Shyam Kumar Singh lived in a single-room tenement in Mumbai when life took a turn that seemed to be straight out of a Bollywood script, and he struck it rich. A poor migrant from Uttar Pradesh, Singh was an office boy, and the first employee of CitrusPay, which began operations in 2011.

In September 2016, he got a windfall payment of Rs50 lakh, when South African online payments company PayU acquired CitrusPay for Rs860 crore. Singh's returns on his Employee Stock Option Plan (ESOP) were part of the Rs43 crore paid to 50 employees who cashed in their stock option compensation. At least 15 employees were rewarded with over Rs1 crore each.

In January this year, Paytm sold shares to Canada-based VC firm Discovery Capital in a secondary sale, valuing the firm at $10 billion. That deal helped some 300 former and existing Paytm employees become millionaires. About 20-25 people reportedly made over $1 million each (about Rs6-7 crore) from the deal. If the recently announced $16 billion acquisition of online retailer Flipkart by US retail giant Walmart sails through, present and previous Flipkart employees are set to benefit by at least $500 million by exercising their ESOP options. A year ago, Flipkart had repurchased ESOPs worth $100 million from over 3,000 present and past employees, including Myntra and Jabong.

The charm of ESOPs is back after a lull of 3-4 years and employees are showing renewed interest in ESOPs. If ESOPs were an option for most IT firms and to some extent in sectors like pharma, FMCG or banking to retain key talent, now ESOPs have become the main option for companies across sectors - from new generation e-commerce and technology based companies like cab aggregators to insurance companies that are struggling to get adequate cash liquidity in business - to attract talent, loyalty and retention, say experts.

"Though exact data on companies and value of ESOPs on offer is not available, our estimate is that around 700 listed and over 3,000 unlisted companies have offered equity-based compensation in some form," says Harshu Ghate, Co-Founder and Managing Director, ESOP Direct, which specialises in equity compensation services.

Partial or complete implementation of ESOPs has been achieved by 97 per cent of 120 companies surveyed by ESOP Direct in 2017. The survey covered both listed and unlisted entities and almost 89 per cent of these companies said ESOPs were the best lure for talent.

Retention and reward continue to be the topmost reason for granting ESOPs, followed by employee ownership. Overall, 62 per cent of companies rate wealth creation as a key objective for implementing ESOP plans.

"ESOP is still one of the most attractive options to retain talent and ensure loyalty, especially for companies that are in a growing phase but lack liquidity in business and cannot afford to offer competitive packages to attract talent across sectors and businesses," says Ishita Sengupta, Partner, Global Mobility Services, PricewaterhouseCoopers (PwC).

Today's managers are selective. Gone are the days when ESOPs were generously offered to all employees. About 67 per cent companies surveyed by ESOP Direct said they granted ESOPs to less than 10 per cent of employees. Only 17 per cent companies said they gave ESOPs to over half of their employees. And 74 per cent companies gave ESOPs to all CXO level employees.

"E-commerce companies are still liberal, offering ESOPs across levels, though they are now cautious and offering these only for critical functions such as analytics, technology, finance", says K Sudarshan, MD, EMA Partners, an executive search firm.

"In the last five years, our survey shows a clear trend for covering fewer employees. 67 per cent of companies (2015: 61 per cent) now grant ESOPs to less than 10 per cent of their employees, up from 50 per cent in 2011, whereas only 24 per cent (2015: 23 per cent) of the companies grant to more than 20 per cent of the employees, down from 36 per cent in 2011", elaborates ESOP Direct's Harshu Ghate.
Until 2015, employee ownership, and retention were the key drivers for implementing ESOPs in an unlisted company. Similar to listed companies, reward and retention are the key drivers for implementing an ESOP plan even at unlisted companies. While companies with 50-200 employees give more weightage to reward and wealth creation as objectives for ESOPs, larger companies (over 1,000 employees) offer ESOPs mainly for retaining and rewarding well performing employees. Employees are also keen to know more and are interested in ESOPs these days.

The situation was different a few years ago, when economic slowdown was dragging down valuations of unlisted firms and stock markets and employees were sceptical towards fortunes from ESOPs.
In recent years, ESOP plans and options are again being explored by managements. However, the plans need to be well explained to employees by managements in a transparent manner with clear-cut exit options, vesting conditions and exercising schedules , says PwC's Ishita Sengupta.

ESOP Direct's survey shows 62 per cent of companies have a vesting period of 3 to 4 years and annual vesting is the preferred frequency opted by most of the companies. (Vesting period is the time before shares in an employee stock option plan or benefits in a retirement plan are unconditionally

owned by an employee. In most cases, if that person's employment terminates before the end of the vesting period, the company can buy back the shares at the original price). Listed companies prefer a shorter exercise period of up to four years, say experts.
ESOPs can be of varied types and forms - like Employee Stock Purchase Scheme (ESPS), Restricted Stocks Units (RSUs), Performance Shares, Stock Appreciation Rights (SAR) including Phantom Stocks or 'Shadow Stocks'. The advantage of Phantom Stocks, which are not real stocks, is that it can be redeemed into cash as per the scheme, without affecting the company's share capital or voting percentages.
Nowadays, employees are well informed, they know their rights, tax liability and exit options. Most employees now realise their ESOP valuations are notional until the start up goes for an IPO or share sale to PE/VCs or the company is really performing well to lift stocks in share market.

"While the management has a choice to devise an equity plan best suited for the employees which meets its own objectives, unlisted companies need to comply with the provisions of the Companies Act 2013 with respect to ESOPs, and listed companies need to comply with detailed Sebi regulations in this regard. Compliance with the Foreign Exchange Management Act, 1999 is also required to be ensured in case shares of a foreign parent company are allotted to employees of Indian subsidiary or shares of Indian company are allotted to employees who are based outside of India," says Shalini Jain, Tax Partner, People Advisory Services, EY India.
Experts point out that there were lot of grey areas earlier as observed when the Ibibo group took over bus ticketing firm RedBus, three years ago. A controversy had erupted following the acquisition, as even top-level managers claimed to have not benefitted from the deal.
Over the last four years, a new trend is emerging among both listed and unlisted companies. Companies are moving from performance-based vesting to time based vesting, mainly due to market factors and the intense PE/VC valuations. "This is quite a variation from global trends where companies are increasingly granting what is called performance units or performance awards. According to recent trends in the US, 82 per cent of the companies require satisfaction of performance conditions for vesting of awards," says Harshu Ghate.
Even traditional companies that are struggling at present are seriously looking at ESOPs as an option to retain talent. Tata Motors is one among them and will soon hand over a small shareholding to employees, in a first in the history of large companies under the Tata Group. Reportedly, Air India is also planning to offer ESOPs to retain its key employees, if a new suitor acquires the ailing government owned airline.

EY's Shalini Jain says that even conservative family owned manufacturing companies are nowadays looking at ESOPs as an option to bring professional talent and to retain key employees.

"If you look at senior management compensations of traditional established companies, stocks are a huge component and fixed salary is comparatively less. If a CEO's salary is Rs15 crore per annum, the fixed component would barely be Rs2-3 crore while the rest is largely stocks and other variables", notes Sudarshan of EMA Partners.

As listed companies grow each quarter and India's start-up success stories unfold one after another, the ESOPs rags to riches stories are also everywhere, churning out numerous young millionaires.