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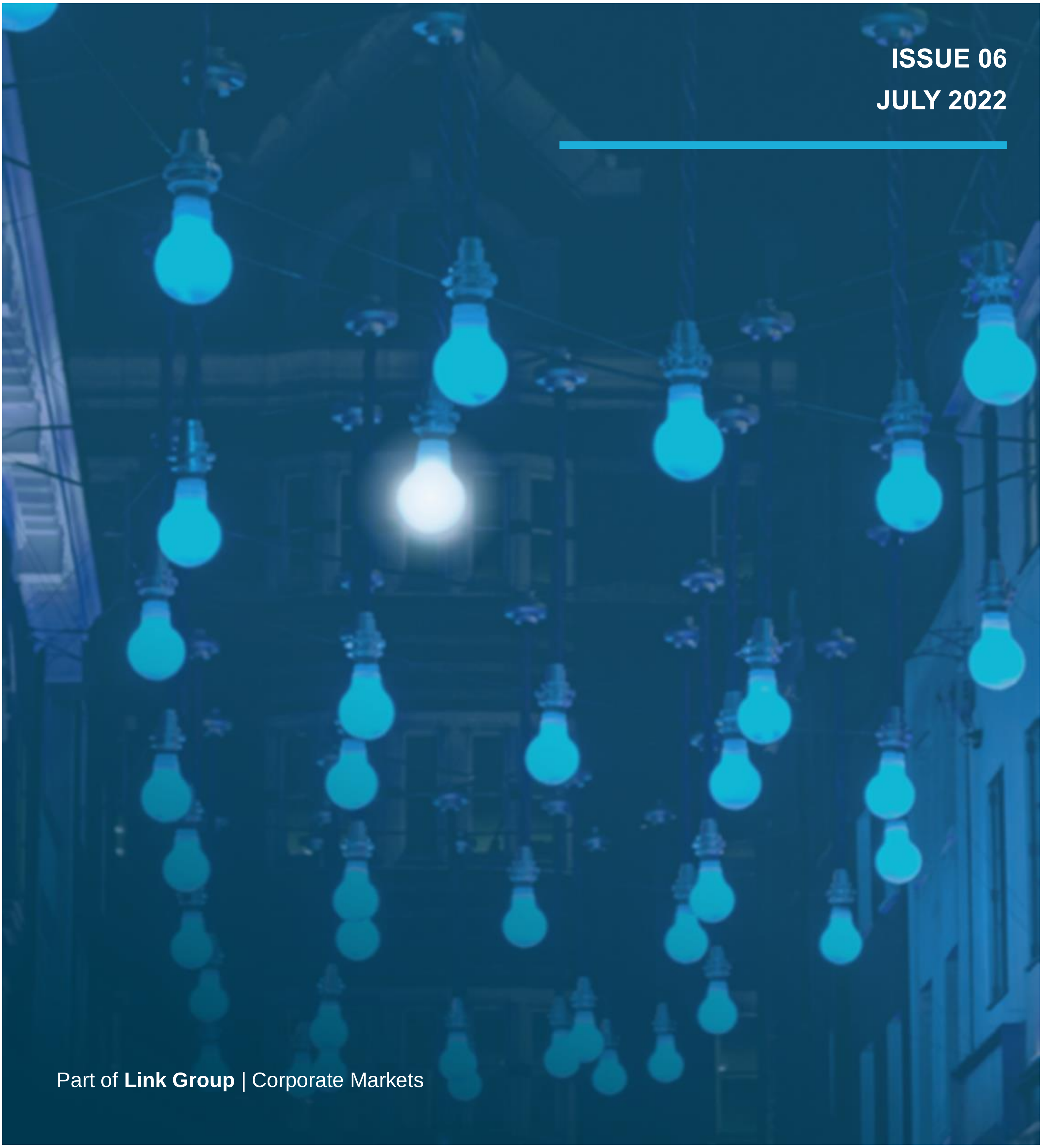
INSIGHT



