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The Ultimate Guide on

ESOP Valuation

for Companies in India

— GUIDE 2026 —

Plan Design • Ind AS 102 • Tax FMV • Exercise • Liquidity • FEMA

A practitioner-focused handbook covering valuation issues across the complete ESOP lifecycle, from plan design and grant date measurement to accounting, exercise, liquidity events and cross-border compliance.

BY

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Sagar Shah is the Founder of Elite Valuation and leads the firm's Valuation and Advisory practice. A Chartered Accountant (All India Rank Holder), Company Secretary and IBBI Registered Valuer, he brings 15+ years of professional experience advising promoters, investors, listed companies, startups and multinational groups on complex valuation and transaction matters across India.

Before founding Elite Valuation, he spent 9 years at Ernst & Young across valuation, transaction advisory, transfer pricing and cross-border taxation. His work today spans financial reporting, M&A and restructurings, intangible assets, ESOPs, FEMA, AIFs, securities, financial modelling and other regulator-facing assignments where the valuation must stand up to scrutiny from auditors, regulators, investors and boards.

EXPERIENCE	CLIENT BASE	CREDENTIALS	BIG 4 FOUNDATION
15+ Years	**500+ Client Engagements**	**CA | CS | IBBI RV**	**9 Years at EY**

VALUATION & ADVISORY EXPERTISE

- Business & Company Valuation
- M&A, Merger, Swap Ratio & PPA Valuation
- Intangible Asset, Brand, Patent & IP Valuation
- ESOP, Sweat Equity & Share-Based Payment Valuation
- Ind AS / Financial Reporting Valuation
- Shares, Securities & Complex Instrument Valuation
- FEMA, FDI / ODI & Cross-Border Valuation
- Income Tax, Companies Act & SEBI Valuation
- AIF Valuation, Structuring & Compliance Support
- ESOP Structuring, Scheme Design & Implementation
- Financial Modelling, Fundraising & Transaction Support
- Due Diligence, Transfer Pricing & Cross-Border Advisory

Practice focus. Elite Valuation is built for assignments where financial judgement, regulatory interpretation and transaction context intersect. The team supports both one-time transactions and recurring reporting requirements, with an emphasis on independent analysis, clear documentation and execution that is practical for management and audit teams.

HOW WE APPROACH ENGAGEMENTS

01	02	03	04
Clarify the purpose We start with the reporting, transaction or regulatory objective before selecting a method.	**Build from evidence** Assumptions are anchored to financials, market data, contractual terms and the economics of the business.	**Document the judgement** The report explains the why behind the number so that reviewers can follow and challenge it.	**Stay involved through review** We support management through auditor, board, investor and regulator questions on the valuation.

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WHAT WE DO

Elite Valuation combines Valuation, ESOP, M&A, financial reporting and transaction advisory so that a number prepared for one purpose is not casually reused for another. ESOP work is a good example: the company may need one value for pool and grant decisions, another option fair value for accounting, a prescribed share FMV for tax at exercise, and a transaction value when employees finally receive liquidity.

01 **ESOP Valuation & Share-Based Payments**

Underlying share valuation, grant-date option fair value, Ind AS 102 / IFRS 2 support, graded vesting, modifications, cash-settled awards and audit defence.

02 **ESOP Structuring & Implementation**

Pool design, scheme architecture, vesting, exercise, lapse, liquidity, governance documentation and transaction-readiness for private and listed companies.

03 **ESOP Tax FMV & Exercise Support**

Listed-company prescribed FMV support and unlisted-company merchant-banker coordination for exercise-date perquisite valuation, payroll and employee communication.

04 **Business & Company Valuation**

Enterprise and equity valuation for fundraising, shareholder matters, strategic decisions and transaction purposes.

05 **M&A, Merger & Swap Ratio Valuation**

Acquisition, merger, demerger, restructuring, share-exchange ratio and transaction valuation support.

06 **Intangible Asset & IP Valuation**

Brand, customer relationship, technology, patent, copyright, licence and other intellectual-property valuation.

07 **PPA & Ind AS Valuation**

Purchase price allocation, impairment, financial instruments and other fair-value measurements for financial reporting.

08 **Shares, Securities & Complex Instruments**

CCPS, CCDs, preference shares, options, warrants and other securities with embedded rights and contingent pay-offs.

09 **FEMA, Tax & Regulatory Valuation**

Cross-border, FDI/ODI, tax and Companies Act valuation support, including purpose-specific pricing and documentation.

10 **AIF Valuation & Advisory**

Portfolio valuation, valuation policy, fund support and associated AIF structuring and compliance advisory.

11 **Financial Modelling & Fundraising**

Integrated financial models, cap-table and dilution modelling, investor economics and fundraising decision support.

12 **Due Diligence & Transaction Advisory**

Financial due diligence, QoE, working capital, net debt, transaction modelling and SPA-linked advisory.

One team, multiple valuation contexts. *We separate the security, date, purpose and governing framework before choosing a method. That discipline is especially important for ESOPs because underlying share value, option fair value, tax FMV and transaction value can all be different - and all can be correct for their own purpose.*

REPORTS	MODELS	ADVISORY	REVIEW SUPPORT
Share / Option / Tax FMV	**BSM / Binomial / OPM**	**Plan / Liquidity / M&A;**	**Board / Audit / Payroll**

WHO WE SERVE

Our ESOP valuation work sits at the intersection of compensation, corporate finance, accounting, tax and transactions. We work with the people who design and approve the plan, record the expense, administer employee exercise, evaluate dilution and ultimately defend the numbers before auditors, investors, employees and regulators.

CLIENTS & STAKEHOLDERS

- Founders & Promoters
- CFOs & Finance Teams
- CHROs & Compensation Teams
- Boards, NRCs & Audit Committees
- Listed Companies & Pre-IPO Groups
- Private Companies & Startups
- MNC Subsidiaries & Global Mobility Teams
- Employees & Senior Executives
- Auditors & Financial Reporting Teams
- Law Firms & Company Secretaries
- PE / VC Investors & Portfolio Companies
- Transaction, M&A & Corporate Development Teams

WHEN CLIENTS TYPICALLY CALL US

NEW PLAN Before the first pool, scheme approval or employee grant	**FUNDING ROUND** When new preference rights change common-share economics	**GRANT / REFRESH** For underlying share value and grant-date option fair value
YEAR-END / AUDIT For expense schedules, assumptions and auditor support	**EXERCISE WINDOW** For prescribed tax FMV, payroll and employee communication	**LIQUIDITY / EXIT** For secondary, buyback, IPO, M&A or replacement awards

SECTORS WE WORK ACROSS

Technology & SaaS	Fintech & Financial Services	Consumer & D2C	Manufacturing	Healthcare & Diagnostics
Logistics & Mobility	Professional Services	Education	Infrastructure & Industrials	Funds & Investment Platforms

WHY CLIENTS WORK WITH US

PURPOSE-FIRST We identify the security, date and purpose before selecting the valuation method.	**TECHNICAL** Accounting, tax, option-pricing and capital-structure mechanics are integrated.
PRACTICAL Outputs are designed for boards, auditors, payroll teams and employee communication.	**TRANSACTION-READY** Outstanding awards are analysed before funding, secondary liquidity, IPO or M&A.

WHAT WE HELP CLIENTS DECIDE

VALUE What is the underlying common share worth today?	**OPTION** What is the fair value of the employee award?	**TAX** What prescribed FMV applies at exercise?	**TRANSACTION** How should outstanding awards be treated at liquidity or exit?

START A CONVERSATION

Share the scheme, cap table, latest financing terms, grant data, accounting framework and the decision you need to make. We can map which valuation is required at each point of the lifecycle, who should prepare it, what evidence can be reused and what must be refreshed before the next grant, exercise or transaction.

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DISCLAIMER

Important Information Before You Use This Guide

General Disclaimer

This guide is published for general educational and informational purposes. It is not legal, tax, accounting, employment, investment or regulatory advice. ESOP valuation is purpose-specific, and the correct treatment depends on the issuing entity, award terms, accounting framework, employee status, tax year, transaction context and capital structure.

Current-Law Scope

The guide has been technically prepared for the legal position reviewed in August 2026. It reflects the Income-tax Act, 2025 and Income-tax Rules, 2026 for current tax years, the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 as last amended on 4 December 2025, Section 62 of the Companies Act, 2013 and Rule 12 of the Companies (Share Capital and Debentures) Rules, 2014, Ind AS 102, the ICAI Guidance Note on Accounting for Share-based Payments (Revised 2020), and the current Overseas Investment reporting architecture. Rules may change after publication.

One ESOP Can Require Several Different Values

A tax FMV at exercise, a grant-date option fair value for accounting, an underlying common-share value used in an option-pricing model, a transaction price in a secondary sale and a replacement-award value in an acquisition are different measurement problems. A report prepared for one purpose should not be reused for another unless the purpose, date, security, rights and governing framework are genuinely aligned.

Illustrations and Valuation Judgement

All numerical examples are illustrative. Valuation outcomes can change materially with the forecast, capital structure, liquidation preferences, discount rate, peer set, volatility, expected term, exercise behaviour, dividend assumptions and transaction terms. The guide explains principles and common practice; it does not prescribe a single model for every plan.

Professional Eligibility and Reliance

Different regulations prescribe different professionals for different purposes. For example, the 2026 tax rule for unlisted ESOP exercise FMV uses a Category I SEBI-registered merchant banker. Ind AS 102 does not convert that tax certificate into the grant-date fair value of the employee option. Users should confirm the required professional and report form for the exact purpose before commissioning work.

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EXECUTIVE SUMMARY

Eight Rules That Prevent Most ESOP Valuation Errors

The central idea of this guide is simple: the word "valuation" appears throughout an ESOP lifecycle, but the object being valued, the date, the methodology and the required professional can change each time. Treating all of those numbers as one interchangeable FMV is the root cause of many audit, tax and employee-communication problems.

