CHAPTER - 2

The Research Study

- Importance and Significance of the Study
- Review of the Literature
- Need for the Study
- Objectives of the Study
- Methodology and Sampling
- Period of the Study
- Presentation of the Study
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IMPORTANCE AND SIGNIFICANCE OF LEASE BUSINESS

With globalization and liberalisation, the Indian industry is trying to gear itself to grow fast in the new environment. Many Indian industries like Information Technology, Telecommunications and Bio-Technology have already created a niche for themselves in the global arena. However, some traditional and service based industries have still a long way to go.

In these circumstances, it is imperative that the government creates an enabling and congenial environment for the Indian companies to become multinational players by not only surviving, but also successfully expanding and growing. So, the leasing and hire purchase industry can play an important role in creation of a sustainable growth model for the Indian economy.

SIGNIFICANCE OF LEASE BUSINESS

Leasing plays a major role in Indian industry due to the following important features;

Economical Source of Finance: Leasing provides 100 percent financing\(^1\). There is no need for the margin money, as in the case of the other sources of financing. Initial investment is minimal i.e. limited to the amount of advance payment of one or two times rentals only. So, it is quite possible for a company to avoid a large immediate outlay for down payment. Due to this factor the growth of industry is going to be very rapid in the next few decades.

Industrial Advancement and Obsolescence: With the rapid advancement of science and technology, the chances of advancement and obsolescence are phenomenal\(^2\), use of computers is inevitable for organizations. Due to
technological advancement and obsolescence prompt the entrepreneurs to go in for leasing against owning the high cost machines of latest and sophisticated technology.

**Ownership:** In lease agreement the lessee's position for all practical purposes is that of an owner with an exclusive right to use the asset. This form of financing has a distinct advantage for the lessee as the minimal investment of margin of money; rental payable for use of assets are tax deductible.

**Medium -Term Finance:** Leasing is now an important source of medium term finance in many countries. Different projects illustrates the role of leasing in promoting new capital investment whether it is to provide essential tools for small business or to finance orbiting satellite systems in Unites States.

**Off-Balance Sheet Financing** Leasing is said to be not only 100 percent financing but also it is said to be 'Off the Balance Sheet: Financing'. Leasing may give a firm or a company a more attractive balance sheet and debt-equity ratio will also remain the same, irrespective of heavy lease borrowing and rental payments. However, the present practice is to make footnote references in balance sheet to indicate the extent of lease arrangements.

**Leasing—Investment Allowance/Depreciation/Other Tax Benefit:** Perhaps the greatest motivation to enter this fascinating new line of business is without doubt, the tax advantage, in the form of investment allowance, depreciation allowance, and other tax benefits, that accrue to a lessor company. From the point of the lessee, the entire amount of lease payment or lease rentals is tax deductible.
Increase in competition amongst sources of finance leasing has lowered the cost and increased the supply of finance, particularly fixed rate finance for investment. In developing countries, leasing has frequently been able to fill a gap in the finance market place and has enabled firms to rely less on overdraft facilities. Leasing companies have introduced financial innovations and accelerated the trend where in financial institutions become responsive to market oriented finance partners.

An enhancement of the overall level of capital investment while sum of the growth of leasing can be attributable to the gradual substitution of other forms of finance by leasing, a significant component has arises but a result of satisfying a long term need for a complementary source of finance. Support to industrial modernization and small business leasing companies have played an important role in extending finance to small and medium fixed firms by focusing on the future cash flow, thereby maintaining firms, banking lines and by speeding up financing formalities, helps in the implementation of industrial and fiscal policies in addition to mobilizing liquidity for capital formation, leasing acts as an important stabilizing influence during recessions by significantly increasing the efficiency of tax based investment incentives. In view of all this leasing is very important and significant for the industrial development of the country.

IMPORTANCE OF LEASING BUSINESS

“Capital investment” leading to expansion or modernisation or reconstruction, requires finance to a large extent and likely to result in increased production and profit. So, the producer is more interested to go in for additional finance,
that too for more finance without any ifs and buts. Business people want to
borrow, either from institutional or individuals, and are willing to pay more by
way of interest provided in the borrower's name is not very much made known
outside for obvious reasons.

This is quite possible only through the mechanism of leasing operations.
Leasing not only fails to appear in the balance sheet but also takes a little time
to materialise into a fruitful contract.

