



**PALO SANTO CONSULTING • RESEARCH**

*White Paper / India / 2026 Edition*

# The State of **ESOP Design** in Indian SMEs **2026**

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*Wealth created. Wealth destroyed. The five design failures that decide which.*

Published May 2026 | Palo Santo Consulting  
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## About this report

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This white paper synthesises publicly available data on the Indian ESOP landscape — from cap-table platforms, SEBI filings, company annual reports, news archives and regulatory consultation documents — and overlays the practitioner experience of Palo Santo Consulting's team working with Indian SMEs on equity compensation design.

The paper is written for one audience: Heads of People, CHROs, CFOs and founders at Indian SMEs between Series A and pre-IPO who are responsible for designing or running Employee Stock Option Plans. It assumes basic familiarity with the vocabulary of equity compensation but explains the mechanics where they matter.

Public data sources are cited inline and listed in full in the Sources section at the end. Where we draw on practitioner observation we say so explicitly.

### About Palo Santo Consulting

Palo Santo Consulting is an HR advisory firm purpose-built for Indian SMEs. We are productised, data-backed, and structured to deliver Mercer-quality thinking at SME prices. Our work spans compensation benchmarking, ESOP design, organisational design, employer brand, and the related questions that founder-led businesses face as they scale.

This report is the first edition of an annual research franchise. The 2027 edition will incorporate primary data from the Annual Indian SME ESOP Survey, which opens for participation in Q3 2026.

### Citation

*Palo Santo Consulting (2026). The State of ESOP Design in Indian SMEs 2026. Bangalore: Palo Santo Consulting Research.*

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## Executive summary

The Indian ESOP landscape changed shape between 2023 and 2025. What was once a paper instrument given to early employees in the hope of an exit became, in 2024 and 2025, the largest single source of employee wealth creation in the country's history. Public data from cap-table platforms and IPO filings tells the story in three numbers.

Year	ESOP wealth unlocked via IPO	Mainboard startup IPOs
2023	\$39 million	4
2024	\$807 million	10
2025	\$1 billion	16

Source: Qapita analysis of mainboard startup IPOs, December 2025.

Alongside the IPO route, ₹1,450+ crore (US \$170 million) flowed to over 3,000 employees through pre-IPO buybacks in FY 2024-25 alone, with Swiggy, Urban Company and Meesho leading the largest programmes. The total wealth held in ESOPs across India's 131-unicorn ecosystem (May 2026, per Tracxn) now sits in the tens of thousands of crores.

And yet. For every Flipkart, Razorpay, or Freshworks employee who became a crorepati, there are hundreds we have worked with who walked out of their companies with vested-but-unexercised options that lapsed — because their 90-day post-termination exercise window required cash they did not have. Or who exercised at the wrong moment and walked into a perquisite tax bill they did not anticipate. Or whose company designed a Plan in 2018 that needed to be re-papered for ₹15 – 40 lakh in 2024 to align with SEBI's SBEB Regulations 2021 before a planned IPO.

This white paper is about the gap between the two pictures. The wealth-creation headlines and the design failures that determine whether your company's employees end up in the headline or the footnote.

### Key findings

1. ESOP wealth creation is no longer aspirational. The \$1 billion unlocked at IPO in 2025 alone, and the \$170 million distributed via pre-IPO buybacks in FY 24-25, mean every SME with growth ambition must now design its ESOP as a real financial instrument — not a retention placeholder.

2. Concentration is the silent design failure. Practitioner analysis of four major Indian unicorns (Zomato, Nykaa, Paytm, PolicyBazaar) shows that Key Management Personnel hold approximately half of all ESOP wealth, with one company (Zomato) showing 92% concentration. Industry survey data suggests senior management broadly captures ~70% of grants. The 'wealth for the entire team' narrative is closer to 'wealth for the top three layers.'
3. The post-termination exercise window is the single most consequential design clause in any Indian ESOP. We continue to see 90-day windows in Plans drafted as recently as 2024, despite the modern Indian default having moved to 12 months or longer. Companies that fix this clause early avoid an entire category of employer-brand damage at exit.
4. SEBI's June 2025 reform to allow founder ESOPs post-IPO (notified September 2025) is the most consequential regulatory change for Indian startup equity in five years. It carries a 12-month cooling-off rule that meaningfully changes pre-IPO ESOP planning for companies likely to list in 2026 and beyond.
5. The Big 4 do not engage SMEs on ESOP design below ₹15 lakh per engagement. The execution-focused platforms (Qapita, ESOP Direct, Hissa) execute Plans that someone else has designed. Indian SMEs are designing their most consequential compensation instrument with no qualified advisor in the room. This is the gap Palo Santo Consulting was built to close.

