



Stakeholders Empowerment Services

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# Proxy Advisory Report Azad Engineering Ltd.

## ABOUT SES

Stakeholders Empowerment Services (SES) is a Corporate Governance research and advisory firm. SES assists investors to analyze governance practices including matters relating to sustainability, prevalent at listed entities and empower Investors to undertake meaningful engagement with Investee entities.

## SES SERVICES

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## COMPANY INFORMATION

**BSE CODE:** 544061

**NSE SYMBOL:** AZAD

**ISIN:** INE02IJ01035

**Industry:** Heavy Electrical Equipment

**Email:** [cs@azad.in](mailto:cs@azad.in)

**Phone:** 040-23097007

**Registered Office:** 90/C, 90/D, Phase 1, IDA, Jeedimetla, Hyderabad, Telangana- 500055, India

## MEETING DETAILS

**Meeting Type:** EGM

**Meeting Date:** 28<sup>th</sup> January, 2025 at 04:00 PM

**Venue / Mode of Meeting:** Video Conferencing (VC) facility or other audio-visual means (OAVM)

**Notice Date:** 6<sup>th</sup> January, 2025

**Notice:** [Click here](#)

**Annual Report:** [FY 2023-24](#)

**SES PA Report (Last AGM):** [Report](#)

## E-VOTING DETAILS

**e-Voting Platform:** [KFintech](#)

**Cut-off Date:** 20<sup>th</sup> January, 2025

**Remote E-voting:**

- **Start:** 22<sup>nd</sup> January, 2025
- **Ends:** 27<sup>th</sup> January, 2025

**REPORT RELEASE DATE:** 20<sup>th</sup> January, 2025

**Research Analyst:** Prajesh Sachdeva

**Conflict Disclosure:** SES - No Conflict | Analyst - No Conflict

**Interaction with the Company -** No Interaction

PROXY ADVISORY REPORT | FOR LIMITED CIRCULATION



**AGENDA ITEMS AND RECOMMENDATIONS**

S. No	Resolution	Type	SES Observation <sup>#</sup>	Rec.	Rationale
1	Issuance of Securities of the Company through Permissible Modes of Fund Raising.	S	LC   GC	<u>AGAINST</u>	<i>Excessive dilution; No justification for not opting Rights Issue; No urgent need of funds.</i>
2	To consider and approve the appointment of Mr. Murali Krishna Bhupatiraju as the Managing Director and to fix his remuneration.	S	LC   GC	<u>AGAINST</u>	<i>Excessive Proposed Remuneration &amp; Board's discretion to vary terms</i>
3	To consider and approve the appointment of Mr. Deepak Kabra as Independent Director (Non-Executive) of the Company.	S	LC	<u>FOR</u>	<i>No concerns identified</i>
4	To increase the borrowing limit of the company under section 180(1)(c) of the Companies act, 2013.	S	LC   GC	<u>AGAINST</u>	<b>Governance Concern:</b> <i>Majority of the borrowing limit is unutilized and absence of specific reasons for the proposed increase.</i>
5	To approve mortgage/ pledge /hypothecate /create charge on the assets of the company under section 180(1)(a) of the companies act, 2013.	S	LC   GC	<u>AGAINST</u>	<b>Governance Concern:</b> <i>Interlinked with resolution 4.</i>
6	To consider and approve an employee stock option scheme formulated in accordance with the securities and exchange board of india (share based employee benefits and sweat equity) regulations, 2021 and other applicable laws.	S	NC	<u>AGAINST</u>	<i>Disclosures not in line with SEBI Regulation's requirement Exercise Price and Period not Disclosed</i>
7	To approve the Azad Engineering Limited employee stock option scheme 2024 for eligible employees of group companies, associate companies, subsidiary companies or Azad Prime Private Limited and Azad VTC private limited or holding company.	S	NC   GC	<u>AGAINST</u>	<i>Interlinked with resolution 6</i> <b>Governance Concern:</b> <i>Scheme extends to Associate companies.</i>

O - Ordinary Resolution; S - Special Resolution, Rec. - Recommendation

# LC - Legally Compliant, NC - Legally Non-Compliant, FC - Fairness Concern, TC - Disclosures & Transparency Concern, GC - Governance Concern

**KEY ISSUE**

-  The Company has provided inadequate disclosures with regards to Exercise period, Exercise price, for the given ESOP Scheme.



## RESOLUTION ANALYSIS

### RESOLUTION 1: ISSUE OF SECURITIES

Issuance of Securities of the Company through Permissible Modes of Fund Raising.

S

**AGAINST**

### SES RATIONALE

Compliant with law. **Governance concern:** Excessive dilution; no justification for not opting for Rights Issue. There doesn't appear to be any urgent need of funds.

### SES ANALYSIS

#### OBJECTIVE OF THE ISSUE (AS STATED BY THE COMPANY)

The Company has been exploring opportunities for its growth which would require sufficient resources including funds to be available and to be allocated, from time to time. The generation of internal funds may not always be adequate to meet all the requirements of the Company's growth plans. It would be therefore, prudent for the Company to have requisite enabling approvals in place and also such other corporate purposes as may be permitted under applicable laws and as may be specified in the appropriate approvals. This would also help the Company to take quick and effective action to capitalize on the opportunities, as and when available.

