Chapter VII

Summary, Findings and Suggestions
Summary:

Leasing is primarily a 'financial intermediatroy service', which resembles to banking operations although being a non-banking activity. A leasing company collects liquid money from different sources and lend in kind, in the form of acquired assets which are leased out on rentals to the end-users. The leasing company, thereby, charges lease rentals from the users for the use of the asset to cover its costs of establishment and the cost of the asset acquired. A leasing company, thus, performs only an intermediatory task and it gets its reward in the form of a margin earned as a difference between the cost of the acquired asset and pricing of the leasing deal. The profitability of a leasing company depends upon the magnitude of the spread made by it in lease rentals charged from the end-user of the leased asset vis-à-vis the cost of liquid funds. The cheaper the source of fund and bigger the spread, the magnitude of profits would be higher provided the deal is favourable to the lessor on comparative basis.

The business of leasing company is two fold i.e. purchasing of the asset is one aspect and leasing them out to the end-users is another aspect. To carry on this activity, the lessor has to view things from different angles:

1. Searching for a client to avail of the services being offered by the lessor. This involves marketing efforts for selling own services in the competitive market.

2. Having identified the potential clients and their specific needs, the next important and difficult task is financing the acquisition of assets.
3. Once the cost of assets and the cost of capital invested in assets is worked out, the lease rentals could be fixed based on the estimate of administrative overheads, expected reward for promoters/share holders of the leasing company, available tax incentives in the form of depreciation deductibility etc. and margin of profit desired by the lessor, keeping in view the rates of the other leasing companies in the free market.

4. The most difficult thing in the entire operation of leasing company is the recovery of lease rentals when the lessee commits default.

All the above activities are combined together from the operations of a leasing company and the management of the above operations demands requisite skills and experience on the part of the persons managing the leasing company.

The modern business environment is becoming more complex and competitive. To meet the urgencies arising out of this phenomenon, the business enterprises must constantly strive for modernization, diversification and expansion of their activities for which additional financial investment is required. In a capital scarce, a developing country like India, obtaining the required finance is not an easy task. The business enterprises, therefore, have been looking for a convenient alternative source of finance. Thus, during the past three decades or so, a new source of finance has emerged in India in the form of lease finance.
The lease financing appeared on the Indian Industrial scene in 1973 with the establishment of ‘First Leasing Company of India’ in Madras. But after that for a decade or so, very few companies entered the leasing industry.

**Objectives of the study:**

The objective of the present study are to examine the growth of leasing companies in the private corporate sector in India; their financing pattern and to evaluate their accounting and disclosure practices. The study covers a period of five years from 1999-2000 to March 2003-2004.

Thus, the study aims at seeking answers to the following questions:

a. What is the pattern of growth of leasing industry in India in terms of increase in the number, authorized capital, pattern of activities of leasing companies, structure of the industry and factors responsible for the growth of the industry?

b. What are the major source of finance and avenues of utilization of funds by the leasing companies in India?

c. What are the accounting practices followed by leasing companies in India? Are these practices appropriate from the point of view of various interested groups? What impact will the adoption of the ‘Exposure Draft’ on accounting for lease issued by the “Institute of Chartered Accountants of India” have on the profitability of the leasing companies?
The study has attempted to look into these issues from the point of view of private sector leasing companies only. The lessee companies were not included because of difficulty in identifying them. Similarly, leasing by commercial banks and financial institutions were also not studied to maintain homogeneity of the sample because they differ in their working considerably from private sector leasing companies.

The study made use of both primary and secondary source of information. Accordingly, two methods were used to examine the research questions:

Data were collected from the published annual reports of 16 sample leasing companies having a paid-up equity capital of Rs.100 lakhs or more and have been actively engaged in leasing business for at least 5 years ending March 2004. The data from the reports were used to examine the various dimensions of growth of leasing industry (except factors responsible for growth); pattern of sources tapped for raising funds and avenues chosen for their use; to examine critically the prevailing accounting and disclosure practices; and to study the effect of adopting the ‘Exposure Draft’ issued by the Institute of Chartered Accountants of India on the profitability of leasing companies.

An opinion survey was conducted to find out the factors perceived to be responsible for the growth of leasing industry in India and what accounting procedures and disclosure practices should be followed for recording and reporting the lease transactions by the leasing companies.
Hypothesis of the study:

The hypothesis of the present study is:

- The rate of interest is very high.
- The source of finance is owners equity than the debt-money of the lease financing companies.
- The long-term lease are provided by the lease financing companies.
- The position of the lease financing companies is not satisfactory in the country.

