

Payback Time For CEOs

BT businessstoday.in/magazine/cover-story/ceos-indias-highest-paid-ceos-head-honchos-c-p-gurnani-a-m-naik-aditya-puri-ceo-salaries/story/279485.html

A peek into the whys and hows of CEO compensation in the country

Sonal Khetarpal New Delhi Print Edition: July 15, 2018



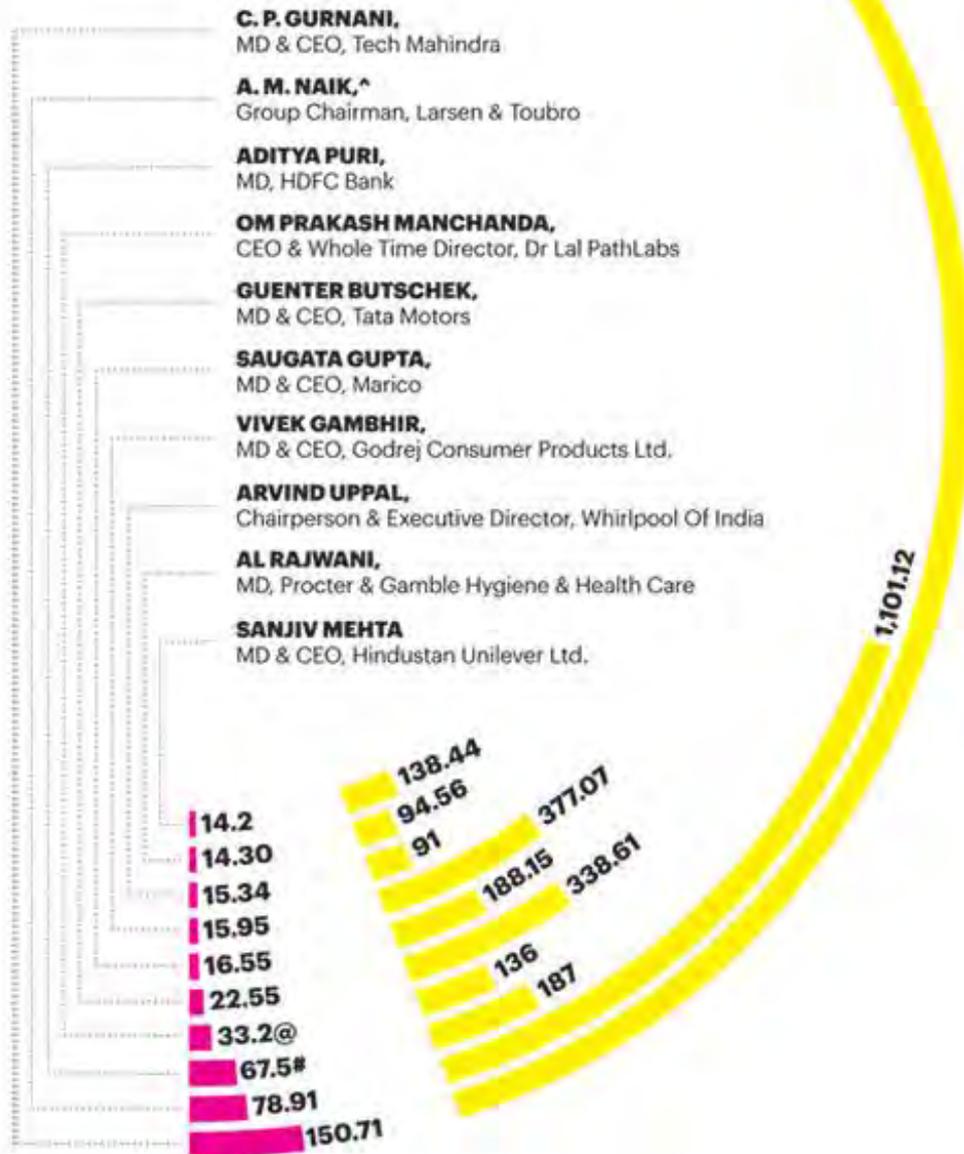
A palpable mystique and aura pervades the corner office. Its occupants are at the wheel, often biting the bullet and taking paramount decisions. They take the flak for failures but also walk away with the honours when things go as planned, sometimes acquiring cult status. Think Jack Welch, Bill Gates, Steve Jobs. And, at home, Dhirubhai Ambani, N.R. Narayana Murthy, K.V. Kamath, Deepak Parekh.

