

Report on

## Amortisation of Compensation Cost and Disclosures of Employee Stock Options

At

Bajaj Electricals Limited

### ***Confidentiality and Disclaimer***

Access to this document should be restricted only to personnel of Bajaj Electricals Limited (“the Company”) and their auditors with a need to know. The Company shall be solely responsible for the disclosure of any confidential information made by any person who had access to the said confidential information through or under the trust of the Company. No part of it may be published, circulated, quoted or reproduced for perusal, outside the Company, without prior written approval from KP Capital Advisors Pvt. Ltd.

This report is based on the information and data provided by the Company for the purpose of this report. KP Capital Advisors Pvt. Ltd. assumes no responsibility of any kind and makes no warranties of any kind, whether express or implied, as to the accuracy or completeness of the information provided by the Company. This report does not constitute an audit or certification of the Company’s option plan and financials. Also, that the report is issued on the understanding that the Company has drawn our attention to all the relevant matters, of which it was aware concerning the Company’s option plan and business which may have an impact on our report.

## About the Report

---

**B**ajaj Electricals Limited (“the Company”) has been granting Employee Stock Options to its employees. The scope of this Report is to calculate Compensation cost of the Employee Stock Options plan as per IND AS 102 and Disclosures as per SEBI regulations for the year ended March 31, 2021.

## 1. Introduction and Methodology

The Institute of Chartered Accountants of India (ICAI) along with the National Advisory Committee on Accounting Standards has chosen to adopt convergence with IFRS as opposed to embracing the same as-is. ICAI has modified the IFRS by issuing the Indian Accounting Standards (IND AS), keeping in view the legitimate, administrative and financial environment in India.

As per the notification issued by the Ministry of Corporate Affairs, Companies (Indian Accounting Standards) Rules, 2015 (here in after referred as “New Rules”) has come into effect from April 01, 2015.

Indian Accounting Standard (herein after referred to as “IND AS”) 102- Share based payment requires an entity to reflect in its profit or loss and financial position the effects of share based payment transactions, including expenses associated with transactions in which share options are granted to employees.

An entity is required to disclose information that enables users of the financial statements to understand the nature and extent of share-based payment arrangements that existed during the period.

## 2. Accounting impact as per IND AS 102- Share based payment

New provisions will impact the existing outstanding Grants as well as new Grants under the existing schemes. The real impact would depend on the exercise price at which Grants have 4 been made or share-holder approvals taken. Generically it can be said that the incremental impact will be high if the existing Grants are at Market price with Intrinsic Value accounting.

With respect to the new Grants under the existing schemes, companies will need to evaluate the impact vis-à-vis designing a new plan within the framework of SEBI Regulations / Companies Act that would reduce the accounting charge without compromising the attractiveness to the employees. It is however certain that going forward, accounting implications will be the key determinant while designing the Plan features.

The ICAI issued IND AS 101, which deals with the first time adoption of IND AS. First time adoption has its own challenges. One has to prepare an opening IND AS Balance Sheet on the date of transition. This is the starting point for adopting IND AS. IND AS 102 - Share based payment transactions Para D2 of IND AS 101 has given the prospective effect of IND AS 102, and only encourage the retrospective effect of IND AS 102. IND AS 102 will not apply to Options that are vested before the transition date and will be applicable for the Unvested Options on the date of transition.

The forfeiture rate assumed for the purpose of calculations is 35% as has been provided by the Company.

The Balance in the ESOP Reserve Account as on 31st Mar 2021 is ₹ 11,81,38,995.

