



eClerx

**ESOP Scheme 2022**

# ESOP 2022 Scheme Proposal

## ESOP 2022 scheme

- Proposing new ESOP 2022 to replace the currently active ESOP 2015 scheme
  - Vital instrument to attract and retain talent in the current environment
- Will allow grant of 18 lac options (~5% of equity)
  - Expect to cover grants over the next 4-6 years
  - ESOPs will be adjusted for applicable corporate actions - split/bonus etc.
  - Expect grants to be at prevailing market price at the time of grant, as with ESOP 2015

## Loan to ESOP Trust

- Proposing 10 year loan of up to INR 200 cr from company to the trust
  - Expect this to cover fresh market purchases for the next 4-6 years

# ESOP 2015 Review

## Background

- Plan to grant 16 lac shares (~5.25% of equity) approved by shareholders in July 2015
  - Annual grants have averaged around 1% of equity
  - ~21 lac options granted in 6 annual grants, ~50% linked to revenue growth of company
  - Remaining headroom of ~330k options will get exhausted after the May 2022 grant cycle
- Of the cumulative grant of ~21 lac options, as on Feb 2022
  - 856k options cancelled due to attrition and revenue growth vesting conditions not being met
  - 192k options exercised
  - 148k options vested but unexercised
  - 917k unvested
- Trust has 724k shares as of Feb 2022 @ INR 1,273
  - 192k options exercised under Trust route as of Feb 2022
  - Anticipate vesting of up to ~700k options for the next 3 years
  - Trust inventory should suffice to fulfil 80-100% of all grants made till date

*Note – Total grant of 21 lac options includes the ~856k cancelled options being recycled as fresh grants*

# ESOP 2015 Review

## Outcome

- Anticipated capital loss of ~ INR 43 cr on current share inventory, as exercise prices lower than average acquisition cost
- Further loss of ~ INR 44 cr anticipated on future share purchases required to fulfil ALL options granted till date
  - Under most conservative scenario of all options vesting and no attrition, likely losses lower
- Total INR 87 cr equivalent to ~1.8% of total employee cost of INR 4,737 cr for the period FY16 – FY21
- Has prevented dilution of ~4% of equity
- Voluntary Attrition in last 5 years for ESOP layer ~7% vs Org attrition of 34%

## Accounting

- Accounting policy for standalone books aligned with consolidated books w.e.f. Sep 21
  - Trust FS now consolidated with standalone books
  - Has eliminated impairment testing of loan given by company to trust and reduced volatility of future results
  - No P&L effect in the consolidated and standalone books
  - All entries passed to Balance Sheet, either to Equity or to Reserves

*Note: Numbers are all approximate given sensitivity to assumptions around kicker vesting, attrition, and stock price trajectory*