Superstar CEOs spawn fast-growing and hugely profitable corporations, racking up immense wealth for their shareholders. They are rewarded handsomely for their efforts and waltz into the league of the super rich. Business Today's India's Highest Paid CEOs survey tosses up several such success stories. Head honchos, both promoters and professionals, who have assiduously built profit-spewing businesses over the years and are raking in mind boggling remuneration. Some of them already have a halo and their stories are a part of corporate lore. Sunil Mittal, Aditya Puri and A.M. Naik, among others. Some others may not be as well known yet but are on the threshold of entering the big league. Arvind Poddar, Sanjay Agarwal, Vivek Gambhir, et. al. Our study also puts the spotlight on the latest trends in CEO remuneration in India as companies scramble to find the right fit for the top job.

C.P. Gurnani, MD & CEO at Tech Mahindra, is the highest-paid professional CEO in corporate India, taking home Rs150.7 crore in 2016/17. His package grew by a whopping 233 per cent, up from Rs45.36 crore in 2015/16. A.M. Naik, Group Chairman of Larsen & Toubro (L&T) who recently hung up his boots, had a remuneration of Rs78.9 crore, growing 19.3 per cent over the previous year. Aditya Puri, MD at HDFC Bank and the third highest-paid professional CEO, saw a more than 100 per cent jump in his package, from Rs31.50 crore to Rs67.5 crore.

*3,537.72

TOP TEN HIGHEST PAID PROFESSIONAL EXECUTIVES



● Total remuneration 2016/17 (₹ crore) ● Ratio of director remuneration to median employee remuneration

These individuals are titans, taking their companies on an unprecedented growth trajectory over the years. Gurnani's biggest contribution is turning around scam-tainted Satyam Computer and successfully integrating it with Tech Mahindra. Naik transformed L&T into a global engineering and technology powerhouse. And Puri is credited with building India's largest private sector bank in terms of assets. HFDC Bank also has the highest market capitalisation in the banking

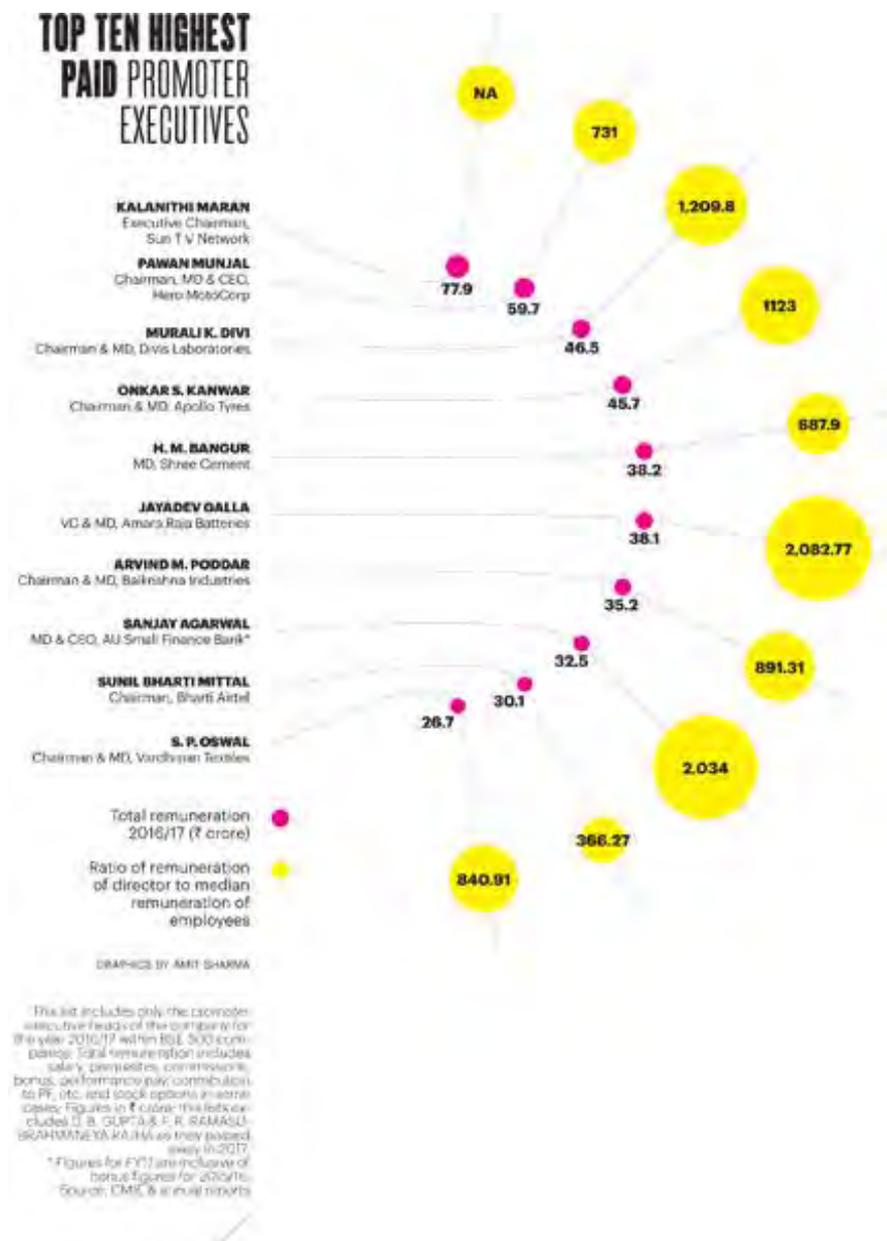
sector - it crossed Rs5 lakh crore early this year and is currently at Rs5.4 lakh crore. But has the recent jump in their remuneration kept pace with company performance?