THERE IS NO SINGLE "ESOP VALUE" An ESOP can require a common-share value, an option fair value, a prescribed tax FMV and a transaction value at different dates.	**GRANT DATE AND EXERCISE DATE SOLVE DIFFERENT PROBLEMS** Grant-date accounting measures the award; exercise-date tax rules measure the underlying specified security.
UNLISTED CAPITAL STRUCTURE CANNOT BE IGNORED Preference rights, liquidation waterfalls and dilution can make common shares materially different from the latest funding-round security.	**OPTION FAIR VALUE NEEDS BEHAVIOURAL INPUTS** Expected term and volatility are often more important than the mathematical formula itself.
EQUITY-SETTLED AWARDS ARE GENERALLY NOT REMEASURED EACH PERIOD The grant-date fair value remains the measurement anchor, while vesting estimates and service/non-market conditions are updated.	**MODIFICATIONS CAN CREATE INCREMENTAL FAIR VALUE** A repricing or beneficial modification can create extra accounting cost measured at the modification date.
UNLISTED EXERCISE FMV IS A MERCHANT-BANKER PURPOSE Under Rule 15, a Category I merchant banker determines unlisted share FMV on the exercise date or a permitted specified date up to 180 days earlier.	**LIQUIDITY EVENTS CREATE THEIR OWN VALUATION QUESTIONS** A funding price, secondary price, buyback value or M&A consideration should not be assumed to equal the accounting or tax value of an ESOP share.

OUR INSIGHT

The strongest ESOP valuation file is not the one with the most pages. It is the one that clearly identifies four things at every stage: what is being valued, for what purpose, on which date, and under which governing rule or accounting requirement. Once those four are correct, the model is usually the easier part.

PART I - THE VALUATION MAP

Chapter 1: The ESOP Valuation Lifecycle - Every Point Where Value Matters

1.1 Why the ESOP Lifecycle Creates Multiple Valuation Dates

An ESOP starts as a compensation promise and can end years later as shares sold in an IPO, a secondary transaction or an acquisition. Between those two points, the company may complete funding rounds, change its capital structure, modify vesting, reprice underwater options, issue refresh grants, move from Indian GAAP to Ind AS, or become listed. Each event changes what information is available and, in some cases, the valuation objective itself. The most useful way to manage ESOP valuation is therefore not to ask for "an ESOP valuation" but to maintain a lifecycle map of every event that can create a new measurement requirement.

The lifecycle has at least four distinct categories of value. First is the value of the underlying share, especially for an unlisted company where no market price exists. Second is the fair value of the option or other award, which captures time value and the economics of the exercise price. Third is the prescribed tax fair market value at exercise, which is governed by a specific rule rather than by management preference. Fourth is transaction value - the amount a buyer, investor, company or secondary purchaser is willing to pay in a real liquidity event. These numbers can be close in a simple company but can diverge sharply when preference shares, liquidation rights, long option lives or illiquidity are involved.

1.2 The Lifecycle Map - From Pool Design to Sale

Before the first grant, valuation is mainly strategic: founders and investors model the pool as a percentage of fully diluted capital and test how much dilution is created by the pool itself and by the next funding round. At grant, the focus changes to the current value of the underlying share and the fair value of the employee option for accounting. During vesting, the company recognises expense and revisits estimates of awards expected to vest, while the grant-date fair value of an equity-settled award generally remains the anchor. At exercise, a tax valuation applies. At sale, buyback, IPO or acquisition, the employee may face another transaction-specific value.

The practical consequence is that a single grant can legitimately appear in several valuation reports over its life. Repetition is not waste where the purpose has changed. The error is assuming that because a valuation report exists somewhere in the company files, it is suitable for the next event. A funding-round share price may be relevant evidence of enterprise value but may not be the tax FMV of a common share. A tax merchant-banker report may establish exercise-date share FMV but does not measure the grant-date fair value of an option under Ind AS 102.

Lifecycle Stage	Primary Valuation Question	Typical Output
Plan / pool design	How much dilution and economic value is being offered?	Cap-table and pool scenario model

Lifecycle Stage	Primary Valuation Question	Typical Output
Grant date	What is the underlying share value and fair value of the option?	Share valuation + option fair value
Vesting / reporting	How much grant-date value should be expensed?	Expense schedule / vesting update
Modification / repricing	What incremental value was granted?	Before-and-after option valuation
Exercise	What is prescribed share FMV for tax?	Listed formula or merchant-banker FMV
Liquidity / exit	What does the employee receive in a real transaction?	Secondary / buyback / M&A / IPO schedule

ESOP Valuation Lifecycle Map

OUR INSIGHT

The most common valuation failure is not a wrong formula. It is using a correct number for the wrong purpose. A strong ESOP process labels every value by instrument, date and purpose so that payroll does not use the accounting option value and auditors do not rely on a tax FMV certificate as the grant-date option valuation.

1.3 The Five Dates Every ESOP Register Must Preserve

At a minimum, the company should preserve the board/shareholder approval date, grant date, vesting date or schedule, exercise date and share allotment/transfer date. A sixth date - sale or liquidity date - becomes relevant once shares are realised. The accounting grant date is particularly important because it is not always the date printed on the grant letter: where the arrangement is subject to an approval process, the applicable accounting guidance treats the grant date as the date when the necessary approval is obtained and both parties have a shared understanding of the terms.

For valuation governance, each date should be tied to a document: board or committee minutes, grant letter, option register, exercise form, allotment record and transaction statement. A technically correct model is difficult to defend if the controlling date can only be reconstructed from email months later. This is why ESOP valuation is partly a data-governance exercise.

1.4 The Three Most Common Category Errors

The first category error is valuing the wrong instrument: using the price paid for CCPS in a funding round as if it were automatically the value of the common share underlying an ESOP. The second is using the wrong date: applying a recent valuation even though the tax rule, grant date or modification date requires a different measurement point. The third is using the wrong purpose: substituting an exercise-date tax FMV for an option-pricing valuation, or using an accounting option fair value to set the sale price in a secondary transaction.

Every later chapter in this guide is an application of the same discipline. The company should be able to write one sentence at the top of every valuation file: "We are valuing [instrument] as of [date] for [purpose] under [authority/framework]." If that sentence is unclear, the valuation work has started too early.

QUESTIONS TO ASK BEFORE YOU ACT

- What exact instrument is the employee receiving?
- Which dates can create a fresh measurement requirement?
- Which number will be used by accounting, payroll and transaction teams?
- Is the lifecycle map documented before grants begin?

Practical Application

Translate the valuation conclusion into an operating decision. Identify who owns the next step, which report or calculation proves the value, which date controls the conclusion and what event would require the value to be refreshed. ESOP valuation becomes reliable only when the model is connected to the company's grant, accounting, payroll and transaction processes.

PRO TIP

Create one ESOP lifecycle valuation matrix before the first grant. Put the rows as plan approval, grant, year-end, modification, exercise, sale/buyback, IPO and M&A; put the columns as instrument, date, required value, required professional, report owner and downstream user. This one page prevents most duplication and purpose confusion.

PRACTITIONER CHECKLIST

- Identify the instrument and settlement form
- Confirm valuation purpose and governing framework
- Lock the controlling valuation / grant / exercise date
- Reconcile grant terms to approved scheme and grant letter
- Reconcile cap table and fully diluted quantities
- Document source of underlying share value
- Document option model and key assumptions
- Preserve report, approvals and downstream accounting/payroll evidence

PART I - THE VALUATION MAP

Chapter 2: Regulatory Architecture - Which Value, Which Rule and Which Professional?

2.1 Companies Act and Rule 12 - What They Do and Do Not Prescribe

Section 62(1)(b) of the Companies Act, 2013 provides the statutory route for issuing shares to employees under an employee stock option scheme, subject to the applicable shareholder approval and prescribed conditions. Rule 12 of the Companies (Share Capital and Debentures) Rules, 2014 requires, among other disclosures, the exercise price or formula, the method the company will use to value its options and a statement that applicable accounting standards will be followed. Rule 12 also gives companies freedom to determine the exercise price in conformity with applicable accounting policies. This is a critical point: the Companies Act ESOP route does not convert every grant into a mandatory registered-valuer pricing exercise.

Valuation is nevertheless unavoidable in practice because accounting standards require the cost of share-based compensation to be measured, because unlisted companies need an underlying share value to feed an option model, and because tax at exercise has a separate prescribed FMV rule. The legal approval framework and the valuation framework overlap, but they are not the same thing.

2.2 Listed Companies - SEBI SBEB & SE Regulations

Listed companies operate under the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, currently reflected by SEBI as last amended on 4 December 2025. The regulations govern scheme approval, administration, eligibility, disclosures, trust routes and other listed-company requirements. From a valuation perspective, the central discipline remains compliance with the applicable accounting standards and accurate disclosure of option-pricing assumptions. The listed share price removes the need to value the underlying equity for many purposes, but the employee option itself still has time value and may need an option-pricing model for financial reporting.

Listed status also changes the exercise-date tax process because a market-based formula is prescribed. It does not eliminate valuation judgement altogether: expected term, volatility, dividends, market conditions and modifications remain relevant to the accounting fair value of the award.

Purpose	Primary Framework	Valuation / Professional Point
Unlisted ESOP scheme	Companies Act 2013, Rule 12	Exercise price flexible; method to value options disclosed; accounting standards apply
Listed ESOP scheme	SEBI SBEB & SE Regulations 2021	Listed governance + applicable accounting standards
Grant-date accounting	Ind AS 102 / ICAI GN 2020	Fair value of employee award at grant date
Unlisted exercise tax FMV	Income-tax Rule 15	Category I SEBI merchant banker
Listed exercise tax FMV	Income-tax Rule 15	Opening/closing market formula

Purpose	Primary Framework	Valuation / Professional Point
Foreign-parent award	Ind AS/GN + tax + OI reporting	Group accounting + separate tax/FEMA workstreams

Purpose-to-Authority Matrix

OUR INSIGHT

The law does not create one universal ESOP valuer. Different purposes point to different requirements. The unlisted exercise-tax rule specifically names a Category we merchant banker, while financial reporting focuses on the measurement principles of Ind AS 102 or the ICAI Guidance Note. Professional eligibility should be checked purpose by purpose.

