

# Firstsource Solutions Limited

## Disclosure pursuant to Regulation 14 of Securities and Exchange Board of India (Share Based Employee Benefits) Regulations 2014 as on March 31, 2021

### Firstsource Solutions Employee stock option Scheme 2003 ('Scheme 2003'):

The Company grants share-based benefits to eligible employees with a view to attracting and retaining the best talent, encouraging employees to align individual performances with Company objectives, and promoting increased participation by them. With a view to provide an opportunity to the employees of the Company to share the growth of the Company and to create long term wealth, the Company has an Employee Stock Option Scheme (ESOS), viz., the Firstsource Solutions Employee Stock Option Scheme, 2003 (ESOS 2003). The Scheme is applicable to all eligible employees and Directors of the Company and its Subsidiary Companies. The Scheme is in compliance with Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014, as amended.

### Firstsource Solutions Limited Employee Stock Option Plan 2019 ('ESOP 2019 Plan'):

The Company has established the ESOP 2019 Plan, pursuant to approval of shareholders at the Annual General Meeting on August 2, 2019, to allow our employees to acquire greater proprietary stake in our success and growth, and to encourage our employees to continue their association with us. The ESOP 2019 Plan is in compliance with Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 (SEBI (SBEB) Regulations), as amended.

As per the ESOP 2019 Plan, the Nomination & Remuneration Committee will issue stock options to the identified eligible employees/ Director(s) of the Company and its Subsidiary Companies at an exercise price which will be the face value of the shares or any higher price which may be decided by the Nomination & Remuneration Committee considering the prevailing market conditions and the norms as prescribed by SEBI and other relevant regulatory authorities. Further, the stock options under the said plan would vest & be exercisable in tranches as determined by the Nomination & Remuneration Committee basis the power given to the Nomination & Remuneration Committee in line with the ESOP 2019 Plan.

The disclosures in pursuance of ESOP Regulations are as under:

#### A. Relevant disclosures in terms of the 'Guidance note on accounting for employee share - based payments' issued by Institute of Chartered Accountants of India ("ICAI") or any other relevant accounting standards as prescribed from time to time:

The disclosures are provided in Note 24 of the Notes to Standalone Financial Statements of the Company for the year ended March 31, 2021.

#### B. 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:

₹ 5.20 (Standalone); ₹ 5.13 (Consolidated)

#### C. Details related to Firstsource Solutions Employee Stock Option Scheme 2003 ("Scheme 2003") and Employee Stock Option Plan 2019 (ESOP 2019):

##### i. A description of each ESOS that existed at any time during the year, including the general terms and conditions of each ESOS, including:

	Scheme 2003	ESOP 2019 Plan
a)	Date of shareholders' approval	This Firstsource Solutions Employee Stock Option Scheme 2003 was approved by the shareholders of Firstsource Solutions Limited, at their meeting held on September 3, 2003 and were further modified at the Annual General Meeting ("AGM") held on August 14, 2007 and Extra-Ordinary General Meeting held on November 22, 2007.
		Firstsource Solutions Limited Employee Stock Option Plan 2019 (ESOP 2019) was approved by the shareholders of Firstsource Solutions Limited, at their meeting held on August 2, 2019.

	<b>Scheme 2003</b>	<b>ESOP 2019 Plan</b>
b) Total number of options approved under ESOS	103.29 Million (net of stock options cancelled, lapsed and forfeited)	34.55 Million
c) Vesting requirements	<p>"Vesting Period" means the period of four years commencing from the date of Grant of Options to Eligible Employee, during which the vesting of the Options granted to Eligible Employee, in pursuance of ESOS 2003, takes place.</p>	<p>This unique plan is a combination of tenure and performance based ESOPs aligned to shareholder value creation which will deepen employee ownership in the Company.</p> <p><b>A) Tenure based Structure (ESOP Structure)</b></p> <p>Options in this structure will be granted to identified eligible employees, basis the below criteria:</p> <ol style="list-style-type: none"> <li>1. Drives ownership of employees in company's fortunes for better engagement and retention;</li> <li>2. Seen as part of the total compensation package, in line with competition/ market practice;</li> <li>3. Quantum of grants is based on the performance and potential of the individual employee.</li> </ol> <p><b>B) Performance based Structure (PSU Structure)</b></p> <p>Option in this structure is granted to identified eligible employees – Functional and Business heads, basis the below criteria:</p> <ol style="list-style-type: none"> <li>1. Attainment of options can range between 0% and 150% of tranche eligible for vesting for the respective performance measurement period. Each tranche is separate. Performance and vesting in one performance period has no bearing on performance and vesting in another performance period;</li> <li>2. Subject to terms and conditions of the ESOP 2019 Plan, the performance-based component of the grant is measured basis the Performance targets as agreed annually by the Management.</li> </ol>

