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Start-up CEO remuneration is a multiple of remuneration paid to the more steady, traditional, and profit-making businesses' CEO compensation, an issue that corporate India is beginning to grapple with. As the companies list and private equity investors exit, these start-up CEOs will have to meet the expectations of public market investors – which include generating returns, stronger governance structures, and tempered executive remuneration. Else, they are likely to set examples for shareholder activism in India.



Kruze Consulting, a US-based firm that provides start-up CFO consulting services, published a [2022 research report](#) that showed that CEO salaries of start-ups increased by an average of 2.7% over 2021 to USD 150,000, which was a 7.9% increase over 2020 pay, during which CEOs took COVID-19 related pay cuts. As a result, start-up CEOs' average remuneration is higher than pre-COVID levels, and has increased over the 2019 peak levels. The 2022 research was based on CEO pay at over 250 seed and venture-funded start-ups.

The Kruze Consulting research also found that CEO salaries were linked to the amount of funding raised by the start-ups – higher the capital raised, the more the CEO compensation. In 2022, chief executives at early-stage companies that raised over USD 10 million in financing were paid just under two hundred thousand dollars a year, USD 199,000. Founder CEOs at companies that raised under USD2M were paid USD106,000 on average – a difference of over USD90,000.

While the Kruze Consulting survey deals with relatively early-stage start-ups, the conclusion that CEO compensation is correlated to funding raising remains true for larger start-ups too, and even in India. Boards of listed start-ups can no longer operate as they did in the past – focussed on raising capital to support continuous cash burn. Being listed is not an endgame – it is the beginning of a new path, one that these companies need to transition into.

Remuneration levels of start-up CEOs in India are higher than those of all BSE SENSEX companies' CEOs – put together. Most of the BSE SENSEX companies are profitable, and all of them have been profitable in at least one of the past five years: this cannot be said for the start-ups that have listed.

PAYTM, for example, granted its Managing Director, Vijay Shekhar Sharma 21 mn stock options that can be exercised at Rs. 9 per share in FY22. The fair value of stock options granted aggregates about Rs. 39.6 bn (USD 495 million¹). In addition, PAYTM proposes to pay him Rs. 40 mn (about USD 500,000) in annual compensation, with upto another 25% in perquisites (Rs. 10 mn) in FY23. ZOMATO's Deepinder Goyal, while having voluntarily waived his cash remuneration for 36 months beginning 1 April 2021, was granted 368.5 mn stock options in FY22 that can be exercised at Re. 1, which in fair value aggregated Rs. 13.7 bn (about USD 171.25 mn). Other start-ups like POLICYBZR and CARTRADE are yet to publish their FY22 annual reports.

Vijay Shekhar Sharma has publicly disclosed that his stock options will vest only once the stock price reaches the listing price – it has eroded by over 60% from the IPO price. This means that if IPO investors make back their losses and just get their investment back without any returns, Vijay Shekhar Sharma's 21 mn stock options vest – assuming the stock price reaches the first day's closing on BSE of Rs. 1564.15 (which itself is lower than its issue price of Rs. 2150), he will gain Rs. 32.66 bn² from exercising these at Rs. 9. For Deepinder Goyal, it is unclear

¹ USD 1 = INR 80 assumed

² 21 mn stock options x (Rs. 1564.15 less Rs. 9)

if the vesting of his stock options require him to achieve a specified set of performance targets, or if these will simply vest over time – independent of his and ZOMATO's performance. Deepinder Goyal has at least 10 years to exercise the stock options once they vest³. If the stock price remains at the current levels through the vesting and the exercise period, he will gain Rs. 22.4 bn⁴ from the stock option grant, while IPO investors will have lost more than 50% of their investment.

The incentive mechanisms for listed start-ups in India do not align with the larger investor interest. But they do align with those of the private equity (PE) investors that remain invested post listing of these start-ups. For them, giving out these stock options results in limited dilution with no cash payout. Given the long association of the founders and the PE investors, there is perhaps some sense of returning to the founders their equity, which was diluted as they raised capital. But most importantly, ensuring that the CEO is focussed on driving up the stock price aligns to PE investors' exit goals.

