

4. Introduction to Corporate Finance

Q.1 A) Select the correct answer from the options given below and rewrite the statements.

1. A company cannot issue with voting rights.

- a) Equity shares
- b) Debentures**
- c) Securities

2. A company can issue convertible debentures.

- a) Only partly
- b) Only fully**
- c) Partly or fully

3. Money from Account is used for redemption of debentures.

- a) Capital
- b) Debenture Redemption Reserve**
- c) Profit or loss

4. protects the interest of debenture holders

- a) Debenture Trustees**
- b) Debenture holders
- c) Redemption Reserve

5. Secured debentures must be redeemed within from the date of its issue.

- a) 10 days
- b) 10 years**
- c) 15 years

6. A company issuing debenture must create a charge on the assets of the company.

- a) Secured**
- b) Unsecured
- c) Redeemable

7. Debenture certificate must be issued within of allotment of debentures.

- a) 3 months
- b) 6 months**
- c) 60 days

8. The details of allotment of Debentures must be entered in

- a) Register of debenture
- b) Register of members
- c) Register of creditors

9. A company which issues prospectus or invites more than 500 persons to buy its debenture

has to appoint

- a) Register of companies
- b) Debenture holders
- c) Debenture trustees

10. The contract between company and Debenture trustees of companies is called as

- a) Debenture trust deed
- b) Letter of offer
- c) Prospectus

11. Procedure for allotment of Debenture should be completed within from the date of receipt of applications.

- a) 6 months b) 3 months c) 60 days

B) Match the pairs.

Group 'A'	Group 'B'
a) Debenture Trustees	1) Power to issue debentures
b) Debenture holders	2) Protects interest of shareholders
c) Charge on assets	3) Secured debentures
d) Board of Directors	4) NCLT
e) Debenture certificate	5) No voting rights
	6) Unsecured debentures
	7) Protects interest of debenture holders
	8) Voting rights
	9) Proof of ownership of shares
	10) Issued within 6 months of allotment of debentures

Ans:

Group 'A'	Answers:
a) Debenture Trustees	7) Protects interest of debenture holders
b) Debenture holders	5) No voting rights
c) Charge on assets	3) Secured debentures
d) Board of Directors	1) Power to issue debentures
e) Debenture certificate	10) Issued within 6 months of allotment of debentures

C) Write a word or a term or a phrase which can substitute each of the following statements.

1. Type of resolution needed to issue convertible debentures.

Ans: Special resolution

2. Account to be created for redemption of debentures.

Ans: Debenture Redemption Reserve

3. Institution appointed by company to protect the interest of debenture holders.

Ans: Debenture Trustees

4. Period within which secured debentures should be redeemed.

Ans: 10 Years

5. Type of debentures on which company has to create a charge on its assets.

Ans: Secured Debentures

6. The document which contains terms and conditions agreed upon by the company and the

Debenture trustees.

Ans: Debenture Trust Deed

7. Time period within which the procedure for allotment of debenture is to be completed

from the date of receipt of applications.

Ans: 60 Days

8. Period within which debenture certificate must be issued by a company.

Ans: 6 months

9. Institution which redresses grievances of debenture holders.

Ans: Debenture Trustee

10. Authority which has power to issue debentures.

Ans: Board of Directors

D) State whether the following statements are true or false.

1. Debenture holders have no voting rights.

Ans: True

2. Company cannot issue non-convertible debentures.

Ans: False

3. Special Resolution is needed to issue convertible debentures.

Ans: True

4. Debentures holders are paid interest.

Ans: True

5. Debenture Trustees can not approach NCLT to redress grievances of debenture holders..

Ans: False

6. All secured debentures should be redeemed within 20 years from date of its issue.

Ans: False

7. Company has to create a charge on its assets when it issues secured debentures.

Ans: True

8. Debenture trustees are appointed to protect the interest of shareholders.

Ans: False

9. Debenture certificate is issued within 6 six months of allotment of debentures.

Ans: True

10. After allotment of Debentures their names are entered in the register of members.

Ans: True

E) Find the odd one.

