



Investor relations: A strategic enabler

April 2019

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Foreword – KPMG in India

Welcome to KPMG in India's inaugural survey on Investor Relations (IR). The survey was conducted with a goal to capture the feedback of Companies on the evolution and importance of IR as a strategic function.

The Investor Relations (IR) function has seen a tremendous shift in its relevance and role with increased investor engagement, enhanced shareholder participation emergence of proxy advisory firms; all on the back of an enhanced focus on corporate governance. In line with this shift, the role of the Investor Relations Officer (IRO) has also undergone a change. Not only is the IRO responsible for the correct messaging to the investors and the financial community at large, he/she is also increasingly expected to provide insights into strategy and the way the business functions, due to his/her outward facing role and access to the investors.

The role of IR has also evolved in response to the greater disclosure and compliance requirements especially driven by the increasing exposure of Indian companies to developed markets, the economy's move towards greater formalisation and the increased interest from global investors.

The world today is inherently more complex yet more agile than a few decades ago. Technological advancements mean that the information asymmetry and difficulty in accessing information has reduced to a large extent. Investors and other stakeholders are now also interested in information that goes far beyond what is available in the annual reports or quarterly results leading to a lot more focus on non financial and operational information and metrics. The rights of the minority shareholders specifically the retail investors have also gained prominence with the changes in corporate law and advent of

proxy advisory firms. Companies are also being judged on the quality of their management and the board and how they choose to do business. This means that all actions of the management and the board are being viewed in light of the high governance standards that are expected out of them. Interacting with the investors on these matters has become significantly more important as better governed companies are likely to get better valuations in the market. These developments demand that the IROs act as the internal counsel for the C-suite executives at their respective companies further increasing their responsibilities and broadening their profile.

The IR function has the potential to significantly raise a company's profile in the financial markets if backed by the right business performance and intent. A highly effective IR function can truly function as the steward of optimum value for all stakeholders.



Sai Venkateshwaran

Partner and Head
CFO Advisory
KPMG in India



Karan Marwah

Partner and Head
Capital Markets
KPMG in India

Foreword – IR Society India

Practicing active Investor Relations at a time when there is fund raising in the offing is passé, engaging in constant investor relations is where the action is!

Apart from the mandated investor relations which is in the domain of company secretaries, voluntary investor relations is now here to stay. It has been realised that only a sustained and relentless investor relations alone can lead to creation of goodwill in the investor community.

Investor relations professionals in the recent past have also witnessed vertical growth. Some have become Chief Financial Officers and there has been at least one instance where an investor relations professional has become Chief Executive Officer for a leading pharmaceutical company.

The exploratory study is based on the survey conducted on 91 companies by KPMG in India and Investor Relations Society.

Interestingly, among the various goals of Investor Relations, the goals such as 'enhancing shareholder engagement', 'improving disclosures and overall credibility', and 'enabling better compliance and corporate governance' have been given priority. This clearly shows the investor relations professionals are looking for long term benefits and are not getting bogged down with pressures from short term investors. India Inc will definitely find this study as a 'strategic enabler' to allocate its resources judiciously.



Anand M S

Cofounder and President
Investor Relations Society



About the survey

Investor Relations (IR) is playing an increasingly important role in today's volatile world in enabling companies manage investor expectations. KPMG in India's 'Investor relations – A strategic enabler' survey aims to understand a wide range of current investor relations' trends in companies across sectors in India. Our goal via this survey is to analyse and highlight the importance of IR as a strategic function.

This survey analyses and brings together findings from 91 companies.

The survey is being discussed under following heads -

- Survey approach
- Key survey findings
- Detailed analysis of:
 - Investor relations function
 - Investor relations goals and challenges
 - Investor outreach
 - Management involvement
 - Outsourcing investor relations
 - Measuring investor relations
 - Disclosure and reporting practices
 - Compliance and governance
 - Environmental, Social and Governance (ESG)
- Conclusion



Survey approach

01

Survey design

Key parameters of the study were finalised and a structured questionnaire was designed as the primary tool for data collection



02

Survey launch and data collection

To solicit participation, formal e-mail invitations and an online questionnaire were sent to the target respondents



03

Data validation and query resolution

The responses received from all participants were validated and checked for consistency and completeness



04

Data analysis

Data received was collated and analysed to get detailed insights on investor relations trends and practices



05

Report launch

Launch of KPMG in India's 'Investor relations – A strategic enabler'