Tech Mahindra's revenue grew over 10 per cent in 2016/17 while profits dipped 4 per cent. HDFC Bank's net profit rose by 18.3 per cent.

The rise in CEO remuneration, then, doesn't appear to reflect company performance. But there is more than meets the eye. A closer look reveals that the actual increase in remuneration is marginal.

These CEOs have encashed the company stocks they hold, leading to a jump in their take home. Gurnani, for instance, exercised stock options worth Rs42.98 crore in 2015/16 and another Rs147.17 crore in 2016/17. The rise in his fixed pay was only marginal, from Rs1.61 crore to Rs2.4 crore.

The same holds for Puri, whose remuneration of Rs67.5 crore includes stock options worth Rs57 crore, given to him earlier. Naik's compensation includes not only ESOPs (Rs19.01 crore) granted to him over the past several years by a subsidiary company, but also retirement benefits of around Rs38.04 crore. These trends don't really show a high correlation between CEO remuneration and actual performance of companies but one thing is obvious: CEO packages are no longer about fixed pay but wealth creation. "CEOs take pride in the entire value building process," says K. Sudarshan, MD of global executive search firm, EMA Partners.



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Indeed, the trends in CEO remuneration in India mirror what's happening globally. For instance, Elon Musk, CEO at Tesla, has been promised a mind-boggling \$2.6 billion pay package. But there are no free lunches. Musk will be able to create such wealth for himself only if he is able to achieve incredible growth rates for the company year after year. The target for him is to lift Tesla's market value to \$650 billion, 11

times its current levels, if he wishes to earn the entire promised package. Similarly, Indian-born Nikesh Arora, who recently joined as the CEO of cyber security firm Palo Alto Networks, is one of the highest paid CEOs in the US. Arora earns \$128 million, out of which \$126 million are equity awards, half of which will vest if the shares more than double and the remaining part is linked to his staying with the company.

In India too, CEO salaries are increasingly getting linked to the value they create for the businesses they are handling. Saugata Gupta, MD & CEO of the Rs6,322 crore Marico, is the highest paid FMCG CEO (Rs16.55 crore). So, what's the logic behind Gupta earning more than the Hindustan Unilever CEO Sanjiv Mehta (Rs14.2 crore)? "The mandate given to Saugata would be to transform Marico into an FMCG behemoth. He will be part of the entire value creation process, hence the premium in his salary. Compensation wont be as important in the HUL CEO's case as he is already heading a globally established business," explains the MD of an executive search firm.



Paul Dupuis,
MD and CEO,
Randstad India

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The median increase in the salary of the top 10 highest-paid executives of India Inc is at 9.2 per cent. In the last six years, a 15.5 per cent annualised increase in

shareholder value of the top 100 companies by market cap corresponded to a 17.5 per cent annualised increase in emoluments of executive heads. "While profitability and revenue have been under pressure, the confidence in Indian corporates have led to high (PE) multiples which has led to high realised compensation for CEOs through stock linked programmes," points out Anubhav Gupta, Director, Consulting, Aon Hewitt.

