

# **DRAFT BOARD REMUNERATION AND NOMINATIONS COMMITTEE CHARTER (Based on external and internal best practices)**

## **1. Objectives of the Remuneration and Nominations Committee**

- 1.1 The Remuneration and Nominations Committee (the "Committee") of the Board of Directors (the "Board") of Tata Autocomp Systems Limited (the "Company") shall discharge the Board's responsibilities to shareholders, the investment community and other stakeholders with respect to (i) recommending to the board the remuneration to each director; (ii) setting the performance standards, budgets and targets for the Executive team of the Company; (iii) setting the compensation policy and structure for Directors Executive team/ key managerial personnel and performance bonuses structure (annual and long-term) of the Company. (iv) overseeing the Company's Human Resources and People strategy; (v) Identifying independent Directors *and Wholetime Directors* to be inducted to the Board (considering the criteria as laid down in the Listing Agreement and Companies Act, 2013) and take steps to refresh the composition of the Board from time to time *with the objective of ensuring that there is an optimum balance of size, skills, independence, knowledge, diversity and experience.* (vi) *Annually review rotation of Committee memberships.* (vii) *Devise a policy on Board Diversity.* (ix) *Support the Board in appointment of Executive team/ key managerial personnel of the Company.* (x) *Oversight of talent management and succession planning for Board and key managerial personnel.* (xi) *Support the Board in setting, reviewing and monitoring the performance standards and targets for the MD, TGEO and Executive team/ key managerial personnel of the Company.*(xii) *Support the Board in evaluation of the performance of the Board, its Committees and Directors.* (xiii) *Recommendation of the remuneration for Directors and Executive team/ key managerial personnel of the Company.*

To recommend nomination for Chairmanship & memberships of various committees viz. Audit Committee, Shareholder and Investor Grievance Committee, Remuneration & Nomination Committee, Corporate Social Responsibility Committee, Executive Committee etc functioning under the Board Of Directors of TATA AutoComp Systems Limited; and performing such other duties and responsibilities as may be consistent with the provisions of this charter.

- 1.2 The Committee will report periodically to the Board on its activities.

## **2. Appointment**

- 2.1 The Committee will be appointed by the Board and will serve at the Board's discretion
- 2.2 The Members of the Committee will be appointed by the **board** on the recommendation of the Committee.

## **3. Composition**

- 3.1 The Committee shall comprise of a minimum three non executive directors as members out of which minimum 50% should be Independent Directors in case of a listed Company under the Companies Act.
- 3.2 The Chairman of the Committee shall be an independent director, elected from amongst the members of the Committee.
- 3.3 The Chairman of the Company shall be a permanent member of this Committee during his tenure of Chairmanship on the Board but he shall not be entitled to become Chairman of the Committee. For all other members of the Committee, maximum term shall be 2 terms of three years each.

#### 4. **Meetings and quorum**

- 4.1 The Committee shall meet at least two times in a year and not more than six months shall elapse between any two meetings.
- 4.2 The Committee may invite such of the executives, as it considers appropriate to be present at the meetings of the committee.
- 4.3 The Head of Human Resources for the Company shall act as the secretary to the Committee.
- 4.4 *A detailed agenda, together with supporting notes and documents, should be circulated, at least 3 working days prior to each meeting to the members of the Committee and other invitees.*
- 4.5 *The minutes of each meeting must be recorded, circulated to the members of the Committee, and approved either before or at the next Committee meeting.*
- 4.6 The quorum for the Committee meetings shall be two-thirds of the members of the Committee. However, at least one independent member must be present.

#### 5. **Authority and Powers**

- 5.1 The Committee shall have the powers:  
To investigate any activity within the scope of this Charter or referred to it by the Board. To seek any information or explanation from any employee or director of the Company. To ask for any records or documents of the Company.

To engage independent consultants and other advisors and seek their advice. The Committee shall have the sole authority to retain and terminate all services of any Consultant and shall have the sole authority to approve the Consultant's fees and other terms & conditions.

#### ***5.2 Review of HR Strategy, Philosophy and Practices:***

- i. Review the efficacy of HR practices such as talent management, succession planning for key positions and leadership development (including for promotion to the Board).*
- ii. Review remuneration philosophy and policy.*

- iii. Review any changes that might affect the terms and conditions of appointment, including remuneration, of the Managing Director (“MD”), TGEO and key managerial personnel/ Executive Team.