## Section 1 — The Indian ESOP context in 2026

Before we discuss design, the scale matters. India in May 2026 has approximately 1.64 lakh DPIIT-recognised startups (DPIIT, Startup Mahakumbh 2025 disclosure) and 131 unicorns (Tracxn, May 2026). Bengaluru alone houses 55 unicorns, followed by Mumbai (22) and Gurugram (20).

The collective valuation of India's unicorn ecosystem exceeds \$392 billion as of May 2026, with cumulative funding raised at over \$118 billion (Inc42 Indian Unicorn Tracker). The wider startup ecosystem's total valuation crossed \$354 billion at the start of 2026.

Critically for ESOP purposes: 27 of these unicorns have already gone public, five have been acquired, and an estimated 20+ are reported to be preparing for IPO filings in 2026-27 (Whalesbook / Qapita commentary, December 2025).

### Why this matters for ESOP design

Three things follow from the scale data.

6. ESOPs in India are now a wealth instrument, not a paper one. The \$1 billion of ESOP wealth unlocked via IPOs in 2025 alone (Qapita) represents a 25× jump over 2023. Employees joining today's growth companies expect — and increasingly demand — that ESOPs will translate into real liquidity within their career timeframe.
7. Pre-IPO liquidity programmes are no longer exceptional. FY 2024-25 saw 3,000+ employees benefit from pre-IPO ESOP buybacks worth ₹1,450+ crore (\$170 million) — led by Swiggy, Urban Company, Meesho. Founders who do not have a liquidity strategy will lose senior hires to companies that do.
8. Plan documents drafted before 2022 are increasingly out of step with the regulatory environment of 2026. SEBI's June 2025 reforms (notified September 2025) and the post-DPDP Act 2023 environment for employee data both create cleanup work for companies that designed quickly during the 2020-21 funding boom.

#### By the numbers — India, May 2026

1,64,000+ DPIIT-recognised startups (DPIIT, 2025)

131 unicorns; combined valuation \$392 billion (Tracxn / Inc42, May 2026)

\$1 billion in ESOP wealth unlocked via 16 IPOs in 2025 alone (Qapita)

\$807 million unlocked in 2024 across 10 IPOs (Qapita)

₹1,450 crore (\$170 million) distributed via pre-IPO buybacks in FY 24-25, covering 3,000+ employees (Qapita)

20+ Indian startups reported to be preparing for IPO filings in 2026-27 (Whalesbook, Dec 2025)

## Section 2 — Wealth created: the numbers nobody pulls together

The growth of ESOP wealth creation in India has been dramatic, public and largely under-analysed as a body of data. The numbers below are drawn from SEBI filings, IPO offer documents, company press releases, and the Qapita 'Fables of ESOPs' monthly tracker. They are not estimates — they are documented events.

### 2.1 ESOP wealth via IPO — the three-year breakout

Three numbers describe the change in scale:

Year	ESOP wealth unlocked at IPO	Startups listed	Year-on-year change
2023	\$39 million	4 mainboard listings	Baseline
2024	\$807 million	10 mainboard listings	20.7× over 2023
2025	\$1 billion	16 mainboard listings	1.24× over 2024

Source: Qapita analysis of mainboard startup IPOs as reported in Whalesbook, December 2025.

The 2025 cohort of listings that drove the \$1 billion figure included Meesho, Groww, Urban Company, Pine Labs and PhysicsWallah, among others. Cumulatively these 16 startups raised over ₹41,000 crore via their IPOs (compared to ₹29,000 crore raised by 13 startups including SME listings in 2024).

### 2.2 ESOP wealth via pre-IPO buybacks

Alongside the IPO route, the pre-IPO buyback has matured into a recurring, institutional channel for employee liquidity. FY 2024-25 saw over ₹1,450 crore distributed to 3,000+ employees through structured buyback programmes.

