CHAPTER III

METHODS OF RAISING FUNDS

The methods used by leasing companies to raise funds to create ' Lease Assets' fall in two broad categories- conventional methods and non-conventional methods. Conventional sources *inter alia* include equity capital, debenture, bank loans etc. Similarly, the non-conventional sources comprise public deposits, short-term inter-corporate deposits and some innovative schemes like bank-guaranteed deposits, asset-ownership instruments, securitized leases and deposit-linked leases, etc. An endeavour is made in this chapter to briefly examine both conventional and non-conventional methods used by leasing companies to raise funds to create lease assets. While analyzing these various modes of funds-raising adhered to by the leasing companies, the chapter also attempts to take into account the relevant legal provisions as enshrined in various Acts of the land. While providing details about these fund-raising instruments, the chapter appraises the ratio of leasing industry in these instruments and comparative advantages accruing from each instrument for the industry.

Leasing companies serve as financial intermediaries. As such the leasing companies play a pivotal role in acting as a link between the providers of finance and those who seek the finances. This is facilitated by mobilizing finance from those who wish to invest it, and channelizing it to those who need it. In this process of financial exchange, the leasing company comes in barely because of the difficulties in a direct swap by the providers and the seekers. Therefore, a real essence of a lessor's economic efficiency lies in
removing the difficulties of a direct exchange, which goes on to suggest that if the lessor's sources of finance are such which could be directly tapped by the lessee, the lessor is earning profits by no reasons.

A lessor's economic capability, therefore, lies in mustering resources from non-conventional sources. It is for this reason that while the corporate sector in general has a limited capacity to mobilize public deposits, the leasing and hire-purchase financiers have been permitted to raise deposits up to ten times of their net owned funds. This signifies the RBI's recognition of leasing companies as financial institutions, as mini-banks. The sources of finance available to leasing companies can be divided into conventional and non-conventional sources where non-conventional really means a source which is not generally being exploited to a significant degree at present.

(A) CONVENTIONAL SOURCES

Conventional sources, those which are open to the corporate sector in general are as follow:

i) Equity Capital

The initial source of finance for any company has to be equity capital, either by private arrangements, or by making a public issue. Private placement or arranging capital without making any general public offer, may be limited source\(^1\), except for the companies whose promoters have a strong financial base, e.g., bank-sponsored companies. Therefore, any other leasing company has to make a public issue. The new amendments in the Companies Act require a company making a public issue to have its shares

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\(^1\) A public offer is said to be made when any person may make an application for the shares. However, if the company receives application only from those persons from whom the invitation to subscribe was made, it is said to be 'private placement.' See section 67 (3) of the Companies Act, 1956.
listed\textsuperscript{2} and one of the listing requirements is a minimum paid-up capital of Rs. 3 crore.\textsuperscript{3} That read with another listing requirement that a company must make a minimum 60 per cent public offer\textsuperscript{4}, implies that the company must make a public issue of minimum Rs. 180 lakh.

With a view to successfully make an issue of equity shares in the market, the industry needs a good public image. The investor's perception of leasing companies has, quite strangely, been a close determinate of the country's rules and regulations. The introduction of Sec.115J and the burden of sales tax sent leasing company shares tottering on the market. The Budget provisions for 1990-91 proposing to abolish investment allowance as well as sec. 115J caused quite a ripple in the market and leasing companies' shares once again boomed. It is not very easy to tap the capital market for a new issue of leasing scrips.

Therefore, raising of resources by equity issue by a leasing company may be extremely strenuous in the market context. Recently, the Controller of Capital Issues has decided not to allow leasing companies to make public issues, until they have a minimum trading record. Equity, however, has its own advantages. It is a permanent source of capital with no obligations as to repayment or return attached to it. To the leasing company, equity offers borrowing power by increasing its borrowing capacity. However, equity should not be treated as the cheapest source of finance. Equity also has a cost- a cost by way of minimum return necessary- and that cost is substantial because of absence of tax-benefits.