**1. *Board Composition and Succession:***

- a. Assess and recommend the appropriate size and composition of the Board and its Committees with the objective of ensuring an optimum balance of skills, independence, knowledge, diversity and experience.
- b. Identify persons who could become Board members. To meet the objectives of driving diversity and an optimum skill mix as well as reducing reliance on external consulting firms, it is advised that the Committee seek the support of the TGEO on the potential list of Board Members.
- c. Review the CVs of the potential Board members vis-à-vis the required competencies.
- d. Meet and interact with potential Board members prior to making recommendations of their nomination to the Board.
- e. Make recommendations to the Board in relation to the appointment of new Board members/ re-appointment of existing Board members.
- f. Review the appointment contracts drawn for Non-Executive Directors.
- g. Ensure that the terms and conditions of appointment of Directors are made available for inspection, if needed.
- h. Support the Board in identification of an appropriate Managing Director. This would entail responsibility for driving the succession planning process for the Managing Director position.
- i. Support the management in filling-up key Executive Team positions by inviting appropriate members of the Board to participate in the selection process.
- j. Participate in the process of appointment of key managerial personnel/ Executive Team members.

**5.4 *Board Evaluation:***

- a. Support the Board, as may be required, in facilitation of the evaluation of the Board and its Committees (Annexure 1 and 2 respectively provides an indicative list of aspects to be assessed).
- b. Organize annual evaluation of the individual Directors (Annexure 3 provides indicative aspects that may be considered for evaluation of Non-Executive Directors).

- c. *Establish/ review goals and performance matrix for the MD, ED and Executive Team/ key managerial personnel. These goals should have a balance of quantitative and qualitative parameters and should balance the long term and short term outcomes. If the company is utilizing the Balanced Scorecard model, the goals should be in line with the Balanced Scorecard.*
- d. *Conduct a year-end performance review of MD, TGEO and key managerial personnel based upon the extent to which the established goals have been met and provide timely feedback to these individuals. This review shall be done based on a mutually agreed, predetermined format for performance reporting. (Annexure 4 provides an illustrative template for reporting performance)*

#### ***5.5. Board Remuneration:***

- a. *Define the principles, guidelines and process for determining the remuneration (sitting fees and commission) to the Non-Executive Directors of the Company will be as per the guidelines approved by the NRC of TACO*
- b. *The remuneration for the MD and the TGEO members will be decided by the NRC.of TACO.*
- c. *Recommend to the Board, retirement benefits to be paid to the MD.*
- e. *Recommend the remuneration policy for the Executive Team/ key managerial personnel as well as the rest of the employees as per the guidelines approved by NRC.*

#### **6. Responsibilities**

The responsibilities of the Committee shall be the following :

##### **6.1 Relating to the Company:**

- i. Provide guidance and direction to the managing director in developing and implementing the reward philosophy of the Company.
- ii. Evaluate & approve the Company's remuneration plan, annual salary increase principles and stock option, policies & programs such as succession planning, employment agreements, severance agreements, and any other benefits.
- iii. Review progress on the Company leadership development programs, employee engagement initiatives and employee surveys.
- iv. Evaluate issues pertaining to the appointment and remuneration payable to senior executives.

- v. Evaluate terms & conditions relating to the Annual and Long Term Incentive Plans of the Company, including plan design, supervision and payouts.
- vi. Consider & approve matters relating to Normal retirement plans, Voluntary Retirement & Early Separation Schemes for employees of the Company.
- vii. Evaluate the terms and conditions for induction of independent Directors to the Board and review the processes to refresh the composition of the Board and its Committees.
- viii. Such other matter as the Board may from time to time request the Committee to examine & recommend or approve.

