Esops back in favour as IPOs rise, valuations reset

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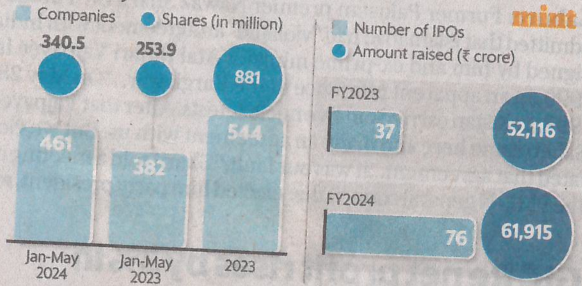
MUMBAI

Looking up

Esop issuance year-to-date in 2024 compared to the same period last year.



Source: Capitaline & Primedatabase

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Stock options are back in vogue, especially for middle and senior management positions in both startups and traditional companies. As organizations realign their strategies, conclude their business reshuffles and transformation, and markets calibrate their share values, employee stock options or Esops are increasingly being seen as a lucrative perk for those being hired in top positions.

The period January-May 2024 has seen 340.5 million shares being allotted through Esops by 461 listed companies, according to a *Mint* analysis of data from Capitaline database. The same period last year had seen 253.9 million Esop allocations by 382 companies.

Zomato led the way with 116 million Esops granted between 8 February and 8 May. Other notable issuances include Eco Hotels with 20.4 million Esops on 10 February, CMS Info Systems with 6.25 million Esops granted between 3 January and 28 February, Infibeam Avenues with 3.6 million Esops issued on 20 March, and Home First Finance with 3.1 million Esops granted between 18 January and 8 May.

Multiple factors have contributed to the increased interest in Esops. "The recent surge in the stock market for SMEs, as well as nearly all technology companies, along with the upcoming revival in the startup ecosystem, have reignited interest in startup Esops," said Anirudh Damani, managing partner at Artha Venture Fund, which has invested in startups like LenDenClub, Agnikul, Fantasy Trading League, Onsite, StepSetGo, among others.

The rise in initial public offerings or IPOs is another fac-

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tor. According to Primedatabase, 76 Indian corporates raised ₹61,915 crore through main board IPOs in financial year 2023-24, 19% higher than the ₹52,116 crore mobilized by 37 IPOs in 2022-23.

"The IPOs have helped employees regain trust in Esops, although some still own shares that have notional values," said Bharath Reddy, partner at law firm Cyril Amarchand Mangaldas who works on compensation and benefits. "Earlier success stories via IPOs of the likes of Infosys and, later, startups like Zomato are being used to attract employees as ways of sharing the firm's success."

Buybacks are another reason why Esops are regaining popularity. New-age omnichannel furniture startup Wakefit said that it had three successful buyback rounds, which have allowed many of its employees to benefit from their Esops.

"Over the last 18-24 months, as company valuations have been reassessed, people's expectations have become more realistic. There is now a genuine belief that Esops can offer real financial benefits," said Chaitanya Ramalingegowda, co-founder and director, Wakefit.

Companies are creating hybrid forms of stock options instead of plain-vanilla ones. MINT

The latest buyback round happened in March 2023, two months after the company raised $40 million from investors led by Investcorp at a lower valuation than its previous round. Other recent buybacks of Esops came from startups such as D2C innerwear brand XYXX, mattress and sleep technology firm The Sleep Company, new-age FM services provider Pocket FM, e-commerce startup Meesho, and Astrotalk, among others.

In fact, India Inc. is beginning to juggle with different kinds of stock options as attracting and retaining top talent over a long period becomes tougher.

Companies are creating hybrid forms of stock options instead of plain-vanilla ones. And consultants say many of their clients are moving towards stricter forms of performance and restricted stocks (also called restricted stock units or RSUs).

An RSU is typically a certain number of company shares allotted to an employee as an incentive after completing a specified tenure. In performance stocks, on the other hand, the shares are allotted only if the employee meets certain goals, stays a specific time at the company, and the firm also meets its target in the sector. For firms, these kinds of stocks are "less dilutive".

However, the lure of stock options in startups—where the shares are more volatile—is attracting talent for a couple of years only.

(With inputs from Mayur Bhalerao)