



18 Debentures

(1) The company shall not issue secured debentures, unless it complies with the following conditions, namely:-

(a) An issue of secured debentures may be made, provided the date of its redemption shall not exceed ten years from the date of issue.

¹[Provided that the following classes of companies may issue secured debentures for a period exceeding ten years but not exceeding thirty years,

(i) Companies engaged in setting up of infrastructure projects;

(ii) 'Infrastructure Finance Companies' as defined in clause (viia) of sub direction (1) of direction 2 of Non-Banking Financial (Non-deposit accepting or holding) Companies Prudential Norms (Reserve Bank) Directions, 2007;

²[(iii) Infrastructure Debt Fund Non-Banking Financial Companies' as defined in clause (b) of direction 3 of Infrastructure Debt Fund Non-Banking Financial Companies (Reserve Bank) Directions, 2011;]

(iv) Companies permitted by a Ministry or Department of the Central Government or by Reserve Bank of India or by the National Housing Bank or by any other statutory authority to issue debentures for a period exceeding ten years.]

³["(b) Such an issue of debentures shall be secured by the creation of a charge on the properties or assets of the company or its subsidiaries or its holding company or its associate companies, having a value which is sufficient for the due repayment of the amount of debentures and interest thereon.";]

(c) the company shall appoint the debenture trustee before the issue of prospectus or letter of offer for subscription of its debentures and not later than sixty days after the allotment of the debentures, execute a debenture trust deed to protect the interest thereon;

(d) the security for the debentures by way of a charge or mortgage shall be created in favour of the debenture trustee on:-

^{3 & 9}[(i) any specific movable property of the company or its holding company or subsidiaries or associate companies or otherwise.";]

(ii) any specific immovable property wherever situate, or any interest therein.

Provided that in case of a non-banking financial company, the charge or mortgage under sub-clause (i) may be created on any movable property]

⁴[Provided further that in case of any issue of debentures by a Government company which is fully secured by the guarantee given by the Central Government or one or more State Government or by

both, the requirement for creation of charge under this sub-rule shall not apply."

Provided also that in case of any loan taken by a subsidiary company from any bank or financial institution the charge or mortgage under this sub-rule may also be created on the properties or assets of the holding company;]

(2) The company shall appoint debenture trustees under sub-section (5) of [section 71](#), after complying with the following conditions, namely:-

(a) the names of the debenture trustees shall be stated in letter of offer inviting subscription for debentures and also in all the subsequent notices or other communications sent to the debenture holders;

(b) before the appointment of debenture trustee or trustees, a written consent shall be obtained from such debenture trustee or trustees proposed to be appointed and a statement to that effect shall appear in the letter of offer issued for inviting the subscription of the debentures;

(c) A person shall not be appointed as a debenture trustee, if he-

(i) beneficially holds shares in the company;

(ii) is a promoter, director or key managerial personnel or any other officer or an employee of the company or its holding, subsidiary or associate company;

(iii) is beneficially entitled to moneys which are to be paid by the company otherwise than as remuneration payable to the debenture trustee;

(iv) is indebted to the company, or its subsidiary or its holding or associate company or a subsidiary of such holding company;

(v) has furnished any guarantee in respect of the principal debts secured by the debentures or interest thereon;

(vi) has any pecuniary relationship with the company amounting to two per cent. or more of its gross turnover or total income or fifty lakh rupees or such higher amount as may be prescribed, whichever is lower, during the two immediately preceding financial years or during the current financial year;

(vii) is relative of any promoter or any person who is in the employment of the company as a director or key managerial personnel

(d) the Board may fill any casual vacancy in the office of the trustee but while any such vacancy continues, the remaining trustee or trustees, if any, may act:

Provided that where such vacancy is caused by the resignation of the debenture trustee, the vacancy shall only be filled with the written consent of the majority of the debenture holders.

(e) any debenture trustee may be removed from office before the expiry of his term only if it is approved by the holders of not less than three fourth in value of the debentures outstanding, at their meeting.