**6.2 Relating to the Performance and Remuneration of the MD, TGEO and the Executive Team:**

- i. Establish key performance metrics to measure the performance of the Managing Director and the executive team including the use of financial, non-financial and qualitative measures.
- ii. Evaluate executive team performance regularly to strengthen the cumulative annual assessment and to provide timely feed-back to the assessed individuals.
- iii. Developing a view on the human resources capability in the business by periodically engaging with levels below the executive team.
- iv. Identify and recommend persons / executives who are qualified to become Directors, and who may be appointed in senior management positions in accordance with the criteria laid down, and evaluate their performance for elevation to Board level positions, *including their* appointment, *re-appointment* or removal. While evaluating and recommending appointment of individuals, the Committee shall consider the balance between functional and business unit representatives. (Sec 178(2))
- v. Review and recommend to the Board the remuneration & commission to the managing and executive directors.

**6.3 Relating to the Performance and Remuneration of the Non-executive Directors:**

- 1) Define the principles, guidelines and process for determining the payment of commissions to non-executive directors of the Company.

2) Assist the Board in fulfilling its corporate governance responsibilities relating to non-executive directors' remuneration.

**6.4 Relating to the induction of Independent Directors and the composition of the Board and its Committees, Key Managerial Personnel and other employees :**

Formulate the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board the remuneration for such directors, key managerial Personnel and other employees.

**6.5 Other functions :**

i) Perform other activities related to this Charter as requested by the Board of Directors.

ii) The Committee may form sub-committees and delegate authority to them when appropriate.

iii) Carry out additional functions as required by other regulatory requirements applicable to the Company or in the terms of reference of the Committee.

**7. Reporting**

7.1 The Committee will periodically report to the Board on various matters that it has considered.

7.2 The Annual Report of the Company shall disclose the composition of the Committee, brief description of the scope of the Committee Charter, names of members, Chairperson, meetings and attendance.

**8. Compensation**

8.1 Members of the Committee shall receive such sitting fees and / or commission, if any, for their services as Committee members as may be determined by the Board in its sole discretion.

**9. Evaluation**

9.1 The Committee shall conduct an annual self-evaluation of its performance and report the result to the Board of Directors.

It shall confirm annually to the Board that the responsibilities outlined above have been carried out.

**10. Review of Remuneration Committee Charter**

10.1 The adequacy of this Charter shall be reviewed and reassessed by the *Committee*. Appropriate recommendations shall be made to the Board, (based on changes that may be brought about to the regulatory framework or otherwise) from time to time to update the Charter.

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### Annexure 1: Board evaluation – Sample questionnaire template

This questionnaire has been designed to evaluate the Board. Every question would need to be evaluated on a 5 point scale as given below.

<b>Strongly disagree</b> 1	<b>Neither agree nor disagree</b> 2 3	<b>Strongly Agree</b> 4 5
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The questionnaire also provides for space for qualitative comments.

<b>I. Degree of fulfilment of key responsibilities – The Board....</b>	
<i>.... satisfactorily meets the key criteria for long term value creation for all stakeholders (as established by the Board and specific to the Company strategy)</i>	
<i>.... effectively performs the responsibilities as required by law (i.e. as provided in Act and Clause 49)</i>	
<i>.... effectively reviews and approves the Annual Operating Plan (including the strategy and the resources plan)</i>	
<i>.... shows effective oversight of maintenance of high standards of Tata Values and ethical conduct of business</i>	
<i>....devotes sufficient time in review of TBEM findings and monitoring of action plan</i>	
<i>....takes adequate actions towards the protection and enhancement of the company and Tata brand</i>	
<b>Comments:</b>	
<b>II. Board structure and composition – The Board....</b>	
<i>....is staffed adequately (in terms of size, skills/ expertise, experience and gender) to carry out the responsibilities</i>	
<i>....has a composition of directors aligned to the needs and strategy of the company</i>	
<b>Comments:</b>	

<b>III. Establishment and delineation of responsibilities to committees</b>	
<i>The Board committees established by the Board are effective in terms of their number and scope</i>	
<i>There is clarity between the Board and every committee with respect to the role played by the committee</i>	
<i>The committees are effective in fulfilment of responsibilities delegated to them by the Board</i>	
<i>There is good coordination and cohesiveness in the working of the Board and the committees</i>	
<b>Comments:</b>	
<b>IV. Effectiveness of Board processes, information and functioning</b>	
<i>The frequency of Board meetings is adequate</i>	
<i>The agenda discussed in the meetings is clear and realistic in terms of number and nature of items to be covered</i>	
<i>Time allotted for every meeting is adequate to cover most of the agenda items</i>	
<i>Information provided for the meeting is adequate and presented in a way that facilitates productive discussion (i.e. material is relevant with the right amount of detail and is “reader-friendly”)</i>	
<i>Information required for the meeting is provided with adequate time for preparation</i>	
<i>Sufficient time is spent in discussing critical issues/ issues of strategic importance</i>	
<i>The Board does not wander into unwanted minutiae or tangents while discussing agenda items</i>	
<i>The Board is able to add value in matters of critical significance for the company</i>	
<i>Discussions/ decisions made in the meeting show a large degree of alignment</i>	