\textsuperscript{2} See section 73 of the Companies (Amendment) Act, 1988.
\textsuperscript{3} Enhanced from the earlier limit of Rs one crore by order No. 1/1/SE/88 dated 15 February1989, with effect from 13 February 1989.
\textsuperscript{4} Rule 19(1) (b) of the Securities Contracts (Regulation) Rules, 1957.
This scenario gives rise to interesting questions like as to what is the ideal capital structure of a leasing company and how much financial leverage the company can afford. Existence of borrowed funds gives the company an opportunity of trading on equity and to increase returns to the shareholders. The more the company borrows, then, subject to the returns from the leases being more than the cost of the borrowed funds, the company earns more for its equity shareholder. But at the same time increased financial leverage means increased risk - risk owing to commitments under the loans. Normally, for an industrial company, a D/E ratio of 2:1 is said to be most desirable one, but this is not certainly applicable to a leasing company.

Concurrently, a leasing company cannot afford to expose its equity to unlimited risk of borrowed funds. The RBI has thought a D/E ratio of 10:1 as the upper limit of desirability, but from a strictly financial standpoint, a proper capital structure has to determined based on the risk-composition of the company's receivables, that is, lease rentals to be recovered. Obviously, the company would fail to meet its borrowing commitments if the rentals do not come on the scheduled dates. As a result, the rates of return on the company's business may fall below the cost of the loans making a net loss to the equity shareholder. Thus so long as the probability of these returns falling below the borrowing cost is small or negligible, the D/E ratio should not be constraint for a lessor.

ii) Debentures

A normal industrial company could raise substantial money by issue of convertible debentures (CDs) or non-convertible debentures (NCDs). The Companies (Acceptance of Deposits) Rules, 1975 vide Para 2(x) provides
that debentures, if they are non-convertible, and are not secured by a charge on immovable property, are to be regarded as public deposits. It implies that in order to be out of the Public Deposit Rules, debentures have got to be either convertible, or they have to be secured by a charge on immovable properties. Debentures secured on property other than immovable property will, therefore, be taken as public deposits (except for the purpose of limitation of tenure). As such, the rules regarding maintenance of minimum liquid assets will be applicable on such debentures. Non-convertible debentures are often placed by leasing companies to banks. The issue of such debentures, even though made on the basis of private placement, will be covered by the guidelines for Issue of Debentures by Public Limited Companies, dated 19 September 1984.

iii) Bank Loans

Thus far, leasing companies have relied upon bank funds to an expressively large extent, which is one of the reasons that prompted banks to float their own subsidiaries for leasing transactions. Up till sometime in the past, banks had been lending to leasing companies both by way of term loans and cash credits, although the latter source was being used much more. The lenders include both nationalized and other banks. The terms and conditions on which these banks finance the lessors is a matter of their stipulation. After the abolition of the ceiling on rates of interest on working capital loans, banks started charging higher rates of interest from leasing companies, mostly at the rate of 18 per cent p.a.
NEW RBI GUIDELINES

The Reserve Bank of India (RBI) had given special thought to the necessity and the problem of bank funding of leasing companies and had commissioned a sub-committee under the Committee of Direction. This sub-committee, under the chairmanship of G. S. Dahotre, was constituted to formulate norms for bank credit to hire-purchase and leasing companies. The Committee's report was presented towards the end of 1987 and was accepted. Accordingly, the RBI issued new directions on 12 April 1988 to all commercial banks for lending to leasing companies. The salient features of these directives were as follow:

(a) Maximum Limit of Lending: Lending by all commercial banks to leasing companies should not exceed three times of their net owned funds, and the total amount of external borrowings, including public deposits, should not normally exceed ten times of the net owned funds. Net owned funds for this purpose mean paid-up share capital, plus free reserves including balance in share premium account, capital and debenture redemption reserve, and any other reserve not being a reserve created for repayment of any future liability or depreciation reserve or for bad debts, or a reserve created by revaluation of assets, minus, accumulated losses, balance of deferred revenue expenditure and other intangible assets, minus further, investments in, deposits with and loans to subsidiary companies and affiliated companies.

