CHAPTER - 5

PROFITABILITY ANALYSIS OF LEASING COMPANIES IN INDIA
5. PROFITABILITY ANALYSIS OF LEASING COMPANIES IN INDIA

This chapter analyses the operating and financial performance of the leasing industry in India. For the measurement of overall performance, the annual reports of the leasing companies for five years (1983-84 to 1987-88) have been used. The sample of 31 leasing companies accounts for 40 per cent of total capital employed and 53 per cent of total lease business of the leasing industry in 1987-88.

DEFINITION OF VARIABLES

It is important to recognise that analysis and measurement of the performance of the leasing industry on the basis of annual reports (published accounts) is a complicated matter because of the differences in the accounting policies and practices of the leasing companies. In particular, significant differences could be noted in the areas of depreciation calculation, revenues and expenses recognition and reserves and provisions creation. The most of the sample companies have substantial business in equipment leasing. Nineteen of them have more than 50 per cent of their total income from leasing. All companies together have 53 per cent income from leasing in 1987-88. The sample companies also engage in hire purchase financing, trading in shares, debentures and bonds and consulting services to varying extent.

Performance has been evaluated in terms of growth, profitability and operating efficiency. The definitions of variables are given below:
1. Growth measures are represented by total income (TI), lease income (LI), profit before interest and tax (PBIT), profit after tax (PAT), gross fixed assets (GFA), leased assets (LA), and net worth (NW).

2. Profitability measures are as follows.
   (a) Return on capital employed (ROCE) measured as percentage of PBIT to capital employed (CE)
   (b) Net profit margin (NP) calculated as percentage of profit after tax (PAT) to total income.
   (c) Return on equity (ROE) measured as percentage of profit after tax to net worth.
   (d) Lease return (LR) measured as percentage of lease income to leased assets.

3. Operating efficiency measures are
   (a) Operating expense (OP EXP) ratio as calculated by percentage of operating expenses to total income.
   (b) Interest expense (INT) ratio as calculated by percentage of interest to total income.
   (c) Depreciation (DEP) ratio as calculated by depreciation as a percentage of total income
   (d) Depreciation rate as used by depreciation as percentage of total gross fixed assets (GFA).

4. Earnings measures are
   (a) Earnings per share (EPS).
   (b) Dividends per share (DPS).

For studying the profitability pattern and structural relationships, all sample companies are classified by size, leverage, growth, nature of business and age. Structural relationships are compared and analysed for three years (1985-86, 1986-87 and 1987-88) while the overall industry performance is analysed for five years (1983-84 through 1987-88).
1. Size

This variable may be important if economies of scale operate. It is quite likely that there may be difference in costs per lease transaction and lease administration, lease rental collection costs per client across companies depending upon the volume of business. If economies of scale exist, unit cost per operation would decrease as the quantity of output increases when all factors of production are perfectly adjusted to the scale of operation. They are reflected in the downward slope of the cost curve due to various sources such as technical (e.g., spreading of overheads and specialisation) and pecuniary (e.g., financial and marketing). On the contrary, small size companies may not be cost effective, and they may also earn lower return on capital employed (Pandey 1987, p.5). All companies are classified into three size classes, i.e., small, medium and big in terms of paid up capital, net worth, capital employed and total income.

2. Leverage

Leverage reduces the financial costs since interest is tax deductible expense. Hence, post tax interest rate is less than the cost of equity. Leverage may thus have an impact on profitability, i.e., high leverage companies may yield higher profits than low leverage companies. The companies are classified into three categories according to leverage. The measures of leverage include long term loans (LTL) to capital employed (CE), public deposits (PD) to capital employed (CE), and total borrrowings (TB) to capital employed (CE). We have used public deposits to capital employed ratio for profitability.
analysis because, as seen in Chapter 4, leasing companies have the peculiarity of depending on public deposits in a significant manner.

3. Growth
Growth companies are regarded to yield a higher level of profitability, but they also face the problem of frequent cash flow shortage. There may be some sort of trade-off between growth and current performance. Growth is of course an important performance variable in its own right from the viewpoint of the lessors' own management (Tomkins, Lowe., and Morgan 1979, p. 58). Therefore, growth is used as a segmenting and a performance variable in the study. Profitability (ROCE, NP margin and ROE) ratios are classified according to growth. Growth is measured by total net assets (TNA), net leased assets (NLA) and total income (TI).

4. Nature of Income
Leasing companies in our sample do other businesses in addition to leasing. We therefore wanted to find out the relationship of lease income to total income. Are these variations in the profitabilities of the leasing firms on account of the composition of income. We have thus related profitability to lease income to total income.

5. Age
Companies take time to establish themselves and capture the market. Leasing companies may not be an exception. Younger companies do find difficulties in having operating efficiency.
Therefore, companies of different ages might be expected to have different degrees of profitability.

CONSOLIDATED PERFORMANCE OF LEASING COMPANIES

The consolidated profit and loss account of 31 leasing companies for five years (1983-84 to 1987-88) is presented in Table 5.1 and trend analysis is given in Table 5.2. It may be seen from Table 5.1 that total income of sample companies soared to Rs.249 crore in 1987-88 from Rs.62 crore in 1983-84, recording an impressive growth rate of 75 per cent over the period. Out of this, lease income (LI) increased at a much higher rate (124 per cent) than other income (50 per cent). Lease income jumped up from Rs.22 crore in 1983-84 to Rs.131 crore in 1987-88. The other income would consists of income from hire-purchase finance, instalment sale, interest, dividends and consultancy fees. For leasing-cum-manufacturing companies, total income would include the income from sale of products also. Other income has grown from Rs.40 crore in 1983-84 to Rs.118 crore (47 per cent) in 1987-88. Because of the higher growth of lease income, its share in total income has gone up from 35 per cent in 1983-85 to 53 per cent in 1987-88.

In spite of a significant rise in the total income, profitability declined. This happened because operating expenses and depreciation increased at a higher rate than total income. Operating expenses moved up from Rs.1.0 crore (16 per cent of TI) in 1983-84 to Rs.4.4 crore (17.7 per cent) in 1987-88, showing a growth rate of 85 per cent over the period. Yet another major
### TABLE 5.1
CONSOLIDATED PROFIT AND LOSS ACCOUNT OF 31 LEASING COMPANIES
FOR THE YEARS ENDED 1983-84 TO 1987-88