2.3 Financial Reporting - Ind AS 102 vs. the ICAI Guidance Note

Companies required to follow Indian Accounting Standards apply Ind AS 102, Share-based Payment. Companies following Accounting Standards rather than Ind AS use the ICAI Guidance Note on Accounting for Share-based Payments (Revised 2020), which the ICAI states is applicable to enterprises not required to follow Ind AS and is substantially aligned to Ind AS 102 in many areas. For employee equity-settled awards, the measurement date is generally the grant date and the fair value of employee services is measured by reference to the fair value of the equity instruments granted.

The accounting literature also covers areas that are often overlooked in short ESOP reports: graded vesting, market and non-market conditions, modifications, cancellations, cash-settled awards, group schemes, trust-administered plans and disclosure. A complete ESOP valuation engagement should therefore be designed around the award terms, not merely around a Black-Scholes spreadsheet.

2.4 Tax and FEMA - Separate Purpose-Specific Frameworks

Under the Income-tax Act, 2025 and the Income-tax Rules, 2026, exercise of employee options can create a taxable perquisite based on the prescribed FMV of the specified security less the amount paid by the employee. Rule 15 provides an objective listed-share formula and requires a Category I SEBI-registered merchant banker for unlisted shares. This is a tax valuation purpose and should be clearly labelled as such.

Cross-border plans create an additional layer. A foreign-parent ESOP can involve India payroll tax, foreign tax, exchange-rate translation and Overseas Investment reporting. Current Form OPI specifically provides for consolidated ESOP/Employee Benefits Scheme reporting by the Indian company, branch or office, as applicable. Those reporting mechanics do not change the accounting fair value model, but they do change the data and documentation that must be preserved.

QUESTIONS TO ASK BEFORE YOU ACT

- Which law or standard controls the specific valuation purpose?
- Does the purpose prescribe a specific professional?
- Is the company Ind AS or non-Ind AS?
- Are listed-company, tax and cross-border overlays separately mapped?

Practical Application

Translate the valuation conclusion into an operating decision. Identify who owns the next step, which report or calculation proves the value, which date controls the conclusion and what event would require the value to be refreshed. ESOP valuation becomes reliable only when the model is connected to the company's grant, accounting, payroll and transaction processes.

PRO TIP

At engagement acceptance, write the authority in the scope letter. "Ind AS 102 grant-date option fair value" and "Rule 15 unlisted exercise FMV by Category I merchant banker" should never be described simply as "ESOP valuation". Precise scope wording protects the company and the professional.

Primary Authority Map

For publication and engagement files, keep a current primary-source list: Companies Act Section 62 and Rule 12 for unlisted scheme mechanics; SEBI SBEB & SE Regulations for listed plans; Ind AS 102 or the ICAI Guidance Note for financial reporting; Income-tax Rule 15 for exercise FMV; and current RBI Overseas Investment forms/directions for foreign-parent plans. This source map should be refreshed when the guide or policy is updated.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the award quantity, the source of the underlying share value, the option model or prescribed tax rule, the person who approved the treatment and the evidence supplied to accounting, payroll or the employee. This becomes especially important when the same grant is revisited later for exercise, audit, a funding round, a secondary sale or M&A. A compact contemporaneous record prevents a technically sound valuation from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

PRACTITIONER CHECKLIST

- Identify the instrument and settlement form
- Confirm valuation purpose and governing framework
- Lock the controlling valuation / grant / exercise date
- Reconcile grant terms to approved scheme and grant letter
- Reconcile cap table and fully diluted quantities
- Document source of underlying share value
- Document option model and key assumptions
- Preserve report, approvals and downstream accounting/payroll evidence

PART II - UNDERLYING SHARE VALUE

Chapter 3: Valuing the Underlying Share of an Unlisted Company

3.1 Why the Latest Funding-Round Price Is Not Automatically the ESOP Share Value

In a venture-backed company, the latest financing round often issues CCPS or another preferred security carrying liquidation preference, conversion rights, anti-dilution protection, participation features or other contractual rights that ordinary shares do not have. The headline round price therefore measures the investor security, not necessarily the common share underlying employee options. Dividing the post-money valuation by fully diluted shares may overstate common-share value if it ignores those preferential rights.

The more complex the capital structure, the more important it is to allocate total equity value across security classes. This can be done through methods such as the Option Pricing Method, a probability-weighted expected return method, a current-value method where appropriate, or a calibrated backsolve using the latest arm's-length financing as evidence. The objective is not to create a discount for employees; it is to measure the economic rights of the actual common share.

3.2 Enterprise Value First, Then Security-Class Allocation

For an unlisted operating company, the underlying share valuation usually begins with enterprise or equity value using an income approach, market approach or a combination. A DCF is often relevant where credible forecasts exist and the company is expected to generate measurable future cash flows. Market multiples can provide a cross-check or primary approach where comparable companies or transactions are available. Asset-based methods become more relevant for investment holding companies, asset-heavy businesses or situations where earnings approaches are not meaningful.

Once total equity value is established, the valuer must reconcile debt, surplus cash, non-operating assets, contingent claims and the rights of each share class. Only then can the value attributable to common shares be estimated. The cap table used for this allocation must be fully diluted in a way consistent with the scenario being modelled: options, warrants, convertibles and promised but ungranted pool capacity may require different treatment depending on purpose.

Situation	Likely Primary Evidence / Method	Key ESOP Issue
Funded startup, recent arm's-length round	Backsolve / OPM calibration	Allocate value between preferred and common
Forecastable growth company	DCF + market cross-check	Forecast credibility and discount rate
Mature profitable company	Market multiples / DCF	Normalised earnings and peer set
Holding / asset-heavy company	Asset / NAV-based approach	Non-operating assets and liabilities
Multiple preference classes	OPM / PWERM / scenario allocation	Liquidation waterfall and conversion rights

Underlying Share Valuation - Method Selection

OUR INSIGHT

In venture-backed companies, the economic difference between preference and common shares is often the single largest judgement in ESOP share valuation. A headline post-money valuation can be an excellent starting point and still be a poor common-share answer if liquidation preferences are ignored.

3.3 Backsolve and OPM - When the Funding Round Is Strong Evidence

A recent arm's-length financing can be one of the strongest pieces of market evidence available for a startup. A backsolve uses the observed price of the newly issued security and the contractual rights of all securities to infer the implied total equity value that makes the model reconcile to that transaction price. The resulting total value is then allocated across the capital structure. This approach is particularly useful where the financing is recent, orderly, adequately marketed and not distorted by strategic rights or side agreements.

The backsolve is not automatic. A round completed many months before the valuation date may require calibration for business performance, market conditions, new financing risk, dilution or changed terms. A small insider bridge round may be weaker evidence than a competitive institutional round. The report should explain why the transaction is or is not representative, rather than merely quoting the last round.

3.4 Discounts, Illiquidity and the Common-Share Question

Valuers should be cautious about applying a generic discount for lack of marketability on top of an OPM or other capital-structure method without understanding what illiquidity the model already reflects. Similarly, employee common shares may be subject to transfer restrictions, ROFRs or lock-ins, but not every contractual restriction necessarily produces a separate valuation discount. The measurement objective and applicable accounting or tax framework matter.

For option pricing, the share value input should represent the fair value of the underlying share consistent with the award being valued. For tax exercise FMV, the merchant banker applies the prescribed tax framework. For a real secondary transaction, the actual transaction terms, buyer class, transfer restrictions and negotiated rights can drive the price. The word "common share" therefore does not guarantee the same value in every context.

QUESTIONS TO ASK BEFORE YOU ACT

- What rights attach to every preference and common class?
- How recent and arm's length was the last financing round?
- Does the cap table include all dilutive instruments consistently?
- Which method best allocates total equity value to common shares?

Practical Application

Translate the valuation conclusion into an operating decision. Identify who owns the next step, which report or calculation proves the value, which date controls the conclusion and what event would require the value to be refreshed. ESOP valuation becomes reliable only when the model is connected to the company's grant, accounting, payroll and transaction processes.

PRO TIP

If the latest round price is materially above common-share value, include a simple liquidation-waterfall illustration in the report. Boards and employees understand the difference faster when they can see how preference rights absorb value in lower exit scenarios.

Illustrative Preference Allocation

Assume a company has total equity value of Rs. 120 Crore but investors hold preference shares with a 1x liquidation preference on Rs. 70 Crore of invested capital. In low and medium exit scenarios, those preferences protect investors before common shares participate fully. A simple Rs. 120 Crore divided by fully diluted shares can therefore overstate the value of common shares. An OPM or scenario allocation models how value transfers between classes as enterprise value changes.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the award quantity, the source of the underlying share value, the option model or prescribed tax rule, the person who approved the treatment and the evidence supplied to accounting, payroll or the employee. This becomes especially important when the same grant is revisited later for exercise, audit, a funding round, a secondary sale or M&A. A compact contemporaneous record prevents a technically sound valuation from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

PRACTITIONER CHECKLIST

- Identify the instrument and settlement form
- Confirm valuation purpose and governing framework
- Lock the controlling valuation / grant / exercise date
- Reconcile grant terms to approved scheme and grant letter
- Reconcile cap table and fully diluted quantities
- Document source of underlying share value
- Document option model and key assumptions
- Preserve report, approvals and downstream accounting/payroll evidence

PART II - UNDERLYING SHARE VALUE

Chapter 4: Grant-Date Option Fair Value - Black-Scholes, Binomial and Monte Carlo

4.1 What Grant-Date Fair Value Measures

An employee option is worth more than its intrinsic value whenever there is meaningful time remaining before expiry and a possibility that the share price can rise. Ind AS 102 therefore requires equity-settled employee awards to be measured by reference to the fair value of the equity instruments granted at grant date. Where no market price exists for an employee option, an option-pricing model is used. The fair value captures the economic benefit of being able to participate in upside without committing the full share purchase price on grant date.

