

Report on
Fair value of Employee Stock Options and
Amortization of Compensation Cost and Disclosures

At

Bajaj Electricals Limited

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About the Report

Background:

Bajaj Electricals Limited (“the Company”) has granted Employee Stock Options (“ESOPs”/ “Options”) to its employees. The scope of this report is to calculate the fair value of the relevant Options granted by the Company, the compensation cost involved and Disclosure as per SEBI regulations for the year ended March 31, 2023.

Purpose:

The management needs to ascertain the fair value of Options granted as per Equity Based Compensation Plan of the Company, to ascertain accounting cost and required disclosure as per SEBI regulations.

The report presents the fair value of the Options granted as per the Black-Scholes Options pricing model. It also details the variables used for the calculation of fair value along with the rationale behind them.

1. Introduction and Methodology

The SEBI (Share based Employee Benefits & Sweat Equity) Regulations, 2021 (hereinafter referred to as “SEBI SBEB & SE Regulation”) recommends that Company needs to follow Indian Accounting Standard (Ind AS) on Share-based Payment (IND AS 102) as prescribed by Companies Act 2013 and rules made there under.

The IND AS 102 recommends calculating the fair value of Options using the Black-Scholes Options pricing model or any other binomial model. Since the Black-Scholes model has been widely used globally for valuing employee stock Options, we have used the same model for the purpose of our calculations.

The Black-Scholes model requires the consideration of certain variables such as volatility, risk free rate, expected dividend yield, expected Option life, market price and exercise price for the calculation of fair value of the Option. These variables significantly influence the fair value and any change in these variables could significantly affect the fair value of the Option.

The variables that influence the fair value of the Option and the impact of changes in those underlying variables on the Option value are presented below.

Underlying Variable	Change in Variable	Change in Option Value
Exercise price	Increases	Decreases
Market price	Increases	Increases
Current expected dividend yield	Increases	Decreases
Risk-free rate of return	Increases	Increases
Expected option life*	Increases	Increases
Volatility of the stock	Increases	Increases

* Expected Option life as distinguished from the maximum Option life.

Table 1: Correlation between the variables and Fair Value

We have explained our rationale behind the assumptions made for the purpose of the calculation of fair value later in this report.

2. Fair value computation

Fair value of Options granted by the Company during the year ended March 31, 2023, under its Equity Based Compensation Plan are shown in the table below:

Grant Date	Grant ID	Fair Value	Exercise Price
17/May/2022	GT17MAY2022	387.77	915.2
12/Aug/2022	GT12AUG2022	490.16	1156.4
8/Nov/2022	GT08NOV2022	490.84	1161.9
2/Feb/2023	GT02FEB2023	478.96	1148

Table 2: Fair value of Options granted

The fair value of Options has been calculated using the Black-Scholes Option pricing formula. The details of variables used for the computation of fair value are presented in the Table below:

Date of Grant : 17/May/2022	17-May-2023	17-May-2024	17-May-2025	17-May-2026
Grant ID : GT17MAY2022				
Variables				
Market Price (Rs.)	915.2	915.2	915.2	915.2
Expected Life (In Years)	2.5	3.5	4.5	5.5
Volatility (%)	46.24	43.34	43.56	42.57
Riskfree Rate (%)	6.4	6.74	6.96	7.12
Exercise Price (Rs.)	915.2	915.2	915.2	915.2
Dividend yield (%)	0.33	0.33	0.33	0.33
Fair Value per vest (Rs.)	309.56	356.28	409.18	448.31
Vest Percent (%)	20	25	25	30
Options Fair Value (Rs.)	387.77			

Date of Grant : 12/Aug/2022	12-Aug-2023	12-Aug-2024	12-Aug-2025	12-Aug-2026
Grant ID : GT12AUG2022				
Variables				
Market Price (Rs.)	1156.4	1156.4	1156.4	1156.4
Expected Life (In Years)	2.5	3.5	4.5	5.5
Volatility (%)	45.84	43.13	42.4	42.59
Riskfree Rate (%)	6.61	6.83	6.97	7.06
Exercise Price (Rs.)	1156.4	1156.4	1156.4	1156.4
Dividend yield (%)	0.26	0.26	0.26	0.26
Fair Value per vest (Rs.)	392.41	452.16	511.78	568.99
Vest Percent (%)	20	25	25	30
Options Fair Value (Rs.)	490.16			

