

DEBENTURES

MegaMinds

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INTRODUCTION & MEANING **OF DEBENTURES**

- **Debenture is a latin word that means “to owe”.**
- **If a company borrows money, it will give its creditor a document confirming the existence and terms of the loan. This document is called a debenture.**
- **A debenture is thus like a certificate of loan or a loan bond evidencing the fact that the company is liable to pay a specified amount with interest and although the money raised by the debentures becomes a part of the company's capital structure.**

Definition as per Companies act 1956

As per Section 2(12) of the
Companies Act
1956

“ DEBENTURE include debenture stock, bonds and any other securities of a company, whether constituting a charge on the assets of the company or not ”.

CLASSIFICATION OF DEBENTURES

From security point of view

- Secured or Mortgage debentures
- Unsecured debentures

On the basis of redemption

- Redeemable debentures
- Non-redeemable debentures

On the basis of Negotiability

- Registered debentures
- Bearer debentures

On the basis of convertibility

- Convertible debentures
- Non-convertible debentures

On the basis of priority

- First debentures
- Second debentures

From coupon or interest rate point of view

- Coupon rate point
- Zero coupon Rate

CLASSIFICATION OF DEBENTURES

' From security point of view

➤ Secured or Mortgage debentures

- secured by a charge on the assets of the company.
- debenture holders have the right to recover their principal amount with the unpaid amount of interest on such debentures out of the assets mortgaged by the company.

➤ Unsecured debentures

- such debentures do not carry any security with regard to the principal amount or unpaid interest.

CLASSIFICATION OF DEBENTURES

' On the basis of redemption

➤ Redeemable debentures

- debentures are issued for a fixed period.
- principal amount of such debentures is paid off to the debenture holders on the expiry of such period.
- such debentures can be redeemed by annual drawings or by purchasing from the open market.

➤ Non-redeemable debentures

- debentures which are not redeemed in the life time of the company.
- such debentures are paid back only when the company goes into liquidation.

CLASSIFICATION OF DEBENTURES

' On the basis of Negotiability

➤ Registered debentures

- debentures that are registered with the company.
- amount of such debentures is payable only to those debenture holders whose name appears in the register of the company.

➤ Bearer debentures

- debentures which are not recorded in a register of the company.
- such debentures are transferrable merely by delivery.
- holder of these debentures is entitled to get the interest.

CLASSIFICATION OF DEBEBTURES

' On the basis of convertibility

➤ Convertible debentures

- debentures that can be converted into shares of the company on the expiry of pre-decided period.
- the term and conditions of conversion are generally announced at the time of issue of debentures.

➤ Non-convertible debentures

- debentures that can not be converted into shares of the company.

CLASSIFICATION OF DEBENTURES

' On the basis of priority

➤ First debentures

- debentures are redeemed before other debentures.

➤ Second debentures

- debentures are redeemed after the redemption of first debentures.

CLASSIFICATION OF DEBENTURES

' From coupon rate or interest rate point of view

➤ Coupon rate point

- Usually debentures are issued with a coupon rate, that is annual interest rate on the face value of debentures.
- This rate may be fixed or floating with the market interest rate.

➤ Zero coupon rate

- Such debentures does not carry coupon rate or specified interest rate with itself.
- These debentures are issued with substantial discount to compensate the investor for interest.

DEBENTURES AS COLLATERAL SECURITY

' Collateral security

- security given in addition to the principal security.
- It is a subsidiary or secondary security.

' Issue of Debentures as Collateral security

- Whenever a company takes loan from bank or any financial institution it may issue its debentures as collateral security.
- such debentures are issued completely on temporary basis and the bankers refund the debentures whenever the loan is repaid.
- When company pays the loan amount this right does not arise and debentures will be returned back to the company.
- However if the loan is not repaid and the principal security is exhausted then the banker will have a right over such debentures and such issue becomes permanent.
- No interest is paid on the debentures issued as

Procedure for Issue of Debenture

Drafting of Trust Deed

Appointment of Trustee

Debenture Redemption Reserve

Drafting & Issuing of Prospectus

Debenture Certificate

Redemption of Debentures

On
Maturity
in
Lump-sum

In
installments
by
draw of lots

By
purchase
in
open market

By
conversion
into
shares
or
debentures

ILL-effects of Non-Compliance

- Buy back of Shares
- Disqualification of Directors
- Inter Corporate Loan



Thank you