The Company proposes to utilize the proceeds from the offering (after adjustment of expenses related to the offering, if any) at various stages for one or more, or any combination of the following:

- (i) investment in various organic or inorganic growth opportunities, including expansion/acquisitions in its area of operations and adjacencies or for new business opportunities or other strategic initiatives;
- (ii) infusion of funds into its subsidiaries to inter alia fund the business or growth of such subsidiaries;
- (iii) prepayment / repayment of outstanding borrowing of the Company and / or its subsidiaries;
- (iv) to fund the working capital requirements of the Company and / or its subsidiaries;
- (v) capital expenditure (including but not limited to purchase of machines) for the Company and / or its subsidiaries;
- (vi) to fund the capital expenditure to be incurred for any manufacturing facilities being set up or to be set up by the Company and / or its subsidiaries (present or future) in India or overseas and
- (vii) any other general corporate purposes as may be permitted under applicable laws and as may be decided by the Board or the duly constituted committee thereof.

#### DETAILS OF THE ISSUE

**Securities to be issued:** Any instrument or security, including Equity Shares or any other equity linked instruments or securities including convertible preference shares/ fully or partly convertible debentures or by way of a composite issue of non-convertible debentures and **warrants** entitling the warrant holder(s) to apply for equity shares, or any other eligible securities (collectively, the "Securities"), or any combination of Securities.

**Issue Type:** Public issue, preferential allotment, or a private placement (including one or more qualified institutions placements ("QIP") in accordance Chapter VI of the SEBI ICDR Regulations.

**Issue Size:** Up to 1,000 crores (Rupees One Thousand Crores only)

**Issue Price:** At such price that may be decided by the Board in terms of the applicable regulations and as permitted under the applicable laws.



**Eligible investors:** To all or any such investors, jointly and / or severally, that may be permitted to invest in such issuance of Securities, including resident or non-resident / foreign investors (whether institutions and / or incorporated bodies and / or trusts or otherwise) / foreign portfolio investors / mutual funds / pension funds / venture capital funds / banks / Systematically important NBFCs / alternate investment funds / Indian and / or multilateral financial institutions / insurance companies / any other qualified institutional buyers as defined under the SEBI ICDR Regulations (“QIBs”)/ any other category of persons or entities who are authorized to invest in the Securities in terms of applicable law.

#### PAST EQUITY ISSUES

Year	Capital Raised (₹ Crore)	Subscriber	No of shares	Issue price/share (₹)
2023	Rs. 740/-	IPO	<b>14,122,108*</b>	₹524/-

\*Fresh Allotment of 4,580,151 Equity Shares was made whereas 9,541,957 Equity Shares were allotted through Offer for Sale.

#### Further:

(i). The Company Subdivided the face value of its equity shares from ₹ 10 each to ₹ 2 each. Accordingly, the issued and paid-up equity share capital of the Company was sub-divided from 16,51,826 equity shares of ₹ 10 each to 82,59,130 Equity Shares of ₹ 2 each. ([Read more](#))

(ii). Allotment of 4,12,95,650 Equity Shares was made on face value ₹ 2 each as bonus equity shares to eligible shareholders of our Company. ([Read more](#))

(iii). The Conversion of 1,600 CCD held by Piramal Structured Credit Opportunities Fund into 49,78,062 equity shares at INR 321.41 per equity share (including INR 319.41 per share as Securities Premium) in accordance with the terms of the agreements with the CCD holders. ([Read more](#))

#### Dilution to Shareholding:

**Size of the Issue:** Up to Rs. 1,000 crores only

**BSE Current Price (as on 9<sup>th</sup> January, 2025):** ₹ 1,752.10 per share

**Approximate number of shares that may be issued:** ~ 57,07,437 Equity Shares

#### DILUTION TO SHAREHOLDING

Sr. No.	Class of Shareholder	Pre-allotment of shares (As on 6 <sup>th</sup> January, 2025)		Post-allotment of shares	
		No of shares	% of paid up capital	No of shares	% of paid up capital
1.	Promoter	3,89,57,776	65.90	3,89,57,776	60.10
2.	Public	2,01,55,217	34.10	2,01,55,217	31.09
<b>3.</b>	<b>Proposed Issue</b>	-	-	<b>57,07,437</b>	<b>8.80</b>
	Total	5,91,12,993	100	6,48,20,430	100

#### CONFLICT OF INTERESTS

None of the Directors, Key Managerial Personnel or Senior Management of the Company or their relatives is, whether directly or indirectly, concerned or interested, financial or otherwise, in the passing of the aforesaid resolution except to the extent of their shareholding, if any, in Company.

#### OTHER DISCLOSURES

**Compliance with minimum public shareholding norms:** Compliant

**Relevant Date:** The “relevant date” for determination of the floor price of the Equity Shares to be issued shall be:

a) in case of allotment of Equity Shares in a QIP, the date of meeting in which the Board decides to open the proposed issue, and/ or



b) in case of allotment of eligible convertible securities in a QIP, either the date of the meeting in which the Board decides to open the issue of such convertible securities or the date on which the holders of such convertible securities become entitled to apply for the Equity Shares, as may be determined by the Board

**Allotment to promoter group:** The Promoter, Directors, KMPs or Senior Management shall not be eligible to subscribe to the proposed issue of Securities, except in accordance with Applicable Laws.