(Rs. in crore)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>A. INCOME</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease Income</td>
<td>22</td>
<td>35.0</td>
<td>41</td>
<td>46.0</td>
<td>71</td>
<td>51.0 98 53.0 131 53.0 124</td>
</tr>
<tr>
<td>Other Income</td>
<td>40</td>
<td>65.0</td>
<td>49</td>
<td>54.0</td>
<td>68</td>
<td>49.0 85 47.0 118 47.0 49</td>
</tr>
<tr>
<td>Total Income (A)</td>
<td>62</td>
<td>100</td>
<td>90</td>
<td>100</td>
<td>139</td>
<td>100 183 100 249 100 74</td>
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<tr>
<td><strong>B. OPERATING EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>10</td>
<td>16.1</td>
<td>13</td>
<td>11.4</td>
<td>21</td>
<td>15.1 27 14.7 44 17.7 85</td>
</tr>
<tr>
<td><strong>C. PROFIT (A-B)</strong></td>
<td>52</td>
<td>83.9</td>
<td>77</td>
<td>85.6</td>
<td>118</td>
<td>84.9 156 85.2 205 82.5 75</td>
</tr>
<tr>
<td><strong>D. DEPRECIATION</strong></td>
<td>11</td>
<td>16.1</td>
<td>13</td>
<td>14.4</td>
<td>30</td>
<td>27.3 47 25.7 61 24.5 115</td>
</tr>
<tr>
<td><strong>D. TOTAL EXPENDITURE (B+D)</strong></td>
<td>21</td>
<td>33.9</td>
<td>31</td>
<td>34.4</td>
<td>51</td>
<td>36.7 74 40.4 105 42.2 100</td>
</tr>
<tr>
<td><strong>E. PBDIT (C-D)</strong></td>
<td>41</td>
<td>66.1</td>
<td>59</td>
<td>65.5</td>
<td>88</td>
<td>63.8 109 59.6 144 57.8 25</td>
</tr>
<tr>
<td><strong>F. INTEREST</strong></td>
<td>29</td>
<td>46.7</td>
<td>39</td>
<td>43.3</td>
<td>58</td>
<td>41.7 79 43.1 103 41.4 84</td>
</tr>
<tr>
<td><strong>G. PBT (E-F)</strong></td>
<td>12</td>
<td>19.4</td>
<td>20</td>
<td>27.2</td>
<td>30</td>
<td>21.6 30 16.4 41 16.5 125</td>
</tr>
<tr>
<td><strong>H. INCOME TAX</strong></td>
<td>1</td>
<td>1.6</td>
<td>1</td>
<td>1.1</td>
<td>2</td>
<td>1.4 5 2.7 8 2.4 100</td>
</tr>
<tr>
<td><strong>I. PAT (G-H)</strong></td>
<td>11</td>
<td>17.7</td>
<td>19</td>
<td>21.1</td>
<td>28</td>
<td>21.2 25 13.7 35 14.1 38</td>
</tr>
<tr>
<td><strong>J. DIVIDENDS</strong></td>
<td>3</td>
<td>4.8</td>
<td>7</td>
<td>7.7</td>
<td>11</td>
<td>7.9 13 7.1 15 6.0 100</td>
</tr>
<tr>
<td><strong>K. RETAINED EARNINGS (I-J)</strong></td>
<td>8</td>
<td>12.9</td>
<td>12</td>
<td>13.3</td>
<td>17</td>
<td>12.2 12 6.6 20 8.0 40</td>
</tr>
</tbody>
</table>

Note: Figures shown in the decimal points are the shares of respective items to total income.

### TABLE 5.2
TREND ANALYSIS OF SELECTED ITEMS

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>1. Lease Income</td>
<td>100</td>
<td>186</td>
<td>323</td>
<td>445</td>
<td>585</td>
</tr>
<tr>
<td>2. Other Income</td>
<td>100</td>
<td>122</td>
<td>138</td>
<td>213</td>
<td>295</td>
</tr>
<tr>
<td>3. Operating Expenses</td>
<td>100</td>
<td>130</td>
<td>210</td>
<td>270</td>
<td>440</td>
</tr>
<tr>
<td>4. PBDIT</td>
<td>100</td>
<td>148</td>
<td>227</td>
<td>300</td>
<td>394</td>
</tr>
<tr>
<td>5. Depreciation</td>
<td>100</td>
<td>163</td>
<td>272</td>
<td>427</td>
<td>554</td>
</tr>
<tr>
<td>6. PBT</td>
<td>100</td>
<td>144</td>
<td>215</td>
<td>266</td>
<td>351</td>
</tr>
<tr>
<td>7. Interest</td>
<td>100</td>
<td>134</td>
<td>200</td>
<td>272</td>
<td>355</td>
</tr>
<tr>
<td>8. PBT</td>
<td>100</td>
<td>167</td>
<td>250</td>
<td>250</td>
<td>342</td>
</tr>
<tr>
<td>9. Income Tax</td>
<td>100</td>
<td>100</td>
<td>200</td>
<td>500</td>
<td>600</td>
</tr>
<tr>
<td>10. PAT</td>
<td>100</td>
<td>173</td>
<td>255</td>
<td>227</td>
<td>318</td>
</tr>
<tr>
<td>11. Dividends</td>
<td>100</td>
<td>233</td>
<td>387</td>
<td>433</td>
<td>500</td>
</tr>
<tr>
<td>12. Retained Earnings</td>
<td>100</td>
<td>150</td>
<td>213</td>
<td>150</td>
<td>250</td>
</tr>
</tbody>
</table>

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### Table 5.3

**SELECTED FINANCIAL RATIOS OF 31 LEASING COMPANIES**  
*(1983-84 TO 1987-88)*  
(Per cent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total Income to Capital Employed</td>
<td>17.5</td>
<td>16.9</td>
<td>19.0</td>
<td>19.5</td>
<td>20.8</td>
</tr>
<tr>
<td>2. PBDIT to Total Income</td>
<td>83.9</td>
<td>85.6</td>
<td>84.9</td>
<td>85.2</td>
<td>82.3</td>
</tr>
<tr>
<td>3. PBIT to Total Income</td>
<td>66.1</td>
<td>65.5</td>
<td>63.3</td>
<td>59.6</td>
<td>57.8</td>
</tr>
<tr>
<td>4. PBIT to Capital Employed</td>
<td>11.5</td>
<td>11.1</td>
<td>12.1</td>
<td>11.6</td>
<td>12.0</td>
</tr>
<tr>
<td>5. PAT to PBIT</td>
<td>26.8</td>
<td>32.2</td>
<td>31.8</td>
<td>22.9</td>
<td>24.3</td>
</tr>
<tr>
<td>6. PAT to Total Income</td>
<td>17.7</td>
<td>21.1</td>
<td>20.1</td>
<td>13.6</td>
<td>14.1</td>
</tr>
<tr>
<td>7. PAT to Net Worth</td>
<td>21.6</td>
<td>24.3</td>
<td>25.0</td>
<td>18.8</td>
<td>19.2</td>
</tr>
<tr>
<td>8. Capital Employed to Net Worth (Times)</td>
<td>5.2</td>
<td>5.1</td>
<td>5.2</td>
<td>5.5</td>
<td>5.2</td>
</tr>
<tr>
<td>9. Earnings per Share (EPS)</td>
<td>4.3</td>
<td>4.6</td>
<td>4.5</td>
<td>3.8</td>
<td>5.0</td>
</tr>
<tr>
<td>10. Dividends per Share (DPS)</td>
<td>1.2</td>
<td>1.6</td>
<td>1.8</td>
<td>1.9</td>
<td>2.0</td>
</tr>
<tr>
<td>11. Operating Expenses to Total Income</td>
<td>16.1</td>
<td>14.4</td>
<td>15.1</td>
<td>14.7</td>
<td>17.7</td>
</tr>
<tr>
<td>12. Interest to Total Income</td>
<td>46.7</td>
<td>43.3</td>
<td>41.7</td>
<td>43.1</td>
<td>41.4</td>
</tr>
<tr>
<td>13. Depreciation to Total Income</td>
<td>17.7</td>
<td>20.0</td>
<td>27.3</td>
<td>25.7</td>
<td>21.5</td>
</tr>
<tr>
<td>14. Lease Income to Leased Assets</td>
<td>20.0</td>
<td>29.7</td>
<td>32.4</td>
<td>35.1</td>
<td>38.8</td>
</tr>
</tbody>
</table>
cost for a leasing company is the interest payments. In fact, interest on long-term and short-term borrowings consumes a lion's share of total income (more than 40 per cent) of leasing companies. Interest payments growing by 64 per cent, increased from Rs.29 crore in 1983-84 to Rs.103 crore in 1987-88. However, as a percentage of total expenses (or total income), the share of interest expenses has been declining over the years. For example, interest expenses accounted for 70 per cent of total expenses (excluding depreciation) in 1987-88 as compared to 75 per cent of total expenses in 1983-84.

