



DEBT MARKET

Market linked debentures

A debenture whose return is set by a formula tied to a market, not by a fixed coupon

Rules as in force on 16 October 2026

For training and education only. Not investment advice.

A market linked debenture's return comes from a formula tied to a market level, not from a fixed coupon alone.

For a listed MLD, the issuer borrows your money and promises to repay it at maturity. What it pays on top follows a chosen index or rate, through a formula fixed on day one.

Four terms to know first



Debenture

A bond issued by a company. You lend; it owes you the face value at a set maturity date.



The underlying

The market the payout is tied to: often an equity index, a basket of shares, or a rate such as MIBOR.



Participation

The share of the market's move that is passed to you. A 70% ratio turns a 30% index gain into a 21% coupon.



Capital protection

The issuer undertakes to repay the full face value at maturity. These are rated with a 'PP-MLD' prefix.

Principal protection is the issuer's promise. It is only as good as the issuer's ability to pay.

Sources: SEBI guidelines for issue and listing of structured products / market linked debentures, 28 Sep 2011; Income-tax Act definition of a market linked debenture.

How the payout is worked out

THE SET-UP

A 3-year MLD, face value ₹1,00,000, linked to an equity index.

Start level 20,000. Participation ratio 70%. Principal is protected at maturity.

- 1 Index rises to 26,000: index move = $(26,000 - 20,000) \div 20,000 = 30\%$.
- 2 Total coupon = $30\% \times 70\% = 21\%$. Maturity value = $₹1,00,000 \times 1.21 = ₹1,21,000$.
- 3 Index falls to 17,000: index move = -15% . The coupon cannot go below zero.
- 4 You get back the ₹1,00,000 face value, and nothing on top — provided the issuer pays.

Up market: a share of the gain. Flat or down market: your face value back, no return.

Illustration with assumed, invented figures. Not a forecast and not a real product.

What the issuer does with your money

A principal-protected MLD is usually built from two parts.



The protection part

Most of the money is placed so that it grows back to the face value by maturity. This is what funds the promise to repay principal.



The market part

The rest buys exposure to the chosen market, often through options. This is what can pay the extra coupon if the market moves the right way.

Both parts sit inside one debenture issued by one company, so both carry that company's credit risk.

Source: SEBI guidelines for issue and listing of structured products / market linked debentures, 28 Sep 2011 (scenario and valuation disclosures).

The rules that govern an MLD

Area	The rule	Since
Who may issue	An issuer with a net worth of at least ₹100 crore, meeting SEBI's disclosure rules for structured products.	2011
Face value	₹1 lakh for a privately placed listed debt security. The ₹10,000 option is only for plain debt with no structured payout, so it does not cover MLDs.	1 Jan 2023
Valuation	An agency appointed by AMFI values the MLD. Earlier a SEBI-registered credit rating agency did this.	13 Jul 2020
Rating	A principal-protected MLD is rated with a 'PP-MLD' prefix before the usual rating symbol.	2011

Sources: SEBI circulars of 28 Sep 2011, 13 Jul 2020, 28 Oct 2022 (face value to ₹1 lakh from 1 Jan 2023) and 3 Jul 2024 (₹10,000 option, plain debt only).

Where the rules stand

These are regulatory and tax rules in force on 16 October 2026, not market prices.

FACE VALUE FLOOR

₹1 lakh

Minimum for a privately placed MLD since 1 January 2023 (earlier ₹10 lakh).

ISSUER NET WORTH

₹100 cr

Issuer's minimum net worth at the time of issue (SEBI, 2011; carried forward).

TAX ON GAINS

Slab rate

Short-term, at slab rate, any holding period, on sale or maturity from 1 April 2023.

Sources: SEBI circulars of 28 Sep 2011 and 28 Oct 2022; Income-tax Act 2025 section 76 (formerly section 50AA, Finance Act 2023).

If you learnt this from older material

What older decks say

- They are called equity-linked debentures (ELDs).
- Gains after a year are long-term, taxed at 10% without indexation.
- Minimum ticket: ₹10 lakh (2011).
- A credit rating agency values the debenture.

What holds now

- The category is market linked debentures (MLDs).
- Gains are short-term at slab rate, any holding period, since 1 Apr 2023.
- The face value is ₹1 lakh, since 1 Jan 2023.
- An AMFI-appointed agency values it, since 13 Jul 2020.

The biggest change is tax: the long-term benefit on MLDs was removed from 1 April 2023.

Sources: Income-tax Act 2025 s.76 (ex s.50AA, Finance Act 2023); SEBI circulars of 13 Jul 2020 and 28 Oct 2022.

Four things people get wrong



'Principal protected means guaranteed.'

The protection is the issuer's own promise. If the issuer cannot pay, the protection can fail, and you may not recover all principal.



'It is a fixed-income product.'

The extra return depends on a market formula and can be zero. Some issues add a floor.



'Held over a year, it is taxed like a bond.'

No. Since 1 April 2023 the gain is short-term at your slab rate, whatever the holding period.



'I can sell it any day at a fair price.'

Many MLDs trade thinly. Selling before maturity may be hard, and the price then depends on the valuation and a buyer.

What to check before anyone buys one

1

The payout formula

Which market, what participation ratio, any cap, floor or barrier, and how the start and end levels are fixed.

2

The issuer's credit

The rating and the issuer behind it. Principal protection is only as strong as the issuer's ability to repay.

3

The tax

Gains are short-term at the investor's slab rate, whatever the holding period. There is no long-term benefit.

4

Getting out early

Whether the debenture can be sold before maturity, at what cost, and who provides the valuation.

Our ARN covers mutual funds only. We explain MLDs; we do not tell a client to buy or avoid one.

Check yourself

Q1

An MLD is linked to an index that rises 20%. The participation ratio is 80%. On a ₹1,00,000 face value, what coupon and maturity value does the holder get?

Q2

A client says 'my MLD is principal protected, so it is safe.' What two points must you make?

Q3

How is the gain on a market linked debenture taxed now, and how did that change?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Definition, issuer net worth ₹100 crore, PP-MLD prefix, scenario disclosures: SEBI MLD guidelines, 28 Sep 2011. Its ₹10 lakh minimum ticket is no longer in the MLD chapter.
- Valuation by an AMFI-appointed agency (earlier a SEBI-registered credit rating agency): SEBI circular SEBI/HO/DDHS/CIR/P/2020/120, 13 July 2020.
- Face value reduced from ₹10 lakh to ₹1 lakh for privately placed listed debt securities, effective 1 January 2023: SEBI circular dated 28 October 2022.
- ₹10,000 face-value option for plain debt, no structured obligations: SEBI circulars of 3 July 2024 and 18 December 2025 (zero coupon added).
- Gains taxed as short-term at slab rate whatever the holding period, from 1 April 2023: section 50AA, Income-tax Act 1961 (Finance Act 2023), now section 76 of the Income-tax Act 2025.
- All amounts, index levels and the participation ratio in the worked example are invented for illustration and are not a real debenture.

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