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Department of commerce with professional accounting

**25UCP552 – CORPORATE LAW
KINDS OF SHARES & DEBENTURES
Unit 2**

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Kinds of Shares & Debentures

A comprehensive classroom session on the classification, legal framework, and practical significance of shares and debentures under Indian Company Law and corporate finance.

COMPANY LAW | CORPORATE FINANCE

UNDERGRADUATE SESSION

21UCP552 – Corporate Law / Ms. B Gayathri , Assistant professor in Department of commerce with professional accounting



Session Roadmap

Today's class covers the following topics. By the end, you'll be able to identify, distinguish, and apply these concepts in real corporate scenarios.

01

Shares — The Basics

Meaning, nature, and legal character of a share under the Companies Act, 2013

02

Equity Shares

Types, rights, voting power, and dividend treatment

03

Preference Shares

Classification, preferential rights, and redemption rules

04

Debentures

Meaning, types, secured vs. unsecured, convertible vs. non-convertible

05

Shares vs. Debentures

Key distinctions from legal and financial perspectives

Classroom Activities Today

1. Quick Poll — 3 min
2. Think–Pair–Share — 3 min
3. Word Cloud Activity — 3 min
4. Reflection — 2 min
5. Group Activity with Outcome

Assessment

Interactive Case Study + Take-Home Assignment + Final Q&A

Shares — Meaning & Legal Nature

What Is a Share?

A **share** represents a unit of ownership in a company's capital. Under **Section 2(84), Companies Act 2013**, a share includes stock. It confers rights and liabilities on the holder.

- **Movable property** – transferable as per Articles of Association
- Carries a **distinct share certificate** and folio number
- Governed by the Companies Act, 2013 and SEBI regulations
- Share capital divided into: **Authorized, Issued, Subscribed, Paid-up**

Authorized Capital



Maximum capital a company can raise per its MOA

Issued Capital

Portion offered to the public

Paid-up Capital

Amount actually received from shareholders

  **Activity 1 – Quick Poll (3 min):** "Do you think shareholders are owners or creditors of a company?" Vote Yes/No on your devices. Discuss results as a class.


Equity Shares




Section 43 — Companies Act 2013

Equity shareholders are the **residual owners** of the company — they bear the highest risk and enjoy the highest reward.

- **Voting rights** — one share, one vote (generally)
- **Dividend** — paid after preference shareholders, from surplus profits
- **Capital repayment** — last in line during winding up
- **With Differential Voting Rights (DVR)** — permitted under Rule 4, Companies (Share Capital & Debentures) Rules, 2014

 **Real Example:** Tata Motors issued DVR shares ("A" ordinary shares) allowing shareholders to receive 5× dividend but with 1/10th voting rights — a balance between control and income.

 **Activity 2 — Think–Pair–Share (3 min):** "Why would a promoter prefer issuing DVR equity shares instead of regular equity?" Discuss with your neighbour, then share with the class.

Preference Shares

Preference shareholders enjoy a **priority claim** over equity holders – both for dividends and capital repayment on winding up (Section 43, Companies Act 2013).



Cumulative vs. Non-Cumulative

Cumulative: Unpaid dividends accumulate and are paid in future years.

Non-Cumulative: Dividends lapse if not declared in a given year.



Redeemable vs. Irredeemable

Redeemable: Repaid after a fixed period (max 20 years).

Irredeemable: No longer permitted under the Companies Act 2013.



Convertible vs. Non-Convertible

Convertible: Can be converted into equity shares after a specified period.

Non-Convertible: Remains as preference share throughout its life.



Participating vs. Non-Participating

Participating: Share in surplus profits after equity holders receive theirs.

Non-Participating: Fixed dividend only – no additional share in profits.

📄 **Activity 3 – Word Cloud (3 min):** Go to [Mentimeter.com](https://www.mentimeter.com) and type words you associate with "Preference Shares." The top responses will populate a live word cloud for class discussion.

Debentures — Types & Legal Framework

A **debenture** is a debt instrument issued by a company acknowledging a loan (Section 2(30), Companies Act 2013). Debenture holders are **creditors**, not owners.

Secured Debentures

Backed by a charge on company assets. Secured debentures must be redeemed within **10 years** (extendable to 30 years for infrastructure companies).

Unsecured Debentures

No charge on assets. Higher risk — rarely issued to the public. Also called **naked debentures**.

Debenture Trustee



Every public issue of secured debentures requires a **SEBI-registered Debenture Trustee** to protect the interests of debenture holders (Section 71, Companies Act 2013).