The depreciation provisions have shown the maximum increase. They increased from Rs.11 crore (17.7 per cent of TI) in 1983-84 to Rs.61 crore (24.5 per cent of TI) in 1987-88, showing a 114 per cent growth over the years. Depreciation, rather than operating expenses, have caused sharp decline in PBIT as would be observed from the trend of PBDIT. The increase in the share of depreciation provision and operating expense was perhaps caused by the fall in lease rentals in spite of increasing volume of lease business over the years. The leasing industry in India seems to be characterised by cut-throat competition. Essentially, the competition is price-centered involving under-cutting of lease rentals. The lease rentals which were around Rs.30-33 per Rs.1000 worth of asset per month for a 5 year lease had crashed to Rs.15-16 before rising around Rs.25 in the present period (Pandey 1987, p. 5).

Income tax provision has shown a slight increase in relation to total income. Although PAT has increased from Rs.11 crore to
Rs.35 crore in 1987-88, yet has declined in relative terms. It is observed from the scrutiny of the annual reports of 31 sample leasing companies that in 1983-84, 27 companies (87 per cent) made profits, increasing to 29 (94 per cent) in 1984-85 and 1985-86 then declining to 24 companies (77 per cent) in 1986-87 and finally increasing again to 27 (87 per cent) in 1987-88. It is interesting to note that only 6 companies (20 per cent) paid income tax in 1983-84 and 1984-85, the number of tax paying companies increased to 13 (42 per cent) in 1985-86, further to 28 (90 per cent) in 1986-87 and then declined to 26 (84 per cent) in 1987-88. The introduction of Section 115J of Income Tax Act, in 1987, (tax on book profits) hit a large number of companies in 1986-87 and 1987-88.

On the one hand, relative profitability of the leasing companies declined during 1983-84 to 1987-88 and on the other hand, they declared more dividend. As a consequence, retained earnings as a percentage reduced from 13 per cent to 8 per cent. In absolute amount dividend payments increased from Rs.3 crore in 1983-84 to Rs.15 crore in 1987-88 and retained earnings grew from Rs.8 crore in 1983-84 to Rs.20 crore in 1987-88.

It may also be seen that the rest of indicators also registered an increase over the years. Total income, net worth, borrowings, PBT and PAT registering compound growth rates of 41 per cent, 39 per cent, 38 per cent, 37 per cent and 36 per cent, respectively over the years. The net fixed assets and leased assets also registered compound growth rates of 35 per cent and 33 per cent, respectively over the years. The business activity surged forward during 1984-85, 1985-86 and 1987-88 in sharp contrast to
## TABLE 5.4

**FREQUENCY DISTRIBUTION OF 31 LEASING COMPANIES**  
**PATTERN OF PROFITABILITY (ROCK, NP & ROC) ACCORDING TO SIZE OF COMPANIES (1985-86 TO 1987-88)**

<table>
<thead>
<tr>
<th>SIZE GROUPS</th>
<th>AVERAGE PROFITABILITY (PERCENTAGE)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ROCK :</td>
</tr>
<tr>
<td>ALL COMPANIES (31)</td>
<td>12.8</td>
</tr>
</tbody>
</table>

### A. According to size of capital

1. Small companies (9) (below Rs. 1 crore)  
   - Rock: 14.1  
   - NP Margin: 13.7  
   - ROC: 13.6  
   - 1985-86: 25.9  
   - 1986-87: 22.7  
   - 1987-88: 21.3  
   - 1985-86: 34.4  
   - 1986-87: 30.7  
   - 1987-88: 31.8

2. Medium companies (13) (Rs.1-2.5 crore)  
   - Rock: 12.2  
   - NP Margin: 11.9  
   - ROC: 12.7  
   - 1985-86: 28.1  
   - 1986-87: 19.4  
   - 1987-88: 14.2  
   - 1985-86: 21.6  
   - 1986-87: 17.9  
   - 1987-88: 18.4

3. Big companies (9) (Rs.2.5 crore & above)  
   - Rock: 12.4  
   - NP Margin: 12.2  
   - ROC: 13.4  
   - 1985-86: 22.1  
   - 1986-87: 12.6  
   - 1987-88: 14.0  
   - 1985-86: 24.6  
   - 1986-87: 16.8  
   - 1987-88: 24.2

### B. According to size of WIP

1. Small companies (13) (less than Rs.2 crore)  
   - Rock: 12.6  
   - NP Margin: 12.8  
   - ROC: 13.2  
   - 1985-86: 30.5  
   - 1986-87: 22.5  
   - 1987-88: 18.9  
   - 1985-86: 31.2  
   - 1986-87: 25.9  
   - 1987-88: 28.0

2. Medium companies (12) (Rs.2-4 crore)  
   - Rock: 13.3  
   - NP Margin: 12.9  
   - ROC: 13.5  
   - 1985-86: 24.6  
   - 1986-87: 18.4  
   - 1987-88: 12.7  
   - 1985-86: 23.8  
   - 1986-87: 20.6  
   - 1987-88: 18.7

3. Big companies (6) (Rs.4 and above)  
   - Rock: 12.2  
   - NP Margin: 11.2  
   - ROC: 13.3  
   - 1985-86: 18.0  
   - 1986-87: 10.2  
   - 1987-88: 13.0  
   - 1985-86: 21.8  
   - 1986-87: 15.0  
   - 1987-88: 16.9

### C. According to capital employed

1. Small Companies (14) (Less than Rs.18 crore)  
   - Rock: 12.6  
   - NP Margin: 13.1  
   - ROC: 12.8  
   - 1985-86: 30.1  
   - 1986-87: 23.9  
   - 1987-88: 18.1  
   - 1985-86: 24.9  
   - 1986-87: 21.1  
   - 1987-88: 22.2

2. Medium companies (11) (Rs.18-30 crore)  
   - Rock: 13.3  
   - NP Margin: 12.4  
   - ROC: 13.6  
   - 1985-86: 23.5  
   - 1986-87: 18.0  
   - 1987-88: 17.6  
   - 1985-86: 29.3  
   - 1986-87: 25.2  
   - 1987-88: 26.1

3. Big companies (8) (Rs.30 crore & above)  
   - Rock: 12.5  
   - NP Margin: 11.3  
   - ROC: 12.5  
   - 1985-86: 20.0  
   - 1986-87: 18.5  
   - 1987-88: 12.2  
   - 1985-86: 25.2  
   - 1986-87: 14.5  
   - 1987-88: 19.0

### D. According to size of TCI

1. Small companies (13) (less than Rs.2 crore)  
   - Rock: 12.9  
   - NP Margin: 13.6  
   - ROC: 16.6  
   - 1985-86: 30.0  
   - 1986-87: 24.9  
   - 1987-88: 22.5  
   - 1985-86: 28.6  
   - 1986-87: 27.3  
   - 1987-88: 29.0

2. Medium companies (10) (Rs.2-5 crore)  
   - Rock: 13.2  
   - NP Margin: 12.8  
   - ROC: 13.6  
   - 1985-86: 23.5  
   - 1986-87: 19.2  
   - 1987-88: 16.6  
   - 1985-86: 23.9  
   - 1986-87: 22.0  
   - 1987-88: 22.1

3. Big companies (8) (Rs.5 crore & above)  
   - Rock: 12.4  
   - NP Margin: 11.4  
   - ROC: 12.0  
   - 1985-86: 16.8  
   - 1986-87: 10.4  
   - 1987-88: 11.4  
   - 1985-86: 22.9  
   - 1986-87: 14.8  
   - 1987-88: 14.9

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Note: Figures in to brackets indicate the number of companies in respective categories.
subdued performance noticed during 1986-87. The general upswing in the leasing business resulted in higher growth rates in almost all selected indicators. According to Farouk Irani, President of First Leasing Company of India Ltd., the leasing industry has been growing at an average rate 56 per cent a year and this growth is more likely to continue (Irani 1990, p.3). If we compare the growth rates of selected items in 1986-87 to the growth rates of other years, we find a sharp decline in almost all indicators in 1986-87.