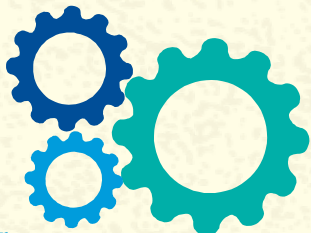
Key survey findings

Top three goals for IR

Enhance
shareholder
engagement

Improve
disclosures and
overall credibility

Enable better
compliance and
corporate governance



Top three challenges for IR

Successful articulation of equity
story to investors and analysts



Positioning IR as a strategic
function in the organisation



Guidance/expectation
from management



Investor outreach

78 per cent of the companies have more than 10 one-on-one investor/analysts interactions in a year

64 per cent of the companies organise/participate in more than six road shows (deal or non-deal) or investor conferences in a year

65 per cent of CFOs and **51 per cent** of CEO/MDs are significantly involved in investor relations activities

40 per cent of the participating companies outsource IR activities, mainly for backend work

Perception study is the most outsourced activity while Annual Report development is considered as a joint effort (in-house + outsourced)



IRO and IR budget

90 per cent of the participating companies have a dedicated Investor Relations Officer.

41 per cent of the participating companies have Annual Investor Relations budget of INR5 million and more.



Top two (qualitative) means of measuring IR

Quality of investors



Relationships with the investor community



Top two (quantitative) means of measuring IR

New investors



Valuation parameters



39 per cent

of respondents consider their disclosure practices to the investor community as **'proactive'**

24 per cent of respondents engage with a proxy advisor

Top two reporting priorities



Compliance with regulatory norms



Quality of information

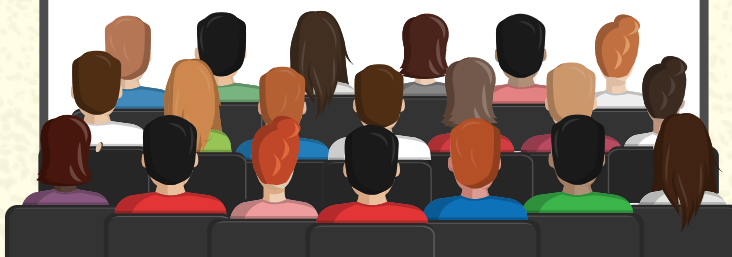
Environmental, Social and Governance (ESG) aspects and Integrated Reporting

77 per cent of respondents feel that their existing external reporting framework adequately addresses the informational needs of all stakeholders and helps in communicating the equity story

58 per cent of respondents feel that their overall IR communication plan incorporates components of ESG

78 per cent of respondents are aware of the concept of Integrated Reporting <IR>

16 per cent of respondents have already adopted <IR>, while **36 per cent** respondents are working towards it



Expert view



IR is an art, a science, a crucible for amalgamating multiple domain skills, and finally the interface of choice between capital markets and corporates. But it was not always thus.

Circa 1990

Those early days were relatively easy days for people entrusted with IR functions (by whatever name called). Many CFOs used to do the IR function as part of their overall responsibilities without any formal IR department. No UPSI, no 'earnings calls' (telecom infra was archaic), no proxy advisory firms, non-existent ESG/SRI, no corporate governance statutes, no mobile phones or apps, no proactive insider trading rules, low market cap compared to GDP (around 10 per cent in 1990 compared to near-100 per cent levels today), transfer through physical delivery of shares, information autocracies everywhere, no corporate websites no internet), no 24X7 business channels on TV, no dark pools, no shareholder activism, early-stage MFs, no hedge funds, no passive/quant/algo trading models, near-total dominance by promoters on boards, and current day IR practices yet to evolve. The entire ecosystem of formal IR departments, efficient market intermediaries, information on a tap, regulatory frameworks, standardised IR practices, broad and deep markets and efficient transaction processing systems were yet to evolve.

Zoom to 2018

If an IR head from 1990 were to be suddenly transported into 2018, he/she would undergo a surreal 'Rip Van Winkle' experience. The IR landscape has, over the years, morphed into a full-fledged domain practice that is now well knit into the fabric of capital markets. The IRO is now recognised as a vital cog and is formally entrusted with a market facing corporate spokesman function. Every IRO has access to top management and some even

have access to boards. Some are also authorised to talk to media. The IRO of today is a very different creature from the type of part-time IR practitioner of the 1990's. The IRO today is expected to be able to articulate not just financial results but detailed nuts and bolts of business, high level strategy, processes and the environment that he/she functions in. An IRO today is valued for his/her deep insights into financial results, elucidation of underlying businesses of the organisation, giving clarity on various processes (staff incentivisation, HR practices, risk management systems, succession planning, ESG/SRI/CSR initiatives, etc.), a thorough grasp of the sector(s) that the business operates in, ability to explain strategy, and multi-faceted knowledge of the macro environment (including economic indicators, political awareness, fiscal policy and monetary policy). Superlative communication skills and the ability to articulate a lucid, well thought-out, comprehensive and credible story are non-negotiable requirements for a best-in-class IR function today.