(3) It shall be the duty of every debenture trustee to-

- (a) satisfy himself that the letter of offer does not contain any matter which is inconsistent with the terms of the issue of debentures or with the trust deed;
 - (b) satisfy himself that the covenants in the trust deed are not prejudicial to the interest of the debenture holders;
 - (c) call for periodical status or performance reports from the company;
 - (d) communicate promptly to the debenture holders defaults, if any, with regard to payment of interest or redemption of debentures and action taken by the trustee therefor;
 - (e) appoint a nominee director on the Board of the company in the event of-
 - (i) two consecutive defaults in payment of interest to the debenture holders; or
 - (ii) default in creation of security for debentures; or
 - (iii) default in redemption of debentures.
 - (f) ensure that the company does not commit any breach of the terms of issue of debentures or covenants of the trust deed and take such reasonable steps as may be necessary to remedy any such breach;
 - (g) inform the debenture holders immediately of any breach of the terms of issue of debentures or covenants of the trust deed;
 - (h) ensure the implementation of the conditions regarding creation of security for the debentures, if any, and debenture redemption reserve;
 - (i) ensure that the assets of the company issuing debentures and of the guarantors, if any, are sufficient to discharge the interest and principal amount at all times and that such assets are free from any other encumbrances except those which are specifically agreed to by the debenture holders;
 - (j) do such acts as are necessary in the event the security becomes enforceable;
 - (k) call for reports on the utilization of funds raised by the issue of debentures-
 - (l) take steps to convene a meeting of the holders of debentures as and when such meeting is required to be held;
 - (m) ensure that the debentures have been converted or redeemed in accordance with the terms of the issue of debentures;
 - (n) perform such acts as are necessary for the protection of the interest of the debenture holders and do all other acts as are necessary in order to resolve the grievances of the debenture holders.
- (4) The meeting of all the debenture holders shall be convened by the debenture trustee on-
- (a) requisition in writing signed by debenture holders holding at least one-tenth in value of the debentures for the time being outstanding;
 - (b) the happening of any event, which constitutes a breach, default or which in the opinion of the debenture trustees affects the interest of the debenture holders.
- (5) For the purposes of sub-section (13) of [section 71](#) and sub-rule (1) a trust deed in [Form No.SH.12](#) o

r as near thereto as possible shall be executed by the company issuing debentures in favour of the debenture trustees ⁵[within three months of closure of the issue or offer].

(6) The provisions of sub-rules (2) to (5) of [rule 18](#) shall not be applicable to the public offer of debentures.

¹³[(7) The company shall comply with the requirements with regard to Debenture Redemption Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year, in accordance with the conditions given below:-

(a) Debenture Redemption Reserve shall be created out of profits of the company available for payment of dividend;

(b) the limits with respect to adequacy of Debenture Redemption Reserve and investment or deposits, as the case may be, shall be as under;-

(i) Debenture Redemption Reserve is not required for debentures issued by All India Financial Institutions regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures;

(ii) For other Financial Institutions within the meaning of clause (72) of [section 2](#) of the [Companies Act, 2013](#), Debenture Redemption Reserve shall be as applicable to Non - Banking Finance Companies registered with Reserve Bank of India.

(iii) For listed companies (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i)), Debenture Redemption Reserve is not required in the following cases -

(A) in case of public issue of debentures -

A. for NBFCs registered with Reserve Bank of India under section 45- IA of the RBI Act, 1934 and for Housing Finance Companies registered with National Housing Bank;

B. for other listed companies;

(B) in case of privately placed debentures, for companies specified in sub items A and B.

(iv) for unlisted companies, (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i))-

(A) for NBFCs registered with RBI under section 45-IA of the Reserve Bank of India Act, 1934 and for Housing Finance Companies registered with National Housing Bank, Debenture Redemption Reserve is not required in case of privately placed debentures.

(B) for other unlisted companies, the adequacy of Debenture Redemption Reserve shall be ten per cent, of the value of the outstanding debentures;

¹⁴[(v) In case a company is covered in item (A) of sub-clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), it shall on or before the 30th day of April in each year, in respect of debentures issued by such a company, invest or deposit, as the case may be, a sum which shall not be less than fifteen percent., of the amount of its debentures maturing during the year, ending on the 31st day of March of the next year in any one or more methods of investments or deposits as provided in sub-clause (vi):

Provided that the amount remaining invested or deposited, as the case may be, shall not at any time fall below fifteen percent. of the amount of the debentures maturing during the year ending on 31st day of March of that year.]

(vi) for the purpose of sub-clause (v), the investments, as the case may be, are as follows: -

A) in deposits with any scheduled bank, free

(B) in unencumbered securities of the Central Government or from any charge or lien; Government or any State Government;

(C) in unencumbered securities mentioned in sub-clause (a) to (d) and (ee) of section 20 of the Indian Trusts Act, 1882;

(D) in unencumbered bonds issued by any other company which is notified under sub-clause (f) of section 20 of the Indian Trusts Act, 1882 :

Provided that the amount invested or deposited as above shall not be used for any purpose other than for redemption of debentures maturing during the year referred above.

(c) in case of partly convertible debentures, Debenture Redemption Reserve shall be created in respect of non-convertible portion of debenture issue in accordance with this sub-rule.