The option-pricing model is separate from the business valuation. The business valuation produces the underlying share value input; the option model then combines that value with the exercise price, expected term, volatility, risk-free rate, expected dividends and relevant award conditions. A company that has a robust DCF but a weak expected-term assumption can still have a weak ESOP valuation.

4.2 Black-Scholes - Efficient for Plain-Vanilla Awards

The Black-Scholes-Merton model is widely used because it is transparent, auditable and computationally efficient. It is most useful where the award can be represented by a single expected term and does not require detailed path-dependent modelling. Employee options differ from exchange-traded European options because employees commonly exercise before contractual expiry, cannot freely transfer options and may have behaviour affected by termination risk or wealth concentration. In a Black-Scholes framework, expected early exercise is usually reflected through the expected term rather than the full contractual life.

For an illustrative at-the-money option with a share value of Rs. 1,000, exercise price of Rs. 1,000, expected term of four years, risk-free rate of 7.1%, volatility of 40% and dividend yield of 0.5%, the Black-Scholes call value is approximately Rs. 397 per option. The number is only as defensible as the inputs: changing volatility or expected term can move the result materially.

Award Feature	Model Usually Considered	Primary Judgement
Plain time-vested option	Black-Scholes-Merton	Expected term and volatility
Early exercise needs explicit modelling	Binomial / lattice	Exercise boundary and behavioural assumptions
Relative TSR / share-price path condition	Monte Carlo	Path simulation and correlation
Full-value share / RSU	Underlying share value approach	Dividend rights and restrictions
Complex hybrid	Scenario / lattice / Monte Carlo	Terms drive method, not title

Option Model Selection

OUR INSIGHT

Expected term is where finance theory meets employee behaviour. Two companies with identical share price, strike and volatility can have different option fair values if one workforce tends to exercise shortly after vesting while the other holds options for much longer. The model should reflect the award population, not a generic four-year convention.

4.3 Binomial / Lattice Models - When Exercise Behaviour Matters

A lattice model divides the option life into a series of future share-price nodes and can model employee exercise at different points based on share-price multiples, time, vesting or other behavioural assumptions. This makes it useful where early exercise behaviour is expected to be materially different across the award life, where dividend assumptions change, or where the plan has features that are difficult to compress into one expected term.

The flexibility of a lattice model creates additional model risk. More assumptions do not automatically make a valuation better. Exercise boundaries, post-vesting termination behaviour and employee subgroups should be supported by company history, market evidence or a clear rationale. Otherwise, the extra sophistication only hides judgement inside more cells.

4.4 Monte Carlo - Market Conditions and Path-Dependent Awards

Monte Carlo simulation becomes relevant where vesting or payout depends on market paths, such as relative total shareholder return, absolute share-price hurdles over a measurement period or other market-based conditions. The model simulates a large number of possible paths and estimates the probability-weighted discounted payoff. Market conditions are incorporated into grant-date fair value and are therefore treated differently from ordinary service or non-market performance conditions in the subsequent expense recognition.

For ordinary time-vested ESOPs, Monte Carlo is usually unnecessary. Model selection should follow the award feature, not a desire to appear sophisticated. A strong valuation report explains why the selected model captures the actual terms and which features have been represented explicitly versus through simplified inputs.

QUESTIONS TO ASK BEFORE YOU ACT

- Does the award need one expected term or path-dependent modelling?
- What employee history supports expected exercise behaviour?
- How was the volatility peer set selected?
- Which conditions belong in fair value versus vesting estimates?

Practical Application

Translate the valuation conclusion into an operating decision. Identify who owns the next step, which report or calculation proves the value, which date controls the conclusion and what event would require the value to be refreshed. ESOP valuation becomes reliable only when the model is connected to the company's grant, accounting, payroll and transaction processes.

PRO TIP

Run sensitivity on at least the share value, volatility and expected term. If a 10% change in one assumption materially changes total compensation cost, that assumption deserves explicit board/audit attention rather than being buried in an appendix.

Numerical Illustration - Black-Scholes

With share value Rs. 1,000, exercise price Rs. 1,000, expected term 4 years, risk-free rate 7.1%, volatility 40% and dividend yield 0.5%, the illustrative Black-Scholes value is about Rs. 397 per option. If volatility rises to 50% with other inputs unchanged, fair value increases materially. This is why volatility is not a cosmetic disclosure: it directly changes compensation expense.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the award quantity, the source of the underlying share value, the option model or prescribed tax rule, the person who approved the treatment and the evidence supplied to accounting, payroll or the employee. This becomes especially important when the same grant is revisited later for exercise, audit, a funding round, a secondary sale or M&A. A compact contemporaneous record prevents a technically sound valuation from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

PRACTITIONER CHECKLIST

- Identify the instrument and settlement form
- Confirm valuation purpose and governing framework
- Lock the controlling valuation / grant / exercise date
- Reconcile grant terms to approved scheme and grant letter
- Reconcile cap table and fully diluted quantities
- Document source of underlying share value
- Document option model and key assumptions
- Preserve report, approvals and downstream accounting/payroll evidence

PART III - ACCOUNTING THROUGH VESTING

Chapter 5: Ind AS 102 Through the Vesting Period - Expense, Tranches and Conditions

5.1 Equity-Settled Awards - Grant-Date Fair Value Is the Measurement Anchor

For employee equity-settled share-based payments, the fair value of the award is generally measured at grant date and is not remeasured simply because the company's share value rises or falls later. The total recognised cost is based on the grant-date fair value multiplied by the number of awards that ultimately vest, subject to the accounting treatment of vesting conditions. This is one of the most important differences between equity-settled ESOPs and cash-settled SAR or phantom stock arrangements.

The annual accounting process therefore has two tracks. The valuation track establishes the grant-date award fair value. The expense-recognition track updates how much of that grant-date value should be recognised based on service rendered and the number of awards expected to vest. Confusing the tracks can lead companies to commission unnecessary annual option revaluations for plain equity-settled awards or, in the opposite direction, to ignore a genuine remeasurement requirement for a liability-classified award.

5.2 Service Conditions, Non-Market Conditions and Market Conditions

Service conditions and non-market performance conditions are generally not loaded into the grant-date option fair value as a probability discount in the same way as a market condition. Instead, the company revises the number of awards expected to vest based on whether those conditions are expected to be satisfied. If the employee leaves before vesting or a non-market performance target fails, the recognised expense is adjusted accordingly. Market conditions are different: their effect is incorporated into grant-date fair value, and failure to achieve the market condition does not reverse expense if the employee has otherwise satisfied the required service conditions.

This distinction matters for valuation design. A revenue target, EBITDA target and relative TSR target should not automatically be handled through the same probability adjustment. The valuer must first classify the condition, then decide whether it belongs in the fair-value model or in the vesting estimate.

Condition	Where Reflected	Valuation / Expense Consequence
Service condition	Vesting estimate	Update expected quantity; grant-date FV per award unchanged
Non-market performance condition	Vesting estimate	True up quantity for expected/actual achievement
Market condition	Grant-date fair value	Model in FV; no reversal solely for market failure if service satisfied
Graded vesting	Separate tranches	Different expected lives / fair values; accelerated recognition pattern
Forfeiture	Expected vesting count	Revise estimate during vesting period

Vesting Condition Treatment

OUR INSIGHT

Annual ESOP accounting should not become annual option repricing by accident. For ordinary equity-settled grants, the grant-date fair value remains the anchor. What changes during vesting is principally the expected number of awards that will vest and the amount of service recognised.

5.3 Graded Vesting - Treat Tranches as Separate Grants

Where an award vests in tranches - for example 25% at the end of each of four years - each tranche can have a different expected life and therefore a different option fair value. The ICAI Guidance Note states that graded vesting awards are, in substance, treated like multiple grants and each tranche is evaluated and accounted for separately. This usually accelerates expense compared with a simple straight-line allocation of one blended fair value over four years.

The practical valuation file should therefore show a tranche schedule: quantity, vesting date, expected exercise date, expected life, fair value per option and expense period. One blended Black-Scholes value may be acceptable only if the accounting policy and award characteristics support that simplification; otherwise, the separate-grant approach is more defensible.

5.4 Forfeitures and Estimate Changes

Forfeiture assumptions should be based on the company's expected employee attrition for the relevant population, not an arbitrary market percentage. Senior executive grants, broad-based engineering grants and sales incentives can have different retention patterns. During the vesting period, the estimate of awards expected to vest should be updated to reflect actual experience and revised expectations. The grant-date fair value per award does not change merely because the expected vesting count changes.

For a company with limited historical ESOP data, the initial estimate may rely on broader employee turnover evidence and management expectations, but the basis should be documented. Once actual exercise and forfeiture history develops, future valuations should use that data to improve expected-term and vesting assumptions rather than resetting each year without continuity.

QUESTIONS TO ASK BEFORE YOU ACT

- Is the award equity-settled or liability-classified?
- Are graded tranches valued separately?
- Which vesting conditions are market vs non-market?
- How are forfeiture estimates updated and approved?

Practical Application

Translate the valuation conclusion into an operating decision. Identify who owns the next step, which report or calculation proves the value, which date controls the conclusion and what event would require the value to be refreshed. ESOP valuation becomes reliable only when the model is connected to the company's grant, accounting, payroll and transaction processes.