Today the IRO is valued by corporate managements across the board for market insights and feedback that he/she brings to the table as well as the macro level knowledge and 'world view' that he/she gives back to business. Today the IRO is also typically viewed as a rich repository of knowledge by business functionaries.

The IR function has well and truly arrived.

Arnob Kumar Mondal

Vice President (Corporate Accounts & Investor Relations)

Larsen & Toubro Limited

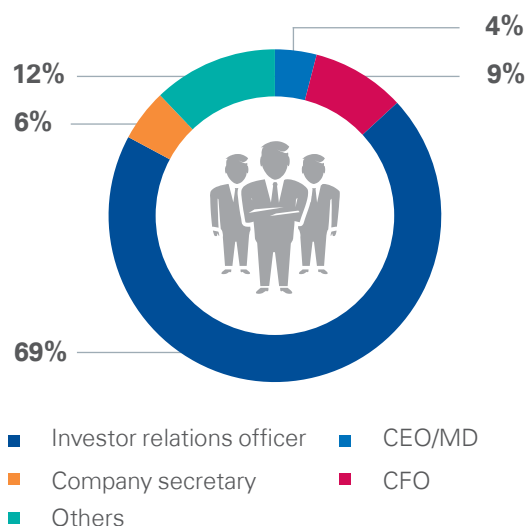


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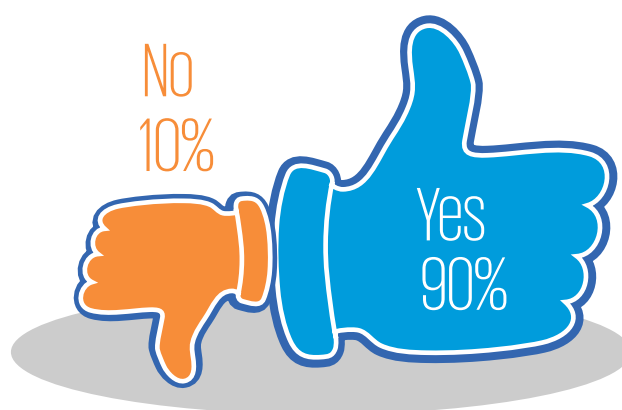
Investor relations function

KPMG in India's Investor Relations survey brings together findings from 91 companies that participated, of which 64% are a part of Nifty 500.

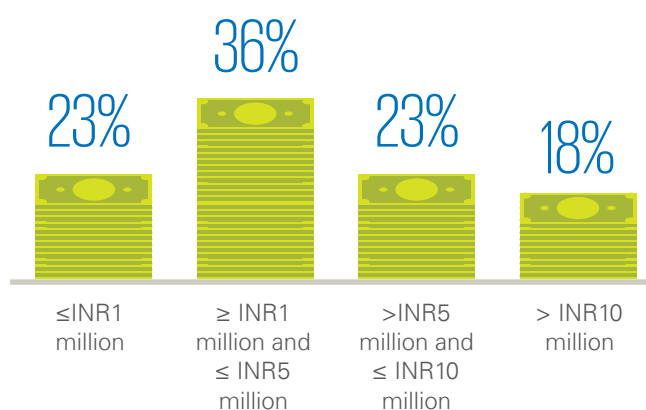
Respondent's profile



Dedicated investor relations officer



Annual IR budget



Investor relations function in Indian companies has been, historically, an additional responsibility. But the scenario seems to be changing with times, and the growing importance and strategic relevance of IR is evident from the fact that 90 per cent of the participating companies have a dedicated Investor relations officer. 59 per cent of these companies have an annual IR budget in the range of INR1 million to INR10 million. And 18 per cent of the companies have a budget of INR 10 million and above which highlights the companies' focus on IR.



Investor relations goals and challenges

Investor Relations goals (average rating out of 5)



IR function's goal is heavily dependent on the size of the company and the current state of the market/company. While the responses vary between the respondents, the overall results display the emphasis that the companies place on the holistic process and not just the end results. In our survey, enhancing shareholder engagement, improving disclosures and credibility and better corporate governance round up the top three choices by the respondents. The bottom three relate to increasing market cap, liquidity and access to capital. This focus on the investors rather than the company is the ethos of IR and it is heartening to see that the IR practitioners also believe the same.

IROs face tremendous challenges in the current economic landscape. As the business environment becomes more complex and the expectations from the stakeholders increase, the role is likely to become even more challenging. The main goal of IR has always been to engage investors effectively

and thus creating and communicating a compelling investment case. The IR practitioners in our survey also consider it to be their biggest challenge. In this age of ready information availability, the challenge could come from the fact that the focus is no longer on communicating information but on making the investors see a side of the story that they may have missed in their extensive research or may have underappreciated.

