

What is a Market-Linked Debenture?



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A Market-Linked Debenture (MLD) is a hybrid financial instrument that combines the features of both a traditional debenture and a market-linked investment with the potential for higher returns linked to the performance of underlying assets, such as stocks, indices, or commodities.

MLDs are a type of debt instrument issued by companies to raise funds from the public.



Types of MLDs:

Principal-Protected MLDs:

1

Principal-protected MLDs guarantee the return of the principal amount invested at maturity, regardless of the performance of the underlying assets.

These MLDs are considered relatively safer compared to non-principal protected MLDs since investors are assured of receiving at least their principal amount back at maturity.

The returns on principal-protected MLDs are typically lower than non-principal-protected MLDs due to the added safety feature.

Non-Principal-Protected MLDs:

2

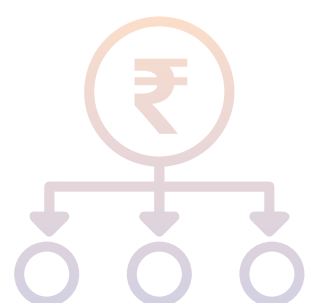
Non-principal-protected MLDs do not guarantee the return of the principal amount invested at maturity. The returns are linked to the performance of the underlying assets, such as stocks, indices, commodities, or currencies.

These MLDs carry a higher risk compared to principal-protected MLDs, as the principal amount is not guaranteed.

Non-principal-protected MLDs have the potential to offer higher returns than principal-protected MLDs.



Key Features:



1

DIVERSIFICATION :

Market-linked debentures (MLDs) offers diversification benefits to investors, depending on the specific structure and underlying assets of the MLD.

MARKET-LINKED RETURNS:

The returns on MLDs are linked to the performance of underlying assets. If the underlying assets perform well, investors stand to earn higher returns.

2



3

RISK AND REWARD:

MLDs offer a balance between risk and reward, making them suitable for investors seeking a blend of fixed income and market-linked returns.

MINIMUM INVESTMENT IN MLD:

Effective January 1st 2023, the minimum investment for MLDs has been lowered to ₹1 lakh from ₹10 lakhs .

4



Benefits of Investing in MLDs:

Downside protection:

1

Most MLDs come with a principal protection feature (either 100% protection or protects principal up to a certain extent in case fall in the Index).

Thus, it ensures that investment gains that are booked from traditional investments (keeping initial capital still invested in equity assets) can be parked in MLDs so that the gains are not eroded.

The same can be reinvested (when the MLD matures) in traditional equity investments like MFs/PMS/Stocks at lower levels if markets have corrected then.

Potential for Higher Returns:

2

By linking returns to the performance of underlying assets, MLDs offer the potential for higher returns compared to traditional fixed-income investments.



Things to consider before investing:



1

MARKET RISK:

Since returns are linked to the performance of underlying assets, MLDs are exposed to market risk. Investors should carefully assess their risk tolerance before investing.

MLDs can be complex financial instruments. It is essential to understand the terms and conditions, including the calculation of returns.

COMPLEXITY:

2



COSTS AND FEES:

Investors should be aware of any costs and fees associated with MLDs, such as management fees or early redemption charges.



3



Taxation on MLDs:

From 1st April 2023 onwards, gains from the sale of MLDs will now be taxed as short-term capital gains.

This means that the returns will be taxed at the investor's applicable tax slab, instead of being treated as long-term capital gains (LTCG).



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