Notable 2024-25 buybacks and liquidity programmes documented in public sources:

Company	Programme size	Notes
Swiggy	\$65 million (5th programme)	3,200+ employees eligible. Pre-IPO. (Qapita, July 2024)

Company	Programme size	Notes
Urban Company	₹400 crore (\$50 million)	Dharana Capital secondary purchase. (Qapita, July 2024)
Dezerv	₹46 crore (\$5.3 million)	Current and former employees. Followed \$32M Series. (March 2025)
Even Healthcare	\$500,000	At primary valuation, no discount. (March 2025)
Razorpay (10th anniversary)	₹30 crore distributed	3,000+ employees, avg ₹1L each. (Dec 2024)

Source: Qapita 'Fables of ESOPs' monthly roundup, multiple editions 2024-25; Business Standard, December 2024.

### 2.3 Where the wealth concentrates

The headline numbers above are powerful. The distribution numbers underneath them are sobering.

Qapita's analysis of the offer documents of four major Indian internet IPOs — Zomato, Nykaa, Paytm and PolicyBazaar — produced two findings that every ESOP architect should know.

First, the combined ESOP wealth held by employees of these four companies exceeded ₹30,000 crore, distributed across 33,000+ employees. That averages to approximately ₹90 lakh per employee. Even adjusted for the skew toward senior leadership, the per-employee average remained above ₹50 lakh.

Second — and this is where the design lessons live — Key Management Personnel held nearly half of the total ESOP wealth across these four companies. The variation within the four was striking:

Company	KMP share of ESOP wealth
Zomato	92%
PolicyBazaar	approximately one-third
Paytm	approximately one-third
Nykaa	approximately one-third

Source: Qapita, 'ESOPs - The Massive Wealth Generators', 2023.

Qapita's broader survey data suggests that across the industry, senior management teams typically receive approximately 70% of all grants — meaningfully wider than the KMP-only concentration but still heavily skewed.

#### **Practitioner observation**

The 'ESOPs as universal wealth creator' narrative is closer to 'ESOPs as senior-leadership wealth creator with motivational spillover for mid-band.' Companies that want broader wealth creation — Nykaa-type distribution rather than Zomato-type — must design for it explicitly: lower per-grant size at senior levels, broader eligibility down the band structure, and refresh grants weighted toward mid-band performers. None of this is automatic. Distribution outcomes follow design choices.

## Section 3 — Wealth destroyed: where ESOP design fails

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For every story of ESOP wealth created, there is a less-told story of ESOP wealth that should have been created and was not. These stories rarely make press headlines because they happen one employee at a time, at the moment of departure or exercise. But practitioners see them constantly.

### 3.1 The Vijay Shekhar Sharma episode — and what it signals

In April 2025, Paytm CEO Vijay Shekhar Sharma surrendered 21 million unvested ESOPs amid regulatory scrutiny over whether founder grants were appropriate under the (then) prevailing SEBI framework that classified founders as promoters at the time of IPO filing. SEBI subsequently — in June 2025 with notification in September — clarified the position to allow founders classified as promoters to retain ESOPs granted at least one year before the DRHP filing.

The Sharma episode is the most public Indian example of regulatory ambiguity destroying tens of millions of dollars of ESOP value. But the same pattern plays out at smaller scale in every Indian unicorn-track company. Founders surrender or restructure ESOPs because the legal position was unclear at the moment of design. The cost is enormous, fixable, and almost always preventable with better planning.

### 3.2 Tax shock at exercise

Section 17(2)(vi) of the Income Tax Act treats the difference between FMV at exercise and the strike price as a perquisite, taxable as salary income at the employee's marginal slab. For senior employees in the 30%+ slab (effectively 39% at top slab including surcharge and cess), this can wipe out a meaningful percentage of perceived ESOP value at exercise — particularly when the company is not DPIIT-recognised under Section 80-IAC and the deferral facility is unavailable.

The Union Budget 2025 — despite extensive industry advocacy — did not extend ESOP tax reforms (Qapita commentary, February 2025). Indian startup employees continue to face the perquisite tax at exercise with deferral available only to DPIIT-recognised eligible startups for up to 48 months.

### 3.3 The post-termination exercise window failure

In our practitioner experience, the single most consequential design clause in any Indian ESOP — measured by the wealth it preserves or destroys — is the Post-Termination Exercise Window (PTEW).