The survey sheds light on interesting insights. Positioning IR function figures amongst the top three IR challenges. This shows that today's IR practitioners are no longer content with just maintaining the status quo. In the past, IR in India has often been perceived as only the spokesperson for the company. Breaking the stereotype to fulfill the aspiration of positioning themselves as the in-house strategic advisor and contribute in more ways to the company given the unique insights they have is a significant challenge faced by IROs.

Expert view



IR teams of different companies will have different goals depending on the size of the company, its priorities and the maturity of the IR function. So, the priorities will be different for the IR team of a less researched small/mid-tier company vis-à-vis that of a large cap and well covered company. However, following are some of the key objectives of the IR function.

Adding value to the business:

- IR should be able to participate in shaping business strategies taking cognisance of investors' views and impact of the strategies on investors.
- Provide inputs to the management on important developments in the competitive landscape, as well as analyst and investor feedback on company strategies and expectations on capital structure, shareholder returns, margins, etc.

Regular engagement with the investing community:

- IR team is instrumental in communicating the company story to the investing world to expand the research coverage on the company. Active partnering with the sell-side analysts to clearly articulate the key aspects and the differentiators will help the investors understand and assess the company better.
- There should be regular interaction with the top shareholders of the company and the team should try to expand the shareholding base to include a judicious mix of institutional and other categories of investors, preferably with longer investment time horizon.

- Engagements with investors should be proactive especially at the time of any crisis when the team should be more forthcoming. A proper response from the company on the facts and the response plans go a long way in reassuring the investors and stops many from taking panic actions. This also builds the trust level for a longer term association.

Consistent disclosure and fair and equitable dissemination:

- IR team should assess the key information needed by investors for enabling them to make investment decisions and ensure consistent, fair and equitable distribution of the same. This would improve the understanding of the investing community and would help them in valuing the company more accurately.
- Information should be disclosed in a fair and transparent way keeping in mind the regulatory and fairness requirements. Wider and uniform dissemination go a long way in building investor confidence.

Sandeep Mahindroo

Financial Controller and Head – Investor Relations

Infosys Limited



IR should be able to participate in shaping business strategies taking cognisance of investors' views and impact of the strategies on investors.

Keeping investors, both existing and prospective, engaged with the company is a challenging task. While the quarterly results and regular albeit informal calls provide opportune moments to keep the conversation going, a proactive approach is what separates great IR programmes from the average ones.

Over a quarter of the respondents in our survey do not hold investor days. Investor days not only provide sufficient time for the investors and analysts to interact with the management but also provide the management a great opportunity to drive home the key messaging. This, in our opinion seems to be an area where the IR function in India needs to be more proactive.

