

7. Correspondence with Debenture holders

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

1. Debenture capital is a capital of a company.

- a) borrowed**
- b) owned
- c) permanent

2. Debentureholders are of the company.

- a) Owners
- b) Creditors**
- c) Debtors

3. Borrowed Capital is provided to the company by

- a) Equity shareholder
- b) Debenture holder**
- c) Preference shareholder

4. Interest on Registered Debentures is given through

- a) Interest coupons
- b) Interest warrant**
- c) Refund order

5. are the creditors of the company.

- a) Shareholders
- b) Debenture holders**
- c) Directors

6. Bearer Debentureholders get interest through

- a) Interest Warrants
- b) Refund orders
- c) Interest coupons**

7. Return of income on debentures is at fixed rate.

- a) Dividend
- b) Loan
- c) Interest**

8. is an acknowledgement of debt issued by the company under common seal.

a) Debentures

b) Shares

c) Reserve

9. Debentures repayable after a certain period are debentures.

a) Convertible

b) Registered

c) Redeemable

10. The rate of interest payable on debentures is

a) uncertain

b) floating

c) fixed

11. Debentureholders receive certificate from the company.

a) Share

b) Bond

c) Debenture

12. Interest warrants are sent to of the company.

a) Shareholders

b) Debentureholders

c) Owners

B) Match the pairs.

Group 'A'	Group 'B'
a) Debentureholder	1) Borrowed Capital
b) Interest on Debentures	2) Interest coupons
c) Convertible Debentures	3) Evidence of Loan
d) Debenture Certificate	4) Safe and secured investment
e) Investment in Debentures	5) Interest warrant
f) Redeemable Debentures	6) Conversion into Debentures
g) Debentures	7) Risky investment
	8) Evidence of shares
	9) Creditor
	10) Conversion into equity shares
	11) Redeemed after fixed period

	12) Redeemed at winding up of company
	13) Owner
	14) Owned Capital

Ans:

B) Match the pairs.

Group 'A'	Group 'B'
a) Debentureholder	9) Creditor
b) Interest on Debentures	5) Interest warrant
c) Convertible Debentures	10) Conversion into equity shares
d) Debenture Certificate	3) Evidence of Loan
e) Investment in Debentures	4) Safe and secured investment
f) Redeemable Debentures	11) Redeemed after fixed period
g) Debentures	1) Borrowed Capital

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

1. Return on investment in debentures.

Ans: Interest

2. Documentary evidence of holding the debentures.

Ans: Debenture certificate

3. Status of debentureholders.

Ans: Creditors

4. Debentures which can be converted into equity shares.

Ans: Convertible debenture

5. The person who purchases debentures of the company.

Ans: Debenture holders

6. An acknowledgement of debt issued by the company under its common seal.

Ans: Debenture certificate

7. Debentures whose name is mentioned in the Register of debentureholders.

Ans: Registered debentures

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

1. Debenture holders get regular dividend.

Ans: False

2. Debenture is a loan capital of the company.

Ans: True

3. Convertible Debentures can be converted into equity shares.

Ans: True

4. Interest on debentures is paid notwithstanding the volume of profit.

Ans: True

5. Debentureholders enjoy full membership rights of the company.

Ans: False

6. Dividend warrants are used to pay interest to the debentureholders.

Ans: False

7. All types of debentures are eligible for conversion into equity shares.

Ans: False

8. Debentures are never redeemed by the company.

Ans: False

9. Debentureholders are the owners of the company.

Ans: False

10. Debentures are always fully paid-up.

Ans: True

E) Find the odd one.

1. Depository, Interest, Dividend

Ans: Depository

2. Interest warrant, Dividend Warrant, Demat

Ans: Demat

3. Debentureholder, Shareholder, Dematerialisation

Ans: Dematerialisation

4. Debentureholder, Shareholder, SEBI

Ans: SEBI

F) Complete the sentences.

1. Debentureholder is a of the company.

Ans: Creditor

2. Company issues certificate to the debentureholder after allotment of debentures.

Ans: Debenture

3. Debentureholder gets at fixed rate as a return or income.

Ans: Interest

4. In case of Registered Debentures, Interest are used to pay interest.

Ans: Warrant

5. The has to correspond with debentureholders on important occasions.

Ans: Secretary

6. The person who purchases the debentures of a company is called

Ans: Debenture holders

7. Interest does not depend upon of the company.

Ans: Profit

8. Company cannot issue debentures with rights.

Ans: Voting

9. Debenture certificate should be issued within a period of months, from the date of allotment of debentures.

Ans: 6

10. A company cannot issue debentures to more than 500 people without appointing

.....

Ans: Debenture Trustees

11. The power to issue debentures has been vested with the

Ans: Board of Directors

G) Select the correct option from the bracket.

