

IL&FS Engineering and Construction Company Limited

Annexure to the Directors' Report for ESOP Scheme 2009

Disclosures on Employee Stock Option Scheme for the Year Ended March 31, 2016

Details of the Employee Stock Option Scheme (ESOS) as at March 31, 2016 pursuant to the SEBI (Share Based Employee Benefits) Regulations, 2014

The Company has provided various shares based payment schemes to its employees through ESOP 2009 scheme. During FY 2016, the Company had allotted 135,853 equity shares of Rs 10/- each fully paid at a price of Rs. 58.90 through ESOP- 2009 scheme

Disclosure pursuant to SEBI (Share Based Employee Benefits) Regulations, 2014 is given below:

- (1) Relevant disclosures in terms of the 'Guidance note on accounting for employee share-based payments' issued by ICAI or any other relevant accounting standards as prescribed from time to time:** The disclosures are provided in the Note 39 to the financial statements of the Company for FY 2016
- (2) Diluted EPS on issue of shares pursuant to all the schemes covered under the Regulations in accordance with 'Accounting Standard 20 - Earnings Per Share' issued by ICAI or any other relevant accounting standards as prescribed from time to time:** Rs. (16.65)
- (3) Details related to ESOS**
 - (i) The Company had in existence one ESOS during the year viz. ESOP 2009 Grant II. The stock options under ESOP 2009 Grant II scheme were granted in three tranches. The general terms and conditions of the same as given below:
 - (a) Date of shareholders' approval: November 9, 2009;
 - (b) Total Number of Options approved under ESOS: 2,849,984
 - (c) Vesting Requirements:
 - (1) Vesting Option 1: Options vest on an annual basis at 30%, 30% and 40% over a period of three years;
 - (2) Vesting Option 2: Options vest on an annual basis at 40% and 60% over a period of two years;
 - (3) Vesting Option 3: Options vest totally after one year from the date of grant
 - (d) Exercise price (Rs.): 58.90
 - (e) Maximum term of options granted: 3 years
 - (f) Source of shares: Primary
 - (g) Variation in terms of options: No variation in the terms of grant of stock options during FY 2015-16
 - (ii) **Method used to account for ESOS:** Intrinsic value method
 - (iii) **(a) Difference between the employee compensation cost so computed using and the employee compensation cost that shall have been recognized if it had used the fair value of the options:** Rs. (2.10) crore

(b) the impact of this difference on profits and on EPS of the Company:

	Particulars	Amt (in Rs. Crore)
	Loss considered for EPS	(195.22)
Add	Employee Stock Compensation under intrinsic value method	-
Less	Employee Stock Compensation expense/(reversal) under fair value method	(2.10)
	Pro forma loss	(193.12)
	Basic Earnings per share (as reported)	(16.65)
	Basic Earnings per share (Pro forma)	(16.47)
	Diluted Earnings per share (as reported)	(16.65)
	Diluted Earnings per share (Pro forma)	(16.47)

(c) Options movement during the year:

Particulars	Details
Number of options outstanding at the beginning of the period	757,553
Number of options granted during the year	-
Number of options forfeited/lapsed during the year	199,110
Number of options vested during the year	264,620
Number of options exercised during the year	135,853
Number of shares arising as a result of exercise of options	135,853
Money realized by exercise of options (INR), if scheme is directly implemented by the Company	8,001,742
Loan repaid by the Trust during the year from exercise price received	NA
Number of options outstanding at the end of the year	422,590
Number of options exercisable at the end of the year	422,590

(d) Employee wise details (name of employee, designation, number of options granted during the year, exercise price) of options granted to :

(i) Senior Management:

Name : Mr. G Venkateswar Reddy*

Designation : Company Secretary

No. of options granted during the year : 2,800

Exercise Price : Rs. 58.90

*Resigned w.e.f. November 30, 2015

(ii) Any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year: Nil

(iii) Identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant: Nil

(e) A description of the method and significant assumptions used during the year to estimate the fair value of options including the following information:

(i)

Weighted average value of share price	Rs. 58.90
Weighted average fair value of options granted	Rs. 26.18
Exercise price	Rs. 58.90
Expected volatility	54.38%
Expected option life	2.5-5.5 years
Expected dividends	-
Risk free interest rate	8.38%

(ii) **the method used and the assumptions made to incorporate the effects of expected early exercise:** Black Scholes Valuation model

(iii) **how expected volatility was determined, including an explanation of the extent to which expected volatility was based on historical volatility and whether and how any other features of the option grant were incorporated into the measurement of fair value, such as a market condition:** The following variables had been used for calculating the fair value and their rationale are as follows:

- (a) **Stock Price:** Since, the Company is listed on the Stock Exchanges having nationwide trading terminal, the prevailing market price on National Stock Exchange as on the grant date i.e. on June 28, 2012 was considered;
- (b) **Exercise Price:** The exercise price considered as Rs. 58.90;
- (c) **Time to maturity/expected life of the options:** It is the period for which the Company expects the options to be alive. The minimum life of stock option is the minimum period before which the options cannot be exercised and the maximum life is the period after which the option cannot be exercised. For vest 1, the minimum time period is taken as 1 year and the maximum time period as 3 years as per the ESOP Scheme
- (d) **Historical volatility:** Historical volatility is a measure of the amount by which a price has fluctuated or is expected to fluctuate during the period. Since, the Company is listed and therefore to gauge the future risk historical volatility is calculated based upon the daily periodic stock return for past one year back from the grant date;
- (e) **Risk free rate:** The risk free rate being considered for the calculation is the interest rate applicable for a maturity equal to the expected life of the options based on the zero-coupon yield curve for Government securities or 10 years Government bonds.
- (f) **Dividend Yield:** The dividend yield for the year is derived by dividing the dividend for the period with the current market price. In our case no dividend is declared and paid by the Company in the past