1. Debenture holders, Interest, Dividend.

Ans: Dividend

2. Debenture Trustees, Court, NCLT.

Ans: Court

3. Secured Debentures, Convertible debentures, Irredeemable debentures.

Ans: Irredeemable debentures

4. Debenture trustees, Trust Deed, Shareholders.

Ans: Shareholders

F) Complete the sentences.

1. A legal instrument conveying the assets of a company to the Debenture trustees is called **Debenture Trust Deed** .

2. To protect the interest of Debenture holders, a company appoints **Debenture Trustees** .

3. On receipt of application and money, the procedure for allotment of debentures should be completed within **60 days** .

4. Authority to create charge on company's assets is with the **Debenture Trustees** .

5. Secured debentures should be redeemed within **10 years** .

6. To stop a company from incurring further liabilities, the Debenture trustee can approach **NCLT** .

7. A company which issues prospectus or invites more than 500 persons to subscribe for its debentures, has to appoint **Debenture Trustees** .

8. Return on investment on debenture is called **Interest**.

9. For public issue of debentures of ₹100 crores, minimum subscription should be **75%**.

10. For public issue or rights issue of convertible debentures, as per SEBI, a company must obtain **Credit Rating** .

G) Select the correct option from the bracket.

Group 'A'	Group 'B'
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a) Debenture Trustees	1) <u>Trust deed</u>
b) <u>Secured debentures</u>	2) Charge on assets
c) Register of Debenture	3) <u>Name of Debenture holders</u>
d) <u>Issued within 6 month of allotment</u>	4) Debenture certificate
e) No voting rights	5) <u>Debenture holders</u>

(Issued within 6 months of allotment, Names of debenture holders, Secured debentures, Trust deed, Debenture holders.)

[H] Answer in one sentence:

(1) Who are debenture holders?

Ans. Debenture holders are the creditors of the company.

(2) What do debenture holders receive as return on investment?

Ans. Debenture holders receive fixed rate of interest as per quantum as return on investment.

(3) Whom does the company appoint to protect the interest of debenture holders?

Ans. To protect the interest of debenture holders, company appoint Debenture Trustees.

(4) Within what period should secured debentures be redeemed?

Ans. Secured debentures must be redeemed within 10 years from the date of allotment.

(5) Name the document which is an agreement between the debenture trustee and company?

Ans. Debenture Trust Deed is an agreement between the debenture trustee and company.

(6) Who has the authority to create charge on assets of a company?

Ans. Debenture Trustees has the authority to create charge on assets of a company.

(7) Name the meeting in which approval for increasing the borrowing powers of board of directors is passed?

Ans. In Extra Ordinary General Meeting the approval for increasing the borrowing powers of board of directors is passed.

(8) Within what period should be debenture certificate be issued?

Ans. Within 6 months the debenture certificate should be issued.

(9) What is the minimum subscription that a company must collect for an issue of debentures of 100 crores?

Ans. The minimum subscription that a company must collect for an issue of debentures of Rs.100 crores is 75% of the base issue size.

(10) When should a company appoint a credit rating agency?

Ans. A company should appoint a credit rating agency at the time of Public Issue or Rights Issue.

I. Correct the underlined word and rewrite the following sentences:

(1) The details of debenture holders are entered in Register of Members.

Ans. The details of debenture holders are entered in Register of Debenture holder.

(2) Secured debentures must be redeemed within 15 years from the date of its issue.

Ans. Secured debentures must be redeemed within 30 days from the date of its issue.

(3) A company issuing irredeemable debentures must create a charge on assets of the company.

Ans. A company issuing Secured debentures must create a charge on assets of the company.

(4) Return on investment on debenture is dividend.

Ans. Return on Investment on debenture is interest.

