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Startup staff hit Esop goldmines as IPOs bloom

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Employees of unlisted startups made a tidy sum from their ownership of employee stock options (Esops) in 2024, with 26 such companies buying back Esops in pre-listing and secondary transactions. Data analyzed by equity management platform Qapita showed the number was 19 in 2023, but was higher at 37 startups each in 2021 and 2022.

“We have seen increased activity surrounding Esop liquidity in 2024 vs 2023,” Qapita’s senior vice president Vikram Sivaraman told *Mint* in an email. “We believe this has been spurred by the stellar performance of the IPO market with 12 startups successfully listing during the year.”

For instance, food-delivery giant Swiggy carried out its fifth buyback, worth \$65 million, in July, ahead of its November initial public offering (IPO).

Other IPO-bound startups to launch similar offerings were home services provider Urban Company (encashed Esops worth \$63 million in July), software as a service (SaaS) firm Whatfix (\$58 million in October), and e-commerce startup Meesho worth \$25 million in its

fourth and largest round in March.

While Esop buybacks help companies reward and retain employees, they also allow senior management to book profits at a later stage, especially during public listings.

Sivaraman added that pre-IPO investment activity has also increased, especially in startups that plan to list in the next two to three years.

“Most companies allow their employees to sell a portion of their Esops as part of such pre-IPO rounds,” he said, adding that he expected the trend to continue in 2025 with more startups going public.

To be sure, late-stage funding, too, saw a revival in 2024, with \$5.4 billion raised from 85 rounds compared to \$5.1 billion from 75 rounds a year ago, according to data from Tracxn. Much of this recovery happened on the back of pre-IPO rounds that were a mix of primary and secondary transactions.

The total value of these buyback programmes stood at \$252 million in 2024, compared to \$825 million a year ago.

However, the 2023 number includes adjusted value of close

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to \$700 million of liquidity from Flipkart and PhonePe's 2022 split.

Excluding this outlier, the value of liquidity programmes in 2023 was only \$125 million, reflecting the continued weakness in the primary markets due to a prolonged funding winter. Esops grant company shares to employees based on the length of their employment as a part of their compensation package. Shares vest over a period, usually around four years.

These incentives are given to employees for taking the risk of joining the company in its early stages and to align every employee's motivation with the company's growth.

"Most employees prefer to exercise and hold their Esops once they have belief and visibility of a public listing to benefit from capital gains post listing," Sivaraman explained.

While Esops enable a startup to preserve liquidity, they also serve as a tool to reward employees for their loyalty and retain talent. Moreover, these buybacks help startups consolidate their capital base and send

positive signals to the market.

Shriram Subramanian, founder and managing director of proxy advisory firm InGovern Research Services, also expects this upswing to continue into 2025. He explained that those employees who are seeking liquidity now rather than wait for an IPO are likely to benefit from such buyback programmes.

"The bullish IPO market also means that unlisted companies are happy to buy back shares so they can offer the same shares at a higher price to public market investors," he said.

**Several
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age cos in 2024**

Several startup founders and employees booked significant gains from the IPOs of new-age companies in 2024, including those of Ola Electric, FirstCry, Ixigo, Go Digit,

Awfis, Swiggy and Unicommerce. This comes as the number of mainboard IPOs surged 3x to a record high in 2024, with investors buying shares worth ₹1.34 trillion in 76 companies, giving several venture capital and private equity firms profitable exits.

This figure surpassed ₹1.19 trillion raised through IPOs in 2021, according to data from Prime Database.