**In QIP:** No allotment shall be made, either directly or indirectly, to any person who is a promoter or any person related to promoters in terms of the SEBI ICDR Regulations.

**Reservations (in any):** In case of QIP, a minimum of 10% of the Securities shall be allotted to mutual funds and if mutual funds do not subscribe to the aforesaid minimum percentage or part thereof, such minimum portion may be allotted to other QIBs in accordance with the SEBI ICDR Regulations.

**Change in Control:** There would be no change in control pursuant to the said issue of Securities.

## SES VIEW

The Company is seeking shareholders' approval to raise funds through issuance of any instrument or security, including Equity Shares or any other equity linked instruments or securities including convertible preference shares/ fully or partly convertible debentures or by way of a composite issue of entitling the warrant holder(s) to apply for equity shares, or any other eligible securities (collectively, the "Securities"), or any combination of Securities, to all or any such investors, jointly and / or severally, that may be permitted to invest in such issuance of Securities, including resident or non-resident / foreign investors (whether institutions and / or incorporated bodies and / or trusts or otherwise) / foreign portfolio investors / mutual funds / pension funds / venture capital funds / banks / Systematically important NBFCs / alternate investment funds / Indian and / or multilateral financial institutions / insurance companies / any other qualified institutional buyers as defined under the SEBI ICDR Regulations ("QIBs") or any combination of Securities as may be appropriate to persons who may or may not be the existing shareholders through private placement and/ or qualified institutions placement ("QIP") and/ or any other permitted modes at a price to be determined as per the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirement) Regulations, as amended (the "SEBI ICDR Regulations") or as per other applicable rules and regulations, for raising of the funds aggregating up to ₹1,000 crore, or its equivalent in any other currency(ies) under section 42 read with sections 62 and 179 of the Companies Act, 2013, as amended or other applicable laws.

### Shareholders may note the observations made below:

**Warrants:** The Company has also included warrants in the types of securities to be issued. It must be noted that as per the SEBI ICDR Regulations, under the QIPs route only warrants with non-convertible debentures can be issued. Furthermore, if the Company intends to issue Warrants in any other mode, then as per ICDR Regulation, the Company will have to disclose the price or formula for determination of exercise price of the warrants upfront. As the Company has not disclosed the price or pricing formula in case of warrants issue, therefore, the Company cannot issue warrant without NCD without seeking separate shareholders' approval.

### Valuation Report in case of significant dilution:

Although, law requires issue price to be determined as per the valuation report only in cases of preferential issues causing dilution of more than 5% to a single allottee or allottees acting in concern; however, SES, as a policy, is of the view that it is immaterial to the shareholder as to whether the mode of issue is preferential or not. Rather, what affects a shareholder is whether any issue will cause significant dilution or lead to change in control.

SES understands that, the proposed resolution is an enabling resolution, where material terms of issue might be still pending to be determined. Hence, SES is of the view that, Companies should disclose in their explanatory statement that a valuation report will be obtained to determine the issue price, if the issuance of shares, as and when undertaken, will cause a dilution exceeding 5%.

### Valuation Report pursuant to articles:

If the articles of the Company require issue price for a new issue of shares to be determined pursuant to a valuation report, then the Company shall be required to comply with the same whenever a new issue is made pursuant to the proposed approval. Although, no concern has been identified w.r.t. above, however, SES is of the opinion that, the Company should take note of the above observations.



**Potential Dilution and No justification for not opting for Rights issue:**

- Exact dilution to the existing non-participating shareholders pursuant to the proposed issuance cannot be calculated; however, basis above calculation, the potential dilution may reach up to ~8.80% which is on the higher side as per policy of SES.
- SES is of the view that, issue of shares that have a potential to cause significant dilution should be supported with clear and detailed justification.
- While the Company has detailed as to why funds are required, it has not established urgency and also why Rights Issue cannot be made.
- SES is of the view that, existing shareholders should have the first right to participate in any capital issue to avoid dilution unless there are specific pressing reasons to not go for rights issue. Rights issue as mode of fund raising will not result in dilution to shareholding of existing shareholders.
- With the dilution having a potential to reach ~ 8.80%, the explanation should address the reasons behind not going in for rights issue.

In view of significant dilution and no clarity regarding the reason behind not opting for Rights Issue and other concerns as discussed above, SES is raising **governance concern** regarding the proposal for raising of funds.



**RESOLUTION 2: APPOINTMENT OF EXECUTIVE DIRECTOR**

To consider and approve appointment of Mr. Murali Krishna Bhupatiraju as the Managing Director and to fix his Remuneration.

S

**AGAINST**
**SES RATIONALE**

 Compliant with law. **Governance concern:** Proposed remuneration appears to be excessive, Board discretion to vary & amend the terms of proposed remuneration.