(5) Debenture trustees redress the grievances of Shareholders.

Ans. Debenture trustees redress the grievances of Debenture holders.

(6) Debenture certificates are issued within 3 months of allotment of debentures.

Ans. Debenture certificates are issued within 6 months of allotment of debentures.

(7) Procedure for allotment of debentures should be completed within 90 days from date of receipt of application.

Ans. Procedure for allotment of debentures should be completed within 60 days from date of receipt of application.

(8) To rate its debentures a company appoints underwriters.

Ans. To rate its debentures a company appoints Credit Rating Agency.

J. Arrange in proper order.

(1)

(a) Prospectus

(b) Register of Debenture Holder

(c) Allotment of Debentures

Ans: (a) Prospectus

(c) Allotment of Debentures

(b) Register of Debenture Holder

(2)

(a) Obtain credit rating

(b) Entry in register of debenture

(c) Receive application with money

Ans: (a) Obtain credit rating.

(c) Receive application with money

(b) Entry in register of debenture

(3)

(a) Issue debenture certificate

(b) Issue prospectus

(c) Open bank account

Ans: (c) Open bank account

(b) Issue prospectus

(a) Issue debenture certificate

Q.2 Explain the following terms/concepts.

(1) Debenture Certificate.

Ans: (1) Debenture certificate is the certificate given to debenture holder. It certifies that the holder is the creditor of the company to the limit of number of debentures.

(2) Company has to issue debenture certificate within 6 months of allotment of debentures. Debenture certificates are prepared by the secretary, signed by at least two

(2) directors and issued under common seal.

(2) Debentures Trustee.

Ans. (1) Debentures Trustee is a person or institution which protect the interest of the debenture holders. The Trustees become the custodian of the assets on which charge has been created.

(2) According to SEBI Rules, 1993 "debentures trustee" means a trustee of a trust deed for securing any issue of debentures of a body corporate (section 2 (bb)). (Applicable to public companies only).

(3) Charge on assets.

Ans. (1) Company has to create a charge on the assets of the company or its subsidiary company or holding company. The value of charge should be sufficient

for the repayment of the amount of debentures and interest thereon.

(2) If a Government company issues secured debentures which has Central or State Government's guarantee, then it need not create any charge on its assets.

(4) Debenture Trust Deed.

Ans. (1) The agreement created by the company, whereby trustees are appointed to protect the interest of debenture - holders before they are offered for public subscription is known as Debenture Trust Deed.

(2) Company enters into a contract with one or more Debenture Trustees. The terms and conditions of the agreement is written in the Debenture Trust Deed. It is a legal instrument conveying the assets of a company to the Trustees.

Q.3. Study the following case/situation and express your opinion.

(1) Rose limited company proposes to issue debenture to the public to raise funds. After discussions, the board of directors have decided to issue secured, redeemable, non-convertible debentures with a tenure of ten years. Please advise the board on following matters:

(a) Should the company appoint debentures trustee?

Ans. Yes. The company should appoint Debentures trustee. This is because, in the above case, Rose Limited Company proposes to issue debenture to public to raise funds. Thus, the company issuing debenture must appoint one or more debentures trustee.

(b) Should the company create a charge on its assets?

Ans. Yes. The company should create a charge on tangible assets. The charge is created in the favour of Debenture Trustee and they become the custodian of the assets on which charge has been created.

(c) Can the tenure of debentures be less than ten years?

Ans. A company can issue secured debentures with a date of redemption not exceeding ten (10) years from the date of issue.

(2) Violet Ltd. Company plans to raise 10 crores by issuing debentures. The Board of Directors have some queries. Please advise them on the following:

(a) Can the company issue unsecured debentures?

Ans. Yes. The company can issue secured and unsecured debentures. But they have to get approval of shareholders in a general meeting by passing a special resolution.

(b) Can they issue irredeemable debentures?