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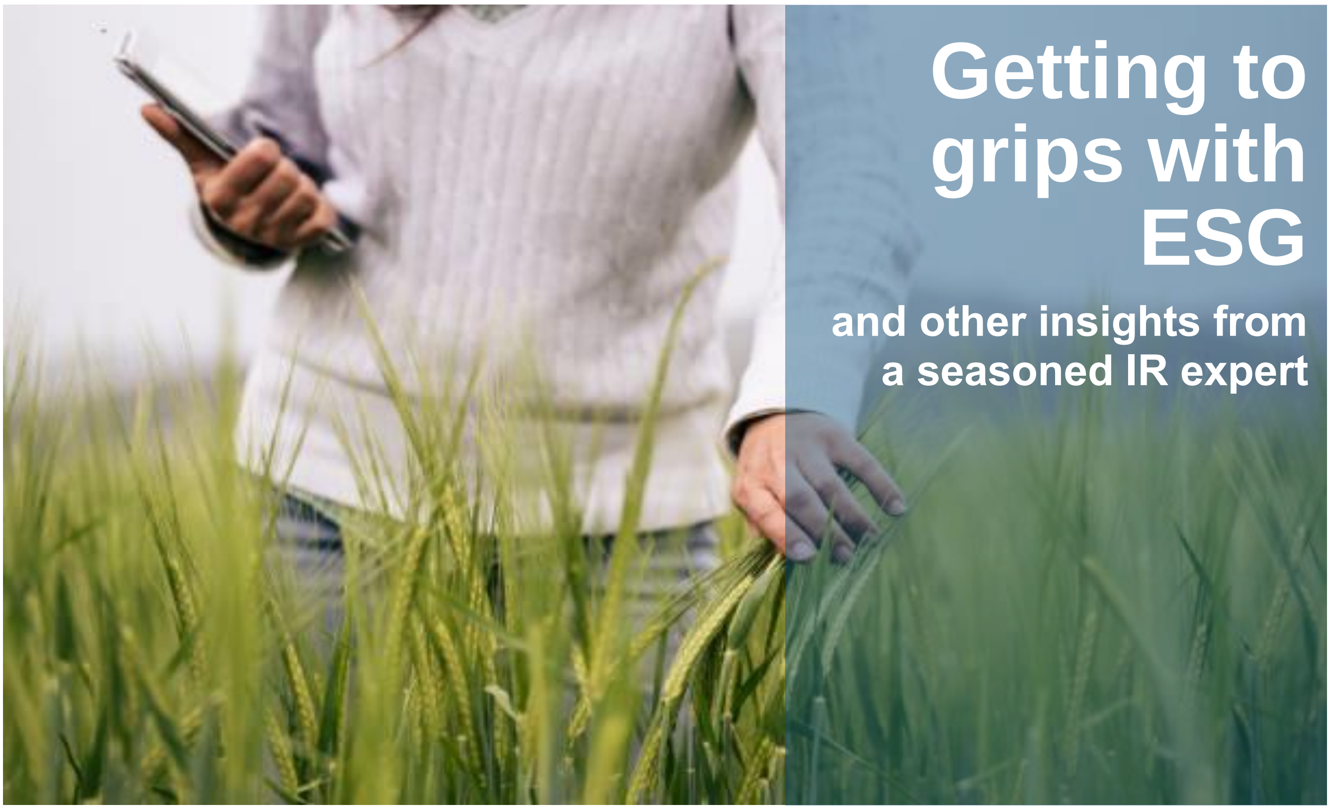

Getting to grips with ESG

and other insights from a seasoned IR expert

An Orient Capital interview with agro-chemicals giant, UPL

In the seventh of Orient Capital's Insight series, we are pleased to be able bring you the wisdom from a new region, in our first interview in the exciting Indian market.

This edition offers a fascinating conversation with Ms. Radhika Arora, Head of Investor Relations with one of the world's largest agro-chemicals groups, UPL Limited. Prior to her appointment Radhika was with Vedanta Resources for 15 years in a variety of Finance and IR roles.