<i>with the overall company strategy</i>	
<i>The minutes of the meeting effectively capture the discussion / decisions taken and the post meeting actions</i>	
<i>There is an effective system for monitoring and driving closure of critical post meeting actions/ decisions.</i>	
<b>Comments:</b>	
<b>V. Board Culture and Dynamics</b>	
<i>All directors have clarity of their role and responsibilities</i>	
<i>All directors feel free to speak their mind and contribute effectively on key issues</i>	
<i>There is cohesiveness in the overall working of the Board</i>	
<i>There is adequate dialogue and participation from directors on critical issues/ issues of strategic importance</i>	
<i>Conflict/ differences of opinion between directors are managed constructively</i>	
<i>Directors are respectful to each other</i>	
<b>Comments:</b>	
<b>VI. Quality of relationship between the Board and the Management</b>	
<i>There is clarity between the Board and the management with respect to the role played by each of them</i>	
<i>Board members are accessible to senior management employees and vice-versa</i>	
<i>Adequate opportunities are availed by the Board to be exposed to the company's management and to understand the company's products and operations</i>	
<i>The management shows a high degree of responsiveness to the guidance/ direction provided by the Board.</i>	
<i>The Board is apprised in a timely manner by the management of important developments affecting the company</i>	

<i>There is mutual trust between Board members and senior management</i>	
<b>Comments:</b>	
<b>VII. Efficacy of communication with external stakeholders</b>	
<i>The Board is adequately involved in communication with various external stakeholders/ public constituencies such as the media, financial community, employees, shareholders, agents, franchisees, dealers, distributors and importers</i>	
<i>The Board (where involved) is effective in communication with various external stakeholders/ public constituencies</i>	
<b>Comments:</b>	

**Overall Comments**

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## Annexure 2: Board committee – Sample questionnaire template

This questionnaire has been designed to evaluate the committee. Every question would need to be evaluated on a 5 point scale as given below.

<b>Strongly disagree</b> 1	<b>Neither agree nor disagree</b> 2 3	<b>Strongly Agree</b> 4 5
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The questionnaire also provides for space for qualitative comments.

<b>I. Degree of fulfillment of key responsibilities</b>	
<i>The committee effectively performs the responsibilities as outlined in the charter</i>	
<i>The mandate of the committee is sufficient in addressing the objectives for which it was set up by the Board</i>	
<b>Comments:</b>	
<b>II. Adequacy of Committee Composition – The committee....</b>	
<i>....is staffed adequately (in terms of size, skills/ expertise, experience) to carry out the responsibilities</i>	
<b>Comments:</b>	
<b>III. Effectiveness of meetings</b>	
<i>The frequency of committee meetings is adequate</i>	
<i>The agenda discussed in the meetings is clear and realistic in terms of number and nature of items to be covered</i>	
<i>Time allotted for every meeting is adequate to cover most of the agenda items</i>	
<i>Information provided for the meeting is adequate, timely and presented in a way that facilitates productive discussion (i.e. material is relevant with the right amount of detail and is "reader-friendly")</i>	
<i>Sufficient time is spent in discussing critical issues/ issues of strategic importance</i>	
<i>The committee does not wander into unwanted minutiae or tangents while discussing agenda items</i>	
<i>Appropriate balance is maintained in analyzing the past, discussing current issues and planning for future</i>	