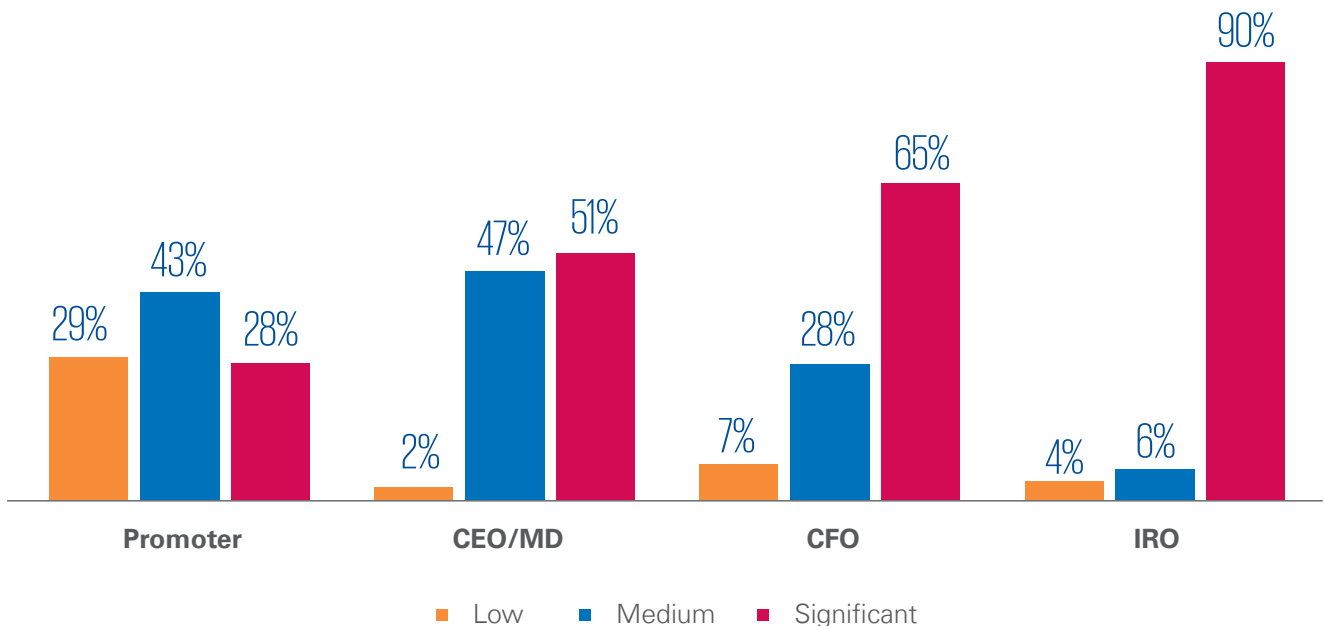
Management involvement

Consistent messaging is an important aspect of the IR function. The entire company must speak the same language when it comes to communicating with investors. This can only happen when the senior members of the management are reasonably involved and help set the context of the IR programme. While over 90 per cent of our respondents functioning in the IRO role devote significant time to the IR function, 65 per cent of the CFOs and 51 per cent CEOs devote significant time to IR.

While the IROs are able to drive the programme on their own, senior management involvement improves the confidence amongst investors and helps in times of crisis management.



Managements' involvement in IR



Expert view



Perhaps the one core purpose Investor Relations Officers (IROs) should solve is to help improve investor decision-making. Towards this purpose, the engagement (directly or through an external partner), with the investor community by a corporate may need to be addressed in both its facets i.e. as structured events and ongoing IR activities including:

- Corporate organised events viz. quarterly results call, annual investor days, plant visits, etc.: usually organised by IR, but may include external partners
- Websites and outreach through mailing lists, investor calls including video calls: mostly IR organised while external partners may be used for facilitation
- External events: conferences, roadshows- deal or non-deal: organised by external partners- sell side

Expand coverage. External events are useful as they help IR expand not just their connections, but also capabilities multi-fold. Working with external partners could help expand coverage to large, diverse and dispersed investor base.

Gain from a wider perspective and understanding of trends. Corporates could gain from a better understanding of the macro trends, world economics, industry developments, competitive actions and developments in related businesses, etc.

Feedback to senior management about its own businesses, could help address queries and better clarify doubts. One may also gain from best in class methodologies used by other corporates.

However, external engagement may not always be useful and there may be scenarios where one may want to tread with caution.

Finally, on the question of the usefulness of participation in conferences, roadshows and company driven programmes, it may be useful to have a healthy blend of working with external partners and also have own events to 'have your own ear to the ground'. This may have to be adjusted for the nature of business and therefore the level of understanding of the industry, your company's market cap and investor base. All said, higher engagement, on a like to like basis, when handled well, may lead to better engagement and by corollary better investor decision-making."

Umang Khurana

Head, Investor Relations

Hero Motocorp Limited



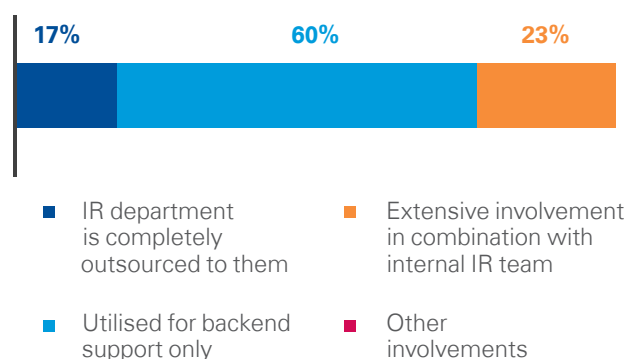
It may be useful to have a healthy blend of working with external partners and also have own events to 'have your own ear to the ground'.