In the US, leasing companies contribute about 30 percent to the nation's
capital formation, where as India it is a meagre 4 percent. A conducive and
enabling environment has been created for the industry globally, which has
helped it grow and become an essential part of the financial sector towards
accelerated economic growth of the countries. Some of the following points
highlights leasing business, which are as follows;

a) Innovative Adaptation

The Leasing concept - an innovative adaptation of the finance function to
the taxation laws of this country - offers the Corporate Finance Manager, a duty
free showroom to shop for industrial and business goodies at terms that could
be considered attractive in any inter-finance study. Today Indian industrialists
realise that they cannot afford technological obsolescence. To be up-to-date is a
necessity for growth and even survival. This is where leasing helps, says K.V.
Kamath, Chief, leasing, ICICI, as he describes the growing market for leased
assets. With growth in leasing industry, it is certain that well managed
companies would gradually enter into these specialised areas and carve a niche
for themselves. "I think there is a tremendous potential for leasing in India
because funds for industry are always in short supply. "Thus one of the factors for the spectacular growth of leasing companies in India and some other countries, are the shortage of funds in the capital market particularly with the banks.

Outright purchase or acquisition of capital assets results in the immediate outflow of cash, which can be managed or adjusted only by the large companies but not by the entrepreneurs of small and medium scale industries. Thus, to avoid these major calamities in the working capital position, most of the leasing companies offer 100 per cent financing and there is not much cash outflow. Thus, leasing is going to provide a significant and simple conduit source of finance for the acquisition of various entrepreneurs. At present, in this chip age, there is vast scope for acquisition of lease based assets like computers, construction of private hospital services and fleet of cars and vehicles for the State owned Transport Corporations. Leasing has gone to air services too.

Yet another area where there is a vast potential for leasing is in agricultural equipments such as tractors, bulldozers, caterpillars and other equipments used by modern large-scale farmers. Since, leasing facilities are extremely flexible, adjustments to lease rentals can be easily made to accommodate the special needs and circumstances of the agriculturists of India. For example, the lease rental payments can be matched and aligned with the harvest seasons of different crops.

b) Leasing for Schools/Colleges and Universities

The leasing companies also could play a vital and pivotal role for the schools/colleges and universities. The Central Government has decided to
introduce computers at different levels of education. Recently, it was reported that all the Central Board Schools have passed a resolution wherein they requested the Central Government to buy and supply computers for their schools. The Kerala State Electronics Development Corporation (KELTRON) has introduced multipurpose computers for schools and colleges. In addition to this they have also requested the Government to create facilities for the staff to train in computers and other allied fields. The Indian Institutes of Management in India have already introduced computers in their syllabi. Most of the educational institutions are making money through computer education and training.

Further, subsequent on their modernisation and improvement the industries would need more computer personnel and computers. Thus, to meet tomorrow's needs of the industries, it is high time for the Indian schools, colleges and Universities, Laboratories, go in for sophisticated computers and computer wares. Leasing would perhaps be a sure answer to meet the situation.

c) A Device for Funds Generation from the Public

Leasing companies help to mobile not only the small savings which are available with the common man but also from the kith and kin of the Directors of the leasing company in large quantities. Thus, most of the savings, which are not otherwise available, gets mobilised and channelised for the industrialisation of the country. In addition there is yet another advantage in the form of higher return to the members of the leasing companies. Had the same savings been deposited with the commercial joint-stock banks, the depositors would have earned a smaller rate of interest, whereas in the case of leasing
companies, the returns are much higher. Some leasing companies had promised to pay higher dividend and few companies have already declared some interim dividends also. Thus, this has helped the leasing companies to mobilise more savings but in turn this has affected the commercial joint-stock banks and they look forward to some alternatives. Leasing companies have affected the commercial banks in two ways namely, in mobilisation of savings and also in the area of development of funds.

d) Margin Money

Banks insist upon margin money and/or security. In short they are all security oriented. The financial institutions generally ask for a substantial margin of money for long-term loans and most of the entrepreneurs are unable to meet this condition. This limitation too has encouraged the growth of leasing business. Further banks highly centralised and have to consult the higher ups for most of the decisions which are not of a routine type. They have to obey the instructions from the top and fall in line with the Government policy and adhere to the directions of the Reserve Bank of India. Entrepreneurs have experienced difficulties in obtaining loans from financial institutions because of procedural delays and the cost of their delays outweigh the benefits accruing from a lower rate of interest.

