B.C.A - 2 Semester L-15

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Bonds

A bond is a debt Security in which the authorised issuer owes the holder a debt and is obliged to repay the principal and interest (the coupon) at a late date, termed maturity, Bonds are issued by public authorities, credit Institutions, Companies and Institutions in the primary Market.

characterstics of Bond.

1.) Nominal, principal of face amount:- The amount on which the issuer pays Interest and which has to be repaid at the time of Maturity is known as face value.

2.) Issue price :- The price at which Investors buy the bonds when they are first issued typically, ₹1000

3.) Maturity date:- The date on which the Issuer has to repay the nominal amount is termed as Maturity date.

4.) <u>Coupon</u> :- coupon is the Interest rate that the issuer pays to the bond holders.

5.) <u>optionality</u> :- it grants Option-like features to the holder of the issuer:

(i) Call ability

(ii) Put ability

(iii) Call dates and put dates.

Types of Bond

The bond has various types or it can be Said that a Company may issue various types of debentures which are as follows:-

1.) Fixed rate Bonds.

2.) Floating rate Bonds.

3.) High yield Bonds.

4.) Zero coupon Bonds.

5.) Registered Bond.

6.) Muncipal Bond.

7.) Assets-backed Securities.

Advantages of Bonds.

Advantages to the Category.

The following are the advantages of bonds from Company's point of view.

(a) Interest is tax-deductible, while dividends paid to Stockholders are not.

(b) Bond holders do not participate in earning growth of the Company.

(c) Debt is repaid in cheaper rupees during inflationary periods.

Advantages to the Investors.

The following are the advantages of bonds from Investors's point of view:

(a) They are paid a fixed Interest payment each year.

(b) They are Safer than equity Securities.

Disadvantages of Bond.

Disadvantage to the Company.

(a) Interest charges must be met regardless of the Company's earnings.

(b) Debt must be repaid at maturity.

Disadvantage to the investors.

(a) Bonds do not participate in Corporate profitability.

(b) Bond holders have no voting rights and there no say is how the Company is run.