(d) the amount credited to Debenture Redemption Reserve shall not be utilized by the company except for the purpose of redemption of debentures.]

(8) (a) A trust deed for securing any issue of debentures shall be open for inspection to any member or debenture holder of the company, in the same manner, to the same extent and on the payment of the same fees, as if it were the register of members of the company; and

(b) A copy of the trust deed shall be forwarded to any member or debenture holder of the company, at his request, within seven days of the making thereof, on payment of fee.

⁶[(9) Nothing contained in this rule shall apply to any amount received by a company against issue of commercial paper or any other similar instrument issued in accordance with the guidelines or regulations or notification issued by the Reserve Bank of India.

(10) In case of any offer of foreign currency convertible bonds or foreign currency bonds issued in accordance with the Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993 or regulations or directions issued by the Reserve Bank of India, the provisions of this rule shall not apply unless otherwise provided in such Scheme or regulations or directions.]

¹²[(11) Nothing contained in this rule shall apply to rupee denominated bonds issued exclusively to overseas investors in terms of A.P. (DIR Series) Circular No. 17 dated September 29, 2015 of the Reserve Bank of India.”]

Note :

1. [Special Measures under Companies Act, 2013](#) (CA-2013) and Limited Liability Partnership Act, 2008

in view of COVID-19 outbreak.

Amendment

1.

[Substituted by the Notification Companies \(Share Capital and Debentures\) Amendment Rules, 2014 Dated 18th June 2014.](#)

In sub-rule (1), in clause (a) for the proviso i.e.

“Provided that a company engaged in the setting up of infrastructure projects may issue secured debentures for a period exceeding ten years but not exceeding thirty years.”

the following proviso shall be substituted, namely:-

“Provided that the following classes of companies may issue secured debentures for a period exceeding ten years but not exceeding thirty years,

(i) Companies engaged in setting up of infrastructure projects;

(ii) ‘Infrastructure Finance Companies’ as defined in clause (viiia) of sub direction (1) of direction 2 of Non-Banking Financial (Non-deposit accepting or holding) Companies Prudential Norms (Reserve Bank) Directions, 2007;

(iii) ‘Infrastructure Debt Fund Non-Banking Financial companies’ as defined in clause (b) of direction 3 of Infrastructure Debt Fund Non-Banking Financial Companies (Reserve Bank) Directions’ 2011”.

2.

[Inserted by the Notification Companies \(Share Capital and Debentures\) Amendment Rules, 2014 Dated 18th June 2014.](#)

3.

[Substituted by the Notification Companies \(Share Capital and Debentures\) Amendment Rules, 2015 Dated 18th March 2015.](#)

In sub-rule (1)(A) in clause (d), for sub-clauses (i) and (ii) i.e.

(i) any specific movable property of the company (not being in the nature of pledge); or

(ii) any specific immovable property wherever situate, or any interest therein.

the following sub-clauses shall be substituted, namely:-

“(i) any specific movable property of the company; or

(ii) any specific immovable property wherever situate, or any interest therein.

Provided that in case of a non-banking financial company, the charge or mortgage under sub-clause (i) may be created on any movable property.”

4.

Inserted by the Notification Companies (Share Capital and Debentures) Amendment Rules, 2015 Dated 18th March 2015.

5.

Substituted by the Notification Companies (Share Capital and Debentures) Amendment Rules, 2015 Dated 18th March 2015.

In sub-rule (5), for the words “within sixty days of allotment of debentures”, the words “within three months of closure of the issue or offer” shall be substituted.

6.

Inserted by the Notification Companies (Share Capital and Debentures) Amendment Rules, 2015 Dated 18th March 2015.

7.

Substituted by Notification Companies (Share Capital and Debentures) Third Amendment Rules, 2015 Dated 6th November, 2015.

In sub-rule (1), in clause (a) for sub-clause ;

“(iii) ‘Infrastructure Debt Fund Non-Banking Financial companies’ as defined in clause (b) of direction 3 of Infrastructure Debt Fund Non-Banking Financial Companies (Reserve Bank) Directions, 2011”

Following sub-clauses shall be substituted, namely:-

“(iii) Infrastructure Debt Fund Non-Banking Financial Companies’ as defined in clause (b) of direction 3 of Infrastructure Debt Fund Non-Banking Financial Companies (Reserve Bank) Directions, 2011;”

(iv) Companies permitted by a Ministry or Department of the Central Government or by Reserve Bank of India or by the National Housing Bank or by any other statutory authority to issue debentures for a period exceeding ten years.”

8.