In this interview, Paolo Casamassima (Orient Capital's Head of Market Intelligence) explores some key topics including ESG and corporate governance trends from an emerging market perspective.

"Thank you for joining me Radhika, we are delighted to be able to share your insights with our readers. Let's kick off with an obvious one, the pandemic. In the last few years, many IROs have commented on the difficulty they have found in getting in touch with investors – driven by a shift to work from home and a different way of communicating. What are the changes that you've seen over the last two years?"

I think from the investor's point of view, it has been easier to get access to management – even to the CEO and CFO level – so from an openness or accessibility point of view for investors it has changed quite a lot and was very, very good. This has been reflected in the level of engagement and the number of meetings that we have had.

I would say however that quantity doesn't always mean quality and we picked up a decline in this for two main reasons. Firstly, because on video calls investors were not able to see the body language or pick up the confidence level, there are times where investors thought that had we been physically in front of them, it would have been a better conversation.

Secondly we found that everybody was coming into every discussion and every meeting, so it was making a lot of discussions ineffective. So I would say that the quality of meetings over the first six months was ok, but almost two and a half years in, it was getting impacted and we were keen to get back to face to face.

I recently had my capital markets day, and the feedback was people were extremely happy with the kind of engagement that they had over the last two years.

"I think from the investor's point of view, it has been easier to get access to management – even to the CEO and CFO level."

“The regional difference between investors are mainly centred around the key topics that come up for discussion. In India and the US it leads on financials, in Europe its ESG”

“And so if the quality of these meetings have changed, possibly for the worse, how have you reacted, knowing that some of these meetings, may be repetitive or maybe the quality is not good enough?”

I would say that I have become more demanding with the brokers and it has made me focus more attention on the roadshow list they want us to meet, and certainly think about the equity / credit mix. Both sets of investors can have different ways of looking at things and having them together for us, impacts the quality of meetings. These days I screen the list myself to make sure the meetings are effective.

Ultimately I have changed the way I approach it. I used to think you could mix a potential investor with an existing investor, with one motivating the other. Now I focus on the potential investor separately to get their level of understanding of the company and the business up to that of the existing investors, and then combining them if needed. I don't think the focus has changed but it has been more flexible from the point of view of making engagements effective.

“With an importance on the level and quality of engagement I’m curious, what differences do you notice between an Indian investor, as opposed to their counterparties in Europe or in the US?”

I would not really say the approach is different as in my experience, both have a high level of expectation. I think what differs is sequence in which the themes come up for discussion. For example, an Indian or an American investor would generally start with the financial basics of the company. Whilst a European investor, will primarily start with ESG and then come back to the financials. Once they get comfortable on the ESG piece, they gradually come to the business model, then to how ESG and the business model are connected and then they come to the financials.

All of them are happy to have a follow up when it comes to financials, but not when there is an issue on the ESG or the governance side.

Overall, I wouldn’t say that there's much difference in terms of expectation from an engagement point of view, as I think overall the level of expectation has really risen over the last two years. However, I have experienced India market evolving in terms of the engagement on ESG and more on the Governance aspect part of that.

I have been in this role for almost 15 years and previously worked for Vedanta, a metals business so had a different sectoral experience. At UPL which is agro-chemicals, the ESG ratings are very subjective, and can be complicated.

“ESG is obviously a very important topic and I’m glad you mentioned it. How do you deal with it internally? Have you brought any ESG specialists on board within your IR team?”

I don't have a dedicated ESG expert in the IR team. However to support investor requirements, I do (as many people will) have ESG specialists within the company, who join calls when we speak to the ESG specialists and the funds. I take on the preliminary meeting by explaining how we think about it, what are we doing, our approach and how we are organisationally structured when it comes to ESG. From that point, I am the conduit to garner what are their specific areas of interest are and ensure I get the right person with the level of specific ESG expertise on the call to respond.