The growth rate of TI was 32 per cent in 1986-87 as compared to 54 per cent in 1985-86, (a fall of 40 per cent), growth rate of LI was 38 per cent in 1986-87 as compared to 71 per cent in 1985-86, (a fall of 87 per cent). The same trend can be seen in the rest of the items in 1986-87. PAT experienced a negative growth rate of 7 per cent in 1986-87 as compared to growth rates of 62 per cent and 44 per cent in 1984-85 and 1985-86, respectively. It can be concluded that the total leasing activities were slackened during 1986-87. The slackness can be attributed to the large number of companies that entered the leasing field since there is no barriers to entry. As stated earlier, the mushroom growth of leasing companies (private and public sector) led for cut throat competition, which was basically price war. The lease rentals crashed substantially during the latter part of 1986 and former part of 1987 and stabilized in 1988.

The important ratios of 31 leasing companies are presented for five years in Table 5.3. It may be seen from Table 5.3, that total income as a percentage of capital employed improved from
17.5 per cent in 1983-84 to 20.8 per cent in 1987-88. Profit before interest and tax (PBIT) as a percentage of TI deteriorated from 67 per cent in 1983-84 to 58 per cent in 1987-88, recording a fall of 3.7 per cent over the period. It is important to note that PAT as a percentage of net worth declined to 19.2 per cent in 1987-88 from 21.6 in 1983-84. Similarly, PAT as a percentage of TI declined to 14.4 per cent in 1987-88 from 17.7 per cent in 1983-84. Earnings per share (EPS) and dividends per share (DPS) improved from Rs.4.3 and Rs.1.23, respectively in 1983-84 to Rs.4.95 and Rs.1.97, respectively in 1987-88.

As explained earlier, it is to note that operating expenses and depreciation as percentage of TI increased while interest as percentage of TI decreased over the years. It can be concluded with the help of consolidated profit and loss account analysis that annual growth rates of selected items and industry ratios for the leasing industry improved over the years, except in 1986-87. This is also corroborated by RBI study (RBI Bulletin, May 1989, p.403) according to which the performance of equipment leasing companies was impressive and consistent during 1984-85 and 1985-86.

**DISTRIBUTION OF THE COMPANIES**

In this section, we provide an analysis of distribution of sample companies according to different ratios and structural relationship between profitability and other variables. These are as follows.
Return on Capital Employed (ROCE)

ROCE ratio is measured as percentage of profit before interest and tax (PBIT) to capital employed (CE). In 1983-84 and 1984-85, half of the companies were positioned in the ROCE range of 0-10 per cent and this number declined to about 15 per cent in 1987-88. The largest number of companies (84 per cent) were distributed in the range of ROCE 10-20 per cent in 1987-88 as compared to 50 per cent of the companies in 1983-84. It indicates that there was a movement of companies to higher range of ROCE over the years. The average ROCE of 31 leasing companies grew to 13 per cent in 1987-88 from 11 per cent in 1983-84.

Gross Profit Margin (GPM)

Gross Profit margin is calculated by PBIT as percentage of total income (TI). It may be noted that the range of 50-75 per cent covers about 75 per cent of the companies over the years. We find that the number of companies in the range of more than 75 per cent GPM have more or less remained same over the years. The average GPM of sample companies declined from 67 per cent in 1983-84 to 58 per cent in 1987-88.

Net Profit Margin (NPM)

Net profit margin ratio is calculated by PAT as percentage of total income. An analysis of NPM reveals that about half of the companies were positioned in the range of 0-20 per cent in 1983-84, and the number of companies in this range increased to 60 per cent in 1987-88. It is noted that the number of companies in the range above 30 per cent deteriorated from one third in 1983-84 to
one fifth in 1987-88. The average NPM has remained more or less constant at 24 per cent over the years except in 1986-87 when it declined.

Return on Equity (ROE)
This ratio is measured as percentage of networth. If we compare the concentration of the companies between 1983-84 and 1987-88, we find a shift of large number of companies to higher percentage of ROE in 1987-88. In 1983-84, 30 per cent of companies were positioned in less than 10 per cent of ROE while 15 per cent of the companies in 1987-88. The companies in the ranges of 30-40 per cent and above 40 per cent remained more or less same over the years. The average ROE of sample companies fell from 26 per cent in 1983-84 to 25.5 per cent in 1987-88.

Operating Expenses (OP EXP)
This ratio explains the relationship between the operating expenses to total income. Operating expenses also include miscellaneous and public issue expenses and pre operating expenses, depreciation and interest. It is noted that the largest number of companies were positioned in the range of 10-20 per cent throughout the period. The companies in the ranges 0-10 per cent and 10-20 per cent remained same (45 per cent) for all the years. The average operating expenses ratio was around 15 per cent 1983-84 and stepped to 19 per cent in 1987-88.

Interest Expense (INT)
Interest generally constitutes the largest item of expenses, accounting for 40-50 per cent of total income and about 75 per
cent of all costs (excluding depreciation). As seen in Chapter 4, the leasing companies relied on borrowed funds for about 85 per cent of capital employed over the years. Therefore, for a leasing company interest component forms the major chunk of total expenses.

In the U.K., interest payments account for about 90 per cent of all expenses on an average, among the large value lessors, 85 per cent in the middle value category and only 57 per cent among small value lessors (Tomkins, Lowe and Morgan 1979, p. 32). The role of interest payments as a major component of expenditure was particularly noticeable in case of Indian equipment leasing and hire purchase finance companies (RBI Bulletin. September 1987, p. 735). The interest is measured as a percentage of total income over the years. Interest coverage ratio as measured by times of interest to profit before interest and tax (PBIT). An analysis of interest payments to total income, reveals that one third of the companies were in the range of 0-25 per cent of INT/TI, and the number of companies declined to ten per cent in 1987-88.

It is observed that in 1983-84, about 40 per cent of the companies were positioned in the range of 25-50 per cent, while the number of companies in this range moved to 65 per cent in 1987-88. However, the number of companies in the range of 50-75 per cent, has remained more or less constant at 25 per cent of the companies over the period. The average percentage of interest declined from 49 per cent in 1983-84 to 43 per cent in 1987-88. Interest as percentage of total expenses (excluding
Depreciation) increased from 74 per cent in 1983-84 to 76 per cent in 1987-88.

Interest coverage ratio is used by times of profit before interest and tax (PBIT) to interest. Interest coverage ratio indicates the capacity of the company to pay the interest expense. An analysis of interest coverage ratio reveals that 40 per cent of the companies were positioned in the ratio of 2-4 times over the years. However, the number of companies in the interest coverage ratio of 2-4 times, rose from 40 per cent in 1983-84 to 52 per cent in 1987-88. On the contrary, the number of companies in the interest coverage ratio of more than 4 times, declined from 18 per cent of the companies in 1983-84 to 6 per cent of the companies in 1987-88. The average interest coverage ratio declined from 3 times to 2 times between 1983-84 and 1987-88.