Date of Grant : 8/Nov/2022	08-Nov-2023	08-Nov-2024	08-Nov-2025	08-Nov-2026
Grant ID : GT08NOV2022				
Variables				
Market Price (Rs.)	1161.9	1161.9	1161.9	1161.9
Expected Life (In Years)	2.5	3.5	4.5	5.5
Volatility (%)	42.22	43.05	41.82	41.9
Riskfree Rate (%)	7.01	7.19	7.3	7.37
Exercise Price (Rs.)	1161.9	1161.9	1161.9	1161.9
Dividend yield (%)	0.26	0.26	0.26	0.26
Fair Value per vest (Rs.)	376.51	459	515.85	572.76
Vest Percent (%)	20	25	25	30
Options Fair Value (Rs.)	490.84			

Date of Grant : 2/Feb/2023	02-Feb-2024	02-Feb-2025	02-Feb-2026	02-Feb-2027
Grant ID : GT02FEB2023				
Variables				
Market Price (Rs.)	1148	1148	1148	1148
Expected Life (In Years)	2.5	3.5	4.5	5.5
Volatility (%)	41.14	42.78	41.03	41.81
Riskfree Rate (%)	6.94	7.05	7.12	7.16
Exercise Price (Rs.)	1148	1148	1148	1148
Dividend yield (%)	0.26	0.26	0.26	0.26
Fair Value per vest (Rs.)	364.66	449.7	501.01	561.17
Vest Percent (%)	20	25	25	30
Options Fair Value (Rs.)	478.96			

3. Rationale for the variables used

The variables used for calculating the fair value and their rationale are as follows:

A. Stock price

The closing market price one day prior to the date of grant on National Stock Exchange (NSE) has been considered for the purpose of Option valuation.

Under the Equity Based Compensation Plan, one Option entitles an employee to one equity share of the Company, no further adjustment has been made in the stock price. An adjustment is warranted in cases where the *option: underlying share* ratio is not equal to one.

B. Volatility

Volatility is a measure of the amount by which a price has fluctuated or is expected to fluctuate during a period. The measure of volatility used in the Black-Scholes Option pricing model is the annualized standard deviation of the continuously compounded rates of return on the stock over a period of time.

The period to be considered for volatility has to be adequate to represent a consistent trend in the price movements. It is also important that movements due to abnormal events get evened out.

There is no research that demonstrates conclusively how long the historical period used to estimate expected long-term future volatility should be. However, Ind AS 102 on Share-based Payments issued by the Institute of Chartered Accountants of India recommends including the historical volatility of the stock over the most recent period that is generally commensurate with the expected life of the Option being valued.

Accordingly, since each vest has been considered as a separate grant, we have considered the volatility for periods, corresponding to the expected lives of different vests, prior to the grant date. Volatility has been calculated based on the daily closing market price of the Company's stock price on NSE over these years.

The fair value of an Option is very sensitive to this variable. Higher the volatility, higher is the fair value. The rationale being, the more volatile a stock is, the more its potential to go up (or come down), and the more the probability of gaining from the movement in the price.

C. Risk free interest rate

The risk-free interest rate being considered for the calculation is the interest rate applicable for maturity equal to the expected life of the Options based on the zero-yield curve for Government Securities.

D. Exercise Price

For the grants made we have considered the exercise price as per the information provided by the Company.

E. Time to Maturity / Expected Life of Options

Time to Maturity / Expected Life of Options is the period for which the Company expects the Options to be live. The minimum life of a stock Option is the minimum period before which the Options cannot be exercised, and the maximum life is the period after which the Options cannot be exercised.

Exercise behavior can be considered to arrive at expected life, if the Company can reasonably estimate its exercise behavior based on historical information to the extent to which the past experience is expected to be reasonably predictive of future experience.

F. Expected dividend yield:

Expected dividend yield has been derived by dividing the dividend per share for the financial year ended 2022 by the market price per share on the date of grant.