	<b>Scheme 2003</b>	<b>ESOP 2019 Plan</b>																												
	<p>The Options granted to any Eligible Employee shall vest in tranches within the Vesting Period in the manner as set forth herein below (the "Vesting Schedule"): The tranche period for ESOS 2003 is as below:</p> <table border="1"> <thead> <tr> <th><b>Period within which options will vest unto the participant</b></th> <th><b>% of Options which shall vest unto the Option Grantee</b></th> </tr> </thead> <tbody> <tr> <td>End of 12 months from the date of grant of options</td> <td>25.0</td> </tr> <tr> <td>End of 18 months from the date of grant of options</td> <td>12.5</td> </tr> <tr> <td>End of 24 months from the date of grant of options</td> <td>12.5</td> </tr> <tr> <td>End of 30 months from the date of grant of options</td> <td>12.5</td> </tr> <tr> <td>End of 36 months from the date of grant of options</td> <td>12.5</td> </tr> <tr> <td>End of 42 months from the date of grant of options</td> <td>12.5</td> </tr> <tr> <td>End of 48 months from the date of grant of options</td> <td>12.5</td> </tr> </tbody> </table>	<b>Period within which options will vest unto the participant</b>	<b>% of Options which shall vest unto the Option Grantee</b>	End of 12 months from the date of grant of options	25.0	End of 18 months from the date of grant of options	12.5	End of 24 months from the date of grant of options	12.5	End of 30 months from the date of grant of options	12.5	End of 36 months from the date of grant of options	12.5	End of 42 months from the date of grant of options	12.5	End of 48 months from the date of grant of options	12.5	<p><b>A) Tenure based Structure (ESOP Structure)</b></p> <table border="1"> <thead> <tr> <th><b>Period within which options will vest unto the participant</b></th> <th><b>% of options that will vest</b></th> </tr> </thead> <tbody> <tr> <td>End of 12 months from the date of grant of options</td> <td>25%</td> </tr> <tr> <td>At the end of every quarter after year 1, till end of year 4 from date of grant</td> <td>6.25%</td> </tr> </tbody> </table> <p><b>B) Performance based Structure (PSU Structure)</b></p> <table border="1"> <thead> <tr> <th><b>Period within which options will vest unto the participant</b></th> <th><b>% of options that will vest</b></th> </tr> </thead> <tbody> <tr> <td>End of 12 months from the date of grant of options</td> <td>25%</td> </tr> <tr> <td>At the end of every year after year 1, till end of year 4 from date of grant</td> <td>25%</td> </tr> </tbody> </table>	<b>Period within which options will vest unto the participant</b>	<b>% of options that will vest</b>	End of 12 months from the date of grant of options	25%	At the end of every quarter after year 1, till end of year 4 from date of grant	6.25%	<b>Period within which options will vest unto the participant</b>	<b>% of options that will vest</b>	End of 12 months from the date of grant of options	25%	At the end of every year after year 1, till end of year 4 from date of grant	25%
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d) Exercise price or pricing formula	<p>The 'Exercise price' or 'Pricing formula' for the purpose of the grant of Options shall be the 'market price' within the meaning set out in the SEBI (Share Based Employee Benefits) Regulations 2014 i.e., the latest available closing price, prior to the date when options are granted/ shares are issued, on that Stock Exchange where there is highest trading volume on the said date. The Nomination &amp; Remuneration Committee has the power to change/ modify the exercise price or pricing formula and fix the exercise price at such discount to the market price of the equity shares as may be deemed appropriate provided that the grant/ exercise price shall not be below the face value of the shares and shall be in accordance with the applicable laws in this regard.</p>	<p>Exercise price which will be at the face value of the Shares or any higher price which may be decided by the Nomination &amp; Remuneration Committee considering the prevailing market conditions and the norms as prescribed by SEBI and other relevant regulatory authorities</p>																												
e) Maximum term of options granted	<p>The participants shall exercise the options within a period of ten years from the date of the grant of the options. If the Option Grantee's employment is terminated due to death, retirement (including pursuant to any early/ voluntary retirement scheme), permanent disability, involuntary termination not for cause), and/or upon a Change of Control of the Company, the vested Options, to the extent un-exercised by such Option Grantee, shall be exercised upon payment of Exercise Price in full by such Option Grantee within a period of 12 months from the termination of such Option Grantee's service, which period shall be deemed to be the Exercise Period.</p>	<p>Under both the above structures grants will be issued at face value of the shares or any higher price which may be decided by the Nomination &amp; Remuneration Committee and will have an exercise period up to ten years as per the ESOP 2019 Plan and as determined by the Nomination &amp; Remuneration Committee.</p>																												
f) Source of shares (primary, secondary or combination)	Primary	Secondary																												
g) Variation in terms of options	There are no variations in terms of options in FY2020-21	Not Applicable																												

