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# Shares and debentures ppt

Embed Size (px) 344 x 292429 x 357514 x 422599 x 487Text of Debentures ppt1.APROJECT REPORT ONDEBENTURES2. The Flow Of Presentation Definition About Debentures Types Of Debentures Features Valuation of Debentures Bond Yields 3. DEBENTURES A debenture is thus like a certificate of loan or a loanbond evidencing the fact that the company is liable to pay a specified amount with interest and although the money raised by the debentures becomes a part of the company's capital structure, it does not become share capital. 4. A debenture is a long-term debt instrument or security. It is also known as BOND. Bond issued by government do not have any risk of default. 5. A company in India can issue secured or unsecured debentures. In case of debentures, the rate of debentures are fixed and known to investors. 6. Types of debentures Non Convertible Debentures (NCD): These instruments retain the debt character and can not be converted into equity shares. Partly Convertible Debentures (PCD): A part of these instruments are converted into Equity shares in the future at notice of the issuer. The issuer decides the ratio for conversion. This is normally decided at the time of subscription. 7. Fully convertible Debentures (FCD): These are fully convertible into Equity shares at the issuer's notice. The ratio of conversion is decided by the issuer. Upon conversion the investors enjoy the same status as ordinary shareholders of the company. Optionally Convertible Debentures (OCD): The investor has the option to either convert these debentures into shares at a price decided by the issuer/agreed upon at the time of issue. 8. On basis of Security, debentures are classified into: Secured Debentures: These instruments are secured by a charge on the fixed assets of the issuer company. So if the issuer fails on payment of either the principal or interest amount, his assets can be sold to repay the liability to the investors. Unsecured Debentures: These instruments are unsecured in the sense that if the issuer defaults on payment of the interest or principal amount, the investor has to be along with other unsecured creditors of the company. 9. FEATURES Face value Interest rate Maturity Redemption value Market value 10. Redemption : Redemption of debentures can be accomplished either through, Sinking fund It is a cash set aside periodically for retiring debentures. Buy-back (call) provision Buy-back provision enable the company to redeem debentures at a specific price before the maturity date. 11. Indenture : An Indenture or Debenture trust deed is a legal agreement between the company issuing debentures and the debenture trustee who represents the debenture holders. 12. VALUATION OF BONDS Bond with maturity The government and company mostly issued bond that specify the interest rate (coupon rate) with maturity period. Pure discount bond It do not carry an explicit rate of interest. It provides for the payment of a lump sum amount at a future date in exchange for the 13. Perpetual bonds Perpetual bonds, also called consols, has an indefinite life and therefore, it has no maturity value. 14. BONDS YIELDS Current yield Yield to maturity (YTM) Yield to call 15. Current Yield Current yield is the annual interest divided by the bonds current value. Yield to maturity The Yield-to-maturity (YTM) is the measure of a bond's rate of return that considers both the interest income and any capital gain or loss. 16. Yield to call Yield to call is the same as for the yield to maturity. The call period would be different from the maturity period and the call (or redemption) value could be different from the maturity value. LinkedIn emplea cookies para mejorar la funcionalidad y el rendimiento de nuestro sitio web, así como para ofrecer publicidad relevante. Si continúas navegando por ese sitio web, aceptas el uso de cookies. Consulta nuestras Condiciones de uso y nuestra Política de privacidad para más información. LinkedIn emplea cookies para mejorar la funcionalidad y el rendimiento de nuestro sitio web, así como para ofrecer publicidad relevante. Si continúas navegando por ese sitio web, aceptas el uso de cookies. Consulta nuestra Política de privacidad y nuestras Condiciones de uso para más información. Nowadays, investment in shares and debentures has taken a dominant position in the society, as people of different ages, religion, sex, and race invest their hard earned money, with an aim of getting better returns. While Shares refers to the share capital of the company. It describes the right of the holder to the specified amount of the share capital of the company. Conversely, debenture implies a long term instrument showing the debt of the company towards the external party. It yields a definite rate of interest, issued by the company, may or may not be secured against assets, i.e. stock. So, if you are going to invest in any of the two securities, you should first understand their meaning. In this article, we have provided the difference between shares and debentures in tabular form. Content: Shares Vs Debentures Comparison Chart Definition Key Differences Video Similarities Conclusion Comparison