An in depth study of assistance sanctioned and disbursed by the all India financial institutions, such as IDBI, ICICI, IFCI and IRCI for a decade, speaks volumes for the need of leasing companies in India. After independence a lot of laudable objectives and thrust on industrialisation has activated many financial institutions. A review of their achievements with respect to sanction and
disbursement reveals that in spite of the government support and backing, these national level financial institutions could not disburse the total sanctioned amount.

A look back into the working records for the period 1970-71 to 1980-81, the IDBI's disbursements had never exceeded 75 per cent of their sanction, the ICICI's disbursement also never exceeded 81 per cent of their sanction and the disbursement percentage (as against their sanction) for all the financial institutions during 1970—1980 was 79.47 per cent only and the gap always falls between 20 to 50 per cent. The achievements of the rest of the financial institutions except on two or three occasions are also on the same lines. Given a free hand and active support by the government, the leasing companies will prove to be the best potential competitor for the financial institutions and a catalytic agent for the speedy industrialisation. As a researcher, one cannot stop at this alone. In order to understand and appraise the role of each of these financial institutions and the industrial representatives may constitute a 'joint committee' to know the reasons for their lapses and the gap between the sanction and the actual disbursement. This in a way will lead to a better understanding of both the parties and cooperation and coordination of their functions.

However, the leasing companies could not successfully develop and grow in India, due to a confused environment. This confusion has evolved because of the lack of clear cut guidelines based on deep understanding of the role of leasing industry in the economic development of the country.
REVIEW OF LITERATURE

There are numerous studies conducted on leasing. Most of these are from the United States. The researcher reviewed the studies in the U.S and in India and presented them in the following pages.

Vancil and Anthony (1959) carried out a two-stage analysis survey on reasons behind leasing in the United States and Canada. Through mailed questionnaires, they tried whether a long-term lease is considered equivalent to debt financing. The study revealed that the long-term non-cancellable lease was equivalent to debt and they treated lease payments as a fixed charge. Their results indicated that the use of long-term non-cancellable lease made it possible for a company to obtain a greater amount of credit than would have been available if debt financing were used. The study also stated that a lessee might be willing to pay a higher interest rate in order to avoid showing the lease obligations on its balance sheet. Other reasons for leasing were tax advantages, advantage of not having to invest in equity or working capital, avoidance of restrictive covenants etc.

Marrah (1962) conducted a survey in the U.S to study the advantages and disadvantages of leasing as felt by manufacturers. He mailed questionnaires to 60 companies to evaluate the leasing as a source of capital. The survey gives details about advantages and disadvantages in this business as given by the companies are conservation of working capital, shifting the risk of obsolescence from user to buyer, preservation of credit capacity etc. The disadvantages are high cost, fixed obligations, does not build an equity, objectionable clauses etc. Apart from these Marrah paid attention to lease-purchase problems. He
recommended that the separation of the investment decision from financing decision stating that the latter decision should be made only after the firm has decided to invest in a capital asset.

Ferrara, Theis and Dirsmith\textsuperscript{13} (1966) conducted a comprehensive survey on Lease Vs Purchase Decision Making. The study covers U.S and Canadian companies from the fortune 500 and the Canadian financial post 300. Out of 925 questionnaires mailed there was 58.5 percent response. The results of the survey indicated as he stated that investment and financing decisions should be kept separate. However, he argued that a financial lease is a combination of borrowing and investment and recommended cost of borrowing rate is the discount rate to find out net present value of leasing and purchasing.\textsuperscript{14}

Johnson and Levellen\textsuperscript{15} (1972) tried to solve the Lease Vs Buy problem explicitly placing them on the firm goal. They stated that the firm's cost of capital should reflect the long run debt equity proportion chosen by the firm. They considered a financial lease to be an “acquisition of services arrangement”, that is equivalent to purchase arrangement.

Lev and Orgler\textsuperscript{16} (1973) addressed four issues in their report as first tax savings on depreciation should be discounted at the same rate as the tax savings on lease payments and should be accordingly discount at the after tax cost of debt. Their observation was that the capital structures of a firm would not be changed if either leasing or purchasing the asset by borrowed funds is chosen.

Gritt\textsuperscript{17} (1974) in his study compared the capital structures and the traditional measures of financial leverage in sample airline companies both before and after the capitalization of lease obligations. The study stated that some
companies gained from the off-balance sheet financing feature of leasing and might be attracted to it for that reason.