<i>Discussions/ decisions made in the meeting show a large degree of alignment with the overall company strategy</i>	
<i>There is an effective system for monitoring and driving closure of critical post meeting actions/ decisions</i>	
<b>Comments:</b>	
<b>IV. Committee dynamics</b>	
<i>All members have clarity of their role and responsibilities</i>	
<i>All members feel free to speak their mind and contribute effectively on key issues</i>	
<i>There is cohesiveness in the overall working of the committee</i>	
<i>There is adequate dialogue and participation from members on critical issues/ issues of strategic importance</i>	
<i>Conflict/ differences of opinion between members are managed constructively</i>	
<i>Members are respectful to each other</i>	
<b>Comments:</b>	
<b>V. Quality of relationship of the committee with the Board and the management</b>	
<i>There is clarity between the Board, management and committee with respect to the role played by the committee</i>	
<i>There is good coordination and cohesiveness in the working of the Board, management and the committee</i>	
<i>Committee members are accessible to senior management employees</i>	
<i>Adequate opportunities are availed by the committee to be exposed to the company's management and to understand the company's products and operations</i>	
<i>The Board and the management shows a high degree of responsiveness/ acceptance of the guidance/ direction provided by the committee</i>	
<b>Comments:</b>	

\* Applicable for Audit Committee, Nomination & Remuneration Committee, Executive Committee and any additional Committee as per the Board's discretion.

**Annexure 3: Individual director (excl Chairman) – Sample self-assessment questionnaire template**

*This questionnaire has been designed to enable self-assessment by every individual director. Every question would need to be evaluated on a 5 point scale as given below.*

<b>Strongly disagree</b> 1	<b>Neither agree nor disagree</b> 2 3	<b>Strongly Agree</b> 4 5
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<b>Individual Director Effectiveness – Self Assessment</b>	<b>&lt;Name of Director&gt;</b>
<b>I. Attendance (captured from records of meetings)</b>	
<b>II. Contribution at meetings</b>	
<i>I am well informed of the agenda and well prepared on the issues to be discussed</i>	
<i>I provide meaningful and constructive contribution and inputs in meetings</i>	
<i>I display independence of judgment</i>	
<i>I display candor in expressing views even when they are in divergence with the rest of the Board</i>	
<i>I have built effective working relationships with other Board members</i>	
<b>III. Guidance/ support to management outside Board/ Committee meetings</b>	
<i>I am accessible to the senior management of the company and have built effective working relationships with them</i>	
<i>I provide a good degree of direction/ guidance to senior management outside of meetings</i>	
<i>I display initiative with respect to follow-up and closure of critical issues</i>	
<i>I display a good degree of understanding of the company, industry, sector, geography (including risks, current operational and environmental context, emerging trends)</i>	
<i>I am proactive in efforts to gain knowledge about the company,</i>	

<b>Individual Director Effectiveness – Self Assessment</b>	<b>&lt;Name of Director&gt;</b>
<i>industry, sector and geography</i>	

**Annexure 4: Indicative template for recording goals for MD/ TGEO/ BU Heads**

	Objectives	TGEO	Ajay	Deepak	Arvind	Harish	HR head
			Weightage				
A	<u>Financial Target</u>						
B	<u>Customer &amp; Growth Goals</u>						
C	<u>Internal Process Goals</u>						
D	<u>People Goals</u>						
F	<u>Total</u>		0%	0%	0%	0%	0%

**Annexure 6a (Ref. Sec 197(12) of Companies Act, 2013)**

a) Total number of permanent employees on the rolls of the company: \_\_\_\_\_

b) Median remuneration of the employees of the company (INR): \_\_\_\_\_

c) Percentage increase in median remuneration of the employees of the company

Median Remuneration of employees (Year Before)	Median Remuneration of employees (Current year)	Percentage change (%)

d) Ratio of remuneration of each director to the median remuneration of the employees of the company

S.No.	Name of Director	Director Type (MD/ TGEO/ NINED/ ID/ Nominee/ Alternate)	Overall Remuneration of Director	% change in Remuneration over last financial year	Ratio of remuneration for each director to median remuneration of employees of the company

e) Percentage increase in remuneration of each Director, Chief Financial Officer, Chief Executive Officer, Company Secretary or Manager, if any, in the financial year

S.No	Name of Director/ Key Managerial Personnel	Designation (In case of Board Member, mention Director)	Director Type	Overall Remuneration	% change in Remuneration over last financial year
			(MD/ TGEO/ NINED/ ID/ Nominee/ Alternate)  For Non-Director, mention NA		

f) Company performance indicators

Parameter	Value

Change Market capitalization* over last financial year	
Change in P/E multiple over last financial year	
Change in Stock price** at the end of financial year over stock price, at time of last public offer	