Group 'A'	Group 'B'
1. Return on Debenture	<u>Interest</u>
2. Debenture certificate	<u>Issued within 6 months</u>
<u>3. Creditors</u>	Debenture holders
<u>4. Debt capital</u>	Debenture
<u>5. Board of Directors</u>	Power to issue debentures

(Debt capital, Board of Directors, Creditors, Issued within 6 months, Interest)

H) Answer in one sentence.

(1) Who is debenture holder ?

Ans. Debenture holder is a creditor of a company.

(2) What is the income of debenture holder?

Ans: Debenture holder is paid fixed rate of interest as income on his investment in Debentures.

(3) What is debenture ?

Ans: The debt acknowledged by a company by issuing debenture certificate is called debenture.

(4) What is convertible debentures ?

Ans: Convertible Debentures are converted into Equity Shares on the expiry of specific period and at a specific rate.

(5) Who takes decision to allot the debentures ?

Ans: Board of directors take decision to allot the debentures.

(6) Which form is enclosed along with the letter of redemption of debentures ?

Ans: Debenture Redemption form is enclosed along with the letter of redemption of debentures.

(7) Which certificate will be issued after allotment of debentures ?

Ans: Debenture Certificate will be issued after allotment of debentures.

I) Correct the underlined words and rewrite the following sentences.

1. The person who purchases debentures of the company is called shareholder.

Ans. The person who purchases debentures of the company is called Debenture holder.

2. Debentureholders get regular dividend at fixed rate.

Ans. Debentureholders get regular interest at fixed rate.

3. A Share Certificate must be issued after allotment of debentures.

Ans. A Debenture certificate must be issued after allotment of debentures.

4. A Debenture Redemption Reserve Fund is created by the company for the redemption of Shares.

Ans. A Debenture Redemption Reserve Fund is created by the company for the redemption of Debenture.

5. A Demat Request Form is sent alongwith the letter of Redemption of Debentures.

Ans. A Debenture Redemption Form is sent alongwith the letter of Redemption of Debentures.

6. A company must issue Debenture Certificate within 8 months of allotment of debentures.

Ans. A company must issue Debenture Certificate within 6 months of allotment of debentures.

J) Arrange in proper order.

1. a) Board Resolution

b) Allotment of Debentures

c) Board meeting

Ans: (c) Board meeting

(a) Board Resolution

(b) Allotment of Debentures

2. a) Interest warrant

b) Allotment of Debentures

c) Board meeting

Ans: (c) Board meeting

(b) Allotment of Debentures

(a) Interest warrant

Q.2 Explain the following terms/concepts.

1) Debentures.

Ans: (1) The term debenture originates from a Latin word debere meaning to owe'. Thus, Debenture represents the borrowed capital. Debenture is a certificate that denotes such debt is given to the company. The person holding debenture is known as debenture holder.

(2) Section 2(30) of the Companies Act 2013, states that, "the word debenture includes debenture stock, bonds and any other instruments company evidencing a debt, whether constituting a charge on the assets of the company or not."

(2) Debenture holder

Ans.(1) Debenture is a certificate that denotes such debt is given to the company. The person holding debenture is known as debenture holder.

(2) They are the creditors of the company. They receive interest as return on investment

(3) They have less risk as they get back their capital prior to shareholders in case of winding up of the company.

(3) Interest on Debentures

Ans. (1) Debenture capital is a loan or borrowed capital of a company. Debenture holders are the creditors of the company.

(2) They receive interest as return on investment. They get fixed rate of interest. Interest is a debt. It does not depend upon profit. Company pays interest through Interest Warrant or through electronic mode, i.e, ECS or NEFT.

(4) Redemption of debentures

Ans: (1) Redemption of debenture letter is issued to the debenture holders whose debenture are to be redeemed after the specific period of time.

(2) A Debenture Redemption Reserve Fund (DRRF) is created by the company to redeem the debenture. All the necessary documents has to be submitted by the company for the procedure of redemption.

(5) Conversion of Debentures

Ans. (1) Debentures can be converted into equity shares on the expiry of specified period and at the specified rate, mentioned in terms of issue.

(2) Company has to pass special resolution for conversion of debenture into equity shares. After receiving approval, the company sends letter of conversion of debentures to the debenture holders.

(6) Interest warrant

Ans. (1) Interest warrant is a warrant or cheque given by a company or an organization in payment of interest on deposit.

(2) Interest warrant has all the characteristics of a cheque. For instance, interest on bond.

(7) Conciseness

Ans. (1) The letter acts as a representative of the organization. Thus, secretary should always provide all the information in concise or compact manner.

(2) Correspondence with the debenture holders must be brief and to the point. A letter should not be lengthy. Secretary should provide maximum information in minimum words.