It is noteworthy here that the words 'affiliated companies' is not defined and may lead to interpretational difficulties. It is implied in the above direction that the figure to be taken for consideration should be taken from the latest audited balance-sheet of the company. The RBI's directive stipulates that the
banks should carefully take into consideration the explanatory notes and auditor's notes in the Balance-sheet, and call for further disclosure by the borrowing leasing concern of its depreciation policy, the depreciation method followed, etc., to assess the realistic position of its net owned funds.

Some important conclusions that emerge from the above-mentioned RBI's directive are as follow:

1. The maximum limit up to which a leasing company can enjoy bank funds is limited to three times of its net-owned funds. Any leasing company worth speaking about earlier enjoyed more bank limits than this ceiling.

2. The overall D/E ratio for leasing companies has now been fixed at 10:1, that is, the aggregate of all external sources of finance tapped by a leasing concern including debentures, institutional loans, deposits etc., cannot exceed 10 times the worth of net-owned funds of the company. This would mean, for a leasing company tapping bank funds to the extent of three times of its net-owned worth, a curtailment of its power to raise public deposits to the extent of 10 times its net worth, which is a power conferred by the RBI itself under the directions relating to public deposits. These twin directions read together mean that where a leasing company raises public deposits to the maximum permissible extent under Public Deposit Directions, it should not obtain bank finance at all. Although the bank lending directions are not a law applicable to the borrowing company, and as such, it is not that leasing companies henceforth will be obliged to keep their aggregate external
borrowings under a limit, but such a company would, by virtue of these directions, not be eligible to get bank loans.

3. While computing net-owned funds, the revaluation reserves are not to be considered.

4. The fact that the figures pertaining to net-owned funds are to be taken from the latest audited Balance-sheet does not mean that a company which has not yet completed a year of its operations will not be eligible to get any loan. Obviously, in that case, the net-owned funds may be computed with reference to the paid-up capital. In fact, paid-up capital at any point of time may easily be determined and may not have to wait its recognition until the audited accounts are made.

5. The RBI has drawn a pointed attention of the lending banks to depreciation provision, so as to assess the realistic position of net-owned funds. This is quite significant, as the leasing companies have often been accused of under-charging depreciation. The most appropriate policy for the depreciation seems to be the one which writes off the cost of the leased asset over the primary lease period. This seems to have found acceptance with the RBI also.

(ii) Nature of Facility: Prior to the implementation of the new RBI Directives, the modes of financing being followed varied among banks. Some banks lent by way of demand loans, while others were granting cash credit facilities. Term loans had been extended in some cases and some banks had discounted rental bills. However, the RBI recommends that appropriately, loans to leasing companies should granted by way of cash credit facility, since these loans are essentially against lease rentals receivable. This is a rather
significant observation by the RBI, exploding the myth that in a lending bank was financing the fixed assets of the lessor. The regulatory authorities in the country seem to be coming nearer to the recognition of the essential substance of a financial lease. The RBI very rightly recognizes that the essential asset for the leasing company is not the item leased out, but the receivables out such lease. The cash credit limit should be computed on the basis of the maximum permissible bank finance. The cash credit limit will be a reservoir facility, rolling over to new leases once the drawing limit under a particular lease has been liquidated or reduced.

The RBI's directions do not answer the question whether discounting of lease rental bills will also come under the maximum permissible bank finance. Earlier, there have been different opinions on this issue. Bills discounted, properly speaking, are not a loan to the company. Going by the spirit of the directions, however, it is clear that irrespective of the legality of the bills discounted, this is only a way of financing against lease receivables, and so, must be covered by the directives.

(iii) **Maximum Permissible Bank Finance**: Within the limit of three times of net-owned funds, permissible finance against any leasing business shall be computed on the basis of the lease rentals receivables in future. The RBI has accepted the contention that working capital for a leasing company is nothing but lease rentals receivable. However, the RBI considers only the lease rentals receivable within a period of five years for any lease. Further, since the sum total of lease rentals includes an interest element also, that is sought to be removed by taking only that proportion of lease rentals which pertain to the
equipment cost. This is done not on actuarial basis, but by treating interest as distributed equally.