4. Accounting impact as per SEBI Regulations

- 1) IND AS 102 also states that the fair value of Options should be estimated using an option-pricing model (Black Scholes or other option pricing model) that takes into account as of the grant date the exercise price and the expected life of the option, the current price in the market of the underlying stock and its expected volatility, expected dividends on the stock, and risk-free interest rate for the expected term of the option. However, historically for the purpose of reporting the Company is following Black Scholes model for determining the fair value of the options.

The fair value of an option estimated on the grant date shall not be subsequently adjusted for changes in the price of the underlying stock or its volatility, the life of the option, dividends on the stock, or the risk-free interest rate.

- 2) IND AS 102 requires Companies to follow vest wise accounting. It means that services would be received over the vesting period; hence, the cost has been amortized over the vesting period.
- 3) Unvested Options has been reversed from profit and loss account and Vested Options from general reserve.

Assumptions for computation of compensation cost -

1. We have relied on the information provided by the Company for the purpose of calculation for cost under IND AS 102, including number of options granted, cancellations and expirations.
2. In cases where employees retire and vesting continues as per the grant conditions, the charge for such vests is considered over a shorter period of the grant date to the date of retirement.
3. Forfeiture rate, as provided by the management, has been applied.

The total fair value compensation cost for the year ended March 31, 2023, is ₹ 10,84,00,120.

5. Disclosures as per SEBI Regulations

SEBI Regulations provides that the ESOP details shall be disclosed either in the Director's Report or in the annexure to the Director's Report.

A. Summary of Status of ESOPs Granted :				
The position of the existing schemes is summarized as under :				
Sr. No.	Particulars	BAJAJ GROWTH 2007	ESOP 2011	ESOP 2015
I. Details of the ESOS :				
1	Date of Shareholder's Approval	Originally approved in AGM held on 26 Jul 2007 and revised in AGM held on 28 Jul 2010		As per the Postal Ballot dated 21 Jan 2016
2	Total Number of Options approved	Bajaj Growth 2007 Scheme approved 4,321,440 shares of face value Rs.2 each (erstwhile 864,288 shares of Rs.10 each prior to share-split) equivalent to 5% of paid up equity shares i.e. 86,428,800 shares as at the date of the announcement of scheme. The ESOP 2011 being the modified ESOP 2007 Scheme approved aggregate of 78,03,560 shares of face value Rs.2 each equivalent to 8% of paid up equity shares i.e. 97,544,495 as at the date of the announcement of scheme.		30,27,073 shares of face value Rs.2 each equivalent to 3% of paid up equity i.e. 100,902,426 shares as at the date of the announcement of scheme.
3	Vesting Requirements & Exercise Period	Options' vesting happen only on continuation of employment being the vesting requirement. The options are granted to employees with grade Assistant General Manager and above. As per Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014, SEBI (Share Based Employee Benefits) (Amendment) Regulations, 2015 and SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, there is a minimum period of one year between the grant of options and vesting of option observed by the Company. As per the Company Policy, the vested options can be exercised anytime upto 3 years from date of vesting. Options granted under the plan carry no dividend or voting rights till the options are exercised and duly allotted to the employees. When exercisable, each option is convertible into one equity share.		
4	The Pricing Formula	Closing price on the stock exchange where there is highest traded volume on working day prior to the date of grant.		
5	Maximum term of Options granted (years)	7 Years	7 Years	7 Years
6	Method of Settlement	Equity settled	Equity settled	Equity settled
7	Source of shares	Fresh Issue	Fresh Issue	Fresh Issue
8	Variation in terms of ESOP	Nil	Nil	The Nomination & Remuneration Committee of the Company at its meeting held on 12 November 2021 amended the Scheme to align it with the requirements of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021
9	Equity Shares reserved for issue under Employee Stock Options outstanding as at March 31, 2023	The Company has 10,830,633 Equity Shares of Rs.2/- each available to issue as Employees Stock Options as its Total Pool Size as of March 31, 2023, of which number of stock options not yet granted under ESOP 2015 scheme are 85,913, number of stock options vested & exercisable under ESOP 2011 & ESOP 2015 schemes are 296,790 and number of stock options unvested under ESOP 2015 scheme are 850,750. Thus, total equity shares reserved for issuance under ESOP Scheme outstanding as at March 31, 2021 are 1,233,453.		