Substituted by the Notification Companies (Share Capital and Debentures) Third Amendment Rules, 2016 Dated 19th July, 2016.

In rule 18, in sub-rule (1), for clause (b),

“(b) such an issue of Debentures shall be secured by the creation of a charge, on the properties or assets of the company, having a value which is sufficient for the due repayment of the amount of debentures and interest thereon;”

the following clause shall be substituted, namely:-

“(b) Such an issue of debentures shall be secured by the creation of a charge on the properties or assets of the company or its subsidiaries or its holding company or its associates companies, having a value which is sufficient for the due repayment of the amount of debentures and interest thereon.”

9.

[Substituted by the Notification Companies \(Share Capital and Debentures\) Third Amendment Rules, 2016 Dated 19th July, 2016.](#)

In [rule 18](#), in clause (d), for sub-clause (i),

“(i) any specific movable property of the company or”

the following sub-clause shall be substituted, namely.-

“(i) any specific movable property of the company or its holding company or subsidiaries or associate companies or otherwise.”;

10.

[Substituted by the Notification Companies \(Share Capital and Debentures\) Third Amendment Rules, 2016 Dated 19th July, 2016.](#)

In [rule 18](#), in sub-rule (7), in clause (b), in sub-clause (ii) and (iii) for the words “of the value of debentures” wherever they occur, the words “of the value of outstanding debentures” shall be substituted;

11.

[Inserted by the Notification Companies \(Share Capital and Debentures\) Third Amendment Rules, 2016 Dated 19th July, 2016.](#)

12.

[Inserted by the Notification Companies \(Share Capital and Debentures\) Fourth Amendment Rules, 2016 Dated 12th August, 2016.](#)

13.

[Substituted by The Companies \(Share Capital and Debentures\) Amendment Rules, 2019 Dated 16th August, 2019](#)

for sub-rule (7),

(7) The company shall create a Debenture Redemption Reserve for the purpose of redemption of debentures, in accordance with the conditions given below-

(a) the Debenture Redemption Reserve shall be created out of the profits of the company available for payment of dividend;

(b) the company shall create Debenture Redemption Reserve (DRR) in accordance with following conditions:-

(i) No DRR is required for debentures issued by All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures. For other Financial Institutions (FIs) within the meaning of clause (72) of [section 2](#) of the [Companies Act, 2013](#), DRR will be as applicable to NBFCs registered with RBI.

(ii) For NBFCs registered with the RBI under Section 45-IA of the RBI (Amendment) Act, 1997, ²[\[and for housing finance companies registered with the national housing bank\]](#) 'the adequacy' of DRR will be 25% ¹⁰ [\[of the value of outstanding debentures\]](#) issued through public issue as per present SEBI (Issue and Listing of Debt Securities) Regulations, 2008, and no DRR is required in the case of privately placed debentures.

(iii) For other companies including manufacturing and infrastructure companies, the adequacy of DRR will be 25% of the value of outstanding debentures issued through public issue as per present SEBI (Issue and Listing of Debt Securities), Regulations 2008 and also 25% DRR is required in the case of privately placed debentures by listed companies. For unlisted companies issuing debentures on private placement basis, the DRR will be 25% ¹⁰ [\[of the value of outstanding debentures\]](#).

¹¹[\[“Provided that where a company intends to redeem its debentures prematurely, it may provide for transfer of such amount in Debenture Redemption Reserve as is necessary for redemption of such debentures even if it exceeds the limits specified in this sub-rule.”\]](#)

(c) every company required to create Debenture Redemption Reserve shall on or before the 30th day of April in each year, invest or deposit, as the case may be, a sum which shall not be less than fifteen per cent, of the amount of its debentures maturing during the year ending on the 31st day of March of the next year, in any one or more of the following methods, namely:-

(i) in deposits with any scheduled bank, free from any charge or lien;

(ii) in unencumbered securities of the Central Government or of any State Government;

(iii) in unencumbered securities mentioned in sub-clauses (a) to (d) and (ee) of section 20 of the Indian Trusts Act, 1882;

(iv) in unencumbered bonds issued by any other company which is notified under sub-clause (f) of section 20 of the Indian Trusts Act, 1882;

(v) the amount invested or deposited as above shall not be used for any purpose other than for redemption of debentures maturing during the year referred above: Provided that the amount remaining invested or deposited, as the case may be, shall not at any time fall below fifteen per cent of the amount of the debentures maturing during the year ending on the 31st day of March of that year;

(d) in case of partly convertible debentures, Debenture Redemption Reserve shall be created in respect of non-convertible portion of debenture issue in accordance with this sub-rule.