PRO TIP

For graded vesting, maintain the valuation schedule at tranche level from day one. Trying to recreate separate expected lives and expense periods after several years of grants is one of the most avoidable sources of year-end audit delay.

Illustration - Four-Year Graded Vesting

Suppose 4,000 options vest 25% at each year-end. The one-year tranche may have an expected life of 2.5 years, while the four-year tranche may have an expected life of 5.5 years. Each tranche can therefore have a different option fair value and its cost is recognised over its own vesting period. The combined expense pattern is front-loaded relative to dividing one total fair value evenly across four years.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the award quantity, the source of the underlying share value, the option model or prescribed tax rule, the person who approved the treatment and the evidence supplied to accounting, payroll or the employee. This becomes especially important when the same grant is revisited later for exercise, audit, a funding round, a secondary sale or M&A. A compact contemporaneous record prevents a technically sound valuation from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

PRACTITIONER CHECKLIST

- Identify the instrument and settlement form
- Confirm valuation purpose and governing framework
- Lock the controlling valuation / grant / exercise date
- Reconcile grant terms to approved scheme and grant letter
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PART III - ACCOUNTING THROUGH VESTING

Chapter 6: Modifications, Repricing, Cancellations and Replacement Awards

6.1 Why a Modification Creates a New Valuation Question

Companies often amend ESOPs after grant: they reduce exercise prices for underwater options, extend the exercise period, accelerate vesting, add a cash alternative or change performance conditions. Accounting guidance protects the employee benefit already measured at grant date. A modification that increases the total fair value of the arrangement or is otherwise beneficial to the employee creates incremental value that must generally be recognised in addition to the original grant-date value.

The valuation task is therefore comparative. The valuer measures the fair value of the original award immediately before the modification and the fair value of the modified award immediately after the modification, using conditions and market inputs appropriate at the modification date. The incremental fair value is the increase attributable to the change in terms, not the entire new fair value.

6.2 Repricing Underwater Options

Repricing is one of the clearest examples. Assume an option has an original exercise price of Rs. 1,000, the share value has fallen to Rs. 600 and management reduces the strike to Rs. 650 to restore retention value. The original grant-date fair value cannot simply be discarded because the option is underwater. The company must preserve the minimum cost from the original grant and add incremental fair value if the repricing makes the award more valuable to the employee.

For governance, the repricing analysis should also explain the commercial rationale, shareholder impact and consistency with the scheme approval framework. A valuation report that only shows the modified option value without the before-and-after comparison does not answer the accounting question.

Event	Valuation Needed?	Typical Accounting Focus
Strike reduction / repricing	Yes	Incremental fair value at modification date
Exercise-period extension	Usually yes	Incremental benefit from longer term
Acceleration of vesting	Review terms	Modification / vesting consequences
Cancellation / settlement	Yes in many cases	Acceleration + settlement/repurchase measurement
Replacement award in M&A	Yes	Original vs replacement fair value and service allocation

Modification Valuation Map

OUR INSIGHT

A repricing is not a clean reset. Management may feel that the old option has "lost value", but accounting still protects the original grant-date cost. The correct question is how much incremental value the employee receives because of the modification.

6.3 Cancellation and Settlement

If an equity award is cancelled or settled during the vesting period other than because a vesting condition is not satisfied, the accounting guidance generally treats the cancellation as an acceleration of vesting: the amount that otherwise would have been recognised over the remainder of the vesting period is recognised immediately. Payments made on cancellation can also require a comparison with the fair value of the equity instruments at the repurchase date, with excess payments potentially recognised as expense.

This means cancellation can create a valuation requirement even when the company intends to eliminate the plan. The valuer may need to determine fair value immediately before cancellation or at settlement, while finance must distinguish between the equity component, any excess payment and any replacement award.

6.4 M&A Replacement Awards and Modifications

In an acquisition, outstanding employee options may be cash-settled, accelerated, cancelled, rolled over or replaced with acquirer awards. Each route has different valuation and accounting consequences. A replacement award may need to be split between consideration transferred for pre-combination service and post-combination compensation, while modifications made to retain employees can create incremental cost.

The transaction team should therefore inventory all awards before signing: grant date, quantity, strike, vesting, remaining term, change-of-control clauses, current fair value and proposed treatment. Leaving ESOP analysis until after the headline enterprise value has been negotiated can create an unexpected purchase-price or compensation issue.

QUESTIONS TO ASK BEFORE YOU ACT

- Did the company change strike, term, vesting or settlement rights?
- What is fair value immediately before and after modification?
- Is cancellation accelerating expense?
- Are new awards true replacements or separate new grants?

Practical Application

Translate the valuation conclusion into an operating decision. Identify who owns the next step, which report or calculation proves the value, which date controls the conclusion and what event would require the value to be refreshed. ESOP valuation becomes reliable only when the model is connected to the company's grant, accounting, payroll and transaction processes.

PRO TIP

Never approve a repricing, exercise-period extension or cash-out exception before finance has assessed whether it is a modification, cancellation or settlement under the applicable share-based payment guidance. HR flexibility can create immediate accounting cost.

Illustration - Repricing Incremental Fair Value

An option with strike Rs. 1,000 is repriced to Rs. 650 when the share value is Rs. 600. If fair value immediately before modification is Rs. 140 and fair value immediately after is Rs. 230, incremental fair value is Rs. 90 per option. That incremental value is recognised in addition to the original grant-date cost, over the applicable remaining service period.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the award quantity, the source of the underlying share value, the option model or prescribed tax rule, the person who approved the treatment and the evidence supplied to accounting, payroll or the employee. This becomes especially important when the same grant is revisited later for exercise, audit, a funding round, a secondary sale or M&A. A compact contemporaneous record prevents a technically sound valuation from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

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PART IV - EXERCISE & TAX FMV

Chapter 7: Exercise-Date FMV - Listed Formula and Unlisted Merchant Banker Valuation

7.1 Tax Exercise FMV Is a Prescribed Measurement

When an employee exercises an option and receives or is transferred the specified security, the tax perquisite is linked to the fair market value of that security under the prescribed rule. For current tax years under the Income-tax Act, 2025 and Income-tax Rules, 2026, Rule 15 is the core valuation rule. It is deliberately different from the accounting option fair value model because the tax question at exercise is the value of the security acquired, not the time value of the option that has just been exercised.

The company should maintain a separate tax valuation file even if it already has an Ind AS 102 report. The tax file should identify exercise date, number of shares, employee amount paid, prescribed FMV, perquisite amount and the source/report supporting the FMV.

7.2 Listed Shares - Opening and Closing Price Formula

Rule 15 provides that where the equity share is listed and traded on a recognised stock exchange on the exercise date, FMV is the average of the opening price and closing price on that date. If the share is listed on more than one recognised exchange, the relevant exchange is the one recording the highest trading volume. If there is no trading on the exercise date, the rule moves to the closing price on the closest immediately preceding trading date, with a highest-volume rule if more than one exchange is involved.

This is objective market data, not a valuer estimate. A common error is using intraday high and low prices, VWAP or the closing price alone. Those may be useful for other purposes, but they are not substitutes for the current Rule 15 formula.

Situation	Current 2026 FMV Rule
Listed, traded on one exchange	Average of opening and closing price on exercise date
Listed on multiple exchanges	Use exchange with highest trading volume
No trading on exercise date	Closing price on closest immediately preceding trading date
Unlisted equity share	Category I SEBI merchant banker value
Specified date for unlisted	Exercise date or earlier date not more than 180 days before exercise

Rule 15 - Exercise-Date FMV

OUR INSIGHT

The tax FMV report should be operationally timed with the exercise window. A company that waits until employees exercise and then starts looking for a merchant banker turns a predictable compliance step into a payroll emergency. The 180-day specified-date window is useful only when the valuation calendar is planned in advance.

7.3 Unlisted Shares - Category I Merchant Banker and the 180-Day Window

For an unlisted equity share, Rule 15 requires the FMV to be the value determined by a Category I merchant banker registered with SEBI on the specified date. The specified date can be the exercise date itself or an earlier date not more than 180 days before exercise. This creates operational flexibility for companies running periodic exercise windows: a properly planned valuation can support exercises within the permitted window, subject to whether intervening events make the earlier date commercially or factually stale.

The merchant-banker report should still analyse the actual common share and capital structure. A funding round in preferred shares is evidence, not an automatic answer. If a material financing, acquisition, loss of a key customer or other value-changing event occurs after the specified date, the company should assess whether relying on the earlier report remains defensible even if it is technically within 180 days.

7.4 Accounting Share Value vs. Tax Share FMV

For an unlisted company, the underlying common-share value used in the grant-date option valuation may be prepared by an independent valuation professional for accounting. At exercise, the tax rule specifically requires a Category I merchant banker. The two reports can legitimately produce different values because they may use different dates, information sets or purposes. The company should not force artificial consistency if the facts have changed.

Good governance means reconciling the difference. If the accounting share value was Rs. 500 six months earlier and the tax merchant-banker FMV is Rs. 900 after a major funding round, the change should be explainable. Unexplained discontinuities are audit red flags; explained changes are normal valuation evolution.

QUESTIONS TO ASK BEFORE YOU ACT

- Is the share listed and traded on exercise date?
- If unlisted, is a Category I merchant banker engaged?
- What specified date is being used and why?
- Did a material value-changing event occur after the report date?

Practical Application

Translate the valuation conclusion into an operating decision. Identify who owns the next step, which report or calculation proves the value, which date controls the conclusion and what event would require the value to be refreshed. ESOP valuation becomes reliable only when the model is connected to the company's grant, accounting, payroll and transaction processes.

PRO TIP

For unlisted exercise windows, plan the merchant-banker valuation before opening the portal and set an internal event-trigger override. Even within 180 days, a material funding round or transaction can make an earlier value difficult to defend operationally.

