Debt And Equity Capital

Equity Capital:

Equity Represents The Value That Would Be Returned To A Company Shareholders If All Assets Were Liquidated And All The Debts Were Paid Off. Where As Capital Refers To Cash And Other Assets And Financial Securities, Real Properties, Investments Or Intellectual Capital.

The Money Contributed Singly By Owner Or Jointly By Co-Owners And Is OwnedAnd Retained Permanently In A Business Is The Own Or Equity Capital. Since Equity Capital Is Invested At Own Risk And With Out Any Assurance Of Any Fixed Return.

Sources Of Equity Capital:

- **Self Funding:-** It Is Also Known As Bootstrapping, Is An Effective Way Of Startup Financing, Specially When You Are Just Starting Your Business. First-Time Entrepreneurs Often Have Trouble Getting Funding Without First Showing Some Traction And A Plan For Potential Success
- **Personal Resources:-** Resources Is A Person, An Asset, Material Or Capital That Can Be Used To Create Value By His/Her Own Capital, Assets And Material Which Converts To Money By Selling.
- **Private Borrowings:-** Private Funding Sources Are, Essentially, Non-Bank Lending Sources. That Can Be Family Members, Angel Investors, Venture Capitalists Or Private Lending Institutions. It's A Source Of Cash That A Business Owner Can Access To Bankroll Operations, Grow Their Business And Meet Cash Flow Needs
- **Informal Capital:-** The Provision Of Financial Services To Micro-Entrepreneurs And Firms Which Generally Have Limited Access To Banking And Related Financial Services Is Referred To As Informal Capital.
- **Corporate Securities:-** Corporate Securities Means Commercial Paper, Asset Backed Securities And Other Obligations Of A Corporation For Borrowed Money Evidenced By Bonds, Debentures, Notes, Loan Agreements Or Other Similar Instruments. They Are Owner Ship, Creditor Ship.

Features Of Equity Capital:

- **Permanent Shares:-** Shares Issued At No Par Value, Paid Up In Cash And Invested As Risk Capital, Which Form A Permanent Part Of The Capital Of The Society, And Are Issued With Such Rights And Restrictions As Outlines In The Rules.
- **Significant Returns:-** Most Investors Would View An Average Annual Rate Of Return Of 10% Or More As A Good Roi For Long-Term Investments In The Stock Market As A Significant Returns.
- **Dividends:-** They Are Also Called A Return Of Capital, Is A Payment That A Company Makes To Its Investors That Is Drawn From Its Paid-In-Capital Or Shareholders' Equity. Regular Dividends, By Contrast, Are Paid From The Company's Earnings.
- **Voting Rights:-** The Voting Right Poll Will Be In Percentage Of His Share In The Paid-Up Equity Share Capital Associated With The Company. Hence, If A Shareholder Owns 51% Of The Company In Terms Of Paid-Up Equity, He Will Have The Rights To Exercise Majority Control Over The Company.
- **Additional Profits:-** It Refers To The Portion Of A Company's Income That Goes To Its Owner And Investors. Equity Share Pertains To The Size Of Ownership Interest Held By An Investor Or Business Owner In The Form Of Additional Profits
- **Limited Liability:-** The Condition Under Which The Losses That Owners (Shareholders) Of A Business Firm May Incur Are Limited To The Amount Of Capital Invested By Them In The Business And Do Not Extend To Their Personal Assets.
- **Liquidity:-** Liquidity Is The Degree To Which A Security Can Be Quickly Purchased Or Sold In The Market At A Price Reflecting Its Current Value. Liquidity In Finance Refers To The Ease With Which A Security Or An Asset Can Be Converted Into Cash At Market Price.

Debt Capital:-

Debt Means The Amount Of Money To Be Repaid Back And The Capital Means Money To Be Used InBusiness Activities For The Start Up Or Development Of The Business.In This Where Capital Is Required But Not For Owner Ship Or Permanent Nature It MayObtained As A Loan At A Pre Determined Rate Of Interest.

