

NSE & BSE / 2021-22 / 52
July 14, 2021

The Manager,
Corporate Services,
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (E), Mumbai 400 051

The Manager,
Corporate Services,
BSE Limited
14th Floor, P J Towers, Dalal Street,
Mumbai 400 001

Ref: Symbol: PERSISTENT

Ref: Scrip Code: 533179

Dear Sir/Madam,

Sub.: Information on ESOP Proposal put forth in the ensuing Annual General Meeting

The 31st Annual General Meeting ('AGM') of the Company is scheduled to be held on Wednesday, July 21, 2021. In order to enlighten the Shareholders about the resolutions proposed in the AGM regarding amendments to the ESOP Schemes, the Company has uploaded an informative video and a presentation on its website at the following links:

1. <https://www.persistent.com/investors/investors-communication/annual-general-meeting/esop-proposal-31st-agm/>
2. <https://www.persistent.com/wp-content/uploads/2021/07/ESOP-Scheme-details-and-FAQs.pdf>

Please find attached presentation on ESOP Schemes and FAQs for your ready reference.

Request you to take the same on record.

Please acknowledge the receipt.

Thanking you,
Yours Sincerely,
For **Persistent Systems Limited**

Amit Atre
Company Secretary
ICSI Membership No.: A20507

Encl: As above



Persistent

**AGM – FY21 (July 21, 2021)
ESOP Proposal Details & FAQs**



Background

- \ The Company had implemented the 'Persistent Employee Stock Option Scheme 2014' ("PESOS 2014") and 'Employee Stock Option Plan 2017' ("ESOP 2017") with a view to attract, retain and incentivize key resources and leadership and to motivate them to contribute to the overall corporate growth, profitability and to augment shareholders' value.
- \ The PESOS 2014 and ESOP 2017 were originally approved by the Members of the Company by way of Special Resolution dated July 26, 2014 and July 20, 2017 respectively.
- \ The PESOS 2014 and ESOP 2017 have been administered through an irrevocable employee welfare trust namely 'PSPL ESOP Management Trust' ("Trust") of the Company.
- \ Under PESOS 2014, out of total quantum of 10,00,000 options, the Company has granted 5,57,000 options till date. Under ESOP 2017, out of total quantum of 34,00,000 options, the Company has granted 30,07,500 options till date.
- \ The grant price under PESOS 2014 has been INR 10 per option and under ESOP 2017, the grant price is set at 15% discount to the market price on the grant date.
- \ Under the schemes, maximum number of Options to an individual employee is restricted as follows:
 - PESOS 2014: 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant of Options.
 - ESOP 2017: A maximum of 200,000 Options in any financial year as well as in aggregate.
- \ The Company has registered consistent quarter-on-quarter growth for last few quarters. To serve the needs of continued growth, the Company would need more quantum of Options in order to attract, retain, and motivate critical resources and leadership talent.

ESOP resolution details proposed in FY21 AGM

- \ Approval of shareholders is being sought for additional quantum of 4,00,000 options under the 2014 scheme and 21,00,000 options under the 2017 scheme.
- \ Maximum vesting period as originally prescribed under PESOS 2014 and ESOP 2017 are 3 (three) years and 4 (four) years respectively. With a view to seek longer retention of key resources and leadership talent, the originally prescribed maximum vesting periods stated in both the Schemes are proposed to be extended to 5 (five) years.
- \ Slide 4 provides details of current and proposed ESOPs and procurement of shares to meet the option requirements.
- \ The resolutions approved in 2014 and 2017 envisaged the ESOP Trust purchasing shares from the secondary market. In order to achieve better cashflow management and cost optimization, it is being proposed to have a mix of secondary market purchase and fresh issue of shares to fulfill the requirement of shares by the Trust for administering the schemes.
- \ As described in slide 4, the total fresh issue of shares will not exceed 30,00,000 shares and the same is planned to be done in a phased manner between CY23 and CY25. This will ensure the dilution is gradual and the cumulative dilution will not exceed 3.78%.
- \ The earlier resolutions already provide for ESOP Trust to avail loan from the Company on arm's length basis. Thus, there will not be any loss of interest to the Company.

Current and proposed ESOPs and procurement of Shares

Currently, options available for future grants under the two schemes is equal to 8,35,500 and with the additional quantum proposed of 25,00,000 options, the total options available for future grants will be 33,35,500 .

Total shares to be procured by the Trust for grants already given and future grants as mentioned above is 45,49,341 (net of 20,18,384 shares currently available with the Trust).