Depreciation

Depreciation is an important item in the measurement of profitability and performance of leasing companies. The accounting treatment of depreciation varies among leasing companies and depreciation is one of the controversial issues for a leasing company (see Chapter 6 for leasing companies practices with regard to depreciation). Some companies adopt straight line method while others adopt written down value method and a few follow length of the primary period. However, it is worth noting that in the long run, depreciation will be the same percentage of the value of leased assets for all firms if a stable level of leases (in terms of value) are written each year and assets have
similar lives (Tomkins, Lowe and Morgan 1979, p.35).

About one third of the companies provided depreciation between 10-20 per cent of total income in 1983-84 as compared to about half of the companies in 1987-88. It may be noticed that the average depreciation as a percentage of total income increased over the years to 26 per cent in 1987-88 as compared to 17 per cent in 1983-84. Similarly, depreciation can be used as a percentage of gross fixed assets (GFA). It is seen that largest number of companies (85 per cent) provided depreciation at 10 per cent of GFA. Out of these less than one third provided depreciation at less than 5 per cent of GFA. As against this, non-leasing companies are providing depreciation in the range of 10-20 per cent of GFA. In 1987-88, about 60 per cent of the companies provided in the range of 10-20 per cent. However, the average depreciation as a percentage of GFA has increased to 12 per cent of GFA in 1987-88 from 10 per cent in 1983-84.

Lease Return (LR) and Lease Depreciation (LD)
An important measure of performance in the leasing industry is the lease return (LR), which is calculated as percentage of annual lease income to the cost of leased assets. LR indicates relationship between lease income and leased assets. However, it is difficult to calculate exactly the lease return, because LR is subject to various accounting policies and practices of leasing companies. LR is primarily based on the fixation of lease rentals, and the rate of depreciation. However, in this chapter the net leased assets have been taken into account while calculating ratio of lease return.
An analysis of lease income (LI) to leased assets (LA) reveals that in 1983-84, more than half of the companies earned less than 25 per cent while only one company earned less than 25 per cent of lease return in 1987-88. On the contrary, the number of companies which had earned lease return more than 25 per cent, increased to 30 companies (97 per cent) in 1987-88 from 12 companies (39 per cent) in 1983-84. It may be noted that average lease return recorded a substantial growth rate over the years. The average lease return was 39 per cent in 1987-88 as compared to 20 per cent in 1983-84, recording a growth rate of 24 per cent over the years.

An analysis of lease depreciation as percentage of lease income explains the magnitude of depreciation on lease income. Lease depreciation plays a vital role in arriving at the lease income. The size of lease income primarily depends upon the lease depreciation. If lease depreciation (LD) increases, then lease income (LI) decreases and vice versa. In 1983-84 half of the companies provided depreciation less than 25 per cent of lease income and the number of companies in this range came down to one fourth in 1987-88. It is seen that in 1983-84, one fourth of the companies provided in the range of 25-50 per cent of LD/LI, the number of companies in this range increased to more than half of the companies in 1987-88.

Similarly, let us look at the relationship between lease income and total income. This relationship explains how leasing companies concentrated on leasing business as compared to other
business. The analysis of lease income to total income reveals that in 1983-84, one third of the companies were in the range of less than 25 per cent, while only one fifth of them were in this range in 1987-88. On the contrary, the number of companies in the ranges of 25-50 per cent and 50-75 per cent, increased over the years from about one third of the companies in 1983-84 to about two thirds of the companies in 1987-88. The average percentage of lease income to total income jumped up from 35 per cent in 1983-84 to 54 per cent in 1987-88, recording a annual growth rate of 14 per cent over the years. It is seen from the analysis that the largest number of companies moved to higher range of LI/TI over the years.

Earnings Per Share (EPS)
EPS is one of the important performance indicators of a company, whether it is a leasing/finance company or a manufacturing company. EPS analysis shows that 60 per cent of the companies earned EPS of less than Rs.4 for a share of Rs.10 in 1983-84 whereas only 40 per cent of companies earned EPS of Rs.4 in 1987-88. It is noted that number of companies in the range of Rs.4-6 of EPS increased over the period. EPS analysis reveals that, number of companies which earned EPS of more than Rs.6, have remained constant at 30 per cent over the years. It can be concluded that there is an appreciation in EPS over the years except in 1986-87. However, EPS has its own limitations. It is based on historical data for accounting profit, which is again subject to accounting policies and practices like income recognition and calculation of depreciation on leased and owned
assets and provision for bad debts.

Dividends Per Share (DPS)

In 1983-84, 24 companies (75 per cent) paid dividends, ranging between 10 and 25 per cent while 29 companies (94 per cent) paid the dividends in 1986-87, and 1987-88, ranging between 15 and 30 per cent. The pattern of dividend declaration over the years reveals that in 1984-85, out of 27 companies which paid dividends, three companies (10 per cent) paid first time, 9 companies (30 per cent) maintained same rate as compared to previous year and 15 companies (55 per cent) increased the rate of dividend and no company has reduced the dividend rate as compared to previous year. In 1987-88, out of 28 companies which paid dividends, eight companies (25 per cent) maintained same rate, six companies (20 per cent) increased and 14 companies (45 per cent) curtailed the rate of dividend as compared to previous year.

It is noted that in 1986-89, eight companies (25 per cent) skipped the dividend payments as compared to three companies (10 per cent) in 1987-88. It is because of poor performance of companies in 1986-87 and inadequate distributable profits. Despite poor performance and inadequate distributable profits, companies paid dividends in 1986-87 and 1987-88 out of general reserve and surplus profits. Hence, these companies were left with no reserves and forced to skip the dividends in 1988-89. If these companies do not perform better in future, a few more companies will have to skip the dividends.
The comparison of dividend payments between 1983-84 and 1987-88, reveals that in 1987-88, only two companies paid dividends less than 10 per cent of share capital in 1987-88, while 7 companies paid less than 10 per cent in 1983-84. Fifteen companies (48 per cent) paid dividends in the range of 20-30 per cent as compared to 11 companies (35 per cent) in 1983-84. It may be noted that average percentage of dividends paid by sample companies stood at 15 per cent in 1983-84 and 1984-85, moved to 20 per cent in 1985-86 stood at that rate in 1986-87 and 1987-88. It is important to note that inspite of a fall (slump) in the overall performance in 1986-87, these companies ventured to pay dividends. Similarly, dividends as percentage of PAT increased to 40 per cent in 1987-88 from 29 per cent in 1983-84.

Retained Earnings (RE)
If we analyse retained earnings (RE) as percentage of PAT, the analysis shows that one third of the companies retained less than 50 per cent of PAT in 1987-88. The average retained earnings of sample companies came down to 60 per cent of PAT in 1987-88 from 71 per cent in 1983-84.