Fawthrop and Terry\textsuperscript{18} (1974) have conducted research on “Debt Management and the Use of Leasing Finance in UK Corporate Financing Strategies” carried out in 1974. In their empirical research 54 senior financial executives of large companies were interviewed. Based on responses they have given their main conclusions as

- Leasing was often a part of a planned finance mix, the off balance sheet advantages, the transfers of the benefits of 100 percent first year tax allowances from lessors were relatively important.

Sykes\textsuperscript{19} (1976) conducted a survey for 202 member companies of the British institute of management in 1976. The purpose of the study was to provide a practical introduction to the subject (leasing) to the companies to understand the advantages and disadvantages of alternative methods of financing. The great advantage of the work is that it permits a contrast of the relative advantage of finance leasing, operating leasing and hire purchase.

The main points identified in the survey were

- Although 83 percent of companies bought more than two-thirds of their total assets outright and 30 percent bought all their assets, 45 percent had used finance leases and 36 percent had used operating leasing. Mostly of the large companies used leasing for office equipment, operating vehicles and heavy machinery.

In 1976 Deutsche leasing AG (A German Leasing Company) conducted a study concerning the motives for leasing of 576 large German firms. Motives
ranked in order of importance were leasing permits 100 percent financing, amount of lease payments are known in advance, avoiding restrictive covenants in debt agreements, conserves working capital etc. the least important motives being 'leasing is relatively inexpensive', 'off the balance sheet financing and leasing serves as a hedge against inflation'.

*Prof. Tomkins and Team*\(^{20}\) (1977) In their study “An economic Performance of Lessors” of 34 members for the period from 1971 to 1977. The important points stated in the report were as follows

- Leasing is an oligopolistic industry with top 10 firms responsible for 80 percent of the business, Price competition exists in medium and big ticket leasing but not small ticket leasing, The main barriers to the entry are taxable capacity and access to finance.

*Hull and Hubbard*\(^{21}\) (1980) carried out a survey in U.K. for Cransfield School of management. The focus of the study was to investigate the mode of operation, attitude and decision criteria of lessors, lessees and lease brokers. Separate questionnaires were mailed 1000 for potential lessees, 132 to lessors, 46 to lease brokers. The response rate was about 30 percent.

The important responses given by the respondents were leasing conserved cash flow, cheaper than purchase, additional form of finance which does not affect other borrowing sources etc. Other marginal factors were assistance in having a mixed financing strategy, safeguard against obsolescence, off the balance sheet borrowing and certainty of fixed payments. The study revealed that for lease evaluation 43 percent of respondents were using NPV technique.
O'Brien and Nunnally\textsuperscript{22}(1983) conducted a mail survey to examine the lease-purchase decision practices in U.S. based firms. Questionnaires were sent to first 195 of fortune 500 firms, out of which 78 responded, six indicated a desire not to participate and finally 72 answered the questionnaires. The study aimed at discovering the changes in 1982 by practitioners with regard to the three problems perceived by Anderson and Oslen. The survey revealed the following factors from the respondents as follows

a) The use of the cost of capital instead of cost of debt in certain portions of Net Asset Leasing (NAL) analysis.

b) The failure to permit a positive NAL to salvage a project on a lease basis that was rejected on a purchase basis, if the NAL was greater than the absolute value of the negative NPV.

c) The carrying out of the analysis as though the lease and purchase decisions were two investment alternatives the study revealed that 22 firms use NAL analysis, 17 firms reported that they use cost of debt to discount the cash flows. Only 4 firms reported that they use weighted average cost of capital.

Ang and Peterson\textsuperscript{23} (1984) performed a series of empirical tests on sample of 600 firms covering the period 1976 to 1981. The results indicated that leases and debts were complements; greater use of debt was associated with greater use of leasing.

Mayer and Nicholas\textsuperscript{24} (1988) in a major survey examined the leasing practices in U.K. and the influence of leasing on volume and timing of investment. The
survey mainly focused on two things they are 'South West Survey' and 'Major Lessor Survey'.

In 'south west survey' they interviewed 16 companies (lessors), the lessors given their responses for reasons behind lessee's decision to lease, are the tax advantages of leasing and conservation of cash flows. In 'major lessor survey' 6 major lessors (ELA members) were interviewed, but the results were found as same as in 'south west survey'.