Organization of the study:

In view of the theme of the thesis, the study has been divided into seven chapters.

- The first chapter gives an introduction of the subject, research methodology and review of literature.
- The second chapter describes the growth pattern of leasing industry in India. While highlighting the growth, it explains the factors responsible for the growth of leasing industry & structure of leasing industry in India.
- The third chapter discusses the types of leasing companies and lease undertakings.
- The fourth chapter attempts to analyze the sources and uses of funds of the selected leasing companies in India.
- The fifth chapter analyzes the disclosure practices adopted by leasing industry in India & impact of adopting the guidelines issued by the institute of Chartered Accountants of India.
- The sixth chapter analyses the result of the survey regarding the accounting and disclosure practices adopted by the leasing companies.

- Finally, the last chapter, i.e., seventh chapter, gives the summary of findings and conclusions and brings out the suggestions for implication on the govt. policies.

**Conclusions :**

The relevant data and analysis of detailed discussion relating to various elements and dimensions of lease financing in India have been presented in various chapters. The result of interviews with the respondents, have also been incorporated at relevant places. Thus, in what follows, an attempt is made to recapitulate the major findings in a sequential arrangement.

1. All the companies studied were functioning in leasing area but only 52.4% companies were those who were functioning in leasing as well as finance area.

2. All the companies under study were charging interest according to straight line method and majority of them were charging interest @ 12% to 15%.

3. 85.7% of the companies under study were found charging depreciation on leased assets by written down value method and non of the company was found charging investment allowance.

4. The study revealed that the present prevailing economic situation is not good for the growth of lease financing companies in the country but privatization was mainly responsible for the growth of these companies.
5. Majority of companies (76.2%) revealed that the R.B.I. was playing role of a guide and helpful in providing lease finance to these companies.

6. Nearly about 3/4th of the companies under study disagreed with the statement that lease financing is "off balance sheet financing".

7. 15 companies out of 21 companies under study were agreed that there is no gap in sanction and disbursement of lease finance.

8. 2/3rd of the companies under study agreed with the statement that there is no risk of obsolescence loss.

9. 81% of the companies under study were of the view that there is absence of regulation in lease financing and such leases were considered as fully secured. It does not involve any risk of leased asset.

10. 47.6% of the companies under study agreed that lease rental should be shown under the head 'turnover'.

11. 1/3rd of the companies under study were agreed with the statement that initial direct costs and legal fees incurred by lessors should be charged from P&L a/c in the year, in which they are incurred.

12. 43% of the respondents under study were agreed that in case of leased assets 'special lease depreciation' should be allowed.

13. Majority of leasing companies (57.1%) included in our research study agreed with the statement that the cost of asset should be recovered in the primary lease period.

14. Further it can be inferred that during the period of study most of companies stated that their current ratio was good. They achieved the ideal ratio.
15. The liquidity ratio was not satisfactory during the period 1999-00 to 2000-01 but it took an improving trend during 2001-02 to 2003-04 and it raised up the ideal ratio.

16. During the study period, the short-term liquidity position of the companies was above average i.e. good.

17. During the study period, the debt-equity ratio in majority of cases was not satisfactory.

18. In majority of cases the ratio of net worth to total assets is not good.

19. It can be inferred that ratio of profit before dividend, interest & tax to total income in most of the companies under the study during the research period was in sound position.

20. It can be concluded that ratio of profit before dividend & tax to total income in most of leasing companies under the study during the research period was satisfactory.

21. It can be inferred that ratio of profit before tax to total income in most of the leasing companies during the period of study was not good.

22. It can further be concluded that ratio of profit after tax to total income in most of companies during the research period would automatically be worse.

23. It can be inferred that ratio of profit after tax to net worth in most of the leasing companies was below the average ratio.

24. It can be concluded that ratio of profit after tax to capital employed was in the decreasing trend during the period of study.
Results of Fund Flow Statement Individually:

25. It can be concluded that in the year 2000-01, Anukriti Leasing & Exports Pvt. Ltd. Companies main sources of funds were sale of fixed assets, decreasing working capital and funds from operation. The company utilised all this money in payment of borrowings. But during the remaining period of study i.e. 2001-02 to 2003-04, the main sources of funds were issue of borrowings and funds from operation. These sources were utilised to increase the working capital and purchase of fixed assets.