II. Option Movement during the year ended March 31, 2023							
		BAJAJ GROWTH 2007		ESOP 2011		ESOP 2015	
Sr. No.	Particulars	No. of options	Wt. avg exercise price	No. of options	Wt. avg exercise price	No. of options	Wt. avg exercise price
1	No. of Options Outstanding at the beginning of the year	-	-	1,900.00	257.81	11,72,520.00	752.14
2	Options Granted during the year	-	-	-	-	3,27,500.00	1,138.71
3	Options Forfeited / Surrendered during the year	-	-	-	-	1,48,750.00	806.79
4	Options Expired (Lapsed) during the year	-	-	1,250.00	257.81	2,875.00	361.28
5	Options Exercised during the year	-	-	650.00	257.81	2,00,855.00	445.97
6	Number of options outstanding at the end of the year	-	-	-	-	11,47,540.00	909.95
7	Number of options exercisable at the end of the year	-	-	-	-	2,96,790.00	688.66
Option Movement during the year ended March 31, 2022							
		BAJAJ GROWTH 2007		ESOP 2011		ESOP 2015	
Sr. No.	Particulars	No. of options	Wt. avg exercise price	No. of options	Wt. avg exercise price	No. of options	Wt. avg exercise price
1	No. of Options Outstanding at the beginning of the year	-	-	28,400.00	290.26	11,03,140.00	466.01
2	Options Granted during the year	-	-	-	-	5,17,500.00	1,116.35
3	Options Forfeited / Surrendered during the year	-	-	2,750.00	257.81	1,24,625.00	558.84
4	Options Expired (Lapsed) during the year	-	-	3,250.00	261.44	6,500.00	347.76
5	Options Exercised during the year	-	-	20,500.00	302.19	3,16,995.00	435.28
6	Number of options outstanding at the end of the year	-	-	1,900.00	257.81	11,72,520.00	752.14
7	Number of Options exercisable at the end of the year	-	-	1,900.00	257.81	2,32,895.00	464.43

III. Weighted Average remaining contractual life			
	BAJAJ GROWTH 2007	ESOP 2011	ESOP 2015
Range of Exercise Price	Weighted average contractual life (years) as on March 31, 2023		
0 to 100	Nil	Nil	Nil
No. of Options Outstanding	Nil	Nil	Nil
101 to 200	Nil	Nil	Nil
No. of Options Outstanding	Nil	Nil	Nil
201 to 300	Nil	Nil	0.40
No. of Options Outstanding	Nil	Nil	5,250
301 to 400	Nil	Nil	2.93
No. of Options Outstanding	Nil	Nil	1,40,725
401 to 500	Nil	Nil	3.18
No. of Options Outstanding	Nil	Nil	77,750
501 to 600	Nil	Nil	1.89
No. of Options Outstanding	Nil	Nil	42,250
601 to 700	Nil	Nil	1.78
No. of Options Outstanding	Nil	Nil	48,815
701 to 800	Nil	Nil	3.67
No. of Options Outstanding	Nil	Nil	83,450
801 to 900	Nil	Nil	Nil
No. of Options Outstanding	Nil	Nil	Nil
901 to 1000	Nil	Nil	4.78
No. of Options Outstanding	Nil	Nil	25,000
1001 to 1100	Nil	Nil	4.02
No. of Options Outstanding	Nil	Nil	55,000
1101 to 1200	Nil	Nil	4.67
No. of Options Outstanding	Nil	Nil	6,31,800
1201 to 1300	Nil	Nil	4.51
No. of Options Outstanding	Nil	Nil	37,500