Drury and Braund\textsuperscript{25} under took a survey, funded by the chartered institute of management accountants, to enlist the opinions of a sample of U.K. financial managers on various issues relating to finance leases. The questionnaire was mailed to 988 firms in February 1987 randomly selected from the list of U.K. quoted companies. 273 firms answered the questionnaires, response rate was 28 percent.

The study showed that the main reasons behind the decision to lease were, the cost of leasing compared with borrowing, corporate tax considerations and to some extent conservation of working capital. Further, larger firms gave importance to tax aspects and cost of leasing compared to other sources of finance. The small firms attached more towards qualitative and cash flow aspects of leasing than large firms.

Regarding techniques used for evaluation practice was 57 Percent of companies, follow present value of lease with present value of borrowing. Some of them use a combination of IRR and NPV and the rest of them adhere to equivalent loan method.
Mukherjee conducted a survey to focus on analytical issues involved in financial leases. Questionnaires were sent to 455 companies selected from fortune 500 largest U.S companies. The response rate was 27 percent. The survey revealed that 73 firms view leasing as financing decision and 6 firms treat leasing as an investment decision. Regarding debt-lease relationship, 47 percent of firms view leasing as a substitute for debt, 22 percent of the respondents feel that leasing is complimentary to debt, while 31 percent revealed that one has no bearing on other.

Abdul-Khalik in his research report for the Financial Accounting Standards Board (FASB) incorporated the ration analysis of the financial statements of 515 companies, personal interviews and extensive postal survey of attitudes to FAS13. The study reported the following points for lease capitalization.

- The majority of the respondents indicated that the terms of new lease contracts were structured to avoid capitalization.
- A sizeable minority of respondents were moving away from leasing in favour of purchase.
- The existing leases were re-negotiated to avoid the requirements of FAS 13.

The Studies in India:

Narayana Swamy in his research study analysed the issues in accounting for leases by lessees. Questionnaires were mailed to 251 Economic Times based companies in 1988. 108 companies gave responses, of these 66 companies uses financial leases, besides questionnaire, interviews conducted to lessees and lessors. The study reveals that leasing is used for motor cars,
manufacturing plant and machinery; computers are most popular in practice. Further the findings were

- Large companies go for leasing mainly because of conservation of working capital, balancing the portfolio of financing, avoidance of capital expenditure, borrowing restrictions and increase in debt capacity. Small companies' states that tax considerations, easy accessibility, less restrictions and flexibility influenced their decisions to lease.

Karruppaiah (1988) an empirical study on leasing is done to identify the different sources and uses of funds of some leasing companies, to find out the type and nature of assets given for leasing in India, to know the profitability of selected companies and finally, to review the performance of these companies. To know all these factors the study is conducted for 15 companies. The study is limited to one year annual reports of 15 companies.

Satyanaraya Murthy in his unpublished thesis, evaluated the role of leasing industry in equipment decisions of the business firms in private corporate sector in India. The analysis of 211 lease contracts of companies located in twin cities of Hyderabad and Secunderabad. The survey provided some findings:

- 47 percent of the total lease contracts had a maturity period ranging from 4 to 7 years and the maturity period of another 75 contracts range from 2 to 4 years. Manufacturing equipment constituted the bulk of lease contracts, accounting for 40 percent of the total contracts.

Brahmaiah studied on the accounting practices of 60 leasing companies. The study focused on accounting practices of lessee companies. Lessees neither show their leased assets as assets nor as liabilities in view of their future rental
obligations. Thus leasing is considered as off-balance sheet transaction in India. In the books of lessee, the periodical lease rental payments are shown in the profit and loss account as revenue expenditure which is allowed as a chargeable revenue expenditure and capital expenditure. Further depreciation method followed by leasing companies was straight line method for leased assets and written down value method for owned assets.

Pandey, J.M. and Brahmaiah\(^{12}\) in an other study on lease accounting practices in India, based on annual reports of the select companies reported as follows.

- Most of the Indian leasing companies followed operating method for treating lease rentals in the financial statements.
- Leasing companies showed leased assets as owned assets on historical basis in their balance sheet.
- Majority of the leasing companies depreciated leased assets on straight line method.

Sreenivasa Murthy\(^{13}\) in his research studied 130 Indian companies on factors influencing the decision to lease or not to lease. The important findings were as follows.

- The predominant way of fixed asset acquisition is outright purchase followed by finance lease. Companies used different form of acquisition methods to acquire different types of assets. Finance lease was mainly used to acquire computers, air conditioners, passenger vehicles etc.
- Responses given for reasons of leasing are ranked based on importance. Firstly, availability factor and working capital factor are considered as
most important in decision to lease. Next was tax, off-balance sheet factor.