# ESOP Financials

The compensation cost and the balance in the ESOP reserve for quarter ended March 2021 is as follows:

Particulars	Amount (Rs.)
<b>ESOP Reserve Account as on March 2020</b>	<b>12,61,08,158</b>
Add cost for June 2020	1,20,60,275
Add cost for Sept 2020	1,26,35,449
Add cost for Dec 2020	74,69,982
Add cost for March 2021	1,00,33,585
<b>Total Cost</b>	<b>4,21,99,290</b>
<b>Reversals from Balance Sheet due to options vested cancelled in Qtr (True up)</b>	
Jun-20	36,34,559
Sep-20	10,61,521
Dec-20	33,60,621
Mar-21	13,85,626
<b>Total</b>	<b>94,42,327</b>
<b>Reversals from Balance Sheet due to options Lapsed during the Qtr (True up)</b>	
Jun-20	7,94,564
Sep-20	18,31,811
Dec-20	2,01,836
Mar-21	-
<b>Total</b>	<b>28,28,211</b>
<b>Reversals from Balance Sheet due to options unvested cancelled in Qtr (True up)</b>	
Jun-20	-
Sep-20	-
Dec-20	-
Mar-21	-
<b>Total</b>	<b>-</b>
<b>Transferred to Security Premium due to Exercise</b>	
Jun-20	-
Sep-20	1,01,51,563
Dec-20	99,09,875
Mar-21	1,78,36,477
<b>Total</b>	<b>3,78,97,915</b>
<b>Closing Balance of reserve account</b>	<b>11,81,38,995</b>

### 3. 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.

Sr. No.	Particulars	BAJAJ LOYALTY 2007	BAJAJ GROWTH 2007	ESOP 2011	ESOP 2015
<b>I. Details of the ESOS</b>					
1	Date of Shareholder's Approval	Originally approved in AGM held on 26 Jul 2007 and revised in AGM held on 28 Jul 2010			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	Options vesting happens 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 and SEBI (Share Based Employee Benefits) (Amendment) Regulations, 2015, there is a minimum period of one year between the grant of options and vesting of option observed by the Company. 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	One time grant at 50% discount to the closing price of the share	Closing price on the exchange where there is highest trading volume on working day prior to the date of grant.		
5	Maximum term of Options granted (years)	4 Years	7 Years	7 Years	7 Years
6	Method of Settlement	Equity settled	Equity settled	Equity settled	Equity settled
7	Source of shares	Fresh Issue	Fresh Issue	Fresh Issue	Fresh Issue
8	Variation in terms of ESOP	Nil	Nil	Nil	The Scheme was amended by shareholders at their Annual General Meeting held on 07 August 2020, by increasing the maximum number of employee stock options to be granted to an individual employee from 40,000 (Forty Thousand) Options to 1,00,000 (One Lakh) Options.

Sr. No.	Particulars	BAJAJ LOYALTY 2007	BAJAJ GROWTH 2007	ESOP 2011	ESOP 2015
9	Equity Shares reserved for issue under Employee Stock options outstanding as at March 31, 2021				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, 2021, of which number of stock options not yet granted under ESOP 2015 scheme are 1,166,013, number of stock options vested & exercisable under ESOP 2011 & ESOP 2015 schemes are 346,665 and number of stock options unvested under ESOP 2015 scheme are 784,875. Thus, total equity shares reserved for issuance under ESOP Scheme outstanding as at March 31, 2021 are 2,297,553.

Sr. No.	Particulars	BAJAJ LOYALTY 2007		BAJAJ GROWTH 2007		ESOP 2011		ESOP 2015	
<b>II. Option Movement during the year ended Mar 2021</b>									
Sr. No	Particulars	No. of Options	Wt. avg exercise Price	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	0	NA	0	0	1,32,500	282.71	12,67,800	422.99
2	Options Granted during the year	0	NA	0	0	0	0	2,07,500	610.57
3	Options Forfeited / Surrendered during the year	0	NA	0	0	6,250	316.25	1,49,875	437.06
4	Options Lapsed during the year	0	NA	0	0	20,150	312.42	2,500	259.24
5	Options Exercised during the year	0	NA	0	0	77,700	269.55	2,19,785	376.44
7	Money realised by exercise of options (Rs.)	0	NA	0	0	2,09,44,065	-	8,27,35,379	-
6	Number of options Outstanding at the end of the year	0	NA	0	NA	28,400	290.26	11,03,140	466.01
7	Number of Options exercisable at the end of the year	0	NA	0	NA	28,400	290.26	3,18,265	428.98
<i>*Weighted Avg Exercise Price adjusted for rights issue</i>									
<b>Option Movement during the year ended Mar 2020</b>									
Sr. No	Particulars	No. of Options	Wt. avg	No. of Options	Wt. avg	No. of Options	Wt. avg	No. of Options	Wt. avg
1	No. of Options Outstanding at the beginning of the year	0	NA	0	0.00	2,37,975	281.66	10,13,450	456.71
2	Options Granted during the year	0	NA	0	0.00	0	0.00	4,65,000	357.09
3	Options Forfeited / Surrendered during the year	0	NA	0	0.00	26,950	297.81	1,84,775	438.55
4	Options Lapsed during the year	0	NA	0	0.00	24,250	281.84	0	0.00
5	Options Exercised during the year	0	NA	0	0.00	54,275	263.11	25,875	229.79
6	Number of options Outstanding at the end of the year	0	NA	0	NA	1,32,500	282.71	12,67,800	422.99
7	Number of Options exercisable at the end of the year	0	NA	0	NA	1,32,500	282.71	3,08,175	394.81

