

# Reduction in denomination of debt securities and non-convertible redeemable preference shares

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## Background of the Circular

On **3rd July 2024**, the Securities Exchange Board of India (SEBI) released an update about lowering the minimum amount for debt securities and non-convertible redeemable preference shares. The certain amendments are being made in **Chapter V (Denomination of issuance and trading of Non-convertible Securities) of the Master Circular**

Market participants have expressed that **lower ticket size of debt securities may encourage more non-institutional investors** to participate in the corporate bond market which in turn may also enhance liquidity.

## Key Points of the Circular

Clause 1.3 shall be inserted with the following: The Issuer may issue debt security or non-convertible redeemable preference share on **private placement basis at a face value of Rs.10,000**

### Subject to the following conditions:

- a) The issuer shall appoint **at least one Merchant Banker**. Provided that the role, responsibilities and obligations of the **Merchant Banker(s)** shall be same as they would be in case of public issue of **debt security or non-convertible redeemable preference share**.
- b) Such debt security or **non-convertible redeemable preference** share shall be interest/dividend bearing security paying coupon/ dividend at regular intervals with a **fixed maturity without any structured obligations**.

### The following credit enhancements shall be permitted in the aforesaid securities

- Guaranteed bonds
- Partially guaranteed bonds
- Standby Letter of credit (SBLC) backed securities
- Debt backed by pledge of shares or other assets
- Guaranteed Pooled bond issuance (PBI), not through a trust
- Obligor/ Co-obligor structures or cross default guarantee structures; and
- Debt backed by Payment Waterfall /Escrow, or DSRA etc., but with Full Guarantee or DSRA Replenishment Guarantee from a third party

**Credit Rating Agencies (CRAs) need to check that:**

- a) The support provided is unconditional, can't be revoked, and is legally binding until all payments are made to investors.
- b) The support provider has a lower risk of default compared to the issuer, as long as the securities are active.

For a valid shelf placement memorandum or **General Information Document (GID) on the circular's effective date**, the issuer can raise funds with a face value of Rs. Ten Thousand. This requires appointing a Merchant Banker for due diligence and issuing an addendum to the shelf placement memorandum or GID.

**Note - The provisions of this circular shall be applicable to all issues of debt securities and non-convertible redeemable preference shares, on private placement basis that are proposed to be listed from the date of issuance of this circular.**

## Impact of the Circular

SEBI's recent decision to reduce the face value of bonds by 90 percent to ₹10,000 marks a significant step towards democratizing debt investments in India. This move is aimed at broadening the participation of retail investors in the bond market, where traditionally, household savings have been largely directed towards lower-yielding bank fixed deposits (FDs). With corporate bonds currently accounting for a substantial ₹47-lakh crore outstanding, this initiative opens up new avenues for retail investors to diversify their investment portfolios and potentially earn higher returns compared to conventional savings instruments. By lowering the entry barrier, SEBI seeks to enhance market liquidity and increase investor confidence in bonds, thereby contributing to the development of India's financial markets.



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