- The stepwise multiple regression results showed that liquidity factor (independent) influences the volume of leasing (dependent) to a greater extent.

- A variant of Johnson and Levellen model has been recommended for Indian companies considering the regulatory framework for leasing in India.

Mohinder.N.Kaura has published an article on Lease Financing in India - Development and Prospects. This paper traces the development of lease financing of equipment in India. After receiving the global development in this industry it identifies the prospects in India. It makes useful suggestions for streamlining the industry as well as the policy governing the industry in the country. This article focused on global scenario and the leasing in Indian context, its recent developments and problems, the structure of leasing industry and determinants of success of leasing in India.

**NEED FOR THE STUDY**

With the rapid advancement of science and technology, the chances of advancement and obsolescence are phenomenal, the technological advancement and obsolescence prompted the entrepreneur to go in for leasing. In leasing initial investment is nominal, due to 100 percent financing, leasing is now an important source of medium term finance for companies for acquiring innovations and modernization. Leasing also acts as an important stabilising
influence during recession by significantly increasing the efficiency of tax-based investment incentives.

Research in this area has been far too less, hence the researcher has undertaken a study in the areas of financial structure, performance of leasing companies, legal aspects, related problems and to identify the future prospects in this area.

As per the global leasing report, presented by the London Financial Group it reveals that there is a significant growth in leasing industry worldwide. In the year 1978 leasing business was of $40.8 billions. Then the volume of the business increased tremendously to $273.8 billions in 1988. Within a decade i.e. in the year 1998 it reached to $432.5 billions. The highest leasing volume found to be $499 billions in the year 2000. Throughout the period there was a significant growth found in this industry. Remarkable growth is found due to the contribution from the U.S based companies their contribution is $242 billions as highest of all countries in the world. Where as other developed countries like Japan contribution $58.95 billions, next Germany $34.45 billions. Where as India’s contribution is insignificant and negligible at $1.05 billion. In India the leasing business is progressing slowly, in terms of volume and also in terms of varieties of transactions. Hence there is need to conduct a study to identify the areas in which it can be developed.

There is a tremendous potential for leasing in India. Hence the Government of India and state governments have to encourage the companies, financial institutions and banks to develop the industry. They should also liberalise the rules, terms and conditions by Reserve Bank of India. Leasing has
evoked considerable interest to the researcher to make a detailed study in lease financing.

On such an important aspect there are very few research studies conducted as stated in the review of literature. Hence, there is a great need for the study on aspects such as financial structure and performance of leasing companies, legal aspects, leasing practices, problems and prospects of lease financing companies. As such this study is undertaken.

OBJECTIVES OF THE STUDY

The specific objectives of this study are:

- To study the structure of the leasing industry in India.
- To analyze the financial structure and performance of leasing companies.
- To identify lease practices and evaluation methods adopted by the leasing companies in India.
- To review the various laws affecting the leasing transactions in India.
- To analyse the problems of lease financing.
- To suggest measures to solve the problems and for development of leasing companies in India.
METHODOLOGY

In order to achieve the objectives as stated above, both primary and secondary sources of information were relied upon. The primary data was collected mainly through structured questionnaires apart from discussions and interviews with executives of the selected companies. The Questionnaire was focused on the profiles of the company, financial structure and performance, decision-making, accounting and the problems of the leasing companies etc.

Secondary data was collected from company records, reports, financial statements, circulars, relevant acts, books, journals and national and regional newspapers, brochures and other published and unpublished literature on the subject. Various related websites were also searched through the Internet.

SAMPLING

There are over 300 private and public limited leasing companies in India. These companies are spread in all the regions of the country. Most of the dominant leasing companies are there in southern region. Hence it has been decided to study leasing companies in southern region. In southern region most of the leasing companies are located at Chennai, Bangalore and Hyderabad.