Illustration - Unlisted Exercise Window

A merchant banker determines FMV at Rs. 850 per common share on 1 April. Employees exercise on 15 May, 30 June and 20 August. The report date is within 180 days for all three windows. However, if a major funding round closes on 10 July at materially different economics, the company should assess whether continuing to use the 1 April value for the August exercise remains defensible despite falling within the technical date window.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the award quantity, the source of the underlying share value, the option model or prescribed tax rule, the person who approved the treatment and the evidence supplied to accounting, payroll or the employee. This becomes especially important when the same grant is revisited later for exercise, audit, a funding round, a secondary sale or M&A. A compact contemporaneous record prevents a technically sound valuation from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

PRACTITIONER CHECKLIST

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PART IV - EXERCISE & TAX FMV

Chapter 8: New Grants, Refresh Grants and When a Valuation Must Be Updated

8.1 When a Prior Valuation Can Be Reused

A valuation can be reused only when the purpose, instrument, date tolerance and information set remain appropriate. For example, a company issuing multiple employee grants on the same board date can generally use one underlying share valuation and one set of market assumptions, while still valuing different tranches separately if award terms differ. A tax merchant-banker FMV can potentially support multiple exercises within the permitted specified-date window, subject to intervening events and plan mechanics.

Reuse should be an explicit conclusion, not a default assumption. The file should state the prior valuation date, the current event date, whether any material business, financing, capital-structure or market change occurred, and why the earlier value remains relevant.

8.2 Refresh Grants and New-Hire Grants

A refresh grant is a new compensation decision and normally creates a new grant-date valuation requirement even if the employee already holds older options. The new award may have a different exercise price, vesting schedule, expected term and market conditions. Reusing the fair value per option from a prior grant can be inappropriate even when the underlying share value is unchanged.

For high-growth companies making grants monthly or quarterly, the practical solution is a valuation calendar. Underlying share values can be refreshed at planned intervals, while option fair values are computed for each grant date using contemporaneous inputs. The company should also define material event triggers that override the ordinary calendar, such as a financing term sheet, acquisition, major customer loss, restructuring or substantial variance from forecast.

Event	Refresh?	Reason
New grant date	Yes	New measurement date and possibly new award terms
Quarterly / annual reporting of equity-settled grant	No automatic remeasurement	Grant-date FV remains anchor; update vesting estimates
New funding round	Usually yes for future grants	New market evidence and capital structure
Material business event	Usually yes	Old share value may be stale
Exercise within valid tax specified-date window	Potentially reusable	Subject to Rule 15 window and intervening events
Post-termination extension	Review	Can be a beneficial modification

When to Refresh Valuation

OUR INSIGHT

A valuation calendar is more valuable than a policy saying "value annually". High-growth companies should combine scheduled refresh dates with material-event triggers so that they do not use a stale share value immediately after a financing or major business change.

8.3 Funding Rounds - Calibration, Not Mechanical Substitution

A new financing round is usually a material valuation event. It provides market evidence that should be considered in the next common-share valuation and can change the rights stack, dilution and implied enterprise value. However, the new investor price should be calibrated into the capital-structure model rather than copied into the ESOP common share unless the securities are genuinely economically equivalent.

For a backsolve, the latest round can anchor total equity value if it is arm's length and representative. The valuer then allocates that value across preferred and common securities. For a DCF-led valuation, the round may serve as a cross-check or require reconciliation. The report should explain the bridge between the pre-round share value and the post-round common-share value.

8.4 Post-Termination Exercise Windows and Late Exercise

When an employee leaves, a short post-termination exercise window can force an exercise decision at a time when the company has no liquidity event. This often triggers a fresh tax FMV and can create employee dissatisfaction if the valuation has risen sharply since grant. Companies should understand this valuation consequence while designing the scheme, not only when the employee resigns.

If the board extends the exercise period for departing employees, the change may itself be a modification requiring incremental fair-value analysis for accounting. The HR decision and the valuation decision are therefore linked. Scheme administration should route any exception or extension through finance before it is communicated to the employee.

QUESTIONS TO ASK BEFORE YOU ACT

- Is this a new grant or only year-end reporting of an old grant?
- Has a funding round or material event made the old share value stale?
- Can one valuation support multiple grants/exercises within the allowed window?
- Has any post-termination extension created a modification?

Practical Application

Translate the valuation conclusion into an operating decision. Identify who owns the next step, which report or calculation proves the value, which date controls the conclusion and what event would require the value to be refreshed. ESOP valuation becomes reliable only when the model is connected to the company's grant, accounting, payroll and transaction processes.

PRO TIP

Use a "no material change" certification when reusing an earlier share value. Finance, legal and the business owner should confirm that no financing, acquisition, major contract win/loss, litigation or forecast reset occurred between the valuation date and the grant/exercise window.

Refresh Policy Example

A practical policy can combine quarterly underlying-share valuations for regular grant programmes with mandatory refresh triggers for a signed financing term sheet, acquisition/divestment, material forecast reset, loss of a top customer, major litigation, restructuring or secondary transaction. This produces discipline without commissioning unnecessary valuations every month.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the award quantity, the source of the underlying share value, the option model or prescribed tax rule, the person who approved the treatment and the evidence supplied to accounting, payroll or the employee. This becomes especially important when the same grant is revisited later for exercise, audit, a funding round, a secondary sale or M&A. A compact contemporaneous record prevents a technically sound valuation from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

PRACTITIONER CHECKLIST

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PART V - LIQUIDITY & TRANSACTIONS

Chapter 9: Secondary Sales, Buybacks, IPO and M&A; - Valuing ESOPs at Liquidity

9.1 Secondary Sales - Transaction Price Is Real Evidence, but Context Matters

A secondary sale can provide genuine market evidence for common shares, particularly where the seller and buyer are unrelated and the transaction is negotiated on ordinary terms. Yet secondary transactions can also be highly selective: they may involve only employees, include transfer restrictions, be capped in quantity, occur at a discount to the latest primary round or be arranged by investors for retention reasons. The transaction price must therefore be understood before it is used as a valuation benchmark.

For the employee, the secondary price determines actual sale consideration. For the company, the same transaction may be evidence relevant to future common-share valuation. For accounting, it does not retrospectively change the grant-date fair value of existing equity-settled awards. One transaction can therefore matter in three different ways without becoming one universal FMV.

9.2 Company Buybacks and Employee Liquidity

A company buyback or employee liquidity programme requires a valuation of the shares or an agreed transaction price, but the legal and tax structure of the buyback matters. The company may need to evaluate distributable reserves, statutory limits, shareholder approvals and tax consequences separately from the ESOP valuation itself. Where options are first exercised and shares are then bought back, exercise-date tax FMV and buyback price are two separate numbers that may be close but are not conceptually the same.

If the company offers to cash out vested options without issuing shares, the arrangement may need to be analysed as a cancellation/settlement or cash-settled award rather than as an ordinary share buyback. That classification can materially change accounting.

Event	Value Used	Do Not Confuse With
Employee secondary	Negotiated/common share transaction price	Grant-date option FV
Company buyback	Buyback / transaction value	Exercise-date tax FMV unless same by coincidence
IPO exercise	Rule 15 listed FMV for tax	IPO issue price if not the prescribed date formula
M&A cash-out	Transaction common-share value less strike / agreed terms	Prior funding preferred-share price
Replacement award	Fair value of replacement and cancelled awards	Cash consideration alone

Liquidity Event - Which Value Matters?

OUR INSIGHT

Liquidity events expose every earlier shortcut. If the cap table does not reconcile, grant dates are unclear or preference rights were ignored, the problem becomes visible precisely when transaction deadlines are shortest. ESOP transaction readiness should be maintained before a buyer or secondary investor appears.

9.3 IPO - From Private Fair Value to Observable Market Price

An IPO changes the valuation environment dramatically. Before listing, common-share value is modelled from company fundamentals, financing evidence and capital structure. After listing, the market price becomes observable for tax and many transaction purposes. Outstanding ESOPs must also be reviewed against the listed-company regulatory framework and the plan's IPO clauses.

The accounting fair value of pre-IPO equity-settled grants is not automatically remeasured merely because the company lists. However, the IPO can affect employee exercise behaviour, expected term for new grants, volatility evidence and future plan design. A pre-IPO company should therefore prepare a transition memo covering outstanding grants, new listed-company grants, exercise windows, tax FMV mechanics and employee communication.

9.4 M&A - Value the Award, the Share and the Replacement

In an acquisition, the transaction price paid to shareholders may not directly settle employee options. The purchase agreement may cash out vested options at the transaction common-share value less strike, accelerate unvested options, replace them with acquirer options or cancel them subject to compensation. Each route requires its own calculation and may have accounting, tax and deal-price consequences.

A robust M&A ESOP schedule should bridge the transaction common-share value to each grant: vested quantity, unvested quantity, strike, intrinsic value, fair value if replacement accounting is required, acceleration terms and consideration payable. The schedule is not merely an HR appendix; it can affect equity value, purchase consideration and post-combination compensation expense.

QUESTIONS TO ASK BEFORE YOU ACT

- What security price is the transaction actually paying?
- How will vested and unvested options be treated?
- Does the liquidity event create tax FMV before sale?
- Are replacement awards or acceleration creating new accounting value?

Practical Application

Translate the valuation conclusion into an operating decision. Identify who owns the next step, which report or calculation proves the value, which date controls the conclusion and what event would require the value to be refreshed. ESOP valuation becomes reliable only when the model is connected to the company's grant, accounting, payroll and transaction processes.

PRO TIP

In M&A, prepare the ESOP waterfall before final enterprise-to-equity value is signed off. The schedule should show each grant, vested/unvested quantity, strike, transaction common-share value, intrinsic value, acceleration and replacement terms. It often changes the cash paid at closing.