The Debt Loan Or Borrowed Funds Are Broadly Classified In To ThreeCategories Namely Long, Medium, Short Term.

The Most Of The Big Companies Secure Their Loans In In Various Ways And These IncludePublic Issue Of Creditorship They Are Debentures Or Bonds.

Types Of Debentures:

- **Ordinary Debentures:-** Such Debentures Are Issued Without Mortgaging Any Asset, This Is Unsecured. It Is Very Difficult To Raise Funds Through Ordinary Debenture It Doesn't Have Any Security.
- **Secured Debentures:-** Debentures That Are Issued With Collateral. The Party Issuing The Bond Offers A Piece Of Property Or Other Assets To States And Bondholders Along With Signed Permission For Those Entities To Take Possession Of The Collateral If The Issuer Doesn't Repay The Debt.
- **Unsecured Debentures:-** Unsecured Debentures Are Agreements That Outline The Terms And Conditions Of A Loan. Because There Is No Specific Asset Used As Security, The Interest Rates Associated Are Often Higher.
- **Convertible Debentures:-** A Convertible Debenture Is A Type Of Long-Term Debt Issued By A Company That Can Be Converted Into Shares Of Equity Stock After A Specified Period. Convertible Debentures Are Usually Unsecured Bonds Or Loans, Often With No Underlying Collateral Backing Up The Debt.
- **Non-Convertible Debentures:-** Non-Convertible Bonds Or Debentures Are A Type Of Debenture That Cannot Be Converted Into Equity Shares Or Stocks, Hence Called Non-Convertible. The Interest Rate On Non-Convertible Debentures Can Be Paid Either Monthly, Quarterly, Or Annually. Ncds Also Have A Fixed Maturity Date.

- **Redeemable Debentures:-** A Redeemable Debenture Is A Written Agreement About A Loan That Must Be Repaid By A Set Time. Redeemable Debenture Documents Generally Include Lower Rates Of Interest And Lengthier Time Frames For Repayment.
- **Irredeemable Debentures:-** A Irredeemable Debenture Is An Agreement Made Between The Lender And The Borrower, Usually With A Favourable Interest Rate. In The Case Of A Company Becoming Insolvent, The Debenture Ensures That The Lender Is First To Receive Their Funds.

Sources Of Debt Capital:

- **Commercial Papers:-** It Is An Unsecured Money Market Instrument Issued In The Form Of A Promissory Note. Cp Introduced In India In 1990 With A View To Enabling Highly Rated Corporate Borrowers To Diversify Their Sources Of Short-Term Borrowings And To Provide An Additional Instrument To Investors.
- **Inter-Corporate Deposits:-** It Is An Borrowing By Corporates And Financial Institutions From Other Corporate Entities Registered Under The Companies Act 1956. The Corporate Having Surplus Funds Would Lend To Another Corporate In Need Of Funds.
- **Public Deposits:-** Public Deposits Refer To The Unsecured Deposits Or Money Invited By Companies From The Public Mainly To Finance Their Short Or Long-Term Working Capital Needs. {Acceptance Of Deposits Rule 1975 And First Experimented In 1960}
- **Institutional Sources:-** Institutions Include Central Banks, Retail And Commercial Banks, Internet Banks, Credit Unions, Savings, And Loans Associations, Investment Banks, Investment Companies, Brokerage Firms, Insurance Companies, And Mortgage Companies. Which Gives Money For Interest As A Source In The Form Of Debt.

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- **Commercial Banks:-** It Is A Kind Of Financial Institution That Carries All The Operations Related To Deposit And Withdrawal Of Money For The General Public, Providing Loans For Investment, And Other Such Activities. These Banks Are Profit-Making Institutions And Do Business Only To Make A Profit.

