When businesses seek capital while aiming to retain control, two popular debenture instruments often come into play: Non-Convertible Debentures (NCDs) and Compulsorily Convertible Debentures (CCDs). Both provide much-needed funds, but their impact, structure, and regulatory treatment differ significantly. Understanding these differences is crucial for founders, investors, and compliance teams to make informed decisions.

Understanding NCDs and CCDs

NCDs are pure debt instruments. Investors receive fixed interest payments and the principal amount at maturity. The investor remains a creditor and does not gain any equity stake in the company. This makes NCDs ideal for businesses that want to raise funds without diluting ownership.

CCDs, on the other hand, start as debt but are designed to convert into equity at a pre-agreed time or event. Once converted, the investor becomes a shareholder, gaining voting rights and a share in the company's profits. This structure is particularly attractive for startups and growth-stage companies that anticipate significant valuation increases.

Key Differences

Feature	**NCDs (Non-Convertible Debentures)**	**CCDs (Compulsorily Convertible Debentures)**
Nature	Debt only, fixed interest, redeemable	Debt converting to equity at the agreed event
Dilution	No dilution; investor is a creditor	Converts to equity, causing dilution
Cash Flow Impact	Regular interest outgo, principal redemption	Minimal outgo until conversion
Main Users	Debt investors, NBFCs, family offices	VCs, PE, strategic/cross-border investors
Regulatory Regime	Sec. 71, Rule 18, Sec. 42 – Companies Act; SEBI NCS; Trustee required if secured	Sec. 71, PAS Rules; FEMA Rule 6 for FDI; conversion terms required

Feature	**NCDs (Non-Convertible Debentures)**	**CCDs (Compulsorily Convertible Debentures)**
Security	Usually secured via an asset charge	Typically unsecured

Practical Use Cases

NCDs are best suited for cash-positive firms that value stability and control. For example, a manufacturing company raising ₹10 crore to fund an export contract can issue secured NCDs at 11% for three years. This approach provides liquidity, ensures steady income for investors, and allows founders to retain full control.

CCDs are ideal for growth-stage companies, especially those seeking foreign direct investment (FDI). For instance, a healthcare startup raising ₹15 crore through zero-coupon CCDs convertible after three years can attract investors who are willing to wait for equity appreciation. If the company's valuation triples, investors gain proportionately higher equity.

Regulatory Highlights

NCDs:

NCDs are governed by Section 71 of the Companies Act, 2013 and Rule 18 of the Companies (Share Capital and Debentures) Rules, 2014, which require the appointment of a debenture trustee and the creation/registration of an asset charge for secured issues.

Listed NCDs must comply with the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021, whereas privately placed NCDs follow the private placement process under Section 42 of the Companies Act, 2013.

When NCDs are issued to non-resident investors, they are classified as debt instruments under FEMA and fall within the External Commercial Borrowings (ECB) framework, which imposes conditions on end-use, minimum maturity, all-in-cost ceilings, and periodic ECB reporting.

CCDs:

CCDs are regulated by Section 71 of the Companies Act, together with the private placement provisions under the PAS Rules and Section 62(1)(c) (in cases of preferential allotment).

For foreign investors, CCDs are treated as equity instruments under Rule 6 of the FEMA (Non-Debt Instruments) Rules, 2019, bringing them under the FDI regime. This classification—

combined with FEMA-compliant pricing and mandatory conversion—makes CCDs a preferred structure for cross-border equity-linked investment.

Compliance Considerations

NCDs: Regular interest payments are required, along with documentary and reporting obligations. Redemption is necessary at maturity, and asset charge complications may arise if the debentures are secured. ECB reporting requirements for foreign participation.

CCDs: Conversion triggers must be clearly defined, and pricing must comply with FEMA regulations for foreign investors. Proper disclosure and shareholder communication are essential to ensure a smooth conversion.

Strategic Decision Making

Choose NCDs when regular income and undiluted control are priorities. Opt for CCDs when valuation growth and strategic/institutional partners are envisaged, keeping in mind the impending dilution and compliance intricacies.

Summary

Debt or conversion is both a capital and governance choice. NCDs provide reliability and stability, while CCDs offer growth prospects and the potential for significant equity appreciation. Each instrument must be used appropriately based on the company's stage and strategic goals. Combining both may suit businesses seeking a balance of stability and scalability in their capital structure.

Regulatory Snapshot

- Companies Act, 2013 – Sections 42 & 71 (Private Placement & Debentures)- In the case of CCDs, Section 62(1)(c) of the Companies Act, 2013 also becomes applicable.
- Companies (Prospectus and Allotment of Securities) Rules, 2014 and Companies (Share Capital and Debentures) Rules, 2014
- SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021
- FEMA (Non-Debt Instruments) Rules, 2019 and Master Direction on Foreign Investment in India.
- ECB Master Direction (for NCDs issued to non-resident investors)

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