III. Weighted Average remaining contractual life

Sr. No.	Particulars	BAJAJ LOYALTY 2007	BAJAJ GROWTH 2007	ESOP 2011	ESOP 2015
	<b>Range of Exercise Price</b>	<b>Weighted average contractual life (years) as on 31 Mar 2021</b>			
	0 to 100	Nil	Nil	Nil	Nil
	No. of Options Outstanding	Nil	Nil	Nil	Nil
	101 to 200	Nil	Nil	Nil	Nil
	No. of Options Outstanding	Nil	Nil	Nil	Nil
	201 to 300	Nil	Nil	0.95	1.70
	No. of Options Outstanding	Nil	Nil	17,900	69,175
	301 to 400	Nil	Nil	0.27	4.00
	No. of Options Outstanding	Nil	Nil	10,500	4,37,540
	401-500	Nil	Nil	Nil	3.85
	No. of Options Outstanding	Nil	Nil	Nil	1,98,800
	501-600	Nil	Nil	Nil	3.48
	No. of Options Outstanding	Nil	Nil	Nil	84,375
	601-700	Nil	Nil	Nil	3.16
	No. of Options Outstanding	Nil	Nil	Nil	2,00,750
	701-800	Nil	Nil	Nil	5.50
	No. of Options Outstanding	Nil	Nil	Nil	1,12,500
	<b>Range of Exercise Price</b>	<b>Weighted average contractual life (years) as on 31 Mar 2020</b>			
	0 to 100	Nil	Nil	Nil	Nil
	No. of Options Outstanding	Nil	Nil	Nil	Nil
	101 to 200	Nil	Nil	0.62	2.87
	No. of Options Outstanding	Nil	Nil	6,400	9,750
	201 to 300	Nil	Nil	1.75	2.54
	No. of Options Outstanding	Nil	Nil	79,250	1,83,175
	301 to 400	Nil	Nil	0.86	4.71
	No. of Options Outstanding	Nil	Nil	46,850	5,37,375
	401-500	Nil	Nil	Nil	3.51
	No. of Options Outstanding	Nil	Nil	Nil	1,55,000
	501-600	Nil	Nil	Nil	4.41
	No. of Options Outstanding	Nil	Nil	Nil	90,000
	601-700	Nil	Nil	Nil	4.01
	No. of Options Outstanding	Nil	Nil	Nil	2,92,500

Sr. No.	Particulars	BAJAJ LOYALTY 2007	BAJAJ GROWTH 2007	ESOP 2011	ESOP 2015
<b>IV</b>	<b>Weighted average Fair Value of Options granted during the year ended Mar 2021 whose</b>				
(a)	Exercise price equals market price	No options were granted during the year	No options were granted during the year	No options were granted during the year	240.38
(b)	Exercise price is greater than market price				Nil
(c)	Exercise price is less than market price				Nil
	<b>Weighted average Fair Value of Options granted during the year ended Mar 2020 whose</b>				
(a)	Exercise price equals market price	No options were granted during the year	No options were granted during the year	No options were granted during the year	131.15
(b)	Exercise price is greater than market price				Nil
(c)	Exercise price is less than market price				Nil
<b>V</b>	The weighted average market price of options exercised during the year ended Mar 2021	NIL	NIL	616.71	721.47
	The weighted average market price of options exercised during the year ended Mar 2020	NIL	NIL	463.37	422.14

