

ESOPS FOR THE GROWTH OF COMPANY

Employee Stock Option Plan (ESOP)



Meaning of Employee Stock Options



Options/ Employee stock Options means a right but not an obligation given to an employee which gives such an employee a **right to purchase or subscribe at a future date, the shares offered by the company**, directly or indirectly, at a pre-determined price.

ESOPs are one of the most important tools **to attract, encourage and retain Employees**. It is the mechanism by which **employees are compensated with increasing equity interests over time**.

Why ESOPs..??

Attract, Reward, Motivate and Retain Employees



Enhances job satisfaction



Deferred compensation strategy



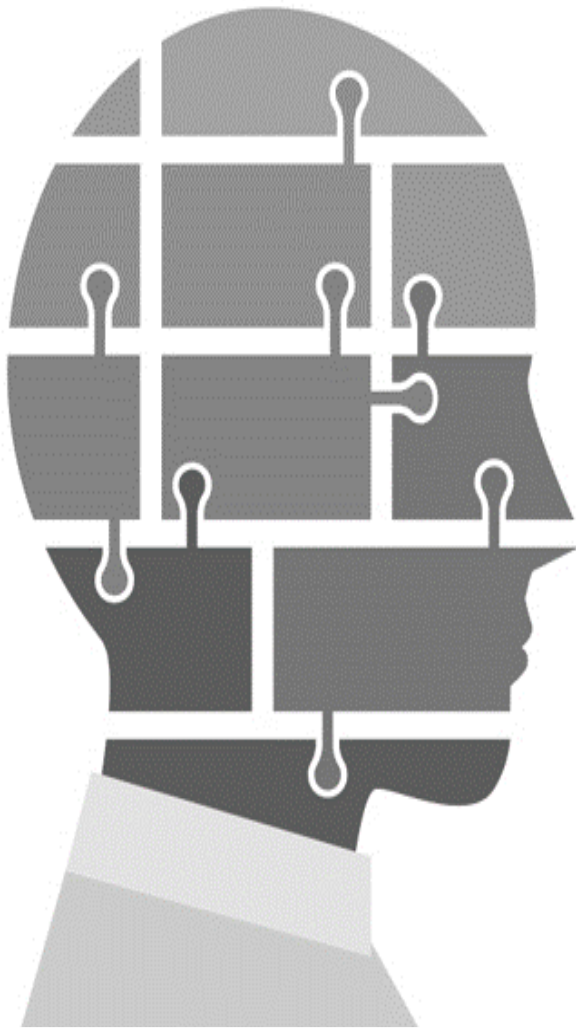
Good retirement benefit plan



Alignment of Employees' interest with the long term goal of the Company

Benefits of ESOPs..

for Companies/ Employers:



Minimize attrition with additional reward

Freedom to Channelize funds in other priority area

Steer employees towards organization's vision

Derives unparalleled Employee Loyalty

Retention of employees with excellent performance

Attract employees who can be potential assets to the organization.



**Corporate
Professionals**

Benefits of ESOPs..

for Employees:

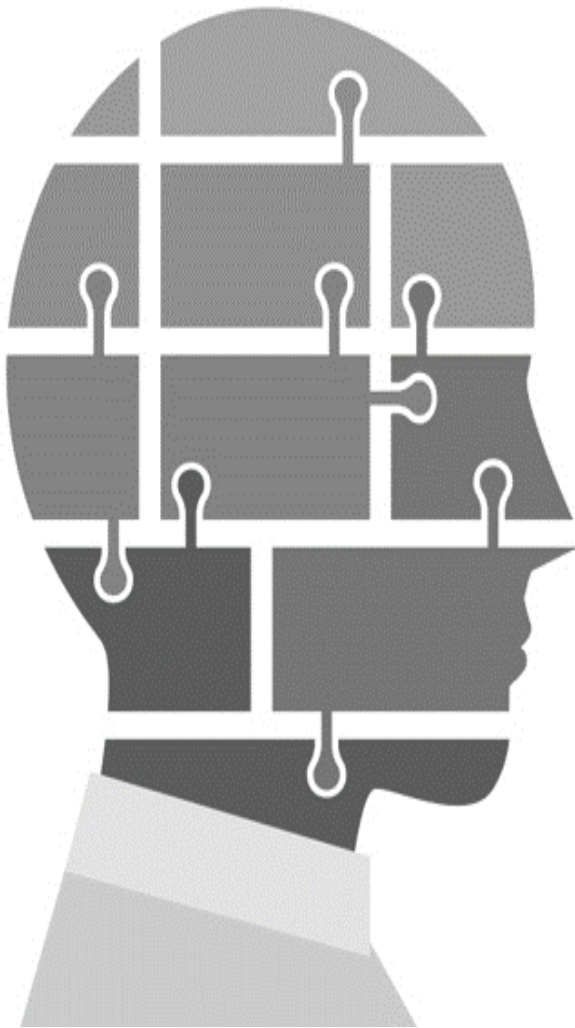
Wealth creation through equity ownership

Grow professionally by creating tangible value

Improve job security and satisfaction

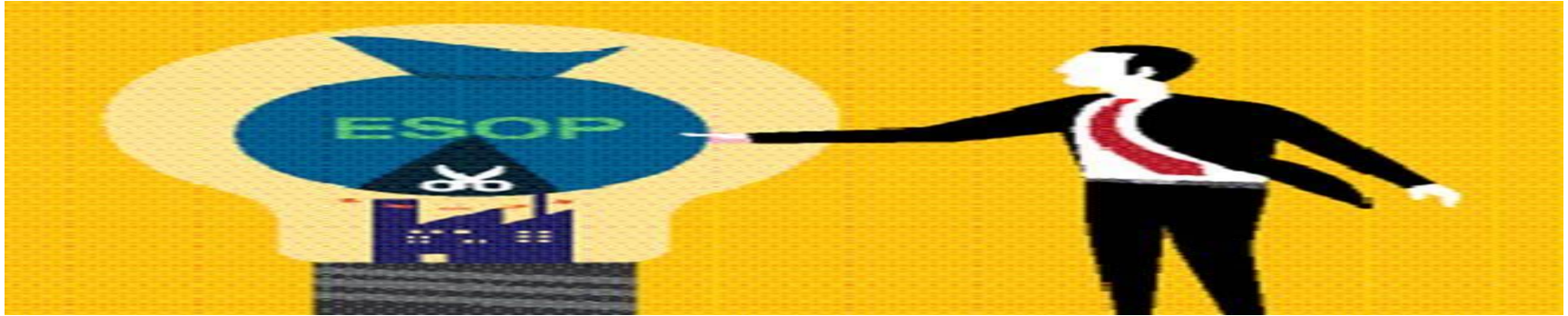
Stock Monetization far exceeds the regular remuneration

Derive direct benefits from acquisition and strategic investment



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Attractiveness of ESOPs in the Present Scenario



Manage liquidity with non monetary compensation

Grant of Options / Restricted Stock Units / SAR units etc. at the **prevailing low prices** makes ESOP / RSU / SAR exercise **highly attractive and affordable** for employees.

Employee get great value as the **stock price increases in future**, realizing true benefit of ESOPs / RSUs / SARs etc.

Company can extend **lucrative value to key employees** who are instrumental in its recovery & growth process.

Company gets dual benefit of **cash saving along with tax benefit**.

Recent ESOP Expansions

1. **PAYTM:** In September, 2021, Paytm has obtained approval from its shareholders for expansion of its existing ESOP Pool from 24.09 million options to 61.09 million options.
2. **SHARECHAT:** The newly minted unicorn ShareChat has expanded its employee stock options or ESOP pool. The estimated addition of new options in the pool is worth Rs 280 crore. With the expansion, the size of ShareChat's overall ESOP pool is anywhere between Rs 460 crore to 513 crore (\$62-70 million).
3. **BANKBAZAAR:** Free credit score provider and online financial product marketplace BankBazaar has announced that it has expanded its employee stock ownership plan or ESOP Pool. The company has added equity shares worth \$15 million (Rs. 109 crore) to the pool.