**SES ANALYSIS**
**DIRECTOR'S PROFILE**
**Mr. Murali Krishna Bhupatiraju**
**Age:** 55 years

**Full time positions:** Managing Director - Azad Engineering Limited

**Education:** Advanced degrees in Industrial Engineering, Management, and Computer Science.

**Functional Area:** Industry Expertise, Operations Management, Corporate Finance, and Metal Forming

**Past Experience (as stated by the company):** *Mr. Murali Krishna Bhupatiraju is a multi-disciplined executive with holistic approach integrating Engineering, Operations, and Strategy. He is passionate about developing the next generation of manufacturing leaders in India using lean and visual process. He has over 25 years of industry experience in leading companies to identify value opportunities, drive change, and standardize operating systems. He held techno-commercial leadership roles at Bharat Forge America (President & CFO), Dyson Corporation (CFO), and Gerdau Macsteel (General Manager).*
**Committee positions in the Company:** None

**Retirement by rotation:** Retiring

**Director Category (As per SES):** Non-Promoter

**Date of original Appointment:** 3<sup>rd</sup> January, 2025

**Total Association (Including Group):** <1 Month

**Inter-se relationships with other Directors/KMPs:** None

**No. of shares held in the company:** Nil

**Proposed approval:** Appointment of Mr. Murali Krishna Bhupatiraju As the Managing Director and to Fix His Remuneration Thereof

**DIRECTORS' TIME COMMITMENTS**

Name	Full time role/ executive position	Directorships				Total Committee	
		Total	In public entities	In listed entities	As ID in listed entities	Member	Chairman
Statutory Limit	2	20	10	7	7 <sup>#</sup> /3 <sup>*</sup>	10	5
SES Limit	1 <sup>**</sup>	20	10	5	5 <sup>#</sup> /3 <sup>*</sup>	6	3
<b>Murali Krishna Bhupatiraju</b>	1	1	1	1	0	0	0

 Note: Committee memberships include Committee chairmanships (includes only Audit Committee and Stakeholders Relationship Committee), Total Directorships include Directorships in Public as well Private Companies | <sup>\*\*</sup>2 full-time positions, in case of subsidiary and related business

<sup>#</sup> If Director is Non-Executive Director across all listed entities. | <sup>\*</sup> If Director is Executive Director in any listed entity

**REMUNERATION PACKAGE OF MURALI KRISHNA BHUPATIRAJU**

Component	Proposed Remuneration	Comments
Basic Pay	Proposed Salary: ₹ 2,00,00,073 P.a. (inclusive of all allowances/benefits/perquisites and exclusive of any) form of reimbursement of expenses incurred on behalf of the Company	



	Annual increment: Not Disclosed	
Perquisites/ Allowances	All perquisites/allowances clearly defined: Not Disclosed Total perquisites/allowances: As mentioned above	Cap placed on perquisites/allowances: Yes
Variable Pay	1,73,430 ESOPs at face value.	Performance criteria disclosed: No Cap placed on variable pay: Yes Performance evaluation based on ESG factors: No
Notice Period Severance Pay	Not Disclosed	
Minimum Remuneration	<i>In the event of loss or inadequacy of profit in any financial year during the currency of tenure of services of Mr. Murali Krishna Bhupatiraju , the payment of salary, perquisites and other allowances shall be governed by the limits prescribed under Section II of Part II of Schedule V of the Companies Act, 2013</i>	Within limits prescribed: Yes  Includes variable pay: Yes

#### SES VIEW ON PROPOSED REMUNERATION OF EXECUTIVE DIRECTORS

The Company has stated that Apart from the above remuneration the director will also be entitled for:

- (i). 1 (one) new car (or equivalent) the cost of which does not exceed Rs. 60,00,000 with driver, including fuel, car insurance, repair and maintenance charges.
- (ii) One Time joining fee of INR 49,95,518/- (Forty-Nine Lakhs Ninety-Five Thousand Five Hundred Eighteen Only).

The company has stated that the director will be granted equity shares 1,73,430 as per the ESOP scheme of the company. However, shareholders may note that the company is Non-compliant w.r.t. the given scheme. ([Read more](#))

#### SES VIEW

The Company is seeking shareholders' approval for Appointment of **Mr. Murali Krishna Bhupatiraju** as the Managing Director for a term of 5 years, liable to retire by rotation, w.e.f. 3<sup>rd</sup> January, 2025 till 2<sup>nd</sup> January, 2030 and to fix his remuneration thereof.

No concerns have been identified w.r.t. the Profile and time commitments of the director.

#### However, shareholders may note that:

As a part of remuneration director is entitled to receive 1,73,430 ESOPs that would convert into 1,73,430 equity shares of the company at face value ₹2. The ESOP shall vest over 4 years in the following manner: 25% (twenty-five percent) on the completion of each year from the date of grant over a period of 4 (four) years.

The Company is Non-Compliant with SEBI SBEB Regulations as it has not disclosed exercise price and left it to NRC discretion. ([Read more](#)). However, The Company has disclosed the Exercise Price of the Option in the Appointment of the Director. Shareholders should seek clarification from the Company regarding why the Exercise Price was not clearly stated in the proposed Scheme, The proposed appointment mentioned the Exercise Price as Face Value and Provided discretion to NRC in the Proposed ESOP Scheme leading to discrepancies in the disclosure of the Exercise Price.

As on 9<sup>th</sup> January, 2025 market price per equity share of Azad Engineering is ₹ 1,752.10 per share according to which maximum potential benefit to Mr. Murali Krishna can reach upto ~₹30 Crores.

As, The ESOP shall vest over 4 years in the given manner as stated above. The director may receive ~₹ 7.5 crores as Esop benefit every single year along with basic pay of ₹2 crores, thus constituting the total pay to ~₹9.5 crores to the executive director in a single financial year.





The remuneration proposed for Mr. Murali Krishna professional executive director appears to be excessive.

