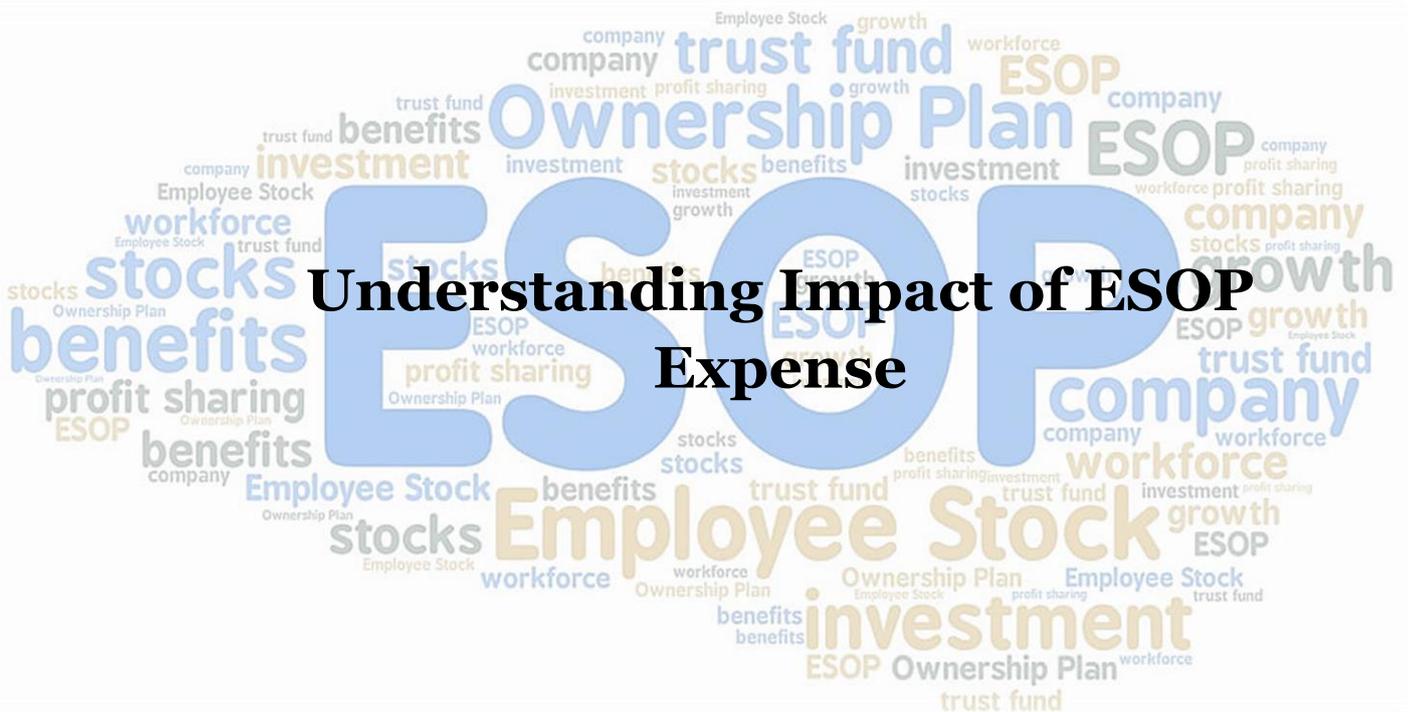




FIN VAL
RESEARCH & CONSULTANCY



21st July 2025



ESOP in Action: Shifting the Benefit Expense Paradigm

An ESOP - **Employee Stock Ownership Plan**, is an employee benefit plan that gives employees ownership in the company, often in the form of company stock. It's a way for employees to gain equity in the organization they work for, aligning their interests with the company's success.

Analysing these metrics is essential for assessing a company's compensation strategy and financial health. High total employee expenses can indicate a commitment to talent, while ESOPs serve as a tool for aligning employee interests with company success. Effectively managing expenses related to ESOP distributions ensures financial stability and employee satisfaction.

In this article we analyse ESOP expenses for some of the major startups both listed and unlisted and have come up with following key points:

- In general startups have approximately 30% in ESOP expense as compared to traditional listed IT players which have only 1% in ESOP expense
- As the startup grows, they have higher proportion of ESOP expense as compared to smaller startups
- ESOP expense in general increases with the valuation of the company
- In many cases, there is significant decrease in ESOP expense from FY 2023 to FY 2024. This is primarily due to exercise of options during FY 2024 and hence ESOP is no longer outstanding.

Some major startups showing variations in change of ESOP percentage.

