How to leverage Esops for Satyam's inclusive revival

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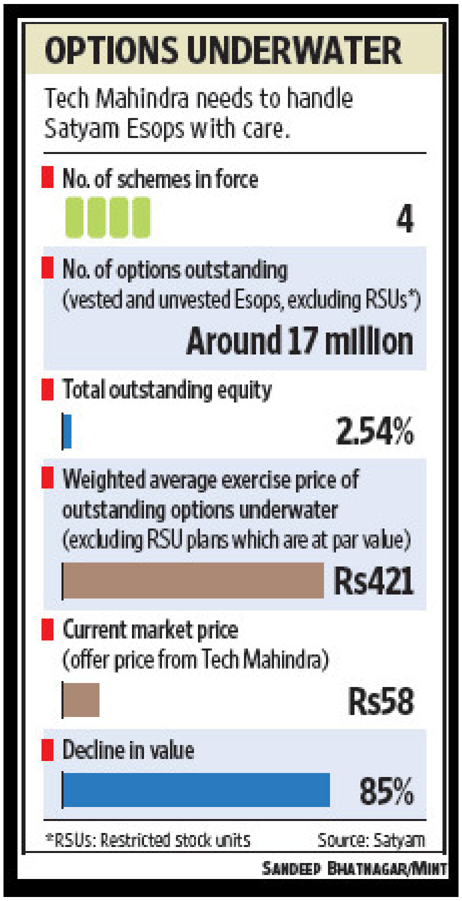
Recovery Economics | Harshu Ghate

In one of the fastest corporate takeovers in India's business history,Satyam Computer Services Ltd's ownership has been passed on to Tech Mahindra Ltd. The new owner, in right earnest, has infused the required funding in the business and also made a public offer for acquiring a 20% stake from minority shareholders, thereby conveying the seriousness of its intent to bail out the troubled company and provide comfort to anxious employees.

An issue which has so far not been discussed, at least in the public domain, is what happens to the millions of employee stock options, or Esops, granted by Satyam to its employees, and which have not been exercised by them either because they are yet to vest or the market price was not attractive.

Among the top information technology companies, Satyam has been granting Esops to its key employees regularly since 1999 and is believed to have implemented successful plans which have benefited the employees as well as the company. It has been acknowledged even by the top management of Tech Mahindra that human resources integration would be the key to successful integration of the two companies. Retention of key Satyam staff would be critical in not only ensuring smooth transition but also adhering to the strict delivery timelines, ensuring quality of deliverables and in retaining clients. As in any people-oriented business, stock options have been central to employee motivation and retention at Satyam.



Satyam Esops need special care from Tech Mahindra for successful integration of the two companies.

Satyam's latest annual report gives the status of its Esop plans.

Purely from the legal perspective, the treatment to Satyam options would depend on the nature of integration Tech Mahindra has in mind. If it decides to merge the two companies (looks like a remote possibility given the unknown liabilities of Satyam) or if only the business of Satyam was to be merged with Tech Mahindra, the options holders will have to be either offered Tech Mahindra options or have the accelerated vesting, make the employees exercise them and offer Tech Mahindra shares as a part of the share-swap ratio. All the schemes of Satyam Esops provide for this mechanism in case of a merger or sale of business, and the rights of the option holders are fairly well protected.

If Satyam continues to be an independent entity, it may continue to be listed in India and the US, or it may delist. Delisting may happen on the New York Stock Exchange, or NYSE, if the enquiries initiated by the exchange go against the company. Satyam is already delisted from the NYSE Euronext exchange. If Satyam is delisted from NYSE, the Esops linked to American depository shares (ADS) that it has issued to the employees will become illiquid. In this scenario, the ADS option holders, on exercise of their options, will have to convert their ADS into shares and trade them on the Indian markets, which is time consuming, but there would at least be an exit route for the employees. At least, as of now, there are no indications that the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) will ask Satyam to delist, unless Tech Mahindra wants it. If Satyam is delisted from BSE and NSE, in line with market regulator Securities and Exchange Board of India's (Sebi) guidelines, all the outstanding options will have to be exercised and converted into equity before the delisting.

If Satyam was to continue as a separate listed entity, the issue to be addressed is what should be done for the options which have sunk in market value. Considering the revival of Satyam is not going to be easy and immediate, there is virtually no chance of employees making any money with the exercise price of Rs421. The options need to be exchanged with newer and in-the-money options.

Legalities apart, what is important is how the new management wants to use Esops as a tool for motivating the Satyam employees and ensuring their retention. Like Satyam, Tech Mahindra has a long history of implementing Esops, since the time it was unlisted.
Currently, the outstanding options constitute around 8.40% of the company's paid-up capital. Hence, they do appreciate the need and use of this instrument, and a fair treatment for the Satyam option holders can be presumed.

In comparison with Tech Mahindra, Satyam is much larger in size, in terms of number of employees, global footprint and revenue numbers. It is also a more complex organization, with multiple subsidiaries, multi-cultured employees, customers across geographies and sectors Tech Mahindra has not worked in. Continuation of the existing management and operations team at Satyam will be key for ensuring smooth induction of the new owners and integration of the two businesses. A highly motivated team with a shared vision of reviving customer confidence and stabilizing operations would be the top priority of the new owners. Applying the 80:20 principle, the bulk of the 17 million Satyam options must be with the key senior management team, which needs to be handled with kid gloves. This underlines the need to address the issue on priority. The new management can leverage the situation to ensure a win-win solution for the employees as well as the shareholders. The current outstanding Satyam options, which are underwater by around 85% and constitute 2.54% of Satyam's paid-up capital, can be exchanged for new Satyam options with similar terms but at current market price. This will motivate employees to work towards the success of the restructured Satyam. The shareholders' interest can also be protected by exchanging the current 17 million options with a significantly lower number of options without affecting the value in the hands of employees. The new options will have a far higher value than the existing underwater options, so they can be exchanged for a fewer number with the same aggregate value. Considering that the possibility of Satyam's stock price getting back to the exercise price of Rs421 is remote and unlikely in the near future, some adjustment to these options would be fair. It would be unreasonable to maintain the status quo, blaming it on employees' bad luck, especially considering the reason for the slump in the price.

One alternative for ensuring successful integration of the two management teams could be to swap (all or in part) Satyam options with Tech Mahindra options. This could be considered at least for Satyam's senior management team as it will give them a sense of belonging in the parent.

There are several ways in which Esops can be leveraged in a situation like this to the advantage of all the stakeholders, and the atmosphere could not have been more conducive. You have employees who have tasted Esop gains and would be willing to take more of them, you have new owners who are known for sharing wealth and understand the value employees bring to the table, and finally you have the government that would be willing to make fair exceptions, if at all required. The issue is not about what is good for the employees or for the owners or for the new management. The alternative has to be a win-win for all the constituents. Only then will it achieve the desired result. Over to Tech Mahindra.

Harshu Ghate is co-founder and CEO of Esop Direct. Respond to this column at feedback@livemint.com