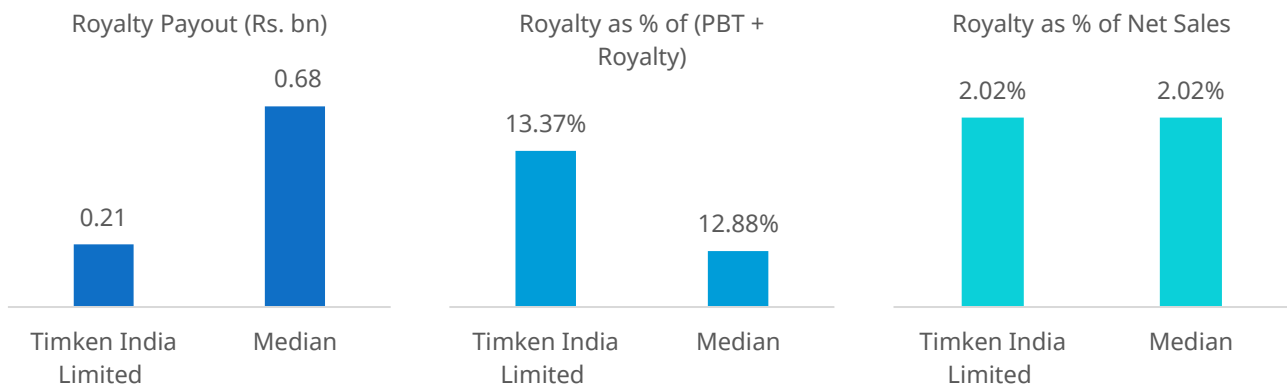


Chart 2: Royalty vs Net Sales and PBT (Normalised)

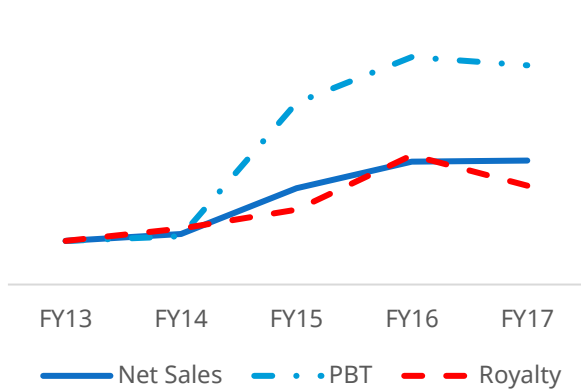
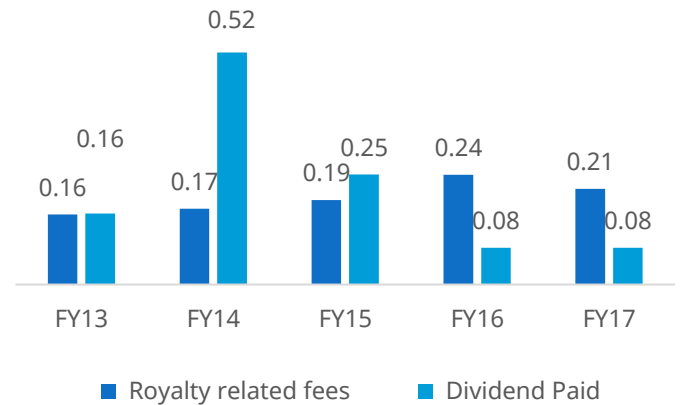


Chart 3: Royalty vs Dividend (Rs. bn)



Wabco India Limited

Industry:	Auto Parts & Equipment
Promoter:	WABCO Holdings Inc

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Royalty fees	0.60
Fees for technical services	0.20
Total	0.80

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	13.48	18.33	20.68
PBT	1.77	2.70	3.01

Key Highlights:

Chart 1: Royalty compared to Median

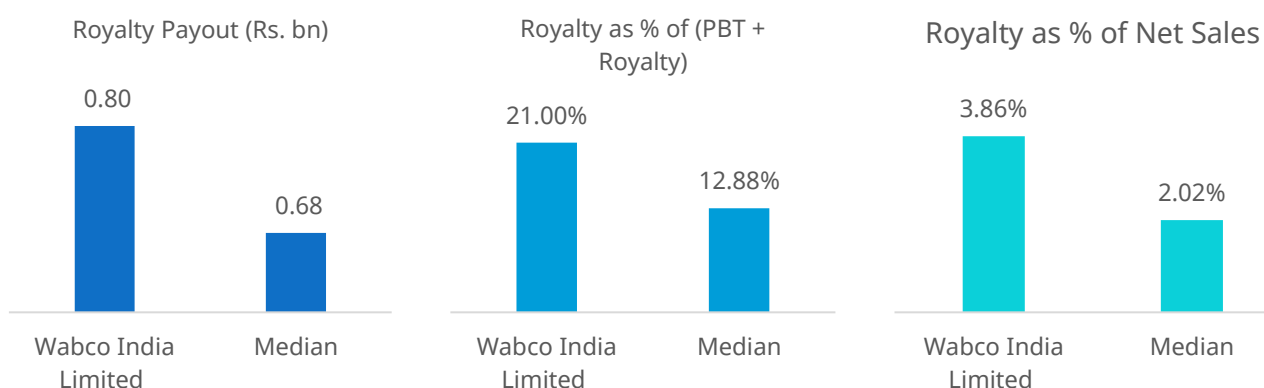


Chart 2: Royalty vs Net Sales and PBT

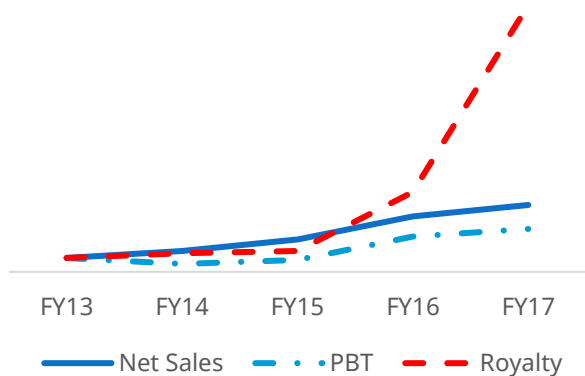
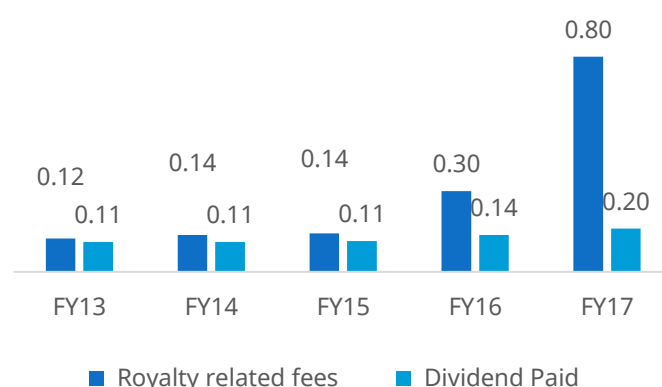


Chart 3: Royalty vs Dividend (Rs. bn)



Note: In FY16 and FY17, WABCO India Limited sought shareholder approval for related party transactions which included royalty payments. This is a step in the right direction – giving shareholders a say with regards to royalty. However, we voted AGAINST in both years as the quantum of transactions proposed was not specified.

Whirlpool of India Limited

Industry:	Consumer Electronics
Promoter:	Whirlpool Corporation

FY17 Royalty Details

Nature of transaction	Amount (Rs.bn)
Royalty Fee	0.23
Technical know-how fee	0.16
Total	0.39

Financials (Rs. bn)

	FY15	FY16	FY17
Net Sales	32.94	34.40	39.41
PBT	3.01	3.56	4.69

Key Highlights:

Chart 1: Royalty compared to Median

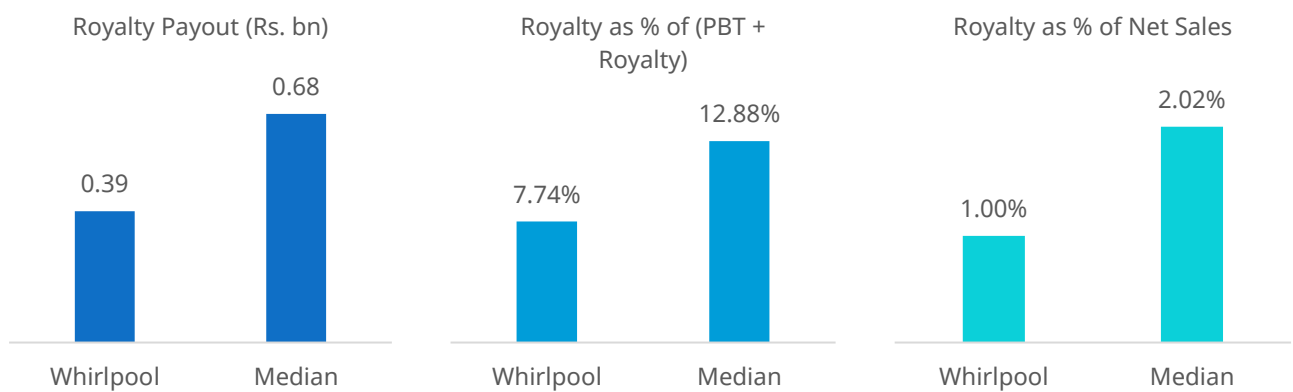


Chart 2: Royalty vs Net Sales and PBT (Normalised)

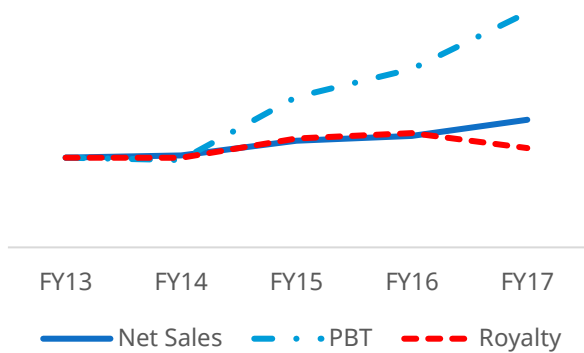
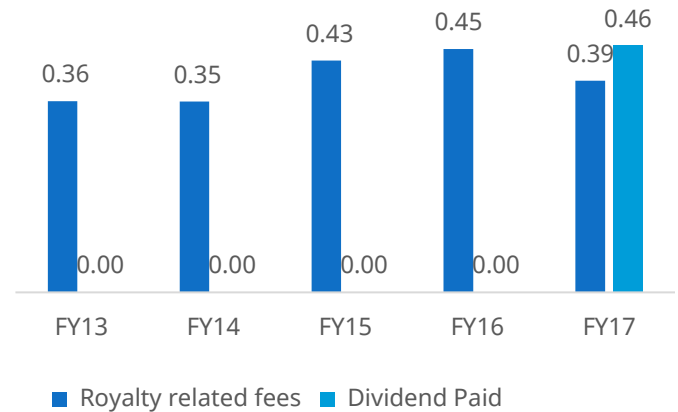


Chart 3: Royalty vs Dividend (Rs.bn)



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