**\*Market capitalization** – Total market capitalization to be considered and not on a free-float basis

**\*\*Stock price** – In case company is listed on multiple stock exchanges, it can make the disclosure either basis stock price at all exchanges or by using the quotations on the exchange where the volume traded on the last day of the financial year was highest

**g) Relationship between average increase in remuneration and company performance**

Average change in remuneration over last financial year (%)	Company Performance over last financial year		
	% change in Market Capitalization	% change in P/E ratio	% change in Stock price
<b>Explanation on the above relationship</b>			

**h) Comparison of the remuneration of the Key Managerial Personnel against performance of the Company**

S.No	Name of Key Managerial Personnel	Designation	Overall Remuneration	% change in Remuneration over last financial year	Company Performance Over last financial year		
					% change in Market Capitalization	% change in P/E ratio	% change in Stock price

**i) Comparison of remuneration increase – Managerial positions vs. other employees**

a. Average percentile increase in remuneration of Managerial positions - \_\_\_\_\_

b. Average percentile increase in remuneration of other employees - \_\_\_\_\_

*c. Explanation, in case of exceptional circumstances for increase in Managerial positions –*

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*j) Key parameters for any variable component of remuneration availed by directors (for example- Commission, Long term incentive, etc.)*

*k) Ratio of the remuneration of the highest paid director to that of the employees who are not directors but receive remuneration in excess of the highest paid director during the year*

*Remuneration of highest paid Director: \_\_\_\_\_*

<b>S.No</b>	<b>Name of Employee</b>	<b>Designation</b>	<b>Overall Remuneration</b>	<b>Ratio</b>

*I hereby affirm that the remuneration being paid is as per the remuneration policy of the Company.*

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*(Signatory Authority)*

**Annexure 6 b**

S. No	Name	Designation	Nature of Employment (Contractual / otherwise)	Qualifications	Experience (Years)	Date of Joining	Age	Name of previous employer	Remuneration (INR)	% of Equity shares held*	Any related director of the company
											Name

\*Note: Holds by self/ spouse/ dependent children not less than 2% of the equity shares of the company



# Remuneration Policy

Remuneration policy for Directors, Key Managerial Personnel and other employees

The philosophy for remuneration of directors, Key Managerial Personnel (“KMP”) and all other employees of <Name of Tata company> (“company”) is based on the commitment of fostering a culture of leadership with trust. The remuneration policy is aligned to this philosophy.

This remuneration policy has been prepared pursuant to the provisions of Section 178(3) of the Companies Act, 2013 (“**Act**”) and Clause 49(IV)(B)(1) of the Equity Listing Agreement (“**Listing Agreement**”). In case of any inconsistency between the provisions of law and this remuneration policy, the provisions of the law shall prevail and the company shall abide by the applicable law. While formulating this policy, the Nomination and Remuneration Committee (“**NRC**”) has considered the factors laid down under Section 178(4) of the Act, which are as under:

*“(a) the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors of the quality required to run the company successfully;*

*“(b) relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and*

*“(c) remuneration to directors, key managerial personnel and senior management involves a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the working of the company and its goals”*

Key principles governing this remuneration policy are as follows:

• **Remuneration for independent directors and non-independent non-executive directors**