**ii. Method used to account for ESOS: Intrinsic or fair value:**

The Company has calculated the employee compensation cost using the fair value method of accounting to account for the options granted under ESOS Scheme 2003 and ESOP 2019. Please refer Note no. 24 of Standalone Financial Statement.

**iii. Where the company opts for expensing of the options using the intrinsic value of the options:**

a)	Difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options	Please refer Note no. 24 of Standalone Financial Statement.
b)	Impact of this difference on profits and on EPS of the Company	
	Profit after Tax	₹ 3,666.53 Million
	Earning per share (Basic and diluted)	₹ 5.38 – Basic ₹ 5.20 - Diluted

**iv. Option movement during the year (For each ESOS):**

Particulars	Scheme 2003	ESOP 2019 Plan
Number of options outstanding at the beginning of the period	6,915,810	10,784,204
Number of options granted during the year	Nil	16,569,000
Number of options forfeited / lapsed during the year	* 713,435 (*The stock options which are cancelled/ lapsed/ forfeited can be re- issued by the Company)	2,207,000
Number of options vested during the year	1,055,159	119,500
Number of options exercised during the year	2,272,436	Nil
Number of shares arising as a result of exercise of options	2,272,436	Nil
Money realized by exercise of options (INR), if scheme is implemented directly by the Company	₹ 81,742,155	Nil
Loan repaid by the Trust during the year from exercise price received	NA	Nil
Number of options outstanding at the end of the year	3,929,939	25,146,204
Number of options exercisable at the end of the year	3,219,699	119,500

**v. Weighted-average exercise prices and weighted-average fair values of options whose exercise price equals or exceeds or is less than the market price of the stock:**

i) Weighted average exercise price – ₹ 35.97 per option. ii) Weighted average fair value as per the Black Scholes Model – Not Applicable

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

No stock options were granted to any of the employees of the Company during the financial year 2020-21 under Scheme 2003.