Outsourcing investor relations

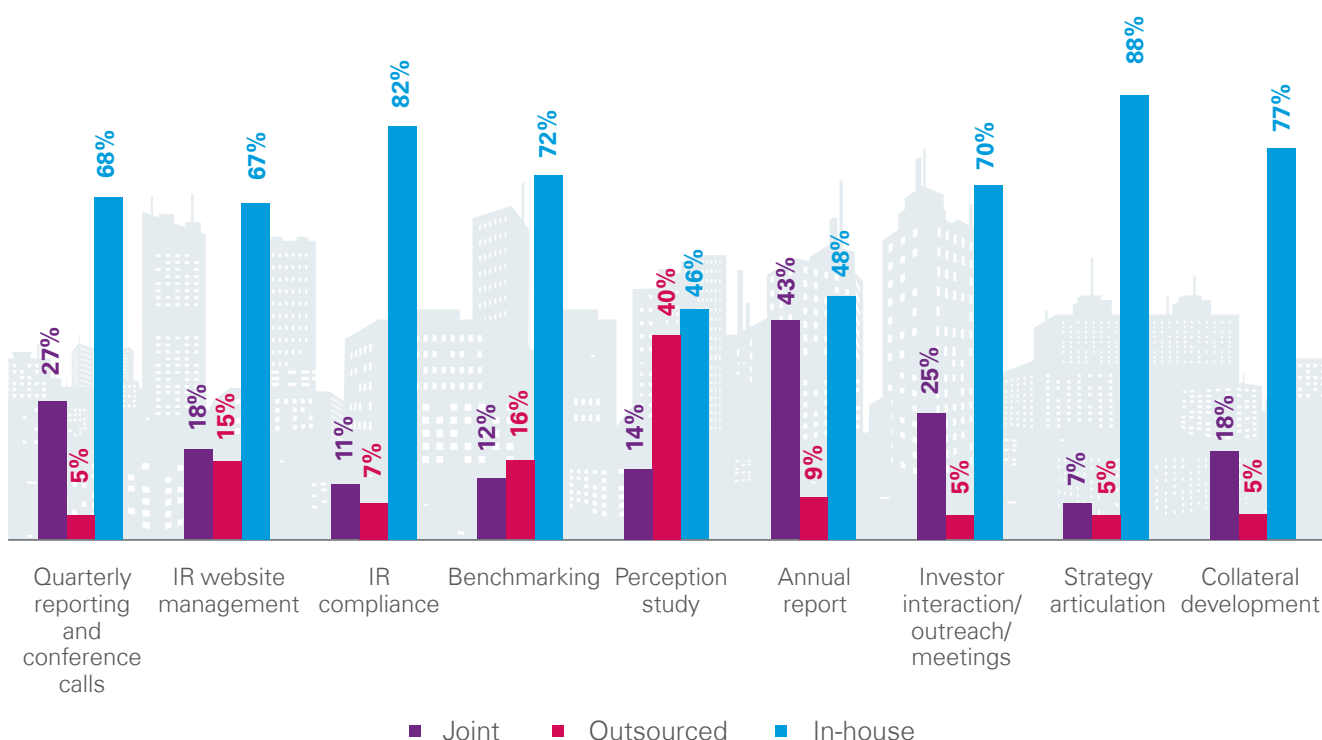
Outsourcing IR



External IR specialist's involvement



Nature of IR activities performed

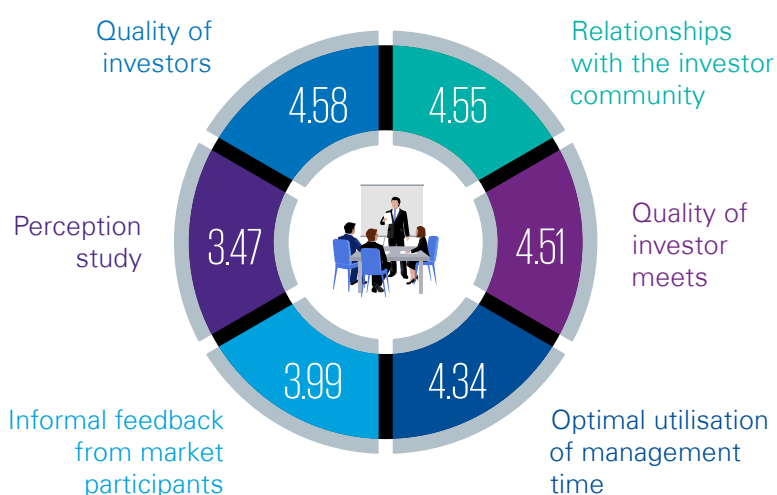


While IR as a function should be driven by the companies themselves, certain aspects of the plan may require support from external parties in terms of strategic inputs or execution driven by various factors such as lack of bandwidth, expertise or the nature of the activity. In such cases engaging with an IR expert may be the right approach. 40 per cent of our respondents engage external IR specialists. This

shows that the companies consider it an important enough function to seek outside counsel. Perception study tops the list of activities that is outsourced by companies followed by IR benchmarking. With newer areas of interest such as Integrated Reporting, ESG Index, we may see more companies seeking external help.