At UPL, we have divided into several areas, where we have split Environment and Health and Safety separately. We are a little different, because the ESG part, or the sustainability part, is really imbibed into our business model, which is essentially backed by sustainability. When I say sustainability, I don't mean just saving some carbon or saving some water. The way we approach it is that everything has three lenses for us. We are an agro-chemicals business so, every project, every product and everything we do, looks through the multiple lenses of environment, food security, economic and social resilience. We are now working on transitioning from chemicals to differentiated and sustainable solutions, , that fits into the environment lens.

That also fits into our focus on food security, as we are in the business of crop protection, which is essential to what the world really needs now. You have to feed 7 billion people but also ensure you have considered what is good for the environment. So how do you make sure that there's a complete balance there? You really have to promote sustainable agricultural practices, which make both the economy and the farmers more resilient, but how do you make sure that all these three things work. The leadership team here really believe that you cannot just work this in isolation. So it has to be absorbed within the business model. I know

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there's safety and governance as well. But safety for us would be a part of the resilience piece. And governance, of course, is a separate topic completely for discussion – which essentially means “How” we do things

“There are different reporting standards and reporting agencies. How do you approach the challenging of reporting, keeping in mind the different frameworks? Do you choose a specific one? Or do you try to understand what is the most used ESG reporting frameworks by the majority of your investors?

We have a sustainability team of experts who takes care of all sustainability aspects, and as of today we report on GRI guidelines. There have been recommendations to align with SASB and TCFD as well, and we are in the process of incorporating TCFD reporting as well.

The second thing that we're working on is having science-based data. It’s an ongoing exercise and we hope to be ready in one to two years.

So essentially, the SASB and TCFD came investors’ recommendations, and we then screened through these to monitor where do they sit against our current GRI reporting and try to ascertain what is the consensus about what we shall be doing.

“What do you think is the overall driving force for the increasing attention on ESG? Is it a matter of mitigating the risks, or demand for ethical business? There’s also a political pressure, how do you see this in respect to investors in general?”

I would say investors want to be invested in companies who are mitigating environmental and social challenges. It's about sustainability and wanting to invest in companies who are getting prepared for the future. The reporting of that is essential, TCFD is essential, ‘face the reality, and tell us what you’re doing’. Every company talks about the big things that they’re doing. So this essentially just tests the real state of your company today.

“And what would for you be the most concerning governance practice from an ESG risk point of view?”

This is a very tough conversation that I have with all the rating agencies. The governance framework for India and the governance framework for global companies is very, very different. This is the biggest challenge.

Today, I don't have a direct peer company in India and so I’m compared to global companies, but when I have this engagement with the ESG rating agencies, they compare you with global companies without acknowledging the regulatory framework in India. So, I will say that there are different reporting and regulatory environments that are crying out for standardisation. At some point that really needs to happen, because you can't put everybody at the same level, and then give the investors a one-sided view about a company.

“In terms of liquidity premium, this topic of having more or less cash on a company balance sheet, and then using this cash, more or less proactively either to grow the business or pay dividends. How do you see this topic in respect to India versus the rest of the world?”

In my view, most companies in the emerging markets definitely know that growth is a primary focus for them. If I were to prioritise it, for UPL, it's investments into the business for future growth, a reduction of the borrowing on the balance sheet, and then the distribution. It could be buybacks, it could be dividends, and that's the way we order it.

“Remuneration is a perennial topic in corporate governance and it continues to drive headlines. What do you think companies should be doing to counter this ongoing discussion and focus on remuneration?”

In my experience all these discussions are initially driven by the proxy agencies. If the engagement and the issue solving or clarification incorporates the proxy agencies earlier, a lot of the engagement on remuneration could be dealt with at that point, rather than just trying to turn around any issues last minute. For us, a number of our investors rely on the proxy agency and will follow their guidance, sometimes as such. For me that is the issue. Ensuring there is engagement with the proxy agencies as well as the governance teams within the investors is a sensible way to ensure the conversation can be played out prior to being a focus at the AGM.

"In respect to governance, one final question, how do you expect governance to change in the next 10 years? What do you think would be hot or even hotter topics coming up versus somethings that will lose relevance?"