**Below are the details of stock options granted to the employees of the Company during the financial year 2020-21 under ESOP 2019 Plan.**

Particulars	Name of Employee	Designation	Number of options granted during the year	Exercise Price (₹ per share)
a) Senior Managerial Personnel	Dinesh Jain	President - CFO	850,000	10.00
	Venkatagiri Vandali	Vertical Head & President Healthcare	930,000	10.00
	Siddharth Parashar	EVP- Chief Revenue Officer CM	350,000	10.00
	Steven C Schachter	EVP- Chief Revenue Officer Mortgage	400,000	10.00
	Rajlakshmi Raghavan	EVP - Marketing	200,000	10.00
	Bhupendra Gupta	EVP- BTO Head	180,000	10.00
	K.M. Ponnappa	EVP- Chief Operations Officer CM	300,000	10.00
	Arjun Mitra	President - Head Collections	400,000	10.00
	Prashant Achanta	Chief Technology Officer	100,000	10.00
	Ashish Bisaria	Practice Lead - Customer Experience	350,000	10.00
	Prashanth Nandella	Chief Operating Officer	1,200,000	10.00
	Randall L Shafer	EVP & Chief Operating Officer	250,000	10.00
	Badrinath Bharadwaj	EVP - Finance & Accounts	150,000	10.00
	Arun Tyagi	EVP - Operational Excellence COE	130,000	10.00
	Jayanta Lahiri	EVP - Global CTO	50,000	10.00
		Kevin P Quinn	EVP - Business Development	150,000
b) 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			
c) 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			

**vii. A description of the method and significant assumptions used during the year estimate the fair value of options including the following information:**

Particulars	
a) The weighted average values:	
Share Price (₹)	67.07
Exercise Price (₹)	35.97
Expected volatility	0% to 75%
Expected option life	2 – 7 years
Expected dividend yield	0% to 4%
Risk-free interest rate	6.50% to 9.06%
Any other input to the model	-
b) The method used and the assumptions made to incorporate the effects of expected early exercise.	Black Scholes Model of fair valuation
c) How expected volatility was determined, including an explanation of the extent to which expected volatility was based on historical volatility.	The expected volatility was determined based on historical volatility data. Volatility has been considered for periods, corresponding to the respective expected lives of the different vests prior to the grant date. Daily volatility of the Company's stock price on NSE over these years has been considered.

- d) Whether and how any other features of the option grant were incorporated into the measurement of fair value, such as a market condition. Not applicable
- e) Until all options granted in the three years prior to the IPO have been exercised or have lapsed, disclosures of the information specified above in respect of such options shall also be made. Not applicable

#### D. Details related to Trust (ESOP Plan 2019):

##### i. General information:

Sr. No.	Particulars	Details
1.	Name of the Trust	Firstsource Employee Benefit Trust
2.	Details of the Trustee(s)	1. Mr. Deepak Kolambkar 2. Mr. Gopal Rathi
3.	Amount of loan disbursed by Company/ any company in the group, during the year.	₹ 607,500,000 was disbursed by the Company as loan.
4.	Amount of loan outstanding (Repayable to Company/any company in the group) as at the end of the year.	₹ 697,500,000
5.	Amount of loan, if any, taken from any other source for which company/ any company in the group has provided any security or Guarantee.	Not Applicable
6.	Any other contribution made to the Trust during the year.	Nil

##### ii. Brief details of transactions in shares by the Trust (For ESOP Plan 2019):

a)	Number of shares held at the beginning of the year.	3,156,000
b)	Number of shares acquired during the year through (i) primary issuance (ii) secondary acquisition, also as a percentage of paid up equity capital as at the end of the previous financial year, along with information on weighted average cost of acquisition per share	13,854,000 Shares acquired through secondary market during the year under review i.e. 1.99 % of paid up equity capital of the Company.  Weighted average cost of acquisition per share was ₹ 47.07.
c)	Number of shares transferred to the employees/ sold along with the purpose thereof	Nil
d)	Number of shares held at the end of the year	17,010,000 Shares

##### iii. In case of secondary acquisition of shares by the Trust (For ESOP Plan 2019):

Number of shares	As a percentage of paid-up equity capital as at the end of the year immediately preceding the year in which shareholders' approval was obtained
Held at the beginning of the year	3,156,000
Acquired during the year	13,854,000 Shares acquired through secondary market during the year under review
Sold during the year	Nil
Transferred to the employees during the year	Nil
Held at the end of the year	17,010,000 Shares