Compulsorily Convertible Debentures

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About Compulsorily Convertible Debentures:

- It is a **type of bond** which must be **converted into stock by a specified date.**
- It is classified as a hybrid security, as it is neither purely a bond nor purely a stock.
- A debenture comes in two forms
  - **Non-convertible debenture:** It **cannot be converted into equity shares of the issuing company.** Instead, debenture holders receive periodic interest payments and get back their principal at the maturity date, just like most bondholders.
  - The interest rate attached to them is higher than for convertible debentures.
  - **Convertible debentures: May be converted into the company's equity after** a set period of time. That convertibility is a perceived advantage, so investors are willing to accept a lower interest rate for purchasing convertible debentures.

What is a debenture?

- A debenture **is a medium- to long-term debt security issued by a company** as a means of borrowing money at a fixed interest rate.
- Unlike most investment-grade corporate bonds, **it is not secured by collateral**.
- It is backed only by the full faith and credit of the issuing company.

Q1) What is a bond?

A bond is a debt instrument issued by governments, municipalities, corporations, or other entities to raise capital. When you buy a bond, you are essentially lending money to the issuer in exchange for periodic interest payments and the return of the principal amount (the initial investment) at a specified maturity date.

Source: Investors from Mauritius, Singapore, Cyprus under Taxman’s lens for CCD gains