

- **Securities** Ordinary share, preference share and debentures are three important securities used by the firms to raise funds to finance their activities.
- **Ordinary Shares** provide ownership rights to ordinary shareholders. They are the legal owners of the company. As a result, they have residual claims on income and assets of the company. They have the right to elect the board of directors and maintain their proportionate ownership in the company, called the pre-emptive right.
- **Pre-Emptive Right** of the ordinary shareholders is maintained by raising new equity funds through rights offerings. Rights issue does not affect the wealth of a shareholder. The price of the share with rights-on gets divided into ex-rights price and the value of a right. So what the shareholder gains in terms of the value of right he loses in terms of the low ex-rights price. However, he will lose if he does not exercise his rights.
- **Debenture or Bond** is a long-term promissory note. The debenture trust deed or indenture defines the legal relationship between the issuing company and the debenture trustee who represents the debenture holders. Debenture holders have a prior claim on the company's income and assets. They will be paid before

shareholders are paid anything. Debentures could be secured and unsecured and convertible and non-convertible. Debentures are issued with a maturity date. In India, they are generally retired after 7 to 10 years by instalments.

- **Preference Share** is a hybrid security as it includes some features of both an ordinary share and a debenture. In regard to claims on income and assets, it stands before an ordinary share but after a debenture. Most preference shares in India have a cumulative feature, requiring that all past outstanding preference dividends be paid before any dividend to ordinary shareholders is announced. Preference shares could be redeemable, i.e., with a maturity date or irredeemable, i.e., perpetual, without maturity date. Like debentures, a firm can issue convertible or non-convertible preference shares.
- **Term Loans** are loans for more than a year maturity. Generally, in India, they are available for a period of 6 to 10 years. In some cases, the maturity could be as long as 25 years. Interest on term loans is tax deductible. Mostly, term loans are secured through an equitable mortgage on immovable assets. To protect their interest, lending institutions impose a number of restrictions on the borrowing firm.