Ans. No. All the debentures are redeemable i.e, have to be repaid. Thus, the company cannot issue irredeemable debentures.

(c) As the company is offering debentures to its members, can such debentures have normal voting rights?

Ans. As per the Companies Act, 2013, company cannot issue debentures with voting rights. Debenture holders are the creditors of the company. So, they don't have normal voting rights. They can vote only matter related to them.

(3) DDS financial plans to raise 10 crores by issuing secured non-convertible debentures. However, as per the Articles of Association, the board of directors have authority only to raise up to 5 crores. They are also considering whether to go for private placement or make public offer. Please advise them on the following:

(a) What can be the maximum tenure of the debentures to be issued?

Ans. The maximum tenure of the debentures to be issued is of 10 years. Only certain companies permitted by Ministry of Corporate Affairs, Central Government or RBI can issue debentures beyond a period of 10 years but not exceeding 30 years.

(b) Is the proposed issue within the borrowing powers of the board?

Ans. No. The proposed issue is not within the borrowing powers of the board. The board can use their borrowing power up to limit permitted by Articles of Associations. In case, the Board wants to increase its borrowing power, they have to get approval from shareholders by passing a special resolution in general meeting.

(c) Within what period should company issue debenture certificate?

Ans. Debenture certificate is a document issued by a company as an evidence of

debts to the holder. As per the Companies Act, 2013, company has to issue debenture certificate within 6 months of allotment of debentures.

Q.4 Answer in brief.

1. State any four provisions of Companies Act 2013 for issue of debentures.

Ans: Provisions for issue of debentures as per Companies Act, 2013. Following are some of the provisions of the Act which a company has to comply while issuing debentures :

1. No voting rights : A company cannot issue debentures with voting rights. Debenture holders are creditors of the company and so they do not have any voting rights except in matters affecting them.

2. Types of Debentures : A company can issue secured or unsecured debentures and fully or partly convertible debentures or non-convertible debentures. To issue convertible debentures, a Special Resolution has to be passed in the General Meeting. All debentures are redeemable in nature,

3. Payment of interest and redemption : A company shall redeem the debentures and pay interest as per the terms and conditions of this issue

4. Debenture Certificate : Company has to issue Debenture certificate to the debenture holders within 6 months of allotment of Debentures.

5. Create Debenture Redemption Reserve: Company has to create a Debenture Redemption Reserve account out of profits of the company available for payment of dividend. This money can be used only for redemption of debentures. As per companies (Share Capital and Debentures) Amendment Rules 2019, MCA has removed Debenture Redemption Reserve requirement for Listed companies, NBFCs and Housing Finance Companies.

6. Appoint of Debenture Trustees: If the company issues prospectus or invites more than 500 people, either to Public or its Member) company has to appoint one or more Debenture Trustees. Debenture trustees protect the interest of the debenture holders. Company has to appoint trustees by entering into a contract with them called as Debenture Trust Deed.

7. Debentures Trustee can approach NCLT : Debenture Trustees have to redress the grievances of debenture holders. If the company defaults in repaying the principal amount, on maturity or defaults in paying interest there on the Debenture Trustees can approach the National Company Law Tribunal for redressal. NCLT can direct a

defaulting company to repay the principal amount or interest.

8. Impose restrictions : When the Debenture Trustee is of the opinion that the assets of the company are insufficient or likely to become insufficient to redeem the principal amount of debentures, it may approach the NCLT. NCLT can order a company to restrict incurring further liabilities so as to protect the interest of the debenture holders.

9. Punishment for contravention of provisions of the Companies Act: If the company fails to comply with any provisions of the Act, then the company and its officers shall be liable to pay fine or imprisonment or both as prescribed in the Act.

(2) What is debenture trust deed?

Ans. (a) Trust Deed needs to be made between the company and trustees. (b) The agreement created by the company, whereby trustees are appointed to protect the interest of debenture-holders before they are offered for public subscription is known as Debenture Trust Deed.

