

KPIT

June 2020

New Stock Option Proposal



Current Stock Option Plan

Incentive Scheme for Top 300+ Critical Roles

Current ESOP Scheme

3.8 M ESOPs issued with Exercise Price of ₹ 85 and vesting over 3 yrs. starting July 2020

Vesting

Y1 : 30%, Y2 : 30%, Y3 : 40%

The Options were given out of the available shares with the Employee Welfare Trust and hence there was no dilution.

Current Scenario

- ① The Covid-19 outbreak has resulted in unprecedented times for the whole world resulting in a lot of uncertainty
- ② We are cautious about FY21 owing to ambiguity due to the current disruption and possibility of a relapse of the pandemic globally
- ③ The exercise Price of ₹ 85 per share is out of the money and thus not attractive for the critical employees

To counter the current scenario employees will end up taking a salary cut to the tune of ~25% (variable pay basis annual company performance)

We need to ensure these employees stay motivated and we maintain the attrition level lower. Once the current phase ends, we need to be ready for growth and these employees will enable the same

Proposed ESOP Scheme

Modified Incentive Scheme for Top 300+ Critical Roles

Proposed ESOP Scheme

Proposal to cancel the current ESOP Scheme and issue ESOPs under a new Scheme at a price not less than Face Value, decided by the NRC, with options vesting over 3 years, starting June 2021

- Employees proposed to be covered are around 4.25% of the total strength of KPIT
- The coverage is based on roles and not grades and will cover grades up to 8 levels below the CEO

Vesting

Y1 : 30%, Y2 : 30%, Y3 : 40%

The Options are proposed to be given from the available shares with Employee Welfare Trust and hence there will be no dilution.

Existing & New ESOP Scheme – Employee angle

3.8 M ESOPs

Existing ESOP Scheme
Exercise Price ₹ 85

Proposed ESOP Scheme
Exercise Price* ₹ 10

- 1 The main objective of the new proposed ESOP scheme is to act as a strong incentive for the next 3 years by potentially enabling the eligible employees to get compensated for the variable pay and incentive they are forgoing now.
- 2 The proposal to issue ESOPs at Face Value is to ensure the ESOPs usually stay in the money and the employees always see the potential upside for them.

New ESOP Scheme – Accounting Impact

- ① Total Cash conserved on the balance sheet as a cumulative impact of variable pay and incentive reduction will be equal to approx. ₹ 500 million
- ② Considering the current market price, the proposed ESOP Scheme valuation delta will not have a major impact on the profit and loss account.
- ③ Thus as a net impact it will be EPS accretive.

Vesting of Stock Options

The proposed stock options shall vest for senior level and other employees on the basis of company and business unit performance respectively.

The Nomination and Remuneration Committee (NRC) will prescribe the performance criteria as stated above for different groups of employees from time to time broadly based on the following areas:

1. Cash conservation
2. Wallet share in target customers
3. Employee Retention and
4. Profitability

Thus to summarize....



The New ESOP Scheme is in lieu of the existing ESOP Scheme and there is NO DILUTION and thus no impact on EPS



The New ESOP Scheme will shift the first vesting by one year and the grantees will thus not potentially be able to liquidate for one year. Plus it will provide an additional year of incentive for the employees.



A lesser variable pay and cash incentive will help conserve cash on the balance sheet



With reduced variable pay and incentives, the New ESOP Scheme will serve as a strong motivation and help reduce attrition



Thank You