The legacy default of 90 days was imported from US Plan templates in the early 2010s. It creates a forced choice for departing employees with appreciated stock: write a cheque for the strike price plus perquisite tax within 90 days, or forfeit the options. For senior employees in the post-Series-C cohort, the cash requirement frequently runs to tens of lakhs or several crores. Employees without the cash forfeit value they earned over years of service. The brand damage is substantial.

The Indian market has moved. Razorpay, Cred and others have shifted to PTEWs of 12 months or longer. A small but growing number of progressive companies use windows of 5 – 7 years or even the remaining option life. None of this is mandated by regulation. All of it is design choice.

### 3.4 Pre-IPO Plan cleanup

Plan documents drafted during the 2020-21 funding boom were often optimised for speed of execution rather than for SEBI SBEB 2021 alignment. Companies preparing to list in 2026-27 are now discovering that their Plans require re-papering — typically 4 – 9 months of legal work and ₹15 – 40 lakh in fees. Zomato's pre-listing ESOP re-engineering in the year before its 2021 IPO is the most public example. Many less-publicised examples exist in the IPO pipeline today.

#### The pattern

ESOP wealth in India is created at IPO or at buyback. ESOP wealth is destroyed at three other moments: (1) at design time, when Plan clauses are copied without thought; (2) at exit, when departing employees discover their PTEW is too short; (3) at pre-IPO cleanup, when 2018-vintage Plans need re-papering. The first two are entirely preventable. The third is largely preventable with foresight.

## Section 4 — The regulatory shift: SEBI's June 2025 founder-ESOP reform

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Until June 2025, the prevailing interpretation under SEBI's regulations was that founders classified as promoters at the time of IPO filing could not hold ESOPs post-listing. The interplay between the Companies Act 2013 (Section 62(1)(b) and Rule 12 of the SCD Rules), the SEBI SBEB Regulations 2021, and the SEBI ICDR Regulations 2018 left founders in an uncomfortable position: legitimate ESOPs granted years before the IPO had to be liquidated, surrendered or otherwise unwound before the DRHP could be filed.

This was the regulatory backdrop to the Paytm CEO's surrender of 21 million unvested ESOPs in April 2025.

### 4.1 What changed

On 18 June 2025, at its 210th Board Meeting, SEBI approved an amendment to the SBEB Regulations. The amendment was formally notified on 8 September 2025 (Bar & Bench, February 2026; Shardul Amarchand Mangaldas commentary, July 2025).

Under the amended position:

- Founders classified as promoters at the time of DRHP filing may continue to hold, vest and exercise ESOPs granted before reclassification.
- Such grants must have been made at least one year before the date of the company's board decision to undertake an IPO (the 'cooling-off' period).
- New ESOP grants to founders who have already been classified as promoters remain barred — the underlying definition of 'employee' in the Companies Act and SBEB Regulations was not amended.
- Founders of DPIIT-recognised startups may continue to receive ESOPs as employees for up to 10 years from incorporation, subject to shareholder approval (this position pre-dates the June 2025 reform but remains valid).

### 4.2 What it means for your ESOP design today

Three practical implications follow.

9. If your company is in the 12 – 24 month run-up to an IPO, founder ESOP grants made today will not satisfy the 12-month cooling-off rule for a 2026 IPO. Time-sensitivity matters: founder grants intended to be retained post-listing must be made well before the board's IPO decision.

10. The reform validates the strategic use of founder ESOPs as deferred compensation in the years before listing — a global best practice that was previously unavailable in India. This will likely encourage more pre-IPO companies to issue founder grants as part of structured liquidity preparation.
11. The reform does NOT permit fresh grants to founders already classified as promoters. Companies planning to incentivise founder retention post-listing through equity will need to use alternative instruments — sweat equity, shares with differential voting rights, or golden shares. (Vinod Kothari Consultants commentary, June 2025; Chambers and Partners commentary, 2025.)

### **4.3 Other 2025 SEBI changes worth noting**

- Co-investment alongside AIFs is now permitted within the AIF structure (Co-Investment Scheme), reducing operational friction for institutional investors participating in ESOP secondary purchases.
- SEBI broadened the scope of entities that can contribute equity shares arising from CCS conversion toward the Minimum Promoter Contribution, easing structuring constraints for institutionally backed startups.
- Voluntary delisting has been permitted for public sector enterprises — limited direct ESOP relevance, but a signal of broader SEBI flexibility on listed-company governance in 2025.

