

ESOP Accumulation Plan Analysis

Background :

A client working in a Software Company in Bangalore approached us, regarding his financial planning and ESOP taxation.

Challenge :

His ESOP tax was being paid by dilution of his existing options, and the sale of shares from his monthly ESOP vested amounts, affecting the possible accumulation of more ESOPs that had high growth potential, considering the company he worked for.

He has sought the guidance of Dilzer Consultants to take the appropriate action on the taxability of ESOPs.

Solution :

His Cash flow was very comfortable. We at Dilzer Consultants Pvt Ltd recommended adjusting the Tax payable towards ESOP accumulation from his Cash flow (i.e. Salary) and not by dilution of shares, considering the high growth potential of the company.

We also ensured his disposable income was not impacted to a large extent and did not compromise on his existing lifestyle needs.

The recommendation we provided for the above solution was after looking into the Key factors of the Company like

- Business Model
- Revenue Growth
- Research & Development
- Current Valuation
- Market Participants
- Customer Additions

EXAMPLE ANALYSIS FOR A PRODUCT-BASED SOFTWARE COMPANY:

- Well-accepted product and hence good growth in customer additions.
- Healthy rise in revenues with revenues rising from \$457 million to over 1.6 billion
- It has got a huge market to serve as the management expects its addressable market is over \$24 billion.
- It's investing heavily in research & development to leverage next-generation cloud technology.

- Consistent rise in cashflows is a big positive.
- The current valuation seems fairly valued given the growth potential it has.
- Some of the cofounders are still active on the company board.
- The markets in which it participates are intensely competitive, and if they do not compete effectively; business, results of operations, and financial condition could be harmed
- The business model relies on a high volume of transactions and affordable pricing. As lower-cost or free products are introduced by their competitors, the ability to generate new customers could be harmed.

Recommendation: Their analyst consensus belief is that there is much room left in terms of the share price. However key business risks will always pose a threat to the same.

Research Desk

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