**The table below depicts the executive remuneration as compared to peers:**

EXECUTIVE REMUNERATION - PEER COMPARISON VS RELEVANT NIFTY INDEX (MEAN)			
Amount (in ₹ Crores)	Mr. Murali Krishna Bhupatiraju (Proposed)	Arun P. Mote (2023-24)	Benchmarks <sup>[1]</sup>
Company Name	Azad Engineering Ltd	Triveni Turbine Ltd	Small Cap
Promoter Family	No	No	Professional EDs
Director's Remuneration (Rem.)	9.59 (Proposed)	4.40	3.85
Total Board Remuneration (TBR)	6.33 (FY 2023-24)	16	13.25
Net Profit	58.58 (FY 2023-24)	209.05	366.55
Proposed Rem. / Net Profits (%)	16.37%	2.10%	1.05%

[1] Benchmarks are computed by SES, using FY 2022-23 average data. Please [click here](#) to know more.

Taking into consideration the figures above it can be considered that proposed remuneration for Mr. Murali Krishna appears to be excessive.

*and otherwise as set out hereunder and with liberty to the Board (which term shall be deemed to include any committee constituted / to be constituted by the Board) to alter the said terms and conditions in such manner as may be agreed to between the Board and Mr. Murali Krishna Bhupatiraju in the best interests of the Company but subject to the restrictions, if any, contained in the Companies Act or otherwise as may be permissible at law."*

**Shareholders may note that:**

The Board is being provided an absolute discretion to amend or vary the terms of remuneration without being required to seek further shareholders' approval;

SES is of the view that such discretionary powers to the Board are not indicative of good governance practice as it undermines the supremacy of shareholders and defeats the purpose of obtaining shareholders' approval

In view of the above SES is raising a **governance concern**.



**RESOLUTION 3: APPOINTMENT OF INDEPENDENT DIRECTOR**

 To Consider and Approve the appointment of Mr. Deepak Kabra as Independent Director (Non-Executive) | S | **FOR**
**SES RATIONALE**

Compliant with law. No governance concerns identified.

**SES ANALYSIS**
**DIRECTOR'S PROFILE**
**Mr. Deepak Kabra**
**Age:** 46 years

**Full time positions:** None

**Education:** Fellow member of ICAI

**Functional Area:** Banking, Finance, Marketing

**Past Experience (as stated by the company):** *He has two decades of experience specializing in Small and mid-corporate banking, project finance, and business development. Has served as the Country Head for Small and Medium Enterprises and Executive Vice President at IndusInd Bank, he led complete ecosystem banking for SME's. His previous role includes senior leadership position at YES bank and ICICI Bank predominantly in small and mid-corporate space.*
**Committee positions in the Company:** None

**Date of original Appointment:** 3<sup>rd</sup> January, 2025

**Total Association (Including Group):** <1 Month

**Inter-se relationships with other Directors/KMPs:** None

**No. of shares held in the company:** Nil

**Proposed approval:** Appointment of Mr. Deepak Kabra As Independent Director for term of five consecutive years w.e.f. 3<sup>rd</sup> January 2025 to 2<sup>nd</sup> January 2030

**DIRECTORS' INDEPENDENCE**

Name	Current tenure/ association	Directorships at group companies	Relationships with the Company	Shareholding	Remuneration (₹ Lakhs)	Current SES Classification
Deepak Kabra	<1 Month	None	None	Nil	Nil	<b>Independent</b>

**DIRECTORS' TIME COMMITMENTS**

Name	Full time role/ executive position	Directorships				Total Committee	
		Total	In public entities	In listed entities	As ID in listed entities	Member	Chairman
Statutory Limit	2	20	10	7	7 <sup>#</sup> /3*	10	5
SES Limit	1**	20	10	5	5 <sup>#</sup> /3*	6	3
Deepak Kabra	0	1	1	1	1	0	0

Note: Committee memberships include Committee chairmanships (includes only Audit Committee and Stakeholders Relationship Committee), Total Directorships include Directorships in Public as well Private Companies | \*\*2 full-time positions, in case of subsidiary and related business

*# If Director is Non-Executive Director across all listed entities. | \* If Director is Executive Director in any listed entity.*
**SES VIEW**

 The Company is seeking shareholders' approval for appointment of **Mr. Deepak Kabra** as an Independent Non- Executive Director of the Company to hold office for the first term of five consecutive years w.e.f. 03<sup>rd</sup> January 2025 to 02<sup>nd</sup> January 2030 (both days inclusive) and his office shall not be liable to retire by rotation.

 The Company has disclosed terms and conditions for appointment of Independent directors. ([Read more](#)).

No concerns identified w.r.t. Profile, time commitments &amp; Independence of director.



**RESOLUTION 4 & 5: INCREASE IN BORROWING LIMITS & CREATION OF CHARGE**

#4. To Increase the Borrowing Limit of the Company Under Section 180(1)(C) Of the Companies Act, 2013	S	<b>AGAINST</b>
#5. To Approve Mortgage/Pledge /Hypothecate/Create Charge on The Assets of The Company Under Section 180(1)(A) Of the Companies Act, 2013	S	<b>AGAINST</b>

**SES RATIONALE**

#4: Compliant with law. **Governance Concern:** Majority of the borrowing limit is unutilized and absence of specific reasons for the proposed increase.

