

LESSON-30 REISSUE OF DEBENTURES

SUMMARY

Those who hold the shares of the company are called the shareholders and are owners of the company. Company may need additional amount of money for a long period. It cannot issue shares every time. It can raise loan from the public. The amount of loan can be divided into units of small denominations and the company can offer the same for subscription to the public. Each unit is called a 'debenture' and holder of such units is called Debenture holder.

DEBENTURE AND ITS TYPES

A Debenture is a unit of loan amount. When a company intends to raise the loan amount from the public it issues debentures. A person holding debenture or debentures is called a debenture holder. A debenture is a document issued under the seal of the company. It is an acknowledgment of the loan received by the company equal to the nominal value of the debenture. It bears the date of redemption and rate and mode of payment of interest. A debenture holder is the creditor of the company.

1. From Security Point of View

i) 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.

i) *First Mortgage Debentures:*

The holders of such debentures have a first claim on the assets charged.

ii) *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. Such debentures do not have any charge on the assets of the company.

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 debentures 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.

3. 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.

4. 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 predecided period. The term and conditions of conversion are generally announced at the time of issue of debentures.

(ii) **Non-convertible Debentures:** The debenture holders of such debentures cannot convert their debentures into shares of the company.

5. On the Basis of Priority

(i) **First Debentures:** These debentures are redeemed before other debentures.

(ii) **Second Debentures:** These debentures are redeemed after the redemption of first debentures.

ISSUE OF DEBENTURES

Issue of Debenture takes various forms which are as under 

1. Debentures issued for cash
2. Debentures issued for consideration other than cash
3. Debentures issued as collateral security.

Further, debentures may be issued

- (i) at par, (ii) at premium, and (iii) at discount

ISSUE OF DEBENTURES AT PREMIUM AND AT DISCOUNT

Debentures are said to be issued at premium when these are issued at a value which is more than their nominal value. For example, a debenture of ₹ 100 is issued at ₹ 110. This excess amount of ₹ 10 is the amount of premium.