(e) the amount credited to the Debenture Redemption Reserve shall not be utilised by the company

(6) the amount credited to the Debenture Redemption Reserve shall not be utilised by the company except for the purpose of redemption of debentures.

the following sub-rule shall be substituted namely:-

(7) The company shall comply with the requirements with regard to Debenture Redemption Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year, in accordance with the conditions given below:-

(a) Debenture Redemption Reserve shall be created out of profits of the company available for payment of dividend;

(b) the limits with respect to adequacy of Debenture Redemption Reserve and investment or deposits, as the case may be, shall be as under:-

(i) Debenture Redemption Reserve is not required for debentures issued by All India Financial Institutions regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures;

(ii) For other Financial Institutions within the meaning of clause (72) of [section 2](#) of the [Companies Act, 2013](#), Debenture Redemption Reserve shall be as applicable to Non - Banking Finance Companies registered with Reserve Bank of India.

(iii) For listed companies (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i)), Debenture Redemption Reserve is not required in the following cases -

(A) in case of public issue of debentures -

A. for NBFCs registered with Reserve Bank of India under section 45- IA of the RBI Act, 1934 and for Housing Finance Companies registered with National Housing Bank;

B. for other listed companies;

(B) in case of privately placed debentures, for companies specified in sub items A and B.

(iv) for unlisted companies, (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i)) -

(A) for NBFCs registered with RBI under section 45-IA of the Reserve Bank of India Act, 1934 and for Housing Finance Companies registered with National Housing Bank, Debenture Redemption Reserve is not required in case of privately placed debentures.

(B) for other unlisted companies, the adequacy of Debenture Redemption Reserve shall be ten per cent. of the value of the outstanding debentures;

(v) In case a company is covered in item (A) or item (B) of sub-clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), it shall on or before the 30th day of April in each year, in respect of debentures issued by a company covered in item (A) or item (B) of sub-clause (iii) of clause (b) or

item (B) of sub-clause (iv) of clause (b), invest or deposit, as the case may be, a sum which shall not be less than fifteen per cent., of the amount of its debentures maturing during the year, ending on the 31st day of March of the next year in any one or more methods of investments or deposits as provided in sub-clause (vi):

Provided that the amount remaining invested or deposited, as the case may be, shall not at any time fall below fifteen percent. of the amount of the debentures maturing during the year ending on 31st day of March of that year.

(vi) for the purpose of sub-clause (v), the investments, as the case may be, are as follows: -

(A) in deposits with any scheduled bank, free

(B) in unencumbered securities of the Central methods of deposits or from any charge or lien; Government or any State Government;

(C) in unencumbered securities mentioned in sub-clause (a) to (d) and (ee) of section 20 of the Indian Trusts Act, 1882;

(D) in unencumbered bonds issued by any other company which is notified under sub-clause (f) of section 20 of the Indian Trusts Act, 1882 :

Provided that the amount invested or deposited as above shall not be used for any purpose other than for redemption of debentures maturing during the year referred above.

(c) in case of partly convertible debentures, Debenture Redemption Reserve shall be created in respect of non-convertible portion of debenture issue in accordance with this sub-rule.

(d) the amount credited to Debenture Redemption Reserve shall not be utilized by the company except for the purpose of redemption of debentures.

14.

Substituted by the Notification Companies (Share Capital and Debentures) Amendment Rules, 2020 Dated 05th June, 2020.

in rule 18, in sub-rule (7), in clause (b), for sub-clause (v),

(v) In case a company is covered in item (A) or item (B) of sub-clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), it shall on or before the 30th day of April in each year, in respect of debentures issued by a company covered in item (A) or item (B) of sub-clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), invest or deposit, as the case may be, a sum which shall not be less than fifteen per cent., of the amount of its debentures maturing during the year, ending on the 31st day of March of the next year in any one or more methods of investments or deposits as provided in sub-clause (vi):

Provided that the amount remaining invested or deposited, as the case may be, shall not at any time fall below fifteen percent of the amount of the debentures maturing during the year ending on 31st day of March of that year.

the following shall be substituted by,

(v) In case a company is covered in item (A) of sub-clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), it shall on or before the 30th day of April in each year, in respect of debentures issued by such a company, invest or deposit, as the case may be, a sum which shall not be less than fifteen percent., of the amount of its debentures maturing during the year, ending on the 31st day of March of the next year in any one or more methods of investments or deposits as provided in sub-clause (vi):

Provided that the amount remaining invested or deposited, as the case may be, shall not any time fall below fifteen percent. of the amount of the debentures maturing during the year ending on 31st day of March of that year.