Convertible Debentures (CCD/PCD)

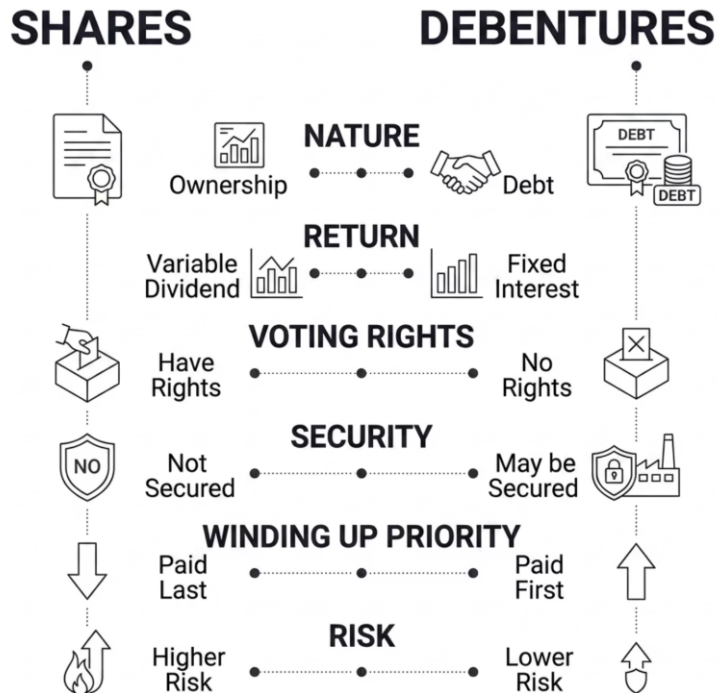
Fully Convertible (FCD) — fully converted to equity at a set date. **Partly Convertible (PCD)** — part converted, part redeemed.

Non-Convertible Debentures (NCD)

Repaid as debt only. Widely traded on exchanges. Example: **HDFC NCDs** listed on BSE.

  **Real Example:** Reliance Industries regularly issues NCDs to raise long-term funds from retail and institutional investors, rated AAA by CRISIL.

Shares vs. Debentures — Key Distinctions



Why This Distinction Matters

From a **corporate finance** perspective, choosing between equity and debt financing involves trade-offs in control, cost, and risk. From a **legal** standpoint, the rights and remedies available differ significantly.

Legal Note: Debenture holders can approach the NCLT for enforcement of security, while shareholders typically rely on derivative actions or oppression/mismanagement remedies under Sections 241–244.

Activity 4 – Reflection (2 min): In your notebook, write one thing you understood clearly and one concept you'd like revisited. Share voluntarily.

Interactive Case Study

GROUP ACTIVITY

OUTCOME-BASED

Scenario: *Techbridge Pvt. Ltd.*, a growing fintech startup, needs ₹50 crore to expand. The founders want to retain control. The CFO proposes three options:

Option A

Issue **Equity Shares** to 200 new investors via a private placement

Option B

Issue **Cumulative Redeemable Preference Shares** at 9% p.a. for 7 years

Option C

Issue **Fully Convertible Debentures** converting to equity after 5 years

Discussion Points (Groups of 4)

1. Which option best protects founder control? Why?
2. What are the legal compliance requirements for each option?
3. How does each option affect the company's **debt-equity ratio**?
4. What would you advise if the company plans an IPO in 3 years?

Expected Outcome

Each group presents a 2-minute recommendation. Class votes on the best-argued answer. Instructor debrief connects recommendations to legal provisions and financial theory.

Summary — Key Learning Points

- 1 Shares = Ownership; Debentures = Debt

Fundamental legal character distinguishes their rights, remedies, and risk profiles.
- 2 Equity Shares carry highest risk & reward

Including DVR variants, governed by Section 43 and SEBI (ICDR) Regulations.
- 3 Preference Shares offer hybrid protection

Cumulative, convertible, participating — each subtype tailored to investor needs.
- 4 Debentures must comply with Section 71

Trustee appointment, charge creation, and redemption within prescribed limits.



Take-Home Assignment & Final Q&A

Assignment Tasks

1

Research Task

Find one real Indian company that has issued preference shares and one that has issued NCDs in the last 3 years. Summarize the terms and state the legal provisions applicable.

2

Problem Question

"Sunrise Ltd. issued irredeemable preference shares in 2024. Advise the company on legal compliance under the Companies Act 2013."
(500 words)

3

Reflection Journal

Write 3 things you learned today, 2 questions you still have, and 1 way this topic connects to current business news.

? Final Q&A — Suggested Questions

- Can a private company issue debentures to the public?
- What happens to preference dividends if a company makes no profit?
- Is a debenture holder entitled to attend the AGM?
- Can equity shares be issued at a discount?
- What is the role of SEBI in regulating debenture issuances?



👏 Well done! You've covered the full legal and financial landscape of shares and debentures. Bring your assignments next class for peer review!