QAPITA

CASE STUDY

Designing a Phantom Option Plan for an NBFC

The company is a registered NBFC. Its services include rural microfinancing, loans for commercial vehicles and two-wheelers, loans against real estate, and working capital for self-employed and SMEs.

10,000 + EMPLOYEES

600 + OUTLETS

2 MILLION + CLIENTS

Serving more than 2 million clients in urban cities and rural villages of India. Foreign Funds own a controlling share in the company, which is not listed and may not seek to list soon. The company needs a long-term equity instrument to secure management-level employee retention.

Business Challenges

The challenge was key talent retention in a highly competitive business. The company faced limitations on establishing an ESOP pool because funds did not want their shareholdings to be diluted. Most peers have a stock option plan in place for their key executives. Also, there was uncertainty about making an Initial Public Offering.

Solution Delivered

After careful consideration of all available possibilities, the Phantom Option Plan was proposed for implementation. Around 100 employees at the senior management level were given annual grants of phantom units that vest over three years. They received no equity rights from the phantom units. Vesting's were tied to performance metrics, with organizational and individual OKRs/KPIs defined. The employee must exercise their vested options within a month or may carry it over to the next year. The cash payoff of vested units was made following the exercise based on the increase in the underlying share price. The share price was calculated at book value basis. Book value was considered suitable after assessing the liability and provisioning. The book value formula was designed to reflect intrinsic growth. Also, to ensure obligations on the Company, precise documentation was prepared.

Impact Created

The plan has been in place for more than ten years and has aided the organization in talent retention and acquisition. Over the period, the value of the shareholders has also increased. Annual Grants and performance vesting criterion ensured that the incentives were linked with revenue growth and margin improvement; A decent percentage of issued units have vested, demonstrating the productivity of the participants. In a poll done by an independent organization, the Company was named one of the "best places to work," showing its gains in terms of culture as well. Also, the managed services team oversaw the plan administration to ensure it ran well.

Ready to transform your equity management?