M&A Waterfall Illustration

Assume transaction common-share value is Rs. 1,500. Grant A has 5,000 vested options at strike Rs. 300; Grant B has 8,000 unvested options at strike Rs. 900. If vested options are cashed out, Grant A intrinsic value is Rs. 60 Lakh. Grant B may instead be accelerated, cancelled or replaced. The transaction schedule must separately calculate each outcome rather than multiplying the total option count by one spread.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the award quantity, the source of the underlying share value, the option model or prescribed tax rule, the person who approved the treatment and the evidence supplied to accounting, payroll or the employee. This becomes especially important when the same grant is revisited later for exercise, audit, a funding round, a secondary sale or M&A. A compact contemporaneous record prevents a technically sound valuation from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

PRACTITIONER CHECKLIST

- Identify the instrument and settlement form
- Confirm valuation purpose and governing framework
- Lock the controlling valuation / grant / exercise date
- Reconcile grant terms to approved scheme and grant letter
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- Document option model and key assumptions
- Preserve report, approvals and downstream accounting/payroll evidence

PART V - LIQUIDITY & TRANSACTIONS

Chapter 10: Cross-Border and Group ESOP Valuation

10.1 Foreign-Parent Options Granted to Indian Employees

Indian employees of multinational groups often receive options or RSUs in a foreign listed or unlisted parent. For accounting, the Indian subsidiary must determine how the group share-based payment arrangement is classified in its own financial statements and may need to recognise employee compensation even though the parent issues the shares. The ICAI Guidance Note expressly covers group share-based payment transactions where another group entity settles the award.

For a listed foreign parent, the underlying share price is observable but currency translation, grant-date exchange rates, expected term and local employee exercise behaviour still matter. For an unlisted foreign parent, an underlying share valuation may be required in the parent jurisdiction before the award can be valued. The Indian entity should obtain the parent valuation model and assumptions rather than reverse-engineer them from a portal value.

10.2 India Payroll Tax and Foreign Award Valuation

Indian payroll tax is a separate workstream from accounting. The taxable value of foreign shares acquired by an Indian employee must be determined under the applicable Indian perquisite rules and translated into INR using the relevant tax conversion rules. Where the foreign company is unlisted, the Indian tax rule's merchant-banker requirement can create a practical challenge if the parent normally uses a foreign 409A or other local valuation. The company must verify whether the foreign report satisfies the Indian prescribed requirement rather than assuming equivalence.

Mobile employees create additional sourcing questions because part of the award may relate to service rendered outside India. The valuation of the award may be global, while tax allocation can be country-specific. These two steps should be kept separate.

Workstream	Valuation / Data Requirement	Owner
Group accounting	Parent share price/value + option assumptions	Parent / finance / valuer
Indian payroll tax	Prescribed security FMV + exchange conversion	Indian employer / payroll / tax
Employee mobility	Vesting-day sourcing and foreign tax data	Global mobility / employee
FEMA/OI reporting	Acquisition, disposal, remittance and repatriation values	Indian company/branch/office + AD bank
LRS exercise funding	Remittance amount and supporting documents	Employee + AD bank

Cross-Border ESOP Valuation Workstreams

OUR INSIGHT

Cross-border ESOP files should be built as a shared data model, not separate silos. The same grant quantity and vesting schedule may feed accounting, payroll tax, mobility sourcing and FEMA reporting, but each workstream applies a different rule to that shared data.

10.3 FEMA / Overseas Investment Reporting

Current Form OPI provides a specific section for overseas portfolio investment by resident individuals through ESOP or Employee Benefits Schemes and states that consolidated reporting is to be made by the Indian company, branch or office, as applicable. This is different from older market practice that is sometimes described as a personal filing for every exercise. The company should confirm its reporting process with the authorised dealer bank and maintain consolidated acquisition, disposal, remittance and repatriation data.

Where the employee remits exercise money abroad, the remittance route and LRS considerations should be checked separately. FEMA reporting does not determine the option fair value, but it determines which transaction data must be captured and can affect the practical design of cashless exercise or sell-to-cover mechanisms.

10.4 Indian Company ESOPs for Non-Resident Employees

An Indian company may also grant ESOPs to eligible non-resident employees, subject to the applicable Companies Act/SEBI and foreign-investment framework. The valuation questions can include the Indian company common-share value, option fair value for accounting, exercise price economics, tax in the employee's jurisdiction and any FEMA pricing/reporting condition relevant at issue or transfer.

The correct approach is to build a jurisdiction matrix before grant: employee residence, issuing entity, employing entity, settlement entity, share class, exercise funding currency and expected sale route. Cross-border complexity is manageable when the map is prepared before the first grant; it becomes expensive when reconstructed years later at exercise.

QUESTIONS TO ASK BEFORE YOU ACT

- Who issues the award and who employs the employee?
- Is the parent listed or unlisted?
- What data is required for Indian payroll and OPI reporting?
- Does the employee remit exercise money abroad?

Practical Application

Translate the valuation conclusion into an operating decision. Identify who owns the next step, which report or calculation proves the value, which date controls the conclusion and what event would require the value to be refreshed. ESOP valuation becomes reliable only when the model is connected to the company's grant, accounting, payroll and transaction processes.

PRO TIP

For foreign-parent plans, request the parent valuation memo and grant assumptions as part of onboarding each year. Do not wait for Indian statutory audit or employee exercise to discover that the underlying valuation was prepared under a different jurisdictional purpose.

Foreign Parent Example

An Indian subsidiary employee receives options in a US-listed parent. The parent uses the listed share price and global assumptions to value the award at grant. The Indian subsidiary recognises its share-based compensation under the group-plan accounting rules. At exercise, Indian payroll must compute the Indian taxable perquisite using the applicable security FMV and exchange conversion, while the Indian office also captures acquisition/disposal data needed for OPI reporting.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the award quantity, the source of the underlying share value, the option model or prescribed tax rule, the person who approved the treatment and the evidence supplied to accounting, payroll or the employee. This becomes especially important when the same grant is revisited later for exercise, audit, a funding round, a secondary sale or M&A. A compact contemporaneous record prevents a technically sound valuation from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

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PART VI - COMPLEX AWARDS & AUDIT

Chapter 11: Cash-Settled and Hybrid Awards - When the Valuation Must Be Remeasured

11.1 Cash-Settled SAR and Phantom Stock - Liability Fair Value

A cash-settled share-based payment creates a different valuation cadence from an ordinary equity-settled ESOP. Because the company incurs a liability based on the value of its shares or share appreciation, the liability is measured at fair value and remeasured at each reporting date and at settlement, with changes recognised through profit or loss. The company therefore needs recurring valuation, not only a grant-date model.

For a SAR, the payoff resembles an option on appreciation above a base price and may require an option-pricing model. For full-value phantom stock, the liability may track the underlying share value more directly. Vesting probability and service conditions still affect recognised cost, but the key operational difference is repeated fair-value measurement.

11.2 Net Settlement for Withholding Tax

Some equity plans permit the company to withhold or net-settle a portion of shares to meet the employee's tax obligation. Accounting standards contain specific guidance for share-based payment transactions with net-settlement features for withholding tax. The legal form of withholding shares does not automatically convert the whole award into a cash-settled plan, but the plan terms must be reviewed carefully.

From a valuation perspective, the underlying award may remain grant-date equity-settled while payroll uses exercise-date tax FMV to determine the withholding amount. This is another example of two values coexisting on the same date for different purposes.

Award	Classification	Measurement Cadence
Ordinary equity-settled ESOP	Equity	Grant-date FV; no routine remeasurement
Cash-settled SAR	Liability	Remeasure at each reporting date and settlement
Full-value phantom stock	Liability	Remeasure with underlying share value
Net settlement for withholding	Potential equity treatment subject to standard	Separate tax FMV for withholding
Employee cash/share choice	Hybrid / liability assessment	Terms may require component or liability valuation

Equity vs. Cash-Settled Measurement

OUR INSIGHT

Classification is itself a valuation control. Before selecting Black-Scholes, decide whether the company has an equity obligation or a cash obligation. A sophisticated option model cannot fix a classification error that should have resulted in recurring liability remeasurement.

11.3 Awards with Cash Alternatives or Employee Choice

If the employee can choose between cash and shares, or the company has a genuine obligation or practice to settle in cash, the award may have both equity and liability components or may be classified as cash-settled depending on the terms. The valuation model must follow the contractual settlement rights, not merely the plan title. A scheme called "ESOP" can contain a cash alternative that changes accounting materially.

Companies should therefore route every non-standard settlement clause through accounting review before grant. Adding a discretionary cash-out clause to make the plan "flexible" can unintentionally create recurring fair-value measurement or incremental accounting complexity.

11.4 RSUs, Performance Shares and Market Conditions

Not every share-based award is an option. An RSU or full-value share award may be valued primarily by reference to the underlying share value, adjusted for dividend rights and relevant restrictions. Performance shares can require probability-weighted or Monte Carlo treatment depending on whether conditions are market-based or non-market. The absence of an exercise price does not mean the award has no valuation complexity.

The lifecycle framework in this guide still applies: identify the instrument, purpose, date and condition classification first. Only then select the model. Trying to force every award into Black-Scholes is as incorrect as treating every funding-round price as common-share FMV.

QUESTIONS TO ASK BEFORE YOU ACT

- Who has the obligation to settle - company, parent or employee choice?
- Is the payoff option-like or full-value?
- Does the liability need remeasurement each reporting date?
- Do net-settlement features alter classification?

Practical Application

Translate the valuation conclusion into an operating decision. Identify who owns the next step, which report or calculation proves the value, which date controls the conclusion and what event would require the value to be refreshed. ESOP valuation becomes reliable only when the model is connected to the company's grant, accounting, payroll and transaction processes.

PRO TIP

If a plan includes the words "at the company's discretion, cash or shares", escalate the classification immediately. Settlement discretion that looks harmless in a compensation document can materially change accounting and valuation frequency.