The researcher has contacted all the leasing companies in southern region and to identify the nature of the leasing companies which are mainly financial institutions, financial companies and subsidiaries of manufacturing/group companies. In order to collect the data for the study, the researcher had collected list of companies from Centre for Monitoring Indian Economy Pvt. Ltd.(CMIE), through internet, previous thesis reports, RBI bulletin, India
leasing year book and few books, journals and magazines with this secondary
data researcher collected company's list in which the total number of
companies are about 300, then sorted the list of companies which are into
leasing and located in South India, with this the number of companies are
minimized to 100, the secondary data is collected through annual reports for
the period 1998 to 2002. A few companies provided reports for 4 year period
i.e. from 1998 to 2001 only 12 companies annual reports were tallied with the
required period. The primary data was collected through questionnaires and
also with personal interviews. Apart from the annual reports a questionnaire is
also mailed to all southern region based leasing companies.

The questionnaire is designed to Lessor companies only. The
questionnaire is categorized into five main parts. Firstly, general, structure of
leasing, procedure for leasing, lease decision making and finally lease
accounting altogether there are at about 48 questions of open ended, some
multiple, dichotomous and trichotomous and closed questions. For
questionnaire see Annexure – 2. There was not much response to the mailed
questionnaires even after constant and continuous reminders and personal visits.
There are only 12 companies which had responded, the above 12 companies are
selected as a sample for the study. The composition of selected 12 companies
by activity as Finance (Leasing and H.P) companies (6), Financial Institutions
(2), Leasing as subsidiary companies (2) and Independent Leasing Companies
(2).
The selected 12 leasing companies are categorised as follows:

Finance Companies (Leasing and Hire Purchase)
1. Ashok Leyland Finance Limited (AFL)
2. Bajaj Auto Finance Limited (BAFL)
3. Kinetic Capital Finance Limited (KFL)
4. Kotak Mahindra Finance Limited (KMFL)
5. Sundaram Finance Limited (SFL)
6. Tata Finance Limited (TFL)

Financial Institutions
7. Housing Development Finance Corporation (HDFC)
8. Industrial Financial Corporation of India (IFCI)

Leasing as a Subsidiary
10. Reliance Capital Limited (RFL)

Independent Leasing Companies
11. Mafatlal Finance Limited (MFL)
12. Mukunda Industries Limited (MIL)
METHOD OF ANALYSIS

In order to know the overall performance of the selected leasing companies. The annual reports of the selected companies are analysed. Apart from this the responses to the questionnaire are also tabulated and analysed.

Overall performance of the leasing companies is analysed through consolidated profit and loss accounts for 5 years and also balance sheets for 5 years period. Apart from financial position, company's profitability is analysed through proportion of expenditure towards individual company's total income. Finally, ratio analysis is also used as a technique to know the performance and the profitability, operating efficiency, earning ratios and, turn over ratios etc.

PERIOD OF THE STUDY

The study described the evolution of leasing through various stages to present era. The financial data of the selected companies is studied for a period of 5 years i.e. 1998 to 2002. The questionnaire survey was conducted during 2000 and 2002.

PRESENTATION OF THE STUDY

The Research Study presented in the thesis entitled 'Lease Financing in India – With reference to the leasing companies located in Chennai, Bangalore and Hyderabad'. This Thesis is divided into nine chapters. Chapter one deals with the evolution of leasing and leasing in India and abroad. The importance and significance of leasing objectives, need for the study, methodology, sampling and review of literature are presented in chapter two.
The profiles of the twelve selected leasing companies are presented in the chapter three. Chapter four, deals with financial structure and the profitability analysis of the selected leasing companies. Performance Analysis of selected leasing companies covered in fifth chapter.

Chapter six explains about Lease versus Buy decision making. Laws and regulatory work as related to leasing are stated in the chapter seven. The problems and prospects of lease financing are presented in the chapter eight, and Finally, summary and conclusions are given in the ninth chapter.

LIMITATIONS OF THE STUDY

The study is purely and precisely a descriptive and exploratory analysis of leasing business. The following points are some of the limitations faced by the researcher.

- The study has been confined to only twelve companies in south India, and it is not free from the limitations. A major difficulty the researcher faced was the non availability of organized and up to date information in some of the areas such as lease financing related laws, practices and their performance evaluation techniques etc.

- Very few companies have responded to the questionnaire. Hence, the sample size was limited to only twelve companies.

- The study is restricted to few years. The period of the study is confined from 1998 to 2002 year i.e. for five years only.
There is no direct access to the financial matters, legal aspects. Some companies were kind enough to provide the annual reports and literature.

Books and literature on leasing are not many in India and one has to depend upon foreign text books and articles were supplemented for this research work.

Most of the leasing companies in India are not pure leasing companies. Hence the profit or loss arrived at in these companies may not exclusively be due to leasing alone.
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