



Debenture Trust Deed



Knowledge Series 2 – Episode 4

Key Learnings



Meaning



Need for DTD



Coverage of DTD



Redemption of Debentures



Event of Default (EOD)



Glossary

Meaning

- Debenture Trust Deed (DTD) is a tripartite document executed between borrower (**Issuer**) which is a private limited company, lender (**Debenture Holder**) and a **Debenture Trustee** .
- This document is executed to create security in favor of debenture trustee for the benefit of debenture holder.
- In a real estate transaction, fund houses/few NBFCs lend money to developers via NCDs as a form of lending.
- The debenture holder(s) lend(s) money by subscribing to the debentures offered by the issuer.

Need of DTD

- In debenture form of lending, DTD becomes the central control document for the transaction, which mandatorily needs to be registered as no separate mortgage deed is executed.
- This document is executed to protect the interests of the debenture holders as it defines the rights of debenture holder as well as powers and duties of debenture trustee which enables them to take recourse in case of an Event of Default (EOD).

Coverage of DTD

- DTD covers commercial as well as non-commercial terms and the coverage of DTD is same as Facility Agreement in many aspects.
- Few unique terms used in DTD are as mentioned below:
 - Issue Size
 - Fixed Coupon Rate
 - Internal Rate of Return (IRR)
 - Multiple of Invested Capital (MOIC)
 - Redemption schedule

(Please refer to Glossary at the end, for explanation of key terms.)

Redemption of Debentures

- The Issuer has three choices by which it can opt to redeem the debentures:
 - It can make the payments when the maturity is due.
 - It can opt to the make the payments from the profits earned by it during moratorium subject to payment to assured return.
 - Debentures can be redeemed by exercising call option subject to payment of assured returns to the debenture holder.

Event of Default (EOD)

Occurrence of the following events may constitute an EOD in a DTD:

- Change in management control/ownership
- Failure to get clearances for the project
- Misrepresentation and fraud
- Default in payment
- Insolvency proceedings
- Non maintenance of minimum DSRA balance
- Any other event as mentioned in DTD

(Please refer to the Glossary at the end ,for explanation of key terms.)

Glossary

Call Option:

Call option is exercised by the issuer when it is willing to redeem the debenture on or before the maturity date.

Debenture Holder:

They are the subscribers to the debentures issued by the corporation.

Debenture Trustee:

It acts an association between the issuer and debenture holder for the purpose of protecting the interests of debenture holder.

Glossary

Debt Service Reserve Account (DSRA):

DSRA is a reserve account maintained by the issuer in order to make debt payments in case of any shortage of cash flows.

Fixed Coupon Rate:

It refers to the rate of interest which is paid by the issuer to debenture holder(s) at regular intervals.

Internal Rate of Return:

It refers to the discount rate which when applied to subscription amount of debentures and payment towards principal and interest of debentures, would result in zero net present value.

Glossary

Multiple of Invested Capital (MOIC):

It is the indicator of return which will be achieved by the debenture holder towards redemption of debentures.

Private Placement Offer:

It implies an offer to subscribe to the debentures issued by the borrower to the debenture holders.

Transaction documents:

It refers to the security documents, debenture trustee appointment agreement, escrow agreement and any other documents which may be entered into by the debenture trustee from time to time.

If People Like You,
They Will Listen to You.
But If They Trust You,
They Will Do Business With You.

Stay tuned for
more knowledge



M: +91-7977118047 | E: nimit@elysium.capital

www.elysium.capital