The computation, therefore, for every lease shall be as follow:

**Maximum permissible finance** =

\[
\frac{\text{Lease rentals due in next five years}}{\text{Total lease rentals under the lease}} \times \text{Cost of the equipment} = \text{Asset leased}
\]

So, where the lease term is five years or less, the maximum permissible finance will cover the whole of the cost of the equipment.

The RBI has clarified that funds raised from financial/investment institutions need not be included in the said ceiling which is applicable to banks' lendings only. Similarly, hire-purchase/lease assets created out of finance from financial/investment institutions should be excluded from build up of assets while calculating maximum permissible bank finance (MPBF). In other words, assets created from funds raised from financial/investment institutions should be excluded while calculating stock-on-hire under the hire-purchase agreements/outstanding credit under lease agreements. Deferred Payment Guarantees given by the banks on behalf of leasing/hire-purchase companies need not be included in the ceiling prescribed for banks lending. Likewise, assets created against such guarantees should also not be taken into account while calculating MRBF.5

(iv) **Computation of Drawing Limit**: On the maximum permissible finance, the RBI has recommended a minimum margin of 25 per cent. That is, the

actual drawing power, or the actual amount of refinance for any transaction, shall be 75 per cent or less of the cost portion of lease rentals. Where the whole of the lease rentals are payable within five years next, as is the usual case, the refinance will naturally be equal to 75 per cent of the asset cost. However, if the lease period is more than five years, the bankers would refinance only 75 per cent of the cost portion falling in five years. To illustrate it with an example, if a company signs a lease for five years for an asset costing Rs. 100, the company may draw Rs. 75 under the scheme. If the lease were for 6 years, the company could draw only $\frac{5}{6}$th of Rs.75.

(v) Credit Authorization Scheme (CAS) Application: Credit Authorization Scheme will apply to financing of leasing companies also. Accordingly, where the total cash credit facilities enjoyed by a company are to exceed Rs.6 crores, a prior authorization must be obtained from the RBI. It is worth mentioning here that although there has been no specific change in the directions applicable to leasing companies, it should be understood that, pursuant to the abolition of prior credit authorization, only a post-facto ratification should now be sufficient. However, the RBI has devised separate CAS forms to be used for leasing/hire-purchase companies. These forms are being enclosed hereto along with guidelines for filling-up wherever necessary.

(vi) Filing Statements and Returns: as could be expected, the RBI's directions lay down a heap of regular returns to be filed by the borrowing company with the lending bank periodically, adding a substantial paperwork.

(A) Monthly Return: A monthly statement of assets leased is to be filled in as follow:
<table>
<thead>
<tr>
<th>S. No.</th>
<th>Lessee</th>
<th>Description of the Asset</th>
<th>Date of the Agreements</th>
<th>Original value of the Equipment</th>
<th>Depreciated value to date</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
</tr>
</tbody>
</table>

Rentals overdue
Rentals due within Next 60 months
Rentals due beyond next 60 months
Total

7+8+9

Notes:  

a) Depreciated value appropriately means depreciated book value, but asking for this figure every month does not seem understandable. In case the intention was to ascertain if the depreciation were fully being written off during the primary lease period, then the banker would need to know the length of the agreement and not just the date of signing the agreement. In its present form, the requirement seems to be perfunctory.  
b) Rental overdue means rentals which have been due but not paid.  
c) Classification of rentals due within next 60 months and the balance is a requirement for computing the MPBF.

**B** A Quarterly Return: A quarterly return of current assets and current liabilities, indicating the estimates at the beginning of each quarter and the actuals of the quarter ended, on the pattern of the CAS form IV. As against this requirement, the ordinary forms I and II prescribed under the Quarterly Information System are being dispensed with. Form IV of CAS speaks of an annual information. However, the information under the requirement is to be given on quarterly basis. So the respective columns in Form IV for quarterly information would become: (1) position as on a recent date, (2) Actuals for last quarter, (3) Current quarter’s estimates, (4) Projections for the following quarter. It is worth mentioning here that working capital for a leasing company means rentals receivables in the ensuing five years. Liabilities, however, are computed only for the year forthcoming. A certificate from a chartered accountant must certify outstanding credit under the lease agreement.

