

# What is a Debenture?

## ▣ Meaning :-

Debenture is an '*instrument*' in writing for a '*fixed period*' given by a company acknowledging the liability for total amount received as a result of issue of debenture and agreeing thereby to pay the money raised after the expiry of stipulated period at a certain rate of interest.

## ▣ Need for issue of debentures :-

A company for its extension & development may require to raise funds without increasing its share capital so, a may invite the public by open declaration to lend money for a fixed period at a '**declared rate**' to be paid on such money.

# Types of Debentures

Debenture can be classified as under:

1. **From security point of view:-**

- ▣ **Secured or Mortgage debentures** : These are the debentures that are secured by a charge on the assets of the company.
- ▣ These are also called mortgage debentures.
- ▣ The holder's secured debentures have the right to recover their principal amount with unpaid amount of interest on such debentures out of the assets mortgaged by the company. In India, debentures must be secured.

- i. Secured debentures can be of two types :
  - ▣ (a) **First mortgage debentures** : The holders of such debentures have a first claim on the assets charged.
  - ▣ b) **Second mortgage debentures** : The holders of such debentures have a second claim on the assets charged.
- ii. Unsecured debentures: Debentures which do not carry any security with regard to the principal amount or unpaid interest are called unsecured debentures. These are called simple debentures.

2) **On the basis of redemption:**

- (i) **Redeemable debentures** : These are the debentures which are issued for a fixed period. The principal amount of such debenture is paid off to the debenture holders on the expiry of such period.  
These can be redeemed by annual drawings or by purchasing from the open market

- ❑ ii) **Non-redeemable debentures** : These are the debentures which are not redeemed in the life time of the company. Such debentures are paid back only when the company goes into liquidation.
- ❑ **On the basis of Records**
- ❑ i) **Registered debentures**: These are the debentures that are registered with the company.
- ❑ The amount of such debentures is payable only to those debenture holders whose name appears in the register of the company.
- ❑ ii) **Bearer debentures** : These are the 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

- ▣ On the basis of convertibility
- ▣ i) **Convertible debentures** : These are the 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** : The debenture holders of such debentures cannot convert their debentures into shares of the company
- ▣ On the basis of priority
- ▣ **First debentures** : These debentures are redeemed before other debentures.
- ▣ **Second debentures** : These debentures are redeemed after the redemption of first debentures

## ▣ OVER SUBSCRIPTION

- ▣ Company if receives applications for number of debentures that exceed the number of debentures offered for subscription, it is called over subscription. There can be following treatment of the excess application money received :
  - ▣ (a) The total amount of excess number of applications is refunded in case the applications are totally rejected.
  - ▣ (b) The amount of excess application money is totally adjusted towards amount due on allotment and calls
    - in case partial allotment is made,
    - the excess amount is adjusted towards sums due on allotment and rest of the
- ▣ amount is refunded.