**VI. Employee-wise details of options granted during the financial year 2020-21 to:  
Senior managerial personnel**

Sr. No.	Particulars	BAJAJ LOYALTY 2007	BAJAJ GROWTH 2007	ESOP 2011	ESOP 2015
<b>VI</b>	<b>Employee-wise details of options granted during the financial year 2020-21 to:</b>				
(i)	<b>Senior managerial personnel</b>				
	<b>Name of employee</b>	<b>No. of Options granted</b>	<b>No. of Options granted</b>	<b>No. of Options granted</b>	<b>No. of Options granted</b>
	Anuj Vishnukumar Poddar	NIL	NIL	NIL	40000

Sr. No.	Particulars	BAJAJ LOYALTY 2007	BAJAJ GROWTH 2007	ESOP 2011	ESOP 2015
(ii)	Employees who were granted, during any one year, options amounting to 5% or more of the options granted during the year				
	Name of employee	No. of Options granted	No. of Options granted	No. of Options granted	No. of Options granted
	Anuj Vishnukumar Poddar	NIL	NIL	NIL	40000
	Deepak Sharma	NIL	NIL	NIL	20000
	Rakesh Kumar Ramachandran	NIL	NIL	NIL	15000
	Soumyajyoti Ghosh	NIL	NIL	NIL	15000
(iii)	Identified employees who were granted option, during any one year equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant.				
	Name of employee	No. of Options granted	No. of Options granted	No. of Options granted	No. of Options granted
	NIL	NIL	NIL	NIL	NIL

Particulars	BAJAJ LOYALTY 2007	BAJAJ GROWTH 2007	ESOP 2011	ESOP 2015
<b>VII</b>	Method and Assumptions used to estimate the fair value of options granted during the year ended Mar 2021:			
	The fair value has been calculated using the Black Scholes Option Pricing model			
	The Assumptions used in the model are as follows:			
<b>Variables</b>	<b>Weighted Average</b>	<b>Weighted Average</b>	<b>Weighted Average</b>	<b>Weighted Average</b>
1. Risk Free Interest Rate	No options granted during the year	No options granted during the year	No options granted during the year	5.14%
2. Expected Life(in years)				4.15
3. Expected Volatility				41.35%
4. Dividend Yield				0.16%
5. Exercise Price				610.57
6. Price of the underlying share in market at the time of the option grant. (Rs.)				610.57

Particulars	BAJAJ LOYALTY 2007	BAJAJ GROWTH 2007	ESOP 2011	ESOP 2015
<b>Method and Assumptions used to estimate the fair value of options granted during the year ended Mar 2020:</b>				
The fair value has been calculated using the Black Scholes Option Pricing model				
The Assumptions used in the model are as follows:				
Variables	Weighted Average	Weighted Average	Weighted Average	Weighted Average
1. Risk Free Interest Rate	No options granted during the year	No options granted during the year	No options granted during the year	6.08%
2. Expected Life(in years)				4.15
3. Expected Volatility				38.38%
4. Dividend Yield				0.96%
5. Exercise Price				363.27
6. Price of the underlying share in market at the time of the option grant. (Rs.)				363.27

Assumptions:	
1	Stock Price: Closing price on National Stock Exchange on the date of grant has been considered
2	Volatility: The expected price volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publically 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.
3	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
4	Exercise Price: Exercise Price of each specific grant has been considered.
5	Time to Maturity: Time to Maturity / Expected Life of options is the period for which the Company expects the options to be live.
6	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.

VIII Effect of share-based payment transactions on the entity's Profit or Loss for the period:						
Particulars		31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21
1	Employee Option plan expense	4,22,99,042	2,85,87,834	3,89,30,444	5,21,24,268	4,21,99,290
2	Total liability at the end of the period	11,98,99,461	9,58,13,741	9,13,76,013	12,61,08,158	11,81,38,995