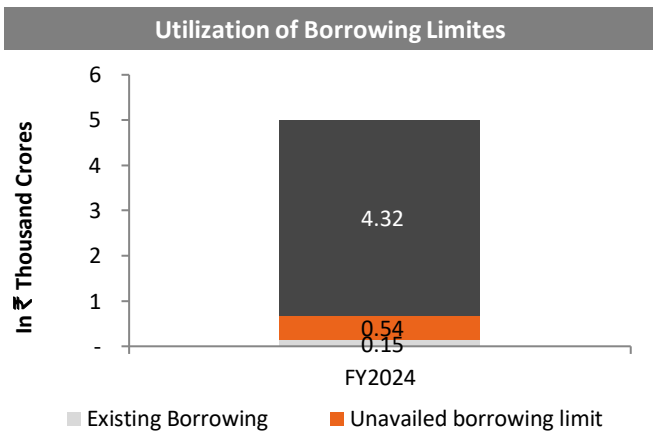
#5: Compliant with law. Inter-linked to Resolution #4

**SES ANALYSIS**

**PURPOSE OF THE INCREASED BORROWING LIMITS & CREATION OF CHARGE**

In view of the expansion and in order to augment the future growth of the Company and to meet its various requirement, Board of Directors (“Board”) of the Company at its meeting held on January 03, 2025, has recommended to the Members to increase the quantum of borrowing powers of the Board to Rs. 5,000 in excess of the aggregate of the paid-up capital of the Company and free reserves.

**CAPACITY TO SUSTAIN AND SERVICE THE BORROWINGS**



Graph xx: Changes in the borrowing limits

**Need for increase & Capacity to sustain borrowings:** As per March'24

[if borrowing for Equity investments or Further Loan]

Existing Limits: 1,000 Crores as per Company DRHP ([Read more](#))  
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Remaining unutilized: 925.6

Increase proposed: upto 5,000 Crores

Total debt: Rs. 37.2 Crores

Debt - Equity Ratio: 0.06x (As per March' 24)<sup>#</sup>

Current Ratio: 4.30<sup>@</sup>

Total Assets: Rs. 797.0 Crores

Net worth: Rs. 645.1 Crores

EBITDA: Rs. 148.6 Crores

<sup>#</sup> There is a significant shift in debt to equity ratio of from 1.47 in FY 2022-23 to 0.06 in FY 2023-24 due to fresh issue of shares, conversion of entire Compulsorily convertible debentures in equity and furthermore foreclosure of loans during current period. ([Read more](#)).

<sup>@</sup> Further, there is a significant shift in Current Ratio a well from 1.91 in FY 2022-23 to 4.30 FY 2023-24 due to an increase in business during the year.

**SES VIEW**

**#4 .** The Company is seeking shareholders’ approval to increase borrowing limits of the company in excess of the aggregate of the paid-up capital of the Company and free reserves and securities premium for sum not exceeding Rs. 5000 Crores, on such terms and conditions as the board may deem fit.

**#5.** The Company is seeking shareholders’ approval to pledge, mortgage, hypothecate and/or create charge on the assets of the Company on all the immovable and movable assets of the Company in favour of the Banks, Financial Institutions, any other lenders or



debenture trustees (for benefit of debenture holders) to secure the amount borrowed by the Company in respect of such borrowings provided that the maximum extent of the indebtedness secured by the assets of the Company does not exceed Rs 5,000 Crores (Rupee Five Thousand Crores only) at any one point of time.

**Shareholders may note that:**

- The Company has not disclosed in the notice current Borrowing of the Company.
- The Company has a debt-equity ratio as ~0.06x. The Company has only utilized 3.72% of its borrowing limit which means 96.28% of the limit is still unutilized as per the net worth of the company.
- SES, as per policy raises concern for increase in borrowing limit if the Company has more than 50% of the borrowing limit remaining unutilised, unless the company has disclosed specific reasons or strategic future plans for proposed increase of borrowing limit. Further, SES requires compelling justification in case the borrowings limit is to be increased by over 50% of their existing limit.
- The Company has not provided any adequate justification and disclosures for increase in borrowing limits.
- Also, SES has unable to find any adequate justification w.r.t. the same in Investor transcripts as well.
- SES is of the opinion that, the Company should disclose more detailed reasons and elaborate future plans for such an increase in the borrowing limit.
- In absence of such disclosure and lack of clarity, SES is of the opinion that the shareholders of the Company may not be able to take an informed decision.

Therefore, SES is raising **governance concern** for the proposed resolution.

**Further, Resolution #5 is linked with the Resolution #4, therefore, SES is raising the concern for resolution #5 as well.**



**RESOLUTION 6 & 7: APPROVAL OF ESOP SCHEME**

#6: To Consider and Approve an Employee Stock Option Scheme Formulated in Accordance with The Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 and Other Applicable Laws.	S	<b>AGAINST</b>
#7: To Approve the Azad Engineering Limited Employee Stock Option Scheme 2024 for Eligible Employees of Group Companies, Associate Companies, Subsidiary Companies or Azad Prime Private Limited and Azad VTC Private Limited or Holding Company	S	<b>AGAINST</b>

**SES RATIONALE**

- #6. **Non-Compliance with SEBI SBEB Regulations:** Mandatory disclosures are left to be determined upto NRC discretion.
- #7. Interlinked with Resolution #6. **Governance & Transparency Concern:** Extension of scheme to employees of group / associate/Holding company without compelling reasons / cost not reimbursed to the Company.

