Introduction

-Companies borrow money from various sources, including their directors and shareholders, personal contacts, banks, institutional investors, debentures and through the Stock Exchange.

BORROWING POWER

The powers of a company are determined by the memorandum and the articles of association.

The Managing Director may from time to time with the approval of the Board of Directors may borrow from any source either from any commercial or schedule banks, or financing institutions or firms any sum of money required for the purpose of the company and secure the payment or repayment of such money so borrowed in such manner and upon such terms and conditions in all respects duly approved by the Board of Directors deemed fit in particular by hypothecation or charge on all or any part of the property of the company (both present and future) including its uncalled capital for the time being.

Methods of Borrowing

Companies borrow money from various sources, including their directors and shareholders, personal contacts, banks, institutional investors and (PLCs only) through the Stock Exchange.

- In most cases of borrowing a debenture is issued. A debenture is the traditional name given to a loan agreement where the borrower is a company.

DEBENTURES

-A debenture is a document which shows on the face of it, that the company has borrowed a certain sum of money from the holder thereof upon certain terms and conditions.

-The Company Act states that a debenture, "includes debenture stock, bonds and any other securities of a company, whether constituting a charge on the assets of the company or not.”

Characteristics :

- Each debenture is numbered.
- Each contains a printed statement of the terms and conditions,
- A debenture usually creates a floating charge on the assets of the companies,
- A debenture may create a fixed charge instead of a floating charge.

Debentures

- No debenture holder is to have any voting rights in company meetings.
- Full particulars regarding the issue of debentures in series must be sent to the Registrar.
- Sometimes debenture holders are given the right to appoint a receiver in case of non-fulfillment of the terms of the debenture by the company.
- Sometimes a series of debentures are issued with a trust deed by which trustees are appointed to whom some or all the properties of the company are transferred by way of security for the debenture holders.

RIGHTS AND REMEDIES OF DEBENTURE HOLDERS.

- If the company fails to pay interest or principal on the due date or fails to comply with any of the terms and conditions under which the debenture was issued, the debenture holder can adopt any of the following remedial measures.

1. He may file a suit for the recovery of money
2. He may file an application for the appointment of a receiver by the court.
3. He may himself appoint a receiver if the terms of the debenture entitled him to do so.
4. The trustees may sell the properties charged,
5. He may apply to the court for the foreclosure of the company right to redeem the properties charged for the payment of the money.
6. He may present petition for the winding up of the company.

Fixed Charge

A **fixed charge** is a charge or mortgage secured on particular property, e.g. land and buildings, a ship, piece of machinery, shares, intellectual property such as copyrights, patents, trademarks, etc.

- A fixed charge is a mortgage on a specific fixed-asset (such as a parcel of land) to secure the repayment of a loan. In this arrangement the asset is signed over to the creditor and the borrower would need the lender's permission to sell it.

Floating Charge

A **floating charge** is a particular type of security, available only to companies. It is an equitable charge on (usually) all the company's assets both present and future, on terms that the company may deal with the assets in the ordinary course of business.

- A floating charge is mortgage on an asset that changes in quantity or value from time to time (such as an inventory), to secure the repayment of a loan.

Shareholders VS Debenture Holsters?

1. A share holder has a proprietary interest in the company. A debenture holder is only a creditor of the company.
2. Every share is included in the capital of the company. Debenture is a loan to the company
3. Debentures generally have a fixed or floating charge upon the assets of the company. Shares do not have any charge on the assets of the company because the shareholders are the proprietors of the company.
4. A debenture holder is entitled to a fixed interest. Equity holder is entitled to dividend on profit.

5. Debenture holders get priority over shareholders when assets are distributed upon liquidation.

6. Debenture interest is a charged against profit. The dividend on share are part of profit.

CONCLUSION

Money or fund is very important for running a business properly. Capital is not enough for running a business that's why a business requires borrowing to invest in the firm. Availability and choice of alternative lender(s) will be governed by the unique variables inherent in the needs, capacities and credit history of the borrowing business or individual.