Ultimately if you have a strong business model, that's means you really have all the other components; the right board in place, the right governance in place, the right credentials in place. So, I think the business model discussion today, a lot of time goes into, discussing where you sell, what goes where? I think what we'll see is that governance and risk management is in place for a company and that they continue to upscale this.

"Do you think you would like regulators to play a role when it comes to discussing certain ESG governance related topics, that issuers have to comply with?"

To play a role in the sense to come up industry standardisation, yes absolutely. That is the key.

Other than Sustainalytics, other broking houses, credit rating agencies and many other ESG rating houses have come into existence over the recent past. They have started rating ESG performance of companies with limited understanding and mostly desk research. For instance, Sustainalytics sees the risk, somebody else picks up performance whilst another group focuses in on just the manufacturing part. If you take UPL, we are the #1 agro-chemical company amongst our peers, with the lowest risk (as per Sustainalytics) however, there are other agencies that have rated us differently on the same parameters.

When that screening is picked up by the investors, BlackRock may read a Sustainalytics report, and tell me that we score well. Somebody else mentioned to me that, 'but we don't look at Sustainalytics. We just looked at X report recently".

Ultimately, it's creating a lot of additional effort for the issuers and engaging with the agencies itself is a huge task. The investors on the other hand get different views from different reports There needs to be some standardisation – it's becoming a critical issue.

"One last ESG focused question, how do you manage ESG engagement for passive investors? Whilst those investors aren't active in terms of managing the equity, they are quantitative or index investors, so when it comes to ESG, they will have a desk that reviews your ratings."

We do specific ESG roadshow – last year we did these for the passive guys, and there are only a few. I actually ran the first one with the Orient Capital India team, which worked really well!

They organised for us to meet groups like Dimensional, Vanguard and State Street and it really set the right context. Fortunately timing wise, it was just a few months before the AGM so the engagement was good and doing this early was an idea that came from OC – something we didn't do that in the past.

So we had an opportunity to just share our entire E, S and G message, which was well appreciated. They had some follow ups which we responded to and we again reached out to them six months after, and one of them requested a call.

So I think the best approach for us has been a proactive roadshow, reaching out to them with plenty of time to get to know them, and by having one to one meetings with them. We covered it in a number of days in one small focused roadshow.

"Thank you, that sounds like it went well, we were glad to have been able to support you. And lastly, are there any final comments you would like to share on IR in general and best practice advice?"

I will say that it feels like the investor relations industry is really transitioning now, from simply a facilitator role to more of an ownership role. It's taken on new level of importance.

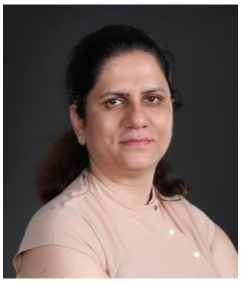
For me, the IR role was one of a facilitator or mediator between management and the investors. Even over the past few years, the role has gained a lot of importance and covers a requires a wide range and varied level of expertise. You are responsible and accountable for whatever message you are giving to the investors. That comes with responsibility, the IR Director really needs to understand the investors fully and build those relationships be they geography focused, fund or person specific.

Before you get into a meeting, a lot of research really needs to go into it. Which stocks do they already invest in? Have we met them previously? What were the topics of discussion last time? What is the criteria by which they will consider a buy-in investment?.

This is what I really meant when I said that it used to be a corporate access kind of role but it's so much more than that. I put it down to the quality of meeting that really matters, not the quantity. I could attend 300 meetings, but if they don't convert, then I don't think I've done a good job.

"Thank you so much for your time Radhika, I've thoroughly enjoyed our conversation. It really has been a fascinating insight."

Meet the expert



Radhika Arora is the Head of Investor Relations at UPL Ltd, a global agrochemical company. She is a seasoned investor relations professional with an experience of over 15 years in equity, debt and socially responsible investing across global companies in various sectors.

Radhika also has experience in engaging with the global ESG rating agencies and also raising green and sustainable monies.

"The investor relations industry is really transitioning right now. It's taken on a new level of importance."

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