(8) Precise information

Ans. (1) The letter acts as a representative of the organization. Secretary should always provide correct, up to date and factual information to the debenture holders in precise and compact manner.

(2) Utmost care should be taken by secretary while giving facts and figures to debenture holders.

(9) Courtesy

Ans. (1) The letter to the debenture holders should be polite. A courteous letter shows empathy, respect and mutual understanding. It is helpful for getting favourable response and built up goodwill of the organization.

(2) Secretary should not use any harsh words while corresponding with members. Also, rude language should be avoided.

(10) Debenture certificate

Ans. (1) Debenture certificate is the document of certificate given to debenture holder. It certifies that the holder is the creditor of the company to the limit of a number of debentures hold by him.

(2) Debenture may be secured by creating the charges on the assets of the company. Debenture is issued with due date stated in the 'Debenture Certificate'.

Q.3 Answer in brief.

(1) Which are the precautions to be taken by the Secretary while corresponding with debenture holders ?

Ans. Following precautions to be taken by the secretary while corresponding with

the debenture holders.

The following precautions taken by secretary while corresponding with debenture holders are as follows:

(1) Correct or Precise Information: The letter acts as a representative of the organization. Secretary should always provide correct, up to date and factual information to the debenture holders in precise and compact manner. Utmost care should be taken by secretary while giving facts and figures to debenture holders.

(2) Legal provisions: The Secretary must keep in mind legality of content in correspondence with the debenture holders. While corresponding with the debenture holders, secretary should compulsorily follow relevant provisions of the Companies Act, 2013 with latest amendments and other relevant laws.

(3) Image of the company: While drafting the letters, secretary has to try his best to remove their doubts, queries and difficulties in a polite and courteous manner. It is helpful for getting favourable response and build up goodwill of the organization.

(4) Prompt Reply: In any correspondence prompt reply is very important. The company Secretary must give prompt replies to any queries of the debenture holders. Secretary should provide quick reply to complaint letters without any delay to the debenture holders.

(5) Secrecy: The secrecy of any business is essential. The Secretary must keep secrecy regarding the affairs of the company while corresponding with the debenture holders and shall not disclose any confidential matter of the Company. Secrecy is important so that no other party can take undue advantage of it.

(6) Courtesy: The letter to the debenture holders should be polite. A courteous letter shows empathy, respect and mutual understanding. It is helpful for getting favourable response and build up goodwill of the organization. Secretary should not use any harsh words while corresponding with debenture holders. Also, rude language should be avoided.

(7) Transparency:
While corresponding with debenture holders, secretary must maintain transparency. To maintain greater transparency it is - necessary to disclose all correct and accurate information of the company. Secretary should provide true and

actual or real facts of the company in correspondence.

(8) Conciseness: The letter acts as a representative of the organization. Thus, secretary should always provide all the information in concise or compact manner. Correspondence with the debenture holders must be brief and to the point. A letter should not be lengthy. Secretary should provide maximum information in minimum words.

(2) What are the circumstances under which correspondence can be made with debenture holders ?

Ans. Following are the circumstances under which secretary has to enter into correspondence with debenture holders:

- (1) Informing the applicant about allotment of debentures.
- (2) Informing about the payment of Interest through: Interest Warrant
Electronic Payment of Interest
- (c) Letter for conversion of debentures into equity shares.
- (d) Letter for redemption of debentures.

Q.4 Justify the following statements.

1. The company secretary should take certain precautions while corresponding with debenture holders.

Ans: Justification:

The company secretary has to take following precautions while corresponding with debenture holders.

(a) Prompt Reply: In any correspondence prompt reply is very important. The company Secretary must give prompt replies to any queries of the debenture holders.

(b) Correct or Precise Information: The letter acts as a representative of the organization. Secretary should always provide correct, up to date and factual information to the debenture holders in precise and compact manner.

(c) Courtesy: The letter to the debenture holders should be polite. A courteous letter

shows empathy, respect and mutual understanding.

(d) Transparency: While corresponding with debenture holders, secretary must maintained transparency. To maintain greater transparency it is necessary to disclose all correct and accurate information of the company.

(e) Secrecy: The secrecy of any business is essential. The Secretary must keep secrecy regarding the affairs of the company while corresponding with the debenture holders and shall not disclose any confidential matter of the Company.

(2) There are certain circumstances when a secretary has to correspond with debenture holders.

Ans. Justification: The circumstances when a secretary has to correspondence with debenture holders are:

(a) Informing the applicant about allotment of debentures.

(b) Informing about the payment of interest through:

- Interest Warrant
- Electronic Payment of Interest

(c) Letter for conversion of debentures into equity shares.

(d) Letter for redemption of debentures. Thus, it is rightly justified that, there are certain circumstances when a secretary has to correspondence with debenture holders.