## Section 5 — The five design failures we see repeatedly

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In our practitioner experience working with Indian SMEs on ESOP design, five failure modes recur across companies of every size and sector. None of them require sophisticated solutions. All of them require deliberate design rather than copied defaults.

### Failure 1 — Pool sizing by gut feel

Founders frequently set the pool because their lead investor suggested 10%, or because that is what their last company had. The result is one of two errors: pools that are too small to hire the next two years of senior talent (requiring an emergency top-up at the next round), or pools that are casually large and create unnecessary founder dilution.

Defensible pool sizing combines three frameworks: stage benchmarks (5 – 8% pre-seed, 10 – 15% Series A, 12 – 18% Series B+), a forward 18-month hiring plan with target grant sizes by role, and a refresh-and-retention reserve (approximately 30% of annual new-hire grants).

### Failure 2 — Vesting copied without thinking

The four-year vesting schedule with a one-year cliff and monthly vesting thereafter is the most copied schedule in Indian startups. The cliff was designed to weed out fast quitters in US tech. It works well in cultures where the first year is genuine probation. It works badly in manufacturing scaleups, operations-heavy businesses, and professional services where the attrition pattern is different.

The right vesting schedule is downstream of the attrition pattern you are trying to prevent. Alternatives worth considering: three-year vesting for mid/late-stage; back-loaded vesting (10/20/30/40) to shift retention bite to the back half; milestone-based vesting for CXO grants with explicit measurable conditions.

### Failure 3 — Strike price set too low

Founders love granting at face value (typically ₹10) because it maximises perceived employee benefit. In 2026, Indian tax authorities are sophisticated about FMV. A strike price wildly below an independently determinable FMV creates two problems: a much higher perquisite tax bill at exercise, and an audit risk that the discount itself is a perquisite at grant.

The right strike price is the lowest defensible price under Rule 11UA — typically at FMV at grant for companies with IPO ambitions, or at a documented discount (10% – 30%) to FMV for early-stage companies.

## **Failure 4 — Communication that confuses rather than motivates**

Most Indian ESOP communication is one paragraph in an offer letter and a fifteen-minute slide in onboarding. Employees walk away believing they have received something between a lottery ticket and a salary commitment. Three or four years later, when their vesting completes and they are asked to write a cheque for ₹4 lakh to exercise, they feel tricked by a Plan they never understood.

The fix is structured, repeated, numerically explicit communication: at offer, at grant, annually (an ESOP wealth statement), and at departure (a senior conversation, not a line manager's). The fix costs nothing material. The brand damage from not doing it is substantial.

## **Failure 5 — Designing without the exit in view**

Plans are designed assuming exits will happen. Plans are administered as if they never will. The result is that when a tender offer, buyback, or IPO appears, companies discover that their Plan documents are silent on critical points: exercise during garden leave, treatment of unvested options at acquisition, PTEW for departed employees with appreciated stock, ROFR clauses, drag-along applicability.

The Freshworks-Nasdaq 2021 IPO is the public benchmark for design-with-exit-in-view. The Plan was structured years earlier to US 409A-equivalent standards. The Zomato-NSE 2021 IPO is the public benchmark for the alternative — a Plan that needed major re-engineering in the 12 months before listing. The Freshworks path is cheaper, faster and less stressful. It requires only that someone be thinking about the exit at the moment of Plan drafting.

## Section 6 — Five recommendations for Indian SMEs in 2026

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If we had thirty minutes with the founder, CHRO and CFO of an Indian SME today, these are the five questions we would push them to answer.

### Recommendation 1 — Re-examine your PTEW this quarter

If your Post-Termination Exercise Window is still 90 days, change it. The modern Indian default is 12 months. Progressive companies are at 5 – 7 years. The cost of the change is minor (a Plan amendment requiring shareholder approval if material). The avoided brand damage when senior employees depart is meaningful.

### Recommendation 2 — Run an annual ESOP wealth statement to every option-holder

Pick a date — the company anniversary, the start of the fiscal year, the founding day. On that date every year, every option-holder receives a written statement showing options granted, vested, unvested, current FMV, indicative gross value of vested options, indicative tax obligation if exercised today. We provide the template in our courseware library. Companies that do this report dramatically reduced ESOP-related grievance volume.