**C** A Half-yearly Return: A half-yearly return giving operating and funds flow statement for the half year is to be filed by leasing concerns having a
total limit of Rs. 50 lakhs and above. This is to be based on CAS Forms II and V. The operating statement based on CAS Form II has to provide half-yearly details of operating profits. Similarly, a half-yearly funds flow statement has to be prepared based on CAS Form V.

(vii) **Maintenance of Current Ratio:** The RBI directions stipulate that in accordance with the II method of lending recommended by the Tandon Committee, the leasing concern should at all times maintain a current ratio of 1.33:1. In other words, the current liabilities must not exceed 75 per cent of the current assets. The RBI directions say that this ratio must be maintained even as per the latest audited balance-sheet. There should not be any scope for misunderstanding here- current assets for RBI purposes include lease rentals receivable within five years next, whereas these do not appear as current assets in the audited accounts.

(viii) **Other Stipulations:** following other stipulations are also envisaged in the RBI directions:

a) Banks should fund only full-payout leases. There, the directions leave a string of confusion- not necessarily all leases having a secondary lease period are non-payout. Secondly, whether a lease is a full-payout or not depends on the lessor's definition of the discounting rate. As such, in all cases, it is difficult to establish whether a lease is full-payout or not. But the reality of the Indian practice is that none of the lessors really depend on the residual value or the chances of further lease after the first lease is over. Hence, all financial leases in India must be regarded as full-payout.
b) Banks would henceforth finance leases of new equipment only. That would mean a technical end to the sale to the sale and lease-back mechanism.

c) It is not that the banks would approve the lessor only and would not at all look at the lessee. In fact, as they presently do, the banks would approve individual lessees and may fix up individual exposure limits on a particular lessee. The RBI has advised the banks to be particularly cautious of leases to associate or sister concerns. Leading companies desirous of doing leases with their sister concerns have found a good way of circumventing this requirement- they enter into a swap arrangement with another leasing company also willing to do a lease with its own in-house company.

d) Banks should insist on the lease rentals being routed through the bank account. That is, the terms should provide for lease rentals to be assigned to them.

e) Apart from this, the banks may stipulate their normal requirements of personal guarantees, collateral securities, insurance of the leased asset in the joint name of the lessor and the bankers, obtaining of the banks prior clearance before declaration of dividend etc.

f) In case of a leasing company enjoying bank limits from more than one bank and aggregating to Rs. 5 crores or more, consortium arrangements are obligatory.

g) In case the concern is engaged both in leasing and hire-purchase business, the lending bank should assess its credit worthiness, in respect of both the activities separately as per the separate norms.
(ix) **Existing Arrangements:** The RBI's directions say that where the existing limits sanctioned above Rs. one million to any leasing company are not in accordance with the norms fixed as above, the banks should see that the limits are brought within the norms within a period of two years. That is to say, where necessary, either the capital of the company has to be raised within two years or the limits have got to be reduced.

(x) **Effect of the RBI Guidelines:** The RBI Guidelines which were anxiously awaited for a long time have cleared several confusions which prevailed in the leading bankers' minds, and will perhaps do away with the diversities of practices going on. That is all for the healthy growth of the leasing industry, because now the capability of any company to sign business and publishing scintillating results in papers would depend not on their ability to circumvent norms and arrange hefty bank finance, but on their ability to build a large non-banking fund base. This would bring uniformity in patterns of growth, and would alleviate the scope for over-smartness in committing to bankers. At the same time, however, stipulation of return to be filed every month and every quarter and every half-year would add immensely to the unproductive paper work which goes on enough otherwise also in a country habitual of collecting redundant information. As usual with other sectors of economy, these periodic returns are casually prepared by the borrowers and seldom used by the lenders. It is in this context that the RBI directions indicate a thorough understanding of the leasing business.

