

## CHAPTER-: 6

# DEBENTURES

**Debenture** -: means document which acknowledge the loan made to the company and providing for the payment of interest in the sum borrowed, until the Debenture is redeemed.

**Sec 2(30)** debenture includes stock, bonds, and any other instrument of a company evidencing a debt.

## **-: Kinds Of Debentures**

- **Secured Debenture**
- **Unsecured Debenture**
- **Redeemable Debenture**
- **Irredeemable Debenture**
- **Bearer Debentures**
- **Registered Debenture**
- **Non-Convertible Debenture**
- **Fully Convertible Debenture**
- **Partly Convertible Debenture**

## **-: Provisions for issue of debenture (sec 71 )**

**A. Convertible Debenture -: a company may issue debenture With an option to convert such debentures into shares, either wholly or partly at the time of redemption.**

**B. Approval -: these above debentures, shall be approved by a special resolution passed at a general meeting.**

{ Not required in case of non-Convertible }

**C. No voting right -: no company shall issue any debentures carrying any voting rights.**

**D. Conditions for issue of secured debentures -: may be issued by a company subject to such terms and conditions prescribed under the**

## companies ( Share Capital and Debentures) Rules 2014

- **Time of redemption-**the date of redemption shall not exceed 10 years from date of issue

For following classes of companies may issue debentures for a period exceeding 10 years but not exceeding 30 years-

- . Companies engaged in

# setting up of infrastructure projects

- . Infrastructure finance companies

- . Infrastructure debt fund non banking financial companies

- . Companies permitted by a ministry or department of the central government or by Reserve Bank of India or by any Statutory authority.

- **Appointment of debenture trustee** -: the company shall –

- **appoint a debenture trustee before the issue of letter of offer for subscription of its debentures**
- **execute a debenture trust deed to protect the interest of the debenture holders within 60 days after the allotment of the debenture**
- **the security for the debentures by the way of mortgage shall be created in**

favour of the debenture trustee on -:

- . Any specific movable property of the company
- . Any specific immovable property wherever situate .

**-: Debenture Certificate -:** are issued under the common seal of the company. The debenture certificate is a document, which Certifies that the holder is the creditor of

**the company to the limit of the number of debenture multiplied by the face value of each debenture.**

**By this, the holder get the repayment of principal sum at tha fixed date and the payment of interest bat fixed rate**

**( time of issue-: within 6 months of the allotment of debenture )**

## **-: Debenture Trustee**

**No company shall make an offer or invitation to the public or to its members exceeding 500 for the subscription of its debentures, unless the company has before such offer, appointed 1 or more debenture trustees.**

### **° Disqualification of Debenture**

**Trustee -: a person cannot be appointed as a trustee, if he**

- holds the shares,beneficially**

**and has entered in to any  
guarantee in respect if  
principal debts secured by the  
debentures or interest**

- is a director, or KMP or any  
other office or an employee of  
the company**
- is relative of any promoter or  
any person who is in the  
employment of the company  
as a director or KMP**
- has any pecuniary  
relationship with the company**

## **-: Functions Of debenture trustee =**

- Protect the interest of debenture holders**
- ensures assets of the company are sufficient to discharge**
- ensure company does not commit any breach of any provision of trust deed**

- Call a meeting of debenture holders as and when necessary
- Perform such act as are necessary for the protection of interest of debenture holders

## **-: Liability Of debenture trustees Sec 71(6)**

If the debenture trustee is guilty of breach of trust or the debenture trustee fails to show the degree of care expected out of him and

losses caused to debenture holders. Then trustees will be liable for damages.

## **Debenture Redemption**

### **Reserve Sec 71(4) -:**

- **Creation of DRR -:** when debentures are issued by a company the company shall create a DRR account out of the profits of the company available for payment of dividend

- **Utilization** -:the amount credited to such account shall be utilised by the company for the redemption of debentures
- **Quantum**:- to atleast 25% of the amount raised through the debenture
- **Exemption**:- No DRR is required for debenture issued by All India Financial Institutions Regulated by RBI and for Banking companies.
- **Investment In Securities**-:

- **Applicability -:** Every company
- **Cut off date and contribution-:** the company on or before 30<sup>th</sup> day of April in each year, invest or deposit, a sum which shall not be less than 15% of the amount of it'debenture maturing during the year ending on the 31<sup>st</sup> day of March of the next year
- **Mode of Investment-:**

- ° in deposits with any scheduled bank
  - ° in unencumbered securities of the Central Government or of any state government
  - ° in unencumbered securities of the Indian Trusts Act, 1882
- { Unencumbered-: without any burden }**

**-: Use of invested amount -:**  
**the amount invested or**  
**deposited as above shall not**  
**be used for any purpose other**  
**than for redemption of**  
**debenture.**

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