### Recommendation 3 — If you are 12 – 24 months from a planned IPO, talk to your tax counsel about SEBI's June 2025 reform now

The 12-month cooling-off rule for founder ESOPs means that grants intended to be retained post-listing must be made meaningfully in advance of the IPO decision. Companies waiting until the DRHP draft stage will discover the timing has already lapsed.

### Recommendation 4 — Build a structured liquidity plan even if you are not going public

The 2024-25 data shows that pre-IPO buybacks are no longer exceptional. Razorpay's 10-year cumulative buyback distribution exceeds ₹150 crore. Swiggy, Urban Company and Meesho each ran multi-hundred-crore programmes. Companies that do not have a stated liquidity philosophy (frequency, eligibility, pricing methodology) lose senior hires to companies that do.

### Recommendation 5 — Treat ESOP design as a capability inside your company, not an outsourcing problem

The Big 4 will not engage with you under ₹15 lakh. The execution platforms execute Plans you have designed. The choice is to build the capability internally — through training, structured documentation, and disciplined annual review — or to remain dependent on external advice you cannot afford to procure on the timelines you actually need it.

This is the gap Palo Santo Consulting was built to close. Our flagship cohort programme, ESOP Architect, trains Heads of People, CHROs, CFOs and founders to design Indian-context ESOPs from first principles. The programme runs four cohorts a year. Details at the end of this report.

## Section 7 — Methodology

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This report draws on three categories of source:

- Public-domain data from cap-table platforms (primarily Qapita's published research and 'Fables of ESOPs' monthly tracker), startup-ecosystem trackers (Tracxn, Inc42, StartupBlink), and India's Department for Promotion of Industry and Internal Trade (DPIIT).
- Regulatory and legal commentary from SEBI consultation papers and board-meeting outcomes, the Companies Act 2013 and Rules, the Income Tax Act 1961, and analysis by leading Indian law firms (Shardul Amarchand Mangaldas, Khaitan & Co, BMR Legal, Vinod Kothari Consultants).
- Practitioner observation from Palo Santo Consulting's engagements with Indian SMEs on ESOP design, employee communication, and pre-IPO preparation. Practitioner observations are flagged explicitly throughout the report and are not presented as universal data.

Where sources differ in their estimates (most commonly around startup-ecosystem counts and ESOP wealth figures), we have used the more recent and more conservative figure and cited it explicitly.

This report does not draw on primary survey data. The Annual Indian SME ESOP Survey — Palo Santo Consulting's primary research franchise — opens for participation in Q3 2026, and findings will be published in the 2027 edition of this report.

### Limitations

- ESOP wealth figures from IPO-stage events are gross of tax. Net after-tax wealth is lower by 30 – 40% for most employees at the top slab, with deferral relief available only for employees of DPIIT-recognised startups under Section 80-IAC.
- The KMP concentration figures in Section 2.3 are drawn from four companies' offer documents and may not be representative of the entire Indian unicorn ecosystem. The 70% senior-management share figure (Qapita industry survey) is broader but still industry-level.
- Pre-IPO buyback figures are biased toward publicly disclosed events. Private buybacks at smaller SMEs (the majority of buyback events by volume) are not consistently disclosed and are likely undercounted in our cited totals.

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## Continue the conversation

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If you read this report and found yourself thinking about your own Plan, your own pool size, your own departing-employee conversations, we would like to hear from you.


Palo Santo Consulting works with Indian SMEs on three tiers of engagement:

- 1. Diagnostic.** A two-week scan of your current ESOP design, regulatory exposure, employee communication, and liquidity readiness. Fixed fee. ₹75,000 – ₹1,50,000.
- 2. ESOP Design Engagement.** A six-week engagement to design or redesign your Plan end-to-end. Includes pool sizing, vesting design, grant guidelines matrix, document stack, and employee communication kit. Fixed fee. ₹5,00,000 – ₹10,00,000.
- 3. ESOP Architect cohort programme.** A four-weekend cohort training programme for Heads of People, CHROs, CFOs and founders. Hands-on, India-specific, capstone-driven. ₹35,000 (early bird) to ₹75,000 (premium tier) per seat. Corporate packages for 8 – 20 seats at ₹3.5L – ₹7.5L.

### To begin a conversation

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