

TYPES OF DEBT INSTRUMENTS

A debt instrument is a financial instrument that represents a loan or an obligation to repay a specific amount of money to the lender. Various types of debt instruments as discussed below are issued by entities to meet their capital requirements for varying tenures. The main advantage that accrues to entities from an issue of debt is safeguarding the equity capital against further dilution.



DURATION OF ISSUE

Short term



Money market instruments



Bridge loans

Short term to long term



Term loan



Lease operating / capital



Promissory notes



Warrants

Long term



Corporate bonds



Debentures



Preferred stock



CHARACTERISTICS



Purpose

Generally issued to meet the working capital and transitional requirements

Generally issued to finance purchase of an asset or fund a project

Generally issued to raise capital for M&A and inorganic expansion activities



Interest rate

High interest rates

High to low interest rates

Low interest rates



Liquidity

Highly liquid

Fairly liquid

Less liquid



Fixed / Floating

Fixed interest rates

Fixed or Floating interest rates

Fixed or Floating interest rates