The top 10 highest-paid executives among the BSE 500 companies include seven promoter executives: Kalanithi Maran, Chairman, Sun TV Network; Pawan Munjal, Chairman, MD & CEO, Hero MotoCorp; Murali K. Divi, Chairman & MD, Divis Laboratories; Onkar S. Kanwar, Chairman & MD, Apollo Tyres; H.M. Bangur, Chairperson & MD, Shree Cement; Jayadev Galla, Vice-Chairman & MD, Amara Raja Batteries; and Arvind M. Poddar, Chairman & MD, Balkrishna Industries. The roster of highest earning CEOs also includes three professional CEOs: C.P. Gurnani, A.M. Naik and Aditya Puri.

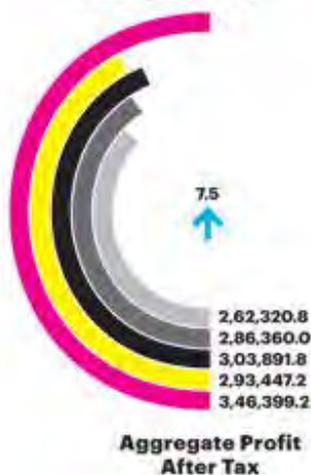
A market like India has tremendous growth opportunities and no one wants to miss the bus. But, at the same time, the uncertain economic environment has slowed down the India growth story.

AGGREGATE TOTAL REMUNERATION OF EXECUTIVE HEADS OF TOP 100 COMPANIES BY MARKET CAPITALISATION



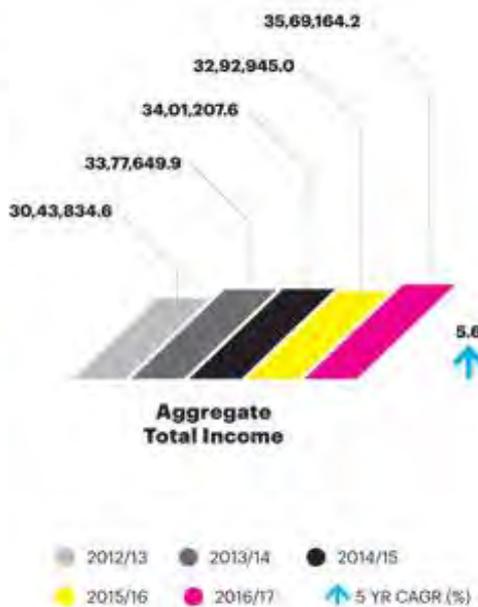
Aggregate Total Remuneration

Source: Figures in ₹ crore



Aggregate Profit After Tax

in ₹ crore. Aggregate financials based on standalone numbers. Total remuneration includes salary, perquisites, commissions, bonus, performance pay, contribution to PF and stock options in some cases. Source: CME



Aggregate Total Income

2012/13 2013/14 2014/15 2015/16 2016/17 5 YR CAGR (%)



Aggregate Market Capitalisation

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The need of the hour is to have business leaders who can grow the business in difficult and uncertain times.

Companies are moving towards long term performance based remuneration to ensure the top bosses have their skin in the game, says Sonu Iyer, Partner & Leader, India People Advisory Services, EY. They are looking beyond

short term profitability and focusing on long term value creation.

Pay for Performance

The median increase in the salary of the top 10 promoters in 2016/17 is 8.6 per cent. An increasingly large number of promoter CEOs have a significant variable pay component, a key emerging trend.

Traditionally, promoter salaries have not shown a strong correlation with company performance. Promoter CEOs till recently took home a large fixed salary and had been rather unapologetic about it. "Over the last few years, salary reporting norms have come up, the figures are publicly available and are scrutinised in media. Therefore, now there is a better linkage between their remuneration and company's performance," points out Paul Dupuis, MD and CEO at human resource consulting firm Randstad India.

In fact, Mukesh Ambani, Chairman and Managing Director of Reliance Industries and the richest Indian, has capped his salary at Rs15 crore per annum since 2009 to set a precedent of moderation in managerial compensation. Still, he is eligible for a hefty dividend on his company shareholding. The other promoter CEOs of India Inc seemed to have taken Ambanis move rather seriously. Apollo Tyres Onkar Kanwar (at number seven in the overall list of top paid executives) took a cut in 2016/17. His remuneration declined from Rs53.27 crore in 2015/16 to Rs45.7 crore in 2016/17 after the company's standalone net profit dipped 20 per cent. Amara Rajas Jayadev Galla (at number nine in overall top paid executives) also took a cut - his remuneration reduced to Rs38 crore from Rs39.26 crore when the company's net profit dipped 3 per cent.