(c) Company enters into a contract with one or more Debenture Trustees. The terms and conditions of the agreement is written in the Debenture Trust Deed.

(d) It is a legal instrument conveying the assets of a company to the Trustees. The Deed also defines the rights of debenture holders and the duties and powers of Debenture Trustees.

(e) Company has to execute the Deed within 3 months of closure of the issue. Members as well as debenture holders can inspect the deed and also get a copy of it by paying a certain fee.

(3) Who are debentures trustee?

Ans. (1) Debentures Trustee is a person or institutions which protect the interest of the debenture holders. The Trustees become the custodian of the assets on which charge has been created.

(2) A company which issues prospectus or invites more than 500 persons to buy its debentures has to appoint one or more Debentures Trustee. Companies issuing secured debentures also must appoint Debentures Trustee.

(3) Debentures Trustee is appointed before prospectus or letter of offer / offer letter is issued or within 60 days after the allotment of debenture. The Trustees

must give a written consent to act as Debenture Trustees.

(4) According to SEBI Rules, 1993 "debentures trustee" means a trustee of a trust deed for securing any issue of debentures of a body corporate (section 2 (bb)). (Applicable to public companies only).

(5) The trustee can appoint a nominee to board of directors of the company. Before the trustee appoints the nominee, following conditions must be satisfied:

- Two consecutive defaults made by company in payment of interest to the debenture holders; or
- Default in creation of security for debentures or default in redemption of debentures.

Q.5 Justify the following statements.

(1) A company has to create charge on its assets for issuing secured debentures.

Ans. Justification: (1) Company has to create a charge on the assets of the company or its subsidiary company or holding company.

(2) The value of charge should be sufficient for the repayment of the amount of debentures and interest thereon.

(3) If a Government company issues secured debentures which has Central or State Government's guarantee, then it need not create any charge on its assets.

(4) Thus, it is rightly justified that, a company has to create charge on its assets for issuing secured debentures for the security of the repayment of loans.

(2) Debentures trustee is appointed by a company issuing debentures.

Ans. Justification: (1) Debentures Trustee is a person or institutions which protect the interest of the debenture holders. The Trustees become the custodian of the assets on which charge has been created.

(2) A company which issues prospectus or invites more than 500 persons to buy its debentures has to appoint one or more Debentures Trustee. Companies issuing secured debentures also must appoint Debentures Trustee.

(3) Debentures Trustee is appointed before prospectus or letter of offer / offer

letter is issued or within 60 days after the allotment of debenture. The Trustees must give a written consent to act as Debenture Trustees.

(4) Thus, it is rightly justified that, debentures trustee is appointed by a company issuing debentures.

(3) A company can issue only certain types of debentures.

Ans. Justification: (1) A company can issue secured as well as unsecured debentures. It can also issue non-convertible debentures or debentures which can be converted fully or partly into equity shares.

(2) The Board of Directors of a company have the authority to issue debentures. All debentures are redeemable i.e, have to be repaid.

(3) Company can issue debentures to its members or make a public offer or offer it even through private placement.

(d) Thus, it is rightly justified that, a company can issue only certain types of debentures.

Q.6 Answer the following questions.

(1) Briefly explain the provisions of Companies Act, 2013 for issue of debentures.

Ans. Section 2 (30) of the Companies Act, 2013 define debenture as "debenture" 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. Following are some of the provisions of the Act which a company has to comply, while issuing debentures:

1. No voting rights: A company cannot issue debentures with voting rights. Debenture holders are creditors of the company and so they do not have any voting rights except in matters affecting them.

2. Types of Debentures : A company can issue secured or unsecured debentures and fully or partly convertible debentures or non-convertible debentures. To issue convertible debentures, a Special Resolution has to be passed in the General Meeting. All debentures are redeemable in nature.

