

- **Convertible Security** is either a debenture or a preference share that can be exchanged for a stated number of ordinary shares at the option of the investor. Companies offer convertible securities to sweeten debt and thereby make it attractive. It is a form of deferred equity financing, and provides low cost funds during the early stage of investment project. The valuation of convertible securities depends on its value as a straight, non-convertible security (investment value) and its value if converted into ordinary shares. It generally sells for a premium; that is, its market price exceeds the higher of its investment or conversion value.
- **Warrant** is an option to buy a specified number of ordinary shares at an indicated price during a specified period. A detachable warrant is bought and sold independent of the debenture to which it is associated. Warrants are generally used to sweeten a debt to make it marketable and lower the interest costs. When warrants are exercised, the firm obtains additional cash. The market value of warrants depends primarily on the ordinary share price. Warrants generally sell above their minimum, theoretical value. The difference between the market price and theoretical value of warrants is the premium.

- **Zero-Interest or Deep-Discount Bonds or Debentures with Option** Such debentures are issued at a price much lower than their face value. Thus, there is an implicit rate of interest. A company may also issue debentures redeemable at premium and/or with warrants' attached. These features are added to make the issue of debentures attractive to the investors.