The role of PE investors in driving up remuneration is not limited to start-ups. In publicly listed companies like Sona BLW Precision Forgings Limited, EPL Limited, and Mphasis Limited, PE investors have encapsulated the leadership team into their exit goals – the senior leadership team, including the CEO, will get a share of the returns should the PE investors meet their exit return goals. This aligns the company to the PE investors goals, which closer to the time of exit, may be short-term and not in the interest of all the company's stakeholders.

Public market investors have been pushing back at the use of stock option grants to reward CEOs (Exhibits 1 to 5), since these companies have yet to create shareholder wealth – stock prices have declined for most of them since listing. Yet, when presented to shareholders for an approval, these resolutions pass – mainly because of the support of the private equity investors that remain vested post IPO. Although most of the listed start-ups do not have promoters as defined under SEBI regulations, founders and pre-IPO private equity investors together hold dominant equity – thus driving these decisions.

Some of start-up founders have entrenched themselves into the company though the Articles of Association – for all intents and purposes, they have board permanency and control rights. In doing so, they have the rights of a promoter

³ Exercise period is 10 years from the date of vesting or 12 years from the date of the IPO, whichever is earlier

⁴ 368.5 mn stock options x (Rs.61.90 less Re.1)

but not the regulatory responsibility – it also allows to them to be granted stock options. This is a disconnect that must be catch the regulator’s eye.

The public market investors’ disappointment with start-ups has driven them to reduce exposure and fresh IPOs are almost a trickle. But if PE investors want an exit, these companies will need to attract the institutional investors back again, for which listed start-ups need to begin meeting the expectations of public market investors. Public market investors expect governance structures akin to those of other listed companies, a focus towards generating returns, tempered executive compensation, and corporate behaviour that recognizes the role of a company’s stakeholders. The cosy relationship between the founders and the dominant shareholders will eventually end as PE investors exit, and the wider set of public market investors will ask a different set of questions. It is best they prepare to meet public market investors’ expectations now that they are listed, else they are likely to set precedents on shareholder activism in India.



A modified version of this column by Hetal Dalal was published [on www.bqprime.com](https://www.bqprime.com) on 30 August 2022, and it can be accessed here: <https://www.bqprime.com/business/money-for-nothin-and-your-esops-for-free>

Exhibit 1: PAYTM 2022 AGM; Resolution #4 (Special) | Approve remuneration to Vijay Shekhar Sharma (DIN: 00466521) as Managing Director for three years from FY23 as minimum remuneration

	Total shares	Shareholding (%)	Votes polled	Votes polled (%)	Votes FOR	Votes AGAINST	Votes FOR (%)	Votes AGAINST (%)
Promoters	-	-	-	-	-	-	-	-
Institutional investors	4,78,30,912	7.4	3,40,45,759	71.2	83,08,578	2,57,37,181	24.4	75.6
Others ²	60,10,44,957	92.6	54,17,04,144	90.1	53,56,72,549	60,31,595	98.9	1.1
Total	64,88,75,869	100.0	57,57,49,903	88.7	54,39,81,127	3,17,68,776	94.5	5.5

Source: www.iiasadrian.com; www.bseindia.com

Notes to the resolution:

1. The resolution requires a more than 75% majority to pass, since it is a special resolution;
2. Private equity investors' shareholding and the founders' shareholding are classified in the 'Others' category. Those classified as institutional shareholders are typically public market investors.