	BAJAJ GROWTH 2007	ESOP 2011	ESOP 2015
Range of Exercise Price	Weighted average contractual life (years) as on March 31, 2022		
0 to 100	Nil	Nil	Nil
No. of Options Outstanding	Nil	Nil	Nil
101 to 200	Nil	Nil	Nil
No. of Options Outstanding	Nil	Nil	Nil
201 to 300	Nil	0.35	0.99
No. of Options Outstanding	Nil	1,900.00	13,125
301 to 400	Nil	Nil	3.42
No. of Options Outstanding	Nil	Nil	2,85,900
401 to 500	Nil	Nil	3.76
No. of Options Outstanding	Nil	Nil	1,20,500
501 to 600	Nil	Nil	2.58
No. of Options Outstanding	Nil	Nil	58,750
601 to 700	Nil	Nil	2.69
No. of Options Outstanding	Nil	Nil	92,795
701 to 800	Nil	Nil	4.60
No. of Options Outstanding	Nil	Nil	98,950
801 to 900	Nil	Nil	Nil
No. of Options Outstanding	Nil	Nil	Nil
901 to 1000	Nil	Nil	Nil
No. of Options Outstanding	Nil	Nil	Nil
1001 to 1100	Nil	Nil	5.02
No. of Options Outstanding	Nil	Nil	65,000
1101 to 1200	Nil	Nil	5.27
No. of Options Outstanding	Nil	Nil	3,97,500
1201 to 1300	Nil	Nil	5.51
No. of Options Outstanding	Nil	Nil	40,000

IV	Weighted average Fair Value of Options Granted during the year ended March 31, 2023 whose			
		BAJAJ GROWTH 2007	ESOP 2011	ESOP 2015
(a)	Exercise price equals market price	No options were granted during the year	No options were granted during the year	481.74
(b)	Exercise price is greater than market price			None
(c)	Exercise price is less than market price			None
Weighted average Fair Value of Options Granted during the year ended March 31, 2022 whose				
		BAJAJ GROWTH 2007	ESOP 2011	ESOP 2015
(a)	Exercise price equals market price	No options were granted during the year	No options were granted during the year	458.10
(b)	Exercise price is greater than market price			None
(c)	Exercise price is less than market price			None

V	The weighted average market price of options exercised :			
		BAJAJ GROWTH 2007	ESOP 2011	ESOP 2015
	During the year ended March 31, 2023	Nil	989.70	1,135.93
	During the year ended March 31, 2022	Nil	1,088.36	1,094.25

VI Method and Assumptions used to estimate the fair value of options granted during the year ended March 31, 2023:			
The fair value has been calculated using the Black Scholes Option Pricing model			
The Assumptions used in the model are as follows:			
	BAJAJ GROWTH 2007	ESOP 2011	ESOP 2015
Variables	Weighted Average	Weighted Average	Weighted Average
1. Risk Free Interest Rate	No options granted during the year	No options granted during the year	6.98%
2. Expected Life (in years)			4.15
3. Expected Volatility			42.99%
4. Dividend Yield			0.27%
5. Exercise Price (Rs.)			1138.71
6. Price of the underlying share in market at the time of the option grant. (Rs.)			1138.71
Method and Assumptions used to estimate the fair value of options granted during the year ended March 31, 2022:			
The fair value has been calculated using the Black Scholes Option Pricing model			
The Assumptions used in the model are as follows:			
	BAJAJ GROWTH 2007	ESOP 2011	ESOP 2015
Variables	Weighted Average	Weighted Average	Weighted Average
1. Risk Free Interest Rate	No options granted during the year	No options granted during the year	5.44%
2. Expected Life (in years)			4.15
3. Expected Volatility			42.92%
4. Dividend Yield			0.00%
5. Exercise Price (Rs.)			1116.35
6. Price of the underlying share in market at the time of the option grant. (Rs.)			1116.35
Assumptions:			
Stock Price: Closing price on National Stock Exchange on the date of grant has been considered			
Volatility: The expected price volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information. The volatility is calculated considering the daily volatility of the stock prices on National Stock Exchange of India Ltd. (NSE), over a period prior to the date of grant corresponding with the expected life of the options.			
Risk-free rate of return: The risk-free interest rate being considered for the calculation is the interest rate applicable for a maturity equal to the expected life of the options based on the zero-coupon yield curve for Government Securities			
Exercise Price: Exercise Price of each specific grant has been considered.			
Time to Maturity: Time to Maturity / Expected Life of options is the period for which the Company expects the options to be live.			
Expected dividend yield: Expected dividend yield has been calculated as an average of dividend yields for five financial years preceding the date of the grant			
VII Effect of Share-Based Payment Transactions on the Entity's Profit or Loss for the year (Rs. In Lakhs) :			
	Particulars	31-Mar-23	31-Mar-22
1	Employee Stock Option Plan Expense	1,084.00	580.85
2	Total ESOP Reserve at the end of the year	1,874.07	1,198.56