# Non Convertible Debentures vs Corporate Fixed Deposits

**A number of companies are trying to catch the attention of investors by offering NCDs at high interest rate. Are they safe? How are they different from corporate fixed deposits?**

As investors you should investigate about the features of different products and the terms and conditions they operate under. It is also important for you to understand whether they fulfill your goals of investment and also whether they are tax-friendly enough. A lot of companies are coming up with NCDs or non-convertible debentures including Muthoot Finance, Religare Finvest and India Infoline, among others. You may also have noticed that many companies offer fixed deposits (FDs). These two investments are similar. Both offer higher returns than bank deposits. But there are important differences.

- **NCDs are more liquid than corporate fixed deposits**

  NCDs are more liquid because they can be traded in the secondary market in demat form once they are listed in the stock exchange. However, corporate FDs cannot beliquidated as easily. You will have to approach the company in case you want to liquidate your fixed deposit. The process of liquidation with corporate FDs is long and tedious enough and could involve a penalty for premature withdrawal, so it is better you buy corporate fixed deposits for a tenure that matches the timing of your goal or requirement, so you do not have to liquidate it pre-maturely.

- **NCDs are secured against the company's assets while corporate fixed deposits are unsecured**

  Most NCDs are secured; the nature of the security can vary across companies as well as across issues of the same company. They could be secured with "first pari passu charge" or else maybe in the form of a "subordinate debt", but corporate FDs are always unsecured, unlike bank fixed deposits, which are secured for Rs1 lakh. This means that in case the company goes bankrupt, the investors of NCDs with 'first charge' will be paid back before the NCDs of the nature of "subordinate debt" through sale proceeds of company's assets and only when all secured investments are paid back, investors of corporate FDs will be paid. Thus corporate FDs are much more risky than NCDs. In practice, however, as holders of NCDs you may not get much because when a company in India goes bankrupt, the promoters leave nothing behind for even lenders.

- **NCDs are subject to interest rate risks while corporate fixed deposits are not**

  Since NCDs can be sold or traded in the secondary market on the stock exchange, the price will depend upon the market interest rates at the time of sale. If they are carried till maturity, they work like corporate FDs and do not get affected by market interest rates.

- **Credit rating is mandatory for NCDs and not for corporate FDs**

  Even if the issuer takes a rating, it is not mandatory to disclose it for FDs, which makes the product more opaque in comparison to NCDs, where it is mandatory to take a rating of at least one rating agency. With the rating being available, you as an investor, get a clearer picture of the risk level involved in the particular issue. With that information at hand, you are in a better position to take better investment decision.

- **Tax implication is different for NCDs and corporate FDs**

  TDS is applicable to corporate FDs while it is not applicable to NCDs because the latter are issued in demat form and are listed on the stock exchange. However, interest earned on NCDs would be subject to income tax at normal rates under the head of "income from other sources". Apart from that, capital gains tax is also applicable if you decide to sell the NCD at the stock exchange, with short-term capital gains tax being applicable in case you sell it within 12 months from the date of allotment and long-term capital gains tax if you sell it after 12 months from the date of allotment, with indexation or without indexation, as the case may be.

An overall quick comparison shows that NCDs are a better products to invest in, compared to corporate FDs. However, both are risky. If the NCDs are not from the top-rated companies, you should strongly consider keeping your money in bank fixed deposits.