

**CAIIB**



# **Advanced Business & Financial Management**

## **Module B : Chapter 7** **Debentures**

# What is Debenture?

## Debenture

[di-'ben-cher]

A type of bond or other debt instrument that is unsecured by collateral.

- **Section 2 (30) of the Companies Act 2013** defines "debenture" which includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not.
- The terms of issue like tenure, rate of interest, denomination, minimum subscription, total issue size etc. all form part of the issue document.

## FEATURES

- It is an **instrument** issued by the borrower promising to pay, at fixed future date, a certain amount to the holder.
- **Agreement or deed:** If debentures are issued to more than 500 persons, Trustees are required to be appointed to look after interest of the debenture holders.
- **Regulations:** Section 71 of the companies Act 2013 contains provisions relating to issue of debentures covering the points such as manner, procedures, convertibility, voting rights, redemption, trust etc.
- **Fixed tenure:** Debentures are repaid on a fixed date on term expiry. Repayment on maturity is also called redemption.
- Perpetual bonds are also permitted to be issued.
- **Fixed rate of interest:** The rate of interest is prefixed. In case of Zero-Coupon bonds also, a fixed rate of interest is involved as these are issued at a discount to their redemption value.
- **Options with the issuer:** The company issuing debentures can incorporate an option like call option.
- **Option with the investor:** The company issuing debentures can incorporate an option like put option.
- **No voting rights:** Section 71(2) of the Companies Act 2013 prohibits giving any voting rights to a debenture holder.
- **Stake in the company:** In case of convertible debentures, the debenture holder gets an equity stake in the company after conversion. The ratio of conversion as well as the price at which shares will be valued is indicated in the offer document.

*Thank You*

**For More Info Contact us:**

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