**SES ANALYSIS**
**ESOP DISCLOSURES**

Disclosure requirement	Disclosure
Total options in ESOS	<i>The maximum aggregate number of employee stock options that may be granted under the Scheme (Options) and thereby the number of Equity Shares <b>under the Scheme shall not exceed 11,82,259 options.</b></i>
Employee eligibility	<i>Employee means (i) an employee as designated by the Company, who is exclusively working in India or outside India; (ii) a director of the Company, whether a whole time director or not, including a non-executive director who is not a Promoter or member of the Promoter Group, but excluding an Independent Director; or (iii) an employee defined in (i) and (ii) above of a Subsidiary Company, Associate Company or Holding Company in or outside India but does not include : a) an employee who is a promoter or a person belonging to the promoter group; or (b) a director who, either himself or through his relative or through anybody corporate, directly or indirectly, holds more than ten per cent of the outstanding equity shares of the company.</i>
Vesting period	<i>The NRC is entitled to determine the vesting conditions and vesting period in accordance with the Scheme, subject to compliance with applicable laws. Subject to this, (i) there shall be <b>a minimum period of one year between the date of grant of an Option and the date on which such Option Vests</b> (No Vesting Period), and (ii) Options granted shall vest over a period of 4 years such that 25% of the Options granted shall vest on the expiry of the No Vesting Period and the remaining Options granted shall vest over the immediately following 3 years in equal annual instalments.</i>
Exercise period	<i><b>The NRC is entitled to determine the exercise period.</b> <u>Vested Options may be exercised in one or more tranches on 1st September and 1st April of each year or on such date as the NRC may permit during the exercise period, by: (i) paying the aggregate of the exercise price through electronic fund transfer to the bank account of the company designated by the NRC or in such other manner as the NRC may determine from time to time; and (ii) submitting the signed exercise application.</u></i>
Exercise price	<i><b>The NRC is entitled to determine the exercise price.</b></i>
Appraisal process	<i>The appraisal process for determining employee eligibility will be determined by the NRC. It may consider various factors <b>including tenure of employment, seniority, performance metrics etc.</b></i>
Max options/employee	<i>The maximum number of Options that may be granted to an eligible employee shall vary depending upon the designation and the appraisal process but <b>shall not exceed 20% of the Option Pool per eligible employee.</b></i>



Conformity with accounting policies	Shareholders are requested to note that the Company shall confirm to the applicable accounting standards and policies as applicable to the Company and specified in Regulation 15 of the Regulations, from time to time.
Valuation methodology	The Company shall use the <b>fair value</b> method to value the Options.
Transferability of options	Subject to applicable law, the shares allotted pursuant to exercise of options, will not be subject to any lock-in period from the date of allotment
Dilution	1.96% due to the Azad ESOP Scheme, 2024
Route of issue	The Company shall directly implement and administer the scheme through the NRC

### SCHEME ADMINISTRATION

Criteria	Comments
Compensation committee independence	100%
Accelerated vesting	Not Disclosed
Discretion to board to modify scheme	Yes, it is to be noted that the Company has provided discretion to the Board, to alter / modify the terms of the Scheme, however, only up to the extent as permitted under the law / regulations. While, no major concern is being raised in this regard at present, however, going forward SES would expect from the Companies to provide adequate details of such alterations.

### SES VIEW

#6. The Company is seeking shareholders approval for to approve the "Azad ESOP Scheme, 2024" (Scheme) (the salient features of which were furnished in the explanatory statement to the notice issued to the shareholders of the Company) and to authorize the Board to create, grant, offer, issue and allot at any time, in one or more tranches, to or for the benefit of eligible employees (as defined in the Scheme) employee stock options (Options) not exceeding 2% (two percent) of the paid-up share capital of the Company as on January 03, 2025 exercisable into 11,82,259 equity shares of the Company, in one or more tranches, at such price or prices, and on such terms and conditions as may be fixed or determined in accordance with the Scheme and in compliance with the Applicable Laws.

#### Shareholders may note that:

##### Exercise Price – Non-compliance:

- The company in its explanatory statement to the notice has stated that **"The NRC is entitled to determine the exercise price."**
- Regulation 6(2) of the SEBI SBEB and Sweat Equity Regulations, 2021 states that:

The **explanatory statement to the notice** and the resolution proposed to be passed by shareholders for the schemes shall contain the information as specified in Part C of Schedule – I of these regulations or as otherwise specified by the Board.

(f) **exercise price**, SAR price, purchase price or **pricing formula**;

- The intent behind SEBI mandating disclosure of exercise price / pricing formula in the Notice, is that the shareholders could estimate the economic benefit proposed to be transferred to its employees during the course of time.
- **Authorizing Board / Committee** to decide such price defeats the purpose of SEBI requiring Companies to disclose such information in the Notice.
- The Company has not disclosed any price or indicative pricing formula and also provided discretion to the NRC to determine the Exercise Price.
- SES is of the opinion that, such discretion to the NRC defeats the purpose of law mandating such disclosures.

Therefore, as per SES the disclosure provided by the Company is **not in accordance** with above mentioned law.