All figures in INR Cr

Sector	Company Name	Total Employee Expense		ESOP/Share based Expense		% as of total employee expense	
		2023	2024	2023	2024	2023	2024
Fintech	PhonePe	3,096	3,603	2,057	2,193	66.4%	60.9%
Fintech	Paytm	3,778	4,589	1,456	1,466	38.5%	31.9%
Fintech	Star Housing Finance	10	13	2	1	19.2%	7.5%
Fintech	PB Fintech	1,539	1,644	542	330	35.2%	20.1%
Fintech	Vivriti Capital	75	124	14	27	18.6%	21.8%
Travel tech & Hospitality	ixigo	126	141	16	11	12.4%	8.1%
Travel tech & Hospitality	yatra	109	128	13	20	11.9%	15.6%
Travel tech & Hospitality	OYO	1,549	744	630	181	40.7%	24.3%
Renewable energy	ReNew Power	441	447	197	165	44.6%	37.0%
E - commerce & Marketplace	Meesho	726	750	106	252	14.6%	33.5%
Logistics & Supply chain	Delhivery	1,400	1,437	289	226	20.7%	15.7%
Logistics & Supply chain	BlackBuck	220	287	57	150	25.8%	52.1%
Consumer electronics	Boat	67	97	4	11	5.4%	11.5%
Home service	Urban company	377	345	93	57	24.8%	16.6%
Food Delivery	Eternal	1,465	1,669	506	615	34.5%	36.8%
Food Delivery	Swiggy	2,130	2,012	534	596	25.1%	29.6%
Defence	ideaforge	50	52	27	7	54.0%	13.5%
EV 2 Wheeler	Ola electric	427	439	110	89	25.8%	20.2%
EV 2 Wheeler	Ather Energy	215	303	6	61	2.9%	20.1%
Consumer service	Firstcry	770	686	361	178	46.9%	25.9%
Consumer service	Mamaearth	165	171	28	13	17.1%	7.6%

Significant Findings

1. In general startups have approximately 30% in ESOP expense as compared to traditional listed IT players which have only 1% in ESOP expense

Reasons: Startups having 30% in ESOP expense

- Talent acquisition without high salaries - Startups frequently offer below-market cash pay in exchange for generous equity to compete with big players. This helps the startup to conserve cash which is one of the most important things for startups.
- Big equity pool and rapid vesting - Early-stage firms may set aside 10 - 20% of total equity for ESOPs, distributed among early hires, senior roles, and to continuously top-up post-funding.
- High risk, high reward structure - Equity can constitute 20-50% of an employee's net payout, especially for early-stage joiners, reflecting the risk they take.
- Push for quick growth and aggressive hiring - To scale fast, startups front-load ESOPs as a key incentive, resulting in large share-based compensation costs on financial statements.

Reasons: Why listed IT companies stay near 1%.

- All listed IT companies like Infosys, Wipro, HCL Technology, Tech Mahindra, Persistent System, etc either do not have any ESOP expense or have <1% of ESOP expense as a % of total expense.
- Mature compensation model – They balance cash with modest equity (e.g., RSUs) and offer less generous ESOPs as a percent of payroll.
- Stable liquidity and retention – Their equity programs are designed for ongoing employee retention rather than aggressive recruitment spikes.
- Lower perceived risk – Being established with consistent profits and limited growth volatility, they don't incentivize employees via large upside-based reward.

2. As the startup grows, they have higher proportion of ESOP expense as compared to smaller startups

Reasons: Broader distribution and more grants to Senior level employees.

ESOP expense depends on the number of options granted and the value of the company. As the startup grows, the more employees are granted options, and the existing senior employees are also granted more options which increases the overall options granted for the startup.

Reasons: Shift from cash - heavy to equity - heavy compensation.

While larger startups can afford higher cash salaries, they continue offering stock options for retention and alignment with the organization goals. These stock options are often cash settled options rather than equity settled options which keeps the ESOP burdens high.

**More people = More equity grants
Higher share value = Costlier options per unit
Frequent pool increase = Ongoing expense cycles**

3. ESOP expense in general increases with the valuation of the startup

As the startup's valuation increases, ESOP expense rises too—even if the number of options stays the same. That's because these options must be recorded at their 'fair value' when they're granted, and fair value goes up as the company's share price increases. For startups that use cash-settled options, the liability added to the balance sheet also grows with valuation—further increasing expense on the P&L.

4. In many cases, there is significant decrease in ESOP expense from FY 2023 to FY 2024

Travel Tech & Hospitality sector startups like Ixigo, OYO and speciality retail firms like Firstcry and Mamaearth showed stable or reduced ESOP. This is primarily due to couple of reasons

- **Exercise of options** during FY 2024 and hence stock option is no longer outstanding
- Shift toward more cash-based or controlled compensation structures for the late stage startups