4. **OLA:** Ola has announced expansion of its employee stock options (ESOP) pool to Rs 3,000 crore. The Company has announced allocation of an additional Rs 400 crore worth stocks to employees ahead of its initial public offering (IPO).
5. **OYO:** Oyo has added 20 crore shares to its existing ESOPs pool, expanding the employee stock options to nearly 63 crore shares.
6. **MOGLIX :**Moglix has announced the expansion of its ESOP pool further by \$10 Mn to include more than 300 employees.

Recent ESOP Buybacks/ Liquidity

1. **SHARECHAT** : Indian language social media startup ShareChat announced its first ESOP buyback of up to \$19.1 million worth of vested stock options held by both its existing and former employees.
2. **UDAAN** : The start-up in the spotlight is Udaan which is doing a buyback exercise for employee stocks worth INR 165-175 Cr.
3. **CASHIFY** : Cashify, a re-commerce marketplace that sells and buys used electronic gadgets, on March 2021, announced employee stock ownership (ESOP) buyback plan worth \$1 million.

4. **CRED:** The Employees of the Cred have liquidated their ESOPs collectively worth Rs. 9 Crore. This ESOP Buyback was completed in January 2021.
5. **RAZORPAY:** Business-focused payment gateway and neo banking platform Razorpay has announced an employee stock option or ESOP buyback worth \$10 million for its 750 employees.
6. **WAKEFIT.COM :** In January 2021, Wakefit.com has announced Buyback of ESOP worth Rs 15 crore.

Analysis of Profit to Employee(s) pursuant to ESOP of Zomato Limited



Computation of Profit

Particulars	No. of Options/ Shares
One Option is equal to 1 Share	
However, pursuant to Bonus issue (approved in April, 2021) 1 Option is equal to 6700 Shares	
Exercise Price per Option	Re. 1
Shares to be allotted upon Exercise	6700
Market Price as on 30/09/2021	Rs. 136
Market Price for 6700 Shares	911,200
Profit to Employee (Market Price- Exercise Price)	911,199

Types of Employee Benefit Schemes

Employee Stock
Option Plans
(ESOP)

Employee Stock
Purchase Plan
(ESPP)

Restricted Stock
Units
(RSU)

Stock Appreciation
Rights – Cash
Settled
(SAR-Cash Settled)

Stock Appreciation
Rights – Equity
Settled
(SAR-Equity
Settled)

Practical Considerations for Designing Employee Stock Option Plan

☞ The key attributes to be established for designing a stock based benefit plan are:

- ✓ Employee Coverage
- ✓ Type of plan
- ✓ Period of Vesting
- ✓ Vesting Conditions
- ✓ Exercise Price
- ✓ Exercise Period
- ✓ Route of the Scheme
- ✓ Lock In Period



Recent Regulatory Regime



SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021

Pursuant to the receipt of multiple suggestions from stakeholders to further streamline and rationalize the provisions of these regulations. The SEBI on the recommendations of the Expert Committee in its meeting held on August 6, 2021 has approved the amendment and merger of SEBI (Share Based Employee Benefits) Regulations, 2014 and SEBI ((Issue of Sweat Equity) Regulations, 2002 into a single regulation called **SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021**.

Therefore, the **SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021** have been notified and become effective on August 13, 2021.

Key Highlights of the changes under the newly promulgated regulations

Definition of Employee

Employee Means

an employee as designated by the company, who is exclusively working in India or outside India; or

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

an employee as defined in sub-clauses (i) or (ii), **of a group company including subsidiary or its associate company**, in India or outside India, or of a holding company of the company

But does not include

an employee who is a promoter or a person belonging to the promoter group; or

a director who, either himself or through his relative or through any body corporate, directly or indirectly, holds more than ten per cent of the outstanding equity shares of the company.