Chart Basis for Comparison Shares Debentures Meaning The shares are the owned funds of the company. The debentures are the borrowed funds of the company. What is it? Shares represent the capital of the company. Debentures represent the debt of the company. Holder The holder of shares is known as shareholder. The holder of debentures is known as debenture holder. Status of Holders Owners Creditors Form of Return Shareholders get the dividend. Debenture holders get the interest. Payment of return Dividend can be paid to shareholders only out of profits. Interest can be paid to debenture holders even if there is no profit. Allowable deduction Dividend is an appropriation of profit and so it is not allowed as deduction. Interest is a business expense and so it is allowed as deduction from profit. Security for payment No Yes Voting Rights The holders of shares have voting rights. The holders of debentures do not have any voting rights. Conversion Shares can never be converted into debentures. Debentures can be converted into shares. Repayment In the event of winding up Shares are repaid after the payment of all the liabilities. Debentures get priority over shares, and so they are repaid before shares. Quantum Dividend on shares is an appropriation of profit. Interest on debentures is a charge against profit. Trust Deed No Trust deed is executed in case of shares. When the debentures are issued to the public, trust deed must be executed. Definition of Shares Smallest division of the company's capital is known as shares. The shares are offered for sale in the open market, i.e. stock market to raise capital for the company. The rate on which the shares are offered is known as share price. It represents the portion of ownership of the shareholder in the company. The shareholders are entitled to the dividend (if any) declared by the company on the shares. The shares are movable i.e. transferable and consist of a distinctive number. The shares are broadly divided into two major categories: Equity Shares: The shares which carry voting rights on which the rate of dividend is not fixed. They are irredeemable in nature. In the event of winding up of the company equity, shares are repaid after the payment of all the liabilities. Preference Shares The shares which do not carry voting rights, but the rate of dividend is fixed. They are redeemable in nature. In the event of winding up of the company, preference shares are repaid before equity shares. Definition of Debentures A long-term debt instrument issued by the company under its common seal, to the debenture holder showing the indebtedness of the company. The capital raised by the company is the borrowed capital; that is why the debenture holders are the creditors of the company. The debentures can be redeemable or irredeemable in nature. They are freely transferable. The return on debentures is in the form of interest at a fixed rate. Debentures are secured by a charge on assets, although unsecured debentures can also be issued. They do not carry voting rights. The debentures are of following types: Secured Debentures Unsecured Debentures Convertible Debentures Non-convertible Debentures Registered Debentures Bearer Debentures The following are the major differences between Shares and Debentures: The holder of shares is known as a shareholder while the holder of debentures is known as debenture holder. Share is the capital of the company, but Debenture is the debt of the company. The shares represent ownership of the shareholders in the company. On the other hand, debentures represent indebtedness of the company. The income earned on shares is the dividend, but the income earned on debentures is interest. The payment of dividend can be made only out of current profits of the business and not otherwise. Unlike the interest on debentures which has to be paid by the company to debenture holders, no matter company has earned profit or not. Dividend is not a business expense and so is not allowed as deduction. On the contrary, interest on debentures is an expense and so allowed as a deduction. In the event of winding up, debentures get priority of repayment over shares. Shares cannot be converted as opposed to debentures are convertible. There is no security charge created for payment of shares. Conversely, security charge is created for the payment of debentures. A trust deed is not executed in case of shares whereas trust deed is executed when the debentures are issued to the public. Unlike debenture holders, shareholders have voting rights. Shares are issued at a discount subject to some legal compliance. Debentures can be issued at a discount without any legal compliance. Video: Shares Vs Debentures Similarities Both are Financial Asset. Both can be issued to the public. Source of raising money for the company. They can be issued at the discount. Conclusion As everything has two aspects, shares and debentures also have its merits and demerits. While shares give voting rights to the shareholders, debentures get priority in payment, at the time of winding up of the company. You're Reading a Free Preview Pages 4 to 5 are not shown in this preview. 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