SECTORS THAT PAY THEIR CEOs THE MOST

Sectors	Average Total Compensation	SALARY COMPONENTS		
		Fixed	Bonus	Long term incentives
IT/ ITES	7,40,05,560	39%	26%	35%
Manufacturing	6,95,59,510	46%	22%	31%
FMCG	8,07,35,267	49%	23%	28%
BFSI*	6,83,86,477	40%	30%	30%
Pharma	5,48,99,082	52%	24%	24%

*Includes Banking, NBFC and Insurance
Source: Aon Executive Compensation Database
Companies with LTI Plan were considered. Average total compensation of professional CEOs from 66 organisations.

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Indeed, the lion's share of the promoter CEOs salary today is non-guaranteed pay (earlier it was the fixed component).

The only

exception is Bharti Airtel's Sunil Mittal, whose entire remuneration is a fixed pay of Rs30.1 crore. Sun TV's Kalanithi Maran (at number 3 in the overall list), on the other hand, became richer in 2016/17 because of his variable pay component. Out of his total remuneration of Rs77.9 crore, Rs64.7 crore was bonus.

Galla of Amara Raja Batteries believes that the promoter CEOs have the right to take home a higher salary. "This is a fair approach for all promoter-directors because we have a long term view and will not sacrifice long-term growth for short-term results." Gallas remuneration is divided into two parts - a salary of around Rs2 crore and the balance by way of commission (share in net profit of the company). Navnit Singh, Chairman and MD of India at management consulting firm Korn/Ferry International agrees. "Indian promoters are much more deeply involved in their company than their counterparts in the developed economies. It's their money on the block hence they usually have higher salaries," he says.

However, for promoters, compensation doesnt have much meaning as they pocket substantial dividends, says Kris Lakshmikanth, Chairman & CEO of The Head Hunters India. Another senior executive of an HR firm said that promoters might be taking risk-based pay but their organisations have also figured out several other ways to reward them, such as by creating subsidiaries or new companies, so that it doesn't get recorded in the balance sheet.

Professional CEOs

In the roster of highest-paid professional CEOs of India Inc, four of them are from the FMCG industry (Saugata Gupta of Marico, Vivek Gambhir of Godrej Consumer Products, AI Rajwani of P&G and Sanjiv Mehta of HUL). Interestingly, the CEOs of both the promoter-owned companies (Marico and Godrej) take home higher salaries than those of P&G and even HUL. "Most Indian businesses have created significant shareholder wealth and that is reflected in their CEO salary. In the case of MNCs, if not locally listed, their India business performance has very little bearing on their stock performance," explains Sudarshan of EMA Partners.

With Indian promoter-run companies becoming large entities, the owners are unable to run it alone. To sustain the growth momentum, they are willing to pay a premium to their professional CEOs. Vivek Gambhir, MD at Godrej Consumer, for instance, was brought in 2009 from Bain & Company as the Chief Strategy Officer for the Godrej Group. He was made MD in 2014 and has since then played a huge role in carving out the company's international growth.

Companies are trying to ensure that CEOs get involved in the long-term value creation process. The idea here is to ensure that the CEO has higher accountability and stays with the company.

Boards, therefore, are turning to longer-term CEO remuneration vehicles such as stock options, restricted stock and longer term performance awards. In the last few years, CEOs are being awarded through stocks while fixed pay and annual bonuses have been conservative. "The rationale is to put more compensation at risk so that the rewards are aligned with the company's performance," says Ronesh Puri, MD at headhunting firm Executive Access.

The median increase in the remuneration of the top 10 professional CEOs in 2016/17 has been 8.4 per cent. According to Aon Hewitt, almost 60 per cent of CEO remuneration now come from variable components. Long term and short term incentives were hardly 40 per cent of the total remuneration some five years ago.

Consider the example of India's top paid executive. C.P. Gurnani took home Rs150.71 crore but almost Rs147 crore came from stocks - some 24 lakh of these stock options were granted in January 2011 and another 6 lakh in January 2014. He joined Tech Mahindra in 2005 and is credited for the transformation of the company from a pure, telecom-centric firm into an IT major. Due to the increasing focus on stock options there are wide fluctuations in CEO remuneration year-on-year depending on when they get vested and when they are exercised. For instance, the package of HDFC Bank's Puri includes abundant stock options. The remuneration of Marico's MD surged 105 per cent, from Rs8.06 crore in fiscal 2015/16 to Rs16.5 crore in 2016/17 because he encashed his stocks.