**Potential maximum benefit to a single employee?**

The Company has stated that “The maximum number of Options that may be granted to an eligible employee shall not exceed 20% of the Option Pool per eligible employee”.

The maximum number of options that can be granted to a single employee are 2,36,452.

Since the company has not disclosed the Exercise price. It is not possible to calculate Potential maximum benefit to a single employee in present case.

**Exercise Period:**

- The Company has stated that “The NRC is entitled to determine the exercise period. Vested Options may be exercised in one or more tranches on 1st September and 1st April of each year or on such date as the NRC may permit during the exercise period, by: (i) paying the aggregate of the exercise price through electronic fund transfer to the bank account of the company designated by the NRC or in such other manner as the NRC may determine from time to time; and (ii) submitting the signed exercise application”
- As per Regulation 6(2) of SBEB & SE Regulations, 2021 the Company is required to disclose the Exercise Period in the explanatory statement of the Notice. The intention is to enable the employees to get an estimate time period after which they can exercise his/her right to apply for shares against the vested options.
- Regulation 6(2) of the SEBI SBEB and Sweat Equity Regulations, 2021 states that:

*The **explanatory statement to the notice** and the resolution proposed to be passed by shareholders for the schemes shall contain the information as specified in Part C of Schedule – I of these regulations or as otherwise specified by the Board.*

*g. **exercise period/offer period** and process of exercise/acceptance of offer*

- The intention is to enable the employees to get an estimated time period after which they can exercise his/her right to apply for shares against the vested options.
- In the absence of disclosure of the Maximum exercise period by granting discretion to NRC, the beneficiary would not be able to estimate the time period within which the economic benefits may be transferred to intended employees, hence, such proposal is against the intended purpose of law.

Therefore, SES is raising **compliance concern** in the proposed scheme.

**#7.** The Company is seeking shareholders approval to extend the benefits and coverage of the "Azad ESOP Scheme 2024" (Scheme referred to in Resolution No. 6, and within the ceiling as enumerated therein to the eligible employees of the group company(ies), associate company(ies), subsidiary company(ies) whether in India or outside India or of a holding company of the Company, if any, on such terms and in such manner as may be fixed or determined in this behalf by the Nomination and Remuneration Committee as per the provisions of the Scheme.

**Shareholder may note that:**

The Company has proposed to extend the scheme to employees of the **Holding, Associate & Subsidiary** companies. SES, as a policy, does not identify any issue in extending the scheme to its subsidiaries as there exists control of the Company upon its Subsidiaries, and the contribution of the subsidiary in the Company’s consolidated performance.

However, the same cannot be argued in case of Holding & Associate Companies, as the **Company should provide specific justification with respect to the intention and plans as to the applicability of such grants, as such cost would be borne out of company pockets.** Since the Explanatory Statement does not mention as to who shall bear the cost of extending the benefit to Holding & Associate Companies.

Also, the company has not adequately disclosed exercise price & period in the original scheme as discussed above.

In lieu of the same and the concerns above SES is raising concern.



## Disclaimer Sources

Only publicly available data has been used while making the report. Our data sources include Notice of Shareholders' Meeting, BSE, NSE, SEBI, Capitaline, MCA, Moneycontrol, Businessweek, Reuters, Annual Reports, Sustainability Reports, IPO Documents and Company Website.

## Analyst Certification

The Analyst(s) involved in development of this Report certify that no part of the Research Analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the Research Analyst(s) in this Report. The concerned Research Analyst(s) and Director(s) do not have any pecuniary relationship with the Reported Company, except that they may be holding miniscule shares in the Company which does not impact their independence in respect of this Report.

SES may be a shareholder in the Company holding equity shares as disclosed on its [website](#). The objective of SES' investment is solely to obtain Shareholders' communications from the Company as a shareholder.

## CAUTIONARY STATEMENT

The recommendations made by SES are based on publicly available information and conform to SES's stated Proxy-Advisory Guidelines. SES opinion is based on SES's interpretation of law and governance benchmarks, which may differ from opinion/ benchmarks of other analysts or practitioners. Further, SES analysis is recommendatory in nature and reflects how SES would have voted if it was a shareholder. Therefore, SES expects that the clients will evaluate the effect of their vote on their investments independently and diligently and will vote accordingly. Subscribers may also carry out an impact analysis of their votes and keep the same as an addendum for their records. In our opinion, Institutional investors are positioned significantly differently from other shareholders due to their ability to engage with the board and the management to bring out desired result. As a firm, it is our endeavour to improve the level of corporate governance while not causing any disruption in company's proceedings and therefore we respect the independence of investors to choose alternate methods to achieve similar results.

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### Concern terminology

**NC – Compliance Concern:** The Company has not met statutory compliance requirements

**FC – Fairness Concern:** The Company has proposed steps which may lead to undue advantage to a particular class of shareholders and can have adverse impact on non-controlling shareholders including minority shareholders

**GC – Governance Concern:** SES questions the governance practices of the Company. The Company may have complied with the statutory requirements in letter. However, SES finds governance issues as per its standards.

**TC - Disclosures & Transparency Concern:** The Company has not made adequate disclosures necessary for shareholders to make an informed decision. The Company has intentionally or unintentionally kept the shareholders in dark.

## Company Information



Stakeholders Empowerment Services

SEBI Reg. No. INH000000016

CIN No. -

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## Warning

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