**LOAN SCHEMES OF FINANCIAL INSTITUTIONS**

The Industrial Finance Corporation of India (IFCI) has a scheme to provide long-term finance, for a period ranging from five to 7 years, at the rate
of 17 per cent per year. The IFCI scheme was announced in the wake of amended definition of industrial concern under section 2(c) of the Industrial Finance Corporation of India Act, 1948, under which leasing and hire-purchase companies are now recognized as industrial concerns. The scheme was announced on 1 November 1987. Leasing and hire-purchase companies, which have been in existence for 3 complete years may avail of the scheme. The application for the finance, which may be granted either as a line of credit or loan simpliciter, or by way of discounting of bills, may be made to nearest IFCI office. A quick disposal system of the applications supposed to have been introduced by the Corporation.

The Industrial Development Bank of India (IDBI) has also announced a scheme for financing of leasing companies. No separate scheme has been made for this purpose. Leasing companies shall be treated as per the general norms of the IDBI for the purposes of loan facilities. The IDBI also gives loans to existing profitable leasing companies. There was a proposal to establish an independent fund for financing of private sector finance companies.

INTERNAL ACCRUALS

More important than they are in any other businesses are internal accruals for a leasing company. No other business determines its feasibility on the basis of internal accruals being reinvested regularly and promptly as much as the business leasing does. Therefore, it is crucial for a leasing company:

(i) to collect its debts on the day of accrual; and
(ii) to reinvest those collections as promptly as could be.
These two factors will determine the profitability of leasing business because the feasibility of the proposal is worked out on the basis of the rate of return implicit in the lease, and in order to maintain that rate throughout, it is necessary to see that the rentals earned are reinvested without delay.

An easy way of seeing that debts are collected timely is to take standing instructions from the lessee to its bankers or to take postdated cheques at the inception of the lease. As per the amendments made by the Banking, Public Financial Institutions and Negotiable Instruments Laws (Amendment) Act, 1988, it is now an offence punishable with imprisonment extending to one year and/or fine extending double the amount of cheque, if a cheque is returned unpaid for reasons of insufficient balance. Taking of postdated cheques may, therefore, be very effective collection device now. Both these ways can help to avoid unnecessary delay, which happens almost out of inevitable lethargy, or habit, in most of the cases. Delay in the payment of lease rental bill may be quite habitual, but dishonouring of a cheque is something very unusual.

(B) NON-CONVENTIONAL SOURCES

The future of the leasing industry in India, mainly of that in the private sector, depends on their ability to tap the non-conventional sources of finance. This is so because in course of time many banks will have floated their own leasing outfits and will grudge to fund leasing companies in general. Thus, while effective mobilization of funds from non-bank sources will be a matter of survival for private sector leasing companies, it may be a potential source of funds for the bank-sponsored leasing entities. The non-conventional sources can be anything from public deposits to commercial paper. There cannot be
any enumeration of these sources- they all depend on the creativity of the raiser and identification of and access to the providers. Some of the probable ways of mobilizing potential sources are as follow:

(i) **Public Deposits**

Public deposits are perhaps the most potent source of funds for a leasing company. Public deposits are basically short-term to medium term sources, repayable after a certain period. The cult of public deposits in India is much more widely spread sweeping through the rural areas, than equity cult. This fact is evidenced from the growth of deposit-taking institutions such as Peerless which has as many as 25 million depositors. Among the leasing companies, examples like Peerless are difficult to set. But some of the companies, particularly those in the southern parts of the country, have shown exemplary performance in tapping deposits to the maximum permissible limit.