K. Sudarshan,
Managing
Partner, EMA
Partners India

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This trend is only going to gather momentum, say experts, as it is considered an effective tool to retain top talent. Companies that are growing rapidly and are performance-

oriented offer a high percentage of non-guaranteed pay, says Paul Dupuis, MD & CEO, Randstad India. "The focus on the performance of a CEO is paramount and often includes a vertical accelerator which means the more the CEO achieves the set targets, the more he/she can make," he says.

Many Indian companies, points out Dupuis, are becoming multinational companies. "As they bring in the best talent from outside, they have to commensurate the pay with what they are making and also have to align the package to the lopsided salary structuring mechanism of having more pay in the form of performance based bonus."

In fact, the trend is stronger among Indian promoter run companies (such as Godrej, Airtel and Marico). Indian promoter-led companies don't have the brand equity of MNCs and to attract high quality CEOs they will have to offer more. "Also, there is a risk involved of not being able to 'fit into' the culture and work with the promoter. So such companies have to sweeten the CEO package, sometimes going all out," says Suresh Raina, MD at Hunt Partners, a leadership talent advisory firm.

In fact, it is also in such cases that signing bonus and/or severance pay comes into play as a risk mitigation strategy, points out Raina. "Signing bonus is used to cover the loss incurred by the executives if they have to give up the bonus or incentive by leaving the company ahead of time," he says. Similarly, severance bonus has always been there but as top jobs are not aplenty, CEOs use severance package as an insurance to protect their interest in case they are asked to leave the company prematurely, adds Raina.

The life of CEO search companies though is becoming increasingly difficult, points out Sudarshan of EMA-Partners. "If a company wants to hire a CEO and the candidate is already sitting on stocks / options that are not vested in his existing company, the challenge

for the hiring company will be not to just match the upside from the stocks as well as give him/her an increase. Sometimes, these numbers are too high and it is outpriced in the market," says Sudarshan. There is a talent shortage too, points out Puri of Executive Access, of finding the right candidate. "Finding a CEO is like water, water everywhere, not a drop to drink," he says.

Most companies, especially the promoter driven companies, are going the extra mile to keep their professional CEOs motivated. "Pre-requisites such as house, cars, servants, club memberships, children's education, health benefits and family vacation have become common. Sometimes there are flamboyant demands too," says James Agarwal, MD at BTI Consultants, an executive search firm. He talks about a CEO who wanted to work from the US for 15 days, twice a year, and wanted the company to bear his travel expenses and not count it as leave.

Are Indian CEOs Overpaid?

According to a Bloomberg report, CEOs of listed Indian companies earn 229 times more than the average workers. India is ranked at the second position, right after the US. Similarly, data from top 500 BSE listed companies shows that while the employee cost has remained constant in the last one year, director compensation has shot up more than two times. "Automation, technology adoption are helping the companies maintain the headcount, but the total salary expense is still increasing because of the hikes given to senior leaders, in line with global trends," says Raina of Hunt Partners.

Amara Raja's Galla for instance, earns 2,082 times the median salary of an employee in the company, while Airtel's Mittal gets 366 times. Naik of L&T earns 1,101 times that of an employee while at the tail end is Arvind Uppal, Chairman at Whirlpool, who earns 91 times.

Does this mean that Indian CEOs are overpaid? A large majority of HR experts do agree that CEO remuneration structure is indeed going over the top. "What we really need is not to keep the top boss happy but also put in governance mechanisms to ensure there is no excessive risk involved for short term profitability gains," says Gupta of Aon.

"Compensation should be structured to promote innovation, sustainable institution building and value creation for all stakeholders of the firm and not just investors". There is always a debate around a package offered to a CEO. This has gained momentum in the US especially after the 2008 economic crisis. However, as more Indian companies achieve global scale, professional CEOs have to be brought in to create value and they will have to be made a part of the value creation process. In fact, Indian CEOs still earn much lesser than their global counterparts. The average pay of a CEO in India is \$1.5 million while in the US it is at \$14.25 million, says a Bloomberg report. Sky-rocketing packages in the country are definitely here to stay.

With data inputs from Niti Kiran; Additional reporting by Ajita Shashidhar

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