- **Non-Institutional Arrangements:-** Non-Institutional Sources Include Moneylenders, Traders And Commission Agents, Relatives And Landlords And Have Interest Rates Higher And And Return Period Also Based On Their Relationship And Written Agreements.
- **Hire Purchase:-** It Is An Arrangement For Buying Expensive Consumer Goods, Where The Buyer Makes An Initial Down Payment And Pays The Balance Plus Interest In Installments. The Term Hire Purchase Is Commonly Used In United Kingdom It Is More Commonly Called As Installment Plan.
- **Leasing:-** A Lease Is A Contract Outlining The Terms Under Which One Party Agrees To Rent An Asset In This Case, Property Owned By Another Party. It Guarantees The Lessee, Also Known As The Tenant, Use Of The Property And Guarantees The Lessor Regular Payments For A Specified Period In Exchange.

Advantages Of Debt Capital:

- **Owner Ship Stays With You:-** When You Borrow Money From A Financial Institution, You Are Obligated To Pay Them Back The Principal Amount Along With A Pre-Decided Interest. They Do Not Have A Say In How You Run Your Business, Unlike Venture Capitalists.
- **Tax Deductions:-** Since The Payments Made To Repay A Loan Can Be Counted As Business Expenses, They Are Tax-Deductible. This Reduces Your Net Tax Obligation At The End Of The Year By The Financial Institutions.
- **Lower Interest Rates:-** It Make The Cost Of Borrowing Cheaper. It Will Encourage Consumers And Firms To Take Out Loans To Finance Greater Spending And Investment. Lower Mortgage Interest Payments.
- **Easier Planning:-** Debt Finance Allows A Business To Leverage A Small Amount Of Capital To Create Growth And Make The Easier Planning For The Start Up Of The Business.

- **Accessible To Business Any Size:-** Offering All Information In A Consistent And Open Format, Ensuring Access To Everyone And Making Sure For The Development Of Business Any Size With The Help Of Debt Financing.
- **Improves Business Credit Score:-** It Creates Good Credit Score And By Paying Debts All In Time And It Helps To Maintain Good Relationships With Vendors And Other Creditors.

Disadvantages Of Debt Capital:

- **You Need To Pay Back The Debt:-** Debt Capital Is Provided By A Lender, Who Is Only Entitled To Their Repayment Of Capital Plus Interest. Business Owners Are Able To Retain Maximum Ownership Of Their Company And End Obligations To The Lender Once The Debt Is Paid Off.
- **It Can Be Expensive:-** Companies Are Legally Required To Pay Out Interest On Debt Capital In Full Before They Issue Any Dividends To Shareholders. This Makes Debt Capital Higher On A Company's Annual Profit And Makes Expensive.
- **Restrictions By Some Lenders:-** Money Lenders Put Restrctions By The Time Of Paying The Debt For Borrowers By Putting High Interest Rates Decreasing The Return Period Time With Capital Additional Capital Adding At The Time Of Payment.
- **Collateral May Be Necessary For Some Forms Of Debt Financing:-** Collateral Serves As Evidence That A Borrower Intends To Repay Their Debt. Requiring Collateral For Certain Loans Lets Lenders Minimize Their Risk By Improving Their Ability To Recoup Outstanding Debt In Case The Borrower Fails To Repay It.
- **It Can Create Cash Flow Challenges For Some Business:-** Debt Payments Can Cause Cash Flow Problems When A Business Can't Afford Its Financing. Business Loans And Credit Cards With High-Interest Rates May Take Much Of A Business's Revenues.

- **You May Need Some Educational Qualification:-** For Borrowing Of Loans Some Financial Institutions Need Some Educational Educational Qualification As Mandatory If You Are Able To Pay The Debt And Have All The Criteria To Pay Back The Debt.
- **Borrowing Affects Your Credit Scores:-** The Amount And Age Of A Loan Can Affect Your Credit Scores. But It's Not Only The Loan Itself That Affects Your Credit Scores. How You Actually Manage The Loan Also Affects Your Credit Scores. It's Important To Make Payments On Time And Avoid Late Payments Or Missing Payments Altogether.