Measuring impact of investor relations

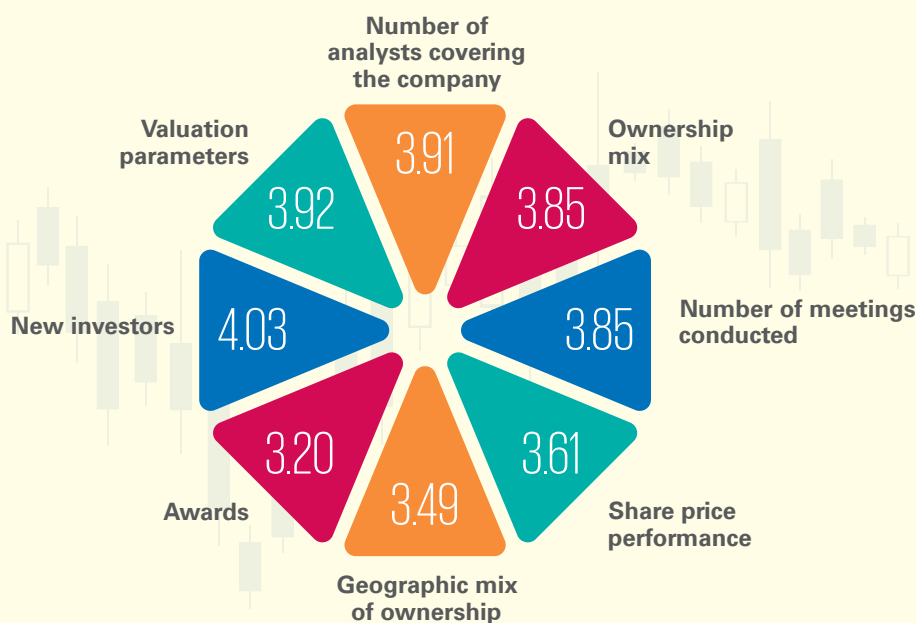
Qualitative factors (average rating out of 5)



IR is a long-term and continuous process. Measuring the success of an IR programme or an IRO is particularly challenging as the typical Key Performance Indicators (KPIs) used to gauge the success of the IR programme are impacted significantly by matters not in the hands of an IRO.

In our opinion, IRO's should not only focus on factors that are impacted by business performance (valuations) but also on softer aspects like quality of meetings which impacts the company's perception in financial markets.

Quantitative factors (average rating out of 5)



Qualitative factors play an important role in measuring the success of the IR function. In our survey, 'number of new investors' and 'valuation parameters' were adjudged key quantitative parameters to gauge the success of an IR programme followed by 'number of analysts covering the company'

Qualitative factors though difficult to measure are also equally important as they separate the better run programmes from those solely focusing on garnering numbers. Respondents rated 'quality of investors' as the most important aspect followed by 'relationships with the investor community' and 'quality of investor meets' which are actively tracked as a measure of success for the IR programme.

Expert view



Even after several years, effective communication is the sine qua non of a successful investor relations professional or programme. I believe that this will continue to remain in the years to come. This facet helps a professional to deal with the good and not so good news of a company's journey. Internally, it is to drive the importance of the investor community's perception and the continuous value enhancement that an organisation needs to keep an eye on. With the investor community, it is the ability to transcend beyond financial outcomes and focus on strategy, operations, corporate governance, sustainability and culture.

But the IR function goes beyond communication and every company has high expectations from an IRO. As always, it needs to mirror certain metrics and outcomes, underlying a company's vision and progress. Some key metrics that can evaluate progress of an IR programme are:

- Enhancing liquidity of the stock by creating a strong story line
- Bringing in a mix of marquee long and short-term investors
- Enhancing disclosures
- Innovating on engagement practices
- Continuous benchmarking with other peers
- Effective use of social media

One aspect that can help execute this role effectively is to get embedded in the business, and go beyond one's core role and responsibilities. What I mean by this is to add more functions to your portfolio

apart from just IR and be part of organisation initiatives by leading diverse areas in finance, strategy and operations. This helps a great deal to be more productive and enhances your business understanding, which in turn helps with the investor community. This also brings in the buy- in internally and creates platforms to advocate the external perception.

Lastly, this is an area where each one needs to strive for nothing but 'excellence'. You are the face of your company. People judge your story and practices and decide to invest, which brings in huge responsibilities and creates trust in everlasting professional relationships. Therefore it is good to be paranoid when it comes to 'excellence' as your investors deserve the best!!

Sushanth Pai

Chief Financial Officer

Matrimony.com Limited



Even after several years, effective communication is the sine qua non of a successful investor relations professional or programme.

Disclosure and reporting practices

Nature of disclosure practices



Better disclosure practices increase investor trust and also help companies attract more investors especially Foreign Institutional Investors (FIIs) who have become accustomed to better disclosure requirements. Our survey respondents voted compliance with regulatory norms as the most important consideration while reporting to investors followed closely by the quality of information shared.

While 39 per cent of respondents feel that their disclosure practices are proactive in nature and satisfy the needs of all stakeholders which is a sign of mature IR efforts, 31 per cent still consider regulatory compliance as the driving force behind their disclosure practices. We believe an inclusive approach that focuses on all stakeholders helps the company garner higher trust in the long-term.