- Independent directors (“ID”) and non-independent non-executive directors (“NED”) may be paid sitting fees (for attending the meetings of the Board and of committees of which they may be members) and commission within regulatory limits.
- Within the parameters prescribed by law, the payment of sitting fees and commission will be recommended by the NRC and approved by the Board.
- Overall remuneration (sitting fees and commission) should be reasonable and sufficient to attract, retain and motivate directors aligned to the requirements of the company (taking into consideration the challenges faced by the company and its future growth imperatives).
- Overall remuneration should be reflective of size of the company, complexity of the sector/ industry/ company’s operations and the company’s capacity to pay the remuneration.
- Overall remuneration practices should be consistent with recognized best practices.
- Quantum of sitting fees may be subject to review on a periodic basis, as required.
- The aggregate commission payable to all the NEDs and IDs will be recommended by the NRC to the Board based on company performance, profits, return to investors, shareholder value creation and any other significant qualitative parameters as may be decided by the Board.
- The NRC will recommend to the Board the quantum of commission for each director based upon the outcome of the evaluation process which is driven by various factors including attendance and time spent in the Board and committee meetings, individual contributions at the meetings and contributions made by directors other than in meetings.
- In addition to the sitting fees and commission, the company may pay to any director such fair and reasonable expenditure, as may have been incurred by the director while performing his/ her role as a director of the company. This could include reasonable expenditure incurred by the director for attending Board/ Board committee meetings, general meetings, court convened meetings, meetings with shareholders/ creditors/ management, site visits, induction and training (organized by the company for directors) and in obtaining professional advice from independent advisors in the furtherance of his/ her duties as a director.

• **Remuneration for managing director (“MD”)/ executive directors (“ED”)/ KMP/ rest of the employees<sup>1</sup>**

<sup>1</sup> Excludes employees covered by any long term settlements or specific term contracts. The remuneration for these employees would be driven by the respective long term settlements or contracts.

- The extent of overall remuneration should be sufficient to attract and retain talented and qualified individuals suitable for every role. Hence remuneration should be
  - Market competitive (market for every role is defined as companies from which the company attracts talent or companies to which the company loses talent)
  - Driven by the role played by the individual,
  - Reflective of size of the company, complexity of the sector/ industry/ company's operations and the company's capacity to pay,
  - Consistent with recognized best practices and
  - Aligned to any regulatory requirements.
- In terms of remuneration mix or composition,
  - The remuneration mix for the MD/ EDs is as per the contract approved by the shareholders. In case of any change, the same would require the approval of the shareholders.
  - Basic/ fixed salary is provided to all employees to ensure that there is a steady income in line with their skills and experience.
  - In addition to the basic/ fixed salary, the company provides employees with certain perquisites, allowances and benefits to enable a certain level of lifestyle and to offer scope for savings and tax optimization, where possible. The company also provides all employees with a social security net (subject to limits) by covering medical expenses and hospitalization through re-imbursements or insurance cover and accidental death and dismemberment through personal accident insurance.
  - The company provides retirement benefits as applicable.
  - [In addition to the basic/ fixed salary, benefits, perquisites and allowances as provided above, the company provides MD/ EDs such remuneration by way of commission, calculated with reference to the net profits of the company in a particular financial year, as may be determined by the Board, subject to the overall ceilings stipulated in Section 197 of the Act. The specific amount payable to the MD/ EDs would be based on performance as evaluated by the Board or the NRC and approved by the Board.]<sup>2</sup>
  - [In addition to the basic/ fixed salary, benefits, perquisites and allowances as provided above, the company provides MD/ EDs such remuneration by way of an annual incentive remuneration/ performance linked bonus subject to the achievement of certain performance criteria and such other parameters as may be considered appropriate from time to time by the Board. An indicative list of factors that may be considered for determination of the extent of this component are:
    - Company performance on certain defined qualitative and quantitative parameters as may be decided by the Board from time to time,
    - Industry benchmarks of remuneration,
    - Performance of the individual.]<sup>3</sup>
  - The company provides the rest of the employees a performance linked bonus. The performance linked bonus would be driven by the outcome of the performance appraisal process and the performance of the company.

#### • Remuneration payable to Director for services rendered in other capacity

The remuneration payable to the Directors shall be inclusive of any remuneration payable for services rendered by such director in any other capacity unless:

- a) The services rendered are of a professional nature; and
- b) The NRC is of the opinion that the director possesses requisite qualification for the practice of the profession.

#### • Policy implementation

The NRC is responsible for recommending the remuneration policy to the Board. The Board is responsible for approving and overseeing implementation of the remuneration policy.