PROFITABILITY AND STRUCTURAL RELATIONSHIP

In this section, the profitability is related to various structural ratios. Three measures of profitability such as return on capital employed (ROCE), net profit margin (NP) and return on equity (ROE) have been analysed. The pattern of profitability has been analysed in terms of size, leverage, growth, lease income and age of companies.
<table>
<thead>
<tr>
<th>LEVERAGE GROUPS</th>
<th>ALL COMPANIES (31)</th>
<th>A. According to LTB/CE</th>
<th>B. According to PD/CE</th>
<th>C. According to TB/CE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ROCK</td>
<td>NP</td>
<td>ROE</td>
<td>ROCK</td>
</tr>
<tr>
<td></td>
<td>12.8 12.5 13.0</td>
<td>25.7 18.8 16.7</td>
<td>26.4 21.0 23.1</td>
<td>12.9 13.1 13.4</td>
</tr>
<tr>
<td>A. According to LTB/CE</td>
<td></td>
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</tr>
<tr>
<td>1. Zero leverage Co. (17)</td>
<td>12.4 13.0 12.8</td>
<td>27.3 21.8 19.0</td>
<td>26.0 22.4 24.9</td>
<td>11.7 11.7 11.8</td>
</tr>
<tr>
<td>(LTB/CE = 0)</td>
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<tr>
<td>2. Low leverage Co. (6)</td>
<td>13.8 13.5 14.3</td>
<td>28.2 24.7 24.2</td>
<td>31.3 31.0 28.5</td>
<td>12.8 12.1 11.9</td>
</tr>
<tr>
<td>(LTB/CE &lt; 10%)</td>
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<tr>
<td>3. High leverage Co. (8)</td>
<td>12.9 11.0 12.8</td>
<td>22.1 9.6 9.6</td>
<td>24.6 13.3 15.5</td>
<td>12.6 19.9 13.3</td>
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<tr>
<td>(LTB/CE &gt; 10%)</td>
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<td></td>
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<tr>
<td>B. According to PD/CE</td>
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</tr>
<tr>
<td>1. Low leverage Co. (16)</td>
<td>13.6 14.1 13.7</td>
<td>30.3 24.6 19.0</td>
<td>27.9 23.6 24.3</td>
<td>13.1 13.4 13.7</td>
</tr>
<tr>
<td>(PD/CE &lt; 25%)</td>
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<tr>
<td>2. Med.leverage Co. (10)</td>
<td>11.7 11.7 14.3</td>
<td>20.4 13.8 15.4</td>
<td>24.0 19.4 25.0</td>
<td>12.8 12.1 11.9</td>
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<tr>
<td>(PD/CE = 25-50%)</td>
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<tr>
<td>3. High leverage Co. (5)</td>
<td>12.6 11.8 11.8</td>
<td>16.8 14.4 11.6</td>
<td>25.8 19.6 14.2</td>
<td>11.3 13.3 13.7</td>
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<tr>
<td>(PD/CE &gt; 50%)</td>
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<tr>
<td>C. According to TB/CE</td>
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</tr>
<tr>
<td>1. Low leverage Co. (14)</td>
<td>12.9 13.1 13.4</td>
<td>28.7 24.5 19.9</td>
<td>23.9 23.5 24.1</td>
<td>12.8 12.1 11.9</td>
</tr>
<tr>
<td>(TB/CE &lt; 60%)</td>
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<tr>
<td>2. Med.leverage Co. (12)</td>
<td>12.8 11.9 12.1</td>
<td>21.2 16.6 13.7</td>
<td>26.4 20.7 20.7</td>
<td>11.3 13.3 13.7</td>
</tr>
<tr>
<td>(TB/CE = 60-70%)</td>
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<tr>
<td>3. High leverage Co. (5)</td>
<td>11.3 10.9 13.3</td>
<td>24.1 14.1 17.9</td>
<td>31.3 18.3 23.3</td>
<td>11.3 13.3 13.7</td>
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<tr>
<td>(TB/CE &gt; 70%)</td>
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</table>

Note: Figures in the brackets indicate the number of companies in respective categories.
PROFITABILITY AND SIZE

Size is measured in terms of paid up share capital (SC), net worth (NW), capital employed (CE) and total income (TI). The sample companies are divided into three groups in each size variable and profitability of each group is compared with other groups. In addition to the comparative analysis of profitability, distribution of the companies has been also studied and analysed. The classification of groups is based on the data for the year 1985-86, since it is more appropriate year to use the data as base year because companies more or less stabilised their activities in 1985-86 as compared to 1983-84 and 1984-85. The analysis has done for three years (1985-86, 1986-87 and 1987-88). The average percentage of various groups as well as sample companies is presented in Table 5.4.

Profitability and Paid-up Share Capital

All sample companies are classified into three groups: 9 companies are in the small group, whose paid share capital is below Rs.1 crore each, 13 are in the medium group, whose paid up share capital is between Rs.1 and 2.5 crore each, and 9 are into big group, whose paid up share capital is Rs.2.5 crore and above.

It is noticed from distribution of the companies that 70 per cent of small group, 60 per cent of medium group and 80 per cent of big group companies are in the range of 10-15 per cent of ROCE, as compared to 65 per cent of overall sample companies were in this range over the years. Small group companies have earned higher ROCE over the years.
As regards distribution of the companies according to net profit margin, there is neither systematic pattern nor identifiable trend exists among the companies. It is observed that there were large variations in the distribution of the companies over the years. In 1985-86, medium group companies earned higher percentage of NP and this place was occupied by the small group in 1986-87 and 1987-88.

It is observed that from the distribution of companies according to ROE, the range of 20-40 per cent covered 80 per cent of small group, about 45 per cent of medium group and 65 per cent of big group companies over the years. The highest average percentage of ROE was held by the small group companies over the years. It is observed that small group companies in terms of paid up share capital has shown the best performance by registering the highest profitability (ROCE, NP and ROE) among the sample companies over the years. It appears that negative correlation exists between the profitability (ROCE, NP and ROE) and the size of companies in terms of paid up capital over the years.

**Profitability and Net Worth**

Sample companies are classified into three groups: 13 companies are in the small group, whose net worth is less than Rs. 2 crore each, 12 are in the medium group, whose net worth is between Rs. 2 and 4 crore each, and 6 companies are in the big group, whose net worth is Rs. 4 crore and above. The medium group registered highest average ROCE of 13.3 per cent in 1985-86, 12.9 per cent in 1986-87 and 13.5 per cent in 1987-88 as compared to other
groups and overall sample companies. Distribution of companies according to NP reveals that 25 per cent of small group companies were in the range of above 30 per cent and no company of medium group and big group was in this range over the years. The highest average percentage of NP was held by small group 30.5 per cent in 1985-86, 22.5 per cent 1986-87 and 18.9 per cent in 1987-88 as compared to 25.7 per cent, 18.8 per cent and 16.7 per cent of sample group respectively, in 1985-86, 1986-87 and 1987-88.

The distribution of companies according to ROE indicates that small group companies were positioned in the higher ROE as compared to other groups over the years. Average percentage of ROE of the small group is the highest over the years.

Profitability and Capital Employed

The third size measure used in the study is capital employed. Distribution of the companies according to ROCE indicates that about 75 per cent of small group (CE is less than Rs. 10 crore each) were in the range of more than 10 per cent ROCE, 100 per cent of medium group (CE is Rs.10-30 crore each) and 80 per cent of big group (CE is more than 30 crore each) were in the same range (more than 10 per cent). The medium group showed the highest ROCE in 1985-86, and this position was occupied by small group in 1986-87 and 1987-88. The medium group registered highest average ROCE. The largest number of companies in small group were in the higher range of NP. The sample 31 companies were distributed fairly well among all range bands from less than 10 per cent to 40 per cent of NP over the years. The small group companies registered highest percentage of NP over the years.
It is found that there was no pattern or trend in the distribution of companies according to ROE. It is noted that the medium group registered highest ROE among the sample companies over the years. As regards the ROCE, medium group has the highest in 1985-86 and 1987-88, whereas small group earned in 1986-87. The highest percentage of NP was held by small group and the highest ROE was by medium group companies. It can be concluded that there is negative correlation between size of companies (in terms of CE) and net profit margin and no conclusion can be made with regard to ROCE, and ROE to size of companies in terms of CE.