3. Payment of interest and redemption : A company interest as per the terms and conditions of their issue shall redeem the debentures and pay

4. Debenture Certificate : Company has to issue Debenture certificate to the debenture holders within 6 months of allotment of Debentures.

5. Create Debenture Redemption Reserve : Company has to create a Debenture Redemption Reserve account out of profits of the company available for payment of dividend. This money can be used only for redemption of debentures. As per companies (Share Capital and Debentures) Amendment Rules 2019, MCA has removed Debenture Redemption Reserve requirement for Listed companies, NBFCs and Housing Finance Companies.

6. Appoint of Debenture Trustees : If the company issues prospectus or invites more than 500 people, (either to Public or its Member) company has to appoint one or more Debenture Trustees. Debenture trustees protect the interest of the debenture holders. Company has to appoint trustees by entering into a contract with them called as Debenture Trust Deed.

7. Debentures Trustee can approach NCLT : Debenture Trustees have to redress the grievances of debenture holders. If the company defaults in repaying the principal amount, on maturity or defaults in paying interest there on, the Debenture Trustees can approach the National Company Law Tribunal for redressal. NCLT can direct a defaulting company to repay the principal amount or interest.

8. Impose restrictions : When the Debenture Trustee is of the opinion that the assets of the company are insufficient or likely to become insufficient to redeem the principal amount of debentures, it may approach the NCLT. NCLT can order a company to restrict incurring further liabilities so as to protect the interest of the debenture holders.

9. Punishment for contravention of provisions of the Companies Act : If the company fails to comply with any provisions of the Act, then the company and its officers shall be liable to pay fine or imprisonment or both as prescribed in the Act.

2. Explain briefly the procedure for issue of debentures.

Ans. Section 2 (30) of the Companies Act, 2013 define debenture as "debenture" 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. Following is the procedure to be followed by a company issuing debentures -

1. Pass resolution in Board Meeting : In the Board Meeting following resolution will have to be passed :

i) amount and type of debentures to be issued and the terms and conditions for issue.

ii) approve prospectus or offer letter or letter of offer.

iii) approve appointment of Debenture Trustees and get their written consent.

iv) authorize Board to create charge on assets of the company.

v) call Extra-ordinary General Meeting if the Board's borrowing powers need to be increased.

vi) authorizes Board to open a separate bank account for receiving money from applicants

2. Hold Extra-ordinary General Meeting (EGM) : If the borrowing powers of the Board is to be increased, EGM must be held to get the shareholders' approval through a Special Resolution.

3. Filing with Registrar of Companies : Secretary has to file the Special resolution and copy of Prospectus, offer letter / Letter of offer with Registrar of Companies within 30 days of Board Meeting.

4. Obtain Credit Rating : Company gets its debentures rated by one or more Credit Rating Agencies. The ratings must be mentioned in the prospectus/offer letter/Letter of offer.

5. Enter into underwriting agreement: Company enters into an underwriting agreement for underwriting its debenture issue.

6. Issue prospectus / letter of offer / offer letter : Company issues prospectus, if it is inviting the public to buy its debentures. Offer Letter is issued if a company makes private placement and Letter of offer for Rights Issue.

7. Open Separate Bank Account : Company opens a separate bank account in a scheduled Bank to receive the money from the applicants.

8. Receiving application money : Subscribers will submit their application along with the required amount to the specified bank within the time period mentioned in the prospectus or letter of offer / Offer Letter

9. Hold Board Meeting : After the issue closes, a Board Meeting is held to decide and approve allotment of debentures. Board also approves creation of charges on the company's assets.

10. Issue of Debenture certificate : The allotment procedure has to be completed within 60 days from the receipt of application money. Company has to issue Debenture certificate within 6 months of allotment of debentures.

11. Make entries in Register of Debenture holders : Secretary has to make entries in the Register of Debenture holders within 7 days after the Board approval of allotment. However, if debentures are issued in demat form, company does not maintain the Register of Debenture holders.