CHAPTER - 8

CONCLUSIONS AND SUGGESTIONS
This chapter summarises the important findings of this study and suggests policy guidelines. We also identify certain areas for future research. The study was conducted to examine the structure of leasing industry and to analyse overall performance of leasing companies. We also reviewed the lease accounting practices in India and identified problem areas of leasing companies. We made an attempt to find out the prospects of the leasing industry.

This chapter is divided into two sections. The former section brings the important findings whereas the latter section makes a few suggestions for future research.

**MAJOR FINDINGS**

**GROWTH OF INDUSTRY**

The equipment leasing industry has expanded at a faster rate all over the world. Even in India, the rapid growth of equipment leasing would be witnessed. Leasing is used as an alternative of financing method. The U.S. leasing industry accounts for about 50 per cent of the world market. Leasing today finances about 33 per cent of total capital investment in the U.S.A., 20 per cent in the U.K., 15 per cent in France, 25 per cent in Spain, 10 per cent in Japan and less than one per cent in India. In most of the countries, commercial banks, merchant banks, and financial institutions dominate the leasing industry. There is a difference with regard to legal, accounting and tax aspects of
leasing across the countries. The leasing business in most of countries is regulated and controlled by general laws.

The excellent performance of pioneers in the leasing industry led others to enter into the field of leasing market. It started with a big bang in India. However, it is found that there were a number of fly-by-night operators in the leasing field between 1984 and 1986. By the end of 1987, the number of companies reached to 600. The financial institutions and subsidiaries of commercial banks, which joined the fray recently made business of leasing more popular in India and attempted to keep the leasing industry alive. Presently, industry is finding it difficult to get good clients and adequate funds to do the business. The year 1989-90 saw stabilised leasing industry. The leasing companies are trying to consolidate their positions in the market.

STRUCTURE

A large number of the leasing companies in India are private sector companies. The private sector leasing industry is composed of pure leasing companies, hire-purchase finance companies, and captive (inhouse) leasing companies. Public sector leasing organisations are divided into leasing divisions of financial institutions, subsidiaries of banks and other national and state level organisations. Leasing industry did business of about Rs.350 crore and Rs.500 crore by the end of March 1988 and March 1989, respectively. It is hoped that leasing business will reach a figure of Rs.1000 crore by 1991. Plant and machinery was the foremost type of asset leased by the
ELA members as well as by sample companies. Plant and machinery was followed by vehicles, earth moving equipments, computers and data processing equipments. Majority of the leasing operations (90 per cent) of the leasing companies are in the nature of finance lease.

It is found that, top three companies dominated the leasing industry i.e., these accounted for 50 per cent in terms of leasing activities (leased assets, leased income, total income and total assets) of 31 sample companies. The market leaders are TCFL, SFL, FLCI, MGF, RMF and MCC. It is concluded that the Indian leasing industry has the features of oligopolistic market, even though more than 400 leasing companies exist in the industry. The industry is generally dominated by half a dozen public sector and a dozen private sector organisations.

It is also found that most of the companies dealt with industrial equipment while a few with household durables and vehicles for personal and commercial uses. The study found that two-thirds of the leases having the primary period between three and five years whereas one-fourth of agreements having less than three years. It is noticed that lessee companies represent in a wide spectrum of industries. General engineering was the most important segment, accounting for 14 percent in terms of number of lessees. Lessee companies include a few public sector and service sector companies. It is noted that lease brokers are also active in the industry.
FINANCIAL POSITION

As regards the size and growth of companies, the study found that most of the companies have grown in size in terms of capital employed (total net assets) over the years. Total funds mobilised by sample companies increased by more than three times. The analysis showed that borrowed funds constituted a lion’s share i.e., 85 per cent of capital employed over the years. The relative shares of owned and borrowed funds have, however, remained almost same over the years. It is found that leasing companies are now finding it difficult to raise share capital, debentures, public deposits and bank borrowings. This happened because of poor performance of leasing companies in the capital market and investors lost the confidence in the leasing companies’ performance and prospects. Many leasing companies’ shares are quoted at extremely low prices.

It is found that Madras based companies have shown exemplary performance in mobilising the public deposits to the maximum possible level. These companies opened a large number of branches to tap the public deposit market from urban and semi-urban areas. Most of the companies used almost all sources with varying degrees. Now, leasing companies will not get bank loans more than three times of their net worth as per the RBI guidelines. The RBI norms on public deposits and bank loans would restrict the flow of these two sources to leasing companies.
PROFITABILITY

Profitability analysis indicated that total income of sample companies recorded an impressive growth rate of 75 per cent over the years. Out of this, lease income recorded an impressive growth rate of 125 per cent over the study period. Operating expenses as percentage of total income also moved up slightly over the years. Interest payments constituted a lion’s share of total expenses. However, interest as percentage of total income has been declining over the years. The depreciation provisions have shown the maximum increase i.e., from 17.7 per cent of total income in 1983-84 to 24.5 per cent in 1987-1988. Although PAT has increased in absolute terms but it has declined in percentage terms from 17.7 per cent of total income in 1983-84 to 14 per cent in 1987-88. The decrease in PAT is due to cut-throat competition which has led to dip of lease rentals and increase in the depreciation provision and operating expenses. However, it is concluded that most of the companies (80-90 per cent) earned profits over the years. It is also found that number of tax paying companies increased over the years. These were hit by Section 115J of Income Tax Act, 1961.