Profitability and Total Income

The small group (less than Rs.2 crore each) showed the highest ROCE among the sample companies over the years. Similarly, the largest number of small group fell in range of higher NP i.e., 30 per cent of small group were in the ranges of 30-40 per cent and above 40 per cent NP whereas no company of medium group (TI is Rs.2-5 crores each) and big group (TI of more than Rs.5 crores) who was in these ranges over the years. The highest average percentage of NP was held by small group companies. It is found that there was neither a pattern nor a trend over the years and across the companies.

An analysis of profitability (ROCE, NP and ROE) and size (SC, NW, CE and TI) gives interesting insights that generally in most of the cases there existed an inverse relationship between profitability and size. It seems that small group companies
earned higher profitability and big companies earned lower profitability. Specifically, a negative relationship exists between profitability and size in terms of paid up share capital and total income. We also found there was no discernible relationship between size in terms of net worth and ROCE and was a negative relationship in respect of NP and ROE. Similarly, there was hardly no relation between profitability (ROCE and ROE) and size in terms of capital employed and found relation between NP and size of the companies over the years. It emerges that there is negative relation between the profitability and size of companies.

PROFITABILITY AND LEVERAGE

As stated earlier in this chapter, pattern of profitability is measured in terms of leverage. Leverage is measured in three ways (1) LTB/CE, (2) PD/CE and (3) TB/CE over the years. In all cases, companies are classified into three groups. The analysis of average profitability and leverage is presented in Table 5.5.

Profitability and Long Term Leverage

Long term leverage is measured by long term borrowings (loans from financial institutions and debentures) to capital employed. The sample companies are classified into three groups i.e., 17 companies are in no leverage group (LTB/CE = 0 per cent), six companies are in low leverage group (LTB/CE < 10 per cent) and eight companies are in high leverage group (LTB/CE > 10 per cent). As regards the distribution of companies zero leverage group and high leverage group companies were more or less in the
same range over the period, while the low leverage companies were in the higher profitability range. Similarly, the profitability of low leverage group was the highest among the sample companies. It seems that companies which used moderate long term source of finance gained much as compared to zero and high leverage companies over the years. It appears that there would be no correlation, if at all any relation exists, it would be negative correlation since low leverage group earned higher profitability as compared to high leverage group over the years.

Profitability and Public Deposits/Capital Employed
It is seen that low leverage group (PD/CE < 25 per cent) registered highest profitability (ROCE, NP and ROE) among the sample companies over the years. That was positioned in the range of 10-15 per cent of ROCE. The analysis indicates that high leverage group companies are more consistent as compared to other group companies. A scrutiny of NP and ROE reveals that only low leverage group companies recorded the highest NP and ROE over the years. However, in case of distribution of companies, no pattern existed over the years among the companies. It can be summarised that there is negative relationship between leverage of PD/CE and profitability, since low leverage group yielded (gained) highest ROCE, NP and ROE over the years.

Profitability and Total Debt/Capital Employed
An analysis of distribution of the companies according to leverage of total debt (TB) to capital employed (CE) reveals the following facts. About 50 per cent of the low leverage group
(TB/CE < 60 per cent) companies were in the range of 10-15 per cent of ROCE, 80 per cent of medium leverage group (TB/CE - 60-70 per cent) and 90 per cent of the high leverage group (TB/CE > 70 per cent) in this range over the years. No trend existed in case of distribution of companies according to NP and ROE. It is seen that low leverage group earned the highest ROCE, NP and ROE followed by high leverage group companies over the years.

**Profitability and Growth of the Companies**

Pattern of profitability according to growth of total net assets (TNA) total income (TI), and leased assets (LA) for the period 1985-86 to 1987-88 has been analysed. The average profitability of the companies according to growth of TI, TNA and LA is presented in Table 5.6.

**Profitability and Growth of Total Net Assets (TNA)**

As regards the distribution of sample companies, it is found that the sample companies are distributed more or less equally over three ranges of 5-10 per cent, 10-15 per cent and more than 15 per cent of ROCE. The analysis of ROCE indicates that the medium growth group (Growth rate of TNA = 100-200 per cent) earned highest average percentage ROCE in 1985-86 and 1986-87 and this position was occupied by the high growth group (growth rate of TNA > 200 per cent) in 1987-88. If we compare the average NP and ROE of the companies, we find that the highest average NP was gained by high growth over the years and highest average ROE was gained by high growth group in 1985-86, this position was occupied by medium growth of companies in 1986-87 and regained by the highest growth group companies in 1987-88.
Profitability and Growth of Leased Assets

An analysis of pattern of profitability according to growth of leased assets gives an interesting insight. It is noticed that the highest profitability was achieved by medium growth group (growth rate of LA = 100-300 per cent) in 1985-86 and 1986-87 and was achieved by high growth group (growth rate of LA > 200 per cent) in 1987-88. It can be concluded that the high growth group managed to improve the profitability by 1987-88.

Profitability and Growth of Total Income

As regards highest ROCE, low growth group (growth rate of TI more than 100 per cent) earned the highest average percentage ROCE in 1985-86, this position was occupied by medium growth group (growth rate of TI = 100-200 per cent) in 1986-87 and by high growth group (growth rate of TI > 200 per cent) in 1987-88. Highest average percentages of NP and ROE were occupied by high growth companies over the years. It can be concluded that there is positive relation between profitability and the growth rate of the companies in terms of total income over the study period.

PROFITABILITY AND SHARE OF LEASE INCOME

There is no clear cut definition for a leasing company. Equipment Leasing Association, (ELA) India, considers all of its members as leasing companies. RBI defines an equipment leasing company as any company which is a financial institution carrying out its principal business as leasing of equipment or the financing of such activity. Hence we decided to find out the relationship
### Table 5.6