26. It can be summarised that funds from operation is a regular source of fund for the Askrija Finance & Leasing Pvt. Ltd., while it also raised some funds from other sources like issue of borrowings, issue of share capital and decreasing working capital etc. Company utilised these resources regularly in purchasing the fixed assets, investment and increase in working capital.

27. It can be concluded that fund from operation is a regular source of B.R.M. Lease & Credit Pvt. Ltd., which is a good indication for the company, while issue of borrowings and sale of fixed assets and decrease in working capital were also other sources of fund. These sources were utilised by the company mainly in the purchase of fixed assets, investments, payment of borrowings and increase in working capital.

28. It can be inferred that the main source of Brr Leafin Pvt. Ltd. was fund from operation and issue of borrowings. These funds were utilised mainly to purchase the fixed assets. Further, it can be pointed out that in the first two years of the study period there were little bit less borrowings and due to this reason there was decrease in working capital. But in the remaining
period, there was huge borrowings, which resulted in increase of working capital.

29. It can be concluded that Chartered Leasing Pvt. Ltd. Companies regular source of fund was funds from operation, issue of borrowings and issue of share capital. Company utilised the above sources regularly in purchasing of fixed assets, increasing the working capital and purchase of investments.

**Suggestions :**

1. Most of companies are 'Trading on thin equity'. Hence, their maximum income goes as payment of interest on debt money. So, the companies should change this trend.

2. For long run-up of the business, it is necessary that ratio of net profit to capital employed should be in the increasing trend. So, companies should try to their level best to improve the ratio.

3. Most of the companies 'debt-equity ratio' was not satisfactory. Hence, to improve the debt-equity ratio, the companies should chose the optimum mix of the capital structure.

4. It is suggested that the companies should issue the equity capital for generation of funds and this fund should be utilised in payment of heavy interest bearing borrowings.

5. Most of the companies stated that there is absence of regulation to regulate the lease financing companies. Hence, it is suggested that govt. should implement regulations to control these companies, so that their functioning could be more visilent and effective.
6. Most of the companies liquidity ratio is not satisfactory. Therefore, companies under study should improve their liquidity ratio by payment of current liabilities from long-term sources of fund.

7. In most of the companies ratio of profit after tax to total income is not sound. It is due to heavy tax burden. Hence, it is suggested that government should decrease the tax burden to develop this sector.

8. A large number of companies ratio of dividend to profit after tax is not satisfactory. This shows that companies were not declaring more dividend to equity shareholders. Hence, it is suggested that companies should declare more dividends to protect the rights of the shareholders.

9. Similarly, majority of companies fund flow statement shows that issue of borrowings was a major source for the companies. Hence, it is suggested that companies should generate funds from issue of equity capital rather than issue of borrowings.

10. Present prevailing economic situation for the lease financing companies is not good. Hence, the preventive measures should be initiated by the govt. To avert the present situation for protecting the interest of different interested groups.

**Testing of Hypothesis:**

1. Our first hypothesis was 'the rate of interest is very high'. This hypothesis found false as the leasing companies are charging interest at the lowest rate. Our study does not support our first hypothesis, hence, rejected.
2. Our second hypothesis was 'the source of finance is owner's equity than the debt-money of the lease financing companies'. This hypothesis is also does not proved as most of the leasing companies are trading on debt-money instead of owner's equity. The fund flow statements of the lease financing companies shows that their major source of finanace is borrowed money instead to equity capital.

3. Our third hypothesis was 'the long term leases are provided by the leasing companies'. This hypothesis is proved from our study. Most of the companies under study told us that they are providing long term and medium term lease finance.

4. Our fouth and last hypothesis was 'the position of lease financing companies is not satisfactory in the country'. This hypothesis is also proved from our study. Majority of the companies tells that the present prevailing economic condition is not good for the growth of lease financing companies in the country.

Further Scope of the Study:

As the present study covers only limited aspects of lease-finance in India, there are several other aspects, which need further penetration. Some of the areas, which have been left out in the present study and which can be stressed further are following:

1. A study of comparative cost of lease-finance with other long-term sources of finance;
2. Role of other financial institutions in lease-financing;
3. Analysis of the position of lease-financing companies in the public sector;
4. Lease finance as a new source for the development of small and cottage industries.