An essential requirement for effective mobilization of fixed deposits is to identify and capture the large group from where the maximum of deposits are likely. Perhaps the biggest target group which accounts for a bulk of company deposits is the salaried employees, particularly those who have retired or are about to retire. Methodology being adopted at present to reach to these depositors is highly mechanical and unimaginative. Mass scaling mailing is done to people who are already on the mailing list of the brokers, but no efforts are ever made to reach a person who has not entered the mailing list. For example, one possible way of approaching the employees who retired in past 23 years or are about to retire is to get such addresses from the personnel departments of public sector undertakings or large business houses. Chances of untapped sources are likely in the segment of
professionals who are not in the finance world, e.g., doctors, engineers etc. They are the persons who are not familiar with the world of investments and might not have featured on the mailing lists of the brokers. Essentially the idea is to enlarge the mailing lists by depending more and more on prospective sources who might not have yet made company deposits.

The medium of approach being adopted at present is mostly by mass mailing. That perhaps is cheap and easy enough, but highly ineffective. Lesson can be learnt from the Peerless mechanism which employs as many as 4 lakh staff and commission agents throughout the country, particularly in the rural areas. This is certainly not possible for a company to arrange, but the broking community may do exactly the same thing. In fact, in the coming time, we may see a specialized class of deposit-broking institutions developing, which will have branch-network all over the country.

At present, the schemes of deposits which are being offered are stereotyped cumulative or monthly income schemes, lacking imagination and providing no choice to the deposit holders. It may be remembered that the depositor today needs a wide choice- and may be offered 7-8 optional schemes of differing varieties- monthly repayment plan, recurring deposit plan, front-ended interest plan, and so on. With a little imagination, scores of schemes can be formulated, all within RBI rules. One of the leasing companies is showing an exemplary courage in this regard but there must not be a disregard for law- for example, making a share offer at the end of the deposit period is hit by the CCI’s guidelines.

(ii) Short-term Inter-corporate Market
This source of funds has two great limitations for a leasing company; in the first instance, it is only for a very short-term, say 3 months to 6 months, and secondly it has made extremely difficult by the latest amendments in the Companies Act. A leasing company may not really find this source workable since what it really needs is a long-term source, because it is meant to be invested in long-term projects.

(iii) Some Innovative Schemes

There are some innovative schemes also that can assist leasing companies in mobilizing funds. These are as follow:

(a) **Bank-guaranteed Deposits**: The practice of issuing cheque for repayment as well as for interest at the time of taking the deposit is fairly common, but no one has still issued post-dated banker's cheques for repayment of the deposits and the interest. If done, this almost acts as a bank guarantee for depositor. However, as between the leasing company and the bank, it is just like a loan agreed to given without any disbursement. Hence, the bank may charge its commitment charges. This sort of a scheme, if feasible, may be a runaway success.

(b) **Asset-ownership Instruments**: An extremely innovative instrument which is the most likely outcome of the growing popularity of asset renting as a source of finance, can be one where the company issues asset-ownership instruments. That is, the company gives instead of just a charge on an asset a title to the asset as a security to the depositors. As a result, the deposit holders become joint owners of an asset, which the company takes
The company may use that asset either for its own use or for sub-leasing it. The title may be held by a trustee for these joint owners as is done in case of debentures. The company will keep on paying to these several people lease rent, which will be fully deductible for tax purposes. This security will be outside the purview of the Capital Issues (Control) Act, and it will not require any prospectus. It will not affect company’s D/E ratio, and will not be covered by the Deposit Rules. Thereby, the company may pay even higher than 40 per cent to these depositors. Claiming of the depreciation in the hands of the several individuals who are the owners of the asset may be a problem, it may be a higher joint hire-purchase transaction so that the depreciation is claimed by the user company.

(c) Asset-backed Notes or Securitized Leases: A securitized lease is similar to the American practice of leveraging leases by creation of a trust, vesting the title in the trustor but creating a charge on the leased asset in favour of the lenders. Here, however, the lessor creates a charge on the rentals by assigning these in favour of several lenders. There may be a number of leases pooled together and the rentals thereof assigned as a security and these rentals may be received by a trustee on behalf of the lenders. The only advantage is that the lenders get a direct recourse against the lessee, and so the lessee's credit worthiness counts. In the Indian context also, these instruments may be tried as a precursor to the
asset-share mechanism. There is nothing against such instrument in the country's regulations.