Key Highlights of the changes under the newly promulgated regulations

Permission for the change in route of Scheme

Now, as per the newly promulgated regulations, if prevailing circumstances so warrant, the company may change the mode of implementation of the scheme from Direct to Trust and vice versa subject to the condition that a fresh approval of the shareholders by a special resolution is obtained prior to implementing such a change and that such a change is not prejudicial to the interests of the employees.

Extension of period of appropriation

Now, an additional one year has been allowed to the Companies to appropriate the Shares lying with the Trust and make them back by grant.

Key Highlights of the changes under the newly promulgated regulations

Vesting in case of Death/ Permanent Incapacity

To have a more lenient view in the special circumstances of death or permanent incapacity, and permit vesting immediately in such circumstances, minimum period of vesting i.e. 1 year from the date of grant and vesting, shall not be applicable in case of death and permanent incapacity.

Utilisation of trust funds on winding up of scheme for another scheme:

Now in the event of winding up of scheme, being implemented by a Company, the funds / shares lying with the Trust pursuant to an earlier Scheme can be utilised for another Scheme by the Company subject to approval of the shareholders.

Key Highlights of the changes under the newly promulgated regulations

Buyback of Stock Options

Now, as per the new Regulations, the Compensation Committee in a listed entity has the power to determine the procedure for buy-back of specified securities issued under these regulations, if to be undertaken at any time by the company, and the applicable terms and conditions.

Provision relating to Cessation of Employment

In the event of cessation of employment of an employee due to retirement or superannuation, the options, SAR or any other benefits granted to such employee will now continue to vest in accordance with their respective vesting schedules even after retirement or superannuation in accordance with company policies and applicable law. In the Erstwhile Regulations, no specific treatment was prescribed with regards to the Cessation of employment of an Employee due to retirement or superannuation.

RBI Guidelines on Compensation of WTD/ CEO/ MRT and Control Function staff.

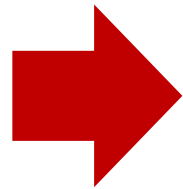
Banks Covered

Private Sector Banks, including Local Area Banks, Small Finance Banks and Payments Banks.

Criteria

These guidelines provides the criteria for providing compensation to the WTD, CEO, MRT and Control Function Staff in the form of:

- Cash payment
- Non-cash payment
- Upfront payment
- Deferred payment.

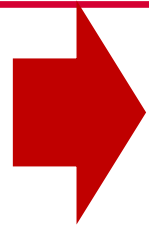


Under Companies Act, 2013

The government has provided benefit to Start Ups under Companies Act, 2013 by relaxing the norms to issue Sweat Equity shares and Shares under ESOPs.

In case of a startup company, an Employee can be a Person who is a promoter or a person belonging to the promoter group; or a director who either himself or through his relative or through any body corporate, directly or indirectly, holds more than ten percent of the outstanding equity shares of the company upto ten years from the date of incorporation/ registration.

In case of Start-ups issuance of sweat equity shares shall not exceed **50%** of its paid up **capital up to ten years from the date of its incorporation or registration**. However, the yearly limits of 15% of paid up capital or Rs.5 crores whichever is higher has to be complied with.



Under Income Tax Act, 1961

Deferral of tax deduction/ payment on Income from ESOPs in Start-Ups

Employers are required to deduct tax on notional gains at the time of allotment of shares under an ESOP. Further, it has been proposed, in case of eligible Start-Ups, to defer the payment of corresponding tax on perquisite arising from ESOPs by giving additional time to pay the tax, to ease the cash outflow for employees of eligible start-ups who exercise ESOPs.

The tax is now required to be paid within 14 days from earliest of the following events:

- Expiry of Five Financial Year from the end of relevant Financial Year in which the shares under ESOP have been allocated.
- Date of the Employee leaving the Employment, or
- Date of Sale of such Shares.



Under SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021

The Companies listed on Innovators Growth Platform shall be permitted to issue not more than fifteen percent of the paid up equity share capital in a financial year subject to overall limit not exceeding fifty percent of the paid up equity share capital of the company, up to ten years from the date of its incorporation or registration.



**Thank
You**

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