Liability Remeasurement Example

A cash-settled SAR liability is Rs. 40 Lakh at the first reporting date, Rs. 75 Lakh one year later and Rs. 110 Lakh at settlement. Unlike an equity-settled option grant, the company recognises changes in the liability fair value through profit or loss over the service period and after vesting until settlement. Rising company value can therefore create recurring P&L volatility.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the award quantity, the source of the underlying share value, the option model or prescribed tax rule, the person who approved the treatment and the evidence supplied to accounting, payroll or the employee. This becomes especially important when the same grant is revisited later for exercise, audit, a funding round, a secondary sale or M&A. A compact contemporaneous record prevents a technically sound valuation from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

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PART VI - COMPLEX AWARDS & AUDIT

Chapter 12: Audit Defence, Reporting Standards and the Master ESOP Valuation Checklist

12.1 What a Defensible ESOP Valuation Report Should Contain

A professional ESOP valuation report should identify the purpose, valuation date, grant date, award terms, source of underlying share value, capital structure, option model, key assumptions, employee exercise behaviour, vesting terms, market/non-market conditions, sensitivity and conclusion. For unlisted companies, it should also explain how common-share value was derived from the company's enterprise/equity value and how preference rights were treated. The report should be capable of being understood by an auditor who was not present when management selected the assumptions.

For tax exercise FMV, the report should be narrower and clearly labelled as a tax-purpose share valuation. It should identify the prescribed professional requirement, specified date, security and applicable rule. Mixing accounting option-fair-value language into a tax FMV report can create confusion rather than strength.

12.2 The Audit Questions That Matter Most

Auditors commonly focus on grant date, underlying share value, peer selection for volatility, expected term, risk-free rate, dividend yield, treatment of graded vesting, forfeiture assumptions, modifications and consistency with prior-year valuations. The most difficult questions usually arise where management judgement changes: a new peer set, a shorter expected term, a materially lower common-share value than the latest financing price, or a large volatility shift.

The best defence is a contemporaneous decision memo. It should explain the evidence available at the valuation date and why the chosen assumption was reasonable then. A later outcome does not make an earlier assumption wrong if it was properly supported when made.

File Element	What It Should Contain
Purpose & date	Instrument, valuation date, grant/exercise/modification purpose
Plan terms	Grant letter, vesting, strike, expiry, settlement rights
Underlying share value	Method, forecasts, market evidence, cap structure
Option assumptions	Expected term, volatility, risk-free rate, dividends, conditions
Accounting bridge	Tranche fair values, vesting estimate and expense schedule
Tax exercise file	Rule 15 FMV, merchant-banker report where required, payroll bridge
Transaction file	Secondary / buyback / M&A / IPO treatment
Continuity memo	Reconciliation to prior valuations and changed assumptions

Master Valuation File - Minimum Evidence

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Audit defence is continuity. A report is strongest when the current share value and option assumptions can be reconciled to the prior grant, the latest funding round, actual employee behaviour and the company forecast. Unexplained changes create more scrutiny than high or low values by themselves.

12.3 Sensitivity, Reconciliation and Continuity

An ESOP valuation should not present false precision. Sensitivity to volatility, expected term and share value helps boards and auditors understand which inputs drive expense. For unlisted shares, reconciliation to the prior valuation, latest financing, current forecast and any secondary transaction provides a continuity check. Large movements should be explained through business performance, market multiples, financing rights or changed assumptions.

Continuity is especially important for recurring grant programmes. The company should maintain one assumption history showing share value, peer set, volatility, expected term, risk-free rate, dividends and forfeiture by grant date. This makes it easier to identify genuine changes versus accidental model drift.

12.4 The Master Lifecycle Control

The most reliable governance tool is a single ESOP valuation register that sits alongside the statutory option register. For every grant, it records grant date, quantity, strike, vesting, underlying share value, option fair value, model, expected term, volatility, tax FMV at exercise, merchant-banker report date where applicable, allotment date, sale or liquidity price, modifications and supporting report references.

If the company can produce this register, the board, auditor, payroll team and transaction adviser are all working from the same chronology. If it cannot, even accurate individual reports may fail to connect into a defensible lifecycle. The master control is therefore not another valuation; it is the system that ensures the right valuation is used at the right time.

QUESTIONS TO ASK BEFORE YOU ACT

- Can every valuation date be tied to an approval/document?
- Can share value be reconciled to prior valuations and funding evidence?
- Are model inputs consistent with employee behaviour and market data?
- Can the tax, accounting and transaction files be reconciled to one master register?

Practical Application

Translate the valuation conclusion into an operating decision. Identify who owns the next step, which report or calculation proves the value, which date controls the conclusion and what event would require the value to be refreshed. ESOP valuation becomes reliable only when the model is connected to the company's grant, accounting, payroll and transaction processes.

PRO TIP

Before issuing the report, perform a four-way reconciliation: cap table to statutory register, share value to latest financing/forecast, option assumptions to prior grants and expense schedule to the general ledger. A valuation that cannot be reconciled is not publication-ready.

Final Publication Gate

Before a report, policy or board paper is released, confirm: no old tax formula is used; current Rule 15 opening/closing mechanics are correct; tax merchant-banker and accounting option purposes are separated; preference rights are modelled where relevant; graded vesting and modifications are addressed; cross-border reporting is current; all tables reconcile; and the master ESOP valuation register ties to the statutory option register and payroll records.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the award quantity, the source of the underlying share value, the option model or prescribed tax rule, the person who approved the treatment and the evidence supplied to accounting, payroll or the employee. This becomes especially important when the same grant is revisited later for exercise, audit, a funding round, a secondary sale or M&A. A compact contemporaneous record prevents a technically sound valuation from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

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CONCLUSION

The ESOP Valuation Control Framework - One Grant, Many Measurement Purposes

A mature ESOP programme does not ask one valuer for one number and then reuse it for years. It builds a controlled sequence of purpose-specific measurements. The common share is valued when the company needs an underlying equity input; the option is valued at grant for accounting; vesting estimates are updated through the service period; modifications are measured when terms change; tax FMV is determined at exercise under the prescribed rule; and transaction values are calculated again when employees finally receive liquidity.

The Four-Question Control

For every valuation, ask: What exactly is being valued? For what purpose? On which date? Under which authority or accounting framework? These four questions determine the professional, method, information set and report form. They also make it clear when an old report can be reused and when it cannot.

For Companies

Maintain one master ESOP valuation register, one recurring valuation calendar and one material-event trigger policy. Make HR, finance, secretarial and payroll use the same grant and exercise data. Keep accounting option valuation separate from tax FMV. Reconcile every new common-share value to the latest financing and prior valuation. Review modifications before approval and inventory all outstanding awards before a transaction begins.

For Boards and Audit Committees

Do not focus only on the final fair value per option. Ask what drove it: common-share value, capital structure, expected term, volatility, dividend assumptions and award conditions. Demand sensitivity where judgement is material. A lower expense is not evidence of a better valuation; a clear method and consistent evidence are.

01 Purpose labelled	02 Date locked	03 Cap table reconciled	04 Share class valued	05 Model justified
06 Assumptions evidenced	07 Tax FV separated	08 Modifications captured	09 Transaction bridge ready	10 Master register updated

The Final Test

If the company can explain why the share value used for a grant differs from the exercise tax FMV and why both differ from a later transaction price, the ESOP valuation framework is probably working. If all three are described as the same "FMV" without context, the process needs to be rebuilt before the next audit, exercise window or liquidity event.

ONE LAST THING BEFORE YOU CLOSE THIS GUIDE

If the ESOP number will reach an auditor, employee, investor or tax file, make sure it is the right number for the right purpose.

The most expensive ESOP valuation mistakes are often discovered late: a tax exercise window opens without a merchant-banker FMV, the audit team challenges volatility after accounts are almost closed, a funding price is used as common-share value without analysing preference rights, or a buyer asks for an option waterfall that nobody can reconcile. Most of these problems are easier to solve before the grant, exercise or transaction becomes irreversible.

You do not need to decide which valuation report you need before calling us. Send us the scheme, cap table, latest funding terms, grant dates and the event you are preparing for. We can map the valuation purpose, required professional, timeline and deliverables.

CALL US WHEN YOU ARE DEALING WITH

- A new ESOP scheme, pool or grant requiring share and option valuation
- An Ind AS 102 / Guidance Note valuation or year-end audit query
- An unlisted employee exercise requiring merchant-banker FMV
- A funding round that changes preference rights and common-share value
- A repricing, extension, cancellation or other plan modification
- A secondary, buyback, IPO or M&A event involving outstanding options
- A foreign-parent or cross-border ESOP with India accounting/tax/FEMA questions
- Any wider Business Valuation, M&A, PPA, FEMA, AIF or transaction requirement

EXPERIENCE	CLIENT ENGAGEMENTS	CREDENTIALS	BIG-4 FOUNDATION
15+ Years	500+	CA | CS | IBBI RV	9 Years at EY

WHAT HAPPENS IN THE FIRST CONVERSATION

01	02	03
Show us the award	**We map the valuations**	**You get a practical scope**
Scheme, cap table, grant terms, latest financing and the decision date.	Underlying share, option fair value, tax FMV, modification or transaction value - only what is actually required.	Required documents, professional eligibility, timeline, reports, dependencies and audit/payroll outputs.

BOOK A 15-MINUTE INTRODUCTORY CALL

A short review before grant, exercise or transaction can prevent a valuation report being prepared for the wrong purpose or at the wrong date.

CALL	EMAIL	VISIT
+91 9879557558	**sagarrvshah@elitevaluation.in**	**www.EliteValuation.in**

An ESOP valuation is easiest to defend when the purpose is clear before the model is built.

Elite Valuation | Independent Valuation and Boutique Advisory | Pan-India