Reporting priorities (average rating out of 5)



Compliance and governance

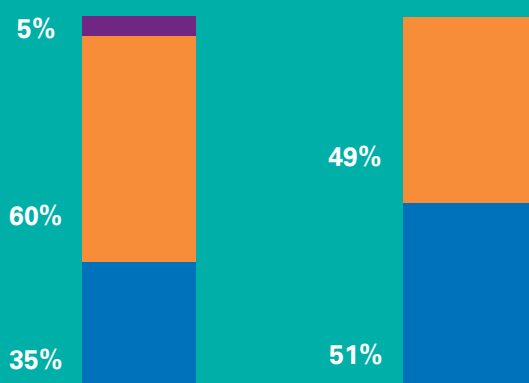
Engaging closely with the investor community helps companies gain investor confidence, thereby enabling them to drive maximum value out of the IR programme.

While SEBI has framed a regulation which deals with unpublished price sensitive information (UPSI), few respondents were of the opinion that the regulations need to provide more clarity on certain aspects.

This could help bring disclosures of all companies at par impacting valuation multiples (positive or negative) that a company might command.

77 per cent of respondents feel that their existing external reporting framework adequately addresses the informational needs of all stakeholders and helps in communicating the equity story.

■ Poor ■ Satisfactory ■ Excellent



Engagement with key institutional investors in advance of critical business resolutions

Experience in dealing with the SEBI guidelines on dissemination of information Unpublished Price Sensitive Information (UPSI)

Response from participants

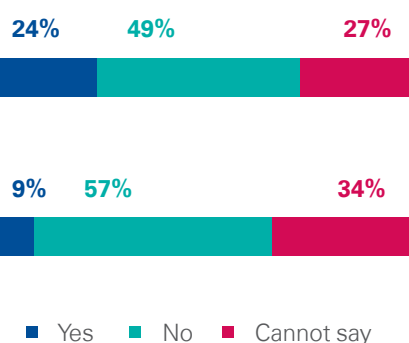
More clarity on UPSI

What makes information price sensitive is always a subject matter of debate. It would help to get a very exhaustive list to clear doubts

SEBI has to be more objective in issuing guidelines

Engagement with proxy advisors

Instances where decisions have been impacted due to shareholders stewardship role



■ Yes ■ No ■ Cannot say

Environmental, Social and Governance (ESG)

Investors today focus on a large number of factors beyond just the financial and business information that was considered sufficient in the past. The impact that the companies have on the environment is gaining traction in the investment decision-making process. While globally investors are focusing on companies which create sustainable value for all stakeholders, in India it is still in the early phases.

58 per cent of respondents to the survey opined that their overall IR communication plan did incorporate ESG components.

Integrated Reporting

SEBI had earlier recommended the top 500 listed companies in India to voluntarily adopt Integrated Reporting <IR> thereby paving the way for responsible corporate/business reporting in India. <IR> is a new approach to business reporting that is built around the organisation's strategy to create and sustain value in the short, medium and long-term.

78 per cent of respondents to the survey seem to be aware of the concept of Integrated Reporting.

Preparedness for Integrated Reporting <IR>



Conclusion

We live in a world that is constantly evolving and providing both vast opportunities as well as challenges. Businesses, their investors and by extension the IROs have also been in the midst of these rapid changes nudging them to reimagine the way they operate within the larger environment. While ease of access due to advent of internet, smartphones and social media has helped in quicker decision-making, this has also made investors susceptible to misinformation. The active role played by the market regulator and the level of scrutiny that the companies face due to presence of large institutional investors, proxy advisory firms and the various news media, further makes the job of an IRO more complex as compared to the previous decades. Besides these challenges, there are certain

positive developments that also have a huge impact on how the IR function grows. Foremost amongst them is continued growth of large foreign institutional investors in the market who expect the same level of disclosure and information availability as seen in more mature markets.

These challenges and positive developments mean that the IR function is likely to continue to focus more on improving access for investors and long-term shareholder wealth creation than just being the face of the company. Looking ahead, we believe as the Indian financial markets become more mature and attract more long-term investors, the IR function would rightly cement its position as a strategic enabler.

KPMG in India's Investor Relations advisory offerings

Specialist offering

- IR communication strategy
- Benchmarking IR practices
- Shareholder analysis and targeting
- Pre and post IPO listing support
- Perception studies



Coach and support

- Establishing IR function
- Training promoters/senior management on investor communications
- IR- policies and standard operating procedures
- Crisis management
- Continued support to IR function



Quarterly results support

- Earning presentations
- Pre-results consensus estimate
- Post results market feedback
- Peer/industry analysis
- Investor profiling
- Fact sheets



Advise on collaterals

- Investor presentation
- Annual/Integrated Report
- Interactive annual report
- MIS report
- Press release
- Investor microsite



Acknowledgements

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- Sharon D'Silva



KPMG *josh* **IT SHOWS**

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