**FREQUENCY DISTRIBUTION OF 31 LEASING COMPANIES**

**PATTERN OF PROFITABILITY (ROCK, NP & ROE) ACCORDING TO GROWTH OF COMPANIES**

(1985-86 TO 1987-88)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>COMPANIES (31)</strong></td>
<td></td>
<td>12.8</td>
<td>12.5</td>
<td>13.0</td>
<td>25.7</td>
<td>18.8</td>
<td>16.7</td>
<td>26.4</td>
<td>21.8</td>
<td>23.1</td>
</tr>
<tr>
<td>According to Growth of TNA</td>
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<td></td>
</tr>
<tr>
<td>1. Low Growth Companies</td>
<td>(Growth rate &lt; 100%)</td>
<td>13.4</td>
<td>13.0</td>
<td>13.1</td>
<td>17.8</td>
<td>16.5</td>
<td>14.2</td>
<td>22.2</td>
<td>21.3</td>
<td>18.0</td>
</tr>
<tr>
<td>2. Medium Growth Companies</td>
<td>(Growth rate: 100-200%)</td>
<td>14.0</td>
<td>14.2</td>
<td>12.8</td>
<td>28.0</td>
<td>24.3</td>
<td>15.7</td>
<td>26.2</td>
<td>23.4</td>
<td>20.9</td>
</tr>
<tr>
<td>3. High Growth Companies</td>
<td>(Growth rate &gt; 200%)</td>
<td>11.9</td>
<td>11.8</td>
<td>12.5</td>
<td>35.1</td>
<td>25.8</td>
<td>21.8</td>
<td>33.6</td>
<td>17.9</td>
<td>28.8</td>
</tr>
<tr>
<td>According to Leased Assets</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Low Growth Companies</td>
<td>(Growth rate &lt; 100%)</td>
<td>13.6</td>
<td>12.1</td>
<td>12.9</td>
<td>23.1</td>
<td>17.8</td>
<td>16.2</td>
<td>25.2</td>
<td>30.7</td>
<td>26.1</td>
</tr>
<tr>
<td>2. Medium Growth Companies</td>
<td>(Growth rate: 100-200%)</td>
<td>13.8</td>
<td>14.6</td>
<td>13.7</td>
<td>31.6</td>
<td>27.8</td>
<td>17.5</td>
<td>28.8</td>
<td>26.8</td>
<td>18.6</td>
</tr>
<tr>
<td>3. High Growth Companies</td>
<td>(Growth rate &gt; 200%)</td>
<td>11.3</td>
<td>11.9</td>
<td>15.0</td>
<td>31.0</td>
<td>17.0</td>
<td>22.0</td>
<td>21.0</td>
<td>16.6</td>
<td>31.9</td>
</tr>
<tr>
<td>According to TI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Low Growth Companies</td>
<td>(Growth rate &lt; 100%)</td>
<td>13.9</td>
<td>12.3</td>
<td>11.5</td>
<td>22.5</td>
<td>16.3</td>
<td>12.8</td>
<td>27.5</td>
<td>23.7</td>
<td>21.3</td>
</tr>
<tr>
<td>2. Medium Growth Companies</td>
<td>(Growth rate: 100-200%)</td>
<td>11.6</td>
<td>12.8</td>
<td>12.7</td>
<td>26.0</td>
<td>22.7</td>
<td>19.0</td>
<td>25.2</td>
<td>20.4</td>
<td>25.6</td>
</tr>
<tr>
<td>3. High Growth Companies</td>
<td>(Growth rate &gt; 200%)</td>
<td>13.0</td>
<td>12.4</td>
<td>15.1</td>
<td>31.7</td>
<td>22.6</td>
<td>20.0</td>
<td>26.6</td>
<td>24.8</td>
<td>26.3</td>
</tr>
</tbody>
</table>

Figures in bracket indicate number of companies.
between the proportionate lease income to total income. Accordingly, companies were classified into three groups i.e., low lease income group (LI/TI < 50 per cent) medium lease income group (LI/TI = 50-75 per cent) and high lease income group (LI/TI > 75 per cent). The average profitability of various groups according to LI/TI is presented in Table 5.7.

An analysis of distribution of companies shows that 75 per cent each of low lease income group and medium lease income group and 60 per cent of the high lease income group are concentrated in the range of 10-15 per cent ROCE over the years. About 10 per cent of low lease income group, 18 per cent of medium lease income group and 30 per cent of high lease income companies are in the range of more than 15 per cent ROCE over the years. It is noted that highest average percentage of ROCE was held by high lease income group over the years. The largest number (25 per cent) of high lease income group companies are in the range of more than 40 per cent NP and no company of low lease income and medium lease income group was in this range over the years. The highest average percentage NP was gained by high lease income group companies over the years. On the contrary, the low lease income group companies earned highest percentage of ROE over the years. It can be concluded that in case of ROCE and NP, there exists positive relation, since high lease income group earned the highest profitability and in terms of ROE, there was negative relationship between ROE and lease income companies.
PROFITABILITY AND AGE

An analysis of profitability and age includes fourteen other companies whose age is less than five years. The 14 companies are added, in order to understand the impact of age on profitability. Therefore, this analysis is based on 45 sample companies. The selected companies are classified into four groups (1) very young group (whose age is 3 years old), (2) young companies (whose age is 4-5 years old), (3) older companies (whose age is between 6-8 years old) and (4) very old group (whose age is more than 8 years old). The age is calculated on the basis of annual reports published upto 1988. Frequency distribution of 45 selected companies according to age is presented in Table 5.8.

The distribution of the companies according to ROCE shows that largest number (75 per cent) of the very old companies, were positioned in the range of 10-15 per cent, over the years, as compared with 60 per cent of the older companies, 50 per cent of the old companies and 45 per cent of the young companies were in the same range (10-15 per cent over) the years. The analysis of distribution of companies according to NP and ROE indicates that all group companies were distributed more or less fairly well over the five ranges of NP and ROE i.e., between less than 10 per cent and more than 40 per cent of over the years. The highest average percentage of ROCE was held by the very old companies in 1985-86 and by more old companeis in 1986-87 and again this position was regained by the very old companies in 1987-88. On the contrary, young companies recorded the highest average percentage of NP among the selected companies over the
### Table 5.7

**FREQUENCY DISTRIBUTION OF 31 LEASING COMPANIES**  
**PATTERN OF PROFITABILITY (ROCK, NP & ROX) ACCORDING TO LEASE INCOME/TOTAL INCOME (1985-86 TO 1987-88)**

<table>
<thead>
<tr>
<th>LEASE INCOME TO TOTAL INCOME (PERCENTAGE)</th>
<th>ROCK</th>
<th>NP</th>
<th>ROX</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALL COMPANIES</td>
<td>12.8</td>
<td>12.5</td>
<td>13.6</td>
</tr>
<tr>
<td>1. Low LI/companies (12) (LI/TI &lt; 50%)</td>
<td>12.4</td>
<td>12.4</td>
<td>12.8</td>
</tr>
<tr>
<td>2. Med. LI companies (11) (LI/TI = 50-75%)</td>
<td>12.4</td>
<td>11.9</td>
<td>13.8</td>
</tr>
<tr>
<td>3. High LI companies (8) (LI/TI &gt; 75%)</td>
<td>14.0</td>
<td>15.9</td>
<td>12.3</td>
</tr>
</tbody>
</table>

Note: Figures in the brackets indicate the number of companies.

### Table 5.8

**FREQUENCY DISTRIBUTION OF 31 LEASING COMPANIES**  
**PATTERN OF PROFITABILITY (ROCK, NP & ROX) ACCORDING TO AGE OF COMPANIES (1985-86 TO 1987-88)**

<table>
<thead>
<tr>
<th>AGE OF THE COMPANIES (YEARS)</th>
<th>ROCK</th>
<th>NP</th>
<th>ROX</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALL COMPANIES (45)</td>
<td>11.4</td>
<td>12.6</td>
<td>12.7</td>
</tr>
<tr>
<td>1. 3 yrs. old companies (6)</td>
<td>5.9</td>
<td>11.0</td>
<td>12.2</td>
</tr>
<tr>
<td>2. 4-5 yrs old companies (8)</td>
<td>10.0</td>
<td>12.6</td>
<td>10.9</td>
</tr>
<tr>
<td>3. 6-8 years old companies (17)</td>
<td>12.4</td>
<td>13.4</td>
<td>12.9</td>
</tr>
<tr>
<td>4. More than 8 years old companies (14)</td>
<td>13.4</td>
<td>12.4</td>
<td>13.8</td>
</tr>
</tbody>
</table>

Note: Figures in the bracket indicate the number of companies in respective categories.
years. It is interesting to notice that very old companies yielded the highest average percentage of ROE in 1985-86, and this position was held by old companies in 1986-87 and by young companies in 1987-88.

CONCLUSION

Total income of sample companies improved at a high growth rate of 75 per cent over the years. Profitability of leasing companies declined in spite of an increase in all indicators over the same period. The business activity surged forward during 1983-84 to 1985-86 and in 1987-88 in a sharp contrast to subdued performance noticed in 1986-87. It can be concluded that leasing business slackened in 1986-87. Industry tried to consolidate its position in 1988 and 1989. The industry experienced cut throat competition. This competition has led for crash of lease rentals during this period. The percentage increases in depreciation and operating expenses have also caused for the decline of profitability. The analyses highlighted that generally in most of the cases small companies made higher profitability as compared to other companies. Similarly, medium leveraged companies earned higher profitability.

*   *   *

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