Exhibit 2: PAYTM 2022 PB; Resolution #1 (Special) | Amend and ratify pre-IPO One 97 Employees Stock Option Scheme 2019 (ESOS 2019)

	Total shares	Shareholding (%)	Votes polled	Votes polled (%)	Votes FOR	Votes AGAINST	Votes FOR (%)	Votes AGAINST (%)
Promoters	-	-	-	-	-	-	-	-
Institutional investors	6,17,46,244	9.5	5,12,07,855	82.9	1,67,84,259	3,44,23,596	32.8	67.2
Others ²	58,65,27,415	90.5	51,59,00,309	88.0	51,00,04,041	58,96,268	98.9	1.1
Total	64,82,73,659	100.0	56,71,08,164	87.5	52,67,88,300	4,03,19,864	92.9	7.1

Source: www.iiasadrian.com; www.bseindia.com

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Exhibit 3: ZOMATO 2021 PB; Resolution #6 (Special) | Ratify the Zomato Employee Stock Option Plan 2021

	Total shares	Shareholding (%)	Votes polled	Votes polled (%)	Votes FOR	Votes AGAINST	Votes FOR (%)	Votes AGAINST (%)
Promoters	-	-	-	-	-	-	-	-
Institutional investors	83,19,89,646	15.5	83,19,89,646	100.0	32,40,84,919	50,79,04,727	39.0	61.0
Others ²	4,52,05,18,481	84.5	4,52,05,18,481	100.0	4,52,05,06,860	11,621	100.0	0.0
Total	5,35,25,08,127	100.0	5,35,25,08,127	100.0	4,84,45,91,779	50,79,16,348	90.5	9.5

Source: www.iiasadrian.com; www.bseindia.com

Notes to the resolution:

1. The resolution requires a more than 75% majority to pass, since it is a special resolution;
2. Private equity investors' shareholding and the founders' shareholding are classified in the 'Others' category. Those classified as institutional shareholders are typically public market investors.
3. Deepinder Goyal was granted 368.5 mn stock options in FY22 from the 2021 Scheme. These are exercisable at Re. 1

Exhibit 4: ZOMATO 2022 PB; Resolution #2 (Special) | Approve Zomato Employee Stock Option Plan 2022

	Total shares	Shareholding (%)	Votes polled	Votes polled (%)	Votes FOR	Votes AGAINST	Votes FOR (%)	Votes AGAINST (%)
Promoters	-	-	-	-	-	-	-	-
Institutional investors	1,02,47,80,906	13.4	89,32,51,349	87.2	15,78,49,413	73,54,01,936	17.7	82.3
Others ²	6,62,71,85,912	86.6	5,81,65,31,164	87.8	5,68,07,19,295	13,58,11,869	97.7	2.3
Total	7,65,19,66,818	100.0	6,70,97,82,513	87.7	5,83,85,68,708	87,12,13,805	87.0	13.0

Source: www.iiasadrian.com; www.bseindia.com

Notes to the resolution:

1. The resolution requires a more than 75% majority to pass, since it is a special resolution;
2. Private equity investors' shareholding and the founders' shareholding are classified in the 'Others' category. Those classified as institutional shareholders are typically public market investors.

Exhibit 5: CARTRADE 2022 PB; Resolution #1 (Special) | Ratify CarTrade Tech Limited Employee Stock Option Plan 2021 (I) under which upto 1.1 mn stock options will be issued

	Total shares	Shareholding (%)	Votes polled	Votes polled (%)	Votes FOR	Votes AGAINST	Votes FOR (%)	Votes AGAINST (%)
Promoters	-	-	-	-	-	-	-	-
Institutional investors	1,10,17,235	23.6	86,45,701	78.5	38,72,603	47,73,098	44.8	55.2
Others ²	3,56,05,332	76.4	2,39,53,694	67.3	2,39,19,164	34,530	99.9	0.1
Total	4,66,22,567	100.0	3,25,99,395	69.9	2,77,91,767	48,07,628	85.3	14.7

Source: www.iiasadrian.com; www.bseindia.com

Notes to the resolution:

1. The resolution requires a more than 75% majority to pass, since it is a special resolution;
2. Private equity investors' shareholding and the founders' shareholding are classified in the 'Others' category. Those classified as institutional shareholders are typically public market investors.

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