The total requirement of 45,49,341 shares is proposed to be met through fresh issue of 30,00,000 shares and the remaining through secondary market purchase

ESOP & Share Details - Current Status		PESOS-2014	ESOP-2017	Total
Quantum Approved in the past	A	1,000,000	3,400,000	4,400,000
Option Grants made in the past (until 10th Jun 2021)	B	557,000	3,007,500	3,564,500
Grants yet to be exercised	C	446,000	2,786,225	3,232,225
Shares available with ESOP Trust	D			2,018,384
Earmarked for existing grants	E			982,884
Earmarked for future grants	F=D-E			1,035,500
Balance shares to be procured for Existing Options	G=C-E			2,249,341
Proposed from secondary market	H			749,341
Fresh issue of shares	I=G-H			1,500,000
ESOP & Share Details - Proposed		PESOS-2014	ESOP-2017	Total
Balance options available from Approved Quantum	J=A-B	443,000	392,500	835,500
Proposed Quantum in FY21 AGM	K	400,000	2,100,000	2,500,000
Total options available for future grants	L=J+K	843,000	2,492,500	3,335,500
Shares available with the Trust earmarked for future grants	M=F			1,035,500
Balance shares to be procured for future Option Grants	N=L-M			2,300,000
Purchase from secondary market	O			800,000
Fresh issue of shares	P=N-O			1,500,000

FAQs for ESOP resolution

Q 1) Can you please give an overview of what is the ESOP resolution that needs to be considered during this AGM. What is the underlying rationale and why now?

A) Persistent currently has two ESOP schemes in place, which have been approved by the shareholders in 2014 and 2017.

- The options under the 2014 scheme have been awarded to select senior leaders as Restricted Stock Units (RSUs) with a grant price of INR 10 per share. Out of a total of 10 lakh options in this scheme, we have granted 5,57,000 options till date.
- The options under the 2017 scheme have been awarded to other key employees and leaders of the company. This scheme provides for a grant price which is at 15% discount to the prevailing market price as on the date of the grant. Out of a total of 34 lakh options, the company has granted 30,07,500 options till date.

The company has registered consistent quarter-on-quarter growth for last few quarters. To continue this growth momentum, the Company will need to attract and retain critical resources and leadership talent. The balance quantum available under the two schemes will not be adequate and hence approval is being sought from the shareholders for additional quantum of 4,00,000 options under the 2014 scheme and 21,00,000 options under the 2017 scheme

The pricing mechanism under the two schemes will remain the same.

Q 2) What band of employees are eligible for the stock options? What is the performance mechanism based on which the options will be allotted?

A) In the past, we have granted options to top 1.5-2.0% of our employee pool.

Eligible employees are selected based on parameters like seniority, tenure, past performance, contribution to growth, contribution to team building and succession, cross-functional relationship, corporate governance, company's values, etc.

Q 3) Can you please throw more light on how the pricing for these options has been worked out?

A) The pricing for the RSUs to select senior leaders which are part of the 2014 scheme is decided by the Nomination and Remuneration Committee of the Board of Directors. The grants thus far have been made at Rs 10 per share. The pricing has been kept flexible so as to suitably remunerate the senior leaders while taking cognizance of the market price at the time of grant. The existing quantum of options under this scheme is much smaller (10 lacs options) and the increase in quantum proposed is also small (i.e. 4 lacs options), which ensures that this scheme shall be utilised only for select group of employees.

For the 2017 scheme, the grant price per option is set at 15% discount to the prevailing market price as on the date of grant. This category of ESOPs are meant for the broader set of leaders and key employees and hence the quantum is also larger. The current quantum of options in this category is 34 lacs and the proposed increase is 21 lacs.

Q 4) Do the two schemes provide for a limit to the number of options that can be allotted to an individual employee?

A) Yes, the schemes provide for limitation on the quantum of options that can be allotted to an individual employee. In the 2014 scheme, the maximum RSUs to an individual employee is limited to 1% of the total outstanding shares which translates into about 7.6 lacs shares.

In the 2017 scheme, the maximum quantum is limited to 2 lacs options in any financial year as well as in aggregate for an individual employee. The exact quantum is determined keeping in mind the performance criteria and to ensure an optimum distribution across the eligible employee pool.

Q 5) When does an employee become eligible to subscribe to his/ her ESOPs or in other words, what is the vesting schedule of the options?

A) ESOP vesting happens over a period of time such that employees become eligible to subscribe to a certain proportion of their options each year. Currently the maximum vesting period under the two schemes are 3 years for the 2014 scheme and 4 years for the 2017 scheme. With a view to seek longer retention of key resources and leadership talent, this maximum period is proposed to be extended to 5 years as part of the current resolution.

Q 6) Please explain the rationale for a mix of fresh issue and secondary market purchase to meet the requirement of shares for ESOPs. What will be the likely dilution for existing shareholders?

A) In order to achieve better cash flow management and cost optimisation, it is proposed to have a mix of secondary market purchases and fresh issue of shares. Total number of shares required by the Trust towards existing and future option grants is 45,49,341. It is proposed that the Company issues 30,00,000 shares to the Trust and the balance 15,49,341 shares to be procured through secondary market purchase. The fresh issue of shares to the Trust shall be at the underlying exercise prices of the options.

The dilution due to fresh issue of shares to the Trust by the Company will be gradual over a period of 3 years and the cumulative dilution for existing shareholders will not exceed 3.78%. Additionally, considering the growth of the Company, the cumulative impact of fresh issue on earnings per share is expected to be minimal.

For a detailed understanding of the break-up of existing and future ESOP grants and shares required to be issued thereof, please refer to slide number 4 above.

Q 7) Will a loan be provided by Persistent to the trust to enable it to implement the ESOP schemes of the company, and if yes, will it be an interest-free loan that could lead to loss of interest to the firm?

A) The earlier resolutions already provide for the ESOP Trust to avail loan from the company on an arm's length basis. Thus, there will not be any loss of interest for Persistent.



Persistent

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