The analysis revealed that the general upswing in the leasing business resulted in higher growth rates in almost all important indicators, i.e., total income, lease income, net worth, borrowings, PBT and PAT. In spite of the growth of all important items in absolute terms, the profitability has declined over the years.
The analysis of profitability (ROCE, NP and ROE) and size (SC, NW, CE and TI) highlighted that in most of the cases small companies earned higher profitability as compared to medium and big companies over the years. The profitability and leverage analysis found that medium leverage group companies made higher returns as compared to high leverage group companies. It is also found that high growth companies earned slightly higher returns as compared to other companies. High lease income group companies earned highest profitability in terms of NP and low lease income companies made higher profitability in terms of NP over the years.

LEASE ACCOUNTING

The exposure draft recommended capitalisation by lessee whereas the guidance note favoured capitalisation by the lessor. There was severe criticism on the treatment and requirements of the exposure draft. Subsequently, ICAI issued a guidance note on leasing. In India, most of the leasing and lessee companies have adopted operating method for treating lease rentals in the annual reports. Leased assets were shown as owned assets by the lessors. Most of the lessors have adopted straight line method of depreciation for leased assets. Lessees have treated lease rentals as business revenues as and when rentals are paid. Lessee disclosed lease obligations neither in the balance sheet nor in the notes to the accounts. The study showed that accounting practices followed by the leasing and lessee companies were generally in conformity with relevant legal and tax
requirements except a minor variation. In our country, leasing is considered as an off-balance sheet transaction.

PROBLEMS AND PROSPECTS

The study identified the problems of leasing companies and also focused on the prospects of leasing business. The following are major problems faced by the leasing companies.

1. high incidence of sales tax on lease rentals.
2. cut-throat and keen competition
3. resource crunch
4. no legislation
5. lack of trained and experienced manpower

In spite of the above problems, leasing industry has great potential and prospects in India. It is hoped that all existing leasing companies will not find a place in the market, only about 40 companies from the private sector and public sector leasing organisations will be the winners of the leasing industry. Therefore, the rest of the leasing companies will have to find alternatives in order to survive and grow in the industry. An enormous demand for big ticket leases such as air crafts, ships, big plants and satellites is expected to arise in 1990s. Leasing has a significant role to play in economic and business expansion that cannot be fulfilled solely by traditional sources of finance. The growth figures of leasing companies and leasing business in the world is a testimony to this. Leasing may not create a new market but it responds to a market whose needs are not met. Most of the south based companies have built up an
excellent network of branches all over the country to tap the unexplored sources from rural and semi urban areas.

In the coming years, perhaps, the fastest and largest growth industry would be the leasing since public sector organisations are actively involved in the industry not only as lessors but also as lessees.

SUGGESTIONS

One of the major problems which the leasing industry is facing is that of adequate funds. In this regard, it is suggested that the RBI should reconsider the rate of interest on public deposits of more than three years. Presently, there is no difference in interest rate on the three-year public deposits and more than three-year deposits. The hike in interest rate on public deposits will help leasing companies to raise more public deposits. Similarly, the banks may be allowed to lend at least five times of net owned funds as against present three times of net owned funds leasing companies. The RBI should control and regulate the activities of captive (in-house) leasing companies because they might be simply created for tax savings without performing any economic role. It is suggested that the large and highly profitable leasing companies may be allowed to issue commercial paper for to raise funds. The eligibility of leasing companies to raise commercial paper should be linked with credit ranking of CRISIL. In the light of the prevailing accounting practices, it is suggested that the guidance note on accounting for leases should be made mandatory as against present form of
recommendo a. Otherwise, the lessee companies will not disclose lease obligations in their annual reports which is necessary from the investors' point of view.

It is suggested that the sales tax on lease rentals could be scraped for a healthy growth of leasing business. Central Government should make an attempt to eliminate or at least reduce the burden of sales tax on leasing companies.

**FUTURE RESEARCH**

Our study was a first comprehensive attempt to analyse the structure of leasing industry in India. It has revealed a number of issues in the areas of competition, performance and conduct, funding and accounting practices for the consideration of policymakers. We have made some suggestions in this regard too. It was not within the scope of our study to see the application or develop models for evaluating lease in the Indian context. Also, we did not undertake to analyse the detailed implications of the big-size lease transactions in India. Future research could be conducted in these areas. Further, attempt could be made in future to relate lease finance to the overall credit and financial system in India.