

Chapter – 23: Options and Corporate Finance (*Extensions and Applications*)

Questions and Problems

10. ESOPs in India:

ESOPs can be considered as Call Options (European type). The mid-sized bank's ESOP could be valued using the following simplified assumptions:

Time = 3 years, Stock Price = Rs 779, Strike Price = Rs 779, Implied Volatility = 30%, Risk Free Rate of Return = 8%, and Dividend Yield = 5%.

Options calculator reveals the intrinsic value to be Rs 240/-. Hence, the value of ESOPs comes to Rs 7.20 Lakhs.

If we consider this to be a onetime benefit then Arjun Rampal should join take up the other offer giving him Rs 20 Lakhs with no ESOP benefits. If we can consider this as annual affair then Arjun should take up this offer and ignore the large i-bank. Of course, other issues also come into consideration while taking the final decision.

For a more correct way of valuing ESOPs – please refer to Aswath Damodaran's book titled 'Damodaran on Valuation'

Title of the Mini Case: **Real Options in Indian Shipping Industry**

There are no case-hints for this mini-case.