

Clarification on Resolution seeking the approval of the Shareholders of Housing Development Finance Corporation Limited regarding grant of stock options to its eligible employees under ESOS - 2017

Query No. 1

What is the total potential dilution and annual dilution from outstanding stock options and the stock options proposed under ESOS 2017?

Response

- The details of Options that are available for exercise from the earlier stock option schemes are as under:

Schemes	No. of Shares	% to Paid-up Capital as on date	Last Date of Exercise
ESOS-11	1,05,32,520	0.66%	May 22, 2020
ESOS-14	2,86,87,580	1.81%	October 7, 2022
Total	3,92,20,100	2.47%	

- Out of 4,98,51,524 options (1 option = 1 share) in the proposed resolution, a minimum of 83,00,000 options representing 0.50% of the expanded capital (16.65% of the total number of options) will be granted in future. The balance will be granted at the discretion of the Nomination & Remuneration Committee of Directors.
- These Options would vest within a period ranging from a minimum of 1 year to 3 years and 1 month. The employees can exercise the stock options by paying the exercise price (**market price at the time of grant**) to the Corporation within a period of 5 years from the date of respective vesting.
- Hence the said dilution will be gradual and take place over a period of up to 9 years.

Query No. 2

What is the expected cost of ESOS 2017?

Response

- Historically the Corporation has been granting stock options to its employees at the prevailing market price at the time of grant (Exercise Price). The requisite disclosure has been made on page number 86 of the Annual Report for the financial year 2015-16.

- The proposed stock options **will also be granted at the prevailing market price at the time of grant** (Exercise Price). Further the employees will be required to pay the Exercise Price whilst exercising the said options in cash to the Corporation. Employees would also be required to pay income tax at the applicable rates on the difference between the market price of the shares on the date of exercise and the Exercise Price.
- Under the current applicable accounting standards, the Corporation is not required to charge any amount to its profit & loss account towards equity based award cost since the shares are granted at the prevailing market price.
- The Corporation discloses the difference between the employee compensation cost computed using the intrinsic value method (Exercise Price) and the employee compensation cost that should have been recognised if it had used the fair value of the options (Black Scholes) and the impact of this difference on the profits and on the EPS of the Corporation in its Annual Report.

Query No. 3

How many employees participate in ESOS 2017 as against ESOS 2014?

Response

- Currently, the Corporation has 2,276 employees as against 1,956 employees to whom stock options were granted under ESOS 2014.
- All the permanent employees of the Corporation as on the date of grant will participate in ESOS 2017, subject to fulfilment of certain performance related criteria. This is unlike the practice followed by most of the companies, which grants stock options only to the senior employees. Grant of stock options to all employees ensures that the interests of all employees are aligned with the interest of the Corporation.
- The number of options granted to each employee will be decided by the Nomination and Remuneration committee based on various criteria which includes the performance, grade, number of years of service with the Corporation and future potential etc.