<sup>2</sup> To be retained if Commission is provided to MD/ EDs

<sup>3</sup> To be retained only if Commission is not provided to MD/ EDs



# **Advisory Note: Non-Executive Director Remuneration**

Advisory for sitting fees and commission for Non-Executive  
Directors

## 1. Introduction

This document (“Advisory Note”) serves as an advisory for payment of sitting fees and commission to directors based on current and emerging best practices from both within and outside Tata companies<sup>4</sup>. The document has been written from an Indian perspective and prepared keeping in view the provisions of the Companies Act, 2013 (“Act”) and the corporate governance requirements as prescribed by Securities and Exchange Board of India (“SEBI”) under Clause 49 of the Equity Listing Agreement (“Clause 49”). In case of any inconsistency between the provisions of law and this Advisory Note, the provisions of the law shall prevail and the company shall abide by the applicable law. In case there are any changes in the law, companies will have to comply with the applicable amended provisions.

## 2. Principles

The principles governing sitting fees and commission are as follows:

- Overall remuneration (sitting fees and commission) should be reasonable and sufficient to attract, retain and motivate directors aligned to the requirements of the company (taking into consideration the challenges faced by the company and its future growth imperatives).
- Overall remuneration should be reflective of size of the company, complexity of the sector/ industry/ company’s operations and the company’s capacity to pay.
- Overall remuneration practices should be consistent with recognized best practices.
- The extent of remuneration should be as per the prescribed law.
- Quantum of sitting fees may be subject to review on a periodic basis, as required.

## 3. Sitting Fees

- The quantum of sitting fees payable per meeting is to be approved by the Board of directors (“Board”), based on the recommendation of the Nomination and Remuneration Committee (“NRC”), and shall remain applicable unless modified in the future by the Board based on the recommendation of the NRC.
- As per the Rule 4 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, “A company may pay sitting fee to a director for attending meetings of the Board or committees thereof, of such sum per meeting as may be decided by the Board but ***which shall not exceed Rupees one lakh per meeting of the Board or committee thereof: Provided that for independent directors and women directors, the sitting fee shall not be less than the sitting fee payable to other directors.***”
- While determining the quantum of sitting fees payable, the Board may consider the quantum of such fees paid in the past and follow a staggered approach for increasing the quantum upto the prescribed limit.
- In case of Tata companies that currently and in the foreseeable future do not have adequate profits to pay commission (in the judgment of their respective Boards), it is suggested that quantum of sitting fees balance the need to attract the right caliber of directors and the company’s capacity to pay. The Board of such a company (supported by the NRC) may determine sitting fees such that the total annual remuneration payable to each director (eligible for sitting fees) amounts to at

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<sup>4</sup> For the purpose of this document, a “Tata company” shall mean Tata Sons Limited and every company of which Tata Sons Limited or Tata Industries Limited or any company promoted by Tata Sons Limited or Tata Industries Limited is the promoter or in which such companies whether singly or collectively hold directly or indirectly 26% or more of the paid-up equity share capital or in which the shareholding of such companies represents the largest Indian holding apart from holdings of financial institutions/ mutual funds or a company which is permitted by Tata Sons Limited to use the Tata brand/ name.

least Rupees six lakhs and does not exceed Rupees twelve lakhs. In case the Board (supported by the NRC) is of the view that the total annual remuneration payable to each director must exceed Rupees twelve lakhs, the matter would be referred to the NRC of the parent/ holding company for consideration/ approval. The range of annual remuneration provided herein are subject to review at least once in every 3 years by the Board (supported by the NRC).

- However, it is recommended that the per meeting sitting fees payable to current employees of Tata companies who are non-executive directors (“NED”) other than woman directors on Boards of Indian Tata companies not exceed Rs.20,000.
- Sitting fees may vary for Board meetings and various committee meetings. Same amount of sitting fees per meeting may be considered for Board meetings, Audit Committee meetings and NRC meetings.
- The Board and committees should meet as often as it is necessary in the best interest of the company. Normally, we have observed that the frequency of meetings are typically as follows:
  - Board meetings: 4-8 in a year
  - Audit Committee: 6-8 in a year
  - Nomination and Remuneration Committee: 3-4 in a year
  - Committee of the Board: 6-8 in a year
  - Other Committees: 1-3 in a year

However, it is the Board/ committee’s discretion to have more frequent meetings, if so required.

- If any Board / committee meeting is held solely for approving a procedural matter, the directors present may, at their entire discretion, resolve not to take any sitting fee for that meeting.

#### **4. Commission**

- The payment and computation of commission will be governed by guidelines issued in the past in this regard.