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'Spread out your ESOP pool to abate risks'

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DIVERSIFY YOUR FUNDS

What are ESOPs | Right granted to employees to purchase a certain number of shares in the company at a predetermined price, generally lower than market price.

Why ESOPs | Reward for performance, tool to retain employees.

How does it work | Employee has to wait during vesting period, after which he is eligible to own the shares. Then he can either hold or sell.

Comparison for an investment of ₹100 between Jan 2010- Dec 2015

Chennai: Ravi Prasad, a senior executive with a leading tech company, was hesitant when his financial advisor recommended liquidating part of his employee stock options (ESOPs) in 2015. One year down, Prasad has liquidated 40% of his ESOPs and is ready to liquidate the balance. "Prospects don't look great for the large IT companies. I had to look at better options to safeguard my wealth," said Prasad. Maybe other sectors may deliver higher returns than tech. With forecasts too looking weak for the IT industry, financial advisors are sounding warnings to tech employees to diversify their ESOP units and mitigate sector risk.

With a volatile global economy, spiralling oil prices and currency fluctuations, IT clients have tightened technology spending over the last couple of months. In February 2016, US headquartered Cognizant Technology Solutions Corp forecast its slowest quarterly revenue growth in 14 years. The next day witnessed Nifty hitting a 52-week low. About the same time, industry lobby body (Nasscom) lowered growth forecasts for the second time in a row, projecting a 10%-12% growth for the Indian software services segment for 2017, lagging behind the 12%-14% growth forecast it had made for the current year. India Ratings went a step down announcing a forecast of 8%-9% in 2017.

Given the future prospect of the IT industry, senior management at companies such as Wipro, TCS and Infosys, who hold a bulk of shares in the form of ESOPs, are being advised to diversify and mitigate risk by financial advisors.

"With wealth concentrated on one's own company, there is heightened concentration risk. When sector prospects are turning patchy, it is advisable to diversify and create long term value," said Arunagiri Nallasivam, founder, TrustLine Holdings Private Limited, an equity research company that specialises in portfolio management services (PMS).

Nallasivam advises his clients to diversify part of their ESOP holdings and reinvest them into the company's PMS fund that invests in small and mid-cap stocks. "Diversifying ESOPs will ensure risk diversification, maximisation of returns and mitigation of sector risk," added Nallasivam.

Shivram Subramanian, partner, FinFirst Capital Advisors explains the state of the IT industry.

"Today, most large companies are struggling with achieving growth and maintaining margins. There is a lifecycle for every industry. Post Y2K, the industry grew and matured. Today, they have reached an inflection point and cannot be expected to grow as they were growing earlier."

Given the maturity of the industry, Shivram advises not putting all the eggs in one basket. "One could divest part of their ESOPs and reinvest them in other equity stocks. If people do not have the time or expertise to monitor the markets regularly, mutual funds is a good option. One can build a basket of stocks by investing in mutual funds," he added.