(d) Deposit-linked Lease: A novel way of financing consumer leases is to link deposits with leases; that is, the depositor starts making recurring periodic deposits to the lessor and after a certain period, say, three years, is given an asset on lease. The lease may be, say, for a period of two years further, so that the lessor actually receives five years' rentals, although the first three years rentals are in advance. This scheme may work excellently because of the following reasons:

1. The lessor gets best of both of the worlds- finance as well as business.
2. The lessee is induced to have forced savings and finally to turn them into capital assets. Thus, there is a positive contribution to the economy by promoting capital investments.
3. The lessee will have the psychological belief or misbelief that the asset is coming at a bargain price to him. This is because as a layman in finance, he will not compute interest on the pre-lease advances made.
4. In case these pre-lease advances can be said to be advance payment of lease rentals, the deposits fall outside the purview of the Deposit Rules.
5. The lessor satisfies himself about the paying capacity of the lessee during the pre-lease period, therefore, he does not mind risking his partial investment during the lease period.
(e) Zero-coupon Bonds: These are cash type of certificates which are issued at a discount but are payable at par on maturity. That is, the interest is paid by way of discount immediately. The only advantage of these coupons is that the investor may claim interest part of the coupons as a capital gain accruing only in the year of their redemption. As the rate of tax on capital gains is quite low it means a postponement of taxes which can be a good idea for a tax-paying investor. To be tolerable by the Indian legal system, these bonds either have to be fully secured, or they have to fall within the Deposit Rules. In the former case, they are 'securities' within the meaning of the Capital Issues (Control) Act, and so, they need to abide by CCI’s guidelines about debenture issues. For all legal purposes, they will be regarded as debentures.

CONCLUSION

It is evident from the above-mentioned analysis that leasing companies in India adhere to both conventional as well as non-conventional methods to raise funds from the market. Equity capital, debenture, and bank loans etc., fall within the ambit of conventional sources of finance and public deposits, short-term inter-corporate deposits and some innovative schemes like bank-guaranteed deposits, asset-ownership instruments, securitized leases and deposit-linked leases etc., come under the purview of the non-conventional sources of finance. Leasing companies serve as conduit for channelizing the funds between the providers of finance and those who seek it. Direct exchange of finance between the provider and the seeker is riddled with various complexities and legal bottlenecks. The leasing company becomes a
handy facilitator between the finance provider and the finance seeker and helps in smooth and hassle-free exchange of finance.

In its analysis of conventional sources of finance, specific emphasis is laid on equity capital, debentures and bank loans. It also takes into account guidelines issued by the Reserve Bank of India (RBI) in April 1988 to the commercial banks in respect of lending to leasing companies. In terms of these guidelines, lending by all commercial banks to leasing companies should not exceed three times of their net-owned funds, and the total amount of external borrowings, including public deposits should not exceed ten times of the net-owned funds. It was further recommended by the RBI that loans to leasing companies should be granted by way of cash credit facility because these loans are essentially against lease rental receivables. Permissible finance against any leasing business, within the limit of three times of net-owned funds, was to be computed on the basis of the lease rental receivables. Periodic filing of regular returns by the borrowing company with the lending bank in the form of monthly, quarterly and half yearly returns in accordance with the RBI guidelines have been briefly appraised in the chapter. The loan schemes for leasing companies by financial institutions like the Industrial Finance Corporation of India (IFCI) and Industrial Development Bank of India (IDBI) have been dealt with briefly.

In its appraisal of the non-conventional sources of lease financing, the analysis takes into consideration public deposits, short-term inter-corporate loans, bank-guaranteed deposits, asset-ownership instruments, asset-backed securitized leases, deposit-linked leases, and zero-bond coupons etc. The emerging analysis shows that it is almost imperative for the leasing
companies in the private sector to tap the non-conventional sources of finance for steady growth. The methods adopted by the leasing companies to raise finance from the market, as briefly appraised in the foregoing analysis are not sufficient in themselves. Much depends on the capabilities of a leasing company as to what extent and at what speed it can mobilize those sources and harness them for leasing purposes.